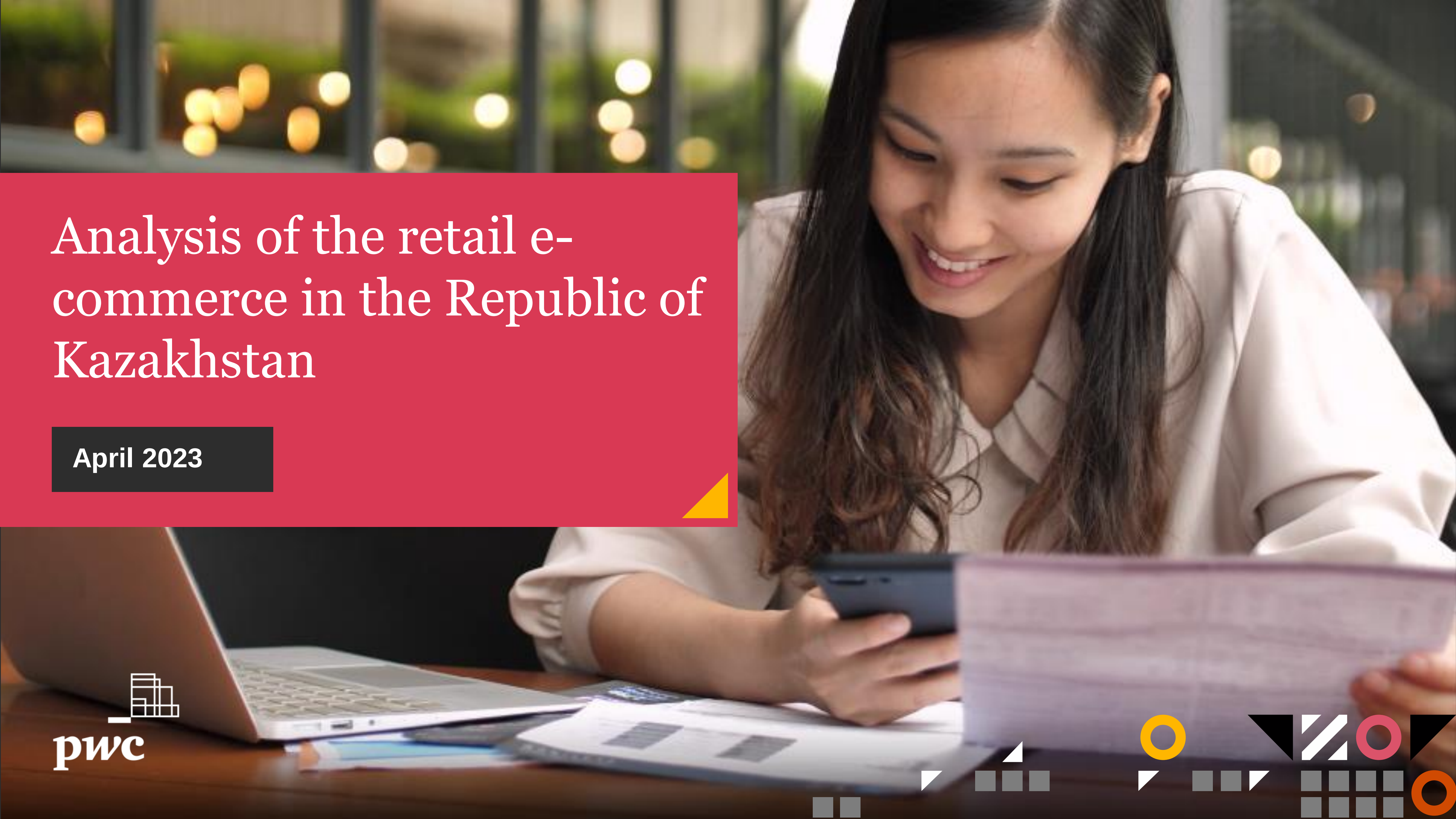


Analysis of the retail e-commerce in the Republic of Kazakhstan

April 2023

Important note

PwC Kazakhstan, together with the Digital Kazakhstan Association (“DKA”), presents the results of the study “Analysis of the retail e-commerce* in the Republic of Kazakhstan” for 12 months of 2022. The largest representatives of the e-commerce market in Kazakhstan took part in the study: Mechta.kz, Kaspi.kz, Sulpak, Halyk Market, Ozon Marketplace in Kazakhstan, ForteMarket and other respondents who wished to remain confidentiality.

The results of the study reflect:

- Overview of the retail e-commerce market for 12M2022
- 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: 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.

Introduction

Natalya Lim

Partner,
Eurasia Advisory Leader

The retail e-commerce industry has grown exponentially over the past 5 years and continues to evolve, influencing the behavior and habits of consumers around the world. Users can quickly and easily compare prices of products and services online and save time and money by avoiding physical stores. For businesses, tracking and studying the development of e-commerce is no longer just an interest but a necessary element of ongoing analytics.

Despite a rather turbulent and uncertain 2022, the events of which had an impact on almost all industries, the retail e-commerce market in Kazakhstan continued its moderate growth and amounted to KZT 1.3 trillion, which is 30% more than in the previous year. Based on our analysis, the most important factors that influenced the growth of the market were the high level of digitalization in Kazakhstan and the growing demand for online shopping among consumers. For example, according to the UN database, in 2022 Kazakhstan ranked 15th in the world in terms of e-participation (EPI) and 28th in e-government development (EGDI).
The penetration of e-commerce retail in general retail is also growing. In 2022, this figure was 8.2% (in 2021: 7.5%). The annual increase in sales from marketplaces was 32%, and sales of online stores increased by 18%. The result of our analysis also showed that local sites accounted for about 87% of total sales in 2022.

The movements in the number of transactions by quarter showed a significant difference from sales growth in 2022. The total number of transactions amounted to 49 million units, which is 33% more than in 2021. The amount of the average spend decreased by 3% and amounted to KZT 27.5 thousand in 2022, which, in our opinion, was due to an increase in transactions. It should be noted that the number of transactions depends on the cost of delivery. The average spend is influenced by the real earnings of the population (which grew in 2022 by 14% in annual terms compared to 2021), inflation (2021: 8.4%, 2022: 20.3%) and the number of transactions (2021: 36.9 million units, 2022: 49 million units). It is interesting to note that in 2022 the average transaction amount from online stores exceeded the average purchase amount from marketplaces by almost 17%, while in 2021 there was the opposite trend. The average transaction amount from local platforms in 2022 exceeded the average purchase amount from international platforms by almost 5 times.

All data received from market players is presented in an aggregated, depersonalized form, without disclosing the name of the respondent and comparing participants.

We sincerely thank all participants in the study. We would like to point out 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.

* Specified based on the new inputs from the data supplier

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.

In order to obtain the most complete and balanced picture, the largest market players from the e-retail sector and second-tier banks were involved. Among our respondents are Mechta.kz, Kaspi.kz, Sulpak, Halyk Market, Ozon Marketplace in Kazakhstan, ForteMarket and other respondents who wished to maintain their confidentiality.

The study analyzed data for 12 months of 2022. The experts were asked to answer questions regarding the total volume and number of online sales. To accurately determine the average monthly USD/KZT exchange rate, the data of the National Bank of the Republic of Kazakhstan were used. Data on growth and value of inflation were taken from the National Bureau of Statistics of the Republic of Kazakhstan.

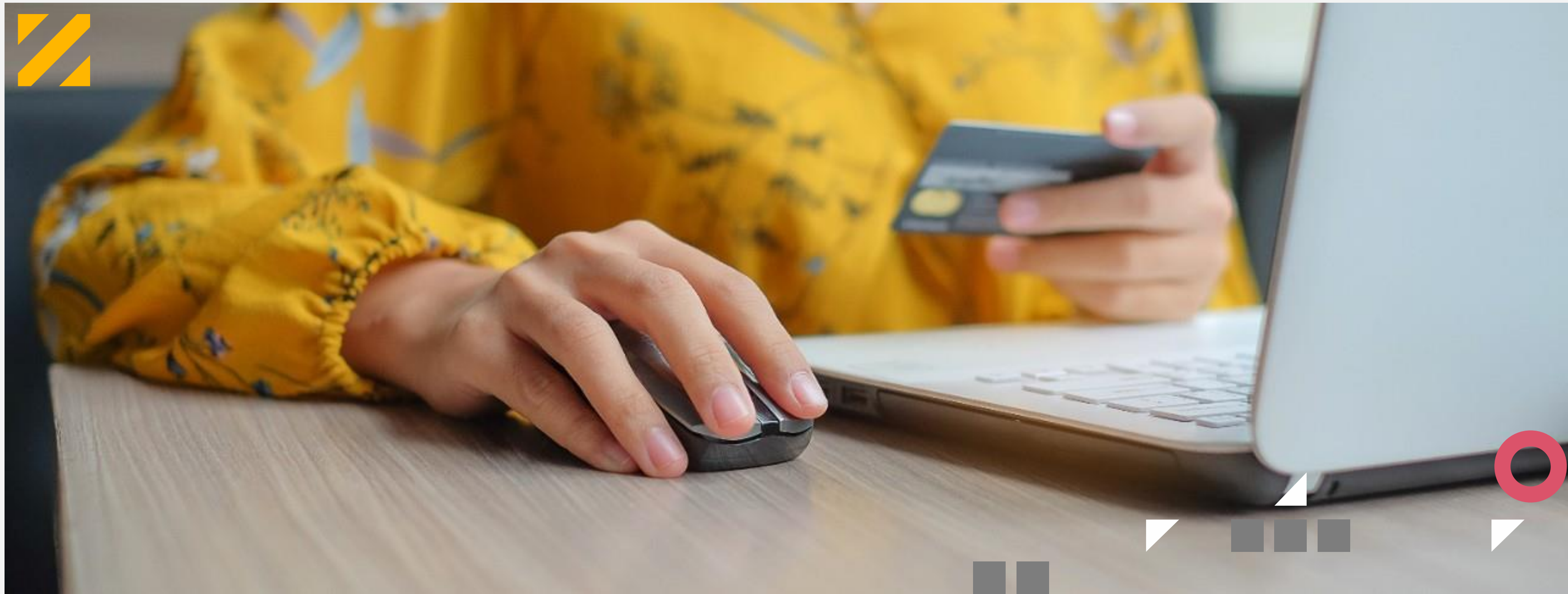
In addition, respondents were asked to share their opinion on the development of the retail e-commerce market in 2022, trends, barriers, and changes in consumer behavior that affected business development.

Our analysis of the retail e-commerce market in the Republic of Kazakhstan is published on a regular basis, 2 times a year. We analyze the data for six months, which gives our readers the opportunity to familiarize themselves with the movements in the presented indicators in more detail and learn the opinion of the players.

Additionally, we have developed a Retail Ecommerce Dashboard, where you can see data with additional breakdowns and compare them interactively for different periods using filters to obtain different perspectives based on aggregated data from the current analysis, data from other public analyses by PwC and public information.

In case you are interested in accessing the Retail Ecommerce Dashboard, please contact Marina Kim (marina.k.kim@pwc.com) or Viktoriya Gorlanova (viktoriya.gorlanova@pwc.com).

The survey for this report was conducted in March 2023.



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Research methodology

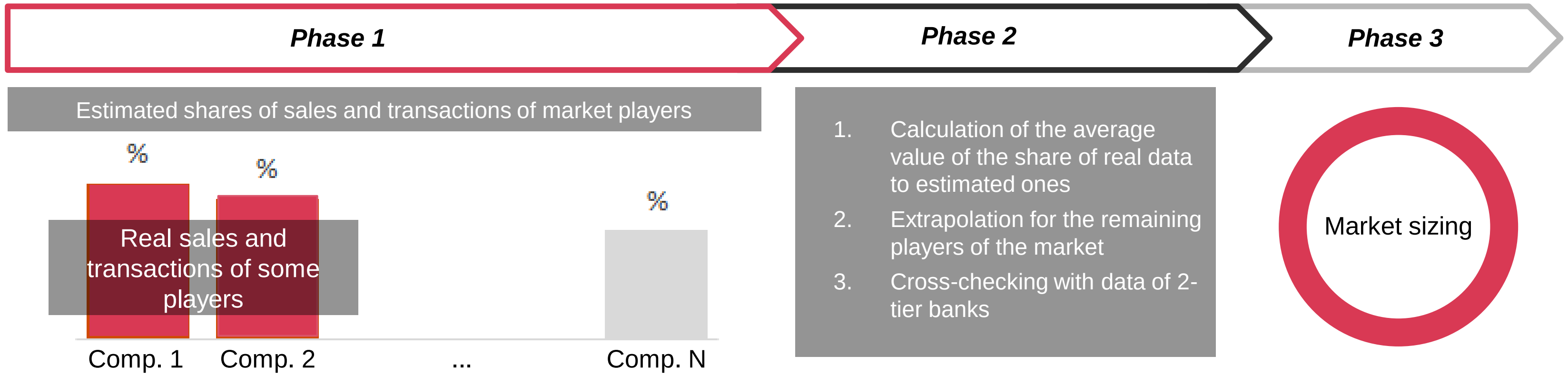
The market volume has been calculated on the basis of data provided by the key e-commerce players, DKA, as well as some second-tier banks of the Republic of Kazakhstan.

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 pickup points. 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 e-commerce retail players.

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

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

The figures are then 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.



Key findings

based

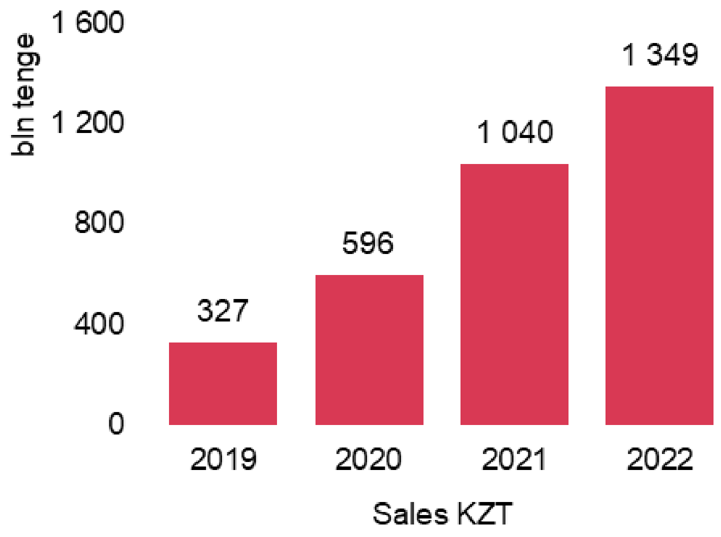
	Indicator	2019	2020	2021	2022
01	Retail e-commerce market size	- (327 bln KZT)	+82% (596 bln KZT)	+74% (1040 bln KZT)	**+30% (1349 bln KZT)** ▲
02	Number of completed retail e-commerce transactions	- (21.1 mln units)	+20% (25.4 mln units)	+45% (36.9 mln units)	**+33% (49.0 mln units)** ▲
03	Average spend amount	- (KZT 15.5 thous.)	+52% (KZT 23.5 thous.)	+20% (KZT 28.2 thous.)	**-3% (KZT 27.5 thous.)** ▼
04	Share of marketplace sales from total retail e-commerce sales in Kazakhstan	-	-	82%	**83%*** ▲

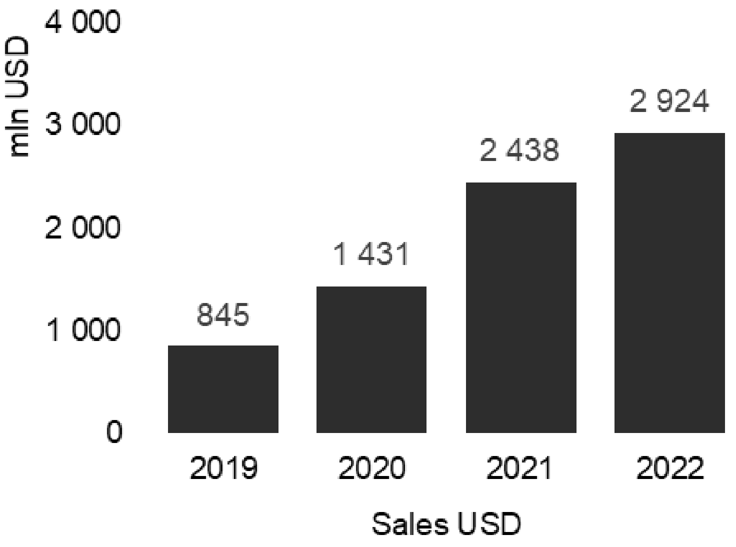
* Specified based on the new inputs from the data supplier

01

Retail e-commerce market
12M2022

Total sales for 2019, 2020, 2021, 2022





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

The retail e-commerce market in Kazakhstan continued to grow in 2022, however, as expected, the growth rate slowed down compared to 2021. Total sales in 2022 amounted to over KZT 1.3 trillion, which is up 30% from the previous year, while the market almost doubled in 2021.

One of the important factors in the development of the market is the high level of digitalization in Kazakhstan. For example, according to the UN global database*, Kazakhstan ranked 15th in the world in terms of e-participation (EPI) and 28th in e-government development (EGDI). The transition of public services to an online format and the continuous work of businesses on the convenience of using digital platforms, the development of marketplaces in the market contribute to more merchants, expanding product categories and further growth of retail e-commerce. In turn, consumers have formed a behavioral pattern to purchase goods and services online, which also drives the economy towards the development of digitalization in the country.

*United Nations E-Government Development Database (UNeGovDD) https://publicadministration.un.org/egovkb/Data-Center

KZT **1.3** tln

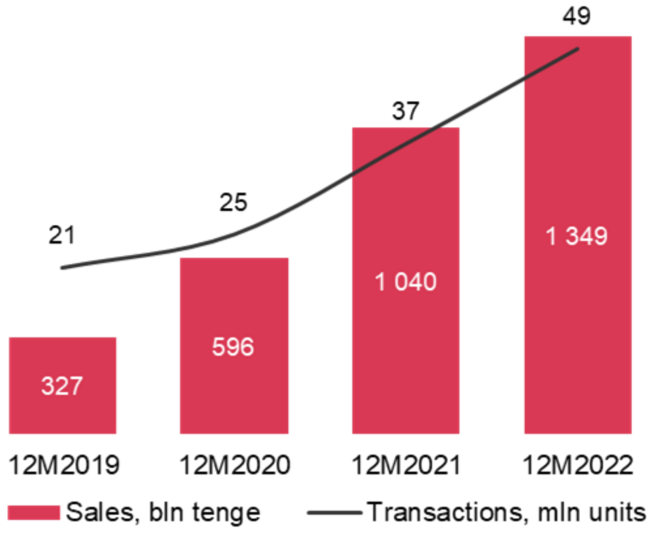
was the size of the retail e-commerce market in Kazakhstan in 2022

In 2021, there was a significant increase in both sales (almost 2 times) and in the number of transactions (almost 1.7 times) compared to 2020. The year 2022 is characterized by a smaller increase in these indicators - 30% and 33%, respectively.

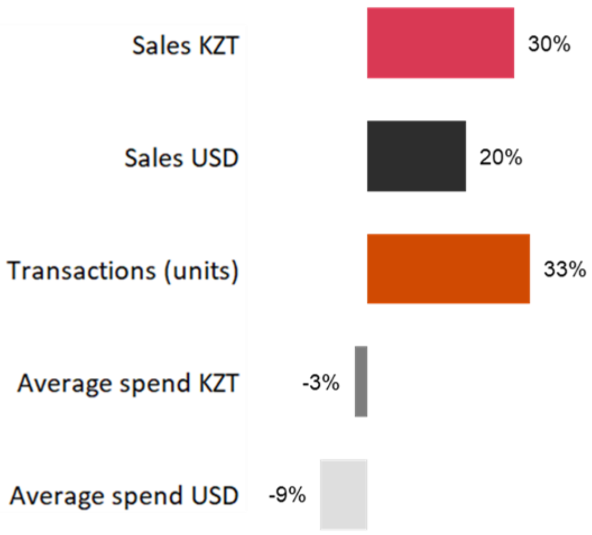
The increase in transactions exceeded the increase in sales, following the trend of the first half of 2022, which led to a decrease in the average spend in KZT by 3%, and in USD - by 9%. Likely due to rising inflation in 2022 and a decrease in purchasing power, consumers purchase more essential goods than, for example, electronics and home appliances.

Despite a gradual decline in the growth rate of key market indicators, e-commerce retail penetration in general retail continues to grow, reaching 8.2% in 2022 (7.5% in 2021)*. The share of sales from marketplaces in 2022 also continues to increase, reaching 83% compared to 82% in 2021. The annual increase in sales from marketplaces was 32%, while sales of online stores increased by 18%.**

Sales and number of transactions for the periods



Changes in key indicators for the period of 12M2022 compared to 12M2021



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

*Retail volume was calculated based on data from the Bureau of National Statistics (stat.gov.kz)

** Specified based on the new inputs from the data supplier

> “
>
> The current geopolitical situation has led to a number of changes. One of the most important is that the majority of contracts with suppliers were transferred from the Russian Federation to Europe or to the local market. The transition process is quite lengthy, so part of the product range has dropped out. And most importantly, this led to an increase in the cost and time for logistics.
>
> **Mechta.kz**

02

Sales volumes of the retail e-commerce market

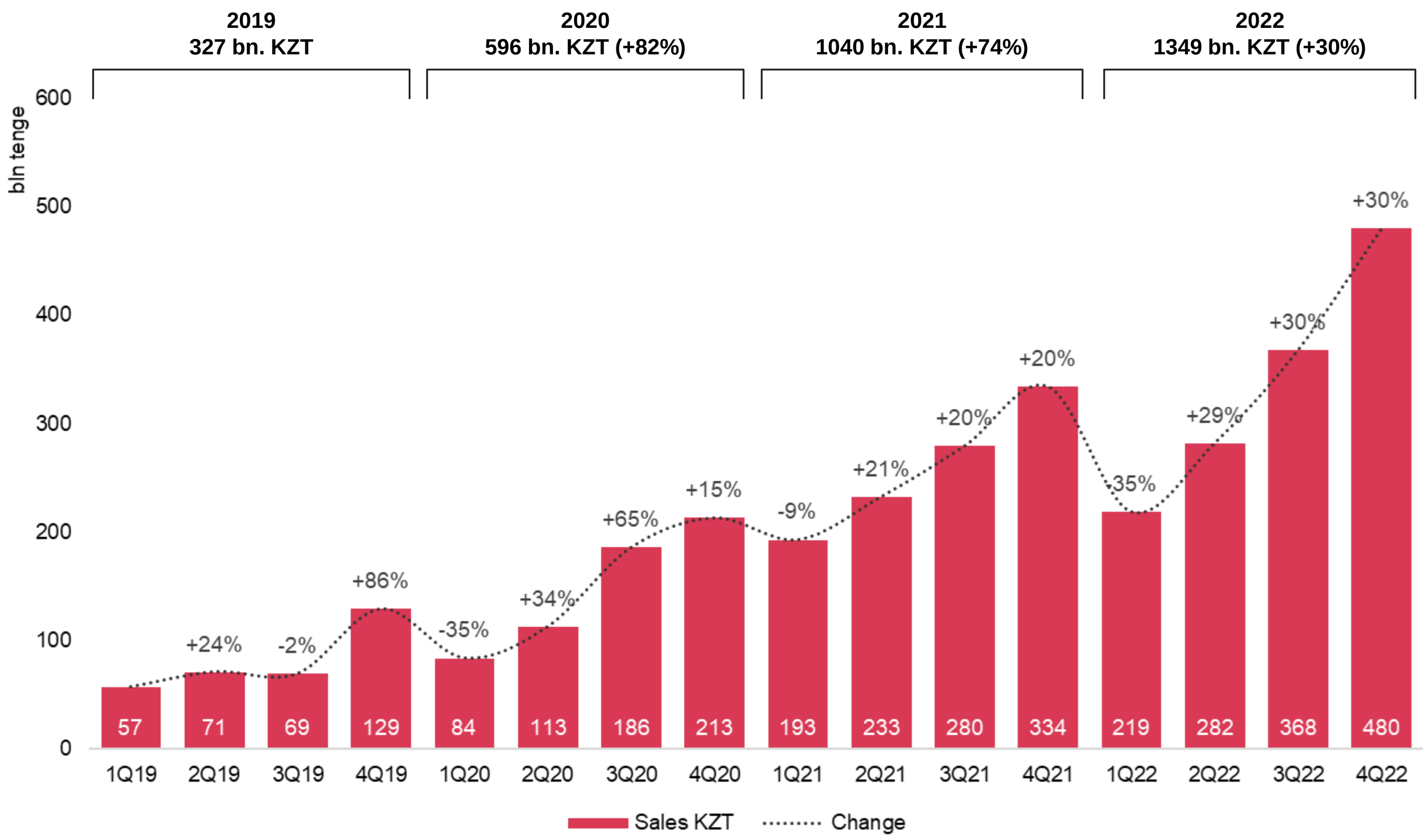
In 2022, there was a steady sales growth by 29-30% starting from the second quarter. In the first quarter, there was an expected drop in post-holiday sales, in line with the pattern of previous years. It can also be noted that the percentage decline of 35% repeated the trends of the last pre-Covid period, which may indicate the normalization of market development after the consequences of the pandemic.

The fourth quarter of 2022 did not meet expectations for sales growth and continued to follow the trends of the previous year. Taking into account the trends of the pre-Covid period, a significant increase in sales is usually expected towards the end of the year due to the holiday period, various pre-New Year promotions and sales. However, the quarterly increase in sales did not differ significantly from previous quarters, probably due to a decrease in purchasing power.

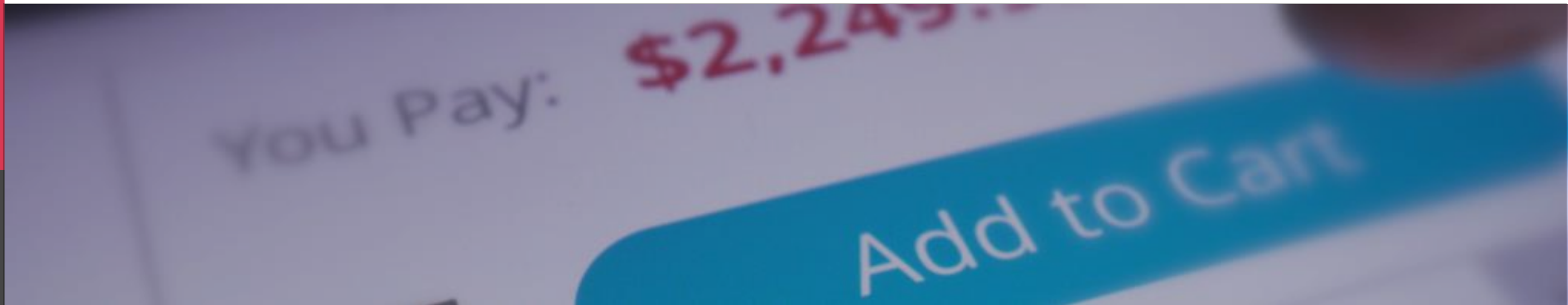
by **35%**

sales decreased in 1Q2022 compared to the previous quarter

Movements in sales by quarters



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



Despite the fact that the sales volume in 4Q2022 did not show the expected significant growth compared to other quarters, nevertheless, the analysis of annual changes showed that the maximum increase occurred in the fourth quarter. Thus, sales in 4Q2022 amounted to KZT 480 bln, which is 44% more than in the same period in 2021.

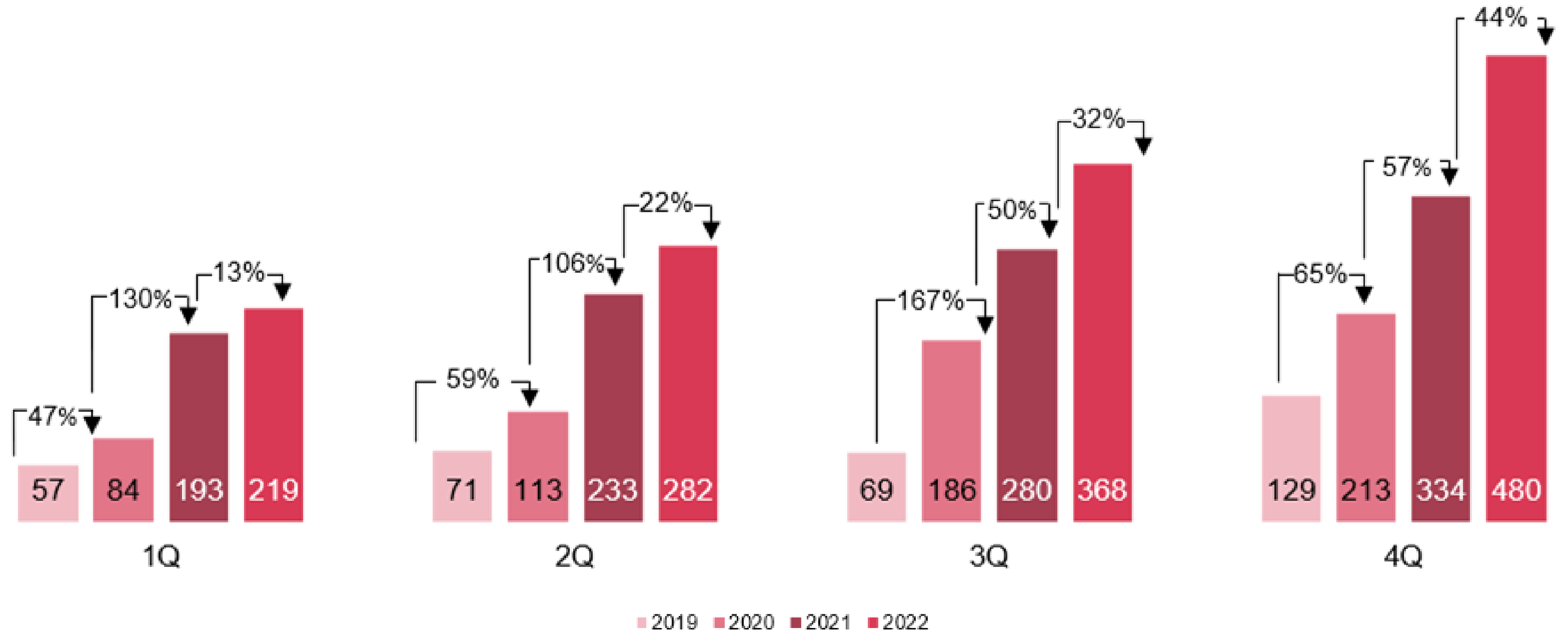
It is interesting to note that sales in 4Q2022 alone amounted to more than 80% of annual sales in 2020 and exceeded annual sales in 2019 by almost 1.5 times.

The analysis of sales by type of platforms (local and international) showed that local online stores accounted for about 80% of total sales in 2022 (2021: 79%). There was also a similar year-on-year growth in sales of local and international players (32% and 27%, respectively).

KZT **480** bln

was the sales volume in 4Q2022

Annual movements in sales volume in KZT by quarters and in comparison in 2019, 2020, 2021 and 2022



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

> In 2022, there was a steep increase in online food shopping.
> This is a new level for the e-commerce industry in Kazakhstan, in which the share of online purchases was insignificant before.
> Consumers are increasingly involved in online shopping for everyday goods.
> Orders increased more than 5 times in such categories as food, pharmacy, home products, children's goods, beauty and health supplements, pet supplies
> .
>
> **Kaspi.kz**

03

Number of transactions in the retail e-commerce market

by 53%

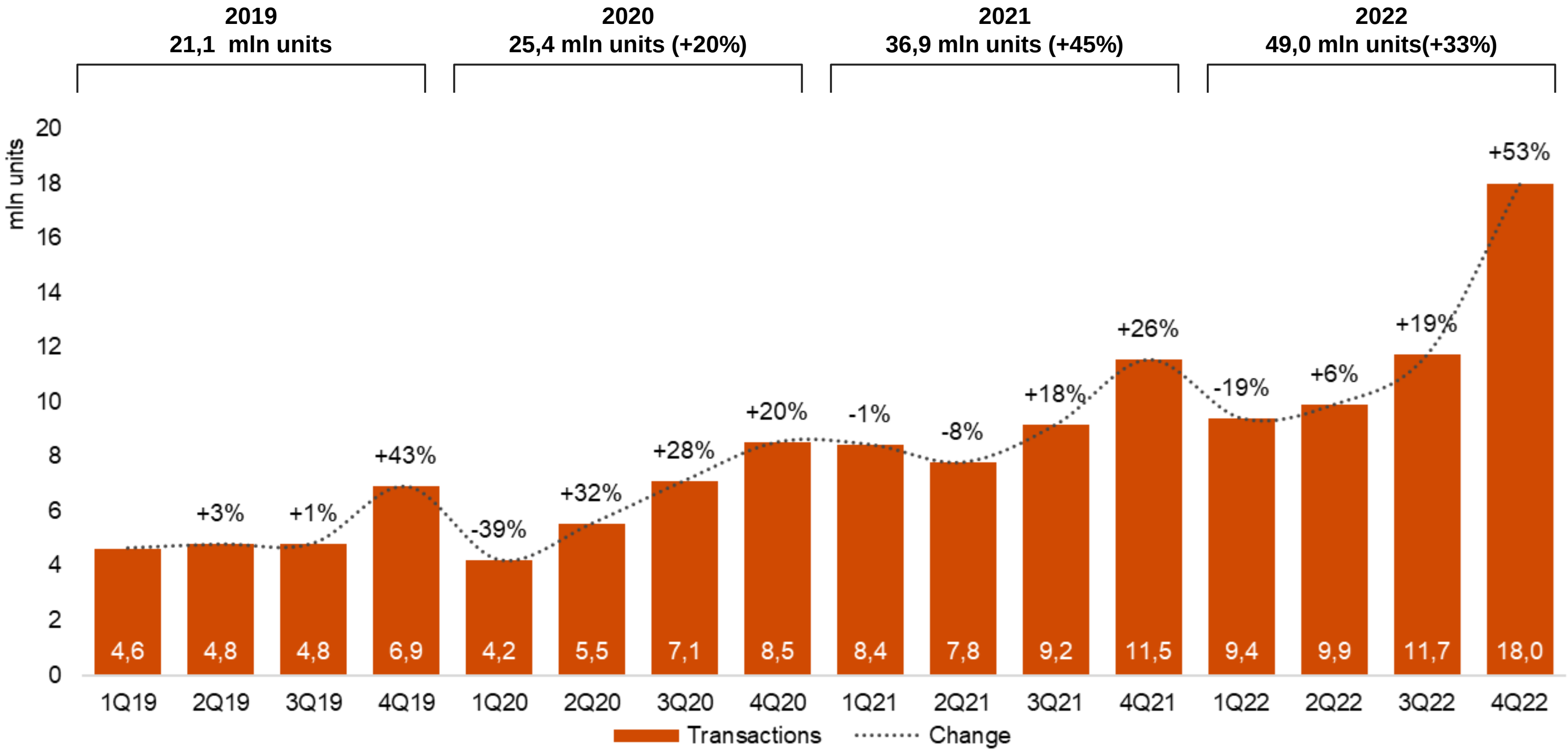
number of transactions increased in 4Q2022 compared to the previous quarter

"

This year there will be a trend towards strengthening the positions of major players in the market by means of expanding the services for customers. Many e-commerce players began to develop ecosystems within their platforms and create various additional services to attract the attention of customers - fast logistics, fintech solutions, advertising tools.

Ozon Marketplace in Kazakhstan

Change in the number of transactions dynamics by quarters



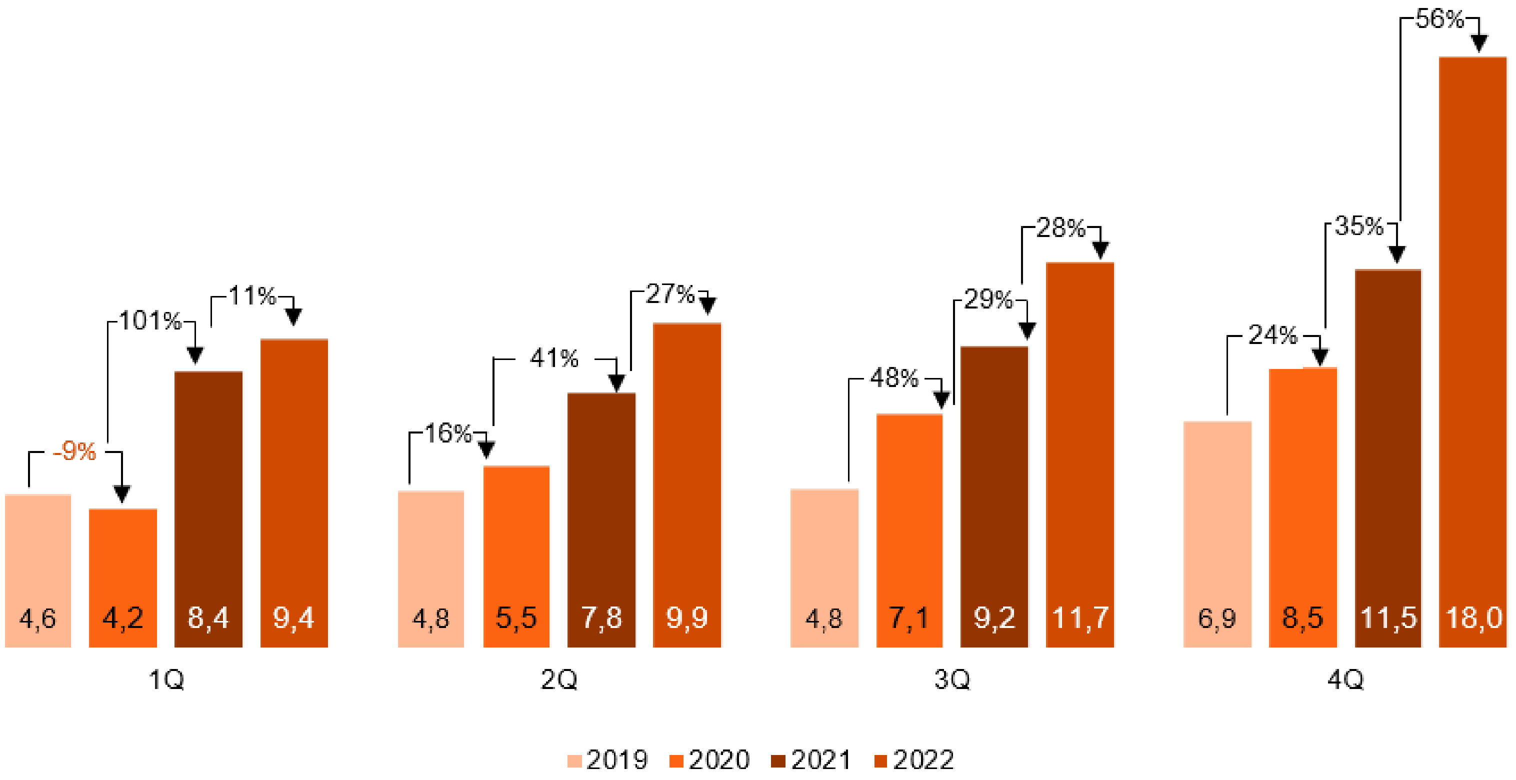
Source: analysis of the retail e-commerce market in RK

The quarterly changes in the number of transactions differ markedly from the changes in sales growth in 2022. The total number of transactions in 2022 was 49 million, which is 33% more than in 2021. The growth rate has slowed down compared to 2021, when the annual increase in the number of transactions was 45%. Despite the slowdown in growth, the number of transactions in 2022 exceeded the aggregate of transactions in 2019 and 2020.

An interesting trend was observed in 2Q2022, when the number of transactions increased by only 6%, while sales grew by 29%, which led to the maximum quarterly increase in the average spend in tenge by 22% in 2022. This can be explained by the fact that the peak of monthly inflation growth in 2022 occurred at the end of 1Q2022 (+38% in March versus February), which provoked a decline in consumer activity in the subsequent quarter.

In 4Q2022, the number of transactions increased significantly by 53%, reaching a maximum quarterly value of 18 million units for the entire analyzed period. An additional analysis showed that the share of the number of transactions from marketplaces was 92% in 2022, up 19 pp higher than in 2021.

Annual changes in the number of transactions (mln units) by quarters and comparing 2019, 2020, 2021 and 2022



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

Analyzing the annual changes in the number of transactions by quarters, one can see that in almost all quarters of 2022, the trend of slowing growth rates is confirmed. In particular, the difference in growth was noticeable in 1Q2022, when the increase was only 11% versus 101% in the same period in 2021.

However, in 4Q2022, the number of transactions increased by 56% compared to 4Q2021. Considering the trends of changes in the sales volume, this led to the maximum quarterly decrease in the amount of the average spend in tenge (by 15%) for the entire analyzed period. It follows that consumers began to make online purchases more often and for a smaller amount.

Among other factors, transaction frequency is also affected by the development of business models of retail e-commerce players, including improved delivery methods and lower minimum order amount, the development of more convenient online payment methods, the expansion of the assortment and the emergence of new players.

by 56%

number of transactions increased in 4Q2022 compared to 4Q2021

04

Average spend in the retail e-commerce market

by 15%

the average spend in KZT decreased in 4Q2022 compared to 3Q2022

KZT 27.5 thous.

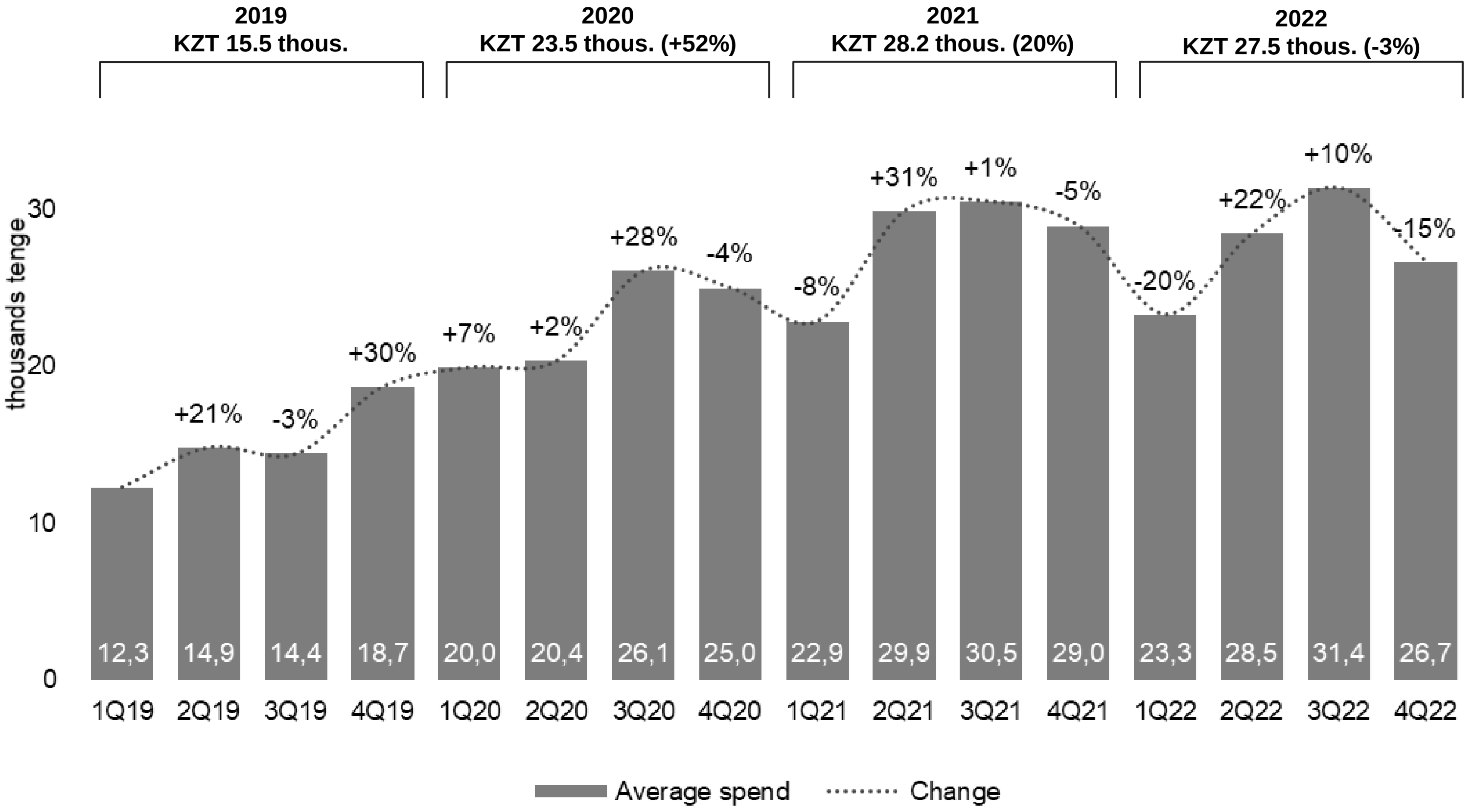
was the average spend in Tenge in 2022

“

The phase of active market development, the launch of many new marketplaces / online stores is passing. We expect evolutionary development of the market, improvement of service and processes of existing companies. Investments will be focused not on launching new sites, as before, but on the development of existing ones. The market is already saturated. Only the emergence of specialized, mono-category or niche marketplaces is possible.

ForteMarket

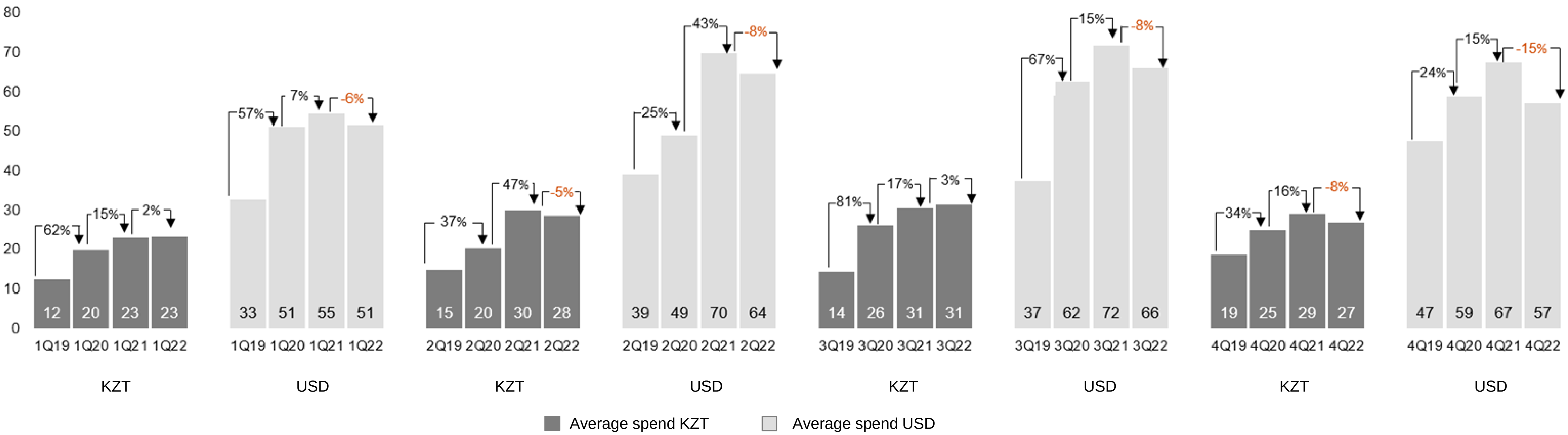
Change in the average spend KZT (thous.) dynamics by quarters



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

The average spend in 2022 amounted to KZT 27.5 thous., which is 3% lower than in 2021. The maximum quarterly increase in the average spend of 22% occurred in 2Q2022. The price surge, the weakening of the national currency, the level of instability due to the consequences of the January events and the military conflict between Russia and Ukraine led to a decrease in consumer activity starting from the end of 1Q2022, which is evidenced by a relatively insignificant increase in the number of transactions compared to the increase in the amount of sales. This trend continued until 4Q2022, when the amount of the average spend decreased by 15% to KZT 26.7 thous., which is the largest quarterly decline for the entire analyzed period. Also, despite the overall annual decrease in the average spend in 2022 by 3% compared to the previous year, in 3Q2022 the average spend reached its maximum of KZT 31.4 thous. for the entire analyzed period of 2019-2022.

Annual changes in average spend in KZT (thous.) and USD by quarters and comparing 2019, 2020, 2021 and 2022



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

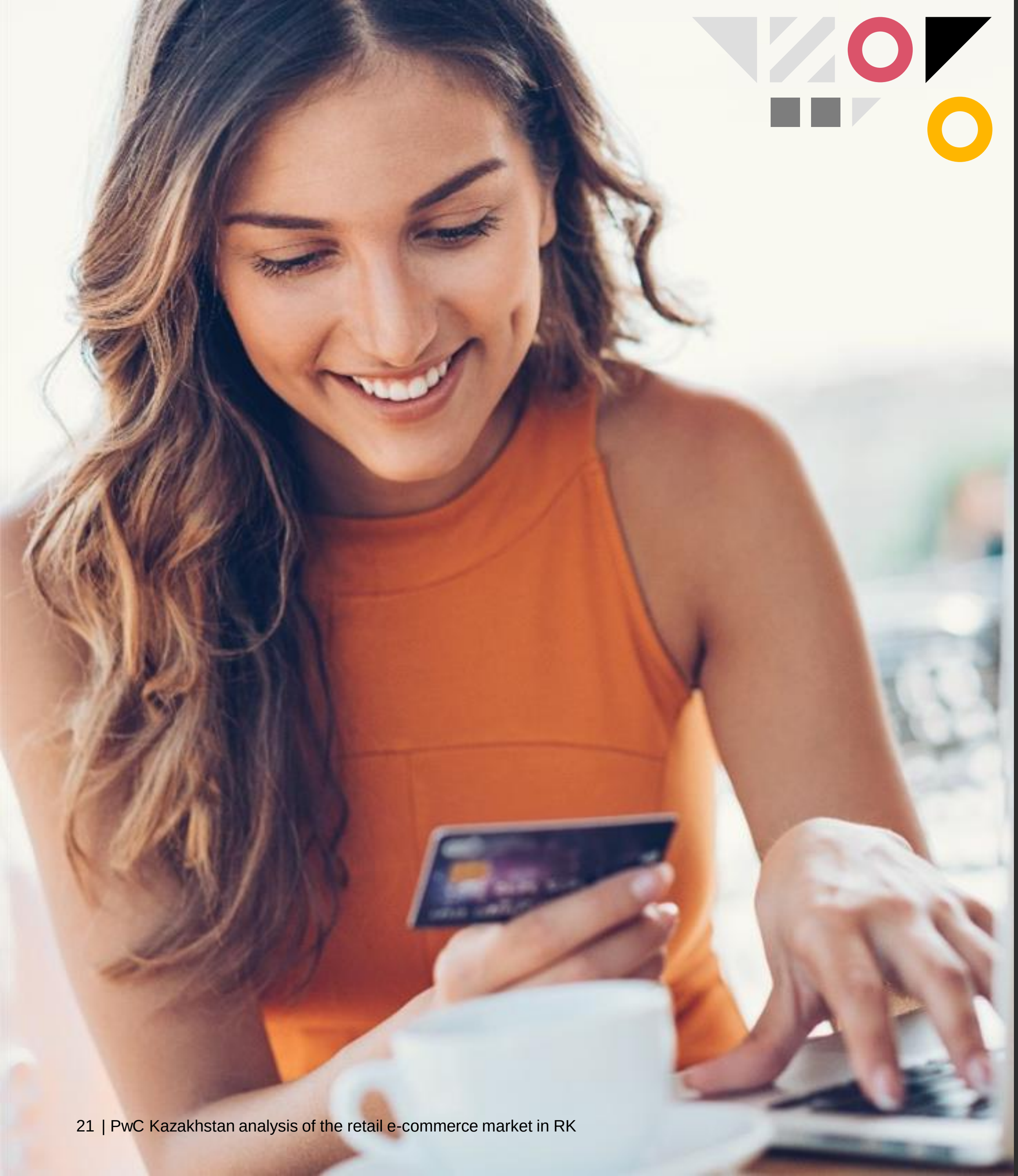
The analysis of annual movements in the average spend in each quarter shows interesting trends. In previous years, the average spend increased every quarter. In 2022, there is a change of the average spend dynamics, for example, in 2Q2021 the annual increase in the average spend KZT was 47%, while in 2Q2022 there was a decrease by 5%.

The analysis of the changes in the average spend USD shows the strengthening or weakening of the national currency against the dollar. The peak of the USD/KZT exchange rate occurred in March 2022, reaching KZT 512 per USD, and the maximum weighted average monthly rate was observed in December 2022 and amounted to KZT 434 per USD.

An additional analysis of the average spend by type of online platforms, as well as local and international players, showed interesting trends and conclusions. For example, over the period of 12M2022, the average transaction amount from online stores exceeded the average purchase amount from marketplaces by almost 17%, while in 2021 there was an opposite trend. The average transaction amount from local platforms in 2022 exceeded the average purchase amount from international platforms by almost 5 times.

by **15%**

the average spend in KZT decreased in 4Q2022 compared to 4Q2021



What are the main barriers for the retail e-commerce development in Kazakhstan in 2022?

As a result of disruption of supply chains, the delivery time of goods has increased. This leads first to a shortage of goods, and then, when all the goods come in at once, a surplus occurs. And, as a result, the company is facing a cash freeze and a heavy load on warehouses.

Mechta.kz

The e-commerce market in Kazakhstan is actively developing, which indicates the absence of barriers.

Kaspi.kz

One of the key barriers hindering the development of the e-commerce sector in Kazakhstan is currently the underdeveloped logistics infrastructure. After the pandemic, consumers have already formed the habit of buying online, the task of marketplaces is now to work on improving the customer experience and provide high-quality service to strengthen this habit.

Ozon Marketplace in Kazakhstan

We do not see any significant barriers in the market.

ForteMarket

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.

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Notes