

# Salient Features of Online Retailing in India

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## Abstract-

**O**nline retailing (e-retailing) is a product of ongoing exponential growth in Computers and telecommunication. It is in response to present day environment of hectic and long working schedules, long distance commuting between residences and work places, limited time availability for shopping and craze for newer & newer products entering the market. E-retailing very well suits the requirement of present day working youth. Its operation has become still more comfortable for youth with the introduction of smart phones in the market. However, existing policy on foreign direct investment (FDI) of Government of India, appears a stumbling block in growth of e-retailing in India. Government of India is also in a dilemma. It may be getting tempted to relax F.D.I. policy in favour of E-retailing for much needed increased flow of FDI. But it is reluctant to do so as it has moral obligation to protect millions of existing physical retail stores (Popularly known as brick & mortar stores). E-retailing in India has seen unexpectedly high growth in terms of investments and sales during previous financial year 2014-15. It is likely to grow further in coming years. This paper discusses this phenomenon and its salient features in detail.

**Keywords:** - Computers, Commuting, Smart phones, Investments, dilemma

## I. INTRODUCTION

Retail business in India has been changing very fast during 21<sup>st</sup> Century. In the beginning, large sized stores and malls provided a very convenient and comfortable shopping format for Indian Consumers. And now e-retailing is re-defining the shopping format in India. E-retailing has enabled consumers to decide the product they intend to purchase while sitting in the luxury of their homes. One can place order directly from his home and receive delivery at home itself by making on-line payment. E-retailing is a boon to retailers as it enables them to expand their market beyond their immediate neighbour hood with expense of only a small capital. This luxury to consumer alongwith low cost of sales for retailers is giving life changing experience to one and all.

As a matter of fact, the present environment has thrust the world to-day into a mad race between two sets of factors- each trying to chase the other in this mad race. On one side we have hectic and long duty schedules, long distance commuting between work places and residences, flooding of market with newer & newer products, parking woes in the market areas etc. On the other side we have fast speed computers and telecommunication, increasing middle income group, growing internet speeds and easy banking facilities through credit cards/debit cards. E-retailing and smart phones are latest products of this vicious circle of race between these two sets of factors. One set represents the compulsions & other set represents the solutions of those compulsions.

On line shopping offers good discount on purchases in addition to wide options and convenience. Secondly it has provided opportunity to consumers in small cities to purchase high quality branded products also which were otherwise not available in physical stores in those cities. All these factors are likely to help e-retailing to grow faster & faster in India in the near future.

## II. SALIENT FEATURES OF ON-LINE RETAILING IN INDIA

Following are salient features of online retail in India

### **GROWTH OF E-RETAILING IN INDIA:**

E-retailing, as a marketing tool, had a very silent entry in India around 2008 with the entry of firms like Flipkart online services, make my trip.com etc. Most of the business community took it as a non-event as it was not considered to have any potential threat to existing market scenario.

In its report, 'online retail forecast 2013-2018', a research firm, Forrester, said that e-commerce market in India was worth \$13 billion in 2013 with on-line travel accounting for more than 70% of the transactions. E-retail sales were just \$ 1.6 billion during 2013. Researcher was optimistic about growth of e-commerce when he said that online shoppers are likely to grow from around 35 millions in 2013 to around 128 million by 2018. Another researcher, Japan Nomura research, had stated around same time that e-tailing business will grow eleven times by 2018. "E-retail sales during Financial year 2014-15 have surprised every stakeholder as growth during the year far exceeded the findings by any research team. We may call this growth as a revolution in itself. Chief Executive Officer of Amazon.Com ( a foreign e-retailer in India) stated during Nov.2014 that 'we launched 'Amazon India' about a year ago and it has grown beyond our imagination in just one year. It is the fastest geographic launch we have ever had at Amazon.' He promised \$ 2 billion to

this Indian unit to keep up this tempo. Around same time, Indian e-retailer, Flipkart, had raised \$ one billion to finance its ongoing growth story.

It is an open secret that industry's offers of 'cut throat discounts' to consumers have been the major factor for this growth story. The second major factor has been explosive growth of smart phones during this very period which made e-shopping still more easy and rather made shopping a fun. Other factors like hectic time schedules in present work culture, long urban commuting between residences and work-places, growing internet speed etc have also played their role for exponential growth of e-retailing in India.

### **E-RETAILING AND GOVERNMENT'S POLICY ON FOREIGN DIRECT INVESTMENT(FDI)**

With a population of nearly 1.2 billion, India is a dream destination for global retailers like Harrods, Wal-mart or Tesco etc. But foreign direct investment (FDI) policy of Government of India is working as a dampener. The then Government in September 2012, had notified upto 51% FDI in multi brand retail. Present government has retained this provision in its latest F.D.I. policy document released in May 2015. On the face of it , it appears that policy should be attractive for foreign investors. But, it is not so for the reason that this policy has some strings attached to itself which require investors to meet following stringent norms:

- Minimum investment of \$ 100 million
- 50% investment in back end infrastructure
- 30% mandatory procurement of products to be sourced from small Indian Industry.

Government allows 100% F.D.I. in whole sale trade only ( also known as B2B trading). But they are not allowed to operate for retail trading (also known as B2C trading).

It is due to these restrictions in FDI policy in multi-brand retail, that no foreign retailer has still entered in Indian retail market.

In an effort to develop some attractive and workable FDI policy for multi-brand retailing, a meeting was held in May 2015 by Commerce & Industry Minister ( Ms Nirmala Sitha Raman), Government of India with various stakeholders. In the meeting, domestic companies like Flipkart and Snapdeal were opposed to relaxing F.D.I. in multi-brand retail while foreign players such as 'Amazon India' and e-bay advocated changes which could facilitate F.D.I. Domestic companies stated that relaxed F.D.I. in e-retailing will not be good for 'make-in-India' policy of Government of India since foreign players are likely to manipulate and flood Indian market with cheap overseas products only. Indian Companies also stated that e-commerce industry in India has already received around \$ 9 billion F.D.I. under existing F.D.I. policy and so there is no need to change the policy now. Confederation of Indian industry also desired status quo to be maintained. It stated that e-commerce in India is at initial stages and needs time before it can compete with global players. After considering various views, present Government has shelved the debate on relaxing F.D.I. in retail.

### **DEVELOPMENT OF 'MARKET PLACE' MODEL FOR E-RETAILING**

In an attempt to circumvent restrictions imposed by current FDI policy of Government of India, leading e-retailers like Amazon India, Flipkart, Snapdeal etc have developed a new model called ' market place model'. Under this model, these companies do not do retail business of their own. They simply provide website platform in addition to payment and delivery services to traders interested in e-retailing. They charge commission from retailers for sales made by them from their marketplace.

There are, however, certain reports which state that some on-line 'market place' owners are subverting the FDI policy by developing certain retailers with whom they have some ownership relationship. As per one report, enforcement directorate of Government of India, has observed that W.S. retail, a firm incorporated in 2009 to do e-retail business was acting as a front for retail operations of Flipkart online services incorporated in 2008.

It is expected that such stray misguided moves may not exist for too long and the new model called 'Market place model' may stabilize as a legally acceptable e-retailing market in India.

### **E-RETAILING AND CONSUMER PROTECTION ACT 1986**

E-retail shopping is a preferred choice for purchases by majority of Computer savvy youth in India since it offers everything a shopper needs- including good discounts, variety to choose from, Comfort of time flexibility etc. However, Flipkart's Big billion day sale in October, 2014 had disappointed lot many shoppers. They had different types of complaints. But they all had to rely on the customer care services of e-retailer and its grievance redressal system to get their complaints resolved. They had no statutory right for redressal of their grievances since consumer protection act 1986 is not applicable to e-retailers.

This drew attention of policy makers towards the need to protect consumers against acts of omission and commission of e-retailers. The existing law-consumer protection act- which was enacted in 1986 cannot effectively deal with challenges posed by new economic and technological environment. At present, a consumer can initiate legal action against a seller only at the place where transaction takes place. Such a provision in law becomes unworkable in case of e-commerce which works without any physical boundaries. Government is now working to amend this act so as to bring both the market place providers and the vendors working in those market places under the provision of this law. Government is investigating into the business model, pricing policy, funding structure etc of on-line marketers to ensure that law is fair to all stakeholders in e-retail market.

## **DEEP DISCOUNTS ON SALES**

Deep discounts led model of marketing has been the most effective incentive tool used by e-retail market leaders like Flipkart. These discounts had, many a times, brought down consumer prices even below the whole sale prices in the market. It has been, thus, a clear case of business malpractice by e-retailers. E-retailers have been offering discounts as high as 40% around August, 2014. This has now been slowly tapered down to about 20%. Some executives of e-retailers admit that this tapering of discounts had already adversely affected their sale figures. A London based retail analyst, however, calls this tapering of discounts a reflection of 'maturity cycle' of e-retailing as has been the case with various markets in different countries. In any case, such a practice is not in the overall interest of either e-retailers or the 'brick & mortar' retailers. It is not in the interest of manufacturers as well.

Many prominent Franchises like Benetton, Lee, Wrangler etc have already with held their expansion plans. Some have decided to completely freeze opening of new outlet in India. This has, in turn, adversely affected the demand for commercial space in malls etc. Most of these declines have been experienced since Sept 2014 when discounting system was at its peak.

Deep discounts are not in the interest of e-retailers as well. Some experts believe that repeated investment calls by e-retailers, Flipkart and Snapdeal are because of their heavy expenses on discounts. Such a practice is not sustainable in the long-run and e-retailers need to stop it in their own interest. E-retailers need design other innovative methods in place of these unsustainable discounts.

Deep discounts are damaging for manufacturers too. Organized offline retail and on-line majors account for less than 5% of India's total retail market. For this reason, manufacturers and other suppliers would feel hurt if unorganized retail sector is harmed by deep discount policies of on-line retailers. In recent-past, manufacturers had faced fall in their overall sales when e-retailers were selling products at deep discounts.

We can thus conclude that only a healthy competition between e-retailers and 'physical stores' retailers would be in the overall interest of various stakeholders in the market.

## **E-RETAILERS HELP MISSION OF RESERVE BANK OF INDIA TO CREATE A CASH-LESS SOCIETY.**

Reserve bank of India and financial services sector have been trying for last many years to push up cash-less transactions. But there was only a limited success. With rise of e-retailers alongwith easy operation of credit cards/debit cards and internet banking, cashless transactions are likely to continue to get good boost in the near future. Indian Consumer, in general, is tempted towards 'Cash on delivery' mode for various reasons including sense of security of transaction and availability of black money with a spectrum of 'above average' strata of Indian society. However, modern computer savy Indian youth in metropolitan cities, who are accustomed to work on internet, prefers to make purchases through credit cards/debit cards and internet banking only.

As per some survey by Snapdeal, use of Credit/debit cards and payments through internet banking is going up very fast. Similar, assessment has been given by Mr. Parag Rao, business head of HDFC bank.

It is expected that e-retailing alongwith following two expected developments in India would give further boost to cashless transactions.

- The recently framed policies of Govt. of India to control black money are likely to curb its menace in India in a foreseeable future . Once black money issue is tackled, consumers will not have any temptation to go for cash transactions. They will prefer easy and fast mode of payments through banking system.
- Reserve Bank of India is pushing ahead with its policies to ensure that payments through banking system in the country are efficient, safe and secure.

## **III. CONCLUSION**

E-retailing is a natural evolution borne out of necessity of present day compulsions of the working youth. FDI policy of government of India, which is presently a stumbling block in the faster growth of E-retailing, is likely to become infructuous as the e-retailing go past the development stage. More than any change in FDI policy, Government may better create an environment of healthy competition amongst e-retail and brick and mortar (physical stores) retails.

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