The Growth and Trends of B2C E-Commerce in India: With Special Reference to Retail E-Commerce

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ABSTRACT

E-commerce or electronic commerce is more than just another way to sustain or enhance existing business practices. Rather, e-commerce is a paradigm shift. It is an innovation that is completely changing the conventional way of doing business. For a developing country like India, e-commerce offers considerable opportunity. In India it is still in a growing stage but in the most pessimistic projections also e-commerce is showing tremendous business boom in our country. Increasing internet users, low cost of personal computers and an increasingly competitive Internet Service Provider (ISP) market and increasing mobile phones users will all help fuel e-commerce growth in the world’s second most populous country. The present study has been undertaken to describe the present status of B2C E-commerce in India especially, retail e-commerce using various key growth drivers like internet user base, internet penetration, increasing mobile based e-commerce etc. Further the aim of this paper is to analyze the growth and trends of Retail E-commerce in India. Moreover, this paper also examines the current problems in B2C e-commerce sector and tries to provide possible solutions for overcoming such obstacles.

INTRODUCTION

“If your Business is not there in the Internet, Then your Business will be out of Business”

- Bill Gates

The term ‘e-commerce’ generally means “commercial activity conducted via the internet”. There exists no standard definition for the term e-commerce; it is generally referred as a method of conducting business through electronic means rather than
through conventional physical means. Such electronic means include computers, mobile devices, smartphones, tablets etc. Thus, e-commerce is buying and selling on electronic networks, mainly on the Internet. This could involve trade of tangible goods/services similar to traditional commerce, or intangible items like music, information and involving digital transfer etc.

The introduction of internet in India in 1995 marked the beginning of the first wave of E-Commerce in the country which led to the emergence of Business-to-Business (B2B), job searches and matrimonial portals. In the year 2005 began the second wave of E-Commerce in India; online travel emerged as the largest segment. People began relying on internet to search for travel related information and to book tickets. As a ripple effect, the success of the online travel segment made consumers comfortable with shopping through the medium, thus leading to the inception of online retail. The growth of online retail was partly driven by changing urban consumer lifestyle and the need for convenience of shopping at home. This segment developed in the second wave in 2007 with the launch of multiple online retail websites like Flipkart.

The World Trade Organization (WTO) distinguishes six main instruments of electronic commerce- i.e., Telephone, Fax, Television, Electronic payment and money transfer systems, Electronic Data Interchange, and Internet. Though the first five instruments have been in existence for quite some time, but in this study when we talk about E-commerce, they usually refer to Internet Business, wherein goods or services are traded on the net.

The e-commerce sector is classified into four major types, based on the parties involved in the transactions – Business-to-business (B2B), business-to-customer (B2C), customer-to-business (C2B) and customer-to-customer (C2C).

The most recognized form of e-commerce or electronic commerce is online shopping, also known as Business to Customer e-commerce (B2C), where private customers can order various products which they then receive by courier or postal mail. Another type of ecommerce focuses on transactions between manufacturers and a wholesalers or wholesalers and retailers and is called Business to Business e-commerce (B2B). The third category of ecommerce involves an individual customer who offers to sell products and services to companies who are prepared to purchase them and is called Customer to Business (C2B) this is the opposite of the traditional B2C e-commerce. The forth category of e-commerce involves transactions from Customer to Customer (C2C), as in the example of eBay or other similar websites.

1.1 Objectives of the Study

- To study the concept and types of e-commerce in India.
- To explore and analyse the growth and trends of retail or E-TAIL segment of e-commerce in India.
- To examine current issues and challenges in B2C e-commerce and its possible solutions for improving the status of overall E-commerce market in India.
METHODOLOGY

The study is exploratory in nature, and this study uses the method of secondary data which are obtained from various articles, journals, reports and websites related to the topic under study. It also makes an attempt to explore and analyse the growth and trends in Retail e-commerce in India.

2.1 Limitation

The scope of this study has been limited to Business to Customer (B2C) e-commerce sector of India, the main focus of the study is on the role of electronic retail or online retail or commonly referred to as e-tail segment in the growth of India’s e-commerce sector.

2.2 Types of Business to Customer (B2C) E-commerce in India

The online travel has traditionally been the largest e-Commerce sub-sector (by revenue) in India, online classifieds is the earliest entrant in the e-Commerce space in India, is undergoing a shift in operational model from vertical to horizontal offering. Players now offer a gamut of services ranging from buying/selling cars to finding domestic help/babysitter. The scope of this study is however restricted to online retail or e-tail commerce, so, let us now see the various subsets or types of B2C e-commerce in India:

Table 1: Types or Subset of Business to Consumer (B2C) E-Commerce

<table>
<thead>
<tr>
<th>Business to Consumer (B2C) E-commerce Ecosystem</th>
<th>Online Travels</th>
<th>Online Retail / E-Tailing</th>
<th>Online Classified</th>
<th>Digital Downloads</th>
<th>Financial Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online Travels</td>
<td>Customers buy tickets, book hotels and purchase tour Packages online. The ticketing services can be for airlines, railways or buses.</td>
<td>Online sale of products such as books, mobile handsets, mobile accessories, electronics and home and kitchen appliances among others.</td>
<td>Portals connecting buyers and sellers by providing classifieds space where the sellers can advertise their product.</td>
<td>Paid music, videos and games download.</td>
<td>Online sale of insurance, loans and mutual funds.</td>
</tr>
</tbody>
</table>

The B2C market in India generates the bulk of revenues across the consumer-facing modes of e-Commerce. Furthermore, though online travel has typically held a major share of the B2C market, online retail is also growing rapidly and is expected to significantly increase its share. B2C E-commerce is nowhere near B2B in terms of size but it is growing phenomenally as far as volumes are concerned. More and more people are taking to shopping on the Internet due to the following factors: convenience, more choice, more range, better prices, etc.

According to a report by the Confederation of Indian Industry (CII) and Deloitte (2016) “while the B2B e-commerce segment in India is expected to be more than double
from last year’s US$300 billions to US$700 billons in 2020, the report also estimates the B2C segment to grow more than seven times from US$13.6 billons to US$101.9 billons in the same period”.

2.3 Growth and Trends of Online Retail or e-Tail in India

Online retail/E-Retailing refers to retailing over the internet. Thus an e-Retailing is a B2C (Business to customer) business model that executes a transaction between businessman and the final customer. The e-retailing is a subset of e-commerce. Thus, e-commerce is the master domain defining the e-retailing operation. Direct dealings between businesses and customers have always existed; however with the emergence of e-commerce such transactions have gained further momentum. In a traditional B2C model, the distribution channel typically starts with manufacturer and goes through a distributor/wholesaler to retailer, who interacts with the end customer. However, in an online model one finds the manufacturer or the intermediary directly trades with the customer. Most sellers of products or services in the physical medium have begun providing their goods/services on the internet as well and it is by virtue of this model that e-tailing has become very popular with internet users where a near virtual shop is created with images of products sold. This not only provides cost benefits to the sellers as brick and mortar type of investments are considerably reduced, but the seller is also able to provide benefits to the customers in terms of discounts and free deliveries etc.

Table 2: Size of e-Commerce Industry in India (Includes only B2C e-Tail Excluding Online Travel and Classifieds)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total e-tail size ($ Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$ 2.9</td>
</tr>
<tr>
<td>2014</td>
<td>$ 13.9</td>
</tr>
<tr>
<td>2015</td>
<td>$ 16.0</td>
</tr>
<tr>
<td>2018*</td>
<td>$ 40.3</td>
</tr>
<tr>
<td>2020*</td>
<td>$ 101.9</td>
</tr>
</tbody>
</table>

Source – IAMAI, Deloitte analysis / *Estimated Numbers

India is developing rapidly and if development is to be measured, how can we ignore the role of e-commerce in it. The Indian economy has been consistently showing good signs of growth, with the average GDP growth rate at 7.8% in 2016-17. The retail sector is showing a promising trend of 11% Compound Annual Growth Rate (CAGR), growing from an estimated size of US $ 600 Billion in 2016 to US $ 1 Trillion in 2020. Although, currently the total e-Commerce spend in India accounts for less than 2% of the total retail spending but e-commerce has become a key driver to create new markets in erstwhile unreachable geographies.

The Indian consumers are rapidly advancing towards adopting technology. While the overall tele-density is 81.8%, the mobile tele-density is also high at 79.8% as of November, 2015. Additionally, during the same time, India beat the United States of America to become the 2nd largest market after China, for smartphones with 220
Million users – This was attributable to the availability of highly affordable smartphones and with easy-to-use features which helped first-time Smartphone users leapfrog from the desktop/laptop phase. Internet penetration is also significantly rising with the number of internet users estimated at 462 Million as of 2016.

Table 3: Total Internet Users & Penetration of Internet in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Population</th>
<th>Internet Users</th>
<th>Internet Penetration (% of population)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016*</td>
<td>1,326,801,576</td>
<td>462,124,989</td>
<td>34.8 %</td>
</tr>
<tr>
<td>2015*</td>
<td>1,311,050,527</td>
<td>354,114,747</td>
<td>27 %</td>
</tr>
<tr>
<td>2014</td>
<td>1,295,291,543</td>
<td>233,152,478</td>
<td>18 %</td>
</tr>
<tr>
<td>2013</td>
<td>1,279,498,874</td>
<td>193,204,330</td>
<td>15.1 %</td>
</tr>
<tr>
<td>2012</td>
<td>1,263,589,639</td>
<td>158,960,346</td>
<td>12.6 %</td>
</tr>
<tr>
<td>2011</td>
<td>1,247,446,011</td>
<td>125,617,813</td>
<td>10.1 %</td>
</tr>
<tr>
<td>2010</td>
<td>1,230,984,504</td>
<td>92,323,838</td>
<td>7.5 %</td>
</tr>
</tbody>
</table>

Source: internetlivestats.com / *estimated numbers

The internet user base in India might be a mere 462 million which is much less when compared to its penetration in the US or UK but it's surely expanding at an alarming rate. Internet penetration is estimated at 34.8% for 2016.

Chart 1: Online Shoppers as a % of Internet Users in India (Includes only B2C e-Tail Excluding Online Travel and Classifieds)

Source: Euromonitor, Deloitte Analysis, Media reports / *estimated numbers

Online shopping is increasing its share in the total internet usage in India. Improved data connectivity in both urban and rural parts of India, will further boost this trend. Along with the increase in basket size, the average spend on online shopping is increasing, although not at the same rate.
Online communication, social networking, and entertainment are the top reasons for accessing the Internet. Only 24 per cent of urban users and 5 per cent of rural users accessed the Internet for online shopping. According to a joint Associated Chambers of Commerce & Industry of India (ASSOCHAM)-Forrester study paper revealed that in India 60-65 percent of the total e-commerce sales are being generated by mobile devices and tablets. Shopping online through smartphones is proving to be a game changer, and industry leaders believe that mobile commerce could contribute up to 70 percent of their e-commerce revenues.

Currently, more than 65% of India’s population are below the age of 35 years, and age structure of internet users also indicates that more than two-thirds of the total internet users are below 35 years. Internet and Mobile Association of India (IAMAI) and IMRB International report, found that online shoppers mostly belong to top eight and small metros. Most of these shoppers fall in the age group 16 to 34 years, comprising both of males and females but are predominantly male (around 64%).

Being driven by a young demographic profile, increasing internet penetration and relative better economic performance, India’s e-Commerce revenue is expected to jump from $30 billion in 2016 to $120 billion in 2020, growing at an annual rate of 51%, the highest in the world.

### Table 4: Number of online shoppers in India (includes only B2C e-tail excluding online travel and classifieds)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>(in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>20</td>
</tr>
<tr>
<td>2015</td>
<td>39</td>
</tr>
<tr>
<td>2018*</td>
<td>140</td>
</tr>
<tr>
<td>2020*</td>
<td>220</td>
</tr>
</tbody>
</table>

Source – Euromonitor, IAMAI, Media reports / *Estimated Numbers

### Chart 2: Growth of total internet users VS Mobile Internet users in India (2012-2016)

Source: IAMAI and Deloitte Analysis, 2016 / *estimated numbers
The e-Commerce industry in India has been propelled by the rise in internet penetration due to major improvements in the telecom infrastructure. With 3G and 4G services making way into India along with declining data tariffs, spend on internet data is growing significantly.

While India ranks the lowest in Asia when it comes to internet speed, but data rates in India are 2 times cheaper than in China and 3 times cheaper than in the USA. Government schemes such as National Optical Fibre Network (NOFN) can significantly increase internet penetration in the rural communities as well as provide a means to e-Commerce companies to tap the huge market potential in the rural India. According to a report by venture capital firm Kleiner Perkins Caufield Byers (KPCB), India has the highest share of mobile based E-Commerce sales globally at 41%. The leading e-Commerce companies state that almost 70-75% of their online traffic comes from mobile phones and thus higher revenues are coming from mobile applications. For e.g. 50% for Flipkart while 70% for Quikr.

According to Internet and Mobile Association of India (IAMAI) report of February 2016, it is not surprising anymore that mobile is responsible for a big chunk of this growth. In Urban India, the mobile Internet user base grew to 171 million in June 2015 further it is estimated to reach 262 million by June 2016. In Rural India, the mobile Internet user base has reached 68 million by June 2015 and expected to reach 109 million by June 2016. The total mobile internet user are estimated to be 371 millions (urban and rural combined) out of the total internet user base 462 millions. Thus, it can be inferred that mobile internet will play very important role in e-commerce market in near future.

2.4 Current Issues and Challenges Faced by B2C e-commerce in India

While the e-Commerce space has rapidly evolved, several challenges have surfaced primarily in areas of Government legislation, taxation, logistics, payments, internet penetration, skilled man power; the followings are some of the major issues or challenges faced by B2C e-commerce in India:

- **Government Legislation**: Lack of legislation that adequately regulates the new e-commerce activities, both nationally and internationally; B2C aggregators like taxi-hailing category have faced business suspension in many states due to lack of definition in the regulatory framework. B2C e-commerce lacks guidelines, operational framework and policy in areas such as tax structures, broad policy recommendations, vigilance, overall governance etc.

- **Taxation**: At present e-commerce facilitators are facing the problem of multiple indirect tax regimes such as central excise duty, service tax and additional customs duty at the central level and value added taxes, central sales taxes, entry tax etc. at the state level. These indirect taxes lead to increased cost and may also lead to double taxations. Differentiating between local goods and inter-state goods there exist a possibility of tax leakage, a significant cost to state tax authorities.

- **Logistics**: Poor infrastructure (roads) sometimes forces logistics service providers to take longer routes. Logistics service providers will also need to
improve surface transportation capabilities via both, road and railway, across various geographies to create more opportunities and avenues for the growth of the sector. Currently, reverse logistics is highly inefficient, which results in high inventory and increased costs.

- **Payments:** Indian consumers prefer paying in cash as opposed to using digital payments resulting into cash handling risks as well as locking up of working capital. Almost 60 % of the total payments are made by cash on delivery option in India. This also poses a challenge for e-commerce firms. According to Forrester report, “While COD assuages consumer concerns about package delivery and product quality, it has significant implications for online retailers: costlier order fulfilment, greater chance of returns (one Ernst & Young study cited return rates averaged at 40% for COD online purchases in the market), and the risk of fraud by cash collection agents,”.

- **Internet Penetration:** According to Forrester report 2016, “Only 8% of the 1.3 billion populace of India lives in the top eight tier 1 cities (Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata, Mumbai and Pune), where e-commerce penetration is already high. While the tier 2 and 3 cities have low PC and broadband penetration, lack of coverage and network congestion, leads to incomplete transactions. E-Commerce companies, who want to expand into tier 2 & 3 cities, are dependent on the Telecom Operators to roll out 3G/4G into such areas for connectivity; According to Akamai Technologies latest report India ranks 114 in the world and lowest in Asia when it comes to internet speed, which is another barrier in the smooth functioning of e-commerce activity.

- **Lack of Skilled Man Power:** There is a scarcity of skilled human resources who have expertise in the area of analysing consumer data, study user patterns, analytics, algorithms, simple interface, machine learning, and rules/laws of online platforms. Lack of training for doing e-Commerce transactions is a critical bottleneck for the migration to online platforms. The erstwhile delivery boy’s role has evolved. He now wears multiple hats, including that of a sales boy, but isn’t trained for the job. The e-Commerce companies struggle to recruit skilled manpower for “Delivery” and “Sales”.

### 2.5 Key Solutions and Recommendations

#### 2.5.1 Some Major Suggestions for Improving E-Commerce Activities in India are as follows:-

- **Government Initiatives Gaining Momentum:** The Government of India has been proactive in embracing and leveraging e-Commerce digital platforms to transform and organize traditionally offline markets such as those of agricultural produce, etc. The Government has launched an e-market platform to connect farmers with the market of various states to sell agro-commodities. Besides these, flagship initiatives such as Digital India, Start-up India, Innovation Fund, Skill India, etc. are contributing to the growth of e-Commerce industry.

- **Increase in Internet Penetration:** Government schemes such as National Optical Fibre Network (NOFN) can significantly increase internet penetration in
the rural India which is still untouched and uncovered. Moreover, Internet Service Provider’s should be given some kind of incentives to enhance the internet networks to remotest rural villages; again it is government’s responsibility to create such favourable infrastructure for network expansion in rural India. Further it is not possible for government service providers alone to cover whole of India, as it is too vast a Public Private Partnership (PPP) in this regard is highly recommended, efforts should be made to increase the average internet speed by technical upgradation for better e-commerce ecosystem.

- **Need for better Indirect Tax System:** In order to unify multiple indirect taxes government of India has proposed Goods and Services Tax (GST) which is consumption based unified tax that would be levied on both goods as well as services. GST proposes to subsume most of the current indirect taxes like excise duty, service tax, value added tax, central sales tax, entry tax etc. in a single comprehensive tax.

  Goods and Services Tax (GST) is expected to possibly eliminate, simplify and streamline multiple indirect tax regimes in India. GST will be applicable across all States in India; hence, e-Commerce companies will not have to struggle with the complex regulatory structure. Going by this, it is expected that the e-Commerce companies stand to gain tremendously from GST.

- **Empowerment of Logistics System:** India needs a deeper and wider network through efficiencies in road, rail, sea, and air transportation. Better road connectivity, shorter turnaround time at sea ports; and a resilient railway service ecosystem will enhance fulfilment and last-mile deliveries for e-Commerce. Technology-enabled efficient solutions need to be developed to manage the complex framework of reverse logistics to minimize the instance of returned good.

- **Promoting Digital Modes of Payment:** Cash on Delivery (CoD) is a major portion of e-Commerce transactions today. This results in risks of carrying cash and inefficiencies in cash lifecycle management, thus digital payment though credit/debit cards, net banking, wallets etc. should be promoted. Customers could be incentivized to promote payments via digital mode. Launch of the Unified Payments Interface (UPI) which is likely to address Cash on Delivery challenges.

- **Manpower Skill Development:** To bridge the shortage of skilled manpower, the Government of India has set a target to train 40.2 Crores people under the new National Policy for Skill Development by 2022. The initiative includes National Skill Development Mission, National Policy for Skill Development and Entrepreneurship 2015.

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