The proliferation of e-commerce has drastically changed the global retail market. But this megatrend, which has transformed the dynamics of consumer behavior and business models in retail, remains untapped in the Middle East and offers huge potential for industry players.
Major drivers of e-commerce growth in the Middle East, especially in the Gulf region, would be a high spending potential—owing to a high per capita income—developed transport logistics networks, rising internet penetration levels and a growing tech-savvy youth population. The presence of just a few players makes the market an attractive destination for e-commerce investment. With market barriers easing—improved infrastructure, ease of obtaining licenses and better warehousing facilities—and high investment potential, the region’s e-commerce market looks poised for strong growth.

The regional retail market is on the verge of a digital disruption, with industry players undergoing a structural shift from traditional in-store concept to online channel through the adoption of digital technologies. Shift from traditional brick-and-mortar-model to e-commerce

Currently, only 15 percent of businesses in the Middle East have an online presence and almost 90 percent of the online purchases in the region are shipped from abroad, according to technology research company Gartner. This trend is expected to reverse soon with the launch of Noon.com, a large regional e-commerce player, the entry of major international players, such as Amazon (through the acquisition of Souq.com), and by increasing technology adoption.

According to Forbes Middle East and Marmore MENA Intelligence, online sales in the Middle East are estimated to account for only 2 percent of the overall retail sales, much lower than the 15 percent in developed markets: the untapped potential for e-commerce players is huge.

The regional retail market is on the verge of a digital disruption, with industry players undergoing a structural shift from traditional in-store concept to online channel through the adoption of digital technologies. The overall brand strategy would be to establish a strong omnichannel presence to offer a seamless consumer experience.

Shift from traditional brick-and-mortar-model to e-commerce

<table>
<thead>
<tr>
<th>Country</th>
<th>Internet users</th>
<th>Active social media users</th>
<th>Mobile subscriptions</th>
<th>Active mobile social users</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
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</tr>
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<td>Kuwait</td>
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</tr>
<tr>
<td>Lebanon</td>
<td>76.1%</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Saudi Arabia</td>
<td>73.8%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Internet World Stats

Figure 1: Internet Penetration by Country, June 2017
Moreover, the region has seen tremendous growth in internet connectivity in recent years, with penetration excessing 90 percent in Qatar, Bahrain, and the UAE. As per the findings of a Hootsuite and We Are Social study and Internet World Stats, the Middle East accounted for 3.8 percent of the global internet-using population as of June 2017 at 147 million users, an increase of 15 percent from 128 million users in 2016. The region’s current internet penetration rate is 60 percent, well above the global average of 51.7 percent. Such a lucrative consumer base presents huge potential for e-commerce players looking to foray into the region’s e-commerce market.

Rising e-commerce revenue
The region’s online sales revenues have been increasing consistently. In 2016, the revenue was US$22.4 billion, up 24.4 percent from US$18 billion in 2015. The market forecast is to reach US$48.8 billion in 2021, at a compound aggregate growth rate (CAGR) of 16.9 percent during 2016-2021. The UAE is expected to lead the market, followed by Saudi Arabia and Qatar. These countries are expected to jointly account for more than 50 percent of the forecast revenue in 2021.

Even traditional brick-and-mortar retailers are now focusing on providing their customers with an additional online retail platform to augment their revenues. For instance, Carrefour and Lulu Group, two of the largest retailers in the Middle East, launched online shopping portals in the UAE.

Figure 2: Middle East e-commerce market size ($bn)

Source: BMI Research

Figure 3: E-commerce market size by country (%)

Source: BMI Research

On the products front, the clothing and footwear, and consumer electronics and media segments led the online shopping category in 2015 with the grocery category at the bottom as most people prefer buying groceries in stores. This trend is expected to continue in the future as well. In the UAE, the airline and hotel reservations category leads, followed by clothing and footwear, and consumer electronics and media.

Shopping goes mobile
As the trend of shopping on mobile gathers pace, due to the increase in smartphone use and technological advancement, regional players have launched mobile applications in order to attract more customers. Ikea introduced its mobile app in 2013 and Souq.com launched Arabic and English versions of its app in 2014. As mobile technology advances in terms of ease-of-shopping and offering more secure payment options, more consumers are likely to gravitate towards e-commerce and m-commerce.

E-commerce players in the Middle East and consolidation in the industry
Amazon acquired Dubai-based Souq.com in 2017, which had over 50 million customers and operations in all GCC states, positioning itself as a major e-commerce player in the region. With the Amazon Prime membership in place, the company is looking to attract more customers in the future. In addition, in late 2017, Amazon announced the launch of its AWS Data Center in Bahrain as part of its market expansion plan for the region.

Noon.com was launched in October 2017 as a regional rival to Amazon. The US$1 billion e-commerce platform based out of Saudi Arabia was founded by Mohamed Alabbar, Chairman of Emaar. Similar to Amazon, a tech fund led by Mohamed Alabbar acquired UAE-based jadoPado.com in May 2017 prior to the launch of Noon.com.

Other notable e-commerce players include Namshi.com, ebay, Ali Express, Nahel.com, Ubuy.com, Aido.com, Awok.com, Mumzworld.com, and the number is only expected to grow.

Moreover, traditional retail chains are on their way to transitioning to the e-commerce model to serve both online and traditional customers.

Initiatives to support the future of e-commerce
E-governance initiatives
As part of the announced e-governance initiatives, local governments were in the process of integrating paper-based information services such as passports/visa issuance, vehicle licensing, logistics tracking and utilities billing/payments and migrating to the online platform, where they are integrated with standardized or universal online payment platforms. These platforms tend to form the basis for...
online shopping systems, guaranteeing a risk-free experience for consumers. Government-led digitization initiatives are expected to further boost the e-commerce market in the future.

E-commerce hub establishment in the UAE
The UAE government set up a duty-free e-commerce hub Matajircom in 2014, as an initiative to work closely with local and international companies. It is aimed to position Dubai as a global e-commerce marketplace by bringing local and international markets closer.

Digital adoption and transformation
The combination of factors such as high adoption of mobile devices, the readiness of the population to adopt new technology, and digitization initiatives from local governments have positioned the region for a digital transformation. As per consultants Accenture’s technology outlook, the technologies that will reshape the region into a digital economy include Internet of Me, Outcome Economy, Platform Revolution, Intelligent Enterprise, and Workforce Reimagined.

E-commerce trends
Shift towards localization
Retailers have realized that language and localization are extremely important factors to be considered when entering overseas markets. Luxury brands such as Burberry, Dolce & Gabbana, and jewelry retailer Blue Nile have launched Arabic language sites aimed at experimental advertising in Arabic as well. These initiatives will attract more local customers who have avoided e-shopping owing to language barriers.

Cross-border e-commerce
A large chunk of online shoppers in the Middle East have begun accepting cross-border products. Online shoppers in the UAE made 58 percent of their online purchases from overseas vendors in 2016. The recent improvement in gateway security, along with reliable and free shipping methods, have largely persuaded many buyers to purchase products from outside the region.

Effect of social media on e-commerce
E-shopping behavior is influenced by products/brands reviews from social media platforms. Currently, 93 million people, 63.3 percent of the region’s internet-using population, were active on social media. At 99 percent, Qatar and the UAE lead the region’s social media penetration rate (the UAE with 9.2 million users and Qatar with 2.4 million users.) Though social media penetration in Saudi Arabia is low, it is growing at a rate of 73 percent year-on-year, far exceeding the global average of 21 percent. Social media platforms such as Facebook, Twitter and Instagram play an important role in influencing buying behavior. Positive brand/product reviews drive sales. E-commerce players can leverage this platform to drive sales further.

Technology advancement
Though the Middle East e-commerce market is still untapped, the technology trends that influence the global e-commerce market are expected to be introduced in compliance with local regulations. The trends include use of chatbots, artificial intelligence (AI), and Big Data for customer interactions, wearables and mobile devices for payments, same-day delivery, and usage of drones for delivery.

Digitization in food delivery
The region’s online food delivery service sector is growing due to digital evolution. Even the restaurants that have been operating for years now rely on online services for a significant chunk of their business. UberEats, Deliveroo and online platforms such as MakeMyMeal are generating a majority of their business through online channels.

The key catalyst for strong growth of the regional e-commerce market would be a shift in the cultural mindset. Can e-commerce act as an alternative to the traditional shopping experience?

Innovation in e-commerce payments space
Though the majority of payments for online purchases in the region are currently made through cash on delivery, this could change soon. A growing m-commerce market and digitization initiatives by governments are expected to transform the region’s payment ecosystem, leading to increased use of online payment systems, such as digital wallets and netbanking. For example, to support digital payment services, the Central Bank of the UAE has issued a regulatory framework for electronic payment systems.

Challenges
Clogged logistics
The high trade barriers in the region act as a blockage for logistics and online retailers to ship products. These barriers affect small e-commerce players due to high tariffs, changing regulations and volatile currency exchange rates.

Payment systems and delivery
The region has low credit card penetration. Moreover, as per an A.T. Kearney study, buyers made 60-70 percent of their e-commerce payments through cash on delivery due to a lack of trust in online payment systems and internet frauds.
As the region lacks postal codes, the last-mile delivery system is severely affected. Also, the limited number of orders will result in high costs for last-mile delivery.

Impact of Value Added Tax (VAT) in the GCC
The implementation of VAT in the UAE and Saudi Arabia, the leading e-commerce markets in the region, is expected to impact buyers as well as businesses. On the consumer front, as most online purchases are shipped from outside the region, tax would be applicable not only on goods but also on services. On the business front, as the tax system is new in the region, the companies must introduce effective VAT compliance systems, which would lead to higher costs. As more countries introduce VAT, e-commerce players need to be prepared to comply in a manner such that additional costs are not passed on to customers.

What about the future?
The key catalyst for strong growth of the regional e-commerce market would be a shift in the cultural mindset. Can e-commerce act as an alternative to the traditional shopping experience? Or will both the in-store and digital commerce channels complement each other and to grow?

It would be interesting to see what strategies major players deploy to overcome the cultural barriers. But one thing is for sure, e-commerce in the Middle East is here to stay and grow.

Interview with Mr. Madhava M S Rao, Chief Information Officer, Lulu Group International
Why e-commerce?
Businesses today are seeking ways to adopt the changes of consumer’s demanding preferences in an effective and robust manner. With the spread of disruptive technologies, customers today expect retailers to provide the most personalized shopping experience. Multi-channel retailing offers plenty of opportunities for retailers by offering unique insights into customer preferences.

Where is m-commerce now?
The simple answer is mostly everywhere. With boom in smartphone and tablets, the m-commerce has grown rapidly and retailers present in this channel have significantly gained share in their online sales. And you cannot look at m-commerce today without addressing “showrooming”, it is when a customer goes into the traditional brick-and-mortar store to check out a product, then instead of purchasing it at that store, finds the same product online and buys it for a better price. The rise of m-commerce has spurred showrooming growth as well. Retailers present in all the channels have significant brand advantage over others.

Opportunity to retailers
With a presence across different engagement points, retailers gain opportunities to understand consumer behavior with better data collection and insights, which helps drive sales and profits. This not only helps in gaining consumer loyalty but also to drive efficiencies and enhanced productivity from the employees who can benefit from the new innovative technology and serve the customers better. By committing resources and investment on new initiatives, retailers can be more transparent and consistent across all customer queries thereby improving the brand recall value and customer perception.

It would be interesting to see what strategies major players deploy to overcome the cultural barriers. But one thing is for sure, e-commerce in the Middle East is here to stay and grow.

by Anish Mehta, Director, and Sachin Bhandari, Senior Manager, Deloitte, UAE