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E-Commerce Growth and Opportunities in Indian Scenario - A Survey on Ecommerce Eco System

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ABSTRACT: India is at the cusp of a digital revolution. Declining broadband subscription prices, aided by the launch of 3G services, have been driving this trend. This has led to an ever-increasing number of “netizens.” Furthermore, the likely launch of 4G services is expected to significantly augment the country’s internet user base. Internet has become an integral part of this growing population segment for remaining connected with friends, accessing emails, buying movie tickets and ordering food. The changing lifestyles of the country’s urban population have also led many people relying on the internet for their shopping needs. In this Paper we are detailing about the Growth and Opportunities of E-Commerce in Indian scenario and also tending to mark on the survey of Eco system based on this concept by enhancing the cross research taken up by Various Marketing Companies.

I. INTRODUCTION

The E-Commerce market in India has enjoyed phenomenal growth of almost 50% in the last five years. Although the trend of E-Commerce has been making rounds in India for 15 years, the appropriate ecosystem has now started to fall in place. The considerable rise in the number of internet users, growing acceptability of online payments, the proliferation of Internet-enabled devices and favorable demographics are the key factors driving the growth story of E-Commerce in the country. The number of users making online transactions has been on a rapid growth trajectory, and it is expected to grow from 11 million in 2011 to 38 million in 2015.

Venture capitalists (VC) and private equity players have demonstrated their faith in the growth of E-Commerce in the country. This is amply substantiated by the significant increase in the total investments (US\$305 million in 2011 against US\$55 million in 2010). Online travel has traditionally been the largest E-Commerce sub-sector (by revenue) in India. Nevertheless, online retail is catching up fast and is expected to match online travel revenues by 2015. To improve margins, online travel players are diversifying their offerings to include hotel reservations, along with the regular ticketing services. To make the most of this move, players will need to develop skill sets that are different from the ones required in the ticketing segment. They will have to manage challenges associated with a diverse supplier base, technological constraints, customer experience, and authenticity of information and grievance redressal.

The online retail segment has evolved and grown significantly over the past few years. Cash-on-delivery has been one of the key growth drivers and is touted to have accounted for 50% to 80% of online retail sales. Players have adopted new business models including stock-and-sell, consignment and group buying; however, concerns surrounding inventory management, location of warehouses and in-house logistics capabilities are posing teething issues.

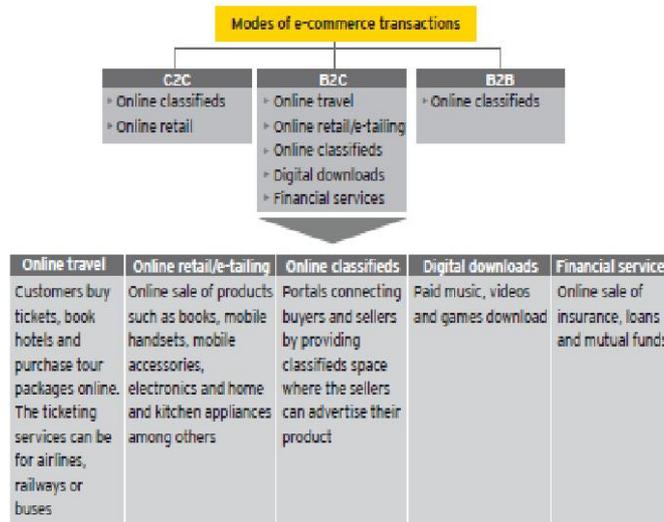
II. SERVICES UNDER E-COMMERCE

E-Commerce transactions can be segmented into three broad categories or modes, based on participants involved in the transaction.

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Business-to-Consumer (B2C): The B2C market in India generates the bulk of revenues across the consumer-facing modes of E-Commerce. Furthermore, though online travel has typically held a major share of the B2C market, online retail is also growing rapidly and is expected to significantly increase its share.

Consumer-to-Consumer (C2C): India's C2C market, though currently small, is set to grow with the entry of several players. These entrants are attracting VC investment. Their online portals are also garnering significant traffic. We expect the C2C segment to show rapid growth in coming years.

Business-to-Business (B2B): The most common users of B2B online classifieds are micro, small and medium enterprises (MSMEs). These small businesses lack the requisite financial resources and, therefore, find it difficult to market their products and services to potential clients through traditional media such as newspapers, banners and television. Trade through online B2B portals increases the visibility of MSMEs in the marketplace and helps them overcome barriers of time, communication and geography.

How the market evolved in India

On the back of growing internet penetration and evolving consumer mindset, the E-Commerce space has touched new heights. The market was initially limited to print media dominated classified services. It has now expanded to include new internet-focused business models, e.g., group buying and social commerce. The evolution of E-Commerce in India can be broadly divided into two phases based on the emergence of various sub-segments. Furthermore, distinct developments define each of these phases.

III. E-COMMERCE EVOLUTION: THE TWO WAVES

First wave: advent of online *Naukri* and *Shaadi*

The introduction of internet in India in 1995 marked the beginning of the first wave of E-Commerce in the country. Moreover, economic liberalization after the launch of reforms in 1991 attracted MNCs and brought about the growth of the IT industry. The implementation of liberalization policies led to the demise of the license regime, and high taxes and import restrictions, as well as facilitated the growth of SMEs. The IT industry and SMEs were the early adopters of internet. This led to the emergence of B2B, job searches and matrimonial portals.



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B2B directory: India's first online B2B directory was launched in 1996. The liberalization of the country's international trade policies was the key factor that accelerated the growth of B2B online portals. It enabled buyers and sellers to easily connect with their global counterparts.

Online matrimonial: In 1996, the first online matrimonial portal was launched in India. A concept unique to India, online matrimonial portals transformed the perception about the matchmaking process from "marriages are made in heaven" to "marriages are made in cyber space." Such portals have now evolved to cater to various segments of the population such as NRIs, H1B visa holders, widows or widowers, divorcees and other special groups.²

Online recruitment: India's online recruitment industry took shape in 1997. The growth of the services sector, following the launch of economic reforms in 1991, resulted in the creation of additional jobs. In this background, internet proved to be an efficient medium that allowed employers and job seekers to connect. Prior to job portals, weekly government magazines such as *Employment News* and newspaper notifications were the primary means for employers and job seekers to interact.³

Second wave: duplication of global business models and improvement in ecosystem

The entry of Low Cost Carriers (LCCs) in the Indian aviation sector in 2005 marked the beginning of the second wave of E-Commerce in India. Travel emerged as the largest segment. People began relying on internet to search for travel-related information and to book tickets. As a ripple effect, the success of the online travel segment made consumers comfortable with shopping through the medium, thus leading to the development of online retail.

Online travel: The decision of LCCs to sell their tickets online and through third parties enabled the development of Online Travel Agents (OTAs). Prior to the entry of LCCs in 2005–06, air travel was considered a luxury meant only for the rich and for corporate travel. LCCs changed the scenario by making air travel affordable for a large number of people. They developed their own websites and partnered with OTAs to distribute their tickets online and, thus, contain costs. The Indian Railways had already implemented the e-ticket booking initiative by the time LCCs commenced their online ticket booking schemes.

Online retail: The growth of online retail was partly driven by changing urban consumer lifestyle and the need for convenience of shopping at home. This segment developed in the second wave in 2007 with the launch of multiple online retail websites. New businesses were driven by entrepreneurs who looked to differentiate themselves by enhancing customer experience and establishing a strong market presence.

IV. E-COMMERCE MARKET SIZE IN INDIA

India's consumer-facing E-Commerce market (B2C-C2C) grew at a whopping CAGR of 49.1% from 2007 to 2011 to reach a market size of US\$9.9 billion. On the other hand, the B2B market is a small contributor to the overall domestic E-Commerce market, and it was estimated at US\$50.37 million in 2011.⁵

The country's B2C E-Commerce sector can be split into two broad categories – travel and non-travel. Online travel is the largest domestic B2C E-Commerce segment, accounting for 81% revenues in 2011. The online non-travel market is further segmented into e-tailing, digital downloads, financial services and classifieds.

V. E-COMMERCE ECOSYSTEM

First to second wave: fundamental enablers falling in place

The supporting ecosystem for E-Commerce has evolved significantly from what it was a decade ago. Internet is the key to the development of E-Commerce and has become pervasive in daily life. People have come to rely heavily on internet for activities ranging from accessing email and searching for information to keeping in touch with friends.



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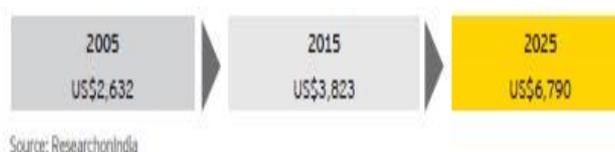
Internet user base has been growing significantly, with an exponential increase in internet usage. This trend has been aided by the increasing PC and broadband penetration, coupled with the declining prices of PCs. Tablets and smartphones have given a new meaning to connectivity and user experience. The adoption of 3G, coupled with the declining prices of smartphones, is expected to further increase internet usage in the country.

Improvements on the payment front have brought about the increasing use of plastic money by Indian consumers. Payment gateways have now been made more secure through multiple levels of authentication via one-time passwords (OTPs) and transaction passwords. This has helped strengthen users' confidence in carrying out online transactions. These enablers augur well for the development of E-Commerce in India.

(a) Devices

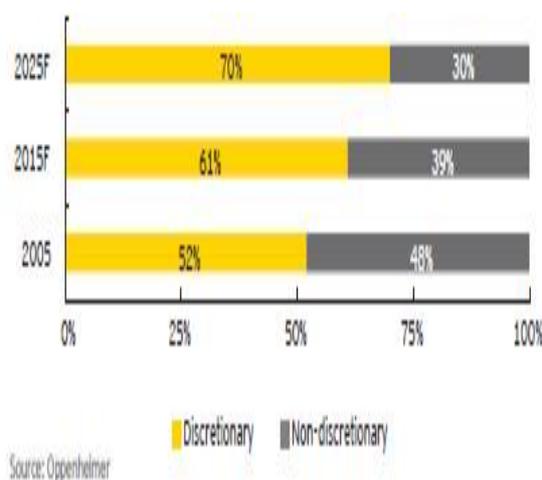
Increased spending power of Indian consumer

Annual disposable income per household is expected to increase at a CAGR of 5.1% from 2005 to 2025.7



The last decade saw high GDP growth in India, leading to enhanced income levels. This helped position India among the fastest-growing consumer markets in the world. Discretionary spending is expected to rise from 52% in 2005 to 61% in 2015 and 70% in 2025.8

Discretionary vs non-discretionary spend (%)



Declining prices of PCs (on the back of technological advances) and increasing disposable income make it affordable for the majority of people to buy PCs, which are now available at a low price of US\$400–500. PC sales have been improving steadily in India over the years (stood at 89.3 million in 2011 and forecast to rise to 217.3 million by 2015).9



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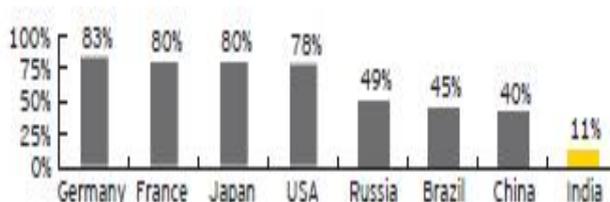
Number of PCs (million) with penetration (%)

(b)Internet

Internet penetration in India among the lowest in the world

Internet penetration in India was 11.4% as of June 2012, one of the lowest worldwide.¹²

Internet penetration by country (June 2012)



China's growth story of internet penetration inspiring India...

The current internet user base and penetration levels in India are similar to those of China's in 2005, when the country crossed the 100 million user mark. The Chinese netizen population has more than since quadrupled, driven by favorable policies, e.g., its 2006-2020 National Informatisation Development Strategy and its Eleventh and Twelfth Five-Year Plans.¹³

Time spent by Indians on internet has been increasing over the years. The average time spent online per person per month rose from 12.9 hours in 2006 to 17.4 hours in 2011. It is forecast to increase to 21 hours by 2015.

The shift in internet access points works in the favor of E-Commerce players due to several reasons:

Convenience: Consumers find it more convenient to access the internet and shop from the comfort of their homes. They have the option of considering alternatives before making a well-informed purchase.

Security: Internet access from home enables users to overcome their concerns about data security, which posed a challenge at cybercafés.

Consumer analysis: Online shopping helps E-Commerce players better analyze the shopping behavior of individual customers through the use of cookies and by tracking IP addresses.

a) Continuous reduction in the cost of internet access

The tariffs of data plans and prices of data cards/USB dongles are on a decline, thus reducing the total cost of ownership (TCO) of an internet connection.¹⁷ As a case in point, the monthly charges of data plans for fixed line and wireless internet connections dropped by 50% each between 2009 and 2011.

Mode	2009		2011		Speed/data
	Installation	Monthly	Installation	Monthly	
Fixed line	1,000	1,300	500	699	512Kbps/ unlimited
Wireless	2,500	1,250	1,800	500	Up to 3Mbps/2GB

Source: IIFL Institutional Equities

India ranking low in average speed and peak average speed of broadband connections

India is one of the 29 countries with an average connection speed of 1 mbps or less. The peak average speed in South Korea and Hong Kong is 46.8 mbps and 46 mbps, respectively, as compared to India's peak average speed of a mere 5.8 mbps.



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b) Consumers becoming mobile

The mobile internet user base is growing, aided by the introduction of 3G data plans and declining smartphone prices. Several smartphone models are available at less than US\$100 in the Indian market.²² Mobile internet users are expected to account for more than 60% of the user base in India, considering that their number is forecast to reach 200 million by 2015.

Telecom operators are incentivizing mobile internet usage by reducing tariffs and providing unlimited usage facilities. They are offering unlimited internet browsing plans at a lowly price of US\$2 per month to their GSM customers.²³ Within six months of the launch of 3G, the number of connections reached 10 million, closely matching the number of broadband subscribers.

c) user-experience underdeveloped

The growth of mobile internet is encouraging. However, all the components of this growth, e.g., the uptake of smartphones, mobile internet penetration and mobile internet speed, would need to be developed in tandem to support the growth of E-Commerce in the country.

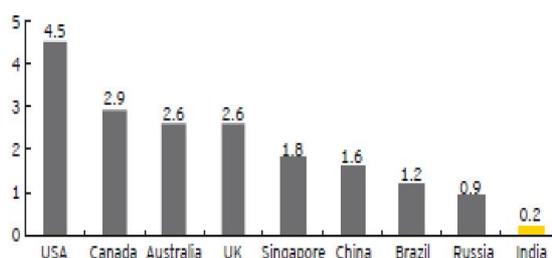
User experience on E-Commerce websites also needs to be improved, since most of these sites are not optimized for use on mobile devices. Furthermore, not all E-Commerce sites have developed mobile apps. Given that an increasing number of people would access internet on their mobile devices, E-Commerce players need to step up and develop mobile websites and apps for major mobile platforms.

d) Payment landscape undergoing change

Number of cards per capita low

The number of cards per capita in India is a mere 0.2 and is among the lowest in the world.

Number of cards per capita (August 2011)



e) the success rate in online transactions a concern area for E-Commerce in India

Transaction data on India's most frequented E-Commerce website reveals that the success rate of credit or debit cards is still low at around 74%. Netbanking transactions have fared worse with a success rate of 68%.

Success rates of various modes of online payments in India RBI could look at playing a key role in monitoring the performance of payment providers

The failure of online payment transactions could be attributed to several reasons including network problems, the low credit limit of users or insufficient funds, communication errors between payment gateway server and bank server, erroneous entry of information by users and downtime at online payment gateways.



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The performance of financial intermediaries cannot be solely judged based on the listed reasons. Alternatively, the RBI could consider mandating a certain quality of service metrics to ascertain the performance of payment service providers. Metrics could be based on performance criteria such as the proportion of failed transactions out of the total number of attempted transactions, and downtime and total refunds requested.

f) Credit cards declining and debit cards on the rise

The decline in the number of active credit cards can be attributed to the fact that banks became stringent about issuing new credit cards after the financial downturn in 2008 and withdrew cards from defaulters. The number of debit cards is on the rise due to the increasing access of people to banking services.

Payment options increasing

The payment landscape in India has evolved considerably. Cash cards have emerged in the market, in addition to credit and debit cards. Direct debit from accounts, electronic wallets and mobile payment are alternative options. The number of internet banking users increased to account for 7% of the total number of bank account holders in 2011 as compared with 1% in 2007.²⁸ The number of payment gateways in India has also increased, and their charges have come down to 2.5%–3% of transaction value.²⁹ Authentication requirements for online transactions have been made stringent with the addition of multiple layers including OTPs and two factor authentication. E-Commerce players have also come up with innovative delivery models such as Cash on Delivery (CoD) to overcome challenges associated with online transactions.

Mobile payment options are likely to witness increased uptake on the back of the growing mobile subscriber base in India. A leading telecom operator has launched a mobile payment system that allows users to deposit cash in mobile accounts and use it for various transactions through their feature phones without the need for a GPRS-enabled handset or smartphone.

g) leading to more consumers buying online

Consumers' attitude to E-Commerce has changed. This is apparent from the growth in the number of users transacting online from 3 million in 2007 to 11 million in 2011. The number is projected to rise to 38 million by 2015. A fast-paced urban lifestyle, dual-income families and parking space constraints at major malls have contributed to this shift in the perception of consumers.

VI. CONCLUSION

E-Commerce players are banking on the Indian internet growth story. The fact that an average online user is spending more time online gives these players the opportunity to draw more users to their websites through innovative marketing strategies such as those revolving around social media. Furthermore, to fully utilize the opportunity, players need to leverage the growing number of mobile devices in the country. They should focus on developing mobile-compatible websites and applications. This would allow customers to log on to easy-to-access platforms and browse E-Commerce websites on their mobile devices. E-Commerce players also need to focus on innovation to tackle challenges arising from low credit and debit card penetration. They could consider working with financial intermediaries to develop payment systems, such as escrow services, for resolving issues around security and product delivery. The RBI could step in and reduce the number of online transaction failures by defining service metric quality and monitoring it at regular intervals. This would enable it to keep a close eye on the performance of financial intermediaries and plug gaps as soon as they occur.

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