

## UNDERSTANDING E-COMMERCE: A STUDY WITH REFERENCE TO COMPETITIVE ECONOMY

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### Abstract

Practically e-commerce in India started becoming popular when the internet users and smart phone sales was gaining prominence. But over the years there is no doubt the e-commerce has become popular among roughly 30% of the population living in the cities but due to limited scope of product variety and standardization the sale through e-commerce is not increasing at faster pace. Only limited but branded items are on sale because of the limitations of selection and reassurance to customers that their buying is cost saving with a-priority condition that after sale service and product quality is guaranteed by e-commerce. The growth of e-commerce is dependent on factors like the financial literacy, standard of living, nature of habitation, payment system i.e digital vis-à-vis cash and more importantly on up-scaling of manufacturing enterprises. It appears that daily used products are least common in the e-commerce mode and only the most branded and customized but with standardization are more popular on e-commerce mode.

**Keywords** ---e-commerce, economy, vis-à-vis cash.

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### INTRODUCTION

Generally the large size countries are expected to accommodate the labor force in the unorganized sector because it is not possible for the large countries to provide every firm a needed piece of land or to issue the credit from the organized financial institutions. In India the way business is done has seen dramatic shift from small scale and tiny outlets to flourishing business backed by the corporate culture in the industrial and service sector. Since economic reforms in 1991, till date the Indian economy has grown much larger due to which there is overcrowding of the cities where the economy of the State is concentrated. Due to limitations of states, to develop each city equally because of lack of resources, it has been observed that few select cities have come up as the centre of growth. In Haryana say for example, the thriving business before economic reforms was in the Panipat but now Gurugram has left behind all the cities in terms of growth in the business opportunities and employment generation. It is a hard fact that as cities tend to develop the civic facilities also tend to widen but the flip side is that lot of small colonies also take their place as these are needed for low paid workers. The cities become the source of attraction by the workers as they start migrating from backward States to advanced cities. It has been observed that once the expansion of any city starts, it goes to extended reach and law handling agencies feel difficult in detecting the crime and management of the traffic is also too cumbersome. As the cities tend to grow the space for shopping malls and urban centers is needed to provide freedom to the people to spend their income on their consumption choices. Although huge malls have been set up, but as the cities are getting crowded, the time consumed on the roads and also hassles involved in the parking are increasing the burden on the consumers to bear extra cost and strain. It has been noted that outlet in the malls are facing competition and sometime unable to maintain the price line. Once the dip down starts the business becomes unviable and stage is reached the shops are sold away.

Indian economy is unique in many ways. In India the consumers are in the hierarchical structure. The consumers coming from the elite class, high rich, upper middle, middle, and low income groups but it is the beauty of Indian shopping malls that they

provide outlets for all the income groups to optimize their income. Over the years it has been seen that exclusivity of some of the outlets has become inclusivity as they tend to provide range of products. Secondly, the outlets are expected to show physically all the products needed by the consumers but despite of the maximum range and variety possessed by the outlet the customer had to walk away empty handed. There is glaring example of the shopping of the spectacles and other fine goods like jewelry etc. The high end investment and branded advantage by some companies have been attracting many big buyers to their side. It requires no proof that company once establishes its credential and loyalty can attract consumers who repose faith in them. There is large number of products whose value could be low to moderate when these are to be purchased demand lot of time and travelling to specified place and to get them. On the contrary there must be some less coercive method to buy them. The standardization, technological savvy and fair pricing are few aspects which have made the countries to improve the remunerative employment and achieve the required level of competition. India is way behind US and China in standardization of products which appears to be related to distributed demand from the large consumer base. In India the significant population has moved to occupy the place in the middle class and it is responsible for high consumption growth. There is one more important point that in case the consumers have strong appetite for luxurious items their mode of buying is also different for other commodities. The high up consumers who used to go to the market two decades ago as an exclusive category, it appears to have been substituted by different modes of purchase.

Over the last two decades, the students and families have started moving out from their home towns to different places of working. In the initial years they take time to be familiar with the market places and the conveyance problems are also faced by them, in such circumstances the daily needs are met from online. It is the reason that top cities using e-commerce mode are the metropolitan and cosmopolitan. The government over the last few years wants to stress upon start-up to engage the young entrepreneurs in their own style of entrepreneurship and also once they mature in the creation of the product its chain effect can be realized with many other people seeking employment.

The start-up in India is working up very well because the program is supported by the government. The most important reason that every consumer wants extra saving from the cost paid in terms of delivery and logistics, which in traditional methods tends to be much higher because storage, display and spoilage are added to the price being charged from the consumers.

Even if Maximum Retail Price is mentioned the hidden margin is there for everyone in the supply chain. In India the supply chain is unduly large as the products get routed from various points to ultimate consumer. The goods move from place to place and stocked in some places add cost to stockiest or distributor and in some situation the products become outdated or outmoded which add to the lost unrecoverable cost. In e-commerce the stock is converted into flow with minimum losses. The products sold on e-commerce are generally standardized, labeled, packed and branded.

These are the silent preconditions because the customers before they are diverted from traditional buying to online buying, the risk of substandard buying is assumed to be zero. The customers over the period of time get themselves reassured that their purchase is going to be satisfactory from the point of view of quality and price paid. While quality and price are reassuring, the saving to customer comes from maintained flow of products and cutting down the supply points where the margin is high. The only difference is that stockiest for each product should be available in the big cities where the demand is high. Otherwise in low demand places the cost would tend to high and demurrage would be higher.

As the products tend to get outmoded and come closer to the expiry date, the rapid discounted sale begins and it keeps seller and buyer in state of uncertainty in terms of profit and adjudging the price. Whereas in e-commerce as big investors get involved they make every assessment and are in direct contact with the producer about further plan to modify or replace the products. Therefore not only the inventory size is controlled but lot of locking up of funds in case the orders are uncertain is reduced. Many questions have come up time and again whereby the brick and mortar stores which are almost 40 million in India have found themselves in miserable conditions when they had protested that deep discounts offered by the e-commerce supplier are harming their sale and making their survival difficult.

The government looking to the plight of the traditional stores has come up with loose norms many times. But no doubt brick and mortar stores are contented with the type of sale they are doing, and most of which is not possible through e-commerce and they are satisfied the division of customers in terms who would go to brick and mortar store and who would buy from e-portal. Secondly even though time and again the emphasis has been made to pay through digital mode or online payment still the lower income group prefers to go with cash when they are to buy. The typical nature of e-payment is being resisted or disliked by many who are not phenomenally technical savvy also. People in the old age group can hardly do it. But placing the order is one time operation and rest is the physical delivery to be received. Therefore both the modes i.e cash payment and digital payment are equal.

#### LITERATURE REVIEW

Khosla and Kumar (2017) in their analytical report mentioned that some of the trends expected to come in near future in e-commerce can be growth in omni channels, niche businesses, mergers and acquisitions, tapping more rural markets, rise in internet marketing, focus on services, rise in digital payment modes, better infrastructure and supply chain management.

Mahipal, D., (2018) in his paper mentions different phases of internet from year 1995 to present era. Further, the study concludes that there will be tremendous growth in coming years provided there is security in legal framework and e-commerce so that domestic and international trade could expand.

Kumar, N., (2018) in his report mentions tremendous growth in e-commerce is expected to rise 4 times by year 2021 in comparison to 2015. Major contributors to this growth are going to be smartphones and internet users, rise in awareness among general public, better internet services, digitalization of most of the initiatives with the support of government, entry of foreign investors and business players, advanced payment options available to consumers but Government need to take steps to provide proper legal framework and minimize obstacles in growth.

Seth, A., Wadhawan, N., (2016) mentions that retailers are required to go beyond their boundaries in order to get compatible with new digital business era. Digitalization is no more a choice now, rather it has become a necessity for all retailers. This could include transformation of business models, incorporating technological investments, getting tech-savvy with new advancements.

Shahjee, R., (2016) states that e-commerce has given a platform to companies to display their varied products and to make it easy for consumers to quickly find out products of their interest, which was comparatively difficult by marketing traditionally. But on the contrary, e-commerce is facing lot of difficulties related to infrastructural capabilities and computer and internet lack of knowledge among consumers, specially rural consumers.

Shettar, M., (2016) suggested that proper knowledge and understanding of legal framework and possible issue and risk management is required for businesses these days. The growing e-commerce in India has attracted the attention of global players too. With the increase in SMEs, FDI and MNCs more and more employment opportunities are granted to consumers, thereby increasing their buying capacity.

Mitra (2013) highlights the importance of e-commerce, stating that this is going to be future for purchasing and shopping. The government needs to provide assistance in legal framework to that business could widen up their horizons and work with new advanced technologies and business practices, along with secured transactions.

Goele, S., Chanana, N., (2012) mentions in their study that some of the industries like Travel and tourism, electronic, hardware products and apparel are going to boom in the coming future with the help of e-commerce. Some of the factors which will contribute to this growth are M-commerce, replacement guarantees, different payment modes, logistics and shipment options, product quality standards, customer care services.

#### PROBLEM DEFINITION

The e-commerce industry is highly fragmented with respect to varied product lines. The present study is an attempt to compare the present buying methods with online method.

#### Objectives:

1. To understand the trend in the e-commerce over the last 10 years.
2. To examine the main products dealt on e-commerce
3. To make out the length of supply chain.
4. To study the pattern of investment in e-commerce.

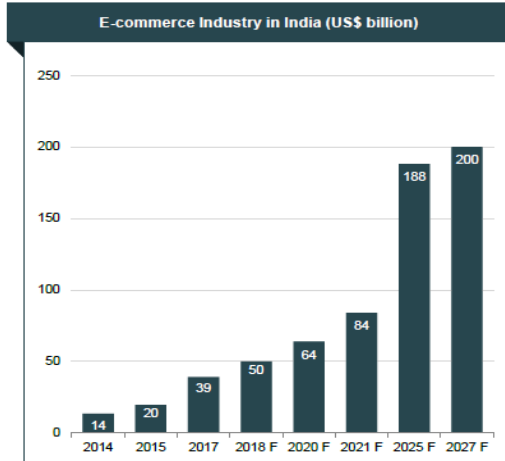
**Hypothesis:** The long supply chain is beneficial to large base of consumers.

**RESEARCH METHODOLOGY AND ANALYSIS**

The nature of products dealt on e-commerce is available from secondary sources. The growth of e-commerce in cities is also available from secondary sources.

The government norms for the investment by foreign investors should be examined to reach at the conclusion whether brick and mortar stores face some heat due to direct investment which itself is responsible for keeping the cost low and high bargain power by the high end investors.

**Table 1.** Year –wise growth in e-commerce



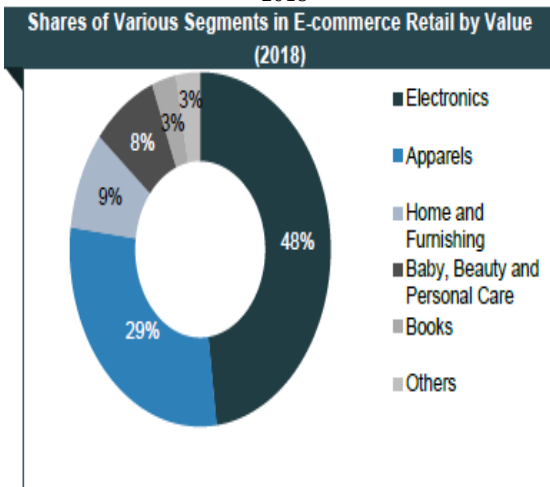
Notes: \*Estimated, F- Forecasted

Source: Indian Brand Equity Foundation (July 2019). E commerce. Retrieved from <https://www.ibef.org>

Urban India has more than 390 million internet users (as of Dec.2018) out of 444 million population (as per 2011 census).While rural India, which has estimated 906 million population, has more than 213 million users of internet as per the data till Dec. 2018.

Consumers residing in Tier 2 and Tier 3 cities have high aspirations for branded products, but have comparatively limited access. Hence, e-commerce is highly targeting consumers from these cities.

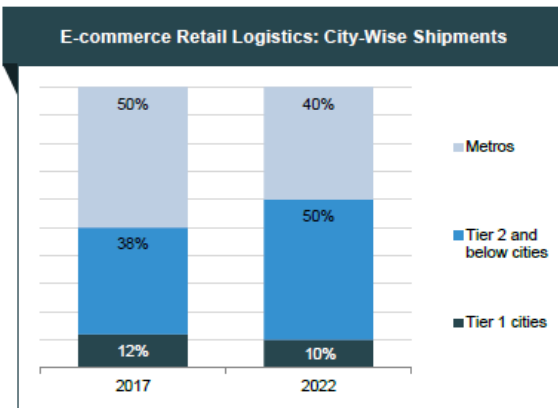
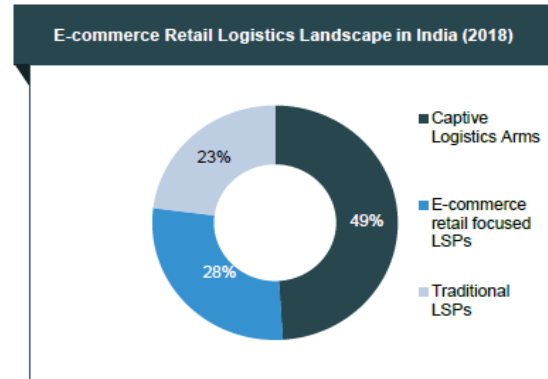
**Table 2.** Shares of various segments in E-commerce retail by 2018



Source: Indian Brand Equity Foundation (July 2019). E commerce. Retrieved from <https://www.ibef.org>

Electronics industry seems to be contributing majorly in this industry, with nearly 48% of the share. Apparel industry is second most contributor with 29% share. While the rest 23 % catering to others like beauty, personal care, baby products, home furnishing, books etc.

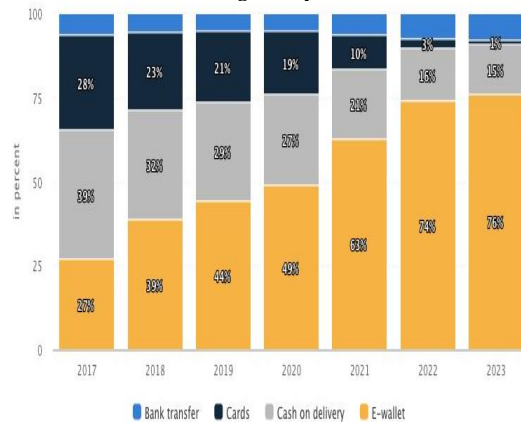
**Table 3.** E-commerce Retail logistics



Source: Indian Brand Equity Foundation (July 2019). E commerce. Retrieved from <https://www.ibef.org>

The retail logistics market of e-commerce is expected to show growth rate of 36% in another 5 years. Most shipments are executed by associated arms of big retailers and their in house logistics, which is further followed by Logistics Service Providers (LSPs) focusing on e-commerce and some other Traditional LSPs.

**Table 4.** The growth of e-commerce in India with the Rise of Digital Payments



Source: Statista, February 2019

Source: Statista, Feb. 2019

**Key Players of the market**

Amazon, Snapdeal, Flipkart, Myntra, Nyka, Jabong, Ebay, Shopclues.com

With the back ground given the e-commerce in India hinges on the variety of factors. Though e-commerce is becoming popular everyday but its size is not as large as ought to be in relation to size of the population. E-commerce in the last one decade has shown tremendous growth. E-commerce has many constraints viz., payment system, targeted variety, limited options, replacement and delivery timings.

Over the last 10-12 years no doubt the growth in e-commerce has increased significantly but it cannot be said that growth is very impressive. The e-commerce is used in a situation where consumer is too sure about his/her choice and prices than the market prices. There are many products which the consumer has to make the choice while going to physical stores. Unless he is committed and made sure that this is his ultimate decision he would be reluctant to buy from the e-commerce. There are certain products which hit the market for the first time and the supplier wants does not want to sell it through ordinary outlets till its popularity is increased therefore, to reduce the cost of the sale as it goes through various stores the direct benefit has been given to the customers to try and come out with the opinion and once mouth word popularity is increased the products comes in the market for the open sale.

In order to gain the confidence of the consumers, and also to increase the saving base of the particulars banks the customers are allured with the cash back in case the transaction is done with a particular bank. With the e-commerce becoming popular mode of purchase the banks are also getting the benefit of linking the customers with them for further transaction. The metropolitan cities and Delhi among them is doing the largest sale through e-commerce. The one important advantage with e-commerce is that the product with the expiry date which is quite near is not possible to be sold. It is because of the design system. Since e-commerce companies are expected to save from short circuiting the supply chain or distribution network, their direct sourcing is from the companies or whole sale distributors, where the old stock cannot continue to lie for long time due to stocking and large inventory cost. The product keep moving through the distribution channel and the product could be closer to expiry and hence customer likely to be cheated is very high. Even though products are put up on sale on the expiry approaches but still the durability after the expiry cannot be assured. There are many products which may have the expiry period of two years but when it has already entered in the last month of the expiry period the life of the products is worn out almost. Secondly selling used items within India by the retailers are also possible. In this situation the consumers remains in a state of worry as if he has been cheated gravely. No doubt within the given range the customer has an option to save from discounts, and truncated distribution channel where the cost of products keeps increasing from one point to other but still e-commerce is possible in very limited items. Secondly it is the space and time which makes the e-commerce to become possible means of purchase. Most of the big distributors are there in the capital cities where the products come for the first point of distribution, the chances of the sale through e-commerce is determined stochastically.

**FINDINGS**

**Factors driving e-commerce growth in India**

- a. Cashless digital transactions
- b. Increased investments of big retail brand in logistics, wholesale retail and market share expansion.
- c. Increased B2B e-commerce.
- d. Internet content available in local languages with the help of artificial intelligence.
- e. Growth of consumer demand in non-metro cities.

- f. Growth of online retailer's warehouses and logistics.
- g. Rise in mobile commerce.

It has been observed that e-commerce has got joint probability distribution with the density of the city, nature of the product and whether the digital mode of payment is available or not. If the city is densely populated that any customer would like to buy the particular product provided he is already sure to buy it is hardly 1/10. The customer has got digital mode of payment is 1/20 and the nature of the product likely to be selected the probability is 1/50. Therefore all the factors taken together the joint probability is 1/1000. The e-commerce has gained prominence in the last ten years because of the younger age group preferring to hold the plastic money or digital payment system. The currency notes are preferred as the last option by the well off customers. The standardization of the products or standard sale in India is hardly 5%.

Many authors have pointed out that unless people start moving from low income to middle income and high income group in calibrated manner, the production quality remains affected because of the demand and supply conditions. The government could not succeed in getting the FDI in multi brand retail because of the various inhibitions. Roughly 4 crores people are dependent on their earnings from pop and mom store and 97% of the people are accessing their goods from them. While the government is keen to get investment in multi brand retail it had to face the wrath from these stores. These stores had got 95% unbranded material whereas branded products as these tend to be superior in contents, these become unaffordable. Take the case of cerelac which is used by the infants to one year of age children, only 5% of the people are consuming it. These can be accessed from the e-commerce because it leaves no option for the consumers to turn away to some other products. Similarly if student willing to buy computer and he is confident of buying HP model of the laptop, and the price vis-à-vis configuration is known to him, he would like to place the order through e-commerce delivery. Secondly e-commerce being incorporate company is expected to maintain high ethics and discipline the chances that product is fake or defective are low. Thirdly, branded products are warranted for many years and after sale service is also assured. Recently the sale through e-commerce has increased in electronics goods, apparel and beauty products from standard manufacturer and branded products. Once the product is standardized and customized in terms of configuration and size, placing the order for the product with 100 percent confidence is more authenticated than if the same customer goes to the retail store and there is no logic of going there unless he has decided to waste time and end up in purchasing the product of second and third order.

The scale with which e-commerce is growing is pretty slow. There is a resistance to investment in the direct equity by the foreign investors to cap the scale of production. The government is only allowing the investors to invest for the purpose of e-commerce of the existing products within India or imported. Secondly in India the popular sale through e-commerce is of the products which are of standard nature or branded at most. The customers are getting reassured in themselves that they are buying the particular product from e-commerce and they are sure that the cost saving is also coming to them. Restricting the direct equity support by the foreign investors to Indian e-commerce is keeping the e-commerce not becoming the popular way of selling the consumer goods. The government has made significant efforts to make digital payment but given the fact that financial literacy and use of internet is too limited the benefit of e-commerce is remaining subdued. During the lockdown which is still going on the e-commerce was chosen out of compulsion. But still the e-commerce companies were debarred from selling the non-essential goods. The reason is that once again the protection to brick and mortar stores is the key reason. The study has

brought out few direct inferences. The foreign investment in Multi brand retail needed for upgrading the quality of the products and at the same time increasing attractiveness with cost saving is being discouraged because the farmers with too low size farm holding may not lose out their income and traditional customers and sellers which are in huge number are making their business realized may not get severely hurt. Therefore the clear condition for the e-commerce to become easy way of purchasing at least 25% of the population is that economy should grow in vertical fashion which means that standard of living should improve perceptibly in the low to medium quality cities. The logistic needed by e-commerce companies also needs heavy investment in the initial stages which can be recovered when it is potentially utilized. No doubt in e-tailing the investment is low and is distributed over many retailers but the earning is sustainable because of the customer's suitability in their income pattern and style of buying. The Indian e-commerce companies have low stability period because at one stage the investment is not repaying the required return.

#### CONCLUSION

The popularity of e-commerce is directly dependent on the scaling up of the manufacturing sector which once achieved the standardization and branding follows automatically. The keenness to do transaction with e-commerce propels for the digital payment and therefore financial inclusion becomes corollary in the theorem of e-commerce.

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