



DEMONETISATION AND ITS EFFECT ON ONLINE SHOPPING IN INDIA

Commerce

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KEYWORDS

Introduction:

Development goals of the country consisted of higher economic growth, self-reliance, poverty eradication, social justice, etc. Developmental strategy of the time came to be known as 'inward-looking strategy' that consisted of controls and regulations of the economy through industrial licences and import controls. That is to say, state intervention was essentially inevitable. The Indian economy started its journey in 1951 when the First Five Year Plan was launched. This first phase of development could be characterised as the 'decade of crisis' when the country faced the problem of Partition (1947-48) and the consequent food crisis and foreign exchange crisis. It was because of the crisis of such grave nature that the country could not overcome the 'teething troubles' associated with the early development of the country after independence. During the 1960s, a higher growth was achieved and 'pre-conditions for take off' became visible. Economic output and growth depend mainly on productivity growth and on increases in labour and capital; most commentators mistakenly tend to focus instead on the uses of this output—consumption, investment and exports. Productivity growth, the main driver of growth, depends on structural reforms that would require better institutions and improving human skills. Structural reforms are reforms aimed at changing the structure of the economy to make it more market-oriented, and consequently efficient and productive. India needs to focus on reforms in several areas—liberalizing markets, legal, civil service, tax structure, financial sector, education, and labour, amongst others.

An Overview of Demonetisation:

The biggest and most unexpected economic decisions in the history of India – Demonetization. Last implemented in 1978, Prime Minister Modi Ji decided to bring back a tool of economic reset by withdrawing the two high denomination banknotes, 500 and 1000 Rupee (INR) from the Indian economy. After removing the legal tender status of these notes, the Modi government stated that it would issue new 500 and 2000 Rupee notes. By doing so, not only did he disrupt the night of every citizen, but by removing such high denomination bills from the economy, he managed to nullify 86% of the national currency in the span of a few hours. In order to exchange the old and now illegal notes, citizens were required to exchange their currency bills at banks or post offices for newly printed and published currency. As a result, every exchange was monitored and verified by the banks. This announcement not only affected every resident and tourist in the country, but also managed to spark an immense national debate that centred around the long-term effects that might appear after all exchanges have taken place.

India's economy is heavily dependent on cash transactions specially in rural and semi-urban areas. As a result, this increases the scope of a black market rising as these cash transactions, when it comes to businesses, results in untaxed wealth catering to the informal economy. By digitizing India with the use of applications such as Paytm, cashless transactions will be promoted, thereby preventing the generation of a black market, moving a higher proportion of the country into the taxed formal economy.

Terrorist funding within the country is solely based on cash transactions, which will be made void due to the cash that will need to be declared and justified to the banks. If not so, all their money will be considered to be illegal tenders, stopping all transactions. Furthermore, counterfeit currency has been a growing issue in India for decades, that demonetization will put an end to as well. It is reported that in every million notes, 250 notes are fake. The new 500 and 2000 rupee notes will also come with additional security features,

making it harder to duplicate and circulate around.

Impact of Demonetisation on Online Shopping:

India is one of the key growth countries when it comes to e-commerce but it is still at a nascent stage and has a huge potential for growth. The Indian Government's sudden and unprecedented move on November 8, 2016 to take high-value currency notes out of circulation sent the Indian economy in a tizzy.

The Rise and Fall of CoD (Cash-on-Delivery):

India has always been dependent on cash for almost 90 per cent of its transactions. As far as online shopping is concerned, nearly 80 per cent of the transactions are paid through Cash on Delivery (CoD) method. Post the demonetization announcement, CoD was majorly hit while e-commerce giants such as Amazon, Flipkart, Snapdeal et al faced consequences with many shoppers cancelling cash orders immediately. However, this short-term pain will result in a long-term gain. The ubiquity to pay for online shopping through digital methods like debit/credit cards, wallets, and net banking will drive people towards these channels and lead to the growth of this method. It will also benefit e-commerce platforms by cutting handling costs and risks related to cash. In the coming years, as digital payment methods better penetrate, CoD will be as good as extinct – a change that is good for e-commerce companies as well as users.

Cashless Becomes the New Norm – Mobile Wallets Reign

The cash crunch caused due to the bold move by the Indian Government has driven people towards digital payment methods such as mobile wallets, Internet banking, and debit/credit cards. The country was essentially put on the fast track towards becoming a cashless society. While these changes were taking effect, mobile wallets gained major traction. Popular mobile wallets such as Paytm, Freecharge, Mobikwik, and Citrus Pay enjoyed a manifold increase in users.

In the coming year, payment through mobile wallets will become the most preferred online shopping payment method. This is due to the fact that wallet payments are snappy, safe and make for easy refunds. Online shopping portals will fare well by partnering with mobile wallets and giving wallet offers to their customers. Such a move will indubitably increase sales on these websites.

Grocery and Consumables Go Online

Online grocery shopping was already gaining momentum when the cash crunch took effect. Post demonetization, shopping grocery online saw a massive growth as local vendors refused to accept demonetized notes and consumers were yet to get their hands on new ones.

We can safely say that a major chunk of consumers will turn towards online shopping for groceries and everyday essentials. While some will continue to visit retail stores and use plastic money, websites like Amazon, BigBasket, Grofers and Snapdeal will see a great surge in sales in this category. Discounted prices, quick deliveries and good quality of these products will lead to changed consumer behaviour and loyal customers. Revenue is therefore set to increase by leaps and bounds.

Cashback and Coupons Take Charge

As Indian's we love a good bargain every time we shop. In fact, a large number of people turn to online shopping just for the discounts and deals provided to them through the medium. The announcement of demonetization has brought a lot of value consciousness among shoppers.

People, therefore, will turn to cashback and coupon sites, such as CashKaro.com, which add to their savings, especially during this cash crunch. Online shopping destinations that partner with affiliates offering cashback and coupon benefits will come to the forefront, providing dual benefits in the form of savings for users and increased sales for e-commerce websites.

All in all, demonetization may look it will spell doom in the short run, in the larger scheme of things, it will only result in better performance, increased sales and amplified revenues for e-commerce platforms.

Online Shopping Payment Trends in India

Online stores offer a wide variety of payment options like credit/debit cards, net banking, e-wallets and cash on delivery (COD). According to Ernst & Young, payment for 50 per cent to 80 per cent of online transactions in India is through COD. Compared to other countries, e-commerce in India has always been more dependent on COD. Flipkart was the first among the three major e-commerce players in India to push COD. In 2015, 72 per cent of Flipkart's orders were COD and 90 per cent of orders from tier-2 cities were completed through COD. Amazon and Snapdeal too were not far behind when it came to executing COD orders.

Short Term Effects of Demonetisation

According to a statement by Amrish Rau, CEO of PayU India "Around 40 per cent of COD was driven by black money according to a study done two years ago." Demonetisation cracked down the whip on black money forcing people to go digital. In fact, the first 2 months after demonetisation did see a decline in e-commerce growth in India as there was a reduction in sales. The cash crunch and cap on ATM withdrawal limits affected the buying capacity of majority of consumers, especially customers in tier-2 and tier-3 cities who are used to the payment mode of COD. Some of the online retailers had to temporarily suspend their COD payment option. Redseer Management, a research and advisory firm, projected in August 2016 that the e-commerce industry in India would see a growth of \$79.41 billion by 2020. But demonetisation managed to upset the numbers and the growth for 2020 is currently pegged at \$47.45 billion.

Growth of E-Commerce after Demonetisation

Though demonetisation brought with it a sudden decline in e-commerce transactions, the first quarter of 2017 has brought some positive changes. Demonetisation aims at pushing consumers towards making digital payments, thereby contributing to a cashless economy. NITI Aayog published a report on the growth of digital payments in India post-demonetisation. According to this report, digital payments have seen a whopping surge of 271 per cent in the very first month following demonetisation. The number of mobile wallet transactions has increased to 63 lakhs from 17 lakhs. Paytm, one among the biggest players in the mobile wallet space revealed that it served 45 million customers within 3 weeks after demonetisation. Transactions via RuPay cards have also increased suggesting that more JanDhan account holders have started using debit cards for online transactions. "We saw an initial decline in transactions for the 1st 10 days of demonetisation, however the transactions started getting back to normal from 1st week of December. As of February, we see a steady increase in transactions as well as online payments" as mentioned by Vikash Khetan, Founder Of CouponzGuru (A coupons and deals aggregator in India)

Changes in E-Commerce Segments

Despite bringing chaos in its initial days, demonetisation in the long run is considered beneficial to the growth of e-commerce in India. One of the long term benefits for the e-commerce industry is reduction in payments via COD. For online retailers COD involves additional cost and the risk of returns or thefts is higher in this form of payment. Here is how demonetisation has affected the 4 main segments of the e-commerce industry.

• Online Retail

Online retailers like Amazon and Snapdeal welcomed the Government's move on demonetisation but they have also had to deal with a slump in business. There has been a 30 per cent-40 per cent reduction in COD orders. The final quarter of 2016 was definitely not as fruitful as in the previous years for giants in the e-commerce industry. The consumer is not in a mood to spend and this situation is expected to continue till the end of the first quarter in 2017. Most of the online retail stores continue to be dependent on cash payments as it is

going to take some time for all customers to switch to digital payments.

• Payments

The digital wallet and payment segments have emerged clear winners post demonetisation. Local vegetable shops and paani puri vendors have been showcased on social media for displaying signs asking for digital payments. Payment gateways have already seen an 80 per cent growth and the number is increasing each week. There is a growth in low-value transactions too.

• Logistics

E-commerce based logistic firms have taken a hit as 20 per cent of COD orders were cancelled post the demonetisation announcement. In the transport industry most of the transactions are done through cash and this is expected to take more than a quarter to normalise. Sahil Barua, CEO of e-commerce focused logistics firm Delhivery stated that the firm has started accepting card payments and other modes of payment like wallets on delivery. There are some other logistics firms that do not offer card payments and will require some time to scale up their operations.

• Hyper-local Delivery

This sector in the e-commerce industry has seen tremendous growth post demonetisation. Hyper-local delivery firms supply groceries, household items and food from restaurants to customers. The number of new customers that this segment receives is increasing by the day and there is a surge in pre-paid orders. Online food-ordering platforms like Swiggy and Zomato have seen a rise in transactions.

Increase in Online Transactions in Tier-2 and Tier-3 Cities

Payments made by customers from small cities and towns underwent a major change. Innoviti Payments Solutions manages point-of-sales terminals for merchants. According to the company's chief executive Rajeev Agrawal digital transactions have seen a 150 per cent growth in tier-2 cities and 157 per cent growth in tier-3 cities. Demonetisation has caused an increase in digital transactions at these places by almost one-and-a-quarter times when compared to big cities.

To quote Robin Sharma "Change is hard at first, messy in the middle and gorgeous at the end". Demonetisation has opened up a Pandora's Box but this one has some goodies. The digital wave as a result of demonetisation makes the future of e-commerce in India look promising.

A Cashless Future Is The Real Goal Of India's Demonetization Move:

"This is a public sector innovation unthought of in history. A cultural-economic revolution in the making!" exclaimed Monishankar Prasad, a New Delhi-based author and editor, about India's demonetization initiative and subsequent drive towards developing a cashless economy.

The biggest problem with India suddenly removing 86% of its currency from circulation without having an adequate supply of new notes ready to take their place is that fact that India is more reliant on cash than almost any other country on earth. Suddenly, hundreds of millions of people were left without the means to engage economically, to buy the things they wanted and needed, and myriad businesses were left without a readily available mechanism to receive payment for their goods, to buy supplies, or pay their staff.

India is currently in the middle of an all out movement to modernize the way things are paid for. New bank accounts are being opened at a heightened rate, e-payment services are seeing rapid growth, cash-on-delivery in e-commerce has crashed, and digitally-focused sectors like the online grocery business have started booming.

"Even the vegetable vendors on the streets have opened up Paytm accounts and they have a machine outside their shop where someone can scan the bar code and make the payment," Nangia explained.

"A lot more retail outlets are accepting e-wallets, including my laundry provider and my *dabbawala*," Prasad proclaimed. "This is revolutionary, and survival of the fittest."

Modi's demonetization initiative has been a boon for India's e-payment providers. Paytm reported a three-times surge in new users -- tacking on over 14 million new accounts in November alone. While Oxigen

Wallet's daily average users increased by 167% since demonetization began.

“Ever since Prime Minister Narendra Modi's demonetization announcement, we have suddenly seen a spike in both app downloads & merchant registrations. This spike is now coming from all cities, big and small, pan-India, consisting of small merchants like vegetable vendors, Kirana shopkeepers [small convenience stores], street vendors, rickshaw drivers, taxi's etc., who've signed onto our Oxigen Wallet app for the merchant payments service,” said Pramod Saxena, the founder and CMD of Oxigen Services.

Cryptocurrencies like Bitcoin and Asiadigicoïn have also been the recipients of a positive upswing from Modi's currency purge — with Bitcoin in particular being driven up in value.

The lack of cash in the economy combined with the buzz around electronic payments systems has also sparked some very innovative solutions. The farmers' markets of Telangana began experimenting with their own electronic payment system where customers with Aadhar-linked bank accounts could buy vegetables using tokens which could be purchased via debit cards at specialized kiosks.

“These changes indicate towards a more inclusive society in the future,” Saxena said. He then outlined several areas in which India is trying to improve its digital economy, which include simpler, more technologically advanced digital payment systems, increased merchant acceptance, improvements in UPI, which allows monetary transfers between any two bank accounts via a smartphone, as well as a reduction in cash-based transactions.

“The Prime Minister's move to incentivize digital payments will offer a strong support to our ongoing efforts in helping the country leapfrog the cash generation to digital payment solutions,” added Deepak Abbot, the senior vice president of Paytm. “This will not only help millions of Indians overcome the hassles of dealing in cash but also act as a significant step towards propelling India to emerge as a truly cashless economy.”

Conclusion:

“Now more and more people will have to turn to credit for paying for education, which is good for business,” says Sinha, who previously worked for Capital One outside Washington, D.C. Now back in New Delhi, he partners with banks to offer educational loans of up to \$45,000, based on GyanDhan's estimation of a student's future income.

“People have gotten a taste of how convenient digital payments can be,” Sinha says. Even his local vegetable vendor, in his 60s, has started accepting Paytm. “For the first few days he was like, I don't understand this, it's fake money.” Now, like many other merchants, he sees that digital has its advantages.

Digital wallets are also paving the way for growth in online shopping, which has until now been hampered by “cash on delivery” payment norms. Four out of five Indian smartphone owners under age 35 “window shop” online, according to an eMarketer survey, but just 28% make a purchase at least once a week. Retailers like Alibaba, which is preparing to enter the market, are betting that digital wallets will start to change that behavior.

For Amazon and Flipkart, which have been fighting for primacy while grappling with India's transportation infrastructure, e-payments present an opportunity to accelerate sales. Amazon has made significant investments in India and is increasingly well positioned, thanks in large part to the draw of its low prices (and despite some unfortunate cultural stumbles). The company has yet to unveil a proprietary digital wallet for consumers, but recently launched Prime.

Flipkart operates its own digital wallet, called PhonePe, which enables online shopping as well as bill payment and peer-to-peer transfer services. Down the road, it's easy to imagine Flipkart, which has emphasized big-ticket items like electronics and appliances, using the wallet to offer customers credit in the form of loans or installment payments.

Demonetization is the hottest new topic in the country. Financial analysts everywhere are talking about what the long-term impacts could be while several businesses and people are caught up in the

unprecedented cash crunch that has been caused. With the retail businesses taking an all new dimension thanks to the growth of the internet, the business models and the payment methods have all changed. And this complex model is now further complicated by the introduction of demonetization. Though it is true that this can lead to a more positive effect in the long term, talking about the short term effects, it has been predominantly adverse for the customers and businesses.

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