MENA Retailscape 2020

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MENA ECONOMIES

Transitioning beyond oil

The region is expected to grow at a subdued rate of 0.6% in 2019, rising to 2.6% in 2020 and 2.9% in 2021, with a wide range of growth rates among the various economies of the region.

Over the past 5 years, the average rate of inflation in MENA countries has been held below 2% per year, with most countries except Yemen, Egypt and Tunisia remaining under 5%.
Egypt’s implementation of macro-economic and structural reforms is aimed at stabilizing the economy and attracting more private sector participation. GDP rose 5.6% in 2019, driven by wholesale and retail trade, real estate and construction, gas extraction and tourism.

Real GDP growth in the UAE, the second largest economy in the Middle East, should pick up in 2020 with the hosting of Expo 2020 – and its boost to tourism and spending – and higher oil prices. Economic diversification and improving the business environment will continue to be the major policy priorities.

Saudi Arabia has flourished in the past couple of years. New investments and job creation across sectors, the launch of a cinema industry, increased gender parity and freedom of travel for women, mixed gender sporting and cultural events and music concerts have all led to a new-found optimism among residents.

Kuwait’s growth slowed in 2019 to 0.7% from 1.2% in 2018. While lower oil prices and output curbs weighed on the oil sector, its non-oil growth strengthened.
Regional retail sector CEOs said they have witnessed a softer market in recent times and most said they were targeting low single-digit growth in 2019.

While this would be considered very acceptable in mature markets, it’s a far cry from the MENA region’s double-digit growth of years gone by.

The UAE and Saudi Arabia introduced VAT at 5% on January 1, 2018; Bahrain did so in 2019, with Qatar and Oman due to follow.

Some retailers have absorbed the cost while others compensated by reorganizing their supply chain. All acknowledge VAT’s direct impact on consumers’ level of disposable income.

Smaller ‘community’ malls are becoming increasingly popular as places to buy groceries, have lunch, visit the pharmacy and buy a birthday present, all under one roof.

Delivery and logistics continue to be a challenge for retailers. Same-day delivery has become essential.
Private Consumption Expenditure (PCE) has increased its contribution to regional GDP and remains a key engine for growth.

At the same time, Private Consumption Expenditure (PCE) has grown in spite of a softening trend in regional GDP growth.

The MENA region continues to be the largest untapped opportunity for conversion from cash to card.

Cash continues to rule most economies due to limited digital acceptance.
Growth in food retail in 2019 was three times the growth in non-food retail. But non-food retail continues to dominate the MENA retail market share.
Luxury retail is still sparkling

41.3%

The UAE was the largest luxury market in the region with a share of 41.3% in 2017 and is expected to retain its top position through 2022.

7.0%

Saudi Arabia, which is forecast to grow at a CAGR of 7.0% between 2017 and 2022, will be the fastest-growing luxury market in the region.

Food is becoming an intrinsic part of people’s experience in malls and good restaurants are a reason to pick one mall over another. Malls as well as individual stores are being driven to offer a complete shopping experience, not just a place to shop and escape the heat.

A sharp surge in digital adoption has revolutionized the online food delivery service sector in the GCC. Nearly 87% of food operators in the GCC are listed on food delivery apps and 60% of consumers use apps to order food.

The internet plays a major role during the discovery process for both online and in-store buyers, with 48% of UAE and Saudi consumers getting their shopping ideas and inspirations online. This is nearly double that of the United Kingdom.

With an estimated eCommerce market size of nearly $200 million in the GCC and Egypt, nearly 60% of the region’s grocery shoppers have never bought from this category online.

The average basket size of online grocery shoppers in the region is $144, significantly higher than in-store purchases at $68.
eCommerce drives acceptance

Retail eCommerce sales worldwide, 2016-2021

MENA outperforms other regions in growth

UAE consumers lead developing and mature benchmarks in average spend per transaction
- The GCC region has surged ahead of even developed markets when it comes to internet, smartphone and social media penetration. UAE and Saudi Arabia have 91% and 73% internet penetration; 66% and 62% smartphone penetration; and 99% and 75% social media penetration, respectively.

- The region’s consumers are digitally savvy and seek a broader range of products and new shopping experiences online. Established retailers are making eCommerce a part of their strategies while pure-play retailers are looking at new markets and product categories.

- While consumers relish their ability to click-and-shop from the comfort of their couches, home delivery of products is often hampered and delayed by the lack of area codes for addresses in most of the region.

- Online and mobile payment options are also not always available in the MENA region and most countries still have cash-on-delivery as the primary mode of payment, which adds to the operating cost for eCommerce companies.

- Morocco now has over 26 million internet service subscribers and plans to bring 10,740 villages under 2G, 3G and 4G coverage.
The power of inbound spending

Inbound spending growth kept pace with domestic spend, with tourists shelling out increasing amounts on food retail.

Country-wise growth in inbound retail spending in 2019

178% Electronics is the highest growth category among inbound retail spend in Egypt, registering an increase of 178% in 2019.

Country share of inbound retail spending volumes

13.3% MENA’s annual wellness tourism market is growing 13.3%, its spa industry 15.4%, and its thermal springs sector 30.4%
The World Expo 2020 in Dubai and FIFA World Cup 2022 in Qatar will headline the multiple mega events across GCC through 2023 that are expected to boost inbound tourism.

The World Expo 2020 Dubai Executive Body, which oversees the event, estimates that it will add AED 89 billion overall to the UAE economy and create more than a quarter million jobs.

Saudi Arabia expects tourist numbers to rise from 40 million to 100 million. Tourism-related jobs are set to rise from 3% to 10% of GDP by the year 2030.

Under Saudi Arabia’s new tourist visa program, a part of its Vision 2030, the kingdom has started issuing one-year multiple-entry visas, allowing tourists to spend up to 90 days in the country.

After a slump following Arab Spring, tourists are now flocking back to Egypt thanks to its current stability. The number of tourists expected to visit Egypt in 2020 is set to top 15 million.

Geo-political tensions have led to many countries issuing travel safety warnings for some countries in the region. Lebanon and Jordan are particularly affected as both are key destinations for international and GCC travelers.

SOURCE: EY, 2019; World Tourism Organization, 2019
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The combination of our deep payments consulting expertise, our economic intelligence and our breadth of data allows us to identify actionable insights and recommendations that drive better business decisions.

- Our consultants are experts in strategy, product, portfolio management, risk, digital and more with decades of experience in the payments industry.

- Our data scientists are experts in statistics, advanced analytics and machine learning with exclusive access to insights from VisaNet, the largest digital payments network in the world.

- Our economists understand economic conditions impacting consumer spending and provide unique and timely insights into global spending trends.

Key business questions that can be answered

1. Evaluate your presence in relation to high growth/volume pockets
2. Identify potential partnerships to help drive growth
3. Evaluate the performance of brands/product lines
4. Measure the loyalty/engagement of your customers
5. Understand your customer profile and spend preferences

Fusing VisaNet data with client and external market data

Intelligence derived through data fusion

For more information, please contact your Visa Account Executive or email Visa Consulting & Analytics at VCA@Visa.com. You can visit us at Visa.com or on YouTube.