

Factors That Led to the Resurgence of E-Commerce in India

B. Murali Manohar, P. Bharadwaj Swarna*

VIT Business School, VIT University, Vellore-632014, India

Abstract

The purpose of this paper is to provide an insight into the resurgence of E-Commerce in India. A brief effort was made to present the emergence of E-Commerce in India and presented the same through two phases viz., phase 1 and phase 2. The researchers have identified the factors that played a major role in revival of E-Commerce which has lost its glory in phase 1. The critical factors that led towards the resurgence of E-Commerce include increased connectivity options through smart phones, better payment options, secure payment gateways, improved supply chain systems, aggressive promotional efforts by E-Commerce companies both from India and abroad, and revised scenario with respect to Goods and Service Tax (GST), Foreign Direct Investment (FDI), public-partnership options, etc. by the Government of India.

Keywords: Resurgence of E-Commerce, India, success factors

***Author for Correspondence** E-mail: bmm@vit.ac.in, muralimb@hotmail.com

INTRODUCTION

In the Indian scenario, E-Commerce has brought the best services to people through technology. The number of users making online transactions in India is expected to grow from 11 million in 2011 to 38 million in 2015 [1]. In this industry, India has witnessed growth in 15 years itself which took 50–60 years for our counterparts in the west. E-Commerce has not only changed the conventional way of shopping but is also bringing about a change in people's lives. People from Dharavi, Asia's biggest slum located in Mumbai, India are using this platform to expand their horizons. Their products are reaching to around 30 countries in the world today. At present, the industry is valued at around \$15 billion and is expected to boost up to around \$60 billion by 2020 [2]. E-Commerce sites today provide us a wide variety of options to choose from, they really have a dynamic product portfolio. The price factor is also comparatively low.

This has led to a major rise in demand for the E-Commerce industry in India. Following are a few insights about the history of E-Commerce, various developmental stages

and a few insights into the factors which would contribute to the future growth.

HISTORY

The idea of Commerce has been continuously evolving and taking various shapes over the past decades. Initially, it was only the barter system where in goods were exchanged for mutual benefit. For example, cloth for rice, there was no value element attached to goods then. They were exchanged merely in terms of quantity. Then, the idea of introducing money came into picture when the value element was realized. From then on, gradual evolution took place and concepts like markets, street stalls, and street vendors and finally with the advancement in technology and internet over the decades E-Commerce came into picture.

GROWTH

The rise and growth of Indian E-Commerce industry can mainly be divided into two phases:

Phase 1 (2002–2008)

This is the period during which E-Commerce was still a nascent industry and its potential was identified first through Baazee.com which was later acquired by eBay in 2004. Further

on, 2007 witnessed the launch of two major players then— Flipkart and Myntra. The industry was still ripe and only worth about \$1.2 billion during the fiscal 2005–2006 [2]. These companies had undergone a real tough time to evolve and develop a proper model to match the Indian customer base. The industry was growing at a considerably lower rate but people believed it had higher potential [3]. The Government was also taking steps towards developing the online business scenario and had declared that the Information and Communication Technologies (ICT) are the growth engines of the Indian economy.

Also, several other factors which caused a hindrance to growth then are:

Low Internet Penetration and Telephone Density

This is a major hindrance to development of E-Commerce because the entire business relies on these resources. India had only 47 million internet users by the end of 2007 [4] which accounted to an internet penetration of only about 3.83%. Also, on the other hand telephone density was also only around 25 telephones per 100 persons which accounts to one telephone per four people. The situation became so alarming that NASSCOM and Boston Consulting Group in their study reported that India is having the highest number of barriers to E-Commerce in Asian countries [5].

Economic Hurdles

Economic hurdles mainly include the income levels of the people and their purchasing power. We were one among the lowest in the world with respect to the per capita income. In 2006–2007, our annual per capita income was found to be only \$387 [6]. Despite higher GDP of \$1.089 trillion in 2007 and 12th in the world, we continually ranked low in league of per capita GNP (Source: World Bank report, 2007). The main cause behind this is the immense growth of our population and low income base of our country. This is a direct indicator of the low affordability of the consumer.

Payment Options and Trust

In the Indian scenario, where the concept of

online purchase and payment through Credit Cards and Debit Cards was considered a risk element, establishing a trust worthy relationship with the customer, educating and convincing them about the entire online payment process was a huge deal to crack. Only 1.2% of the total country's population used credit cards then.

This meant that only about 3–4% of the country's population was capable enough to use the E-Commerce service. This, unreachability to the customers due to lack of proper payment options was a major problem which all the companies of that time faced. Innovation in this area was highly needed during those times.

High Investments

Setting up an E-Commerce store was a huge task then. For a successful business the company's needed full time programmers, graphic designers, marketing and sales executives, cloud storage and a proper supply chain management. Maintaining all this would require a huge deal of investments from time to time. But, this was the period when E-Commerce was just an entry level industry and venture capitalists generally refrained from taking risks and investing in the business. This further led to poor service and therefore it was a losing situation for both the customers and the business owners.

Phase 2 (2009–2014)

During this time, the E-Commerce industry has drastically developed from its past existing state. The industry size shot up from a mere \$1.2 billion in 2005–2006 to \$13 billion in 2014 [2] at an average of 55–60% growth rate per year.

The Indian E-Commerce industry contributes to around 4% of the national GDP [7]. It is during this time that many new players like Jabong, Shopclues and Snapdeal entered the market and created a remarkable impact. The already existing companies greatly evolved and came up with new business strategies and innovative concepts to tackle the above challenges. Today, the E-Commerce industry alone employs around 40,000 people [7]. The major factors which brought about this development are:

Increased Connectivity (Smart Phone and Internet)

With globalization and increasing technology, the Internet penetration has increased to 12% in 2014 from a very alarming number of 3.83% in 2007 [7]. Also, the smart phones have revolutionized the E-Commerce experience for customers. In 2014, there are around 243 million active internet users and 185 million active mobile users in the nation. Internet connectivity at low prices by mobile network providers and latest fast internet connections like 3G at affordable prices has played a major role in the development of E-Commerce. Today, more than 35% of traffic to major companies comes through mobiles. Also, advanced provisions by sellers like delivery trackers on mobiles are making the experience better.

Supply Chain Management Systems

Efficient distribution systems and in time delivery are the heart and soul of any E-Commerce business. Concepts like same-day-delivery and next-day-delivery has helped encash customer's enthusiasm and holds it for a certain period. The modernization of its operations by Indian Postal Service has helped many companies partner with the postal service and reaches inaccessible pin codes too. Also, to make the system more efficient, about \$2 billion will be invested into the infrastructure in near future. There will be more warehouses, which in turn mean faster delivery and better customer service [8]. Further, the last mile connectivity problems which mainly arise due to the missing links in supply chain have been worked upon and solved to an extent.

Payment Options and Trust

Over the years, along with other technologies, an efficient payment option like the cash on Delivery (COD) system has evolved. This has changed the fate of E-Commerce in India. It is a system which eliminates the fear of online payment and lack of availability of debit/credit card. This also gave birth to a number of new start-ups which work towards management system for COD. Also, stronger payment gateways and security systems like one time passwords (OTP) have helped the users feel secure about their transactions. Third party

payments have also become an added advantage. Trust has been earned over the years especially by word of mouth and experience.

Ease of Sales

From the seller's point of view also, the huge task of setting up an E-Commerce store has been simplified now. It can just be done in few hours. Apart from direct sales in E-Commerce field, many subsidiary organizations for logistics support, payment gateways, website design have come up. They have minimized the effort in the huge task. This is indeed helping many small organizations get a global outreach, increase their sales and progress in business. Also, this is leading to a lot of acquisitions by huge players thereby making the industry consolidated.

Apart from these, investments are also easily coming up in the E-Commerce industry, which are helping the industry to expand.

THE FUTURE

E-Commerce in India has considerably evolved, shown the signs of growth but not its true potential. There is still huge scope for immense growth and development. Here are the factors which would play a compelling role in future growth of E-Commerce in India.

Foreign Direct Investment

In an economy like India, there is immense need for FDI, especially in high capital requiring industries like E-Commerce. As of now, in the B2C segment, only a maximum of 51% FDI is allowed and the B2B segment is permitted 100% FDI [9]. This would greatly be helpful in establishing the required infrastructure like logistics and warehouses which would provide smooth flow of operations in a long run. Also, from the seller's perspective, 100% FDI in B2C segment would bring high competition to Indian companies from international players. However, it is always a win-win situation for customers and they can expect better prices and faster deliveries.

Vast Demographic Dividend

The Indian subcontinent has an exploding population and is set to beat China by 2020. In

spite of this huge population, India is going to be the youngest country by 2020. Around 60% of the nation's population will be in the working age group by 2020. The government is planning to employ around 500 million people by 2022 [10]. This has the capacity to increase the per capita income of the nation, thereby increasing the purchasing power of the normal customer. Thus, there is extremely high scope for major expansions in E-Commerce sector.

Institutional Policies

Lack of prominent laws and rules about E-Commerce yet is the root to many issues to E-Commerce players in India. Also, taxation policies and norms lead to many problems during billing and shipping. To address this issue the government is planning to introduce GST to simplify the tax structure in India by replacing all indirect taxes which is already followed in about 140 countries. This could boost up the economic growth by 1.7% [11]. Also, public-private partnership with E-Commerce players would increase the reach of traditional products. Introducing policies like this which would be of mutual benefit to both the customers and the sellers would help the future of E-Commerce industry in India.

Avoid Cash on Delivery

The customers are to be educated about modern payment options using Credit/Debit Cards, Internet Banking, and Online Cash Wallets etc. Cash on delivery system is a customer centric approach to payment. This brings upon about 30% extra cost on each transaction to the seller for the operating expenses. Also, there is a delay time between the dispatch of the product and the receiving of the payment. This makes the entire system

complex. In the long run, the company's growth is hindered due to such policies.

Apart from these, there is still enormous scope for improving the Internet penetration in the country which is only 12% now. This would open up new windows for both customers and companies.

REFERENCES

1. Re-birth of e-commerce in India. Available from: <http://www.ey.com/IN/en/Industries/Technology/Re-birth-of-e-Commerce-in-India>
2. Shrivastava M, Ramalingegowda C. Major milestones in the Indian e-Commerce ecosystem that have led to multi-billion dollar investments. *Your Story*. 2014 Aug 11. Available from: yourstory.com/2014/08/indian-e-commerce-ecosystem/
3. Ashok Malkani. EC hits India. *Business Barrons*.
4. India Internet Usage Report. *Internet World Stats*. 2006 Nov 27. Available from: <http://www.internetworldstats.com/usage/use009.htm>
5. EC opportunities for India Inc. *NASSCOM and BCG*; 2001.
6. India's Annual per capita Income—Rs. 23222. *Rediff.com*. 2006 Aug 10. Available from: <http://www.rediff.com/money/2006/aug/10capita.htm>
7. KPMG India Survey
8. Available from: <http://www.entrepreneurindia.com>
9. Wall Street Journal
10. Taneja G. Demographic Dividend: India's roadmap for skills development. *Economic Times*. 2014 Apr 24.
11. Goods and Service Tax (India). *Wikipedia*. Available from: [http://en.wikipedia.org/wiki/Goods_and_Services_Tax_\(India\)](http://en.wikipedia.org/wiki/Goods_and_Services_Tax_(India)).