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On-line Retail Market in India – A Future Perspective

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ABSTRACT

Most of the people are going for online shopping/purchase due to convenience and changing lifestyle. People find no time to go to market for shopping, hence they are preferring online purchase. With increasing usage of Internet on smartphones, online retail market in India is growing steadily over few years. With more companies entering online retail market competition is growing fast. Future of online retail will be based on the initiatives taken by the online retailers and regulatory framework. This paper makes an attempt to review online retail market in India, its evolution, identify the factors influencing growth, opportunities and challenges for future. Paper also presents the global scenario of online retail.

Keywords: Online retail, online shopping, e-retail, e-tailing.

1. INTRODUCTION

Online retail is a subset of e-commerce, it refers to a part of e-commerce, which includes sale of products/merchandise online. It does not include sale of online services like online ticketing etc. As per CRISIL report (2014) online retail in India has grown from ₹15 billion (FY2008) to ₹139 billion (FY2013) the compounded annual growth rate (CAGR) over 56%. As per Deloitte report(2014) online retail in India is estimated to reach \$20billion by 2018. As per Techno Park report (2013), the online retail market in India will reach \$76billion by 2020.

Despite the fast growth, online retail in India is <1% of total retail. Online retail is lacking in shopping experience, personal feel & touch, risk of cyber-crimes, lack of bargaining options etc.

Evolution of Online Retail in India

Early 1990's saw a new development, where e-commerce became choice among Internet users. Before this none has thought that buying and selling online or online trading will be a trend and India will also share

this success. India first experienced e-commerce with IRCTC the train ticket booking website of Indian railways.

After success of IRCTC airlines companies used online booking to save the commission given to agents, thus making large population of country to use e-commerce. Then the trend has gone to hotel bookings, cinema tickets etc.

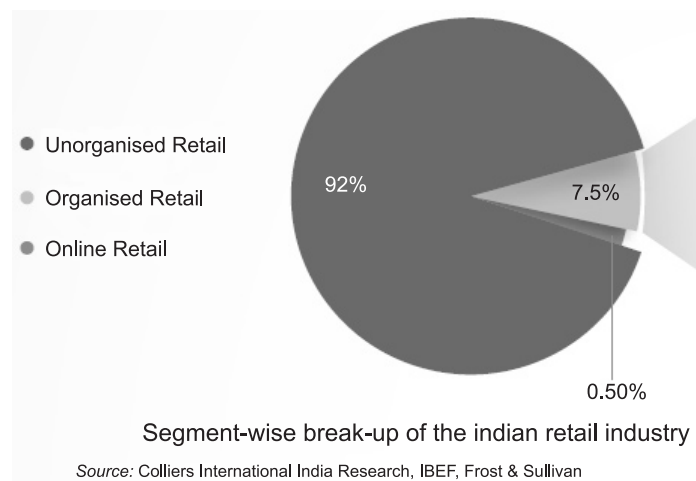
Acceptance of e-commerce has influenced other businesses to try this technique. Although online shopping is present for long-time, it gained high popularity with big discounts by companies like Flipkart, Amazon etc. Soon all portals started offering discounts to get orders. The browsing behavior of Indians has changed, now they are spending longer hours on Internet and ready to shop online. This trend has spread from big cities to small towns and semi-urban clusters.

Online Retail Scenario in India

Presently online retail is estimated at just 0.5% of country's \$600billion retail market. Valuation of Flipkart, which raised close to \$2billion in 2014 is valued at \$12billion. Snapdeal, is valued at \$2billion. Fashion brands in accounts for 10-15% of total online sales. In electronics, brands like Xiaomi get large part of sales from online.

Apart from big companies others also succeeded in online retail. Foreign Direct Investment (FDI) is not permitted in e-commerce, it is applicable to inventory-led format, where companies own the stock and sell on their site. To avoid this, big players are going for market-place model. Where multiple sellers get on to website to sell goods. FDI rules are not applicable to market-place model, hence online retail companies are raising funds from the foreign investors.

Indian retail industry has emerged as one of the most dynamic industries, accounting for 10% of country's Gross Domestic Product (GDP). 92% of retail business is done by unorganized retail, organized retail is contributing 7.5% and online retail contributing less than 1%.



Consumer goods like electronics, food, grocery, apparels, home appliances are available online. Online fashion is emerging as fastest growing category, backed by strong marketing strategies.

E-commerce firms are offering funding help and technical support to woo small retailers to come online. Emulating the strategy used by Chinese online retailer Alibaba to expand to towns and villages to reach the consumers. E-tailers are adopting innovative strategies to cater to unique needs and preferences of customers.

Key Drivers for Growth of Online Retail

Majority of Indian consumers are middle-class, who are under pressure due to lack of time are going for online purchase. With demographic profile 75% of internet users aged from 15-34 years, limited reach of brick & mortar stores and increasing smartphone usage etc. are giving high market potential for online retail in India.

The consumer mentality is changing fast, aiding to growth of online retail. Growth is attributed to few recent changes as mentioned below.

- Smartphones and 3G/4G networks has enabled internet access everywhere.
- Rise of middle-class who have less time, prone to do everything on smart phone.
- Free home Delivery, big discounts, offers have given a boost to the industry.
- Increase in the use of Mobile wallets.

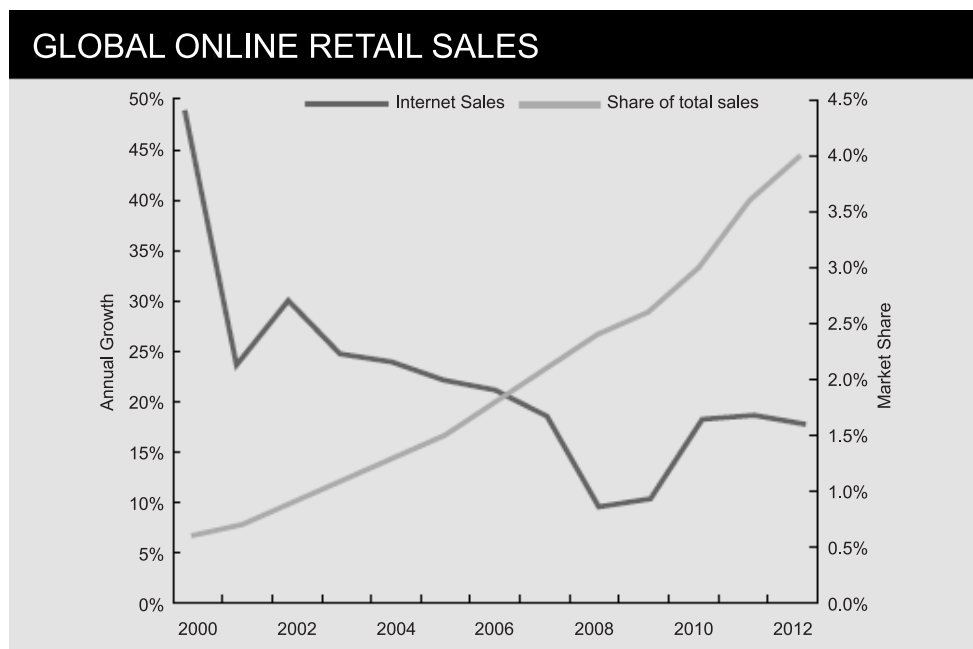
Apart from above other factors like

- **No rent or land costs:** E-retailers do not require showrooms to operate, they can do business through their websites or portals. This significantly saves store maintenance costs, which are high for physical retailers.
- **Enhanced communication with the client:** E-retailing enables personalized interaction with customers using latest technologies.
- **Universal reach:** A website can be accessed from any part of the world, which increases its market. Websites also serve as a medium of advertising at a minimum cost.
- **Effortless shopping:** Online shopping saves time. Shopping in comfort of your home is a huge attraction for customers to go online.
- **24 X 7 accessibility:** The line store will be accessible 24×7 and delivers your products home. That saves time and effort.
- **Prices can be compared:** Online shoppers can compare prices with competitive sites, and then go for the purchase with best.
- **No duplication of products:** Products are sold at competitive prices by reputed online stores. This reassures the consumer that no low quality products will be sold on these sites.
- **Internet Boom:** Rapid growth in the number of people Internet users with broadband services and penetration of 3G/4G services in rural areas.
- **Standard of living:** People living standards has gone up, making them to use online retail for shopping. The increased per capita income has also played its part in this inclination.

- **Wide range of products:** Online retail offers wider range of products. People can buy the products that are not available in retail stores.
- **Lifestyle:** Lack of time for shopping & traffic problems has led to growth of online shopping.
- **Discounts & cheap rates:** With numerous offers and big discounts offered by online sites people are going for online shopping.

Global Scenario of Online Retail

Online retailing has been growing at an average of over 18% per annum over last 3 years where as sales through other channels at just 1.3% pa, and its market share has risen to 4% from 2.2% five years ago (Cushman & Wakefield, 2013).



Source: Euromonitor, Cushman & Wakefield

As per Cushman & Wakefield, 2013 report, USA is the largest market in the world, with \$187bn of retail sales transacted online. USA accounts for almost 1/3rd of online retail sales around the world. Size of global e-tail market is \$579.9bn. It has recorded a growth of 14.8% from 2007-12 (compound growth) compared to a total retail growth of just 0.9% over the same period.

Naturally, countries where online shopping is in infancy stage has scope for growth, China has witnessed largest growth of 101% each year over last 5 years. India has grown by 25.7% over last 5 years ranking 16th among world. Major regions of the world has recorded double-digit growth per annum over the 5 years period. Share of online retail sales in overall retail has increased from 2.2% in 2007 to 4% in 2012.

Future of Online Retail in India

Total retail sale has increased from \$635.25bn in 2013 to \$717.83bn, growing at a rate of 13%. (e-Marketer, 2014). Online Retail sales in India, which is \$3.59bn(2013) grew to \$5.3bn(2014) By 2018 online retail in

India is expected to grow to \$17.52 billion. Online retail sales which formed only 0.6% of total sales volume in 2013 is expected to ‘improve’ and account for a 0.9% share of it in 2015 and account for 1.4% of the total sales volume in the country by 2018.



Opportunity for growth of retail is very huge, main reasons are rapid urbanization, rising literacy levels, large percentage of young population, increased smartphone usage, growing access to internet and falling rates of internet access.

According to Morgan Stanley by 2020, online retail market in India could grow 7 times larger. Sales are expected to grow fast in India than in any other market. In next 15 years India will see more people online than any other country.

India’s small businesses have limited access to loans; most of its consumers do not have credit cards. The e-commerce companies are investing in logistics, helping merchants borrow & giving consumers new tools to pay for goods. Amazon wants to make India its second-biggest market, after America. Chinese e-commerce grew by nearly 600% between 2010 and 2014, making it the biggest e-commerce market in the world.

Indian online retail market accounts for only a small piece of the country’s total retail market. However, strong growth is expected over the coming years as increasing numbers of users are going online for the first time (e-Marketer, 2016).

As per eMarketer report despite strong growth rate, online retail will account for just 2.5% of total retail sales in 2016 and will reach 5% by 2020. India differs from developed markets, where consumers are making shift from desktop to mobile for shopping online. India has skipped the desktop phase and increasingly accessing web for first time on smartphone, therefore is ready to make purchases on mobile phones.

Total Retail and Retail Ecommerce* Sales In India, 2015-2020
billions, % change and % of total retail sales

	2015	2016	2017	2018	2019	2020
Total retail sales	\$818.33	\$941.08	\$1,082.24	\$1,244.58	\$1,418.82	\$1,599.01
—% change	14.0%	15.0%	15.0%	15.0%	14.0%	12.7%
Retail ecommerce* sales	\$13.31	\$23.39	\$37.50	\$52.54	\$65.09	\$79.41
—% change	129.5%	75.8%	60.3%	40.1%	23.9%	22.0%
—% of total retail sales	1.6%	2.5%	3.5%	4.2%	4.6%	5.0%

Note: converted at the exchange rate of US\$1=INR64,12; excludes travel and even tickets; *includes products or services ordered using the internet via any device, regardless of the method of payment of fulfillment.

Source: eMarketer, Aug 2016

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www.eMarketer.com

Number of people those who browse or research online but who haven't done a transaction are growing. It is estimated that digital shoppers in India will total 159.6mn in 2016, i.e. equal to 53.6% of internet users. By 2020, more than 3/4th of internet users will be digital shoppers.

Digital Shoppers* and Buyers In India, 2015-2020**

	2015	2016	2017	2018	2019	2020
Total retail sales	126.9	159.6	199.2	243.4	294.2	352.0
—% change	46.1%	25.8%	24.8%	22.2%	20.9%	19.6%
—% of internet users	50.7%	53.6%	57.8%	63.0%	69.2%	75.6%
Digital buyers** (millions)	93.4	130.4	180.1	224.1	273.6	329.1
—% change	72.6%	39.6%	38.1%	24.5%	22.1%	20.3%
—% of internet users	37.3%	43.8%	52.3%	58.0%	64.4%	70.7%

Note: ages 14+: *internet users who have browsed, researched or compared products digitally via any device during the calendar year but have not necessarily bought digitally; **internet users who have made at least one purchase via any digital channel during the calendar year, including online, mobile and table purchases

Source: eMarketer, Aug 2016

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www.eMarketer.com

Number of online buyers (those who complete a transaction online) will see a strong increase. In 2016 130 million people in India will make at least one purchase digitally, which is equivalent to 43.8% of internet users. Digital buyers will number 329.1 million by 2020, when 70.7% of internet users will have made a purchase online.

As per research report 'Market Research Report on Future of Online Retailing in India(2017) published by NIIR Project Consultancy Services.

The report says online retail sector has higher growth potential with flow of big investments. The growth factor for online retail industry are rising internet usage, favourable demographics, emerging m-commerce, growth of smartphones, rising middle class disposable income etc.

According to a study by Associated Chambers of Commerce and Industry of India (Assocham) with Price water house Coopers (PwC) Indian e-commerce industry is likely to grow at 35% of compounded

annual growth rate (CAGR) and cross the \$100-billion by 2019. Many users will prefer online to brick & mortar retailers. About 52% of shoppers say they make online purchase rather than in stores due to the deals. The report says that between 2017 and 2020, e-commerce industry could spend around 2-6% of revenue on warehousing and sortation centers, which would translate to \$450-900 millions. The industry is expected to spend additional \$500-1,000 million on logistics functions, leading to total spending of \$950-1900million till 2017-20.

According to ASSOCHAM-PwC study average online purchase is expected to increase by 78% in 2016 due to best offers, aggressive marketing by vendors and expanding range of merchandise from clothes to jewellery, from electronics etc.

About 55 million consumers purchased online in 2015 and the number is expected to grow to 80 million in 2016 with better infrastructure in terms of logistics, broadband and Internet-ready devices etc. The report says that higher amount was spent on average for popular categories like bags by 110%, apparel by 68%, watches by 126%, jewellery by 65% and cosmetics by 25%.

Top reasons for growth of online retails are

- Good discounts/lower prices
- Saves time and efforts
- Convenience of shopping at home
- Wide variety of products are available
- Get detailed information of the product
- Can compare various models/brands

Constraints for growth of online retail

One of main reason for growth of online retail is due to big discounts offered by companies to build customer base. Due to big discounts all companies are making huge losses. Other factors are unreliable Internet in small towns & villages, low usage of credit/debit cards and net banking. Due to poor logistics & transportation infrastructure for delivery of goods on time, Cash on delivery (COD) option where cash has to be handled by delivery personnel. Cost for goods packaging, distribution are big constraints Lack of customer loyalty is a big challenge.

Other challenges for online retail are consumers cannot touch & feel the products, orders can take long time for delivery, shipping (logistics) costs are excessive & customer service is poor, returns & replacement are very difficult. Further consumer traditional shopping experiences, lack of access to required technology and perceived threats & frauds of online shopping.

Comparing to brick & mortar stores which has a address where the customer can transact face-to-face with the seller, online store is relatively at disadvantage with respect to interaction. Customers using online shopping should be assured that products ordered would reach in time and without any damage to the product.

2. CONCLUSION

In today's scenario e-tailing has become part of life, users have habituated to buying online. Indian retail market is growing fast, consumerism coupled with urbanization with changes in demographic and psychographic dynamics have driven consumers to go online to make purchase of products & goods.

Online firms that emphasize constant change with their strategic orientation will see success in this new form of entrepreneurship. In India, e-tailing has the potential to grow exponentially over next few years to reach a value of \$76bn by 2021. This is possible if more number of rural population is provided with internet access and trained to use it for shopping, if e-retailers change their business models to understand the consumers more. It is easy to lose a customer, so to retain them a mix of initiatives like public relations, advertising, promotions, marketing etc. should be used. Customer loyalty programs should be initiated. E-tailers should also bring confidence among online customers by prompt delivery of goods, offering discounts for bulk purchases, reducing delivery charges etc. They must also provide the reluctant consumers with compelling reasons for accepting Internet as a new way of shopping. It is necessary to create a sustainable environment and mechanism for futuristic growth of online retail in India.

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