



Research – Analysis – Consulting



As the Middle East e-commerce Market grows, what are the opportunities for logistics providers?



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Cathy will be speaking on the topic of e-commerce in the Middle East at Ti's Emerging Markets Logistics Conference in Dubai 4th-5th June, 2014.

About Transport Intelligence

Headquartered in the UK, Ti is one of the world's leading providers of expert research and analysis dedicated to the global logistics industry. Utilising the expertise of professionals with many years experience in the mail, express and logistics industry, Transport Intelligence has developed a range of market leading web-based products, reports, profiles and services used by all the world's leading logistics suppliers, consultancies and banks as well as many users of logistics services.

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About Aramex

Aramex (DFM: ARMX) is a leading provider of comprehensive logistics transportation solutions. Established in 1982 as an express operator, the company rapidly evolved into a global brand recognized for its customized services and innovative multi-product offering. Traded on the NASDAQ from 1997 to 2002, Aramex today is a publicly traded company on the Dubai Financial Market, employing more than 13,900 people across 60 countries and leads a strong alliance network providing global presence, and bringing together 40 independent express companies from around the world. The range of services offered by Aramex includes integrated logistics solutions, international and domestic express delivery, freight forwarding, secure records and information management solutions, and e-services, including e-business solutions and Shop and Ship.

www.aramex.com

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Contents Page

About Transport Intelligence	2
Contents Page	3
1.0 Introduction	4
2.0 Global e-commerce Trends.....	5
3.0 Middle East e-commerce	7
3.1 Infrastructure	8
3.2 Government Concerns and Support	10
3.3 e-commerce Companies	10
3.3.1 Souq.....	11
3.3.2 MarkaVIP	12
3.3.3 Namshi	12
3.3.4 Tejuri	13
4.0 Middle East e-commerce Logistics Market	14
5.0 Logistics and Transportation Providers.....	15
5.1 Aramex.....	15
5.2 Mena 360	16
5.3 Parzel.....	16
Contact Transport Intelligence	18

1.0 Introduction

e-commerce has sparked a revolution not only in how we as consumers shop but also how businesses interact with each other. e-commerce, defined by many standard dictionaries, as “commercial transactions conducted electronically on the Internet”, has undergone vast changes thanks to advances in technology. Today, transactions are conducted by laptop, desktop, smartphone, tablet and perhaps soon wearables will be a common means of transaction as well.

The growth of e-commerce has been amazing to witness, but perhaps more so than in emerging markets. These markets in Asia, Latin America, Africa and the Middle East are already undergoing much change such as rapid economic growth and industrialization, a growing middle class and rise in domestic consumption.

It is also interesting to note that emerging markets represent 85% of the world’s population. In fact, according to Ernst and Young, the world’s population is expected to increase 2.3bn to 9.1bn by 2050, with much of this growth occurring in emerging markets.

It is anticipated that emerging markets will lead in the growth of global e-commerce. As noted in the next section, Asia-Pacific will surpass North America this year in terms of business-to-consumer (B2C) e-commerce sales.

The rapid growth rate of e-commerce in emerging markets is due in part to higher adoption rates of mobile devices and improving infrastructure and connectivity. Purchases for such services as travel or sports tickets, gaming and other digital downloads make up a majority of the online spending in many markets whereas there still remains a bit more hesitancy in many of these markets to purchase physical goods. This is due to lack of trust in payment structure and immature logistics and delivery networks.

These hurdles are slowly being torn down as logistics providers improve networks and offerings and acceptance of e-commerce becomes the norm.

While generalizations have been made in regards to the group “emerging markets”, it must be mentioned that each is different and unique in their own right. As such, this paper looks to provide a broad study of the Middle East and its growing e-commerce market. Even though it is the smallest e-commerce market compared to the rest of the world, it has one of the highest percentages of mobile devices. Also, one of the largest courier and logistics providers in the region, Aramex, has embraced e-commerce as part of its overall business strategy and is considered a leader in logistics and transportation solutions to aid in the growth of e-commerce.

2.0 Global e-commerce Trends

The global business-to-consumer (B2C) market continues to grow at break-neck speeds. According to eMarketer, this growth is being fuelled by emerging markets, mobile commerce (m-commerce), major brands advancing into new international markets and advancing shipping and payment options.

For 2014, eMarketer forecasts the global B2C e-commerce market to grow 20.1% and reach USD\$1.5 trillion. (Note: This includes both tangibles and intangibles)

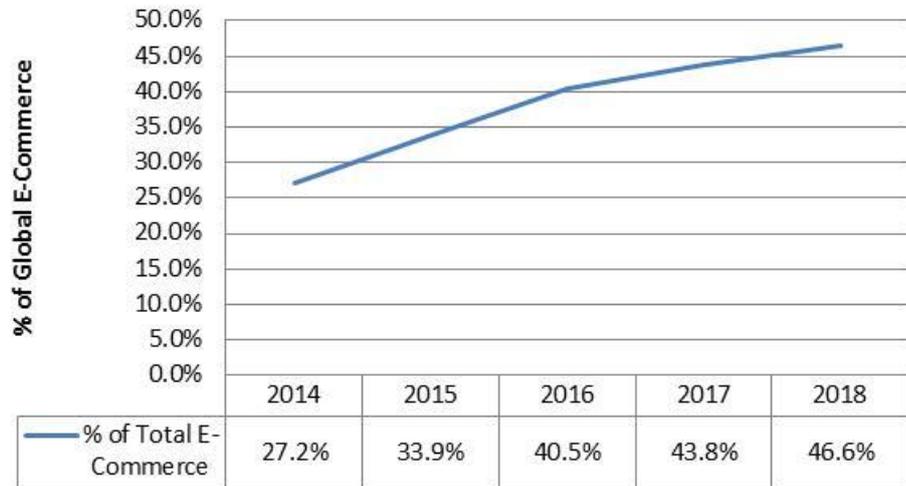
By region, Asia-Pacific is expected to surpass North America as the largest B2C e-commerce market in 2014. Meanwhile, Latin America and the Middle East & Africa will embrace e-commerce which will result in overall sales more than doubling by 2017.

Region	2012	2014	2017
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
Middle East & Africa	\$20.6	\$33.8	\$51.4

Source: eMarketer, January 2014. B2C sales expressed in USD billions.

Indeed, emerging markets in Asia-Pacific, Latin America and the Middle East & Africa are leading much of the growth as many consumers adapt to m-commerce at a quick rate. According to Goldman Sachs, 2014 m-commerce is expected to grow from \$204bn in 2014 to \$626bn by 2018. As a percentage of global e-commerce sales, m-commerce is even more telling – 27.2% in 2014 to 46.6% in 2018.

M-Commerce as a Percentage of Global E-Commerce



Source: Goldman Sachs, March 2014

International brands such as Burberry, LaCoste and Ulysse Nardin expanding into new markets such as China, India and Singapore are spurring even more growth but at the same time, shipping solutions to meet the needs for cross-border, same day and alternative delivery location points are on the rise as well.

These rather broad global trends vary in degree from region to region. While Asia Pacific, Europe and North American e-commerce have been highlighted in the press perhaps the most, the Middle East region presents both a unique opportunity as well as a challenge for the growth of e-commerce. How e-retailers embrace these opportunities and challenges will dictate their success.

3.0 Middle East e-commerce

With an estimated 260m internet users, Middle East e-commerce is expected to jump from \$20.6bn in 2012 to a forecasted \$33.8bn in sales for 2014. This is expected to increase even more to \$51.4bn by 2017.

However, according to market research company, Ipsos, penetration of e-commerce varies across the Middle East region. UAE currently leads the region for e-commerce penetration of 46%, followed by Kuwait with 35%, Saudi Arabia with 25%, Lebanon, 9% and Egypt, 8%. Kuwait has the highest level of online shopping, with 19% of internet users shopping online. This is followed by Lebanon, with 16% of the country's internet users shopping online, then by Saudi Arabia, with 10%. 6% of UAE internet users shop online, while only 5% of those in Egypt do so.

According to a recent Paypal study, many shoppers find limited selection in local online stores; this is why they prefer cross-border e-commerce, which is growing at more than 70% year-on-year. As a result, most online shopping is done with retailers from the US (35%); Asia (30%) and Europe (25%), the intra-region trade making up 10% of the total e-trade. Services targeting this trend, such as Shop and Ship from Aramex, enable consumers to shop from international merchants, even ones that do not deliver in the Middle East. The Aramex service allows for even these products to be delivered to the region.

However, more region-specific websites are popping up and are making an impact. For example, in Saudi Arabia, the top four e-commerce sites are all local providers - Souq, Sukar, Namshi and Markavip.

While selection appears to be increasing for the online shopper, security remains a concern. This perceived lack of security in fact seems to be an underlying reason for why many internet users do not shop online. For example, online payment is a general problem throughout the region. eConsultancy notes that 46% of internet users cite lack of trust in payment options as a major barrier.

As such, cash-on-delivery (CoD) is the most used payment method in the majority of transactions. Some estimates indicate this system of payment makes up almost 80% of online financial transactions. The problem with this method however, is the that the buyer needs to always have the right amount of cash on hand, be at the right place on the day of the delivery and in many cases, actually pay more for this service because many merchants charge for logistics and the extra hassle that comes with it.

When the buyer is not available to accept the CoD package, the the package is usually returned back to the facility from whence it came. This, added to the overall CoD collection and clearance process not only extends the average supply chain, it also results in overall higher logistics costs.

Finally, an opportunity that many e-commerce companies are taking advantage of is the region's high accessibility to mobile devices. Mobile devices make up an estimated 10% of e-commerce sales and that figure is expected to double by 2015 according to Paypal.

High smartphone penetration is cited for the growth in mobile commerce. Smartphones now account for nearly two out of every five phones in the Middle East, according to International Data Corporation (IDC). Smartphone use in the region will nearly double in 2014 to 112.2m, up from 67m in 2013. By 2015, Smartphone penetration in the Middle East region is projected to grow by up to 39%

3.1 **Infrastructure**

Although, infrastructure has greatly improved, according to Transport Intelligence's [Middle East and North Africa Transport and Logistics 2014 report](#), road freight remains highly fragmented and still in need of development to reach all points within the region.

Middle East –Road Infrastructure

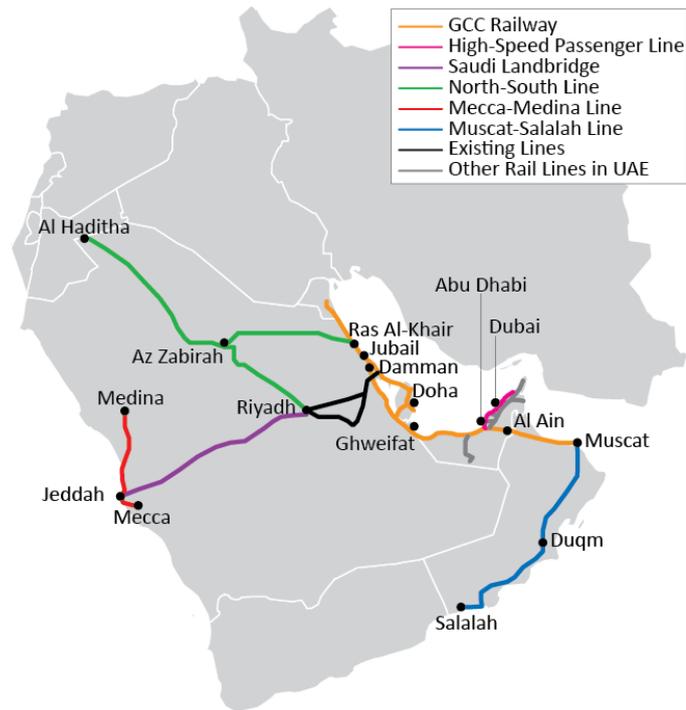


Source: Transport Intelligence

Likewise, the rail system does not currently play a major role in transport of goods throughout the Middle East. It does appear that much of the rail infrastructure is centered

on Saudi Arabia. However, plans are underway to expand the rail system through the GCC.

The Gulf Cooperation Council's Planned Railway Network



Source: Reuters, National Rail Companies (2013) / Ti

There is also a need for additional warehousing/distribution centers to support the growing e-commerce needs. However, requirements for these facilities will perhaps differ from typical facilities. For example, in other regions such as the US and Europe, warehousing/distribution facilities are highly automated in order to fulfil orders at a quicker pace.

3.2 Government Concerns and Support

Government support of e-commerce has been strong particularly within the GCC. For example, in early 2014, Economic Zones World (EZW) and Dubai Customs introduced the first purpose built smart retail hub named “matajircom”.

The key features of this initiative include e-commerce tailored regulations and solutions such as fulfillment facilities and services, financial infrastructure and payment gateway; storefront developer, e-marketplace platforms and call centre services.

The hub will also allow a customer 100% ownership, 100% repatriation of capital and profits, and will offer 0% corporate and income tax.

The hub’s physical fulfillment facilities and services will include e-commerce tailored warehouses along with transport and logistics solutions.

Among the partners in this endeavour include Aramex, Cupola, CWT-SML Logistics, Mastercard, Mohebi Logistics, Shop Go and UPS.

While governments across the region realize the benefits of e-commerce, at the same time, changes in some regulations are slow to adapt to facilitate these benefits. For example, one of the hurdles facing e-retailers is that of customs. Aramex has taken the lead in this issue particularly within the GCC. According to its CEO, the current regulations only allow small shipments, such as parcels sent by online retailers, to be cleared by customs if these are transported by air, which is expensive. As an example, the CEO noted that high airfreight costs in the Gulf sometimes make shipments from Dubai to other parts of the region more expensive than the initial delivery of the same cargo from New York to Dubai.

3.3 e-commerce Companies

The number of Middle East e-commerce companies is on the increase. It is no surprise that international venture capital and private equity firms are interested in investing in these companies. The region’s high digital adoption and improving infrastructure have aided in this interest.

Even still, e-commerce companies face challenges. According to the CEO of MarkaVIP, the complexity of starting up a business varies from country to country. The UAE, for example, has free zones that have easier registration and legal processes. Other countries like Jordan require very little capital.

3.3.1 Souq

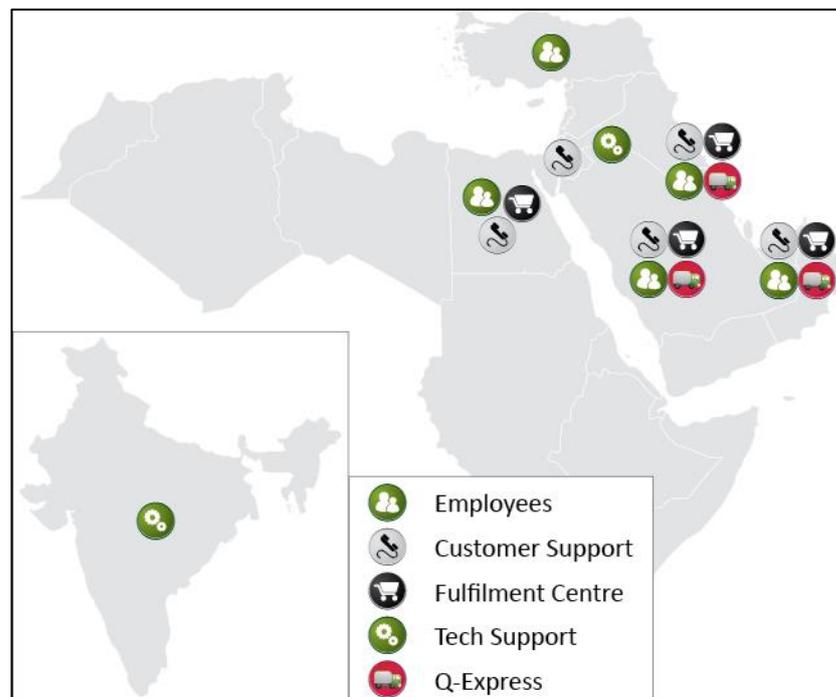
www.souq.com

Started in 2005 and modelling itself after eBay, Souq abandoned its auction service and began to focus on fixed prices in order to attract traditional retailers to sell on its website. Now customers visit the website and buy products from a retailer or an individual. When the vendors receive payment, they deliver the goods and Souq.com is paid a fee.

Since 2005, the company has raised over \$150m in financial backing. The website is based in the UAE and offers a broad range of products from the well-known and major international brands to locally niche smaller manufacturers. It mostly sells consumer electronics but it also offers fashion, cosmetics, watches and more.

Besides the UAE, Souq.com, is available in Kuwait, Jordan, Egypt and Saudi Arabia. In 2013, it established Q Express, its own logistics service to be utilized for last mile delivery. It is also investing in warehouses throughout the region but still utilizes Aramex for warehousing and fulfillment needs in many locations.

In early 2014, Souq received an additional \$75m in funding from an investor. The company plans to use this financial windfall to add more product categories, develop its mobile platform and enhance its operating processes and logistics.



Source: Souq.com

3.3.2 MarkaVIP

www.markavip.com

Markavip is an invitation-only online shopping community. The website specializes in offering flash sales to its customers.

The website has more than 3m members in Jordan, Saudi Arabia, UAE, Qatar, Kuwait, Lebanon, Bahrain, and Oman. Campaigns are limited to 3-5 days. Once the campaigns end, orders are placed to the supplier or brand owner. As soon as items are received in the warehouse, quality checks are done and then items are packed for delivery. The company utilizes its own pool of drivers and also cooperates with trusted shipping companies. Delivery time is usually 21-30 days from campaign ending date.

According to the CEO, MarkaVIP's sole revenue stream comes from the sales it generates through the luxury products it sources globally. "Big brands seek alternative channels to clear their stock and flash-sales [or deal-of-the-day concept] is one of those channels. In addition, local brands seek to expand their business and find it very attractive to display their latest collections on MarkaVIP. With its lean operations, and state-of-the-art infrastructure, MarkaVIP succeeds in delivering those products efficiently thus generating value for itself and its customers," the company founder and CEO explained.

In 2012, it received \$10m funding which the CEO said would be used to decrease product delivery lead times. As such, the company has experimented with running its own delivery services in Jordan and Lebanon and the UAE. It has since realized what once was considered simply a cost-cutting measure, last mile delivery is an extension of its brand and is thus included in the company's strategy development. It also established warehouses in Lebanon, Jordan and the UAE.

3.3.3 Namshi

www.namshi.com

Established in 2012, Namshi's website sells over 550 footwear and apparel fashion brands – many of which are internationally recognized, such as Lacoste, Polo Ralph Lauren, Nike, Adidas, Puma and Emporio Armani. It is also the exclusive distributor for many international brands looking for access to the Middle East market.

The website is known for its customer service, providing free delivery across the GCC, a 14-day return policy and the option of cash on delivery, so as to establish a long-lasting relationship with its customers. It currently sells products in six countries— United Arab Emirates, Saudi Arabia, Qatar, Kuwait, Oman and Bahrain.

Outside of the UAE, Namshi utilizes Aramex's network of warehouses to store its inventory and ship orders in 24 hours. The company has also made investments in streamlining its own logistics network and as a result introduced same day delivery in June 2013. Customers who order before noon can receive orders that day. According to the company, 30% of their UAE orders are fulfilled the same day while 80% are delivered within 24-30 hours.

To make delivery smoother and reduce unpaid returns, the company has launched credit-on-delivery and debit card options, and enabled "doorstop trials," allowing customers to try multiple sizes while a delivery person waits.

3.3.4 Tejuri

www.tejuri.com

Tejuri describes itself as the Middle East's first e-shopping mall. It is endorsed by the UAE's Department of Economic Development (DED). The online platform offers products and services from a range of UAE retailers. Launched in early 2013, it has since expanded its operations to other countries in the GCC including Saudi Arabia, Oman, Qatar, Bahrain, and Kuwait.

Wholly-owned Visa subsidiary CyberSource, is the technology solution provider for Tejuri.com. It provides secure online payment services to Tejuri's partner retailers.

According to Tejuri.com, it assists retailers and brands to go online within 2-4 weeks. Through such partnerships with Smith, Microsoft, Promoserven 360, Sutherland Global Services and others, the online mall's infrastructure allows retailers and brands the choice of inventory integration, unlimited inventory capacity and the ability to scale up and down product ranges. Its back-end system allows for such capabilities as a sign-up process, logistics support in the form of insurance, shipping and customer care, as well as payment and security systems. Aramex, another partner, handles deliveries on behalf of Tejuri with average delivery times of 2-3 days. For international deliveries, Tejuri utilizes another partnership, Skynet Worldwide Express.

4.0 Middle East e-commerce Logistics Market

Trying to establish a size for the Middle East e-commerce logistics market is difficult at best. Similar to other emerging markets, the e-commerce logistics market is faced with several obstacles such as cross-border transportation, legal matters, payment and logistics concerns.

In addition, the majority of online sales remains service related such as airline tickets, hotel reservations, software and online gaming.

The limited availability of data is another obstacle in trying to size this market, as a result, an estimated range is offered for the current Middle East e-commerce logistics market at approximately \$100-\$150 million.

While this is just an estimation, it is based on the assumption that the Middle East e-commerce market is valued at \$15 billion and that less than half of this estimate pertains to tangible goods. From this an analysis of existing research as well as that of the availability of revenues of companies involved in the region's e-commerce logistics space was performed.

Much of this estimation can be attributed to transportation costs – in particular inbound costs as many online orders are still derived from websites outside of the region. While many logistics providers, including the major integrators, perform this inbound delivery, few providers provide the last mile delivery within the region.

5.0 Logistics and Transportation Providers

Inbound e-commerce transportation needs have definitely seen a boost according to several courier companies. For example, SkyNet Worldwide Express, has noted volume increases for goods ordered from the UK, China, India, and Pakistan.

Meanwhile, the major integrators – DHL Express, FedEx Express, TNT Express and UPS all provide delivery services to/from and within the Middle East along with warehousing and fulfillment services.

While DHL Express, FedEx Express and UPS offer specific e-commerce solutions in Europe and North America, in particular, there does not seem to be any available within the Middle East. True, in its latest strategy outlook DHL has noted that it is targeting emerging markets and e-commerce. Perhaps there will be new offerings within the region.

Alternatively, these three integrators as well as TNT Express have focused on small-to-medium size businesses which could be used as a means to promote the growth of e-commerce.

Still, the domestic courier and express market is limited which can result in inefficient e-commerce logistics and thus higher costs for e-retailers. But, as e-commerce takes hold across the region, more and more logistics and transportation providers will take note and improve services.

In the next section, are a few providers that are worth noting. Aramex, the leader in this field and two additional providers that provide unique e-commerce offerings.

5.1 *Aramex*

Aramex is a global logistics and transportation company. It is a leader in e-commerce logistics solutions within the Middle East.

Among the solutions it offers are:

Shop and Ship (SnS): A verified and secured cross-border shipping service that allows customers to shop on websites from various countries such as the US, the UK, China, Turkey, the UAE, India, South Africa, Hong Kong and Germany and then have the goods delivered to their country of residence (in over 52 cities). SnS is an industry leader, with a customer base that has been expanding significantly year on year.

REDe: An online solution center/touchpoint which enables merchants to sell online. Through Aramex's integrated partners, customers can pick and choose from various platforms to set up their online stores. They can design their storefronts, update online

catalogues, manage orders and payments securely and ship products on-time to their customers with Aramex.

Martjack (by eReasoning): a leading technology provider whose platform has been integrated with Aramex's delivery solutions and API's since 2011. This SaaS based offering comes with a variety of features and functionalities, catering to entry level merchants or long established retailers who wish to take their business online, swiftly and cost effectively.

EZStore.com: Launched in 2013, this initiative is a collaboration among Google, Aramex, PayPal and ShopGo to provide tools for small businesses to create an online presence.

Automated Lockers: Aramex has also partnered with InPost to establish a parcel locker network across the Middle East. Under the deal a network of automated parcel lockers will be installed across all major cities, towns and communities in the Middle East and Africa, allowing businesses and consumers who make online purchases to receive and send packages at their convenience.

Online Payment: Aramex enjoys a global strategic partnership with PayPal and over the years this relationship has developed to cover multiple markets, spanning Europe, Africa, the Middle East and Asia.

5.2 Mena 360

Established in 2012, Mena 360 describes itself as a turn-key service provider. The company focuses on the e-commerce market by offering web design, content management and m-commerce solutions.

Through its MENA-VIP service, it provides logistics, courier and last mile delivery services for the e-commerce market within the UAE. Services include warehouse and inventory management, a customs bonded warehouse, cash on delivery management as well as same day returns management and customer care agents.

5.3 Parzel

Based in the UAE, Parzel is a courier and logistics provider. It provides import and delivery services for documents and parcels. Among its logistics services, include warehousing and storage, consolidation, repacking, documentation, labeling, invoicing, finished and spares inventory management, distribution, and service support. The company also provides air and sea freight services.

In 2011, Parzel acquired Zip Express & Logistics LLC, a courier and logistics company in the UAE. Zip Express provided a range of domestic and international delivery services including next day documents and parcel delivery; prepaid delivery services; Road Express for delivery across the GCC and Import Express shipping to 120 countries.

Also in 2011, the company introduced Parzel Delivery Points. These lockers are available for self-service parcel collection 24 hours a day, seven days a week. The locker compartments are allocated per transaction based on specific size and weight requirements. The choice of which Parzel station location to use is up to the customer. Both sender and receiver will be alerted to the delivery's location and pin number via SMS and email.

Along with its technology partner, KEBA, Parzel upgraded the electronic security system of the delivery process by adding the identification aspect using the U.A.E National ID card for all citizens and residents. For the online registration process of sending any parcel, the end user must upload his/her National ID Card where the company will check its validity and the actual existence of the user to proceed with the delivery. The fee structure for delivery is flat for the UAE. For documents it is Dh12 and for non-documents it is Dh18 anywhere in the UAE.

Contact Transport Intelligence

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