E-Retailing in India: A luxury or a necessity?

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Abstract: With rising internet penetration, the no of consumers shifting to online shopping is increasing fast. E-Retailing has been fairly late in its inception in developing countries such as India and hence, consumers in India still find E-Retailing as a latest concept. In 2014, E-Retail sales accounted for 0.9% of total retail sales. Some analysts fear that the growth of online shopping in India will become stagnant after a few years. But with business ventures like Flipkart and Snapdeal opening up and becoming as successful as Amazon, future of E-Retailing becomes unpredictable. The survival of E-Retailing is dependent on businessman being able to swing the moods of consumers in the coming years. Since there is no recent study present to analyze the condition of E-Retailing in India and predict the future, this project aims to achieve the same. This project throws some light on the current mood of the nation towards online shopping both in urban areas and rural areas. Using a small survey, the project throws some light on (1) how much people are dependent on online shopping (2) barriers of online shopping (3) online portals which the people of India entrust. An attempt has been made to bring out the strategies of some successful online business ventures like Amazon and Flipkart which every new businessman should follow in future. The paper tries to predict the factors which would play a major role in growth of E-Retailing in India. The project concludes with prediction of future of E-Retailing and recommendations for its growth.

1. Introduction
Lori Mitchell-Keller, Head of Global Retail for SAP once said “the best way to predict future is to invent it.” Though, analysts may have predicted stagnant growth for E-Retailing, businessmen in India have been clever enough to follow successful business models like Amazon as well as come up with their own innovative ideas to make India one of the leading countries when it comes to comparing growth rates of last few years. The growth of E-Retailing is driven by the need to save time which is most important for people due to their hectic schedules nowadays. E-Retailing offers sale of both perishable and non perishable goods. It mostly includes Business-to-Consumer sales along with Business-to-Business sales. The growth of Internet has been exponential since its inception. The internet users in India have grown to 243 million and accounts for 8.33% of total world population when it was less than 5 million in 2000.

This figure suggests that online shopping business has a huge potential in India which is yet untapped. In India, E-Retailing is still in embryonic stage. According to 2015 Global Retail E-Commerce Index, India right now, does not rank even in the leading 35 countries while the top countries are developed countries like U.S.A, China and U.K etc. But with changing lifestyles such as dependency of youth over computers, mobiles and internet, one could be hopeful about the prospects of E-retailing. Online shopping has some immense advantages over traditional retail system relating to comfort and convenience but still consumers are reluctant to switch to online shopping because of some of its major loopholes. In urban areas, E-Retailing suffers from technical issues such as privacy, cybercrimes, and no touch and feel factor etc. whereas in rural areas, it is still suffering from social issues like poverty and less literacy rates.

“India is the fastest among any of our geographies to ever grow to this scale” said Jeff Bozos, CEO of Amazon on his visit to India. There is potentially giant room for growth given the huge population of India and online retailing still being in nascent stage. Currently, it is considered as a thing of comfort or even luxury in many areas of India. The question which arises here is “Whether E-Retailing will always be considered a luxury in India or will it ever become a necessity?”

2. Objectives
- To analyze the condition of E-Retailing in India, both in rural and urban areas
- To outline the strategies which are followed by businessmen or should be followed
- To predict the future of E-Retailing in India

3. Methodology
- Scope of Study: The study in this paper is limited to the prospects of E-Retailing in India and is generally focused on the future of E-Retailing in India
- Source of Data: The raw data for the study is collected from various books, business magazines, research studies and internet web
A survey was conducted among friends, relatives, neighborhood where various questions regarding E-Retailing were asked to know the present climate. Sample survey size was 42 people mostly from NCR region.

4. Survey (Observations)
Various sources show that Delhi is right now the leading region in E-Retailing in India. A survey was conducted among residents of NCR during the duration of this project which yielded some interesting results.

**Survey Sample Size: 104**

4.1 Frequency of people visiting online sites

<table>
<thead>
<tr>
<th>Options</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Everyday</td>
<td>6.25%</td>
</tr>
<tr>
<td>Once or twice a week</td>
<td>15.63%</td>
</tr>
<tr>
<td>Three to four times a month</td>
<td>22.92%</td>
</tr>
<tr>
<td>Once a month</td>
<td>39.58%</td>
</tr>
<tr>
<td>Once a year or not at all</td>
<td>15.63%</td>
</tr>
</tbody>
</table>

![Figure 1: Graph for 4.1](image)

All the people asked in the survey knew that online shopping exists and had used it once in their lifetime. Only 6% of the people visited these sites every day. A major majority of people (56%) tried to avoid these sites until it is absolutely necessary.

4.2 Purpose of visiting these sites

<table>
<thead>
<tr>
<th>Options</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Just for browsing</td>
<td>40.63%</td>
</tr>
<tr>
<td>For selecting a particular commodity and buying it from shop</td>
<td>26.04%</td>
</tr>
<tr>
<td>For purchasing a particular commodity online.</td>
<td>33.03%</td>
</tr>
</tbody>
</table>

![Figure 2: Graph for 4.2](image)

Another interesting fact which came out of the survey was that only 33% of the people visit online shopping sites for the purpose of buying a commodity. Other people visit these sites just for browsing.

4.3 Reason for online shopping

<table>
<thead>
<tr>
<th>Options</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contains the range of...</td>
<td>30.82%</td>
</tr>
<tr>
<td>Best E-Catalog and search</td>
<td>26.92%</td>
</tr>
<tr>
<td>Best for security...</td>
<td>22.92%</td>
</tr>
<tr>
<td>Best prices and offers</td>
<td>15.63%</td>
</tr>
<tr>
<td>Timely delivery</td>
<td>6.25%</td>
</tr>
</tbody>
</table>

![Figure 3: Graph for 4.3](image)
Table 3: Survey Data for 4.3

<table>
<thead>
<tr>
<th>Options</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contains the range of commodities which suit your taste</td>
<td>21.74%</td>
</tr>
<tr>
<td>Best E-Catalog and search facilities</td>
<td>10.87%</td>
</tr>
<tr>
<td>Best for security reasons and privacy</td>
<td>5.43%</td>
</tr>
<tr>
<td>Timely Delivery</td>
<td>25%</td>
</tr>
<tr>
<td>Best prices and offers</td>
<td>36.96%</td>
</tr>
</tbody>
</table>

Through this survey, we deduce that online shopping is a hit amongst its customers for multiple reasons. In the graph we can see that there is no winner with a big majority. People choose online shopping for its timely delivery, E-Catalog, best prices, range of products etc...

4.4 Favorite commodities online

![Figure 4: Graph for 4.4](image)

Table 4: Table for 4.4

<table>
<thead>
<tr>
<th>Options</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronics</td>
<td>56%</td>
</tr>
<tr>
<td>Clothes</td>
<td>42.71%</td>
</tr>
<tr>
<td>Home accessories</td>
<td>17.71%</td>
</tr>
<tr>
<td>Vehicles and accessories</td>
<td>16.61%</td>
</tr>
<tr>
<td>Books, DVDs and games</td>
<td>42.71%</td>
</tr>
<tr>
<td>Other (please specify)</td>
<td>5%</td>
</tr>
</tbody>
</table>

Consumers now trust electronics as a safe option to buy from such sites without any fear of defective goods. The survey was conducted in a relatively younger section of society which explains electronics, books, clothes and games being more preferred than others.

4.5 Preferred mode of payment

![Figure 5: Graph for 4.5](image)

Table 5: Survey Data for 4.5

<table>
<thead>
<tr>
<th>Options</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on Delivery</td>
<td>48.94%</td>
</tr>
<tr>
<td>Payment Cards (Debit or Credit Cards)</td>
<td>27.66%</td>
</tr>
<tr>
<td>Internet Banking</td>
<td>17.02%</td>
</tr>
<tr>
<td>Mobile Payment options</td>
<td>6.38%</td>
</tr>
</tbody>
</table>

Most of them (50%) voted for cash on delivery. Cash on delivery is a compromise on the part of the sellers to attract customers in India. Cash on Delivery leads to major losses in India which is discussed later-

4.6. People were asked to rate certain sites according to their preference order

![Figure 6: Graph for 4.6](image)
Flipkart is a hit amongst Indians with around 39% people choosing it as their first choice. Amazon must be applauded since it is new in India and is still close on Flipkart’s heels. An interesting fact is around 83% of people prefer Flipkart, Amazon and Snapdeal which shows that competition is amongst these sites while any new player in the market is suffocated because of their popularity.

4.7 Frustrating thing about online shopping

36.46% of the people believed that, in future, the growth of E-Retailing could be significant while another 51.04% of the people believed that E-Retailing will continue to grow but traditional methods will still remain better. Only 12% of the people thought that growth of E-Commerce will always remain stagnant. It is surely a positive sign.

5. E-Retailing in India (Urban vs Rural areas)

68% of India comprises of rural areas. So, a large chunk of online shopping business is dependent on rural consumers. It is important to discuss the rural picture of E-Retailing to get a correct view of the future of E-Retailing. While E-Retailing is flourishing in metropolitan and II tier cities, the pioneer cities being Delhi, Mumbai etc, the rural picture of online shopping is not so interesting.

1. The rate of internet penetration in rural areas is quite low for rural areas. There are 101 million internet users which is just 12% of the rural population. This is quite low compared to urban population where rate of internet penetration is 45%.

2. According to a survey in internetretailer.com, 3% of the rural population living in pakka houses didn’t even know that internet exists.
3. A few people living in rural areas when asked about E-Retailing gave fuzzy responses. Many of them were not aware of sites such as Flipkart or Amazon. With such a low internet penetration, the growth of E-Retail has been sabotaged. Only 10% of rural internet users know about E-Retailing and only astonishingly only 3% of the total internet users have ever used it for online shopping, according to an article in Economic Times.

Sadly, rural areas are still suffering from social issues such as poverty and less literacy rates. Poverty leaves people with less disposable income to spend on internet connections and computers. Here, internet access is considered a luxury which is a basic need in metropolitan cities.

No touch and feel factor is a big problem in India, both in urban and rural areas. In India people have a mindset of opting for goods after they had felt it thoroughly. While in metropolitan cities the trend is changing but in rural areas, people have a knock of bargaining long and arguing with the sellers. They have the patience to visit every shop and selecting the most satisfying commodity amidst the crowd.

Another problem associated with rural areas is transport connectivity. Either there is a shortage of vehicles for last mile delivery which incurs huge losses. Investors are reluctant to extend their business to areas where people use crop-fields as roads which leads multiple cases of untimely delivery.

Rural areas also suffer from poor banking system. Banking system is not present in around 24% of rural areas. E-Retailing is largely dependent on payment cards or net banking and hence suffers in rural areas.

6. Barriers in India
The advantages of E-Retailing are many and could be clearly noticed such as comfort of house, price comparison, doorstep delivery, reducing fuel costs and help in avoiding crowds. But, one needs to have a deeper look to notice the shunting factors of growth of E-retailing in India. The survey yielded some interesting conclusions about those barriers. For e.g. no touch and feel factor already discussed, is a barrier not only in rural areas but in whole India. Some of them are-

- **Generation of traffic**- One of the biggest problems in opening an online shop is generation of traffic on the web portal and its sustenance. It is very difficult and in India to open an online business as most of them end in failures. The existing market players do not allow e-business to flourish due to fierce competition. As a result the e-retail sales are concentrated in the hands of only a few players.

- **High costs of last mile delivery**- The delivery route from ports or flight stations to final destination is known as last mile delivery and cost around 40% of the total transportation costs. This is due to poor road connectivity especially in remote areas. Finding addresses is also a major problem. Also there is no guarantee of a purchaser being present at the time of delivery. Last mile delivery is a major cause of untimely delivery.

- **Cash on delivery**- As per the survey 46% people are dependent on this method of payment. It could be due to the reason that online shopping is still flourishing in India. New buyers want to play safe as they cannot build their trust right from the first purchase. But CoD has certain significant disadvantages. Returning purchases by customers, loss or stealing of cash while on its way are some major problems which lead to lower profits.

- **Cybercrimes**- A large part of the population fears internet as their mode of payment. They are reluctant to use debit card or credit card, the reason being cybercrime such as phishing, DDoS attacks, malware etc.

- **Government policies**- Indian government has restricted FDI in B2C (Business to customer) segment and FDI is only allowed in B2B (business to business) segment. As a result, overseas players in India have to operate their experimentation and sales along the marketplace model which only reduces their profit margin.

7. STRATEGIES
Just opening a new online portal would not help an investor much. One of the barriers discussed above were the generation of traffic on web portals. It takes a highly skilled workforce, both physically and mentally to make it successful. Amazon started as an online bookstore but was able to expand its business in all consumer products. It was founded by an entrepreneur ‘Jeffrey Preston’ and has played a pioneer role in the growth of E-Retailing. Currently, Amazon has grown and now deals with a variety of product lines such as books, DVDs, music CDs, videotapes, groceries, health and personal-care items, industrial & scientific
supplies, kitchen items, apparel, baby products, consumer, beauty products, gourmet food, jewelry and watches, lawn and garden items, musical instruments, sporting goods, tools, automotive items and toys & games and more.

With such a fierce competition among investors to establish online business and find success, it is important to apply some basic strategies. A new online business should always try to follow the mantras behind the success of leading online portals as well as use their own innovative mind to lure the customers.

A close study of successful marketplace models indicates that every one of them have some common basic strategies. Some of them being:

- **First come advantage**: When Amazon was setup in 1995, there were no big competitors present in the arena. It gave Amazon a huge advantage on customer base and experience. Same was the case of Flipkart. A new businessman could gain this advantage by initiating sales of new product lines on their portal.

- **Strategic Alliances**: Currently, Amazon has over 500,000 business partners. Currently we heard news about Myntra being sold to Flipkart. These alliances with other market forces help them to increase their product range. For e.g. Amazon had an alliance with Sony Co. which allowed Amazon to sell Sony products on its shopping website. Every customer has its own tastes and preferences when it comes to buying products. It is impossible to reach each and every customer. But, it has been made possible by having alliances with other companies. Each company helps amazon by referring its customer base to amazon shopping portal.

- **Pricing strategy**: Indian consumers are price driven and are easily attracted to offers when compared to developed countries. E-Retailers recognize this and hence constantly try to cut their prices by giving discounts in order to lure customers. An Indian consumer has a mindset of comparing prices of the same product on different websites and one which offers the best price is able to strengthen its consumer base. There is another pricing method which goes the intelligent way and is currently followed by Amazon. Amazon is known to have low prices on its products and services. But, in truth the prices of product changes quite frequently. The goods present on Amazon undergo millions of price changes daily. This level of price dynamism is not present on any other shopping portal. Such high level of price dynamism helps Amazon to change prices according to seasons, trends and tastes of people.

- **Customer Obsession**: When amazon first started earning some profits, Jeff Bozos said that it was a mistake because he did not intended to earn profits for a few more years. Amazon has always valued customers more than profits. With 30 million new customers added last year, its customer base has now grown to 244 million which is more than three times compared to any other E-Retailing company. It had superior customer service in its starting years. Now other sites such as Snapdeal are starting to take lead in luring customers with ease.

8. **Future of E-Retailing (India)**

As discussed in the introduction section, India right now does not count even in the top 30 countries when it comes to comparing sales due to online shopping. 55% of the online retail sales are taking place in two countries only that is, China and the US due to their freedom in market policies. It is also predicted that by 2018 China will exceed $4 trillion in online retail sales, which would be 20% of the total worldwide E-sales while India may struggle to cross a trillion. The major reason behind such a growth of Chinese online market is their level of internet penetration. Right now, the no of Indian internet users are same as China’s back in 2007. It is predicted that only 29% of the Indian population may have used e-retailing by 2018 while the figure may rise up to 55% in China and 81% in Japan.

But it is also to note that the rate of growth of E-Retailing in India has been phenomenally high. India has been in the top 5 countries when growth rates are compared for the last few years. And it may even exceed China if E-Retailing in India is nurtured carefully.

8.1) **Rise of rural areas-The biggest challenge**

E-Retailing in India has shown an inspiring growth rate in metropolitan cities. Even II and III tier cities have started to rise. It is the rural areas which is the cause of concern for retailers. Luring rural people into online shopping would not be easy given the love their love for traditional methods. One key
factor which could drive them to online shopping is the lack of brick and mortar shops in rural areas. With improvements in online delivery and internet penetration, one could hope that online retail is poised for an agitated soar in rural India.

8.2) Mobile Retailing- the key factor

Flipkart, in recent times, took a major decision. It is now going to sell its products via mobile app only as most of its sale comes from there. ‘Mobile commerce is critical to success’ - Alexander Wilkis Wilson, co-founder of Gilt. ‘M’ is increasingly replacing ‘E’ in E-Commerce as more consumers using smart phones to buy stuff online. Experts believe that M-Commerce could be a game changer in the coming years and could contribute up to 70% of online sales.

There are an estimated 6.8 billion mobile users worldwide with a whopping 14% of them being from India. This tells that India has a huge potential for mobile commerce which if realized could take online shopping to new heights. India now comes second when it comes to mobile shopping being behind only China. Some of the key drivers of the success of shopping through mobiles are-

- **Mobiles are affordable.** Not everyone could afford a computer, especially in rural areas. But mobiles have now become a basic need.

- **Mobiles have the advantage of mobility.** It gives customers the liberty of doing things on the go. It allows instantaneous processes such as comparing prices with brick and mortar shop.

- **Mobile Internet connectivity** is free from limitations such as Wi-Fi dependency and limited wired connections. Since its origin, the no of users using mobile for 3G connections has grown to 22 million which has already exceeded fixed line broadband connections. M-Commerce has the potential to even reach rural areas where people have no computer and broadband connections.

- **Desktops and PCs are not personal as they can be shared by multiple people like family members.** Mobile phones offer **personalization and privacy.**

- Earlier, the investors were dependent on people watching televisions or coming online for advertising which limited their target audience. But due to accessibility of mobiles, businessmen could easily access the audience for advertisement by sending them mass SMS if the user hasn’t activated DND services.

Given the rise of mobile retailing, a businessman has to ensure that his online website is compatible with mobile phones and not only desktops. Lucinda Duncalfe, CEO of Monetate says that “The key to mobile commerce strategy is creating utility and value for customer where they are.”

8.3) Social Media: Spreading awareness

‘Paid social will take a greater share of budget in future’ - James Gurd, owner of Digital Juggler. He believed so because social media now has a wide reach to the masses and hence social pages make it easy to provide information regarding new products in the market, its user recommendations and reviews etc. hence helping in online sales. Secondly it is a very cheap method and very quick to set up. The social media provides a platform E-Retailers for:-

- Effective Advertisement
- Consumer feedback
- Product Awareness
- Building a group of trusted consumers

8.4) Segmentation-A Key Strategy

‘I think the biggest thing is segmentation and targeting’ - Drew Sanocki, E-commerce consultant. Every consumer has different habits, tastes and preferences and they cannot be treated as one. It is important to keep tab on every customer and optimize their site accordingly for every retailer. It is important who have subscribed to the website and who is a guest user, who is a repeat shopper, which consumer can lead to the biggest profits etc. Segmentation adds personalization and privacy to the consumers’ experience, which is perhaps the greatest reason consumers shop online.

8.5) Futuristic Innovations

While E-Retailing in India is growing with a good rate, there are some innovations which seem too futuristic for now but, once realized they could really boost the rate of E-Retailing.

1) **Artificial Intelligence** could help customers see the most authentic reviews. It can identify the reviews which are true to the customers’ experiences and have been rated as helpful. Product reviews are the cornerstone for any
retailing website. Amazon has already started using A.I. for cracking down on fake reviews.

2) **Search Engine Optimization** needs to be improved. In E-Retailing, hundreds of products are taken in and of the shelves every day. Hence, it requires good SEO tools for convenience of customers. Right now, most of the sites encounter problems such as duplicate product titles, non-optimized product pages based on search demand and ratings, lack of product description.

3) Though **3D Printing** is still in its embryonic stage, but it could change the way people feel about online shopping. Experts believe that 3D printing is a farfetched dream but if introduced in some houses could find great success. People could customize products according to their tastes and preferences and everything from selecting products to producing the commodity to delivery would become easy for the producer as well as the consumer.

9. **Conclusion**

So, whether E-Retailing will always be considered a luxury in India or will it ever become a necessity?

One thing is for sure that it is not going to happen by itself. It would require some greatest minds in the country to revolutionize the business models currently being followed by E-Retailers and bring something new which could lure consumers' mind and wallet. It is not going to be a spontaneous process. Amazon has proved its worth in other countries and it can do it in India. It came in India in late in 2013 and is already leading. Flipkart is another game changer. It has taken some great risks and some futuristic innovations. The future of E-Retailing in India could be predicted by the fact that 96% people voted for a safe future of online shopping. It is also found that the rural picture of E-Retailing in India is not good and perhaps is the biggest hindrance for its growth in India. The paper analyses the issues which trouble rural areas such as poverty, poor road connectivity etc. It also focuses on the operational challenges of online shopping. For e.g. last mile deliveries, cash on delivery, generation of traffic, government policies etc.

Another objective of the paper was to analyze the strategies which lead to the success of business models such as Amazon and Flipkart in India. It is found that factors such as first come advantage and clever strategies like price cutting, strategic alliances and superior customer service have worked great for them.

With increasing internet penetration and rapid urbanization, the prospects of E-Retailing look promising. It just requires some catalysts. Would investors be bold and innovative enough to renovate their business models to address the current barriers? Will India see a shopping revolution in the coming years?

10. **Discussions**

The term paper was started with the objective of highlighting the condition of E-Retailing in India. For this purpose a survey was carried out which drew some important conclusions. For e.g. 38% of people in Delhi (the leading E-Retailing region in India) do not attract to online shopping and use it in cases of emergency only. 45% of people usually visit online shopping sites just for browsing or selecting a commodity to buy offline. A whopping 87.37% of people in India gave their vote to just three market players (Amazon, Flipkart and Snapdeal) which indicate tough competition for new entrepreneurs. Though, the enthusiasm for E-Retailing in India could be predicted by the fact that 96% people voted for a safe future of online shopping. It is also found that the rural picture of E-Retailing in India is not good and perhaps is the biggest hindrance for its growth in India. The paper concludes that there is a chance of bright future of E-Retailing in India.

The last and the vital objective of the term paper were to predict the future of E-Retailing in India. The paper compares the growth rates of India with leading countries in the past few years and concludes that there is a chance of bright future of online shopping in India. Some growth factors found and mentioned in the paper are the need of rise of rural areas, the importance of mobile commerce, the effect of social media, the need of segmentation and personalization of online portals and some futuristic innovations. The future of E-Retailing could have been better predicted if a comprehensive interview was carried with the founders of some E-retailing companies about their views on the need of change of business models as its future is heavily dependent on it.
11. References


[2] Mr. Shubham Ghoswami, Dr. Meera Mathur “RETAIL GOES ONLINE - AN INDIAN PERSPECTIVE” *IJMT*, Volume 19, pp 4-10


