



TECHNOLOGY KEY TO RESILIENCE IN MIDDLE EAST'S DIVERSE ECONOMY

Abstract

The economy in the Middle East has faced tremendous disruption due to COVID-19. Plummeting crude oil prices and declining auto sales had crippled the market, leading to job insecurities, reduced cash flows and conservative spending. Since the region's trade and GDP depend heavily on family-owned business houses with diversified service lines, it is vital for these business groups to quickly roll-out strategies to recover from the pandemic in the short as well as long term.

This paper examines the driving forces of the Middle East economy and the impact of COVID-19. It advocates the need for companies to prioritize digital transformation and provides a three-step approach, based on investment and time, to guide customers in selecting the right modern technology. It also outlines an implementation methodology that will kindle demand and attract customers so that Middle East conglomerates can survive and thrive in a post-pandemic world.

Introduction

COVID-19 is an unprecedented pandemic that has affected every nation and industry across the globe. As per the latest IMF (International Monetary Fund) report of January 2021, the global economy shrank by 3.5 percent in 2020. [1]. While the declining demand for goods and services may be temporary, many organizations and governments are scrambling to adopt long-term measures that are vital to thrive in a post COVID-19 world.

The Middle East region is no different, having faced significant adverse impact from COVID-19. As one of the world's foremost centers of crude oil production and trade, the economic slowdown here has had a wide-ranging global impact. For the purpose of clarity, in this document, the term 'Middle East' refers to the countries of Western Asia, excluding North Africa from the MENA region.

According to NATO, the Middle East is one of the world's most important sources of energy, producing around 37% of the world's oil and 18% of its gas [18]. Due to the pandemic, in addition to demand slumps, labor shortage, lack of tourism, limited public spending, and periodic lockdowns, the region was also grappling with plummeting oil prices [3]. The World Economic Forum (WEF) reports that the global demand for crude oil had fallen by 29 million barrels per day due to COVID-19, causing a price war and declining oil prices [4]. In the US, oil prices dropped below US \$0 at one point. To top it all in the latest published in January 2021 the Middle East and Central Asia (MCD) region has a degrowth of -3.2 percent in 2020 while Saudi Arabia had a drop of -3.9% [5].

Large Middle Eastern conglomerates with businesses across several product and service lines have value chains spanning domains like sales, services, automotive parts, rental, leasing, tourism, and hospitality. These B2C lines of business depend heavily on customer movement, spend and lifestyle. With COVID-19 impacting all these three areas, business conglomerates are looking for ways to stay afloat.

WEF predicts that businesses using technologies like cloud computing, artificial intelligence (AI), robotic process automation, and digitization can cope better during and post the pandemic [6]. The following sections explore how these different technologies can help Middle Eastern conglomerates keep up with the changing world.

How COVID-19 is affecting business houses in the Middle East

Family-owned diversified business groups accounted for over 75% of the private sector economy in the Middle East, according to a WEF article [7] and PWC survey [8], in 2019.

Many of these conglomerates operate across sectors and geographies and are

responsible for nearly 60% of the region's GDP. They have several lines of business (LoBs) across the automotive, rental, leasing, travel, aviation, construction, manufacturing, engineering, and financial services industries. Table 1 names the

Top 5 Arab family businesses in the Middle East and their LoBs (as per the Forbes 2020 list). As seen, each group is well diversified in terms of business lines and this trend of diversification is common across all the business houses.

Company	Country	Sector
Mansour Group	Egypt	Diversified: Automotive, dealership of Caterpillar products, financial services, food, private investment and development, and non-profit
Al-Futtaim Group	UAE	Diversified: Automotive, financial services, real estate, retail, health, dealerships for Toyota and Honda, and tractor manufacturing
Olayan Group	Saudi Arabia	Diversified: Real estate (office, retail and residential), hotels, holdings in Credit Suisse and in Saudi British Bank (SABB)
Majid Al Futtaim	UAE	A retailing and entertainment giant owning and operating shopping malls and hotels with franchise rights to Carrefour stores
Rashed Abdul Rahman Al Rashed and Sons Group	Saudi Arabia	Diversified: Building materials, cement and bulk materials, finishing materials, real estate, contracting, industrial products, automotive products, and food products

Table 1: Top 5 Arab business houses in the Middle East

Source: Forbes 'Top 100 Arab Family Businesses in the Middle East 2020' [9]

Table 1 helps crystallize our focus on the most influential business areas undergoing change due to COVID-19. These areas are further depicted in Fig 1 along with the challenges in each. The delay and disruption in value chains is crippling every sector with its toll on time, cost, materials, and people.

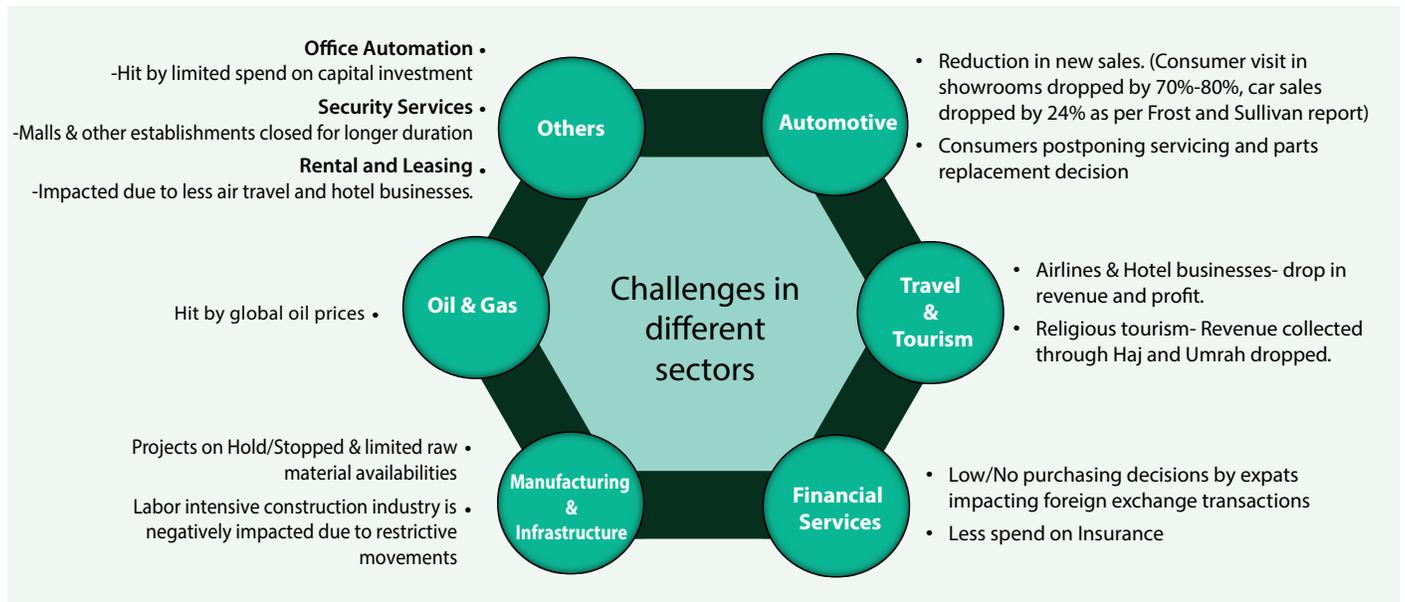


Fig 1: Challenges faced by different sectors

- Travel, tourism and airlines – The airlines and hotel businesses have been heavily impacted due to travel restrictions. The Emirates Group, which includes the airport, airline and travel services LoBs, reported a 28% decline in annual profits in the final quarter of the last financial year (Mar'20) due to the coronavirus [10]. It is estimated that Islamic pilgrimages – Haj and Umrah – contribute nearly US \$12 billion per year to the Middle East economy, [11] a number that has taken a nosedive due to the suspension of religious tourism in the wake of the coronavirus.
- Automotive – The economic uncertainty and job insecurity has led to reduced car sales. Consumers are also postponing vehicle servicing and parts replacement due to the pandemic.
- Financial services – Overall, spend on insurance has decreased. As the pandemic evolves, many expatriates are afraid of losing their jobs and, hence, are conserving money and reducing expenditure. This has also impacted foreign exchange transactions.
- Oil – The break-even prices per barrel of oil for 2020 as listed by the IMF were: US

\$45 for Qatar, US \$91 for Bahrain, US \$54 for Kuwait, US \$70 for the UAE, and US \$83 for Saudi Arabia [12]. These figures are double or triple the lows hit by oil prices when they crashed to nearly US \$20 a barrel in April 2020 [13]. This is an alarming situation for oil-producing companies, compounding conservatism across the board and stalling numerous brownfield and greenfield projects. Effective States and Inclusive Development (ESID) reports that many brownfield projects have been cancelled and a rise in mergers and acquisitions can be expected in the near future [14].

- Construction and engineering – There are a number of projects including those involving social infrastructure that have been stalled or suspended because of the coronavirus outbreak. This has led to job losses as well as diminished demand for engineering supplies and raw materials.

The challenges in each sector are different. While airlines and tourism are hit because of the inability to travel, the automotive sector suffers due to conservatism and reduced spending. The oil and gas industry is buffeted by weak industry demand while construction stagnates from lack of

opportunity and funds. Thus, the underlying and immediate need is to generate demand.

Considering the troubled time in the recent years, it is an opportune time for Middle East business conglomerates to embark on digital transformation and evolve with the market. With social distancing becoming the new normal, it is technology that can drive a touchless economy. It will become the enabler of new ways of transacting by providing hitherto unseen capabilities. It will support resource sharing, economies of scale, and cross/up-selling to attract customers.

A McKinsey survey in the Middle East shows that while residents of the region are heavy smartphone, social media and internet users, business groups are not yet fully digital [15]. With COVID-19 impacting cash flows, the time is now for business conglomerates to embrace technology.

The following sections explore the capabilities that technology can bring and how it can help shape the future of the Middle East. For some sectors like tourism, oil and gas, and construction, the adoption of technology is more engineering-driven and, hence, these sectors have not been considered in this paper.

Strategies for Digital Adoption

In the current scenario, technology adoption must be viewed as an opportunity that unlocks new channels, attracts new customers, penetrates new economies, and supports new businesses. The Middle Eastern population comprises a sizeable proportion of digitally savvy youngsters and the penetration levels of mobile broadband and social media are among the highest in the world. Clearly, the uptake of digital technology among customers is not a challenge in this demographic.

Depending on the time and investment needed, the business strategy for technology adoption should include:

1. Short-term goals – These address the immediate need to attract customers and jumpstart cash flows. They need little to no investment in digital strategy and are more oriented to digital adoption in marketing.

2. Mid-term goals – These are about digitalizing key business functions with the objective of saving cost and becoming more agile. It includes implementing technologies that act as a gateway to digitalization while preparing for the new normal.

3. Long-term goals – The focus here must be to create plans that make businesses more competitive, trans-national and influencers of consumer behavior. Long-term goals are more strategic in nature. They help organizations make paradigm shifts for business sustenance.

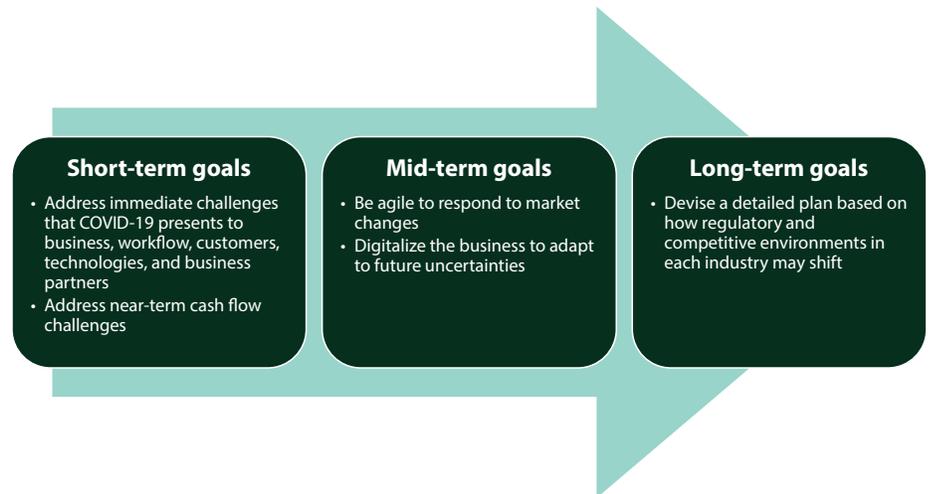


Fig 2: Realigning goals with business objectives in a COVID-19 scenario

Short-term goals

Short-term measures are steps that can be taken by business groups with minimal investment. In some cases, they leverage existing infrastructure and are usually easy to implement. Some examples include enabling digital commerce and digital payments as well as extending customer reach on social media.

Sector	Short-term digital adoption
Retail and general sales	<ol style="list-style-type: none"> 1. Since 2014, e-commerce in the Middle East has been growing at a cumulative rate of 25%. 90% of the market is dominated by online-only retailers [16]. The immediate strategy for the retail industry should be to find new sales channels and sell products on e-Commerce platforms like SOUQ and JADOPADO 2. Companies should use digital marketing to increase mindshare among customers. They should proactively provide information to customers by uploading videos on websites, sending email communication, posting on social media, etc. 3. Configure online sales channels as a way to book sales appointments
Automobile rentals	<ol style="list-style-type: none"> 1. Publicize activities like daily sanitization of vehicles and offer a guarantee on sanitization 2. Liaise with existing car rental apps like Hertz, Avis, Europcar, etc., for cross-loyalty programs 3. Make provisions for online bookings of appointments
Automobile sales and servicing	<ol style="list-style-type: none"> 1. Provide contactless service through pickup trucks for vehicle servicing, rental and leasing 2. Roll out online/digital campaigns with offers 3. Promote contactless delivery 4. Promote contactless demos of cars in showrooms
Financial services and insurance	<ol style="list-style-type: none"> 1. Introduce an online portal for vehicle insurance and renewal with digital payments 2. Run online/digital campaigns with offers

Table 2: Short-term goals for digital adoption

Mid-term goals

Medium-term goals are oriented towards adopting the latest digital technologies. This requires some investment, implementation effort, training, and time. It may also require specialized IT services with relevant consulting, implementing and support expertise. But these measures are a crucial first step towards extensive digitalization and provide significant benefits to adopters.

Sector	Mid-term digital adoption
Auto sales, services and parts	<p>Auto dealers are witnessing a sharp increase in online traffic as showroom footfalls decline amidst the COVID-19 outbreak. Some modern technology-enabled solutions for automotive dealers are:</p> <ol style="list-style-type: none"> 1. Virtual reality showrooms: Dealers can showcase the features of vehicles in a contactless manner through VR technologies, thereby minimizing showroom visits while enhancing the customer experience 2. Augmented reality (AR) apps: AR-powered tablet applications are aiding service professionals in performing certain repairs through step-by-step visual instructions, thereby reducing in-person training needs 3. Chatbots: Artificial intelligence (AI), machine learning (ML) and/or natural language processing (NLP) enabled chatbots can assist with anytime, anywhere customer service 4. Online reservation systems: These support digitalized test-drive reservations and bookings
General sales/ service with loyalty programs	<ol style="list-style-type: none"> 1. Companies must spend money and effort to build a customer database on which they can run advanced data analytics to: <ol style="list-style-type: none"> a. Create targeted ads based on purchase or service records b. Enable targeted upgrades based on inquiry and interest 2. Auto and appliance dealers should identify customer segments with a regular servicing history and proactively engage them through all digital channels 3. Instituting loyalty/reward programs encourages customers to transact with the entire business group, improving customer retention 4. Use multi-channel customer service systems like chatbots and online helpdesks 5. Implement digital wallets for seamless, contactless and secure payments
Rental and leasing solutions	<ol style="list-style-type: none"> 1. Develop an integrated app for car rentals 2. For leasing: <ol style="list-style-type: none"> a. Invest in fleet telematics b. Offer individual lease program (ILP) to digitalize and make the asset available any time for customers c. Digitalize lease contract experience through a mobile app
Financial services and insurance	<ol style="list-style-type: none"> 1. Introduce app-based touchless insurance policy processing and renewals. Customer verifications and product inspections should be made possible through video recordings or video calls 2. Enhance the mobile banking app with other services like utility payments, subscriptions, and more 3. Introduce customer service bots for customer interaction 4. Roll out payment wallets and include options of B2B and B2C payments

Table 3: Mid-term goals for digital adoption

Long-term goals

The long-term goals for digital adoption are more strategic in nature. They include gaining a global reach, infusing greater transparency and reliability, and enhancing the scope of contactless payments for seamless business transactions. Achieving this can help companies overcome geographical boundaries, penetrate new markets and tap into new revenue streams despite the post-pandemic norms of minimal in-person engagement. All digital touchpoints must be optimized for customer-centricity, making integration of online and offline channels paramount for omni-channel experiences.

Technology can help Middle East conglomerates create synergies within disconnected business lines. Long-term goals should be used as key inputs when designing business plans on adapting to this new shift in business and industry.

Sector	Long-term digital adoption
Auto sales, services and parts	<ol style="list-style-type: none"> 1. Workshops and OEMs can leverage digital twin technologies to diagnose problems without customers having to visit showrooms 2. The e-commerce value chain will allow OEMs to ship parts directly to the customer and provide doorstep service for technicians to repair vehicles. This will bring in flexibility and newer modes of business 3. Showrooms can use live streaming as a marketing method to generate sales leads 4. Switching to live after-sales interactions can help resolve customer complaints 5. Showrooms must create interactive websites where customers can select from various models, view these through live streaming, schedule doorstep delivery for a test-drive, pay online, and receive their new vehicle at their address <p>While international brands like Rolls-Royce have already launched experiential showrooms in Dubai, the use of a strategic mix of different technologies can improve the long-term strategy of home-grown business conglomerates as well.</p>
General sales and services with loyalty programs	<ol style="list-style-type: none"> 1. Adopting private blockchain network platforms that are common across business groups can create a new business paradigm whereby customers are able to register on the platform and access loyalty benefits across the portfolio 2. Big data systems can analyze changes in customer behavior during and after the pandemic to better understand their needs. These insights can help product development and marketing teams tailor their offerings for better fitment
Rental and leasing solutions	<ol style="list-style-type: none"> 1. Businesses involved in the sale and leasing of heavy equipment and machinery can look at adopting blockchain system networks for manufacturers, dealers and customers. This will facilitate tracking of usage, maintenance scheduling and product authenticity 2. Leasing contracts can be stored in the blockchain network to mitigate counterfeiting and fraud, a common malady in the equipment parts business 3. IoT can help dealers as well as OEMs gain feedback for real-time monitoring so they can improve response times for a better customer experience. Higher degrees of automation can also be achieved through IoT sensors and digital keys 4. Smart contract solutions can automate some tasks such as tracking lease payments and digitizing voluminous contract documents. Besides reducing manual overhead costs and delays, these also improve transparency into contract performance
Financial services and insurance	<ol style="list-style-type: none"> 1. Blockchain can be useful for insurance customers, agents and companies to set premiums, assess risk and ensure process transparency among all stakeholders 2. Analytics reporting and customer sentiment analysis across all products provided by the conglomerate can encourage cross-selling of other financial offerings
Real estate business	<p>As in most regions, the real estate business in Middle East is marred with tedious paperwork, numerous intermediaries and risk of fraud. Automation, blockchain and advanced analytics are the technologies to improve efficiency and minimize risk in this industry.</p>

Table 4: Long-term goals for digital adoption

Three-step approach to digital journeys

Step 1: Assessment

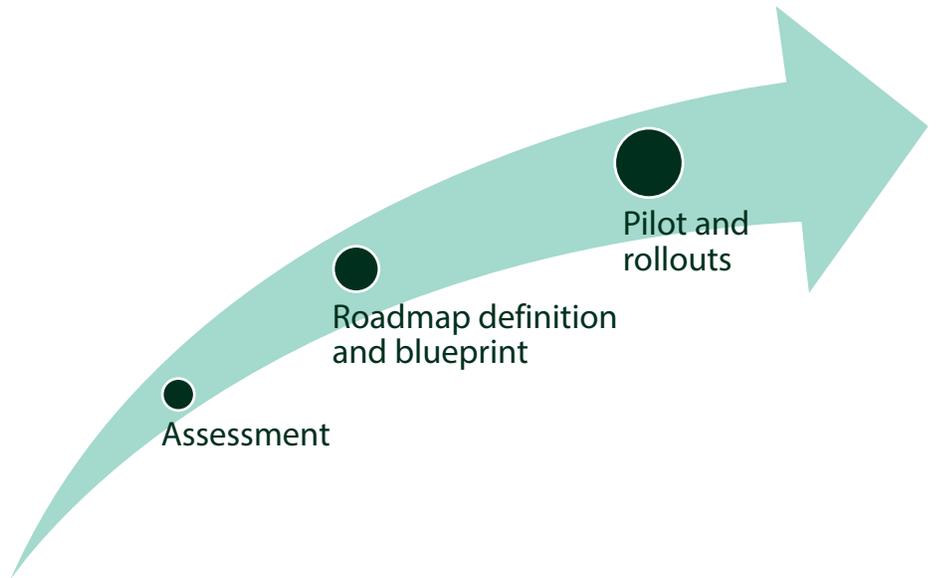
Depending on the industry and business pain points, enterprises should articulate the objectives of digitalization. For instance, the goals could be to enhance customer experience, make IT infrastructure agile, scalable and cost-effective, drive business process transformation, or enable insightful business analytics. After defining these objectives clearly, they should assess technical solutions readily available in the market. As mentioned in the section on short, medium and long-term goals, it is important to assess and map technology enablers – like social, mobile, analytics and cloud (SMAC) tools, AI, ML, NLP, blockchain, IoT, etc. – to the end goals. A business case should also be developed taking into consideration the business priorities.

Step 2: Roadmap definition and blueprint

Using the identified technology enablers and business objectives, a high-level solution architecture must be defined. The blueprint should be approved by both business and IT teams. The roadmap should define how new capabilities will be phased over a period of time based on business priorities. It should also include timelines in order to optimize cost and prioritize quick wins.

Step 3: Pilot and rollouts

An agile and iterative approach can help implement digital solutions while retaining modernized and legacy IT elements. It will help deploy new technologies in stages, allowing organizations to execute their digital transformation programs in a phased manner with measurable value. Using an approach that includes pilot rollouts and subsequent scaling will de-risk any impact on the business as opposed to a 'big bang' approach.



Conclusion

The COVID-19 pandemic has highlighted how vital technology is to sustain the global economy. Regions like the Middle East have faced the brunt of the pandemic as lockdowns impacted not only travel, tourism and hospitality sectors but oil, gas and construction as well. Home-grown business groups looking to stay ahead in a post-pandemic world must seize the opportunity and take to digital to reimagine how they deliver services

and products even as social distancing becomes a way of life. Categorizing digital adoption strategies according to short, mid and long-term goals will help organizations identify time, cost and effort investments needed at each stage along with the corresponding value. A proven implementation methodology will further enhance ROI from these digital adoption strategies, empowering businesses in the Middle East to not merely stay afloat, but also sail through these tough times.



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