

2019

ONLINE GROCERY RETAIL IN MENA



✦ wamda

Table of contents

Introduction	3
Definitions	5
Pure Play	7
Marketplace	8
Omni-Channel	9
Sector Overview	10
Global Market	14
MENA Market Overview	18
Benchmarking Players in MENA	35
Conclusion	53

Introduction

For many households across the Middle East and North Africa's (MENA) rural areas, a significant part of the day is the call of the grocer, shouting out the day's produce and price. The fresh fruit and vegetables laid out on a cart, usually pulled by a horse or donkey, is the most basic form of food delivery. In more urban areas, phoning up the local grocery store to deliver staple goods is commonplace and now, as technology permeates further into the e-commerce space, ordering groceries online will be the technological equivalent of the vegetable cart at your door.

While 58 per cent of consumers in the region still prefer to do their weekly shop instore at large supermarkets, a growing number, about 30 per cent, are taking advantage of the benefits of ordering their groceries through a mobile application or website.

The region is particularly familiar with food delivery services like Talabat, Zomato and Deliveroo. The market for these services is saturated with both local and international players delivering thousands of meals a day. This restaurant-to-door delivery service is worth Dh12.9 billion (\$3.5bn) in the UAE alone with 60 per cent of the population using a food app on their smartphone or tablet.



The leap from cooked meals to fresh produce might take some time, but the trends across the region favour the growth of e-grocery.

Smartphone and internet penetration rates are high, in some cases among the highest in the world. Commuting times to work are on the rise with the UAE ranking second globally for longest commute time and sixth for longest working hours leaving residents with reduced hours to carry out chores. Meanwhile a consumption-driven middle class is emerging throughout the region, comfortable with buying goods online.

The e-commerce market in MENA is worth some \$8.3 billion with the UAE, Saudi Arabia and Egypt accounting for 87 per cent of that.

Consumers are spending close to \$17 billion on food every year in the UAE, a substantial amount for a population that sits below 10 million. Saudi Arabia's 33 million spend \$54 billion while Egypt's 98 million-strong population leads the way with \$56 billion.



The e-groceries market is currently worth \$200 million in the GCC and Egypt, accounting for less than 1 per cent of the e-commerce space and so there is room for rapid growth.

Basket sizes are big in this region, with the majority of households completing one big shop every three weeks and topping up when needed in between. Early adopters of e-grocery are using the apps for these top-ups spending anywhere between \$20-\$80, but we expect users to take the leap to the big shop as trust is gained.

Definitions

E-commerce penetration – percentage of the population that has shopped or shops online.

GDP – real gross domestic product (GDP) is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year.

Grocery retail market – the retail market for daily consumer goods comprising all modern distribution channels (hypermarkets, supermarkets and discounters).

Internet penetration – percentage of total population with access to internet.

Marketplace – online platform that aggregates all grocery stores in the area offering their products either through their own logistics or outsourced.

Mobile data traffic – the amount of non-voice usage such as web pages or YouTube videos that people are viewing with their mobile phones.

SLA – a service-level agreement (SLA) is a commitment between a service provider and a client. Particular aspects of the service are agreed between the service provider and the service user at the time of the agreement. They commonly include many components, from a definition of services to the termination of an agreement.

SKU (stock keeping unit) – is a number assigned to a product by a retail store to identify the price, product options and manufacturer of the merchandise. An SKU is valuable in helping the retailers keep track of their inventory.

Smartphone penetration – percentage of total population with access to a smartphone.

USP – a unique selling proposition (USP) refers to the unique benefit exhibited by a company, service, product or brand that enables it to stand out from competitors. It must be a feature that highlights product benefits that are meaningful to consumers.



Brick and mortar store



E-commerce store

Setup cost



High

(Physical location presence requires rent, utilities, capex requirements...)



Low

(Digital presence enables no rent, utilities, capex requirements...)

Operational cost



High

(Requires dedicated staff for each process including inventory management, warehouse management, invoicing, payments, store clerks, extra staff)



Low

(One-time payments to create automated process for product selection, invoice generation and payment portal)

Product customer



Small target area



Wide customer base

Scalability



Limited scalability

Due to space, location, staff and infrastructure constraints which lead to larger ongoing capex / opex requirements

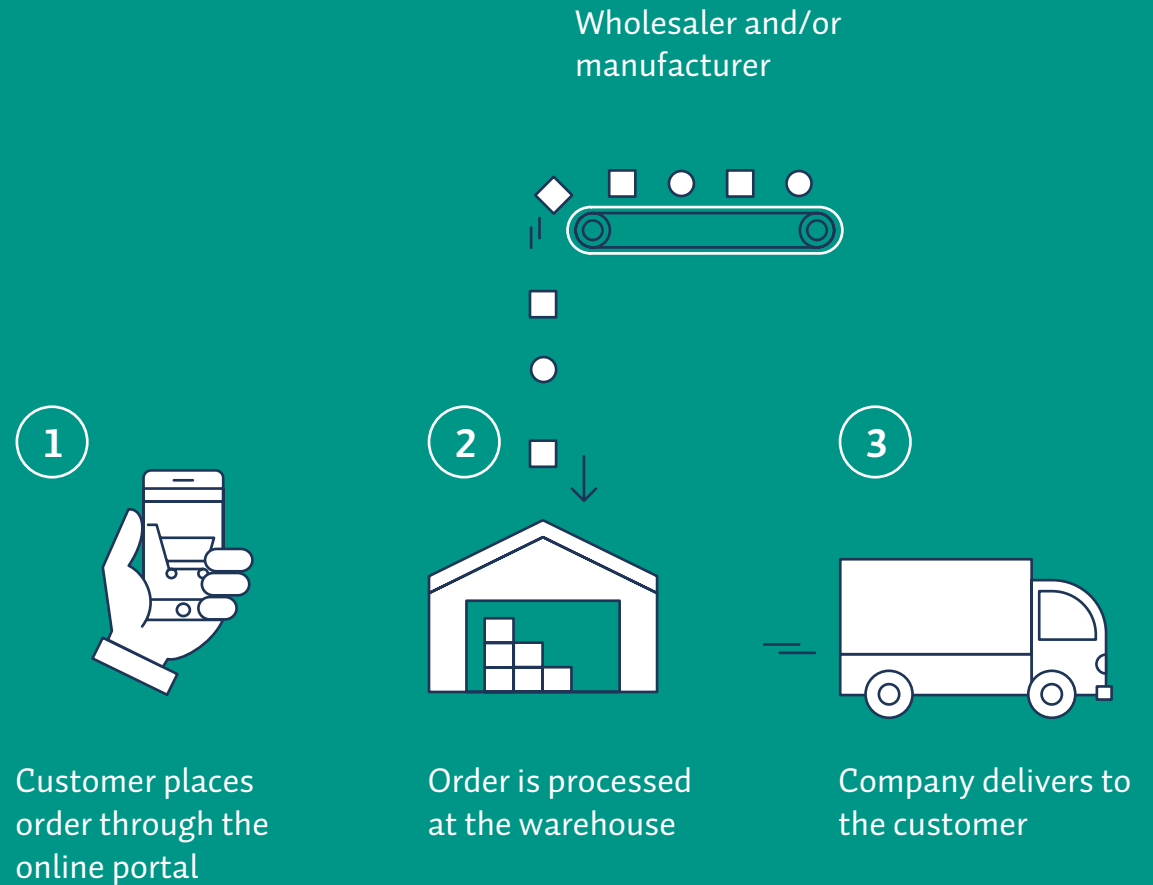


Easy scalability

With minimal costs given access to end consumer is expedited through digital acquisition channels; scale is also achievable without continuous add on costs 'per location' as per omni-channel

Pure Play

Online enabled grocery play which holds complete control over logistics and the entire grocery value chain from farm to fork, connecting vendor and consumer.

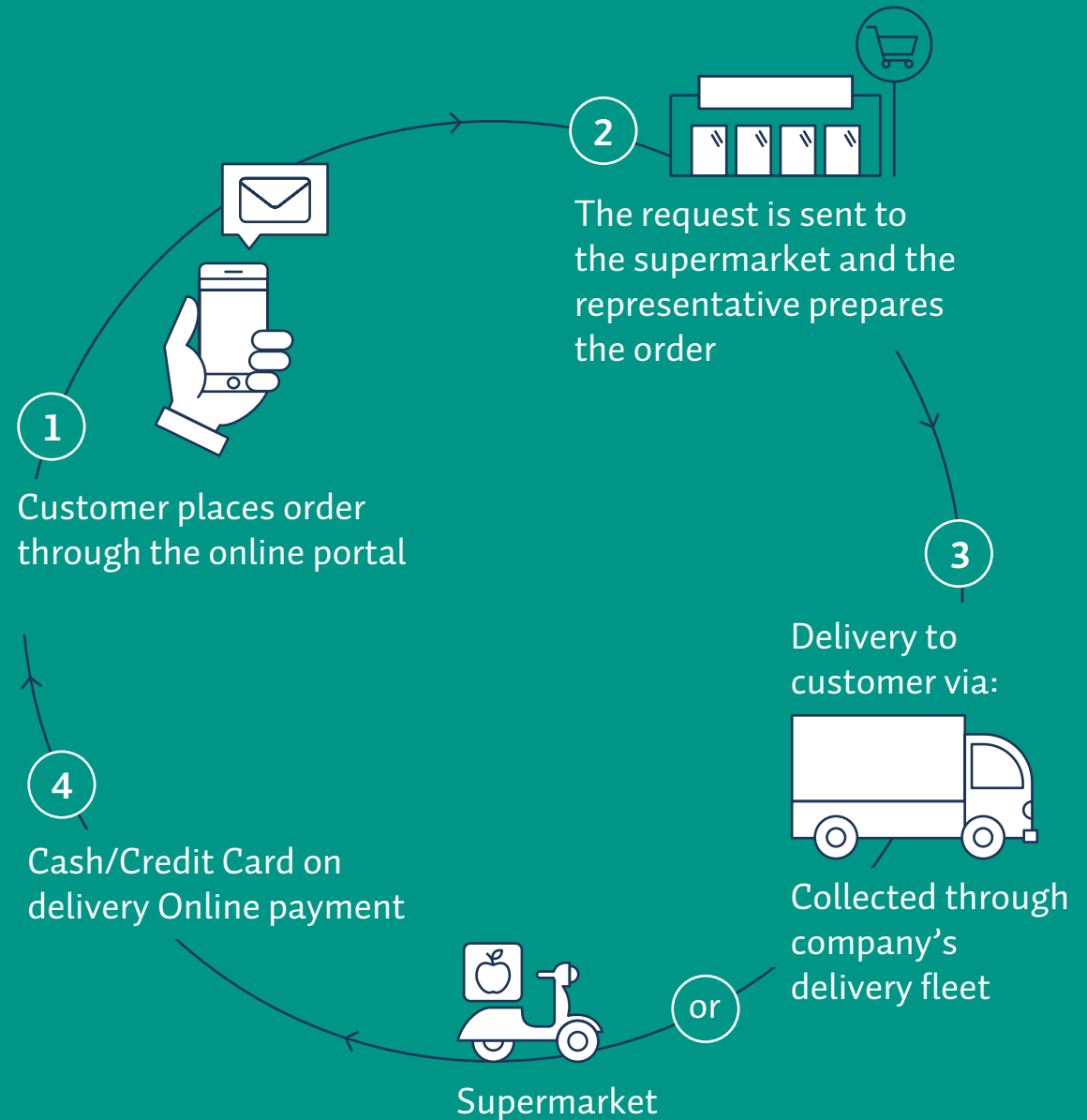


Global players:



Marketplace

Online marketplace model which fulfils consumer orders based on partnerships with local convenience stores and hyper-local markets through a take-rate model.



Global players:



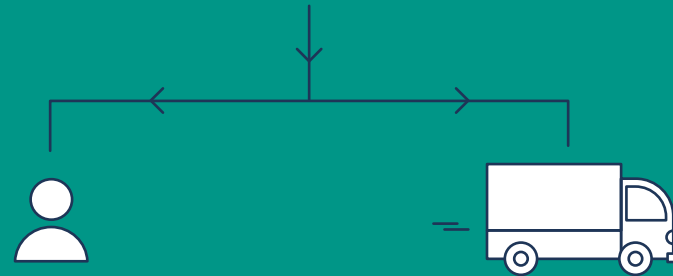
Omni-Channel

Existing offline players with strong local footprints that have tried to develop online strategies and digitise their business models through cost-heavy measures.

Global players:

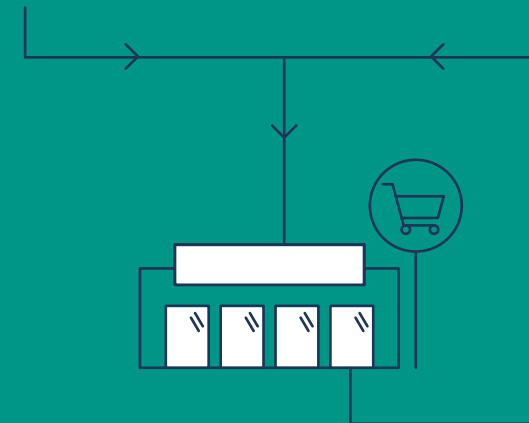


Customer places order through an online portal



Customer has option to collect products

Or company delivers to the customer



Customer walk in and out

SECTOR OVERVIEW



Different business models



Omni-Channel



Pure Play



Marketplace

E-commerce

Global players




Business Model


Offline supermarket branches with developing in-house digital strategies

Complete control and oversight over supply chain, inventory base and logistics

Local store partnership based on pick-up/delivery within store vicinity to fulfill consumer orders

Delivery Options

 2-4 hour time slots

 1-2 hrs

 On-Demand delivery

Quality

Control over inventory and quality of product

Complete end-to-end oversight over the value chain which enables for pure play model to dictate exact product/quality of inventory

No control over inventory management due to partnerships with existing supermarket players who control their stock – this can result in lack of clarity around quality of product



Omni-Channel



Pure Play



Marketplace

E-commerce

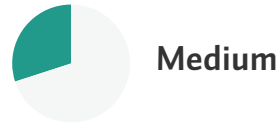
On-time Delivery

Scheduled deliveries within 2-4 hours (5 slots/day)

High (in-house delivery and controlled logistics)

Unpredictability over delivery times, as items can either be (i) collected from multiple stores, (ii) not-in-stock or (iii) lack of visibility on tracking logistics/delivery

Gross Margins



Product Assortment



*Marketplace sources products from smaller local supermarkets and therefore has relatively lower product assortment

Regional Landscape

Omni-Channel

High margin & quality control



Danube LuLu Webstore

Pure Play

High margin & quicker fulfilment



Trolley.ae FARMBOX KIBSONS INTERNATIONAL sanadeeg® Bulkwhiz

Hybrid

Mix of both



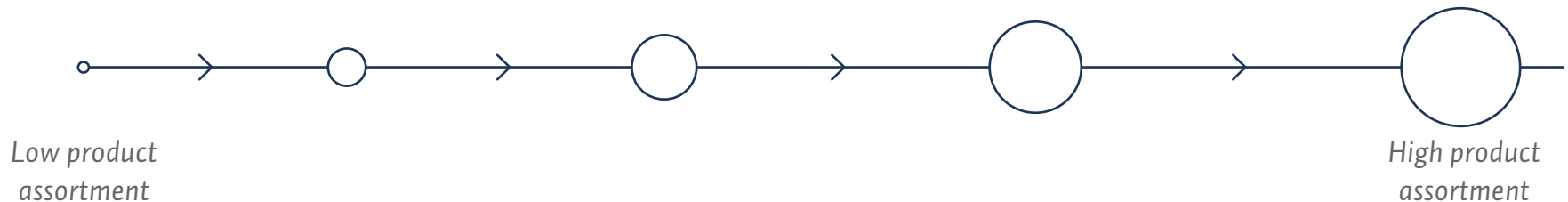
عايز (3ayez) nana direct instasalla baqala

Marketplace

Low margin & no inventory risk or wastage



elGrócer ZadFresh InstaShop نون noon SOUQ wadi
Groceries made easy an amazon company كارفور Carrefour

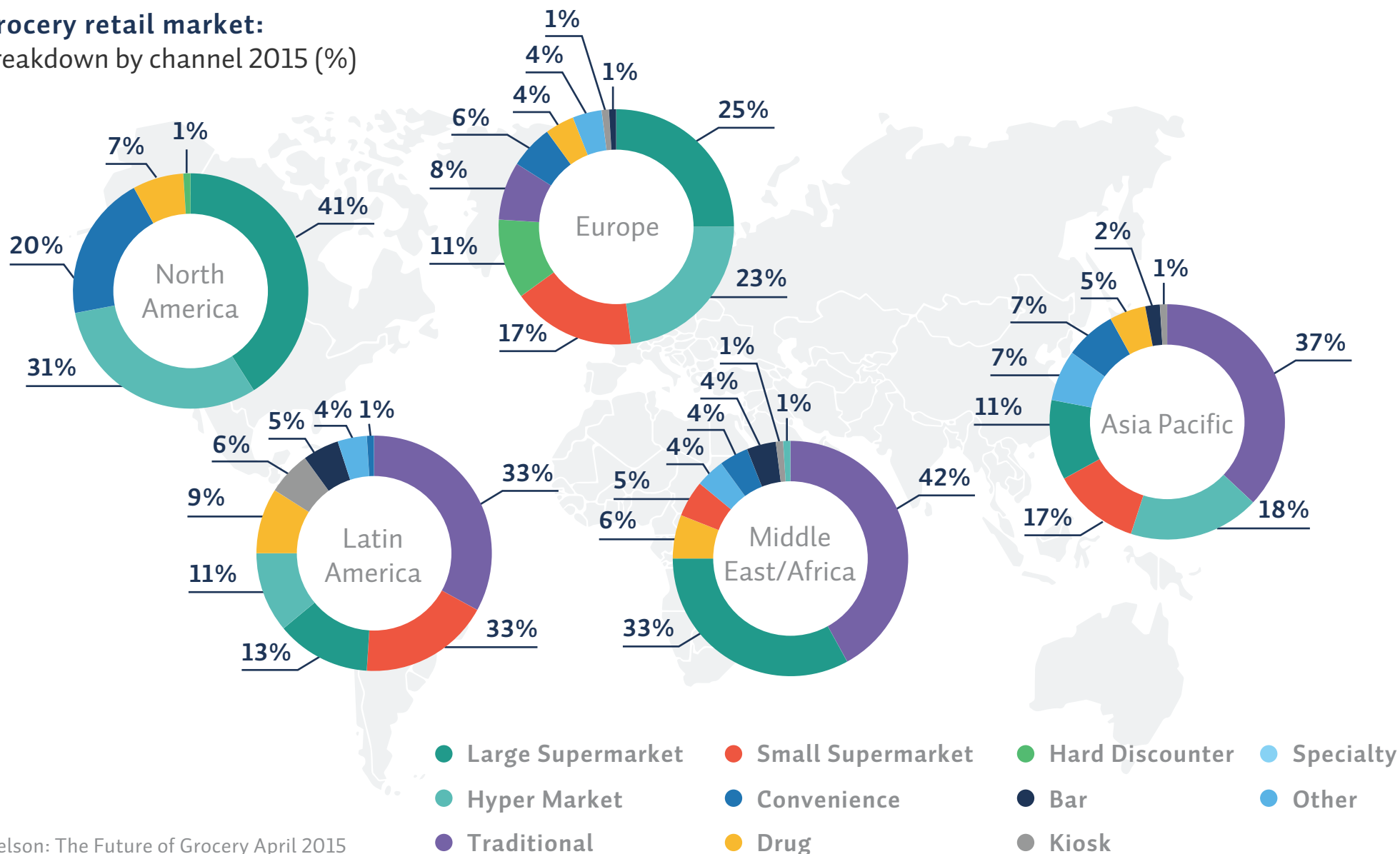


GLOBAL MARKET



Different regions host various grocery retail allocations

Grocery retail market:
Breakdown by channel 2015 (%)





Nielson: The Future of Grocery April 2015





Online grocery shopping in parallel is gaining prominence

-  Location
-  Investors
-  Acquisition
-  Latest round
-  Business Model
-  Stock exchange







-  United States
-  June 2017 – **\$13.7b**
-  Amazon.com (Acquisition)
-  Hybrid Pure Play (Online/Offline)






-  Hatfield, UK
-  IPO at **\$548.4m**
-  London Stock Exchange
-  Pure Play



-  Bangalore, India
-  March 2016 – **\$150m**
-  The Abraaj Group
-  Pure Play



-  New Jersey, USA
-  Walmart acquired jet.com in August 2016 for **\$3.3b**
-  E-commerce platform with focus on grocery delivery



- 📍 San Francisco, California
- 💰 Jan 2015 – \$220m at \$2b valuation
- 👤 Kleiner Perkins Caufield & Byers
- 📦 Marketplace



- 📍 Singapore
- 💰 August 2015 – \$26.7m
- 👤 Garena
- 📦 Pure Play



- 📍 Gurgaon, India
- 💰 Apr & Nov 2015 – \$35m and \$120m
- 👤 Softbank & Sequoia Capital
- 📦 Marketplace



- 📍 Jakarta, Indonesia
- 💰 Aug 2016 - undisclosed amount
- 👤 Samena Capital
- 📦 Marketplace



- 📍 Saudi Arabia
- 💰 Oct 2018 - \$30m
- 👤 MAF
- 📦 Marketplace

Sources: Multiple



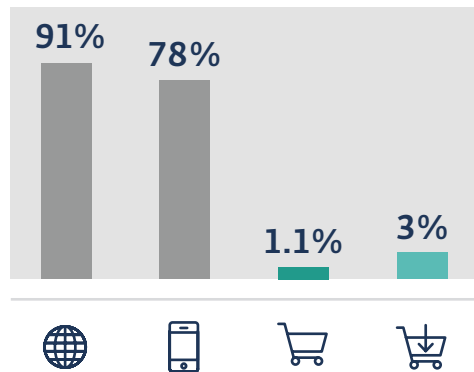
MENA MARKET OVERVIEW

Global macro-economic benchmarking

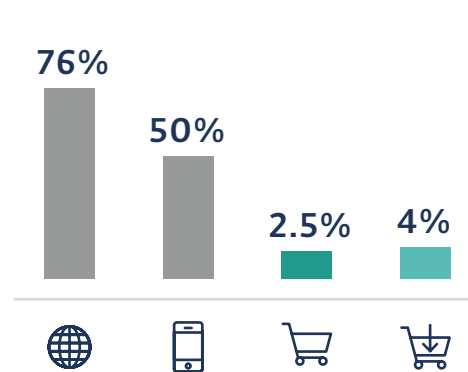
With high internet and smartphone penetration rates, as well as higher than average disposable income, the MENA market has the basic infrastructure to enable growth in e-commerce.

High GDP per capita compared to other giant economies

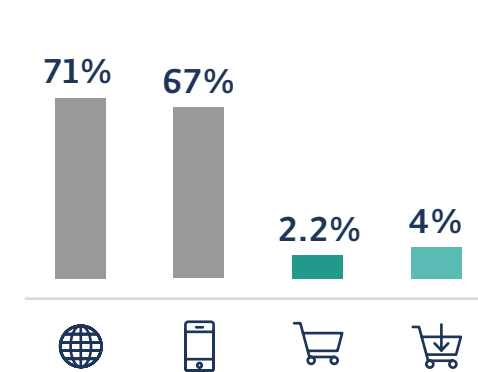
GCC



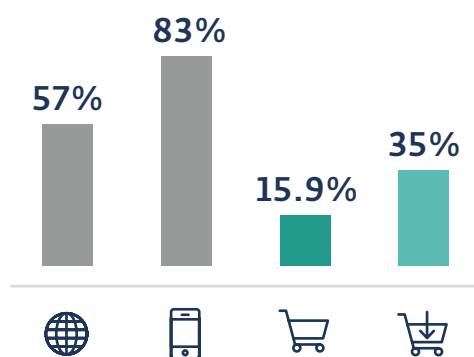
Russia



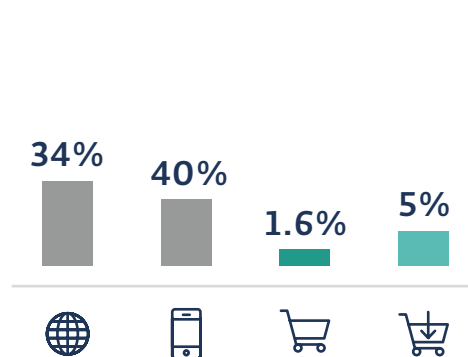
Brazil







China



India








-  **Internet penetration**
-  **Smartphone penetration**
-  **E-commerce penetration (2015)**
-  **Projected e-commerce penetration (2020)**

Sources: Google, Euromonitor International, World Bank, Internet World Stats

MENA highlights

MENA presents favourable macro-economic and demographic data for technology and internet-enabled businesses to grow.

	 GDP	 Population	 GDP per capita	 Internet users	 E-commerce market
Total MENA*	\$3,276 bn	444 million	\$7,370	260 million (58.6% penetration vs Global average 45.8%)	\$8.3 bn
UAE	\$383 bn	9.4 million	\$40,700	8.9 million (95% penetration)	\$2.3 bn
KSA	\$687 bn	33 million	\$20,760	26.4 million (80% penetration)	\$3 bn
Egypt	\$235 bn	98 million	\$2,400	44 million (45% penetration)	\$0.7 bn
UAE, KSA, Egypt Attribution % of Total	40%	32%	N/A	31.6%**	87%

*MENA includes: Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, United Arab Emirates;

** Skewed downwards because of Egypt, currently mobile enabled, but smartphone and internet penetration rates are growing rapidly

Sources: World Bank Database, IMF data, Euromonitor 2016 Internet Retailing report, Strategy & “How Young Arabs are fuelling the MENA media market”, internetworldstats.com, Strategy & “How Young Arabs are fuelling the MENA media Market”, Google and Bain & Company "E-commerce in MENA"

Shifting trends to mobile shopping



65%+ Smartphone Penetration (MENA)



Over **38%** of MENA users access the internet through mobile



Usage of internet from smartphone is **90%**

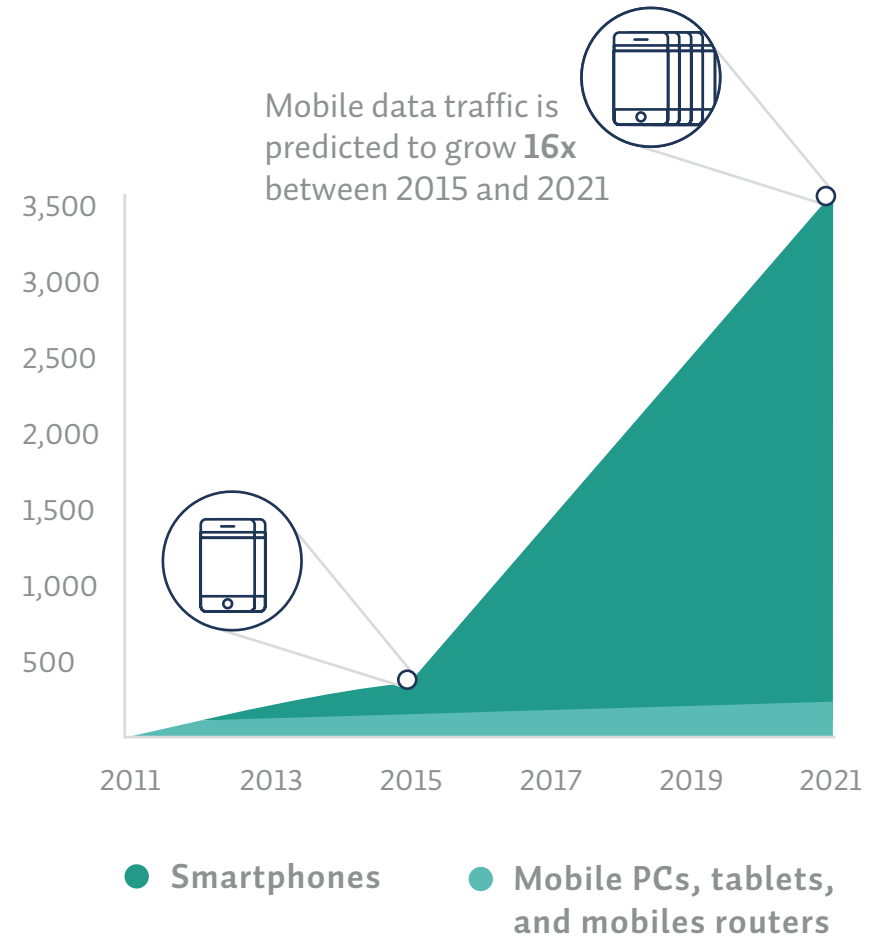


57% of online shoppers have purchased items via mobile



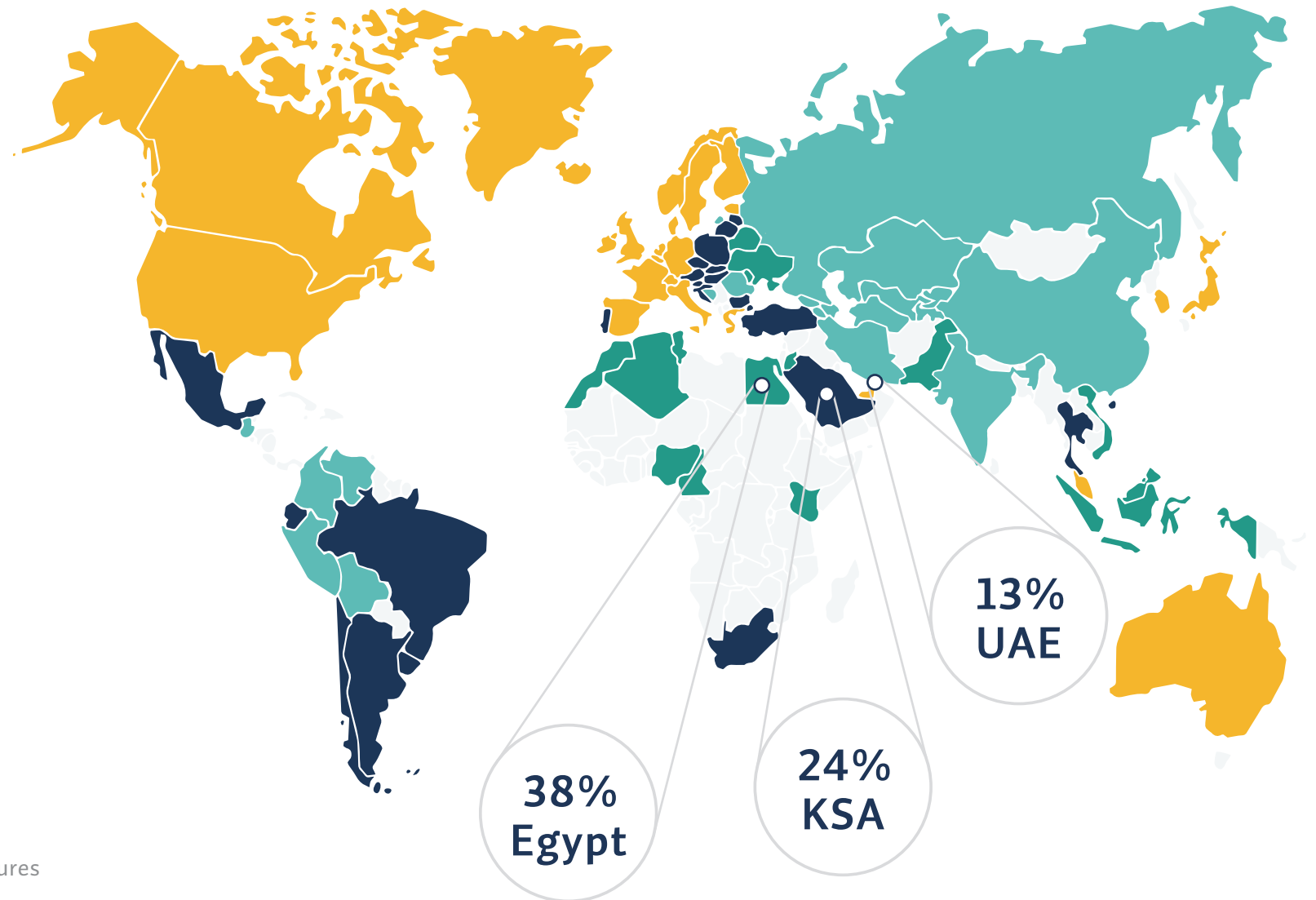
Mobile commerce accounts for **10-15%** of online sales

MENA mobile data traffic segmentation (monthly PetaBytes)



Percentage of household consumption attributable to food

- 6-15%
- 16-25%
- 26-35%
- 36%+
- No data



Sources: U.S. Department of Agriculture: the percentage of household consumption expenditures going to food

Online grocery opportunity in MENA

Big delivery players across industries, but **grocery** remains the last untapped frontier.

Talabat

 zomato

 deliveroo

UBER
eats

eatcleon
HEALTHY MADE EASY

Proven online grocery models worldwide:

 instacart

 HappyFresh

 honestbee

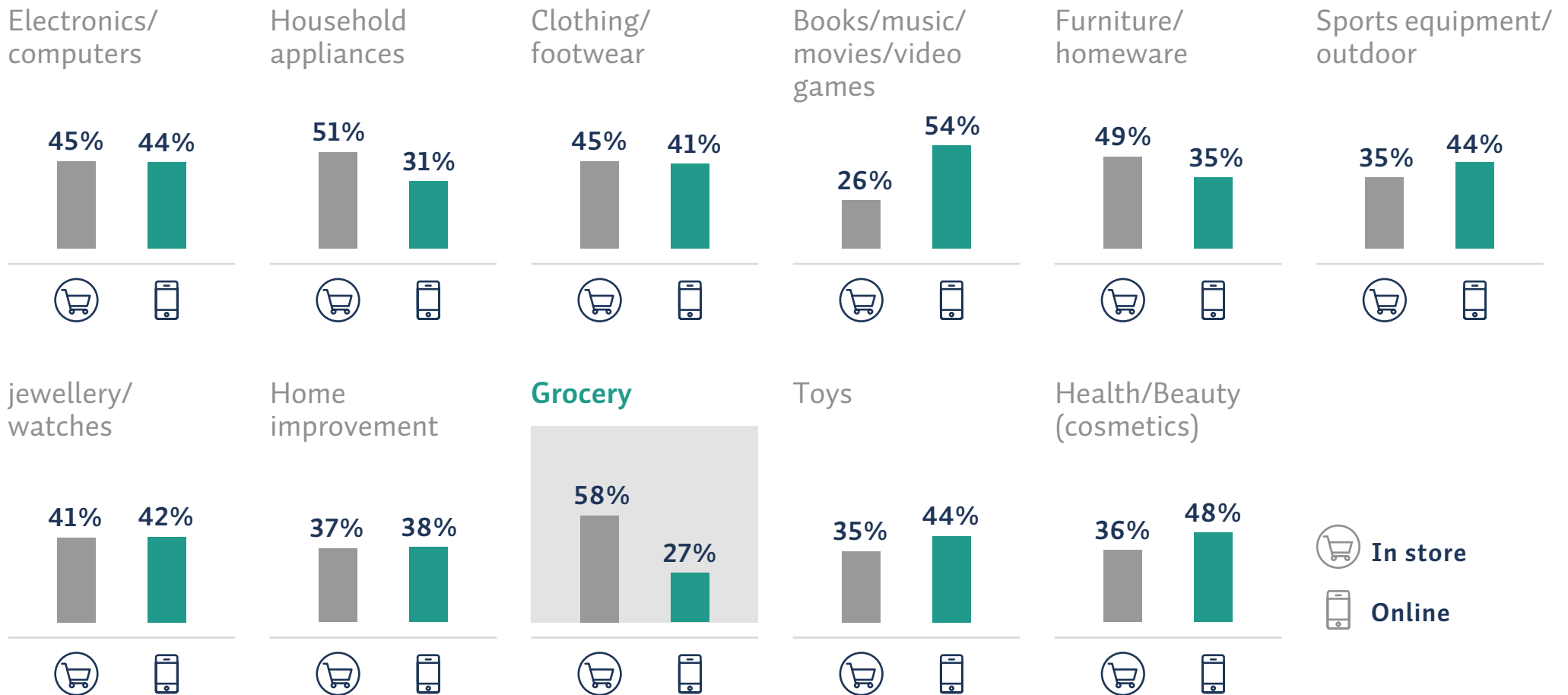
amazon
fresh

 GROFERS

 bigbasket

High-growth potential in online grocery shopping in MENA

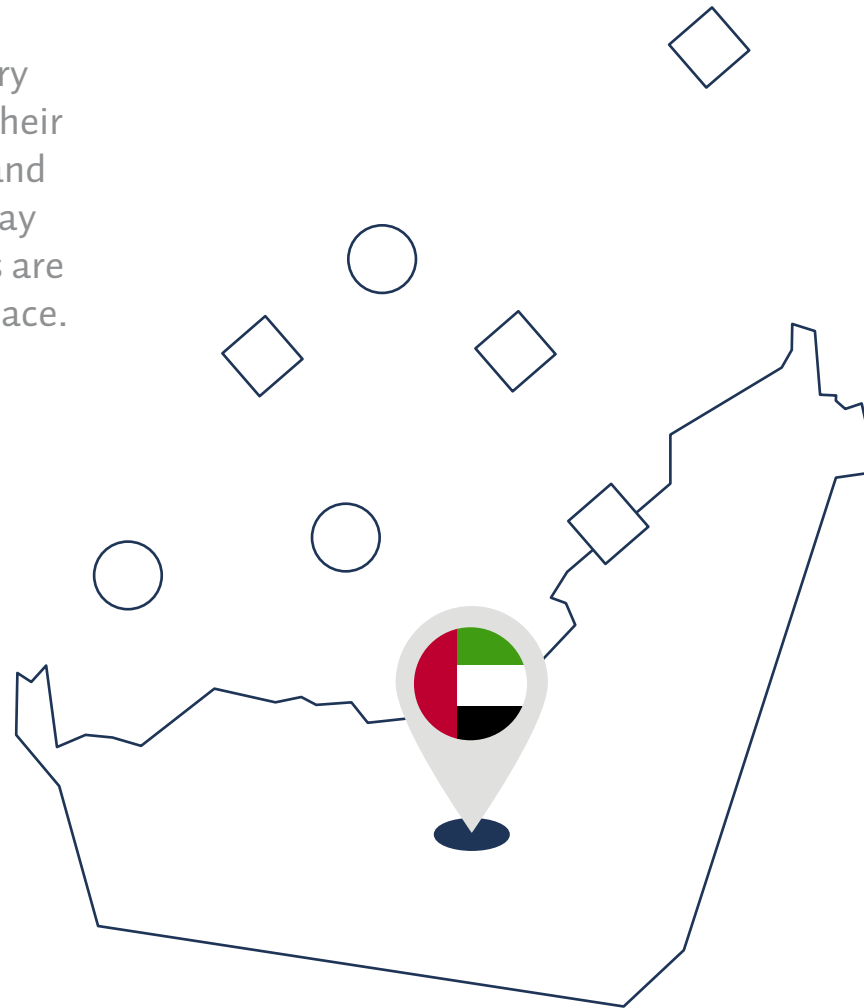
Grocery shopping in MENA still lags behind with only 27% choosing to purchase online vs 58% still preferring to buy their groceries instore.



Source: PwC, Total Retail 2017 - Middle East Report Base

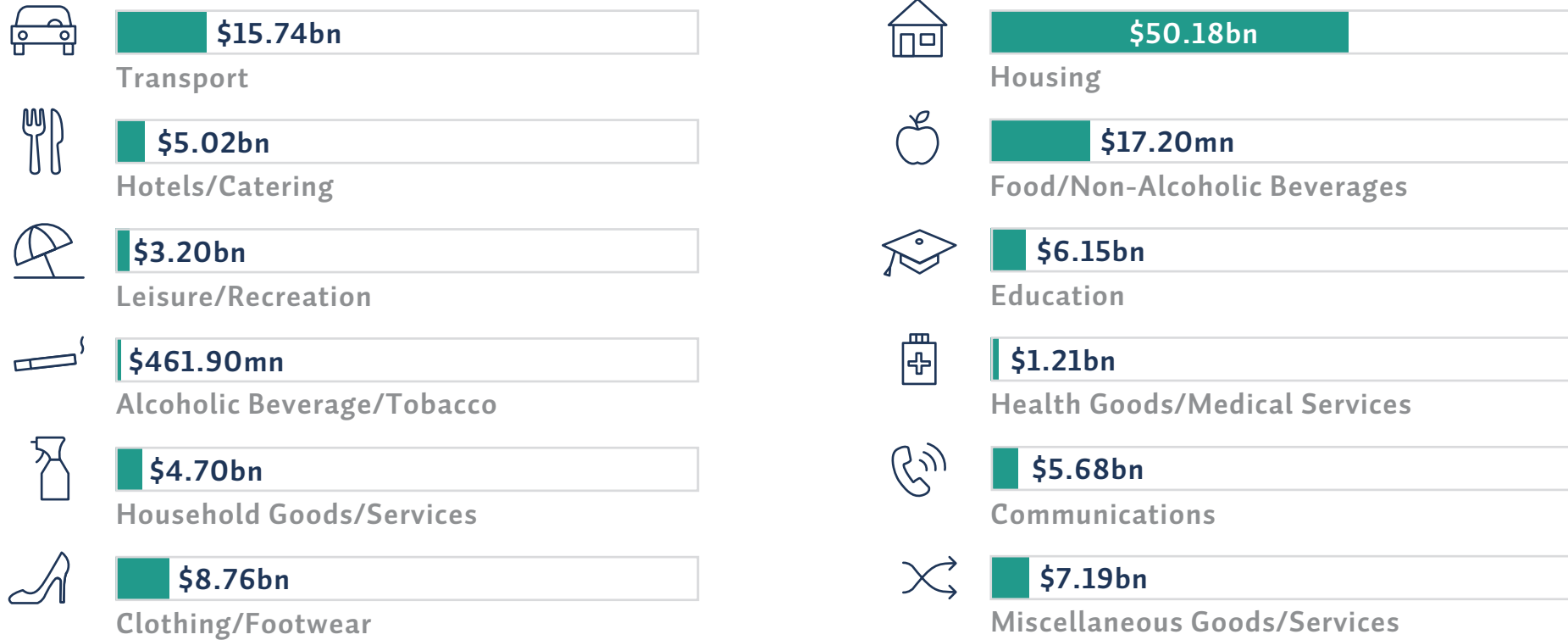
UAE market

The UAE is the country most comfortable with online food delivery, accounting for 4.81 per cent of the grocery market. More than half the population currently buys their groceries from hypermarkets, suggesting wide choice and lower prices are paramount in shopping habits. Pure Play and hybrid models that emphasise quick delivery times are therefore the most likely to succeed in the e-grocery space.



Consumer expenditure in UAE

Total Consumer Expenditure \$125.55bn in 2017

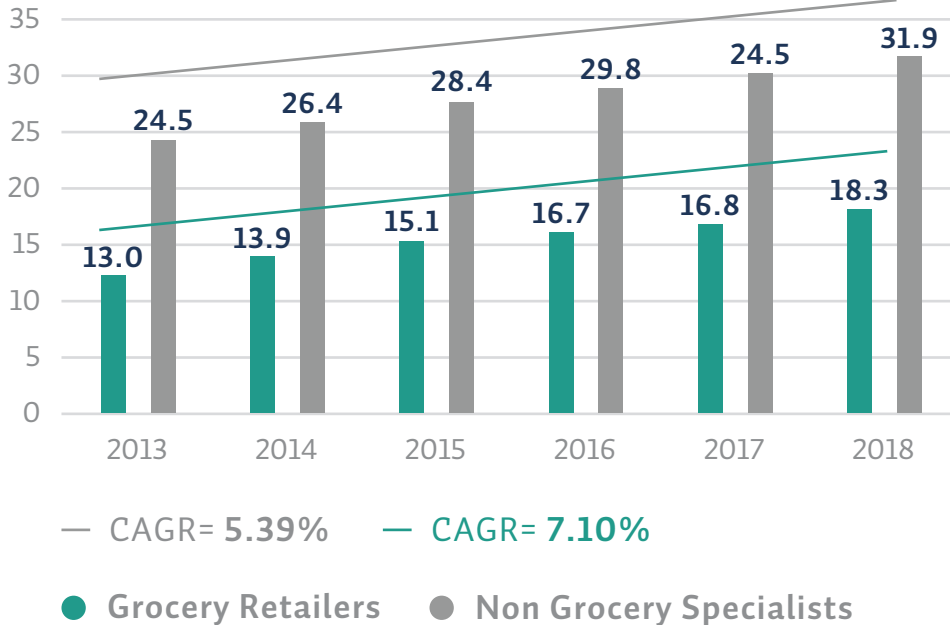


Sources: Euromonitor

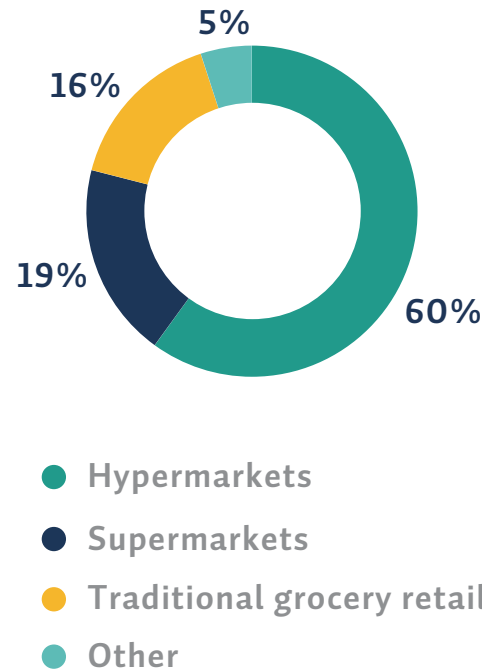
Grocery Retail Breakdown in UAE



2018 Total Retail Market in UAE – \$55.0 billion



Grocery Market Breakdown



Food & drink internet retailing accounted for:

- 4.81% of total internet retailing
- 0.54% of total grocery retailing

- Non-grocery is defined as the sale of non-grocery products to the general public for personal or household consumption. Non-grocery includes all personal or household goods except those listed under grocery products, with the addition of automotive and automotive parts and fuel.
- Grocery is defined as the sale of grocery products to the general public for personal or household consumption. Grocery includes the following categories: fresh food; packaged food; hot drinks; soft drinks; alcoholic drinks; tobacco; cosmetics and toiletries; disposable paper products; household care; otc healthcare; pet food and pet care products.

Sources: Euromonitor

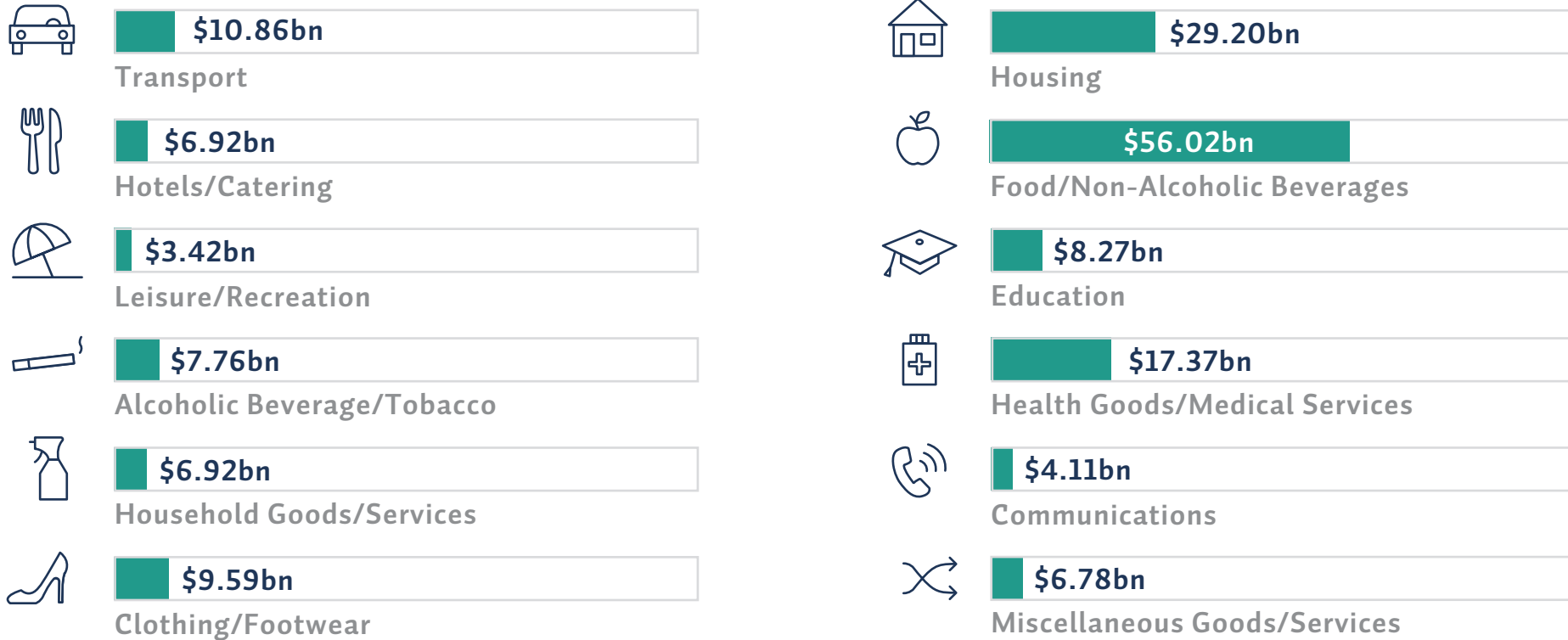
Egypt market

The weak currency prevents e-groceries from attaining revenues similar to Saudi Arabia or the UAE, but the volume and frequency of Egyptian basket sizes are bigger than those in Saudi Arabia. Consumption of food in Egypt is the highest in the region and with a population of 98 million, it is an ideal market to scale, particularly for the hyperlocal models where traditional, local retailers account for 74 per cent of Egyptian grocery market.



Consumer expenditure in Egypt

Total Consumer Expenditure \$167.23bn in 2017

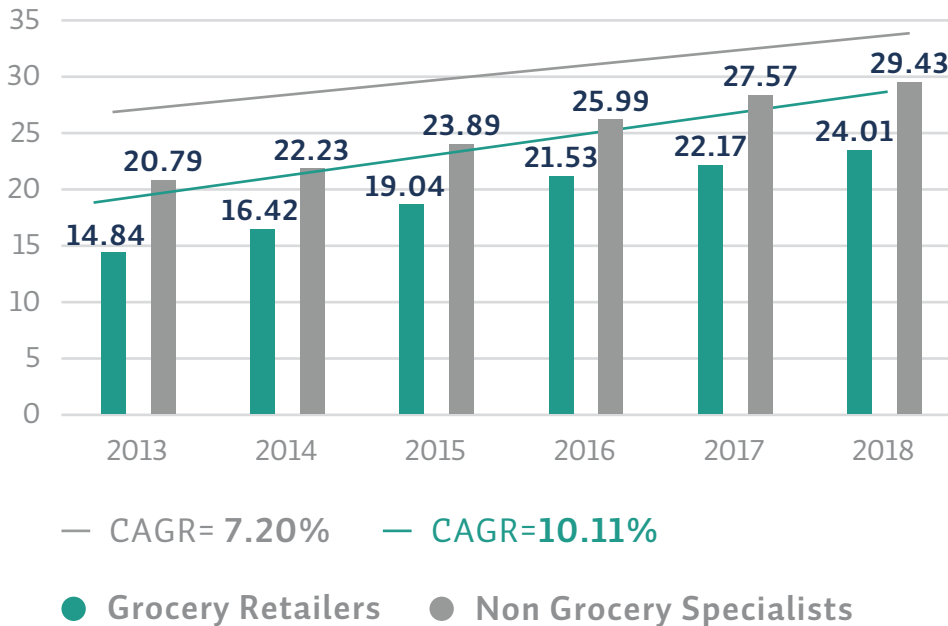


Sources: Euromonitor

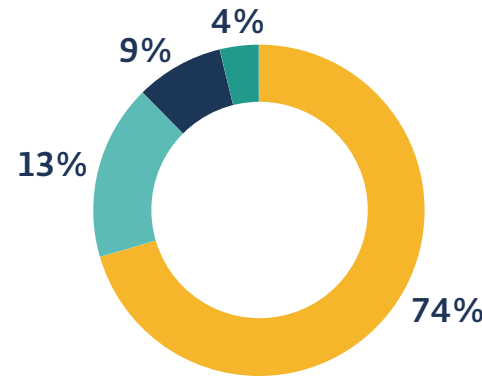
Grocery Retail Breakdown in Egypt



2018 Total Retail Market in Egypt - \$55.1 billion



Grocery Market Breakdown



- Hypermarkets
- Supermarkets
- Traditional grocery retailers
- Other

Food & drink internet retailing accounted for:

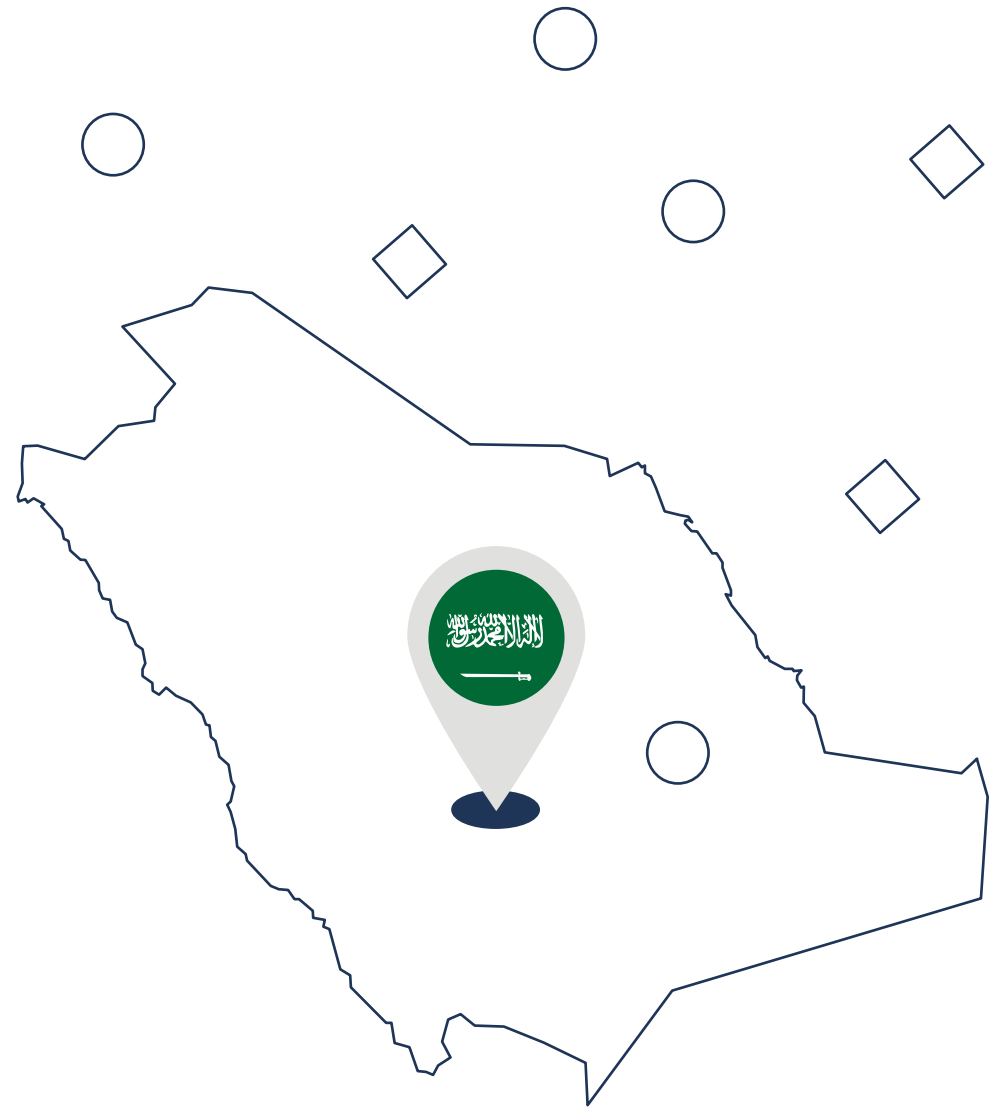
- 5.18% of total internet retailing
- 0.08% of total grocery retailing

- Non-grocery is defined as the sale of non-grocery products to the general public for personal or household consumption. Non-grocery includes all personal or household goods except those listed under grocery products, with the addition of automotive and automotive parts and fuel.
- Grocery is defined as the sale of grocery products to the general public for personal or household consumption. Grocery includes the following categories: fresh food; packaged food; hot drinks; soft drinks; alcoholic drinks; tobacco; cosmetics and toiletries; disposable paper products; household care; otc healthcare; pet food and pet care products.

Sources: Euromonitor

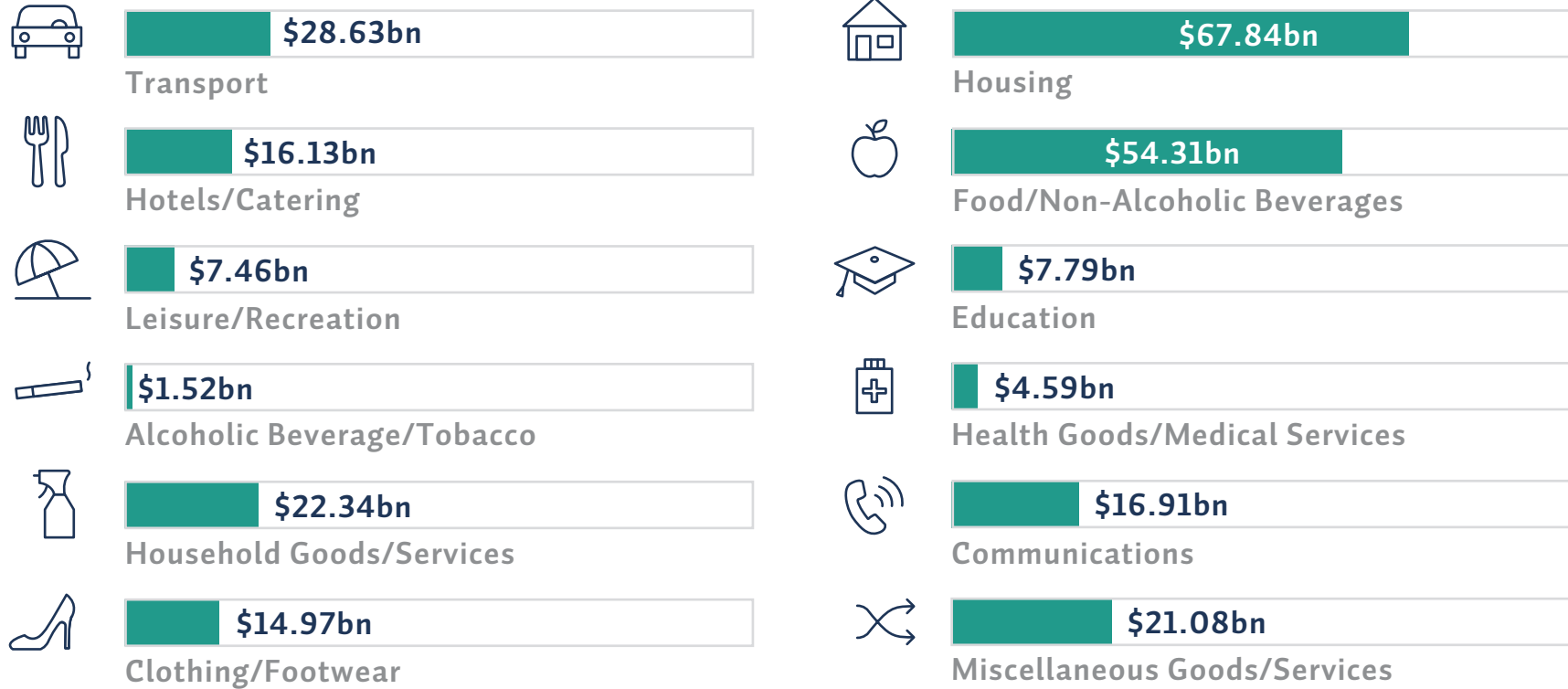
KSA market

When Saudi Arabia's Shoura Council decreed in 2016 that foreigners could no longer work in baqalas (small groceries), the market became defragmented. Customer experience in Riyadh in particular, is cumbersome, taking up to three hours to do a weekly shop due to long commuting times. E-groceries therefore have been able to scale at a healthy pace, particularly in the outskirts of the big cities. With the region's highest food spend, basket sizes for e-grocery are also the biggest, the main challenge in Saudi Arabia is delivery times. Cash on delivery is also a challenge here as well as the high cost of wastage as a result, particularly for Pure Play models.



Consumer expenditure in KSA

Total Consumer Expenditure \$263.57bn in 2017

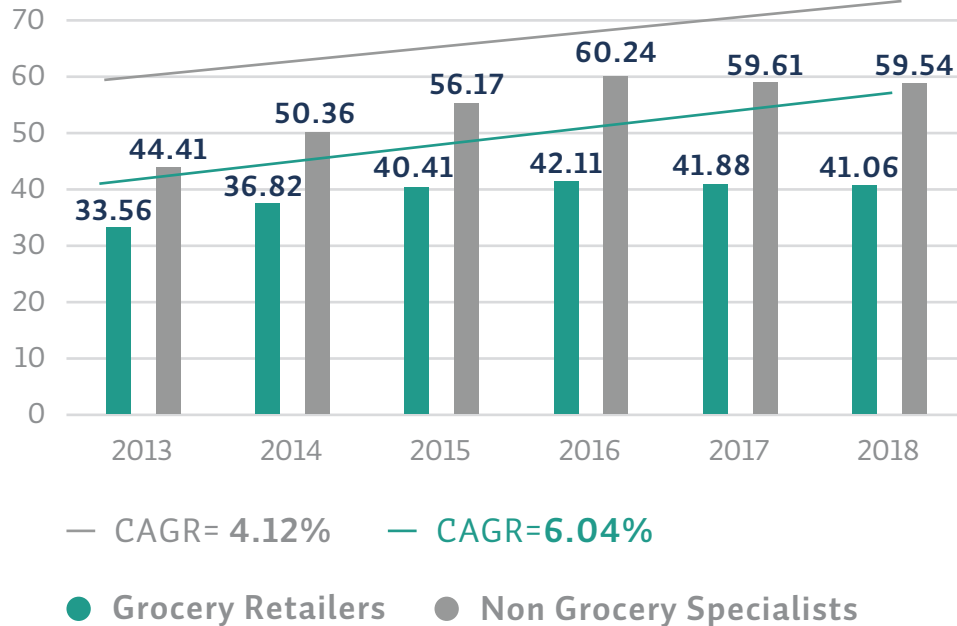


Sources: Euromonitor

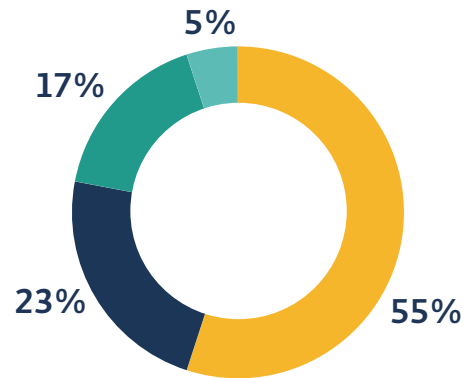
Grocery Retail Breakdown in KSA



2018 Total Retail Market in KSA – \$105.9 billion



Grocery Market Breakdown



- Hypermarkets
- Supermarkets
- Traditional grocery retailers
- Other

Food & drink internet retailing accounted for:

- 2.26% of total internet retailing
- 0.13% of total grocery retailing

- Non-grocery is defined as the sale of non-grocery products to the general public for personal or household consumption. Non-grocery includes all personal or household goods except those listed under grocery products, with the addition of automotive and automotive parts and fuel.
- Grocery is defined as the sale of grocery products to the general public for personal or household consumption. Grocery includes the following categories: fresh food; packaged food; hot drinks; soft drinks; alcoholic drinks; tobacco; cosmetics and toiletries; disposable paper products; household care; otc healthcare; pet food and pet care products.

Sources: Euromonitor

Looking ahead

With growing smartphone penetration rates, growth for e-grocery will be spread across the region with faster adoption from the more remote areas. This will no doubt present logistical issues in reaching these customers, but if these hurdles can be overcome, consumers with limited choice in their immediate vicinity will be more likely to take advantage of the wider array of goods and order online.

The high food spend, price insensitivity in the GCC, large basket sizes and proven food tech sector make the MENA region an incredibly attractive market for e-groceries. As local players develop their proof of concept, international players will likely attempt to take their slice. Leading the way might be Amazon, having acquired Whole Foods and establishing their presence in the region via its acquisition of Souq.com, Amazon already has the basic infrastructure to become an e-grocery player in the Middle East. Its main rival in the region, Noon, already offers some basic non-perishable food items online and if it were to expand its services to a full e-grocery offering, it can spark a price war with Amazon that may very well cannibalise the local players and push down margins.





BENCHMARKING PLAYERS IN MENA

We have analysed the performance of several key players in the e-grocery space in the region, below are the case studies that highlight the differences in the business models.








Key Players Globally

Players in wholesale grocery shopping

Pure Play business models also incorporate other models such as wholesale/bulk shopping or membership-based models.

-  Location
-  Investors
-  Funding History
-  Publicly available financial information
-  Business Model



-  United States
-  Membership-only warehouse club that provides wholesale grocery shopping
-  IPO in 1982
-  NASDAQ: COST
-  Revenue **\$129b** as of 2017



-  United States
-  Wholesale retailer with direct delivery of bulk-sized packages
-  **\$130m** raised
-  Bessemer Venture Partners, Eniac Ventures, Greycoft Partners, GGV Capital
-  Over **\$100m** in revenue. Valued at **\$500m** as of March 2018

Players in wholesale grocery shopping (continued)



- United States
- Retail – wholesale/bulk grocery shopping
- \$570m** raised and then later acquired by Walmart
- Walmart, Fidelity Investments, Bain Capital Ventures amongst others
- Acquired by Walmart for **\$3.3b**



- United States
- Online dollar store; discounted retail online
- \$48m** raised
- Kleiner Perkins Caufield & Byers, Index ventures, Lightspeed Venture
- Company valued at **\$200m** post their Series C raise of **\$30m**



- United States
- Membership-based e-commerce for natural and organic foods
- \$141m** raised
- Invus, Greycroft Partners, e.ventures, Cross Culture Ventures
- \$120m** in annual revenue in 2016



- UAE
- Subscription based model
- Seed funding
- Not available
- Not available



Kuwait



Wholesale membership retail store
with 4 branches



Not available












Not available





Plans to expand in the GCC region

Key Players in MENA

Marketplace

	 Location	 Launch Year	 #of SKU	 #of baqalas/ supermarkets/ hypermarkets	 Average order size(\$)	 Payment methods available on the platform	 Delivery fleet vs outsourced delivery
	Dubai	2016	35,000	150 + (Top 20 contribute 80% of sales)	\$45 - \$55	Cash on Delivery (30% - 35% of value) / Credit Card on Delivery (65% - 70%)	15-20 dedicated and growing pickers & delivery team + 'on-demand' support
	Kuwait	2016	128,000	300 baqalas, supermarket and speciality stores, 8 COOPs, 4 hypermarket chains	\$30 - \$40	Cash on Delivery (online payment is to be added soon)	Own fleet




As for  **InstaShop** Groceries made easy  **ZadFrsh**  **wadi**

Average order size (\$)	Margin	Payment method
 \$25 - \$40	 Low (2% - 5%)	 Credit card/Cash on delivery

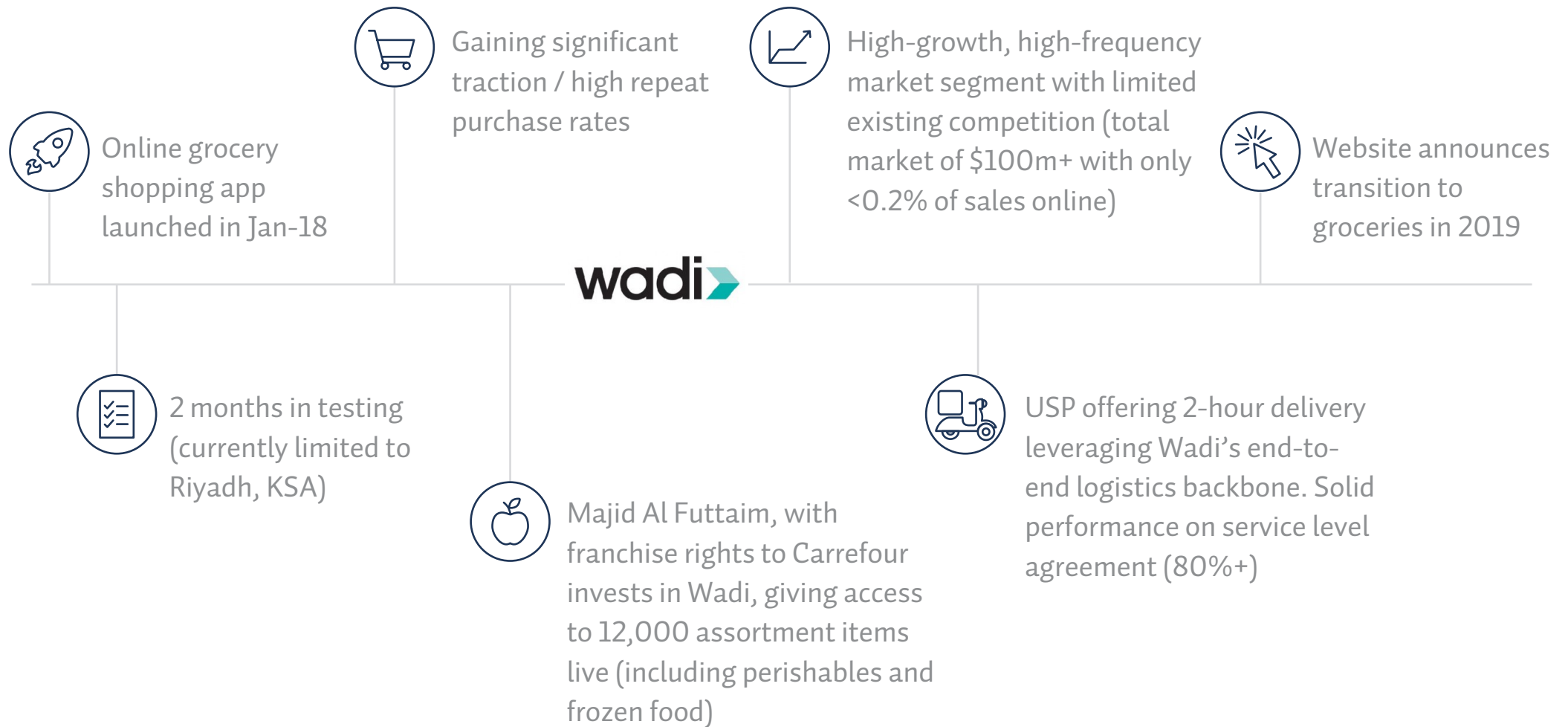
Pure Play/Wholesale

	 Location	 Launch Year	 #of SKU	 Average order size (\$)	 Year on year growth (%)	 Payment methods available on the platform	 Delivery fleet vs outsourced delivery
	(KSA) - Dammam, Dahraan, Khobar (Eastern Province) & Bahrain	2016	12,000	\$50+	900% YoY - 2017/2018	Mobile Wallets by BWallet, Benefit Pay (QR Code based payments), Cash on Delivery, Card on Delivery, Online Payment	Fully managed last mile logistics (cold storage)

As for   

Average order size (\$)	Margin	Payment method
 \$45 - \$60	 Medium (20% - 30%)	 Credit card

Wadi transition to grocery play



Conclusion

E-groceries is the most underpenetrated segment of the e-commerce market and it is likely to be the only segment that can expect growth rates of more than 100 per cent year over year for at least the next couple of years.

The majority of brick and mortar supermarkets have responded to the rapidly changing sector through acquisitions and now, acquiring or investing in e-grocery companies will be on the agenda for many. Majid Al Futtaim, the UAE-based retail giant that has the franchise rights to Carrefour in the region recently invested in Wadi.com to deliver the hypermarket's 12,000 SKUs.

There is however, still a general aversion to buying perishable goods online in the Middle East. Most consumers prefer to see, touch and gauge the freshness and quality of food for themselves. This is why many who do purchase online prefer to pay via cash on delivery (COD).

A bane of all e-commerce stores, COD is a challenge that will continue to pain every player until the region becomes more comfortable and trusting of paying upfront.

For the e-grocery stores, COD is a costlier hurdle. Customers who are not at home at time of delivery, or who refuse to pay over quality or simply change of heart, cost e-grocery companies high wastage of produce, particularly for Pure Play models. These quality checks at the door breed the need for e-grocers to control all aspects of the supply chain thus making in-house last mile delivery more requisite.

Most food damage is caused at the point of transportation and so there would be value in having professional buyers select fresh produce and perishable items from the store shelf or warehouse to ensure quality control.

Conclusion (continued)

The current frequency of order per customer and basket sizes are favourable so if operations are made efficient and delivery times are cut down and if these players can pass the trust threshold by providing a wide variety of high quality produce, then e-grocery could eventually become the main method of buying food in the region.

As this happens, there will be greater global interest in the region's e-grocery sector. This will increase investment and acquisitions leading to three to five major players before two main players will likely emerge as market leaders either through consolidation or by outpacing the rest.

