



# The Evolving Contours of E-commerce in India

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## Summary

*The e-commerce landscape in India is changing rapidly, as cash-rich, globally renowned firms announce their intention to enter the domestic arena in India. Concurrently, e-commerce is engendering rapid change in the thousands of small firms listed base and is evolving into a surprisingly robust medium for the inclusion of hitherto neglected groups into mainstream retail.*

## Introduction

It was just over a year ago that Walmart/Flipkart and Amazon were deemed to be the two dominant players in the e-commerce sector, accounting for over 75 per cent of sales. The expectation was that the duopolistic structure would persist, with the smaller firms phased out through acquisitions or attrition. A year later, not only is the imminent entry of at least two firms with a global reach likely to change the landscape, e-commerce's footprints in expanding to hitherto neglected sectors of the economy, and its catalytic effects on development of segments of infrastructure is becoming more visible. E-commerce firms are rapidly deepening and broadening their engagement with smaller players on the periphery and catalysing the development of neglected parts of the infrastructure, with potential benefits that extend well beyond the sector.

Three distinct developments are likely to shape the growth and impact of e-commerce in the near future.

1. Changes in the market structure with the entry of large, new, well-funded players;
2. Enhanced prospects for inclusion of sectors hitherto on the margins, including *kirana* stores ((local mom-and-pop stores), micro, small and medium enterprises (MSMEs) and agricultural produce; and
3. Innovation and development of the supporting infrastructure.

## Structural Change in the E-commerce Sector

The structure and competitive intensity in the e-commerce sector are likely to be shaped by three distinct trends: i) The entry of large cash-rich global firms with troves of data and staying power in the market; ii) Blending of offline, or physical retail with online retail; and iii) The growth of verticals, where manufacturing to the eventual sale of the product, is carried out by the same firm. The entry of large players can limit the advantages of incumbency in e-commerce in emerging markets. Unlike the United States and China, where Amazon and Alibaba are the entrenched market leaders, broadening their scope of operations, the field in India is evolving. Brand loyalty is limited; companies entering the fray with deep pockets have the resources to compete. Reliance, with an existing retail network

across the country, will join the online space with an initial capital base of US\$5 billion (S\$6.8 billion). It has launched a beta food and grocery app to bolster its brick-and-mortar presence combining offline and online retail. Google is making its first global foray in e-commerce in the Indian market.

At five per cent of total retail, the limited reach of e-commerce portends prospects for significant expansion. By providing price transparency and information on quality, e-commerce is pushing bricks-and-mortar stores towards product improvement as well. To elicit brand loyalty, and consolidate market shares, e-commerce across the world is embarking on blending online and offline retail. As the pace of accumulating online customers tapers off, firms strengthen their imprint through a combination of digital and physical stores or 'phygital'. Several online brands in the fashion and lifestyle segment, such as Myntra, Nykaa and Firstcry, have opened retail stores across the country.

Following the acquisition by Walmart, Flipkart has entered the physical retail space. It acquired an Israeli analytics start-up, Upstream Commerce, to help position its products. Consumers have been less willing to switch to online retail in fresh produce and groceries, offering scope for exploiting synergies.

### Niche E-commerce Verticals

Several verticals including Purplle, Panchi, Nykaa and Wholesalebox are seeking to carve out niches of customer loyalty and shopping experience through verticals that integrate the entire supply chain and more, under one roof. Keen competition in the e-commerce sector will compel the more significant players to innovate continuously, especially to reach out to new customers. A task that will be far more challenging than signing up the first generation of tech-savvy, financially well-off urban professionals.

### **Enhancing Prospects for Inclusion**

A trend that should encourage policymakers is the expansion of e-commerce into hitherto neglected and vulnerable sectors. Amazon and Flipkart have signed up tens of thousands of MSMEs on their platforms. Several start-ups, including SnapBizz, Connect India and Mobisy, are designing programmes to actively co-opt *kirana* stores into the supply chain by digitising their operations.

A significant concern among regulators has been the economic viability of the nearly 17 million *kirana* stores that dot the Indian landscape with a presence in almost every neighbourhood in the country. While they may not be unique to India, with the near absence of organised retail, *kiranas* account for over 95 per cent of retail sales and, at present, are the only profitable segment of the Indian retail sector. At a conservative estimate, well over 100 million lives depend directly and indirectly on *kirana* sales. Thus, the survival and, indeed, the viability of *kirana* stores, assume great political and socio-economic importance. This modernisation helps retain the traditional customer base while enhancing profitability, service, and prospects for not just survival, but also increased profitability.

The emergence of large fulfilment centres in urban areas, such as the German Metro Cash-and-Carry stores has the potential of co-opting of the millions of *kirana* stores into digital supply chains. The Reliance *Jio* model offers a choice to *Kirana* stores to enter franchise agreements in return for modernisation and digitisation of the stores – a model akin to 7-Eleven stores.

MSMEs are an extremely heterogeneous sector, with firms ranging from tiny vendors to mediums sized firms, embedded in domestic and international supply chains. Research shows that MSMEs with digitised operations, including digital payments, data analytics, online advertising, etc., will stimulate growth in the sector and engender a cascading effect on other industries. Firms with digitised operations are more productive, profitable and far more likely to be engaged in international trade. Amazon contends over 50,000 MSMEs are on its platform selling in global markets. Likewise, FlipKart/Walmart placed tens of thousands of MSMEs on their platforms, enabling entry of these enterprises into export markets and offering a powerful market-driven, focussed stimulant to upgrade skills and enhance efficiency.

The Indian government is active in leveraging and nudging e-commerce platforms to transform and organise traditional offline markets, such as those of agricultural produce through the launch of e-commerce platform to link farmers with the vegetable markets and onwards to final retailers. Startups in the food and grocery sector enlist farmers in the supply chain through advanced orders and futures contracts for taking delivery at harvest. For farmers, this eliminates a significant source of risk-price uncertainty at harvest. Benefits to MSMEs, *kirana* stores and farmers will ease regulatory pressures constraining growth and boost the case for domestic and overseas expansion of e-commerce.

## **Development and Innovation in Supporting Infrastructure**

The efficiency and growth of e-commerce across geographies is predicated on an efficient, supportive ecosystem and infrastructure. E-commerce requires an infrastructure encompassing the digital infrastructure with universal and speedy access to data, Smartphone ownership, logistics, finance, marketing, cybersecurity, among others. Logistics covering the spectrum of activities from integrating supply chains, to surface and air transportation, to storage and local delivery networks is vital to the viability and prosperity of e-commerce firms. The poor quality of logistics infrastructure in India has induced many e-commerce firms to establish in-house or captive logistics subsidiaries carry most shipments followed by traditional logistics service providers. More recently, Indian Post, a public sector entity, introduced an e-commerce portal leveraging upon its parcel delivery business.

The e-commerce retail logistics market in India growing at an annual rate of 36 per cent and is over S\$2.06 billion. Logistics firms handle over two million shipments daily with half the shipments delivered outside the metro cities. The most critical driver of e-commerce, the quality of logistics services, differentiates players in e-commerce retail, as the emphasis on customer satisfaction and service assumes greater importance.

E-commerce could not exist without advances in financial technology (FinTech) such as digital payments and online wallets, enabling millions to participate in the digital economy. Fintech's most significant contribution to e-commerce may well be in countries with low levels of inclusion and financial development. By providing alternative payments channels, including cross border payments, and changes and improvements in digital payment systems, much of e-commerce would not be feasible and e-commerce would not exist. FinTech has provided alternative payment methods. Without FinTech, cross-border e-commerce would be almost impossible. FinTech is changing the way consumers store and spend their money, shaping the future of e-commerce and online financial transactions.

Innovations in payments ease the shopping experience enabling shoppers to go online with security, accessibility, convenience, and efficiency. FinTech has been integral to the expansion of most start-ups, including ride-hailing apps, delivery firms, food delivery apps and others that enter the digital payments space. The critical questions in the Indian context relate to matters of the appropriate policy framework to maintain trust. Trust is essential for FinTech to gain traction. Innovations and the expansion of FinTech in the retail space will help include small businesses, as entities crop up to offer bridging finance, and working capital to existing customers and attract new customers.

In the quest for greater inclusion, Google and Tata Trust teamed up on a project 'Internet Saathi' to enable women in rural India to participate on the net. Paytm launched Paytm Payment Bank, India's first bank with zero charges on online transactions and no minimum balance requirement to enlist customers from marginalised groups. The innovations in logistics and Fintech generate externalities with benefits that can extend well beyond e-commerce.

## **Concluding Thoughts**

E-commerce continues to grow at a brisk pace, driven by rising incomes, a young demographic profile, growing digital literacy and internet penetration, and growth in smartphone ownership. E-commerce is the primary driver boosting the growth of the internet economy. A growing number of blue-chip bricks and mortar firms that had resisted investing in e-commerce are now proactively seeking opportunities in the digital space.

E-commerce has the potential of engendering some positive trends in the Indian economy. By facilitating access for *kirana* stores to digital technology and enabling MSMEs to participate in export markets through online platforms, it can have a powerful catalytic effect on enhancing efficiency among participating firms, and motivating others to strive towards broader national markets and beyond. For policymakers, it strengthens the case for openness. If the reach of e-commerce into marginalised sectors intensifies, it could de facto help bolster the case for lighter regulation. Competition intensifies and e-commerce nurtures greater inclusion.

The government has encouraged the trend through investments in expanding the fibre optic cable network for 5G, which should improve connectivity. Liberal foreign direct investment (FDI) policies now allow 100 per cent FDI in business-to-business e-commerce. Internet penetration in India grew from just four per cent in 2007 to 46 per cent in 2018. The growth

of e-commerce helps boost employment, incomes, spending, tax revenues as well as the quality of products and services offered to customers.

Electronics and apparel account for more than three-quarters of online sales. As online participation increases and demand from customers in rural and semi-urban areas broaden, along with better customer services and product assurance, the scope of e-commerce will expand beyond electronics and apparel. However, despite rapid growth, e-commerce accounts for barely five per cent to total retail sales; hence, the growing emphasis on blending offline and online retail.

Amazon introduced its global selling programme in India in 2015, which, currently, accounts for cumulative exports of US\$1 billion (S\$1.4 billion). According to Amazon, nearly 50,000 Indian manufacturers, brands and traders are presently making use of its global e-commerce exports channel to sell 150 million products, across 12 Amazon international marketplaces. Flipkart has introduced similar programmes, training tens of thousands of small enterprises on how to sell on its platform, and even on how to reach out to export markets.

Two serious challenges confronting the e-commerce sector in India are counterfeiting of goods sold online and concerns about cyber-security. The answer to security problems may well lie in the adoption of Blockchain. Blockchain provides companies with a secure alternative to other digital technologies. By eliminating paper-based transactions, it reduces risks of fraud and manipulation, instead offering sellers and customers to transact through cryptocurrencies while recording transactions with security. Blockchain technology is used to store digital records and exchange digital assets. It is being deployed to store real estate records, a database particularly susceptible to fraud and manipulation in India. China's online giants, Alibaba and JD.com, are using Blockchain technology to assign physical products with electronic identifiers via QR codes to record movement from source to customer, thereby eliminating the possibility of substitution in the supply chain and the risk of counterfeiting.

Rapid advances in digital technology have transformed the e-commerce landscape, creating opportunities and challenges for consumers, service providers, and regulators alike. The new trends will redefine the future of e-commerce as well as the success of efforts towards increasing digitisation of payments. The ideal public policy stance would be for the Government to develop the infrastructure needed for the growth of the digital economy, create a level playing field, create conditions for innovations to address India's myriads of challenges, and step back from intrusive regulations.

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