

# E-commerce: Opportunities and Challenges

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## ABSTRACT

E-commerce as anything that involves an online transaction. E-commerce provides multiple benefits to the consumers in form of availability of goods at lower cost, wider choice and saves time. The general category of e-commerce can be broken down into two parts: E-merchandise: E-finance. E-commerce involves conducting business using modern communication instruments: telephone, fax, e-payment, money transfer systems, e-data interchange and the Internet.

This paper is outcome of a review of various research studies carried out on E-commerce. This paper examines different opportunities of e-commerce. It brings out the overall view of growth of e-commerce industry in India from 2007 to 2011.

This paper highlights the various key challenges and opportunities which Indian e-commerce industry may face in the upcoming years.

## INTRODUCTION:

Electronic commerce commonly known as e - commerce is the buying and selling of products or services over electronic system such as internet and other computer networks.

This can range from ordering online, through online delivery of paid content, to financial transactions such as movement of money between bank accounts. This paper has analysed some of the challenges and opportunities of ecommerce. This paper has analysed some of the challenges and



opportunities of e-commerce.

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

1. **E-merchandise:** 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:** Banking, debit cards, smart cards, banking machines, telephone and Internet banking, insurance, financial services and mortgages on-line(Elizabeth Goldsmith and others,2000).

The Organization for Economic Cooperation and Development (OECD), in a paper on the economic and social impacts of e-commerce, points out that due to a combination of both regulatory reforms and technological innovation in the past three years, the barriers to entry have fallen dramatically for many e-commerce businesses.

## Growth of e-commerce

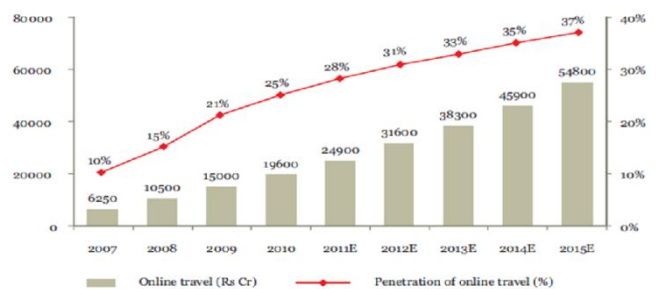
Electronic commerce (or e-commerce) encompasses all business conducted by means of computer networks. Advances in telecommunications and computer technologies in recent years have made computer networks an integral part of the economic infrastructure. E-commerce provides multiple benefits to the consumers in form of availability of goods at lower cost, wider choice and saves time. People can buy goods with a click of mouse button without moving out of their house or office. Similarly online services such as banking, ticketing (including airlines, bus, railways), bill payments, hotel booking etc. have been of tremendous benefit for the customers.

According to the latest research by Forrester, a leading global research and advisory firm, the e-commerce market in India

is set to grow the fastest within the Asia-Pacific Region at a CAGR of over 57% between 2012-2016. The report, titled “Asia Pacific Online Retail Forecast, 2011 To 2016,” has been issued by Forrester Research Inc. Analyst Zia Daniell Wigder, with Steven Noble, Vikram Sehgal and Lily Varon.

The IAMAI report on online commerce indicates that almost 80% market share of current online commerce industry is dominated by travel business and remaining 20% share is constituted of non-travel

Indian online travel market size (Rs Crore)



businesses such as eTailing (electronic retailing), digital download, paid content subscription, financial services, online classifieds, etc.

However, online users in India have exhibited willingness to make purchases over the internet, which is evident from the increasing awareness and growth of net commerce industry.

The online travel industry has grown smartly from Rs.6250 crore in 2007 to Rs.25258 crore until Dec 2010 on the back of conveniences of paying online. Currently, domestic air travel segment constitutes 63% of online travel industry followed by 28% share from online Railway tickets.

E-tailing - which comprises buying consumer items including electronic products, home appliances, personal products such as apparels and jewellery and other accessories - is currently worth Rs.2050 crore, and is expected to grow by 32% to Rs.2700 crore by next year.

## **BRIEF REVIEW OF LITERATURE ON E-COMMERCE:CHALLENGES AND OPPORTUNITIES**

An attempt has been made to put forward a brief review of literature based on few of the related studies undertaken worldwide in the area of e-commerce as follows.

1. Elizabeth Goldsmith and Sue L.T. McGregor (2000) analyzed the impact of e-commerce on consumers, public policy, business and education. A discussion of public policy initiatives, research questions and ideas for future research are given.
2. Prithviraj Dasgupta and Kasturi Sengupta(2002)examined the future and prospects of e-commerce in Indian Insurance Industry.
3. Young Jun Choi, Chung Suk Suh(2005)examined the impact of the death of geographical distance brought about by e-marketplaces on market equilibrium and social welfare.
4. Jackie Gilbert Bette Ann Stead (2001) reviewed the incredible growth of

electronic commerce (e-commerce) and presented ethical issues that have emerged. Security concerns, spamming, Web sites that do not carry an "advertising" label, cybersquatters, online marketing to children, conflicts of interest, manufacturers competing with intermediaries online, and "dinosaurs" were discussed.



### **Objectives of the Study**

1. To review the opportunities and challenges of ecommerce in India.
2. To bring out overall growth prospect of ecommerce Industry in India.

### **Scope of the study**

**The study covers overall challenges and opportunities of Indian ecommerce industry.**

### **Methodology**

The study includes several challenges and opportunities which is faced by Indian ecommerce industry after the flow of huge venture capital in 2007-08. The data is extracted from the websites and journals.

## OPPORTUNITIES FOR E-COMMERCE:

The major reasons for E-Commerce to boom in India are;

1. E-Commerce is one of the most exciting spaces for today's global online community, and India's young start-up economy is along for the ride. In the less than three months of 2011, Indian Venture Capitalists have already invested over \$50 million in seven e-commerce companies, a 400 percent increase over the same period just last year, which reflects the potential of ecommerce industry in India for the upcoming years.
2. E-commerce in India has a long road ahead, and e-commerce infrastructure and best practices are in their infancy. India's 7 to 9 percent Internet penetration lags far behind the 30 to 40 percent China and Brazil enjoy, and while India's estimated 100 million Internet users still comprise the third largest online population, the total Indian e-commerce market was approximately 3 percent of the U.S. market last year (\$6.7 billion versus \$227.6 billion).

Within these great challenges lie great opportunities, and the maturation of India's e-commerce ecosystem is no

different. A recent report by Internet and Mobile Association of India reveals that India's e-commerce market is growing at an average rate of 70 percent annually, and has grown over 500 percent in the past three years alone. Here are four reasons that e-commerce is set to boom in India because of the following reasons :

- 1. Critical mass of Internet users:** With more than 100 million Internet users, the country is beginning to achieve a critical mass of users who are familiar with web services. The above analysis from Kearney analysis reflects the unexploited ecommerce market in India which shows a huge opportunities and scope for investment. The analysis put India in Infrastructure impediment quadrant as internet penetration and supply chain infrastructure for ecommerce is lower than global standards, still the sales for ecommerce in India as the size of the bubble indicates are more than many top ranked countries in the ecommerce index.
- 2. Rising middle class with disposable income:** Throughout India's short history, the country has been a land of "haves" and "have-nots". However, with the rise of small and medium enterprises, foreign direct investment, and India's own powerful multinational corporations creating millions of

new jobs, a new generation of globally-minded Indian consumers has been created. These consumers are spread across the country.

The potential of consumer e-commerce in India by 2024- 2025 is likely to touch around 594.8 million individuals or 297.4 million households. By 2024-2025, as figure 3 shows, 58 million rural households will be part of the “Core” potential e-commerce consumers. The study also reveals that “Poor SEC” will decrease substantially.

According to Internet And Mobile Association of India (IAMAI) the current size of e-commerce market in India is about US\$ 10billion Figure 4 refers to estimates of the size of consumer e-commerce market of India in 2024-25 based on different levels of adoption and two scenarios of growth of businesses and product categories. Under Scenario 1, the size of e-commerce in India by 2024-2025 can reach between US\$ 70 billion - US\$ 150 billion and under Scenario 2, the potential is between US\$ 125 billion - US\$ 260 billion.

Though the Indian Market has a long way to go for ecommerce and unranked in top 10 by the consulting firm, we feel it still offers an early mover advantage and the growth of the market seems inevitable due to following reasons:

- With 8-10% of Internet penetration it offers a huge market for growth potential as around 120Mn of the population is accessing internet.

- Number of online shoppers in India is on a sharp rise as the market is building; new customers are getting acquired every day.
- Rate of Internet penetration is 10.2% according to Internet world stats.
- Mobile & Smartphone penetration rates are high where users are switching to Smart phones for internet and there is a rise in mobile shopping.
- Logistics Services in India are aggressively coping up with the current demand of ecom players with new specialized players coming to the scene.



- Rise of disposable income and middle class is adding consumers’ willingness to spend.
- Low penetration of Organized retail and lack of availability of products is facilitating ecommerce transaction in Tier 2/Tier 3 cities which are witnessing sharp increase in demand.

## CHALLENGES FOR E COMMERCE:

Internet based e-commerce has besides, great advantages, posed many threats because

of its being what is popularly called faceless and borderless.

Some examples of ethical issues that have emerged as a result of electronic commerce. All of the following examples are both ethical issues and issues that are uniquely related to electronic commerce.

According to a study released by Internet and Mobile Association of India (IAMAI) and Interlink Advisors, about 150 million people in India or around 75 million households are ready for ecommerce in India today. However, less than 10 million are engaged in active ecommerce today.

The study adopted criteria of Income, Education and Occupation to arrive at the number of household capable of ecommerce today. The key reasons for this mismatch between potential and actual ecommerce consumers, as figure 1 represents and identified by the study, are Lack of Trust, Fulfilment issues, Shopping Experience.

### **Cash on Delivery**

Cash on Delivery (COD) has been touted as the innovation to counter the low credit card penetration and payment security issues on the internet. COD is a substantial proportion of the sales today contributing to anywhere between 11% (for Perperfry) to 60% in most of the cases.

The COD is unsustainable as it pushes up the cost of transaction by Rs 30-60 per

transaction. Given the low profitability and small ticket size on eCommerce sites, the entire gross margin gets erased by COD. On top of this the problem is that of high returns as the consumers often change their mind by the time the goods arrive. The returns are as high as 40-45% of all the COD shipments. COD also poses scalability issues for the eCommerce sites in the long term as the logistics companies would find it hard to scale to the required levels.

### **High Cash Burn Rate**

At a recent conference, a venture capitalist mentioned that a niche vertical eCommerce venture needs \$50 million of funding over time while a horizontal player would need \$300-400 million funds. Leaders in the e-commerce space (ones that have raised money, have large teams and are aggressively pursuing growth) are spending \$1-2 million (Rs 5-10 crore) a month, including on marketing, overheads and salaries. At this rate of burn, smaller firms with scant capital are unable to cope.

### **High Inventory/ Poor Supply Chains**

Most of the eCommerce venture are complaining of the excess inventory and absence of liquidation market in India. The poor supply chain compounds inventory problems due to unpredictability of the supply. The cost of carrying the inventory is very high and successful ventures would need to tackle the supply chain issues if they really

want to run a scale business. The other problem is in unpredictability of delivery to the customers leading to higher returns.

### **Ethical issues:**

Jackie Gilbert Bette Ann Stead (2001), reported the following ethical issues related to e-commerce.

### **Privacy**

Privacy has been and continues to be a significant issue of concern for both current and prospective electronic commerce customers. With regard to web interactions and e-commerce the following dimensions are most salient:

1. Privacy consists of not being interfered with, having the power to exclude; individual privacy is a moral right.



2. Privacy is "a desirable condition with respect to possession of information by other persons about him/herself on the observation/perceiving of him/herself by other persons".

### **Security concerns**

In addition to privacy concerns, other ethical issues are involved with electronic commerce. The Internet offers unprecedented ease of access to a vast array of goods and services. The rapidly expanding arena of "click and mortar" and the largely unregulated cyberspace medium have however prompted concerns about both privacy and data security.

### **Conclusions**

With the development of computer technology, the World Wide Web has become the connection medium for the networked world. Computers from locations that are geographically dispersed can talk with each other through the Internet. As with any new technology, there are positives and negatives associated with its use and Adoption. Finally, an e-marketplace can serve as an information agent that provides buyers and sellers with information on products and other participants in the market.

E-commerce creates new opportunities for business; it also creates new opportunities for education and academics. It appears that there is tremendous potential for providing e-business education.

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