

E-TAILING IN INDIA

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ABSTRACT

E-Commerce has unleashed yet another revolution, in the way businesses/individuals buy and sell products and services. E-commerce stands for electronic commerce and pertains to trading in goods and services through the electronic medium. India is the fifth largest country in E-Commerce. The B to C segment of E-Commerce is estimated to be growing at about 60%. In this segment, online travel accounts for the lion's share of about 76%, E-Tailing 15%, financial services 6%, classified items 5% and others 2%. E-Tailing is the acronym given to retail E-Commerce which encompasses all sales/purchases of goods conducted electronically between companies and their customers. There is intense competition in E-Tailing, and the consumers are lapping up the benefits. We are already seeing some mergers and acquisitions in this sector, and many more may follow. Rapidly increasing internet user base, good courier (delivery) system, and a reliable online payment system are the main facilitators of E-commerce. Mobile E-Commerce (E-Commerce using mobiles dubbed as M-Commerce) too is expected to grow at a very fast rate as the number of smart phones are at the tipping point of 10%. India has 140 million Internet users which is equal to the numbers of many of the developed countries. The future of E-Commerce is very bright in India, as it gives consumers from tier II and tier III cities same choices as consumers living in tier I cities enjoy. The advent of Amazon in India, and eventual opening up of the sector to FDI, will lead to consolidation in the Industry.

Keywords: E-tailing, Trading, Facilitator, Business, Product, Services, Credit cards, Cash-on-delivery, Networked warehousing

INTRODUCTION

E-commerce stands for electronic commerce and pertains to trading in goods and services through the electronic medium. E-Commerce consists of three major categories

1. Business to Business E-commerce: which is growing at a rate of 30% without any fanfare.
2. Business to Consumer E-commerce: is far behind B to B, but is growing at a rate of 60% and expected to catch up with B to B Commerce by 2015.

3. Consumer to Consumer E-commerce: is still in a nascent stage, probably because of lack of trust among both buyers and sellers.

The B-B commerce sector consists of five subparts viz.

1. Travel and hotel related commerce : This forms the largest chunk of B-B Ecommerce, estimated at around 75%. IRCTC, Makemytrip, Yatra, Cleartrip, and Travelguru are the major players in this segment and are estimated to be doing a business of Rs 45,000 crores per annum by Dec 2013.
2. The second largest segment is formed by the E-Tailing, and accounted for around Rs 10,000 crores by Dec 2013. The popular sites in this segment are Flipkart, Snapdeal, Jabong, Ebay, Homeshop 18, Indiatimes etc.
3. Financial services like online stock trading, online insurance, and related products. This segment was second till last year, is expected to clock Rs 3,600 crores by Dec 2013. The popular sites are ICICIDIRECT, Indiainfoline, Religare, HDFC Securities, etc
4. The fourth segment consists of classified sites like online job, matrimony, real estate etc. and is expected to touch Rs 3,000 cr by Dec 2013.
5. The last segment comprising of emerging online services like entertainment ticketing, grocery, food etc. is expected to touch Rs 1,300 crores.

This article focuses on the E-Tailing segment its prospects and problems faced by the segment.

E-Tailing is the acronym given to retail E-Commerce which encompasses all sales/purchases of goods conducted electronically between companies and their customers. Spread of internet and falling prices of desktops, had enabled many people to turn to E-Tailing. Advances in telecommunications like reliable broadband and advent of smart phones has made mobile commerce called by the acronym M-Commerce, a fast growing segment. Delivery system by courier and post has improved over a period and gained confidence of consumers, though there is still scope for large improvement. E-commerce provides multiple benefits to the consumers in form of wider choice and saves on cost of travelling to shops and also provides 24X7 shopping experience. People can access the catalogues of all E-Tailing firms and thus are more informed to make an intelligent buy. People can buy goods with a click of mouse button without moving out of their house or office. Because of intense competition in this segment, customers benefit enormously by the availability of goods at lower cost than in brick and mortar shops.

Basic Facts about India

India's Population: 1.20 billion

Internet subscribers: 140 million (expected to grow to 250 by 2015)

Credit cards: 18 million

Debit Cards: 350million

Number of Income tax payers (with income above Rs 5 lakhs: 2.5 million)

Number of smart phones: 40-50 million

Basic Facts about Indian online shopper

Number of on line shoppers: 10million

Number orders placed per person per year: 3.5 (and is growing fast)

Average ticket value: Rs. 1,100 to 2,200.

The above statistics show that all high earners are naturally have a smart phone and internet connection and have tested online purchases. It is only a matter a time that they gain greater confidence and resort to more and more purchases online.

E-Tailing accounts for just about 0.12% of all retail sales in India compared to over 3.4% in Brazil, and about 1.6 -1.8% in China and Russia. Thus, there is certainly a lot of room for growth. It is also observed that the E-Tailing is becoming more popular in second and third level towns - about 60% and the balance from the largest metros.

According to Forrester Research, the E-Tailing other than travel related business is expected to touch \$ 1 billion this year (2012) and is expected to grow at a CAGR of 57% to reach \$ 8.8 billion by 2016. According to a recent report from Technopak, the total size of business of selling retail goods on the internet, commonly known as e- tailing, is set to touch USD 70 billion by 2020 in India. Experts say that during the initial years, customers test the system, with small orders, and once they gain confidence, will go all out to shop online as much as possible because of its inherent advantages. The initial buying will always be in items whose specifications are known, and cannot be changed, like computers, mobiles, cameras etc. As customers gain confidence in the E-Tailers, they will move to other items like garments, shoes, jewelry etc.

Advantages of E-commerce

- It can help increase sales by providing extensive reach – whole country compared to access to neighborhood only in case of brick and mortar shop.
- It involves lesser investment cost in having a physical shop in a central and hence expensive location. The storage and dispatch godowns can be placed away from cities and would involve lesser investment for a given space.
- As both volumes are more and relative investments are less, profitability
- It can help organizations do business 7 days a week and 24 hours a day.
- Smaller manufacturers can have access to wider market through the E-Tailers.
- It can help organizations have customers all around the globe and not be limited to a specific region.
- It helps organizations bring higher return on advertisements, if managed properly.
- It helps organizations identify new suppliers, partners and customers.
- It increases flexibility and ease of shopping for the customer.
- It can provide personalized product and customer customization.

Major Players in, E-Tailing

It is estimated that there are over 350 sites operating in the E-Tailing segment. Out of these, some of the top sites are given below (though not in that order).

1. Flipkart.com
2. HomeShop18.com
3. Snapdeal.com
4. Fashionandyou.com
5. Myntra.com
6. Jabong.com
7. Ebay.com
8. Yebhi.com
9. Naptol.com
10. Infibeam.com
11. Inkfruit.com
12. Dealsandyou.com
13. Indiangiftsportal.com
14. Caratlane.com
15. Tradeus.in
16. Futurebazaar.com
17. Rediffshopping.com
18. Shopping.IndiaTimes.com
19. Shopclues.com
20. Olx.in

Amazon.in has entered the Indian market in June 2013. E-bay has announced its partnership with India's largest aggregator, Snapdeal.com

Formats adopted by E-Tailers in India

Indian E-Tailers have adopted mainly four formats, following the advanced economies' example

- Generic E-Tailers : like Flipkart, India plaza, Infibeam, etc, who deal in all products.
- Deal Aggregators : They do not stock any items but work as intermediaries between suppliers and customers. Eg snapdeal, naptol, dealsandyou etc.
- Niche players : who deal in specialized area only like yebhi, caratlane, perfune2order, fashion&you, mithai etc.

- Physical retailers turned E-Tailers : future group, shoppers stop, globus, landmark etc.

Facilitators of e-commerce in India

A. Research studies have indicated several factors responsible for the sudden spurt in growth of Ecommerce in India such as:

- Rapidly increasing Internet user base
- Technology advancements such as VOIP (Voice over-IP) have bridged the gap between buyers and sellers online
- The emergence of blogs as an avenue for information dissemination and two-way communication for online retailers and e-commerce vendors
- Improved fraud prevention technologies that offer a safe and secure business environment and help prevent credit card frauds, identity thefts and phishing
- Bigger web presence of SME's and Corporate because of lower marketing and infrastructure costs.
- The young population finds online transactions much easier and convenient.
- The introduction of SSL (secured socket layer) protected people from payment frauds, though such frauds are still not uncommon.
- Banks facilitate E-commerce by providing the most vital trade instrument, namely the Credit or Debit Card. According to Outlook Business, HDFC Bank credit card holders lead the pack with 8.6 million transactions and a rupee spend of 2,754 crores, ICICI Bank card holders stand second with 4.9 million transactions and a spend of Rs 1,133 crores. Public sector behemoth SBI card holders stands third with 4.2 million transactions and a spend of Rs. 894 crores, according to the magazine.

Problems faced by Indian E-Tailers

1. High cost of acquiring customer : Most sites are estimated to spend between Rs 800 to 1500 to acquire a customer. According to a study by Zinnov, a management consulting company catering to Fortune 1000 companies, the average customer acquisition cost online is Rs 1,500. With the current average orders per person per annum being around Rs 5,000 only, and current profit margins being below 10%, unless the customers spend at least three times their current spending, it will not break even.
2. High inventory cost : Initially, the E-Tailing companies started with placing orders on suppliers after receiving confirmed orders from customers. This used to result in supplies to customers being delayed. Some E-Tailers started offering assured deliveries in less than three days, as a USP, which necessitated sites holding its own inventory to ensure prompt delivery. Others too are forced to follow and this has resulted in higher working capital costs.
3. Cash on delivery : Online purchases across the world have been facilitated by credit cards. Online money transfer facility too had resulted in more and more transactions

through E-Tailing. But suspicion in the minds of people in the efficacy and secrecy of their passwords, have held back frequent purchases online. This has given rise to an option – cash on delivery. Though this method is inferior to on line transfer of funds, has encouraged people to buy more and more through E-Tailing. Studies have revealed that this method has resulted in greater number of product returns, and thereby greater transportation costs to E-Tailers.

4. Logistics : is becoming the inhibitor to faster growth of E-Commerce in India. As the E-Commerce market is growing by leaps and bounds, the logistics sector is gaining more and more importance. As the supply chain management is still weak in India, many E-Tailors are investing in supply chain facilities to enable quicker movement of goods. The limited infrastructure facilities, are creating bottlenecks. The existing ware houses traditionally served the purpose of storing only, where as now for E-Commerce, these facilities need to be automated and integrated into retailers' websites and store-fronts along with pick and pack capabilities. The companies need to invest in networked warehousing.

The existing infrastructure had been created to meet the export needs of the country, and not for internal E-Commerce trade needs. There is a growing demand for international consumer products, which are either not available in India, or expensive on retail shelves. This is expected to be advantageous to international couriers like DHL, UPS, and FedEx.

It is said that on any given day, 50,000 transactions are handled by the top ten E-Tailers. Although good ware house facilities have developed in and around the metros, such facilities are still not fully available in tier 2 and tier 3 cities. So, meeting the timelines of delivery, from limited godown facilities are in deed becoming a challenge. The large courier companies like DHL, Blue Dart, FedEx, and others are finding it difficult to meet the expectations, in spite of charging higher rates. Thus, outside the metros, help is being sought from smaller local courier units as last mile deliverers.

Some of the problems faced by E-Tailing customers:

Just as sales through E-Tailing are increasing, so are the customer complaints using E-Tailing. An online consumer complaints resolution site www.akosha.com received 11,980 complaints for E-Commerce in Jan-Mar 2013. 58% relate to deficiency in service like delivery of damaged goods, delivery of a different product or non-delivery of goods, even after the payment has been made and 29 percent were for refund of money for non-satisfactory products, while the rest had different concerns. The site reveals that

Companies looking to make quick money and the reluctance on the part of the customers to step outside the comfort of their homes for shopping act as encouragement to completely phony enterprises to set up their own versions of online shopping. Timtara, the brainchild of Arindam Bose, who was recently arrested on charges of Internet fraud of over twelve lakh rupees, is a perfect example.

The Consumer Protection Act 1986 is not able to resolve the conflicts because of many limitations – main one being the jurisdiction. The company is located far away from the customer and hence it becomes impossible for him to go to the location where the E-Tailer is located and file his case in the court there. Naturally, in such a situation a consumer cannot

expect to get any redress. There is a need to change the law, and enable a consumer to make a complaint from his place.

Profitability of E-Commerce

None of the E-Tailers is said to be earning a profit till now. Amazon is the poster boy of e-commerce around the world. It took Amazon seven years to post profit (\$5m in the last quarter of 2002 on sales of \$1.12 billion). Amazon's revenues were over \$48 billion in 2011 with an operating profit of \$862m, which translates into a profit margin of less than 2% on sales. Even Flipkart, arguably the most successful online retailer, is expecting a turnover of Rs 2000 cr this year 2013, from its 2.7 million customer base, but is not expected yet to turn a profit.

PE and VC Investments in E-Tailing firms

As the Venture Capital investment in brick and mortar retail has not made much money, VCs and PEs are investing in E-Commerce aggressively, because of the large potential for growth in this sector. According to Mr Richir Kar, CEO Zivame.com, "the ability to reach out to large audience base, unlimited shelf space, centralized inventory management, etc. make e-commerce ventures more viable in the long run.

The year wise investments by VCs and PEs in the industry other than travel related companies is given below.

YEAR	No of Investments	Amount in \$ million
2013 upto april	15	141
212	40	295
2011	35	281
2010	7	44
2009	3	12

Source: The Financial Express dtd 27th May, 2013

Acquisitions and Consolidation

Already acquisitions and mergers have started occurring in Indian E-commerce market also as in other mature markets. Myntra.com has acquired SherSingh.com, a private label brand specializing in sports inspired lifestyle apparels, with offices in New York and New Delhi.

There are already signs of consolidation in the E-Tailing segment. In February, 2012 Flipkart bought Letsbuy, a rival firm, for \$20m(said to be under pressure from venture capital funds, to save Letsbuy from liquidation). In April, 2012 Snapdeal acquired Esportsbuy.com, an online retailer of sports and fitness equipment, reportedly for between \$10m and \$15m. More mergers and acquisitions are expected to follow, according to trade analysts.

Future of E-commerce in India

Indians are young - almost half of them are under 25. Its income per capita has risen by 12% between 2008 and 2011, to \$1,500 and is expected to reach \$2,300 by 2016. As the competition is getting hotter, E-commerce companies are vying with each other to offer better terms, and the consumers are enjoying the benefits. Some niche areas are being looked

into by the companies to avoid competition, but such attempts have resulted in stunted growth. Indian middle class of 288 million people is equal to the entire U.S. consumer base. This makes India a real attractive market for e-commerce.

Of the top ten E-Commerce companies in US, nine companies are brick and mortar companies which had moved into E-Commerce. But in India almost all E-commerce sites except for a very few like Futurebazaar and Croma are not brick and mortar ones. Mahindra Retail and Reliance group have announced their intention to enter in this arena very soon. More and more retail chains may enter this area as an extension of their existing business. One such company is offering delivery at their stores while orders can be placed online.

CONCLUSION

India has 140 million internet users and 900 million mobile users. Thus the foundation for flourishing E-commerce is laid. The smart phone population too is at the tipping point of 10%, after which it is expected to grow exponentially. This would greatly facilitate M-Commerce. The industry has seen an investment of \$1 billion in the last few years consisting mostly as first round investment. The second round of investment would be normally three times the figure. B to B, E-Commerce is growing fast without any fanfare that is seen with B to C segment. Among the B-C segment, e-Tailing (online retail), is growing very fast at around 60% and online classifieds and Digital Downloads are still in a nascent stage. With the advent of 3G, the internet on mobiles is becoming fast, and will facilitate E-Commerce using mobiles (dubbed Mobile Commerce). This segment too is expected to grow by leaps and bounds in future. Thus E-Commerce has a very bright future in India.

With the advent of Amazon in India, one can expect a churning in the E-Tail scene. Eventually, Government may allow FDI in E-Commerce, if not in the immediate future. In the short run, some vendors may switch to Amazon, because of its brand name. Medium sized companies and branded retailers can be expected to benefit more from association with Amazon. Then, we will witness greater consolidation in the E-Tailing market.

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