

Online Trade: Challenges and Opportunities for Armenian SMEs

1. Background and Introduction

1.1. The Significance of Online Trade / E-commerce for SMEs

The emergence and development of online trade / electronic commerce (e-commerce) led to one of the most profound changes in the global economy and the world of business. Although boundaries between various forms and areas of conducting business through online and electronic means are not always clearly defined, e-commerce generally is considered to be a part of a broader concept of electronic business (e-business), and is understood as the process of buying, selling, transferring, or exchanging products, services, and associated information via computer networks, including, most notably, the Internet¹.

E-commerce influences businesses in many important ways. The most significant one is perhaps the opportunity of increased reach, i.e., easier access to a greater number of potential customers to whom a company can market its goods, services and other offerings. This opportunity implies worldwide, or at least cross-border expansion and increased market share at smaller costs. As over the last decades the tools and means available to customers have increased in quantity, quality and ease of use, including mobile-browsing, online marketplaces, social media, and wherever users browse online and may follow retargeting links and ads, businesses around the world started to realize the full potential of coordinating, combining or sometimes even merging their sales channels. Currently e-commerce is also an important and integral part of highly effective and efficient omnichannel retailing², which is a fully integrated approach to commerce, providing shoppers a unified and seamless experience across all channels or touchpoints, whether digital or not.

E-commerce enables many small and medium-size businesses to operate and compete in market spaces that in the past were not accessible for them and hence, were dominated by larger companies. Use of Internet and other technologies for e-commerce has lowered the barriers that relatively small firms face in building international sales and consequently

¹ Rainer, R. K , Prince, B., and Watson, H.J., *Management Information Systems*, 4th Edition, 2017, John Wiley and Sons, Inc.

² Sopadjieva, E., Dholakia, U. and Benjamin, B., 2017. *A study of 46,000 shoppers shows that omnichannel retailing works*. Harvard Business Review, 3, pp.1-2.

led to the emergence, spread and growth of so-called mini- (or micro-) multinationals³; small and medium-size enterprises with business “presence” in multiple countries. The international best practices have shown that SMEs benefit significantly by engaging into online trade and e-commerce. The use of online trade and ecommerce solutions will make a vast number of SME products and services accessible to their customers, around the clock and with much smaller costs. During the COVID-19 pandemic SMEs that relied on e-commerce or at least had working online trade platforms (i.e., the so-called “clicks-and-mortar” or “clicks-and-bricks” enterprises) without a doubt had a much more advantageous position than the traditional bricks-and-mortar companies.

Quite expectedly, the enforcement of social distancing, lockdowns and other measures in response to the COVID-19 pandemic has resulted in a drastic expansion of e-commerce towards new firms, customers and types of products, including especially in the areas of business-to-consumers (B2C) and business-to-business (B2B) types of e-commerce. While e-commerce in the past for many consumer groups was centered on high-tech goods, toys or books, under the effect of the pandemic it increasingly involves goods for which availability is critical to a large share of the population, including groceries, medicine and other necessities.⁴ Such overall increase, however, is accompanied by decline of certain services with a large online component, such as tourism intermediation services. Also, a relatively shorter-term negative effects could be felt for goods and services the supply chain and/or demand side of which was disrupted by the pandemic. Several other challenges to e-commerce emerged or further aggravated, including price gouging, product safety concerns, deceptive practices, cybersecurity concerns, the need for increased bandwidth, and development-related concerns. The pandemic has highlighted the glaring need to bridge the digital divide, both within and across countries, with many traditional obstacles being accentuated and continuing to hamper greater participation in e-commerce activities by small producers, sellers, and consumers in developing countries.⁵

Many SMEs and individual entrepreneurs in developing countries also took advantage of a real possibility to benefit from e-commerce in their business activities. Indeed, this has resulted in gains of enhanced productivity, decrease or elimination of retailer-intrinsic costs related to storage space and infrastructure investment, expansion into new export markets and other benefits for the businesses in many developing countries. However, all these potential and actual benefits for developing countries are also accompanied with potential problems. Some of the often-quoted obstacles for adoption

³ Hill C. W. L., and Hult G. T.M., *International Business: Competing in the Global Marketplace*, 12th Edition, 2019, McGraw-Hill.

⁴ OECD (2020), “Connecting businesses and consumers during COVID-19: trade in parcels”, *OECD Policy Responses to Coronavirus (COVID-19)*; and OECD (2020), “E-commerce in the time of COVID-19”, *OECD Policy Responses to Coronavirus (COVID-19)*

⁵ WTO (2020), “E-commerce, trade and the COVID-19 pandemic”, *Information Note*.

of e-commerce by SMEs in developing countries include lack of financial, legal, and physical infrastructure, limited applicability and transferability of the e-commerce models designed for developed economies, particularly due to difference of cultures and business philosophies among the SMEs of developing countries, and many more.⁶ Armenian SMEs face many of these or similar challenges in their path to adoption, integration and use of e-commerce in their business activities.

Considering the above-mentioned circumstances, this project was undertaken to study the problems and challenges that hinder development of online trade/e-commerce among Armenian SMEs and to offer potential solutions for those.

1.2. The Current State of E-commerce in Armenia and Online Trade Challenges of Armenian SMEs

With a Gross National Income per capita of US\$ 4680, Armenia is classified as an upper-middle income developing country.⁷ Armenia made certain progress in e-commerce in the recent years. This can be attributed to the expanded use of the internet, credit/debit cards and online banking. Internet penetration in Armenia has continued to increase, and access to the internet is included in the vast majority of the more than 3 million active mobile phone subscriptions, while broadband speeds are becoming the norm. Particularly, in 10 years from 2009 to 2019 the percentage of internet users increased from about 41% to almost 65% of the population, although the growth curve flattened since 2017.⁸ In 2017 about 15.4% of the population made purchases or pays bills online (compared to 5% in 2014), 8.1% had a credit card (compared to 5.5% in 2014), 25.7% had a debit card (compared to 8.4% in 2014), and 9.8% had a mobile money account (compared to 0.7% in 2014).⁹ One notable development is that payments for utilities, some other services from local businesses, as well as a multitude of government services and fees is currently available through many online and other electronic platforms.

However, Armenia ranks only 84th out of 152 countries in the UNCTAD Business-to-Consumer Annual E-commerce Index 2020, which can be hardly deemed a satisfactory

⁶ World Trade Organization, 2013, *E-commerce in Developing Countries: Opportunities and Challenges for Small and Medium-sized Enterprises*. World Trade Organization

⁷ World Bank Data Team, 2019, *New country classifications by income level: 2019-2020*, <https://blogs.worldbank.org/opendata/new-country-classifications-income-level-2019-2020>

⁸ World Bank Data, *Individuals using the Internet (% of population)-Armenia*, International Telecommunication Union (ITU), World Telecommunication/ICT Indicators Database, <https://data.worldbank.org/indicator/IT.NET.USER.ZS?locations=AM>

⁹ World Bank Data, *Global financial Inclusion*, https://databank.worldbank.org/reports.aspx?source=global-financial-inclusion#selectedDimension_FinDex_Country_DIM

result.¹⁰ Among the four indicators used to calculate the index, the Postal Reliability Index by Universal Postal Union (UPU), and account ownership at a financial institution or with a mobile-money-service provider are rather low, apparently playing the most part in such an inferior ranking. Moreover, relative to the 2018 Index, Armenia lost 14.2 points by 2020 (10.4 points in 2019 and 3.8 more points in 2020), thus within just two years plunging from the rank 66 in the top half of the list down to rank 84 in its bottom half.¹¹ It appears the main reason for such decline is that UPU postal reliability score of Armenia deteriorated significantly, while the Share of Individuals Using the Internet and Share of Individuals with an Account remained the same and Secure Internet Servers index dropped slightly.

Food products are the most frequent online purchased items in Armenia, followed by jewelry and accessories, souvenirs, clothing, and household appliances.¹² There are quite many proven opportunities for consumers and successful businesses (including SMEs) trading online goods and services within the country, as well as options to pay for them online. Some examples of online purchase of goods and services include menu.am, iPhone.am, supermarket.am, books.am, ggTaxi, Tbuy, nout.am, buy.am, etc. The payment options of these businesses include cash upon delivery (which remains the predominant method¹³), debit/credit cards (both the local ArCa and international, such as Visa and MasterCard), and local digital wallets or other electronic payment systems. For example, iDram, EasyPay, MobiDram, PayX, and some other e-payment systems also offer a payment option from debit/credit cards through the e-wallet with no need to fill the wallet itself.

As Armenia is a small country and the distances are relatively short, most e-commerce businesses who sell physical goods that are not quickly perishable prefer to deliver those themselves rather than relying on postal services. Quickly perishable items, such as prepared food, flowers, etc., are also often delivered by the vendor, but some of the e-commerce business models (e.g., menu.am, sovats.am, FastFood.am) actually involve delivering to customers a multitude of product types from many different brick-and-mortar

¹⁰ UNCTAD, 2020, *The UNCTAD Business-to-Consumer Annual E-commerce Index 2020: Spotlight on Latin America and the Caribbean*, UNCTAD Technical Notes on ICT for Development, No. 17, https://unctad.org/system/files/official-document/tn_unctad_ict4d17_en.pdf

¹¹ UNCTAD, 2018, *The UNCTAD Business-to-Consumer Annual E-commerce Index 2018: Focus on Africa*, UNCTAD Technical Notes on ICT for Development, No. 12, https://unctad.org/system/files/official-document/tn_unctad_ict4d12_en.pdf, and UNCTAD, 2019, *The UNCTAD Business-to-Consumer Annual E-commerce Index 2019*, UNCTAD Technical Notes on ICT for Development, No. 14, https://unctad.org/system/files/official-document/tn_unctad_ict4d14_en.pdf

¹² Lloyds Bank, *E-commerce in Armenia*, <https://www.lloydsbanktrade.com/en/market-potential/armenia/ecommerce>

¹³ International Trade Administration, 2020, *Armenia - Country Commercial Guide*, <https://www.trade.gov/country-commercial-guides/armenia-ecommerce>

businesses. Meanwhile, online ridesharing/taxicab and hauling services such as ggTaxi and Yandex.Taxi have also realized the opportunity and started to offer delivery services as well.

Armenian consumers also use Amazon, Aliexpress, Ebay and many other international online trade platforms (as well as clicks-and-bricks stores) for purchasing household appliances, books, mobile phones and computers, clothes and footwear, goods for children and perfumes, as these products that tend to be less expensive and with wider assortment than the locally available ones.¹⁴ In addition, local logistical service providers and shipping consolidators like Globbing, ShipEx, OnEx, Hand2Hand and others provide a wide range of shopping and delivery services. The growth of these services evidence that local customers are ready for online trade. For example, as of March 2021, Globbing Shipping Solutions has almost 500,000 registered customers and has already delivered more than 3 million shipments for Armenian customers. Moreover, these companies prove that existing tax and customs codes can be integrated into the online trade platforms. For example, Globbing introduced online customs fee payment through its website, so the customers can do it while in their online Globbing account, instead of having to go to a bank or a terminal to make a transfer to the treasury account. As for B2B e-commerce, the top sectors in Armenia are the ICT, finance and banking, which have well-developed infrastructure and content for business users and provide quality services.

According to the Statistics Department of the Central Bank of Armenia, the total volume of overseas e-commerce in Armenia was approximately \$8.1 million USD between 2017 Q2 and 2018 Q1.¹⁵ And during the emergency situation declared by the Armenian government in response to the COVID-19 pandemic, the online trade volume in Armenia tripled.¹⁶

However, e-commerce has not yet penetrated deeply into the country. While local-customer global-supplier chain is working well, local-consumer local-business and local-business global-consumer chain is weak. Many people continue to prefer cash payments. Most local businesses do not offer online shopping options. As for the cross-border e-commerce, one of the impediments is the lack of reliable and affordable shipment services. In addition, there are costly customs barriers for directly exporting goods from Armenia. Most local logistical and shipping services are still in the development stage.

¹⁴ Export.gov, 2019, *Armenia Country Commercial Guide*, <https://www.export.gov/apex/article2?id=Armenia-ecommerce>

¹⁵ Lloyds Bank, *E-commerce in Armenia*, <https://www.lloydsbanktrade.com/en/market-potential/armenia/ecommerce>

¹⁶ Grigoryan, A., *Online trade in Armenia grows 3 times during coronavirus-related state of emergency*, ArmenPress, 14/05/2020, <https://armenpress.am/eng/news/1015229.html>

The Armenian national postal operator HayPost does not offer safe and customer-friendly package delivery solutions. Based on consultations with a number of stakeholders and experts, it appears the main reasons are as follows:

1. *Inertia in thinking and lack of trust towards/fear of expenses related to e-commerce enabling solutions.* Many consumers continue to prefer cash payments, as do many SME businesses that sometimes are reluctant to accept card payments even in brick-and-mortar stores (let alone online trade) despite seeing the apparent benefits, especially under the ongoing COVID-19 pandemic. Armenian SME owners and managers are often concerned about potential high costs related to introduction of online presence and sales, associated possible additional exposure to tax authorities and other aspects that mostly stem from their lack of awareness and the fear of unknown. As our consultations with some IT solution providers suggest, in many instances they needed lengthy discussions, explanations and arguments to convince SMEs in the benefits of online payment options or e-commerce in general. Clearly, in these terms the situation in Armenia is opposite to that in developed and many developing countries, where businesses do not need to be convinced, but rather reach out themselves to get help in establishing and expanding their e-commerce activities.
2. *Lack of the skills and capabilities to embed e-commerce solutions into regular operations of a business.* Many SMEs are sometimes suspicious about intentions of relevant IT solution providers, or even when willing, lack simple knowledge to start a dialogue with them. The usual scenario is that SMEs would have an online “shop window” with products listed, and basic order placing functionality in place, but the associated logistical, financial and tax transactions are executed manually. Aside from internal skills and capabilities, there are only a few IT solution providers that actively pursue SMEs as clients for e-commerce, and there are no locally adapted standardized solutions that SMEs could use with minimal professional IT assistance.
3. *Problems and hurdles with accepting payments from foreign customers.* The infrastructure and solutions for accepting payments in the local currency, Armenian dram, are well-established and proven fully operable/usable (iDram, PayX, EasyPay, MobiDram, etc.), and at the same time, Armenian consumers have no problems using their bank cards to open accounts with online payment platforms such as PayPal, Google Pay, Apple Pay and others to pay for the good they buy online from abroad. Nevertheless, Armenian business entities are unable to use the mentioned popular international online payment systems to receive payments for goods and services they offer, since Armenia is not listed in their eligible

countries list. In 2016 a public initiative launched to fix the issue, including an online petition to Armenian government signed by over 6,000 people¹⁷, appeals to the Central Bank of Armenia (CBA), etc. It appears CBA did try to talk with PayPal, but nothing changed. CBA officials stated “no common denominator was achieved” and that “PayPal is a private company that defines its policies on their own”¹⁸. In 2020 the Armenian Minister of High-Tech Industry claimed steps are taken in this direction, although “This is a long process, but negotiations are still ongoing”.¹⁹ Meanwhile, there is anecdotal evidence that some SMEs have tried to overcome this obstacle by opening PayPal or other similar service accounts in foreign countries using personal data and addresses of relatives and friends who live abroad or company managers with dual citizenship. However, this is not a sustainable solution and it also creates the problem of recording/reporting such payments.

4. *Potential difficulties related to the integration of e-commerce and online payment solutions with the existing accounting and tax reporting systems.* Armenian legislation regulates some of the key aspects of e-commerce in the country. Relevant legislations include the Civil Code, Law on Trade and Services, Law on Consumer Rights Protection, and Law on Implementation of Cashier Machines. In recognition of the growing importance of e-commerce in the economy, the government is formulating new legislation focused specifically on e-commerce. Armenia has taken steps to develop legislation to facilitate the collection of value-added tax for international online transactions and levying digital services taxes. Nonetheless, the situation is still far away from practical application concepts and IT solutions.
5. *Lack of experience and practice in using inventory management information systems, and/or in creating and integrating e-commerce-related online transaction processing system with inventory control and management.* Many SMEs still track their inventories manually. Even if it is cheaper (which might not always be the case), it leads to a sizable number of errors, especially when high volumes of sales occur at the same time in different places. Without a multi-channel inventory management system, e-commerce business will suffer from slow packing and shipment processes, and it will run the risk of sending customers the wrong items or even damaged ones that have not been properly checked in a long time. As the

¹⁷ Հայաստանի Կառավարություն: Հայաստանում PayPal-ի ամբողջական գործարկման ստորագրահավաք · [Change.org](https://change.org)

¹⁸ Ilex, 2016, [Էլեկտրոնային առևտուրը տեղափոխվում է իրավական կարգավորման դաշտ - Ալլեքս փաստաթղթերի և օրենսդրության գրասենյակ \(iilex.am\)](https://www.iilex.am/)

¹⁹ News.am, 2020, *Armenia reaches deal with TransferWise*, <https://news.am/eng/news/598839.html>

number of sales channels grows, an SME will confront more problems and lose a lot of time and resources if the access to and control of inventory is not clear enough.

6. *Economies of scale (or rather, diseconomies due to small scale) and transportation costs.* Obviously, profitability of any trade, including, especially online trade, depends a lot on the volumes of trade. SMEs by definition are disadvantaged in this sense, but as already mentioned, e-commerce is often seen as key to expanding sales, and hence, overcoming this disadvantage to a certain extent. For Armenian SMEs, small scale results in an additional challenge related to transportation cost, because many of the products they would be able to offer to international markets have a low value-to-weight ratio. Shipping small quantities from Armenia is neither cheap, nor easy, nor always reliable. Shipping aggregators may help solve this problem, since some of them have started offering export shipment services, but their prices still remain high for many Armenian SMEs²⁰.

7. *Language barriers.* Accurate and full online description of the offered products/services and unambiguous, clearly understandable communication with customers is of utmost importance for online trade, since the potential customers cannot “feel”, touch, or try a product before buying. Therefore, proper knowledge and use of English language for global online trade, and Russian language within Eurasian Economic Union (EAEU) and some other former Soviet countries is key for successful e-commerce cross-border activities of Armenian SMEs. According to the results of the last population census in Armenia conducted in 2011, less than 4% of Armenian citizens (or total 107,922 people of all ethnicities) claimed fluency in English.²¹ Although this number most likely has increased since then due to especially young people’s interest in learning English, but it is also clear indication of a potential problem. Unsurprisingly, this is reflected in many Armenian e-commerce websites. Some have no English versions, others do, but with many pages empty or only partially in English, yet others have numerous “Google translate” or “word-by-word translation” type of mistakes sometimes making it very

²⁰ For example, Globbing and OnEx offer a relatively fast delivery to the USA for a fixed fee of AMD 2000 per shipment plus weight-based fee of AMD 5000 for up to 1 kg, and for heavier weights the same price per kilogram rounded up to every next 0.5 kg. This is a much better price compared to international courier services operating in Armenia, such as FedEx and DHL. However, for Armenian SMEs that sell even medium-to-high value-to-weight ratio items, such as silver jewelry, these extra US\$ 13-14 added to the price of an item might lead to a competitive disadvantage, while for those making/selling low value-to-weight ratio products the transportation cost could be too high to export.

²¹ National Statistical Service of the Republic of Armenia, 2013, *The Results of 2011 Population Census of the Republic Of Armenia*, (Table 5.2-2. Population (urban, rural) by Ethnicity, Sex and Fluency in Other Language), <https://www.armstat.am/file/doc/99486263.pdf>

hard to understand anything.²² The situation is much better with Russian language, which is important for online trading in markets where Armenian products are known better, and Armenia has a better access to through a EAEU customs union. About 52.7% of Armenian claimed to be fluent in Russian, although such fluency may vary quite widely in degrees.

As the above-mentioned points suggest, information asymmetry and gap between the key stakeholders and participants of online trade is perhaps the biggest obstacle that hampers further development of e-commerce and its use by SMEs in Armenia, although some other aspects may play a role.

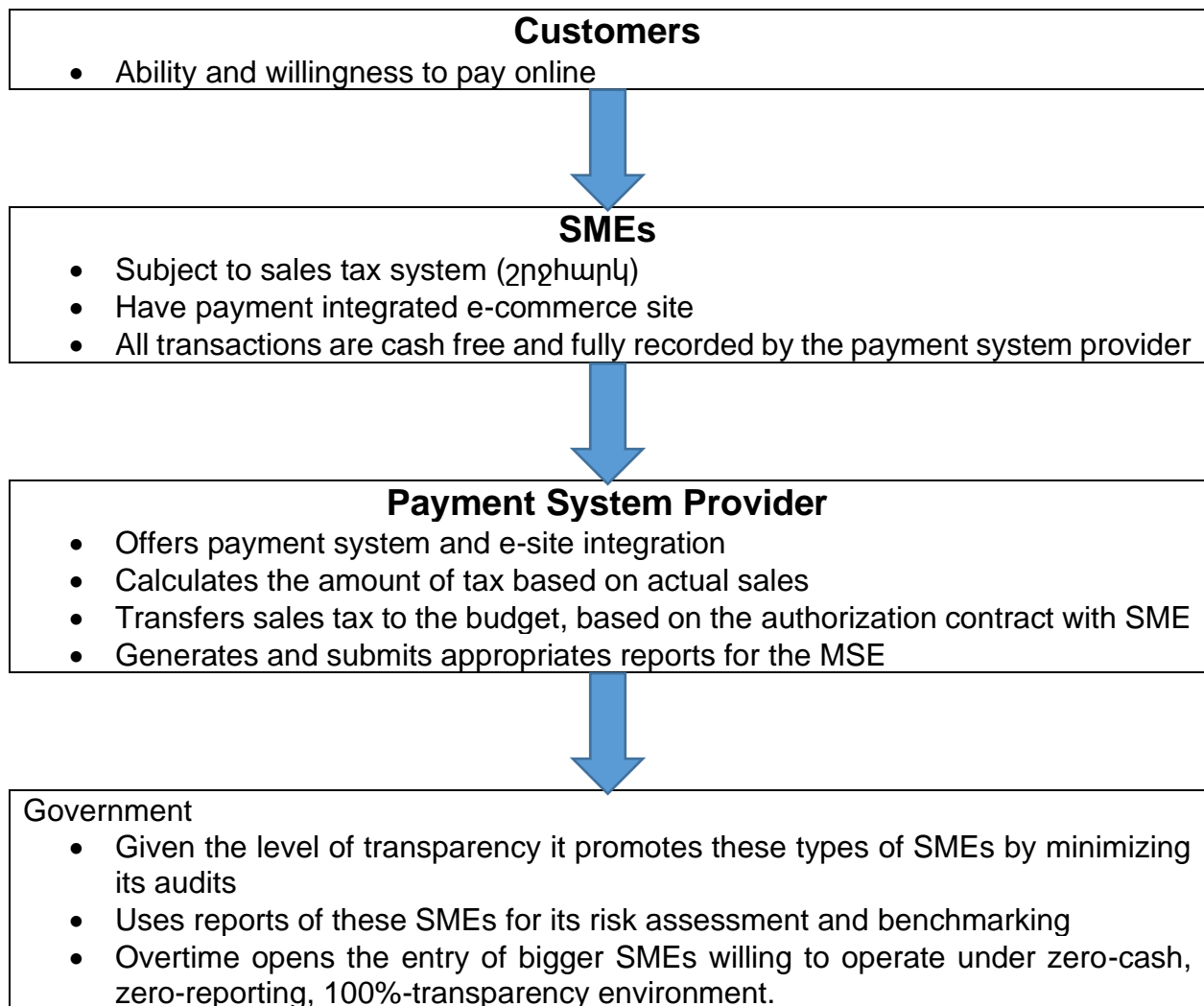
1.3. Researching the Challenges, Unveiling Opportunities and Offering Solutions for the Armenian SMEs

Apparently, the gap of online trade levels between Armenia and developed countries (as well as many developing countries) is still very big. This project has been undertaken to conduct a more in-depth research of the situation, in order to understand better the nature of problems and challenges that Armenian SMEs face in the area of online trade, suggest potential solutions to those, as well as to unveil any untapped opportunities to expand both domestic and cross-border e-commerce.

After a careful consideration of the issues and several interviews our team came to a conclusion that the biggest help SME's currently need is in the ability to quickly and inexpensively launch a fully functional e-commerce site that can take both online and in store orders, accept payments, and manage the real-time inventory. For these purposes we have developed a full guide and video tutorials in Armenian. These tutorials will allow anyone with no programming and web designing skills to easily build a functional e-commerce site capable of accepting payments over the internet.

Second our team will be promoting the following business model for MSEs 100% online, 100% reporting free, 100% transparent. Or ebulliently, zero cash, zero reporting, 100% transparent. The design of the concept is presented below.

²² See Annex for some examples. At the same time, it has to be noted that businesswise this problem is possibly not as acute as it might be perceived. For example, "Chinglish" of many Chinese e-commerce sites/webpages and customer support/sales staff often might be even more difficult to understand than "Armglish", yet they successfully trade online globally.



Proposed mechanisms can be implemented under current legislation with some minor additions into the procedural acts that can be approved at the level of State Tax and Customs Committee. The hypothetical example is presented.

1. Armen Arsenyan has idram wallet with some available balance
2. He wants to get a haircut at Armenian Beauty Salon.
3. The Salon has a woocommerce integrated e-site and only accepts online idram payments for its services
4. Armen visits Salon's site (or walk in into the Salon) chooses the services he wants, schedules the time, makes the payment via idram and receives an electronic receipt (HDM).

5. idram receives the payment, collects its fees, calculate the amount of the sales tax and at the end of the week, transfers the taxes to the government and transfers the remaining money from the transaction to SME.
6. Salon gets the confirmation for the appointment and payment.
7. Finally, at the end of the month idram generates appropriate report and on behalf of the MSE submits the reports to appropriate States agencies.

Annex. Examples from Armenian e-commerce companies' webpages that are only partially in English or use incorrect/awkward language.

ORDERS AND RETURNS

Order Information

Order ID *

Billing Last Name *

Find Order By *

Էլեկտրոնային հասցե

Էլեկտրոնային հասցե *

Speakers

Showing 1 - 3 of 3 Results

1. **Marshall Acton 2 Black**



Վաճառքում առկա է:

Գինը: **110,000 դրամ**
Ապահով: **3,000 դրամ (0% կանխավճար, 0% տոկոսադրույք, 36 ամիս) + 0.95% ամսական բանկի սպասարկման վճար:**



Stomach Lusacert Chicken

1900 դրամ

★★★★★

The order placed on [redacted] is an offer made by You to the Company to buy or receive any product through delivery. This offer is considered accepted if Your email. We send an order confirmation letter to all the details of the order. This letter is considered a contract between You and the Site.

Our company's scope is based on providing the most beneficial and high-quality services for our customers.

Before collaborating with shops and restaurants, we rely on the quality of the products.

PUBLIC OFFERTA

Online payment tool, as well as, equipment and program complex, which are the property of System's Operator or belong him by the lease rights, and which are used in the Internet environment for making online