

# Globalization and E-Commerce in India: Issues and Challenges

Dr. Pooja Malhotra<sup>1</sup>

## ABSTRACT

The role of Information Technology (IT) is indispensable in making the Indian economy globalised. Globalization has turned the whole world into a single market. Marketers have optimally utilized IT particularly internet and mobile applications to make their business global. The present paper is a descriptive paper analyzing the emerging trends and issues in IT particularly ecommerce sector in India in the wake of globalised economy. It tries to explore the challenges in the growth and development of this emerging sector and also suggest the ways to manage these challenges.

Key Words: Globalisation, E-Commerce, Information Technology, India

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<sup>1</sup> Assistant Professor, Dept. of Commerce, Dyal Singh College, Karnal, Haryana, India. Email: pkwatra@gmail.com

# **Globalization and E-Commerce in India: Issues and Challenges**

## **1. Introduction**

Present is the era of globalization. In the present scenario of globalization, the organizations have brought drastic changes at all levels. There is a huge diversity and complexity in international business due to differences in political, economic, cultural, social, technological and regional environment. Globalization includes accelerating amounts of cross-border trade and with the advancements in telecommunications technology and transportation, reducing the distances between nations. Globalization can better be described as a process by which the world economies are unified into a single entity and all work together. With the advancements of information and communication technology (ICT), particularly revolutionary internet and mobile communications have brought drastic changes in the global economy. Firms are making use of ICT to deliver their products and services at distant places more conveniently and cost effectively, which is also known as e-commerce. E-commerce refers to selling and buying of goods and services online through internet (Totonchi and Manshady, 2012). There are mainly six types of e-commerce groups, i.e. Business to consumers (B2C), Business to Business (B2B), Consumers to consumers (C2C), Consumers to Business (C2B), Business to Government (B2G) and Consumer to Government (C2G). The major benefit of E-commerce is that it has no limits or boundaries. It works on global level with reduced costs. E-commerce has accelerated the rate of international trade (Freund and Weinhold, 2004; Pohjola, 2002).

In 2014, E-Commerce has shown significant growth. Asia-Pacific has emerged as the strongest B2C ecommerce region in the world with a sales growth of 45% over 2012 as against global sales growth with 24% (Bijlani and Singh, 2015). Hence it shows a huge untapped market. In India, retail ecommerce sales reached \$5.30 billion in 2014. eMarketer estimates retail ecommerce sales, including all products ordered over the internet except travel, to grow by 45.2% to \$7.69 billion this year. Hence B2C e-commerce sales have shown a remarkable growth in India. The purpose of this paper is to analyze the emerging trends and issues in IT and ecommerce sector in India and to explore the challenges in the growth and development of this emerging sector and also suggest the ways to manage these challenges.

## **2. Ecommerce in India**

There has been a tremendous increase in number of companies embracing ecommerce technologies and internet in India for past few years. In 2014, E-Commerce sector has shown

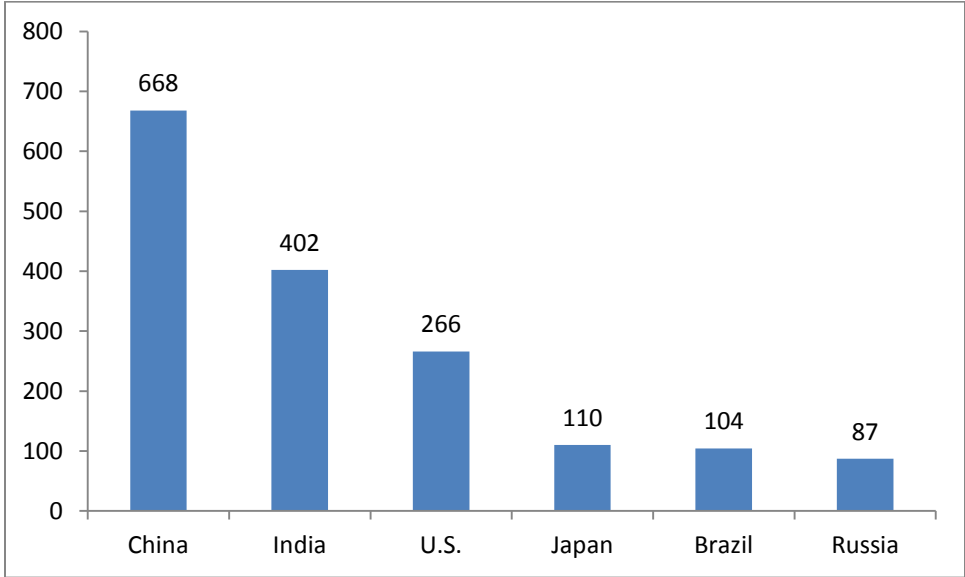
significant growth. There has been rapid adoption of technologies and devices such as smartphones, laptops and tablets, accelerating usage of broadband, 3G, and now 4G, etc., has increased the consumer base. The significant shifts in consumer groups (young population, increasing standards of living) and growing internet user base aided this growth. The growth shown by major international ecommerce players like, Amazon, Alibaba, Flipkart etc. and the Indian ecommerce portals like, Paytm, Snapdeal, Homeshop 18, Jabong, Myntra etc. and their different ways to attract consumers has intensified the competition. The Indian govt.'s digital India Project will also have its impact on ecommerce sector. This project aims to offer a one stop shop for govt services. The programme intends to bring the internet and broadband to remote areas of the country, hence will further boost the ecommerce market.

**2.1 Driving Forces:**

**1. Accelerated growth in Internet usage:**

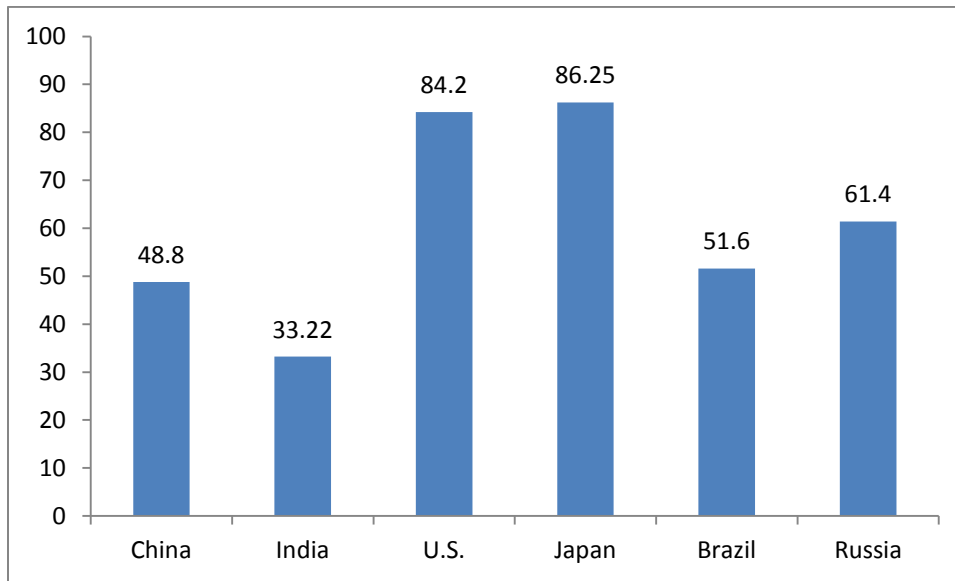
India has shown a tremendous growth in internet usage. India, which has the second largest Internet user base in the world after China, had about 402 million Internet users in 2015 showing a growth of 65.43% as compared to 2014 that indicates ecommerce sector's huge growth potential in India (Exhibit 1 and 2).

**Exhibit 1: Internet Users by Country: In Million (2015)**



Source: ITU (2015)

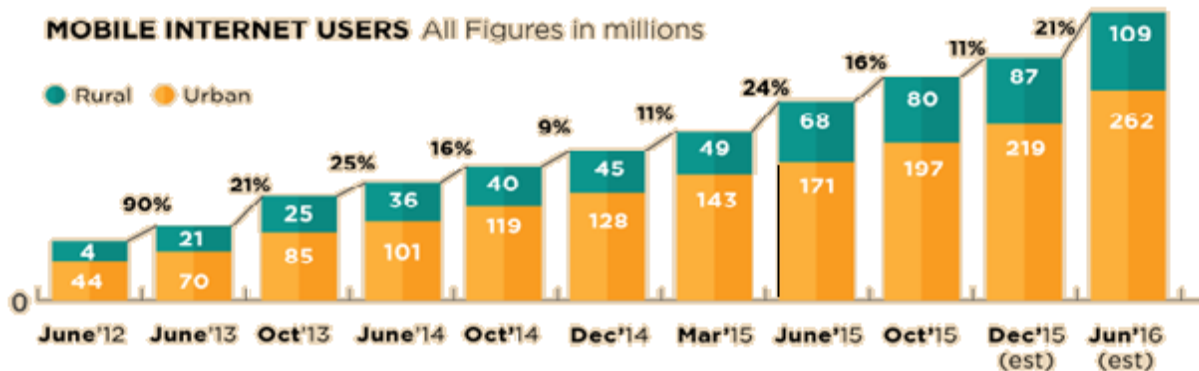
**Exhibit 2: internet penetration as percentage of population (2015)**



Source: ITU (2015)

However, in relation with its population, only 33.2 percent Indians use the Internet (exhibit 2), which has grown from just 19% in 2014. This is an indicator of huge potential of internet use in India and with increase in internet penetration; the growth potential for ecommerce industry will also increase.

**Exhibit 3: Mobile internet Users in India**



Source: IAMAI (2015)

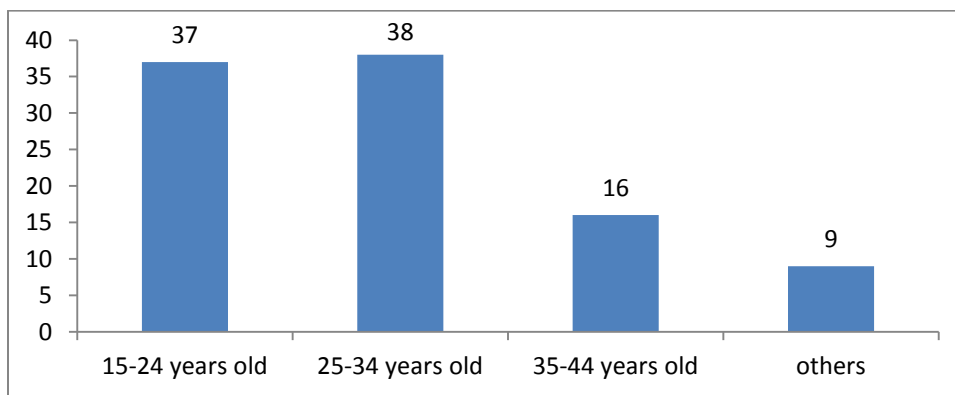
To a great extent, mobile internet use is responsible for vast growth in internet usage. In Urban India, the growth of the mobile Internet user base over the last year was 65 percent to reach 197 million in October 2015 (Exhibit 3). In Rural India, the mobile Internet user base is expected to reach 109 million by June 2016. Ninety-four per cent of users access the Internet through their mobile phones in Urban India. However, 64 per cent also use the desktop or laptop to

access the Internet. But 90 per cent of those who use the mobile to access the Internet consider it their primary device for browsing.

## 2. Demographic profile of Internet users:

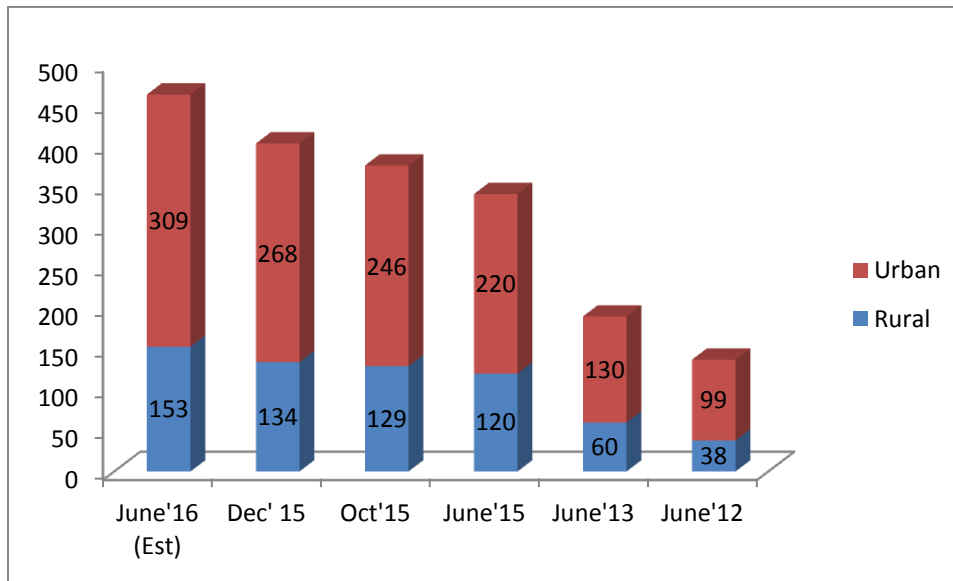
Demographic changes of internet users also indicate the growth potential of ecommerce in India. Approx. 75% of Indian internet users belong to the age group of 15 to 34 years. This group of internet users shops more than the remaining population. Peer pressure, rising aspirations with career growth, fashion and trends encourage this section to shop more than any other category and hence, India enjoys a demographic dividend that favours the growth of ecommerce. In coming years, with increase in internet access in rural areas, rural India will yield more ecommerce business.

**Exhibit 4: Demographic profile of India Internet Users (in millions and as on Sept 2013)**



As per estimates given by BCG group for 2018, the class of internet users will be more rural, older, more gender-equal and more mobile users. Exhibit 5 shows the internet penetration in urban and rural India. Internet penetration has increased in rural areas, which will yield more ecommerce business.

**Exhibit 5: Geographical Distribution of Internet Users in India (in Millions)**



Source: ITU (2015)

### 3. Investments in ecommerce sector

The formation of new government has boosted business confidence. Investors have funded aggressively the ecommerce industry in 2014 due to strong growth prospects. Besides, the traditional online formats of retail and lifestyle, newer online business segments such as classifieds, real estate, grocery and healthcare were also tapped. A number of India's blue-chip Private equity firms, are now looking for opportunities in the sector ranging from delivery, logistics and payments—largely driven by the relatively lower valuations and smaller amounts of capital required.

Major international players like Amazon are flourishing here besides the FDI restrictions, while leading Indian portals like Flipkart and Snapdeal are also trying to get bigger and better. In the year 2014, Flipkart attract nearly \$1.8 billion from foreign investors. The company has over 15 million product ranges with over 70 categories and 22 million registered users as of now (Raksha, 2014). Snapdeal also got investment worth \$627 million from one of its biggest investors Softbank. Amazon which has established itself as the king of online retail at global level has established itself in India also. The leading online retailer does not want to leave the Indian market. Further they want to enhance their presence in India and have approved \$ 2 billion in Indian market. The dollar war between major ecommerce players has provided more options and benefits for the consumers.

#### **4. Buying behavior**

An observable change is seen in the way people prefer to make their purchases. With increased internet penetration, people are becoming more tech-savvy and have started shopping through computers and mobiles using information and trends gathered from social networks and other websites. The choice has become wider and within one click, goods are delivered to the doorstep.

#### **5. Large base of online shoppers**

By 2016, a number of 653 million people in the Asia Pacific region are expected to buy goods and services online, a figure which means over 48 percent of internet users are purchasing goods and services online in the Asia Pacific region. Most popular product categories among online shoppers in this region include airline tickets and reservations, cosmetics, baby supplies, clothing, accessories and shoes, as well as computer hardware and software. The number of online buyers in India is expected to reach 41 million by 2016, representing around 27 percent of the total number of internet users in the country. Moreover, a rising number of people in the area of Asia Pacific are increasingly using their mobile phones for online shopping. In India, some 9 percent of the country's population had made a purchase via mobile phone within the past month, as of the fourth quarter of 2014. Digital buyer penetration in India is low. Less than one-quarter of internet users in the country made a digital purchase during 2014, eMarketer estimates, and by 2018, that figure will still be just 29.0%. That compares with over 81% last year in Japan and 55.2% in China.

#### **6. Growth in e-commerce market:**

Asia Pacific region has become the leader of ecommerce industry with an expected 33 percent of the global market in 2015 and over 37 percent in 2018. In fact, China, is not only driving the region's leadership due to its unprecedented economic boom, but is also set to beat the United States as the single country with the largest e-commerce market in the world. After China, another emerging Asian market in terms of e-commerce is India. Recent statistics show that retail e-commerce sales have grown enormously, from \$2.3 billion in 2012 to an estimated \$17.5 billion in India, depicting an almost eight-fold growth. The retail e-commerce sales account for 0.9 percent of all retail sales in India as in 2015, but this figure is also expected to grow in the near future, reaching 1.4 percent in 2018 (Exhibit 6).

### Exhibit 6: Total Retail and Retail Ecommerce sales in India

	2013	2014	2015	2016	2017	2018
Total Retail Sales	\$635.25	\$717.83	\$818.33	\$941.08	\$1082.24	\$1244.58
% change	10%	13%	14%	15%	15%	15%
Retail Ecommerce Sales	\$3.59	\$5.30	\$7.69	\$10.68	\$14.18	\$17.52
% Change	55.6%	47.6%	45.2%	38.9%	32.8%	23.5%
% of total retail sales	0.6%	0.7%	0.9%	1.1%	1.3%	1.4%

Source: emarketer (2015)

Up from \$3.59 billion in 2013 to \$5.30 billion in 2014 (an extraordinary increase of 47.6%), it is expected to grow by 45.2% this year and reach \$7.69 billion. By the end of 2018, it is expected to touch \$17.52 billion. The ecommerce sales (which includes all products ordered over the internet except travel) continues to register an unprecedented growth and increase by leaps and bounds over the 2013-2018 period.

#### 7. Increased product information

One never purchases non-essential items unless one is influenced. Internet allows customers to read reviews about a product. Many people are of the view that e-retailing has, in fact, increased demand for goods. This increase is well reflected not only on e-retails but in the traditional stores as well. E-retailing has, in a great way, increased product awareness in desired, specific customer segments. Almost 75% of the e-commerce space is controlled by travel websites but the online retail segment, both consumer electronics and apparel and accessories, is also growing quickly.

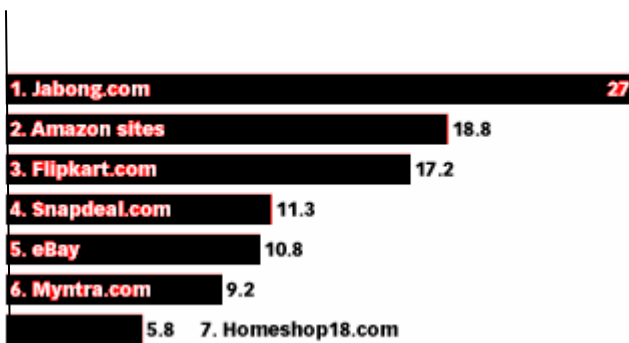
#### 8. Growth in online shopping sites:

There has been a tremendous increase in ecommerce websites. Only in 2012, online shopping e-commerce site number has crossed 600 from 100. As per survey results given by emarketer for august 2014, the fashion-focused platform Jabong.com drew the largest number of total unique visitors for the month, at 27.6 million. Next were Amazon sites (18.8 million), Flipkart (17.2 million), Snapdeal (11.3 million), eBay (10.8 million), Myntra (9.2 million) and Homeshop18.com (5.8 million), the website of the TV shopping channel of the same name.

Thus far, the entry of foreign ecommerce players has been somewhat limited by government regulations restricting the operation of foreign-funded retailers in India. While international platforms like Amazon and Japan's Rakuten are clearly interested in establishing a business-to-consumer presence in India, they face an uphill battle to do so.



## Exhibit 7: Retail Sites among Internet Users in India (Aug 2014).



Source: E-marketer (2015)

### 3. Challenges

E-Commerce players in India need to address eight key aspects of their business, both internal and external.

- **Customer and digital experience:** ecommerce Companies have to provide a rich, fresh and simple customer experience, they should not be geared towards discovery; manage conflicting brand experience across platforms; manage explosion of technologies; and handle time-to-market pressure for new applications. Most recently, social media has become more influential than paid marketing.
- **Product and market strategy:** ecommerce companies have to address issues pertaining to rapidly evolving customer segments and product portfolios; access information on market intelligence on growth, size and share; focus on expansion into new geographies, brands and products; and simultaneously deal with a competitive pricing environment.
- **Payments and transactions:** ecommerce companies may face issues around security and privacy breach and control of 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 fulfillment option could cause delivery issues. Challenges around reverse logistics management and third party logistics interactions could also act as barriers to growth.

- **Organisation scaling:** ecommerce companies will have to make sure organisation 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.
- **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, ecommerce 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:** ecommerce 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 regularisation could pose problems. Also, uncertainty around VAT implications in different states due to peculiar business models could cause issues

#### 4. Strategies

Following are some of the strategies which ecommerce companies can adopt to meet the challenges:

- **Customer experience**

The expectations of customers change fast. Ecommerce companies must understand the change drivers and adapt their policies and strategies accordingly. Companies will have to facilitate easy transition between ordering on tablets, mobile phones or PCs. Along with this, convenient multichannel returns and delivery options need to be developed 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**

The ecommerce industry is facing issues related to procurement operations and transportation due to lack of integrated end to end logistics platform. Online purchases from Tier-2 and Tier-3 cities are expected to significantly increase, due to the emergence of low cost smart phones, however, poor last mile connectivity could act as a deterrent. Companies must keep control on logistics and on fleet management, especially courier companies for growth.

- **Payments and transactions**

India continues to be a cash-based society due to limited banking and credit card penetration. Also 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 labour, 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 regulating environment**

Laws regulating ecommerce in India are still evolving and lack clarity. Favorable regulatory environment would be enhance the potential of ecommerce and help in efficiency in operations, creation of jobs and the growth of the industry. Further, the complex inter-state taxation rules make ecommerce operations difficult to manage and to stay compliant to the laws. With the wide variety of audience the ecommerce 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 ecommerce companies to keep a check at every stage and adhere to the relevant laws, so as to avoid fines and penalties.

- **Operational framework**

Different business models have been evolving rapidly in the ecommerce sector largely due to sharp competition and the inability of players to sustain high costs. Companies in ecommerce will need to adapt and innovate constantly to sustain their businesses. Further, several of ecommerce companies which have entered market as startups and have grown to a huge size because of the continuous growth of the market but they lack well defined operational framework in the form of organizational structure and defined capabilities. Hence, companies must build up their sound operational framework.

- **Digital Infrastructure**

Digital disturbance has driven change in the ecommerce 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.

- **Addressable markets**

To grow their businesses, the Indian ecommerce 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 ecommerce largely being a borderless activity companies need to keep in mind that customers always have the option to buy across the border if they cannot fulfil customers' expectations.

- **Customer Acquisition**

The customer acquisition costs have been increasing due to intense competition between different ecommerce players in India. Only 2% of website visits really result into transaction. Hence, there is a gap between potential and actual buyers. Coupled with high transaction costs, this area could pose serious problems. As per an estimate, in the US, 75% of consumers usually switch between brands, and for the rest of the world, this rate is 60%. It suggests that companies should constantly work on their brand positioning.

## **5. Conclusion**

In present scenario of globalised economy, information and communication technology (ICT) particularly internet has brought drastic changes in the way businesses are done. With the advent of ecommerce, market has provided abundant options for buyers as well as for sellers to exchange goods and services. There has been a tremendous growth in ecommerce industry in India. The number of online buyers in India is expected to reach 41 million by 2016, representing around 27 percent of the total number of internet users in the country. Digital buyer penetration is low in India. Retail e-commerce sales have grown enormously, from \$2.3 billion in 2012 to an estimated \$17.5 billion in India, depicting an almost eight-fold growth. The retail e-commerce sales account for 0.9 percent of all retail sales in India as in 2015, but this figure is also expected to grow in the near future, reaching 1.4 percent in 2018 due to huge growth potential of the market. The ecommerce companies will have to adapt their strategies in accordance with the challenges emerging out of the market such as security issues, payments, supply chain, delivery experiences, govt rules and regulation etc.

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