

Online retailing: Key enablers and future in India

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Abstract

The onset of information and communication technology has changed the way of buying and selling products and services all over the world and India is also not lagging far behind. As a result the dynamics of the gigantic and vibrant Indian Retail Market is also transforming at a phenomenal pace. Technology is fast changing the traditional way of retailing from physical brick and mortar retailing stores to technology enabled online retail stores. Customers especially the generation next (age group 18-36 yrs.) are swiftly adopting the online channels for a variety of products ranging from consumer durables to apparel and accessories to day to day groceries.

This paper discusses the key enablers of the online retailing in India along with the challenges and the way ahead. The important technology enablers or the factors contributing the success of online retailing are deep internet penetration, innovative payment options, increased confidence in online transactions, use of smart phones for browsing internet and shopping. The key demographic enablers are the rising salaries of youths with more disposable incomes, nuclear families all leading to change in consumption pattern. Another key facet of online retailing is the challenges the industry is facing not only from the competition but also from the facts of low conversion rate, increasing cancellation and returns, slow internet connections and price shopping. The study tries to discuss the way ahead for the industry in the light of key enablers and the challenges. The study is based on the content analysis of the secondary data involving different research articles, reports and documents of private and government research agencies. The methodology thus includes the qualitative analysis of the available literature to extract the findings and drawing conclusions.

The reason for undertaking this study is very much obvious. Today online retailing or e-tailing is very pervasive and growing thick and fast. So much so, today it has started to threaten the traditional brick-and-mortar retail that many physical retailers have started to establish or beef up their online presence. If not all pervasive it is going to give quite a competition to traditional retailing. It is going to be a giant phenomenon in coming years. Thus in current scenario it becomes imperative to study the existing state of affairs in online retailing industry so that sufficient information is present for industry and researchers related to the key enablers or factors responsible for the success of online retail channels, the challenges faced by them and the way ahead for sustenance.

The study is organised into the following sections i.e. the introduction, objectives, methodology, discussions/findings and conclusions.

Keywords: Online Retailing, Technology/Demographic Enablers and Challenges in OR.

1. Introduction

1.1 Overview and Size of the Online Retail Market in India

The onset of information and communication technology has changed the way of buying and selling products and services all over the world and India is also not lagging far behind. As a result the dynamics of the gigantic and vibrant Indian Retail Market is also transforming at a phenomenal pace. Technology is fast changing the traditional way of retailing from physical brick and mortar retailing stores to technology enabled online retail stores. Customers especially the generation next (age group 18-36 yrs.) are swiftly adopting the online channels for a variety of products ranging from consumer durables to apparel and accessories to day to day groceries. These online channels are changing the buying experience of the consumers and getting them to be a part of virtual world existing in the environment. The electronic devices like laptop, smart phone, and tablets armed with Wi-Fi hotspot, self-enabled 3G and 4G connectivity speed are driving online sales like anything. The enormous potential of the Indian online retailing is very much evident by the growth and size of the domestic companies operating in the space and the efforts of the international players like Amazon and e-Bay to catch a pie.

Online Retailing or E-tailing is part of overall e-commerce market which spreads from online ticketing to online deals and financial services and specifically retailing. The below figure shows the standing of E-tailing among other e-commerce categories:

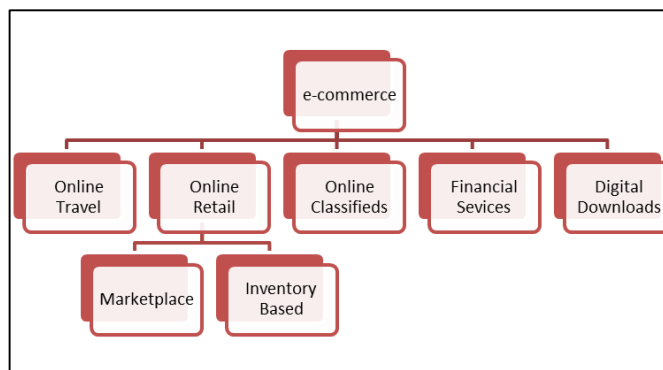


Fig 1: E-commerce Classification

Source: Deloitte and ASSOCHAM study on Indian Online Retailing

In a joint research paper by Deloitte and ASSOCHAM (2015) the online B2C market is being divided as market *Marketplace business model and Inventory based model*. It defines online retailing companies as a part of e-commerce companies particularly those in the primary business of providing web platform(s) and website(s) through which individuals, using a computer or smart phone, can purchase a product or service. The definition excludes online travel, online classified, online financial services and digital downloads.

In terms of size India’s online retail industry has grown at a swift pace in the last 5 years. According to PwC it has grown from around 0.4 billion USD revenues in 2009 to 3.5 billion USD in 2014, translating into a compounded annual growth rate (CAGR) of over 34 per cent. The 7-fold growth came on the back of increasing internet penetration and changing lifestyles, and was primarily driven by books, electronics and apparel. IAMAI and CRISIL Research expects the buoyant trend to sustain in the medium term, and estimates the market will grow at a healthy near to 50 per cent CAGR to 6 billion USD by 2015.

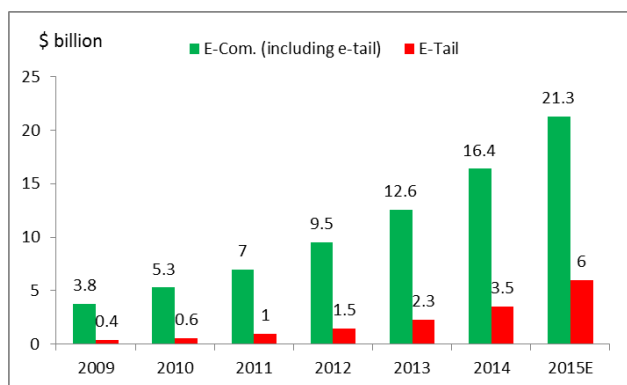


Fig 2: Online Retail Market Size and Growth

Source: IAMAI, CRISIL and PwC Research

The entry of new players in niche segments such as grocery, jewellery and furniture, along with large investments by existing players in the apparel and electronics verticals, will be the drivers.

In terms of size, India’s online retail industry is very small compared with both organised and overall (organised + unorganised) retail in the country.

According to CRISIL Research in 2012-13 the size of overall market in India was staggering Rs. 25,286 billion. The organized retailing amounts Rs. 1,726 billion which is only 7% of overall market size. The size of online retailing is Rs. 139 billion that is very small as compared to overall market size. It is 7.9% of the total organized market whereas a meager 0.5 o the total market. This shows how much potential it has given the current situation.

2. Objectives of the study

1. To study the present status of online retailing in India.
2. To study the key enablers of online retail or the factors responsible for the success of online retailing in India.
3. To study the challenges faced by the online retailers.

3. Methodology

This study is based on secondary data. Different reports have been collected from a variety of sources like various

publications of the government like ASSOCHAM, IAMAI; various publications of national and international research organizations like CRISIL, PwC, Deloitte; books and newspapers; reports and publications of various associations connected telecommunication (mobile and internet) department like TRAI. Qualitative Analysis of various available literatures (documents and reports) has been done using the techniques of statistical compilations and manipulations, reference and content analysis.

The next section discusses the objectives of the study. As the objective one is already being discussed in the introduction section the other objectives are studied in the following sections accordingly.

4. Discussions and Findings

The key enablers may be classified into the technology based enablers and demographic environment based enablers both of which are discussed in the subsequent sections.

4.1.1 Technology Enablers

I. Growth of Internet Users

Presently India has third-largest internet user base in the world with 259.14 million users at the end of Jun-14 (TRAI press release 68/2014, Nov. 7, 2014) with a penetration of 20.83%. This has come on a growth of 14% YoY basis. “Though they are not all active users (those who use the internet at least once a month) there is every reason to believe that they will turn into active users in the near future,” says Nilotpal Chakravarti, A-VP, IAMAI. India is likely to have the second-largest user base in the world, and the largest in terms of incremental growth, with 330 million to 370 million Internet users in 2015 overtaking the US as the world's second largest internet base after China according to a report released by IAMAI.

According to Rajan Anandan, MD, Google India “at the current growth rate, we will have 500 million Indians on the Internet by 2018 and India will have twice the number of Internet users as the US does”. Almost half the country will be connected through the Internet,” he said while addressing ‘Digitizing India’ organized by FICCI Ladies Organisation, New Delhi. He mentioned that it took the country 10 years to go from 10 million Internet users to 100 million Internet users. Now the country is adding five million new Internet users every month. India now has over 200 million Internet users. He mentioned that the path of purchase has changed in India and people are increasingly using online platform for retail purchase. He pointed out that consumers are now connected through numerous devices like television, notebooks, laptops, smart phones and wearable devices as well.

II. Internet use through Smart Phones-The Shopping Mobile Apps.

India has the fastest growing telecom network in the world with its high population and development potential. According to TRAI (press release 68/2014, Nov. 7, 2014) the total number of telephones subscriber in the country stands 942.95 million at the end of Jun-14, while the overall Tele-density in India increased to 75.80% and the total numbers of mobile phone subscribers have reached 914.92 (97%) million.

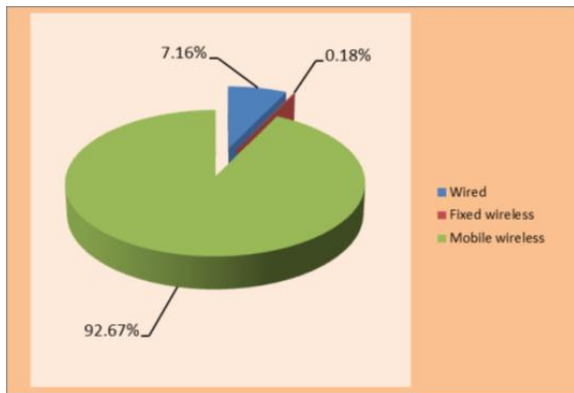


Fig 3: Composition of Internet Subscription in India

Real internet growth in India is coming from mobile internet users. Of 259.14 million internet users in India Wired Internet subscribers are 18.55 million and Wireless Internet subscribers are 240.60 million.

92.67% means 233 million mobile internet users - a staggering figure. It means every 5th Indian is using internet and every 6th Indian is accessing internet on mobile. According to Morgan Stanley mobile data subscribers in India are likely to grow an average 25% every year to reach 519 million by 2018 fiscal (PTI | Jun 16, 2014). Kunal Bahl, cofounder of Snapdeal says "Mobile will be the big driver. Over the next 24 months expect that three-fourths of our orders will be placed on a mobile." (ET Bureau | Dec 23, 2013). This will enable the use of Mobile Shopping Applications making shopping easy for mobile internet users.

III. Increasing Confidence in Online Transactions

Online retailers use the following process to make online transactions safe and secure both for themselves and customers:-

- a. **Site Security Measures-** A basic website security feature is that the online store must operate on a secure server. From a visitor's point of view, this means the site URL starts with the "https" designation rather than "http".
- b. **Customer Identification-** To separate real customers from threats or malware programs a common way used by e-tailers is to make customers set up an account and use their e-mail addresses to verify their identity. If customers don't have accounts, a test like a questions or a Captcha is used to block automated hacking programs to confirm.
- c. **Ordering-** Most online stores use a shopping cart system for customer orders. Online stores make customers enter the data on the secure server, and the server doesn't transfer the data outside itself.
- d. **Payment-** Once the secure server stores the credit card number, a payment system process it so the money goes into retailer's account. Many credit card systems use encrypted transfer mechanisms to send the credit card number to the processor.
- e. **Confirmation-** The final part of the security plan describes the order confirmation. Customers usually get an email and/or SMS confirming their order with the details of the product, expected delivery date, payment status etc.

All these measures ascertain a safe online transaction experience creating trust for customers

IV. Innovative and Advanced Payment Options For those who are still apprehensive of using CC/DC online there are certain options that are being offered to customers for payment. Prepaid options like ITZ cash card, Airtel Money; IMPS – Immediate Payment Service is an interbank electronic instant mobile money transfer service through mobile phones in India; other options like eWallet, Google Wallet, Pay U Money, Mobikwick etc.

V. Digital Advertisements

The digital advertisement industry is growing rapidly as there is a growth in digital communication devices around the world. The increase in smart phones, tablets is enabling advertisers to reach a wider audience. According to analysts, the Indian online ad market will grow year-on-year at 30% to reach 35.75 billion by March 2015. 9 The digital advertisements are flexible and can be adapted for any kind of device like Television, laptop, tablet, or smart phone. The two-way interactive capability and the ability to customize the ad for target audience also make digital advertisements more effective.

4.1.2. Demographic Changes-The Consumer Profile

Within the last two decades the demography of India has changed a lot. Presently India has a strong middle class with 150mn households the largest in the world constituting 500-600mn customers driving consumption. Some of the below discussed demographic changes in India have created plenty of opportunities for e-tailers. The main demographic drivers are

- a. **Rising Incomes** – during the last decade there has been a remarkable change in annual household incomes. According to a report 'India Retail Trends 2014' by Tata Business Support Services Ltd. annual household income will increase from \$2632 in 2005 to \$3823 in 2015e to \$6790 in 2025 (Tertiary Source: Rebirth of e-Commerce in India, 2011 – E&Y).

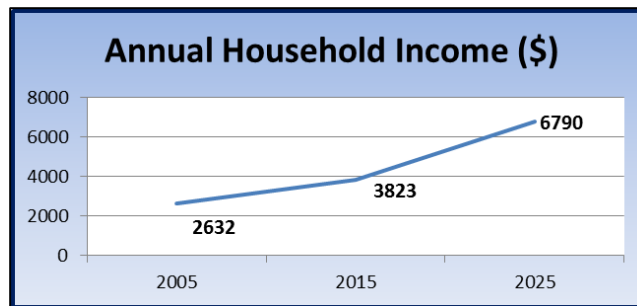


Fig 4: Annual Household Income in India

Annual household income has been increasing and in FY 15(e), of the total 246m households in India only 29% fall under the bottom of the pyramid as against 64% in FY 06 on a 204m household base, refer figure 2 below (Tertiary Source: www.tata.com).

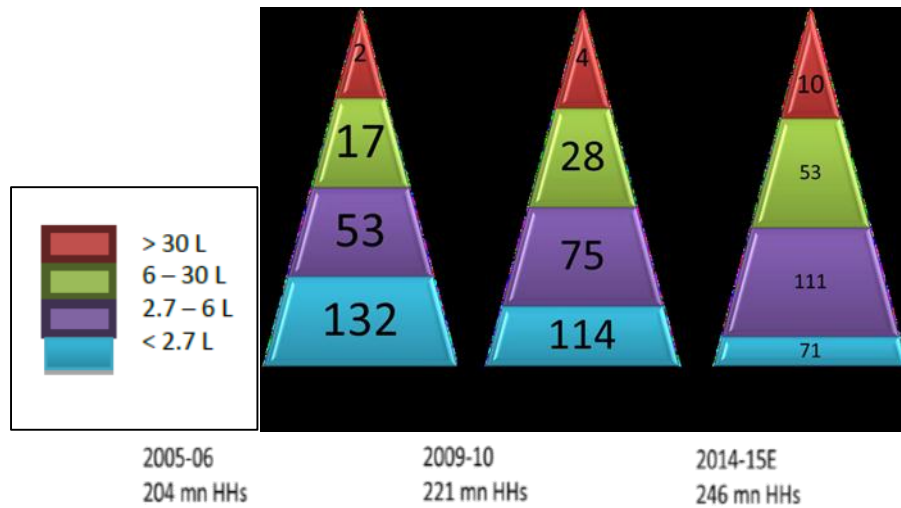


Fig 5: Households (millions) with Annual Income segments

As the income of the individuals is on increase their lays a vast opportunity for online retailers. Increase in income means now the consumers will have more disposable income for consumer durables, luxury items and branded clothes.

a. Nuclear Families – Working couples-Increasing number of working women this leads to independent decision making, adding to household income, creating time paucity in turn driving customers to go online.

b. Untapped Rural Market – A large proportion of Indian population, 68.84% lives in rural areas. This large section is fast developing and consuming enough to draw the attention of retailers. According to a report by IAMAI there were 68mn internet users in rural areas as compared to 137mn internet users in urban India and in coming 5 years India’s rural markets will be two times than India’s urban market today in absolute terms. Rural markets are emerging as a huge opportunity for retailers reflected in the share of the rural market across most categories of consumption.

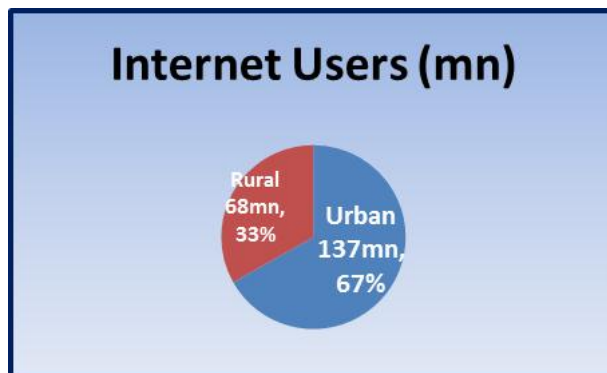


Fig 6: Urban and Rural Internet Users in India
Figures as on Dec. 2013, Source IAMAI

Even as this discussion is going on one of a major player in online retailing, Snapdeal has planned to venture into rural market. “Snapdeal -one of the country’s largest etailers -plans to tap 50 lakh low-income households in slums and villages across the country. Snapdeal will launch around 5,000 e-commerce kiosks across 65 cities and 70,000 rural areas by the end of next year with the help of FINO PayTech, an Indian financial inclusion solutions company.

These e-commerce centers will be manned by village-level entrepreneurs, have personal computers and tablets, and also serve as collection and delivery points of packages since most people living in these areas usually have no permanent addresses. Additionally, they will help consumers with zero internet connectivity to shop online. Says an article in ToI, Nov. 14, 2014 issue.



Fig 7: A Kiosk
Some other key enablers for online retailing are:-

- Falling communication costs, increasing PC, broadband internet penetration. Internet is up from 5.5m (2000) to 300m in FY15e, broadband user base 51000 (2001) to 150m in FY15e. (Source: Rebirth of e-Commerce in India, 2011 – E&Y).
- Increasing credit card (CC) and debit card (DC) penetration with higher value limits for spending. From 4.2m (CC), 0.3m(DC) in 1999 to 18m(CC), 228m(DC) in 2011 and expected to reach 73m(CC), 350m(DC) in FY15(e). (Source: Rebirth of e-Commerce in India, 2011 – E&Y).

4.2. Challenges Ahead

I. Competition

As it is said every coin has two sides, there are some challenges along with opportunities in e-retailing. One of the most immediate challenges faced by the industry in India is that of competition. Indian e-tailing industry is getting extremely competitive as the competition is multi-faceted. They not only face competition from other e-tailers but also from traditional brick-and-mortar formats. And this competition is not only from Indian firms but also from international players.

Table 1: Competition in India's E-Retailing Segment

	Brick-n-mortar	E-tailers
National Competitors	Big Bazaar, Reliance Retail, Pantaloon, Shoppers Stop, Spencer's, Birla More, Bhart's Easy day, Food Bazaar, Tata's Trent etc.	Flipkart, Snapdeal, Jabong, Yebhi, Infibeam, Junglee, India times Shopping, Home Shop 18 etc.
International Players	All Single Brand Retailers of Apparels, Consumer Durables, Mobiles Computers etc. Like Marks & Spencer, Levi's, Nike Samsung, HP, Sony etc.	e-Bay, Amazon

With more than ten Mass Merchants and hundreds of Vertical Merchant there is heavy completion within e-tailing format and not to mention already existing organized physical retailers like Big Bazaar, Pantaloons, Spencer’s, V-Mart etc. Adding to this neck-to-neck competition the international players are also not far behind. With government’s decision to allow 51% FDI in multi-brand B2C retailing, international giants have also joined the bandwagon.

II. Low Internet Penetration and Slow Speed

Though India is has third largest internet users in terms of absolute numbers (259 million) and growing at a very fast rate, internet penetration is still one of the lowest in the world and stands at about 20%. This is quite low in comparison with other developing BRIC countries. For Brazil and Russia it is more than 50% and for China more than 45% and in the developed countries like US, UK, Canada, Japan the penetration is more than 80% (Internet Live Stats).

In addition to the low penetration one major problem is that of internet speed. Average broadband speed in India is among one of the lowest. (0.9mbps in 2012 as against South Korea at 16.7mbps, Japan 8.9mbps and US at 6.1mbps). Off 259 million internet users in India there are only 68.83 million Broadband Internet subscribers at the end of Jun-14, whereas 190.31 million Narrowband Internet subscribers.

III. Low conversion Rates/ Shopping Cart Abandonment

According to Nielsen most e-commerce businesses are getting 1-2% sales conversion. Mr. Tony Navin, VP, Snap deal says “90% of people visiting a site walk away without transacting and another 5% are unable to transact because of payment gateway issues”. Turning visitors into customers is the second biggest problem after competition that online retailers face. This becomes a greater problem when retailers sell items that people prefer to see and touch before buying, such as clothing.

IV. Cancellation of Orders/ Non acceptance of Ordered Products

Though not a problem in foreign countries this malpractice has been found in Indian market. Cancellation of orders when is in the middle of the delivery chain or non-acceptance on delivery

hurts retailers as lot of cost and time is already been invested. It may hurt in two ways, firstly that cost and time is lost in taking back the product to the retailer and secondly at the same time other customer for the same product may be lost if it is limited. Amazon found put that 10% of its COD orders are not honored in UP. Recently Flipkart and Amazon limit the delivery of products on COD above the value Rs. 5000 in at UP postal addresses due to these malpractices.

V. Developing Efficient Delivery Channels to avoid Delays

One of the major challenges for e-tailers in India is making fast and on time deliveries. This issue needs to address as courier distribution network in India is not efficient and developed. This problem of delays in delivery, taking longer time in delivery is common to all of the e-tailers. To address this problem Flipkart the largest e-tailer in India has developed its own distribution network for fast, efficient and safe delivery of products.

VI. Price-shopping

Low price is one of the main reasons for online purchase along with the intense competitive pressure to lower prices paired with the presence of price comparison websites listing the lowest price makes the situation very tight for e-tailers. They have to remain very efficient to remain profitable.

5. Conclusions

It is apparent in the light of above discussion that abundant opportunities galore for e-tailing in India. In 2009 online retail was only 0.4 billion USD which was only 10% of the total e-commerce market of USD 3.8 billion. It shot to USD 3.5 billion in 2014 which is 21.8% of the total e-commerce market of USD 3.8 billion in 2014. This shows that the percentage of online retail in e-commerce doubled in the period which shows that the growth of e-tailing is faster than the overall growth of the e-commerce market. If we see in the absolute terms the e-tailing market grew from USD 0.4 in 2009 to 3.5 billion in 2014 which is approximately 9 fold growth with about 18% CAGR. *This speaks about the rocketing pace of the growth.* And not to forget this market size is still about 7.5% of the total organized retailing and a meager 0.5% of the total retailing in

India. This speaks volumes of its potential. No doubt that the predicted value of e-tailing in 2015 will cross the expectations. With all the key enablers of e-tailing like internet penetration, its speed, advanced payment options and the trust in inline transaction are slated to either grow or consolidate along with the demography which is again lined up to improve with expected 8% economic growth e-tailing is bound to be the next phenomenon in India. Nevertheless the way ahead wouldn't be a rosy walk for the market players because of the biggest challenge of national as well as international competition. With this intense competition each company has to stream line its strategies to improve the customer experience, online service quality, trust, after sales service, customer problem solving, developing efficient logistics and would have increase the value for the customers to stay put and endure the rivalry among competitors. The other strategy to face competition is mergers and acquisitions. Big players are already into it as evident from the Flipkart and Myntra and other deals. Business verticals could be sighted by the big players to increase their capacities and capabilities. This is definitely going to be a growing trend in the e-commerce market until clear leaders emerge.

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