Analysis of the retail e-commerce market in Kazakhstan

May 2022

pwc

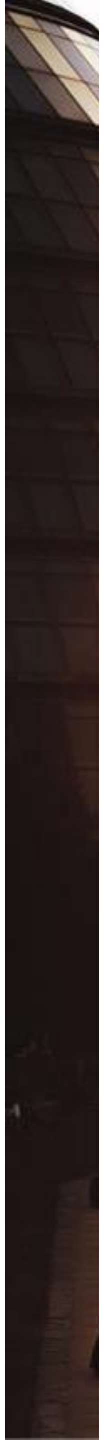
Important note

PwC Kazakhstan, together with the Digital Kazakhstan Association (“DKA”), presents the results of the study “Analysis of the retail e-commerce* market in Kazakhstan” for 12 months of 2021. The largest representatives of the e-commerce market in Kazakhstan took part in the study: Mechta.kz, AliExpress Russia, Kaspi.kz, Leroy Merlin Kazakhstan, Halyk Market, Ozon Marketplace in Kazakhstan and other respondents who wished to maintain confidentiality.

The survey results reflect:

- Overview of the retail e-commerce market for 12M2021
- Sales volumes and number of transactions
- The average spend and changes in the average spend

*The definition of retail e-commerce includes business activities related only to the online sale of goods to individuals with delivery or pickup from stores and pickup 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 the sale of goods to individuals.



Introduction

Natalya Lim

Partner,
Leader of Advisory practice in Eurasian region

In 2021, the retail e-commerce market in Kazakhstan exceeded KZT 1 trillion. This is truly a momentous event. For 2 years (2020-2021), the market has risen from KZT 327 billion (in 2019) to more than one trillion tenge. We wrote that the consumer began to value time and safety, which significantly influenced the format of doing business (everyone practically switched to online). Moreover, the business itself has realized that online is much more efficient in terms of costs and coverage.

In 2021, we noted that consumers have become more rational. They spend less, and save more, even though the average spend is growing from year to year in the KZT equivalent. The year 2021 can be called a period of transition or transformation of preferences, whereas, in 2022, we expect deeper rationality. Everyone is used to online work “from home” and online shopping. It's easier, cheaper and more convenient.

For our part, we would like to note that the active development of local market players, the willingness and desire of buyers to make purchases online, government support for the development of e-commerce and the growth of the cashless payments market - all stimulates the development of healthy competition and attracts foreign players to the market of Kazakhstan. The combination of these factors has a positive effect on the economy and investment potential of the country.

The average quarterly sales growth in 2021 was approximately 20%. In 2021, there were 37 million transactions, which is 45% higher than in 2020, and the average spend amounted to KZT 28 thousand, which is 20% higher compared with the previous year.

The share of marketplaces in Kazakhstan follows the global trend in e-commerce, and, according to our estimates, amounted to about 82% of the total sales in the country.

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 before publication of the study.

We sincerely thank all the participants in the study. We would like to note that while we did not obtain permission from all of the respondent companies to disclose their names, our study included data that we believe represents 85% of the retail e-commerce market in Kazakhstan.

Overview and objectives of the study

Representatives of retail e-commerce in Kazakhstan took part in the survey. Some participants in the study provided us with detailed comments that were included in the content of the study.

To give a fuller and weighted picture, the largest market players from the retail sector and second-tier banks were involved. Among our respondents were Mechta.kz, AliExpress Russia, Kaspi.kz, Leroy Merlin Kazakhstan, Halyk Market, Ozon Marketplace in Kazakhstan and other respondents who wished to maintain confidentiality.

The study analyzed data for 12 months of 2021. The experts were asked to answer questions regarding the total volume and number of online sales.

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

Since the release of our first report in 2020 on the retail e-commerce market in Kazakhstan, which began with an analysis for 9M2019 vs 9M2020, we have been working with aggregated data, where we provide the most important figures and facts, so that each interested reader could quickly familiarize himself with the main trends and figures in plain language.

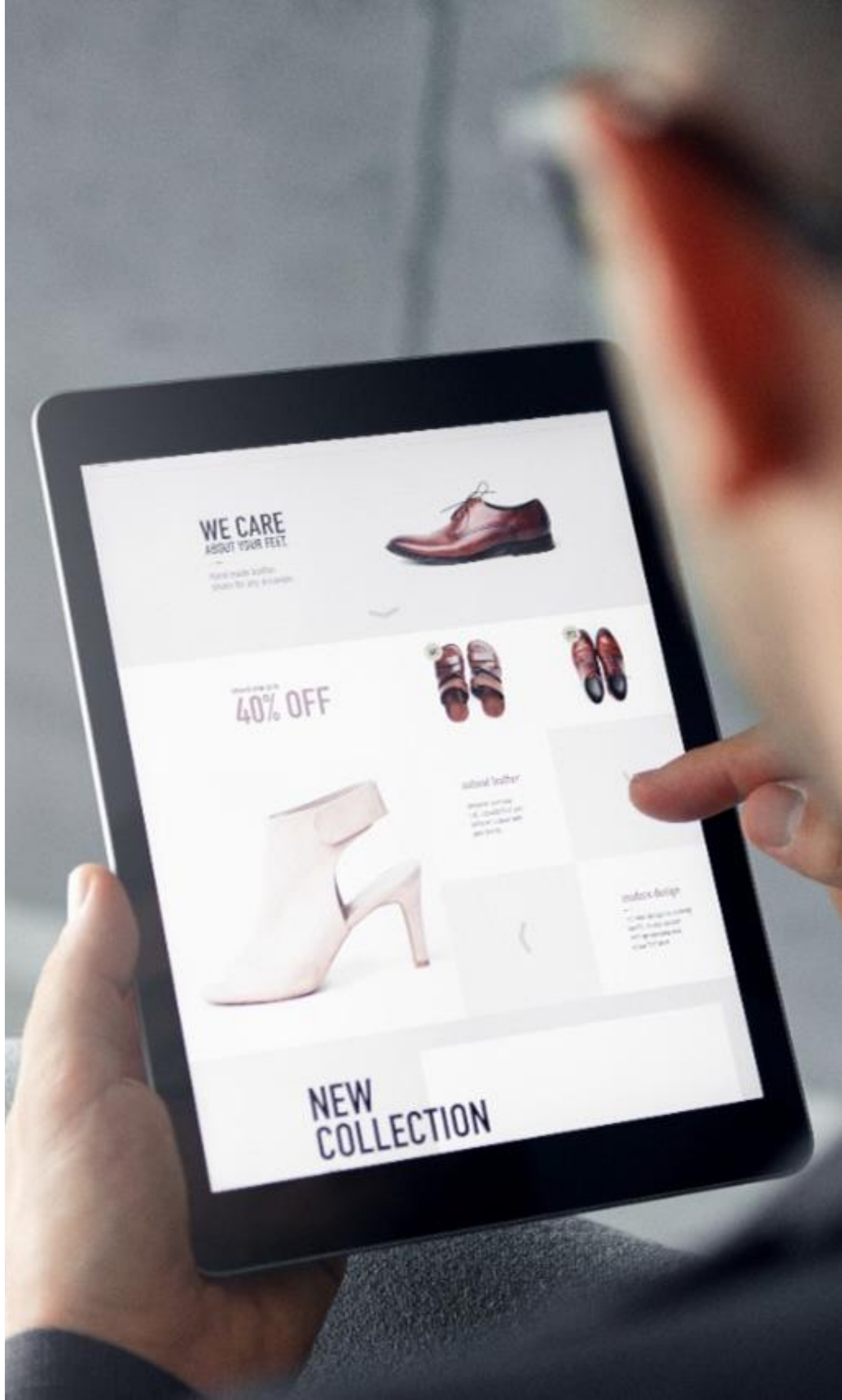
However, we are receiving many requests from readers of our report asking for more details to be added to the analysis, including macroeconomics and payment indicators.

Therefore, for all those who would like to access enhanced analytics, we have developed a dashboard tool (E-com Dash) where you can compare data interactively across different periods using filters to get different perspectives based on aggregated data of the current analysis, data from other public PwC analyses and public information. E-com Dash will be publicly available to any user until October 2022.

If you are interested in E-com Dash, please contact Marina Kim (marina.k.kim@pwc.com) or Viktoriya Gorlanova (viktoriya.gorlanova@pwc.com).

Important note: E-com Dash will be provided to all participants in the retail e-commerce analysis free of charge permanently.

The survey for the preparation of this report was conducted in March and April 2022.



Contents

Research methodology

The market volume is calculated based on data provided by the main e-commerce players, DKA, as well as some second-tier banks of the Republic of Kazakhstan.

The definition of "electronic commerce" includes entrepreneurial activity associated only with the online sale of goods to individuals with delivery or pickup from stores and points of issue. The following categories are excluded from the calculations: the sale of railway and air tickets, food delivery, ad sites, coupon services, utility and other payments, as well as other categories not related to the sale of goods to individuals.

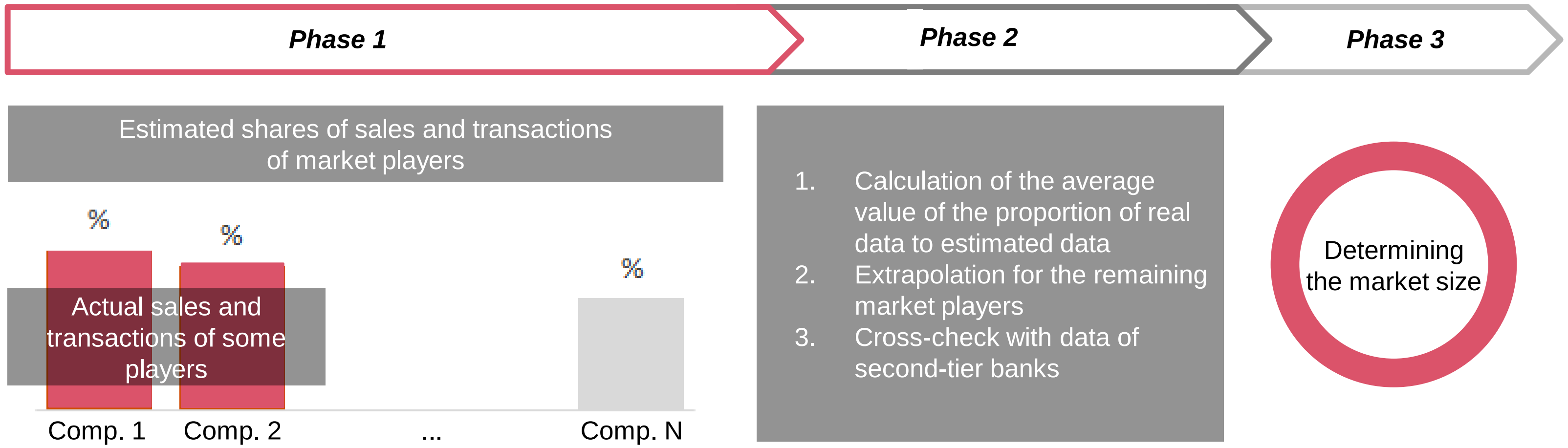
DKA provided estimated sales data for the largest retail e-commerce players.

Several major players in the e-commerce retail sector provided real data on sales and transactions.

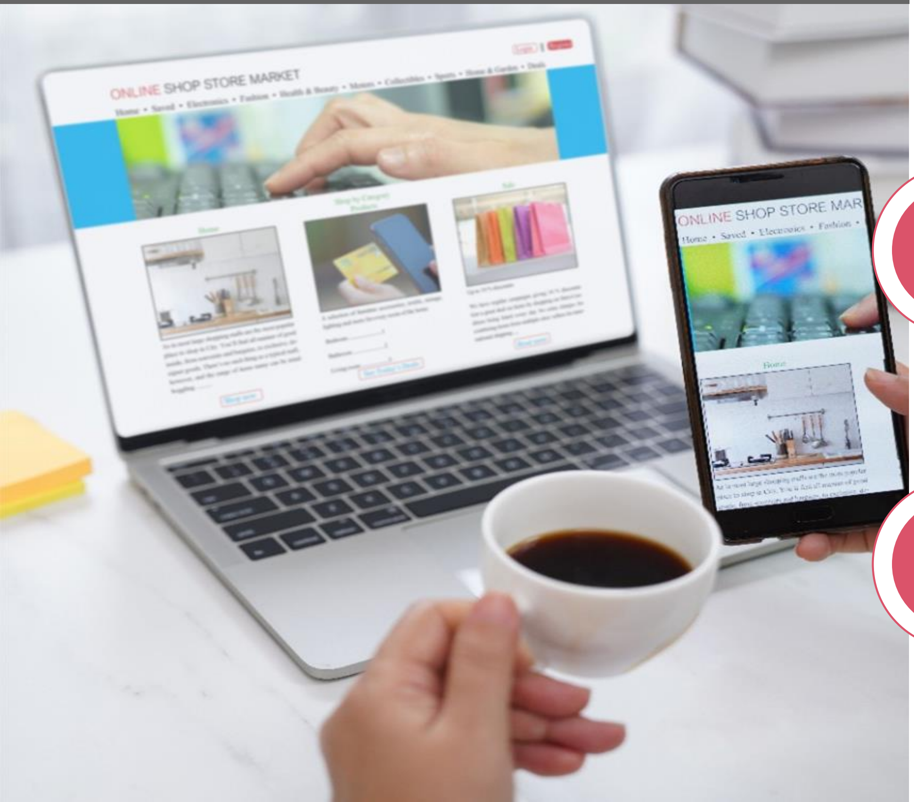
Further, the shares of the ratio of real data of companies to the estimated data of DKA were determined. The average value of the shares is then used to extrapolate data for each player in the retail e-commerce sector.

Afterwards, the figures are cross-checked with aggregated data from some of the second-tier banks that participated in the study. In case of discrepancies, the shares are adjusted and, as a result, the volume of the retail e-commerce market is derived.

Note: In this issue, data for first half year of 2021 has been partly adjusted as a result of recalculating figures since we have received updated data during preparation of this issue.



Key findings



1 The size of the retail e-commerce market

2019	2020	**2021**
- (KZT 327 bln)	+82% (KZT 596 bln)	**+75% (KZT 1,040 bln)**

2 Number of completed retail e-commerce transactions

2019	2020	**2021**
- (21 mln units)	+20% (25 mln units)	**+45% (37 mln units)**

3 Average spend amount

2019	2020	**2021**
- (KZT 15.5 thous.)	+52% (KZT 23.5 thous.)	**+20% (KZT 28.2 thous.)**

4 Share of marketplace sales from total retail e-commerce sales in Kazakhstan

2019	2020	**2021**
-	-	**82%**

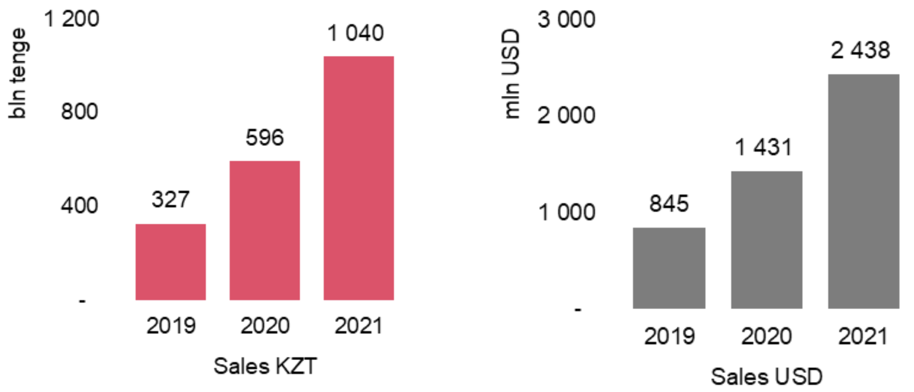
01

Retail e-commerce market for 12M2021

over **1** trl KZT

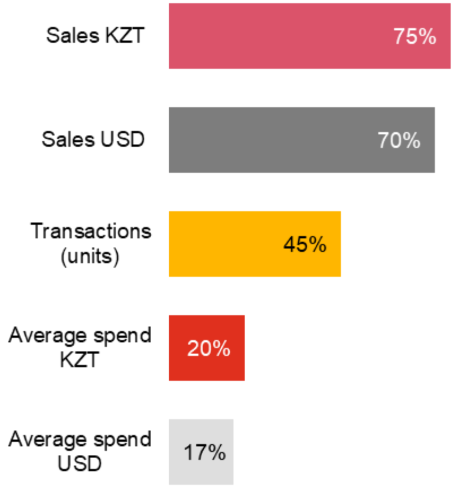
was the size of the retail e-commerce market in Kazakhstan in 2021

Total sales for 2019, 2020 and 2021



Source: Analysis of the retail e-commerce market in RK

Changes in key indicators for the period of 12M2021 compared to 12M2020



The e-commerce retail market in Kazakhstan continued to grow significantly in 2021, amounting to over KZT 1 trillion, which is 75% more than the market size in 2020 or 3 times more than in 2019.

However, if we consider the annual change, we can say that the market growth rate has slowed down: for example, in 2020 the market volume increased by about 82% compared to 2019.

Comparing the semi-annual changes, we may observe an interesting trend - the market volume during 6M2021 grew by only 7% compared to the previous half of the year (i.e., to the second half of 2020).

The number of transactions also increased by 45% compared to 2020 and amounted to more than 37 million transactions, while the average spend in KZT increased by 20% (for comparison, in 2020 the increase in the average spend was more than 50% compared to 2019).

“

Representatives of small businesses in Kazakhstan are actively involved in sales through marketplaces, for them, this is a unique opportunity to develop their business and increase sales.
The number of sellers on Kaspi.kz increased more than 5 times within a year.
Buyers began to purchase more everyday goods - food, and household goods, which increased the requirements for speed and convenience of delivery.
This year, we have launched the express delivery in 3 hours and a network of Kaspi Postomat devices, where you can pick up goods at a convenient time.

Kaspi.kz

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Kazakhstan has managed to create a fertile ground for the development of e-commerce. We can emphasize the affordability of the Internet, digitized identification processes that ensure the security for all participants, and a positive investment climate. Considering these factors, we still have a relatively low share of e-commerce from total retail sales and there is a room for growth.

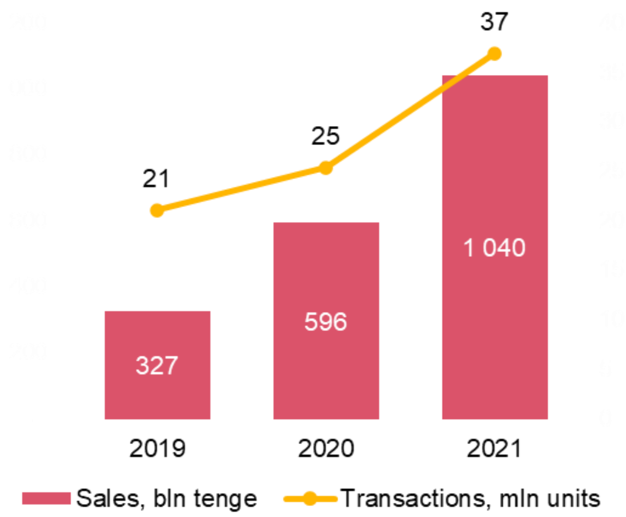
Halyk Market

Analyzing the big picture of annual changes in sales volume and the number of transactions, one can observe an increase in both indicators. However, the growth in the number of transactions was 45%, while sales grew by 75% in a similar period. This explains the continued growth of the average spend in 2021.

Such a trend can be partly due to the fact that in 2020 people still had the need to shop online due to quarantine restrictions. As a consequence, the average spend in 2020 increased by more than 50%, since people began to make larger purchases, such as furniture and household appliances.

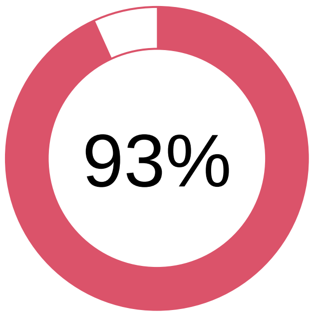
In 2021, with the decrease in the impact of the pandemic and the gradual transition to normal life, one can observe the return of consumer habits to buying more expensive goods offline, which affected the decrease in the growth of the average spend in 2021 compared to 2020. The average spend was also affected by the increase in the number of players in the retail e-commerce market, which led to more opportunities to compare and choose the lowest prices.

Sales and number of transactions for periods



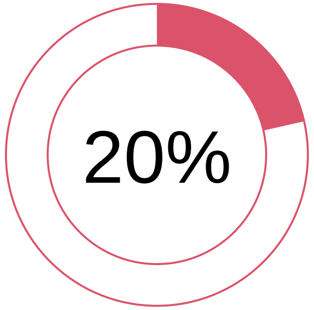
Source: Analysis of the retail e-commerce market in RK

Purchases via a smartphone in 2021



Percentage of smartphone purchases from total sales during 12M2021

Increase in the average spend KZT when purchasing via a smartphone during 12M2021 compared to 12M2020



Source: Analysis of the retail e-commerce market in RK

The pandemic has brought the retail e-commerce market in Kazakhstan to a new level. Mobile applications of marketplaces and online stores continue to evolve, become more convenient to use and offer even more categories of goods.

This is also evidenced by the results of the analysis showing an approximate share of purchases via mobile devices at 93% during 12M2021. By comparison, during 6M2021, mobile shopping accounted for 91% of total sales.

The average spend for mobile purchases in 2021 also increased compared to 2020. The increase in the average spend amounted to 20% (in 2020, the annual increase in the average spend was 12% compared to 2019).

02

Sales volumes of the retail e-commerce market

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The boom in the development of the e-commerce market in Kazakhstan occurred in the last 2 years. Several years of the pandemic stimulated the development of the industry, people began to form the habit of buying goods online. We see growth dynamics, the number of online orders on our site is growing steadily. For example, in January 2022, sales of electronics on our site increased 5 times compared to January 2021, clothes - by 7 times, and household goods - by 8 times.

Considering this rapid growth of the market, many foreign marketplaces began to enter the market in Kazakhstan. At the end of 2021, the share of e-commerce in the total retail trade in Kazakhstan approximated to 11%. The share of the e-commerce sector in other countries, such as China, and the UK, reaches 30% or more. The market in Kazakhstan is at the stage of development, now is the best time to find your niche.

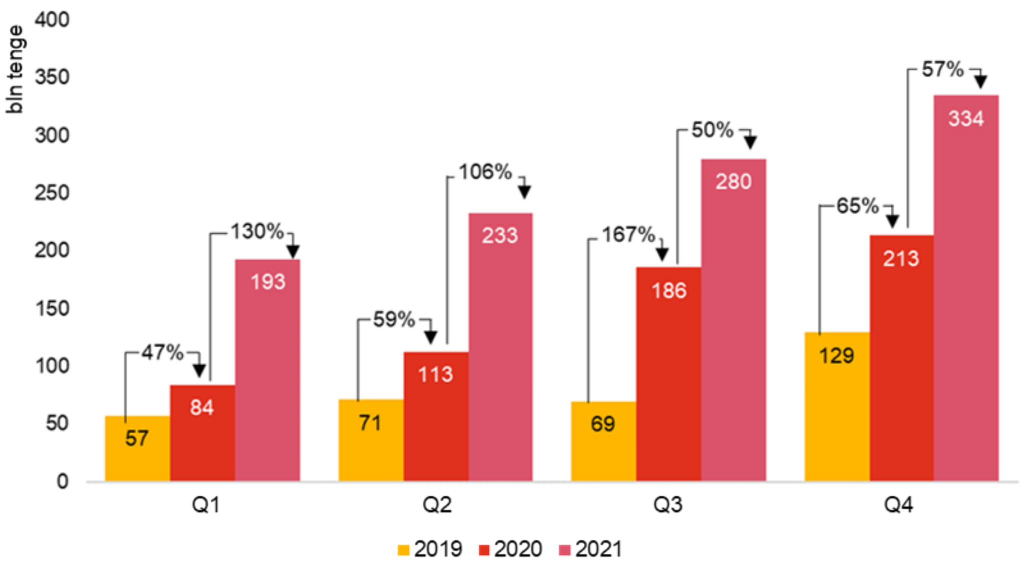
Ozon Marketplace in Kazakhstan

Analyzing the market over the past year, one can observe that 2021 began with a 9% decrease in total sales in 1Q2021 compared to 4Q2020, which is in line with the normal trends of previous years when consumer activity decreases after the holiday seasons. Starting from 2Q2021, the sales volume is growing evenly at an average of 20% quarterly.

However, a 20% sales growth in 4Q2021 can be called relatively modest per our expectations. Since 2019, the sales growth in 4Q2019 amounted to 86% compared to 3Q. In 2020, due to the pent-up demand, consumers purchased most of the goods in 3Q2020 (therefore, 3Q growth was 65% from last year, and 4Q-3Q sales growth in 2020 was 15%). Therefore, estimating the sales growth in 4Q2021 (despite the period of the largest promotions, discounts, and New Year holidays) at only 20%, we explain [1] by adjusted consumption, which has changed over the two years of the pandemic due to priorities, including a greater propensity to save (thus, the deposit base of individuals at the end of 2021 increased by 22.7% compared to 31 December 2020 at the end of the day), and [2] by the easing of quarantine restrictions, which affected the transition of some buyers to offline, especially during holidays.

Another interesting trend can be noted - in 1Q and 2Q2021, the sales growth relative to the same periods in 2020 was much more significant (130% and 106%, respectively) than the growth in 3Q and 4Q2021 (50% and 57%, respectively). This may be partly driven by the start of the pandemic in the first half of 2020 and pent-up demand in the second half of 2020. The implication is that in 2021 there is an even greater normalization of demand and adaptation to new market trends set by the Covid shock. In 2022, we expect an even greater correction in demand already due to the rise in inflation and decline in earnings.

Change in sales volume in KZT by quarters and comparing 2019, 2020 and 2021

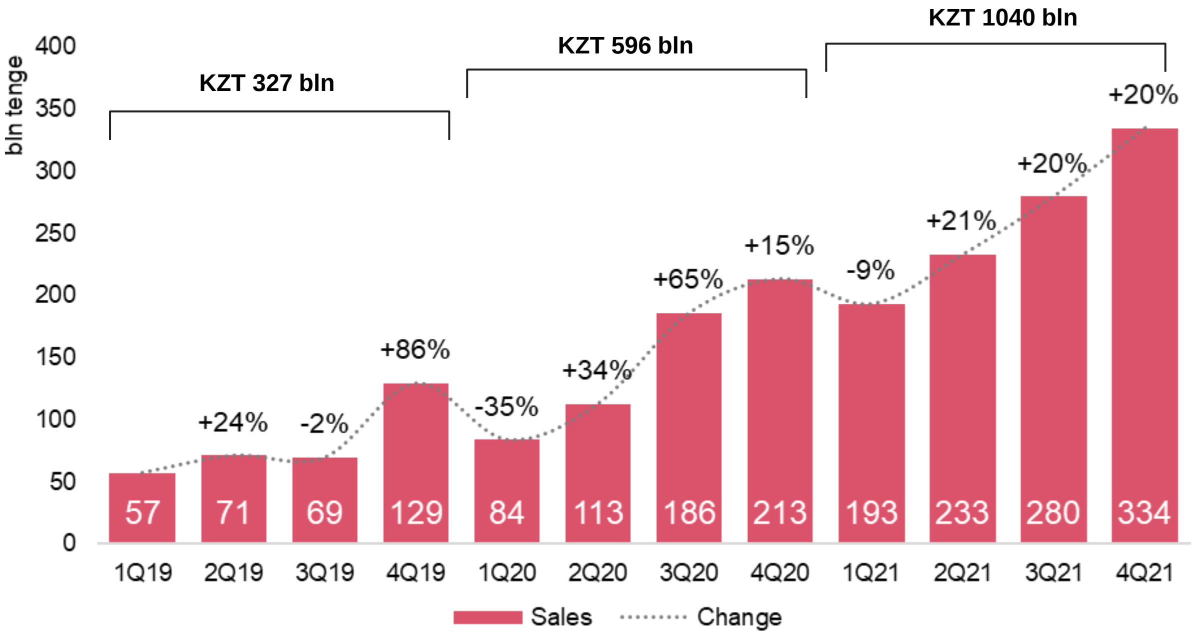


Source: Analysis of the retail e-commerce market in RK

334 bln KZT

was the sales amount in 4Q2021

Change in sales dynamics by quarters



Source: Analysis of the retail e-commerce market in RK

Total sales for the year increased by 75%, from KZT 596 billion in 2020 to KZT 1 040 billion in 2021.

It is clear that in 2020 the impact of the pandemic gave a boost to the development of e-commerce both in Kazakhstan and in the global market.

The effects of the pandemic remain an important factor influencing the development of the market, however, a significant increase in sales in 2021 can be explained by other factors.

For example, the development of new technologies in the market of non-cash payments, government support for small and medium businesses in the field of e-commerce (in the form of free training initiatives, among other things), the entry of new players into the local market, as well as the increasing export of Kazakhstani entrepreneurs to international e-commerce platforms.

20%

was the average quarterly sales increase as of 2Q2021

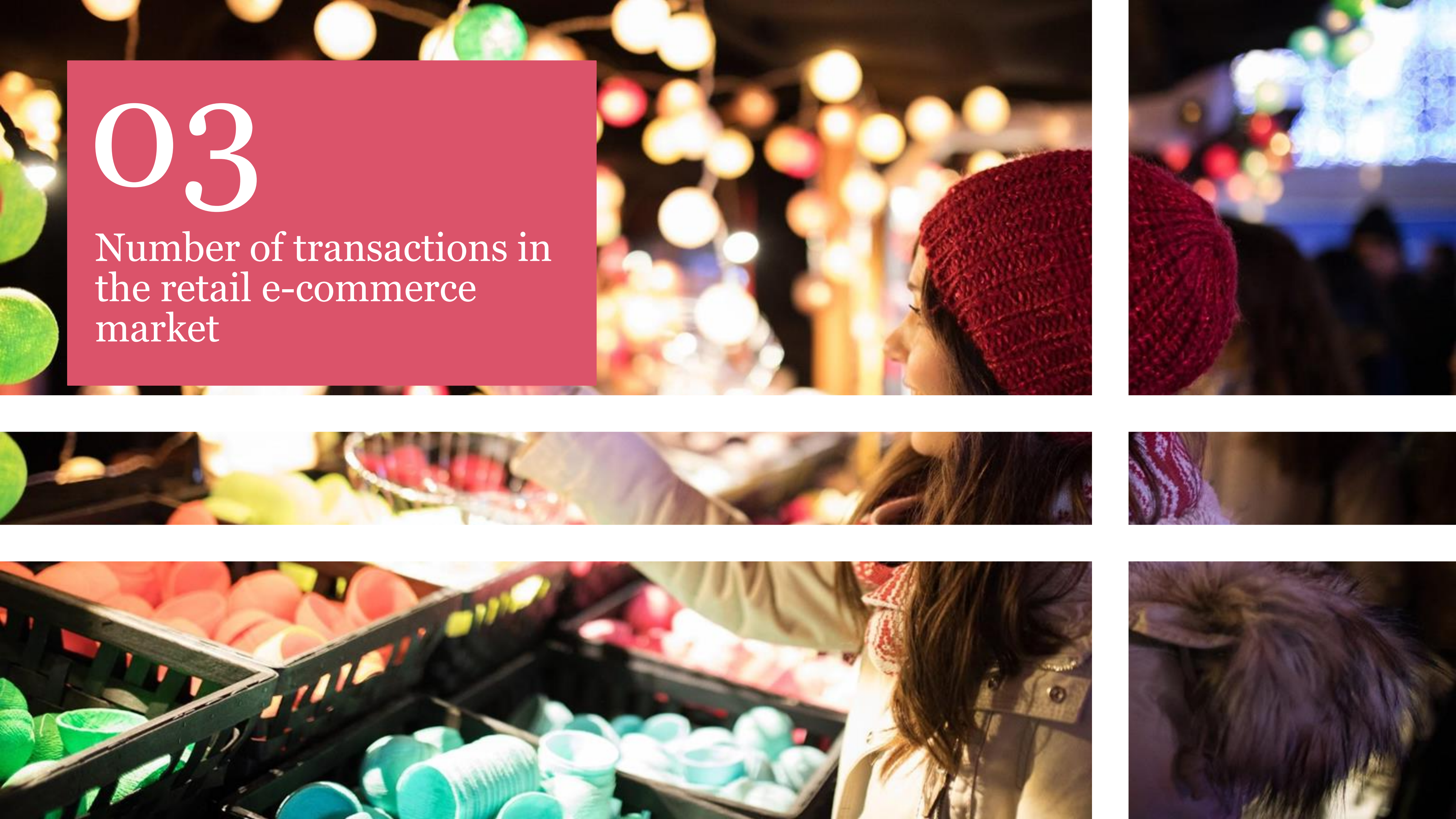
“

The market of Kazakhstan has great prospects both for trade within the country and for the export of goods of Kazakhstani companies to Russia and other EAEU countries.
Over the past year, major marketplaces have shown interest in developing the country's e-commerce.
In addition, Kazakhstan has a favorable geographical position for the development of international trade.

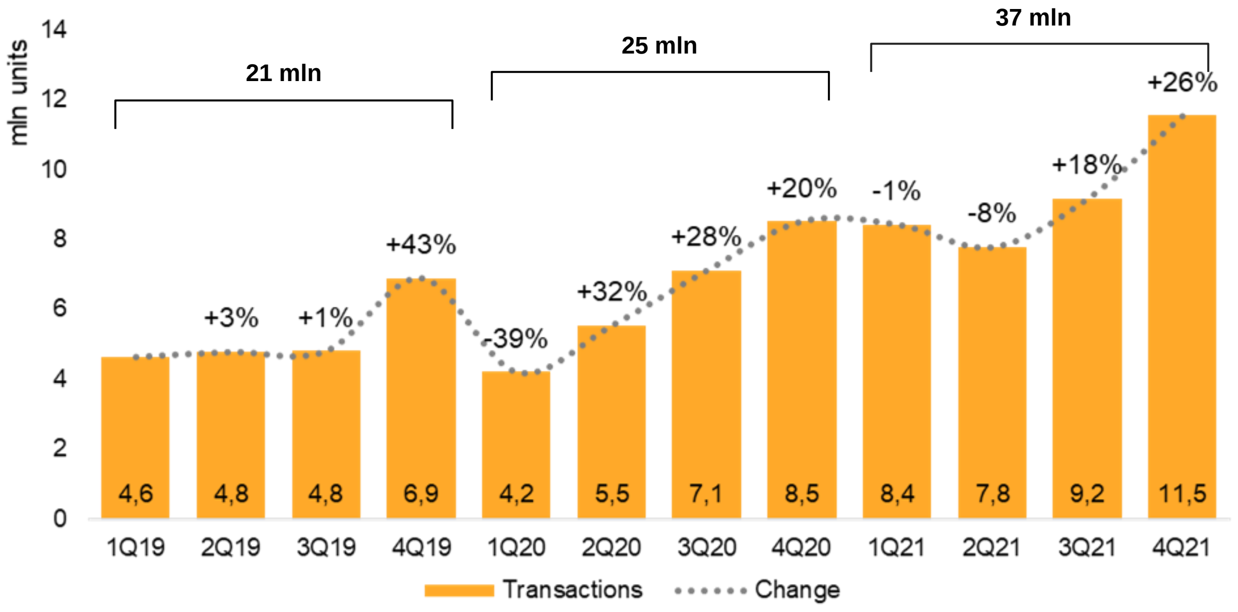
AliExpress Russia

03

Number of transactions in the retail e-commerce market



Change in number of transactions dynamics by quarters



Source: Analysis of the retail e-commerce market in RK

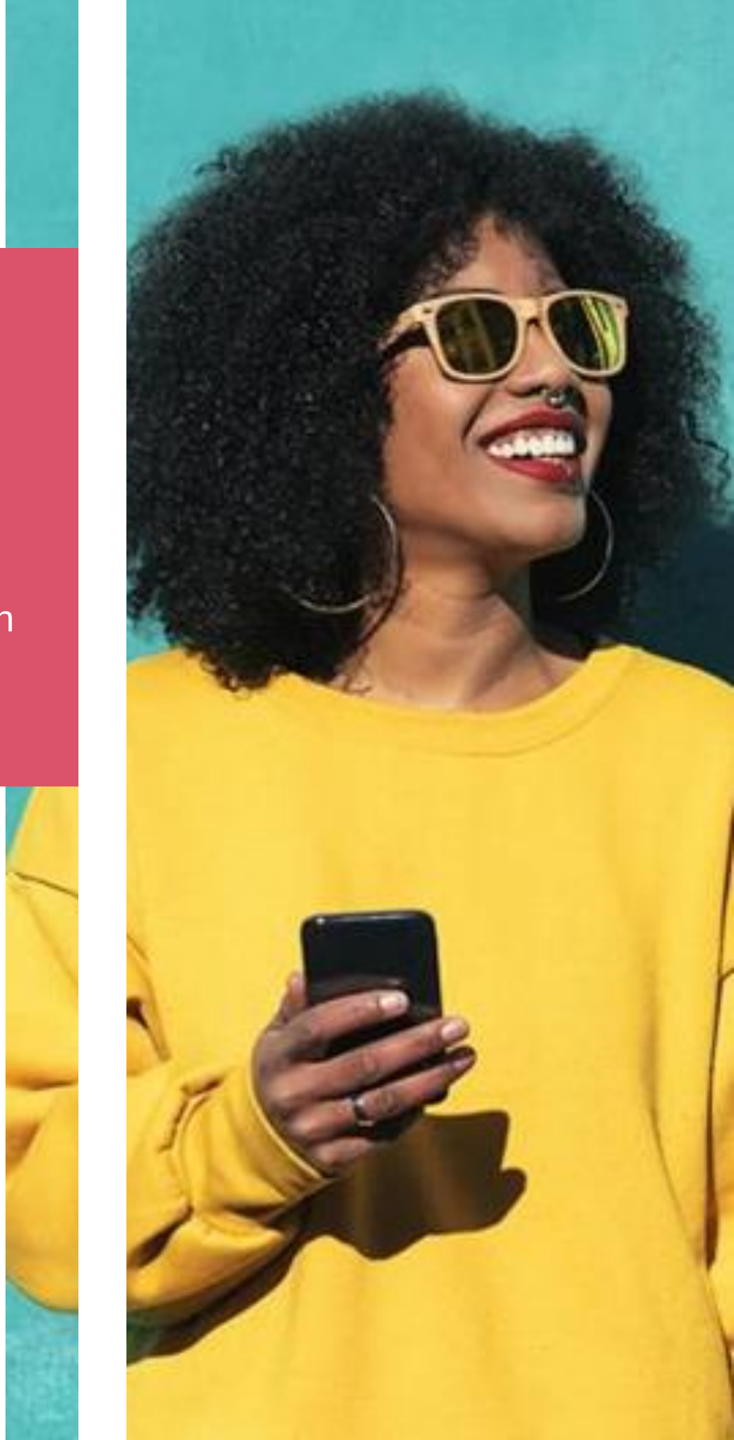
45%

was the increase in the number of transactions in 2021 compared to 2020

In general, 2021 saw an increase in the number of transactions reaching 37 million, which is 45% higher than in 2020. The trend of changes in the number of transactions correlates with changes in sales volume, except for 2Q2021, where there is an opposite trend, specifically an 8% decrease in the number of transactions and an increase in sales volume. The decrease in transactions in 2Q2021 could be partly due to factors such as the devaluation of tenge and the highest value of the monthly consumer price index in June in 2021 at 1.1%*.

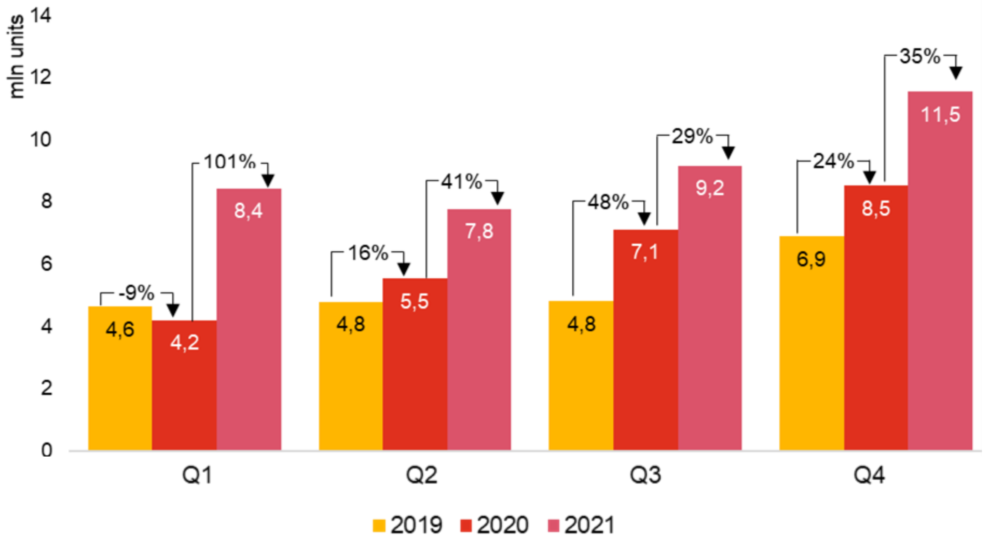
The decrease in the number of transactions at the beginning of the year is most likely due to the post-New Year period. However, the quarterly decrease in the number of transactions in 1Q2021 by 38 p.p. is less significant than in the same period in 2020.

4Q2021 saw the highest quarterly growth of 26% in transactions for 2021, which is in line with normal market trends. Meanwhile, the sales growth in 4Q2021 was 20%. This is followed by an 8% decrease in the average spend compared to the previous quarter. It follows that people began to buy fewer goods in one transaction or began to buy more low-priced goods. In any case, the growing development of logistics processes and services has had and continues to have an impact on consumer habits.



*Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan

Change in number of transactions KZT by quarters and comparing 2019, 2020 and 2021



Source: Analysis of the retail e-commerce market in RK

Going deeper into the analysis of quarterly movements, one can observe an interesting fact - the number of transactions in 1Q2021 exceeded the value of 2Q2021, which is noticeably different from the trends of previous years. The largest annual increase occurred precisely in 1Q2021 and amounted to 101% compared to the same period in 2020 and 82% compared to 1Q2019.

Consumer habits formed with the surge in online shopping due to the pandemic continue to take hold in the market. Faster delivery, improved services and customer care allow people to make frequent purchases for smaller amounts.

The results of 2021 showed that the number of transactions is higher than in the previous three years, which indicates an increase in the involvement and development of e-commerce in Kazakhstan, despite the gradual decrease in the effects of the pandemic.

101%

was the increase in number of transactions in 1Q2021 compared to 1Q2020

“

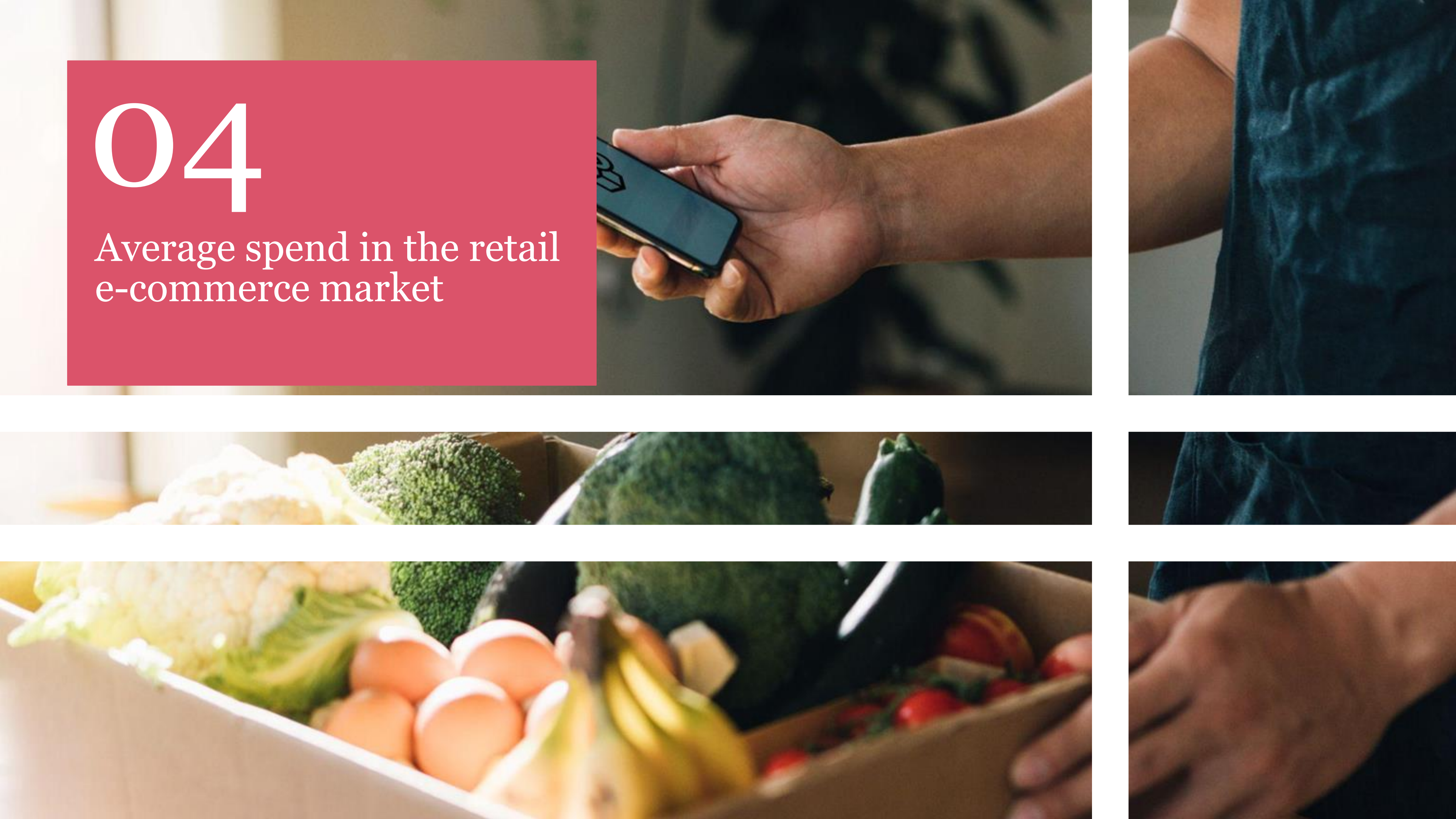
In the first half of 2021, the size of the retail e-commerce market in Kazakhstan amounted to KZT 426 billion (USD 990 million), which is about 2.2 times more than in the same period in 2020. Many analysts agree that the e-commerce sector will continue to grow rapidly.

Two years of the pandemic stimulated the development of the industry, and consumers have formed confidence in online shopping. Online shopping is gradually becoming a habit of Kazakhstan citizens. Ozon, as a major e-commerce player in Kazakhstan, will contribute to the development of local online commerce, primarily in terms of developing online entrepreneurship. We offer Kazakhstani manufacturers and sellers a platform to promote a wide variety of products - both on the local, Russian and other foreign markets.

Ozon Marketplace in Kazakhstan

04

Average spend in the retail e-commerce market



31%

was the increase in average spend KZT in 2Q2021 compared to 1Q2021

28,1 thousand

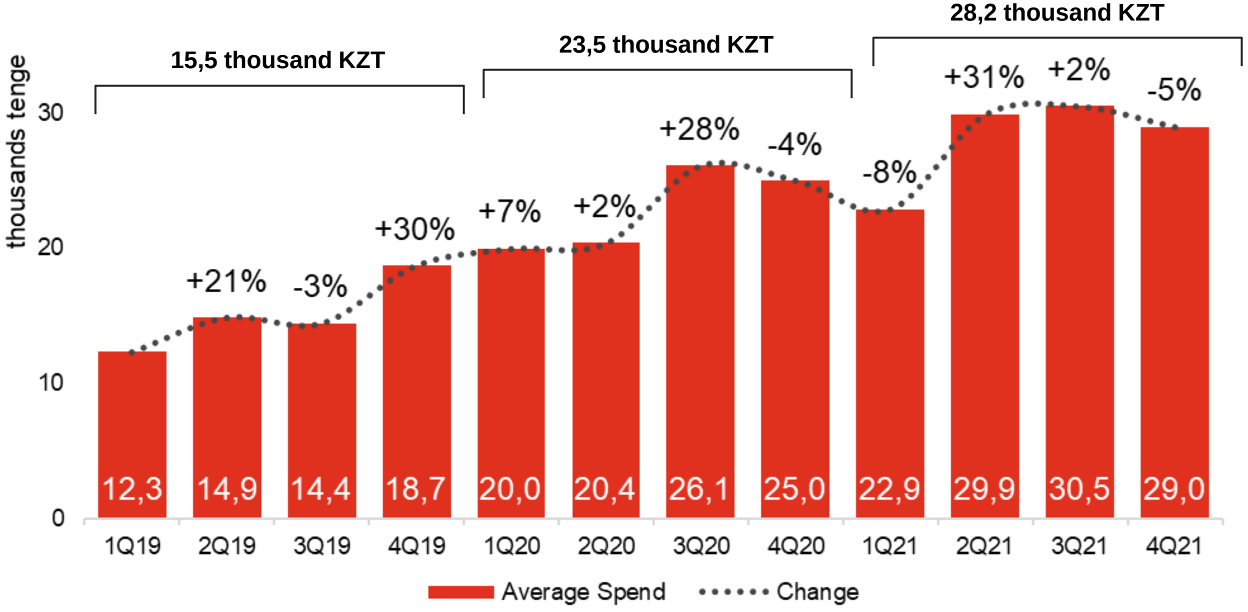
was the average spend KZT during 12M2021

"

The retail e-commerce market in Kazakhstan is becoming more attractive due to the high level of digitalization of services that allow an active development of online business projects. After the pandemic, the behaviour of customers has changed a lot in favour of online services, and we see that this trend has continued even after the easing of restrictions. The turnover of non-cash payments in e-commerce is growing every year leading to the emergence of new sites, the growth of small businesses in online channels and the growth of logistics companies that seek to meet growing demand are expected.

Halyk Market

Change in average spend KZT dynamics by quarters



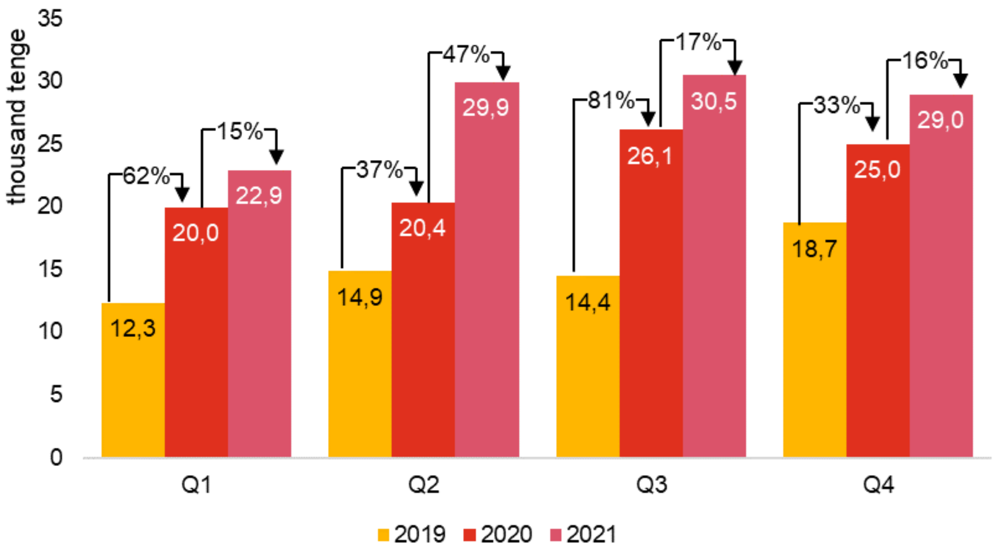
Source: Analysis of the retail e-commerce market in RK

The general trend of changes in the average spend in 2021 shows the opposite trend of changes in the number of transactions. The amount of sales throughout 2021 was growing, while the number of transactions showed a multidirectional trend, which led to such behaviour of the average spend.

In 1Q2021, was the largest drop of 8% compared to the previous quarter for the entire analyzed period (2019-2021), while in 2020 there was a quarterly increase of 7% in the same period. In 2Q2021, the quarterly increase in the average spend reached a maximum level of 31% over three years, while in 2019 and 2020 the same period showed an increase of only 21% and 2%, respectively.

The third quarter showed different dynamics over three years, which was more influenced by the consequences of the pandemic. Thus, in 3Q2021, the increase of 2% was due to an increase in the number of transactions by 18% and a stable average sales growth of 20%. It is worth noting that the patterns of change in the average spend in 3Q2021 differ from the same periods of previous years, where there was a decrease of 3% in the pre-Covid period in 3Q2019 and a strong increase of 28%, due to pent-up demand during the pandemic in 3Q2020.

Change in average spend KZT by quarters and comparing 2019, 2020 and 2021



Source: Analysis of the retail e-commerce market in RK

20%

was the increase in the average spend KZT in 2021 compared to 2020

The 5% quarterly decrease of the average spend in 4Q2021 can be seen as irregular, regardless of the fact that this trend was also observed in 2020. Under normal conditions, 4Q is a pre-New Year holiday period, when all market indicators, including the average spend, should increase (e.g., in the pre-Covid period, the average spend increased by 30% in 4Q2019 compared to 3Q2019). As we mentioned earlier, this market behaviour can be explained to some extent by the easing of quarantine measures, some buyers, if not completely offline shopping, began to buy more expensive goods on the physical sites, and there was also an adjustment in consumer behaviour (a trend towards more low-cost goods, reducing costs and increasing the share of savings).

The largest percentage growth in 2021 compared to the same period in 2020 occurred in 2Q due to an irregular decrease in transactions. In general, the last three quarters of 2021 showed that people began to buy more goods in one check or for a larger amount. Another reason for the increase in the average spend could be an increase in the cost of goods due to the devaluation of tenge, as well as an increase in inflation (annual inflation in 2019 and 2020 was 5.4% and 7.5%, respectively).

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This year, we continued to develop Kaspi Smart Logistics, the largest technological logistics platform in Kazakhstan, which unites all participants in logistics with smart routing.

More than 30 logistics companies are already connected to our platform. The logistics network covers almost all cities of RK and allows serving 6 thousand directions.

Kaspi.kz

What processes are you planning to focus on to improve the e-commerce platform and increase profits in 2022?

Our main focus for this year is on improving services for vendors, primarily for small businesses, based on our Kaspi Pay application.
Convenient payment, finance, advertising and e-commerce services combined in one application create new growth opportunities for our partners, especially small and medium businesses.
In addition, we will continue to actively expand the range of products, simplify the process of choosing goods for customers and speed up delivery."

Kaspi.kz

"The main development areas for Halyk Market in 2022 are the delivery of goods to remote areas, the launch of their own pick-up points and, in general, the promotion of e-commerce among the non-urban population. The development of logistics in remote areas will give the retail e-commerce market an additional boost for growth."

Halyk Market

"Since the beginning of last year, we have been strengthening our positions in the country by developing a marketplace platform for local entrepreneurs. In 2022, we are going to multiply the number of sellers in Kazakhstan, which will lead to an increase in the product range for local buyers and, as a result, an increase in orders and other business indicators."

Ozon Marketplace in Kazakhstan

Thank you!

We would like to express our gratitude to each participant of our study for their time, opinion and invaluable assistance 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:

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Notes