

e - Commerce in India: A Study

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ABSTRACT

e-commerce in India has been experiencing remarkable growth, successfully changing the way people transact. People today can shop literally everywhere within minutes, be it their workstations or homes, and most importantly, at any time of the day at their leisure. The online market space in the country is burgeoning in terms of offerings ranging from travel, movies, hotel reservations and books to the likes of matrimonial services, electronic gadgets, fashion accessories and even groceries. India is home to 3,311 e-commerce hubs, 1,267 rural hubs, 391 export hubs and 2,217 import hubs¹. To capitalise on the anticipated growth potential, a host of investors, including venture capital (VC) and private equity (PE) firms, are closely eyeing opportunities in e-commerce start-ups.

Key Words: e-commerce.

India is a massive E-Commerce marketplace now with every age group comfortably transacting online – more often preferring shopping online instead of visiting offline stores for a bigger gamut of choices and offers. In a report titled *India's Digital Leap-The Multi Trillion Dollar Opportunity*, Morgan Stanley said this growth in e-commerce will help grow market penetration to 12% in the next nine years, versus 2% today. An increasing number of internet users, all new to e-commerce, will help lead this growth, the report said. In the upcoming years, e-commerce is expected to boom in the Asian region. The number of digital buyers in Asia Pacific is projected to pass the one billion mark for the first time in 2018, which will account for 60 percent of all internet users in the region. In line with the regional growth, India, a fast-growing emerging Asian market, shows optimistic projections for the e-commerce industry. Current active e-commerce penetration in India stands only 28 percent, with lots of room for improvement - India's retail e-commerce CAGR is projected to reach 23 percent from 2016 to 2021. 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. Players 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 a drastic change, and only for the good. Given these developments, venture capital investors, who were restricting themselves to the sidelines, are now taking a keen interest in the country's e-Commerce market. The e-Commerce market in India has enjoyed phenomenal growth of almost 50% in the last five years. Although the trend of e-Commerce has been making rounds in India for 15 years, the appropriate ecosystem has now started to fall in place. The considerable rise in the number of internet users, growing acceptability of online payments, the proliferation of internet-enabled devices and favorable demographics are the key factors driving the growth story of e-Commerce in the country. The number of users making online transactions has been on a rapid growth trajectory, and it is expected to grow from 11 million in 2011 to 38 million in 2015.

India's growth potential

Since the eCommerce industry is fast rising, changes can be seen over a year. The sector in India has grown by 34% (CAGR) since 2009 to touch 16.4 billion USD in 2014². The sector is expected to be in the range of 22 billion USD in 2015. Currently, eTravel comprises 70% of the total eCommerce market. eTailing, which comprises of online retail and online marketplaces, has become the fastest-growing segment in the larger market having grown at a CAGR of around 56% over 2009-2014. The size of the eTail market is pegged at 6 billion USD in 2015. Books, apparel and accessories and electronics are the largest selling products through eTailing, constituting around 80% of product distribution. The increasing use of smartphones, tablets and internet broadband and 3G has led to developing a strong consumer base likely to increase further. This, combined with a larger number of homegrown eTail companies with their innovative business models has led to a robust eTail market in India rearing to expand at high speed. The online retail segment has evolved and grown significantly over the past few years. Cash-on-delivery has been one of the key growth drivers and is touted to have accounted for 50% to 80% of online retail sales. Players have adopted new business models including stock-and-sell, consignment and group buying; however, concerns surrounding inventory management, location of warehouses and in-house logistics capabilities are posing teething issues.

To ensure that e-Commerce maintains the steam that it has gained in recent years, the government needs to focus on the regulatory front. Unlike many other countries, India still does not have dedicated e-Commerce laws. The Sales Tax laws need to be revised, as they are posing issues for online retailers while they decide warehouse location. e-Commerce is set to continue on its growth path on the back of the stabilization of the ecosystem and interest demonstrated by VC players, combined with support from the Government of India. Over the last two decades, rising internet and mobile phone penetration has changed the way we communicate and do business. E-commerce is relatively a novel concept. It is, at present, heavily leaning on the internet and mobile phone revolution to fundamentally alter the way businesses reach their customers. While in countries such as the US and China, e-commerce has taken significant strides to achieve sales of over 150 billion USD in revenue, the industry in India is, still at its infancy. However over the past few years, the sector has grown by almost 35% CAGR from 3.8 billion USD in 2009 to an estimated 12.6 billion USD in 2013.

The E-commerce business in India has seen exponential growth over the last decade. This growth is due to many contributory factors, including rapid adoption of technology by Indian consumers, large increases in the number of internet users, new enabling technologies, innovative business models and alternative payment options offered by E-commerce companies. Moreover, the high growth in E-commerce continues unabated, with the sector expecting to witness a steep increase in revenues in the coming years. The E-commerce industry was worth Rs. 351 (5.4 billion US \$) billion in 2011 grew at a CAGR of 37% to touch Rs. 1257 billion in 2015, and is estimated to become a Rs. 2,110 billion (31 billion US \$) industry by 2016. It has been reported that MSMEs which adopted advanced level of digital engagement experienced annual revenue growth which was 27% higher than those of offline businesses due to factors such as reduction in marketing and distribution costs, shorter time lag to market, and reduced inventory costs. The leading E-commerce companies in India are also helping to tackle some of the challenges that MSMEs face in adopting E-commerce technologies like assisting MSMEs in funding, training and adoption of technology and encouraging them to engage with customers on a real-time basis.

The essence of e-retailing is in its ability to transcend physical boundaries and reach customers in a manner different from the traditional brick-and-mortar stores, to their very doorstep. However, the base of the e-retailing model is technology and logistical solutions that facilitates the customer acquisition and the final 'reach' process. E-commerce further brings to the table vagaries in customer orders accompanied with difficult scenarios such as free delivery, order rescheduling, cancellation, returns and cash-on-delivery. Additionally, an expected minimised turn-around-time (TAT) which will potentially lead to word-of-mouth publicity, feedback and customer retention to the e-portal or website. An information network which shares updated information with respect to inventory status, demand schedules and forecasts, shipment schedules and promotion plans among all the stakeholders of the supply chain will form the backbone of an e-retailer.

Last decade has witnessed remarkable developments in E-commerce creating unprecedented opportunities for cross-border trade. The Internet is enabling Micro, Small and Medium Enterprises ("MSMEs") to access global markets unlike ever before. Studies show that MSMEs that use E-commerce platforms are around five times more likely to export than those in the traditional economy. Business and commerce conducted traditionally with other countries involves significant costs thereby limiting the ability of MSMEs and businesses in developing economies to benefit from global trade. In an Internet-enabled environment, now these costs can be cut down with speed and efficiency. But the nature and speed of E-commerce led global trade are raising certain other policy frictions. Today's trade rules in many countries largely reflect 20th century patterns of trade and are not well-suited to supporting the growth of E-commerce. Different national rules on data management, consumer protection and the availability of online information are acting as major impediments to cross border trade-creating new market barriers and pushing up costs for MSMEs which are looking to enter global markets. One precondition for the success and viability of E-commerce is the ability for information to freely and efficiently move across borders without being limited by technical barriers or anti-competitive bottlenecks.

E-commerce sectors have been facing multiple challenges in their business operations like taxation issues, incidents of fraud, and issues with cyber security, intense competition and preference for payment in cash (COD) by customers, inadequate infrastructure and low digital literacy. There is no uniform tax structure across various states and there is ambiguity with respect to categorization of offerings into 'goods' or 'services'. Guidelines on taxation of certain transactions like e-wallets, cash on delivery, gift vouchers etc. are not clearly defined. Some of these challenges are expected to be resolved after the implementation of the Goods and Services Tax (GST). Receiving payment in cash (COD) makes the process laborious, risky and

more expensive for the companies as their working capital requirement increases. Higher return ratio for goods sold online is also proving expensive and presenting challenges for companies. Incidentally, return percentage of orders in COD is much higher compared to online payments.

The E-commerce industry in India has seen intensified competition in the sector, which in turn has forced companies to adopt aggressive pricing policies, offering heavy discounts to customers and high commissions to vendors and other parties. This has exerted a lot of pressure on the profitability of the companies.

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