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## Outlook and Prospects of Online Retail Industry in India

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### Abstract

Traditional brick-and-mortar merchants are losing ground to India's well-heeled online marketplaces, which are stealing the thunder (and the revenues). In last five years, internet merchants like as Flipkart, Snapdeal, and Amazon, among others, used heavy discounting to affect brick-and-mortar stores' revenues. The Indian retail industry is undergoing a transformation. In India, e-retailing is still in its infancy, undergoing tremendous transition, challenge, and opportunity in the retail business. Not only metros, but also tier 2 and tier 3 cities are supporting Rapid internet penetration via PCs and mobiles, growing adoption of online medium by brick-and-mortar stores, higher smartphone purchases, the need for ease of shopping, rising real estate prices, and changing consumer preferences are the major drivers of online retail in India, according to the study's findings. The change to omni-channel commerce rather than traditional brick-and-mortar retailing will be the key to survival for today's firms.

**Keywords:** Online retail, E-retail, E-tailing, E-commerce, E-retailers, Omni Channel

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### 1. Introduction

Transactions that are undertaken using interactive online computer systems that link consumers with sellers electronically, where the buyer and merchant are not in the same physical place, are referred to as online retail (also known as e-tail or e-retail). Internet retailing, often known as e-tailing, has quickly established itself as a viable alternative to traditional store-based shopping. If online travel and classifieds were the stars of the 2000s, e-retailing appears to be the show-stealer this time. Many e-commerce companies, such as Flipkart, Snapdeal, and Jabong, are currently engaged in the Indian retail sector with one of three business models: non-warehouse, warehouse, or hybrid. In smaller cities, online purchasing is growing more popular. Tier-II and Tier-III cities are fast developing, and it is projected that by 2025, India will have fully embraced internet retail in all of its cities and rural areas. Online retail is currently increasing evenly across India's regions, but the extreme eastern region is underserved in comparison to the western region. However, by serving remote places and launching delivery services in those areas, internet shopping is expected to quickly correct this geographical imbalance.

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## 1.1 Outlook

While the online retail business has begun to give brick-and-mortar shops a run for their money, the organized retail industry is also struggling, with big retailers reporting losses. The existing environment, which includes high real estate costs, sagging domestic consumption, and insufficient infrastructure capacities, has constrained the possibilities for profitable growth. Increasing rental expenses and greater labor costs, as well as slower inventory turnover, have been putting a strain on the industry's operating margins. India's online purchasing market is rapidly increasing, and the journey is far from over. E-commerce currently accounts for 7.9% of India's organized retail sector, but it is expected to grow to roughly 20% by 2025. However, as a percentage of total retail, including the enormous unorganized sector, it will be barely over 1% by the end of the year. However, it is still a small part of India's overall e-commerce market, which is dominated by the travel industry, which accounts for roughly two-thirds of the market. However, the equation is rapidly shifting, posing a challenge to brick-and-mortar merchants of all kinds, including books, music, and gadgets, as well as fashion and groceries.

**Table: 1 E-retail's share of India's Retail Industry**

Overall Retail Market in India	Rs. 34175 Billion
Organized Retail share	Rs. 3000 Billion 12% of Overall Retail
Online Retail Share	Rs. 204 Billion 1.8% of Overall Retail 9% of Organized Retail

*Source: CRISIL Research, 2020*

On the back of a rapidly rising internet-connected population and improvements in related infrastructure such as payment and delivery systems, India's e-commerce market is estimated to reach roughly \$50-70 billion by 2025. IAMAI (Internet and Mobile Association of India) estimates that online retail in India is worth \$12.6 billion (Rs 70,000 crores), up 34% year on year since 2012, and is anticipated to grow even more as legislative and FDI difficulties are resolved and delivery logistics mature. Smartphones will be the primary driver of internet purchasing in the next years. In the next five to six years, over half a billion Indians will migrate to cellphones. That will be a significant driver of e-commerce in India.

## 1.2 Present Scenario

Because of the digital revolution, the Indian internet retail industry has grown by leaps and bounds in recent years. The upward trend is likely to continue, with the online retail market expected to reach \$14.5 billion in 2025. The internet retail market is estimated to be about \$3.5 billion at the moment. According to management consulting firm AT Kearney's 2019 Global Retail Development Index, it is now placed 20th among the top 30 developing countries (GRDI).

According to the founders of India's largest e-commerce firm, Flipkart, the country's e-commerce business grew by more than 80% in 2019, and the trend is expected to continue for at least the next five to six years.

Reliance Industries (RIL) has announced plans to start selling mobile phones, computers, televisions, and home appliances online next quarter, dramatically expanding its e-commerce business, which is now limited to grocery purchases in Mumbai. Meanwhile, SoftBank Corp, a Japanese telecom and media conglomerate, has vowed to invest \$10 billion in Indian e-commerce as part of its aggressive expansion strategy, and has taken a strategic position in one of the country's emerging stars, Snapdeal. The purchase comes as international investors look for opportunities in online shopping in India, which has the world's third-largest Internet user base but still has a long way to go in terms of e-commerce development. The inflow of foreign funds into Indian e-commerce also reflects the expanding power of online retailers. Walmart, the world's largest retailer, is said to be developing business ideas for internet selling in India. The American behemoth is gearing up to create a marketplace e-commerce platform, similar to the one used by Flipkart, Snapdeal, Amazon, and eBay in India.

## 2. Key Product Segment Analysis:

Cameras and mobile phones, computer peripherals, electronic gadgets, life style, books, and home and culinary appliances are among the product areas sold by internet shops. Camera & Mobile, Computer Peripherals, and Life Style segments are ranked first, second, and third, respectively. However, according to a 2020 CRISIL analysis, the Life Style section is predicted to overtake Camera & Mobile to win the top spot, moving Camera & Mobile to second place. By 2020, the Computer Peripherals section is expected to fall to third place, followed by the Electronics Segment.

Online apparel sales, together with the computer and consumer electronics sectors, continue to account for a larger share of Indian retail e-commerce as a category, fueling overall market growth. Computer and consumer electronics, as well as apparel and accessories, account for 42% of overall e-commerce retail sales.

**Table: 2 India Online Retail – Product Segment Wise Market Share**

Component Share of E-Tailing (Total: INR 6,454 Crores )		
Component	Percentage (%)	Market Size (INR in Crores)
Books	4.5 %	288
Apparels + Footwear	20.6 %	1,331
Jewellery + Personal / Healthcare Accessories	3.7 %	240
Cameras + Camera Accessories	14.1 %	914
Consumer Durables + Kitchen Appliances	7.8 %	500
Home Furnishings	3.1 %	200
Mobile Phones + Mobile Accessories	18.9 %	1,217
Laptops / Net books / Tablets	24.5 %	1,579
Other Products (Vouchers / Coupons, Toys, Gifts, Flowers, Handicrafts, Stationary etc.)	2.8 %	185

Source: IAMAI Research

### 3. Business models prevailing in Indian e-retail market

**3.1 E-Retail Non-Warehousing Model:** This model is also known as the marketplace model. R-retailers have their own websites, which they use to give merchants with fully working "virtual" stores where they can sell products, including merchandise. In the most literal sense, it's similar to constructing a virtual shopping mall. Participating merchants use the website's owner's brand value to not only introduce and sell their products, but also to pique the attention of individuals who do their virtual window shopping. The billing and delivery infrastructure, on the other hand, is shared by all merchants listed on a given website and is carried out at a cost shared by the merchant and the person who hosts the site.

**3.2 E-Retail Warehousing Model:** The Non-Warehousing Model, on the other hand, did not give the e-retailer any control over timely delivery or the quality of the product that was actually shipped. The modern client expects complete guarantee of timely and high-quality delivery, as well as the ability to return substandard items at the vendor's expense. As a result, an increasing number of e-retailers choose the warehousing model, also known as inventory holding, because it allows them to better keep their client commitments. Their capacity to order in quantity, which qualifies them for bigger discounts on purchases, helps to offset some of the increased inventory costs.

**3.3E-Retail Hybrid Model:** This is a hybrid of e-retail warehousing and non-warehousing models in which the website owner provides a marketplace to merchants while also maintaining inventory of the merchandises to assure timely delivery and quality control.

**Table: 3 Business Model for Online Retail**

Key Partner	Key Activities	Value	Customer Relationships	Customers
- Sourcing directly from brand partners. (Warehousing) - Other online partners. (Marketplace) - Private Labels - Logistics Partners	- Supply chain optimization - Marketing (Digital & Traditional) - Innovation	- Convenience - Wide assortment to choose from. - Quality Customer Service	- Automated services - Customer care - Complaint resolution - Reviews	- Mass market - More than 50% of sales come from tier II & Tier III cities. - Young people, who spend on discretionary activities, want to look and feel good.
	<b>Key Resources</b>	- Flexible payment options	<b>Channels</b>	
	- Delivery staffing	- Fast delivery	- E-retailers website	
	- Technology	- Customization	- Affiliate programs	
	- Warehousing			
	- IT			

	Infrastructure			
<b>Cost Centres</b>		<b>Revenue Streams</b>		
- Marketing (Mostly done by TVC)		- Retail sales		
- Technology cost		- Commission on third party sales		
- Logistics		- Advertisement revenue		

*Source: Adapted from Alexander Osterwalder's Business Model Canvas Framework*

#### 4. Prospects

E-tailing currently accounts for 0.5 percent of overall retail in India, according to Technopak's research in "E-tailing in India." The increased use of smartphones, laptops, and tablets is predicted to help it expand to 3% of Indian retail by 2025.

##### 4.1 Handicraft exporters planning to enter online

Handicraft exporters join forces to enter the home market, hoping to take a piece of the country's booming e-commerce pie. Handicraft exporters are teaming up with large portals to tap the local market. Handicraft products are in high demand in India, and e-commerce platforms are the greatest way to reach those customers. Several handicraft players are collaborating with e-commerce businesses. Because handicraft is a labor-intensive industry, these platforms will aid in the establishment of additional work opportunities.

##### 4.2 Existing players are expanding their horizons

Snapdeal, a daily deal website that mostly offered discounts on services like spas and restaurants, lately moved into offering electronics, fashion, and lifestyle items. As it expands its portfolio, FashionandYou, a flash site that began with fashion and accessories, has evolved into a pure-play e-commerce firm selling anything from home items to children's clothing. Single-category e-tailers, which proliferated last year by the dozen, are now broadening their products as well.

#### 6.3 E-retailing on the job

India's e-commerce giants, such as Flipkart, may be at odds with overseas competitors like Amazon over whether or not to accept foreign direct investment, but they appear to be on the same page when it comes to predicting a sector inflection point. The top ten e-commerce companies intend to hire 60,000 people between them for the fiscal year 2025, the most in a single year for the fledgling industry. The statistics on job creation covers the full ecosystem, including ancillary units, supply chain and logistics, as well as temporary workers. To fulfil demand, businesses must have engineering teams, customer service agents, and logistical support in place. Many of the top domestic e-commerce giants, including Flipkart, Snapdeal, and Myntra, are nearly doubling their headcount this year to fend off fierce competitors like Amazon. Increasing campus recruitment is also part of the strategy. The expansion of company will almost certainly result in a significant increase of third-party and blue-collar jobs. People are required to

sustain the entire ecosystem, which is expected to expand rapidly as more consumers log on to ecommerce portals.

## 5. Conclusion

Even after high growth prospects into e-retail, online retailers are still refining their solutions to basic problems like product selection, delivery and customer service, the level of maturity that is required from consumers, vendors and logistics partners is yet to be seen. But after all odds, India remains an appealing, long-term retail destination for several reasons starting with its demography – half of India’s population is less than 30 years of age and roughly one-third of the population lives in cities. The disposable income of Indians is increasing - allowing them to spend more and try new products, brands, and categories. It is all about billions now in the country's online retail space. Online retail in 2014 can be summed up in this manner - it was a year of billions - it raised around \$3 billion, had seen Billion Day Sales, and also hit the run rate of gross merchandise value (GMV) of around \$3 billion. The Indian e-retail (excluding travel-related transactions) market is pegged at around \$3 billion at present, and is expected to grow to around \$22 billion in five years. So the upside is huge. India's e-retail is expanding at a compounded annual growth rate of about 34 per cent, according to a report by Digital Commerce. The tipping point is about two years away, when the real growth story and e-retail wars will unfold in India.

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