E-retailing in India: Opportunities and Challenges

BY

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Abstract:

E-retailing or online is growing at faster pace in India. It has witnessed steady growth of 50-60 % over the years. E-retailing accounts for 10 % of e-commerce activities in India. Even though there are growth prospects for online retail in India we have challenges which need to be addressed. The article focuses on the opportunities and challenges for online retailers in Indian business environment.

Key words: E-retail, Online retail, Logistics, Assortment, Internet, Mobile internet.

Introduction

AT Kearney's 2013- Global Retail ecommerce index stated that India has unharnessed online retail potential. The growth of online retail can add immense value to different stake holders of Indian retail sector. The growth prospects of online retail are high in India, but along with the growth opportunities there are challenges which need to be addressed.

E-retail and Major online retail players in India

E-retail or online retail is defined retailing activities done through internet. We have many online or e-retailers in India who provide a variety of merchandise to customers. In general retail business is referred as Business to Consumer (B2C). Online retail players are classified into two types category focused players and multi category focused. Category focused players provide particular merchandise with deep assortment. Ex: - Myntra, Jabbong (Apparels and Lifestyle products), Bigbasket, Local banya (Grocery segment) and Fabfurnish, Pepper fry (Furniture), Carat lane,Juvalia and you (jewellery), First cry, my baby cart (baby products). Multi category players provide variety of merchandise with limited assortment. Ex: - Flipkart, Amazon, Future bazar and Snapdeal etc. For better understanding we look at some of the categories and the major online retailers in these categories.

Retailers provide categories like books, stationery, electronics, furniture, apparels, personal care, grocery, flowers, sports goods and services also. The major players in book category include

Amazon, Flipkart, Naaptol and Land mark. Stationery items are sold by online players like Flipkart, Amazon, Stationery shop, Snapdeal and Homeshop 18 etc. In Electronics segment we have specialised players like Croma (Tata group) and E-zone (Future group) alone with other players like Flipkart, amazon, Infibeam, Snapdeal, Future bazar, Naaptol who sell electronics items like mobile phones, computers, tablets, television and other durables. In Furniture category we have players like Fabfurnish, Pepper fry, Urban ladder, Home town, Zansaar and Homeshop18 etc. In Apparel and personal care segment we have Myntra, Jabbong, Zovi, fashion and you, Flipkart, Amazon and Yebhi.com etc. In grocery category the major players include Bigbasket, Greencart, ekstop, Local banya, Nature's basket etc. We have specialised players like Ferns n Petals, Tilia and Floraindia for flowers and birthday cakes etc. In sports goods the major category players include Decathlon, Playground online, Khelmart and Sports 365 etc. Service retailers include lenskart which provide eye tests along with eye lens, glasses and well forte for some limited medical service. Some retailers like Apollo pharmacy, Healthkart and Buydrug which do online sales of medicines.

If we look at the whole sale market (B2B) we have players like best price (Wal-Mart) who is operational in online space. In C2C (Customer to Customer) we have E-bay, Olx which serve as an on-line shopping space and for auctioning of different products.

Objectives of the Study

The major objectives of the study include:

1) To understand the online retail market in India and its impact on Indian retail.

2) To analyse the opportunities for online retailing in India

3) To study the major challenges for online retailers in India

Scope and Methodology of the study

The study looks into the online retail market and how it had impacted the Indian retail industry. The scope of the research study is limited to online retail market, the opportunities and challenges for the evolving online retail market in India.

Source of Data: The study is primarily based on the secondary data collected from journals, industry reports, company websites, news articles and reports.

Online Retail Market in India and its impact on Indian retail

Organised retail in India is still in a nascent stage with a retail penetration of 7.5% in 2013 (E&Y, 2013). Online retail forms 7.9 % of organised retail and 0.5 % of overall retail in 2013. It has witnessed steady growth of 50-60 % with a projected value of 3.2 billion USD in 2014. Online retailing has affected the sales turnover of the brick and mortar stores. With the advent of online

retailers the biggest impact was the entry of traditional retail players into online space. This is evident from the trend of online store additions by traditional retail players.

Net store additions for traditional retailers
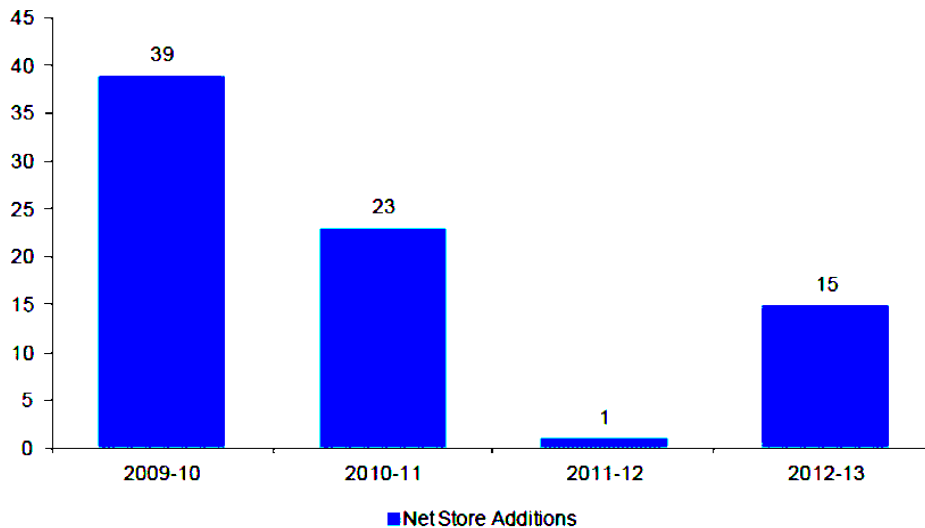
Note: Number of stores includes the Shoppers Stop Department stores and Speciality Stores (viz Home Stop, Mothercare, Crossword Bookstores, Arcelia, Mac, Clinique, Estee Lauder & Airport Business). It also includes stores of Trent and the ones operated by JV Inditex Trent Retail India Private Limited.
Source: Company reports, CRISIL Research

If we look at the trend we can witness steady increase in the growth of online stores by traditional retail players in India. From 2010- 2012, there was decreasing trend in net store additions but we can find an increasing trend in the subsequent year. For example, Shoppers stop has entered the online space in 2008. We have other players like Future bazar, Croma (Tata group), Nature's basket (Godrej) and Aditya Birla nuvo entered the online space to compete against the online retailers.

Opportunities for Online retail in India

The current business environment in India has the potential to enhance the growth of the online retail in India. Some of the key factors that can contribute to the growth of online retail in India include

> a) Increase in the number of Internet users and online buyers

According to Google, India now have around 200 million internet users which is expected to reach 500 million by 2018. Every year there is an estimated increase of 5 million internet users every month. One of the key factors contributed to the increase in internet users is the spread of broad band connectivity across the country. In 2013, the broad band connectivity is around 15.13 million. Government is talking initiatives to increase it by 214 million broad band connections by 2014. This will enhance the accessibility of internet for common people. Forrester's Asia pacific retail forecast

predicts that online buyer population will reach 39 million by 2014 and 128 million by 2018 which can stimulate the growth of online retailing in India.

b) Smart phone revolution and Mobile Internet

India is one of the markets which is witnessing growth in smart phone customers. In 2013, there were 51 million smart phone users in India which is expected to reach 104 million by 2014. But this forms about 10 per cent of the total mobile users currently. The availability of cheap smart phone can enhance the growth rate in future. Access to 3G and 2G mobile data networks and availability of cheap smart phones can enhance the customer transaction using mobiles. Most of the online retailers are developing their mobile applications to enhance the shopping experience. Amazon came up with their own 3D smart phone- "Fire phone" to enhance the mobile shopping experience of their customers. If we compare the mobile internet users we can observe increasing trend with respect to mobile internet users. According to 2015 projection, out of 300 million internet users 200 million users will be accessing internet using mobile phones which can enhance e-retailing opportunities in India.

Internet users (million)
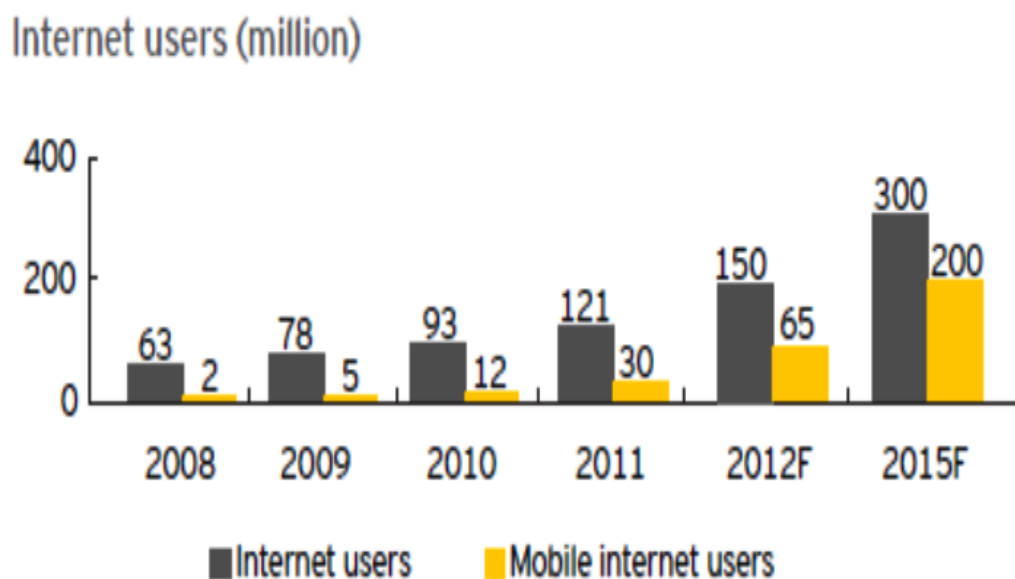
Source: I-cube, IIFL, IAMAI, Caris & Company, Ernst & Young estimates

c) Increase in transaction by Debit cards, Credit cards, Net and mobile banking

Retail electronic payments was around INR 33.8 lakh crore in 2013 compared with INR 50,000 crore in 2004. Credit card payments has grown seven times during this period and reached INR 1.2 lakh crore in 2013. In the case of Debit card transaction there was an increase in 15 times which is valued

around INR 74,300 crore in 2013. If we analyse the trend electronic transaction has increased during 2013 which forms 57 % of banking transaction compared with 43% of paper transaction. There was an increase in registered internet banking users in India during 2013 which was around 35 % for public sector banks 25 % for private sector banks and 5% for foreign banks compared with 2012. But still Internet banking transaction forms 2-8% of total banking transactions for all Indian banks. Mobile banking is emerging in India which witnessed a growth with 30 million users in 2013 compared 22.51 million users in 2012. From these trends we can conclude that Indian customers are gradually changing with respect to the way they do financial transactions. Credit, Debit cards and Net banking can facilitate quick and convenient transaction for customers which can augment the growth

of e-retailing in India. With the emergence of secure transaction methods like two factor authentication, One Time Passwords(OTP) and payment gateways, consumer's preference to shop and do financial transactions online has increased. This can enhance online retailing because of enhanced security and easiness in doing the transaction. Some of the retailers are providing the facility of cash on delivery options (COD) to customers those who are sceptical about the secure transactions in online platforms. This forms more than 60% of the total ecommerce transaction in India. Banks and ecommerce sites are taking proactive steps in enhancing on-line transactions by addressing security and other issues with respect to online transactions.

d)   Rising disposable Income and Rapid urbanisation.

Annual disposable income in India is expected to increase at CAGR of 5.1% and expected to be USD 3823 by 2015.According to 2011 Census, the urbanisation showed an exponential growth rate of 2.76% . We have around 337 million people who live in urban areas in 2011. The census data shows that the no of statutory towns increased at the rate of 6.37% during 2001-2011. There is steady increase of urban agglomerations at the rate of 23.7% during this period. These trends can enhance the prospects of online retailers.

## Challengesfor online-retailers in India

Even though India online retailing has growth prospects, there are multiple challenges for e-retailers in India market. It includes

a)   Logistics

Effective logistics play a key role in determining the operational success of e-retailers. If we look at the India our country is large and fragmented with poor infrastructure facilities. So timely delivery and other priority services are the biggest challenges for online retailers in our country. Moreover cost of logistics in India is high due to lack of adequate infrastructure. This has forced some of the

retail players like Flipkart and Amazon to build their own logistics arms. Flipkart has e-kart logistics which takes care for their delivery process. Some of the online retailers are tied up with logistics companies for fulfilling customer orders. One of the biggest problems faced by logistic companies is the limited airline feet size of logistic companies. We look at the Indian scenario we have limited fleet of freight carriers which can hinder the priority services like same day delivery for customers.

Air fleet size comparison Courier service providers of US and India
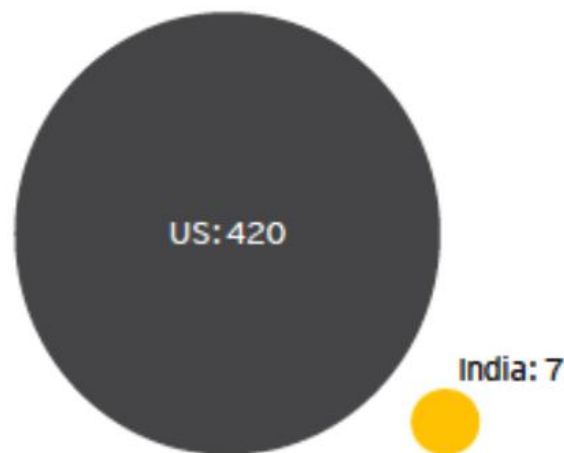
Source: Plane Spotters website

Another important drawback is the limited technology investments and developments in Indian logistics sector. If we look at developed countries there is huge investment in technologies like GPS, RFID technology to enhance the tracking of shipment and delivery of customer orders.

b) Poor Internet speed

One of the biggest problems India facing is the slow speed internet connection which can affect the prospects of online retail in long run. The average internet speed is less than 1 mbps which makes it one of the low ranked nations in global scenario with respect to internet speed. This can affect the accessibility to shopping sites and online transactions which will in turn reduce the customer buying through online portals.

c) Customer Trust and Loyalty

Some of Indian online retailers lack trust among the customers. Even though we have trusted players like Flipkart, Myntra and Jabbong, other retailers were not up to the mark compared with other players. The entry of foreign online retailers like Amazon has forced Indian players to enhance customer loyalty. Flipkart has started an initiative called Flipkart first which provides same day delivery, priority customer services, free shipments and exclusive offers.

d) Overcoming touch and feel mental barrier of Indian customers

Indian customers prefer to touch and feel products before they purchase. The biggest challenges faced by online retailers to overcome this barrier. Online retailers are trying to overcome this barrier by adding more specifications and information about products. They also share customer feedbacks to enhance the confidence of customers.

e) COD and Returns management

Cash on delivery has emerged as the preferred mode of payment by online customers. This has created certain critical issues for online retailers. Some of the logistics providers levy extra charges from the customers which can affect the retail business in long run. Delay in remittances of the Cash collected by logistics providers from customers can reduce the working capital for online retailers. Another important issue faced by online retailers is the customer returns and how to handle it. Some of the logistics players don't have the capacity to handle the returns. More over this can create an additional cost for the retailers which is an important issue faced by online retailers. This has forced some of the retailers to start their own logistic arm to address these issues in a better manner which can enhance customer trust and convenience. Moreover this can provide the cost advantage for online retailers in long run.

f) Complex tax regime

One of the major constraints faced by e-retailers is the complex tax regime in India. Non uniform VAT (Value added tax) are levied by different states. In some case state governments charge VAT for products sold with in a state in which warehouses are located. This has affected the cost for sourcing and delivering for products and services for online retailers. Multiple point taxation, Octroi and entry taxes are other major drawbacks in India which can affect the prospects of online retailing in India. It also forced some of the retailers to open warehouses in different states to reduce the entry and other taxes. Online retailers looking at implementation of uniform Goods and Services tax (GST) which can add operational convenience to online retailers.

g) FDI policy in B2C ecommerce

India's FDI policy restricts 100 % FDI in Multi brand retail which is applicable to e -commerce activities also. In online B2B e-commerce 100% FDI is allowed but this is not applicable to B2C e-commerce activities. Government allowed 51 % FDI in B2C e-commerce for retailers with brick and mortar operations. Currently most retailers are following a market place model in which online retailer provides a platform for potential buyer and sellers. This can result in limited margins, restricted control over product, service and speed of delivery. The restriction with respect to FDI is affecting the growth and expansion plans of online retailers.

Conclusion

Indian retail sector is witnessing dynamic changes over the years. With a steady growth rate of 50-60% online retail can make significant contribution to retail industry and economy of our country. But to capitalise on these growth trends we need to improve our physical infrastructure, policy framework and operational environment in our country.

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