E-commerce in Georgia

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Sector Research
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Executive summary

The Covid-19 pandemic has boosted Georgia's e-commerce market, as lockdowns encouraged many to purchase online for the first time or increase the frequency of online purchases. The lockdowns also forced Georgian companies to expand their online offerings.

The size of the local e-commerce market increased 3.2x y/y to GEL 137.9mn in 2020, with its share in total (local and cross-border) up from 11% in 2018 to 23% in 2020, according to our estimates. However, the e-commerce penetration rate in Georgia is very low at 1.1% of retail sales, far from the average 12% in Europe. Furthermore, total annual e-commerce spending per user stood at c. GEL 950 in 2020 in Georgia, 3x lower than that of European average. With development of local retailers' online platforms and increased trust from customers, we believe the share of local e-commerce will rise, grabbing more than half of total e-commerce spending by 2025.

We expect local e-commerce spending to grow at a CAGR of 52% to GEL 1.1bn over 2020-25, yielding penetration rate of 4.7%. We believe that the Georgia's e-commerce sector growth will be supported by: 1) an increasing number of users engaged in online shopping; 2) growth in average annual spending per customer; and 3) local online retailers grabbing a larger share from cross-border online spending. We see ample room to scale up across all product categories as e-commerce penetration is less than 3% in every product segment in Georgia.

The most popular category in local e-commerce is electronics, household appliances and equipment, accounting for 65% of local e-commerce sales in 2020, according to our estimates. Retailers in this category started to invest in digital channels long before Covid-19 hit, entering lockdown more prepared than other sectors. Apparel and accessories are the 2nd-largest category, grabbing 16% of the local e-commerce market, followed by home and furnishing materials with an 8% share in 2020.

Food delivery earned a special niche in Georgia's digital buying ecosystem as Georgian retailers used food delivery channels to deliver grocery, personal care and pharmaceutical products during the pandemic. This is contrary to developed markets, where retailers have their own in-house delivery services. We estimate the food delivery sector turnover at GEL 167mn in 2020 up 3x from 2019, with grocery and personal care products accounting for 20% of the total. Whether retailers will stick with this third-party delivery scheme or invest in their own delivery channel depends on different factors, including availability of financial and human resources.

We estimate cross-border e-commerce spending at GEL 459mn in Georgia in 2020, having grown at an average annual rate of 40.3% over 2018-20. The four largest foreign online platforms – Amazon, eBay, Taobao and Aliexpress – command 2/3 of total cross-border purchases but face increasing competition from small market players in apparel, accessory, beauty and cosmetic retail sectors. International online retailers attract customers with their low prices, large product variety and superior user experience, offsetting the disadvantages of their long delivery time and additional shipping charges.

Improvement of user experience is crucial for sector development. Poor customer experience of local online shops remains a challenge - most online retailers lack the basic features for convenient shopping (including price lists, product availability, geographic coverage, etc.). As a result, Georgians spend 3.3x more on international online shops than locally. Improvement of full shopping experience (from search to delivery) is crucial to attract and retain users, requiring huge financial and human resources. Therefore, economies of scale are vital for e-commerce development, creating strong growth potential for leading third-party marketplaces. Mymarket.ge (primarily C2C model) is the largest online shopping platform in Georgia, attracting more than a million unique visitors monthly (2021). Extra.ge is the largest B2C marketplace (c. 500k monthly unique visitors), followed by vendoo.ge (230k unique visitors) and be.ge (>130k). **On top of this, there is an urgent need to improve digital infrastructure, increase usage of internet/mobile banking services and develop logistics environment.** In this regard, Georgia should capitalize on its developed banking sector, widespread internet accessibility and the country's relatively youthful population.

E-commerce market in Georgia

The Covid-19 pandemic has boosted Georgia's e-commerce market, as lockdowns encouraged many to purchase online for the first time or increase the frequency of online purchases, while forcing Georgian companies to expand their online offerings. Despite growth, the e-commerce penetration rate (1.1% of retail sales) is still far from the average 12% observed in Europe. We believe that the e-commerce sector will keep growing, supported by: 1) an increasing number of users engaged in online shopping; 2) growth in average annual spending per customer; and 3) local online retailers grabbing a larger share from cross-border online spending.

631k online shoppers

GEL 597mn total e-commerce (local and cross-border) spending

GEL 950 average annual spending per user

23% share of local e-commerce in total

1.1% local e-commerce as % of retail sales

Note: 2020 year

We define e-commerce market as online sales of goods to a private end-user (B2C). E-commerce spending includes online purchases from local, as well as international (cross-border) shops. We exclude digitally distributed services (e.g. travel and event tickets), digital media, entertainment (e.g. online gambling), and food delivery service (discussed detailed on page 8) from the definition of e-commerce. In this report we focus on business-to-consumer (B2C) e-commerce, being currently at development stage. Growth of B2C e-commerce in Georgia will trigger growth in costumer-to-customer (C2C) and business-to-business (B2B) online sales in the future.

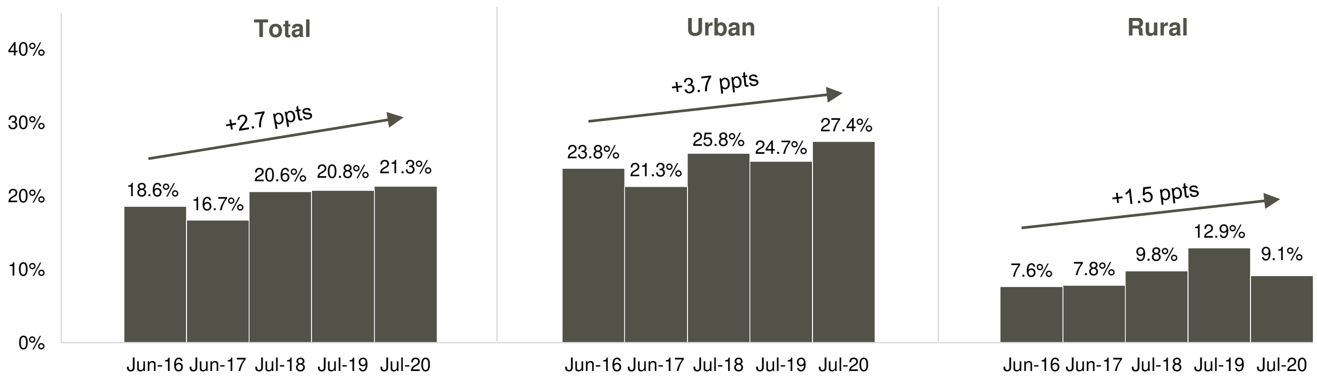
Market overview

Online spending had been increasing over the past couple of years in Georgia accelerating in 2020. Convenience and larger product variety are key factors increasing the attractiveness of online shopping. However, a love of the shopping experience and the ease and speed of shopping in stores remain the main disincentives to buying online.

Some 21.3% of the adult population or 630.7k people purchased goods or services online in Georgia during July 2019-20 (GeoStat calculates this figure for June or July every year). The share of online shoppers is higher in urban areas, standing at 27.4% vs 9.1% among the rural population. Despite this growth, the share of internet shoppers in Georgia is still low at 17% of total population, far below many regional and all EU countries (see Figure 2), indicating ample room for growth.

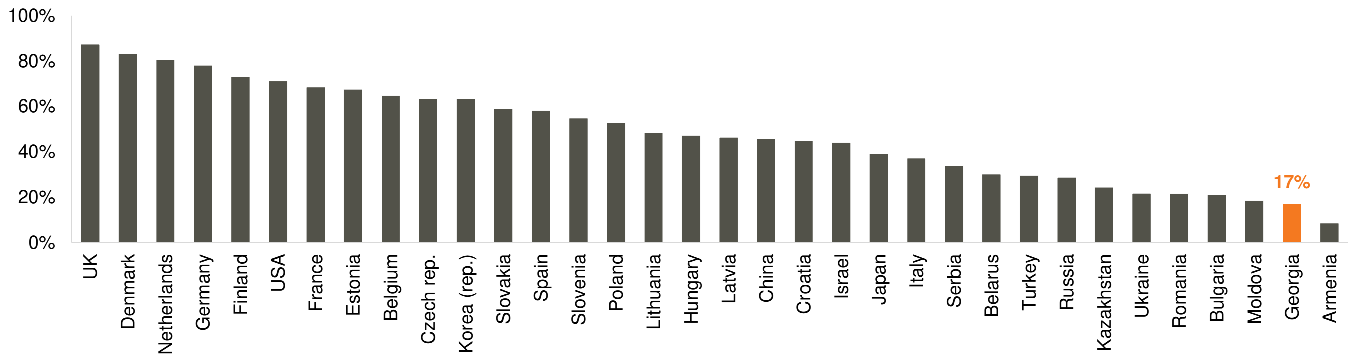
Figure 1: Share of online shoppers is higher among urban residents

Share of 15+ population who purchased goods/services online during last 12 month in Georgia



Source: GeoStat

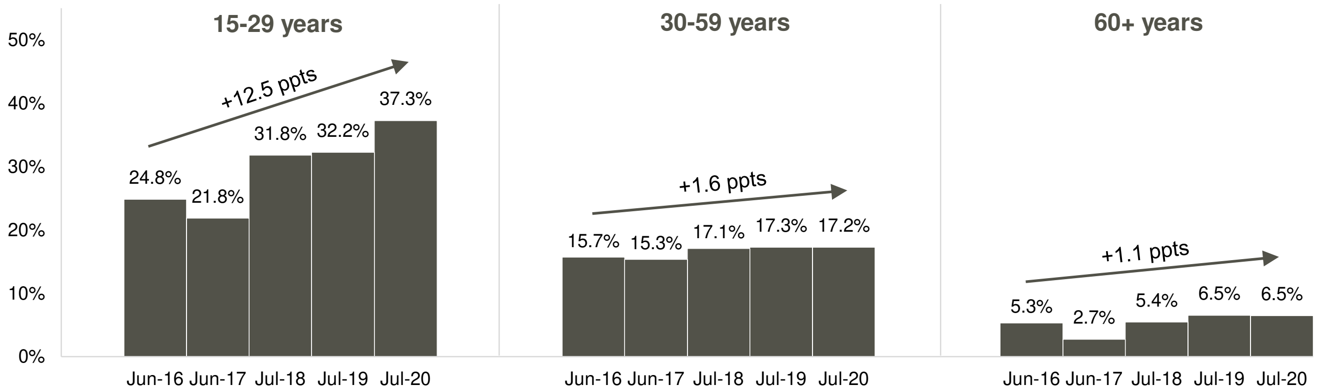
Figure 2: Share of online shoppers in Georgia is still far below levels found in developed countries
Internet shoppers as a share of total population, latest data available (2017-20)



Source: UNCTAD, GeoStat, Galt & Taggart

Not surprisingly, the younger population has adopted online shopping at a faster pace than older generations. Some 37.3% of 15-29-year-olds purchased goods or services online in 2020, up 12.5ppts over 2016-20. Meanwhile, only 17.2% of 30-59-year-olds and 6.5% of the 60+ population bought online in 2020, showing only low single-digit growth over 2016-20.

Figure 3: 15-29 year-olds have adopted online shopping at a faster pace vs. older generations
Share of 15+ population who purchased goods/services online during last 12 months, by age groups

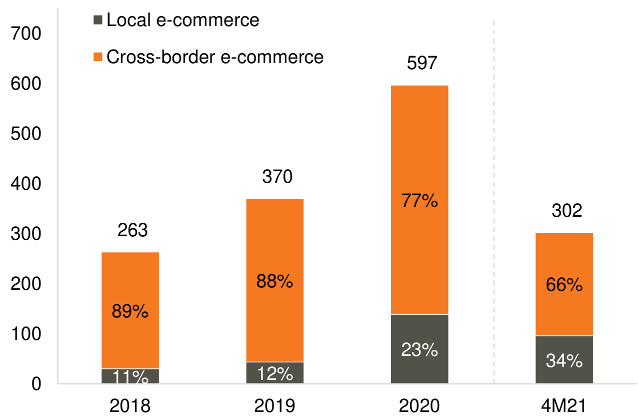


Source: GeoStat

We estimate total e-commerce expenditure to be GEL 597mn in 2020 (including local and cross-border e-commerce)**.** This translates into approximately GEL 950 average annual spending per user in Georgia – 3x lower than that of European countries on average. With the development of the e-commerce environment and the increasing purchasing power of Georgian households, average annual spending per customer is expected to grow.

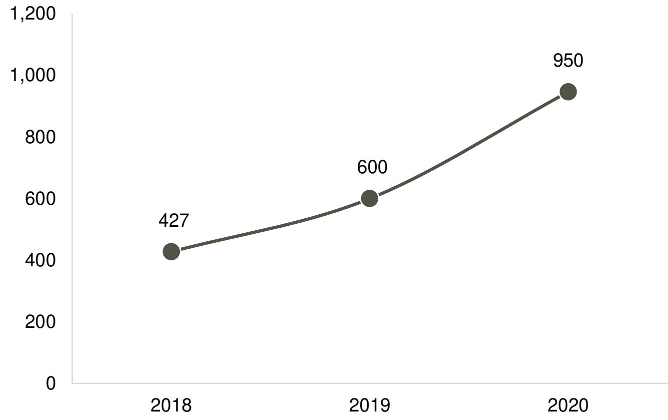
Online shoppers in Georgia prefer international retailers. The lower prices and larger product variety of international online retailers attract more and more Georgian customers every year, grabbing 3/4 of total e-commerce spending in 2020. Importantly, the Covid-19 outbreak forced local companies to increase their online presence. As a result, the share of local e-commerce more than doubled, up from 11% in 2018 to 23% in 2020, according to our estimates. With the development of local retailers' online platforms and increased trust from customers, we believe the share of local e-commerce will continue to rise, grabbing more than half of total e-commerce spending by 2025 (see outlook on page 20).

Figure 4: Most online spending goes to foreign retailers
Market size of local and cross-border e-commerce in Georgia, GEL mn



Source: NBG, Galt & Taggart

Figure 5: Annual spending per online shopper rises
Average annual spending on online shopping per user in Georgia, GEL



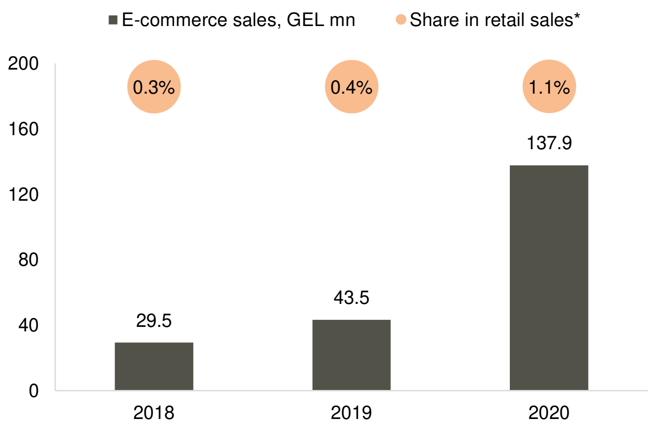
Source: NBG, GeoStat, Galt & Taggart

Local e-commerce market

Covid-19 pandemic boosted Georgian e-commerce market as lockdowns encouraged many to purchase online for the first time or increase the frequency of their purchases. As a result, the local e-commerce market size increased 3.2x y/y to GEL 137.9mn in 2020 and 5.4x y/y in 1Q21. We believe the shift in purchasing behavior will persist, keeping the e-commerce sector growing even after the Covid-19 boost is finished (see page 20 for future outlook).

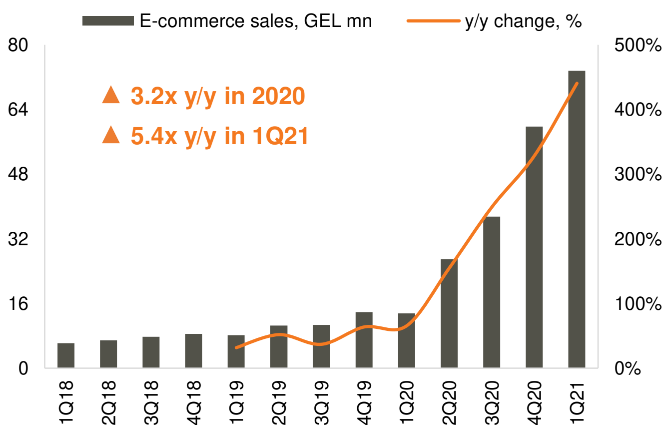
Figure 6: E-commerce market size increased 3.2x y/y to GEL 137.9mn in 2020 and keeps growing in 2021

Size of and penetration local e-commerce sector in Georgia



Source: NBG, Galt & Taggart
*Note: does not include retail sale of vehicles and fuel

Size and annual growth of local e-commerce sector in Georgia by quarters

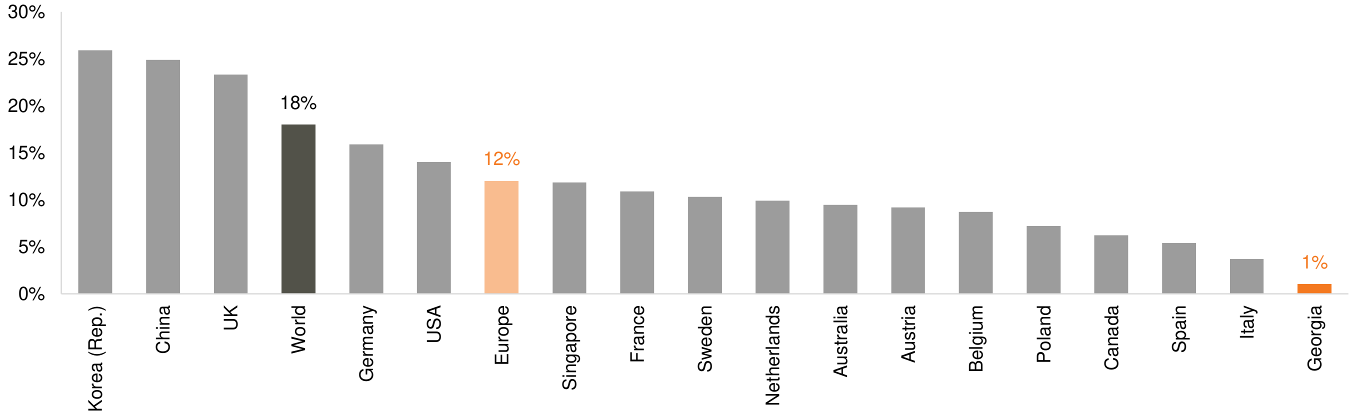


Source: NBG, Galt & Taggart

E-commerce represents only 1.1% of total retail sales in Georgia (2020), according to our calculations, showing strong growth potential ahead. Despite rapid growth in 2020, the e-commerce penetration rate is still far from the levels observed in developed markets (e.g. 12 % in Europe).

Figure 7: E-commerce penetration rate in Georgia is still far below that of developed economies

E-commerce share in retail sales, latest data available (2019-20)

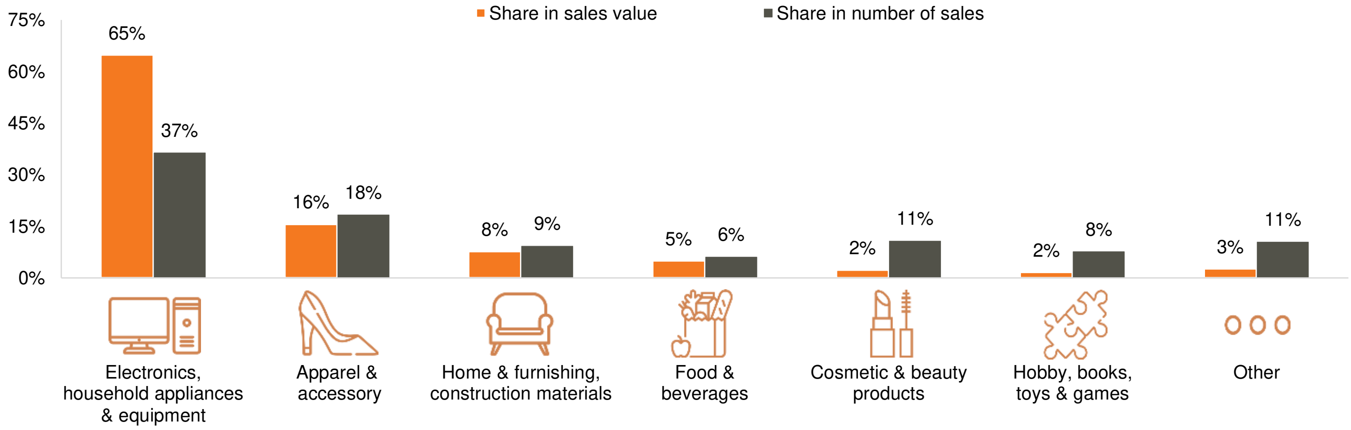


Source: UNCTAD, Statista, Galt & Taggart

The most popular category among Georgian online shoppers is electronics, household appliances and equipment, accounting for 65% of local e-commerce sales in 2020, according to our estimates. Apparel and accessories are 2nd-largest category, grabbing 16% of the local e-commerce market, followed by home and furnishing materials with an 8% share, in the same period.

Figure 8: Electronics, household appliances and equipment is the most popular category among Georgian online shoppers

Top product categories among online shoppers on Georgian e-commerce, 2020



Source: Galt & Taggart
Note: Does not include food delivery sector

Significant growth opportunity for all product categories. E-commerce penetration ranges from approximately 0.5% in grocery and non-specialized stores to c.3% in electronics/appliances and apparel/accessory sectors, indicating ample room to scale up across all categories.

Cash payments, not included in market sizing, amounts approximately 15-20% of total e-commerce turnover, according to our estimates. Sometimes consumers order product online, but prefer to pay in cash after the delivery. The main reasons for not paying online are little trust in digital payments and low usage of mobile/internet banking. We expect the share of digital payments to rise, supported by adoption of mobile/internet banking and increased trust to online payments.

Food delivery sector in Georgia

Though food delivery service is not included in e-commerce sector[1], the undeveloped online platforms of Georgian retailers encouraged food delivery service providers to incorporate delivery of groceries, personal care items and pharmaceutical products during the pandemic. As a result, the food delivery companies' platforms became a way for consumers to shop in supermarkets and pharmacies, which is not the practice in developed markets.

Covid-19 was a game changer for the food delivery sector. We estimate the food delivery sector at GEL 167mn in 2020, tripling from the previous year's figure. The improvement is seen both in the number and average size of orders:

- The number of orders grew 146% y/y to 5.3mn in 2020 and it kept rising in 1Q21.
- The average order size was GEL 31.5 in 2020, up from GEL 26.2 in 2019.

We estimate approximately six orders per client annually. Many customers use food delivery services only rarely (once or twice a year), weighing on the average indicator. Turning passive customers into active users via subscription schemes and other offerings can help to increase average spending per customer.

Two international players – Glovo and Wolt – are the primary choice for food delivery services in Georgia. Both players are represented in more than 20 countries globally, delivering in the five largest cities of Georgia (Tbilisi, Batumi, Kutaisi, Rustavi, and Zugdidi). The sector is quite consolidated with the two largest players grabbing c.95% of the market as of 2020. Notably, competition intensified in 2021, with Bolt Food, Elvis and other smaller players entering the market.

We estimate the share of grocery and personal care products up to 20% of total food delivery turnover in Georgia. Active users of food delivery services represent a potential pool of online shoppers for large-scale supermarket and hypermarket chains. Notably, retailers in developed countries have their own delivery services and Georgian retailers may also shift to this practice. Whether retailers will stick with third-party delivery or invest in their own delivery channel depends on their financial as well as human resources. If they choose the latter, Georgian retailers will need to invest heavily in the development of user-friendly platforms (web and mobile ecosystems), create loyalty programs and provide a customer-oriented omni-channel experience.

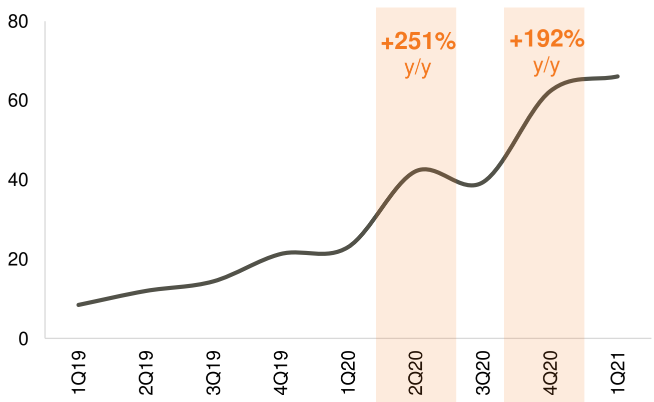
Key stats of food delivery sector in Georgia, 2020

GEL 167.0mn Market size	**+3x y/y** Growth in 2020
GEL 31.5 Average order size	**6 orders** Per client annually

Source: Galt & Taggart

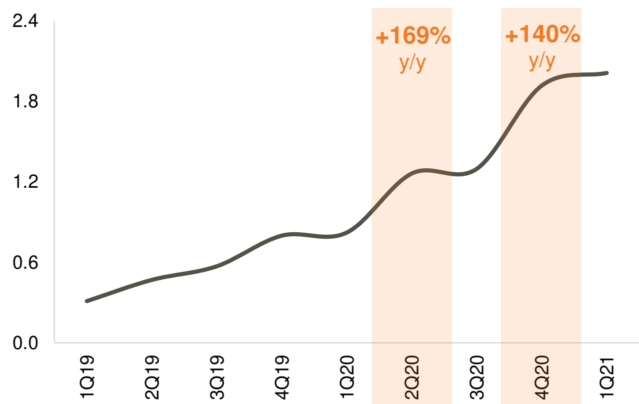
Figure 9: Spending on food delivery tripled in 2020 from previous year's figure

Size of food delivery sector in Georgia, GEL mn



Source: Galt & Taggart

Size of food delivery sector in Georgia, number of orders, mn



Source: Galt & Taggart

[1] Generally, food delivery service represents distributing a ready-to-eat or specially prepared food from hospitality establishments (not retailers) to consumers.

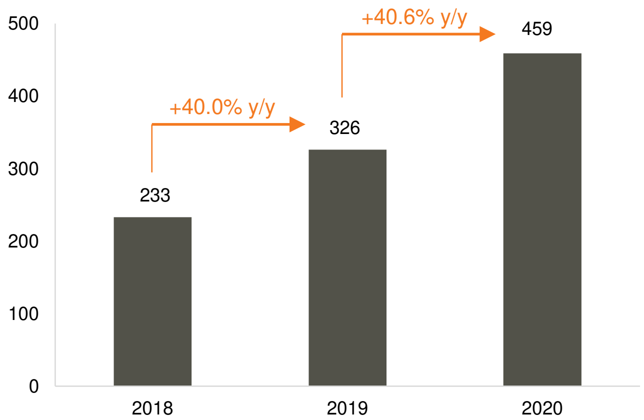
Cross-border e-commerce market

International online shops are very popular in Georgia. American (e.g. Amazon, eBay), Chinese (e.g. Taobao, Aliexpress) and European (e.g. Asos) online shops attract customers with their low prices, large product variety and superior user experience, offsetting the disadvantages of their long delivery time and additional shipping charges. Notably, transportation to Georgia simplified significantly, backed by emergence of international shipping companies (e.g. USA2GEORGIA, Barami Logistics, etc.) and improved services of Georgian Post, supporting the demand on cross-border e-commerce. The most popular categories driving cross-border e-commerce purchases in Georgia are electronics, apparel and accessories, cosmetics and beauty products due to their smaller package size and therefore lower shipping costs.

We estimate cross-border e-commerce spending at GEL 459mn in Georgia in 2020 having grown at an average annual rate of 40.3% over 2018-20. The four largest players – Amazon, eBay, Taobao and Aliexpress – take 2/3 of total cross-border purchases, although there is increasing competition from small but fast-growing market players in apparel, accessory, beauty and cosmetic retail sectors.

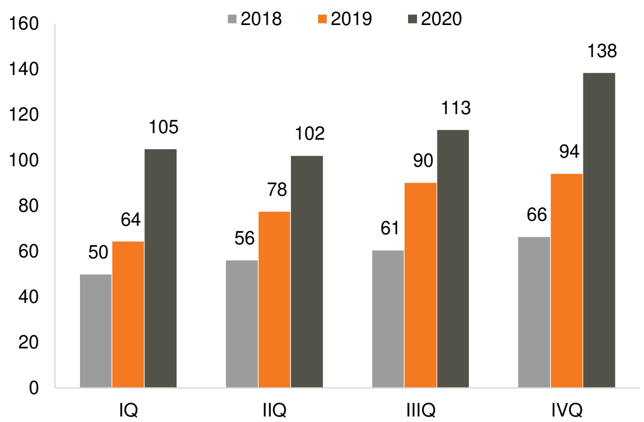
Figure 10: Cross-border e-commerce spending grew at average 40.3% annual rate over 2018-20

Size of cross-border e-commerce sector in Georgia, GEL mn



Source: NBG, Galt & Taggart

Size of cross-border e-commerce sector in Georgia by quarters



Source: NBG, Galt & Taggart

Traffic analysis on leading online shops

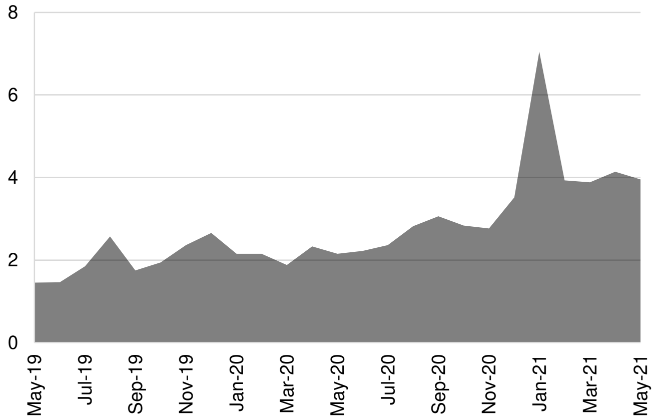
Consumers have been spending more time online since the pandemic, increasing their engagement with not only social media and online entertainment channels but online shops as well. There were two Covid lockdowns in Georgia, the first in spring 2020 and the second from December 2020 to January 2021. Notably, retailers entered the second lockdown with improved capabilities. The trade sector overall posted growth of 3.9% y/y in 1Q21 vs a contraction of 18.8% y/y in 2Q20, which can be partly attributed to improved online shopping possibilities.

Traffic to online shops increased 3-4x times over 2019-21 in Georgia, peaking in January 2021, due to holiday season and lockdown in winter 2020-21. Non-specialized online stores, electronics, household appliances and equipment providers, home and furnishing retailers entered lockdowns with somewhat developed online platforms vs other sectors, recording the highest engagement growth. Mymarket.ge, extra.ge, hotsale.ge, vendoo.ge in the non-specialized category; zoommer.ge, alta.ge and ee.ge in the electronics/appliances category; and domino.com.ge and gorgia.ge in the home and furnishing segment are the largest online platforms in Georgia, discussed in detail below.

Mymarket.ge is the largest online shopping platform in Georgia, attracting more than a million unique visitors monthly (2021). Even though mymarket.ge is currently a C2C platform, small-sized companies with no resources to develop their own digital channels are using the website as a third-party marketplace. **Extra.ge** is the largest B2C marketplace with c. 500k unique visitors monthly, followed by **vendoo.ge** (230k unique visitors) and **be.ge** (>130k unique visitors).

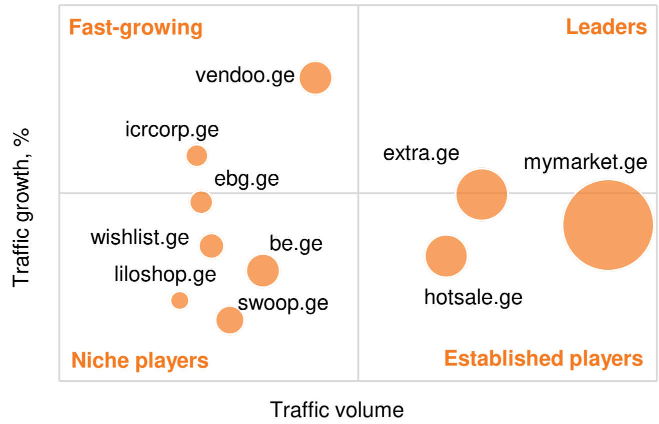
Figure 11: Mymarket.ge and extra.ge largest online shops in Georgia in terms of total visits

Traffic to non-specialized online stores, mn visits



Source: Semrush

Traffic to top non-specialized online stores, May-20 – May-21

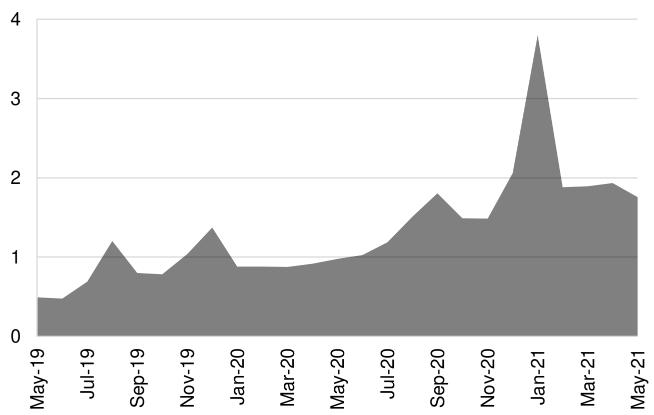


Source: Semrush
Note: bubble size relative to unique visits

Electronics, household appliances and equipment retailers started to invest in digital channels long before Covid-19 hit, entering the lockdowns more prepared than other sectors. Notably, most players in this sector developed multi-channel sales strategies, providing an online as well as bricks-and-mortar experience. Well-established players, such as **zoommer.ge** and **alta.ge**, enjoy high brand awareness and a large customer base, attracting on average 300k and 200k unique visitors monthly, respectively (during May 2020 and May 2021). Notably, there are several fast-growing platforms and niche players fueling competition between online retailers in this sector (see Figure 12).

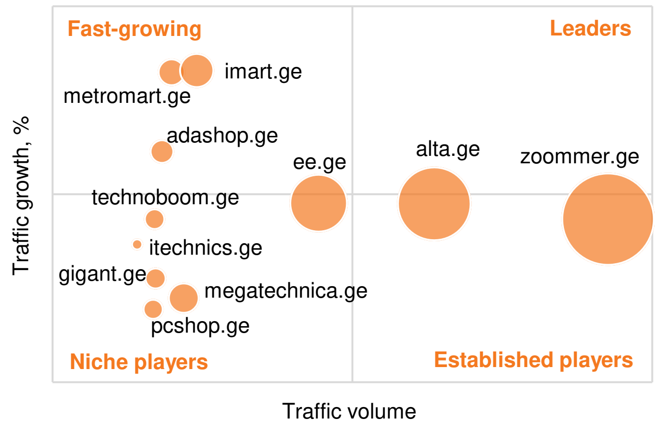
Figure 12: Electronics/appliances retailers entered the lockdowns more prepared than other sectors, reaching highest engagement

Traffic to electronics, household appliances & equipment e-commerce, mn visits



Source: Semrush

Traffic to top players of electronics, household appliances & equipment e-commerce

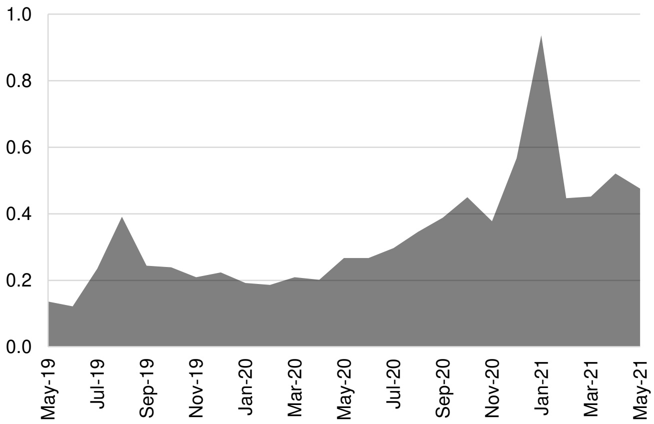


Source: Semrush
Note: bubble size relative to unique visits, May-20 to May-21

Home, furnishing and construction materials retail is another sector with several success stories of online adoption. Companies in this sector also use multi-channel sales strategies, giving customers the opportunity to browse and purchase products both online and offline. Traffic to websites selling home, furnishing and construction materials increased almost 4x over 2019-21. **Gorgia.ge** and **domino.com.ge** are the largest market players.

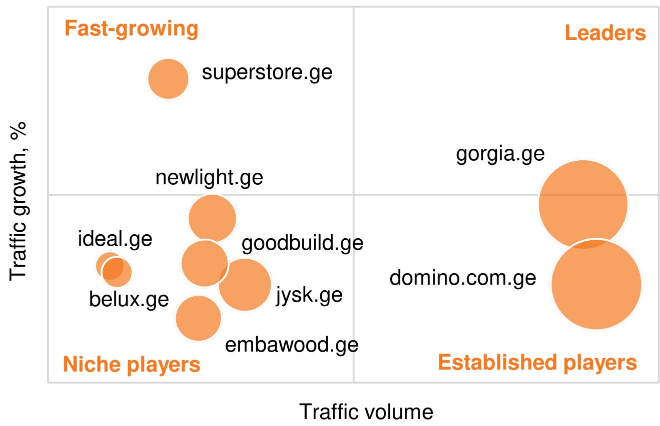
Figure 13: Traffic to websites selling home, furnishing and construction materials increased almost 4 times over 2019-21

Traffic to home and furnishing, construction materials e-commerce, mn visits



Source: Semrush

Traffic to top players of home and furnishing, construction materials e-commerce



Source: Semrush
Note: bubble size relative to unique visits, May-20 to May-21

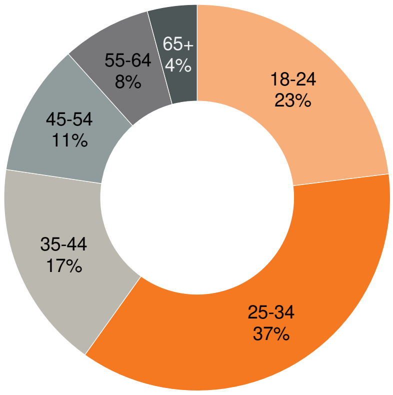
Other sectors such as apparel and accessories, cosmetic stores, hobby, books, toys and game shops, retailers of pet supplies and other miscellaneous products are also trying to expand their digital presence. However, due to these sectors' relatively smaller size and high fragmentation, large online platforms are not yet available. Such small-sized retailers, with no financial or human capital to develop and maintain their own digital infrastructure, will benefit from the development of third-party marketplaces.

Some 1%-2% of visits turn into actual purchases, according to our estimates, with variations for different sectors and product categories. Users often conduct online research on the availability and prices of products, and then prefer to see and touch actual products in bricks-and-mortar stores before purchasing. Therefore, a multi-channel sales strategy is most appropriate, especially for electronics and appliances, home and furnishing, apparel and other retailers.

Unsurprisingly, the younger generations show the highest engagement in online shopping websites. More than 75% of traffic to e-commerce retailers comes from the 18-44-year age group. Notably, gender distribution is fairly equal, with a slightly higher share of the male population engaged in electronics, household appliance and equipment retail and higher share of the female population in home, furnishing and apparel retailing.

Figure 14: Younger population show highest engagement in online shopping

Traffic to Georgian e-commerce websites by age groups, 4M21



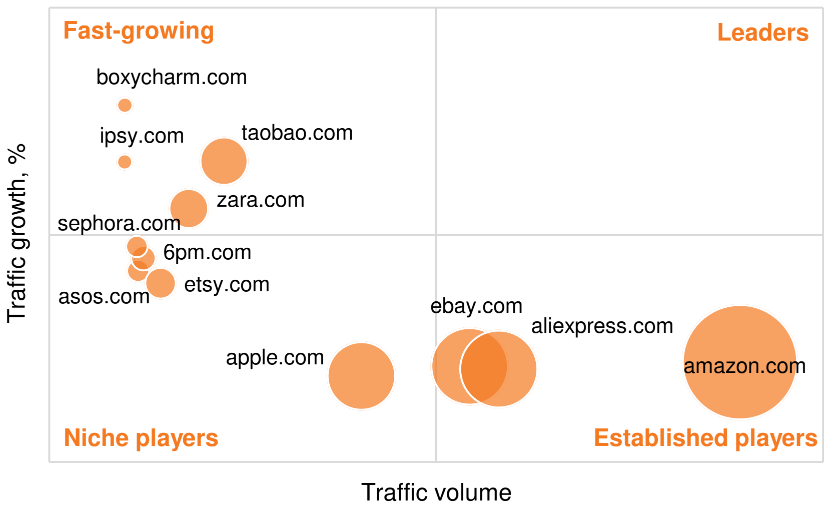
Source: Semrush, Galt & Taggart

Cross-border e-commerce

Traffic to international e-commerce websites increases steadily. Amazon.com is the most established player, attracting c.350k visitors from Georgia monthly. Amazon is followed by ebay.com and aliexpress.com, each with c.160k Georgian visitors monthly**.** Other fast-growing platforms and niche players in the apparel, accessory, beauty and cosmetics retail sectors are attracting an increasing number of Georgian customers (see Figure 15).

Figure 15: Amazon, ebay.com and aliexpress.com are most popular international online shops

Traffic to top cross-border e-commerce websites from Georgia, May-20 – May-21



Source: Semrush
Note: bubble size relative to unique visits

Opportunities for sector development

A user-friendly, efficient online shopping experience is essential in developed markets, but in Georgia it is still only an advantage. Some large-scale online shops opt for high customer satisfaction but most online retailers lack such basic features as:

- Full catalog of products and prices
- Detailed product descriptions
- Product return and refund possibilities
- Up-to-date information about availability of products
- Delivery services in all geographical areas
- Clean navigation menu, search and filtering tools
- Personalized recommendations
- Consumer reviews module
- Customer support module/live chat for instant communication
- Multiple payments methods
- Product comparison option
- Tracking options for delivery
- High quality photo/video visualizations, etc.

Improvements in technical functionality will increase user engagement and the likelihood of visitors making a purchase. A user-friendly interface, diverse array of tools, personalized recommendations, advanced search technologies and other features cause higher engagement in international online shops compared to local websites. Georgian customers spend on average twice as much time on international e-commerce websites and go through twice as many pages as on Georgian websites (see Annex 3). Improving the user experience is crucial for attracting and retaining users, increasing the likelihood of visitors making a purchase.

Mobile apps are becoming the leading channel for e-commerce globally but remain an underdeveloped area in Georgian e-commerce. Online shoppers expect a computer-like functionality when buying online from a mobile app. Most Georgian online shops cannot provide a user-friendly mobile experience or do not have a mobile app at all. There are some success stories, such as Phubber – an apparel and accessory online shop, mainly focusing on the C2C business model, but also providing a B2C sales option for local designers and small-sized retailers. Notably, mymarket.ge – the largest online shopping platform in Georgia – introduced its first mobile app in June 2021, providing both C2C and B2C models, with the aim of incorporating advanced search technologies and personalized recommendations. We believe other large-scale retailers will also start to invest to develop their mobile ecosystem, diversify their sales channels and grab a larger share of the underutilized digital market.

Social networks are coming to the forefront of e-commerce channels. Many small-sized entities or individual entrepreneurs, with no resources to develop their own digital platforms, market their products via social media. This trend is especially seen among retailers of apparel and accessories. Furthermore, customers often take into account recommendations from friends, influencers and other connections on social media when making purchasing decisions. Therefore, social media is becoming a powerful platform to promote products for both new and already well-established retailers.

E-commerce drivers

Generally, the economic development of a country, its digital infrastructure, access to banking services and demographic tendencies determine the pace of e-commerce development. Georgia's developed banking sector, widespread internet accessibility and relatively youthful population suggest that it has favourable e-commerce prospects. However, the low purchasing power of Georgian households, the poor logistics environment, and low urbanization rate hinder e-commerce development.

83.8% of households have access to internet
52.6% of total population are under 40
59.0% of total population live in urban areas
24th out of 190 countries by access to financial services
119th out of 160 countries by logistics performance

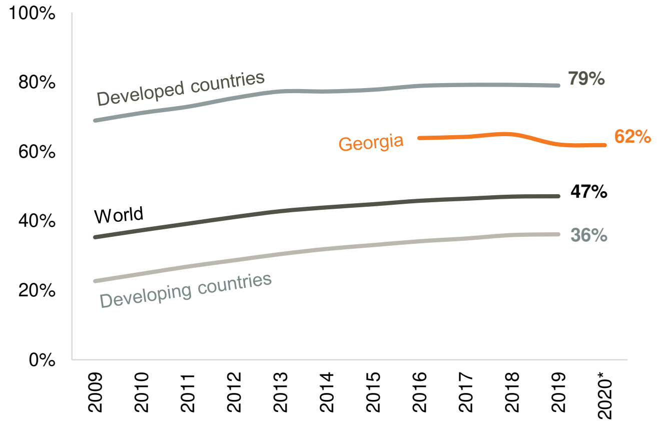
Digital infrastructure

Access to ICT has been on the rise globally over the last decade but the gap between developed and emerging countries is still significant. In developed countries, 79% of households have a computer and 85% have access to the internet – twice as much as households in developing countries (36% and 48%, respectively, in 2019).

Georgia enjoys high internet access like developed countries but lags in computer access (though high level of smartphone ownership makes this insignificant). Access to internet for Georgian households stood at 83.8% in 2020, (+13.8ppts over 2016-20) – above the CIS average and close to the European average. Internet access varies by region, with the highest rates in Tbilisi and Adjara (above 90% in 2020) and lowest in the Racha-Lechkhumi and Kvemo Svaneti region (53%). Computer access in Georgia remains rather low at 62% in 2020, above the world average (47%) but below the 79% reported in developed countries.

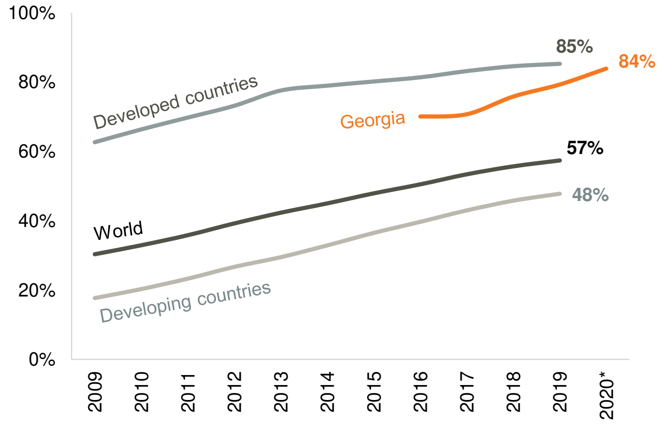
Figure 16: Internet access for households in developed countries is twice as high as in the third world countries

Share of households with a computer



Source: ITU, GeoStat
* July 2020

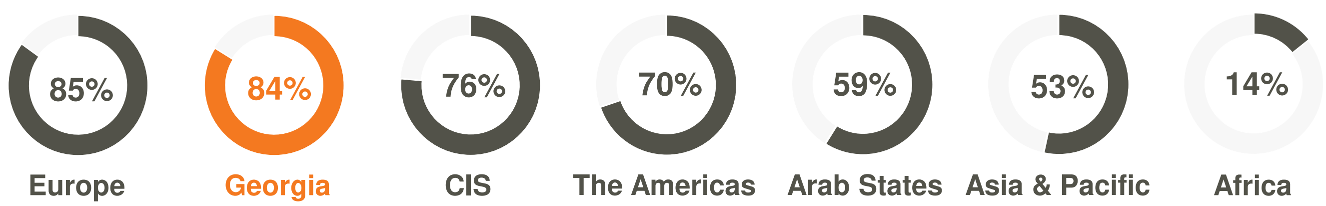
Share of households with Internet access



Source: ITU, GeoStat
* July 2020

Figure 17: Internet access in Georgia is above CIS and close to European average

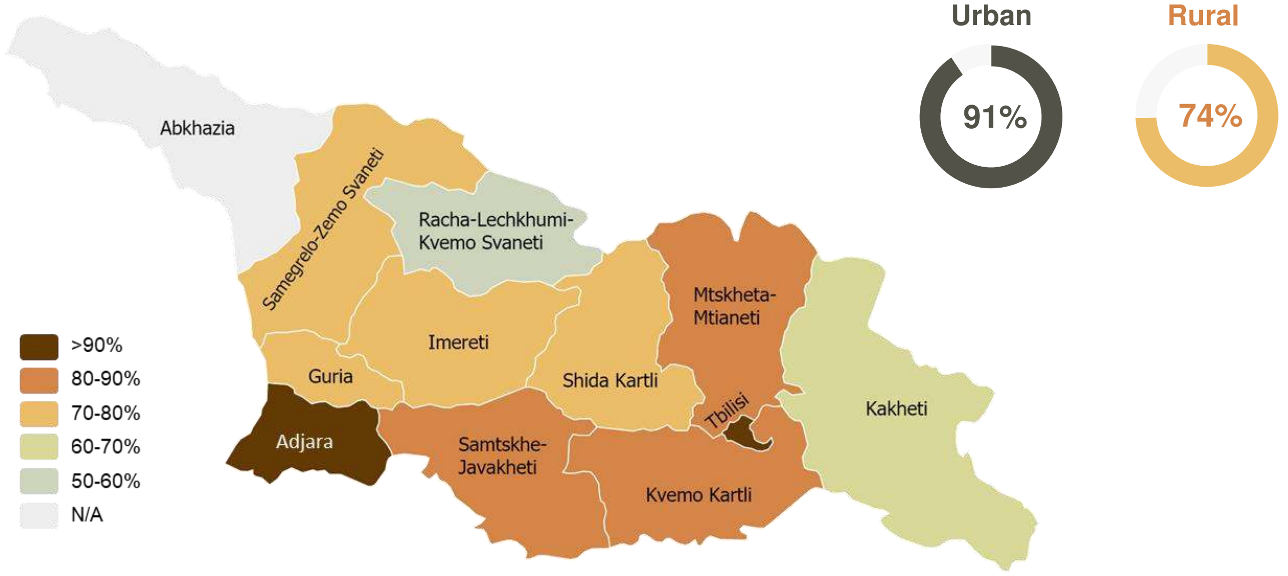
Share of households with internet access by region



Source: ITU, GeoStat
Note: reference year is 2020 for Georgia and 2019 for other regions

Figure 18: Internet access varies by region, reaching 91% in urban and 74% in urban areas

Share of households with internet access in Georgia, July 2020



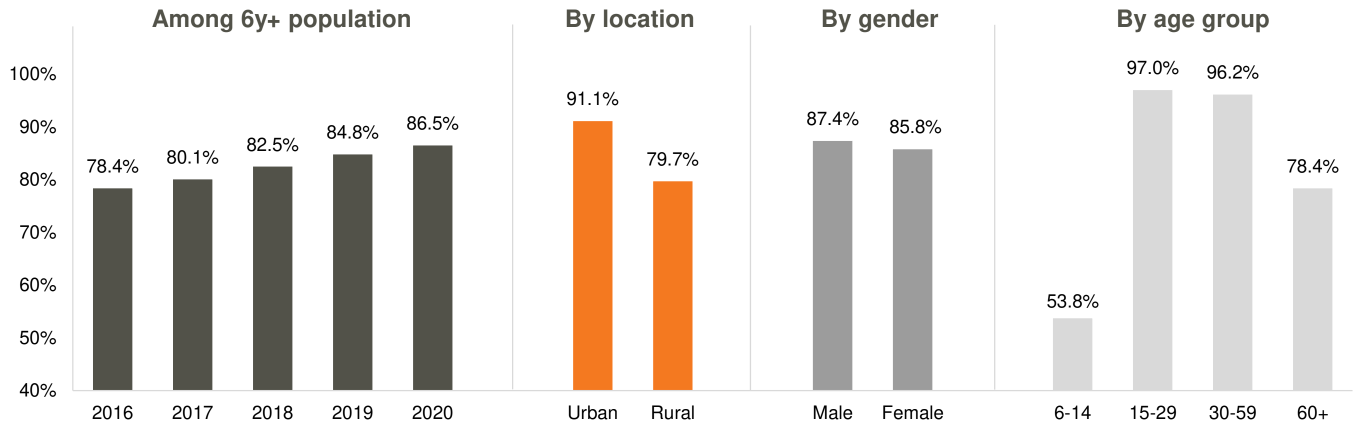
Source: GeoStat

Access to the internet growing faster than access to computers. Computers are no longer the main gateway to the internet – smartphones are. More than 90% of the world population has access to a mobile-broadband network.[2] In practice, all urban areas worldwide are covered by a mobile-broadband network while rural areas are still underdeveloped.

In Georgia, 86.5% of population (6+ years old) own a mobile phone, up from 78.4% in 2016. Mobile phone penetration varies for different demographic groups and is highest among the urban, younger (15-59) and male populations. Notably, gender, age and urban-rural gaps narrowed over 2016-20, and these are expected to reduce further. The smartphone penetration rate is the better indicator for assessing access to advanced internet-based services. We estimate smartphone ownership at approximately 67% of the total (6+ years old) population in Georgia, with the older and rural populations falling behind.

Figure 19: Mobile phone penetration is higher in urban, younger and male population

Mobile phone penetration in Georgia by demographics



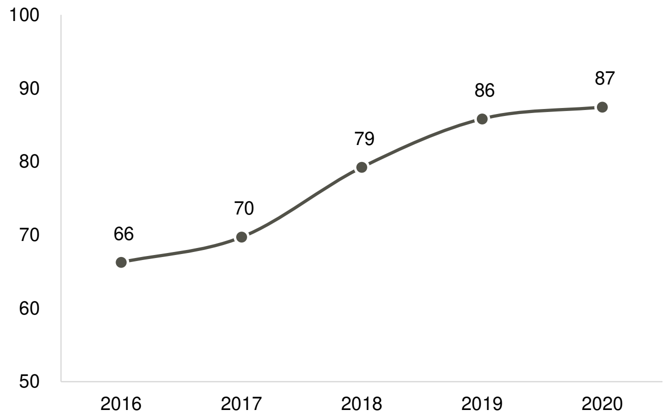
Source: GeoStat
Note: 2020 data for gender, urban-rural and age distribution

[2] ITU

Number of mobile internet users in Georgia increased from 66 to 87 per 100 people over 2016-20. Access to mobile internet in Georgia is similar to regional levels but lower than most European countries, indicating upside potential. Notably, mobile data traffic skyrocketed in Georgia in 2020 on the back of the Covid-19-related lockdowns, supporting the development of digital services (see Annex 2).

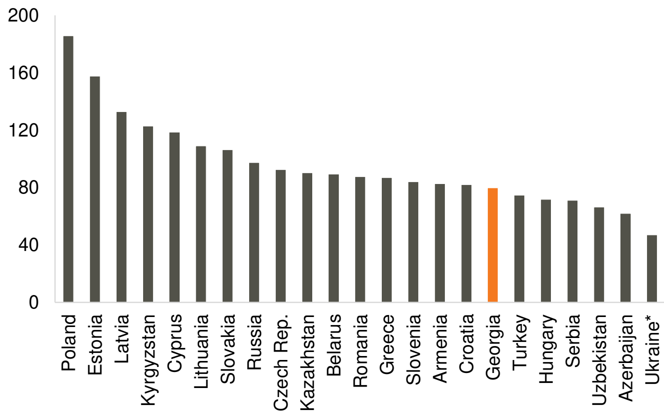
Figure 20: Usage of mobile-broadband network rises in Georgia, but still lagging behind most European countries

Active mobile-broadband subscriptions per 100 people in Georgia



Source: Communications Commission, Galt & Taggart

Active mobile-broadband subscriptions per 100 people



Source: ITU
Note: 2018 year for Ukraine, 2019 for other countries
In countries with 100+ indicator, there is practice of more than 1 SIM Card per user

Digital presence of Georgian businesses

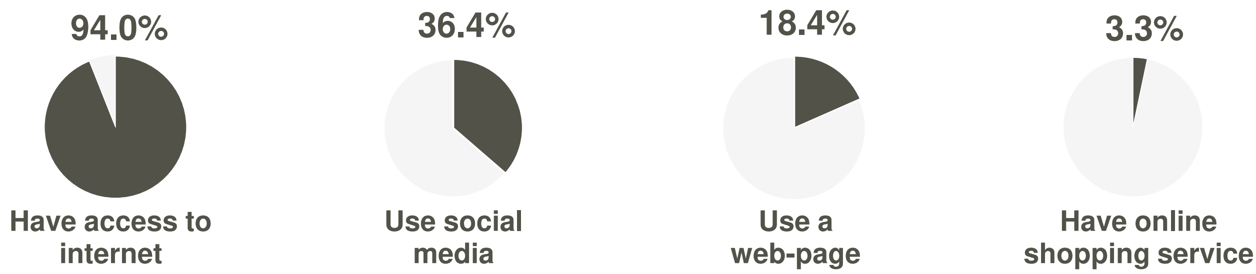
The emergence of Covid-19 encouraged businesses to expand their digital infrastructure in 2020. Unfortunately, 2020 data on the online presence of Georgian businesses are not yet available and therefore this chapter cannot fully capture the current state of digital inclusion.

Some 94% of business entities had access to the internet in Georgia as of January 2020. However, their presence in the online ecosystem was rather poor. Only 36.4% of active businesses used social media in 2019, mainly for marketing purposes, communication with partners/customers and recruitment of employees.

Only 18.4% of business entities had a web page as of January 2020. Notably, a catalog or pricelist of goods and services was available on only 23.1% of the web pages. Furthermore, only 17.9% of them offered online shopping services via the web page, which represents a mere 3.3% of total business entities in Georgia.

Figure 21: Georgian businesses have poor presence in online ecosystem

Digital presence of active Georgian businesses, as of 1 January 2020



Source: GeoStat

Companies have had to diversify their sales channels since the Covid-19 pandemic emerged and find new ways to reach customers during the lockdowns.

Companies invested heavily to launch their own online platforms and offer goods and services through third-party marketplaces. The Covid-19 pandemic accelerated digital adoption for both consumers and business entities. These changes will sustain post-pandemic and support e-commerce sector development.

Financial development

Delivering a safe and seamless payment experience for customers is extremely important for the success of the e-commerce sector. Therefore, a developed banking sector and access to digital banking services are key components of the e-commerce environment.

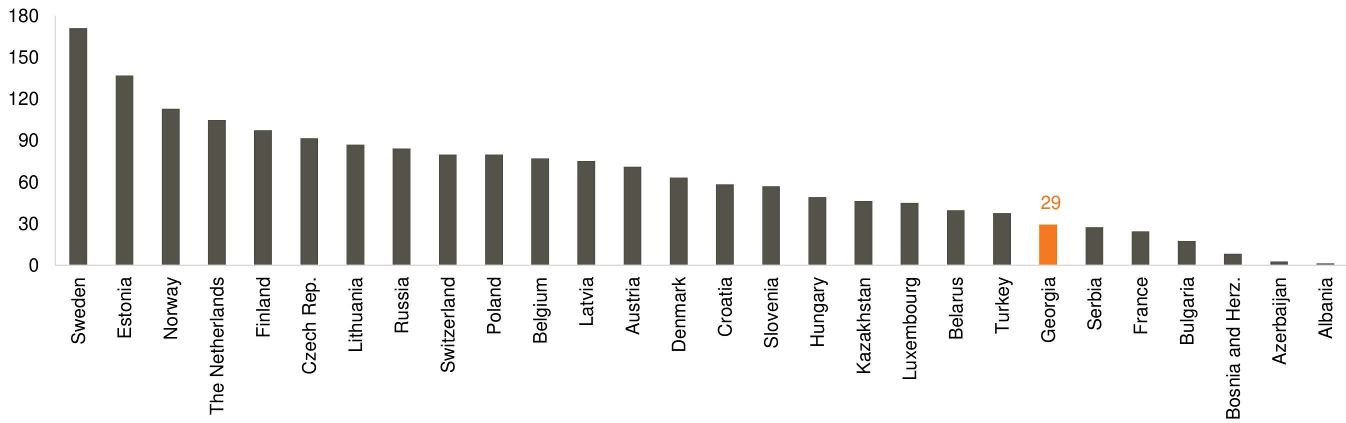
Figure 22: Georgia has high rate of card and bank account ownership
Number of debit and credit cards per adult, latest data available (2018-19)

Source: IMF

The banking sector is one of the most developed and fastest-growing sectors in Georgia. The sector is fully privately owned with two major banks – Bank of Georgia and TBC Bank – listed on the London Stock Exchange in the premium segment.

Georgia ranks 24th out of 190 countries by access to financial services, and 58th by efficiency of the financial institutions, according to 2018 Financial Development Index by IMF. Georgia has a high rate of card and bank account ownership; however, mobile and internet banking penetration is still low with ample room for development.

Figure 23: Mobile and internet banking penetration is still low in Georgia
Number of mobile and internet banking transactions during the reference year per adult, latest data available (2018-19)



Source: IMF

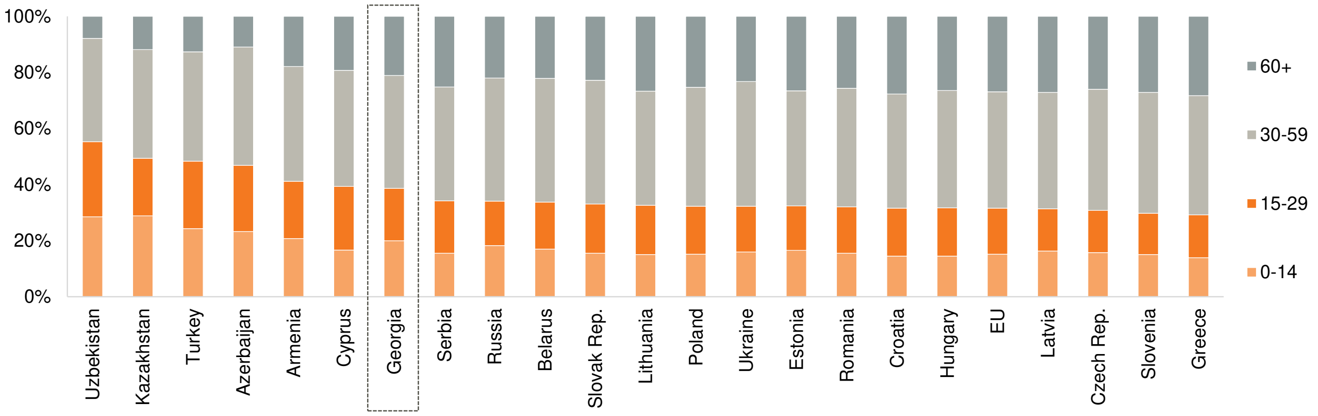
Innovation in the Fintech industry globally is expected to help companies and consumers to better manage their financial operations, increase security and cut costs associated with digital transactions. Furthermore, the planned implementation of Open Banking practice is expected to reshape the banking industry in Georgia, bringing more competition and innovation to financial services. These factors will all support the adoption of online and mobile banking, which will further reinforce development of the e-commerce sector.

Demographic tendencies

Besides a country's economic and infrastructural development, demographic tendencies, such as the urbanization rate and the age structure of population, determine the pace of digital adoption.

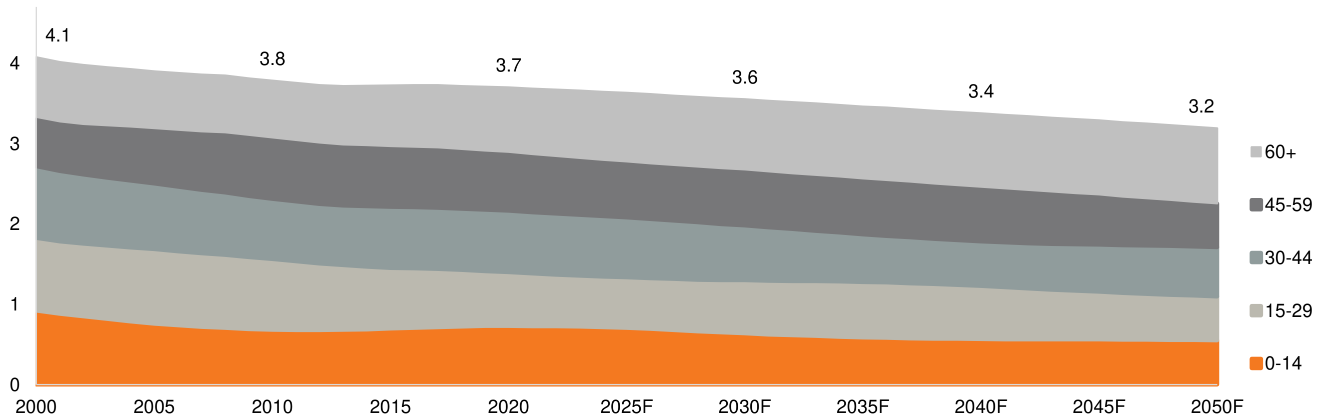
Georgia's relatively young population (53% of the total population is under 40 vs 45% in the EU) works in favor of the e-commerce sector's prospects. Notably, Georgia's population is forecast to contract from 3.7mn currently to 3.2mn by 2050, according to the World Bank. However, a shrinking population is a very long term headwind for the sector as it is at an early development stage.

Figure 24: Georgia has relatively youthful population compared to EU countries
Age structure of population 2019



Source: World Bank

Figure 25: Georgia's population is forecasted to shrink from current 3.7mn to 3.2mn by 2050
Georgia's population, million people



Source: World Bank

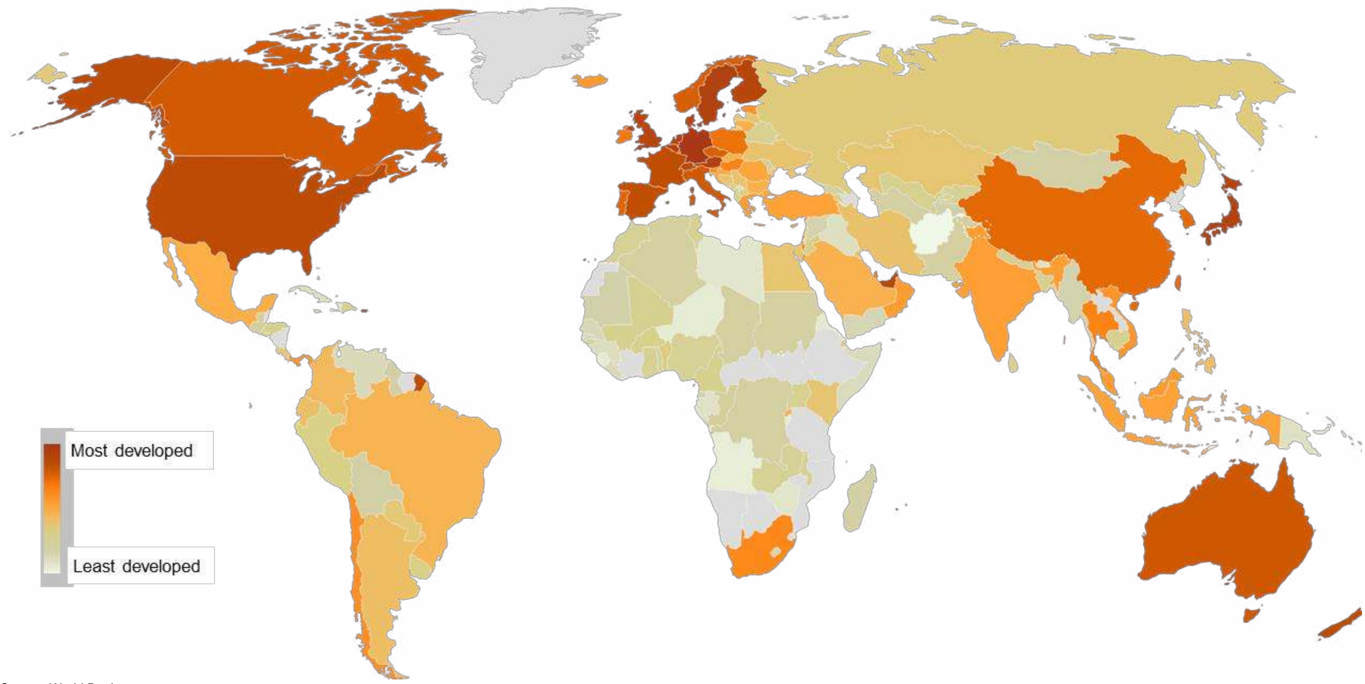
Urbanization fuels e-commerce market. Higher population density, better internet connectivity and the availability of various goods and services make online sales faster, more efficient and convenient for both consumers and suppliers. Despite the upward trajectory, the urbanization rate in Georgia is still low at 59% in 2020 – below 75% in the EU and 69% in peer countries.[3]

Logistics environment

Getting products to consumers has its own set of problems, particularly for cross-border e-commerce. Key barriers include the efficiency of shipping and logistics services, as well as infrastructure, legal and trade issues. Furthermore, online retailers need larger logistics centers due to greater product variety and inventory levels compared to bricks-and-mortar retailers.

Georgia needs to improve logistics infrastructure. Georgia ranks 119th out of 160 countries globally by 2018 Logistics Performance Index[4], scoring relatively better on the efficiency of customs and border management (95th out of 160) but lower on performance in logistics competence (132nd) and international shipments (124th). Notably, the US, EU and some other developed countries (Japan, Singapore, etc.) have the highest performance score in LPI while the logistics environment in low- and middle-income countries is still underdeveloped.

Figure 26: Georgia ranks 119* out of 160 countries by Logistics Performance Index (LPI)
Logistics Performance Index (LPI) 2018



Source: World Bank
*Note: 1st – best performance, 160th – worst performance

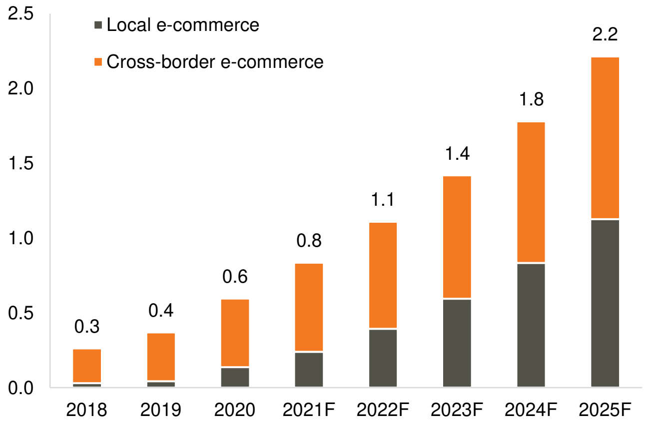
[3] Europe and Central Asia excluding high-income countries
[4] **Logistics Performance Index (LPI)** ranks countries on six dimensions of trade, including customs performance, infrastructure, timeliness and ease of arranging shipments, quality of logistics services and ability to track and trace consignments.

Future outlook

We estimate the e-commerce penetration rate to reach 4.7% by 2025, up from a mere 1.1% in 2020. We believe changes in consumer behavior induced by Covid-19 will persist, accelerating the inevitable transition to online buying. Total online retail spending is expected to grow at a CAGR of 30% to GEL 2.2bn over 2020-25, with local e-commerce to grab more than half of total online retail spending by 2025 (vs only a 23% share in 2020). Notably, market sizing and forecast data is based on the pandemic period when behaviors may differ from normal consumer habits, possibly influencing the forecast figures.

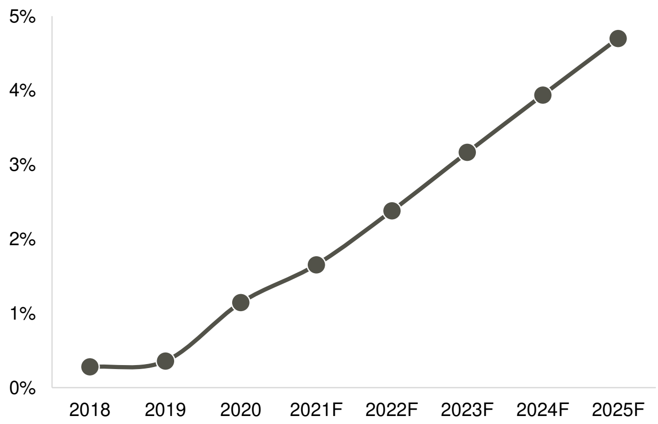
Figure 27: E-commerce sector is expected to triple by 2025

Market size of local and cross-border e-commerce in Georgia, GEL bn



Source: NBG, Galt & Taggart

Local e-commerce as a percent of retail sales* in Georgia



Source: NBG, Galt & Taggart
*Note: does not include retail sale of vehicles and fuel

As already mentioned, the e-commerce environment is underdeveloped in every sub-sector of retail in Georgia, showing growth opportunities in all product categories:

- We believe the **fashion and beauty sector** has the best chance of digital transformation in Georgia in the near future. Fashion is one of the most developed e-commerce sectors globally. Furthermore, spending on cross-border e-commerce in this segment is already sizable in Georgia, giving local retailers a customer base and international experience to develop online channels and so grab a larger share of the retail market.
- Future prospects of e-commerce in **electronics and appliances segment** are very positive. Product ratings, customer reviews and the ability to compare prices are the most important advantages of online shopping in this segment. These features are especially important for high-price products where the decision-making process includes more thorough research by customers. Cross-border spending in this segment is also significant, indicating fierce competition from international players but also a large potential pool of customers for local retailers.
- **Grocery e-commerce** showed one of the largest upticks in 2020 globally. Grocery is still the least penetrated category, forecast to record the highest growth over the medium and long term. Given Georgian grocery retailers' undeveloped online platforms, food delivery service providers incorporated grocery delivery. In line with changing consumer behaviors, we expect the largest hyper- and supermarket chains to seize the opportunity for online sales, developing a digital environment and expanding their sales channels.

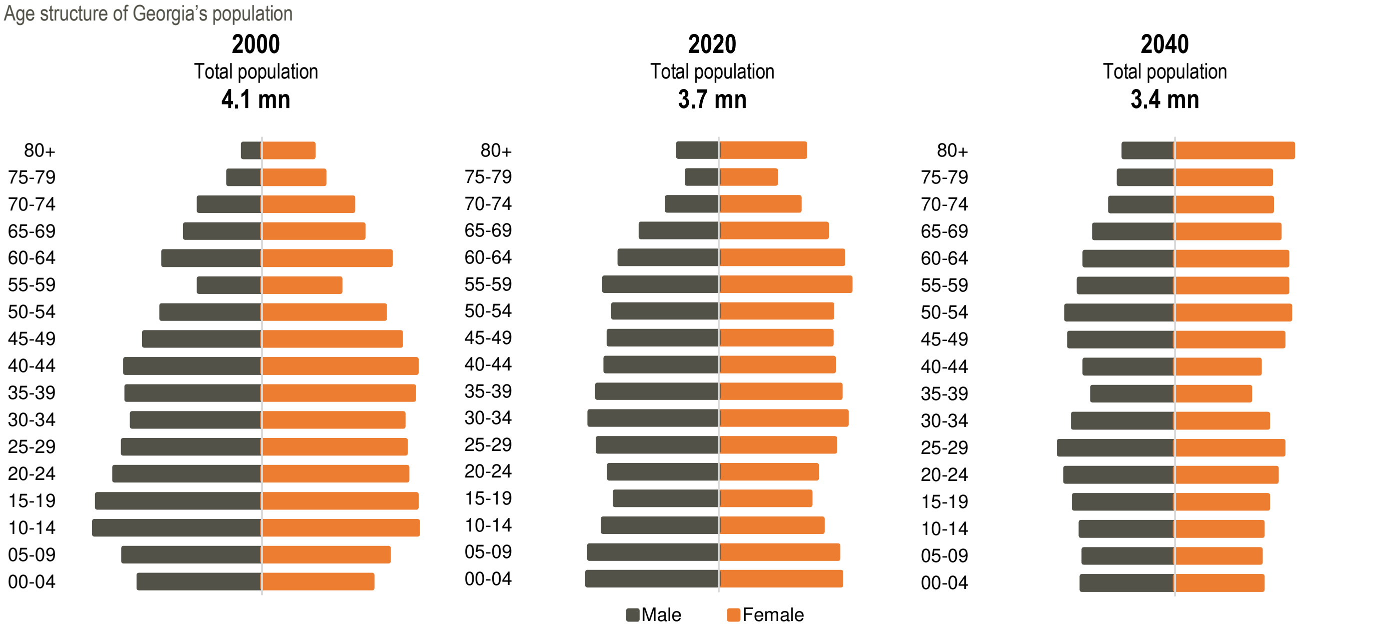
Economies of scale are crucial in the e-commerce space. E-commerce requires strong expertise in product presentation and customer service, personalization and recommendation features, Search Engine Optimization (SEO) and an advanced payment system, which are hard to attain for small enterprises. An omni-channel approach will enable online marketplaces and bricks-and-mortar retailers to join the operations and shift from a "winner takes all" to a win-win situation. This means strong growth potential for leading third-party marketplaces like mymarket.ge, extra.ge, vendoo.ge, be.ge, etc.

Despite the rapid growth of e-commerce sales, the outlook for modern bricks-and-mortar retail is still positive. On the back of changing consumer behavior, modern retailers are gaining popularity over traditional/non-branded outlets, bazaars and markets. As the share of the unorganized market in Georgia's retail sector is still high, we believe modern bricks-and-mortar stores have room to scale up, offsetting the sales lost to online retail.

Annexes

Annex 1: Age distribution of Georgian population

Figure 28: Georgia has aging and shrinking population
Age structure of Georgia's population



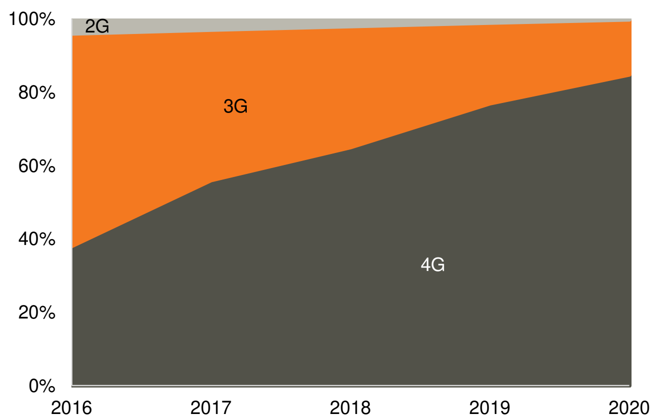
Source: GeoStat, World Bank

Annex 2: Types of mobile network and traffic tendencies

Access to more advanced technology network rising. 85% of mobile-broadband subscribers had access to the 4G network in Georgia in 2020 – more than doubling from 38% in 2016. A faster mobile network may gradually substitute the fixed broadband network (currently the main channel to internet access). Usage of mobile internet skyrocketed during the pandemic, recording 2.2x growth in 2020 vs a 35.2% rise in fixed broadband traffic in the same period. As a result, mobile data accounted for 7.2% of total internet traffic in 2020, up from 4.5% in the previous year.

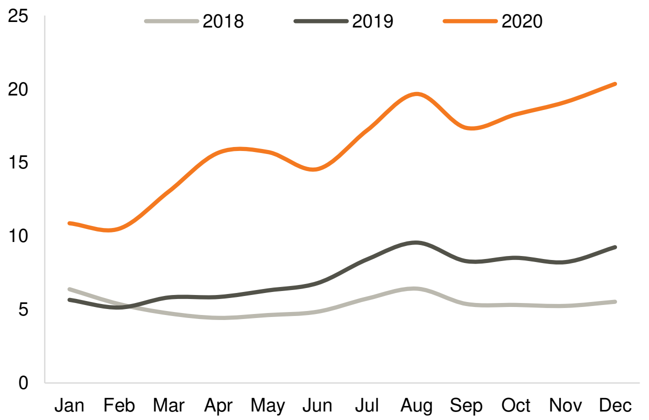
Figure 29: Share of population that is covered by a more advanced technology network is growing rapidly

Population coverage by type of mobile network in Georgia



Source: Communications Commission

Mobile data traffic in Georgia, '000 TB



Source: Communications Commission

Annex 3: Traffic analysis of local and international online shops

	Local online shops			International online shops		
Date	Pages per visit	Avg. visit duration, mm:ss	Bounce Rate	Pages per visit	Avg. visit duration, mm:ss	Bounce Rate
May-20	5.4	06:58	40%	9.4	13:27	31%
Jun-20	4.9	05:34	44%	9.0	14:51	29%
Jul-20	5.1	07:51	43%	8.4	12:52	29%
Aug-20	5.8	06:51	42%	7.6	12:02	29%
Sep-20	6.4	07:48	39%	8.5	11:15	30%
Oct-20	4.8	06:10	45%	9.4	11:58	28%
Nov-20	5.2	07:45	40%	8.5	12:34	29%
Dec-20	5.6	07:13	39%	8.7	12:00	27%
Jan-21	5.0	07:04	44%	8.0	10:50	26%
Feb-21	4.8	06:44	46%	8.5	12:15	30%
Mar-21	4.7	08:10	45%	8.6	13:35	29%
Apr-21	4.9	07:53	47%	8.5	14:54	31%
May-21	4.4	05:34	44%	8.8	15:59	34%

Source: Semrush, Galt & Taggart

Annex 4: Terms and definitions

ICT	Information and Communication Technology
Cross-border e-commerce	Online purchases made from the website of a store in another country.
E-commerce penetration rate	Spending in local online shops as a percent of total retail sales (excl. vehicles and fuel)
CAGR	Compound annual growth rate
GeoStat	National Statistics Office of Georgia
NBG	National Bank of Georgia
Brick-and-mortar retailers	Traditional street-side business that offers products and services to its customers face-to-face in an office or store that the business owns or rents.
CIS	The Commonwealth of Independent States
LPI	Logistics Performance Index
ITU	The International Telecommunication Union
IMF	International Monetary Fund
UNCTAD	United Nations Conference on Trade and Development
EU	European Union

B2C	Business-to-Consumer, selling products/services directly between a business and consumers (end-users)
C2C	Customer-to-Customer, a business model whereby customers trade with each other
B2B	Business-to-Business, business/transaction that is conducted between companies
Urbanisation rate	Urban population as a percent of total population
Bounce rate	The percentage of visitors that leave a web-site after viewing just one page
Average visit duration	The average amount of time a person spends on a web-site during each visit
Pages / Visit	The number of pages (on average) a person views during one visit on a web-site
Fintech	Financial technologies
Open Banking	A banking practice that provides third-party financial service providers open access to consumer banking, transaction, and other financial data from banks and non-bank financial institutions.

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