FUTURE
for Advanced Research & Studies

Artical Name : Massive Monopolies

Artical Subject : The Repercussions of International Ecommerce Expansion in the Middle East

Publish Date: 09/07/2017

Auther Name: Dr. Ehab Khalifa

Subject :

A number of technological companies, like Google, Microsoft and Facebook, has succeeded in imposing their domination on technological sectors after a fierce competition that led to the collapse of some companies and their integration with others and the establishment of new ones. This raises questions about the features of massive monopolies by huge tech companies and these monopolies' repercussions on ecommerce in particular and on the future of ecommerce in the Middle East after the largest internet-based retailer Amazon bought Souq.com in March 2017.Technological MonopoliesGoogle is a manufacturer that has a monopoly over internet search while Microsoft has a monopoly over laptops' and computers' operating systems. Facebook controls social media networks either through Facebook itself or through its apps such as Instagram and WhatsApp. Amazon monopolizes retail ecommerce and eBooks while Netflix monopolizes the live broadcast of movies and television shows online. Samsung and Apple monopolize the smart phones' market in the world.This did not happen by coincidence as there's been a fierce competition among technological companies. The ones that succeeded were those which were innovative when providing services and which understood users' needs and reached the market before others. The ones that lost were those which did not adopt new ideas and technologies. The best example to this is the previous giant company Nokia that manufactured smart phones as it exited the market after it dominated it and it's making a lot of effort to return again.Many startup companies made hundreds of billions of dollars in very few years while some were sold or restructured because they failed to understand the consumers' needs. An example is Yahoo which is currently struggling to survive. When Google founders Sergey Brin and Larry Page offered Google for sale for $1 million shortly after they established it because they wanted to resume their studies at Stanford University, Yahoo refused to buy it. Back then, Brin and Page did not know they will be billionaires thanks to their new algorithms.Google's capital increased very quickly as it was USD 10 million in March 1998 and it reached $570 billion in April 2017. Alphabet Inc. which includes many companies including Google provides more than 200 services and products to its users unlike other search engines. It's also viewed as the biggest monopoly over the videos market on the internet via its famous website YouTube.Yahoo was not the only loser in the struggle to acquire and control the technological market. In terms of search engines, Microsoft lost the competition against Google as the former's MSN search engine failed against Google's and its new search engine BING did not achieve the desired success.This was not the first time that Microsoft lost against Google as in 2014, many employees quit Microsoft to join Google to the point that the latter opened an office that's only few kilometers away from Microsoft in Seattle, the hometown of Microsoft founder Bill Gates. Microsoft's value decreased from USD344.6 billion in 1998 to USD 258 billion in 2012.This major deterioration is because Microsoft limited itself to working on software and operating systems while new innovations surfaced across the world such as the flash memory which Toshiba produced. Apple based the iPod, which is one of its most important products, on the flash memory. The iPod is what allowed Apple to monopolize music online. This allowed the company to later manufacture the iPhone which is the best-selling smart phone in the world. Then it invented the iPad which raised the company's market value from USD 5.54 billion in 1998 to USD 752 billion in April 2017.Amazon's DominationAmazon monopolized 43 percent of online retail sale in the US in 2016. It's one of the biggest companies in the online retail sector as its market value was USD 355.9 billion last year thus becoming much more than its competitor Walmart which market value is USD 212.4 billion.Amazon made its way towards major monopolies by selling books online. The idea was introduced by Jeffrey P. Bezos in 1994. He left his work at Wall Street to invest in this project and began by relying on some acquaintances and people who were attracted by the idea. A year later, the first book was sold through Amazon. Investors began to line up outside Bezos' office to invest in the new project.Amazon succeeded at creating a real revolution in the retail sector by changing the concept and tools of the traditional shopping. It depended on the internet to market its products and used new technological tools as for instance it linked its website to a dynamic database that allows customizing the service according to users' interests. This is in addition to showing shoppers certain products which are selected to them based on their previous purchases. It also stores their data which they submitted the first time they visited the website, like the address and credit cards details. This made the website more popular among consumers.Amazon did not settle at this but it created another revolution in the field of books. It created the Kindle e-reader which contributed to turning physical books into e-books. It established new markets in this field then created the Kindle Fire HD Tablet which one can buy anything through. It made it easy for consumers to make purchases through its website and provided technological tools that helped them with the selection and payment process.Not only that but it also announced establishing Amazon Go, the first retail store where there are no lines to pay. All what the clients have to do when they enter the store is to sign in to their Amazon account, take what they want and leave. Sensors and cameras identify the agent and the products which he bought and the bill is then sent to his cellular phone to be deducted from his bank account.Amazon currently owns around 230 products that are sold online. Despite that, continuing to control the retail market in the world is not to be taken for granted as many companies compete with it such Alibaba, Walmart and other retail online stores.Virtual markets are increasing. For instance there is Express which opened the door for Chinese factories and companies to sell retail products to consumers. This escalated competition between it and Amazon and other virtual markets. Despite that, Amazon is making great efforts to expand in new markets that at least guarantee it stays in the forefront. One of these markets is the Middle East which is considered a promising big market for ecommerce. This expansion was seen in its purchase of Souq.com for USD 650 million.Souq.com attracted Amazon's attention as it had the highest percentage of online retail sales in the Middle East. Around 45 million shoppers visit the website every month. It displays more than 8.4 million products from 31 categories including electronics, fashion, health products, beauty products, house appliances and children's products.The deal acquiring Souq is a gain for both parties. On one hand, Amazon needs the website Souq.com because of its major control over ecommerce in the Middle East. Souq.com also has had major experience in the region ever since it was established in 2005 as a bidding website and after it became an ecommerce site in 2011. It also has its own online payment gateway PayFort which provides a technology that suits the needs of the Arab region's market. This is in addition to its presence in three major Arab countries which are Saudi Arabia, the UAE and Egypt.Meanwhile, Souq.com will benefit from the deal to get Amazon's developed system which uses robots for storage operations and drones to make deliveries. This is in addition to Amazon Go, Amazon's smart shop. This improves the quality of services provided to clients, delivers purchases in a very short time and introduces the millions of new products which Amazons produces to its clients across the world.Reasons for Ecommerce PopularityThe increase in virtual markets in the Arab world and across the world has many reasons such as:1. Change in consumers' culture: The technological revolution changed the consumers' culture and encouraged shopping via the internet. Meanwhile, some of these websites developed their own marketing strategies so they created media campaigns and broadcasted them on television and displayed them on the streets to reach the biggest number of traditional consumers in order to make them shift to online shopping.2. Diverse options provided by virtual markets: One can go through hundreds of the product's different models on a countless number of virtual markets. There are also many price comparison shopping engines and websites.3. Increasing spread of smart phones: The increased spread of smart phones for low prices and shopping apps contributed to energizing ecommerce and reaching a bigger number of users.4. Low cost: Online prices are usually cheaper than products in the traditional markets in order to attract more consumers. We can specifically find this in the aviation and hotel sectors as the prices they post on their websites are much cheaper than those provided by travel and tourism companies.5. Cash on delivery: Not all consumers have credit cards or prepaid cards to use while making online purchases. Therefore, many online shopping sites make this cash on delivery service available. This helps it become more popular among different types of consumers.Beneficiary SectorsThe spread of virtual markets positively affected different sectors such as:1. Tourism sector: It's viewed as the sector which benefits the most from online shopping considering it allows consumers to check hotel services and airlines, compare prices and learn about others' experiences and impressions.2. Mail sector: Many mail companies developed by relying on services that deliver the products of online shopping sites. Aramex for example is the first Arab company that's headquartered in the Arab world. It is listed in Nasdaq, and it's has more than 13,900 employees in more than 354 locations in 60 countries. Around 40 independent delivery companies are affiliated with it and work with it as part of a network across the world.3. Real estate sector: Real estate websites greatly contributed to the popularity of the sector. Many websites that market different properties emerged and they provide specific details about the listed units such as photos, areas and asking price or details about transportation in the area of the listed unit. This made it much easier to search for housing units for residential or commercial purposes. It also contributed to decreasing obstacles between sellers and buyers.4. Crafts sector: Virtual markets contributed to marketing crafts as it allowed craftsmen to promote their products via websites and to attract a large number of customers across the world. This contributes to protecting crafts from going extinct, increases earned income and turns crafts from a local product into an international one.5. Recruitment and employment: One cannot say this sector has been harmed by e-marketing. Virtual markets may have decreased the chances of hiring traditional sellers; however, it increased the demand on other jobs such as those related to storage, shipping and delivery companies. This is in addition to reviving jobs pertaining to software development and design of digital platforms.Online Shopping ProblemsThe increased reliance of virtual markets and digital commerce raises several problems such as:1. Electronic safety: Many agents fall victim of online scams or their visa card information gets hacked or their money is stolen while they're making an online purchase through hacking it or infiltrating its data. However this can be resolved via using trusted payment gateways.2. Defying the state's sovereignty: Some websites that work in the black market provide products that may be prohibited in some countries, such as arms, drugs and espionage and self-defense tools. This poses a frank challenge to the state's sovereignty and violates its rules and regulations as virtual markets do not recognize geographical borders within the electronic space.3. Customer service: This is one of the major problems in virtual markets as there is still a need for efficient communication between the seller and the buyer to understand the characteristics and features of the product and to be advised by the technical support team, especially if the product is technological. This is in addition to following up on post-payment services by confirming that the buyer received the product in good shape and as expected and that no mistakes happened during the shipment process. It's also important to quickly deal with any problem that the client may face.4. Credibility: Some virtual markets run fake promotions and announce that some products are on more than a 50% discount. However the discount is not as much and many online consumers see this as fake promotions. This casts doubt and raises many questions about the credibility of the online shopping site.In conclusion, the Middle East is considered a promising market for ecommerce especially considering the increased number of internet users in the Arab world. The Middle East's online commerce market grew from USD 7 billion in 2011 to USD 15 billion in 2015. PayFort's report expected online payment transactions in the Arab world to increase to USD 69 billion in 2020. This pushed prominent investors in the region to head in the direction of investing in this promising market to acquire a share of profits.