HOW I DID IT

SOUQ.COM'S CEO ON BUILDING AN E-COMMERCE POWERHOUSE IN THE MIDDLE EAST

Winning trust in regions where payments are made in cash by Ronaldo Mouchawar

When we founded Souq.com, in 2005, the Middle East was not an obvious place for an e-commerce start-up. To be sure, it had tremendous potential: It had a total population of more than 350 million people, half of whom were younger than 25. But the region was highly fragmented, consisting of many countries with relatively small populations (apart from Egypt), each with its own laws and customs, logistics systems, and payment infrastructure. Personal computer and broadband penetration rates were low.

Since its launch, however, Souq has become the largest e-commerce provider in the Middle East and one of its fastest-growing businesses. Today it operates in seven countries representing more than 135 million people. Our team has grown from five employees to more than 3,000, including software engineers and digital marketers, call-center professionals and delivery staffers. Beyond Souq's direct success are the opportunities we have created for others: Many merchants on our site have expanded from selling fewer than a dozen products a week to turning over millions of items and dollars each year. Small wonder that Amazon decided in March of this year to acquire Souq rather than enter the region directly. Given our installed base and integrated payment and delivery operations, it will be much easier for Souq and Amazon to expand e-commerce in the region together than they could as separate businesses.

So how did we get here?

BRANDING FOR COMMERCE

The story begins in 2000, when I joined forces with Maktoob, the first successful web portal in the Middle East. Having studied engineering at Northeastern, in Boston, in the mid-1990s, I had gotten involved in a few digital start-ups. Maktoob held enormous promise because it was the only portal around that didn't require users to be fluent in English (just a small percentage of Arabic-speakers are comfortable using English), which meant it could scale up.

At the time, Yahoo and other mainstream portals were experimenting successfully with commerce in the United States. We believed that this model could be replicated in our region, so we looked for ways to use Maktoob's growing popularity to create an e-commerce business of some kind. Although Maktoob was ideal for helping individuals connect, we concluded after a few projects that we should create a separate commerce-only website. Users who came to Maktoob typically wanted to communicate or get information. They rarely came to buy. The few who did purchase products came expressly to do that. So we decided that our commerce site should have its own brand and identity.

In 2006 I bought the Souq.com domain name (*souq* is the Arabic word for "market"; Aleppo, my hometown, is famous for its souqs), and we set up offices in Dubai, part of the United Arab Emirates. The UAE had a growing number of young, tech-savvy consumers and presented relatively few logistical challenges, owing to its well-functioning transport infrastructure.

We launched Souq.com as an auction website, along the lines of eBay, and then diversified into automobile and real estate classified verticals. The website took off almost at once, and we expanded our operations into Saudi Arabia. The business grew fast, and by the end of 2009, when we became independent of Maktoob, we were recording auction transactions worth more than 3 million UAE dirhams a month (close to US$1 million). But it quickly became apparent that our growth prospects were limited. To begin with, the increasing adoption of smartphones in the region meant that more and more of our customers were going online with their mobile devices instead of their laptops. We would have to make Souq an app business rather than just a website. The importance of mobility seems obvious now, but back in 2010 shopping on a mobile phone was still a new concept, even in developed economies, where consumers had grown up around desktops and laptops. We launched our first app in 2012. Now more than 70% of our visits and transactions are via smartphone.

But the really big opportunity, as we had seen with the growth of Amazon in the United States, lay less in bringing together individual buyers and sellers than in linking customers with retail merchants. Our future was in B2C.

THE B2C SWITCH

We made the switch to a B2C-only business in 2010, just after Wisam Daoud joined us as CTO from eBay. We announced that we would no longer run auctions and classifieds, even though they collectively accounted for approximately 80% of the company's business (fixed-price sales accounted for the remaining 20%). Moreover, it was a challenge to move our merchants and customers from a site on which they could list products pretty much as they liked to a site where goods are categorized by half a million or more SKUs.

We went live in May 2010, initially in Egypt and quickly after that in other geographies. The risk and our efforts paid off, and although we lost most of our transaction volume almost overnight when we closed down the auction site, we more than made up for it within six months and started doubling our revenue every quarter.

Of course, the switch was not without its challenges. We had no problem acquiring individual customers, thanks to the success of the auction site, but getting retailers to sign on wasn't easy. We started with small businesses, which had the most to gain from e-commerce, pounding the pavement shop by shop. We soon realized that offering them access to customers was not enough; we would have to help them with payment and delivery. Our success in facing those challenges is central to the Souq story.

As we were launching our revamped e-commerce site in the UAE, I got a call from one of the merchants using Souq. "I need to know if you are serious about this project," he said. That struck me as odd—I was living in the office with my team and working day and night to make the transition happen. So I invited him to come and meet with us.

"I was a petroleum engineer," he explained. "I used to make more than $10,000 a month. However, about a year ago, I started importing watches and selling them on Souq, and it has been so successful that I have given up petroleum engineering. So I need to know that you guys are going to stick around and make this relaunch work."

I couldn't sleep that night as the implications of his words sank in. Of course, enabling other businesses is what a marketplace does—and this engineer is only one of many people who have made themselves into independent traders on our site. But it is humbling to be so directly confronted by the human consequences of your business decisions.

ENABLING PAYMENT

Payment was not a big problem in the UAE. Credit cards were widely available and could be used online, so all we needed was the functionality to take online payments. However, to expand to other countries in the region, we would have to enable alternative payment methods, including cash on delivery. In Saudi Arabia, which is now one of our biggest geographies, credit card use online was not widespread; although the use of credit cards that charge interest is now sharia-compliant, customers still prefer to pay cash. In Egypt, another large opportunity, few people can meet the deposit requirements to get a card. If we accepted only credit cards, we would restrict ourselves to a tiny portion of potential customers; meanwhile, some other company would find a way to solve those problems and grow.

Linking to checking accounts was a major software-design challenge, because Souq would have to interface with systems at many banks that operated on differing IT infrastructures and yet give its users a uniform experience. We decided, therefore, to treat our payment system as a distinct entrepreneurial venture rather than just another in-house development project. We figured that we'd get a better payment product faster by tapping into the energy and creativity of the young entrepreneurs rising up around us. A growing community of ambitious, tech-savvy people were in or returning to the Middle East, and we believed that we could be a potential magnet for that talent and passion. Eventually we made the payment business its own company, led by Omar Soudodi, a key member of the Souq team. Launched under the brand PayFort, it has since become the leading online payment provider in the Middle East, and Souq transactions make up less than half its business today.

That left us with the problem of how to manage cash payments. We initially tried to get customers to pay before the merchants shipped their products, but we met with much resistance. E-commerce was still a new idea in our region, and people were hesitant to pay for stuff they could see only on a small screen. The alternative, of course, was cash on delivery, but that would put a burden on the merchant, who would have to pay for a delivery and, if the customer was not available to take it, a return as well. It would also be a struggle for some merchants to keep track of deliveries and payments. In any event, processing cash takes time, increasing the likelihood that money would not get to the merchant's bank account for several weeks, thus delaying access to working capital—a critical issue in many fast-moving consumer goods categories.

ALTHOUGH THE USE OF CREDIT CARDS THAT CHARGE INTEREST IS NOW SHARIA-COMPLIANT, CUSTOMERS STILL PREFER TO PAY CASH.

Engineering and software came to the rescue. We designed a digital offering for merchants and couriers that performs multiple functions. To begin with, a cash customer's range of product options on Souq is a function of his or her cash-purchase history, both in general and with a particular merchant: the more transactions the customer has completed, the more expensive the products within reach. When a COD occurs, the courier accepts the cash payment and instantly records it on his phone. The next time he returns to one of our sorting centers, he deposits all the money he has received, and the system credits the appropriate merchants' accounts immediately.

MANAGING DELIVERY

The primary logistics systems taken for granted in the developed world were still evolving in the Arab world. For example, many countries in the Middle East don't have postal codes (a notable exception is Egypt, which inherited a relatively sophisticated postal system from the British). That makes locating an unfamiliar residential address very challenging. One solution, of course, would be to deliver at pickup points, but we believed that consumers would not flock to online shopping if they had to go pick up a parcel every time they bought something. We would also need control over logistics to make COD payments possible. Third-party couriers took too long to process and reconcile payments.

SINCE CUSTOMERS USED PHONES TO BUY FROM US, WE COULD GEOLOCATE THEM FOR DELIVERY PURPOSES AND ALERT THEM TO ARRIVAL TIMES.

We decided to try managing deliveries ourselves in a few UAE cities. We hired some drivers and thought about how to make the process faster and more accurate. Once again, mobile apps came to our rescue. By this time, phones had map software and were starting to incorporate geolocation features. Since customers used phones to buy from us, we could geolocate them for delivery purposes, which helped get around the address problem, and we could alert them to arrival times to ensure that they would be there to take delivery and pay.

We realized very soon that our tech-enabled delivery would be much quicker than anything a courier partner could offer. In fact, it would be an opportunity, because we could also offer the delivery service to third parties. So once again we ended up launching a separate business: Q Express, which now reaches 80% of our customers. We have warehouses that accept goods directly from suppliers, and we have a service for collecting goods from vendors and taking them to our sorting centers, from which they are delivered to customers.

Practically every part of this system now runs off mobile apps, which means it is always evolving and improving. For example, we are currently investing in a delivery marketplace app (Wing) whereby individual drivers or small companies can make themselves available to run deliveries for our merchants or for us. This app lets us access drivers when we need extra capacity and lets our drivers find jobs when we can't provide them. It is a potentially disruptive business model in the way that car-sharing apps are, because it doesn't involve owning and controlling the assets, which is what Q Express and more-conventional logistics companies do.

Our delivery offering has proved remarkably resilient, even during civil disturbance. When the 2011 revolution in Egypt took place, for example, employees could work remotely as long as the internet and mobile networks were functioning, and delivery staffers could keep abreast of events and avoid trouble spots by communicating on their phones. So we continued to do business and make deliveries within curfew hours through most of the unrest. The internet was completely out only a couple of days, and there was just one week during which we could not operate.

LOOKING BEYOND OIL

When you think back on a story like ours, success may seem to have been inevitable. But it certainly wasn't when we started out. To begin with, raising money was a big challenge. Local venture funds did not understand tech, and most capital was invested in infrastructure, construction, and the petroleum sector. You could find many investors in Dubai for a mall or office blocks—but not for internet companies.

So I had to look for investors outside the Middle East. Our first backers were Tiger Global, a New York–based VC fund looking for investment opportunities that leveraged the internet in emerging regions, and Naspers, a South African media group. These companies suited us because we needed the advice of expert investors.

In the past two years, though, we have watched the development of an entrepreneurial ecosystem that has helped people become savvier about digital. Part of the reason is a growing acknowledgment that oil will not last forever and that the money that comes from it should go into industries with better growth prospects. The Saudis, for example, are investing in the digital space. There's also more interest in using oil money to develop the region's capabilities. With 50% of its population under 25, it is increasingly clear that the Middle East needs to create meaningful and enduring jobs.

Amazon's purchase of Souq is a major step forward in this respect. The company shares Souq's values and our focus on the customer, technology, and innovation, and it brings deep pockets and great expertise. We have plenty to look forward to together: The Middle East still has huge e-commerce potential, and we are currently operating in only a few geographies. Even in our existing markets, online sales account for barely 2% of retail sales—compared with 8% in the United States, 12% in Europe, and up to 15% in China. These are exciting times for Middle Eastern tech entrepreneurs, and we will see more and more investment like Amazon's in new businesses, bringing the opportunities and the jobs we all aspire to create.

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