

E-commerce Business Models in Ethiopian Market: Challenges and Scope

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Abstract: Rapid expansion of information technology and the internet from the last two decades have resulted in making, online economic activities such as Electronic commerce (E-commerce) a general occurrence in the world today. These activities are simplifying the process of business transactions. E-commerce is a process that helps to maintain or improve current business practices. In another way, E-commerce is the change between traditional shopping to internet-based virtual shopping. It is a kind of modernization that is drastically changing the way of doing business and purchase. E-commerce performance shows incredible business growth in developing countries. If adopted fully with all its features, E-commerce can play a major role in the development and economic growth of Ethiopia also. Initially, Ethiopia was lagging in using and implementing these technologies, but nowadays, it is working to introduce E-commerce by designing legal and technological framework as well as infrastructures. Rapidly increasing internet users in Ethiopia is an advantage to grow the online business model. There are many business sectors, including travel, clothing, and electronics, etc. where E-commerce can help in different ways. This study is carried out to explain the present status and facilitators of Internet-based commercial business in Ethiopia. It also presents the current trends of E-commerce in Ethiopia and the challenges that are faced in developing the E-commerce business model in the Ethiopian market with future scope. The various challenges which are highlighted are the Delivery Challenges, Payment challenges, After-sales Service challenge, and challenge of Consumer's Behavior in adopting these kinds of businesses.

Keywords: Electronic Commerce, Online business, Payment security, consumer behavior, After-sales service

1. INTRODUCTION

These days the principal method of doing business is through E-commerce for many companies. It means a method that deals with merchandising and other services by using electronic media and www, which connected to a web site of the seller, who then offers the products and services to the customer from the portal employing a digital basket system.

By using the internet, E-commerce carries out its businesses with the assistance of using Electronic Data Interchange (EDI). E-commerce has become the leading online activity overnight.

While it is observed that there is no single definition that can define E-commerce, it

solely means an endeavor that is supported by Electronic Communication. The consequences of E-commerce are already shown in areas of business extending from new product style to customer service. With the help of electronic communication, marketers collect and process the data to getting and interacting with their customers through online advertising, promotion, orders, and services. Nowadays, E-commerce use World Wide Web (www) in dealing with lifecycle to cut back the prices of products and services by selecting one of the options from among a large number of online merchants and suppliers.

Though the world is using E-commerce services to a large extent, Ethiopia is

lagging behind its use. For countries like Ethiopia, E-commerce can offer a variety of options for the first time.

Internet marketing has shown a significant improvement over the past years in Ethiopia, where the banking sector started using electronic banking as well as SMS services. These activities help the customers to increase improved access and the increasing habit of using the internet as a critical source of information, especially where there are more than 15 million internet subscribers in the country. African development partners and policymakers are focusing on making the availability of information communication technology to small and medium-sized enterprises (SMEs) in an effort to eradicate poverty. United National Conference on Trade and Development data shows that 60 to 70 percent of employment is in SMEs in developing countries. That is why most of the African countries are giving priority to it. Similarly, Ethiopia has also given priority to SMEs to create employment opportunities and to improve access to ICT [1].

As per the survey of Statista, in 2018 about 1.8 billion people worldwide purchase goods online and 2.8 trillion U.S. dollars of global e-retail sales occur and predicted the growth of up to 4.8 trillion U.S. dollars by 2021. Ethiopia is progressing very slowly when compared to the E-commerce business world. Lack of ICT infrastructure, lack of trust, security risk, and lack of legal framework are the major challenges of the Ethiopia E-commerce industry for the adoption of E-commerce[2].

2. OBJECTIVES OF THE STUDY

The primary purpose of the study is to find out the current E-commerce business scenario in the Ethiopian market. The world is using several new E-commerce applications that are increasing day by day.

However, Ethiopia is lagging. The objectives of this study are:

- To explain the standing and facilitators of E-commerce in Ethiopia
- To investigate the current phenomena of E-commerce business models in Ethiopia
- To look at the barriers and scope of E-commerce in Ethiopia

3. DATA METHOD

This study is based on secondary data, with a critical review of various E-commerce platforms in Ethiopia. Secondary data not only offers specific advantages in terms of cost and effort, as mentioned in research method books but also that in some instances, their use may overcome some of the difficulties that mainly affect researchers in the gathering of primary data [3] [4].

4. E-COMMERCE BUSSINESS MODEL

The term E-commerce means the method of processing the business transactions electronically by using the Electronic Data Interchange (EDI) and Electronic Funds Transfer (EFT) technologies, with which customers can get the chance to exchange business information and do transactions electronically. The broad definition of electronic commerce can also be defined as an exchange involving an exchange of value over a communication network and includes [5].

- (B2B)- Business-to-Business exchanges such as EDI.
- (B2C)-Business-to-Customer exchanges such as online shops on the Web.
- (C2C)-Customer-to-Customer exchanges such as transfer of value between electronic wallets.

- (B2P)-Businesses-to-Public administration exchanges such as filing of electronic tax returns.

According to customer advances and needs, the virtual world is making its progress in E-commerce history and laying a secure constructive brick foundation for the future generation. Fig.1. Shows the essential E-commerce chain involved in an online business where it shows the step by step process execution. Most of the customers in the world fall into the Business to consumer form of online retail or online shopping in E-commerce.



Fig.1.E-commerce Chain [5]

Some of the websites maintain directories were giving all the details of the trade and business or any information related to toys, gems, machinery, food, and employment. Lists of various products and services in the form of subheading to the desire information seekers.

Along with websites, banks also play essential tasks in the business of electronic commerce. Web banking/phone banking can be a facility accessible for bank account holders. Various activities of the web banking services include Dematerialized accounts through which one can buy and sell stocks and shares,

Instant payment of bills, exchange services, etc. Bank also issue Debit and Credit Cards or identification, which are the most crucial trade instrument, to facilitate electronic commerce.

A. Multi-Product E-commerce

Several sites offer various variety of products and services from acknowledgment cards, flowers, electronic gadgets, and groceries, etc. Some web portals target and segment their customer's products and services using a single site; therefore, they are targeting consumers of each product/service such as accessories for men and women, matrimonial, client physical science, entertainment, jewelry, collectibles, software, travel tickets, books and magazines, property and services, employment business and opportunities, sweetness product, etc.

B. Single Product E-commerce

If we talk about the E-commerce portal for selling and buying cars, we can buy and sell used vehicles and other services provided by these portals include Technical analysis and review of the automotive, including its insurance and finance and dealers surveyor, etc. In financial services, portals provide details of data or review of the share market, mutual funds, and market trends. In real estate and property services, it provides allied services like architects, interior designing, housing finance, insurance, purchase or lease property, etc. In the travel business, it provides information about forts and palaces, hill resorts, rock climbing, adventure –tracking along with other services like visa, passport, travel accommodation etc. E-commerce also serves in the Hobbies section; the foremost covers reading, music, and films in various languages, etc.

5. CURRENT PHENOMENA OF E-COMMERCE BUSINESS MODELS IN ETHIOPIA

In online shopping, African countries are showing tremendous growth, and E-commerce firms are engaging customers to increase their performance[6]. Ethiopia is developing quickly and taking measures to improve its performance in E-commerce. Ethiopia introduced its online business in the market in around 2018. The status of E-commerce in Ethiopia is that small enterprises are not progressing due to shortage of the required infrastructure, financial capacity and manpower and use of ICT to the benefit of the enterprises [7].

According to the network readiness index report, Ethiopia ranks at 116th position amongst 121 countries of the world. The ranking is decided by the fundamental level of ICT in countries, including on issues of communications infrastructure and affordability and how businesses use ICT and participate in the network economy. With this ranking, Ethiopia falls into the Low-income group category [8].

E-commerce is still at the embryonic level and is rarely used due to the lack of IT infrastructures and even more to the absence of a legal framework. Recently, the government of Ethiopia has been drafting a national law to regulate E-commerce: when approved and implemented, such a tool is expected to boost the online market. Some of the leading platforms to shop online are Jumia, Qefira.com, Sheger.net, ShebaShopping and Delala, all of which are market places [9].

To speed up the E-commerce business in Ethiopia, Alibaba and the Ethiopian government signed an agreement. To build a strong relationship Alibaba company will provide training to the business owners of Ethiopia for 10-days in Alibaba Business School in China. The training is aimed at ambitious business

leaders and entrepreneurs in Ethiopia who are dedicated to harnessing digital technology to transform local businesses for lasting success. The program aims to teach attendees to accelerate the digital development of their business and work with related parties to build success cases that will become the building blocks of their local communities and, ultimately, the broader digital economy [10].

According to the Digital report published in 2018, data on Ethiopia shows that internet users grew by 37% in one year, while the number of active social media users also grew significantly (20%). The majority of Ethiopians access the internet from a mobile device[11]. Following table 1 shows some of the E-commerce companies which are operating in the Ethiopian region. The majority of the companies are the only free classified ad platform where buyers and sellers can get connected. Very few operating companies are active from which users can buy goods online. EthioSuQ is such company which was founded in 2018, a B2C portal company with an intent to connect buyers with sellers. Today, it is one of the biggest companies in Ethiopia that provides C2C, B2C and B2B sales, and various other services by using E-commerce. EthioSuQ.Com is an Online Shopping Market in Addis Ababa, Ethiopia, where you can find a vast collection of products. Electronics, Clothes, Accessories & more. It has been observed that though it is a big E-commerce company in Ethiopia, very little variety and quantity of products are available.

Table 1: Various E-commerce Companies in Ethiopia

Sr. No	Name of the company	Nature of business/Service
1	EthioSuQ www.EthioSuQ.com	It is the business to consumer portal with which sellers and buyers get connected.
2	Helloomart www.helloomarket.com	This company provides an online shopping platform with a selection of leather products, coffee, personal care, apparel, jewelry, sporting goods, shoes, hardware & tools, furniture, homemade seasonings, etc.
3	Qefira www.qefira.com	It is the largest trusted online classifieds platform that conveniently connects buyers and sellers.
4	Jumia www.jumia.com.et	This company is a free classified ads website where you can buy and sell almost anything.
	Sheba Shopping www.ShebaShopping.com	It is an online marketplace where the full range of products are available like Fashion apparel, Electronics, Footwear, Home and Kitchen, Books, Sports and services like Entertainment, Spas, Restaurants, & others.
5	Guzomart www.Guzomart.com	African E-commerce marketplace that connects global brands with African emerging consumers. Millions of customers around the globe can connect online to make, buy, or sell African products.
6	Shegar www.sheger.net	The online market place acts as an interface between the buyer and seller.
7	Kikuu Ethiopia	It provides an online shopping platform with a selection of leather products, apparel & accessories, shoes, etc.
8	Kemmis https://www.kemisd.com	It is an online market for Clothing and accessories brands that comes under the fashion category.
9	Shola Mart Sholamart.com	This company use more online selling of function to the customer, through the ordering and fill-out forms, and conclude the transactions.

Source: Internet (Self collected Data)

6. BARRIERS OF E-COMMERCE ETHIOPIA

There are several infrastructural barriers that are responsible for the slow growth of E-commerce in African countries, especially in Ethiopia. Information technology training to build employee capacity to use the internet is one of the barriers. The other is the appropriate

computer knowledge and skill of employees. so there should be a strategic approach [12]. Some of the barriers are the lack of IT infrastructures, less awareness among people, customer's behavior, etc. and even more to the absence of a legal framework. Ethiopia being a landlocked developing country (LLDC) is also one barrier to its E-commerce business development business.

A. Poor Telecommunication and Infrastructure Facility

The foremost requirement to have a good E-commerce market is the proper internet access among customers and industries. According to IWS' statistics Ethiopia has 107.5 million population out of which, only 15.3% have access to the internet. In the year 2017, the number of mobile subscriptions reached 53 million, up 11% compared to the previous year. The Ethiopian telecommunication monopolist also revealed that out of the total subscribers, 25% use the internet and data. However, the number of smartphone users is still low at below 5%. [9].

Without the infrastructure for internet use E-commerce cannot make a significant improvement in business as far as revenue and profit are considered. Fig.2 shows the details of ICT infrastructure available and its usage by the people. A total of 18.6 % of inhabitants have the internet with them, and 14.1 % have an active broadband connections. The only way to improve the situation of E-commerce in any country is to increase the ICT infrastructure. The results of the study in Ethiopia revealed that in online apparel product shopping the lack of physical interaction with an item, Customer's fear of risk security and privacy and lack of E-commerce infrastructure are the barriers of E-commerce [13].

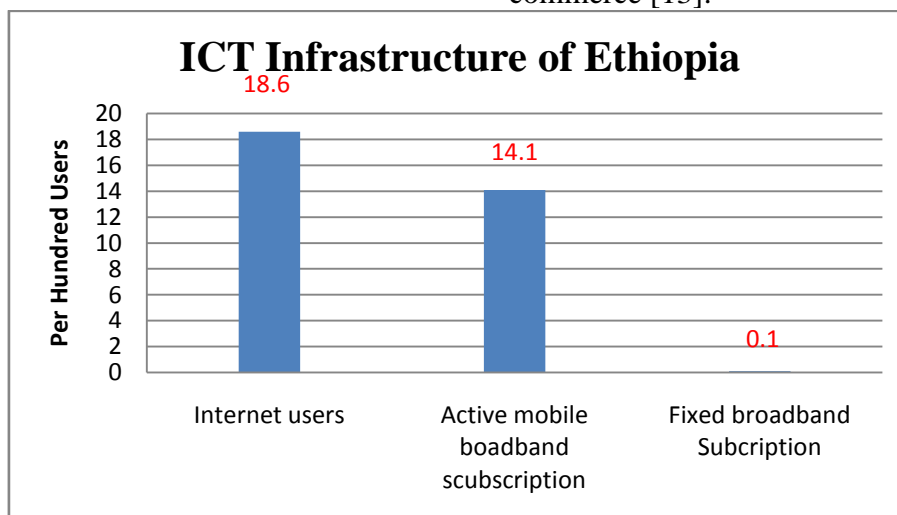


Fig.2. Use of ICT infrastructure in Ethiopia in 2017 [14]

B. Payment Collection

The main requirement for the payment collection is the availability of different payment methods in a specific country. As far as Credit cards are concerned Ethiopian banks do not issue credit cards, and only recently, the local financial institutions have started using primary internet transactions through mobile and card banking services. To have an online payment service, the internet facility should be their to make purchasing online successful. Once you get paid by banking website, one finds oneself giving a

significant part of revenue (could be atleast 4% or more) even if one has a thin margin in business, dishonest charges, chargebacks etc. Then merchant's become responsible and accounted for within the business model. For countries like Ethiopia, one can start the E-commerce business with Cash on Delivery (COD) option for the payments. Privacy of non-public and commerce knowledge attached over the net not assured; security and its confidentiality of knowledge. The implementation of secure payment is necessary for the growth of an online business. Fig.2. below gives the details of

use of mobile phones or the internet by the Ethiopians to access financial services compared to the Africa and world. The number is very less which is only 0.4 out of 100 people. This number should be

increased and people should make maximum use of the mobile or internet banking services for the payments.

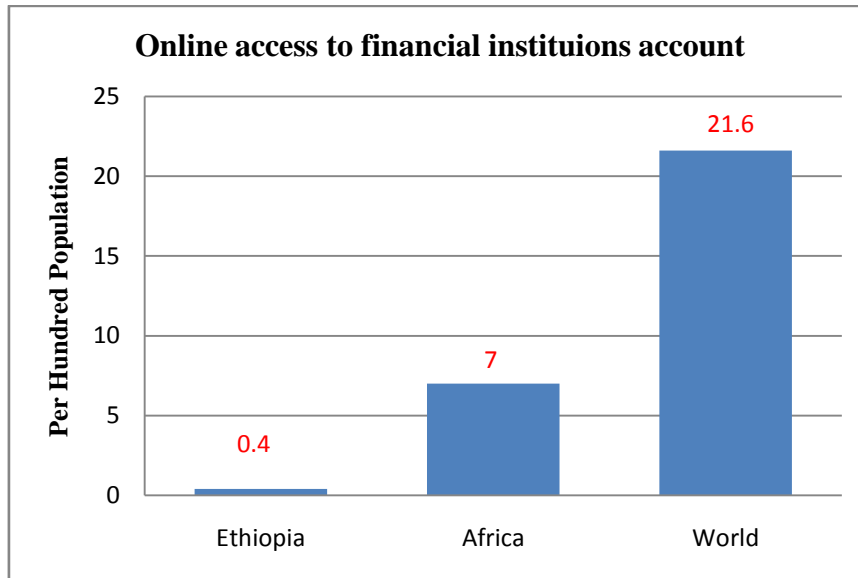


Fig.3. Mobile phone or the internet used to access a financial institution account in 2017. [15]

C. Consumer Behavior

Consumer behavior and awareness play a vital part in the progress of E-commerce business. This study indicates that consumer engagement used by E-commerce firms goes beyond reuse of product and repurchase intention and includes psychological and behavioural aspects of consumers. The quality of E-services provided by the firms is critical in determining the extent to which consumers will engage[6].

According to research from Visa, which took place in 2019, 72% of shoppers have abandoned their shopping carts on retailer websites and apps as they find the payment process tedious or concerns over online security. Also, from a study, it is clear that the primary problem is security to lose customers. With various cyberattacks making headlines in the news, it's no wonder customers are anxious about inputting private

information, particularly details of the credit card. Their fear is justified, as few customers know how dangerous online shopping can be[16].

According to a new Ipsos survey in the year 2016-2017 done by the center for international governance innovation, shows 51% of global citizens lack trust in online business with internet access, due to privacy and security concerns. This is a difficult situation for online retailers striving to thrive personalization. Whereas the study on bankers perception, it is observed that bankers perceive to save time, minimize inconveniences while using electronic banking [17].

D. Logistics

After the product is booked by the buyer, the product should be delivered on the specific location within the deadline. To have a successful delivery of product a well designed logistic system should be available. Delivery of the merchandise should be in right timeframe within the

hands of safe and secure persons. Regular post does not deliver the proper a suitable service level whereas couriers services have high charges and restricted reach. Logistic service plays an important role in the E-commerce business. Ethiopia is lagging in the framework for the logistic system. As per study which describe that foreign logistics providers are not welcome in Ethiopia even the private sector cannot participate in E-commerce effectively because of incapacity to set up individual customs bonded warehousing, inability to access land, inability to raise capital, confusion over customs bonded regulations [18].

E. After Sales Service

After-sales service is an essential part of the E-commerce business. After the product is being sold to the customer and if the product is not good, then there must be a replacement strategy or money refund system. After-sales service is the crucial pillar of the E-commerce business, and that should be facilitated by the E-commerce service provider [19].

F. Merchandiser Management

For successful implantation, it is necessary to have an advanced system for inventory management. Most the suppliers will not hold any digital knowledge for their product. No digital knowledge, no pretty images, no method to ascertain for daily overheads, to stay uptodated web site convenience.

G. Taxation System

The countries taxation system also plays a prominent role in the development of the E-commerce market. The tariff, Value Added Tax, entry tax, and to accompany much of state-specific forms. The scarcity of experts in taxation system development area and hindrances created by government policy and bank regulations is also a major concern for companies trying to launch an E-commerce business [7].In

Ethiopia where importers have to submit numerous documents to process legal formalities with ERCA and other legal agencies, these formalities are even more burdensome for Ethiopian importers regardless of the origin of the goods, and SMEs may have the biggest burden. For companies engaged in E-commerce, chamberization it would probably be a deal-breaker [18].

7. SCOPE OF E-COMMERCE BUSINESS IN ETHIOPIA

As day by the internet users is increasing in Ethiopia, it can be an added advantage to the development of E-commerce. Ethiopia has three e-payment platforms, namely Amole, HelloCash, and M-BIRR, with which customers can access their bank accounts and make transactions. If this E-payment system collaborated with various E-commerce companies, then the growth of the online business will be fast and smoother. There are many sectors of business where E-commerce can add the benefits as sales and revenue are concerned such as Tourism and Hotel Industry, Garment and Leather Industry etc. E-commerce can help in creating the global market and Foreign investments in Ethiopia, specially in textile where most of the companies outsourcing their businesses from Asia to Ethiopia.

Even though the Telecommunications and Tourism play a major role in the country's growth process with stable rate the Ethiopian government is planning to open the door for privatization. If all these industries and sectors start operating in online business mode, then it will increase the revenue generation to the county.

8. CONCLUSION

E-commerce has unleashed; another revolution, however, is a dynamic approach that new methodologies have evolved. From this study, it is concluded that lack of infrastructure, lack of trust,

security risk, and lack of legal framework are the significant challenges of the Ethiopian E-commerce industry. Information technology, inappropriate knowledge and skill of employees, lack of IT infrastructure, customer awareness, and customer behavior is the barrier of E-commerce in Ethiopia. It is therefore recommended that the number of internet users must be increased. Implementation of a secured payment system must be ensured quick and competent after-sales services have to be implemented, and to establish a successful E-commerce platform, long-range vision and strategic planning approach are essential. The Ethiopian government is working on the framework design for the E-commerce industries. If Ethiopia works on the barriers of it, then it has the potential to grow its revenue through E-commerce industries that vary rapidly. Web economy can then become a lot of meaning in Ethiopia. With this speedy growth of the web, E-commerce is about to play a vital role in the country's development.

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