Challenges and Opportunities for Electronic Commerce in India

Saroj Kumar Singh

Dept. of Rural Economics, S. N. S. R. K. S. College, Saharsa
(A constituent college under B. N. M. U. Madhepura)
E-mail: drsaroj999@gmail.com

Abstract—*Electronic commerce, commonly known as e-commerce, is a type of industry where the buying and selling of products or services is conducted over electronic systems such as the Internet and other computer networks. Electronic commerce draws on technologies such as mobile commerce, electronic funds transfer, supply chain management, Internet marketing, online transaction processing, electronic data interchange (EDI), inventory management systems, and automated data collection systems. Modern electronic commerce typically uses the World Wide Web at least at one point in the transaction's life-cycle, although it may encompass a wider range of technologies such as e-mail, mobile devices, social media, and telephones as well. Electronic commerce is generally considered to be the sales aspect of e-business. It also consists of the exchange of data to facilitate the financing and payment aspects of business transactions. This is an effective and efficient way of communicating within an organization and one of the most effective and useful ways of conducting business. This paper is outcome of a review of various research studies carried out on E-commerce. This paper examines development of e-commerce as well as emerging challenges and different opportunities of e-commerce in India. Many companies, organizations, and communities in India are beginning to take advantage of the potential of e-commerce; critical challenges remain to be overcome before e-commerce would become an asset for common people.*

Keywords: *E-Commerce, E-business, electronic data interchange (EDI), COD, Internet.*

1. INTRODUCTION

E-Commerce (e-commerce) or **e**lectronic commerce, a subset of e-business, is the purchasing, selling, and exchanging of goods and services over computer networks (such as the Internet) through which transactions or terms of sale are performed electronically. The term e-Commerce, which is frequently mixed up with the term e-Business, although, only covers one aspect of e-Business, i.e. the use of an online support for the relationship building between a company and clients. Contrary to popular belief, ecommerce is not just on the Web. In fact, ecommerce was alive and well in business to business transactions before the Web back in the 70s via EDI (Electronic Data Interchange) is a document standard which when implemented acts as a common interface between two or more computer applications in terms of understanding the document transmitted. It is commonly used by big companies for e-commerce purposes, such as sending orders to warehouses or tracking their order. It is more than mere e-mail; for instance, organizations might replace bills of lading and even cheques with appropriate EDI messages. It also refers specifically to a family of standards, through VANs (Value-Added Networks). Ecommerce can be broken into four main categories: B2B, B2C, C2B, and C2C.

B2B (Business to Business)

The term B2B also known as Business-to-business, is normally used in business to describe business transactions between businesses. This could be between a manufacture and a wholesaler or a wholesaler and a retailer.

B2C (Business to Consumer)

Businesses selling to the general public typically through catalogs utilizing shopping cart software. By dollar volume, B2B takes the prize, however B2C is really what the average Joe has in mind with regards to ecommerce as a whole. Having a hard time finding a book? Need to purchase a custom, high-end computer system? How about a first class, all-inclusive trip to a tropical island? With the advent ecommerce, all three things can be purchased literally in minutes without human interaction.

C2B (Consumer to Buyer)

A consumer posts his project with a set budget online and within hours companies review the consumer's requirements and bid on the project. The consumer reviews the bids and selects the company that will complete the project. Elance empowers consumers around the world by providing the meeting ground and platform for such transactions.

C2C (Consumer to Consumer)

There are many sites offering free classifieds, auctions, and forums where individuals can buy and sell thanks to online payment systems like PayPal where people can send and

receive money online with ease. eBay's auction service is a great example of where person-to-person transactions take place every day since 1995. Companies using internal networks to offer their employees products and services online--not necessarily online on the Web--are engaging in B2E (Business-to-Employee) ecommerce. G2G (Government-to-Government), G2E (Government-to-Employee), G2B (Government-to-Business), B2G (Business-to-Government), G2C (Government-to-Citizen), C2G (Citizen-to-Government) are other forms of ecommerce that involve transactions with the government--from procurement to filing taxes to business registrations to renewing licenses. There are other categories of E-Commerce out there, but they tend to be superfluous.

2. DEVELOPMENT OF E-COMMERCE

Today, the market place is flooded with several e-commerce options for shoppers to choose from. A variety of innovative products and services are being offered spoiling customers for choice. Online shopping is no more a privilege enjoyed by your friends and family living in the US or UK. Today, it is a reality in India. In the last couple of years, the growth of e-commerce industry in India has been phenomenal as more shoppers have started discovering the benefits of using this platform. There is enough scope for online businesses in the future if they understand the Indian shoppers psyche and cater to their needs.

Changing the game Indian e-commerce industry has evolved over a period of time with innovations that have changed the rules of the game globally. Cash on delivery (COD) is one such example. In a country where credit card penetration is much lower than other developed markets and where e-commerce companies are still working hard to build trust among shoppers, introducing cash on delivery has been one of the key factors for the success of the segment. At present, COD is the preferred payment mode for close to 55-60% of all online transactions in the fashion and lifestyle segment in India. COD is here to stay owing to its convenience and its cultural affinity and will be a major part of payment mechanisms for at least the next four to five years. Executing COD efficiently and painlessly for the customer is critical to the success of any e-commerce player in the country. Growing the base Online shopping has seen a lot of traction in the last 12-18 months. India has almost 130 million online users at present, out of which as many as 10% are engaging in online transactions. The online user base is expected to cross 300 million in the next 2 – 3 years and a larger percentage of people are expected to transact online by 2015. This large base will provide vast scope for e-commerce businesses to establish themselves in India. Growing opportunities Cities beyond metros are in the limelight for all the good reasons. On an average, almost 50 – 55% of our business come from tier 2 and tier 3 cities and I believe this ratio is similar across other ecommerce companies in the country. With metro markets reaching saturation, I believe tier 2 and 3 cities are going to be the biggest drivers for ecommerce businesses in India in the

not so distant future. Building a robust supply chain is critical to efficiently fulfilling orders from these cities and tapping their full market potential. The e-commerce industry is growing at a rapid pace and changing the dynamics of the retail industry. In the coming years, e-commerce is expected to contribute close to 8-10% of the total retail segment in India. This growth is bound to continue provided e-commerce companies focus on innovating, building strong technology infrastructure and delivering the best customer experience. The retail commerce market in India is estimated to be worth nearly $500 billion per year.

3. GLOBAL DISRUPTION IN LOCAL COMMERCE

Globally, significant value has been created in the local commerce space by platforms that help buyers connect with local sellers and service providers. The last decade has seen the rise of B2C local commerce companies such as Angie's List, Yelp, Groupon, Zillow, Trulia, RetailMeNot and Opentable – each a public company with over $1 billion in market capitalisation. These platforms help small merchants get discovered or chosen by consumers using various models such as listings, reviews and recommendations, deals, deep information and table reservations. Each of these models succeeded by aggregating a large number of local merchants on one side, and consumers on the other. Over the last few years ubiquity of mobile, local and social has enabled a new class of collaborative consumption platforms, exemplified by AirBnB and Uber. These models have successfully opened up new forms of supply beyond traditional local merchants as well as transformed consumer behaviour meaningfully via the use of a social layer to create trust, the use of mobile, better UX and analytics to increase convenience as well as reduce information asymmetries between buyers and sellers. Innovative companies in this genre are beginning to disrupt large existing industries such as car rental and sharing (GetAround, RelayRides), local services (Thumbtack, TaskRabbit), ride sharing (Zimride, Ridejoy), car repair (Your Mechanic), local freelance work (Gigwalk), local experiences (Zozi, Sidetour) and even food consumption (Grubly). While the collaborative consumption space is still young, several of these companies will transform the way people discover and consume local services and products.

4. LOCAL COMMERCE IN INDIA

In India, the local commerce space is starting to see meaningful traction. JustDial has gone public and commands an impressive valuation. RedBus built a valuable business by painstakingly aggregating numerous small bus operators to give the consumer a unified platform for bus bookings. BookMyShow and Zomato are growing rapidly with their vertical specialisation on entertainment and F&B industries. At NGP, we focus on this space and are investors in Quikr, a leading classifieds platform, Deals And You, a local deals and couponing platform, and several other companies globally. The local commerce space in India is large and its digital

intermediation is still in an early phase. The rapid penetration of internet and mobile internet along with consumers' increasing propensity to transact online enables rapid future growth. There are 45 million small merchants in the country, of which under1% are estimated to currently have an online presence beyond basic listings. A growing number of merchants are looking to leverage online platforms in order to get discovered more effectively by consumers. Local merchants, especially those that sell higher margin services, spend a significant percentage of revenues directly or indirectly on various forms of marketing and customer acquisition.

5. CHALLENGES FOR E- COMMERCE IN INDIA

The growth of ecommerce volumes in India is attracting the attention of players around the globe. India, the second populated 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, 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 top 8 challenges that ecommerce businesses face in India.

i. 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. But 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.

ii. 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.

iii. 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.

iv. 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.

v. 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 smartphones. 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 smartphones, the rapid downward spiral in the price of entry-level smartphones is an encouraging sign. That should spur growth in smartphone ownership.

vi. 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.

vii. 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. International logistics providers, private Indian companies, and the government-owned postal services are making a valiant effort to solve the logistics problem. If someone could 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.

viii. 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 in 2014. 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.

6. OPPORTUNITIES FOR E- COMMERCE IN INDIA

India has an internet user base of about 137 million as of June 2012. The penetration of e-commerce is low compared to markets like the United States and the United Kingdom but is growing at a much faster rate with a large number of new entrants. The industry consensus is that growth is at an inflection point with key drivers being:

Increasing broadband Internet and 3G penetration.

Rising standards of living and a burgeoning, upwardly mobile middle class with high disposable incomes

Availability of much wider product range (including long tail and Direct Imports) compared to what is available at brick and mortar retailers

Busy lifestyles, urban traffic congestion and lack of time for offline shopping

Lower 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 consumer buying and selling second-hand goods

Evolution of the online marketplace model with sites like ebay, Infibeam, and Tradus

7. MARKET SIZE AND GROWTH

India's e-commerce market was worth about $2.5 billion in 2009, it went up to $6.3 billion in 2011 and to $14 billion in 2012 and $32 billion in 2013. About 75% of this is travel related (airline tickets, railway tickets, hotel bookings, online mobile recharge etc.). Online Retailing comprises about 12.5% ($300 Million as of 2009). India has close to 10 million online shoppers and is growing at an estimated 30% CAGR vis-à-vis a global growth rate of 8–10%. Electronics and Apparel are the biggest categories in terms of sales. There are many reasons which make India a suitable market for e-commerce. Here are some of the reasons:

1. The mindset of consumer has changed: The consumers have become quite technological friendly these days. Earlier, consumers in India preferred going out and shopping in the markets. However, e-commerce does not only provide one with comfort but also gives them a chance to avail on various kinds of offers which helps the consumer to save money. Thus, consumers have now started developing a penchant for e-commerce rather than shopping in the markets.

2. Internet friendly users: In India, people have become quite internet friendly these days. The numbers of users have grown phenomenally over the years. According to a survey, there were only 7 million internet users in India in 2001. The number had grown to 100 million in 2010. Since people are becoming quite internet friendly these

days, e-commerce is becoming a comfortable option for the people. It is believed that around 75 million household are ready for e-commerce in this nation.

3. Entry of big names in the Indian e-commerce market: Many big names have entered the market of e-commerce in India. Thus, the consumers get the best of the options while sitting at home only. These big names are investing in the e-commerce market from a long term perspective rather than small term. Thus, the e-commerce market is to grow even more bigger and better in times to come.

4. The success of the some of the sectors in the e-commerce market: Some of the sectors like travelling and retail have already proved to be quite successful in the field of e-commerce. These sectors have already made a lot of profit through the e-commerce market. The success of these sectors has incited other sectors to enter the market of e-commerce and this is precisely the reason why the e-commerce market has expanded so quickly in India.

Above mentioned are some of the reasons which make India a suitable market for e-commerce. However, there is still a slight bit of reluctance in the Indian Consumers regarding online shopping and e-commerce. Eventually this hesitation and reluctance will go with better services and offers and this is precisely the reason for believing that the market for e-commerce will only grow in India in times to come. According to a survey, it is believed that the number of e-commerce consumers will grow to 460 million individuals by 2024-2025. Flipkart, Superbazaar.com, olx. Com, snapdeal are some of the e-commerce of online shopping websites that have already made it big in the Indian e-commerce market. With bigger and better online shopping sites like Amazon to enter the Indian e-commerce market in the near future, it would be right to say that the future of e-commerce is quite bright in India.

8. CONCLUSION

With the development of computer technology, the World Wide Web has become the connection medium for the networked world. Computers from locations that are geographically dispersed can talk with each other through the Internet. As with any new technology, there are positives and negatives associated with its use and Adoption. Finally, an e-marketplace can serve as an information agent that provides buyers and sellers with information on products and other participants in the market. E-commerce creates new opportunities for business; it also creates new opportunities for education and academics. It appears that there is tremendous potential for providing e-business education. As discussed earlier about the different media of e-commerce such as TV, PC or Mobile these new media will be a major preoccupation for marketers over the few years that especially how to combine them within an integrated bricks and clicks marketing mix. However, rapidly changing technology is continually bringing new goods and services to the market

accompanied by new strategies to sell them. Therefore, it may also conclude that new ethical issues related to business will emerge. New ethical issues must be identified and immediate steps and actions should be taken. Initially, new Internet users would be reluctant to conduct any kind of business online, citing security reasons as their main concern. In order to increase consumer adoption of e-services, the sources of consumer confusion, apprehension and risk need to be identified, understood and alleviated. E-commerce provides tremendous opportunities in different areas but it requires careful application for consumer protection issues. Growth of e-commerce would also depend to a great extent on effective IT security systems for which necessary technological and legal provisions need to be put in place and strengthened constantly. While many companies, organizations, and communities in India are beginning to take advantage of the potential of e-commerce, critical challenges remain to be overcome before e-commerce would become an asset for common people.

REFERENCES

[1] Andrew D. Mitchell(2001);Towards compability: The future of e-commerce within the global trading system; Journal of International Economic law; 2001; pp.683-723.

[2] Elizabeth Goldsmith and Sue L.T. McGregor(2000); E-commerce: consumer protection issues and implications for research and education; J Consumer Studies & Home Economics; Vol.24, No.2, June 2000, pp.124–127.

[3] Farooq Ahmed (2001); Electronic Commerce : An Indian perspective; International Journal of Law and Information Technology; Vol.9, No.2, 2001;pp.133-170.

[4] Jackie Gilbert Bette Ann Stead (2001); Ethical Issues in Electronic Commerce; Journal of Business Ethics; Vol.34, 2001; pp.75-85.