
Retail Disruption - what's the outlook for the Middle East?

Total Retail 2017



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Introduction

Last year, our 2016 Total Retail report showed that online shopping was experiencing green shoots within the region. This year we are seeing game changing developments not only in the sector but also with the industry players coming into the Middle Eastern retail market.

So what's changed?

We only have to look at Amazon's high profile acquisition of Souq.com to know that the face of Middle Eastern retail is changing. At the time of the deal, Goldman Sachs labelled the acquisition 'the biggest M&A deal in the Arab World'. If we add to this that 51% of this year's survey respondents told us that they had never shopped with Amazon, we start to paint a picture of an investable Middle Eastern market ripe with opportunity.

It was publicly reported during the Amazon deal that e-commerce accounts for just 2% of retail sales in the Middle East and the appetite for investing in online retail continues with the announcement of the acquisition of JadoPado.com. Noon, another estimated heavyweight player, will launch operations during 2017 and is also expected to have a big impact on e-commerce within the region.

To see the full 2017 Global Total Retail Survey Visit <http://www.pwc.com/gx/en/industries/retail-consumer/total-retail.html>

With the retail landscape changing on a daily basis, both retailers and investors need to truly understand the dynamics behind these changes - What is it that online consumers seek? How can retailers effectively engage with them? What online challenges do retailers face? And how will the brick and mortar retail outlets compete in the growing world of online retail?

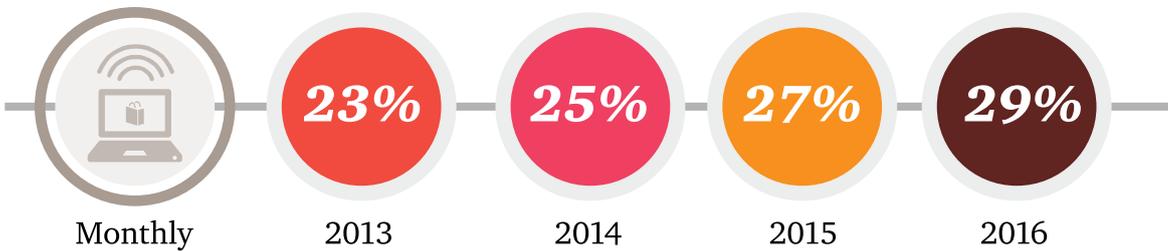
In early 2017, PwC released its previous Total Retail survey in which it interviewed over 24,000 people across five continents in 30 countries. In the Middle East, we asked over 1,000* online shoppers who were geographically spread across the UAE, Egypt and Saudi Arabia about their shopping behaviours and expectations. This report takes a closer look at the Middle East consumer and sheds light on the latest trends and preferences facing the retail sector.

*Please refer to the methodology for scope of this survey on page 19



Since we began issuing our annual Total Retail survey for the Middle East in 2013, we have noticed a gradual trend increase 'year-on-year' in those shoppers who are frequently shopping online. The increase in monthly online customers has risen 6% from 23% to 29% in 2016.

How often do you buy products online?

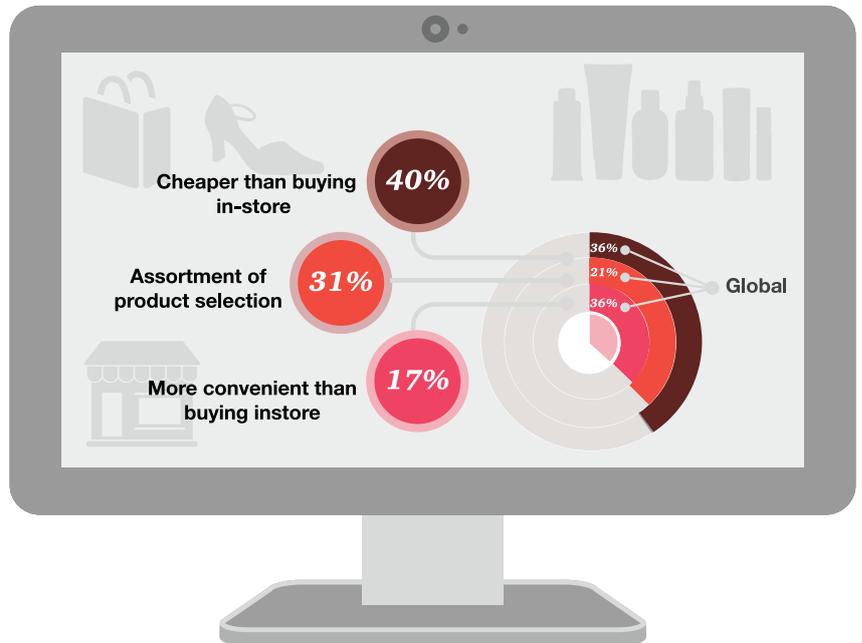


Figures taken from PwC Annual Total Retail survey

Shopper behaviour continues to vary by age throughout the region. 36% of those surveyed between ages 18 and 24 shop online monthly compared to those aged 55 years and above which comes in at 13% in comparison.

When we asked respondents about their motivation for buying online, 40% stated that it was due to lower pricing and 31% said it was due to the product selection, while only 17% cited convenience compared to buying in-store. In contrast, 36% of respondents globally stated lower price and convenience as their motivation, which suggests that there is a significant opportunity for Middle Eastern e-retailers to further develop and enhance the convenience of their service.

What has been your main motivation for buying online?



Source - PwC, Total Retail 2017 - Middle East Report
Base 1,007

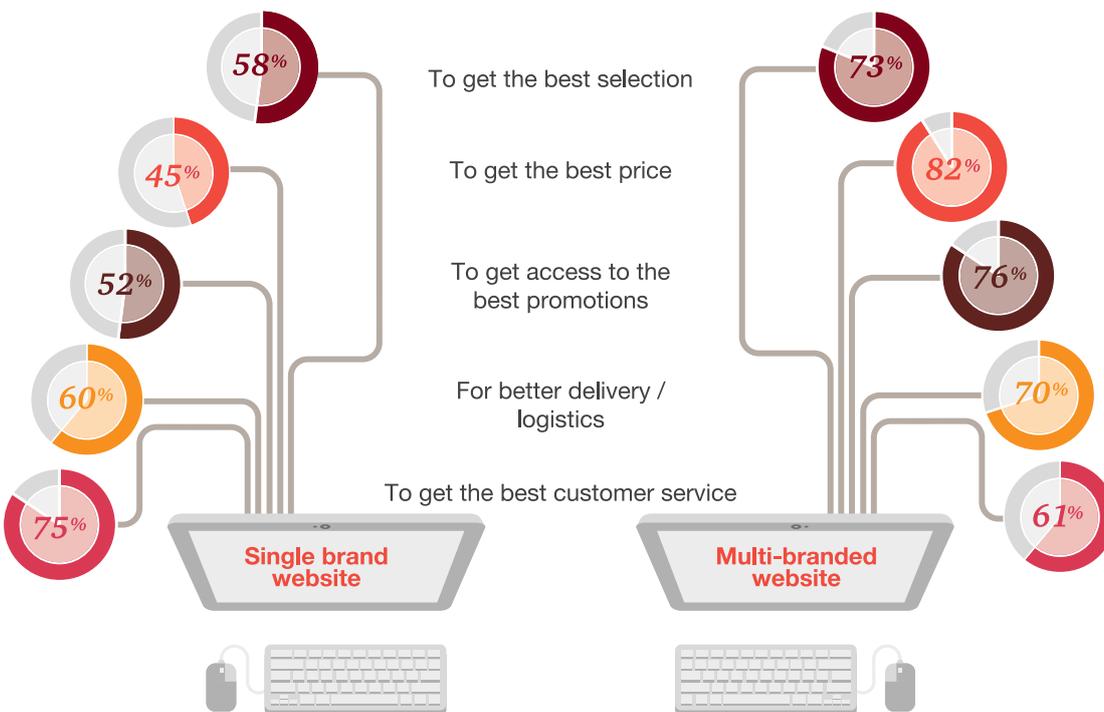


When asked whether the Middle Eastern online shoppers preferred to buy from single brand or multi-branded websites, the findings indicate that customers like to shop from single brand websites for better service, while they prefer to shop from multi-branded websites when they are seeking better prices and promotions.

When we look a little deeper at buying preferences by product category, most of those surveyed preferred to buy books, music, movies and video games online, followed by consumer electronics and sports and outdoor equipment. However, grocery shopping is still lagging behind with only 27% choosing to purchase online vs 58% still preferring to buy their groceries in-store.



What drives you to purchase from single or multi branded websites?



Source - PwC, Total Retail 2017 - Middle East Report
 Base 619 (single brand website) 896 (multi-branded website)

Key findings for the Middle East

5 investment areas for retailers

Retailers are facing one of the most competitive environments in decades with preferences shifting to online shopping. In the following pages, we set out the five key investment areas that can act as a guide for Middle Eastern retailers when making future investment decisions.

Mobile

- 56% of our respondents say that it will become their main tool to purchase items online, with 41% having already used their smartphone to pay for purchases.
- Consumers prefer online portals that are mobile friendly rather than downloading an App.

1

Social customer engagement

- Social media is driving customer behaviour with 48% of consumers engaging in online promotions.
- 52% are using social media channels to read product reviews.

2

Secure platforms

- Online safety continues to be a concern. 62% of consumers are worried about having their personal information hacked via their mobile device.
- 60% shop online with companies they feel they can trust.

3

Loyalty

- 32% of online shoppers remain loyal to their favourite retailers because they trust the brand.
- 48% of shoppers say that attractive prices drive repeat purchases at their favourite retailers.

4

Showroom experience

- For luxury goods such as jewelry and watches, 42% of consumers want to see and touch products before purchasing them.
- Customers prefer to buy high priced items in-store and say they value interactions with experienced sales associates who have deep knowledge of instore product ranges.

5



Mobile

The use of the smartphone as a shopping and purchasing device continues to surge in popularity. 56% of our respondents say that it will become their main tool to purchase items online, with 41% having already used their smartphone to pay for purchases.

So what else are consumers doing with their smartphone? 43% of Middle East consumers like to use it to compare product prices with competitors while 33% are using it to read product reviews. Retailers are seeing an 11% increase in this trend compared to the previous year.



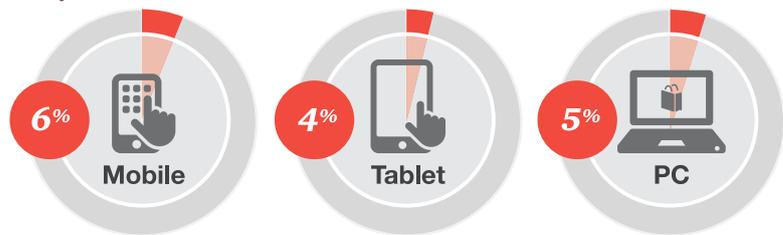
However, it's not all plain sailing when it comes to online shopping. Many consumers said the size of their smartphone screen presented challenges while other customers found that some retailers' online websites are quite difficult to use.

Interestingly, the recent PwC/SAP and Global Total Retail surveys indicate that app usage is declining. Global findings indicated that consumers are tiring of downloading mobile apps that they use just a few times and much more prefer to purchase items through mobile websites instead.

Retailers should consider these emerging trends as part of their investment strategy. Those seeking to grow their online retail presence need to optimize their mobile offering by focusing on designing mobile sites that can be easily navigated to make online mobile shopping an effortless and enjoyable experience.

How often do you buy products using the following shopping channels?

Daily



Weekly



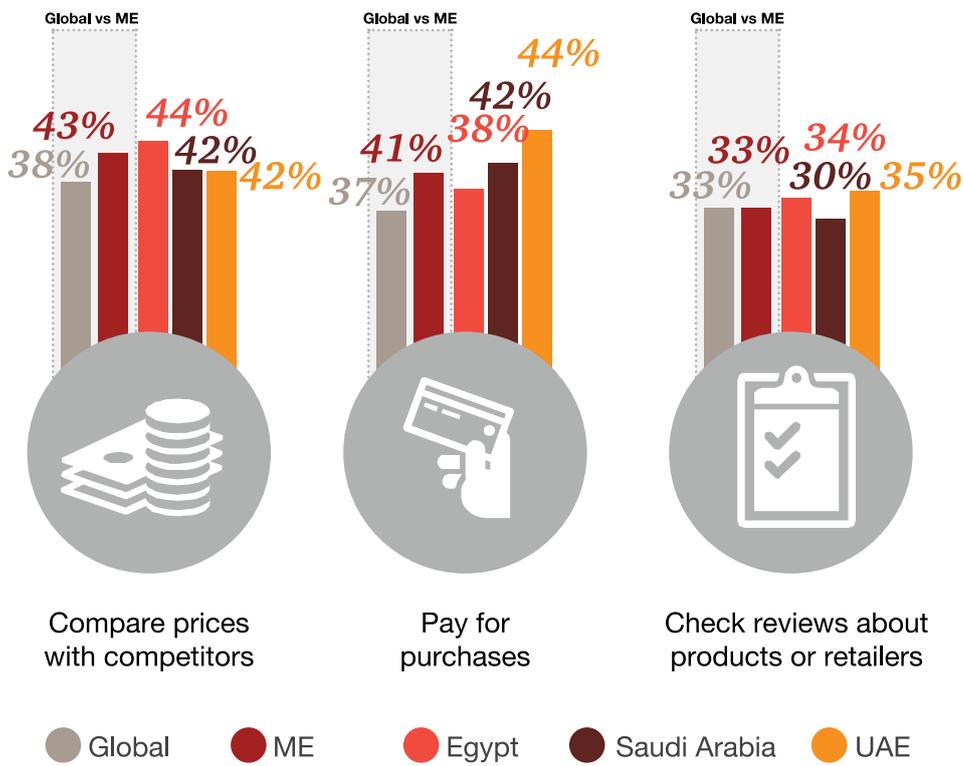
Source - PwC, Total Retail 2017 - Middle East Report
Base 1,007

“Retail is no longer about transactions but now about the overall “experience” - and it needs to be consistent and relevant across all channels and interactions be they physical or digital”

Vincent Giborees, PwC Data Architect

How does the Middle East stack up against Global?

Which of the following have you done when shopping online using your smartphone?



Source - PwC, Total Retail 2017 - Middle East Report
Base 1,007





Social Customer Engagement

For years, large multi-national retailers have been using biometric facial recognition technologies to gather data on customer movements in-store. But if we look at the technology we are using at our fingertips in the region, social media is vastly becoming the most attractive tool for online engagement. For example, Saudi Arabia accounts for more than 40% of all active Twitter* users in the Arab region. These stats alone present a massive opportunity for Middle Eastern retailers to engage in social media channels to further develop their online customer base.

So how are consumers using social media during their online shopping experience? 52% use it to read product reviews, while 50% use it to discover new brands and products.

On average, approximately 64% of our Middle Eastern respondents said they use Facebook or Twitter when finding inspiration for purchases.

Has any interaction you have had with your favorite brands on social media driven you to:

Endorse the brand more

59%

Spend more time with the brand

55%



Source - PwC, Total Retail 2017 - Middle East Report
Base 969



*<http://www.bbc.co.uk/news/world-middle-east-14703480>

“It’s likely the impact of e-commerce will be felt much quicker here in the region due to the young age demographic who are actively using their smartphones and heavily engaged in what’s trending on social media ”

Norma Taki, PwC Partner - Head of Retail, Middle East

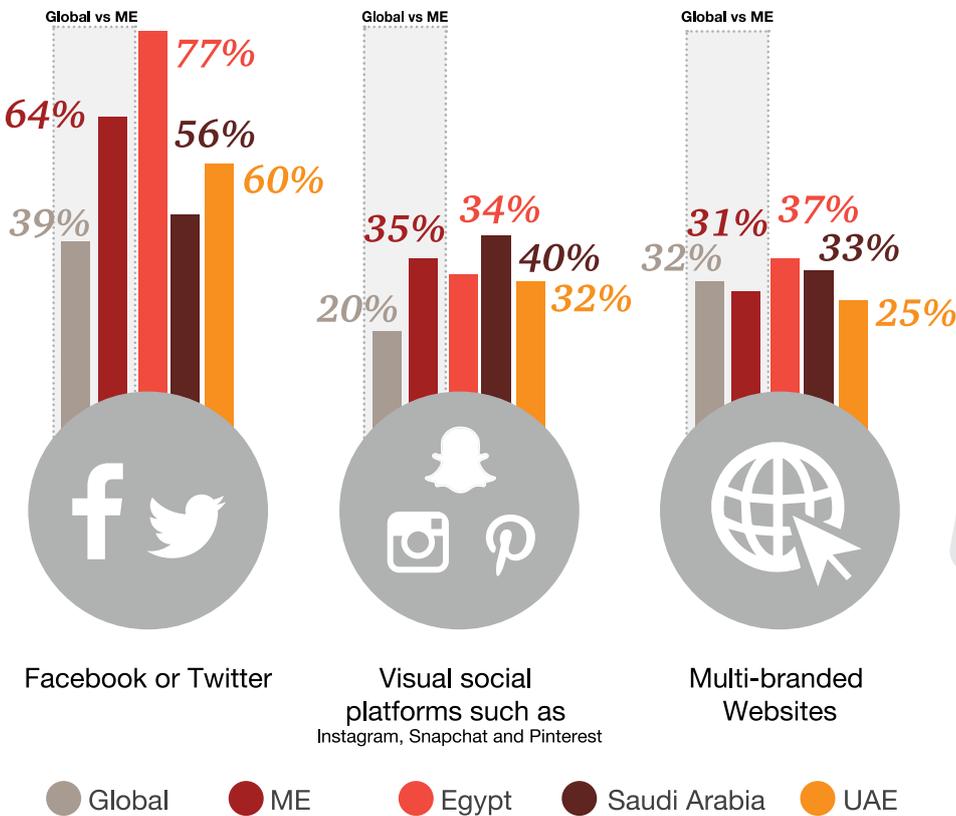
We also see a rise in the use of visual social platforms such as Instagram and Snapchat being used to inspire purchases. We only have to look at Dubai-based beauty blogger, Huda Kattan, who has over 20 million Instagram followers and was recently dubbed the world’s most influential beauty blogger by the New York Times. She has engaged online audiences through online platforms like Instagram whilst growing her retail beauty brand, Huda Beauty.

Social media allows retailers to connect and engage with customers. 48% of those surveyed said they use the promotional offers they received on social media.

Investing in skilled professionals that can develop social media strategies and compelling online content that draws customers in is one way of ensuring retailers maximise on these social engagements.

How does the Middle East stack up against Global?

What online media do you regularly use to find inspiration for your purchases?



A massive 77% of shoppers in Egypt are finding inspiration for purchases, a stark comparison to 39% across the rest of the Globe



Source - PwC, Total Retail 2017 - Middle East Report Base 1,007



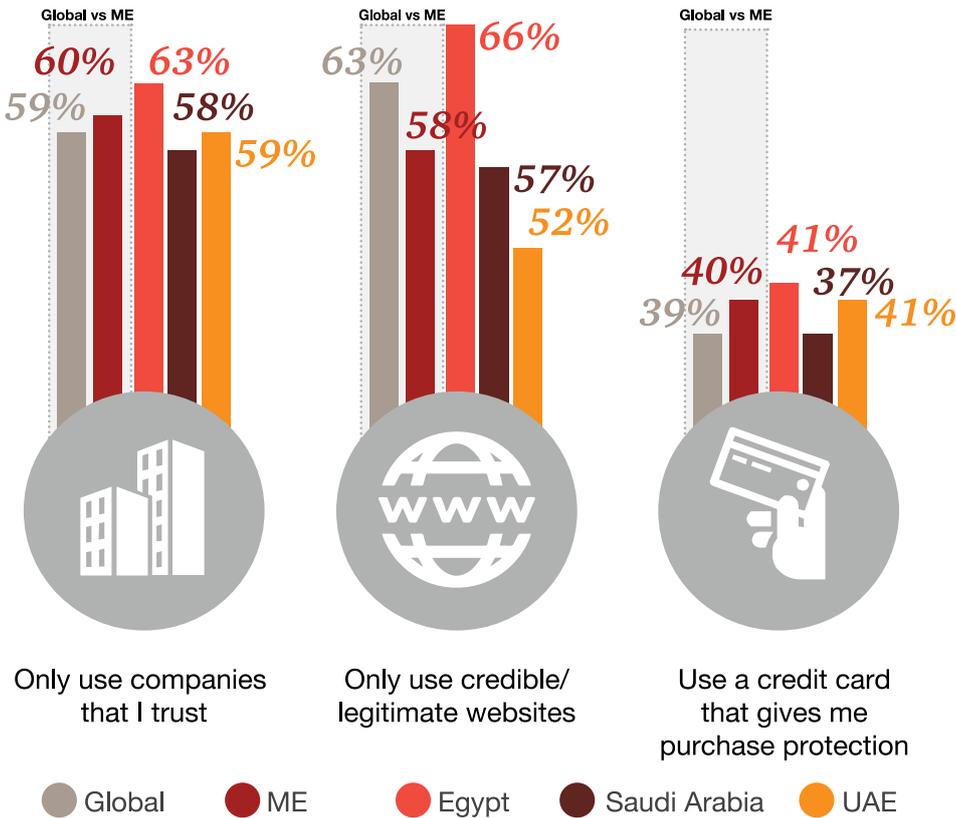
Secure platforms

The risk of cyber breaches and data hacks are affecting all industries across the Globe. There is an increased need for customers to become more vigilant and protect their personal information online. This rings true in the region as our survey revealed that 62% are concerned about having their personal information hacked while using their smartphones when shopping online.



How does the Middle East stack up against Global?

How do you personally reduce the risk of online security issues/fraud?



Source - PwC, Total Retail 2017 - Middle East Report
Base 1,007

When we looked at online security in more detail, over half of those respondents only use companies and legitimate websites they know they can trust to protect their personal security, whilst 40% used credit cards that offer purchase protection as a safety precaution when making online purchases.

However, as a region, the Middle East is still heavily cash-based, so moving towards e-commerce requires the shift in both card usage and non-personal transactions. Gaining the customer's

trust is extremely important and retailers must ensure they demonstrate the highest levels of education, security and resilience against cyber crime.

Investing in the right technology and systems, providing regular maintenance and security updates is a critical factor for successful online retail.





Loyalty

Keeping customers loyal is a key priority for any retailer but it is not without its challenges. The evolution of online retail means that customers have a vast array of choices when it comes to purchasing products online. But with choice, also there comes competition and pricing pressures.

When consumers were asked why they shop at their favourite retailers, 48% said it was because they offered attractive prices whilst 32% said it was because they trusted the brand. Attractive online promotions was another driver for customers choosing to buy luxury products online.

Traditionally, customer loyalty was seen as customers being rewarded for repeat purchases. Nowadays, 'new loyalty' is all about understanding customers through the information they give to the retailers. Omni-channels allow retailers to gather information and gain insights into their customers. Retailers can use this information to know what their customers want and respond to it by creating personalised promotions and offers when designing their loyalty strategies.

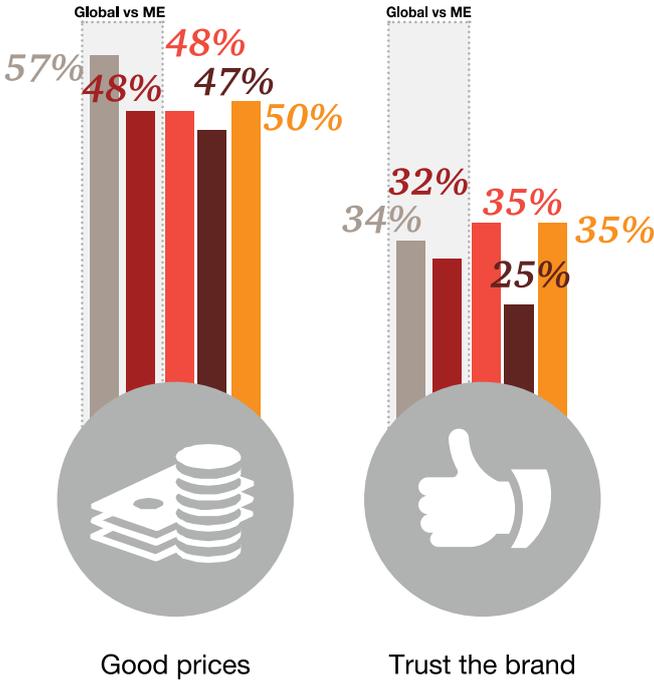


“Whilst the uptake of ecommerce in the Middle East is still facing barriers, a swift evolution is imminent putting further pressure on physical retailers. Bricks and Mortar retailers need to respond accordingly”

Karl Nader, Strategy& Retail and Consumer Partner

How does the Middle East stack up against Global?

Why do you shop at your favourite retailer?



● Global ● ME ● Egypt ● Saudi Arabia ● UAE

Source - PwC, Total Retail 2017 - Middle East Report
Base 1,007



Our results show there is an opportunity for retailers in Saudi Arabia to further engage with their shoppers through their loyalty programmes to increase the levels of trust with their customers.





Showroom experience

We are seeing a rise in online shopping as an attractive and easy alternative to shopping in-store but what does this mean for the region that sees development projects like Mall of the World in the UAE and Riyadh Park in Saudi Arabia on the near horizon?

These days, customers have high expectations of what their in-store shopping experience should now look like and we continue to see this in our survey.

67% expect Wi-Fi services that have quick and simple login features, 76% value having a sales associates with a deep knowledge of in-store product ranges while 73% liked the ability to check other stores or online stock quickly.

When buying luxury items, 42% leant towards in-store purchasing for products such as jewelry and watches as they felt they needed to see and touch these items before buying them, while 49% of females bought cosmetics and fragrances in-store because they were concerned about the genuinity of these products online.

When we look at individual product catagories, we noticed that the Middle Eastern shopper has different shopping habits online vs in-store.

54% of consumers prefer to buy books, music, movies, video games online rather than in-store and it's no surprise given that most of these items can be easily downloaded and ready to use at click of a button.

What's interesting is that consumers have almost no preference to which channel they use when purchasing electronics and computers.

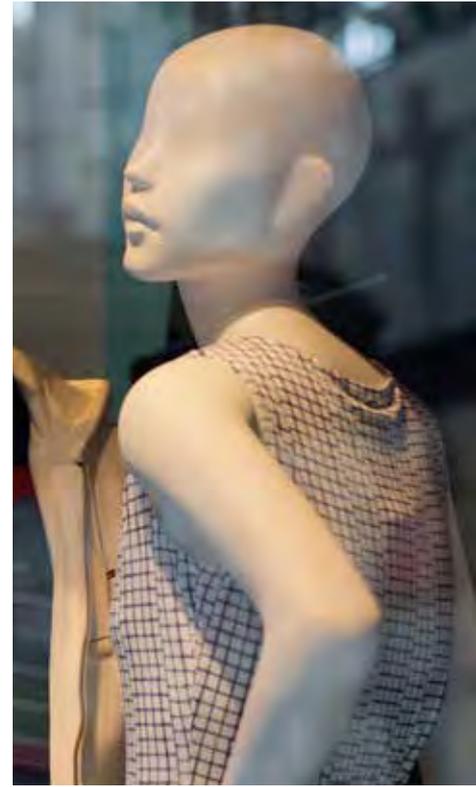
However, furniture and homeware or household appliances are considered to be 'Differentiated Products' which are more difficult to sell online because consumers like to look and try these out in-store.

To continue to stay relevant and provide customers with an experience, retailers should consider employing a showroom model for differentiated products, employing skilled and attentive sales staff who can turn the browsing conversation into actual tangible sales.



Which method do you most prefer for buying your purchases in the following product categories?

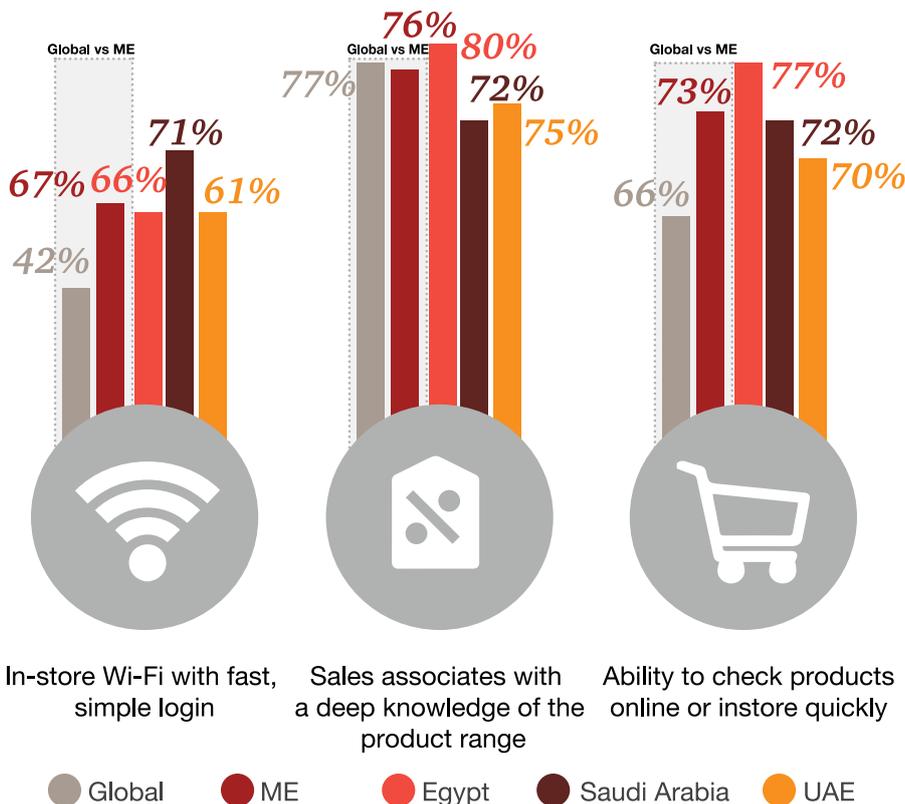
| Online | | In-store |
|--------|-------------------------------------|----------|
| 44% | Consumer, electronics and computers | 45% |
| 31% | Household appliances | 51% |
| 41% | Clothing and footwear | 45% |
| 54% | Book, music, movies and video games | 26% |
| 35% | Furniture and homeware | 49% |
| 44% | Sports equipment/outdoor | 35% |
| 42% | Jewellery/watches | 41% |
| 38% | Do-it-yourself /home improvement | 37% |
| 27% | Grocery | 58% |
| 44% | Toys | 35% |
| 48% | Health & Beauty (cosmetics) | 36% |



Source - PwC, Total Retail 2017 - Middle East Report
Base size will fluctuate per category

How does the Middle East stack up against Global?

How important are the following attributes in relation to your instore shopping experience?



Results across the countries in the Middle East region seemed relatively consistent, however in comparison with the global trends, in-store Wi-Fi connectivity ranked significantly higher in the Middle East.



Conclusion

Given the hot Middle Eastern climate, we will always see going to the mall as a part of the region's culture but there is no doubt that the disruption of online retail is revolutionising the way we shop.

What's the outlook for in-store retailers?

In the future, we may see mall operators offering rent reductions to retailers to continue to remain competitive. What will also be interesting is to see how franchisees determine the terms of their franchise agreements. Going forward, will online retail be included in the franchise agreements thereby allowing franchisees to develop this channel or will it be reserved for the brand owners to capture the online market opportunity directly?

More importantly, we believe retailers will move away from traditional transaction based retail to one of personalised 'showroom' customer experience.

...and digital?

One thing's for certain, we know that customers will continue to 'hop' between on and offline shopping channels depending on which is more convenient to them at the time.

Regardless of the channel, what's great about customer 'hopping' is the trail of data they leave behind them.

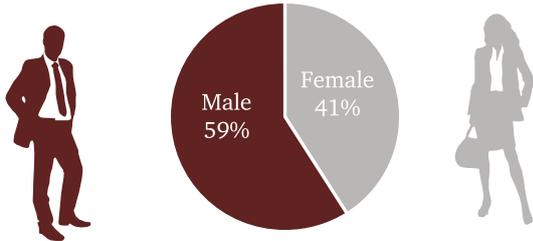
Capturing and analysing customer data, developing insights and acting on them will enable retailers to create meaningful customer engagement and should be at the top of all retailers boardroom agendas.

The investment areas identified are critical for any retailers looking at their long-term retail strategy. They must quickly learn to develop omni-channels to ensure that both their on and offline strategies are not only aligned but monetised. In doing so, retailers will be able to create real synergies with their customers to exceed their expectations no matter how and where they shop.



Methodology

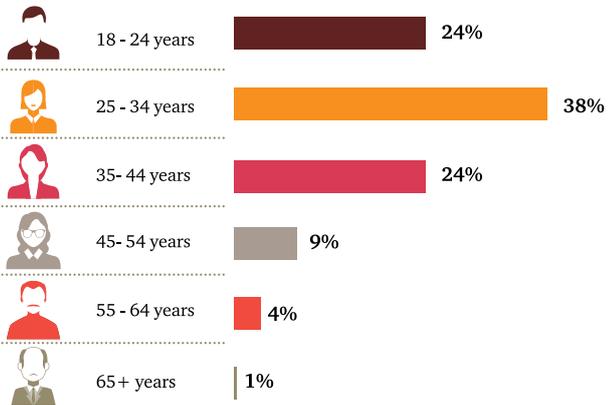
Gender



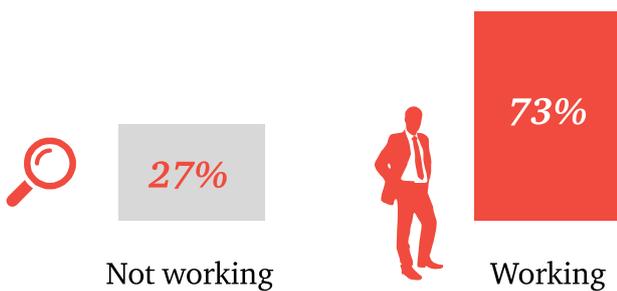
Region



Age



Employment Status



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