The United Arab Emirates (UAE) eCommerce Landscape 2020

Accelerated growth during turbulent times
The first UAE eCommerce Landscape report in June 2019 highlighted the key drivers, opportunities, and challenges in the UAE eCommerce market, ascertained through the analysis of Visa data and relevant research.

This 2020 report provides an update to reflect on the activities of the last 12 months and, in particular, the impact of the COVID-19 pandemic and the opportunities that this unprecedented crisis creates.

The UAE eCommerce market is on an upward trajectory, driven by the demand for online purchasing by a young tech-savvy population. With the country comprising a high percentage of digital native millennials who are at ease with technology, the expectation is for seamless and convenient online purchasing.

Merchants have striven hard throughout the 2010s to meet the ever-increasing consumer demand for eCommerce and have recognized the need for online presence to ensure business continuity and longevity. While traditional bricks and mortar retail is still very strong in the UAE, these retailers have acknowledged the need for a dual face to face and online strategy with the focus on customer experience. These are complemented by eCommerce “pure play” retailers who have been increasing consumer product choice, both organically and through partnerships, and smaller retailers coming online facilitated by online commerce platforms and payment gateway capability.

Both demand and supply sides are supported by logistics infrastructure that is on a-par with some of the most developed eCommerce markets in the world. In addition, eCommerce start-ups continue to attract significant investment, supported by government policies promoting innovation and a cashless economy, all resulting in enhanced consumer trust and a thriving eCommerce market in the UAE poised for significant growth.

The COVID-19 pandemic has further accelerated retailers’ innovation and digital transformation plans, in response to the sudden consumer demand to shop online. The step change in demand across the first half of 2020 is sure to have a lasting effect over the next few years, as many consumers and merchants have shifted consumer behavior and gained confidence in online purchasing during this time. In this fast-growing market, when eCommerce is becoming the norm, there is still significant opportunity to grow and shape consumers’ path to purchase.

This report captures the trends and insights based on Visa’s experience via a deep dive into transaction data, supplemented by the synthesis of relevant research. By understanding how and where consumers are spending and analyzing the impact of the unforeseen events which have occurred during the last twelve months, opportunities for all stakeholders across the UAE eCommerce ecosystem are highlighted.

Foreword

Strong growth fueled by increasingly digital demand

Objectives

To assess the recent eCommerce developments in the UAE, including the impact of the COVID-19 pandemic, with a view to identifying opportunities for further expansion. The report identifies ways that these could be addressed to accelerate the pace of change.

Through understanding the current status of the eCommerce ecosystem, it enables government, investors, banks, retailers, and other stakeholders to identify how they can support the market’s evolution.

The final aim is to understand the key drivers and challenges of eCommerce, with the purpose of creating an action plan to support the objective of The Department of Economic Development in Dubai to expand the eCommerce sector in Dubai and the UAE.

Methodology

Proprietary data from Visa provides a deep understanding of the key commerce, eCommerce drivers and trends in each of the markets across the globe. This contributes valuable insights into market penetration rates, transaction sizes and category growth rates.

Using this data, the UAE performance can be benchmarked against other markets and seen in context. For the purpose of this report, “Mature” and “Emerging” benchmarks based on the following markets will be compared to the UAE.

Mature – Australia, Canada, Singapore, Sweden, UK, and the U.S.

Emerging – Brazil, Malaysia, and South Africa

Measured against these two benchmarks, the UAE’s unique strengths and opportunities become much clearer.

This data has been augmented through the summary, collation and synthesis of the latest existing research undertaken by various reputable stakeholders in the UAE and around the world. This includes the latest thoughts and insights regarding the impact of COVID-19 on the eCommerce sector.

Visa data and the latest research highlight opportunities for further expansion
Global eCommerce

Continuous innovation is driving global uptake

Shopping via mobile devices, personal computers, tablets, and connected devices is now part of the everyday lives of consumers globally.
Global retail eCommerce sales growth has been strong and is expected to remain so. eCommerce sales are forecast to reach $4.2 trillion in 2020, up from $2.4 trillion in 2017, growing at a CAGR (Compound Annual Growth Rate) of 20.9%. By 2023, the eCommerce market is forecast to account for 22% of all global retail sales, up from 10.4% in 2017.

Asia Pacific, and particularly China, has historically been at the forefront of the global eCommerce growth charge in recent years, with an increase of 25% in 2019. But growth rates in the Middle East and Africa as well as Latin America (up 14.5%) and Western Europe (up 10.2%), which house some of the more mature eCommerce markets, are not surprisingly showing a flattening of the eCommerce growth curve.

This relentless transition to online may be driven by the effective transformation of technological capabilities into quicker, safer, more intuitive, and personalized experiences.

The advent of voice-activated shopping, contextual, social commerce, and virtual instant reordering, combined with the convenience of same day delivery and the lure of more attractive pricing, are key trends impacting eCommerce globally.

- **Augmented reality**: Creating immersive shopping experiences where consumers can “test and try” products before purchase, enhances the consumer shopping experience, improving buyer confidence, and increasing sales conversion.

- **Social commerce and in-app purchases**: Social media platforms such as Instagram are integrating the eCommerce experience in their platform, with in-app checkout, allowing users to make purchases without leaving the app.

- **Personalization**: Merchants are increasingly analyzing customer’s previous actions, shopping behaviors, demographic profile, and other personal data to reveal patterns, trends, and associations, that inform individualized offers and product recommendations.

- **Integrated omni-channel experiences**: In the US, for example, Amazon Go stores allow consumers to buy products in store but check out digitally. A combination of computer vision, machine learning and artificial intelligence allows the customer to scan their Amazon app on entering the store, pick up what they want, and simply leave. The items are added to a virtual cart and billed on the customer’s Amazon account.

- **Digital payments expansion**: From securing the transaction, to enabling new form factors, to driving value through loyalty and trust, digital payments facilitate secure, frictionless, and easy eCommerce experiences. Payment options such as cards and “pay” buttons such as PayPal, Apple Pay and Visa Click to Pay remove the hassle of entering payment details for each transaction. Payment technologies such as Tokenization and Secure Remote Commerce that increase security and reduce friction will evolve to be part of the default checkout flow of eCommerce merchants, replacing traditional checkout forms. Risk Based Authentication (eg 3DS 2.0) will reduce step-up friction. Biometrics will increasingly be leveraged for Customer Verification online. Ease of payment removes a key friction point in the customer shopping experience, with faster checkout continuing to drive eCommerce sales.

The consumer experience is continually evolving and a combination of the latest technology and behavioral insights are driving the future of eCommerce. Consumers are being offered greater convenience, customized experiences, flexible payment options and instant fulfillment, which all add up to a better user experience.
UAE in the Middle East and North Africa (MENA) Region

Leader in one of the fastest growing regions for eCommerce

In the Gulf Cooperation Council (GCC), mass internet adoption has resulted from a combination of digital infrastructure and eager consumer adoption of technology-driven solutions, such as social media and smartphones. The wider MENA region has taken its own route to digital adoption, leap-frogging traditional channels of evolution.
Today, the GCC region contains some of the highest mobile and internet penetration rates globally. High digital and social penetration has meant that GCC consumers have jumped straight to mobile commerce, or mCommerce, and operate across digital platforms with ease. Within this context, Dubai and the UAE remain a hub for eCommerce growth, whether in attracting start-ups or in creating multiple channels to ensure safe and secure payments.

The total MENA market size, including all categories, has been forecasted to be worth $48.6 billion in 2022, up from $26.9 billion in 2018. Even excluding the crucial B2B and P2P eCommerce, food delivery, travel, entertainment, services, and automobiles categories, MENA eCommerce closed 2019 with an estimated total volume of c. $16bn.

The UAE’s eCommerce sales were projected to hit $16 billion in 2019, followed by KSA, where eCommerce sales are projected to reach $7.7 billion. Currently, the UAE is considered the most advanced eCommerce market in MENA, with a penetration rate of 4.2%, compared to advanced western markets such as the UK (15.6%), U.S. (12.3%) and France (10%).

Its consumer demographic includes a young internet-savvy population, with high social media usage. These people are more likely than some of their cohorts globally to spend time online. eCommerce companies, whether they are online marketplaces, domestic retailers, or cross-border merchants, are tapping into this high latent demand, disposable incomes, and digital penetration that is favorable for the sector.

UAE consumers are among the most connected in the world, with some of the highest levels of internet, smartphone, and social media penetrations globally; much higher than most of the mature eCommerce markets. The internet plays a critical role in their path to purchase — discovery, research, and actual purchase. Regardless of whether they shop online or in-store, UAE consumers are heavily influenced by their online activities.

The UAE enjoys many advantages that make it ideal for eCommerce growth

Its consumer demographic includes a young internet-savvy population, with high social media usage. These people are more likely than some of their cohorts globally to spend time online. eCommerce companies, whether they are online marketplaces, domestic retailers, or cross-border merchants, are tapping into this high latent demand, disposable incomes, and digital penetration that is favorable for the sector.

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Retail sales remain a key driver of economic activity, constituting the most important activity in the services sector, commanding 26.4% share of GDP in 2018. 

The UAE retail industry - classified into store and non-store sales, which include eCommerce – was estimated at $55 billion in 2018 and forecast to rise to $63.8 billion by 2023. The eCommerce segment is classified under non-store retailing, which encompasses online shopping, direct selling, mobile internet, social media, and home shopping. The non-store category is forecast to grow by 78% from 2018 to 2023.

Additionally, developed logistics infrastructure, financial account penetration and support for digital payments, increased consumer trust in online transactions, increased retailers' adoption of eCommerce platforms and government policies which support innovation and entrepreneurial activities are all supporters for eCommerce growth in the UAE.

UAE vs. Benchmark Markets: Trends and Insights

How does the UAE compare?

The UAE's eCommerce landscape is defined by its demographic profile and high-income levels, with a high percentage of digital native young adults between the ages of 20 and 39. Millennials (born between 1981 and 1996) and Gen Z (born between 1997 and 2012) seek convenient shopping experiences and are considered an influential customer base for eCommerce adoption.

Therefore, there is a natural demand for online purchasing and with all necessary infrastructure, tools, and options within easy reach, the UAE consumer, at most times, is only a click away from an online purchase. UAE consumers are comfortable to use a variety of access tools for purchasing online, smoothly interchanging between each option dependent on which one works best for each particular purchase. 

Visa data shows that, drawn by the convenience of online shopping, the UAE consumer is an enthusiastic adopter of eCommerce, comparing favorably against benchmarks of both emerging and mature eCommerce markets. Around 63% of internet users in the UAE shop online, with interest peaking during seasonal shopping events, such as Ramadan or White Friday sales.

The UAE shopper is among the top spenders online

In the wider Middle East, North Africa, and South Asia (MENASA) region, the UAE represents the biggest annual spend per online shopper at $1,648.

This is supported by Visa transaction data, which shows that the UAE continues to maintain a healthy lead in average transaction size compared to both mature and emerging eCommerce markets. The average transaction value in the UAE was $122 between May 2019 and April 2020, compared to $76 in mature markets, and $22 in emerging markets.

Transaction sizes have been dropping across all three comparison markets from March 2017 to February 2020, but the fall has been much greater in the UAE with a 25% drop from $163 to $122, compared to a 6% drop in mature markets from $81 to $76. This could be contributed to growing comfort with cashless and eCommerce transactions, as UAE consumers move from singular large ticket purchases to frequent everyday spend purchases such as food delivery, entertainment, and groceries. This latter behavior is typical of mature eCommerce markets.

UAE consumers lead developing and mature benchmarks in average spend per transaction

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<tr>
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<tbody>
<tr>
<td>UAE</td>
<td>$163</td>
<td>$144</td>
<td>$122</td>
</tr>
<tr>
<td>Mature</td>
<td>$80</td>
<td>$77</td>
<td>$76</td>
</tr>
<tr>
<td>Emerging</td>
<td>$144</td>
<td>$122</td>
<td>$113</td>
</tr>
</tbody>
</table>

Source: Visa transaction data
Benchmark emerging markets: Brazil, Malaysia, South Africa
Benchmark mature markets: Australia, Canada, Singapore, Sweden, UK, USA

11 Source: Visa CEMEA eCommerce Dashboard
12 Source: Bain & Co, eCommerce in MENA: Opportunity Beyond the Hype, February 2019
There is an opportunity to better penetrate more categories

Visa transaction data demonstrates that category spend for eCommerce year-on-year is continuing to evolve, with new sectors trying to establish their footprint. eCommerce business models enjoy faster scaling opportunities compared to traditional bricks and mortar retail, and a growing number of retail, grocery, food and beverage, and travel businesses are including online channels.

Looking at the eCommerce penetration of the top 10 spend categories in the UAE and comparing them to emerging and mature markets, provides insights regarding where the market is over or under indexing.

<table>
<thead>
<tr>
<th></th>
<th>UAE vs emerging markets</th>
<th>UAE vs mature markets</th>
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</thead>
<tbody>
<tr>
<td>Govt Services/Education</td>
<td>+30%</td>
<td>-3%</td>
</tr>
<tr>
<td>Food and Grocery</td>
<td>0%</td>
<td>-6%</td>
</tr>
<tr>
<td>Retail Goods</td>
<td>-2%</td>
<td>-25%</td>
</tr>
<tr>
<td>Apparel and Accessories</td>
<td>+5%</td>
<td>-27%</td>
</tr>
<tr>
<td>Quick Service Restaurants</td>
<td>+2%</td>
<td>-8%</td>
</tr>
<tr>
<td>Telecom/Utilities</td>
<td>+16%</td>
<td>+25%</td>
</tr>
<tr>
<td>Airlines</td>
<td>+4%</td>
<td>+21%</td>
</tr>
<tr>
<td>Lodging</td>
<td>-6%</td>
<td>-10%</td>
</tr>
<tr>
<td>Professional Services</td>
<td>+16%</td>
<td>-19%</td>
</tr>
<tr>
<td>Fuel</td>
<td>+6%</td>
<td>+10%</td>
</tr>
</tbody>
</table>

For example, on UAE streets an increasing number of riders from delivery aggregators such as Careem, Deliveroo, and Talabat can be seen. Consumers reliance on these food delivery apps to compare options and order from their restaurants of choice is visible in the higher eCommerce penetration of the Quick Service Restaurants category in the UAE, compared to the mature market benchmark (17% UAE vs. 9% mature markets).

Conversely, malls remain a key part of the social and cultural fabric in the UAE, attracting both residents and tourists as they continue to deliver a strong value proposition. However, while retailers are increasingly evolving their omni-channel offering, the transaction data shows that there remains plenty of scope in the UAE to drive increased online spend on retail goods (14% UAE vs 39% mature markets).

Further examining the distribution of eCommerce by category in the UAE compared to mature market benchmarks demonstrates the opportunity to expand online into more sectors. The top ten spend categories in the UAE account for 78% of online spend across the period from March 2019 to February 2020, while the comparable figure for the same ten categories in mature markets is 52%. In these latter markets there is a broader spread of online business.

Much of this concentration of online spend in the UAE is down to the enthusiastic adoption of eCommerce payments by government. The category of government and education payments has been driven by policy initiatives to promote a cashless economy and digitization of transactions. It accounts for 34% of the total online spend in the UAE, compared to just 8% in mature markets.

There is therefore the opportunity in the UAE for further expansion into sectors such as entertainment, transportation, home improvement, health care, electronics, and insurance, all of which lag their comparable mature market benchmarks.
Drivers of UAE eCommerce
Strengths and opportunities

The significant growth seen in the UAE eCommerce market in recent years has been possible due to the increasing alignment in stakeholder objectives. Consumer demand, merchant distribution model innovation, venture capital funding, utilizing improving logistical capabilities and government policies have all been focused on driving the UAE eCommerce market at pace. Here we look at these driving factors in detail and highlight the strengths that can be leveraged and the opportunities that exist.
An evolving young consumer base that wants to shop using their mobile phones, are actively looking for eCommerce experiences that work for them. The UAE consumer is a proactive, eager adopter of technology. Therefore, there is a natural demand for online purchasing.

Evidence that UAE consumers are comfortable and confident buying online comes from a 2020 survey focusing on the consumer perception of eCommerce in the UAE, conducted by Dubai’s Department of Economic Development, the Dubai Police and Visa. This reveals that 66% of respondents trust online shopping, with 70% trusting online payments. The vast majority (87%) said that they had started making more card payments online in the past two years, giving them greater convenience and security, and providing a further reason to shop more often online.

With one of the best mobile infrastructures in the world, high mobile ownership and usage, combined with high-speed internet access being the norm, the UAE is well placed to meet consumer demand. Put this together with mobile first eCommerce solutions being made available by many merchants and it translates into shopping on the internet via mobile devices being on the rise.

The regions with the greatest mobile penetration in the world are Asia Pacific and the Middle East & Africa. These regions largely bypassed the desktop internet era, with residents moving straight to mobile. As well as preferring their mobile for online commerce, UAE consumers still prefer to pay using credit (c. 35% of transactions) rather than debit. Credit card usage is also significantly higher in the UAE than emerging and mature markets. However, over the last few years customers have demonstrated increased comfort in using debit to pay for eCommerce purchases (7% increase in debit card usage over 2018-2020), and while debit card usage remains lower than mature markets, it is significantly higher than emerging markets.

Benchmark market data from Visa indicates that the more mature eCommerce markets have a much higher use of debit than emerging markets. In the UAE, consumers are increasingly using debit online, with an increase in usage of over 7% when comparing the period between March 2019 and February 2020 to the same period in 2018-2019. This increasing level of spend on debit displays a higher degree of trust in the transaction process and indicates a maturing market. Increasing card on file tokenization and Click to Pay capabilities further drive repeat purchases as well as frequency and ease of online shopping, hence driving the growth in use of credit and debit cards as a method of payment.

Greater merchant distribution and payment innovation is addressing the consumer demand and driving eCommerce volumes.

Limited access to a broad and deep selection of products has historically been one of the main challenges restricting eCommerce development in the UAE, creating a demand-supply imbalance. But over recent years, this has been addressed with eCommerce becoming one of the top strategic priorities for the largest retail groups. They have invested significant resources in creating omnichannel distribution models with more than 35 new eCommerce channels launched since the beginning of 2017.

### Percentage of Retail eCommerce Sales Conducted via Mobile Devices

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia Pacific</td>
<td>76.9%</td>
</tr>
<tr>
<td>Middle East &amp; Africa</td>
<td>61.6%</td>
</tr>
<tr>
<td>North America</td>
<td>43.7%</td>
</tr>
<tr>
<td>Western Europe</td>
<td>40.5%</td>
</tr>
<tr>
<td>Central &amp; Eastern Europe</td>
<td>35.4%</td>
</tr>
<tr>
<td>Latin America</td>
<td>34.1%</td>
</tr>
<tr>
<td>Worldwide</td>
<td>64.4%</td>
</tr>
</tbody>
</table>

A unique feature of the UAE is a thriving mall culture but instead of taking an adversarial position, as seen in some other markets, traditional bricks and mortar retailers and malls have been enthusiastic adopters of eCommerce. They have determined that an omnichannel approach is a better route to winning and maintaining customer loyalty.

eCommerce “pure play” retailers have also been increasing their product selections, both organically and through partnerships. For example, the integration of Souq into the Amazon family has extended the range of products easily available to UAE consumers.

In parallel, banks and payment service providers are launching new eCommerce solutions targeted at Small and Medium Sized Enterprises (SMEs). For example, Network International launched the Go-Online solution in 2018, enabling merchants to create their own eCommerce sites and accept payments.

These levels of innovation in distribution are driving everyday spend online. The table to the right shows the progress being made and opportunities remaining.

eCommerce share of category spends in the UAE

<table>
<thead>
<tr>
<th>Industry</th>
<th>May 2018 to Apr 2019 Year-on-year change</th>
<th>May 2019 to Apr 2020 Year-on-year change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telecom/Utilities</td>
<td>+6%</td>
<td>+9%</td>
</tr>
<tr>
<td>Retail Goods</td>
<td>+3%</td>
<td>+5%</td>
</tr>
<tr>
<td>Quick Service Restaurants</td>
<td>+7%</td>
<td>+6%</td>
</tr>
<tr>
<td>Apparel and Accessories</td>
<td>+0%</td>
<td>+5%</td>
</tr>
<tr>
<td>Entertainment</td>
<td>+2%</td>
<td>+5%</td>
</tr>
<tr>
<td>Electronics</td>
<td>+3%</td>
<td>+7%</td>
</tr>
<tr>
<td>Transportation</td>
<td>+7%</td>
<td>+1%</td>
</tr>
<tr>
<td>Fuel</td>
<td>+6%</td>
<td>+0%</td>
</tr>
<tr>
<td>Food and Grocery</td>
<td>+0%</td>
<td>+1%</td>
</tr>
<tr>
<td>Restaurants</td>
<td>+2%</td>
<td>+2%</td>
</tr>
</tbody>
</table>
The greater choice of merchants available to UAE consumers in the eCommerce space is being complemented by many merchants improving the consumer experience to gain a competitive edge. With technological capabilities continually improving, and data becoming increasingly relevant, it is important that the eCommerce customer experience keeps pace. Understanding the customer, their circumstances, and their needs, allows the experience to be personalized and drive an emotional connection. Customers want and value this level of service, and many are prepared to pay for it.

Digital wallets and apps have taken a prominent place in people's lives to deliver the same level of convenience and security that consumers experience in-store. For example, hailing giant Careem has evolved its proposition into a “Super App”, capitalizing on its high engagement rates with its millions of customers to launch its own digital wallet Careem Pay and multiple service offerings.

More and more companies are realizing the benefit of putting the customer at the center and delivering to them a secure light touch online experience. They are seeing the benefit of higher conversion rates when the purchasing experience is seamless and stress-free. This focus on the consumer experience is helping to deliver strong eCommerce growth in many categories in the UAE.

Investment and acquisition activity are fueling eCommerce capabilities in the UAE. The rapidly expanding start-up ecosystem in the Middle East has attracted the attention of regional and global venture capitalists. While global eCommerce giants, such as Amazon, Uber and Delivery Hero have used acquisition as a route to enter the regional market to tap into its growth potential.

Whether it is the Mohammed Bin Rashid Innovation Fund Accelerator launched by the UAE Ministry of Economy, Saudi Arabia’s Vision 2030, or the $150 million Oman Technology Fund, supporting the start-up and innovation culture is a key priority for governments in the region.

2019 saw a record 564 startup investments take place across the MENA region, amounting to $704 million in total funding. This represents a 31% increase in the number of deals compared to 2018 and marks a strong end to a great decade of investment. 2019 also saw $15 million of funding in 5 venture deals, which means that total funding has had a CAGR of 47%, whilst deals increased by a 60% CAGR over the last 10 years. The UAE remains the most active in attracting funding, with UAE-headquartered start-ups garnering 23% of all deals and 60% of total funding in 2019.

81% of customers say they are willing to pay more for a good customer experience.

Investment has been supplemented by significant acquisition activity. Amazon’s acquisition of Souq.com for $380 million paved the way for the American technology giant’s entry into the MENA region\(^{22}\). While Uber’s acquisition of Careem, originally founded in Dubai, for $3.1 billion created a wholly owned subsidiary of Uber\(^{21}\), Germany food giant Delivery Hero’s recent acquisition of Instashop for $360m further expanded its presence in the MENA region.

Improving logistics has been identified as a key influencer of eCommerce growth in the UAE. The advent of increased delivery solution providers including last-mile delivery options has allowed retailers to improve eCommerce logistics to support growth and scale. The eCommerce supply chain has a different set of opportunities and challenges compared to traditional stores and these are being addressed by technical innovation within the logistics and manufacturing sectors. The advent of last-mile delivery options and players in the market have enabled SME eCommerce players to grow, as well as supporting the growth of larger players.

Using emerging technologies such as GPS-driven solutions, RFID tracking and 3D printing makes eCommerce logistics different from traditional logistics. eCommerce has a different order cycle that is counted in hours and minutes instead of weeks, and orders are seasonal and fragmented, as opposed to being stable and predictable. Demand-driven distribution requires smaller shipments taking the place of concentrated bulk deliveries\(^{22}\).

The absence of formal street addresses and zip codes in some cases, and global couriers not offering a cash on delivery option, have made getting the purchased goods to consumers more difficult in the UAE than in many other markets. Improving this part of the eCommerce purchase experience has been a key focus in recent years, with innovative and effective solutions coming to market and making a difference.

Another major ecosystem challenge has been the preference for payment by cash on delivery i.e. once the consumer has the product in hand. Cash is the most popular payment method in-store and paying this way online has been a natural extension of the payment habit.

Cash on delivery leads to higher return rates, failed deliveries and limits delivery options, as a result there has been emphasis on supporting consumers’ preferences towards electronic payments.

While cash on delivery is still the most preferred payment method, payment cards and bank transfers are being increasingly used by consumers. A Visa survey in February 2019 highlighted that of those consumers who favor cash on delivery, 92% would pay by card if a mobile POS payment option were available on delivery\(^{23}\).

Government initiatives intended to promote innovation, entrepreneurship, and a cashless economy to foster financial inclusion and greater transparency have given a significant boost to eCommerce development in the UAE.

Since the turn of the century when the technology free zone Dubai Internet City (DIC) was established with the aim of making Dubai a hub for Information and Communications Technology innovation, successive proactive government policies have been crucial in building a digital culture. On its 15th anniversary in 2014, the DIC launched the Innovation Hub, where 1.8 million square feet was set aside to create a community of innovators exploring new ideas in technology. Today, it claims to be the largest ICT hub in the MENA region, with liberal regulations that facilitate business success\(^{24}\).

In 2017, the launch of Dubai CommerCity further cemented the UAE’s position as a leading light in the promotion of eCommerce.

Launched as a joint venture between the Dubai Airport Free Zone Authority and Wasl Asset Management Group, Dubai CommerCity was the region’s first eCommerce free zone.

The Dubai CommerCity initiative is aimed at global and regional manufacturers, distributors, and e-retailers, as well as ecosystem companies in the eCommerce industry, such as e-payment gateway companies and internet service providers. With the objective of promoting Dubai’s position as a leading platform to support smart transformation strategies in the eCommerce arena, within a year of inception the free zone announced that its investment value had increased 18.5% to reach $871.2 million\(^{25}\).

With digital commerce and cashless payments identified as top government priorities in the UAE Vision 2021 initiative, the government has been driving a Smart City agenda in both public and private spheres throughout recent years. As a strong advocate for the UAE’s overall innovation and financial technology agenda, the Central Bank of the UAE has implemented a National Payment Systems Strategy. This aims to create a secure future-proof payments ecosystem that facilitates the UAE’s objectives of a digital economy and cashless society\(^{26}\).

21. Source: Uber Press Statement March 2019, Uber to acquire Careem to expand the Greater Middle East regional opportunity together.
24. Source: Dubai Internet City: About Us.
25. Source: Emirates News Agency – Dubai CommerCity Reports 18.5% Increase in Investment Value.
The Impact of COVID-19

Acceleration of eCommerce adoption across categories and shift in consumer behavior

The pandemic has further changed how consumers shop and pay, with increased reliance and preference for online shopping.
A survey published by the Dubai Economy, Dubai Police and Visa in June 2020, which looks at consumers’ general views, preferences and concerns related to digital payments, showed that 49% of consumers surveyed are shopping online more since the outbreak, with the majority of these customers (61%) now using cards or digital wallets more to pay online over cash on delivery (COD). Post-COVID-19 outlook is that 43% will continue using contactless payments; 48% will opt for digital payments online over COD for future eCommerce purchases.

UAE consumers turned online to access goods from retailers whose stores were closed, as well as purchases of essential items when restrictions were in place. Studies to gauge consumer sentiment and shifting behaviour during the COVID-19 pandemic capture an accelerated shift to eCommerce and cashless adoption from pre-pandemic levels.

**Many eCommerce buyers are first-timers and are likely to continue post the pandemic**

### Survey: Many eCommerce buyers during this pandemic are first-timers in different spend categories

<table>
<thead>
<tr>
<th>Category</th>
<th>First-timers (9%)</th>
<th>Was already doing it before COVID-19 crisis (35%)</th>
<th>Online shopping by categories (42%)</th>
<th>Don't know, I haven't decided yet (4%)</th>
<th>I think I will keep preferring electronic payments (14%)</th>
<th>I think I will go back to my previous payment habits (20%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food &amp; Beverage</td>
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<tr>
<td>Clothes &amp; Accessories</td>
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</tr>
<tr>
<td>Services (e.g. insurance, telecom)</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Over-the-counter Pharmaceuticals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cosmetics &amp; Personal Care</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electronics</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Products</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

**This crisis added significant ‘first-timers’ for categories across the markets. Groceries and pharmacies especially benefited from that rush to online**

**Consumer preference for electronic payments has increased and is likely to continue post the pandemic**

### Survey: Around 6 in 10 consumers prefer electronic payments more now (instead of cash), compared to last month

**Survey:** In comparison to last month, I prefer paying with credit cards, debit cards and mobile apps more, instead of cash (% of respondents who agreed)

**Survey:** Do you think you will stick to electronic payment methods - credit cards, debit cards, mobile apps - instead of going back to cash even when the emergency is over?

**Online shopping by categories**

<table>
<thead>
<tr>
<th>Category</th>
<th>Started during COVID-19 crisis</th>
<th>Was already doing it before COVID-19 crisis</th>
<th>All figures are in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grocery</td>
<td>68%</td>
<td>32%</td>
<td>100%</td>
</tr>
<tr>
<td>Fashion</td>
<td>46%</td>
<td>54%</td>
<td>100%</td>
</tr>
<tr>
<td>Food Delivery</td>
<td>70%</td>
<td>30%</td>
<td>100%</td>
</tr>
<tr>
<td>Pharmacy</td>
<td>46%</td>
<td>54%</td>
<td>100%</td>
</tr>
<tr>
<td>Luxury Stores</td>
<td>46%</td>
<td>54%</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Q8** Which of these products/services have you started shopping online due to the COVID-19 (Coronavirus) crisis, and which ones were you already shopping online, even before this crisis?

**Source:** Kantar COVID-19 Barometer, fieldwork 27-31 March 2020; 12,000 respondents across the world

**Source:** Visa Study 2020. Base: Consumers (UAE n=315, KSA n=315, RU n=323, UA n=311, ZA n=323, NI n=308, KN n=321)
Conscious of this growing need, merchants have become more digitally present, and new acquisitions of eCommerce platforms were led by the crisis.

**Acquisition of eCommerce presence during COVID-19 crisis**

<table>
<thead>
<tr>
<th>Acquired due to COVID-19 crisis</th>
<th>Was planned &amp; just got implemented now</th>
<th>Already available pre COVID-19 crisis</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE n=44</td>
<td>KSA n=105</td>
<td>Russia n=84</td>
</tr>
<tr>
<td>5</td>
<td>91</td>
<td>5</td>
</tr>
<tr>
<td>38</td>
<td>57</td>
<td>25</td>
</tr>
<tr>
<td>30</td>
<td>45</td>
<td>93</td>
</tr>
<tr>
<td>7</td>
<td>71</td>
<td>23</td>
</tr>
<tr>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

All figures are in %

**Assessment of increase in online purchase post COVID-19 crisis**

<table>
<thead>
<tr>
<th>Increase</th>
<th>Same as pre COVID-19 crisis</th>
<th>Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE n=44</td>
<td>KSA n=105</td>
<td>Russia n=84</td>
</tr>
<tr>
<td>52</td>
<td>20</td>
<td>27</td>
</tr>
<tr>
<td>80</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>52</td>
<td>38</td>
<td>27</td>
</tr>
<tr>
<td>53</td>
<td>66</td>
<td>30</td>
</tr>
<tr>
<td>66</td>
<td>66</td>
<td>4</td>
</tr>
</tbody>
</table>

All figures are in %

**Increase in online activity post COVID-19 crisis**

<table>
<thead>
<tr>
<th>More than 50%</th>
<th>41% - 50%</th>
<th>31% - 40%</th>
<th>21% - 30%</th>
<th>11% - 20%</th>
<th>Up to 10%</th>
<th>Difficult to assess</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE n=44</td>
<td>KSA n=105</td>
<td>Russia n=84</td>
<td>Ukraine n=60</td>
<td>South Africa n=56</td>
<td></td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>27</td>
<td>26</td>
<td>21</td>
<td>31</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

All figures are in %

**Consumers asking for... (%)**

<table>
<thead>
<tr>
<th>Contactless delivery more</th>
<th>Online payment &amp; delivery options more</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE n=44</td>
<td>KSA n=105</td>
</tr>
<tr>
<td>34</td>
<td>32</td>
</tr>
<tr>
<td>37</td>
<td>52</td>
</tr>
<tr>
<td>Russia n=84</td>
<td>Ukraine n=60</td>
</tr>
<tr>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>South Africa n=56</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>30</td>
<td>30</td>
</tr>
</tbody>
</table>

All figures are in %

Q9.2 Did you set-up this eCommerce platform in response to the current COVID19/Coronavirus crisis?
Q9.5 What is your assessment about the eCommerce platform? Post the COVID19/Coronavirus crisis, would your customer’s use of this will...
Recent analysis of the impact of COVID-19 on the UAE’s payment sector by GlobalData has quantified the potential changes in 2020. Growth of overall card payments will be much lower than forecast before the outbreak, while the growth of eCommerce payments will be greater than anticipated at the start of 2020. **This is forecast to result in eCommerce accounting for a much greater share of UAE card payment transaction value in 2020 than was predicted before the pandemic; 21.9% share, up from 19.7%.**

For some essential services, such as grocery provision, these changes have been necessary to cope with increased demand. While for other services, where face to face purchase has not been allowed, online has been the only distribution outlet available to them.

- **Essential services experienced demand spikes.** As the virus hit, Carrefour saw a 32% increase in the first two weeks of March 2020 compared to the same period in the previous month. They also saw a 59% increase in new customers on its online platform during the same period. To cater for this growing demand, Carrefour opened six new fulfillment centers across the region.28

- **Many bricks and mortar retailers launched online services.** Shopping mall operator, Majid Al Futtaim launched an online marketplace where consumers can now buy a range of items such as perfumes, watches, and beauty products. Lulu Hypermarket launched an online shopping service, allowing consumers to purchase and pay for goods online with collection at drive-through pickup areas.

- **Home delivery services expanded further.** With many retailers forced to close their doors for the safety of all, businesses turned to delivering to the customer. Notably, during COVID-19 many consumers in the UAE chose online stores for their essentials such as groceries for the first time. Two-thirds of UAE consumers (68%) said that COVID-19 has led to their first online grocery shopping. Additionally, 42% of UAE started ordering food delivery for the first time30.

- **Small and micro businesses went online for the first time.** Faced with a battle for survival, merchants have become more digitally present, setting up online shops for the first time or expanding their existing online offering. Many businesses turned to online commerce platforms such as Shopify, to quickly get them up and running to safeguard their future. 52% of UAE merchants predict an increase in use of their e-commerce platform post the COVID-19 crisis30.

- **Government encouraged cashless transactions to combat the pandemic spread.** Initiatives led by government entities, financial institutions and digital payment providers pushed the agenda of contactless transactions, fueling the acceleration of digital payments at unprecedented levels, and combating cash on delivery as a common payment method for eCommerce transactions. COVID-19 has acted as a catalyst for change in how consumers pay for goods, with contactless emerging as a big winner, experiencing the most significant growth30.

- **Home entertainment purchases became more popular.** With restrictions on where people could go, demand for entertainment at home increased. Subscription media services, fitness equipment and online classes, and leisure purchases all experienced an upturn.

This step-change in online usage will have a lasting effect and many consumers and merchants, having experienced the convenience of online purchasing for the first time during the COVID-19 pandemic, will have gained confidence in digital payments.

For many consumers it has introduced them to the fact that there is an alternative to visiting a store to make purchases. Having increased confidence in online shopping means that going forward the channel they choose to make their purchases will be dependent on factors such as what they are buying, where they are buying it and the urgency of the purchase.

For merchants this means there are even more compelling reasons to have both online and in-store presence. During the COVID-19 outbreak, many businesses simply could not trade without an online presence. However, consumers still enjoy the in-person experience of shopping, as has been demonstrated by the renewed footfall across the malls now that they have reopened. Given the unprecedented and unforeseen disruption to business across the globe, smart businesses will be planning for every future eventuality.

As the UAE economy reopens and people return to offices and stores, there will likely be a level of rebalancing across face to face and eCommerce spend. Despite the undoubted convenience of online shopping, the desire for a face-to-face shopping experience is unlikely to disappear. Consumers choose to visit physical stores for a number of reasons, which may include:

- **Experiencing the product.** Seeing, feeling, and trying the product can be a huge help when deciding whether to buy it.
- **Expert advice.** Being able to ask questions of staff who have the right knowledge and expertise.
- **Immediate availability of the product.** Being able to experience the product straight away rather than having to wait increases customer satisfaction.
- **The shopping experience.** Nowadays a shopping trip to the mall can be a day out that incorporates other things from socializing at restaurants or cafes to ice skating.
- **Reduced returns.** When buying in-store the potential for returns is often reduced versus online purchases as consumers can try before they buy.

However, some consumers may remain wary of shopping in-store for some time, combining this with a greater familiarity with online shopping, eCommerce purchases are forecast to increase more rapidly, building upon the impetus the COVID-19 crisis has created. GlobalData have revisited their payment forecasts to show that the eCommerce step change created as a result of the pandemic is likely to accelerate change in behavior. In 2023, they estimate that eCommerce payments will account for 28.2% of UAE card payment transactions value, up from the forecast figure of 19.9% for 2020.

![GlobalData: Forecast Impact of COVID-19 on the UAE’s payment sector to 2023](image)

<table>
<thead>
<tr>
<th>Forecast Share of eCommerce of Total Card Payment Value in 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-COVID-19 forecast</td>
</tr>
<tr>
<td>Revised forecast</td>
</tr>
</tbody>
</table>

Optimizing Future Market Growth

Addressing challenges will unlock further potential

While the COVID-19 pandemic and its aftermath are forecast to boost online purchasing, the full potential for growth will only be realized if the existing concerns and pain points of both consumers and merchants are addressed.
For consumers, replication online of the in-store experiences they value, building trust in online purchasing, and removing friction in the payment experience, are likely to be important.

While for merchants, simplifying the online onboarding experience, particularly for small and micro businesses, and reducing physical cash on delivery, a traditional offline payment method in an online world, will have significant impacts.

**Bringing in-store experiences online** will be important to retain recent online shopping converts. The ability to experience the product is a key reason for in-store shopping and there are now many tools that can help to replicate this online.

The use of augmented reality technologies offers a much richer buying experience enabling online shoppers to better visualize the products they are interested in. Companies can use these tools to allow shoppers the ability to test and explore products in the way they would do during an in-store shopping trip.

Many companies across the globe are already putting these capabilities to good use, allowing for the testing of products online.

**Building and maintaining trust in online purchasing** is an ongoing activity, and for customers new to online shopping, keeping them online as in-store shopping opens back up requires winning their trust.

Consumer concerns will likely focus on the point of purchase and they will need reassurance about a number of aspects including: will they receive their goods on-time, how easy it is for them to return them, and how safe it is to pay online.

Consumer experience videos that show the delivery, returns, or payment process, as well as offering live chat to answer questions, can help build confidence to shop online. This can be further supported by “value adds”, such as providing the customer with an estimated delivery time and delivery notifications throughout the process.

**Paying online can be a real area of concern for those not familiar with the online buying process.** In the UAE, Visa has been working together with the Dubai Economy and the Dubai Police to educate consumers about the safety of digital payment via card and mobile through campaigns to promote the usage of contactless and digital payments such as “Stay Secure”.

New encryption technology (Tokenization) replaces 16-digit plastic card data with a 16-digit number, called token, to protect cardholders’ account information. During the transaction, the “token” is submitted instead of actual card information. Digital wallets such as Apple Pay, Samsung Pay and Google Pay are also enabled by Visa Token Service, ensuring that shoppers have a safe experience when shopping online.

Gaining the customer’s trust provides them with the confidence to place their “Payment Credentials on File” with merchants they use regularly. With the merchant storing this information securely it significantly speeds up the payment experience for the customer each time they shop.
**Delivering a seamless payment experience** for the customer is extremely important for the success of eCommerce.

More than half (58%) of UAE consumers surveyed in 2020 have abandoned their online shopping cart because of authentication delays or failure.

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**Of those who abandoned their cart:**

- 62% tried again after some time
- 35% purchased from another site
- 34% purchased from a nearby store
- 32% dropped the idea of purchasing

It is vitally important for all stakeholders in the payment process to ensure that the customer is who they say they are. Nowadays, there are very sophisticated ways to confidently confirm a customer’s identity and safely authorize a payment, thereby removing damaging delays in the payment process.

The use of richer datasets, containing customer behavioral, device, location and merchant information makes it easier to confidently identify the customer and reduce the number of occasions when further identification checks are required. This is important, as 66% of survey respondents said that an authentication process that did not require them to enter a one-time passcode would be more convenient.

Merchants seeking to deliver an enhanced online experience for consumers can now adopt Visa Secure (previously known as Verified by Visa), as well as Visa’s card-on-file capability to drive frequent and repeat purchases from pre-authorized consumers. An updated program to help make online payments more secure and seamless. Leveraging the latest fraud-detection intelligence technology it works behind the scenes to quickly verify customer identity, thereby delivering a smooth consumer experience.

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**Enabling Small and Micro Sized Businesses (SMBs) to move online** will help them to not only survive, but also to thrive by expanding their distribution capabilities.

Small businesses will play a vital role in helping communities across the Middle East and the world to recover from the COVID-19 pandemic as they account for more than half of global employment.

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From now on it is prudent for businesses of all sizes to be able to distribute their goods and services both face to face and online. Many SMBs will have little experience of the online distribution environment and will need support and guidance to get started and obtain the most from the online channel.

They can turn to online commerce platforms such as Shopify to help with all aspects of online retailing from marketing to distribution, as well as payment gateway companies such as PayFort. Based in the UAE, they can provide integrated payment capabilities to enable businesses to accept payments securely and easily.

To help SMBs to survive during the pandemic, Visa has committed to support 50 million small and micro businesses worldwide in an effort to get local communities back to business. Localized online resource centers are now available in 20 countries providing tools, partner offers and information on how to start, run and grow digital distribution.
Making online payment the norm and reducing physical cash on delivery will reduce the cost, complexity, and risk for online merchants.

Since the COVID-19 outbreak 49% of consumers are shopping online more, and of these, the majority (61%) now use cards or digital wallets more often to pay online versus physical cash on delivery. Increased trust in the safety, the speed, and convenience of the payment, as well as limited human contact, were the top reasons cited for their increased preference for digital payments36.

This step change in preference for digital payment over physical cash on delivery needs to be built upon. In many mature eCommerce markets, payment by physical cash on delivery is not an option offered to consumers. Promotion of the convenience and safety benefits of digital payment over physical cash should be stepped up to build on the behavioral change of many consumers since the pandemic.

While promoting digital payment online, it will be important to include all income segments within the eCommerce landscape, as an opportunity to open eCommerce transactions to the lower income segment remains largely untapped. The UAE has adopted financial inclusion via initiatives such as the Wages Protection System, an electronic salary transfer system that allows companies and institutions to pay workers’ wages via banks, bureau de change and financial institutions37.

However, wages paid electronically are still often converted to cash when the worker collects them, despite the fact that smartphone penetration is high. The provision of cost-effective initiatives to enable eCommerce with digital payment for this population segment, would help to expand online volumes and ensure new online users experienced the most secure and convenient way to pay.


Conclusion

Single-minded focus on customer experience is the key to success

The UAE is well placed to capitalize on the ever-increasing demand for online shopping.
A young highly connected population seeking convenient shopping experiences has an increasing number of places to shop online. Supported by rising levels of investment in eCommerce and government policies aimed at promoting innovation and creating a cashless economy, the eCommerce market in the UAE is thriving.

Visa transaction data and third-party market performance data show that the UAE eCommerce market is growing at pace, with sales growth in the UAE over the last few years having outstripped many mature eCommerce markets. Average transaction values compare very favorably with global benchmarks, and many mature eCommerce markets are now looking at the UAE for innovative solutions that penetrate hard to capture categories such as quick service restaurants and fuel.

Not surprisingly for an eCommerce market that evolved slightly later than markets such as Australia, the UK, Singapore and the U.S., there are still opportunities for further expansion. UAE eCommerce penetration of categories such as food and grocery, retail goods, entertainment, transportation, health care, and electronics trail that of their mature market counterparts, but are likely poised for significant growth.

UAE Consumers and merchants have been further driven online in the first half of 2020, with the COVID-19 pandemic fueling consumer demand and significantly changing merchant distribution models. This step change in eCommerce, which has happened across the globe, is likely to have a lasting effect with both consumers and merchants now more familiar with the benefits of online shopping.

To fully realize the future growth potential, the focus should be on aspects that improve the customer experience which include: less friction, faster infrastructure, increased government backing/consumer protection, and increased investment, all of which will accelerate customer engagement and support the evolution of the UAE eCommerce market. As a result, the UAE will likely experience:

- More in-store experiences online
- Increased trust in online purchasing
- Seamless payment experiences
- A greater number of small and micro sized businesses offering easier access to their products

Stop talking digital. Start talking experience.

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38. Source: Visa card-not-present (CNP) transactions covering UAE and mature and emerging eCommerce markets (2017-2020)