

E-Tailing in India – Key Drivers and Challenges

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Abstract

Online retailing in India has burgeoned in the recent years. According to the India Brand Equity Foundation (IBEF) Report, online sales in India are expected to reach 32.70 billion in 2018. More and more customers are shifting their purchases to online stores owing to the Internet and smart phone revolution in the country. Despite a good number of growth opportunities, online retailers in the country are facing certain challenges which are to be addressed effectively. The present study aims at understanding the growth of e-tail business in India and its current scenario. The study also highlights the growth drivers for e-tail development and the challenges faced by Indian e-tailers. For the purpose of this study, data was collected from various secondary sources. The study found that the rise in the Internet accustomed customer base and rapid penetration of Internet supporting devices are the major growth drivers of e-tailing in India. Similarly, absence of a separate e-commerce law and difficulty in gaining customer loyalty acts as key challenges for the growth of e-tailing in the country.

Keywords: e-tail, category players, product assortment, retail logistics, e-commerce law, customer loyalty.

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Introduction:

India is experiencing phenomenal changes in the retail business environment. The digital revolution has been shaping the retail business in the country. According to Associated Chambers of Commerce and Industry of India, over 120 million Indian consumers are expected to shop online in 2018 (ASSOCHAM, 2018). Substantial decline in the internet rates, launch of 4G networks, increased smart phone and internet penetration, changing customer lifestyle, convenience of shopping from the comfort zone of the home and a wide product variety to choose from, increased usage of online or mobile based payment system, are some of the reasons for increasing reliance on online retail channel. However, there are certain challenges for the growth of e-commerce sector in the country. The challenges include the absence of a separate law governing the e-commerce activities, low entry barriers, customer reluctance for online shopping, FDI restrictions, and low customer loyalty among others. The present study aims to highlight the various issues and challenges in the e-commerce retail space as well as the opportunities therein.

Objectives:

1. To understand the e-tail market in India.
2. To highlight the growth drivers for e-tailing in India.
3. To analyse the major challenges for the growth of e-tailing in India.

Methodology:

This is a conceptual study. It highlights the current scenario of online market in India and analyses the major opportunities and challenges for the growth of e-tail business in the country. For this purpose, data was gathered from industry reports like India Brand Equity Foundation (IBEF), Ernst & Young, and KPMG reports, journal articles, and news reports.

Growth of E-tailing in India:

The growth of Indian e-commerce industry can be broadly divided into two phases (Table 1). The first phase was marked with the introduction of Internet in the country in 1995. The economic liberalization since 1991 gave the required boost to the growth of Indian IT industry. Although online business began to grow in the late 1990's, the necessary ecosystem was absent. The first phase of e-commerce growth was mainly characterised by low Internet penetration, limited online shopping user base, high internet rates, low internet speed, low consumer acceptance of online shopping, and inadequate logistics infrastructure. Further, with the burst of dotcom bubble in 2000, the activities in the Indian e-commerce arena was muted until 2005 (Ernst & Young, 2013).

Table 1: E-retailing time line in India

Sl. No.	Year	Significant developments
1	1995	Internet was introduced in India
2	1996	First online B2B directory was launched mainly helping MSMEs to overcome the barriers of time, communication, and geography. B2C e-commerce also took off around the same time with the introduction of matrimonial sites to find alliances among Indian families.
3	1997	Recruitment portals were introduced to enable employers and job seekers to get connected.
4	1999	Rediff.com and Indiatimes shopping were introduced but none were successful in convincing Indian customers to shop online.
5	1999	Indian Railway Catering and Tourism Corporation (IRCTC) was launched to handle catering, tourism, and online ticketing operations of Indian railways.
6	2000	Burst of dot com bubble
7	2001 - 2005	Growth in the e-commerce sector was halted as an aftermath of dot com bubble burst. During the same time, in 2004, eBay acquired Baze.com and accessed the Indian e-commerce sector.
8	2005	Introduction of LCCs gave boost to aviation sector in India
9	2007	Flipkart was launched.
10	2010	Flipkart pioneered Cash-on-Delivery model
11	2011	Online Grocery store - BigBasket was founded
12	2012	Junglee.com was launched by Amazon in India to enable the customers to research their options before buying
13	2013	Amazon launched its site in India
14	2014	Flipkart launched Same-day delivery

First Phase of E-commerce
Growth in India

Second Phase of E-commerce
Growth in India

15	2016	Amazon launched prime delivery in India
16	2018	Walmart acquires Flipkart

Source: Compiled from secondary sources

The introduction of Low Cost Carriers (LCCs) in the Indian aviation sector in 2005 marked the beginning of the second phase of e-commerce growth in the country. The success of online travel industry encouraged people to opt for online shopping, thus marking the development of online retail in India. The e-tail segment developed particularly since 2007 with the launch of many online retail websites. This phase witnessed the entry of game-changers, who are battling for market leadership, improvements in e-commerce ecosystem, increased competition and enhanced investments in the sector (Ernst & Young, 2013).

Current Scenario of E-tail market in India:

Online retailing/ e-retailing/ e-tailing refer to the business of retailing on the Internet. It is an integration of technology, infrastructure and logistics, which creates an efficient marketplace for both customers and sellers. Presently, in India, there are a number of online retail players offering a variety of merchandise to the customers. These e-tailers can be categorised into two categories-

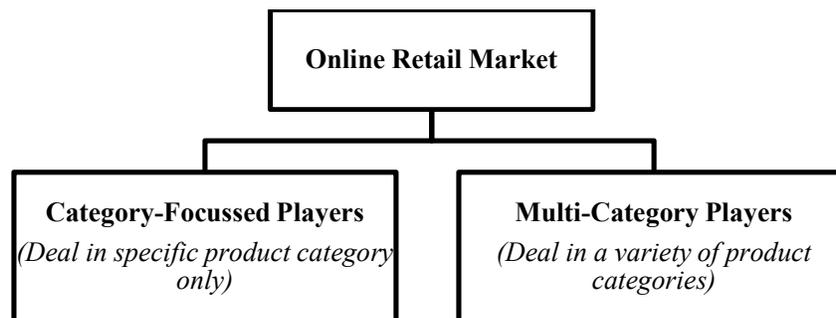


Figure 1: Classification of online retail players

The category focussed players' offers particular merchandise with deep assortment (Jayakrishnan, 2015). Deep assortment is a merchandising strategy whereby the retailer stocks a large variety of a particular product line. Online retailers such as Myntra, Jabong, LimeRoad, Koovs, Yebhi (Clothing, apparels and lifestyle merchandise), Pepperfry, Urban Ladder, Wooden Street (Furniture), Firstcry, Babycouture (Baby products), Bluestone, Caratlane, Voylla (Jewellery), BigBasket, Grofers, Nature's Basket (Grocery), NetMeds, Medlife (Medicines) are the examples of category focussed players in the Indian e-tail market. Similarly, the multi-category players offer variety of merchandise with limited assortment. Examples include Amazon, Flipkart, Snapdeal, Shopclues, and many more.

Some of the major merchandise categories and the major players therein are listed below:

- **Art and handicrafts:** Engrave.in, Craftslane.com, TheIndiaCraftHouse.com, Kauthuk.com, Artzolo.com
- **Auto parts and spares:** Boodmo.com, Spareshub.com, GenuineParts.in, Snapdeal.com, Sparesncare.com, Amazon.in, Autokartz.com
- **Books:** Amazon.in, Flipkart.com, Infibeam.com, Bookswagon.com, Sapnaonline.com
- **Clothing, Apparels, and Accessories:** Amazon.in, Flipkart.com, Snapdeal.com.com, Myntra.com, Jabong.com, Limeroad.com, Ajio.com

- **Desktops, Laptops, and Accessories:** Amazon.in, Flipkart.com, Croma.com, Shopclues.com, Paytm.com, The IT Depot, Infibeam.com
- **Electronics:** Croma.com, Tatacliq.com, Amazon.in, Paytm.com, Snapdeal.com, Shopclues.com, Flipkart.com
- **Eye wears:** Lenskart.com, Eyeplus.titan.co.in, Specswwala.com, Smartbuyglasses.co.in
- **Food:** Foodpanda.in, Zomato.com, Swiggy.com
- **Grocery:** Bigbasket.com, Grofers.com, Naturesbasket.co.in, Zopnow.com, Amazon.in, Freshdirect.com
- **Home furnishing:** Pepperfry.com, Urbanladder.com, Woodenstreet.com, Amazon.in, Flipkart.com, Shopclues.com, Hometown.in
- **Industrial supplies:** Amazon.in, Industrybuying.com, Supplify.com, Tolexo.com, Industrykart.com, Snapdeal.com
- **Jewellery:** Bluestone.com, Caratlane.com, Voylla.com, Candere.com, Amazon.in, Flipkart.com, Craftsvilla.com, Titan.co.in, PCJeweller.com
- **Kitchen supplies:** Amazon.in, Flipkart.com, Snapdeal.com, Limeroad.com, Homeshop18.com
- **Luggage:** Amazon.in, Flipkart.com, Pepperfry.com, Jabong.com, Safari.in, Shop.vipbags.com
- **Medicines:** NetMeds.com, Medlife.com, Pharmeasy.in, Medplusmart.com, Medibuddy.in, Practo.com, Appollopharmacy.in
- **Mobile phones and accessories:** Snapdeal.com, Amazon.in, Flipkart.com, SangeethaMobiles, Infibeam.com, Shopclues.com
- **Office Supplies:** Amazon.in, Flipkart.com, Offimart.com, OfficeDepot.com, Stationaryshop.in, Statmo.in
- **Pet supplies:** Petsworld.in, Amazon.in, Pupkart.com, Petsmart.com, Dogspot.in, Flipkart.com, PetshopIndia.com, Marshallspetz.com
- **Recharges:** Freecharge.in, Mobikwik.com, Paytm.com
- **Sports:** Sports365.in, Khelmart.com, Decathlon.in, Sportsjam.in, Amazon.in, Flipkart.com
- **Toys, Baby Products, and Kids fashion:** Firstcry.com, Hopscotch.in, Babycouture.in, Babiesbloomstore.com, Amazon.in, Flipkart.com, Myntra.com
- **Watches:** Amazon.in, Flipkart.com, Titan.co.in, Tatacliq.com, Ethoswatches.com
- **Yoga Accessories:** Amazon.in, Indiamart.com, Fitbit.com, Yoghita.com, Juruyoga.com

According to IBEF, the e-tail market in India was estimated to be worth 17.8 billion in terms of Gross Merchandise Value (GMV) in 2017. Further, the e-tail sales are expected to reach USD 32.70 billion in 2018. Currently, Electronics is the major contributor to e-tail sales with a share of 48 per cent followed by apparels at 29 per cent (Table 2). Indian e-commerce market is witnessing 1 to 1.2 million e-tail transactions per day. (IBEF, 2018)

Table 2: Share of various segments in e-tail market in India (2018)

Sl. No.	E-tail categories	Category share in Percentage
1	Electronics	48
2	Apparels	29
3	Home Furnishing	09
4	Baby, Beauty and Personal Care	08
5	Books	03
6	Others	03
	Total	100

Source: IBEF, 2018

The e-commerce retail logistics is estimated at 1.35 billion in 2018 and is expected to grow by approximately 36 per cent in the coming five years. The e-commerce retail logistics in India is serviced mainly by the traditional logistics service providers (LSPs) (23 per cent), e-commerce retail focussed LSPs (28 per cent), and captive logistics arms (49 per cent). (KPMG, 2018)

Despite the fact that online retail is growing in the country, its share in the overall retail market is small. According to India Brand Equity Foundation (IBEF), online retail in India was 1.5 percent of overall retail market in 2016-17 and is expected to contribute 2.9 per cent in 2018. Further, it has grown from USD 14.5 billion in 2016 to USD 17.8 billion in 2017 (IBEF, 2018).

Key drivers for e-tailing in India:

The emergence of online retail in India has changed the way people are transacting. Customers can now shop from the convenience of their homes without the barriers of time and place. The online shopping also offers a wide assortment of products and services ranging from clothing, apparels, electronics, mobile phones, accessories, furniture, books to automobiles, and even groceries and many more. There are many factors contributing to this phenomenal growth in the e-tail space. The drivers of growth in the e-tail sector can be summarised as follows:

- 1. Increase in online shopping population:** According to IBEF, over 120 million are expected to shop online in 2018 and this number is expected to go up to 175 million by 2020 (IBEF, 2018). This trend shows the magnificent opportunities for e-tail sector in the country.
- 2. Internet and Smart phone penetration:** Technological advances in the country have contributed to the increasing penetration of devices which are needed for the growth of online retail business. Smart phones are now available at affordable prices and the launch of 4G Internet services at low cost by domestic service providers is offering huge opportunities for the growth of e-tail business in the country. In the first quarter of 2018 the penetration of Internet in India's urban areas stood at 82.10 per cent and that in rural areas stood at 19.48 per cent (IBEF, 2018). Further, the online retailers in India are developing smart phone applications for the further convenience of customers. Growing popularity of smart phones, tablets, and other smart devices can enhance the e-tailing opportunities in the country.
- 3. Multiple payment options:** A customer making online purchases can now make the payments according to his or her convenience. The online retailers provide a wide option to the customers to select their payment mode. The various payment options available to the customers include debit/ credit cards, Electronic/Mobile wallets, Unified Payments Interface (UPI), Net Banking, Equated Monthly Instalments (EMIs), and Cash on Delivery (COD) options. COD is the most popular payment option in India (Pandey, 2016; Ernst & Young, 2013). With the emergence of secured online transactions like Two-way authentication and One-Time Passwords (OTPs), customers are now more comfortable making online payments for their purchase. Banks and e-commerce sites are addressing the various security issues concerning the customers and this has enhanced growth in online retail business.
- 4. Changing customer lifestyle:** The customer lifestyle has been changing lately owing to changes in the level of disposable income and rapid urbanisation. The disposable income of the customers is gradually increasing over years and this has encouraged them to make more online purchases (Pandey, 2016).
- 5. Internet content in local languages:** Few years ago, only the customers who were comfortable with English used to shop online. However, to reach the non-

English speaking population of the country, the online retailers are now offering their sites content in local languages. Snapdeal.com was the first online retailer to provide product descriptions in local languages in 2014. Soon, other global e-tailers operating in India added this feature in their websites. Recently, Flipkart acquired the Artificial Intelligence Company Liv.ai, in order to convert speech to text in nine Indian languages and help accelerate an end-to-end conversational shopping experience to its users (Bansal, 2018).

6. **Growth of logistics and warehouses:** With the development in logistics sector in the country, online retailers are now able to deliver even to remote areas of the country. According to IBEF, with an estimated investment of nearly USD 2 million in the logistics and warehousing sector, the online retailers are able to reach even the Tier-II and Tier-III cities of the country (IBEF, 2018).
7. **Growth of price comparison sites:** One of the reasons for the vigorous growth of online shopping is the development of price comparison sites. These sites allow the customers to compare the product prices across various online stores and choose the store which offers the cheapest price. Additionally, the payment and delivery options available can also be compared side by side. This advantage created by the comparison sites urges the customers to adopt online shopping as they can get the best deal. The negative side of this development is that online retailers have to strive hard to gain customer loyalty as customers' loyalty can shift with few clicks.
8. **Social Media influence:** According to Statista, social network users in India are estimated to reach 258.27 million in 2019 from 168 million in 2016. Social Media like Facebook, Twitter, Instagram, Youtube, Pinterest and others have a great influence on customers' purchase decision and driving e-tail growth. Social media enables online retailers to establish stronger web presence, generate leads and increase web traffic (Jothi & Gaffoor, 2017).

The increase in the Internet-habituated customer base, development of e-tailing enabling infrastructure, like, penetration of Internet supporting devices and proliferation of technologies enabling Internet access, and improved e-commerce ecosystem in the country have resulted in rapid growth of e-tail sector.

Challenges for E-tailing in India:

Despite great potential, Indian e-tail sector is facing certain challenges, some due to the lack of proper e-commerce ecosystem and some because of the customers' mindset.

1. **Customer reluctance:** The Indian customers are more comfortable to buy from the retail stores in their locality than from the online stores. This is mainly because most of the customers in India prefer to sample the product before making a purchase (Ernst & Young, 2013). One of the prominent barriers to online shopping is the inability to touch and feel the product. Due to this customers are apprehensive about the quality of the products sold online. Furthermore, customers are unable to bargain in online shopping and are expected to accept the available deals.
2. **Logistics:** Logistics is the key factor in the success of online retail business. E-commerce logistics services is challenging for the fact that apart from delivering the merchandise to the customers it also includes the collection of cash on COD orders and the managing of returns. Logistics services have to be efficient because speed of delivery is as important as the quality of the products to the customers. Technological advancements like delivery using drones have to be implemented effectively in order to ensure fast and accurate delivery to the customers and become a differentiator in the sector.

3. **Network breakdowns:** Slow internet speed and network breakdowns are common in India. Though Internet services have been upgraded over the years, some rural and remote areas of the country still do not have access to the Internet. Moreover, interrupted Internet services can negatively affect the online buying behaviour of the customers.
4. **Security concerns:** The online retailers have to invest on the security of their websites. They have to ensure their customers regarding the security of transactions with them. There are many instances of online transaction fraud. This can adversely impact the attitude of customers towards online shopping.
5. **Lack of e-commerce laws:** There are no specific e-commerce laws in India. The e-commerce transactions are generally covered by the regulations of IT Act of 2000 and other statutory laws such as the Customer Protection Act 1986, the Indian Contract Act 1872, and FDI regulations. The online retailers have to comply with the RBI guidelines wherever applicable. E-tailing is different from retailing and requires a fresh approach. E-commerce laws in the country are still evolving and lack clarity. This poses a serious challenge to potential entrants and existing players.
6. **High competition:** The success of online retailing in the country is attracting many players in to the sector. The firms are now able to raise the necessary funds easily and replicate the existing online stores. Therefore, free delivery, fast delivery, Cash-on-delivery, which were the major differentiators earlier have become hygiene factors in this phase of high competition. In order to attract customers to their sites, e-tailers are now required to incur heavy costs.
7. **Cash on delivery:** COD is the most preferred mode of payment by the Indian online customers. However, this proves to be a serious challenge to the online retailers. Since the payment is made by the customers only after the receipt of their order, this can have a serious affect on the working capital of the online retailers. Handling of COD is also a challenge to the logistics companies.
8. **High returns:** Due to the availability of COD options although the online retailers can increase the number of transactions and acquire first-time customers, this option gives an opportunity to the customers to accept and pay for the order only if they are satisfied with the quality and other aspects. Customers can reject the package during delivery or can also return within a stipulated time if they are unhappy with their order. This, however, can be a costly affair to the online retailers, as it pushes up the average cost of delivery by nearly 50 per cent due to two-way courier charges (KPMG, 2016).
9. **Customer loyalty:** Online retailers provide huge discounts to attract customers. Since most online retailers offer similar products at almost similar prices, customers shift their purchases to the e-tailer who gives the best deal. Switching cost has become negligible for the customers. Therefore, it is the greatest challenge for the e-tailers today to retain existing customers and gain their loyalty.
10. **FDI restrictions:** FDI is not allowed in the B2C segment of the e-commerce market in India but such restrictions are not there for B2B segment. FDI assistance is thus not available for inventory-led model of e-commerce, whereas, marketplace model of e-commerce can avail FDI assistance. 100 per cent FDI is allowed through the automatic route in the marketplace model of e-commerce retailing. Further, e-commerce entities are not allowed to sell more than 25 per cent of total sales from one vendor or its group companies and shall not directly or indirectly influence the price of the goods sold over its platform and maintain a level playing field (The Hindu, 2016, March 29). These restrictions can alter the operations of online retailers.

It is indeed challenging to the e-tailers to operate in a rapidly evolving marketplace and serve the rapidly changing customer needs. The e-tailers have to keep transitioning their

business models, product offerings, and website interface to attract potential customers and concurrently retain the existing ones.

Conclusion:

The e-tail industry in India is very attractive with certain challenges to work on. The Indian e-tailers have adopted certain strategies to gain a competitive advantage in the highly competitive e-commerce segment. For instance, Flipkart and Amazon India have entered the second hand goods market. They are even providing website content in local languages. Further, some e-tailers have introduced their own payment gateways (Flipkart's Payzippy) and e-wallet services (Amazon.in's Amazon Pay Balance). In order to reach the areas where Internet penetration is low, e-tailers are now planning tie-ups with local merchants and enable the customers to place their orders through the local e-commerce associates. This initiative would enable the customers who are unable to transact online for various reasons to attain the benefits of online shopping. There are a great number of opportunities for online retailers to prosper in the e-tail market in India. However, there are greater numbers of challenges for the e-tailers to concentrate on. Securing safe transactions, working with the Government to frame e-commerce policies, encouraging customers to carry out cash-less transactions, gaining customer loyalty, satisfying customers by ensuring quality, building strong logistics networks, gaining competitive edge through innovations, and compliance with existing legislative regulations are some of the areas where the online retailers have to devote their resources.

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