

They say they want a revolution

Total Retail - Middle East 2016



Online shoppers around the world are fundamentally disrupting retail - again. Will your organization be left behind?

December 2016



Contents

<i>Introduction</i>	<i>4</i>
<i>Key findings for the Middle East</i>	<i>5</i>
<i>The new retail landscape:</i>	<i>6</i>
What's happening on the ground?	<i>6</i>
The consumers' voice	<i>12</i>
<i>Taking a closer look at selected countries</i>	<i>22</i>
<i>Conclusion</i>	<i>25</i>
<i>Methodology</i>	<i>26</i>
<i>Contacts</i>	<i>27</i>

Introduction

Retail is in revolution. Technology is changing not just how consumers shop, but how retailers operate. From supply chain management, to customer engagement, to brand management – everything is changing.

PwC released its annual survey of global shopping habits, interviewing 23,000 online shoppers across five continents in 25 countries in March 2016, including over 1,000 consumers in the Middle East.* We looked at what drives different shopping decisions, what makes different channels attractive, and how new trends like social media are changing the face of the sector.

There are some conclusions to be drawn that affect the retail sector as a whole across the world; and there are some that are very specific to the Middle East region. These are what we explore in this report.

See the full 2016 Global Total Retail Survey
visit <http://www.pwc.com/totalretail>

*Please refer to our methodology for scope of this survey.

Key findings for the Middle East

Online retail is growing

- Online shopping is still developing in the Middle East
- The frequency of online shopping increased in 2015 as compared to 2014
- The percentage of daily online shoppers doubled from 6% in 2014 to **12% in 2015**
- The shopping experience remains divided between online and in-store; consumers still revert to in-store shopping after researching their products online



Consumers value price and monetary benefits

- **Price is still king** and plays a key role in determining shopping behaviour
- Consumers value monetary benefits obtained through loyalty / reward programs and social media



Social media impacts shopping behaviour

- Social media influences shopping behaviour and contributes towards building brand value



PC is the main channel, mobile is catching up

- The PC remains to be the most commonly used device for online shopping followed by mobile / smart phones
- The use of mobile / smart phones for online shopping increased from 61% in 2014 to **70% in 2015**, while the use of PCs decreased from 92% in 2014 to 89% in 2015, indicating a shift in consumer behaviour and choice of shopping channel



Preference for cash; concerns over online payment

- **80%** of consumers prefer the cash payment method over others, higher than the global average of **75%**
- Shoppers still have security concerns over making payments via their mobile / smart phones



Preference for online shopping varies significantly amongst products

- **Clothing and footwear** was the most frequently purchased product category online (68%) followed by consumer electronics and computers (66%)
- **Groceries** was the least purchased product category online (43%)



Shoppers value service, flexibility and personalisation

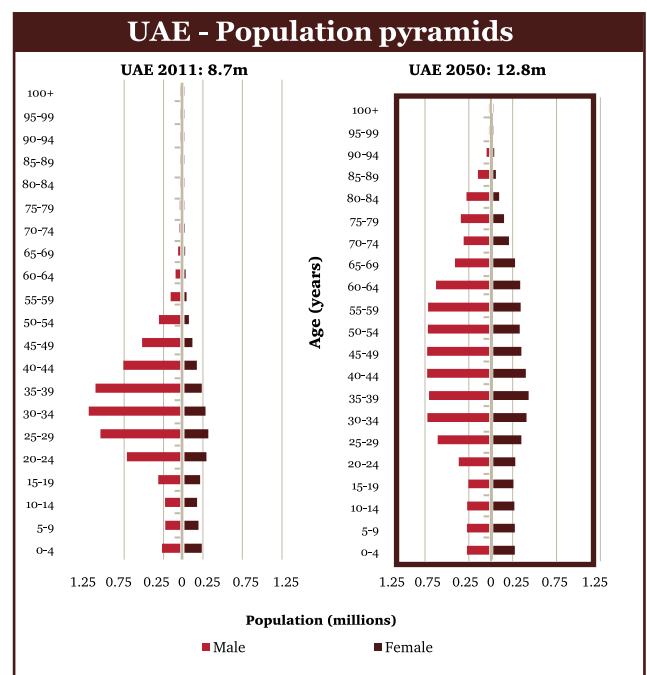
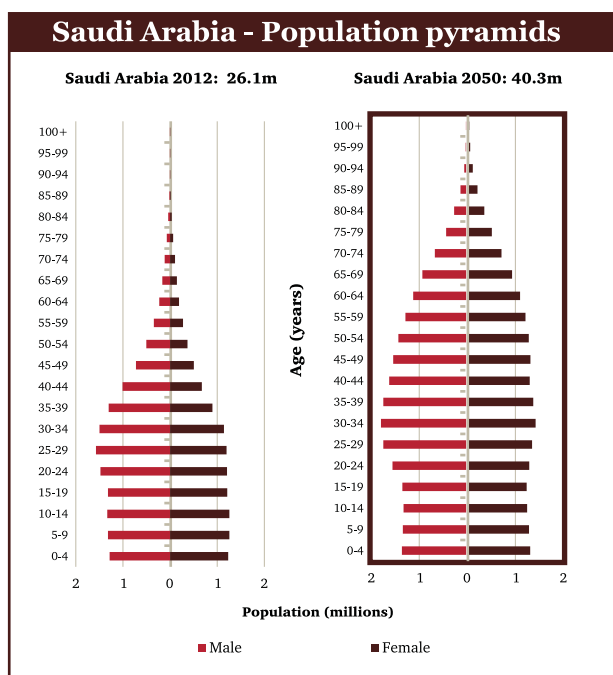
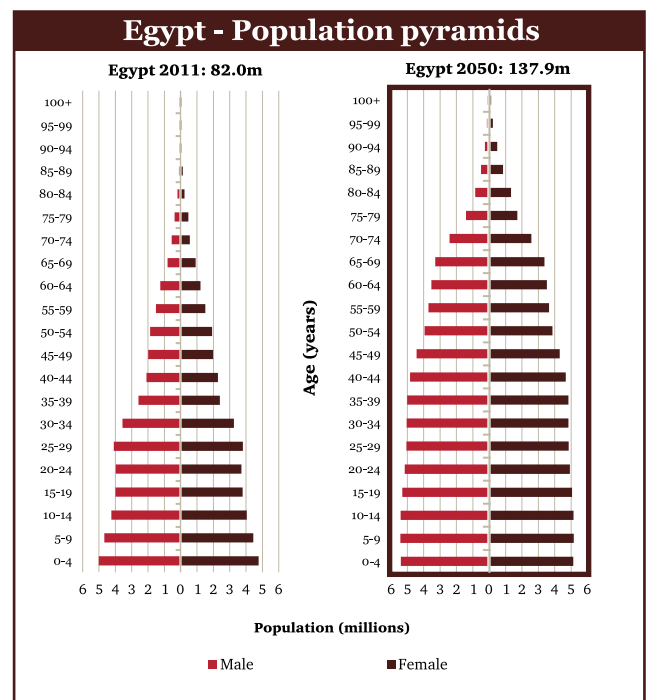
- Preference for **buying from a neighbourhood retailer** increases with better service
- Customers are willing to pay a **premium for speedy delivery** of online purchases
- Shoppers find that **real time personalised offers** improve their in-store shopping experience



The new retail landscape: What's happening on the ground?

The seismic changes provoked by the global megatrends continue to have an impact on the retail sector: younger populations with more of them living in cities, and more of them using digital technology. There are opportunities here for retailers, as well as challenges. Online shopping is the most obvious example, with even relatively small operators now able to cross borders and reach global buyers, if they do digital well. But increasing urbanisation also offers new and different possibilities for physical stores, and the growing numbers of middle-class consumers in emerging economies have more to spend, and an appetite for brands.

The Middle East has one of the fastest-growing populations in the world, and one of the youngest: the number of people in the Arab world is set to almost double to 500 million by 2100, and half of these people will be under 24.



Sources:

US Census Bureau, September 2012; United Nations Population Division; PwC analysis

Retail in the Middle East

The rise of online shopping continues to influence the role of the physical store. Many cases are seeing a significant polarisation, with smaller local outlets offering immediacy and convenience, and larger 'destination' stores reinventing themselves to attract customers looking for an experience that includes shopping, eating and entertainment. It's the stores in the middle ground that are struggling, with lower footfall, and price pressures from online pushing down both margins and profitability.

Loving the store...

Middle Eastern consumers love to shop. Going to the mall is an integral part of the region's culture and character, and this is one reason why it has taken a while for online shopping to catch on. But now it has!

There is a powerful and very distinctive shopping culture in the Middle East, and especially in the UAE and Saudi Arabia. Dubai, for example, has a long-term strategy to become the world-leading hospitality and leisure destination, and as part of that has positioned itself as one of the shopping capitals of the world.



More than three billion people are within a four-hour flight from the city, which welcomed over 14 million visitors in 2015. And many of those people came specifically to shop - Dubai probably has more malls per square kilometre than any other city in the world, offering a showcase of the world's leading brands, as well as places to eat and socialise, and added attractions such as aquariums, indoor sky diving, and children's play centres. There are also special shopping festivals throughout the year, with a focus on times when it is too hot to be outside, and malls in other major cities in the Middle East offer similar experiences.

It is no surprise, then, that the region's own populations see shopping malls as both social spaces and entertainment destinations, fulfilling a far wider function than they would typically play in a Western economy. And this, in turn, makes the region's physical stores far more resilient in the face of the online challenge.

... but getting savvier online

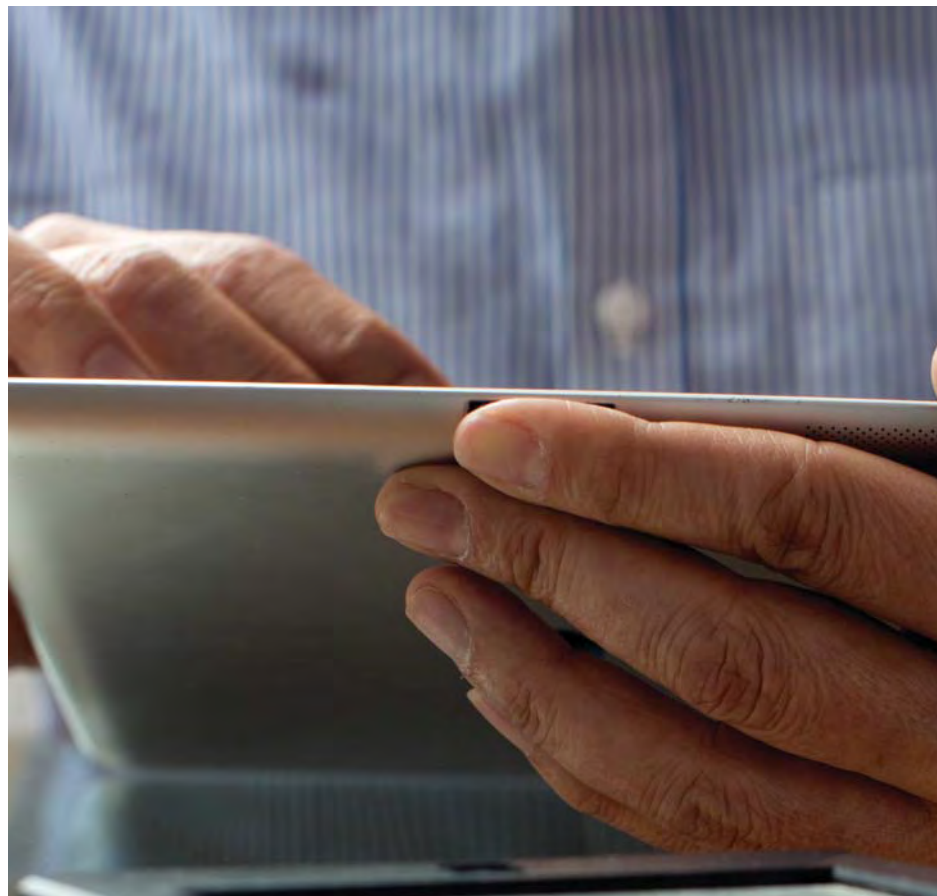
Consumers in the region have generally been slower to adopt online shopping than those elsewhere in the world, and the concept is less well-developed. There is a huge opportunity here, not least because the region has a young population eager to exploit digital technology, but sustainable growth will mean overcoming consumer concerns about security.

Turning to the retailers, there are some significant issues that currently hamper the full development of online shopping. Many retailers are local franchisees for global brands, for example, and don't own the online rights. And while some shopping websites are showing phenomenal growth, this is from a very low base, and the market in general is fragmented, with little collaboration between shopping sites and the brand owners, who would prefer to run their own online operations. In fashion, in particular, there is still a fairly low level of knowledge about how to run an online

operation, though this is a category with particular potential in the region, alongside electronics, jewellery, and cosmetics. Grocery is another area that has tremendous potential, but has barely got off the ground as yet.

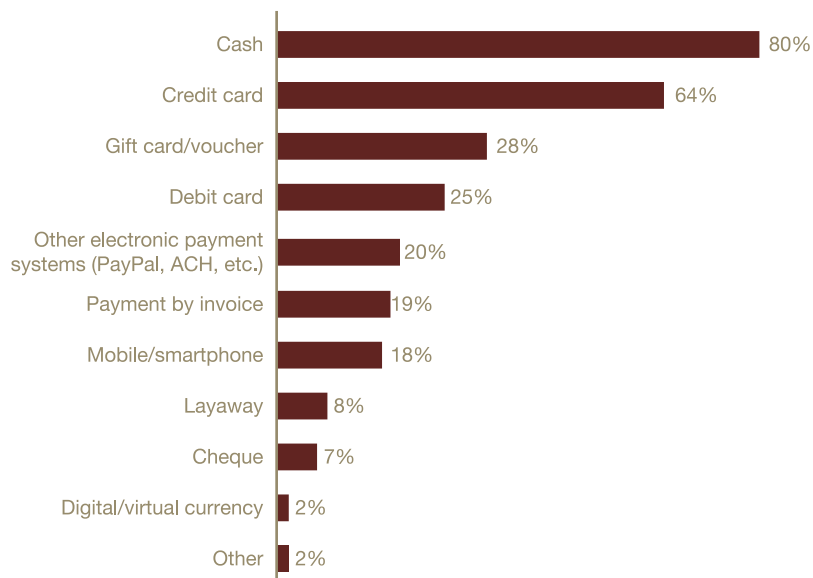
There are also practical issues relating to delivery. The postal address system is fairly rudimentary in some parts of the region, which means consumers either need or prefer to use collection depots or Click & Collect services. This, in turn, is changing the role of the store, and mall operators are adapting their rental contracts to include these sales. Some operators have their own small-scale delivery capabilities, but this tends to be at the top end of the market; the majority of the online retailers use third parties to manage logistics and shipping; proving very costly and eroding margins. 45% of those surveyed in the region said one of the biggest challenges with online shopping is that delivery takes too long. This explains why so many customers in the region are willing to pay a premium for speedy delivery.

63% of those in the UAE would pay more for same-day delivery, and 54% in Saudi Arabia



The other practical problem is payment – relatively few people have credit cards and online payment systems are in their infancy, and that means the region still relies heavily on cash-on-delivery – the vast majority of online purchases are done that way. That makes an online shopping operation even more difficult to manage, as it can result in problems with returns or undelivered items, and often means higher costs. In general, people in the Middle East prefer to use cash when they shop (80% said this in the survey, compared to a global average of 75%), with credit card being the next preference.

What is your preferred method of payment?



What retailers say:



“We should have launched our online shopping at least two years earlier than we did – what held us back were the difficulties setting up reliable payment processing and logistics services.”

“You need to invest in the look and feel of your website, as well as the functionality. That’s important in driving traffic. Features like customer recommendations are really useful.”

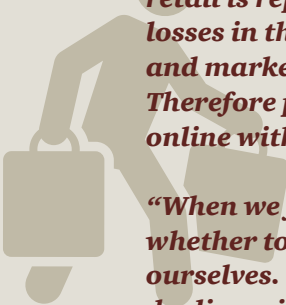
Online retail in the region is generally developing either in the form of marketplaces and multi-brand site formats such as the likes of souq.com, namshi.com and sivvi.com, or single brand formats developed by the region's large retailers, such as Al Futtaim's Ace and Azadea's Virgin Megastore.

Souq.com is a relatively rare example of an online only platform in the Middle East that has made serious headway – in February 2016 it announced it had raised \$275m from international investors in its latest round of funding. More recently, Amazon is said to be eyeing the platform for a potential acquisition. Although challenges still remain in this space, many of the region's largest retailers have made the strategic decision to also develop online platforms.

An interesting finding from this year's Total Retail survey is that the shopping experience would be improved if the retailers integrated their online and instore offerings more effectively: 34% would have a better instore shopping experience if they could access real-time personalised offers on their mobiles, or could see screens instore showing a wider range of products.



What retailers say:



“One of the major drivers of success in online retail is repeat business. Businesses typically show losses in the beginning as shipping, packaging and marketing expenses eat into their margins. Therefore price points and margins are key. Doing online with low-margin products is very tough.”

“When we first looked at online we had to decide whether to wait for a system to develop or create it ourselves. We decided to do the latter, which meant dealing with issues like the lack of a ‘last mile’ delivery system and the low level of credit card use.”

The new retail landscape: The consumers' voice

Factor 1: Online retail is growing

Across the world, online shopping has changed the face of retail, and some segments – like books and music – now have a drastically reduced presence in physical stores in many markets. The Middle East has been slower to take to online shopping than some other regions, but the pace of take-up is now accelerating: the percentage of daily shoppers doubled in 2015, compared to 2014 (12% versus 6%). And while this number is now higher than the global average, the percentage of weekly and monthly shoppers lags behind.

As many as 44% of respondents in the region made their first ever online purchase less than one year ago, compared to 19% globally

12% of respondents shop online daily
(compared to 6% in 2014)

On average how often do you buy products online?



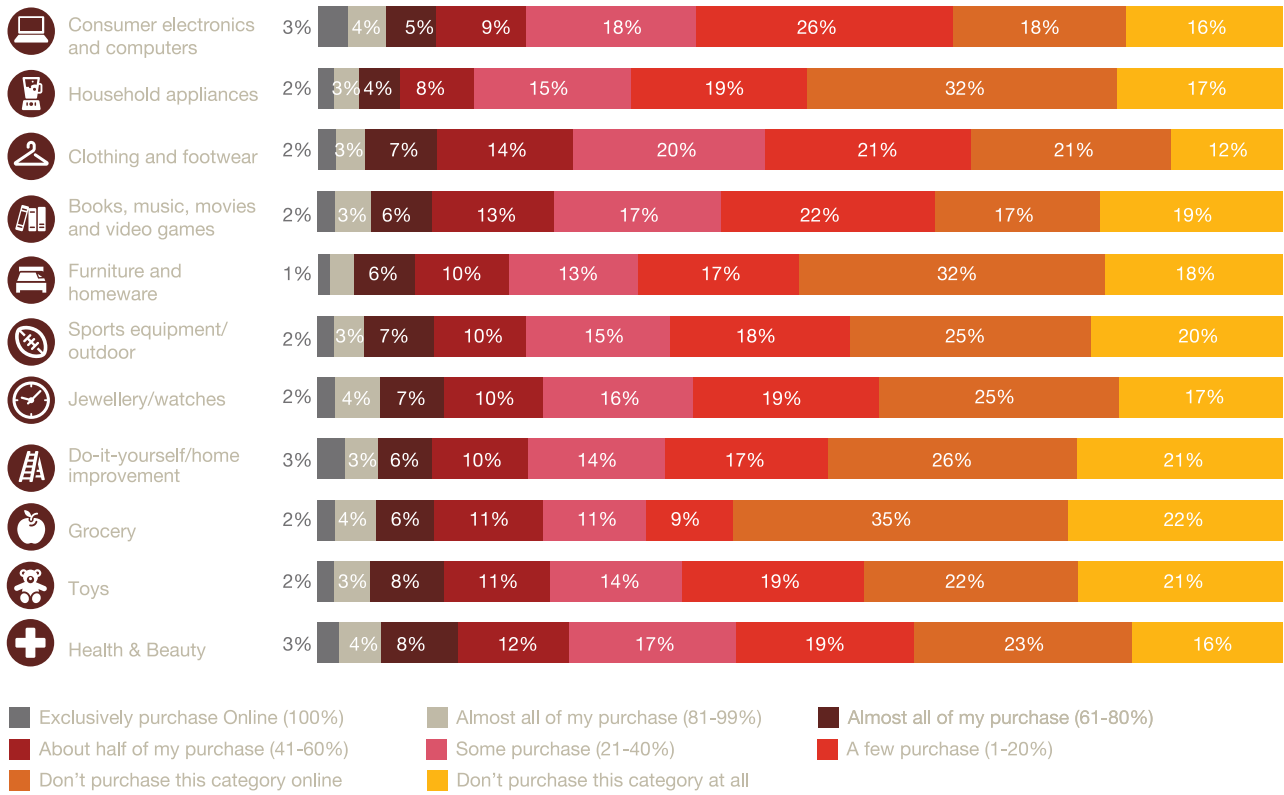
Factor 2: Preference for online shopping varies significantly amongst products

In other respects, the Middle East broadly mirrors the rest of the world. For example, clothing and footwear are the most frequently purchased categories online (68%), followed by consumer electronics and computers (66%), and books and music (64%); the top three categories globally are books and music, consumer electronics, and clothing and footwear.

The top online categories in the Middle East are also those shoppers are most likely to buy from international retailers online. Both price and choice are likely to be the big factors here. The least purchased category online is groceries (43%). This tallies with the global average.



Which of the following have you bought online in the last 12 months?

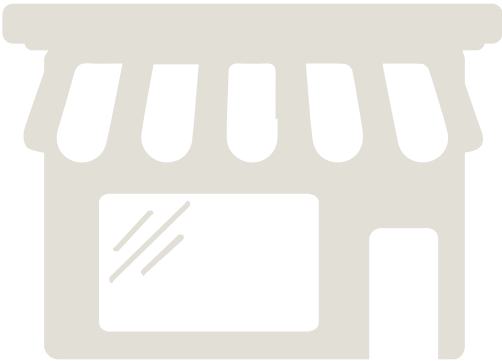




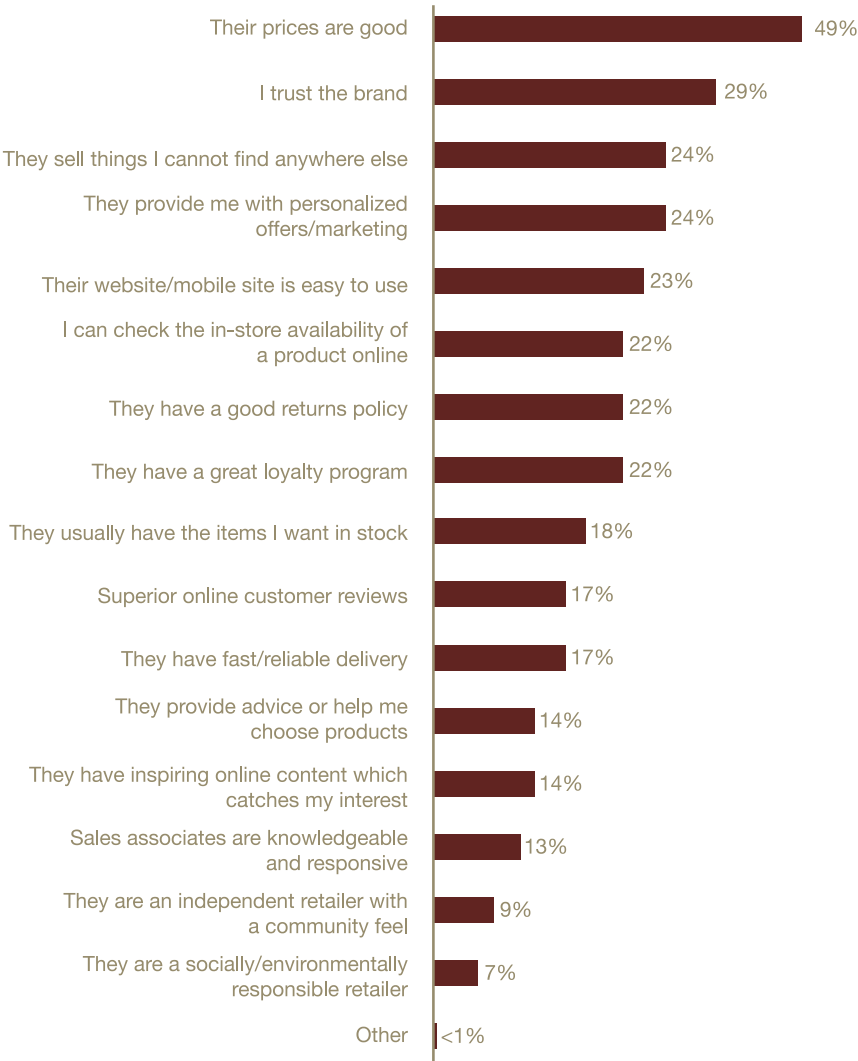
Factor 3: Consumers value price and monetary benefits

In the Middle East, price is important, but less so than it is in other parts of the world:

49% of customers in the region choose their online shopping sites based on price, compared to 60% globally



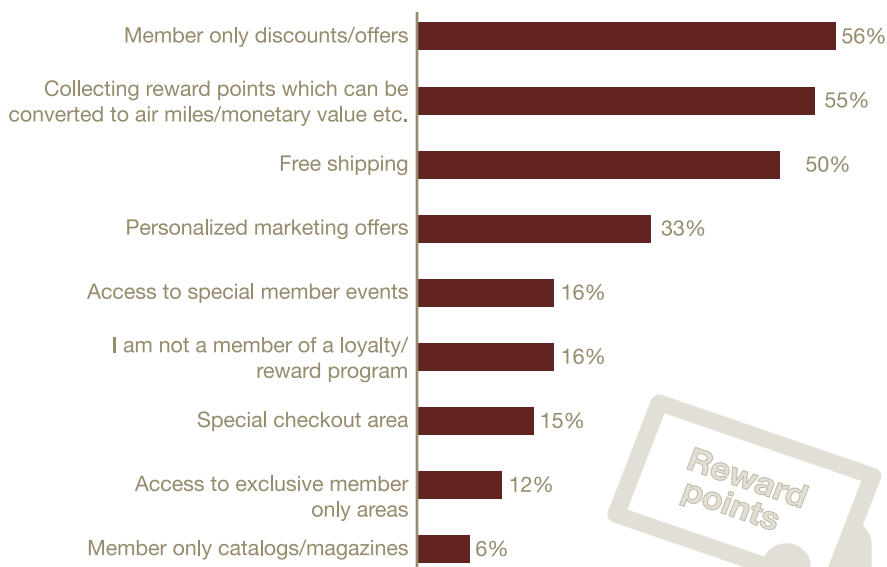
What made you choose your favourite retailer?





Likewise 56% of customers in the region like the member only discounts offered by loyalty schemes, and value these more than other types of benefits, but that compares to a global figure of 70%:

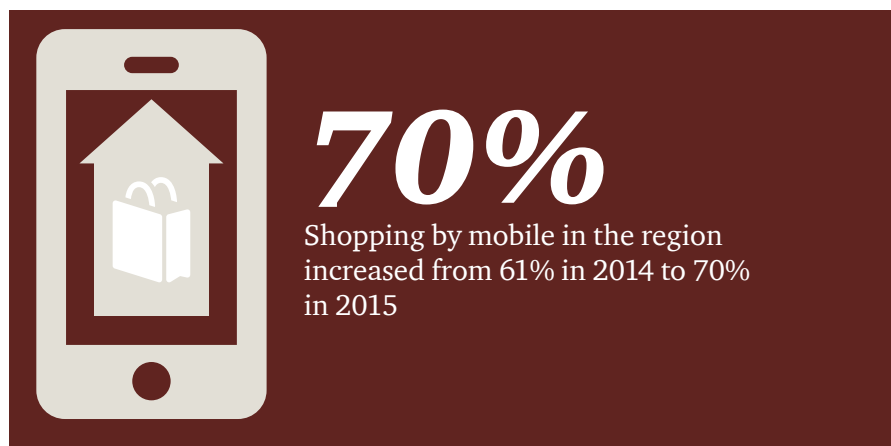
What do you value most in a loyalty programme?



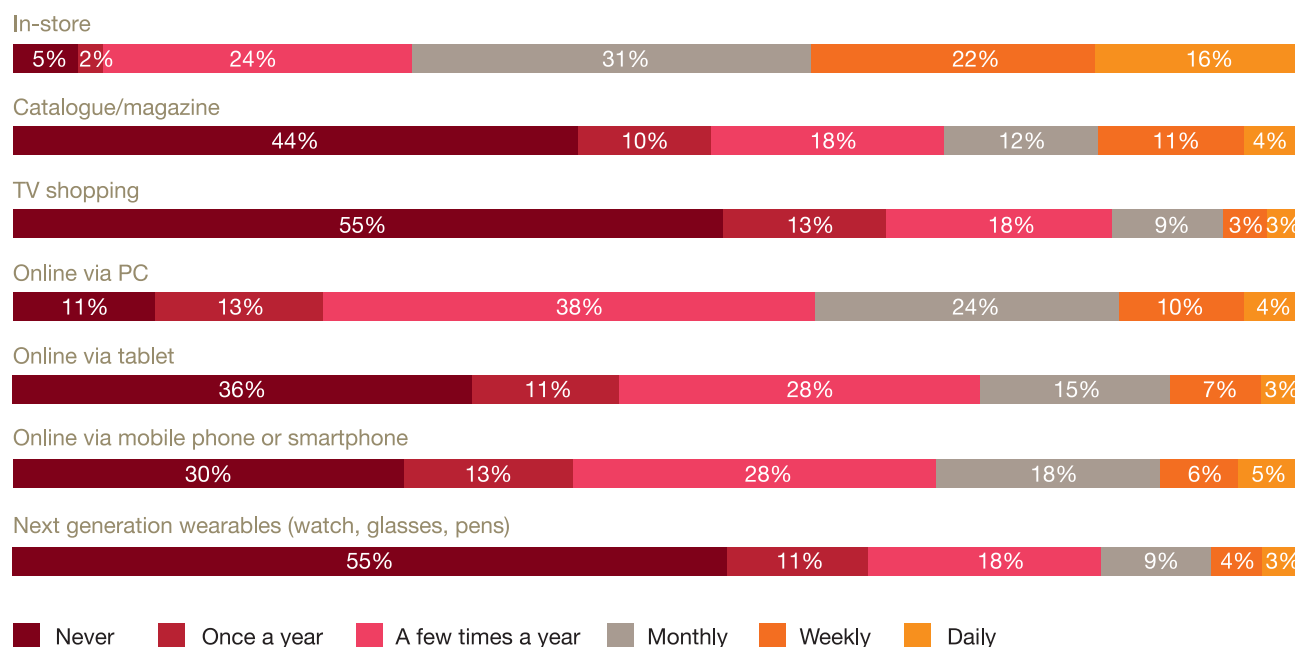


Factor 4: PC is the main channel, but mobile is gaining ground

Mobile technology is disrupting almost every aspect of modern life, but in the Middle East mobile shopping is taking off rather more slowly than some had expected. Despite this, shopping by mobile in the region increased from 61% in 2014 to 70% in 2015, while both tablet and PC-based shopping declined slightly (92% to 89% by PC, and 66% to 64% by tablet).



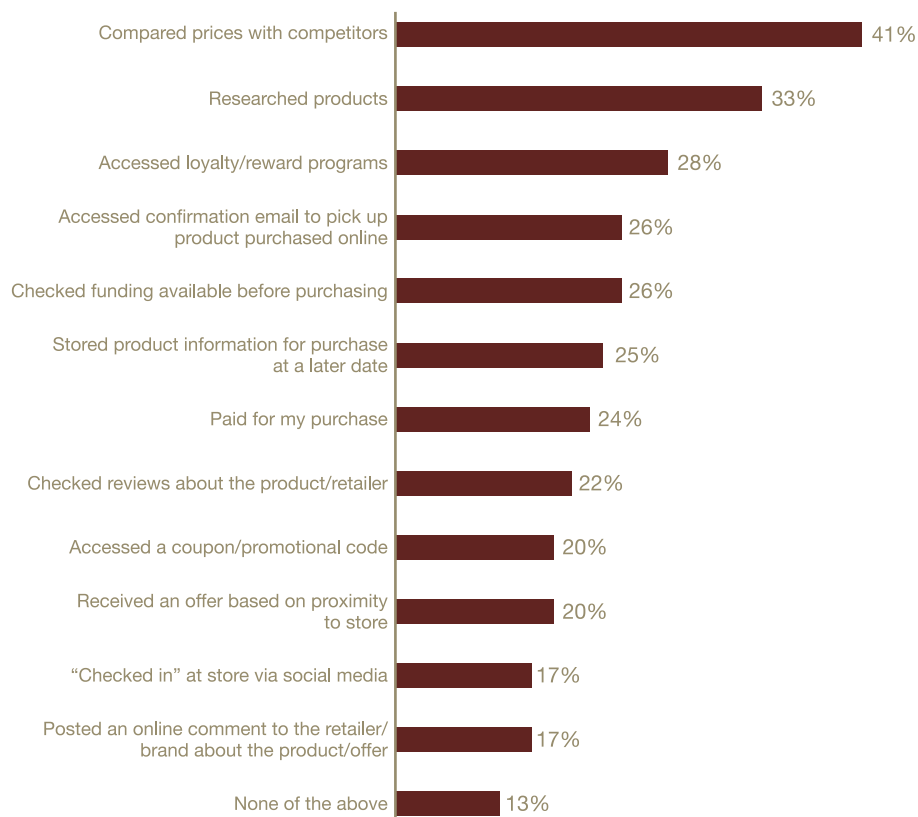
How often do you shop using these different channels?





People are using their mobiles more and more to browse and research before they buy, and 46% expect their mobiles to be their main purchasing channel in the future, but security concerns are still preventing many of them from doing that right now. Confidence is growing, from survey to survey, but we're not there yet.

Which of the following have you done on your mobile, while shopping in-store?



What retailers say:



"Our mobile sales went up from 25% of our online revenue last year to 60% in the current year"



Factor 5: Preference for cash; concerns over online payment

Consumers in the Middle East are more worried about shopping on mobile than those elsewhere.

65% of the Middle East survey respondents are worried about the safety of their personal financial information if they shop on the move. This may be one reason why as many as 30% have never shopped on mobile, and many brand owners have found it hard to find or set up secure online payment services. On the other hand, some of the most advanced players in the market have already set up successful mobile applications that accept online payments.

How strongly do you agree or disagree with the following statements?

I am wary of having my personal credit information hacked using my mobile phone



My mobile phone will become my main tool through which to purchase items



I am happy to store my payment and delivery information in an app on my mobile phone



I am happy to receive offers or coupons via my mobile phone



I feel more comfortable using traditional forms of payment rather than paying with my mobile phone



I am happy for stores to establish my location through my mobile phone



I am willing to load credit onto my mobile phone to provide payment for products



Agree Neither/Nor Disagree Don't Know

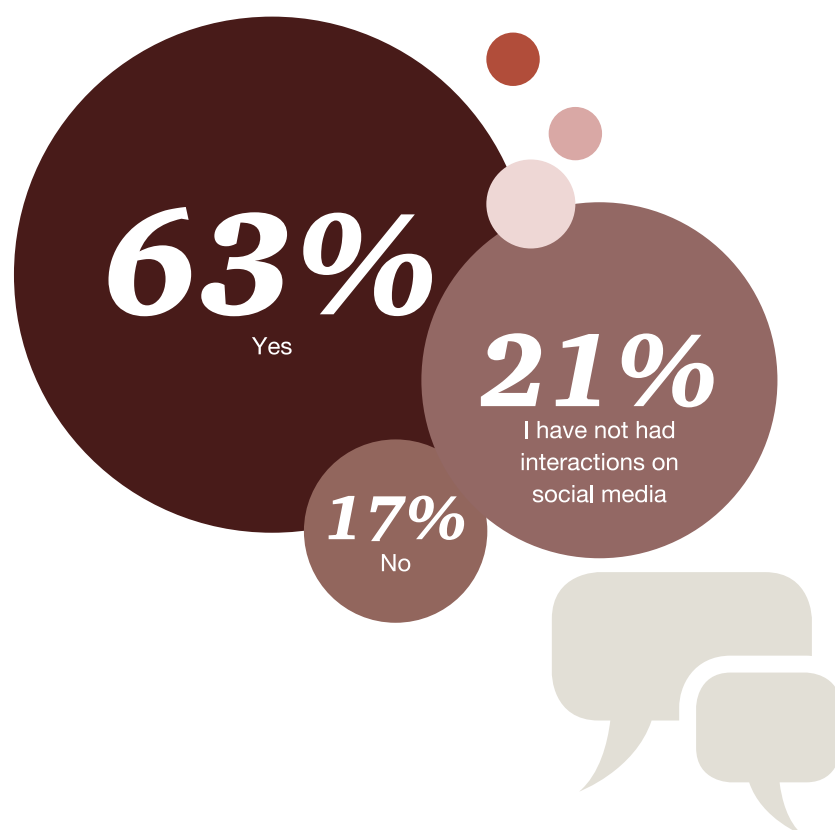


Factor 6: Social media impacts shopping behaviour

Mobile may not be growing as fast as expected, but social media now has real momentum. Younger 'digital natives' have grown up interacting this way, and they do it with their favourite brands and retailers too. Other consumer groups are catching up, attracted by special deals, exclusive offers, and previews of new products. This is the new reality of retail, and the sector has to catch up with the trend, otherwise there is a risk they will become redundant.

In some respects, social media is the surprise story of the survey from a Middle East perspective. Although the region has been slower to take to online shopping, its consumers are avid for social interaction. In this year's survey, 52% of shoppers in the region say that receiving promotional offers through social media influences their shopping decisions (compared to 44% globally), and 63% think more highly of their favourite brands after engaging with them on social media (43% globally).

Do you value a brand more after interacting on social media?



According to a report by the We Are Social agency published in January 2016, in the UAE there were 6.3 million people active on social media at that date (68% of the population), in Saudi Arabia 11 million (35%), and in Egypt 28 million (30%).

Factor 7: Shoppers value service, flexibility and personalisation

An interesting trend that has emerged with this year's new set of results is personalisation. Digital technology is making this possible for a wide range of consumer goods, but it's also a big opportunity for the physical store. By remembering their customers, and tailoring their service to their specific needs, local stores can seize a vital competitive advantage over their online peers. Shoppers in the Middle East value real time personalised offers in-store even more than those elsewhere (34%, compared to 25% globally).

Which of the following would improve your in-store experience?

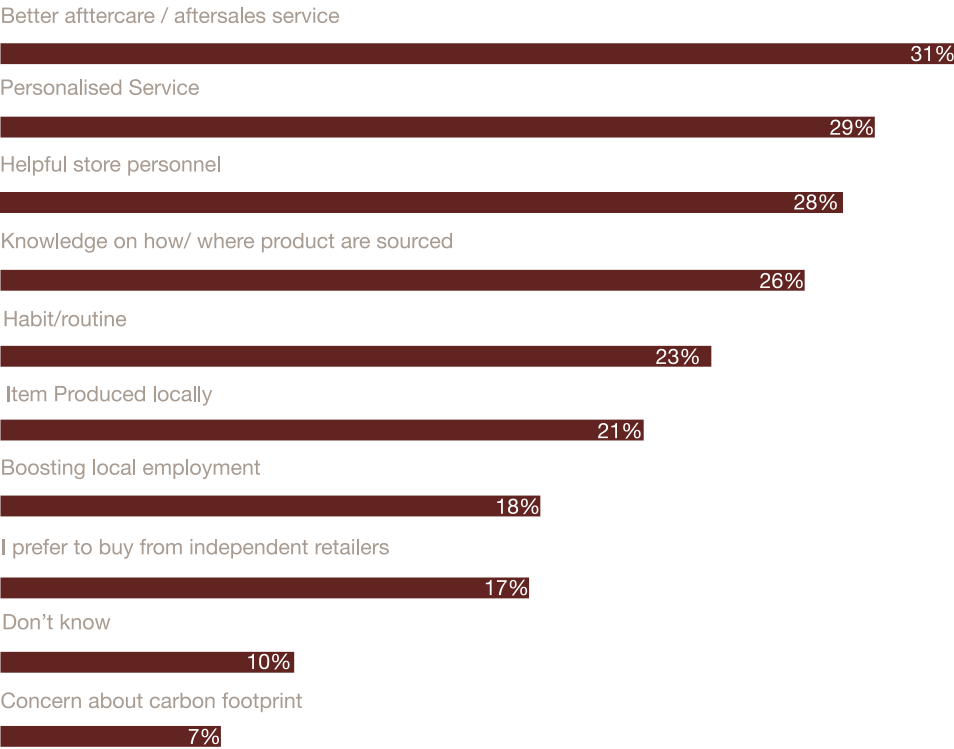


What retailers say:



“Online retail hasn’t yet got to the point where it’s cannibalising bricks-and-mortar sales. Most retailers see it as a value-adding opportunity and very few people yet consider it as a threat or a challenge to the region’s malls.”

What would make you buy more from a local store?



Taking a closer look at selected countries

United Arab Emirates

The UAE has quite a different profile to other Middle Eastern markets, given its status as a tourism hub, and the number of visitors who come specifically for shopping. There is also no VAT, although this is expected to change with the announced introduction of VAT in 2018. The UAE also has a growing domestic population and a high proportion of wealthy residents – both expatriate and nationals – who are keen to buy Western brands. This is one reason why it is believed that clothing and footwear will be the fastest growing spending category in 2016, with spend up over 11% on 2015. They also forecast a rise in household spending from \$72.8bn in 2016 to \$97.9bn in 2020, and 40% of UAE households are expected to have an income in excess of \$50,000 by that time¹.

Despite the challenges of a low oil price, the government continues to invest in major infrastructure projects, including a 550 million square foot wholesale market in Dubai, which will eventually host the world's largest e-commerce platform as well as offices and shopping malls.

In this year's survey, the UAE stood out as having more experienced online shoppers than is typical in the region: 10% have been shopping online for more than ten years, compared to a Middle Eastern average of 5%. Likewise everyone surveyed in the UAE said they owned a mobile phone, but in the region overall 7% did not have one. Aftersales service is more important to UAE respondents (37% versus a Middle Eastern average of 31%), as is Click & Collect (27% versus 22%), and they value loyalty points more in loyalty schemes (64% see it as a key benefit, compared with a Middle Eastern average of 55%). UAE consumers are more likely to choose a retailer for their stock availability (24% compared with a regional average of 18%), and because they trust the brand (32% versus 29%).

UAE respondents are more concerned about security risks online (22% versus 14%), and – perhaps for similar reasons – are much more likely to use a debit card than another form of payment (46% compared to a regional average of 25%).

In the UAE, 10% have been shopping online for more than ten years, compared to a Middle Eastern average of 5%



Sources:

¹ United Arab Emirates Retail Report, BMI Research, Q2 2016

Kingdom of Saudi Arabia

KSA is the largest economy in the Gulf region, but very much less of a tourist destination than the UAE. However, household incomes are rising, and even though the oil price will be a dampening factor, growth in retail spending should still be fairly strong. Saudis are likely to buy more in segments like furniture and home, food and drink, and fashion, especially international brands. Over 800,000 households already have an annual income of more than \$50,000, which offers opportunities for retailers. The new \$1.9bn Avenues Riyadh complex is set to open in the capital in 2019 and will include a shopping mall².

In this year's Total Retail survey, Saudi respondents tended to conform to the overall regional trends in their answers. Some of the variances that did stand out are aftersales service and Click & Collect, which are both less important in Saudi than the regional average (24% versus 31%, and 18% versus 22%, respectively). Saudi respondents also put a lower value on reward points as part of loyalty schemes (47% see it as a key benefit of a loyalty scheme compared to a regional average of 55%). The other interesting finding was that 16% of Saudi respondents say the slow speed of their data connection is an impediment to mobile shopping, compared to a Middle Eastern average of 10%.

16% of Saudi respondents say the slow speed of their data connection is an impediment to mobile shopping, compared to a Middle Eastern average of 10%



Sources:

² Saudi Arabia Retail Report, BMI Research, Q2 2016

Egypt

Egypt has seen strong retail growth in the last few years, as the economy recovered from the aftermath of the Arab Spring. Forecasts suggest unemployment will continue to decline, and wages and household incomes will rise. Egypt is one of the largest markets in the region, and has a growing population, and a rising middle class, which explains why so many operators are investing in new retail real estate: Cairo's Mall of Egypt and Alexandria's Cleopatra Mall are on track to open in 2016 and 2017 respectively. Developments like this illustrate how the format of Egyptian retail is changing, with a shift from smaller, local stores to hypermarkets (for grocery) and malls (for more leisurely discretionary spend).

Turning to the survey results, one of the most striking findings is the polarisation of the online shopping landscape. Egypt has more people shopping online daily (12% versus a regional average of 11%), but also more people who have never shopped that way (18% versus 13%). It also has the smallest number of people who have been shopping online for a long time – only 0.9% of respondents have been doing this for more than ten years, compared to a regional average of 5%, and 16% of Egyptian respondents said they don't own a mobile phone, compared to a regional average of 7%. But Egyptians are catching up fast: more of them are likely to research products on their mobile while instore (39%, versus 29% in Saudi Arabia and 31% in the UAE), and they are more likely to

compare prices on their mobile while instore (46%, versus 39% for Saudi and 40% for the UAE). Social media is very influential too: 75% of Egyptian respondents value a brand more after interacting with it on social media, compared to a Middle Eastern average of 63%.

Price and personalisation emerge as other key factors: Egyptians are more likely to choose a retailer because of price (52% versus an average of 49%), and the availability of personalised offers is a major reason why retailers gain 'favourite' status (31% versus 24%). 43% would have a better instore shopping experience if there were more personalised real-time offers, compared to a Middle Eastern average of 34%.

Security concerns are much less of an issue for Egyptians: only 2% say that's preventing them from shopping online, compared to a regional average of 14%. But mobile security is still an issue: 74% are worried about their phones being hacked, compared to an average of 65%, which may partly explain why more of them prefer to pay in cash – 85% versus an average of 80%. Other challenges for the online operators include long delivery times: 51% of Egyptian respondents cite this as a problem, compared to an average of 45%.

75% of Egyptian respondents value a brand more after interacting with it on social media, compared to a Middle Eastern average of 63%



Conclusion

The Middle Eastern retail sector, is no doubt undergoing a change, a revolution, albeit at a different pace compared to the more developed countries. Even within the Middle East itself the rate of development of the sector varies across the analysed countries. Recent announcements have confirmed that the face of online retail is set to change. It truly is an exciting time for the Middle East.

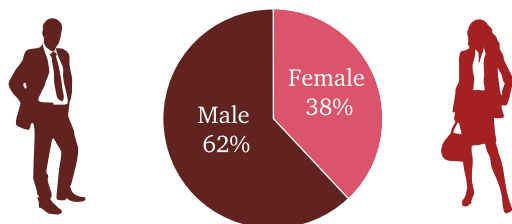
The PC is still the main channel for online retail, however the use of mobile is growing and taking a larger role in the online shopping process. Further, the advancement of online retail varies across product categories. One of the important factors which has an impact on shopping behaviour, and as a result on the retailers themselves, is the payment method as consumers are still wary of online security and have a preference for cash payment. Finally, social media and personalisation influence consumer shopping behaviour and should therefore be a consideration for retailers with the change and evolution of the sector.



Methodology

Total number of respondents: **1,003**

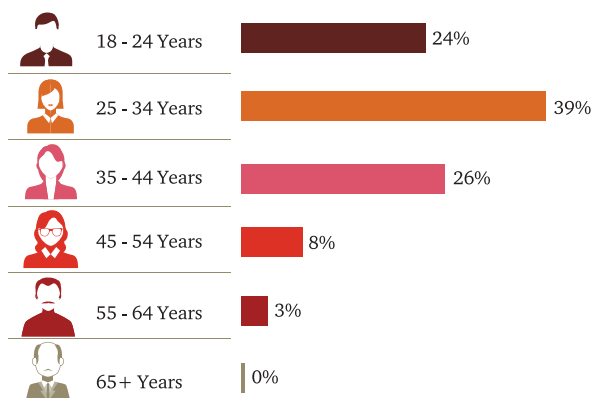
Gender



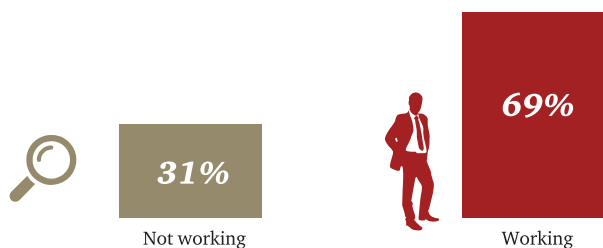
Region



Age



Employment Status



www.pwc.com/totalretail

Contacts

Norma Taki
Partner

Tel: +971 4 304 3571
norma.taki@ae.pwc.com

Leo Vera
Director

Tel: +971 4 304 3907
leonardo.vera@ae.pwc.com

Rand Shuqair
Manager

Tel: +971 4 304 3788
rand.shuqair@ae.pwc.com

Imad Matar
Partner

Tel: +966 11 211 0400
imad.matar@sa.pwc.com

Roy Hintze
Director

Tel: +971 2 694 6877
roy.hintze@ae.pwc.com



This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PwC does not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2016 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

Creative Design Centre CDC1247 062016