A review of the use of e-commerce in Saudi Arabia

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Abstract

The aim of this paper is to review the available research studies on the status of e-commerce in Saudi Arabia. Over the past few years, there have been significant changes in the Saudi economy, with rapid growth in the field of Information and Communication Technology (ICT). These changes have also led to adoption of e-commerce, though not at the same rate as the growth in ICT. This paper aims to review some of the research studies which have been carried out on e-commerce in Saudi Arabia, the challenges existing which hamper the growth of e-commerce in the country, and the factors which can encourage the spread of the same in Saudi Arabia. For this paper, specific search terms were used in the Google Scholar search engine and the results were shortlisted according to the year of publication. From the review of the available studies on the subject, it was clear that efforts are being made to increase the spread of e-commerce in Saudi Arabia, both by the government and the private sector. It is also clear that even though the performance of Saudi Arabia in e-commerce activities is good when compared to the countries in the region (Middle East and North Africa), its performance when judged on a global level, does not match up to the expectations that other countries have of a country with the global economic standing which Saudi Arabia has.

Keywords: e-commerce, Saudi Arabia, review, Trends

Introduction

Over the previous two decades, e-commerce has witnessed rapid growth throughout the world with the global e-commerce spending increasing from USD 0.27 trillion in 2000 to USD 10 trillion in 2010 (Kamaruzaman, Handrich & Sullivan, 2010 – as cited in AlGhamdi, Drew & Alkhalaf, 2011). Saudi Arabia has also seen rapid changes in its e-commerce spending, even though it is not at par with the growth rate of its information and communication technology market. According to AlGhamdi, Drew & Al-Ghaith (2011), Saudi Arabia has the largest and fastest growth of ICT (information and communication technology) marketplaces in the Arab region, but ecommerce activities in the country are not progressing at the same speed.

Methodology

In this paper, we will review research studies which have been carried out on the subject of e-commerce in Saudi Arabia. Towards this end, search terms such as 'Saudi Arabia e-commerce', 'Saudi e-commerce challenges', 'Saudi e-commerce obstacles' etc. were used in the Google Scholar search engine. The results of these searches were shortlisted as per the year of publication. For the purpose of this paper, only studies published post 2008 were used in order to examine the phenomenon of e-commerce in Saudi Arabia.

Results and Discussion

In general, the Arab region has not adopted e-commerce to the same level as the rest of the world. According to Aladwani (2003), the Arab region has been slow in adopting e-commerce (as cited in AlGhamdi et al., 2011). There are challenges unique to the region, which face Arab

nations. Arab business managers face challenges like technical obstacles and the behaviour and attitude of ecommerce consumers; whereas, Arab Internet customers faced problems such as reputation of the businesses, security, privacy and legal regulations (Aladwani, 2003 – as cited in AlGhamdi et al., 2011).

By extension, Saudi Arabia is also a late adopter of e-commerce, with barriers such as slowness of Internet services, resistance to social adaptation to a new commercial paradigm, lack of trust of online business, shortage of skilled employees for implementation and maintenance of e-business systems (Aladwani, 2003 – as cited in AlGhamdi et al., 2011). Retailers in Saudi Arabia have been reserved in their adoption of electronically delivered aspects of their business (AlGhamdi, Drew, & Al-Ghaith, 2011). In the next subsections, we will study the nature of e-commerce adoption in Saudi Arabia and then discuss the various challenges to the adoption of e-commerce in Saudi Arabia which the academicians have identified in various research studies pertaining to the subject.

E-commerce in Saudi Arabia

According to a report by Internet World usage and population statistics (IWS, 2008 – as cited in AlSobhi, Kamal, & Weerakkody, 2009), the total population in Saudi Arabia is around 28,146,657 and about 6,380,000 Saudi citizens have Internet access. Since 2000, there has been a dramatic growth of approximately 3090% in the number of Saudis with Internet access (AlSobhi, Kamal, & Weerakkody, 2009).

The Saudi government has been involved with promoting e-commerce in the country. In their study, Sait et al. (2007) talked about the efforts and achievements of the Saudi government to keep pace with advanced technological developments and their adoption (as cited in Alqahtani, Al-Badi & Mayhew (2012). According to Sait et al. (2007), "The effort is ongoing as the Kingdom further opens Internet access, exploring opportunities for the Internet in education, government and commerce. The Saudi government has shown increasing interest in pursuing E-Commerce systems for promoting national and regional businesses, especially through the structuring of a legal framework for online transactions. Given the Kingdom's regional influence, such a move would very likely have an impact on business flow and commerce systems in the Middle East" (pg. 2 – as cited in Alqahtani, Al-Badi, & Mayhew, 2012).

According to the study by AlGhamdi, Nguyen, Nguyen, & Drew (2012), the Saudi government has played a significant role in promoting the rapid growth of ICT in the country, but there appears to be a mismatch in the growth of e-retailing and the growth of e-learning and e-government. It appears that there has been more focus on e-learning and e-government in the Kingdom, as compared to e-retailing. The Saudi Ministry of Commerce established a Committee for e-commerce in 2001, which had members from various government agencies as well as the private sector. This committee prepared a general framework and plans for improving factors influencing e-commerce development including IT infrastructure, legislation and regulation, payment systems, security needs, delivery systems, and education and training. The Ministry of Commerce issued a booklet in 2001, but other than this, there is very little information which is publicly available regarding this committee's further work or the impact it has had. AlGhamdi et al. (2012) state that this committee seems to have ceased to exist and instead, the role of e-commerce supervision and development may have been transferred to the Ministry of ICT in 2005. In 2007, the Saudi Communication and Information Technology Commission (CITC) carried out an extensive study of various aspects of Internet usage in Saudi Arabia, one of which

is e-commerce awareness and activity. This CITC study reported that only 9% of Saudi commercial organizations, mostly medium and large companies from the manufacturing sector, were involved in e-commerce and only 4 out of 10 private companies had their own websites. This study also highlighted that 43% of the customers were aware of e-commerce, but only 6% had ever bought or sold products online, mainly airline tickets and hotel bookings. CITC's IT Report 2010 reiterated that e- commerce in Saudi Arabia is still in its early stages. In particular, most Saudi retail chains have yet to establish an online channel, and only 8% of Saudi businesses sell online (AlGhamdi, Nguyen, Nguyen, & Drew, 2012).

Saudi Arabia has the largest and fastest growth of ICT marketplaces in the Arab region, but e-commerce activities in the country are not progressing at the same speed (AlGhamdi, Drew & Alkhalaf, 2011). In Saudi Arabia, it is mostly the medium and large companies in the manufacturing sector which are implementing e-commerce. Estimates say that only 9% of Saudi commercial organizations, mostly medium and large companies from the manufacturing sector, are "involved in ecommerce implementation" (CITC, 2007 – as cited in AlGhamdi, Drew & Alkhalaf, 2011).

In their study, AlGhamdi, Drew, & Al-Ghaith (2011), in Saudi Arabia, the effort towards e-commerce development has not reached the level that was originally planned, or the level of global expectations of Saudi Arabia which is a major, important country in the global economy. The authors say that government information, available publicly, on e-commerce in Saudi Arabia is poor. They go on to say that since 2006, the responsibility of e-commerce has shifted from the Ministry of Commerce to the Ministry of Communications and Information Technology (AlGhamdi, Drew, & Al-Ghaith, 2011). The authors state that this information was gained from an exploratory phone call made in December 2010 to the Saudi Ministry of Commerce. It was explained that the Ministry of ICT in Saudi Arabia is still in its early stages of studying ecommerce (AlGhamdi, Drew, & Al-Ghaith, 2011).

According to AlGhamdi, Drew, & Al-Ghaith (2011), companies in Saudi Arabia do not appear to be following in the footsteps of developed countries and their rapid growth in global e-commerce. In contrast, online shoppers in Saudi Arabia are increasing with access to technology and communications infrastructure. The authors talk about the study which was carried out by the Arab Advisory Group in 2006, which targeted Internet users in four Arab countries (Saudi Arabia, UAE, Kuwait and Lebanon) and was in the form of an extensive survey which covered Internet usage and, e-commerce activities in these countries. As per this survey, UAE ranked first in the rate of annual spending on e-commerce per capita, and Saudi Arabia ranked first in the overall money spent on e-commerce activities. As for the prevalence of e-commerce activities among the population, UAE ranked first (25.1%), Saudi Arabia second (14.3%), Kuwait third (10.7%) and Lebanon last (1.6%) (AAG 2008 – as cited in AlGhamdi, Drew, & Al-Ghaith, 2011). A recent survey of Saudi Arabia's 11.4 million Internet users (or 41% of population) found that around 3.1 million Saudis have purchased online. Airline tickets and hotels bookings take the largest percentage of these purchases (ACG, 2009, AAG, 2011 – as cited in AlGhamdi, Drew, & Al-Ghaith, 2011).

Challenges to E-commerce

Studies by Albadr (2003) and Aladwani (2003) highlighted the availability, speed and cost of Internet connection as potentially critical determinants of the participation by individuals and organizations in online activities, as of the early 2000s. The 2010 e-readiness report, which

assessed the quality of the individual country's ICT infrastructure, and the ability of its government, businesses and people to use ICT, placed Saudi Arabia at the 52nd position, out of 70 countries studied, despite the significant investment made in IT infrastructure and training in KSA. In Saudi Arabia, the 2010 rates of household broadband penetration (41.6%) and Internet user penetration (41.0%) are much lower than developed nations, even though they are better than most of the countries in the Middle East and North Africa. According to the study by AlGhamdi, Nguyen, Nguyen, & Drew (2012), observers, both local and foreign, have highlighted towards the tendency amongst the Saudi public to resist social adaptation to new commercial paradigms, lack of trust toward online businesses, and shortage of skilled employees suitable for the implementation and maintenance of e-business systems. According to Al-Solbi & Mayhew (2005), another significant challenge is the lack of individual home addresses, as prior to 2005, individuals had no uniquely identifying addresses resulting in undelivered mail which had to be collected from post offices. Since 2005, this has changed and now postal deliveries are made to homes and offices, but still, a significant percentage of the population remains without home addresses, mainly due to old habits and personal choice (- as cited in AlGhamdi, Nguyen, Nguyen, & Drew, 2012).

The study by AlGhamdi et al. (2012) identified major issues which have been cited by commercial organizations and consumers including a lack of clear legislation, regulation, rules and procedures in KSA. Although Saudi Arabia contributes to the efforts of UNCITRAL (United Nations Commission on International Trade Laws), many stakeholders regard the lack of national legislation and regulation in this area as a key obstacle to further and more rapid development. Alrawi and Sabry (2009) carried out a review of literature relating to e-commerce in the Gulf countries (Saudi Arabia, Oman, UAE, Kuwait, Qatar, and Bahrain) (-as cited in AlGhamdi, Nguyen, Nguyen, & Drew, 2012). Alrawi & Sabri (2009) identified many issues which overlap with other factors discussed previously. According to AlGhamdi, Nguyen, Nguyen, & Drew (2012), there are issues which haven't been highlighted such as usability and interactivity of websites, online payment systems, trust and security issues, the level of assurance provided by online companies, change management, education levels, and competitive advantage (AlGhamdi, Nguyen, Nguyen, & Drew, 2012).

In their study, AlGhamdi, Drew and Al-Gaith found that there were a set of factors which inhibited or discouraged Saudi retailers from adopting e-commerce. These factors included (1) setup cost; (2) delivery issues; (3) resistance to change; (4) lack of e-commerce experience; (5) poor ICT infrastructure; (6) lack of online payment options to build trust; (7) mistrust of online sales; (8) the habits/culture of people in Saudi Arabia not being favorable towards online purchases; (9) lack of clear rules/law for e-commerce in Saudi Arabia; (10) difficulties in offering competitive advantage on the Internet; (11) lack of profitability; and, (12) situations where products are not suitable to be sold online (-as cited in AlGhamdi, Nguyen, Nguyen, & Drew, 2012). The study by AlGhamdi, Drew & Al-Gaith also identified a list of incentives which would encourage retailers to adopt e-commerce and these factors include: (1) the development of strong ICT infrastructure; (2) government support and assistance for e-commerce, (3) educational programs to build the awareness of e-commerce; (4) trustworthy and secure online payment options; and, (5) the provision of sample e-commerce software for test trials (- as cited in AlGhamdi, Nguyen, Nguyen, & Drew, 2012).

Payment method is another challenge which faces the adoption of e-commerce in Saudi Arabia. Credit cards are the most popular method to pay for online purchases in the West, but in Saudi

Arabia, many consumers hesitate using credit cards, mainly due to a lack of trust, and also, because some Saudis may be culturally and morally averse to using credit cards as it entails the use of conventional interest rates (AlGhamdi, Nguyen, Nguyen, & Drew, 2012). According to the study by AlGhamdi et al. (2012), the online retailing industry critically requires access to alternative, trustworthy, and easy-to-use payment systems.

E-commerce activities of small and medium enterprises (SMEs) are determined by the extent to which they use the technology to coordinate their operations, both international and inter-regional. But there are obstacles which are common to the region, Middle East and north Africa. These include obstacles in the adoption of technology, particularly the e-commerce (Li, 2008 – as cited in Almoawi & Mahmood, n.d.). The 2007 study by the Communications and Information Technology Commission (CITC) identified reasons for non-usage of e-commerce amongst SMEs in Saudi Arabia which included a lack of training facilities, and their belief that there is no need for the use of technology in their work (- as cited in Almoawi & Mahmood, n.d.). Almoawi & Mahmood (n.d.) state that this is the reason why the efficient adoption of technology among SMEs has become a national agenda, with the Saudi government initiating the essential policy framework for a nationally comprehensive ICT and or e-commerce strategy which has been used by SMEs to adopt sound ICT strategies, including expansion programs on the internet. These initiatives have enabled SMEs to achieve some corporate goals with remarkable success (Soliman & Janz, 2004 – as cited in Almoawi & Mahmood, n.d.). To accelerate the adoption of this technology, policy makers are also searching for answers about important factors which would influence Saudi SMEs to adopt e-commerce (Almoawi & Mahmood, n.d.).

According to Alferaihi (2003), there is no reliable local production of software or hardware, hence, the increased demand for ICTs is met by acquiring overseas technologies (- as cited in Al-Ghaith, Sanzogni, & Sandhu, 2010).

Some factors which affect the adoption of e-commerce in Saudi Arabia include how complex e-retailing is perceived to be. Other factors include concerns for privacy, compatibility, quality of the Internet connection, and gender. According to Al-Ghaith, Sanzogni, & Sandhu (2010), 'perceived complexity' was the most significant factor affecting e-service adoption in Saudi Arabia, followed 'privacy and compatibility'. Other factor which affected e-commerce adoption in Saudi Arabia is the quality of the Internet connection and its relative advantage. Gender also played a very important role in the adoption of e-commerce in Saudi Arabia, with the Saudi women more likely to adopt e-commerce than the men (Al-Ghaith, Sanzogni, & Sandhu, 2010).

According to Aleid, Rogerson, & Fairweather (2009), factors affecting consumer adoption of e-commerce in Saudi Arabia included availability of broadband; postal service; lack of cooperation between online stores and postal carriers; absence of postal addresses; security, privacy and fraud issues; e-commerce laws and consumer protection enforcement; returns and exchange policies; private business responsibilities; lack of specialized IT companies and professionals; lack of interest in educating people in e-commerce; government responsibility; and credit and debit cards.

In their study, AlGhamdi, Drew, & Al-Ghaith (2011) mention various research studies which have been carried out to investigate the challenges to adoption of e-commerce in Saudi Arabia. These challenges involve the absence of clear e-commerce regulations, legislation, and rules (Al-Solbi and Mayhew, 2005; Agamdi, 2008 – as cited in AlGhamdi, Drew, & Al-Ghaith, 2011). Although Saudi Arabia contributes to the efforts of UNCITRAL (United Nations Commission

into International Trade Laws) (Saudi Ministry of Commerce 2001), there is a need to have major development in terms of e-commerce regulations, legislations and rules to protect the rights of all parties involved in e-commerce transactions (Albadr, 2003; Al-Solbi and Mayhew, 2005; Agamdi, 2008 – as cited in AlGhamdi, Drew, & Al-Ghaith, 2011). Other challenges involve the domestic mailing system (Alfuraih, 2008 – as cited in AlGhamdi, Drew, & Al-Ghaith, 2011).

In a study conducted by Al-Otaibi, web evaluation was used to investigate the quality of e-commerce web presence in three categories – international, regional and domestic. The results of this study suggest that international web presence or international websites in Saudi Arabia were of higher quality, compared to regional and domestic web presence with regard to all aspects of web evaluation – appearance, content, organization, interaction, customer-focus and assurance. In comparison to domestic web presence, or domestic websites, the quality as well as interaction of regional web presence was also better (Al-Otaibi, 2013).

According to Alqahtani, Al-Badi, & Mayhew (2012), the factors that have the most significant impact on e-commerce adoption in Saudi Arabia are security, fraud and hacking, trust, cyber-law, awareness and perceived usefulness, postal services, government e-readiness, resistance to change, the presence of commercial electronic websites, cost, tangibility, warranty, trial and experience (pg. 1).

In his study, Eid (2011) found that the adoption of B2C (business to customer) e-commerce was higher among older, highly educated, and high-income respondents. The author identified that factors like user interface quality and information quality of e-commerce websites had a significant positive impact on B2C e-commerce consumer satisfaction.

Conclusion

From the various studies carried out on e-commerce in Saudi Arabia, it can be said that the country's e-readiness is improving with greater number of businesses adopting e-commerce model. There has been significant growth in the number of Internet users since the year 2000. But there are still some challenges in the adoption of e-commerce in Saudi Arabia, which impede its growth and hinder it from reaching targets set by the government.

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