

The SAR 50 Billion E-commerce Opportunity in Saudi Arabia

A BCG whitepaper in collaboration with Meta

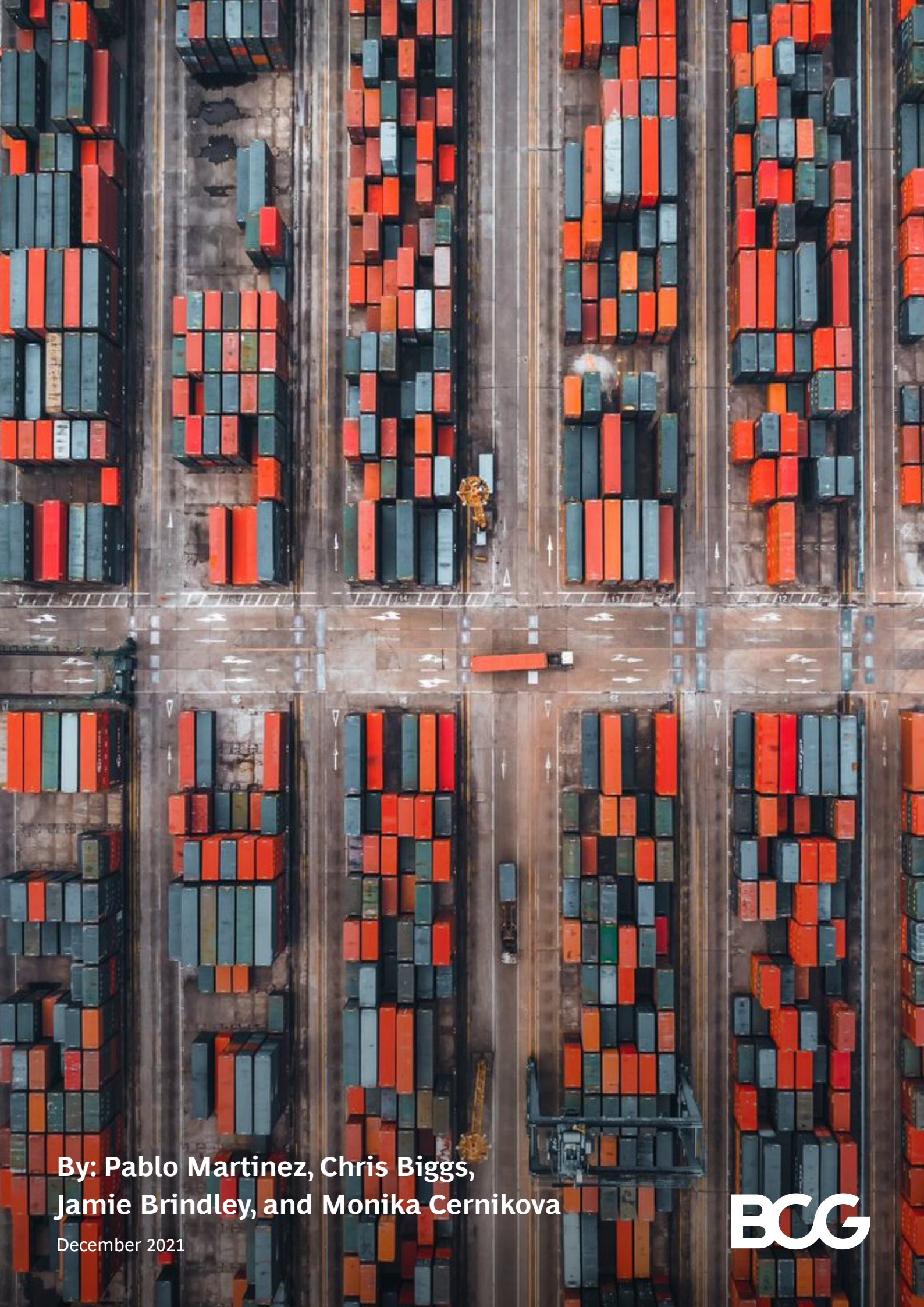
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By Pablo Martinez, Chris Biggs, Jamie Brindley,
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BCG

∞ Meta



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Our whitepaper shares BCG's perspective on the current and potential future state of e-commerce in the Kingdom of Saudi Arabia (KSA):

- Current state and trends in e-commerce globally
- Development in the Saudi e-commerce market in recent years and current market momentum
- Illustration of the benefits of growing e-commerce for KSA's economy and society
- List of potential areas of focus to help the Saudi e-commerce market ride on the current wave of growth and flourish in the international competitive landscape

Short Summary

E-commerce has grown at an unprecedented rate since the COVID-19 pandemic began, a trend that will likely continue once the pandemic is over. KSA is well-positioned to take advantage of this trend by developing a strong domestic e-commerce market and, with the right policies, becoming an e-commerce powerhouse in the GCC region.

Summary

E-commerce: a landscape of growth and opportunity

- E-commerce has grown rapidly, with global revenue surpassing the projected CAGR of 15% to reach 25% in 2020. This surge is largely due to the effects of the COVID-19 pandemic and further emphasizes the inherent advantages of e-commerce over physical retail
- KSA has seen an even higher rate of e-commerce growth, with almost 30% CAGR in the last five years, and a jump of nearly 60% between 2019 and 2020 (largely due to the pandemic), to reach an annual market size of SAR ~19 billion
- Even with this boom, e-commerce has significant potential for more expansion in KSA. Penetration is 6%, versus 18% worldwide. Moreover, the growth of e-commerce significantly outpaces that of traditional retail
- Efficient logistics infrastructure is critical to further expansion, together with several other key enablers: fulfillment centers, quick customs processing, favorable legislation and tax policies, attractive and safe consumer platforms, and integrated e-payment processes

Why we should care: multiple benefits of flourishing e-commerce

- Makes a wider assortment of products available to a larger portion of the population
- Develops transportation and shipping infrastructure, connecting even the most remote areas to the global e-commerce market
- Provides customers with greater price comparability, transparency, and product information, enabling them to make better purchasing decisions
- Captures part of the retail spend currently conducted

abroad (both physically and online), thus helping to bring some Saudi foreign spending back home (only ~40% of current Saudi e-commerce spend was domestic in 2020)

- Generates a significant number of jobs, many of them skilled technical or tech-focused
- Potentially turns KSA into a regional hub for e-commerce, both as a base for global leaders and a powerhouse of local champions

Immediate priorities: we see a clear set of actions for KSA

- Improve speed and quality of shipping and delivery services, especially outside major metropolitan areas
- Incentivize more competition and innovation in the delivery arena
- Make use of the advanced and extensive digital infrastructure with modern payment solutions, through regulatory powers and changing customers' perception
- Ensure a smooth flow of goods across borders in line with KSA's strategic priorities
- Create an ecosystem that develops entrepreneurship and local talent, and nurtures domestic businesses and local firms
- Strike the right balance between incentivizing global e-commerce players to localize, and promoting fair competition to help the domestic e-commerce scene develop

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Saudi Arabia and The World's E-commerce Explosion

During the past two decades, e-commerce has transformed traditional retail worldwide. The process accelerated in 2020 due to the global COVID-19 pandemic, which led to lockdowns, reduced retail operations, and store closures – particularly those deemed non-essential. Customers shifted en masse to safer and more convenient online shopping, including those who would have otherwise remained loyal to brick-and-mortar stores. Now, e-commerce customers are spending more, and doing it more frequently, online – and a new generation of previous non-adopters has converted to the channel. The fastest-growing e-commerce segment has been food and drink or home-related products (more than a 300% increase in 2020), with all other segments also growing at a fast pace.¹

E-commerce addresses the inherent disadvantages of brick-and-mortar retail and taps into the benefits of digital commerce. In the three largest e-commerce markets (the United States, United Kingdom, and China), its share of overall retail now exceeds 20% in the first two countries and has reached an impressive 44% overall share in China², with a share of 63%³ in the consumer electronics segment. Rapid growth in China is expected to continue, making the country the first in the world to achieve more than 50% of sales through e-commerce in 2021.⁴ China is

no exception in terms of e-commerce growth pace – global growth reached 21% in 2019 with double-digit growth across all regions.⁵

More customers than ever enjoy the benefits of e-commerce (see exhibit 1):

The Middle East-North Africa region, as well as KSA, lag in the e-commerce market share, reaching penetration levels of 2.7% and 5.9% respectively in 2020 – far behind mature e-commerce markets and the worldwide average of 18%.⁶ The region, however, has the fundamentals for e-commerce take-off and KSA is especially well-positioned to become the regional e-commerce powerhouse. Online shopping is already present in the country and grew in importance during the COVID-19 pandemic. As the country and the world hopefully return to a more normal existence once the pandemic subsides, e-commerce should continue to thrive. That is, if certain factors are in place to support its success, specifically in the KSA context. A global perspective is of course important, so let's first look at the factors that have made online retail a resounding success globally and how they have laid the groundwork for Saudi retailers to further expand online in the future.

Exhibit 1

E-commerce Customer Benefits



Source: BCG analysis

¹ <https://www.statista.com/outlook/dmo/ecommerce/worldwide#revenue>

² <https://www.statista.com/chart/23941/e-commerce-as-share-of-all-retail-commerce-selected-countries/>; <https://www.digitalcommerce360.com/article/us-ecommerce-sales>

³ <https://www.statista.com/outlook/dmo/ecommerce/electronics-media/china#sales-channels>

⁴ <https://www.emarketer.com/content/global-historic-first-ecommerce-china-will-account-more-than-50-of-retail-sales>

⁵ The UAE eCommerce Landscape, Visa Opinion Paper, November 2020

⁶ See Exhibit 6

Access to a larger product assortment

Free from the restrictions of physical space, retailers can showcase their entire assortment online. Even mega-malls with hundreds of stores cannot compete with the range and availability of online marketplaces. The largest international malls, like The Dubai Mall, Mall of America, or the South China Mall, with millions of items,⁷ are dwarfed by US Amazon's staggering 350 million SKUs.

A tailored and personalized product offering

Advanced search engines and product reviews let consumers access relevant information and find products quickly, without having to sort through lots of items first. "Suggestion" algorithms offer recommendations and highlight promotions tailored to each customer. These algorithms use customers' past purchase history, online interests (based on their browsing), and behavioral patterns of other customers with similar profiles. Data analytics supports this intelligence, which has become highly accurate. Amazon's personal-recommendation algorithm, for instance, now drives more than 35% of all purchases on its platform.⁸ Personalization features of social media make them the number-one discovery channel nowadays, with 82% of people discovering products and brands across Meta's technologies.⁹ Such solutions often run across borders, allowing retailers to reach international customers, while those buyers still get to enjoy a localized customer experience. For example, Squatwolf, a UAE-based gym wear company, partnered with Meta to show ads to potential customers in new and established markets around the world, leveraging dynamic language optimization to allow people to see those ads in their preferred language.¹⁰

Competitive and transparent pricing

Customers can easily compare prices across retailers online. Price transparency leads to more competitive prices. Plus, customers can use their mobile devices to research prices as they shop in a physical store, enabling e-commerce to directly compete with brick-and-mortar.

Social commerce

Four key themes¹¹ are underlining the need for e-commerce to expand more into the social commerce area, leveraging

social media and messaging platforms to gain a competitive advantage. Firstly, convenience has become one of the top consumer priorities, with 90% of people in Saudi Arabia actively looking for ways to save time and simplify their lives.¹² Social commerce taps into the convenience trend by providing a seamless experience in one place, where shops, for example, can use their Meta sites to show customers the correct product information for their country and language. Secondly, a participation paradigm implies customers prefer to feel directly connected to brands enabled by social media. Moreover, people are increasingly gathering more in their online communities formed on social media rather than in physical locations. And lastly, both consumers and brands value an entrepreneurial spirit and creative solutions offered by social platforms.

Quick and secure payments

Advanced payment systems let customers make seamless, one-click purchases online with enhanced security. Standard online card payments are enhanced, too, with new payment methods like e-wallets and blockchain, and all of these can be linked to a growing number of financial services, from customer loans to delayed-payment plans.

The seamless experience extends to business owners as well, with technology that enables simple and accessible solutions. Global players, such as Shopify, offer an e-commerce platform with a payment gateway option. Similar and localized solutions are emerging among Meta business partners in the Middle East, where they offer an integrated "buy" button with a payment solution on a shop's social media site.

Fast and flexible delivery

Purchases reach customers faster than ever – in hours or minutes – through advanced distribution systems. German-based grocery-delivery companies Gorillas and Flink deliver orders in cities just 10 minutes after purchase online.¹³ Customers can also choose the most convenient delivery location, whether that is their home, the workplace, or a specific pick-up point equipped with smart lockers. European start-up Bloq uses software that allows lockers to serve multiple purposes, from product drop-off, to temporary personal storage or as an exchange place.¹⁴ Market leaders like Amazon are experimenting with autonomous vehicles and drones to test delivery from central warehouses to customers.

⁷ Mall websites, BCG project experience

⁸ <https://towardsdatascience.com/data-analytics-in-e-commerce-retail-7ea42b561c2f>

⁹ "Discovery-Led Shopping Study" by GfK. Western Europe average for UK, FR & DE, 3221 people aged 18+

¹⁰ <https://www.facebook.com/business/success/squatwolf>

¹¹ Emerging Trends Research" by Ipsos and Facebook IQ, 2020

¹² Emerging Trends Research" by Ipsos and Facebook IQ, 2020

¹³ <https://finance.yahoo.com/news/gorillas-demand-grocery-delivery-startup-140229235.html>;

¹⁴ <https://www.thegrocer.co.uk/online/berlin-based-10-minute-grocery-delivery-service-gorillas-lands-in-london/654011.article>

¹⁴ <https://bloq.it/#about>

Convenient after-sales services

Hassle-free online return policies enable customers to examine products and ship them back to the seller at no additional cost if they wish. In fact, the level of after-sales service with e-commerce tends to be much higher than that of traditional retailers due to the centralization, coverage, and sophistication of major online players. Technology,

including artificial intelligence (AI), and chatbots enhances the customer experience and reduces costs. Businesses can leverage chat platforms, daily used by millions, for after-sales communication and service, and with great success, as research shows that the vast majority of adults (75%) appreciate communication with businesses through messaging.¹⁵

Technology and Logistics Power of E-commerce

Efficient logistics is crucial for e-commerce along the whole supply chain, from manufacturers and wholesalers to fulfillment centers and the end customer (see exhibit 2). Retailers are using big data and predictive algorithms to direct package shipment and advanced technologies, such as autonomous drones, for last-mile deliveries.

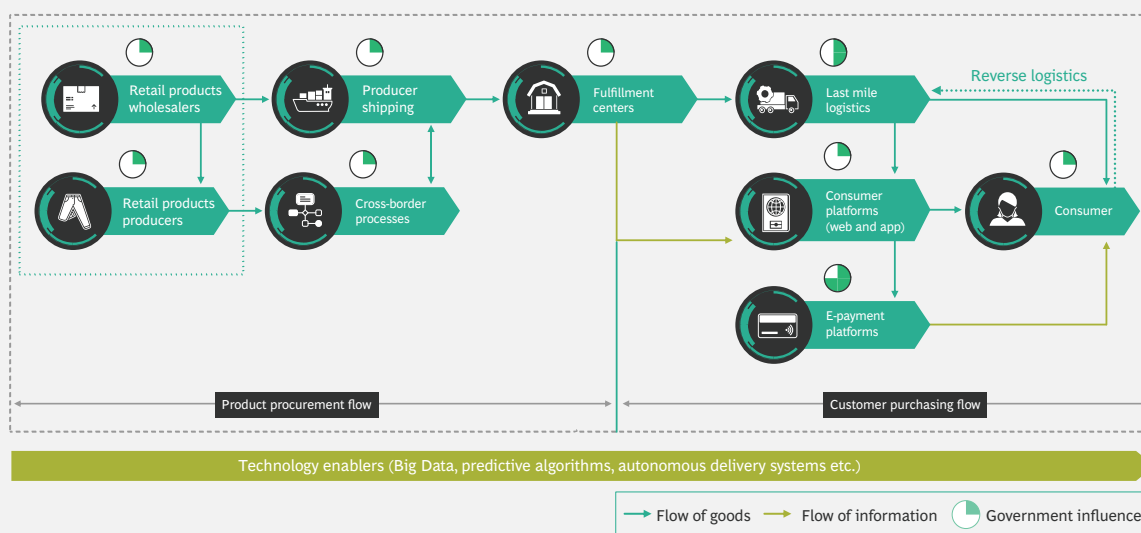
Last-mile logistics (between the fulfillment center and customers) is a critical part of the process, and e-commerce is at the forefront of adopting it for operations and service quality.¹⁶ For a seamless logistics system, the most effective retailers combine advanced technologies with cost-effective operations and deploy a workforce of trained representatives to handle customer interactions.

Technology supports operational excellence and customer interaction. On the operations side, AI is used for routing and re-routing. Live traffic navigation systems and automated communication with drivers have brought much greater efficiency, and newer technologies, such as drones and autonomous vehicles, could take efficiency even further. The expansion of the world's largest drone-delivery firm, Zipline, illustrates how technology originally used to compensate for limited transportation infrastructure in Africa can successfully expand in countries like the US.¹⁷

For customer service, system integration gives shoppers the opportunity and flexibility to book specific delivery slots, view available delivery options live, track their shipment in

Exhibit 2

Government Actions Can Help Improve Parts Of The Complex E-commerce Ecosystem



Source: BCG analysis

¹⁵ "State of Connective Media: Business Messaging" by Ipsos. 25,000 people ages 18-64; monthly users of at least one messaging app in AU, BR, CA, DE, FR, IN, JP, KR, UK and US, Oct-Nov 2020.

¹⁶ Why Parcel Companies Need to Make Every Delivery Special, BCG, July 2020

¹⁷ <https://www.ft.com/content/ba5c9c73-a8a0-4799-8e8e-790ef3877b19>

real-time, and give immediate feedback on quality. Smart chatbots driven by AI can further improve the experience by reducing customer wait time and driving down personnel costs. For example, Aramex (a Dubai-based logistics, transportation, and delivery company) integrated Whatsapp API to improve the last-mile delivery experience.

¹⁸ Customers can use the channel to keep track of their orders, and the bot helps schedule deliveries to customers and verify their identities and addresses for cash-on-delivery services. With WhatsApp facilitating these customer exchanges, instead of traditional call centers, Aramex can fulfill deliveries faster and more efficiently.

Fulfillment centers are a vital node in the ecosystem. They are the heart of dispatch operations, the largest of which house vast product assortments across multiple categories, enabling economies of scale and justifying the significant technological investment required. Automation and carefully designed warehouses are key to minimize the time required for picking and packing items and maintaining the quality of incoming merchandise. Using drones and robots can further increase the speed, precision, and cost-efficiency of fulfillment and sorting centers, together with a workforce trained to use supporting technology.

Efficient cross-border custom processes are necessary for continuous, reliable e-commerce across multiple countries. The speed, efficiency, and reliability of customs procedures are paramount to import and export products cost-effectively. More than 70% of customers deem delivery tracking, reasonable shipping time, and easy returns to be of utmost importance when making a purchase decision from foreign countries.¹⁹

Attractive and safe consumer platforms are the main customer interface. There is a major shift occurring from websites accessible best on laptops and PCs to mobile apps better serving smartphones, as well as sales driven by social media. In 2020, smartphones already exceeded 50% of global website traffic.²⁰

Consumer platforms can feature millions upon millions of items spanning a large number of categories. As a result, effective internal search tools or engines, and a comprehensive, yet intuitive, categorization system, are imperative for a seamless online shopping experience. An interactive, engaging display across platforms (PCs, mobiles, or tablets) can make or break sellers' relationships with consumers. That is precisely why making sure that factors such as site speed and real-time availability of products and delivery options across platforms are so important.

Cutting-edge consumer platforms leverage big data analytics to personalize services and shopping experiences, not only through product suggestions but also by offering tailored, profile-based promotions derived from a specific budget assigned to each customer. Smart chatbots and human sales assistants can ensure full customer service using a range of communication platforms. For example, Nissan Saudi Arabia has launched an AI-based chatbot service over a verified Whatsapp Business channel to support customers 24/7, while catering to their automotive needs securely, offering always-on support and sending updates in real-time.²¹ Social and chat platforms can also become a channel of their own to inspire customers or even drive sales, as some stores have done using Whatsapp-to-wardrobe schemes.²²

Integrated e-payment processes are the link between shoppers and financial institutions. Best-in-class payment platforms offer seamless one-click purchasing for repeat visitors based on previously saved information, or leverage wallet applications with pre-paid capabilities. E-commerce transaction security is a major consumer concern, so e-payment should address this issue convincingly, protecting against both external cyberattacks as well as internal fraudulent activities. Effective anti-fraud systems use information from past customer purchases to identify suspicious or outright fraudulent online purchases and flag them accordingly.



¹⁸ <https://www.facebook.com/business/success/aramex>

¹⁹ "Global Retail Re-emerge Study" by Ipsos. 43,474 people aged 18+ across AU, BR, CA, DE, FR, IN, JP, MX, SK, TH, UK, US, July-August 2020

²⁰ <https://www.statista.com/statistics/277125/share-of-website-traffic-coming-from-mobile-devices/>

²¹ <https://www.tahawultech.com/features/customer-story-nissan-saudi-arabia/>

²² <https://emirateswoman.com/ingenious-way-can-use-whatsapp-shop-harvey-nichols-dubai/>



E-commerce: Already a Driving Force in Retail

Global e-commerce revenues were expected to grow 15% annually in 2020, but with the pandemic's boost, they shot up 25%.²³ That growth was supported in part by an array of innovative solutions e-commerce players adopted to enhance the customer experience and improve the attractiveness of online offerings.

Traditional brick-and-mortar retailers have gone online as well, often experimenting with omnichannel hybrid formats to tie online functionality to their offline presence. A store may post QR codes near merchandise so that customers who don't find their shirt size on the rack, for example, can scan a code on their phone to be redirected to the retailer's website, where they can order what they want and have it delivered from another store. For customers with lower levels of trust in e-commerce, such omnichannel hybrids can ease doubts and overcome hurdles to adoption.

Indeed, traditional retailers have suffered significant blows from the e-commerce boom in recent years and its acceleration during the pandemic. To survive in the new post-COVID e-commerce climate, they have had to adapt in other ways to appeal to younger, more online-savvy customers. Millennials and upcoming Generation Z consumers are more influenced by products mentioned in social media than by physically seeing them in stores. They have a stronger preference for the speedy delivery and higher price sensitivity.²⁴ Brick-and-mortar stores need to reach them through an online presence that complements their physical stores, by collecting and utilizing customer data, and be competitive on price. Many retailers have begun doing this with online-to-offline offerings that combine online discovery with physical commerce for customers with a preference for in-person purchases. Implementation of direct online communication with customers is also of high importance, with 60%²⁵ of brands already using instant messaging for this purpose.

²³ |E-Commerce in Saudi Arabia 2020, ecommerceDB report, Jan 2021

²⁴ <https://www.bigcommerce.com/blog/omni-channel-retail/#where-consumers-shop-online>

²⁵ "Making it personal: How smart communication tools drive business results" by Ipsos for Google, 2020

Saudi Arabia: A Market with Both a Huge Potential and Some Challenges

E-commerce in KSA has grown rapidly as the Kingdom steadily realizes Vision 2030, a comprehensive plan aimed at transitioning the Kingdom to a knowledge-based economy. Online sales have increased almost 60% on average annually across all categories, with the strongest position of e-commerce in the media products, and apparel and footwear, segments (see exhibit 3).

At this point, e-commerce growth outpaces traditional retail and shows no signs of abating (see exhibit 4).

Yet, despite exceptional growth, Saudi Arabia's e-commerce is still in a nascent phase. In 2020, it accounted for just 6%²⁶ of total retail sales, compared to leading e-commerce markets, whose global penetration reached 18%²⁷ in 2020 (see exhibit 5).

KSA retailers that recognize the potential and the gaps in e-commerce have two main opportunities to establish an online presence: by building the business themselves or partnering with a marketplace platform. Establishing a strong, local e-commerce presence with in-country product stock, efficient last-mile logistics, cheaper and faster delivery, and product returns could help them quickly take market share from global players. This would make it especially difficult for mid-size international and global

players without a local physical presence to compete, creating a huge opportunity for local and regional players.

A favorable environment: plenty of support for e-commerce already in place

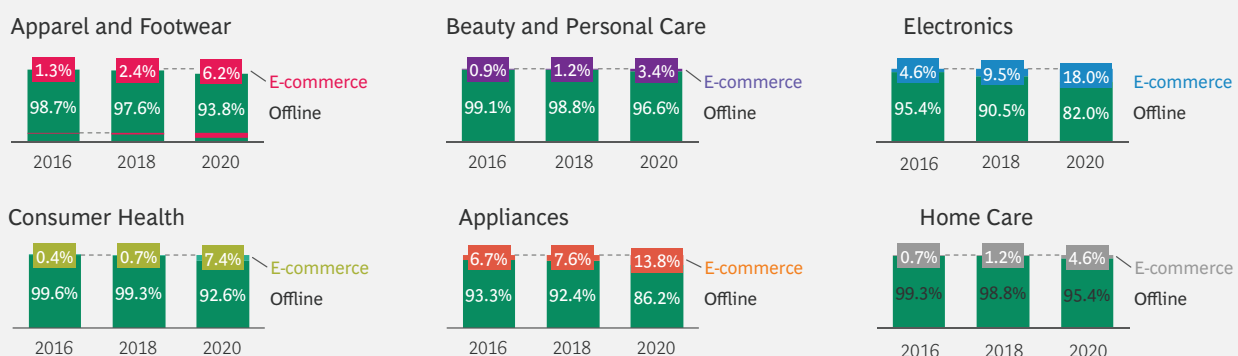
Factors involving Saudi Arabia's telecommunications, internet, legislation, and financial services all support e-commerce's advancement. Saudi consumers' shift from using desktops to smartphones as their preferred device for shopping online is an important consideration. KSA boasts one of the highest smartphone penetration rates (97%²⁸) in the world, which enabled around 60% of Saudi customers to discover new sellers through social networks in 2020.²⁹

Another aspect of technology works in KSA's favor, too. Mobile broadband internet subscriptions are exceptionally high in Saudi Arabia – higher than the majority of advanced markets. KSA ranks 10th in the world for the fastest internet speed as well.

Lastly, KSA has a relatively high share (72%) of the over 15-year-old population with a bank account, which enables future e-commerce growth.

Exhibit 3

E-commerce Adoption Has Seen An Increase In Saudi Arabia



E-commerce has seen an increase of % of sales compared to offline channels

Source: Euromonitor, BCG Analysis

²⁶ <https://www.statista.com/statistics/1201953/saudi-arabia-forecasted-e-commerce-market-size-covid-19/>

²⁷ <https://www.statista.com/statistics/1095969/retail-sales-by-channel-worldwide/>

²⁸ Global Mobile Consumer Survey 2019

²⁹ <https://newsroom.mastercard.com/mea/press-releases/77-of-ksa-consumers-are-shopping-more-online-since-the-start-of-pandemic-reveals-master-card-study/>

Exhibit 4

E-commerce In Saudi Arabia Has Seen Rapid Growth, With A Clear Covid-induced Increase In 2020

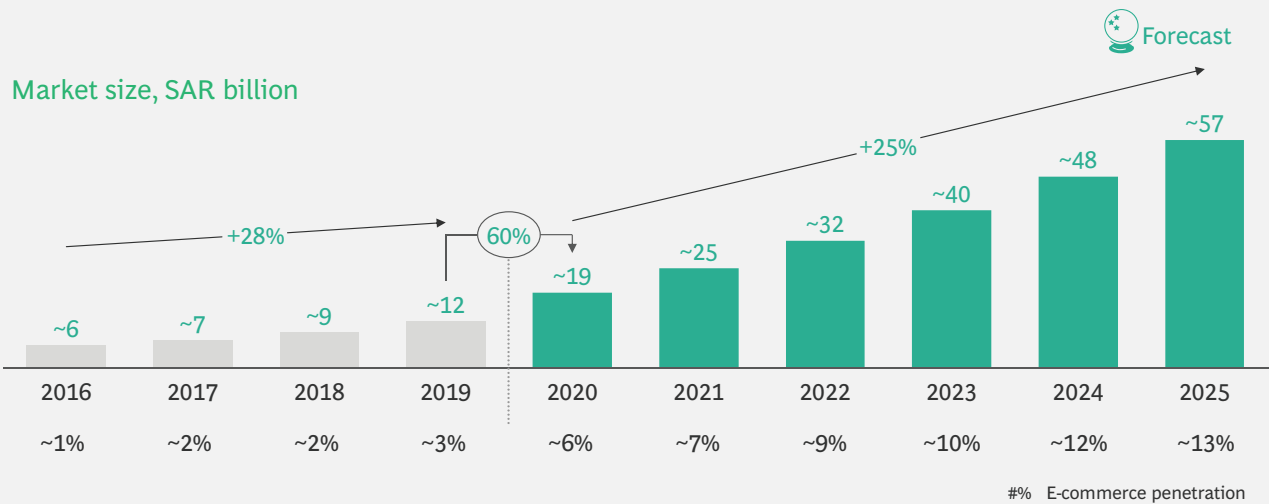
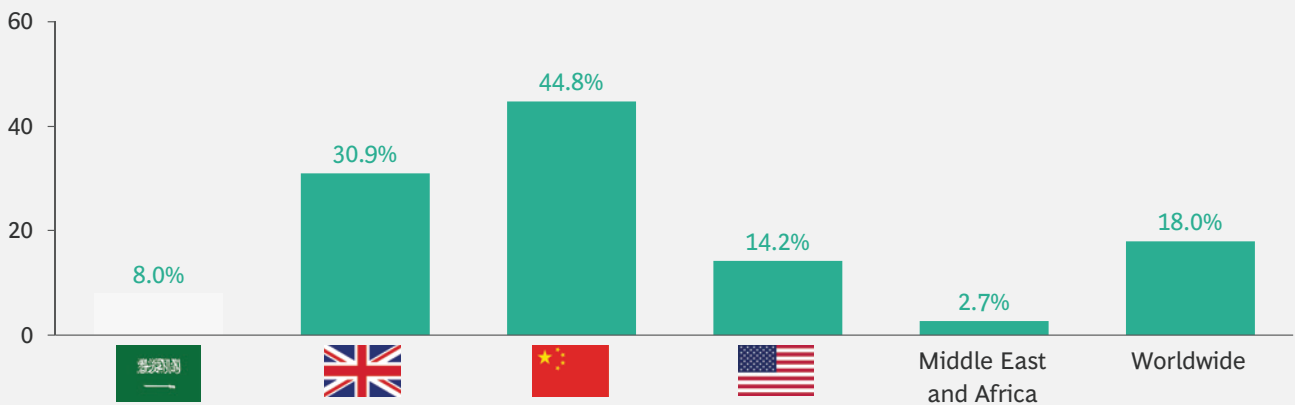


Exhibit 5

Saudi Arabia Has A Huge Potential In E-commerce Landscape

E-Commerce sales as % of total retail sales, 2020



The government is supporting commerce law,³⁰ which legally defines e-payment services and creates a customer protection framework, is thus increasing the trustworthiness of the technology for users across different channels and devices. E-commerce law provides a solid basis for discovery-commerce growth, where people buy products through

social media networks based on personalized recommendation algorithms. The state's role in its central bank and subsidiaries (SAMA³¹, SaudiPayments, and mada, an electronic payment system) is strong. Overall, these actions should enhance customer confidence and increase the rate of adoption

³⁰<https://globalcompliancenews.com/saudi-arabia-regulates-e-commerce/>

³¹Saudi Arabia Monetary Authority, renamed Saudi Central Bank, was approved in Nov 2020

And Saudi Arabia's population exhibits an inherent readiness for e-commerce. Young people aged 18-34 comprise the largest segment of the population (43%³²) and display a high familiarity with the online environment and social media. In fact, the average time Saudis spend on social media has increased more than 20% during the last three years to more than three hours per day.³³ That ranks KSA among the most social-media-savvy nations, high above leading e-commerce markets such as the US, China, and the UK (see exhibit 6). Furthermore, Saudi Arabia features a very large number of mobile broadband Internet subscriptions – higher than the vast majority of advanced markets, as well as ranking 10th in the fastest internet speed globally. Combined with the move toward an increasingly mobile e-commerce offering, this creates a very fertile environment for an e-commerce explosion.

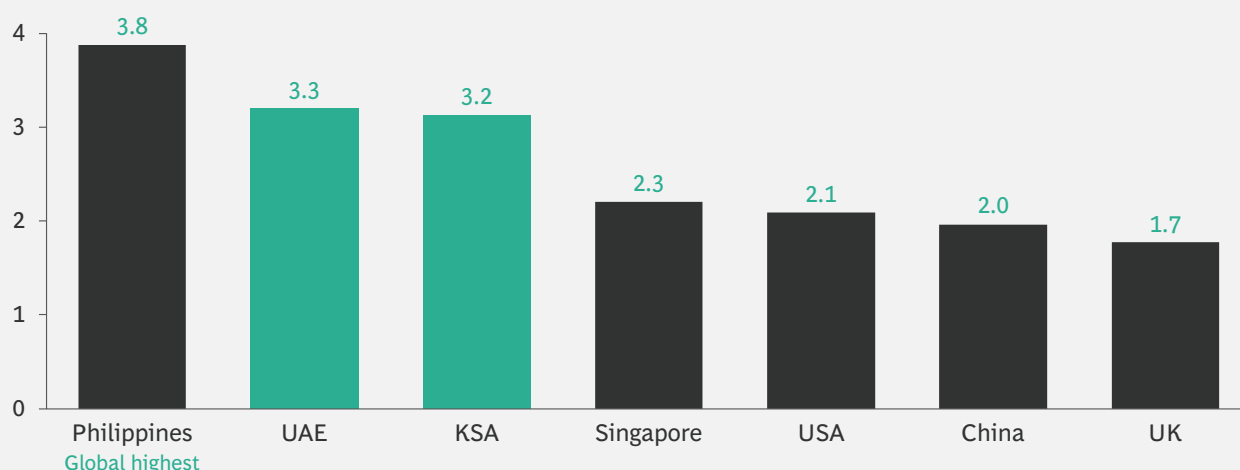
Another trend that showcases Saudi consumers' willingness to engage in e-commerce involves the informal sales conducted by fashion designers and other small businesses directly over social media. When consumers view a desired piece of apparel on Instagram, for example, they can ask whether the item is on sale. If it is, they are given details on how to transfer money to a bank account as payment. Then the item is sent to the customer. While such informal sales are not condoned by the government because they present a risk for the consumer, they suggest that Saudi shoppers are very much ready to tap into the online market.

The Saudi market, with its tech-savvy customers and strong demand for e-commerce offerings, indicates that the main driver of growth will be the development of a high-quality supply side.

Exhibit 6

Time Spent On Social Media Across Countries

Daily time spent on social media
Hours per day, 2020



Source: Social Flagship Report Q3 2020, Global Web Index

Challenges remain

Despite the expansion, Saudi and GCC e-commerce players still face several challenges. One of the biggest is their product assortments' limited size. Regional champion Noon.com offers over 5 million SKUs, and Namshi, a

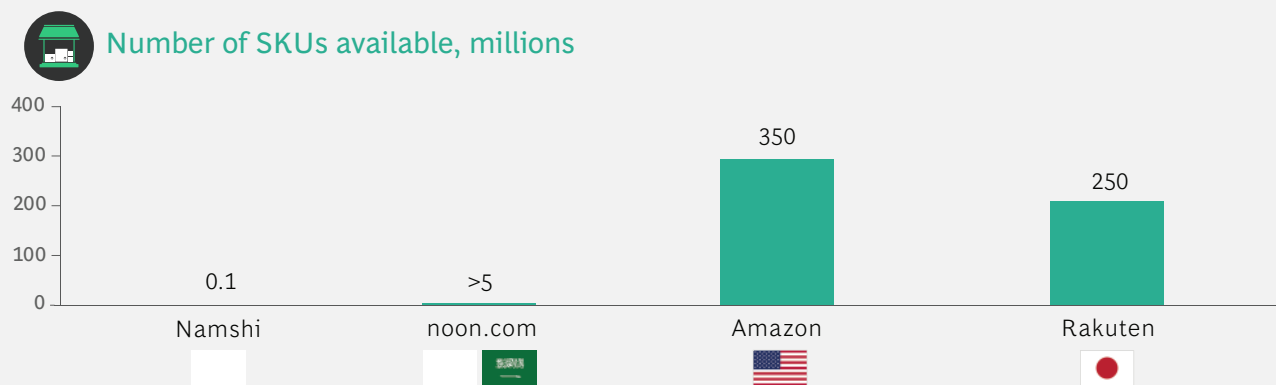
market leader in apparel across the GCC, has ~100,000 SKUs. In comparison, Amazon in the United States has 350 million and Japanese market leader Rakuten has 250 million (see exhibit 7).

³²-eCommerce in Saudi Arabia 2020, ecommerceDB report, January 2021

³³-Social Flagship Report, Global Web Index, 2020

Exhibit 7

Leading Players' Product Assortment Varies Widely Across Geographies



Source: Statista, Saudi Gazette, Arabnews, BCG insights

In terms of delivery speed and options, regional GCC e-commerce players are also rather limited. Within KSA, just a small set of online retailers in major cities offers same-day delivery, which is a standard in advanced markets elsewhere in the world. Hyperlocal e-commerce platforms also offer delivery options of one hour or less in key metropolitan areas, including Turkish start-up Getir, which

delivers groceries in under 10 minutes in Istanbul and London,³⁴ and dark-store Gorillas, which offers comparable fast delivery in major German cities.³⁵

Moreover, the current lack of infrastructure to support new Saudi players is a critical limiting factor for developing innovative solutions that could address the above challenges.

E-commerce is a Key Growth Vector for Retail in KSA and the Middle East

At this point, establishing a competitive e-commerce offering requires a lower initial investment and promises faster time to market than a traditional network of brick-and-mortar stores. Prior to the pandemic, higher rents were already limiting fast retail expansion, and with the impact of pandemic restrictions for the domestic population and a halt to international tourism, expansion of a physical retail network is even more complex.

When it comes to available retail space per capita, the traditional brick-and-mortar offering in Saudi Arabia scores generally lower or average compared to regional and global players, despite recent growth (see exhibit 8). Traditional retailers are expanding in the coming years, with the six

largest projects expected to add more than 1.1 million square meters of retail space by 2023.³⁶

However, given the pace of e-commerce, KSA may not ultimately need to develop as much retail area per capita as other countries shown in exhibit 9. In the end, this may benefit the Saudi retail sector because it will avoid the problems posed by excess retail space, an issue now plaguing many Western economies as their mature retail sectors readjust to e-commerce and the post-COVID world.³⁷ The West is seeing significant high-street closures, particularly in the US and UK, with notable bankruptcies by T.M.Lewin and Debenhams in Britain and Brooks Brothers and J. Crew in the US.³⁹

³⁴<https://www.ft.com/content/bdb43495-fadf-4217-bc33-bc52e6f0fdd4>

³⁵<https://finance.yahoo.com/news/gorillas-demand-grocery-delivery-startup-140229235.html>;

³⁶Covers the following projects: University Boulevard, Jaeharat Jeddah Mall, Mall of Saudi, City Centre Ishbiliyah, The Avenues Riyadh and The Avenues Khobar, sourced from developers' websites

³⁷<https://www.ft.com/content/44c442ff-3baf-41ae-b5b0-1916613593ee>

³⁸<https://www.ft.com/content/05723820-cca4-49ba-acf6-dd55b7e5ad62>

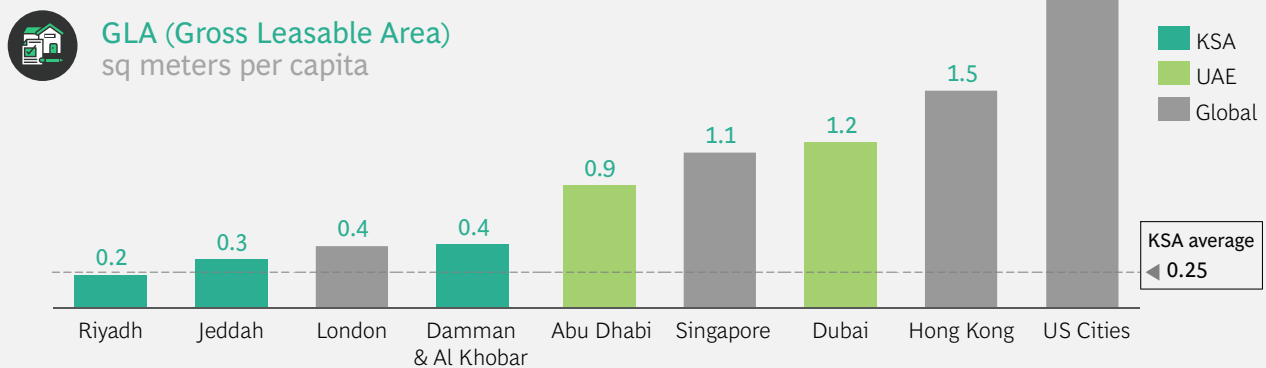
³⁹<https://www.ft.com/content/1ef59800-96bc-11ea-af4b-499244625ac4>

Interestingly, domestic e-commerce can significantly influence spending abroad, whether during shopping trips or online through foreign e-commerce platforms. Pre-COVID, Saudis spent USD 26 billion abroad per year on tourism including retail,⁴⁰ citing the superior service and offerings of foreign retailers as the main reason for this

shopping.⁴¹ Improving Saudi Arabia's domestic product offering can be achieved easier and faster through e-commerce, especially when Western sites, such as Amazon Prime (which entered KSA in January 2021), are already whetting customer appetites for more.⁴²

Exhibit 8

Saudi Arabia Is Behind The UAE And Other Commercial Hubs In Retail Space Per Capita



Source: Alpen Capital, GCC Retail Industry, Apr 2019; Colliers, Redefining Real Estate in KSA, Oct 2019

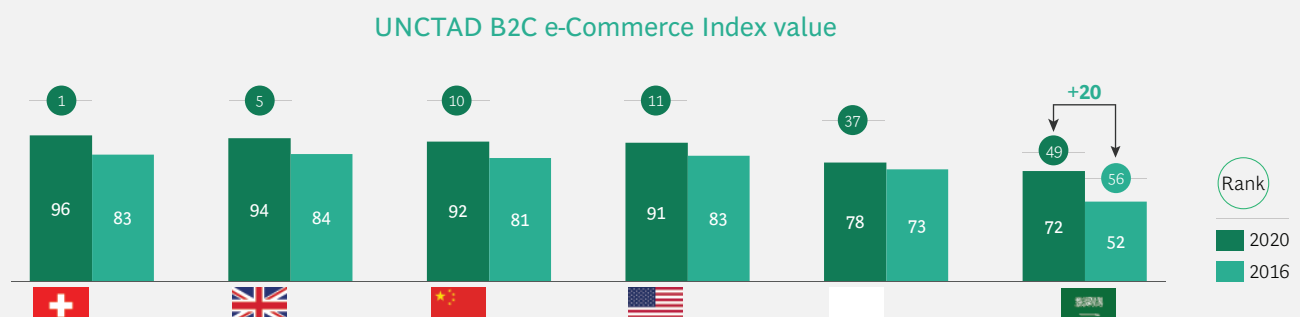
KSA e-commerce could also bring back a significant portion of spend from global platforms that do not have a local alternative in KSA. Moreover, Saudi e-commerce players can strive to capture spend from a new international customer base through cross-border advertising solutions.

The average spend per e-commerce user in KSA increased more than 50% during the past three years and is driving improvements in service quality and offering breadth, providing more reasons to shop locally.

Regarding the e-commerce environment and infrastructure, KSA has made great progress, according to the 2020 UNCTAD (United Nations Conference on Trade and Development) Business-to-Consumer E-commerce Index, which ranked 152 countries on their readiness to engage in online commerce. Countries were scored on access to secure internet servers, reliability of postal services and infrastructure, and the portion of their population that uses the internet and has an account with a financial institution or a provider of mobile money services (see exhibit 9).

Exhibit 9

Saudi Arabia Has Made Great Progress In UNCTAD's B2C E-commerce Index



Source: United Nations Conference on Trade and Development 2020 and 2016

⁴⁰<https://investsaudi.sa/en/sectors-opportunities/tourism-culture-entertainment>

⁴¹BCG project experience

⁴²<https://www.arabnews.com/node/1798271/corporate-news>



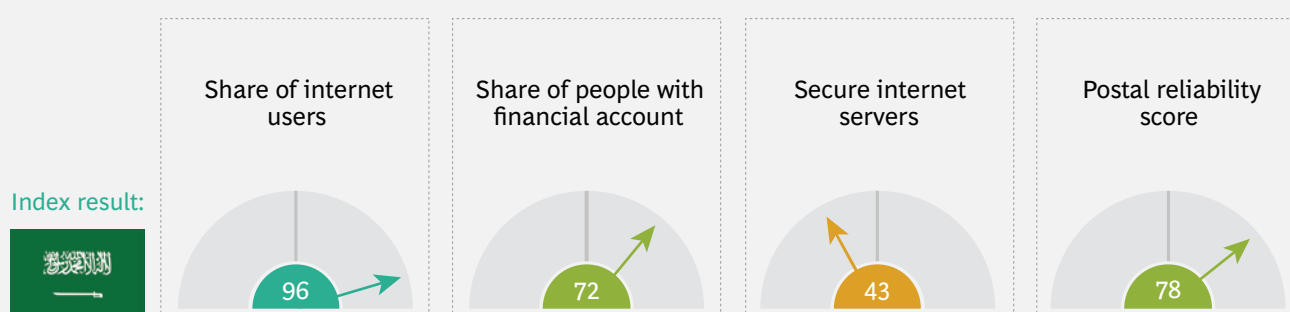
On the other hand, the index also indicated where KSA can develop further, including the rising number of secure internet servers, and to a lesser extent, increasing the share of individuals with accounts at financial institutions, and postal reliability (see exhibit 10). While servers and postal service as infrastructure matters are already being improved, consumers' possession of a bank account

appears to be mainly a cultural issue. KSA banks already offer a wide range of services, and some are online-only, so the barriers do not seem to be due to a lack of infrastructure. A recent survey shows that the most common reasons why Saudis do not have a bank account are a lack of financial resources and relying on a family member's account.⁴³

Exhibit 10

Saudi Arabia's Results In The UN E-commerce Index Show Areas For Development

UNCTADB2C eCommerce Index KSA 2020 results



Source: United Nations Conference on Trade and Development 2020

⁴³<https://kkf.org.sa/media/ipuh5olx/2-financial-inclusion-in-saudi-arabia-2018.pdf>

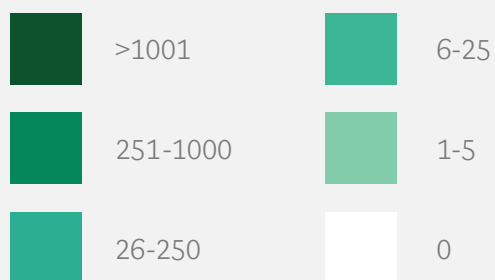
Saudi Arabia's population distribution is another factor that gives e-commerce an advantage over conventional retail. Though 13.9 million of the Kingdom's total population of 34.8 million people are located in the three major cities – Riyadh, Jeddah, and Mecca – the overall population density

is very low, with 16 people per square kilometer (the global average is 55).⁴⁴ Even when one considers the country's large, virtually uninhabited areas, effective retail coverage of the remaining population by brick-and-mortar stores remains challenging (see exhibit 11)

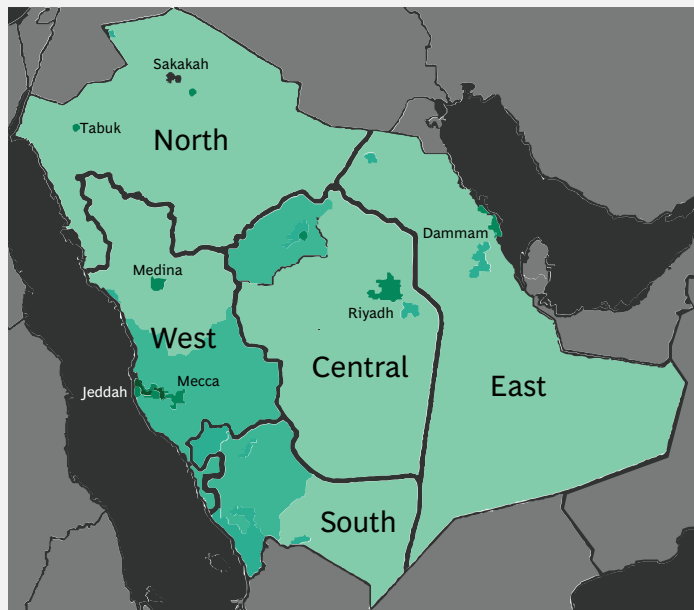
Exhibit 11

Saudi Arabia Has Very Uneven Population Distribution With Three Key Metropolitan Areas

Persons per km²



Source: Elsevier, Volume 33, March 2018, Pages 98 -105



With all of this in mind, the rapid development of e-commerce, in parallel with the maturing traditional retail sector, will allow Saudi Arabia to better upscale its overall retail offering and do it in a shorter timeframe. Development of e-commerce and overall enhancement of digital infrastructure are key national strategic priorities included in Vision 2030. E-commerce will also help drive economic growth, with the domestic online market expected to

double to USD 2 billion by 2025.⁴⁵ The Kingdom is also well positioned to become a regional e-commerce hub, reaching most Middle East markets. This would provide Saudi firms with expansion opportunities and lead to the creation of more jobs, foster an entrepreneurial culture, and attract the best and brightest from the region and beyond.

⁴⁴<https://worldpopulationreview.com/world-cities/>

⁴⁵ Statista, E-Commerce in Saudi Arabia Report, 2021

E-commerce for Economic and Social Development

The additional boost in retail spending expected from e-commerce stems mostly from two sources: making more products available to a larger segment of Saudi Arabia's population, and capturing retail spend currently conducted abroad.

Developing e-commerce has another economic and social benefit: the skills and technologies it requires are equally suited to support other industries, especially logistics. The rise of last-mile delivery players and the establishment of advanced fulfillment centers to support e-commerce could also lead to the creation of a logistics hub in the region, which is another priority outlined in Vision 2030.

And then there are the jobs that the e-commerce industry will generate at a variety of skill levels, including managerial and tech-enabled positions with IT competencies. The number of low-skilled jobs in operations will likely be limited due to automation and the deployment of modern technologies.

These jobs will appeal to the Saudi workforce, especially positions in technological, creative, and entrepreneurial areas. Overall, e-commerce jobs will present viable employment for the local Saudi population. This trend is already unfolding. Amazon recently announced 3,400 new jobs in Saudi Arabia, and Saudis comprise 60% of Amazon's permanent workforce there.⁴⁶ The numbers look even more positive for local players, with Noon.com providing jobs to approximately 8,000 people, and maintaining one of the highest Saudization rates in the private sector.

A thriving e-commerce sector supports entrepreneurial activities in several ways. E-commerce has low barriers to entry for smaller players. Niche retailers could enter with limited investment using the newly established e-commerce ecosystem. Such start-ups could rent space in an existing fulfillment center, for example, receive competitive services from high-quality last-mile logistics companies, and source technological capabilities from specialized service providers. Indeed, the Kingdom's start-up scene, where many entrepreneurs are in e-commerce, is enjoying such momentum. It is heightened by a record-breaking flow of venture capital funding, which grew 65% in the first half of 2021, as compared to the first half of the previous year.⁴⁷

E-commerce also provides efficient market access for new consumer products – potentially to millions of customers

– with the placement of those products on convenient platforms. Large players can be willing to collaborate with smaller businesses, as Noon.com's approach shows. Setting up a new vendor profile on their platform can be done online and takes less than a week.⁴⁸ This type of opportunity corresponds well with wider societal changes, as younger Saudis seem to be more entrepreneurial. More than 40% of Saudi youths say they want to start their own business within five years.⁴⁹

For young entrepreneurs, e-commerce is a viable and attractive option for selling their products. Small businesses usually create connections with customers based on shared values and good customer service. These can be communicated especially through conversational commerce. It enables customers to get support, ask questions, get personalized recommendations from company representatives and subsequently purchase the product within messaging applications.

Furthermore, establishing an e-commerce industry is spurring development of diverse technological service providers that are needed to come up with payment platforms, website design, and optimization software, among other solutions. Government institutions, such as mada, have provided central payment platforms that should be further developed for optimal connectivity and technological growth in the private sector.

Beyond purely economic outcomes, e-commerce can also have a significant social impact in rural areas, which are currently underserved by brick-and-mortar stores. Historically, e-commerce has a much deeper geographical reach through centralized fulfillment centers that can economically deliver products to remote areas. Indeed, major e-commerce players in KSA now deliver to all addresses in the Kingdom.⁵⁰ In the future, last-mile logistics, coupled with autonomous vehicles, will deliver goods in remote areas faster and cost-effectively. Plus, the assortment of goods offered this way will be much larger than physical stores can stock in such areas.

Indirectly, consumer buying power will improve as well. Increased competition online results in lower prices, price transparency, and consumers' ability to compare their options in real-time.

⁴⁶ <https://www.arabnews.com/node/1773031/corporate-news>

⁴⁷ <https://www.arabianbusiness.com/startup/466913-saudi-arabia-ranks-second-in-regions-venture-capital-market>

⁴⁸ <https://help.noon.partners/hc/en-us/articles/360003259293-How-to-become-a-seller-on-noon->

⁴⁹ Arab Youth Survey 2020

⁵⁰ <https://www.arabnews.com/node/1798271/corporate-news>

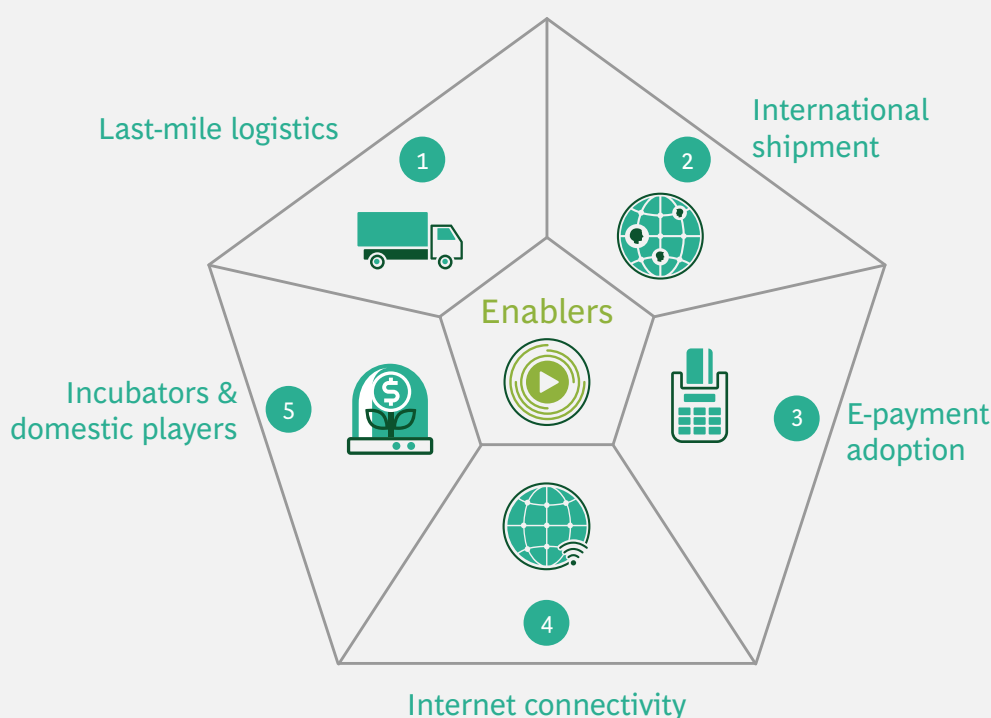
It Takes a Suitable Business Environment

80% of Saudis say they will continue shopping online after the pandemic ends,⁵¹ yet long-term growth and international competitiveness can be achieved only through continued

innovation and improvements. The government has a significant role to play in the process by ensuring that these areas are supported (see exhibit 12).

Exhibit 12

Five Key Enablers Can Significantly Improve Business Environment for E-commerce



Source: BCG analysis

1. Last-mile Logistics

As discussed previously, logistics is a major enabler in e-commerce. Even so, last-mile logistics is a critical pain point in Saudi Arabia. Delivery prices are high, and logistics players do not offer fast delivery options with comprehensive geographic reach. Next-day delivery is offered by key players such as Amazon or Noon.com in major cities, yet delivery takes Amazon four to six days in rural areas. Moreover, customers are not satisfied with existing courier services, due to their slow process and poor customer

service.⁵² Easing the entry of new players and incentivizing existing ones to invest in new fulfillment centers and delivery solutions through relaxed legislation and regulations would lead to a more effective distribution network.

Communication with customers about the delivery date and time – via chatbots, for example – would create the opportunity to notify them all along the delivery process and flexibly respond to their needs regarding delivery timing.

⁵¹ E-commerce in Saudi Arabia, Statista Report 2021

⁵² <https://www.okaz.com.sa/economy/na/2026081>, <https://expandcart.com/en/28835-top-challenges-facing-e-commerce-in-saudi-arabia/>

2. International shipment

Considering the overall logistics value chain, cross-border processes are at the core of e-commerce business models. Customs procedures have become more reliable and faster recently, with a target of processing shipments within 24 hours and all paperwork consolidated in one online form.⁵³ Custom clearance can now be completed online before a parcel arrives in KSA, further speeding up the process.

Recent changes in import taxes have affected the cross-border flow of goods.⁵⁴ Clear and timely communication of changes to regulatory and tax systems, together with import taxes levied only on key segments, would help domestic retailers ease the process of bulk international shipments from global manufacturers and vendors to local retailers. Striking the right level of support for domestic players is key to still attract international players and their best practice while providing space for domestic and regional players to fully develop and compete.

3. E-payment adoption

The Kingdom recently made great strides in introducing new and different payment methods through the Monetary Authority's subsidiary, mada, which enable popular technologies such as ApplePay and debit-card online payments that were not possible before. However, recent studies show that cash-on-delivery remains the most popular payment option in KSA with 25% of e-commerce transactions completed in cash in 2020.⁵⁵ For all-around efficiency, convenience, and security, retailers need to offer both electronic and cash payment options despite the higher cost and possibility of increased returns due to customers' lack of commitment. Otherwise, as competing retailers offer such options, laggards could lose a significant proportion of their customer base. Increasing the

credibility and number of e-payment methods also drives the revenue in the whole market, both by increasing the current customer spend online and by bringing in new customers.

4. Internet connectivity

Saudi Arabia's digital infrastructure is fairly advanced, compared to other markets with stronger e-commerce industries, as we mentioned earlier. The country has shown great progress in internet connectivity and coverage in the past few years, leading the fifth-generation (5G) countries in network coverage and speed – and becoming the country with the fastest mobile internet connection as of January 2021.⁵⁶

5. Incubators and domestic players

KSA's traditional retailers have generally been slower to embrace e-commerce, due mostly to order fulfillment challenges and costly operating models. Amazon presents a challenge to local and regional retailers, so KSA needs to ensure a system exists that nurtures these businesses, and at the same time incentivizes foreign ones to localize while still promoting fair competition to help domestic e-commerce develop.

Current incubators in KSA and GCC region can also help entrepreneurs pursue new projects in e-commerce and build communities for sharing knowledge and information. The annual SIDMC⁵⁷ conference brings global leaders together with local e-commerce champions to share know-how that can take Saudi e-commerce to the global forefront.

Looking at the Long-term Benefits

E-commerce is the driving force of today's retail, globally and in the GCC region, as a standalone service or as part of an omnichannel offering. With Saudi Arabia's high digital affinity and relatively below-average brick-and-mortar retail infrastructure, it is indeed a fertile environment for the rapid proliferation of online shopping. The influence of COVID-19 allowed us a valuable look into how e-commerce can grow, and its momentum should be maintained.

The right set of governmental policies can help advance infrastructure, change citizens' habits and allow local players to flourish, turning the Kingdom's retail sector into a digital powerhouse and regional hub, and making Saudi e-commerce a pillar of the GCC economy.

⁵³ <https://www.customs.gov.sa/en/node/1222>

⁵⁴ <https://santandertrade.com/en/portal/international-shipments/saudi-arabia/customs-procedures>

⁵⁵ <https://www.statista.com/outlook/dmo/ecommerce/saudi-arabia>

⁵⁶ <https://www.speedtest.net/global-index/united-arab-emirates#mobile>

⁵⁷ Saudi International Digital Marketing and E-commerce Conference, held in April

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