

CONTRIBUTION OF E-COMMERCE IN GROWTH AND EXPANSION OF RETAIL INDUSTRY

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ABSTRACT

Just as a tree provides essential support for the growth of vine, e-commerce serves a crucial role in the expansion of the retail industry. In a business model, the focus typically revolves around where the business operates, what it sells, distribution channels, and revenue sources. The internet has significantly impacted all these aspects, reshaping business strategies. The online environment has broadened the market scope, allowing consumers to access products and services globally. In India's retail industry ranks fourth worldwide, contributing 10% to the country's GDP. The liberalization of the economy in the 1990s, coupled with the Information Technology Act of 2005, spurred the growth of retail by fostering vertical integration among companies to reach a larger customer base. In this dynamic landscape, retailers are harnessing the potential of the industry by incorporating advanced technologies like artificial intelligence and customer relationship management tools. These innovations enable data analysis and enhance customer engagement, propelling the retail sector forward. India, known for its rapid adoption of technology, has embraced e-commerce as a result of continuous technological advancements. The shift towards electronic data exchange has been particularly prominent, with e-commerce becoming a prevalent method of business transactions. Furthermore, the emergence of social commerce and live commerce, a subset of e-commerce utilizing social networks and digital media for business-to-customer transactions, has gained significant traction. This paper aims to highlight the significant contribution of e-commerce to the flourishing growth of the retail industry, showcasing how technological advancements have shaped the business landscape.

Keywords: E-commerce, Retail Sector, Social Commerce, Live Commerce, Trends.

Introduction

Retail

The word 'Retail' originated in 1365 as derivative of the French word "Retailer" meaning cutting off, clip divide'. It was only 1433 when for the first time it was recorded for the meaning of 'sale in small quantities.'¹ Retail in India originated with the Mom and Pop Stores and Kirana Stores, which used to cater to the requirements of the local population.

The retail industry in India is segmented in India as:

- Organised Retail
- Unorganised retail

The Indian retail sector is fragmented, consisting of small independent owner managed shops accounting for 97% of retail sector and remaining constitutes the organized sector.²

Indeed, the traditional retail sector, often referred to as "unorganized retail," plays a significant role in the Indian retail industry. This segment is characterized by small-scale, locally owned businesses that operate in various forms, including small cabins, hand cart hawkers, pavement vendors, Kirana stores, chemists, and provision stores. These businesses are scattered throughout the country, occupying almost every street and corner in urban as well as rural areas.

Organised retailing actively started with the entry of shoppers stop, westside, Pantaloons, Pyramid-Crossword all being department store format in the mid to late 1990s and was absent in most rural and small towns of India till 2010.

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E-commerce

E-commerce is use of the internet, the web, and apps to transact business. More formally, digitally enabled commercial transaction between and among organizations and individual. Economist Paul Romer believed technology to be an integral driver of growth. Discovery and innovation are perceived to be more important to competitiveness than manufacturing.³

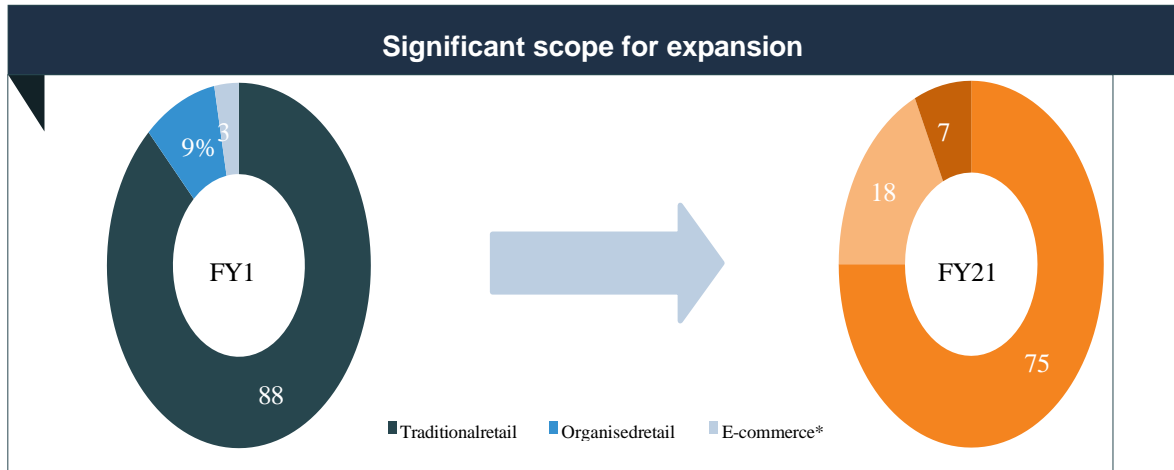
Due to rise in the usage of Smart phones and its related penetration with the launch of High Speed 4G and 5G Networks, it been found that the Indian online market is expected to grow very fast and rapidly reaches close to US\$ 190 billion by 2025. Due to this impact, E-commerce Platform attracts a greater number of customers predominately from major metropolitan cities of India. With the increasing awareness of e-commerce, the customers started to understand the benefits and there by focused on towards using it in a significant manner.⁴

Depending on the participants involved in buying and selling, it can be classified into four categories

- **B2B:** It involves transactions between businesses, such as between a manufacturer and a wholesaler, or between a wholesaler and a retailer. B2B transactions primarily involve interactions between industrial manufacturers, partners, retailers, or among companies. Business-to-Business encompasses the entire range of electronic commerce activities that take place between two organizations. Among other activities, B2B ecommerce includes purchasing and procurement, supplier management, inventory management, channel management, sales activities, payment management, and service and support. According to Recent report by Redseer, India's B2B market is projected to reach a GMV of US\$ 100 billion by 2030.⁵ Some of the key B2B exchanges in India are IndiaMART, Amazon Business, Alibaba, ExportersIndia, Flipkart wholesale, Udan, TradeIndia.
- **B2C:** Business-to-Consumer, entails the selling of products by either online i.e e-commerce businesses or traditional brick-and-mortar retailers utilizing their online sales platforms to reach individual consumers. Direct selling to consumers via ICT network helps small and medium businesses reach greater mass (both domestically and internationally). While business-to-business transactions hold significance in the e-commerce market, a notable portion of e-commerce revenues in developing nations such as India is derived from business-to-consumer transactions. Business-to-Consumer e-commerce refers to exchanges between businesses and consumers, e.g., Amazon, eBay, Netflix and Flipkart. In India, online services like ticketing, banking, tax payment, bill payment, hotel room booking, entertainment, online games, matrimonial sites, job sites, etc. are showing signs of development in business-to-customer transactions. There has been tremendous boost in the online business with the stock exchange coming online. Online valentine gifts and Diwali gifts are also becoming popular along with the birthday cakes. Certainly, the overall worth of B2B transactions surpasses that of B2C transactions. This is primarily due to the fact that B2B transactions are generally of considerably higher value compared to B2C transactions. It seems that the B2C market in India will take time to grow as compared to the B2B market.
- **C2C:** It is the modern-day trade where classified advertising section in a local newspaper or online portal is used to sell products (both new and used) by individuals to individuals. C2C sites don't form a very high portion of web-based commerce. Most visible examples are the auction sites. Basically, if someone has something to sell, then he gets it listed at an auction sites and others can bid for it. Consumer-to-Consumer exchanges involve transactions between and among consumers. These exchanges may or may not include third-party involvement as in the case of the auction-exchange. C2C exchange platform in India are eBay, OLX and Etsy etc.
- **B2G:** This is similar to B2B except the fact that buyer in this case is a government entity. B2B examples include construction of buildings, highways, and infrastructure. B2G business can enjoy tax benefit not common to other E-commerce merchants. It increases flexibility and efficiency in public administration.

Objective of the Study

- To understand contribution of E-commerce in growth of retail industry
- To study retail market size across India
- To understand recent trends in E-commerce
- To understand government and private initiative influencing E-commerce

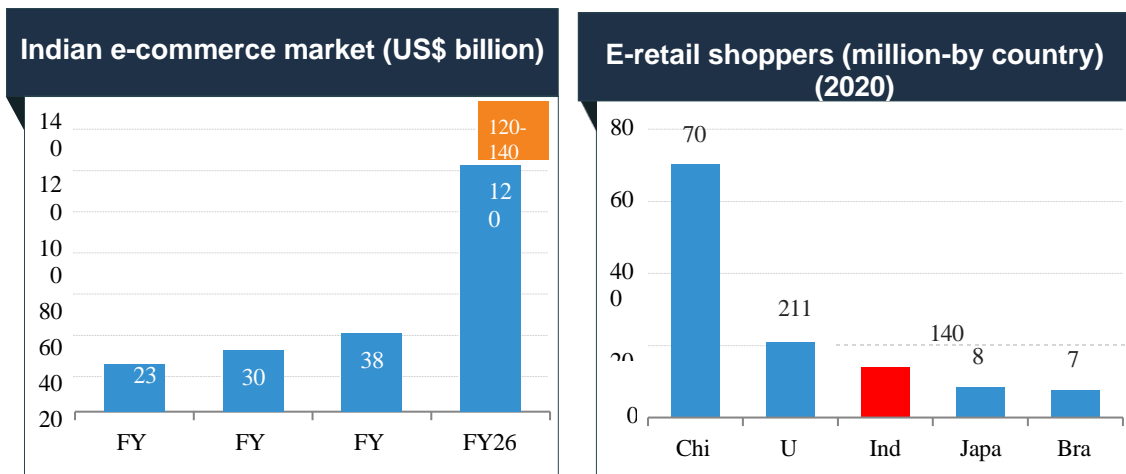


Organised Retail in Nascent Stage

Source: <https://www.ibef.org/industry/retail-india>

The retail landscape in India is largely decentralized, with approximately 97% of businesses falling under unorganized retailers, including traditional family run stores and corner stores. Organized retail is still in its early stages, constituting about 9% of the market in FY19, while traditional retail holds the majority share at 88%. The e-commerce sector, representing 3% of the market, is projected to exceed the US\$ 350 billion mark by 2030, with a compound annual growth rate (CAGR) of 23%. The organised retail market in India has 12% share of total retail market and has a growth rate of 10% over 2021 to 2032. The rising demand for organized retail spaces has resulted in a capacity of around 120 million square feet in major Indian cities, including Delhi and Mumbai. Despite the dominance of unorganized retail, there is substantial potential for digital payment adoption in this sector. About 63% of retailers in the unorganized segment express interest in using digital payment methods such as mobile and card payments. Fintech companies are actively competing for a presence in local stores, offering various services. For instance, in May 2020, Paytm introduced a US\$ 1 billion loyalty program and initiated online ledger services for Kirana stores in India. Other fintech players like PayNearby, Phonepe, BharatPe, and Mswipe have also introduced services to facilitate digital payments and improve delivery options for small shop owners. Major e-commerce players like Amazon have partnered with local stores to provide a platform for small shops and merchants on their marketplace. Similarly, Walmart operates a network of 28 'best-priced' stores, catering to local stores across the country.⁶

Rising Prominence of Online Retail

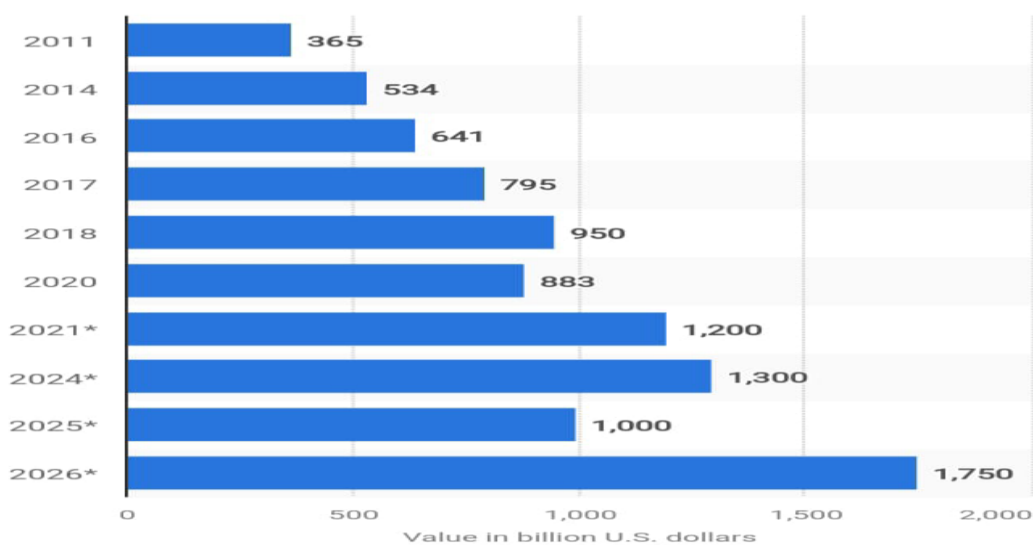


Source: <https://www.ibef.org/industry/retail-india>

According to recent industry reports, the e-commerce sector in India has experienced remarkable year-on-year growth, witnessing a staggering increase of 36.8% in terms of order volumes. The consistent shift in consumer behaviour with a preference for online shopping year-round, reflects the advanced level of maturity achieved by e-commerce brands in India. This evolving trend highlights the established and enduring status of these digital platforms in meeting the diverse and ongoing needs of consumers. Projections suggest that the E-Commerce market could achieve a Gross Merchandise Value (GMV) of US\$350 billion by 2030.

As consumers increasingly embrace online shopping and key players in the consumer goods and retail sectors invest more in the digital space, the GMV for India's e-tailers reached US\$60 billion in the fiscal year 2023. Forecasts for India's digital economy anticipate it to reach US\$800 billion by 2030. Currently, online retailers extend their delivery services to 15,000-20,000 pin codes out of nearly 100,000 in the country. Despite the challenges posed by the pandemic, the festive period in 2020 saw notable success, with Amazon, Flipkart, and other vertical players collectively selling goods worth US\$9 billion. The online shopping in India is expected to see a substantial increase, with projections estimating approximately 500 million online shoppers by 2030, compared to just over 150 million in 2020. In 2021, daily e-commerce transactions reached 1.2 million, contributing to a total digital transaction value of US\$300 billion. It is anticipated that this value will escalate to US\$1 trillion by the year 2026.⁷

Retail market size across India from 2011 to 2020, with estimates until 2026

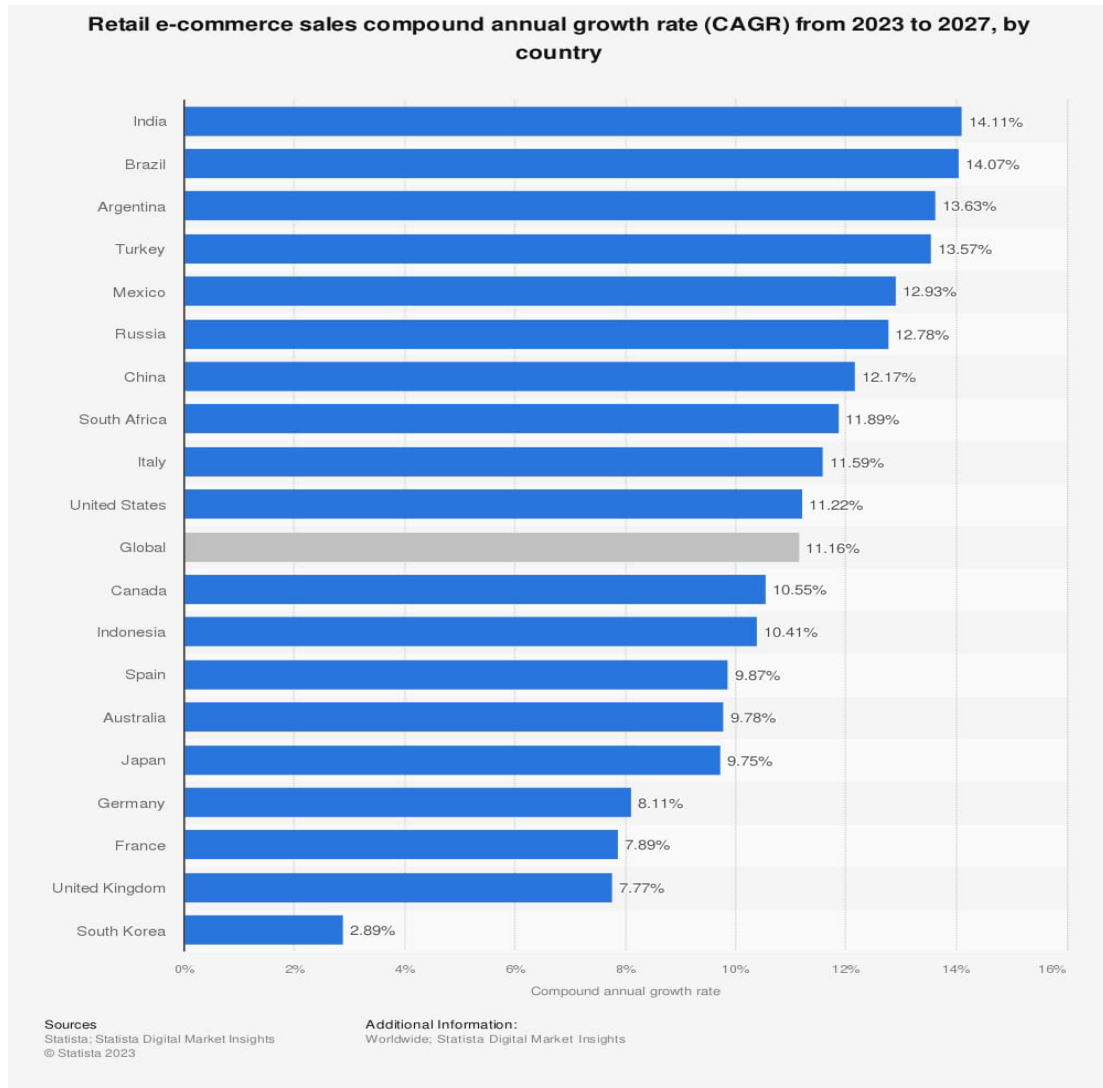


Source: <https://www.statista.com/statistics/935872/india-retail-market-size/>

The retail market size in India was projected to reach 1.7 trillion U.S. dollars by 2026, a significant increase from the 883 billion dollars recorded in 2020. Although there was a general upward trend until 2019, the year 2020 witnessed a decline in the wake of the coronavirus pandemic. Despite this setback, India stood out among a few countries by demonstrating growth in retail sales during 2020. The country's retail landscape, characterized by a prevalence of unorganized retail, particularly through Kirana stores, has been undergoing a transformative shift, a process that is still ongoing.

The introduction of larger retail spaces like malls and supermarkets, coupled with the expansion of online commerce, has been instrumental in reshaping India's retail sector. Despite these changes, Kirana stores have maintained their dominance in the Indian retail landscape, embracing digitalization and collaborating with major players in the industry. Grocery retail holds a substantial share, contributing to 65% of India's overall retail market. However, only a small fraction of this is attributed to online or modern retailers. The onset of the COVID-19 pandemic in 2020 provided a significant impetus to online retail, especially in the e-grocery segment. With physical stores facing availability issues, online grocers such as BigBasket successfully filled the gap in the market, gaining traction as consumers turned to digital platforms for their grocery needs.⁸

E-commerce retail sales CAGR 2023-2027, by country

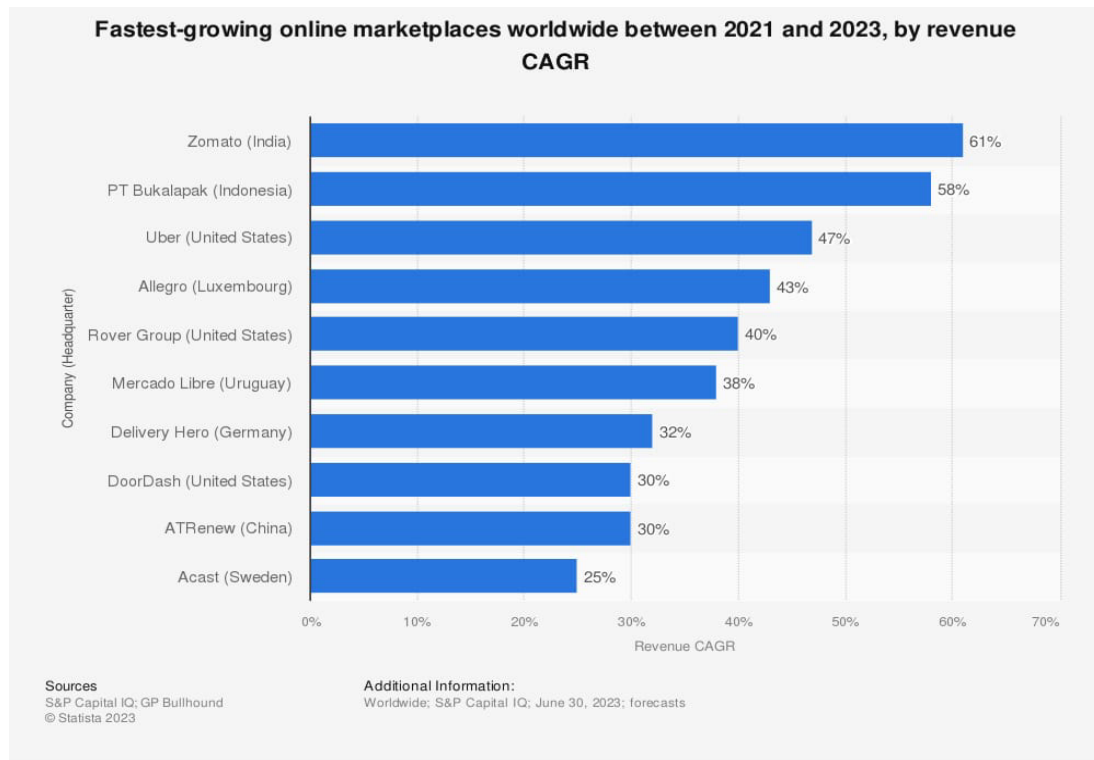


Source: <https://www.statista.com/forecasts/220177/b2c-e-commerce-sales-cagr-forecast-for-selected-countries>

As per recent industry assessments, India is anticipated to secure the top position among 20 countries globally in the development of retail e-commerce from 2023 to 2027, boasting a robust compound annual growth rate (CAGR) of 14.1 percent. Presently valued at 63.17 billion U.S. dollars, the Indian e-commerce market is experiencing significant growth. Argentina and Brazil are also noteworthy contenders, positioned among the fastest-growing e-commerce markets on a global scale, with an impressive CAGR exceeding 13.6 percent. In comparison, the global retail e-commerce CAGR is estimated at 11.16 percent over the same period.⁹

Projections indicate that by 2027, the value of the Indian online retail market will exceed the 100 billion U.S. dollar mark. While this forecasted growth is remarkable, it's important to note that several e-commerce markets globally are considerably larger than India's. For instance, the U.S. e-commerce market is approaching the trillion-dollar mark, overshadowing India's online shopping market by a significant margin. Assessing the penetration rate of e-commerce in a country, the Average Revenue Per User (ARPU) serves as a valuable key performance indicator (KPI). In India, the ARPU is approximately 77 U.S. dollars as of 2023. In contrast, neighboring China boasts an ARPU more than 10 times higher, nearly reaching 1,200 U.S. dollars.¹⁰

Leading online marketplaces worldwide 2021-2023, by revenue CAGR



Source: <https://www.statista.com/statistics/1039587/leading-online-marketplaces-by-cagr/>

According to a June 2023 study, India-based online food delivery platform Zomato would have the highest revenue growth in the online marketplace sector, with a 61 percent Compound Annual Growth Rate (CAGR) from 2021 to 2023. Indonesian e-commerce company Bukalapak ranked second with a CAGR of 58 percent. Uber and Allegro came next, with a 47 and 43 percent increase, respectively.¹¹

Social Commerce

Social commerce, a rapidly expanding segment within e-commerce, leverages social networks and digital media to facilitate business-to-customer transactions. It encompasses a range of activities, including product discovery, reviews, ratings, sharing, transaction recommendations, and loyalty programs.

For retailers, social commerce presents numerous opportunities. Current investment in this channel is particularly appealing, given potential cost efficiencies in customer acquisition and retention. Collaborating with influencers also proves effective, as consumers are more inclined to trust a brand when endorsed by a familiar creator in the real world.

The upward trajectory of social commerce trends is advantageous for both retailers and consumers. The rising purchasing power of the younger generation, particularly Generation Z, is making a significant impact on social commerce.

In 2022, global sales conducted through social media platforms reached an estimated 992 billion U.S. dollars. The trend of online purchases through social commerce is expected to gain even more traction in the future. Projections indicate that the value of social commerce sales could soar to approximately 8.5 trillion U.S. dollars by the year 2030.

While the concept of social commerce is resonating worldwide, its adoption varies among countries. Notably, Thailand stands out as a leader in social shopping. In 2022, nearly 90 percent of internet users in Thailand engaged in purchasing through social networks. Following closely is India, where an impressive 86 percent of internet users are anticipated to be active social buyers.¹²

Live Commerce

The real-time virtual shopping experience is called live commerce. Live commerce has witnessed a surge in popularity in recent times, and this trend is anticipated to continue growing as companies increasingly leverage live streaming technologies for promotional and marketing activities. Digital shoppers find live commerce advantageous due to the attractive discounts offered, as well as the inspiration and ideas it provides.

Li Jiaqi, top online influencer who also known as King of Lipstick in China has sold 15,000 Lipsticks in just five minutes using live stream during a sales competition against Alibaba founder Jack Ma.¹³

In 2022, Facebook emerged as the leading social network platform for internet users engaging in product purchases during live streaming events. Similar to the trends observed in social commerce, Asian countries have taken the lead in embracing this highly interactive shopping experience. Notably, in 2022, over seven in ten consumers actively participated in live shopping events in countries such as Thailand, India, and China.¹⁴

Government and Private Initiative Influencing E-Commerce

Government and private initiatives play significant roles in influencing the landscape of e-commerce. Here are some key aspects of how both sectors contribute to the development and regulation of e-commerce as per E-commerce report August 2023 published by IBEF- India Brand Equity Foundation.

Bharat Net and Digital India

The BharatNet broadband initiative has set a goal to link 3,61,000 villages across 16 states by the year 2025. The Economic Survey of 2021-22 reports the installation of 546,000 kilometers of optical fiber cable, connecting 173,000 gram panchayats. In alignment with the Digital India movement, the Government has introduced several initiatives such as Umang, Start-up India Portal, Bharat Interface for Money (BHIM), and more to promote and accelerate digitization efforts.

E-commerce Draft Policy

The Draft of National E-Commerce Policy by the Government of India promotes Foreign Direct Investment (FDI) in the marketplace model of e-commerce. The policy is designed to establish a fair and equitable environment for all participants in the e-commerce sector. As outlined in the draft, the operation of e-commerce sites and apps in India requires registration as a mandatory requirement for entities. Additionally, during the initial seven months, the telecom provider provided users with complimentary access to high-speed internet services.

Permanent Account Numbers (PAN) Mandated

In October 2020, amendments were made to the 2016 equalization levy rules by the government, requiring foreign companies engaged in e-commerce operations in India to obtain Permanent Account Numbers (PAN). As part of the FY21 budget, the government introduced a 2% tax on the sale of goods or the provision of services facilitated by a non-resident e-commerce operator.

Udaan

Udaan is a B2B online trade platform to connect small and medium size manufacturers and wholesalers with online retailers. It also provides them logistics, payments and technology support. The platform has sellers in over 80 cities of India and delivers to over 500 cities.

Open Network for Digital Commerce (ONDC)

The Indian government has established a steering committee, initiated by the Commerce Ministry, to oversee the advancement of a government-backed e-commerce platform. This committee will be responsible for shaping the policy framework for the Open Network for Digital Commerce (ONDC), an e-commerce platform receiving support from the government. The ONDC is envisioned as the foundational infrastructure for establishing a comprehensive storefront, resembling platforms like Flipkart and Amazon.

Ecommerce Ecosystem

The Department for Promotion of Industry and Internal Trade (DPIIT) is reportedly planning to leverage the Open Network for Digital Commerce (ONDC) to streamline the onboarding process for retailers on e-commerce platforms. The focus is on establishing protocols for cataloging, vendor

discovery, and price discovery. The objective is to ensure a fair and level playing field for all marketplace players, enabling them to maximize their utilization of the e-commerce ecosystem for the greater benefit of the country and its citizens.

National Retail Policy

The proposed national retail policy of the government highlights five key areas, emphasizing the need for seamless integration between offline retail and e-commerce. These areas include facilitating ease of doing business, streamlining the license process, promoting the digitization of retail, prioritizing reforms, and establishing an open network for digital commerce. The intent is to address both offline and online retail in a comprehensive manner to ensure effective administration and overall development of the retail sector.

Government e-Marketplace Portal (GeM)

Government e-Marketplace (GeM) is an online platform for public procurement in India that was launched on August 9, 2016 by the Ministry of Commerce and Industry with the objective of creating an inclusive, efficient, and transparent platform for the buyers and sellers to carry out procurement activities in a fair and competitive manner. Through automation and digitization of processes, GeM has led to higher process efficiencies, better information sharing, improved transparency, reduced process cycle times, and a higher level of trust among bidders, which in turn have resulted in greater competition and higher savings. In FY23, the procurement of goods and services from the government portal crossed the Rs. 2 lakh crore (US\$ 24 billion) mark.¹⁵

Conclusion

This paper provides a comprehensive overview of the symbiotic relationship between e-commerce and the growth of the retail industry in India. The retail sector, despite being highly fragmented, is evolving with the integration of organized retail and the dynamic expansion of e-commerce. The government's initiatives and private players' innovations are driving this transformation, making India a key player in the global e-commerce landscape. The future holds tremendous potential for continued growth, with the adoption of advanced technologies in shaping the retail ecosystem.

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