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E-commerce in India-issues and challenges

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Abstract

The development and mastery of digital computing and communications technology is at the heart of the newly emerging global digital economy we call e-commerce. E-commerce is a recent phenomenon of the late 1990's. For economists, the early years of e-commerce raised the realistic prospect of perfect market; where price, cost and quality information is equally distributed, many suppliers compete against one another and customers have access to all relevant market information worldwide. Prior to the development of e-commerce, the process of marketing and selling goods was a mass-marketing and sales force-driven process. Consumers were viewed as passive targets of advertising and branding blitzes intended to influence their long-term product perceptions and immediate purchasing behavior. Selling was conducted in well-insulated channels. Consumers were trapped by geographical and social boundaries. Information about prices and costs were hidden from the consumer creating information asymmetry for the firm. E-commerce technologies made it possible for the merchants to know much more about consumers and to be able to use this information more effectively. The internet and e-commerce have been so successful and powerful that they directly involve the social, cultural and political life of entire nations and cultures. This paper is an exploratory study on evolution of e-commerce in India. The article explores the economic and social impact of e-commerce in Indian economy.

Keywords-e-commerce, internet, digital economy, consumers.

Objective of the study

The proposed study has been undertaken keeping in mind the following objectives:

1. To study the current state of e-commerce in India

2. To study the socio-economic impact on development of country.

3. To analyses the challenges faced in Indian market.

Methodology – A review of the current literature on e-commerce was conducted. Web research was conducted to support the literature review. The sources provided by the web research were the most convenient and the fastest due to its accessibility.

Introduction

Internet and electronic commerce technologies are transforming the entire economy and changing business models, revenue streams, customer bases and supply chains. Broadly defined, electronic commerce is a modern business methodology that addresses the needs of organizations, merchants and consumers to cut costs while improving the quality of goods and services and increasing the speed of service delivery. The term also applies to the use of computer networks to search and retrieve information in support of human and corporate decision making. Combining a range of processes, such as Electronic Data Interchange, electronic mail, fax, online catalogues and shopping carts, file transfer protocol, World Wide Web and internet applications; e-commerce provides ways to exchange information between individuals, companies and countries but most import between computers. E-commerce is the movement of business onto the World Wide Web. The fast development of telecommunications technology in the past few decades is changing many aspects of our lives-how we search for information, how we travel and how we buy products or services.

During 2013, in the Asia-pacific region B2C e-commerce sales grow at about 23% with sales in china and Indonesia growing particularly fast, 65% and 71% respectively. Even the saturated markets of Europe saw a double digit growth of about 17%. With an expected 33 percent of the global market in 2015 and over 37 percent in 2018, the Asia-Pacific region is becoming the leader of the e-commerce industry. China due to its unprecedented economic boom is driving the region's leadership. It is also set to outdo the United States as the single country with the largest e-commerce market in the world. Another emerging Asian market in terms of e-commerce is India. As of 2015, the retail e-commerce sales as a percent of total retail sales in India are set to account for 0.9 percent of all retail sales in India, this figure is expected to grow in near future reaching 1.4 percent in 2018.

Growth of e-commerce industry in India

India might have only 300 odd million internet users, out of its total population of 1.3 billion. But this has not stopped online commerce from establishing itself in the country. The latest study by the Internet and Mobile Association of India (IAMAI) has found that at a CAGR growth rate of about 30 percent between December 2011 and December 2015, Indian digital commerce stands at Rs 1,25,732 crore. The report estimates that it will hit Rs 2,11,005 crore this year.
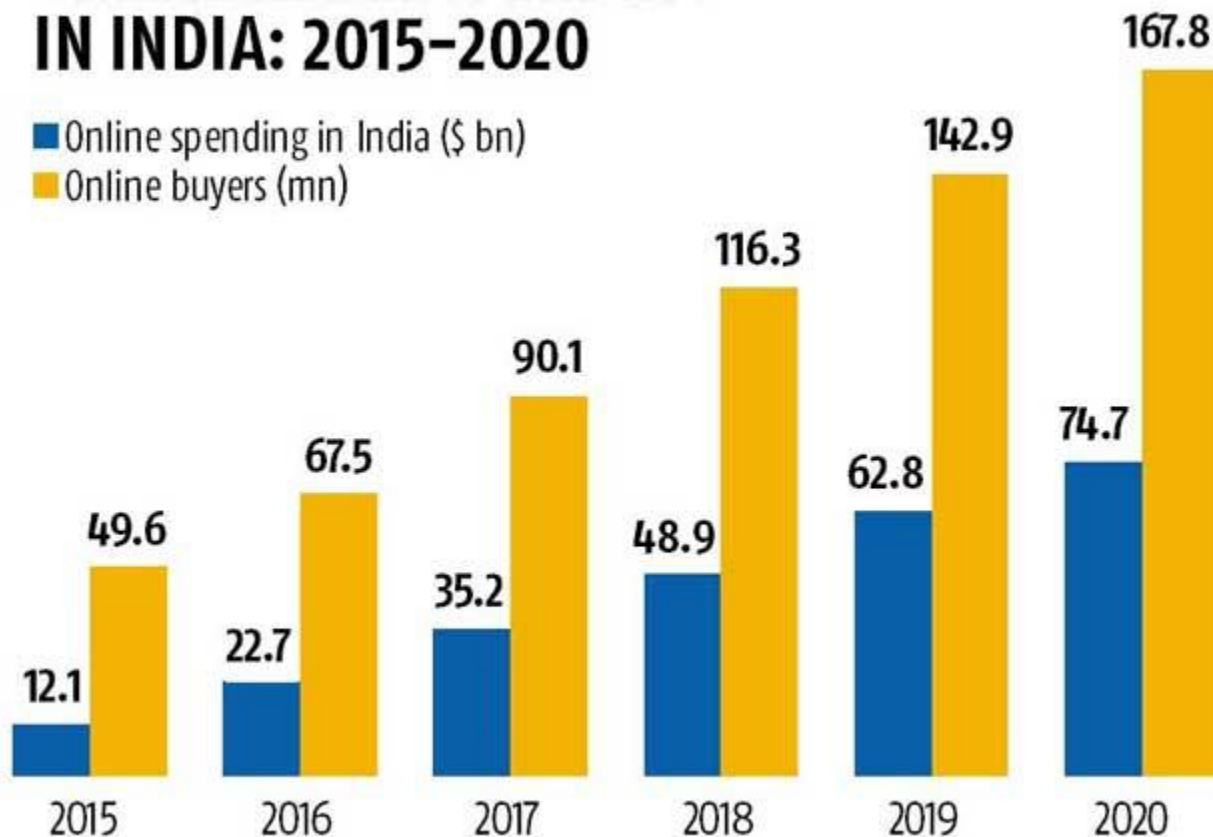
The e-commerce sector has seen unprecedented growth in 2015. It grew in size from $5 billion to $8billion and pervaded every aspect of our lives. The growth was growth was driven by rapid technology adoption led by the increasing use of devices such as smart phones and tablets and access to the internet through broadband, 4G etc, which led to increased online consumer base. New business models are emerging in every industry of the economy. These business transactions are business-to-business (B2B), business-to-consumer (b2C), consumer-to-consumer (C2B) or the recently evolved business-to-business-to-consumer (B2B2C). The world e-market crossed one trillion marks in 2012 marking a definite point in the retail market

 India is a massive ecommerce marketplace now with every age group comfortably transacting online-more often preferring shopping online instead of visiting offline stores for a bigger gamut of

choices and offers. The primary drivers in India are smart-phones, electronic goods, gadgets, apparel and jewellery, home and kitchen appliances, lifestyle accessories like watches, books, beauty products and perfumes and baby products. With India poised to become youngistan, with about 64% of the population by 2020 in the age group of 15-35, the potential of e-commerce is set to rise. This category shops more than the remaining population. Peer pressure, rising aspirations with career growth, fashion and trends encourage this segment to shop more than any other category and India clearly enjoys a demographic dividend that favors the growth of e-commerce.

According to Forrester research, an independent technology and market research firm, only 16% of India's total population was online in 2013 and of the online users only 14% or 28 million were online buyers. India was still in a nascent or immature stage of evolution of online retail spending. In coming years, as internet presence increases in rural areas, rural India will yield more e-commerce business. Six of the large e-commerce players-flipkart, Amazon India, Paytm, snap deal, eBay, in and shpclues together have about 85-90% of the e-commerce business in India. According to a report by Forrester, India is set to become the fastest growing market in the Asia-Pacific region with an expected growth rate of over 57% between 2012 and 2016.
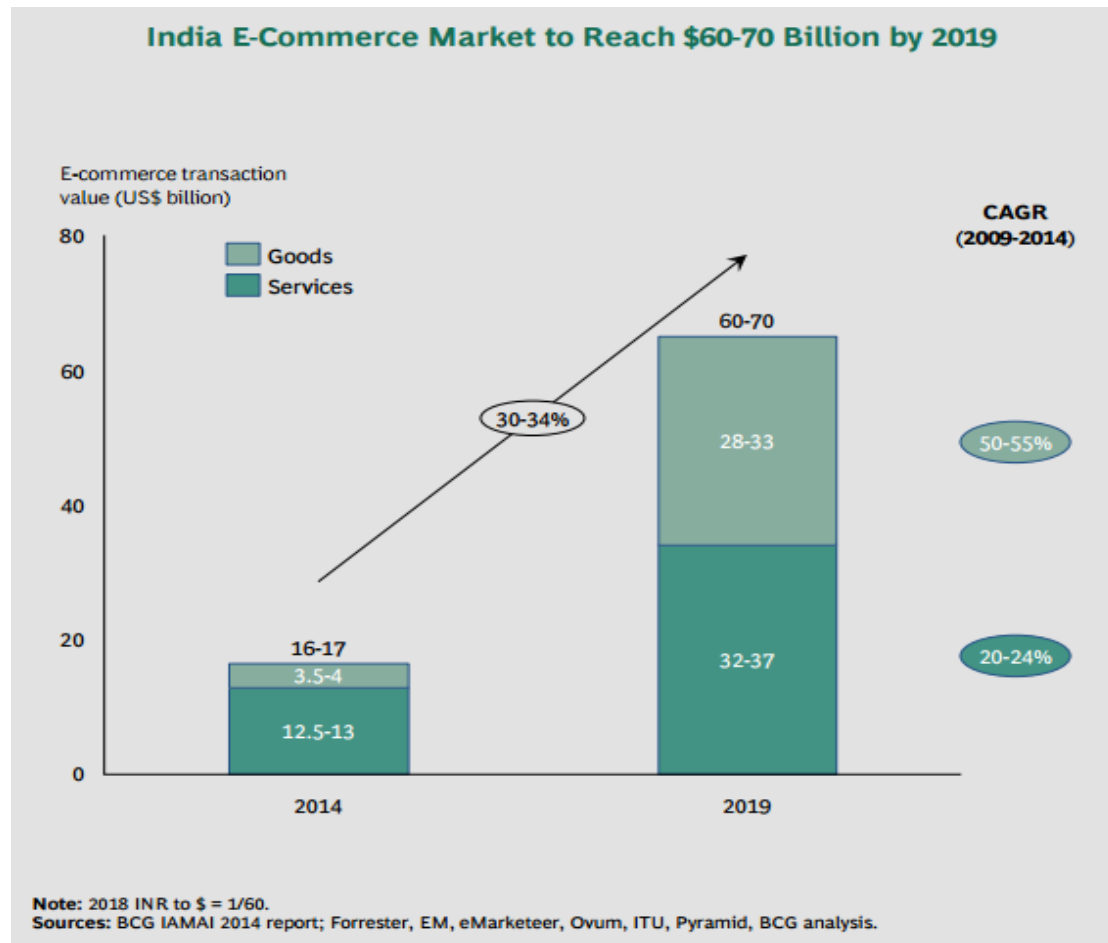

ONLINE RETAIL SPENDING IN INDIA: 2015-2020
- Online spending in India ($ bn)
- Online buyers (mn)

Source: Forrester research online retail forecast, 2015-2020, Asia-Pacific

Impact of e-commerce on Indian business

India is one of the fastest-growing e-commerce markets worldwide, with millions of new internet users taking advantage of cheap mobile connections to send mobile messages, watch online videos, and use mobile services and to shop. As of 2016, only 26% of the local population was using the internet; almost ten times the audience sixe form a decade prior. According to recent market research, mobile phone internet user penetration in India is projected to reach 37.36 percent of the population in 2021, representing a huge potential in terms of digital and mobile buyer audience. Total internet audiences in India are estimated to surpass 635 million online users in 2021. In 2015, retail e-commerce sales amounted to 13.31 billion USD and are projected to grow to 65.09 billion USD in 2019.

The potential for e-commerce is enormous in India, owing to the rapid growth of the number of internet users. In India, people seem to enjoy shopping on the internet. Websites are doing cleverer thing to serve and entertain their customers. A website is becoming the gateway to a company's brand, products and services. The new segments of internet usage have emerged and there lie potential user segments that are still unexplored and may emerge in the future. One way to get noticed online is to offer goods and services through one of the big sites that already get a lot of traffic. EBay, Yahoo, and Amazon are becoming huge trading platforms for other companies. Company's products have to face intense price competition.

Customers are attracted to superior value propositions like broader assortment, higher discounts and greater convenience. People check online prices; compare them with those in their local street and in other countries. In 2015, over 50 million people in India shopped online. AT Kearney estimates that by 2020, this number is expected to grow three-fold and cross 175 million. Lifestyle was the highest searched shopping category between April 2015 and March 2016 with 24% searches on apparel. 63% of these searches came from women. Consumer electronics was the second highest search category with mobile phones the top most searched item in this category. 55% of consumer electronics searches originated form mobile devices. Competition is expected to continue, with these e-commerce companies experimenting with different ways to attract customers and increase online traffic. While 20% of online shoppers in India were women, this share is set to double to 42% by 2020.

The e-commerce sector in India is projected to cross USD 80 billion by 2020 and USD 300 billion by 2030. Increasing internet penetration, growing adoption of smart phones and increased market awareness shall further accelerate the growth of e-commerce in India. In year 2014, India ha d around 281 million internet users and the number is expected to increase to 640 million by 2019. The number of mobile internet users is also on the rise with 173 million users in 2014. This number is projected to grow by more than 2.5 times to touch 457 million in 2019. The internet transcends all geographic boundaries and provides an opportunity for Indian traders to connect with several buyers and sellers across geographies. This enables them to enter international markets at less cost and gives them the opportunity to directly compete with global giants within their industry. Thus they contribute to the government's Make in India campaign. In 2014, investors aggressively funded the e-commerce sector due to strong growth prospects.

Factors for new e-commerce companies

E-commerce companies will need to understand the intricate landscape of new markets in addition to their own internal capabilities and limitations. The factors to be considered are

➡ Market size- it's important to consider how sizable the overall opportunity is before moving into a new market. With e-commerce largely being a borderless activity companies need to keep in mind that customers always have the option to buy across the border if they cannot fulfill customer's expectations.

➡ Readiness factors- It is essential to fully understand the payment logistic infrastructure, consumer behavior, retail opportunity and technical development. Due to lack of integrated end to end logistics platform, issues related to procurement operations and transportation occurs. Thus, it's important to keep control on logistics and on ground fleet management, especially courier companies.

➡ Scope of growth-It is also important to look at the demographic profile of online buying population, internet penetration and understand which phase of development each market is in. There is gap between potential and actual buyers. Companies should constantly work on their brand positioning. Companies should spend enough resources on technology development and advertising and branding because the younger population is demanding.

➡ Barriers to entry-Companies should understand the regulatory environment and connect with solution providers, content distribution networks and digital agencies. Laws regulating e-commerce in India are still evolving and lack clarity. The interpretation of intricate tax norms and complex inter-state taxation rules make operations difficult to manage and to stay compliant to the laws.

➡ Competition-It is also important to assess actions of competitors, their online strategy and nature of offering. They need to ensure that their websites have the required speed to do fast business, especially during sale, deals and discounts. Companies need to adapt and innovate constantly to sustain their business.

Advantages of e-commerce in business

➤ Round the clock operation is an expensive proposition in brick and mortar world, while it is natural in the click and conquer world.

➤ The net being inherently global, reaching global customers is relatively easy on the net.

➤ It is relatively cheaper to acquire new customers over the net and also possinle to retain customer's loyalty with minimum investment.

➤ Internet provides an effective way to expand enterprise with help of tools like enterprise resource planning (ERP), supply chain management (SCM) and customer relationship management (CRM).

➤ It results in higher satisfaction and more sales

➤ It benefits the traditional business with internet tools

➤ Using the internet, one can directly approach the customers and suppliers, cutting down on the number of levels and costs.

➤ The screen to customer interface has the potential to increase sales and decrease costs.

➤ While the customer controls the interaction, the firm has unprecedented access to observe and track individual consumer behavior.

Threats

1. Integrity threats- It refers to unauthorized modification of data in the internet channel as

- Active wire-tapping-This takes place when an unauthorized person gets access to the signals carrying the e-commerce message and changing the content of the message stream of information. This affects the integrity of the data and makes it unreliable.

- Cyber vandalism-this takes place when an unauthorized person changes the content of a web page, destroys it, defaces it or replaces it after hacking into the server of the website.

- Masquerading- This can be done by means of spoofing. Someone creates a fictitious website in place of the real one. All orders to the real website are redirected to the fake website where they are changed before passing on to the real website.

2. Availability threats- these refer to the prevention of data the free and unobstructed flow of data causing delays or denials. There is tampering with the effective technical functioning of the internet channel, the server and the website.

- Delay- this entails slowing down the processing speed of a computer or internet service.

- Denial of service- this can be done by redirecting money into the wrong account or by flooding the servers of the business with so many junk e-mails and false orders that it is unable to function.

3. Secrecy threats –these refers to the threats of unauthorized data disclosure and the authentication of the source. Privacy is closely associated with secrecy but entails the protection of individual rights to non-disclosure.

4.Authenticaton threats- to do business and trade in normal life, it's very important for all parties to be sure of the identities of the others, since this will influence the contact and the confidence with which they can enter into contracts. Such threats are found on websites and in e-mails.

The threat landscape is ever evolving and increasingly challenging. Recent cyber-attacks highlight the urgency for retail organizations to contend with ever increasing risks to customer protection, continuity, fiduciary responsibility and operations. Cyber security issues lead to brand degradation and change in consumer behavior.

E-commerce opportunities for industries

The rapid pace at which technology is changing has provided large opportunities for organizations to develop new business models, services and products. Some of the areas where e-commerce is witnessing rapid growth in the global markets, where Indian software and services companies need to tap into are

- Financial services- many internet users are using the services for financial guidance.

- Stock trading-online stock trading is one of the most demanding utilities.

- Banking- internet banking is now growing

◆ Legal and professional services- in terms of opportunities for Indian legal service providers, the requirement for professional, legal and regulatory advice is expected to increase as e-commerce volumes increase.

◆ Tour and travel- the travel industry had readily adapted to e-commerce due to their online reservation system.

◆ Healthcare- internet has the potential to enhance communications, streamline processes and create new business opportunities, by providing high-quality administrative services and integrating information systems.

Conclusion

India's overall retail opportunity is substantial and coupled with young population, rising standards of living and upwardly mobile middle class and rising internet penetration, strong growth in e-commerce is expected. In India, e-commerce industry currently is behind its counterparts in many of developed countries and even some emerging markets, but it is expected to grow rapidly. The Indian industry has access to funds from within the country and international investors and many serious players are entering the market. It is important to overcome challenges in finance, infrastructure, logistics and focus on building customer loyalty to usher in the next wave of sustainable growth in e-commerce. The e-commerce industry is one of the fastest growing sectors in the country, spurring first generation entrepreneurs, large scale manufacturing by SMEs and impacting the infrastructure growth of the country. The recent spectrum auctions, roll-out of 3G and 4G broadband services and National Broadband Plan will certainly usher new business opportunities for e-commerce in the country.

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