

Opportunities abound for SMEs in the UAE retail market



By Pashma Manglani

27 April 2014

When it comes to the retail market, the UAE has made a name for itself as a shopper's paradise. Boasting the world's largest shopping mall, it has witnessed robust growth in the sector and can only be bolstered by Dubai winning the bid to host the Expo 2020.

Retail is one of Dubai's most vital sectors, accounting for nearly 13% of total gross domestic product (GDP), according to the Dubai Economic Council. In terms of the total value of the industry, this means that it compares to the emirate's flourishing real estate, construction and financial sectors.

In 2014, more than 70 malls participated in the annual Dubai Shopping Festival with visitors spending more than AED 400 million (USD 109 million) in just the first two weeks of the festival.

Looking at trend predictions, the retail sector is expected to grow to AED 151 billion (USD 41 billion) by 2015, up some 33% from AED 114 billion in 2012, according to a report by Dubai FDI, which is part of the Department of Economic Development (DED).

The report notes that high disposable incomes, the real estate boom and continued interest from international retailers are factors that will contribute to strong growth.

As a result of this positive outlook, retail opportunities are on the rise for businesses. "Retail, tourism, healthcare is what the UAE economy will be based on in the upcoming period," says Khalifa Furqan Athar, director, Strategy and Planning at McARTHUR + COMPANY, while stressing the need to capitalize on available opportunities.

BRAND PENETRATION

For businesses entering the retail market today, it's important to remember that diversification and penetration of brands are the trends of today, Athar said.

"There are endless opportunities for new brands to come with new concepts. Dubai ranks second with regard to brand penetration (at 54%) and will soon become number one in the world. Franchisers are looking to the UAE market."

At the same time, consumers are increasingly aware of home-grown concepts and brands in the Middle East and take pride in supporting these companies, according to a 2012 consumer trends report by the Glasgow Consulting Group. In fact, many SMEs have banked on their local angle as a way to catapult their business towards success.

However, while the retail sector is lucrative, it can be a tricky market to enter if a business doesn't position itself correctly. The UAE was ranked as the fifth strongest emerging market in an AT Kearney index of global retail investment, but it also scored three out of 100 points on market saturation.

DEMAND DRIVEN

Another major challenge of operating in retail is that it is a "housing-driven market," Vishal Pandey, director and principal, Glasgow Consulting Group (GCG), said. "[As a result], the cost of doing business is very high."

For SMEs, the additional challenge is that they need to think of businesses that scaled up rather than those with a "flattened vision of growth". Due to high start-up costs, the market here dictates that companies investigate the demand for their product or service before going further.

Pandey said this means that unlike the North American model where businesses can think of starting up before looking for clients, in the UAE it is really crucial that SMEs find their business first before entering the market. He also pointed out that for SMEs, the best option is to follow key trends, finding a way to make the most of business models that are working.

ONLINE PENETRATION

Online penetration is high and businesses need to continue finding ways to innovate in that sphere. Pandey noted that in the GCC, Saudi Arabia particularly has great potential for growth in web penetration. This also includes taking advantage of the mobile platform to explore possibilities with new applications.

Meanwhile, on the food and beverage front, there are plenty of opportunities. Pandey notes that there is room for more fast-dining and quick-service restaurant brands to enter the market. "The success of these businesses, [however], really depends on location and pricing."

The GCG report also highlighted a growing trend for healthy and natural foods in the Middle East. Luxury products have also always been fast-moving commodities in the region. "Dubai is going to overtake London in 2015 and more brands will be entering the market, before moving to the wider Gulf area."

While SMEs do need to be cautious about entering such a competitive market, there is a "lot of consolidation happening and a lot more activity," Pandey said. "With the 2020 vision, tourist numbers are going to increase, only serving to drive the retail and hospitality sector further."