

# E-Commerce Scenario in India

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## Abstract

E-Commerce is the electronic process by which individuals or organizations make a transaction. There are various advantages of E-Commerce to buyers and sellers such as cost reduction and more variety. Backed by increased online user base & mobile phone presentation, Indian E-Commerce has seen impressive growth in the last few years. Considering India's demographic dividend & rising internet accessibility, the sector is slated to scale greater heights. Present article describes the Indian E-Commerce status, its growth trends, barriers to growth, advantages, factors behind growth and some recommendations.

## Keywords

E-Commerce, Online Retail, Internet Users, CAGR (Compounded Annual Growth Rate).

## Introduction

The definition of E-Commerce is the electronic process by which individuals or organizations make a transaction, such as buy, sell, transfer, or exchange products, services and/or information (Turban, McLean and Weatherbe 2004). In a nutshell, e-commerce effectively erases the necessity of huge investments or outlays on physical infrastructure to develop a global presence, which has led to a revolution in the way business is conducted around the world. E-Commerce stands for electronic commerce. It means dealing in goods and services through the electric media and Internet, without using any paper documents. A type of business model, or segment of a larger business model, that enables a firm or individual to conduct business over an electronic network, typically the internet. Electronic commerce operates in all four of the major market segments: business to business, business to consumer, consumer to consumer and consumer to business. It can be thought of as a more advanced form of mail-order purchasing through a catalog. Almost any product or service can be offered via ecommerce, from books and music to financial services and plane tickets.

## Various advantages of E-Commerce to various segments

### Advantages to Organizations

- Using E-Commerce, organization can expand their market to national and international markets with minimum capital investment. An organization can easily locate more customers, best suppliers and suitable business partners across the globe.
- E-Commerce helps organization to reduce the cost to create process, distribute, retrieve and manage the paper based information by digitizing the information.
- E-commerce improves the brand image of the company.
- E-commerce helps organization to provide better customer services.
- E-Commerce helps to simplify the business processes and make them faster and efficient.
- E-Commerce reduces paper work a lot.
- E-Commerce increased the productivity of the organization. It supports "pull" type supply management. In "pull" type supply management, a business process starts when a request comes from a customer and it uses just-in-time manufacturing way.

### Advantages to Customers

- 24x7 support. Customer can do transactions for the product or enquiry about any product/services provided by a company anytime, anywhere from any location. Here 24x7 refers to

24 hours of each seven days of a week.

- E-Commerce application provides user more options and quicker delivery of products.
- E-Commerce application provides user more options to compare and select the cheaper and better option.
- A customer can put review comments about a product and can see what others are buying or see the review comments of other customers before making a final buy.
- E-Commerce provides option of virtual auctions.
- Readily available information. A customer can see the relevant detailed information within seconds rather than waiting for days or weeks.
- E-Commerce increases competition among the organizations and as result organizations provides substantial discounts to customers.

### Advantages to Society

- Customers need not to travel to shop a product thus less traffic on road and low air pollution.
- E-Commerce helps reducing cost of products so less affluent people can also afford the products.
- E-Commerce has enabled access to services and products to rural areas as well which are otherwise not available to them.
- E-Commerce helps government to deliver public services like health care, education, social services at reduced cost and in improved way.

## Barriers to growth of e-commerce

Regardless, there are many obstacles which seriously hinder the growth of E-Commerce industry. E-Commerce has the potential to provide many opportunities in a manner unprecedented by other technological advancements, with its positive impact on trade, investment, business transactions, and market penetration (Wresch and Fraser 2011). But the conclusion reached by many researchers who have tried to search for the realization of these benefits in developing countries has been, by and large, disappointing. According to Molla and Heeks (2007), "the majority of businesses do not appear to have obtained E-commerce benefits in terms of expanding their access to markets, improving their reach or linkages to customers or suppliers, or in relation to cost savings or other efficiency gains".

The obstacles may vary between regions but the commonly reported barriers include a severe dearth of managerial skills requisite to formulate and implement an e-commerce strategy for business. Internet connectivity with regard to the cost, quality, and speed of the service provided is another stumbling block while

lack of effective branding and trust issues is another important barrier to e-commerce growth. The latter has succeeded in pricking the E-Commerce bubble as buyers feel more secure conducting transactions from renowned companies and brands rather than from unknown companies online (Travica et al. 2007). Another common obstacle these countries face is the absence of a sound legal and regulatory environment for E-Commerce, which acts as a deterrent for both buyers and sellers to conduct business over the Internet (UNCTAD 2004).

**Growth of E-Commerce in India**

India first came into interaction with the online E-Commerce via the IRCTC (Indian Railway Catering & Tourism Corporation Limited). The government of India experimented this online strategy to make it convenient for its public to book the train tickets. Hence, the government came forward with the IRCTC Online Passenger Reservation System, which for the first time encountered the online ticket booking from anywhere at any time. This was a boon to the common man as now they don't have to wait for long in line, no issues for wastage of time during unavailability of the trains, no burden on the ticket bookers and many more. The advancements in the technology as the years passed on have been also seen in the IRCTC Online system as now one can book tickets (tatkal, normal, etc.) on one go, easy payments, can check the status of the ticket and availability of the train as well. This is a big achievement in the history of India in the field of online E-Commerce. After the unpredicted success of the IRCTC, the online ticket booking system was followed by the airlines (like AirDeccan, Indian Airlines, Spicejet, etc.). Airline agency encouraged, web booking to save the commission given to agents and thus in a way made a major population of the country to try E-Commerce for the first time. Today, the booking system is not just limited to the transportation rather hotel bookings, bus booking etc. are being done using the websites like Makemytrip and Yatra. The acceptance of the ecommerce on a large scale by the Indian people influenced other business players also to try this technique for their E-businesses and gain high profits. Though online shopping has been present since the 2000 but it gained popularity only with deep discount model of Flipkart in 2007. Soon other portals like Amazon, Flipkart, Jabong, etc. started hunting India for their businesses.

For India's E-Commerce industry, new times are approaching. The E-Commerce penetration in India may be comparatively lower than the US and other European markets, but it continues to grow at a rapid rate with many new entrants. Currently, E-Commerce is heavily dependent on the web and Smartphone revolution that has essentially altered the way businesses interact with customers. E-commerce in India is still in growing stage but it offers considerable opportunity. Over the past few years the sector in India has grown by 34% (CAGR i.e. Compounded Annual Growth Rate) since 2009 to touch 16.4 billion USD in 2014 (Internet and Mobile Association of India research report). The sector is expected to be in the range of 22 billion USD in 2015.

Table: India's E-Commerce and E-Tail Growth

Year	E-Commerce value (USD Billion)	E-Tail value (USD Billion)
2009	3.8	0.4
2010	5.3	0.6

2011	7.0	1.0
2012	9.5	1.5
2013	12.6	2.3
2014	16.4	3.5
2015 (Estimated)	21.3	6.0

Source: IAMAI, CRISIL, Gartner, PwC analysis and industry experts

Currently, travel sector comprises 70% of the total E-Commerce market. E-Tailing, 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 E-Tail market is pegged at 6 billion USD in 2015. Books, apparel and accessories and electronics are the largest selling products through E-Tailing, 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 E-Tail companies with their innovative business models has led to a robust E-Tail market in India rearing to expand at high speed.

All logistical models conceived in the country consider the larger metropolitan cities and Tier-1 cities as their target, where the customer usually belongs to either the upper affluent or middle class, and has easy access to the Internet. Also, delivery costs are high for e-retailers, as the majority of goods being ordered online are transported by air. This also causes shortage of cargo space on airlines in times of high demand, such as the weeks leading up to the Indian festival of Diwali, and warranted dependence on external delivery firms. But while India can boast of the second-largest number of mobile users in the world, e-retail sales are less than 0.5 % of the country's entire retail sales. When this figure is compared with 6% in the US and 5% in China, it does appear as if the country's e-commerce sector needs to firm up its delivery network (Narayan 2014).

**Factor behind Growth**

The growing population and demographics of India will probably be the major driving force behind the explosion of E-Commerce in the near future. According to the IAMAI, India had 213 million internet users in 2013 – which was projected to reach the 300 million mark by end of 2014. With this projection, India will attain the position of the second-largest internet base in the world after China (600 million) and ahead of the United States' internet users (207 million). India has an internet user base of about 354 million as of Q2 of 2015 (The Economic Times 2015). Some factors are:

- With 870 million mobile phone subscribers in India, mobile commerce will grow and become one of the main ways consumers shop.
- The young generation on the internet has emerged as the driving force behind the growth of the E-Commerce industry in India, with nearly 90% of online shoppers aged between 18-35 years.
- With more families joining the workforce, consumers are more likely to engage digitally and make fewer trips to stores for their shopping.
- Over the next two decades, India's rising middle class is expected to grow to over 40% of the population, creating

- the world's fifth largest consumer market.
- The brick and mortar stores will continue to face an uphill battle competing with online retailers on product range and variety.
  - Unlike retail stores, E-Commerce websites can base their premises anywhere they like-dramatically reducing the cost of rent on a property.
  - Another factor that favours E-retailers to high street stores includes holding more stock. As online stores can be based anywhere, they can be located in a large warehouse, or even a home garage which means that much more stock can be ordered in.
  - The brick and mortar retail models for music, books, electronics, footwear and cosmetics are looking extremely vulnerable at the moment, and could lead to store closures.

### **Recommended measures to boost growth of E-Commerce**

The term 'digital divide' is often used in reference to the "disparities between groups and societies in the adoption and diffusion of electronic information and communications technologies (ICTs) and E-business practice" (Genus and Nor 2005). With reference to the adoption and growth of e-commerce, the gap between developed and developing countries is gradually narrowing down.

However, one of the major critical success factors of E-Commerce is training and education. Developing countries face the digital divide primarily because they lack the requisite intellectual human capital. Mass illiteracy and little to no command over the English language render E-Commerce an exercise in futility. Hence, the most important measure which needs to be taken is to engage in capacity building in E-Commerce skills. Training and education can be imparted via various means using the internet itself, such as distance learning and specialized links with universities.

The government has a very strong role to play as state policy, specifically legislation, significantly affects adoption and growth of E-Commerce. One of the most important measures that can be taken and that will counter multiple barriers to E-Commerce growth is the development of a supportive regulatory and legal environment. E-Commerce strategies will be successfully owned only when consumers and businesses trust the concept and its premise, and are sure of its security and reliability (Zaied 2008). For them to feel confident, a solid regulatory umbrella must include enabling laws pertaining to E-Business, regulations on consumer protection, E-Transactions, and cybercrime as well as carefully laid out processes for redress in the event of abuse. UNCTAD (2015) statistics reveal that developing countries are slow to adopt these laws including India. These laws are vital for doing business online as the Internet by its very nature exposes customers to possible instances of deception and fraud.

Financial systems need to be restructured to enable online payment mechanisms and credit facilities. India is lagging behind in this regard. Therefore steps are needed to be taken to get away from these obstacles. Inadequate infrastructure acts as a major obstacle for e-commerce in and the government should invest in legal, financial, logistical, and telecommunication infrastructure which is the backbone of any E-Commerce initiative.

### **Conclusion**

According to the PwC report Future of India - The Winning Leap, emergence of 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. New technologies will further help improve the retail customer experience, thereby encouraging greater consumption. 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 empowerment of Indians.

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. The number of internet users soared from approximately 20 million in 2004 to nearly 250 million in 2014. By contrast, the number of people who have studied beyond the eighth standard is about 200 million, indicating that even uneducated people are accessing the internet. While increases in the use of traditional options for gaining knowledge, such as education, may be linear, the proliferation of knowledge through the use of new digital technologies appears exponential.

The E-Commerce industry in India may currently be behind its counterparts in a number of developed countries and even some emerging markets. However, with India's GDP growth pegged at 6.4% by the International Monetary Fund and the World Bank, it is expected to grow rapidly. Moreover, the Indian E-Commerce industry has access to funds from within the country and international investors. Overall, the E-Commerce sector is maturing and a number of serious players are entering the market.

What differentiates the Indian E-Commerce market from that of a country like China is that while market concentration in China is largely on account of Alibaba-owned Taobao and Tmall (with these players holding a higher percentage of market share than the top players in most of the other major markets), in India the market share is divided amongst several ecommerce companies, each coming up with its own business model. As a result, customers have a wide range of products and services to choose from.

In my 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. How a company prepares itself to meet these challenges will decide whether or not it succeeds.

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