

Industry Analysis And Outlook: E-commerce

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Abstract

This brief paper report on research carried out on “Industry analysis and Outlook: E-Commerce”. It provides emphasis on types of e-commerce businesses, entry/exit barriers, Govt. Legislations, SWOT analysis of complete sector and prospects of e-commerce in India. It also addresses the question whether B2B ecommerce provides cheaper access to global markets for producer firms in the developing country or will it be able to strengthen the existing relations of buyer and supplier.

Introduction

We are shopaholics, we spend most of our incomes on consumer durables and we are very rational in nature. We are citizens of India who are now being termed as “netizens” as well. Often referred to as simply ecommerce (or e-commerce) the phrase is used to describe business that is conducted over the Internet using any of the applications that rely on the Internet, such as instant messaging, e-mails, shopping carts, Universal Description, Web services, Discovery and Integration (“UDDI”), File Transfer Protocol (“FTP”), and Electronic Data Interchange (“EDI”), among others. Electronic commerce can take place between two businesses transmitting funds, goods, services and/or data or between a business and a customer. E-commerce business is not new to India. Online insurance, online paid evaluations, buying and selling of stocks and many more services have been prevalent in the nation from quite some time now. Directly or indirectly these services have been the initiators of e-commerce industry in the nation and also such services gave rise to usage of net banking, debit/credit cards and mobile banking. In India e-commerce industry is valued over USD 13.5 Billion now and the figure is multiplying at a rapid pace. Back in 1990s who would have thought that one would get 70% discount on Ray-Ban Sunglasses, 30% off on Nike shoes, 20% off on Air conditioner to name a few without even stepping into a physical store. E-commerce entered India way back in 1996 via launch of online Business to Business (“B2B”) Portals which was strongly backed by the economic reforms the nation witnessed in 1991. B2B further expanded to Business to Consumer (“B2C”) initiatives with the launch of online matrimonial websites followed by the birth of online recruitment.

Three Waves Of Internet Society

- * First wave (1985 to 2000)
- * Establishment of internet infrastructure
- * Getting people connected
- * Second wave (2000s) – shift from establishment of internet to building on top of the internet
- * Emergence of Google, Amazon and Apple
- * Social media revolution (Facebook, YouTube, Twitter)
- * Unshackle the App economy
- * Third wave- future of e-commerce
- * It will adapt some of economy's largest and important sectors: Education, Energy, Healthcare, Government Services, Food and Financial services.

Types Of E-commerce Businesses

- * Business to Business (“B2B”) e-commerce
B2B is the platform where both the participants are businesses leading to huge volume and value of transactions. Some examples of B2B e-commerce firms are OfficeYes, eSupply and 1click1call.
- * Business to consumer (“B2C”) e-commerce
In B2C there is almost elimination of need for physical stores. In B2C complexity and cost of logistics are big barriers. When we generally talk about e-commerce, we refer to B2C only. Some renowned B2C firms are Flipkart, Amazon.com and Dell.com.
- * Consumer to Business (C2B) e-commerce
This is a loop sided type of e-commerce picking up pace in the recent times. Examples of C2B could be job portals where job seekers posting their requirement for job or a consumer posting his/her requirement for a holiday package.
- * Consumer to consumer (C2C) e-commerce
C2C enables a customer to interact and deal with another customer directly. eBay comes to our mind whenever we talk about C2C. Websites such as OLX and Quikr are also gaining pace in C2C segment.

Participants In A Typical E-commerce Market

- * Buyer
Buyer is the savvy person interested to buy a product or avail a service.
- * Internet Browser
Internet browser operated by internet and protected by Certification Authority links the buyer to the e-commerce website of his/her choice while making sure that buyer's information is completely encrypted for enhanced security and privacy.
- * Online Store
Online store is the website of buyer's choice through which buyer wishes to buy or procure something. Online store hosts information directories that include the products and

services listed under appropriate sub-headings to make it easy for the buyer or information seeker to find what he/she wants. Allied services such as message boards, feedbacks, chat rooms, forums, etc. are also at times provided by the online store.

* **Payment Gateway**

Except for Cash-on-Delivery (“COD”) services, all the financial transactions related to e-commerce are hosted through secure payment gateways that are either operated by specialized online payment gateway services firms such as Bill desk or by banks themselves. It uses services of either net banking/mobile banking or Credit/Debit Cards giving varied payment options to the buyer.

* **Bank**

The respective bank of the buyer processes and authorizes the payment which is then transferred to online merchant's bank account completing the transaction.

Procedure Of Entering Into E-commerce Industry

* **Step1: Choosing of industry and product**

There is a conflict in mind as to which products and industry has to be chosen to sell online amongst the millions of variety of different products available. There are few things which should be considered while choosing an industry and product:

* **Price**

The company should choose the products whose price will be average in the range between \$100 TO \$200 because majority of the population are comfortable placing the order in this range. If it's too low, the company will find difficulty in achieving its return on investment and if it's too high, then there is a possibility that its customers can shift to the competitors.

* **Margin**

The company should know the margins before setting the product. For example, there will be higher margins on the mobile accessories and lower margins on electronic items.

* **Local availability**

The company can gain more sales if the particular product that the company has chosen has no local availability.

* **Shipping size**

The company should set the product which is smaller and don't require expensive costs. Today in this competitive era, customers expect free shipping wherein some companies include the shipping costs inclusive of price tags which therein increase the price tag and decrease sales. This is mostly in case of bulky products which require heavy shipping costs.

* **Passion**

It is the major contributor towards success as it is the great motivator which will push companies towards challenges that arise in normal course of business. Starting an ecommerce industry usually comes with the series of obstacles under which company should have passion to how interested it is in launching the website and setting the products.

* **Step2: Search of manufacturers**

Once the company has identified which products it wants to sell online, the next step is to search manufacturers with great products. Here are different methods of searching manufacturers which can save a lot of time:

* Google shopping

Enter the products you want to sell online in the Google shopping and it will show up the number of manufacturers under the “brand” section. It is the powerful search engine that not only provides information about the sellers but also the resellers.

* Directories

There are mainly two directories to find manufacturers: Worldwide brands which include thousands of products and around 10 million products with \$299 membership fee. Wholesale Central which includes 1400 supplies and around 7 lakh products with no membership fee.

Manufacturers will ask for a Tax ID number or resale certificate number which the companies have to check their local city and state in order to find out what licenses and permits they will be requiring to sell tangible goods.

* Step3: Setting up the website

After choosing the products and the manufacturers, the next step is to setting up the website. The ecommerce website manages all the products, varieties, brands, checkout process and so on that are needed for a functional ecommerce website. There are number of ecommerce platforms available in which two of them are most popular that are Shopify which handles all the hosting ,security and credit card processing leaving time for the owners to concentrate on promoting their website and it has a wide range of website templates and apps. It can start with \$14 per month. Another platform is opencart which is free and webmasters can make any editions to the functionality or design of the website unlike shopify. Under this, the security will need to be setup manually.

Legal Issues In E-commerce

* E-Contracts

E-contracts are governed by the provisions contained in The Indian Contract Act, 1872 which mandates that there should be valid contract which can be enforceable in any court of law made with a free consent, for a lawful consideration and the parties must be competent to the contract. The validity of e-contracts are provided by Section 10A of Information Technology Act, 2000. Moreover, evidence may be in electronic form according to section 3 of the Evidence Act.

The possibility of minors entering into contracts are increasing because of their preferences to shop online but it is important for the businesses to keep the check on such possibilities and it should qualify the website and stating in its form that individuals with whom it is entering into a contract is a major.

Another important issue is that contracts should be stamped properly.

* Data protection

As data can be personal consisting of financial information, passwords, medical records, physical, physiological, so security of the information supplied during the online transaction can be the major issue. There is a framework for the protection of data in India

- which has been provided by section 43A of the Information technology Act “Reasonable practices and procedures and sensitive personal data or information rules, 2011”
- * Intellectual property rights
There are possibilities of copyright, trademark or patent infringements in online medium. The disclaimer and IPR policies should consider these issues. Domain names can provide sufficient protection as there can be disputes with the usage of similar domain names.
 - * Efficient delivery system
The relationship between the consumers and online suppliers of goods and services are governed by Consumer Protection Act, 1986. When there is defect in goods or services and unfair trade practices, the liability for the suppliers arises. The consumer protection act excludes any service provided free of cost.
 - * Advertisement
Advertisements are essential for awakening the interest of consumers in its products and brands. It has been regulated by different courts, tribunals and government. Advertisement Standards Council of India (ASCI), a non-statutory tribunal was established in 1985 to ensure ethical advertising practices which provide timely warnings to the advertisers telecasting misleading advertisement. The complaints were disposed off according to Code of Advertising Practice.

Swot Analysis Of The E-commerce Industry

- * S-Strengths
- * Financial operations
Financial transactions through electronic payment systems are easy, fast and can be done from anywhere and any part of the world.
- * Marketing
The advertisements for the products are cost-effective as compare to conventional offline system. Besides there are many free internet marketing tools for promoting the brand like SMM, SEO, targeting emailing etc.
- * Geographical aspect
Ability to expand the customer base and business activities globally.
- * Price
The products have been sold directly to customers at a lower price than the market value by reducing the number of agents or distributors.
- * Communications
Direct consumer communication can take place when the order is placed, shipped or at any point in future.
- * Entry Barriers
Start up costs for online retail are much lower than regular office business which makes the barriers to entry also lower.
- * WEAKNESSES
- * Psychological Impact
Absence of direct interaction between seller and customer makes decision making longer.
- * Shipping Cost

- In some cases, a shipping cost is much more than the merchandise cost.
- * Customer Dissatisfaction
Customers expect the same level of satisfaction from small businesses as well as industry giants like Amazon.com which leads to ultimate customer dissatisfaction.
- * Personal Aspect
Large numbers of customers prefer to buy products by visiting personally rather than online.
- * OPPORTUNITIES

From 2001 to 2011, Sales have grown in billions:

B2B	From \$730 to \$9,500
B2C	From \$70 to \$360

- * Market Growth
Online users are growing tremendously which have increased tenfold from 1999 to 2013. The first billion was achieved in 2005, the second billion in 2010 and the third billion in 2014.
- * THREATS
- * Competition
Low barriers allow easy entry into the online businesses which lead to intensive competition.
- * Fraud
Consumers have concerns about fraud and misuse of financial data as in credit cards/debit cards.
- * Privacy Concerns
Consumers are afraid to supply their personal information because of fear that their information can be misused & leaked to spam mail.
- * Future Legislation
As there is no tax imposition on all online sales, Government can write legislation to impose tax which will remove one incentive to conduct business online.

Future of E-Commerce

The e-commerce industry has been growing every day with lots of new innovations coming its way. 24x7 services, widespread coverage, 30 day return policy, cash on delivery, express delivery has been proven boon for the shoppers.

According to research, the e-commerce market was pegged at \$13.6 billion previous year and by 2015 end, it has been expected to grow to \$16 billion mark.

Reinvention of mobile shopping in India will help in figuring out the shoppers needs & suggest the staff to buy accordingly. New mobile Applications for shopping will help in satisfying customers multiple needs and increasing the number of shoppers.

With the invent of 4G, the speed of internet has also increased as compared to earlier 2G and 3G. With the rising trend of e-commerce industry, there is expectation of invention of more advanced technology which will overpower the available technology of 3G and 4G.

Findings

India is a booming market in terms of e-commerce particularly online shopping. Just like the country's population is increasing exponentially, the demand for buying and selling of products online is increasing multiple folds as well as the number of companies offering such services to the customers. The line of difference among online retailers and e-commerce players is becoming thinner day by day. The competition is increasing every second. The customers are benefitting out of this. The companies need to ensure fastest deliveries and nothing but excellent customer services. Cash-on-delivery is a big problem though. It simply erodes margins of e-commerce firms. It locks the working capital of the firms till the final payment made by the customers reaches the accounts of e-commerce firms. This way the online merchants not only incur high expense on paying extra bucks to courier agencies for offering cash-on-delivery facilities but other processing expenses on such products which come back to the warehouse of the companies. Also, it adds extra layer of complexity in the supply chain of the company. There could also be chances especially in case of expensive products such as jewellery and mobile phones when collection agents can run away with either cash or the product. Cash-on-delivery is though a boon for buyers but is certainly a headache for e-commerce players who cannot do away with the same easily due to stiff competition. Funding and profitability are two other challenging issues for e-commerce industry. Firms like Flipkart, Myntra, Snapdeal etc. are relying largely on seed funding to sustain themselves. Till date they all have been lucky as they are generating good revenues. But ballooning expenses coupled with fight for quality talent acquisition is making things tighter for e-commerce firms. Hence, e-commerce firms need to introspect, cut down on expenses they think are unbearable and must concentrate more on their profitability rather than going to places with haywire business models just to compete and stay ahead of the game. E-commerce industry is still at early stages of product life cycle. The industry still is famous in metros and area 1 cities. Majority of people especially beyond a certain age limit rely on local grocery stores, malls or shops for shopping in the country. This acts as both an opportunity for e-commerce players as well as a point to take a note of what such shops offer which e-commerce players fail to. Global leaders in e-commerce such as Amazon.com have started their operations in India and the industry is definitely going to become much more competitive. With Department of Industrial Policy and Promotion ("DIPP") pushing hard the talks for expanding the ambit of Foreign Direct Investment ("FDI") in e-commerce which is as of now limited to B2B e-commerce, there are opportunities as well as threats for Indian players. They will get many more avenues to raise funds and find international partners but at the same time due to low barriers to entry, international majors will be very much interested to start operations in one of the world's fastest growing economy. There is bright future ahead of this new growing industry and it will be very interesting to see how such industry performs which has a good mix of players including multi-billion dollar firms to start-ups competing at the same level in the same ground.

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