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Shopping for growth

How to build an urban retail destination

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EXECUTIVE SUMMARY

As Gulf Cooperation Council (GCC)[1] member states pursue urban transformation and mega projects, they should seize the unrealized opportunity for growth in the retail sectors of their major cities. The region's annual retail sales are expected to grow to US$300 billion by 2028, a 37 percent increase from 2022.[2] With the right steps, these retail sectors can become global shopping destinations. That would allow retail to make a significant contribution to urban GDP and employment, while improving quality of life for residents and enhancing the offering to tourists.

The prospect of strong domestic retail growth, however, does not guarantee that GCC cities will become global shopping destinations. Indeed, the opposite could occur. Given the ease of foreign travel, rising GCC domestic demand could result in GCC shoppers seeking unique retail experiences outside the region. To prevent that, and to seize the growth opportunity, GCC cities should overcome two categories of challenges: supply issues, such as limited brand and assortment offerings, insufficient talent, and a lack of holistic shopping experiences; and enabling factor issues, such as fragile supply chains, underdeveloped customer and operational technologies, and cumbersome investment regulations.

Cities should create a governance entity that can articulate a compelling and differentiated retail vision and then build the required capabilities through six initiatives:

1. Develop and implement a retail master plan

2. Activate and curate a retail calendar

3. Deliver retail innovations and tech-enabled shopping experiences

4. Support small and medium-sized retailers

5. Create a deep pool of retail talent

6. Simplify regulations and offer targeted incentives

THE RETAIL OPPORTUNITY FOR GCC CITIES

As GCC member states pursue urban transformation and mega projects, they should seize the unrealized opportunity for growth in the retail sectors of their major cities. With the right steps, these retail sectors can become global shopping destinations. That would allow retail to make a significant contribution to urban GDP and employment, while improving quality of life. A thriving retail sector can attract foreign investment and contribute to the growth of real estate in priority areas of a city. For example, six global shopping destinations (Dubai, London, Milan, New York City, Seoul, and Tokyo) have significant direct retail spending per capita ranging from $8,000 to $18,000 annually. The retail sectors of these cities also contribute as much as 24 percent to urban GDP and employ up to 20 percent of the urban workforce. In addition, they bolster the overall reputation of their cities.[3]

Moreover, retailers contribute to broader national economic goals of economic diversification and resilience. Retail supports the growth of other local businesses, particularly in creative industries like design and fashion. Establishing such global shopping destinations also would advance the GCC region's tourism ambitions.[4]

Cities that are global shopping destinations may exhibit a number of characteristics to varying degrees:

• A holistic experience as a unique destination, with culinary, entertainment, cultural, and other kinds of venues that enhance the shopper's journey

• Modern retail infrastructure, based on a comprehensive retail plan that encompasses, and links, various shopping clusters, retail zones, and sales channels—and that is integrated with the urban master plan

• A strong brand identity and global recognition as a shopping destination through consistent marketing and promotion on a variety of channels and platforms

• A compelling retail offering that includes a selection of international and local products, and tailored services, that combine to enhance the shopping experience

• An experienced, highly skilled retail workforce capable of delivering compelling and personalized shopping experiences

• A seamless, omnichannel experience in which digital and physical retail combine to offer convenience and flexibility to shoppers

• Policies and regulations, such as investment incentives, simplified licensing, and credit schemes, that attract investors and retailers of all sizes

THE RETAIL CHALLENGE FOR GCC CITIES

Many major cities in the GCC, with the exception of Dubai, do not yet possess all the characteristics of global shopping destinations, although they are acquiring some of these elements. The difficulty is that the retail sectors of major GCC cities did not develop in a systematic manner, so they lag behind global shopping destinations in terms of per capita spending, contribution to GDP, and employment (*see Exhibit 1,* page 4). That means they also have room for improvement in terms of tourism development and their urban brand.

The strong growth of urban retail in the GCC also poses a conundrum for GCC governments. The presence of international brands, engaging in-store events, and exclusive collections can increase consumer demand. However, it is often the case that strong domestic demand is a prerequisite to attracting international brands and building a vibrant event calendar. A further difficulty is that even robust domestic demand does not ensure that GCC cities can become global shopping destinations. Without unique retail experiences, growing GCC domestic demand results in very wealthy GCC shoppers leaving the region, given the ease of foreign travel (a phenomenon known as demand leakage).
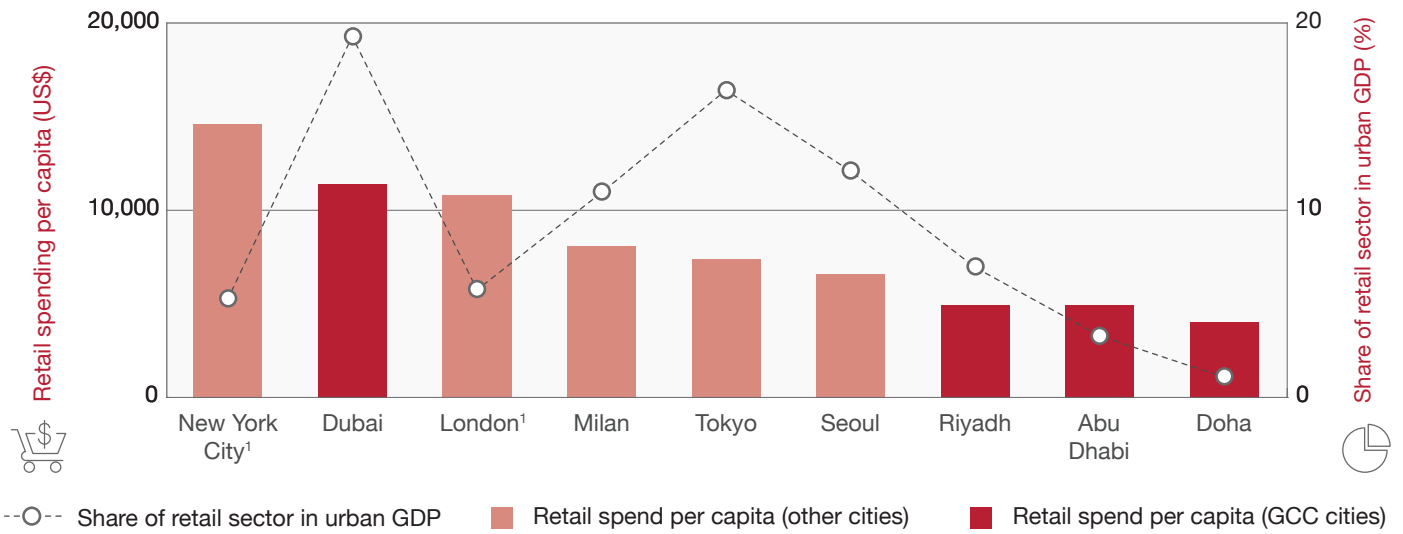
What is needed is an understanding of what GCC cities lack, followed by a holistic and systematic approach to becoming a global shopping destination. Before they embark on a strategy to build global shopping destinations, GCC governments should study the shortfalls that hinder the activation of their urban retail sectors in driving growth and employment. Such a study will allow them to understand the maturity level of their urban retail sectors and identify specific areas for both filling the gaps in retail supply and energizing demand through growth enablers.

> " What is needed is an understanding of what GCC cities lack, followed by a holistic and systematic approach to becoming a global shopping destination. Before they embark on a strategy to build global shopping destinations, GCC governments should study the shortfalls that hinder the activation of their urban retail sectors in driving growth and employment.

EXHIBIT 1
GCC retail sectors can increase their contribution to urban GDP and employment

Fashion and accessories | Jewelry and watches | Beauty and personal care

Retail spending per capita (US$) / Share of retail sector in urban GDP (%)

New York City[1] · Dubai · London[1] · Milan · Tokyo · Seoul · Riyadh · Abu Dhabi · Doha

- - O - - Share of retail sector in urban GDP
■ Retail spend per capita (other cities)
■ Retail spend per capita (GCC cities)

Retail share of urban employment (%)

Abu Dhabi · Doha · New York City[1] · London[1] · Riyadh · Seoul · Tokyo · Milan · Dubai

■ Retail share of urban employment (other cities)
■ Retail share of urban employment (GCC cities)

[1] London and New York City have a significant contribution from financial services, real estate, and professional services.
Source: Strategy& analysis

Retail supply-side challenges

On the retail supply side, challenges include the lack of holistic shopping. There are too few flagship stores in GCC cities, and there are gaps in the availability of global brands in comparison with global shopping destinations, with the exception of Dubai. Even when global brands are present, they carry a limited assortment of products. Similarly, shopper journeys tend to be disjointed. They lack seamless, omnichannel retail as well as the experiential elements that make the shopping experience easy and enjoyable. The insufficient number of skilled retail workers can lead to a less than satisfactory shopping experience, which means lower customer satisfaction when compared with global competitors. Moreover, products in the GCC on average tend to be more expensive than those outside the region. Attempts at retail activation sometimes occur in isolation from city-wide events and the tourism industry, which translates to less impact. Unsurprisingly, residents and tourists are prone to search for shopping experiences outside the GCC region, precisely what governments want to avoid.

Retail growth enabler challenges

On the enablers side, GCC cities often have supply chain management and logistics issues. Customer-facing technologies and those that allow for operational efficiency fall short of industry standards. Investors can find it difficult to invest in GCC urban retail because of the cumbersome, time-consuming processes required to set up a business, with further discouragement coming from the limits on government incentives.

START WITH DEDICATED GOVERNANCE AND VISION

The strategy to turn a GCC city into a global shopping destination starts with two elements: dedicated governance and vision.

Dedicated governance

GCC cities should start their global shopping destination strategy by getting governance right. They should establish a governance entity dedicated to coordinating and leading action across the retail sector's stakeholders, including retailers, brands, associations, and advocacy groups. This entity steers a city's retail priorities. Its members, the sector's stakeholders, are responsible for ensuring that policy decisions are properly informed and aligned with one another, as well as with the city's larger goals such as its urban master plan. The entity establishes and oversees key partnerships, implements initiatives, and tracks progress toward the goal of becoming a global shopping destination.

There are three main governance models: public sector–led, private sector–led, and hybrid. The choice of model depends upon the city's retail ambitions and level of retail maturity. As the city becomes a global shopping destination, it can change its model; for example, it can move from public sector–led to hybrid, or to private sector–led.

Public sector–led governance
An example of public sector–led governance is the Dubai Festivals and Retail Establishment.[5] Although that model may change, public-sector governance ensures that the building of a global shopping destination starts in the right way.

Hybrid governance
An example of hybrid governance is Singapore. The public sector's Enterprise Singapore and the private sector's Singapore Retailers Association and Singapore Business Federation all share governance responsibilities.[6] The hybrid model may apply in some cases that have room for improvement. That pattern is particularly relevant for some GCC cities that are still growing and building significant new infrastructure, as that situation demands a notable government role partnering with the private sector.

An example of private sector–led governance is London, where retailers, brands, and associations coordinate major sector activities informally with minimal government involvement. London is a mature global shopping destination because private-sector players, such as large retailers and mall operators, already possess the necessary capabilities to develop assets, stage events, cultivate talent, and implement retail innovations. London has informal sector governance through private-sector players and associations. The role of the government is limited to policy formulation, regulation, and destination management. There are similar arrangements in New York City.

Vision

The governance entity defines the city's vision as a global shopping destination. Each city will have a distinct approach to offering compelling and differentiated retail experiences. In order to articulate the vision, the entity should convene stakeholders to consider the following issues:

- The kind of global shopping destination the city wants to become. The city could offer everything to everyone, like New York City or Tokyo. Or it could specialize, as Milan does as a fashion destination.

- The proper scale for its retail ambitions. The city should ensure that its retail plans are consistent with its ability to handle the increase in visitors while offering a high-quality experience.

- The shoppers it will seek to attract. The city's target shoppers will influence the types of brands and experiences on offer.

- The definition of success. The city should set short-, medium-, and long-term measurements of what it wants to achieve, such as numbers of shoppers, spending per shopper, return rates, contribution to urban GDP, and retail employment.

Throughout these discussions, the governance entity should ensure that the vision aligns with the city's identity, history, culture, and broader ambitions.
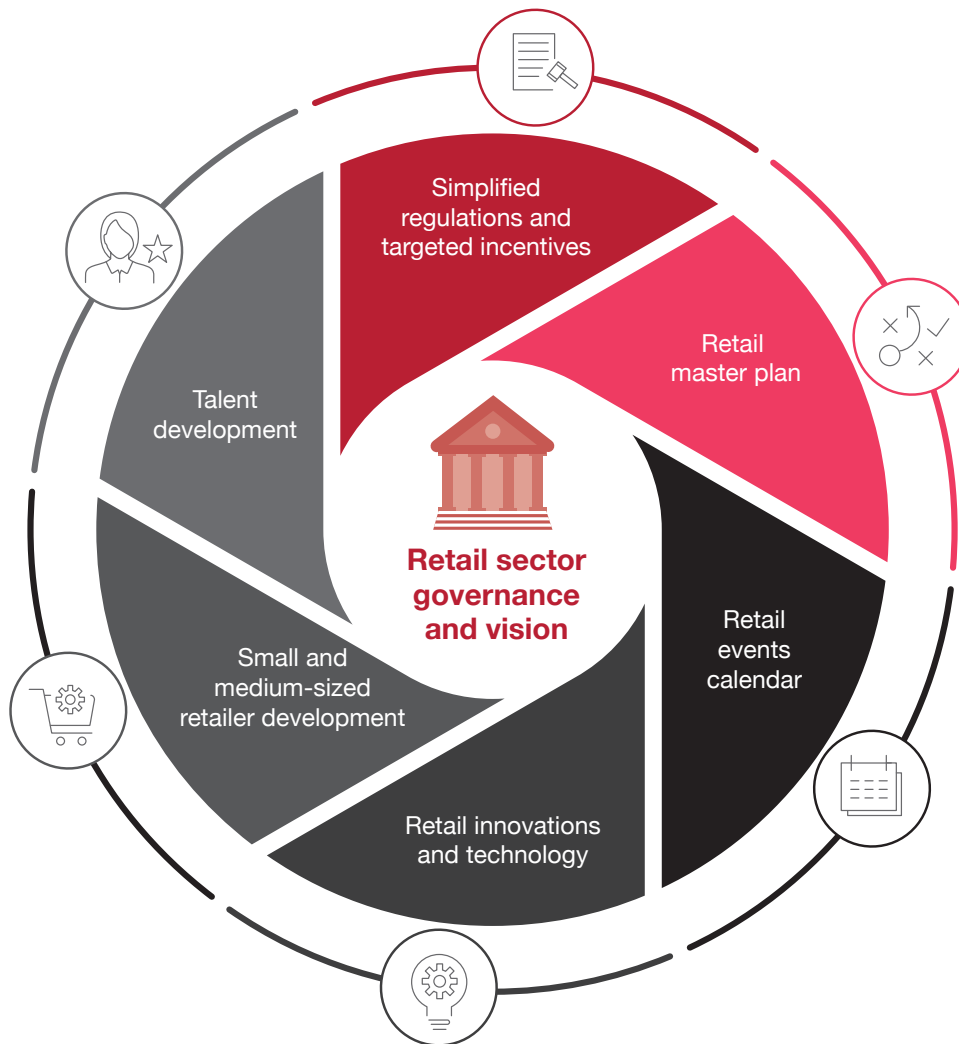
"
The governance entity defines the city's vision as a global shopping destination. Each city will have a distinct approach to offering compelling and differentiated retail experiences.

SIX INITIATIVES TO HELP BUILD A GLOBAL SHOPPING DESTINATION

With its governance and vision in place, a city can then proceed with six initiatives that can help it develop its retail sector into a global shopping destination (*see Exhibit 2*).

GCC cities can use six initiatives to bring their retail visions to life

Simplified regulations and targeted incentives

Retail master plan

Talent development

Retail sector governance and vision

Retail events calendar

Small and medium-sized retailer development

Retail innovations and technology

Source: Strategy&

Initiative 1: Develop and implement a retail master plan

The city's urban planners and the governance entity should develop and implement a retail master plan to put the vision into action. The retail master plan defines and connects the retail clusters, channels, brands, and products that offer unique experiences to consumers and streamline their shopping journeys. It should consider factors such as resident and tourist flows, urban demographics, target shoppers, cultural and natural assets, and transport connectivity options.

Retail clusters

GCC cities need to create retail clusters, that is, concentrations of storefronts that are distinctive in their experiences, products, and brands. To avoid cannibalization, an important consideration is ensuring that these clusters do not overlap excessively. Some clusters provide a full retail experience, while others specialize in specific categories such as entertainment, lifestyle, beaches, or relaxation.

Building retail clusters is not a one-off measure. Rather, clusters develop over time. In Shanghai, for example, such new retail hot spots have emerged every three to six years, from the Bund on the waterfront to Pudong and Xintiandi, and most recently, to Taikoo Li in Qiantan. Retail clusters emerged more gradually and naturally in leading global shopping destinations. In Milan, for instance, the *quadrilatero della moda* (fashion square) is centered on four streets (Via Montenapoleone, Via della Spiga, Via Manzoni, and Corso Venezia) that host a concentration of luxury brands, designer showrooms, and boutiques, offering accessories, fashion, and jewelry. In New York City, a variety of shopping experiences are available via connected retail clusters including SoHo, the Flatiron District, and Times Square.

Retail channels

The next element of the retail master plan is to develop a mix of retail channels that attract shoppers to the retail clusters. These channels are a mixture of physical and online, including high streets, malls, stores in travel areas such as airports, and online shops. The governance entity coordinates these efforts. For example, the governance entity creates policies that develop retail channels to accommodate emerging shopping trends. It can ask whether there is enough street retail or where developers could repurpose malls. The governance entity can examine if such services as last mile delivery exist. It can ask whether there are supportive regulations for online retail, as the retailers' e-commerce platforms are an increasingly important element of offering an omnichannel experience (*see Initiative 4*).

Established global shopping destinations, like London and New York City, have high streets such as Brompton Road and Fifth Avenue, respectively, that offer flagship brand stores and premium department stores, including Saks Fifth Avenue and Harrods. Many cities also offer travelers access to other retail channels, such as airport duty-free shops. Newer retail hubs, such as those in Shanghai and Singapore, have malls featuring flagship and concept stores, which provide an all-encompassing experience.

Product and brand offerings

A subsequent element of the retail master plan is attracting the target shoppers and holding their attention by offering the right mix of products and brands in the retail channels. Placing brands in these retail channels is the job of private-sector stakeholders, such as mall operators and franchise operators. However, the city can encourage the entry of brands through supportive policies and investment incentives (*see Initiative 6*).

Initiative 2: Activate and curate a retail calendar

The governance entity should design an annual calendar of events that promote the destination's identity through compelling and differentiated retail experiences. Assembling the calendar requires that the governance entity coordinate closely among sector stakeholders. Public and private entities collaborate to organize and host events in established global shopping destinations so there are events for target shoppers year-round. Such coordination ensures that events provide memorable experiences, encourage return visitors, boost sales, and improve the city's reputation and attractiveness as a global shopping destination.

The events can be city-wide sales and promotions. Well-known examples include Black Friday sales held after Thanksgiving in New York City or the Dubai Shopping Festival. Retailers need to connect such physical events with online promotions, as U.S. retailers do with Black Friday and Cyber Monday (the first full working day after Thanksgiving), so that they are coherent and do not cannibalize each other. The event can also be a specialist gathering, such as Tokyo's Comiket, the world's largest self-published comics fair.

Events could also be closely linked to the tourism and holidays calendar, thereby using the city's heritage and cultural assets to promote the global shopping destination. For instance, Dubai has created an annual calendar catering to the Ramadan and Eid holidays, school summer breaks, and peak tourism seasons. Paris Expo Porte de Versailles uses nonretail events that draw people to cultural and heritage sites, and inevitably draws them to retail. Similarly, the London Olympics in 2012 encouraged culture and retail.[7]

Initiative 3: Deliver retail innovations and tech-enabled shopping experiences

Retail innovations can help GCC cities take the lead when competing with established global shopping destinations. Established retailers around the world already are experimenting with these technologies and scaling up. GCC retailers can transform in-store experiences and move faster. They can use digital technologies as frictionless checkout, which involves automatic payment so that customers do not have to wait at a till. Other technologies that enhance the customer experience are augmented reality and virtual reality try-ons, which allow customers to see what goods look and feel like from the comfort of their own home. Dematerialized aisles are similar, allowing customers to engage with a vast range of products through electronic displays rather than perusing the limited assortment on the rack. Visual search, another growing technology that is popular with younger generations, allows customers to find the product they want by clicking a picture, rather than entering text. Machine learning allows visual search to then offer the customer similar products.

Initiative 4: Support small and medium-sized retailers

GCC governance entities should coordinate support of small and medium-sized retailers (SMRs). These businesses are important in the creation of a global shopping destination. Along with their significant contributions to economic activity and employment, SMRs fulfill the retail demand of residents while providing a local aspect to the identity of the global shopping destination. For instance, cities can create spaces and opportunities that enable SMRs to showcase and sell their product offerings, such as temporary markets and fairs. The governance entity should integrate these events into the retail calendar.

GCC cities can also strengthen these SMRs as they develop. Cities can facilitate connections to business accelerators and incubators, capability development, global market access support, market access programs, and networking events. Saudi Arabia's Fashion Commission, for example, has created a Saudi 100 brands program, which provides mentorship and takes these new brands to major fashion hubs such as Milan and Paris.[8]

Given the importance of digital channels, cities can assist SMRs in building their digital capabilities. For example, Enterprise Singapore's E-commerce Booster Package made digital fees more affordable, thereby enlarging SMRs' market reach.[9] At its most extensive, support for SMRs could include credit guarantee programs, targeted tax credits, and localization subsidies.

Initiative 5: Create a deep pool of retail talent

GCC cities can train and acquire high-quality retail talent to support the shopper journeys and experiences worthy of a global shopping destination. The governance entity can start by determining the current baseline for retail talent availability and quality. Next, the governance entity should consult with stakeholders to establish retail talent standards. After that, the governance entity should convene government agencies, universities, and employers to attract, develop, and retain talent that meets the standards. GCC's retailers, including the Chalhoub Group, and mall operators, such as Majid Al Futtaim, already offer some training programs.

Retail stakeholders should aim to make the retail sector an appealing career choice. That means comprehensively developing domestic talent by formalizing retail professions through foundational training, skills improvement, and certification programs for existing employees, and performance-based career progression incentives. Through such programs, GCC cities can build the diverse skills required for a global shopping destination (*see Exhibit 3*), prioritizing those that are in short supply.

EXHIBIT 3
Offering compelling and differentiated retail experiences requires a specialized workforce

Less scarce — More scarce
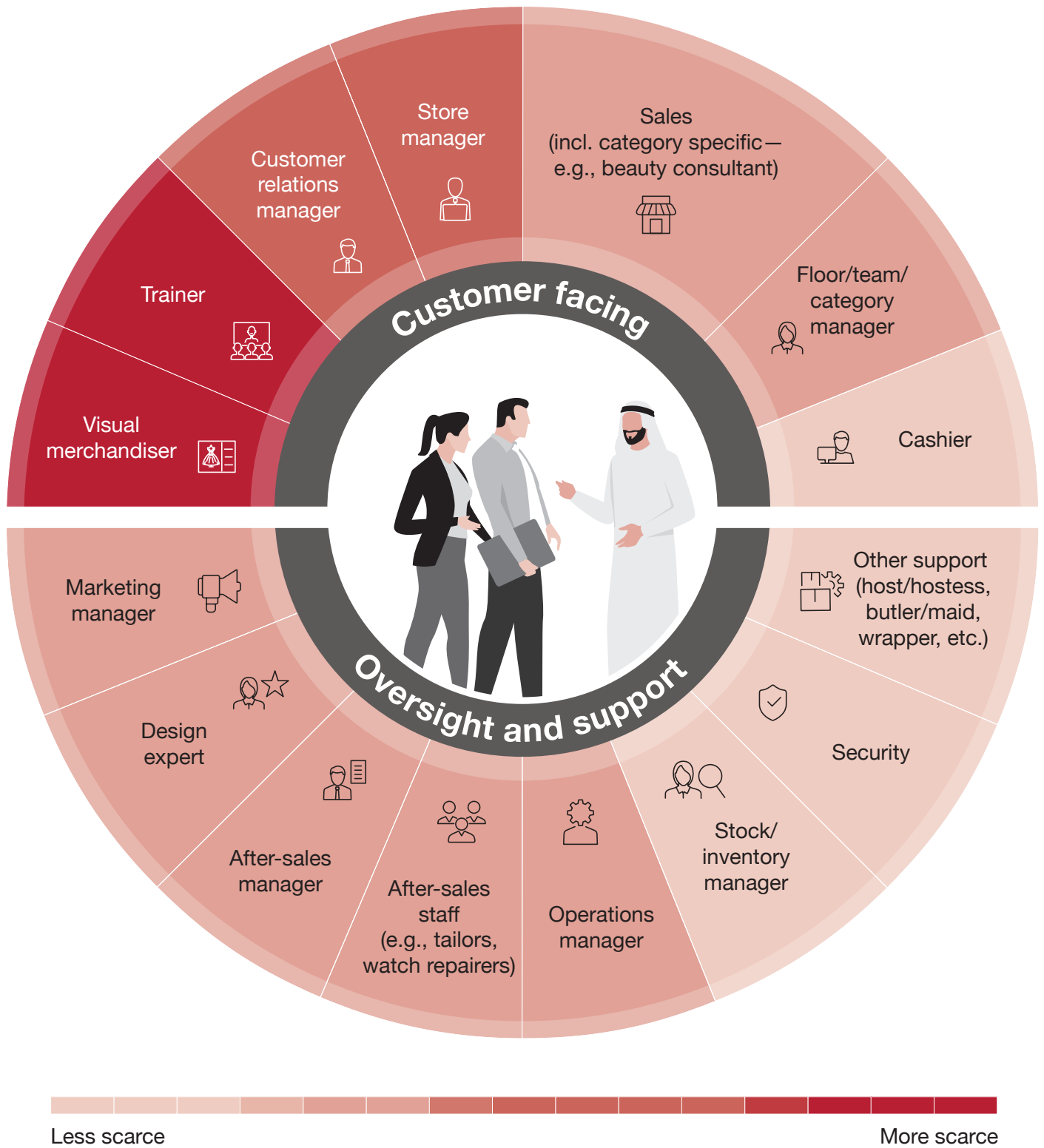
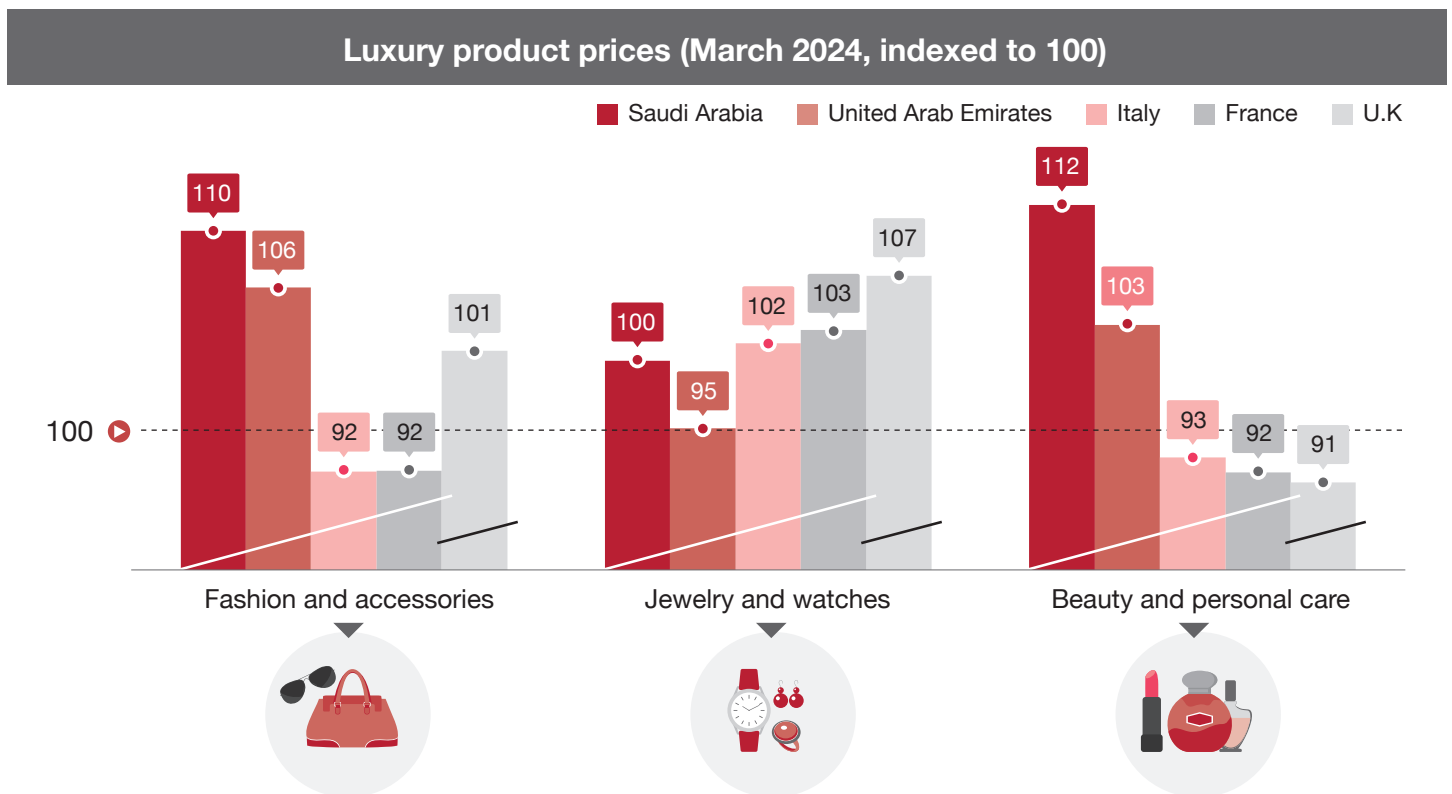## Initiative 6: Simplify regulations and offer targeted incentives

Governments can use sectoral policy, regulations, and incentives to attract brands, retailers, and other investors to build their global shopping destination. The aim should be to reduce the time and cost of setting up a business. GCC countries have already begun to improve these processes. For instance, the Invest in Dubai portal and Abu Dhabi's TAMM have streamlined and digitized the business registration and commercial licensing processes.[10] Cities such as Seoul and Singapore have simplified licensing and permit processes across various entities. In some cases, they have created a one-stop online portal.

Governments can also consider targeted incentives for some investors, such as major brands that would build the character of the global shopping destination. Some incentives, such as tax refunds and duty-free stores, can also encourage shoppers. Such incentives are already available in Dubai and Singapore. Any enticements to shoppers need to be consistent with building the global shopping destination and should not divert trade away from the urban retail sector.

A challenge for GCC retail destinations is that goods such as cosmetics, clothing, footwear, jewelry, and watches typically cost 10 to 20 percent more in the GCC than in European shopping destinations (*see Exhibit 4*).

EXHIBIT 4

Large pricing differentials for luxury brands in many GCC cities drive shoppers to other destinations

Luxury product prices (March 2024, indexed to 100)

Legend: Saudi Arabia, United Arab Emirates, Italy, France, U.K

Fashion and accessories: 110, 106, 92, 92, 101
Jewelry and watches: 100, 95, 102, 103, 107
Beauty and personal care: 112, 103, 93, 92, 91

Source: Strategy& analysis

These price differentials stem from a variety of factors. Some brands premium price their products given the region's high disposable incomes. The lack of domestic manufacturing results in import dependence, with customs, distribution, franchise, and shipping costs further pushing up the price.

GCC governments can play a role in aligning these prices with international benchmarks. They can achieve this alignment by periodically monitoring the price difference across markets for relevant products, and by proactively facilitating the communication between developers, retailers, and brands. The result can be to bring transparency on margins and resolve issues in the different cost structures.

CONCLUSION

GCC cities can enter the ranks of global shopping destinations, rivaling leading centers in Europe and North America. They can provide compelling differentiated retail experiences if they understand where they need to improve and adopt a careful, systematic approach. The growth and quality improvement of retail business in the GCC can become a key element in the region's economic transformation.

ENDNOTES

1.   The GCC countries are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

2.   Euromonitor, "Euromonitor Retail Sector Market Size for 2022 and Forecast for 2028" (https://www.euromonitor.com/).

3.   Strategy& analysis of the retail sectors of the six cities. GDP and employment shares are based on government and industry data.

4.   Karim Abdallah, Marwan Bejjani, Dima Sayess, Vivek Madan, and Melissa Rizk, "Destination Middle East: Boosting the Region's Position in Global Tourism," Strategy&, 2020 (https://www.strategyand.pwc.com/m1/en/ideation-center/ic-research/2020/destination-middleeast-global-tourism.html).

5.   Dubai Festivals and Retail Establishment (https://www.dubairaffles.com/en/pages/about).

6.   Enterprise Singapore (https://www.enterprisesg.gov.sg/), Singapore Retailers Association (https://www.sra.org.sg/), and Singapore Business Federation (https://www.sbf.org.sg/).

7.   Dr. Yang Li and Alice Sampson, "Olympic Games Impact Study—London 2012 Post-Games Report," funded by the Economic and Social Research Council, University of East London, December 2015 (https://tinyurl.com/3dfrmjev).

8.   Saudi 100 brands (https://saudi100brands.com/).

9.   Singapore Business Review, "Enterprise Singapore Partners with Lazada to Relaunch E-commerce Booster Package" (https://sbr.com.sg/retail/news/enterprise-singapore-partners-lazada-relaunch-e-commerce-booster-package).

10. Abu Dhabi TAMM (https://www.tamm.abudhabi/); Invest in Dubai (https://app.invest.dubai.ae/start).

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