



# GCC Retail Sector

## Firing on All Cylinders

July 2016



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# Foreword

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We at Ardent Advisory are happy to present this report on the GCC retail sector. Retail has scripted for itself a spectacular growth story in the GCC. Driven by the desire to liberate themselves from the shackles of an oil-based economy, the GCC countries took an active decision to invest in other areas of the economy, of which retail was a prime part. The result of this decision is evident. Dubai, today, is regarded as one of the prime retail hubs of not only the Middle East but of the entire world. The GCC retail market has grown at an average rate of 7% over the last five years, higher than the global average. Five out of six GCC countries have featured in the top 30 of 2015 Global Retail Development Index. Hence, all top global players are vying for a foothold in the GCC retail space.

The landscape, however, is not entirely sunny. There are clouds of concerns with the ongoing decline in oil prices, as a protracted decline could have a disastrous effect on the GCC economy as whole and on retail sector, in particular, given its cyclical nature. That said, the outlook for the GCC retail sector is on the whole positive, as its fundamental demand drivers remain intact. Also, upcoming events like the World Expo 2020 in the UAE and the FIFA World Cup 2022 in Qatar will further propel retail demand.

The GCC retail market is largely dominated by the UAE & the KSA – which strangely represents bipolar dynamics. The UAE is a highly developed market with hypermarkets and supermarkets dominating the retail space with its high per capita transactions being almost at par with those of the developed nations. On the other hand, Saudi Arabia's retail market (like most of the other GCC

countries' market) is still quite fragmented with more than 40,000 bakalas in operation. However, the KSA's large population and low penetration of organised retail have made the country highly attractive to large retailers who are now shifting their focus to the country as the UAE retail market is coming close to saturation levels.

We believe that the UAE will continue to remain a key market with segment specialisation and tailored customer experiences driving the market. However the expansion plans of organised retailers will shift towards the KSA and Qatar due to its population and rapid growth, respectively. The KSA will, however, still retain its volume-driven characteristic.

Luxury retail has a strong growth prospect in the GCC region, given its high per capita income. While almost all the top-tier global brands have already entered the market there is a strong potential market for second-tier brands given the rising aspiration level of consumers. Airport/duty-free retail is also a fast-growing segment as the number of international tourists to the region is rising every year. One area where the GCC had lagged till a few years ago was the online retail space. This, however, is changing fast with a large numbers of online portals having sprung up over the last few years as well as a large number of traditional brick-n-mortar retailers entering the online space. The firms with strong PE/VC backing will do better than their peers.

Ardent Advisory has a bullish outlook on the GCC Retail on the whole, and believes that for any prospective player contemplating entry into this market, this is the right time.

**Sharad Bhandari,**  
**Managing Partner,**  
**ARDENT Advisory and Accounting**

## Key Takeaways



- The GCC retail sector has witnessed healthy growth, driven by high per capita GDP levels, rapidly growing population, a large number of expatriates, and a significant percentage of youth population.
- One of the major concerns for this sector is the overall decline in global oil prices, which has affected all the GCC economies.
- The fundamental demand drivers for retail, however, are in place, which has resulted in five GCC nations featuring in the 2015 Global Retail Development Index (GRDI).
- The UAE and the KSA are the two largest markets, together accounting for more than 80% share of the total GCC retail market.
- The UAE retail market is highly modernised, with hypermarkets and supermarkets dominating the retail space; conversely, the Saudi Arabian retail market, despite being the largest in the GCC, is still quite fragmented.
- GCC retail has a well-balanced mix of food and non-food with the UAE having the highest composition of non-food retail share around 31-32%, while most of the other GCC countries having a higher food retail composition ranging between 47% and 57%
- Within food retail, the fresh foods market has a huge potential, while other niche segments like organic foods are also catching up fast.
- Private labels' penetration in the GCC is currently quite low as compared to the global standards, but given the rising competition and a change in consumer mindset, private labelling will emerge as a preferred strategy for the GCC retailers.
- Luxury retailers are doing very well in the GCC driven by a large number of HNIs in this region.
- Airport/duty-free retail is also a fast-growing segment as the number of international tourists to the region is rising.
- The online retail market, although currently small, has grown rapidly over the last couple of years with a very strong prospect over the next five years.
- The aggregate outlook for the GCC retail sector is bullish, especially in view of the large number of retail infrastructure investments (such as the Mall of the World), which will convert the GCC into one of the most attractive retail destinations in the region.
- Major events like the World Expo 2020 in the UAE and the FIFA World Cup 2022 in Qatar will boost the construction, infrastructure and tourism sectors, putting the GCC economy into top gear and adding more steam to the GCC retail growth story.



# Market Overview

*The GCC has emerged as a shopping paradise of the Middle East, with cities like Dubai contending with the world's top retail destinations.*

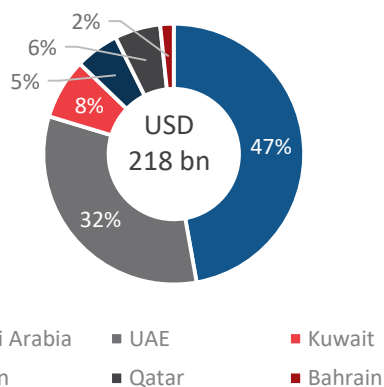
GCC's continued focus on economic diversification has resulted in the development of world-class retail infrastructure. The drivers that are propelling this retail market include a strong cash chest of petrodollars resulting in high per capita disposable incomes, favorable demographics, a booming tourism on the demand side, and an abundant supply of world-class retail infrastructure, which is being further bolstered by a strong pipeline of further investments. To top it all, upcoming global events like the World Expo 2020 to be held in Dubai and the FIFA 2022 World Cup in Qatar are further adding fuel to the retail growth engine.

While GCC retail in general has a positive outlook, the recent oil price declines are causing some concerns. In a region where most of the fiscal expenditure and infrastructure investments are financed by the petrodollar, a protracted decline in oil prices could result in reduced public investments, which in turn will result in lower job creations and lesser wages, indirectly affecting retail. That said, we feel that retail as a sector should prevail given the focus of the GCC economies on diversification away from oil.

## The Regional Market Share

The UAE and the KSA together account for more than 80% of the total GCC retail market.

**Figure 1: GCC Total Retail Sales (2014)**



Source: Ardent Advisory; AT Kearney

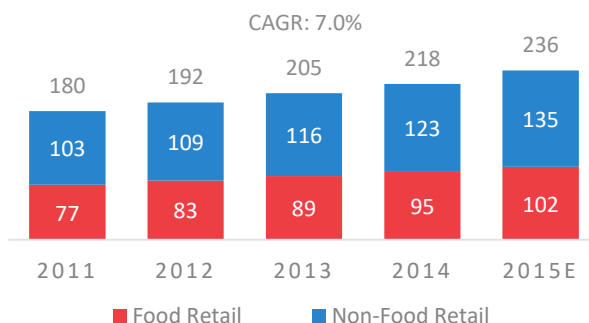
While for the UAE, a mature market, well-developed retail infrastructure, higher per capita

disposable income, and a sophisticated customer base are key demand drivers; for the KSA, its sheer population is the main demand driver, with 60% of the GCC populace residing in the country.

## A Well-balanced Mix

GCC retail has a balanced mix of food and non-food with the UAE having the highest composition of non-food retail share (approximately around 31-32%). In most of the other GCC countries, the share of food retail is relatively higher ranging between 47% and 57% (for further details, please refer sections on food and non-food retail).

**Figure 2: GCC Retail Sales (USD billions)**

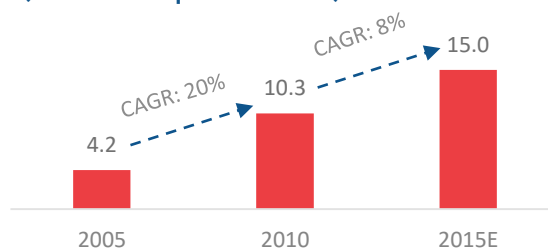


Source: Ardent Advisory; AT Kearney

## A World-class Retail Infrastructure luring domestic and global customers

The GCC has invested significantly to build world-class infrastructure, characterised by large malls and top brand presence. The GCC's retail gross leasable area (GLA) is estimated to have increased at a remarkable CAGR of close to 14% from 2005 to 2015.

**Figure 3: Gross Leasable Area in GCC (in million square metres)**

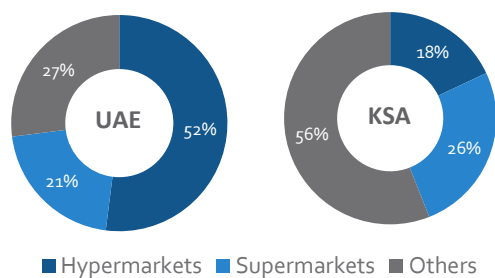


Source: Chalhoub Group; Retail International; Ardent Advisory

In the UAE, the retail landscape is highly modernised. As of 2013, hypermarkets and supermarkets together accounted for more than 72% of the overall sales of grocery retailers. Retailers like Carrefour, Spinneys, Geant, EMKE, and Al Madina have dotted all the prime locations in the UAE with hypermarkets and supermarkets.

On the other hand, in the KSA, hypermarkets and supermarkets account for only 44% of the overall grocery sales, with the unorganised 40,000 plus traditional shops or bakalas comprising the lion's share. While the lower penetration of hypermarkets and supermarkets is one of the main reasons for the dominance of bakalas in Saudi Arabia, another reason is that as women in Saudi Arabia are not allowed to drive, they naturally have a preference for the neighborhood bakalas over the hypermarkets and supermarkets that are more centrally located and require travelling.

**Figure 4: Grocery Sales by Infrastructure - 2014**

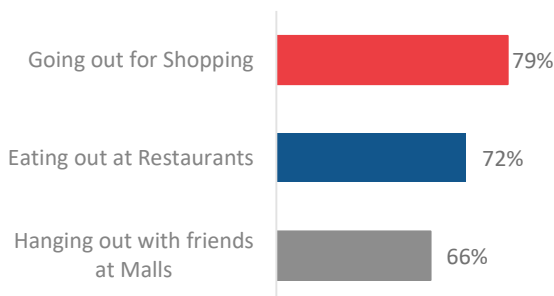


Source: Euromonitor; Ardent Advisory

One of the major reasons for the emergence of retail as a strong sector is that average people show a strong preference for shopping. Strict social norms and restrictions on various types of

entertainment on one side and best-in-class retail infrastructure and amenities on the other have resulted in shopping getting transformed from a chore to lifestyle activity.

**Figure 5: Favorite Activities of GCC Nationals**



Source: Chalhoub Group; Ardent Advisory

### The GCC Economies ranking high in the Global Retail Development Index

The UAE, the KSA, Qatar, Oman and Kuwait have all ranked among the top 30 emerging retail destinations of the world in 2015 GRDI. The GRDI index measures the attractiveness of various emerging nations' retail sector for global retailers.

As the index clearly exhibits, all the GCC markets rank quite high on market attractiveness. The country risk for the GCC economies is also quite low. The market saturation level of the GCC countries, especially the UAE, pulled down the GCC countries a bit in the rankings. Also the final parameter of time pressure, which measures the immediate growth potential of the retail market is slightly on the lower side. That said, with five of the six GCC economies being featured in the GRDI shows the importance this region has.

**Table 1: GCC Countries in the 2015 GRDI**

Countries	2015 Rank	Score	Market Attractiveness	Country Risk	Market Saturation	Time Pressure
Qatar	4	59.1	100.0	89.4	34.3	12.8
UAE	7	58.0	97.6	84.0	16.5	33.9
Saudi Arabia	17	50.1	78.6	64.4	30.4	27.0
Oman	26	46.7	75.0	77.3	24.9	9.8
Kuwait	27	45.6	81.0	68.1	33.2	0.0
<b>Interpretation → → →</b>			0: low attractiveness 100: high attractiveness	0: high risk 100: low risk	0: saturated 100: not saturated	0: no time pressure 100: urgency to enter

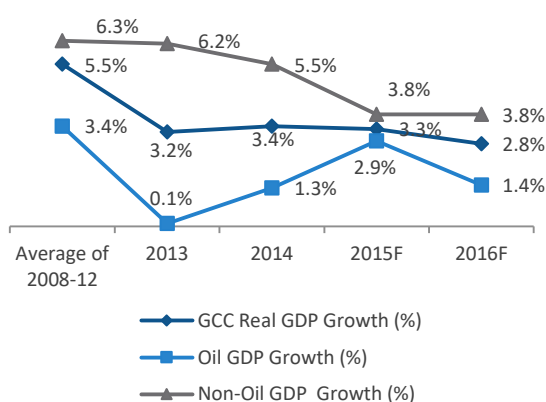
Source: A.T. Kearney 2015 Global Retail Development Index; Ardent Advisory



## A Strong Cash Chest of Petrodollars and High per capita GDP form the Core Demand Driver for GCC Retail

A constant inflow of funds from oil exports has ensured a prosperous economic trend for the GCC economies over the last few decades. The GCC governments have also been developing their non-oil sectors through higher spending on infrastructure, health and education, among others. Trade liberalisation and FDI are also new areas of focus. Investments made by the GCC countries in the development of the non-oil sectors are now yielding results, with non-oil GDP registering a higher growth rate than oil GDP.

**Figure 6: GDP Growth Rates**



Source: IMF; Ardent Advisory

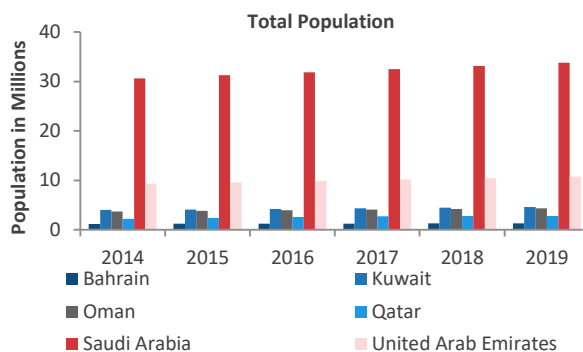
Thanks to its huge oil exports, the GCC countries experience some of the highest GDP per capita levels in the world. This results in much higher purchasing capacity, allowing the retail market to attain remarkable growth levels.

## Favourable Demographics and Population Growth ensure Constant Flow of Customers

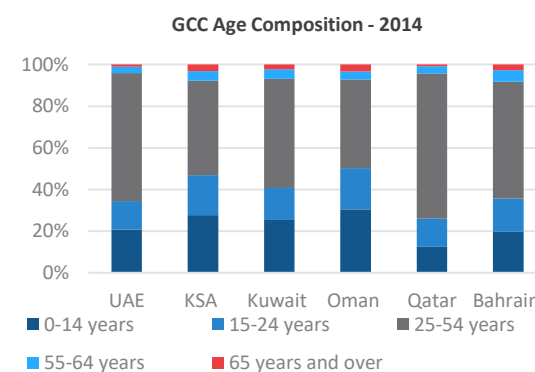
In the GCC, population, which is one of the fundamental drivers of the retail market, is increasing at some of the fastest rates globally. Between 2014 and 2019, the GCC's population is expected to increase at a rate of 2.5%, much higher than the aggregate world population growth rate of 1.2%, driving further the demand in the retail industry. Apart from the significantly high growth rates, the demographic composition of the GCC

region, which has a high percentage of youths and expatriates, is also conducive to the retail market growth. Youngsters, who tend to be extremely well informed with access to technology and networked to their peers via social media, will drive the GCC's retail demand in the coming years.

**Figure 7: GCC Population Demographics**



Note: Estimates for different countries (start after): Bahrain (2012); Kuwait (2013); Oman (2013); Qatar (2013); Saudi Arabia (2010); UAE (2010)



2014	UAE	KSA	Kuwait	Oman	Qatar	Bahrain
Expatriates	89%	33%	66%	30%	60%	55%
Nationals	11%	67%	34%	70%	40%	45%

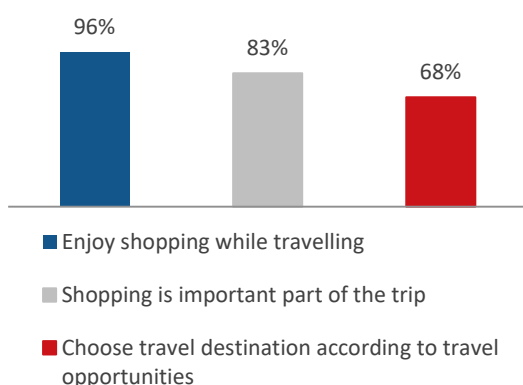
Expatriates, on the other hand, apart from being one of the key driving factors of population growth in the GCC, add a lot of variety to the pattern of consumer demand. It is estimated that the GCC has expatriates originating from more than 200 different countries, each having its own purchasing patterns. The expatriate effect on retail demand is most prominent on the food segment, in which expatriate demand for processed foods, fast foods, and dining out options has motivated retailers to cater to these segments. While there is a possibility

of a reduction in the percentage of expatriates in future due to the various schemes under which government employment of nationals is encouraged, the GCC will continue to depend on the expat population for some time to come.

### A Booming Tourism fuels further Demand for Retail, especially the Luxury Segment

Tourism is a major driver of global retail. It is estimated that close to 1.1 billion people travel internationally and spend more than US\$1.2 trillion annually. Shopping has, in fact, become an integral part of the tourism value chain. The GCC countries have been particularly proactive in capturing this travel retail market. Strategically located as a gateway between the eastern and western hemisphere, the GCC countries have taken active measure to develop world-class retail infrastructure to lure global travellers. The GCC will continue to host a large number of travellers who, in turn, will fuel retail sales growth. The number of international tourists arriving in the GCC is expected to increase by a CAGR of 6.4% to reach 78 million in 2025E from 42 million in 2015E. This growth is almost 200 bps higher than the global growth in international travellers during the same period. All these tourists will continue to fuel retail sector growth.

**Figure 8: Importance of Shopping in Travel**



Source: JCDecaux Survey; Ardent Advisory

### Strong Pipeline of Investments in Retail Malls in functioning as a Major Catalyst in this Retail Chemistry

The GCC region has world-class malls, which serve as a magnet luring local and international consumers. Dubai leads all other GCC locations when it comes to quality retail space. The Dubai Mall, spread over one million square metres, is the world’s largest shopping and entertainment destination. Some of the other prominent shopping destinations in the GCC include The Beach, The Village Mall, Abu Dhabi Mall, Kingdom Centre, Doha Outlet Mall, Bahrain Mall, Muscat City Centre, Kuwait Marina Mall, etc. All these world-class malls have converted shopping into a lifestyle activity in the GCC. In addition to this existing infrastructure, there is a large pipeline of retail infrastructure projects, which will further strengthen the GCC’s status as a global retail destination. Dubai and Abu Dhabi feature among the top 10 cities globally with regard to new retail space under construction. The most prominent among the new retail projects is Dubai Holding’s Mall of the World, which will be the world’s biggest mall. At an estimated project cost of US\$6.8 billion, when completed, this retailing wonder of the world will have the capacity to host 180 million visitors annually.

### Global Events Planned in the GCC Region keep Retail Growth Prospects Intact

The GCC retail sector will get an additional boost from the various events that have been scheduled over the next few years. The two topmost events are the Dubai Expo 2020 and the FIFA World Cup 2022 to be held by Qatar.

The UAE, being the host country to the Dubai Expo 2020, is expected to witness an increase in FDI, projects and jobs in sectors such as tourism, aviation, construction, engineering, infrastructure, logistics, hospitality, and retail. Apart from

benefiting the retail sector directly in the form of more investments and retail stores being set up, it will also provide a growth spurt to the economy and increase disposable income in the region as a whole, which in turn will increase the end demand for retail. The FIFA World Cup 2022 will provide a similar boost to the retail sector demand in Qatar, the host country.

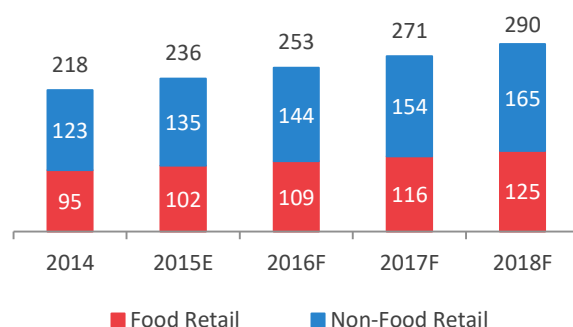


### The Aggregate Outlook

The retail sector in the GCC has a wide mix of markets, varying from the mature retail markets of the UAE dominated by hypermarkets to the large potential of the KSA markets where the large population provides a great retail opportunity. While some industry experts are extremely positive about the future of retail in the GCC, others have a rather muted outlook given the recent oil price declines and the nationalisation of workforce initiatives by some governments.

We believe that the GCC retail still has sufficient room for growth. Some markets like the KSA, Kuwait and Qatar, which are still underpenetrated, have a lot of growth potential. Even mature markets like the UAE will continue to prosper, driven by major initiatives like the Dubai World Expo 2020. We expect total retail sales in the GCC to increase at the rate of 7.3% from 2014 to 2018 to reach a total market size of US\$289.7 billion.

Figure 9: GCC Retail Market Growth Estimate



Source: Ardent Advisory Estimates

### Major Growth Areas

**Food** – Food retail will continue to remain an important category with the growth sub-segments varying by the country. For example, the UAE will witness more growth in value-added segments such as ready-to-cook products while fresh food items will dominate the KSA. The other countries fall in between this spectrum.

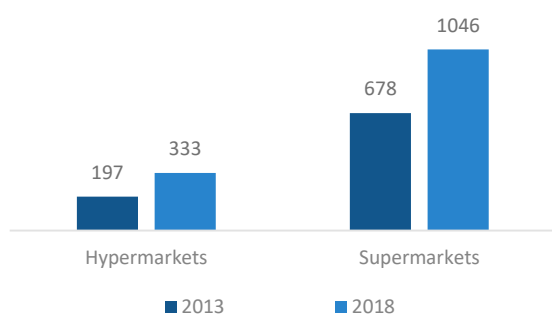
**Non-Food** – On the non-food front, we feel luxury goods, airport retail and apparel have interesting growth prospects. As discussed in details earlier, the online channel is expected to exhibit strong growth, especially for those players who get the model right like Swok.com.

**Online Retail** – The GCC online retail market, while still a small segment, has huge growth potential. E-retailers in the GCC have registered strong topline growth over the last few years. Numerous factors have come together to fuel this growth. Prominent among them include the migration of many reputed GCC brick-and-mortar retailers to omni-channel retail, large PE and strategic investments in online retailers, and change in the mindset of consumers about security of online transactions.

**Retail Infrastructure** – With markets like Dubai coming close to saturation, retailers are now favouring formats such as district or neighbourhood malls, and convenience stores targeting specific catchment areas. Convenience stores were the fastest-growing retailer segment in the UAE, with the total number of convenience

stores expected to reach 443 in 2018, up from 336 in 2014. On the other hand, the KSA's high population makes it a prime candidate for organised retailers. The number of hypermarkets in the country is expected to increase by nearly 70% to 333 in 2018 from 197 in 2013, while the number of supermarkets will increase by 54% to 1046 from 678 during the same period. That said, the traditional bakalas will continue to form an important part of the retail landscape in the KSA.

**Figure 10: Growth of Organised Retail in KSA**



Source: Farely & Mitchell; Ardent Advisory Estimates

## The Key Risk Factors

While GCC retail in general has a positive outlook, there are some issues that could spoil the overall growth story and put it on a declining trajectory. The two most pertinent issues are oil price declines and effect of various nationalisation programmes on the expat populations who form a major chunk of both end-customers and workforce in the retail segment.

**Oil Price Declines** – While most of the GCC economies (except Bahrain) were more or less untouched by a political turmoil, oil price declines severely affected the oil-exporting GCC countries. Apparently, there seems to be no direct connection between oil and retail. But there are strong indirect linkages between these two sectors, especially in the GCC, where most of the fiscal expenditure and infrastructure investments are financed by the petrodollar. Subdued oil prices will mean reduced and more selective public investments in various sectors, which in turn will translate in lower job creations and lesser wages.

Spending on retail infrastructure as well as ultimate consumer demand will get affected by this. Bigger economies such as the UAE, Qatar and the KSA, having larger foreign exchange reserves, huge global investment via their respective Sovereign Wealth Funds, and a constant revenue stream, will be able to withstand a reduced oil price scenario for a longer period. However, smaller economies such as Oman, Bahrain and Kuwait could be severely impacted if the ongoing oil-price decline gets protracted.

**Impact of Nationalisation** – As mentioned earlier, the GCC economy is highly dependent on its expatriate population. Not only do expatriates drive retail demand, they also form a large section of the employee base for the retail segment. Their eagerness to learn new skills, ability to adapt to new environment, and willingness to work longer hours have made expatriates the preferred choice of most private employers for both blue- and white-collared jobs.

With expatriates now constituting close to half of the total GCC population, governments have started nationalisation programmes wherein they are trying to promote more nationals in the country's labour force. The Kuwaiti government has passed a bill, which imposes a five-year residency cap on foreigners and also bans them from bringing their families into the country. This legislation, which was passed in 2013, is aimed at cutting the country's overseas workforce by half by 2023. Such instances will reduce the attractiveness of the GCC to prospective expatriates. This is a bad news for retailers because it will hit them both on the demand side (reduced number of customers) and on the supply side (higher attrition rates as their expatriate employees leave the country).

**High Rental Rates** – Excessive retail rentals are another major challenge for retail operators. The situation is even more pronounced in markets like Dubai, where rentals of commercial retail spaces rose by close to 62% between January and August 2015. With retail rent being a major cost driver for retailers, such huge increases will severely impact their profits.

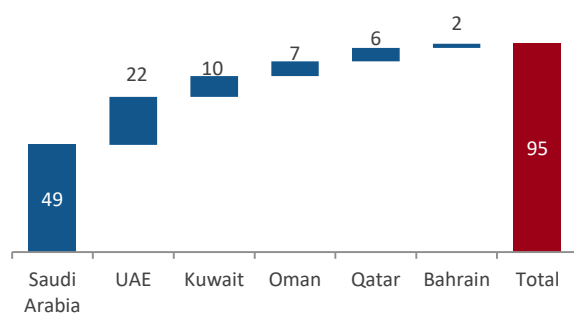


# Food Retail

*Food Retail constituting about 42% of the aggregate GCC Retail is now on its way to becoming a highly modernised affair*

Food retail constitutes approximately 42% of the total GCC retail market. While the GCC boasts some of the highest per capita GDP levels in the world, large income inequalities have resulted in food-related expenditure, still representing a significant share of the total retail spend. This, coupled with high population growth in the GCC over the last decade, has resulted in strong growth in the GCC food retail.

**Figure 11: GCC Food Retail Market (US\$ bn), 2014**



Source: AT Kearney; Ardent Advisory Estimates

## The GCC Food Retail is gradually becoming a Modernised Affair

Rapid urbanisation, rising income levels, and retail-supportive infrastructure have created a strong ecosystem for a thriving modernised food retail market. While hypermarkets remain the fastest-growing food retailing medium, greater demand for fresh products and store proximity are prompting retailers to have a closer presence to the customers who prefer to shop more frequently at supermarkets and convenience stores.

The UAE food retail is dominated by the organised segment. Both international and domestic players are aggressively focused on increasing square footage by opening new stores. As mentioned earlier, a lot of these new stores are located in the outskirts of towns. For example, in October 2014, Carrefour launched its new smaller format convenience stores in Dubai to cater to smaller neighbourhoods. As of 2014, Majid Al Futtaim

Hypermarkets LLC (via the Carrefour chains) is the leader in the UAE food retail market with a 19% share by value, followed by Emke Group with a 14% share. Consumer co-operatives also operate a large number of retail chains in the GCC. In the UAE, they account for close to 25% of the market share. For instance, the Abu Dhabi Co-operative Society, which owns and operates the SPAR Internal franchise in the MENA region, is a leading retail chain.

The KSA's food retail landscape, though much more fragmented than the UAE's, is in the consolidation mode, as evidenced by a rise in the market share of the top three food retailers to 12% in 2012 from 5% a decade earlier. Azizia Panda, Carrefour, LuLu Saudi Hypermarket, and Danube are some of the major food retailers in the KSA. Despite the presence of hypermarkets, supermarkets, and convenience stores, traditional bakalas still dominate the Saudi retail space. A large population and a relatively underpenetrated market make Saudi Arabia feature prominently in the expansion plans of large retailers.

## The Global Trends in Food Retail

On a global level, some of the top major trends that have affected food retail are Fresh Foods Discounting, Health Foods, Private Labels and Leveraging Big Data Analytics.

**Fresh Foods** – Globally, the Fresh Food segment is doing excellent business, driven both by strong demand from the consumers as well as eagerness of retailers to enter this segment due to its high margins. Typically including bread and bakery, dairy, fish and seafood, fruits and vegetables, meat and poultry, Fresh Foods as a segment continues to witness huge growth with a revenue projection of around US\$2.0 trillion in terms of revenue and by 2019.

**Discounting** – Driven by the global recession, discounting, as an emerging strategy has been gaining a lot of traction as a central part of the new

business model. This high-risk/high-reward strategy offers value-pricing and aims for high volume sales through price cuts. Even before the global recession, discounters had been pulling masses in matured and semi-matured markets. Discount chains like Aldi and Lidl have become stronger in the markets such as the UK, the US and Ireland due to the flooding of attractive discounting deals for retaining customers. But as the economy will recover, this trend is likely to fade away but the idea of paying less and taking home more will always tend to lure customers.

**Health / Organics Foods** – Natural and organic products designed for health and wellness have become an integral part of grocery retailing. Global sales of the healthy food products are estimated to reach US\$1 trillion by 2017 and the trigger for this shift lies in societal, demographic, technological, and governmental factors. Besides these, there is a shift in the consumer focus on the role diet plays in healthy living because of the growing incidence of various diseases. The sales of the organic food have grown 20% annually and are expected to rise at a CAGR of 3.5% by the end of this decade.

**Private Labels** – Private labels witnessed robust growth, especially in the aftermath of the global financial crisis. While the demand for lower prices is one of the fundamental reasons behind the proliferation of private labels globally, the trend towards more sophisticated product lines having a higher profit margin has also increased the popularity of private labels among retailers.

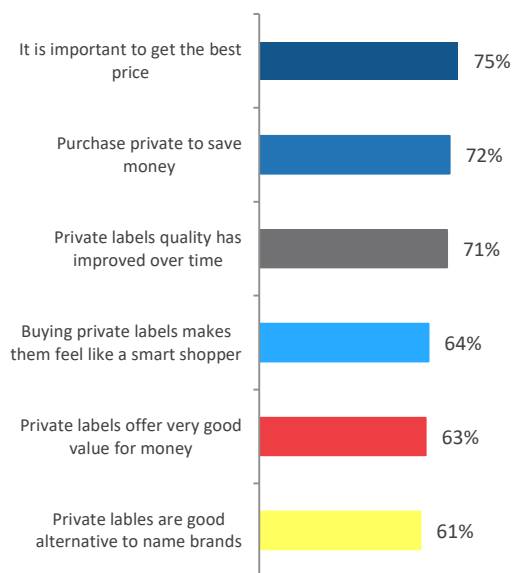
**Big Data Analytics** – With the advent of the digital age, customer information generated at the POS of organised retailers has become a gold mine. All large global retailers are mining this information to understand what ticks customers and using Big Data Analytics to this end.

In the GCC, we find most of these trends being replicated in the food retail segment, with the exception of Big Data, which still has some catching up to do.

## Private Labels in GCC – A Huge Potential

There is a large potential for private labels in the GCC, given the current penetration of grocery-based private retail sales at 3% (c~2011), which is quite low compared with the global weighted average of 16.5% (food and non-food segments combined). A correlation has been observed between the consolidation factor of the top retailers and the private label penetration rate. Mature European markets that have a high degree of consolidation also have the highest penetration rates.

**Figure 12: Survey Opinion of Middle East & African Consumers on Why They Buy Private Labels**



Source: AT Kearney; Ardent Advisory Estimates

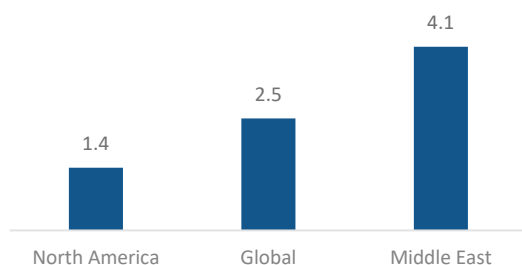
To build a successful private label, earning customer trust is essential. It has been noted that private labels are successful in products that require lower innovation and differentiation and for products towards which customers are price-sensitive because of higher purchase frequency. Food retail is, therefore, the most suitable for private labels as it satisfies both these criteria. The private label strategy works when the customer values the “assurance” of the retailer’s

name more than the brand name. With the emergence of prominent retailers such as Lulu, Carrefour, Spinneys, and Waitrose in the GCC, the market is now gradually headed towards a rising phase for private labels.

### Fresh Foods in GCC

The fresh Foods Market in the UAE has been registering a strong growth in 2015, driven by increasing influx of expats, higher disposable incomes and increasing health awareness. Furthermore, cooking at home is regarded as an important part of following a healthy diet and this trend is supported by the influx of the expat workers from Arab countries and South Asia who bring their families to the country, as families usually cook at home. This is reflected in the higher propensity to purchase fresh foods.

**Figure 13: Number of Shopping Trips per Week**



Source: Nielsen; Ardent Advisory Estimates

### Health Foods in GCC

Increasing levels of obesity and rising incidences of lifestyle-related diseases such as diabetes, cardiac ailments, etc. in the GCC are gradually making consumers aware about their food habits. These consumers are driving the demand for various health food categories such as ready-to-cook (as against ready-to-eat), organic foods, and gluten-free and low-carb products. Organic Foods and Cafe, an operator of organic supermarkets and cafes selling fresh organic and biodynamic food and other related products, is a major player in this segment. Barakat Quality Plus is one of the largest

health food manufactures in the GCC with a 35% market share. While its products are mostly sold by other retailers, Barakat has also opened its own retail outlet named “Fresh & Easy” at Jumeirah, UAE. Sensing the growing demand in this segment, all the major retailers like Carrefour, Geant and Waitrose have started stocking and selling health food items to capture this growing market.

### Discount Chains in GCC

Discount chains in the MENA region is a fast trending concept due to the growing popularity of the retail food chains like Carrefour, Lulu chains, Choithrams and so on. People in the GCC region are showing a favorable response to the concept of discount food retail stores. Choithrams, a Dubai-based retailer, has signed an agreement with Tesco’s regional distributor MENA Holdings Group, allowing the retailer to distribute the full range of Tesco private label products at an attractive price. Over 1,000 products of Tesco are now available in the Choithrams store, and this number is expected to grow further. UAE retail giant Lulu has emerged as the cheapest among some of the top retail stores in the GCC region.

### Logistics still remains a challenge in most of the GCC nations except the UAE

Logistics is a vital component in the retail value chain, especially food retail. As the GCC has very low arable land, it is highly dependent on food imports, with approximately 75% of the food consumed in the GCC being imported. In such a scenario, the role of an evolved and well-lubricated logistics system becomes even more important. Except in the UAE, the food logistics industry in the GCC is quite fragmented. This is because in spite the presence of a number of hypermarkets and supermarkets, a large percentage of food retailing still takes place through smaller stores, which encourages the existence of small distributors. This fragmentation causes delays and wastages, and ultimately increases the final price of products, hitting hard both the retailer (lesser sales and margin) and the end consumer (higher prices).



The UAE, other than having high penetration of hypermarkets and supermarkets, also has a well-integrated logistics network. The country's retail landscape has been largely planned on the lines of that in the Western countries. Moreover, the hypermarket/supermarket culture has ingrained in the psyche of the Emirati customer. These two factors lead to a large share of food retailing taking place from organised hypermarkets/supermarkets, allowing them in turn to forge effective relationships with logistics companies. In the UAE, most of the large food importers tend to be integrated with distributing companies supplying to wholesalers and retailers.

In general, across the GCC as the modernised retail sector garners more market share, the logistics sector will also need to (and will) improve. Cold chains will have a bigger opportunity as the market expands, and along with current operators like Agility, Global Shipping and Logistics, and Mohebi Logistics, new players will enter the segment.

### Food Retail Growth Areas

In the UAE, the dominance of modern retail, a strong expat population and the resultant cosmopolitan culture is creating a rising demand for convenience foods. Ready-to-cook products such as pre-cut vegetables, pre-marinated meat items, etc. have a growing market in the region. Various health food and organic food companies are also witnessing strong growth. Private labels could prove to be another major focus areas for retailers who enjoy a strong customer confidence.

In the KSA, on the other hand, a large population and a relatively much higher percentage of nationals in the demographics translates a strong market for fresh foods. It would be advisable for retailers in the region to focus more on the logistics and ensure that the products reach the end-customer in the least amount of time.

### LuLu – Achieving the Winning Combination

Abu Dhabi-headquartered LuLu group is one of the dominant players in the GCC retail space. Having started with one supermarket in Abu Dhabi in the early 1990s, LuLu Hypermarkets, Supermarkets and Department Stores today control approximately 32% of the total retail market share with 124 stores spread across the GCC, India and Egypt.

LuLu's winning formula has been a perfect mix of vertical and horizontal integrations. Having started with the supermarket models, LuLu currently operates across the horizontal retail spectrum, be it hypermarkets, department stores or even shopping malls. On the vertical side, LuLu has expanded to food processing and manufacturing. LuLu has set up companies in different locations to source and process various food products, especially meat products.

While LuLu's direct imports guarantee quality products with excellent value for money, its group-operated logistics units ensure their effective distribution to the retail network. LuLu group operates both cold storage units and a large fleet of modern delivery vehicles.

Last but not the least, LuLu has also developed an impressive portfolio of private labels. As discussed earlier, private labels can help any retailer to both increase profitability and monitor quality. LuLu's strong portfolio of private label products both in food and groceries has helped in creating a strong value proposition for its customers. All these factors have come together to make LuLu the retail powerhouse that it is today.

# Non-Food Retail

*Brand-conscious customers keep the cash registers ringing in non-food retail, especially in apparel and luxury items.*

The GCC has built a strong non-food retail market as the result of the constant endeavours of the GCC governments to develop a strong diversified economy, which in turn has attracted a large number of expats, aided the development of strong infrastructure, and converted the region into a retail hub. It has been observed that the more an economy develops, the share of non-food retail in its overall retail market increases. This pattern is seen in the UAE, the most developed economy in the GCC, having a larger share of non-food retail relative to food retail. We believe that with the passage of time, the GCC will see more expansion in the non-food retail space.

## Local Apparel & Accessories Retailers growing beyond the GCC boundaries

Apparel retail has a large market in the GCC, with the UAE, Kuwait and the KSA featuring among the most attractive apparel retail locations globally in the 2013 Retail Apparel Index. The UAE featured at the second position, following China, while Kuwait ranked fourth and the KSA sixth.

The UAE serves as a launch pad for any global retailer planning to foray into the Middle East market. The country checks all the boxes on the checklist of an apparel retailer, such as ease of doing business, a world-class retail infrastructure, a large expatriate population, and thriving shopping-oriented tourism. It has the highest clothing sales per capita at US\$785 per year. One of the most prominent apparel retailers of the region, Dubai-headquartered Apparel Group, has expanded its 1000+ stores network across four continents. It operates both single-brand as well as multi-brand stores in prominent malls and retail location across all the GCC countries. Over the last 15 years, this group has acquired some of the world's best fashion labels such as Tommy Hilfiger, Kenneth Cole, Nine West, and Aldo.

The KSA's apparel retail market is estimated to be close to US\$2.5 billion. Riyadh accounts for

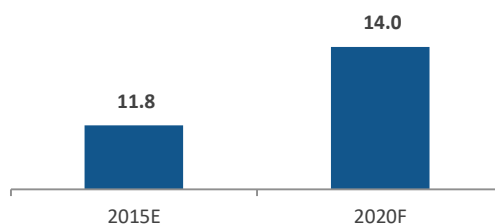
about 38–42% of the total apparel retail sales in the KSA, followed by Jeddah and Dammam/Khobar at 20%. Women's wear dominates the segment, followed by footwear, children's wear and men's wear. The main apparel retail companies in Saudi Arabia include Al Hokair, Al Shaya, Al-Sawani and Nesk Group of Trading Projects (Al Jedaie).

Apparel and accessories as a segment also has a strong potential for private label penetration. However, the percentage share of private labels in total retail is very low in the GCC. Both the UAE and the KSA each generated only 1% of revenues from private labels in 2014 (all segments combined), which is significantly low compared with the global weighted average of 16.5%. One of the main reasons for this is the high level of brand fascination among GCC consumers.

## Electronics Retail – Charging up the Market

The GCC electronics retailing market has witnessed a significant growth over the last few years. There is particularly high demand for smartphones and tablets. While hypermarkets like Carrefour and Lulu are trying hard to capture this market, the electronics and appliance specialist retailers like Emax and Jumbo Electronics have the upper hand given their wider product spread. Emax, the electronics retailing arms of Landmark group, operates 62 stores (as of September 2015) and plans to open close to another 40 stores in two years to capture this growing market.

**Figure 14: GCC Electronics Retail Market (US\$ bn)**



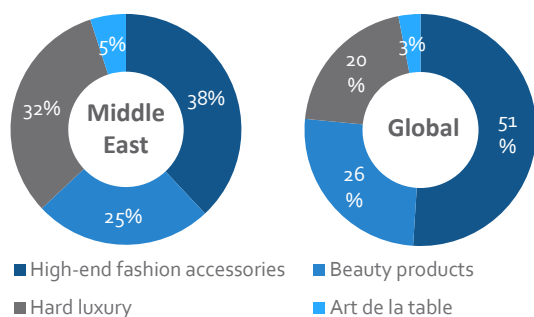
Source: Euromonitor; Ardent Advisory

Another trend that has been observed in the industry is that many electronics retailers are now migrating to the online channel. Significant rise in commercial retail rentals is another major reason for many retailers, especially electronics, to shift to the online platform. This helps them provide a much sought-after omni-channel experience to their customers. For example, Jumbo Electronics, one of the leading consumer electronics retailers in the UAE, forayed into online retailing with the launch of its website in November 2014. The online shopping portal serves as an extension of Jumbo's brick-and-mortar network. Another company, Eros Group, which operates 33 stores in the UAE and has a presence in Oman, Kuwait, Qatar, and Bahrain, forayed into the e-commerce space in August 2015 with its website featuring more than 1,000 products, including consumer electronics and home appliances.

### Wrapping the consumer in Luxury

The GCC, through its efforts to position itself as a global tourist destination and a retail paradise, has created a strong luxury segment, in which almost all the GCC countries (except Oman) have a strong presence. High disposable incomes, booming tourism, and the concentration of a large number of HNIs and UHNIs are the fundamental drivers of the GCC luxury retail market.

**Figure 15: GCC Luxury Demand Pattern vs. Global Pattern**



Source: Chalhoub Group; Retail International; Ardent Advisory

In the GCC, fashion accessories constitute roughly 35–40% of the luxury retail market, comparatively

lower than the average global range of 50%. Consumption of luxury beauty products in the GCC is at par with the global share of 25%. However, the region clearly exhibits a strong preference for hard luxury such as jewellery and watches, with this segment accounting for 30–35% of luxury goods, much higher than the global level of 20%.

The total personal luxury goods market size in the GCC was estimated to be close to US\$6 billion in 2013 by Chalhoub Group, with expected growth rates between 7% and 9% during 2011–14. Qatar (at #3), the KSA (at #6) and Kuwait (at #10) were ranked among the top 10 in the Knight Frank published Big Spenders Index 2015. Market-wise, the UAE is one of the most developed luxury retail markets in the GCC, with Dubai being the top luxury retail destination in the Middle East.

### Winning in Luxury is about getting the right partner

Most of the luxury retailers in the region are foreign companies who have been lured into the market attracted by its potential. The franchise model is the framework of choice where the global players team up with some prominent local partner. One such prominent local luxury partner is the Chalhoub Group. Operating in the Middle Eastern regions since 1955, this Dubai-headquartered luxury retailers is a partner of choice for many top global brands who want to penetrate into the GCC luxury space. The Chalhoub group manages a strong portfolio of franchises such as Fifth Avenues, Saks, Lacoste, Marc Jacobs, etc. It also has created five brands such as Tanagra, Wojooh, Katakeet, Tryano and Level Shoe District each focusing in separate areas of luxury retail. Luxury retail is about understanding the pulse of the customer and Chalhoub has mastered it. Any company wanting to expand into the GCC market should focus on getting the right partner. With major upcoming world events scheduled to happen in the UAE and Qatar, the time is now ripe for any company eyeing the GCC market to enter it.

## Airport retail taking off to new heights

The GCC economies' emergence as a tourist hotspot as well as the constant flow of business travellers over the last decade has led to the development of airport retail in the region. The Middle East as a region generated about US\$3.9 billion in airport duty-free revenues in 2013.

As is the case in most other forms of retail, Dubai takes the lead in airport retail as well, accounting for 46% of the total Middle Eastern airport duty-free revenues. In 2013, Dubai Duty Free generated US\$1.8 billion in revenues, clocking 10% y-o-y growth. In 2014, these revenues further increased to US\$1.9 billion (up 6% y-o-y). Abu Dhabi Duty Free, the other major airport in the UAE, generated a top line of US\$248 million in 2013, registering a 13% y-o-y growth.

The other large duty-free operator in the GCC region is Qatar Duty Free. It is estimated to be the second largest duty-free operator in the GCC. While its revenue numbers are not available, Qatar Duty Free boasts a stunning retail and dining space covering more than 40,000 square metres in Qatar's brand new Hamad International Airport.

Most of the purchases made by travellers in airport duty free consist of expensive items like perfumes, fashion apparel, watches, exquisite chocolates, etc. This is because a large percentage of international travellers are quite well off and has a propensity to consumer luxury products. This pattern has attracted most luxury brands to set up shops in the airport duty-free areas.

The outlook for GCC duty-free/airport retail is quite positive as the current inflow of both business and tourist traffic is slated to only increase as time passes. Upcoming international events like the Expo 2020 in Dubai and the FIFA World Cup 2022 in Qatar will not only attract throngs of global travellers to these two countries but also have a spill-over effect on the surrounding countries. For instance, the UAE, which is estimated to have attracted close to 14.8 million international tourists in 2015, is expected to register close to 37 million tourists in 2025.

## Top Airport Markets

Any retailer wanting to set up shop in an airport should give special focus to two airport retailing authorities. The first, for obvious reasons, is Dubai Duty Free. A constant flow of international travellers to Dubai will ensure a steady business for any retailer setting up store here. With an expected total turnover of US\$3 billion by 2018 and slated expansion of retail spaces in both Dubai International Airport and Al Maktoum International Airport, Dubai Duty Free offers the promise of constant business flow to any retailer.

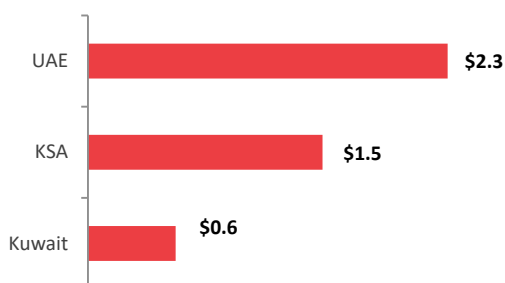
The second airport authority that is grabbing the attention of airport retailers is Qatar Duty Free. With the upcoming FIFA World Cup in Qatar in 2022, this is second most important region in our view, which any retailer focusing on airport stores should concentrate on.

# Online Retail Market

*While a laggard segment till date, the GCC online retail market is emerging fast and drawing the attention of investors across the globe*

The GCC, with its young population and high internet penetration, has a huge potential for e-commerce. Bahrain, the UAE and Qatar boast some of the highest internet penetration rates in the world. However, e-commerce penetration is still quite low given that B2C e-commerce accounted for just 2% of the total retail sales in the GCC even as recent as early 2013–14. This is quite low compared to the global average online retail of 5% (2013) and 6% (2014). However, all that is set to change. Consumers are increasingly researching online before a purchase, and with a larger number of young smartphone users joining the customer base, it is just a matter of time before pre-purchase online research gets converted into actual online transaction. Country-wise, the UAE has the highest percentage of internet users who actually transact online (46%), followed by Kuwait (35%) and the KSA (25%).

**Figure 16: Online Retail Market Size 2014 (in US\$ bn)**



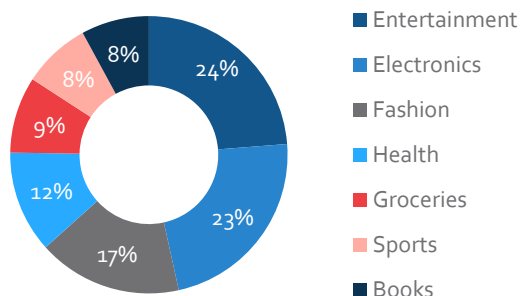
Source: Payfort; Ardent Advisory

## Youth driving the growth of online retail

Young people in the age group of 26-35 are the most prolific online buyers. The GCC has all the demographics necessary to have a thriving online retail market. About 54% of its population is under 25, most of which is internet-savvy. Also, a large percentage of the population consists of expats from across the globe, adding variety to retail demand. They are driving the online retail demand for product categories like electronics, fashion and

entertainment together accounting for ~60% of online sales in the Arab world.

**Figure 17: Products purchased online in Arab World\***

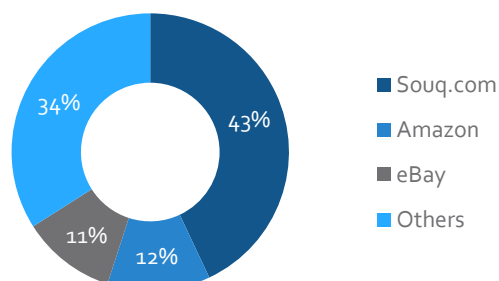


Source: Payfort Group; Retail International; Ardent Advisory  
\*Arab World includes UAE, KSA, Egypt, Kuwait, Lebanon and Jordan

## Local players emerging as strong contenders in the GCC online retail space

The GCC online space has witnessed the emergence of quite a few online players that has registered strong growth. For instance, Souq.com, one of the most prominent online retailers in the MENA region, witnessed a ten-fold revenue growth over 2012–14. Awok.com, another UAE-based online retailer, witnessed 500% Y-o-Y increase in its revenues in April 2015. While there was some low base effect (as this was only the second year of its operations), a revenue growth rate of 500% clearly shows that online retail is catching up in the GCC region.

**Figure 18: UAE Online Market Share - 2014**

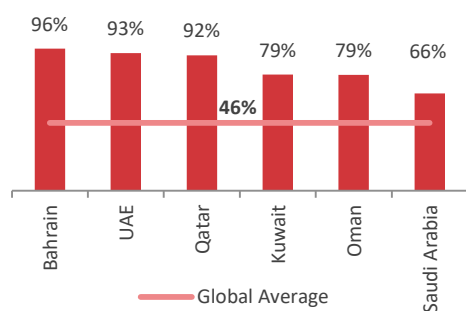


Source: Euromonitor; Ardent Advisory

## The rise in the adoption of the omni-channel model driven by the ubiquitous smartphone is doing its bit to fuel online retail growth

The GCC has one of the highest internet penetration rates globally and has also witnessed a significant growth in smartphone sales. Given the high growth in m-commerce, especially in emerging markets, a strong internet and smartphone base creates a very suitable ecosystem for the growth of online retail. With the proliferation of smartphone apps, huge growth in m-commerce can be expected in the near future. For instance, Souq.com, one of the largest online retailers in the MENA region, accounted for 40% of all purchases from mobiles as of March 2014, and this number was estimated to increase to 60% the following year. It is also estimated that in 2014, mobile transactions accounted for 22% of all online retail sales, up from just 12% in 2013.

**Figure 19: Internet Penetration in GCC**



Source: Chalhoub Group; Retail International; Ardent Advisory

This huge growth of internet, smartphones and app-based transactions has forced typical brick-and-mortar retailers to provide their customers a functional online platform as well. As customers traverse various online channels with ease, the focus of brick-and-mortar retailers has shifted from specialising in one area (viz. stores) to providing customers an omni-channel experience. For instance, Carrefour, one of the largest global retailers, launched an online shopping portal in the UAE in 2010. With some of the top global retailers operating in the GCC alongside large well-organised local players, we expect more and more

brick-and-mortar players to launch their online portals to capture an enhanced customer base.

## Private equity and strategic funds flow in the GCC online retail space

Enticed by the immense growth potential of this region, several private equity and venture capital firms as well as strategic investors are investing in GCC-based online retailers. This is providing further tailwinds to online growth in the region. For instance, Naspers, which had already invested about US\$40 million in Souq.com in 2012, further invested US\$75 million in the portal in 2014, increasing its total stake to 48%. Similarly, Rocket Internet-backed Namshi.com raised US\$13 million from a round of funding led by Summit Partners.

## On the challenges front, the logistics issue and a high percentage of COD transactions are the most significant to online retail

The online shopping model, to be viable, requires a strong logistics infrastructure. Both the GCC road freight and rail freight network still remain fragmented and unable to effectively connect all the points within the region. Even the best freight deliverers have a much higher average delivery time in the GCC when compared to their global average time. This creates a significant problem for online retailers. Additionally, security concerns over online payment have resulted in a high percentage (c~75%) of online buyers opting for the cash-on-delivery mode. This makes the business model slightly unviable, especially for those online players who have a lower capital reserves. Retailers have to take precautions before delivering the products as any return would result in loss.

## In spite of the challenges, the future of the GCC online retail space is bright

We believe that the GCC online market has reached the inflection point from where it will take off. More and more consumers are shedding inhibitions and trying out the online platform. Once a consumer treads the online route, the chances of repeat purchase become quite high. The time for online retail has arrived in the GCC.

## The Rising Star of GCC Online Retail – Souq.com

Souq.com is one of the MENA region's leading ecommerce portals. Launched in 2005, Souq.com is one of the pioneers of GCC online retail. Headquartered in Dubai, UAE, the portal caters to the MENA markets with commercial offices in Egypt, Saudi Arabia and Kuwait, as well as a technical and development centre in Jordan and India. Souq.com also owns fulfilment centres in Dubai, Jeddah, Cairo and Kuwait and has its own delivery and payment companies. Its website features more than 400,000 products across more than 15 categories such as consumer electronics, household goods, watches, perfumes, accessories and fashion. Its website registers over 24 million visits per month and has a customer base of 6.2 million registered users. Naspers, a global platform operator with principal operations in internet services, has a 48% stake in Souq.com.

### Others are catching up fast

While Souq.com is clearly the market leader in the UAE, the promise of online retail is encouraging many other players to enter the space.

Awok.com is a UAE-based online shopping platform, which completed its second year of operations in April 2015. The revenues of Awok.com grew by a phenomenal 500% in the year compared to its first year of trading. Buoyed by this spectacular performance, the company has

announced the launch of a mobile app for consumers by late 2015. The company employs over 200 staff in the UAE, and is also planning expansions to other countries in the region. The company operates all logistics in-house, allowing it to keep prices low sourcing directly from manufacturers, distributors and re-sellers. Awok.com has its own warehouse, a fleet of delivery vans as well as an in-house customer service team. The savings from all of these are passed on to the consumer in the form of lower prices. Also a complete control over all these aspects of operations allow the company to deliver to its UAE customers within 12-24 hours. Awok.com's dedicated after-sales tech support service team also ensures a 100% customer satisfaction is on track. All of these have resulted in Awok.com being one of the leading online retailers in the UAE.

The UAE-headquartered e-commerce retailer Namshi.com is another online retailer specialising in the fashion and lifestyle retail. Its market includes all the GCC countries as well as Lebanon. It also has major expansion plans and recently opened a new and expanded warehouse facility to cope with increasing orders.

# Major Retailers by Segment

The GCC has witnessed the growth of various local retailing behemoths as well as many foreign retail giants who have made the region their home

Multi-Segment (incl. food) Retailers	Name	Number of Stores in GCC/ Global	UAE	KSA	Qatar	Oman	Kuwait	Bahrain
	Carrefour	~60 (GCC)	✓	✓	✓	✓	✓	✓
	LuLu	126 (GCC)	✓	✓	✓	✓	✓	✓
	Azizia Panda	> 300 (GCC)	✓	✓	✗	✗	✗	✗
	Geant	80 (GCC)	✓	✗	✓	✓	✓	✓
	Al Safeer	35 (GCC)	✓	✗	✓	✓	✗	✗
	Spinneys	63 (GCC)	✓	✗	✓	✗	✗	✗
	Waitrose	10 (GCC)	✓	✗	✗	✓	✗	✗
	Choithrams	> 50 (GCC)	✓	✗	✓	✓	✗	✓
	Al Maya Group	39 (UAE)	✓	✗	✓	✓	✓	✓

Non-Food Retailers	Name	Number of Stores in GCC/Global	UAE	KSA	Qatar	Oman	Kuwait	Bahrain
	Apparel Group	1500 (Global)	✓	✓	✓	✓	✓	✓
	M. H. Alshaya Co.	2800 (Global)	✓	✓	✓	✓	✓	✓
	Al Sawani	550 (Global)	✓	✓	✓	✓	✓	✓
	Landmark Group	2039 (Global)	✓	✓	✓	✓	✓	✓
	Jawad Group	330 (GCC)	✓	✓	✓	✓	✓	✓
	eMax	50 (GCC)	✓	✓	✓	✓	✗	✓
	Jumbo Electronics	30 (GCC)	✓	✗	✓	✓	✓	✓
	eXtra	49 (GCC)	✗	✓	✗	✓	✗	✓
Azadea Group	600 (Global)	✓	✓	✓	✓	✓	✓	



## The Winning Formulae to Achieving Success

Every retailing group that has achieved success in the GCC region has its own story. Some achieved it on the basis of a strong product line-up, some on the competitive pricing while others through a perfect mix of organic and inorganic growth. However, there are some common themes that are repeated across the spectrum, which could outline what makes the chances for survival and growth stronger for a retailer over its peers.

**Right Partners:** For foreign retailers trying to enter the market, one of the key success factors is selection of a right partner. Franchise agreements are the most common route to achieve this. For example, when Spinneys Group entered the UAE it inked a franchise agreement with the Al-Bawardi Group. On similar lines when Tesco entered the GCC it set up business ties with various local heavyweights such as Fawaz Abdulaziz Al Hokair & Co in the KSA, Choithrams in the UAE, MegaMart in Bahrain and Saveco in Kuwait. The benefit that these local partners provide is a strong understanding of the market. In some cases, these local players already have a presence in the retail segment and the new entrant can leverage on the existing distribution network and logistics chains.

**Vertical Integration:** In the highly competitive world of retail, where both product and pricing are both fundamental to garnering market share, private labels have emerged as the preferred strategy of top retailers. While most retailers enter into a supplying agreement with producers, some top retailers are themselves moving up the value chain and setting up production and manufacturing units, which helps to strengthen their private label portfolios.

**Logistics:** Logistics are often ignored but are a vital cog in the retail machine as the impact it has on product quality and profitability of a retailer is immense. Whether entering into agreements with top-class logistics providers or setting up their own logistics chain, all top retailers provide strong focus on this aspect.

**Inorganic Growth:** Acquisitions as a quick growth route to growth have been a favorite strategy across industries, and retail is no exception. Majid Al Futtaim's acquisition of Carrefour's MENA operations is a shining example of this strategy. The secret here is of course to identify the right target at the right price, and post acquisition to have a clear plan of action to navigate the acquired entity on its growth path.



# Country Profile: UAE

*A cosmopolitan nature, vibrant expat community, and strong economy have resulted in the UAE becoming one of the most advanced retail markets in the GCC*

The UAE is the retail hub of the Middle East. While in terms of size, it is second to the KSA, the Kingdom leads only because its population is more than three times that of the UAE. At US\$7,400, the UAE's per capita retail consumption is almost at par with the top retail markets in the world.

At US\$70.9 billion, the UAE's retail sector contributed close to 17% to the country's GDP in 2014. High levels of disposable income, increasing population thanks to large expat immigrations, absence of personal income tax, a world-class retail infrastructure, and most important of all, a highly retail-oriented culture, as evidenced by events such as the annual Dubai Shopping Festival, have transformed the UAE, and specifically Dubai, into the ultimate retail hub for not only the GCC but the entire Middle East.

## The UAE's retail sector is growing across all segments of individual retail

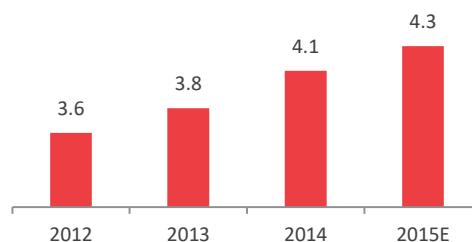
The composition of the UAE's retail sector leans toward the non-food segment, which has 70% share in total retail sales. Growing competition among various non-food specialist retailers such as apparel & footwear and electronics & appliance has restrained value growth due to the emergence of more competitive prices.

One of the major non-food segments driving the UAE retail sector growth is apparel. In 2013, AT Kearney's Retail Apparel Index ranked the UAE second after China. Steady growth of the apparel segment is driven by increasing numbers of tourists and a rising expatriate population with high disposable incomes. In the apparel section, luxury children's wear saw a strong influx of dedicated brand stores. MH Alshaya, Landmark Group and Jawad Business Group are some of the major players in the segment. In 2014, top 10 players accounted for 65% of the value share.

The other non-food segment that contributes significantly to the non-food retail business is

electronics. In 2015, retail volume growth for overall consumer electronics was significant. According to Dubai Chamber of Commerce, consumer electronics sales increased at a 5.6% CAGR between 2012 and 2015. Specialist electronics and appliance retailers have been the largest contributors to this growth. Hypermarket sales are also going strong, with leading chains like Carrefour and LuLu Hypermarkets competing in terms of prices. Tablets, smartphones, and smart watches are dynamic growth areas for the electronics retail market to flourish.

**Figure 20: UAE Electronics Retail Sales (USD bn)**



Source: Dubai Chamber of Commerce

Food retail has continued to benefit from the generally favourable economic situation in the country in 2014. Majid Al Futtaim Hypermarkets LLC remained the market leader with a 19% market share, followed by Emke Group (LuLu Supermarkets) with a 14% share by value.

The international airports of Dubai and Abu Dhabi have emerged as regional hubs for international travel transits, and their duty-free outlets are swiftly expanding operations. Dubai Duty Free accounted for 46% of the total Middle Eastern airport duty-free revenues. In 2014, it generated total revenues of US\$1.9 billion, registering a y-o-y growth of 6%. Being one of the busiest airports of the world, constant passenger flows have helped Dubai Duty Free win its seventh 'Airport Retailer of the Year – Single Location' award in 2014. By 2018, Dubai Duty Free is expected to record more than

US\$3 billion in revenues. Abu Dhabi Duty Free, somewhat overshadowed by the prominence of Dubai, generated a topline of US\$248 million in 2013, registering a 13% y-o-y growth.

### Domestic and foreign players jostling for a piece of UAE Retail Pie

The UAE's retail market is dominated by large domestic groups and international retailers. Domestic conglomerates such as LuLu group, Landmark group and Majid Al Futtaim (MAF) Hypermarkets have made significant investments in the retail space and now dominate various segments of the industry, in both food and non-food segments. For instance, MAF Hypermarkets leads the food retailing industry through its global brand Carrefour (MAF has the holding rights for Carrefour's MENA operations), whereas Jumbo Electronics, another domestic company, is the UAE's largest electronic goods seller.

International retailers also find the UAE market highly attractive due to high tourist influx and fashion-conscious locals. According to CB Richard Ellis, a market research firm, Dubai currently ranks second to London as the city with the highest percentage of international retailers. Many international retailers also use Dubai as a launch pad for entering other countries in the GCC as its free economy and trade atmosphere makes it easier to do business.

Some of the latest and upcoming international entrants in the UAE retail space include:

- France's Geant entered the UAE in December 2014 with a new hypermarket in Yas Mall, Abu Dhabi.
- Dairy Queen plans to re-enter the market with as many as 20 outlets, five years after exiting the market.
- Macy's and Bloomingdale plan to open outlets in Galleria Mall, Abu Dhabi, in 2018.

With all these new entries, the competition in the UAE retail space is heating up and existing players are also aggressively expanding to retain their

market share. For example, Landmark launched an affordable furnishings brand Home Box and also reinforced its food and beverage offerings with Pie-Face, Jamba Juice and Poparazzi. Similarly, Canadian convenience store operator Circle K, which already operates 38 stores in the UAE, plans to expand with another 28 new convenience stores. IKEA, which has stores in the UAE and Saudi Arabia, is setting up the Middle East's largest distribution centre in Dubai. According to CBRE research, 25 new retailers opened stores in Dubai in 2014.

Such escalating competition in non-food retail channels such as apparel & footwear and electronics is leading to price wars, thereby restraining value growth in the segment. Food retail sales are constrained by government price controls; however, domestic companies such as Union Co-operative Society and LuLu Hypermarkets continue to benefit from their affordable applications and customised product ranges.

### Innovation in retail formats to reach out to each and every customer

While hypermarkets and supermarkets continue to dominate the UAE retail market, the country is now also witnessing diversification in retail formats as retailers try to garner a stronger foothold, cater to consumers' needs, and provide convenience. Three different innovative formats that have made a mark in the recent years include:

**Community/Neighbourhood malls:** These were created to meet higher expectations of consumers and satisfy greater demand for convenience. They often include discount department stores, home improvement stores, sporting goods, apparel stores, booksellers, restaurants, and supermarkets. Majid Al Futtaim launched its first community mall in the International Media production Zone in September 2015, while in September 2014 Nakheel announced the launch of Jumeirah Park Pavillion, the first of five community retail malls being built by the company across Dubai.

**Convenience centres:** These centres offer an array of goods and services that satisfy the daily needs of the surrounding neighbourhoods. They are often anchored with a small specialty food market or pharmacy. Convenience centre tenants offer a limited balance of food, personal services, and local offices. Majid Al Futtaim launched a new convenience store format under the brand Carrefour City, catering to small neighbourhoods across Dubai.

**Creative Entertainment:** There has been increased focus on various creative entertainment offerings. In the first half of 2015, a family entertainment centre was launched in Abu Dhabi's Yas Mall by Landmark Group, which is spread over 5,500 square metres.

### UAE retailers are adopting omni-channel strategies in a rapidly-maturing market

The UAE's rapidly-changing consumer needs are demanding more sophisticated retailing. Factors such as the proliferation of new products that outpace the ability of retailers to stock, the rising use of the internet and social media platforms as pre-purchase decision medium, and the need for offering online sales options available across various platforms are forcing retailers to adopt omni-channel retailing as an essential strategy.

Rising rental rates for retail space, especially in the UAE, are providing further impetus to this migration as retailers explore newer channels to reach the consumer. As the security of online payments improves and reputed brick-and-mortar retailers start entering the online space, more and more consumers are willing to avail the convenience of online shopping. Specialist retailers for electronics and appliances, such as Jumbo and Eros Group, have already established strong online presence as have hypermarket players such as Carrefour and Landmark with aggressive online expansion targets. LandmarkShop.com (the online arm of Landmark Group), which was launched in December 2012, posted revenue growth of over 200% in 2014–15 and has set a target of doubling its sales in 2015–16. Souq.com, the largest online

retailer in the MENA region, witnessed a ten-fold revenue growth during 2012–14. Awok.com is a UAE-based online shopping platform that recorded 500% increase in sales in 2015. These superlative growth rates have made a strong case for omni-channel retailing in the GCC, especially in the UAE.

### Dubai continues to develop its retail landscape to woo global shoppers

Dubai, with one-third population of the UAE, roughly accounts for 55–65% of the country's retail sales. Influx of tourists is one of the prominent reasons for the continued growth of Dubai's retail industry. The Dubai Mall and Dubai Shopping Festival together attract 35 million visitors annually. With Dubai being the host of the World Expo 2020 and Qatar hosting the 2022 FIFA World Cup, tourist influx in Dubai will boom even more, as will Dubai's retail market and its need for additional space. This is despite the fact that at 1.380 square metres, Dubai's per capita retail space is the highest in the world. As Dubai continues to witness high levels of interest from international and local retailers, expansion of the retail infrastructure sits high on the priority list of this emirate.

Dubai Holding plans to build the Mall of the World, the world's biggest mall with an estimated value of US\$6.8 billion. The development would contain an 8-million-square-foot shopping mall, the world's largest theme park covered by a glass dome that will be open during the winter months, a wellness-dedicated zone, a cultural celebration district, and a wide range of hospitality options comprising 20,000 hotel rooms. Another construction is taking shape on the Bluewaters Islands – Dubai Wharf Retail – whose estimated value is US\$327 million. This project will feature demarcated retail, residential, hospitality and entertainment zones. Another development, The Dubai Mall Expansion – The Avenue, is valued at US\$381 million. Phase 2 (Salsa 2) expansion is also ongoing at the Dubai Festival City Mall by Al Futtaim Real Estate Group and is valued at US\$70 million.

## Abu Dhabi, the second largest destination for retailers, will not lag behind

Abu Dhabi is the UAE's second major retailing hub. The emirate has a huge potential for growth with a repertoire of retail offerings. Abu Dhabi Formula 1 race attracts a large number of tourists. Its retail sector is predominantly driven by government initiatives to create synergies through public-private partnerships and growth in hospitality and tourism sectors. Luxurious retail malls, competitively-priced tax-free shops and Abu Dhabi duty-free retails are huge tourist attractions.

A number of new large malls such as the Galleria and the World Trade Centre were opened in 2013. In 2014, Yas Mall was opened with a net leasable area of 235,000 square metres, which increased tourist inflow. New malls like Reem Mall, valued at US\$272 million, approved by Abu Dhabi Urban Planning Council in July 2015, are expected to further enhance Abu Dhabi's retail offerings and sales. Expansion of Al Jimi Mall by ALDAR Properties, valued at US\$10 million, is also planned.

## The Road Ahead

The UAE is most visited by tourists for leisure and business. Luxurious retail malls, competitively-priced tax-free shops, adventure sports facilities, and convention centres are huge tourist attractions. The country's political stability adds to its attractiveness as a major tourist hub. With positive economic factors, increased consumer confidence, and supporting industries, the country's total retail sales are estimated to reach US\$90 billion by 2018.

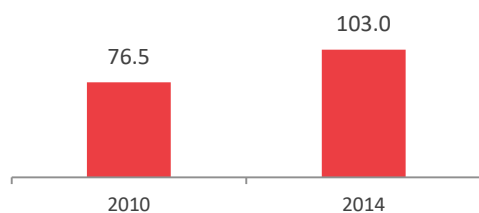
The World Expo 2020 to be held in Dubai and the FIFA 2020 World Cup to be held in Qatar will attract a lot of tourists to the UAE as well as spur growth in multiple industries across the country. According to the Dubai Department of Tourism and Commerce Marketing (DTCM), 25 million visitors are expected at the Expo 2020. All of these would boost retail sales further.

# Country Profile: Saudi Arabia

*Saudi Arabia, thanks to its large population, till date has been a volume game – that however may change soon with more organised retailers focusing on this GCC behemoth*

Saudi Arabia is the largest of the GCC retail markets, mainly due to its large population and the holy Islamic cities of Mecca and Medina. Saudi Arabia’s total retail sales amounted to US\$103 billion in 2014, contributing 13.2% to the country’s total GDP. Despite oil price volatility, the retail sector has remained resilient and expanded at a CAGR of 7.7% during 2010–14. One of the major reasons for its resilience is steep growth in Saudi Arabia’s economy in the recent past, leading to a positive impact on unemployment and personal disposable income. The industry is also positively influenced by a large young population (median age is 26 years), with a strong female consumer base. Most of the customers in the country are brand-conscious and are driving the demand for apparel, cosmetics, and consumer electronics.

**Figure 21: KSA Total Retail Sales (USD bn)**

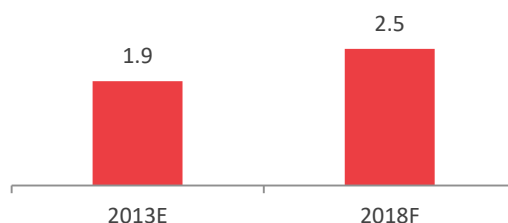


Source: AT Kearney; Ardent Advisory

## Retail infrastructure is modernising, however lagging behind the UAE

Riyadh and Jeddah, the two largest cities in the country, constitute majority of the retail sector infrastructure, with a total of about 60 malls. Modernisation of the retail sector with the construction of new malls has helped retailers attract customers. However, the country still lags behind the UAE in infrastructure, as it is still fairly under-served in terms of modern retail area per capita, which is among the lowest in the region. Additionally, Saudi Arabia has lower demand for consumer goods, with food retail accounting for almost 48% of the total retail demand.

**Figure 22: Modern Retail Sales Area (mn sq m)**



Source: AT Kearney

The situation is likely to improve as many retailing giants have set aggressive expansion targets. The number of hypermarkets in Saudi Arabia is expected to increase by nearly 70% to 333 in 2018 from 197 in 2013, while the number of supermarkets will increase by 54% to 1046 from 678 during the same period. Despite this growth, the 40,000 plus bakalas will continue to play an important role in the Saudi retail market. Major retail projects include the Al Diriyah Festival City with an estimated value of US\$1.6 billion, the expansion of Red Sea Mall in Jeddah with an estimated value of US\$53 million, and the extension of Granada Shopping Mall with an estimated value US\$70 million.

## The KSA’s retail market is highly fragmented

The KSA’s retail space is quite fragmented as it has a strong presence of traditional stores called bakalas. More than 40,000 bakalas dominate the country’s retail space, especially in food retail, accounting for about a 55% share in Saudi Arabia’s grocery retail market. While hypermarkets and supermarkets try to attract more and more customers by providing best-in-class amenities, the bakalas continue to play a vital role in serving the common public, and are especially important to women, who are not allowed to drive in the country.

The organised retail industry in the KSA, is very competitive, with the strong presence of some

major retail giants like Carrefour Saudi Arabia, Saudi Hypermarket Company LLC, and Panda Supermarket dominating the food segment and Alhokair Fashion Retail, Landmark Group, Jarir Marketing Company, etc. leading the non-food segment. Al-Azizia Panda United is the market leader in terms of value, whereas Fawaz Abdulaziz Al Hokair has the most number of outlets. Al-Azizia Panda United is a leading name among food retailers and benefits from low prices and a widespread presence. Fawaz Abdulaziz Al Hokair, on the other hand, is the undisputed leader in franchised fashion retailing, bringing various international apparel and footwear brands to the country.

### **The KSA has huge potential in both food and non-food segments**

Food retail contributes about 45–48% to the total retail sales, a share that has remained constant over the years. As with the other GCC countries, Saudi Arabia is also import-dependent and, is the largest importer of food and agricultural products in the GCC. In 2013, food imports rose 8% from the previous year to reach US\$19 billion. Processed food products accounted for 46% of the total food and agricultural imports. Increased disposable income due to the booming economy and the government’s initiatives to boost national employment has led to growth in food retail, particularly in packaged food sales, with young population becoming a catalyst for demand. The government also continues to encourage the private sector to pump more investments into the food market, with the aim of achieving food security.

Within the non-food segment, retailers continue to see growth and are launching new products and opening new stores. The demand for consumer goods, particularly white goods, textiles, footwear and furniture, has been high since 2011 due to a strong economy and the government’s expansionary fiscal policies. Exposure to the western world through various digital media has

made consumers more aware and they are adapting well to international brands and products. Consumers are developing a taste for high-end brands such as Louis Vuitton and Burberry. Mid-priced brands, such as those under the umbrella of Fawaz Abdulaziz Al Hokair, including Zara, Stradivarius, Aldo and New Yorker, are prospering as well, backed by the younger population.

Increasing income combined with the lack of external entertainment avenues such as cinemas and theatres has led to the increase in sales of high-quality home entertainment systems and electronics. Leading electronics and appliance specialist retailers not only continue to open more outlets but are also piquing consumers’ interest by offering attractive discounts, better after-sales service, and a wider variety of products in-store. The use of the internet as a means of consumer engagement, such as through Facebook pages stating the latest deals, is also helping them penetrate the market. Consumers are also looking for products with increased sophistication and advanced technology, including smartphones and tablets. Tablets recorded higher value growth than desktops and laptops in 2015.

### **The KSA government initiatives are improving retail sector environment**

Recently, the KSA government announced various regulatory initiatives to boost the retail sector. In September 2015, the government eased restrictions on foreign investors and allowed 100% ownership in retail and wholesale businesses, from the current maximum foreign ownership of up to 75%. The Saudi Arabian General Investment Authority (SAGIA) is also streamlining its investment rules and visa regulations to attract more high-end investors into the kingdom for creating white-collar or technical jobs for Saudi citizens.

Other government programmes, such as building 500,000 new affordable homes, are providing employment opportunities, and thereby indirectly

facilitating retail sales. King Salman also announced a two-month salary bonus to government employees, students at government institutions, and state pensioners. A number of private companies have also followed suit by announcing bonuses for their Saudi employees. Given the limited entertainment options, the move is expected to provide a significant boost to the retail sector.

### The budding e-commerce retail

With the rising internet penetration at 60%, many online retailers are improving the online shopping experience for their customers. Saudi customers are willing to shop online; however, the level of confidence required to use online payment channels is low. To address this issue, many companies are facilitating different payment methods including cash on delivery. In addition, a number of online payment solutions were launched to make the payment system more secure and trustworthy. These payment solutions included Payfort, an affiliate of Souq.com, launched in December 2013, and Telr, the brainchild of an ex-Paypal executive, in March 2014. These solutions have helped enhance the overall online shopping experience for customers by making online purchases more secure. In 2014, Souq Group led internet retailing with a 41% value share.

The KSA government has recently released a draft law to regulate the e-commerce industry, which is an important step for development and growth of the industry. A strong regulation will protect consumers and increase their trust in e-commerce websites, thus supporting the industry's growth.

### The Road Ahead

The KSA's biggest strength is its large population base. It also has a huge inflow of religious tourists. The country's primary retail centres have been Riyadh, Jeddah, Mecca and Madina. The fundamentals that have driven the Saudi retail sector remain intact as the kingdom's young population continues to witness improved employment levels and rising disposable income. Various government initiatives have also been favourable to the growth in the sector. With the improving educational levels and tech-savvy individuals, there has been increased demand for high-end goods. However, there is a large scope for improvement as the market is fairly under-penetrated and has many unorganised players. As the Saudi retail market witnesses more penetration from the organised players and Saudi customers get more sophisticated because of the rising standards of living, education, and disposable income, the retail industry will witness strong growth. Overall, the Saudi Arabia retail market is expected to reach US\$140 billion by 2018.



# Country Profile: Qatar

*One of the fastest growing retail markets in the GCC, Qatar has a lot of potential for growth, especially with its hosting of the FIFA World Cup 2022*

Qatar is one of the fastest growing retail markets in the GCC region. Its retail sector expanded at a CAGR of 9.7% during 2010–14 to reach US\$12.4 billion on account of a rapidly-growing population (2010–14 CAGR of 8.1% versus the GCC average of 3.2%) and a very high GDP per capita of US\$97,500 (the highest in the GCC region by a large margin). At 86%, Qatar’s share of expatriates vis-à-vis its total population is the second highest in the region after the UAE. As a result, the country has a huge purchasing power. Qatar has entered A.T. Kearney’s 2015 Global Retail Development Index at the fourth position, ahead of the UAE, which is at the seventh position.

## Segments

Food retail contributes 45–48% to the total retail sales, led by the rising population. In 2014, the productive age population (between 15 and 64) in Qatar was 83.6%, the second highest in the region after the UAE. In spite of the favourable demographics, penetration of modern grocery retail is quite low in Qatar. However, this is set to change as many new malls and hypermarkets are being set up.

Over the years, luxury retailers have been mostly focussing on Dubai and other UAE cities. However, the huge potential of Qatar is now attracting a large number of luxury brands. The Mall of Qatar plans to accommodate 50 luxury brands. Salam Studio, a luxury fashion retailer, has leased three floors with over 8,000 square metres in the Mall of Qatar. With the favourable demographic and economic factors, Qatar has the potential to become the world’s fastest-growing luxury market. In 2014, Qatar was featured in Knight Frank’s Luxury Opportunity Index, at the first spot in the list of countries with the fastest-growing spending potential in the short and medium term.

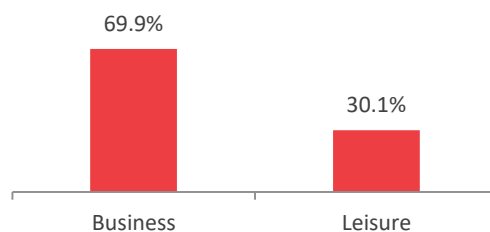
With the rising exposure to the West and improving communication infrastructure, Qatar’s consumer electronics market is set to expand, led

by rapid growth in tablet and smartphone sales. According to BMI Research, between 2014 and 2019, computer hardware sales in Qatar are expected to increase at a 5.2% CAGR to reach US\$1.08 billion.

## Government initiatives to boost travel sector

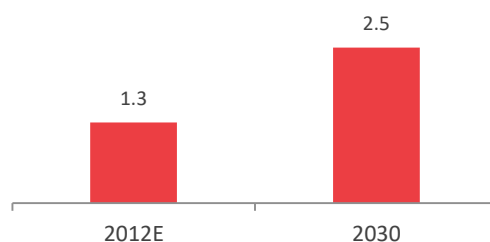
Tourism is one of the major drivers of retail, especially luxury and airport. Qatar’s international tourist inflow is expected to increase at a 6% CAGR over the next 10 years, driven largely by various government initiatives as well as the FIFA World Cup 2022.

**Figure 23: Tourists Purpose of Travel 2014**



Source: Oxford Business Group; Ardent Advisory

**Figure 24: Government's Target No. of Domestic Tourist Trips (mn)**



Source: Oxford Business Group; Ardent Advisory

As part of its Qatar National Vision 2030, the government has focussed on tourism as one of the key growth sectors. It plans to increase the share of non-GCC tourists to an estimated 64% of all arrivals by 2030 from 30% in 2012. It has identified leisure tourism as the key area of improvement and aims to increase the average stay of tourists to an expected 4.3 days per visit by 2030 from 3.5 days in 2012. Another focal area is domestic tourism, as

most of the wealthy Qatari tourists travel abroad. The government has, therefore, set a target to almost double the number of domestic tourist trips by 2030.

All these initiatives will increase opportunities for retail and strengthen the sector by increased spending from tourists and creation of employment opportunities.

### Major Players

Qatar's hypermarket/supermarket segment was quite underdeveloped until recently. The situation is changing now as the huge expatriate population prefers organised retail formats. Also favourable business environment and low corporate tax rates are attracting foreign retailers. In 2015, Karl Lagerfeld entered Qatar with its first store in the Lagoon Mall. With offerings catering to the changing consumer preference, large regional players like LuLu and global players like Carrefour have begun to increase their presence in the country.

Al Meera is the most popular domestic modern grocery retailer in Qatar established in 2005 and running over 39 supermarkets and convenience stores. With agreements with Casino Group and WHSmith, it runs Geant Hypermarket and WHSmith Bookstores in the country.

Ali Bin Ali is yet another largest retail and distribution company in Qatar. It was established in 1945 and currently has partnerships with the world's leading brands like Dior, Azzarp, Airtel, Crest, David Morris, etc.

The third mega retailer that was established in 1981 in the fashion retail category was Abu Issa Holding. It started off with a Blue Salon that was a high-end luxury departmental store in Qatar and since then it expanded through numerous joint ventures and partnerships in different sectors. Currently, it has 70 distinguished business across 11 sectors and each of them integrated with indigenous expertise and exhaustive industry knowledge.

### Retail infrastructure developments in Qatar have gone into overdrive due to the upcoming FIFA World Cup 2022

One of the biggest growth boosters for Qatar is the 2022 FIFA World Cup; this event has fast-tracked infrastructure developments in the country. Doha, the capital and most populous city, is expected to add close to **one million square metres** of the retail space in the next couple of years. Unorganised players with stand-alone showrooms and traditional markets (also known as souqs) still dominate Qatar retail market with close to a 70% market share, malls with 18%, and supermarkets and hypermarkets with 5%. But many malls are now coming up and the share of organised retail is expected to increase.

To cater to demands of a population with high per capita incomes, most of the malls have dedicated retail spaces exclusively for luxury brands. Qatar's modern retail space per 1,000 people is more than 200 square metres. In 2013, the completed modern retail sales area totalled approximately 0.4 million square metres. Modern retail concepts are gaining popular acceptance, leading to a rise in the number of hypermarkets and supermarkets.

A joint venture among UAE's Al Futtaim Group, Qatar Islamic Bank, Aqar Real Estate Investment Company, and BASREC (a private Qatari investment company) was formed to develop **Doha Festival City**, a retail and leisure destination in Qatar. A US\$1.64 billion project, it is expected to open in September 2016 and will add about 250,000 square metres of leasable space. Total area of the project is 433,000 square metres; it will comprise automotive showrooms, a hotel, and a convention centre. Around 80% of the mall space has reportedly been leased already.

The second retail mega project that is scheduled to open in 2016 is the over US\$1.1 billion **Mall of Qatar**. The mall is planned to include a hypermarket, a multiplex (by Cinemacity) with 19 screens and 3,000 seats, Curio by Hilton hotel,

four departmental stores, 82 food and beverage outlets, and more than 400 shops spread over 500,000 square metres. It will have more than 195,000 square metres of store space, with a dedicated area for luxury brands, and 16,500 square metres of entertainment area that will feature a KidzMondo theme park. Of the mall's retail space, 75% has already been leased; the mall is expected to attract at least 10% of its total footfall from the neighbouring GCC countries.

**Place Vendôme**, a mixed-use development underway in Qatar's emerging Lusail City is expected to open in 2017. It is a US\$1.37 billion establishment with an area of over 800,000 square metres; it will have 230,000 square metres of leasable area, which will host two five-star luxury hotels, serviced apartments, a mall featuring up to 400 different retail outlets with a luxurious wing dedicated to top designer labels, and an entertainment centre. Like Saudi Arabia, Qatar too has opened a women-only mall called Souli Mall.

## The Road Ahead

Qatar has become an attractive destination for investors because of its growing economy, favourable demographics, and rapidly-developing infrastructure. A large number of these infrastructure developments are taking place in the retail segment. Among all the retail segments, luxury, in particular, has strong demand, as evidenced by almost all the malls having dedicated sections for luxury retailers. The government's measures to increase tourist influx would provide a further boost to the retail industry. The population of Qatar is estimated to continue rising at a 4.75% CAGR (2014–19E), almost double the growth rate of the GCC and more than four times that of the world average. All these factors will drive Qatar's retail sales growth at one of the highest rates in the GCC.

# Country Profile: Kuwait

*A decently-sized market, Kuwait could face some concern issues due to its aggressive anti-expat policies*

Kuwait's high GDP per capita of US\$49,000 (2013) is one of the major drivers of its retail sector. At US\$16.4 billion in 2014, Kuwait's retail sector contributed 9.1% to its GDP. The country's high GDP per capita makes it a prime candidate for luxury retailers. In addition, its rate of urbanisation with virtually all of its residents located in cities and a large proportion of youth population are some of the major drivers of retail growth.

## Segments

Kuwait's food retail share, at roughly 57% of the total retail, is the highest among GCC countries. In general, population growth is one of the major drivers of food retail. Given Kuwait's current restrictive measures for its expatriate population, there is a possibility that population growth may slow down slightly, in turn restricting the growth in food retail. Despite the high level of urbanisation, Kuwait's food retail market is quite fragmented, with a large number of stand-alone stores in malls. In fact, Kuwait's modern grocery retail penetration is quite lowest, with the top five retail groups accounting for just 10% of the market. Some of the large retailers include Sultan Center, Kuwaiti Union of Cooperative Societies, City Centre, Carrefour, and Geant Casino.

Kuwait's high GDP per capita boosts the luxury retail market, with high-end malls housing luxury brands proving to be quite popular. Varied consumer tastes and heavy spending on quality brands are major drivers of high-end retail. Due to the absence of any compulsory Islamic dress code, Kuwaiti women do not always wear abayas and are seen in western clothes as well. In 2012, international retailers like Cheesecake Factory, Victoria's Secret, and COS entered Kuwait with franchise agreements with M. H. Alshaya Co. Kuwait has a large number of fashion brands, ranging from haute couture houses to low-cost

production houses. In 2013, Prada opened its second store in Kuwait at The Avenues Mall. Other luxury fashion retailers operating in the country are Christian Dior and Fendi. Some of the mid-market fashion brands are Marks & Spencer, H&M, and Topshop/Topman.

## Competitive landscape

Kuwait's retail landscape is still developing as the unorganised retail sector continues to have the highest market share. Traditional retailers such as small neighbourhood shops, markets and cooperative societies dominate retail trade. The souk retains its place as a big part of Kuwait's heritage and continues to maintain its share in the market with its offerings such as fabrics, perfumes, spices, and also service-oriented businesses like tailoring, hairdressing, etc.

The country's food retail sector is mainly controlled by the government's Union of Cooperative Societies (UCCS). UCCS comprises grocery stores, supermarkets, convenience stores, and hypermarkets. This limits the presence of private players in the country.

M.H. Alshaya is one of the top multinational retail franchise operator established in 1890, which has established substantial presence across the GCC region. The firm manages and operates brands like Starbucks, Mothercare, American Eagle Outfitters, and several others along with assorted divisions of hypermarkets, supermarkets, retail and various associates.

Another major player in the region is The Sultan Center that opened as the first self-service retail store in 1981. Through acquisitions and organic growth, it currently operates 65 stores across five countries and has ambitious plans to further diversify.

## Retail infrastructure projects are increasing footfall with their offerings

Kuwait recently completed a few retail infrastructure developments to add to the existing retail space. The six-storey Gate Mall opened in 2014 has an area of 37,000 square metres and is home to high-end apparel brands like Zara, Nike, and Debenhams. The fourth-phase expansion of the famous Avenue Mall included five-star hotels, shopping space, and a multi-purpose ballroom. The Al Salam Mall project, with an estimated value of US\$142 million, will add 26,680 square metres of gross leasable area. LuLu opened Kuwait's biggest hypermarket in Dajeej, with an area of 21,400 square metres. It is also expanding to the suburbs of Messilah, Mishref, Salwa, and Jleeb Al Shuyoukh.

## Stringent expat policies could become a game spoiler

Of late, Kuwait has initiated a rather stringent set of rules and policies for its expatriate population to address rising concern among Kuwaiti nationals. In 2013, it stopped expats from driving and using public hospitals. Also, as a step towards Kuwaitisation, the social affairs and labour ministry plans to lower expatriate population from the current 70% to 34% by 2025, reducing it by a million in a decade. The ministry is also considering making serious amendments to its immigration policies to keep the expat population in check.

## The Road Ahead

The current decline in oil prices has hit Kuwait's oil-based economy. In addition, its strict anti-expat policies could have a severe effect on its expat population growth and given that expats constitute 70% of the country's population, it could severely affect the retail sector. These factors indicate a rather muted outlook for the country's retail sector. On the other hand, its urbanised population (the third largest in the GCC), a large percentage of which is young; very high per capita GDP; and a fragmented retail market offer a significant growth opportunity for organised retail. We expect Kuwait's aggregate retail sales to increase by low single-digit levels over the next few years.

# Country Profile: Oman

*A relatively low per capita GDP has been keeping the retail sector in Oman under restraint and fragmented – however there is room for growth*

Oman's retail market, at US\$11.9 billion (2014), contributed about 15% to the national GDP. While in terms of size, Oman's retail market is quite similar to that of Qatar, the former is driven more by population than by purchase propensity. Oman has relatively higher population (precisely 66% more than Qatar). The other major factors that drive Oman's retail market are a high number of tourists, increasing awareness of international trends, highly unexplored market with very low market saturation, and political stability.

## Segments

Omani populace spends a large portion of its household spending on food and food-related products. Food retail contributes to about 54% of the total retail sales in the country. While the market is quite fragmented, with independent grocery stores accounting for a major share, changing lifestyles are increasing the demand for organised retail. This is enticing foreign players to enter Oman and has also motivated domestic players to ramp up their stores. In 2015, the Netherlands-based multinational retail chain SPAR International entered Oman in partnership with Khimji Ramdas Group. Currently with three supermarkets in Oman, it plans to open 21 new stores by 2017. Even food manufacturers are trying to capture the market through forward integration. For instance, Oman Fisheries Company, the largest fisheries firm in Oman, has announced plans to establish 60 retail stores across the country to provide processed, frozen fish to the domestic market.

The other segment that is exhibiting growth is electronics retail. Demand for smartphones, tablets and flat screen TVs is rapidly increasing. In 2014, LuLu Oman, with a network of 14 hypermarkets and one shopping centre, accounted for majority of sales in the hypermarket/supermarket category.

The increasing affluence in Oman has created

demand for luxury goods. In 2015, Swarovski, an Austrian manufacturer and seller of crystals and gemstones, announced the opening of a new showroom. Spain-based Inditex Group, which owns the luxury fashion retailer Zara, has 250 brands in the GCC, including four stores in Oman (Zara, Pull&Bear, Stradivarius and Zara Home) and is planning to expand further.

## Competitive landscape

Oman's retail market, although fragmented with a large number of individual retail stores, has a few regional and international retailers. By providing reliable power supply and reducing the time for border (export/import) compliance, Oman jumped seven places to reach 70th position on the World Bank's Ease of Doing Business ranking in 2015. Among local players, the most notable is Khimji Ramdas Group, which runs more than 50 Khimji's Mart supermarkets across Oman. The group also manages a chain of welfare markets for the Royal Oman Police. Among foreign players, the LuLu Group has a robust hypermarket network across Oman. Other major brands such as LVMH, Marks & Spencer and L'Occitane also have a strong presence. In 2015, the fastest growing retail chain in the GCC region, Nesto Hypermarket, entered Oman by opening an outlet in Muscat.

## Infrastructure developments to benefit the retail sector

The growth in the retail sector is directly impacted by the infrastructural developments in Oman. In 2013, the completed modern retail sales area in Oman totalled 300,000 square metres, with Muscat City Centre, Markaz Al Bahja, Muscat Grand Mall and Qurum City Centre together accounting for 40% of the total gross leasable retail area across Muscat, the major retail hub. A number of new malls such as the Muscat Grand Mall, Mustafa Sultan complex, Avenue and Panorama Mall are expected to boost sector growth. The Mall of Oman, which is being designed, is valued at

US\$465 million, the expansion of phase 2 of Muscat City Centre is valued at US\$70 million, and the construction of Muscat Festival City Mall is going to strengthen Oman's retail industry. In addition to the larger malls, smaller neighbourhood malls with an area of 3,000–10,000 square metres are being constructed, which are expected to grow rapidly to serve the needs of local communities. Attaining the right mix of luxury and regular retailers will be the prime factor determining the success of Muscat's new malls. According to a research by Jones Lang LaSalle, the next five years will see more than 760,000 square metres of gross leasable retail space being added to Oman's existing retail space.

### Government Initiatives

The government has lately taken many measures that would impact Oman's retail sector. In 2015, it increased state spending by 4.5%, including wage rises for public servants and higher investment in infrastructure. Initiatives were taken to increase the minimum wages of citizens by more than 60% and standardise salaries of civil employees. This pumped in more money into the economy and increased the disposable income of Omani nationals. In October 2014, the Central Bank of Oman decreased the upper limit on interest rates charged by banks on personal loans. This measure is expected to boost consumer confidence and improve the performance of the retail industry.

On the down side, the government is running the nationalisation drive just like Saudi Arabia. More than one-third of Omani population comprises expats, who are mostly employed in the private sector, whereas most Omani nationals are employed in the public sector. These policies would affect the overall business in the short run and will have a negative impact on the retail sector.

### The Road Ahead

Oman's retail outlook is positive, with all the economic and demographic factors being favourable. Its low retail sales per capita indicate a large room for growth because though Oman's per capita GDP (PPP) is low by GCC standards, it is almost at par with that of developed countries such as Germany and the US, where per capita retail consumption is more than twice that of Oman. This indicates scope for strong growth in Oman's retail consumption. There is a slow but steady penetration of hypermarkets and supermarkets in the country.

# Country Profile: Bahrain

*While the smallest retail market, Bahrain, due to its strong tourist inflows and a somewhat skewed distribution of wealth, offers a good potential for luxury retailers*

Bahrain's economy, though one of the most diversified in the GCC, is mainly limited by its small population and low GDP. With a population of just 1.2 million and GDP per capita of US\$28,424 in 2014, Bahrain's retail market is also the smallest in the GCC. It was one of the few countries that were affected by the Arab Spring. Its economy began to recover in 2012, with the industry currently having a positive outlook.

## Segments

The food and non-food retail segments contribute almost equally towards the total retail sales. Foreign retailers such as the French retail chains Geant and Carrefour and also regional hypermarket giant LuLu are expanding presence in the country.

Increasing penetration of smartphones is driving the consumer electronics market in Bahrain. According to BMI research, in 2016, tablets and notebook hybrids are expected to dominate the consumer market. Sales are expected to increase 1.6% to reach US\$125 million and handset sales are forecasted to increase 3% to reach US\$270 million in 2016.

Despite the target population being relatively lower, Bahrain has rich western expats who can drive the luxury segment. With the ease of doing business rank of 61, many international retailers are attracted towards Bahrain to expand their business. With the increased investor interest and the strong potential in the retail sector, many luxury retailers such as Gucci, Saks Fifth Avenue and Burberry have entered the market.

## Competitive landscape

Bahrain's retail market remains fragmented. With many favourable policies and tax structures, Bahrain is attracting a lot of interest from international retailers/brands. Many of these foreign brands get into partnership with established local players to enter the market.

Brands like Mango, Papa John's and Burger king entered Bahrain through partnership with Jawad Business Group.

Jawad Business Group is a major fashion, food retailing and distribution enterprise headquartered in Bahrain. It has over 330 outlets across the GCC region. It has been operating in the segments of food, fashion, automobile, and electronics.

In response to the growing demand for the beauty products, Al Jazira was established in 1965 in Bahrain. Al Jazira runs supermarkets that exclusively distribute international brands like Heinz, Cadbury, L'Oreal, McVitie's, Pinar, etc.

BMMI is a Bahrain-based diversified retailer. The group specialises in the wholesale, distribution and retail of food and beverages, and represents a leading portfolio of global household name brands.

## Infrastructure

Manama, the primary retail centre of Bahrain, attracts developers with the rising demand for retail schemes. Along with luxury destination malls, there has also been an increased demand for community malls. As such, many large domestic and international retailers are considering the community segment as a key part of their strategy to capture more market in Bahrain.

The Dragon City project, which was launched on December 27, 2015, is spread over 115,000 square metres and is being built in Diyar Al Muharraq city. Dragon City includes Dragon Mall and a themed "Dining Village". The Dragon Mall design is influenced by Chinese architectural and cultural aspects and has over 360 commercial units for retail & wholesale trade. It also has an area of 4,500 square metres dedicated for warehousing. It will become a re-exportation centre for Chinese products from Bahrain to other countries in the region. Apart from being a Chinese-style architecture trade centre, Dragon City Bahrain is going to be a regional tourist site as well.

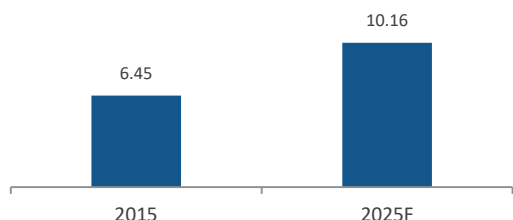


In addition to the tourists, Chinese investments are also expected to increase significantly with the setup of Dragon City.

### Government Initiatives

After the UAE and the KSA, Bahrain attracts the third highest number of tourists in the GCC region. Bahrain's retail sector highly depends on tourism. Most of the tourists arrive in Bahrain from Saudi Arabia. The country hosts an yearly Grand Prix event, which attracts a large number of tourists. In October 2014, Bahrain implemented a new visa policy that would ease the process of getting visa. Travellers from approved countries could get visas online or even after they arrive in the country. Bahraini government, along with the private sector, is working towards upgrading the country's tourism infrastructure.

**Figure 25: Tourist Arrivals (Millions)**



Source: Gulf Research Center

In 2014, the minimum wage for private sector workers was increased, which boosted the spending potential of the country. Bahrain has no tax on individual income and most businesses are exempt from taxation. Bahrain's per capita consumer spending is forecast to increase by 46.8% by 2017. The increased disposable income is very likely to benefit the retail sector in a major way.

### The Road Ahead

Recovery of the economy has increased disposable income in the country, creating the necessary demand for the retail sector. Bahrain is a relatively smaller retail market when compared to other GCC countries; however, wealth is skewed and concentrated in Bahrain and it creates the significant demand for luxury retail. Favourable conditions and increasing interest from international players and development of new retail formats such as malls are gradually transforming the industry landscape in Bahrain. Tourism is a major sector driving the retail industry. With developments and initiatives focussed on tourism, the retail sector will also witness a lot of demand from larger number of tourists.



## About us

ARDENT is a UAE headquartered advisory firm, with a targeted focus on the GCC region. The firm's partners and directors bring over 100 years of cumulative advisory experience with the Big 4 professional firms and global investment banks. The ARDENT team members have worked with and advised some of the leading industry players in the region and have played a pivotal role in their business growth. Our client centric business model, in addition to our local expertise and extensive industry knowledge, consistently creates and adds value to our clients

ARDENT's Retail Practice has worked with some of the GCC's leading merchandise stores, grocery chains, luxury brands, malls and retail investors.

We have deep experience addressing complex issues such as sales performance, profitability improvement, entry into new segments and markets; particularly with regards to:

Acquiring and integrating new businesses and brands, from target selection, feasibility studies, deal structuring, financing, and optimizing business synergies, improving sales and margins with tailored solutions to select and implement better formats, sales channels, pricing, promotions, supply chains and integrated cost management

### **ABU DHABI OFFICE**

ARDENT Advisory & Accounting  
4th Floor, Dept. of Human  
Resources building  
Corniche, P.O. Box 42500  
Abu Dhabi, UAE  
Tel: +971 2 622 6700  
Fax: +971 2 622 6701

### **DUBAI OFFICE**

ARDENT Advisory & Accounting  
1701 Al Moosa Tower 2  
Sheikh Zayed Road  
PO Box 24501  
Dubai, UAE  
Tel: +971 4 321 5622  
Fax: +971 4 321 5623

**Email ID: [info@ardentadvisory.com](mailto:info@ardentadvisory.com)**

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