Online Retailing/e-tailing in India - Opportunities and Challenges

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Abstract: **The Indian retail market has witnessed a revolution and is currently ranked among top ten retail markets in the world. Fast growing economy and rapid technology changes have transformed the consumer behavior. The paradigm shift in attitude of consumers has triggered changes in retail format and retailing pattern. Indian retailing is transforming from un-organized to organized retailing. The fast growth of internet usage across the country has enabled emergence of the new retail format of "virtual retailer" forcing the existing as well as new retailers to consider online retailing or e-tailing as an untapped opportunity.**

This paper focuses on understanding of the working model of e-tailing and its major challenges and opportunities. It also attempts to identify entrepreneur's as well as employment opportunities in the various sectors impacted by e-tailing.

Keywords: **Cash on delivery (COD), e-tailing, retailing.**

1. INTRODUCTION

The launch of World Wide Web in 1991 by Tim Berners Lee has transformed the world in information and technology. India stands third in the world in internet usage with over more than 238 million users [1].This has positively shaped the growth of online market of various goods and services, as buyers experienced the comfort of buying online anything of his/her needs.

The most important factor that facilitated the growth and expansion of e-tailing in India is the empowerment of the customer through rapid penetration of technology, the availability and ease of access to internet provided by the smart phones and broad band services. Adoption of the online medium by major brands as a part of their sales strategy is another important factor [2]. Large retailers have also opened stores in the virtual space [3]. The third factor is the convenience to consumers through online shopping because changing life style of typical Indians left little or no time for regular shopping; consequently people have shifted to online buying [2]. Innovative and customized service for attracting customers is also a major factor. Online shopping offers easy comparison of price and product features which is rarely possible at brick and mortar outlets. An added advantage is that e-tailing also provides product rating by end users regarding product performance and retailer performance. Development of dedicated mobile-applications (apps) and websites aim to offer unique and improved experience to online buyers.

A recent IMAI (Internet & Mobile Association of India) survey forecasted that online buyers will contribute thirteen billion US$ to Indian online industry revenue in year 2014, which will increase to 30 billion US$ in 2016. However, only ten percent of internet users shop online which is expected to grow to 45% by 2016. The main constraint for the online industry is the limited availability of internet infrastructure in the country. Low availability of basic infrastructure, such as reliable electricity supply, is a key bottleneck in rural areas.

The online e-tailers have brought in numerous initiatives to attract and encourage the customers to opt for online shopping. In the next section, we list some of the major facilitators implemented in the field of online e-tailing.

2. MAJOR FACILITATORS OF ONLINE RETAILING

A. Technology penetration

India has the largest number of mobile phone users in the world. Smart phones are playing a significant role in providing internet access to a large number of users. Globally, the use of smart-phones is increasing. In case of India, the smart phones penetration is projected to increase with a compounded annual growth rate (CAGR) of 57.5% over 2011-2016 [4]. According to the Telecom Regulatory Authority of India (TRAI), the number of mobile internet capable devices has exponentially increased from 25 million in 2006 to 431 million in 2012 [1].

Figure 1 shows the percentage of internet subscribers via different modes of access. The total number of Internet subscribers is 238.71 million at the end of December 2013, out of which Wired Internet subscribers are 18.33 million and Wireless Internet subscribers are 220.38 million [1].This rapid proliferation of internet has facilitated e-tailing.
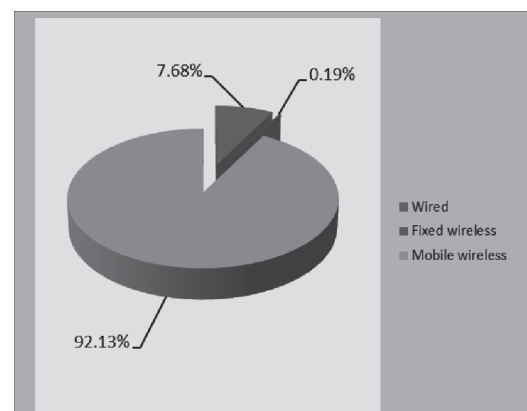

Fig 1: Percentage of internet subscribers via different modes of access [1]

B. Working model of various e-tailers

The different e-tailing business models can be classified based on (i) the range of merchandise sold, and (ii) the inventory management systems used into the following four types of models.

1.　Marketplace model
2.　Warehousing model
3.　Managed marketplace model
4.　Horizontal & Vertical business model

B.1.　Marketplace model

Marketplace model is also referred to as consignment model. e-tailing in India adopted a low-entry barrier business initially, with most e-tailers working on a consignment model, as the consignment model was the established off-line business model. Figure 2 explains how the consignment model works. e-tailers tied up with networks of merchants to source products and then prepared web catalogs of products offered by their partner merchants. Once a customer order was received for any item, a notification was sent to the merchant for fulfillment. The merchant then shipped the goods to the customer directly, and financial settlement was then made between the e-tailer and the merchant for the products sold [5]. Major drawbacks of this model are (i) delay in delivery of product to customer, (ii) return of defective goods delivered to customer is difficult, and (iii) control of partner merchant (supplier) over inventory and pricing.
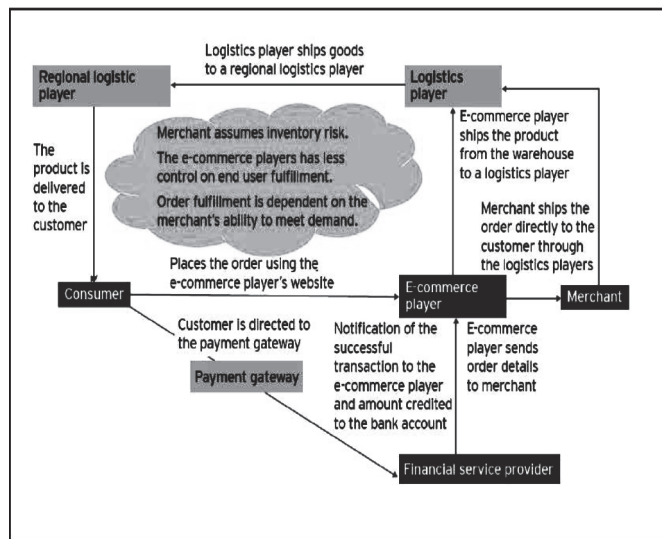

Fig 2: Working of consignment model [5]

B.2.　Warehousing model

To overcome the drawbacks of the consignment model, e-tailers are moving toward an inventory holding model called the warehousing model, also referred to as Stock & Sell model. Here the e-tailer holds fast-moving items in inventory which are then offered online as available in-stock. The benefits over consignment model are that e-tailers (i) can bargain better due to bulk purchases of fast-moving and popular items (ii) could offer discount pricing, and (iii) use innovative and aesthetic product packaging to attract the online buyers [5]. However, this model has its own limitations like piling up of rejections or non-moving goods, and risk of obsolescence of stocks [6]. Figure 3 is a block diagram representation of the Warehousing model.
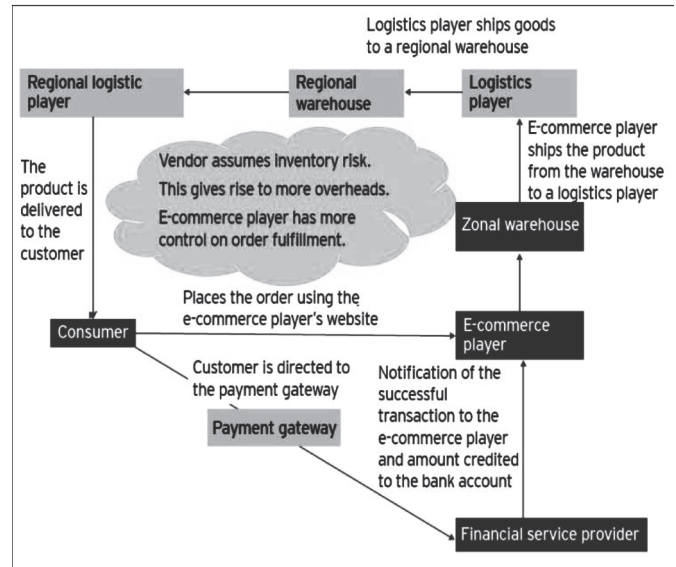

Fig 3: Block diagram showing working of Warehousing model [5]

B.3.　Managed marketplace model

In the managed marketplace model, the online retailer does not hold any inventory. However, the e-tailer has to undertake some quality checks and monitor the supply mechanism so that there is no compromise on customer's shopping experience. Customers are informed about the same, as delivery may take more than usual time [6].

B.4.　Horizontal & Vertical business model

e-tailers can also be classified as having a horizontal business model (those with multi-category) and vertical business model (those with niche category) based on the range of merchandise sold by them [6].

C. Cash on Delivery (COD)

COD payment option has been the innovation that has added a lot of momentum to online shopping and has improved customer's perception. COD allows the customers to make payments when products are actually delivered. COD is emerging as the preferred mode of payment for a large section of customers from various economic and demographic backgrounds as many of the Indian buyers do not have Credit/Debit card or internet banking facility. Eventually even those who possess credit card have started preferring using COD [5]. Currently more than 50 percent of all online shopping in India is based on the COD payment option [5].

A customer from a metropolitan area would shop online because s/he finds it convenient and it saves time. However tier-II and tier-III city customers shopped online as these customers

were unable to access the choices they had aspired for, in the cities where they live [2]. By offering the COD option, online retailers were able to quickly build upon the untapped demand of aspiring customers. It also entails a host of challenges, especially when third-party logistics providers are involved as they charge 1% to 2% of shipment value extra for collecting and remitting cash from the customers. Delay in remittance of cash collected from customer by third party logistics provider is another challenge; investment in logistics was started by e-tailers to overcome above mentioned business challenges.

D. Return Policies

Some major e-tailers have recently started 100% return policies, if goods delivered are not conforming to certain pre specified qualities. Most logistics providers do not manage returns from customers and charge an additional burden to handle returns [5]. This heavily affects an e-tailer, who ends up paying the shipping cost twice for a product that was not accepted by the customer; however this is considered advantageous by e-tailers to engender the customer confidence.

E. Investment in warehousing and distribution channels

Having realized that delivery charges are a major component and in view of problems with return policies, online e-tailers have started investing in creation of own distribution channels or in existing logistics companies. The investment aims to strengthen the "ability to honor the commitment made to customers" [5]. Meeting commitments on products and services consistently is the cornerstone of success for e-tailing. Meeting delivery commitments is always a challenge when third-party logistics provider controls the bulk of end deliveries.

The in-house inventory enables e-tailers to ensure delivery of right products to right customer at committed times. Some of the e-tailers have started flexibility in COD, catering to customers who don't keep cash ready [6]. In this payment option the delivery boy brings a mobile point-of-sale (POS) swiping machine to customer's door to accept payment via debit or credit card and by accepting cash coupons, Sodexo meal pass etc. However, warehousing adds additional cost to product; hence a strategic location and optimized inventory gives additional advantage.

F. Transparency in e-tailing attracts buyers online

Internet enables online buyers to directly communicate with seller via chat box or by providing contact details of suppliers for possible negotiation. Most of e-tailers list the sellers with their quoted price and flexible delivery charges. They also provide information regarding monthly EMI options, availability or otherwise of the COD option, consignment tracking system, SMS based status of shipment in transit, scheduled time and expected day of delivery. This transparency further improved the customer confidence.

3. MAJOR CHALLENGES FACED BY E-TAILING IN INDIA

Several initiatives have been taken by the e-tailers for the customer to buy the product online. However, only 0.1 percent

of the total retail market share is through e-tailing [6]. Low digital literacy and low availability of basic infrastructures, such as reliable electricity supply and internet availability are the key bottlenecks in rural areas for development of online business. Some of the major challenges faced by Indian e-tailers are discussed in the following paragraphs.

A. Lack of touch-and-feel experience:

Most Indian consumers prefer to physically examine and feel a product before purchase. Often they prefer to see a demonstration of the product. Lack of touch-and-feel in online shopping could lead to wrong product sizes ordered by the customer particularly in shoes and clothing. Many e-tailers have now started a facility called "Shop Risk free". If there is any issue with the quality, size or fitting of Clothes or Footwear, buyer has the option of free return within 30 Days with full refund.

B. Rise of ROBO (Research Online but Buy Offline)

Numerous attempts have been made by online e-tailers to build trust among online buyers but customer prefers to buy costly items off line. Customers feared that 'what they see may not be what they get, as touch and feel factor is absent online and are often suspicious about the quality of the supplies[5].This is major challenge for e-tailer.

C. Average Time between Order Placed and Delivered

At brick and mortar shops products are normally available almost immediately. This is in contrast to online shopping where a customer has to wait for the product to be delivered. In order to speed up the delivery process ekstop.com a grocery e-tailer in Mumbai, Gurgaon and Delhi has started same day delivery within a couple of hours after placing of the order. It is expected that other e-tailers will also be moving in this direction, although the logistics for B class and smaller towns will be a major challenge.

D. Expectation of Lower Prices and Free Shipping

Over the last few years, e-tailing has seen heavy discounts. Hence customers' perception has changed due to the practices of offering incentives such as discounts, loyalty points, free shipping etc. for popularizing online buying followed by e-tailers. Many a times, the cost of shipping makes the cost of the product higher than expected, still free shipping, although resulting in thinner profits, is accepted by e-tailers for reasons of customer satisfaction [2].

E. Web Capability

Focus on web capabilities and aesthetic appearance has a great impact on how well the peripheral aspects of online portal are taken care of. Online traffic management is another major challenge. It has been witnessed that several e-portals crashed due to heavy online traffic. For example, recently Air India ticketing portal crashed the day they announced their Rs 100/ festive fare.

4. CONCLUSIONS

The Indian Online market is expected to grow exponentially to US$ 30 billion by 2016. This presents a great opportunity in

every way. e-tailers and their rapid growth has the potential to generate massive employment for skilled, semi-skilled and unskilled labor. The variety of goods and services offered online will increase with the growth of e-tailing, resulting in corresponding growth in the manufacturing and international trade sectors.

As of now, the Indian infrastructure is not up to the mark for delivery and COD payments for small cities, towns and villages where last mile delivery is still a challenge. Progress of e-tailing in small cities, towns and villages needs development of more convenient modes of processing payment so that customers from these locations can also shop online. The Pradhan Mantri Jan Dhan Yojana is an ambitious scheme for comprehensive financial inclusion launched by the Prime Minister of India, Narendra Modi, which will provide banking to every Indian. This will certainly prove to be a big asset to the e-tailers.

Winning confidence and customer delight must be the priority for e-tailing. Ability to honor customer commitment can be achieved by complete transparency, optimized inventory and logistics management. Expedited delivery, extension of COD model, payment collection and processing, return policy are some of the major challenges faced by the Indian e-tailers. In a nutshell, e-tailing offer numerous opportunities and several challenges unique to the Indian culture and environment. e-tailers have been innovating and have created e-business climate so much that foreign e-tailers like Amazon are also entering the Indian e-tailing. Still, challenges are many and many innovations will be seen in the near future.

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