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Influencing factors in growth of Indian e commerce

Research Paper

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ABSTRACT

In the 21st century, India is experiencing what can be termed as a Digital India. Old methods of communication are going away, with people realizing that the Internet allows them to stay in touch with each other always—even when they are on the move. Apart from affecting communication patterns, Internet and specifically, e commerce is also influencing shopping behavior, consumer demands, market research and even logistics management. It is clear that in future, e commerce will play even a bigger role in shaping the country's socio-economic structure. In this paper, there have intend to examine the origins of e commerce, its current and future value in the Indian market and the factors that have helped the e commerce industry to establish itself in India. The Indian e commerce industry is also facing certain unique challenges currently, which discuss and offer some practical strategies for meeting them successfully.

Keywords: E-commerce industry in India, Internet, shopping patterns, consumer behavior

1. INTRODUCTION

Renowned management analysts, economists and theorists agree that in the 21st century, the world is undergoing a new-age industrial revolution. Many call this new age as the information age, the Third Wave (according to Toffler) or post-industrial society (according to Drucker). The factors responsible for these changes include technological innovations, consumer demand, a passion for entrepreneurship and modern marketing strategies. Professor Tom Cannon had described this new-age industrial revolution as the phase that brings in radical changes in the way we manage businesses, market our products/services and deliver them to the consumers. He stated that these changes are not just limited to the market; rather they will also affect the economic relationships that exist between business owners and consumers, between economies and even between societies (Bajaj & Nag, 2005). Global businesses have always used new strategies for reducing costs, innovating and attracting attention of target customers. However, the distinguishing fact about businesses in the 21st century is that now, business owners do not need to implement the changing trends. Rather, they need to invent these trends. Change is a critical feature of information age and businesses have to utilize knowledge and information for bringing in these changes (Bajaj & Nag, 2005). Modern businesses cannot be complacent. They have to constantly criticize themselves, foresee market trends, predict customer behavior and launch products/services that address gaps in the market. It is true that technology has become a critical tool for transforming businesses and economic relationships in the information age. However, it is important to remember that as a tool, technology is available to competitors also. So, it is the implementation of knowledge that plays the most crucial role in distinguishing a business from its competitors. Technology, along with the right type of knowledge can create great value for businesses in the modern age. E commerce can be an excellent example of the ideal type of value addition in the marketplace. Over last few years, e commerce has revolutionized the commercial marketplace, ways of marketing as well as delivering products/services. Furthermore, e commerce has drastically altered demand patterns, consumer behavior, pricing and availability of products as well as transportation patterns.

1.1. DEFINITION AND HISTORY OF E COMMERCE

In a narrow sense, e commerce can be defined as the usage of electronic technologies for conducting businesses over the Internet. A broader and more popular definition of e commerce

was offered by Vladimir Zwass, who defined e commerce as, the sharing of business information, maintaining of business relationships, and conducting of business transactions by means of telecommunication networks . Tresse and Stewart described Internet commerce as the process of using Internet for buying and selling goods as well as services. They further added that while using the Internet can be an effective strategy for marketing and providing consumers with product information, the main focus should be on completing business transactions.

E commerce can be of various types, but the most common ones include:

- B2B (business-to-business),
- B2C (business-to-consumer),
- C2B (consumer-to-business) and
- C2C (consumer-to- consumer).

In initial stages, the term e commerce was used to describe the process of managing business transactions with the help of certain technologies that included Electronic Funds Transfer (EFT) and Electronic Data Interchange (EDI). These technologies appeared in 1970s and their usages were typically limited to business transactions and interchanges. In the 1980s, e commerce moved to an advanced level, with the introduction of telephone banking, credit cards and ATM machines. Starting 1994 onwards, the modern form of e commerce emerged, with the introduction of fast speed Internet connections and security protocols. Business analysts predicted that the future belongs to e commerce businesses and based on these data, several online businesses were launched in USA and Europe. Unfortunately, a major downturn occurred in 2000 and many Internet-based businesses collapsed. Despite the chaos, e commerce business started improving within few years. Businesses that survived the collapse learned from their mistakes and started making profits as well. This time, e commerce grew at a greater pace and intensity. Furthermore, the launch of companies such as Amazon and Flip-kart re-established the position of e commerce in business transactions. Though it took these companies some years to generate profit, they served as business models for other companies interested in e commerce. Today, e commerce companies sell everything-right from electronics, books to outfits and cosmetics.

2. RESEARCH OBJECTIVES

The objectives of this paper include:

- Analyzing the present situation of e commerce businesses in India

- Discussing the factors that have contributed in the growth of Indian e commerce.
- Highlighting the challenges that e commerce businesses in India are going through and suggesting practical strategies for overcoming them.

3. RESEARCH METHODOLOGY

The purpose of this theoretical research paper is to analyze the growth and current situation of the Indian e commerce industry. For obtaining the required information, the author has studied books, web pages, research reports and web pages, all of which have been stated in the reference section.

4. REVIEW OF LITERATURE

Schneider (2010) discusses the history behind emergence of e commerce, various types of e commerce businesses, and the critical roles that business and revenue model play in determining the success of an e commerce company. Contrary to popular belief, the author says that selling products on the web is not an easy task. Rather, a company has to build up a strong online brand reputation so as to attract attention of the customers. The author also points out the fact that e commerce is not a stable industry till now and so, businesses often have to adjust their revenue and business models for surviving in the industry. Botha and Bothma (2008) discuss the origin of Internet, e commerce and business. They further point out the revolutionary impact of e commerce on business and mention that the future belongs to mobile commerce. The authors believe that several factors are responsible for the growth of e commerce and these include globalization, information technology, knowledge management, and new perspectives on time, space and tangible value. The authors also highlight the technologies and infrastructure that are required for setting up an e commerce business. Electronic payment models are also important, as consumers will choose only those payment methods that are widely available and also convenient to use. Apart from providing an overview of e commerce, Bhasker (2006) discusses the impact, types, applications and advantages of e commerce. While it is true that Internet offers various advantages, the reality is that it is vulnerable as well. Bhasker points out the important role security plays in an e commerce business and identifies the sources of vulnerabilities. Vulnerabilities can arise from various sources that include technical problems in software designs, flaws in implementing these designs, problems in network as well as system configurations. Bhasker discusses in details strategies a company can implement for securing and

protecting itself against hackers. These include using strong passwords, implementing updated firewalls and upgrading systems regularly. Whiteley (2010) in his book describes electronic commerce and outlines its scope. He also discusses features of simple and complex e-shops and points out the processes involved in online shopping. Additionally, Whiteley highlights the fact that apart from shopping; e commerce technologies can be used for providing customers with banking and traveling services. He also discusses the benefits and disadvantages of consumer e-commerce. He also offers a discussion on development of Internet, defines terms such as extranet, webmaster, intranets and points out the basic steps involved in HTML.

5. DISCUSSION

5.1. E COMMERCE IN INDIA

Over past few years, the Indian e commerce industry has been growing at a tremendous speed. Though value of the Indian e commerce market is lower, as compared to that in developed countries such as USA or UK, still the market is growing exponentially. A report released by India Brand Equity Foundation revealed that during 2010-2015, the Indian e commerce market has recorded a CAGR of 74.6%. The report predicted that by end of 2020, value of the Indian e commerce market would reach USD 80 billion (KPMG, 2015). A more recent report released by Crisil Research-a market research company revealed that revenue of Indian e commerce businesses increased by 56% annually from 2008 to 2015. The report also stated that retail e commerce companies in India earned Rs. 13,900 crore in 2013. The market research company further predicted that over next few years, revenue of Indian e commerce companies could reach USD 80 billion (KPMG, 2015). These statistics reveal that India is ready to experience an explosion in the e commerce market and this is a major reason why several websites have been launched in recent times that sell products, ranging from books, flight tickets to fragrances and clothing. Considering the scope of growth of e commerce companies in India, venture capital investors are showing interest in this sector. Foreign companies are also penetrating the Indian e commerce market.

Flipkart is an Indian e-marketing company founded in 2007. It is considered as an e-marketing company that made online shopping popular in India. It deals with selling of variety of items, started with books and now home and kitchen appliances, mobile phones, digital cameras, watches, clothing and others. Flipkart India, the wholesale cash-and-carry entity of the online retail firm reported a loss. However the company claims that their business is growing at 100% annually. The sales target for 2015 is to reach \$ 1 billion or about Rs. 6200 cr. Now, it is making

good business and sees \$1 billion sales. It is a reply to U.S. online giant Amazon. It is really an achievement in country's exploding e-commerce market. It is expected to reach the e-merchandise retailing sale at \$14 billion by 2018 and \$60 billion by 2023. Leading Indian online retailers including Snap deal and Fashion portal Myntra, expect to turn profitable in next two years signalling a seismic shift in an industry where so far growth has been pursued at the expense of the bottom line. Snapdeal, an online market place wants to be India's first profitable e-commerce company and its largest mobile commerce company. This suggests that mobile will be a big driver in future. This company expects to reach about Rs.6220 cr. in gross merchandise sales by the next financial year.

5.2. FACTORS THAT HAVE FUELED THE GROWTH OF E COMMERCE MARKET IN INDIA

The Indian e-commerce market is witnessing a phenomenal rise and creating a new economy that can bring in revolutionary changes. According to a report released by KPMG, the Indian e-commerce industry has the potential to contribute approximately 4% to GDP by the year 2020. The report further stated that the growing e-commerce market in India can have a positive contribution to other related industries and the inventory based consumer model can create 1 and 0.5 million direct and indirect jobs by the year 2020 (e Commerce: Rhetoric, Reality and Opportunity, 2015). While future of the Indian e-commerce market looks positive, it is important to understand the factors that have contributed to the growth of this market.

A) Growth of Internet Accessibility- Penetration of Internet in urban and rural areas is a major factor behind growth of the e-commerce market. Internet is crucial for development of e-commerce and with the increase of Internet user base; growth of the Indian e-commerce market was somewhat inevitable. While at the end of 2011, the Internet user base was 121 million, it is expected to reach 300 million within 4 years. Popularity of tablets, Smartphones, along with cheap and high-speed mobile Internet plans have further boosted Internet penetration in different regions of the country. PCs are now available at low prices, which encourage people to buy them and surf Internet. Smartphones and tablets have also revolutionized communication patterns and shopping behavior of people. Instead of exploring Internet from desktops, people now use Smartphones for surfing Internet, as they offer better user experience and are much faster. These phones allow people to stay in touch and shop for things, even when they are travelling from one place to the other.

B) Revolutionary Changes in the Payment Landscape- Over the past few years, payment landscape of the Indian market has changed considerably. Apart from debit and credit cards, cash cards have also become popular. Leading e commerce companies also offer additional payment options that include mobile payment, debit from accounts, and electronic wallets. This has provided Indian consumers with an extensive range of options, while shopping online. Though most Indian consumers still prefer the “cash on delivery” option, the wide range of payment options offered by leading e commerce firms encourage them to do online shopping more frequently.

C) E commerce Companies offer Interesting Benefits to the Customers- Over the past few years, the Indian e commerce market has also undergone huge changes. Owners of these companies have researched extensively about preferences of Indian customers and consequently, come up with innovative strategies that meet their requirements. Indian customers prefer “value for money” and this is one reason why e commerce companies offer interesting features, such as, return policies, home delivery at no extra charge and cash on delivery. This last feature especially has enhanced profit of e commerce companies as it allows consumers to buy things, without revealing details about their credit or debit cards.

D) Diversification- Another factor that has contributed to the growth of e commerce market in India is that majority of the e commerce companies constantly innovate and provide customers with better deals. The latest trend is that a company initially offers customers a single product and later, diversifies its offerings. For example, Flipkart, one of the largest online retailers in India currently started initially by offering books. Later, it started offering baby products, electronics, cosmetics and clothing.

E) Changes in Attitude of Indian Consumers- In recent times, Indian consumers have become aware about the advantages of online shopping and opting for it more frequently. Furthermore, factors such as rise in standard of living with high disposable incomes, busy urban lifestyles that does not allow physical shopping, traffic congestion are also contributing to growth of the e commerce market. Social media has also played an important role in creating awareness about online shopping.

The above discussion highlights the fact that a large number of factors have played critical roles in boosting the growth of e commerce market in India. However, this does not mean that the situation is perfect in the Indian e commerce market. It is currently facing certain key challenges that it must overcome, if it has to survive. Indian consumers, for example, possess certain typical

shopping traits that make handling e commerce businesses challenging in India. The next section discusses these challenges in details.

5.3. CHALLENGES FACED BY INDIAN E COMMERCE MARKET

A) Logistics- A major problem faced by e commerce companies in India is logistics. India is a large country and delivering goods in rural areas and suburbs is a difficult task. Though global courier companies such as Fed-Ex and DHL operate in India, most e commerce companies prefer to use smaller courier companies because it helps them to save money. Hiring smaller courier companies, however, can create issues of unreliability and other problems. The problems associated with hiring services of a courier company have forced many e commerce companies such as Flipkart to launch their own logistics.

B) Preferences of Indian Consumers for Cash-on-Delivery (COD) - Preference of Indian consumers for COD has created another hurdle for owners of e commerce firms. One disadvantage of COD from viewpoint of e commerce companies is that it is expensive. However, the biggest problem is that COD has a high return rate (10% on average). The high return rate can be caused by factors such as customers unsure about their choices or not being available at home. The entire process is costly, risky and even damaging as the order may get cancelled entirely.

C) Intense Competition in Niche Areas- Though the Indian e commerce market is still at its nascent stage, its potential for growth has attracted investors and first-time entrepreneurs. As a result, a fierce competition exists among companies who offer products in similar niche. The competition, however, may turn out to be unsustainable as profits may get reduced, with marketing and delivery costs increasing. Moreover, many e commerce companies neglect the issue of building up customer loyalty. Rather than focusing on acquiring loyal customers, they are more interested in calculating new sign ups. The result is that these companies fail to attract repeat customers.

D) Legal Issues- Despite the growth of e commerce market in India, no specific laws concerning it exist. Currently, owners of commerce firms have to abide by the IT Act 2000 that is concerned with legal rights of buyers and sellers in cyberspace. Apart from this act, e commerce firms also need to comply to other laws such as Foreign Investment Regulations, Indian Contract Act, banking and financial laws (wherever applicable). The result is that e commerce firms often find it difficult to comply with different types of regulations. This also

creates problems for new entrants in the e commerce market, who may find it difficult to understand the legal regulations. Lawyers or law firms that deal with e commerce are hardly available, which worsen the situation.

5.4. STRATEGIES FOR MANAGING AN E COMMERCE BUSINESS SUCCESSFULLY

In context of the current situation, it is clear that e commerce business has immense scope for growth. However, the industry faces certain critical challenges that it must overcome, if it wants to penetrate different regions of the country and establish a solid customer base.

Indian e commerce firms should understand the fact that customer loyalty plays a crucial role in determining success of the business. Therefore, steps should be taken to retain loyal customers and repeat customers as much as possible. Indian e commerce firms can learn from a leading e commerce company in Japan that has introduced an innovative loyalty program where buyers earn points, whenever they shop online. This program, in turn, increased its customer base and also helped it to attain repeat customers. Loyalty of customers can also be earned by convincing them about quality of the products and services. In India, it has been observed that the urban population mostly opts for online shopping, while rural population prefers physical shopping. While low Internet penetration could be one reason why rural population avoids online shopping, lack of information in vernacular languages is another reason why people in the rural areas don't participate in e commerce activities. Indian e commerce websites, therefore, can consider producing content in vernacular languages. Assuring quality of products is extremely important in the e commerce business, since customers cannot physically touch products and so, earning their trust is crucial. An e commerce firm can implement various strategies for earning the trust of customers. These can include offering them free samples, providing them with the option of return, in case they don't like a product, and assuring customers about protecting their sensitive information. E commerce firms should also handle customer queries in a sensitive manner, offering them required information as and when required. Also, as more and more Indian customers are using mobiles for exploring the Internet, e commerce firms need to be prepared for explosion of mobile commerce. E commerce firms should also remember the fact that Indian customers are price-sensitive. So, a good way of convincing them to buy something would be to offer them discounts, special offers and other innovative benefits.

6. CONCLUSION

In the 21st century, India is witnessing a huge digital revolution. With the passing of each day, Indians are getting more excited about participating in this revolution and are interested in taking advantages of the Internet. The Indian e commerce industry is also playing an important role in this digital revolution, providing customers with a huge range of products/services and catering to their requirements. However, the industry is at its early stages currently and undergoing changes at every moment. So, for sustaining its upward growth, it requires support from various sectors of the society, including the government, logistics services and regulatory agencies for meeting and overcoming the challenges successfully. If the e commerce industry succeeds in moving in the right direction, it could change the Indian economy forever as Developed Country.

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