



بنك الإمارات دبي الوطني
Emirates NBD

Sector

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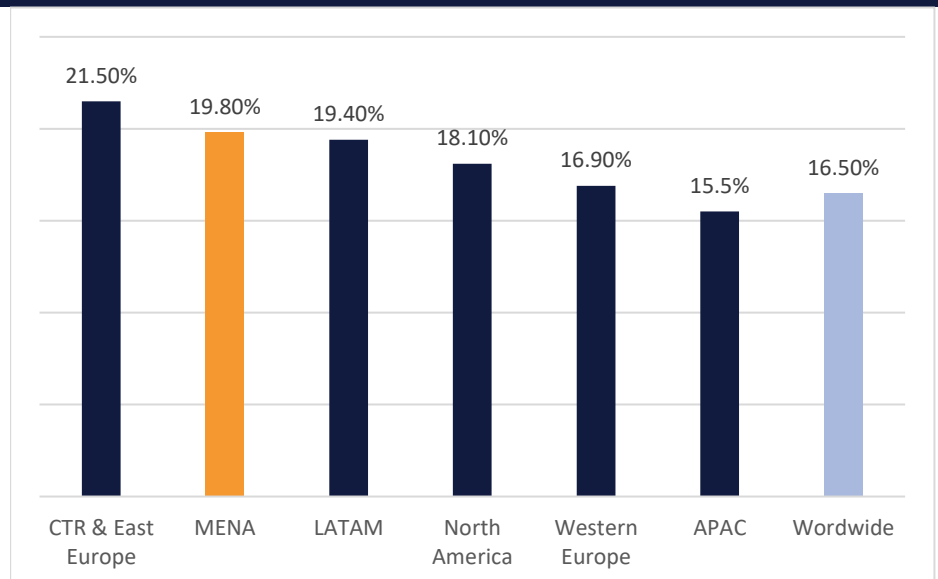
e-commerce: Only warming up

The e-commerce sector in the MENA region (and much of the world) has been one of the clear success stories of the pandemic, as Covid-19 only accelerated a shift that was already taking place. For businesses that have chosen to embrace this shift, e-commerce has delivered. It enabled many brick and mortar stores that would have otherwise been inaccessible through this pandemic to survive, grow and even thrive. It has seen global e-commerce giants become even more strategic players in the global economy. More importantly it has largely altered the DNA of how businesses interact with their consumers, creating value for consumers through pricing and choice, and for businesses through reach and efficiencies.

While the level of development of the e-commerce landscape across much of the region is not really balanced, the region has a number of variables that support adoption. Three main drivers are, a young population that is largely digitally savvy, wide and deep penetration of mobile communications and internet access, and an eco-system that is rapidly adopting digital payment solutions, increasingly through fintech. We see much of the region continuing to embrace this shift towards e-commerce, not only due to the pandemic, but as part of a natural shift that makes sense given the presence of strong drivers that support adoption. In the long run e-commerce will deliver gains to both consumers and businesses in the region and allow economies a platform on which to drive economic development and growth.

In this short note, we will focus on the gains specifically in the UAE, as it leads both MENA and the GCC region in the development of its e-commerce marketplace. Having the highest internet and mobile phone penetration in the region, the most developed digital payment solutions backbone, and as the region's logistics hub, it is natural for the UAE to be an axis for e-commerce in the wider MENA region. We will look at the picture both pre-pandemic and post-pandemic, the dynamics that will drive long term e-commerce trends, and the changes which are likely to come. In short, a snapshot of where we are and where we are headed. We believe the UAE will be the ideal ground where much of the regional architecture defining the new chapter of e-commerce dynamics are drawn and will be an excellent blueprint for the potential the region can achieve in the long run.

Retail e-commerce sales growth by region 2020 (y/y)



Source: eMarketer Emirates NBD Research

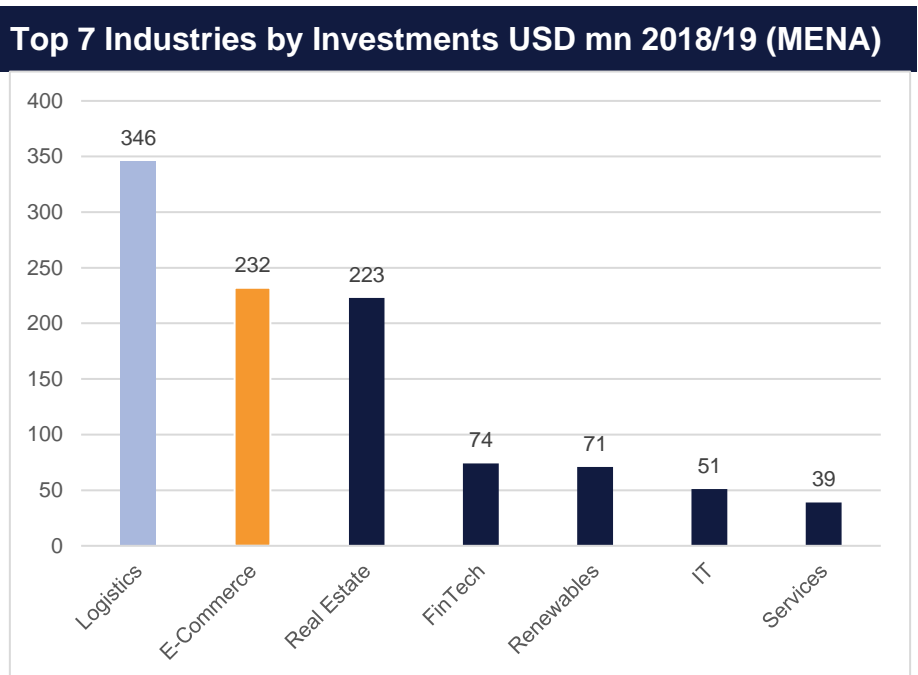
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Where MENA e-commerce stands?

The region's e-commerce sector has been booming over the last few years. According to a whitepaper from Wamda Capital, a regional venture capital firm, the region's e-commerce sector has reached almost USD 22bn at the end of 2020 from USD 4.2bn in 2015. The report states that now close to 80% of young people shop online frequently vs 71% in 2019. The report also says that the bulk of growth in the MENA e-commerce space was led by the UAE, Saudi Arabia and Egypt, the three largest economies in the region, which together account for 80% of e-commerce in MENA. In another report by the e-marketer, the MENA region is cited as the second fastest growing in terms e-commerce at (19.8% y/y in 2020), after Central and Eastern Europe at (21.5%), and ahead of Latin America at (19.4%).

Beyond the dynamics of population demographics, communication penetration and digital payment adoption are other important factors. One is an entrepreneurship culture that has seen some of the most interesting (and non-governmental) economic success stories emanating in the e-commerce space. Names like Souq (now Amazon), Noon, Talabat, Careem to name a few of the larger success stories, in addition to the many start-ups in and around the communication and tech eco-systems, and equally importantly in the fintech space (Please refer to our report [Fintech: The UAE Ecosystem](#))

According to another report by Visa, which takes a wider market scope, the total MENA market size, including all categories, **is forecast to be worth USD 48.6bn in 2022, up from USD 26.9bn in 2018.** Visa points out that factors including high digital and social penetration has meant that GCC consumers in particular have jumped straight to mobile commerce, or mCommerce, and operate across digital platforms with ease. Within this context the report highlights that the UAE remains a hub for e-commerce growth, whether in attracting start-ups or in creating multiple channels to ensure safe and secure payments.



Source: Magnitt, Emirates NBD Research

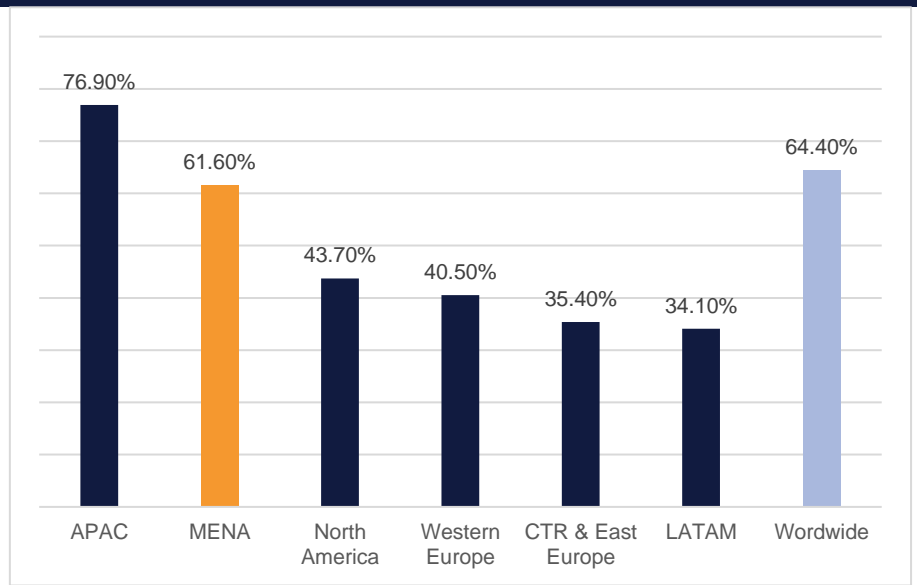
The UAE e-commerce ecosystem

There are a number of drivers that define the success of e-commerce in the UAE. First, demographics in the UAE with a younger population and high per capita GDP, is an important driver for product take-up and appetite for digital channels to access shopping. High internet penetration, with close to 99.2% of the population having access to internet, and the role the internet plays in a consumer’s path to purchase – from discovery, research, to buying. It is the combination of factors ranging from the available infrastructure, the demographics, and the extremely high internet penetration, that make the UAE the region’s leading e-commerce market.

Visa estimates the UAE’s e-commerce sales at an estimated USD 16bn in 2019, followed by KSA, where e-commerce sales are estimated to have reached USD 7.7 bn in the same year. According to a report by Bain&Co the UAE led the region with a penetration rate of 4.2% in 2017, but this was still low compared to advanced western markets such as the UK (15.6%), U.S. (12.3%) and France (10%). We expect this penetration rate to have picked up considerably over the last three years, especially accelerating in 2020, as the UAE e-commerce space, while leading the region, was still some distance away from more developed markets.

According to Visa, its transaction data shows that the UAE maintains a healthy lead in average online spend transaction size compared to both mature and emerging e-commerce markets. The average value of transactions in the UAE was USD 122 between May 2019 and April 2020, compared to USD 76 in mature markets, and USD 22 in emerging markets. Visa data does point out however that transaction sizes have been dropping across all three comparison markets (UAE, emerging, developed) from March 2017 to February 2020, but the fall has been much greater in the UAE with a 25% drop from USD 163 to USD 122, compared to a 6% drop in mature markets from USD 81 to USD 76. This could actually be a sign of the market maturing, as consumers increasingly purchase everyday items such as food delivery and groceries, not simply larger ticket online purchases.

% of retail e-commerce sales conducted via mobile 2019



Source: Visa, Emirates NBD Research

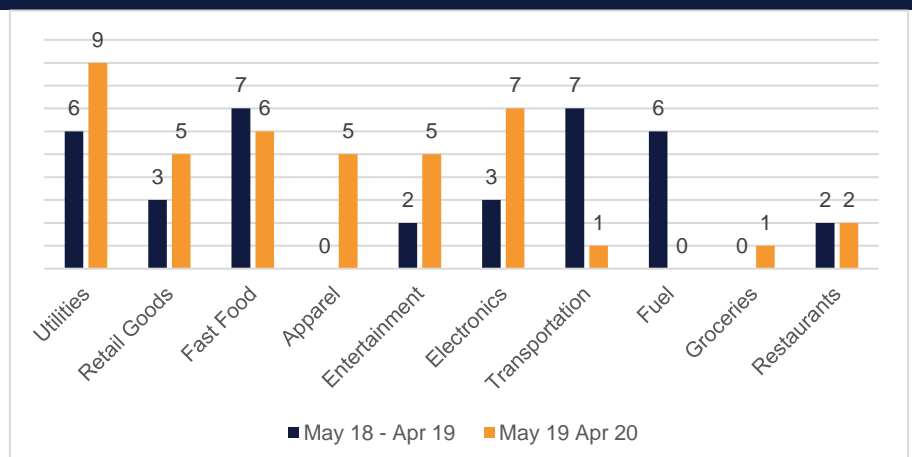
How Covid-19 altered the e-commerce landscape in the UAE

Covid-19 forced onto consumers and businesses habitual and structural changes that were respectively needed to give e-commerce in the UAE the G-force lift to hyper-accelerate growth. Bricks and mortar businesses had to accelerate investment in digital infrastructure and migrate a lot of their customer-facing resources to support their digital marketplaces. Some of the most important examples include Emaar Malls setting up a virtual Dubai Mall on noon.com, and Majid Al Futtaim rolling out an online marketplace through carrefouruae.com. Also, Chalhoub Group capitalized on its partnership with luxury fashion platform FARFETCH for the sale and delivery of its franchised fashion brands. Alshaya Group partnered with noon.com for the sale and delivery of a range of its fashion, beauty, personal care, and home products. For many businesses the pandemic provided the opportunity to test new digital paradigms and has helped them realize both efficiency gains and long-term insights for growth.

Logistics in the UAE is a very important enabler of the e-commerce boom experienced post Covid-19. Given the UAE's outsized position as a regional logistics and transport center it was able to mobilize significant resources across its transport ecosystem to address consumer and business needs, during and right after lockdowns. However, and despite the resources in the wider logistics industry eco-system, delivery companies in particular struggled to fulfil orders and delivery costs increased across the board. The Dubai Road and Transport Authority (RTA) enlisted taxis to deliver online shopping orders to consumers, while Aramex launched its crowdsourcing model, Aramex Fleet, to attain delivery resources in order to satisfy demand without over committing resources. Logistics startup Fetchr raised USD 15mn in 2020 and claims its business was up by more than 77% during the pandemic. We expect the pressures faced especially on this "last mile" leg of the delivery subsector within logistics to have helped the sector identify the needed efficiency and also increasingly get the needed investments to support their long-term growth dynamics.

Payment solutions and especially those driven by fintech solutions also got a boost. The existent model of cash on delivery has rapidly given way to remote and online payment solutions, as consumers ditched cash for health and safety reasons during the peak of lockdowns. The migration to non-cash alternatives has accelerated adoption of credit and payment solutions offered by banks. Consumers are now making a higher number of lower value transactions by card, as the data by Visa shows, reflecting the shift of reducing cash dependencies. We expect the UAE to continue to see growth in fintech payment solutions such as "buy now, pay later" services, digital wallets, and closed-loop payments, especially as both retailers and customers increasingly demand those.

% growth of UAE e-commerce spends by category



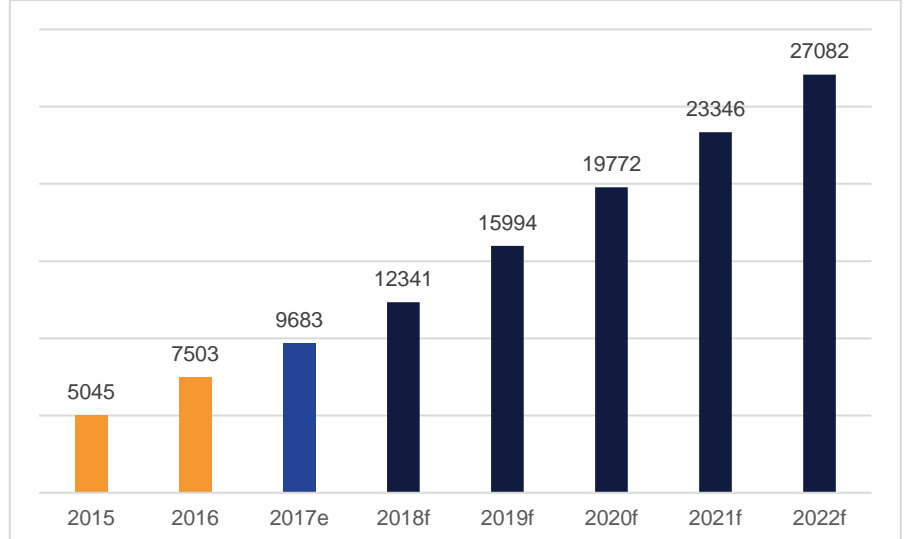
Source: Visa, Emirates NBD Research

Looking Ahead

E-commerce in the UAE will continue a strong trajectory of growth over the coming years. This is in no measure a temporary phenomenon only brought about by the onset of the pandemic and the restrictions it created. The pandemic rather was an important super-driver for the sector, that pushed many of the more hesitant elements of business e-commerce transformation to the fore. In the UAE, as in the rest of the world, resources and specifically logistics were tested to their limits. However, surprisingly businesses largely adapted and the migration to online marketplaces in most instances was successful, allowing business to reap efficiency gains and widen customer reach.

A number of factors will define the success of e-commerce in the region and the UAE specifically going forward. Policy and legislation governing e-commerce needs to continually adapt to the changing dynamics of that marketplace, tightening to protect the rights of consumers and allowing markets to be more liberal and competitive. The UAE has led the region on progressive policy and governance, and we expect policy makers to continually adapt frameworks to support the sector's growth. Investing in AI is very important, as we expect e-commerce to be increasingly driven by AI solutions that will tie in developments taking place in the fintech space. Finally, human resources will always be the most defining element of a sector's success, with Covid-19 opening the platform for human resource deployment from across the globe, we believe companies have the opportunity to scout for the best. *The e-commerce boom is just warming up...*

UAE e-commerce sales USD mn



Source: Visa, Fitch Solutions Data, Emirates NBD Research

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