



# RESILIENCE IN RETAIL AND MALLS

Recommendations to create a more  
sustainable retail sector in the UAE

Vol 1 | September 2020



THERE IS SIGNIFICANT ROOM TO  
DEVELOP MORE COLLABORATIVE  
RELATIONSHIPS THAT ALLOW  
[RETAILERS AND LANDLORDS] TO  
SUPPORT ONE ANOTHER”

# FOREWORD

## RETHINKING RETAIL

**C**ovid-19 was not the cause of the many problems facing the UAE retail sector in the middle of 2020. But it has highlighted the structural weaknesses that have blighted the industry for several years.

Facing an oversupply of mall capacity and growing digital transformation in addition to the logistics and safety disruption of Covid-19, the UAE Retail Think Tank was recently established to identify actions that can be taken by the industry to create a more sustainable and resilient sector.

Of the many opportunities for improvement identified by the Think Tank, three major items stand out.

The first, and arguably the most difficult to fix, is the lack of cooperation between retailers and their landlords. There is significant room to develop more collaborative relationships that allow them to support one another.

The second issue identified by the Think Tank is the need for a common voice to represent the interests of UAE retail industry to government. It is evident that the Think Tank itself provides an effective model for enabling a unified perspective and can be developed further.

The third area of opportunity for the UAE retail industry is the need to digitalise all aspects of the retail value chain from supply chain management through to customer sales and last-mile delivery.

The UAE, and particularly Dubai, has succeeded in creating an exciting and dynamic retail sector through investment in world-class shopping experiences.

However, the weakness in the bricks-and-mortar-centred approach has been exposed by the Covid-19 crisis, which has revealed that the UAE lags behind its counterparts in other parts of the world in terms of digitalised retail supply chains.

The first white paper from the UAE Retail Think Tank identifies 25 recommendations to create a better ecosystem for the sector in the UAE. The white paper reveals that there continues to be enormous opportunity and value for the UAE through its retail sector. However, to seize this opportunity, the industry must come together to rethink how it works.



THE WHITE  
PAPER REVEALS  
THAT THERE  
CONTINUES TO  
BE ENORMOUS  
OPPORTUNITY  
AND VALUE  
FOR THE UAE  
THROUGH ITS  
RETAIL SECTOR”

**Richard Thompson**

Editorial director  
MEED

# INDUSTRY REPRESENTATIVES

mashreq  المشرق

**MEED**  
Intelligence.Events.Insight

ALHOKAIR  الحكير  
Fashion Retail أزياء التجزئة

مركز الغرير  
al ghurair  
centre

 AREL  
*Where dreams come alive* GROUP

  
CHALHOUB GROUP

السوق الحرة دبي  
DUBAI DUTY FREE


جوهرة  
Jawhara®  
Jewellers Since 1907

 JLL

 KPMG

  
mastercard

McARTHUR+COMPANY  
SHOPPING CENTRE SPECIALISTS

  
novo cinemas  
A Great Time Out.

# CALL TO ACTION

COLLABORATION	<ul style="list-style-type: none"> <li>▪ Action to encourage partnership models where mall owners have a stake in retailer's business</li> <li>▪ Establish platforms to enable the sharing of data to help retailers and operators understand footfall patterns, shopping behaviour and more</li> <li>▪ Ease approvals for spaces to be repurposed to maximise utilisation</li> <li>▪ Deferral of VAT payments giving retailers longer time to pay customs/VAT. This will ease cashflow of retailers</li> <li>▪ Reduce licence fees and other charges for 12 months</li> <li>▪ Extend commercial licenses registrations from 1 year to 2 years</li> </ul>
OPPORTUNITIES	<ul style="list-style-type: none"> <li>▪ National action to promote the 'social factor' involved in visiting malls</li> <li>▪ Private and public stakeholders need to come together to provide rent relief, flexibility on existing loans and emergency loans to companies temporarily ride out the disruption</li> <li>▪ Establish an industry forum to support more open communication</li> <li>▪ Operators need to review and rationalise their existing portfolios</li> <li>▪ Retailers need to be creative in maintaining relationships with their customer base, positioning themselves as part of their communities and offering help in any way they can</li> <li>▪ Allow temporary employment to meet the peak season or Expo 2020 demand</li> </ul>
INNOVATION	<ul style="list-style-type: none"> <li>▪ Industry and government initiative to enable the digitalisation of the retail supply chain</li> <li>▪ Government to reduce transaction fees to incentivise cashless methods</li> <li>▪ Government to introduce standards for minimum technology requirements for warehouses</li> </ul>
SAFETY	<ul style="list-style-type: none"> <li>▪ Expand social distancing guidelines to accommodate larger crowds</li> <li>▪ Allow consumers to reserve 'shopping slots' online, through websites or mobile applications. Sensors, AI can be used to monitor the following of safety guidelines</li> <li>▪ Independent auditors to provide assessment and certification services</li> </ul>
FUTUREPROOFING	<ul style="list-style-type: none"> <li>▪ Adopting a turnover-based rent model could benefit both tenants and landlords</li> <li>▪ Include a break clause in the contract, ensuring that there is a sufficient notice period built in</li> <li>▪ Ease the impact of bankruptcy for SMEs by providing greater financial support from stimulus packages to allow successful restructuring of business</li> <li>▪ Establish a market index managed by a government authority or an independent body to improve the transparency between tenants and landlords</li> <li>▪ Retailers required to put aside a portion of their revenues as cash reserves to help safeguard the business and employees against future disruptions</li> </ul>

# THE UAE RETAIL MARKET

## DESPITE A RISING NUMBER OF CHALLENGES, THE RETAIL SECTOR REMAINS A CORE PART OF THE UAE'S GLOBAL IDENTITY

For many years, the UAE has been focused on economic diversification, to reduce its dependency on oil. For Dubai in particular, this has seen the development of internationally renowned retail, tourism and hospitality sectors, delivering world-class experiences in a rapidly globalising world and creating opportunities for its young people.

The city has positioned itself to be one of the most prominent retail markets not just in the region but globally. The presence of a significant expatriate population, high tourist influx and fashion-conscious consumers with disposable incomes makes it an attractive marketplace for retailers and investors.

Dubai retained its position as the fourth most visited city in the world for the fifth year in a row on Mastercard's Global Destination Cities Index 2019, while Abu Dhabi was ranked as the fastest growing city in the Middle East and Afri-

ca, with a CAGR of 16.7 per cent between 2009 and 2018 in overnight arrivals.

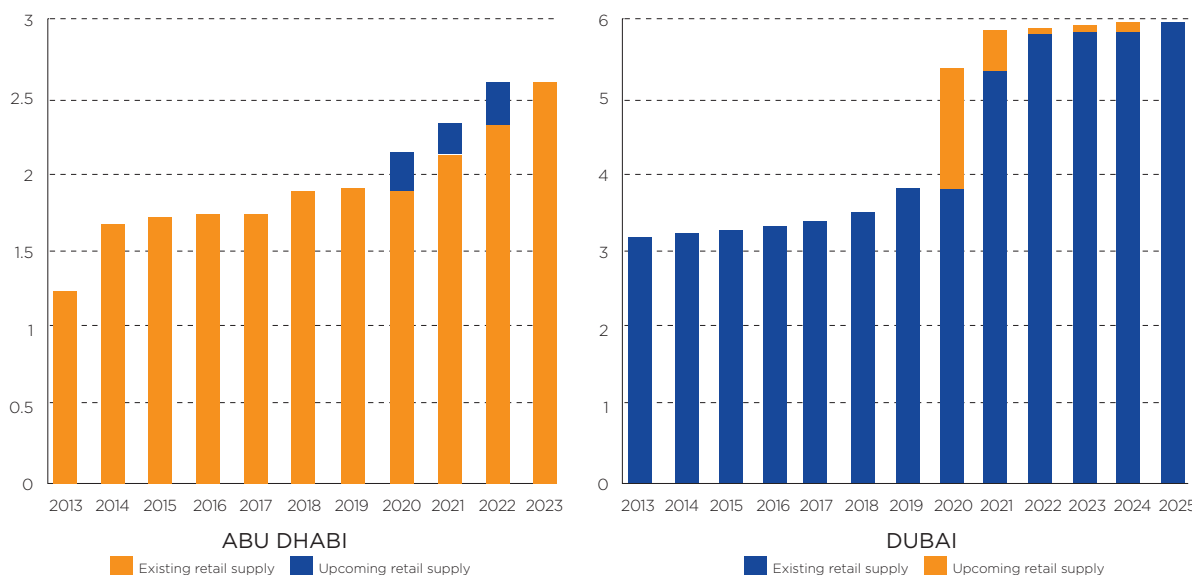
According to Alpen Capital's 2019 GCC Retail Industry report, despite the emergence of online portals such as Souq.com (acquired by Amazon) and Noon, brick-and-mortar stores continue to attract significant footfalls across the UAE. This is at odds with trends in other major retail markets such as the US, Europe and China, which have seen much wider adoption of e-commerce than in the Middle East.

Indeed, one of the most significant transformations to come out of the Covid-19 crisis could be the increase in digital shopping in the region.

But despite the rise of online shopping and warnings of oversupply, Dubai continued to focus on building super-regional shopping hubs, delivering a one-stop destination experience.

As the country geared up to host World Expo 2020, several large-scale retail developments

### EXISTING AND UPCOMING RETAIL STOCK IN DUBAI AND ABU DHABI (MILLION SQUARE METRES OF GROSS LEASABLE AREA)





were announced in 2017, including the Meydan One Mall, Deira Mall and Dubai Hills Mall.

However, the UAE retail industry has been facing strong headwinds over the past few years. Economic slowdown due to the instability of oil prices, rising competition especially from e-commerce, localisation, changing consumer preferences and the need for digitalisation have all affected retail margins as players tried to keep up with the changes.

The introduction of 5 per cent value-added tax in 2018 pushed prices up across the board. Disposable incomes dropped, while labour and operational costs shot up. Competition has been intensifying, per capita retail square footage increased and real-estate productivity declined. And online platforms such as Noon and Amazon began to capture a larger market share.

The most pressing challenge, however, was oversupply. Almost all industry experts agree that an oversupply of GLA has been forming for the past three years with further mall completions set to exacerbate this problem for all industry stakeholders

JLL Mena's 2019 UAE Real Estate Market Review states that more than 282,000 square metres (sqm) of retail gross leasable area (GLA) was completed in 2019, which is the highest level of deliveries since 2015.

Major completions in Q4 2019 included Nakheel Mall in Palm Jumeirah and the Zabeel expansion of The Dubai Mall in Downtown Dubai, bringing the total retail stock to around 4 million sqm in Dubai.

## THE MARKET TERMS

The report further highlights that Dubai's prominent retailers are either consolidating or limiting their expansion plans while others are increasingly turning to offer discounts and/or promotions to increase consumer spending.

Some retail operators began to offer short-term leases and turnover only rents for larger tenants. Additionally, landlords also started sharing operating costs in addition to providing capital contributions to fit-outs.

Market rentals in primary and secondary malls continued to decline in 2019, by around 14 per cent and 23 per cent respectively for Q4 2019,

compared to Q4 2018, according to JLL's report. Market wide vacancies are estimated to have increased from 16 per cent in Q4 2018 to 20 per cent in Q4 2019.

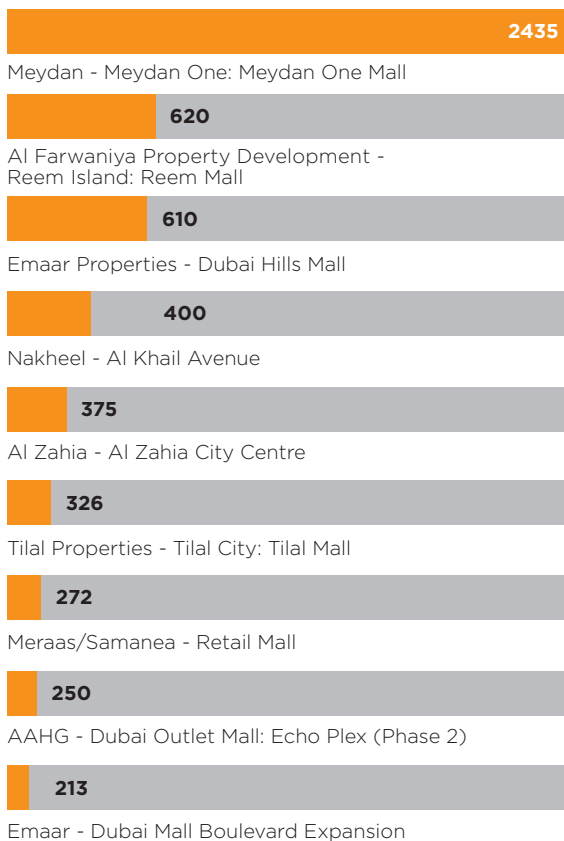
In Abu Dhabi, the next biggest retail market in terms of GLA in the UAE at 2.8 million sqm, retail rents declined by a range of 10-20 per cent in 2019. Landlords continued to offer flexible incentives such as extended fit-out periods, break option clause, revenue share rents, and more.

They adjusted their business plans with mall KPIs driven by various cost cutting initiatives rather than aggressive leasing strategies.

Vacancy rates in major malls increased by 8 per cent over the year. Older existing malls, mostly attained healthy occupancy levels.

One thing was clear. Trouble was already brewing for the industry even before the biggest crisis of 2020 reared its head.

## MAJOR RETAIL PROJECTS PLANNED OR UNDERWAY IN THE UAE (\$M)



Source: MEED Projects

# FACING THE CRISIS

## THE PANDEMIC INCREASED EXISTING BURDENS ON THE RETAIL SECTOR, ACCELERATING POSITIVE AND NEGATIVE CHANGES

**T**he suddenness of the Covid-19 crisis devastated the UAE's retail industry in a matter of weeks. The pandemic came as a major blow to Dubai, particularly during the winter season when business typically booms for sectors such as retail and hospitality.

As nationwide movement restrictions came into effect in late-March to curb the spread of the virus, only essential retailers such as groceries and pharmacies remained functional, while all other stores were shut down.

There was a resulting sharp drop in demand for luxury and high-street products, a trend reflected even with online platforms. In April, Dubai-based luxury e-commerce platform The Modist announced it was closing its 'virtual doors' due to the current global crisis.

For many retailers, the crisis has meant making tough choices, including temporarily or permanently closing doors, furloughing employees and filing for bankruptcy.

Adding to the misery was the postponement of Expo 2020 in April, which was slated to bring in millions of visitors and billions of dollars' worth of trade and investment to the UAE's shores.

The subsequent fallout of Covid-19 and lockdown has impacted sectors not just in the UAE but across the world. An increasing number of people face job losses and salary cuts, which directly affects purchasing power.

A significant portion of the UAE population was affected by the nationwide lockdown orders (unless employed in essential sectors) and e-commerce sales shot up as consumers opted for stay-at-home shopping. And not all product categories performed the same.

In the UAE, supermarket chains reported exceptional sales in April and May and moved towards normalcy in June. E-commerce volumes have jumped as major brands and retailers turn their focus towards omni-channels sales, and there is a resurgence in food take away.

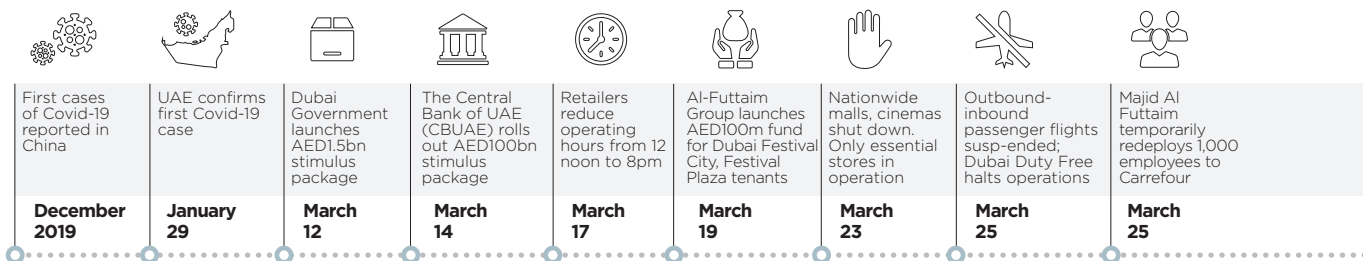
### ONLINE SHOPPING

A report published by KPMG titled 'Navigating the Pandemic' highlights that online grocery retailers had a 20-40 per cent increase in sales during the first half of March, compared to the same period last year.

Middle East based retailer Spinneys launched its online grocery delivery service in Dubai for the first time, while online grocery-platform Kibsons created over 400 new jobs and increased pay for its existing employees.

Dubai Duty Free (DDF), one of the biggest travel retail operators in the world, was forced to shut down its operations amid the lockdown, a first in its history. While sales are gradually resuming with the opening of Dubai International Airport, DDF has also started home-delivery

### COVID-19 VS UAE RETAIL INDUSTRY





services for selected products.

The pandemic has forced retailers to take a hard look at the 'online readiness' of their businesses. The shift to online selling may seem like strenuous expense to some, but the costs can be offset by teaming up with an existing platform.

For instance, The Dubai Mall launched a partnership with the UAE-based shopping website Noon to offer a virtual shopping mall aimed at attracting both returning and fresh customers.

Delivery service provider Careem launched its on-demand grocery app for customers in Dubai, called Careem Now, partnering with retailers including Lulu Hypermarket, 800-Pharmacy, The Pet Store and 7-Eleven.

Covid-19 has leapfrogged the online retail strategy for many retailers - what they were looking to achieve in the next three years has been achieved in few months or weeks.

Providing the same level of experience shopping online as is experienced offline is the single biggest issue for retailers today, and the events of the past few weeks have added further urgency to the challenge. Logistics and supply chain bottlenecks are being streamlined by retailers and aggregators. It is critical that the infrastructure such as high-tech warehouses and efficient delivery systems are developed to support this growth.

## GOVERNMENT SUPPORT

The effective response of the UAE government was critical in cushioning the retail sector against the impact of Covid-19. In Dubai, an AED1.5bn stimulus package was announced mid-March, including initiatives such as a 20 per cent refund of custom fees imposed on imported products sold locally in Dubai; and cancellation

of 25 per cent down payment required for requesting installment-based payment of government fees for obtaining and renewing licenses.

The Central Bank of the UAE increased its stimulus package to AED256bn, with temporary exemptions on principle payments and interest on loans, especially geared at small and medium-sized enterprises (SMEs).

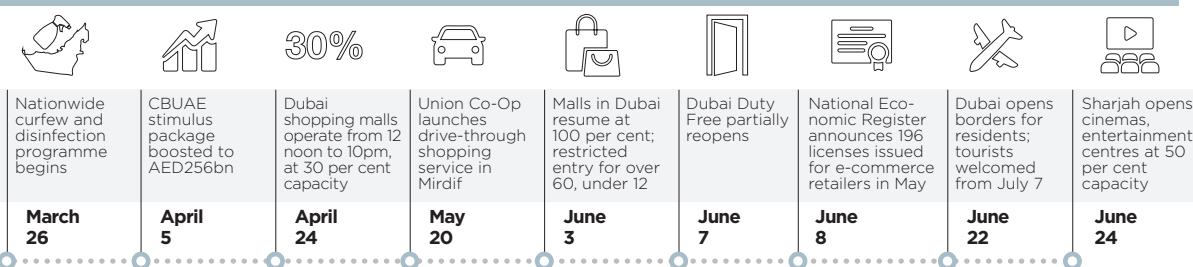
## THE PATH AHEAD

With the easing of lockdown restrictions in June, shopping malls and business hubs have seen an increase in footfall. But despite the resumption of regular working hours at retail stores and malls, consumers are hesitant to return to regular shopping habits. For many, shopping online has become a way of life.

Operational costs have increased for retailers and malls, as they ensure thorough sanitisation, temperature monitoring systems for incoming customers, hand sanitising stations and PPE gear for staff. Entertainment venues in Dubai including cinemas resumed business on 27 May, but with social distancing and strict cleaning measures in place.

The projects pipeline for the retail industry is now under question, as uncertainty clouds the rest of 2020 and beyond. According to JLL Mena's Q1 and Q2 2020 UAE Real Estate Market reports, the first two quarters of 2020 saw no new significant retail stock being handed over.

A total GLA stock of of 642,000 sqm and 29,000sqm is expected to be delivered in the next six months in Dubai and Abu Dhabi respectively, with delays likely in the delivery of projects. Average rental rates across primary and secondary malls have dropped by 17 per cent in Dubai and 20 per cent in Abu Dhabi.



# RETHINKING THE MODEL

## THE POST-COVID-19 WORLD WILL REQUIRE A CHANGE IN MINDSET WHEN IT COMES TO TRADITIONAL RETAILING

**A**lready facing challenges from the rise of online shopping and a growing oversupply of retail capacity, the lockdown measures introduced to stop the spread of the Covid-19 virus shut down revenue streams for many retailers as travel restrictions disrupted supply lines.

Throughout, retailers have had to maintain high operating costs and outgoings for rent, salaries and inventory procurement, which has placed many businesses under huge financial stress and has raised questions about survival.

Faced with a collapse in revenues, retailers have moved quickly to cut their costs in order to improve their chance of surviving the crisis intact. But even deep cuts may not be enough to ensure survival without additional supporting measures from lenders, creditors, landlords and government agencies.

Suppliers and retailers are in the same boat, struggling to maintain business continuity. Only a flexible approach to the relationship will ensure its longevity.

### RENT RELIEF

One of the biggest business costs facing retailers in the region is rent. Most mall operators have been swift to offer rent assistance.

In March, Dubai's Al-Futtaim Group established an AED100m fund for retailers at its Festival City malls. In April, Majid al-Futtaim waived rent fees for its tenants for the duration of the Covid-19 closures.

But despite such action, concerns remain about how much relief mall operators will be able to offer in the longer term.

Banks in the UAE also have been largely supportive to retailers so far. However, it is clear that a longer term reduction in the cost of funding, along with more flexibility from the lending community would be beneficial to the sector.

Governments have been providing support and assistance to retailers across the region as they navigate the complex process of reintroducing customers to outlets in a controlled and safe manner. But at this stage, nobody can say with any certainty how long this situation will continue, or indeed, if Covid-19 will ever disappear, creating a permanent shift in the way business is done.

The UAE Retail Think Tank was recently established with the aim of producing strategic recommendations that can be adopted together by the retail industry in coordination with the government in order to create a more sustainable and competitive retail sector in the UAE.

An ideal retail industry in the post-Covid world would be one that:

- Supports the diversification of the economy
- Offers a supportive eco-system
- Encourages transparency and open dialogue
- Provides employment opportunities
- Upholds highest safety standards
- Stimulates innovation

At the first UAE Retail Think Tank, representatives from across the UAE's retail industry gathered to address five key questions:

# THE QUESTIONS

## OPPORTUNITIES FOR A RESILIENT RETAIL INDUSTRY



How can collaboration increase between landlords and retailers?



What are the opportunities for growth for the retail industry?



What steps can be done to help retailers to adopt digital channels?



How can customer and staff welfare be improved?



What measures can be taken to minimise the impact of future shocks?

# COLLABORATION

**U**ncertainty is the dominant characteristic of the Covid-19 crisis. Even as lockdown restrictions are eased and economic activity gradually resumes, no one can say with any certainty, what the outlook is.

The outbreak will continue to disrupt the retail industry in an unpredictable manner until a vaccine is developed.

Prior to Covid-19, landlords and their retail tenants struggled to find common ground on many issues, including leasing agreements and data sharing. There was a general air of mistrust and lack of communication.

The relationship between landlords and tenants may change as a result of the pandemic.

As the economy takes a hit, many retailers are being forced to reduce the number of stores or even permanently shut their doors, while finding new tenants is a huge challenge for landlords. This has created a shared incentive to develop more collaborative tenancy agreements through solutions such as partnership models and percentage revenue-sharing rather fixed rents. Revenue-sharing agreements are beginning to be implemented in the retail mall industry and more widely adopted.

By providing a share of the profits to the mall operators, retailers can ride out periods where consumer spending is low and benefit from reduced rental costs. For mall operators, this would translate into better occupancy rates as well as an incentive to drive footfall. The landlord benefits once sales pick up again.

Landlords may have to grant longer rent-waivers to their tenants, as the market is unlikely to fully recover before 2021. The tenant can sign a longer lease in exchange for deferring its dues.

At the same time, retailers need to be cognizant of the challenge facing landlords, who are dealing with multiple tenants simultaneously. If tenants and landlords can work to support one another, they will each stand a better chance of coming through the other side of this crisis.

A collaborative approach between landlords and retailers should also include a wider shar-

ing of data, which would provide more valuable insights and a broader context to help make decisions. The issue with sharing data is that the one party can 'use' it against the other for negotiations or for discussions with competition. There needs to be a mechanism with right parameters drawn for any data sharing beyond the basic sales data which already happens.

Regular gatherings to discuss insights and trends could provide a platform for a unified strategy and effective partnerships.

An industry body could be set up, with quarterly meetings to discuss issues that are common to all involved within the sector

Many of the challenges that existed before the pandemic such as rising competition from new retailers, e-commerce and changing consumer behaviour, will continue beyond this outbreak. The shift towards online shopping has been accelerated by the pandemic. Retailers and their landlords need to team up to entice consumers to return to physical spaces, through unique leisure and experiential offerings.

Developers can no longer continue to offer more-of-the-same malls and should seek to offer new consumer experiences and more family-friendly destinations.

## AN IDEAL SCENARIO

Retailers and landlords have a transparent and holistic relationship, based on regular communication. They work together to design rental agreements that are based on prevailing market conditions and accounts for trends such as shopping behaviours, omni-channel sales and technology. Landlords take responsibility for enhancing the 'space' they offer to retailers and consumers, incorporating new technologies to upgrade the user experience. Retailers opt for multi-channel operations, combining the best of both online and physical retail options.

# HOW CAN COLLABORATION INCREASE BETWEEN LANDLORDS AND RETAILERS?

CHALLENGES	RECOMMENDATIONS
<b>RELATIONSHIP</b> There is a lack of trust between retailers and their landlords. Retailers and landlords share a largely transactional relationship that is governed by profits and losses.	<b>THINK LIKE PARTNERS</b> Action to encourage partnership models where mall owners have a stake in retailer's business through models such as joint ventures. Establish an industry body to meet and discuss issues regularly.
<b>COMPETITION</b> The rising number of malls and changing consumer behaviour in the UAE has meant that the competition has increased substantially. Many believe the market is saturated, making it critical to be as attractive to customers as possible.	<b>STAND OUT FROM THE CROWD</b> Introduce industry initiative to facilitate retailers and mall operators working together to enhance the consumer journey and maximise time spent in the mall through steps such as interactive information kiosks, joint loyalty schemes, shared social spaces within the mall or stores, centralised fulfillment centres and enhanced storage spaces.
<b>MARKETING</b> Retailers struggle to fully utilise the marketing opportunities offered by mall operators, either because of the lack of internal resources or limited communication from the operators.	<b>MUTUAL BENEFITS</b> Participate in co-operative marketing utilising mall marketing channels, such as website, social media and mobile applications, which often have a much wider reach than an independent retailer's own mediums. The retailer can benefit from these increased impressions, while the mall operator gets more content and better traffic for its marketing outlets.
<b>DATA AND INSIGHTS</b> Lack of transparency when it comes to the sharing of consumer behaviour data and insights gathered by both stakeholders.	<b>BIG WINS</b> Introduce platforms to encourage the sharing of data beyond basic sales information in order to help retailers and operators understand footfall patterns, shopping behaviour and more. Such platforms will allow retailers to better equip their workforce based on peak times and consumer demographics. Operators on the other hand can leverage higher footfall and sales figures to justify the ROI and rents.
<b>UNUSED SPACES</b> With limited crowd sizes, spaces in malls or stores may remain unused. However, alternate use of these spaces requires permission from authorities, which can take up a lot of time and effort.	<b>FLEXIBILITY</b> Government allows more flexibility in use of mall space. For instance, unused spaces could be used by fitness popups, co-working areas or converted into a pick-up area for products purchased online. Encourage retail startups to use these spaces to solve retail issues and drive footfall, in exchange for free working space. It needs to be easier to obtain the necessary approvals to make this work.

# OPPORTUNITIES

One of the biggest upticks of the pandemic has been the shift towards online shopping, which may well continue in the coming months. A survey conducted by Kearney Middle East in April reveals that 70 per cent of UAE consumers admitted to spending more online than previously, with nearly 48 per cent affirming they would maintain current shopping habits even after the pandemic.

Hypermarket chain Carrefour reported a 300 per cent surge in online orders and a 59 per cent increase in new customers on its platform.

The crisis presents a clear opportunity for traditional retailers to branch out their online operations. Lingering fears around large gatherings mean that more consumers will opt for home deliveries or pick up options, again indicating an opportunity for mall operators to rethink their shopping spaces.

Current and future developments can take into account aspects such as pick-up zones and social distancing queuing or waiting areas.

Small and medium-sized enterprises (SMEs) form an integral part of the UAE's economy, with nearly 94 per cent of businesses in the UAE falling in this category. Nearly 73 per cent operate in the wholesale and retail sector. They are also some of the worst hit by the virus' fallout, as they lack the cash reserves to survive the economic disruption.

As with larger businesses and brands, SMEs with an e-commerce presence have fared better than those purely dependent on brick-and-mortar sales. The UAE government is a staunch supporter of small businesses, as a way to diversify national economy, provide greater employment opportunities and to boost innovation.

Initiatives introduced to support SMEs include stimulus packages and temporary rental reliefs. Statistics shared by the Central Bank of the UAE reveal that Emirati banks provided nearly AED93.4bn in loans to SMEs in the first quarter of 2020.

In May 2020, a committee was formed to draft a national strategy that can provide financing for

SMEs and ensure their development. Committee members include representatives of the Central Bank of the UAE, the Ministries of Economy, Finance, Youth Affairs and Justice, in addition to the UAE Banks Federation (UBF), the Emirates Development Bank, Al Etihad Credit Bureau, SME development funds, the Khalifa Fund, and Dubai SME.

In June, Majid Al Futtaim (MAF) announced a partnership with UAE-based SME Mr Usta, which provides an online market for home service providers such as electricians and plumbers.

MAF has elected Mr Usta as the preferred after-sales solution provider for its brands including Carrefour, Crate & Barrel and Maison du Monde, providing customers with the option to access licensed professionals to complete after-sale services.

Logistics is a concern as consumer moves online, changing distribution and delivery requirements. Logistics and supply chain bottlenecks are being streamlined by retailers and aggregators. But further investment is needed.

## AN IDEAL SCENARIO

Landlords and retailers utilise the downtime in business to take stock of their portfolio. Planned projects that bring nothing new on board are shelved and focus is shifted to repurposing existing developments to fit into the post-Covid world.

E-commerce portals are a regular part of the business, to offer consumers a balance of online and in-store shopping solutions. E-commerce development costs are shared. AI-gathered data or Big Data collected by firms is analysed by data scientists and used by all stakeholders.

The industry supports small businesses by clearing payments on time for smaller vendors and tie-ups with retail SMEs, while government provides stimulus packages and rental reliefs for these companies.



# WHAT ARE THE OPPORTUNITIES FOR GROWTH FOR THE RETAIL INDUSTRY?

CHALLENGES	RECOMMENDATIONS
<b>RISING ONLINE COMPETITION</b> The rising number of e-commerce outlets in the UAE and the entry of international online selling platforms such as Amazon in the local market has meant that competition is now greater than ever for brick-and-mortar stores.	<b>FINDING A BALANCE</b> Joint national action to protect, enhance and promote the vital 'social factor' of malls in the UAE. The inclusion of leisure and F&B attractions in the mall will help increase footfall. At the same time, retailers and mall owners invest together in a dedicated shopping platform. The government provides backing and incentives to support offline retailers.
<b>SMALL BUSINESSES</b> SMEs have been some of the hardest hit as a result of the Covid-19 crisis. They do not have the cash reserves to survive such intense and long disruptions to business.	<b>PROVIDING SUPPORT</b> Government and industry stakeholders come together to provide rent relief, flexibility on existing loans and emergency loans to companies temporarily ride out the disruption.
<b>COMMUNICATION GAP</b> A lack of communication within the industry, which leaves room for conflicts and misunderstanding.	<b>CONTINUOUS DIALOGUE</b> Establish a regular industry forum to support more open communication among retailers and landlords, and the government.
<b>OVERSUPPLY</b> Retail real estate market has an oversupply of retail spaces.	<b>REVIEW PORTFOLIO</b> Landlords and mall operators review and rationalise their existing portfolios. This may mean sacrificing certain projects in the months to come and upgrading existing facilities to meet the best safety and experiential standards possible.
<b>PERCEIVING BRANDS</b> Communication amid Covid-19 is sensitive, as brands have to be careful about what they say. Several retail firms have faced backlash for not being aware of the connotations of their messaging.	<b>KEEP THE CONVERSATION GOING</b> Retailers need to be creative in maintaining relationships with their customer base, positioning themselves as part of their communities and offering help in any way they can. Gift cards, optimistic content (such as how-to videos) and tailored messages will have a positive impact on consumer loyalty.

# INNOVATION

**A** growing number of consumers are seeking retail experiences that have been tailored to suit personal shopping preferences, based on willingly shared data. This is pushing retailers to pay more attention to curating individual experiences, supported by digital technologies. This becomes especially important in the post-Covid world, where technology can help in managing social distancing, temperature checking etc.

In an increasingly digitalised world, consumers expect convenience and speed, especially with online deliveries. Often, the delivery time can be a make or break in a consumer's decision to order a product.

Retailers need to rethink supply chain processes and pay greater attention to smart logistics to meet these expectations. Distribution or storage centres spread out across hotspots in a city could help meet greater demand, but these come at an added cost.

Investments in smart warehouses can offer complete inventory visibility, robots and automated solutions to improve stocking and storing, and reduce the need for manpower.

Retailers need to be cognizant that the current market is strongly demand-driven, with a higher requirement for certain product categories. Businesses need to invest in data gathering and analytics, that can allow them to prepare for market demand much better.

Smaller retailers and startups meanwhile can turn to third party logistics (3PL) providers such as Amazon or Noon to fulfill this gap in the supply chain as well as drive down costs for the end-user.

It is expected that once the crisis is dealt with, shoppers will still want to return to physical stores or opt for a mix of online and offline solutions. Retailers and mall operators that integrate technology within these physical spaces will be able to provide smoother and safer customer journeys.

The future for retailers will not be a binary choice between physical stores and e-com-

merce - but a hybrid model that can be executed both simultaneously and seamlessly.

Figures from payment card service provider Mastercard state that the number of contactless transactions in the UAE, as a proportion of all face-to-face card payments, was over 100 percent higher in March 2020 than in the same month last year.

Contactless transactions also increased four times as fast as non-contactless transaction in the grocery and pharmacy categories.

The survey by Mastercard reported that nearly 82 per cent of UAE residents chose contactless as their preferred mode of payment, while 84 per cent agreed that touch-free payments are a cleaner way to shop.

This presents an opportunity to work with banks, who collect information on consumer behaviour and purchases through point of sale (POS) machines. However, data protection remains the highest priority.

Retailers can adopt technologies such as virtual queuing, to allow customers to join a digital queue before they even arrive; online shopping with store pick-ups; video consultations for fashion products; self-checkout kiosks; virtual trial mirrors; and a broader variety of products on online shopping platforms.

## AN IDEAL SCENARIO

Retailers and mall operators work hand-in-hand to integrate smart technology solutions within the physical space.

There is a greater implementation of smart logistics solutions, where retailers can reach and sell to more customers across various platforms with a streamlined supply chain process. For traditional retailers, this presents an opportunity to complement their existing brick-and-mortar operations with an expanded point of sales and new revenue streams.

Customers enjoy a safe and convenient shopping experience, that can be tailored to their preference.

# WHAT STEPS CAN BE DONE TO HELP RETAILERS ADOPT DIGITAL CHANNELS?

CHALLENGES	RECOMMENDATIONS
<b>ADOPTION LATENCY</b> Retailers and operators that have not sufficiently invested in digitalisation find themselves struggling to survive more than others.	<b>TECHNOLOGY FOOHOLD</b> Government and industry together launch an initiative to accelerate the digitalisation of the retail supply chain. From the way products and services are manufactured, procured, through to sale and delivery, all stages can be digitised to improve efficiency and minimise costs. Industry to hire data scientists and other big data specialists.
<b>CASH TRANSACTIONS</b> Covid-19 makes it difficult to safely handle cash. And while most mall-based and standalone retail stores in the UAE operate digital card readers, smaller grocery stores in the UAE still conduct transactions almost entirely in cash. The interchange charges in the UAE are amongst the highest globally.	<b>A NEW NORMAL</b> Government to reduce transaction fees to incentivise cashless methods. Any reduction in this will help to shift the market towards cashless/card-based payments.
<b>KEEP UP WITH DEMAND</b> Retail infrastructure in the UAE still lags behind its counterparts in the US, Europe and China, with not enough attention paid to deploying smart technology and automation to improve efficiency. This slows turnaround times.	<b>GET SMART</b> Government to introduce standards for minimum technology requirements that a warehouse should meet. Retailers can opt for 3PL or e-fulfilment solutions, if they do not have their own online platforms, to improve delivery times.
<b>INTERNET SAFETY</b> As retailers invest in new technologies to collect and manage customer data, there is a need to navigate the regulatory issues in order to maintain effective system controls to ensure the security of the collected data.	<b>CYBERSECURITY</b> Retailers and landlords to take responsibility for safeguarding consumer data, by training employees, assessing risks and identifying vulnerabilities in the digital system.

# SAFETY

One of the biggest concerns that the Covid-19 outbreak has raised is the health and safety of staff and shoppers. As uncertainties persist and conditions change, retailers must constantly adjust to new health guidelines and restrictions to stop the spread of the virus.

Employers need to familiarise workers with all safety guidelines as well as provide the necessary protective gear such as masks, gloves, sanitisers and disposal bins, particularly for those whose work requires them to interact with other people, such as cashiers and maintenance workers.

Plexiglass shields at cash registers can help separate employees and customers, while staff shifts should be staggered to avoid too many workers from working closely.

Frontline staff can be trained in recognising some of the indications of a Covid infection, such as fever, cough or shortness of breath.

In the event that they are exposed to any positive patients or feel any symptoms, they should immediately be tested and quarantined. Employers should not penalise staff members that report sick or are have to stay home to look after a sick family member.

For consumers, there should be clear floor markings and signage to indicate the safe distance that needs to be maintained within the retail space.

Entryways of malls and independent stores should be equipped with temperature monitoring devices such as thermal scanners and handheld thermometers.

Traditional retailers can consider the situation as an opportunity to review their dependence on brick-and-mortar venues. Solutions such as online shopping platforms, contactless home deliveries and curbside pick-ups can help with the flow of sales while also building customer confidence.

## AN IDEAL SCENARIO

Retailers prepare and implement strategies such as increasing store cleanings and encouraging safe distancing among customers in stores to promote employee and customer safety. Solutions such as contactless payments and queuing reservations are adopted as standard to allow customers to feel confident about their shopping journey. An independent body provides a safety audit check to malls and retail stores.

# HOW CAN CUSTOMER AND STAFF WELFARE BE IMPROVED?

CHALLENGES	RECOMMENDATIONS
<b>LARGE CROWDS</b> Social distancing guidelines under the UAE government directives and implemented by retailers and landlords are geared at managing smaller crowds.	<b>EXPAND RULES</b> Expand social distancing guidelines to accommodate the return of larger crowds to shopping centres and stores.
<b>CATCH 22</b> Retailers and operators in the UAE need to attract more customers if they are to recover. At the same time, they must ensure that spaces do not become crowded as this increases the risk of infection for shoppers and staff.	<b>STAGGER AND MONITOR</b> Allow consumers to reserve 'shopping slots' online, through websites or mobile applications. Sensors and artificial intelligence can be used to ensure safety guidelines are followed through, even when a supervisor may not be around
<b>CONSUMER CONFIDENCE</b> One of the biggest challenges in bringing customers back into malls and stores will be assuring them of the safety and cleanliness standards of these spaces.	<b>CLEAN BILL OF HEALTH</b> Independent auditors to provide assessment and certification services. Customers can be put at ease by the 'clean stamp' awarded to stores and malls that meet the hygiene standards
<b>EXCHANGE OF CASH</b> The contagious nature of Covid-19 makes it difficult to safely handle cash, as the virus could stay on surfaces for several days	<b>SAFE HANDLING</b> Train staff in the proper handling of cash using gloves. Money steriliser machines can also aid in disinfecting currency notes

# FUTUREPROOFING

**T**he outbreak of the Covid-19 pandemic has exposed structural weaknesses in the UAE retail industry.

It is evident that changes are needed in order to shape a more sustainable retail sector. Retailers, mall operators and other stakeholders need to work better together in order to maximise the benefits of revenue drivers, while at the same time, introducing efficiencies and shared expenses than can reduce the cost of doing business.

At the core of many of the challenges facing the retail industry is the relationship between retailers and their landlords.

Rethinking these relationships will help to futureproof the sector against shocks.

Leasing agreements are a very important piece of the puzzle. Long-term fixed rental agreements are difficult to sustain in the current market conditions, especially for smaller retailers.

This model should give way to flexible and short-term leases, allowing for fresh tenants with unique offerings. Retailers can also utilise 'pop-up' outlets to benefit from short-leasing options.

A turnover-based rent model is a risk-and-reward sharing approach that creates a situation of shared benefit to the landlord and tenant to operate under a common objective, which is to maximise retail sales turnover.

Such a model would be attractive to retail tenants in the current conditions, as it increases the incentive for the landlord to drive footfall.

The omnichannel, where there are a number of stages in the buying process, is transforming the retail model. It is becoming difficult to attribute in-store and online sales.

Landlords will eventually want online sales included in the calculation of turnover rents. While retailers will want the opposite, to retain sales revenue. It is in their best interest to maintain their brand presence in as many successful retail locations as possible.

Finding the middle ground will involve negotiation between both parties, until some standard is established regarding online retail as a part of a physical store.

Traditional brick-and-mortar retail must respond to the challenges of a digitalised world. The use of tools such as artificial intelligence, computational analytics and internet of things (IoT) can help gather and analyse consumer data to provide the best shopping experience. This will help build a loyal customer base and a stronger business moving ahead.

Ultimately, however, the industry requires government support to get through the Covid-19 crisis, including longer-term support packages and safety nets for retail jobs.

## AN IDEAL SCENARIO

Businesses minimise unnecessary costs, delaying capital expenditure on equipment, store renovation, expansion etc until absolutely necessary. Companies rebuild their cashflow estimates, maintaining open communication with banks and other lenders. Supportive policies by government can help weather the Covid storm temporarily, but building a resilient cash reserve helps safeguard the business and its employees in the longer run.



# WHAT MEASURES CAN BE TAKEN TO MINIMISE THE IMPACT OF FUTURE SHOCKS?

CHALLENGES	RECOMMENDATIONS
<b>LEASING CONTRACTS</b> Commercial leases are traditionally a significant financial commitment for a tenant for a fixed period with no guarantee of trade and/or profit. Much of the decision-making power rests with the landlord.	<b>REBALANCING POWER</b> New forms of contract should be introduced, to allow more flexibility and cooperation among stakeholders.
<b>HIGH COST OCCUPANCY</b> Rent-to-sales ratio is as high as 40 per cent in some models, unsustainable for retailers in the current market environment.	<b>TURNOVER RENT PROVISIONS</b> Introduce turnover-based rent models in order to ease the pressures on retailers, as the rent will be based on the success of business. It may introduce a degree of uncertainty in rental yields, but also increases the possibility of landlords generating higher rental income based on the success of the tenant's business, providing an incentive to drive footfall.
<b>BREAK CLAUSES</b> Long-term lease agreements do not allow parties to break away without penalties, particularly for landlords who may want to evict a tenant due to performance issues. The nuances of a break clause make it susceptible to exploitation by either party: a tenant may use the clause to renegotiate terms of the lease in its favour, while a landlord may empty the property for a higher-paying tenant at its will.	<b>MUTUAL BREAK CLAUSE</b> Include break clauses in contracts, ensuring that there is a sufficient notice period built in for both contracted parties.
<b>BANKRUPTCY LAW</b> Current bankruptcy laws make it difficult for small and medium-sized enterprises (SMEs) to file for support due to the fear of heavy penalties.	<b>MEASURES IN PLACE</b> Improve financial support for retail SMEs during the Covid-19 crisis by directing supporting funding from stimulus packages to enable restructuring of business.
<b>LACK OF TRANSPARENCY</b> Retailers criticise mall operators for not being transparent with service charges indicated in contracts, data on footfall and performance.	<b>MARKET INDEX</b> Landlords to increase transparency about how the service charges are being levied. Introduce a market index managed by a government authority or an independent body that lists details such as sales, indicated budget, operational costs, KPIs, which would improve the transparency between tenants and landlords.
<b>DEALING WITH CONTINGENCIES</b> Over-confidence in the market has led to retailers failing to prepare contingency plans in the event of a crash.	<b>RAINY-DAY FUND</b> Retailers required to put aside a portion of their revenue as cash reserves to help safeguard the business and employees against future disruptions
<b>INSURANCE</b> Insurance plans do not underwrite loss of business opportunity and profits caused by epidemics and pandemics.	<b>COLLABORATION</b> Rewrite insurance policies to cover lost revenues against epidemics and pandemics. These policies are expensive but in the light of recent major outbreaks such as SARS, MERS and now Covid-19, are required.

# ABOUT MEED

MEED has been integral to delivering business information, news, intelligence and analysis on the Middle East economies and activities for over 60 years.

Attracting a key senior management audience through its content and activities, MEED is a media brand, publication and data business that covers a spectrum of services which inform, engage, connect and ultimately support our subscribers and partners in their business development and strategic growth.

Acquired by GlobalData Plc in December 2017, MEED is now part of one of the largest data and insights solution providers in the world with the capacity to build global communities for our clients.

Our purpose is to support the region's companies make better and more timely decisions through our innovative data solutions and grow through our comprehensive and world-class marketing solutions. To find out more email: [info@meed.com](mailto:info@meed.com)

---

# ABOUT MASHREQ

Established in 1967, Mashreq is the oldest bank in the UAE, with award-winning financial solutions and services.

Throughout its 50 years' history, Mashreq has differentiated itself through innovative financial solutions, making it possible for its customers to achieve their aspirations.

Today, Mashreq has a significant presence in 11 countries outside the UAE, with 21 overseas branches and offices across Europe, the US, Asia and Africa.

Mashreq launched its new Vision and Mission recently, outlining its commitment towards its clients, colleagues and the

community. In line with its vision to be the region's most progressive bank, Mashreq leverages its leadership position in the banking industry to enable innovative possibilities and solutions for its customers across corporate, retail, international, treasury and Islamic banking.

Mashreq is proud to be the first financial institution in the UAE to be awarded the Gallup Great Workplace Award for four consecutive years from 2014-17.

Mashreq also continues to invest in recruiting, training and developing future generations of UAE national bankers.



