

E-COMMERCE GROWTH IN INDIA

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Abstract:

India is at the cusp of a digital revolution. Declining broadband subscription prices, aided by the launch of 3G services followed by the launch of 4G services, have been driving this trend which has led to an ever-increasing number of “netizens.” The changing lifestyles of the country’s urban population and the convenience of shopping from the comfort of one’s home have also led many people relying on the internet for their shopping needs. The trend of online shopping is set to see greater heights in coming years, not just because of India’s rising internet population, but also due to changes in the supporting ecosystem. B2C players like Snapdeal.com, Amazon.com and Flipkart.com have made intensive efforts to upgrade areas such as logistics and the payment infrastructure. Furthermore, the Indian consumer’s perception of online shopping has undergone drastic change, and only for the good. But this industry as other industries in India also faces tough challenges ahead in terms of profitability and thus stability and sustainability in the market in long run. This paper provides an insight into India’s e-Commerce market in terms of its rebirth, growth and challenges in the world market in general and in a diverse country market like the Indian market in particular. The paper focuses on the various sub-segments of the e-Commerce market and highlights factors driving growth across these segments.

Keywords: Netizen, 3G, 4G, etc.

Introduction

The E-Commerce market has seen unparalleled growth since last year. It is expected that E-Commerce will become \$20 billion by the end of 2018. With increased use of smart phones tablets and internet, e-commerce has become widely accessible to both urban and rural users. Foreign companies are investing huge sums of money into Indian companies. Experienced international players are taking interest in Indian companies. E-commerce is growing in rural areas with most of the traffic coming from tier-2 and tier-3 cities. In July 2014 Amazon invested \$2 billion in India, following the news of Flipkart raising \$1 billion in funding. There are a lot of bigger companies in e-commerce market like Snapdeal, Flipkart, Amazon, Shopclues, Jabong, etc. With numbers of companies increasing the competition is bound to happen for the first position. The retail industries have recorded annual growth of 40-50%, huge investments is expected to flow into logistics sector in future. Many offline brick and mortar companies are slowly moving to online business and those who are not in

online commerce business will be forced to come online. The commerce industry is in nascent stage, more niche e-commerce companies are joining the competition. The customer is winning and there is pressure to deliver the best to the customer.

What is E-Commerce?

E-Commerce is buying and selling of goods and services or transmitting of funds or data, over an electronic networking, primarily the internet. These transactions occurs either business to business, business to consumer, consumer to business and consumer to consumer. E-Commerce is done using applications EDI, email, shopping carts, etc. Digital commerce makes possible for purchasing transaction over the web and supports creation and constant growth of online relationship with customers across multiple channels like retail, mobile, direct and indirect sales, etc.

Current Scenario of E-Commerce in India

1. Mobile to be the Most Influential Aspect of E-Commerce: With
2. Factors that Will Fuel Growth: A significantly low (19%) but fast-

mobile apps being developed by most e-commerce websites, Smartphone’s are increasingly replacing PCs for online shopping. In 2013, only 10% of the mobile users used Smartphone’s, and only 5% of the e-commerce transactions were made through a mobile device. This figure has more than doubled, and more than 13% of all e-commerce transactions today happen via mobile³. According to some industry players, over 50% of the orders are being placed through mobile apps, which is not only leading to substantial customer acquisition but also building customer loyalty for various brands. However, most mobile transactions so far are for entertainment, such as booking movie tickets and music downloads. This trend will change soon with more and more merchandise being ordered online.

growing internet population of 300 (approx) million in 2014 is an indicator of the sector's huge growth potential in India. It is evident that in absolute terms India's internet users are short by only 36 million as compared with 279 million in the US and higher than that in Japan, Brazil and Russia. However, in relation with its population, only 19% of Indians use the internet. This indicates the potential of internet use in India and as internet penetration increases, the potential of growth for the e-commerce industry will also increase.

3. **Mobile to be the Most Influential Aspect of E-Commerce:** E-commerce with mobile apps being developed by most e-commerce websites, Smartphone's are increasingly replacing PCs for online shopping. In 2013, only 10% of the mobile users used Smartphone's, and only 5% of the e-commerce transactions were made through a mobile device. This figure has more than doubled, and more than 13% of all e-commerce transactions today happen via mobile. According to some industry players, over 50% of the orders are being placed through mobile apps, which is not only leading to substantial customer acquisition but also building customer loyalty for various brands. However, most mobile transactions so far are for entertainment, such as booking movie tickets and music downloads. This trend will change soon with more and more merchandise being ordered online.
4. **More Business Coming From Smaller Towns:** E-commerce is increasingly attracting customers

from Tier 2 and 3 cities, where people have limited access to brands but have high aspirations. According to e-commerce companies, these cities have seen a 30% to 50% rise in transactions.

5. **Exclusive Partnerships with Leading Brands:** Over the year or so, there has been a trend of exclusive tie-ups between eTailers and established boutiques, designers, high-end lifestyle and fashion brands. For instance, in 2014, Jabong added international fashion brands such as Dorothy Perkins, River Island, Blue saint and Miss Selfridge, along with local fashion brands through Jabong Boutiques. Similarly, Myntra benefited from exclusive tie-ups with brands such as Harvard Lifestyle, Desigual and WROGN from Virat Kohli.

Key Market Factors to be Evaluated Before Entering into New E-commerce Business: To achieve their vision, Ecommerce companies will need to understand the intricate landscape of new markets in addition to their own internal capabilities and limitations. The following factors must be considered:

- a. **Market Size:** Before moving too aggressively into a new market, it is important to consider how sizable the overall opportunity is.
- b. **E-commerce Readiness:** It is essential to fully understand the payment and logistical infrastructure, consumer behaviour, retail opportunity and technological developments.
- c. **Barriers to Entry:** Players should understand the regulatory environment and connect with solution providers, content distribution networks, and digital agencies.
- d. **Competition:** There is also a need to do an in-depth assessment of what competitors are doing, their

online strategy and the nature of each offering.

Key Concerns in the Field of e-commerce

Certain E-commerce players and industry observers have raised concerns that deep discounts, free shipping, intense competition and higher rejection rates due to cash on delivery (CoD) have impacted online eTailing adversely. Some of these concerns are specific to India and are more difficult to overcome than issues such as internet penetration and getting more people to shop online.

- a. **Generation and sustenance of traffic:** Competition from established E-commerce players is making it difficult for private label brands to generate traffic on their white-label websites.
- b. **High customer acquisition cost:** The customer acquisition costs have been rising due to intense competition by the relatively better off companies with more funds.
- c. **Last-mile delivery:** Poor last-mile connectivity, especially in remote areas with larger population, is another problem faced by Indian eTailers.
- d. **High payment cost:** CoD services impose substantial financial cost. In India, unlike in developed markets, CoD continues to be a preferred route of payment.
- e. **Low profitability:** Profitability is negatively impacted by high customer acquisition costs, free shipping and high rejection rate of CoD orders.
- f. **Regulatory barriers:** Regulatory barriers in the Indian E-commerce market are higher as compared to more mature markets.
- g. **Skilled manpower:** Lack of talent availability and high attrition are causing manpower crunch, which is fast becoming a hurdle.

Challenges Before E-commerce

External challenges:

External forces impact how E-commerce companies plan their growth strategy and provide seamless customer experience onsite and post transactions.

- a) Product and market strategy: E-commerce companies have to address issues pertaining to rapidly evolving customer segments and product portfolios; access information on market intelligence on growth, size and share; manage multiple customer engagement platforms; focus on expansion into new geographies, brands and products; and simultaneously tackle a hyper competitive pricing environment.
- b) Customer and digital experience: Companies have to provide a rich, fresh and simple customer experience, not geared towards discovery; manage inconsistent brand experience across platforms; manage proliferation of technologies; and handle time-to-market pressure for new applications. In the recent past, social media has become more influential than paid marketing.
- c) Payments and transactions: E-commerce companies may face issues around security and privacy breach and controlling fictitious transactions. Further, RBI restrictions for prepaid instruments or E-wallets act as impediments. From a transactions perspective, cross-border tax and regulatory issues, backend service tax, and withholding tax can have serious implications.
- d) Fulfillment: Companies will need to check if the physical infrastructure gets affected by the internet speed. Also, the lack of an integrated end-to-end logistics platform and innovation-focused fulfillment option could cause delivery

issues. Challenges around reverse logistics management and third party logistics interactions could also act as barriers to growth.

Internal challenges:

Internal forces impact how E-commerce companies can organize to drive and sustain growth.

- a) Organisation scaling: E-commerce companies will have to make sure organization design keeps pace with the rapidly evolving business strategy, along with fluid governance, strong leadership and management development. From a growth perspective, identifying acquisition opportunities, fund raising and IPO readiness becomes necessary. From a technology perspective, it is important to transform IT as an innovation hub and address the lack of synergy between business, technology and operations functions of the enterprise.
- b) Tax and regulatory structuring: Companies will need to address issues around sub-optimal warehouse tax planning; imbalance between FDI norms vis-à-vis adequate entity controls; inefficient holding, IPR or entity structures; and international tax inefficiencies. Future challenges include the new Companies Act, policy on related-party transaction pricing, and the uncertainty around GST roadmap.
- c) Risk, fraud and cyber security: From a risk perspective, E-commerce companies could face issues around brand risk, insider threats and website uptime. Issues around employee-vendor nexus, bribery and corruption make companies vulnerable to fines. Cyber security also raises some concerns around website exploitation by external entities.

- d) Compliance framework: E-commerce companies have to comply with several laws, many of which are still evolving. Potential issues around cyber law compliance, inefficient anti-corruption framework, legal exposure in agreements or arrangements, indirect and direct tax compliance framework and FEMA contraventions and regularization could pose problems. Also, uncertainty around VAT implications in different states due to peculiar business models could cause issues.

Future of e-commerce

Mobile commerce is finding increased infiltration in e-commerce market. Mobile transactions are increasing every year, the value of these transactions are estimated to be Rs. 36,000 crore according to Forester research. According to Google India managing director India adds five million internet users a month which are mobile users. Recently Myntra decided to shut down its website and moved all its operations to its mobile app. Gartner says that digital business means co-opetition; which means companies interact with competitors with partial congruence of interest. They cooperate with each other to work in same market to acquire global reach. In coming years more high profile mergers and acquisitions are expected to take place in digital commerce sector. Future of e-commerce looks promising because more and companies will be investing in small business startups. E-Commerce investment list was big in India last year, more investment are expected in coming years. Social media has become marketing place for merchants where they can advertise and promote their product freely. The expansion of mobile networks and social media in commerce will take ecommerce to new horizons that will change online retail markets in future.

Conclusion

We live in a world where we communicate with each other over mobile phones than we do face to face. For keeping in touch, shopping, hailing a cab, or ordering food everything begins and ends with that Smartphone new technologies, especially mobile, in India has sparked a social change that's difficult to quantify. While mobile, internet, and social media penetration and growth can be quantified; describing the changes in social values and lifestyles that have accompanied those trends is far more challenging. Internet connectivity has become basic obligation not only in urban cities but also in rural ones. The rapid growth of e-commerce is challenged by legal hassles, logistics and many factors which need to address early.

- Companies that want to expand their business need to spend resources on advertisement, branding, logistics, reverse logistics, supply chain management and customer services.
- There is a need of depth understanding of security requirements such as confidentiality, privacy of data.
- To maintain loyal customers companies need to provide superior website experience coupled with customer service.
- Companies who want to reach more consumers and want to cater need of local population should develop website in local languages.

E-commerce growth is inevitable as Indian e-commerce industry is having access to funds both local and international investments. The e-commerce industry will be faced with challenges as it matures but there is potential for growth owing to rising internet users and advancement in technology. New technologies such as virtual walls and virtual mirrors will further help improve the retail customer experience, thereby encouraging greater consumption. Virtual mirrors let shoppers 'try on' clothes and accessories virtually before making buying decisions. Virtual walls help customers scan barcodes for items on an electronic wall using their mobile phones and place orders with

retailers. Tesco in South Korea was an early adopter of this technology. In India, HomeShop18 has launched India's first virtual-shopping wall. Scan N Shop at New Delhi's international airport uses a similar technological interface. A key outcome of the technology revolution in India has been connectivity, which has fuelled unprecedented access to information. Millions of people who had little means to join the national discourse can now gain new insights into the world around them. Farmers know crop prices Consumers understand global standards of product and service quality. Rural Indians recognize the differences between the opportunities available to them and those available to their urban counterparts, and citizens have a mass forum for expressing their political opinions.

The upshot of this connectivity revolution has been the empowerment of Indians. Increases in the number of smartphones and 3G subscriptions are further driving this growth. Thanks to rising internet penetration, the gross number of online users in India now exceeds the number of people who have completed primary education. This shift emphasizes the increasing relevance of India's digital economy. In our view, there is humongous potential for E-commerce companies owing to the growing internet user base and advancements in technology. However, this will not be without its share of challenges, be it operational, regulatory, or digital. Companies will need to work harder to provide better service to the customer as more companies will be foraying in commerce business in future.

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