



ICT Report

E-Commerce in Saudi Arabia

رؤية
2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

هيئة الاتصالات وتقنية المعلومات
Communications and Information Technology Commission



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FOREWORD FROM THE GOVERNOR OF CITC

Building on CITC's role in spreading awareness on subjects related to communications and information technology, particularly those that have a direct influence on citizens' lives, or contribute to the growth of the different economic sectors in the kingdom, this issue of the annual report on the state of communications and information technology in the Kingdom of Saudi Arabia addresses the state of e-commerce in the Kingdom of Saudi Arabia; and the drivers and barriers affecting its adoption by consumers and businesses, and the ease of obtaining different products and services online. The report also discusses the efforts undertaken by different government bodies, especially the ministry of commerce and investment, and other stakeholders to develop e-commerce; as well as the optimal ways to develop the e-commerce ecosystem in the kingdom, to help achieve Vision 2030 and the National Transformation Program's objectives. CITC aspires to cooperate with all stakeholders, and discuss the outcomes of this report to further develop e-commerce in the kingdom and realize the desired economic and social benefits.

Finally, I would like to thank all those who have shared their valuable thoughts and experience with CITC in its efforts to have this report issued.



CITC would like to acknowledge all the organizations that participated in the study cited in this report. These organizations include the following government entities, regulatory agencies, and companies:

Ministry of Communication and Information Technology (MCIT)

Ministry of Commerce and Investment (MCI)

Saudi Arabian Monetary Authority (SAMA)

Saudi Arabia General Investment Authority (SAGIA)

Consumer Protection Association (CPA)

Small and Medium Enterprises Authority (SMEA)

Saudi Post

Riyadh Chamber of Commerce

Thiqah

Takamol

e-Government Program (Yesser)

Badir Program for Technology Incubators

Souq.com

Careem

Al Tayyar Group

Jarir

Domino's Pizza

E-commerce Sea

Haraj.com

Visa

Payfort

PayTabs

American Express

Aramex

Middle East Council of Shopping Centers

Panda

Bin Dawood

Lulu

SAP

Accenture

Arzan Venture Capital

Future Tech Pioneers Consultants

Jamalon

Ounass

ClearTrip

Oishiisushi

Cards4Sell

Nano eShop



The Saudi Arabian economy has experienced unprecedented growth over the past several years. The National Transformation Program (NTP) and Vision 2030 together envisage a multifaceted development of the economy, with both laying out significant plans to help make this happen. Enabling economic diversification, driving growth of the small and medium-sized enterprise (SME) segment, and fostering innovation and entrepreneurship are at the core of these objectives, and developing the e-commerce sector as part of the NTP will add further fuel to these economic development plans.

Underpinned by a steady shift from offline shopping to online and mobile shopping, the global e-commerce market has also experienced rapid growth in the recent past. Rapidly rising Internet penetration rates, increasing levels of smartphone usage, growing government and policymaker support, and improvements in payment and distribution systems have been some of the key contributors to this growth.¹

It is notable that the rapidly growing e-commerce markets such as Middle East, North Africa, Central Europe, and India, though accounting for only 2.5% of the worldwide e-commerce spending,² represent a tremendous potential for e-commerce growth. Investments in the e-commerce industry by international companies have also significantly contributed to the unprecedented growth of emerging e-commerce markets. A rapidly growing community of venture capital (VC) funds and domestic entrepreneurs has further complemented the growth of e-commerce within these emerging e-commerce markets. In line with other emerging economies, the Saudi e-commerce market has been experiencing significant growth and development over

1. Refer to Appendix B for e-commerce definition
2. E-Commerce Insights and Best Practices in MENA, OMD, 2016



It is notable that the rapidly growing e-commerce markets such as Middle East, North Africa, Central Europe, and India, though accounting for only 2.5% of the worldwide e-commerce spending, represent a tremendous potential for e-commerce growth.



B2C

29.7B
2016



the past few years. Business-to-consumer (B2C) e-commerce spending surpassed SAR 29.7 billion in 2016.³ Saudi Arabia's young population, increasing broadband and smartphone penetration rates, and the government's growing focus on e-commerce are key factors that are driving this shift toward online buying in the country. In addition to local online sellers, start-ups, and home-based businesses, a lot of larger regional and international players are also investing and expanding their physical presence in Saudi Arabia. Furthermore, traditional businesses ranging from FMCG companies to banks are increasingly seeing e-commerce as a rapidly growing complementary channel for their products and services.

Although Saudi shoppers' preference to make purchases through traditional channels remains high, a shift to online buying is

rapidly gathering momentum. Spurred by the convenience of home deliveries, the time-saving benefits of e-commerce, attractive Internet offers, and the wide range of products from which to choose, the typical online shopper in Saudi Arabia shops online at least once every three months, spending an average of close to SAR 4,000 on online shopping annually.⁴

In addition to digital entertainment and subscriptions for music, movies, and gaming content, online shoppers in Saudi Arabia are increasingly buying gadgets, apparel and accessories, and other luxury goods online. They are increasingly shopping online using mobile applications, and their primary mode of payment for purchases made from Saudi

online stores is cash on delivery. However, certain challenges are inhibiting greater e-commerce usage in the country; these include the trustworthiness of websites (in terms of handling customers' personal information), the low awareness about consumer protection rights, and logistics-related challenges related to delivery timelines, costs, and goods handling.

Various government agencies have initiated programs to develop the local e-commerce industry in Saudi Arabia. For example, the Ministry of Commerce and Investment (MCI) and its associated agencies are at the forefront of efforts to create a conducive environment for e-commerce as they work to develop and streamline regulatory policies and frameworks, improve consumer confidence in e-commerce, and support SMEs through e-commerce enablement initiatives.

The Ministry of Communications and Information Technology's (MCIT) mandate to privatize Saudi Post will undoubtedly improve competitiveness and help streamline the domestic logistics ecosystem. The Saudi Arabian Monetary Authority (SAMA) is also committed to supporting growth of the e-commerce market by creating a robust and secure payments ecosystem that will improve convenience by making multiple payment channels available to consumers. These initiatives are expected to address some of the most pressing challenges currently inhibiting the growth of e-commerce in Saudi Arabia, such as the absence of a collaborative forum for all stakeholders, the limited availability and reliability of payment options, and the lack of high-quality and affordable services from logistics providers.

As various government entities undertake initiatives to take Saudi Arabia to the next stage of e-commerce evolution, it will be important for all stakeholders and allied industries in the e-commerce ecosystem to come together and contribute to the progress. Indeed, transforming Saudi Arabia into a vibrant and all-inclusive e-commerce market will necessitate change on multiple fronts. Developing telecommunications infrastructure, enhancing the efficiency of distribution systems, creating a robust digital payment ecosystem, supporting the local industry, and creating avenues to foster innovation and entrepreneurship will all be vital in taking Saudi Arabia to the next stage of its e-commerce journey.

3, 4. CITC E-commerce Research, 2017

payments through wearables⁹ are becoming increasingly popular. Ease of payment is a key consideration for online shoppers; as such, the developments in this field are a definite boost to the market. Some of the recent developments in the cashless payment space include MasterCard’s launch of ‘selfie pay’, that enables payment authentication using a self-portrait (selfie) and biometric identification.¹⁰ Apple Pay can now be used to make quick and secure online payments using fingerprint scans.¹¹ In India, WhatsApp is collaborating with the Reserve Bank of India to integrate with its Unified Payments Interface, which will bring instant bank-to-bank transfers to the messaging application.¹² Apple is also following suit and is expected to offer mobile payments through their iMessage application.¹³

Improvements in Logistics and Distribution:

Logistics and distribution processes have become increasingly more efficient and reliable. The transformation of the transport sectors in the United States and Europe has significantly contributed to these improvements. The line between logistics and technology has started to blur as technologies such as artificial intelligence (for inventory management), warehouse robotics, drone-based delivery, and autonomous road transportation are generating a lot of interest. The e-commerce industry relies on an efficient supply chain comprising modern warehouse facilities and distribution hubs as

well as timely shipping and delivery systems. The global shipping and delivery industry has undergone significant changes over the years, offering e-commerce players access to flexible and attractive global shipping options and fulfillment services. This enables them to easily operate in markets beyond their domestic reach, while minimizing associated infrastructure costs and operational risks.

Continuous Innovation in E-Commerce Products, Services, and Business Models:

New Business Models:

New e-commerce business models such as online-to-offline (O2O)¹⁴ and group buying leverage the strengths of online and offline channels to engage more widely with consumers and provide a better and more convenient shopping experience.¹⁵ Moreover, manufacturers are increasingly interacting directly with consumers, giving rise to the direct-to-consumer (DTC) model.¹⁶ The DTC model is expected to help manufacturers shift from relying on retail channels to directly engaging with consumers — consequently, manufacturers will become more responsive to changes in market demand and able to manage production and inventory more effectively.

Use of Artificial Intelligence (AI):

Customer experience has evolved significantly in recent years. In addition to providing customer care through traditional channels, companies are increasingly using AI-based virtual assistants or «chatbots» with deep

learning capabilities to respond directly to customer queries online or on the phone, or support and aid human agents. These assistants provide a highly scalable and more accurate response system that not only boosts the customer experience but also improves efficiency and reduces back office costs.

New Customer Buying Experiences:

As the digital retail landscape constantly evolves, the need for innovative ways to engage online shoppers will remain essential. For example, the e-commerce giant Alibaba, through its Buy+¹⁷ service, is already offering virtual reality-based online shopping experiences where customers can plug their phones to a VR headset and browse the complete range of products hosted by Alibaba, which feels like a stroll through a physical store. Such methods of enriching the customer experience are continually emerging around the world.

The Rise of E-Commerce in Emerging Economies:

Emerging markets such as China and India are experiencing unprecedented growth in e-commerce. China, which is the second-largest economy in the world, is by far the largest e-commerce market globally. China’s share of worldwide e-commerce spending exceeded 33% in 2015, a multiple-fold increase over its miniscule share of 5.9% in 2014.¹⁸ India has also been at the forefront of the e-commerce revolution in recent years; despite accounting for only 1.1% of worldwide e-commerce spending at present, the

country has emerged as the fastest growing e-commerce market in the world. In 2015, e-commerce spending in the country grew 130% year on year.¹⁹

The acceleration in the growth of the e-commerce sector in emerging economies is underpinned by the following drivers:

Growth in Internet Users:

Improvements in Internet and mobile penetration actively contributed to e-commerce growth in emerging economies. With 1.14 billion people aged above 15 years, more than 583 million Internet users (translating to an Internet penetration rate of 51%), and more than 400 million e-shoppers, the Chinese e-commerce market grew 33% year on year in 2015 to total \$766 billion.²⁰ Additionally, Alibaba’s success in the domestic and global markets has directly contributed to China’s e-commerce growth. Similarly, in India, rapidly rising Internet penetration levels have also led to business model transformation. India’s Internet penetration rate now stands at 34% and has been contributing to the rapid growth

in e-commerce, and is expected to double by 2020.

Rise in Digital Payments:

New models and services in the digital payments sector are also driving e-commerce spending. In South American countries such as Argentina, financial services companies are offering e-vouchers, prepaid or stored-value cards, mobile wallets, and rechargeable cards linked to mobile devices to curb the use of cash-based payment methods. This tactic significantly boosted e-commerce sales in the country and helped the e-commerce market grow 51% year on year in 2016.²¹ In addition, due to the availability of interest-free payments, ease of conversion to an installment plan, and ability to use debit cards to make online purchases has further pushed the usage of cashless forms of payments in Brazil.²²

Expansion of Logistics Capabilities:

Logistics capabilities in emerging economies have improved significantly over the years,

thereby enabling e-commerce development. The ever-increasing volume and frequency of orders placed over the Internet, as well as the multitude of products offered by retailers, have made logistics automation imperative. Logistical competitiveness has directly increased e-commerce activity in countries such as China, which is ranked ninth in the World Bank’s Logistics Performance Index.²³ Meticulous stock control and purchasing management, efficient and low-cost shipping, and advances in warehousing technology have made logistics a key success factor in the Chinese e-commerce market. Crowdsourcing, where a network of verified, freelance commuters conduct deliveries has also generated a lot of interest.²⁴

Investments by Global E-Commerce Players:

Global e-commerce giants such as Amazon and Alibaba have recently made huge investments in emerging economies, and these investments have already started to fuel the growth of e-commerce in these markets. Southeast Asia has been of special interest to Alibaba, which acquired a controlling stake in the Singapore-

9. “Once it was touch and go, now contactless is a new-wave revolution”, Article, The Guardian, 10/9/2017
10. “Mastercard makes fingerprint and ‘selfie’ payment technology a reality”, Press Release, Mastercard, 4/10/2016
11. “Use Apple Pay to buy things online”, Article, Cnet, 13/6/2016
12. “WhatsApp to add payments in messaging app”, Article, The Telegraph, 15/8/2017
13. “iOS 11 is available tomorrow”, Press Release, Apple, 18/9/17
14. Refer to Appendix B for O2O definition

15. “O2O Leads Chinese Startups’ Boom And Bust Cycle”, Article, Forbes, 21/4/2016
16. “How Leading Brands Are Winning The ‘Direct-To-Customer’ Conversation”, Article, Forbes, July 2016
17. “From Virtual Reality To Personalized Experiences: Alibaba Is Bringing Us The Future Of Retail This Singles’ Day”, Blog, Forbes, 6/11/2016
18, 19, 20. Global B2C Ecommerce Report, E-commerce Foundation, 2016

21. Annual Survey of Electronic Commerce, Argentinian Chamber of Electronic Commerce, 2016
22 “Online Payment for E-Commerce in Brazil”, Article, TechinBrazil, 30/5/2014
23. World Bank’s Logistics Performance Index, Global Rankings, 2016
24. “Delhi-based mShipper Is A Crowdsourced Delivery Platform Delivering Packages In Real Time”, Article, IndianWeb2, 29/10/2015



based e-commerce startup Lazada Group for \$1 billion in June 2017.²⁵ Amazon has already made significant investments in developed markets and is aggressively targeting emerging economies. For example, Amazon has expanded to the Middle East via a deal to buy Souq.com for around \$650 million.²⁶ Amazon has also laid the groundwork to take its services to Southeast Asia. Amazon considers India²⁷ to be a primary investment destination and, in 2016, pledged to invest \$3 billion in the Amazon India business.

The Sharing Economy Phenomenon:

A shift in societal values and technology advancements over the past decade have given birth to a new way of doing business that is generally referred to as the sharing economy. Broadly speaking, this is an economic model in which individuals can rent or borrow assets owned by someone else that are not fully utilized.



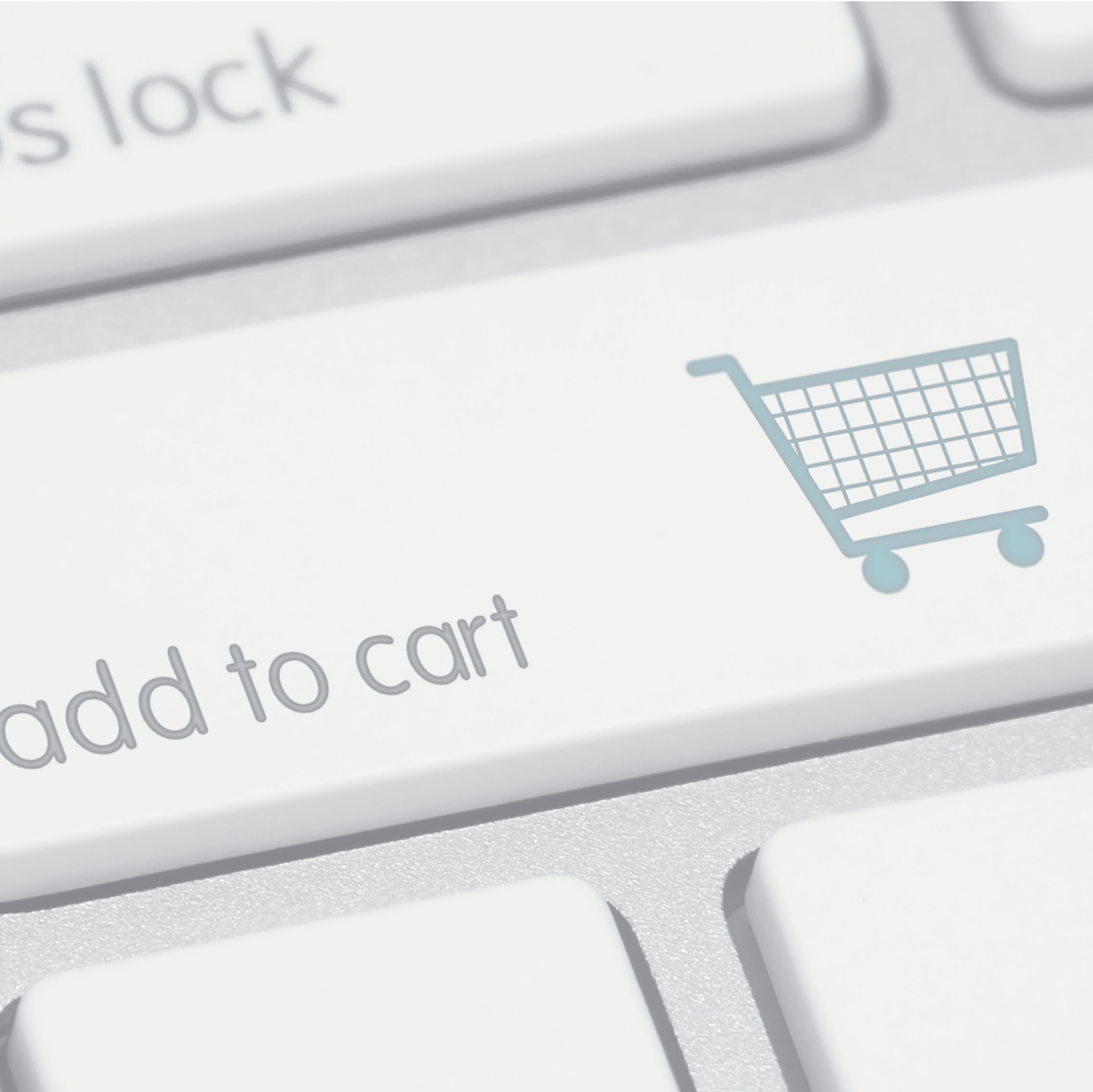
Sharing economy business platforms provide individuals with an opportunity to improve the utilization of unused or under-used assets such as cars and apartments, thereby creating additional income and self-employment opportunities. Uber and Airbnb are two of the most prominent companies in this space. These business platforms have reduced the cost of utilizing assets and undercut traditional companies that offer such services.

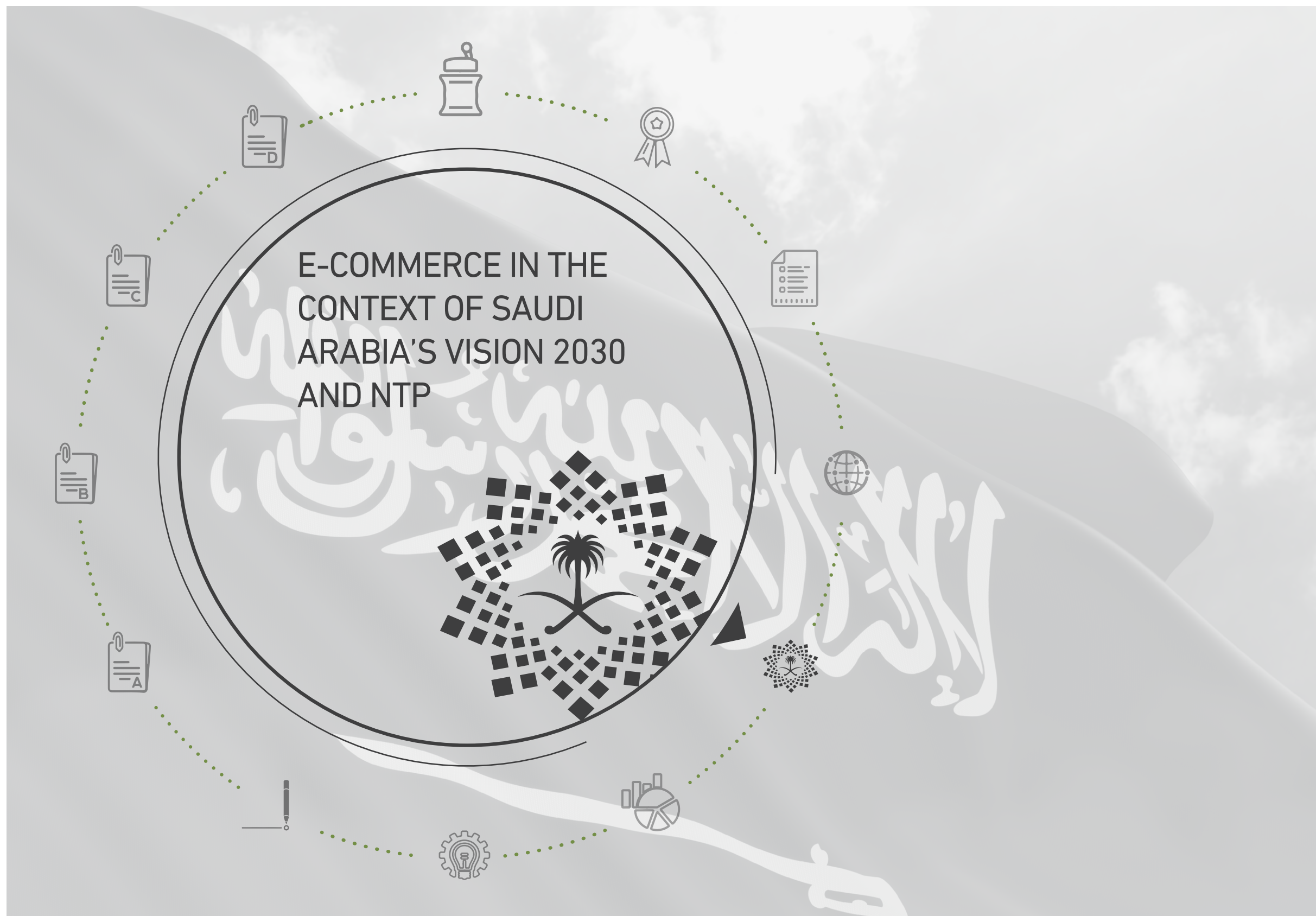
Consumer familiarity with the sharing economy is growing. Sharing economy models are already helping consumers access assets/services more affordably, conveniently, and efficiently while creating a positive environmental impact through reuse. However, some challenges, such as inconsistent experience and difficulty building trust with consumers, are hindering this emerging economic model.

In the long term, collaborative consumption and temporary access to goods and services will create a shift in societal values as millennials will start to place less emphasis on owning items and more focus on sharing and trading spare resource capacity. With the future of consumption becoming increasingly

about access instead of ownership, the need to align with the changing dynamics of markets and economies will drive e-commerce ecosystem transformation in terms of supply-side operations, policy making, logistics, and finance. In fact, the companies that offer sharing economy services do not own any assets but enable full transactions online. The sharing economy will therefore boost and transform e-commerce in many ways.

25. "Alibaba to Invest \$1 Billion in Lazada to Speed Asian Drive", Article, Bloomberg, 28/6/2017
26. "Amazon Buys Souq.com as Middle East Online Market Takes Off", Article, Bloomberg, 28/3/2017
27. "Amazon crosses \$2-billion mark in India investments", Article, India Times, 6/7/2017





E-commerce development will help achieve the Vision 2030 goals of creating a diversified economy and establishing an attractive environment for investment, entrepreneurship, and employment. Public sector stakeholders aspire to improve Saudi Arabia’s ranking on the United Nations Conference on Trade and Development (UNCTAD) B2C E-commerce Index from 63 to 35 by the end of 2020, and improve the country’s position on the UNCTAD Business-to-Business (B2B) E-commerce Index from 34 to 25 by the end of the same year.²⁸

Impact of E-Commerce on Vision 2030 Objectives:

The development of the e-commerce sector will support the objectives of Vision 2030 in the following ways:

Economic Diversification:

By attracting more international businesses to the Saudi market by creating a conducive regulatory and business environment, supporting the startup ecosystem, and encouraging more traditional businesses to trade online, e-commerce will create an opportunity for Saudi Arabia to diversify and — to an extent — improve non-oil revenues.

Investment Influx:

E-commerce spending growth in Saudi Arabia will create growth potential in the private sector, especially in the retail industry. In turn, this growth will create an attractive environment that is conducive to local and international investors in the sector.

Employment Creation:

E-commerce will directly lead to the creation of more employment opportunities through the entry of new e-commerce companies and the foray of traditional companies into the e-commerce domain. Investments in supply

chains, distribution channels, and payment systems will also create jobs in the logistics and financial services sectors, and the onset of the sharing economy model will similarly create opportunities for self-employment. Developing the skills of the youth population, increasing women’s participation in the national workforce, and revitalizing the SME sector are all central to overcoming existing labor market shortcomings, and each will be supported by the development of the e-commerce industry.

New Channels for the Local Industry:

Maximizing and promoting local content is one of the key goals of the Vision 2030 and creating a vibrant e-commerce ecosystem will have a multiplier effect on the economy as it will create new business models and opportunities for local businesses (SMEs, home-based sellers, etc.) to sell to a wider domestic customer base and help them take their products and services beyond the borders of Saudi Arabia.

NTP Objectives that Contribute to E-commerce Sector Growth:

A number of the NTP’s objectives will help to drive the growth and development of the e-commerce ecosystem. The growth drivers that are directly associated with the various objectives of the NTP include the following:

Telecommunications Infrastructure Development:

Improving national connectivity infrastructure and enhancing broadband reach and penetration will directly contribute to the growth of e-commerce in Saudi Arabia.

Logistics Sector Enhancement:

Logistics, as one of the critical components of the e-commerce value chain, has been identified as a key focus area under the NTP.

28,29,30. Saudi Arabia’s National Transformation Program 2020

Transforming Saudi Post into a commercial company, enhancing its capabilities, and establishing a unique logistics platform across three continents are key objectives. Streamlining laws for licensing and company registration in the transportation and logistics sector will also boost e-commerce sector growth.

Improving the Ease of Doing Business:

While actively promoting local e-commerce start-ups and encouraging traditional retailers and SMEs to adopt e-commerce, the government is also making it easier for international companies to establish a footprint in Saudi Arabia. By 2020, the government plans to increase foreign direct investment from SAR 30 billion to SAR 70 billion, improve the country's ranking on the

World Bank's Doing Business Index from 82 to 20, and create a total of SAR 2,300 billion in investment opportunities.²⁹ These initiatives will attract more domestic and international investors to the Saudi economy.

Boosting Local Industries:

E-commerce will create new growth opportunities for local producers and home-based sellers, both domestic and international. As local e-commerce sellers directly source their goods from the local market, the development of the industry will boost several local industries that are part of the supply chain.

Promotion of Fair Trade:

Enhancing consumer confidence by promoting fair trade, strengthening the policies and frameworks that protect consumer rights, and creating awareness about consumer

rights are vital aspects of the NTP's objectives. Indeed, the MCI is tasked with improving Saudi Arabia's score on the Consumer Confidence Index from 106 to 115 by 2020.³⁰

Fostering of Innovation and Entrepreneurship:

The NTP has placed a substantial emphasis on enabling innovation and entrepreneurship, with a focus on the technology industry, including e-commerce. Encouraging investment funds and venture capitalist firms to invest in start-ups, including e-commerce start-ups, could spur entrepreneurship in Saudi Arabia. Supporting educational institutions to develop entrepreneurial skills and nurture startups, which are key objectives for the government, will also help build strong foundations for development of the e-commerce industry.



Saudi Arabia's B2C E-commerce Sector in the Global Context:

In 2017, UNCTAD conducted a global study³⁸ to understand and benchmark the readiness of countries to engage in online commerce. The study evaluated countries based on four parameters to come up with an aggregated score; these four parameters are Internet usage penetration, secure servers per 1 million inhabitants, banking penetration, and postal reliability – all of which are crucial metrics for the growth of e-commerce within a country.

Saudi Arabia ranked 46th out of 144 countries, and with an index score of 69, it is on par with countries such as Italy and Russia and higher placed than some larger economies like India and China.

Comparing Saudi Arabia's 2017 ranking and scores to those of 2016³⁹, shows good improvements especially in the areas related to Internet penetration and postal reliability. Internet penetration score improved from 64 to 74, and postal reliability score improved from 69 to 75.

Saudi Arabia could move higher up in the ranking through boosting banking and credit card penetration and optimizing the number of secure Internet servers per 1 million people.

Saudi Arabia B2C E-Commerce Spending and Forecast

As has been the case in other emerging economies, B2C e-commerce spending in Saudi Arabia has grown strongly over the last few years. This growth has been spurred by the broader shift from offline to online and mobile shopping, together with supply-side enhancements, delivery improvements, better quality of service, and the growing variety of products and services on offer.

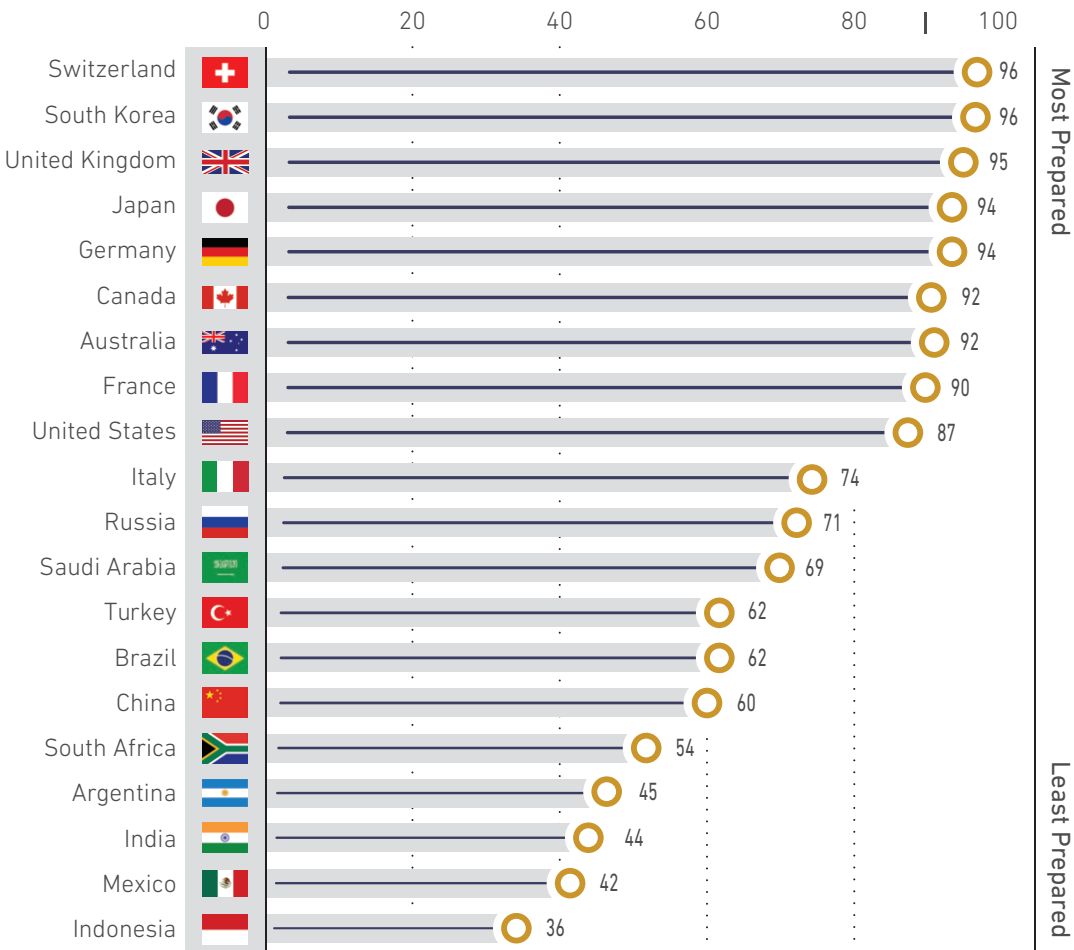


Figure 2 – Comparison of UNCTAD E-commerce Readiness Score

B2C e-commerce spending in Saudi Arabia totaled SAR 29.7 billion in 2016 and is expected to grow at around 20% over the next few years.⁴⁰ Given the size of the market and the growing appetite of consumers for online shopping, e-commerce companies are expected to invest more in the coming years. In turn, these investments will lead to both organic growth in the form of expansions of operations and inorganic growth in the form of acquisitions.

38 UNCTAD B2C E-Commerce Index, United Nations Conference on Trade and Development (UNCTAD), 2017

39 UNCTAD B2C E-Commerce Index, United Nations Conference on Trade and Development (UNCTAD), 2016

40. CITC E-commerce Research, 2017

41. "Amazon Buys Souq.com as Middle East Online Market Takes Off", Article, Bloomberg, 28/3/2017

42. "Emaar Chairman announces billion-dollar eCommerce platform – Noon.com", Article, Tech View, 13/11/2016

43. CITC E-commerce Research, 2017 – For addressable population, please refer to market sizing methodology section in Appendix A

The services category currently dominates the B2C e-commerce market, accounting for more than two-thirds of total B2C e-commerce spending in 2016. Travel-related services account for the largest share of the services category. Airline and hotel bookings will continue to rapidly shift to online platforms, and the average transactions in this space are larger than those typically made in the product category. However, as customer confidence in e-tailers grows and e-commerce providers improve their delivery times and enhance customer experience, the product category is expected to grow faster than the services category over the coming five years.

Over the past year, we have witnessed several key developments in the Gulf region's e-commerce space, such as the acquisition of Souq.com by Amazon⁴¹ and the planned launch of Noon.com, a \$1 billion venture between Saudi Arabia's Public Investment Fund and Mohamed AlAbaar, chairman of Emaar Properties.⁴² These announcements have not only created a buzz in the e-commerce space but also significantly increased the sense of excitement among customers.

If these projects are rolled out as expected, they will give the Saudi e-commerce market a significant boost, particularly the product category. These investments could significantly improve delivery standards, shorten order fulfillment times to either same-day or next-day delivery, and make a wider product assortment available online from Saudi-based fulfilment centers. Consequently, the proportion of cross-border e-commerce products could reduce significantly.

Due to the above factors, competitiveness in the e-commerce product market is expected to increase and result in significant price reductions. This will put additional pressure on in-store retail spending in Saudi Arabia, as a growing number of consumers will opt to use e-commerce to meet their product purchasing requirements.

Demand-Side Trends

Buying Behavior of Individual Online Shoppers

According to a survey conducted by CITC, 58% of the addressable Saudi population have shopped online at least once in the past. Most of these online shoppers (87%) have made a transaction in the past 12 months, which shows an increasing shift towards online shopping.⁴³

While the vast majority of online shoppers have purchased goods and services from e-commerce companies located in Saudi Arabia in the past 12 months, a significant number have also made purchases from companies based in other GCC countries and outside the region. This shows a significant leakage of e-commerce revenues to companies outside the country. In fact, only a fraction of users (7%) have purchased exclusively from Saudi-based companies.

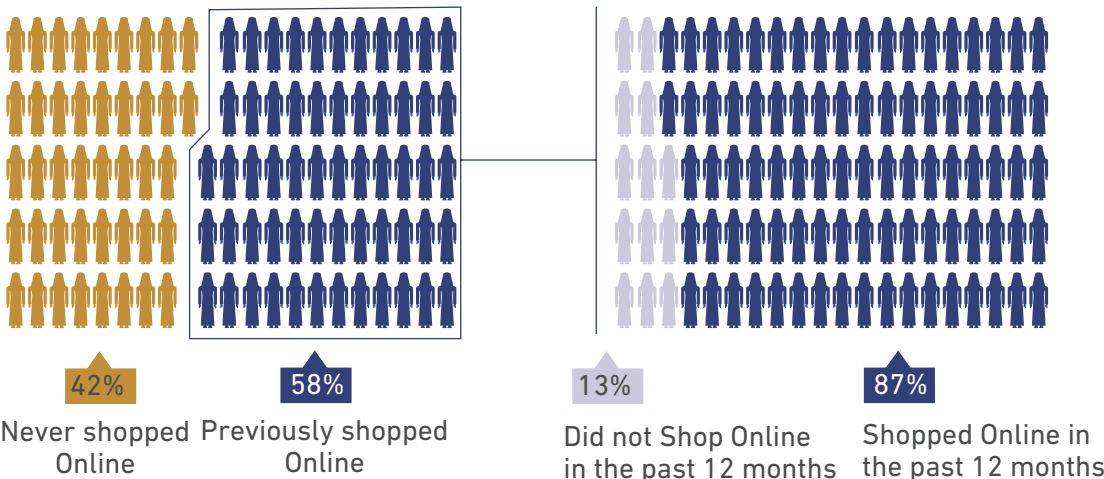


Figure 3 – Incidence of Online Shopping Amongst Survey Respondents. Base (All): 783

Shoppers are generally using a combination of offline and online channels for their purchases. Only for games, consoles, and subscriptions do we see a majority preferring to buy purely through online channels. Among those who buy books, CDs, and sports equipment, a significant portion buy from both online and offline stores. For apparel and clothing, nearly half of those surveyed use both online and offline channels, and for luxury goods and personal care products, approximately two out of five buy online and offline. In the case of higher-value products where «touch and feel» is more important, such as electronic items (mobile phones, appliances, computers, etc.) and furniture, the use of online channels is relatively small— this is also the case with low-value, everyday items such as food, groceries, and beverages.

Figure 4 – Incidence of Online Shopping In the Past 12 Months. Base (All Who Purchased Online): 454

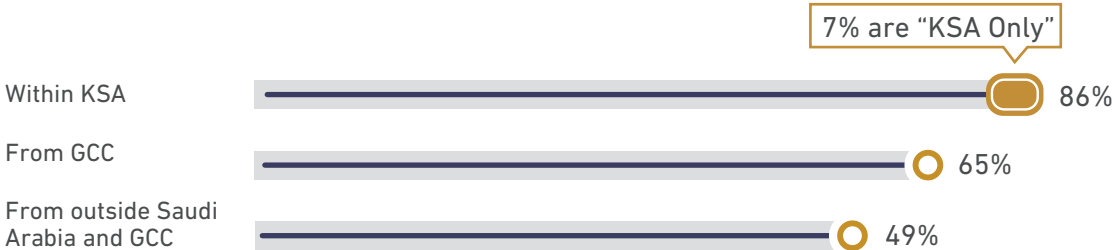


Figure 5 – Sources of Online Purchase in the Past 12 Months. Base (Purchased online in past 12 months): 397

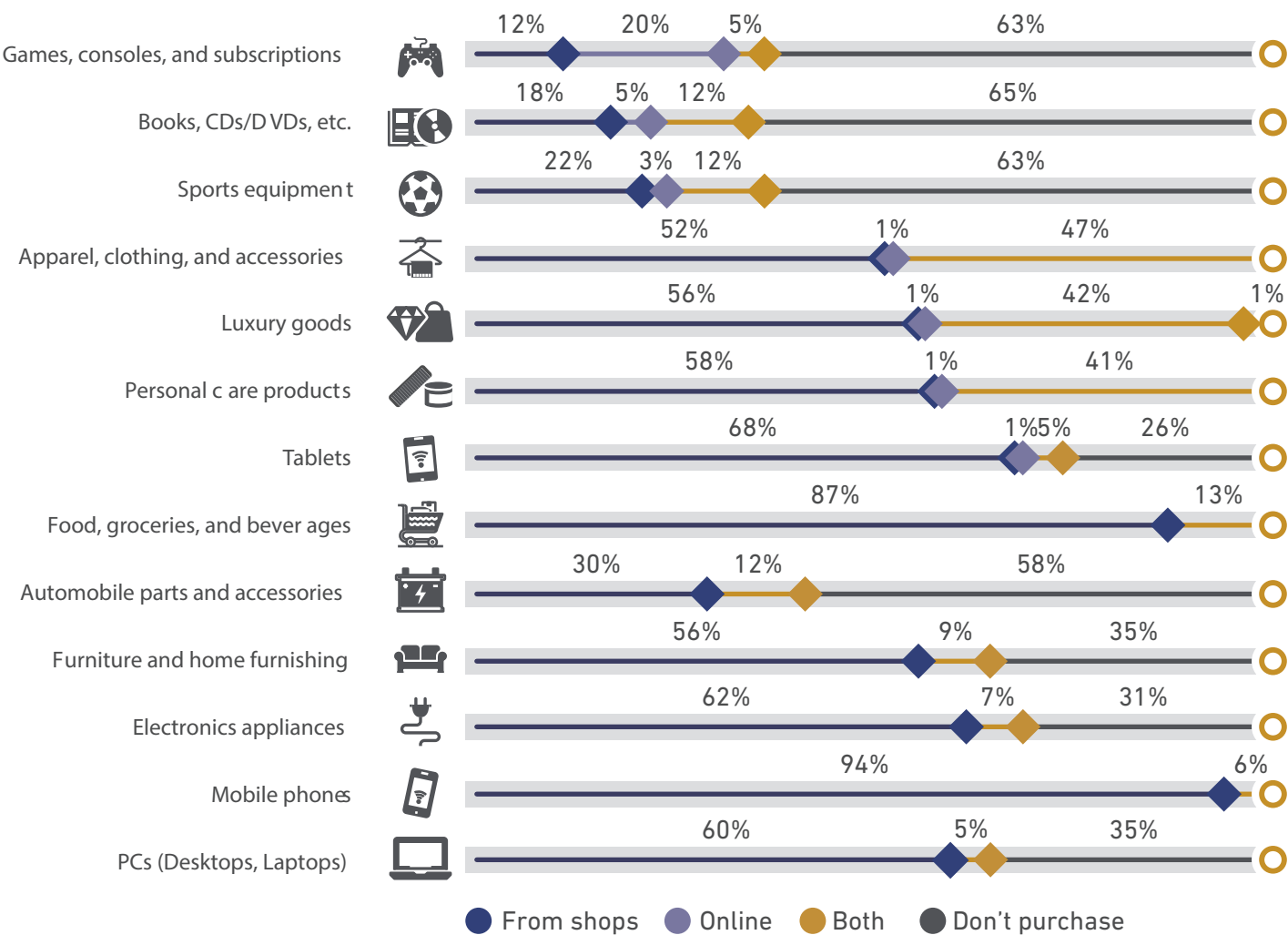


Figure 6 – Modes (offline vs. online) of Purchase for Products. Base (All): 783

When it comes to services, most shoppers of travel-related services such as airline bookings, hotel bookings, and tour packages make purchases through online channels. With the emergence of sharing economy players such as Uber and Careem and the greater convenience that they offer to consumers, an increasing number of consumers hail taxis through their mobile applications. In contrast, purchases of high-involvement financial services (such as insurance policies) are still done mostly offline; however, they are gradually shifting to online channels.

While the Saudi Arabian Monetary Authority (SAMA) has detailed guidelines for the selling of insurance products online (as part of its Online Insurance Activities⁴⁴ regulation), only a few insurance companies in Saudi Arabia sell insurance through online channels. Generally, vehicle and travel insurance are most commonly purchased online, while other insurance services are purchased offline.

44. Online Insurance Activities Regulation, SAMA

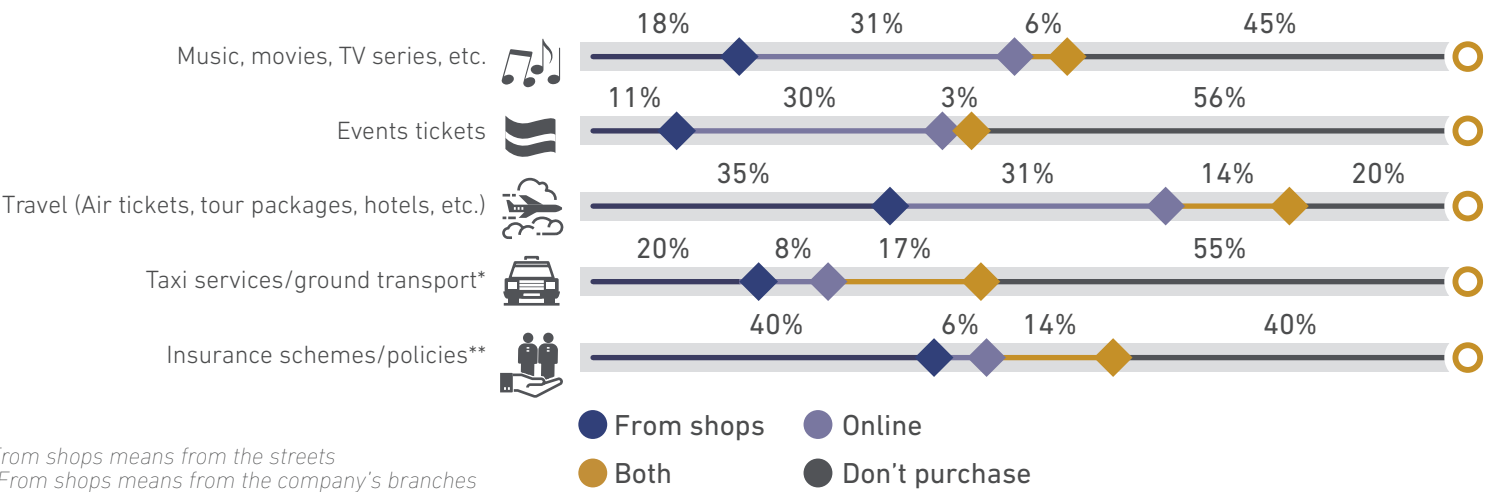


Figure 7 – Modes (offline versus online) of Purchase for Services. Base (All): 783



Online Shopper Personas:

Based on the frequency of purchasing, it is possible to classify online shoppers as follows:

Heavy Buyers: Individuals who shop online at least once every 2 weeks.

Medium Buyers: Individuals who shop online at least once every 3 months.

Light Buyers: Individuals who shop online at least once every 4 months or less often.

On average, three out of five shoppers in Saudi Arabia are medium buyers, while one in five is a heavy buyer. The average annual online spending of heavy buyers is 1.5 times that of medium buyers and over twice that of light buyers.

Over a quarter of female online shoppers are heavy buyers compared with less than 20% of male online shoppers. Younger shoppers tend to be heavy buyers: more shoppers below the age of 30 (over a quarter) are heavy buyers than shoppers over the age of 30. In addition, a larger proportion of Saudi Nationals (over a quarter) are heavy buyers than expatriates.

When it comes to purchasing products, heavy buyers are more inclined toward purchasing high-value items such as furniture, sporting goods, appliances, and gadgets online compared with medium and light buyers. Heavy users also rely on e-commerce to make mundane, high frequency purchases such as groceries, food items, and beverages. Medium and light buyers display similar preferences for modes of buying (online vs. offline) across product categories.

Aside from a few areas, male and female buyers also display similar preferences for modes of buying (online vs. offline) across product categories. A larger proportion of male shoppers buy games, subscriptions,

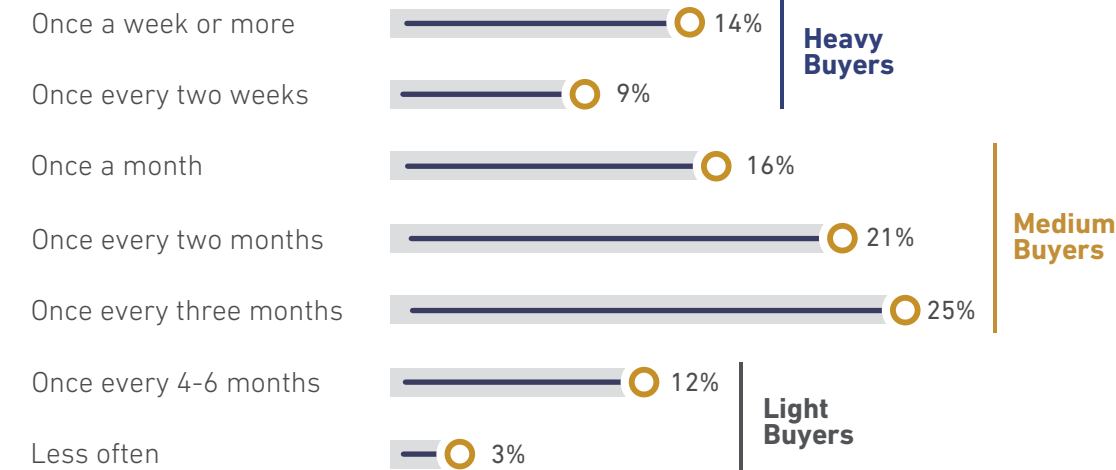


Figure 8 – Profiling Online Shoppers. Base (Who purchased any products or services online in past 12 months): 397-Heavy Buyers=91, Medium Buyers=247, Light Buyers=59

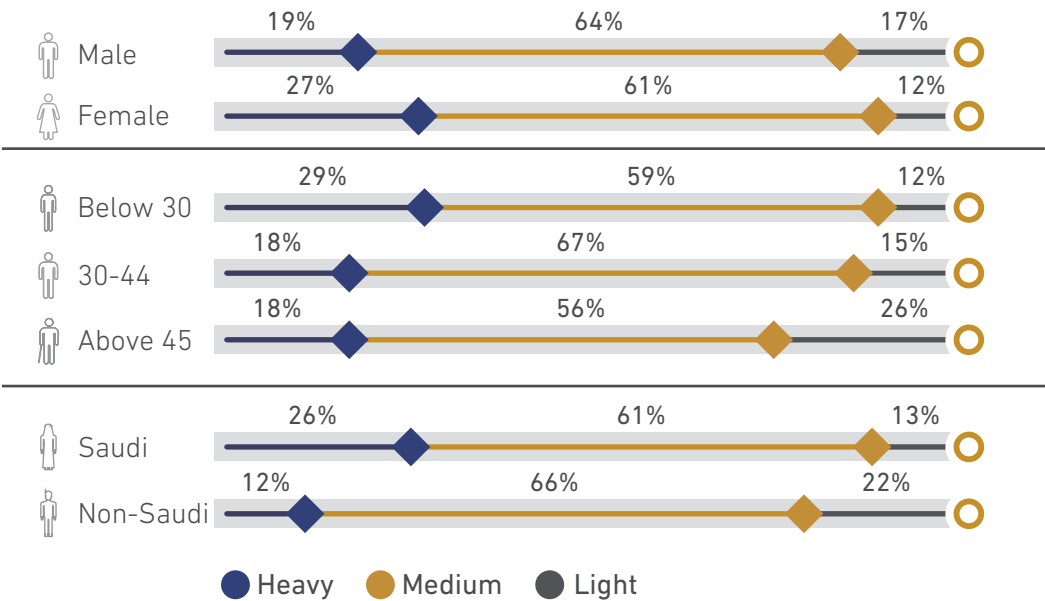


Figure 9 – Profiling Online Shoppers by Demographics. Base (Who purchased any products or services online in past 12 months): 397-Heavy Buyers=91, Medium Buyers=247, Light Buyers=59

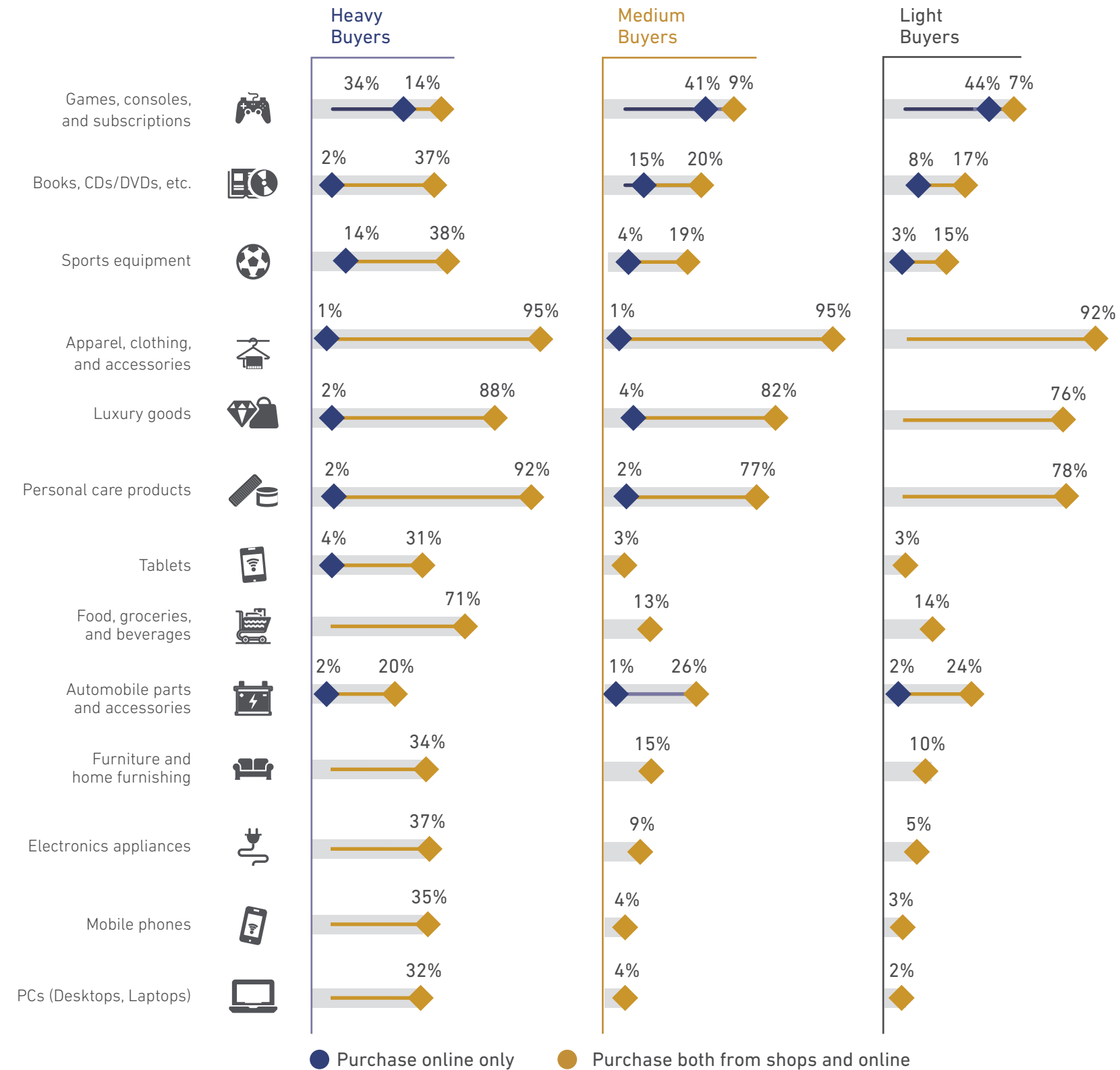


Figure 10 – Shopping Preferences When Buying Products Online: Online Shoppers. Base (Who purchased any products or services online in past 12 months): 397-Heavy Buyers=91, Medium Buyers=247, Light Buyers=59

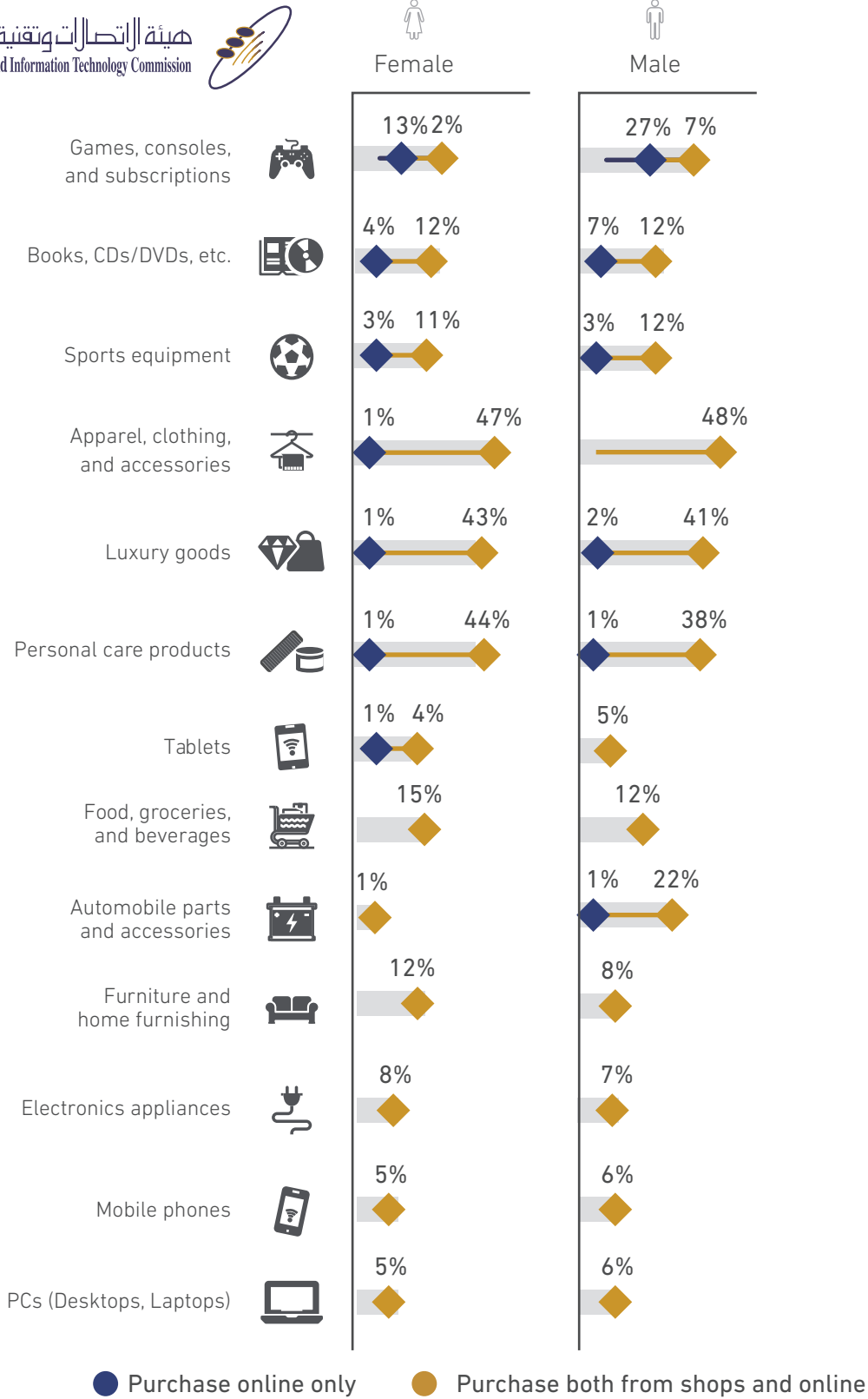


Figure 11 – Shopping Preferences When Buying Products Online: Females versus Males. Base (All): 783

books and CDs, and automobile parts and accessories online, while female shoppers are slightly more active in buying furniture and home furnishings online.

More medium and light buyers buy entertainment, event tickets, and travel-related services online than heavy buyers. However, a larger proportion of heavy buyers purchase taxi and transport services and insurance policies online than medium and light buyers.

More males purchase travel and event services and high-value insurance services online than females, while a significantly higher proportion of female shoppers purchase entertainment and taxi services online than male shoppers.

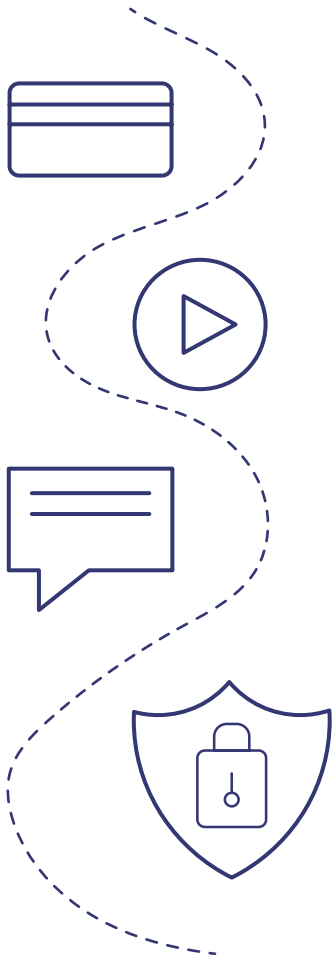


Figure 12 – Shopping Preferences When Buying Services Online: Online Shoppers. Base (Who purchased any products or services online in past 12 months): 397-Heavy Buyers=91, Medium Buyers=247, Light Buyers=59

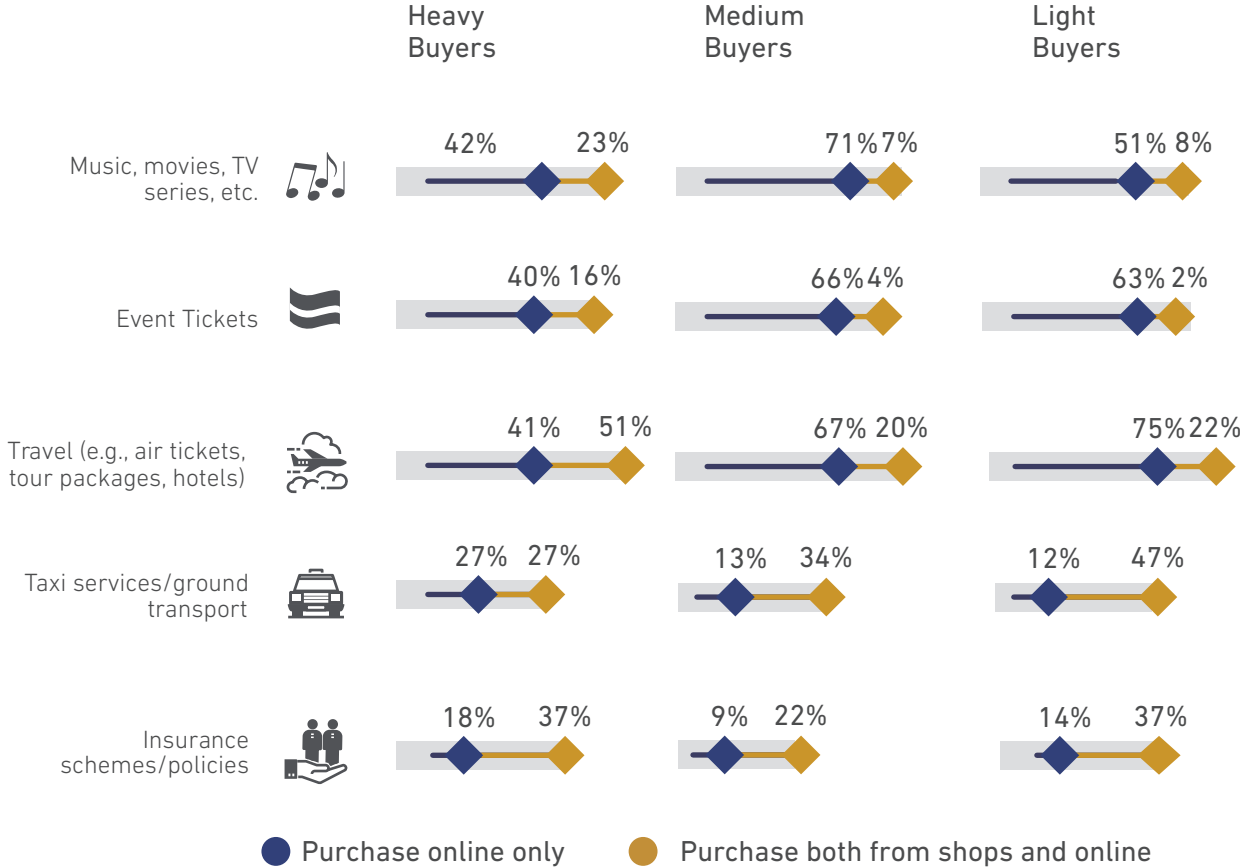
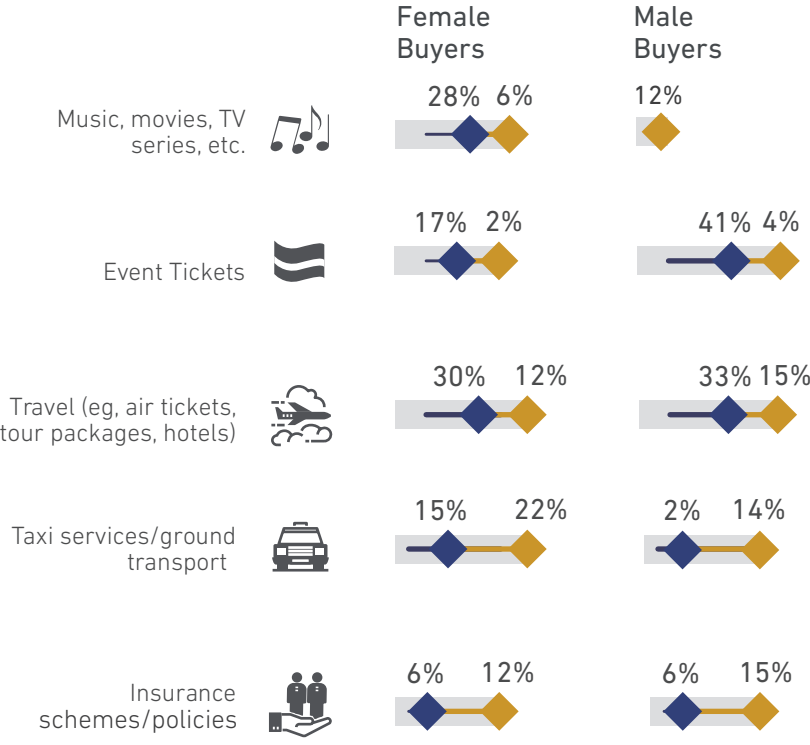


Figure 13 – Shopping Preferences When Buying Services Online: Females versus Males. Base (All): 783



Buying through Social Media Sites:

Purchasing through social media platforms is quite widespread in Saudi Arabia. Instagram, Twitter, and Facebook are the most widely used social media platforms for online shopping. 42% of the respondents who have shopped online during the last year have made their purchases on social media websites and applications. Women shop relatively more on social media than men.⁴⁵ When analyzed by nationality, the social media purchasing behavior of Saudi nationals and non-Saudi expatriates is quite similar. The use of social media for online shopping is quickly picking up as consumers find it easier to check recommendations and opinions from other shoppers before buying a product or service. Consumers also get an increased sense of transparency if the seller is active on social media.

Smartphone and Applications Usage:

Technological savviness is rapidly growing due to the high mobile and Internet penetration rates in Saudi Arabia,⁴⁶ resulting in a gradual decline in shopping via desktop and traditional websites. Only 21% of online shoppers rely on desktops and laptops to make purchases, compared to 93% who use smartphones. Mobile apps are more popular among those who use mobile devices to shop online. 47% of these shoppers shop purely using mobile applications, 52% use both web browsers and the mobile apps, while only 1% rely solely on the web browser to shop online.

45. CITC E-commerce Research, 2017
46. ICT Indicators in the Kingdom of Saudi Arabia, CITC, Q2 2017

Demand-Side Drivers and Inhibitors:

The convenience of home delivery and the ease of making purchases have been highlighted by shoppers as the top drivers propelling the use of e-commerce. Additionally, the offers and discounts available on online sites are often more attractive than those offered offline. The increasing availability of multiple modes of payment is another driver, while the unavailability of products at offline stores also drives shoppers to procure them online.

A few barriers to increased e-commerce adoption remain. For example, some shoppers still find the process of buying online complex. Shoppers are also apprehensive that the quality of the products delivered may not be the same as that advertised; therefore, the consumer rights protection is a concern. Shoppers are also concerned about the security of personal and credit card information shared online. Consequently, offline buying will continue to

be important in Saudi Arabia. Many shoppers like to touch and feel products such as apparel before buying. A sizeable 47% of those who stopped buying online said that stores offer better prices than their online counterparts.

Payments:

Shoppers have by large used credit cards to pay for their online purchases. However, cash-on-delivery is also very popular, probably due to apprehensions about using credit cards online. From a seller’s perspective, this preference is challenging due to high cost of moving stock as well as low delivery acceptance rates. There is also healthy use of bank transfers as a means of payment — such transfers are widely used by buyers who may not have credit cards or simply prefer to transact through a bank. The use of SADAD is quite low because of low levels of awareness and perceptions of poor usability.

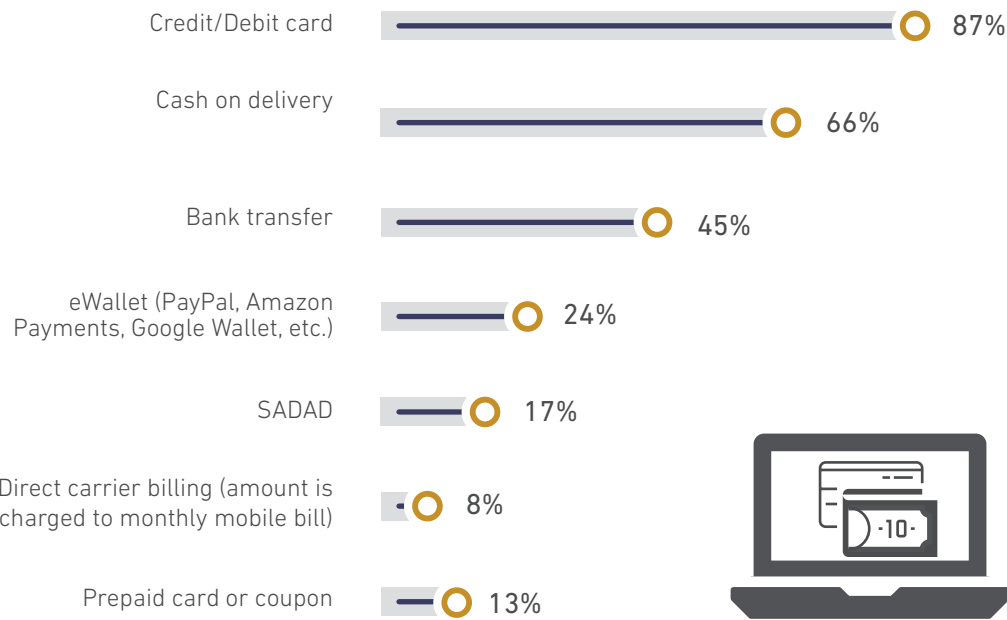


Figure 14 – Payments Methods Used for Online Purchases. Base (Those who have purchased online in past 12 months): 397

Logistics:

Consumer satisfaction is relatively high for some features of shipping and logistics services such as SMS notifications, pan-

Kingdom coverage, shipment tracking (using the shipper’s online system or via email), and customs clearance assistance. However, there is also significant dissatisfaction due to high delivery charges, delivery of damaged goods,

and lengthy delivery cycles. There is also dissatisfaction with re-arranging deliveries (e.g., when a first-time delivery fails because the logistic provider could not locate the customer accurately or deliver at the right time).

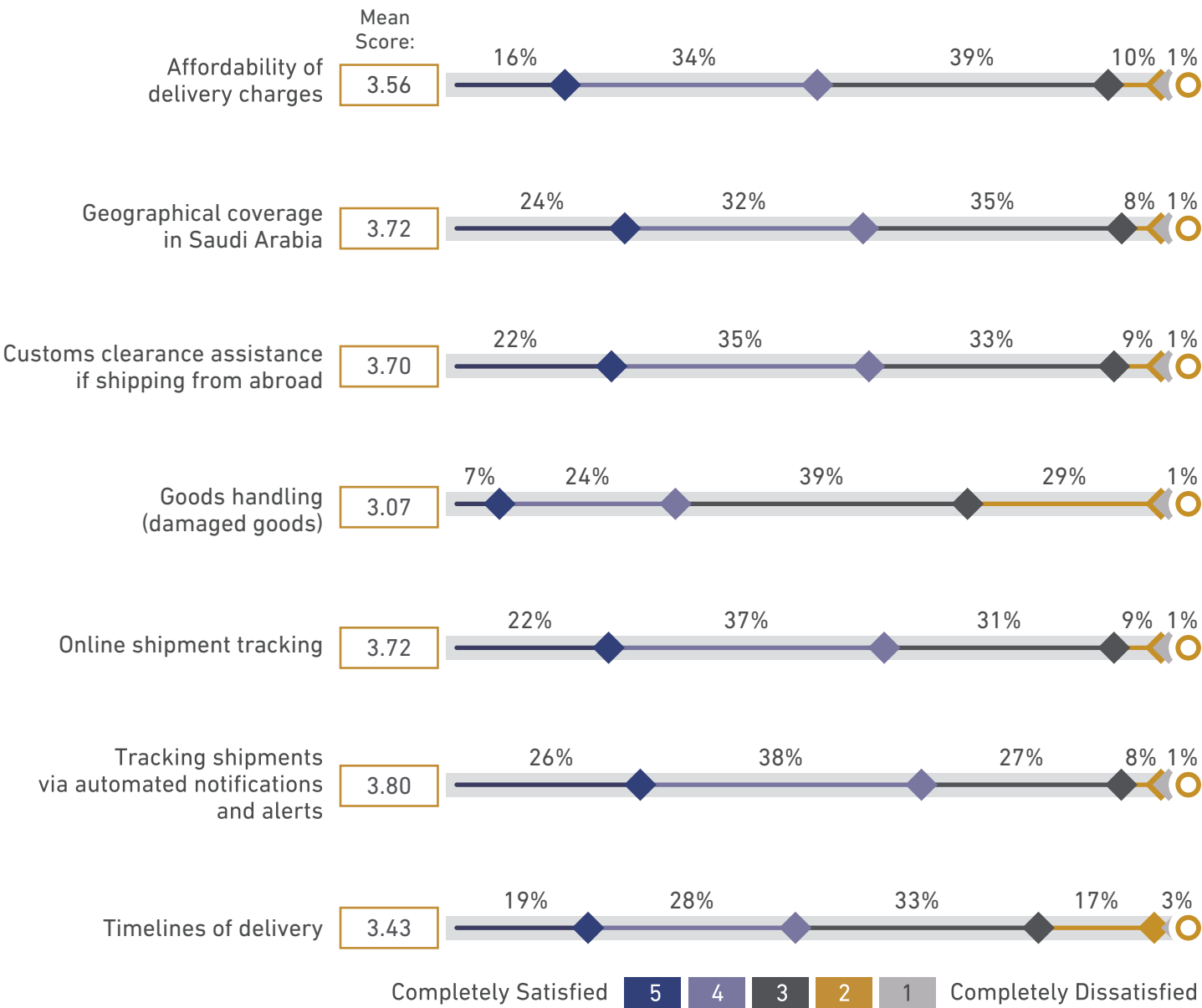


Figure 15 – Satisfaction Levels with Logistics Services. Base (All): 783

Consumer Protection:

There is a lack of a comprehensive framework for protecting consumer rights with respect to online buying. Currently, consumer protection regulations only cover in-store purchases and do not protect buyers when purchasing from international sellers. Although consumers are aware of these general consumer protection regulations, there is a strong perception that the rules and regulations in place are not adequately enforced. There is also a lack of provisions to address violations and no clarity on the boundaries of jurisdiction in the event of a complaint.

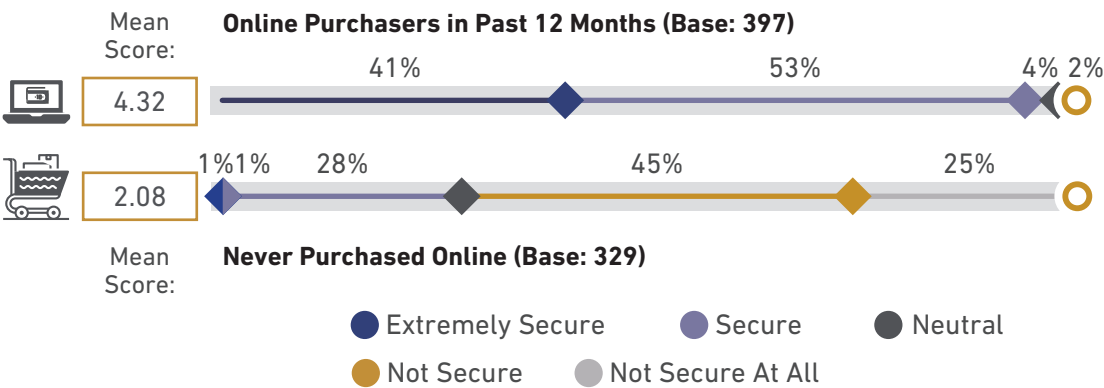


Figure 16 - Security Level and Concerns around E-Commerce Websites

Security and Privacy:

As per the survey, more than two-thirds of the respondents are apprehensive about entering their credit cards and personal details on e-commerce websites. Individuals who have shopped online are understandably more confident about the security of their data and payments than those who have not purchased online. Low confidence levels often prevent non-shoppers from trying online buying.

Online Buying Behavior of SMEs

Most of the SMEs surveyed (94%) utilize online channels to make purchases, but only a few (5%) are e-commerce sellers (i.e., SMEs that use e-commerce in addition to their traditional sales channels). Airline tickets, travel insurance and hotel bookings, and IT supplies and services are the items most frequently purchased by SMEs online, followed by pantry and office supplies (which are bought at least once every one to three months). The average amount SMEs spend on online purchases each month is SAR 22,450.⁴⁷ Credit cards are the most widely used payment method because they facilitate easier tracking of expenses.

Drivers and Inhibitors:

Generally, SMEs find online shopping very quick and efficient. SMEs are also of the opinion that e-commerce sites give them the flexibility to use various payment options (such as credit cards, bank transfers, or cash on delivery). The other main drivers that encourage SMEs to buy online include the wide range and variety of products and services that are otherwise not available through traditional channels, the competitive online prices, and the access to lucrative offers and discounts.

SMEs depend on the same logistics systems as individual buyers and face similar challenges (such as those related to delivery and fulfilment). For example, SMEs are somewhat dissatisfied with logistics services providers due to challenges related to delivery timelines, costs, and goods handling.

Supply-Side Trends

State of the Pure-Play E-commerce Industry

Saudi Arabia's pure-play e-commerce industry comprises a mix of local, regional, and international sellers. The market also consists of niche and broad-based products and services sellers. While regional and international sellers can capture a significant portion of the market due to the sheer variety of products and services they provide, local sellers have the unique advantage of offering products and services that may not be available from regional/international sellers.

Priorities of E-commerce Sellers:

Becoming a «best fit» for local markets (by leveraging global expertise) and attaining a deeper understanding of market dynamics (by establishing a local presence) are the key success factors and competitive differentiators for e-commerce and sharing-economy players in Saudi Arabia. E-commerce players operating in the country have strong geographic expansion and financial growth plans; for instance, they are considering expanding their digital operations teams and complementing their capabilities by establishing partnerships with local distributors and logistics providers to ensure their products can be delivered efficiently.

47. CITC E-commerce Research, 2017





Large pure-play e-commerce sellers usually manage their sales, marketing, warehousing, logistics, and IT operations internally. Smaller sellers also prefer to manage sales and marketing operations internally, but rely on outsourcing warehousing, logistics, and IT operations to third parties as well. Although large e-commerce sellers have invested in developing their logistics infrastructure, they still partner with local logistics providers to cater to peak seasonal demand or deliver bulky products that could otherwise not be shipped using their own resources. Improving customer experience is a key focus area for e-commerce sellers in Saudi Arabia. To enhance customer experience, many of these sellers are looking to offer same-day delivery in metro areas and 48-hour delivery in non-metro areas. However, domestic logistics systems need to be improved if these stringent commitments are to be met affordably.

Enhancing the efficiency of the core business, reducing operational overheads, and improving customer experience are the key focus areas of e-commerce sellers. Payment systems are tightly regulated; therefore, sellers will need to overcome several hurdles in order to establish their own payment systems. Some other notable seller priorities over the next 12–24 months include adding more products and services to their inventories, integrating rating and feedback systems, and improving logistics infrastructure by either investing in-house or partnering with up-and-coming logistics start-ups that offer comparatively better services.

The Role of Social Media:

The marketing budgets of e-commerce sellers in the country are mostly allocated to digital activities, with a large proportion devoted to social media channels such as Facebook, Instagram, and Twitter, and in some cases, Snapchat. Online advertising and the use of analytics platforms (like Google AdWords) and

search engine optimization (SEO) tools are also gaining traction.

Social media marketing allows sellers to effectively reach a tech-savvy, mobile-enabled audience, and makes it easy for them to track return on investment (ROI) more effectively. Social media campaigns have helped online sellers to significantly improve customer awareness and establish a lasting customer mindshare. Social media also helps improve the customer experience by acting as a feedback channel.

Cross-border E-Commerce Industry:

Regional and international e-commerce companies are capturing a significant portion of the revenues generated in Saudi Arabia. The lack of a strong and widely diverse domestic e-commerce industry has meant that shoppers have limited options to choose from, which might hamper the growth of the sector.

The significant investments recently announced in the local industry will bode well for its future growth and development. The entry of Noon.com, which is a billion-dollar e-commerce initiative where Saudi Arabia’s Public Investment Fund owns a 50% stake, will also significantly boost the local industry.⁴⁸ Amazon’s purchase of Souq.com and Emaar’s acquisition of Jado Pado⁴⁹ are two notable investments in this regard.

Traditional Retailers’ Approach to E-Commerce:

To stay relevant, progressive traditional retailers are actively developing their online capabilities. However, large companies are often slower than smaller companies when transitioning to e-commerce as they are taking a cautious and phased approach to their e-commerce expansion by gradually scaling up their e-commerce operations.

Hybrid (Offline-Online) Retail Business Models:

Online retail has been gradually capturing market share from traditional retailers. As such, traditional retailers have been developing a hybrid model through which they have been expanding their online presence and leveraging the lower operational costs of online retail. Some are establishing e-commerce start-ups as subsidiaries to enable faster time to market and foster innovation without being constrained by the existing infrastructure and processes. While such schemes have been initially successful, there is a risk that they will create silos and separate inventory or pricing strategies, ultimately leading to inefficiencies.

Some retailers are extending their reach through online selling and providing the added flexibility of allowing in-store pickups and returns. Some hypermarket chains have a very strong online presence via their mobile applications, despite not conducting sales through online channels.

Several traditional retailers that are venturing into online selling are leveraging social media such as Facebook, Instagram, and Twitter to drive traffic to their e-commerce platforms. Traditional retailers are also leveraging technology to create a unified customer view across online and offline channels and integrating their inventory, product catalogs, and pricing strategies, thereby enabling them to launch organization-wide omnichannel initiatives. This approach is helping traditional retailers launch e-commerce sites not as standalone solutions but as fully integrated arms within their existing retail operations and systems.

48. “Demand for electronic transactions will increase the size of local e-commerce market to 2 billion SAR”, Article, Saudi Press Agency, 7/12/2016

49 “Jadopado is acquired by Mohamed Alabbar”, Article, Wamda, 2/5/2017

Drivers and Inhibitors:

Consumer buying is rapidly shifting from offline to online purchasing channels, while total traffic (in-store and online is continuously increasing. This change in consumer dynamics is one of the most significant drivers encouraging traditional retailers to take the e-commerce path. Since traditional revenue streams are increasingly being disrupted, traditional retailers are highly motivated to create sustainable, non-traditional revenue streams (such as e-commerce) to mitigate this disruption. With profitability under pressure, the 5% value-added tax (VAT) levy⁵⁰ in Saudi Arabia is also compelling traditional retailers to venture into e-commerce. This shift is also helping traditional retailers drive brand extension, increase their customer base, and protect their market share by aligning with changing market dynamics and consumer trends.

Although online sales channels offer greater price transparency, traditional retailers are finding it difficult to develop pricing strategies when selling through multiple channels. The payments and logistics ecosystem in Saudi Arabia is still undergoing development; as such, it is one of the roadblocks that traditional retailers are facing when considering expansion into e-commerce. In addition to operational and commercial inhibitors, cultural factors (the differing mindsets between older generations and newer generations of family business owners and leaders) are also preventing large retail chains from moving into e-commerce.

50. "Shura Council holds its 45th regular session", Article, Saudi Press Agency, 12/7/2017
51, 52. CITC E-commerce Research, 2017

SMEs' Approach to Online Selling:

According to CITC's research⁵¹, 86% of the SMEs selling online say they have been active as online sellers for the last three to five years. Most focus on the Saudi Arabian market, while a few also target the wider GCC and Middle East markets.

ICT Investments Enabling E-Commerce:

Technology is the backbone of any successful e-commerce venture. SMEs in Saudi Arabia that sell online spend an average of SAR 107,000 on ICT annually in 2016, with 13.8% of this budget allocated to e-commerce-related technology investments. The SME segment in Saudi Arabia is relatively nascent when it comes to digitalization and technology adoption, although maturity levels are notably improving. This is evident from the fact that the average ICT spend by SMEs is expected to slow to SAR 85,750 in 2017, and only 12.7% of this budget will be allocated to e-commerce-related investments.⁵²

Payment Options:

SMEs provide a variety of payment options to their online customers. Credit cards, cash on delivery, and bank transfers are the most commonly offered payment methods. Very few offer Sadad and electronic-wallet (e-wallet) options. In terms of credit cards, there is a strong preference for facilitating payments via Saudi-based payment gateways. Bank transfers are the most widely used payment channels.

Social Media as a Sales and Marketing Channel:

The use of social media for marketing and selling is very limited in SMEs. According to the CITC survey, only 26% of respondents

use social media to promote their products. SMEs also rely on search engine marketing and optimization and, in some cases, email marketing to boost web traffic to their online stores. SMEs are gradually realizing the benefits of using social media to sell products and services — as such, an increasing number of SMEs are expected to embrace social media as a sales channel as it provides a sense of familiarity to the buyer, makes it easier for sellers to reach target audiences, and enables close collaboration and communication with customers.

Drivers and Inhibitors:

E-commerce expansion is helping SMEs generate repeat business from returning customers more efficiently; it also makes it easy for them to maintain profitability at lower operational costs. Together, these benefits provide SMEs with a competitive advantage over offline SME sellers.

The complexity and maturity of the payments ecosystem and the weaknesses in service delivery from logistics players are the two most important challenges facing SMEs that are looking to go down the e-commerce route. Due to their small size and nature of operations, some SMEs – over a third of those that currently do not sell online – believe that it will be difficult to generate sufficient profitability from e-commerce to justify the investments required.

SME that sell online find lower investments required to set up an e-commerce business very attractive. They are also investing more in e-commerce because geographic barriers become irrelevant in reaching customers (since sales are not confined to physical locations). Furthermore, in the wake of cost pressures and budgetary limitations, SMEs that sell online are increasingly looking at e-commerce as a highly profitable alternative

to traditional retailing. Since only few SMEs sell online in Saudi Arabia, e-commerce adoption could become a key competitive driver for these businesses.

Niche target audiences and low demand for specific products that only SMEs sell (such as hand-made products) have been highlighted as key factors inhibiting e-commerce adoption by SMEs. It is interesting to note that many SMEs that do not sell online see generating sufficient profits with respect to the investments quite a challenge. Additionally, the support ecosystem (logistics and payments) needed for an online business to succeed is lacking in Saudi Arabia. The low maturity and awareness of SMEs in terms of technology and businesses processes is also a significant barrier to e-commerce adoption. While featuring low in the survey, the competitively priced products and services already offered by other e-commerce players, as well as concerns about the technical capabilities within the ICT ecosystem, were identified as obstacles hindering SME e-commerce adoption.

C2C Sellers' Approach to E-Commerce:

Almost all C2C sellers generate sales by leveraging social media platforms to drive customer reach and boost traffic. In some cases, the owners of these small, home-based businesses are engaged in regular full-time employment, and only work on the business as part-time job to create an additional source of income. Newly established C2C businesses tend to generate a handful of sales initially, and are usually managed by the business owners directly. However, as demand and orders grow, the businesses start looking for partners that can handle the delivery and fulfilment needs that they previously managed on their own.

Even small improvements in perception and quality of service translate into revenue growth. These small but consistent demand spikes are potential indicators of growth, which C2C

sellers usually exploit by either expanding their online presence or by employing traditional methods of selling (e.g., through partnerships with brick-and-mortar retailers).

C2C sellers usually adopt a hybrid operating model through which they use social media to showcase their product catalogs and receive orders through a number of channels (e.g., by phone, WhatsApp or social media chats). Due to budgetary limitations, these businesses tend to rely more on word of mouth, private events and gatherings, and social media (including Facebook, Instagram, Twitter, and Snapchat) for marketing. Convenience, on-time delivery, and provision of niche products that are otherwise too expensive to buy from traditional channels (or not available in the market at all) are often important competitive differentiators for these businesses.

The key tactics adopted by these sellers to maximize the benefits of social media include leveraging the visibility of food and lifestyle influencers and using prime traffic times to push images or offers to increase orders. Some home-based businesses are one-man shops with no employees, with the owner solely managing orders, deliveries, and customer communication. Some sellers provide digital services and subscriptions for online gaming and entertainment, and since these services and subscriptions do not require any physical delivery, all transactions, communication, and delivery takes place through social media, online chats, or email.

Most Saudi C2C sellers are not commercially registered; as such, they rely on cash on delivery as the primary means of receiving payments (although some also support bank transfers for high-value and inter-city orders). As these sellers lack the required commercial licenses, they are unable to register with banks and payment gateways, which in turn prevents them from accepting credit cards and other forms of e-payment.



E-Commerce Ecosystem Enablers

The Saudi e-commerce ecosystem consists of key enabling agencies such as government and regulatory bodies, payment services providers, logistics companies, technology providers, venture capitalists, and investors. All these players provide the much-needed support, enablement, and platforms to drive the growth and development of e-commerce in Saudi Arabia.

Government, Regulatory Bodies, and Policymakers

Public sector entities such as ministries, regulators, and policymakers are among the key enablers of the Saudi e-commerce sector, as they are directly responsible for establishing and enacting the medium-to-long-term plans that will shape the future of the sector. These government entities are responsible for developing a regulated business environment that supports the establishment of online businesses, protects buyers from rights violations, and creates an environment for all stakeholders to work collaboratively toward the development of the e-commerce sector.

The Ministry of Communication and Information Technology (MCIT) is mandated to undertake various initiatives under the umbrella of the NTP 2020. These initiatives include supporting small and medium-sized pure-play e-commerce and sharing economy companies, and establishing a council to overcome the challenges that are impeding the e-commerce growth potential of the Kingdom.

The Ministry of Commerce and Investment (MCI) has been at the forefront of initiatives that will directly contribute to the growth and development of Saudi Arabia's e-commerce

market. MCI initiatives such as Maroof,⁵³ which allows shoppers to validate genuine sellers and view and share ratings and reviews from previous customers, have received positive feedback. The MCI is currently working on improving Maroof's functionality and ratings system. Although more than 8,000 businesses are currently registered with Maroof, only 3,000 have a commercial registration. The MCI consequently plans to encourage commercial registration through awareness campaigns. In addition, there is widespread selling of counterfeit, fraudulent, and unsafe products online that violates the anti-trade fraud law and trademarks law. As of June 2017, the MCI had closed more than 75 social media accounts that had been advertising and selling counterfeit products. MCI is currently working on Saudi E-commerce Law that was released as a draft that aimed at streamlining online retail transactions, promoting comfort and building consumer confidence. The new law will further emphasize consumer rights, and reinforce data protection and IT security practices.⁵⁴ The Consumer Protection Association (CPA) is working actively towards creating awareness among the consumer community about the protection of their rights and legal recourse options in case of violation.

The SMEA is working on raising the awareness about the advantages of e-commerce business models in the SME segment. The SMEA is also working toward enabling SMEs to sell their products and services online. To further support the growth and development of SMEs in Saudi Arabia, the Ministry of Labor, through its 9/10ths initiative has developed Tojjar platform that helps small businesses, productive families, and entrepreneurs boost their businesses online.⁵⁵

53. Maroof.sa Website

54. «New Saudi draft law a boon for e-commerce», Article, HSBC Global Connections, 7/12/2015, "E-commerce law seen in Saudi as online buying witnesses growth", Article, Zawya, 2/8/2017

SAMA on the other hand is working on initiatives to promote the greater use of credit cards and Sadad in online payments. SAMA is also currently building its own applications to enable digital invoicing and peer-to-peer (P2P) fund transfers.

The payments space has a few shortcomings; however, there are planned improvements that will make the market more competitive, and quality oriented. These improvements will promote the use of e-payments and improve buyer experience.

Import regulations by the Saudi Food and Drug Association (SFDA) and the Saudi Customs Department tightly control the beauty, medical, and supplemental products imported by local e-commerce sellers. However, it is seen that Saudi consumers are often able to order these products from abroad through international e-commerce companies without them being held at the customs department. This situation which favors international e-commerce sellers needs to be addressed to support local e-commerce businesses.

Payment Providers

Making payments is the last stage of the online purchase cycle. In order to boost customer confidence in online payments, credit card companies and banks have effected two-factor authentication to make credit card purchases safer.

The trust in local payment providers is also gradually improving. This trend is encouraging an increasing number of merchants to sign up with local payment gateways, and marks a significant step forward in the evolution of the Saudi payments ecosystem. Meanwhile, contactless mobile payments, e-vouchers,

55. "New e-commerce platform launched in Saudi Arabia to support SMEs", Article, Zawya, 3/8/2017



e-wallets, and direct carrier billing options are going to further disrupt the Saudi payments landscape over the coming years.

Due to existing regulations, individual online buyers are unable to use their debit and ATM cards to make online purchases, which is significantly inhibiting the full growth potential of the Saudi e-commerce market.

Investments in research and development, innovation, and entrepreneurship in fintech digital payment startups in areas such as mobile payments, cross-border peer-to-peer payments, and digital commerce transactions will also help to boost the e-commerce market.

Logistics Providers

While the logistics sector has undergone significant developments over the last 12–24 months, challenges around pricing, quality of service, and goods handling remain. At the same time, the higher preference for cash on delivery has been one of the main challenges facing the logistics players. Collection of cash payments, and re-delivery to unresponsive customers are adding to their delivery costs.

Logistics providers in Saudi Arabia are diversifying into payments and ecommerce. The planned transformation of Saudi Post will help to position Saudi Post as a key logistics service provider and e-commerce player, and contribute to the development of the logistics ecosystem in the country. Saudi Post is working on revamping their Email initiative by redesigning and streamlining their existing online store to bring it in line with international e-commerce standards and best practices. The new e-commerce platform will offer integrated logistics solutions to the buyer who can choose to pick up from any of the Saudi Post's outlets including parcel stations, and points of sale, or get it delivered to the address via Saudi Post's delivery service called Wasel.

The new e-commerce platform will have multiple payments channels, including Sadad, credit cards, and through Saudi Post's own points based eWallet solution. The platform will also enable C2C sellers to showcase and sell their products by utilizing services such as payment, logistics, etc. for a nominal subscription fee.

Other logistics companies have developed dedicated solutions for e-commerce companies, including local and international delivery/fulfilment and warehousing services, in addition to offering APIs for rate calculation, shipping, and order tracking to e-commerce businesses.

To eliminate challenges with last-mile delivery, local logistics providers are also integrating location-based services like 'what3words' to optimize the geolocation of customers to improve home delivery. To drive down costs and contribute to local employment these companies are also evaluating the use of crowdsourcing to employ freelancers to carry out package deliveries. However, this would require a new license type which is currently not offered.

Logistics and delivery are highlighted as key challenges by stakeholders, with last-mile delivery proving particularly problematic. Although Saudi Post has developed the commendable National Address System, logistics companies have not integrated their own systems with it, making it difficult for e-commerce companies to overcome the last-mile delivery challenges. There is also a mismatch in consistency between quality and cost. Bigger players are quite expensive, and their capacity-related challenges mean that their emphasis on quality is low. In contrast, smaller logistics companies tend to offer better quality at competitive prices. These smaller logistics companies are often not appropriately licensed and are rapidly disrupting the market.

Technology Providers

Technology providers include local and international software and hardware vendors, advisory firms, connectivity and communications providers, and various IT services providers of cloud systems, datacenters, integration services, and so on. Some local technology companies, while helping individuals set up their e-commerce businesses, also run their own e-commerce stores. Others offer end-to-end e-commerce value chain solutions, including content management, branding, business development, marketing, and social media strategy services.

Saudi Arabia has a well-established connectivity and datacenter infrastructure. However, due to cost aspects, local online businesses tend to host their websites with

cloud and datacenter providers outside Saudi Arabia, especially in countries where the cost and quality of connectivity is considerably better and providers offer true flexibility and scalability in billing and handling peak times.

Start-up Ecosystem Players

The Saudi start-up ecosystem consists of venture capitalists, investment firms, incubators, and accelerators. The VC firms present in Saudi Arabia prefer to invest in businesses in the wider region and bring them to the country. They are increasingly focusing on the funding opportunity offered by startups, including those in the e-commerce sector.

The SMEA, in addition to its general mandate to promote SMEs and their contribution to the economy and its support to SMEs to sell their products online, is also working towards promoting entrepreneurship and innovation in Saudi Arabia. One of the notable activities is supporting the Massachusetts Institute

of Technology to conduct the 3rd edition of MIT Enterprise Forum - Saudi Arabia in 2017 under the auspices of the SMEA.⁵⁶ In addition, funding by family and private businesses for startups is quite common in Saudi Arabia.

The incubator, Badir is also helping local startups by facilitating marketing, sales, business development, and go-to-market campaigns. In addition to providing grants, Badir also introduces investors to start-ups and facilitates pitching sessions.

Some traditional retailers are also investing in successful e-commerce businesses as well as in their own in-house e-commerce initiatives.

Additionally, improvements in the regulatory framework, especially changes related to bankruptcy laws, will make the country more attractive for investment.

56. "MITEF announces top Saudi entrepreneurs", Article, Arab News, 22/3/2017





The Saudi e-commerce market is going through a significant growth spurt. To further the development of the e-commerce sector and address growing market demand, a number of initiatives and strategies are being undertaken by key stakeholders. While helping to diversify the economy and boost GDP, these strategies will create employment opportunities, generate investment, foster entrepreneurship and innovation, and strengthen the local industry. In general, the strategies and actions being taken to address the challenges faced by the e-commerce ecosystem fall into two main categories, as illustrated below:

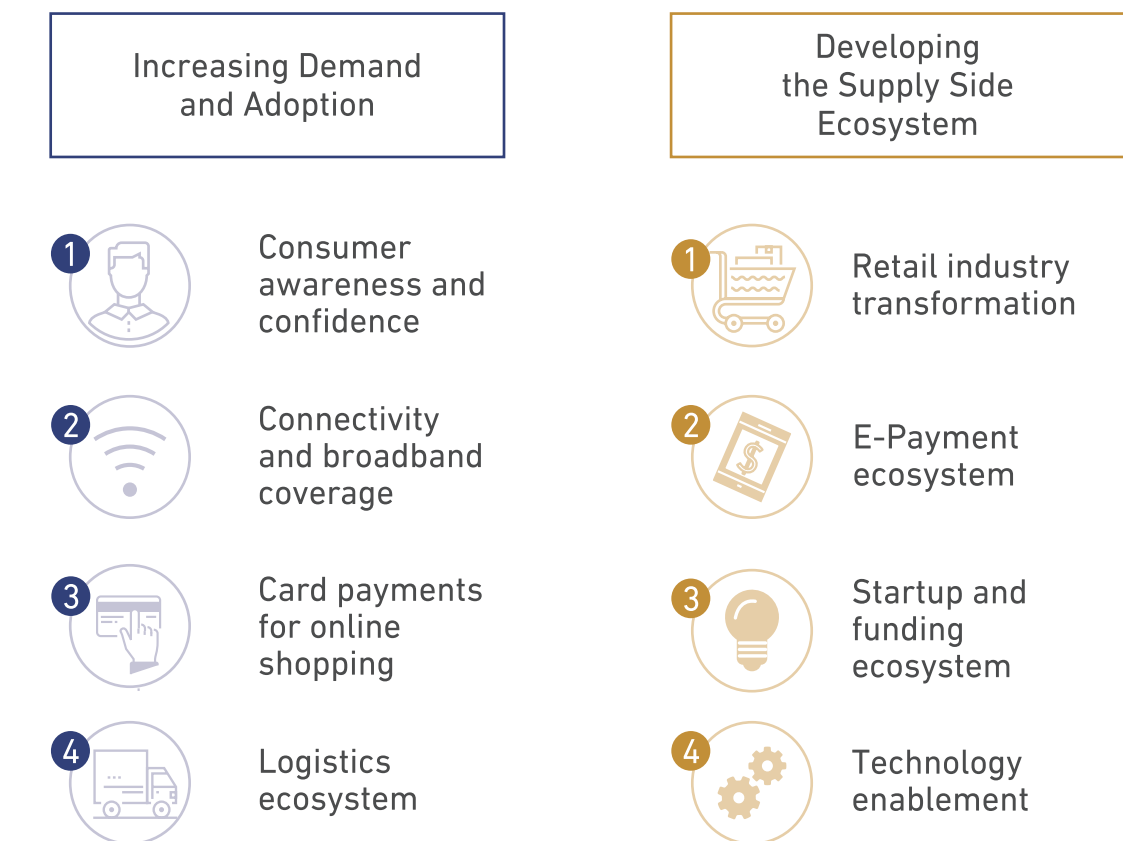


Figure 17 – Pillars for developing e-commerce in Saudi Arabia

Increasing Demand and Adoption:

This section discusses initiatives aimed at boosting demand for e-commerce products and services.

1. Drive Consumer Awareness and Confidence

- Currently, a large proportion of consumers are uneasy about shopping online. Stakeholders need to create awareness about the convenience, flexibility of payments, wider portfolio of products and services, and attractive prices offered by e-commerce.

- Consumers are understandably concerned about counterfeit and low-quality products being sold on the Internet. To boost confidence, the e-commerce laws being developed should be effectively enforced. The MCI could promote awareness and use of Maroof.sa as well as other platforms to check a seller's credibility.
- The security of credit or debit card and personal information in online transactions is a major concern for Saudi consumers. Correspondingly, cash on delivery is the primary method of making payments. Financial services sector stakeholders should look to build awareness about the various e-payment types that are currently available and spread best practices on how to use them in a safe and secure manner.

- There is a strong need to show consumers how their rights are protected when buying online. Consumers also need to be informed how to utilize communication channels to report violations to authorities and consumer protection guidelines must be disseminated through multiple channels to ensure uniform understanding across all stakeholders in the e-commerce ecosystem.

2. Enhance Connectivity and Broadband Coverage

- Internet and broadband connectivity form the backbone of the e-commerce value chain. In fact, many e-commerce mobiles apps and websites are now designed with the expectation of broadband being widely available. Improving connectivity

infrastructure is thus one of the key mandates of the NTP. Connectivity service providers will need work collaboratively with the MCIT on planned expansions of broadband connectivity across the kingdom, and ensure the improved quality and affordability of their services. This will positively impact the consumer experience and increase e-commerce adoption.

3. Improve Card Payment Penetration for Online Payments

- The use of debit cards for online payments is restricted in Saudi Arabia. In addition, credit card penetration is relatively low. It may be worthwhile to consider opening the MADA system to allow the usage of debit cards for online payments — in fact, if implemented successfully, this strategy can help boost e-commerce spending in Saudi Arabia.

4. Stimulate the Logistics Ecosystem

- The Saudi logistics ecosystem is facing challenges on multiple fronts, including low affordability, inconsistent quality, and inefficient last-mile delivery. If more logistics providers were permitted to operate, a competitive environment could be fostered within the local ecosystem. This environment can be achieved by easing the regulations and costs around licensing for more local logistics start-ups.
- The effective integration of Saudi Post's National Address System with the internal systems of private local, regional, and global logistics operators will help improve last-mile delivery. Alternatively, integrations with international initiatives (such as what3words that divides the world into a grid of 3m x 3m squares and assigns unique 3-word identifiers to each square) will further improve geolocation.⁵⁷
- As it undergoes privatization, Saudi Post could transform its operations and become

a key e-commerce fulfilment service provider to e-commerce start-ups and SMEs (in terms of inventory management, warehousing, order pickup, packing, and shipping). This transformation will provide a significant boost to the e-commerce sector.

Developing the Supply-Side Ecosystem

The suggested strategies on the supply-side include:

1. Inspire Omnichannel and Digital Commerce Transformation of the Retail Industry

- Several retail chains are gradually integrating digital channels such as social media, e-commerce portals, and mobile apps into their operations. As these chains already enjoy brand equity and mindshare with existing customers, these new channels can be leveraged to push value-added services such as rapid delivery, in-store pick-ups, and direct returns.
- Traditional retailers are gradually becoming interested in setting up their own e-commerce start-ups to achieve a faster time to market.
- Analytics and social media listening technologies can be used by retailers to improve the relevance of their online product catalogs by leveraging customer loyalty data, spending patterns, and social media profiles. In addition to helping retailers position a wider choice of products, such technologies will also enable retailers to personalize the products and services used by their customers.

57. What3Words Website

There is a strong need to show consumers how their rights are protected when buying online.

2. Develop a Healthy and Innovative E-payment Ecosystem

- Cash-based payment methods are still the most widely-used method of payment in Saudi Arabia. The low credit card penetration in the country and the restrictions on the use of debit cards in online payments impeding e-commerce. Moreover, many online shoppers who have credit cards are apprehensive about security.
- There is a need for a locally developed digital wallet solution, which will certainly improve consumer confidence in electronic payment methods. This should also be supported by developing strong authentication mechanisms which will further encourage consumers to shift from cash-based to cashless transactions such as e-Wallets, credit cards, and debit cards.
- Separating the roles of financial regulators and e-payment service providers could be considered, as it would help to open up the market for the entry of other e-payment options (such as e-wallets), creating a competitive yet regulated payments ecosystem in the process.

3. Invigorate the Start-Up and Funding Ecosystem

- A platform is needed to support e-commerce start-ups and address their concerns and challenges. As such, the setting up of an e-commerce council could bring representatives from all stakeholder agencies together to work on developing the e-commerce startup ecosystem and other aspects of the e-commerce sector.

- Fostering a suitable investment environment could encourage regional and global investors to fund Saudi start-ups. Consequently, a few financial regulations, especially bankruptcy regulations, need to be reviewed in order to lower the risk for investors. Such a review may also encourage start-ups that currently prefer to take their businesses abroad to relocate to Saudi Arabia. Creating start-up hubs in key cities, expanding the Badir model, and holding regular start-up fairs and investment forums will help support start-ups of all kinds.
- Fintech is a major disruptor in the payments ecosystem. However, the number of fintech start-ups in the country is limited. Universities should thus look to expand their support for fintech research, and start-up incubation should be encouraged to focus on fintech. Local and international start-ups should be provided incentives to establish themselves in the country.
- Increasing the funding available to e-commerce startups should be one of the key goals of the government authorities. In addition to creating a conducive environment for traditional investors such as angel investors, venture capitalists, and private equity firms, financial sector regulators could also consider crowdfunding as a viable funding alternative since it allows the business owner to retain control in the business.

4. The Need for Better ICT Services

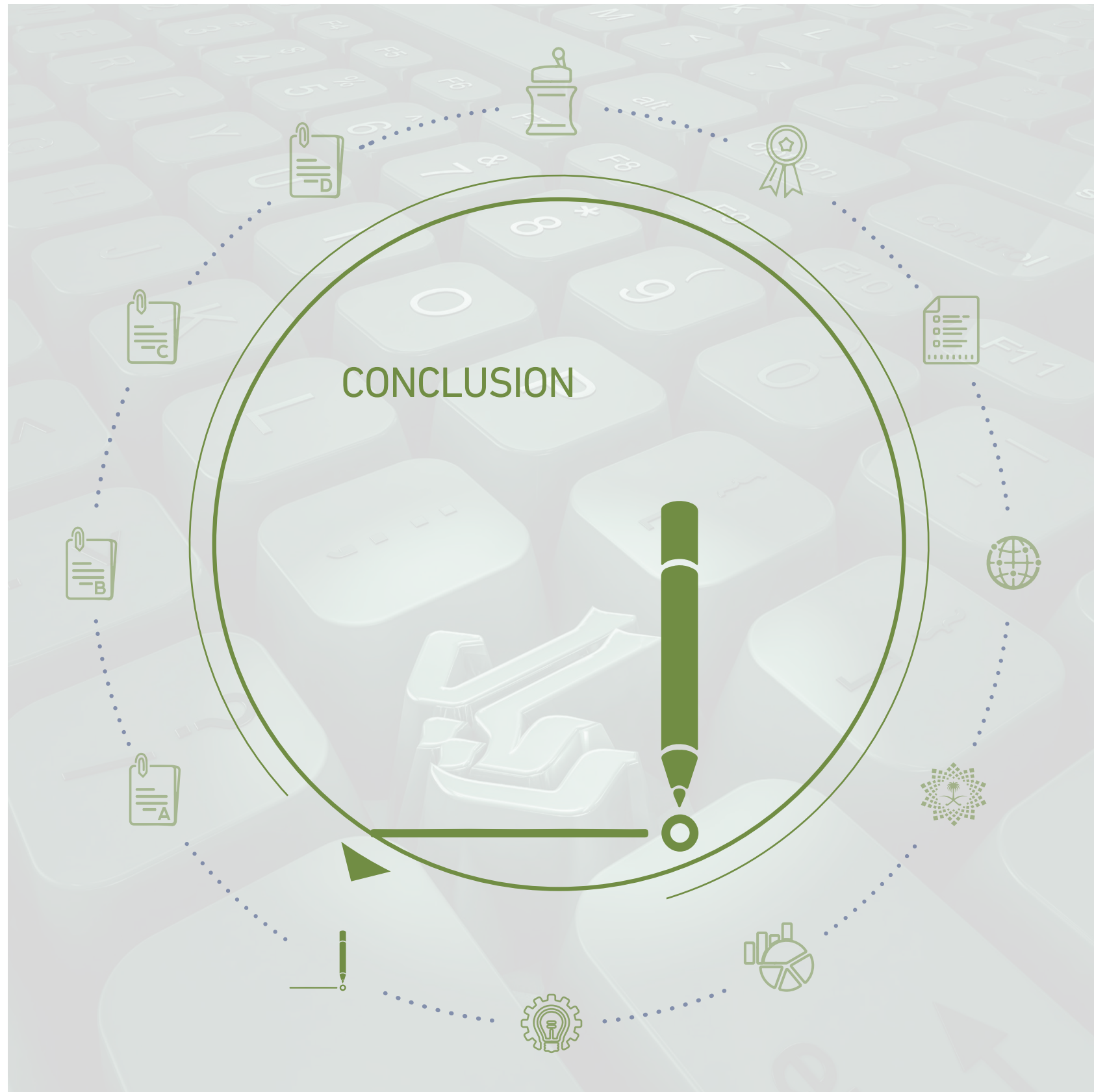
- Providing the technology and services needed for the e-commerce industry to flourish should be a key priority. Connectivity, hosting, applications, cloud, security, and other critical technology services need to be available at an affordable cost. Agility and scalability are also essential for e-commerce businesses that have seasonal and peak loads. The

Economist Intelligence Unit's Inclusive Internet Index – 2017, which assesses the Internet connectivity of the world's top 75 high-income countries in terms of availability, affordability, relevance, and readiness, ranks Saudi Arabia 33rd on the affordability index.⁵⁸ Improve this ranking to increase the competitiveness of local e-commerce companies and attract international companies to the country should be one of the key priorities.

- Availability of turnkey technology solutions and professional services at affordable prices is another critical element that determines the success of start-ups. ICT service providers could therefore offer pre-packaged, low-cost services in a pay-as-you-go model with pre-integrated payment gateways to start-ups. Such an offering would be particularly beneficial to e-commerce startups in the country.

58. EIU Inclusive Internet Index, 2017





Over the past few years, the Saudi e-commerce market has exhibited great growth as a result of rapidly changing consumer behavior. The domestic e-commerce market currently finds itself at an inflection point, and tremendous opportunities lie in wait as stakeholders from all spheres of the ecosystem are starting to work together to address the challenges facing the market.

Development of Saudi Arabia's e-commerce landscape is one of the key objectives of

the NTP that will directly contribute to the country's economic growth and diversification agenda. The government is fully aware of the importance of e-commerce in achieving the desired national goals; as such, several initiatives that address the market's existing pain points are already underway.

Stakeholders that can adapt to the changing economic and consumption dynamics will be at the forefront of this revolution. Increasing competitiveness and spurring the level of

innovation will similarly play a vital role in delivering success.

To make the most of this emerging opportunity, several aspects of the e-commerce ecosystem need to be advanced. These aspects include the level of consumer awareness and confidence, the payments and logistics ecosystem, and the connectivity infrastructure. It will also be important to create a conducive entrepreneurial environment and encourage a paradigm shift in the traditional retail sector.



APPENDIX A: METHODOLOGY

To qualify the current state of e-commerce in the Kingdom of Saudi Arabia and assess the developments and challenges experienced by different stakeholders in the ecosystem, CITC conducted extensive primary and secondary research.

Primary Research

Consumer Survey: CITC surveyed 783 individuals across the different regions of the kingdom to understand their e-commerce usage patterns, preferences, drivers, and inhibitors. The survey was conducted between April and May 2017.

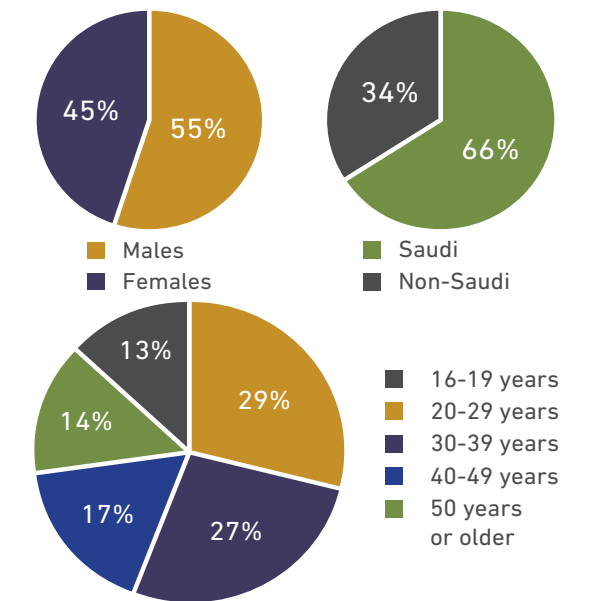
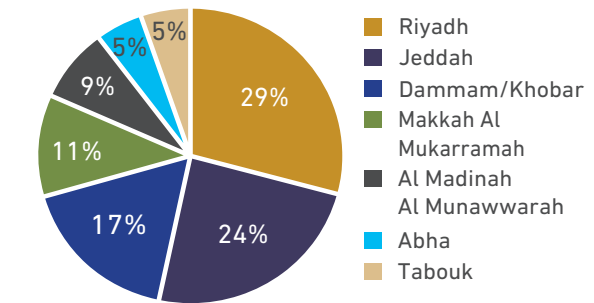
SME Survey: CITC also surveyed 414 SMEs across the kingdom to understand how they use e-commerce to buy products and services, and determine what aspects drive or inhibit online buying or selling. The survey was also conducted between April and May 2017.

In-Depth Interviews with Supply-Side and Ecosystem Enablers: CITC also conducted in-depth face-to-face interviews with 41 organizations representing different stakeholders within the e-commerce ecosystem to understand their view of the current state of e-commerce, expectations for growth, planned initiatives/investments, and suggestions to further develop the industry. These organizations included pure-play e-commerce sellers, traditional retailers, C2C sellers, regulatory bodies, payment providers, logistics providers, ICT providers, and start-up ecosystem players.

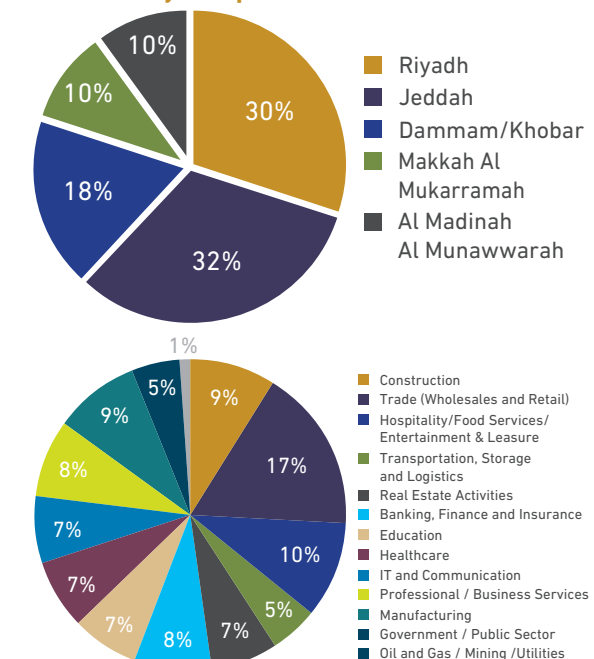
Notes on Market Size and Forecast

- CITC conducted in-depth interviews with supply-side and ecosystem enablers to validate the findings of the survey across varied age groups (16-19, 20-24, 25-29, 30-34, 35-39, 40-44, 45-49, 50-54, and above

Consumer Survey Sample Details



SME Survey Sample Details



- 55) and social economic classes (A+, A, B, C1, and C2).
- To avoid skewing the analysis toward the bottom-end of the social economic class pyramid, social economic classes D and E were excluded from the survey. These two social economic classes together account for 34% of the Saudi population.
- Statistical tools were subsequently used to remove anomalies in the data. Consumer survey data was then extrapolated to the addressable Saudi Arabia population using statistics from the General Authority of Statistics Saudi Arabia.
- The consumer survey and the discussion with e-commerce companies also helped forecast the B2C e-commerce market in Saudi Arabia. While the consumer survey captured the potential spending appetite of consumers on different e-commerce products and services in the coming years, the discussions with e-commerce companies captured their growth and investment projections.
- This information was further analyzed using GDP growth; retail, aviation, hospitality, and insurance sectors growth data; and macro-economic conditions to arrive at the B2C e-commerce market growth forecast.

Secondary Research

CITC performed in-depth and wide-ranging secondary research and examined several existing studies on the e-commerce ecosystem in Saudi Arabia and the Gulf region. CITC also looked at international sources that documented the progress similar countries have made and the best practices they have adopted. The secondary research also briefly looks at some areas that have already benefited from e-commerce and various recent headlines in the e-commerce space.

APPENDIX B: DEFINITIONS

Accelerator: An intensive business program which includes mentorship, educational components, and networking, and aims at growing business rapidly, ending in demo-day.

Badir: The technology venture capital and incubation launched by KACST supporting local startup incubations by facilitating marketing, sales, business development, and go-to-market and launch campaigns for select start-ups.

Business to business (B2B): Which is a type of e-commerce transaction that exists between businesses, such as those involving a manufacturer and a wholesaler, or a wholesaler and a retailer.

Business to consumer (B2C): Which is a type of e-commerce transaction where businesses sell products or services to the public consumers.

Consumer Confidence Index: An indicator designed to measure consumer confidence, which is defined as the degree of optimism on the state of the economy that consumers are expressing through their activities of savings and spending.

Consumer to consumer (C2C): Which is a type of e-commerce transaction between consumers (usually one trades with another).

Crowdfunding: Crowdfunding is the sourcing of funds from a crowd. So, crowdfunding is actually a specific type of crowdsourcing.

Crowdsourcing: Process of obtaining needed services, ideas, or content by soliciting contributions from a large group of people, and especially from an online community, rather than from traditional employees or suppliers.

Digitalization: Integration of digital technologies into everyday life by the digitization of everything that can be digitized.

Digital/Electronic Payment: Transfers of monetary value which are initiated and/or received using electronic devices and channels to transmit the instructions.

Digital/Electronic Wallet: An electronic medium that allows an individual to make electronic transactions. This can include purchasing items online or using a smartphone to purchase goods at a store.

Direct Carrier Billing: A mobile payment method that bills purchases from third party vendors of digital products directly to the monthly mobile bill.

DTC: A business model that helps manufacturers shift from relying on retail channels to directly engaging with consumers.

E-commerce: E-commerce is defined in a variety of ways by different stakeholders; however, in Saudi Arabia, the source of the definition for e-commerce was taken from the MCI, which defines e-commerce as an economic activity that is done wholly or partially through remote connectivity technology using an electronic medium to provide a product or a service.

Emerging Market/Economy: An economy that is progressing toward becoming more advanced, usually by means of rapid growth and industrialization. These countries experience an expanding role both in the global economy and on the political frontier.

Entrepreneurship: The process of designing, launching, and running a new business, which is more often than not, initially a small business offering a product, process, or service for sale or hire. The people who create these businesses are called entrepreneurs.

Fintech (Financial Technology): Computer programs and other technology components used to support or enable banking and financial services.

Food and Lifestyle Influencer: An expert and well-known blogger who writes, creates, and publishes content on various aspects food and lifestyle trends.

G-20 Countries: An informal group of 19 countries and the European Union, with representatives of the International Monetary Fund and the World Bank.

Google AdWords: An advertising service to display ads on Google and its advertising network. The ad service is largely focused on keywords.

Incubator: A collaborative program designed to help new startups succeed. Incubators help entrepreneurs solve some of the problems commonly associated with running a startup by providing workspace, seed funding, mentoring, and training.

Last-mile Delivery: The movement of goods from a transportation hub to the final delivery destination. The final delivery destination is typically a personal residence. The focus of last mile logistics is to deliver items to the end user as fast as possible.

Logistics and Distribution: Management of the flow of things between the point of origin and the point of consumption in order to meet requirements of customers or corporations.

Maroof.sa: A digital platform sponsored by MCI used by shoppers to consider and evaluate the electronic stores in the Kingdom.

Millennial: A person reaching young adulthood in the early 21st century.

National Address System: A unified and comprehensive addressing system for all regions, cities, and villages in Saudi Arabia.

O2O: Online-to-offline commerce is a business strategy that draws potential customers from online channels to physical stores.

Omnichannel: A type of business model (especially in the retail industry) which integrates the different methods of shopping available to consumers (e.g. online, in a physical shop, or by phone).

Payment Gateways: A means of authorizing credit card or other forms of electronic payments. These e-payments can be made online or offline via a website or at an actual brick and mortar retail establishment.

Pureplay: E-commerce companies are often referred to as pure play retailers, as they sell only through the Internet.

SADAD: Saudi Arabia’s national Electronic Bill Presentment and Payment (EBPP) service from SAMA

Sharing Economy: An economic system in which assets or services are shared between private individuals, either free or for a fee, typically by means of the Internet.

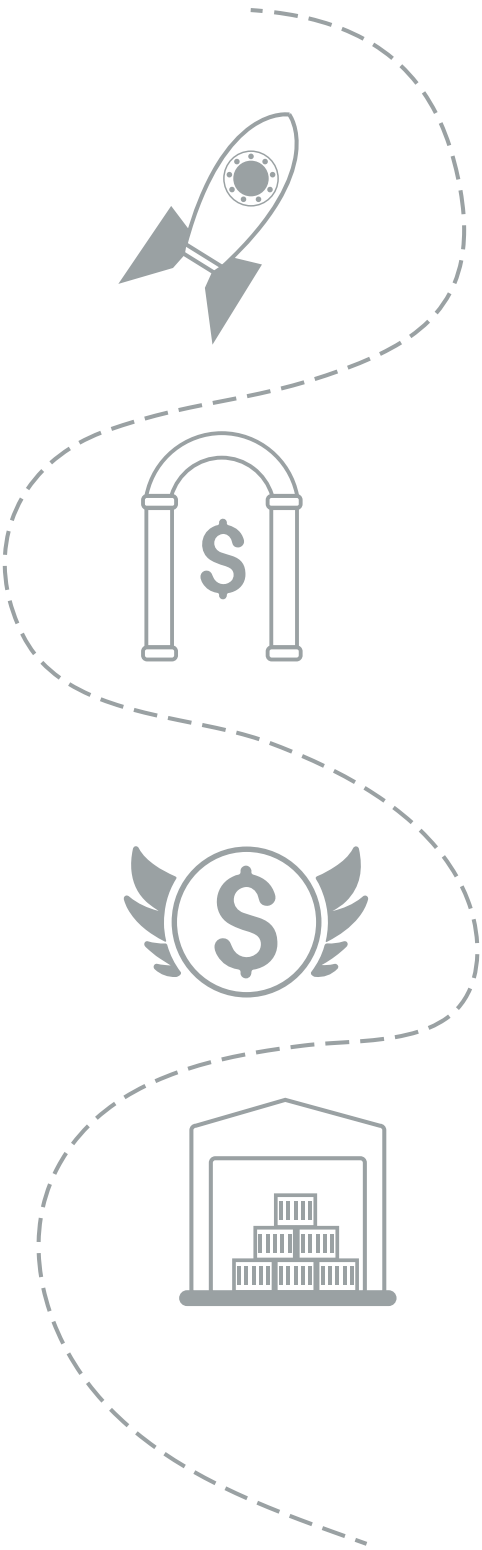
Smartphone: A mobile personal computer with a mobile operating system with features useful for mobile or handheld use.

Start-up: An entrepreneurial venture which is typically a newly emerged, fast-growing business that aims to meet a marketplace need by developing a viable business model around innovative product, service, process or a platform.

Venture capital: A form of financing provided by firms or funds to small, early-stage, emerging firms that are deemed to have high growth potential. Venture capital firms or funds invest in these early-stage companies in exchange for equity, or an ownership stake.

Warehousing: The act of storing goods that will be sold or distributed later. While a small, home-based business might be warehousing products in a spare room, basement, or garage, larger businesses typically own or rent space in a building that is specifically designed for storage.

World Bank’s Logistics Performance Index: An interactive benchmarking tool created to help countries identify the challenges and opportunities they face in their performance on trade logistics and what they can do to improve their performance.





API: Application Programming Interface

B2B: Business-to-Business e-commerce business model

B2C: Business-to-Consumer e-commerce business model

C2C: Consumer-to-Consumer e-commerce business model

CAGR: Compounded Annual Growth Rate

CPA: Consumer Protection Association

DTC: Direction to Consumer

EIU: Economic Intelligence Unit

GCC: Gulf Cooperation Council

HRDF: Human Resources Development Fund

ICT: Information and Communication Technologies

KACST: King Abdulaziz City for Science and Technology

MADA: Previously known as SPAN (Saudi Payment Network)

MCI: Ministry of Commerce and Investment

MCIT: Ministry of Communications and Information Technology

NTP: National Transformation Program 2020

O2O: Online-to-Offline e-commerce business model

P2P: Peer-to-Peer or Person-to-Person

ROI: Return on Investment

SAMA: Saudi Arabia Monetary Agency

SAR: Saudi Arabian Riyal

SEM/SEO: Search Engine Marketing/Optimization

SFDA: Saudi Food and Drug Authority

SME: Small and Medium Enterprises

SMEA: Small and Medium Enterprise Authority

SMS: Short Messaging Service

UNCTAD: United Nations Conference on Trade and Development

VAT: Value Added Tax

VC: Venture Capital



For references, please visit

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<http://ictreport.sa/ecommerce/References.htm>

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Communications and Information Technology Commission

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Communications and Information Technology Commission

P.O. Box 75606 Riyadh 11588 Saudi Arabia

Tel. +966114618000

Fax. +966114618190

