

# E-Commerce: Indian Scenario

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**Abstract**— Advent of Internet has made the world “shrink” these days. Customer is not bound to the local market but has expanded its search to international markets. Ecommerce is the term which has made a profound change in the way purchase and buying has been done these days. As American and European markets have reached the maturity phase, Asia is becoming increasingly attractive to businesses, especially to e-commerce firms that thrive on global and scalable business models. Asia is a large and rapidly growing region with a rising spending capacity of middle class, growing internet usage and an acute penetration of mobile phones. This Desk research focuses on the issues faced in development of e-commerce in India and Asian subcontinent as a whole.

**Index Terms**—E-commerce, Asian scenario, international market, Market segmentation, Payment gateways, Internet Penetration, Feature Phone.

## 1 INTRODUCTION

In online and Upcoming: The recent impact on India a report by McKinsey stated that “ India is on the verge of an Internet boom and is projected to have between 330 million to 370 million internet users by 2015” . That would give India the second largest base of internet users in the world behind China. The explosive growth in internet usage has more recently led to a corresponding growth in online business and e-commerce. This growth presents both great opportunities as well as some unique challenges.

With the growth of Ecommerce in India many players are attracted towards it. India, the second most populous country in the world, is home to 1.2 billion people. Most global e-commerce players like Amazon, eBay and Expedia have yet to find in Asia the kind of success that they have enjoyed in their home markets. While late entry and local regulations partly explain their low market share in the region, these firms also face unique challenges in Asia specifically India due to diverse cultures, multiple languages and poor infrastructure. And it's not only the big guns that are struggling to get a handle on Asia: local entrepreneurs who clone global e-commerce firms are facing similar challenges, and some have turned these into opportunities by innovating in unusual ways. Question to be answered here is that can Ecommerce show a sustainable growth in the asian market?

## 2 ECOMMERCE REACH

Last 15 years has a seen a rapid growth in the IT and Telecom sectors of India Currently India has over 137 million internet users representing about 11% of its population, and it ranks third in the world China and USA being on the first and second position. According to a study conducted by the Associated Chambers of Commerce and Industry of India (ASSOCHAM) and Comscore in October 2012 it is also among the three fastest growing markets for internet usage worldwide.

The total size of India's consumer retail market was about \$470 billion in 2011 and is expected to grow to \$675 billion by 2016 and to \$850 billion by 2020, with a cumulative-annual-growth rate (CAGR) of 7%. In comparison, India's total e-

commerce market was worth about \$2.5 billion in 2009 and grew to \$6.3 billion in 2011 and more than doubled to \$14 billion in 2012. The percentage of internet users shopping online is less than 10% at approx 10 million users. But this number is growing at a rate of 30% annually versus the global average growth rate of 8-10%.

## 3. CHALLENGES / ISSUES FACED:

In spite of the huge opportunity due to the size and growth of the market, e-commerce in India has its own set of unique challenges. E-commerce in most mature markets such as the USA works because of certain efficiencies in payment and delivery mechanisms which are missing or underdeveloped 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. 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.

### 2. Cash on delivery is the preferred payment mode.

Less than 2% of Indian consumers own credit cards and 90% of all retail transactions are conducted in cash. As a result most e-commerce sites are forced to offer a Cash-on-Delivery (COD) option. Eight out of ten online transactions are conducted on a COD basis. However, as per one estimate 45% of all COD orders are rejected at the point of delivery by the customer. This is clearly expensive and not a very sustainable business model. The problem is compounded by the fact that

most e-tailers also offer free shipping to acquire and retain customers.

### **3. 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.

### **4. 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.

### **5. 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. I expect that the next few quarters will witness announcements of new smartphones in India at the \$30-40 price point. That should spur growth in smartphone ownership.

### **6. 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.

### **7. 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.

Logistics problem increases many folds due to poor roads, traffic congestion and an overall weak transportation infrastructure coupled with India's vast size. In fact much of the investment into e-commerce companies is going into logistics. Many e-tailers are setting up their own warehouses and delivery centers to extend their reach and streamline operations.

### **8. 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.

## **4 CONCLUSION**

In spite of the problems of hurdles that Ecommerce companies are facing in India they are learning to improve their chances for success by adopting certain strategies. The companies in India are focusing on strong customer service and establishing trust with buyers. This leads to repeat buying, lowers the customer acquisition and retention costs and improved profitability. Some companies are focusing on niche product categories and market segmentation. Brand awareness and Brand Building plays a key role in benefit of Ecommerce. This is what Amazon was able to do in the USA, and probably what Flipkart and some of the other larger players are emulating and trying to do in India. Ecommerce market would see further acquisitions and consolidations and many more brutal shakeouts in near future.

Ecommerce has changed the way products were shopped in good olden days it is here to make people develop the urge for a particular product and grow many folds in years to come.

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