



The Rise of E-Commerce

Impact for UAE SMEs



Foreword

Buying goods and services online - via mobile phones, tablets and laptops - has become commonplace in recent years, with the convenience of being able to browse and purchase household goods, clothes, electronics and groceries 'wherever and whenever' driving the rapid growth in online shopping. Global retail e-commerce sales amounted to over \$3.5 trillion in 2019, making up 14.1% of total retail sales, and it is forecast to continue to grow steadily over the next four years hitting \$6.5 trillion and making up 22% of total sales in 2023¹.

Concurrently, the advent of mobile devices, improving infrastructure and new technologies has changed consumer expectations significantly. The ability to interact with each other across many different channels, in real time has set expectations across all of our day-to-day experiences, from travelling to dining out and of course, shopping. Added to this, sophisticated e-commerce giants that offer same day deliveries, auto reordering, no fuss returns and live order tracking are setting the minimum standard for all online shopping.

In many instances, consumers no longer have the patience for the limitations of in-person shopping because the reality of the online marketplace is that everything you could possibly want is available somewhere in the world, for a globally competitive price and can be delivered to your door - sometimes before you'd even have been able to get to a shop in person. The online marketplace is fast, convenient and borderless and it is changing how we shop forever.

This poses huge challenges for small and medium enterprises (SMEs). It is clear that SMEs not incorporating e-commerce into their sales strategy for the long term will be left behind as this trend continues to pick up pace. But how can SMEs compete in this online marketplace? E-commerce is not as simple as putting your products online; it brings with it a whole host of complexities including pricing, logistics, security, inventory, duties and taxes.

But even with the apparent complexities, there are significant benefits to be gained from investing in online sales. E-commerce gives SMEs the means to expand outside of their current geographical constraints, crossing borders and reaching markets otherwise out of bounds. Suddenly even small local businesses can have a global presence.

Small business growth is a country-wide impetus. The federal government aims to increase the growth of this vital part of the economy to around 60% by 2021. But a growth goal like this needs support. With a rising number of small businesses entering the e-commerce space, there is a continuing need to work with logistics providers who are able to keep pace with the technological requirements and demands of a fast-changing online world.

This whitepaper looks into the trends surrounding e-commerce both globally and locally, and hopefully offers valuable insights for SMEs in the UAE market into how they should be responding to the e-commerce revolution. It derives conclusions from a UPS sponsored survey of 1,153 manufacturing, services and trading SMEs as well as expert insights from Dr. Paul Hopkinson, Associate Head of Edinburgh Business School, Heriot-Watt University Dubai and Steve Plimsoll, Senior Partner - Digital, Data & Analytics Leader: Africa, India & Middle East (AIM), EY.

Growth is good. But scaling a business brings exponential growth – and with only incremental cost. We hope that our findings can help you find your way on the path to growth.

Renzo Bravo - Head of Marketing and Strategy for ISMEA, UPS



Survey methodology

To understand more about how e-commerce is impacting the SME sector in the UAE, UPS commissioned SME10X – an SME content, media and advisory firm – to conduct a survey within the local market sector to understand their sentiments and outlooks towards e-commerce and related areas of operations.

We commissioned UAE-based SME10X to conduct a four-month survey via emails and online campaigns within the local SME sector to understand their sentiments and outlook towards e-commerce. SME10X covered a large sample of more than 5,000 SMEs across key sectors including manufacturing, services and trading, and analyzed the results based on the participation of 1,153 respondents. The survey findings capture current shipping behaviors and trends among small and medium businesses in the UAE.

UAE SME e-commerce survey - overview

Profile of respondents

Of the respondents in SME10X's survey, the vast majority (91%) were established businesses, having been operational for at least six years.

The companies were predominantly in the trading sector (63%), followed by manufacturing (18%) and services (19%) and the majority (80%) are already trading internationally with over 70% operating in more than four global locations.

36% are currently offering online sales

4% are looking to offer online sales in the future

e-commerce penetration

Overwhelmingly, the surveyed SMEs are predominantly still using traditional sales channels rather than realising the opportunities and efficiencies of online sales.

Two-thirds are yet to embrace e-commerce at all and of those two-thirds, only 4% are actively considering e-commerce in the near future.

A surprisingly low 3% of all respondents are using e-commerce as their primary sales channel

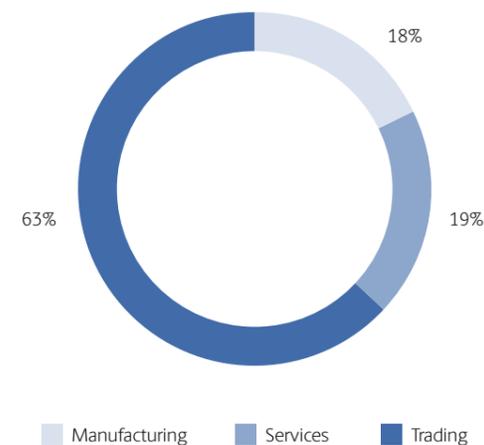
The fact that the majority of the respondents are primarily wholesalers could help explain this. However, the trend towards more online buying is not only for retailers, with more B2B buyers researching and making purchases online.

71% use wholesale as the primary sales channel

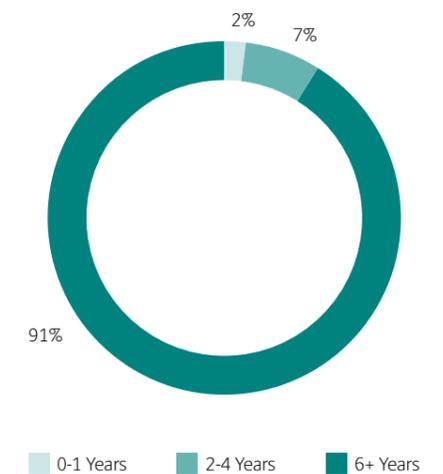
22% use retail as the primary sales channel

A report by Episerver shows that 72% of B2B companies estimate by 2025 the majority of their company's revenue will come from B2B e-commerce websites that they own and operate. Given the cost savings and convenience e-commerce entails, this trend is only likely to continue.

Break-up by industry



Break-up by years in business



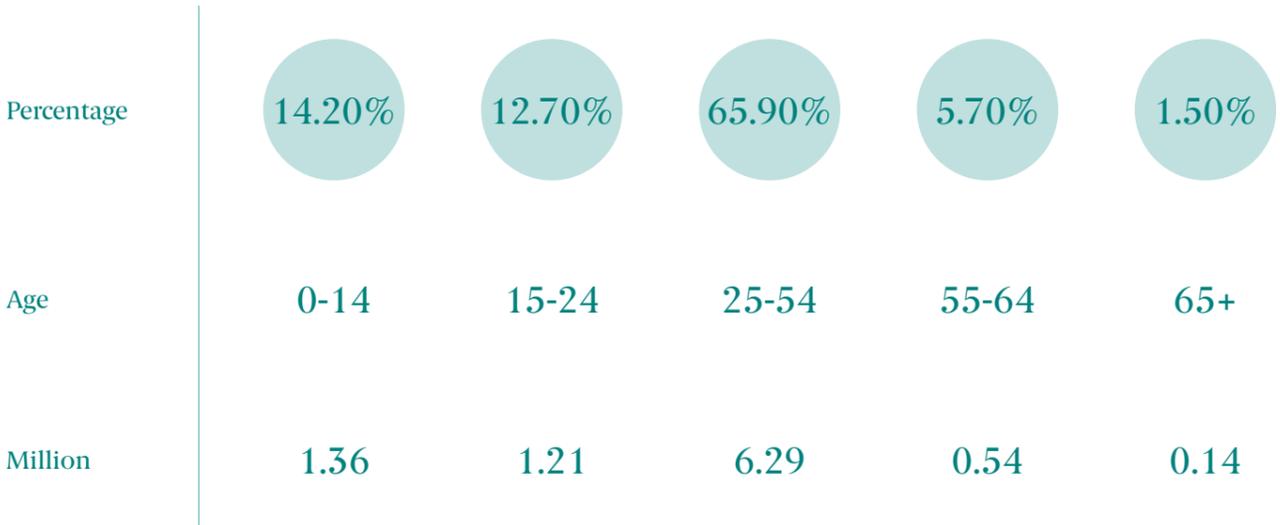
Ready, set, go - is the UAE ready for e-commerce?

Despite the relatively slow up-take to date, the UAE is ripe for the e-commerce boom. The 9.77m population is young and tech savvy, with one of the highest rates of internet penetration not only in the GCC - close to 99% of the population (9.52m are active)* - but in the world, where the average globally is less than 60%** . A third of the population are digital friendly millennials - 'digital natives' - and 65% of the population fall between the ages of 25 - 54***.

It follows then that social media usage and mobile penetration would also be high. With 92% of people in the UAE active on social media, and according to recent research by Visa, a mobile phone penetration rate of 210.9% - another world-record high, this is certainly the case.

Importantly, UAE residents are not only just active, they are spending a significant amount of time on the internet and social media, again coming in the top ten highest users in the world with an average of seven hours and 54 minutes spent online daily. All of this makes the UAE a hotbed for e-commerce.

Dr. Paul Hopkinson, Associate Head of Edinburgh Business School, Heriot-Watt University Dubai believes the unique demographics in the UAE are one of the top reasons it is such a great environment for e-commerce. "This population of digital natives are connected at all times and demand instant gratification," he explains. "That includes shopping on the go."



Rapid growth of online shopping

While penetration levels may be lagging behind the western markets, what is more important is how fast it is growing.

The UAE Ministry of Economy estimates that e-commerce constitutes 10% of total sales in the UAE, compared to just 2% of the Middle East, and the sector is estimated to reach a value of \$27.2 billion by 2020², doubling in just five years.

E-commerce spending in the UAE is also on the up, having increased by 48% YOY in 2018 compared to 2017³ and according to studies by Visa, UAE shoppers spend the most of anyone in the MENA region at \$1,648 annually.

* UAE Internet Statistics 2019, Global Media Insights, August 2019
 ** Worldwide digital population as of October 2019, Statista.com
 *** UAE Populations Statistics 2020, Global Media Insights, January 2020
² According to the World Economic Forum
³ According to Mashreq

Ready, set, go - is the UAE ready for e-commerce?

Government support is critical

E-commerce is not just driven by the private sector, it is critical that regulations, legislation and public policy supports the growth. "It has been proven time and again that e-commerce can grow only if supported by the government, especially in the area of promoting a cashless economy", says Dr. Paul Hopkinson. "The UAE government is progressive, and its vision and strategy give strong impetus to building a digital culture".

Indeed the UAE ranked as a "stand-out" economy in terms of its level of digitalization⁴ in a recent World Economic Forum study examining digital competitiveness, highlighting the efforts that have been made in this area.

More recently, to strengthen Dubai's status as a global logistic platform and accelerate online commerce growth, Shaikh Hamdan Bin Mohammad Bin Rashid Al Maktoum, Crown Prince of Dubai and Chairman of Dubai Executive Council, launched the emirate's first e-commerce strategy⁵. The strategy aims to cement Dubai as a global logistics hub for the region through a number of stimulative initiatives.

Dubai's government has also helped build trust in e-commerce by migrating many formerly paper-based services such as traffic services and utility bills online and introducing several apps for more efficient and effective public services.

Challenges

Despite the environment being highly conducive to fast e-commerce growth, there remain barriers to entry that could be partly responsible for the two-thirds of the respondents having yet to offer sales online.

Dr. Paul Hopkinson believes concerns about payment security, the ability to maintain cash on delivery options as well as overcoming the last-mile problem in delivery may have held e-commerce growth back. "However these concerns are gradually being eroded," he says. Online does not mean online only either. "SMEs may fear the potential for cannibalization off-line sales by e-commerce activities, but increasingly we live in an omni-channel world where consumers expect to be able to interact with suppliers and retailers via any and all channels in real-time and often simultaneously!"

Another key challenge is despite being so digitally advanced, the UAE has traditionally always been a cash based economy. The UAE has a large proportion population that is unbanked, which is why cash has been king in the past. Steve Plimsoll, Senior Partner - Digital, Data & Analytics Leader: Africa, India & Middle East (AIM), EY, says times are changing. "The region in general is now much more open to digital payments. Trust is being built both by large regional brands who have successfully introduced cashless apps and payments as well as the government who are actively supportive with legislation and digitizing many public service payments. We are now also seeing contactless payments starting to be adopted more widely."

Opportunities for new entrants

While there are many benefits for any business incorporating e-commerce into their operating model, SMEs in particular can gain advantage from the ability to overcome geographical limitations, increase market reach, and achieve scale - without having to make any bricks and mortar investments.

Despite the UAE and the Middle East at large being behind in terms of e-commerce penetration - UAE penetration is only 4.2% according to a recent report by Bain & Company, compared to 12.3% in the US and 15.6% in the UK - growth is accelerating and the environment is highly conducive.

There is a huge amount of opportunity for UAE SMEs to derive significant benefits from e-commerce, even if they haven't yet started.

Global insights - changing customer expectations

The biggest global impact - and driver - of the rise of e-commerce for SMEs is changing customer expectations.

The global transformation of apps and online capability has elevated consumer expectations about transparency, immediacy and customer experience.

With these expectations being driven by external factors, retailers or wholesalers have little control and this is what is driving businesses to adapt and advance. For SMEs looking to get into this space, understanding changing customer needs and preferences is crucial.

E-commerce consumers care about three things - cost, speed and quality - Steve Plimsoll, Senior Partner, EY

Four key trends in changing customer expectations:

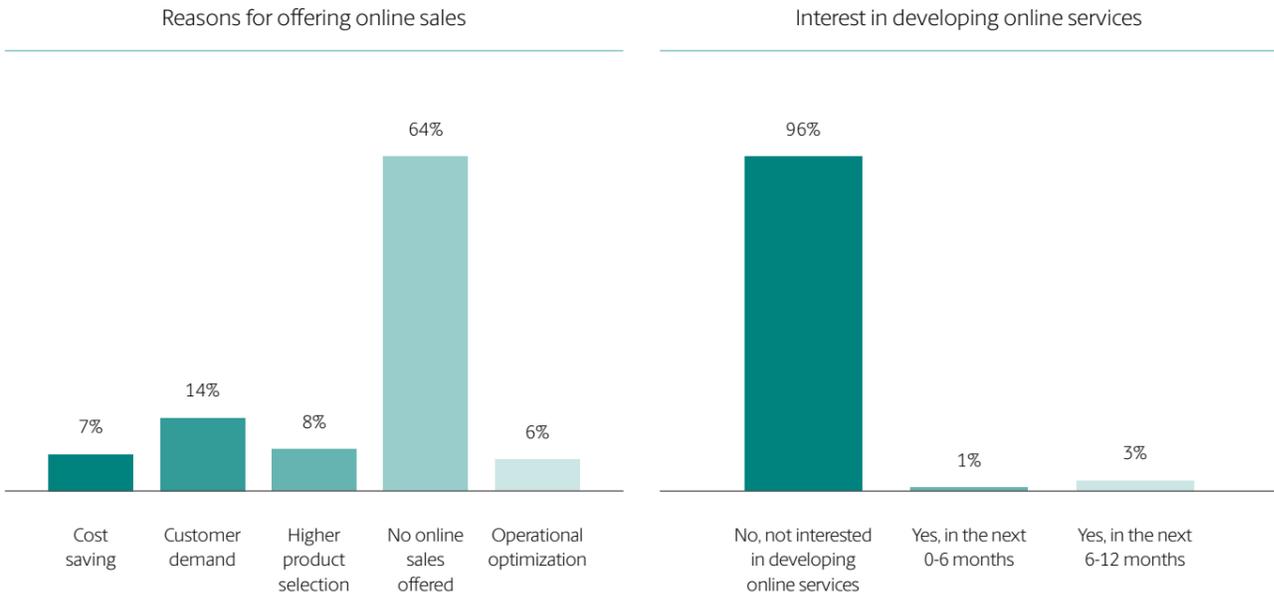
- 1. Anywhere, anytime** - customers now expect and want to shop in physical retail, online, via mobile and through social media when and where it suits them.
- 2. Borderless shopping** - the advent of the virtual marketplace means consumers now research for the best price no matter where the product is, be it in the town they live in, the country or another continent altogether.
- 3. Seamless experience** - customers demand a seamless purchasing experience, from the right pricing of the product, the correct delivery costs and accurate taxes and duties pre-calculated.
- 4. The importance of returns** - underpinning all e-commerce is a need for trust. Trust that the product will resemble the online representation, trust that it will arrive where and when it was promised and crucially - trust that it can be returned without fuss or cost if it isn't right.

Anytime, anywhere

Apps such as Deliveroo and Uber and e-commerce giants like Amazon that offer real time updates, auto-reordering and live tracking, are setting the standard. The minimum expectation by customers now is the default ability to shop on the go, wherever and whenever they choose, through any channel of their choice and then be able to get live updates on the progress of their order until it is delivered.

Compounding this issue is the fact that we now live in an “omni-channel” world where consumers expect to interact with suppliers and retailers via multiple channels seamlessly and in real time. Dr. Paul Hopkinson says, “These are the expectations that have been set by the growth of mobile devices, improving infrastructure and new technologies such as 5G. SMEs must adapt to this emerging reality. It’s a cultural shift and will require a shift in mind set as well as business models. However, it’s not something they can ignore and survive.”

14% of SMEs say ability to order anytime, anywhere is key driver for customers to shop online



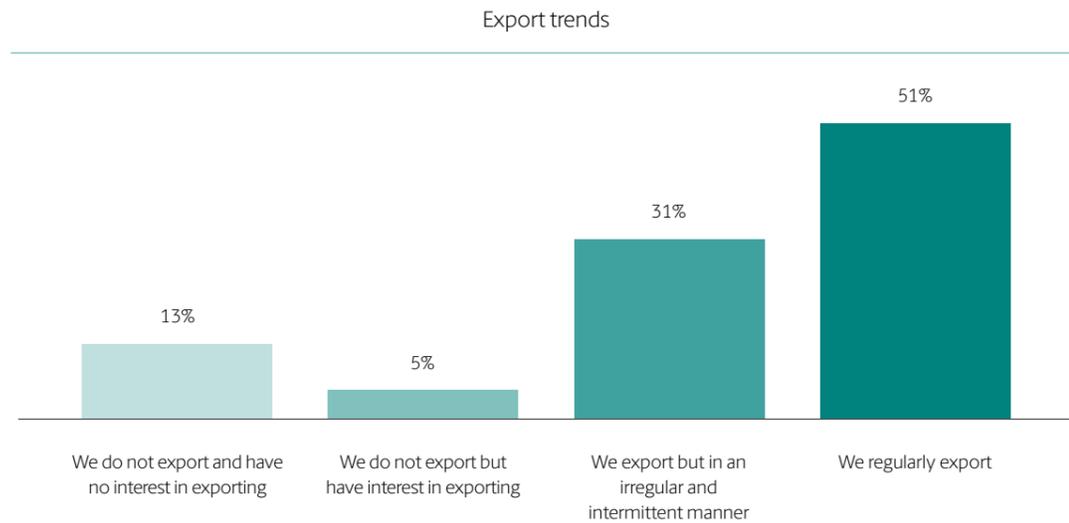
Global insights - changing customer expectations

Of the SMEs that are currently offering online sales, customer demand was the leading factor (40%) for doing so, reflecting the global trend towards a growing preference for online shopping.

However, other factors also played a critical role in the decision to offer online sales, including higher product selection, cost savings and operational optimization.

Borderless shopping

Online shoppers in the UAE make 58% of their online purchases from overseas vendors⁶. This is one of the biggest advantages of e-commerce for SMEs - the ability to set up and sell without having to step foot in the market. It has opened doors for small and medium companies to trade across borders in a way that was never possible before.



According to our survey, 82% of UAE SMEs export either regularly or intermittently which demonstrates they are heavily dependant on trade as the primary channel for revenue generation. However, only 36% of SMEs are trading online, and only 3% use e-commerce as their primary sales channel.

Steve Plimsoll, explains that the advent of e-commerce means there is no reason for any company to solely operate in their home market. "Historically there were aspects of cross border sales such as taxes and duties that were difficult to manage, however today all of those complexities can be taken care of by logistics companies. SMEs that don't 'go global' will be at a significant disadvantage in the future."

Borderless shopping has another challenge for SMEs - borderless pricing. In the virtual marketplace SMEs need to be pricing competitively against global price indexes - unless they can effectively use speed or quality as a differentiator.

Now consumers research for the best price globally, and can take advantage of global price indexes to get the exact same product for less, even taking into account customs and duties. Again this is reflected by the survey results which found UAE SMEs believe pricing to be the main driver for customers to shop online (43%) followed by time saving and the ability to order anywhere anytime.



SMEs that don't 'go global' will be at a significant disadvantage in the future - Steve Plimsoll, Senior Partner, EY

Dr. Paul Hopkinson agrees that knowing how to set prices that are both competitive and profitable is one of the biggest challenges faced by SMEs. "Pricing means the difference between the success and loss of a business, so it is crucial to get this right."



The importance of SMEs to Dubai's economy is growing - especially with the SMEs having contributed 40% to the Emirate's GDP in 2009 and reaching an estimate of 53% in 2019. The federal government aims to increase this rate to 60% by 2021. It is no doubt that smaller companies are the engines of prosperity in even the most advanced economies. With a rising number of small businesses specifically entering the e-commerce space, there is a continuing need to work with logistics providers who are able to keep pace with the technological requirements and demands of a fast-changing online world.

Renzo Bravo - Head of Marketing and Strategy for ISMEA, UPS

Global insights - changing customer expectations

Seamless experience

The online customer expects a far more comprehensive and seamless experience throughout the full end-to-end purchase cycle, compared to the traditional in-person retail experience which is far more focussed on the point of sale.

Customers expect more, both in terms of information and choice at every step of the online purchasing process. They also expect a united experience across both a brand's online and offline services - from a consumer's perspective there is only one brand, even if there are two separate operations behind online and offline sales.

Customer needs - stages of online purchase

Purchase

- See clearly what's in stock
- Know when they can get it
- Pay simply - with duty, and the item cost all bundled together

Delivery

- Flexibility to choose a time slot and delivery location
- Regular/live updates
- Delivery tracking and completion notification

Post delivery

- Ability to change their mind
- Return items easily
- Get a fast, no fuss refund

The importance of returns

Half of all UAE SMEs surveyed believe the option of free returns is an important consideration for their customers, which reflects global trends.

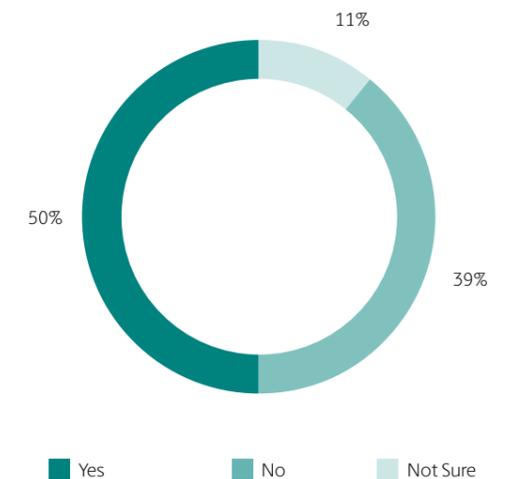
According to Global Web Index⁷, almost 80% of people in the USA and the UK check the returns policy on a retailer's website before making a purchase and almost 60% of people in the USA and UK have returned a product they purchased online in the past 12 months. Consumers are also more likely to return a product they purchase online than a product they bought in-store.

Half of all UAE SMEs believe the option of free returns is an important consideration for their customers

This is critical for SMEs because if they don't get the returns process right, it could have a major impact on the success of their e-commerce strategy.

Online shoppers do not want to risk being stuck with a product that they are not happy with and the risk is higher because they cannot see or touch it first. The guarantee of easy, cost effective or free returns and an efficient refund process reduces this risk and reassures the online buyer.

Is "free returns" an important consideration for the purchase?



As a global leader in supply chain, package delivery and logistics services that serves more than 220 countries and territories, UPS can be a powerful partner to SMEs in the market. We are committed to helping them grow and scale their operations to meet customer needs. And we hope the findings of this survey will offer the necessary insights to support the further growth of entities that are enabling trade and shipping in the region.

Renzo Bravo - Head of Marketing and Strategy for ISMEA, UPS

Delivery - the big differentiator

There was a time not so long ago where anything less than three days for delivery was prohibitively expensive and logistically challenging. These days, thanks to logistics companies embracing new technology, same day delivery is becoming more common place and one hour delivery is possible.

It doesn't have to break the bank account either. Amazon offers free two-hour delivery for customers who subscribe to its Prime Now service, a feat it manages by managing the logistics itself, including using its own delivery vehicles, rather than outsourcing the process.

The standard being set by these sophisticated e-commerce giants means customers increasingly expect to be able to get the products they've ordered within shorter timeframes.

However for SMEs, offering expedited delivery is much more of a stretch.

It is estimated that 28% of the total delivery cost to a business comes from the last-mile



While expedited delivery obviously has many advantages, including customer satisfaction, repeat purchases and as a result, increased revenue comes with many logistical challenges to overcome.

Dr. Hopkinson says, "One way by which SMEs can compete is by adding the extra cost into products. Alternately, they can set a spending limit to qualify for free shipping. Regardless, if they can afford it, SMEs should work towards offering expedited delivery in order to match changing customer expectations."

This presents a challenge for the SME that needs to weigh up whether it is commercially viable to offer same day or even next day delivery - and whether they can actually succeed if they don't.

This was reflected in the survey results with mixed opinion on whether customers would pay for expedited delivery. While 42% of respondents said their customers would be willing to pay an additional fee for expedited shipping, half felt they would not.

SMEs also need to consider how fast and efficient delivery service will help build brand loyalty. Steve Plimsoll explains: "E-commerce is all about trust and delivery plays a huge role in building and maintaining it. There are two reasons people don't use e-commerce, fear of fraud via online payments and a lack of trust that the product will actually arrive, on time and to the location they requested. If you can conquer the delivery aspect of e-commerce you not only win the customer's trust, you earn the right to charge a premium."

A survey of consumers in the USA supports this, revealing near-universal (98.1%) agreement by consumers that shipping impacts brand loyalty⁸.

Delivery - the big differentiator

Deliveries straight to your car boot

Around the world, car manufacturers are teaming up with delivery companies to offer a new level of convenience to those waiting for packages. Instead of the frustration of having to be home to receive a delivery, or juggle work meetings to ensure you are able to personally sign for a package, you can now have them delivered directly to your car boot. The concept has been around for years, with Audi launching its car boot delivery service in 2015⁹, but is becoming more popular with Volkswagen announcing recently that its We Deliver car boot delivery service will be introduced in 2020 for UK customers. These deliveries work by electronically delegating one-time access to an authorised delivery company which automatically gives access to your car boot but not the rest of the car.

So what does it all mean for SMEs?

From the outside looking in, you could be forgiven for thinking the world of e-commerce is fragmented and complex, with multiple risks and as yet, undefined rewards. Clearly the 64% of SMEs surveyed, who are not currently using e-commerce, have significant enough concerns to prevent them from investing in online sales. However, with the growing number of full service providers and technology solutions to facilitate the online journey at every step of the way, it is becoming much easier to get a foot in the door.

The winners of the future are the ecosystem players

The world is exploding into ecosystems and e-commerce is no different. What SMEs need to remember though is that they don't need to own - or even actively manage - all parts of the ecosystem.

Almost every element of the e-commerce process - from live customer tracking, to delivery options, returns management capabilities, chatbots and contact centres as well as localization of currencies, languages and delivery options - can be outsourced to either one full service logistics provider or a network of players.

What SMEs getting into the e-commerce space need to focus on is finding the right partners with the right capabilities - this is crucial to remain competitive.

What SMEs need to remember is that they don't need to own all parts of the ecosystem

Of the SMEs surveyed the majority (71%) work with multiple fulfilment partners with just 17% working with only one partner and 12% managing order fulfilment in-house.

The survey also reveals some perceived weaknesses with current partners. With the increasing customer demands for speed and convenience, it was concerning that 38% of SMEs don't foresee their current provider having the ability to offer an app for tracking, and 31% were not confident about their provider being able to fulfill same-day shipping.

Perhaps reflecting this concern and the importance of having the right partners, 36% of surveyed SMEs also expressed an interest to switch to a new partner for order fulfilment and logistics.

The bottom line?

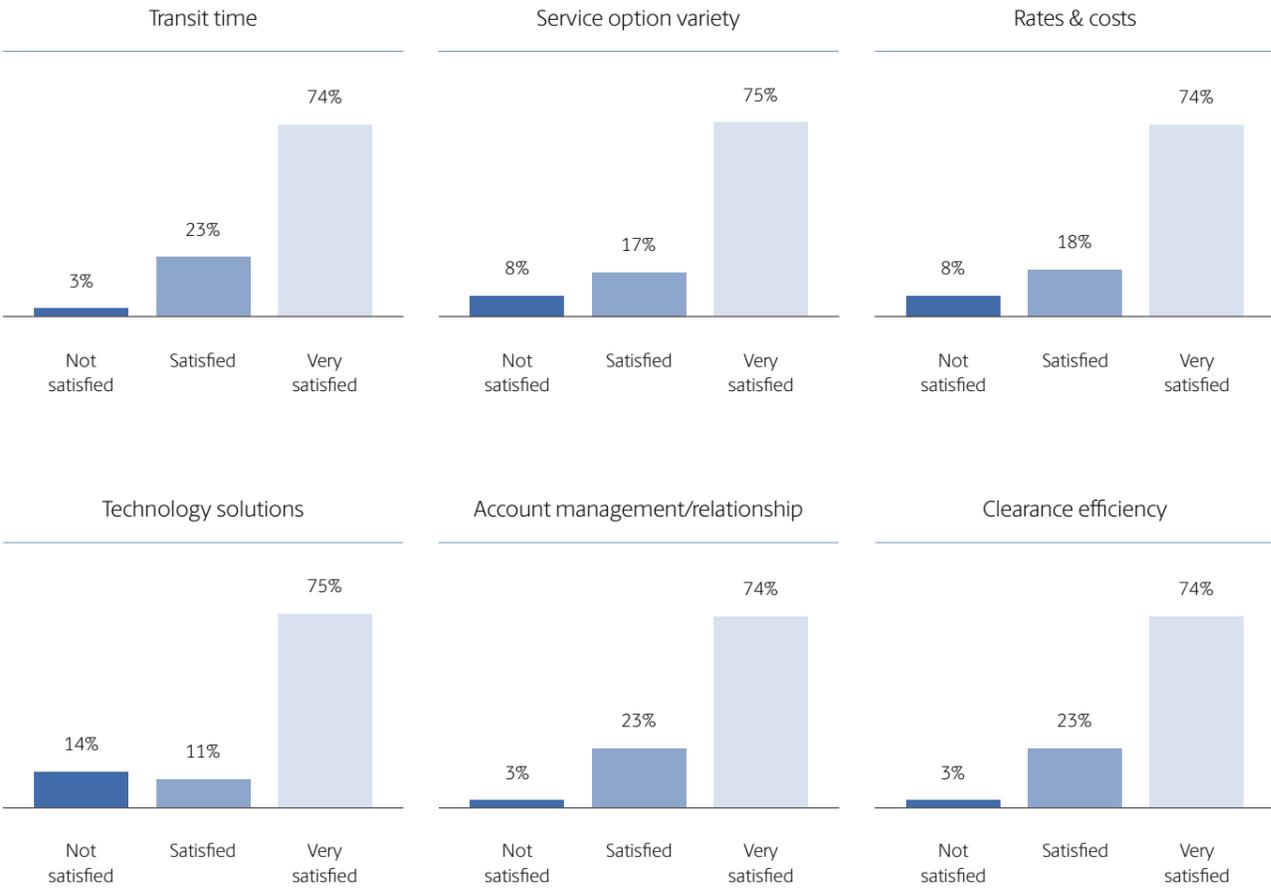
For SMEs looking to maximize the e-commerce advantage, choosing a partner strategy that capitalizes on technological advancements and future capabilities to ensure operational efficiency will undoubtedly be the winning approach.

The future is digital

The online sales explosion will drive more demand from customers for immediacy and convenience with a focus on real time analytics, dynamic pricing and automation. It is no surprise then that e-commerce advances in the future will be highly reliant on technological enhancements.

Dr. Hopkinson says it may not be an exaggeration to state that e-commerce can only be as successful as supply chain technologies will allow it to be. "It is clear that the future of e-commerce is closely entwined with new technologies, which help in several ways: speedy fulfilment, increased productivity in the supply chain, minimizing of costs and errors, shipment tracking and much more. Going forward, we can expect to see more and more innovations supporting e-commerce."

Interestingly, when asked about a range of service factors, 75% of SMEs surveyed said they were very satisfied with their current logistics provider's technology solutions however 14% said they were not satisfied - the most dissatisfaction shown across all factors.



Technology trends to watch:

E-wallets - integrated mobile wallet functionality is on the rise, and will play a big key role in the future of e-commerce. Google Wallet and Apple Pay are already relatively widespread.

Mobile shopping apps - studies have shown that because apps are more immersive, people spend more time browsing than on websites, which has obvious benefits for online shopping.

Auto-replenishment - customers increasingly want intuitive shopping experiences, what could be more intuitive than automatic re-ordering of frequently used products? Think the self replenishing fridge.

Delivery automation - UPS is already investing in autonomous vehicle deliveries using drones and portable warehouse robots are readily available, however the future is likely to see more advances and automation become more common place.

Data analytics - with the growth of data in e-commerce, businesses will have much more insight into customer preferences, buying behaviours and demographics, all of which can be used to make the e-commerce process more personalized.

Conclusion

E-commerce has significant benefits for SMEs, enabling even the most local businesses to 'go global' and expand their reach. The UAE by virtue of its young, digitally mature population is a highly conducive environment for e-commerce to flourish, supported by government initiatives and public policy. While acceptance is slow, there is huge forecast growth for the sector in the UAE and this presents a wealth of opportunities for local SMEs.

Five key areas for SMEs to consider:

1. **Know your customer** - be aware of the changing customer expectations that are driving global e-commerce trends, how they apply to your business and what you need to do to adapt.
2. **Go global** - take advantage of the opportunity to trade cross borders with ease but be sure to do it right, customizing your platforms and logistics strategies accordingly.
3. **Get your channel strategy right** - online sales are never solely online so take into account how your off and online operations integrate to give the customer a seamless experience.
4. **Focus on what you do well, let others do the rest** - work out which partners you need and create a partner strategy to capitalize on the most advanced capabilities available to you.
5. **Be ready for change** - don't get locked in. E-commerce is an emerging economy that necessitates flexibility; be ready to change as it evolves, customer demands change and new solutions are developed.

Contributors Bios



Dr. Paul Hopkinson

Associate Head of Edinburgh Business School, Heriot-Watt University Dubai

Dr. Paul Hopkinson is Associate Head of Edinburgh Business School, Heriot-Watt University Dubai and an Associate Professor in Marketing. Dr. Hopkinson's interests and expertise lie in the areas of digital marketing and digital transformation particularly in the context of managing customer relationships. He leads the University's Master's in International Marketing (with Digital Marketing) and has published several recent papers on the role of AI in customer relationship management.

Dr. Hopkinson moved to Heriot-Watt Dubai in August 2013. He was previously at the University of Gloucestershire where he completed a PhD in Marketing and held several leadership roles, including undergraduate Director of Studies (Marketing) and MBA Programme Director. He was also a part-time member of faculty for the University of Birmingham and an external examiner for the University of Greenwich (PG Marketing programmes).

Prior to embarking on his academic career, Dr. Hopkinson held various commercial roles (Marketing Research, Product Management and Procurement) in the Aerospace and Telecommunications sectors and ran a distribution business specializing in engineering supplies. He has undertaken training and consultancy work for a variety of clients, including the Routes to Market Association (via International), ADNATCO, Krone (UK) Technique Ltd (now CommScope).



Steve Plimsoll

Senior Partner - Digital, Data & Analytics Leader: Africa, India & Middle East (AIM), EY

Steve is a leading global digital transformation expert with almost 20 years' experience using data and technology to design and deliver customer centric digital disruption platforms.

Repeatedly tapped to design new leading and differentiating global e-commerce, CRM and multi-channel customer centric data and technology strategies, assess the impact/benefits of new technologies and implement products and solutions. Steve is an expert in translating emerging technologies into bottom-line business benefits.

Steve brings a unique combination of both leading edge strategy and design with proven enterprise critical delivery capability, a true "imagineer". A selection of the global and regional brands Steve has worked with on their digital transformations journeys include: eBay, Emaar, Emirates NBD, Royal Mail, Unilever, Jaguar Land Rover, British Airways, LloydsTSB as well as Middle East government agencies.



