International Journal of Social Science and Economic Research

ISSN: 2455-8834

Volume: 04, Issue: 06 "June 2019"

DIVERSIFYING, REUSING, INVESTING - ANALYZING THE GROWTH OF SECONDARY E-COMMERCE MARKETS IN INDIA

Aaddya Dubey

The Step By Step school

ABSTRACT

E-commerce has moved beyond its previously defined restrictions. It is not just about buying and selling commodities online but extends to electronically communicating, collaborating and discovering information and ideas. It has started to impact a significant portion of Indian businesses and consumers. Innovations in business models have driven individuals to take on the roles of producers beyond their conventional role of consumers in the offline market. The internet has enabled such vendors to connect with consumers across the globe and market second-hand commodities and personalized services. The diversification of this industry is also projected to add to its growth rate in the future. This paper has analyzed the history of e-commerce in India with respect to the orientation that investors, entrepreneurs, businesses, consumers and the government towards this industry. The transformation of this industry into an oligopoly will have an impact on all economic entities that transact business online, especially on the secondary e-commerce sector and innovation in the industry in general. Policies enacted by the government in 2019 have the potential to reduce the risk of market hegemony at the cost of slowing growth in the short run. However, other drivers of growth such as higher levels of internet penetration, investment in technological infrastructure and human capital and increase in ease of doing business are said to propel the Indian e-commerce industry to unprecedented rates of growth.

Keywords: E-Commerce, Consumers, Entrepreneurs, Online Shopping

INTRODUCTION

The recent boom of e-commerce in India can be traced to two major changes in public policy. The first one, occurred in 1991 when India changed its economic policy and enabled the liberalization, privatization, and globalization of its economy (Weinraub, 1991). Moreover, since the turn of the 21st century, India has been progressing at a faster pace towards a free-market economy, with a substantial reduction in state control of the economy and increased financial liberalization. Despite the criticism of lopsided development, these policies significantly

ISSN: 2455-8834

Volume: 04, Issue: 06 "June 2019"

improved not just the growth rate but also the standard of living in India (Kumar, 2005). Globalization not only implies the flow of goods, services and capital between different economies but also facilitates the transfer of technology and business innovations. Technological growth aided by changes in economic policy has resulted in the pivot towards conducting business online. Internet prices in India have fallen by 93% in the past three years which has caused a direct increase in the ability of consumers to communicate with producers and middlemen online (PTI, 2018). It can be concluded that the e-commerce industry in India owes its existence to changes in the economic policy and technological infrastructure.

The Internet and Mobile Association of India (IAMAI) published a report in 2017 which stated that the number of active internet users would reach 465 million by June of that year (ET Bureau, 2017). E-commerce grew slowly in its initial years in India, which is why it has lower market penetration than in the west. But since e-commerce websites have started to adapt themselves to the Indian market and consumer base, the market has been growing at unprecedented rates, with six million consumers entering the e-commerce market every month in India since 2015 (Times of India, 2015). Indian consumers were unreceptive of e-commerce for a long period of time because it was too alien for them to fully opt-into. People were also reluctant to make payments to distant merchants who were not considered ‘credible’. For a long period of time, before Indian e-commerce companies like Flipkart and Snapdeal entered the market, international e-commerce companies like Amazon and eBay still listed products in dollars in the Indian market. However, it was not long before companies, both inside and outside India realized the immense potential that the Indian population had, to create perhaps the largest e-commerce market in the world. Startups like Flipkart, Myntra, Jabong and Snapdeal started disrupting the Indian market by offering superior commodities at lower prices. The introduction of ‘cash on delivery’ as a payment method, easy return policies and the growing popularity of e-commerce companies increased consumer confidence in them(Bhana, 2015). Amazon and eBay, at the same time, had started to pour in immense levels of capital into the Indian market since 2014 even after making heavy losses since their launch a year ago.

Government policy has also gone a long way in facilitating the growth of e-commerce in India. Programmes by the central government including ‘Digital India’ and ‘Startup India’ have directly or indirectly increased the ability of Indians to engage in and more importantly, create businesses online. A push towards ‘digitizing’ the economy, that is, moving away from transactions that involve the use of cash ever since India demonetized its currency in 2016 has made online payments safer, more common and efficient (IANS, 2017).

BACKGROUND

ISSN: 2455-8834

Volume: 04, Issue: 06 "June 2019"

The e-commerce industry in India had a very different composition during its inception. IRCTC was the first e-commerce website. It was an experimental operation set up by the Ministry of Railways to sell train tickets online (Kumar, Nagendera, 2018). After operating for almost two decades, it sells around 600,000 tickets every day (NDTV, 2015). Alongside travel, platforms that provided matrimonial and recruitment services emerged as the pioneers of the e-commerce industry in India in 1996 and 1997 respectively (Sardana, 2009). However, e-retailing changed the perception of e-commerce by bringing it into the mainstream. Investment by venture capitalists on startups and international companies on their Indian operations started to increase at staggering rates. E-retailing companies started to offer products at prices much lower than prices in the market to create and capture a market for themselves, at the cost of running losses in the short term. Google, in 2012 partnered with e-commerce companies including Flipkart, Snapdeal a MakeMyTrip to launch the 'Great Indian Shopping Festival', the Indian counterpart to 'Cyber-Monday'.

Websites offer high discounts to incentivize customers to become their long term clients. Amazon entered the Indian market in 2013 to compete with local players who maintained an unquestionable hegemony in the Indian market. It had invested more than $10 billion in the Indian market by 2016 (Kharpal, 2016). Both domestic and foreign investment into the startup market in India, which is centered around e-commerce led to the growth of companies that presently dominate their markets like Paytm. However, since 2014, there have been several high-level acquisitions, with firms merging with their direct competitors and thereby increasing the risk of monopoly in the market. Flipkart acquired Myntra in 2014, and Jabong and PhonePay in 2016(TNN and agencies, 2016). In May 2018, the American Retail giant Walmart acquired Flipkart for $16 billion, making it the largest e-commerce acquisition in the world (ET Online).

The E-Commerce market had grown to reach Rs 1,07,800 crores (US$24 billion) by the year 2015. The online travel industry and the e-Retailing industry are joint market leaders. Mobile and DTH operators serve more than a million customers every day online. The absence of online pharmacy laws in India has allowed the pharmaceutical sector to expand over time. Online sales of luxury products like jewelry also increased over the years. There has been a twenty-fold increase in the sales influenced by women online between 2012 and 2016 with the expansion in the markets such as 'baby care' where products catering to the 'special interests' of targeted demographics are sold. Around 26,000 online 'Niche retailers' are registered every day. This shows the need for platforms to personalize their products and services according to the needs of consumers. E-Commerce has also changed the face of the art industry completely. A study by Invaluable in 2016 concluded that social media had become the primary way for consumers to discover art (American Attitudes Towards Art, 2016). This has to lead to the creation of

ISSN: 2455-8834

Volume: 04, Issue: 06 "June 2019"

marketplaces for not only creators and buyers of art, but also for curators, galleries and other intermediaries (Weinswig, 2016)

DISCUSSION

India's e-commerce market is expected to grow more than threefold from 2017 to 2021 because of the increase in the number of internet users and higher use of smartphones. The number of internet users in India is expected to increase from 560.01 million as of September 2018 to 829 million by 2021 (IBEF, 2019). According to reports by Deloitte India, the number of consumers in the Indian e-commerce market are to increase from 15% to 50% of the able population in the next decade (Deloitte, 2017). This is because of increasing rates of internet connectivity in rural India, where the majority of the population resides. India is also home to the most number of millennials in the world, a demographic which has favored the use of e-commerce across the globe (Dsouza, 2019). This has been one of the causations behind the rapid growth of the e-commerce industry in India in the past decade. Mobile wallet transactions, which have increased from the value of 300 crore rupees in 2016 to 200 crore rupees in 2018, also are a cause and effect of the increasing dominance of e-commerce over the Indian economy (Hindu Bureau, 2019). The average value of orders has increased from INR 1080 in 2012 to INR 1860 in 2019 (Saradna, 2019).

Higher disposable income has been a driver of growth along with a young demographic and increasing internet penetration. This has reflected in increasing investments ranging to US$ 7 billion in private equity and venture capital in Indian e-commerce companies(IBEF, 2019). Government policies and regulatory frameworks such as removing the cap on foreign direct investment (FDI) in e-commerce is expected to further propel growth in the sectors. The Indian e-commerce industry and is expected to surpass the US to become the second largest e-commerce market in the world by 2034 (IBEF, 2019).

However, as the e-commerce industry in India is growing, there is concern regarding the shape and form that it is taking. A series of mergers and acquisitions in the past few years have made the e-commerce industry an oligopoly. Moreover, Walmart and Amazon have emerged as leaders in the market, with several companies operating under them. This has led to growing concerns amongst policymakers. The e-commerce industry has been the hub of innovation in the fields of technology and supply chain management. It has also reached a phase where there can be a potential conflict between capitalism and competition. This is because, at higher levels of competition, the individual profits that firms make are lower (Wadhwa, 2019). Thus, when mergers and acquisitions cause a decrease in the number of platforms to turn the market into oligopolies, duopolies and eventually monopolies, there is a negative impact on the competition amongst companies within the market. This, in turn, harms independent innovation, as all

ISSN: 2455-8834

Volume: 04, Issue: 06 "June 2019"

investment is directed towards meeting the needs of the market hegemons only. The network effect states that in such markets; there is a detriment to new firms from entering the market and all existing vendors are forced to cater to one or very few platforms which puts them at a position of disadvantage in negotiations (Sridhar, 2019). This also causes the concentration of capital in the hands of very few entrepreneurs, companies and investors. Along with expertise, this helps them the ability to gain positions of unfair advantage over government agencies, vendors and consumers. Therefore, to ensure that the e-commerce industry grows in the right direction, there is a need for the government to enact and implement rules and regulations.

CONCLUSION

If internet companies are allowed to grow without any checks by the government, they can cause harm to society beyond the sphere of business. Websites like facebook and twitter have been used as a means of manipulating elections in the United States and France. Therefore, it is important to keep the financial and technological resources that companies have in control and to monitor how they use those resources. There has been a cap imposed on the level of discounts that can be given by online platforms. These discounts reduce the selling price of commodities lower than the manufacturing cost, which disrupts the demand for primary and secondary commodities. Platforms have also been banned from selling products of companies in which they have equity stakes or management control and having exclusive sales for any brand or company(Ganapathy, 2018). This is because platforms in India are supposed to 'marketplaces' that are not supposed to discriminate between sellers (Singh, 2019). The goal behind this was to ensure that commodities sold by Indian companies are not discriminated against by platforms controlled from abroad. This implied that Flipkart, a company owned by the American retail giant, cannot give preferential treatment to brands owned by Walmart or Oppo, a Chinese phone manufacturer that it previously exclusively sold over Indian vendors and brands. The government must continue to frame regulations to protect local small scale vendors against the financial might of multinational e-commerce giants.

The imposition of new regulations discussed above in February 2019 is expected to slow down the growth rate of the e-commerce industry in India (PTI, 2019). In revised estimates according to research by Morgan Stanley, the US financial giant, it is revealed that the Indian online retail will touch the US$ 200 billion mark only 2027 instead of 2026, which was the estimate before the imposition of new regulations. However, despite the decrease in growth and revenue in the short run, the Indian e-commerce is expected to surpass its American counterpart to become the second largest e-commerce market in the world (the first being China). In present India has lower levels of e-commerce penetration as compared to the west, but the unprecedented rise in consumers that the market is presently witnessing goes on to show that the industry is at an

ISSN: 2455-8834

Volume: 04, Issue: 06 "June 2019"

inflection point and that high levels of growth are achievable in the coming years (Saradna, 2019).

The e-commerce industry in India has tremendous potential for growth because of better access to the internet, the higher purchasing power of consumers, increasing rates of investment for producers and the government's support through policy. Development of e-commerce leads to higher levels of competition with companies, the fulfillment of personalized needs of consumers and the larger economic progress of the nation. Personalization of goods and services has started to disrupt retails markets ranging from fashion to furniture. An increase in the availability of raw materials due to their presence online leads to increasing rates of economic activities, especially in regions that are underdeveloped. Innovation in e-commerce is happening in C2C (consumer to consumer) and C2B (consumer to business) business models as well, which is an indicator of the economic development that can be fueled by individuals not only behaving as customers but also vendors. However, the benefits of such economic growth will only accrue to a select few capitalists at the cost of exploitation of all other economic entities. The degree of the state's control over e-commerce growth will determine the shape that this industry takes in the future.

BIBLIOGRAPHY

"American Attitudes Towards Art, 2016", Invaluable, Accessed on 6th May, 2019 https://www.slideshare.net/Invaluable_PR/american-attitudes-toward-art-invaluable-2016

Bhana, Yusuf, "In COD We Trust", 6th February, 2015 https://www.translatemedia.com/translation-blog/cod-trust/

Deloitte, "Konnected to Consumers, 2017", Accessed on 5th May, 2019

Dsouza, Sharleen, "India's E-Commerce Market To Reach $84 Billion By 2021: Deloitte Report", 10th March, 2019 https://www.bloombergquint.com/business/indias-e-commerce-market-to-reach-84-billion-by-2021-deloitte-report

ET Bureau, "India's Internet user base to cross 450 million by June 2017: IAMAI", *Economic Times*, 1st March, 2017

ET Online, "What Walmart's Flipkart acquisition means for India, consumers and its arch-rival Amazon", *Economic Times*, 10th May, 2018 https://economictimes.indiatimes.com/industry/services/retail/softbank-ceo-confirms-walmart-flipkart-deal/articleshow/64093437.cms

Ganapathy, Nirmala, "New e-commerce rules in India may hit Amazon and Flipkart", 28th December, 2018 https://www.straitstimes.com/asia/south-asia/new-e-commerce-rules-in-india-may-hit-amazon-and-flipkart

Hindu Bureau, "Next level of consumer growth in India in 2019 through e-commerce: Deloitte", *The Hindu*, 26th February, 2019 https://www.thehindubusinessline.com/info-tech/next-level-of-consumer-growth-in-india-in-2019-through-e-commerce-deloitte/article26373617.ece

IANS, "E-commerce sector rides on Digital India, note ban", *Economic Times*, 31st December, 2017 https://retail.economictimes.indiatimes.com/news/e-commerce/e-tailing/e-commerce-sector-rides-on-digital-india-note-ban/62313974

IBEF, "Indian Ecommerce Industry Analysis", Accessed on 5th May, 2019 https://www.ibef.org/industry/ecommerce-presentation

Kharpal, Arjun, "Amazon plans $3 billion investment in India to challenge Flipkart, Snapdeal", *CNBC*, 8th June, 2016 https://www.cnbc.com/2016/06/08/amazon-plans-3-billion-investment-in-india-to-challenge-flipkart-snapdeal.html

Kumar, R., Nagendra, Asha, "An analysis of the rise of E Commerce in India", Accessed 6th May, 2019

PTI, "Data tariffs fall 93% in last three years: Telecom department", *Economic Times*, 29th March, 2018 https://telecom.economictimes.indiatimes.com/news/data-tariffs-fall-93-in-last-three-years-telecom-department/63537339

PTI, "Morgan Stanley revises estimates: E-commerce sector to touch $200 bn by 2027 after tightening of rules",*First Post*, 19th February, 2019 https://www.firstpost.com/business/morgan-stanley-revises-estimates-e-commerce-sector-to-touch-200-bn-by-2027-after-tightening-of-rules-6109701.html

Sardana, MMK, "Evolution of e-Commerce in India and challenges ahead", Accessed on 5th May, 2019 http://isid.org.in/pdf/DN1407.pdf

Singh, Manish, "Amazon and Flipkart face uncertainty as India readies new rules for foreign ecommerce companies", 31st January, 2019 https://venturebeat.com/2019/01/31/amazon-and-flipkart-face-uncertainty-as-india-readies-new-rules-for-foreign-ecommerce-companies/

ISSN: 2455-8834

Volume: 04, Issue: 06 "June 2019"

Sridhar, V, "E-commerce policy needs to be specific", *The Hindu,* 15th April, 2019 https://www.thehindubusinessline.com/opinion/e-commerce-policy-needs-to-be-specific/article26847384.ece

Wadhwa, Vivek "India is wise to curb big tech's monopolistic ways", *Economic Times*, 7th February, 2019 https://tech.economictimes.indiatimes.com/news/internet/india-is-wise-to-curb-big-techs-monopolistic-ways/67876016

Weinraub,Bernard, "Economic Crisis Forcing Once Self-Reliant India to Seek Aid", *New York Times* 29th June, 1991 https://www.nytimes.com/1991/06/29/world/economic-crisis-forcing-once-self-reliant-india-to-seek-aid.html

Weinswig, Deborah, "Art Market Cooling, But Online Sales Booming", *Forbes,* 13th May, 2016

