

## OPPORTUNITIES AND CHALLENGES FOR E-COMMERCE IN THE MENA REGION

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### Introduction

The MENA (Middle East and North Africa) region is often referred to as one entity. But, the political, economic as well as social developments are rather diverse and therefore also the speed and level of penetration of online and e-commerce. Although e-commerce is emerging and could still be considered to be in its early stages, the six Gulf countries and Lebanon are most advanced and lead the other countries in the Middle East and North Africa. MENA, with one of the world's fastest growing internet population and e-commerce market, is well-positioned to embrace the new retail environment. E-commerce, including both services and products, is estimated to be worth \$40 billion in 2015. Four of the Gulf States – UAE, Oman, Kuwait and Saudi Arabia – feature among the world's top emerging markets for global retail expansion, according to the 2014 A.T. Kearney Global Retail Development Index. The population of the region is very young, compared to other parts of the world: the median age is under 25, considerably younger than for instance Europe (38), USA (35) and Japan (45). This young population will be more open to embrace internet and the (new) digital devices and media available: tablets, smart phones, social networks, online news and e-shopping.

Smartphones have become ubiquitous in the Middle East, already accounting for 65% of the mobiles in the top 3 markets (KSA with 63% with a 74% penetration of smartphones, Qatar with 70%, and UAE), and almost 35% across the region. This means that a majority of consumers in the largest markets now walk around with the internet in their pocket, a wealth of information at their fingertips and a new and powerful tool to transact and make payments anytime, anywhere.. This is the era of the connected consumer who is always with a networked device in hand. A new generation of shoppers is coming on board whose first experience with online commerce will be through mobile devices and social networking. Retailers looking to attract highly connected, digitally savvy consumers will have to offer them a multi-channel experience across online, mobile, social and in-store. Broadband penetration is more than 50% in the MENA region, one of the highest rates of penetration in the world. The highest number of Internet users in the MENA region is estimated to be in Egypt, followed by Morocco and Saudi Arabia. However, Internet penetration was the highest in Qatar and the United Arab Emirates. The MENA region is the smallest but fastest growing region in e-commerce growth, growing at a rate two times faster than Asia Pacific.

Figure 1

the 2015 Global Retail E-Commerce Index™

| Rank | Change in rank | Country        | Online market size (40%) | Consumer behavior (20%) | Growth potential (20%) | Infra-structure (20%) | Online market attractiveness score |
|------|----------------|----------------|--------------------------|-------------------------|------------------------|-----------------------|------------------------------------|
| 1    | +2             | United States  | 100.0                    | 83.2                    | 22.0                   | 91.5                  | 79.3                               |
| 2    | -1             | China          | 100.0                    | 59.4                    | 86.1                   | 43.6                  | 77.8                               |
| 3    | +1             | United Kingdom | 87.9                     | 98.6                    | 11.3                   | 86.4                  | 74.4                               |
| 4    | -2             | Japan          | 77.6                     | 87.8                    | 10.1                   | 97.7                  | 70.1                               |
| 5    | +1             | Germany        | 63.9                     | 92.6                    | 29.5                   | 83.1                  | 66.6                               |
| 6    | +1             | France         | 51.9                     | 89.5                    | 21.0                   | 82.1                  | 59.3                               |
| 7    | -2             | South Korea    | 44.9                     | 98.4                    | 11.3                   | 95.0                  | 58.9                               |
| 8    | +5             | Russia         | 29.6                     | 66.4                    | 51.8                   | 66.2                  | 48.7                               |
| 9    | +15            | Belgium        | 8.3                      | 82.0                    | 48.3                   | 81.1                  | 45.6                               |
| 10   | -1             | Australia      | 11.9                     | 80.8                    | 28.6                   | 84.8                  | 43.6                               |
| 11   | -1             | Canada         | 10.6                     | 81.4                    | 23.6                   | 88.9                  | 43.1                               |
| 12   | +2             | Hong Kong      | 2.3                      | 93.6                    | 13.0                   | 100.0                 | 42.2                               |
| 13   | +6             | Netherlands    | 8.9                      | 98.8                    | 8.1                    | 84.6                  | 41.8                               |
| 14   | -3             | Singapore      | 1.3                      | 89.4                    | 15.7                   | 100.0                 | 41.5                               |
| 15   | +13            | Denmark        | 8.1                      | 100.0                   | 15.1                   | 75.5                  | 41.4                               |
| 16   | 0              | Sweden         | 8.8                      | 97.2                    | 11.8                   | 77.7                  | 40.9                               |

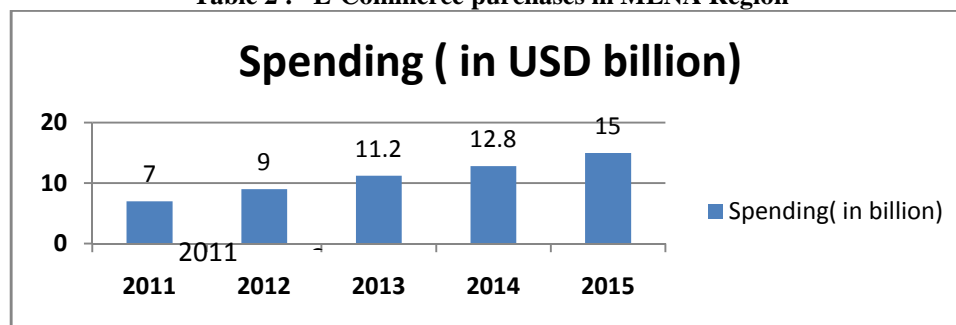
|    |            |              |      |      |      |      |      |
|----|------------|--------------|------|------|------|------|------|
| 17 | Not ranked | Mexico       | 10.0 | 53.3 | 58.6 | 68.0 | 40.0 |
| 18 | Not ranked | Spain        | 13.2 | 73.1 | 20.2 | 80.1 | 39.9 |
| 19 | +1         | Chile        | 2.7  | 71.8 | 49.3 | 73.2 | 39.9 |
| 20 | +6         | Norway       | 8.2  | 99.4 | 5.6  | 76.3 | 39.5 |
| 21 | -13        | Brazil       | 19.6 | 57.4 | 28.0 | 72.4 | 39.4 |
| 22 | -7         | Italy        | 12.3 | 71.6 | 27.8 | 70.7 | 38.9 |
| 23 | +6         | Switzerland  | 7.1  | 89.6 | 7.4  | 82.5 | 38.8 |
| 24 | -1         | Venezuela    | 1.7  | 54.1 | 79.4 | 55.7 | 38.5 |
| 25 | -4         | Finland      | 6.4  | 98.3 | 3.8  | 77.3 | 38.4 |
| 26 | -8         | New Zealand  | 1.7  | 86.4 | 25.9 | 75.4 | 38.2 |
| 27 | Not ranked | Austria      | 5.9  | 85.3 | 19.0 | 74.8 | 38.1 |
| 28 | Not ranked | Saudi Arabia | 1.1  | 46.6 | 67.3 | 74.6 | 38.1 |
| 29 | -17        | Argentina    | 5.7  | 70.3 | 43.9 | 64.3 | 38.0 |
| 30 | -3         | Ireland      | 4.9  | 74.4 | 27.6 | 74.1 | 37.2 |

Notes: Scores are rounded. 100 is the highest and 0 is the lowest for each dimension.

Sources: Euromonitor, International Telecommunication Union, Planet Retail, World Bank, World Economic Forum, United Nations Department of Economic and Social Affairs, A.T. Kearney analysis

The Middle East has a storied tradition of trade, commerce, and wide selection of goods to offer consumers. Online and mobile channels can become a new way for these merchants to reach yet an even wider audience. Today, online commerce platforms available to retailers in the Middle East are dynamic, affordable, and in many cases open source, allowing merchants to cost effectively embrace the latest technologies. There is also a huge competitive advantage to be garnered by retailers integrating online and mobile footprints in addition to their traditional offline presence. There are many leading e-retailers like MarkaVIP, Souq.com or Namshi offering their customers the choice to shop 24/7 across multiple channels and pay in an easier and safer way to with PayPal. Remaining innovative and maintaining relevance in the new retail environment is the biggest challenge all retailers are facing every day in the Middle East.

Table 2 : E-Commerce purchases in MENA Region



Source : PayPal Insights : e-Commerce in the Middle East 2012 – 2015

### Retail in the MENA Region

The retail industry has been one of the fastest growing markets in the Middle East for the last few years. It is the second largest sector in the oil-rich GCC region, and is considered to be the most preferred means of promoting diversification and sustained economic development in the region. The global financial crisis and the consequent fall in oil prices, has materially slowed down the pace of market growth. However, the sector continues its uptrend supported by fundamental drivers, including growing affluence and disposable income, rise in tourism, and a large expatriate population, favourable demographic factors, and large-scale infrastructure development.

Over the years, the retail landscape is transforming from traditional markets and small, independent outlets to large shopping malls, hypermarkets, and organized retail chains, the GCC countries leading. These new retail formats are gaining market share at the expense of the traditional businesses. Given the vast market potential, many international retail companies and brands such as Carrefour, Debenhams, Marks & Spencer, Bloomingdales, Harvey Nichols, Sachs Fifth Avenue, Waitrose, Prada, and Jimmy Choo have set shop in a number of countries. Four of the Gulf States – UAE, Oman, Kuwait and Saudi Arabia – feature among the world's top emerging markets for global retail expansion.

**Table 3 : E-Commerce Sales in Different Regions of the World**

| Region        | 2012     | 2014     | 2017 E     |
|---------------|----------|----------|------------|
| Asia pacific  | \$ 301.2 | \$ 525.2 | \$ 1,052.9 |
| North America | \$ 379.8 | \$ 482.6 | \$ 660.4   |
| Europe        | \$ 319.0 | \$ 405.4 | \$ 518.1   |
| Latin America | \$ 37.6  | \$ 57.7  | \$ 74.6    |
| MENA          | \$ 20.6  | \$ 33.8  | \$ 51.4    |

Source : eMarketer, January 2014, B2C sales expressed in USD Billion

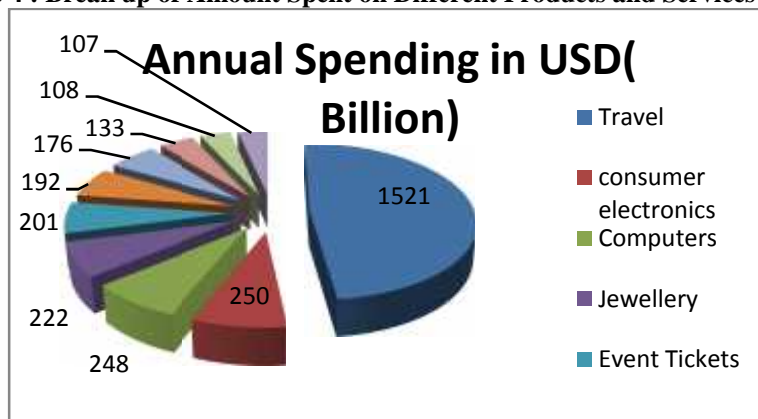
According to the Global Retail Development Index 2014 released by management consultancy firm A.T Kearney, the highest ranked countries in the MENA region are:

1. UAE With a GRDI score of 60.6, the country ranked seven on the index, one position higher than last year. The move “reflects strong consumer confidence and increasing retail sales of over five per cent in 2014 [compared to 2013],” said the report.
2. Oman Ranked right below the UAE at the eighth spot with a GRDI score of 58.9, Oman has been highlighted in the global study as a “small gem.” “Although small in terms of total retail market size, its strong fundamentals and concentrated wealth represent appeal to retailers seeking first mover advantage in fast-growing markets,” said A.T. Kearney.
3. Kuwait The GCC state fell seven spots from last year to rank 12th on the index with a GDRI score of 56.6. One of the wealthiest countries in the region, Kuwait’s position dropped because of increasing market saturation. “The country’s projected retail sales increase of \$4 billion from 2011 to 2015 is indicative of the growing interest by new international brands,” the report added.
4. Saudi Arabia The region’s largest market, Saudi Arabia ranked 14th on the index with a GDRI score of 53.3. The Kingdom has very strong fundamentals of rising GDP, population growth and increased government spending, said the report.
5. Jordan Another first entrant in the index, Jordan had a GDRI score of 51.1, placing it 18th on the list. While retail is gaining strength in the country, Jordan’s status as a gateway to Iraq makes it even more attractive to retailers, said the report.

### The Online Commerce Market in the Middle East

The Middle East’s online commerce market grew 29% from \$7 billion in 2011 to \$15 billion in 2015. This growth was driven by a massive jump in the Middle East’s online commerce population, as well as a flood of local retailers coming online and offering local consumers what they could only have found outside of the region before. The healthy growth in online spending in the Middle East is due to a number of factors: new consumers purchasing online for the first time; retailers establishing an online presence or increasing the sophistication of their current online offering; a number of major international retailers marketing directly to consumers in the region and finally, the explosive growth of mobile commerce. Finally, it is now easier than ever to get products delivered to the Middle East, with concierge service such as Shop and Ship from Aramex, which enables consumers to shop from any international merchants, even ones that do not deliver in the Middle East. According to researchers top sold products in the MENA region are: airline tickets, books, software, clothing/accessories/shoes, hotel and tourism reservations, electronic equipment, videos/DVDs/games, computer hardware and sporting goods .

**Table 4 : Break up of Amount Spent on Different Products and Services Online**



Source : MENAP B2C e-Commerce Overview 2014



Along with the dramatic growth in spending and the online commerce population, cross-border e-commerce is booming in the MENA region, with more than 70% YoY growth. According to eMarketer, the number one reason why people buy products from abroad (74% of buyers) is because they cannot find them domestically. 57% of buyers look for cheaper deals abroad, and 49% look for larger selection. Better quality and authenticity come in later. The growth is driven by the limited choice currently available in the MENA region. While everyday new e-merchants open their e-store in the region, the majority of the shopping remains cross border distributed among the US (35%); Asia (30%) and Europe (25%), the intra MENA region represents already 10% of e-trade. Indeed, local online offering is growing. Souq.com has emerged as the largest online retailer in the Middle East.

M – commerce ( mobile commerce ) is also a very important part of electronic commerce. According to ABI Research, globally, the m-commerce market is expected to account for 24.4% of overall ecommerce revenues by the end of 2017. ABI Research's mobile online commerce report found that this growth is being fuelled by the rapid adoption of smartphones in both mature and developing markets, as well as a retail market in which traditional brick-and-mortar retailers are implementing multi-channel strategies in the face of increasing competition from Internet-based vendors. Given the phenomenal increase of mobile and smart phone, growth in the MENAP region will outpace the foreseen global growth of mobile commerce.

### **E – Commerce Trends In Few Countries in MENA Kingdom of Saudi Arabia**

Trends in e-commerce: In KSA there has been 36% to 55% growth in mobile commerce penetration across all segments of online shoppers, with close to four in every ten consumers showing the potential to make purchases via their mobile devices. Furthermore, higher earning professionals show the greatest potential to spend more, particularly Arab expats, those in their mid-20s to early 30s and those living in Riyadh.

What are Saudis buying: In KSA, travel has the highest online share at 59% and the highest average annual online spend per person at SAR 1,793 (USD 478). The purchase of computers accounts for the second highest average annual online spend, at SAR 646 (USD 172). Similarly in KSA, Souq.com is a top visited retailer with a high average expenditure of SAR 1,882 (USD 501). KSA online users claim that online share will increase for most categories, excluding travel in 2013. 46% of online shoppers have bought from overseas websites, doing so primarily to gain access to goods they cannot find in KSA.

How do Saudis shop: In the Middle East, Cash on Delivery represents more than 80% of online purchases, followed by cards at 15% and PayPal at 5%. PayPal is expected to grow at 15% by 2015. In KSA, for payments on domestic websites, Cash on delivery (COD) dominates with almost 70% of payments, followed by credit cards with 15% and auto-debit (Sadad) at 10%; PayPal accounts for 5% of the online payments. Credit cards and PayPal are the preferred forms of payment for international sites, accounting for 44% made with cards and 33% with PayPal. COD is the main payment method for Smartphone users (at 31%) and Tablet users (at 36%). In KSA PayPal is the chosen method of payment for 13% of online purchases made from Smartphone and 17% of purchases made from tablets.

### **Emirate of Qatar**

Trends in e-commerce: In Qatar, growth is predominantly driven by an increased penetration of online shopping across categories, especially travel. About a quarter (28%) of consumers shopped online in the past 12 months. Further, online share is usually lower for the higher spending categories, though travel is an exception with a 34% online share and an average annual spend of over QAR 2,457 (USD 674). Online share is projected to increase from 34% to 76% in Qatar by 2015. Travel and sport equipment currently have the highest proportion of online spend at 20% though travel tickets have the highest average online spend at QAR 746. The top online retail site visited was Qatar Airways, followed by eBay, then Amazon. 37% of online shoppers have made a purchase at Qatar Airways which has the highest average spend per purchase at QAR 2,460 USD (USD 675).

What are the Qataris buying: In Qatar most online spending is done on a desktop computer averaging 86.6% of total purchase, while smartphones and tablets only account for 10.2% and 3.2% of online spend shares respectively. Qatari shoppers tend to make their purchases at home or at work. Desktop and smartphone owners are more likely to be expats predominantly in their mid- 20s to early 30s, living in Doha whereas Tablet users are more likely to be Arabs living in a larger household with children at home. High income groups show the highest potential for spending, especially expats, people in their mid-20s to early 30s and those living in Doha or Al Rayyan region.

How do Qataris shop: In Qatar, 7% of online shoppers use PayPal to complete their transactions. Credit cards are used in 18% of the cases, and COD is used for the remainder, 75% of the time. PayPal users tend to be male, 25-34 years old, expats,



and live in Doha City. These PayPal users mainly make purchases from Qatar Airways (35%), Air India (27%), and eBay (24%). People living in large households with children at home are more likely to be PayPal users as well as make crossborder purchases. Over half of online consumers have made a purchase on an overseas website.

### **United Arab Emirates**

Trends in e-commerce: In the UAE higher income earners, both professional and management, show the greatest potential to spend more, especially expats (Asian, Western, etc.), those in their mid-20s to early 30s and those living in Dubai.

What are the Emiratis buying: In the UAE, travel has the highest online share at 67% and the highest average annual online spend at AED 2,024 (USD 551). The purchase of computers accounts for the second highest average annual online spend at 500 AED (USD 136). In the UAE, 52% of the respondents shop at Souq. com. Among local stores shopped at, Souq.com marked the second highest average expenditure of AED 987 (USD 268) per purchase.

How do Emiratis shop: PayPal follows card as the fourth preferred method of payment for purchases made on domestic sites at 6%. For purchases made on international sites, PayPal is the third most used method of payment at 30%. In the UAE, credit cards are the second payment method used for shopping on computers after COD, which is also preferred by online shoppers using smartphones and tablets. After COD and credit cards, PayPal is the third predominating method of payment for smartphone users at 27%, it also constitutes 20% of the payment methods chosen by Tablet users.

### **Challenges faced by E- tailers in the Middle East**

The key challenges facing the e -tailers in the MENA region are as follows :

1. Talent: Finding top quality managerial and technical talent willing to jump from stable jobs into risky entrepreneurial ventures is extremely difficult in this region due to a lack of familiarity with the industry and a preference for established brands.
2. Funding: Although the region is a global source of capital, sophisticated VC investors funding local startups are in limited supply and will likely continue to be until success stories proving the investment thesis emerge.
3. Support: MENA startup growth is slowed because founders often tackle core business challenges, such as payments and digital marketing, without the support of peers or advisors who could share past lessons and propose tested solutions to their problems.
4. Logistics : In a complex, fragmented market, most e-commerce companies have opted to handle their own last mile delivery and develop in-house logistics solutions, to minimize their delivery times. Another challenge is warehousing: stocking items can also be difficult, when reliable and affordable partners are hard to find, although solutions like Aramex continue to provide for most e-commerce startups. Local warehousing and in-house logistics help companies reduce their rates of undelivered packages and returns, which can be costly due to high import duties in several markets and a regional preference for payment via cash-on -delivery (COD), which can reach 70% of purchases in markets such as Saudi Arabia, Jordan, and Egypt. To mitigate losses, many companies have improved confirmation, activated an option for credit or debit card payment on delivery, and offered “doorstop trials,” in which a customer tries on various sizes while the delivery man waits outside .

### **Conclusion**

The Middle East and North Africa (MENA) region holds several opportunities for e-tailers. E-commerce is growing fast in the region which has a young demography and affluent customers. Smartphone and broadband penetration levels are among the best in the world and as much as 66% of the public use the internet to search for products and services. However , there are several challenges before e-tailers . Finding the right talent , proper logistical support and sound management advice are essential for success in the e-commerce space this region. The future is indeed bright and with the proper kind of support e-commerce can grow and become a major stream of revenue for companies in the future.

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