

Transforming Saudi Arabia into the Middle East's Logistics Powerhouse

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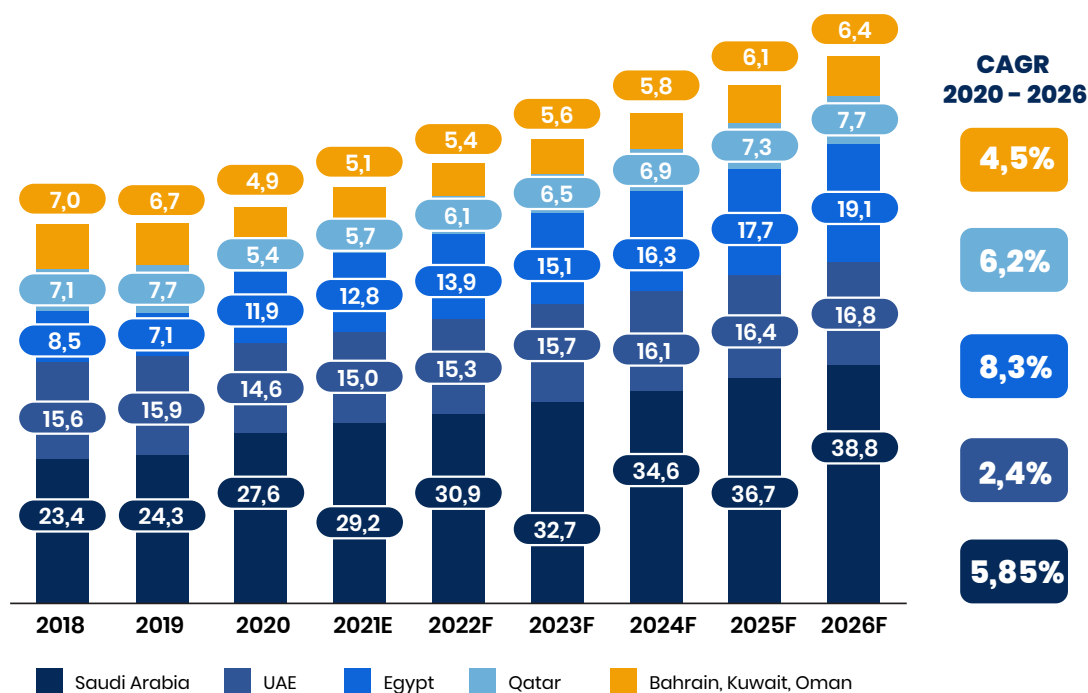
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Executive Summary

Currently, Saudi Arabia's logistics industry has registered a total value of 27.6 billion USD in 2020, which accounts for 43% of the activity within the Middle East and North Africa (MENA) region and the Gulf Cooperation Council (GCC) market.

GCC Logistics Market in Billion USD



Source: YCP Solidiance Research and Analysis

There now lies a great opportunity for Saudi Arabia to expand, grow, and lead the market, with the government and citizens working hard to stand out among the other GCC countries. The country has a strategic location connects the global logistics and transport industry—by land, sea, and air—to more than 3.5 million potential clients worldwide, making the rapid growth of logistics crucial for the Kingdom's future.

While Saudi Arabia already ranks as the 6th most prominent country on the 2021 Emerging Markets Logistics Index, this report aims to tackle the potential ways and opportunities in which the country may leverage their current position to cement themselves as a logistical powerhouse.

For Saudi Arabia to fully capitalize on the unfulfilled potential of their logistics industry, the country may bolster domestic development by focusing on the innovation of three key areas: digitalization, infrastructure, and e-commerce.

Infrastructure



Weak infrastructure that lacks connectivity causes remarkable delays in logistics operations. For this reason, Saudi Arabia is currently renewing its rails and enhancing its marine networks to form a seamless process when it comes to logistics.

Digitalization



Digitalization has enhanced the performance of various industries, including F&B, retail, healthcare, and automotive. Logistics' market share in KSA is remarkable and is expected to grow further once it is thoroughly digitalized, creating a seamless process for various industries to benefit from.

E-Commerce and the Startup Ecosystem



Post-COVID-19 customers have become highly dependent on contactless services as they are faster, cheaper, and more hassle-free. The e-commerce sector in KSA experienced remarkable growth over the past year and is expected to maintain this growth in the upcoming years, as more industries are entering this market.

Part of this is the government's Saudi Vision 2030 program, which focuses on the growth of the overall logistics sector and adds further appeal for investors who act as catalysts while filling gaps and seizing opportunities.

Furthermore, the development of Saudi Arabia's logistical sector can be attributed to increased logistical demand of several sectors (F&B, Pharmaceutical, and E-commerce) during the COVID-19 outbreak; a trend which has also resulted in drastic economic improvement as forecasts predict an overall value of 21 billion USD by 2025.

By continuing to invest on the innovation of these industries, as well as the adoption of digital solutions to overcome pre-existing challenges, Saudi Arabia will hope to build on the promising growth that its logistics sector has produced thus far.



E-commerce, in particular, is helping facilitate the digital acceleration of the Kingdom's logistics sector, as driven by the following key growth factors:

- High purchasing power due to increase in per capita income
- Improved logistics systems through Saudi Arabia's network of land, air, and sea transport
- Rising internet penetration levels and digital literacy

Given the urge to digitalize, the current rapid change in trend, and the massive amount of data stored in logistics operations—the need for Data Analytics, Machine Learning, and Artificial intelligence has become mandatory to accommodate current client needs and expectations. To illustrate, this paper discusses the following case studies of companies that have leveraged the power of technology to be one step ahead of competition in the logistics realm:



Tachyon, a logistics cloud-based platform that has created a one-stop-shop solution to streamline processes for carriers, shippers, and brokers



DIGGIPACKS, the first company in KSA to build an efficient logistics system for e-commerce clients

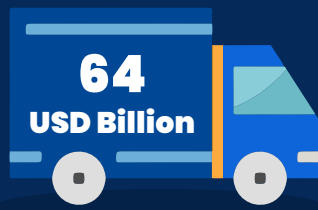


Al Madjdouie, a leading logistics provider that used digital solutions to swiftly adapt to COVID-19 through its integrated warehouse system

The purpose of this white paper is to encourage investors to enter the digital logistics market owing to: its rapid growth, the insignificant pool of competitors, and the broad extent of innovation.

The Logistics Market in GCC and Saudi Arabia

GCC's Transportation
and Logistics Industry
Market in 2020



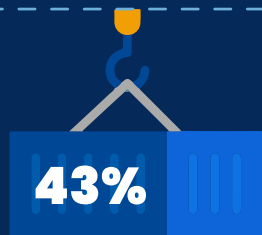
Transport Services



Warehousing

SAUDI ARABIA

The largest
transportation and
logistics market in
both MENA and GCC



OF GCC MARKET, OR
USD 27.6 BILLION IN 2020



Freight Forwarding



Value Added
Services



**Saudi Arabia's Top
Export Partners:**



CHINA



JAPAN



INDIA



SOUTH KOREA



UAE

Industrial Products
(machines, engines and pumps)

USD 28.19 billion

(21.5% of Saudi's total imports)

Vehicles



16.1%

of Saudi's total imports

Chemical Products



13%

of Saudi's total imports

Iron Steel Products



9.7%

of Saudi's total imports

Approximately, 10% of goods shipped to
UAE are destined for Saudi Arabia

Nearly 60% of imported goods in Saudi
Arabia arrive from Asia and the EU

Saudi Arabia is ranked 6th in the 2021
Emerging Markets Logistics Index

What is Driving the Logistics Industry?



Infrastructure



Digitalization



E-commerce

The Logistics Industry in the Gulf Cooperation Council (GCC)



The GCC's logistics industry is a growing segment of the region's economy

The total MENA logistics and transportation market is estimated at USD 92 billion, with the GCC and Egypt accounting for 70% of it at a value of USD ~64.4 billion in 2020. This is due to the growing population base, healthy and robust trade activity, and the fast-growing non-oil economy and planned government investments.



**MIDDLE EASTERN NORTH
AFRICA (MENA)'S
TRANSPORTATION AND
LOGISTICS INDUSTRY
REVENUES**

**~USD 92
BILLION**



70%

**GCC countries
and Egypt**



30%

MENA Region



The GCC's logistics sector is driven by various OPPORTUNITIES...



Future Expectations

- UAE and KSA expect to emerge as frontrunners in technology adoption for custom clearance and port terminal operations.
- Modern warehouses are becoming more automated through the use of robotics, such as autonomous vehicles and drones.



Government Initiatives

- Governments are encouraging the creation of more logistics start-ups.
- Governments are increasing their investment in warehousing, transportation infrastructure, and e-commerce.



Logistics E-commerce

- Low Price of Petrol and Diesel
- Significant infrastructure
- Presence of expatriate workforce
- Railway network expansion
- Growing internet penetration
- Supportive government policies
- Business owners are focusing on increasing productivity and accuracy, and reducing downtime and processing time

... however, it is still facing some CHALLENGES that need to be addressed.



Transportation

- Limited coverage radius due to inefficient road connectivity in desert areas
- Small, unprofessional players dominate
- Road density is way below the world average, especially in the United Arab Emirates (UAE), Saudi Arabia, and Oman.



Politics and Services

- Weak policy formulation
- Low competence and quality of logistics services

The Logistics Industry In Saudi Arabia: An Overview, Growth, and Drivers

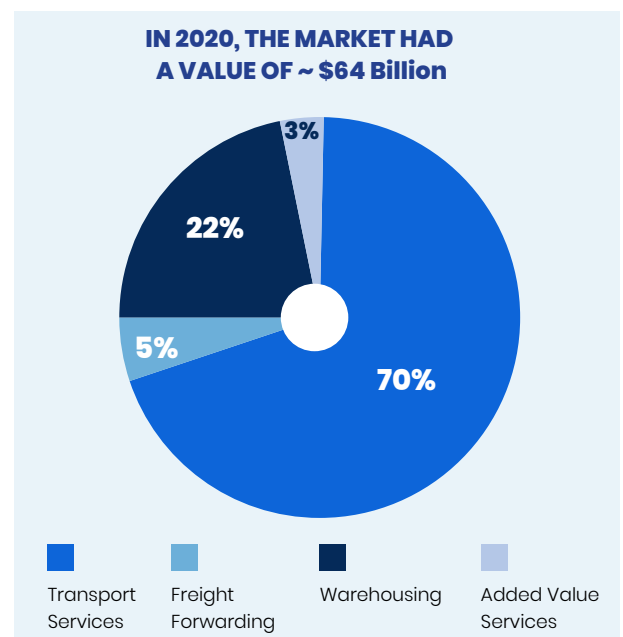
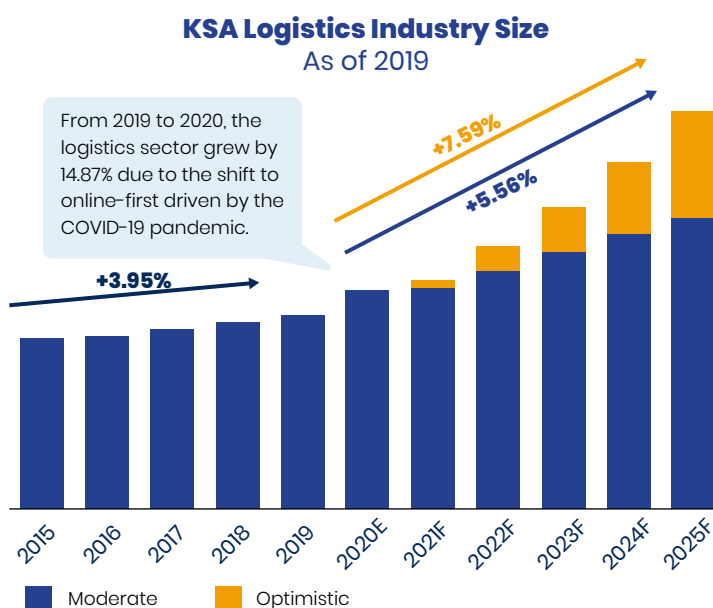
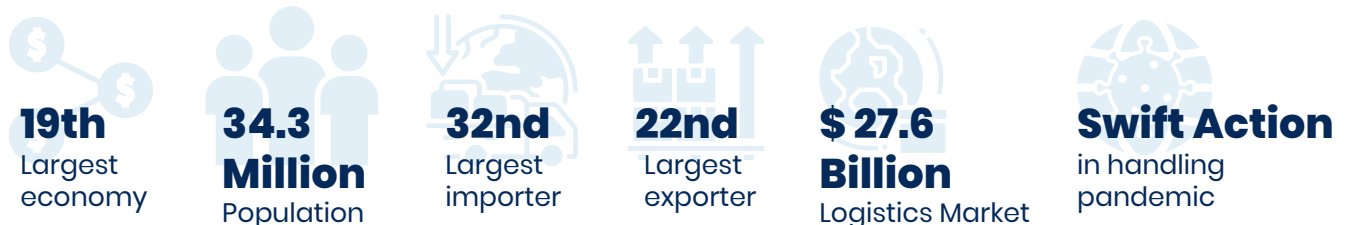


Saudi Arabia is a powerful logistics hub with ample room to grow.

Within the MENA region, Saudi Arabia represented the most extensive transportation and logistics market worth USD 27.6 billion in 2020.

Saudi Arabia's top export partners are China, Japan, India, South Korea, and the UAE, while imports mainly come from the US, China, Germany, Japan, and UAE. The country has a well-established freight infrastructure with high quality and above-average road seaports and air transport infrastructure. There are key players for each function at the logistics market split, from freight forwarding to transportation, warehousing, and final mile delivery. Both the transportation and freight forwarding markets are highly fragmented, with numerous players providing both services. Al Majdouie is a well-established player along with DB Schenker and Kuehne Nagel, while SMSA, Aramex, and Naqel dominate last-mile delivery.

The Kingdom's logistics sector has plenty of room to grow, driven by its unfulfilled potential. KSA's strategic location has always been the center of attention for logistics and supply chain companies. Hence, once "in," companies can benefit from unmatched regional and global exposure to three continents. This strategic location is accompanied by well-established infrastructure which ensures a solid base for all potential investors. Saudi Arabia's ports are located at the forefront of a tactical intersection of the East and West. The infrastructure is further reinforced by integrating ten major ports with rail, road and air networks, giving KSA several natural advantages. KSA also has economic zones that will further extend that advantage and make the kingdom a robust base for strategic opportunities.



Source: YCP Solidiance Research and Analysis

COVID-19 Opens New Market Opportunities for Saudi's Logistics Market

Despite the global economic downfall in 2020, KSA managed to maintain a high financial economic standing. KSA's approach was possible due to the increased demand for F&B, Pharmaceutical, and E-commerce in general. The new e-commerce trend is creating more opportunities and introducing more players, leading to more competitors within the market. In the coming years F&B, Fashion, and Pharmaceuticals are expected to show remarkable growth in innovation and digitalization. COVID-19 has caused the Pharmaceutical and F&B sectors to drastically improve in 2020, expecting a CAGR growth rate of 10% and 6%, respectively, until 2025. In addition, the Oil & Gas and Machinery sectors are considered flat industries with a weak possibility of having new players in the market, as the current market leaders control the industry and leave no place for other players. Furthermore, the Oil & Gas industry is not appealing for e-commerce market players.

















Definitions:

- Relative size of customer pool refers to the rough number of businesses operating in each industry
- Logistics specificity refers to how specialized an industry's logistics freight forwarding, warehousing, and value-added services needs are relative each other. Specificity, in this case, can come in the form of cold chain requirement (food and beverages, pharmaceuticals), specialized tankers (oil and gas), specialized carriers (automotive), or overall warehouse automation

KSA End-User Opportunities

2020 to 2025F, in USD billion

Low  → High 

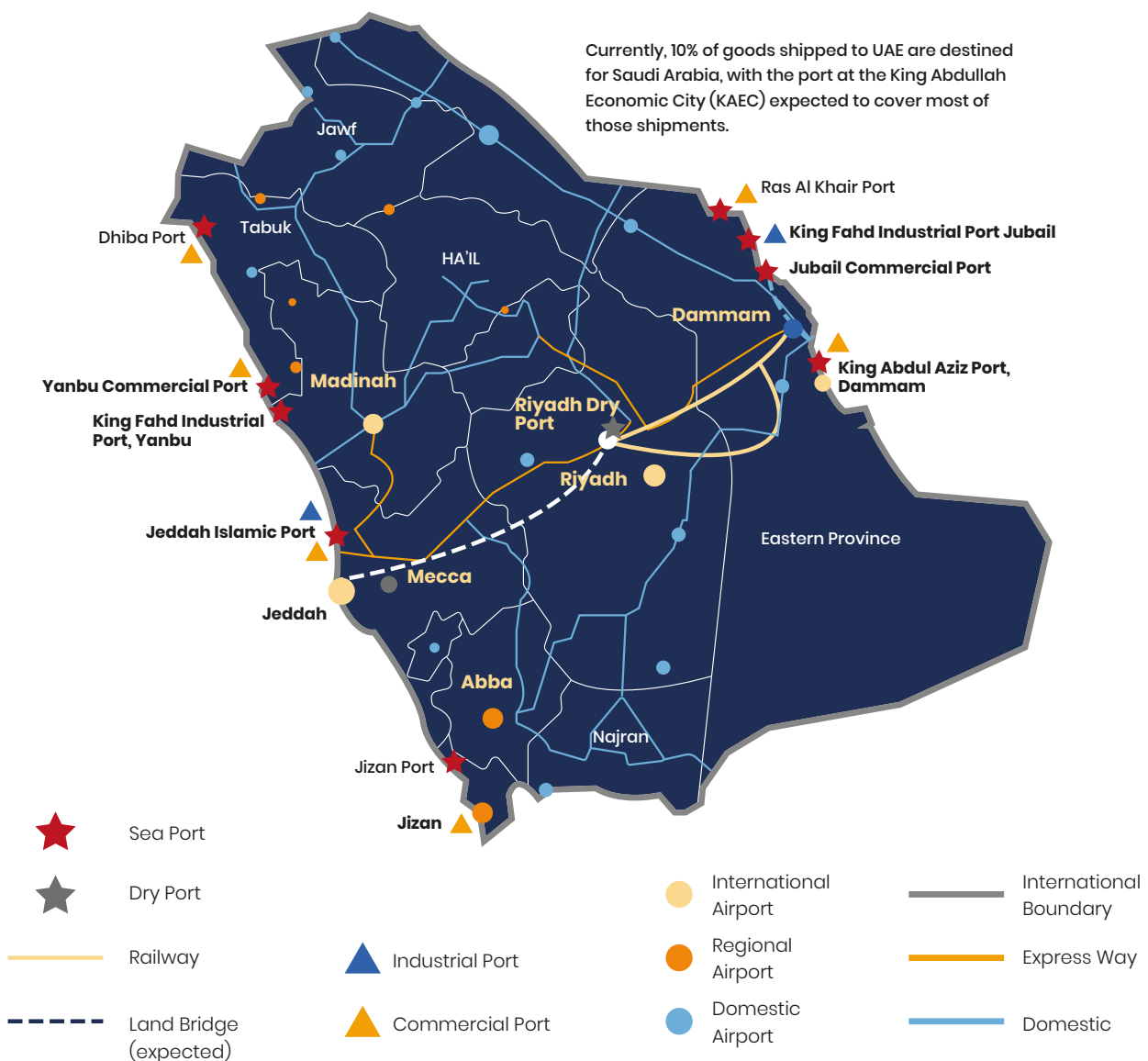
End-User Industry	Industry Attractiveness Indicators – Demand Side Entry Drivers and Barriers				
	2019 Size	2020 Size	Growth to 2025F	Relative Size of Customer Pool	Logistics Specificity
Oil & Gas	7	5.7	+5%		
Machinery	5.2	4.6	+4%		
F&B	3.8	4.4	+7%		
Metals	1.1	1	+5%		
Fashion	1.2	0.9	+6%		
Home Fittings	0.6	0.7	+7%		
Pharma	0.9	1.4	+10%		
Automotive	0.3	0.2	+5%		

Improving Logistics' Infrastructure

With further integration into the GCC Customs Union of Saudi Arabia and a major new port expected to be commissioned at the King Abdullah Economic City, the transport sector is expected to expand rapidly. The logistics sector is already a ~USD 27 billion market in Saudi Arabia and is expected to rise fast, driven mainly by growing consumption. Saudi Arabia has the most significant marine network in the Middle East, consisting of 21 seaports and more than 40 industrial and economic cities managed by MODON, RCJ, and ECA. The container traffic at KSA ports witnessed a CAGR of 7.06% between 2016 and 2020 and handled 7.12 million Twenty-Foot Equivalent Units (TEUs) of freight in 2020. Jeddah Islamic Port, the country's largest port, holds more than 75% of the traffic entering Saudi Arabia by sea.

Moreover, several logistics zones are being launched in the Kingdom. For instance, Al Khomra is the largest logistics zone in the country, and it aims to transform Saudi Arabia into a global logistics hub. The project is expected to create 10,000 direct jobs and attract more than USD 1 billion in investments. It also aims at improving the maritime trade capacity of KSA.

Major Trade hubs in KSA

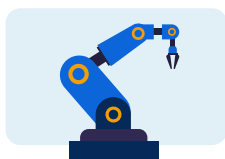


Innovation & Digitalization Are Optimizing Logistics Operations



WAREHOUSE MANAGEMENT SYSTEM

Saudi Arabia relies nowadays on a warehouse management system, which is a software application designed to support warehouse operations and facilitate planning, organization, and delivery of products.



ROBOTICS IN WAREHOUSING

With the increase in warehousing infrastructure aimed at developing a logistics hub within KSA, robotics in warehousing has emerged.



ARTIFICIAL INTELLIGENCE

AI is gaining popularity in KSA and is being used to facilitate logistics operations through improving data collection and avoiding downtime.



If opportunity doesn't knock, build a door.

Opportunities for business owners in KSA lie everywhere as the government is trying to achieve whatever is possible to encourage further investments and innovations.

The innovation boom started at the height of the COVID-19 pandemic as cargo were backlogged at the port, mainly due to the travel restrictions which led to a shortage in truck drivers. The strong demand for delivery and shipment caused tremendous pressure on the logistics sector.

Entrepreneurs took it as an opportunity, although it was late: "We all see and are used to healthcare, transportation, retail, and F&B all entering the e-commerce and digital market, so why not logistics?" Having digitalized processes, especially in logistics, can speed up the process, make it more accurate, and anticipate the future behavior of clients

The support of the logistics segment started with infrastructure development, as KSA was urged to implement new initiatives to equip logistics companies with adequate infrastructure. The government started developing economic zones and logistics centers to cater to the increasing demand in freight forwarding. They are currently focusing on expanding the Red Sea corridor in Jeddah, developing the mineral hub in Yanbu, King Abdullah Port, and NEOM projects that will also help drive the freight forwarding industry.

Competition drives innovation, and KSA focuses intensively on this aspect as it has opened the retail and wholesale sectors to 100% ownership and launched privatization programs. The country planned new road improvement projects to enhance connectivity with ports, major transport hubs, warehouses, freight terminals, and distribution centers to attract logistics companies. This in turn reduces the transportation time and cost from one destination to another.



The Future of E-Commerce And the Start-up Ecosystem

Mobile shopping in KSA has become a trend with current technological advances and increased smartphone use. In Saudi Arabia, major players were introduced and became popular in the region, such as Souq.com, which launched its app in 2014, and IKEA, who introduced the mobile app in 2013.

To attract more customers, e-commerce companies have introduced features that are extremely attractive to consumers, such as: multi-category

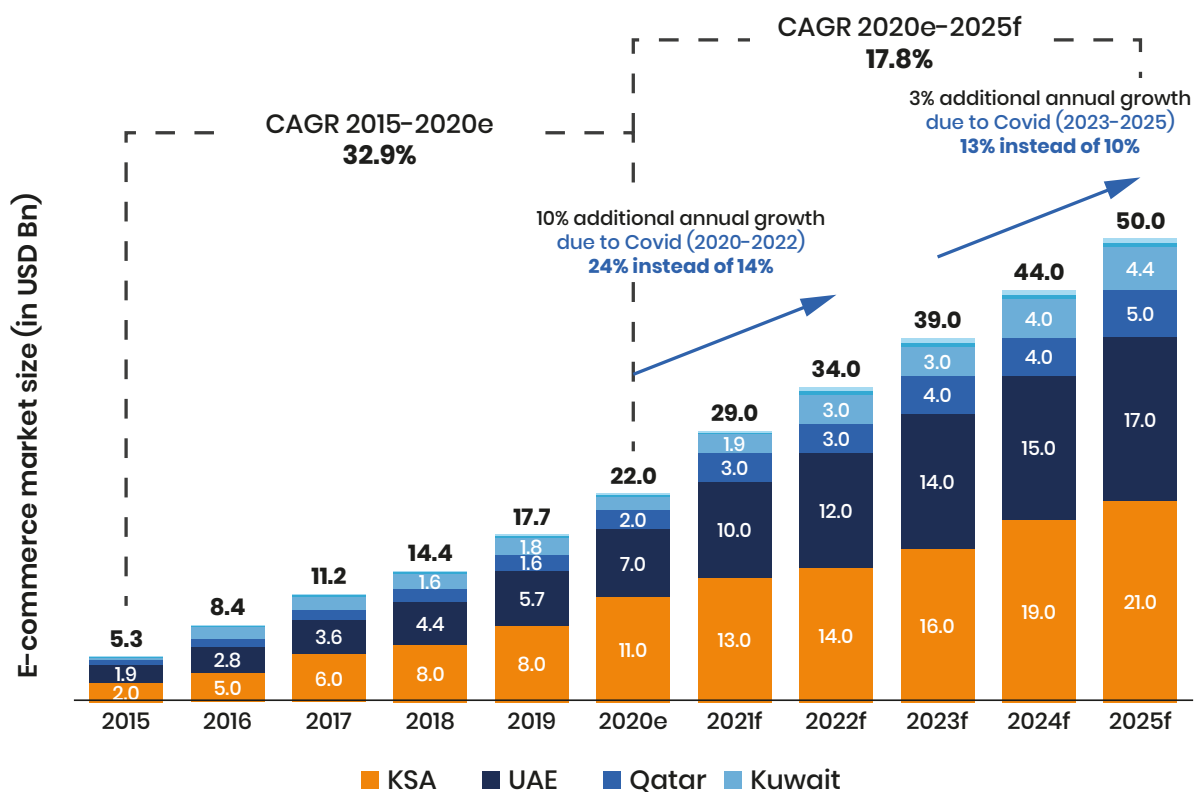
product ranges, ratings & reviews, discounted offers, affordable delivery, free exchanges and returns, competitive pricing, and 24/7 availability.

Saudi Arabia is working extremely hard to position itself as a leisure destination, shifting from its conservative model towards becoming a digital nation. For this reason, now is the right time to invest in this evolving market as it will experience unprecedented growth.



The e-commerce market in KSA witnessed a substantial CAGR growth of 41% from a USD 2 billion market in 2015 to become a USD 11 billion market in 2020. The outbreak of COVID-19 caused an unexpected surge in online shopping, which further increased the forecasted normalized growth rates by an extra 10% from 2020 to 2022, and an additional 3% from 2023 to 2025 to reach a USD 50 billion market by the end of 2025.

E-Commerce Market Size & Growth in the GCC in USD Billion



E-commerce Challenges

64%

of consumers in the GCC order at least once a week, compared to 40% of global consumers.

50%

of consumers in the GCC use an online grocery delivery service compared with 35% of global consumers.



Inefficiencies in the supply chain, which lead to problems such as sourcing issues, late deliveries, and higher return volumes.



Fierce Competition: larger e-commerce firms with more funding are making it more difficult for others to make a profit.

Source: YCP Solidiance Research and Analysis

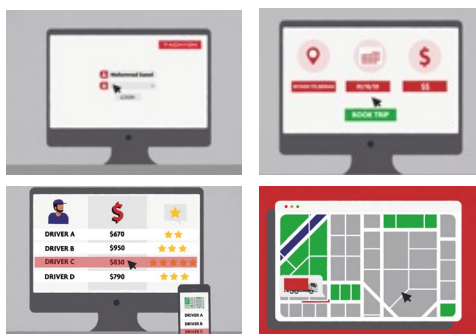
Start-up #1: Tachyon Takes Logistics To a Whole New Level

Tachyon is a logistics cloud-based platform that enables users to manage their transport and logistics operations. Tachyon created a one-stop-shop solution for shippers, carriers, and brokers to improve the shipment process by reducing costs and time. Currently, procedures are in Saudi Arabia, but Tachyon aims to scale up to the entire GCC market.

Who Can Use it



Platform and Application Interface



Technologies Used



Machine Learning
To match users



Blockchain
Reduce time & cost



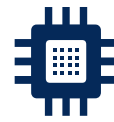
Lower
Cost



Environmentally
Friendly



Coopetition



Highly
Integrated



If we aspire to go to the next level; Coopetition and Adaptation of new technologies in logistics has to materialize more often in the region. This obviously needs the private sector to step up."

Abdulrahman Ijaabo - CEO of TACHYON

Start-up #2: Technology Made Easy for E-Commerce Clients By DIGGIPACKS

DIGGIPACKS designed an intelligent system that serves e-commerce clients who suffer from poor storage and delivery services, and guarantees the highest level of 3PL fulfillment services in the industry.

What They Offer



Shipping & Dispatching Report



Ticketing System



RTC Report



Inventory Reports



Accurate Geolocation



Inbound Approval System



Financial Reports



Shipment Updates



API Integration

DIGGIPACKS is the first company in KSA to build a solution for e-commerce clients. They focus on three main areas: 3PL Fulfillment, 3PL Warehousing, and E-commerce and Return Management.



Automated API

Integration to provide a seamless, automated fulfillment process



Stocks Management

Process products within 48 hours of arrival to the warehouse



Inventory Management

Real-time inventory update using the Warehouse Management System



Warehouse Network

15,000 SQM warehouse owned by Diggipacks



Within the Saudi market there are more than 15 million E-commerce users, with an expected annual increase of new users within the next 3-5 years exponentially. This creates a huge operational challenge for last-mile delivery and fulfillment companies. DIGGIPACKS's wants to enable the logistics partners to enhance the ecosystem as well as complete it with the reliable partners."

Hasan Jabarti – CEO of DIGGIPACKS



How Al Majdouie Created An Opportunity Out of a Crisis

Al Majdouie is a powerhouse in the logistics and supply chain industry in the region. The company is known to move an impressive average of 1.6 million tons of goods annually from over two million square meters of storage facilities across the GCC.

- ✓ Created an application that gives the company control of its network of terminal yards and end-to-end container life cycle
- ✓ Implemented a remote working policy using advanced technology
- ✓ Established a crisis management team to develop recovery plans

Al Majdouie Adopts Infor Supply Chain Execution (SCE)



Warehouse Management

Task interleaving, cross-docking, trans-shipment, and dynamic slotting



Labor Management

Direct, track, measure, and report all labor-related activities



Transportation Management

Optimized routing process



Infor is a leading provider of industry-specific cloud applications that focuses on improving the scalability of its businesses and on increasing the efficiency of its operations. Al Majdouie adopted an integrated warehouse management system, as it deployed Infor's best-of-breed systems: Infor SCE.



Our customers' businesses demand that we keep pace with emerging value-added services. We can provide them with complete visibility about their inventory, enabling them to reduce freight costs, optimize service levels, and improve overall operational efficiency. With Infor SCE, we are now able to make faster and better-informed decisions, improving our customer service, increasing throughput, all while reducing the costs of running our operations."

Brent Melvin – CEO of Al Majdouie Logistics

The State of Digitalization of Logistics in The Kingdom



When Digital Meets Logistics



“KAUST has significant strength in using AI and Big Data & Analytics for automation solutions, and we look forward to working with Tabadul to bring this expertise to the logistics industry.”

Dr. Tony Chan – KAUST President

It is customer-centricity that encourages innovators to seek solutions and new market trends constantly. At this point, Saudi has figured that oil, financials, and operations alone are not sufficient to become market leaders. Saudi Arabia has been doing just fine in logistics, but to them, fine is never enough, which is why they are entering the new era of digitalizing logistics operations.

Logistics business owners have stated that one of the major weaknesses in the logistics market is the deficit in skilled labor: having young, innovative, and technical experts who are willing to follow the trends and create their own.

Recently, KSA has launched various initiatives that serve the digital logistics market: one example is the launching of the Custom Clearance Digital platform by the Saudi Custom Authority, which has streamlined 80% of freight to be faster, reducing the clearance time by 60%. This initiative enabled logistics companies to focus more on automation processing including freight handling, network, fleets, employee strength, and warehousing capacity.

KSA has even modernized further and started accepting online payments. As part to the Vision 2030, the government is willing to increase the proportions of online payments to 70% by 2030 up from 28% in its 2020 target.

Another initiative has been made with the King Abdullah University of Science and Technology in collaboration with Tabadul, Saudi Arabia's leading digital logistics provider, to motivate young talents to undertake research and innovation projects, aiming to create solutions to advance the global trade to KSA. With this collaboration, Tabadul will tap into the KAUST talent pool, which in turn will solve the shortage in labor. KAUST and Tabadul will launch technology innovation activities that include hackathons and boot camps that would help in boosting out-of-the-box thinking.

Key Challenges Faced by The Logistics Sector in The Kingdom

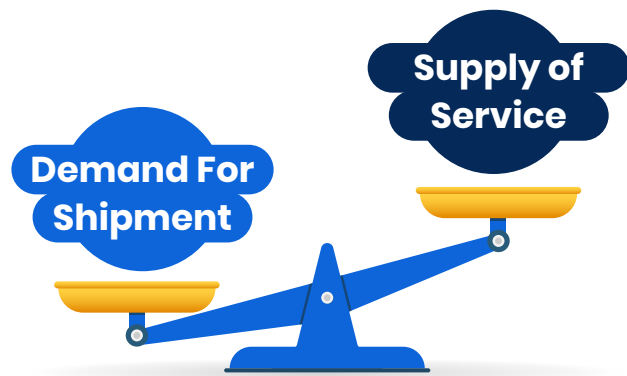


The challenges faced by KSA are tied to the rapid growth the country is experiencing in terms of trends, tourism, and population. The Kingdom's reaction needs to be quick to prevent the halt of the overall growth.

Logistics fulfillment became more customer-centric, making delivery time and data visibility higher priorities. E-commerce client registration improved drastically during COVID-19 lockdowns and increased the demand for shipment. Registered clients are now fragmented across a wide radius in KSA. However, there is an insufficient number of shippers.

In order to solve this shortage, several shipping companies are arising, and more trucks are being used for operations. This lack of integration and cooperation is exhausting the current infrastructure and limiting the transportation process caused by the delay in maintaining and constructing new roads.

Other major problems faced by business owners are the scarcity of suitable expertise in the region and the lack of awareness around logistics. Insufficient digital innovation in the current era is limiting the growth and advancement of the industry. Knowing that KSA focuses on the Saudization policy, it must support and raise awareness for Saudi Nationals to step up and lead in terms of innovation.





Key Opportunities Driving the Logistics Sector in the Kingdom



Now is the time to invest!

The logistics sector is currently receiving immense support from the Saudi government. Funding has been made simple to any Saudi National with a good idea. KSA has also been working indirectly to facilitate the logistics process through investing in infrastructure such as roads, rails, maritime, airports, and logistics zones.

These investments can directly affect the digitalization of logistics as they simplify the automation process and delivery status, leading to an improved customer experience. Although the ecosystem is ready, the presence of competitors is still required. In addition, new rules and regulations have been implemented to protect stakeholders and improve the quality of services.

KSA and the Gulf countries have a strategic location that connects the logistics and transport industry to more than 3.5 billion global potential clients.



With Aramex, Transformation Is Unlimited

UAE-based Aramex has become a leading global logistics partner known for its customized services and constant strive for innovation. Aramex considers itself as a technology-driven enterprise and has invested in digital solutions and navigation tools since 2017. It has managed to be one of the first logistics companies to create software compatible with Android and iOS.

In 2018, Aramex launched “Aramex Fleet”, a platform that connects Saudi nationals to last-mile flexible delivery. This platform was able to support the fluctuating demand in the kingdom and leveraged Saudi’s sharing economy.

In June 2020, Aramex launched the “Aramex SMART – Unbox First. Pay After” feature to enhance customer experience and satisfaction through online shopping, in turn increasing payment optionality and delivery flexibility.

Aramex turns to AWS to enable the company’s digital transformation



Aramex migrated all its technology infrastructure to AWS to improve its delivery accuracy and develop intelligent address prediction models that transform descriptive addresses into geolocations. The company also managed to create big data infrastructure that leverages machine learning and artificial intelligence to further enhance the customer experience.



Adopting AWS is pivotal to driving further innovation within our business, and provides a platform for growth within Aramex. We are focused on enhancing the customer experience and solving industry challenges primarily around address management, volatility in volumes and last mile capacity. Today, we are able to look at our customers’ delivery experience and expectations from origination to last mile delivery and work backwards to identify technologies and processes that can help us to deliver faster, more efficiently, and operate with elasticity.”

Mohammed Sleeq – Chief Digital Officer at Aramex



E-commerce and Its Effects on Customer Expectations





Saudi Arabia's Digitalization Milestones

The pandemic has encouraged many businesses to invest in the e-commerce market, especially since it is expected to contribute to 80% of the retail sector by 2030. In addition, the National Industrial Development and Logistics Program was created aiming to improve KSA's logistics and transport infrastructure.



2020:

The Ministry of Commerce and Investment in Saudi Arabia implemented e-commerce regulations issued in 2019, which includes consumer protection, advertisement regulation, and data security

Dec 2019:

Launch of a council with a mandate to ensure that e-commerce development is aligned with the private sector's objectives and goals

Beginning of 2019:

Launch of the National Industrial Development and Logistics Program (NIDLP)

2019:

The Saudi Arabian Energy minister planned to raise USD 35 billion for the development of the logistics infrastructure

2018:

Execution of new shipment procedures through automated customs clearance processes

2017:

Launch of Amazon.sa in Saudi Arabia replacing Souq.com, the largest e-commerce platform in the Arab world

2016:

Launch of Saudi Arabia Vision 2030

E-commerce Market Trends

So far, less than ~1% of logistics businesses are utilizing digital solutions. This gap shows the potential growth of digitalization in Saudi Arabia.

The COVID-19 pandemic is one of the main factors that enabled this market to boom, as clients rely more on touchless and seamless operations. Thus, KSA is making sure to invest further in this sector and to encourage additional players to enter the market.

The e-commerce market grew by 40% from 2015 up until 2020, reaching a value of USD 9.8 billion, with KSA ranking among the top 26 largest e-commerce markets. Saudi Arabia stands out compared to other GCC countries driven by its sizeable GDP, large size, huge population, remarkable purchasing power, high presence of oil and gas, and the wide availability of mineral and metal assets. Moreover, the country has currently the highest number of internet, smartphone, and social media platforms after UAE, with 70% of its population engaging in online shopping.

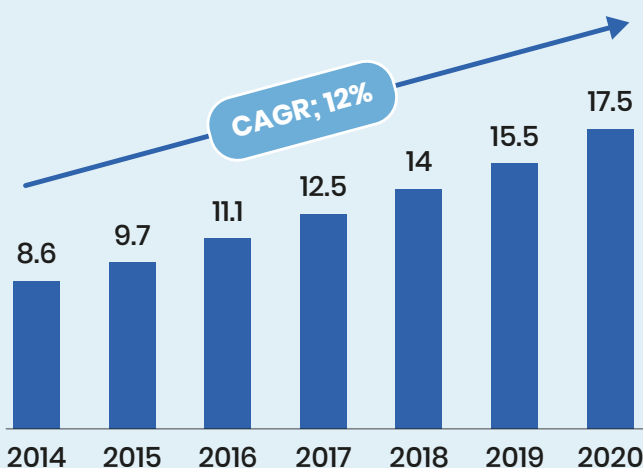
Finally, KSA has reached an investment of USD 21.3 billion in services and products varying between 45,000 shops and e-commerce platforms. Out of KSA's total cross-border e-commerce market, 46% is carried out with China.

If the e-commerce market forecast before and after the pandemic are compared, between 2020–2022 and 2023–2025, a 7% and a 5% additional growth is expected respectively due to the effects of the pandemic.

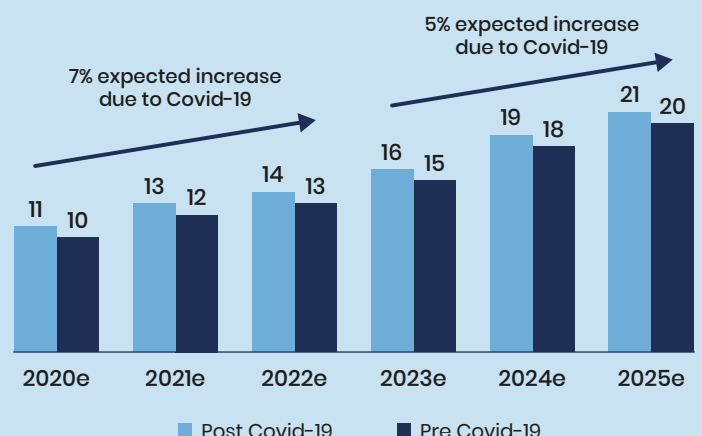
The long-term effect of COVID-19 has majorly contributed to the growth of the e-commerce market in Saudi Arabia as it is anticipated to surpass a value of USD 21 billion by 2025:

- Saudis have been forced to choose cashless payment options, leading to a newfound confidence in the medium of online shopping.
- E-commerce penetration has reached a record high of 77.4%, and is expected to reach 91% by 2024.
- The share of consumers shopping online more frequently since the pandemic outbreak has increased to reach 48%.

Saudi Arabia's E-commerce User Registration in Millions



E-commerce Market in Billions Pre and Post Covid-19 Pandemic





How Amazon Encouraged The E-commerce Ecosystem

About Souq

- Souq.com was founded in 2015. It has now acquired by Amazon and is considered the largest e-commerce platform in the Middle East, having a market valuation of USD 1 billion.
- It managed to implement strategic business decisions and investment technologies, which resulted in the constant doubling of its sales.
- Operations are now in-house, whereas they were previously outsourced to 3PL companies.

“Customers used phones to buy from us, so we could geolocate them for delivery.”

Logistics

- It has built its own warehousing operating systems and deployed analytical solutions to track, store, and analyze massive historic data from previous transactions.
- Using AI and machine learning, it managed to have a better understanding of consumer preferences from past sales.
- Forecasting upcoming sales was made possible due to data analytics.
- Simplifying the warehousing and supply chain process through their own manufactured Android device enabled pickers to locate products easily within the warehouse.
- Souq’s “just-in-time” system not only made inventory handling efficient, but also maximized its storage capacity.



The site has transformed from an Ebay-like auction marketplace to a mobile-focused e-commerce platform before being bought by Amazon over a decade later.”



Managing Customer Expectations

With the constant growth of the e-commerce industry, the logistics of delivering orders to customers has become more complicated, especially due to COVID-19.

E-commerce has reshaped and simplified the shopping experience for consumers. However, it brings with it new logistical challenges that can be solved through digitalization. In this section, focus is placed on how business owners should operate to meet growing customer expectations.



E-commerce in Saudi Arabia

The significant drivers of e-commerce in Saudi Arabia are the high purchasing power due to high per capita income, improved logistics networks, and rising internet penetration levels.

Saudi Arabia requires effective e-commerce more than ever as consumers are becoming more aware of the available technology, and are now more demanding when it comes to having fast processing interface and a fast delivery time. The Saudi Ministry is working on improving this segment through the e-commerce law in 2019 to motivate online businesses.

Statistics show that most Saudi nationals choose to shop with non-Saudi organizations and prefer to use third-party shops such as Souq.com (which is owned by Amazon, AliExpress which is based in China), and Newegg (which is based in the USA). The reason is that Saudi e-commerce websites are not well-known and do not follow current trends.

For example, Powerstore's e-commerce offerings are only displayed in the Arabic language and does not serve foreigners. It also doesn't provide a clear return policy which fosters skepticism in consumers.

Saudi nationals choosing an e-commerce platform are concerned with seamless navigation through the platform or application, fast download time, and attractive, straightforward UX design.

Customer expectations are becoming hard to meet using traditional logistics. Companies like Aramex, Al Majdouie, DHL and many more are relying on digitalization as consumers turn to e-commerce to shop for their everyday needs. This phenomenon requires a fast response from the logistics and supply chain.



Dark Stores Shaping Online Grocery Business in KSA

High Demand for Faster Delivery

- The grocery business is increasingly competing for customer satisfaction which is primarily affected by the speed of delivery, especially when it comes to fresh groceries.
- Setting up dark stores, a micro-fulfillment center, creates a huge advantage in online grocery delivery.

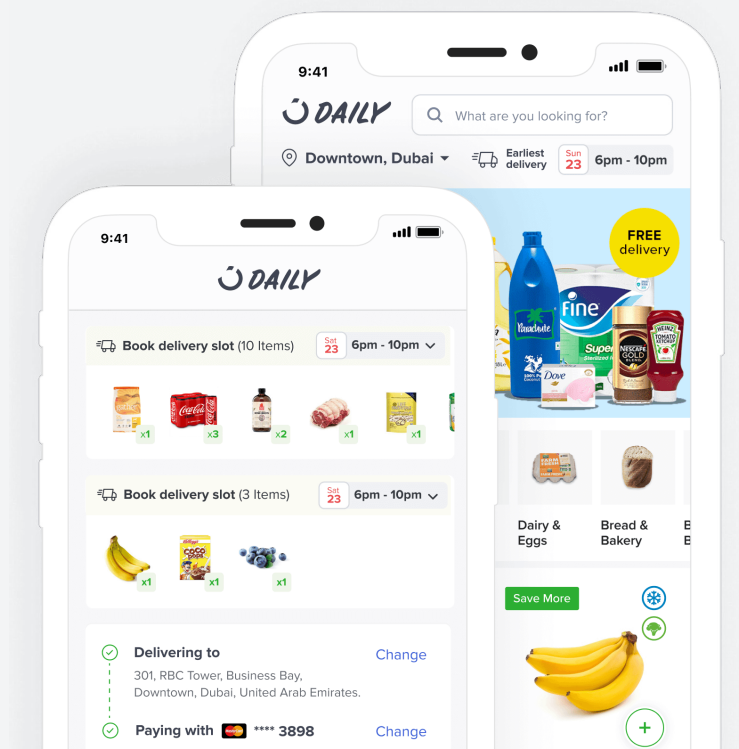


Dark Stores

- Distribution centers catering exclusively to online customers
- Warehouses where products are classified by SKUs and laid out in aisles for faster picking and packaging before delivery or pick-up
- Usually located in high-demand and busy areas or city outskirts

Noon – Saudi Arabia's Very Own Grocery Dark Store Pioneer

- Noon is an e-commerce platform based in Riyadh and a regional logistics powerhouse. It started its operations in 2017 by offering a range of online products to its customers.
- The dark store setup in Saudi Arabia crystallized with the launch of Noon's grocery delivery service in February 2021 called Noon Daily.
- To cater to its dark store order needs, Noon possesses a big fleet of delivery vehicles and three operational customer fulfillment facilities within the Kingdom.
- The latter significantly reduces delivery costs, making the economics of ordering more viable and offsetting low take rates.



The Four Factors of Success for Dark Stores



1. Location

Large amount of space to stock a huge inventory of products, located in a densely populated area with accessibility to the maximum customer base or close to other retail locations.



2. Order Management

Robust order management system to satisfy customer expectations and to route orders to the right dark store, to pick and ship to the customer earliest as possible.



3. Inventory Management

Well-built inventory management solution to analyze stock availability and customer demands by recognizing items that are popular in specific areas, in addition to handling customer cancelling and returning orders.



4. Data Analytics

Concrete data analytics to monitor variables involved in inventory management, order management, demand and supply, and order accuracy.



Conclusion

Customer expectations are continuously changing, and the need for greater order transparency and shorter lead times has become critical success factors for businesses to win in the market—especially considering the growth of e-commerce—as sectors continue to grow and develop due to the adoption of technological improvements in healthcare, retail, F&B, construction, manufacturing, trade, and agriculture.

This trend should also be introduced to the logistics industry to allow companies in various sectors to deliver and obtain what they require to proceed with their various processes.

Digitalization presents opportunities for organizations to resolve bottlenecks and improve efficiency. For organizations to digitalize their operations, their processes and procedures need to be mapped out, and inefficiencies need to be properly identified. Possible paths towards digitalization would be to procure (purchase required competencies and technologies), partner, (cooperate with organizations that have those competences and technologies) and participate (utilize the platforms created by organizations that offer digitalized services).

An inability to respond to society's evolving demands hinders the development of organizations. Standing still as the world leans deeper into technology would leave traditional organizations, government agencies, and logistics companies biting the dust as faster, more efficient, and more digitalized players continuously adapt to the constantly changing environment.

Looking at the GCC, Saudi Arabia is shifting from its traditional model to a more modernized and trendy state in order to compete with other countries due to its remarkable purchasing power and leading GDP across the GCC.

Several initiatives are being made, both via the government (to improve infrastructure) and in corporate (to digitalize operations while using Artificial Intelligence, Machine Learning, and E-commerce). KSA is on the right pathway to success as it is entering an emerging market that will experience notable growth in the near future.



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Damien is the Managing Partner and Head of Digital Business at YCP Solidiance. He co-founded Solidiance Asia Pacific in 2006, and has supported various Fortune 500 clients as well as family-owned businesses on growth strategy and transformation blueprints. As a recognized expert in innovation and competitive strategy, he has been quoted by notable media such as BBC, Bloomberg, FT, Times, and many others. Through his broad experience in Asia and in the Middle East, he has an extensive management and corporate strategy consulting experience across different sectors.



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About Us

What We Do

YCP Solidiance is an Asia-focused strategy consulting firm with offices across 16 key Asia Pacific cities and other regions. Asia-focused with global presence, we define new business models and help clients drive their business growth through strategic solutions. We deliver high-impact advisory services by tailoring our services to suit different business needs. To learn more about our services visit: <https://ycpsolidiance.com>.

Our Locations

We are present in Abu Dhabi, Amsterdam, Bangkok, Beijing, Beirut, Ho Chi Minh City, Hong Kong, Jakarta, Kuala Lumpur, Manila, New Delhi, San Diego, Shanghai, Singapore, Taipei, Tokyo and Yangon.

What We Focus On

We focus on advising our large client base across a wide spectrum of strategic consultancy areas, identify breakthrough growth opportunities and develop execution-ready strategies and roadmaps. Our Asia-focused market entry and growth strategy services provide the required insights to capture a profitable market share in the region.

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WHAT WILL DRIVE SAUDI ARABIA'S LOGISTICS INDUSTRY



Infrastructure

Weak infrastructure that lacks connectivity causes remarkable delays in logistics operations. For this reason, Saudi Arabia is currently renewing its rails and enhancing its marine networks to form a seamless process when it comes to logistics.



Digitalization

Digitalization has enhanced the performance of various industries, including F&B, retail, healthcare, and automotive. Logistics' market share in KSA is remarkable and is expected to grow further once it is thoroughly digitalized, creating a seamless process for various industries to benefit from.



E-Commerce and the Startup Ecosystem

Post-COVID-19 customers have become highly dependent on contactless services as they are faster, cheaper, and more hassle-free. The e-commerce sector in KSA experienced remarkable growth over the past year and is expected to maintain this growth in the upcoming years, as more industries are entering this market.

