



An Analysis of Growth and Prospects of E-Commerce in India

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Abstract

E-commerce is emerging as one of the most rapidly growing segments within the Indian economy. Despite its high growth rate, the Indian e-commerce industry has lagged behind its counterparts in many developed and emerging economies, primarily due to a relatively low internet user base. The e-commerce market in India has evolved significantly, transitioning from a mere marketing platform to a one-touch buying and selling marketplace. The objective of this paper is to identify and analyze the factors that have contributed to the e-commerce boom in India and to propose strategies to further accelerate the growth of the e-commerce industry. We delve into historical trends and provide evidence that positions the Indian e-commerce sector for exponential growth. This study aims to explore the evolution of e-commerce in India, highlighting the various challenges it has faced and identifying the factors responsible for its future growth and development. The government initiatives and regulations would play a vital role in the future prospects of E-commerce.

I. Introduction

E-commerce (Electronic Commerce), encompasses the exchange of goods, services, funds, or data over electronic networks, primarily the internet. These transactions manifest in various forms: Business-to-Business (B2B), Business-to-Consumer (B2C), Consumer-to-Consumer (C2C), and Consumer-to-Business (C2B).

Why E-Commerce?

With the widespread adoption of Information and Communication Technologies (ICTs), particularly the Internet, the global business landscape is undergoing a rapid shift towards Business-to-Business (B2B) e-Commerce. This transition offers distinct advantages to buyers, who can leverage the Internet to access the global market. They can now compare prices across different regions, assess price variations based on order sizes, and explore substitute products with ease. The transparent nature of the market enables customers to make effortless comparisons among various e-commerce platforms. In the realm of e-commerce, competitors are just a click away for consumers. If clients are dissatisfied with a particular e-commerce site's products, prices, or services, they can switch much more seamlessly than in the physical marketplace. From the perspective of sellers, the need for a physical brick-and-mortar presence is no longer a prerequisite.

II. Objectives

- To study and understand the evolution and growth of E-commerce in India
- To conceptually analyse the factors driving E-commerce in India and its future prospects

III. Research Methodology

This paper has been composed primarily using secondary data as its foundational source of information. Secondary data has been sourced from various articles, journals, research papers, magazines, daily newspaper, internet and official statistical documents. Qualitative research approach is adopted.

IV. Growth of E-Commerce in India

India has witnessed remarkable growth in internet access and mobile phone usage after the launch of “Digital India” project in 2021, reaching 830 million internet connections, with 97 percent of metropolitan areas having wireless internet access. Smartphone adoption is also on the rise, with an expected one billion smartphones in use by 2026.

E-commerce market size India 2014-2030: Experiencing exponential growth, the e-commerce market in India reached approximately \$22 billion in 2018, with projections indicating it could surge to \$350 billion by the year 2030 (Statista 2023). The e-commerce sector in India has

thrived due to the surge in online shoppers, expanding into various digital commerce segments, including business-to-business B2B, direct-to-consumer (D2C), consumer-to-consumer (C2C), and consumer-to-business (C2B) transactions. The projected CAGR of 27 percent is expected to make the Indian e-commerce market worth \$163 billion by 2026, nearly three times the overall retail market growth rate.

E-commerce platforms in India: Competition in India's e-commerce industry is intense, with numerous local and foreign companies vying for a significant market share. As of April 2017, Amazon India emerged as the top online marketplace, boasting sales exceeding \$500 million. Meanwhile, Flipkart and Myntra remained prominent players in the domestic market. In a May 2020 survey regarding the allowance of e-commerce platforms to resume deliveries in India after the coronavirus lockdown, a majority of respondents voted in favor of permitting these deliveries.

Growing trend of e-commerce in India: In 2022, the Indian e-commerce market was valued at \$63 billion, and online sales, especially in groceries, are projected to constitute over 25 percent of sales for most major retail categories by 2026. Digital-first brands have become significant players, accounting for more than 25 percent of online sales. These brands are also expanding into offline spaces, challenging traditional competitors. However, many traditional players have struggled to adapt to the dynamics of the online market. Currently, digital-first brands derive about 75 percent of their sales from online channels, while traditional players lag behind with less than 30 percent from online transactions.

V. Factors Driving E-Commerce

- *Reduced Overhead Costs:* Operating an e-commerce store offers substantial cost advantages over a traditional brick-and-mortar shop. Opting for cost-effective web hosting services, as opposed to leasing physical space, eliminates expenses related to security, warehousing, and staffing. Common e-commerce expenditures comprise domain registration, web hosting, website development, and inventory management. Additionally, marketing expenses are generally more budget-friendly compared to the overhead costs associated with maintaining a physical storefront.
- *No Need for a Physical Storefront:* E-commerce addresses various challenges associated with traditional brick-and-mortar stores, such as high rent, utility, and

security expenses. In contrast, e-commerce allows you to establish a strong online presence without the necessity of a physical location, resulting in substantial cost savings.

- *Ability to Reach a Broader Audience:* The key benefit of e-commerce lies in its extensive audience reach. In contrast to physical stores primarily serving local customers, e-commerce has the capacity to connect with potential buyers on a global scale. Even if your target market is local, e-commerce enables you to engage with customers across a broader geographic area, potentially leading to higher sales. This expanded reach has propelled numerous small e-commerce businesses into becoming well-known brands.
- *Scalability:* A significant advantage of e-commerce is its scalability, essential for sustained long-term growth. Unlike physical storefronts, which encounter limitations and necessitate costly relocations as businesses expand, e-commerce empowers online stores to grow organically alongside the business, eliminating the need for costly physical moves.
- *Track Logistics:* Effective logistics management is vital in both e-commerce and traditional retail marketing, but e-commerce offers distinct benefits. The outsourcing fulfillment logistics can result in quicker shipping and more streamlined return procedures in e-commerce. Additionally, e-commerce generates electronic records that simplify sales tracking and trend analysis, facilitating long-term business growth and optimization.

VI. Government Initiatives To Boost E-Commerce

Since 2014, the Indian government has launched several key initiatives, including Start-up India, Skill India, Digital India, and the Innovation Fund. These programs are expected to play a pivotal role in advancing the e-commerce sector within the country. Here are the primary measures the government has taken to promote the growth of e-commerce in India:

- As of June 8, 2022, the Government e-Marketplace (GeM) platform had successfully processed 10.35 million orders, amounting to Rs. 258,359 crores (equivalent to US\$ 33.07 billion). These transactions involved 4.56 million registered sellers and service providers serving 60,632 buyers.

- According to the Consumer Protection (e-commerce) Rules 2020, introduced by the Consumer Affairs Ministry in July, e-commerce firms are mandated to display the country of origin alongside each product listing. Additionally, these companies are required to disclose the criteria they use for selecting which products are featured on their platforms.
- As part of the Digital India initiative, the government has launched several initiatives to promote digitalization. These include Umang, the Start-up India Portal, and Bharat Interface for Money (BHIM).
- Piyush Goyal, the Minister of Commerce and Industry, has urged startups to register on GeM, the public procurement website, and provide their products and services to Public Sector Undertakings (PSUs) and government organizations.
- The government required international companies using Indian e-commerce platforms to have Permanent Account Numbers (PAN) from 2016 to October 2020. In the FY21 budget, a 2% tax was introduced on the sale of goods or services facilitated by non-resident e-commerce operators.
- In order to promote the involvement of foreign enterprises in the Indian e-commerce industry, the Indian government raised the cap on Foreign Direct Investment (FDI) in the online marketplace model to a maximum of 100%, particularly in the Business-to-Business (B2B) models.
- India's e-commerce sector is expected to experience growth due to the government's substantial investments in building fiber networks for 5G technology.

VII. **Key Areas To Focus For Future Prospects**

Ray (2011) noted that “As a symbol of globalization, e-commerce represents the cutting edge of success in this digital age and it has changed and is still changing the way business is conducted around the world.” Advancements in internet and web-based technologies have significantly diminished the distinctions between traditional and e-marketplaces, propelling e-commerce to swiftly emerge as the prevailing norm. Alongside its inherent benefits, such as cost savings, global market accessibility, improved relationship management, and enhanced information transparency, e-commerce stands poised for a

promising future, particularly within the e-retail sector, offering numerous avenues for growth.

- **Focus on Services** – Amidst the proliferation of e-commerce firms offering similar products and services, the key to enhancing their performance metrics lies in the realm of services. Services can serve as a differentiating factor, allowing these firms to gain a competitive edge and expand their customer base by providing superior service compared to their rivals. While social media stands as a vital data source and advertising platform for e-commerce companies, it also serves as an outlet for customers to express their dissatisfaction in the event of a poor shopping experience. Such instances can be detrimental to the reputation of online vendors or marketplaces. To mitigate this risk, firms can prioritize customer satisfaction by ensuring consistent updates on orders and deliveries and promptly addressing any grievances. Additionally, maintaining product quality remains crucial in safeguarding their image and reputation.
- **Internet Marketing** – Internet marketing holds a pivotal role in enhancing the overall customer experience and driving increased traffic to websites. The attractiveness of website design and its user-friendliness are crucial factors that contribute significantly to a firm's establishment and success in the e-commerce market. Search engine marketing (SEM) is a form of web advertising that businesses employ to promote their products and services by featuring them on search engine results pages, as outlined by Gangeshwer (2013). SEM, which strategically places advertisements on search engine result pages, has emerged as a vital strategy for customer acquisition. Simultaneously, companies can harness the power of effective Search Engine Optimization (SEO) to boost their online visibility, consequently attracting more traffic to their websites.
- **Tapping Rural Markets** – The potential of rural markets remains largely untapped, despite the widespread adoption of smartphones in these areas, primarily due to the need for expanded network services. According to the "India@Digital.Bharat" Report jointly published by BCG and IAMAI, there is a significant increase in the share of rural areas within the Internet user base, with estimates indicating substantial growth. As per the report published by The Hindu, in 2022, India boasts a total of 759 million 'active' internet users. Among this substantial user base, 399 million users hail from rural India, while 360 million are from urban India. This

data highlights the rural sector's role in driving internet growth, projected to represent 56% of new users by 2025. Companies have a golden opportunity to tap into rural markets. To do so effectively, they should create content in vernacular languages for better rural engagement and enhance logistics for vital last-mile connectivity to remote areas.

- **Better Infrastructure** – As a substantial portion of online traffic transitions from desktop to mobile devices, e-commerce companies must develop data-efficient mobile apps and streamline their mobile websites to offer customers a seamless shopping experience.
- **Rise in the share of Digital Payments**– Cash on Delivery (COD) has long been the preferred payment method for most buyers due to its convenience and privacy. While it has boosted sales, COD has drawbacks, including added costs and reverse logistics challenges for merchants. Efforts to reduce COD usage through delivery charges and digital payment discounts have been hampered by customer security concerns. However, after the 2016 demonetization in India, there's a shift toward cashless payments. Many e-commerce firms have seen a drop in COD orders as customers increasingly adopt credit/debit cards, net banking, and mobile wallets. This trend can be sustained with a focus on secure payment infrastructure.

VIII. Conclusion

The growth of e-commerce in India relies significantly on the implementation and continuous strengthening of effective IT security systems, along with the establishment of necessary technological and legal provisions. While an increasing number of companies, organizations, and communities in India are beginning to tap into the potential of e-commerce, there are crucial challenges that must be addressed before it can truly benefit the common people. With the proliferation of internet connectivity through mobile devices such as smartphones and tablets, millions of consumers are now making online purchasing decisions. This trend presents an opportunity for enterprises to establish a digital presence, enhance productivity, and build their brand digitally. However, government policies must ensure that cost-effective methods and solutions are available to support this growth.

E-commerce in India is poised for significant growth, both in terms of revenue and geographic reach. This is largely attributed to the fact that customers can place orders from anywhere with

an internet connection. To succeed, e-commerce providers should prioritize delivering a seamless customer experience, offering multiple payment options, and making a wide range of functions available online. Additionally, expanding product offerings and reaching a broader geographic audience are other advantages. Despite these opportunities, e-commerce businesses face various challenges in their quest for success. One prominent challenge is the establishment of consumer trust in the e-commerce ecosystem, which warrants further research and attention.

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