Challenges of Indian E-commerce sector : An Evaluation

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Abstract:

The birth and growth of Internet has been the biggest event of the century. It is changing the way consumers shop and buys goods and services, and has rapidly evolved into a global phenomenon and India is also not an exception in this pursuit. E-commerce in India has come a long way from a timid beginning in the 1999-2000 to a period where one can sell and find all sorts of stuff from a high end product to a meager peanut online. The number of users logging on to the Internet is growing by leaps and bounds and indicates a growing sense of comfort with the use of Internet for shopping. Most corporations are using Internet to represent their product range and services so that it is accessible to the global market and to reach out to a larger range of their audience. Computers and the Internet have completely changed the way one handles day-to-day transactions; online shopping is one of them. The Internet has brought about sweeping changes in the purchasing habits of the people. In the comfort of one's home, office or cyber cafe or anywhere across the globe, one can log on and buy just about anything from apparel, gift items, food, home needs, medicines, books, music and diamond jewellery to digital cameras, mobile phones, MP3 players, video games, movie tickets, rail and air tickets, and many more. Ease, simplicity, convenience and security are the key factors turning the users to buy online. E--Commerce with its wide array of information nooks, allows the customer to go through various reviews of the product or service before actually heading for purchases. These online shopping websites also have daily deals for the customer looking for discounts and store offerings. The growth of technology has made these a part and parcel of everyday lifestyle. The advent of plastic money or the debit /credit card and the smooth access to the World Wide Web has brought the shops from around the world to the desktop. Internet is now going beyond the simple exchange of information to a shopping paradise.

In spite of this there are numerous challenges before various domestic and international players posed by peculiar Indian socio-economic and technological environment. These challenges are theme matter of this research paper.

Keywords: E-commerce, Internet, online shopping.

Introduction

E-commerce is anything that involves an online transaction. This can range from ordering online, through online delivery of paid content, to financial transactions such as movement of money between bank accounts.

The e-business is one of the biggest things that have taken the Indian business by storm. It is creating an entire new economy, which has a huge potential and is fundamentally changing the way businesses are done. It has advantages for both buyers as well as sellers and this win-win situation is at the core of its phenomenal rise. Rising incomes and a greater variety of goods and services that can be bought over the internet is making buying online more attractive and convenient for consumers all over the country. Electronic commerce is presently an essential ingredient of India's trade facilitation policy. Since 1991, after economic reforms explicitly took place in India as a result of opening of the economy with a view to integrate itself with the worldwide economy, the need to facilitate international trade both through policy and procedure reforms has become the foundation stone of India's trade and fiscal policies. Resultantly, last few years have witnessed a technological revolution accompanied by the wide spread use of the Internet, web technologies and their applications. Electronic Business (e-commerce) as part of the information technology revolution became widely used in the world trade in general and Indian economy in particular.

As a symbol of globalization, e-business represents the cutting edge of success in this digital age and it has changed and is still changing the way business is conducted around the world. The commercialization of the Internet has driven electronic commerce to become one of the most capable channels for inter-organizational business processes.

Overview of Industry: Online shopping in India

India had an internet user base of about 354 million as of June 2015 and is expected to cross 500 million in 2016. Despite being the second-largest user base in world, only behind China (650 million, 48% of population), the penetration of e-commerce is low compared to markets like the United States (266 million, 84%), or France (54 M, 81%), but is growing at an unprecedented rate, adding around 6 million new entrants every month. The industry consensus is that growth is at an inflection point.

In India, cash on delivery is the most preferred payment method, accumulating 75% of the e-retail activities. Demand for international consumer products (including long-tail items) is growing much faster than in-country supply from authorized distributors and e-commerce offerings. Largest e-commerce companies in India are Flipkart, Snapdeal, Amazon India, Paytm.

Market size and growth prospects

India's e-commerce market was worth about $3.9 billion in 2009, it went up to $12.6 billion in 2013. In 2013, the e-retail segment was worth US$2.3 billion. About 70% of India's e-commerce market is travel related. According to Google India, there were 35 million online shoppers in India in 2014 Q1 and is expected to cross 100 million mark by end of year 2016. CAGR vis-à-vis a global growth rate of 8–10%. Electronics and Apparel are the biggest categories in terms of sales.

According to a study conducted by the Internet and Mobile Association of India, the e-commerce sector is estimated to reach Rs. 211,005 by December 2016. The study also stated that online travel accounts for 61% of the e-commerce market. Though, it may be too early to do a comparison with the e-commerce scenes in countries such as the US where billions of dollars are spent online but the business in India is growing exponentially every year, albeit from a smaller base, the total revenues have reached a respectful size. However, IAMAI partnered with The Boston Consulting Group in its report stated that India's internet economy will grow to US$200 billion by 2020 and will contribute 5 percent to the GDP of the country. The report also mentioned that the country's internet user base will cross 500 million by 2018, with rural internet users alone being almost 210 million. India currently has about 300 million internet users and is expected to overtake the US as the second-largest internet base in the world soon. Accompanying this growth, there is an increasing maturity in the way people use the Internet. Indian customers are increasingly getting comfortable with online shopping, and there is a higher acceptability for the concept. India has crossed 300 million Internet users and more is now turning to online shopping. There has been an influx of online shopping sites in India with many companies hitching onto the Internet bandwagon. Many companies have started using the Internet with the aim of cutting marketing costs, thereby reducing the price of their products and services in order to stay ahead in highly competitive markets. Companies also use the Internet to convey, communicate and disseminate information, to sell the product, to take feedback and also to conduct satisfaction surveys with customers. Customers use the Internet not only to buy the product online, but also to compare prices, product features and after sale service facilities they will receive if they purchase the product from a particular store. Many experts are optimistic about the prospect of online business. In addition to the tremendous potential of the E-commerce market, the Internet provides a unique opportunity for companies to more efficiently reach existing and potential customers.

By 2020, India is expected to generate $100 billion online retail revenue out of which $35 billion will be through fashion e-commerce. Online apparel sales are set to grow four times in coming years.

Key drivers in Indian e-commerce are:

- Large percentage of population subscribed to broadband Internet, burgeoning 3G internet users, and a recent introduction of 4G across the country. According to IAMAI study, Rural Internet users will increase from 60 million in June 2014 to 280 million in 2018, The 2018 Internet user base of India is projected to be 54 percent above the age of 25, 40-50 percent rural, 30 per cent female and 70-80 percent mobile. "The class of 2018 will be more rural, older, more gender-equal, more mobile and more vernacular than their counterparts of today," the report predicts. Initiatives such as Google's Indian Languages Internet Alliance (ILIA) are targeted at the next 300 million Internet users who would prefer content in their local languages (IAMAI report, 2014-15).

- As far as technology and societal trends and growth drivers is concerned, internet users in India increased from 51 million users in 2008 to 176 million users in 2013 – growth of 248%. Moreover, volume sales of smart phones in India rose by a CAGR of 69% over the same period. The increasing rate of internet and smart phone usage has fuelled internet retailing in

India. Not only that, the so-called "showrooming" trend has become extremely popular. Consumers can visit a store-based retail outlet to see, touch and feel the products they are considering purchasing before returning home to purchase them online at the lowest possible price, according to Euromonitor International's Category Briefing on Internet Retailing in India.
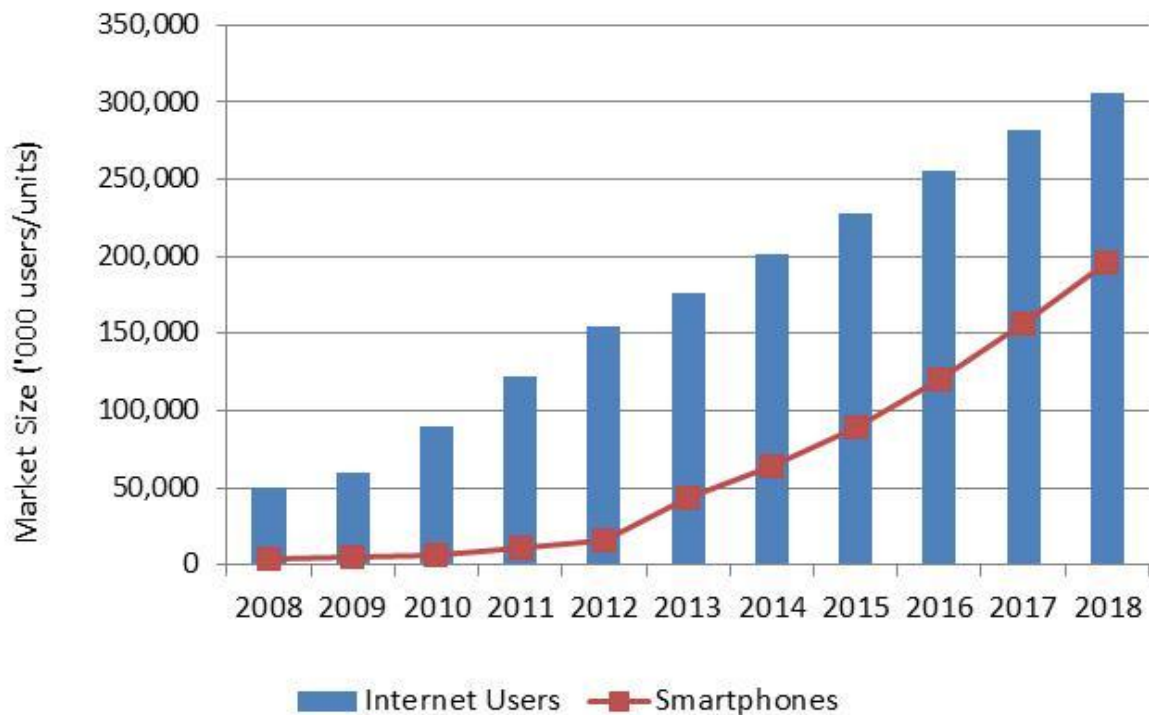
Source: Euromonitor International

- Explosive growth of Smartphone users, soon to be world's second largest smartphone userbase.
- Rising standards of living as result of fast decline in poverty rate.
- Availability of much wider product range (including long tail and Direct Imports) compared to what is available at brick and mortar retailers.
- Competitive prices compared to brick and mortar retail driven by disintermediation and reduced inventory and real estate costs.
- Increased usage of online classified sites, with more consumers buying and selling second-hand goods.

India's *retail market* is estimated at $470 billion in 2011 and is expected to grow to $675 Bn by 2016 and $850 billion by 2020, – estimated CAGR of 10%. According to Forrester, the e-commerce market in India is set to grow the fastest within the Asia-Pacific Region at a CAGR of over 57% between 2012–16.

As per "India Goes Digital", a report by Avendus Capital, a leading Indian investment bank specializing in digital media and technology sector, the Indian e-commerce market is estimated at Rs 28,500 crore ($6.3 billion) for the year 2011. Online travel constitutes a sizable portion (87%) of this market today. Online travel market in India is expected to grow at a rate of 22% over the next 4 years and reach Rs 54,800 crore ($12.2 billion) in size by 2015. Indian e-tailing industry is estimated at Rs 3,600 crore (US$800 million) in 2011 and estimated to grow to Rs 53,000 crore ($11.8 billion) in 2015.

Overall e-commerce market is expected to reach Rs 1, 07,800 crores (US$24 billion) by the year 2015 with both online travel and e-tailing contributing equally. Another big segment in e-commerce is mobile/DTH recharge with nearly 1 million transactions daily by operator websites.

New sector in e-commerce is online medicine. Company like Reckwing-India, Buyonkart, Healthkart already selling complementary and alternative medicine where as NetMed has started selling prescription medicine online after raising fund from GIC and Steadview capital citing there are no dedicated online pharmacy laws in India and it is permissible to sell prescription medicine online with a legitimate license.

Online sales of luxury products like jewellery also increased over the years. Most of the retail brands have also started entering into the market and they expect at least 20% sales through online in next 2–3 years. Thus the India's Internet shopping sector is preparing for a massive growth, which is fuelled by increasing broadband usage and growing e-commerce.

Challenges for Ecommerce in India

Though India has made a spectacular growth in E-commerce retailing with a projected silver lining for future but there are numerous challenges and obstacles to overcome in its success journey. The growth of ecommerce volumes in India is attracting the attention of players around the globe. India, the second most populous country in the world, is home to 1.2 billion people. To put that number into perspective, consider this: the combined populations of Germany, UK, and France, Italy, Netherlands, Belgium, and Greece equal one-fourth the population of India alone! Despite lower per-capita purchasing power, this still makes India one of the most attractive emerging markets for ecommerce. But India is far from being a bed of roses. Here are the certain key grey areas and challenges that E-commerce businesses face in India.

1. Indian customers return much of the merchandise they purchase online

Ecommerce in India has many first time buyers. This means that they have not yet made up their mind about what to expect from ecommerce websites. As a result, buyers sometimes fall prey to hard sell to the extent that the final product is always a letdown. Also, by the time the product is delivered, they demonstrate remorse and return the goods. Though consumer remorse is a global problem, it is all the more prevalent in a country like India, where much of the growth comes from new buyers.

Returns are expensive for ecommerce players, as reverse logistics presents unique challenges. This becomes all the more complex in cross-border ecommerce.

2. Shoppers maturity is low

The major challenge we have is that Indian people are reluctant to buy products online as they are unsure about the quality of the products. You will find Chinese copy of almost all electronics on Sites like eBay and customers fall prey to them as they are cheaper than the original ones. However when they find the product is not up to their expectation they stop using Ecommerce sites. Whereas when we sell something to international customers they know what to expect at what price and are not sad if they get cheap product if they buy it cheap!!.

3. Cash on delivery is the preferred payment mode

Low credit card penetration and low trust in online transactions has led to cash on delivery being the preferred payment option in India. Unlike electronic payments, manual cash collection is laborious, risky, and expensive. However, the lack of credit cards – can this be resolved by some kind of ecash or prepaid system? With the ability to "top up" cards at local shops?

4. Payment gateways have a high failure rate

As if the preference for cash on delivery was not bad enough, Indian payment gateways have an unusually high failure rate by global standards. Ecommerce companies using Indian payment gateways are losing out on business, as several customers do not reattempt payment after a transaction fails.

5. Internet penetration is low

Internet penetration in India is still a small fraction of what you would find in several western countries. On top of that, the quality of connectivity is poor in several regions. But both these problems are fast disappearing. The day is not far when connectivity issues would not feature in a list of challenges to ecommerce in India.

6. Feature phones still rule the roost

Though the total number of mobile phone users in India is very high, a significant majority still use feature phones, not smart phones. So, for all practical purposes this consumer group is unable to make ecommerce purchases on the move. Though we are still a couple of years away from the scales tipping in favor of smart phones, the rapid downward spiral in the price of entry-level smart phones is an encouraging sign. I expect that the next few quarters will witness announcements of new smart phones in India at the $30-40 price point. That should spur growth in Smartphone ownership.

7. Postal addresses are not standardized

If you place an online order in India, you will quite likely get a call from the logistics company to ask you about your exact location. Clearly your address is not enough. This is because there is little standardization in the way postal addresses are written. Last mile issues add to ecommerce logistics problems.

8. Logistics is a problem in thousands of Indian towns

The logistics challenge in India is not just about the lack of standardization in postal addresses. Given the large size of the country, there are thousands of towns that are not easily accessible. Metropolitan cities and other major urban centers have a fairly robust logistics infrastructure. But since the real charm of the Indian market lies in its large population, absence of seamless access to a significant proportion of prospective customers is a dampener. The problem with logistics is compounded by the fact that cash on delivery is the preferred payment option in India. Experts believe that in the next decade organized retail will grow from 0.1% to 5.3%. Tier 1 cities are nearly exhausted. The next decade would belong to infiltrating Tier 2 & 3 cities and reaching out further down. This would require strengthening the logistics & delivery arm, which would also include building ample warehouses, good tracking systems and hiring trained & trustworthy workers.

International logistics providers, private Indian companies, and the government-owned postal services are making a valiant effort to solve the logistics problem like Amazon have set up "drop off points" in the UK next to train and tube stations. You're given a code and collect it on your way home from work, rather than having to take a day off work to wait for delivery. If someone could innovate to convert the sheer size of the problem into an opportunity, we might soon hear of a great success story coming out of the Indian logistics industry.

9. Overfunded competitors are driving up cost of customer acquisition

The vibrancy in the Indian startup ecosystem over the past couple of years has channeled a lot of investment into the ecommerce sector. The long-term prospects for ecommerce companies are so exciting that some investors are willing to spend irrationally high amounts of money to acquire market share today. Naturally the Indian consumer is spoiled for choice. However, this trend has reversed as investors are getting worried about slipping further down a slippery slope, and expect more rational behavior now.

10. Winner takes it all – No room for small players

Flipkart, Amazon and Snapdeal are deep pocketed major players making it tough for the small players to survive in the market. The mortality rate in Indian e-commerce is rising day by day as the small retailers are choking to attract investors or customers alike. Some of the e-commerce portals like Babyoye, Zipdial, Tastykhana, Indiaplaza have failed in making it big and have made a tragic exit whereas star players like Flipkart, Bookmyshow, Zomato, Makemytrip are becoming household names as they could instill confidence in the investors and took risks from the inception and have gained popularity.

11. Establishing trust and outwitting competition

Indian people tend to stay loyal to a brand their convenient with. Once they trust someone they just cannot think of changing. So winning over their trust is something very tough. Currently

sites like flipkart, amazon, snapdeal have penetrated the Indian household and it will be really tough to find a place among these big three.

12. Digital literacy and consumer connect

With Narendra Modi's digital India campaign, Ecommerce market is showing signs of boom but when we compare it with the digital literacy of the consumers it fails to show the same sign. There is a major chunk of population i.e 147 million who are still using feature phones. The stalwarts of online marketplace should try and tap this sector by bringing out easy access to websites and helping in digital literacy. Also try to fix the loopholes like fast customer service, return policies, payment security and to lure more customers for the website.

13. Reasonable investments

The future demands market leaders in Ecommerce to raise funds in order to sustain the growth. An ETRetail news report stated 'Indian online retailers such as Flipkart and Snapdeal must collectively raise $20 billion (Rs 1.27 lakh crore) in the next five years to be able to sustain growth, investment bank Goldman Sachs has estimated.' Is this why Flipkart is looking to raise debt for the first time with Rs 3,000-crore rupee bonds and Snapdeal revived talks with Alibaba.

14. Building customer loyalty

As far as top etailers are concerned, none of them are competing on any product/service differentiating factor. All are fighting on discounts. This won't help in building customer loyalty as buyers would go where the discounts take them. And delivery blunders and moves such as going 'app-only' don't help either. So maybe it's time to work on building a distinct identity if etailers wish to survive well.

15. 'Touch and Feel' factors

Indian customers are easier in shopping for merchandise physically. they have an inclination to settle on the merchandise by touching the merchandise directly.

16. High Churn and low loyalty

Indian market is very large and we have just hit the tip of the iceberg in terms of customer adoption. I have no doubts on the size of Indian market but the problem is low loyalty. The big brands are yet to be created on the internet and hence the brand loyalty is very low.

In the high acquisition cost scenario, it is important to retain the customers for a long time. Currently this is not happening. Most of the sites are getting high number of new customers every month camouflaging the high churn. The e Commerce companies are measuring the gross profitability and not the customer lifetime value. The moment the new customer addition drops, the profitability goes for a toss. This is not limited to group buying sites and other e Commerce formats are also witnessing the high churn and low loyalty problems.

Conslusion:

While this article focuses on ecommerce challenges in India, an intrinsically one-sided topic, it is important to note that ecommerce giants are increasingly attracted to India. Cross-border ecommerce to India is growing, and many large international players are also making a significant investment in setting up shop in India.

Online shopping is having very bright future in India. Perception towards online shopping is getting better in India. With the use of internet, consumers can shop anywhere, anything and anytime with easy and safe payment options. Consumers can do comparison shopping between products, as well as, online stores. Internet shopping include the nature of Internet shopping, E-commerce website, and online security, privacy, trust and trustworthiness) and online consumer behaviours. The online retailers have to enhance and improve the information supporting such as provide much detailed product information and use internal search engine in order to increase the efficient of information search. These factors along with other societal and infrastructural issues need to be dealt with innovative approaches to reap the benefits in future by understanding Indian scenario more comprehensively. Finally thought there is lot of challenges, nonetheless, the above mentioned issues are not unbeatable. Without a doubt, India has been a profitable Ecommerce potential for future. Thus many venture capitalists, angel investors, private companies and high net-worth individuals are pouring money in Ecommerce, no matter how small or big the company. Entrepreneurs need to be disciplined sticking to the basics of business without getting carried away by the rush of capturing the opportunity. This industry is huge and is full of endless opportunities. Therefore, understand the basics of online business focus on the long-term growth and keep moving ahead.

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