

Post-pandemic Situational Analysis of the e-commerce Industry in Bangladesh

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Introduction

The e-commerce (electronic commerce) is a virtual marketplace where sellers and customers buy and sell products and services online. The e-commerce industry in Bangladesh includes logistics, food and delivery online etc. The industry set sail its journey in 2009. Since then, the industry has been expanding slowly and steadily. However, in 2020, during the COVID-19 pandemic, the industry boomed as the country went under lockdown and city dwellers leaned towards online shopping to avoid contact with infection. According to the e-Commerce Association of Bangladesh (e-CAB), online sales rose about 70% in 2020 compared to 2019, and the market size of the industry stood at nearly USD 2 billion as of August 2020¹. After such significant growth during the pandemic, the industry stumbled post-pandemic due to the scams and restricted or complete shutdown of operations of e-commerce giants Evaly, Dhamaka Shopping and E-orange². However, these setbacks helped the industry to identify loopholes in the system and adopt a regulatory policy. Despite setbacks, the industry is still growing. According to Statista, by 2023, the market is predicted to reach USD 3 billion.¹ This paper aims to explore the current situation of the e-commerce industry, identify its loose ends and recommend a way forward to improve the industry.

¹ <https://www.dhakatribune.com/business/2021/12/29/e-commerce-in-bangladesh-faced-its-own-pandemic-in-2021>

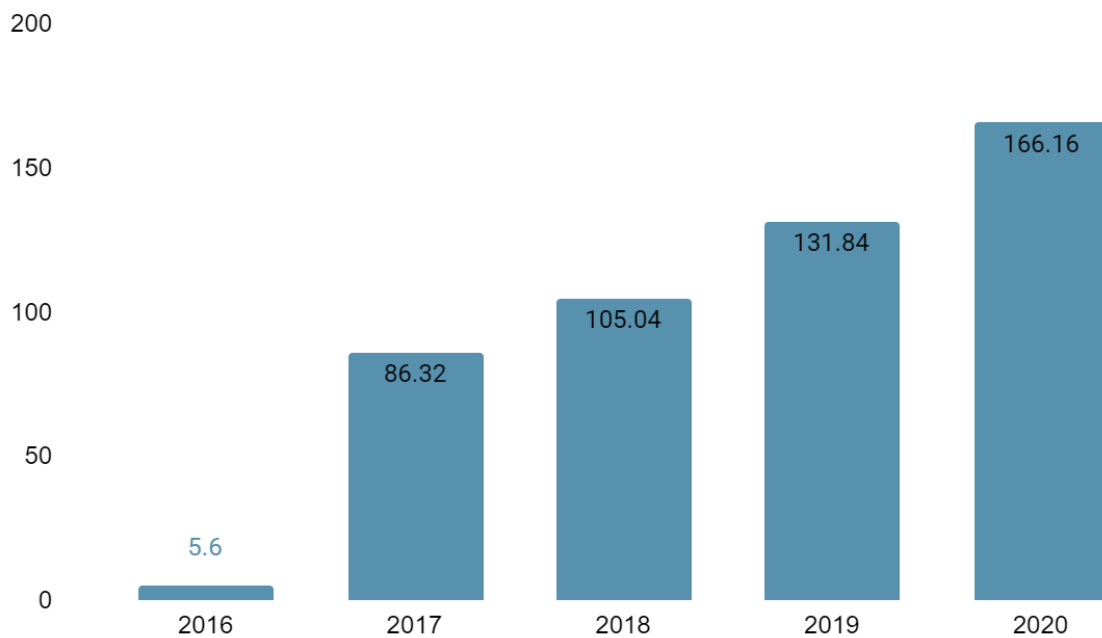
² <https://www.tbsnews.net/economy/ecommerce-got-pandemic-boost-still-going-strong-373078>.

Evolution of e-Commerce Industry and Growth during Pandemic

The e-commerce sector in Bangladesh grew by 30% between 2016 and 2020. This growth can be attributed to the rising popularity of the virtual marketplace, both among suppliers and customers. According to the Bangladesh Competition Commission, the size of e-commerce in the country reached Tk 166.16 billion in 2020 until August which is a significant increase from Tk 86.32 billion in 2017 and Tk 131.84 billion in 2019³. The details are given in Figure 1.

Figure 1: Market size of e-commerce industry

e-Commerce Market Size (Figures in billion taka)



Source: Bangladesh Competition Council

The industry was growing but COVID-19 pandemic has revolutionized industry. During the lockdown, people stayed home and purchased online from popular sites including Chaldal, Foodpanda, Ghorebazar, Pathao food etc. Online sales jumped by 70 to 80% compared to the regular time. One such company, Daraz, which is the e-commerce

³ <https://thefinancialexpress.com.bd/economy/bangladesh/covid-cranks-up-bangladesh-e-commerce-1602474106>.

market leader in Bangladesh, has seen its average daily orders double to around 40,000 in the first year of the pandemic. The company has expanded its offerings to include groceries and medicine and has acquired a local food delivery pioneer, HungryNaki.⁴ The e-commerce market is heading for a much bigger jump as the ecosystem is developing in line with the increasing online thrust of consumers and sellers. The market also reached USD 1.5 billion during the pandemic and according to Statista, it is going to be USD 3 billion in 2023. Bangladesh Bank credits the further growth of e-commerce in Bangladesh to the country's online and mobile money payment system.

Post-Pandemic Shocks

The e-commerce industry witnessed a dramatic fall in sales post-pandemic after a tremendous rise during the pandemic. A number of factors are at play behind the drastic fall. Right after the pandemic eased, the Russia-Ukraine war disrupted the supply chain industry and caused inflation globally. Due to inflation, import costs shot up. Fuel price hikes further impacted delivery charges. The delivery companies increased the price by 20%. On top of that, the imposition of 5% VAT on online sales by the commerce ministry fell heavily on the industry.⁵ Big e-commerce companies downsized, refrained from expansion or stopped their operations altogether. During the pandemic, the city-centric essential commodity segment and groceries sales shot up. But post-pandemic, the sales have dropped by around 50% compared to that of 2019. Fraudulence and money embezzlement by companies such as Evaly, Dhamaka, and E-Orange, further created mistrust among the public.⁶ Unfortunately, due to a series of scams in the industry in 2021, the policymakers and regulators in the country have adopted a rigid governance approach which is detrimental to Small and Medium Sized Enterprises (SMEs). Furthermore, the government also launched a digital business identification (DBID) scheme to prevent irregularities and fraudulence in the e-commerce and f-

⁴ <https://www.tbsnews.net/economy/ecommerce-got-pandemic-boost-still-going-strong-373078>.

⁵ https://www.tbsnews.net/nbr/tax-return-must-online-sellers-441910?fbclid=IwAR321o3Tp5tR_Qz6fF9Eh46kyWO-rA3H8o1dx_NB9SyG3yNcHy3oYabpbOo.

⁶ <https://businesspostbd.com/front/e-comm-sector-stumbles-after-tremendous-rise-2022-09-27>.

commerce business. Under this scheme, e-commerce entities have to get registered to acquire a DBID number.⁷

Figure 2:
Reasons for
post-
pandemic
shocks



Source: The Business Post

For registration, they require TIN, bank account and business registration number which may cause long-run exclusion of the female SMEs who were running the business from the comfort of home and due to the hassle-free nature of the industry. Now paperwork may lead them to go through hassles of bureaucratic web.

However, the post-pandemic shocks in the e-commerce sector also strengthened the industry. The policy will safeguard customers.

⁷<https://www.dhakatribune.com/business/2021/12/01/mandatory-ubin-registration-for-online-businesses-from-this-month>.

Expansion of the Industry Despite Shocks

Despite post-pandemic shocks and setbacks, the industry is still riding on the pandemic boost. Other reasons are continuous improvements in online banking and fintech and the rise of a tech-savvy demographic with high purchasing power. E-CAB estimates 100,000 new jobs were created in the e-commerce sector during the lockdowns, and there will be 500,000 jobs in this sector in the next three to four years. In less than a decade, orders at Chaldal reached 23,000 daily which was 3000 pre-pandemic and grew by 16000 overnight during the pandemic. Chaldal's average daily turnover is at Tk1 crore now with potential growth in the future.

Daraz witnessed another significant turnover. It continued to record 100% year-on-year growth and is on track to reach over USD 1 billion sales on its platform in FY 2022-23. In 2021, the company reached over 40 million users across its five markets, and over 100,000 active SME sellers. The company also expanded its offerings to include groceries and medicine and has acquired a local food delivery pioneer, HungryNaki.⁸

The e-commerce sector in Bangladesh continues to grow and provide new opportunities, benefiting both businesses and consumers, despite the challenges faced post-pandemic.

Conclusion and Policy Recommendation

The e-commerce industry in Bangladesh has had a bumpy ride over the last couple of years. One of the biggest strengths of the sector is the growing number of customers. Another key strength is the excellent customer service provided by some big online businesses and the efficient online payment process. Starting an e-commerce business is also relatively straightforward, and consumers are generally satisfied with the e-commerce platforms in Bangladesh.

Despite strengths, there are still a number of challenges that need to be addressed in order to achieve desired growth in this sector. The quality of delivery services remains

⁸ <https://www.dhakatribune.com/business/2022/01/11/daraz-is-set-to-herald-in-a-new-era-of-e-commerce>.

poor, and many e-commerce websites are not user-friendly, with clunky interfaces and poor UI design.

In some cases, sellers may intentionally provide low-quality products or services, leading to a lack of trust among customers. The prices of online products or services are also often higher than those in brick-and-mortar stores, making it less appealing for customers to make purchases. The technology sector in Bangladesh still requires significant development, which could hamper growth in the e-commerce sector.

One of the main challenges to e-commerce growth in Bangladesh is the lack of a robust and reliable delivery channel. Currently, delivery services are limited to a few cities and do not cover the entire country, which limits the growth potential of e-commerce. Additionally, the quality of the packaging is often subpar, which can result in damaged goods during delivery. Many sellers do not have their own stock, they run their business through dropshipping which leads to longer delivery times and decreases customer satisfaction. There have also been instances of e-commerce platforms being less transparent in terms of quality and price with consumers, resulting in a loss of trust in the industry. The interoperability of mobile financial services is another challenge, and the process of returning or cancelling goods can be time-consuming and take up to 45 days.

Another obstacle to e-commerce growth in Bangladesh is the lack of digital literacy, particularly in rural communities. While using an app or website to make purchases does not require a strong command of the English language, digital literacy is still a concern for many consumers. Furthermore, the education level of most consumers is low, making it challenging for them to utilize the benefits of e-commerce fully.

In conclusion, while the e-commerce sector in Bangladesh has significant growth potential, it still faces several challenges that need to be addressed. Improving the delivery channel, ensuring high-quality packaging, increasing consumer trust, improving digital literacy, and increasing education levels are just a few of the steps that need to be taken to reach the desired growth in the e-commerce sector in Bangladesh. To overcome the challenges and sustain the industry, there should be dialogue with the

government to develop a delivery system through the existing post offices to minimize delivery costs and ensure reliability. The government should also reconsider the imposition of VAT and Tax which may cause long-run exclusion of SMEs. Banks also should give loan facilities to e-commerce companies. More investment from big conglomerates should be coming in to ensure sustainability of the industry.