

# E-Tailing in India : Present and Future Growth

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## Abstract

Internet is a potent medium that can serve as a unique platform for the growth of retail brands in India. Indian e-retail market is witnessing a revolution. Brand awareness has been created in Tier II and III cities but the required products or services are not available. To overcome this problem, e-retailers need to penetrate into Tier II and III Indian cities more as compared with developed countries. There are certain factors in the business environment of India that can prove to be useful for online traders like changing consumer purchasing habits, internet speed, updated technology etc. So, these e-retailing companies should frame their strategies to capture more market share. This paper highlights the essentials of e-tailing in India, factors of growth, and barriers to growth of e-tailing in India.

**Keywords :** E-tailing, internet penetration, product and service diversity, technology

## I. INTRODUCTION

“The explosive growth of the internet infrastructure and its allied services has radically transformed the retailing landscape throughout the global economy. Online shopping has grown like never before after the dot com bubble burst in 2000. Online retailing has helped organizations to get rid of complicated business processes and also dependence on middlemen for transactions. By removing middlemen, companies can reach customers directly as it reduces the overall cost of delivering the product to the customer.

## II. OBJECTIVES OF THE STUDY

- (1) To study e-tailing trends in India.
- (2) To analyze the factors for the growth of e-tailing in India.

## III. E-TAILING IN INDIA

Online retailing in India is growing significantly with China in Asia Pacific. In India, e-tailing represents a small portion but holds huge business potential with the

increasing usage of internet, smartphones, private equity investors, cash-on-delivery (COD), growing working class, lack of organized retailers, easy online payments, and changing demographic lifestyles. These are the main factors motivating electronic retailing in India.

Driven by urbanization, attitudinal shifts and salary development, India's retail showcase is anticipated to double from US\$ 600 billion in 2015 to US\$ 1 trillion by 2020 as per IBEF. The huge development of e-commerce showcase too plays a fundamental part within the high scale advancement of the retail segment. By 2020, e-commerce will be a \$700 billion showcase (B2B) with 530 million customers by 2025 against the background of strong speculation in e-retail developing at a breakneck speed. As a result, traditional brick and mortar companies are witnessing a decline in sales, whereas e-commerce is booming with sales expected to reach US \$ 120 billion by 2020 from US \$ 30 billion in 2016. Clearly, the industry has become a veritable behemoth, according to Amit Daga, Founder and Managing Director of Deal Kya Hai.

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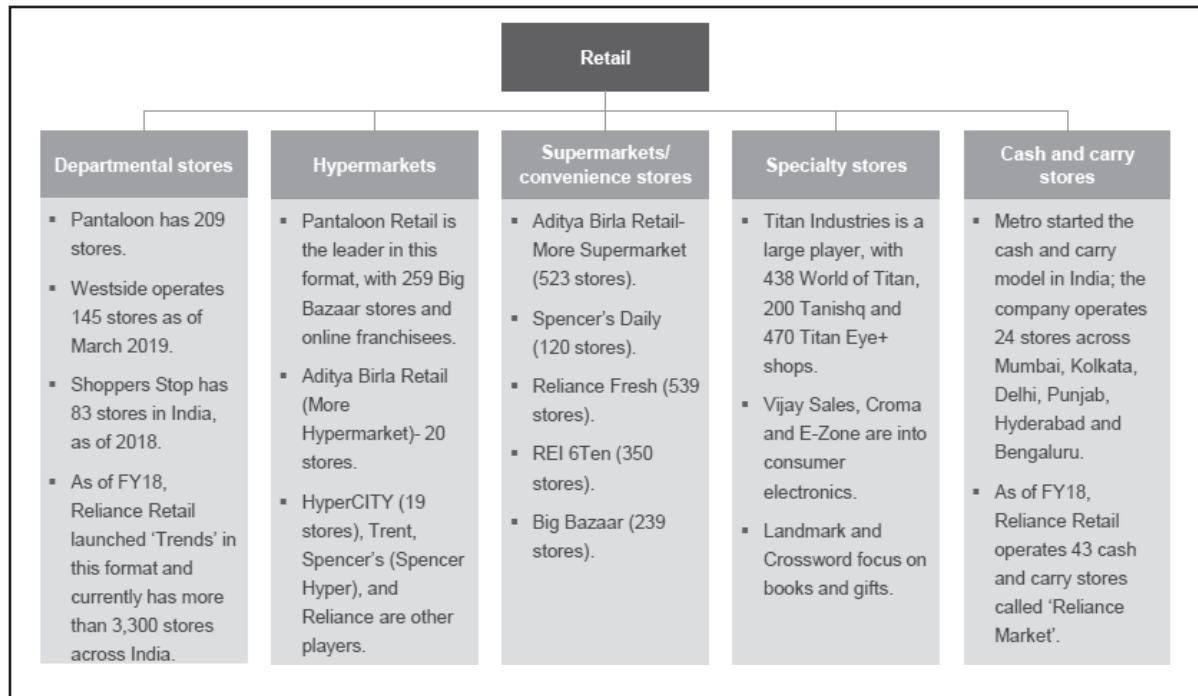
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## A. Types of Retail Stores in India

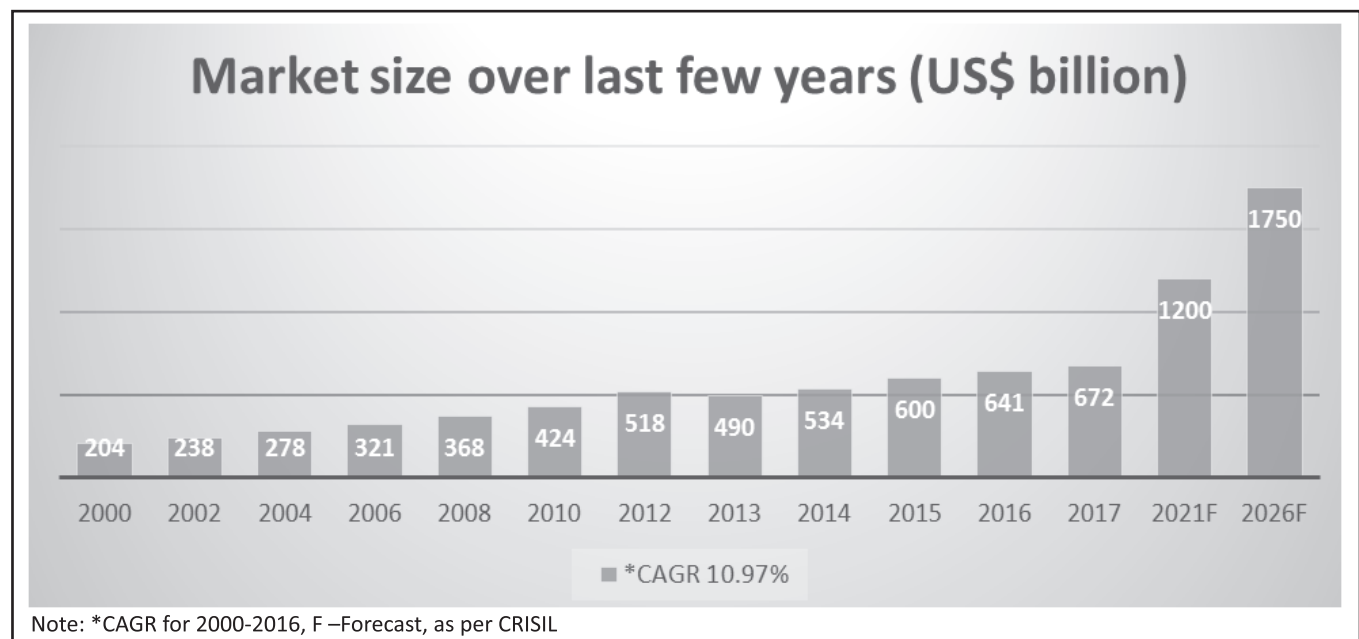
Fig. 1 shows types of retail stores in India.



**Fig. 1. Types of Retail Stores in India**

Source: Company websites, press release, IBEF May 2019.

## B. Indian Retail Sector Market Share



**Fig. 2. Indian Retail Sector Market Share**

Source: indiaretailing.com, BMI Research, Consumer Leads report by FICCI and Deloitte -October 2018

The Indian economy is considered a developing economy. India is the world's 5<sup>th</sup> biggest economy by nominal GDP and the 3<sup>rd</sup> biggest by PPP (purchasing power parity). Fig. 2 shows Indian retail sector marketshare. According to IMF, “on a per capita income basis, India ranked 142<sup>nd</sup> by GDP (nominal) and 119<sup>th</sup> by GDP (PPP) per capita in 2018”. Before 1991 (economic liberalisation), the free market oriented reforms led India achieving 6% to 7% annual average GDP growth, but from 2014 to 2019, India was the world's fastest rising major economy greater than China.

### C. E-Commerce Retail Segment in India

Internet users in India were about 475 million as of July 2018, about 40% of the population (IAMAI Report, Retrieved May 4, 2016). The penetration of electronic commerce is comparatively slow when compared with US or France, but is growing fast by adding 6 million every month (Times of India, March 25, 2015). In 2017, Flipkart, Amazon, Myntra, Paytm, and Snapdeal were the largest electronic companies in India (Economic Times, March 22, 2018).

The key drivers of Indian e-Commerce are :

- Increasing broadband web and 4G penetration
- Increasing standard of living
- Availability of much more wide-ranging products and services
- Busy way of life and need of time for offline shopping
- Increased utilization of online categorized sites
- No need to invest in retail store, rent need not be paid
- Merchandise discounts can be compared easily

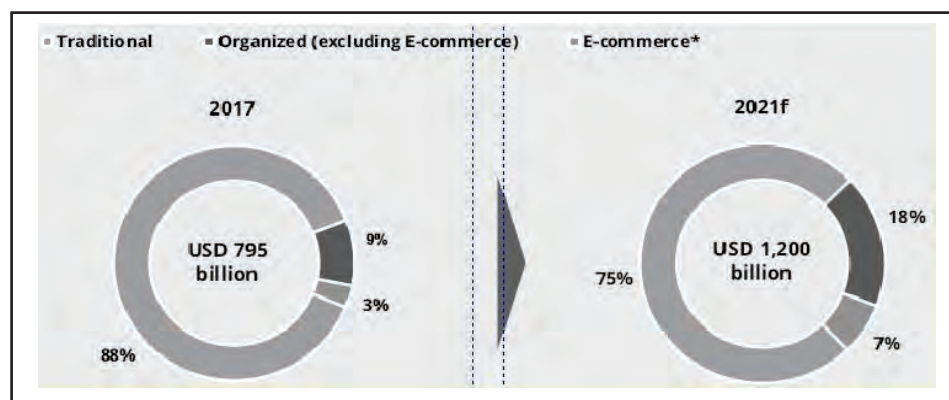
Share of organized retailing is rapidly growing as shown in fig. 3.

Internet users in India will increase from 30% (432 million by 2016) to 59% (647 million by 2021). Around 75% of new users might be coming from rural regions. Smartphone users in India are anticipated to grow from 260 million in 2016 to around 450 million by 2021 (KONNECTED to Consumers, Deloitte, September 7, 2017; Media articles). These factors will be the driving force for most customers to start using online platform for transaction.

“The explosive growth of internet infrastructure and its allied services has radically transformed the retailing landscape throughout the global economy. Online shopping has grown like never before after the dot com bubble burst in 2000”. Online retailing has helped organizations get rid of complicated business processes and also dependence on middlemen for transactions. By removing middlemen, companies can reach customers directly. Thus, it reduces the overall cost of delivering the product to the customer.

Online retailing has improved communication between companies and customers through interactive feedback system. Interactive capability of internet has increased competitiveness of online retailers by revolutionizing consumers' online shopping experience.”

Online retailing in India is growing significantly. In India, e-tailing represents a small portion but holds huge business potential with the help of increasing usage of internet, smartphones, private equity investors, cash-on-delivery (COD), growing working class, lack of organized retailers, easy online payments, and changing



**Fig. 3. Share of Organized Retailing**

Source: KONNECTED to consumers; Economist Intelligence Unit. Accessed : April 2018; Media articles; Indian Retail Industry: Growth, Trends, Challenges, and Opportunity, India Retailing, November 16, 2017; Deloitte analysis.

Note\*: e-Commerce market here refers to sale of products and services through electronic transactions, home shopping is also considered a part of e-Commerce.

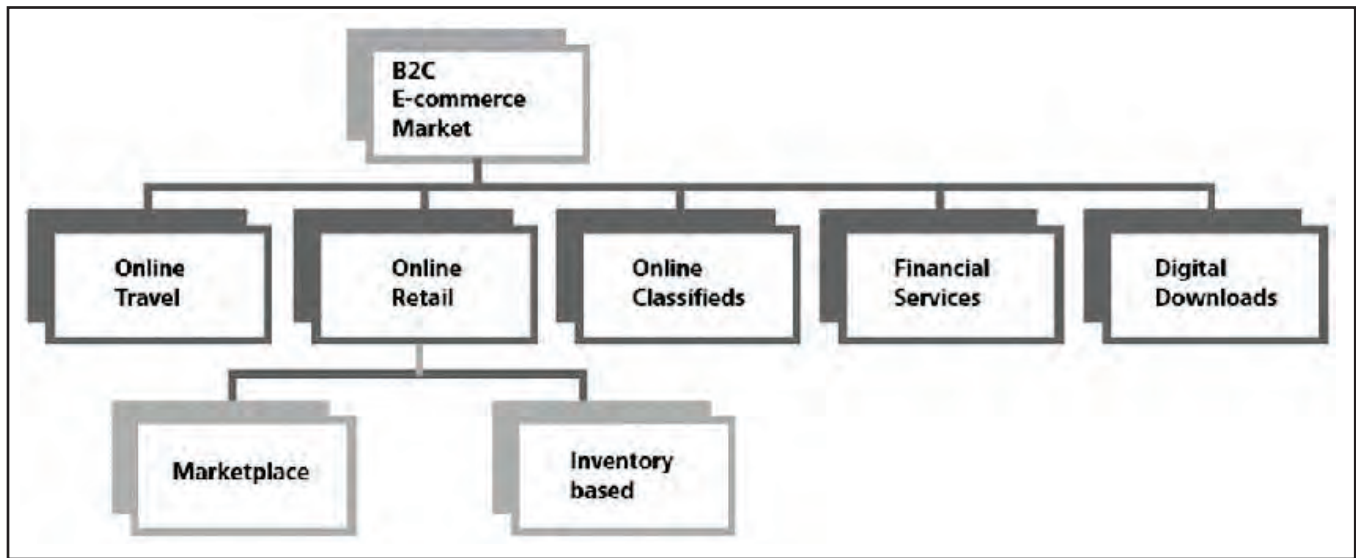


Fig. 4. Indian Retail Sector

demographic lifestyles, which are the main factors motivating electronic retailing in India.

Fig. 4 shows B2C e-Commerce market sub-segments. Online travel accounts for nearly 61% of e-commerce business while online retail contributes about 29%. Online classifieds are online advertisements. Financial services and digital downloads are increasing rapidly in India. Fig.4. shows the B2C e-Commerce market.

Factors that need to be addressed for the growth of electronic retailers in India are :

- ✍ Lack of touch and feel for the products
- ✍ Security factors
- ✍ Privacy factors
- ✍ Duplicate product
- ✍ Lack of direct interaction

#### D. Opportunities Beyond Metros: Tier II and Tier III Cities to Drive e-tailing

e-Commerce has observed strong growth in its seller's base in the last two years by steady increase in traders from tier II and tier III cities that now accounts for 45% of total e-commerce sales. These e-tailers are working with vendors from over 10,000 pin codes and they have targeted to add more vendors in tier II-III cities. However, this shift has occurred from 2016 onwards with the introduction of Reliance Jio. There was 93% price drop in data costs from pre Jio rates which has inspired 65 million new users on an average to start using the internet every year. Table I shows sectoral caps of investments on select relevant activities.

TABLE I.  
SECTORAL CAP OF INVESTMENTS ON SELECT  
RELEVANT ACTIVITIES

Sector /Activity	% of Equity / FDI Cap	Entry Route / Approval
Wholesale Business	100%	Automatic
Single brand retailing	100%	Automatic
Multi-brand retailing	51%	Government
Duty-free shops	100%	Automatic
Online business marketplace	100%	Automatic

Source: Retail FDI in India, Deloitte, October 2018

#### E. Benefits of FDI in Indian Retail

- ✍ Rise in employment
- ✍ Eliminating middlemen
- ✍ Technological progression
- ✍ Infrastructure venture
- ✍ Promoting Indian manufacturers

#### F. E-commerce Market Size and Growth

✍ 2009: India's electronic commerce market was worth about \$ 3.9 billion.

✍ 2011: As per "India Goes Digital", a report by Avendus Capital, the Indian e-commerce market was estimated at \$ 6.3 billion in 2011. Online travel has a sizable share of 87% of the e-commerce market. Till 2013 India's e-commerce market was dominated by travel.

✍ 2014: According to Google India, by 2014 online customers were \$35 million and were anticipated to cross



\$100 million by the end of 2016. Clothes and electronics are the major categories in terms of sales in the year 2014.

✍ 2015: By the year 2015, e-commerce market had reached \$24 billion with major inputs from electronic retailing and online travel both contributing equally, along with mobile/DTH recharge transactions that were \$1 million/day (by operator websites).

✍ 2016: Purchase of luxury products like jewellery also increased in the year 2016. Many retail companies also started venturing into electronic commerce and they expected at least 20% sales from e-tailing. According to Google India Research in 2016, “by 2021 India is expected to generate \$100 billion online retail revenue out of which \$35 billion will be through fashion e-commerce”.

✍ 2017: By the year 2017 electronic commerce industry in India was reported at USD 24 billion and was recognised as the fastest growing industry in India.

✍ 2018: The electronic commerce market size was US \$ 38.5 billion in 2018.

#### **G. New Foreign Direct Investment (FDI) e-Commerce Rules in India**

Along with major e-retailers, customers also will lose many price benefits in terms of changes in FDI rules in India. Keeping in view brick and mortar stores in India, new FDI rules have come into effect since February 1, 2019.

✍ The new policies for online entities that sell products completely through their portals with foreign investment are not permitted to sell products in which they have equity stake.

✍ The new rules also obstruct online e-commerce giants like Amazon and Walmart owned Flipkart from carrying 25% of their inventory from a single seller.

✍ The government's new FDI rule has strictly disqualified online retailer's practices of manipulating the price of goods by offering deep discounts.

✍ Online retailers have to restructure their business to accommodate more third-party vendors where they have no stake. Such a change is anticipated to cause a substantial dip in terms of discounts as prices of the actual merchandise and additional delivery charges may also apply.

✍ New FDI rules are likely to increase the number of physical stores.

✍ The new FDI rules might generate a constructive environment for offline retail stores in the country.

✍ Internet usage with the help of smart phones and low

cost penetration has led to a rise in number of online purchasers. Many customers shop through online stores to get merchandise at a cheaper cost.

✍ With merchandise prices set to become nearly uniform across all retailing channels, customers may favour physical stores.

✍ As we notice that organized stores are getting more attractive in nature and most online stores have started locating themselves in physical format, it might create the possibility that online customers would look to shop more from physical retail stores.

#### **H. Top Categories in Online Retail in India**

E-commerce trade in India is flourishing day by day and this provides lot of opportunities to sellers to do business in online retail in India. The top online retail merchandise sorts are as follows:

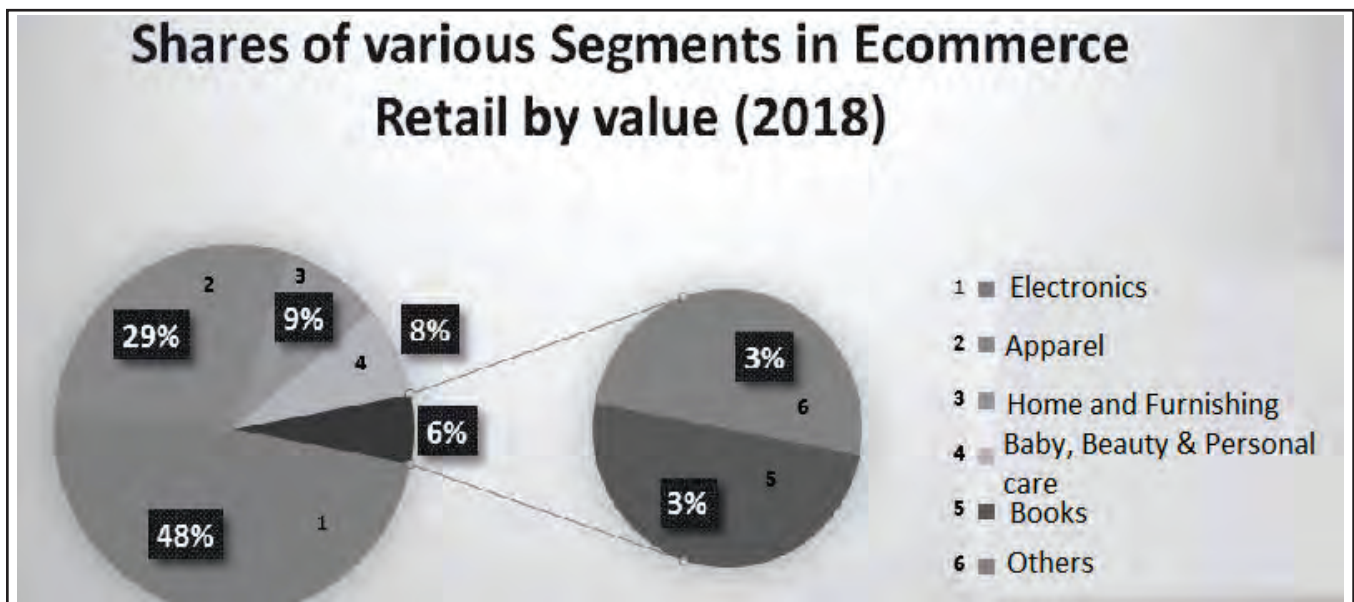
- ✍ *Apparels*
- ✍ *Consumer Electronics*
- ✍ *Footwear*
- ✍ *Food, Health & Beauty Supplements*
- ✍ *Jewellery*
- ✍ *Books*
- ✍ *Mobile Phones*
- ✍ *Fashion Accessories*
- ✍ *Home Decor Items*
- ✍ *Kitchenware and Household Appliances*
- ✍ *Toys and Games*
- ✍ *Sports Good and Fitness Equipment*
- ✍ *Provisions*
- ✍ *Subscriptions*
- ✍ *Baby Care Products*
- ✍ *Computer Hardware, Software, and Accessories*

Fig. 5. shows the share of various segments in e-Commerce.

As per the Economic survey 2017-18, the e-commerce share in India is projected at US\$ 33 billion and with a 19.1% growth rate, it would reach upto US \$ 62.3 billion by 2023. Fig. 6 shows the retail e-commerce revenue forecast from 2017–2023.

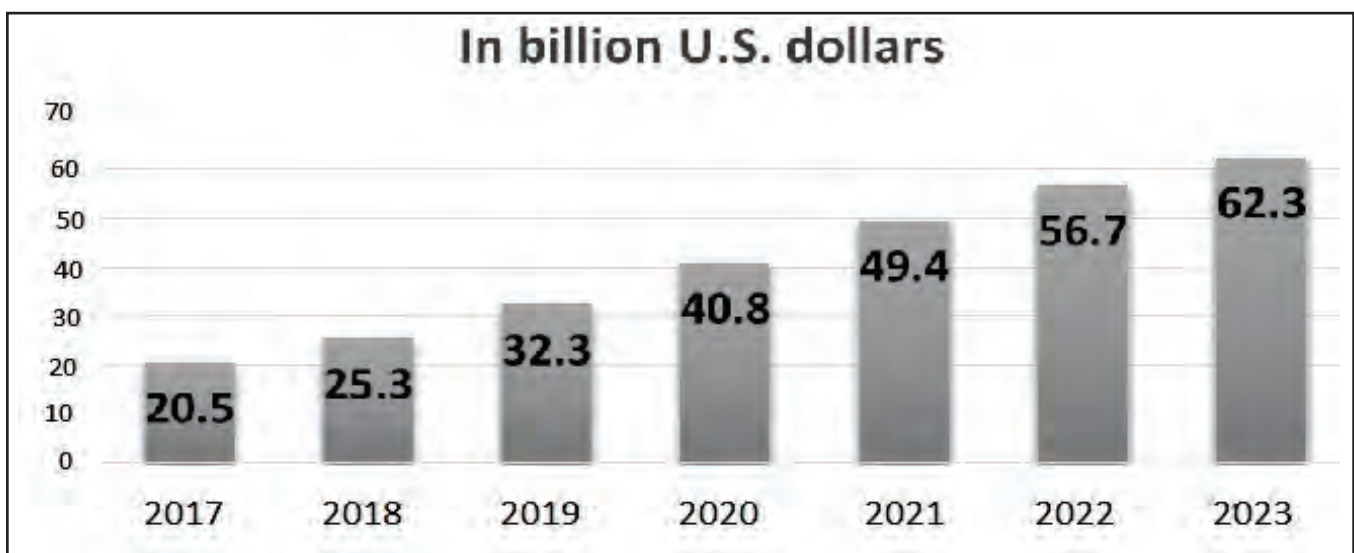
## **IV. CONCLUSION**

Online retailing has created a platform for interactive communication with buyers. Detailed and wide-ranging merchandise information is provided to buyers. Collection of buyer information broadens the target market, which in turns helps in offering personalised



**Fig. 5. Share of Various Segments in e-Commerce**

Source: Report by eMarketer, KalaariCapital –Imagining Trillion Dollar India, IBEF August 2019.



**Fig. 6. Retail e-Commerce Forecast from 2017 – 2023**

Source : Statista 2019

services and improves customer relationship. Busy lifestyle of consumers has created an opportunity for online retailers to attract consumers from traditional retailing to online.

Customers have more options while making purchase decisions. They can access many products and services from a single platform, information is easily available, and interactive communication platform has created interest among customers to shop online. Earlier retailers had to rely on nearby customers for sales. Now,

because of technological advancement in retailing with the internet, sellers can reach customers worldwide across various geographical locations without their physical presence.

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