

The background of the slide is a photograph of two women in a clothing store. They are standing in front of a rack of clothes, looking at a smartphone together. The woman on the right is smiling. The store has large windows with a floral lampshade and a plant visible in the background.

Kazakhstan retail e-commerce market analysis

March 2021

Important note

PwC Kazakhstan together with the Digital Kazakhstan Association (“DKA”) presents the results of the survey “The Kazakhstani retail e-commerce* market analysis” for the period of 12 months 2019 and 12 months 2020. The leading representatives of the e-commerce market in Kazakhstan took part in the survey: Mechta.kz, Leroy Merlin Kazakhstan, Kaspi.kz, Kazpost and other respondents, who wished to remain anonymous.

The survey results reflect:

- Retail e-commerce market for 12M2020/12M2019
- Sales volumes and number of transactions
- Average spend and changes in the average spend in retail e-commerce

*The definition of retail e-commerce includes business activities associated only with the online sales of goods to individuals with delivery or pick-up from stores and pick-up points. The following categories were excluded from the calculations: sale of railway and air tickets, food delivery, ad sites, coupon services, utilities and other payments, as well as other categories not related to the sale of goods to individuals.





Natalya Lim
Partner,
Consulting services
PwC Kazakhstan

Introduction

The year 2021 has arrived. The victory over COVID-19 is yet to come. A new consciousness is being formed that determines our daily habits and needs. We are all observers and participants in a new stage, when humanity is being transformed from a consumer society into a society of conscious consumption. The pandemic has triggered not only severe economic disruptions, structural changes in lifestyles and health of people, but also gave an opportunity to accelerate the development and adaptation of digital services everywhere.

For several years now, retail e-commerce has been a rapidly growing trend both in the world and in Kazakhstan. If a year ago, online sales for many were not the main but secondary sales channel, then after 12 months of tough restrictions, lockdowns and isolation, retail players have changed their priorities. The redistribution of investments took place in favor of the development of Internet platforms, as consumers went online.

According to the analysis, the third quarter of 2020 saw the peak of the growth in online sales.

As part of our research, it was important to provide a full picture of the size of the retail e-commerce market in Kazakhstan, its development (2019 vs 2020), as well as share the results of the analysis on changes in consumer behavior driven by the COVID-19 pandemic.

All data received from market players are presented in an aggregated, depersonalized form, without disclosing the name of the respondent and comparing participants. Comments received from respondents were pre-agreed with participants prior to publication of the survey.

We sincerely thank all participants of the survey. We would like to point out that although we did not obtain permission from all of the responding companies to disclose their names, our survey included data that in our view represents 80% of the retail e-commerce market in Kazakhstan.



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Overview and research objectives

Representatives of retail e-commerce in Kazakhstan participated in the survey. Some participants of the survey provided us with detailed comments that were included in the survey report.

In order to obtain the most complete and balanced picture, the largest market players from the retail sector were involved. Our respondents include: Mechta.kz, Kaspi.kz, Leroy Merlin Kazakhstan, Kazpost and other respondents who wished to remain anonymous.

The survey analyzed data for 12 months of 2019 and 2020. The experts were invited to answer questions regarding total revenues and online sales.

In addition, respondents were asked to share their views on the development of the retail e-commerce market in 2021, trends, barriers and changes in consumer behavior that would affect the development of their businesses.

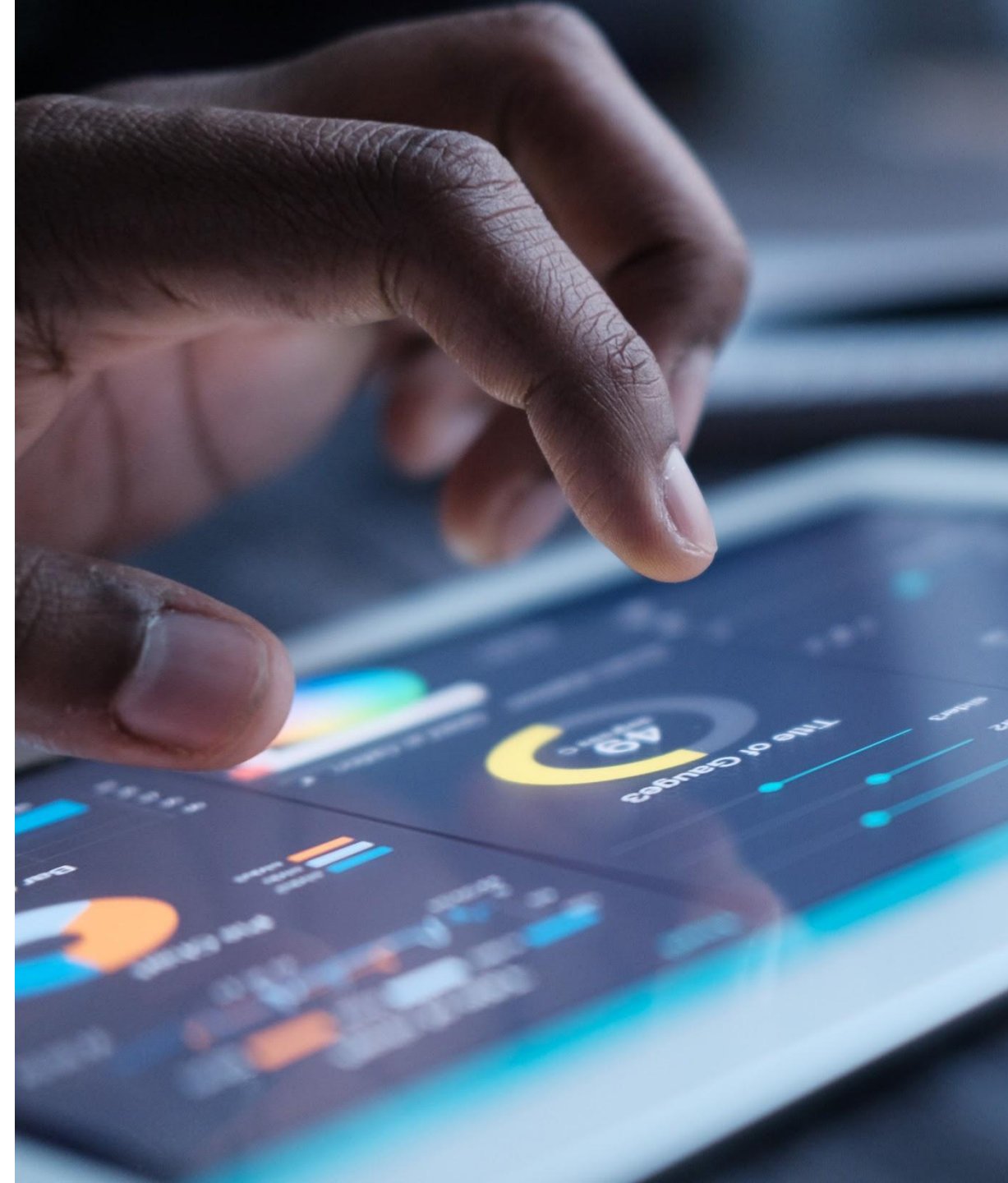
The retail e-commerce market has gained particular importance in the light of COVID-19 pandemic.

The number of external parcels via Kazpost in 12M2020 decreased by 37% (orders from outside to Kazakhstan), while the number of internal parcels increased by 22% (orders within the country) compared to the same period last year.

A noticeable drop in the number of incoming international postal items in 2020 is associated, first of all, with the increase in the cost of cross-border goods. The rise in prices for cross-border goods can be attributed to two significant factors. Firstly, from 1 January 2020, there was a 2.5-fold decrease (from 500 to 200 euros) of the threshold for duty-free import of goods for personal use. Secondly, there was the devaluation of the national currency.

We hope that this retail e-commerce analysis will be useful to all readers and interested parties.

The survey was conducted at the end of February 2021.





Approach to the analysis of survey results

The market size is calculated based on data provided by major e-commerce players and DKA.

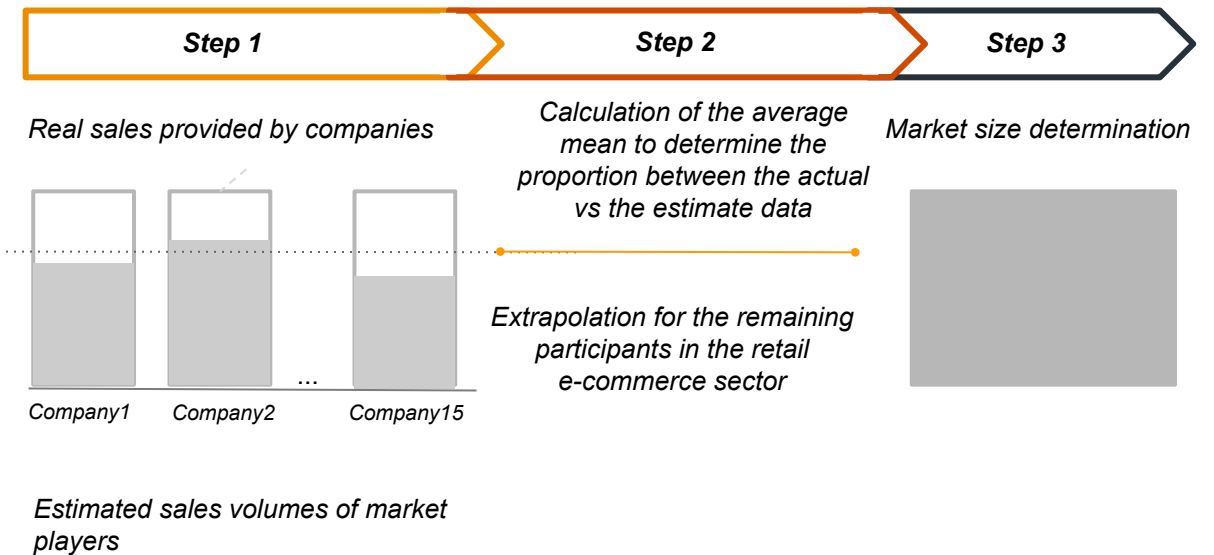
The definition of e-commerce includes business activities associated only with the online sale of goods to individuals with delivery or pick-up from stores and pick-up points. The following categories are excluded from the calculations: sale of railway and air tickets, food delivery, ad sites, coupon services, utilities and other payments, as well as other categories not related to sale of goods to individuals.

DKA provided estimated data in terms of sales of the largest e-commerce retail players.

Several major players in the e-commerce retail sector: Mechta.kz, Kaspi.kz, Leroy Merlin Kazakhstan, as well as Kazpost, which took part in the research, and other respondents who wished to remain anonymous, provided real data on revenue and the number of transactions that were used by our team to cross-check the data.

Then the ratios of real company income vs the respective estimated data from DKA were determined.

The average ratio was then used to extrapolate the data for each of the retail e-commerce players.



Key findings



Retail e-commerce market size
12M2020

596 bln

12M2019: 327 bln

KZT was the market size

Volume of sales
12M2020/12M2019

1.8 times

sales increased in KZT

Number of completed
transactions
12M2020/12M2019

20%

12M2020: 25 bln transactions

*increase in the number of
transactions*

Average spend amount
12M2020/12M2019

52%

*increase in the average
spend in KZT*

01

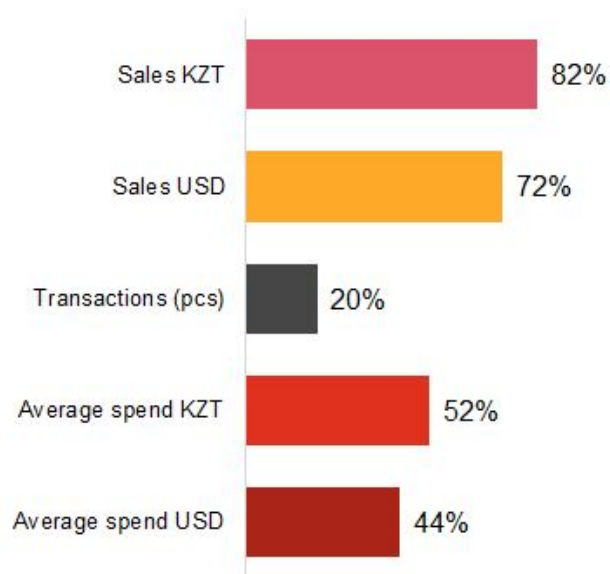
Retail e-commerce market
12M2020/12M2019



Analysis of key indicators of the retail e-commerce market

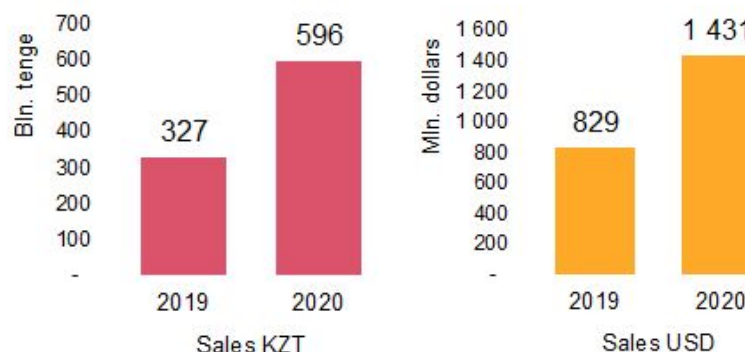
596 bln tenge
 was the size of of the Kazakhstani retail e-commerce market in 2020

Changes in key indicators comparing the period 12M2020 vs 12M2019



Source: Analysis of the e-commerce market in the Republic of Kazakhstan

Total sales for the period of 12M2019 and 12M2020



Source: Analysis of the e-commerce market in the Republic of Kazakhstan

The volume of the retail e-commerce market in 2020 increased by 82% compared to 2019, from KZT 327 bln to KZT 596 bln. Also, we observe an increase in the number of transactions (online orders) by 20%, and the average spend in KZT by 52%.

The market volume in US dollars also increased, but less than in KZT: by 72% in 12M2020 compared to 12M2019, which may indicate some devaluation of KZT against USD.

The inability to purchase goods in physical stores motivated players to improve their platforms, services, payment and delivery processes. This, in turn, contributed to an increase in consumer confidence and led to a faster development of e-commerce and an increase in the demand for purchasing goods online.



For e-commerce, 2020 has definitely been a very successful year. It has contributed to the development of e-commerce across all industries. Companies that previously had not online presence were hit hard by restrictions, quarantine and lockdown.

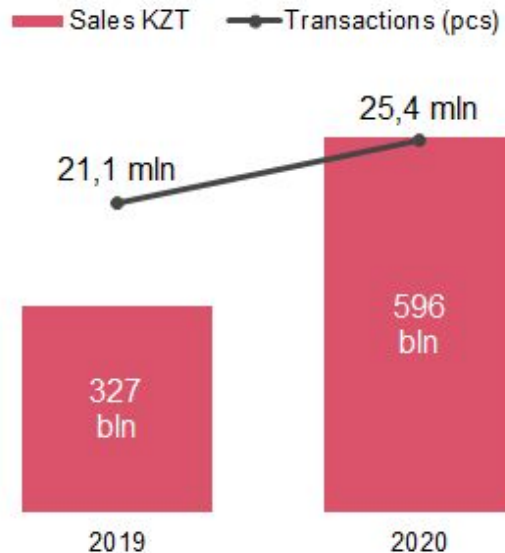
Companies that were able to adapt quickly to the situation are now successfully developing their business. As mentioned earlier, buyers have become more open to online purchases also after the restrictions were lifted.



The participants of the e-commerce market have adequately coped with the sharply increased demand for online shopping. After having a positive online shopping experience for the first time, consumers are likely to continue to make such purchases in the future. Also, the year 2020 demonstrated the potential and importance of e-commerce for retail, significantly accelerating its further development.

Kaspi.kz

Sales and number of transactions for the period of 12M2019 and 12M2020

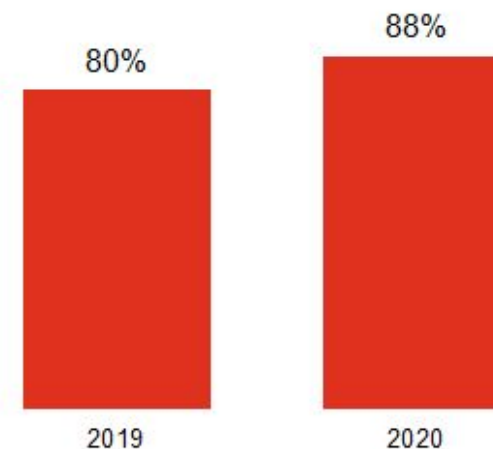


In 2020, sales increased 1.8 times, while the number of transactions increase only 1.2 times. It may be assumed that people began to make more expensive and significant purchases (e.g., electronics and household appliances), or began to order more items at a time, which is also confirmed by an increase in KZT average spend by 52%.

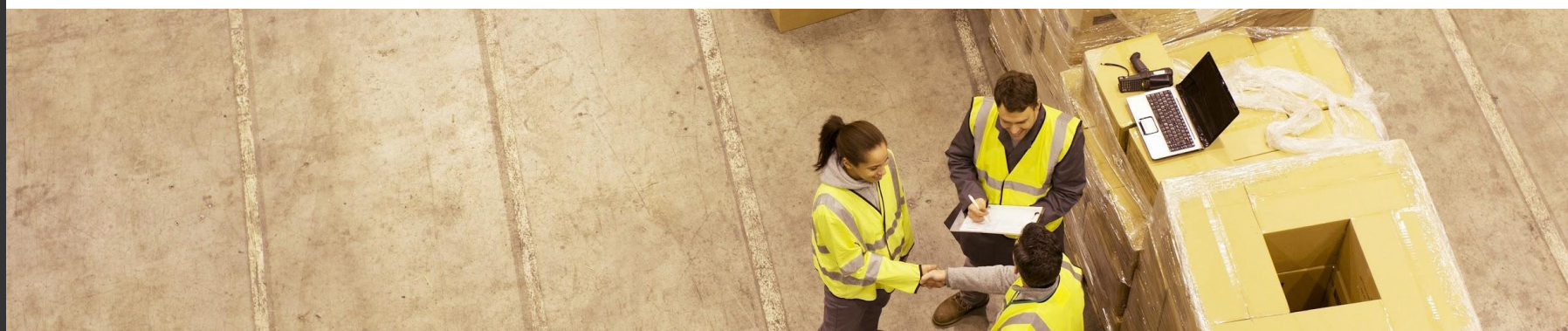
The extrapolated analysis showed that the share of online purchases made from a phone increased from 80% in 2019 to 88% in 2020.

This suggests that mobile applications and websites as e-commerce tools continue to evolve and become more user-friendly and adaptable for use on smartphones, which leads to more people using mobile phones to shop online.

Percentage of purchases made from a smartphone of the total sales for the period of 12M2019 and 12M2020



Source: Analysis of the e-commerce market in the Republic of Kazakhstan



02

Sales volume in the retail e-commerce market

Analysis of sales volume indicators

Change in sales volume by quarters in years 2019 and 2020



Source: Analysis of the e-commerce market in the Republic of Kazakhstan

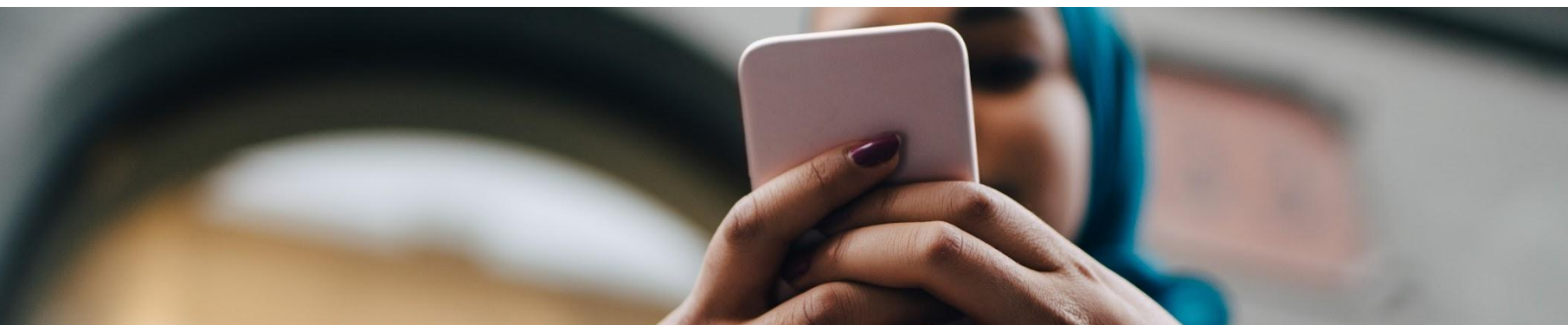
Total sales increased from KZT 327 billion in 2019 to KZT 596 billion in 2020. At the same time, the largest growth in 2020 was in the third quarter, where there was a spike in sales (65% more compared to 2Q2020), while in the same period in 2019 there was a 2% decline.

Taking into account that the peak of the first wave of the pandemic in Kazakhstan occurred approximately at the end of the second - beginning of the third quarter, it may be assumed that many players adapted their business processes to new realities through digital transformations, expanded the range of services, goods and improved the quality of service. Ordering goods has become not only more convenient and faster, but also preferable for some people.

In fact, despite the partial lifting of restrictions and lockdown, in 3Q2020 online shopping growth not only continued, but also reached its maximum quarterly growth of 65%. The significant increase in sales is most likely due to the implementation of deferred demand in 3Q2020, the desire of consumers to continue adhering to social distancing, and to comply with other quarantine measures. Moreover, perhaps during the lockdown, new patterns in consumer behavior have formed, people have begun to trust more the e-commerce and online purchases.

65%

increase in sales in 3Q2020 compared to the previous quarter





Undoubtedly, the year 2020 has been a successful year for the retail e-commerce market in Kazakhstan. Most of the population, who had never made online purchases before, reconsidered their approach and had their first experience of electronic shopping, and to a greater extent this experience was positive. Entrepreneurs changed their approach towards omnichannelling and began to pay more attention to the development of electronic sales channels and communication with customers.

Leroy Merlin Kazakhstan

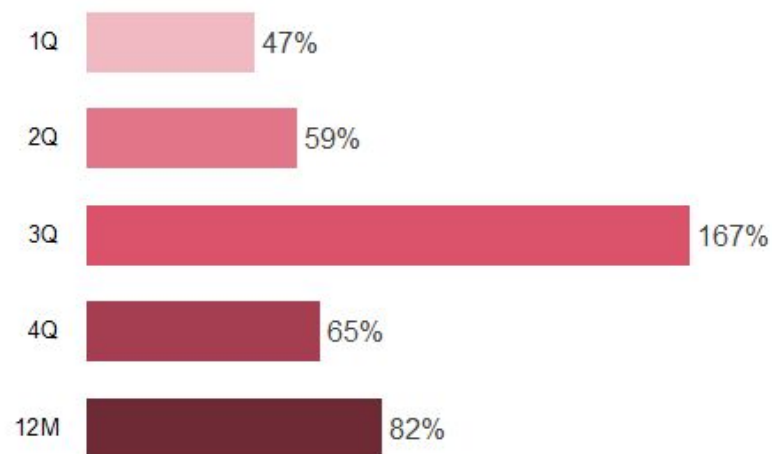
Analysis of sales volume indicators

Interestingly, the increase in sales in 4Q2020 was 15% compared to 3Q2020. Whereas in the same period in 2019, sales increased by 86%.

In the normal course of events, namely, without the awareness of the upcoming pandemic and the corresponding consequences, the fourth quarter, especially the period close to the end of the year, can be considered the eve of holidays, the season of discounts and Black Friday promotions, that is to say, a large number of people make purchases, which can explain such a significant increase in sales (by 86% in 4Q2019).

It is likely that the relatively low quarterly growth of sales in 4Q2020 (15%) is partly due not only to the aforementioned realization of deferred demand in 3Q2020, but also to the return of some consumers to traditional forms of shopping (offline) due to softening of restrictive measures and the growing uncertainty of people about financial stability. Nevertheless, the interest in online shopping persisted and sales in 4Q2020 peaked at 213 billion.

Change in sales volume in KZT by quarters and for 12M comparing 2020 vs 2019



167%

increase in sales in KZT in
3Q2020 compared to 3Q2019

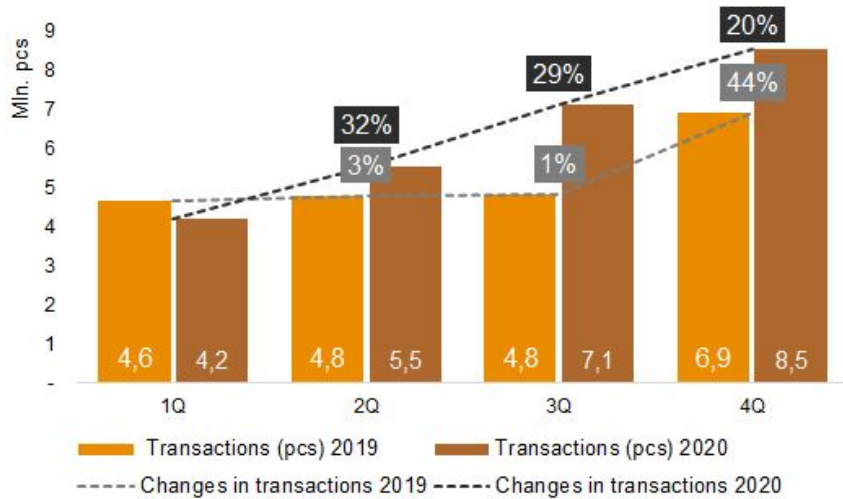
03

Number of transactions in
the retail e-commerce
market

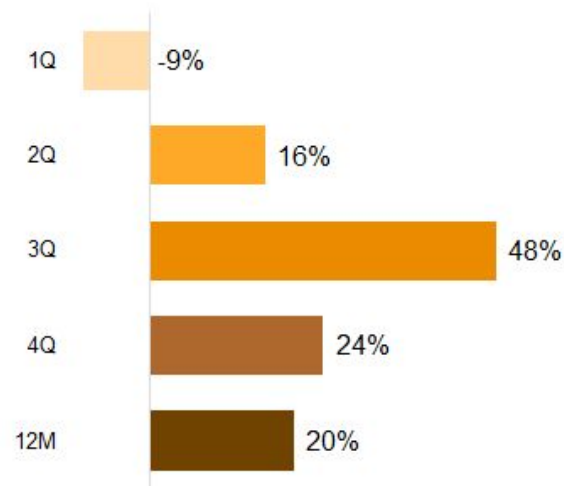


Analysis of number of transactions indicators

Change in the number of transactions by quarters in years 2019 and 2020



Change in the number of transactions by quarters and for 12M comparing 2020 vs 2019



Source: Analysis of the e-commerce market in the Republic of Kazakhstan



The year 2020 was certainly successful for the e-commerce sector, although the main factor is not the pandemic, but the formed trend of convenient and quick purchases on e-com platforms, which is facilitated, first of all, by the development of digital technologies in Kazakhstan and by government support for e-commerce.

48%

increase in the number of transactions in 3Q2020 compared to 3Q2019



Anonymous



Traffic from mobile devices has increased significantly. If at the beginning of 2020 57% of traffic came from mobile devices, then by the end of 2020 it was already 73%. This made us reconsider the adaptation of site pages to phones, we made many different changes. It is worth noting that there were changes in the checkout, which increased the conversion to a completed order by 27% due to improved adaptation for mobile devices.

Leroy Merlin Kazakhstan

Analysis of number of transactions indicators

For the most part, the trend of changes in the number of transactions is correlated with changes in the volume of sales. Namely, it may be seen that transactions in 3Q2020 increased by 29% compared to the previous quarter, while during the same period in 2019 the number of transactions increased by only 1%.

However, the deferred demand, which had a significant impact on sales in 3Q2020, did not have an equally significant impact on the increase in transactions. In 2020, a linear growth in the number of transactions is observed, while sales growth saw a spike in 3Q2020 and a noticeable decline in 4Q2020. As a result, in 4Q2020 the number of transactions reached 8.5 million, which is 48% more than in 4Q2019.

In general, in 2020, transactions increased disproportionately to the increase in sales, that is, people began to order more items or more expensive goods in one transaction, which may be due to people having more confidence in online shopping. This is also reflected in the growth of the average spend in KZT from KZT 15 thousand in 2019 to KZT 23 thousand in 2020.

20%

increase in the number of transactions in 4Q2020 compared to 3Q2020



04

Average spend in the retail e-commerce market



Analysis of average spend indicators

81%

increase in the average spend in KZT in 3Q2020 compared to 3Q2019

7%

decrease in the average spend in KZT in 4Q2020 compared to 3Q2020

“

The key change in consumer behavior has been the surge in online demand. We have connected a large number of new sellers to our marketplace, thereby expanding the range of products. We organized free shipping throughout Kazakhstan to make online shopping even more affordable for customers.



Kaspi.kz

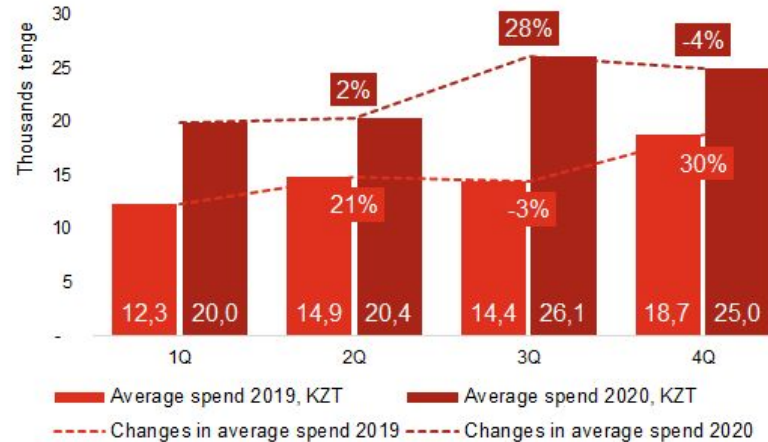


Buyers began to trust online stores more, therefore, customers who used to buy offline only, having overcome the barrier of distrust, now can make purchases online, but at the same time, many enjoy a live communication with the seller. During consultation and selection of goods, they can exchange news, opinions. Offline continues to be in demand. Choosing a product is not an easy step for the buyer, therefore we are actively working on the content and reviews, thereby helping the buyer to make the right choice.

Mechta.kz

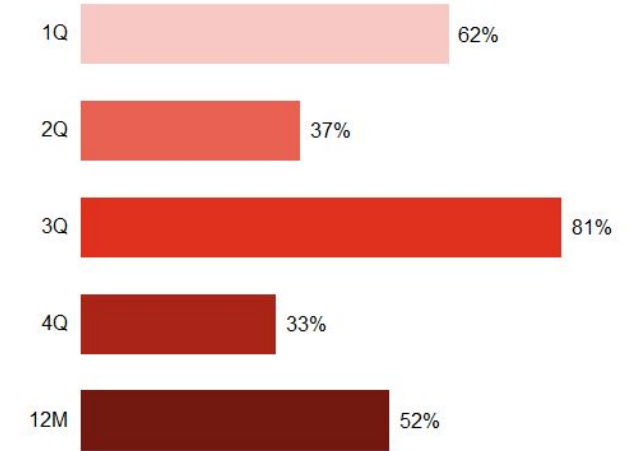
Analysis of average spend indicators

Change in the average spend amount by quarters in years 2019 and 2020



Source: Analysis of the e-commerce market in the Republic of Kazakhstan

Change in the average spend amount in KZT by quarters and for 12M comparing 2020 vs 2019



The general trend in the change of the average spend amount in 2020 repeats the trend of changes in sales and the number of transactions. In the third quarter of 2020, there is an increase in the average spend of 28% compared to the previous quarter, while in 2019, in the same period, there is a decrease of 3%.

In 4Q2020, the average spend decreased by 4%, while in 4Q2019, which we can take as a reflection of normal trends, the average spend increased by 30%.

This may be explained by the same factors that influenced the changes in the growth of sales and the number of transactions. In general, the big picture of trends shows that people began to buy more goods and for a larger amount, although the increase in the number of transactions is lower than in a similar period in 2019.



What trends do you think will be actively developing in the retail e-commerce market in 2021 in Kazakhstan?



We clearly see the trend for fast and cheap delivery, on the other hand, we see an increased interest in the B2B market, customers say that they have reconsidered their attitude to electronic purchases and began to trust the black market less, a long-term stable partnership is coming to the fore.

Leroy Merlin Kazakhstan



The arrival and development of new players, in particular those who follow the marketplace path, the more goods on the site, the more visitors it will have. Now we already see many new players entering the market and beginning to actively offer their goods online, thereby popularizing e-commerce, as a result of this the competition for the buyer will develop more strongly, and the higher the competition, the better the service will be. Also, the main trends for e-commerce can be free and fast delivery to any region of the country, an important fact is the convenience of payment on the site. Already now there are many types of payment such as Apple Pay, Samsung Pay etc., some are even starting to accept payment in Bitcoins.



We expect the following trends:

- *Small businesses will be actively involved in sales through marketplaces. The number of entrepreneurs who sell only online and through marketplaces will increase.*
- *Many entrepreneurs will expand their assortment, entering verticals that are new for them.*

Kaspi.kz

Mechta.kz

What barriers do you see to the development of retail e-commerce in Kazakhstan?



Improvement of tax legislation and rules for the operation of international payment systems will become an essential driver for the development of e-commerce in the Republic of Kazakhstan.

Anonymous



The rise in prices for cross-border goods negatively affects the development of e-commerce. Cross-border trade is the most price-dependent segment of e-commerce. At the same time, it is extremely important, both for low-income residents, allowing them to purchase quality goods at affordable prices, and for residents of remote regions, given that 90% of cross-border goods are delivered by postal operators.

Anonymous



We do not see any barriers to the development of e-commerce. Perhaps, there are few specialists in this field, but we are sure that those who want to develop will find ways to achieve their goals.

Leroy Merlin Kazakhstan



The main problem in Kazakhstan is low population density. Due to this, logistics are very expensive and complex, and the infrastructure is underdeveloped. Therefore, there are difficulties and there is no real player who can quickly and on time deliver the goods to the buyer.

Mechta.kz



We see the following areas for improvement:

- *The quality of the mobile Internet - this is especially felt in remote regions.*
- *Expansion of logistics infrastructure and an increase in the number of courier and logistics companies.*

Kaspi.kz

Thank you!

We express our gratitude to each participant in our research for their time, opinion and invaluable help in shaping the results.

We hope that the result of our joint efforts will contribute to a deeper understanding of the current processes in the development of e-commerce and in changing consumer behavior taking place in Kazakhstan.



The following persons worked on the survey:

PwC: Natalya Lim, Yerzhan Berdimbet, Janel Chadiarova, Marina Kim, Viktoriya Gorlanova

PwC contacts:

Natalya Lim
Partner, Consulting services
natalya.lim@pwc.com

Please forward your questions regarding the research and inquiries to the following persons:

Yerzhan Berdimbet
Consulting services
yerzhan.b.berdimbet@pwc.com

Janel Chadiarova
Consulting services
janel.chadiarova@pwc.com

Marina Kim
Consulting services
marina.k.kim@pwc.com

Viktoriya Gorlanova
Marketing and external relations
viktoriya.gorlanova@pwc.com



PwC offices in Kazakhstan

Almaty

“AFD” Business center, building A,
4 floor, Al-Farabi Ave., 34, Almaty,
Kazakhstan, A25D5F6
T: +7 (727) 330 32 00

Nur-Sultan

Q2 Business center, 4 floor
Kabanbay Batyr Ave., 15/1,
Esil district, Nur-Sultan, Kazakhstan,
Z05M6H9
T: +7 (7172) 55 07 07

Atyrau

“River Palace” Hotel, 2 floor,
office 10, Aiteke bi St., 55
Atyrau, Kazakhstan, 060011
T: +7 (7122) 76 30 00

Notes:



www.pwc.kz

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