# E-COMMERCE ADOPTION FACTORS AND THEIR IMPLICATIONS FOR E-COMMERCE BUSINESS STRATEGY IN SAUDI ARABIA

by

# Abstract

This research project provides a comprehensive overview and current perspective of e-commerce usage and adoption factors in Saudi Arabia and seeks to explain why e-commerce use is still in a relatively immature state when compared to other regions. This study examines Saudi Arabia's infrastructure readiness for online shopping and explores Saudi consumers' behaviour and attitudes with regard to shopping online. An online survey was conducted to elicit general perceptions of Saudi consumers, as well as more specific opinions about e-payments and perceived obstacles to online shopping. A total of 1,740 responses were received. The findings of this study are of interest to government agencies, Saudi banks, Internet entrepreneurs and established companies that wish to enter the e-commerce market in Saudi Arabia.

**Keywords**: E-commerce; Electronic commerce; Online shopping; Barrier of e-commerce; Adoption factors; Saudi Arabia; Saudis consumer behaviour

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# 1: Introduction

## 6.1 Research Objective

The methods for establishing businesses are increasingly shifting to include the Internet and associated advances in information technology that affect consumers and businesses alike. This research project aimed at comprehensively studying the notion of e-commerce to obtain a thorough understanding of its condition in Saudi Arabia and to establish why it is still in an immature state. We began with an effort to obtain a comprehensive understanding of e-commerce in general and then focus on Internet growth and the existing e-commerce infrastructure usage in Saudi Arabia. To supplement our preliminary knowledge of the literature on e-commerce in Saudi Arabia, we conducted an online survey to examine Saudi Arabia's infrastructure readiness for online shopping and Saudi consumers' behaviour, attitudes and perceptions with regard to shopping online. We were particularly interested in behaviours and attitudes associated with making online payments and receiving shipments, and perceived obstacles pertaining to shopping online. The survey was distributed online via social networks and listservs. We received 1,740 responses from Saudi consumers. The results of this study will help this researcher and other merchants who plan to penetrate the Saudi e-commerce market to identify the opportunities and address challenges to create successful businesses.

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## 6.2 Why now is the right time for launching an e-commerce business in Saudi Arabia

For e-commerce to be successful a number of prerequisite conditions and financial instruments need to be in place; for example widely available Internet access, trusted payment methodologies, a reliable addressing system, and consumer willingness to conduct a non-cash based transaction, to name a few. We believe these conditions and others, which we will examine later in this paper, have recently been met in Saudi Arabia.

The Internet in Saudi Arabia has grown substantially in the last ten years. In 2000, only 0.9% of Saudi population had Internet access. Eleven years later, the number of Saudis who had Internet access had risen to 43.6% of the Saudi population with an overall growth rate of 5,600% (Internet World Stats, 2011). In addition, Mctoom Media (2011) released a YouTube video showing that the average time a Saudi user spent on the Internet was 133 minutes per day compared to 130 minutes spent watching television. They also showed that 65% of Saudis own smartphones and half of those owners use it to access the Internet an average of 68 minutes a day. This huge progress in Internet use will result in a tremendous need for different kinds of Internet-related services and represents a great potential for those interested in selling their goods and services on the Internet.

The main reason for Internet growth in Saudi Arabia is the low average population age. Sixty percent of Saudi consumers are under the age of 30 (internet.gov.sa, 2011; Euromonitor International, 2010). Teenagers and young adults tend to adopt new technologies much faster than older people do. These younger consumers are generally more open to a western way of life and have boosted the development of the economy in many ways. Saudi Arabia is flourishing with a young

tech-savvy population (source: Arab Advisor's Group founder and General Manager Jawad Abbassi). Saudi youth are more outgoing and consumer oriented than the more conservative previous generations, a situation that paves the way for the increased popularity of e-commerce.

Another important consumer segment in Saudi Arabia is the 120,000 students studying abroad in many different developed countries (Al-Jazirah Newspaper, 2011). Most of those students have been exposed to online shopping during their stay abroad and have benefited from the convenience that it offers. What is more, when they return to Saudi Arabia, most likely they will look for online shopping opportunities in their home country. Thus, they will become a potential market for new e-commerce companies in Saudi Arabia. In our opinion, the repatriated students' experience with online shopping will influence family, friends and acquaintances, creating a larger market as time goes by.

E- government is rapidly growing in Saudi Arabia since the government assigns high importance to the e-government concept and the transformation process that leads to its realization. In 2005, the government started an e-government project called "Yesser" that aims to connect different government agencies electronically to provide a wide range of services online. Recently, "Yesser" established the national e-government portal (www.saudi.gov.sa) through which citizens, residents, businesses and visitors can not only access e-government services but also other government organizations and businesses' e-services. "Yesser" has been able to convert 300 governmental services to online access. In 2008, the number of e-government transactions through this portal reached 202.6 million (Yesser.gov.sa, 2008). Furthermore, a governmental initiative called "The Saudi Initiative for Home Computers" has enabled a million Saudi families

to purchase a personal computer by facilitating affordable, instalment e-payments. The initiative could potentially add at least one million consumers to the e-commerce market in Saudi Arabia. Although the government is undertaking major initiatives to develop e-government services, we believe that e-commerce practices are not progressing at the same pace (sadad.com, n.d.).

The vice president of Saudi Post (SP) said, "One of the reasons for the slow growth of e-governance in Saudi Arabia was the lack of a robust postal infrastructure in the Kingdom. This was preventing the delivery of goods and packages to a customer wishing to place orders via the Internet" (Arab News, 2008). We believe insufficient postal services not only affect e-government practices but also hinder the growth of e-commerce. That being said, from 2007 to 2009, SP took major steps to develop the postal infrastructure by assigning unique addresses for the whole nation. In the past, most residences and small businesses did not have street addresses. This will definitely facilitate the growth of e-commerce in Saudi Arabia.

A major factor in any e-commerce transaction is credit cards; without them online shopping cannot occur effectively. Between 2005 and 2010, the number of financial cards in circulation in Saudi Arabia increased by 362%, from 1.75 million in 2005 to 8.10 million in 2010. It is safe to assume that the rapid increase of credit card holders means that the potential market for e-commerce also increases (Euromonitor International, 2010).

The increasing number of young, tech-savvy Internet users, the increasing number of credit card holders, the facilitation of e-governmental services, and the improved mailing infrastructure leads us to conclude that a large potential customer base for e-

commerce is equipped with the tools and technology required to conduct an e-commerce transaction. To summarize, we believe that the e-commerce market is immature but growing; however, it is always better for any business to enter the market while it is in its growth stage in order to become a leader when it is at the mature stage.

## 6.3   Research Structure

This study has been organized into six chapters. An overview, objectives and why this study is relevant at this time are presented in chapter one. The second chapter is devoted to a review of e-commerce literature and includes a definition, and references technologies, types, and limitations. In the third chapter we focus on the number of Internet users and usage in Saudi Arabia by individuals and businesses. The current state of e-commerce infrastructure in Saudi Arabia is discussed in chapter four, including methods of e-payment, major financial players, postal services and main existing websites with e-commerce functionality. Chapter five describes our survey study, which examined Saudi consumers' experience and attitudes toward online shopping. Finally, chapter six provides a summary of our findings, presents conclusions and makes recommendations for future development and businesses who would like to enter the e-commerce market in Saudi Arabia.