

group buying sites take the uae by storm

The United Arab Emirates (UAE) is often regarded as a first adopter in the MENA region, leading regional technology trends. E-commerce activities are no exception to this trend with industry growth gaining significant momentum in the last two years. This growth is attributed to various reasons such as a greater confidence in the security of online payments and more locally developed sites that allow users to identify with the nuances of their community or city.

Certainly the rise of sites such as dubizzle, souq.com, emiratesavenue.com and jadopado – to name a few, is evidence of the growing traction e-commerce enjoys in the UAE. Despite the growing number of local portals, there is a class of e-commerce sites that has risen head and shoulders above the rest – group buying sites have come to the fore as perhaps the UAE's best example of e-commerce success.

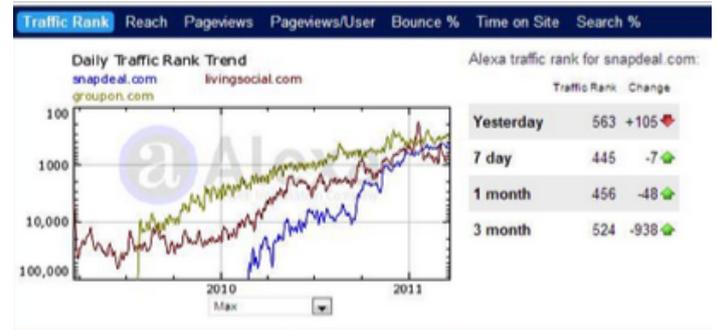
The value proposition of a group buying site is twofold. Firstly, consumers can take advantage of significant price reductions on a wide range of goods and services. Secondly, merchants benefit from exposure to a broad based audience with minimal investment (relative to the funds required for a dedicated advertising campaign) and are able to acquire new clients. Group buying sites require a certain number of subscribers to show interest in a deal for it to go through. As a result, merchants benefit from reduced risk and can view the coupons as both a tool promoting sales and as a quantity discount mechanism. Generally the group-buying sites will retain half the amount paid by subscribers for the deal.

There are some concerns regarding the use of group-buying sites. One of these is that merchants feel that the potential for growing a loyal customer base is not actually possible through the use of coupons. Various examples exist of patrons simply using the coupons and not returning to the merchant unless there is another promotion.

The benefit is therefore short-lived. Other concerns revolve around the potential issue of smaller merchants being overloaded by sudden influxes of business and the possibility that customer satisfaction will be an issue. It is clear then that merchants should engage in a cost-benefit analysis and would be wise to ensure that they are not potentially de-valuing their brand by engaging with group buying sites.

exhibit 1: group buying site traffic comparison

Source: Alexa.com



group buying sites in the UAE

While there have been concerns, the benefits of the venture seem to outweigh these and the business model has certainly proved to be a global success with companies such as Groupon and LivingSocial undergoing rapid expansion into new markets. This growth has been both organic and through acquisitions with the UAE bearing witness to the purchase of GoNabit by LivingSocial.

Groupon and LivingSocial both have significant presence in the UAE and continue to broaden their regional footprint in MENA. Groupon first made its presence felt in the UAE with the launch of its website in early 2011. The portal has grown rapidly and now serves all the main cities in the country. LivingSocial acquired GoNabit in June 2011 and stated that within the first six months of its operations, registered users of the site increased by between 30 – 50% month on month. Reportedly, many of these registered users are first time online buyers. The acquisition of GoNabit granted LivingSocial immediate access to various markets in the MENA region in addition to the UAE, namely – Lebanon, Kuwait, Jordan and Cairo.

These global players compete directly with regionally-based sites such as Cobone.com, DealGobbler and Moosavings. There is little doubt that more sites such as these will be introduced in the UAE and the broader MENA region.

factors driving market growth

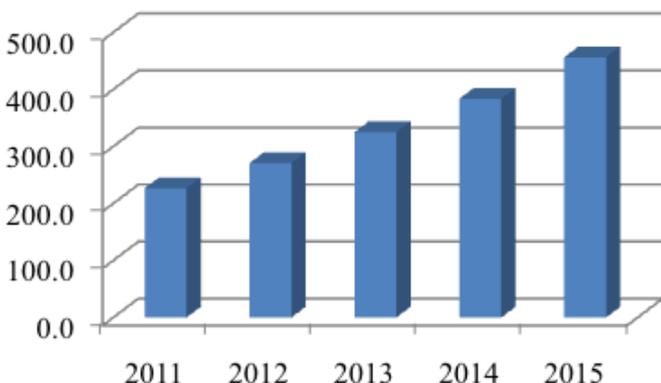
Previous concerns over the utilisation of credit cards for online transactions seem to be a thing of the past with 69% of respondents to a survey held in August 2011 stating that they were more comfortable using credit cards than cash and of this – 75% were confident when purchasing goods from local websites.

The mobile platform is expected to not only remain significant but in fact gain in prominence to a point where it is likely to effectively dwarf transactions completed through PCs. The increased prevalence of mobile devices (the UAE has a 150% penetration rate) has resulted in LivingSocial developing apps which allow users to access its daily deals on mobile phones and tablets such as the iPad. TNS currently states that 29% of online shoppers purchase goods via their smartphone as opposed to 26% that use their PCs. It is thought that this is likely to continue as a third of all internet users in the UAE gain access to the internet through their mobile phones.

Online purchases in the UAE were valued at an estimated \$226.8 million in 2011 according to a Euromonitor study and this figure is expected to grow to \$270.9 million by the end of 2012. The broader Gulf region recorded sales of \$1 billion in 2011 and this is expected to double to \$2 billion by the end of 2016 according to Euromonitor. Another factor promoting the use of e-commerce is the fact that government entities in the UAE have embraced the trend. Dubai Electricity and Water Authority (DEWA) reported almost 50% growth in the use of its portal by consumers during 2011. While the UAE currently leads the market, countries such as Saudi Arabia, Qatar and Kuwait are emerging as other important e-commerce markets in the GCC region.

exhibit 2: total UAE e-commerce sales (\$ millions)

Source: Euromonitor



key elements for success

Given the success of some group buying sites and the hard lessons learnt by others, a set of key elements has emerged as being necessary to ensure sustainable operations. Firstly it is very important that the local flavour of the site be maintained. This is achieved by hiring personnel with a good understanding of the local market and the promotion of deals with locally based merchants. Most group-buying sites will serve a single market which

in some instances could be a neighbourhood. In the UAE there are sites for separate cities.

Secondly, growth through acquisitions should be structured to retain the management of the purchased entity for a period of transition. This allows for seamless operations that is important for maintaining a site's subscriber base. Users have to feel as if there is not a significant change in the values and character of the organisation they are used to dealing with. The incumbent management will provide valuable insight into local market nuances and could assist with the crucial element of hiring personnel.

Thirdly, it is important to align global strategy and business practices. Transparency is increasingly important to online buyers – not only for privacy and fraud concerns, but also as a result of a greater social awareness and importance attached to corporate social responsibility. Multinational companies are expected to maintain accountability in line with international standards – this is an area that has lacked in some countries catered to by group buying sites. As a result sites need to communicate more readily with their consumers, outlining and explaining the steps taken to ensure international accountability.

Lastly, economies of scale should be achieved at a considered and cautious pace. Despite the promise that many emerging markets seem to hold for online retailers – there are instances of hidden costs such as a lack of well-established infrastructure and the accompanying high telecommunications charges. In addition, not all markets display the same degree of maturity for payment gateways and these are often considerations left too late by e-commerce organisations.

future

The future looks bright for locally-based e-commerce sites with EmiratesAvenue.com reportedly engaged in talks with potential buyers and also actively on the lookout for appropriate investors.

The UAE is clearly well positioned to serve as a growing market for e-commerce sites, but perhaps even more importantly as a strategic base for expansion into the rest of the GCC and ultimately the MENA region. The combined effects of a mature payment infrastructure and the relative instability still present in the MENA region means that the UAE offers companies the promise of operational stability with international standards of transparency and accountability ensured.

On the global front, Google is also trying to get on in the act and last year unsuccessfully attempted to acquire Groupon for the sum of \$2.5 billion. Considering that Groupon launched its Initial Public Offering (IPO) in 2011 at a market value of \$805 million, there was some market speculation that perhaps Groupon founders made the wrong decision. While that remains to be seen, it is clear that Google is sufficiently convinced of the potential of group buying and has launched a Beta version of Google Offers which offers a similar value proposition to consumers.