

INDIAN RETAIL: WILL IT GO THE E-WAY

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Abstract

E-Commerce is a huge domain on conducting business over internet and e-retailing is part of it. For the consumers in India, a few years back technology brought the shopping information on through the computers; today it brings the products or services right to their doorsteps; grateful to the realm of internet and computer technology. With the use of internet, a powerful medium today, a person can buy products or services from a virtual store itself. Though critics to this technological advancement thought that this would take the joy off shopping in a physical store, it has only added a whole new perspective to shopping. When Internet enabled commercial transactions between organizations and individuals using latest web technologies as per the policies of the Organization it takes the form of e-business. Nowadays, 'e' is gaining momentum and most of the things if not everything is getting digitally enabled. Undoubtedly, it is the travel portals and classifieds that have laid the basic foundation of e-commerce, in India. This paper is aimed at bringing into light some of the key issues of e-retailing in India.

Key Words: E-Commerce, E-retailing, Virtual Stores, Internet, Physical Stores, Consumers

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Introduction:

For the consumers in India, a few years back technology brought the shopping information on through the computers; today it brings the products or services right to their doorsteps; grateful to the realm of internet and computer technology. With the use of internet, a powerful medium today, a person can buy products or services from a virtual store itself. Though critics to this technological advancement thought that this would take the joy off shopping in a physical store, it has only added a whole new perspective to shopping.

E-commerce: A new dream for India Inc

Online retail business or online retail e-commerce (e-com) is a real dream for Indian retailers to harvest the rapidly growing Indian consumer market with the advancing internet technology across the world. The retail e-com is growing at over 40 per cent a year, with at least a few new ones jumping on to the bandwagon every month as the confidence that drives the investors keep cutting cheques is a hope that there is a pot of gold at the end of the road.

Virtual Stores: India's ecommerce companies

India's largest retail e-com company Flipkart.com has raised \$20 million from a venture capital (VC), valuing it in excess of Rs 1,000 crores. There are others like Myntra.com that raised \$40 million; Indiaplaza raised \$8 million and Snapdeal.com's parent Jasper Infotech that recently raised \$40 million from venture capitals. Indiaplaza, now one of the top 10 e-com companies in the country, has been around for nearly a decade and re-invented its business model now to become a pure play e-retailer. There are online specialised retailers like LetsBuy.com (watches, consumer electronic items and home appliances), Caratlane (jewellery), babeezworld.com and babyoye.com (both selling baby products, going up to 120 brands and 1,00,000 products), etc.

There are specialised lifestyle brands like 'Sher Singh', the first online retailer of fashion for men and women inspired by the rich heritage of the classic cricket style. E-com companies also follow different distribution models for their services. Sulekha.com has transformed itself from being an online classified company to a 'digital market place' fulfilling user's needs in many aspects. BeStylish.com, the largest online shoe retailer in the country with 90 brands and 3,000 styles offers for men, women and children. Apart from value-for-money brands, it sells shoes by many exclusive brands.

Global majors like eBay.com (entered six years ago) and Amazon.com are also present in the Indian space. Large Indian off-line groups like Future and Times of India are also in the fray.

Drivers of growth

E-com companies and experts believe that several factors will drive e-retailing growth in India. According to a recent report from *Internet and Mobile Association of India (IAMAI)*¹, total Indian market for e-com is around Rs 50,000 crore, of which 80 per cent or Rs 40,000 crore is captured by travel e-commerce (online train, bus and airline tickets) while non-travel or retail e-com is only 20 per cent or Rs 10,000 crore. Experts hope that by the year 2025, the total e-com market will reach at least Rs 4,00,000 crore and the share of retail will be half at Rs 2,00,000 crore.

Opinion Drive:

“It is this kind of market predictions that is making everyone sit up and make a note, the tremendous growth in internet penetration which has now reached 100 million as against only 3 million in 2001. Earlier only around 1 per cent of internet users were shopping online, now about 8 per cent or 8 million shop online,”

K Vaitheeswaran, India-Plaza Founder and CEO

“Thanks to the spread of internet, even small town buyers are shopping online for branded products from us. Normally big brands don't have outlets in small towns, and even if they do, stocks and varieties are limited. Around 60 per cent of online buying now comes from the top 10 cities and 40 per cent from smaller towns”

Mukesh Bansal, CEO Myntra.com

“Buying tickets online has given people confidence that it is absolutely safe and worthwhile to go online for shopping. The ‘no-questions-asked’ return policy in many portals also helped creating the ecosystem.”

Satya Prabhakar, Sulekha.com CEO and Founder

“The huge expected growth in shoes can be attributed to the increased affluence and raised consciousness of Indian consumers about their footwear, and by 2015, there will be nearly 40 million people transacting online.

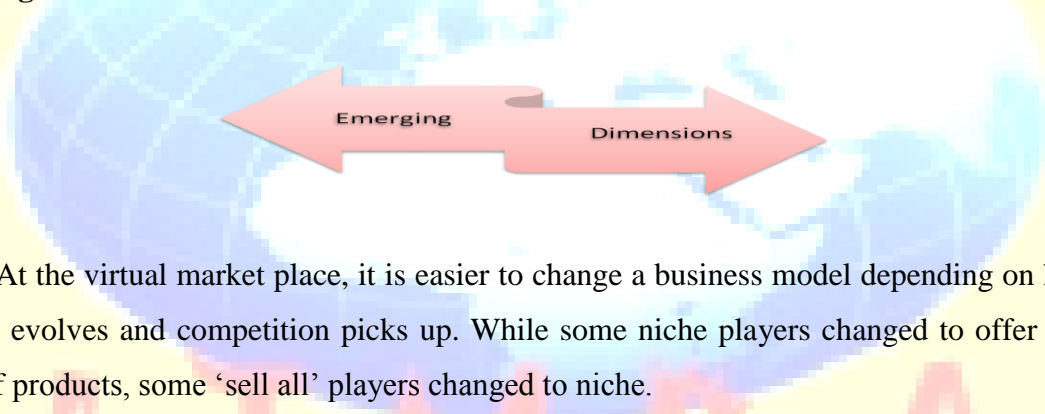
Shailen Amin CEO BeStylish.com

¹ - IAMAI is the only specialized industry body in India representing the interests of online and mobile value added services industry

Impact of mobile telephony and the economic boom

With the phenomenal spread of mobile telephony and the advent of 3G in the country, buyers from small towns and cities are also buying online in large numbers. It is a fact that internet has dissolved the discrimination factor between the small and the big cities enabling buyers from small towns to have access to the same branded goods, and quality products which earlier was a privilege of large city buyers. As the economic boom has enhanced purchasing power of the people and competition has pushed prices of manufactured products down, presently, a huge number of shoppers are buying many inspirational products like cameras, mobiles, computers & accessories, apparels, jewellery, home & kitchen appliances, toys, gift items etc online. Till about five years ago, books and music were the largest selling categories online, but not any more.

Emerging Dimensions of Different Business Models



At the virtual market place, it is easier to change a business model depending on how the demand evolves and competition picks up. While some niche players changed to offer a wider range of products, some 'sell all' players changed to niche.

Choosing a winning business model

Building a thriving retail site on the Internet is as hard as creating an exciting store environment. Like real-world retailers, on-line ones (pure play or not) must understand customer segments and shopping "occasions." But on-line retailers also have to address the complications arising from uncertainty about the behavior of Internet customers and the evolution of competitors' sites in the future.

To deal with these problems, retailing incumbents moving into the on-line world must combine the three fundamentals of *on-line retailing*² and apply them to the business model that best suits the company and its category. The first fundamental is content whatever appears on the Web site itself and on hot-linked Web sites for if chosen wisely, that content can increase both

² *Online Retailing* - also known as B2C or business-to-consumer e-commerce is basically a Web-enabled interface

the rate at which browsers are converted into buyers and their transactions. The second fundamental is community. Through site-to-user and user-to-user forms of interactivity (such as chat rooms), Web sites can generate a core of dedicated customers who become avid marketers of the site. The third fundamental is commerce, whether it involves offering goods and services directly or marketing those of another company for a fee, thus helping to cover the fixed costs of site operations and to offset customer acquisition costs.

These fundamentals can be applied to four main emerging e-tailing business models: Channel Supporter, Category Killer, Auctioneer, and Vertical Portal

Channel Supporter

Some store retailers use the Internet more to support their existing channels than to generate additional sales. This approach is appropriate for categories, such as fast food, that have been slow to move on-line and for retailers, such as Tiffany, whose on-line channels may be at a competitive disadvantage to their traditional ones. American Eagle Outfitters, a retailer of apparel for teens, uses the Web to deliver product information and to share fashion updates through an on-line magazine (content), to offer user forums (community), and to sell an expanded range of products, for instance, bicycles and snowboards and to refer customers to stores (commerce). Beyond cross-channel promotions, many brick-and-mortar companies use the Web to increase their customers' understanding of their products and services. Others harness the Web's interactivity to improve their product development and product mixes by inviting customer responses on their Web sites and feeding those responses back into buying decisions at the store.

Channel Supporter

	
<i>Content</i>	<i>Product and Company Information</i>

	<i>Eg AE Zine online magazine</i>
<i>Community</i>	<i>User Responses and Forums Demographic User Groups</i>
<i>Commerce</i>	<i>Store Referrals Referrals to Website from Stores</i>

Category killer

Amazon, which began life as a bookseller, is the quintessential on-line example of the category killer approach, in which the retailer dominates a particular category of merchandise. By now, Amazon has evolved into a multi-category killer, and in every category the company has entered music, videos, toys, and consumer electronics; it has blended content, community, and commerce by offering an extensive assortment of products supported by user reviews and information tailored to individuals. The purchasing power and brand recognition of incumbent retailers make the category killer model in many ways the ideal choice for them: it leverages their strengths more than the other options do, and these are strengths the on-line competition must still acquire.

Category Killer

	
<i>Content</i>	<i>Block Reviews, Abstracts Links to related sites</i>
<i>Community</i>	<i>Site Personalization User Reviews</i>
<i>Commerce</i>	<i>Product Sales Out-of-book searches Outbound email notification of order status</i>

Auctioneer

Led by eBay, a number of companies are achieving success as on-line auctioneers. Sellers of goods and services provide the content; community comes from matching sellers with buyers and setting bidder against bidder; and commissions on sales and advertising revenue

generate the commerce. EBay's sheer level of presence has made consumer-to-consumer auctions the norm, but business-to-business possibilities abound as well. In reverse auctions, for example, a retailer puts out bids for tender on its Web site, thus expanding its universe of lower-cost suppliers. And the Internet's unparalleled access to motivated buyers allows businesses to dispose of discontinued or excess inventory from their shops or warehouses at the best possible prices.


Auctioneer

	
<i>Content</i>	<i>Wide, eclectic selection Deep fad offering E.g. Pokémon</i>
<i>Community</i>	<i>Participant word of mouth</i>
<i>Commerce</i>	<i>Commission on Sales Advertising</i>

Vertical portal

The business model that may take greatest advantage of the Internet is the so-called vertical portal, which specializes in a particular industry or product category but, like Yahoo!, also offers personalized information and advice as well as access to a community with common interests. The Charles Schwab site is one example; another is boo.com, which seeks to become the one-stop fashion portal for hip 20- to 30-year-olds. Store-based retailers that use customer data adroitly and have brands the public trusts are in a good position to build demand for well-targeted new businesses and to attract to their portals customers who use more than one channel.

Vertical Portal

	
<i>Content</i>	<i>Wide, eclectic selection Deep fad offering E.g. Pokémon</i>

<i>Community</i>	<i>Participant word of mouth</i>
<i>Commerce</i>	<i>Commission on Sales</i> <i>Advertising</i>

Physical Retail Stores Vs Virtual Stores:

With the novelty in applications of internet penetrating into every domain of human life, man is becoming more and more a digital savvy, and in the years to come, it is certain that humans will be completely dependant on internet for all his purchases (and even for payments towards usage of other services). This notion raises our common sense to question if internet becomes the universal platform for people to perform their purchases then will the physical stores of WalMart or Reliance may exist at all. When the whole world is going to be dominated by the power of internet and when online shopping becomes the order of almost all human purchases, operating physical stores may become a question of viability to continue with them. Not far is this order of the world to be visualised as the evolution of online business is getting churned through revolution.

From Retailing to E-tailing

A new economics of e-business

To be successful on the Internet, incumbent retailers will have to do more than reproduce their off-line business models on-line, because these business models work only at considerable scale. Scale is certainly one route to profitability. Even so, it is possible for an on-line operation to be profitable at far lower sales volumes if it exploits *seven levers*³. Some merely bring on-line efficiencies to traditional retailing; others exploit synergies between on-line and store operations; while still others give an incumbent retailer with an on-line presence an enormous advantage over pure-play Internet retailers. It isn't necessary to pull all seven levers perfectly; small improvements in key measures can make a great deal of difference.

³ - *Seven Levers: Business Strategy: The Seven Managerial Levers* - Wolf Management Consultants, LLC

Maximizing the value of the whole transaction

The power of the double-channel model is apparent from the discovery by one store-based UK retailer that customers who buy both on- and off-line have increased their total purchases by 10 percent. The incumbent retailers that have done the best job of propelling themselves into the world of electronic commerce can boast on-line purchases that exceed the average off-line purchase by as much as 20 percent. Similarly and intriguingly the transactions of customers who use the Internet to purchase products in response to print and catalogue advertising by store-based retailers are 30 percent larger than those of customers responding to on-line ads. Premium products, the bundling of products and services, and cross-selling all contribute to these higher average-transaction sizes.

Leveraging low customer acquisition costs

Traditional store-based retailers can use the Internet to exploit the fact that they have to spend very less amount may be a few ten rupees a head to bring their existing customers on-line, whereas Internet start-up companies must lay out an average of relatively bigger amount ranging in hundreds a head to attract customers wholly from scratch. Furthermore, the print and catalogue advertising, mentioned above, that appears to generate 30 percent higher on-line purchase activity costs the store-based retailers virtually no increment at all over the money they are already spending.

Exploiting alternative revenue streams

An on-line presence offers retailers a wider variety of sales opportunities. Many Web sites also sell advertising space on their sites. Peapod, a Web-based grocery service, generates more than \$1 million a year from sharing customer purchase data with interested vendors. For Web-based retailers, acting as an agent on behalf of customers could become a revenue source in the future.

Purchasing scale at low volumes

Some retailers have been able to cut their purchasing costs by up to 20 percent and to shorten their procurement cycles by as much as 50 percent. They have done so by replacing electronic-data-interchange (EDI) tools with Internet-based ones that facilitate product comparisons, streamline logistics, and help business-to-business vendors, such as Free Markets and TPN Register, aggregate these retailers' back-office purchases.

Keeping down customer churn

Given the high cost of replacing established customers, losing them is expensive. A Web presence supplies the personalized attention that could keep consumers loyal, though, even some of the most successful e-tailers have acknowledged that working out operational kinks has, for the time being, taken precedence. E-tailers should transcend the usual imperatives of direct marketing (frequent high-sales, low-content marketing pieces) and build trust by providing information on the product and customer experience, as well as easy links to advisers, complementary vendors, and other customers.

Maximizing the pricing potential

Too many retailers believe that they must sacrifice the possibility of pricing up when they go on the Internet, a supposedly price-transparent medium. An Internet consumer research company found that buyers shop on-line more for convenience than for cost and that only 20 percent of on-line shoppers use "bots" (automatic-shopping agents) or other search engines to secure the lowest price. Another 20 percent simply buy at the first site that contains what they want. In view of this relative indifference to price, e-tailers should work aggressively to capture some margin premium, at least in the early days of their sites.

Considering a Carve-out

While the correct use of the seven levers (managerial strategies) should be enough to catapult any on-line retail operation into the realm of higher profits, traditional retailers taking their first steps on the Internet may yet suffer from cultural stress. To promote speed and innovation unconstrained by such factors, retailers should consider carving out their e-tailing organizations into independent entities in which they retain equity stakes.

A successful new e-tailing venture must have an entrepreneurial culture. In e-tailing businesses, the currency of the Web is equity. A few store-based retailers can afford to ignore the Internet's growth potential or to spend the next five years losing money chasing on-line opportunities that might or might not realize their potential. An on-line business strategy that depends on synergistic skill rather than scale will permit such retailers to pull ahead of both their land-based and their on-line competitors.

Physical Store Retailer's Eye on Internet

“E-Commerce revenues in India will increase by more than five times by 2016, jumping from US\$1.6 billion in 2012 to US\$8.8 billion in 2016”

– Forrester Research Online Retail Forecast

Store-based retailers, alerted by analysts' predictions that on-line retail sales could account for as much as 8 to 10 percent of total Indian retail sales by 2015, may also join the rush to the Internet. As yet, these store-connected World Wide Web sites generate only trivial revenue. In fact store-based retailers have a number of advantages over their Internet-only competitors, which can offer personalized search tools and links to related products and services but not the ability to see, touch, and try merchandise and to walk out with it. More generally, store-based retailers can leverage their multi channel advantage to give customers what they want, how and when they want it. So if store-based retailers make their sites as innovative and adaptable as those of their pure-play Internet rivals and at the same time realize synergies with their brick-and-mortar facilities, they may yet come in first after all.

Internet pure plays may have won their first round of Internet retailing, but there is every reason to believe that store-based retailers will also make use of Internet as a part of their multi channel retailing strategy

Conclusion:

Amidst deep diving market dynamics, rapidly evolving but complex demographic patterns and uncertain economic conditions, operating in a fiercely competitive environment on wafer-thin margins will certainly not be a cakewalk for many of the retailers. But still, with the given kind of momentum and sturdiness in the growth of Indian consumer market and the power of internet rapidly penetrating the Indian house holds, online retail or ecommerce is certainly going to be at surge at least for next 10 to 15 years in India is a great opportunity for retailers to cash in upon.

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