

Online Retailing Trend and Future Growth Opportunities in India

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Abstract—Online retailing is the new business in India, comparing to the other developed countries like U.S., Japan, and U.K. Bureaucracy hurdles, slow development in technology like online infrastructure, digital payments and knowledge of the consumers on online shopping are some reasons which made online retail development slow progress in India. The main objective of this paper is to examine the current online retail market trend in India and its future growth opportunities. It identifies that online retailing is still a new business in India, but market competition is an increasing rate. Due to the liberalization of Foreign Direct Investment (FDI) policies foreign online retailers like Amazon, Alibaba, are already in the market competing with the local retailers like Flipkart, Snapdeal. Also, the online retail market will become a big hub in near future, due to the revolution of digital payments and increasing uses of smartphones. Consumers are becoming more familiar with the digital and online payments systems. It also finds out that within 2-3 years, Indian online retail market leader would be the Amazon; differentiating themselves by focusing on niche product categories, market segmentation and building a strong brand image.

Index Terms—Online retailing, India, consumers, payment systems, competition.

I. INTRODUCTION

Online retailing is changing the way of buying goods and services, and has rapidly evolved into a global phenomenon. With the demand of time and technological innovation there has been gradual development of retailing formats from traditional away of doing business to developed formats like supermarket, malls, convenience stores and now online retailing.

Online retailing refers to the selling of goods and services on B2B or B2C platforms through the internet [1]. Nowadays, with the extensive modernization and technological enhancement, the retail market has been revolutionized to a great extent. In order to dominate the market, new tactics have been developed leading to the changes, by the usage of internet as a medium to establish the direct and ongoing relationship with the customers. Online retailing is channelized through the establishment of a communication link between retailers and their customers with the use of web. A large variety of online retail stores like Amazon.com US, Rakuten.com Japan, Alibaba.com China, & Flipkart.com India have experienced a boom in their business which has resulted in the explosion of the usage of online shopping by a large number of customers.

Online retailers attract a large number of customers as they

are exposed to a great variety of products, and services. People can find what they want, when they want it, with incredible ease and convenience. Physical goods are shipped directly to their homes in a matter of days. It is also beneficial from the business point of view because information technology and software systems produce better forecasts as well as control inventory costs. Elimination of intermediaries from the supply chain reduces complexities as well as avoids unnecessary costs, thereby improving the merchandising systems.

Many offline retailers have started their online stores with the aim of cutting marketing costs, thereby reducing the price of their products and services in order to stay ahead in highly competitive markets. When the online retailing was introduced, there was a pessimistic prediction about those online retailers would damage offline stores. To a certain extent, online shopping has indeed cannibalized physical stores sales, however, the emerging reality suggests that online retailing has become as a supplementary shopping channel for customers. It has made shopping easy and fast for the consumers to buy and trade around the world. So many experts are optimistic about the prospect of online retail business.

A. Present Online Retailing Trend in India

Retailing in India has gone through an attention driving change. Traditionally, haats, melas were organized for retail activities which gradually changed to neighborhood kirana shops. Still Indian retail sector has been characterized by the presence of a large number of small-unorganized retailers. However, with the demand of time there has been gradual development in retail formats like supermarket, convenience stores and now online retailing.

With the rapid growth of internet and globalization of market, the retail sector has become an increasingly competitive. The impact of the alterations in the format of the retail sector has changed the lifestyle of the Indian consumers drastically. The developed countries like US, UK, Japan have already started to take the benefits by transforming the old form of offline retail to online retailing but it is still new business in India. Flipkart which was started in 2007 [2], has changed the history of retail business in India by introducing online retailing. As the online shoppers around the world are increasing, the government from the developing countries like India has also started to take special interest by liberalizing its foreign direct investment (FDI) policies, with the investment in telecommunication and retail infrastructure. India has relaxed several key FDI regulations, like 100% FDI in single-brand, 51% in multi-brand retail. In addition, in e-commerce, the government now permits 100% FDI for online marketplaces [3]. Overall the changing policies are

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expected to boost market entry in online space.

It is therefore interesting that the government of India has taken a big step by allowing 100% FDI in online marketplace model. Amazon, which entered the Indian market in 2013, the online retail scene was mostly been dominated by the local players. Of course, companies like Alibaba have had a stake in the fray via Paytm, but the reforms came as a welcome surprise for foreign online retail players who have been eyeing the Indian market for their business exploration. Presently, there are more than hundred national and international online retailers in India such as Flipkart, Myntra, Snapdeal, Amazon, eBay, Jabong, Rediff and many more.

With the growth of retail industry, the competition is also increasing and many new online retailers, with unique new ideas, are coming up in India. Traditional and modern retail stores are also getting the hand of doing business online. Online retailers are focusing on understanding the consumer needs and their shopping behavior to serve them better with innovative products and services. Furthermore, the growth of internet and smartphone users changed the way of conventional shopping. However, it is limited to only major metros, due to relatively slow penetration of the internet, adverse taxation rules, secure transaction, and a lesser amount of credit or debit card holders. Also, many Indian online buyers are reluctant to reveal their financial information online, which hampers the growth of online business. Many people still locate information online but purchase their products from offline stores. This means that people are still lacking confidence to purchase products online.

According to [4] analysis, India ranked 2nd place in annual global retail development Index (GRDI). Because of GDP growth, improved ease of doing business, and better clarity regarding FDI regulations, India is now the world's fastest-growing major economy, overtaking China. Foreign companies have always looked India as a potential mega-market, especially since the adoption of the globalization policies in 1991. The opening up of the Indian market saw a massive influx of foreign capital, which brought along with it newer brands, more choice for the consumer and a fresh wave of competition for the domestic players.

B. Current Online Market Trend

In 2016, online retail sales was about \$16 billion, and market could be more than seven times larger by 2020, according to Morgan Stanley [5]. In addition, IBEF has also estimated that online retail sales would reach US\$ 70 billion by 2020 from US\$ 3 billion in 2014 [6], which is shown in Fig. 1, below:

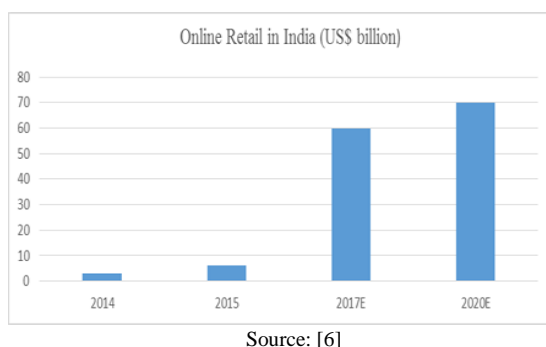


Fig. 1. Online retail market in India (US\$ billion).

Hence, IBEF also expects that in next 5-10 years, India will see more people come online and sales are expected to grow faster than in any other market.

C. Online Retail Market Competition in India

In India many national and international online retailers are emerging up to grasp the current and future market opportunities. Among them to analyze the present market competition, this study has taken four online retailers i.e. Alibaba, Amazon, Flipkart and Snapdeal.

Foreign retailers have always eyed India, but its restrictive laws towards foreign investment and infrastructure issues had previously made things difficult. And they are by no means easy yet, it's clear that the world's online retailing giants, Amazon, and now Alibaba, are determined to get a foothold before consumers become loyal to other players with best assortment, price and convenience.

Alibaba considers entering new markets from retail and payments perspectives, and it appears to be investing in both of these avenues in India to maximize its potential. Year 2015 was Alibaba's first foray into the Indian retail market. It invested US\$ 500 million round in the second largest online retailer, Snapdeal. More substantially, the end of 2016 saw a US\$ 177 million investment in another company, Paytm, giving Alibaba a 40% share of the company [7]. This is Alibaba's first over movement into the Indian retailing space. Paytm is not a traditional retailing company, but instead is India's largest e-wallet with over 200 million clients. By this Alibaba can create a highly valuable ecosystem that is centered on payments. Moving towards a more digitized economy, Paytm could be in an even more advantageous position.

Amazon's position in India is significant. Its focus is on providing guaranteed delivery even in far-flung regions and locking in users early with a local roll-out of the prime program. Amazon has picked multiple fronts to invest in, much alike Alibaba, but it has chosen significantly more expensive ones, like media and logistics, taking ownership of them in the process. The play here is customer loyalty. Investment in infrastructure is an attempt to expand online retailing outside of upper-class urbanite circles and its most recent investment in culture (US\$ 300 million has been committed to Bollywood partnerships, with a channel released to Prime members) will add more value to the prime program and expand potential interest among more Indians. It also started prime day sales on Tuesday morning [8]. 2016 was a great year for Amazon in India. According to The Hindu Business Line [9], Amazon surpassed Flipkart as preferred online retail destination for metropolitan Indian consumers for the first time since 2014. Amazon's takeover has been rapid: in 2014, 30% of the survey respondents reported buying from Amazon; in 2016, 76% said they did.

Hence, the increasing investment by Amazon shows that Amazon has big plans for India. The company expects Indian operations to overtake Japan, Germany, and that UK, becoming the quickest and largest international market in the process [10]. The company mostly took market share from players like Snapdeal and Flipkart. Amazon is steadily using its global tech skills to increase its foothold in the country.

Snapdeal is India's second largest national online retailer

[11]. But Amazon gained most of its market share from Snapdeal, leading to a rapid decline in the company's valuation from US\$ 6.5 billion to around US\$ 1 billion. After failing multiple attempts to raise funds, Alibaba, along with Softbank and Foxconn, invested in Snapdeal in 2015. Softbank being Snapdeal's largest investor is now looking to sell it to Flipkart and invest further in that firm instead of investing in Snapdeal [12]. For Snapdeal, which lags far behind from its competitors, staying float will be the task. Earlier this year, Snapdeal fired over 600 employees and founders Bahl and Bansal took a 100% pay cut [13].

Flipkart is India's largest national online retailer [11]. Flipkart's story shows that in today's market, being the first mover alone might not be enough. It may have been the first success story of the modern Indian online retailing market, but many were worried that it simply couldn't be able to keep its lead in light of competition from more deep-pocketed rivals as its share started to flag after 2014. According to [14], Microsoft, eBay, and Tencent, have invested US\$ 1.4 billion in Flipkart taking the company's value to US\$ 11.6 billion, betting that the India online retail leader has a fighting chance against Amazon. Year 2016 was not a great year for Flipkart as the company failed to meet its internal sales targets or counter Amazon. The company replaced both its co-founders and appointed Kalyan Krishnamurthy as CEO, he represents Tiger Global, Flipkart's biggest investor [15]. Flipkart is expected to gain technical know-how in artificial intelligence, social commerce, and cloud computing through its new set of strategic investors. It can now focus on growing the overall market by adding more buyers and categories to the online as well as improving the customers' experience leading from the market-share perspective.

II. LITERATURE REVIEWS

One of the most important prerequisites for a successful online retailing within a developing nation is strong institutional quality where governments are open to the adoption of advanced technologies [16].

The success of online retailing depends on the efficient website design, effective shopping and prompt delivery. The other online storage services are delivered in real time, return and replacement process, period of filling out online orders from, speed of response time to online customers' queries [17].

In online retailing settings not only the product itself but also the website, the internet channel and the processes of finding, ordering and receiving products contribute value to the customers [18].

Along with technology infrastructure, trust and national policy initiatives are needed for the sustainable success of online retailing [19].

Online retailing adaption in developing countries initially takes palace due to a high performance expectancy and social influence. With those factors present, technological opportunism can then act as the bridge to introducing online retailing. Prior to technical advancements, the microeconomic status of the developing country must be benign in order for online retailing to become favorable [20].

According to [21], in *radix international journal of research in social science*, online retail: its growth and prospects, the researcher critically evaluates the suitability of the business environment for online retailing in India and finds the factors responsible for the success of retailing in India. As a result, online retailing is associated with numerous benefits both for the online retailers and consumers.

According to [22], in the journal *Emerald Insight*, *Antecedents and Consequences of Trust: an e-tailing branding perspective: an empirical study in India*, the researcher has analyzed customer online purchase intention, shopping orientation factors, online trust and prior online purchase experience. The research established that impulse purchase orientation, prior online purchase experience and online trust have significant impact on the customer purchase intention.

According to [23], in *International Journal of Engineering and management sciences*, online retailing in India: Opportunities and challenges, the researcher finds opportunities and challenges in online retailing. The results show that in the next 5 years, online retailing in India will strengthen even further.

According to [24], analyzed that there were four main factors which influenced consumers' convenience, price and wider selection. He discussed that there were three more things which affected the sales of online retailers. Those were personalities of consumers, online shopping perceived benefits and material of shopping sites. If an online marketer wanted to utilitarian's as their consumers than they should be task oriented and if they wanted hedonics as their consumers, they should focus on the attractiveness and user friendly attributes of their shopping sites.

Once a customer decides to buy they will make sure how much reputation that website is having or how much people trust the service of that website. A companies' reputation depends upon trust [25].

III. ONLINE RETAIL GROWTH FACTORS AND OPPORTUNITIES

Online retail in India has been experiencing remarkable growth, successfully changing the way people transact. Online retail represents a very small fraction of the total retail market of India i.e. US\$ 16 billion out of US\$ 641 billion in 2016 [26], but holds immense business potential driven mostly by growing internet penetration, increasing usage of smartphones, cost and time advantages etc. Eager consumers for modern ways of shopping, popularity of cash on delivery (COD) and growing acceptability of online payments, favorable demographics are the other key factors driving the growth of online retail in India.

A. Favorable Demographics

Favorable demographics have provided the unique opportunity for online retailers in India. Country's productive working age group is high. Approximately half of India's 1.2 billion people are under the age of 26, and by 2020, it is forecasted to be the youngest country in the world, with a median age of 29 [27]. That means a growing pool of buyers for goods and services, and a growing middle class. People become busier with their daily life schedule and to save their

time they start to search for convenience.

According to the [28] Survey, about 68% teens shop online in India. The survey was conducted during the nationwide Tata Consultancy Service IT Wiz program which took place between July to December 2013. The survey was carried on 18,196 high school students, all aged between 12-18 years. It was carried across 14 Indian states which include Pune, Nagpur, Mumbai, Lucknow, Kolkata, Kochi, Indore, Delhi, Hyderabad, Bangalore, Chennai, Ahmedabad, Bhubaneswar, and Coimbatore. The survey was conducted with an aim of studying and finding out the digital preferences of the students. The survey found out that seven out of ten urban teenagers indulge in online shopping. The number of teenage online shoppers has shot up drastically. In 2012-13, 37% respondents shopped online and in 2013-14, these numbers have shot up to 68%. This is a definitely great opportunity for online retailers.

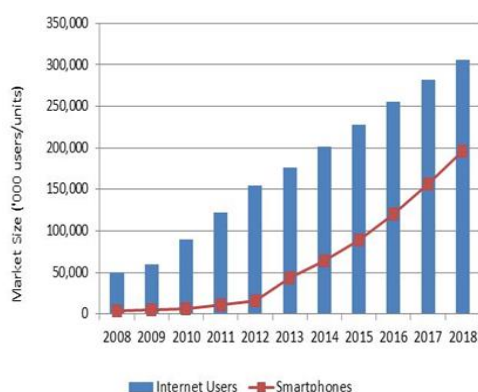
1) Product comparison

Without having to move from one shop to other for comparing the benefits of the products, consumers are now going online to compare product information, features and prices and then making purchases online. Most of the online sites are providing this facility wherein shopper can choose the product which exactly suits him. For example in Japan there is online website call www.kakaku.com, which helps consumers to compare same products prices from different retailers with a click.

2) Cost and time saving

The enormous saving in time and money achieved by both buyers and sellers is the principal advantage. Online shopper could save a good amount of time and money. Online shopping is more efficient, you can choose when to shop and you are not restricted to store hours. In order to remain competitive and encourage online shopping, many online retailers offer free shipping and free coupons points. In India metros and even in the smaller towns which are growing fast, the life of an average person has become very busy. Working people have very little time after his normal routine office schedule to go to the market and purchase even the daily need items. So shopping online will be the best solution for busy Indian people.

B. Smart Phone Revolution and Mobile Internet



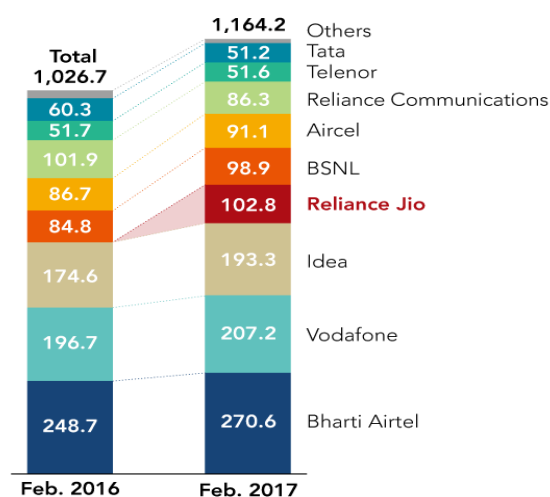
Source: [30]

Fig. 2. Internet users and smartphone in India: 2008-2018.

The potential for online retailing is enormous in India, owing to the rapid growth of number of internet users. The

growth of internet users has also led a substantial growth of other digital industries like smartphone. India is perhaps the most dynamic smartphone market in the world right now. According [29] expects about one in five people (20.8%) living in India will have a smartphone by the end of this year. According to [30], internet user in India increased from 51 million users in 2008 to 176 million users in 2013, which is shown in the Fig. 2 above.

From the above Figure we can also conclude that both internet users and smartphone users are in increasing trend. Hence, the increasing rate of internet and smartphone usage has fueled online retailing in India.



Source: [31]

Fig. 3. Mobile subscriptions in millions.

India's internet users' population is growing at an ever-faster rate. According to the joint study [31], Mobile subscriptions increased by more than 100 million in a year mainly due to Reliance Jio entry which is shown in Fig. 3 above. Most Indians access the internet via mobile devices. And it is the mushrooming use of mobile broadband high speed third generation and 4G networks that is speeding up the penetrations rate.

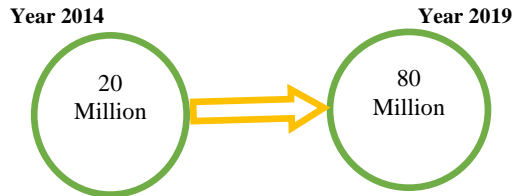
India's mobile share of online shopping will continue to grow over the few years. The implementation of robust 4G networks by the mobile carrier will drive increasing digital purchases made via smartphone. In addition, the declining costs of 4G devices and service plans will make it much easier for consumers to research, browse and buy on smartphones, which will definitely help to increase online shopping.

C. Changing Payment Systems

The growth of electronic payments depends on an adequate acceptance infrastructure comprising ATMs, point of sales (or Smart POS) terminals. Government of India is also promoting developments in card acceptance infrastructure. It has in turn increased debit and credit card usage with the continued development of online purchase tools and increasing consumer acceptance and confidence. One of the major drivers of this growth has been the proliferation of smartphones and tablets, internet/mobile access, which is serving as a convenient, cash-free and card-free financial transaction medium. New payment concepts and business structures based on mobile infrastructure are initiated by the

online retailers and payment service providers. This has the potential to displace traditional cash with other electronic modes of payments by helping to make consumers more comfortable with electronic payments.

Almost 97% of transactions in volume terms still happen with cash in India [32], the shift to electronic and digital methods is happening rapidly. In India, debit card transactions have been seen year-on-year growth of 43%, whereas the growth in credit card transactions have been along the same lines with 27% in 2014 [33]. The Fig. 4 below shows that users transacting payment over online channels in India.

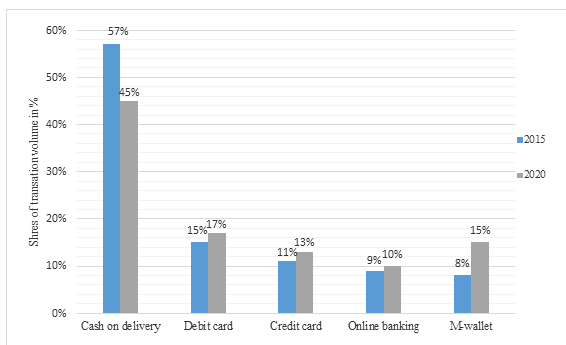


Source: [34]

Fig. 4. Users transacting payment over online channels in India.

The above Fig. 4 shows that in 2014 there were 20 million users transacting over online channels and forecasted that it will be reached to 80 million in 2019.

D. Preferred Digital Payment Methods in India in 2015 and 2020

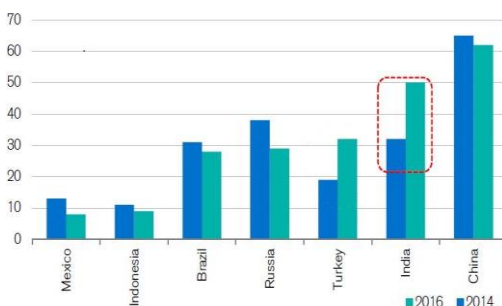


Source: [35]

Fig. 5. Preferred digital payment methods 2015 and 2020.

The Fig. 5 shown above gives information about the most popular digital payment methods of India in 2015 and forecasting for 2020. In 2015, cash on delivery accounted for 57 percent of all digital shopping transactions. Mobile wallet, like Paytm, MobiKwik, PayUMoney are set to increase from 8 to 15% of payments in 2020.

E. Shopping Momentum Strong in India



Source: [36]

Fig. 6. Percentage of consumers that shop online.

According to the [36] consumer survey, reviewing the online behavior of countries like Mexico, Indonesia, Brazil, Russia, Turkey, India, and China in 2017, it noted that while online shopping is most advanced in China, momentum toward online shopping is strong in India. In India, they found that 50% of the consumers now shop online compared to just 32% in 2014 Fig. 6 below marked by the circle.

Looking ahead, consumers in India is also most likely to say they expect to increase their online spending coming years. Emerging consumers and overall positive view on potential expansion on the middle class across the economies

IV. CONCLUSION

There are divergent views on the future of online retailing in India. But from the studies examined above it is possible to conclude that online retail business will have an exponential growth in India, though much is yet to be achieved. Most growth drivers such as demographics, economy, changing lifestyle, payment systems, increase in internet users & mobile subscribers etc. are in India's favor. Also, the government of India has further relaxed restrictions on foreign investment in communications network and taken measures to reduce the communication cost effectively.

India has a massive population with a relatively young median age. As this group of people joins the labor force, they will also add to the country's new, expanding consumer class. Online retailers have opened up for the consumers with a range of options and offers in products and services, which the traditional brick and mortar businesses were unable to do. The ease and sheer convenience of browsing and buying whatever a consumer wants from any given location at any time have added to the popularity of online retail. Secure payment systems knowledge may encourage customers to transact online with less hesitation. And the unique offer of cash on delivery (COD) has proven to be the perfect alternative for those with remaining uncomfortable with online payments in India.

As the number of players continues to grow, competition will become even fiercer, and markets must develop according to the customer psyche for better segmentation, targeting perspectives and a stable market share. Online retailers should continuously monitor customer lifestyle trends and further, understand factors that impact online consumer behavior. In order to improve their chance of success, companies are learning and adopting certain strategies. The successful companies in India are focusing on strong customer service and establishing trust with buyers. This leads to repeat buyers, lowers the customer acquisition and retention costs and improves profitability. In addition, some companies are differentiating themselves by focusing on niche product categories and market segments. To outlast their competition retailers will also need to build a strong brand. This is what Amazon was able to do in the USA, and probably what Flipkart, Amazon India and some of the other larger players are emulating and trying to do in India.

Convenience, choice, discounts and payments options all goes in accordance to the generation next requirements. With all these the online is bound to be the next phenomenon in

India. The trends that would be followed in future would be increased use of smart phone and tablets for shopping. Delivery lead time can be reduced with the development of new warehouses and logistics network.

With the great potential and opportunities, there are many pitfalls and challenges along the way and it enhances the prospects for further research in the areas to examine the trends, challenge, and innovations which are taking place in the online retail business in India.

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