



Navigating the pandemic

What can the UAE consumer and retail businesses do to weather the Covid-19 storm?

2020

KPMG Lower Gulf Limited





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The onset

Subsequent to the United Arab Emirates' (UAE) first confirmed Covid-19 case in January 2020, the government has taken swift action, implementing measures to curb the spread of the virus. The threat of Covid-19 and its subsequent constraining measures have impacted tourism in the UAE and numbers are at an all-time low. Almost all international and domestic air travel has been suspended, and hotels, malls and high street stores across the Emirates are largely closed, as are restaurants and cafés, except for delivery.

Similarly – and not surprising then, that – the retail sector is reeling under the impact of this crisis and presents us with a study in contrast. On one hand, non-food retail and restaurants have seen a downward spiral in performance since February and increased uncertainty as to when they will return to 'business as usual.' Several prominent non-food retail businesses have indicated that sales in the first half of March were down by as much as 50-60% compared to the same period last year. With mall

closures and low volumes from online channels, they expect a further drop in performance.

Yet, on the other hand, grocery and food retailing businesses are faced with a challenge to meet rapidly growing demand. Online retailers, particularly for grocery products, have witnessed unprecedented growth – there is a waiting time of two to ten days for deliveries, while minimum order amounts have been increased.

Timeline for Covid-19 developments in the UAE



Initial cases of Covid-19 reported in China



WHO declares a global public health emergency



Temporary closure of cinemas and entertainment venues



Temporary suspension of entry for GCC citizens and resident visa holders



Retail sector impacted by 20-80%, and various government economic stimulus packages announced



UAE consumer and retail segments' performance

While the overall consumer and retail sector has been adversely affected by recent developments, it has been a mixed bag of challenges with fewer opportunities for various stakeholders. Let's take a closer look at how various segments are faring – both to see what has been performing well and where the challenges lie.





Positive impact



Food/grocery retailing:

- With the increasing magnitude of the crisis and panic buying in light of uncertainty, demand for food and grocery products has seen a significant increase.
- Most grocery retailers have witnessed a 20-40% increase in their sales in the first half of March, compared with the same period last year.



Online retailing:

- Online retailing across most segments has experienced consistent growth.
- Online grocery retailing, though a smaller segment of the market, has enjoyed exponential growth in the first half of March. For example, one grocery delivery platform in the UAE witnessed a 70% increase in app downloads, a 50%+ increase in daily orders and a 60%+ increase in basket value, as of mid-March.¹
- Online marketplaces are also witnessing strong demand, particularly for laptops/ tablets (online learning and work from home requirements) and gym equipment (closure of gyms and fitness centers).
- Prominent online marketplace players are trying to focus their efforts on supplying food and essential items during the current crisis.



Negative impact



Luxury and fashion retailing:

- Luxury and fashion retailing has been severely impacted by the Covid-19 crisis. For most, sales were down by 20-50% in the first half of March.
- With malls closed, the situation is expected to worsen, with a limited boost from the online channel.



F&B (restaurants, bars and cafes):

- The F&B segment is also witnessing a similar, and perhaps more severe impact, compared to fashion retailing. Sales are down by 30-80% across concepts.
- Operators expected food delivery to compensate to some extent. However, people cooking at home and concerns around hygiene appear to have dampened its promise.



Electronic retailing:

- Electronic retail, which has already been impacted by online retailing, witnessed a drop in sales to the tune of 30-50% in the first half of March.
- However, categories such as laptops/ tablets, as well as large home appliances (refrigerators), are seeing an uptick in demand.



Jewelry and watch retailing:

- The jewelry and watch segment has also been impacted and is expecting to witness a significant decline in sales due to subdued consumer sentiment and volatility in gold prices.

Challenging times ahead

The UAE's consumer and retail sector has faced challenges over the last few years. This is largely attributable to subdued consumer sentiment and, for certain categories, increased popularity of online platforms. 2020 started on a positive note for many retailers. Strong performance in January and for some, even a positive February, was followed by Covid-19's impact on economic activities. Increasing concern around the pandemic, as well as the measures taken to stop its spread, have further contributed to sector concerns. The current outbreak is a major blow for brick-and-mortar retail businesses, which require large footfall. However, there are other challenges as well that are already impacting or likely to impact the sector in the near term.

Key near-term challenges	Segments affected
<p>Business continuity</p> <ul style="list-style-type: none"> – Business continuity is of paramount importance to retailers at this point. With most premises closed for the time being, retailers have continued to incur operational costs with little revenue to support them. – Initial measures include rental renegotiations, no discretionary spending and hiring freezes. In addition, retailers are keeping a close eye on employee costs and are evaluating alternatives. 	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  <p>Non-food retailers</p> </div> <div style="text-align: center;">  <p>F&B (Restaurants)</p> </div> </div>
<p>Cash flow management</p> <ul style="list-style-type: none"> – The current situation has also strained retailers' cash flows. – To address this, retailers are working with banks to defer payments, roll over lines of credit and activate additional ones, as required. Further, they are renegotiating business terms with suppliers where possible. – A few are deferring new store openings. 	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  <p>Non-food retailers</p> </div> <div style="text-align: center;">  <p>F&B (Restaurants)</p> </div> </div>
<p>Supply chain issues</p> <ul style="list-style-type: none"> – The supply chain is a concern for all retailers, although the reasons vary. – For most non-food retailers, orders are placed in advance and stock for the coming months has already arrived. With significant inventory and current market conditions, liquidation of stock through early promotions may be required in order to free up working capital. Moreover, once the situation normalizes, there is an expectation of production and supply disruption for many categories in their source markets, which needs to be taken into account. – As for food/grocery retailers, maintaining a steady flow of supplies to meet the surge in demand is critical. They have been working with suppliers to prevent disruption. Alternate sourcing channels are also being activated. 	<div style="text-align: center;">  <p>All retail segments</p> </div>

Changing consumer behavior

- The current crisis has accelerated the push to online retailing, as consumers are adopting technology faster than ever before.
- Some retailers that have been slow in developing their online channels (particularly in the grocery segment) have been caught off guard.



All retail segments

Last-mile delivery

- With the spike in online orders, managing product delivery presents a unique challenge; last-mile delivery players are operating at full capacity. Some are witnessing a shortage of delivery staff and vehicles, which leads to delays and affects business for online retailers.
- Retailers might look to utilize a portion of their idle staff capacity to manage deliveries in the coming days.



Online retailers



Online marketplace

Health, safety and hygiene concerns

- This is a priority among retailers – for their employees, as well as customers. Many measures are already in place, especially at grocery retail outlets. A number of online retailers are also offering contactless delivery to address consumer concerns.
- Hygiene in fulfilment centers and storage facilities is also critical for business, as any evidence of Covid-19 could result in quarantine of the premises and stock.



All retail segments

Given the global nature of the crisis and its severe impact on retailers’ operations, they are seeking economic support from stakeholders – landlords, vendors and most importantly, government. It is heartening to see swift responses from many stakeholders. The UAE government organizations, local as well as federal, have already announced substantial stimulus package to support the national economy and ensure business continuity. These measures will likely reduce operational and compliance costs for businesses and spur demand for the retail sector in the future.

Various mall operators have also come forward with packages to provide rent relief. For example, Meraas,² Aldar,³ Al Futtaim⁴ and Nakheel⁵ have already announced their support schemes and retailers expect other operators to offer similar relief options in the near term. Emaar’s Dubai Mall

has opened a virtual store on noon.com, enabling tenants to sell and deliver products through an online channel.⁶

Retailers mentioned that while the master franchisor for their brands has also been impacted by the Covid-19 crisis, they have empathized with their circumstances. In most cases, master franchisors have offered the flexibility to revisit budgets once there is a reasonable level of certainty for the business.

Likewise, retailers have been in discussions with other vendors to agree on revised business terms, though a few retailers pointed out that some of their small and mid-sized suppliers could run into financial difficulties due to the crisis. While the Central Bank’s stimulus package will support small and medium enterprises (SMEs), economic conditions are likely to make operations more challenging.



(2) Coronavirus impact: Dubai Holding, Meraas in Dh1b relief package, Gulf News, 17 March 2020
 (3) Covid-19: Aldar eases rentals, waives fees for its tenants, customers, Khaitej Times, 17 March 2020
 (4) Stimulus: Dubai’s Al-Futtaim sets up Dh100m rent relief fund, Gulf News, 19 March 2020
 (5) Covid-19 relief: More UAE landlords offer three-month rent-free incentives, Gulf News, 26 March 2020
 (6) “Dubai Mall to open virtual store on noon.com to address coronavirus challenges”, The National, 21 March, 2020



The path to sustainability and recovery

So, what additional steps can brands, distributors and retailers take in order to deal with the crisis and recover? We believe there are several areas where retail businesses may focus on to better prepare their business for the near future.



Demand planning

Managing demand fluctuations should be the focus of retailers' short-term plans. While some are seeing demand fall away and customers shifting channels, others are facing unprecedented spikes in demand. The ability to predict and manage these trends has never been more important.



Cash reserves and liquidity

Businesses should take a hard look at their current cash positions and develop scenarios to test their financial stability and capability to withstand the downturn for a prolonged period. Given retail businesses' high dependence on cash, it is increasingly important to assess the current and expected liquidity profile and potential changes in working capital dynamics. This may lead to discussions with banks and lenders for refinancing or amendments to financial covenants that could be impacted.



Workforce management

Retailers must have a plan that ensures the health and safety of their employees, while managing their business. This goes beyond creation of a crisis communications plan. Retail businesses will need to think about managing their workforce under evolving scenarios, particularly for the spike in demand for grocery retailers as well as delivery services. MAF Retail, for instance, has reskilled its cinema staff, who have been affected by the closure of entertainment destinations in the UAE, to help manage the demand for online delivery. Furthermore, the government is undertaking initiatives to facilitate realignment of the workforce on an exceptional basis.⁶



Medium term supply-chain challenges

Additionally, retailers should now be thinking ahead and preparing their supply chain operations for any form of economic recovery in the coming months. We could see “compensatory” growth in demand, when things eventually return to normality. While it would be difficult to predict recovery, businesses are relatively more upbeat about the last quarter of the year.



Digitalisation

The crisis has certainly accelerated the shift towards technology and online channels for the consumers. Many of those who preferred brick-and-mortar shopping have been forced to adapt to online buying. Retailers that have been slow to digitalise and adopt the latest technology will now need to mirror this shift, swiftly developing an omni-channel strategy. This is the need of the hour and those retailers who choose to ignore this risk losing business and, more importantly, customers.



Crisis management

Lastly, in the long term, retail companies should consider establishing risk-prevention mechanisms. Organizations need to collaborate with the government, communities, financiers and other stakeholders to establish an emergency mechanism that can help protect businesses, as well as people’s livelihoods, and reduce the inventory backlog caused by such an outbreak.

The long-term social, economic and health impacts of the Covid-19 virus are still unknown and new details and views are emerging every hour. Our hope is that current efforts to contain the virus and its impact are successful. This outbreak has created significant disruption for many businesses. Those that are agile and already thinking of various future scenarios are best positioned to survive and potentially thrive.

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