

---

## **E-Tailing in India: Prospects and Challenges**

**Dr. G. Shashidhar Rao<sup>1</sup>**

**R. Sunil<sup>2</sup>**

Associate Professor & Head, Department of Commerce & Business Management,  
C.K.M. Arts & Science College, Warangal

Assistant Professor, Department of Commerce & Business Management, C.K.M. Arts & Science College, Warangal –

### **Abstract:**

*The borderless medium of internet technology changed the retail scenario of 21st century in India. The electronic retailing (e-Retailing, e-Tailing, Online Retailing, etc.) is described as transactions that are conducted through interactive online computer systems, which link consumers with sellers electronically, where the buyer and merchant are not at the same physical location. E-Retailers serve 24 hours x 7 days in a hassle free manner to consumers. The e-tailing has set a new platform for the expansion of business. It has witnessed steady growth of 50% to 60% over the years. E-Retailing accounts for about 10% of the overall growth of e-commerce market. In the backdrop of all these, the paper attempts to provide a clear picture about the e-retailing, its growth, prospects and challenges faced by it.*

### **Introduction**

Online has been a buzzword in India over the past few years across business such as travel, banking, insurance, trading and lately in education and entertainment. The pervasive nature communication technology (i.e. internet) has enabled entrepreneurs to conduct business transactions without even meeting in person. This mode of business through communication technology has come to be known as “electronic commerce” or e-commerce. E-retailing is synonymous with business-to-consumer (B2C) transaction model of e-commerce. E-commerce is the master field defining the e-Retailing operations. E-commerce is a huge domain on conducting business over internet and e-Retailing is a part of it. Electronic retailing is most commonly known as E-Tailing. The main reason for the high volume of e-tailing is that the number of internet users (netizens) increased by leaps and bound on account of high rate of literacy, least cost and fast reach. People in recent days are eager to improve their standard of living and performance due to increased purchasing power and wide spread advertisement and publicity.

### **Definition and Significance of e-tailing**

Turban (2006), defines e-retailing as the retailing activity that goes online i.e., over the internet system. Wang (2002) broadly defines e-retailing as the selling of goods and services to the consumers via internet. These definitions include all e-commerce activities that result in transactions with end consumers (rather than business customers), i.e. B2C rather than B2B. Such e-marketing activities do not directly involve certain business processes like provision of detailed information about the products and services in question and promotion of brands and images. Therefore, it is presumed that e-tailing is much confined to retailing business activity. However e-business broadly include whole sale trading (B 2 B). The term ‘electronic retailing’ used in internet discussion as early as in1995, become almost inevitable addition to e-mail, e-business and website. The e-retailing has brought a BIG change from ‘Being sold’ to customers to ‘Being bought’ by customers. In traditional retailing, Brown (1987) observes that the costs of retail format refer to consumers’ costs. Consumers incur non-monetary costs – time, effort and psychological costs – as well as monetary costs. Avoidance of non-monetary costs is the significant feature of non-store formats. Further, Guttman (1998),

---

<sup>1</sup> Associate Professor & Head, Department of Commerce & Business Management, C.K.M. Arts & Science College, Warangal

<sup>2</sup> Assistant Professor, Department of Commerce & Business Management, C.K.M. Arts & Science College, Warangal

---

noted that online shopping offers convenience in selecting appropriate and suitable product among variety of choices by seeking access to multiple sources. Even for the sellers e-tailing reduces operating and procurement costs (Rao 1999). With a limited staff the sellers can improve the volume of sales and revenues by e-tailing.

### **Objectives of the Study**

The main purpose of this paper is to highlight the trends in the growth of e-retailing in India and to inquire into the causes and reasons for such explosion in the online trading. India is not a country with high rate of literacy when compared with developed countries. In spite of this drawback online trading is significant in India. However, e-tailing in India is not free from problems. The present paper attempts to list out a few operational problems and challenges to e-retailing in India.

### **Research Methodology**

Since the main objective of the paper is to identify the causes and reasons for the fast growth of e-tailing and also of ascertaining the problems and challenges in the promotion of online trading, an exploratory research design is opted. The study is based on the analysis of secondary data collected from the published sources like reference books, journals, websites of companies, newspapers and magazines.

### **Need of the Study**

The borderless medium of internet offering awesome potential to organizations and individuals to do business on-line. The broadband and mobile penetration, 4G rollout, cash on delivery, internet banking are leading to rise in online transactions. The on-line business further increased due to the emerging electronic gadgets like lap-tops, tabs, mobile equipment. In spite of various difficulties in e-retailing it has been tremendously growing. Hence, this study is undertaken to visualize the responsibilities and duties of the government to protect the rights of the parties involved in the process of this electronic based business transactions.

### **Growth of E-Retailing in India**

The e-commerce sector has witnessed an exponential growth in India in the past few years and more and more companies continue to foray into the market seeing the vast potential it holds. With the technology advancements, some companies have already carved a niche for themselves, by penetrating fast into the market. Investors are pumping a lot of money into the e-tailing business, as they see promising prospects for their growth. The valuations of the internet companies have sky-rocketed, owing to a drastic increase in their gross merchandise value (GMV) and opportunity for significant growth in the vast untapped market.

According to Forrester Research, an independent technology and market research firm, only 16% of India's total population was online in 2013 and of the online users only 14% or 28 million were online buyers. India, therefore, was still in a nascent stage of evolution of online retail spending. China was in ascending stage at 50%, whereas Japan (69%), Australia (57%) and South Korea (70%) were in mature stage.

As per Internet and Mobile Association of India (IAMAI), CRISIL (a global analytical company), Price waterhouse Cooper (PwC) analysis and industry experts the e-commerce industry is fast rising, changes can be seen over a year. This sector in India has grown by 34% (CAGR) since 2009 to touch 22 billion in 2015.

According to a recent TechnoPak report e-tailing has the potential to grow more than hundred-fold in the next 9 years, to reach \$ 76 billion by 2021. The growth will be driven by the country's growing internet-habituated consumer base, which will comprise 180 million broadband users by 2020 and a burgeoning class of mobile internet users.

The 'Future of e-Commerce: Uncovering Innovation' a joint study of ASSOCHAM and Deloitte reveals that the digital commerce market in India has grown steadily from \$ 4.4 billion in 2010 to \$ 13.6 billion in

2014 and likely to touch the \$ 16 billion mark by the end of 2015 on the back of the growing Internet population and increased online shoppers. The study, further says that the next three years, global e-commerce sales via mobile devices is expected to top \$ 638 billion mark.

E-Commerce players of the US, Europe and Japan are seeing slower growth in their home markets. They are increasingly looking to enter developing economies of India, Brazil and China which have forecast growth rates of more than 20 per cent in the coming year.

As per the various studies most popular e-commerce categories are non-consumable durables and entertainment related products. According to D.S. Rawat, Secretary General, Assocham, the greater adoption of Internet and smartphones is the biggest drivers of e-commerce in India. Further, according to the study, the Indian online ad market will grow year-on-year at 30 per cent to reach Rs. 3,675 crore (Rs. 36.75 billion) by April, 2015. Again, the study reveals that global e-commerce industry generates \$ 1.2 million revenue by 2020.

Swiss bank UBS expects the online retailing market to grow 10 times to a maximum of \$ 60 billion by 2020, based on internet penetration, per capita gross domestic product (GDP) and total retail market size of the country, according to NDTV Profit. In India, the top 4 most valuable online companies are 1. Flipkart, 2. Snapdeal, 3. OlaCabs and 4. Paytm. The valuation of Flipkart is skyrocketing to \$ 15 billion from \$ 1.5 billion by the end of the year. The valuation of New Delhi based Snapdeal is at \$ 2 billion. Ola, founded in 2011, the taxi firm operates in more than 65 cities as at now, emerged as the third-most valuable venture-backed company in India after Flipkart and Snapdeal. The Bengaluru based company's valuation rose to Rs. 15,600 crore. Paytm, a mobile payment services firm, is the fourth most valuable internet firm with a valuation of \$ 1.83 billion. Paytm, which recently forayed into e-commerce space, estimates its revenue rise to more than \$ 4 billion (Rs. 25,417 crore) by year end.

A Report of Goldman Sachs says that the “hyper growth in affordable smart-phones, improving infrastructure and a propensity to transact online, as key growth factors for the current e-commerce market size of \$ 20 billion.” Further, India's attractive demographics of the youngest population in the world should lead to over 300 million new online shoppers in the next 15 years, making e-tailing the largest online segment, it said. The Report says that the e-commerce market will account for 2.5 per cent of the India's GDP by 2030, growing 15 times and reaching \$ 300 billion.

### Factors for Growth of E-Retailing in India

As per Internet and Mobile Association of India (IAMAI), CRISIL, PwC analysis and industry experts the e-commerce industry is fast rising, changes can be seen over a year. The e-tailing sector in India has grown by 34% (CAGR) since 2009 to touch 22 billion in 2015. According to a recent TechnoPak Report, the e-tailing has the potential to grow more than hundred-fold in the next 9 years, to reach \$ 76 billion by 2021. The following are the factors which are responsible for whopping growth of e-retailing in India:<sup>1</sup>

1. **Localization of Internet content:** Google India spokes person says that web content search in Hindi has grown a whopping 155 per cent in the past years, which is significantly higher than the growth of content search in English. Hindi content searched through mobile internet grew at even higher rate of 300 per cent in the same period. Growth in traffic in other languages, too, was impressive. Mohit Bahl of KPMG says localization of content is a great innovation, which will be helpful in future.
2. **Growth in cities beyond metros:** About 20 per cent of India's population lives in cities outside of metros. The several studies say that this large group of city dwellers have a significant purchasing power. Honda, for instance, sells 60 per cent of its Amaze car in tier – II and tier – III cities. These cities account for 55 per cent of Honda's City models.
3. **Growth of Mobile Commerce:** Growth in mobile internet users in non-metro cities increased the e-retailing. According to Internet and Mobile Association of India, the number of mobile internet users in the country stood at 173 million in December 2014. It is set to grow manifold by 2020. Khanna of

---

Snapdeal.com says that “given the increased mobile penetration and smart-phone adoption in these areas, mobile is certainly one of the major factors driving this trend.

4. **Growing usage of debit cards for cashless transactions:** In the past two years there has been a net addition of nearly 140 million debit cards in the country. Further, the usage of debit cards at POS terminals has seen a growth of 86 per cent in the same period. It shows the willingness to use debit cards for purposes other than withdrawing money at ATMs has increased. In spite of this, ‘cash on delivery’ (COD) constitutes nearly 70 per cent of all transactions for online retailers.

5. **Growing investment in logistics and warehouse:** As per the e-retailers they have extended their reach to “12,500 – 15,000 pin codes” out of nearly 1,00,000 pin codes in the country. Further, online retailers trying to tie up with India Post and petrol pump stations to reach out to more customers. Mohit Bahl of KPMG says that there are many companies estimated to invest nearly \$ 2 billion in logistics and warehouses by 2020,

6. **Rising disposable income:** Throughout India’s short history, the country has been a land of “haves” and “have-nots”. However, with the rise of small and medium enterprises, foreign direct investment, and India’s own powerful multinational corporations creating millions of new jobs, a new generation of globally-minded Indian consumers has been created. These consumers are spread across the country. Furthermore, access to many global and domestic brands is limited to major metropolitan regions. Therefore, this growing middle class is increasingly turning to e-commerce as a primary outlet for sophisticated consumer products and services. Annual disposable income in India is expected to increase at CAGR of 5.1% and expected to be \$ 3823 by 2015.

### Challenges for e-retailers in India

The Indian business landscape for e-retailing currently faces numerous challenges some of which are as follows:

1. **Controlling customer data:** As the delivery services are becoming more modern in using information technology, e-tailers may face some risks to properly handle on their customer data. The data related to the socioeconomic status of customers to their buying patterns and preferences, helps intermediaries and shippers reduce costs.

2. **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.

3. **Lacking Trust in Online Transactions:** In India, people do not have strong internet access and those which have do not rely on online purchasing. People do not buy online simply because they do not find it secure or reliable. It’s a mythical stereotype pervasive and profound. People don’t want to use their debit and credit cards for making an online purchase and most of the people are scared of doing electronic transactions through their online bank accounts. To counter this problem, Ecommerce businesses in India are forced to offer a third alternative in Cash on Delivery (COD) instead of payment through cards.

4. **High Customer Acquisition Cost:** Indian e-commerce companies face an extremely high Cost of Customer Acquisition (often called CPA- Cost per Acquisition) which is somewhat low in a developed countries like USA or South Korea where technology and internet diffusion is high.

5. **Underestimation of Customer Lifetime Value:** Customer Relationship is an asset for any company, but e-commerce companies in India are not implementing effective strategies to maintain such relationships. They underestimate the lifetime value of a customer and such lack of focus on the Customer’s Lifetime Value (CLV) also raises troubles for e-commerce companies.

6. **Offline presence:** The customers of India should be assured that the online retailers are not only available online but offline as well. This gives them psychological comfort and trust. The concept of e-

retailing in India has not gained prominence as Indians prefer to touch the products physically before buying them. Studies have also revealed the preference of the customers towards the traditional shopping methods. Hence the online retailer in India should first make it a point to spot the potential customers and accordingly plan out the product.

**7. Language Problem:** Most internet retail shops use English as their mode of communication. English may not be comprehensible to the majority of the Indian population. To increase the customer base, count in the online retail shops should be provided in local language.

**8. Logistics:** Effective logistics play a key role in determining the operational success of e-retailers. If we look at the India our country is large and fragmented with poor infrastructure facilities. So, timely delivery and other priority services are the biggest challenges for online retailers in our country. Moreover cost of logistics in India is high due to lack of adequate infrastructure. This has forced some of the retail players like Flipkart and Amazon to build their own logistics arms. Flipkart has e-kart logistics which takes care for their delivery process. Some of the online retailers are tied up with logistic companies for fulfilling customer orders. One of the biggest problems faced by logistic companies is the limited airline feet size of logistic companies. We look at the Indian scenario we have limited fleet of freight carriers which can hinder the priority services like same day delivery for customers. Another important drawback is the limited technology investments and developments in Indian logistics sector. If we look at developed countries there is huge investment in technologies like GPS, RFID technology to enhance the tracking of shipment and delivery of customer orders.

## Conclusion

As per Internet and Mobile Association of India (IAMAI), CRISIL, PwC analysis and industry experts the e-commerce industry is fast rising. The sector in India has grown by 34% (CAGR) since 2009 to touch 22 billion in 2015. The 'Future of e-Commerce: Uncovering Innovation' joint study by ASSOCHAM and Deloitte reveals that the digital commerce market in India has grown steadily from \$ 4.4 billion in 2010 to \$ 13.6 billion in 2014 and likely to touch the \$ 16 billion mark the end of 2015 on the back of the growing Internet population and increased online shoppers. In the next three years, global e-commerce sales via mobile devices are expected to top \$ 638 billion, adds the study. The key factors that are driving this growth are the rise of Internet usage (growing at 20 per cent) and 4 G penetration, and increasing smartphone users with availability of Internet on mobile phones. It is estimated that currently there are 27 million mobile Internet users in India out of which 4 per cent are buying products on mobile. But to capitalize on these growth trends we need to improve our physical infrastructure, policy framework and operational environment in our country.

## References

1. Brown, Stephen (1987): "Institutional change in Retailing: A Review and Synthesis", European Journal of Marketing, vol. no. 21, pp. 5-36.
2. Dennis, C., Fenech, T. and Merrilees, B. (2004): "e-retailing", Routledge, Taylor and Francis Group, London.
3. Rao, B. (1999): "Developing an effective e-tailing strategy", Electronic Makers, vol. 9, no. 1, pp 89-92.
4. Peterson, R., Balasubramanian, S. & Bronneaberg, B. J. (1997): "Exploring the implications of the internet for consumer marketing", Journal of the Academy of Marketing Science, vol. 25, no. 4, pp. 329-346.
5. Elizabeth Goldsmith and Sue L.T. McGregon (2000): "E-Commerce: Consumer Protection Issues and Implications for Research and Educaiton; J Consumer Studies & Home Economics; Vol. 24, No. 2, June 2000, pp. 124-127.
6. Guttman, Robert H., Moukas, Alexandros G. and Maes, Pattie (1998), "Agents as Mediators in Electronic Commerce", International Journal of Electronic Markets 8(2); pg.no.22-7.
7. CRISIL (2014) – e-tail eats into retail, CRISIL Research, pp 1-14.
8. Mayank Mishra, New Delhi, "5 factors that will drive e-commerce growth", February 13, 2015.
9. Arora, J. (2013), Prospects of e-retailing in India, IOSR Journal of Computer Engineering, pp 1-5.
10. Namita Bhandari and Preeti Kaushal (2013): "Online Consumer Behaviour: An Exploratory Study", Global Journal of Commerce and Management perspective, vol. 2(4), pp. 98-107.
11. Besta Shankar: "India's Top e-Commerce Firms with Billion Dollar Valuation", June 12, 2015.

- 
12. Manish Dwivedi; Kumawat, Mahesh & Verma Sanjeev (2012), “Online Retailing in India: Opportunities and Challenges”, International Journal of Engineering and Management Sciences, Vol. III, No. 3, pp. 336-338.
  13. Lone-Eagle Consulting (2006): “E-Commerce Success Stores of Idaho”, <http://lone-eagles.com/idaho-E-Successes.htm>.
  14. Alexander, C., J.M. Pearson, L.Crosby (2003): “The Transition to E-Commerce: A case study of a Rural – based Travel Agency”, Journal of Internet Commerce, vol 2(1), pp 49-63.
  15. <http://www.investopedia.com/terms/e/electronic-retailing-e-tailing.asp>.
  16. Rayudu, C.S. (2008): “E-Commerce and E-Business”, Himalya Publishing House, Hyderabad.