April 2018

The Online Shopper - KSA:

Uncovering Trends In The E-Commerce Landscape

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Research Methodology

This report is based on the below surveys conducted by Ipsos in Saudi Arabia:

Tech Tracker Survey

A yearly multi country tracker that aims to shed light on users digital behavior – which also includes an understanding of users' ecommerce behavior.

Face to Face surveys with **1000 individuals** residing in Saudi Arabia (Nationals & Arab Expats)

A Nationally Representative Sample, aged 15 years and above

Online Shopper Understanding Study

A multi country research effort carried out in order to shed light on consumers' shopping behavior across both online and offline channels.

Self administered **online** surveys with **1000 consumers** residing in Saudi Arabia (Nationals, Arab & Other Expats)

Representative Sample of recent purchasers of at least one category of interest (Groceries, Beauty/Personal Care, Apparel, Electronics), aged 15 years and above.

The Saudi Online Shopper:
Uncovering Trends in the E-commerce Landscape

KSA E-Commerce Landscape in a Nutshell

Backed by its young and tech savvy population, Saudi Arabia is ideally positioned to witness growth in e-commerce. In fact, what initially started as a trend that is mostly exclusive to a more affluent segment is slowly becoming adopted by a wider and less affluent audience.

The proliferation of e-commerce in the country was in large part assisted by the advent of cash on delivery as a payment option. With the limited number of credit cards among key target segments (namely females, the youth, and lower socio-economic classes), the adoption of the cash on delivery payment model has facilitated the growth of e-commerce in the Kingdom.

That being said, the current online payment infrastructure in the country has also been witnessing changes characterized by the emergence of various digital payment means. Players like PayPal and CashU offer shopper easy and secure payment options further facilitating e-commerce for the eager Saudi e-shopper.

People are also embracing e-commerce due to cost and time implications. For the savvy shopper, online channels give access to a world of offers and promotions that make online platforms a more appealing option when compared to instore channels. Not only that, but e-commerce also provides them with the convenience of shopping at the comfort of their own homes at whatever time that best suits them.

On the other side of spectrum, there are still some inherent challenges that stand in the way of the growth of online shopping in the country. Many are still weary about the trustworthiness of online channels especially when it comes to their portrayal of their offerings online. This is especially cumbersome due to high delivery fees and the difficulty of the return process associated with online purchases. Additionally the heavy reliance on postal addresses when it comes to the delivery of goods presents itself as an issue. With that in mind, the current implemented system makes it more difficult to get products to consumers quickly and efficiently – further hindering e-commerce especially in situations where urgency plays a crucial role.

As a result, online shopping is more popular in shopping occasions where urgency is not a main concern. Shoppers are resorting to online channels in situations where speed is not a priority – and the quest for a good deal justifies a delay in the product acquirement. Furthermore, with shoppers in Saudi following a premeditated approach to brand choice both offline and online- it also becomes increasingly more important for e-retailers to be comprehensive in their brand offerings

Finally, while the initial growth of e-commerce was driven by the purchase of specific categories, such as fashion, online travel and accommodation bookings, and specific high-ticket items, the next drivers of growth will be everyday items such as groceries and personal care products, which are the focus of this report.

Chapter I: The Growth of E-Commerce in Saudi Arabia

Saudi Arabia is Perfectly Poised for the Growth of E-Commerce

The MENA e-commerce market is amongst the fastest growing in the world with the growth being predominantly lead by the GCC region. Amongst the strongest contenders on that front is Saudi Arabia. Fueled by its predominately young and tech savvy population, Saudi Arabia positions itself as a great platform for exploring omnichannel opportunities.

Why Companies Should Pay Attention to KSA:

Population Size

KSA is the largest of the GCC countries and is home to 31 million people, with nationals constituting the majority of the population, making it the most attractive market for the growth of e-commerce.

Youthful Population

The country is characterized by its young population who are extremely connected and technologically savvy.

Affinity to Technology

Saudis are also often the leading forces behind the growth of technological trends in the region thereby facilitating the adoption of e-commerce within the country.

High Spending Power

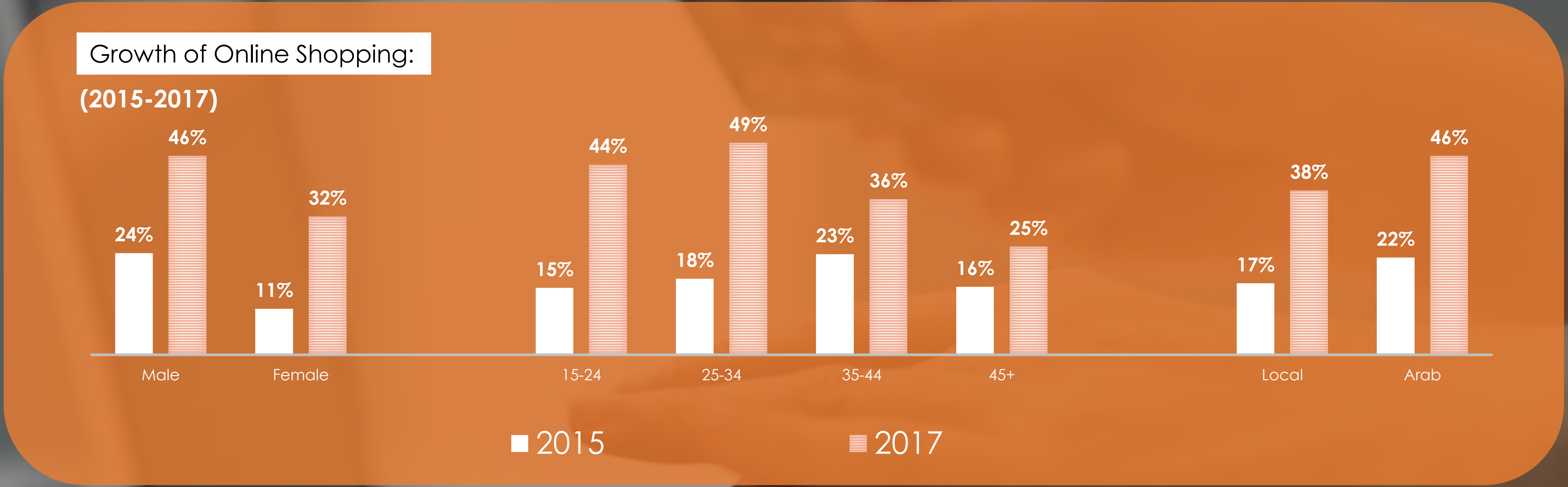
The World Bank ranks Saudi Arabia in its top 20 richest countries by spending power, thus providing lucrative opportunities for pursuing omnichannel ventures.

Online Shopping Has Already Been on The Rise and is Showing No Signs of Slowing Down

While KSA has yet to harness the full potential offered by e-commerce, a sizable portion of its population has in fact already explored online shopping platforms. Furthermore, the trend has been growing rapidly with online shopping doubling over the last two years.

While Males Continue to Dominate, Other Segments like Females and Millennials Are Also Surging Ahead

While online shopping is growing at a fast rate amongst all demographic segments, the fastest growing segments are females and millennials, both growing almost three-fold in the last 2 years, while the older age groups lag behind.



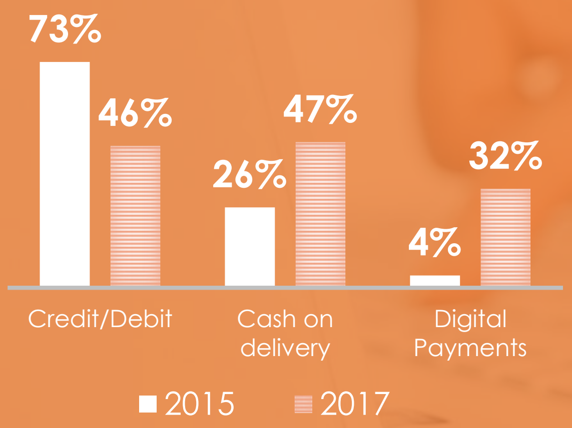
Chapter II: The Evolution of Online Payments

Cash on Delivery Has Facilitated the Proliferation of E-commerce Amongst a Wider Audience

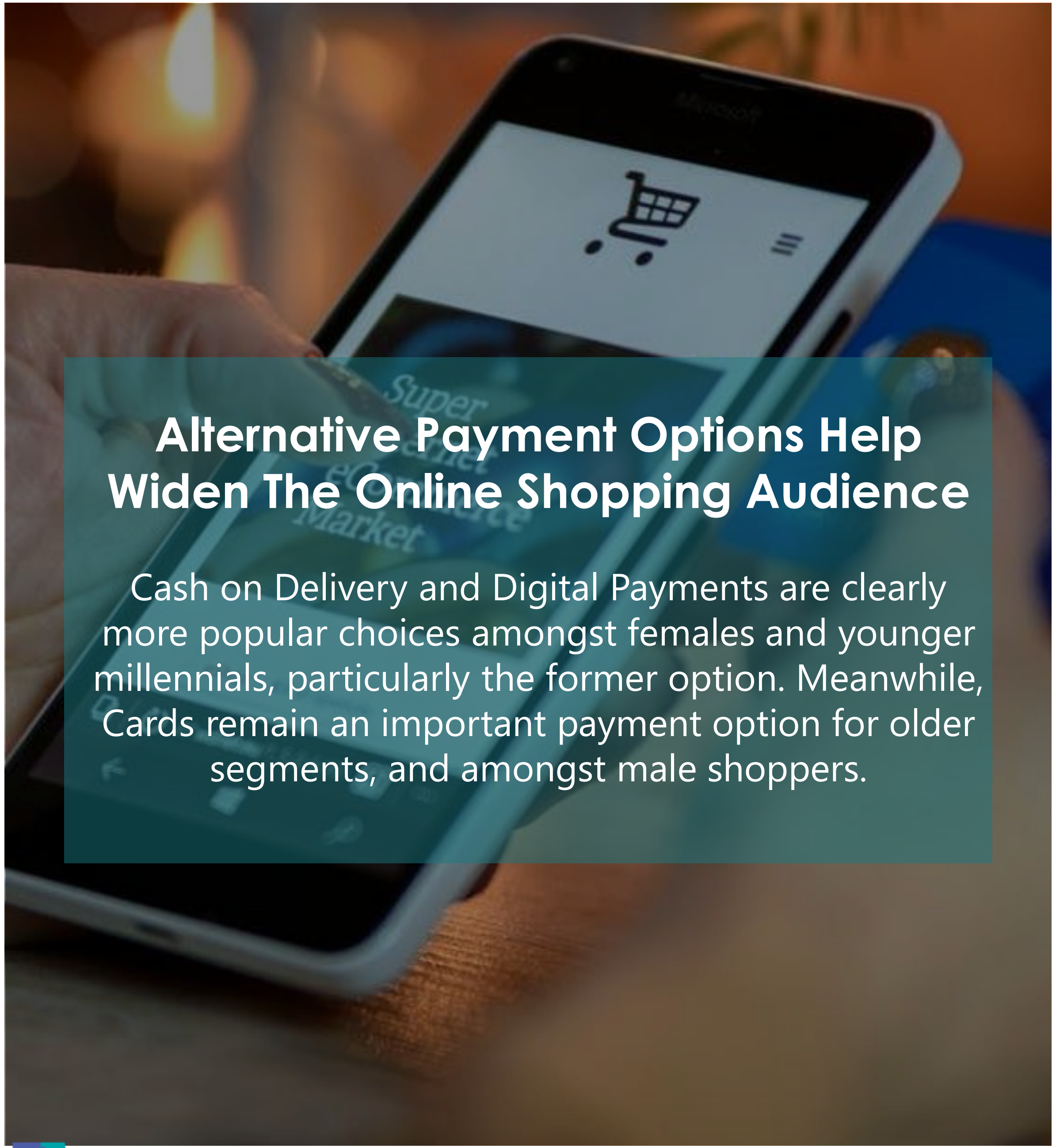
Methods of Payment:

46%	47%	32%
Cards	Cash on Delivery	Digital payments

Method of Payment:



While e-commerce was initially mostly restricted to shoppers who own credit/debit cards, the introduction of alternative payment methods has contributed heavily to the growth of online shopping. With the relatively low penetration of credit cards among certain segments, alternative payment methods have filled the gap, making online shopping more accessible to wider segments of society. As the pool of online shoppers grows, the share of credit/debit cards has decreased, with more of the new comers opting for Cash or Digital Payment options.



Alternative Payment Options Help Widen The Online Shopping Audience

Cash on Delivery and Digital Payments are clearly more popular choices amongst females and younger millennials, particularly the former option. Meanwhile, Cards remain an important payment option for older segments, and amongst male shoppers.

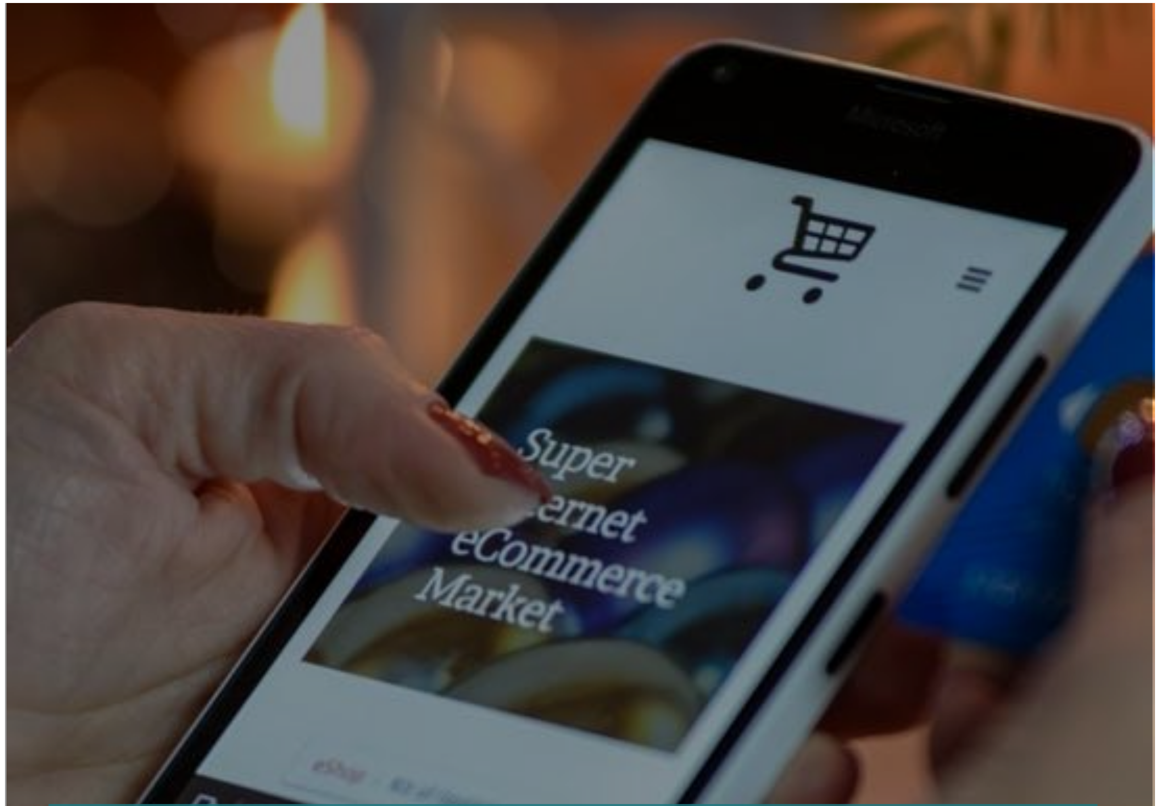
Method of Payment:

Card Payments	Cash on Delivery	Digital Payments
46%	47%	32%

Method of Payment By Demographics:

	Card Payments	Cash on Delivery	Digital Payments
Male	**52%**	44%	**36%**
Female	37%	**52%**	25%
15-24	40%	**50%**	**36%**
25-34	49%	46%	29%
35-44	49%	45%	28%
45+	**64%**	33%	20%
Local	46%	**49%**	32%
Arab	45%	39%	30%

Chapter III: The Pros and Cons of Online Shopping

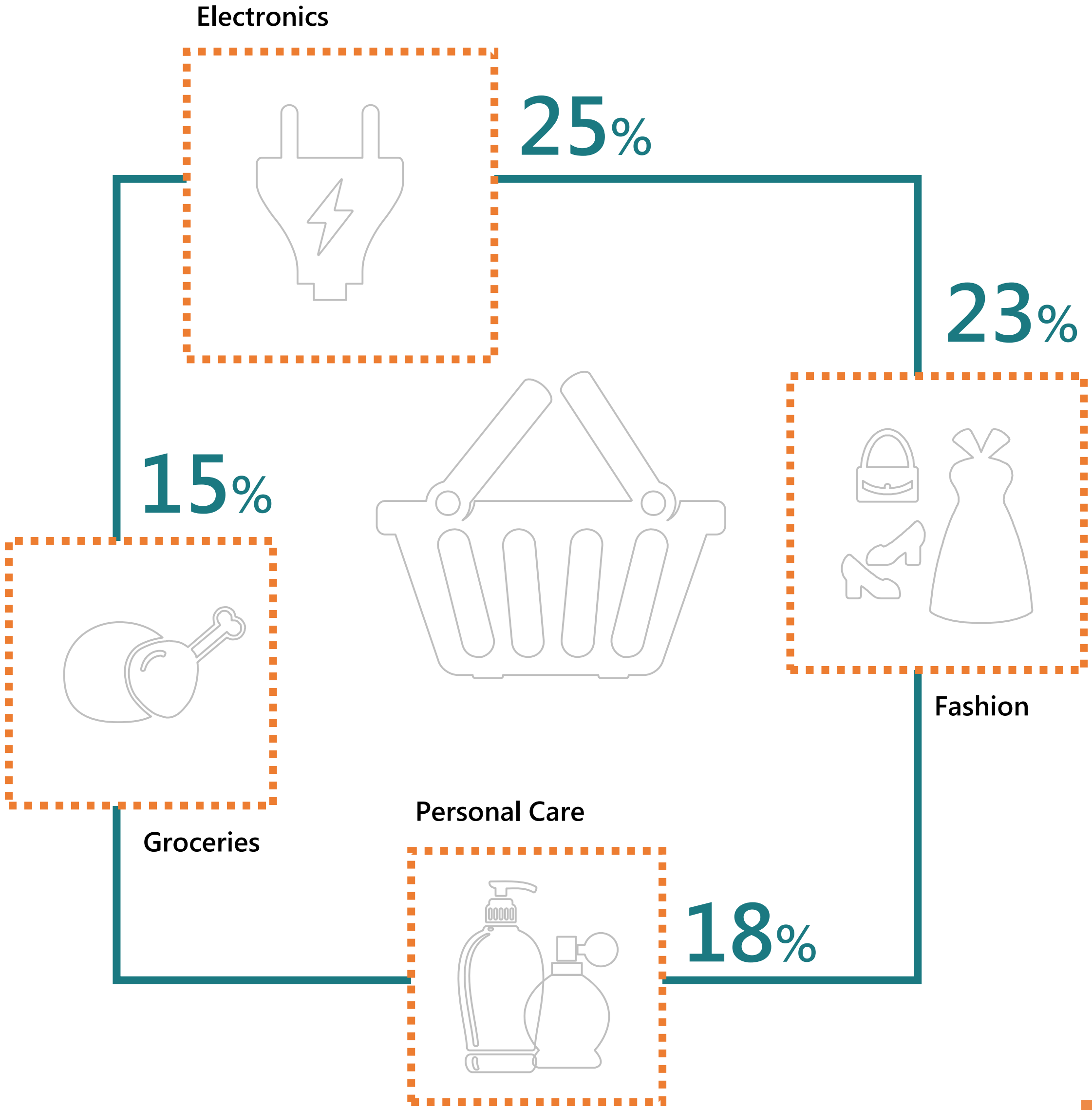


Online Shopping is Gaining Traction Across Various Categories

The Growing popularity of Online Shopping Channels coupled with the availability of convenient payment methods has lead to the rise of e-shopping, opening up doors across a multitude of different categories which historically had little online activity, such as groceries and personal care items.

Penetration of Online Shopping:

-By Category



The Driving Forces Behind the Growing Popularity of Online Channels is Their Ability to Save Shoppers Time & Money

Price related factors play a significant role when it comes to enticing online purchases across various categories. For Apparel specifically, shoppers believe that the products offered online tend to be priced more competitively while electronics on the other hand tend to have more promotions. Another crucial factor in favor of online shopping is the convenience which allows shoppers to cut down on time, and shop at any time of the day.

Reasons For Shopping Online:

	GROCERIES	PERSONAL CARE	FASHION	ELECTRONICS
Better Deal	32%	26%	51%	32%
Online Sale	29%	33%	33%	40%
Online Only Coupon	13%	7%	21%	5%
More Convenient	32%	35%	43%	37%
Can Shop at Any Time	29%	30%	35%	40%
Saved Time	8%	17%	20%	18%
Buy Online & Pick Up in Store	8%	9%	8%	4%
Ships Gifts Directly	5%	7%	10%	10%
Low Cost/Free Shipping	21%	30%	28%	26%
Fast Shipping	13%	11%	16%	19%
Read Online Reviews	21%	26%	29%	33%
More Information Online	11%	17%	22%	19%
Safe Payment Method	21%	17%	22%	23%
Product Only Available Online	13%	20%	20%	19%
More Products Online	11%	26%	17%	19%
Product Not Available in Stores Near me	3%	6%	9%	17%

For Online Shopping to Grow Further:
Shoppers Need to Be Granted Higher Levels of Speed & Convenience

For shoppers, having the chance to examine the product firsthand is an essential component of the decision making process. In some cases shoppers are wary of the trustworthiness of online websites in accurately portraying the products available. Furthermore, delivery fees associated with online shopping coupled with the complexity of the return process reinforces the need of having firsthand experience with the product. In addition, urgency often times also acts as a deterrent to online shopping, especially for groceries or personal items, in which case convenience is paramount and the nearest store is the best option.

Barriers to Online Shopping:

	GROCERIES	PERSONAL CARE	FASHION	ELECTRONICS
Need to Examine the Product	28%	29%	42%	38%
Limited Availability of Products Online	11%	10%	9%	10%
Don't Consider Online Shopping	13%	10%	12%	12%
Impulse Buys in Store	12%	15%	12%	12%
Prefer Instore Asssitance	9%	10%	11%	15%
Prefer to Support Local Business	6%	7%	7%	6%
Need the Item Immedietly	36%	36%	24%	31%
In-store returns are easier	24%	26%	29%	28%
Complex Process	10%	10%	10%	7%
Lack of Information	9%	11%	13%	11%
Lack of Trust	17%	19%	18%	18%
Security Concerns	11%	13%	11%	13%
Fear of stolen credit card	9%	8%	10%	12%
Shipping Payments	15%	18%	16%	14%

Chapter IV: Online Shopping Across Major Categories

Groceries

While physical stores still have a major advantage over e-commerce for fast moving goods specifically, the category still presents high potential for growth in the future.

Currently, urgency and quality concerns act as major barriers to the growth of e-grocery. As such, growth of the category is contingent on retailers ensuring fast delivery for high quality and fresh products.

Shopping for Groceries
By Demographics:

Male	14%
Female	16%
18-24	15%
25-34	14%
35-44	16%
45+	15%

Sub Categories Shopped For:

Fresh Food
7%

Dairy Products
4%

Hot Drinks & Soup
4%

Beverages
4%

Breads & Breakfast
3%

Biscuits & Confectionary
2%

Oils & Vinegar
2%

Salty Snacks
2%

Dry Food
2%

Personal Care

Unsurprisingly, purchases of personal and beauty care items online is predominantly lead by females and slightly more widespread amongst the older demographic. That being said, purchases done within this category are mostly geared towards beauty items as opposed to personal care products. Often within this category, the variety of items available online coupled with the offers available make e-commerce a very attractive option.

Shopping for Personal Care
By Demographics:

Male	14%
Female	24%
18-24	15%
25-34	18%
35-44	17%
45+	20%

Sub Categories Shopped For:

Make-Up, Nail Polish
5%

Skin Care Products
5%

Haircare Products
4%

Deodorant/ Perfume
4%

Shaving Products
4%

Soap, Shower & Bath
3%

Female Products
2%

Oral Care Products
2%

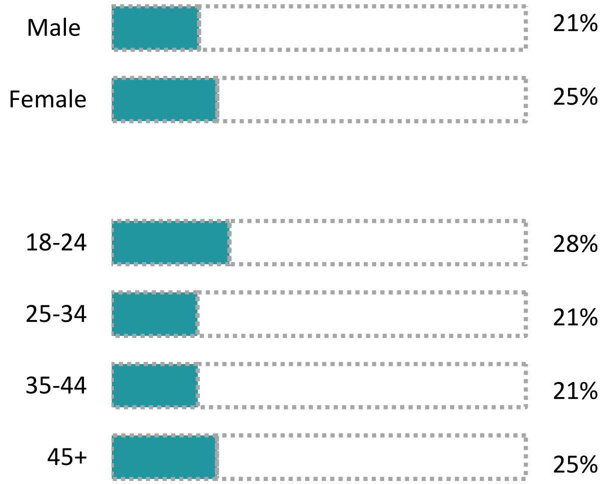
Baby Products
1%

Sunscreen Products
1%

Fashion

When it comes to online shopping for fashion – men and women are equally interested. The appeal of resorting to online platforms when it comes to this category is primarily rooted in the convenience and cost savings offered by online channels.

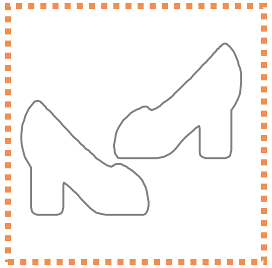
Shopping for Fashion:
By Demographics:



Sub Categories Shopped For:

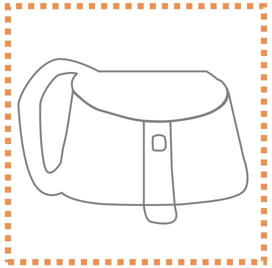
Clothing

15%



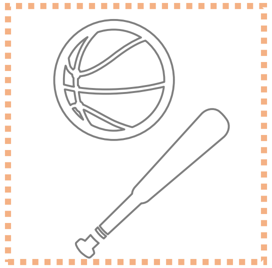
Shoes

9%



Accessories

9%



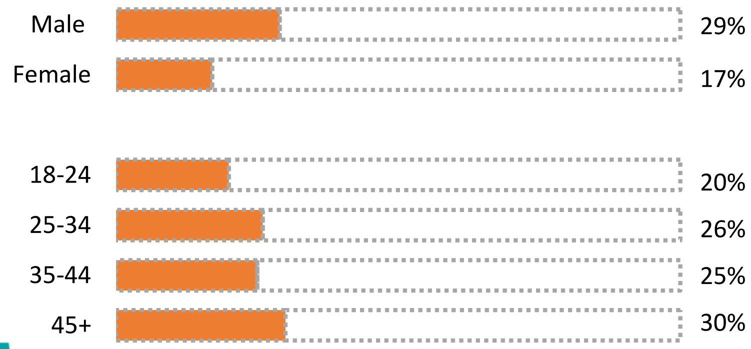
Sporting Gear

2%

Electronics

Online shopping for electronics is primarily driven by males and older demographics. That said, most purchases within that category revolve around personal electronics as opposed to household items, with handsets and computers taking the lead.

Shopping for Electronics
By Demographics:



Sub Categories Shopped For:

Telephone	9%
Computer	6%
TV & Audio	5%
Computer Accessories	4%
Tablet	4%
Small Electric Appliances	4%
Large Electric Appliances	3%
Gaming Consoles	2%

Chapter IV: Brand Choice in Online and Offline Channels

Shoppers Tend to have a Premeditated Approach to Brand Choice

Given the proliferation of online shopping channels it becomes more important to uncover differences in behavior that prevail in online channels versus an in-store environment.

However, prior to delving into such differences, a crucial distinction that needs to be made when it comes shopping behavior is whether brand choice is a premediated activity or mostly inspired at the moment of truth - i.e. when the shopper is actually making the purchase.

With that in mind, on an overall level, shoppers in Saudi Arabia are more likely to act as finders across all categories, especially when it comes to smaller purchases like groceries or personal care items.

Finders vs Deciders

Overall Category Averages (Online + Offline Purchases)

	Deciders	Finders
Groceries	40%	60%
Personal Care	37%	63%
Fashion	48%	52%
Electronics	47%	53%

Deciders

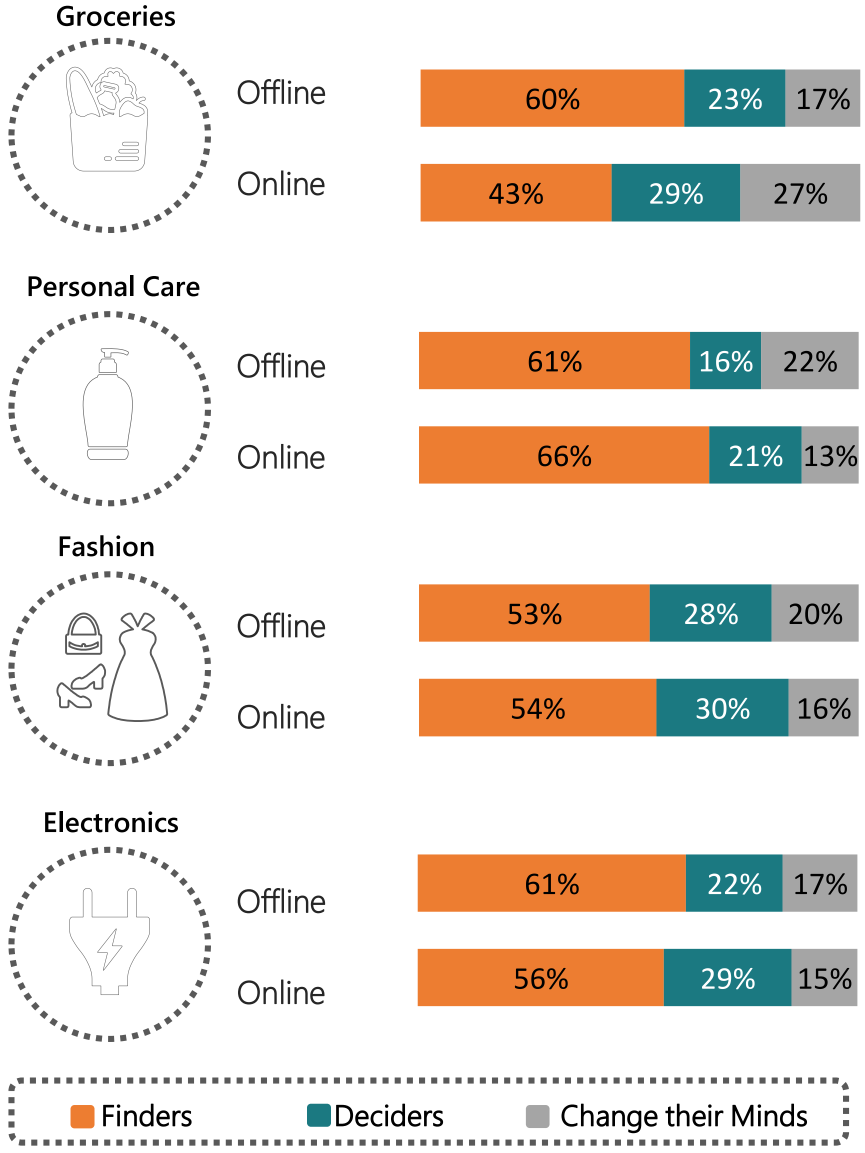
(Those who Decide on the Brand when making the actual purchase decision)

Finders

(Those who decide on the brand prior to going to the store/visiting the website)

And the Same Holds True Whether Online or Offline

Shoppers in Saudi are more likely to act as finders across all categories across both online and offline channels. With that said, in the case of groceries and electronics, online shopping could be a slightly more spontaneous affair, while the opposite holds true for personal care items.



Chapter IV: Shopping Occasions That Drive The Growth of Online Channels

Need Based Purchases Are Less Likely to Drive Online Purchases

On an overall level, purchases across all categories are often triggered by need. However, purchases for food and personal care items are more likely to be done as part of a bulk buying shopping trip while items that are purchased on a less frequent basis, such as clothing and electronics, are more likely to be bought while window shopping or during sales season.

It is worth noting that the prominence of need based shopping occasions across multiple categories can act as a deterrent to online shopping. Shoppers are less likely to resort to online channels given the urgency associated with getting the product as seen earlier. This especially holds true when it comes to grocery or personal/beauty care purchases. The following slides will shed light on occasions that drive up online purchases across the various categories.

Shopping Missions By Category

	Groceries	Personal Care	Fashion	Electronics
Needed a Specific Product	32%	34%	33%	32%
Browse/ Entertainment	20%	18%	28%	28%
Major stock-up	14%	13%	2%	3%
Top-up	14%	9%	3%	3%
Promotion	12%	11%	15%	17%
Other	8%	14%	20%	16%

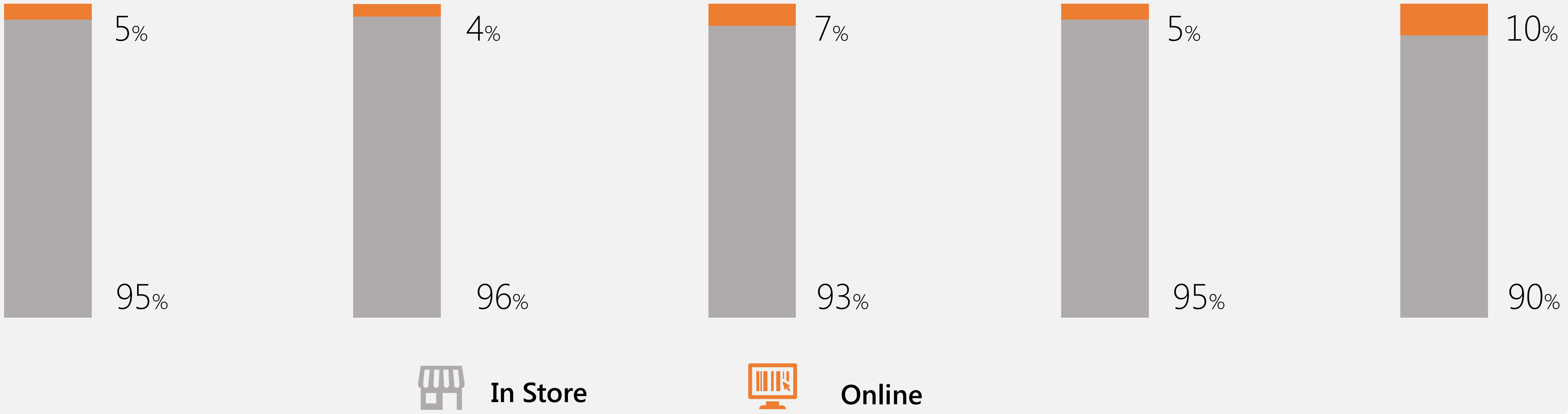
Online Shopping by Mission – *Groceries*

Online purchases of grocery items are more likely to take place if the shopper's main mission is to browse available products. Otherwise, the remaining missions are predominantlyy more likely to take place in store.

Shopping Missions:

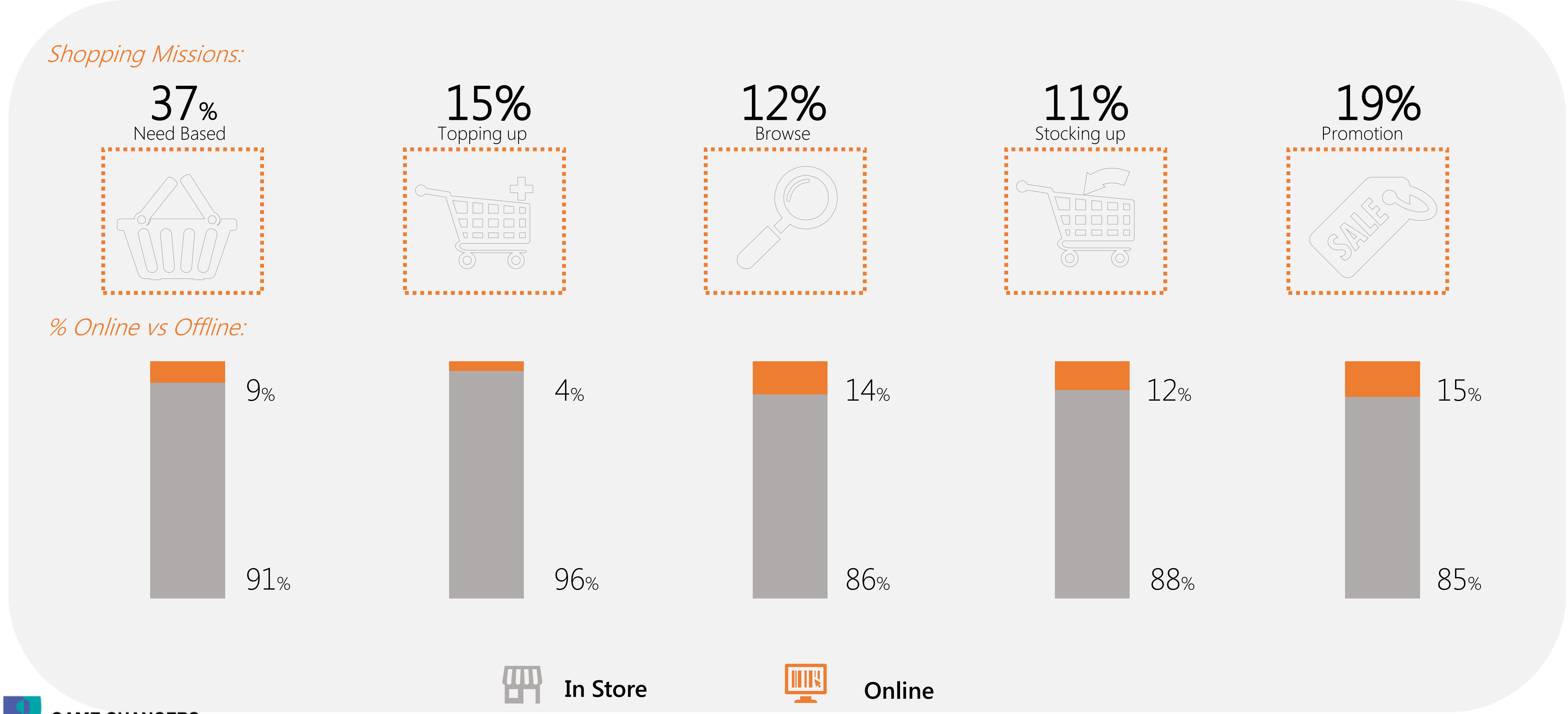
32%	18%	16%	12%	11%
Need Based	Stocking Up	Topping Up	Promotion	Browse

% Online vs Offline:



Online Shopping by Mission- *Personal Care*

Shoppers are more likely to purchase personal items online when the initial shopping mission is scouting for promotions, or browsing products. Shoppers will sometimes also rely on online platforms when they are stocking up on such items.



Online Shopping by Mission - *Fashion*

The occasions in which shoppers are most likely to purchase apparel online are when they are browsing on various websites or when they come by a promotion or a special discount.

Shopping Missions:

32% Need Based

18% Browse

16% Promotion

12% Special Occasion

11% Coincidence/Unplanned

% Online vs Offline:

13%
88%

9%
91%

14%
86%

6%
94%

24%
76%

In Store

Online

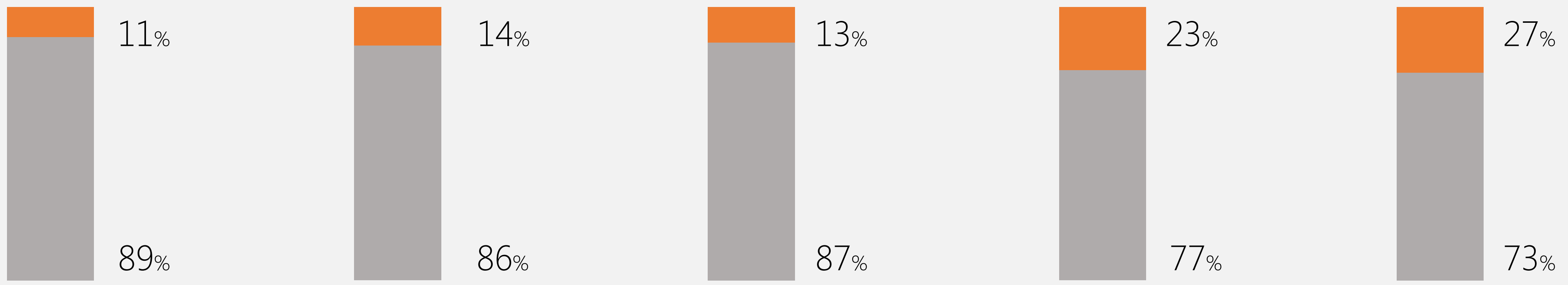
Online Shopping by Mission – *Electronics*

Online purchases for electronics are likely to take place across a multitude of shopping occasions when compared to other categories, with special occasions and browsing online the most likely occasions to entice online purchases.

Shopping Missions:

35%	24%	13%	13%	8%
Need Based	Browse	Promotion	Special Occasion	Coincidence/Unplanned

% Online vs Offline:



In Store

Online

Key Takeaways

Key Takeaways

Online shopping has been growing at a rapid pace in Saudi Arabia, driven primarily by the growth of alternative payment methods, allowing key shopper segments (such as females and youth) higher accessibility. Wider availability of alternative payment options remains an important element for e-commerce growth.

Offers and promotions are the primary criteria propelling shoppers towards e-commerce, especially in categories where urgency does not play a determining role in the decision making process. This has become a key expectation of online shoppers, and something that entices them to choose online over offline channels to make their purchases.

Shoppers are increasingly relying on online channels for smaller purchases like groceries and personal care products. However, while the convenience of online shopping is a major advantage, retailers must accommodate for the urgency associated with such categories, and ensure speedy and timely delivery options.

Saudi consumers generally follow a planned approach towards brand choice across most categories, both online and offline, understanding the differing spontaneity levels across categories becomes important, with some categories seeing higher impulse purchases online (groceries/electronics), while the opposite is true for others.

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