

E-COMMERCE: THE CHANGING DYNAMICS OF INDIAN BUSINESS ENVIRONMENT

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Abstract

The e-commerce sector has seen unparalleled growth in 2014. The growth was determined by rapid technology adoption led by the increasing use of devices such as smartphones and tablets, and to the internet through broadband, 3G, etc, resulting an increased online consumer base. Besides, factors like demographics and a growing internet user base, the enormous growth attained by homegrown players and the huge investor interest around these companies displayed the immense potential of the market.

India's overall retail opportunity is sizable, coupled with a demographic dividend (young population, rising standards of living and upwardly mobile middle class) and growing internet penetration, resilient growth in e-commerce is anticipated. Favorable e-commerce policies, greater attentions from the government, proper investment support are also some significant factors getting instrumental in securing rapid growth of the sector.

The paper has attempted to present a perspective about the dynamics of Indian e-commerce business environment with special reference to General, Task and Competitive environment. Companies are needed to devise a strategy to meet challenges posed by fierce competition with special reference to International scenario, ever-changing technological requirements, changing demographic matrix, rising expectations of investors, favorable market opportunities with larger risk, etc.

Keywords : e-commerce, General Environment, Task Environment.

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Introduction

Ecommerce sector has shown signs of immense growth in India. Organizations in India are very keen to draw benefits from the existing condition of the industry, nevertheless they need to address various general and task environmental issues. The organizations are expected to prepare themselves according to the need of the environment for which they ought to have a blend of proactive and reactive strategies. Organizations need to prepare comprehensive plan to combat the threat of environmental challenges and should try to device an impeccable strategy for sustainable competitive advantage.

Globally India is enjoying a good position in terms of internet users, which is a strong indicator of growth potential of the sector. The players need to broaden their scope and focus on the value proposition from the perspective of Indian business environment. The entry of global players with huge risk appetite, large resource base, sound financial condition and strong supply chain management call an immediate response from Indian companies to survive and grow. To make future favourable, organizations need to address the issues related to general and task environment carefully to design device a suitable strategy.

General Environment Factors

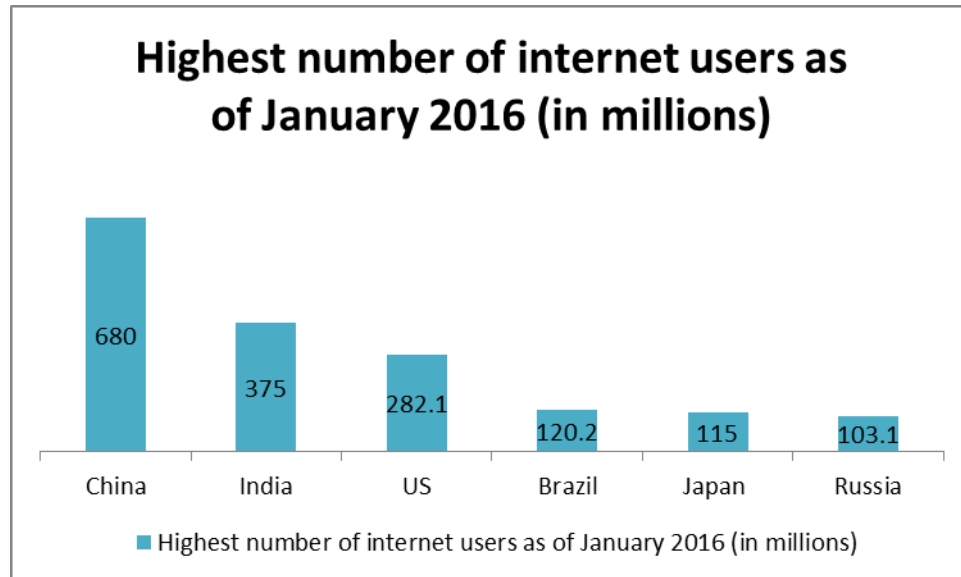
General environment is made of the factors which are outside the organization that may have impact on business organization. Organizations are required to pay attention to the factors affecting business as factors outside the reach of organizations are not controllable.

The players of e-commerce sector in India need to realize the importance scanning of environmental variable thoroughly for their long-term sustainability. There is immense potential in the sector but improper planning, lack of adaptability, and wrong forecast can lead to failure.

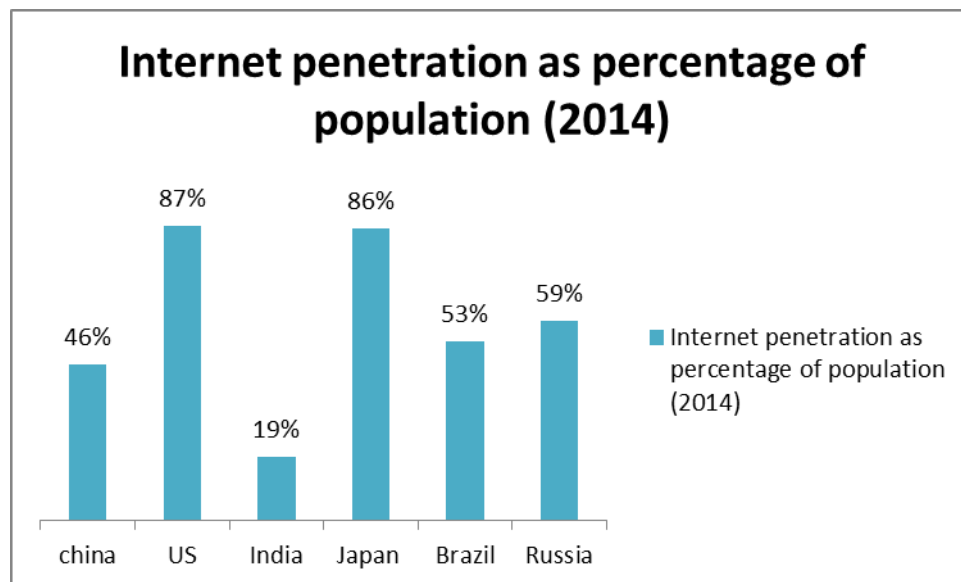
International scenario

According to Forrester Research, an independent technology and market research firm, only 16% of India's total population was online in 2013 and of the online users only 14% or 28 million were online buyers. India, therefore, was still in a nascent or immature stage of evolution of online retail spending. China was in ascending stage at 50%, whereas Japan (69%), Australia

(57%) and South Korea (70%) were in mature stage. Today India is on the threshold of emerging as a key player in global electronic commerce.



Source: Statista website accessed on 22 May 2016



Source: PWC report on e-commerce in India

The graph depicts a clear picture of internet users in different countries. It is evident that in absolute terms India's internet users are short by only 36 million as compared with 279 million in the US and higher than that in Japan, Brazil and Russia. The future of e-commerce in India clearly signals the huge potential to be tapped by the companies.

E-commerce sector needs to understand the value of integrating Indian economy and society with rest of the world to encourage for a better global perspective. The e-commerce will help to bridge the inter-regional disparities. India it should develop the congenial environment and proclaim appropriate rules and regulations to integrate with the global market.

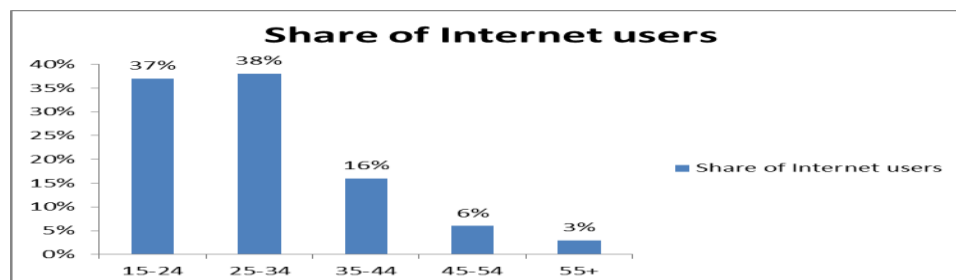
Demographic Environment

According to Statista – a Statistics Portal, India was the third-largest online market as of 2014 with more than 198 million internet users, ranked only behind China and the United States and declaring itself as a market not to be ignored on the global stage.

Overview	Values
Number of internet users in India	375m
Active mobile internet users in India	303m
Gender distribution of internet users in India: male	71%
Internet penetration in India	18%

Source: Statista website accessed on 22 May 2016

The above table clearly shows big number of internet users in India along with high number of active mobile users. Besides companies have huge potential to convert ‘non-users’ of internet to ‘users’ of internet. It is noticeable to observe that in India there is huge requirement to increase penetration of internet users due to urban –rural divide. Also companies should device strategies to attract female buyers as currently it is dominated by male users. Companies should also consider the share of internet users in India which is highest in the age bracket of 25-34.



Source: PWC report on e-commerce in India

Favorable demographics like rising disposable income, rapid urbanization, need for convenience are the key factors driving the growth of e-Commerce in the country. Companies need to consider these facts carefully for designing a successful strategy

Technological forces

The impact of technological force on e-commerce sector is exponential. The growth of e-commerce is propelled by rapid technological advancement steered by the increasing use of gadgets such as smartphones and tablets, and access to the internet through broadband, 3G, etc, leading to an increased online consumer base.

Essentially, technology plays an instrumental role in e-commerce when it comes to search, personalization and customization, which entails in-depth analysis of a consumer's buying and surfing habits, apart from streamlining payment processes and order management.

Therefore it is imperative to quickly invest in technology. Companies need to address the lack of synergy between business, technology and operations functions of the enterprise. e-commerce companies constantly have to upgrade their offerings with changing technology.

India has a competitive advantage over other nations in terms of third largest reservoir of technical human resource. Thus, it is high time that India should act fast and decisively in order to use the growing electronic trade to our advantage.

Geographical factors

The urban-rural divide of India is very apparent. The urban consumer is able to realize the benefits of e-commerce sector very well and therefore a sizable market is indulged in online buying. Rising level of incomes, well developed infrastructure, increase in per capita income are also some of the important factors increasing scope of e-commerce in a country like India.

Besides the number of rural internet users is also increasing, it is growing by 58% annually. The scope for the companies to penetrate is too large. Companies can make big profits by penetrating rural market of India.

According AC Nielsen report, the FMCG sector in rural and semi-urban India will cross the \$20 billion mark by 2018 and have a potential to reach \$100 billion by 2025. It is also expected that rural India will yield more e-commerce business. Experts believe that the real e-commerce boom

will come with increased participation of rural consumers. The growth of the company is dependent upon thorough study of rural market.

Although over the past five years e-commerce has grown unprecedentedly in India, but the reach is not uniform. Rather than competing amongst themselves, companies should target the remote areas to penetrate deep and faster.

Moreover major e-commerce players like Flipkart, Snapdeal, Infibeam and mobile wallet major Paytm have also signed MoUs with the government to reach far-flung areas. Such kinds of initiatives are needed to be undertaken so that a very large part of the substantial market can be reached.

Government Policies

Recently Indian government allowed 100% foreign direct investment (FDI) in online retail of goods and services through the automatic route, seeking to legitimize existing businesses of e-commerce companies operating in India. The initiative has been taken to shield the sector against discount wars, level the playing field with offline stores, and regularize the market.

The Indian government's initiative 'Digital India' project and the modernization of India Post is also expected to affect the e-commerce sector immensely. The Digital India project aims to offer a one-stop shop for government services that will have the mobile phone as the backbone of its delivery mechanism. For India Post, the government is keen to develop its distribution channel and other e-commerce related services as a major revenue model going ahead. Both these projects will have significant impact on increasing the reach of e-commerce players to generally non-serviceable areas, thereby boosting growth.

Government has taken special measures in form of connecting e-commerce companies with its common service centres (CSCs) in villages. As many as 100,000 CSCs have already been set up and the government plans to add many more.

Government is creating good platform to promote e-commerce in India. Also the rules and regulations have been modified to encourage the participation of the global players, better accessibility, resource mobilization, increased penetration and mobility.

Task environment

Task environment comprises of the factors which an organization interfaces in the course of conducting its business. The observation through analyzing task environment gives strong platform to set appropriate and realistic organizational objectives. The factors which could affect task environment can be as follows:

Customers

Meeting expectations of customers have always been very challenging for every sector so as applicable to e-commerce sector also. The customer acquisition cost in e-commerce is showing increasing trends due to intense competition.

It is being observed that companies are deploying different tools like sales on weekends, holidays and festivals to woo customers and to increase customer loyalty among existing customers. Companies are also seeking help of television and social media, particularly Facebook, in promoting eTailing through aggressive advertisements. This has helped several e-commerce companies building substantial brand image.

But Companies cannot ignore providing a rich, fresh and simple customer experience, as the customers progress from research to purchase to fulfillment stages, their expectations change fast. e-commerce companies need to understand these change drivers and adapt their proposition accordingly. Companies need to manage numerous customer engagement platforms; emphasize on expanding into new geographies, and simultaneously compete with hypercompetitive pricing environment

Investors

e-commerce sector has been amongst one of the top investing avenues for the investor in India. Due to this only Government initiative of 100% FDI received red carpet welcome in India. The e-commerce businesses will continue to attract investor interest. Several of India's blue-chip PE

firms, which previously were not interested investing in e-commerce, are now considering opportunities in the sector. Online companies offer a unique value proposition which is difficult to understand in general. The value proposition are more intangible rather than tangible, therefore investors unless are thoroughly convinced would not invest.

Today, India offers great opportunities of gaining returns by investing in e-commerce primarily because the industry in India is still in initial stage and an unprecedented growth. Experts from the industry have view that India's e-commerce industry has the potential to quadruple from \$10 billion in 2013 to \$43 billion over the next five years, largely driven by online retail, which is estimated to grow from \$2 billion in 2013 to \$23 billion by 2018. The following table presents clearly Top 10 Private Equity (PE) deals in the eCommerce sector in 2014.

Date	Company	Amount (million USD)	Key investors
14-Jul	Flipkart	1,000	Morgan Stanley, GIC, Tiger Global, Accel India, Iconiq Capital, DST Global
14-Dec	Flipkart	700	Tiger Global, Iconiq Capital, DST Global, Steadview, Qatar Investment Authority
14-Oct	Snapdeal.com	637	Temasek, PremjiInvest, SoftBank Corp
14-May	Flipkart	210	Tiger Global, Iconiq Capital, DST Global
14-Oct	Olacabs	210	Tiger Global, Matrix Partners India, SoftBank Corp, Steadview
14-Feb	Snapdeal.com	134	Kalaari Capital, Intel Capital, Nexus Ventures, Bessemer, Saama Capital
14-May	Snapdeal.com	100	Temasek, PremjiInvest
14-Nov	Housing.com	90	Helion Ventures, Nexus Ventures, Qualcomm Ventures, SoftBank Corp, DST Global, Falcon Edge Capital
14-Mar	Quikr	90	Warburg Pincus, Norwest, Matrix Partners India, Nokia Growth Partners, Omidyar Network, Kinnevik
14-Sep	Quikr	60	Warburg Pincus, Norwest, Tiger Global, Matrix Partners India, Nokia Growth Partners, Omidyar Network, Kinnevik

Source: Venture Intelligence

Companies need to present a robust plan before investors so that they can judge profit potential leading to

Despite checks and balances, there are always times when supply management doesn't go as planned in the e-commerce business sector. Ecommerce sector is not fully developed and need great support in form of investment. If supported well with the appropriate level of investment, ecommerce can secure faster growth in India.

Suppliers

Suppliers also are important element of e-commerce sector. It is not only to arrange supplies but also to get reliable supplies. The field of ecommerce become challenging due to smooth flow of supply chain in which supplier also play a very crucial role.

Organisations need to recognise the dynamics of the product category they are in the supply chain. Some product categories allow to directly purchase from the manufacturer while for others, it is best to depend on a national or regional wholesaler or distributor.

Organisations also need to pay attention on the 'Quality' provided by the supplier. Bargaining over prices controls the cost but quality has direct association with customer's expectations and customer loyalty.

Today organizations have better accessibility to technology which smoothens the flow of supply chain management to a greater extent but there are always times when supply management doesn't go as planned in the e-commerce business. Therefore Organisations need to handle it carefully.

Competitors

The growth potential of the online retail segment in India is very lucrative resulting in greater competition from international players. The entry of international players has increased the competition in the segment. Global players are quite empowered in comparison to Indian players due to their global exposure, wide resource base, and good risk appetite. International players have larger financial resources than their Indian counterparts. This enables them to bear losses

and control supplies to their competitors by purchasing supplies from supplier. This could drive out smaller domestic players from the market.

With the entry of eCommerce giants like Amazon and Alibaba, the competition is expected to further intensify. Both these international players come with big pockets and the obstinacy to drive the Indian eCommerce market. Also, their command on domain knowledge and best practices from their international experience give them competitive edge. Furthermore, these companies have been part of markets where they have seen the eCommerce market evolve and are cognizant of the challenges and strategies to address issues thereof.

India's ecommerce sector is poised for dramatic growth. In order to compete with the international entities, Indian companies are aiming to continue their focus by expanding sellers, innovating on multiple customer touch points, and providing rapid delivery services. Competition is expected to continue, with these eCommerce companies experimenting with different ways to attract customers and increase online traffic. There is also a need to do an in-depth assessment of what competitors are doing, their online strategy and the nature of each offering.

Conclusion

Organisations should carefully scan and monitor general and task environmental forces to increase success rate. A proper blend of proactive and reactive strategies should be chalked out to develop a sustainable model of e-commerce business in India. Hence large number of companies adopting different innovative concepts and business models appears to be justified. There can be more deals of collaboration or setting up their own online stores.

Besides e-commerce has grown explosively, there is no guarantee it will continue to grow forever at these rates therefore securing and maintain growth with sustainable business will remain an ongoing challenge for existing players.

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