

The benefits, opportunities and barriers of e-commerce for a developing country

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Abstract— E-commerce has been seen by many as an opportunity for developing countries to gain a stronger foothold in the multilateral trading system. E-commerce can play a pragmatic role in helping developing economies benefit more from trade. Unlike the requirements necessary to run a business from a physical building, e-commerce does not require storage space, insurance, or infrastructure investment on the part of the retailer. However, there are many obstacles in developing countries which seriously hinder the growth of their e-commerce industry.

Index Terms— economic development electronic business, electronic commerce, developing countries, developing economies, ICT, social development.

1 INTRODUCTION

The first decade of the new millennium witnessed a profound change and dramatic increase in the way business and trade takes place electronically. Each day, more users in least-developed and developing countries are accessing the internet through terminals. A growing percentage of users are now also accessing the web through mobile technology. It is predicted that the internet and especially the use of mobile applications will expand exponentially in the decades ahead. There is enormous potential for using ICT to contribute to the social and economic progress of developing countries worldwide. A key role in this regard is played by SMEs.

E-commerce has been seen by many as an opportunity for developing countries to gain a stronger foothold in the multilateral trading system. E-commerce can play a pragmatic role in helping developing economies benefit more from trade. Unlike the requirements necessary to run a business from a physical building, e-commerce does not require storage space, insurance, or infrastructure investment on the part of the retailer. The only pre-requisite is a usable web storefront to reach customers. Additionally, e-commerce allows for higher profit margins as the cost of running a business is markedly less. Another advantage provided by e-commerce is that it allows for better and quicker customer service. In some cases, customers could have direct access to their own personal accounts online and can avoid calling companies on the phone. This can save both time and money. Adding customer online services such as overnight package delivery services can also have commercial benefits. These can be complemented by package tracking services which allow customers to check the whereabouts of their packages online. This helps provide good levels of customer satisfaction with very little effort from the side of the business.

United Nations Conference on Trade and Development (UNCTAD) Information Economy Report (2010) shows how ICT use by micro enterprises and SMEs has improved not only business performance but has helped improve livelihoods in some of the world's poorest regions and communities. Many entrepreneurs in developing countries now have a real possibility to benefit from ICT in their business activities. In many

cases, this has resulted in gains in enhanced productivity.

Developing countries represent a market with immense potential for e-commerce. Academic research usually mentions e-commerce as a sound strategy and an ideal opportunity for these countries to cash in on new economic avenues. According to the UNDP (2005), developing countries should embrace e-commerce as it will enhance their economic and social development, lead to gains in commercial productivity, lower the operating costs of businesses, and enhance the level of domestic integration with international markets. These countries have generally exhibited low rates of basic Internet usage, but the growth rate has been high. UNCTAD (2005) reported that between the years 2000 and 2005, these countries experienced a spike on Internet user population to around 400 million, which equated to a growth rate of 300%, and an increase in their international proportion of all Web users from 25% to 40%. Internet bandwidth displays a similar trend as the increase in bandwidth in these countries was twice as that of developed countries. While these statistics can be extrapolated to a corresponding increase in e-commerce adoption in developing countries, there are many local realities which act as obstacles for these countries in their quest for economic prosperity via e-commerce (Molla and Heeks 2007).

However, there are many obstacles in developing countries which seriously hinder the growth of their e-commerce industry. E-commerce has the potential to provide many opportunities in a manner unprecedented by other technological advancements, with its positive impact on trade, investment, business transactions, and market penetration (Wresch and Fraser 2011). But the conclusion reached by many researchers who have tried to search for the realization of these benefits in developing countries has been disappointing. According to Molla and Heeks (2007, 105), "the majority of businesses do not appear to have obtained E-commerce benefits in terms of expanding their access to markets, improving their reach or linkages to customers or suppliers, or in relation to cost savings or other efficiency gains". The obstacles may vary between countries and regions but the commonly reported barriers that these countries face include a severe dearth of mana-

gerial skills requisite to formulate and implement an e-commerce strategy for business. Internet connectivity with regard to the cost, quality, and speed of the service provided is another stumbling block while lack of effective branding and trust issues is another important barrier to e-commerce growth. The latter has succeeded in pricking the e-commerce bubble in these countries as buyers feel more secure conducting transactions from renowned companies and brands (usually belonging to developed countries) rather than from unknown companies online (Travica et al. 2007). Lack of robust logistical networks is a barrier already discussed with reference to the Indian e-commerce market, and this factor is a common barrier for e-commerce in developing countries. Another common obstacle these countries face is the absence of a sound legal and regulatory environment for e-commerce, which acts as a deterrent for both buyers and sellers to conduct business over the Internet (UNCTAD 2004).

The unique social, cultural and political characteristics of each country and the concepts associated with off-site exchange systems pose a much greater challenge and act as the major impediments to diffusion and broad acceptance of e-commerce. Even though off-site exchange systems that are similar to e-commerce, such as catalog and telephone sales, have existed in developed countries and have been used by the public for an extended time period, such systems are new and novel approaches in many developing countries and may not be as suitable to its culture and way of doing business

Some of the local cultural characteristics do pose significant challenges for the e-commerce industry in many developing countries. There are two distinct characteristics businesses must deal with:

1. Transaction trust (ordered goods will arrive, payment will be made): Contracts are expected to change and promises may be broken; a strong individual relationship is often the only indispensable ingredient that is required for the implementation of a contract. Counterfeiting and distribution of below par products is a major problem and further aggravate this lack of transactional trust between parties who do not know each other personally and separated by distance and technology.

2. Socialization effect of on-site commerce (friendly conversations between the vendor and the customer): The success of doing business in many developing countries also depends heavily on the quality and sometimes the quantity of personal relationships. For many people, a strong individual relationship and long term association between the parties provide a sense of community and enhances social bonding. Most of the business is conducted through small enterprises and it is local. A typical local company is a socio-economic entity.

Businesses, to overcome the infrastructure and cultural impediments, should take a more active role to bring about a broad-based consumer society, encourage government to institute reforms that enhance the economic system (legal changes that support business contracts, and encourage consumer credit and servicing by the banking industry, built telecommunication and transportation infrastructure, etc.). However, they might not have much choice but to wait for more profound

cultural changes to take hold (with the help of governmental actions and increasingly higher living standards) and, as they do, utilize business processes can utilize business processes that will enable and encourage e-commerce. A combination business model (virtual and physical presence) may be the only way for businesses to participate in e-commerce in many developing countries. A virtual storefront supported by a local distribution center will overcome the "touch-and-feel" concern and the lack of "transactional trust". It will also help develop a physical relationship between the two parties (buyer and the virtual seller) involved in the transaction. The companies that never have had any local physical presence, new entrants, can employ a "third party certification" or a "guarantee system supported by local government or business" to overcome the major transactional trust issue that is a profound characteristic of this culture.

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