Souq.com: Amazon's Entry into the Middle East

CASE STUDY

Since its founding in 1994, Amazon has proved itself to be one of the few e-commerce companies to not only have survived the dot-com bubble of the 2000s but also successfully expanded into several global markets. Based in Seattle, Washington, Amazon's e-commerce business has spread to more than 60 countries. Its globalization drive started in 1998, when it acquired UK-based Bookseller, Ltd. and Germany-based Telebook, Inc. Both of these ventures eventually resulted in Amazon's country-specific websites outside the United States, amazon.co.uk and amazon.de. Currently, besides the United States, Amazon has dedicated websites for a number of countries in local languages, including Australia, Brazil, Canada, China, France, Germany, India, Italy, Japan, Mexico, the Netherlands, Spain, Sweden, Turkey, and the United Kingdom.

Amazon has been relying on various horizontal and vertical integrations to successfully achieve its diversification ambitions. The company has employed an attack growth strategy by leveraging its strengths, such as its global brand image, strong IT infrastructure, robust distribution channels, and long-lasting partnerships. While Amazon has emerged as a global brand, until recently, its presence in the developing and emerging economies was limited to remote operations only, with the exception of China, Brazil, India, Mexico, and Turkey.

The Middle East, especially the Gulf Cooperation Council (GCC) countries—Bahrain, Kuwait, the United Arab Emirates, Saudi Arabia, Qatar, and Oman—have great e-commerce potential due to the high penetration of the Internet and social media. By 2025 it is estimated that there will be 60 million 5G users across the region, accounting for some 8 percent of all Internet connections. Use of smartphones and social media in the United Arab Emirates and Saudi Arabia is among the highest in the world. Most of the online customers in the GCC region prefer smartphones for their Internet searches and fulfillment of orders. Though e-commerce is an emerging phenomenon in the GCC countries, it has great potential; e-commerce revenues rose to $19.7 billion in 2020 and are projected to reach as much as $50 billion by 2025. The growth between 2020 and 2022 is estimated at an annual rate of 20 percent, followed by an annual increase of 14 percent until 2025.

Another important development in the GCC region is the recognition that the region needs to look beyond oil. This is a major shift in government policy, and the United Arab Emirates and Saudi Arabia are investing heavily in innovative technologies and infrastructure to help develop regional capabilities that will lead to knowledge-based products and services. This has provided an opportunity to many global companies to invest in these areas. In 2017, Amazon entered the market by acquiring Souq.com, which has the highest e-commerce market share in the region. Entering the Middle Eastern market was not a straightforward decision; unlike many of the Western countries Amazon had already entered, the Middle East has not only unique social, legal, economic, political, and technological conditions but also different customers, competitors, intermediaries, and suppliers. Applying the same business model it had used before would not return the same results. An understanding of the local environment was crucial.

Headquartered in Dubai, Souq.com was established as an auction site in 2005 by Ronaldo Mouchawar, its CEO and cofounder. It has emerged as a major online retail and marketplace platform in the Middle East and attracts more than 11–20 million unique visitors and 50–100 million page views every month. At the time Souq.com was established, the region was hardly ideal for e-commerce, not only because of a lack of infrastructure and low broadband Internet penetration but also due to low awareness of e-commerce among consumers, who saw high risks in e-transactions and were generally mistrustful of online stores. Nevertheless, with a population of more than 100 million, the majority of whom were young, tech-savvy potential customers, the region had great potential for e-commerce.

After a steady start as an auction website, Souq.com saw rapid growth as an e-commerce marketplace. Realizing the potential of m-commerce, Souq.com launched its app in 2012, which further boosted Souq.com's business. According to Mouchawar, more than 70 percent of Souq.com's transactions were carried out by mobile phone.

Souq.com currently has its operations in seven countries, including Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. It has country-specific websites for Kuwait, Egypt, Saudi Arabia, and the United Arab Emirates in Arabic and English.

There were other barriers to penetration into the Middle East market: the region consists of many countries with relatively small populations, and each of these countries has its own laws and regulations. Other problematic areas include modes of payment, on-time and accurate delivery, and language barriers.

In contrast to Western countries, where credit cards and PayPal are popular modes of payment for online shoppers, over 70 percent of e-commerce customers in the GCC prefer to pay cash on delivery. This is even true in the United Arab Emirates, where credit card penetration is higher than other GCC countries and is almost the same as in most Western countries. This problem was especially pronounced at the time in Saudi Arabia and Egypt, yet both of these countries offered a large number of potential customers. Souq.com overcame this barrier by offering multiple payment options to its customers, including cash on delivery, Sadad (a payment system linked with bank accounts), and credit or debit cards. Moreover, to address the limitations of cash on delivery such as delayed payments to the merchants, Souq.com introduced an efficient software solution linking merchants and couriers. This system helped Souq.com to record the payments received by the courier agents and swiftly transfer them to the merchants' accounts.

Another major obstacle was establishing a seamless delivery network to deal with outbound logistics. Making this task even more complicated was the fact that most of the countries in the GCC region do not have postal codes; various landmarks were commonly used instead to reach customers. Efficient management of outbound logistics is especially important when dealing with cash-on-delivery, as any delays in the sell side of the supply chain will result in delayed payments to the merchants, thus placing an additional burden on them. Souq.com established its own delivery network in several major cities in the Middle East by launching Q-Express as its logistics arm, thus avoiding the delays caused by third-party courier services. Q-Express uses Google Maps with GPS-enabled mobile devices to deal with the mailing address problems and to ensure on-time product delivery. Currently, more than 80 percent of Souq.com's customers are served by Q-Express, and it is now also offering delivery services to third parties.

Souq.com's major pureplay competitors (that is, companies with only an online presence) in the Middle East e-commerce include Noon.com, Wadi.com, and Namshi.com. However, several brick-and-mortar retailers such as Carrefour and Lulu Hypermarket are also adding online platforms to support their traditional stores and to augment their revenues.

Amazon faced a number of options while expanding into the Middle East: it could have entered the market on its own, sought an alliance, or acquired a local company with significant experience of the local environment. Amazon opted for the latter mainly due to Souq.com's large customer awareness, strong customer base, and integrated payment and distribution channels. Since its acquisition by Amazon, the mix of Amazon's global and Souq.com's local experience has provided a significant advantage over their competitors. Mouchawar has stated that working together makes it easier for Amazon and Souq.com to diversify their online business in the Middle East than if they had worked separately. In 2019, Amazon launched its official site in the United Arab Emirates, replacing Souq.com. A year later, in June 2020, the official launch of Amazon Saudi Arabia was announced. All traffic to the Souq website is now redirected to the Amazon site, allowing customers to choose products from an array of local and international businesses, including companies at the American Amazon store.

E-commerce sales in the Middle East account for less than 5 percent of retail sales, in contrast to over 10 percent in Europe. Hence, there is significant room for expansion for e-commerce in the Middle East, and by leveraging their combined strengths, Amazon and Souq.com seem well positioned to lead the way.

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CASE STUDY QUESTIONS

15-12 Analyze challenges and opportunities for global companies like Amazon that seek to enter the Middle Eastern market.

15-13 Considering the Middle East's e-commerce environment, did Amazon make a sensible decision by acquiring Souq.com?

15-14 How sustainable is Amazon's strategy of diversification? Can an entry into the Middle East help Amazon enter other emerging markets with a similar environment?

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