SHOP AT SHOPS – RETAIL Marmore Preparatory Briefs

A Preparatory note that presents a dilemma of whether retailers in Kuwait should venture more into the exciting world of online retail; or, stick to its flourishing brick-and-mortar retail format

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Table of Contents

- 1. Introduction
- 2. Fascination with brick-and-mortar stores
- 3. Prospects for online retail in Kuwait

Appendix

Introduction

HE SAT, ALL BY HIMSELF, at a Starbucks outlet, sipping a frothy cappuccino. Bryan couldn't believe that someone could amass so much wealth out of cow milk. But then, hadn't two US corporate giants done it with sugared water? Born in the mid-eighties, Bryan was a typical Gen Y: wedded to the Internet and hooked to the smartphone. A protected upbringing in the US meant that he hadn't seen much of the outside world.

When Bryan got down at Kuwait, he was overwhelmed by the presence of numerous luxury and high-street brands. The experience was surreal. During the next few days he explored the country, the eye-popping infrastructure and the heavy footfalls at the large grandeur malls stumped him. At, a popular departmental store, people were shopping as though there was no tomorrow.

There were a few things that surprised Bryan. His childhood hero was Jeff Bezos, the man who co-founded Amazon. He was also a hopeless fan of Sergey Brin & Larry Page, the founders of Google. It beat him as to why Kuwaitis shopped in the malls instead of on the Internet, from the comfort of their home. Elsewhere in the world, people buy not just travel tickets but books, grocery, apparel and furniture online.

Fascinated with the retail space in Kuwait, Bryan, set up a meeting with Dr. Khaled, his mentor and a renowned name in academia in Kuwait. As he joined him at the table, Bryan stood up to greet the man who had known his father for years and who had taken a strong liking to the young man. Little wonder, the professor had agreed to meet him to answer a few nagging question he had. Dr. Khaled ordered a cappuccino even as Bryan shot his first question; "Why is there no great takeoff in online retailing?" He had worded it rather diplomatically.

Dr. Khaled began by giving him a perspective of history. He spoke about '1973'; of how when the first oil crisis broke out, the Gulf struck gold. And that, the windfall notwithstanding, the rulers were visionary enough to realize that as Oil was a wasting asset they had to diversify to stay afloat. Dynamic industries which could encourage SMEs and provide employment opportunities such as Retail were considered good bets. He then told Bryan, "You see, we love bricks. We look to shopping as entertainment and the malls as a place to socialize. Our people want to shop there, not on the Internet."

Bryan nodded. A few numbers fell in place.: there were over 20,000 retail units in Kuwait. He could understand why encouraging Internet shopping was a challenge. He had read somewhere that outside of US, Kuwait City figured among the top four

choices where international retailers wanted to be present (Exhibit 1). That was a thumbs up for the malls, and not so for the Internet. And finally, the retail market was expected to grow at an annualized rate of 7.5%, much higher than non-hydrocarbon GDP growth rate, to touch USD 10 billion by 2015. He started to appreciate, if not accept, that Prof Khaled had a point in asking, "Why cannibalize brick-and-mortar at the altar of e-commerce?"

Exhibit 1: Preferred cities of expansion for American Retailers, 2014

London	67.6%
Dubai	57.7%
Hong Kong	49.3%
Kuwait City	47.9%
Shanghai	47.9%

Source: CBRE

Exhibit 2: Major international retailers by presence in cities (GCC), 2014

Dubai	55.3%	
Kuwait City	40.80%	
Abu Dhabi	32.4%	
Doha	28.8%	
Muscat	9.7%	

Source: CBRE

Even as these thoughts raced through Bryan's mind, the Professor continued to speak. "We prefer owning luxury products to experiencing luxury in exotic locales. We are fashion conscious. That's why high-end brands like Chanel, Prada, Burberry, Louis Vuitton and Christian Dior have set shops here. A global retail survey, (Exhibit 2) spanning 73 countries multiple continents, found that both US and European retailers prefer Kuwait City, Dubai and Abu Dhabi for expansion. Leading players like Al Madani, Al Futtaim, Alshaya, Al Tayer, BinHendi, Chalhoub and Rivoli Group own 15 to 20 international brands. The Alshaya group owns the franchise rights for Starbucks."

Bryan wasn't fully convinced yet. He couldn't believe that someone would walk all the way into a grocery retail chain like The Sultan Centre, Lulu, Carrefour or Geant just to buy grocery. After all, back home, it was a pain to go to the corner store to buy products. Ditto: for picking up food and beverage from the myriad F&B outlets in the various

malls. Okay, consumer electronics may need a shop visit but what about Fast Moving Consumer Goods (FMCG) items, apparel and footwear, processed food and beverages, he wondered aloud. Sitting at home, if you could pick the jam bottle placed in the fourth row of the seventh rack of a mall that was miles away, and if you could pay for it in a secure manner and have it delivered at your place why bother visiting a shop to buy jam?

Fascination with brick-and-mortar stores

Bryan had no quarrel with the fact that the Kuwaitis were fashion conscious. He had no issues with high-end apparel brands such as Burberry, Louis Vuitton and Prada making inroads. He was okay with the fact that cosmetics consumption in Kuwait is among the highest in the world, on a per capita basis. Ivanka Trump, daughter of real estate mogul – Donald Trump, debuted her latest jewelry line in Kuwait. And he understood that increasing housing stock leads to increase in demand for home appliances. He was fine with players retailing their private labels. And it made sense that British retailers Harvey Nichols and Debenhams opened their stores in Kuwait. In Kuwait where 45% of population is in the range of 20-39 years of age, tendency to spend remains high (Exhibit 3).

Exhibit 3: GCC per capita income levels (USD), 2013	
Qatar	100,260
U.S	53,101
Kuwait	47,639
UAE	43,876
Bahrain	27,435
Oman	25,289
Saudi Arabia	24,847

Source: IMF

But what he could not figure out was why these should not be traded on the Internet. Why do you need to drop by malls to buy dresses, cosmetics and home appliances? It was then that Dr. Khaled hit the nail on its head. He said, "There are some things for which online retailing may not work. Like: things that need a touch and feel. You can buy commodities that don't need a touch and feel. Like: you can buy an airline ticket. You might buy medicines. Maybe bestselling books too. But, what about dress? Don't you need to wear them and feel them?" Prof Khaled continued, "With so much traffic in the mall, retailers understandably don't want to go online. No online offering can match the touch and feel, retail shopping experience. If something isn't as yet broke, why fix it." Bryan was quick to point, "Let's not forget that every footfall doesn't convert into a sale."

Prospects for online retail in Kuwait

Dr. Khaled believed that retailing was set to explode. The growth drivers would be: increasing disposable income, a young nation, increasing expat population, tourism and infrastructural development. The rich youth look upon shopping as leisure, flaunt branded wear, love to buy the latest gadgets and like to experiment a variety of cuisines. And given its high urbanization rate (98% against the world average of 52%) there is a greater tendency to shop (Exhibit 4). No wonder, online retailing accounts hardly for 3% of total sales.

Exhibit 4: Urbanization level in GCC countries, 2014	
Qatar	99.0%
Kuwait	98.0%
Bahrain	89.0%
UAE	85.0%
Saudi Arabia	83.0%
Oman	77.0%
World Average	54.0%

Source: World Bank

However, Bryan felt that the time to go online was ripe. "You must get in when the crowd hasn't yet moved in. Building an online presence is a low-risk way to complement existing store footprints. You can learn more about customer preferences without entering into expensive real estate contracts. Once the leading players of the world come in, it would be difficult to fight them. By keeping quiet, companies hailing from Kuwait would concede the first mover advantage to the external retailers".

His thoughts received support from a report by Markaz (GCC Online Retail: Browse, Like, Compare, Buy). The report states that Kuwait has the highest internet and credit card penetration in the region. Kuwait's 191 percent mobile penetration rate and its 74 percent Internet penetration rate are significant. In addition, its retail sales per capita¹ of approximately USD 3,000, is on par with Western Europe, which indicates that Kuwait residents have money to spend across retail channels.

A leading retailer in Kuwait has established a website for its IKEA franchise as part of a regional sales strategy for furniture related items. A consumer electronics related online platform, Xcite.com, was created to cater to the Kuwaiti market. Prime Cuts, an established player in the food industry has opened an online platform for selling its products through the internet for the Kuwaiti market.

Exhibit 5: Existing and upcoming retail space

In Kuwait, current retail space is 630,000 sq. m. The country's largest mall, The Avenue, is being expanded at a cost of USD 500 million to a Gross Leasing Area of 250,000 sq. m.

360 Kuwait & Marina Mall are other notable malls offering quality retail space, contributing 82,000 sq mt and 100,000 sq mt of retail space respectively.

Existing retail space is set to expand by another 40% in the next three years.

¹ Retail sales per capita is computed by dividing total retail sales with the entire population for the State of Kuwait

And then there were other points. Shopping patterns are changing globally. With increased Internet penetration and mobile Internet access, consumers are now better informed of choices and prices. The convenience of ordering products at the click of a button and having them delivered to your home is the main benefit of online shopping. Thus, managing the customer experience from online browsing and product purchase to delivery and return is critical. However, a few characteristics may hinder Kuwait's ecommerce development such as lack of specific legislation governing e-commerce and poor smartphone penetration (lowest among GCC nations). Brick-and-mortar stores also offer free delivery as a customary service, diminishing the advantage which online shopping offers over traditional shopping.

To all those who ask: "Where is the market?" Bryan recalled an article he had read on the New York Times on American car manufacturers trying to enter the Indian market. When car manufacturers were wary of coming to India because of the poor roads, someone said bring the cars and the roads will get built. Similarly, build e-commerce platform and customers will come.

He wasn't too sure if he had convinced Dr.Khaled of the immediate need of Kuwait to go into online retailing. Nor was he sure if the professor had convinced him otherwise.

APPENDIX: RETAIL FORMATS CAN BE BROADLY CLASSIFIED ACCORDING TO THEIR SPACE OF OPERATION.

Souq	A traditional retail format, unique to Arabian culture. It is an open-air market place where retailers sell.
Departmental Stores	Stock a variety of consumer durables that satisfy the consumer's personal as well as home needs. Items sold include furniture, home appliances, clothing and accessories. They are often the anchors in malls attracting significant crowd. Example: Center Point
Hyper market	A superstore. A superior one-stop shopping experience and a one stop shopping destination at competitive prices. Key players include: EMKE Group (Lulu Hypermarkets), Savola Group (Panda stores), Al Majid Futtiam (Carrefour), Geant and Spinneys.
Malls	Offer entertainment plus shopping and are the choice destination for shoppers. Most prominent mall in Kuwait being 'The Avenue' which houses Carrefour and IKEA.
Modern convenience stores	A small sized shop, which typically stocks a range of everyday items such as groceries, toiletries, beverages, magazines, newspapers, and the like. Prices are marked up higher relative to Hypermarket/Supermarket. Size of a convenience store ranges from 150 to 200 sq. m. and they have limited range of products. '7-Eleven' is a major operator in this retail format.
Discount stores	A department store where the asking price for the product is lower than other retail stores. They have a wide range of products and operate on high-volume low-margin strategy.
Cash-and-Carry	A form of trade where goods are sold from a warehouse to the customers (dealers/stockists/retailers). Customers settle the invoices by cash on the spot and carry the goods themselves. Most of the Cash-and-carry format also operates on a self- service basis.

Discussion points

- 1. Should sellers make shopping an enjoyable, rather than a functional, experience?
- 2. SWOT of e-commerce business and key success factors
- 3. SWOT of off-line retailing business
- 4. Is it right to believe that since a shopping infrastructure which is a clear Kuwait USP has been built retailers should be slow in going online?
- 5. What are the products and experience that people could prefer online to offline?
- 6. Has Kuwait overdone its infrastructure? Has it got it right?
- 7. What are the implications for Kuwait City becoming a preferred destination for expansion by major international retailers?
- 8. What are the principal motivators for someone to walk into a store rather than to shop on the Net?
- 9. Are the footfalls in the mall conversions or do they represent tourist attractions as in someone visiting the Niagara Falls?
- 10. What could help retailing explode in the Kuwait?
- 11. Do you think that the time is ripe to go online? Is there a market for e-commerce?
- 12. Whom would you support, Bryan or Dr. Khaled? Why?