

A study on the Challenges Faced by Individuals and Industries in using Electronic Commerce in the Kingdom of Saudi Arabia

Doha Alawdah

B. Sc in Management Information Systems, Business Administration Department
Jubail University College
Jubail, Kingdom of Saudi Arabia
&

Malak Alahmari

B. Sc in Management Information Systems, Business Administration Department
Jubail University College
Jubail, Kingdom of Saudi Arabia
&

Bushra Quyyum

Lecturer, Department of Computer Science
Jubail University College
Jubail, Kingdom of Saudi Arabia.

Abstract— This paper examines the most significant inhibitors of e-commerce in Saudi Arabia. It focuses on B2C type of e-commerce. E-commerce is known to be a challenging yet a promising field for both businesses and consumers. Even though with spread use of internet, high purchasing power, economic growth and government stability, e-commerce implementation is in its early stages in the kingdom of Saudi Arabia. The study revealed that lack of payment option verities, poor delivery system, societal aspects, absence of government support, security and privacy concerns and lack of e-commerce awareness and its potential benefits are among the main inhibitors of e-commerce implementation in Saudi Arabia.

Keywords-component; E-Commerce, Saudi Arabia, challenges, barriers.

I. INTRODUCTION

Electronic commerce or e-commerce is a rapidly growing industry. E-commerce is process of the buying and selling of goods and/or services electronically. Internet was first introduced in KSA in 1997 for the public use. The internet has revealed many business contexts such as e-business, e-mail, e-commerce and e-communication, e-learning and even e-government. The c-commerce concept is found after the success of internet and its application. It has three main types: Business-to-business (B2B), Business-to-consumer (B2C) and Business-to-government (B2G). This paper is dedicated for (B2C) e-commerce such as Amzaon.com. The population growth in KSA is 3.7% annually. [6] This rapid growth increases the demand of products and services. In addition, more than 50% of the Saudi population is under the age of 25. [6] This new generation can help in improving the information technology aspect of e-commerce. Saudi Arabia has the potential to be considered as the leading retail sectors among the gulf corporation council (GCC) due to reasons such as economic stability and high purchasing power.

E-commerce has many advantages for both customers and business. Some of which are convenience, coupons and deals, time saving, easy comparison, availability of reviews, variety of options and lower prices all are from a customer standpoint. From a business perspective, advantages could be rise in sale, increase customer base, expand business reach, instant transactions, greater accessibility globally, greater availability 24/7, penetrating into new markets, identifying new business associates, cost reduction, streamlining processes, better customer satisfaction and services and generating more revenue and profits. [1]

Although e-commerce has some disadvantages such as privacy and security, logistics, quality and dealing with multiple legal systems. The drawbacks are not impossible to avoid. If we have enough management on risks, we could really get a lot more benefits from e-commerce.

II. SCOPE AND NEED FOR THE STUDY

Ministry of e-commerce and industry in KSA has released recently a draft of its first e-commerce law [7]. This would ensure the following:

- Sellers have to display terms and conditions on their website.
- Sellers need to display accurate price, product information and notify consumers of extra charges.
- Customers must be provided with an invoice in Arabic language and must include price per item, the total price and the delivery date.
- Sellers will not be able to keep personal data longer than necessary.
- Sellers will not be able to use personal data or share with third party without the consent of the consumer.
- Delivery that is 15 days late will need to be refunded to seller.

Penalties if companies are not following the law are: [7]

- Fine of 1 million Saudi riyal
- Warning
- Blocking from the internet.

III. Objectives

The Objective of the research paper is to

- Explore the main and significant challenges and inhibitors of e-commerce in Saudi Arabia for individuals.
- Explore the challenges and inhibitors of introducing e-commerce in the major industries of Saudi Arabia.
- Suggest some recommendations to be followed to overcome the identified challenges.

IV. Review of Literature

A number of researches have been conducted to examine the challenges of E-commerce in developing countries including Saudi Arabia. E-Commerce adoption is one of the most important factors for economic growth and for businesses to remain competitive; it is a big challenge field. Having online sale is really increasing worldwide; however, this is not the case in Saudi Arabia. E-commerce is trending slowly in KSA even though with strong economy, high purchasing power and rise in usage of internet and this is due to some barriers. According to the ministry of economic and planning report in Saudi Arabia for the year 2013, statistics shows: estimated population is 29,994.272 million, with growth rate of 2.7% and \$ 25,700 GDP. [2] The GDP shows that Saudi customers are willing to spend money to fulfill their needs and demands. Nevertheless, e-commerce and other electronic services are not fully exploited yet. At the moment the e-commerce in Saudi Arabia is still in the construction phase. [2] There was a lot of interest in overcoming the obstacles faced, both in the public and private sectors.[6] E-commerce is limited to the use of the Internet for serving customer and its known characteristics such as confidence, support of electronic payment, sale and purchase, loyalty and adaptability, transaction processing and scalability. Ecommerce sellers are facing difficulty in keeping loyal customers for its sites. As customer loyalty has a strong impact on the profitability and long-term growth of B2C e-commerce. There are two main variables affecting this loyalty: customer satisfaction and customer trust. The impact of these factors is demonstrated by four ways. First, if the perception of the quality of user interface is good, this leads to a direct positive impact on customer satisfaction and trust. Secondly, if the quality of the information and services provided on the site is reliable and accurate, this will directly increase the trust and satisfaction of the client. Thirdly, if the site provides a high level of security and good security features, it also increases customer satisfaction and trust in dealing with these sites. Finally, the lower the risk of privacy on sites had a direct and positive impact

on customer satisfaction and trust behavior. The higher trust and customer satisfaction on site leads to more customer loyalty. [3]

Consequently it's obvious that there is a slow adoption of e-commerce technologies in Saudi Arabia and this due to either internal factors which are related to organization or external factors which are related to infrastructure and government support. Of course, the implementation of e-commerce in developing countries is different from developed ones and therefore, each uses different business practice and methods. For that reason, models used in developed countries cannot be applicable precisely to the developing countries. One of the models of developing countries is Perceived eReadiness Model (PERM) which recognize the contextual and organizational factors affecting e-commerce implementation. It states two main concepts for measuring both internal and external factors. These are Perceived Organizational eReadiness (POER) which is when organization has the awareness, resources and commitment, and the other is Perceived External eReadiness (PEER) which is when the market forces, government are ready to support organization. [8] All of these models do affect e-commerce adoption and growth. By making use of PERM model with its theories PEER and POER, a study has resulted into two conclusions:

1. Environmental factors are more probable to affect early adoption of e-commerce in KSA which is a stage of being connected online but not making online profits. It's a way of company recognizing the market forces, the supporting industry and governmental regulations.
2. By means of a company striving for e-commerce adoption growth, then organizational factors such as resources and commitment turn out to be the key determinant factor. One of the most important external factors is the market force eReadiness which signifies the capability to adjust to market changes. [8]

The most common barriers of e-commerce growth in Saudi Arabia resulted from a number of studies are as follow:

One of the most important challenges of e-commerce in Saudi Arabia is the method of payment knowing that credit cards are the most common and pervasive payment option. There is no variety of options if any, such as paying on Debit Cards or Cash on Delivery. Saudi Arabia, is one of few country that considers sharia Islamic to be applied completely. Therefore, we can see fear of people about the idea of issuing visa card which is the most used in around the world in payment transactions. And the reason is Interest rate that results from using the visa card as they thought of as Riba and this is conflicting to the principles and provisions of the Islam as the Riba in Islam is forbidden and this is from religious point of view. Other thing to be considered is tough conditions for issuing credit (MasterCard's, Visa) card in Saudi. One is customer should be having a fixed salary and have been employed for at least 6 months. Sometimes people has money but no steady income, they will face a problems issuing credit cards. Students are not authorized too. Given the prevailing unemployment in Saudi Arabia it is not that easy for people to get credit cards. [4]

Another challenge is that many members of Saudi society think that payment via the Internet is not safe at all and it's undoubtedly because of fraud and theft of funds especially that they did not know if the site is reliable or not. People tend to lack trust and expect their personal and/or their financial information to be revealed. Moreover, failure to ensure the infrastructure for online payment, and the Kingdom has recorded a large number of cases of fraud in the online payment process. Easily by knowing the card number and the 3 digit security code anyone can use your card to make purchases over the internet. Saudi Arabia has many small and undeveloped cities that did not have sufficient knowledge about the online payments. The resident of these region might think that this process is considered 100 % one of the frauds process. Therefore, most of them prefer a direct pay on delivery . The Saudi Arabian Monetary Agency (SAMA) is responsible for regulating transactions online, but did not contribute to the development of Internet banking facilities in terms of confidence and security. It does not set certain regulations that prevented illegal activities between companies and electronic commerce. This in turn reduces the tendencies of people to buy the goods and services over the Internet.

In addition, people also may expect the seller to be cheating and don't ship goods or services as what customer expects thus quality concerns arises. For instance, failing to provide accurate size or color of a t-shirt. [4]

Another significant issue is poor postal delivery system which is lacking of efficiency in the provision and delivery of goods and services to customers. Apart from large cities such as Riyadh, Jeddah and Dammam, the most common problems is that houses in Saudi do not have addresses. Lack of addressing system makes it hard for delivering the product to people's door in a timely manner. People delivery process depends on explaining landmarks that could help to reach to the address houses and streets such as supermarkets and petrol stations, mosques, traffic lights and other clear landmarks. Any delivery process in Saudi Arabia requires the name and mobile phone number of the client that can help in communication to arrange either pick up or deliver the order to the home with paying fees additional to order price. These fees are expensive, for example if the customer lives in a remote area, far from the big cities, the cost of freight will be high and take a long of time until reaching the desired location. Another option is that customer goes and pick up their deliveries from post offices located in their city after subscribing. All of these weaknesses reduce customer demand again from purchasing over the Internet. One of the new developed services in Saudi post is "Wasel". Wasel service is provided by the Saudi Post that is launched in 2005; however, it develops slowly. Wasel enables customers to receive their mail at their residence.[4] Wasel was able to contribute of the solution of many delivery problems in the cities , but until now have not been able to develop a delivery system to distant areas which has more need to use e-commerce when compared with big cities. E-commerce for those living in rural areas is the perfect solution to meet all their needs and wishes. Wasel Alami is an international service which enables customers to receive packages globally. Its creates a private mailbox for the customer in the specified country such as US,UK, China and so that whenever consumer buy a product online , it goes to the address created by Wasel. Then after paying the fees , its Wasel responsibility is to take the package from that address to your local one. This is a little bit complex process which usually results in loss or late of delivery. [2] [4]

The government is considered as an engine the assist for promoting the features and benefits of electronic commerce. It could allow clients to deal with e-commerce sites in more comfortable form. Nevertheless, the Saudi government did not have a significant role in the development of e-commerce. It's not putting regulations and clear rules that help to regulate electronic commerce regarding protecting customers and licenses and sanctions will be taken in the event of fraud or theft. If Any citizen has got a problem of this type, so he will not be able to recover its right easily, because there is no clear legal lines can help them to recover their rights. The gap in the availability of resources and consumption of Saudi citizen is mainly due to the lack of government involvement in providing services to the population. Also the poor infrastructure has a significant role to reducing the advantage from e-commerce operations. The government needs to have sufficient knowledge about the benefits and positive impact of e-commerce development in the region. And also poor infrastructure is one of the reasons for the slow growth of the technology sector in Saudi Arabia. [2]

Finally, Saudi society lacks an awareness of e-commerce benefits. The benefits must be attractive to customers including both economic and cultural benefits. Sellers must be precise and put clear description and specification of items provided with pictures in the company website. Companies selling online must remove cost of marketing, store and manpower and thus decrease prices. To raise the awareness in Saudi Arabia, social media such as Twitter, Facebook and Instagram can play a vital role by helping sharing campaigns of e-commerce. In addition, other media source such as TV and street signs. E-commerce awareness success depends on aspects such as clear regulation, improved delivery system, easier payment options and government support. [4]

Another classification has divided barriers in developing countries (Third world countries) into infrastructure, socio-culture and socio-economic hurdles.

1. Infrastructure barriers: such as telecommunication (network). Internet in most developing countries is not that much reliable and its relatively low speed because of the narrow bandwidth

provided by ISP. The cost of accessing internet plays also an important a role in developing countries. [5]

2. Socio-culture barriers: most of people in developing countries lack the confidence in technology and online culture. They don't really trust buyers as payment is made days earlier before the product is received. In these cultures, trust is usually enforced through repeated personal contact and interaction. Furthermore, shopping in these countries is seen as a social place where sellers and buyers get to chat with each other. In addition, language is considered a barrier for accessing information and internet where some people are uneducated. [5]
3. Socio-economic barriers: lack of information and communication technology (ICT) as well as business skills. Moreover, less people in developing countries have credit cards as they stick to debit cards. Also credit cards may not be acceptable without signature and so they need additional confirmation through fax. Furthermore, many fraud and security breaches happen. Additionally, logistics by distributing and delivering packages in a timely manner is more problematic because of no clear addressing system.[5]

Some examples of Saudi companies that have successfully implemented e-commerce are "shy 7lo shop" (www.shy7lo.com) which started in 2011 as one of the oldest Arab specialized in the field of fashion e-shopping sites offering a variety of high quality products for more than fifty global brands. Another is "Brands Boutique" (www.brandsboutique-sa.com) which is an e-store that sells the latest original brands and at lowest prices. It deals with senior partners in Europe as a distributor in the gulf region for international brands. It begins in 2010 has gained satisfaction of a large segment of customers in all regions of the Kingdom. In 2013, it started shipping globally. Another is "Vanilla e-shop" (<https://vanillaeshop.com/>) that is an online boutique that satisfy all needs of customer life at, work, school, university, and social gatherings.

V. Methodology

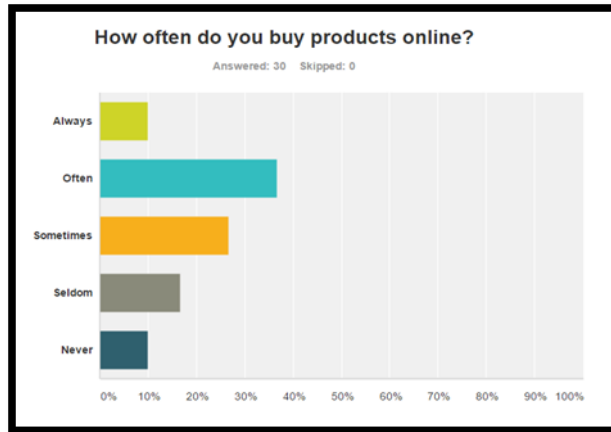
The researcher used both Primary and Secondary data. An online survey was designed and conducted in the city of Jubail and 30 responses of people living in Jubail Industrial City, Saudi Arabia was complete and hence considered for the study. The sampling is based random sampling as the questionnaire was sent to many people living in Jubail irrespective of their demographic variances.

VI. Analysis

Based on the data collected through questionnaire the following analysis is made:

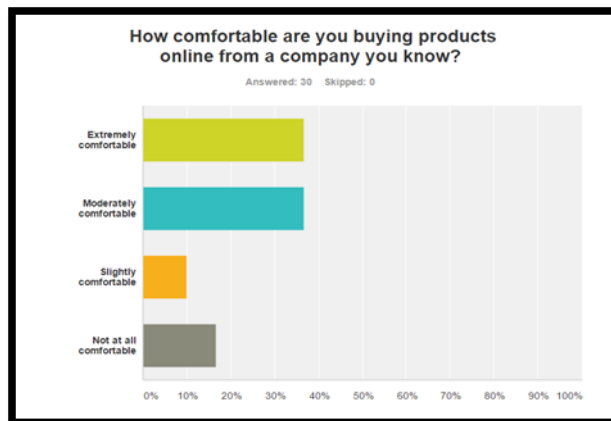
The analysis shows that 60% of respondents are often or sometimes do purchases online. Clothing is the most type of product purchased. Most of responds prefer Amzon website because it's safe and reliable. The second preferable website is Asos as its fast delivery. People concerns were mainly regarding security and quality. They are not feeling secure to purchase from whatever online store. 56% are either often or sometimes don't purchase due to privacy problem. More than 90% make online purchases through credit cards and this highlights a very less options of payment available. 42% of respondent challenge is loss/late of delivery, 34% says that addressing system is the challenge and 16% says the challenge is having a payment method. Their biggest concerns were delivery system, quality, security and payment issues.

Here are graphics of some highlighted questions.



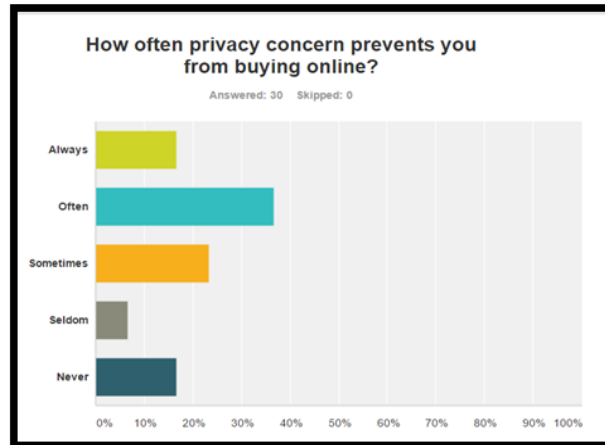
Answer Choices	Responses	Count
Always	10.00%	3
Often	36.67%	11
Sometimes	26.67%	8
Seldom	16.67%	5
Never	10.00%	3
Total		30

Analysis: For the question “how often do you buy products online” 36.67% of respondents said “often” instead of going out and shopping which are numbering to 11 responses.



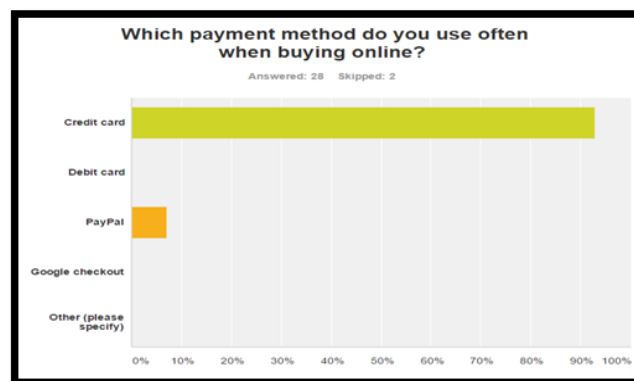
Answer Choices	Responses	Count
Extremely comfortable	36.67%	11
Moderately comfortable	36.67%	11
Slightly comfortable	10.00%	3
Not at all comfortable	16.67%	5
Total		30

Analysis: For the question “How comfortable are you buying products online from a company you know” “the respondents said “extremely comfortable” with a percentage of 36.67 and “moderately comfortable” with a percentage of 36.67. This sums up to 22 respondent’s response.



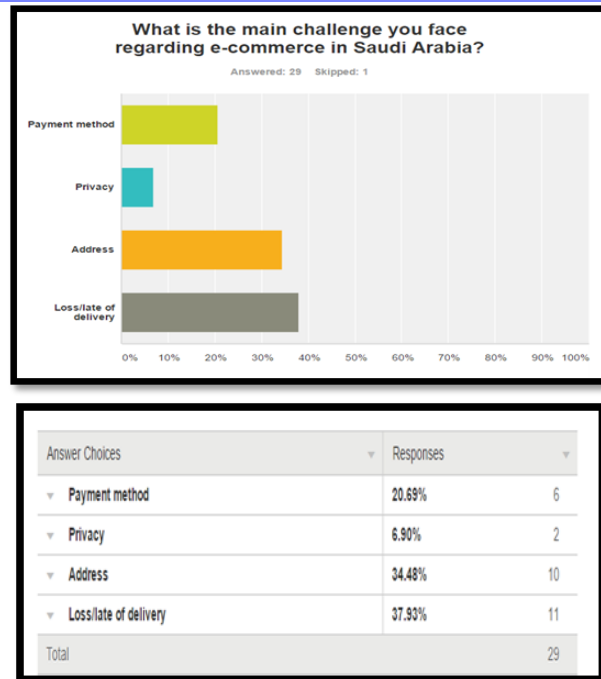
Answer Choices	Responses	Count
Always	16.67%	5
Often	36.67%	11
Sometimes	23.33%	7
Seldom	6.67%	2
Never	16.67%	5
Total		30

Analysis: For the question “how often privacy concern prevents you from buying online “the respondents said often and the number of respondents who faced privacy issues “often” with a percentage of 36.67 numbering to 11 respondents.



Answer Choices	Responses	Count
Credit card	92.86%	26
Debit card	0.00%	0
PayPal	7.14%	2
Google checkout	0.00%	0
Other (please specify)	Responses	0
Total		28

Anal Analysis: For the question “Which payment method do you use often when buying online “the respondents chose via credit card and the number of respondents who used credit cards are 92.86 % numbering to 26 respondents.



Analysis: For the question “What is the main challenge you face regarding e-commerce in Saudi Arabia” 37.93 % respondents chose “Loss/Late of delivery” numbering to 11 respondents.

VII. Summary, Finding and Conclusions

To sum up, there are many challenges in adopting e-commerce in Saudi Arabia. The most common barriers are weakness of postal system, issues with online payment methods, security and privacy issues, lack of trust, lack of government involvement, unclear government laws and regulation. These barriers obviously limit the growth of retail trade over the internet in Saudi Arabia. Even though Saudi Arabia has the fastest growth of information and communication technology and leader over the Arab region; however, e-commerce activities are not progressing at the same speed. Only a very small number of Saudi companies, mostly large companies do participate in the implementation of e-commerce. Key drivers to online growth retailing have been identified by turning the challenges into opportunities to contribute for improving e-commerce in the kingdom of Saudi Arabia. These are the more support of government, making several safe and secure payment method, assigning addresses for houses, raising awareness among society, business and government. Policy makers would benefit from overcoming challenges.

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