

Growth of E-Commerce in India

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Abstract

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.

Index Terms — *Ecommerce, Retail, Sales, Investment, Logistics, Internet Regulation.*

I. Introduction

The E-Commerce market has seen unparalleled growth since last year, It is expected that E-commerce[13] will become \$20 million by the year 2018. With increased use of smart phones ,tablets and internet, ecommerce 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 .Ecommerce is growing [1] in rural areas with most of the traffic coming from tier-2 and tier-3 cities. In July 2014 Amazon[3] invested \$2 billion in India, following the news of Flipkart raising \$1 billion in funding. There are lot of bigger companies in ecommerce market like Snapdeal,

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Flipkart, Amazon, Shopclues and 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 ecommerce companies are joining the competition. The customer is winning and there is pressure to deliver best to the customer.

II. What is E-Commerce?

E-Commerce is buying[21] and selling of goods and services or transmitting of funds or data, over an electronic networking, primarily the internet. These transaction occur either business to business, business to consumer, consumer to business and consumer to consumer. E-Commerce is done using applications EDI ,email, shopping carts, 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.

III. Key drivers of growth

The key factors enabling growth of internet are given as follows.

1. Rising standards of living in addition to it, there is an increase in annual household income.
2. Foreign Investors are funding ecommerce sector due to strong growth prospects.
3. Falling communication cost, large population subscribed to internet broadband and 3G.
4. Increased use of Smartphone, I-pad and tablets promote growth of ecommerce plus most of the spending comes from mobile devices.

IV. Market Growth Potential

India has greater prospect of market potential with E-Commerce industry growth doubling every year .The sector has grown in E-Travel which accounts of 70% of total commerce. E-commerce[1] caters the need of young population which are under age of 34.Morgan Stanley noted that the market of E-Commerce will rise to \$137 million by the year 2020. India's annual household income has increased in the fiscal year 2015 of the total 246 million

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household in India .The statistics indicate that household income is expected to reach \$3823 in 2015 and become \$6790 in 2020.India's E-Commerce market is on route to become largest market in world.

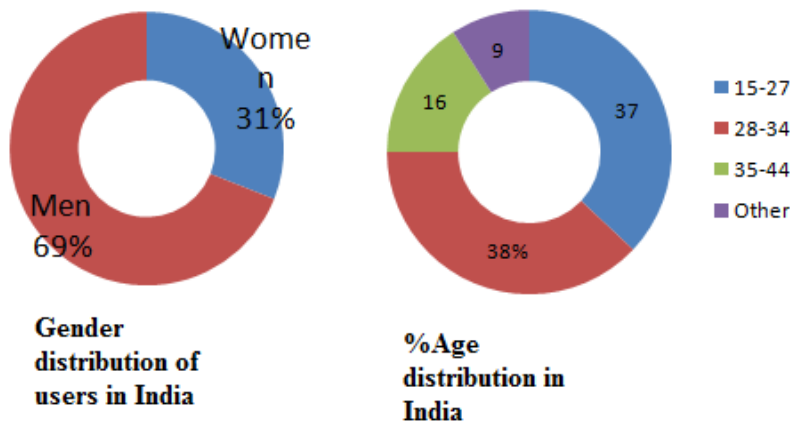


Figure 1 a. Gender distribution of users in India b. % Age distribution in Age .(Source :Statistica 2015)

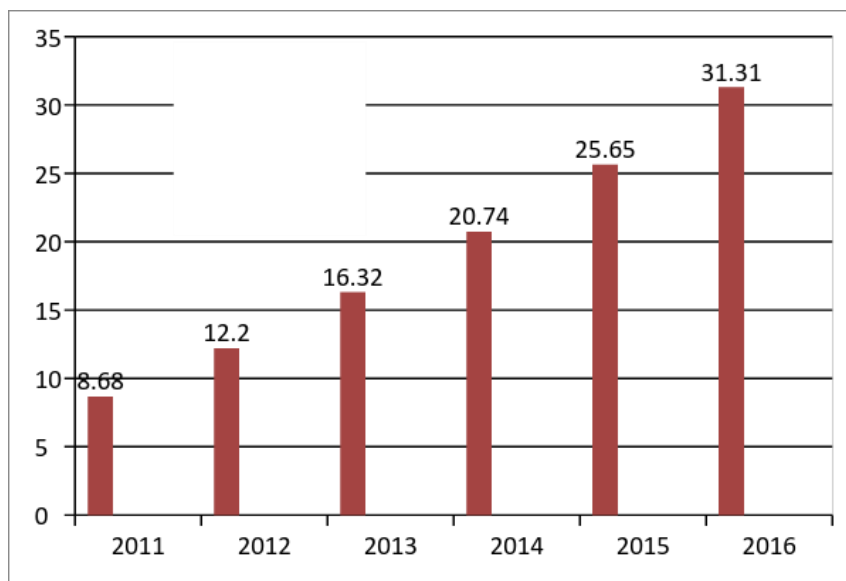


Figure 2 :B2C sales in India from 2011-2016 e-commerce sales in US billion dollars,r (source: Statistica 2015)

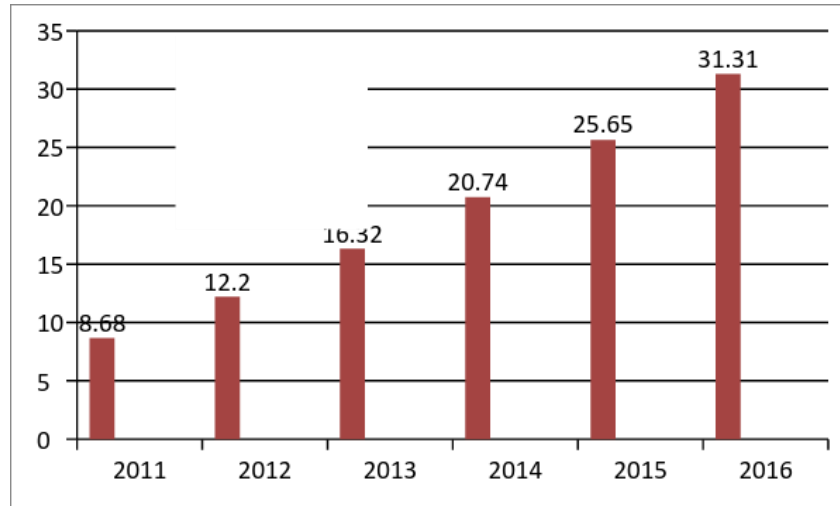


Figure 3: Digital buyer penetration in % (Source:Statistica 2015)

We can clearly see from Fig 1 that the buyers are from the age distribution between 15 to 27years. Most the young population is interested in gadgets, fashion and travel etc. In the next figure 2 we can clearly see that B2C sales have leapfrogged since 2013 and it is expected to become \$31 billion US dollars in the year 2016. Digital buyer penetration is shown in next figure .The figure is expected to become 29% by year 2017.As more people are buying smart phone, tablets and they have easy access to internet and 3G.The use of smart phone and tablets growth will continue to grow every year .India has more than 100 million users and its shipment from US has doubled since last year. Morgan Stanley noted that size of ecommerce is bound to rise to \$ 137 billion by the year 2020.Indian ecommerce is maturing ,international interest of DST, Global Soft bank have invested in commerce platform. In February 2014 online fashion retailer Myntra raised \$50 million from investment company of Azim Premji chairman of Wipro .Flipkart acquired Myntra for a whopping 200 crore .

V. Investment

Since last year commerce industries have secured over \$3.9 billion investment from venture capitalist and private equity firms and internal funders. Chinese E-Commerce company Alibaba group holding and its partner Zhyian mutually invested about \$575 million in One97 communication Limited also known Patym. At present Patym[19] is doing billion Gross Merchandise values which is huge sum for any ecommerce done by any Indian company. Paytm offers mobile payment, plus it allows customer to buy tickets ,deals and shop from its

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1800 merchants in its network .After Alibaba investment Paytm got grant from Ratan Tata for an undisclosed amount .In December 2014 Japanese internet giant Softbank said that it aimed to invest \$10 billion in India in the next few years. It already owns 30% stake in Snapdeal and Housing.com .Earlier it invested about \$20 million in Alibaba in year 2000 which is now valued about billions of dollars. New York firm Tiger Global management had funded in companies such MakeMyTrip, Search portal JustDial, Flipkart ,Myntra and Quickr. In present scenario start-ups that were funded by promising investors have become prosperous enough to give stiff competition to international companies who want to make customer base in India.

VI. Retail Market

The online retail market is increasing at the rate of 3% of the complete commerce industry. E-Travelling companies are taking the lion share of total ecommerce market which is about 70% of total commerce. This size is expected to increase further to about \$17.32 billion. The retail market is in growing stage and its customers are expected to reach 300 million shoppers within 10 years. Most of the people prefer cash on delivery which is a challenge for the growth of retail industry. Increased credit and debit card penetration with high value of expenditure is expected to reach \$350 million for fiscal year 2015. Online retailers are also offering installment payment for customers. Banks have tied up with electronic commerce companies and are giving EMI(equated monthly installment) alternatives to customers on purchase of electronic goods. Credit card usage has gone up 24% in 2014 at end of December. One advantage of credit card usage for banks is that it creates heavy income for them as they charge penal interest for dues beyond the fixed period .Last year India Post has done transaction of worth \$280 crore in Cash and delivery segment for ecommerce firms like Amazon, Flipkart and Snapdeal alone.

VII. Logistics Infrastructure

Some E-Commerce companies have built in logistics component such as E-Kart of Flipkart ,Amazon logistics of Amazaon. Third party logistics companies benefit from increase in number of orders. All logistics firm charge hefty amount for cash on delivery purchases which increase customer cost. Delhivary[18] logistics had received fresh funding from multiple investors in this year. Indian logistics need to improve their reach to customers by expanding outside major cities. Most of international companies have their own logistics department which are funded by government eg China ,which is not in case of India. Another

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important hurdle is airplanes availability for supply chain. During festival season numerous shipments pile up at airport as a result delivery cannot be done at scheduled time. Delivery of goods is uphill task in a country like India where there are millions of customers having multitudes of zip code. It includes lot of paperwork for good to move from one state to another.

VIII. Internet Regulations

Foreign Direct Investment is 49% in multi brand retail but with restrictions .The Indian government does not allow foreign investment in online retail companies that sell goods directly to customers. The government allows FDI in only Indian owned companies .This move has forced Amazon to abandon its inventory model and shift to electronic marketplace model. India permits 100% FDI in B2B commerce but not in B2C commerce. Kerala Commercial Taxes department had issued notice to Flipkart ,Jabong ,Myntra ,Alibaba and to many other companies . Flipkart alone paid tax amount to Rs 226 crore in this year. In May 2015 the Karnataka[20] government pledged to investigate tax invasion by several ecommerce companies which caused the state exchequer loss of Rs2000 crore.

Uber a US based taxi service application came under scanner for not paying tax. Online sale of prescribed drugs and medical store are unable to abide by Indian laws. There are many technical legal requirements pertaining to security requirements such as piracy, confidentiality ,data protection, cyber law diligence that are required to be followed by all ecommerce companies . There is need for greater discussion about how new age companies can fit into Indian ecommerce space ,as India has become significant for global operations. There is an urgent need for introducing suitable provision for tax regulation and predatory pricing for Indian and international companies.

IX. 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.

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2. Security, privacy breaches and fictitious transaction issues need to be focused as e-commerce 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 e-commerce 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.

X. 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 Rs36,000 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 more 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 e-commerce to new horizons that will change online retail markets in future.

XI. Conclusion

Internet connectivity has become basic obligation in not only urban cities but also in rural ones. The rapid growth of e-commerce is challenged by legal hassles, logistics and many

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factors which need to address early.

- 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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