Digital Marketing in KSA

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Since 2008, Eastline has been helping brands connect to consumers using a full array of digital marketing services supported by a proprietary technology platform and a unique market intelligence database focused on the Arab region. Earlier last year, we found ourselves at an inflection point; we had been operating from our only offices in Beirut with a network of agents and partners covering the Arab region, this model was showing signs of saturation and we realised it was time to grow organically by establishing physical offices in the serviced coutries.

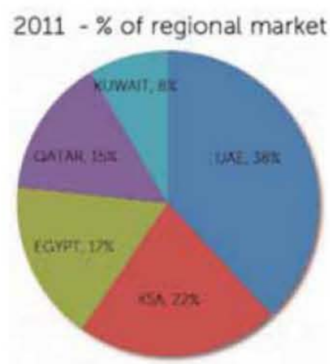
Even though we're a *"digital"* company, some aspects of our business, mainly client aquisition and retention, as well as content creation, require physical proximity and cultural immersion.

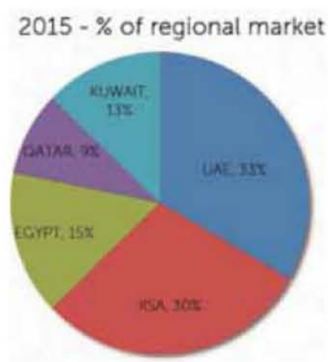
Looking at the top regional markets, we found that five countries represent circa 80% of the total digital media spend in the Arab region which is expected to reach USD 1 Billion by 2017. These countries are KSA, UAE, Egypt, Qatar and Kuwait.

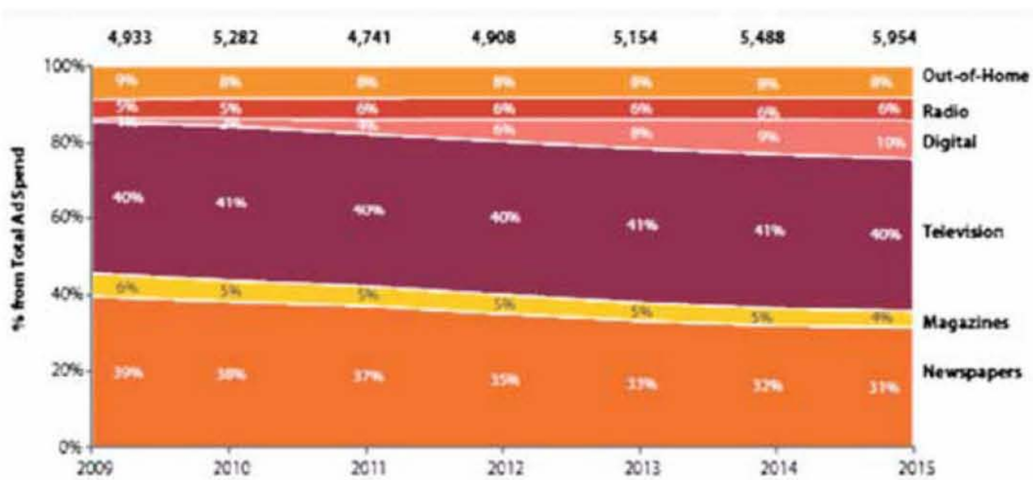
We also found that the majority of the UAE-attributed budget is spent by multinationals in the KSA market which makes the latter the biggest market with almost 50% of digital media spend.

We decided to take a closer look at the Saudi market which showed some solid growth potential. Here are some key findings:

- Digital advertising spend expected to grow at a **CAGR of 50%** over the projection period (2013-2017).
- On average people **spend 2.4 hours** online per day which is just slightly lower than the amount spent watching TV.
- Amongst the younger demographics, using the Internet is the media activity they would miss the most - more than TV.
- **78% of Saudis own a laptop.**
- **72% of Saudis own a smartphone or a tablet.**
- More than 70% download applications.
- 28% of the people who download applications do that more than once every week.
- **99% of Saudis** prefer to browse online in Arabic.
- **43% of Saudis** go online for the purpose of getting information.
- *"Watching videos"* online is the third most popular activity in Saudi Arabia.
- There has been a **260% year-on-year increase in YouTube uploads** and views, with 100 million page views a day from the Kingdom alone.

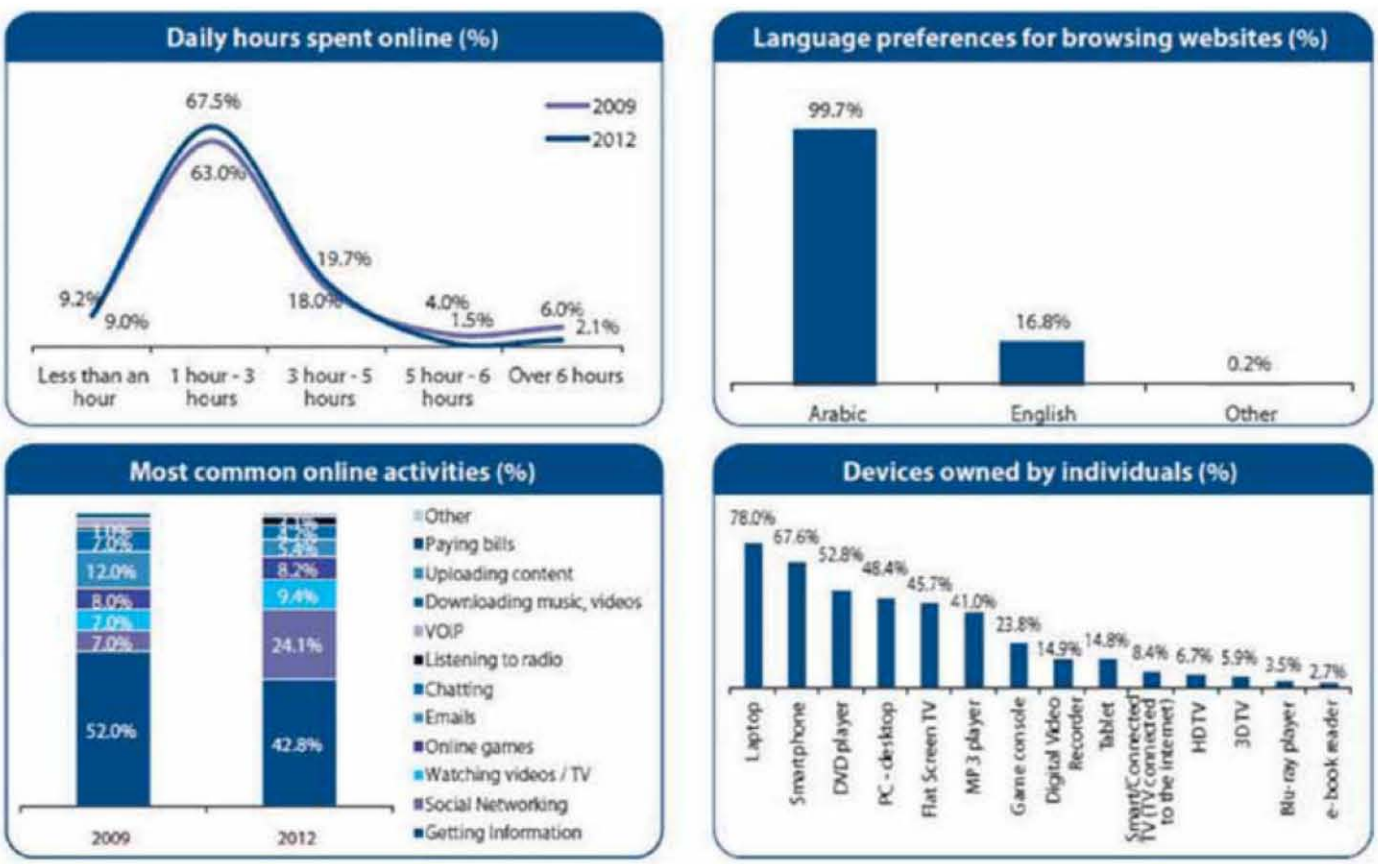




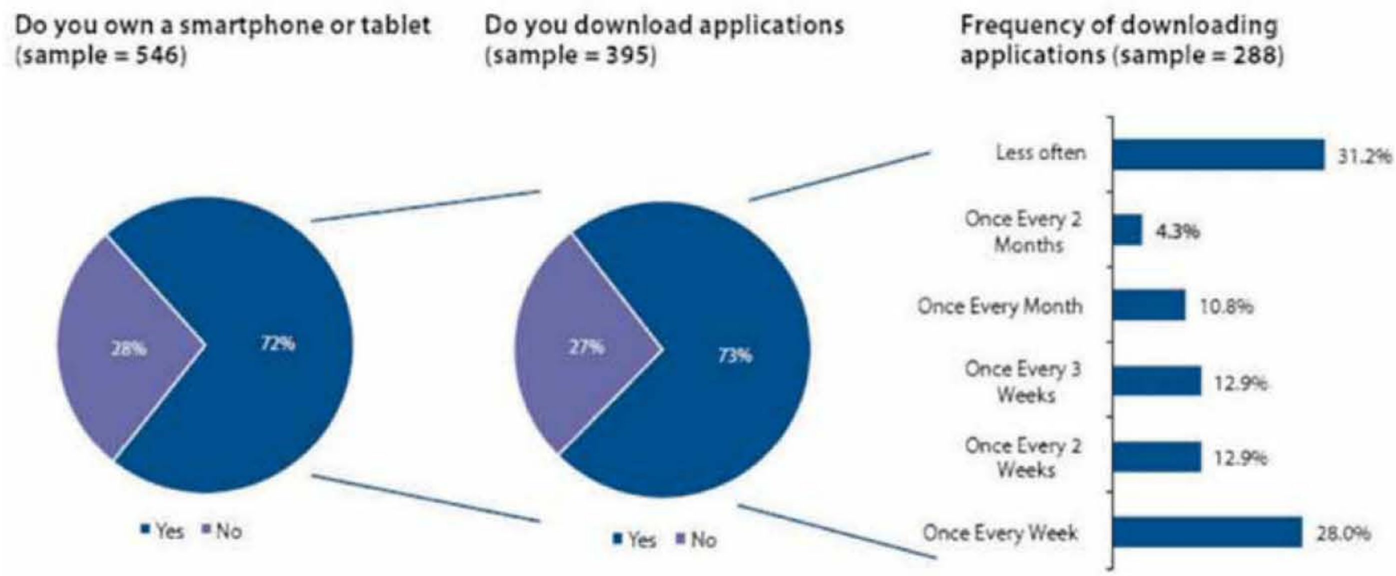


Revenue Projection by Platform for the Arab region USD millions. Source: Arab Media Outlook 2011-2015 (AMA).

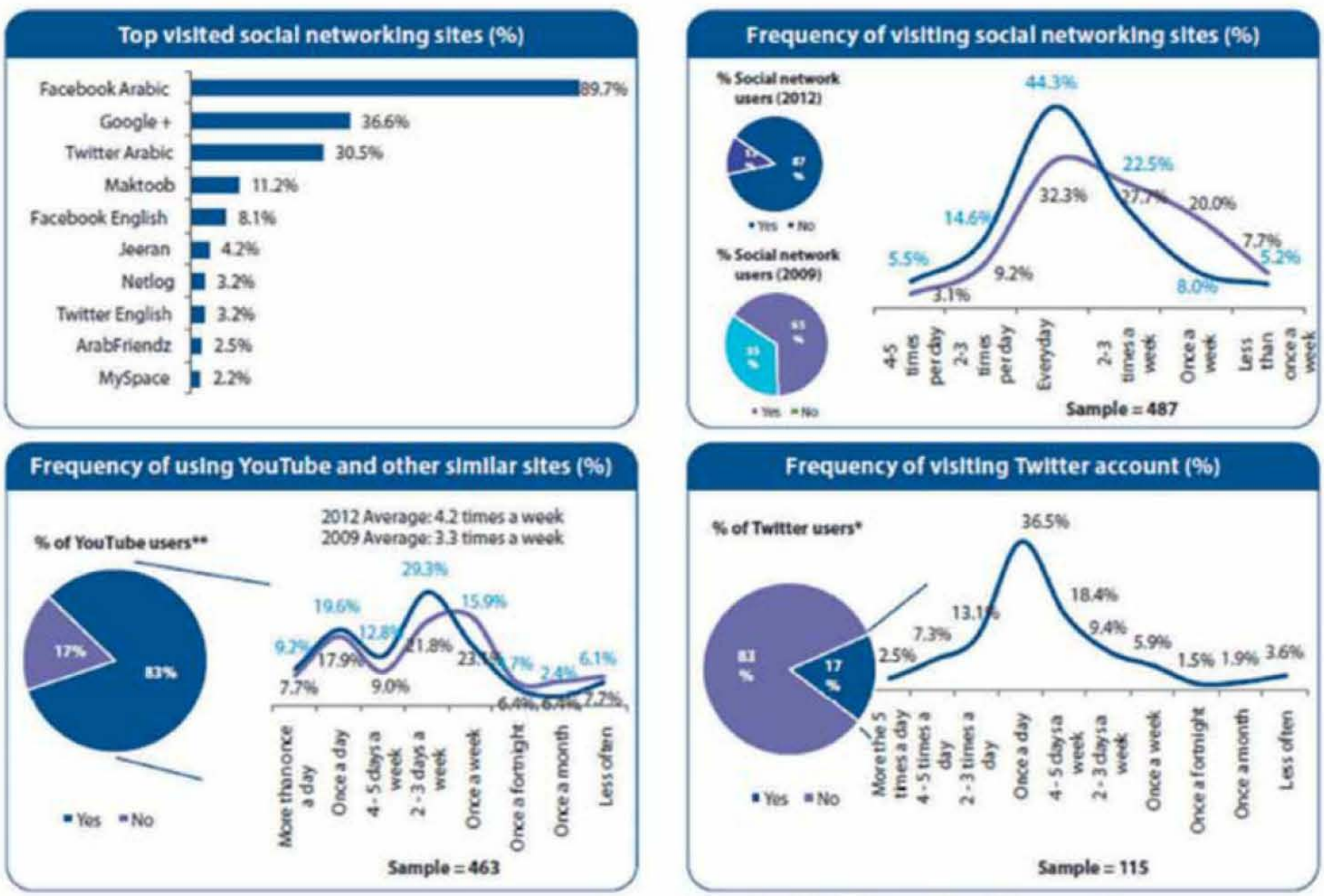
Revenue Projection by stream for the KSA market. USD millions.



Online trends in Saudi Arabia - market research results (sample = 546). Source: AMA.



Mobile Applications usage in Saudi Arabia. Source: AMA.



* More than 70% of Twitter users have Twitter accounts

Social networking trends in Saudi Arabia - market research results (sample = 546). Source: AMA.

Using these insights, coupled with field research conducted on the ground in Saudi, here's our current assessment of the Saudi digital media market:

The Opportunity:

There is an underserved market segment in KSA, Small and Medium Enterprises (SMEs). SMEs are stuck in the 'Vvalley of doom', where they are too small to afford bigger agencies, but too big to be handled by smaller more specialised agencies. These SMEs constitute 50% of the Saudi market spend. Typically family-owned, individual businesses or group of businesses with an archaic online presence and whose digital marketing budget can hover around $300K per year. There is a considerable opportunity in helping Saudi SMEs connect with customers through the different digital marketing channels that are available to them. There is also an opportunity in supporting bigger ad/media/pr agencies by acting as their 'digital arm' or technology partner.

We are also seeing growing demand in the following areas:

- Social media community managment (Managing a brand's presence on Faceook, Twitter. YouTube...).
- Localised Saudi-focused content (For websites, blogs, Social media channels...).
- Arabic search engine marketing and lead generation (Mainly for service-based businesses in sectors such as banking and finance, medical, manufacturing, insurance...).
- Mobile, social and web apps development.
- Biddable media management (Facebook and Google ads).
- Digital strategic planning and execution-management.

The Challenges:

Establishing a legal entity in KSA is not an easy task. Legally, there are only two available options: SAGIA or a Sponsorship.

- SAGIA is the Saudi Arabian General Investment Authority. A governmental body whose main objective is to oversee foreign investment affairs in the Kingdom. SAGIA is the only body through which a foreign entity can own up to 100% of a Saudi registered company. SAGIA used to be a great option a few years back; however, it currently seems to be under heavy restructuring. For companies like Eastline, the SAGIA process is a very lengthy one with an unknown outcome.
- The Sponsorship option entails entering into an agreement with a Saudi partner that legally owns 100% of the Saudi registered company. In this case, the agreement determines how revenue or profit is distributed amongst partners. The major caveat with this option is that this agreement is not always legally enforceable so there's a high risk of the foreign entity being left out, should the partnership collapse for any reason. We have seen different variations of the Sponsorship options. Some companies are partnering up with Emiratis as they are legally allowed to own a Saudi company. In this case the partnership agreement is honored in the UAE. Other companies are opting for Saudi equity investment in the foreign entity. In this case the Sponsorship option is considered as a satellite office in the Kingdom. It all really depends on one's strategic business plan.

Similar to most Arab countries, capital is not easy to find in the KSA, especially in the technology sector. Digital marketing is a relatively small and new sector which is still unattractive to risk-averse Saudi investors. Nonetheless, there are clear signs that the entrepreneurship ecosystem is healthy and there are some great entrepreneurship support platforms in the Kingdom. Endeavor, a non-profit global organisation that identifies and supports high-impact entrepreneurs, has already established an office in Riyadh and is supporting more than seven companies with the help of Abraj Capital and Oqal angel inestors.

One of the biggest challenges is to understand and adapt to the dynamics and changes that are currently underway in the Kingdom. There's a definite enforcement of Saudisation (higher ratio of Saudi nationals vs. foreigners in the workforce). There's also a plan to turn Riyadh into the financial center of the Kingdom and all efforts are aligned in this direction, so we made Riyadh our primary choice of location.

KSA is a self-centered market; what works in other Arab countries, will most likely fail in the Kingdom. We realised that in order to gain more credibility with our clients, we had to understand the intricacies of the Saudi culture, be present on the ground and listen very closely to the market needs.

Awareness and market education pose another challenge. Before this industry proves itself, we expect to put a considerable effort into highlighting the performance of the digital channel and create local success stories and attractive case studies. We also expect competition to grow at the same rate as the market growth.

In conclusion, Saudi Arabia is an attractive market for any Arabic digital agency. It is a difficult and risky market to penetrate. However, with a good understanding of its specificity, an early market-positioning and the right choice of partner, KSA has the potential to generate massive growth in future revenue.