

## **BARRIERS AND LIMITATIONS OF E-COMMERCE DEVELOPMENT IN TASHKENT**

**Masrurakhon Kudratkhujaeva**

Masters (WIUT)

Deputy director “MUSAFIR’S” LLC

### **ABSTRACT**

*The recent increase of business entities that are involved in e-commerce and in contrast a low demand in the market lead to revealing a research gap. The e-commerce market demonstrates a significant contribution to the county economy that can be witnessed in the examples of developed and developing countries. This research aims to determine why consumers do not use e-commerce; namely barriers and limitations from the perspective of the companies and then concentrating on analysis of consumer behavior. As a result, this research finding will make a contribution towards strategic, marketing and other decisions of organizations and improve their results having a conceptual background that is applied in the real business practice. There were carried out exploratory research via 6 in-depth interviews with such companies as Arba.uz, Lebazar.uz, Days.uz, Olcha.uz, Agrofield Group and related specialists such as ICT specialist, Mikhail Shpirko to have a comprehensive understanding.*

**Key words:** *consumers behavior, e-commerce, barriers and limitations.*

### **АННОТАЦИЯ**

*В последнее время рост числа субъектов предпринимательства, занимающихся электронной коммерцией, и низкий спрос на рынке приводят к выявлению пробела в исследованиях. На примере развитых и развивающихся стран можно увидеть, что рынок электронной коммерции вносит большой вклад в региональную экономику. Целью данного исследования является выяснить, почему потребители не используют электронную коммерцию. Барьеры и ограничения с точки зрения компаний, а затем сосредоточиться на анализе поведения потребителей. В результате результаты этого исследования способствуют принятию стратегических, маркетинговых и других решений организаций. Их результаты будут иметь концептуальную основу, которую можно будет использовать в реальной деловой практике.*

**Ключевые слова:** *поведение потребителей, электронная коммерция, барьеры и ограничения.*

## **INTRODUCTION**

In recent years, the proliferation of interests towards online consumer behavior is practiced all over the world both from academics and business practitioners. E-commerce still refers to a new practice for consumers and increased trust practiced once people become familiar with it; however, it is important to reveal new ways for continuous attraction and retention of consumers to use the e-commerce system. (Jones and Leonard, 2008; Wang, et., al, 2016). After comprehensive investigation of research papers; while at the same time striving to address a problem like pain, which requires intellectual resources such as medicines and that can be significant for implications in the real word of business, the research gap was identified. The detailed reading of business journals and newspapers to find out this pain lead to revealing shocking trends in the global market and domestic market such as Uzbekistan. Global e-commerce sales are forecasted to grow 3.5 trillion USD that constitutes 12% of global sales according to emarketer. Meanwhile, the e-commerce market constituted 1% in Uzbekistan by 2019 taking into account that the only e-commerce market is developed in Tashkent with more than 90% of Internet users. Why does the e-commerce market demonstrate such pitiable results? This problem needs an answer thus two sides of the truth are analyzed with the help of in-depth interviews of key market players and questionnaires of buyers.

## **THE LITERATURE REVIEW**

### ***E-commerce in the developed versus developing countries***

Referring to Lane et al., (2004) research paper, the e-commerce development is highly correlated with websites' number and characteristics and e-readiness (So, W.C.M et al., 2005; Lane, M.S et al., 2004). Meanwhile, in accordance with the Netcraft Survey report, websites' number is constituted to over 1.8 billion worldwide; namely, companies accounted for its revolution as it was pointed out by over mentioned research (News.netcraft.com, 2018). Meanwhile, web site features such as layout design and content play crucial roles that are determined as main variables to analyze consumers' intention and behavior of making an online purchase (So, W.C.M et al., 2005). Furthermore, e-readiness represents countries' capabilities to take part in cyberspace by creating, diffusing and adopting its components; namely, its variables include technology, cultural and social infrastructures, legal and business environments etc. (Lane, M.S et al., 2004).

### ***Barriers and limitations of e-commerce***

Referring Palumbo and Herbig (1998) concluded that organizations experience a wide-range of factors that hinder e-commerce development such as political, economic, business, infrastructural, cultural and marketing challenges, whereas low

PC penetration, language, non-standardized regulations, insufficient knowledge, competitive advantage, tax, security, documentation issues take place as well. Turban et al, (2010) identified technical limitations (inadequate security of system, reliability, communication protocol, and standards, software and infrastructure development eventually) and non-technical barriers (trust & confidence, privacy & security, internet experience, e-commerce costs, government regulations & standards, lack of expertise, inconvenient/expensive electronic access, legal issues and an insufficient number of sellers and buyers). Chen and Barnes (2007) advocates that trust has a relationship with the intention to use e-commerce.

### ***E-commerce in Uzbekistan***

According to Uzbekistan National News Agency, internet penetration is constituted to 47.7% (15.45 million); namely internet access performed via smartphones is equal to 51% of users, via personal computers- 47% of users and via tablets constitutes 2% of users (Uzbekistan National News Agency, 2018). Tashkent, the capital of Uzbekistan, is the only sustainable region for e-commerce due to the fact that 90% of users belong to this territory (Export.gov, 2017; Unctad.org, 2018). Internet penetration is expected to hit 58% by 2021 that refers to the fundamental significant driver for e-commerce development (Euromonitor, 2018). Referring to Shawn T., Asian Development Bank Institute, 5% or less of the population have credit cards in Uzbekistan, Turkmenistan, Tajikistan, and Armenia whereas less than 1% of individuals use the Internet to purchase goods in Uzbekistan (Asian Development Bank Institute, 2018). Moreover, the barriers and limitations of e-commerce development are undeveloped logistics infrastructure and payment systems (Adb.org, 2018).

## **METHODOLOGY**

*Qualitative research is carried out* with the help of data collection instruments such as *in-depth interviews* to address research question and objectives. The main reason that the researcher's implemented ***qualitative research is because*** the problem at hand was not widely investigated referring to the literature review. Exploratory design is carried out to have comprehensive insight regarding a particular phenomenon or a topic, in particular, ***qualitative research*** is carried out by conducting *in-depth interviews* with specialists in the e-commerce sector.

*Data collection method* comprises both ***secondary and primary data***, the former presents information collected by the third party that is not related to a problem at hand, whereas the latter implies data collected based on a research purpose of the researcher.

Secondary data was gathered via investigation of corresponding theories and statistics and conducted studies, which was performed via credible journals and websites such as EMERALD, JSTORE, Science Direct etc. As it was over mentioned, *primary data* was collected with the help of conducted **6 in-depth interviews with specialists in e-commerce**

### Reliability, Validity, Generalizability

#### Threats to Reliability:

**Participant error** is eliminated as respondents have their own choice; namely, in-depth interviews were carried out concentrating on the convenience of interviewees thus it was extremely challenging to schedule in-depth interviews because interviewees are business people and specialists who have an extremely tough schedule. **Participant bias** is eliminated by conducting the interview in the closed space, at the respondents' office, even if the research question has neutral context such as e-commerce barriers and limitations. **Researcher error** is eliminated with the help of effective time management not overwhelming the researcher's schedule. **Researcher bias** is removed by concentration and referring only on the outcomes of in-depth interviews.

#### Validity for Qualitative research:

**Credibility** was established because findings of qualitative research such as transcripts of in-depth interviews were approved by the interviewees as credible. Meaning that these results are able to reflect their beliefs and feelings accurately.

**Transferability** can be established to some extent when the process is extensively adopted, having an intensive description for others to follow. It will be maximum performed to make a generalization to other contexts or settings.

**Dependability** is reached because the same results will be obtained twice; in particular, transcripts of in-depth interviews are presented from audio records thus precise answers of an interviewee were gathered as data.

**Confirmability** is reached with the help of detailed and comprehensive description because of records of undertaken procedures for replication, therefore the same results could be confirmed by others.

**Generalizability** implies an extension of the research carried out on the sample population to the population at large. These paper findings are accomplished at the sample size, decided by the researcher; namely 6 specialists for in-depth interviews and 207 respondents for the questionnaire. This study needs to exercise caution when generalizing the findings because convenience sampling technique was carried out.

### RESULTS: Quantitative research results



**Objective #1: to determine factors for consumers’ intention to use e-commerce**

*The current stage of the e-commerce development*



The query findings demonstrate that these days the state has a major role in e-commerce development with the weighted percentage of 8.51%. Meanwhile, regions need further investment to create the e-commerce market. The current stage of e-commerce is at the beginning level (with 4.26 %) that is mainly concentrated in Tashkent city. There are contradicting ideas that online stores outperform brick-and-mortar business and vice versa.

Source: “In your opinion, these

days at what stage is e-commerce development in Tashkent?”

*Forecasts for mass online purchases*



In comparison with future projections for mass online purchases, there should be developed the entire business sector (with 9.40 % of the weighted percentage) such as banking sector; namely payment systems to boost usage of online services. The prosperity of Internet purchases is closely correlated with adoption of changes (4.63%)/modifications (3.56%).

Source: “According to your forecasts, how many years will it take for Internet

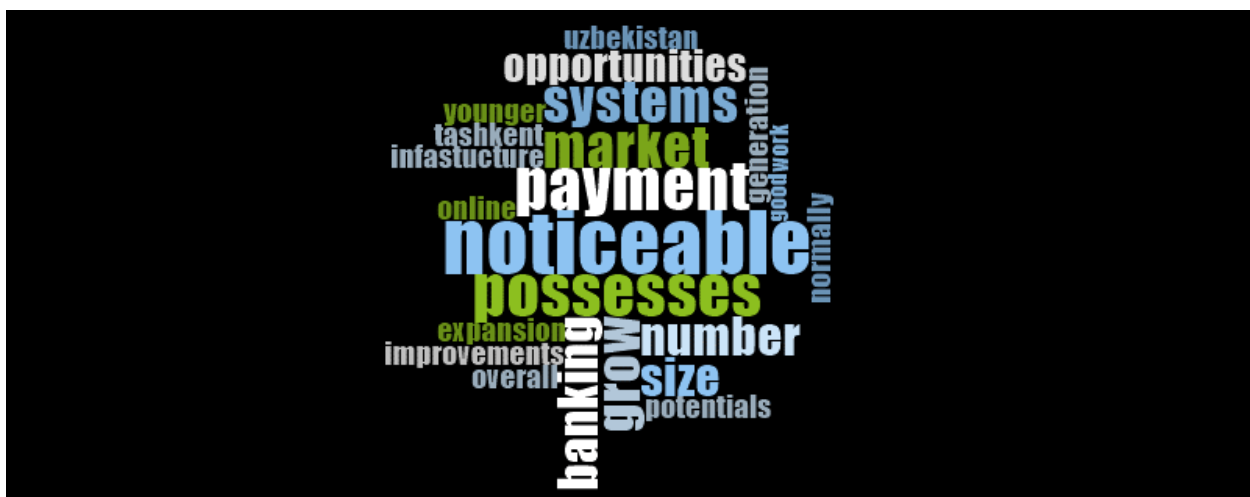
purchases to become mass?”

*Strength of the e-commerce market*



The major strengths of the e-commerce market comprise the population number and its growth (5.73 %, 5.28%), a great number of large business practitioners and the market size (3.33%), customer similar purchasing habits and high purchasing power that creates opportunities for e-commerce growth. The market has not yet been saturated, having a limited number of larger corporations as competitors (1.85%).

Source: “What are strengths/positive factors of the e-commerce market?”  
*Opportunities for the e-commerce market*



Source: “What opportunities exist for development of the e-commerce market?”

The potential opportunities for the e-commerce market is closely related with the payment system that these days does not work properly as it was stated. Improvements in credit card penetration and payment system (6.67 %) will create opportunities for its development. The major factor creating future opportunities is a large market size that can be saturated and expanded even further.

### Weaknesses of the e-commerce market



The most prominent issue was related to customer and delivery services (6.17%). First of all, the respondents highlighted that there is a low customer service in e-commerce; in particular, as customers they face problems related with late delivery of online purchases they made. Sardor Pulatov, Trade Manager at Arba.uz pointed that this is connected with the problem that there is no single database of addresses in Tashkent; thus companies struggle to provide timely delivery because a lot of time is wasted actually to find an address. The other weakness of the market is

related to people; namely online booking, order, purchases are not widely practiced (3.70%); in particular, its related with consumers' sensitivity to cost/price (4.12%). The importance of cost efficiency is a primary factor that creates demand (2.88%); while, outperforms other ones such as time efficiency (3.70%) and convenience (2.47%)

Source: "What are weaknesses of the e-commerce market?"

**Barriers experienced by the e-commerce business**



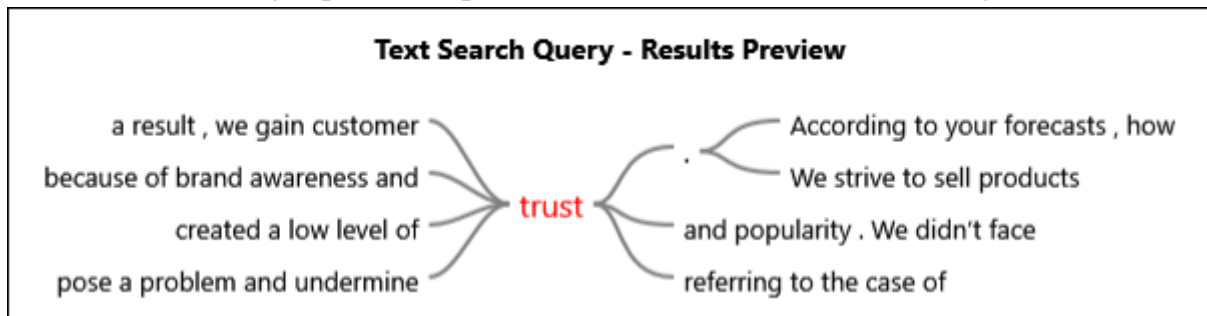


issue represents unsatisfactory stock management in the companies' warehouses; in particular, firms have challenges to determine precise quantities of products left in their warehouse before and after a purchase. Arba.uz mentioned that they experience problems with accurate synchronization of the website and warehouse regarding stock. Sardor Pulatov mentioned that there is scarcity of IT specialists with high proficiency in the labor market thus such issues are incurred. Furthermore, low Internet penetration & connection, credit card penetration, inefficiency of payment system poses another obstacle for e-commerce companies (3.03%). In addition, another major problem that Uzbekistan has is a presence of the gray market that accounts for approximately 50% of GDP; in particular, a great number of parties import goods in unofficial ways without paying customs duties that are considered as high by the respondents. Moreover, a species-typical behavior of consumers such as personal interaction with products before making purchase and payment is another obstacle; namely consumers are more reluctant to buy a product if they see and *touch* prior to it (1.59%). The companies claimed that it's very challenging to initiate a first purchase from consumers rather than encourage the next one because of low level of *trust* thus high financial resources are allocated for marketing campaigns and promotions to attract new and retain existing companies. The next problems associated with creating a partnership with suppliers, unclear future results, required high investments and its returns in the long-run. For instance, the companies make huge investments to design effective communication channels to attract and retain new and existing clients respectively (1.58%). Overall, the country does not develop a standardized process/system in banking, payment, tax sectors that contributes towards e-commerce penetration. This means that the companies experience a wide-range of problems related to inefficient work of credit cards and payment systems (1.49%). Additionally, there is a high customs duties rate that creates an additional issue of the gray market that was over mentioned and leads to unofficial trade via physical stores and social sites. As a result, e-commerce parties have intense competition with these parties that are able to sell products for a lower price. This means that these illegal parties have lower expenditures because of operating illegally without paying taxes and other costs associated with opening a legal entity, having a public offer, tax payments, website design, employees' salaries etc. Moreover, unofficial parties do not bear any responsibilities for a service they provide; in contrast with legal online stores.

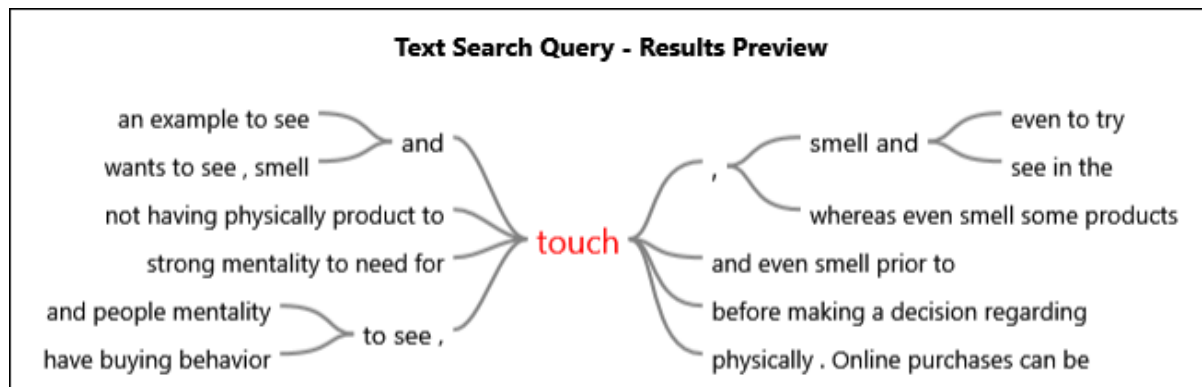




commerce having a fear of being defrauded. Moreover, consumers experience distrust because of illegal parties' operations and limited number of legal acts.



The companies allocate investments to gain customers and trust; whereas it undergoes to worsen because of illegal parties that provide low-qualified services and unreliable and outdated information.



The major reason why people do not purchase online is their mentality to touch beforehand having a physical product. Otherwise, still the majority of people are reluctant to use e-commerce. The comprehensive analyses of research papers in the literature review and outcomes of the qualitative research via in-depth interview that was analyzed by Nvivo software program.

## CONCLUSION

The exploratory research underlined barriers and limitations for e-commerce development both at macro level; while highlighting those associates with consumer behavior. Firstly, the market has not yet been developed and has huge issues related to the limited number of the legal base regulating obligations and responsibilities of e-commerce companies. Thus the word frequency query called “The current stage of the e-commerce development” demonstrated that the state has a significant role in further prosperity of the market. The findings underlined that the companies expect support from the government because at the first glance it can be stated that there is a high competition because still the number of e-commerce companies is not huge having only several numbers of big players such as Arba.uz, Lebazar.uz etc. However, unofficial companies that operate illegally without registering their business; namely having a legal form and public offer. As a consequence, these

companies have much lower expenditures related to the physical presence of the legal company, tax considerations, daily costs etc. and therefore have a lower price for their product and service. Meanwhile, e-commerce companies that have a legal business conforming with all legal requirements and paying income taxes experience high costs and thus cannot minimize their product and service prices. The companies interviewed cited that their prices are still competitive in comparison with illegal parties. Moreover, it is identified that e-commerce markets in regions are not sufficiently developed being Tashkent the only relatively existing market; whereas, consumers in regions have high consumer buying power and there is a demand for e-commerce. Furthermore, the next query illustrated that the popularity of mass online purchases are related to the development of e-commerce business that is highly linked with prosperity of the banking sector, payment systems, service sectors etc. The main point that was stated by the respondents is that the market requires modification and improvements in the sectors provided above to accelerate e-commerce penetration and development. It is challenging and requires years and years to reach targeted goals for their development but outcomes will definitely have a positive impact not only e-commerce but other sectors as well.

The main existing strengths of the market such as market size, similar consumers purchasing behavior, and high purchasing power indicates that e-commerce has good potential to be developed possessing significant opportunities in the future. However, the major weaknesses of the market such as presence of the gray market, inefficient payment systems, expensive qualified logistics companies, low Internet penetration & speed, no single database of addresses demonstrate serious barriers that decelerates its potentials. Concerning obstacles that are experienced by e-commerce companies, the findings illustrate that the business practitioners have a misunderstanding and confusion about their rights and obligations on the legal basis. Moreover, insufficient number of logistic companies, IT specialists for warehouse management, its synchronization with the corporate website, internal software programs and operations.

The barriers associated with consumer behavior such as fear to be defrauded, trust and instrumental factor (Need for touch); the quantitative research demonstrated that trust is statistically significant and its vice versa for instrumental factor. Meanwhile, this buying behavior has a solid reason generated from a chance to have a bad customer experience from a service of unqualified products and illegal parties that do not bear any liabilities and provide compensation for losses eventually. Meaning that cultural and psychological behavior related with distrust and fear to be



defrauded should be the main consideration to minimize for companies to attract new customers and generate sales.

## REFERENCES

1. Adb.org. (2018). [online] Available at: <https://www.adb.org/sites/default/files/publication/324996/adbi-wp751.pdf> [Accessed 19 Nov. 2018].
2. Chen, Y.-H. and Barnes, S. (2007), "Initial trust and online buyer behaviour", *Industrial Management and Data Systems*, Vol. 107 No. 1, pp. 21-36.
3. Export.gov. (2018). *Uzbekistan - ECommerce* | export.gov. [online] Available at: <https://www.export.gov/article?id=Uzbekistan-ECommerce> [Accessed 19 Nov. 2018].
4. International, E. and International, E. (2018). *Mobile Internet Retailing in Uzbekistan*. [online] Euromonitor.com. Available at: <https://www.euromonitor.com/mobile-internet-retailing-in-uzbekistan/report> [Accessed 19 Nov. 2018].
5. Jones, K., & Leonard, L. N. K. (2008). Trust in consumer-to-consumer electronic commerce. *Information & Management*, 45, 88e95.
6. Lane, M.S., Van Der Vyver, G., Delpachitra, S. and Howard, S. (2004) An Electronic Commerce Initiative in Regional Sri Lanka: The Vision for the Central Province Electronic Commerce Portal, *The Electronic Journal on Information Systems in Developing Countries*, 16, 1, 1-18.
7. News.netcraft.com. (2018). *January 2018 Web Server Survey* | Netcraft. [online] Available at: <https://news.netcraft.com/archives/2018/01/19/january-2018-web-server-survey.html> [Accessed 19 Jan. 2018].
8. Oecd.org. (2002). [online] Available at: <https://www.oecd.org/internet/ieconomy/2771174.pdf> [Accessed 19 Jan. 2018].
9. Palumbo, F. and Herbig, P. (1998), "International marketing tool: the internet", *Industrial Management & Data Systems*, Vol. 98 No. 6, pp. 253-61.
10. So, W.C.M., Wong, T.N.D and Sculli, D., (2005) "Factors affecting intentions to purchase via the internet", *Journal of Industrial Management & Data Systems*, Vol. 105, No. 9, pp1225-1244
11. Turban, E., Lee, J.K., King, D., Liang, T.P. and Turban, D. (2010), *Electronic Commerce 2010: A Managerial Perspective*, 4th ed., Prentice-Hall, Upper Saddle River, NJ.
12. Unctad.org. (2018). [online] Available at: [https://unctad.org/en/PublicationsLibrary/tn\\_unctad\\_ict4d09\\_en.pdf](https://unctad.org/en/PublicationsLibrary/tn_unctad_ict4d09_en.pdf) [Accessed 19 Jan. 2018].

13. Ut.uz. (2018). *The development of E-commerce will be accelerated | Uzbekistan Today*. [online] Available at: <http://ut.uz/en/business/the-development-of-e-commerce-will-be-accelerated/> [Accessed 19 Jan. 2018].
14. Wang, W.-T., Wang, Y.-S., & Liu, E.-R. (2016). The stickiness intention of group buying websites: The integration of the commitment trust theory and ecommerce success model. *Information & Management*, 53(5), 625e642.