4. OPPORTUNITIES AND CHALLENGES TO E-RETAIL

4.1 Overview of e-Retail in India

E-tailing or e-retailing or online retailing is a form of electronic commerce, which allows consumers to directly buy goods or services from a seller over the internet without intermediary service. Simply put, e-retailing is the sale of goods online. Companies like Amazon and Dell were the first to create the online retail industry by putting the entire customer experience, from browsing products to placing orders to pay for purchases on the Internet. The success of these and other companies encouraged traditional retailers to create an online presence to augment their brick-and-mortar outlets. This revolutionary way of selling goods and services has also gained popularity in India.

E-tailing has now been present in India for over a decade. The late 1990s and early 2000s witnessed the emergence of several players. However, most of them could not survive the dotcom boom and bust of 2000. The second wave of e-tailing, which emerged in 2007, witnessed the entry of several game-changing players that gave impetus to e-tailing’s growth with the innovation and evolution of business models. Today, with players battling it out for leadership slots, specialist players finding their groove, ecosystem elements starting to fall into place, and investors reaffirming their faith in the sector, the market is at an inflection point.

![Indian Retail and e-tailing Market (USD bn.)](image)

*Figure 4.1.1 Indian Retail & e-Retailing Market (Source: Technopak Analysis)*
Although e-tailing is still a small contributor to retail, accounting for only 0.4% of the overall market, it is on a rapid growth trajectory. It is projected that the ~USD 2.3 billion e-tailing market in 2014, will reach 3% of Indian retail i.e. USD 32 billion by 2020.

Underpinning the disruptive growth of e-tailing in India are the following factors:

**Rapid Percolation of Technology Enablers:**
The increasing adoption of devices like smartphones, tablets, and laptops, and access to the Internet through broadband, 3G, etc. has contributed to the rapid growth of the online consumer base. India’s Internet user base is expected to reach ~550 million, by 2020, with a penetration of nearly 40%, from the current estimated base of 243 million and penetration of 19%. (Source: IAMAI, World Bank, Technopak Analysis Estimated User Base for June 2014)

<table>
<thead>
<tr>
<th>Number of Users (in mn.)</th>
<th>2014</th>
<th>2020 (P)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile Phones (Feature &amp; Smart Phones)</td>
<td>487</td>
<td>550</td>
</tr>
<tr>
<td>Smart Phones</td>
<td>74</td>
<td>440</td>
</tr>
<tr>
<td>PC/Notebooks</td>
<td>51</td>
<td>75</td>
</tr>
</tbody>
</table>

*Source: IDC, Industry sources, Secondary Sources, Technopak Analysis*

As compared to broadband users, the number of mobile Internet users has seen much faster growth, which is expected to continue given the increase in the penetration of smartphones and high speed Internet, primarily driven by the rollout of 3G and 4G wireless technology. This will further drive the growth of e-tailing in India.
Growth of Internet-Habituated Consumers:
Online consumers have evolved over time, with their level of engagement also increasing to include diverse and interactive activities like social networking, banking transactions, travel bookings etc. This Internet-habituated consumer will be further enabled by increased access to debit and credit cards, even as Cash on Delivery (COD) remains an important and essential option. Already, close to 400 million debit cards are in circulation, with close to half of India’s population also likely to possess one over the next three years. Mobile banking, an important non-cash payment mechanism for e-tailing’s growth, is also registering an average annual growth of close to 50%, in volume terms.

Stillbirth of Organized B&M Retail:
While organized B&M retail, has been in India for two decades now, its contribution to total retail is still low, at ~8% in 2014, due to the structural issues faced by B&M retail. Organized B&M retail is concentrated in the top 25-30 cities and most B&M retailers and brands are unable to meet the rising aspirations in smaller cities across India. This skew in retail presence is fueling the demand for online channels due to their wider reach and delivery to even such smaller cities and towns where B&M retail stores are either not viable or will take years to reach.

Improved Ecosystem and Supply Side:
Ecosystem readiness is often touted as a hurdle in the path of e-tailing’s growth in India. Issues such as poor web experience, fulfillment inefficiencies, limited vendor capabilities, and lack of human resources are often critiqued as stumbling blocks. The ecosystem and e-tailing evolution has moved in tandem. While we do believe the journey is still in progress, the ecosystem is today more geared up to cater to the online channel. Brands are taking the online channel more seriously and developing focused strategies. In addition, vendors are also upgrading themselves to cater to the demands of marketplaces more efficiently. Service providers of logistics, payment gateways, etc. are developing and fine-tuning their offerings to cater to the requirements of e-retailers more effectively and efficiently. There is increased focus on improving the web experience and more human resource capability within the system.
Also, unlike a decade ago, the e-tailing landscape is today characterized by better consumer interface, execution, and marketing. Consumers have increasingly been attracted, and
habituated, to online shopping through more products and services being offered, attractive discounts & promotions, better shopping experience, easy returns, faster delivery, multiple payment options (like COD, EMI schemes), offline activation, and mass media campaigns. The credit for this transformation needs to go to the e-retailers who have invested capital and effort in growing the market through multiple means. E-tailing in India is at an inflection point today, where the next phase of growth will play a critical role in defining its trajectory.

4.2 Growth and Opportunities to e-Retail

E-retail in India has been experiencing remarkable growth, successfully changing the way people transact. People today can shop literally everywhere within minutes, be it their workstations or homes, and most importantly, at any time of the day at their leisure. The online market space in the country is burgeoning in terms of offerings ranging from travel, movies, hotel reservations and books to the likes of matrimonial services, electronic gadgets, fashion accessories and even groceries. The e-retail story in India would surely witness a new world of digitalization in the coming decade, with a host of start-ups emerging to compete with existing players in order to draw benefits from the new and existing markets. Given its presence for more than a decade, it is incorrect to think of e-retail as a recent phenomenon in the Indian context. However, it has gained impetus only in the past few years, with the entry of several game changing players who have contributed to the rapid growth of e-retail.

There are several factors driving the growth of e-retail, the foremost of which is the rapid percolation of technology enablers. The increasing adoption of devices like smartphones, tablets, and laptops, and access to the Internet through broadband, 3G, etc. has contributed to the rapid growth of the online consumer base.

Another driver is the growth in the Internet-habituated and aspirational consumer base. Online consumers have evolved over time, with their level of engagement also increasing. Multiple indicators, like the rapid increase in the number of Facebook users, tickets booked online, online banking transactions, etc. point to a rapid rise in the pool of such consumers. Another factor driving this growth is the youth-skewed demographics. India being a young nation, the Internet audience is also young, with about 75% of those accessing the Internet
falling in the age group 15-34 years. This young population is tech savvy and aspirational, and forms the core customer base for e-tailing.

The growth of e-retail can also be attributed to the stunted growth of brick & mortar retail. This subset of organized retail has not lived up to its growth expectations due to multiple challenges. As a result, a majority of the brick & mortar brands/retailers are still concentrated in the larger cities despite being present for several years. This skew in retail presence is fueling the growing demand for online channels which offer a wider reach and delivery to even the smaller cities and towns wherein brick & mortar retail stores are either not viable or their setup can take several years. Another emerging trend is the attitude of brands towards e-retail, which is now contributing a double-digit percentage of the topline of several brands. Even for others, a rapid growth has been witnessed in the past few years. Thanks to the growth, adoption, and impact of e-retail on their overall business, brands are taking this channel seriously, and acknowledging its independence vis-à-vis brick & mortar retail. E-retail is thus not only finding a place in their strategic plans, they are also developing focused strategies for growth through e-retail, while addressing the challenges of this channel, which are different from brick & mortar retail, more effectively.

This is only going to increase in the future. However, it has not been easy for e-retailers to operate, in an ecosystem which is rapidly evolving, and cater to the equally rapidly evolving customer base. They have learnt and unlearnt many things, and we have seen them undergo transitions across multiple aspects, be it their business models, product portfolios, web interfaces, or service offerings. Such efforts have borne fruit to the extent that e-retailers have swelled the number of consumers transacting online on their portals. The next challenge for them is to habituate consumers to online shopping and ensure repeated purchases. This will require e-retailers to ensure differentiation, in a market wherein there are several ‘me too’ players. Currently, discounts and deals are a very important motivator for consumers transacting online. However, this will not lead to sustained differentiation for e-retailers. Differentiation will need to move away from price to such other parameters as customer experience, product assortment, services, etc.

Another challenge faced by e-retailers are that of order fulfillment, with logistics remaining a key challenge for every e-retailers. While third-party logistics, the providers have come a
long way in orienting themselves to the requirements of e-tailing, and several e-retailers have also invested in in-house logistics arms, this is one aspect where much more needs to be done in terms of reach, capability creation, and cost optimization.

Several e-retailers have partially or wholly transitioned to marketplace models. While this enables higher scalability and lowers the risk along several aspects, the vendor base in India is yet to evolve; for players to ensure higher quality customer experience, they will be required to invest in vendor acquisition. Whatever choices they make, the challenge will be to ensure smooth dovetailing of customer experience and business imperatives. E-retailing has come a long way in the last few years, despite all the challenges. It promises to remain an active, and interesting, space, given the rapid growth and evolution of the entire ecosystem. With so much happening with e-retail in India, it is perhaps not appropriate to label it an ‘alternate’ channel anymore. It is here to stay and become a mainstream channel for the future.

4.2.1 The drivers of Growth

E-retailing is a recent development. It is the outcome of socioeconomic factors. India is standing on the threshold of retail revolution. E-retail, one of the fastest changing and vibrant industries that, has contributed to the economic growth of our country. Within a very short span of time, E-retail industry has become the most attractive, emerging retail market in the world. Healthy economic growth, changing demographic profile, increasing disposable incomes, changing consumer tastes and preferences are some of the key factors that are driving growth in the e-retail market in India.

Demographic Factors:

In India the number of the middle class consumer is growing rapidly. With rising consumer demand and greater disposable income has given opportunity of e-retail industry to grow and prosper. They expect quality products at decent prices. E-retailers offer a wide range of products and value added services to the customers. Hence this has resulted in the growth of e-retailing in India.
Growing consumerism would be a key driver for e-retail in India. Rising incomes and improvements in infrastructure are enlarging consumer markets and accelerating the convergence of consumer needs. An increase in the literacy level has resulted in growth of income among the population. Such growth has taken place not only in the cities but also in towns and remote areas. As a result the increase in income has led to increase in demand for better quality consumer goods. Rising income levels and education have contributed to the evolution of e-retail structure. Today, people are willing to try new things and look different, which has increased spending habits among consumer. With the emergence of consumerism, the e-retailer faces a more knowledgeable and demanding consumer. As the business exists to satisfy consumer needs, the growing consumer expectation has forced the e-retailers to change their format of e-retail. Consumer demand, convenience, comfort, time, location, etc. are the important factors for the growth of e-retailing in India.

**Device:**
Declining prices of PCs (on the back of technological advances) and increasing disposable income make it affordable for the majority of people to buy PCs, which are now available
at a low a price of RS.20000–30000. PC sales have been improving steadily in India over the years (stood at 89.3 million in 2011 and forecast to rise to 217.3 million by 2015). (Source: Economic Intelligence unit website)

In addition to the growth of PCs, smartphones have revolutionized the way people access internet and communicate. Consumers are swapping their feature phones for smartphones, which are much faster and provide a better user experience. Many variants of smartphones are priced at less than Rs.6000 in the Indian market, making them affordable for a large number of people. The sale of smartphones is expected to grow rapidly in the near future. (Source: Trak, Gadgetizor Note: Forecasted figure for 2015 is of smartphone shipments)

Tablet PCs, or tablets, are becoming increasingly popular in the Indian market. Tablets come equipped with most of the features of a laptop or a notebook. The prices of tablets are declining, with the low-cost tablet introduced by the GoI costing as less as Rs.5000, leading to its widespread adoption.

The growing popularity of tablets can be gauged from the fact that more than 8,000 of these are sold every day. The tablet market is expected to clock sales of 1 million units by 2013 and a humongous 23.38 million by 2017.

**Internet:**

India has seen a manifold increase in internet users in the last couple of years, India is rapidly becoming a digital nation. According to internetlivestats.com, India has the highest yearly growth rate and currently has the third largest number of internet users globally. The growing internet penetration in India is producing new probabilities to share information and services among a larger number of people, more rapidly and at lower costs. Internet growth has also lead to massive job creation, as internet/eCommerce companies are hiring employees from IT professionals to sales/services professionals who deliver online products and services.

India’s current internet user base, its penetration levels and the government’s digital India initiatives seem to indicate that India would hopefully emulate China’s growth story in terms of internet user base. Due to visible trends that indicate a similar spurt in the number of internet users in India More Indians coming online. India crossed the 100 million internet user figure in 2010 and reached 121 million users by end 2011, making it the third-largest country worldwide in terms of its internet population. The number of internet users in India
is expected to triple to 300 million by 2015, growing at a CAGR of 25.5%. (Source: BuddeComm)

The frequency of internet usage has increased in parallel to the growth in internet user base. The most visible shift has been multiple instances of net access in a week as compared to once-a-week or lesser access in 2007. The percentage of users accessing internet two or three times a week grew to 27% of total users in 2011 from 23% in 2007. This increase has come from segments using the internet once a week or 2-3 times/month. (Source: I-cube, IIIFL, IAMAI, Caris & Company, Ernst & Young estimates) Time spent by Indians on the internet has been increasing over the years. The average time spent online per person per month rose from 12.9 hours in 2006 to 17.4 hours in 2011. It is forecast to increase to 21 hours by 2015. (Source: EY estimates)

Broadband users spend considerable time online. Broadband users are more likely to expend time on online activities, especially those requiring high bandwidth, e.g., video streaming. While the number of narrowband connections in India has continued to be stagnant, broadband usage has been increasing. Broadband subscriptions rose by 66% between March 2010 and June 2012 to 14.6 million. (Source: EY estimates)

There has been a progressive shift in access points used to log on to the internet. Previously, cybercafés were the primary access point and accounted for 52% of internet usage in 2003. Over time, people have increasingly been accessing the internet from home, with the segment’s share growing by more than 60% between 2009 and 2011 to account for 37% of internet usage in the country. (Source: TRAI)

The shift in internet access points works in the favor of e-retail players due to several reasons:

- **Convenience**: Consumers find it more convenient to access the internet and shop from the comfort of their homes. They have the option of considering alternatives before making a well-informed purchase.
- **Security**: Internet access from home enables users to overcome their concerns about data security, which posed a challenge at cybercafés.
- **Consumer analysis**: Online shopping helps e-retail players better analyze the shopping behavior of individual customers through the use of cookies and by tracking IP addresses.
The tariffs of data plans and prices of data cards/USB dongles are on a decline, thus reducing the total cost of ownership (TCO) of an internet connection. As a case in point, the monthly charges of data plans for fixed line and wireless internet connections dropped by 50% each between 2009 and 2011. (Source: IIFL Institutional Equities) Between 2006 and 2011, internet usage in towns with a population of less than 0.5 million increased by 27.5% to account for 37% of overall internet usage in the country. Internet usage in these areas surpasses that in metros and offers significant opportunities for e-retail players, given the inadequate penetration of organized retail in these regions. (Source: I-cube)

There has been an inverse relationship between voice tariffs and the growth of the wireless subscriber base. Mobile subscriptions picked up in India when TCO (cost of device and voice tariffs) were reduced. Therefore, reduction in the price of data plans augurs well for internet adoption across the country.

The average internet speed in India is one of the lowest in the world, despite the growth of broadband subscriptions. The average internet speed was more than 900Kbps in 2007 and dipped to 844Kbps in 2Q11. (Source: TRAI)

The decline is attributed to the fact that Indians are increasingly logging on to the internet on mobile devices that have fairly low speeds. Nevertheless, TRAI’s recommendation of increasing the minimum broadband speed to 512Kbps from January 2011 and the increased adoption of 3G are expected to change this scenario. (Source: Trak website)

India is one of the 29 countries with an average connection speed of 1 Mbps or less. The peak average speed in South Korea and Hong Kong is 46.8 Mbps and 46 Mbps, respectively, as compared to India’s peak average speed of a mere 5.8 Mbps.

The mobile internet user base is growing, aided by the introduction of 3G data plans and declining smartphone prices. Several smartphone models are available at less than Rs.6000 in the Indian market. 22 Mobile internet users are expected to account for more than 60% of the user base in India, considering that their number is forecast to reach 200 million by 2015. Telecom operators are incentivizing mobile internet usage by reducing tariffs and providing unlimited usage facilities. They are offering unlimited internet browsing plans at a lowly price of Rs.120 per month to their GSM customers. Within six months of the launch of 3G, the number of connections reached 10 million, closely matching the number of broadband subscribers. (Source: Akamai)
The growth of mobile internet is encouraging. However, all the components of this growth, e.g., the uptake of smartphones, mobile internet penetration and mobile internet speed, would need to be developed in tandem to support the growth of e-retail in the country. The user experience on e-retail websites also need to be improved, since most of these sites are not optimized for use on mobile devices. Furthermore, not all e-retail sites have developed mobile apps. Given that an increasing number of people would access the internet on their mobile devices, e-retail players need to step up and develop mobile websites and apps for major mobile platforms.

**Payments:**

The number of cards per capita in India is a mere 0.2 and is among the lowest in the world. Transaction data on India’s most frequented e-retail website reveals that the success rate of credit or debit cards is still low at around 74%. Net banking transactions have fared worse with a success rate of 68%. (Source: Avendus)

The time taken to validate and authenticate a transaction has doubled after the implementation of “3D secure.” In view of the low quality of internet connections in India, this increase in time has led to a larger number of failed transactions.

Credit cards are the most popular payment instruments in the major e-retail markets worldwide. Therefore, improving the card ecosystem in India is a pivotal step to ensure higher uptake of credit or debit cards for making payments. This could help e-retails reduce the cost of offline payment mechanisms.

The failure of online payment transactions could be attributed to several reasons, including network problems, the low credit limit of users or insufficient funds, communication errors between payment gateway server and bank server, erroneous entry of information by users and downtime at online payment gateways. The performance of financial intermediaries cannot be solely judged based on the listed reasons. Alternatively, the RBI could consider mandating a certain quality of service metrics to ascertain the performance of payment service providers. Metrics could be based on performance criteria such as the proportion of failed transactions out of the total number of attempted transactions, and downtime and total refunds requested.

The decline in the number of active credit cards can be attributed to the fact that banks became stringent about issuing new credit cards after the financial downturn in 2008 and
withdrew cards from defaulters. The number of debit cards is on the rise due to the increasing access of people to banking services. The volume of credit card transactions has increased over the years, despite the decrease in the number of credit cards. Debit card transactions have recorded a healthy uptake, in line with the growth in their number. The value of transactions carried out on credit and debit cards has been increasing. However, the average transaction value of credit cards has been higher than that of debit cards and is continuing to grow, while average debit card transaction values have been flat. The higher average credit card transaction value indicates that credit cards are still the preferred mode of payment for high-value transactions and are used by individuals with high spending power. The lower average debit card spend could be due to the fact that this medium is preferred for mobile recharge and bill payment.

The payment landscape in India has evolved considerably. Cash cards have emerged in the market, in addition to credit and debit cards. Direct debit from accounts, electronic wallets and mobile payment are alternative options. The number of internet banking users increased to account for 7% of the total number of bank account holders in 2011 as compared with 1% in 2007.28 The number of payment gateways in India has also increased, and their charges have come down to 2.5%–3% of the transaction value. Authentication requirements for online transactions have been made stringent with the addition of multiple layers including OTPs and two factor authentication.

E-retail players have also come up with innovative delivery models such as Cash on Delivery (COD) to overcome challenges associated with online transactions. Mobile payment options are likely to witness increased uptake on the back of the growing mobile subscriber base in India. A leading telecom operator has launched a mobile payment system that allows users to deposit cash in mobile accounts and use it for various transactions through their feature phones without the need for a GPRS-enabled handset or smartphone.

Consumers’ attitude to e-retail has changed. This is apparent from the growth in the number of users transacting online from 3 million in 2007 to 11 million in 2011. The number is projected to rise to 38 million by 2015. A fast-paced urban lifestyle, dual-income families and parking space constraints at major malls have contributed to this shift in the perception of consumers. (Source: RBI)
E-retail players are banking on the Indian internet growth story. The fact that an average online user is spending more time online gives these players the opportunity to draw more users to their websites through innovative marketing strategies such as those revolving around social media. Furthermore, to fully utilize the opportunity, players need to leverage the growing number of mobile devices in the country. They should focus on developing mobile-compatible websites and applications. This would allow customers to log on to easy-to-access platforms and browse e-retail websites on their mobile devices. E-retail players also need to focus on innovation to tackle challenges arising from low credit and debit card penetration. They could consider working with financial intermediaries to develop payment systems, such as escrow services, for resolving issues around security and product delivery. The RBI could step in and reduce the number of online transaction failures by defining service metric quality and monitoring it at regular intervals. This would enable it to keep a close eye on the performance of financial intermediaries and plug gaps as soon as they occur.

To accelerate growth e-retailers need to do the following things:

- **Customer experience**
  As the customer’s progress from research to purchase to fulfillment stages, their expectations change fast. E-retailers need to understand these change drivers and adapt their proposition accordingly. Easy transitions between ordering on tablets, mobile phones or PCs will have to be facilitated. Besides, convenient multichannel returns and delivery options need to be developed along with the provisions of touch and feel the product before buying. They should also ensure sufficient after sales service and support. Online product reviews and ratings, videos, more advanced sizing and fitting tools should be provided.

- **Technological Advancements**
  E-retailers constantly have to upgrade their offerings with changing technology. For instance, shopping through mobiles have truly arrived, they need to devise easy to use mobile apps for their websites. They need to ensure that their websites have the required speed to do fast business, especially during sale, deals and discounts. Solutions enabling seamless integration of back-end and front-end infrastructure, customer experience enhancement initiatives, integrated inventory management and analytics would be crucial for the e-retailers.
• **Convergence of online & off line channels**
  As the customers progress from research to purchase to fulfillment stages, their expectations change fast. E-retailers need to understand these change drivers and adapt their proposition accordingly. Easy transitions between ordering on tablets, mobile phones or PCs will have to be facilitated. Besides, convenient multichannel returns and delivery options need to be developed along with the provisions of touch and feel the product before buying. They should also ensure sufficient after sales service and support. Online product reviews and ratings, videos, more advanced sizing and fitting tools should be provided.

• **Delivery experience**
  With lack of integrated end to end logistics platform, the e-retail industry is facing issues related to procurement operations and transportation. Online purchases from Tier-2 and Tier-3 cities are expected to significantly increase, thanks to the emergence of low cost smartphones, however, poor last mile connectivity could act as a deterrent. Keeping control on logistics and on ground fleet management, especially courier companies, is essential for growth.

• **Payments and transactions**
  India continues to be a cash-based society due to limited banking and credit card penetration. This, combined with a lack of consumer trust in online merchants, has forced companies to offer COD services, which imposes significant financial cost for firms in the form of labor, cash handling and higher returns of purchased items. Data protection and the integrity of the system that handles the data and transactions are serious concerns. Companies should take necessary action for management even if this imposes a cost on them.

• **Tax and regulatory Environment**
  Laws regulating e-retail in India are still evolving and lack clarity. Favorable regulatory environment would be key towards unleashing the potential of e-retail and help in efficiency in operations, creation of jobs, growth of the industry, and investments in back-end infrastructure. Furthermore, the interpretation of intricate tax norms and complex inter-state taxation rules make e-retail operations difficult to manage and to stay compliant to the laws. With the wide variety of audiences the e-retail companies cater to, compliance becomes a serious concern. Companies will need to have strong anti-corruption programs for sourcing and vendor management,
as well as robust compliance frameworks. It is important for the e-retailers to keep a check at every stage and adhere to the relevant laws, so as to avoid fines.

- **Operational Framework**
  Business models have been evolving rapidly in the e-retail sector largely due to heightened competition and the inability of players to sustain high costs. Companies in e-retail will need to adapt and innovate constantly to sustain their businesses. Furthermore, several of these companies entered into the e-retail industry as startups and have grown to a huge size aided by the continuous growth in the market but lack well defined capabilities and organizational structure. System building, financial and talent management become key.

- **Digital infrastructure**
  Digital disruption has driven change in the e-retail industry with shoppers embracing multiple touch points in their purchase journeys. Companies should spend enough resources on technology development as also advertising and branding, especially because the younger population is demanding. In the journey toward digital business transformation, embedding technologies in the business becomes crucial.

- **Customer acquisition**
  The customer acquisition costs in Indian e-retail have been climbing rapidly due to intense competition between multiple well-funded players. Only 2% of website visits currently result into transaction. Thus, there is a gap between potential and actual buyers. Coupled with high transaction costs, this area could pose serious problems. In the US, 75% of consumers have stated that they will usually switch between brands, and for the rest of the world, this rate is 60%, according to Ecommerce Foundation. This suggests companies should constantly work on their brand positioning. (Source: Global B2C E-commerce Report, 2014)

- **Addressable markets**
  To grow their businesses, the Indian e-retail sector needs to closely watch the growth of their markets in the Tier 2 and 3 cities. They need to improve their logistics and supply chain management in these cities, do an effective demand management to keep an eye on what products are being sought in these cities. With e-retail largely being a borderless activity company needs to keep in mind that customers always have the option to buy across the border if they cannot fulfil customers’ expectations.
4.2.2 SWOT Analysis of e-Retail

The overall evaluation of strengths, weaknesses, opportunities, and threats is called SWOT analysis. SWOT Analysis is employed by an e-retailer in the analysis of strategic planning. The SWOT analysis builds the company objectives more realistic. To understand future risks it is essential to know strengths and weaknesses, opportunities and threats.

Table 4.2.2 SWOT Analysis of e-Retail

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Convenience</td>
<td>● Security</td>
</tr>
<tr>
<td>● Time saving</td>
<td>● Fake websites</td>
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<tr>
<td>● Price/product comparison</td>
<td>● Fraud</td>
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<tr>
<td>● Cost effective</td>
<td>● Long delivery timing</td>
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<tr>
<td>● Direct communication with consumer</td>
<td>● No idea about quality and physical condition of the product</td>
</tr>
<tr>
<td>● Improved customer interaction</td>
<td>● Limitation of products</td>
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<tr>
<td>● Flexible target market segmentation</td>
<td>● Lack of personal services</td>
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<tr>
<td>● Simple and easier exchange of information</td>
<td>● More shipping cost</td>
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<tr>
<td>● Easy arrangement of products</td>
<td>● Limited exposure</td>
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<tr>
<td>● Faster buying procedure</td>
<td>● Customer’s satisfaction</td>
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<tr>
<td>● Easy transactions</td>
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<tr>
<td>● Niche products</td>
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Opportunities

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
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</thead>
<tbody>
<tr>
<td>● Changing trends</td>
<td>● Competitors</td>
</tr>
<tr>
<td>● New technologies</td>
<td>● Changes in environment, law and regulations</td>
</tr>
<tr>
<td>● Global expansion</td>
<td>● Innovation</td>
</tr>
<tr>
<td>● High availability</td>
<td>● Privacy concerns</td>
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<tr>
<td>● Wide business growth</td>
<td>● Fraud</td>
</tr>
<tr>
<td>● Cut down on local competition</td>
<td>● Risk</td>
</tr>
<tr>
<td>● Advertising</td>
<td></td>
</tr>
</tbody>
</table>

**Strengths:**

An e-commerce company’s strengths are unique points which show their difference from their competitors which are competitive advantages can increase a company’s strength.

- **Convenience:** e-Retailers are moving towards enhancing the convenience factor and thus attracting the shoppers to use this channel. Moreover the growth of the mobile communication has led to the growth of the e-retailing as people are more accessible
to internet 24 x 7. Like in the case of purchasing from the physical market, we have to wait for the shop to open and certainly we try to get our merchandise before the shop closes, but in case of online retailing there is no time limits involve all you need is an internet connection and money in your pocket to pay the price

- **Time saving:** A shopper saves a good amount of time by shopping online. In the metros and even in the smaller towns which are growing fast, the life of an average person has become very fast. He has very little time after his normal routine office schedule to go to the market and purchase even the daily needed items.

- **Price/Product comparison:** Helps consumers to compare prices and product without having to move from one shop to another for comparing the benefits of the product, the shopper gets the benefit of comparing the features and cost analysis at one place. Most of the sites are providing this facility where in shopper can choose the product which exactly suits him

- **Cost effective:** Reduces logistical problems and puts a small business on a par with giants. Lowers transaction cost can be automated in a well implemented online store. If an online download facility is available, then distribution cost can be cut off. E-retail business startup costs is more economical because both kinds of new startups have low income at the start.

- **Direct communication with consumer:** Social networking sites, online advertising networks can be mediums to buzz about online store. With an effective technology it is possible to direct communication to each consumer, either by using personalized email or through customized web pages when access is made by registered user.

- **Improved customer interaction:** Quick feedback and comment forms are main features to interact with customers. Establishing a functional interaction between the e-consumer and e-retailers to attract attention, assess, and experience, and also to provide enough confidence for a purchasing transaction at a distance. When sufficient support for these factors has been established, all product categories can in principle be handled electronically.

- **Flexible target market segmentation:** Target market segment here in e-retail is flexible can be modified any time. Deciding which market to target is a key strategic consideration. E-retailers need to target customer groups with highest propensity to access, choose and buy online.
• **Simple and easier exchange of information**: Improves information sharing among e-retailers and e-customers and enables prompt quick just in time deliveries. Expanded models see e-retail as an opportunity to expand its line of business to target consumers previously out of reach. It can include functions that provide the exchange of information, facilitate business transactions and completely integrate the shared that it is faster, cheaper, and easier to modify and expand according to changing market dynamics.

• **Easy arrangement of products**: Products can be arranged in the shelves within minutes. With online store it is quite easy. It takes seconds to purchase a product from a vendor that you've done business with in the past and it can even be done from the convenience of a smartphone. E-retail makes it easy to quickly find exactly what you're looking for.

• **Faster buying procedure**: E-retail means better and quick customer services. Online customer services make customer happier. Due to absence of intermediaries for buying products. So buying procedure will be fast and quick.

• **Easy transactions**: Financial transactions through electronic fund transfer are very fast and can be done from any part of the world. E-retail puts the need for paperwork at minimum as most procedures are done electronically and also saves time for both e-retailer and e-consumer as it reduces manual business transaction.

• **Niche Products**: Almost everything can be sold on internet. Even if products targeted to smaller markets the buyer will be somewhere on net. E-retail is ideal for niche products. Customers for these products are usually few. However, even niche products could generate viable. When starting out, most online business owners find it infinitely easier to sell products that cater to a small niche market.

**Weaknesses:**

• **Security**: Security matter confuses customers especially about the integrity of the payment process. In an electronic environment where market needs, technology requirements, and security challenges change very rapidly, proactive risk-handling is essential. Unfortunately, no matter how strong your extranet defenses are, it is always possible that a new exploit could defeat your best efforts to secure the web.
• **Fake websites:** Fake websites can not only disgrace e-retail but bring bad name to e-commerce also. Fraud: Concerns about misuse of financial and personal data is a great weakness in e-retail.

• **Long delivery timing:** Delivery time can be in days or weeks which one cannot wait for. Supplier selection is extremely important in purchasing management to enhance quality, reduce *delivery time*, and to curtail purchasing cost.

• **No idea about quality and physical condition of the product:** Online products cannot be touched, wear or sit on the products. So neither the consumer nor retailer is actual aware about the physical condition of the product.

• **Limitation of products:** Limited number of products can be available. All products and SKU’s availability cannot be possible in e-retail. Since there is products limitations in e-retail.

• **Lack of personal services:** Physical products can be available but lack in personal services which are intangible.

• **More shipping cost:** Shipping cost increases if we order online. E-retail makes buying a *more* convenient experience but did not fully appreciate how much of an effect *shipping charges* can have on their bottom line.

• **Limited exposure:** In developing areas where internet is not accessible will have no or little exposure to e-retailers. Availability in remote locations is rare because of unavailability of distribution network.

• **Customer’s satisfaction:** There is no interaction between customer and the seller. Therefore the scope of convincing the customer does not exist. Many times customers prefer to buy the product by reaching personally to the market rather than purchasing through internet.

**Opportunities:**

• **Changing trends:** E-retail is fast and effective even financial transactions can be made from any part of the world. People of tomorrow will feel more comfortable to buy products through internet only.

• **New technologies:** Daily number of internet users is increasing. People feel more comfortable to shop online. Due to the rapid growth of the *e-retail* and consequently the increase of the competence, a special interest adopting & upgrading new technologies play an important role.
• **Global expansion**: E-retail business can be operated anywhere any time without any interruption. The fast technological development and the sustained revenue growth in emerging markets are likely to be critical to the future *expansion of e-retail* in the *global* market.

• **High availability (24 hour and seven days a week)**: Along with each and every click of the mouse business is in operation. Wide business growth: E-retail has wide scope and broader vision to grow.

• **Cut down on local competition**: Online customer services is a competitive advantage for the company. E-retailer can cut down on local competition through discounted pricing and through local e-retail acquisition.

• **Advertising**: Advertising is cost effective as compare to conventional offline system. Advertising through different media channels can create product awareness. While the primary objective is the build the brand and create top of mind brand recall value, industry observers say e-retail companies also use television commercials to attract talent and investors. Mainly in countries like India that online brands need to use traditional media to propagate the use of the online service, especially if the larger pie of the consumers is not necessarily online. Some e-retail companies are catching up with top offline rivals in spending big on advertising.

**Threats:**

• **Competitors**: Competition is increasing day by day big companies have already entered in this field. They are making people habitual at the cost of their companies. The threat from online competitors is leading more traditional retailers to consider embracing even seemingly outlandish technologies.

• **Changes in environment, law and regulations**: Change in trends, fashion and fad can distress e-retail side by side change in law and regulations can also affect. E-retail industry usually cannot influence or change the macro environment and must adapt to changes as they arise. Government policies can also hinder e-retail businesses by imposing regulations that increase costs, such as requiring the development and integration of new systems or procedures.

• **Innovation**: Customers now a days are always in a search of innovative products. Innovation can be either in product, place, promotion and even price. If e-retailer doesn’t innovate, its survival is at stake. Innovation in leveraging technology that
needs updated or replaced. Technology and system capabilities are changing and innovative solutions leave IT departments scratching their heads as to how to keep up.

- **Privacy concerns:** Fears that information can be misused lead to spam e mail or identity fraud. Many consumers have ceased purchasing goods online or have never started because of concerns over the privacy and security of their transactions and click habits.

- **Fraud:** Persons using unfair means to operate e commerce can damage the confidence and faith of common people. E-retail so heavily on the Internet, many *fraud* examiners are consulted for *fraud* information.

- **Risk:** Nature of fraud and risk is different because when a customer relies on unseen set up, he trusts and makes transactions. In such a way he is ready to face risk. The degree of *risk* caused by network virus and flaw of electronic payment.

### 4.2.3 PEST Analysis framework

E-retailers need to identify external factors within their environment that could have an impact on their operations. May of that e-retailers has no control over, but the implications of which need to be understood. A popular tool for identifying these external factors in the PEST Analysis, which can be used help you consider Political, Economical, Social and Technological issues.

PEST analysis examines the impact of each of the factors on the business. The results can be used to take advantage of opportunities and to make contingency plans for threats when preparing business and strategic plans (Byars, 1991). Kotler (1998) claims that PEST analysis is a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations. The use of PEST analysis can be seen effective for business and strategic planning, marketing planning, business and product development and research reports. PEST also ensures that company’s performance is aligned positively with the powerful forces of change that are affecting business environment (Porter, 1985).
Political:
- With increasing internet penetration, Government’s “Digital India Campaign” to accelerate digital growth. India has seen a manifold increase in internet users in the last couple of years, India is rapidly becoming a digital nation. According to internetlivestats.com, India has the highest yearly growth rate and currently has the third largest number of internet users globally. Mobile internet users are the dominating segment among internet users. It’s clear that mainly smart phone penetration is boosting the internet usage across the country and internet usage on mobile devices has already exceeded PC usage. Cheaper and faster mobile networks, a rise in the number of users of these networks, and more affordable 3G and 4G handsets will help to increase mobile data traffic. It’s the true fact that the key driver of data growth on a global scale is mobile apps with billions of devices to be connected each other and the online retail spending expected to grow at a higher rate.
• Tax benefits, lower transaction fees for electronic payments and a nominal charge on high-value cash transactions are among likely steps that India plans to implement to become a cashless economy. By encouraging electronic transactions, the government hopes to reduce tax avoidance and counterfeit money in the economy as all electronic transactions will be well-documented. Introduction of the goods and services tax (GST) may be a big positive for the e-retail industry. With no tax laws in place for the industry currently, tax is imposed based on the understanding of various state governments. The roll-out of GST is likely to simplify the logistics issue for. Also, the practice of companies to minimize their tax liabilities by finding loopholes in existing sourcing, distribution and warehousing strategies will have to undergo a change.

• FDI is banned in multi-brand retail and the same applies to e-retail also, the problem is in the thin line between operations of a B2B (wholesale) company and a B2C (e-retail) company. Currently, India permits 100% FDI in B2B e-commerce activities but not in B2C companies. FDI in e-retail would create new global markets for small businesses and help them scale at almost no cost besides generate employment and spur investment in supply chain management, warehousing and logistics services.

• India in the recent years has been experiencing an exponential growth in e-retail and there are new companies springing up at a rapid rate. About the only things accelerating faster than the use of the internet are the new risks that are associated with the medium's commercial applications. Although internet transaction have increased efficiency in transactions and increased accessibility for e-consumers, there exist many pitfalls that have not yet been satisfactorily dealt with. While growth in the e-retail industry is sweeping across the country, there appears to be inadequate supervision (both governmental and non-governmental) and laws dealing with quality control for these new companies and this is what makes the rapid growth alarming. The consumer affairs department has moved a Cabinet proposal to bring e-retail through all electronic modes and even direct selling under the consumer protection law. In order to ensure that consumer rights are enforced and protected, the Cabinet note proposes setting up of a Consumer Protection Authority, which will have powers to act against marketing of products and services that are unsafe and hazardous. The independent body will also have the responsibility of informing consumers about the quality, purity, standard, misleading and deceptive
advertisements by sellers. The authority can also impose administrative fine on those found violating the law. It will be based on the impact of violation with respect of population and area affected, frequency and duration of violation, vulnerability of people and the gross revenue that a manufacturer has got from sales.

- Growing domestic consumption, currently ruled government that gave stability at the Centre and declining global commodity prices have created a trifecta to position India once again as one of the top investment destinations in the world. The foreign investor confidence has returned after Modi was elected, pledging to revive investments and boost growth. The stable outlook for the next 24 months reflects our view that the new government has both the willingness and capacity to implement reforms necessary to restore some of India's lost growth potential, consolidate its fiscal accounts, and permit the Reserve Bank of India to carry out effective monetary policy (S&P: India regains Stable Outlook).

**Economical:**

- The Indian economy has the potential to grow at the fastest pace in the world, provided the reforms process does not hit political hurdles (The Gloom, Boom & Doom Report). Investors have been expecting a pick-up in the Indian economy due to cyclical factors and an expectation that the Narendra Modi government will be able to revive investments in the economy. A fall in inflation levels and lower interest rates are also expected to boost the economy.

- An expanding middle class, rising incomes and spending power, a youthful population, rapid urbanization led to increase in consumer spending. With reinforcing sentiment on job security and income recovering, consumer spending in India is likely to improve. The improvement in sentiment is primarily due to strengthening outlook towards job security and expectations regarding rising household income.

- In the near future the Internet will basically affect every dimension of our life, as we see the rise in use of internet, which make the everyday life of man easy and worthwhile. As it works on the internet connectivity, human engagement and work load will be lessened, thus leading to a better output and growth. Internet growth has already served the notice that it will be a revolutionary force resolutely restructuring Indian economy. The biggest growth will come in e-retail, which will expand almost
5-fold, while education and healthcare via mobile internet will expand internet use. Internet growth would indeed motivate entrepreneurship and wealth creation due to the huge potential of untapped Indian market.

- Online retail is buzzing with deals and sales. But when it comes to taxation policy, the sector does not sizzle, especially on the Budget day. The only spark was the Government’s pledge to implement the much-delayed Goods and Service Tax (GST) by April, 2016 and the improvement associated with debit and credit card transactions. When talking about the real challenges, the entire e-retail segment is having difficulty categorizing their offerings as ‘Goods’ or ‘Services’ for charging the Value Added Tax (VAT)/Central Sales Tax (CST) or Service Tax. E-retailers are looking forward to tax incentives that will help them to promote investment in sectors like logistics and new technological invention. A boost in these spheres can bring in revolutionary effects, which will ultimately benefit both the business and the consumers.

- A larger emphasis by the RBI on dealing with inflation, along with the RBI gaining greater monetary independence and allowing exchange rate flexibility, places it in a good position to make the transition to the new regime of inflation targeting.

Social:

- The changes in a country’s environments bring around significant changes in the demographic profile of the consumers. As Indian incomes rise, the shape of the country’s income pyramid will also change dramatically. India’s aspiring middle class, keep price points low to reflect the realities of Indian incomes, build brand loyalty in new consumers, and adapt to a fast changing market environment will find substantial rewards in India’s rapidly growing consumer market.

- Consumers find it more convenient to access the internet and shop from the comfort of their homes. They have the option of considering alternatives before making a well-informed purchase. Consumers are more likely to purchase from the web if they perceive a higher degree of trust in e-retail and have more experience in using the web. Customer’s trust levels are likely to be influenced by the level of perceived market orientation, site quality, technical trustworthiness, and user’s web experience. Consumers with a higher level of perceived site quality seem to have a higher level of perceived market orientation and trustworthiness towards e-retail.
Furthermore, people with a higher level of trust in e-retail are more likely to participate. Positive word of mouth, money back warranty and partnerships with well-known business partners, rank as the top three effective risk reduction tactics.

- With improved consumer income and short of time due to increased work hours consumers are more conscious about getting value for their time rather than value for their money and speedy delivery with greater convenience.
- The internet has created a paradigm shift in the way people shop. With internet being developed as the new distribution channel, consumer has become active at virtually any place or India is still on the developing stage as far as e time to purchase products or services of his choice. However retailing is concerned chiefly on account of low, adoption of this new marketing channel is density of internet connections.
- The growth of online retail was partly driven by changing urban consumer lifestyle and the need for convenience of shopping at home. A huge transformation in the consumer lifestyle which has been influenced by the demographics, socio-cultural factors, psychographics, preferences, norms and behavior. The Indian consumer today wants to lead a life full of luxury and comfort. Indian middle class has provided a big boost to the consumer culture due to fast growth of the services sector per capita income of people has increased; rising disposable incomes continue to drive increased spending and to generate consumer demand for a wide range of new goods and services.

**Technological:**

- E-retail is a fertile field for innovations. The flexibility and speed-to-market allows e-retailers to test new ideas and strategies. The upside is a brand new revenue stream, while the downside is some lost time and effort, at worst. Recent years have seen the barriers to e-retail melting away with hundreds of new online businesses popping up on the Internet every single day. However, not everyone has tasted the same level of success with e-retail. According to various studies, nearly 90 percent of all e-retail businesses bite the dust within no time of launching operations. The innovative moves made by some of the best online retailers in the business to keep their customers happy and have them coming back over and over again to their sites.
- Transactions over mobile can be done anywhere and everywhere provided there is basic cellular connectivity and an active internet pack. Electronic transactions over
mobile provide a rich experience due to easy-to-use Interface. The navigation panel and drop menu provide easy ways for searching and categorizing important data fields for input. M-retailing in India shopping experience created by shoppers to suit their specific consumer needs. The dramatic shift is now occurring because e-tailing in India now offers shoppers the flexibility and customization to recreate their everyday life online.

- Broadband has been transforming e-retail and rapidly becoming a utility. By nurturing a digital environment, broadband offers number of benefits like increased business productivity, improved interaction, and efficiency. The economic growth can be achieved when more population have easy access to e-retail sector. Broadband is critical for e-retail’s inclusive growth.

- When it comes to e-tailing there are websites that have more than a million products distributed across multiple catalogs who forecast themselves to grow in their respective geographical areas. These websites can be classified as horizontal e-tailing websites. It is a challenge to handle so many products (product pages, facet pages, listing pages, landing pages), handle multiple niches, and coordinate with different departments and business folks. Privacy issues provides a means to understanding whether people would be open to marketing efforts, which require information sharing and information exchange. Internet banking have an important reason to pursue the conduct of business online. In that event, they would process payments for buyers and sellers engaged in e-retail, but they would have little chance to engage independently with buyers and sellers or to offer their own products in the e-retail.
4.2.4 Porter’s five forces analysis for e-retail

Porters Five Forces is a framework for describing factors that affect the profitability and attractiveness of industries. This model was used in this study to identify and analyzes five competitive forces that shape e-retail industry, and helps determine an industry's weaknesses and strengths.

**Figure 4.2.3 Porters five forces Analysis for e-retail**

**Threat of new Entrants:**
Current e-retail industry has a lot of potential for growth for all the players. With e-retail industry estimated to vast growth there is wealth of opportunities for lot of new players to gain market share and expand their business. There are no entry barriers for starting up a
new e-retail business in India and all you need is well managed platform to showcase your products, swift operations team to deliver product quickly and a customer service team to excel in customer satisfaction. In addition, the initial capital investment needed for starting an e-retail business is very less and for most of the start-ups with around few SKUs, very less amount start capital investment needed. With growing penetration of internet and market acceptance of e-retail, there is lot of funding options for the new players when they look for expansion. All these factors pose a huge threat of new entrants to the current e-retail.

**Threat of Substitutes:**
In the e-retail industry, that too specifically in the market place, there are a lot of options and varieties available for the same product with less differentiation. Since there are a lot of suppliers competing in the same space, pricing plays a vital role in gaining more market share. With no switching cost for the buyers, the current e-retail industry has a huge threat from substitute products. Further, the product range continues to expand and e-retailers can easily introduce several different types of products to adapt to changing customer trends.

**Bargaining power of Supplier:**
For the manufacturers, e-retail is one among multiple channels for selling the product to the customers. The bigger manufacturers who are already having a good brick and mortar presence can easily forward integrate to start the online retail channel also on their own. Millions of sellers list their products on online marketplaces; hence their individual bargaining power is limited. However, sellers can also list their products on multiple platforms and sites, hence if e-retailers introduces policy and pricing changes that are unsatisfactory to sellers, then it could result in lower number of product listings on its marketplace. There are relatively fewer number of postal and delivery services as well as shipping carriers; hence any pricing change or disruption in their services could hamper e-retailer’s ability to deliver products on time. Hence, these carriers hold some bargaining power.

**Bargaining Power of Buyers:**
With e-retail industry in full expansion mode, there are a lot of campaigns, policies and processes to gain and retain customers. Customers have access to pricing information across different e-retailers. With no product differentiation there is no switching cost. Cash on
delivery, Easy returns, cheap price, exchange offers and same day delivery. All these are initiatives towards gaining more and more customers. With more intense completion in e-retail, Customers have good bargaining power. The huge competition in the e-retail allows the customers to win as companies have to keep their prices in check to attract buyers. Customers can choose from a wide range of offline as well as online players. A large number of companies have entered into e-retail with relatively niche product offerings. Hence, customers can always buy from some other website or some other store in case they are not satisfied with any one player.

Rivalry among Competitors:
With high threat of new entrants and no entry barriers, the competition in the e-retail industry in India is very intense and getting more intense day by day. E-retailers have to come up with new initiatives every often and spend more in marketing to be in the competition. With high chances of forward integration on few segments by large manufacturers/suppliers and the competition from the traditional brick and mortar business fueled the competition still more. E-retailers faces competition in its marketplaces segment from both offline and online players. Customers can buy products from a wide range of retailers, distributors, auctioneers, directories, search engines and hence the competition is intense. Various factors such as price, product selection and services influence the purchasing decision of customers. E-retailers frequently engage in price-based competition to woo buyers, which limits their ability to raise prices. In the payments business, there is competition from sources such as credit and debit cards, bank wires, other online payment services as well as offline payment mechanisms including cash, check, money order or mobile phones. Considering the entry of newer players, the competition is expected to heighten in the online payments space.

According to the analysis, competitive rivalry within the e-retail, bargaining power of e-customers and the threat of new e-retailers are the three key forces which can pose a threat to e-retail business. E-Retailers faces huge competition from both online and offline sources, which restricts pricing increases on its marketplace. Due to relatively low barriers to entry, new companies continue to crop up in the e-retail market, further intensifying the competition.
4.3 The challenges to e-Retail

Certain e-retail players and industry observers have raised concerns that deep discounts, free shipping, intense competition and higher rejection rates due to cash on delivery (COD) have impacted online e-retailing adversely. Some of these concerns are specific to India and are more difficult to overcome than issues such as internet penetration and getting more people to shop online.

Some of the key concerns are listed below:

- **Generation and sustenance of traffic**: Competition from established e-retail players is making it difficult for private label brands to generate traffic on their white-label websites.

- **High customer acquisition cost**: The customer acquisition costs have been rising due to intense competition by the relatively better off companies with more funds.

- **Last-mile delivery**: Poor last-mile connectivity, especially in remote areas with larger population, is another problem faced by Indian e-retailers.

- **High payment cost**: COD services impose substantial financial cost. In India, unlike in developed markets, COD continues to be a preferred route of payment.

- **Low profitability**: Profitability is negatively impacted by high customer acquisition costs, free shipping and high rejection rate of COD orders.

- **Regulatory barriers**: Regulatory barriers in the Indian e-retail market are higher as compared to more mature markets.

- **Skilled manpower**: Lack of talent availability and high attrition are causing manpower crunch, which is fast becoming a hurdle.

While the growth in this sector excites entrepreneurs and financial investors alike, some serious challenges are beginning to weigh down on the sector. E-retail players in India need to address eight key aspects of their business, both internal and external.

**Internal challenges**

Internal forces impact how e-Retail companies can organize to drive and sustained growth.

- **Organization scaling**: e-Retail companies will have to make sure organization design keeps pace with the rapidly evolving business strategy, along with fluid governance, strong leadership and management development. From a growth perspective, identifying acquisition opportunities, fund raising and IPO readiness
becomes necessary. From a technology perspective, it is important to transform IT as an innovation hub and address the lack of synergy between business, technology and operations functions of the enterprise.

**Figure 4.3.1. E-Retail Drivers & Challenges**

- **Tax and regulatory structuring:** Companies will need to address issues around sub-optimal warehouse tax planning; imbalance between FDI norms vis-à-vis adequate entity controls; inefficient holding, IPR or entity structures; and international tax inefficiencies. Future challenges include the new Companies Act, policy on related-party transaction pricing, and the uncertainty around GST roadmap.
• **Risk, fraud and cyber security:** From a risk perspective, e-Retail companies could face issues around brand risk, insider threats and website uptime. Issues around employee-vendor nexus, bribery and corruption make companies vulnerable to fines. Cyber security also raises some concerns around website exploitation by external entities.

• **Compliance framework:** e-Retail companies have to comply with several laws, many of which are still evolving. Potential issues around cyber law compliance, inefficient anti-corruption framework, legal exposure in agreements or arrangements, indirect and direct tax compliance framework and FEMA contraventions and regularization could pose problems. Also, uncertainty around VAT implications in different states due to peculiar business models could cause issues.

**External challenges:**
External forces impact how e-retail companies plan their growth strategy and provide seamless customer experience onsite and post transaction.

• **Product and market strategy:** e-Retail companies have to address issues pertaining to rapidly evolving customer segments and product portfolios; access information on market intelligence on growth, size and share; manage multiple customer engagement platforms; focus on expansion into new geographies, brands and products; and simultaneously tackle a hypercompetitive pricing environment.

• **Customer and digital experience:** e-Retail have to provide a rich, fresh and simple customer experience, not geared towards discovery; manage inconsistent brand experience across platforms; manage proliferation of technologies; and handle time-to-market pressure for new applications. In the recent past, social media has become more influential than paid marketing.

• **Payments and transactions:** e-Retail companies may face issues around security and privacy breach and controlling fictitious transactions. Further, RBI restrictions for prepaid instruments or eWallets act as impediments. From a transactions perspective, cross-border tax and regulatory issues, and backend service tax and withholding tax can have serious implications.
• **Fulfilment**: Companies will need to check if the physical infrastructure gets affected by the internet speed. Also, the lack of an integrated end-to-end logistics platform and innovation-focused fulfilment option could cause delivery issues. Challenges around reverse logistics management and third party logistics interactions could also act as barriers to growth.

### 4.4 Attractiveness of e-retail industry - Business Vs Consumer

From the Business standpoint, the value is analyzed against five key indicators namely, the Industry Attractiveness, Growth, Profitability, Government Policies, and Customer Loyalty. From the Consumer standpoint, the value is analyzed against five key indicators namely product variety, Product Cost, Product Quality, Reach & Security, and Shopping Experience.

![Figure 4.4.1: Key Attractiveness Indicators](image)

**A. Business**

- Attractiveness of Industry: with intense competition within e-retailers, no entry barriers posing threat of new entrants, no product differentiation posing huge threat
from substitute products, huge possibility for suppliers to forward integrate and huge bargaining power of customers makes the current e-retail industry unattractive.

- **Growth:** e-retail grown at very fast pace and estimated to in future. This industry has huge potential for explosive growth in the years to come.
- **Profitability:** e-retail is in expansion mode and all Top e-retail companies in India are profitable. This is certainly a huge task ahead and all the players are trying to be profitable.
- **Policies:** Complex taxation structure (CST/VAT) and FDI norms makes the processes and operations so complex to manage. Though FDI norms is going to support the home grown companies to have the advantage, at a larger picture easier taxation norms and FDI policies are needed for e-retailers to grow at good pace.
- **Customer Loyalty:** with no switching cost, no product differentiation, variety of options and all information of product available at ease in the platform, customers have huge bargaining powers. E-retail is hugely driven by product cost and customer loyalty is very less. E-retailers have to spend huge marketing cost and provide unique value proposition to retain customers which is not an easy task.

**B. Consumer**

- **Product Variety:** Top e-retailers like Flipkart, Snapdeal and Amazon offers more than 1 Crore products across 40+ Categories. Certainly, e-retail platform is an easier way to view, compare and select the right product. Specially market place model where-in there is no need of inventory to be bought and stored, onboard multiple vendor across country to provide a huge variety of products to the customers.
- **Product Cost:** E-retail model, by cutting the distribution mark-ups is able to provide the best product cost in the market. In today’s scenario, no other channel is able to match the e-retailers product costing and that is the unique advantage currently e-retail model has.
- **Product Quality:** though there are no much reported quality issues and e-retailers have excellent policies around Customer returns and product quality, still this is an area of concern with e-retailers from the Consumer stand point.
- **Reach and Security:** E-retail is yet to penetrate well into Tier-III cities and overall it is yet to grab a good pie out of the overall market. Also, more security concerns
surfacing out at this nascent level of the e-retail industry; security related issues are
real show stoppers for growth.

- Shopping Experience: certainly, Touch and feel is missing in the e-retail. But, with
  the maximum value for customers through Cost, Variety, Free Home Delivery, Same
day delivery, Easy product exchange, 24x7 Customer Service, and Easy product
returns. E-retailers provides excellent shopping experience on all the categories it
operates.

Current E-retail Industry is much attractive for the Consumers, with e-retailer having a list
of challenges to work on, e-consumers can continue the ‘Value Proposition’ offered in e-
retail and can keep demanding for more.

4.5 Chapter Summary

This chapter enables to understand the e-retail industry in India, also discusses opportunities
and challenges to e-retail, strategic analysis of e-retail such as SWOT analysis, PEST
analysis, Porter’s five forces analysis and attractiveness of e-retail industry. It focuses on
opportunity factors to e-retail this study. Emphasizes on the drivers for growth in the
Internet-habituated and aspirational consumer base. Chapter 5 addresses profile of e-
consumers and e-retailers.