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Digital



Unlocking the eCommerce potential for Saudi Arabian SMEs in a post-Covid world



Executive summary

The Covid-19 pandemic has forever changed consumer behavior as many have turned to online or digital shopping options, which had its impact on the traditional brick-and-mortar landscape. Modern alternatives to traditional businesses, such as eCommerce, are now playing a pivotal role in providing businesses and their customers access to a new range of products and services through digital channels, while keeping up with the ever-evolving consumer behavior and market shifts. eCommerce in particular, has enabled organizations to sustain their operations despite the limitations and different confinement measures implemented by governments during the pandemic.

The challenges faced by traditional businesses, including both large organizations as well as small and medium-sized enterprises (SMEs), were already evident prior to the pandemic. One major challenge is the decrease in sales when relying solely on offline channels, due to shifts in consumer behavior, technological advancements, and new lifestyles.

The pandemic further highlighted the importance of embracing digital channels, specifically eCommerce, as a mean to survive and thrive. SMEs in particular, have been greatly impacted by the pandemic and were in dire need of policy actions to reduce regulatory uncertainty, support organizations in adopting innovative business models, and fortify the connection between online and offline sales strategies.

The economic and social disruption caused by the pandemic has reinforced the need for a new business model that fully embraces eCommerce, helping all organizations, and especially SMEs that may not have a powerful physical presence, to increase their reach and succeed.

Today, in addition to the persistent efforts exercised by nations around the globe to foster eCommerce and address existing limitations, governmental entities are continuously developing regulations and putting them into practice to encourage the use of modern sales models.

The Saudi government is joining the worldwide endeavor of promoting the culture of eCommerce as it is actively implementing regulations and policies that support both established and up-and-coming online businesses.

Deloitte Digital is committed to addressing the needs of local SMEs by collaborating with different government entities on multiple initiatives to develop successful frameworks for existing and emerging SMEs to follow. This collaboration will help the growth of eCommerce in the Kingdom of Saudi Arabia (KSA) and streamlining digital transformation for existing businesses.

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Introduction

Since its rise to prominence in the 2000s, eCommerce has been steadily changing the face of retail as we know it. The world of online shopping has especially enjoyed an unprecedented boost since mid-2020 amid a lockdown fueled by the Covid-19 outbreak, leaving retail in a potentially perilous state. The pandemic drove people to opt for convenient methods to carry out their shopping activities. This not only increased the number of existing eCommerce shoppers and their overall purchase volume, but also introduced digital novices and brick-and-mortar loyalists to the eCommerce sphere.

While eCommerce has had a great track record in countries such as the USA and China for over a decade now, the pandemic catapulted digital commerce into stardom. In fact, the aforementioned countries are among the first to have 50% of their total sales accounted for through eCommerce. But the same cannot be said about the Middle East-North Africa (MENA) region as eCommerce is still in its infancy phase in most countries there. However, there is significant untapped potential for eCommerce in economically booming countries such as KSA. Online shopping in the Kingdom has been on the rise across multiple sectors as the country possesses the necessary infrastructure and fundamentals to become a key player in the evolving world of eCommerce.

The global growth of eCommerce

eCommerce has witnessed substantial growth in recent years, driven by advancements in technology and changes in consumer behavior. Online sales have been on the rise, with more and more people turning to the internet to purchase goods and services. Statistics reveal a staggering increase in eCommerce sales growth from 2017 to 2023, with a jump from US\$2,382 trillion to US\$6,452 trillion.[1] By 2027 revenue in the global eCommerce market is projected to reach US\$6.39 trillion, the number of eCommerce users is expected to amount to 5,263.6 million, and user penetration is expected to hit 66.2%² (see figure 1).

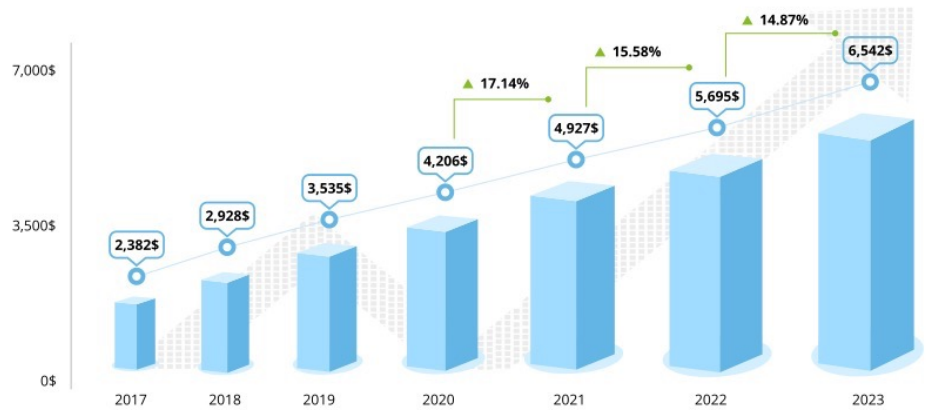


Figure 1: Global eCommerce sales growth from 2017 through 2023¹

One major factor driving eCommerce's growth is the increasing internet accessibility. With more people having access to high-speed internet, it has become easier for consumers to research products, compare prices, and make purchases online. Add to that the widespread use of mobile devices which has made it even more convenient for people to shop online, as they can do so from anywhere at any time.

Another important growth factor is the Covid-19 pandemic which has accelerated the eCommerce adoption. As people were forced to stay home and avoid non-essential travel, many turned to online shopping as a way to purchase goods and services. This trend seems to be continuing even as the pandemic subsides, as many consumers have become accustomed to the convenience of online shopping.

In 2021, the global eCommerce industry has witnessed an impressive growth rate of 17.1% (see figure 2), which stands as the largest year-on-year increase predicted to occur between 2021 and 2026. This phenomenal rise can be attributed to the unprecedented circumstances brought about by the pandemic.³

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Furthermore, eCommerce businesses have become more sophisticated in their approach to marketing and personalization, using data and analytics to better understand their customers and tailor their offerings to meet their needs. This has helped in increasing consumer trust and confidence in online shopping, leading to further growth in the eCommerce market.

eCommerce in KSA prior to the pandemic

eCommerce in Saudi Arabia was still in its nascent stage before the pandemic. Online shopping was not yet fully embraced by the majority of the population, and the market was dominated by a few large players. Also, there were certain challenges that eCommerce businesses faced in the country, such as a lack of trust in online retailers, limited payment options, and limited product selection and diversity.

Despite these challenges, Saudi Arabia had the potential to become a thriving eCommerce market. The country had a large and growing population, a rising disposable income, and high levels of internet and smartphone penetration. Additionally, there was a substantial demand for online shopping, especially from the younger generation. Furthermore, the Saudi government had implemented various initiatives to support the growth of eCommerce, which aimed at increasing the contribution of the digital economy to the country's GDP.

Impact of Covid-19 on the Saudi Arabian consumer

Saudi consumer behavior has undergone noteworthy changes during and after the Covid-19 pandemic. Prior to the pandemic, Saudi consumers were already turning to eCommerce platforms as a convenient and accessible way to shop. However, with the outbreak of the pandemic and the implementation of lockdowns and social distancing measures, online shopping became even more prevalent as consumers looked to avoid physical stores and limit their exposure to the virus.

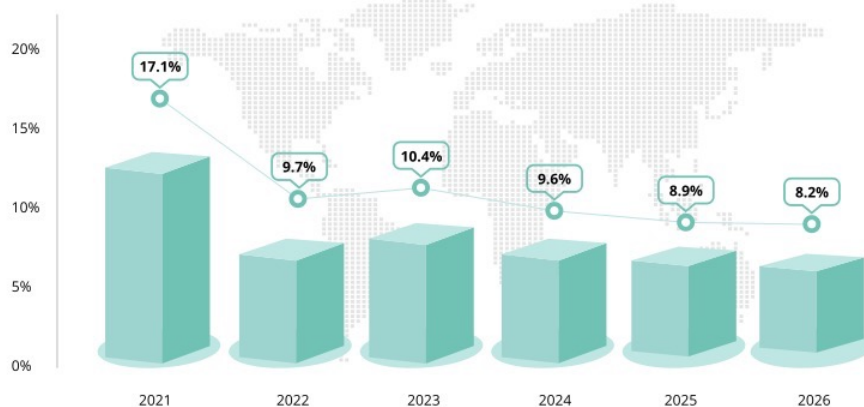


Figure 2. Global eCommerce growth rate (2021 to 2026)³

At the height of the pandemic, there was a considerable increase in demand for essential goods such as food and household items, as well as a shift towards online grocery shopping. Consumers also switched to eCommerce platforms to purchase items such as electronics and home office equipment as they adjusted to working and studying from home. Additionally, there was increased demand for health and wellness products, as consumers prioritized their health and safety during the pandemic. Consumers also became more price-sensitive as a result of economic uncertainty caused by the pandemic, leading to an increase in demand for discounted and budget-friendly options.

The compelling impact of eCommerce in KSA

The advent of eCommerce has brought forth a paradigm shift in the local market of Saudi Arabia, offering convenience and accessibility to consumers in their quest for goods and services. With the ability to shop from an array of online stores, both local and international, the range of products and services available to consumers has been significantly expanded.

eCommerce has also altered the traditional retail landscape, leading to a transformation in the behavior of

consumers as they increasingly opt for online shopping over brick-and-mortar stores. This shift has created a plethora of job opportunities, from online marketing and web design to logistics, and has leveled the playing field for emerging small and medium-sized businesses to compete with established players in the market.

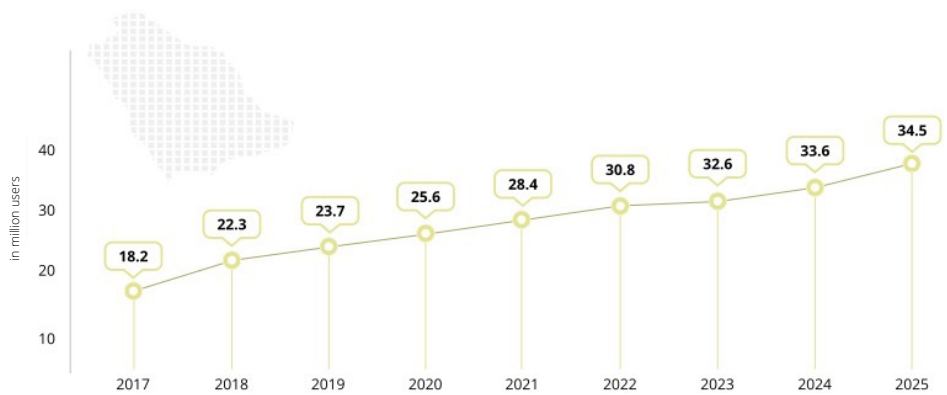
While conventional department stores and specialty retailers have faced challenges, eCommerce businesses and online-only retailers have seen tremendous growth. Ultimately, the influence of eCommerce on the retail sector in Saudi Arabia has been nothing short of compelling, and this trend is poised to persist in the years to come.

The eCommerce sector in the Kingdom of Saudi Arabia is on the cusp of a remarkable surge in the near future, with revenue projected to reach US\$13.71 billion at the end of 2023 and a projected annual growth rate (CAGR 2023-2027) of 14.37%, leading to a market volume of US\$23.46 billion by 2027. The number of eCommerce users in KSA is expected to reach 34.5 million by 2025,⁴ with user penetration increasing from 66.7% (see figure 3) in 2023 to 74.7% by 2027.⁵

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Impact on the KSA retail sector

The retail sector in Saudi Arabia has been greatly impacted by the proliferation of eCommerce. A burgeoning number of eCommerce websites and platforms has emerged in recent years, cementing the remarkable growth of the sector, as evidenced by a 60% increase in market value.⁶ Despite this, online sales in Saudi Arabia constituted a mere 8% of total retail sales in 2020, compared to 18% globally⁷ highlighting a vast untapped potential in the industry.



The evolving landscape of eCommerce in KSA

Today, the online marketplace in KSA boasts an array of offerings, encompassing everything from groceries and household items to vehicles. This proliferation has intensified competition among retailers, leading to a consumer-friendly environment characterized by favorable prices and an abundance of choice.

In the past, delivery was a challenge in the Kingdom, with long wait times and uncertain arrival dates. With the advancement of eCommerce, delivery has been transformed into a seamless experience, with options for same-day delivery and scheduling at the convenience of the consumer.

Adaptive regulations and payment methods

The crucial role of resilient and adaptive regulations in the eCommerce industry of Saudi Arabia cannot be emphasized enough. The regulatory landscape has demonstrated its flexibility by adapting to the changing market dynamics. For example, pharmacies, which were previously prohibited from selling online due to logistic-related issues, now have the opportunity to operate in the digital realm. Such regulatory shifts have not only facilitated growth, but also encouraged the emergence of innovative technologies. As the industry continues to evolve with the emergence of new payment methods, the central bank's sandbox provides a valuable platform for the regulation and testing of these innovations.

Figure 3: eCommerce users in Saudi Arabia by year⁴

The establishment of a sandbox for delivery applications by the Communications, Space and Technology Commission (CST) has enabled eCommerce businesses to operate more efficiently. This initiative has supported the entry of significant players, such as STC, while Aramco's partnership with Google Cloud has provided additional support to all players within the ecosystem. The establishment of free zones has also played a pivotal role in facilitating the logistics and movement of goods, further bolstering the eCommerce landscape of Saudi Arabia.

Before the onset of the Covid-19 pandemic, a majority of consumers in Saudi Arabia favored cash-on-delivery (COD) as their preferred method of payment for online purchases, due to the low adoption rate of credit cards in the country. The pandemic, however, introduced a change, with over half of consumers in Saudi Arabia avoiding businesses that did not accept online payments.⁵ Furthermore, nearly 95% of consumers in the region have explored alternative payment options, such as biometrics, contactless, or QR code for their online transactions.⁸

Among the most commonly utilized payment methods in the eCommerce sector of the Kingdom of Saudi Arabia are:



The dynamic eCommerce market of KSA

The eCommerce market in Saudi Arabia boasts a diverse array of popular products and services, with fashion and clothing, electronics, and health and beauty products leading the way. With the rise of eCommerce, consumers have access to a vast selection of products, irrespective of their location, making shopping more convenient than ever before.

Fashion and clothing are some of the most popular products in the KSA eCommerce market, driven by the country's young and fashion-conscious demographic. A plethora of international and local fashion brands operate in the country, offering a range of styles and trends that cater to the diverse tastes of Saudi consumers.

Notable eCommerce players in the Fashion sector include H&M, Mumzworld, Asos, and Farfetch.

The electronics segment is also experiencing a momentous growth in the KSA eCommerce market, primarily due to the country's high smartphone penetration rate. This has led to an increased demand for electronic gadgets, such as smartphones, laptops, and tablets. Notable eCommerce players in the electronics sector include Extra and Jarir.

A surge in health and wellness trends has fueled an increasing demand for a wide range of products, including skincare, makeup, and supplements. Online beauty retailers and marketplaces have stepped up to the plate, catering to the discerning needs of health and beauty enthusiasts with a diverse selection of products. As such, both local and international brands are vying for the attention of the health and beauty-conscious consumer, making it a highly competitive segment of the Saudi market. Notable eCommerce players in the pharma sector include Al-Nahdi and Al-Habib.

Investment and acquisition activity in KSA's eCommerce landscape

KSA's eCommerce sector has undergone a notable transformation as a result of prominent investment and acquisition activity, with notable industry players making strategic moves to reinforce their market position.

For instance, in 2017, Amazon announced its acquisition of Souq.com, one of the largest eCommerce platforms in the Middle East. Following the acquisition, Souq.com was rebranded as Amazon.sa in Saudi Arabia and Amazon.ae in the United Arab Emirates, providing customers in both countries with access to a larger product selection, faster delivery, and more reliable payment options. The acquisition also allowed Amazon to tap into Souq.com's logistics network and distribution centers, improving its ability to serve customers in the region.

Also recently, Noon.com, supported by the Saudi Arabia Public Investment Fund (PIF), has secured significant investments to reinforce its market standing and expand its product range; one major venture being its acquisition of Namshi, the leading fashion & lifestyle platform in the Middle East.

At the moment, the eCommerce market in KSA is pulsating with dynamic growth, marked by major players and considerable investment and acquisition activity. With the market's continued expansion, we can anticipate further innovation, new players, and a greater consolidation of industry leaders in the years to come.

Quick commerce in KSA

The rise of quick commerce, a convenient and efficient way for consumers to purchase essential items, has gained significant traction in the thriving eCommerce market of Saudi Arabia. eCommerce players in the country are investing heavily in technology and logistics to improve their delivery times and ensure a seamless shopping experience for their customers. Businesses are also expanding their product offerings and partnering with local retailers to offer a wider range of items on their platforms. Hungerstation, an innovative food delivery app, has broadened its offerings to encompass grocery and household items, positioning itself as a comprehensive quick commerce platform. Similarly, Nana has also reimaged its focus on providing an extensive range of products, from groceries to electronics, catering to the evolving needs of consumers.

Retail revolution

Over the past decade, eCommerce has undergone a tremendous transformation in Saudi Arabia, forever altering the retail industry and catalyzing a surge in online purchases. In fact, the Kingdom is expected to see a significant increase in its online buying population, with projections indicating that the number of online buyers will nearly triple from 10.5 million in 2016 to a projected 28.5 million by 2027.⁵

This remarkable growth in eCommerce adoption in Saudi Arabia has translated into significant sales growth, with a compound annual growth rate of 19% estimated for the next four years.⁷ This growth rate exceeds the global average of 11.9% and represents a considerable increase compared to the 18% YoY growth between 2020 and 2021, highlighting the substantial growth potential of the sector in the years to come.

Embracing eCommerce opportunities in KSA

The future of eCommerce in Saudi Arabia is undoubtedly bright, marked by a steadfast expansion and transformation. With the upsurge in internet and mobile utilization, along with the government's unwavering support for the sector's growth, the adoption of online shopping platforms is expected to soar. This, in turn, promises to catalyze the creation of new employment avenues and foster a more dynamic and diversified economy.

The online shopping industry in Saudi Arabia is on the brink of an exceptional rise, with projections estimating its worth to surpass SAR 50 billion by 2025.⁹ This upward trajectory is fueled by several driving forces, including the escalating adoption of digital innovations and the rising number of internet users in the kingdom. Digital wallets are primed to become the most prevalent form of digital payment, with internet penetration estimated to reach 97% and Vision 2030 striving to escalate cashless transactions to 70% by 2025.⁶

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The impact of eCommerce on the SME sector in KSA

The emergence of eCommerce has greatly impacted the small and medium-sized enterprise (SME) sector in Saudi Arabia, creating a breadth of opportunities for businesses to broaden their customer base both domestically and globally. For SMEs in Saudi Arabia, which may face obstacles accessing conventional distribution channels, eCommerce presents a gateway to overcome these barriers and participate in the market, rivaling established corporations. This advantage is further amplified by the reduced operational costs of an online enterprise in comparison to a traditional brick-and-mortar store.

Employment within the SME sector has been directly affected by the growth of eCommerce in Saudi Arabia, fostering new job openings while simultaneously considerably transforming the traditional retail landscape.

A path to success for SMEs

The future outlook for the small and medium-sized enterprise (SME) sector in Saudi Arabia is quite promising, with eCommerce in position to play a transformative role. As the use of the internet and mobile technology continues to increase in the kingdom, so does the adoption of online shopping platforms, providing SMEs with access to a broader customer base both domestically and globally. This presents exciting opportunities for businesses that may have previously faced barriers to entry, such as limited physical distribution channels.

With the government's unwavering support, including the National Transformation Program and the ambitious goals outlined in the Saudi Vision 2030, the eCommerce industry is expected to thrive, creating new employment prospects, and driving economic expansion. The government's efforts to address the challenges faced by SMEs in embracing eCommerce will be pivotal in ensuring a supportive ecosystem for their success.¹⁰

Taking eCommerce in KSA to the next level

In order to elevate eCommerce in Saudi Arabia, several key strategies should be implemented:

First, establishing a robust digital foundation, characterized by reliable high-speed internet, advanced mobile networks, and safe payment solutions is essential for realizing the sector's full potential.

Second, fostering widespread adoption of eCommerce among SMEs through training, financial incentives, and targeted marketing campaigns can drive growth. Furthermore, promoting a culture of innovation through incubator programs, start-up accelerators, and hackathons is crucial for continued expansion. Additionally, investing in cybersecurity measures such as secure payments, data encryption, and regular audits is necessary to safeguard both consumers and businesses from cyber threats.

Finally, collaboration with leading international eCommerce players like Amazon and eBay through cross-border trade agreements and shared coordination networks can further boost the growth of eCommerce in Saudi Arabia.

The technological evolution of eCommerce

Technologies have been instrumental in revolutionizing the eCommerce industry, providing consumers with a seamless and convenient shopping experience. From the rudimentary beginnings of eCommerce platforms to the state-of-the-art technologies of today, the sector has undergone a remarkable evolution. The arrival of NFTs (non-fungible tokens) has added a novel layer to the eCommerce landscape, allowing for the creation and trade of one-of-a-kind digital assets such as art, music, and collectibles. This groundbreaking development presents untapped opportunities for creators, collectors, and entrepreneurs, and holds the potential to shake up traditional industries like art and collectibles.

The Metaverse, a virtual world where individuals can interact, transact, and experience a new level of digital engagement, represents another exciting frontier in the eCommerce landscape. By blurring the boundaries between the physical and digital realms, the Metaverse has the potential to transform the way we interact with each other and with businesses. For eCommerce, the Metaverse represents a new platform where businesses can engage with customers in immersive and interactive ways, unlocking tremendous growth and revenue opportunities. As the Metaverse continues to mature and evolve, it is poised to become an increasingly prominent part of the eCommerce landscape, offering novel and innovative ways for businesses to connect with their customers.

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Re-imagining the physical store

The brick-and-mortar store, a long-standing staple of retail, has been re-invigorated in recent years. With the rise of eCommerce and digital shopping, physical stores have had to adapt and find new ways to remain relevant in a changing retail landscape. The result has been a new breed of brick-and-mortar stores that not only offer a physical shopping experience, but also integrate technology and eCommerce capabilities.

A re-imagined physical store provides a unique shopping experience for customers, one that blends the convenience of online shopping with the personal touch of a brick-and-mortar location. With the integration of technologies such as mobile point of sale systems, digital displays, and augmented reality, customers can now engage with products in new and innovative ways.

Moreover, re-imagined physical stores can drive online sales by offering customers a seamless omnichannel shopping experience. Retailers can leverage technologies such as in-store pickup and buy online and pickup in-store to provide customers with the flexibility to shop when and how they want. This integration of physical and digital channels not only provides customers with a more convenient shopping experience but also increases sales by encouraging customers to make purchases both in-store and online.

The rise of social commerce in eCommerce

Social commerce has become a major driver of eCommerce growth, as more and more consumers turn to social media platforms for shopping and buying experiences. With the rise of social media, businesses now have a direct line of communication with their target audience, allowing them to showcase their products, engage with customers, and drive sales through social channels. This has led to

a significant shift in the way consumers shop and has made social commerce an indispensable component of any eCommerce strategy.





One of the key benefits of social commerce is the ability to reach a massive and highly engaged audience, which has proven to be a valuable asset for businesses. By leveraging social media platforms such as Facebook, Instagram, and TikTok, businesses can reach millions of users who are already spending time on these platforms, making it easier to build relationships, drive brand awareness, and ultimately boost sales. Additionally, social commerce has made it easier for businesses to create personalized shopping experiences, as consumers are able to share their preferences and provide feedback through social channels.

For SMEs, adopting a social commerce approach demands significantly fewer financial and technical resources compared to traditional eCommerce methods, such as establishing a standalone website. As social media continues to grow and evolve, it is clear that social commerce will play an even more important role in shaping the future of eCommerce.

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The role of Deloitte Digital

Deloitte Digital offers a complete range of essential services to fulfill digital requirements, making it the ideal partner for embarking on an eCommerce journey. These services include:

-  01 A **Digital Studio** that brings creativity to life with a range of services in marketing and design, including user experience design and strategy, creative and multimedia, social and digital marketing, and customer and market analysis.
-  02 A **Digital Lab** where innovation thrives through a co-creation process focused on prototyping and experimentation, business cases, financial models, and operating models.
-  03 A **Digital Factory** that leverages a team of talented developers to architect, build, deliver, and operate user-friendly platforms using agile delivery methodologies.
-  04 A **Digital Academy** that cultivates digital skills and expertise with a diverse range of programs, including digital literacy, digital proficiency, apprenticeship, and digital research & development.

At Deloitte Digital, cutting-edge technology is employed to envision, launch, and sustain new business futures. Expertise in strategy, design, innovation, and branding is combined with data, insights, eCommerce, automation, and platform integration to provide end-to-end solutions that surpass the capabilities of traditional consultancies and agencies. The human experience is constantly elevated, with customers being placed at the forefront to better understand their needs and shape business operations to deliver value.

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How Deloitte Digital can help

Deloitte is a leader in digital transformation across industries and boasts specific hands-on delivery and advisory experience with leading eCommerce technologies, as well as deep industry expertise in retail and the Middle Eastern consumer ecosystem. Regardless of the approach, Deloitte can help organizations create an elevated human experience and drive growth for businesses through the seamless integration of innovative ideas, advanced technology, and exceptional talent. By shedding light on new business opportunities and innovative solutions for the digital customer, Deloitte collaborates with organizations to establish and execute their strategy, establish a customer-centric architecture in alignment with business objectives, and design an operating model that promotes seamless collaboration and fosters the necessary connections to shape a better future for customers, the culture, the society, and the planet as a whole.

In the eCommerce sector, Deloitte Digital supports clients in defining and achieving long-term growth strategies and driving direct-to-consumer interactions through the implementation and operation of global B2C and B2B eCommerce platforms. Throughout the years, Deloitte Digital has established partnerships with leading solution vendors such as CommerceTools, Adobe, SAP and Salesforce, as well as numerous global partners including Google, Meta, IBM, GE Digital, Apple, and more, to ensure the best possible outcomes.

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Deloitte can help organizations create an elevated human experience and drive growth for businesses through the seamless integration of innovative ideas, advanced technology, and exceptional talent

Conclusion

The COVID-19 pandemic has brought to light the importance of small and medium-sized enterprises (SMEs) in Saudi Arabia embracing eCommerce and online sales to stay ahead of the competition. However, many SMEs still require professional support to fully realize their eCommerce potential. The government of Saudi Arabia plays a crucial role in enhancing SMEs' eCommerce presence and driving revenue growth. By utilizing the resources and services offered and taking advantage of the eCommerce opportunities, SMEs in Saudi Arabia will not only survive, but also flourish in a postpandemic world. Moreover, by unlocking their eCommerce potential and capitalizing on the rise of online shopping, SMEs can reach new customers, boost sales, and expand their businesses.

The impact of eCommerce in Saudi Arabia has been nothing short of transformative, shaping the future of retail and paving the way for further growth and progress. It represents a beacon of hope and a testament to the resilience and ingenuity of businesses in the face of adversity. The opportunities it presents should be embraced towards a future where commerce is not just about sales and profits, but about innovation and progress.

As the mission of Deloitte Digital is to empower clients on their eCommerce journey, offering them a wealth of expertise and support enables them to tap into their full potential and achieve success in the digital marketplace.

Endnotes

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