Online Retail Marketing Opportunities and Challenges in India

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Abstract – Online Retail Marketing is the most emerging segment of all economies around the globe in the present decade. Any kind of online retail interaction between a prospective buyer and seller would come under Online Retail Marketing.

Since it is online, it is carried out using internet technologies. It provides a host of benefits to companies and customers both. It provides multiple benefits to the consumers in form of availability of goods at lower cost, convenience, wider choice and saves time. For companies, it is has a 24x7 presence, lower setup costs with wider reach. Now the companies can do micro-segmentation of the market thus providing highly customized services to an individual customer as per his profile and preferences.

This article provides the e-commerce story in India with its opportunities and challenges, with a focus on B2C e-Commerce. The opportunities exist in various business areas, viz., its impact on all key industries and services, like Banking, Insurance, Education, Trading of merchandise as well as Financial services. The platform availability is also increasing from traditional PCs to laptops, tablets, ipads and now mobile applications.

It also raises key challenges that are being faced by consumers relating to viz., Security and Ethical issues, computer literacy and education, legal systems, Internet penetration and availability, logistics and delivery issues as well as availability of hardware and software maintenance service providers. All these issues have provided opportunities in various sectors of the economy to a great extent and service providers have emerged over time to fill the gaps.

However, some critical challenges still remain over time, i.e., connectivity with far-flung areas of India with Internet and telephony services. With growth of e-commerce, physical delivery challenges, like logistics and delivery in far-flung areas remain to be overcome before it would become an asset for common people in all parts of the country in India.


ORIGIN & BRIEF LITERATURE REVIEW

The shopping from home or the online shopping owes its existence much before the time the real online players like Amazon or ebay came into being. The Online Shopping Industry was launched in May, 1984 from Mrs Snowball’s armchair on the Leam Lane estate with an order for eggs, margarine and cornflakes. This lady used her television to shop “online” from home, as it was several years before the Internet was commercially available.

Online or e-Commerce covers all things that involves an online interaction and/or a transaction between a prospective buyer and seller. This can range from online search for product options to ordering online, through online delivery of paid content, to financial transactions such as movement of money between bank accounts. This paper analyzes some of the challenges and opportunities of online marketing in India.
Farooq Ahmed (2001) reported that the enormous flexibility of the internet has made possible what is popularly called online access, which has made inroads in the traditional methods of business management. All the facets the business tradition with which we are accustomed in physical environment can be now executed over the internet including online advertising, online ordering, publishing, banking, investment, auction and professional services. The WTO has recognized that commercial transactions can be broken into 3 stages, namely, the advertising and searching stage, the ordering and payment stage and the delivery stage.

Elizabeth Goldsmith and others (2000) reported that the general category of e-Commerce can be broken down into two parts:

1. **E-Trading**: It includes selling goods and services electronically and moving items through distribution channels, for example through Internet shopping for groceries, tickets, music, clothes, hardware, travel, books, flowers or gifts.
2. **E-Finance**: It covers banking, debit cards, smart cards, banking machines, telephone and

Internet banking, insurance, financial services and mortgages on-line.

Some key findings on E-Commerce –Opportunities and Challenges, based on review of literature are given below.

Arvind Panagariya(2000) found that E-commerce offers unprecedented opportunities to both developing and developed countries.

Bette Ann Stead and Jackie Gilbert (2001) found that rapidly changing technology is continually bringing new products/services to the market accompanied by new strategies to sell them. Therefore, it may also conclude that new ethical issues will emerge.

Diana Oblinger(2001) found that E-business can provide education with insight new ways to create greater efficiencies and economies of scale as well as practices that ensure learners stay with the institution for their lifetime.

Prithviraj dasgupta and Kasturi Sengupta(2002) found that that e-insurance offers a potentially vast source of revenue for insurance companies that venture to go online. E-insurance offers new channels of income through service niche creation, first mover's advantage, and online promotions.

Nir B kshestri (2001) indicated that the twin forces of globalization and multiple revolutions in ICT (internet and communication technologies) are fuelling the growth of global e-commerce.

Zabihollah Rezaee, Kenneth R. Lambert & W. Ken Harmon(2005) found that E-commerce programs and courses are likely to grow and thus, the structure, content, and delivery of e-commerce education are evolving and they should be tailored to the particular discipline.

Patric Barwise(2001) found that PC will be used as more effective e-commerce media for high ticket items such as Car, home appliances and mobile will be used as more effective e-commerce media for low tickets items such as music and movies.

**GROWTH OF ONLINE RETAIL MARKETING IN INDIA**

Indian story in Online Retail took off around 2005 and it was primarily for books, software, CDs and online tickets for some time. Gradually, it increased to other standard items over time. The
explosive growth is only after 2010, when the new generation entrepreneurs ventured into the electronic commerce arena.

Today, the market place is flooded with several options for shoppers to choose from. A variety of innovative products and services are being offered spoiling customers for choice. In the last few years, the growth of industry in India has been phenomenal as more shoppers have started discovering the benefits of using this platform. There is enough scope for online businesses in the future if they understand the Indian shopper’s psyche and cater to their needs.

**Evolution of Business Formats and Payment Modes in Online Retailing in India**

Indian industry has evolved over a period of time with innovations that have changed the rules of the game globally. The format of the electronic or web store has evolved from brand specific stores to a more generic marketplace. On the investment front, various models like inventory based online retailing to a complete marketplace model, free of inventory holdings have evolved over time. Lack of Foreign Direct Investment (FDI) regulation for inventory based retailing models have acted as an entry barrier to this segment.

India is a highly cash driven economy with less penetration of plastic money, like credit cards, debit cards till date. Recent financial inclusion measures of Prime Minister of India would have some impact on these aspects but not in the short run.

Indian customers are very sensitive to product delivery and inspection perspective before they are asked to pay. With this mindset, Cash on delivery (COD) has emerged as the most popular mode of payment in India. In a country where credit card penetration is much lower than other developed markets and where companies are still working hard to build trust among shoppers, introducing cash on delivery has been one of the key factors for the success of the segment. At present, COD is the preferred payment mode for close to 55-60% of all online transactions in the fashion and lifestyle segment in India. COD is here to stay owing to its convenience and its cultural affinity and will be a major part of payment mechanisms for at least the next four to five years. Executing COD efficiently and painlessly for the customer is critical to the success of any player in the country.

**Growing Market Size and Opportunities**

Cities beyond metros are in the limelight for all the good reasons. With mobile integration and availability of mobile applications from big online retailers like flipkart.com, orders from tier 2 and tier 3 cities are increasing to a large extent. With metro markets reaching saturation, tier 2 and 3 cities are going to be the biggest drivers for Online Marketing businesses in India in the not so distant future. Building a robust supply chain is critical to efficiently fulfilling orders from these cities and tapping their full market potential. The industry is growing at a rapid pace and changing the dynamics of the retail industry. In the coming years, it is expected to contribute close to 8-10% of the total retail segment in India. This growth is bound to continue provided companies focus on innovating, building strong technology infrastructure and delivering the best customer experience.

**India is the fastest growing market in the world**

India saw a whopping growth rate of over 150% in online sales volumes over the past 3 years. Indians spent over 52 billion minutes on the internet and last year alone, India added over 25 million e-Commerce users. e-Commerce growth in India has also been directly proportional to Internet penetration in India.
Online commerce is an industry where growth is highly dependent on internet infrastructure and its availability in far flung areas. Once the basic services are achieved, the industry of online commerce develops gradually. The growth of this industry in turn helps develop a series of other industries, like online advertising, computer and its peripherals, training and computer literacy and computer maintenance services including network and hardware maintenance.

Among the BRICS countries, India has leap-frogged Brazil and Russia to become the fifth largest e-Commerce market in the world, behind China, Japan, Germany and USA. As of December 2012, India had 44 million online retail visitors which is only 62% reach of among online users. The worldwide average is around 73%.

User demographics – Age and gender

75% of India’s Online Marketing users are below the age of 35. More number of transactors fall in the 35 – 44 age group. The younger segments, which is anybody below the age of 35 are the dominant population in the Indian online space. These younger users interact more with the site and post reviews about products, engage with these companies on social media and such. Online visitor loyalty is also on the increase as the usage is increasing across gender and product categories. Over 95% of Online Marketing users come from social media portals. The second largest source for Online Marketing users is search. Other popular sources among Online Marketing users include entertainment sites, news sites, e-mail and jobs sites. Online retail has 1.5 times more reach than online travel. Social media marketing and SEO which has been conventional online marketing techniques will continue to be so. Social media will continue to be used for branding and to bring in new Online Marketing users in India.

Payments – the preferred means and the future

Cash on delivery (COD) continues to be the preferred method of payment for most Online Marketing transactions in India — upto 58% of all Indian Online Marketing transactions are paid via COD.

The next most preferred payment method is through debit/credit cards (Visa – 11% and MasterCard – 18%), followed direct debit and net banking. Kedar also pointed out that COD is on the decline and more customers are taking to debit/credit card transactions and 2013 could be the year when the skews change.

COD was the catalyst that gave a boost to the Indian Online Marketing market. And as the industry matures in metros, COD may open opportunities for companies to tap customers in Tier 2 and Tier 3 cities. In Tier 1 cities, adoption of online methods of payments can improve, provided the payment systems are made more reliable and penetration of credit/debit cards increase.

Ever expanding product categories

The product categories have been gradually and ever expanding in the Online marketing arena. The latest on the block being the online daily groceries and vegetables and the portals like localbanya.com and grofers.com can be seen in the newspaper advertisements daily.

Consumer electronics is the most successful category in India and because of the nature of products, comparison shopping has also seen an upsurge in the recent past. Fast on its heels, is the fashion category. Apparel as a sub-category has seen the highest growth across all categories
– a whopping 208%. Other categories like home furnishing, healthcare and movie ticketing are all potential winners in the near future, which have seen a 100% growth last year alone. Recent product categories joining the bandwagon are the groceries and the perishable items like vegetables.

OPPORTUNITIES FROM ONLINE MARKETING

1. Exploitation of New Business areas

Electronic commerce emphasizes the generation and exploitation of new business opportunities and to use popular phrases: “generate business value” or “do more with less”. Startups are possible with minimum investments and very low entry barriers.

2. Empowering the Customers

Electronic Commerce is enabling and empowering the customers to have an increasing say in what products are made, how products are made and how services are delivered (movement from a slow order fulfillment process with little understanding of what is taking place inside the firm, to a faster, more transparent and open process with customers having greater control.

3. Diverse Job opportunities in different Industries

Electronic Commerce as an industry creates job all around, both on its input side and its output sides. On one side, there are jobs for computer and network professionals including telecom jobs. On the other side, there are jobs- direct and indirect in the entire value chain of electronic commerce, from web designer to final delivery boy who delivers merchandise to customer’s doorstep. There is a host of peripheral industries like, online learning and education, computer stationery, computer peripherals, technical training and computer literacy institutes among others like advertising and SEO professionals, which generate diverse job opportunities for engaging the diverse skill sets in the country. As per an estimate by the KPMG report, approximately 1 million direct jobs and 0.5 million indirect jobs are expected to be created by online industry by the year 2020.

4. More Transaction volumes and faster turnaround time

Online marketing is a 24x7 platform, which makes it all pervasive and a natural result of this is high transaction volumes and faster turnaround times, as India is becoming a consumption driven society with the invent of online fulfillment portals. Subsequently, it leads to more effective performance i.e. better quality, greater customer satisfaction and better corporate decision making.

5. Opportunities for Small Retailers and Industries

Newer formats of online marketing channels like the marketplace model offers opportunities for small retailers and industries, whereby they can also showcase their goods and merchandise for public display or commerce purposes.

6. Opportunities for Technology based Business

It enables the execution of information-based transactions between two or more parties using interconnected networks. These networks can be a combination of “plain old telephone system” (POTS), Cable TV, leased lines and wireless. Information based transactions are creating new ways of doing business and even new types of business. Businesses around globe are collaborating using
technologies of different types and e-commerce provides the meeting platform for this collaborations.

7. Emergence of newer Business Models

Electronic Commerce also incorporates transaction management, which organizes, routes, processes and tracks transactions. It also includes consumers making electronic payments and funds transfers. Newer business models are getting evolved over time, whereby risks and rewards are shared between parties. Inventory driven consumer commerce models are in sharp contrast with the marketplace based model of Amazon.com.

8. Ever Increasing Revenues and Evolving Revenue Models

Firm use technology to either lower operating costs or increase revenue. Electronic Commerce has the potential to increase revenue by creating new markets for old products, creating new information-based products, and establishing new service delivery channels to better serve and interact with customers. The transaction management aspect of electronic commerce can also enable firms to reduce operating costs by enabling better coordination in the sales, production and distribution processes and to consolidate operations and reduce overhead. However, the presence of high fixed costs in terms of Server and other related IT infrastructure costs make it a challenge for management to be profitable despite growing revenues.

9. Reduction in Human Interactions and associated friction

Electronic Commerce transactions helps reduce the friction which is usually experienced in the manual transactions in the retail marketplace. This reduced friction saves effort both in terms of time and money for the business. Ultimately, the reduction of friction in online commerce will enable smoother transaction between buyers, intermediaries and sellers.

10. Facilitating Business Partnerships and Exchanges (B2B Commerce)

Electronic Commerce is also impacting business to business interactions. It facilitates the network form of organization where small flexible firms rely on other partner, companies for component supplies and product distribution to meet changing customer demand more effectively. Hence, an end to end relationship management solution is a desirable goal that is needed to manage the chain of networks linking customers, workers, suppliers, distributors and even competitors. The management of "online transactions" in the supply chain assumes a central role.

11. Opportunities for new Organizational Models

It is facilitating an organizational model that is fundamentally different from the past. It is moving from a control based organization to an information based organization. The emerging forms of techno-organizational structure involve changes in managerial responsibilities, communication and information flows and work group structures.

CHALLENGES FOR ONLINE MARKETING IN INDIA

1. Too many players, variety and intense price competition

The first and foremost challenge for online marketing in India today is that there are far too many players in the online space for the same product categories. These players follow a
variety of business formats like dedicated web store or marketplace model. So the price competition become very intense, which is good for the customer but not so for the internet retailer.

2. Low Internet Penetration

India is a very vast country with diverse natural and developmental conditions. Despite so much growth in Internet based technologies, the internet penetration rate is quite low on an overall basis, which is around 11% as compared to the global average of 73%. Therefore, to balance its growth in India in an equitable manner, it remains a challenge for Government and telecom companies to increase the internet penetration rates.

3. Low Computer and Overall Literacy

A vast majority of population in India is still uneducated and thus their computer awareness and literacy levels also present a huge challenge for the Government. In order for online segment to succeed, there is an urgent need for increasing the overall and computer literacy in a planned manner and also in a planned timeframe.

4. Lack of Trust

The consumers in India are still living primarily in rural areas and their shopping habits and patterns are more physical and space oriented patterns, whereby they feel and touch the product before they buy them. In this aspect, they lack trust on the online channels of shopping. So, a big challenge for any online retailer is as to how to build this trust of this huge mass of consumers in India.

5. Lack of Computers and other devices

Another challenge for the Indian rural masses is the access to computer and other computing devices which are needed for online shopping. Though the mobile smart phones are penetrating at a very fast pace in these segments in some age groups, yet the density of computers per 1000 people is very low in these areas.

6. Differences in consumption patterns of Rural and Urban consumers

Since there is a vast difference in the life styles and incomes of rural and urban population in India, their consumption baskets of goods or patterns are very different. Due to these differences in consumption patterns, it becomes a challenge for the online retailer to come up with a single online marketing channel with one message which covers the lifestyles of both rural and urban consumers.

7. Supply Chain, Logistics and Delivery Issues

This challenge is coming up in a big way in recent years as the big online retailers are expanding their delivery networks. The location of warehouses for delivery or make deliveries from the local or the central warehouse is the key logistical issue, keeping in mind the minimization of costs.

India is a country with very different and non-standardized addressing systems. All suppliers also do not follow the bar codes for exact identification of packets. This makes it all the more difficult to identify and deliver right packet at the right locations.

One often talked challenge in India is what is known as the “last mile challenge”. What it implies is the identification of the exact house location or place where delivery has to be made. So it is essentially a physical challenge of locating a particular place for correct deliveries. Along with it, comes the local language challenge also. The delivery boys must be highly skilled in identifying the local area locations as well as language of the place. With these attributes, the hiring of delivery boys is becoming a big headache for large online retailers. Such resources are demanding hefty
salaries from these retailers, who find their services indispensible for high quality deliveries. This type of an issue is typical to Indian geographies.

8. Payment Modes, Security and Ethical Issues

Online commerce presents a plethora of challenges in the area of online secure payments. A large number of Banks in India are still not computerized. Moreover, a large part of population is deprived from financial inclusion, which is also a hindrance in growth of online shopping in India. This is also a factor for the popularity of Cash on Delivery (COD) as the payment mode in India. The Security and other ethical issues also play a significant role in development of e-commerce. So these areas also need more regulation and development in the long term for success of e-commerce in India.

9. HR Issues like Availability of efficient Delivery boys

E-Commerce sector in India is going through a phase of skill shortage. Technical experts are in short supply and are commanding a very high salary. At the lowest end, the delivery boys are now giving tough time to management, as there is a steep competition between companies to hire the special ones who bring in good delivery experience to customers.

10. Lopsided Government Regulations like FDI permitted in single brand retail only

Some of the Government regulations in terms of FDI in Retail are also proving to be a bone of contention. FDI in single brand retail is permitted but not permitted in multi-brand retail. Some correction in law is needed in this regard. Amazon.com has entered India in the marketplace mode in order to circumvent the FDI norm. Such lopsided legislation results in non-level playing field for various online players.

11. Deep Discount Models with delayed ROIs

Most of the online retailers are resorting to deep discounting models in order to attract customers online. These deep discounts are being financed by venture funds and funds flowing through FDI route. The result of these deep discounts is that business becomes profitable only reaching a certain maturity level. The break even sales level is quite high in such businesses. A good example on the point is Amazon in the US which became profitable after 9 years of its inception.

12. High Capital Investment Model – Entry Barrier

Internet Retailing in India remains a very capital intensive proposition in India. High amount of capital requirement acts as an entry barrier. This is also a challenge for small retailers to arrange capital if they plan to enter online space.

13. Lower transaction values and higher transaction costs

With newer product categories like groceries and vegetables entering the online space, the relative transaction values are getting smaller each day. With fixed costs of online retailers remaining the same, the per transaction cost is getting quite high from the retailer point of view, thus affecting his profitability directly.

CONCLUSION

Online trading is here to stay and will be extensively used in future. Leading online retail traders are finding out the ways to retain profitability and long term sustainable development. Globally also the challenges are similar in nature. Indian entrepreneurs said this latest focus on business fundamentals points to growing maturity of the local market. In past, everyone was looking at who the leaders will be. For retailers in India, online shopping is gaining recognition as it entails many benefits for them. Some of these include, No real estate costs, Enhanced customer service, Mass customization,
Global reach, Niche marketing and specialized stores. Now the market leaders are emerging and no one doubts the viability of e-commerce.

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