Online Retailing - Challenges and Opportunities

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Introduction

- India has seen some dramatic changes in the way internet has affected the lives of the people. Though the internet using population in India is low in terms of overall percentage of total population but, in absolute numbers it is very high.
- This gives great opportunities for various ecommerce sites to reach this segment.
- Internet penetration rate in India is 7.1% which is one of the highest in the world. Moreover a very high percentage of the population accessing internet in India is in the age group of 20-45 years.
- In spite of all this online retailing forms a meager 0.08% of the total Indian retail market.
- The Online-retailing (less frequently; e-Retailing, e-Tailing, etc.) is the concept of selling of retail goods using electronic media, in particular, the internet.
- Online retailing is a very new and advanced concept to the Indian market.
Introduction

- Inspite of high penetration rate of Internet and having high population the contribution of online retail is very low compared to other developed countries.
- So it becomes necessary to explore the strengths, challenges faced and opportunities to be exploited by online retailers.
The following are the criteria that are essential for a shopper to make online shopping:

1. **Pricing:** can get amazing prices if we invest some time for looking out different websites for the same products.
2. **Ease of shopping:** The website should be very much user friendly.
3. **Security of transaction:** A customer should be taken in confidence that whatever information he is going to disclose for the shopping, will be kept confidential and will not be disclosed.
4. **Guarantee of the product:** The consumer should know the product which he is going to purchase should be worth of the price paying, should meet the prevailing quality standards and should carry a valid guarantee or warranty.
5. **Return policy:** Customers like the websites with precisely defined return policies.
6. **Customer Care services:** Customers like the website with chat support and very less turnaround time for the query posted.
7. **Support Services in E-Retailing:**
The following are the essential support services:
- Communication backbone
- Payment mechanism
- Order fulfillment centres
- Logistics

8. **Shopping Cart:** The customers select their goodies and fill shopping cart. Finally, as in a real store, at the time of checkout, the system calculates the price to be paid for the products.
History Of Online Retailing

- English entrepreneur Michael Aldrich invented online shopping in 1979.
- His system connected a modified domestic TV to a real-time transaction processing computer via a domestic telephone line.
- In March 1980 he went on to launch Redifon's Office Revolution, which allowed consumers, customers, agents, distributors, suppliers and service companies to be connected on-line to the corporate systems and allow business transactions to be completed electronically in real-time.

Michael Aldrich, pioneer of online shopping in the 1980s
Global Scenario of Online Retailing

- The global retail digital transformation market is boosted by factors such as availability and ease of internet access, enabling easy access to customers for shopping online.
- In addition, factors including advanced shipping services and safe and secure modes of payment have raised inclination of customers towards online retail.
- The rising utilization of mobile devices such as tablets and smartphones, offering great convenience to customers, has positively affected the global online shopping scenario.
- The large number of promotions and discounts on products available online and the rising company investments for the swift development of mobile applications also pushed online sale.
- In 2013, on the basis of revenue, North America dominated the market for online retail due to the presence of prime players and rise in internet access within this region.
Global Retail Online Segmentation

The global retail digital transformation market has been segmented as follows:

Retail Digital Transformation Market, by Mode of Access
- Mobile Apps
- Websites

Retail Digital Transformation Market, by Product
- Consumer Electronics and Appliances
- Apparel and Footwear
- Media, Toys and Games
- Food, Grocery and Beverages
- Furniture and Home Improvement
- Beauty and Personal Care
- Others

Retail Digital Transformation Market, by Geography
- North America
- Western Europe
- Eastern Europe
- Asia Pacific excluding Japan
- Japan
- Latin America
- Middle East and Africa
## The 2013 Global Retail E-Commerce Index™

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Market type</th>
<th>Online market size (40%)</th>
<th>Consumer behavior (20%)</th>
<th>Growth potential (20%)</th>
<th>Infrastructure (20%)</th>
<th>Online market attractiveness score</th>
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Note: Scores are rounded. 100 is the highest score and 0 the lowest for each dimension. Market type is determined by comparing online growth potential and online consumer behavior.

Sources: Euromonitor, International Telecommunication Union, Planet Retail, World Bank, World Economic Forum; A.T. Kearney analysis
Index Findings

- China occupies the top spot, and the G8 countries (Japan, United States, United Kingdom, Germany, France, Canada, Russia, and Italy) all fall within the Top 15.

- Developed countries feature prominently in the Index, holding 10 of the 30 spots, including first-place China. These markets have been able to shortcut the traditional online retail maturity curve as online retail grows at the same time that physical retail becomes more organized.

- Consumers in these markets are fast adopting behaviors similar to those in more developed countries.

- Rankings include 10 “small gems” - countries with populations of less than 10 million, including Singapore, Hong Kong, Slovakia, New Zealand, Finland, and The United Arab Emirates, Norway, Ireland, Denmark, and Switzerland - that have active online consumers and sufficient infrastructure to support online retail.

- On the other hand, India, the world’s second most populous country at 1.2 billion, does not make the Top 30, because of low internet penetration (10 percent) and poor financial and logistical infrastructure compared to other categories.
The retail sale over e-Commerce portals in the country touched an unprecedented high of $5.30 billion during 2014.

It is further expected to grow by 45.2% over 2015 and touch a figure of $7.60 billion.

In spite of the industry having grown by leaps and bounds, online retails in India accounts for less than 1% of the total retail sales.

Global leaders like Amazon see the country as one of the biggest opportunity windows and continue to sell from here in spite of all odds, while also promising to step up their investment and pump up their operations. Leading Indian players like Flipkart and Snapdeal have been on a funding spree too, what with some of the biggest venture capitalists on the global front continuing to show faith in their startups.
The total retail sale in India has increased from $635.25 billion in 2013 to $717.83 billion during the year which just ended, growing at a rate of 13%.

It is expected to touch $818.33 billion in 2015 registering a Y-O-Y growth of 14.0%. By 2018, total retail volume will grow to $1,244.58 billion, growing steadily at 14-15% annually.
Total Retail Sale Vs. Online Retail Sale in India

- Retail e-Commerce sales in India, on the other hand, which were a meager $3.59 billion in 2013, grew to a somewhat better $5.30 billion in 2014, a Y-O-Y growth of 47.6% as compared to 55.6% over the previous year. In the year 2015, total online retail in India all set to touch $7.69 billion, growing at a rate of 45.2%. By the year 2018, e-Commerce retail in the country is expected to grow to $17.52 billion.

- Now while the online retail is consistently expected to grow over the coming four years as well, the rate of growth of e-Commerce is seen to be slowing down. From an impressive 55% over 2012-13, it is expected to drop to a decent looking 45.2% over 2014-15 before dipping to 23.5% in 2017-18.

- Talking in percentage terms, online retail sales which formed only 0.6% of the total sales volume in 2013 is expected to ‘improve’ and account for a 0.9% share of it in 2015 and account for 1.4% of the total sales volume in the country by 2018.
What Ails The Indian Online Retail?

- Though the trend of purchasing online is catching up in India, only 12% of our population has ever made an online purchase till date.
- The opportunity window for online retailers in the country is huge. The main reasons behind that being the rapid urbanization, rising literacy levels, a large percentage of young population, increased Smartphone penetration, increasing adoption of computers, rapidly growing access to the internet and the falling rates at which the internet can be accessed.
- As a business model, it appeals to the ‘value-minded’ Indian mindset, which is about getting the best value for money spent.
- **Government policy:** One of the main factors holding back an otherwise robust growth is the government restriction on FDI.
- **CoD and High Rate Of Return:** The most popular mode of payment for online purchases in India is Cash on Delivery (CoD). This affects the profits of the online retailers in two ways- the courier service charges extra for making a CoD delivery.
What Ails the Indian Online Retail?

- **Touch and Feel Factor:** A majority of buyers prefer to touch and feel the goods before they buy them.

- **Cybercrime:** A larger part of our population dreads the prospect of having to pay online. While they are comfortable with NEFT and RTGS transfers, they are reluctant using their debit or credit cards for purchasing online, the reason being cyber crime.

- **Logistics:** No matter how much we hate to admit it, we have third world logistics. The huge success of online retail in developed countries is largely because of their rock-solid logistics.

- **Frauds:** From the consumer’s point of view, the quality of goods and services delivered to the consumers has been a cause of concern. There have been cases of fraud, late delivery and damaged goods which only erode away buyers’ faith.

- Apart from that, the tax rates in India vary from sector to sector which is not the case in countries like UK and USA- they have uniform tax rates.
Strengths of Online Retailing

1. **Easy access to market** - Online marketplaces such as eBay and Amazon allow anyone to set up a simple online shop and sell products within minutes.

2. **Reduced overheads** - remove the need for expensive retail premises and customer-facing staff, allowing you to invest in better marketing and customer experience on your e-commerce site.

3. **Potential for rapid growth** - With a good e-marketing strategy and a plan a scale up order fulfillment systems, we can respond and boost growing sales.

4. **Widen the market / export** – ability to expand market beyond local customers very quickly.

5. **Customer intelligence** - Ability to use online marketing tools to target new customers and website analysis tools to gain insight into your customers’ needs.

6. **Communication with Indirect Sales Channels** - Through technologies such as email and customer chat applications, online retail operations are able to quickly relay information to customers and suppliers.
Strengths of Online Retailing

7. **Metrics and Marketing** - ability to integrate analytics software that tracks the behavior of visitors to site.

8. **Save Time** - shoppers can purchase their shopping orders and instantly move to other important things, which can save time.

9. **Save Fuel** - there is no need for vehicles, so no purchase of fuel necessary.

10. **Save Energy** - customers do not need to waste their precious energy when buying.

11. **Comparison of Prices** - it is very straightforward to conduct price comparisons from one online shopping website to another.

12. **24/7 Availability** - The availability of online stores gives freedom to shop at one’s own pace and convenience.

13. **No Waiting in Lines**

14. **Too Ashamed to Buy** - Items like weird ornaments, sexy lingerie, adult toys, etc. can be purchased as secrecy is maintained.

15. **Easy to Search Merchandise You Want to Buy**
Top 20 Online Retailers in India

1. Amazon.in
2. Flipkart.com
3. Rediff Shop & Gift
4. Jabong.com
5. Yepme.com
6. Myntra.com
7. Snapdeal.com
8. Infibeam.com
9. FabFurnish
10. HomeShop18
11. eBay.in
12. Naaptol
13. Nykaa.com
14. Shimply
15. Peppermint
16. ShopClues.com
17. Ezoneonline.in
18. FirstCry.com
19. The Times of India Group
20. Fashinara
Challenges of Online Retailing

1. Lack of Internet Access
2. Unproven Business Models
4. Channel Conflicts
5. Legal Issues
6. Security and Privacy
7. High website costs
8. Needs of Infrastructure costs
Challenges of Online Retailing

9. High Website advertising costs in crowded market.
10. Lack of customer trust due to non personal communication.
11. Lack of Touch and feel factor.
12. Diminished Instant Satisfaction.
13. Lack of full cost disclosure.
15. Need to move constantly with the technological advancement.
16. Availability of a required Data instead of Huge Data.
Opportunities in Online Retailing

1. Development in Smartphones or Mobile Shopping.
2. Creating a high performance website on basis of SEO (Search Engine Optimization).
3. Creation of an appealing web design.
4. Focus on timely delivery of products.
5. Invest in quality product packaging.
6. Enhancement of Delivery
Opportunities in Online Retailing

The Conclusion

- Need for established management which will bring in the requisite skills to evaluate business plan, check out revenue models, help identify alliances and integrate supply chain processes with e-commerce initiatives.
- With more innovation and exploring the many opportunities that needs to be tapped, there is a very high scope of online retail to be the next face of major sale pulling agent.
- Expansion of target segments and geographical areas across the country through technological advancement and creating awareness.
- Need for becoming more of customer centric organization rather than a product centric organization.
- In this intricate business world, the e-retailing will become tremendous business strategic concept, and it may be very helpful and most profitable method of business process in coming decade.