

Marmore Industry Report

2017

GCC Online Retail

Browse, Like, Compare, Buy

Research Highlights

Examining the current status of Online Retail sector in the GCC, including the various trends, and growth drivers. The report also analyzes payment systems that are currently in use, challenges faced by online retail merchants and consumers, and highlights the key market players in the region.

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INDUSTRY RESEARCH REPORT

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Executive Summary

Euromonitor estimates that the global e-commerce sales has been rising at a rate of 21 per cent, since 2008, and hit USD 995bn in 2015, and USD 1.2trillion in 2016. By 2018, this value is expected to reach USD 1.5trillion, implying a CAGR of 14.8 per cent from 2015. This growth is primarily due to the rapidly expanding online and mobile user bases in emerging and frontier markets, increases in mobile commerce sales, advance shipping and payment options, and major brands pushing into newer international markets. China, India, Russia and Indonesia markets will continue the drive e-commerce in the Asia Pacific, while Argentina, Mexico, Brazil, Italy and Canada will push for e-commerce growth in the Americas and Europe.

Compared to developed and emerging markets, online retail in the GCC is still at a very nascent stage. The size of the e-commerce business in the GCC is less than USD 7bn, while countries in Asia-Pacific, North America and Western Europe presently account for 90 per cent of the global e-commerce sales. Currently, e-commerce is being developed as an extension of physical retail stores in the GCC, with few alternatives for pure retail channel websites.

But with rapidly improving ICT infrastructure, increasing number of internet users, and high penetration of smartphones and tablets, the popularity of e-commerce is increasing among consumers and retailers. Online shoppers are in the GCC, particularly women and single men, are purchasing goods ranging from apparel, electronics, groceries, books, airline tickets, event tickets etc.

Group-buying or coupon or daily deal websites is another increasingly popular concept in the GCC, and is a major driving force behind the growth of online retail sales in the region. Development of advanced online platforms that allows consumers to compare features of various products in a single window browser, and increasing options for delivery and payment have made online shopping a highly convenient experience, and shoppers are also attracted by the various deals offered by these websites.

The increasing trend of price consciousness in the region can be seen in from the growing trend of value retailers establishing their presence in the region. Over the next decade, single channel online retailers will grow across the region, as staffing, rental and overhead costs, and rising competition will drive retailers to virtual retailing.

The 2016 Global Retail Development Index, which lists countries on the basis of market attractiveness, country risk, market saturation etc., has ranked the two major GCC countries (Saudi Arabia and the UAE) in the top 30 in the world, categorizing them as high priority retail market. Online retail markets in Kuwait, Qatar and Oman

continue to rise in importance. With a whole host of local and international retailers, including the major world brands, focusing on GCC countries, online retail in the region is set on course for rapid growth in the coming years.



2

Online Retail Sector

Retail sector has undergone radical changes over the past decade, and will continue to change in the decades to come. Electronic commerce allows retailers and consumers, to buy and sell goods and services over the internet. An online purchase made between a retailer and a consumer, it is referred to as a business-to-consumer (B2C) online shopping, while if the transaction is between businesses, it is referred to as a business-to-business (B2B) online shopping.

Many companies in the retail sector have realized the benefits of virtual shopping, and have transformed themselves from traditional brick-and-mortar shops to providing a virtual shopping experience. Some companies have completely shifted their focus to online shopping, while others carry on with both versions, with the focus shifting more towards online retail. Some of the largest online retailers in the world are Amazon, Apple, Staples, Wal-Mart, Dell, eBay, and Alibaba.

Advancements in technology and a need for more productive utilization of time have increased the push for online retail. With return-and-refund, exchange policies, free-shipping to most major cities, and increasing geographical coverage, online retail is slowly becoming the mainstay in the retail sector. Growth of online shopping is also beneficial to retailers and manufacturers as they get to increase their market footprint and coverage, by catering to offshore market demands and service requirements. A variant of online retail is mobile commerce, which allows purchases from a retailer's

mobile optimized website or mobile app. Success in the retail sector can no longer be sustained only via brick-and-mortar stores. Therefore, most major retailers now offer online store interfaces for consumers.

History

During the 60s and 70s, Videotex was being researched, primarily in the USA and the UK, as a two-way messaging service, which would supply end users with information pertaining to products. In 1979, Michael Aldrich connected a modified home TV to a real-time transaction processing computer via a domestic telephone line, to provide a simple menu-driven human-computer interface. This opened up corporate information systems to outsiders not only for transaction processing but also for e-messaging and information retrieval and dissemination. This started the concept of teleshop- ping, which would later be known as e-business. This participative communications was different from the then traditional definition of mass communication, and became the precursor of social media networking.

By early 1980s, Aldrich launched 'Office Revolution', which allowed consumers, customers, agents, distributors, suppliers and service companies to be connected on-line to corporate systems, and allow business transactions to be completed electronically in real-time. He also designed, manufactured, sold, installed, maintained and supported many on-line shopping systems, using Videotex technology.

These systems and technology pre-date the arrival of the Internet, and were primarily installed in large multi-national corporations in the United Kingdom. Companies such as Thomas Holidays UK, Tesco etc. became the first companies to install a B2B, B2C online shopping systems. In 1982, Minitel succeeded Videotex with varied functions including, making online purchases, checking the share markets, searching the phone directory, and even chatting. It was introduced nationwide by France Telecom, and was one of the most successful services before the arrival of the internet. In 1984, CompuServe launched the first electronic mall in the United States and Canada, where users could purchase items directly from 110 online merchants.¹ Swreg, an offshoot of CompuServe, a secure online payment system was launched in 1987, wherein software developers and shareware authors could sell their product using a "Merchant Account".

The year 1990 marked the arrival of web browsing as we know it today. Tim Berners-Lee wrote the WorldWideWeb, a hypertext-based web of information that a user could navigate using a simple interface called a browser. By early 90s ban on commercial businesses operating over the Internet was lifted, paving the way for Web-based e-commerce.

With the arrival of Netscape Navigator in 1994, security and encryption forged ahead with the invention of Security Socket Layer (SSL) that encrypted messages on both the transmitting and receiving end, thereby ensuring protection

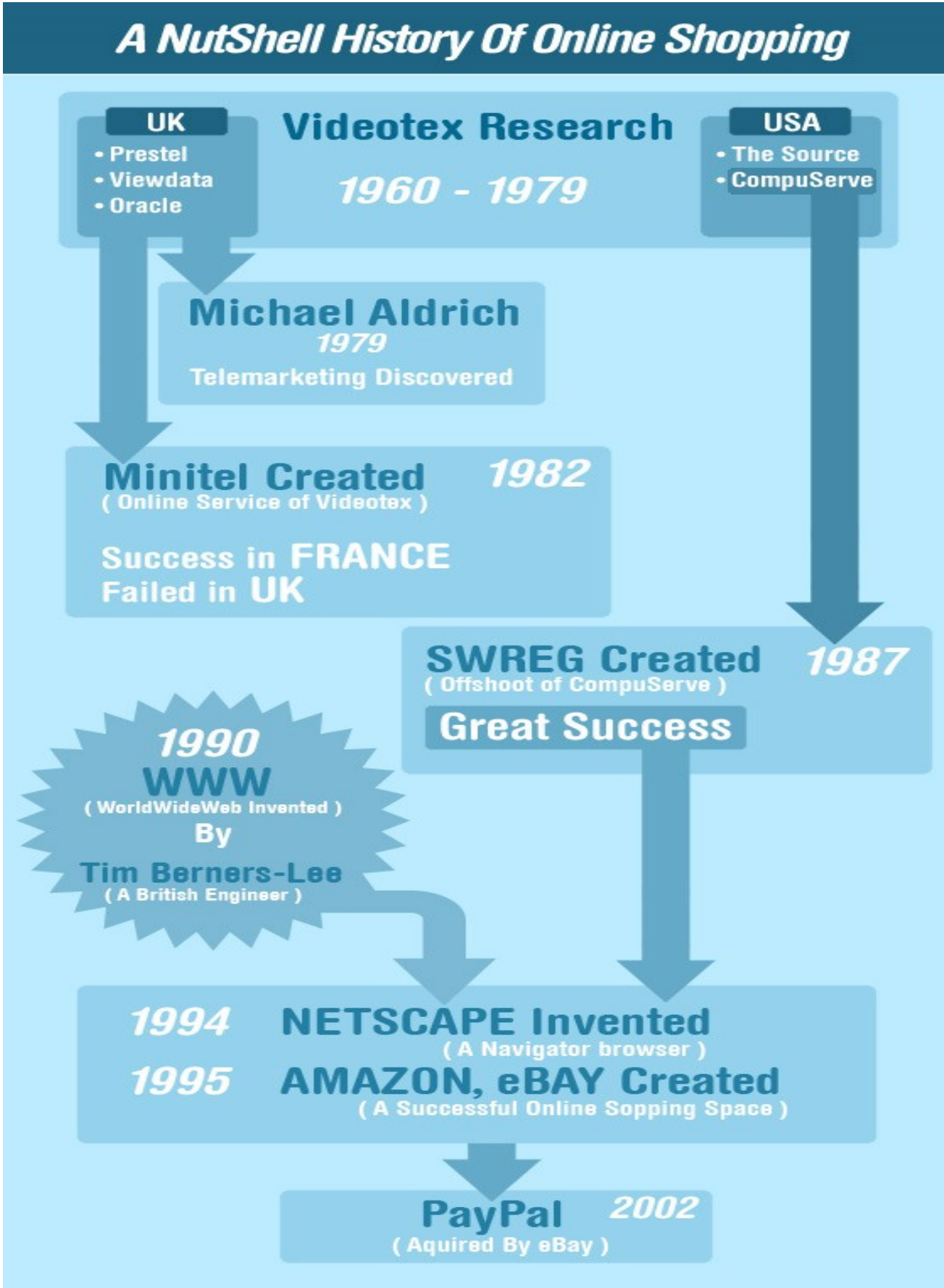
of personal information such as names, addresses, and credit card numbers, which could now be passed over the internet. Companies such as, Pizza Hut started online ordering in their webpages, and items such as cars and bikes could now be purchased via the internet.

The first third-party services for processing online credit card sales (First Virtual and CyberCash) began in 1994-95, and a company called Verisign began developing digital IDs, or certificates, that verified the identity of online businesses. Verisign later focused on certifying that a Web site's e-commerce servers were properly encrypted and secure.

1995 witnessed the beginning of e-commerce as we know it today, with Amazon.com started selling all products online across 45 countries. Other companies such as Dell and Cisco followed suit, and eBay, the first online auction website, where people could sell used items, was founded. The introduction of online banking and widespread use of credit, debit cards, online payment systems that replaced hard currency, coupled with wider variety of products, and facilities that allow for comparison of features and prices also increased the spread of online retail across the world.

¹ Smart Computing

Figure 2.1: History of Online Retail



Source: instantshift.com

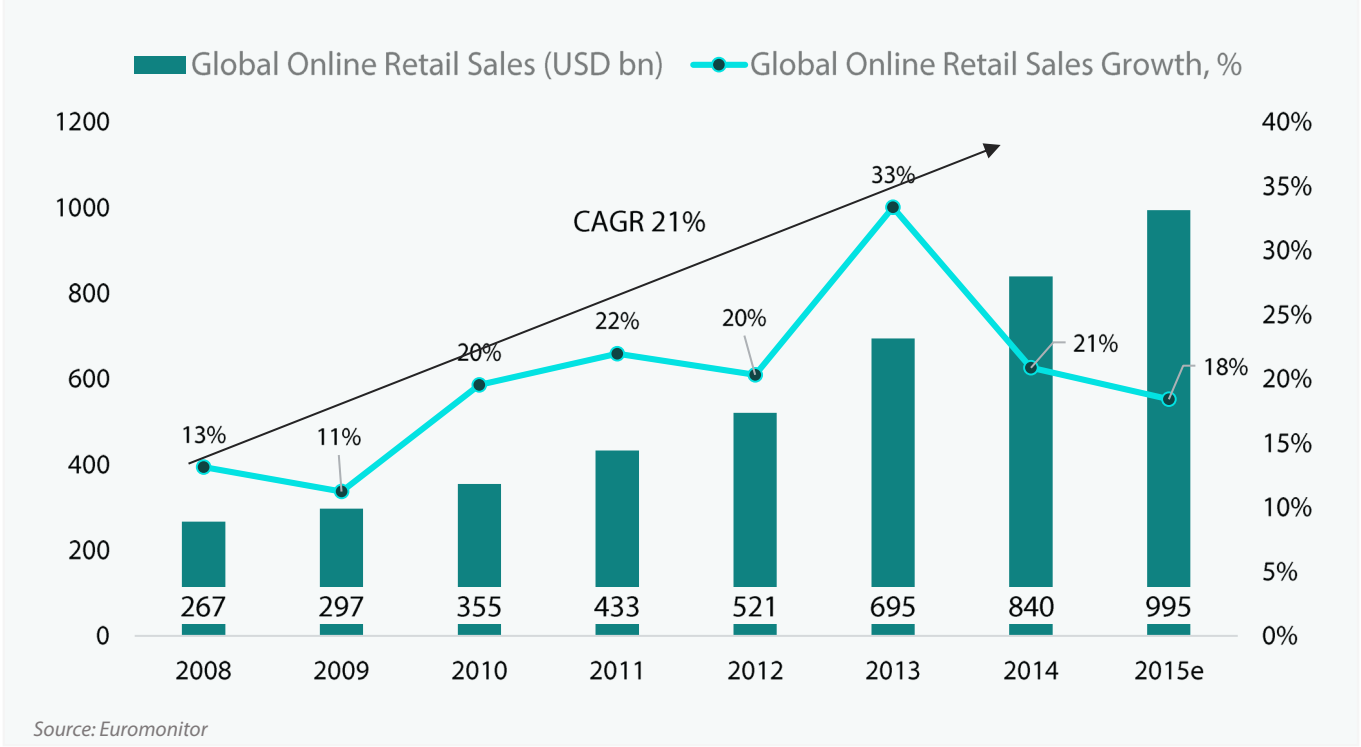
Current Status

Global

Online retailing, in both developed and developing countries, is growing rapidly, with the US, China, UK, Japan and Germany contributing to the most growth. Developing countries have been able to bypass the online retail development curve, with consumers in these markets fast adopting behaviors similar to those in more

developed countries. However, in developed markets, online retailers with an established presence in physical stores are struggling to integrate their in-store and online channels, to offer consumers a seamless shopping experience. Whereas, retailers in developing markets worry less about multi-channel integration, and more about addressing the barriers to online purchasing, such as financial and logistical infrastructure and cultural norms.

Fig 2.2: Global online retail sales, USD billion



Across the world, the past couple of years brought a continuation of the impressive growth of retail e-commerce around the world. While growth sales are declining since 2013, it is still high at an estimated 18%. Online retailers continued expanding to new geographies, and physical retailers entered new markets through e-commerce. As an example of rising e-commerce retail, the stock markets gave e-commerce companies skyrocketing valuations. This was highlighted by Alibaba's record-setting USD 25bn IPO in 2014, which valued the China-based company at about \$170 billion.

United States now has the world's second largest online retail market, valued at USD 342bn in 2015; 15 per cent more than the previous year, and has advanced infrastructure and logistics, and a dynamic customer base that is adept at shopping online. Online sales accounted for 7.3 per cent of total retail sales in 2015 versus 6.4 per cent in 2014, and e-commerce accounted for 60.4 per cent of total retail sales growth, according to data released this morning from the U.S. Commerce Department. The largest e-retailers still hold sway, accounting for the vast majority of these online sales.

United Kingdom is a multichannel leader, and has an e-commerce market worth USD 60bn, which is expected to grow to USD 87bn by 2019². UK will remain the world leader when it comes to retail ecommerce's share of total retail sales, with its share increasing to 14.5 per cent in 2015. M-commerce was estimated to have grown by 37.5 per cent in 2015, double that for retail ecommerce sales, which resulted in mobile's share of UK digital commerce leaping to one-third. Smartphones, tablets and other electronic devices form the bulk of online retail sales.

Ecommerce in Europe generated USD 506bn in 2015, and is expected to grow by 12 per cent in 2016 to reach USD 567bn. Almost half of the predicted 510 billion euros will come from Western Europe, where last year 252.9 billion euros was generated online. Eastern Europe generated a turnover of just 24.5 billion euros and this region also increased the slowest in 2015. The United Kingdom, France and Germany are the major ecommerce markets in Europe, accounting for over 60 per cent of total online retail sales in 2015. In terms of the number of online shoppers, Germany (51.6 million) has a greater market presence than its British counterparts (43.4mn). The top online retailers in both countries are Amazon, Otto, Zalando, Media Markt, Deichmann, Apple, Kering, Auchan, Carrefour, and

MENA

Table 2.1: E-commerce in MENA (exc. GCC)

Countries	Population	Internet Users	e-shoppers	Size of e-commerce business
		(in mn)		(in USD bn)
Egypt	90.6	31.4	17.7	1.84
Jordan	6.7	3.2	1.6	0.25
Lebanon	4.6	3.6	2.1	0.31

Source: Payfort, State of Payments 2016

At present, the size of e-commerce business in the above MENA countries (excluding GCC) is worth close to USD 2.4bn. E-shoppers constitute 21 per

Intermarche. Discount websites such as Cdiscount, Venteprivee are popular in France, while price comparison websites such as Idealo and Preisvergleich are popular in Germany.

China, the world's largest e-commerce market, sold USD 590bn worth of goods online in 2015, an increase of 33.3 per cent from a year earlier, according to data released this week by the National Bureau of Statistics in China. Online shopping accounted for 12.9 per cent of all retail purchases, and includes both physical goods and virtual products such as e-books. M-commerce is estimated to account for half the online retail sales. Emarketer predicts that online retail sales in the country will exceed USD 1bn by 2018. The most popular online retailers in China are Taobao, Alibaba, Dangdang, JD.com and Tmall.

Japanese e-commerce market in 2015 was worth USD 90bn, with the three big ecommerce sites in Japan: Rakuten, Amazon Japan, and Yahoo Japan Shopping accounting for roughly 50 per cent of total Japanese annual ecommerce revenue. Credit cards are the most popular ecommerce payment method in Japan. But other payment methods, such as cash on delivery, convenience store payments, and bank transfers, are also popular.

cent of the total population, and 56 per cent of the internet users in the region. Access to internet is still low compared to developed and emerging

countries, at less than 38 per cent of the total population. Some countries, such as Tunisia and Yemen, have only recently opened up to e-retailing.

High mobile penetration for the whole region, at 150-200 per cent, and increasing smartphone penetration, have led to rise in m-commerce. Purchases made from mobile devices accounted for a third of all the online purchases in the region,

in Q4 2015, according to a study conducted by Criteo.

In terms of shopping preference, online games, computer software and electronics dominate the choices of MENA e-shoppers, with e-retailers based in USA, Asia and Europe being preferred more, although recently there has been an increase in the penetration of their regional counterparts.

GCC

Table 2.2: E-commerce in GCC

Countries	Population	Internet Users	e-shoppers	Size of e-commerce business
		(in mn)		(in USD bn)
Saudi Arabia	31.5	20.8	12.0	2.25
UAE	9.1	8.5	7.0	2.84
Kuwait	3.9	3.1	2.6	0.68
Qatar	2.2	2.0	1.2	0.4

Source: Payfort, State of Payments 2016

The popularity of e-commerce is increasing among consumers and retailers, and an increasing number of shoppers are turning to the internet to purchase goods ranging from apparel, electronics, groceries, books, airline tickets, event tickets etc. as they hunt for attractive deals without having to step out of their homes. Reduction of overheads attracts retailers to e-commerce, as it enables them to offer their products at competitive prices. Growing number of internet users in the GCC will enable growth in the online retail segment. This retail channel has been increasing in popularity among women and single men in the region,

particularly in Saudi Arabia, due to the country's social norms.

In the four major GCC countries, internet users account for 74 per cent of the population, while online shoppers constitute 50 per cent of the population. Brick and mortar retailers still account for majority of the retail businesses, although online shopping is growing at a rapid pace. Close to two thirds of internet users shop online, and the e-commerce business in these countries rose by 32 per cent YoY in 2015.

Table 2.3: 2016 Global Retail Development Index

Country	Ranking	Remarks
UAE	7	The UAE remains an attractive and relatively low-risk market option for retailers.
Saudi Arabia	8	Retail sales growing, thanks largely to favorable demographic conditions

Source: AT Kearney

²emarketer

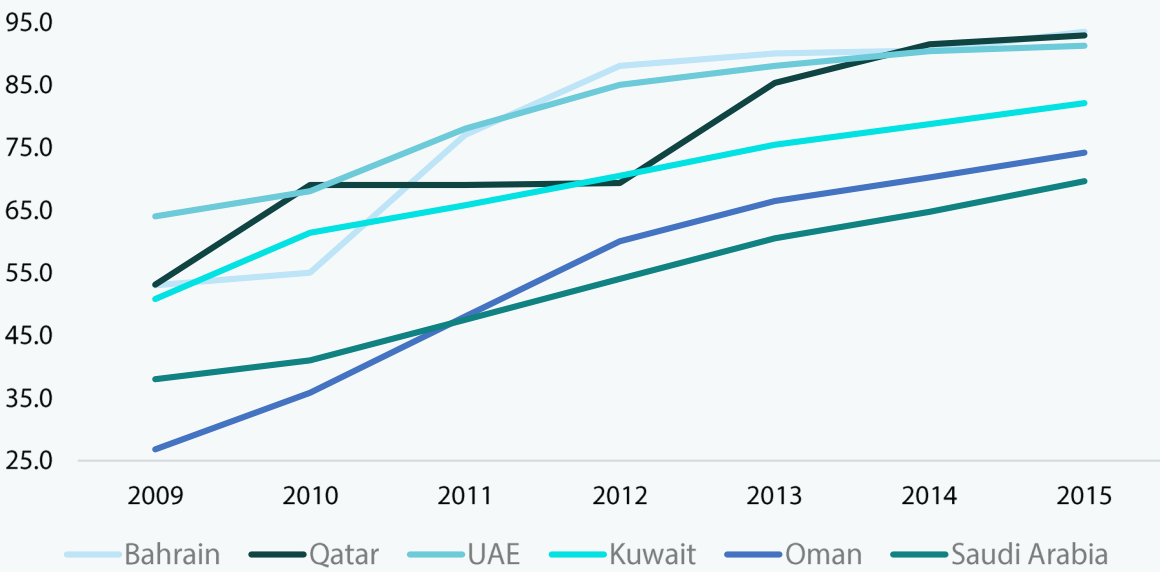
The 2016 Global Retail Development Index has ranked two GCC countries in the top 30 in the world, with UAE leading the region ranked 7, followed by Saudi Arabia at 8, implying high priority retail market. The GRDI rates country's retail sector on the basis on market attractiveness, country risk, market saturation, and the time available to get in to the market. Saudi Arabia (rank 28) was also the only country in the region to be ranked in the top 30, in the 2015 Global Retail E-commerce Index.

Saudi Arabia and UAE are currently the largest on-line retail markets in the region, with sales expected to grow strongly over the next 4 years, driven by youthful, net-aware consumers, increasing competition in online retail segment, home delivery, and improved security for various payment systems. Online retail also increases convenience for shoppers, and is a relatively easier and faster route for retailers to establish a market presence due to low capital investments involved.

The Middle East region saw a double digit increase in online payments during 2015, led by strong growth in Saudi Arabia and the UAE, which showcased 40 per cent and 24 per cent year-on-year

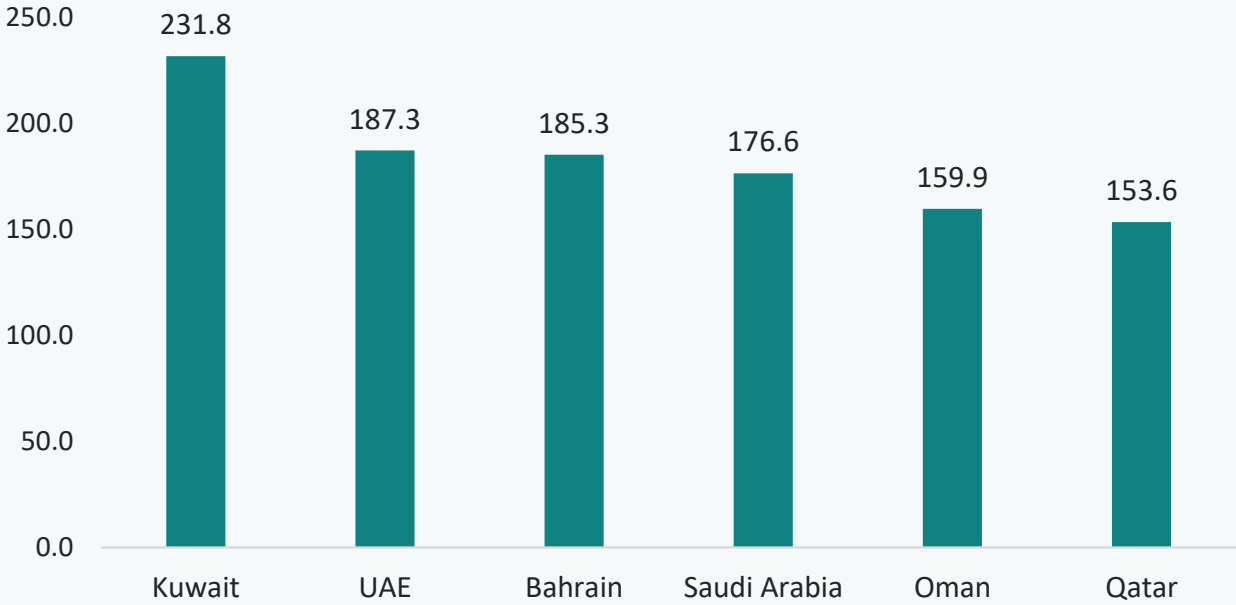
growth, respectively. UAE continues to lead the region in terms of adoption with 71 per cent of the country retailing online. Online transactions in the airline sector increased by 18 per cent from 2014 to 2015, in the travel sector by 39 per cent, in the ecommerce sector by 31 per cent and in the entertainment sector by 34 per cent. The GCC region's largest markets Saudi Arabia and the UAE led most of these sectors in terms of volume and year-on-year growth, with the exception of the entertainment sector, where the UAE had about ten times the volume of online shopping transactions in 2015, compared to its nearest country competitor. Saudi Arabia, UAE Kuwait, and Qatar have more than 50 per cent acceptance for online payments, with former two topping the list, at 58 per cent and 71 per cent respectively. Airline bookings and business-to-business marketplaces saw the highest acceptance rates in Saudi Arabia and the UAE, with travel services in Kuwait, and airlines, entertainment and B2B marketplaces being most accepted in Qatar. Western online retailers are beginning to face strong competition from domestic companies in both Saudi Arabia and the UAE. Cash-on-delivery remains the preferred method of payment for 51 per cent of Arab shoppers.

Figure 2.3: Internet users (per 100 people) in GCC, 2015



Source: ITU

Figure 2.4: Mobile Phone Subscription per 100 Inhabitants, 2015

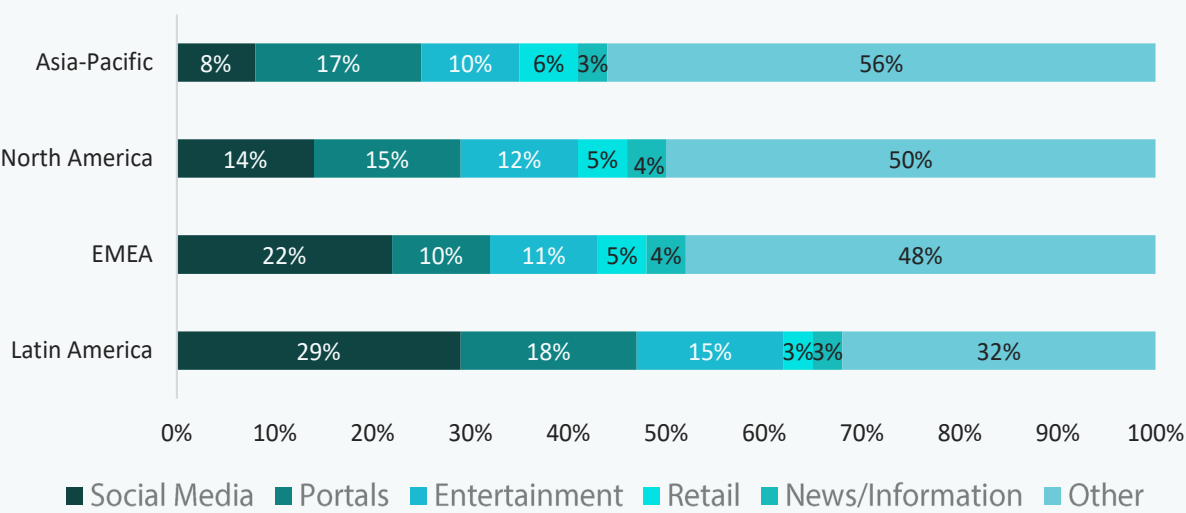


Source: WEF GITR 2014

Number of internet and mobile phone users have increased in the GCC region. Internet users per 100 population in the GCC have increased at a CAGR of 10 per cent from 2009-15, while the number of mobile phone subscribers per 100 inhabitants is 1.5x to 2.0x the population in the region. Tablet and smartphone penetration are also on

the rise, which is expected to lead to more mobile commerce, in the coming years. According to eMarketer, monthly time spent online by an average internet user in the Middle East lags behind the world average. While North America leads the pack, Middle East & Africa records the lowest monthly average.

Figure 2.5: Time spent online by category and region, 2015



Source: emarketer

Though Middle East shoppers are connecting to the internet in a big way, most of the their time spent online is on social media, clocking 3.8hours in a month, following Europe (6.1hours), Latin America (6.1hours) and North America (5.2hours). Online retailing accounts for 5 per cent of total time spent in the EMEA region, the same as North America. E-commerce will further flourish in the long run if the success of social networking sites be leveraged and coupled with the improvements in logistics/supply chain. Group-buying sites such as Cobone, GoNabit, Groupon continue to grow in the region, but they haven't made a considerable impact in consumer behavior.

Asia Pacific leads the world in the amount of time dedicated to retail shopping, at 6 per cent of the total online time spent, while the Latin American average is the lowest at 3 per cent. According to a 2016 report released by Payfort, the Arab world could see USD 69bn in online payment transactions per year by 2020, with the volume of online payments could increase nearly three times the present volume.

The GCC countries, in particular, benefit from youthful populations with high disposable incomes and high rates of internet access, living in

countries with the infrastructure to quickly fulfill and deliver orders. Consumers in these countries have quickly embraced ecommerce, and it is predicted that mobile commerce (m-commerce) would grow over the next few years as mobile devices, such as smartphones and tablets, are increasingly used by the populations of these countries, especially in Saudi Arabia, UAE and Qatar. In the MENA region, four in 10 purchases occur across multiple devices or channels globally, and close to one-third of those purchases are completed on mobile devices, indicating that consumers are using numerous devices along their path to purchase and are regularly buying on mobile. In the GCC, the share of mobile transactions made up more than one-third of online purchases, at 35.9 per cent for Q4 2015, which is more than double the global average. In Q4 2015, global mobile transaction share saw 15 percent growth from 2014, reaching 30 per cent of all ecommerce transactions. Approximately, one in five mobile transactions in the GCC are conducted on a tablet, with four out of five taking place on smartphones³.

3

Types of Online Retail

Manufacturer direct

Companies that sell their products and services directly to their customers without involvement from retail operators, either solely through online sales or through both online and other channels, would fall under manufacturer direct category. These companies have tighter product focus, and design, manufacture and market their products on their own. This ability to eliminate middle-men and retailers, and directly sell their products online to their customers, increases their earning potential. Dell and D-Link are two examples of companies that operate under this model, and the products usually sold would primarily be computers and accessories. In the GCC, manufacturing lags behind the developed world, and most of the products in consumer electronics are imported from other places. In the apparel industry, Elizabeth's Tailleur, a Dubai based online high street fashion store that showcases own label product lines in women's designer dresses, accessories, jewelry, footwear and furnishings, along with designers from around the world, could be classified as a manufacturer direct online retail company. Gucci recently launched its online retail store in the UAE.

Catalog Merchant

Companies that have catalog sales as their largest retail operation, but also have an added online presence, such as Victoria's Secret and many other apparel companies, would be classified as catalog

merchants. Apparel companies take advantage of catalogs that have wide readership and sales potential. Some also have an online presence, and some may, in addition, have brick-and-mortar stores. Thus companies under that are catalog merchants may also fall under the multi-channel merchants category. Product purchases can either be made online or by contacting a toll-free number that are mentioned in the catalog advertisements. IKEA Kuwait is a good example for a catalog merchant.

Virtual Merchants

Web firms that generate almost all their revenues from online sales, fall under this category. Purely virtual companies usually sell digital products, books, music, movies, apparels, computers, electronics, office supplies, mobile phones, and cameras that are shipped to customers. Many companies do not maintain any real inventory, and serve as an intermediary online retailer to an offline brick-and-mortar company or retailer.

With the only presence being online, low overheads, staffing, capital expenditure and high convenience are the defining characteristics of such firms. Some companies may have their own warehouses, while many do not, to ensure that most of the costs are directed towards marketing and maintaining a fully secure virtual presence. The biggest example for virtual merchants is Amazon, and in the GCC Souq.com would fall under this category.

³ Criteo

Multi-channel Merchants: Bricks-and-Clicks

Companies that have both physical stores (offline) as their primary retail channel, and considerable online presence are known as multi-channel merchants or bricks-and-clicks companies. Some companies may also provide telephone purchases. Examples of major companies that fall under this category are Walmart, Sears, J.C.Penny, Tesco, Sainsburys etc. In the GCC Majid Al-Futtaim-Carrefour have both a web presence and brick and mortar stores across the region. Companies under this category have a wide product range, extensive logistics and supply chains, and are well-known and respected brands.

There are many such companies across the world, and one of the reasons for their widespread presence is that it is easier for a traditional brick-and-mortar retail company to later establish an online presence, rather than for a traditional online com-

pany to establish an offline presence. Their history in the retail sector and well-established brand reputations ensure that they need to spend little effort, in terms of marketing their products.

The success and continued presence of companies under this category has dispelled fears that online retail would render these retailers obsolete. But their profitability depends on how they control the costs and capital expenditure for their offline presence, as large overheads and overlays are required to run, maintain and expand their physical stores. These are costs, which companies with sole online presence, aren't burdened with. Also, the integration between their offline and online businesses would be an important factor in ensuring sustained success of this model.

4

Modes of Retail E-commerce

There are many channels for purchasing products via the web, some of which vary only slightly. The following lists the most common types of online retail orders.

Online order, in-store pick-up: As the name suggests, products are ordered online and are picked up from the store. Apparels, supermarkets, and hypermarkets are examples that fall in this category.

Online order, store directory and inventory: If in case a particular product is out-of-stock online, the customer is redirected to the nearest physical store that has the product in its inventory.

Online order, download or print: Often used to event or travel tickets, music, movies or images. The order is placed online, and a link for download or an e-ticket is sent to the customer's e-mail. Most cine multiplexes (VOX Cinemas, UAE) and travel websites (Qatar Airways) offer online ticketing service.

Online order, ship or drop-ship: Order is placed online and the product is shipped either by the manufacturer, retailer or a third party logistics operator. Souq.com, Sukar, Tejuri.com are GCC e-retailers that fall under this category.

In-store kiosk web order, home delivery: If in case a particular item is out-of-stock in a physical store, the customer places the order in the store via a web interface and gets the product delivered at his residence. This order is either placed by the customer himself, or by a store assistant, who searches the web inventory for details on when the item will be re-stocked, or whether it can be shipped from a different, but affiliate retail store.

Web-order, in-store returns and adjustments: Web-ordered defective products or products that do not satisfy customer requirements that can be returned to any affiliated physical store location.

Online web catalog: Serves as a supplement to offline web catalogs, and often showcases more variety of products than the offline catalogs.

Use of web promotions to increase retail sales: Some consumer product manufacturers use online channels to design new products and promote existing product retail sales. Common examples include Colgate-Palmolive and Procter & Gamble, who provide existing retail inventory for free or at a discount, on purchase on a new product.

Gift card, loyalty programs, coupons and vouchers: Consumers can avail product discounts or offers if, using any of the above means, they make either online or in-store or catalog purchases from a merchant.

Group—buying: Also known as collective buying, offers products and services at significantly reduced prices on the condition that a minimum number of buyers would make the purchase. Once the target number of buyers is reached, a voucher is sent across to the buyers, which is used to claim their discount at the retailer. Group-buying sites work by negotiating deals with local merchants, and promising to deliver crowds in exchange for discounts. The most well-known group-buying e-retailers in the GCC region are Cobone and Alatoolmuscat.

5

Trends in GCC Online Retail

Despite a slow start, online shopping seems to be catching up in the Middle East, with 72 per cent of the region's consumers making their first on-line purchase during 2014-15. But 53 per cent of consumers in the region still prefer the traditional brick-and-mortar stores, as they can "see, touch and try" the products before purchasing. The reasons for the middling state of online retail include low consumer acceptance of online shopping, compared to the developed world, and predominance of cash-on-delivery payments. Eighty-five per cent of online consumers in the Middle East would prefer to pay using cash-on-delivery, as opposed to the rest 15 per cent that show inclination to other modes of payment, such as plastic cards, online payment systems etc. UAE accounts for half the online shoppers in the Middle East, and the e-commerce industry in the country is expected to reach USD 10bn by 2018⁴.

Increasing internet access and higher than world average mobile subscribers is expected propel the online retail market, and may even better its international counterparts, in the coming years. The Middle East is witnessing an accelerated shift to smartphones, buoyed by the UAE's 78 per cent smartphone penetration, which is the highest in the world⁵.

Many online stores have opened up in the GCC in the last few years that are competing directly with big box stores on price. Online prices for electronic items such as cameras, mobile phones, tablets and computers, are a lot cheaper online, than they are at malls and super stores. Con-

sumers look for the cheapest possible price for a product, while shopping online. Convenience (60 per cent) and competitive pricing (56 per cent) are the two motivations that drive online shoppers. Shoppers in the Middle East also shop cross border, if free-shipping option is available, modes of payment are perceived as safe, and when items are not locally available.

The e-commerce market in the Middle East and Africa was valued at USD 40bn in 2015, a rise of 17.2 per cent YoY, and is expected to rise to USD 45 bn in 2016. This growth is due to the increase in the number of online retail users and the rise in the number of local and international retailers in the markets. Many existing retail players established online presence, and growth in mobile commerce contributed to the rise of online retailing in the region. Online transactions are expected to increase, as more and more people are enamored by the convenience it offers.

Mobile e-commerce has been growing at a steady rate, given the convenience of being able to shop from anywhere and at any time. On an average, a person in the GCC owns at least 2 smartphones. Compared to other online channels, mobile e-commerce has a wider usage outside the home environment. Increasing security in mobile e-commerce purchases, will serve to encourage consumers to shop using tablets and smartphones.

Table 5.1: Size of E-commerce market in GCC, USD billion

Countries	2014	2015
UAE	2.3	2.8
Saudi Arabia	1.5	2.3
Qatar	0.3	0.4
Kuwait	0.6	0.7

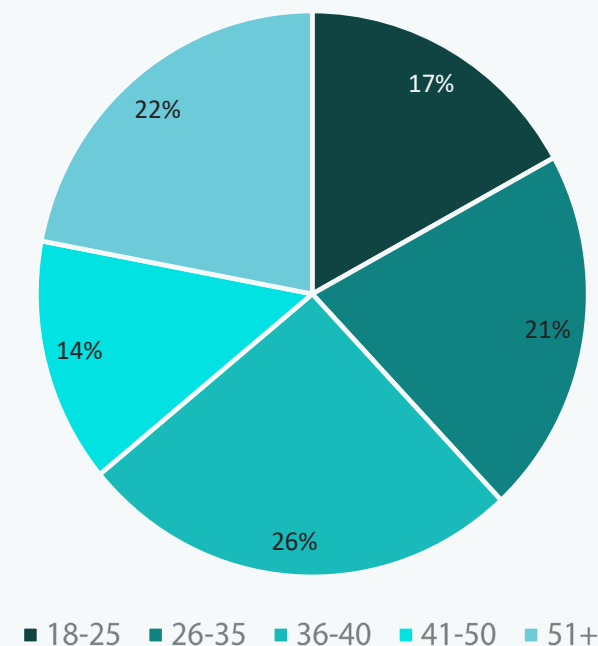
Source: Payfort

Saudi Arabia

The kingdom has a population of 31.5mn, with 20.8mn internet users, of which 58 per cent shop online. Close to two-thirds of online shoppers are less than 40 years of age, with male shoppers dominating the landscape⁶.

Air travel and online retail constitute the majority of online purchases, followed by other modes of travel. Entertainment accounts for a very minor part of online transaction in the kingdom.

Figure 5.1: KSA - Age grouping of online shoppers



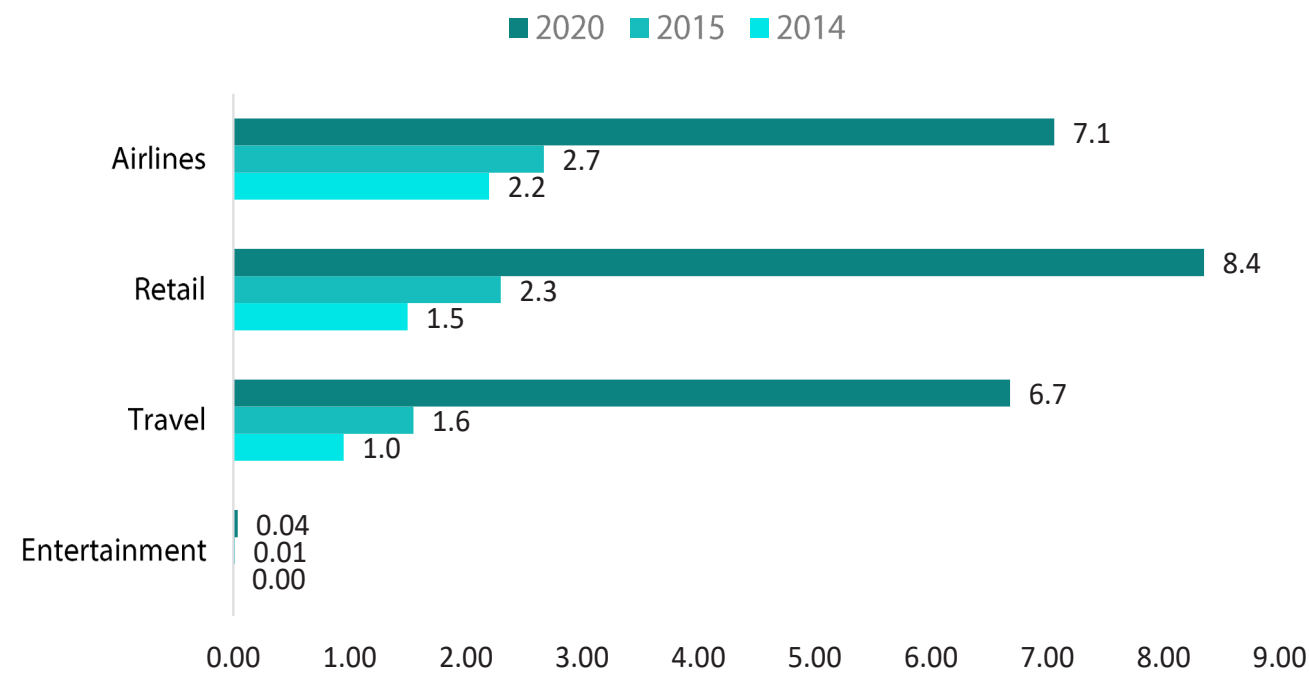
Source: Payfort, State of Payments 2016

⁴ Go-Gulf

⁵ Trade Arabia

⁶ Payfort

Figure 5.2: KSA- Online shopping by category (USD bn)



Source: Payfort, State of Payments 2016

Airline purchases are expected to grow at a CAGR of 21 per cent until 2020, while retailing is estimated to grow at close to 30 per cent during the same time period.

Smartphone penetration has grown to 79 per cent in the Kingdom⁷. Mobile commerce penetration has grown across all segments of online shoppers, with four in ten online shoppers using their mobile devices to make purchases.

In Saudi Arabia, Souq.com led all retailers, followed by Dubai-based private shopping site Sukar.com, Dubai-based retailer Namshi.com and MarkaVIP.com. Online shoppers also buy goods from overseas retailers, that are not available in the country.

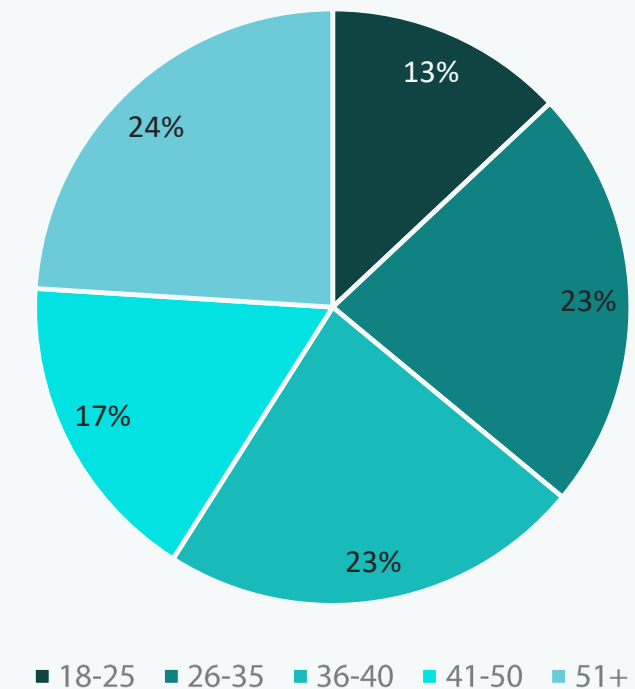
In terms of payment mechanisms, Cash-on-Delivery (COD) reigns supreme, followed by credit cards, auto-debit (Sadad), and PayPal. For payment to international online retailers, credit cards and PayPal are the preferred payment mechanisms. Smartphone and tablet users prefer COD as their main payment method.⁹

United Arab Emirates

UAE has a population of 9.1mn, with 8.5mn internet users, of which 82 per cent shop online. Close to 60 per cent of online shoppers are less than 40 years of age, and there is close parity among male and female shoppers.

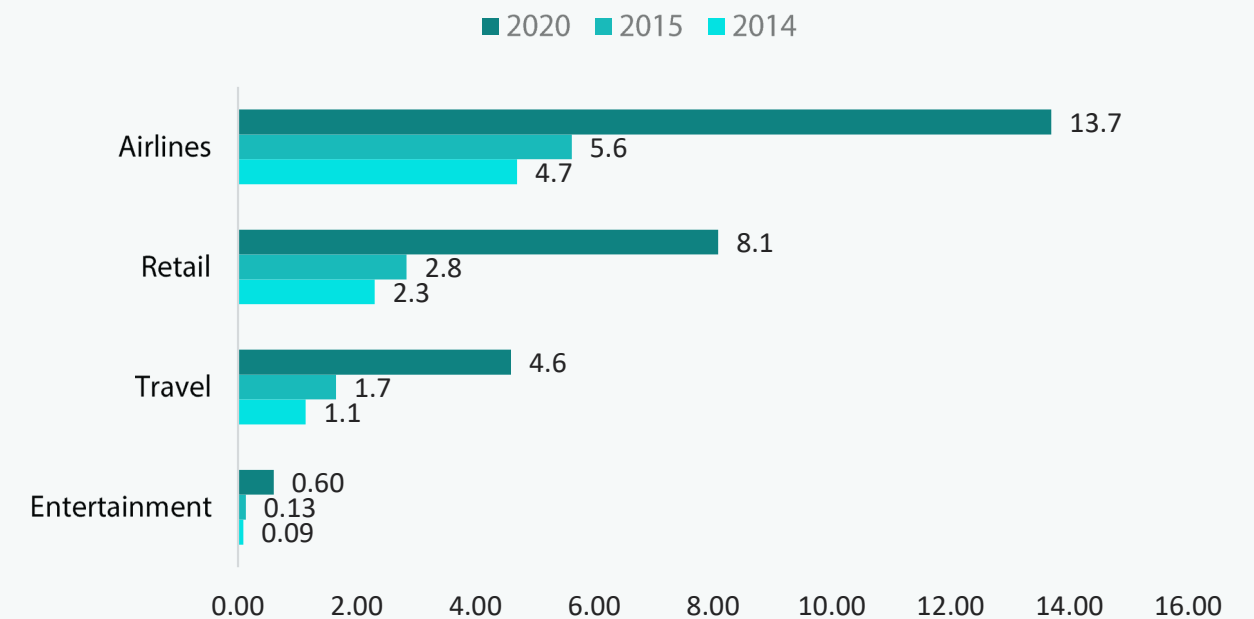
Air travel and retail constitute majority of the online purchases, while other travel purchases and entertainment lag behind.

Figure 5.3: UAE - Age grouping of online shoppers



Source: Payfort, State of Payments 2016

Figure 5.4: UAE - Online shopping by category (USD bn)



Source: Payfort, State of Payments 2016

⁷ Payfort

⁸ Ipsos MENA

⁹ PayPal

With a large expat population driving the e-commerce industry, UAE accounts for 44 per cent of the GCC e-commerce volume¹⁰. In terms of products, consumer electronics is still the most popular with phones, tablets, computers, video games, cameras, appliances, TV and audio items. Consumers are using online shopping even for items such as cars.

Airline purchases are expected to grow at a CAGR of 19 per cent until 2020, while retailing is estimated to grow at close to 23 per cent during the same time period. Similarly, mobile commerce growth is forecasted to rise, due to increase in tablet penetration and increase in number of internet users, who shop online. Presently, UAE has smartphone penetration of 72 per cent, the second largest in the GCC¹¹.

High income earners in their mid-20s to early-30s, especially among expats, are more likely to make online purchases in UAE. Travel and comput-

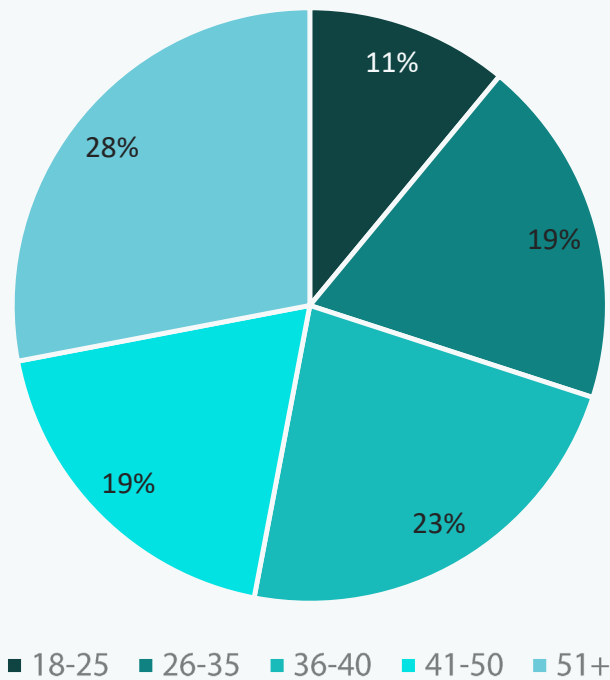
ers have the highest online share of purchases. Dubai-based retailer Souq.com commands the largest share of the online retail market in the UAE, followed by Dubai-based group deal site Cobone.com, Amazon.com, and Jordan-based private sale site MarkaVIP.com.

In terms of payment mechanisms, for domestic purchases Cash-on-Delivery (COD) accounts for the majority of online purchases, followed by credit cards, and PayPal. For international purchases, credit cards and PayPal are the preferred payment mechanisms. Smartphone and tablet users prefer COD and credit cards as their main payment method.

Qatar

Qatar has a population of 2.2mn, with 2mn internet users, of which 60 per cent shop online. Over 53 per cent of online shoppers are less than 40 years of age.

Figure 5.5: Qatar - Age grouping of online shoppers

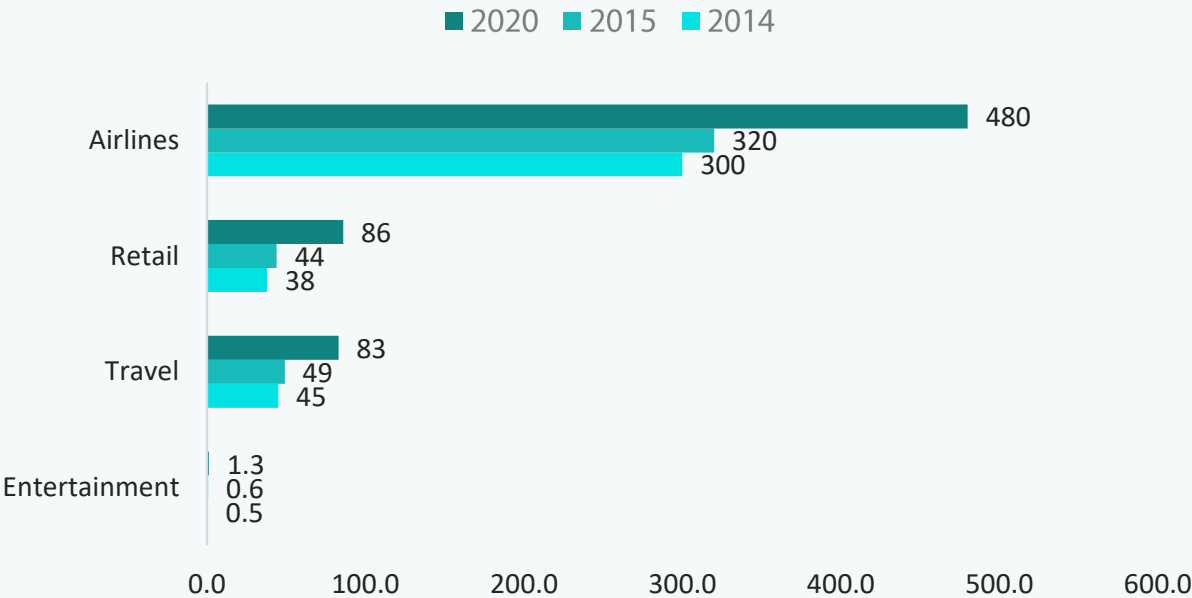


Source: Payfort, State of Payments 2016

¹⁰ AT & Kearney

¹¹ Payfort

Figure 5.4: UAE - Online shopping by category (USD bn)



Source: Payfort, State of Payments 2016

Air travel and other travel related purchases constitute majority of the online purchases, while retail purchases are picking up steam. As in other GCC countries, online spending on entertainment lags behind the rest of the categories.

Qatar Airways is the preferred online retailer, followed by eBay and Amazon. More than half the online consumers have made purchases from international retailers.

Qatar Foundation for Education, Science and Community Development (QF) and major UAE retailer Lulu Group International have signed a deal to establish an online shopping portal. The agreement includes a home delivery service and will initially be operated on a trial basis for QF community members, and could subsequently expand to support the local and regional online retail sectors.¹²

In terms of payment mechanisms, Cash-on-Delivery (COD) accounts for the majority of online purchases, followed by credit cards, and other payment methods.

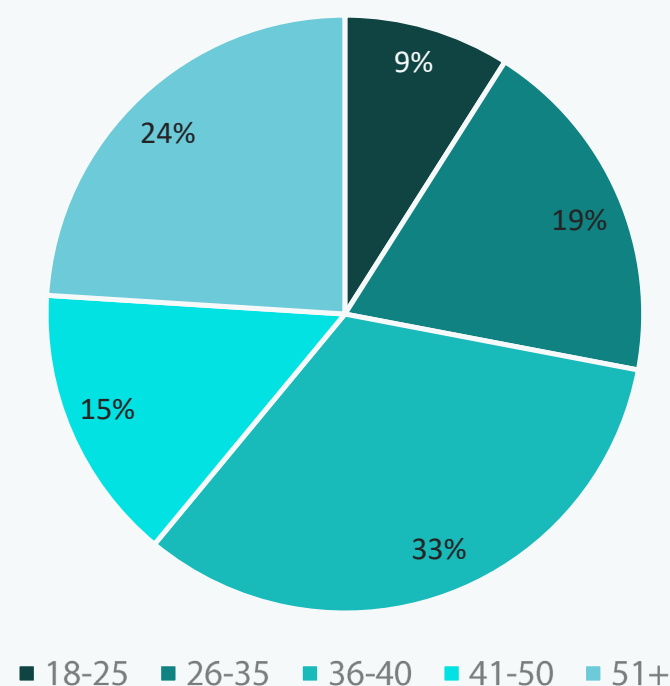
Kuwait

Kuwait has a population of 3.9mn, with 3.1mn internet users, of which 84 per cent shop online. Over 60 per cent of online shoppers are less than 40 years of age, and men dominate the online retail landscape in the country.

Retail purchases in 2015 accounted for USD 0.7bn, while airline purchases and other travel purchases accounted for USD 0.4bn and USD 0.15bn, respectively. By 2020, retail purchases are expected to nearly triple, while other travel purchases will double.

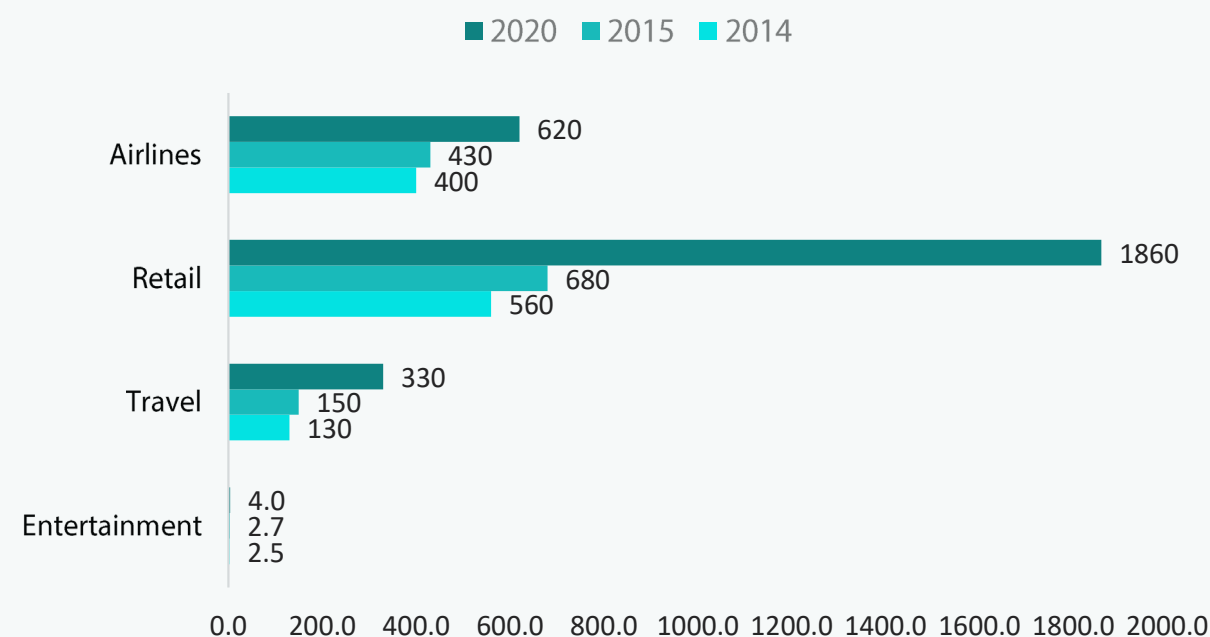
¹² Arabianbusiness.com

Figure 5.6: Kuwait - Age grouping of online shoppers



Source: Payfort, State of Payments 2016

Figure 5.7: Kuwait - Online shopping by category (USD mn)



Source: Payfort, State of Payments 2016

The country has the highest internet and credit card penetration in the region, and the presence of online payment gateways there favors B2C E-Commerce. But both e-commerce and m-commerce are still in their infancy in Kuwait, due to limited presence of online retailers and lack of specific legislation governing e-businesses. Smartphone penetration has risen to 69 per cent since 2010, and mobile based shopping has been adopted by 56 per cent of the population. The future is very promising, with increasing number of internet users (82.1 per cent in 2015, compared to 6.7 per cent in 2000) with high disposable incomes. Online retail market is estimated to grow manifold in the coming years.

Oman

Despite relatively high internet penetration rates, online retail is still at a very early stage of development, with overseas websites dominating consumer preference.

Alatoolmuscat is the first local online retail website that offers products ranging from adventure trip packages to restaurant discounts. Like other retail websites, Alatoolmuscat eliminates the middlemen, and distributes the cash savings among customers in the form of discounts. Payments are made using COD, debit/credit cards and internet cards. E-commerce market in the country is expected to grow with the growing number of internet users and e-shoppers, higher disposable incomes, and growing trust and confidence in this retail channel.

Bahrain

In Bahrain, e-commerce accounts for less than 10 per cent of total retail sales, despite close to 94 per cent of the population connected to the internet. The Ministry of Industry & Commerce (MOIC) has stated that the e-Commerce market is poised for rapid acceleration, and that the internet has essentially offered the business community a new

medium for product/services distribution and rich customer interaction. Both the Ministry and the Directorate of e-commerce and technology, also the regulator of e-commerce, have emphasized the promotion of e-commerce and e-services.

Sector

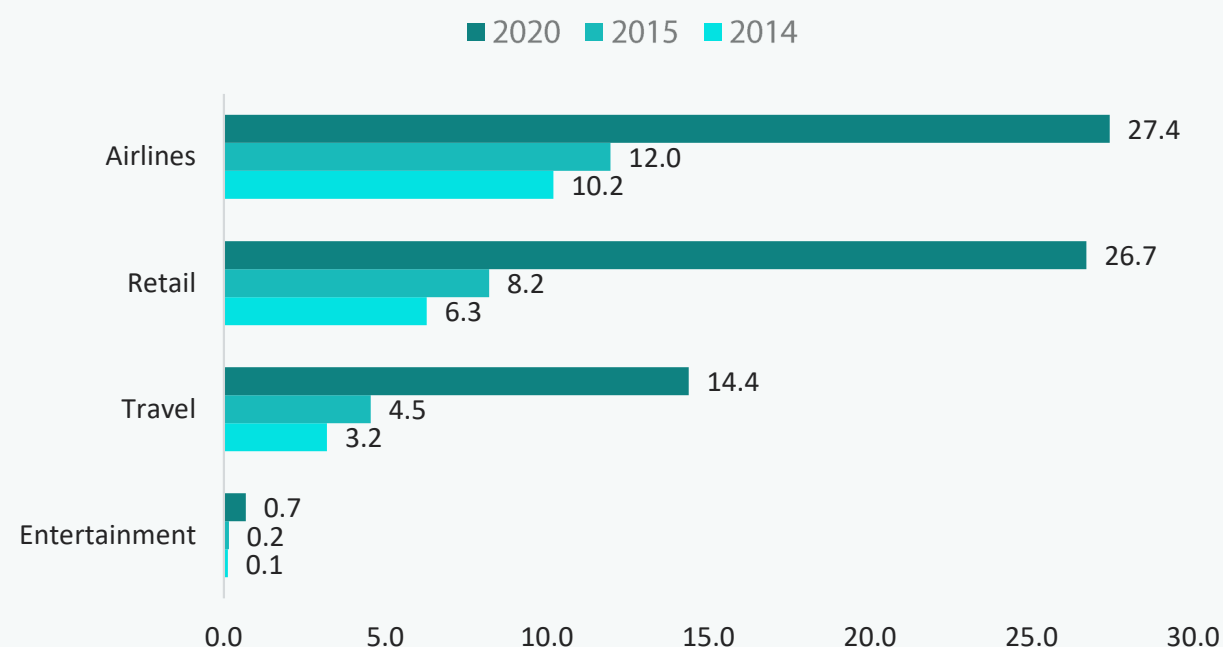
At present, UAE is the biggest market for online retailing in the GCC. According to Euromonitor international, disregarding travel and event tickets retailing, consumer electronics and appliances is the top sector for online retailing in the UAE, accounting for 83 per cent of online retail sales.

Media, toys and games, and apparel industry put together account for 5 per cent of online retail sales. However, many retailers are not embracing ecommerce for a number of reasons, such as challenges in delivering goods and being discouraged by the failure of other companies in setting up ecommerce sites. But online shopping is popular among millennials in the GCC, with 76 per cent of UAE and 58 per cent of Saudi Arabia millennials shopping online. UAE and Saudi Arabia together represent nearly 75 per cent of total e-commerce transactions in the region¹³.

Dubai based owner of real estate company Emaar, Mohamed Alabbar with other Gulf investors is launching a USD 1bn regional ecommerce website, Noon.com. The website which is expected to be operational in January 2017 will see the Saudi Sovereign Wealth Fund invest 50 per cent, with the rest of the investment coming from 60 Gulf investors led by Alabbar. Currently, they are in the process of setting up distribution centers, and also a huge warehouse, which will be the size of 60 football stadiums. In the initial stages, with an initial inventory of 20 million products, the ecommerce site will concentrate first on Saudi Arabia and the United Arab Emirates, and expand to other Arab states later on.

¹³ Visa

Figure 5.8: Middle East annual spending, USD bn



Source: Payfort, State of Payments 2016

6

Major players in GCC Online Retail

Purchases made using computers remain the most dominant throughout the Middle East, especially to buy computers or airline tickets. However, m-commerce is expected to grow in almost all categories within the three countries.

Souq.com (acquired by Amazon)

Established in 2005, Souq.com pioneered online shopping in the region as an auction site, similar to eBay. The site launched its retail division late 2011, and today, Souq.com is the largest e-commerce site in the Arab world, featuring more than 8.4 million products across 30 categories such as consumer electronics, fashion, household goods, watches or perfumes. The website attracts over 45 million visits per month, and caters to consumers in the UAE, Saudi Arabia, Kuwait and Egypt. The company operates both as a retail site and as a marketplace for third party sellers, and offers cash on delivery and free returns.

Africa's largest media company, Naspers has recently invested close to USD 115mn into Souq.com, and owns a 36 per cent stake in the business. The company has raised USD 150mn to date, and plans to use the money to boost its technology and mobile services.

In July 2017, it was acquired by Amazon for USD 580 million in cash. The deal would provide the U.S retail giant a footing in the nascent (online sales account for mere 2% of overall retail market) but fast growing e-commerce market in the MENA region. Purchase of Souq would allow Amazon to fast track its growth in the MENA region by avoiding the challenges that is normally associated with organic growth. With the entry of Amazon the customers could expect their orders to be fulfilled on the same day or the very next, a practice that is widely common in the other developed markets. Amazon would retain the Souq's brand and its employees and shall invest to develop the infrastructure, payment platform and supply chain solutions.

Noon.com

The world leader in online retail, Amazon is an American e-commerce company, established in 1994, that sells a wide range of products online, throughout the world. It is a leading e-commerce website in most countries, and is reported revenues of USD 74.5bn in 2013. Although not locally based in the GCC, Amazon is among the most preferred online retailer in the region, after Souq.com. The company has developed a customer base of around 30 million people, and is primarily a retail site that makes its money by taking a small percentage of the sale price of each item that is sold through its website. Amazon also

allows companies to advertise their products by paying to be listed as featured products.

eBay

Another American multinational company that is not based in the GCC, but is still among the most preferred online retailers in the region, is eBay, which has presence in over 30 countries. eBay started off as an online auction and shopping website that provided a platform for consumer-to-consumer (C2C) buying and selling of goods. After Amazon, it is one of the leading retailers in the MENA region, and has a range of products from consumer electronics to fashion, entertainment to home & living.

Cobone

Launched in July 2010 by Paul Kenny, an Irish entrepreneur, Cobone is a group-buying discount coupon website that features daily market-focused deals on the best things to do, see, eat and buy in Dubai, Riyadh and Jeddah. The company sells deals on food & dining, beauty & spa, activities & tickets and auto.

Sukar

Established in 2010 and acquired by Souq.com in 2012, Sukar is the first online private shopping club for men's and women's fashion in the Middle East that operates across nine countries, including the GCC, Jordan, Lebanon and Egypt. Members join free and get exclusive access to a large catalog of luxury & lifestyle brands along with their in-house brand lines. Members can make their purchases from computers and mobile devices, and have the option to pay online or cash on delivery, with free returns.

Tejuri.com

Established in 2013, Tejuri.com is a platform that brings retailers and brands together into a single online mall, selling products in electronics, fashion, sports, health & beauty, books & movies, essentials, home and garden, accessories, pet sup-

plies etc. The company ships its products internationally to most countries, including all countries in the GCC.

Similar to a shopping mall, this online mall hosts stores from a range of retailers with original manufacturer or retailer warranties. In late 2013, Dubai government, in a bid to increase online retail sales and to encourage retailers to opt for online commerce, helped solve security issues in the website. The site provides customer service and a 7-day return policy and complies with the Consumer Code of Rights issued by the Ministry of Economy (MoE) to ensure that the rights of shoppers are upheld.

Alatoolmuscat

Established in 2012, Oman's first group-buying, discount coupon website provides deals on everything from shopping to brunches, spa's to adventure sports. Subscribers to the website are alerted every time a deal comes online, and are given the option to purchase. Once purchased, the subscriber gets a coupon when the minimum number of purchase orders is reached. The coupon can then be printed and redeemed at the merchant store. To encourage shoppers, each time a deal is referred to a friend, OMR 1 gets credited to the subscriber's shopping account. At present the site operates only from Muscat.

MarkaVIP

MarkaVIP, an online fashion, accessories, home and electronics retailer, and logistics firm, was established in 2010 as a shopping community, where members can avail offers on branded items for a brief period of time. The company offers collections from premiere brands and boutiques in the world and caters to consumers across the GCC, Jordan and Lebanon.

Namshi

Namshi, a fashion, accessories and footwear online retailer, was launched in 2011 and oper-

ates across the GCC, and internationally. They provide a range of local and international brands in the region, as well as in-house brands. Namshi ships products for free and has a 14-day return or exchange policy.

JadoPado

JadoPado, a UAE based e-commerce retailer that was launched in 2011, primarily showcases consumer electronics products, and delivers across 230 countries in the world. The firm's sells only those products that it holds in stock and uses its own fleet of delivery vans for deliveries within the UAE, and partners with Aramex and FedEx for international deliveries. The company provides a 14-day return, refund and exchange policy, for most of the products.

3M Gulf

3M, the diversified technology company, was the latest in the region to open up an online retail channel, establishing presence in May 2014. The company offers products that address needs of craft and car enthusiasts, schools, universities, small offices and trainers, across the GCC region. 3M will soon be expanding the online product range from other divisions such as Food Services, Industrial Tapes, Adhesives and Abrasives, Personal Protective Equipment, and Electrical.¹⁴

Ali Express

Ali Express, launched in 2010, is a part of Alibaba Group Holdings, a Chinese e-commerce compa-

ny that provides consumer-to-consumer, business-to-consumer and business-to-business sales services via web portals. It also provides electronic payment services, a shopping search engine and data-centric cloud computing services. The site mostly offers Chinese products to international online buyers.

Talabat

Founded in 2004, Talabat.com is a Kuwait-based online food ordering website in the GCC, which has since become one of the largest online delivery services in the region, covering Oman, UAE, Kuwait, KSA, Qatar, and Bahrain. The site operates with over 1,300 restaurants, including major brands like Burger King, KFC, Johnny Rocket's, Hardees, TGI Fridays, and Subway. In 2015, the German ecommerce group Rocket Internet completed its acquisition of Talabat.com for the sum of USD 170 mn.

Algiftz

Established in 2015, Algiftz.com is an independent online store for buying Gym Supplements, Sports Nutrition, Creatine, Mass Gainer, Whey Protein, Health & Wellness and Nutrition. The company also offers deals in electronic products, fashion accessories, gadgets and cell phones.

Alshop

Launched in 2008, Alshop.com is one of the GCC's premier shopping website for consumer goods that range from cell phones, cameras and laptops to large appliances and accessories, such as cos-

¹⁴ Zawya

7

Payment systems and Growth of Online Banking in the GCC

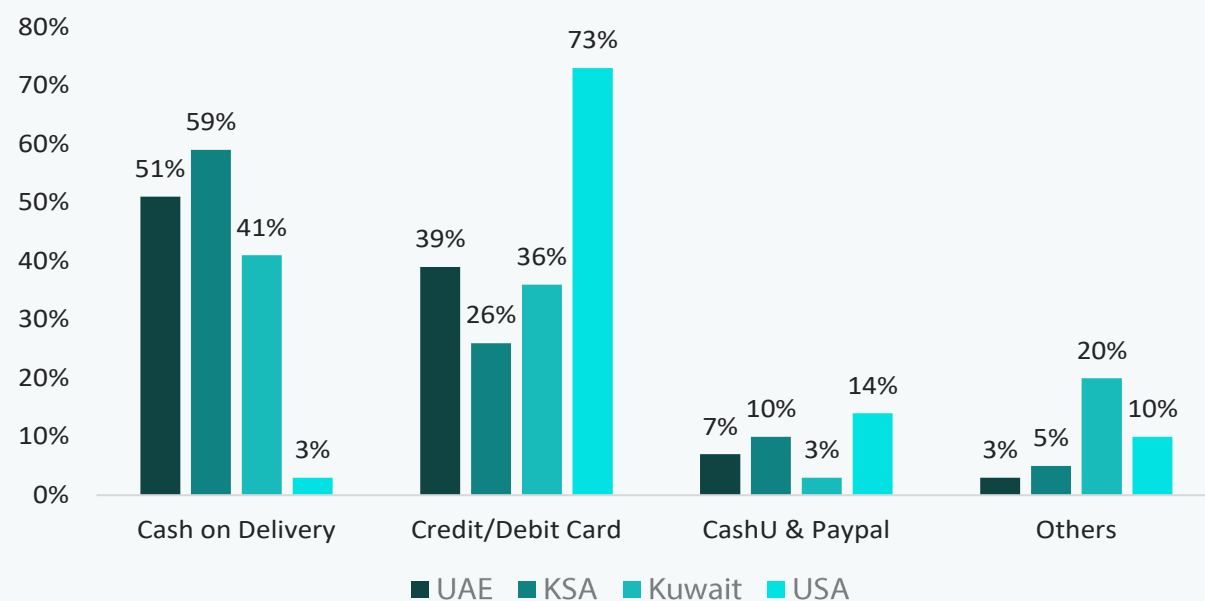
Some of the most common payment systems used in online shopping across the world are as follows:

- Cash-on-Delivery (COD)
- Debit / Credit Card
- Online banking
- PayPal
- Gift cards and vouchers
- Invoice
- Cheque
- Bitcoin and other cryptocurrencies

Of these, payment cards, PayPal and online banking are the most popular choices for online shoppers, while certain systems, such as invoice, are popular only in a handful of countries.

For online transactions, GCC still prefers cash-on-delivery to other methods, although there has been a significant increase in the use of credit and debit cards. Online banking as a mode of payment has not yet been explored fully, unlike in most other countries across the globe. Lack of penetration of payment cards and fear of data and financial theft are the main reasons for the popularity of COD.

Figure 7.1: Online retail payment methods in the Middle East

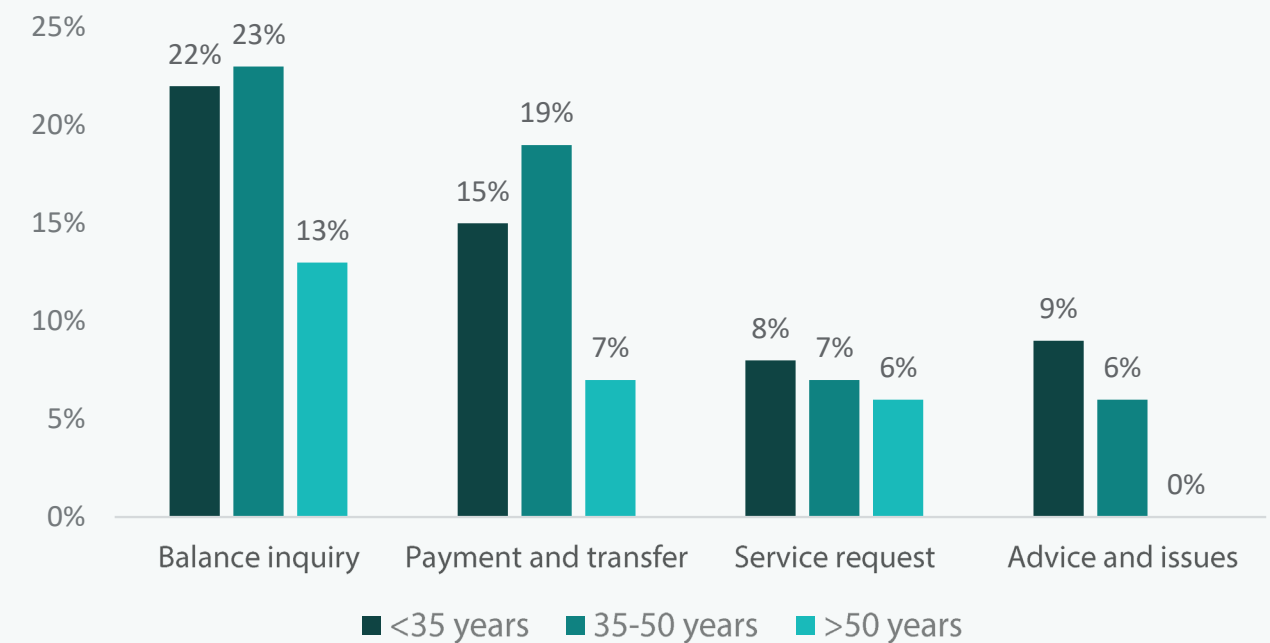


Source: Payfort State of Payments 2015, Statista

In developed markets, online banking has been growing at an average of 10 per cent per year over the past decade, and now has close to 50 per cent penetration. However, in the GCC, internet banking is still relatively nascent, with only a third of all GCC bank account holders having online accounts, and about half of those actively use their online bank account for transactions. The reasons for this are lack of customer awareness and trust. Customers are reluctant to use e-Banking as many are not aware of its advantages and / or are afraid of fraud. This is changing rapidly, as nearly 70 per cent of online banking users in the region are under 40 years of age.

In the recently released EY GCC Digital Banking Report 2015, 78% of GCC customers indicated that they would be willing to switch banks for better digital banking experience, and 64% would feel comfortable switching to a digital-first bank, with less reliance on branch network. This is true for both conventional and Islamic bank customers. Customers expect banks to provide more convenience, less paper, more speed, pinpoint accuracy and a friendly service environment, and the overwhelming majority seek an improved banking experience. The survey also indicated that customers are keen to increase their banking transactions, if digital banking services are improved.

Figure 7.2: GCC Mobile Banking



Source: EY

Despite high smartphone penetration in the GCC, mobile banking penetration is pretty low, with only 14% of banking interactions made on smartphones. According to a survey by EY, the reason for the lack of popularity of mobile banking is poor user experience with the application, with problems such as difficult to access,

slow speed and unintuitive user experience cited. This is truer in the case of Islamic banks, compared to conventional banks. UAE has the highest number of customers, who access their banking services via mobile devices, followed by Kuwait. The GCC banking industry is facing huge challenges in meeting customer expectations in

digital experience and delivering banking service over smart phones. To address customer needs in an increasingly digital world would mean to disrupt and rewire existing business models for a fresh customer experience. A large number of banking transactions continue to be conducted via traditional channels involving human interaction, such as branches or call centers, which continue to be the lifeblood of banking in the GCC. Despite the high demand for digital banking, a pure play digital bank will take at least two years, according to EY MENA, as the industry gets accustomed to digitization.

While Cash-on-Deliver (COD) dominates other payment mechanisms for online retail in the Middle East, it has some obvious drawbacks for all parties involved. Retailers have to wait for up to a month before they can receive their funds, leading to expensive cash management, handling costs, thefts, and high accounting and transfer fees. Entry level online retail companies have to take into account the costs of handling the COD before setting up their business in the Middle East, and in some cases, reach profitability much later. The logistics companies have to hire dedicated, trustworthy staff, and allocate resources for handling the COD, and coordinate with the customers for a suitable time to drop off the product, which is not part of their core business. For consumers, there are additional charges involved for handling and logistics. They need to be available to pick up their purchase, and have to coordinate with the courier service for a suitable time to receive the product. For expensive items, customers have to risk having a lot of cash either on themselves or their residences, which diminishes the convenience of shopping online. COD also results in lower transparency as cash transactions are not reported as thoroughly as

electronic transactions.

Online banking helps banks in reducing costs, improves response times, and provides higher quality of timely service to customers. In developed markets, online banking has been growing at an average of 10 per cent per year over the past decade, and now has 50 per cent penetration. But in the GCC internet banking is still relatively nascent, at approximately 7 per cent of the total population.¹⁵ Only a third of all GCC bank customers have online accounts, and about half of those actively use their online bank account for transactions. The reasons for this are lack of customer awareness and trust. Customers are reluctant to use e-banking as many are not aware of its advantages and / or are afraid of fraud.

However, as GCC banking industry moves towards digitization and digital only banks, online transactions are bound to increase, and account for much higher percentage of transactions in the future. Person-to-person (P2P) money transfers, and in some cases from institution to individual, or vice versa, via mobile devices would be the next wave of change in online banking. Consumers in retail banking are also benefitting from the development of payment systems that run in real-time rather than via the traditional (and relatively slow) method of batched processing. This has further fuelled innovation, enabling consumers to conduct payments without the need for credit or bankcards.

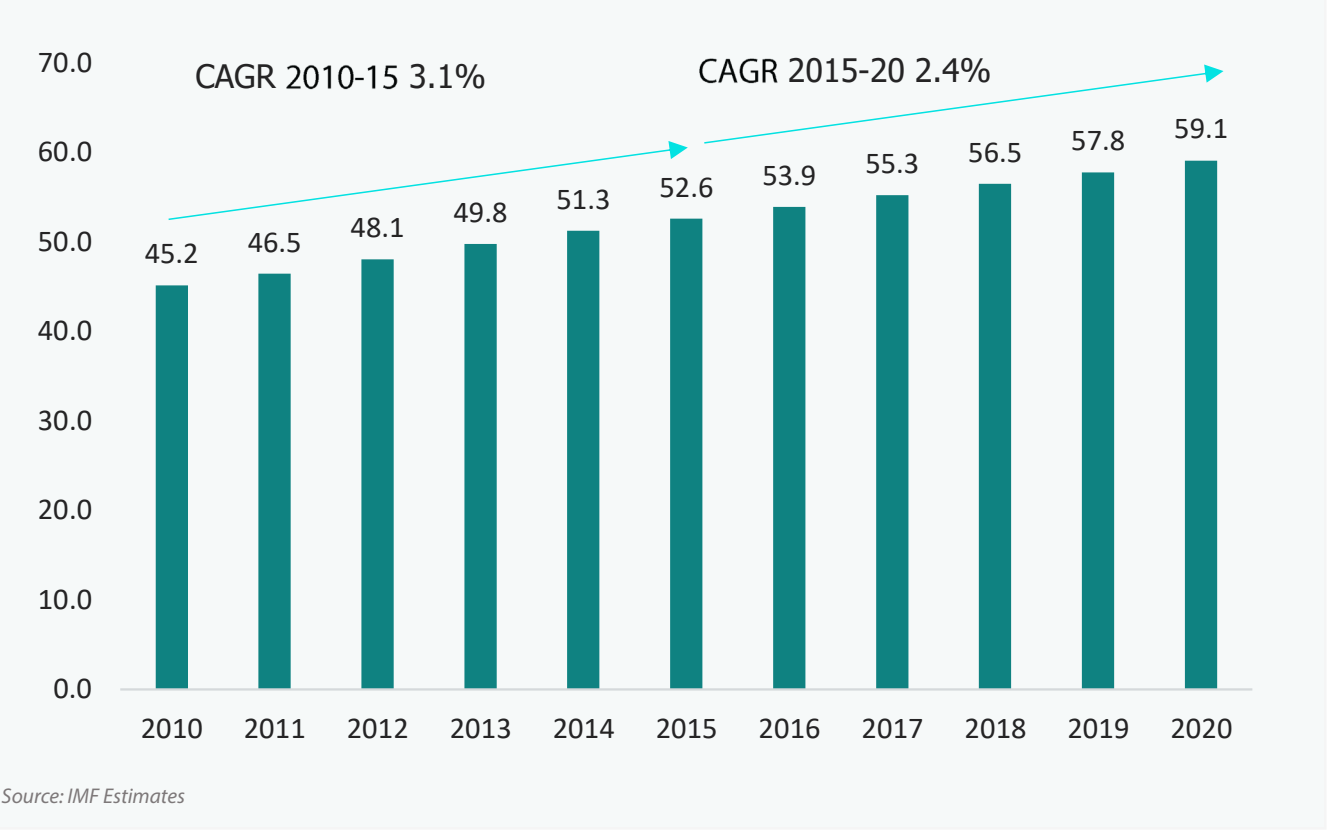
8 Drivers

Favorable Demographics

GCC region is bestowed with young and rapidly growing population. On an average 54 per cent of the GCC population is less than 30 years of age and the population is expected to grow at

an average rate of 2.4 per cent per annum. This presents a considerable base of young consumers who tend to splurge to stay abreast on the latest trends in fashion or experience shopping as a leisure activity.

Figure 8.1: GCC Population (in million)



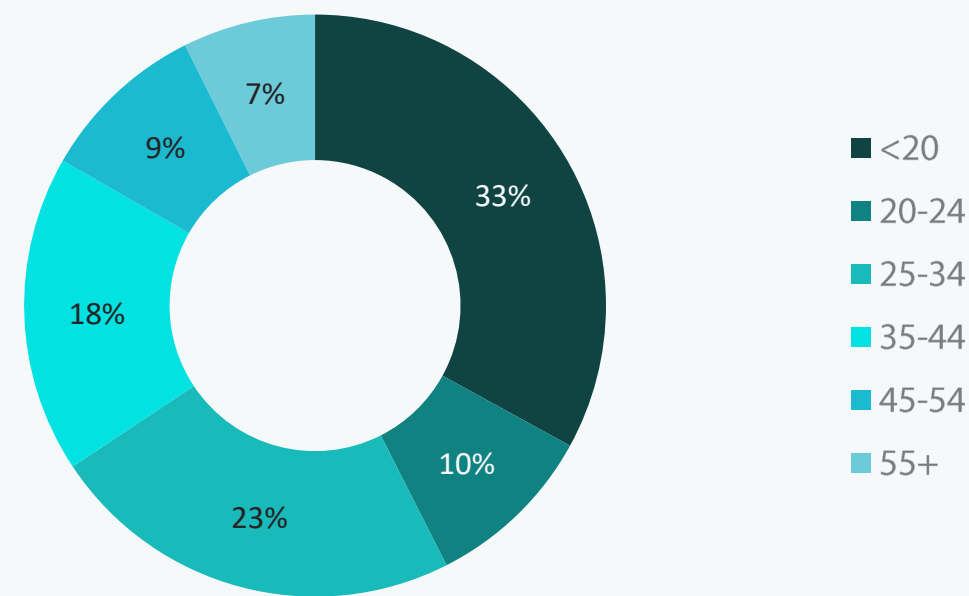
GCC countries have experienced strong growth rates despite the global financial crisis that affected most of world economies. This growth was realized due to high oil prices and resultant fiscal surpluses. Low fuel expenses, increased government spending on healthcare, education

and infrastructure, no tax liabilities increases the disposable income of the individuals in these countries. The UAE, hosting a total of 72,000 high net worth individuals (HNWIs) as of 2015, will record the fourth fastest growth in millionaire population in the Middle East at 50 per cent to

¹⁵ Accenture

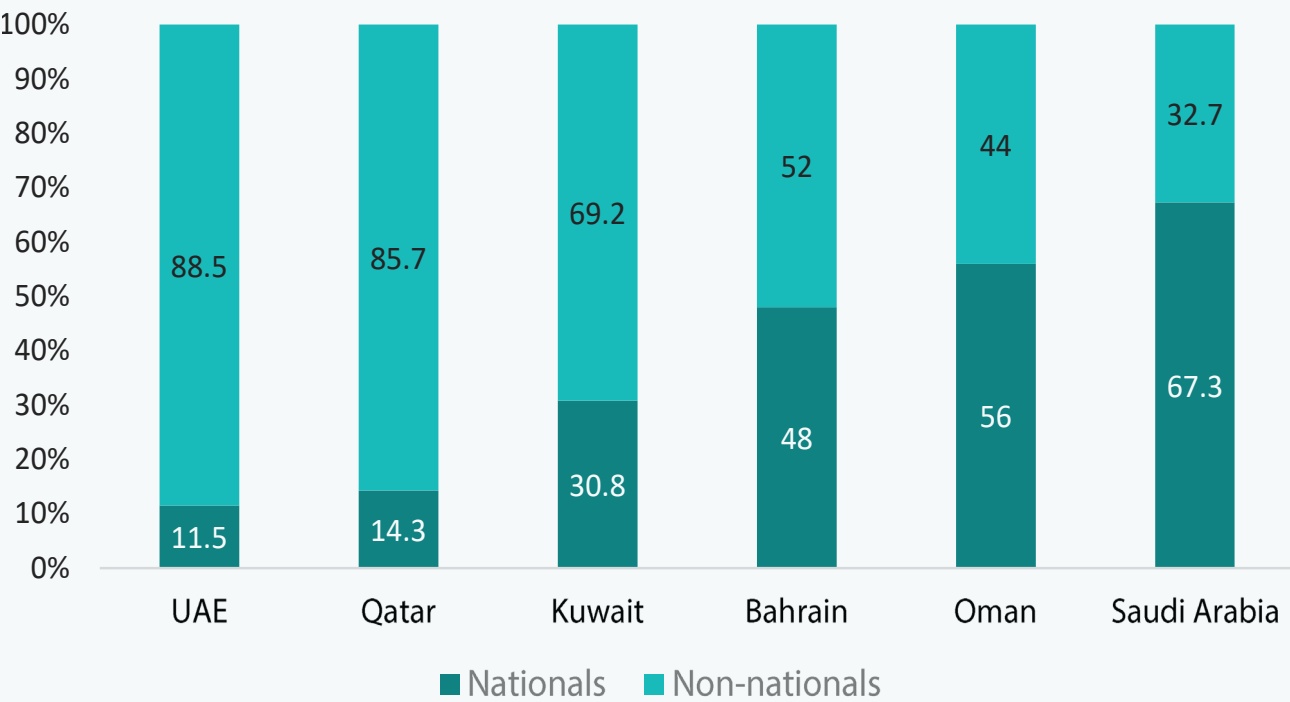
108,000 by 2025. Qatar (45 per cent) and Saudi Arabia (40 per cent) will witness the GCC region's fastest growth in HNWIs, which bodes well for retailers setting up shop in the region.

Figure 8.2: GCC Demographic Profile by Age Group



Source: US Census Bureau

Figure 8.3: GCC Population by Nationality, 2015



Source: Respective Statistics Authority, US Census Bureau

Stronger Economic Growth

All the nations in GCC rank in the list of top 30 richest countries in the world based on GDP per capita (PPP) in 2015, with Qatar topping the list and Kuwait and the UAE occupying the 6th and 8th positions, respectively. Consumption power as evidenced by the level of per capita income for GCC as a region, is much higher than BRICS, and is on par with the US and Euro Zone countries. Youthful demographic profile with deep pockets indicate the increasing luxury retail demand, particularly in apparel, consumer elec-

tronics and food industries; as they are inclined to buy branded wear, stay on top of technological trends with latest gadgets and gaming consoles, and would prefer trying out varied cuisines.

Countries of the GCC region experienced strong growth despite the global financial crisis affecting most of the economies in the world. Driven by higher price realization for oil and the resultant fiscal surpluses, governments of these countries prudently began investing to develop their infrastructure and non-oil sectors as part of initiative to diversify the economy.

Table 8.1: GCC Real GDP Growth

Country	CAGR , 2010-16e
UAE	4.61%
Qatar	3.81%
Bahrain	3.62%
Saudi Arabia	3.24%
Oman	0.82%
Kuwait	-0.73%

Source: IMF

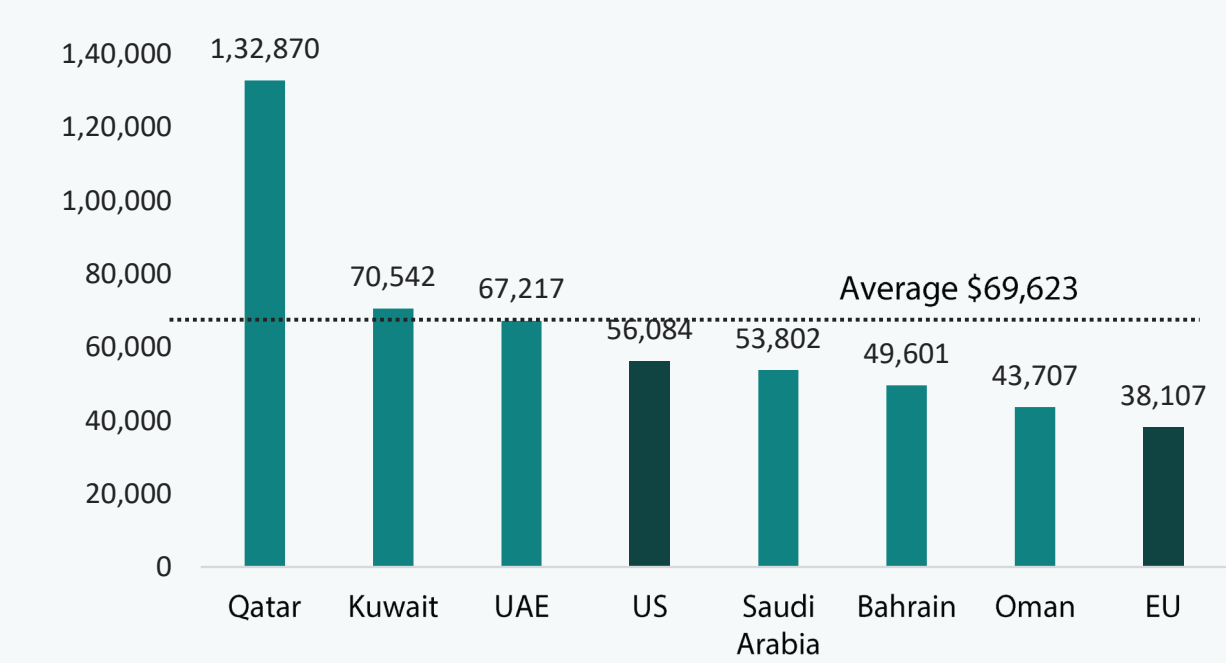
Rising Consumption Power and Consumer Confidence

Consumption power as evidenced by the level of per capita income for GCC as a region is much higher than BRICS and on par with the US and Euro Zone countries. Youthful demographic profile with deep pockets augur well for the retail demand particularly in apparel, consumer electronics and food industries; as they tend to flaunt branded wear, stay on top of technological trends with latest gadgets and gaming consoles, and would like to experiment a variety of cuisines.

The high level of per capita income, complemented by its growth, and the generous state grants in the form of subsidy/monetary transfer for its citizens, aids in strong retail demand.

Despite the somber mood witnessed in the developed world and emerging economies due to lack of economic certainty, Eurozone worries and growing unemployment; GCC consumers were found to be buoyant. Consumers exhibited high confidence and were positive about the future outlook which was measured based on parameters such as Quality of Life, Employment, Regular Income & Economy.

Figure 8.4: GCC per Capita Income Levels (in USD), 2013



Source: IMF

Table 8.2: GCC Growth in per Capita Income Levels

Country	CAGR (in %), 2010-16e
Bahrain	3.9%
Saudi Arabia	3.4%
UAE	2.9%
United States	2.9%
Kuwait	2.6%
Oman	-0.2%
Qatar	-0.6%

Source: Markaz Research

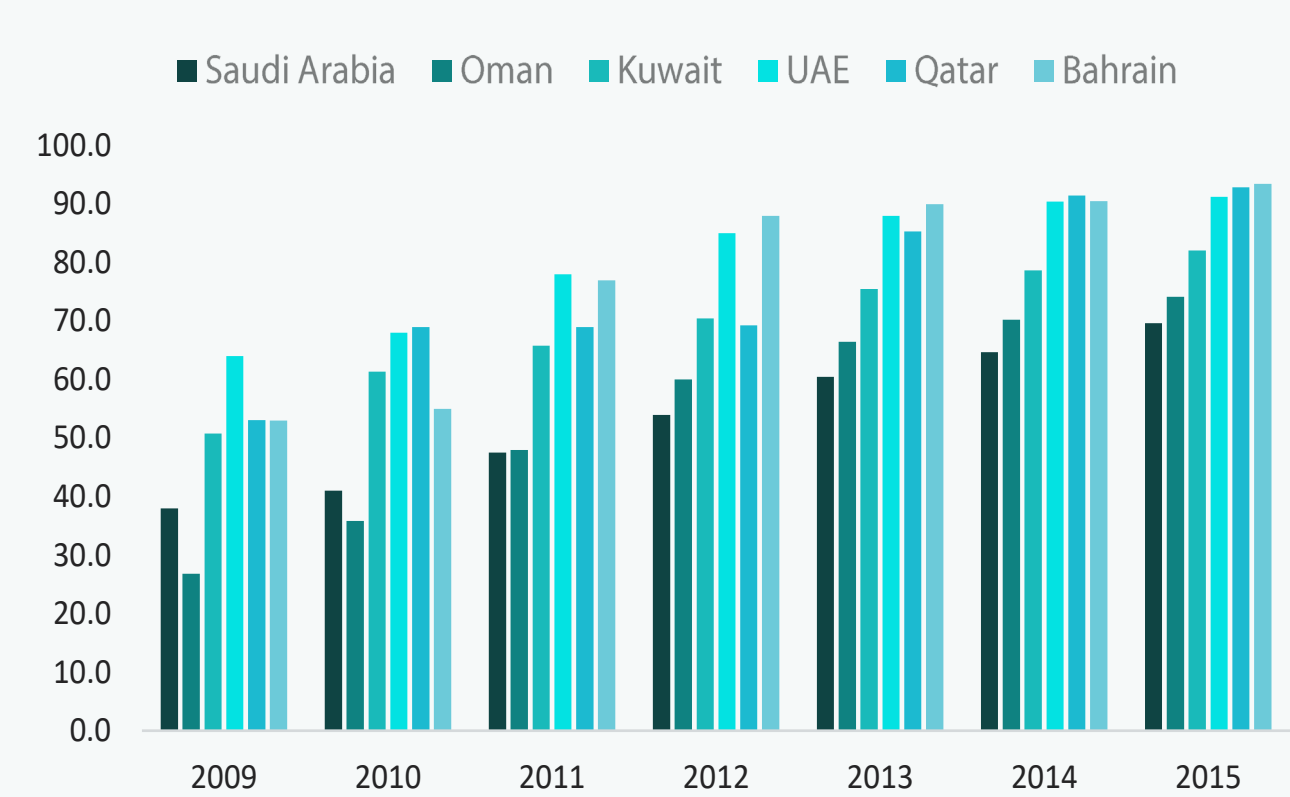
Increasing Internet and Mobile Penetration

The internet penetration in GCC has been increasing rapidly during the last half a decade. Oman has been the fastest growing GCC state in

internet usage, as seen below.

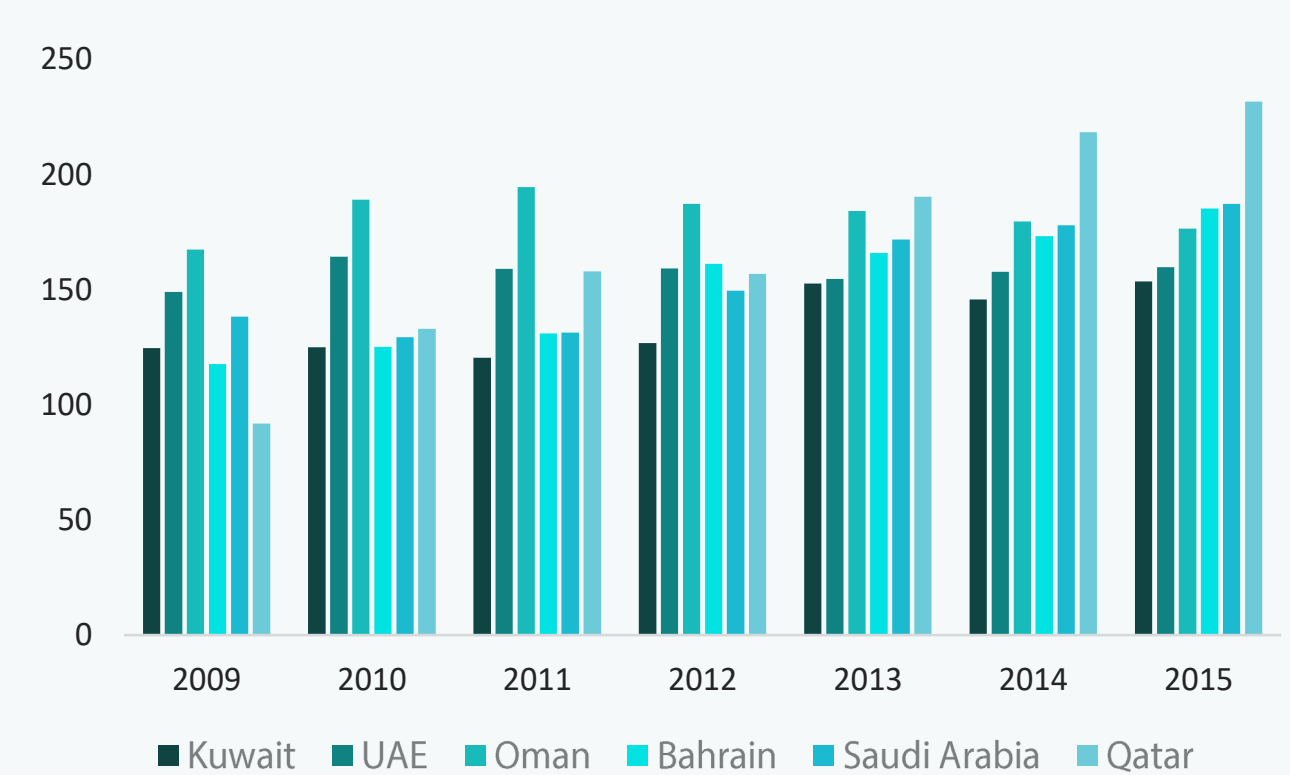
As it is evident from the below chart, all the GCC countries have well over 100 per cent mobile network subscription. In government procurement of advanced technologies, Qatar ranks 1 followed by UAE at 3rd and KSA at 5th.

Figure 8.5: Internet users (per 100 people) in GCC, 2009-15



Source: ITU

Figure 8.6: Mobile Subscribers per 100 people in GCC



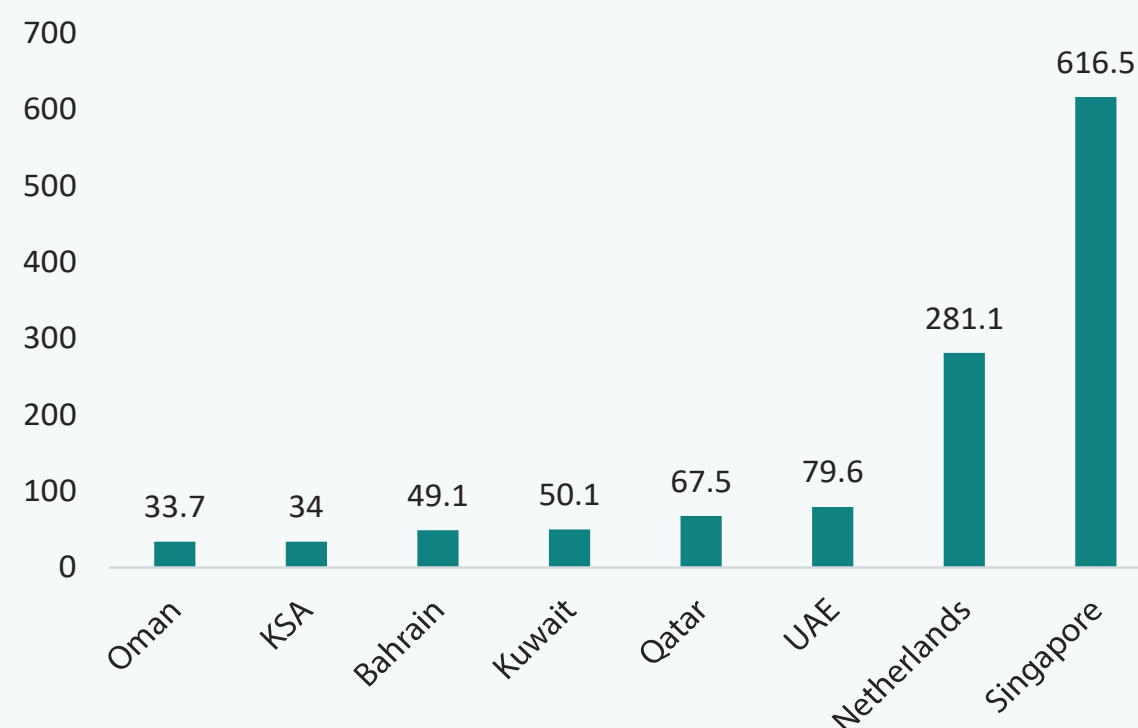
Source: ITU

Shopping patterns are changing worldwide and GCC is no different. With the advent of increased internet penetration and mobile internet access, consumers are more aware of the choices present and the prices being offered by different retailers. Stores are increasingly turning out to be display centers where customers head to try out the product and the actual purchase being done over internet.

Advancements in technology environment

The ICT sector is growing at a fast pace. GCC governments are also spending heavily in this sector. As a result, not only the number of internet users but also the quality parameters, such as speed, content, security etc. are increasing. The bandwidth (kb/s) per Internet user is depicted in the figure below which shows increase in every GCC country with the most significant ones being in Qatar, KSA and UAE.

Figure 8.7: GCC Internet bandwidth (kb/s) per Internet user, 2015



Source: WEF-GITR 2016

Convenience

Online shopping can be done 24/7, as opposed to brick-and-mortar retail stores that have set opening and closing hours. Access to internet is widening, as internet cafes have sprouted in many places, providing access at relatively low prices. This avoids the necessity of traveling

to many different stores, and browsing many products before finally purchasing one, as online retail provides the option to compare multiple products and their features in a single window. Most online stores also provide free shipping for purchases above a nominal price limit, for most areas in major cities.

If there is a problem with a shipped product,

there are return, exchange and refund policies available with many online retailers that don't require the customer to visit a store. In case of dissatisfaction with a product, complaints can be registered with the online retailer's website that provides timely redressals.

Information and Reviews

The only available information in brick-and-mortar stores, are the product itself and the packaging that it comes in. Online retail websites, on the other hand, provide textual description, supplemental product information, manufacturer specifications, background and compatibility information, user guides, photographs and other media files that describe the product in detail, and user reviews that provide us valuable information on the reliability of the product, shipping and the retailer.

In many online retail websites, products are rated, which adds value to a consumer. There are also dedicated review blogs and sites from all over the world that provide more objective information for different products from different manufacturers, and advices on where a product can be bought for at a cheaper rate. If any query needs addressing, then consumers can either contact the retailer via e-mail or phone or through a chat option that is increasingly becoming available in most retail websites. Another advantage of online shopping is being able to look out for deals on products and services provided by many different vendors. Search engines, online price comparison services, and discovery shopping engines can be used to look up sellers of a particular product or service.

Ease of switching retailers

Another major advantage for retailers is the ability to rapidly switch suppliers and vendors without disrupting users' shopping experience. With various online retailers entering the market, the competition is fierce in many places, which provides the consumers with various advantages, such as cheaper pricing, availability of discounts and deals, ease of switching retailers in case of dissatisfaction etc. Online retailers, on the other hand, have to maintain loyalty of customers by providing better service, shipping, and product support. This gives more power to consumers, in places where there are two or more players in the market.

Advantages for Online Retailers

Compared to a conventional brick-and-mortar retailer, online retailers are able to operate with lower costs, by aggregating demand at a single location and increasing their purchasing power. Using websites instead of physical stores, online retailers are able to curtail operating costs, and are able to cover a much wider geography of consumers. They are also able to better serve the customers by providing all necessary information that assists in purchase of a product, and are able to react faster to changes in consumer tastes and trends. Online retailers are also able to revise prices instantaneously, as required, and are able to update inventory much more quickly than conventional retailers.

9

Challenges

Fraud

Some of the problems that online shoppers potentially face include identity theft, faulty products, and the accumulation of spyware. Also, since consumers aren't able to physically inspect the product prior to purchase, they are exposed to higher risk of fraud compared to face-to-face transactions. There is also a risk of purchases being made with stolen credit cards.

Product delivery is also a main concern of online shopping. Most companies offer shipping insurance in case the product is lost or damaged. Some shipping companies will offer refunds or compensation for the damage, but this is up to their discretion. This is a problem seen especially with cross-border purchases, where the cost indicated at the final checkout screen may not include additional fees that must be paid upon delivery such as duties and brokerage.

In 2015, an unidentified hacker calling themselves as "Hacker Buba" hacked the network of a major Sharjah bank, and subsequently released customer accounts and transactional data on Twitter when the bank refused to pay the demanded ransom of USD 3mn. In the same year, an international crime ring enacted an audacious plan where multiple banks and financial institutions – including one bank in the UAE and one in Muscat, Oman – were targeted for sophisticated systems intrusions. Once the hackers

made the data breaches they specifically targeted prepaid debit card data to extract¹⁶.

Data Security

Data security refers to the confidentiality, availability, and integrity of data which means ensuring that the data is available to authorized users when needed and the data is not tampered with. Threats to data security can come in different form of malwares such as viruses, spyware and other harmful software. Most of the time these get downloaded automatically when an unsuspecting user clicks on innocuous looking links on the internet. These can provide unauthorized access to hackers, transmit data from the system without user's knowledge or just affect the performance of the system.

Credit card information and billing/shipping address could be accessible, if the website is not secure. Although, most large online corporations are inventing new ways to make fraud more difficult, criminals are constantly coming up with new ways to manipulate the system. Online retailers must be aware of the latest technology and its loopholes to protect consumer identity and finances.

In a simplistic but well-coordinated series of cyber-attacks, the well-known "hacktivist" group Anonymous managed to cripple the operations of several major UAE banks. This digital assault

was specifically timed to hit the target banks on the last day of the month, in order to cause maximum disruption and hence cause the most damage. Although no actual funds were stolen in this incident, the as yet undetermined cost to the targeted banks in terms of lost revenue potential, reputational losses and customer relationship damages remains significant¹⁷.

While the double-ended SSL encryption has generally solved the problem of financial and identity data theft, consumers must place trust on the online retailers and their employees to not use the given information, or provide said information to other parties. Online retailers must also ensure that their websites are secure from hackers, and deploy counter measures such as firewalls and anti-virus to protect their networks. Computer security has thus become a major concern for e-commerce service providers.

Phishing is another danger, where consumers are fooled into thinking they are dealing with a reputable retailer, when they have actually been manipulated into feeding private information to a system operated by a malicious party. Server and network outages, denial of service (DOS) attacks are other minor risk for online retailers. Quality seals can be placed on the retailer web page, if it has undergone an independent assessment and meets all requirements of the company issuing the seal. The purpose of these seals is to increase the confidence of online shoppers. However, the existence of many different seals, or seals unfamiliar to consumers, may foil this effort to a certain extent. The challenge is to put the best checks and balances in place to ensure data security.

Privacy Issues

Vast amount of data, including product preferences of users, lifestyle are very personal to each of the users, and online retail sites carry the responsibility of providing discretion to the users, so that the privacy of users is maintained. Also the government should be alert enough to find out loopholes in the data policy of such platforms, and listen to complaints from the users for putting regulations in place to protect the users.

At present, there are no specific national laws or regulations governing data protection and privacy in Qatar, Saudi Arabia and the UAE of the type found in jurisdictions in the European Union. But data protection and privacy are not entirely unregulated in these countries as their constitutions, recognize an individual right to privacy in specific circumstances.¹⁸

Delays and Inconvenience

In some cases, goods take a long time to reach the customer and are at times damaged or dissatisfactory. If there is a lack of customer support and thorough follow-up in such cases, the customer is left annoyed by the experience, and may revert back to using physical stores. In many cases, the return, exchange and refund policies vary with the products of retailers used, which complicate the shopping experience. Major B2C E-Commerce companies in the Middle East warn of possible delays in delivery and offer delivery times as long as up to 30 days. "Free Delivery" and "Same Day Delivery" were the two most important delivery options that became available for Middle East online shoppers in 2013.

¹⁶ IQPC Middle East

¹⁷ IQPC Middle East

¹⁸ Lw.com

How consumers can protect themselves, while shopping online

- Look for independent consumer reviews and their experiences, with online retailers, and use the services of reputed retailers. Ensure availability of comprehensive contact information, including a telephone number and/or street address along with e-contact information, and note if the retailer has enrolled in industry oversight programs, such as a trust mark or a trust seal.
- Before buying from a new company, evaluate the website by considering issues such as, professionalism and user-friendliness of the site, and whether a fair and reasonable refund, exchange and return policies are clearly stated. Also, find out whether there are hidden price inflators, such as excessive shipping and handling charges.
- Ensure retailer has an acceptable privacy policy posted, such as an explicit statement committing that it will not share private information with third parties, without consent.
- Ensure that the online retailer's website is protected with SSL encryption prior to entering credit card information. If it does the address on the credit card information entry screen will start with "HTTPS" instead of "HTTP".
- Use strong passwords that are devoid of personal information and / or pass phrases, which are difficult to hack, and provides a variety of upper, lower, and special characters.

Delays and Inconvenience

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Wider Competition

Stagnant sales in developed markets and widespread competition in Emerging markets have led International players to GCC markets. Attractiveness of the market has led to widespread competition across all categories of retail. With the advent of e-retailers pricing wars have also started, with retailers often retorting to huge discounts to boost sales volumes. It was revealed recently that Amazon routinely adjusts its prices 2.5million times per day. In comparison brick-and-mortar retailers such as Walmart and Best Buy adjust their price tags only 50,000 times during a 30-day period¹⁹.

Supply Chain

GCC retailers are dependent on imports for majority of consumer goods and food items. However, the efficiency of their operations is affected by not so advanced logistics network, especially in Saudi Arabia. Labour issues, and lack of logistics infrastructure are some of the biggest issues that are plaguing the Kingdom in supply chain management. Huge spending by the government to develop the infrastructure would help in increasing the efficiency of goods distribution across each stores. Investing in skilled resources and incorporation of advanced supply chain networks would be a differentiator against rising competition in the coming years.

Scarce Workforce

GCC is dependent on migrant workforce and retail sector is no different. The migrants exhibit no major inclinations to stay here for the long run and are interested in making a quick buck and hence there is a need for constant talent development. Also, the jobs in online retail, majorly comprise of technical expertise, which the region lacks, and customer support, which isn't considered a lucrative career choice by many. Governmental regulations enforcing labor rules and preference exhibited in employing their own nationals severely strains the task of finding suitable employees. With the ongoing nationalisation policies to reduce the number of expatriates in the workforce, retailers are having to recruit Saudi employees to fill the gaps left by foreigners. This is likely to have a short-term negative impact on the industry with respect to salary costs, as currently the level of local participation in Saudi Arabia, for example, in the retail workforce is very low.

Absence of e-commerce laws and regulations

Major issues related to e-commerce transactions are related to trademarks, copyrights, and cyber fraud. But lack of regulations in most GCC countries have left both local and international online retailers unprotected and consumers wary of insecure online payment and possibility of data and identity theft, without any due legal recourse.

For example, Aramex is presently only allowed to send consolidated express freight B2B and not B2C by road. Another example for restrictive regulations are customs fees that are prohibitive even in free zones. If a company is operating in Jebel Ali free zone, as a shipment leaves the free zone, an administrative fee is added along with the transportation charge.

UAE has been proactive in creating a legislative and regulatory framework that is designed to facilitate e-commerce growth. The enactment of Federal Law No. 1 of 2006: Electronic Commerce and Transactions (the UAE eCommerce Law) created an eCommerce Department within the TRA, and tasked it with the goal of promoting economic development and technological innovation within an eCommerce regulatory regime.

The UAE eCommerce Law also seeks to allay specific concerns of both potential e-consumers and potential e-vendors by the law's official validation of electronic signatures and online purchase agreements and its creation of harsh penalties, including fines, imprisonment and deportation, for anyone improperly acquiring or disclosing sensitive electronic records. Similar frameworks are already in place in Saudi Arabia, Bahrain, Oman and Qatar and may soon be introduced in Kuwait.²⁰

¹⁹ Dell

²⁰ Lexology.com

10

Developments and Future of Online Retail in the GCC

With increasing broadband and smartphone penetration in all the GCC countries, e-commerce (and m-commerce) is set to grow in the region. Access to fiber-to-the-home (FTTH) technology is growing across the region, which will provide higher bandwidth, faster internet experience, and more internet users. It is expected that by global mobile internet will overtake fixed internet by the turn of the decade. But online retail sales will still continue to account for only a small fraction of total retail sales up until 2018, as opposed to North America and European markets.²¹

Government emphasis on improving the online payment gateways is a step in the right direction to promote consumer trust and confidence in e-commerce. Increasing competition seen in online payment systems will lead to more consumer focused and state-of-the-art technology being used, which will improve data security, and lesser transaction costs for retailers. Growing e-commerce sector and the resulting competition will force banks to lower their set-up costs and transaction fees for online retailers, and ease up the process to open merchant accounts.

Consumer awareness on the growing presence of brands on social media, and the perceived advantages of online shopping, is expected to lead to growth in the sector. Increasing popularity of group-buying is one of the major forces behind the growth of online retail sales in the region.

At present, e-commerce is being developed as an extension of physical retail stores in the GCC, with very few alternatives for pure retail channel websites. The next decade will see a spurt in growth in single channel online retail stores across the region, as staffing, rental and overhead costs, and rising competition will drive retailers to virtual retailing. Increase in use mobile devices will also drive online retail sales. As consumers become more sophisticated, sellers will have to get more creative to entice consumers, with attractive online offerings.

²¹ Imagesretailme.com

11

Appendix

Table 11.1: Online Retailers in the GCC

GCC Online Retailers	Country	Products	Market
TogetherInBahrain	Bahrain	Deals	Bahrain
MarkaVIP	Jordan	Fashion, Accessories, Home and electronics, and Logistics	GCC, Jordan and Lebanon
Prime Cuts	Kuwait	Gourmet foods and Online butcher shop	Kuwait
IKEA (Alghanim)	Kuwait	Furniture	Kuwait
Xcite.com	Kuwait	Consumer electronics, fashion accessories and home appliances	Kuwait
Alatoolmuscat	Oman	Deals	Oman
Qatar Grabs	Qatar	Deals	Qatar
SaleTAB.com	Saudi Arabia	Consumer electronics and Fashion accessories	Ships products internationally
Nasa Smart Devices	Saudi Arabia	Consumer electronics	Saudi Arabia
Souq.com	UAE	Consumer electronics, Fashion, Household goods, Watches, Perfumes	UAE, Saudi Arabia, Kuwait and Egypt
Cobone	UAE	Deals	UAE, Saudi Arabia
Sukar	UAE	Men's and Women's Fashion	GCC, Jordan, Lebanon and Egypt
Tejuri.com	UAE	Retail platform (Online mall)	Ships products internationally
Namshi	UAE	Fashion, Accessories and Footwear	Ships products internationally
JadoPado	UAE	Consumer electronics	Ships products internationally
SuperMart.ae	UAE	Online Grocery	UAE
3M Gulf	UAE	Food Services, Industrial Tapes, Adhesives and Abrasives, Personal Protective Equipment, and Electrical	UAE, Oman, Kuwait, Qatar, Bahrain
Geantonline.ae	UAE	Online Grocery and Consumer electronics	UAE

ecart.ae	UAE	Consumer electronics and Fashion accessories	UAE
Safaqati	UAE	Consumer electronics	UAE
LuLu	UAE	Consumer electronics and Hyper-market	UAE, Qatar, Oman
Axiom telecom	UAE	Telecom retailer	Ships products internationally
Gadgetby.com	UAE	Consumer electronics	UAE
Zee telecom	UAE	Consumer electronics	UAE
Offerbank	UAE	Consumer electronics	GCC, Egypt, India, USA, Canada, UK
EmiratesAvenue.com	UAE	Consumer electronics	UAE
SharafDG	UAE	Consumer electronics and home appliances	UAE, Oman, Qatar, Bahrain
OliveGSM	UAE	Consumer electronics and home appliances	UAE
Crazydeals.ae	UAE	Deals in Consumer electronics and Fashion accessories	UAE
eDubbuy	UAE	Consumer electronics	UAE
Alshop.com	UAE	Consumer electronics, Toys and Fashion accessories	GCC
MyGSM	UAE	Consumer electronics	GCC
dtcae.com	UAE	Consumer electronics	GCC, Jordan, Lebanon
Landmark Shops	UAE	Consumer electronics, Fashion, and Accessories	UAE
Egolfoutlet	UAE	Sports equipments, accessories and apparels	UAE
Giftbag.ae	UAE	Gifts, Consumer electronics, Fashion accessories	UAE
Aido	UAE	Consumer electronics, Gaming, Fashion, Accessories, Household goods, Gifts	Ships products internationally
letstango.com	UAE	Consumer electronics, Gaming, Fashion, Accessories, Watches, Perfumes	UAE
DoBazaar	UAE	Sports, Books, and Fashion store	Ships products internationally
Arush.ae	UAE	Consumer electronics and Fashion accessories	UAE
Amazon	USA	Wide range of products	Ships products internationally
eBay	USA	Wide range of products	Ships products internationally

Table 11.2: Facilitators to e-shopping in the GCC

Facilitators	Country	Services
PayPal	USA	Secure online payment
Cybersource	USA	Credit Card Processing for Business, Electronic Payment
Shopgo	UAE, Jordan	Setting up e-store
Aramex	Saudi Arabia	Logistics
FedEx	USA	Logistics

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 - Barwa Real Estate Co QSC
 - Commercial Bank of Qatar
 - Ooredoo
 - Qatar Electricity and Water Co
 - Qatar Insurance Co
 - Qatar National Bank

- UAE
 - Abu Dhabi Commercial Bank
 - Abu Dhabi National Hotels Co
 - Air Arabia
 - Aldar Properties PJSC
 - Arab National Bank
 - Arabtec Holding Company




Aramex
Dubai Islamic Banking
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