

CONSUMER FACING E-COMMERCE IN INDIA: A HOLISTIC BUSINESS PERSPECTIVE

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ABSTRACT

The invention of internet and e-commerce in the midnineties, and subsequent rebirth of e-commerce in India have led to growth in e-commerce in India recently. This article at the outset profiles the e-commerce environment in India comprising computing devices, internet infrastructure and internet user demographics. Then it attempts to profile e-commerce business in terms of sectors served and business and revenue models used. Next, profile of e-commerce support systems i.e. payment modes, order fulfillment and logistics is attempted. Issues relating to competition in the industry and funding are discussed. The article ends with tracing the future of the industry in India. Throughout the article, wherever possible comparisons are drawn between India and China and India and other BRIC countries. The study aims at bridging the gap between the Indian e-commerce businesses in the real world and e-commerce concepts in text books, by providing a holistic business perspective of the sector. This is an exploratory study based on several survey and industry reports at Indian and global level.

KEYWORDS: E-Commerce, E-retail (E-tail), Payment Methods, Business Models, Revenue Models.

Introduction

Since, the invention of internet and e-commerce in the mid nineties, e-commerce has been making rounds in India for over two decades. In the recent past, things have taken a definite shape. Factors like favourable demographics, accelerating internet access, staggering penetration of mobile and smart (internet enabled) phones and robust investment have driven growth in this industry, and India is becoming one of the world's fast growing e-commerce markets. The entry of global giant Amazon has taken the competition to a new level. Here we are stating about consumer facing e-commerce, (B to C and C to C) the business to business (B to B) e-commerce is excluded from our purview in this article. Consumer facing e-commerce involves different sectors like online travel, online retail, online financial services, online classifieds and the like. Of all these, online retail, also called e-retail or e-tail attracts the attention since it is growing fast in the recent past and also is complex.

Review of Literature and the Present Study

Mitra A (2013) presents a compressive view of e-commerce in India with specific reference to types of e-commerce, market size, barriers to e-commerce. Kaur P and Joshi M.M. (2012) is a study similar to the above, but also discusses privacy issues. Malhotra B (2014) discusses advantages of e-commerce and gives some statistics about the same. Waghmare J.P. (2012) is about types of e-commerce, prevailing regulations and it gives some relevant international statistics. Sarode (2015), Upasana et al (2014), Kaur et al (2015), Chatterjee et al (2014) are about an overview of Indian e-commerce scenario, with special reference to market size, drivers and the like. Such attempts are necessary periodically, since the sector is constantly evolving. An attempt is made in this paper to present an overview of the consumer facing e-commerce in India from the perspective of some additional select business issues like business funding, competition in the sector, and the like. It does not cover

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technology issues like security and many others and business issues like marketing, policy issues and the like.

Objectives and Methodology

The study starts with distinction between e-commerce and traditional commerce. Then it proceeds:

- To describe the e-commerce environmental factors, a profile of e-commerce industry and business and revenue models of e-commerce industry in India.
- To describe the e-commerce support systems viz. payment modes, logistics issues, and to identify issues relating to competition and private equity funding.
- To describe the future of e-commerce in India.
- This is an exploratory study based on secondary sources like survey and industry reports- Indian and global- prepared by industry associations like Assocham, multinational consulting firms like PwC and the like. Throughout the article, wherever possible comparisons are drawn between India and China, India and other BRIC countries.

E-commerce and Traditional Commerce

WTO (World Trade Organization) defines e-commerce as follows:

'An e-commerce transaction is the sale or purchase of goods and services over computer mediated networks (broad definition) or internet.' (Fredriksson 2013).

E-commerce has vast and global reach. It offers information richness and convenience (consumers can shop anywhere, anytime, 24/7). Personalization, customization and social media interaction in e-commerce are possible (Laudon and Traver, 2017). In a global survey it is found that 46 per cent of the respondents buy online because of the convenience it offers, 32 per cent use it since it is easier to compare and research products. 25 per cent of the online purchases are for goods which could not have been purchased locally (PwC 2015, Global Survey). Other benefits of e-commerce are 'better product information than in store', 'social media interaction possible' and the like. 52% respondents use Face book regularly as a part of their shopping activity. Low price advantage, discounts, easy returns also are quoted as benefits in that survey.

In the words of Jeff Bezos, the founder CEO of Amazon.com, 'In e-commerce, we trade real estate for technology. Real estate, the key cost for physical retailers gets expensive by the day, land being a scarce resource. Technology gets cheaper and cheaper very fast.' (Krishnamurthy, 2004) As of now traditional commerce and e-commerce coexist. In the above referred survey, 60 per cent of the respondents buy in a store since they can 'touch, feel and try the products'. Other benefits of 'in store commerce' are in store ambience, special customer events, self service etc.

E-Commerce Environmental Factors

Following are the factors which have favourably impacted e-commerce scenario in India.

- **Computing Devices:** Sustained growth of above 7% in the gross domestic product, which India has attained from 2003-04 onwards, falling prices of computing devices and the falling prices of internet services have contributed to penetration of devices in India. Computing devices relating to consumers in India today consist of personal computers (desk tops) (ie PCs) and laptops (market share- 3%), smart (internet enabled) phones (market share- 94.7%), other mobile devices like tablets etc (market share -2.3%). Of these except the PCs all are mobile devices. As of 2015, India is home to about 305 million internet enabled computing devices. Of these 289 million are smart phones (Statsia website).
- **Internet Infrastructure:** To-day's internet can be categorized as fixed and mobile. With reference to fixed internet, in terms of accessibility and affordability, China fares better as compared to India. Online shopping using mobile handsets i.e. smart phones, tablets i.e. m-commerce is increasing and is enlarging the e-commerce market. M-commerce is expected to account for almost 50% of all e-commerce by 2018. (PwC global 2016).

The time spent online using mobile (smart device) by Indians is among the highest. However the same is not resulting in online shopping. In terms of mobile internet speed and value of m-commerce transactions, China is much ahead of India.(E&Y 2015) (see table-1). In India, in addition to internet speeds the user experience on mobile websites and mobile

payment services need to improve. Shopping using mobile apps is proving to be a game changer, (Myntra shifted to the 'only mobile apps' route and deleted its website) (Assocham 2015). Programmes relating to National Telecom Policy-2012 implementation like National Optical Fibre Network are adding to internet infrastructure. The e-commerce space is going to be impacted by the strategies of players in the telecom sector, ex-pricing strategy of Reliance Jio has favourably impacted the smart phone population and internet penetration.

- **Internet User Demographics:** 75 percent of internet users in India are below the age of 35 years and the corresponding number in China is 59 percent. The median age of digital shoppers in India is 25.8 years. (IAMAI, 2016) But there are more women internet users in China as compared to India. (see table-2). This demographic information is an input to e-commerce players.

Indian E-commerce Industry—Profile, Business and Revenue Models

An overview of Indian e-commerce scenario is presented in fig-1. Online travel forms the market leader of e-commerce industry. Then come e-retail, e-financial services and e-classifieds. (Deloitte 2014).

Coming to aspects involving relationship between transaction parties (called the business model), most of the e-commerce businesses are B to C. In this model, many e-commerce players act as aggregators, where micro, small and medium industries are able to connect with ultimate consumers. In such business models, e-commerce provider offers online platform to merchants to gain better visibility. They also provide market intelligence to better target their products and services compared to competition ex. Snapdeal has 1,00,000 plus small and medium businesses doing business on its platform. While e-commerce is still growing in urban markets, exponential growth is being driven by tier 2 (population 50,000 to 99,999) and tier 3 (population 20,000 to 49,999) cities (RBI classification). For ex. at Snapdeal, 70 per cent of the consumers are from tier 2 and 3 markets and 12 per cent among these are from North Eastern region. (Assocham 2015). We also have online C to C classifieds model. We have examples like Quicker, Olx. Online-classified models are also used by job portals, matrimonial sites, real estate and automobile. Commission on sales is a popular revenue model (method of revenue generation adopted) by e-commerce players. IRCTC (Indian Railway Tourism and Catering corporation) earns 60 per cent of its profits from commission on ticket sale (Assocham 2015). Advertising revenue models are also used. Flash sales i.e. limited time offers or offers in limited quantity is, used to clear stocks. Subscription models are used not only by media companies but also by cosmetics and food companies (Assocham 2015). Most e-commerce players are working towards seamlessly integrating all consumer touch points—mobile phones, desktops and tablets. Online and offline stores are offering complementary benefits. Omni-channel i.e. coming together of offline and online retail is need of today.

E-commerce Support Systems

Here we discuss payment methods, logistics and order fulfillment cycle,

- **Payment methods:** Indian e-commerce players offer several payment options such as Cash on Delivery (COD), credit cards, debit cards, net-banking and mobile wallets. COD is the most popular method. (see table 3).

Real revolution in the payment landscape will come from the growth of mobile wallets (Ex Paytm, Mobikwik) which are still in a nascent stage in India. These facilitate the convenience of digital transactions and enable the unbanked customers to conduct online transactions. The demonetization drive by the Government of the day has given an unexpected push to the digital payments. NPCI (National Payment Corporation of India, a RBI initiative) is playing a proactive role in enabling digital payments. The mobile app UPI (Unified Payment Interface) of the NPCI enhances the interoperability of various mobile payment methods and is well accepted by global players like Google and Amazon. NPCI has also designed an Aadhar enabled payment system among other things. (BCG 2016).

The BCG—Google report on digital payments is very optimistic about digital payments in India. It says 'In India, the digital payments will drive consumption not the other way round.' (BCG 2016). Chinese e-commerce players use a third party escrow based online payment solution. Under this, the payment is released to sellers only when consumers confirm the delivery of the product. In Russia consumers use the 'payment on delivery to the post office' (Ernst & Young 2015).

- **Logistics and Order Fulfillment Cycle:** Logistics and order fulfillment systems are critical in e-retail, whenever the product bought is a non-downloadable product like a book. Efficiency in logistics management adds to keeping operational costs down. High delivery charges, delays, errors are barriers to e-commerce in India as compared to other BRIC countries. We can learn from the following experiments.

Warehousing design and automation: One of China's leading online direct sales companies launched an automated warehouse in 2014 which helped the company to sort more than 16,000 packages per hour with an accuracy of 99.99 per cent (Ernst &Young, 2015).

Returns: Challenges associated with product returns were addressed by a regulation passed by China in 2014. The regulation requires the e-commerce players to offer a seven day unconditional returns policy, but makes customers responsible for return charges. This protects consumer rights and eliminates the possibility of unnecessary return cases by consumers. Indian e-commerce players can follow Brazilian model of purchase online and collect at post offices or other designated places. (Ernst & Young, 2015).

E-commerce Funding, Valuation, Competition and Consolidation:

Digital commerce is attracting investors from within and outside the country. Both the fund managers and online players are optimistic about profitability of the e-commerce ventures in the long-term. The industry is in the process of building long-term relationship with suppliers and customers. It is in introductory phase and moving to growth phase in India. Hence, the companies are mainly aiming at customer acquisition adopting different strategies like discounts, easy returns and the like which are leading to huge losses.

The investments by private equity funds are driven by high valuations. Flipkart raised \$19 billion despite incurring heavy losses. Private equity players have been till recently valuing e-commerce businesses based on value of merchandise sold (called Gross Merchandise Value or GMV) and hence business growth and not on profitability. Of late the focus is selectively shifting to profitability. For large players like Flipkart it is still business growth. (We should note that in the growth phase of industry the preferred strategy would be business growth. Only in maturity stage, the focus would shift to profitability).(Singh,2017) According to Damodam (2009) the valuation methods used by private equity funds are flawed. There is intense competition in the space of digital commerce. There have been hectic merger and acquisition activities, driven by need to eliminate competition and to add complementary services. Flipkart acquired Myntra, Ola cabs acquired Taxi for sure for eliminating competition. Free charge, a payment service was acquired by Snapdeal. The industry is expanding and also consolidating. (Assocham 2015).

Future of E- commerce in India

The forces that are shaping the e-commerce industry in India are mobile technology, private equity players and competition in the industry. The future will be about businesses that innovate business and revenue models in mobile environment which can sustain the unit and lead to profitability in the long run.

Conclusion and Implications

This article provides an overview of opportunities and threats in the e-commerce industry. It helps e-commerce businesses in identifying gaps in the space and positioning themselves successfully. It also helps policy makers in designing policies to support the sector. Finally it helps the academicians to have an overview of consumer facing e-commerce. Here it aims at bridging the gap between e-commerce concepts described in text books and e-commerce businesses as they exist in the real world so as to enable and motivate researchers to address the priority research needs of the sector.

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(All the online resources were retrieved between 26th and 28th October, 2017)

Table 1: Details of internet infrastructure-India, China Comparison.

	India	China
Average fixed data connection speeds in Mbps	2	3.4
Fixed broadband price as a % of GNI per capita	3.66%	3.54%
Average mobile data connection speeds in Mbps as of 4Q 2014	1.9	5
M-commerce (us \$ billions)	0.6	140

Source: Digital, Social and Mobile 2015, We are social Jan 2015. Quoted in Ernst &Young, 2015

Table 2: Internet user Demographics– India, China Comparison

	India	China
Internet penetration	19%	46%
Internet user base under the age of 35	75%	59%
Rural / Urban split	37% / 63%	28% / 72%
% of women internet users	39%	45%

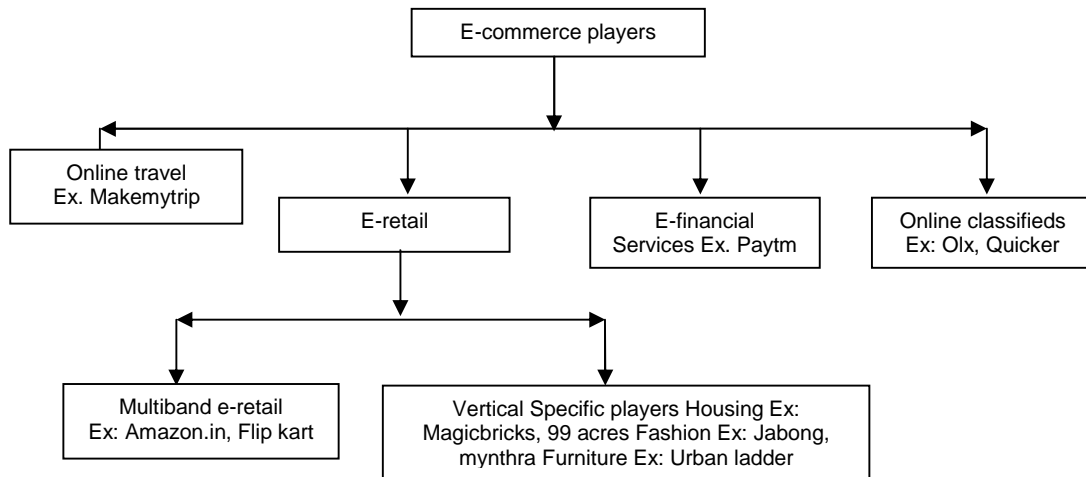
Source: Internet Live Statistics Quoted in Ernst &Young. 2015

Table 3: E- Commerce Payment Methods

Mode of Payment	Percentage usage
Cash on Delivery	45.27%
Credit Cards	16.3%
Debit Cards	21.21%
Net Banking, Mobile wallets and others	17.24%

Source: Internet and Mobile association of India reports, quoted in ASSOCHAM, 2015

Fig 1: E-commerce Players



Source-author

