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ECOMMERCE IN INDIA: SECTOR ANALYSIS

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Abstract

In recent years there has been a remarkable change in the way India transacts. E-commerce has grown in a big way and the explosive growth in the last few years has made some firms cross even the billion mark in equity valuations (read Amazon.com, JD. com, ebay, Alibaba.com, etc) . The Indian e-commerce industry is likely to grow at a compounded annual growth rate (CAGR) of 35 per cent and is poised to cross the \$100-billion mark, in value, over the next five years. The Indian ecommerce industry was valued at around \$17 billion in 2014(data from ASSOCHAM advertisement, April 2015).With such a high level of prospective growth , an analysis of this industry becomes essential. This high rate of growth would provide numerous opportunities but also hold challenges. The present paper focuses on these issues and shows what this sector has in store for the people of India.

Keywords: E-commerce, Industry, Compounded, advertisement.

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INTRODUCTION

E-commerce can be called one of the sunrise sectors of today as it will see tremendous growth in the next few years. This growth would be driven mainly by rapid adoption of technology, a trend which is already being seen by the increasing use of devices such as smartphones, tablets and access to the internet through broadband, 3G, etc. With the world's highest population of youth (356 million as per UN Report Nov 2014), this use is going to increase further. Government's Digital India programme is also expected to give a strong push to the e-commerce market. According to a recent research, India's E-commerce and E-tailing is going to expand as depicted in -

Pre Requisites of this Sector

Internet Penetration

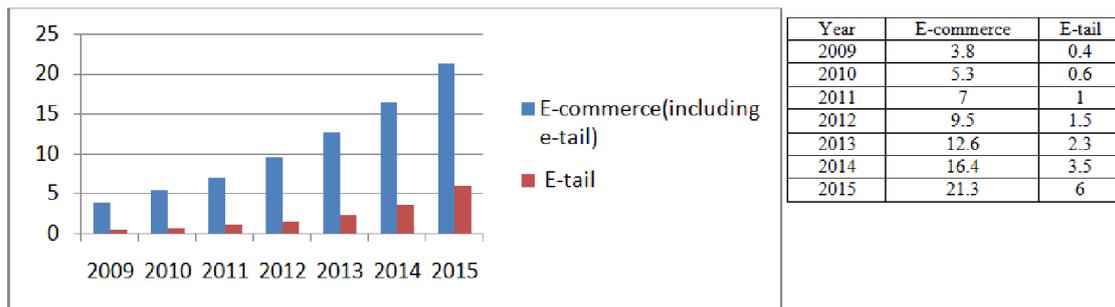
The number of internet users in India is increasing at a tremendous pace. The increasing sales of desktops, notebooks, smartphones, etc, which form the hardware to access the internet, is a point in support of the same. Table 1.2 shows that the increase in the shipments of these devices to India would continue for many years in the future. Out of the four categories of products mentioned, shipments in only one category (i.e. Ultramobiles) will decline in 2015 but would revive in later years.

The increase in connectivity through mobiles is not just limited to the urban areas. Rural India too is an important participant, as is visible from Table 1.3. The increase in the number of devices is also resulting in an increase in the number of people who are accessing the internet. Although internet penetration in India is low, but, among the top five countries it saw the maximum growth in internet users over the last year (Table 1.4).

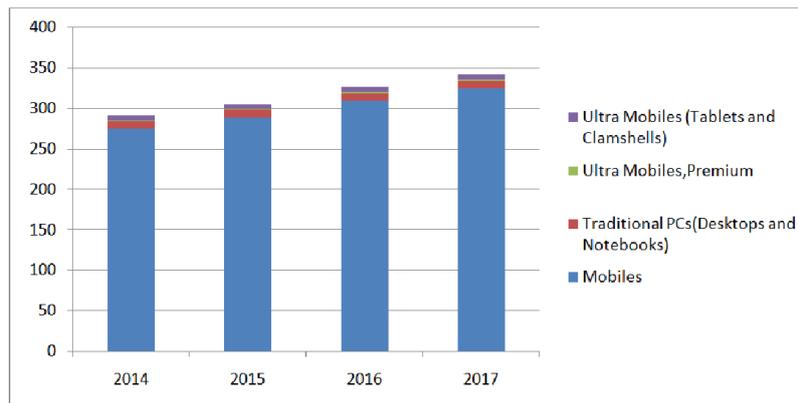
Inference: The prospective consumer base of e-businesses in India is expanding and as the technology becomes cheap, this base would expand further and there would be no dearth of online consumers in the years to come.

Logistics

The geographical spread of India is huge. Also with rising incomes and thereby aspirations for branded products, more demand online is coming from Tier-2 and Tier-3 cities. Catering to such widely dispersed consumers effectively requires excellent supply chain management. Quick processing of orders, identifying the nearest warehouse and delivering orders to the customer in the least time possible is what holds the key to success in these businesses. The quick processing of order requires real time connectivity between the company, warehouses and the third party logistics provider. This, in India, is being hampered due to slow speed of the internet, frequent electricity cuts, etc.

Table1.1. India's E-Commerce (including etailing) and E-Tail growth

Source: IAMAI, CRISIL, Gartner, PwC analysis and industry experts



Particulars(Shipments in millions)	Year			
	2014	2015	2016	2017
Mobile phones	275.48	289.15	309.54	324.25
Traditional PCs	9.02	9.21	9.49	9.59
Ultramobiles, Premium	0.63	0.83	1.1	1.43
Ultramobiles	6.68	5.77	5.85	5.95

Table 1.3. Highlights of Telecom Subscription Data as on 30th November 2014

Particulars	Wireless	Wireline	Total (Wireless+ Wireline)
Total Telephone Subscribers (Million)	937.06	27.14	964.20
Urban Telephone Subscribers (Million)	546.99	21.72	568.72
Rural Telephone Subscribers (Million)	390.06	5.42	395.48
Overall Tele-density*	74.95	2.17	77.12
Urban Tele-density*	141.75	5.63	147.38
Rural Tele-density*	45.13	0.63	45.76

* Based on the population projections from Census data published by the Office of Registrar General & Census Commissioner of India. #Source: Press Release No. 04/2015 of TRAI

Table1.4. Internet Users by Country (2014)

Rank	Country	Internet Users	1 Year Growth %	Penetration(% of population with internet)
1	<u>China</u>	641,601,070	4%	46.03%
2	<u>United States</u>	279,834,232	7%	86.75%
3	<u>India</u>	243,198,922	14%	19.19%
4	<u>Japan</u>	109,252,912	8%	86.03%
5	<u>Brazil</u>	107,822,831	7%	53.37%

*Source:www.internetlivestats.com

Also, as the orders made online are increasing, the businesses are expanding and the demand for warehousing facilities is increasing. This increase in demand for warehousing infrastructure is not being matched by an increase in supply

which is putting pressure on the existing system. There is also a general lack of supporting infrastructure like roads, etc, which makes operations difficult as well as costly. Earlier, most e-retailers were dependent upon third party delivery

systems but now in order to control the operations more closely, big firms are considering setting up of their own logistic arms like E-Kart of Flipkart and Amazon Logistics of Amazon India. This is a resource intensive affair.

Inference: There is a lack of integrated end to end logistics platform in India. Investment in general infrastructure and internet infrastructure in particular, warehouses, etc needs to be made. Reliable third party logistics providers, who are specialized to handle operations of various companies at the same time are another requirement of most e-businesses in India as all companies cannot afford to build their own logistical arms. Some steps in this direction are already underway as is visible from the following statement (from an advertisement of ASSOCHAM in April 2015) –“between 2017 and 2020, this industry could spend around 2-6 per cent of the revenue on warehousing and sortation centers, which would translate to around \$450-900 million. The Industry is also expected to spend an additional \$500-1,000 million in the same period on logistics functions, leading to a cumulative spend of \$950-1,900 million. All this would reduce transaction cost both for the buyer and the seller and make the online purchase and sale experience even better.

Legal Framework

In e-commerce, there is a physical distance between the transacting parties. Some online transactions also require sharing of sensitive information that can be hacked. Also, for many people this platform is new and they can be easily duped by fraudsters. To ensure safe transactions and to make sure that people continue purchases online, a strong legal framework is required. In India, various laws govern an e-business. Some of these are- Information Technology Act, 2000-This Act imposes heavy penalties and punishments on those who try to misuse the IT channel to defraud others. Consumer Protection Act protects online buyers from fraudulent activities of the sellers but specifically excludes any service that is free of charge from its ambit. Payment and Settlement Systems Act, 2007 regulates both traditional and electronic payment systems in India.

Acts such as Contract Act, Income Tax Act; Patent Act, etc which apply to normal brick and mortar businesses also apply to e-businesses. Some laws provide protection in combination with other Acts. For example, the Indian Copyright Act, 1957 necessitates signing of an assignment of copyright by the assignor. The IT Act equates electronic signature with physical signatures. So, anyone using a copyrighted material online without an electronic signature would be liable for punishment. Similarly, IPC, Indecent Representation of Women (Prohibition) Act, 1986 and the IT Act together prohibit publishing of obscene material online

Apart from the above acts, there is a FDI policy which governs E-commerce businesses in India too. Currently, 100% FDI is allowed, under the automatic route, in companies engaged in B2B e-commerce. However, no FDI is allowed in companies which engage in single brand or multi brand retail trading by means of e-commerce. These restrictions are related to sale of goods and not services.

Inference: Even though e-commerce is a recent phenomenon, many laws exist in India in order to safeguard parties contracting online. This is a good thing. Although, some may say that current laws are insufficient to deal with innovative technological frauds but one must not forget that laws evolve through time. As time would pass, the inherent problems would come to fore and necessary corrections could be made. Rather than enacting more laws, the focus should be on implementing the existing ones. If this is done in the spirit of justice then they would be sufficient enough.

Recent Investments in E-commerce sector in India

- Naaptol Online Shopping has raised a new round of funding from Japanese conglomerate Mitsui. Existing investors New Enterprise Associates, Canaan Partners and Saama Capital also participated in the same.
- Bangalore-based Digital media company ZenParent has raised \$500,000 from i2india Ventures.
- SaaS-based customer communications platform Nudgespot has raised \$625,000 seed funding from Kae Capital, with participation from individual angel investors Anoop Goyal, Mike Shah and VA Sastry.
- Flipkart's chief product officer Punit Soni, has made a personal investment in digital payment company RazorPay. The startup had raised \$120,00 from Y Combinator, in March 2015.
- Reliance Retail plans to borrow Rs 4,500 crore through term loans and debentures to build its ecommerce business and accelerate store openings in select formats.
- E-commerce firm ShopClues has partnered with DHgate, the world's leading online wholesale marketplace that connects international buyers with Chinese wholesalers.
- E-commerce major Snapdeal has acquired Hyderabad-based mobile technology startup, MartMobi for an undisclosed amount, a move that will help the firm strengthen its mobility platform for merchant partners. In this year itself, Snapdeal had acquired payments and mobile recharge startup, Freecharge in a cash-and-stock deal (estimated at \$400-450 million) as well as picked up stakes in digital financial services platform RupeePower and logistics venture GoJavas.

Inference: Big firms (domestic as well as multinational), angel investors, etc are investing hugely and frequently in e-businesses of India. Their investments range from purchase of a simple stake to partnership agreement to even acquiring the entire business. The investment is both in the form of equity and debt. All this points to the attractiveness of the sector and the growth that is anticipated in it.

What E-commerce sector has in store for the Indian people?

The Positives

As consumers: people are going to benefit in terms of increased choices, improved quality, reduced prices (as distribution levels are reduced), flexibility in ordering, etc.

As producers/suppliers: they can cater to international customers without much cost and can have faster operation cycles as more and more B2B transactions are becoming online.

Also with automation, the customer choice analysis has become easy, enabling them to satisfy their consumers better.

As participants in the labour market: they can benefit from increased employment opportunities as growing e-commerce operations have a positive spillover effect on industries such as logistics, banking, warehousing, online advertising, media and IT/ITES. As per data from Assocham advertisement, the e-commerce industry is expected to employ an additional 100,000 people in warehousing and logistics.

The Negatives

As consumers: not everything can be bought by sitting in the confines of one's house/office. For certain categories of products and services, people will have to go out. Moreover, not every online offering is customized in local languages. So, not many people can transact online independently.

As producers/suppliers: online business is extremely competitive. Due to automation of processes there is less control over customer and business relationships. The lack of depth in- internet penetration and in the use of plastic money are issues of concern. Along with all this, prevention of frauds and detection of infringement of intellectual property rights online is a difficult exercise. All these factors prevent most players in India's e-commerce space from reaching break-even level. A recent report by UBS securities (published on April 16, 2015 in Business Standard) estimates that it would already be 2020 when the industry may turn profitable.

In a world in which technology changes are faster than ever before, upgrading of technological infrastructure would be a recurrent and costly affair both for the buyer and the seller.

Conclusion

From the above analysis it is clear that the ecommerce sector in India is expanding. This sector is growing at this pace, despite the constraints India has inherent in itself (example- payment gateways in India have an unusually high failure rate by global standards. E-business companies using them are losing out on business, as several customers do not attempt making payment again after a transaction fails. If efforts are made to provide the pre requisites of this sector then the growth this sector can see is unimaginable. Presently, most business in this sector comes from the sale of travel and tourism packages, electronic appliances, hardware products and apparel. But the products and services offered and demanded online would diversify significantly in the coming years.

Companies would have to foresee these changes and adapt quickly to remain profitable. The increasing penetration of smartphones, 3G connectivity, etc are signs that the money invested in this sector is going to reap good profits in the years to come.

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