

E-Commerce in India –Consumer Buying Behaviour and Growth Trends an Exploratory Study

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Abstract: *With the advent of e-commerce, the Indian retail market has witnessed a revolution post 2000. With world's second largest mobile phone user base and third largest internet connections base with around 100 million broadband subscriber base, the e-commerce scene is redefining and reshaping how businesses are conducted today. With the augmentation of internet, the virtual retailer's new retail format has emerged and obligated the existing retailers to consider retailing's e-tailing model. With favored demographics such as a fairly young population, rising income levels, access to latest technology, a plethora of young entrepreneurs and a huge market potential is giving a boost to the "Brick to click to mobile" growth story. The paper analyses and elucidates the current market perspective, ecosystem, investment scenario and operational challenges on the e-commerce trends in India and the fast changing consumer preferences driving it.*

Keywords: B2C, Consumer, E-commerce, Internet, Online Retail, Trends.

Introduction

The Internet boom that emerged in India in 1999-2000 paved the way for a new technological era and immense growth and business opportunities. The Information Technology (IT) revolution further laid the foundation stone for a new digital age that redefined the way business is conducted. It reshaped the retail sector from a traditional brick-and-mortar store to an online e-commerce format. Although the online retail format had been around for last 15 years, but a favorable ecosystem has now started to emanate. As per University of California, Los Angeles (UCLA) communication policy (2001), online shopping is touted to be the third most popular activity on internet after online activities such as Email and web browsing. With India's unprecedented economic boom, the e-commerce market seems quite promising with its mass media character and being an utterly integral part of modern life. As per the Nielsen Global, there are over 875 million online shoppers in the world, with a global market expectedly pegging at \$1.4 trillion in 2015. Though comparably smaller, but promising a recent ASSOCHAM-PwC study said the last 12 months saw a surge with about 40 million consumers purchased something online this year and with superior infrastructure in terms of Internet-ready devices, 4G, broadband services and logistics, this number is expected to grow to 65 million by 2015. Currently, the e-commerce industry is pegged at total market revenues of over \$17 billion. In the succeeding 5 years, it's estimated to grow at a compound annual growth rate (CAGR) of about 35% each year clocking \$100 billion in revenues. 50% of this phenomenal growth has come in last two years. According to a

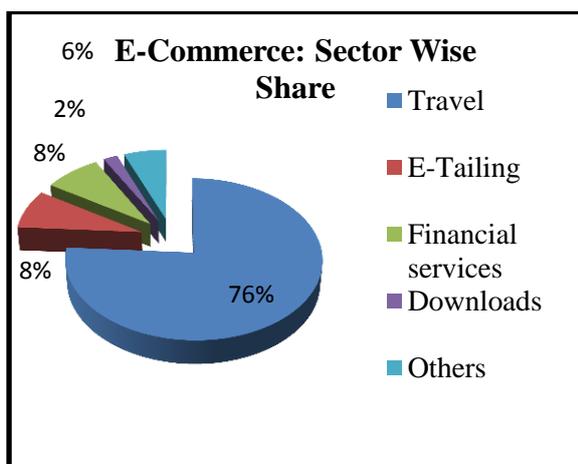
study by the Internet & Mobile Association of India and KPMG, by 2020, it is expected to contribute around 4 per cent to GDP. Today the Indian online retail market has thousands of individual e-commerce sites including home-grown innovative start-ups and only about 80 well-known online retail companies such as Jabong, Snapdeal, Myntra, Makemytrip and Flipkart.com, a six-year old web-only mass merchant with annual sales of about \$100 million.

Top E-commerce Companies in India			
India Traffic Rank	Company	India Traffic Rank	Company
5	Flipkart	160	Craftsvilla
7	Amazon.in	189	Freekaamaal
13	Snapdeal	204	Groupon.in
19	Ebay.in	210	Fashionandyou
25	Jabong	254	Infibeam
40	ShopClues	273	Homeshop18
57	IRCTC	309	Jungle
66	Makemytrip	327	Limeroad
67	Bookmyshow	339	Firstcry
84	Mysmartprice	404	Yepme
99	Mydala	423	Americaswan

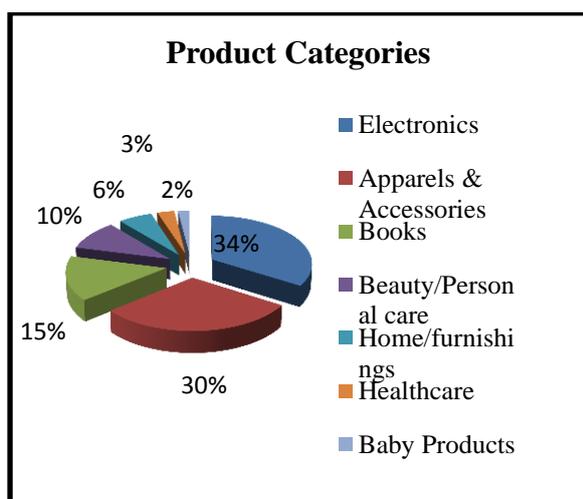
Source: *Alexa India Rankings -10 Sep, 2015*

The Indian youth below 35 years, the middle class and working women is driving this growth

trajectory by demand generation. As per KPMG, India has about one million online traders (both small & large) that are selling online through varied e-commerce websites. Online travel accounts for nearly 76% of e-commerce business in India, with as much as 75 per cent of the total industry having migrated to online commerce and generating nearly 25 per cent of its sales digitally. Since 2009-13, this business has grown at a compound annual growth rate (CAGR) of over 32%. Online non-travel industry's other categories include e-Tailing (online retail), e-classifieds (online) and Digital Downloads (in a budding stage). E-tailing or online retailing is not far behind and is touted to match the success soon.



Its biggest revenue contributors include apparel, along with computer and consumer electronics. It is projected that by the end of this year, 42 per cent of total retail e-commerce sales will have major contributions from product categories such as computers, consumer electronics, clothing and accessories.



Source:-Internet and Mobile association of India Research

As much as companies are processing 3 lakh orders a day. 1.5 million orders are placed on e-commerce

websites in India on a daily basis. The ecommerce consumers include 26 million unique visitors each day, generating a Gross merchandise volume of 220 crores for the ecommerce businesses across spectrum. The e-commerce industry has found financial backing and support from a new generation of venture capitalists, angel investors, and private Equity firms and seed funds with several high valued and strategic fund raising events. At present, 15-20 percent of the total revenues stream for a number of big logistics companies is contributed by e-Commerce business. The growth outlook seems promising, as it is estimated to grow manifold by 70 times. By 2020, the consumer e-Commerce (inventory based) single-handedly possibly will add up logistics industry's revenue coffers up by a whopping USD 2.6 Billion. Presently, about 10,000 pin codes are already catered to across India for delivery by e-commerce companies. This sector will also emerge as a major employment generator, as by 2020 it is expected to generate direct jobs in tune of 1 million and additionally 0.5 Million indirect jobs. At present, about 40,000 people are directly employed by this industry alone. Each day, as the e-commerce industry continues to broaden its sphere to new market categories and extend to new territories. This extraordinarily soaring growth rate is achievable and can last for an extended period of time as suggested by industry experts.

Objectives of the Study

The major purpose of this research was to

- To study the Market Trends of Ecommerce market in India.
- To study Indian Consumer's Online Buyer Behaviour.
- To study the major challenges confronted by marketers in ecommerce market.
- To identify the Future growth outlook and growth prospects in the ecommerce market.

Methodology of the Paper

The current study is descriptive and exploratory in nature. The data used is secondary in nature and has been collated from various websites, textbooks, industry reports and reputed journals to get an insight into the topic under study.

Indian Ecommerce Consumer Market Trends & Insights

An Insight into the Indian e-commerce market takes us to the reasons and factors that drive this growth trajectory making ecommerce an indispensable ingredient of India's trade facilitation policy. Some of the key factors that are driving the growth engine are increasing broadband Internet (236 million mobile internet users by 2016 & 314 million by 2017-IAMAI & KPMG Report) and 3G penetration in smaller towns and rural areas;

proliferation of mobile devices (3G subscriber base is expected to jump 200 million users and 680 million 3G enabled handsets by 2016-Evalueserve) and emerging need for convenience, choice and access; improved standards of living and a promising, upwardly mobile middle class with high disposable cash inflows; availability of much wider product range (including long tail and Direct Imports) compared to what is available at brick and mortar retailers; hectic lifestyles, city's traffic congestions and lack of time for offline shopping; Lower prices compared to brick and mortar retail driven by disintermediation and reduced inventory and real estate costs; Increased usage of online classified ad websites, with more customer buying and selling used goods are acting as prime movers from the demand side. With the increase in disposable incomes, abundant media choices, internet penetration and modern facilities, the shopping activity which in the past used to be a mundane necessity, has today become a pleasant and enjoyable activity for many consumers (Sinha, 2003). This trend is further fuelled with the debut of the 3G data services aided by the falling broadband subscription tariffs. The changing lifestyles of the country's urban population have also led many people relying on the internet for their shopping requirements. The ease of shopping from the comfort of one's home and having a wide product assortment to choose from has brought about increased reliance on the online medium. Exhaustive up gradation efforts have been made by the players in critical aspects such as the payment infrastructure and logistics support. Additionally, online shopping has seen a major shift and a noteworthy radical positive perceptual change in today's Indian consumers' mindset. Flash sales, coupons; festival offers and daily deals backed by Great Online Shopping Festival have played a major role in contributing to the growth of e-commerce. The demand patterns in India are primarily driven by about 4,000-5,000 towns and cities, but, there is no noteworthy existence of physical retail in almost 95% of them. One of the main reasons thwarting organized retail expansion speeds as expected earlier are the escalated real estate costs. On account of these developments, venture capital & other investors, who were limiting themselves to the sidelines, are nowadays taking an eager interest in the country's e-Commerce market. The business of e-Commerce has undergone an evolution and in the process several of its business models have emerged (with varying degrees of progression). Among the more prevalent models, consumer e-Commerce is most powerful one and the one that is more widespread in terms of reach. This impact is majorly on retail (direct consumer) on one hand, and on the other hand apparently has helped entrepreneurs & investors to achieve flourishing success and a long term commitment. Primarily, there are five business models being currently used in India namely: B2B (example Indiamart, Tradeindia),

B2C (shopper stop, Make My Trip), C2C (eBay, quikr), C2B and B2B2C (Flipcart). Majority of the global e-commerce transactions contributed are stated to be in the category of B2B of about 90%, whereas B2C e-commerce share is meager 10% only. The Indian case is no different where most of such transactions are in the makeup of B2B. Furthermore, today "Market Place" form characterizes the Indian e-commerce industry, benefitting a vast number of MSMEs and manufacturers & traders with increased business turnover while allowing them to advertise and sell their products.

There have been several mergers and acquisitions in the e-commerce segment in India, including 2014, have increased 187 per cent, compared to 2013 (the entire 12-month period). The year 2014 has already seen six deals (worth \$310 million), as against 12 deals (worth \$ 108 million) last year. With some big tag mergers and acquisitions under its belt, like the Flipkart-Myntra merger in 2014 and in 2015, acquisitions such as Mahindra - BabyOye, Ola Cabs - TaxiForSure, Snapdeal - Freecharge, Foodpanda - Just Eat India, Flipkart-WeHive Technologies and Appiterate, Snapdeal-MartMobi and more recently, Paytm's 25% stake acquisition by Alibaba's Jack Ma, this high growth cash-intensive sector also witnessed some amount of consolidation due to companies ambitions to further boost their technological and talent pool capabilities. In fact, E-commerce Players like Snapdeal, Jabong, Urban ladder and Bigbasket including others, made it an action-packed year by their several fund-raising initiatives. ShopClues rose funding in tune of over \$100 million. Some other Fund raisings include, Ola raised \$400 million CarDekho \$50 million, CaratLane got \$31 million while Practo and CarTrade \$30 million and \$627 million funding that Snapdeal raised from SoftBank. The deals made in 2014, has already been surpassed by the first half of 2015. Apart from 47 most active venture capitalists and 140+ angel investors, new start-ups will find support in 15 or so seed funds. In fact, even business honchos such as Ratan N Tata and Azim Premji are upbeat on being part of the e-commerce growth narrative, and have picked up stakes in some of the companies across verticals. In spite of no clear regulatory policy, the FDI inflows have been steady. But, with government setting focus on bringing a clear policy framework on investments in ecommerce, this vertical is sure to go places.

Indian Consumers Online Behaviour

The Indian E-commerce consumer base is looking at a exceptional surge wave of sorts with merely eight million (2012), it is expected to multiply by twelve times and touted to touch a landmark number of whopping 100 million (by 2016). This phenomenal growth in just four formidable years, with about 35 million base in 2014(as per Forrester Consulting & Google). Last 12 months of the fiscal

year saw the E-commerce phenomena driving up the aspirations of the Indian middle class and the young generation as per the recent ASSOCHAM-PwC study. A 2015 Credit Suisse survey in this regard is highly encouraging. It exudes the brimming confidence of the Indian consumer, as India is ranked first among nine nations in this consumer optimism survey. This unambiguous momentum and the structural qualities that led to this confidence have been credited to rising incomes, significant infrastructure investments strengthened by a stable government followed by easing inflation in India. Price has been the dominating aspect in the Indian market and the consumer is not hesitant in switching brands often to gain from the lucrative offers offered by the competing brands. According to the report, the factors that are attributed to consumers switching to online shopping include ease and accessibility to wider variety of assortment, including discounts as was earlier considered principally influencing shopping decisions. On one side, brand changing behavior and impulsive buying has become more apparent (Sinha and Uniyal, 2005). In today's market, New and upcoming brands have a big boon in the form of the accessibility to seamless integration of E-retailing with digital media such as social media platforms and mobile applications. According to a report provided by Forrester 5 Research, social networks play an important role in driving consumers online and getting them to engage with brands. With an increase in the number of payment options, Cash on delivery is the most preferred way of transaction. The Volume and average value of transactions higher for credit cards than debit cards. As per Assocham report, Continuing on the strong growth momentum of 2014, the e-commerce industry is estimated to see a 67 per cent increase in the average annual spending on online purchases for each individual in 2015, to Rs 10,000 from Rs 6,000 in 2014. With each passing day, high priced products have found favor and have gained a comfort level from patronizing consumers online. Women are increasingly influencing sales as more women oriented categories are introduced such as jewellery, lingerie, and motherhood etc. Tier 2, 3 & 4 cities are seeing more traction than Tier 1 cities. The future growth is expected from the age groups of 19 to 25 years with web-enabled Smartphones as we see more of their tendency to spend than their other peer age groups.

Challenges of Online Retail in India

India is a developing economy and early-stage e-commerce market, confronts numerous growth hurdles. Even though many favorable factors support the development of e-Commerce in India, the thriving industry is faced with considerable hurdles namely in the area of infrastructure, governance and regulations. Indian e-commerce companies are combating hard for achieving customer acquisitions through brand and product

differentiation, winning their loyalties, & acquiring market shares, while trying to catch more eyeballs. Secured payments dispensation remains a challenge. For 60% of the Indian population that resides outside of major cities such as Mumbai and New Delhi, Order execution and package delivery is problematic. Compared to countries such as U.S. and Europe, India has a very low fraction of customers with a credit or debit card. Moreover, today cash inflows and liquidity have become major challenges for several upcoming E-commerce ventures today. Payments, inadequate logistics infrastructure and delivery mechanisms are a challenge for e-tailing in India. However, in 2013 big online companies managed to commence same day delivery to the major cities. About Rs 35 is spent, for every Rs 100 spent on e-tailing on supporting services like warehousing, payment gateways, and logistics, among others. 8-10% is the delivery costs that company incurs, implying significant burn. Large e-tailers handle almost 50-60% of delivery logistics today by themselves, this percentage may trim down in future as the contribution of lower tier cities catches up. Restrained internet access to a larger segment of the Indian population due to a lesser internet penetration of eleven percent as compared to world average of thirty four percent, is stalling the growth of e-Commerce in India. A major challenge confronting the supply chain infrastructure is inaccessibility to distant territories home to a large share of the Indian population acting as missing links leading to poor last mile connectivity. Cash on Delivery (COD) remains the most widely used payment method by the e-commerce companies in spite of being the expensive method. This challenging practice is apparent due to various factors pertaining to online payments such as lack of customer trust in online transactions, high failure instances of Payment gateways' and slow receipt of online payments. Being capital intensive ventures, E-Commerce business needs to have an environment conducive to its expansion and a supportive regulatory framework backed by government support patronizing it. As currently several major monetary, technical and operational challenges inflict this industry such as reduced profit markups, technology infrastructure, and inadequate physical logistics and distribution infrastructure. To thrive successfully in the Indian market, only Companies with strong financial background and those are able to attract investments credibly on a continuous basis will thrive successfully. However, the regulatory restriction on foreign direct investment imposed by the government in consumer e-Commerce has limited the investment scenario. This has placed an uncertainty with severe capital constraints on the survival of many e-Commerce Players especially dealing in inventory based e-tailing.

Future Outlook and Trends

The stupendous growth curve of the industry is propelled by various demand and supply driven aspects. This growth formulation is further backed by extraneous government and policy framework regulatory environment marketplace dynamics. With this growth trajectory likely to continue its upward swing as internet penetration continues to improve, India has one of the lowest penetration rates, so there is huge potential. A vast emerging economy like India with a large young populace with a voracious appetite for technology, undoubtedly this has made India the 3rd leading nation (after China and USA) in Internet usage volume in the world. Associated Chambers of Commerce and Industry of India (Assocham) along with PricewaterhouseCoopers (PwC) has said as India moves towards becoming a consumption driven economy, this consumer centric model presents a very large and transformative opportunity. The investment scene seems lucrative with striking Low entry level barriers in the industry. Thereby prompting and steering several young new generation aspiring and industrious persons into the world of entrepreneurship ventures. A noteworthy 63 percent of e-Commerce ventures have been launched by first generation entrepreneurs. The e-Commerce growth engine has further been turbo-charged by the e-Commerce and its associated companies to achieve highest level of online buyer time and acquire his wallet portion. They have set growth juggernaut rolling by adopting several pioneering business models and actions such as the launching of hi-tech innovations, easy payment options, and several other consumer friendly policies. M-commerce will be the next big thing- 7 out of 10 customers will shop from Mobile. Incidentally, 65 per cent of the total Internet traffic in India is mobile internet traffic, higher than most other countries (As per Mary Meeker's 2015 report on Internet Trends). 50% of total online traffic for all marketplaces is contributed by Mobile devices, which is the highest compared to any of the country. The increasing affordability of smart phones and accessibility of internet among Indian middle class has boosted M-commerce. The share of "Cash on Delivery" for B2C E-Commerce payments in India is forecasted to decrease but remain dominant, while third-party wallets are expected to show the fastest growth, closely followed by increase in EMI payments mode.

The Future Growth Prospects

Online Grocery will be the hottest E-Commerce growth e-commerce industry vertical. As per an Industry expert, Urban India's increasing shortage of time is fuelling the growth of online grocery and in 2015 we are expecting at least 20 metropolises to be fully covered by e-grocers. Bigbasket and Localbanya are two of the successful big brands in this category. Computer and consumer electronics

categories are expected to continue fueling the market in the future as well. Small scale Retailers will face stiff competition from marketplaces. Research and consulting firm Spire had predicted that within next 4-5 years, ecommerce industry is going to consolidate, with only 2-3 players surviving at the end. The fact is that there is a fierce combat happening at the top amid big layers and billions are being pumped in to out-smart the rivals. It's all about economy of scales. Big data is the latest buzzword. Its predictive analytics are helping e-businesses in spotting and tapping into customer insights from online consumption patterns for sales, product development, stocking devising pricing, advertising campaigns and launch plans. The niche sectors such as precious jewellery, grocery, and furniture have found boost from new players in the market. Whereas the existing players have strongly backed the apparel and electronics segments with big investments, these are indeed the key drivers. The capability to provide the assurance of Next-Day-Delivery will emerge as a competitive advantage. India Post may be the most in demand delivery channel due its might of being largest postal network in the world with approximately 1.55 lakh post offices According to India Post, delivery and logistics consists of 12% of the e-commerce market and in 2015 India Post is expected to have one of the largest shares. There are a couple of other trends. On the operational side, there are focused augmented efforts in brand & image building exercises, efficient payment systems including its enhanced security, transition from offline to online customer facilitation and big data improved consumer insights to cross sell and up sell goods and services. On the physical front, the trends include increasing products lines, bettering logistics, and growth of the multi-sector and niche players. Lastly and more importantly e-commerce forays by big corporate groups like Aditya Birla and Reliance groups along with others. There will be an increased importance on Social Media and its increasing use as a channel for sales and consumer engagement followed by mobile centric (Mobile commerce) application for Smartphones. E-tailers should primarily focus on consistent mobile application updates, its user-friendliness and security aspects to better customer experience. Latest and state-of-the-art transaction security solutions set-up should be choice of e-Commerce payment systems in view of the extensive usage of mobile devices. With clear policy on FDI in ecommerce, there will be no dearth of funds and cash inflows for the promising players.

Conclusion

As an upcoming phenomenon catching a nation's fancy, Digital consumerism has a bright future and scope for patronage in India. The online shopping setting in India is changing very rapidly with the advent of big brands, international competitors & brands, augmented investments and development

of niche kind of e-commerce companies. Also, the number of online buyers will shoot up considerably with stepping up in physical infrastructure facilities such as internet broadband connectivity, wider adoption of internet-ready devices and associated logistics services. By and large, e-commerce collectively with online retail constitutes a small part of total sales in India, but is set to mature to a sizeable amount. There is huge capacity for future

growth backed by the stabilization of the e-commerce business environment and importance demonstrated by various Venture Capitalists players including domestic & International, combined with support from the Government of India. For a lasting growth, operational profitability and sustainability, Scalability will be imperative for the e-commerce players; this seems possible in a billion strong economies.

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