

The Future of Retail

Samer Qudah - Partner, Head of Corporate Structuring - Corporate Structuring
s.qudah@tamimi.com - Dubai International Financial Centre

The last couple of years witnessed significant developments in the retail sector and consumers' behaviours and as a result, many theories had evolved about the future of retail in the Middle East and North Africa ("MENA"). The retail sector has been one of the most heavily affected sectors by the pandemic. With physical stores already on the decline prior to the pandemic, retailers faced difficult challenges in light of lockdowns, less people attending physical stores which impacted their real estate, the reduction of consumer spending and a high staff turnover. We have however come across a number of innovative trends in the retail sector in our region primarily aiming to save the retail sector such as utilising (or developing) retailers e-commerce arm, virtual shopping and a focus on experience, design and human connection.

A testament to the post-Covid 19 retail resilience, total retail spending in the UAE last year reached \$71 billion, positioning it 14th globally and on the top spot in the MENA region, according to a survey by Kearney, the global management consulting firm.[\[1\]](#)

HYBRID STORE

The impact of the pandemic led people to work from home and isolate which threatened to alter the retail industry permanently, and pushed restaurants, and retailers, who rely on shopping in person, to react. While the mall has a unique place in the Middle East, retailers have had to adapt to using technology as well as new hybrid retail strategies to encourage footfall. 67% of Middle East consumers surveyed indicated that they had considered themselves 'more digital' as a result of the pandemic. Therefore, retailers must continue to make the in-store experience worthwhile and memorable to encourage consumers to visit their stores.[\[2\]](#)

Store of the Future

Businesses are investing in technology to provide tailored care, according to research by Euromonitor. Personalisation will advance and shift towards mass acceptance across sectors, such as beauty, fashion and consumer health. According to Fuad Sharaf, Managing Director, UAE Shopping Malls, the five key drivers for the digital development of retail are seamless, interactive, engaging, safe and personalised customer experience. With the introduction of the cutting-edge space, Majid Al Futtaim introduced a ground-breaking development which enables in-store personalisation and allows customers to interact with the fully digital concept store.[\[3\]](#)

Augmented reality

Another way retailers have encouraged footfall is to make the in-store experience more interactive. The introduction of augmented reality software within the app (that only works in-store) can allow consumers to try out trousers, tops or make-up on themselves by scanning a product and then taking a 'selfie'. This can make the experience more engaging and satisfying for consumers whilst also reducing the potential for returns. For example, Adidas have introduced the ability to scan products for information in real time, interactive mirrors to recognise products, connect with staff directly using the application in-store, and augmented reality which allows you to see how a product will look in real life against different backdrop.

Social Centre Point

Retailers have noticed that, as restrictions finally begin to ease due to the Covid-19 pandemic, retail can be used as a space to socialise and explore within the retail experience. The expansion of the Dubai Mall Village is a testament to this development. Likewise, retailers such as LEGO have actually reduced space previously used for merchandise to create greater room for children to play and customers to socialise – leading to a 30% increase in sales. Indeed, this has shown the future of retail in the region being rooted in human connection.

With all this in mind, the competent authorities will be monitoring these changes closely. As retailers begin diverging greatly from their traditional buying and selling activities, they may be required to receive additional approvals from the local authorities.

E-COMMERCE

With the use of e-commerce services becoming the norm, competition for consumer footfall has never been higher. Despite malls remaining an institution in the Middle East, retailers have had to get creative with technology such as location services, real-time store checks, AR, item reservation or a QR code on its products to continue to drive sales. It is those businesses that harness the use of hybrid technology that will be ready for the new age. [\[4\]](#)

According to research conducted by Majid Al Futtaim, overall e-commerce sales increased by 34% from Q3 2020 – Q3 2021: specifically the fashion sector which saw a 170% jump from a year earlier, whilst Carrefour saw its food sales increase by 171% in the same period. The Global Retail Development Index revealed the UAE as the highest average spend per household (\$2554) in the MENA region on e-commerce, which is not only double the global average, but four times the MENA average.

With the growth of e-commerce in the UAE and the MENA region as a whole, the question has been asked how the authorities would respond. The introduction of the specific e-commerce freezone Dubai ‘CommerCity’ has provided the infrastructure for e-commerce businesses to thrive and grow in an age of a constantly developing retail sector. The freezone is likely to be of interest to a number of industries such as healthcare, fashion and retail to allow last-mile delivery. This highlights the UAE authorities’ ability to quickly respond to the development of the e-commerce industry in the UAE.

There has also been evidence of the rise in e-commerce subscriptions, such as wine clubs, weekly grocery delivery and clothing. According to a recent report of the subscription economy across 32 markets, approximately 87% of countries saw a surge in the subscription of things in 2021 compared to the previous year.

Q-Commerce, a variation of food delivery and e-groceries, is also known as “quick commerce”. It is a segment of e-commerce that has been growing rapidly, with some reports estimating that it could be worth up to \$20bn by 2024. This has seen the advent of ‘dark’ stores. Similar to ‘dark’ kitchens, the stores would serve as hubs that held products ready to be shipped within 30 minutes of their online purchase.

The e-commerce advancement in the MENA region, as well as a continued online revolution of retail, appears to show no signs of slowing down. [\[5\]](#)

SOCIAL COMMERCE / METAVERSE

Social Commerce revolves around buying products and services directly from social experiences. People are seeking to buy 3D, immersive products in a ‘metaverse’ and social media is keen to capitalise on such a market. One of the world’s largest brokers of fine and decorative art, Sotheby’s, has recently announced

its own metaverse gallery for virtual art, which can be viewed in a virtual platform called Decentraland. New business models for influencers, virtual goods e.g. non-fungible tokens ('NFTs') — items that are created and traded / secured on the blockchain — and commerce on physical goods purchased in virtual worlds will increase in importance. Social commerce is also where retailers use social media channels as mediums to promote and sell products and services. The spending power of the Snapchat generation is thought to have spending power worth approximately \$425 billion (Dh1.56 trillion), according to a recent report by Snap[6]. In addition to the traditional idea of e-commerce, the 'social commerce' could be worth millions in revenue for retailers. The authorities in the region will be monitoring this trend closely, with retailers and influencers likely needing additional approvals and licenses in the future to participate in the Social Commerce universe.[7]

In short, the retail sector in the UAE has exceeded pre-pandemic levels. According to the Dubai Chamber of Commerce and Industry, UAE's retail sales are expected to reach \$70.5 billion (Dh259 billion) by 2025 — an annual growth of 6.6 per cent. With this in mind, retailers have had to adapt to the new retail trends globally to ensure they succeed. The UAE government has been extremely receptive to permitting companies to adapt their activities in line with these retail trends.

Currently, to undertake business in the UAE you are required to set-up an entity (of which there are many forms, such as a standalone limited liability company or a branch of a foreign entity). The entity must then take out a trade license from the competent authorities with the activity that it would like to undertake. As retailers begin to harness new and unique technological advances in their stores, the competent authorities may soon require additional activities to be included on a company's trade license and additional regulatory approvals in line with such new activities. The Al Tamimi & Company retail sector is at hand to assist you with all queries relating to the set-up of entities in the UAE and in particular regarding retail activities.

[1] https://www.mckinsey.com/~media/mckinsey/industries/retail/our%20insights/perspectives%20on%20retail%20and%20consumer%20goods%20number%208/perspectives-on-retail-and-consumer-goods_issue-8.pdf

[2] <https://gulfbusiness.com/five-best-practices-to-aid-hybrid-retail-strategies-in-the-middle-east/>

[3] <https://www.majidalfuttaim.com/en/media-centre/press-releases/2021/11/q3-state-of-the-uae-retail-economy-report>

[4] <https://legatum.mit.edu/wp-content/uploads/2021/03/170321-MIT-Wamda-E-Commerce-COVID19-report-EN-01.pdf>

[5] <https://www.zdnet.com/article/whats-next-for-e-commerce-seven-trends-from-this-region-could-affect-you-too/>

[6] <https://www.khaleejtimes.com/economy/dubais-retail-sector-set-to-maintain-its-growth-trajectory-in-2022>

[7] <https://hbr.org/2022/01/how-brands-can-enter-the-metaverse>