

E-commerce Sector

IN THE UAE & MENA REGION

2020 INSIGHT





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Foreword

Dear industry colleagues,

E-commerce continues to be an upward trend in the UAE, and this is a promising opportunity for logistics players to expand their operations and capture the untapped potential of cross-border e-commerce. The sector played a major role in boosting Dubai's economy and consolidating its position as an international hub by attracting leading movers and creating a sustainable ecosystem for a multitude of corporations. The key trends affecting the industry are the transition to online payment; the transformation of technological capabilities into quicker, safer, more intuitive, and personalised experiences; and the advent of voice-activated shopping; contextual, social commerce; and virtual instant reordering; among others.

EZDubai holds an important position as the first operational e-commerce zone in the region; therefore, we are mandated to look at the intricacies of this sector and share them with you. We believe that the dedicated zone serves as a valuable reference and rich educational source to the local and international e-commerce community.

This report is part of our commitment to shed light on the driving factors that contributed to the growth of the e-commerce sector in the UAE and the region. We have partnered with Euromonitor to uncover fact-led insights, case studies and industry knowledge. As you peruse the document, you will come to see that the sector is expanding notably in the MENA region. One of the main drivers behind this growth is COVID-19, which is reshaping shopping behaviors, as e-commerce is attracting new users seeking to adhere to social distancing measures. In addition, we have partnered with JLL to show the transformative growth in retail logistics and what trends are affecting it.

On that front, we will work tirelessly to support our industry partners and aid the development of the sector to reach greater heights. I hope this report will serve its purpose and add value to your future endeavours.

Mohsen Ahmad

CEO of the Logistics District, Dubai South



The E-commerce Industry Size and Growth Drivers

We conducted in-depth research to assess the rising level of digital penetration in the region and examine growth drivers that played a pivotal role in consolidating the e-commerce sector across the UAE and MENA.



Internet Penetration



% of population using the internet



% of population using a mobile device to access the internet



% of e-commerce sales of total retail sales

2020

Country	% of population using the internet	% of population using a mobile device to access the internet	% of e-commerce sales of total retail sales
UAE	99%	84%	8%
KSA	96%	74%	6%
KUWAIT	99%	73%	8%
EGYPT	51%	30%	2%
OMAN	93%	74%	4%
TURKEY	78%	74%	14%
INDIA	44%	17%	7%
CHINA	65%	97%	27%

The UAE, Saudi Arabia and Kuwait are amongst the top countries globally in terms of internet penetration, with digital-savvy populations

90% of population using the internet

Countries from the **Middle East**, such as the UAE, Saudi Arabia, Oman and Kuwait, have relatively **high internet penetration rates**, with more than 90% of the population using the internet. In contrast, digitalisation in India and Egypt is still at the development phase.

70% of Middle East population use mobile devices to access the internet

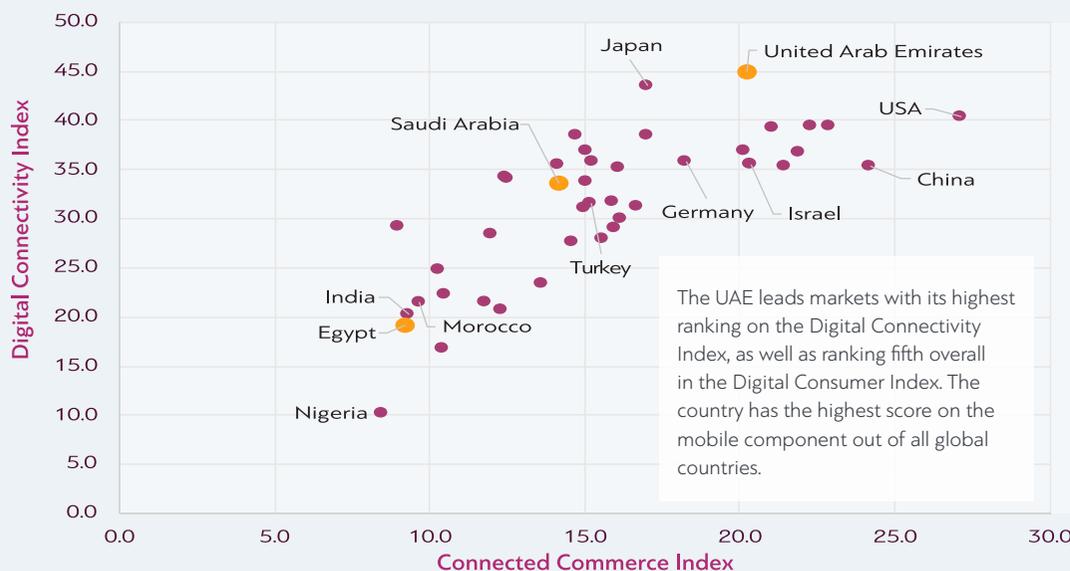
This parameter discloses an even bigger difference between countries in the region. **The UAE is a clear leader in this category, with 84% of its population using mobile devices for browsing, e-commerce or other similar activities, followed by Turkey at 74% and India at just 17%.**

5% of total Middle East retail sales are through e-commerce

E-commerce penetration in the Middle East has almost doubled in 2020 compared to 2019 (from 3% to 5%) on the back of COVID-19 accelerating digitalization.

E-commerce in the Middle East is growing at a faster rate than countries like China as retailers accelerate the shift to online, further encouraged by digital-savvy populations.

Digital Connectivity Index*



The UAE continues to lead emerging markets and catch up to developed economies

- **The UAE is the leading country worldwide** on EMI's **Digital Connectivity Index** due to high **internet penetration, mobile possession rates, and high acceptance and skills** in the digital sphere. **In addition, a well-developed digital infrastructure** allows the UAE to improve its position in the Connected Commerce Index and **keep pace with countries with developed countries.**
- **While Saudi Arabia ranks 30th globally** in the Digital Connectivity Index, weighed down by home connectivity and payment infrastructure gaps compared to the UAE. We can see **Egypt ranks lower (48th) in the Digital Connectivity Index due to underdeveloped E-commerce infrastructure** compared to countries like China and the UAE.

* Includes 50 countries globally

E-commerce Retailing Market

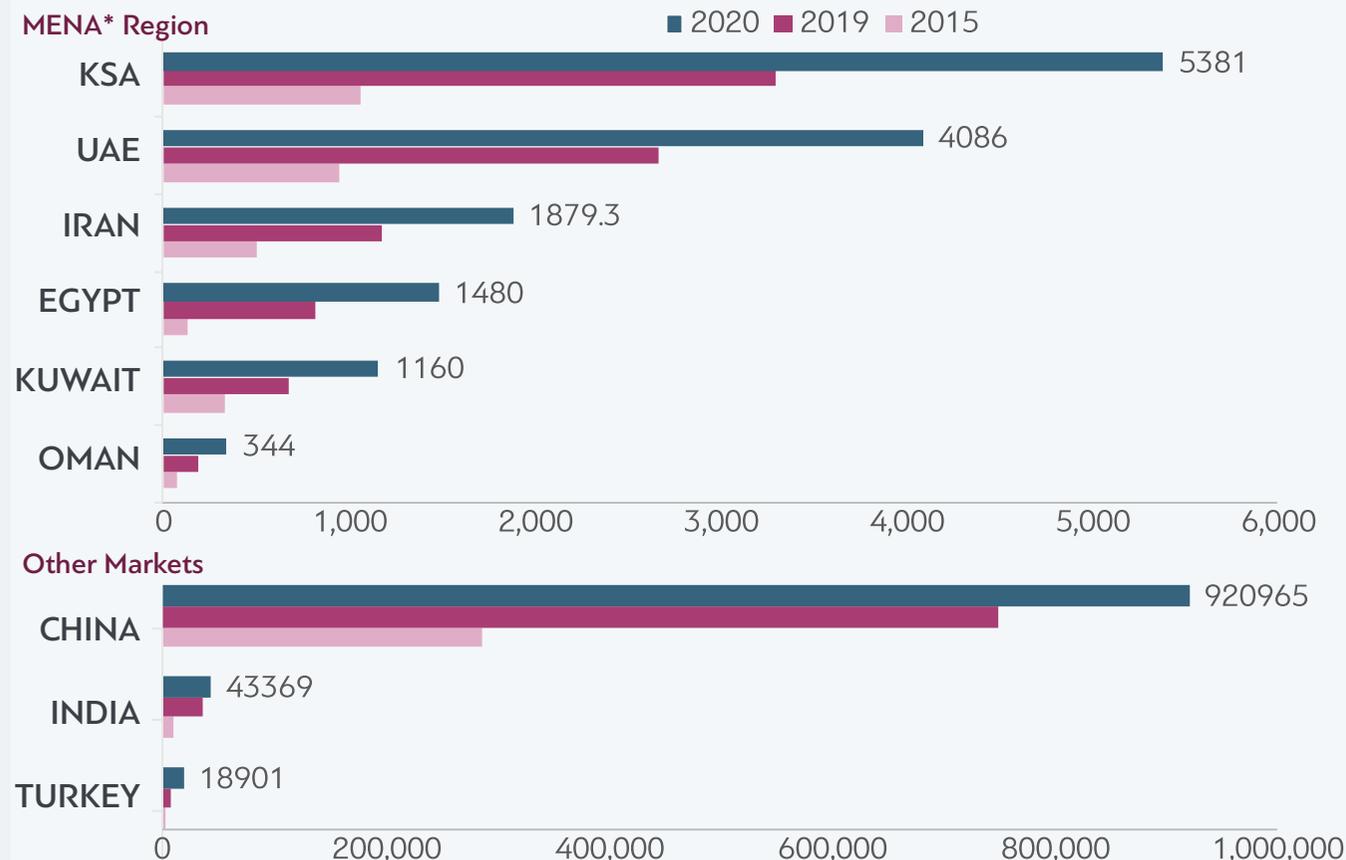


The Middle East saw rapid growth in online sales during 2020

The pandemic situation impacted the operations of physical retailers, service providers and the mobility of consumers. All this facilitated the growth of digital commerce across the Middle East. The UAE, being the regional leader of digital connectivity, was better positioned than other markets. Nonetheless, rapid digital adoption and the evolving nature of young tech-savvy populations across the region are driving digital adoption by retailers.

COVID-19 has accelerated this trend notably, with many retailers opting to invest heavily in online platforms to remain relevant and recoup any losses experienced in brick-and-mortar stores.

Total E-commerce Market Size US\$ million



Note: * MENA in this report includes the UAE, Saudi Arabia, Oman, Kuwait and Egypt

US\$7.6 bn

MENA* E-commerce Market Size, 2019

US\$12.5 bn

MENA* E-commerce Market Size, 2020

+70%

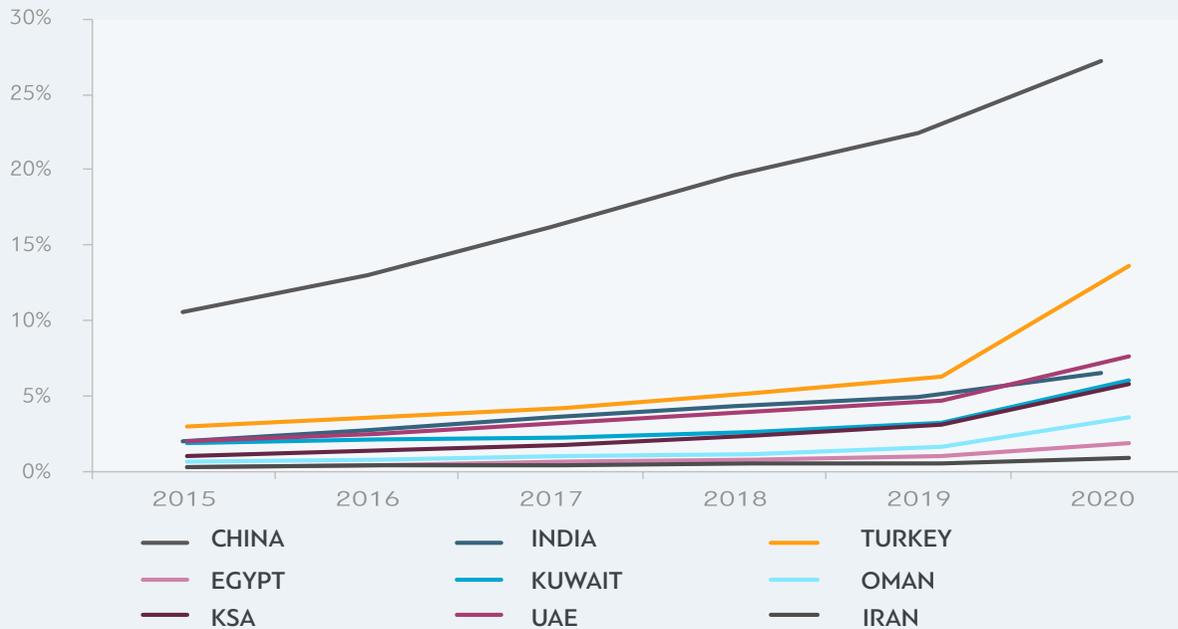
MENA* E-commerce Sales y-o-y Growth in 2020

* Total E-commerce market size in the MENA, including the UAE, Saudi Arabia, Oman, Kuwait and Egypt

	CAGR: 2015-2019	2020 Y-O-Y GROWTH	2020 ONLINE PENETRATION**
KSA	33%	63%	6%
UAE	30%	53%	8%
IRAN	24%	59%	1%
EGYPT	56%	81%	2%
KUWAIT	19%	72%	6%
OMAN	27%	88%	4%
CHINA	27%	23%	27%
INDIA	39%	27%	7%
TURKEY	36%	157%	14%

Note: ** Online penetration refers to e-commerce retailing as a percentage of total retail sales.

E-commerce Penetration: Online Sales as a Percentage of Total Retail Sales (2015-2020)



E-commerce penetration grows rapidly across the globe, with developing countries gradually catching up to China

Based on the E-commerce penetration rate and change in behaviour of retailers and shoppers, we conclude:

- E-commerce was given a boost in 2020 amid COVID-19, various lockdowns and an increase in online presence. Countries which saw the greatest increase in online penetration in 2020 included Turkey, the UAE, Saudi Arabia, Kuwait, Oman and Egypt.
- Various lockdowns and lower store visits led more consumers to move to online shopping, contributing to the jump in online sales in 2020. E-commerce also continued to benefit from company investments in innovative service developments aimed at improving the online customer experience.
- Digital transformation in the Middle East has been significantly accelerated by COVID-19, with e-commerce penetration rates almost doubling in the region.



Online shopping soars to all-time high

Many retailers in the Middle East invested heavily in enhancing their online platforms in 2020 and offering better deals to divert traffic from competitors. A short delivery time has become one of the most important factors of the competitive advantage. In the UAE, Carrefour's delivery took as long as 10 days.



Omni-retailer adoption is growing

The in-store experience remains relevant, with many retailers opting for an omnichannel approach to weather the pandemic storm. One key example is luxury department chain Bloomingdales that has created an online portal in 2020, offering same-day delivery services to customers located in the UAE.



Premium beauty care products offer more discounts to attract consumers

Home seclusion has led to changes in beauty routines as social distancing and staying at home prevail even as lockdown eases. To compensate for sales losses from physical stores, premium companies switched focus to online sales and offering attractive deals to lure consumers.



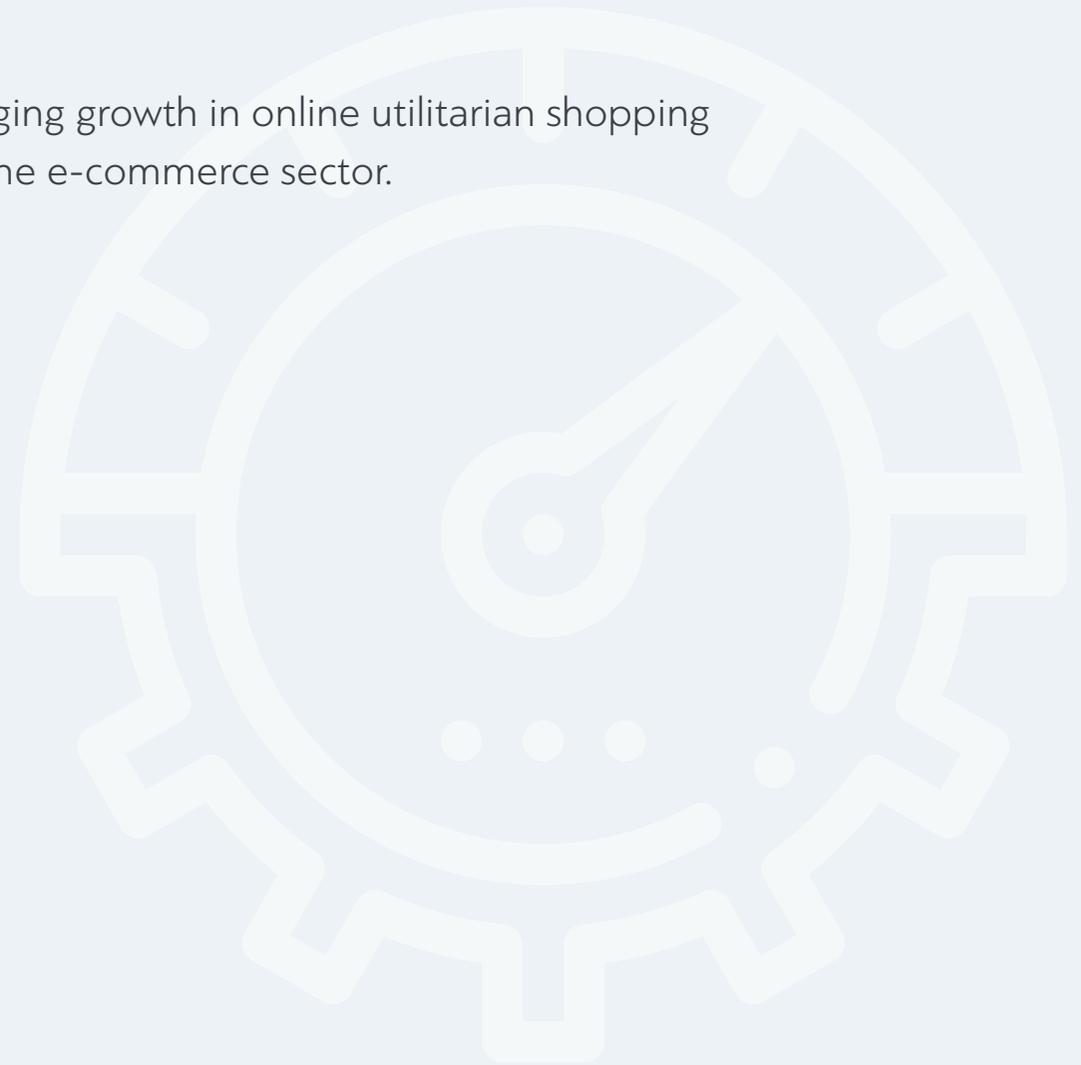
Airlines shift focus to cargo travel as tourism takes a knock

With tourism taking a backseat in 2020, airline companies have tried to compensate for losses by slightly shifting their focus towards cargo. Emirates Airlines introduced new operations to enable cargo distribution using passenger cabins, ramping up its global cargo network.



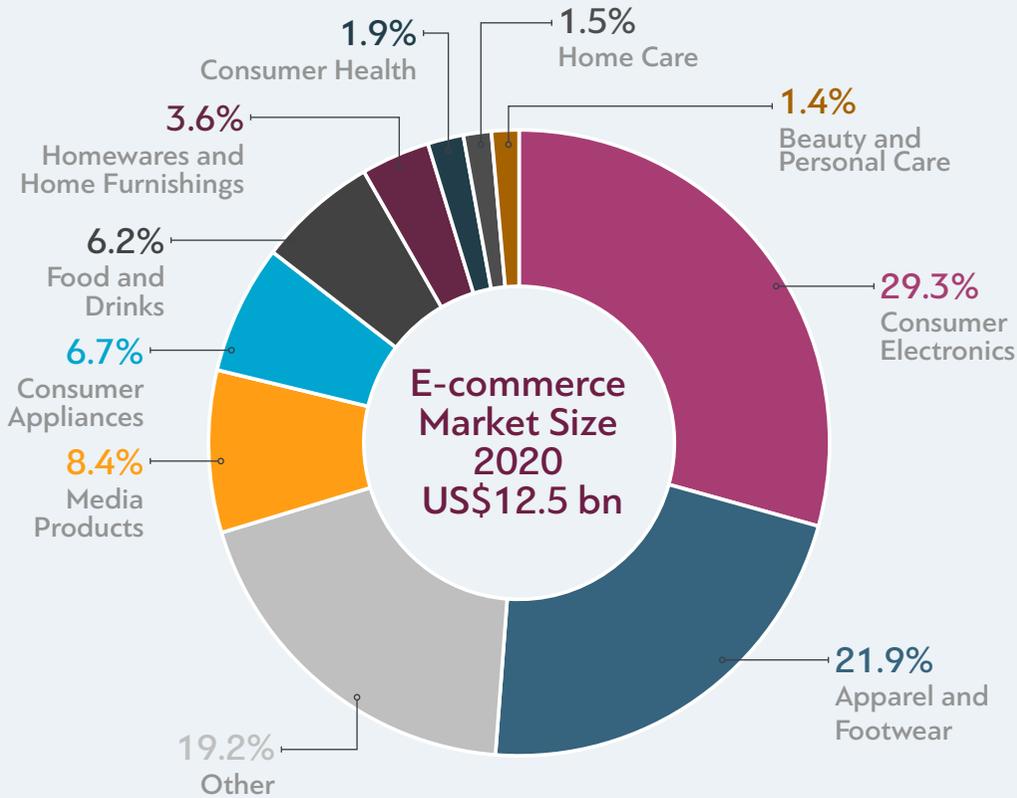
Industry Performance

In this section, we identify the surging growth in online utilitarian shopping and global trends that moulded the e-commerce sector.



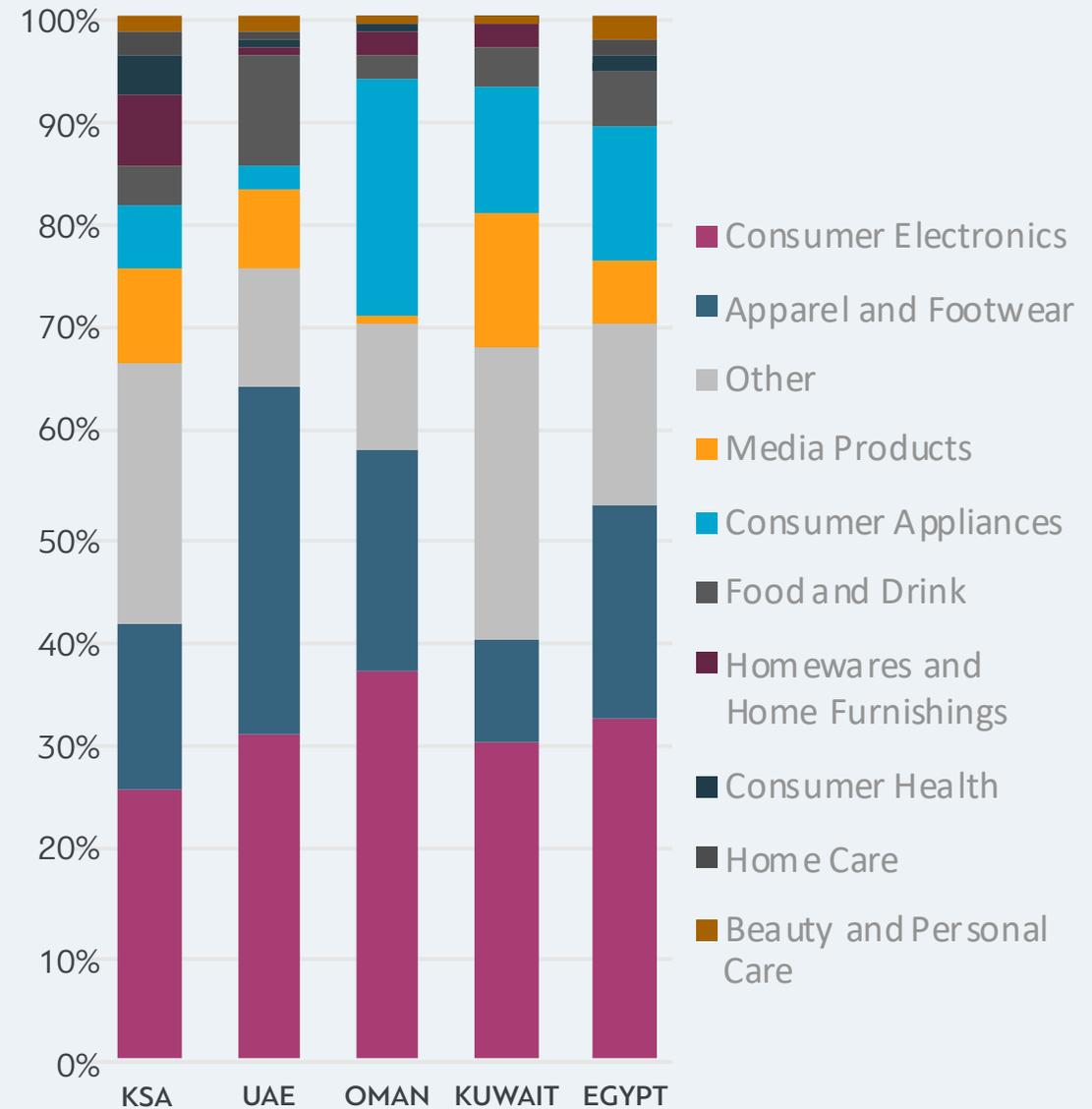
E-commerce Market Size per Category

MENA* e-commerce per category as a percentage of total E-commerce (2020)



Unprecedented growth in online sales of home care, consumer health and grocery items was seen in 2020, largely related to the search for hygiene and health amidst the pandemic

E-commerce per category as a percentage of total E-commerce (2020)



Note: * MENA in this report includes UAE, Saudi Arabia, Oman, Kuwait and Egypt



Home Care

381%
CAGR

Key Facts MENA:

Market Size: US\$180.92 million
Share of total e-commerce: 1.5%
CAGR 2019-2024: 71%

Key drivers:

- The pandemic situation has caused an increase in awareness for hygiene and cleanliness amongst consumers.
- As a result, homecare was seen to be the strongest-growing category for online purchases in 2020.
- Products with strong efficacy properties became even more important during 2020.
- Beyond the pandemic, habit persistence of greater awareness for health and hygiene will likely persist.



Consumer Health

337%
CAGR

Key Facts MENA:

Market Size: US\$231.92 million
Share of total e-commerce: 1.9%
CAGR 2019-2024: 43%

Key drivers:

- Although still a small proportion of e-commerce, consumer health was amongst the fastest-growing categories in the Middle East.
- Along with increased awareness for hygiene, consumers are becoming more aware of health and wellness.
- There was a significant surge in the search for products with immunity-boosting properties, such as vitamin C, as preventative methods against the virus.



Food and Drink

220%
CAGR

Key Facts MENA:

Market Size : US\$777.79 million
Share of total e-commerce: 6.0%
CAGR 2019-2024: 35%

Key drivers:

- The food and drink category has historically been less popular in terms of online sales in the Middle East. Nonetheless, it was amongst the fastest-growing categories in 2020. COVID-19 led many to try online grocery ordering for the first time.
- Fresh and packaged foods have the potential for significant movement towards online sales, as new consumers opt for added convenience of online purchases.

The five global digital trends that redefined commerce most in 2020

As the COVID-19 pandemic continues globally, consumers' lifestyles are being turned upside down, with many of them either self-isolating or even living in lockdowns as some countries have taken strict measures to halt the spread of the virus. These radical shifts in the way consumers live are creating a dramatic shift in consumer interaction with companies.



1. Passive commerce trends are delayed

With consumer appliances sales hurt by the ongoing economic uncertainty, COVID-19 will delay this passive commerce. Only 27% of connected consumers from the Digital Consumer Survey said they would be comfortable with companies automatically reordering products.



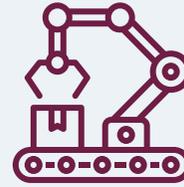
2. Privacy pushback spreads

COVID-19 could set a new norm for surveillance and privacy. Although some consumers may be more open to sharing data in the name of public good, privacy concerns will remain a priority for more privacy-conscious subsets. Companies must continue to be transparent when it comes to data collection.



3. Staying true to oneself

During 2020, social media influencers continued to be a reliable source of information and authentic way for brands to engage with audiences. However, COVID-19 is prompting brands and companies to re-evaluate marketing strategies, which includes the role of influencers. Even before the pandemic, influencer marketing was already facing more pressure to demonstrate ROI.



4. Last-mile arms race intensifies

While comparatively low-tech delivery solutions were expected to see the most growth in 2020, COVID-19 brought forward the promise of high-tech delivery solutions by several years. Over the long-term.



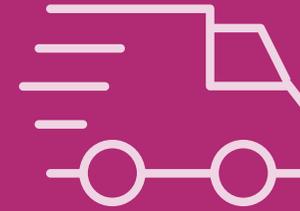
5. 5G steps into the spotlight

While 2020 may not have been the breakout year for 5G as was once expected, the promise of ultra-fast networks is likely to return as consumers resume their on-the-go connected lifestyles. The technology is poised to change the way consumers live.



Omni-retailer approach gains traction in efforts to recoup in-store losses

- E-commerce has typically been dominated by pure players in the Middle East. As an example, **H&M** and **Zara** only launched their online shopping platforms in 2019, while pure online players, such as **Amazon (Souq.com)** and **Jumia**, dominated the online space.
- The COVID-19 pandemic led to a large drop in brick-and-mortar stores, with leading many players adopting an omnichannel approach and entering the online space in an effort to recoup in-store losses.
- **Sephora** and **Landmark Group** are some of the leading examples how the omni-retail approach has been successful in the Middle East. These companies have invested heavily in online platforms over the past few years, while many more retailers such as **Victoria Secret** and **Body Shop** followed suit during 2020.
- The Dubai Mall also partnered with **Noon** to allow over 24 leading brands to sell online, reducing the need to invest in e-commerce.



Delivery services become more relevant as demand for online increases

- As more stores look to omnichannel retailing to enhance the consumer shopping experience, options such as click-and-collect have the potential to help drive online sales.
- Companies, such as **Carrefour** and **IKEA** in the UAE, started offering click-and-collect services for the first time in 2020. In addition, grocery stores, such as **Abdullah Al-Othaim Markets** and **Al-Sadhan** in Saudi Arabia, also started offering similar types of click-and-collect services to minimise in-store visits and overcrowding.
- Although cash-on-delivery is still the preferred payment method, the COVID-19 pandemic is encouraging the use of cashless payment services. Mobile money, card and contactless payments are increasingly becoming more relevant.
- To meet increasing online demand, many retailers have already responded by adapting their infrastructure to support online purchases and incorporate delivery services into their operations.

E-commerce Outlook 2021





US\$7.6 bn

MENA* E-commerce
Market Size, 2019

US\$18.4 bn

MENA* E-commerce
Market Size, 2024

+19%

MENA* E-commerce Sales
CAGR 2019-2024

E-commerce is expected to be the fastest-growing channel during 2021

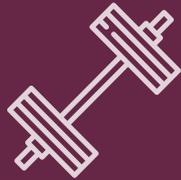
Store-based retailing is expected to grow by a CAGR of 1% over the 2019-2024 period, while e-commerce is forecast to grow by a CAGR of 19% over the same period. Apart from the impact that COVID-19 has had, online penetration in the Middle East is forecast to double to 6% by 2024, compared to 3% in 2019. The acceleration of digital transformation, increased acceptance of e-commerce by consumers and improving logistics, payments and online platforms are driving growth. Typically, buyers tend to prefer “touch and feel” over online purchases, but this is expected to change as improved logistics capabilities enable quicker shipping and hassle-free returns.

* Total e-commerce market size in the MENA, including the UAE, Saudi Arabia, Oman, Kuwait and Egypt

Swot Analysis E-commerce MENA Market

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Strengths



- **Digital-savvy consumers and consumer readiness** in the MENA region support further growth of e-commerce going forward.
- **New technologies**, such as artificial intelligence and virtual sessions using VR technology, have the ability to engage consumer interest, allowing for greater interaction with brands. Easy-to-use apps and websites could further support sales going forward.

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Weaknesses



- **Online payment gaps remain** as consumers still prefer cash on delivery, ultimately resulting in lower trust by consumers for online purchases.
- **Delivery and logistics challenges** continue to hamper growth in online retailing, mainly relating to the speed and cost of delivery in the MENA region. E-commerce players are under pressure to take more control of their delivery services to ensure consistent, timely deliveries and a higher rate of returning consumers.

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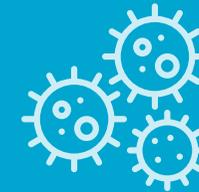
Opportunities



- **Low online penetration rates** compared to global leaders like China imply there is still significant room for growth of online sales compared to store-based retailing.
- **Growth of third-party delivery services** offers opportunities for companies to reach a wider audience both locally and globally.
- **Greater acceptance of online platforms** is expected to reshape the way people shop, with many returning to online shopping in 2021.

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Threats

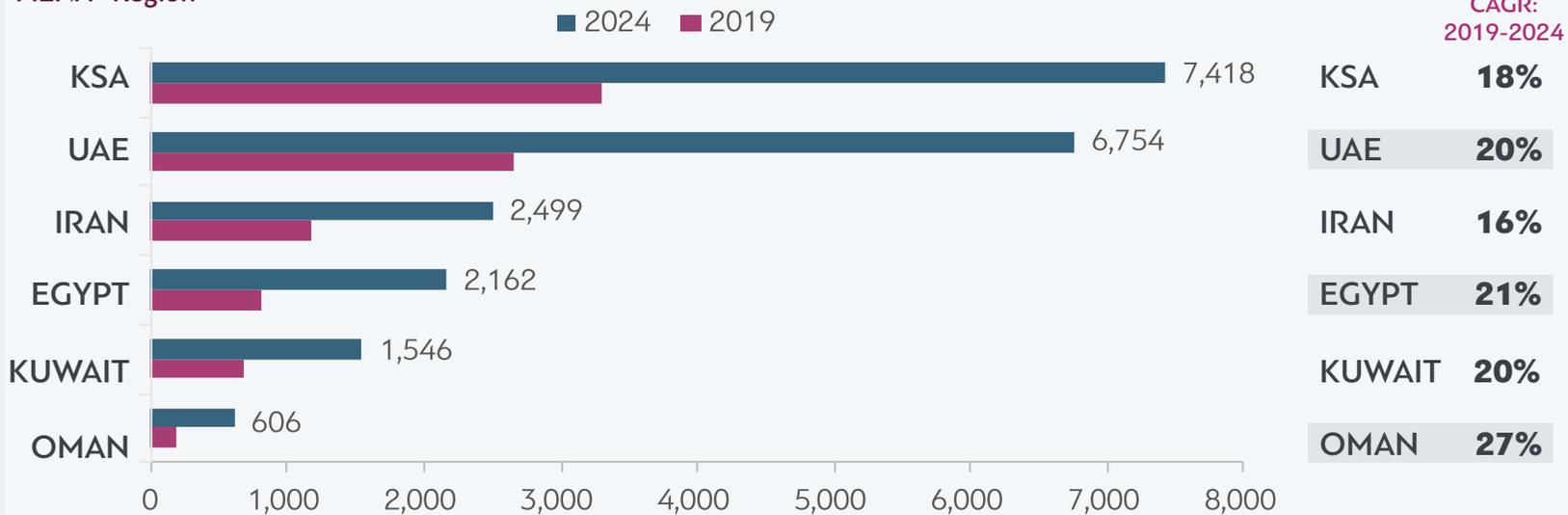


- **Increasing competition in the online space** will likely lead to further investment by major players in an effort to maintain their dominant position. Smaller e-commerce players will have to be innovative to attract consumers, with easy-to-use platforms encouraging interaction.
- **A recessionary mindset** from the negative impact that COVID-19 has had on consumers means that many are looking for discounts and promotions online.

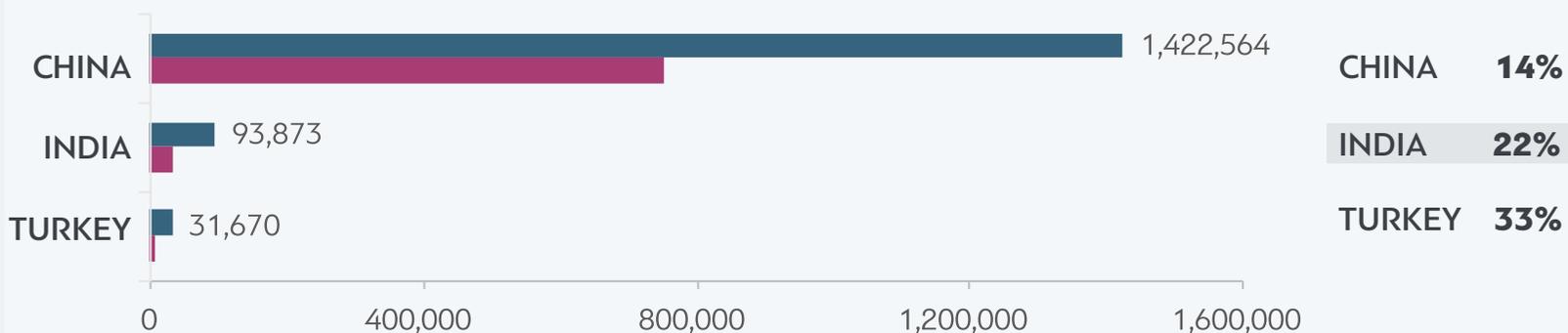
E-commerce Market Size Expected Growth

Total E-commerce Market Size US\$ million

MENA* Region



Other Markets

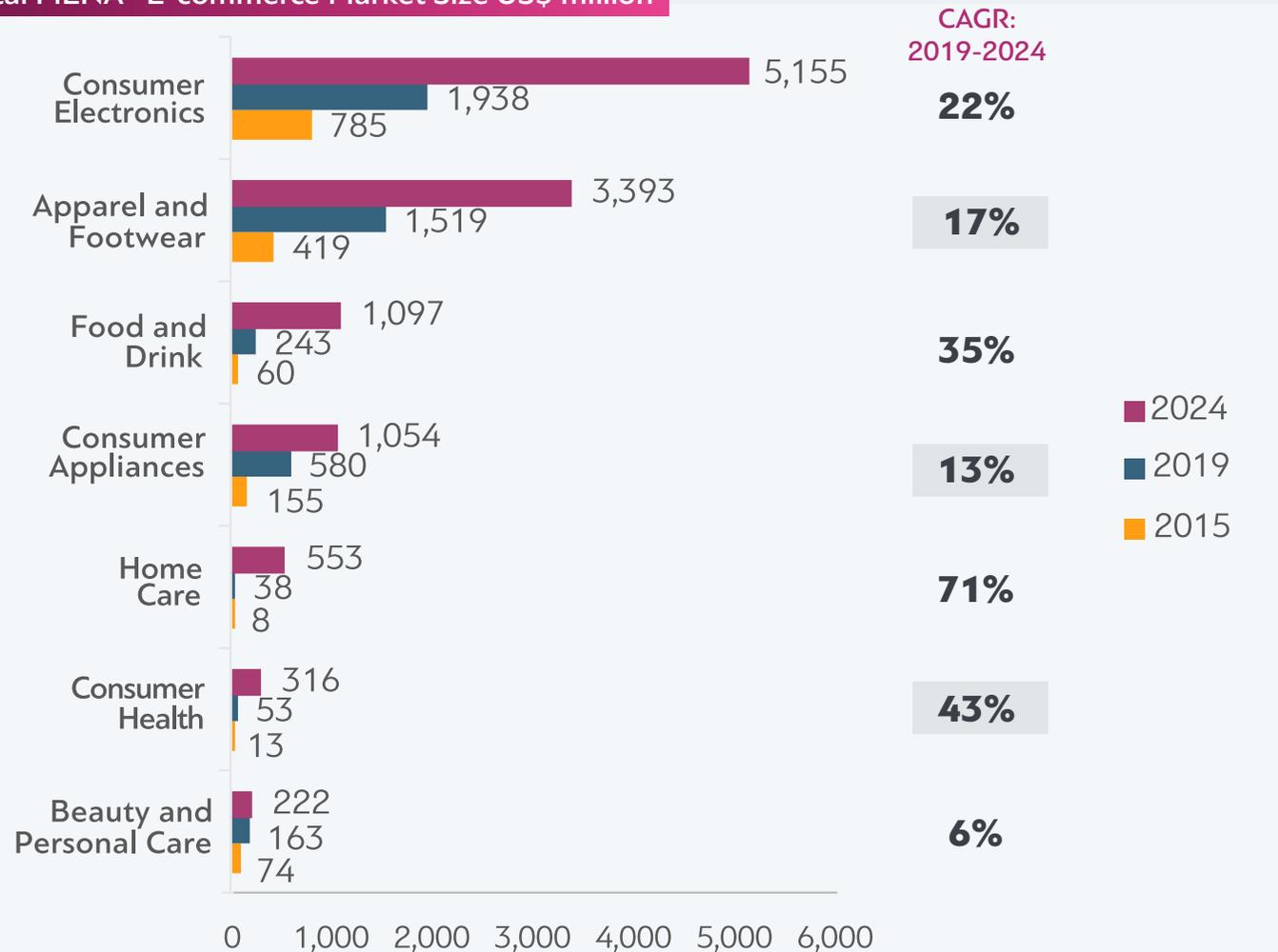


- Looking at future trends, the **UAE** is expected to be **one of the fastest-growing countries** in the Middle East region in terms of **e-commerce value sales**, supported by growth in consumer electronics, apparel and footwear.
- An impressive **21% CAGR** growth is anticipated in **Egypt**. The main factors behind this growth will be a **young consumer base, convenience and increasing utilisation of worldwide marketing campaigns**, such as Cyber Monday.
- However, the **largest e-commerce market in the MENA region belongs to Saudi Arabia**, with growth underpinned by increasing digitalisation and growing internet use. The use of online platforms allows shoppers to see what they want and buy products or services without the need to physically visit a store or shopping centre.

Some of the main drivers of the online sales channel besides COVID-19 are improved internet penetration, fintech innovations, extended offerings and intensified promotional campaigns by online retailers.

E-commerce Market Size by Sector

Total MENA* E-commerce Market Size US\$ million



Fastest growing sectors (2019-2020)



Home Care



Consumer Health



Food and Drink



Consumer Electronics

Apparel and footwear and consumer electronics should remain dominant e-commerce product categories over the next five years

- Typical product categories for online commerce, such as **apparel and footwear** or **consumer electronics**, should keep the dominant share in the future considering the strong demand for these products in the Middle East and well-developed e-commerce retailers.
- However, changes spurred by the pandemic will see categories, such as **food and drink**, **home care** and **consumer health** products, growing notably.



Short Term

- **E-commerce** is **expanding notably** in the **MENA region** despite differences between countries.
- One of the **main drivers** behind this growth is **COVID-19**, which is **reshaping shopping behaviours**, as e-commerce is attracting new users seeking to adhere to social distancing measures.
- The pandemic is also reshaping **retailer behaviour**, as more of them transfer to or enter an online commerce sphere.

Medium Term

- Expansion of online is expected to persist driven by improved **safety in online** transactions, **home seclusion** and enhanced digital availability.
- More players are also developing **regional platforms** to enhance cross-border trade and expand their customer base.
- Countries, such as the **UAE** have an **advantage** to become a key base for regional players due to **well-developed digital and logistics infrastructure** as well as a keen online consumer base.

Long Term

- **Shopping online** is expected to stick in the long term, and even more towards **less typical online categories**, such as **grocery** products.
- **Smartphones** are expected to become even more **affordable**, supporting **e-commerce** and the mobile-app culture.
- The **demand for convenience** will push competition between retailers to further enter online channels.

Transformative Growth in Retail Logistics

The global real estate market has undergone a massive wave of disruption led by three main factors: technology, behaviour and expectations. These have altered the traditional ways of living, working, and shopping. While these changes were already underway, the onset of COVID-19 has undeniably accelerated these shifts, particularly the move from physical to digital.

Nowhere is this more apparent than in the retail sector, with consumers shopping online at a much greater frequency than ever before. As a result, brick-and-mortar stores have had to shrink their operations in favour of adopting omnichannel retailing and fulfilment capabilities to remain competitive.

Since then, there has been an upsurge in demand for logistics and warehousing facilities. According to JLL's Global Real Estate Perspective, occupational demand for logistics space remained resilient globally, growing 32% in Asia Pacific, 21% in the USA, and 16% in Europe Y-o-Y in 2020. While various factors fuelled this demand, the primary driver across all markets globally is e-commerce.

The Regional Retail-Logistics Landscape

These developments echo the trends and shifts witnessed in the Middle East and North Africa (MENA). From a consumer perspective, the region, specifically the Gulf Cooperation Council (GCC), is home to the highest internet penetration levels thanks to its advancement in technologies and digital connectivity. The region also boasts a relatively sizeable young demographic with a flair for personalised experiences (56% of the UAE's population is between 25-44, for example).

As a result, since the pandemic's onset, e-commerce penetration doubled, increasing from 3% in 2019 to 5% in 2020 across the region. Retailers with established e-commerce and digital platforms performed significantly better than brick-and-mortar outlets, which faced pressure during the lockdown periods.

The region also benefits from a solid and well-established infrastructure. According to the World Bank's Logistics Performance Index (LPI) 2018, the UAE ranked 11th globally and the first regionally in terms of the efficiency of its customs, strong infrastructure, quality of logistics services, tracking and tracing, and timeliness. This has supported the country's position as a leading e-commerce hub.

The net impact of these trends is that many retailers across MENA, and particularly the UAE as the main regional e-commerce hub, may find themselves with an excess of retail stores and a shortage of warehousing solutions. As the continued growth of e-commerce pushes retailers towards optimising their portfolios, we can expect a surge of demand for quality, investment-grade facilities and solutions at competitive rates and across a range of size requirements.



Future Trends

The long-term impact of COVID-19 has encouraged retailers and suppliers to restructure their logistical-operational models to remain robust, adaptive, and agile. This has ushered in various new trends set to reshape the industrial and logistics sector moving forward.

Supply chain management

The main challenge for many companies in a post-pandemic world is proofing or developing resilience in their supply chains in the face of future disruptions. According to a study by Capgemini Research Institute, almost 66% out of 1,000 organisations surveyed stated that their supply chain strategies would need to change significantly to adapt to the new normal. This not only ensures business continuity but can also provide a competitive advantage. A clear contingency plan, and the localisation and diversification of products and sources, are among the key capabilities needed to ensure supply chain resilience.

Timeliness and last-mile delivery

The pandemic has accelerated consumers' shopping habits and their delivery expectations, increasing stores' promising on-demand services. Along with grocery and convenience stores, the food industry was the first to deliver products to homes within the hour. Now more retailers are promising to get products to doorsteps within the same day and even within hours. This calls for more sophisticated and efficient distribution models and complex last-mile delivery models that ensure a satisfactory customer experience.



Future Trends

Data & Technology

As the proliferation of property technology increases, the industry will likely witness greater automation in the various processes and stages involved across the supply chain.

Artificial intelligence-based technologies, for example, have the ability to automate administrative tasks and plan supply chain processes. Integrating robotics can reduce human error. Last-mile delivery tools, such as drones and smart lockers, are also integral to logistics as they improve customer satisfaction. Lastly, data is essential to providing actionable insights for improving warehouse productivity and the optimal utilisation of resources.

Sustainability

The pandemic has reminded us of the fragility of our ecosystem and is expected to drive the increased focus on sustainability and environmental, social and corporate governance issues. With real estate accounting for 40% of greenhouse gas emissions, sustainability in the built environment and transportation and logistics will shape the future of real estate recovery. Major corporates will increasingly seek to decarbonise their logistics to reduce their energy costs, meet regulatory demand, and satisfy customers.

The increasing levels of e-commerce adoption and subsequent demand for warehouse space will continue to push the performance of the logistics sector in 2021. Over the next several years, increased requirements for last-mile facilities are anticipated to keep up with online shopping demand. In addition, supply chains will be re-evaluated with more focus on creating efficient and carbon-neutral supply chains.



EZDUBAI

E - C O M M E R C E Z O N E



www.ezdubai.ae

+971 (4) 814 1111

e-mail: info.logistics@dubaisouth.ae

