Role of Online Businesses in Contributing to the Growth of GDP – A Study

***Sachin.S.Malagi, Lecturer in Commerce, Rotary P.U.College, Ranebennur**

Abstract

Online business or Electronic commerce or e-commerce (sometimes written as eCommerce) is a business model that lets firms and individuals buy and sell things over the internet. E-commerce operates in all four of the following major market segments:

- Business to business
- Business to consumer
- Consumer to consumer
- Consumer to business

E-commerce, which can be conducted over computers, tablets, or smartphones may be thought of like a digital version of mail-order catalog shopping. Nearly every imaginable product and service is available through e-commerce transactions, including books, music, plane tickets, and financial services such as stock investing and online banking. As such, it is considered a very disruptive technology.

The e-commerce has transformed the way business is done in India. The Indian e-commerce market is expected to grow to US$ 200 billion by 2026 from US$ 38.5 billion as of 2017.

The general category of ecommerce can be broken down into two parts: E-Merchandise & E-finance. Many companies, organizations, and communities in India are doing business using E-commerce and also are adopting M-commerce for doing business. Ecommerce is showing tremendous business growth in India. Increasing internet users have added to its growth. Despite being the second largest user base in world, only behind China (650 million, 48% of population), the penetration of e-commerce is low compared to markets like the United States (266 M, 84%), or France (54 M, 81%), but is growing at an unprecedented rate, adding around 6 million new entrants every month. The industry consensus is that growth is at an inflection point. India's ecommerce market was worth about $3.9 billion in 2009, it went up to $12.6 billion in 2013. In 2013, the e-retail segment was worth US$2.3 billion. About 70% of India's e-commerce market is travel related. According to Google India, there were 35 million online shoppers in India in 2014 Q1 and is expected to cross 100 million mark by end of year 2016. By 2020, India is expected to generate $100 billion online retail revenue out of which $35 billion will apparel sales are set to grow four times in coming years. India’s e-commerce industry is expected to contribute 4% of GDP by 2022

Key words: ecommerce, website, online retailer, shopping, GDP, India, marketplace, economy.

Introduction

Every second three more Indians experience the internet for the first time. By 2030 more than 1 billion of them will be online. In June last year one in four mobiles used in India was a smartphone, up from one in five just six months earlier. Add in two more facts—India boasts the world's fastest-growing large economy, and the planet's biggest population of millennials—and you can see why the likes of Facebook, Uber and Google are falling over themselves to establish footholds there. India's e-commerce market, dominated by Flipkart Pvt. Ltd and Amazon.com Inc., can potentially grow more than fourfold to $150 billion by 2022, fuelled by rising incomes and a surge in internet users, according to a latest report. During the period, the size of India's middle-class is expected to swell to 540 million from 380 million in 2017, showed the report by software industry lobby group Nasscom and consulting firm PwC India. The e-commerce market was pegged at $36 billion last year. "A 'Make-for-India' solution approach along with conducive policy environment can potentially make e-commerce a $150 billion market by 2022 with a globally leading compounded annualized growth rate of 35%," the report said. The number of internet users is expected to nearly double to 850 million in five years from 450 in 2017, the study showed. Of the total, 150 million users are expected to transact digitally and will emerge mainly from tier-2 and 3 cities with diverse language choices, payment modes and products.

Much growth of the industry has been triggered by increasing internet and smartphone penetration. The ongoing digital transformation in the country is expected to increase India's total internet user base to 829 million by 2021 from 636.73 million in FY19. India's internet economy is expected to double from US$ 125 billion as of April 2017 to US$ 250 billion by 2020, majorly backed by ecommerce. India's E-commerce revenue is expected to jump from US$ 39 billion in 2017 to US$ 120 billion in 2020, growing at an annual rate of 51 per cent, the highest in the world.Propelled by rising smartphone penetration, the launch of 4G networks and increasing consumer wealth, the Indian e-commerce market is expected to grow to US$ 200 billion by 2026 from US$ 38.5 billion in 2017 Online retail sales in India are expected to grow by 31 per cent to touch US$ 32.70 billion in 2018, led by Flipkart, Amazon India and Paytm Mall.E-commerce involves an online transaction. E-commerce provides multiple benefits to the consumers in form of availability of goods at lower cost, wider choice and saves time.

During April-June quarter 2019, smartphone shipment in India grew 9.9 per cent year-on-year to 36.9 million shipments. It is expected to reach 160 million in 2019.During 2018, electronics is currently the biggest contributor to online retail sales in India with a share of 48 per cent, followed closely by apparel at 29 per cent.E-Commerce is a growing sector in India. Just like the growth of IT industry in India through the 1990s, the 2010s will be remembered for the growth in the E-Commerce industry. In its present state the contribution of E-Commerce to GDP is around 0.2% which is expected to grow 15 times to around 2.5% by 2030.The impact is so huge that the present wave of de-monetisation could have not been thought if E-Commerce did not exist. E-Commerce to a large extent helped absorb its shock as well as gained the maximum out of it as well.

Objective:

This paper intense to study the role of online business is a commerce in the growth of Indian economy and GDP also the changing preference of customers and differences in buying the product.

Historical Development of E-Commerce A timeline for the development of e-commerce:

1971 or 1972: The ARPANET is used to arrange a cannabis sale between students at the Stanford Artificial Intelligence Laboratory and the Massachusetts Institute of Technology, later described as "the seminal act of ecommerce" in John Markoff's book What the Dormouse Said.

1979: Michael Aldrich demonstrates the first online shopping system.

1981: Thomson Holidays UK is first business-to-business online shopping system to be installed.

1982: Minitel was introduced nationwide in France by France Télécom and used for online ordering.

1983: California State Assembly holds first hearing on "electronic commerce" in Volcano, California. Testifying are CPUC, MCI Mail, Prodigy, CompuServe, Volcano Telephone, and Pacific Telesis. (Not permitted to testify is Quantum Technology, later to become AOL.)

1984: Gateshead SIS/Tesco is first B2C online shopping system and Mrs Snowball, 72, is the first online home shopper

1984: In April 1984, CompuServe launches the Electronic Mall in the USA and Canada. It is the first comprehensive electronic commerce service.

1990: Tim Berners-Lee writes the first web browser, WorldWideWeb, using a NeXT computer.

1992: Book Stacks Unlimited in Cleveland opens a commercial sales website (www.books.com) selling books online with credit card processing.

1993: Paget Press releases edition No. 3 of the first app store, The Electronic AppWrapper

1994: Netscape releases the Navigator browser in October under the code name Mozilla. Netscape 1.0 is introduced in late 1994 with SSL encryption that made transactions secure.

1994: Ipswitch IMail Server becomes the first software available online for sale and immediate download via a partnership between Ipswitch, Inc. and OpenMarket.

1994: "Ten Summoner's Tales" by Sting becomes the first secure online purchase.

1995: The US National Science Foundation lifts its former strict prohibition of commercial enterprise on the Internet.

1995: Thursday 27 April 1995, the purchase of a book by Paul Stanfield, Product Manager for CompuServe UK, from W H Smith's shop within CompuServe's UK Shopping Centre is the UK's first national online shopping service secure transaction. The shopping service at launch featured W H Smith, Tesco, Virgin Megastores/Our Price, Great Universal Stores (GUS), Interflora,Dixons Retail, Past Times, PC World (retailer) and Innovations.

1995: Jeff Bezos launches Amazon.com and the first commercial-free 24-hour, internet-only radio stations, Radio HK and NetRadio start broadcasting. eBay is founded by computer programmer Pierre Omidyar as AuctionWeb.

1996: IndiaMART B2B marketplace established in India.

1996: ECPlaza B2B marketplace established in Korea.

1998: Electronic postal stamps can be purchased and downloaded for printing from the Web.

1999: Alibaba Group is established in China. Business.com sold for US $7.5 million to eCompanies, which was purchased in 1997 for US $149,000. The peer-to-peer filesharing softwareNapster launches. ATG Stores launches to sell decorative items for the home online.

2000: The dot-com bust.

2001: Alibaba.com achieved profitability in December 2001.

2002: eBay acquires PayPal for $1.5 billion. Niche retail companies Wayfair and NetShops are founded with the concept of selling products through several targeted domains, rather than a central portal.

2003: Amazon.com posts first yearly profit.

2003: Bossgoo B2B marketplace established in China.2004: DHgate.com, China's first online b2b transaction platform, is established, forcing other b2b sites to move away from the "yellow pages" model.

2007: Business.com acquired by R.H. Donnelley for $345 million.

2009: Zappos.com acquired by Amazon.com for $928 million. Retail Convergence, operator of private sale website RueLaLa.com, acquired by GSI Commerce for $180 million, plus up to $170 million in earn-out payments based on performance through 2012.

2010: Groupon reportedly rejects a $6 billion offer from Google. Instead, the group buying websites went ahead with an IPO on 4 November 2011. It was the largest IPO since Google.

2011: Quidsi.com, parent company of Diapers.com, acquired by Amazon.com for $500 million in cash plus $45 million in debt and other obligations. GSI Commerce, a company specializing in creating, developing and running online shopping sites for brick and mortar businesses, acquired by eBay for $2.4 billion.

2014: Overstock.com processes over $1 million in Bitcoin sales. India’s e-commerce industry is estimated to have grown more than 30% from 2012 to $12.6 billion in 2013. US eCommerce and Online Retail sales projected to reach $294 billion, an increase of 12 percent over 2013 and 9% of all retail sales. Alibaba Group has the largest Initial public offeringever, worth $25 billion.

2015: Amazon.com accounts for more than half of all ecommerce growth, selling almost 500 Million SKU's in the US.

KEY DRIVERS IN E-COMMERCE AND INDIAN GDP

- Large percentage of population subscribed to broadband Internet, burgeoning 3G internet users, and a recent introduction of 4G across the country.
- Explosive growth of Smartphone users, soon to be world's second largest Smartphone user base.
- Rising standards of living as result of fast decline in poverty rate.
- Availability of much wider product range (including long tail and Direct Imports) compared to what is available at brick and mortar retailers.
- Competitive prices compared to brick and mortar retail driven by disintermediation and reduced inventory and real estate costs.
- Increased usage of online classified sites, with more consumer buying and selling second-hand goods

Evolution of Million-Dollar startup like Jabong.com, Saavn, Makemytrip, Bookmyshow, Zomato Etc. India's retail market is estimated at $470 billion in 2011 and is expected to grow to $675 billion by 2016 and $850 billion by 2020, – estimated CAGR of 10%. According to Forrester, the e-commerce market in India is set to grow the fastest within the Asia-Pacific Region at a CAGR of over 57% between 2012 –2016. India has an internet user base of about 354 million as of June of 2015. Despite being the second largest user base in world, only behind China (650 million, 48% of population), the penetration of e-commerce is low compared to markets like the United States (266 M, 84%), or France (54 M, 81%), but is growing at an unprecedented rate, adding around 6 million new entrants every month. The industry consensus is that growth is at an inflection point. In India, cash on delivery is the most preferred payment method, accumulating 75% of the e-retail activities. Demand for international consumer products (including long-tail items) is growing much faster than in-country supply from authorized distributors and e-commerce offerings. Largest e-commerce companies in India are Flipkart, Snapdeal, Amazon India, and Paytm.

Online Turf war

No battle for the online future of India is more intense than the one now being waged in e-commerce. Sales are still tiny, at $16 billion last year, but the country is the world’s fastest-growing e-commerce market and is prized by America’s and China’s internet titans. India has become the biggest test of Amazon’s international ambitions. Jeff Bezos, Amazon’s founder, wants it to be his second-largest market, after America, and has backed his plans with billions of dollars of investment. His opponents are platforms like Flipkart and Snapdeal, founded by locals and funded by some of the biggest names in tech, among them Alibaba, China’s e-commerce champion.

As these companies jostle for market share, they are spending feverishly on logistics and discounts to lure consumers online. Capital may dry up for some; in February a Morgan Stanley mutual fund sharply lowered the valuation of its stake in Flipkart. But whoever wins or loses in this frenzied contest, the importance of e-commerce stretches beyond individual firms and into the wider economy. In the West e-commerce companies piggybacked on an existing infrastructure of shops, banks and logistics firms. In India the game being played by the e-commerce pioneers is leapfrog. It could become a model for emerging markets around the world.

Growth and Prospects of E-Commerce in India:

Increasing internet and mobile penetration, growing acceptability of online payments and favourable demographics has provided the e-commerce sector in India the unique opportunity to companies connect with their customers, it said. There would be over a five to seven fold increase in revenue generated through e-commerce as compared to last year with all branded apparel, accessories, jewellery, gifts, footwear are available at a cheaper rates and delivered at the doorstep, (as per industry body Assocham). It is noted that the buying trends during 2016 will witness a significant upward movement due to aggressive online discounts, rising fuel price and wider and abundant choice will hit the e-commerce industry in 2016. It observed mobile commerce (m-commerce) is growing rapidly as a stable and secure supplement to the e-commerce industry. Shopping online through smart phones is proving to be a game changer, and industry leaders believe that mcommerce could contribute up to 70 per cent of their total revenues. In India roughly 60-65 per cent of the total ecommerce sales are being generated by mobile devices and tablets, increased by 50 per cent than in year 2015 and also likely to continue upwards. It noted that the browsing trends, which have broadly shifted from the desktop to mobile devices in India, online shopping is also expected to follow suit, as one out of three customers currently makes transactions through mobiles in tier-1 and tier-2 cities. In 2015, 78 per cent of shopping queries were made through mobile devices, compared to 46 per cent in 2013.

In 2015, the highest growth rate was seen in the apparel segment almost 69.5 per cent over last year, followed by electronic items by 62 percent, baby care products at 53 per cent, beauty and personal care products at 52 per cent and home furnishings at 49 per cent. It revealed that Mumbai ranks first in online shopping followed by Delhi, Ahmedabad, Bangalore and Kolkata. On the mode of payment, almost 45 per cent of online shoppers reportedly preferred cash on delivery mode of payment over credit cards (16 per cent) and debit cards (21 per cent).

Only 10 per cent opted for internet banking and a scanty 7 per cent preferred cash cards, mobile wallets, and other such modes of payment, it said. Among the above age segments, 18-25 years of age group has been the fastest growing age segment online with user growth being contributed by both male and female segments. The survey revealed that 38 per cent of regular shoppers are in 18-25 age group, 52 per cent in 26-35, 8 per cent in 36-45 and 2 per cent in the age group of 45-60.

Pay as you grow

Indian e-commerce has such potential because it can bring three changes more profound than convenience and keen prices. The first is faster financial development. China already provides one example. Alipay, an arm of Alibaba, overcomes mistrust between buyers and sellers by holding on to customers' money until they have safely received their goods. Now run by an affiliate called Ant Financial, Alipay has more than 400m accounts that let consumers buy products, pay bills and transfer money. The torrent of information that Alibaba gathered on merchants and consumers was the basis for a lending business.

Something similar is under way in India. Paytm, which provides digital wallets and is itself backed by Ant Financial, has 120m accounts, nearly six times the number of credit cards in India. E-commerce companies are also helping small businesses obtain loans that they would otherwise have struggled to raise. Amazon India rolled out such a programme for its sellers last month. In January Snapdeal announced a partnership to streamline loans from the State Bank of India.

Second, e-commerce firms could help overcome India's ropy infrastructure and vast geography. Where roads are clogged and infrastructure is decrepit, the rival firms are melding warehouses and local outposts into idiosyncratic distribution networks. About half of Flipkart's and Snapdeal's customers are outside India's biggest cities. Some are still farther afield: Amazon claims to be helping more than 6,000 Indian businesses sell abroad. China again shows what can be done. Alibaba is connecting remote rural areas to the online economy; there are now 780 "Taobao villages", rural communities in which at least 10% of households are shopping or selling over the internet. The third big impact of e-commerce in India is on retailing itself. Shopping malls and chain stores account for only about one-tenth of total retail sales. Already, the combined sales of India's top three e-commerce sites, Flipkart, Snapdeal and Amazon, surpass those of the ten largest offline retailers.

Two-thirds of Indians are below the age of 35. For these young people, armed with smartphones, shopping is likely to be very different from what it was for their parents. Malls and chains will not disappear, but they may never be as prevalent as they are in the West. That in turn will stimulate the rise of other digital firms. India's tech scene is thriving. Tiger Global, a Flipkart investor, also backs an Indian online classified business and a messenger app that helps users avoid data costs. SoftBank, which backs Snapdeal, funds a mobile-advertising platform. In 2014 only America, Britain and Israel saw more new tech startups.

Platform boost

Simply to assume that e-commerce will conjure up growth—particularly of the labour-intensive sort that India needs—would be a mistake. The market in China had a very different starting-point, for instance. When the likes of Alibaba got going, it helped that China was already home to many manufacturers looking for new ways to sell excess inventory. India's manufacturing base is much smaller, especially for electronics, e-commerce's best-selling category. India is also poorer. A smaller share of its population is online—32% last year, compared with 52% in China. Indians speak more than 20 languages, which complicates marketing. The budget unveiled by Narendra Modi's government this week includes plans to upgrade 50,000km (30,000 miles) of roads, but India is not about to possess a gleaming motorway network to rival China's. Mr Modi's continued failure to install a harmonised goods and services tax blunts the benefits of e-commerce.

Yet in its heft, governance and manufacturing clout, China is also an outlier. India is a better template for the e-commerce battle in other emerging markets. Its logistical woes provide a test of firms' ingenuity. If they find a way to deliver goods profitably there, they may succeed elsewhere. If they falter, their stumbles will provide lessons. That is all the more likely because India's e-commerce is so international. Naspers, a Flipkart investor, backs ventures in Nigeria, South Africa and Egypt, among other places. E-commerce in India is a local battle for customers, but it is also a battle for the future.

Challenges of E-commerce in India

India has less credit card population, lack of fast postal services in rural India. Accessing the Internet is currently hindered down by slow transmission speeds, frequent disconnects, cost of Wireless connection and wireless communication standards over which data is transmitted. High-speed-bandwidth Internet connection not available to most citizens of the nation at an affordable rate.

In India, mostly people are not aware about the English language or not so good in English language. So that for the transaction over internet through electronic devices, language becomes one of the major factors to purchases, hire and sell a particular product or services. Multiple issues of trust in e-commerce technology and lack of widely accepted standards, lack of payment gateways, privacy of personal and business data connected over the Internet not assured security and confidentiality of data not in place to deploy ubiquitous IT Infrastructure and its maintenance

Conclusion

Growth of e-commerce depend to a great extent on effective IT security systems for which necessary technological and legal provisions need to be put in place and strengthened constantly.

While many companies, organizations, and communities in India are beginning to take advantage of the potential of e-commerce, critical challenges remain to be overcome before e-commerce would become an asset for common people.

With the explosion of internet connectivity through mobile devices like Smartphone and tablets, millions of consumers are making decisions online and in this way enterprises can build the brand digitally and enhance productivity adding to overall GDP. ECommerce in India is destined to grow both in revenue and geographic reach. The challenge of establishing consumer trust in e-commerce poses problems and issues that need further research.

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