E-TAILING: GROWTH, OPPORTUNITIES AND CHALLENGES IN INDIA

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ABSTRACT

Internet is a powerful medium that can serve as an innovative platform for the growth of retail brands in India. The Indian retail market is witnessing a revolution. It is not just the metro cities and urban areas that are fueling the online scene in India but the tier 2-3 cities where there is brand awareness but no availability of products and services is also adding to growth. The growth of internet and other related technologies has enabled a new retail format called E-Tailing to emerge. The E-tailing definition includes using the Internet to sell retail goods. E-tailing is short for Electronic Retailing and has been active on the internet as early as 1995. B2C (business to consumer) is another way E-tailing is described. Major Corporations have been using E-tailing as early as 1997. This included companies like Dell Computer and Amazon.com. The most popular item brought on the internet include: Computer hardware and software, sporting goods, consumer electronics, office supplies, Books and Music, Toys, Health and Beauty Products, Cars and services such as Travel, Stock Trading, Electronic Banking and Real Estate. Some of the major Indian E-tailers are: Flipkart.com, Snapdeal.com, Jabong.com, Makemytrip.com, FutureBazaar.com, IndiaPlaza.com, Homeshop18.com etc. E-tailing has established itself as a viable option for store based traditional retailing. This paper attempts to throw some light on the Growth, opportunities and challenges for e-tailing in Indian context.

Keywords: E-tailing, E-commerce, E-Retailing, Internet, Retailing, Reverse Logistics

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1. Introduction

The Indian ecommerce industry has seen an astonishing growth rate over the past decade. What has initially started as a transition from offline to online in the travel industry got adopted in modern retail. The rapid growth of internet and globalization of market has given retail sector a vibrant business environment. With the advancements in internet technologies, business and marketing activities too are getting affected and the internet is revolutionizing commerce, marketing, retailing, shopping and advertising activities of products and services. There is a quick transition to what is known as 4C in services industry: customer value, cost to the customer, communication and convenience. Besides, as part of globalization perspective, internet has become a major tool of success in the retailing industry. Consumers who were born between 1977-1997 are called the "Net Generation" and they are the ones that were associated with the advancement of internet technologies and have directly increased the popularity of internet (Comegeys et al., 2006). There are several attractive attributes of Internet to not only e-customers but also companies on time and money saving, communicate, convenience, easy accessibility, selection from a wide range of alternatives, and the availability of information for making decisions and all marketing activities can be performed via the Internet efficiently.

Today, Electronic commerce and online marketing have become the buzzwords in the internet based business domain. Electronic commerce or ecommerce can be defined as the buying and selling of goods and services over electronic medium such as internet. Online marketing can be defined as the promotion of products and services through the internet. On the other hand, e-tailing can be defined as the selling of goods and services to the consumer market via internet (Wang 2002). Another definition by Turban et al. (2006), defines e-tailing as retailing conducted online, over the internet. The activities of e-tailing encompass three main activities: (a) a product evaluation or information gathering facility, (ii) an online purchasing function and (iii) a product delivery capability (Kolesar and Galbraith, 2000). Like general marketing activities of an organization, e-tailers have also stick to the same 4 P's of marketing activities i.e. Product, Place, Price and Promotion. According to Rao (1999), e-commerce offers increased market activity for retailers in the form of growing market access and information and decreased operating and procurement costs. The consumers can gain better prices due to the competition and also can enrich their knowledge on goods and services

The digital commerce market in India is expected to grow by 33 per cent to Rs 62,967 crore ($11.6 billion) by the end of 2013 from Rs 47,349 crore (($8.7 billion) in 2012, according to a report released by Internet and Mobile Association of India (IAMAI) based on findings of market research firm IMRB. E-tailing will lead the growth with 55 per cent increase to cross Rs 10,000 crore this calendar year. This will be followed by classifieds, online travel, financial services and other services categories. In general, e-tailing industry, from a business perspective offers an opportunity to cater to consumers across geographies, no operational timings, unlimited marketspace – and all this with minimum quantity of infrastructure. For a country like India, the growth in the e-tailing market is determined by the urge for better time management in urban India.

1. Literature Review

According to Turban (2006), e- tailing is defined as retailing conducted online, over the internet. Wang (2002) has provided a definition of e-tailing by defining it as the selling of goods and services to the consumer market via the internet.

Zeithaml (2002) has defined that the success of e-tailing depends on the efficient web site design, effective shopping and prompt delivery. The other e- store services are delivery on real time, return and replacement process, period of filling out online orders form, speed of response time to e-customers queries.

Kim and Lee (2002) have suggested that the design of e-store influences consumers access to e-store. In the e-store, website design, design of product and service comparison and information, time to complete online order form, easy of searching product and service, screen layout, screen complexity, page composition, information retrieval methods, information display, use of colour and background, assistance to the user and speed of accessing the e-store are notable factors attracting e-customers.

Ratchford et al. (2001) have told that through Internet, consumers can gather information about merchandise and they compare a product across suppliers at a low cost.

According to Rao (1999), E-commerce offers increased market activity for retailers in the form of growing market access and information and decreased operating and procurement costs.

Myerson (1998) expressed that consumers are getting smarter in using e-tailers (and online search engines and agents) for convenience and comparison-shopping.

Guttman (1998), describes Several unique elements make online shopping different from the traditional in-store retail model. Besides offering convenience and expanded product variety, the online model also makes it easy for consumers to access and compare data from multiple sources.

2. Difference between Traditional retailing and e-tailing

In India, retailing majorly occurs through traditional brick and mortar stores. In traditional retailing, location plays an important role and is seen as a source of competitive advantage over the rivals. Similarly the e-tailing or online retailing provides a virtual market space to the consumers. Some of the major differences between the two can summed up as:

Table 1   **Difference between Retailing and E-tailing**

	Retailing	E-tailing
Physical Expansion (when revenue increases as the number of visitors grow)	Expansion of retailing platform to include more locations and space	Expansion of e-commerce platform increased server capacity and distribution facilities.
Physical Expansion (when revenue does not increase as the number of visitors grows)	May not need physical expansion	May still need physical expansion to provide sustainable services.
	Expand marketing efforts to turn "window shoppers" into effective shoppers	Expand marketing to turn "pane shoppers" into effective shoppers
Technology	Sales automation technologies such as POS systems	Front-end technologies Back-end technologies "Information" technologies
Customer Relations	More stable due to non anonymous contacts	Less stable due to anonymous contacts
	More tolerable of disputes due to visibility "Physical" Relationships	More intolerant of disputes due to invisibility "Logical" relationships
Cognitive shopping overhead	Lower cognitive shopping overhead due to easy-to-establish mutual trust	High cognitive shopping overhead due to hard-to-establish mutual trust

	Local competition	Global Competition
Competition	Fewer competitors	More Competitors
Customer Base	Local Area Customers	Wide Area Customers
	No anonymity	Anonymity
	Fewer resources needed to increase customer loyalty	More resources needed to increase customer loyality

Source: Electronic Commerce: A managerial Perspective, Efraim Turban et al.

Most of the players in online retailing are of the opinion that new online payment options, wider range of merchandizing, online shipment tracking, 24x7 Customer Care, and a larger reach of the Internet at a cheaper cost would make E-retailing an inevitable alternative to physical retailing.

3. Growth of E-tailing in India

E-tailing in India is still a very small part (0.1%) of overall retail in India but is projected to grow at a rapid pace to reach 7-8% of the total Indian Retail market by 2020. E-tailing will follow a high growth trajectory. According to a report by Technopak on "E-tailing in India: pushing the retail frontier" the size of the ecommerce market in India for 2012 is estimated to be USD 10 billion and projected to grow at a CAGR of 45% to reach USD 200 billion by 2020. At present the market is skewed to the travel segment and accounts for nearly 80% of the market.

3.1 Key Growth Drivers

3.1.1 Penetration of technology

Internet access in India is anticipated to grow and reach 800 million users by 2020. In the coming years conventional broadband is likely to be overshadowed by 3G wireless technology (12.2 million users in 2011 projected to grow to 100 million by 2015), introduction of 4G networks and growing popularity of dongles. Low price points, which boost affordability, and access have led to a surge in Smartphone and laptops.

4.1.2 Credit / debit card penetration and usage

Though Indian consumers are yet to adopt card payments the way consumers in developed countries have, the number of outstanding cards has grown at a CAGR of 17% since 2005 and is

projected to grow steadily in the next decade. The spending on cards has been increasing steadily and stood at USD 19 billion on credit cards and USD 10 billion on debit cards in FY 2012. However, e-tailers have successfully offered a cash-on-delivery option as an alternative to credit/ debit cards.

Table 2   Cards issued in India

Year	Cards issued in India (million)
2005	67
2012	205
2015	300
2020	450

Source: Reserve Bank of India, Technopak Estimates

4.1.3   Changing consumer lifestyle

There is increasing time poverty in urban India with people spending more time commuting to and from the office, on leisure, grooming and well-being, socializing etc. leading to limited time available for shopping. Consumers are spending more time online on messengers, social networks, e-mails etc. and getting familiar with the Internet. These factors boost online shopping as a relatively low-stress alternative which also reduces the demand on the consumers' time. Increasing brand awareness among young Indians in both small and large towns is also a key driver for e-tailing.

4.1.4   Young demographics

India is a young country with 35% of the population between the age bracket of 15 and 35 years. Further, the Internet audience also comprises a younger population with 75% people between the age bracket of 15 and 34 years, of which the 25-34 years of age segment comprises 40%. About 50% of these visit e-tailing websites. This is the core target audience for e-tailing in India, both because of their access to the Internet, comfort with online transactions, their lifestyle needs and disposable income. Going forward, young India will continue to drive the growth of e-tailing.
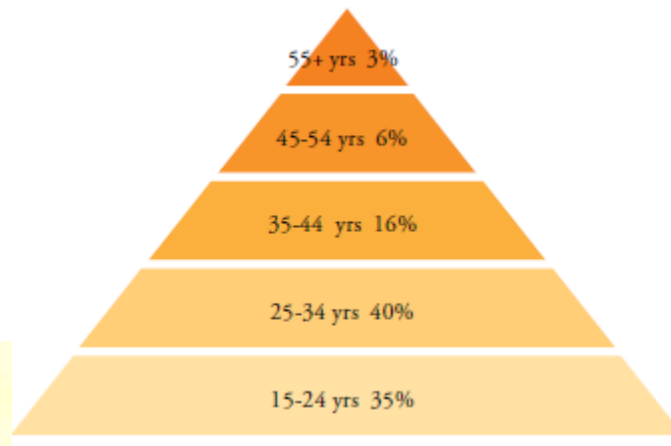
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Fig.1   India Internet Audience 15+ Years by age**,** source: comScore

4.1.5   Improved supply side

Until a few years ago, there were only a handful of prominent e-tailers in India. This started changing around five years ago with new entrants redefining the rules of the game with better consumer interfaces, execution and marketing. As these players battle to attain critical consumer mass and grab top slots, there are now more products and services on offer, better interfaces, reliable back-ends, delivery and payment options (like cash-on-delivery, 'Try & Buy', EMI schemes etc.), online technology enablers to assist such purchasing, heavy discounts and mass media campaigns to educate the consumers.

4. Opportunities for e-tailing in India

4.1   Visibility and wider reach

E-tailing provides greater visibility to a large number of audiences. It does not have any geographical boundaries which provide immense opportunities for the e-tailors to create visibility and reach a wider consumer base.

4.2   Better cost structure

Unlike traditional retailing, e-tailing does not require any physical location. It does its operations with minimal infrastructure using internet technologies and thus offers a better cost structure as

compared to the brick- and-mortar retailers. Hence, e-tailors are able to pass on higher price discounts to customers.

4.3 Strategic tool

E-tailing acts as a strategic tool to ensure consumer retention and also to reach out to a wider consumer base in smaller cities and towns where it is not feasible for retailers to set up their stores. It is therefore becoming imperative for traditional retailers in India to adopt e-tailing as an essential sales channel.

4.4 Opportunity beyond Metros

As per ebay India census 2011, around 40% of the business in the online space comes from consumers in tier 2 and tier 3 cities. This is mainly due to the increasing internet population in smaller cities and rural areas. E-tailing thus has immense growth opportunities in these areas with huge customer base.

4.5 Marketing and Promotional tool

A website is an effective channel to communicate with customers. Internet provides a two way communication channel through interactive websites and forms. It will thus, provide e-tailors with the opportunity to conduct market research and at the same time will act as an effective and efficient promotional tool.

4.6 Multi-channel strategy

Brick and Mortar retailers rely on the traditional distribution channel including supplier, manufacturer, wholesaler, retailer and consumer. With e-tailing, it is possible to reduce this supply chain and reach the customer directly, thereby reducing cost, time and efforts. Retailers, thus can use e-tailing to cater different customer groups through a multi-channel strategy.

5. Challenges for E-tailing in India

5.1 Thin profit margins

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The razor thin gross margins due to deep discounts and intense price competition make it harder for e-commerce companies to survive. In fact many items are sold at a loss to attract customers. Profitability is also negatively impacted by high customer acquisition costs, free shipping and the high rejection rate of COD orders. It is no wonder then that most e-tailers are losing money and are being propped up with investor capital. The largest player Flipkart is yet to turn a profit.

5.2   Reverse logistics

Handling the reverse logistics is again a major challenge in front of e-retailers. The problem is very much prominent in e-tailing businesses in India. Customers always worry about returning a defective product back to the company. Though many of the e-retailers have recognized this problem and are providing the return of defective product facility, yet many others are still lagging behind.

5.3   Trouble with online payment systems

Indian people are not used to, with the online shopping methods like credit cards, debit cards, net banking etc. This is also fuelled by low penetration of credit/ debit cards in India. Less than 2% of Indian consumers own credit cards and 90% of all retail transactions are conducted in cash. As a result most e-commerce sites are forced to offer a Cash-on-Delivery (COD) option. Eight out of ten online transactions are conducted on a COD basis. However, as per one estimate 45% of all COD orders are rejected at the point of delivery by the customer. This is clearly expensive and not a very sustainable business model. They are often more concerned about the theft of their personal information, such as credit/ debit card numbers, Pin numbers, Passwords and other confidential details which may get compromised by the use of these methods.

5.4   Cost effective delivery of goods

One of the major challenges in front of e-tailors is to provide a cost effective delivery of goods to the consumers. This is both inefficient and unreliable due to poor roads, traffic congestion and an overall weak transportation infrastructure coupled with India's vast size. In fact much of the investment into e-commerce companies is going into logistics. Many e-tailers are setting up their own warehouses and delivery centers to extend their reach and streamline operations. E-tailing encompasses with high volumes and wide variety of package shapes and sizes to be delivered

across different geographical areas, which makes it extremely difficult for them to provide a cost effective product delivery.

5.5 Lack of trust

Online consumers lack trust in the services provided by the e-tailing companies. This lack of trust is mainly because of no touch and feel facility and increasing cyber thefts and frauds. This is a serious issue and must be dealt by e-retailers carefully.

5.6 Shipping problems

The customers using the online shopping channel should be assured that the products that they have ordered would reach them in due time and in the right condition without any defects. With more and more consumers from tier 2 and 3 cities shopping online, it has become difficult for the e-retailers to match the delivery time as stated.

5.7 Language problem

The e-tailing websites use English as their mode of communication. English may not be the comprehensible to the majority of Indian population. India has a diverse culture, with more than 20 languages and many dialects; it becomes difficult to reach each consumer with same clarity. They must hence use vernacular websites to increase their customer base and reach a wider audience.

5.8 Additional shipping charges

It is easy to compare the basic price of an item online. But it is not easy to see the total cost upfront as additional charges such as shipping charges are often not mentioned. Many companies though now have started a certain limit above which no extra charges for shipping will be charged from the consumers. This varies from Rs. 300 to 600.

6. Conclusion:

Indian retail sector is growing fast and with the advent of FDI in retail, this growth will reach soaring heights. E-tailing has emerged as a potent area that can further fuel this growth with innovative and unique ideas of retailing and marketing. The growth of internet penetration in

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urban and rural India has provided immense growth potential for e-tailers. There are lot many opportunities up on the grab for the e-tailers including greater brand visibility, wider audience reach, large customer base, consistent, effective and efficient strategies. But with the growth opportunities comes the intense competition and challenges. The e-tailers have to find out ways to tackle low profit margins, cost effective and timely delivery of goods, lack of trust of online consumer on e-tailers, logistic problems, online payment system issues and language constraints. Thus e-tailers need to focus on improved logistics, facility of returning the defective product, cost effective delivery of goods, retention of online customers, competitive prices, secure online payment systems and customers' trust on e-tailers.
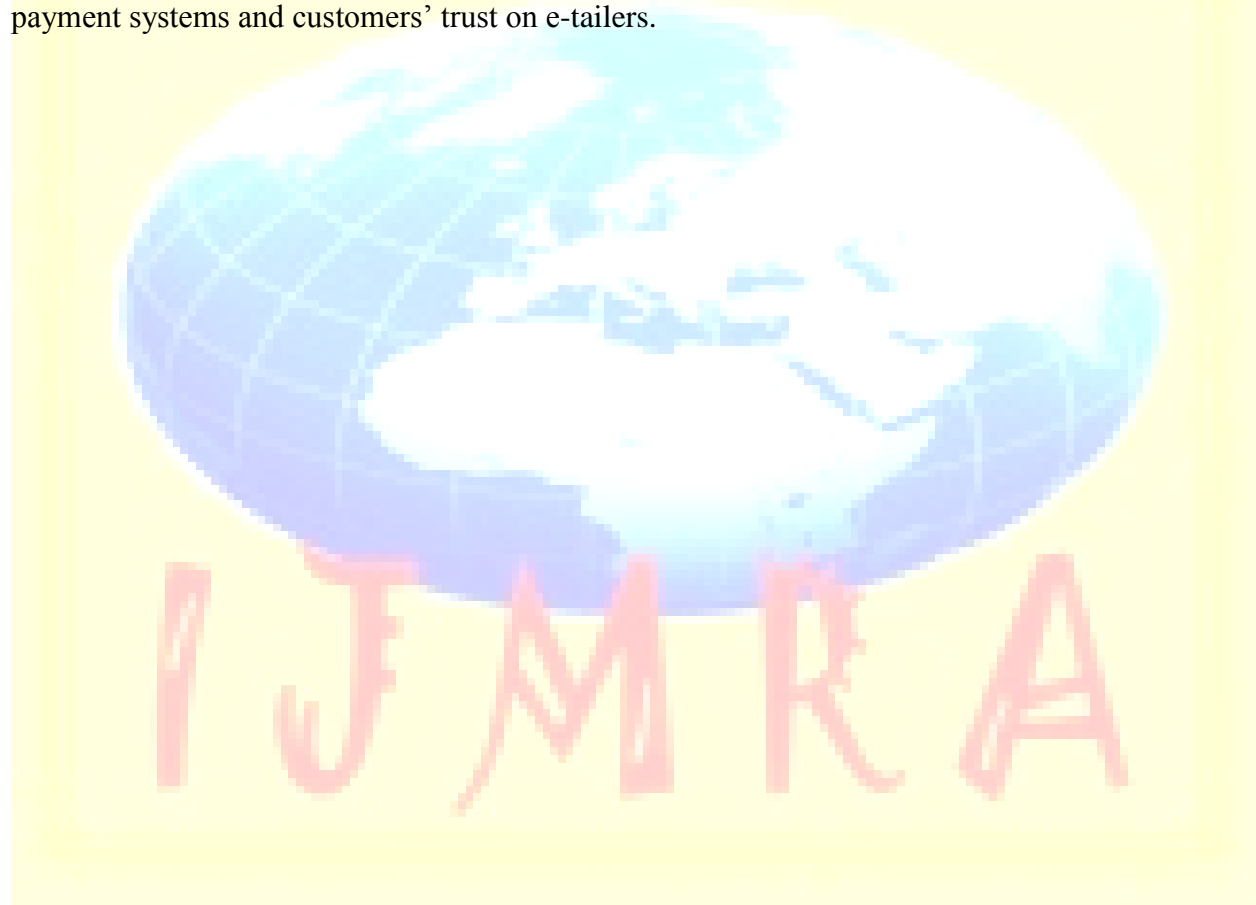
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