Khaldoon Tabaza of Imena Group: 'With online classifieds, the sale is always local'

What is the one indicator that will give you the confidence to invest?

Imena is a group with a geographic focus that does not span globally, but rather on the Middle East. The single most important factor, then, is if a company's business model has geographic or local defensibility. We make a clear differentiation between what we view as global business models, such as e-commerce and streaming media, which do not create a local network effect, and other models like classifieds that have regional defensibility and a network effect of local supply and demand. Another important factor is for a business to have a significant barrier to entry to global players.

What's most important: the idea, the technology or the people involved?

Obviously, people are extremely important. A business must be extremely people- and execution-driven. The second-most important factor would be the size of the market. When it comes to classifieds and marketplaces, cutting-edge technology takes a back seat for us, at least initially. At the outset of the launch and deployment of a business, we want to grab as much market share as possible. That's why we pick business models like real estate, automotive, recruitment, and food and beverage.

We prefer a simple model at first with only the most essential features. Later we can add more technology and functionality. Technology can always be procured or sourced out at the start. Later we can innovate incrementally. All of this is based on our view as a regional classified business. It's very different if you're a U.S. business trying to compete globally.

How important are external factors, like population size and internet penetration?

Extremely important. The business models we target are all long tail. With classifieds, market size is directly correlated with external factors such as

Khaldoon Tabaza, Imena's founder and managing director.

the population and GDP of a country. And since our models are local and regional, and we can't afford the luxury of global growth, smartphone and internet penetration rates are also very important for us.

The United Arab Emirates (UAE) is probably the most mature market in the MENA region. Saudi Arabia and Egypt are less mature than the UAE but, in the long term, they are larger markets and consequently key markets to us. In this part of the world, you have to win two of the top three markets in order to have a chance of dominating your particular business model. That will then have a spillover effect on the rest of the market – Bahrain, Jordan and Lebanon. Morocco is fairly large and attractive but has different characteristics; it requires French for its user interface. The other countries are all bilingual in English and Arabic.

What do you pay the least regard to when a business is looking for investment?

The initial founder-presented forecasts. These tend to be extremely forward-looking and optimistic. And we know that we need to be more realistic. We need to do our own financial models and forecasts. In most cases, we will conclude that a business needs more money and that it will take longer to break even than the founder anticipated.

What's the most typical mistake you see start-ups making?

Founders underestimating the time required to secure the market share that they're aiming for. For founders in the Middle East, the most common mistake is disregarding or overlooking the differentiators between global and local business models. For example, with video streaming. One day, Netflix decides to turn on the switch and launch in the Middle East and all of those business models faced tremendous challenges. With online classifieds, the sale is always local.

Classifieds in the MENA region have always been mobile-driven. Almost all the successful classified businesses started simultaneously on web and mobile and grew quickly to be mobile-dominated. For example, from almost day one, the majority of users on OpenSooq were mobile. Many people know these businesses as apps not websites.

When do you like to see start-ups beginning to generate revenue?

It depends on the business model. For horizontal sites, we have to play by the playbook – that is, to achieve market domination before we turn on monetization. That's the case in both emerging and developed markets. In vertical classifieds and marketplaces, we need to have a strong sales operation and a clear monetization model from day one. Despite the fact that it still takes time to break even, a vertical site needs to adopt a proper pricing model to make sure it's positioned appropriately – or else it won't be able to win over the long term.

How long can we wait until there's revenue? If a site is the only player in the market and the cost of marketing is low, then two to four years. If there is aggressive competition and the cost of marketing is high, it could be as much as 7-8 years. That's in terms of listing revenue and value-added services revenue. The site could still generate revenue from advertising and subscriptions. We will wait as long as we see the business is going in the right direction – the operational KPIs, user attention, leads generated, increase in unique visitors and page views. Then we know it's building value and it's just a matter of time before we turn on the monetization.

Khaldoon Tabaza has been involved in more than 60 SME and venture capital engagements, including co-founding, managing, and advising SME firms and investment funds in Jordan, Egypt, Saudi Arabia, the UAE, Kuwait, Qatar, and the U.S.. Sectors of expertise include technology, media, telecommunication, Internet, and healthcare. He is the founder and MD of Imena Group, a hybrid investor and operator of classified and marketplace websites in the MENA region.

What business models do you feel are more likely to attract investment moving forward?

With marketplaces and classifieds, all the key business models have been taken in the region, either by Imena Group or others. For those business models, the existing classified leaders will continue to attract significant investments. I don't see new classified businesses being able to raise serious money, I see more funding going into b-to-b marketplaces and services. For example, freight and logistics are ripe, as are both pre- and post-sales, alternative finance and lending marketplaces in the automotive industry. The banking industry in general is also ripe for disruption in this part of the world.

How difficult is it to find really good prospects to invest in?

It's difficult if you adopt a typical venture capital, passive, pipeline deal-sourcing model. But if you identify the business you want to be in and proactively find potential companies, then it becomes much more rewarding. In our space, the opportunities we have at hand – OpenSouq, SellAnyCar and our restaurant reservation marketplace, ReserveOut – will keep us busy for quite some time. We believe the potential of these businesses alone is extremely attractive, and it's in our best interest to focus all our efforts and resources on those for next few years. So at this time, we are laser-focused on growing our business models and achieving their potential rather than starting or investing in new opportunities.

We will, however, look for opportunities that are adjacent and synergistic to our existing business models.