

# Amazon's Acquisition of Souq.com: Synergies in the GCC Region

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**Abstract.** This descriptive case study recounts the strategic acquisition of Souq.com by Amazon. Souq.com began as an Arab language auction site for electronics goods in 2005 and was based in Dubai, UAE. By 2017 it was the largest e-commerce platform in the GCC region and drew the interest of Amazon as it sought to expand its business into the Middle East. Students will learn about the e-commerce market in the GCC region, and the importance of synergies in cross border acquisitions.

**Keywords:** e-commerce, gulf cooperation council, valuation, international expansion.

## 1. Introduction

Gazing towards the clear Dubai skyline from his towerblock office, little would Ronaldo Mouchawar, CEO of Souq.com have imagined that his small home grown web portal would one day go global,<sup>1</sup> the company that he started a little more than a decade back with great passion and energy. The year 2017 turned out to be a dream home run for the visionary CEO, when e-commerce giant Amazon valued Souq.com at nearly \$700 million. *Souq* means “marketplace” in Arabic and the company name was inspired from his Syrian home town of Aleppo, also home to some of the world’s oldest and most famous souqs. With the Gulf ecommerce market gearing up for rapid expansion, he was wondering... what next for Souq.com?

“It is an exhilarating time for the e-commerce industry in the region. Integration of Amazon’s technology and global resources with our local expertise will help us to offer a great service to our loyal customers<sup>2</sup>.”

Ronaldo Mouchawar, founder and chief executive of Souq.com

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1. <https://www.wmf.org/project/souk-aleppo>

2. Fahy, Michael, Amazon completes Souq.com deal, <https://www.thenational.ae/business/amazon-completes-souq-com-deal-1.91570>, July 3rd, 2017.

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“On a cultural standpoint, the integration will not probably be overly complicated. In fact, the two companies are both driven by customers, invention, and long-term thinking<sup>3</sup>”

Amazon Senior Vice President's Russell Grandinetti

On March 28, 2017, American e-commerce giant and cloud computing company Amazon.com announced its acquisition of Dubai-based Souq.com, a move that was expected to bring a significant impact on the Gulf Cooperation Council (GCC)'s small but fast-growing e-commerce sector.<sup>4</sup> Amazon instead of entering the GCC market on its own, chose to secure Souq's existing customer base and infrastructure.<sup>5</sup> The combination of Souq.com's regional footprint with Amazon's expertise was expected to favourably position the U.S giant in capturing the fast-growing GCC e-commerce market.<sup>6</sup> The successful closure of the deal was expected to enable Amazon's existing customers to log into Souq.com using their Amazon account details.<sup>7</sup> In contrast, Souq.com believed that joining Amazon would enable it to source more products and services to the region and expand its product line and service delivery, thus offering its sellers access to a much wider customer base. As pointed out by Mr. Mouchawar, the deal was “guided by many of the same principles as Amazon that provided a critical step in growing its customer's base”.<sup>8</sup>

At the time of announcement of the deal, Souq.com stocked more than 8.4 million products across 31 categories with an online footfall of 45 million visitors per month with localised operations in the UAE, Saudi Arabia and Egypt.

## 2. GCC's e-Commerce Market Potential

By 2013, the Middle East was a nascent e-commerce market of around \$15bn in value that had grown by 60% as compared to a meagre 17% in Europe (\$483bn

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3. Aby Sam Thomas, Making history (literally), *Entrepreneur Middle East*, [https://issuu.com/entmagazineme/docs/entrepreneur\\_middle\\_east\\_may\\_2017](https://issuu.com/entmagazineme/docs/entrepreneur_middle_east_may_2017), April 30<sup>th</sup>, 2017.
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  7. Fahy, Michael, Amazon completes Souq.com deal, <https://www.thenational.ae/business/amazon-completes-souq-com-deal-1.91570>, July 3<sup>rd</sup>, 2017.
  8. Fahy, Michael, Amazon completes Souq.com deal, <https://www.thenational.ae/business/amazon-completes-souq-com-deal-1.91570?videoId=5688157736001>, July 3<sup>rd</sup> 2017.

value).<sup>9</sup> Euromonitor International projected internet retail sales to grow by 95% in the UAE and by 136% in Saudi Arabia and similar growths in Egypt over the next five years. This was expected to be mainly driven by the region's consumers becoming more sophisticated and confident of online quality products, prompt home delivery and enhanced card security.

The GCC remained as one of the world's most challenging e-commerce regions. On the one hand, it boasted high disposable incomes with some of the world's highest levels of GDP per capita, but on the other, its 2015 estimated e-commerce market size of \$5.3 billion contributed to only about 0.4% to the region's GDP, a small fraction when compared to other maturer markets having similar levels of per capita GDP<sup>10</sup> (Figure 1). However, industry experts believed that with the right facilitators in place, the GCC e-commerce market was poised to quadruple to reach \$20 billion by 2020.<sup>11</sup> Growing at a CAGR of 36%, e-commerce in the region was expected to outpace the 9% CAGR of traditional retail during the same period (Figure 2). A 2014 PayPal study revealed the MENA region an attractive market for e-commerce, with an online penetration of more than 110 million users, and a market size that was forecast to reach \$15bn by 2015.<sup>12</sup> The 2016 A.T. Kearney reported projected the relatively small GCC e-commerce market comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates as one of the world's fastest growing e-commerce regions.<sup>13</sup> Additionally, the penetration rate for banking and credit cards in some of the region's major economies, like Saudi Arabia, was estimated at 40% – still a relatively low level when compared to the 80% figure registered in developed economies. Yet, given the potential of Middle Eastern economies to foreign investments, it seemed possible that payment systems would evolve along a similar path to those of mature markets. All these characteristics made the Middle East market attractive to Amazon.<sup>14</sup>

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9. European Multi-Channel and Online Trade Association (EMOTA).

10. "GCC e-commerce on the cusp of becoming world's fastest growing", <https://gulfnews.com/business/sectors/retail/gcc-e-commerce-on-the-cusp-of-becoming-world-s-fastest-growing-1.1928787>, November 3<sup>rd</sup> 2016.

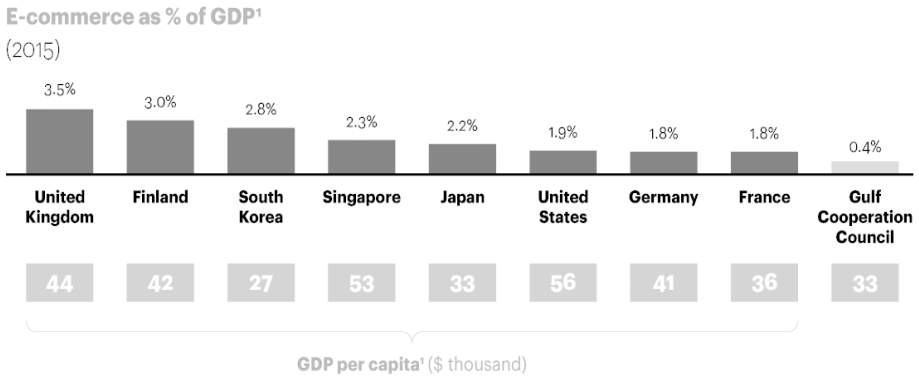
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13. Getting in on the GCC E-Commerce Game - AT Kearney | Middle East, <http://www.middle-east.atkearney.com/documents/787838/8908433/Getting+in+on+the+GCC+E-Commerce+Game.pdf>, 2016.

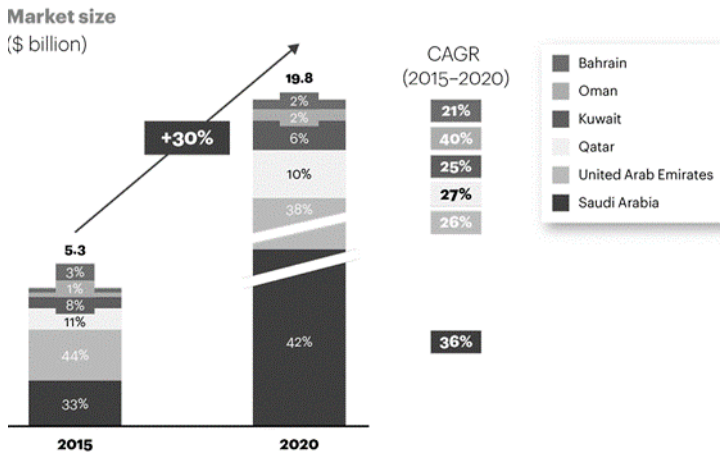
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Figure 1: E-Commerce contributes relatively little to the region's GDP



Source: Getting in on the GCC E-Commerce Game - AT Kearney | Middle East, <http://www.middle-east.atearney.com/documents/787838/8908433/Getting+in+on+the+GCC+E-Commerce+Game.pdf>, 2016

Figure 2: GCC E-Commerce Market Potential



Source: Getting in on the GCC E-Commerce Game - AT Kearney | Middle East, <http://www.middle-east.atearney.com/documents/787838/8908433/Getting+in+on+the+GCC+E-Commerce+Game.pdf>, 2016

The regions' average mobile penetration stood at more than 170% with smartphone penetration at more than 65%. Coupled with this, more than two-thirds of the population used the Internet. But, in spite of fixed and mobile penetration in the United Arab Emirates (UAE) and Qatar exceeding 90%, the e-commerce market was relatively very small.<sup>15</sup>

15. Getting in on the GCC E-Commerce Game - AT Kearney | Middle East, <http://www.middle-east.atearney.com/documents/787838/8908433/Getting+in+on+the+GCC+E-Commerce+Game.pdf>, 2016.