

RETAIL GOES ONLINE - AN INDIAN PERSPECTIVE

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ABSTRACT

The Retail Sector of Indian Economy is going through the phase of tremendous transformation. The impact of the alterations in the format of the retail sector changed the lifestyle of the Indian consumers drastically. There are divergent views on the future of e-retailing in India. Though much is yet to be achieved, remember E-retailing is a new industry in India. With growing broadband internet access, this industry may see an explosive growth. Apart from the brick -mortar formats, brick -click and click-click formats are also increasingly visible on the Indian retail landscape. This paper investigates modern retail developments and growth on online retailing in country. Paper also discusses the challenges and opportunities available to the retailers to succeed.

INTRODUCTION

The Retail Sector of Indian Economy is going through the phase of tremendous transformation. The impact of the alterations in the format of the retail sector changed the lifestyle of the Indian consumers drastically. Nowadays the Indian consumers are well versed with the concepts about quality of products and services. These demands are the visible impacts of the Retail Sector of Indian Economy.

The organized retail sector is expected to grow stronger than GDP growth in the next five years driven by changing lifestyles, burgeoning income and favorable demographic outline. Mohanty & Panda (2008) opines about retailing as a sector of India occupies important place in the socio-economic growth strategy of the country. India is witnessing retailing boom being propelled by increasing urbanization, rising purchasing power parity (PPP) of ever growing India's middle class, changing demographic profiles heavily tilted young population, technological revolution, intense globalization drive etc.

Sahu (2010) describes that a rise in consumer confidence, improvement in profitability and aggressive expansion plans signal better tidings for listed players in the organized retail space. Moreover, analysts believe listed retailers could attract foreign investments by spinning off their subsidiaries into separate companies which can provide a great opportunity for the improvement of this sector. The social changes with the rapid economic growth due to trained personnel's, fast modernization; enhanced availableness of retail space is the positive effects of liberalization. With rising consumer demand and greater disposable income, the US\$ 400 billion Indian retail sector is clocking an annual growth rate of 30 per cent.

RETAIL GOES ONLINE

Now it is the time to find the right alternative for the retail industry to bring down the expenses and to move up in the market. With the lacks of online searches, happening daily for the different products, online market is now creating enormous opportunities in retail business. To reach the online shoppers, online Retailing is the best alternative solution for the retail industry, through which online branding can be achieved. Online branding and online marketing are the ongoing retail business trends.

The two popular models that exist in the eTailing marketplace are Online Retailers and Online Auctions. The Website of an Online Retailer is used as a storefront to sell physical goods that are then delivered by a third party. The Online Auctions, on the other hand, serves as a platform where a seller can offer to sell its products to interested buyers and provides the enabling infrastructure for electronic transactions. In contrast to earlier trend of auction of high value items, auctions are even now done for low valued items like old books, music cassettes, CDs, etc. These differences can be highlighted in form of the following process flow of Table1.1. Another difference between online stores and the online auction sites is that the former earns transaction revenues while the latter charges a commission from the buyer and seller once the deal is closed.

The internet commerce industry in India has seen a manifold increase in the last couple of years with the total market size increasing from INR 19, 688 crores by the end of 2009 to an estimated INR 31, 598 crores in 2010. The net commerce market size is expected to grow by 47% and touch INR 46,520 crores by end of 2011. (See Figure 1 & 2 of appendix) This was highlighted by a report on the E-commerce released by the Internet and mobile Association of India (IAMAI).

Table 1.1: Process flow for online retail and auction

| Online Retailer | Online Auction |
|--|---|
| Seller puts all items for sale on the website | Seller put an item for auction on website |
| Prospect buyer get information about the product | Prospect customer get information about the product and bid on the item |
| Interested buyer pick the product and add to shopping cart | Lower limit and time limit for bid is pre-decided by website |
| Item is delivered to the buyer | Item delivered to the highest bidder |

GROWTH DRIVERS

- Increase in the number of buyers and sellers: Over the years there has been a sharp increase in the number of buyers and sellers in this segment. In addition to online buyers, many offline stores have begun to sell their products in the online marketplace.
- Change in the customer’s attitude: There has been a significant change in the attitude of an average Internet user. He is ready to experiment to suit his convenience. Truly, an average user is buying a variety of products online.
- Shop 24x7: People nowadays find it easier shopping online, as the products get home-delivered coupled with the facility to shop 24x7. Convenience appears to be a big attraction as most online shoppers find the crowded high streets too stressful. Thus, an online buyer saves time, effort and money when buying online as compared to buying from physical stores.
- Better Bargains: e-Tailing eliminates the need to maintain expensive and fancy showrooms. Instead, what attracts customer attention to online stores is the ‘great deals’ ‘best prices’ and ‘better bargains’. For an industry player, Online retailers can manage to offer attractive offers as they operate out of websites and thus save on inventory handling and maintenance costs.

| Top 6 reasons given by shoppers in buying through Internet | Rank |
|---|-------------|
| Saves time and efforts | 1 |
| Convenience of shopping at home | 2 |
| Wide variety / range of products are available | 3 |
| Good discounts / lower prices | 4 |
| Get detailed information of the product | 5 |
| You can compare various models / brands | 6 |

Source: I-Cube 2006, a Report IMRB International (Indian Market Research Bureau)

E-RETAILING IN INDIA: KEY FINDINGS

- The rising trend of internet shopping has taken off more noticeably in metropolitans such as Delhi and Mumbai where both consumers and merchants have become equally net-savvy.
- The IAMAI (2006) surveys reveal that small cities such as Surat, Vadodara, Coimbatore, Nasik, Varanasi, Ludhiana, Patna, Jamshedpur, Agra, Bikaner, Srinagar, Jalandhar, Ludhiana, Faridabad, Belgaum, Kottur, Kochi, Kottayam, Hosur, Pondicherry, Kharagpur, Ankleshwar, Bharuch, Vapi, Jalgaon, Sholapur, and Bhopal are witnessing an increase in online shopping activities. For instance, Lucknow has jumped to the fourth position among Indian cities that buy the most the beauty products online. Tiruchi has also started buying online health and fitness products, as it is the top eighth city in this category.
- The rise in online shopping is not just for consumer market. The Government is another rising user of the online buying under the overall theme of e-commerce. A series of initiatives from the government, public sector banks and Indian Railways embracing the Net, have helped boost the confidence of users to trade online in this sector as well.
- The IAMAI report (2011) also highlights that other areas like digital downloads and e-tailing are showing promise and growing rapidly. These sectors are predicted to grow by 62% and touch INR 1100 crores and INR 2700 crores respectively by December 2011.
- Online shopping is a big attraction for the NRIs (non-resident Indian), the apparel and gifting business online has maximum NRI consumers.
- The results of various surveys suggest that online shoppers who had encountered problems were more likely to continue purchasing via the Internet

than online shoppers who had not encountered any problems. This suggests that respondents feel that the benefits offered by online shopping outweigh the risks (Ha & Coghill, 2008).

ONLINE INDIAN RETAIL: A ROAD AHEAD

Products such as consumer electronics, consumer appliances and media products, which are perceived to be less risky amongst Indian consumers, are projected to lead the growth of internet retailing in India in the forecast period. These products are considered to be less risky because consumer electronics and appliances have a product warranty with the manufacturer, such as Dell, Samsung or LG, which is no different from buying them in a store-based channel. Thus, with these internet retailers predicted to expand to new cities, purchases of such products via internet retailers will increase and help to fuel growth.

Dell India was still leading the internet retailer in 2010, holding a value share of 22%. Dell India's ability to offer convenience, as well as develop a secure environment for payment, helped the company to retain its lead in internet retailing. The perception of less risk amongst Indian consumers when buying consumer electronics products also supported the sales of Dell via internet retailing.

BUILDING BUBBLE AGAIN:

"Flush with cash from venture capital and private equity funds, online retailers are pursuing a single-minded strategy of acquiring as many customers as they can as soon as they can. To stake out the largest possible territory, they are cutting prices so deep that even costs are not being covered, . My worry is that the lessons of the previous dotcom crash have not been learnt,." says Vaitheeswaran, the founder of India Plaza, an ecommerce portal that started life in 1999 as Fabmart.com, the country's first e-retailer.

According to Sachin Bansal , founder of flipkart, ".the company was a profitable company in the first two years when we had invested our own money and were selling books with transactions of 30-40 lakh every month." Soon after the company raised private equity money (Flipkart has raised over \$30 million) and with internet penetration growing, growth took precedence over profitability.

THE NEXT WAVE

World's largest online retailer, Amazon.com is set to enter India, riding on the second wave of ecommerce boom in India. Amazon is in discussions with leading Indian e-commerce players like Flipkart.com, LetsBuy.com and Exclusively .in, among others and may enter the market as early as the first quarter of next year.

Acquiring Indian players has been the dominant theme for foreign majors looking to enter Indian market with eBay acquiring Baazee.com and Groupon picking up

SoSasta.com to enter the market. But sources say that Amazon is looking to set up operations on its own as its discussions with many players on acquisition front haven't seemed to work out. Amazon is also establishing a warehouse in Mumbai, a standard step before entering the e-commerce space going by what Amazon has been doing globally.

"We expect to pick up a large share of the growing e-commerce pie. Investments in supply chain and technology will help us stay ahead of competition and achieve our goal of becoming the largest e-commerce player in the country," said Binny Bansal, Chief Operating Officer, Flipkart.

Flipkart, which started out as an online retailer of books in 2007, has slowly diversified into mobiles, cameras and movies and music. In April 2011 they started retailing electronic goods as well. When shoe company Bata decided to develop a new e-commerce platform for the Indian market last year, it was confident of the online model clicking with the consumers who are traditionally more inclined to buy products from stores. Bata is not alone making the move online. In the next couple of months bigwigs like Reliance Retail, Aditya Birla Retail and Tata's Croma are looking at entering the R2,050 crore e-retailing market, growing at over 30% annually.

"We are definitely planning to enter the online space this year with Reliance Timeout. Our current mix of merchandise suits the online business. We will start with books and music, followed by electronics and mobile items," says Deepinder Kapany, vice-president & head, books, entertainment and e-commerce business, Reliance Leisures.

FutureBazaar.com, the e-commerce arm of the Future Group, that links to its stores including eZone, Pantaloons and Big Bazaar online delivers across 1,500 cities and towns in India covering 16,000 PIN codes. Experts say as the retail market evolves in India, more e-commerce sites will be launched by pure-play retailers and e-tailers.

Experts say, it is not just the metros that are fueling the online scene in India. The demand supply gap in tier 2-3 cities where there is brand awareness but no availability of products and services is also adding to growth. Online retailing portals such as eBay.in , Snapdeal.com, and Naaptol.com are registering anywhere between 40 and 60% of their sales from rural areas apart from the tier II and III cities like Vadodara, Faridabad, Jaipur, Visakhapatnam, Kanpur and Lucknow. According to eBay India Census 2010, about 3,296 Indian cities shopped on eBay last year, of which 2,234 were tier II and tier III cities, and 1,045 were rural towns.

CHALLENGES

- **Consumer Bias:** Consumers will display a bias for brands that they know well and have had a good experience in the past. Thus products of brands with a favorable bias will score over the products of less popular brands.
- **Lack of 'touch-feel-try' experience:** Thus, lack of ability to try a product before buying acts as a barrier for some Internet Users. The customer is not sure of the

quality of the product unless it is delivered to him and post delivery of the product, it is sometimes a lengthy process to get a faulty or the unsuitable product changed. Thus, unless the deliverables are as per the customers' expectations, it is hard to infuse more credibility in the e-Tailing market.

- Mounting competitive pressures: The market for online buying is still at a nascent stage. However, at this early stage too, the market is swarmed by the players selling their or third party's products online. To attract customers, the competing online players are adopting all means to provide products and services at the lowest prices. This has resulted in making the consumers choice-spoilt, who in turn surf various websites to spot the lowest price for the product. Thus, although the number of transactions is increasing, the value of the products sold is continuously falling owing to high competition and leaner margins.

| Top 6 concerns while buying online | Rank |
|--|------|
| Not sure of product quality | 1 |
| Cannot bargain/Negotiate | 2 |
| Not sure of security of transactions /Credit card Misuse | 3 |
| Need to touch and feel the product | 4 |
| Significant discounts are not there | 5 |
| Have to wait for delivery | 6 |

Source: I-Cube 2006, a syndicated product of IMRB International (Indian Market Research Bureau)

- Seasonality: eTailing Market is also faced by seasonal fluctuations. August to February is the peak seasons for sale, while March to July is the dry seasons for sale. During the peak season, occasions that drive the sales are Diwali, Rakhi, Valentine's Day, New Year, Christmas, Mother's Day, Friendship Day etc are. On these occasions younger generations prefers buying and sending gifts online.
- Credibility in payment system: online frauds and breach is the biggest barrier to online sales. As a result, prospective buyers prefer staying away from revealing their credit card and bank details.
- Untimely Delivery of products: it might take a few minutes to search, book and pay for products and services online, but the delivery of the product may take unreasonable time. Thus, the online retailing raises more issues than the benefits it currently offers.

- Offline presence: The customers should be assured that the online retailers are not only available online but offline as well. This gives them the psychological comfort that these companies can be relied upon.
- Language Problem: Most internet retail shops use English as their mode of communication. English may not be comprehensible to the majority of the Indian population. To increase the customer base, content in the online retail shops should be provided in local language.

RECOMMENDATIONS

- Customer is the King – A good 24/7 customer service through email, chat and toll free phone is what the E-tailers are providing.
- Supply Chain: Most customer complaints and delivery returns can be traced to the supply chain vendors or merchants. It is important to have the supply chain vendors or merchants well integrated into the system – both technically and strategically.
- New Business Models: Some Indian sites simply collect orders over a period of time say a week, order in bulk from the vendor and finally ship it to customer at a discounted rate. The customer is told beforehand about the delivery date, of course.
- Comparison Shopping and Customer Reviews: All the E-tailers are present on comparison shopping sites is of paramount importance – especially since people now visit these sites before they place the order. (See appendix 1). Also they encourage customer to write the product reviews – nothing authenticates their offering to an undecided customers like a good product review.
- Bind with Social Media: Social media has really empowered consumers. The ramifications for retailers can be negative or positive. Information travels fast among the ever-connected consumers, and negative experiences disseminate quickly around large communities. Retailers who fail to monitor how their brand is being discussed on social media sites are potentially missing opportunities to respond to and rectify sustained criticism.
 - Social media can be an important marketing tool however. Retailers can reach large numbers of consumers quickly through their own social media channels, and the provision of a consumer forum through Facebook allows consumer complaints to be managed efficiently and conveniently for them. The ever-connected consumer also acts as a brand advocate, advertising products and retailers to friends simply by 'liking' them.
- Understand the customer: understanding of Web site visitor profiles and their needs enables a company to tailor not only its prospective consumer interface but also its future line of product features and offerings. This can be achieved

by employing various statistics like hit count versus purchase count and many others.

- Provide a medium: The best way to reach out to people is to create blogs and discussion forums for them so that they have the freedom to rate the quality of service delivery and leave behind suggestions. Also managers can control the degree of freshness of Web site content by making design choices, such as use of dynamic pages and the more frequent updating of content, depending on business needs and consumer expectations
- Trust on Brand Name: brand name is the safest bet for consumers as it removes the problems of 'touch-feel-try' eventually. Consumers do not think twice before buying a clothing item from a trusted and tried out brand because the fit and touch is already known.

CONCLUSION

Compared to countries like United Kingdom, United States, Australia, Canada and others, India is still in its nascent stage of e-shopping. But the real growth that online retailers are betting on in India is an increase in buying in smaller towns and cities that have no access to modern retail. There are divergent views on the future of e-retailing in India. Some experts are of the opinion that the giant, big brand retailers would dominate the small ones due to their wider investment capacities. It would be next to impossible for the small retailers and the kiranas to prove their existence in the battlefield of online retailing.

Another viewpoint is that there would be an exponential growth in the online retailing business in India. Though much is yet to be achieved, remember E-tailing is a new industry in India. With broadband internet access still accessible to entire population, this industry may see an explosive growth. Most growth drivers are in India's favor – demographics, economy, changing lifestyle, exposure to new ideas. It is just a question of creating a sustainable eco system for E-tailing, which is at an inflection point.

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APPENDIX 1

Popular online retailers

E Bay, Amazon-india, Wal-mart, Wirefoot, fabindia, indiaplaza, flipcart, snapdeal, myntra, futurebazaar, Giftcardsindia.in, naaptol, homeshop18

Comparison sites

bechna.com, ultop.com , Rediffproductsearch , CompareIndia.com, wize.com, PriceGrabber.com, yahooShopping, DealTime.com, StreetPrices.com, Google Products

APPENDIX 2

E-commerce Report 2011, Internet and mobile Association of India (IAMAI) and Chart for e-tailing

| Net Commerce market size 2007 2011 (figure in Crore , percentage indicate the overall market size) | | | | | |
|---|----------------|-----------------|-----------------|-----------------|-----------------|
| Year | Dec-07 | Dec-08 | Dec-09 | Dec-10+ | Dec-11+ |
| Total Market size | 8,146 | 14,030 | 19,688 | 31,598 | 46,520 |
| Online Travel Industry | 6,250 (77%) | 10,500 (75%) | 14,953 (76%) | 25,258 (80%) | 37,890 (81%) |
| Online Non-Travel Industry | 1,896 (23%) | 3,560 (25%) | 4,735 (24%) | 6,340 (20%) | 8,630 (19%) |

| | | | | | |
|---|------------|--------------|--------------|--------------|--------------|
| eTailing | 978 | 1,120 | 1,550 | 2,050 | 2,700 |
| Digital download and Paid content subscription | 238 | 290 | 435 | 680 | 1,100 |
| Financial Services | | 1,200 | 1,540 | 2,000 | 2,680 |
| Other Online services (including online classified) | 680 | 920 | 1,210 | 1,610 | 2,150 |

APPENDIX 3

Top-10 Lists of Consumer and Company Locations

The following data was released in October 2010 from the Federal Trade Commission. The data is based on information collected between January - June 2010.

| Top Consumer Locations | Complaints | Top Company Locations | Complaints |
|------------------------|------------|-----------------------|------------|
| UNITED STATES | 9,673 | UNITED STATES | 3,150 |
| AUSTRALIA | 900 | CHINA | 2,448 |
| UNITED KINGDOM | 759 | UNITED KINGDOM | 1,239 |
| CANADA | 537 | CANADA | 397 |
| FRANCE | 449 | AUSTRALIA | 254 |
| INDIA | 124 | NIGERIA | 237 |
| GERMANY | 94 | GERMANY | 228 |
| IRELAND | 87 | INDIA | 216 |
| MEXICO | 70 | MEXICO | 154 |
| SWEDEN | 67 | PANAMA | 130 |