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E-Commerce in India

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KEYWORDS :

Introduction:

E-commerce in recent times has been growing rapidly across the world. According to Report of Digital– Commerce, IAMAI-IMRB (2013), e-commerce industry in India has witnessed a growth of US$ 3.8 billion in the year 2009 to US$ 9.5 billion in 2012. By 2013, the market is expected to reach US$12.6 billion, showing year to year growth of 34%. Industry sources indicate that this growth can be sustained over a longer period of time as e-commerce will continue to reach new geographies and encompass new markets. E-commerce means sale or purchase of goods and services conducted over network of computers or TV channels by methods specifically designed for the purpose. Even though goods and services are ordered electronically, payments or delivery of goods and services need not be conducted online. E-commerce transaction can be between businesses, households, individuals, governments and other public or private organizations. There are numerous types of e-commerce transactions that occur online ranging from sale of clothes, shoes, books etc. to services such as airline tickets or making hotel bookings etc.

The bookings done through electronic communication could be Business to Business (B2B) or Business to Consumer (B2C). **Business to Business i.e. B2B** is e-commerce between businesses such as between a manufacturer and a wholesaler or between a wholesaler and a retailer. As per the WTO report WT/COMTD/W/193, global B2B transactions comprise 90% of all e-commerce. According to research conducted by USA based International Data Corporation, it is estimated that global B2B commerce, especially among wholesalers and distributors amounted to US$12.4 trillion at the end of 2012.

The bookings done electronically between **Business to Consumer** for purchase or sale of goods and services is known as **B2C e-commerce.** Although B2C e-commerce receives a lot of attention, B2B transactions far exceed B2C transactions. According to IDC, global B2C transactions are estimated to have reached US$ 1.2 trillion at the end of 2012, ten times less than B2B transactions. B2C e-Commerce entails business selling to general public/ e-catalogues that make use of shopping place. There are several variants in B2C model that operate in e-commerce arena.

From the point of view of business, there are two models of e-commerce. First model is known as „Market Place" model, which works like exchange for buyers and sellers. The „Market Place" provides a platform for business transactions between buyers and sellers to take place and in return for the services provided, earns commission from sellers of goods/services. Ownership of the inventory in this model vests with the number of enterprises which advertise their products on the website and are ultimate sellers of goods or services. The „Market Place", thus, works as a facilitator of e-commerce. Different from the „Market Place" model is the second category of business known as „Inventory Based" model. In this model, ownership of goods and services and market place vests with the same entity. This model does not work as a facilitator of e-commerce, being delineated therefrom, but is engaged in e-commerce directly.

Status of the global e-commerce industry:

According to a report by the Interactive Media in Retail Group (IMRG), a U.K. online retail trade organization, Global business-to-consumer e-commerce sales will pass the **US$ 1,250 billion mark by 2013**, and the total number of Internet users will increase to approximately 3.5 billion. Around 90% of the global e-commerce transactions are in the nature of B2B, leaving meager 10% as B2C e-commerce.

The biggest e-commerce markets are U.S.A. followed by U.K. and Japan. In Asia, China, India and Indonesia are the fastest growing e-commerce markets. Major global e-Commerce companies are Alibaba.com, Amazon.com, Walmart, Apple, Dell, e-bay, Mercadolibre Inc., Rakuten Inc., Crate & Barrel, Symantec, Autozone, Microsoft, Gap, Nike, Disney stores, HP, ASOS PLC, Blue Nile Inc. etc.

Following are some other major findings of the Index:

i) China occupies first place in the Index. The G8 countries (Japan, United States, United Kingdom, Germany, France, Canada, Russia, and Italy) all fall within the Top 15.

ii) Developing countries feature prominently in the Index. Developing countries hold 10 of the 30 spots, including first-placed China. These markets have been able to shortcut the traditional online retail maturity curve as online retail grows at the same time that physical retail becomes more organized. Consumers in these markets are fast adopting behaviors similar to those in more developed countries.

iii) Several "small gems" are making an impact. The rankings include 10 countries with populations of less than 10 million, including Singapore, Hong Kong, Slovakia, New Zealand, Finland, United Arab Emirates, Norway, Ireland, Denmark, and Switzerland. These countries have active online consumers and sufficient infrastructure to support online retail.

iv) India is not ranked. India, the world"s second most populous country at 1.2 billion, does not make the Top

30, because of low internet penetration (11 percent) and poor financial and logistical infrastructure compared to other countries.

It is seen that countries making in the top list of the table of e-commerce have required technologies coupled with higher internet density, high class infrastructure and suitable regulatory framework. India needs to work on these areas to realize true potential of e-commerce business in the country.

Status of e-commerce sector in India:

As already mentioned above, growth of e-commerce industry has been phenomenally high. However, its growth is dependent on a number of factors and most important of them is internet connectivity. As per Forrester McKinsey report of 2013, India has 137 million internet users with penetration of 11%. Total percentage of online buyers to internet users is 18%. Compared to India, China, Brazil, Sri Lanka and Pakistan have internet population of 538 (40%), 79 (40%), 3.2 (15%) and 29 (15%) millions respectively. Therefore, lower internet density continues to remain a challenge for e-commerce.

According to Report of Digital–Commerce, IAMAI-IMRB (2013), e-commerce is growing at the CAGR of 34% and is expected to touch US$ 13 billion by end of 2013. However, travel segment constitutes nearly 71% of the transactions of consumer e-commerce industry, meaning thereby that e-tailing has not taken of in India in any meaningful way. Share of e-tail has grown at the rate of 10% in 2011 to 16% in 2012.

Industry surveys suggest that e-commerce industry is expected to contribute around 4 percent to the GDP by 2020. In comparison, according to a NASSCOM report, by 2020, the IT-BPO industry is expected to account for 10% of India"s GDP, while the share of telecommunication services in India"s GDP is expected to increase to 15 percent by 2015. With enabling support, the e-commerce industry too can contribute much more to the GDP.

Around 90% of the global e-commerce transactions are stated to be in the nature of B2B, leaving meagre 10% as B2C e-commerce. Case of India is no different where most of such transactions are in the nature of B2B. Moreover Indian e-commerce industry is characterized by „Market Place" model. It allows large number of manufacturers/ traders especially MSMEs to advertise their products on the „Market Place" and benefit from increased turnover.

The growing e-commerce industry can have a positive spillover effect on associated industries such as logistics, online advertising, media and IT/ITES. Currently e-commerce accounts for 15-20 percent of the total revenues for some of the big logistics companies. The revenue for logistics industry from inventory based consumer e-commerce alone may grow by 70 times to USD 2.6 Billion (INR 14,300 crores) by 2020. Currently, the inventory based consumer e-commerce model alone provides direct employment to approximately 40,000 people and is estimated to create 1 million direct and another 0.5 million indirect jobs by 2020. Low entry barriers have attracted many young and enterprising individuals to try their hand at entrepreneurship. A significant 63% of e-commerce ventures have been started by first time entrepreneurs. Indian e-commerce industry is in nascent stage and is nowhere in the league of big global players. Major domestic e-commerce companies are Flipkart, Snapdeal, Fashionandyou, Myntrainkfruit, Dealsandyou, Homeshop18 etc.

Although many factors support the growth of e-commerce in India, the fledgling industry is faced with significant hurdles with respect to infrastructure, governance and regulation. Low internet penetration of 11 percent impedes the growth of e-commerce by limiting the internet access to a broader segment of the population. Poor last mile connectivity due to missing links in supply chain infrastructure is limiting the access to far flung areas where a significant portion of the population resides. High dropout rates of 25-30 percent on payment gateways, consumer trust deficit and slow adoption of online payments are compelling e-commerce companies to rely on costlier payment methods such as Cash on Delivery (COD).

As stated earlier, over 70% of all consumer e-commerce transactions in India are travel related, comprising mainly of online booking of airline tickets, railway tickets and hotel bookings. The biggest players in the travel category are Makemytrip.com, Yatra.com and the IRCTC website for railway bookings. Non-travel related online commerce comprises 25-30 percent of the B2C e-Commerce market. The unfettered growth of online travel category has been possible because the regulatory and infrastructure issues do not impede its growth. Also, it does not face the infrastructure challenges since the goods need not be transferred physically.

FDI in B2C e-commerce:

In recent months there has been a lot of interest and debate around permitting FDI in B2C e-commerce. While its proponents perceive enormous benefit, there is no dearth of people who have serious apprehensions to this proposition. In response to news reports appearing in print and electronic media, a number of representations have been received in this Department from different stakeholders. Their broad points of view are described in the following paragraphs.

A national level **body of internet and mobile phone companies**, highlighting the challenges as regulatory restriction to raise funds from foreign PE/VC, has suggested a caveat based approach to allowing FDI in the sector. Another national body of software and IT companies has made persuasive case for allowing FDI in B2C e-commerce. It is stated that e-commerce can be aligned to the objectives of national development by providing impetus to manufacturing sector, order consolidation and distribution, facilitating and supporting SMEs, improving outreach and access to buyers/sellers, bringing traceability and transparency in transactions, empowering consumers with information and data and finally creating new job opportunities. **One body of industries** has stated that MSMEs / traders are currently benefitting from e- commerce in India and there is huge scope of further involvement and growth of MSMEs / traders with further boost to e-commerce. Even small traders have enhanced their coverage by using e-commerce platforms like JustDial, Quikr etc. **An international council** has stated that India could reap enormous and nearly immediate benefits by creating an exemption from its retail FDI rules to permit the unrestricted marketing of retail goods through e-commerce.

A national **body of traders** has strongly opposed allowing any FDI in e-commerce. They have stated that Indian market is not yet ready for opening up e-retail space to foreign investors. Small time trading or opening corner stores still remains a large source of employment. FDI in the sector will have disastrous impact on this domestic industry leading to monopolies in e-commerce, manufacturing, logistics, retail sector etc. and causing large scale unemployment. Because of scale of economic operations, e-commerce players will have more bargaining powers than standalone traders. Allowing FDI in e-commerce will provide e-commerce players with complete geographical reach, which will be against the spirit of FDI in multi brand retail trade i.e. being restricted to cities with a population of more than one million in consenting states or any other city of their choice. Moreover, Indian e-commerce industry which is at a nascent stage of development will be seriously threatened.

As regards domestic e-commerce companies, their views appear to be divided. This is on account of varying commercial considerations of entrepreneurs i.e. opting to stay in or exiting out of business, capital requirement, choosing between financial and strategic investment etc. One of the leading domestic companies has stated that India's e-commerce industry has been developed by first time Indian entrepreneurs with active participation from the PE / VC industry which has infused approx. US$ 2 billion in India's fledgling e-commerce industry over the last 2 years. It is stated that the outlined need for foreign capital in this industry can be met by VCs and PEs which are willing to invest. Therefore, it is suggested that foreign capital in the inventory led e-commerce industry may be allowed in financial form and not in strategic form. However, 100% strategic investment over a period of 3 - 4 years in a phased manner, by which time these companies would build scale and can compete with large corporations, can be considered. Another domestic entity citing a number of benefits, has suggested to allow 100% FDI under automatic route in the sector, subject to certain conditions like no offline retail trading activity by B2C e-commerce company, 40% sourcing from SME/MSME and other local business and no sale of food/agriculture produce/ processed food on B2C e-commerce platforms.

Advantages and disadvantages of FDI in B2C e-commerce:

Following are stated to be the major advantages of FDI in the sector:

i) Boost to the infrastructural development: Increased capital will help to establish supply chain, distribution system and warehousing.

ii) Impetus to manufacturing sector: Growth in retail sector will have cascading effect in the manufacturing sector which will positively contribute to overall growth of economy and job creation.

iii) More efficient supply chain management: Will reduce the need for middlemen leading to lower transaction costs, reduced overhead and reduced inventory and labour costs.

iv) Adopting best global business practices: Will lead to better work culture and customer service.

v) Increased outreach: Will provide increased access to buyers/ sellers, allow MSMEs and artisans to reach out to customers far beyond their immediate location, both locally within India and abroad.

vi) Traceability and transparency: Will not only empower consumers with information and data but also help in better compliance of regulatory framework.

vii) Reduced costs: On marketing and distribution, travel, materials and supplies will benefit businesses.

viii) Improved customer service: providing more responsive order taking and after-sales service to customers and competitive pricing.

Following are stated to be the major disadvantages of FDI in the sector:

a. Works against the spirit of FDI policy in MBRT. Allowing FDI in e-commerce will provide e-commerce players complete geographical reach which will be against the spirit of FDI in multi brand retail trade i.e. being restricted to cities with a population of more than one million or any other city as per the choice of consenting states.
b. Indian market is not yet ready for opening up e-retail space to foreign investors. It will seriously impair small time trading of brick and mortar stores. Small time shopkeepers are not highly qualified and will not be able to compete with sound e-retail business format.
c. Because of scale of economic operations, e-commerce players in the inventory based model will have more bargaining power than standalone traders and will resort to predatory pricing.
d. The infrastructure created by major e-commerce players will be captive and government will not be able to achieve its objective of creating back end infrastructure.
e. Indian e-commerce market is at a nascent stage of development. With FDI in e-commerce, global players will have adverse impact on this domestic industry. It will lead to monopolies in e-commerce, manufacturing, logistics and retail sector.
f. Inventory based e-commerce competes directly with MSMEs. Indian e-commerce B2C is growing in an eco- system with Indian owned/led companies offering open marketplace models which provide a technology platform to help MSME reach across India and even globally. These marketplaces do not compete with MSME or retailers and allow everyone to trade. On the other hand, allowing the entry of inventory based large foreign e-tailers may shrink Indian entrepreneurship and the MSME sector.
g. MNCs may dump their cheaper products in the market causing a negative impact on the Indian manufacturing sector in general and to MSMEs in particular.
h. Small time businesses/ kirana stores remain the largest source of employment in the country. Opening of B2C e-commerce on inventory based model is likely to seriously impact these shopkeepers leading to large scale unemployment.