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### An Elaboration on the Status of E-commerce in Iran Considering its Growth and Challenges

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#### ABSTRACT

Iran has the second highest GDP in the Middle East, along with the largest population, and, in spite of having relatively low Internet connectivity rates and a small percentage of individuals buying online, Iran's Internet shoppers number is the largest in this region. Over the last three years, Iran has witnessed a significant expansion of online markets in the country. With the enormous improvements made in telecommunications infrastructure, more Iranians get access to broadband internet connections. Iran is on the verge of an ecommerce boom which will offer considerable business opportunities to international and local investors, as well as to those financial institutions prepared to finance these projects. At present ecommerce is in its infancy, accounting for only 0.7% of GDP, but the potential is enormous. The consumer market is strong, with per capita GDP higher than India, and disposable income remains relatively high. Moreover, there is a young population (70% are under the age of 35), which is technologically sophisticated; the penetration rates for internet (55%) and mobile phones (126%) are among the highest in the Middle East. Broadband subscriptions have been doubling every year since 2005. And the country has the highest share of engineering graduates in the world. The present paper undertakes to study the recent growth in the e-commerce arena of Iran and also to elaborate upon the challenges it faces now and will probably face in the future. Electronic commerce issue has been under discussion since 1996 in Iran, but, unfortunately necessary and enough measures has not been taken to develop it and the reason thereof is clear. This paper will introduce some of the reasons of the lack of development regarding this recent technology. The main reasons are: lack of good infrastructure for setting up the technology, cultural and political grounds, lack of credit cards in the banking system, resistance against change, lack of executive rules and regulations, etc. these shortages in today society have slowed down economic progress. To attain a healthy society and economy, existing problems should be overcome and the ground for accepting new technologies should be provided. The main purpose of this study is to address existing difficulties to set up e-commerce networks and it is hoped that a step toward a brighter future be taken through overcoming such difficulties.

**Keywords:** E-commerce, Social Culture, Banking Systems, Economic Development.

## 1. INTRODUCTION

In recent years, human societies have significantly welcomed e-commerce. There are few people unfamiliar with the word “e-commerce”. Press, radio, and television publish and broadcast topics on e-commerce, and individuals and experts consider and explore it from various aspects. Companies and institutions offering products or services, in pace with the trend of global developments in the field of e-commerce; try to change the logical and physical structure of their organizations in this respect.

Daily progress of technology with increasing speed has turned societies into knowledge- and awareness-based ones. The development of information technology and communications has provided an opportunity for institutions to perform their commercial activities at a high speed. The progress achieved in late 20<sup>th</sup> century formed e-commerce, which brought about a great revolution in the field of commerce and business. In other words, e-commerce has revolutionized human life style in developed countries. Developed countries have accepted e-commerce and have gradually understood its issues and difficulties. Moreover, companies in developing countries have made great efforts to promote e-commerce. In addition to developed countries, developing countries also are trying and devising programs to use and promote e-commerce. Also in Iran, there has been many sporadic efforts, but have failed on grounds such as cultural reasons. This paper refers to these reasons, so that with the help of each other we can find a solution without hurting Islamic culture. Two politico-economic decisions have exerted enormous influence on the growth potential of the Iranian e-commerce sector, somewhat mitigating the risk of investing in the industry. The first is the product of internal Iranian deliberation; the second is the result of externally-induced circumstances.

First, the introduction of an easily accessible 3G network in Iran has quickly accelerated widespread penetration of the internet. Allowing high-speed internet connectivity has in itself been a highly politicized decision, with clerics and political hard-liners opposed to the purported immorality of online content. Clerical establishment figures initially issued fatwas outlawing Rightel, Iran’s third mobile operator, which had exclusive control over the country’s 3G network until 18 months ago.

Because most people first experience the internet through their smartphone, the Rouhani government’s recent decision to grant 3/4G licenses to two additional mobile broadband companies has led to large increases in internet usage and a country-wide reduction in the digital gap between urban and rural areas. Nevertheless, the Iranian e-commerce sector still lags roughly 25 years behind that of the United States.

It has since become apparent that the underlying logic for e-commerce in the country is strong: the offline market is fragmented and is dominated by distributors who play with prices. E-commerce has managed to bring some transparency with it, allowing customers to circumvent shady offline retailers and identify what the actual market price of a given product should be. The fact that Iran’s population primarily consists of online youth – over 60 per cent of Iranians are under 30 years old – is also likely to play a role in the industry’s success. Given that gaining access to a variety of different products at a reasonable cost can be quite challenging in the Persian market, buying products online has proved increasingly popular.

Second, the Rouhani government’s agreement to the Joint Comprehensive Plan of Action (JCPOA) – or nuclear deal – has had an important impact on Iran’s internal business climate. The weak Iranian market has actually increased the visibility of existing e-commerce firms for newly interested financiers. According to a managing director at Bamilo, one of two major Persian e-commerce players, investor interest in the company has noticeably increased since the nuclear accord was signed last year.

Yet the fact that sanctions relief has not yet trickled down (market perception is negative) has meant that consumer demand for the products that e-commerce firms distribute has not yet increased dramatically. With high visibility and still unrealized growth potential, the liberalizing process driven by the Rouhani government is therefore likely to greatly benefit Iran's existing e-commerce companies in the medium to long term.

Iran's e-commerce firms have had another decisive advantage. Because many international providers have been (or are still) effectively shut out of Iran, Bamilo and Digikala have been able to capture the lion's share of a promising sector in an important emerging market. It remains illegal for American companies like Amazon to invest in the country. Investor interest, space for expansion and limited competition by major foreign distributors are potential ingredients for continued success.

Yet a significant caveat exists. Even with the recent suspension of proliferation-related sanctions, prospective financial rewards still involve significant risks for investors. Foreign financiers remain spooked by the difficulty of doing business in Iran. The omnipresence of the Islamic Revolutionary Guards Corp (IRGC), Iran's biggest economic heavyweight, has made the Iranian economy somewhat difficult to navigate. Continuing political tensions with the United States have left a variety of complex American legal regulations in place, causing European banks to be fearful of being fined for facilitating illegal activity.

A number of emerging markets exist, which are therefore significantly less difficult to penetrate: India, Turkey and even Pakistan are spaces that remain less fraught with challenges for e-commerce pioneers.

Nowadays, e-commerce is a highly popular word, and is heard and seen frequently in papers, commercial literature, and public media. Due to novelty and its various applications and fields, it has been defined differently by different people. Moreover, it is multidisciplinary, encompassing information technology concepts as well as topics such as marketing and sales, and financial, economic, and legal discussions. Thus, it has received many interpretations. Some think that e-commerce means conducting work without using paper tools and documents, others think it is to order products and services, and purchasing those using computers. All the above viewpoints are parts of e-commerce concept, but they do not paint a complete picture of e-commerce.

E-commerce means exchanging commercial data without using papers, in which innovations such as electronic interchange of data, e-mail, electronic bulletin boards, electronic interchange of money, and other network-based technologies are used. Not only e-commerce automatizes those operations accomplished manually using papers, but also helps organizations step in a fully electronic environment and to change their working trends.

Among the online e-commerce markets utilized by a number of popular websites are e-bay.com and alibaba.com. Main e-commerce models include B2B, B2C, C2B, C2C, and G2G. Following is a list of some models utilized in e-commerce: business to business --B2B, business to customer --B2C, customer to business --C2B, customer to customer --C2C, government to government --G2G.

The important thing to remember is that e-commerce is not about technology and technical knowledge. E-commerce mostly entails recognizing new commercial and communication pattern in the electronic context. It is a set of telecommunication, processing, and data saving technologies related to markets, organizations, customers, and electronic payment systems. It is also a novel method to perform banking affairs so that traders offer their products to people across the world.

## 2. HISTORY OF E-COMMERCE

E-commerce is not a new phenomenon. The history of employing e-commerce dates back to 1950 in the United States where credits cards replaces cash money to trade main products. The issue of e-commerce came to forefront in the late 20th century and was widely utilized I across the world. The number of e-commerce service companies is experiencing an increasing trend. During 70th and 80th in developed countries, e-commerce became prevalent among purchasers and sellers in the form of electronic messages (Electronic Data Interchange (EDI) and e-mail). This eliminated papers from commerce. With the emergence of internet in 90<sup>th</sup> and forming World Wide Web, commerce has become easier and smaller companies are more active and compete international companies in an international level.

In Iran, Note 26 of the Second Five-year Economic Development Plan (1995- 2005), obliged Ministry of Commerce to construct and set up e-commerce in national and international level with the help of all governmental institutions and organs. Aiming at participating in originating necessary standards for electronic interchange of data for administrative, commercial, and transportation purposes, Ministry of Commerce decided to form necessary establishments and be present in competent organizations. Therefore, was elected as the supervisor in 14th Iranian EDIFACT Board, and was established in July 1996 with the cooperation and participation of other organizations such as customs, Ministry of Road and Transportation, Ministry of Post and Telegraph, and Iranian Central Bank.

**Table 32.1**  
**E-commerce table and its share of total sales in various regions in 2006**

<i>Region</i>	<i>Trillion Dollars</i>	<i>Percentage out of the Total Sale</i>
Total	12.8	18.4
United States	7.1	26
Asia- Oceania	2.6	11.9
Japan	1.7	14.6
Western Europe	2.5	19.3
Other parts of the world	0.3	4

*Source:* Forester (2002)

### E-commerce Advantages

Compared to traditional commerce that is based on paper work, e-commerce has certain advantages, some of which are presented below:

- No delays in supplying and sending documents;
- No need to re-enter data into the computer system and thus reduction of costs;
- Accelerating data circulation in trades;
- Message delivery is declared to the sender in a short time;
- No spatial and temporal limitations;
- Reduction of the actual cost of products and services;

- Competition increase;
- Emergence of small companies in an international level;
- Increase of sales of governmental companies and organizations due to presence in new global markets;
- Reduction of social costs such as transportation, traffic, crowded passages, and air pollution.

### **E-commerce Disadvantages**

In e-commerce, purchaser and seller do not see each other or the purchased product and buy only based on product properties and images. Another important thing is security<sup>1</sup>. Just as a given system increases accuracy and speed, it should strive to obviate security problems. They include:

- Accessibility: accessibility of data and the possibility of receiving data in appropriate time and place along with illegal access to data;
- Confidentiality: protect messages (documents) against abuse and eavesdropping;
- Message wholeness: preventing manipulation or unintentional deletion of messages;
- Credibility: ensuring accurate recognition of sender and receiver; the possibility of proving sending and receiving messages;
- Inspection and investigation: registering inspected information based on pre-defined conditions of confidentiality and wholeness.

### **Facts and Figures**

Despite the perceptions from many outside of the country, Iranians haven't been twiddling their thumbs, waiting idly all these years for sanctions relief.

The country has long since accustomed itself to be self-sufficient, and the e-commerce industry in Iran is no exception.

Over one-third — or 39 percent of Iranians — are shopping online at least once a month, according to our latest study. 1,132 respondents completed the survey between January 23 and 28. For foreigners looking to enter the country, it's clear that e-commerce could be a huge target for investment dollars.

Twenty-three percent of Iranians are shopping online at least once a month, 16 at least once a week, and 5 percent are doing so on a daily basis. When we asked what products they have purchased in the past 3 months, apps and digital (34 percent) came at top followed by travel tickets (27 percent), games (23 percent), and electronics (22 percent).

“More than 1,300 apps are published on Cafe Bazaar each week,” says Hessam Armandehi, CEO of Cafe Bazaar, the largest app store in Iran with over 28 million active installations and 11 million weekly visits. “Iranians have a constant thirst for the latest and most popular games and applications.”

<sup>1</sup> NirKshetir, “Barriers to e-Commerce and Competitive Business Models in Developing Countries: A Case Study”, USA, Article, Feb 2007. [www.sciencedirect.com](http://www.sciencedirect.com).

In fact, homegrown startups like Cafe Bazaar, which reportedly has 85 percent of the app store market in the country, are a key factor in what has flowered to be a thriving online shopping scene.

Sanctions may have stifled the presence of global players like Apple, Google, and Amazon, but this has at the same time created a vacuum in which young entrepreneurs have stepped in.

Another example is Digikala, the Amazon of Iran, which was reported last year by *The Economist* to be valued at \$150 million with over 80 percent share of the online retail market. That's quite the accomplishment for an online retail brand that was started by two twin brothers in 2007 and now has over 900 employees and the fourth most visited site in the country based on Alexa rankings.

Twelve percent of respondents said they bought daily deals like restaurant coupons in that same time frame, but when we asked which product categories they felt currently limited in accessing, this number jumped to 42 percent without a single other category contender.

“Bargaining is deeply ingrained in Iranian shopping culture. A seller that gives a good discount shows that they care for their customers and that they are willing to invest in a long-term relationship,” says Nazanin Daneshvar, Founder & CEO of Takhfifan.com, a leading daily deal site in Iran that is experiencing 100 percent annual growth.

The cultural disposition towards deals is likely cranked up by the influence that sanctions have had in recent years. The sanctions drove up the prices of imported goods or reduced supplies to zero. In either case, it's understandable that such conditions have increased the receptivity of Iranians towards the prospect of saving a buck, be it in the form of discounts, loyalty programs, or sweeps take draws.

After apps and software, the second most desired category is clothing (23 percent), followed by event tickets (19 percent), insurance (19 percent), and electronics (17 percent). Iranians expect that in the next 6 months foreign companies will usher in greater access to electronics (65 percent), apps and software (43 percent), travel tickets (27 percent), games (25 percent), and clothing (21 percent).

“More international brands are flocking to Iran, therefore the availability of various products is increasing and so is the demand,” says Ehsan Golabgir, CEO of Albasco.com, a popular e-commerce portal in the country. “In the past year or so, we have experienced a significant growth in non-consumer electronics products, especially in fashion and beauty.”

So what keeps the other 40 percent from jumping on the bandwagon? The top concern continues to be fraud. That's followed by a whole host of issues ranging from the quality of products to payment security online.

“Iran's online banking system, contrary to outside view, is pretty solid when it comes to fraud protection,” says Hossein Entekhabi, Operations Director at Bamilo, an 18-month startup that is now the second largest e-commerce company in Iran. “There are challenges with invalid payments or terminated transactions on payment gateway; nevertheless payment fraud is very low, especially compared to high rates of offline banking fraud.”

People are often surprised when they hear how comfortable Iranians are paying online. 87 percent shop using their debit card that can be used to purchase online when activated to the Shetab network, an interbank card switch introduced back in 2002.



“Iranians are generally well disposed to paying online because the central bank was the first to introduce and encourage it as a means to pay for their utilities,” says Dr. Aliakbar Jalali, a Professor at Iran University of Science and Technology, considered to be the father of IT in Iran. “So by the time e-commerce portals made their appearance, they were already adapted to punching in their debit card details to make an online transaction.”

This effectively turns their debit card into the single easiest mode of payment. Twenty percent are shopping daily using their debit card, 24 percent weekly, and 28 percent on a monthly basis.

“The growth of online purchasing is picking up at rates unseen in any other markets,” adds Entekhabi. “Most of goods and services are concentrated in Tehran and through ecommerce the rest of the country has instantaneous access to a range of products and services that was never possible.”

The percentage of Iranians with foreign credit cards is another high value target for potential investors. Roughly 11 percent of Iranians hold credit cards like Visa and Mastercard, which means they either have a passport in another country that provides them with access to credit cards, or else they have acquired prepaid credit cards in neighboring countries like Georgia or the United Arab Emirates.

### **Lack of Appropriate Infrastructures**

The commercial value of e-commerce for providing opportunities is to reduce costs. Because e-commerce uses a common, national and appropriate infrastructure such as high-speed internet, it has a lower cost compared to physical costs and equipment, marketing, distributing and offering services to customers. For example, big and prestigious companies in global markets have reduced their costs up to several million dollars using internet. Moreover, companies can reduce costs of personnel, telephone, and post using automatic systems and appropriate design for transferring electronic data. Specifically, service industries are of high importance in Iran, where the cost for offering services to customers is more than production cost. For example, credits cards are important in banking industries; so that it is universally predicted that 2 billion bankcards will be produced by 2005. Banking industries should play a decisive role in this regard and use e-commerce systems (4).

### **Economic Difficulties for Setting up and Promoting E-Commerce in Iran**

Economic factors have always been and will be among key factors in achieving any progress in developing countries. New communication and information technologies in electronic banking industry are considered among the economic factors. Economic factors include: multiple rates of exchange, per capita income level, economic development, money and exchange policies, telephone line costs, costs for using internet, etc.

### **Cultural and social difficulties for setting up and developing e-commerce in Iran**

In most deprived regions of Iran, (because banks have a pivotal role in e-commerce) there are banks that have their own customers and do not need internet, technology, or credit cards for doing banking affairs. Reports show that residents of these regions prefer to conduct their commerce traditionally and through cash money.<sup>2</sup>

<sup>2</sup> Mehdi Khosrowpour, “Cases on Electronic Commerce”, Book, Internet Resource, Publisher Hershey, PA. Idea Group Pub., 2nd Edition, 2006

Secrecy and non-transparent activities are other factors of not accepting e-commerce in Iran. Secrecy and non-transparency indicate that juristic and personal companies want to escape taxes or reduce costs, because when they use e-commerce they should register all economic transactions and activities. This culture has hindered the development of e-commerce and transfer of any bank electronic cash in Iran. One other reason is distrust, which has a key role in not accepting e-commerce. In the absence of trust, nothing can be done to develop e-commerce.

### **Lack of Rules and Regulations**

The absence of rules and regulations is the main common problems of developing countries. In fact, e-commerce will ban many abuses by bank customers. Because e-commerce is closely related with banks, all the money transferred through e-commerce transactions will be registered. These organizations can access these data using e-commerce systems. This will restrict abuses by individuals and managers to get various kinds of facilities, loans, and other financial affairs. It endangers their interests, and therefore hinders the development of banking.

### **Resistance against Change**

Changes are rapidly made to working trend by new technical resources. Changes are made to organizations easily and there is a big obstacle in the way of change.

Personal resistance: persons resist against changes due to their own properties. These properties include: individual habits, job and economic security, etc. Sometimes personnel and managers resist against unknown, because they do not welcome change effects.

Organizational resistance: due to lack of mobility in Iranian governmental organizations, they often use old methods without any change. For example, it could be seen in Iranian banking system. Because banks are owned by the government and there is no competition with private sector, they experience stagnation and assume little change.

## **3. CONCLUSION**

Based on investigations and studies, primary difficulties for developing, setting up, and exploiting e-commerce are related to issues such as : computers not being so much common across the country and most people are unfamiliar with computers as a tool for conducting commercial affairs from long distances; the role of training for instructing e-commerce concepts in Iranian society using media and even academic centers is important, but they have had a poor performance; Lack of efficient computer networks and updated, useful commercial data that are not easily accessible. Lack of secure telecommunication networks plays a key role in providing the grounds for e-commerce. Distrust in the efficiency of Iranian banking system for doing e-commerce operations, which is of high importance in e-commerce; and credit cards not being accessible to common people in Iran by the banks across the country that is one of the greatest obstacles in the way of setting up e-commerce networks.

The resistance showed by the personnel and responsible managers has generated many obstacles for implementing change programs in the way towards communalizing e-commerce in Iran. Cultural, economic, and political problems are in turn other problems slowing down the development and progress



of e-commerce in Iran. It is worth noting that infrastructures for e-commerce are waiting for utilization since several years ago. If the aforementioned problems are solved or somehow dealt with, a new phase of e-commerce begins in Iran.

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