



## Think India Journal

ISSN: 0971-1260 Vol-22, Special Issue-21

National Conference on

### Recent Advances in Commerce, Management and Computer Science (NRCACMC-2020) sponsored

by

Department of Commerce, VEL TECH Ranga Sanku Arts College,  
Avadi, Chennai-62

Held on 4th January 2020



## MARKET STRUCTURE ANALYSIS OF E-COMMERCE INDUSTRY IN INDIA

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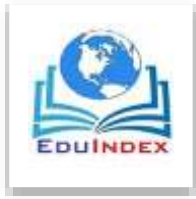
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### Abstract

Speedy diffusion of high-speed internet and internet-enabled smart gadgets, growing acceptability of online payments and favourable demographics has provided online retail in India the unique opportunity for companies to connect with customers. The online retail market is projected to grow from US\$ 6 billion to US\$ 70 billion during FY15-FY20. India's price competitiveness attracts large retail players to use it as a sourcing base. While a few well-funded players, like Amazon, Flipkart, and Snapdeal are successful in establishing brands and reaching to wide areas of the market, none of these have shown a profit, and none have even shown sufficient revenues to meet overhead along with the cost of goods and deliveries. Problems with supply chain infrastructure, payment gateways and management of payment costs, tax related issues and intense competition have created a market in which companies are struggling to exist. As a result, investors are keeping their funds close, creating a financing drought just as the industry aims major growth pains. As one of the swiftest growing sectors in India in recent years, the megatrends that will shape the online retail sector and the emerging challenges faced by the market leader and followers in online retail industry is a significant area for research. The present study is a conceptual survey with a descriptive approach and is an attempt to explain the market structure of online retail industry, business models for e-commerce, various trends in online retail and challenges before the sector in India.

**Keywords:** *online retailing, e-commerce, e-tailing, internet selling*

### 1. Introduction



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In the last two decades, rising usage of internet and mobile phone penetration has changed the way people communicate and conduct business. E-commerce is relatively a novel concept. It is, currently, heavily placing on the internet and mobile phone revolution to fundamentally rework the way business firms touch their consumers.

Whereas in countries like US and China, e-commerce has taken major strides to attain revenues of over 150 billion USD, the e-business in India is still at its early stages. Nevertheless, during the past years, the industry has grown by nearly 35% CAGR from US \$3.8 billion in 2009 to US \$12.6 billion in 2013 (*Source: Internet and Mobile Association of India research report, 2014*). Though, the current share represents a miniscule proportion (less than 1%) of India's total retail market, it is poised for continued growth in the coming years. The e-commerce sector in India is expected to grow at a CAGR of 30% for gross merchandise value to touch \$200 bn by 2026, and reach a market penetration of 12% compared to 2% presently. India is mostly an unorganized retail market, impacting 88% to the total retail industry in India (*Source: Invest India, 2019*).

There exist a relationship between globalization, ecommerce adoption that lead to business performance and effectiveness (Bhattacharjee Sarathi Partha, Begum Ara Sahin, Saha Kumar Anish, 2012). Doing business in a rapidly changing environment, especially in turbulent times, is a challenge for any player. Thus, from an organizational perspective, taking right decisions in times of uncertainty and chaos demands new approaches and sharper business strategies.

#### 1.1 Objectives of the Study

1. To study the market structure of e-commerce industry in India and the factors contributing to the growth
2. To examine the prospects and challenges associated with the e-commerce business in the Indian context
3. To suggest positive recommendations for survival and growth of online retail in a challenging environment

#### 1.2 Research Methodology



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*Scope of the Study:* The scope of this research paper is confined to study of online retail industry in India.

*Source of Data:* The study is descriptive in nature and is based on secondary data collected through published books, business magazines, journals, newspapers, web sites and other research works.

*Framework of Analysis:* Analysis of data and information collected from published sources were made, keeping in mind the objectives of the study.

## 2. An Overview of Indian Online Retail Industry

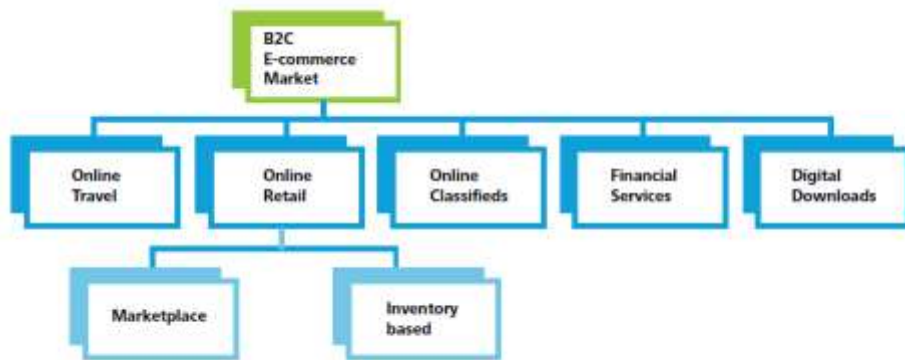
Online retail or online retail (electronic retail) is the fastest growing channel globally, as confirmed by the Planet Retail's retail panel data. Global B2C (Business-to-consumer) e-commerce sales reached 1.2 trillion dollars in 2013, of which 29.7 percent were generated by the United States. B2C is a form of e-commerce activity wherein a business is done directly between a firm and a customer. The US share of world e-commerce has been decreasing, whereas China's share has increased rapidly, almost tripling between 2010 and 2012, validating the economic trend of power swinging away from the United States. Because of the diffusion of the internet and digital payments, the number of digital customers is growing and was projected to cross over 1 billion people by the end of 2013, approximately one-seventh of the global population.

The adoption of technology is enabling the online retail industry to be further reachable and proficient. Gadgets like smartphones, phablets and tablets, and technologies like 4G, 5G, Wi-Fi and high speed broadband is aiding to enhance the number of online consumers. The homespun firms have achieved extraordinary growth and attracted some large financiers. The entry of global giants like Amazon and Alibaba has transported the competition to a different level. Online retail players are distinguishing themselves by providing novel service backings like same day delivery, 30-day replacement warranty, cashback offers, cash on delivery (CoD), e-wallets, etc. The supply chain has improved substantially and online retailers are also availing the services of Indian Post for farther reach all over the country. Though the industry is in its



growth stage in India but has immense potential to tender in the impending future. The government's Digital India project could drive the sector to more heights.

Eventhough B2C business is often used synonymously with online retail or online shopping, it also covers emerging categories like paid online services and paid content. Further B2C services include travel and tourism services, online payment platforms, etc. Paid content, such as video, music, and e-books, has increased in recent past with the progression of firms in these verticals. The online business is expected to flourish at a much quicker rate compared to more established channels as is estimated to account for 10.1% of overall retail revenues in 2018, an increase from 6.5% in 2013, and 3.5% in 2008 (*Source: Deloitte Study on Online Retail in India Clicking Towards Growth, 2014*). In 2012, the average B2C e-commerce revenue per buyer in India was US\$ 632, up from US\$ 597 a year before. This figure is projected to increase to US\$ 724 in 2016 (*Source: Statista Report "E-Commerce in India Dossier", 2015*).



**Figure 1 : Segments of B2C Online Retail Business**

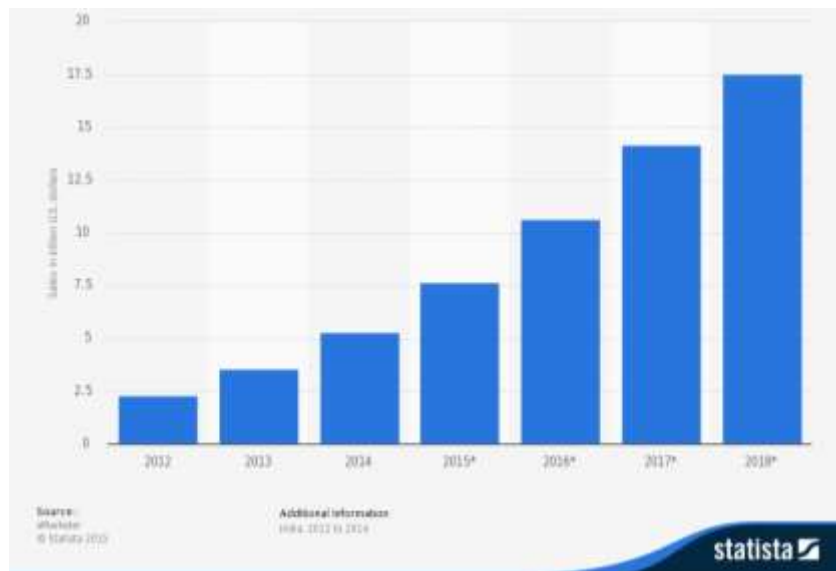
### 2.1 Magnitude of the Market

India is one of the world's fastest evolving markets in e-commerce. The recent years have witnessed online revenues expand in a number of modes. Improved internet availability results in more people logging on and opting online retailers to meet their needs. The number of digital customers in India, aged 14 or above, is a major factor in this expanding market. In 2011 it were



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assessed as 14.5 million countrywide. This number increased to 19.2 million in 2012 and estimated to exceed 40 million by the end of 2016. In 2013, online retail sales reached US\$ 3.59 billion and is estimated to increase to US\$ 17.52 billion in 2018. (Source: Statista Report “E-Commerce in India Dossier”, 2015).



**Figure 2 : Online Retail sale in India from 2012-2018 (in billion US Dollars)**

## 2.2 Enabling Factors

Numerous business models for e-commerce have emerged and are in different stages of evolving. Among the number of business models that are prominent, B2C market is understood to have a broader and bigger impact on retail and consumers. As Indian economy shifts towards becoming a consumption driven one, this consumer-focused model promises a huge and revolutionary opportunity. A number of demand and supply related factors supported by dynamics in regulatory external environment are fostering the augmentation of the industry. Advantageous demographics, rising number of urban households, increasing internet penetration in smaller cities and rural places, spread of mobile devices and growing need for convenience, selection and accessibility are acting as prime drivers from the market.

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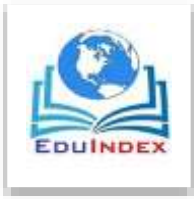
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The e-commerce and related companies have also fuelled the e-commerce intensification by bringing in models of business innovations, by presenting convenient payment choices and by instituting technological advances and customer friendly practices to capture the share of online time and wallet. Ideas like flash sales, 'by invitation only' sales, 'India Cyber Monday' and the 'Great Online Shopping Festival' have been amazing hits in the past and such improvisations will continue to play a major role to promote e-commerce. These strategies, along with the existing sales, discount coupons and deals are welcomed by the Indian customer. The government and other regulatory bodies are also acting their roles by financing in infrastructure and policy frameworks. These parties have also started awareness programmes to get broaden users - including SMEs/ MSMEs - on to the e-commerce platforms The e-commerce sector offers huge benefits to the Indian economy, the consumers and the society at large, especially to small businesses and rural population.

In recent years, the growth of the global e-commerce business has made cross-border operations a major force in India's foreign trade, offering millions of firms, most of which are SMEs/ MSMEs, to develop beyond the local markets. Over 30,000 sellers trade on eBay India every year to 4 million customers in 3,311 Indian towns. Over 15,000 traders export a range of Indian handcrafted products to 112 million customers in more than 190 countries. It may be noted that it is only the tip of the iceberg. Many small firms still do not have their own website, which largely impacts their capacity to reach out to a broader and larger market. Yet, the third party B2B marketplace platforms afforded by e-commerce is providing the required fuel for the growth of SMEs/ MSMEs by unlocking a window to new marketplaces, by shortening conventional supply chains, and by minimising costs, thereby, heading to bigger revenues and profit margins. It is projected that the e-commerce sector is expected to impact around 4 percent to the GDP by 2020 (*Source: D&B, Technopak; KPMG in India analysis*). By 2020, the IT-BPO industry is expected to contribute for 10 percent of India's GDP, as per a NASSCOM report. But, with adequate support, the e-commerce sector too can account much more to the GDP. The growing sector will

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also have a positive effect on allied industries such as logistics, online advertising, media and IT/ITeS. At present, e-commerce accounts for 15-20 percent of the overall revenues for many of the large logistics companies. The revenue for logistics market from inventory based customer e-commerce might increase by 70 times to US\$ 2.6 Billion (Rs 14,300 crores) by 2020 (*Source: D&B, Technopak; KPMG in India analysis*).

Presently, the inventory based consumer e-commerce sector itself provides direct jobs to almost 40,000 people and is expected to generate 1 million direct and another 0.5 million indirect employment by 2020. Low entry barriers have drawn many new and enterprising individuals to try their opportunity at entrepreneurship. A substantial 63 percent of e-commerce businesses have been initiated by first time entrepreneurs. Though many factors enable the growth of e-commerce in India, the novice industry is faced with major hurdles related to infrastructure, governance and regulation. Low internet penetration of 11 percent, compared to world average of 34 percent, hinders the growth of e-commerce by restraining the internet access to a wider customer base (*Source: D&B, Technopak; KPMG in India analysis*). Poor 'last mile connectivity' due to discontinuous links in supply chain network is reducing the access to far areas where a major portion of the population inhabits. Excessive dropout rates (25-30 percent) on payment gateways, consumer trust shortfall and sluggish adoption of online payments are forcing e-commerce firms to depend on expensive payment methods like CoD (Cash on Delivery).

### 2.3 Major Players in Indian Online Retail Industry

Many players have strengthened their place in e-commerce market just in few years. With the increasing demand of digital commerce, innovative startups are coming up in all segments. Domestic players are trying to compete directly with international players who have the advantage of scale, technology and finance. According to Deloitte's study "Global Powers of online retail 2015," Amazon remains to dominate the world of e-commerce with net revenues of \$61billion in 2013.

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The Indian e-commerce market is estimated to increase to US\$ 200 billion by 2026 from US\$ 38.5 billion in 2017. This growth of the industry has been fueled by increasing internet and smartphone penetration. The ongoing digital proliferation in India is expected to grow India's aggregate internet users to 829 million by 2021 from 604.21 million in 2018. India's internet business is expected to double from US\$125 billion as of 2017 to US\$ 250 billion by 2020, mostly backed by e-commerce. India's e-commerce revenue is estimated to increase from US\$ 39 billion in 2017 to US\$ 120 billion in 2020, rising at an annual rate of 51 per cent, the largest in the world. Online retail revenues in India are projected to grow by 31 per cent to reach US\$ 32.70 billion in 2018, steered by Amazon, Flipkart and Paytm Mall.

In 2018, was the biggest contributor to online retail sales in India with a chunk of 48 per cent, followed closely by apparels at 29 percent. Some of the significant developments in the Indian e-commerce sector are as follows:

- Flipkart, after being acquired by Walmart for US\$ 16 billion, is planning to launch more offline retail stores in India to encourage private labels in segments such as fashion and electronics. In September 2018, Flipkart bought Israel based analytics start-up Upstream Commerce that will enable the firm to price and position its products in a resourceful way.
- Paytm has launched Paytm Payment Bank. Paytm bank is India's first bank with no charges on online transactions, zero minimum balance requirement and free virtual debit card
- Google is preparing to enter into the e-commerce arena, India is anticipated as its first market.
- Reliance retail is planning to launch online retail this year. It has launched its food and grocery app already for beta testing among its employees.
- e-commerce business in India witnessed 21 private equity and venture capital arrangements worth US\$ 2.1 billion in 2017

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- Google and Tata Trust have come together for the project ‘Internet Saathi’ to improve internet penetration among rural women in the country.

Since 2014, the Government of India has declared numerous initiatives namely, Digital India, Make in India, Start-up India, Skill India and Innovation Fund. The timely and efficient execution of these programs will likely support the e-commerce development in India. Some of the main initiatives taken by the government to encourage e-commerce sector in India are as follows:

- To increase the involvement of foreign companies in the e-commerce space, government increased the limit of foreign direct investment (FDI) in the e-commerce business model for up to 100 per cent in B2B models.
- The huge investment of Government of India in laying down fiber network for 5G will boost e-commerce.
- In the 2018-19 Union Budget, government has provisioned Rs 8,000 crore (US\$ 1.24 billion) to BharatNet Project, to reach broadband services to 150,000 gram panchayats.

India's developing online retail market, presently led by Amazon and Walmart-owned Flipkart, revenues are estimated to expand at a compound annual growth rate of 25.8 per cent towards \$84.6 billion by 2023 from \$26.9 billion in 2018. Online retailers are looking to expand their categories from smartphone and fashion to attract more customers and per customer spending. The two categories accounted for 56 per cent of the online retail revenues in 2018 of which smartphone share has reached a huge 41 per cent — inspiring businesses to expand into categories including grocery, appliances and furniture, a report titled “State of the Online Retail Market in India in 2019” said.

The online retail industry in India has a duopoly with Amazon and Flipkart having approximately same market share. While Amazon accounted 31.2 per cent market share of gross merchandise value (GMV) in 2018, Flipkart (excluding Myntra-Jabong) contributed 31.9 per cent share. However, Amazon and Flipkart is being challenged by Mukesh Ambani’s Reliance



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Retail that has friendly procedures, capital, and existence in the offline retail as foundations to grow online.

### 3. Challenges in the Indian Online Retail Industry

The Indian online retail industry is presently seeing rapid changes and challenges associated with a turbulent stage of evolution. Though the e-commerce industry is growing substantially in India, it faces many challenges like customer trends, large number of cash on delivery (CoD) orders, accessibility, modest courier services and other policy dependent issues. Certain e-commerce firms and industry analysts have raised apprehensions that deep discounts, free shipping, cut-throat competition and bigger rejection rates due to cash on delivery (CoD) have affected online retail unfavorably. A few of these worries are specific to India and are challenging to overcome than concerns like internet penetration and attracting more customers to go online. Some of the key concerns, as found in the 2015 study – “*Deloitte Global Powers of online retail, 2015*”- are listed below:

*Generation and sustenance of traffic:* Competition from recognized e-commerce players is making it challenging for private label brands to drive traffic on their white-label websites.

*Increasing customer acquisition cost:* The customer acquisition costs have been climbing because of high competition by the comparatively well off firms with more investment.

*Last-mile delivery:* Weak last-mile connectivity, particularly in remote places with high population, is another challenge faced.

*High payment cost:* CoD services leads to sizable financial cost. Unlike in developed markets, in India, CoD is still the preferred method of payment.

*Low profitability:* Profitability is adversely impacted by huge customer acquisition costs, no shipping charges and large rejection rate of CoD orders.

*Regulatory barriers:* Regulatory barriers in the Indian e-commerce industry are more when compared with other mature markets.

### 4. Conclusion



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The Indian online retail industry has had a fantasy run in recent years when it comes to business value, however major challenges still persist. These challenges are anticipated to drive consolidation in the industry.

Volatility in the business environment can be dealt with a better organizational vision, since vision is even more imperative in a turbulent era. Leaders with a well-defined vision of where they want their companies to be could help them to tide over volatile environmental changes such as economic downfalls or increased competition. They aid in taking business decisions to counter the turbulence while keeping the organization's vision in mind. The prevailing uncertainty can be managed with cognizing, the ability of a leader to stop, look, and listen. To be effective in a challenging environment, leaders should learn to see and listen beyond their operational areas to face the volatility and to lead with proper vision. Complexity in the business operational environment can be defied with clarity, the process to try to make sense in the time of chaos. In a challenging world, chaos comes rapid and hard. Leaders, who can quickly and clearly comprehend all of the intricacies associated with the chaos, can make better, more informed business decisions. Finally, ambiguity of decision making can be counteracted with dexterity. Skillful management of the resources in an ambiguous environment would remove the vagueness surrounding the business.

If supported with suitable regulatory enablers and a favourable economic condition, the opportunities in online market would be significantly higher. Retaining a clear vision against which results can be made, with ability to comprehend the uncertainty, agility to flex appropriately, and skillful response to rapidly unfolding situations, is the formula for thriving in the Indian e-commerce industry.

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