THE ROCKY ROAD OF E-COMMERCE

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The local e-commerce industry in Bangladesh started booming as a proper ecosystem around 2012, with the advent of faster internet connections in the country and legalisation and approval of online payment by Bangladesh Bank in several stages.

Today, the market size of the local e-commerce industry stands at Tk 1,000 crore and about 100 formal e-commerce ventures account for Tk 700 crore in annual sales. The report, which was presented in a recent roundtable conference arranged by some of the leading e-commerce companies in the country also reveals that currently, the market is catering to about 30,000 orders each day. And it is more than doubling every year.

However, the number of formal e-commerce companies in the country has not increased much; the number is still less than a hundred. On the contrary, informal players have flooded the market. Informal e-commerce platforms mostly include the hundreds and thousands of pages on Facebook that sell goods online. According to the report in the same conference cited above, currently, there are about 10-15,000 informal companies in the market.

What has catered to this mushroom-like growth of the informal sector is the same factor that has long inhibited the growth of the e-commerce sector in the country. That is the low usage of credit and debit cards and the unavailability of PayPal. The most preferred method of payment by the customers is cash on delivery, which makes the informal vendors easier to set up and conduct business without the hassle and regulations of securing payment procedure.

Even in the formal sector, the most preferred method of payment remains cash on delivery. 80 percent of the payments are done through cash on delivery method, while only 15-20 percent are done through mobile payment gateways.

Many e-commerce company CEOs have also complained that banks are particularly not cooperative with them when it comes to partnerships.

"If bKash can partner up with the e-commerce ventures, I see no reason why the banks cannot do the same. The e-commerce sector in Bangladesh is not at its inception stage. It has gained a lot of traction in the last five years. Banks should be more open with equity finance when it comes to e-commerce," said Zeeshan Kingshuk Huq, founder and CEO of Kiksha.com.

But the challenges faced by the local e-commerce companies go far beyond the payment issues. Although the e-commerce industry employs over 50,000 employees, directly and indirectly, the growth of this industry is largely inhibited by lack of proper funding and investments.

"While there are Rs 50 million being invested in the e-commerce of sector of India, in Bangladesh only Tk 100 crore worth of investment is coming in. That too mostly self-funded or by small venture capital firms," said Fahim Mashroor, CEO and founder of Ajkerdeal.com.

On top of it, on July 16, the cabinet had approved the Digital Commerce Policy, limiting foreign investment at no more than 49 percent in local e-commerce ventures.

But the government decided to reconsider the limit when some global players operating in Bangladesh voiced concerns about it. The government plans to allow foreign companies to own up to 100 percent shares in local e-commerce ventures.

In reply to this, a union of local e-commerce companies have put forward a proposed revision of the Digital Commerce Policy which includes proposals like:

1. The foreign entity which will own the local company must have shares owned by multiple individuals or companies. No single individual or company shareholder of that foreign company should own more than 33 percent of shares
2. Total e-commerce platform must be developed and managed using local resources
3. All data must be hosted within Bangladesh territory
4. With 100 percent foreign ownership, the e-commerce platform can only run as a marketplace model, not inventory based model

Challenges lie in the logistics sector as well. 65 percent of the operations of the e-commerce companies are constrained within big metros like Dhaka and Chittagong. Although rural customers are more likely to order quality goods online, the delivery process is particularly troublesome outside metros as the infrastructure is not set for the companies to deliver to the peripheral areas.

As a result of this, local e-commerce companies are being unable to tap into their primary target market. A number of companies proposed recently that the government should let them use the government postal infrastructure on a lease, and increase investment in the e-commerce logistics sector to increase the efficiency of their delivery method.

Besides all these, the low affordability of internet in most rural areas pose a major threat to the growth of the local e-commerce industry. In most rural areas, customers are unlikely to browse through e-commerce websites as using mobile data is costlier than easily available broadband in the metros. The local ventures also recently suggested ensuring net neutrality for telecom companies to address these issues.

A major issue arises when it comes to competing with global e-commerce brands. In most markets, big global brands use entering strategies like price dumping, human resource poaching, and forcing suppliers for exclusivity to drive out local players. Local e-commerce ventures in Bangladesh have nurtured the market for the last seven years and have built it towards maturity. It will be a major threat to them if the global companies like Amazon or Walmart come to capture this market.

Despite the protective measures the local ventures are urging the government for, which includes points like the government working around a taxation policy and selling .bd domain at a higher cost, that is exactly what might happen if Walmart and Amazon are the latest entrants in the market.

Walmart and Amazon are two of the richest e-commerce giants in the world and they have made easy money by ensuring cheaper prices for quality products by selling at a loss, using technology and country-specific business models. The entry of these two e-commerce giants in the local market of Bangladesh might be an ecstatic moment for the local customer base, not so much for local e-commerce players. If not protected by government legislation, the local industry is unlikely to survive in the market, let alone compete.

But the actual scenario might not be that frightening altogether. If Amazon or Walmart enters the market by acquiring local companies, it might be a good competitive ground for local e-commerce players given that they play fair and square. When Alibaba group acquired Daraz globally, its Bangladesh operations did not hamper the local ecosystem rather created a healthy competition that local ventures are more than happy to welcome.

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"Foreign investment and companies should come. And it will come. The problem is if the market gets dismantled. It will upset the market. It harms everyone in the long run," says Zeeshan Kingshuk.

"The local industries in India, UK and USA are protected like this and now they are managing to capture global markets" he added.

The interest of global players in the local market of the country is certainly good news for the economy. But if the government cannot protect the local industry and ensure free and fair policies across all aisles, it will fall short-sighted in the long run.

"We need foreign investments. At the same time, local companies which have been nursing the market for the last seven years need to be protected too," said Muhammad Abdul Wahed Tomal, general secretary of e-Cab.

Is the e-commerce industry growing towards a maturity in Bangladesh? Or does the future look bleak? Only time will tell.

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