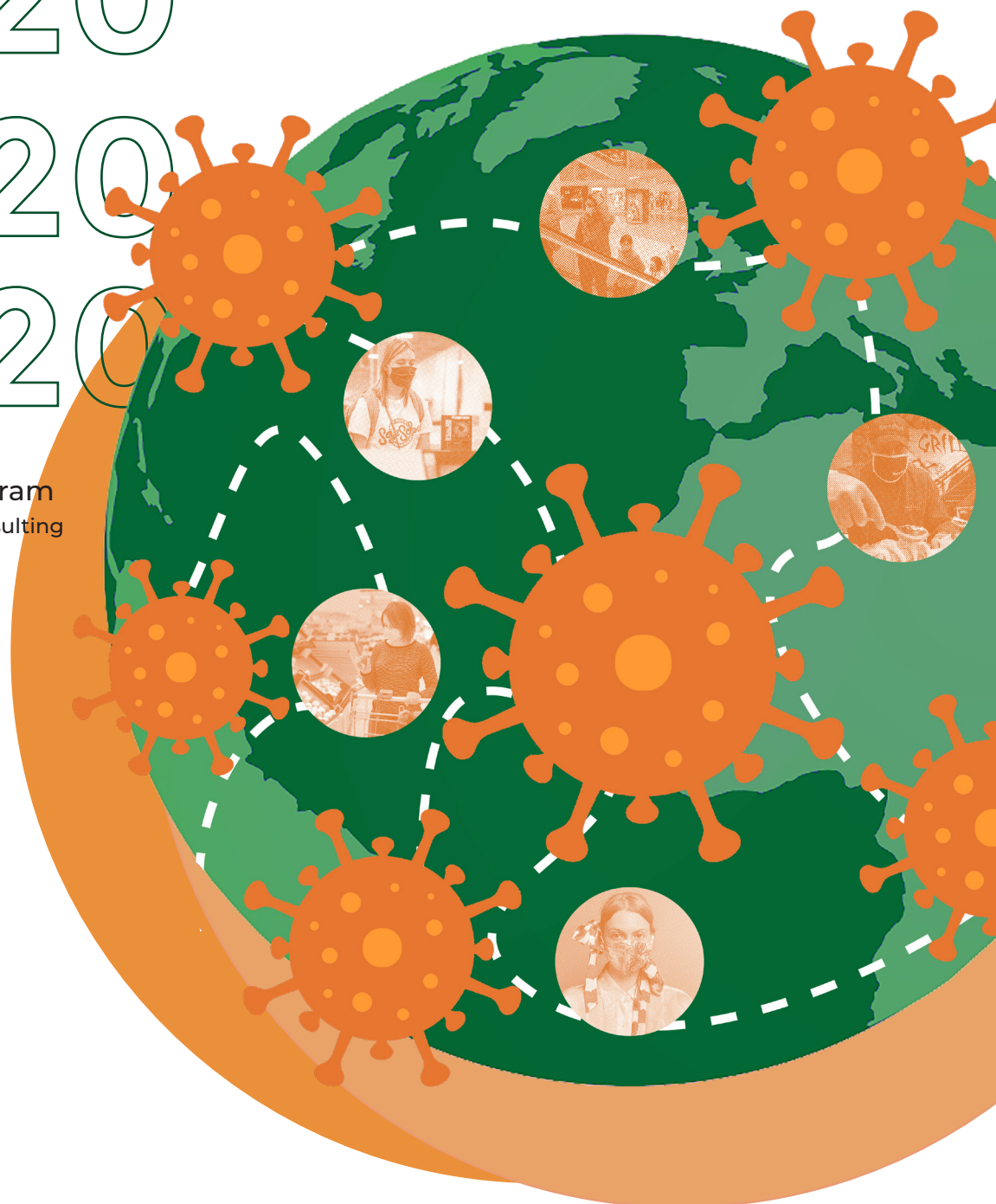


# The Egyptian Retail Industry is Experiencing a 'Roller-Coaster' Ride in 2020

2020  
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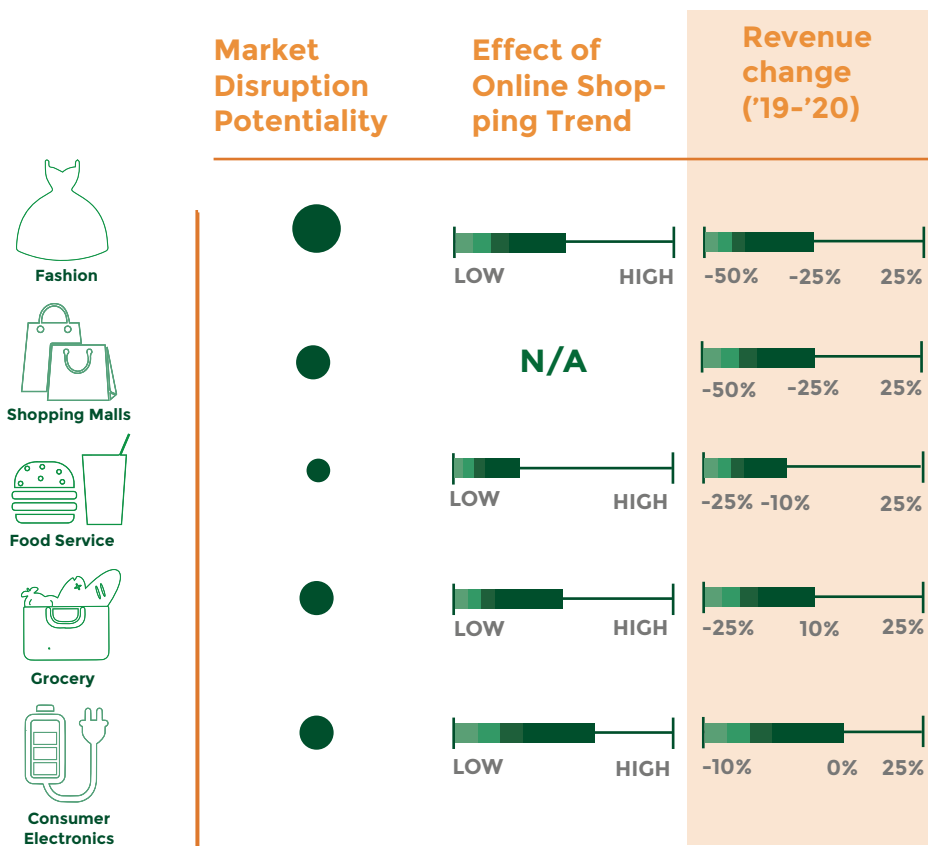
The COVID-19 pandemic has fundamentally changed how people live and work, how and what they buy and how they think. **All industries, undoubtedly, have been impacted by the COVID-19 crisis, but with varying degrees of severity.** And for the retail industry, the effects were profound and lasting, and the crisis has already accelerated immense structural changes and has caught many retailers off guard. As consumers are now looking at products and brands through a new lens, retailers are left with no choice but to reconsider their operations, rethink their assortment and channel strategy, adjust how they approach customer experience to best position themselves in this recovery period. Retailers can't afford to slacken their efforts, given the possibility that some changes in consumer behavior and demand might crystalize once the dust settles.

**Egypt so far has been hit relatively less by the virus due to the relative fast reopening of the market.** In this article, we will be looking at how different retail categories, from food service to fashion, have been affected in Egypt. Also, given the severity and uncertainties in this disruption, we will also be identifying some actions that could help retailers steer through such crisis and turn massive challenges into meaningful change.



**It is not the strongest of the species that survives, nor the most intelligent; it is the ones most adaptable to change.**

– Charles Darwin.



\*Bubble size represents disruption threat.



# GROCERY

## The Retail Shakeout Amid COVID-19 in Egypt

With the increasingly drastic restrictions on movement and millions of people hunkering down, the only busy stores were grocery stores. **Grocery stores were classified as “life-sustaining” retail sectors, as they remained open for business despite the decline in foot traffic.** According to Abdullah Rhwanjy , CIO of United Grocers (Seoudi Supermarket),

“While, globally, all supermarkets and hypermarkets buckled under the soaring demand that strained the entire ecosystem, Egypt was better prepared as manufactures were already getting ready for Ramadan demand spikes. Supply shortages were not so much felt because of that.”

Yet, as social distancing and economic worries cascaded, more customers from all demographics anxiously filled their carts with household necessities and non-perishables.



Also, as restaurants and cafes have been closed and people getting more concerned about hygiene and food safety, takeout ordering has declined and supermarkets sales have, consequently, hiked.

**In Egypt, sales volume hiked during lockdown in hypermarkets and supermarkets, with the increase ranging between 40% and 100% per store. Although supermarkets might emerge as a post-pandemic winner, the crisis has created an operational nightmare and supply chain disruption for nearly all of them.** Also, they needed to handle the “loyalty shock” that emerged due to panic buying as consumers started changing stores based on location and availability of essential and fresh goods.

**Even though COVID-19 restrictions are lifted, it will take some time before consumers feel safe.** This has forced supermarkets and hypermarkets to adapt to the new psychological and public health changes. **In light of this, we have seen many of them implementing new protocols and making physical changes to their layouts to ensure customers and employees safety** including in-store shopper count limitations, clearly-marked 6-foot areas, sterilized carts, baskets and registers, etc.

**40% – 100%**

**GROWTH IN  
SUPERMARKETS  
AND  
HYPERMARKETS  
SALES  
DURING  
LOCKDOWN IN  
EGYPT.**





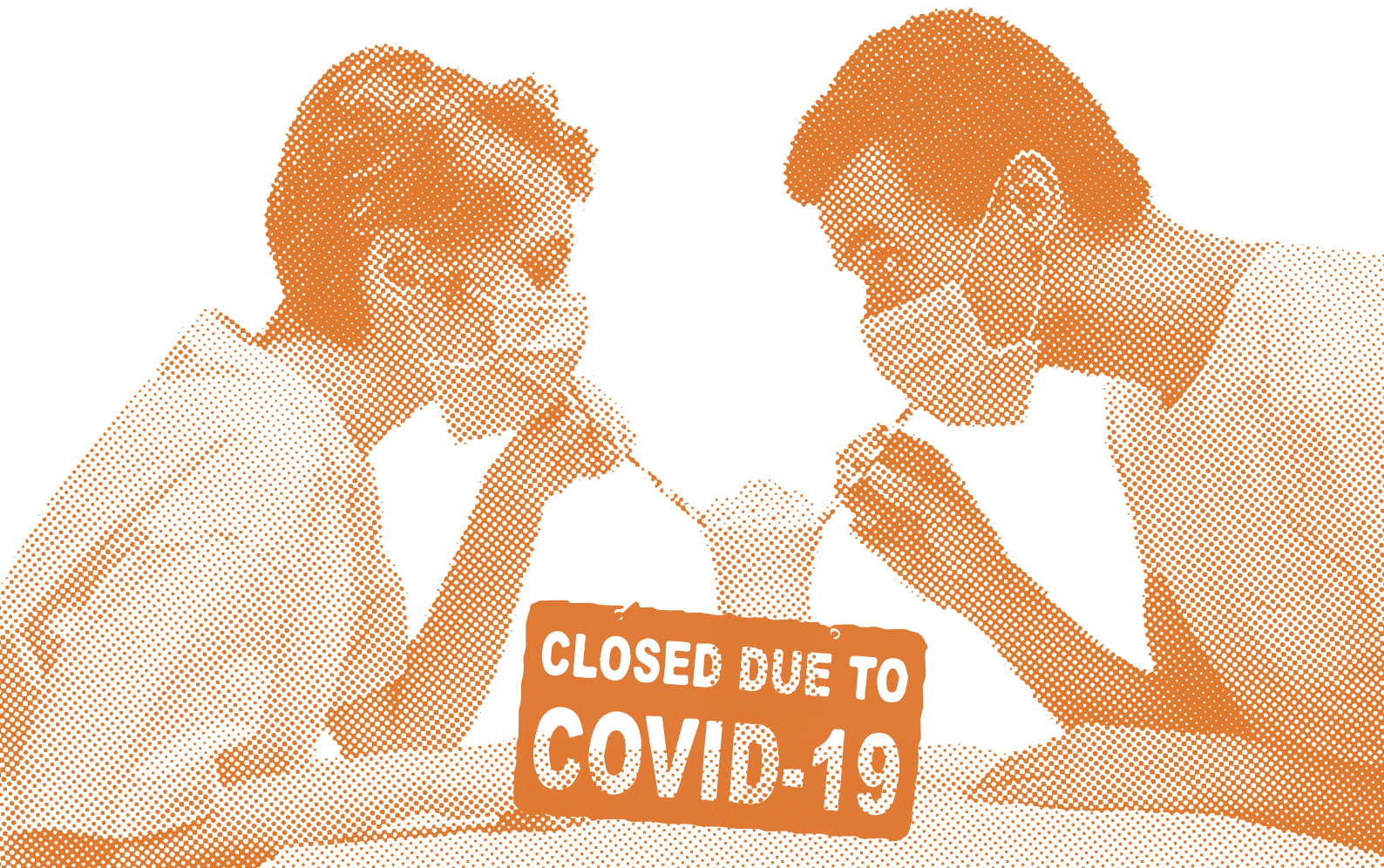
# FOOD SERVICE

**As the effects of COVID-19 are felt around the world, food service companies are facing significant supply chain and demand disruptions along with tremendous labor losses.** Egypt's food service retail is the second biggest retail sector in Egypt, with its size reaching \$15 billion in 2018. And as dining-out has historically generated the highest margin, the crisis has largely hit the P&L of all restaurants and cafes. Restaurants and cafes have closed entirely during lockdown, and were operating on a limited basis and at 25% capacity as restrictions were loosened.

**To get a sense of the ways in which the industry has been impacted, have a look at those restaurants that took some initiatives to entice customers back, e.g. limited offers and bundles, family-sized meals and free delivery.** According to Omar Fathy, CEO & Founder of Eatery restaurant,

**“In these uncertain times, we decided to make bold investments from opening a new branch to introducing new products to meet new customer demands. We were looking for sustainable solutions that would best position us for growth in the recovery period rather than solutions that would only help us survive this wave.”**

Yet, it seems that post-crisis spending on dine-in service will be lower than it was before as some people are turning to “anxious customers” and will not immediately rebound.







# CONSUMER ELECTRONICS

Consumer electronics sales witnessed varying effects based on product type; some faced turbulence while others boomed. For instance, the unprecedented surge in people working from home and students having their classes online has caused a spike in demand for computers, laptops and peripherals to build virtual offices. Besides, webinars and online meetings have caused a sudden increase in sales of headphones and Bluetooth earphones. It seems that consumer electronics sector has benefited, to a great extent, from the shift in work culture.

Also, as people have been trying to find a balance between their work and personal life since lockdown measures were implemented, there has been a surge in demand for cooking appliances. Despite many tightening their belts, consumption on in-home entertainment electronics, such as video-game consoles, smart speakers, has significantly increased as people were stuck at home.

Overall the electronics sector saw no more than one digit percentage decline in sales where the Organized Retail fared a lot better than the informal one. According to Khaled Ragaey, Retail Director at B-Tech,

**“As discretionary spending of consumers on non-essential items declined, the sales of, refrigerators, ACs and big-ticket items have been negatively impacted.”**

Besides, as the major production markets were in lockdown, the industry's supply chain, that is highly dependent on Chinese manufacturers, was disrupted. **This reflects the fact that the pandemic is having a dual impact on consumer electronics sector from suppressed demand to disrupted supply chains and shuttered physical channels.** More importantly, smartphone sales got slammed by coronavirus, leaving the whole industry severely suffering given the fact that smartphones are the growth engine of consumer electronics with around 50% market share. This has exacerbated the already existing trend towards more affordable devices and the subsequent decline of Korean brands shares vs the cheaper Chinese brands.

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**Smartphone sales got slammed by coronavirus, leaving the whole industry suffering as they are considered the growth engine of consumer electronics with around 50% market share.**

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# FASHION

Fashion retailers took the biggest sales hit from the coronavirus pandemic and sales of spring/summer 2020 were disastrous with the absence of social interaction and sizable portion of the customers staying at home. **Due to the discretionary nature of this sector, the effects of the crisis were crippling as they hit on multiple fronts; halted production, shuttered stores and faltering demand.**

Although online shopping has surged, fashion industry is still almost entirely dependent on physical retail with most of transactions still happening in physical stores. Thus, with fitting rooms being taped off and product testers being put away, **fashion retailers had to find their own ways to reach out customers.**

According to Nora El Kott, Fashion Retail Director at Nile projects,

“We tried new approaches to connect with our customers including calling our VIP customers and sending them our brands’ collections, offering free of charge delivery to our loyal customers, putting a return system in place and compiling e-catalogues for each brand. We have also collaborated with a number of prominent and reputable online merchants and market-places.”

Ms. El Kott sees that although the fashion landscape currently looks bleak, it is expected that ripple effects of the pandemic will gradually taper off and things will return to near normal in spring/summer 2020.

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**The fashion retail was essentially put on pause mode for months, and now omni-channel shopping is becoming the new ‘table stakes’.**

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# SHOPPING MALLS

Businesses relying heavily on human interactions have been hit hard by the COVID-19 pandemic, and shopping malls were no exception. **As coronavirus hit retail, the future of shopping malls has been put in jeopardy. The fear factor was real. People were more hesitant to do regular out-of-home activities, which pushed them to shun shopping malls, and their built-in service offerings like gyms, movie theaters and food services.** Also, the shift to digital had an effect on shopping malls as even consumers who were mistrustful of online shopping before saw it as a necessity, resulting in less consumer traffic. Besides, most retail tenants either missed or couldn't pay their rent as they were pummeled by the collapse of customers and revenues, leaving retail landlords with no choice but to allow deferred payments, installments and rent-cuts in an attempt to keep them afloat. **Also, some have actually adopted a variable rental structure in which rent was linked to tenant's revenue.**

All shopping malls are now required to be as much coronavirus-safe as possible in an attempt of convincing consumers that they can shop safely; for example; ensuring social distancing, providing hand sanitizers at entrances, escalators and checkout counters, installing temperature checks at entrances, restricting entry without face masks, etc. As the new cases numbers dropped and customers felt safer, it was expected that shopping malls would benefit somewhat from pent-up demand from consumers who have been staying at home for long.



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**Aside from the immediate financial hit from the loss of traffic, shopping malls landlords are under immense pressure to grant rent reductions and deferrals to retail tenants and share some of the pain caused by the pandemic.**

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# E-commerce: Appears to be Emerging as the Big Winner in this Pandemic

The retail industry was already on the verge of digital disruption and COVID-19 was the last straw that pushed the retail industry into its digital era. Now things are changing and people have become more open to online shopping. According to the Institute of National Planning (INP), in pre-coronavirus times, only 8% of Egypt's total number of Internet users made online purchases. **Yet, it seems that COVID-19 is catalyzing a new wave of e-commerce transformation with the exceptional increase in demand for online shopping.** For Egypt, e-commerce sales reached all-time high as the industry saw around 300-500% growth, with Egyptians increasing their online shopping by 940%.

**Yet, e-commerce sales were not higher across the board;** for example consumers have reduced spending across multiple discretionary categories including clothing, make-up, and perfumes, and allocated more money to essential items such as household necessities, medical supplies and groceries. **What is clear, however, is that shopper priorities have shifted over the course of the extended quarantine period.** As Egyptians got adjusted to the new normal, they started to use this time constructively and make time for self-improvement. That's why some categories saw significant upticks, for example lifestyle categories including kitchenware, appliances, puzzles, books, fitness equipment, and beauty products.

**300% – 500%  
GROWTH IN  
E-COMMERCE MARKET  
SECTOR AS ONLINE  
SALES REACHED  
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ONLINE SHOPPING BY  
940%.**

This huge surge in digital customer demand increased the appetite of retailers for having their own e-commerce platforms to compete with the aggregators but digital transformation is a long journey for a reason. **Shortcuts backfired for many retailers who have rushed to build their own e-commerce platforms, putting their systems and services to the test and leaving many consumers struggling to find an online grocer with the capacity to fulfill orders reliably and quickly.** Abdullah Rhwanjy , CIO of United Grocers (Seoudi Supermarket) noted that,

“ This has proved quite problematic, especially for grocers whose fulfillment logistics are already challenging. At Seoudi, we decided to take things slowly and began by improving all the internal operations and experimenting with problems before adding an additional layer of complexity of working with partners. ”

To meet spikes in online demand on e-commerce sites, retailers need to deal with the associated struggles of order fulfillment by leveraging automation and third-party logistics or turning some outlets to “hybrid stores” to facilitate click-and-collect orders and enable faster delivery.

**The surge in e-commerce sales has also reflected positively on both B2B e-commerce platforms and the warehousing and logistics sector in Egypt.**

According to CEO and co-founder of MaxAB, a B2B marketplace that connects suppliers with small grocery retailers in Cairo’s underserved areas, the number of app users has doubled since the pandemic and the engagement has risen by 30%. This is understandable given the sudden surge in demand on small neighborhood retailers at the expense of more centralized hypermarkets. Also, as retailers were buckling under the weight of online orders, they started focusing on delivery capacity of logistics and timeliness of distribution to deal with delivery delays caused by bottlenecks in their logistics network and warehouses.

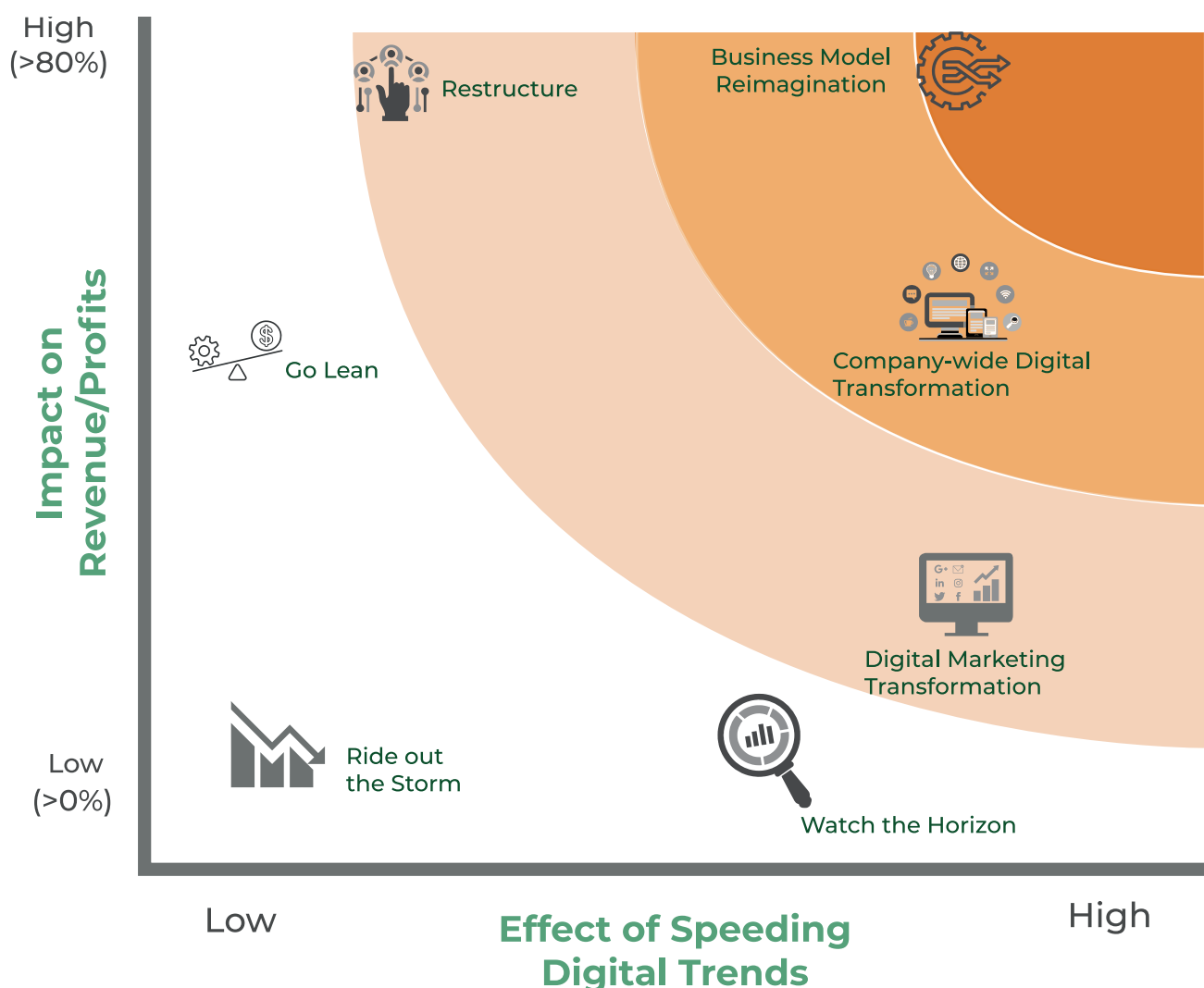


# The Time to **Act** is Now: Finding The **Winning** Formula For Each **Retail** Category.

As concerns grow from a second wave, retailers better embrace the past learnings and draw a roadmap for success in times of crisis. This roadmap will not be the same for the different retail categories for which LOGIC recommends a framework that offers a short-term guide for companies in the coming 24 months or so until the dust settles. In essence, the X-axis takes a look at the speed at which the current digital trends are impacting a certain industry while the Y-axis focuses on the immediate effect of the crisis on a certain business' top line and bottom line (Exhibit1).

## Exhibit 1

**LOGIC's framework:** a short-term guide for companies in the coming 24 months or so until the dust settles.



## GROCERY

## WATCH THE HORIZON / DIGITAL MARKETING TRANSFORMATION

With consumers experimenting new buying channels and grocery e-commerce continue rising, grocers need to integrate digital into all facets of marketing and focus their efforts around the trends that are expected to outlast COVID-19. This entails:

01

**Innovating and building capacity across fulfillment networks** to meet surge in demand.

02

**Adopting AI in merchandising planning and inventory replenishment** to better predict demand fluctuations and prevent shortages.

03

**Rolling out an e-commerce model that can operate at scale**, including building robust website or app, connecting with consumers through digital channels and ensuring dependable delivery network.

04

**Keeping a real-time pulse on changing customer needs**, e.g. increasing inventory of larger pack sizes and other product categories that are of greatest demand, like canned goods, masks, toilet paper.

05

**Keeping an eye on start-ups and pursuing partnerships** to deliver capabilities that are unachievable in-house, for example reaching out to “last-mile delivery” service providers.

## FASHION

## COMPANY-WIDE DIGITAL TRANSFORMATION

For fashion retailers, digital will not just be an important sales channel, but it will be the primary key for growth and survival. Fashion retailers need to opt for a fully-fledged digital transformation, in which digital technologies will be fully integrated into the broader business. They need to:

01

**Optimize the omni-channel network** (offering contactless curbside pickup, and “buy online, pick up in store” (BOPIS) features, online returns in stores).

02

**Solidify ties** with fashion marketplaces or build their own platforms.

03

**Beef up experiential-based-shopping offerings and enhance amenities** such as virtual try-on dressing rooms and smart mirrors.

04

**Personalize at scale and integrate personalization into all delivery channels** to ensure consistent communication and boost basket size.

05

**Up-skill talent with analytics and digital skills** while building a truly omni-channel mindset.

06

**Enable new logistics and sales-fulfillment options.**

07

**Adopt agile in-season inventory management.**

08

**Digitize key functions** from supply chain to showcasing and retailing.



## COMPANY -WIDE DIGITAL TRANSFORMATION

For malls, it will be survival of the fittest. It seems that shopping malls owners are left with no choice but to reinvent themselves and transform the mall experience by utilizing digital capabilities. They could opt to:

01

**Adopting a new business model that can balance customer' willingness for social interaction with their need for safe shopping** (e.g. an online marketplace storefront, where all tenants are required to sell through it).

02

**Focusing on elements that online can never compete with**, for example gyms, events, fashion shows, exhibitions, food halls, and other entertainment aspects.

03

**Building a platform and migrate all the tenants operations on this platform** to have a real-time pulse on how each one is performing.

04

**Rethinking rental models** to help tenants deal with low revenues and low footfalls.

05

**Working on a differentiated design and structure**; more open-air areas, showrooms, pickup hubs and return stations.

## RIDE OUT THE STORM /GO LEAN

Squeezing customers into a restaurant will not work in the new realities of COVID-19. In one cruel swoop, operators are now forced to undergo lean transformation to keep afloat. Food-service operators need to reorient their processes around end-to-end customer value streams, create new efficient ways of working and do continuous improvement. This means:

01

**Adjusting dine-in floor plans in a way that maintain distance and maximize seating** (e.g. install dividers to separate groups, include more outside seating, more private reserved areas, invest into drive thru options).

02

**Including no-touch ordering (QR code-based ordering) and payment systems** to ensure safety, streamline operations and reduce labor.

03

**Building cross-functional teams** to increase labor productivity and develop multiple competencies, especially that many operators are now working with fewer staff members.

04

**Supporting current trend of "eating more at home" by offering meal kits** picked up at curbside to allow customers to cook restaurant meals in their own kitchens.

05

**Mastering curbside delivery** to control revenues and cut high fees of delivery platforms.

06

**Innovating delivery packaging to replicate the restaurant experience at home**; tamper-proof, multi-use and appealing packaging. Delivery packaging should become your new differentiator.

07

**Finding new revenue streams beyond dine in**; for example selling some of your ingredients as groceries; sauces, dressings, proteins, breads.

# GO LEAN /DIGITAL MARKETING TRANSFORMATION

Consumer electronics retailers need to build resiliency and flexibility while combining lean tools and digital technologies to achieve the biggest payoff. Here, they should:

01

**Focus on essential products** that respond to new customer problems and demands such as TVs and cooking equipment, and for non-essential products, keep an eye on cheaper Chinese products and white labels.

02

**Secure supply chain through geographic diversification of suppliers** to mitigate dependencies on a single provider or country.

03

**Double-down on digital commerce and focus on providing a rich shopping experience** (e.g. online tutorials to fix products).

04

**Go beyond drop-shipping** and focus on building flexible omni-channel capability.

05

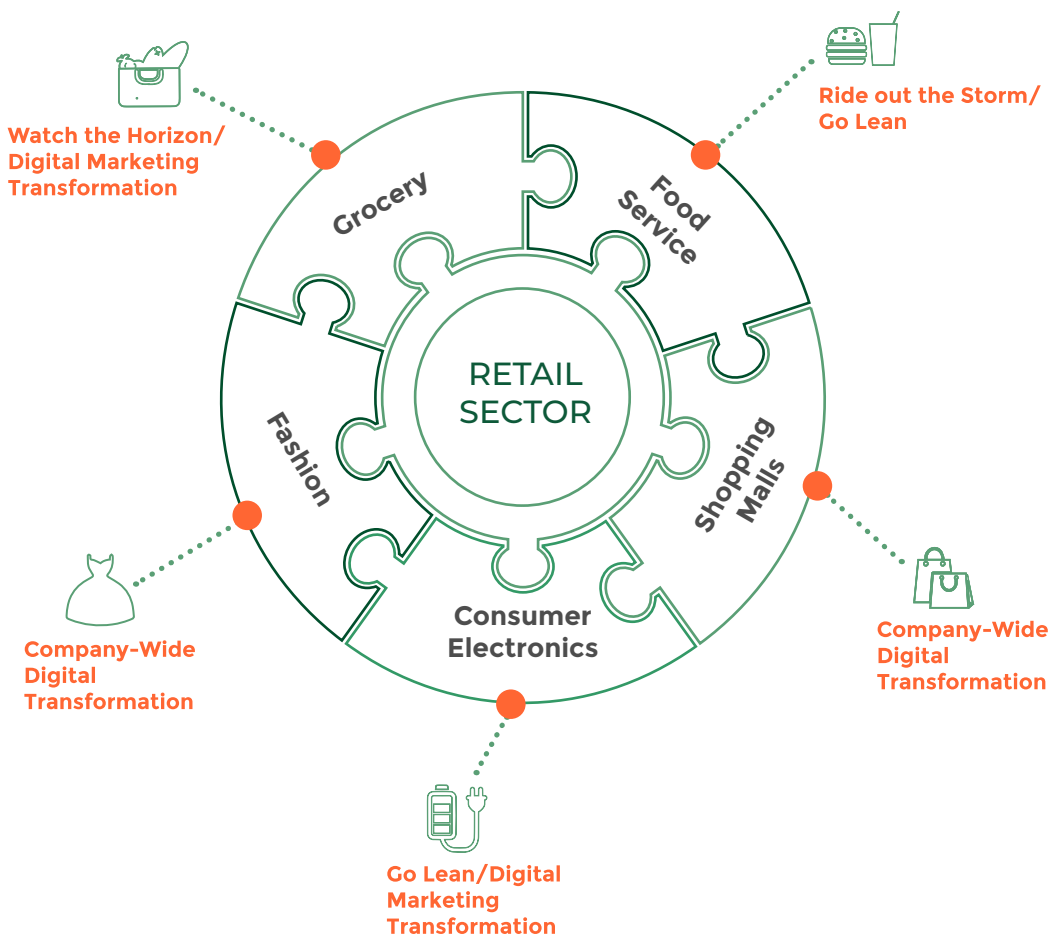
**Shift to variable-cost models** to improve flexibility.

06

**Ramp up automation and remote operation technology** (e.g. remote diagnostics and maintenance).

## Exhibit 2

### Moving towards a Resilient Retail Sector Post COVID-19



**Ahmed Moharram** is a Principal at LOGIC Consulting. The author would like to thank **Nadine Mousa**, Business Analyst at LOGIC Consulting, for her research assistance. The author also wishes to thank **Abdullah Rhwanjy**, CIO of United Grocers (Seoudi Supermarket), **Omar Fathy**, CEO & Founder of Eatery restaurant, **Khaled Ragaey**, Retail Director at B-Tech, **Nora El Kott**, Fashion Retail Director at Nile projects, for their invaluable expert contributions to this article.