

E-Commerce in Bangladesh

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Sector Overview

Electronic commerce or e-commerce, as it is more popularly referred to, is defined as any form of trade or exchange of goods, services and information using electronic means.

Globally, the application of e-commerce has been rapidly gaining acceptance, particularly since the dot-com boom and bust in the 90s. The level of international acceptance and popularity among businesses, especially small businesses and entrepreneurs, is largely due to the ability of e-commerce to go beyond international boundaries and enable activities within the virtual marketplace. This enables entrepreneurs to do business internationally at relatively low cost.

Consumers also report of higher satisfaction levels in availing of goods and services through e-commerce portals from the convenience of their homes or offices. Moreover, e-commerce businesses, by avoiding expenses on logistics such as physical spaces, smaller work force, and occasionally, lower inventory levels, are able to offer lower prices on products and services, contributing towards greater

customer satisfaction. The advantages of e-commerce then can be broadly classified as follows:

Table 1: Advantages of e-commerce

1	Lower operating costs
2	Greater international reach
3	Ability to increase product variety as a lower cost
4	Ability to penetrate international barriers

Source: Findings from Focus Group Discussion hosted by E-Commerce Association of Bangladesh (E-CAB)

It is because of the aforementioned advantages that the e-commerce sector is expected to fare particularly well in developing countries. This is perhaps more inevitable for a developing country like Bangladesh in which traffic jams and consequent restricted physical mobility can constitute a significant barrier to business growth. In the context of Bangladesh, although some e-commerce businesses have risen to prominence, the sector is still considered to be at an embryonic stage, and its contribution to economic growth is expected to increase exponentially, after the ongoing phase of customer familiarization

and comfort with e-commerce increases, and a reasonable market penetration is achieved.¹

Global Impact of E-Commerce

Globally, e-commerce surfaced at a time when dotcom businesses were losing traction in developed countries. One of the first formal e-commerce applications was undertaken by CompuServe for its US and Canadian markets. Subsequently, modern-day powerhouses such as Amazon.com, eBay and more recently Alibaba.com, were established.² The tremendous growth potential of e-commerce is evident in countries such as India as well, where the market is worth about USD 12.6 billion as of 2013 and rapidly growing. In the US, the total value of the e-commerce sector is about USD 294 billion.³

The popularity of e-commerce is largely driven by the expanding reach of the Internet. All over the world, the scale of global trade being carried out on the Internet is increasing. In the Asia Pacific Region, countries such as Japan, China and India are leading the way with regard to online trade, with an average yearly growth rate of 143 percent over the last decade. However when it comes to the use of Internet for online shopping purposes, country-level data vary considerably. While in China, online shopping constitutes 20% of Internet usage, in South Korea, the proportion is about 50 percent of Internet usage.⁴

E-commerce in Bangladesh

By now, the growth story of Bangladesh has become well-known. The country's annual

GDP growth rate of about 6% over the last decade is reflected across sectors. The story of mobile phone adoption in Bangladesh is also a case study in its own right and not too far behind is the unfolding story of Internet penetration and usage. Presently, several established business houses have opened up online portals while others are starting anew as exclusively online businesses, in part, due to the latter's relatively less capital intensive nature. Interestingly, these trends are not limited only to Dhaka, the capital city, but semi-urban, and to an extent, rural areas as well. The Bangladesh Governments' initiative to provide a solid Internet backbone, encouraging a well-grounded telecommunication sector, connecting all government offices, and opening up IT Parks are all leading indicators that point to the e-commerce sector's growth potential.⁵

With recent growth of Internet usage, 3G roll-out in 2013, and the vigorous marketing and sales of smartphones, e-commerce usage continues at a rapid pace. Businesses have realized that Bangladeshis are quite enthusiastic about technology and at the same time avid shoppers (especially, during Eid festivals). However, with the numerous barriers to urban life in Dhaka city, citizens have increasingly resorted to online shopping, with an increasing supply of virtual businesses to match. Inspired by convenience, competitive pricing, range of products, dedicated service, improving payment security and flexibility and demand from buyers and sellers, e-commerce has witnessed a mushrooming of the online shopping websites, particularly in the B2C and C2C category.

In general, the indicators related to e-commerce in Bangladesh, bode well, considering the early-stage of this sector. The table below highlights some of the key indicators that constitute the foundation for e-commerce sector growth:

Table 2: Indicators for e-commerce growth - Bangladesh Recent Statistics on ICT & Telecom Infrastructure (all figures of 2015)

Category:		Percentage: (as of June 2015)
1	Tele-density	80%
2	Internet Density	29%
3	Fixed broadband Internet usage	7%
4	Mobile phone subscribers (millions)	127
5	Mobile Internet subscribers (millions)	48
6	WiMax Internet users	180,000
7	3G & 2G Users	13% & 98% respectively
8	Coverage	64 districts, 126 Upazillas, 108 Unions
9	Number of ISPs	205
10	Smart Phone users of 3G	14%
11	Laptops, desktops, etc	7%
12	Facebook users	1,02,000 (25% penetration)
13	Cost of peak hour Internet	Tk. 1.5-2.0
14	Lowest call rate	1.1 paisa per sec

Source: BTRC website

There are several indicators that are worth highlighting. First and foremost, 48 million Internet subscribers are quite significant for Bangladesh. This attests to the popularity of the Internet among average citizens. However, when one compares this to the

127 million mobile phone subscribers, the potential for mobile Internet growth is further underscored. Generally, laptops and desktops do not enjoy very high levels of penetration owing to their high costs, and this barrier is a boon for mobile Internet adoption, and subsequently e-commerce. Moreover, a 25% penetration of Facebook, is also quite high, and implies the potential of a segment of e-commerce known as f-commerce (Facebook-based commerce). Furthermore, the cost of peak-hour Internet at BDT 1.5-2.0 is expected to go down significantly in the coming years, as telecommunications companies have recouped the costs incurred in availing 3G licensing.

There are, of course, areas that merit a closer look wherein interventions by the public and private sectors ought to be prioritized, so as to encourage further e-commerce sector expansion. For instance, as is evident from the table, Bangladesh is still highly dependent on its 2G network. This is expected as mobile usage is still growing in Bangladesh. However, prioritizing the transition from 2G to 3G will enable accelerated growth for the e-commerce sector. To this end, the decision of the government to introduce a second submarine cable will go a long way in creating the required infrastructural context within which to shift to a less expensive and more efficient platform such as the Broadband. Moreover, a nationwide broadband network should be part of the government's near-term urban development plan.

Overall, there have been significant strides in infrastructure development which have

facilitated the entry of e-commerce businesses. There are, however, deterrents, such as weak enforcement of contracts, lax consumer protection rights, a lack of privacy protection and absence of intellectual property regulations, to name a few.

Major E-Commerce Segments in Bangladesh

Although there are various applications of e-commerce, the major categories can be outlined as follows.

Table 3: Industry categories of E-Commerce

1	Business to Business (B2B)- organizations selling goods & services to other organizations
2	Business to Consumer (B2C)- organizations selling goods & services directly to consumers
3	Consumer to Consumer (C2C)- consumers selling goods & services (used or new) to other potential consumers
4	Business to Government (B2G)- private organizations selling goods & services to the government
5	Business to Employee (B2E)- private organizations selling various goods & services at in individual level primarily targeting various employees of different organizations

With regard to the Bangladesh e-commerce sector, the major subsectors, thus far, have been B2B, B2C, C2C, and B2E segments. B2B websites were once the biggest constituents of the e-commerce sector in Bangladesh. However, this has changed and recent trends indicate that their representation in the sector at large is expected to lessen. Several B2B websites in Bangladesh are engaged in providing

manufacturing and supply-chain solutions. For instance, BGMEA has actively deployed B2B e-commerce solutions for international RMG orders and procurement, as do several RMG companies. There are also B2B websites that feature business directories, trade deals and information about suppliers such as BangladeshBusinessGuide, Addressbazaar and Bizbangladesh, which, at present, have limited popularity.⁶

B2C websites have also become very popular as evidenced by the growth and commercial success of online-based home delivery of food, such as HungryNaki and FoodPanda. This has come as a panacea to citizens given the high levels of traffic in areas such as Gulshan and Dhanmondi in Dhaka at a time when people like to go out to dine. Other examples of B2C initiatives include Facebook-based commerce platforms such as Shopr.bd and ShoptoBd which allow Bangladeshi customers to purchase products from leading online shopping sites in the US, UK, India and even China, e.g., Amazon.com, ebay.co.uk, Amazon.in, and Alibaba. Although the competition between local players and foreign-backed players in the B2C market, in particular, the food delivery business, is expected to determine the future structure of the B2C sector, what appears to be inevitable is its sustained growth.⁷

Meanwhile, C2C businesses, thus far, have been the life force of the e-commerce sector in Bangladesh. The leading players in this category include Bikroy, Ekhanai, and ClickBd. There has already been a re-organization of this sector with CellBazar being bought by Telenor, followed by the

acquisition of the foreign market player OLX by Ekhanei.com. These businesses consist of individual and auction-based online marketplace similar to eBay. ClickBd was the country's first auction platform, while Cellbazaar was the first to use SMS-based transactions.

With regard to B2E businesses, employee recruitment, particularly in the private sector in Bangladesh, has more or less shifted online, thanks to companies such as bdjobs.com, prothom-alojobs.com, and jobsA1. Although internal hiring and lobbying are widely prevalent, vacancy announcement takes place through the largest and most accepted web recruitment portal Bdjobs, while many others like prothom-alojobs.com and jobsA1, etc also enjoy growing popularity.⁸

Growth Rates & Usage Statistics

Overall, the current trends and e-commerce growth statistics can be seen in the following table.⁹

Table 4: E-Commerce Growth Rate

Year	Q1-Q2	Q2-Q3	Q3-Q4
2014 (Recorded)	27%	39%	51%
2015 (Predicted)	60%	72%	79%
2016 (Predicted)	85%	95%	100%

Source: Kaymu.com

As is evident, the current growth rates, quarter-on-quarter, as of 2014 are already very high. Growth rates of over 30% quarter-on-quarter are not commonplace for most sectors in Bangladesh. The predicted growth rates for 2015 and 2016 are even

higher and imply a persuasive case for more market entry and business expansion in this sector.

Demographic and business trends in the Bangladesh e-commerce sector are also noteworthy, as revealed by a recent report published by Kaymu⁵, another up-and-coming e-commerce portal:

- Online-shoppers still comprise the primary traffic in the Bangladesh e-commerce sector.
- They are usually within the age bracket of 25-34 years.
- Over 80% of e-commerce traffic in Bangladesh comes from three locations; Dhaka (35%), Chittagong (29%), and Gazipur (15%)
- Gender disparity is evident as the user base comprises of 83% male users and 17% female users.
- New online shopping visitors stand at 49% of the total traffic, while returning visitors are 51%.
- Cash-on-delivery is still the most popular mode of payment for e-commerce transactions. Cash-on-delivery constitutes 95% of all the payments that take place, followed by bank/wire transfer (2%), bKash/Ucash (2%), and credit cards (1%). These statistics are expected to change in the next 5-10 years as regulations for online payments with credit cards mature, and overall financial literacy of citizens, increase.
- Most online shoppers appear to search for and purchase consumer electronics and mobile phones.
- With regard to devices used, 71% of shoppers use either a desktop or a

laptop, followed by mobile phones and tablets.

- About 69% of consumers use Windows operating systems for e-commerce.
- Google and Facebook-paid advertisements are primary click-through points for online shoppers

Future Growth Areas

There are other significant drivers of growth of e-commerce of Bangladesh, which are expected to play a more major role in the next 5-10 years. Most of these drivers are applications and services being conceptualized and implemented by the financial services sector and the telecommunications sector. Notable among them are e-banking, mobile financial services, mobile agricultural services, rural e-commerce, and f-commerce.

E-banking has begun to gain traction in Bangladesh as more users gain comfort in banking through online portals, allowing banks to cut costs on their services. Customer satisfaction and future growth of e-banking depend primarily on assurance, visibility and responsiveness of e-banking portals.¹⁰ However, for increased adoption rates, security of payment continues to be an important consideration. Ease of operability, security and status are the key drivers for adoption of Internet banking while accessibility, time and cost are also important factors.¹¹ According to industry experts, frequent use of credit cards for online payments is correlated with the use of e-banking portals by citizens, pointing to further growth opportunities in this area.

Although there is much hype with regard to mobile financial services (MFS), and tangible business growth to justify the hype, for service providers such as bKash and Dutch-Bangla Mobile, there are several products offered by MFS providers that are yet to gain traction. As for now, the most popular uses of mobile financial services include:

- Cash exchange
- Inward remittance
- Personal payments
- P2B payments (e.g. utility bills)
- B2P payments (e.g. salary)
- Government payments

However, MFS products such as deposit schemes and loans are still not popular among users and this is expected to change in the coming years. User openness to these services is also correlated to their overall financial literacy, according to industry experts interviewed for this report.

Mobile agricultural services are also expected to play a larger role in the lives and livelihood of farmers and agricultural sector workers in Bangladesh. As it stands, telecommunications service providers such as Robi, Banglalink and Grameenphone have services related to agriculture market information, news and weather updates. However, penetration is quite low at present, and as of 2012, it was only 1%.¹²

It is also envisioned that for critical issues such as disaster preparedness and disaster response management, call-data records may provide useful information to telecommunication companies. Information may also be gleaned with regard to rural or remote population displacement, while top-

up frequency after disasters can reflect financial status after a disaster (by enabling comparison between pre- and post-disaster top-up trends). Thus agriculture-related services are expected to grow in popularity and scope in the future, and gradually connect to online portals of information and feedback on smart phones. A related driver for this is the popularity and penetration of smart phones, which continues to increase as cost of manufacturing these phones go down.¹³

Facebook has become a pervasive metaphor for the demographic dividend in Bangladesh and its concomitant potential. Facebook has seen several important social and business applications. Social applications have ranged from coordinated movements of certain sections of the citizenry, buoyed by different causes and motives, while on the commercial side, several retailers have either used Facebook as a platform for sales effectively, transitioned their entire business to Facebook, or from the outset, used Facebook as the primary mode of communication with customers. Businesses such as Style World initiated their journey through Facebook and Shoptobd later moved to designated webpages. With 25% penetration among the citizenry and contributing to majority of the Internet traffic, the potential for F-commerce remains quite significant.

With regard to infrastructure development and policy support from the government, there have been several noteworthy initiatives and in some cases, blueprints for initiatives. For instance, the government has initiated the development of a 232-acre hi-

tech park to attract investment from multinationals and local investors.¹⁴ The park is expected to create 70 thousand jobs, contribute to several businesses in the e-commerce value chain, and benefit the industry through technological spillovers.

Moreover, the government is set to revise the Telecom Policy 2012 to render it more customer and investor-friendly. Consequently, the Ministry of Post and Telecommunication started a public consultation program on March 2015, seeking feedback from consumers and other stakeholders through public websites and SMS service. The government has also announced that VAT is inapplicable to e-commerce businesses in order to encourage local entrepreneurs. A second submarine cable that is in the planning will enable 4G services and provide bandwidth of 1400 Gbps, compared to the current availability of 200 Gbps (and regular usage of 32Gbps).¹⁵

Findings from Focus Group Discussions with Industry Experts

A recent Focus Group Discussion (FGD) of local e-commerce entrepreneurs deliberated on the current state of the sector, existing challenges, how they are currently being overcome and what ECAB, the government and policy makers could do to assist e-commerce entrepreneurs.¹⁶

The salient outcomes of the FGD are as follows:

- The bulk of e-commerce or online business in Bangladesh is generated from and dependent on Facebook. However, Facebook allows only the

basic information on customers to be gathered, such as name and his geographical location.

- E-commerce business involving shopping outsources its door-to-door delivery services to third parties for a service charge. This process involves dispatching orders to the third party who receive payment from the customers only after delivery is completed.
- The problem with third party delivery system is that the payments made by the third parties are always delayed from their end. This puts a damper in the already existing cash flow delays faced by e-commerce entrepreneurs.
- The existing payment system has some hurdles to overcome. The payment is almost entirely Cash-on-Delivery (COD). Advance payment is nil and card or online payment is not very popular in Bangladesh due to a perception of insecurity and low level of trust among card users. People are very concerned by credit and debit card frauds.
- Several e-commerce entrepreneurs do not possess any business experience and are unaware of how to finance their activities, lack technical knowledge about market entry and access, and have limited systemic understanding of their target customer segments.
- There is a lack of awareness among the wider potential e-commerce user community about the benefits of e-

commerce. This impedes marketing efforts.

- There is inadequate knowledge about the appropriate marketing techniques, online and offline, for e-commerce businesses.
- The sector generally suffers from a lack of investment and skilled human resources, especially, in the officer positions, which require employees to have completed at least a graduate level of education.

Generally, the FGD participants indicated that lack of awareness of e-commerce's benefits constitute the most significant barrier to the sector's growth and development. Buyers will eventually accept and trust e-commerce as a legitimate business sector, but at present, confidence and awareness levels are generally low. The participants recommended that awareness campaigns such as e-commerce fairs be organized across the country to address the existing low level of awareness.

With regard to financing, e-commerce could benefit greatly from government regulations and policies that encourage low-cost financing to this sector. A greater interest in this sector on the part of financial institutions could lead to a win-win situation, considering the scope and potential of this sector. Growth of this sector would also encourage greater entrepreneurial activity, and eventually, more business for financial institutions through loans and other products.

With regard to the paucity of human resources, the participants recommended that there be greater collaboration between e-commerce businesses and universities, via internship programs that aim to build up the skills of potential e-commerce sector employees from the ground-up. The participants also emphasized the inclusion of e-commerce in the academic course curricula as early education can play a pivotal role in creating the skilled human resources essential for the growth of this sector.

The participants also highlighted that general business knowledge is found to be lacking among the general population, who need to be made aware. They thought that the lack of e-commerce sector knowledge is part of a larger lack of business literacy in the country.

Even investors in e-commerce, many of whom belong to influential business houses or families, often demonstrate a lack of technical knowledge essential for investing in and contributing to the operations of an e-commerce business. Ground breaking products and services from individuals without adequate technical support are hardly likely. Business development information has to be provided to several start-ups to fast track the growth of e-commerce in Bangladesh.

To this end, the industry experts who participated in the FGDs encouraged greater participation by universities, industry associations and trade bodies in working closely with ECAB and the government to strategically catalyze the growth path the sector is on.

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- ¹⁶ An FGD was conducted with the pioneers of e-commerce in Bangladesh, organized in Dhaka, commissioned by the E-commerce Association of Bangladesh (E-CAB). The result of the discussion has been made available to the CES research team. One of the CES research team members was involved as a moderator for the discussion.