Report

E-Commerce in Saudi Arabia:

Driving the evolution, adaption and growth of e-commerce in the retail industry

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1. Introduction

The dot.com boom of the 1990's has been replaced by the e-commerce boom of the millennium. Global e-commerce is going through a phase of exponential growth driven by mobile commerce, social commerce and all digital forms of retail commerce. The success of the first wave of e-commerce mega sites such as Amazon, Ebay and most recently Groupon has demonstrated the viability of the e-commerce business model. This has given rise in the past few years to a number of prolific floatation's and IPO's, with the most recent, and perhaps most controversial being the group-buying site Groupon. The success of the e-commerce model, in prior attributed solely to large companies seeking to diversify their sales point, saw the rise of online-only businesses. Businesses launched with no physical infrastructure such as Net-a-Porter have recently gone through a series of successful acquisitions. Businesses large and small are seeing online commerce as the ideal gateway to high growth, fast sales and access to international markets and customers which would otherwise be impossible from traditional retail units and trade channels.

Most notably, e-commerce has become a driving force in emerging countries, led by China, India and South Korea. Infant markets such as the Middle East are increasingly being spearheading as the future leaders in the e-commerce sector. Fuelled by the highest increase of internet penetration in the world; a young, connected and mobile demography and the rise of ICT market liberalization - the region is demonstrating its potential to become a stronghold for e-commerce businesses that serve both the retail and telecommunications markets. Hotspots for ICT have emerged across the region, with Jordan being earmarked as the next Silicon Alley; Dubai Internet City being the cradle for multinationals and SMEs in the sector, and Lebanon and Egypt having produced a number of successful e-commerce businesses which today have a regional customer reach.

However, markets such as Saudi Arabia remain underserved in comparison to other regional markets in terms of e-commerce market penetration and adoption. One of the major challenges remains the technology infrastructure and consumer behaviour, which impacts on businesses' e-readiness and e-willingness. Government support and enabling infrastructure is also an impediment to the adoption and diffusion of the online business model. Despite the government taking significant strides to implementing e-government tools to provide citizen services, the opportunity to capture the 'e-boom' has not sufficiently been harnessed by commerce and private sector. Should Saudi Arabia build on the impetus that has been created through the adoption of e-government, a domino effect would trickle down into the private sector and consumer behaviour. This would create new economic opportunities and enhance the technological innovation capabilities of businesses providing enhanced competitiveness in domestic and international markets.

The adoption and diffusion of the e-commerce model in Saudi Arabia has mainly been hampered by specific socio-cultural business traits which inhibits the risk-taking characteristics of enterprises. These traits are characterized by a need to implement proven business models; reduce the risk of failure and an aversion to adopt a business model which may not be suitable to current consumer

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habits. Moreover, the sluggish uptake of e-commerce technologies by major competitors continues to prove detrimental to the spread of e-commerce.

There are multiple factors which currently affect the slow progression of e-commerce in Saudi Arabia. The most important challenges remain gateway payment systems; difficulties performing banking transactions; the usage of P.O box systems rather than residential postal addresses and finally the speed and access of internet services. This is further hampered by unclear regulations within the virtual sphere; under-developed customer and after-sales services and lack of trust by consumers in online buying processes. However, despite these challenges, there exist a number of drivers which support that the retail environment in Saudi Arabia is ripe to adopt e-commerce. The most significant of these drivers includes the size of the retail sector in Saudi Arabia; the largest in the GCC contributing to 17% of GDP. In addition, strong government support to developing ICT technologies; a vibrant technology sector; and connected demographics demonstrate the existence of strong foundations for e-commerce driven business. E-commerce will continue to thrive by the progressive development of stricter online business conduct, competitive pricing, faster broadband access, the development of alternative online payment mechanisms and educational programs.

2. Saudi Retail Sector Overview

The retail sector in the Kingdom of Saudi Arabia is the largest among GCC countries, and is predicted to hit SR 250 billion ($66.7 billion) in 2012. Wholesale and retail sector accounts for 21.5% of total private sector employment. The strength of the retail sector is primarily due to a domestic economic stability and high domestic purchasing power spread equally among both men and women. With the majority of the Kingdom's demographic base under the age of 24, new and more modern retail concepts that respond to both consumer and lifestyle needs have grown in popularity.

Saudi Arabia has become one of the primary destinations for international brands seeking to enter the GCC market, and has long been composed of both luxury and high-street European and Western retailers through joint-ventures and franchising with local players. Changes in purchasing power and a growing middle class have given way for mass-market retailers, responding to an over-saturation of the luxury segmentation. Despite this foreseen shift, the Kingdom will retain its position as a retail investment and development market.

To capitalize on the changing consumer structure, behaviour and market gaps, retailers detain the opportunity to develop new business models in the Kingdom that are being overlooked by national and international market players, and who prefer to apply a 'copy and paste' strategy to retail.

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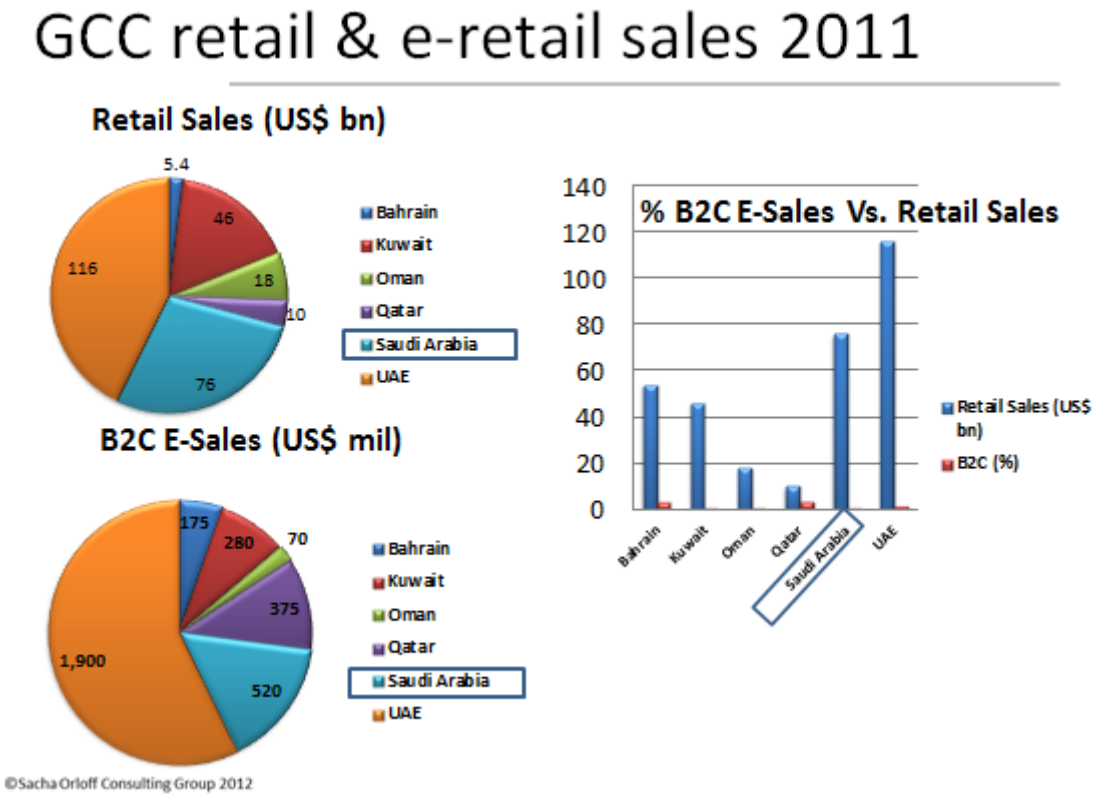
Brand ownership and domestic distribution is central to the strength of the retail sector in the Kingdom. Saudi family-owned businesses have focused primarily on acquiring exclusivity and franchise agreements with well-known international suppliers and brands. However this business model is maturing and today faces a number of challenges which includes brand misrepresentation, lack of customer service and archaic business development processes. Changes in the consumer base and in particular, the rise of social media today calls for specific omni-channel retail strategies

Most international brands and distribution channels are concentrated among a small number of large holdings who dominate the market. Few companies that operate less than ten international franchises and joint ventures currently compete within the market, although they are becoming an increasingly important segment due to low overheads and the ability to offer competitive pricing on medium to low category goods.



The market penetration strategy of these smaller players contrasts significantly to that of major European luxury retail groups such as PPR, LVMH, Richemont Group and Swatch group, who own a totality or a majority stake in their portfolio of luxury and mid-luxury brands.

This portfolio ownership and majority stake acquisition strategy has been replicated among large regional retail investment groups including Qatar Holding, who infamously acquired the iconic London store, Harrods among investments within the LVMH Group.

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Bahraini-owned Investcorp launched this trend more than a decade ago with the vision to restructure brands such as Gucci and Groupe Horloger Breguet. Whilst this business strategy remains viable in the region, it needs to be remodelled to allow the entrance of smaller players both domestically and internationally, enabling the penetration of new brands and new distribution channels.

Saudi Fawaz Al Hokair Group has become one of the major retail players in developing strong portfolios of lifestyle franchises in the Kingdom and the GCC. While the business model is mainly linked with franchising, there is also an investment branch and joint-ventures with brands such as Burberry; Galleria Mall and other organizations. The group also has subsidiary companies in retail and wholesale, and a strong investment arm in retail real estate with its Arabian Centres Malls covering the GCC.

A step away from the 'copy and paste' model is incremental to sustain the continued position and growth of the Kingdom's retail sector, and provide new investment and diversification opportunities for domestic and international businesses alike.

Despite its success, 'copy and pasting' traditional retail business models have come of age in Saudi Arabia and the wider GCC region. New retail strategies have to be elaborated to capture consumers, generate investment potential and drive sales and successful marketing strategies

- **Brand saturation.** The Saudi Arabian retail market is saturated by international luxury and high-street brands. To meet the need of the new consumer base, new mass market and domestic brands must be introduced to respond to changing customer tastes and purchasing behaviour.

- **High retail proximity.** With retail spaces concentrated and segmented within malls, a cannibalization process occurs when new retail locations are available. Brands have multiple distribution channels in close proximity to one another, eliminating the concept of flagship stores, sales maximization and ultimately customer retention and loyalty.

- **Limited market segmentation.** The retail sector in Saudi Arabia and the rest of the GCC is primarily composed of high-end luxury and high-street brands, creating a gap for mass-market retailers.

- **Lack of customer and after-sales services.** A foreign workforce, high turnover rates and limited investments in employee training has caused a negative impact on customer service standards. This directly affects sales, customer loyalty and retention.

- **Communication inconsistencies.** A lack of communication between domestic franchises and the mother company blurs the brand heritage that initially attracts customers. The brand DNA is not only represented and promoted differently domestically, but this creates a trickle-down effect on customer service.

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- **Inadequate 'lifestyle' retail offerings.** Although malls are entrenched in the leisure and lifestyle of Saudi Arabia, existing retail offerings do not cater to this segment. As has been demonstrated in Dubai, there exists a customer need for retail brands that represent the lifestyle choices and environment of consumers.

- **Trust.** Despite aggressively promoting the emergence of 'home-grown' talent and emerging brands, consumers remain inclined to purchase 'status' international brands, making it difficult for domestic brands to pierce the market and compete.

The model of shopping centres and malls are expending in the most populated cities, such as Riyadh, Jeddah and Khobar, with emphasis on the Holy cities of Medina and Mecca to cater for its ever growing religious tourism during The Hajj and Umrah pilgrimages. Malls and retail should be inclined to respond to other offering such as seen in the UAE, where recreational and lifestyle themes are open to increasing family demand, with indoor activities and shopping areas, where leisure and shopping can be found on the same localized grounds. Moreover, there is a resurgence of localised mid-size shopping centres which cater for smaller neighbouring areas.

Despite the strength of the retail sector, compliance to what is considered 'traditional' retail channels have limited the rapid growth of e-commerce in Saudi Arabia. The uptake of e-commerce would not only revolutionize the manner in which goods and services are sold within the retail sector, but create strong economic growth opportunities, technological innovation and job creation. Saudi Arabia needs to take the lead in driving its retail and e-retail growth, consequently to enforce its position as a key retail business hub in the region with national and foreign direct investment, and technical expertise to drive growth, innovation and positive business confidence.

3. ICT adoption and penetration in KSA

A needs-assessment of the ICT sector in Saudi Arabia, serving both government and citizens, enabling policy-makers to identify the mechanisms needed to enhance the advancement of the ICT value chain in the Kingdom. The results of the study show the value-creation opportunities generated from the ICT sector. By 2014 alone, overall IT spending is expected to reach US$ 5.7billion and per capita spending reaching US 200 equalling to an estimated 13% increase over two years and making up over 50% of total ICT investments throughout the GCC. SMEs in the Kingdom have a 52% internet penetration.

With a rising youth population and industrialization demanding more complex technological solutions, government spending has emphasized on infrastructure and education, generating a large demand for advanced technology, which gives to the ICT sector a push to expand its spectrum. In the

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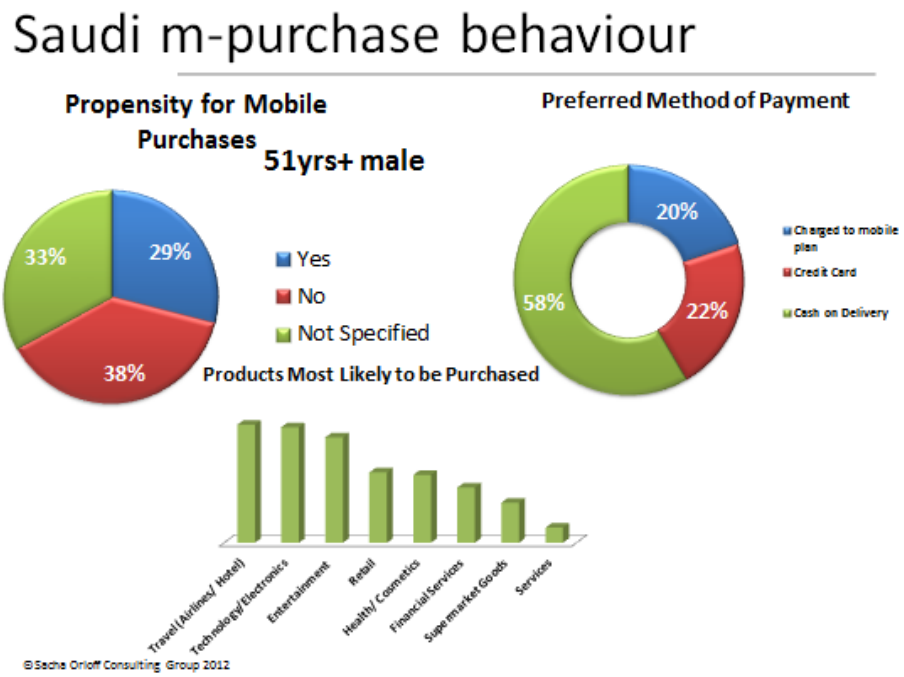
Networked Readiness Index 2012, Bahrain arrives in first place with an index of 4.90, followed by Qatar, 4.81 and the United Arab Emirates 4.77, and then Saudi Arabia with an index of 4.62. Despite repeated investments in ICT technologies, Saudi Arabia only ranks 34th in the Networked Readiness Index, compared to Bahrain who ranks 27th Qatar 28th and the UAE 30th. Saudi Arabia benefits from close to 100%, with 65.8% of the population with access to computers and the internet. These figures show that the population has a well-developed e-readiness and e-awareness that would enable the adoption e-commerce.

The liberation of the ICT market has seen a rapid growth in 3G and broadband market, having a snowball effect across all aspects of the sector's value chain. The Kingdom has seen a rapid adoption of new technologies and has serious potential in Value Added Services (VAS) and e-commerce.

Nowhere has this been more apparent than in the market penetration of mobiles and smartphones. Saudi Arabia has the largest mobile market in the region by subscriptions standing at 50.8 million active mobile subscriptions forecast for end-2011. This is expected to rise to rising to 71.32 million at end-2016. This clearly demonstrates the huge market growth that will be seen within the next five years in m-commerce among all retail business segments.

Saudi Arabia is the 'number one' country in the world to lead with the highest proportion of mobile phone users, with a ratio of 180 mobile phones to each 100 residents[1]. This demographic trend is led by males in their late forty's as well as the teenagers.



With 95% of the population owning a mobile, mobile internet penetration has grown to 54% with 70% mobile internet usage rates. For mobile internet penetration to generate viable m-commerce solutions,

[1] http://www.alarabiya.net/articles/2012/03/11/200000.html

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the connectivity of the Saudi Arabian population has to be followed by an international spectrum harmonization, to ensure interconnectivity between the Kingdom and all neighbouring countries. This is part of a global effort to encourage governments and regulators in allocating radio frequency spectrum consistently across borders, enabling global roaming, interoperability and global markets for telecom equipment. As a key market in the region, the Saudi government has been encouraged to have the necessary spectrum available to support the growth of Long Term Evolution (LTE) services consisting of the fourth generation of 4G system providing mobile ultra-broadband. The widespread adoption of 4G networks would enable Saudi Arabia to embrace the full benefits of next generation Mobile Broadband connectivity, providing opportunities to introduce new mechanisms for the provision of products and services from the government and private sector alike, and targeting a new customer base.

The development and penetration of internet and mobile technologies has not yet translated into the expansion of the online retail sector, whose performance and impact in Saudi Arabia remains poor in comparison to other emerging economies. Although online tools have failed to fully be integrated within commercial industries, the Saudi government has implemented numerous e-government projects to facilitate and streamline the provision of citizen services.

Whilst not all Ministries have fully embraced this new technology, a number of new initiatives are under-way, although they continue to face a number of barriers to their deployment. The first factor includes a fully integrated and interactive government portal that creates interoperability among all e-government networks. This requires a Public Key Infrastructure (PKI) to ensure secure communication among the network. Lastly, a payment gateway solution such as SADAD established by the Saudi Arabian Monetary Agency has to become a core feature of the systems usage. Reliable and secure e-government services provide the impetus for the private sector to adopt similar systems which strengthens the core attributes of e-commerce and m-commerce.

Mobile and internet e-shopping is going to go through an imminent rise due to internet and mobile penetration. Whilst Saudi consumers understand the role of e-commerce, it has only translated into a 14% growth of online purchases in 2011. There is still a dependence of the private sector, which is relying on the government and intrust it to set example; first by the full adoption of e-government, implementing security measures, and regulations for its citizen and for the majority of the private sector to trust new ways to do business.

4. Emergence and growth of e-government and e-commerce

With global e-commerce growth among businesses and e-government adoption nations; the Saudi government's priority has been to implement strategies and adopt plans for an e-government. E-government services increase the effectiveness and efficiency in the public sector and enables cost-reduction measures on public expenditure. The use of integrated e-governance is a considerable

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factor in the transformation of government services, making them more accessible, transparent, effective and accountable.

Saudi Arabia is still in transition to develop fully-fledged e-government services; first initiated through the 'Yasser Program' in 2003. Despite the significant technological progress that has occurred since its launch in 2003, the program still faces a number of challenges. These are mainly centred in the diffusion of the technology within the organizational culture of government agencies.

The adoption of e-government tools shows the e-readiness and e-willingness in Saudi Arabia, although there remain discrepancies in its implementation. Information networks are not clearly defined and user-friendly, with both a lack of transparency as well as enabling regulation to provide the foundations for the development of such services. The successful adoption of e-government services within the public sector necessitates an institution to run its operations as would an organization on the basis of clear decision-making processes and leadership. Since the implementation of e-government, there have been reports of resistance to change within institutions, which can only be overcome through increased knowledge of its ease and efficiency through regular training and awareness-raising.

The majority of Saudi Arabian government institutions detain an online presence through websites; with a number of visitors to e-government portal which has increased by 404% in 2010 (SADAD). Access to information and data has been identified as one of the most significant challenges by users, and citizen-interaction remains limited. Data is not automatically updated, and navigation is not user-friendly. The only exception to this trend is the Ministry of Higher Education, who has achieved full network integration online.

The main inhibitors are policy and regulation, privacy issues, security and poor ICT infrastructure which need to be updated, with a strong emphasis on qualified workforce and employee training. For e-government to be a success, all participants and users from citizens through to the private sector and intra-ministerial agencies must embrace the changes this new phenomenon will create. For a successful domestic diffusion of the system, the Yesser program should endorse a stronger and larger part of the Saudi public sector and unify ICT to provide data and tools for the private sector as well, demonstrating a strong leadership in transitioning through this process and engaging participation and trust.

Institutional resistance to change is one of the main barriers to inter-ministerial operationalization of e-governance, although this can be overcome through workforce training and a clear communication of the goals and objectives of the program.

Streamlining policies and regulation to reflect the commitment of institutions to the full adoption of e-governance will enhance public trust and commitment to its benefits. Moreover, if the benefits of using such instruments become apparent, this will led to a fast uptake by businesses to develop similar gateways which act as new product and services channels.

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5. Challenges and barriers to e-government

The Supreme Royal Decree 7/B/33181 of 7 September 2003 saw the official adoption of the Yasser program among government institutions, based on the premise of transforming Saudi Arabia into a society embracing information technology and transitioning to a knowledge economy. Research has shown that there is twenty two Saudi Ministerial websites and according to a study, eight of them (41%) do not implement the main features of a government website. Ten ministries (45%) have achieved or partially reached a web presence; three ministries (13%) have a one-way interaction website, and six ministries have no online service at all.

The most crucial inhibitor to efficient adoption and implementation of e-government services in Saudi Arabia is primarily due to one key factor – the ownership of e-government portal. As ownership is spread among a number of contractors, this seriously detracts from the adoption of a unique inter-institutional system. Ownership of the e-government network should ideally be under the ownership and supervision of a single regulator to provide overall leadership and establish effective legislative processes. In addition, the weaknesses of existing IT infrastructure; the misconception by citizens of services available; resistance to change from government employees; weak collaboration among government institutions and a lack of technical support from IT contractors. Finally, the speed of broadband connections remains slow and unreliable, and has been identified as one of the main hindrances to the usage of e-government services by (Alshehri Mohammed, p. 4)

The Saudi e-government should be running unified electronic and integrated public services through a single point of access 24/7. For example, when visiting different governmental websites, access to information is inconsistent across all websites and browser compatibility remains an issue.

The Saudi e-government regulators should take immediate measures to prioritize the rectification of its e-governance mechanisms to create a unified system enclosing all ministerial websites. Such a change will not only be beneficial to the efficiency of the services provided through the e-government platforms, but can be considered as critical to ensuring the growth of online activities in the Kingdom, indirectly impacting on the economy as a whole. More focus on improving this will automatically enhance the confidence of businesses, and provide the impetus necessary for more secure online activities.

6. Enablers to e-government

As exemplified by nations who have successfully adopted e-governance, electronic government services can offer a myriad of benefits, particularly in emerging economies where the government and bureaucratic structures are often more opaque and complex. This is particularly relevant to the Middle East, who has consistently suffered from lengthy bureaucratic procedures, and a lack of coordination between various governmental departments. This has subjected the business owner, or citizen, to a

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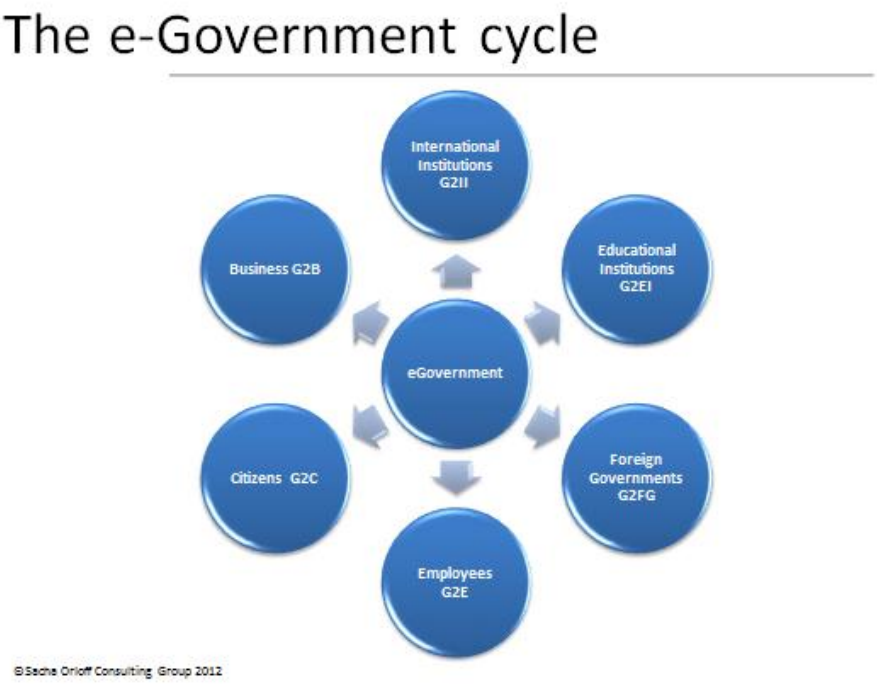
high degree of uncertainty, financial and time constraints, and the inefficient use of often limited resources. Beyond the argument of a 'digital divide' between civil society and public authorities, there exists a deficiency in the availability of data and information relating to a) the activities of the government; and b) data and statistics pertaining to civil society and the business environment, that can be countered through the adoption and diffusion of e-government.



Key recommendations to enhance services provided through e-government portals include:

1. Standardized processes among government bodies in the implementation of ICT projects;

2. Establishing common objectives and KPIs to assess the performance of e-governance in enhancing administrative procedures and the reduction of red-tape;

3. Electronic and integrated ICT infrastructures that unifies all government institutions under a single umbrella under the leadership of a designated government regulator;

4. Providing regular training and skills-building workshops for public sector employees to eliminate resistance to change;

5. Bridging the digital divide so that every citizen will be offered the same type of information from the government;

6. Facilitating citizen's participation and democratize policy-making processes through specific campaigns and awareness-raising activities;

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7. Building customer relationships and generating value-added and personalized services;

8. Using e-governance as part of the tools to improve the business environment and facilitating access to local businesses;

9. Creating a one-stop-shop for citizen and government users to facilitate the usage of e-government services.

As e-government portals provide a platform for interaction between the state and citizens, they can be classified between government to business (G2B), government to government (G2G) and government to citizen (G2C).

Whilst the relationship engendered with citizens and stakeholders should be prioritized, some have argued that the most crucial aspect of the adoption of e-government is through government to government (G2G), as change management is the sole mechanism that enables a successful implementation and transformation of the manner in which public services are delivered. (Al-Shehry, Rogerson, Fairweather, & Prior, 2006, p. 3).

In fact, the government has to '*think* and *act'* like an organization, not a public body above scrutiny. It experiences the same dangers of succumbing to organizational inertia; preventing change, efficiency and the ability to innovate and serve its function within society. A government has a deeply entrenched organizational culture, with the added complexity of it varying across many departments. Although it may regard itself as progressive, it often follows in the footsteps of private sector corporations, but lacks the '*corporate*' vibe that pushes its employees and processes to compete. Rather than competing for productivity that would allow an organization under normal circumstances to operate within a market, government departments usually compete for political recognition, status and resources (Weerakkody, El-Haddadeh, & Al-Shafi, 2011, p. 176).

7. Challenges and barriers to e-commerce

E-commerce has successfully emerged globally as a new sales and distribution channel for businesses; enhancing sales, internationalization opportunities and targeted marketing. Due to the size of the Saudi retail market, e-commerce can be considered as the logical 'next-step' for businesses. However, there has been a sluggish uptake among the business community, with reasons most commonly cited including lack of know-how, organizational structure, logistics, cost, infrastructure and government support. Organizations most active in the usage of e-commerce as a retail solution lie primarily are large organizations in the manufacturing sector. In contrast, small and medium-sized SMEs are little active in proportion.

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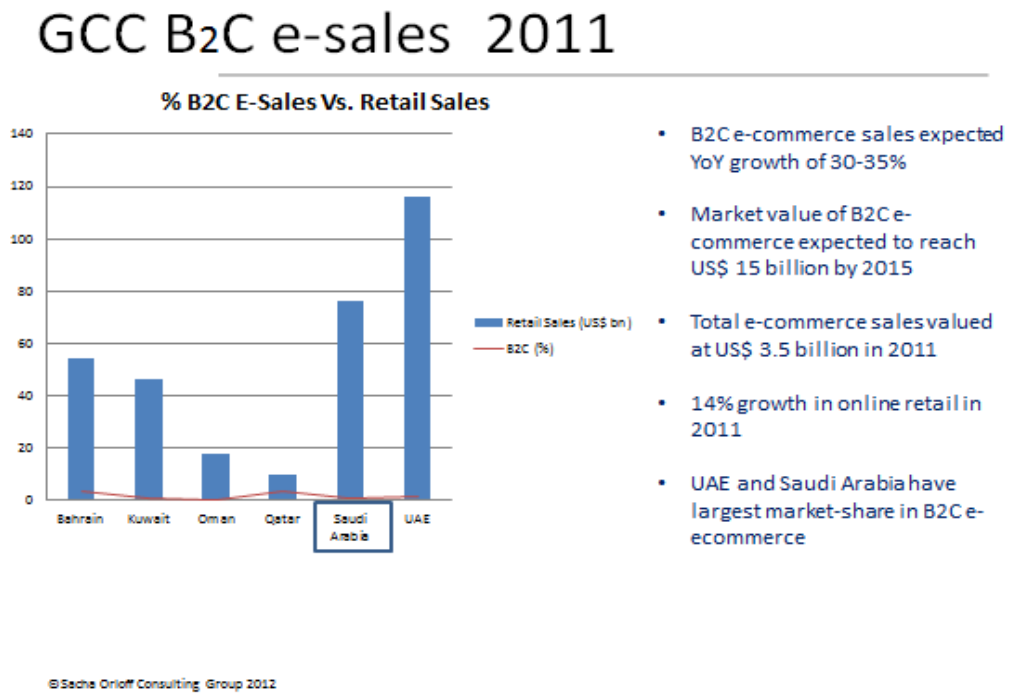
E-commerce remains a new business model for retailers in Saudi Arabia. There exist no true national case studies that have showcased e-commerce as a tool for sales growth and business expansion. To counter this trend, the business environment is in need of a number of success stories to be highlighted to demonstrate 'proof of concept' and for businesses to incorporate e-commerce as part of their day-to-day operations. Until visibility is induced around the success of the e-commerce model, the retail sector will prefer to implement traditional business models and retail channels that are not hamper competition, but reduce profit-maximization opportunities and international expansion. As it currently stands, the retail sector will only be willing to adopt e-commerce when large competitors have proven its viability.



Effective online banking is a crucial determinant to enabling the growth of e-commerce activities among Saudi retailers, as this has a rebound effective on the willingness to make online capital transactions. Whilst the Saudi Arabian Monetary Agency (SAMA) regulates online transactions, it's organizational and network structure has not proven effective as of yet to an increase in online payments capacity, refraining activities among e-commerce businesses. Among these determinants for consumers also include security, trust and access to online banking facilities. This in turn affects their inclination and ease to which they will practice purchasing goods and services online.

These key inhibitors to online purchasing among Saudi consumers include:

- The internet and the concept of internet remains regarded by Saudi consumers as a tool to access data and information rather than an opportunity to access physical goods;

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- A preference for face-to-face business deals which affects trust of online purchasing; Socio-cultural habits and culture where consuming is part of the lifestyle;

- Minimal online payment options other than credit cards affecting the perceived security and ease with which online purchases can be made;

- Retailer-specific detractors to adopt e-commerce include few ICT professionals who are able to design an e-commerce platform for businesses;

- Limited homogeneity between English and Arabic online content having a derisory impact on communication and website accessibility;

- A lack of experience in administering e-commerce solutions by businesses and fully developing its profit-maximization opportunities;

- Resistance to change; there is no real benefit in changing the organisational culture and structure of a mature organization if the investment has no-immediate monetary returns;

- Fear of risk taking, and failure; by essence new business brings opportunities and threats;

- The initial business setup cost of launching an e-commerce venture;

- Limited ability to provide effective customer service and after-sales follow-up to online purchases;

- Lack of know-how on how to acquire and retain customer database;

- Opaque legislation and regulation governing e-commerce retailing;

- Traditional marketing techniques that counter-act with e-commerce strategies.

In addition, other e-commerce specific consumer characteristics limit the deployment of e-commerce solutions across the Kingdom. Among these include unwillingness to provide personal data and information; difficulty to coordinate home delivery with the existing postal system as well as unclear returns policy and quality assessment of goods. Put together, these factors seriously impact on the trust and willingness to embrace e-commerce among Saudi consumers.

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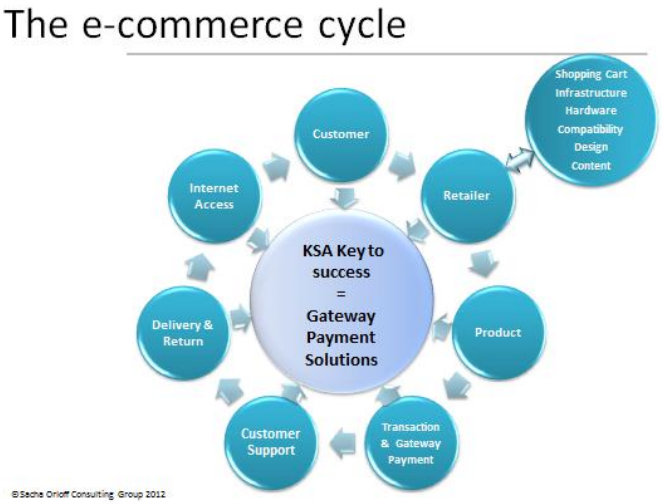
8. Enablers to e-commerce

Saudi Arabia is the largest world oil producer (CIA 2009) and now is seeking to develop a strong information technology based economic structure, which includes the capacity development e-commerce tools and applications ((CITC), 2012)

Saudi Arabia has the largest and fastest growth of Information and Communication Technology (ICT) market place in the Arab region – CICT survey indicate that there are 12.5 million Internet users in Saudi Arabia representing 44% of the population a growth from 5% in 2011[2]; and a mobile penetration rate reaching 132% as of total mobile subscribers[3]. Saudi Telecom Agency reports in 2011 that the Kingdom has 54.8 Mobile subscribers in Saudi Arabia.[4]

The strongest enablers are the widespread diffusion of Internet, mobile and all social media platforms such as Facebook, YouTube, Google+ has, whom have witnesses the largest growth in the country. YouTube has more than 4 billion viewers per day in Saudi Arabia, up 50% from 2010 and equalling 90 million video views per day. This is the highest number of YouTube views globally per internet user. Additionally, Google has launched many initiatives in KSA such as 'glday' and Kingdom Dialogues; the first instalment who was conducted in partnership with the Ministry of Education. The enormous scope of the Saudi online market has led to Google products being launched specifically for Saudi Arabia, including local YouTube domain, Google maps, driving directions, mobile products, and G+mobile amongst others.

However the core of any e-commerce activity is transactions and payments. The key to the Saudi Arabian market is a proper gateway payment system, which would enable secure and easy purchasing within the Kingdom and in neighbouring Arab countries. With nearly 100% Internet coverage in the Kingdom, a healthy e-marketplace can be developed, but requires professional knowledge of ICT tools, a consensus over proper business conduct and competitive pricing equal to physical shop prices.



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[4] http://arabcrunch.com/2011/09/saudi-telecom-agency-12-5-million-internet-users-and-54-8-mobile-subscribers-in-saudi-arabia.html

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Incentives and strategies have to be implemented to encourage businesses to adopt the online business of conduct. This can be achieved by the government in supporting a strong ICT infrastructure strengthened through an over-arching e-government system. Changes have to be made and implemented to supporting technologies such as using professional services to convert new technologies into a successful websites or portals, encompassing the whole cycle of e-commerce business. It is known that there is a lack of customer service in brick and mortar organizations and more incentives should be provided through training and education to increase the competence of the workforce who is at the heart of the organization.

As the core issue for any business, capital is the main catalyst towards Innovative and efficient secured online payment methods. Other innovative and entrepreneurial businesses could be formed in providing effective delivery solutions to the Wasel postal service which covers only 2% of the Saudi population.

Retail businesses should seek to shift their behaviour and venture into online commerce, to take advantage of gaps in the market even if it currently faces certain challenges. These challenges can be converted by a forward-thinking retailer into a set of opportunities that could grow market share in the absence of competition. Retailers considering to venture into e-commerce should focus on generating a recognizable online brand identity that differentiates itself from Western 'copy and paste' models. Efforts should be made to localize the development of e-commerce among national professionals, rather than relying on outsourcing ICT and platform designs to India or other countries in the region, which only reinforced the incongruities between content, accessibility and branding. An existing market gap frequently translate into market opportunities among the whole value chain of the retail sector, and directly and indirectly contributes economically to generating job creation opportunities, new commercial offerings as well as business models.

Today every industry wants a share into the success potential of e-commerce. E-commerce will increasingly become an enticing prospect to retailers, responding to an emerging entrepreneurial environment. Retailers should take into consideration a wider range of factors than just immediate profit margins, or only believing that profits can be generated from the existing business model. E-commerce can regenerate an existing business model, enabling to diversify and capitalize on ROI and adopting innovation and change management throughout the organization.

Private sector businesses adopting e-commerce may generate through its organizational adoption strategic imbalances. However these gaps produce opportunities and innovative solutions. It is clear that there is a need for a larger pool of participation in businesses to adopt e-commerce to compete and grow in the retail sector. One of the critical issues for traditional retail organizations is to adapt to new processes in e-retail; where both businesses have to link two different forces and find a just balance, driving as much growth on both fronts.

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Leadership will have to recognise that e-commerce will affect the actual organization, and therefore prepare the organization for transformation, and focus on the wide spectrum of stakeholders, with proper digital strategies and processes. (Braganza, 2000)

Similar pillars of action are needed to support the development of e-commerce in conjunction with the streamlining of e-government systems, as the latter will influence growth of this industry sub-sector. Clear business conduct in conjunction with strict governmental regulations will enable the development of a commercial strategic framework of e-commerce taxation laws, ownership and IP protection. Efforts need to be guided simultaneously between the public and private sector, building upon the 'trade culture' inherent to this region. A clear timeline should be designed to implement the features that will enable the commercial viability and adoption of the e-commerce business model.

E-commerce, more than any other sales mechanism requires an in-depth understanding of market segmentation among retailers. The use of this technology will be driven by gender, age and other user demographics, and is inherent to the consumer decision-making process. For example, a younger audience is more inclined to use and engage in communication through social media, whilst a more mature demographic has the capital means to frequently purchase online. It is essential for retailers to remember that due to Saudi Arabia's young demographic, today's youth segment will be tomorrow's clientele, and fostering product loyalty is critical. (Al-maghrabi T., 2011, p. 57)

9. Online Customer behaviour and intention in Saudi Arabia

A recent study has demonstrated that e-shopping in Saudi Arabia is based mainly on gender and age based on a panel of consumers aged from 20 to 45, who extensively use mobile and internet communication as well as social media tools.. The social influence induces this targeted population to communicate and interact amongst themselves and influences online behaviour, preferences and habits. This behaviour is motivated by acquiring recognition amongst their peers, and affects new technology adoption decision-making processes.

This population is more inclined to buy online than others. The decision to buy online in Saudi Arabia will be influenced by the perception of website practicality and usability, as this is positively correlated to increasing returns based on customer enjoyment. As consumers will be comparing Saudi Arabian e-commerce websites to their Western counterparts, it is critical for these to equal in terms of quality of the layout, design and content to enhance customer satisfaction.

Consumers under the age of 30 are also more likely to be influenced by targeted online marketing from retailers, leading to a higher probability to purchase goods and services online rather than any other age bracket. (Akhter 2003; He and Mykytyn 2007). (Al-maghrabi T., 2011)

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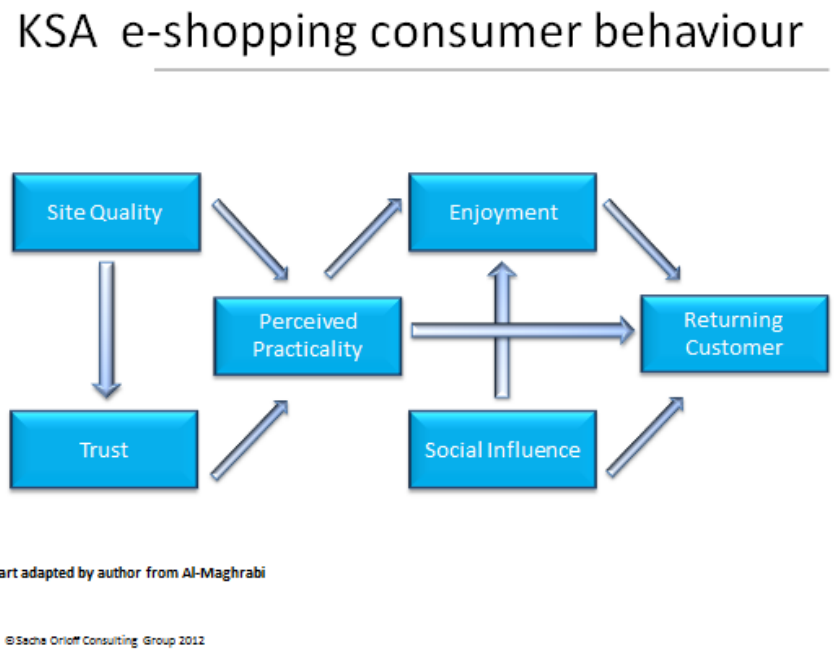
In order to gain, retain and grow this young online shopper demographic, ensuring the quality of website content and design coupled with security and a reflection of the brand identity is crucial. Customer retention will be sustained based on having been exposed to repeated positive experiences. Prior to venturing into launching an e-commerce outlet, retailers must conduct structured market studies that will enable to focus on specific products on the targeted retail segment identified.



Consistency in service and quality has to be prioritized through educating the retailer on the best processes and continuous commitment to customer service. This will translate into the growth and retention of a customer base due to increased trust and security. This is particularly true in a collectivist culture such as Saudi Arabia, "*where population tend to trust only those within their in-group and family."* (Yamagishi T. and Yamagishi M., 1994). The Arab World culture, including Saudi Arabia, is dominated by high collectivism, i.e., an individual's beliefs depend on the social norms of the group (Kluckhorn, 1961). In term of business, this collectivist society has a long term commitments, as well as relationships based on trust and longevity.

Furthermore, studies have highlighted the importance of social influence and its dynamics on consumer behaviour could also be directly influenced by social value, where trust is built on the similarity of individual. This group of similar individuals would trust their group and assess on second-hand information and second-hand-experiences.

Due to Saudi Arabia's petroleum wealth, the Kingdom has become a consumer-oriented society, with a lifestyle and attitude towards consumption which is part of its new cultural trend. With a considerable increase in disposable income, and distribution of spending within families, shopping is conducted as a social gathering and lifestyle experience, where the group of persons share the experience together and would recommend it.

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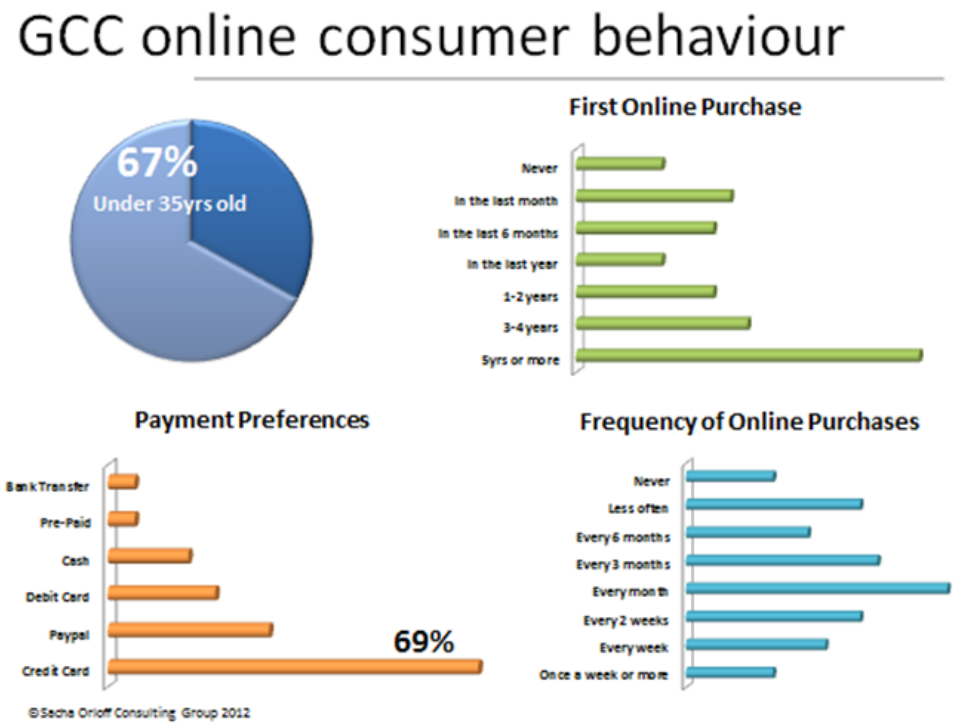
To orientate the Saudi e-shopper, trust is one of the most vital factors of visiting an e-business, hand in hand with secure and easy gateway payment options. The e-shopping experience has to be of equal value than any other competitors worldwide. The process which includes enjoyment usefulness, buying and receiving the goods has to be flawless in order to retain the consumer and induce repeat purchasing.



Pecentage payment preference - http://www.menann.com/article/e-commerce-confidence-among-uae-shoppers-rises-18

The lessons which can be applied from Saudi websites in general is that brand identity, innovation and strong leadership will be incremental to ensuring the growth of an e-commerce industry within the retail sector. Saudi Arabia should embrace its Saudi and Arabic vision of trends, as this will attract local and regional consumers. Currently, the existing denominator among website is their similarity; technology which is actually being pursued by the government is not having the desired trickle-down effect to improve ICT based organizational structures. Despite a large talent pool in the digital arena, this has not yet fully led to the next Arab digital trend and thought-leadership in this field, where excellence, brand DNA, and innovation have to be nurture.

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10. Case study - eXtra iconic retailer but non e-conic success story

Saudi Arabia needs success stories built upon technology and the digital sector. One of these success stories is eXtra - United Electronics Company eXtra was founded in 2003 and headquartered in Khobar, and is by far the largest consumer electronics and home appliances retailer in Saudi Arabia, and the fastest growing retail business model in the kingdom. Currently the retailer is operating 25 stores across the Kingdom, and new point of sales in Oman, and Qatar. With an annual turnover of more than SAR 2 billion and earnings of SAR 126.5 million for the 12-month period from July 2010-June 2011, eXtra is today uniquely positioned to realize its aim of becoming the Middle Eastern consumer electronics retail leader by 2020. The company is focused on offering the widest choice in the market at highly competitive prices, while ensuring the best quality of after-sales service and support.

In May 2012, eXtra was named one of the Top 200 Companies in the GCC by Forbes Middle East. Its chairman, Abdullah Abdulatif Al Fozan, sees the recognition by Forbes as an indicator to important innovations of its business growth and expansion Furthermore the company is listed on the Tadawul, and is strategically positioned to enter its next growth phase.

The company's financial results have demonstrated that for the three months ending March 31, 2012, reported estimated sales of SAR626m have increased by 31.3% compared to the same quarter of 2011, with an estimated net profit of SAR23.8m with an increase of 25% compared to the same period of 2011.

On the 24th July 2011, eXtra introduced its online shopping portal (www.extra.com), the first fully fledged electronics and home appliance website of its kind in the Kingdom with home delivery to more than 23 cities. It was the natural step to take to grow the brand, said C.E.O Mr Galal. The business is capitalizing on the fast growth of online shopping in the Middle East.

Whilst buying online on eXtra portal, one of the main aspects which stands out includes the need to regularly update the e-commerce website content to ensure it can compete with global competitors. A larger product offering should be made available online and bundled with other product offerings. In addition product definition, picture options, services options, as well as new innovative payment methods should be more thoroughly sought.

As a business model, after an eleven month pilot assessment, eXtra should be already implementing new technologies and revamping its website with a larger product offering and developing competitive strategies for the whole of the MENA region. With continuous process improvements as to reduce transaction costs, improve inter-organizational systems, enhance competitive strategy, and develop a viable 'click and mortar' business model comparable to that of eXtra. Retailers also need to develop systems which enable them to track their performance online versus those of physical shops. Furthermore by accessing consumers via mobile and with in-store platforms, research shows that retailers see strong purchase value increase

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With more than 25 shops in the Kingdom, eXtra e-commerce can reach every potential customer in its territory via the Internet. The potential consumer reach is unlimited if compared to that in its physical retail stores, although issues such as delivery options from the warehouse to the consumer have to be taken into account. With a population of more than 27Billion in the Kingdom, eXtra e-commerce could see exponential growth. Coupled with a seamless customer experience and the presence of both online and physical stored, this formula can effectively bridge the virtual gap from site to store, and would make the real difference in terms of competitiveness.

Leaders at eXtra should invest into the role of IT functions in driving their digital business initiative forward, in awareness that it would also generate operating income. However not without any challenges, but most of the companies investments in digital initiative are struggling as the allocated funds are too small compared to the expected goals. Knowing also that there is always a lack of organizational inadequacies linked to weak IT capabilities as barrier to meeting technologies priorities.

As a retail success story eXtra can be admired, but it has still a long way to go to prove its online business model in Saudi Arabia has the same iconic impact on the private sector. eXtra should not wait for a new entrant to offer better and more effective businesses based on its exist*ing* model, having made the work, another competitors copy an upgraded version with enhance learning curve and its experience effects.

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11. Conclusion

Now in the Middle East and moreover in Saudi Arabia, the e-commerce bubble is pleading to burst into success stories. The barrier to e-commerce adoption in the Kingdom tend to be embedded into the private and the public sector with their leadership priorities, political structure, management processes, on an everyday behaviour within the Saudi cultural values. Nationally all focuses are on innovations towards oil, energy, construction, SME's entrepreneurship and the forgotten sector is retail. Retail seems to sustain a profitable growth by itself, without giving much more thoughts on creating new solutions.

A Saudi Arabian retail organization might be influenced by its heritage, and the business would choose against new ideas that might potentially cost that business time, cash, manpower training, skills and tools investments, within complexities in the budgeting process. In all organizations, barriers are different, but the organizational culture needs to identify mid-terms to long-terms objectives and strategies, such as e-commerce with practices, policies and process inside its core decision-making structure. Traditional retail thinking could be chosen toward result orientated structure such as cost, efficiency, and customer satisfaction; these recognized factors will have to be equally related to successfully causing commercializing new growth opportunities for its e-commerce future.

Retail organizations will have to take calculated risks to become 'click and mortar' businesses, where both regular retail and new e-retail will have to cohabit within two different forces to find a appropriate balance; where both business models can be recognised to be of equal in importance and operational excellence. This business model requires open mindset, strong leadership, and assesses the risk of failure.

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Sacha Orloff Consulting Group is one of the sole consulting companies whose core expertise operates in the service and retail industry, specializing in serving the high-growth potential of GCC and Middle Eastern markets. Sacha Orloff Consulting Groups capabilities reside in providing tailor-made services to businesses, corporations, holdings, start-ups as well as the public sector.

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Related Expertise Areas: Organization, Change**,** Capabilities, and Strategy

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