

# Digitization - changing face of Retail Sector in India

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## Abstract

What is that you do when you need to gift your parents or friends on their birthday or for any festival? The majority of people today hop to the internet, browse through a few websites that sell gift items like books, clothes, perfumes etc. and order one of them to be dispatched to the person's address. It takes just a few minutes at the maximum and a click! Very few people today bother or even have the time to drive down in the heavy traffic to some boutique and go through all the items there, hop on to a next one and so on and finally select a gift and then go to the courier shop to parcel them off.

The growth of e-commerce industry has made lives easier for countless people. It's not just gifts but even everyday items like grocery and notebooks and pens that can be bought online. Books, clothes, shoes, jewellery and accessories, travel tickets and hotel bookings are some of the commonly purchased items online. E-commerce is trading of products and service through the medium of internet. In this paper we present factors that are fuelling growth in ecommerce sector in India. The methodology of my study is from secondary sources such as articles, journals, reports, papers ,blogs and conference proceeding . Ecommerce one of the highest growing business, with India having great market potential for investments. There has been huge surge in investment since last year and more is expected in coming years. The rapid growth in use of mobile and internet users has facilitated ecommerce business in both urban and rural cities. The topics covered include the terms study of commerce, key drivers of growth, market growth potential, investment, retail market, logistics infrastructure, internet regulations, key challenges and future of ecommerce.

**Keywords:** *Ecommerce, Retail, Sales, Investment, Logistics, Internet Regulation.*

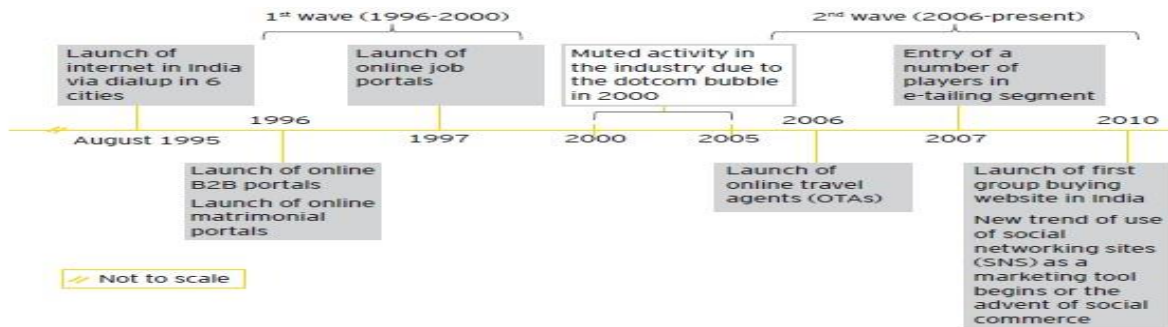
## Introduction

The rise of internet companies in India started in the mid-1990s. The first Indian internet companies mainly featured online classifieds, matrimonial and job portals. The low penetration of internet, lack of awareness and lack of development and confidence in online payment systems were reasons for Indian internet companies not actively engaging in e-commerce.

It was only in the mid-2000s, after the dot com bubble burst that e-commerce industry in India started to take off. The first e-commerce services available were mainly offered in the travel industry. With the proliferation of low cost carrier airlines, ticket offering started to be made online. Even today travel booking websites hold a majority share of the Indian e-commerce space.

A couple of years later, the online retail industry started taking shape and it is rapidly growing today as brick and mortar stores are being replaced by click-only models or brick cum click models of business.

E-commerce space relating to the deals and discounts websites started becoming popular towards 2009 and onwards while the concept of social media for e-commerce is still trying to make a foothold in the markets despite having one of the largest populations using Facebook.



The Indian e-commerce markets offers services in B2B, B2C and C2C segments with most of the players operating in the B2C segment. The e-commerce sector in India started to grow rapidly from 2005-06 onwards. The main factors for this rapid growth in the revenues and number of e-commerce companies operating out of India was the growth of a young tech-savvy generation employed in IT companies, rise in disposable income, changing lifestyles and easier access to banking and internet facilities.

### Objective:

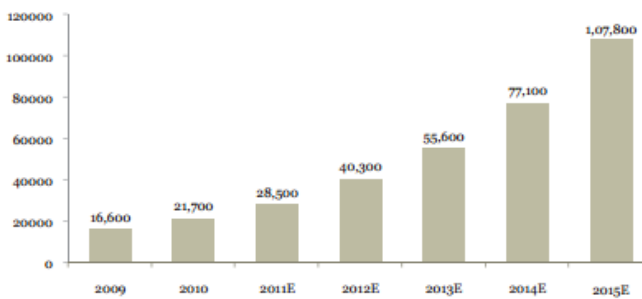
This paper seeks

1. To investigate the nature of availability of e-commerce ecosystem to Indian populace
2. To enumerate the e-comm/e-retail benefits

### Reasons for Growth of E-commerce Sector in India

The e-commerce sector in India started to grow rapidly from 2005-06 onwards. The main factors for this rapid growth in the revenues and number of e-commerce companies operating out of India was the growth of a young tech-savvy generation employed in IT companies, rise in disposable income, changing lifestyles and easier access to banking and internet facilities.

Total online consumer revenues (Rs Crore)



Source: IAMAI digital commerce 2011; Avendus estimates

Figure2: Indian E-commerce Industry Growth

Though currently having one of the smallest bases, e-commerce market in India is set to grow by more than five-fold by 2016 as the number of online buyers and per capital online spending is expected to increase rapidly. Reasons for this potential growth include:

- Increase in annual disposable income per household by two and half time by 2015. It is expected to grow at a CAGR of 5.1% during 2005 – 2025.
- Discretionary spending expected to rise to 61% in 2015 from 52% in 2005.
- Rise in the sales of PCs, tablets and smartphones as prices have declined.
- Increase in time spent online by an Indian. Average time spent by an Indian on the internet is expected to increase to 21 hours per month in 2015 from the 17.4 hours spent in 2011.
- Increase in the number of payment options. Number of online transactions is expected to increase to 38 million by 2015, compared to 11 million in 2011. The number of debit and credit card holders is expected to increase substantially to 350.4 million and 73.7 million respectively in 2014.
- Continuous reduction in the cost of internet.

### Demographics of Indian E-Commerce Market

Contrary to the general perception that women are prolific shoppers, a study by Google reveals that online shopping is dominated by men – 63% men vs. 37% women. This could be due to the lack of financial independence and access to banking facilities like credit/debit cards among a larger population of Indian women.

People of the age group 18 – 35 years are the largest purchasers of items online, with a majority among them having access to their own financial resources. Internet is accessed primarily from home or workplace but there is a growing number of people who access internet from mobile devices also. Currently it is estimated that 30% of online shopping queries come from mobile phones.

Google study also reveals that almost half of the internet shopping comes from outside the top four metros with apparel and accessories being the hottest categories. The number of repeat customers from tier 2 and tier 3 cities is also an encouraging sign for e-Tailers.

According to the study by Google, 30% of online buyers were drawn to Internet shopping for discounts, 37% of users valued the convenience of shopping from home and 29% appreciated the expanded variety of products available online compared with what is available at brick-and-mortar stores.

### ***Indian E-commerce players***

The top 10 e-commerce websites in India as of April 2013 according to indiaranker.com is:

1. eBay.in
2. Flipkart.com
3. Jabong.com
4. HomeShop18.com
5. Tradus.in
6. Shopping.IndiaTimes.com
7. SnapDeal.com
8. Infibeam.com
9. Zovi.com
10. Myntra.com.



An accurate picture of the market share of e-commerce website is difficult as most of them are niche players in various segments like books, consumer electronics, apparel, deals etc.

Flipkart is the leading Indian e-commerce website and developed its innovative payment option of Cash on Delivery. This option has been a huge hit in India especially since internet infrastructure is not yet well developed and the number of failed online card transactions are higher. But Flipkart's recent decision to restrict this service in some parts of the country points to the risks the company has had to face with this kind of a strategy and frauds involved. It is also facing logistics issues in many Tier 2 and Tier 3 cities.

Snapdeal is perhaps the most popular deals site in India for deals and group buying HomeShop18 was India's first 24-hour home shopping TV channel. Jabong and Myntra are other online retailers growing fast.

Entry of amazon.in is going to increase the competition and the pressure to serve the customers better and quicker in this industry.

The entry Amazon into Indian markets with its e-commerce website amazon.in has led to a new chapter in the e-commerce industry in India. With direct FDI still not permitted, Amazon has come up with an innovative business strategy to enter this sunrise sector in India. It has brought together different online vendors on a single platform. This could be a strategy that even bigger Indian players could use in the long run as the markets mature.

With the e-commerce space starting to mature, a consolidation is expected in the e-commerce sector. A large number of smaller players who see smaller volume and sales turnover might get absorbed by the bigger players or may be forced to shut down. With profit margins being thin in this sector, many of the smaller firms might get bought up by the larger ones.

### Big Data and E-commerce sector

Like brick and mortar retail shops, online retailers also generate a lot of data from which useful customer insights and shopping patterns can be inferred. Analysis of big data offers huge scope in expanding the e-commerce market and in understanding user behaviours. This will help in digital tracking of customers and in designing customized and targeted advertising and offers. E-commerce companies are expected to offload projects to collate visit reports, log reports and purchase data for big data projects that will help them expand their market shares.

### Social Commerce

Social commerce is the use of social network in the context of e-commerce transactions. Social commerce is a subset of electronic commerce that involves using social media, online media that supports social interaction, and user contributions to assist in the online buying and selling of products and services. It includes customer ratings and reviews, user recommendations and referrals, social shopping tools, augmented reality, forums and communities, social media optimization, social applications and social advertising. With increase in number of people using social media for C2C conversations, recommendations and discussions, e-commerce players too have had to make their presence felt in this space to address customer queries and complaints, to promote new products and offerings and to connect with the customers to gain their loyalty. Hence social media is going to play an important role in an e-commerce company's growth strategy.

### Mobile Commerce (m-Commerce)

E-commerce is slowly giving way to m-commerce as more and more users are accessing the internet and shopping online through smaller devices like smartphones, tablets and notebooks. Hence it becomes essential for the e-commerce companies to enhance their website features and looks to match with the new devices being used for

shopping. Developing apps for easier mobile transactions is also essential to target this growing segment of consumers.

### **Key Challenges**

Ecommerce companies need to address many issues 1. Strengthening logistics infrastructure and service levels in ecommerce market as warehousing requirement will increase in coming years with increase in ecommerce activity in coming years. In case of cross border ecommerce there exist problem of reverse logistics.2. Security, privacy breaches and fictitious transaction issues need to be focused as ecommerce is moving to mobile platform. 3. Rules and regulations for taxation and pricing of product for international and local companies. There should be thorough discussion regarding complexities of tax evasion, FDI, and loopholes in commerce between government and various competent ecommerce companies. 4. Customers are concerned about security when it comes to use of credit and debit cards so they are hesitant doing online transactions. Thus cash and delivery is preferred mode of payment which is expensive and risky. 5. Companies need to adopt to change in technology shift from laptop to mobile. They should provide multi channel sales coupled with fast browsing experience along with after sales support and service. Online reviews, videos, return, product comparison should also be provided to enhance mobile experience.

### **Future of E-Commerce**

Mobile commerce is finding increased infiltration in ecommerce market. Mobile transactions are increasing every year, the value of these transactions are estimated to be Rs36,000crore 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 ecommerce 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**

E-commerce in India is a sunrise sector and companies that would want to reap the benefits of this growing industry would need to jump into the bandwagon soon. The rapid growth of this sector is propelled by dynamic demographics, rising income levels and changing lifestyles, increasing internet penetration and banking and other

payment options like e-wallets etc. But challenges in the form of under-developed IT infrastructure, smaller number of credit card users, logistics issues and lack of governmental incentives plague this sector to certain extent. Despite the challenges, the e-commerce industry in India offers great scope due to the huge potential market size and increasing discretionary spend of the people.

Companies that want to expand their business need to spend resources in advertisement, branding, logistics, reverse logistics, supply chain management and customer services. There is 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. Ecommerce growth is inevitable as Indian ecommerce industry is having access to funds both local and international investments. The ecommerce industry will be faced with challenges as it matures but there is potential for growth owing to rising internet users and advancement in technology. Companies will need to work harder to provide better service to customer as more companies will be foraying in commerce business in future.

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