



The first Middle East Retail Forum sets the tone

Retail visionaries share opportunities and challenges facing the retail industry

*The first Middle East Retail Forum (MRF) saw more than 45 retail and retail real estate professionals sharing their thoughts on catalysing retail over two days and eleven sessions. **Dennis Daniel** and **Rupkatha Bhowmick** bring to you a session-by-session post-event review with some fascinating visuals and vital statistics.*

The forum, which was held on December 5 & 6 at the Ritz Carlton - DIFC, Dubai, was attended by more than 300 regional and international retail professionals.



Middle East
Retail
forum
2012





David Macadam

Middle East Retail Industry Trends

*The opening session of the Middle East Retail Forum, ME Retail Industry Trends, saw **David Macadam, Vishal Pandey and Hussein Doughan** talk about the dynamism of the retail industry in this region and the future trends and prospects*

Retail is one of the fastest growing industries in the Middle East as the region emerges as a key market for retailers across the world. Favourable policy frameworks of regional governments and the active participation of the private sector has made the region one of the world's most desirable retail environments for investment and revenue generation.

Retail Real Estate Trends

"The MENA and GCC regions clocked 3.3% and 2.9% real GDP growth respectively last year and the rate is expected to touch 3.6% and 3.5% by 2014. The Arab Spring may have destabilised most parts of the Middle East but the UAE, Qatar and Saudi Arabia benefitted since they were seen as 'safe havens' in the midst of political volatility. And their large oil revenues helped as well. The UAE specifically witnessed 4.2% real GDP growth last year," observes David Macadam, regional director - head of retail, Jones Lang LaSalle MENA.

According to him, Dubai's property clock is gaining momentum, driven by the recent announcement of Mohammed Bin Rashid City, a proposed development that will house the gargantuan Mall of the World, and upcoming entertainment parks to provide a boost to the retail real estate sector. "Dubai's retail market continues to be lucrative, driven predominantly by a shopping culture that is already redefining the social contours of the city, with consumers looking for constant innovation and evolution. The example of the recent Eid in Dubai 24-hour shopping initiative that was well received



by both residents and tourists is a case in point," Macadam iterates.

"The market continues to be dominated by large super regional centres despite the recent trend towards opening smaller community centres, with around 76% of upcoming retail real estate construction being mall-based. New international franchises are ever keen to set up shop in these super centres, driving demand for premium retail space, sales volumes and high occupancy rates, especially in the case of The Dubai Mall and Mall of the Emirates, which are both looking to expand their retail areas. Older and secondary malls are proving to be less popular, facing the spectre of falling rents as they struggle to attract demand. The gap between primary and secondary centres thus continues to widen as consumers continue to favour giant malls. In fact, strong occupancy in the better performing regional and super regional centres has resulted in a 15% drop in city-wide retail vacancy levels," he elaborates.

Consumer Trends

Vishal Pandey, principal at Glasgow Consulting Group, spoke about the changing retail scenario and changing consumer trends "The world is changing fast and so is the Middle East. Physical formats are gradually getting replaced by digital formats. However, even though the region has one of world's highest mobile phone ownership rates and despite 88% of consumers using the internet daily for social networking, online shopping remains under-developed. Many local brands don't have an online presence - only 5% of UAE companies use the web to sell their products or services. However, the online space is growing even if it's at a sluggish pace," he observes.

"The mall culture predominates in this part of the world. Consumers look for family entertainment when they visit a mall, so shopping mall operators endeavour to offer a fulfilling shopping experience by adding more entertainment-led platforms



Vishal Pandey



Hussein Doughan

to influence consumer behaviour and grow sales. However, the convenience factor is also becoming important for consumers, who are now seen to visit neighbourhood malls as a one-stop solution for their family needs. They are also warming up to home-grown brands even as luxury retail continues to thrive. This is especially true of food retail, where a visible trend is seen towards locally produced healthier food variants as consumers become more health conscious," Pandey points out.

Retail 2020 Trends

Convenience was also a trend highlighted by Hussein Doughan, regional manager - MENA & Turkey, Euromonitor International, Dubai. "Consumers are looking for convenience as they lead much busier lives than

ever before. This has significantly boosted online retailing channels world-wide - internet retailing grew 20% growth in 2011 - though the pace of growth has not been as rapid in the Middle East as in the west. In fact, internet retailing continues to score higher than home television shopping and other channels in the non-store segment. Within internet retailing, the strongest demand is for media products, followed by apparel, consumer electronics and others categories like grocery," he elaborates.

But Doughan does point out that despite the growing prominence of online retail demand for physical retail space continues to expand in the Middle East, though here too preferences are evolving because of the convenience factor. "Hypermarkets and supermarkets perform quite well here

compared to the west. However, consumers are gradually developing a preference for neighbourhood stores that offer convenience in terms of time and distance. Large format retailers are now getting the message and entering the convenience retailing space. For example, Carrefour introduced its Carrefour Express concept and received positive consumer response," he avers.

Doughan highlights other important retail trends in the Middle East. "Grocery retailing is performing exceptionally well here, shifting from traditional to modern grocery retailing formats, especially in the UAE and Saudi Arabia. That apart, specialty retailers are implementing innovative ideas - such as hand-crafted chocolates and organic food - that are also evoking positive consumer response," he concludes. ■

Consumption Next in the Middle East

The session on Consumption Next in the Middle East at the Middle East Retail Forum - chaired by Nilesh Ved with Thomas Lundgren, Vipen Sethi, Ali Habash and Avishesha Bhojani as panel members - focused on consumption trends in the region and ways and means to drive growth in the retail sector by offering quality services and a strong product portfolio at affordable price points to ensure a unique and differentiated shopping experience for consumers

"There's a world of opportunities for retailers. We just need to capitalise on them," says Nilesh Ved, chairman and founder of Apparel Group.

"The call of the hour is to create more occasions for consumers to shop - like the west has done in the form of Valentine's Day, Halloween and so on. This holds true





Thomas Lundgren



Ali Habash

in other parts of the world as well. Malaysia has three shopping festivals, including a shoe festival, Singapore has a huge food festival ... Compared to these, we have fewer occasions in the Middle East retail calendar that target consumers. Of course, Dubai is an exception, with the Dubai Shopping Festival (DSF), Dubai Summer Surprises (DSS) and Eid in Dubai being occasions that boost the retail sector and extend the number of shopping days. But more needs to be done in terms of creating a differentiated shopping experience. As retailers we need to go beyond DSF, DSS and Eid in Dubai and do a lot more. There are several reasons for people to come to Dubai, a city that serves as an attractive entertainment hub. But reasons for shopping here are fast depleting and we need to find a remedy. We need to strive harder to drive consumption. For example, November-December is the wedding season in New Delhi and retailers like us should explore opportunities to organise a shopping festival to attract consumers to Dubai to shop for their weddings," he elaborates.

Driving footfalls through unique shopping experience

Highlighting the positive response to the recently held Eid in Dubai shopping extravaganza that saw malls open for 24-hours over three weekends and for extended hours on week days, culminating in Eid Al Adha, Ali Habash, director of retail leasing and marketing at Retailcorp Malls, observes, "That was another smart idea. This unique, first-time concept of round-the-clock shopping as part of Eid in Dubai last year witnessed overwhelming response at Ibn Battuta Mall as well as other Dubai-based shopping centres. Held during the Eid Al Adha holiday period, it not only drew residents but a very high number of tourists as well."

"We were able to offer lucrative sales, promotions and offers - especially from midnight to 5am - and also organise a lot of activities to keep consumers engaged till the wee hours of the morning. Overall, the initiative was a unique experience that was well received by consumers. As a mall operator,



Nilesh Ved

we would like to participate in other such initiatives, bringing in more tenants in the form of the best global brands to cater to our consumers. Given the fact that the region has an established mall culture, we would like to organise events that engage and provide a conducive mall environment to ensure steady footfall," he explains.

Ved points out the transformation that has taken place in Dubai's retail environment. "The change in the market place has wrought changes in consumer buying behaviour. For example, at one time Dubai was the focus of Indian consumers shopping for gold. This is no longer the case. The huge influx of Saudi Arabian consumers with high disposable incomes has completely changed the scenario. These shoppers are willing to pay for a unique shopping experience in terms of a diverse product portfolio, availability of global brands and attractive entertainment facilities within malls. So it is important to get the correct retail mix in malls to drive footfall," he observes.

Speaking along the same lines, Vipen Sethi, CEO of Landmark Group, asserts, "I've spent over 17 years in Dubai and the transformation that has taken place in the retail landscape is hard to ignore. The rules of the game

have changed since the time when the first edition of DSF was held. Today Dubai has a legion of well-known international brands and continues to attract more. The city serves as the entry point for any retailer aspiring to foray into the Middle East, offering excellent per capita retail space."

However, he goes on to add, "But the overall shopping experience has to improve and evolve. Most retailers here offer about 110 days of sales in a year. There's been a huge paradigm shift in this regard. Earlier new products would be displayed during Ramadan and Eid but now it's all about sales during these periods. We have to capitalise on this phenomenon and create reasons for consumers to buy goods at full price. The question we need to answer is: Are we planning to position Dubai as a value destination or as a place offering a unique shopping experience? Here I would like to cite the example of Emirates airlines, which has fixed rates in return for a great experience. If people come to Dubai from Saudi Arabia - a region that is fast catching up in terms of retail offerings and plush malls - they are surely looking for a superior shopping experience. So it's a fine line for retailers - whether to take away market share from competitors by offering discounts or concentrate on providing a fulfilling experience for shoppers. To do the latter requires concerted efforts on part of the entire retail community - both retailers and mall operators."

Thomas Lundgren, founder of The One, agrees with Sethi. "Consumers in the Middle East have high disposable incomes and are willing to spend on high quality goods. Their expectations have to be met in a much better manner by offering innovative and quality products as well as superior services. We offer products on sale only during DSF and DSS at The One but we seek to differentiate ourselves from the competition by paying a lot of attention to ensure high customer satisfaction experience. Our aim is to move beyond price reductions, compensating shoppers with value services and a wholesome experience. Just as DSF was a smart idea that's really worked in popularising



Avishesha Bhojani



Vipen Sethi

Dubai as a lucrative shopping destination, we would like to find smarter ways to market to consumers. But there's a base condition we first need to observe - 100% transparency in retail to ensure 100% customer satisfaction," he emphasises,

Avishesha Bhojani, CEO of Bates Pan Gulf, underlines the importance of marketing channels in retail, "From the marketing point of view, the retail industry has to leverage the opportunities that are being thrown in its direction by digital and social media. The process has already started but is still in a nascent stage. The focus is still on the print media to highlight sales and discounts. It needs to shift to building positive and long-term relationships with consumers. Retailers need to switch from being merchandisers to marketers. It's important for them to come together with mall owners to pro-actively transform the face of retail

instead of simply reacting to government initiatives," he advises.

"There are two distinct sets of consumers in Dubai - the resident population and tourists. Statistics point to Dubai attracting 80-to-90 million visitors by 2020 while the resident population is in the region of around three million. So there's a great opportunity for retailers to shift focus from residents and offer a lot more to this transit population. They need to go beyond their current focus on globally reputed luxury brands and widen their portfolio to include more value brands if they are to delight consumers with the latest trends at affordable price points," Bhojani adds.

Synergy remains a key

"Today, Dubai has a high number of international franchisees, second only to London at around 70-to-71%. This wasn't the case

20 years back when there were only a handful of international franchisees such as Bhs and Mothercare. The scenario has transformed completely. The synergistic tie-up between the Dubai government and the private sector has led to a surge in innovative retail concepts. Mall owners have also played their part by developing bigger and better malls with world-class facilities. This has boosted the retail sector as well as tourism, leading to higher footfall into the UAE shopping space," Bhojani avers.

"The Dubai government is, indeed, doing a lot. But more initiatives need to come from retailers operating here. We still do not have a retail training school in Dubai, which is a must for thought leaders to emerge. And there must be forums and conferences for the entire retail community to come together and discuss ways and means to boost the sector further," Sethi concludes. ■

Smaller store formats to drive grocery retailing

The session on Food & Grocery Trends focused on the Middle East grocery retail landscape, emphasising that growth opportunities lie mainly in transforming traditional grocery retail to modern, organised retail formats

"While hypermarket and supermarkets will continue to drive growth, new, smaller store formats are being introduced, particularly in the UAE where the market is witnessing a shift towards convenience and online retailing," says Karl Nader, principal, Booz & Co, and moderator of the session.

"Organised, modern stores are growing in number and replacing traditional grocery stores. Hypermarket operators are targeting community-based customers in the form of smaller format stores," adds Mohammad

Ashfaq, group head-business development, Retail Arabia (Géant).

The GCC has over 100,000 grocery stores, with the FMCG and food and grocery sector constituting a \$21 billion market. Organised retail accounts for less than 10% of these grocery outlets. However, despite their smaller numbers, modern retail outlets generate more than 54% of grocery sales in the region. This presents huge growth opportunities for grocery retailers to open stores in all formats, especially convenience stores (C-stores), according to Fahmi Al Shawa, managing director, Circle K.

"Modern, organised retail was introduced into the Middle East through the hypermarket concept, which created high expectations of food quality and hygiene among consumers. Furthermore, regional GCC governments are actively enforcing qual-



Karl Nader



Mohammad Ashfaq



Lance Aird



Fahmi Al Shawa

ity standards in the grocery business. This combined with the plans of big hypermarket operators to open smaller format stores in future will hugely benefit the growth of the C-store business," observes Al Shawa.

The growth prospects in grocery retail are attracting non-food operators to enter the sector. Lance Aird, operations director, ZOOM, traced EPPCO's journey from petroleum retailing to grocery retailing in his presentation titled 'From petrol and oil to apples and bananas.' EPPCO is now as much in the C-store business as much as it is in the fuel business.

According to Aird, even oil companies cannot ignore the grocery retail proposition because of its bigger sales margins compared to the fuel business. For EPPCO, the biggest challenge was to get the right store format when it started selling food. Once that was achieved, it exported its business model from petrol stations to metro stations and to the high street.

"We figured out that above all we sell time because EPPCO stores (currently ZOOM stores) are C-stores. So our C-stores evolved into one-stop stores not only out of necessity but also as a result of changing consumer trends," Aird explains.

The biggest challenge C-stores face is competition from existing traditional local grocery stores, which offer credit to their customer and engage more personally with them. However, both Aird and Al Shawa feel this is not much of a concern as long as C-stores differentiate themselves with better services.

"A major reason why a gas station C-store works is not because we are significantly better than a nearby traditional grocery store but because we offer parking in front of our stores. Moreover, we follow international standards to maintain food quality and hygiene and we offer superior services compared to traditional grocery stores," says Aird.

"We do our best to adapt to the demands of our customers. C-stores generally do not provide home delivery services. However, we offer home delivery. In addition, we have developed a model to offer credit in a structured manner. We are trying to offer as much

as we can within our 'convenience' business model," adds Al Shawa.

Another key emerging trend in the grocery business is the growing traction of private labels. "Almost all large food retailers in the Middle East, such as Carrefour, Lulu and Panda, have launched private label brands. At present, the contribution of these goods is below 3% of total grocery sales so there's significant room for growth. The key benefits of private label brands include higher sales margins and exclusivity of products," Ashfaq observes.

He adds that consumer preferences are shifting towards fresh, quality products, pointing out that Retail Arabia's food business has grown from 59% in 2010 to 62% last year compared to its non-food business. For this, global sourcing is important in order to cater to the region's multicultural population. "The international assortment of goods

and brands available in the region is far more diverse than what our counterparts in Western countries offer. For example, we stock up to 17 varieties of apples and 10 varieties of oranges from all over the world in our hypermarkets," Ashfaq says.

One message that came across strongly in the session was food retailers need to work together with the government to achieve its agenda of food security. "The UAE government has launched an initiative to control food prices as part of its effort to stop price manipulation, which is beneficial to the consumer," Ashfaq points out.

Aird adds that while the check on price manipulation will benefit the consumer, price control is tough for retailers. "If we are told to sell products at particular prices, but the costs of utilities, training and so on remain the same, it'll be difficult for food retailers to operate profitably," he observes.

F&B industry must adapt with changing customer expectations

The session on Food Services & Restaurants addressed a wide range of issues dealing with rising food prices, cost of raw materials, wastage, franchising and so on

Moderating the session, Roger Narula, CEO, FoodWerk, points out that the Arab world is home to more than 350 million consumers who want the same quality brands as consumers elsewhere in the world. Around 53% of the population in the Arab world is below the 25 years old. Consumers here, like consumers worldwide, are building a complex set of expectations around F&B products, demanding healthier diets, value-for-money, sustainably-produced food products, ethically-sourced ingredients and responsible farming methods.

"Consumer expectations are changing every day. Consumers want better quality



Roger Narula

products at lower prices and convenience while buying products. If you are not on your toes and not able to change your strategy and offerings accordingly, you will lose those customers," adds Walid Al Haj,



Walid Al Haj



Fadi Malas



Abhijit Bose



CEO, Cravia.

The session discussed a wide range of issues dealing with rising food prices, the cost of raw materials, wastage, franchising and so on.

In his presentation titled '4 pillars of a successful food concept' Al Haj talked about what makes a successful restaurant. According to him, the four pillars are choosing the right concept for compatibility with a market, building the right company vision and culture to achieve financial soundness and profitability, passion, and adapting to change.

Al Haj, who spent most of his life in Saudi Arabia, provided an insight into how the F&B industry landscape is changing in the kingdom. "Ten years ago, it was almost impossible to find a Saudi family eating out regularly at restaurants. Today, the casual dining market alone is estimated to be an \$8 billion industry, growing at 5-to-10% annually," he points out.

On the issue of rising costs of raw materials, food prices and food wastage, Narula posed a question, asking whether the UAE and GCC markets contribute to a larger volume of waste as part of their import and storage operations. The Middle East is predominantly an import market where products are stored and consolidated in much

larger volumes than in foreign markets.

"There are two elements of cost that keep changing - employee and food costs. We've seen food costs increase significantly in the last few months. We combat this issue at Cravia by trying to innovate our food offerings and menu as much as possible so that our consumers realise the added value and are willing to bear the extra costs," Al Haj explains.

When asked about how Tim Hortons deals with rising costs of goods to stay competitive, Abhijit Bose, general manager-F&B, Apparel Group, pointed out that the entire effort of making goods more sustainable adds value for the end user, quoting the example of the coffee industry where huge efforts are being made to ensure the well-being of farmers who cultivate coffee across the world.

"As a franchisee, we have to import 60-to-70% of our products, which is a substantial quantity. More than 70% of the waste in the restaurant business is food waste. Such waste could be composted and used as soil nutrients. Although our industry may not be following such recycling practices extensively, I believe that if consumers are aware that we are making an effort to go organic and green, they would be willing to pay the additional cost involved," he explains.

"The volume of food imports in the Middle East is not likely to change in the coming years. However, importing everything is risky. Local sourcing of ingredients is extremely important. About 8 years ago, we imported about 70-to-80% of our products. Today, the trend has been reversed. We source about 70% of our products locally. While importing, we realised we could not handle our logistics. So we outsourced it to an expert. We are thus able to handle waste management better," adds Al Haj.

Another point highlighted by Al Haj was that the Middle East is a crowded franchise territory. This has both advantages and disadvantages. The benefit of franchisees is that we get to learn a lot from such establishments. The disadvantage is that all franchise brands compete with each other for customers and employees.

One of the ways for local brands to compete with franchise brands and grow fast is through social media. Fadi Malas, CEO, Just Falafel, provided insights on how the company benefited immensely from social media to establish its brand name.

"Our first challenge was to change the perception of falafel among mall developers and consumers, especially the young generation. The beauty of our menu is that it is a simple proposition based on a single food category - falafel. We try as much as possible to source products locally. When we started and had no advertising strategy, the only way for us to compete with the established brands was through digital media. Social media has been instrumental in our growth. We are able to keep track of the instant impact of our activities on social media through various analytics tools," he explains.

Al Haj says a critical element that is often ignored in social media is localisation. "Take the Saudi market for example. Several companies that engage with customers in Saudi Arabia via social media hire people from outside Saudi Arabia or people who are not aware of the language or culture to manage their social media channels. That's a huge mistake because social media is all about understanding the local consumer," he points out. ■



Anurag Guglani



Srikanth Parthasarathy



Thomas Lundgren

Home and office improvement

The session on home and office improvement at the Middle East Retail Forum - moderated by Thomas Lundgren with Anurag Guglani and Srikanth Parthasarathy as panel members - focused on key trends in the sector in recent times and what the future holds

Offering a differentiated experience

"Retailing is a process of offering a diverse product portfolio and excellent customer service that translates into a differentiated shopping experience," says Thomas Lundgren, founder of The One.

"Customers are extremely intelligent and discriminating when it comes to selecting products for their home. Retailers like us need to put in a lot of hard work to meet their expectations. With giant concepts like Ikea taking over the world, mom-and-pop furniture and furnishing stores are gradually being wiped out. The idea these entities propagate is low price to gain market share. But I'm a firm believer in doing things differently - a big reason why I set up The One. I strongly believe if we don't do things differently in an industry like retail it's difficult to survive the competition. So we differentiate ourselves by generating new products every season - very akin to the manner in which the fashion industry works - in order to remain current," he adds.

"We have four style groups in different colours and materials at The One, which we change every six months depending on prevalent trends in fashion, music, colour and even in politics. We have around 12,000 articles, of which we dispose 6,000 every year. We pay close attention to the manner in which our products are presented at the outlets, adding a personal touch. That's how we remain ahead of the 'low price' business and

differentiate ourselves from the competition. It's totally up to us to make shopping exciting for customers," Lundgren emphasises.

Changing consumer preferences in home decor

"With increasing urbanisation, modern-day consumers look at home furniture and furnishing as lifestyle accessories that are expressions of their personality rather than utility goods. Young consumers prefer trendier styles, greater variety in soft furnishings and décor accessories, forcing retailers to come up with new, exciting and durable products that cater to this demand," says Srikanth Parthasarathy, senior vice president of Homes r Us.

"Today even fashion brands such as Zara and Next are foraying into the home furniture and furnishing segment to boost their market share. Then there are the hypermarkets that are aggressive in their pricing, selling furniture at affordable price points. That's not all. Besides style and design, environmental awareness is also seen to dominate consumer purchasing decisions as the buying public becomes far more aware of issues such as deforestation, global warming and the use of toxic and hazardous materials in furniture and furnishing items. In the days to come, we might even see the emergence of organic bed textiles," he observes.

"Home furniture and furnishing constitute a small but integral part of the retail industry. The category, which includes household furnishing textiles, bath textiles, wardrobes, dining, sofa, storage, indoor furniture and others, is seen as a rather complicated segment. It is divided into two sub-segments globally - 'do-it-yourself' (DIY) and 'do-it-for-me' (DIFM). Ikea is the brand that popularised DIY while DIFM is a bit more complex due to the volume of merchandise and work involved in delivering and assembling pieces of furniture at the homes of consumers. Analysts estimate the global home furnishing industry was worth \$473 billion in 2011, with indoor furniture accounting for \$315 billion, a figure that's expected to touch \$700 billion

by 2015," Parthasarathy elaborates.

But he feels some perceptions have to be corrected to ensure steady growth in this segment. "Traditionally, the home furniture and furnishing segment has been notorious for its substandard customer service. Design piracy is also a major problem facing the industry. So it's time for furniture manufacturers to pay close attention to customer service and adopt the appropriate technology to remain ahead in the race," Parthasarathy points out.

Home appliances are getting smarter

"Modern-day homes, even the interiors, are quite different from what they used to be earlier. These days kitchens are much more sophisticated and elegant with appliances reflecting consumer styles. Brands are seen to be moving beyond providing the basics, customising products to meet evolving consumer tastes," observes Anurag Guglani, head of Better Life.

"It's not just brand names that consumers look for. Aesthetics and energy efficiency also influence their buying decisions for home appliances. Nowadays there's a growing preference for 'green' products. In fact, the Dubai government has taken up several initiatives to raise consciousness about issues like sustainability and energy efficiency among people. Manufacturers are also responding to consumer trends and are now ever more conscious of innovating energy-efficient 'green' products to reduce the carbon footprint of households in the UAE," he explains.

"The trend is shifting from bulky white goods to customised kitchens with embedded kitchenware appliances. The open kitchen concept has become very popular. Consumers have also transitioned from cordless phones to chic looking touchscreen landline phones. The future lies in fully integrated smart homes having devices that interact among themselves and with their inhabitants. Any device that works on electricity and reacts to remote-controlled or voice commands can be easily integrated into the home automation network," concludes Guglani. ■