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Emerging Online Retailing in India: Challenges & Opportunities

Mr. Gajanan Prabhu Dagade*

ABSTRACT

Though Indian online retail market is far behind the top online markets like the US and UK, it has been growing with remarkable speed. Selling of retail goods through the internet known as e-retailing. Indian online retail stores started quite late, Flipkart in 2007 and Snapdeal in 2010, compared to Chinese company Alibaba in 1999. According to Google India, there were 35 million online shoppers in India in 2014 and is expected to cross 100 million by the end of 2016.

The Indian online market is currently cornered by three retailers- Flipkart, Snapdeal and Amazon. These retailers are facing challenges like competition from each other and trying to survive by providing qualitative goods with great discounts to attract customers and compete with each other.

Though these companies face challenges like competition, the opportunities also knock their door like increasing the number of online shoppers across the country specially from non-metro cities and favorable economic conditions.

The objective of this research paper is to understand the concept of e-retailing and evaluate the challenges facing and opportunities waiting for e-retailers from emerging Indian online retail industry.

The objective will be completed by utilizing secondary data and study also includes strategies adopted by online retailers for customer satisfaction. It focuses on the opportunities and challenges for online retailers in India.

Keywords: e-stores, Logistics, GMV, Online Shopping,

INTRODUCTION

Electronic retailing or online retailing refers to selling the goods & services over the internet. In general retail business is referred as Business to Consumer (B2C). Online retail players provide a variety of products directly to the consumer's doorstep. According to Deloitte India, the e-commerce market in India has exhibited rapid growth and has attracted large investment. Indian online market is experiencing a dream run in recent years. However significant challenges still remain. If provided with right regulatory frames and favorable economic conditions, the e-retailing opportunities could be substantially higher. According to the report by IAMAI and IMRB International, the e-commerce industry in India reached a value of INR 81,525 crore (US \$ 13.5 billion) in 2014. And will cross INR 1 lakh crore (US \$ 16.3 billion) by the end of 2015.

Indians are using internet services rapidly by way of smartphones which earn India a place among top 20 developing countries on the globe as stated by AT Kearney in its 2014 Global retail development index (GRDI).

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The major players in Indian industry are Flipkart, Snapdeal and Amazon. Consumer behavior has changed as they login the above players websites and getting a variety of products as visiting a local offline store to buy a product is now becoming a pain for them.

The battle of supremacy in India's bulging online market between Flipkart, Snapdeal and Amazon is rapidly heating up with multi-billion-dollar investment. The Economic Times stated that Flipkart is estimated to be worth \$ 15 billion and commands up to 44 per cent of market share which is well ahead of Snapdeal which enjoys 22 percent of sales and Amazon occupies around 12 to 14 percent. According to Morgan Stanley report-2014 Flipkart leads with 44 per cent share of \$ 6.3 billion Indian e-commerce market by Gross Merchandise Value (GMV), Snapdeal is second with 32 per cent share while Amazon has 15 per cent by touches \$ 1 billion in sales in 2014.

Despite this rapid growth, there are a number of challenges facing the e-commerce industry in India like bad logistics, fewer payment gateways and lack of online commerce which become barriers for growth.

Though industry faces these challenges, it also has multiple opportunities like increasing number of online buyers, growing investment by top online players, increasing number of mobile internet users, which boosting the market and leading the economy on top among the developing countries.

MAJOR E-RETAILERS IN INDIA AND DIFFERENT CATEGORIES OF PRODUCTS

The internet has created a new economic system i.e. "Internet Marketplace". Providing a quick and convenient way of exchanging goods & services, online shopping is gaining a lot of popularity. Online shopping becomes easier to shop from anywhere because of e-retailers user-friendly websites and mobile applications. Indian online retail market has number of e-players some of which focused only single category of products e.g. Myntra, Yep me, Jabong (Apparels & lifestyle) Bigbasket, Local banya (Grocery segment) Carat lane, Juvalia and You (Jewellery) Pepper fry, Fabfurnish (Furniture) FirstCry, My Baby Cart (Baby products) etc. And some focused on multiple categories of products e.g. Flipkart, Amazon, Snapdeal, ebay, Future Bazar etc.

E-retailers provide a variety of categories like Electronic, Apparels, Books, Stationary, Furniture, Personal care, Sports products, Grocery and services also. The major players in the electronic segment we have Home Shop 18, Croma (Tata Ltd.), E-Zone, Amazon, ebay, Infibeam, naaptol, Junglee, Flipkart, Snapdeal etc. For the books segment we have Amazon, Junglee, Snapdeal, Flipkart, Infibeam, Bookadda etc. For Apparels and lifestyle products we have Jabong, Amazon, Shoppers stop, Shopclues, Yep me, Flipkart, Home shop 18 etc. For Stationary items we have Flipkart, Amazon, Stationary shop, Snapdeal, Home shop 18 etc. In the furniture category we have players like Fabfurnish, Pepper fry, Urban ladder, Home town, Home shop 18 etc. In the Grocery category we have players like Bigbasket, Green kart, ekstop, Local banya, Nature's basket etc. In the sports category we have players like Decathlon, Playground online, Khelmart and Sports 365 etc. Service retailers include lenskart which provides eye tests along with eye lens, glasses and Well forte for some limited medical services. Some retailers like Apollo pharmacy, netmeds Healthkart and BuyDrug which do online sales of medicines.

Objectives of Study

1. To understand e-retailing in India and its impact on offline retailers.
2. To evaluate major opportunities available to e-retailers in India.
3. To study the various challenges for e-retailers in Indian online market.

Scope and Methodology of the Study

The present study is limited to the online retail market in India and it looks further at the impact on offline retailers, challenges and opportunities in online retail in India.

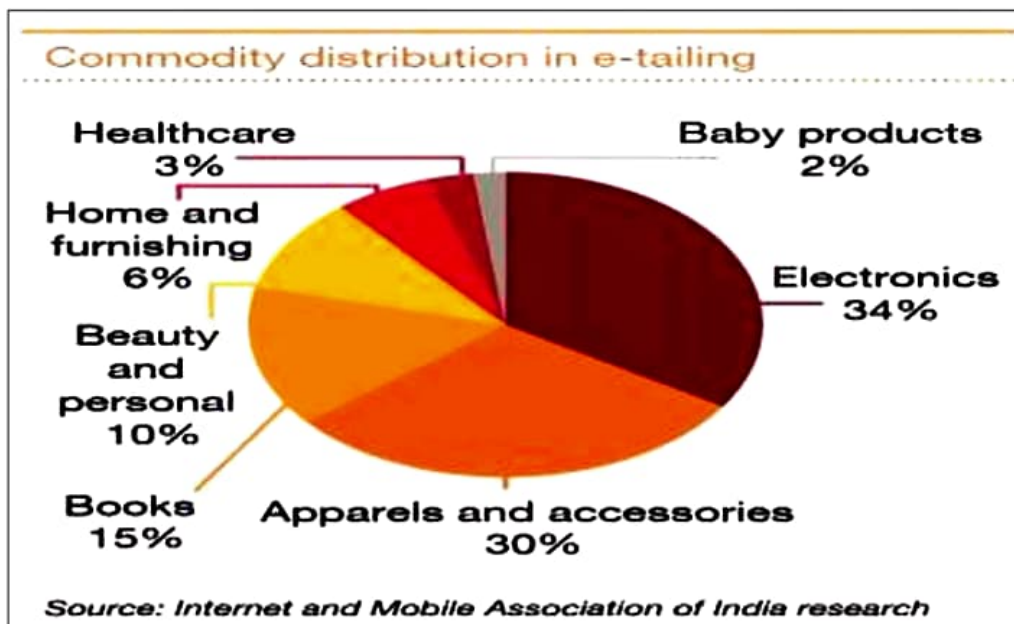
Source of data:- The data for the study be collected from journals, study materials, online websites, industry reports, news articles etc. So the study is based on secondary data.

INDIAN ONLINE RETAIL MARKET

The Indian online retail sector has grown three times in four years to nearly \$ 12.6 billion in 2013 compared to \$ 3.8 billion in 2009. Various industry estimates that the sector will further grow five to seven times in the next four to five years. The e-commerce industry is one of the fastest growing sectors in the country today. The key drivers for the growth of the country's e-commerce sector are a large percentage of the population connected with broadband internet, 3G connections and recently introduced 4G across the country. Indians are preferring smart phones and soon the country will have the second largest Smartphone user base in the world.

Poverty rate is also declining fastly as a rise in standard of living of the people. So these drivers are boosting the e-retailing and attracting investors to invest in this sector.

Industry studies by IAMA indicates that the online travel sector dominates the e-commerce industry with an estimated 70% of the market share. E-retail in both forms; online retail and marketplace, has become the fastest growing segment increasing its share from 10% in 2009 to an estimated 18% in 2013. Electronics and Apparels are the biggest categories in terms of sales.



Source: Internet and Mobile association of India research

Impacts of E-retailing on Offline Retailers

Some 35 years ago, in 1979, Michael Aldrich, working for Tesco piloted a system, which enables transaction processing between consumers and business. This was the first demonstrated concept of

what would come to be known as e-commerce. Almost two-three decades later emerged what would become three of the most dominant online players in India, Flipkart, Snapdeal and Amazon. These players have eaten the offline retailers market. The fact that online discounts and sales have come to dictate pricing in India is widely known. While customers benefit from reduced price of the products and increased convenience the extent of the impact that online retailers like Flipkart and Amazon are having day-to-day operations of brick and mortar stores is something very few have paused to think about.

The high level of internet penetration via smartphones and broadband internet driving the consumers to shop online. The price of the products are relatively low by factor of discounts, various range of products available online, convenient options for seeing products on mobile screens and monitors, are the key points to motivate online shoppers. These factors are attracting consumers to buy online. Wholesalers and brick and mortar retailers, the worst hit by the boom in online shopping. With large supply channels and a logistics network that does not require middlemen in most cases, online shopping sites have been enticing consumers with aggressive discounts putting market share ahead of profitability.



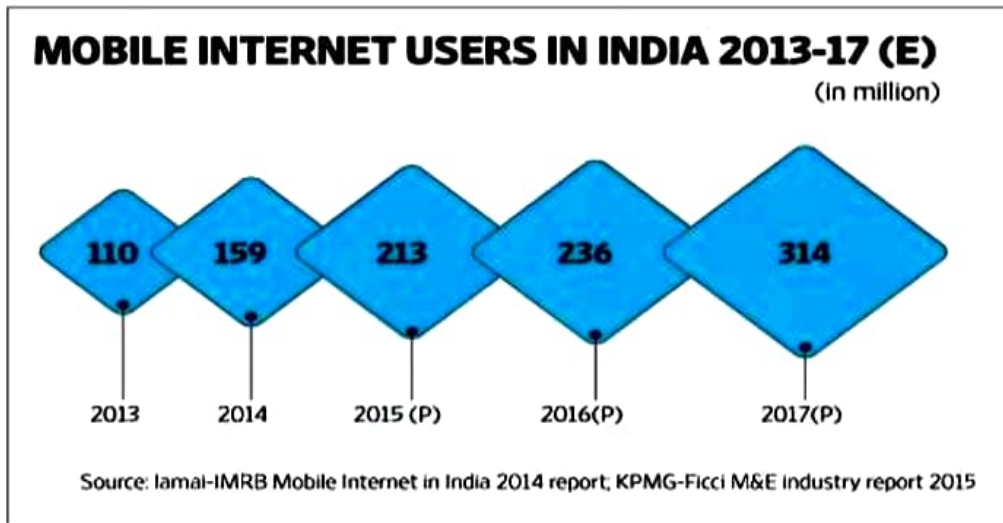
OPPORTUNITIES FOR E-RETAILERS IN INDIA

India has the third largest user base in the world behind China and the US and expected to overtake the US in the next 2-3 years. This growing internet user base makes India the fastest growing e-commerce market. The major factors driving this growth are increasing internet penetration, decreasing cost of devices (PC & Mobile), suitable modes of payments and changing behaviour of consumers.

Following are the key factors which contributing in rapid growth of Indian e-retailing-

(A) Increase in number of internet users and online shoppers

According to Google, the internet users in India is around 200 million and expected to reach 500 million by 2018. Internet users are growing much faster by adding around 6 million new entrants every month. The key factor behind this increase is the spread of broadband connectivity across the country. In 2013, broadband connectivity was around 15.13 million. India is expected to have 236 million mobile internet users by 2016 says a new IAMAI-KPMG report. It further projects that the mobile internet user base will reach 314 million by 2017.

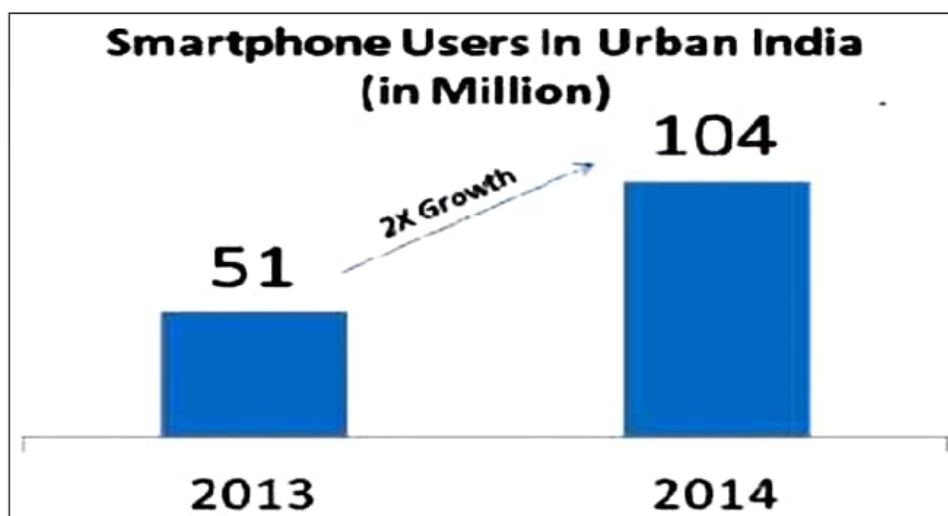


(B) Growing internet banking and use of credit/debit card

Indians are using online banking and mobile banking rapidly. The use of debit and credit cards for electronic payment and transfer has increased and grown in recent years. Retail electronic payment was around INR 33.8 lakh crore in 2013 compared to INR 50000 crore in 2004. Use of debit cards has increased 15 times in 2013 which valued around INR 74300 crore. Credit card payment has grown seven times during this period and reached INR 1.2 lakh crore in 2013. If we analyze electronic transactions increased during 2013 which forms 57% of banking transactions compared with 43% of paper transactions.

(C) Revolution in Smartphone and internet technology

The use of smartphones by Indians is rising rapidly. Customers prefer smartphones as a need for technology. In 2013, there were 51 million smartphone users in India, which is expected to reach 104 million by 2014. Smart phones are available at a cheap rate and hence anyone able to purchase the same.



According to the 2015 projection, out of 300 million internet users 200 million users will be accessing the internet by mobile phones which enhance e-retailing in India.

(D) Changing consumers behavior and preferences

Consumers have become kingmakers of today's market. They have the power to bless any retailer by selecting and buying their products. And e-tailors try to impress the consumer by attracting them, providing discounts, various offers etc. Consumers are also attracted towards online shopping as a convenient factor. Consumers feel free to buy any products from their home, payment options are also suitable for various consumers, they have the choice and comparison facility and also the delivery factor which promises doorstep delivery. So these factors are changing the buyers behavior as it also time and cost saving for consumers.

(E) Rising standard of living and disposable income

India is fast on its way to becoming a large and globally important consumer economy. The standard of living of Indians is slow but rising frequently and hence the disposable income capacity is also rising. Annual disposable income in India is expected to increase at a CAGR of 5.1% and expected to be USD 3823 by 2015. This rising will definitely boost the e-retailing in India.

CHALLENGES BEFORE ONLINE RETAIL PLAYERS IN INDIA

Indian online retailing grew at a compound rate of 34 percent and reached USD 13.5 billion in 2014. Though the e-commerce industry is one of the fastest growing sectors in the country, it faces a number of challenges which become obstacles in this growth process. Following are some of the major challenges in front of online players.

(A) Logistics

Poor logistics are one of the biggest challenges before the e-tailors in India. Online retailers promise customers to deliver the goods within the stipulated time of delivery. It is one of the greatest parts of customer satisfaction. Poor infrastructure facilities like poor transportation facilities and lack of supplier network, hit the growth of online retailers in India. To avoid snarled roads and inefficient railways, e-retailers fly their packages in the passenger cabin of costly commercial flights. Up to 90 percent of goods ordered online in India are moved by air which pushes up delivery cost by around half, according to several online retailers and logistics companies. The cost of logistics in India is high due to lack of adequate infrastructure, this has forced some of the e-tailors to build their own logistics arms. Flipkart and Amazon have their own logistics. Flipkart has ekart logistics and Amazon has set up a subsidiary called Amazon transportation services pvt.ltd. to take care of the delivery process.

(B) Poor internet speed

One of the worst things which becomes an obstacle in front of e-tailors is low internet speed across the country. The average internet speed within the country is less than 1 mbps which makes it one of the low ranked nations in the global scenario as far as internet speed is concerned. Some non-metro cities do not have 4G enabled networks, then we can talk about those rural areas where there are no networks at all or lack of internet facility. So this is another biggest challenge by which consumers are not able to reach e-retailers for shopping.

(C) Issue concerning security and transaction frauds

Most of the web portals don't support all types of online modes of payments. The tendency of most online shoppers in India is collectively and prefers the COD (cash-on-delivery) mode of payments. When there is online payment, there are high occurrences of failed payments and this is often a deterrent for clients to revisit the portal.

(D) Lack of e-commerce knowledge to customer

Most of the Indian consumers, basically from non-metro cities as well as rural areas, don't know what e-commerce is. There are multiple factors responsible for this like, illiteracy, lack of internet services, standard of living, sources of income etc. Though also e-tailors should come in front of those shoppers which don't have knowledge about e-retailing.

(E) Cash-on-delivery and return handling

The most preferred mode of payment by Indian e-shoppers is cash-on delivery. When products are delivered to customers and cash collected from them by logistics providers convert into delay in remittances of the cash which reduces the working capital of e-retailers. Another issue faced by online retailers is return from customers. This can create an additional cost for the retailers which are an important issue for online retailers.

(F) Competitors and best offers

Consumers have a number of options from where to buy. Just browsing on the web will give multiple options of e-retailers. So competitors are just a click away. Indian shoppers have patience like they wait for the best and hence they always try to wait for some days for launching best offers from e-tailors. In a particular season or on proper holidays e-retailer have to tackle with discounts and price down by competitors.

(G) Online shopping is multistep process

Indians love to browse and many spend a fair bit of time visiting several sites just to gather information and compare with each other products of different e-shops. Consumers browse so many times and so many sites of several companies before hitting the "buy now" button.

CONCLUSION

Indian online market is witnessing rapid growth. Though e-retailers are facing some challenges, they also have a number of opportunities.

The government has to develop infrastructural facilities for logistics purposes and internet companies should provide the facilities in rural areas too. E-commerce education may help Indian shoppers to buy online. In the coming years this market will become a revolution and by conquering the challenges, the online retailers may achieve their goals.

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