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

October 2022

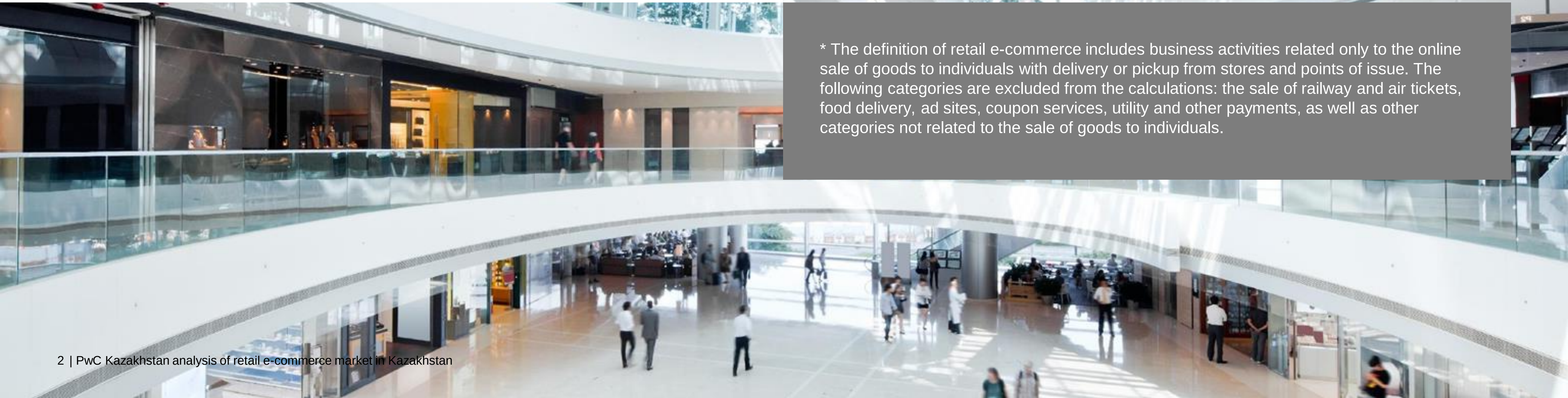
Important note

PwC Kazakhstan, together with the Digital Kazakhstan Association (“DKA”), presents the results of the study “Analysis of the retail e-commerce* market in the Republic of Kazakhstan” for 6 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 confidential.

The results of the study reflect:

- Overview of the retail e-commerce market for 6M2022
- Sales volumes and number of transactions
- 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 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.



Introduction

The latest geopolitical events in the first half of 2022 provoked new upheavals in people's lives, economic shocks and a rearrangement of the global world order. It is now easier to list the industries where there is no volatility, since most supply chains have been shocked, and the retail e-commerce market is no exception.

Since the risks of the COVID-19 pandemic have been reduced in 2021, new behavioral habits have been formed, and there has been an adaptation to digital services and structural lifestyle changes. The retail e-commerce market continued to grow rapidly and exceeded KZT 1 trillion in 2021 according to our analysis. It was expected that active development and growth would continue, but at the beginning of 2022, the January events took place in Kazakhstan, during which there were Internet interruptions and mass riots. After recovering from local shocks, in February 2022 a military conflict broke out between Russia and Ukraine, which provoked a global humanitarian crisis. Also at the end of 2020, the energy crisis began, that worsened in 2022 due to the abovementioned events, which provoked global inflation and recession in many countries.

The rise in inflation was significant, which drastically reduced the well-being of people. Despite the regular increase in the minimum wages (now in Kazakhstan such a revision is made several times a year), the minimum wages, as well as real wages are still quite low (note: the current minimum wage is KZT 70 thousand, while real wages for 2Q2022 amounted to approximately KZT 162 thousand).

Moreover, the post-COVID-19 recovery has moved some sales offline. The segment of the population that can make savings, subsequently after the January events has also begun to change its behaviour in favour of even more savings. These and other events have slowed the growth of the retail e-commerce market. Despite this, according to the analysis results of the first half of 2022, the size of the retail e-commerce market in Kazakhstan amounted to KZT 501 billion, which is almost 18% more than in the first half of 2021. The number of transactions reached 19.3 million transactions, and the average spend amounted to KZT 26 thousand. It is interesting to note that in the first quarter of 2022, there is the largest drop (20%) in the amount of the average spend in KZT for the entire analyzed period since January 2019.

All the 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 the participants prior to publication of the study.

We sincerely thank all 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.

Natalya Lim

Partner,
Leader of Advisory practice
in Eurasian region

Overview and study objectives

Representatives of retail e-commerce in Kazakhstan took part in the survey. Some of the 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 e-commerce 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 remain confidential.

The study analyzed data for 6 months of 2022. The experts were asked to answer questions regarding the total volume and the number of online sales. To accurately determine the average monthly USD/KZT exchange rate, the data of the RK National Bank were used. Data on growth and value of inflation were taken from the RK National Bureau of Statistics.

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 affect business development.

Our analysis of the retail e-commerce market in the Republic of Kazakhstan is published on a regular basis, twice a year. We analyze the data for half of the year, which gives our readers the opportunity to get acquainted with the dynamics and changes in the presented indicators in more detail, as well as learn the opinion of the players.

We have also developed a Retail Ecommerce Dashboard where you can see data by additional views, as well as compare them interactively across different periods using filters to get various perspectives based on aggregated data from the current analysis, data from other public PwC analyses and information in the public domain.

Should you be interested in receiving the access to the Retail Ecommerce Dashboard, please contact Marina Kim (marina.k.kim@pwc,com) or Viktoriya Gorlanova (viktoriya.gorlanova@pwc.com).

The survey for the preparation of the issue of this report was conducted in September and October 2022.

Contents

Research methodology

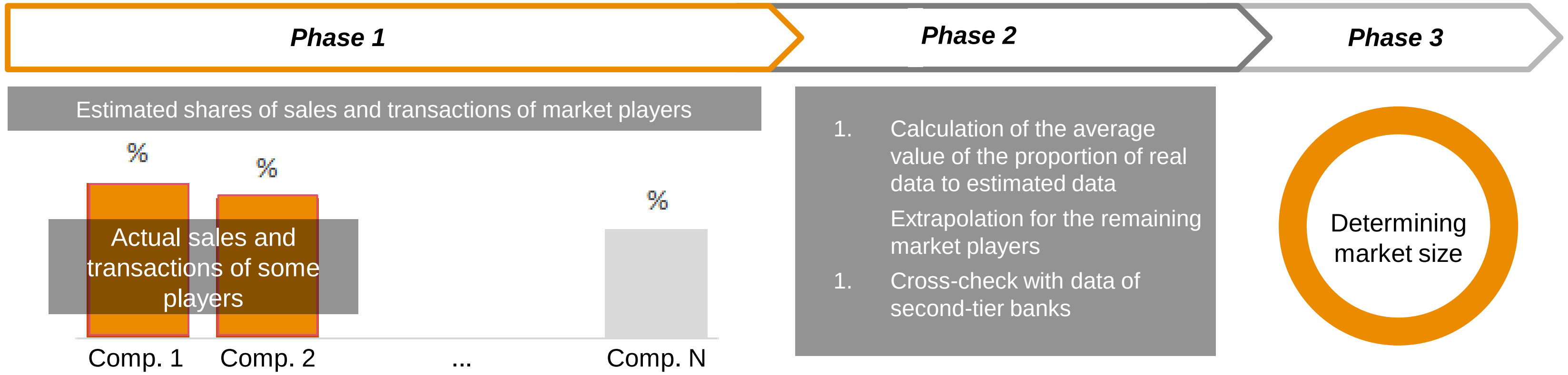
The market volume is calculated based on the data provided by the main e-commerce players, DKA, as well as some second-tier banks of the Republic of Kazakhstan.

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 tentative 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 the number of 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.

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

		6M2019	6M2020	6M2021	6M2022
01	The size of the retail e-commerce market	- (KZT 128 bln)	+53% (KZT 197 bln)	+116% (KZT 426 bln)	**+18% (KZT 501 bln)** ▲
02	Number of completed retail e-commerce transactions	- (9.4 mln units)	+3% (9.7 mln units)	+66% (16.2 mln units)	**+19% (19.3 mln units)** ▲
03	Average spend amount	- (KZT 13.6 thous.)	+48% (KZT 20.2 thous.)	+30% (KZT 26.3 thous.)	**-1% (KZT 26,0 thous.)** ▼

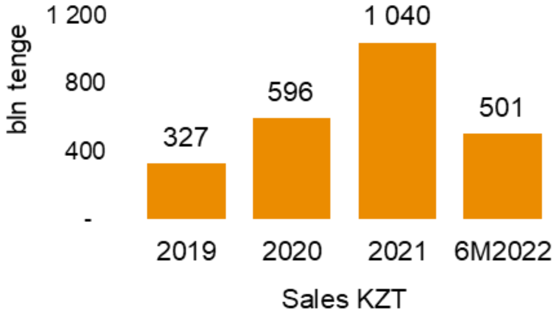
		2019	2020	2021	6M2022
04	Share of marketplace sales from total retail e-commerce sales in Kazakhstan	-	-	82%	**83%**

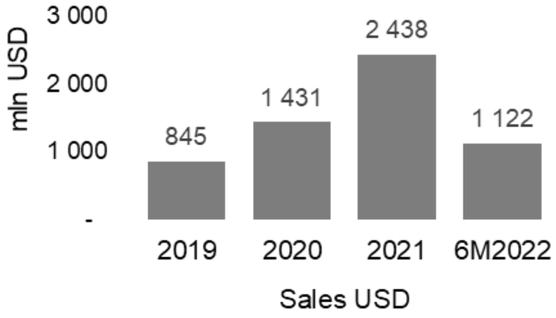
01

Retail e-commerce market for 6M2022

> The imposition of sanctions and the closure of Russian offices by some companies has disrupted supply chains. Part of the supplies had to be redirected to other countries, which created certain difficulties with inventory restocking and led to an increase in prices.
>
> **Sulpak**

Total sales for 2019, 2020, 2021 and 6M2022





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

The retail e-commerce market in Kazakhstan continues to grow. The main driver of the market growth in 2020 was the COVID-19 pandemic, which shaped the consumer's habit of online shopping. However, the e-commerce market is expected to maintain a slower growth rate in the coming years. For instance, comparing the first half of 2022 with the same period in 2021, one can note that the market growth slowed down both in the number of transactions and in terms of the sales volume, and the average spend KZT decreased by 1%, while the average spend in a dollar equivalent decreased by 6%.

Such changes of the key market indicators were largely influenced by the tragic January events in Kazakhstan, which, among other things, were accompanied by Internet outages and mass riots.
The military conflict between Russia and Ukraine has also significantly affected the retail e-commerce market in terms of supply chain disruption, increased transport tariffs, currency appreciation and inflation.

KZT **501** bln

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

Changes in key indicators for the period of 6M2022 compared to 6M2021

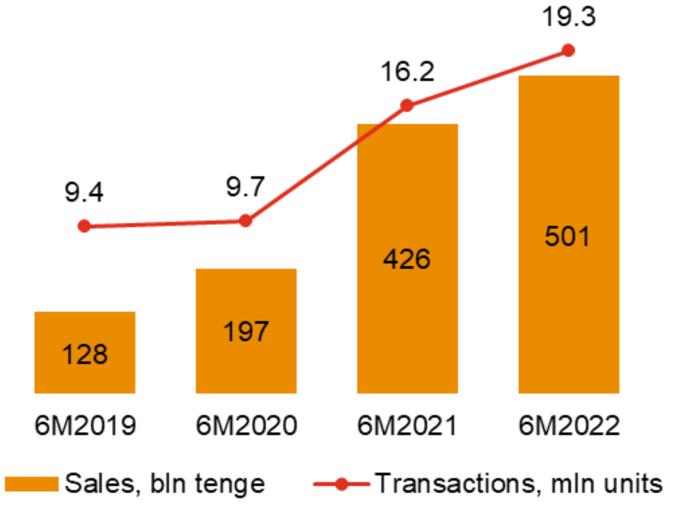
Sales KZT	18%
Sales USD	12%
Transactions (units)	19%
Average spend KZT	-1%
Average spend USD	-6%

The data analysis indicates a continued growth of the market; however, the growth rate has noticeably decreased in the first half of 2022, both in the first and in the second quarter.

If in 2021, compared to 2020, we are observing a significant increase both in sales volumes (more than 2 times) and in the number of transactions (almost 1.7 times), then the first half of 2022 is characterized by a smaller increase in these indicators by 18% and 19% respectively.

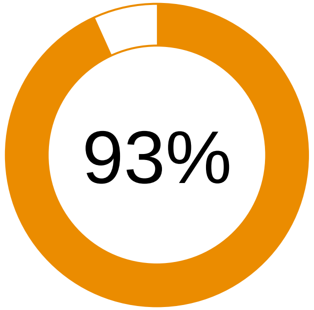
Historically, the growth in sales has far exceeded the growth in the number of transactions since consumers were buying more goods online. This trend was also confirmed by the growth of the average spend. However, in 2022, we are observing the opposite trend: the growth in the number of transactions exceeded the growth in the sales volume. As a result, the average spend KZT decreased by 1%, and for mobile purchases - by 2%.

Sales and number of transactions for the periods



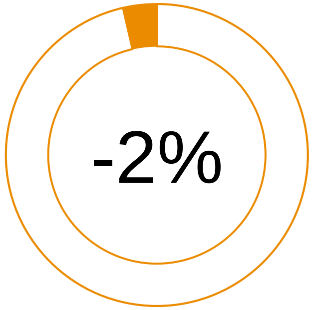
Source: Analysis of the retail e-commerce market in RK

Smartphone purchases in the first half of 2022



Percentage of smartphone purchases in total sales for 6M2022

Decrease in the average spend KZT via a smartphone during 6M2022 compared to 6M2021



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

The results of the analysis also showed that online shopping using mobile phones was not losing popularity. For instance, in the first 6 months of 2022, 93% of all purchases were made using mobile phones.

Mobile applications of marketplaces continue to become more convenient, conditions for purchasing goods by instalment and on credit are improving due to the development of scoring models and a fast request approval process. Also, marketing strategies are being improved, such as promotional codes for purchases from a mobile application, the development of video presentations of goods. Platforms are actively developing a customer review system with the ability to add photos and videos.

> "Interest in the e-commerce market is growing. The level of e-commerce penetration is less than 10% of retail trade, which is 2-3 times less than in developed markets. This suggests a great growth potential for all players in the market.
>
> **Kaspi.kz**

02

Sales volumes in the retail e-commerce market

The sales volume in the first half of 2022 increased by 18% and amounted to KZT 501 bln, which is KZT 75 bln more than in the first half of 2021.

In 2022 there has been an already established downward trend in total sales in the first quarter, with consumer activity declining after the holiday periods. However, it can be observed that in 1Q2022 the 35% quarterly decline in sales volume was much more significant than in 1Q2021, when sales volumes were down only 9% compared to 4Q2020.

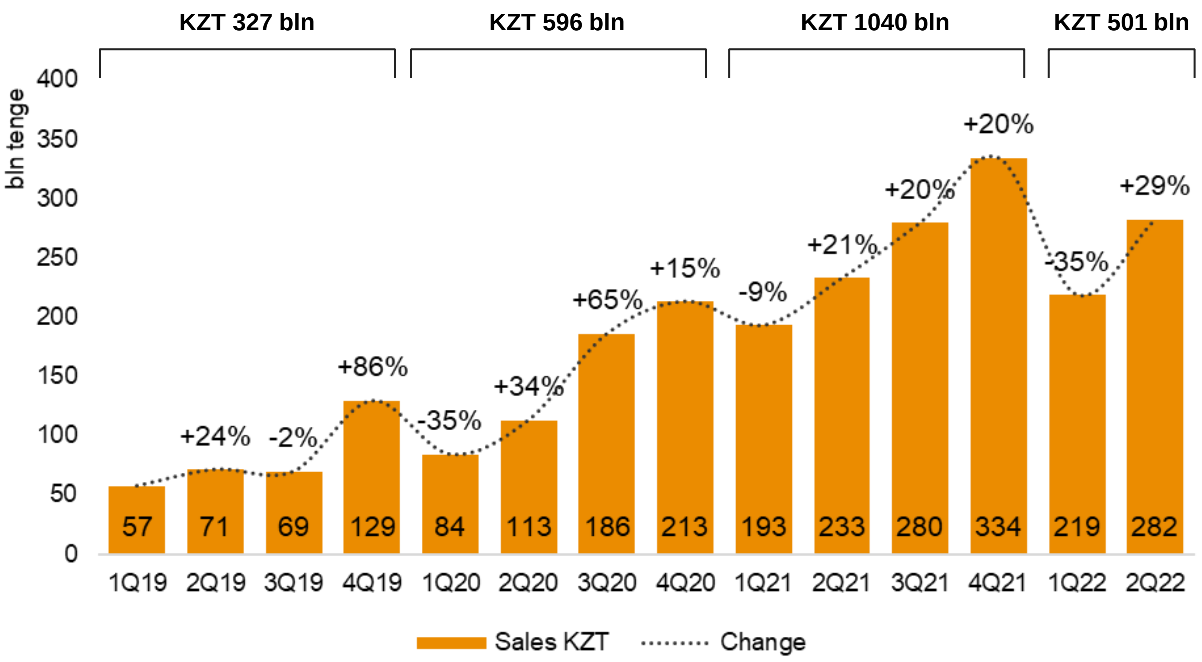
As can be seen, a significant decline in online sales occurred in January 2022, when Kazakhstan was overtaken by mass riots and protests.

The depreciation of the tenge in March 2022 also had a negative impact on the market, when the weighted average USD/KZT exchange rate, according to the RK National Bank (NBRK), amounted to almost KZT 500 (for comparison, in February 2022 the weighted average USD/KZT exchange rate was 435).

by **35%**

sales decreased in 1Q2022 compared to the previous quarter

Change in sales dynamics by quarters



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

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The e-commerce sector in Kazakhstan is developing extremely rapidly. Now in 2022, major players in the industry face many challenges, but at the same time, the current geopolitical situation opens up new opportunities and prospects. In particular, this year Ozon in Kazakhstan records a significant growth in sales across a variety of categories. In the second quarter of 2022 alone, the turnover of Kazakhstani sellers on Ozon grew 6 times compared to the first quarter.

Ozon Marketplace in Kazakhstan

When analyzing the annual changes in each quarter, it can be noted that the growth in 1Q2022 is much smaller than in 1Q2021 (13% and 130% respectively).

By April 2022 there was a normalization of demand, however, the market volume in 2Q2022 as a whole showed a relatively slight annual growth of 22%. It should be noted that in the same periods of 2021 and 2020, the sales volume almost doubled.

This trend was strongly affected by inflation, which reached 10.5% since the beginning of the year and as of the end of June 2022. At the same time, the increase in average wages in the same period amounted to 9.3%*.

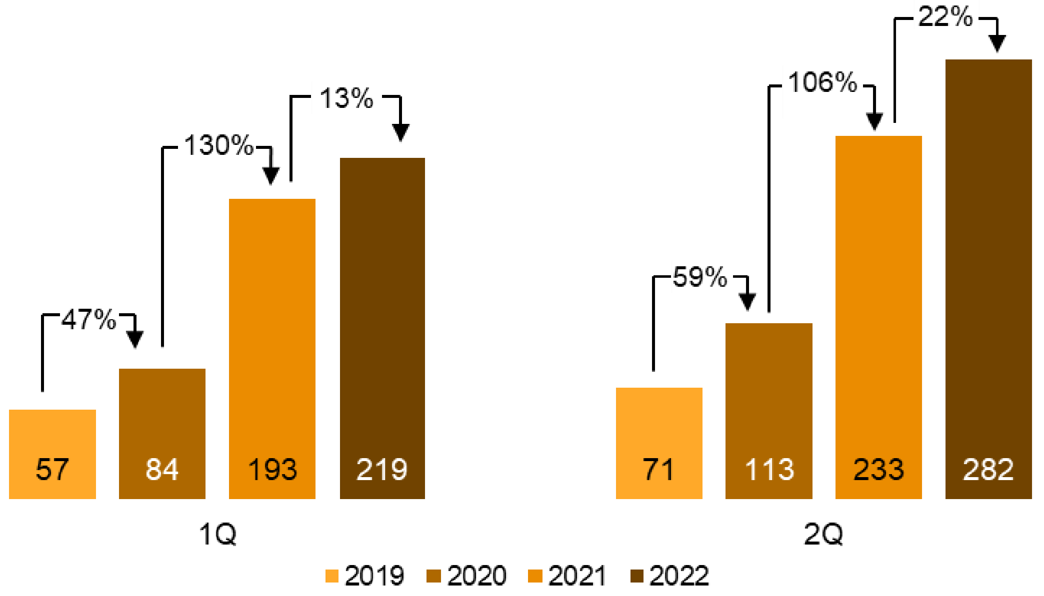
Considering the changes in inflation and wages, it can be assumed that this increase in the sales volumes was mainly due to rise in prices, and not due to the fact that consumers began to buy more goods.

Perhaps consumers have reconsidered their spending towards essential goods such as food, medicine, etc.

Despite a general slowdown in the sales volume growth during 6M2022, the Kazakhstani retail e-commerce market remains attractive and encourages the emergence of new market players, both local and foreign.

*According to the data of National Bureau of Statistics

Annual changes in sales volume in KZT by quarters and comparing 2019, 2020, 2021 and 2022



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

KZT 282 bln

was the sales amount in 2Q2022

"Additional barriers to the growth of retail e-commerce in Kazakhstan have not appeared. The e-commerce market is rapidly growing and developing, and more and more professional logistics, marketing, and service companies are emerging. The entire market has great prospects for rapid growth.

ForteMarket

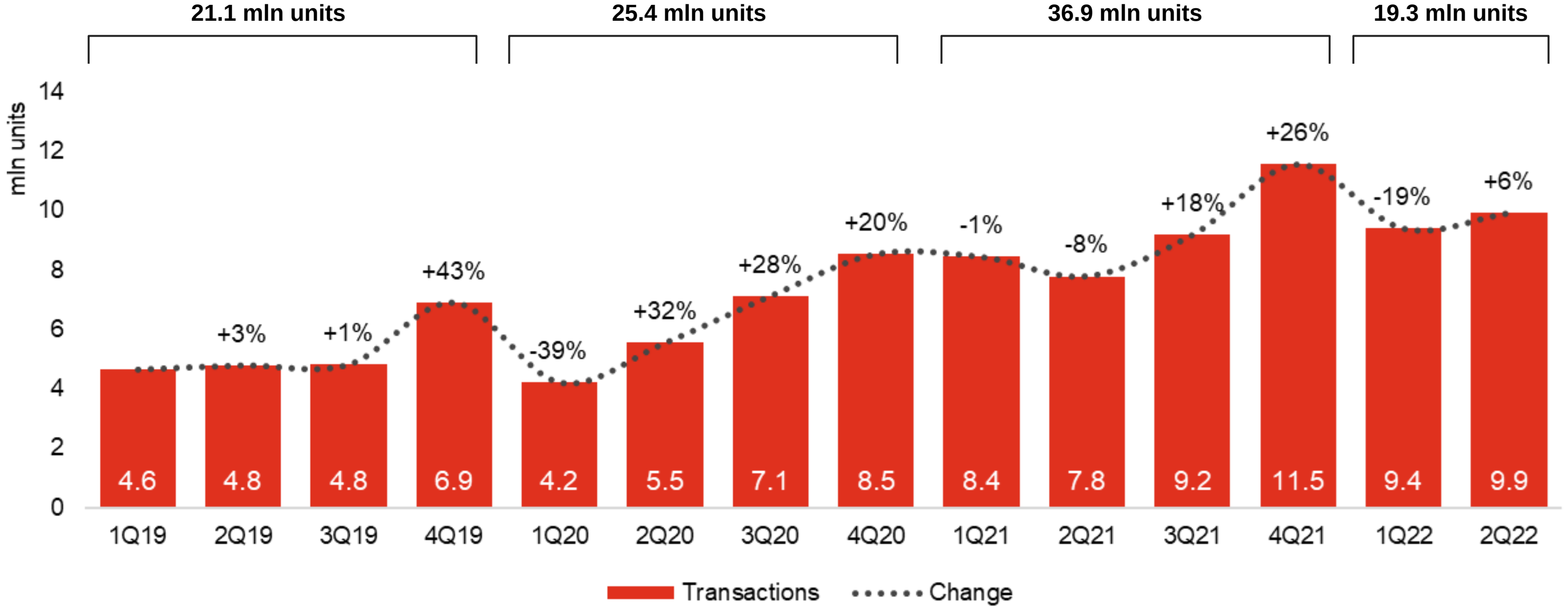
03

Number of transactions in the retail e-commerce market

by **6%**

number of transactions increased in 2Q2022 compared to the previous quarter

Change in number of transactions dynamics by quarters



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

In general, during the first half of 2022 there was an increase in the number of transactions reaching 19.3 mln units, which is 19% higher than during the first half of 2021.

Comparing the dynamics in the change of number of transactions and the sales volume for 6M2022, a significant difference can be noticed in the trends of these indicators. In 1Q2022 sales dropped by 35%, while transactions decreased only by 19%, and in 2Q2022 sales increased by 29%, while the number of transactions increased only by 6%, which indicates a decrease in the average spend in the first quarter and a subsequent increase in the average transaction amount in the second quarter of 2022.

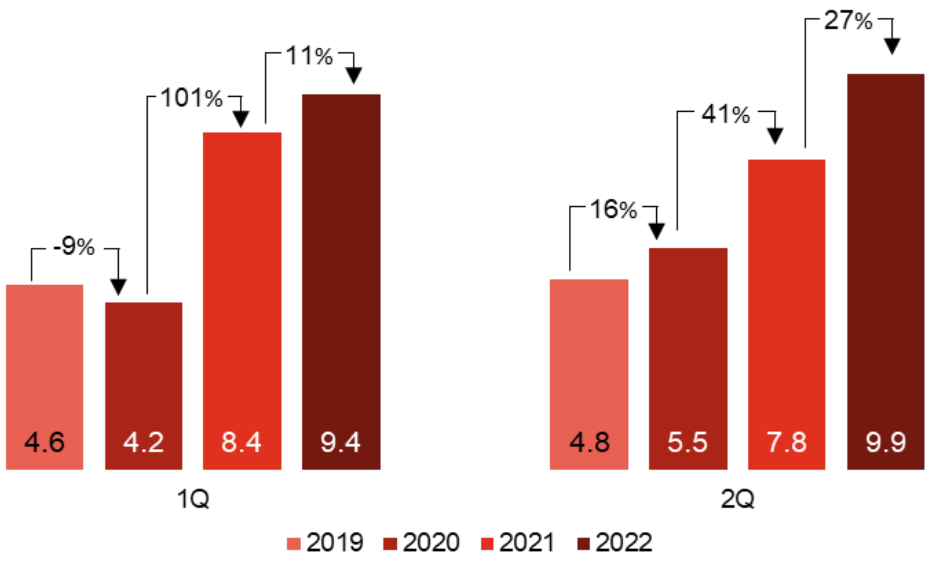
The decline in key market indicators, including the number of transactions, in the first quarters of the year is in line with normal market trends.

However, it can be noted that the quarterly decline in the number of transactions in 1Q2022 is much more significant than in 1Q2021 (-19% and -1%, respectively).

Such market trends can be explained by the fact that due to the January events in Kazakhstan, which created a state of shock, consumers switched to offline cash purchases of essential goods.

Another important factor behind the low quarterly increase in the number of online purchases is a strong jump in the USD/KZT exchange rate in March 2022, as well as the reduction in the volume of food imports to Kazakhstan, which strongly affected the increase in prices and the purchasing power of the population.

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

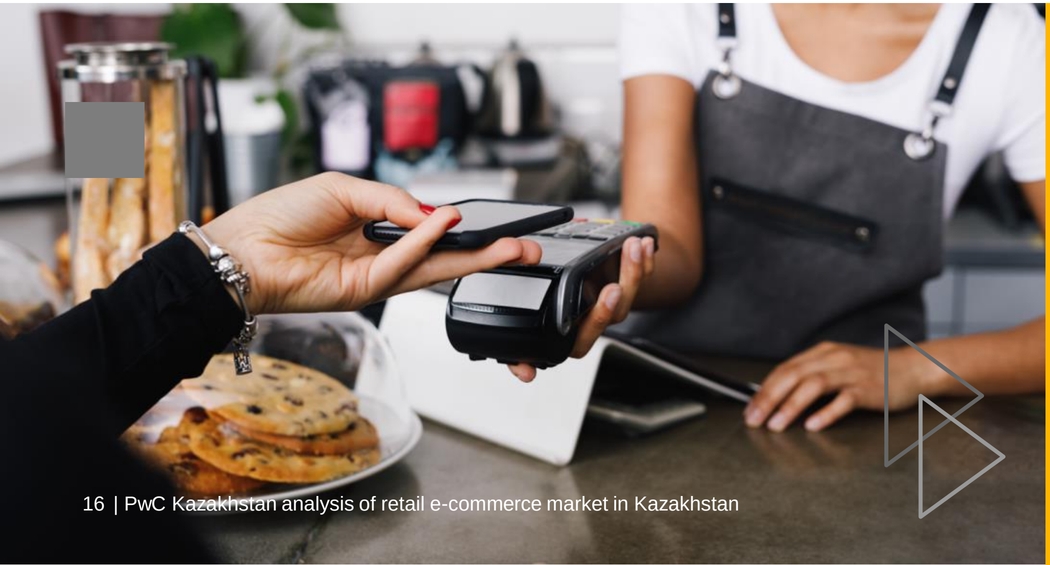


Source: Analysis of the retail e-commerce market in RK

Analyzing the annual changes in each quarter, one can notice that the growth in the number of transactions slowed down significantly and amounted to 11% and 27% in 1Q and 2Q2022, respectively.

If we do not consider the data for January 2022, then the analysis shows that transactions for February-June 2022 increased by 25% compared to the same period in 2021, while in the same period of 2021 the number of transactions increased by 64%.

It can be assumed that the growth rate of the market, especially in terms of the number of online purchases, is slowing down regardless of geopolitical factors.



by 27%

number of transactions increased in 2Q2022 compared to 2Q2021

04

Average spend in the retail e-commerce market

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The current geopolitical situation is generally not having a very good impact, since some contracts are transferred to Europe. This, in turn, provokes new working conditions, causing logistics to become more complicated and more expensive, which ultimately affects the range and prices increase of goods.

Mechta.kz

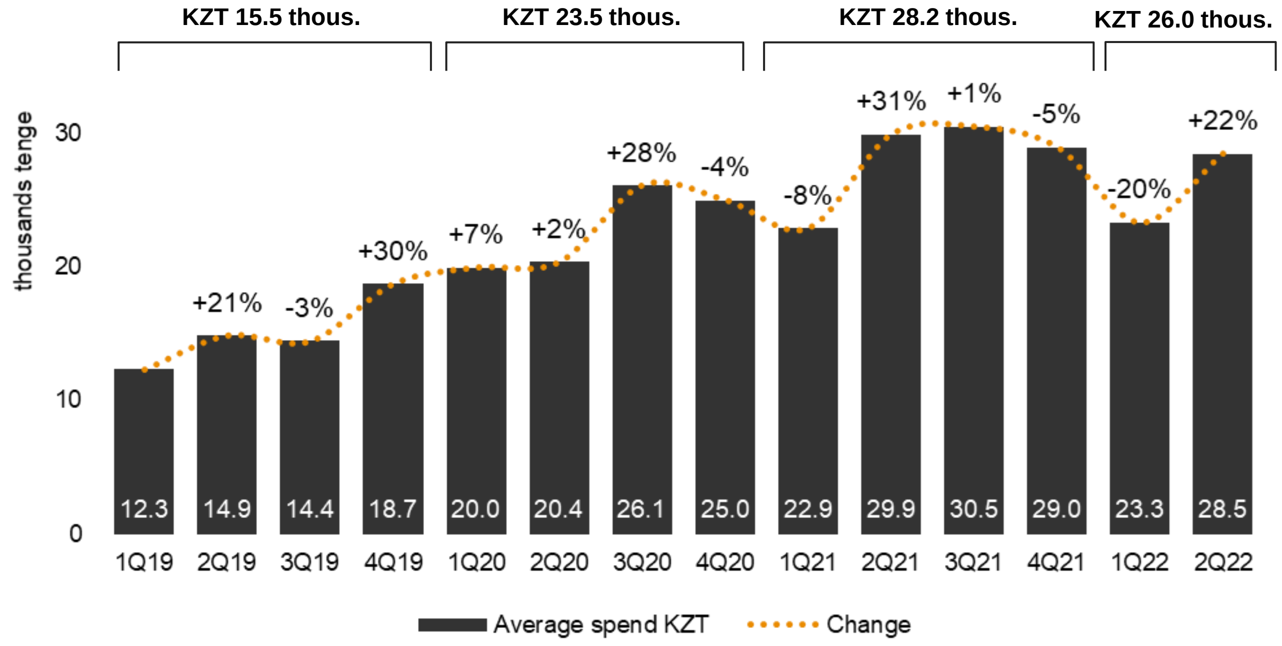
by **20%**

average spend KZT decreased in 1Q2022 compared to 4Q2021

KZT **26** thous.

was the average spend KZT during 6M2022

Change in average spend KZT dynamics by quarters



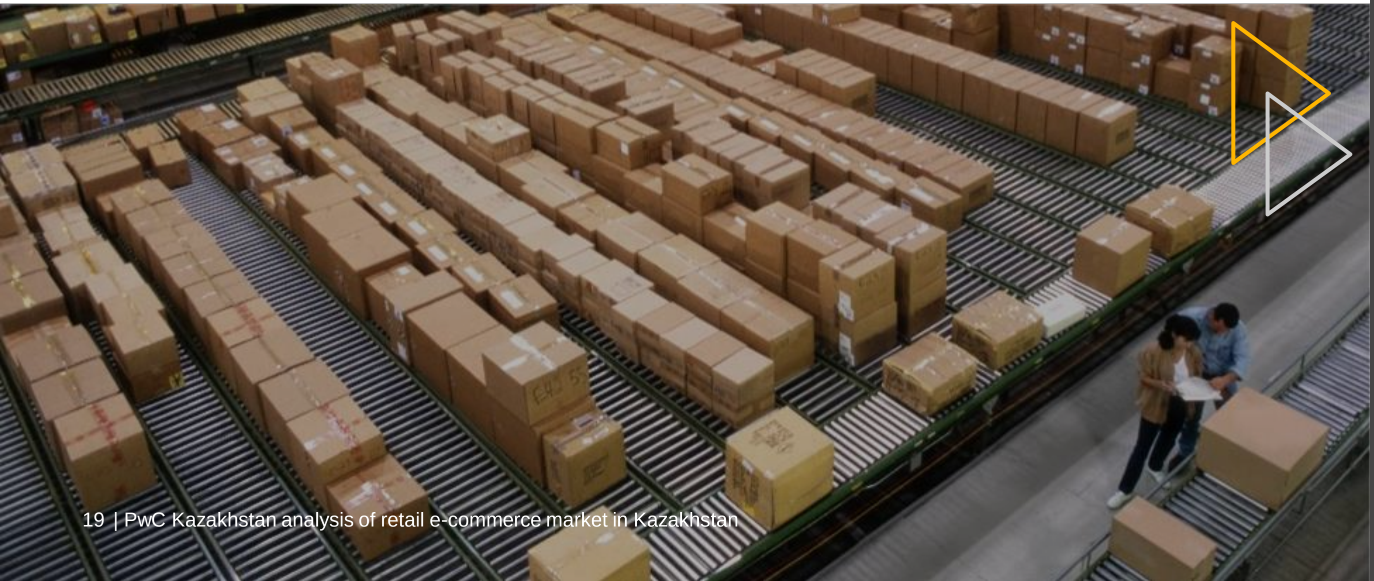
Source: Analysis of the retail e-commerce market in RK

Analyzing the first half of 2022, there is a slight decrease in the average spend by 1%. The amount of sales during the first half of 2022 grew at a slower pace than the number of transactions.

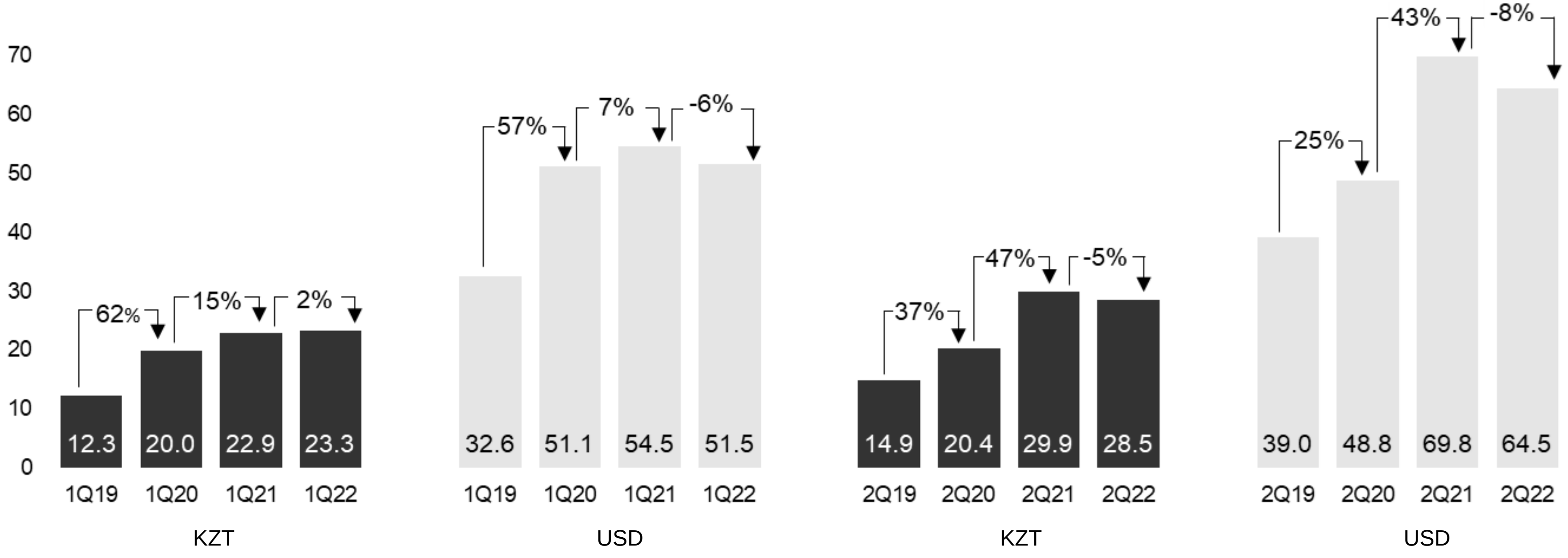
Accordingly, during 6M2022 the annual growth in transactions reached and exceeded the growth in the sales volume, which is contrary to previous market trends. People started to make online purchases for a smaller amount, which can be justified by, among other things, a number of factors: a decrease in purchasing power due to high inflation, the purchase of cheaper alternatives of goods, a decrease in the minimum basket amount subject for free delivery, an expansion of the range of goods, etc.

In 1Q2022, there is historically the largest quarterly drop of 20% in the average spend KZT for the entire analyzed period since January 2019 amid geopolitical events. The volatility of exchange rates and restrictions of online sales in January noticeably reduced purchasing power, thus, consumers opted for essential goods. Overall, the annual decline in the average spend reached 5% in 2Q2022.

In 2Q2022, there was a 22% quarterly increase in the average spend, driven by a sharp increase in the sales volume by 29% and a relatively low growth in the number of transactions of 6%. It is likely that the amount per one online purchase has increased due to rising inflation and prices.



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



by **5%**

amount of average spend KZT decreased in 2Q2022 compared to 2Q2021

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

Observing the annual changes in each quarter of the first half of 2022 and comparing to the same periods of 2019-2021, it can be assumed that people generally began to buy less goods or buy cheaper goods amid rising prices and growing uncertainty about the financial stability.

The annual growth rate of the average spend KZT slowed down significantly, for example in 1Q2022 the growth was only 2% compared to 1Q2021. In 2Q2022, the average spend KZT decreased by 5% compared to 2Q2021.

Despite the low annual growth of the average spend KZT in 1Q2022, the average spend in USD decreased by 6% during the same period, which confirms the strong impact of the sharp jump in the USD/KZT exchange rate in March 2022.

How have the consumer demand and customer behavior changed in the beginning of 2022 compared to 2021?

"As you can see from the statistics, the political situation in 2022 had a significant impact on consumer demand – in January, as a result of the disorders, there was a decline in sales. The panic before a possible devaluation in February caused a sharp increase in demand, but already in March there was a correction and demand decreased again.
Globally, higher prices helped keeping sales at the level of 2022 in monetary terms, but in units, the market shrank by nearly 25%."

Sulpak

"Buyers are increasingly involved in online shopping for everyday goods.
Orders increased more than 5 times in such categories as Food, Pharmacy, Home Goods, Goods children, Beauty and health, Pet supplies.
Fast delivery and the ability to pick up orders in a wide network of Kaspi Postomat devices make such purchases even more convenient."

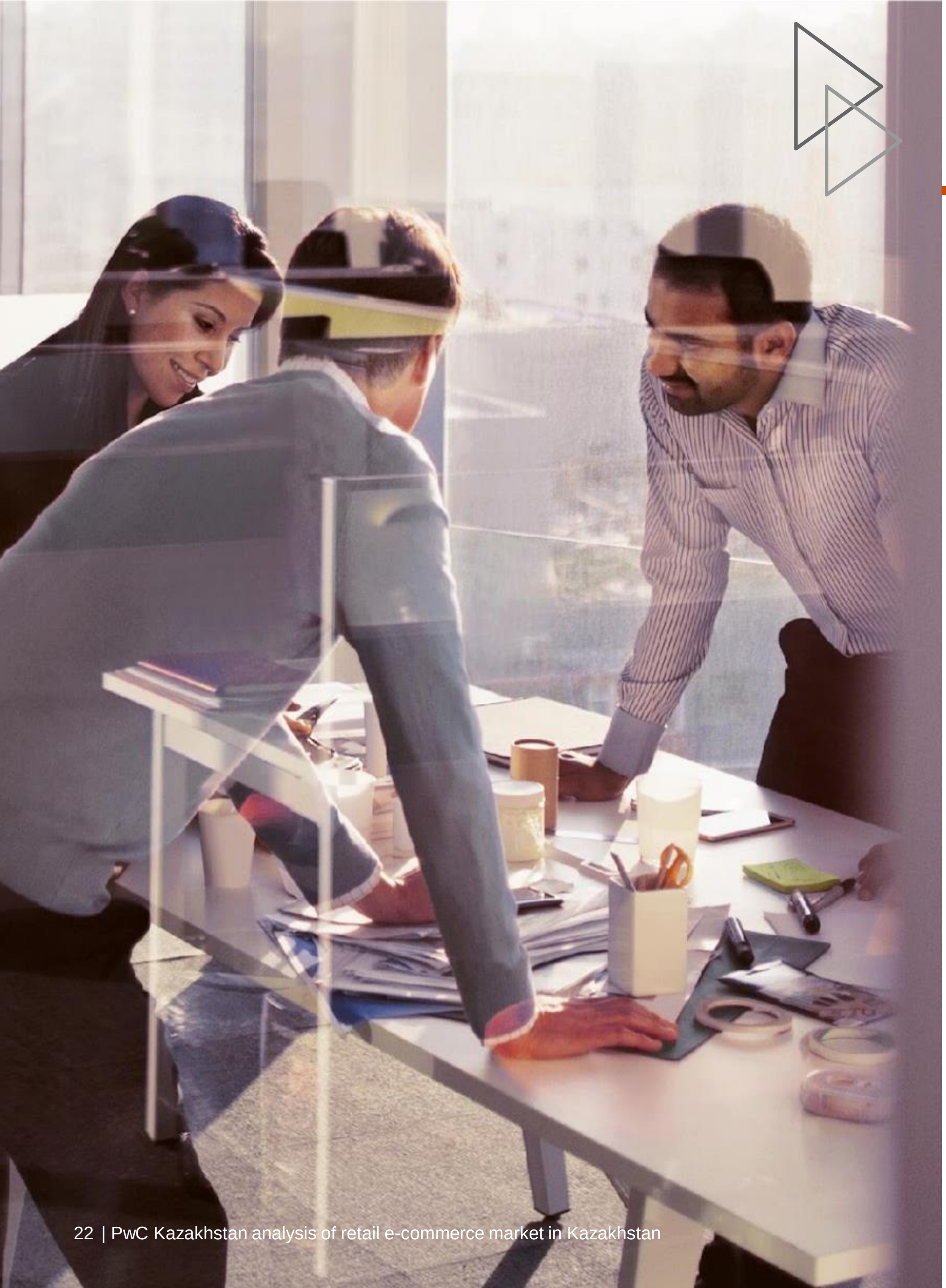
Kaspi.kz

"There have been no significant changes. Among the positive factors is the activity in the housing market and related purchases of household appliances, electronics, and construction materials."

ForteMarket

"We have localized business in Kazakhstan only at the end of 2021. The business is growing steadily, according to the results of the second quarter the number of orders in Kazakhstan doubled compared to the first quarter of 2022. Such a growth is explained by the rapidly growing demand of Russian buyers for the goods of Kazakhstani sellers. In general, Russian buyers order computer components, car consumables, small household appliances and FMCG from Kazakhstan."

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.

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