



Economic Bulletin

ISSUE 1/2020 | January 2020

E-Commerce:
Challenges &
Opportunities for
Dubai's Wholesale
and Retail Sector



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Online Economic Bulletin, analyses economic topics with impact on Dubai's growth path, trade and investment. All queries on contents should be addressed to: jamel.zarrouk@dubaided.gov.ae

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Introduction

E-commerce, where consumers can shop online to choose from a vast selection of products without visiting a shop, is growing at a rapid pace across the world. E-commerce has been driven by access to the internet by broadband and smart phones, the rising penetration of digital payment systems, and the direct delivery model pioneered by Amazon. The main economic impact of these technologies is that they threaten the economic viability of traditional shopping outlets and retail malls, where product selection and purchases are made by consumers in physical locations, and they also disrupt supply chains and impact on warehouse use. This issue highlights recent developments and implications of E-commerce in Dubai and around the world.

Economic Importance of Dubai Retail Sector

The Retail activity is part of the Wholesale & Retail Trade sector (including motor vehicles and motorcycles repair) in the Dubai National Accounts Statistics. The sector as a whole is the largest part of Dubai's economy measured in terms of output. In 2018 this sector generated value added of AED 105.1 billion or 26.4 per cent of GDP. The sector is also the second largest employer with a workforce estimated at 573,007 persons (20.65 per cent of Dubai's workforce) in 2018. The sector plays an important role in upholding consumer expenditure in Dubai and through backwards and forward linkages it helps to sustain economic activities in other sectors, such as transport and storage, food and accommodation. In 2018 this trade sector was the largest in terms of attracting investment (capital formation), worth AED 15 billion, with 20 per cent of the total investment in that year.

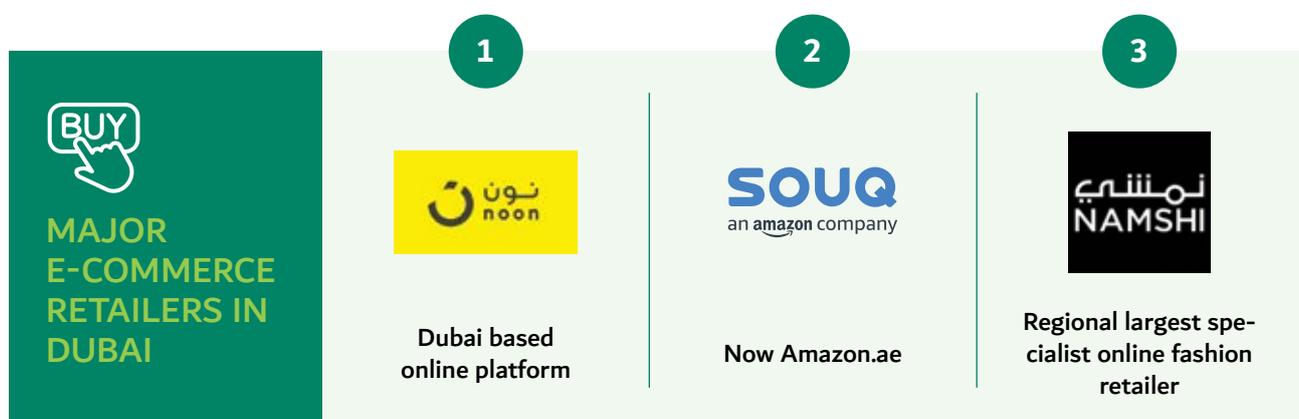
Many businesses in Dubai are launching their own online e-commerce platforms to expand the choice of products for customers while providing a sales platform for local businesses.

The Advent of E-Commerce in Dubai

The e-commerce sector in Dubai has been growing rapidly in response to technological advances to internet access and digital payments. Private sector investments and enabling government initiatives have also played a key role in promoting e-commerce in the Emirate. Established retailers are approaching the challenge of e-commerce in different ways. Many are launching their own on-line e-commerce platforms to expand the choice of products for customers while providing a sales platform for local businesses. SOUQ.COM was founded in 2005 in the UAE and soon became the largest online retailer in the Arab world. SOUQ.COM later was acquired by Amazon in March 2017, and was officially launched in the UAE as Amazon.ae in May 2019. Amazon.ae is offering customers in Dubai access to over millions of products from the region and the rest of the world which can be paid for in Dirham by card or by cash on delivery.

In October 2017, noon.com, a new online platform was established and later in June 2018 it partnered with e-bay. The on-line retailer NAMSHI has become the region's largest specialist online fashion retailer offering nearly 600 apparel and footwear brands on its platform.

Some new investors in the sector are also planning virtual malls that can be accessed digitally. Mall.Global, a Dubai-based tech firm is developing a virtual mall due to launch in 2020 and featuring 2500 branded "stores" along with shopping experiences that will utilise artificial intelligence and offer virtual reality.



Global Trends

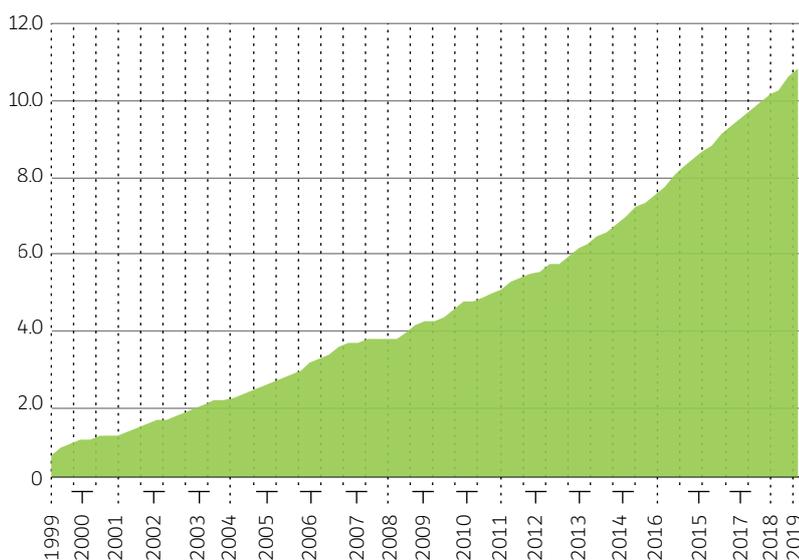
The enormous success of Amazon, which had a market capitalisation of nearly US\$850 billion at the end of September 2019, has inspired many emulators across the world such as Alibaba, founded in China and now the 4th largest internet-based company in the world. In 2018, data from the United States Department of Commerce estimated that consumers spent US\$513.6 billion in 2018, a rise by 14.2 per cent on 2017 on online retail sales, an expansion faster than the 4.1 per cent rate of growth of total retail sales.

The USA

Over the last two decades, differential growth rates between online and in-store sales has meant that the share of online retail sales in total retail sales in the USA has grown steadily. Online retail reached 10.7 per cent of total retail sales, in April 2019, compared with 0.6 per cent at the end of 1999, (Figure 1).

In the United States and in many other developed countries, particularly where shopping malls are on the outskirts of town, the move to purchase online has had a depressing effect on the number of physical retail outlets, on the commercial value of retail real estate, the market value of retail companies and on jobs. Worldwide data indicate that traditional retail outlets and shopping malls are economically suffering because of the steady rise in e-commerce.

Figure 1: Share of Online in Total Retail Sales in the USA, 1999 to 2019

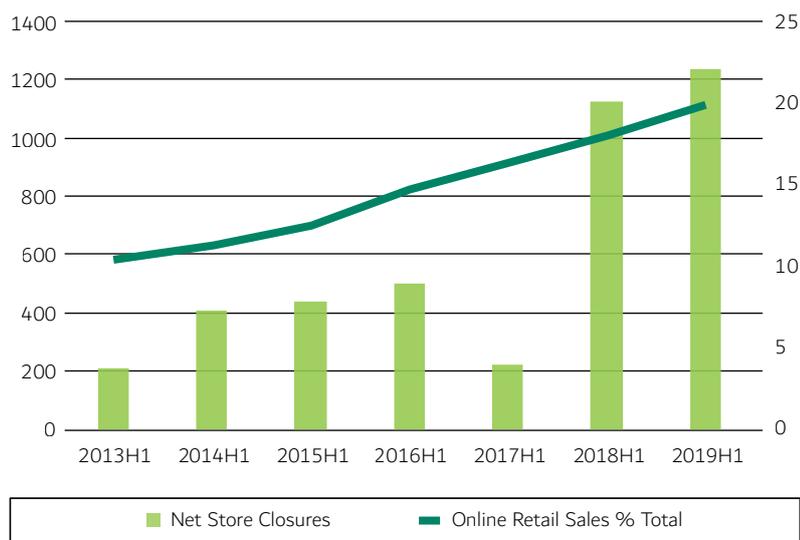


SOURCE: US CENSUS BUREAU

The UK

In the United Kingdom, where online sales have grown rapidly standing at an estimated 18 per cent of total retail sales in 2018, e-commerce has led both to store closures and a reduction in the rate of investment in new store openings. According to data from PricewaterhouseCoopers (PwC), the rise in online sales has accelerated the net rate of store losses, (Figure 2).¹

Figure 1: Share of Online in Total Retail Sales in the USA, 1999 to 2019



SOURCE: US CENSUS BUREAU

The UAE

The e-commerce market has developed more slowly in the MENA region and among the GCC countries than in other parts of the world with similar fundamentals measured by demographics, disposable income, smart phone penetration and internet access. But it is now growing rapidly and the UAE is leading the region in e-commerce. Online sales growth is predicted to be the most rapid, with an estimated market size of online sales of US\$12.3 billion in 2019 up from US\$5.0 billion in 2015, and forecast to grow by 23 per cent per annum up to 2022 according to a joint report between Visa and Dubai Economy.² The UAE Ministry of Economy has estimated that e-commerce already accounted for 10.0 per cent of sales in the country in 2018.³

E-commerce already accounted for 10 per cent of sales in the UAE, in 2018, according to the Ministry of Economy.

Challenges

The development of B2C (Business to Consumer) e-commerce offers both a challenge and an opportunity for the Dubai's Wholesale and Retail Sector and its potential for value added growth to the economy. The challenge arises from the need to respond to the dampening effect that online retailing is having on so-called 'bricks and mortar' individual retail outlets and shopping malls in Dubai with risks for in-store traffic falling and stores closing. This threat is often referred to as the so-called 'Amazon effect'. Amazon, founded in 1994, originally focused on being an online market place for books and expanded into electronics, video games, white goods, clothing, furniture, food, toys and many other products.

The challenge arises from the need to respond to the dampening effect that online retailing is having on so-called 'bricks and mortar' individual retail outlets and shopping malls in Dubai and throughout the world with in-store traffic falling and stores closing.

Future Prospects

Retailers in Dubai, as in the rest of the world, will adapt to the challenge in various ways although the immediate strategic response has been for many large retailers to set up their own online shopping and delivery services. There will be emulation of the strategy that stores in other parts of the world, such as global furnishing retailer IKEA, which is turning its out-of-town centres into facilitation warehouses and opening city centre stores to persuade consumers to visit, see the items, and then go online to purchase them.

Many retailers are concentrating on providing convenience and experiential unique elements to continue to attract footfall into their physical stores. The positive growth opportunity from e-commerce arises from the ability of stores located in geographically concentrated top global prime shopping locations such as New York, London, Paris, Singapore and including Dubai, to enhance the shopping experience while benefiting from efficiency gains by separating the act of browsing and purchasing from delivery.

E-commerce Logistics

The growth of e-commerce is changing the nature of the logistics industry worldwide with the development of storage and fulfilment centres that deliver economies of scale. Another positive impact of e-commerce is how it is driving development of the wholesale and logistics segments of the sector through the evolution of supply chains. E-commerce logistics consist of delivery to a fulfilment centre, warehousing and packing and finally the last mile — delivery to the customer. This logistics market will increase in size as online purchases rise to expand output and value added, with the potential to create jobs and investment in the Wholesale and retail sector. E-commerce will also have an impact on the Transport and Storage and the Real Estate sectors. Dubai, with its excellent air and sea transport connections and existing role within global supply chains, has a real opportunity to act as a facilitation centre for e-commerce within the GCC countries and the entire MENA region. ■

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Endnotes

1. <https://www.pwc.co.uk/press-room/press-releases/store-closures-hit-record-levels.html>
2. <https://ae.visamiddleeast.com/dam/VCOM/regional/cemea/unitedarabemirates/home-page/documents/visa-white-paper.pdf>
3. <https://www.export.gov/article?id=United-Arab-Emirates-ECommerce>

Datawatch

“The power of a good chart or map lies in its ability to inform debate...”

— Alan Smith, Financial Times

INTERNET RETAILING (US\$ PER '000 PEOPLE)

UAE internet purchases (US\$150,028 per 1,000 people) are 3 times higher than in Saudi Arabia, highlighting the strong drive on the part of the general public to engage in internet purchases.



RANK

1	UK	1,123,481.90
2	Denmark	972,211.00
3	USA	962,473.70

32	UAE	150,028.30
45	Saudi Arabia	43,116.60
51	Malaysia	18,652.00

Source: IMD-Smart Dubai-Dubai Economy: Dubai Competitiveness Report 2018 - Digital (page 56).

VALUE OF E-COMMERCE (SCORE 1-100)

UAE ranks 13th in the frequency of good purchased via internet, with 43.1% responses indicating “about once a month”; compared to Finland ranked 1st (with 51. Percent responses), this reflects the fast changing nature of retail trade in the UAE as whole and Dubai in particular.



RANK

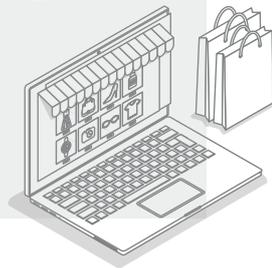
1	Finland	100.0
2	Mexico	97.5
3	Ireland	95.0

13	UAE	79.9
34	Saudi Arabia	58.0
35	Kuwait	54.7

Source: EIU Survey, <https://theinclusiveinternet.eiu.com/>

E-COMMERCE CONTENT (SCORE 1-100)

The extent of e-commerce availability in terms of adopting new digital technology in the UAE have facilitated on the part of the general population the use of internet services more frequently (both as service to buy products or to sell them).



RANK

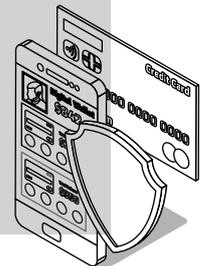
1	Switzerland	100.0
2	Netherlands	99.4
3	South Korea	99.0

19	UAE	89.9
30	Saudi Arabia	70.6
40	Kuwait	64.2

Source: EIU Survey, <https://theinclusiveinternet.eiu.com/>

E-COMMERCE SAFETY (SCORE 1-100)

While businesses are flexible in adopting new technologies, protecting privacy and making cybersecurity a top priority remains a challenge for e-commerce in the UAE and other GCC countries.



RANK

1	Romania	100.0
2	Portugal	92.2
3	Venezuela	89.4

79	UAE	31.7
85	Saudi Arabia	29.4
99	Kazakhstan	0.0

Source: EIU Survey, <https://theinclusiveinternet.eiu.com/>