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THE FUTURE OF RETAIL

Discussion Summary &

Policy Recommendations

THE PANEL

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BACKGROUND

The evolution of the retail sector in Dubai is radically being transformed and disrupted on many fronts. Technological developments with the changing needs of consumers have been the dominant forces. Brick and Mortar retailers in Dubai and shopping malls hosting global retail brands have had a field day just a few years ago enjoying double digit growth in markets and profitability. Today, these retailers have had no choice but to acknowledge the rise of e-commerce, and embrace e-retailing in a substantive way through a hybrid model, and reach out to its existing and new customers on a total customer experience paradigm. The size of the e-commerce market in the GCC while still at a relatively low base, has been growing exponentially over the last few years at double digit rates. This presents a huge opportunity for Dubai to be a hub for e-commerce merchants and logistics firms from a foreign direct investment perspective. While the retail sector - driven by tourism will increase, the meteoric rise of e-commerce and its multiplier effects presents new opportunities for the sector to transform itself.

Indeed, the Government of Dubai is envisioning that Dubai develops into an e-Commerce Hub in the near future where global e-commerce merchants will base their warehouse and distribution centers here to serve the global and regional markets. It will also provide opportunities for other positive developments in the air cargo, shipping, logistics, storage and delivery sectors, as well as provide fertile ground for emerging start-ups with new business models to meet new market needs.

KEY POLICY RECOMMENDATIONS

A- Policy & Regulatory Coordination across Government Departments:

there needs to be a clear and seamless policy co-ordination of regulators and touch points for the retail sector. Government would need to develop deeper expertise on the entire retail sector value chain from retail real estate to retail tourism and e-commerce. The expertise includes policy setting across all parts of the wholesale and retail value chain, e-commerce policies, retail real estate management and tourism- driven retail.

B- Retail Sector Development Agency & Strategy:

Government should consider establishing Retail Sector Development Agency to bring into a single entity the relevant policy expertise, touch points and data analysts to level up the sector to be the best level globally. The agency would play a promotional, development and regulatory role, including developing home-grown scalable e-commerce companies. It would develop the Dubai Retail Sector Development Plan covering sense making of trends affecting the sector, nurturing local retail start -ups and brands, developing Dubai as a global e-commerce hub with top merchants operating out of Dubai.

C- Retail Real Estate Property Market:

Policies related to supply and land use of Retail related spaces need to be reviewed. Shopping malls must relook at its offerings to cater to the diverse needs of visitors and tourists. New destinations and new activities must now be the norm for shopping malls to attract and retain customers year -round. Shopping mall developers and owners must be incentivized to manage their assets in the best way possible integrated with new urban living and community lifestyles in part driven by the millennial generation.

D- E-Commerce Policies & Initiatives for Start-Ups:

Government should review its policies for e-commerce start ups to encourage e-retail innovation and groom home grown entrepreneurial tech talent. Central to this is the ease and cost of starting e-commerce start ups and support initiatives from telcos, payment gateway channels, security deposits, data collection, security and distribution platforms. Policies on all the required touch points must be looked into.

E- Integrated Payment Channels:

Government should develop policies and initiatives to ensure multi channels and seamless payment platforms that capture telco data, banking data and customer purchasing data. Such integrated payment channels will also enable the community to go cashless to drive the digital strategies of the government.

F- Customs & Border Clearance:

Government should look ensure that customs and border clearances should be seamless across international and internal borders with reasonable fees. This is one area highlighted in the Ease of Doing Business Report by the World Bank.

G- Last Mile Delivery:

Government should ensure that an efficient market exists for last mile delivery which is a critical component of e-commerce. Whilst there is an increasing number of players in the market, a level playing field for tech-based startups to operate in this space should be enabled so that they can compete based on unique customer experiences.

H- Retail Sector Data Strategy:

Government should work with business and industry groups to develop sector -specific data platforms to drive data – driven customers and sales strategies. Such sector data platforms can help develop industry insights for policy makers and retailers themselves. Based on the principle that the more data shared, the more gains there would be.

- I- **Incentives for 4IR Adoption and Automation in Logistics:** Government should consider policies and initiatives to encourage logistics companies to automate their warehouse and storage facilities using various technologies offered by AI Engineering, Digital Twins and Blockchain technologies.

This falls under the need to improve firm and industry level productivity which is relatively low compared to other similar economies. The lack of incentives for Dubai firms to invest in automation is a reflection too of the relative cheap imported labour. A broader economic restructuring plan towards higher level business activities supported by automation and digital adoption should be in place to bring our firms to the next level.

KEY PANEL DISCUSSION AREAS

E-COMMERCE IMPACT ON BRICK & MORTAR RETAILERS

The UAE E-commerce market is booming with 60% of its population shopping online. The development is on a disruptive growth path against traditional store-based retail. Along with the boom, is the rise of digital wallets, credit cards and online payment channels. In terms of the food retail delivery market, new platforms like Talabat, Zomato & Deliveroo are taking the food delivery market by storm. Adapting and capitalizing on these growing trends, brick and mortar stores have developed and expanded their digital strategies to offer omnichannel shopping experiences to reach its customers locally and globally.

Though small, e-commerce is growing in the Chalhoub group. Starting 5 years ago, there was a need to rethink and change mindsets in the organization and develop the teams, expertise, operations and local networks to make it a reality. The group tied up with global retail aggregator Farfetch to reach global customers with its offerings. At the same time, the group enriched the physical store experience in a major effort to meet new customer needs and attract new ones. Added on services to retain loyalty and capture new customers took on a major effort.

Big names in the retail world such as Toys R Us and Barneys New York have closed due to the rise of e-commerce. It is no longer a hype. Even our local food sector is being disrupted in a big way. The proliferation of food and shopping delivery apps that our food service establishments are using have risen exponentially; and the sales from food deliveries has risen to more than 50%. No food establishment today can survive without being plugged onto a digital platform that covers ordering, payment, delivery and fulfilment.

From Dubai Trade, their role is to enable the growth of e-commerce through faster clearance for shipments and products of all sizes and volumes. Documentation has been simplified. For global customers, Dubai Customs makes it easier for merchants using air cargo. Big retailers and Dubai Trade are working with Customs to promote Dubai e-commerce in a big way. Dubai Trade also aims to enable seamless experiences for all small shipments from retailer to buyer.

The role of innovation and technology development in the retail sector has been tremendous. The emergence of digital platforms disrupting the advertising and selling process has been unrelenting. Access to data and information on products has reduced information asymmetry between buyer and seller and along the supply chain. Consumers are undertaking research on products and brands, and then buying physically in many cases.

The other impact is that the internet and e-commerce guides consumers to smaller retailers and restaurants in remote locations. There is an empowering effect taking place benefitting both buyers and sellers. Consumers can compare prices and quality, and choose the best e-retailer to buy from. E-commerce competition has reduced prices of products to a large extent. For online payment companies, there has never been more data added by online shopping creating new levels of KYCs, and customers' buying & payment behavior. In some developed economies like Denmark, the government is supporting a platform to help SME retailers gain exposure, collect data and share consumer buying behavior. Overall, the competitive landscape for retailing has improved due to e-commerce.

STRATEGIES FOR BRICK AND MORTAR RETAILERS TO EMBRACE E-COMMERCE

A- Focus on Customer – centricity and total retail experience offline and online. This has never been taken more seriously with today's consumers purchasing online and offline. There is no more differentiation between the physical and digital retailer, as the focus shifts to the total retail experience of consumers whether on or off line. Retailers need to offer seamless hybrid services to its customers. All retailers need to offer both online and offline services to survive and thrive in this new world. A good example we have is Level Shoes in Dubai Mall which bridges both sets of experiences for shoe lovers. Pain points of waiting times at the cashiers as well as being on the waiting list for exclusive items have been addressed to ensure top customer experience.

For online shoe lovers, packaging and the unwrapping experience have been built in to the overall Level Shoe experience. Personalized preference data of customers have been captured and new and exclusive items are shown to them. The Chalhoub Group has established a retail incubator to develop talented start ups in data and technology, such as augmented reality stylists to enhance the discovering experiences of new products and looks. Augmented reality stylist is now being used in our Dolce & Garbana brand.

- B- Develop and leverage digital payment systems. Technological developments and advancements in Digital Payments and electronic wallets have helped fuel the rise of e-commerce. As part of fintech development, digital and cashless payments are becoming commonplace. Major tech companies like Ali Baba has captured sizable customer data with their purchasing and payment behaviors to develop low risk payment systems. These new forms of digital payments, particularly mobile wallets have enabled e-retailing companies to perform traditional banking transactions directly without the need for an intermediary banking settlement system.
- C- Develop and integrate logistics capabilities in retail strategy and business models. Online shopping can support many brands. Amazon, an extreme example has incorporated courier, logistics and distribution functions in its business models. Amazon has its own cargo planes creating seamless movement of goods between merchants and shoppers. The prolific use of robotics in its warehouses has dramatically transformed its productivity and lowered costs due to higher handling volumes. Dubai has increasingly attracted the distribution centres of major merchants. More can be done on this front.
- D- Start up and SMEs development in the Innovative E-Commerce Space. The e-commerce space is one sector that has the greatest potential and propensity to develop tech start - ups and scale SMEs with good business models whether at the B2B or B2C levels. This is because the e-commerce space has various touch points that can either be vertically or horizontally integrated. Furthermore, various data pools are required to fulfil e-commerce orders of customers from payment data, customer profile data, purchasing data, stock data, CRM data, credit and banking data.

Innovative start-ups have opportunities to develop new business models in the tech space of e-commerce. Indeed, many start-ups in the e-commerce spaces have become unicorns in their own right within a short span of time. Dubai should encourage more attention in the e-commerce space as it is the breeding ground for many tech start-ups. We must create our own Dubai Digital Advantage to to enable the seeding, growing and scaling of tech & digital start-ups here.