

E-COMMERCE

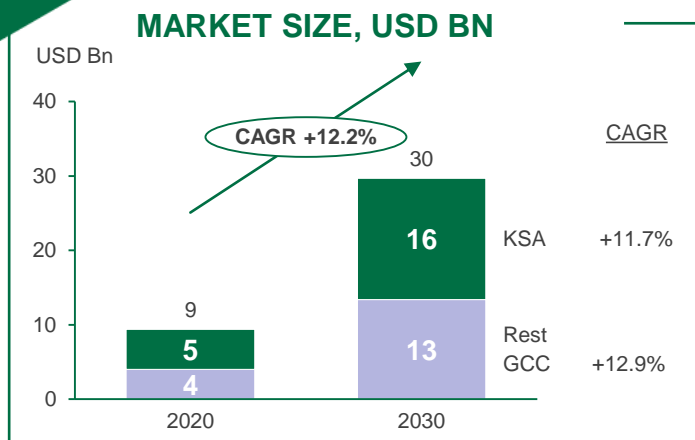
INVESTMENT OPPORTUNITY SCORECARD

ICT

SEPTEMBER 2020

OPPORTUNITY DESCRIPTION: Attract established international e-commerce players to setup regional HQ in KSA and maximize localization across the value chain

DEMAND



INVESTMENT OVERVIEW

INVESTMENT HIGHLIGHTS

- Opportunity for global e-commerce players to setup regional HQ in KSA to address GCC market demand and develop Arabic user interface to serve local market
- Investor would need to invest ~USD 58 Mn and would breakeven in 6 years of operations
- Investors can generate cumulative net revenues (from Saudi and GCC) of ~USD 1.7 Bn in KSA and additional ~USD 600 Mn from rest GCC market by 2030 and maintain an EBITDA of ~8%

VALUE PROPOSITION

- Tapping into a relatively low competition and high growth market (~12% CAGR) → opportunity to address local demand and easy access to neighboring GCC market
- Leverage strategic geographic location of KSA (gateway to Africa, Europe and Asia), strong infrastructure (highways and ports) and large-scale investment in mega projects by the government.
- High consumer spending in KSA and the region
- Appetite from local investors to co-invest in Real Estate for fulfillment centers.

KEY DEMAND DRIVERS



- One of the highest internet penetration and mobile usage in the region
- Recently introduced e-commerce law enhance consumer confidence by enabling protection against fraudulent operators, data breach and other malpractices in electronic retail market ecosystem
- Government initiatives aimed at improved digital payments and activating low cost e-commerce enablers further enhance customer base
- Launch of digitization strategy of Saudi Arabia by the government

MARKET OVERVIEW

MARKET READINESS AND COMPETITOR ANALYSIS

- Local E-commerce market is still in its nascent stages and highly favorable for new entrants especially in emerging product categories like grocery and appliances where there are no clear dominant players
- Expedited customs clearance, strong consumer protection laws and easy digital payment gateways lay solid foundation for successful e-commerce business
- Competition is mainly from international marketplace (US, China, etc.)

COMPETITOR ANALYSIS

| COMPANY | DESCRIPTION | MARKET SHARE |
|---|----------------------------------|--------------|
|  noon | Regional operations based in UAE | - |
|  SOUQ | Regional operations based in UAE | - |

GLOBAL TRENDS

- Higher dependency on digital payment channels
- Increased localization of value chain – fulfillment centers to last mile delivery
- High popularity of social media (Facebook, Twitter) creating new point of entry for e-commerce sites
- Global retail e-commerce sales reached ~USD 3.3 Tn in 2019 representing ~13% of the total retail sales revenues

SUPPLY

SCALABILITY AND LOCALIZATION

Grade: Low Medium High

- Strong localization potential through a regional HQ in KSA focusing on Arabic content, warehousing and logistics for the regional
- Strategic location of KSA in the center of GCC, gives an advantage to receive international shipments and serve rest of the market

IMPORT DEPENDENCY

- High import dependency due to most service providers currently serving KSA market through regional operations based in UAE

ECOSYSTEM ANALYSIS

Central platform development and related function



Minimal localization scope

Product design tailoring and integration



Localize Arabic development and integration efforts

Customer and merchant acquisition



Localize regional operations (product mix, advertising,...)

Warehousing and logistics



Build local logistics capabilities

Customer analytics and loyalty



Use of advanced data analytics for regional business intelligence

Customer care



Deploy Arabic speaking customer relationship agents

KEY STAKEHOLDERS



وزارة التجارة والصناعة
Ministry of Commerce and Industry



وزارة الاستثمار
Ministry of Investment



مينة الاتصالات وتقنية المعلومات
Ministry of Communications and Information Technology



National Industrial Development and Logistics Program



الجمارك السعودية
SAUDI CUSTOMS

ENABLING FACTORS

ENABLERS

- Rigorous training programs for upskilling local talent
- Customs reforms introduced to lower market entry barriers for international players
- Licensing process streamlined for enabling strong e-commerce infrastructure
- Advanced technology ecosystem with multiple available online payment solutions

COST OF DOING BUSINESS IN KSA

| Factor | Ranking amongst regional peers |
|-------------------------------------|--------------------------------|
| ICT Access Index (1 – 10) | 7.4 |
| ICT Use Index (1 – 10) | 6 |
| Purchasing Power Parity | \$55 K |
| Logistics Performance Index (1 – 5) | 3.2 |
| Customs Clearance Index (1 – 5) | 2.7 |

Bottom 25% | Top 75% | Top 50% | Top 25%

DEFINITIONS

| # | SCORECARD SECTION | DEFINITIONS |
|----|--------------------------------------|---|
| 1 | Market size | Size of market in value/volume in KSA and/or Region (MENA/GCC) covering future projections based on available estimates from published /government sources |
| 2 | Demand drivers | A select number of factors that will influence future demand for the related product/service |
| 3 | Investment highlights | An overview of key financial metrics summarizing the investment opportunity along with the expected return based on the suggested investment size |
| 4 | Value proposition | Summary of key differentiators that position KSA as a strategic choice over other regional/global peers |
| 5 | Market readiness | An overview of KSA market structure, market maturity and level of participation by local and global players |
| 6 | Competitor analysis | List of the local & international players manufacturing the underlying product in Saudi Arabia and their market share |
| 7 | Global trends | Latest business developments within the sector/product category |
| 8 | Scalability and localization | Ease of scaling the business across the value chain or into new adjacent products or geographies that would maximize the opportunity's investment returns and the ability and potential to locally manufacture the product and its components |
| 9 | Import dependency | An overview of the countries from which Saudi Arabia is importing the product and their value/volume and share in total imports |
| 10 | Value chain analysis | The process or activities that would potentially need to be carried out to deliver the underlying product or service |
| 11 | Key stakeholders | Government institutions, organizations, and/or authorities that participate or influence the market for the underlying product/service |
| 12 | Enablers | Factors that enable investment in the underlying opportunity |
| 13 | Cost of doing business in KSA | Key factors that position KSA as a competitive destination for investment in the region |

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The logo icon consists of a stylized green tree with three horizontal branches and a vertical trunk, with a small 'X' shape at the bottom right of the trunk.