

Emerging Trend Of E-Commerce In India



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Abstract

Electronic commerce or e-commerce consists primarily of the distributing, buying, selling, marketing, and servicing of products or services over electronic systems such as the Internet and other computer networks. The four functions of e-commerce are:

- Communication
- Process management
- Service management
- Transaction capabilities

DISTINCT CATEGORIES OF E-COMMERCE

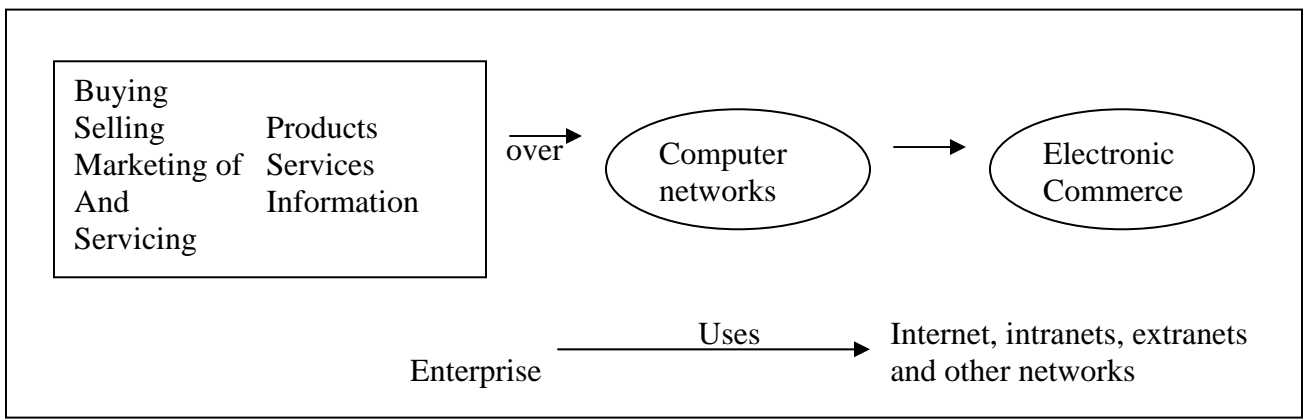
- Business-to-business (B2B)
- Business-to-Consumer (B2C)
- Consumer-to-Consumer (C2C)
- Consumer-to-Business (C2B)

The total value of E-commerce activities within India has exceeded Rs 5.7 billion during 2004-05, according to a research conducted by Internet & Online Association of India (IOAI). India's IT services exports have almost doubled in two years and now account for more than 16 per cent of total exports and 8 per cent of all foreign exchange earnings. Given the extraordinary growth rates of e-services exports, the latter figure is expected to reach 30 per cent by 2008. Policy measures to support exporters of e-services should focus on increasing market access in e-services for exporters from the developing countries, as well as addressing domestic obstacles related to technology, payments, infrastructure (telecommunications) and standards.

The e-commerce is one of the biggest thing that has taken the business by a storm. It is creating an entire new economy, which has a huge potential and is fundamentally changing the way businesses are done.

INTRODUCTION

Electronic commerce or e-commerce consists primarily of the distributing, buying, selling, marketing, and servicing of products or services over electronic systems such as the Internet and other computer networks. The information technology industry might see it as an electronic business application aimed at commercial transactions. It can involve electronic funds transfer, supply chain management, e-marketing, online marketing, online transaction processing, electronic data interchange (EDI), automated inventory management systems, and automated data collection systems. It typically uses electronic communications technology such as the Internet, extranets, e-mail, e-books, databases, and mobile phones.

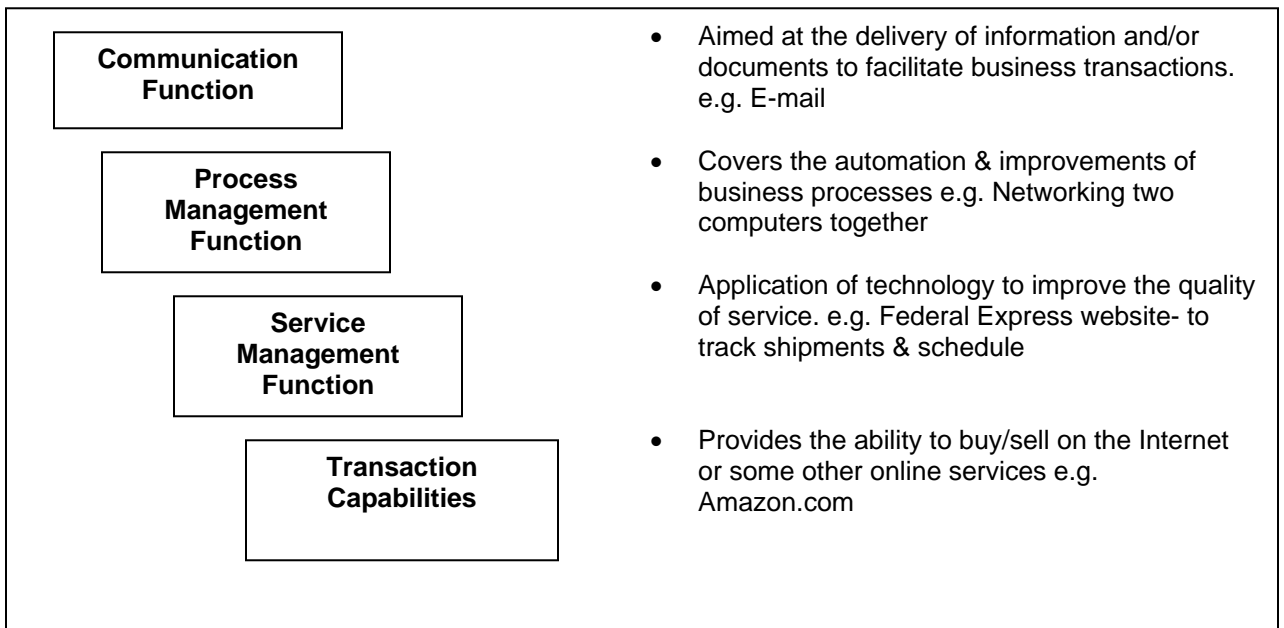


Meaning of E-commerce

FUNCTIONS OF ELECTRONIC COMMERCE

The four functions of e-commerce are:

1. Communication
2. Process management
3. Service management
4. Transaction capabilities

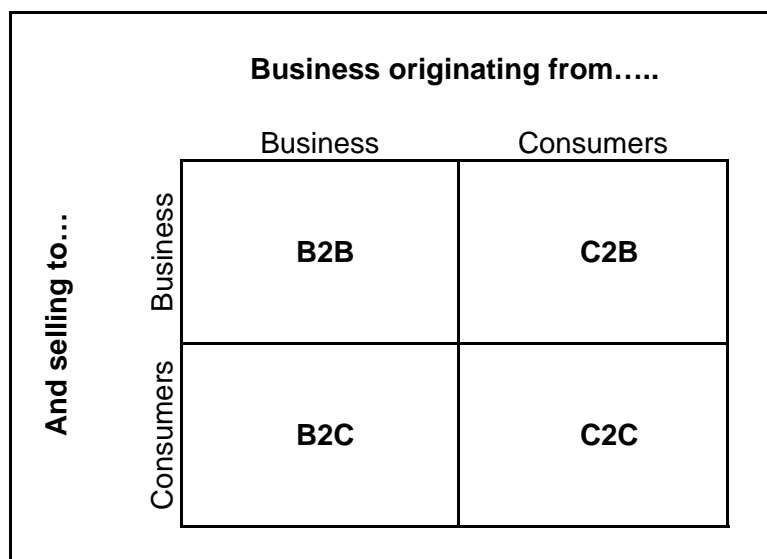


DISTINCT CATEGORIES OF E-COMMERCE

Four distinct categories of electronic commerce can be identified as follows

- Business-to-business (B2B):** Business-to-Business refers to the full spectrum of e-commerce that can occur between two organizations. Among other activities, B2B e-commerce includes purchasing and procurement, supplier management, inventory management, channel management, sales activities, payment management, and service and support. While we may be familiar with a few B2B pioneers- e.g., Chemdex (www.chemdex.com), Fastparts (www.fastparts.com), and FreeMarkets (www.freemarkets.com) - some other exciting new consortia are emerging.

- **Business-to-Consumer (B2C):** Business-to-Consumer e-commerce refers to exchanges between businesses and consumers, e.g., Amazon.com, Yahoo.com and Schwab.com. Similar transactions that occur in business-to-business e-commerce also take place in the business-to-consumer context. For instance, as with smaller business-to-business, transactions that relate to the “back office” of the customer (i.e., inventory management at the home) are often not tracked electronically. However, all customer-facing, or “front office” activities are typically tracked. These include sales activities, consumer search, frequently asked questions and service and support.
- **Consumer-to-Consumer (C2C):** Consumer-to-Consumer exchanges involve transactions between and among consumers. These exchanges may or may not include third-party involvement as in the case of the auction-exchange eBay. Other activities include: classified ads (e.g., www.numberoneclassifieds.com), games (www.heat.net), jobs (www.monster.com), Web-based communication (www.icq.com), and personal services (e.g., Yahoo! Personals, webpersonals.com).



- **Consumer-to-Business (C2B):** Consumers can band together to form and present themselves as a buyer group to businesses in a consumer-to-business relationship. These groups may be economically motivated as with the demand aggregator, Mercata.com, or socially oriented as with cause-related advocacy at voxcap.com.

SIGNIFICANCE OF E-COMMERCE

The electronic market place participants are not limited only to digital product companies e.g. publishing, software and information industries. The digital age and the digital revolution affect all by virtue of their process innovations:

- ✓ Web-TV and digital television is going to affect TV news and entertainment programmes.
- ✓ Changes in telecommunication will affect the way the information is received, product announcements, orders etc.
- ✓ Phones, Fax machines, Copiers, PCs and Printers have become essential ingredients in doing business, so are E-mail, websites and integrated digital communication
- ✓ Today's office business machines are not integrated (eg. Faxed orders have to be typed in on computers), the much talked about convergence will drive all these equipment into one digital platform, whether it be a computer connected to the Internet and intranet, a new kind

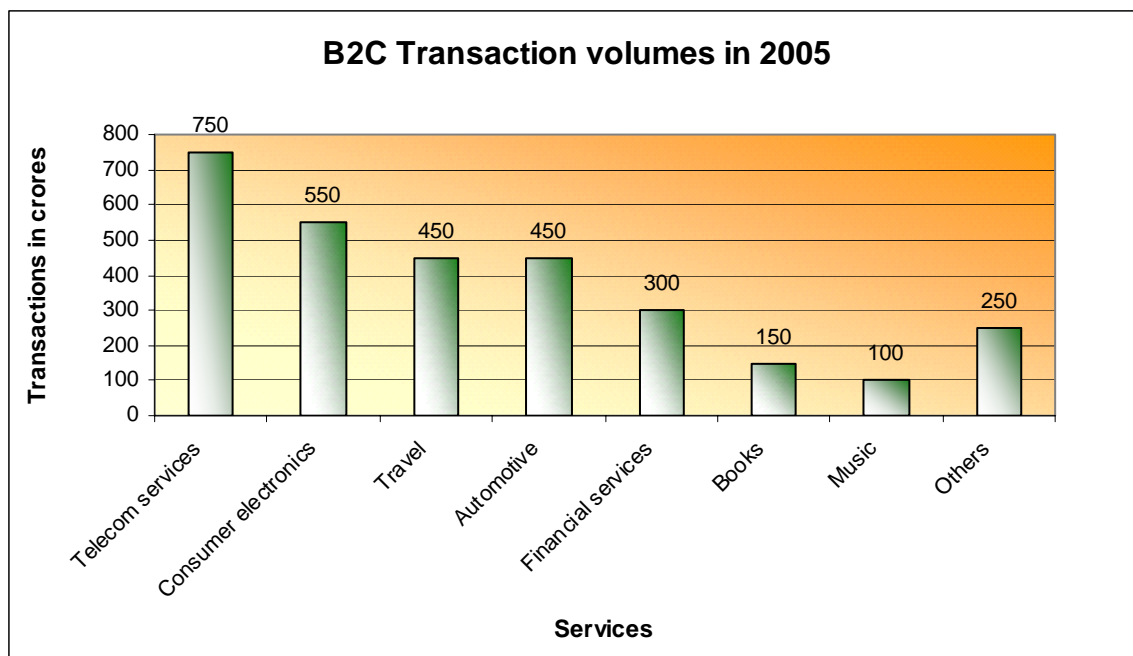
of device capable of interacting with other devices, because that device will prove to be more efficient and productive.

E-COMMERCE IN INDIA IN 2005

E-Commerce has paved a way for the economy to raise in its standard of living which has ultimately resulted in huge revenues and introduction of new products and techniques. **NASSCOM**¹ has analyzed the following for the Indian IT Companies:

- Total e-commerce transaction volume in the country—Rs. 1,95,000 crores in 2005.
- E-commerce transaction volume in 2000 Rs.15000-20000 crores.
- Global e-solution service market in 2005 \$ 9 billion.
- Domestic market for e-solutions in 2000 \$ 65 million.
- Domestic market for e-solutions in 2005 \$ 500 million.
- Indian IT industry aspire business for e-solution products in 2010 \$ 1 billion.
- B2B transaction in 2005 is Rs.1,92,000 crores
- B2C transaction in 2005 is Rs. 3,000 crores (see the below figure)

- Telecom services	Rs. 750 crores
- Consumer electronics	Rs. 550 crores
- Travel	Rs. 450 crores
- Automotive	Rs. 450 crores
- Financial services	Rs. 300 crores
- Books	Rs. 150 crores
- Music	Rs. 100 crores
- Others	Rs. 250 crores



¹ NASSCOM- Boston Consulting Group

- Pure play dotcoms in many industries are unlikely to be successful.
- Full benefits of e-commerce cannot be realized in isolation of the overall business goals and absence of an offline presence.
- To be successful in e-commerce arena enterprises need to invest as much in non-IT related spending as in IT- related spending.
- Examine / reexamine use of Internet for all business functions and prioritise e-commerce investments.
- Due to slump in the global economy, big firms are getting bigger and small ones are getting smaller, finding it difficult to bag new or renew contracts.
- Top 25 Indian companies have contributed the total software exports of the country in 2000 for 75%
- Top 50 companies considered the total percentage as 85 to 95%
- Of all the total 900 software firms registered with NASSCOM the percentage is 5 to 15%
- Out sourcing exports involving small projects, which are predominantly in the SME, sector had dried up. Need should be there for linkage between big and SME's.
- In spite of slow down in spending on IT by US and European countries and impact found on SMEs,
- European Union's IT division had agreed to fund collaboration between SMEs in Europe and India for software business development.
- Software exports grew in the 1st quarter of 2000-2001 at 6 to 12% (Rs. 8,500 – 9,000 crores)
- For the fourth successive year, it is hoped that software exports would maintain a compounded annual growth rate (CAG'R) by 35%.
- Target for achieving software exports by the year 2008 is US \$ 50 billion.
- Indian IT Industry will be affected by ups and downs in some quarter and many firms have cash reserves.

In addition to the above data **ICRA**² has made a comparison study for the year 2000 and 2005 in analyzing the e-commerce activities in India. It has predicted a more than 50 fold increase in e-commerce business in India. E-commerce would take a larger hold of service oriented industries such as Banking, Leisure and Travel and Education.

E-Commerce activities	2000	2005
(i) E-commerce business in India	4.70 billion	252.00 billion
(ii) Online ad-spend	70.00 million	860.00 million
(iii) B2B E-commerce turnover	4.10 billion	232.80 billion
(iv) B2C (Business to Consumer) turnover	0.50 billion	18.80 billion
Sources as per ICRA		

³ ICRA- Credit Rating Agency

³ IOAI- Internet & Online Association of India

A Research study has been conducted by the **IOAI**⁴ to analyse the total value of E-commerce activities within India. E-commerce activities has exceeded Rs 5.7 billion during 2004-05, and it is estimated to cross 10 billion mark in future.

Some research highlights:

- **The E-commerce industry:** Rs 5.7 billion worth of E-commerce conducted online in 2004-2005 to grow to Rs 230 billion by 2006-2007, an estimated 300 per cent plus growth.
- **The E-commerce site visitor:** 55 per cent of visitors to ecommerce sites have adopted the Internet as a shopping medium.
- **The 'Regular Online Shopper':** Of the 55 per cent of online shoppers [Base 1716] - 87 per cent [1493] of shoppers have shopped more than once and have been termed 'as regular shoppers'. They form the 'base' for this report of users who have transacted online to buy products and services 'more than once'
- **Age and gender:** 25 per cent of regular shoppers are in the 18-25 age group, 46 per cent in the 26-35 age group and 18 per cent in the 36-45 age group. 85 per cent of online shoppers are male even a 15 per cent female audience represents a 15 million strong market by 2007-2008 (IOAI Estimate: 100 million Internet users by 2007-08.)
- **Education and profession:** 83 per cent of the user base is educated with a Bachelor or Post Graduate degree, it represents an educated audience. 54 per cent of online shoppers are at an executive level. 24 per cent of online shoppers are professionals or self-employed, indicating an assured spending power.
- **Internet access/savvyness:** 76 per cent of online shoppers access the Internet from their office, 63 per cent from home and 24 per cent from cyber cafes. Shoppers accessing the net through multiple access points represents a dismissal that Internet Penetration is no more only PC dependent. All Internet activity support e-commerce in an allied or primary capacity.
- **Purchase history:** 62 per cent of shoppers having shopped for more than a year. 37 per cent of online shoppers have started shopping online in the last 12 months. 67 per cent of online shoppers have shopped online as recently as three months showcasing the growing acceptance of ecommerce
- **Frequency of purchase:** 67 per cent of online shoppers have shopped online as recently as three months showcasing the growing acceptance of ecommerce. 53 per cent of online shoppers have shopped online more than five times, 27 per cent of online shoppers have shopped online more than 10 times.
- **A top state/city representation:** Maharashtra: 29 per cent (Mumbai: 24 per cent), Delhi NCR: 19 per cent, Tamil Nadu: 11 per cent (Chennai: 7 per cent), Karnataka: 10 per cent (Bangalore: 6 per cent), Uttar Pradesh: 7 per cent (Lucknow: 2 per cent), West Bengal: 6 per cent (Kolkatta: 5 per cent), Andhra Pradesh: 5 per cent (Hyderabad: 4 per cent), Rajasthan: 5 per cent, Gujarat: 4 per cent (Ahmedabad: 2 per cent) and Kerala: 3 per cent.
- **Top City/Product Preference:** Mumbai (24 per cent) holds the Top Slot for Every Category, except jewelry. Delhi (19 per cent) fast competing with Mumbai in accessories, apparel, gifts, home appliances categories and has piped Mumbai to rank first in jewelry. Chennai (7 per cent) is at rank three for railway tickets, airline tickets, magazines, home tools, toys, jewelry, beauty products and sporting goods categories. Bangalore (6 per cent) is at rank three for books, electronic gadgets, accessories, apparel, gifts, computer peripherals, movies, hotel booking, home appliances, movie tickets, health and fitness products and apparel gift certificates. Kolkata (5 per cent) jumps to rank three in online music sales online and is at rank four for the movies and the music categories.
- **20 Products Bought Online:** Books (41 per cent), Electronic Gadgets (40 per cent), Railway Tickets (39 per cent), Accessories Apparel (36 per cent), Apparel (36 per cent), Gifts (35 per cent), Computer and Peripherals (33 per cent), Airline Tickets (29 per cent),

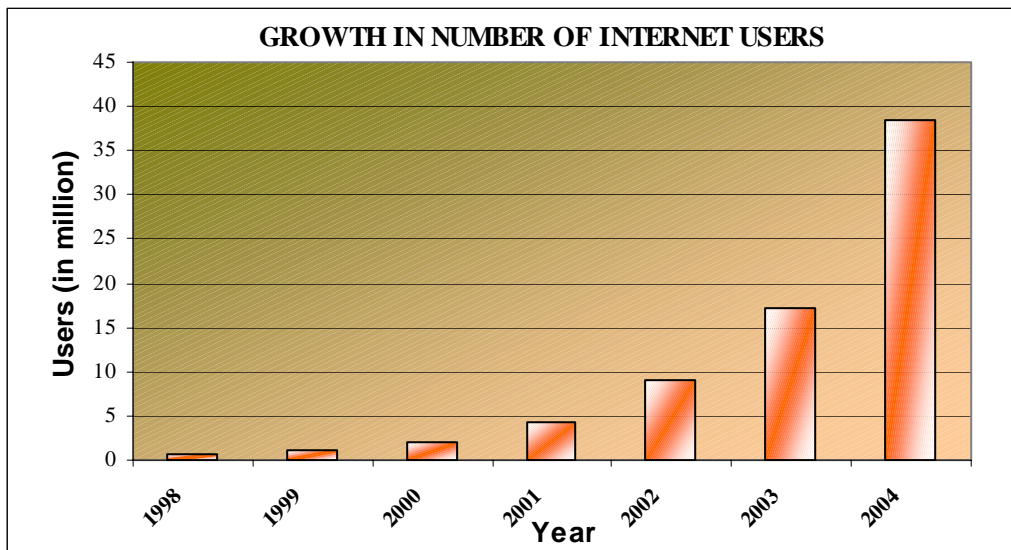
⁴ IOAI- Internet & Online Association of India

Music (24 per cent), Movies (21 per cent), Hotel Rooms (20 per cent), Magazine (19 per cent), Home Tools and Products (16 per cent), Home Appliances (16 per cent), Toys (16 per cent), Jewelry (15 per cent), Movie Tickets (15 per cent), Beauty Products (12 per cent), Health and Fitness Products (12 per cent), Apparel Gift Certificates (10 per cent) and Sporting Goods (7 per cent).

- **Satisfaction Index:** 18 per cent of online shoppers are 'Highly Satisfied' with online shopping and 62 per cent are 'Satisfied' with their online shopping experience making a case for repeat purchases and peer to peer recommendations on this interactive medium. 17 per cent are 'Neither Satisfied or Dissatisfied' - An opportunity to convert them towards this increasingly high satisfying index. 3 per cent of online shoppers are 'Dissatisfied' with online shopping.
- **Top 5 Reasons to Shop Online:** 70 per cent of online shoppers like 'Home delivery' about online shopping, 62 per cent like 'Time saving', 60 per cent of online shoppers like the '24x7', 45 per cent like the 'Ease of use' and 39 per cent of online shoppers like product comparisons.

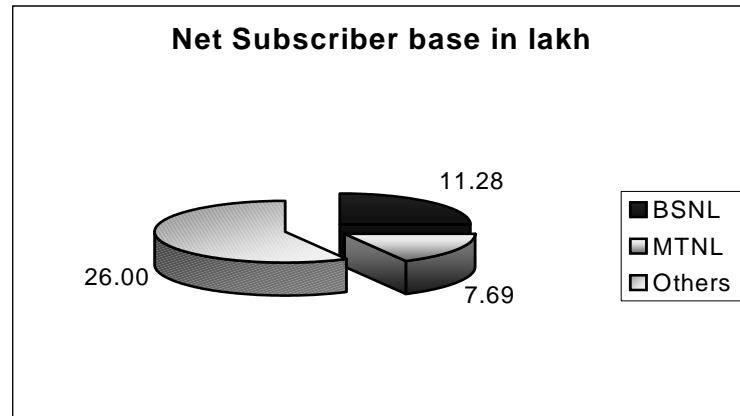
INTERNET GROWTH IN INDIA

E-commerce figures in advertisement is likely to record the maximum growth between the years 2000 to 2003, because of the substantial addition to the user base expected in this period. The emergence of broad band and the convergence of media are likely to provide the thrust to the online ad-spend budgets of companies.



- 5 to 10% of existing 50,000 dotcoms which are of Indian origin or are India oriented were likely to survive in the next 5 years.
- Online advertising in India is poised for a stupendous leap.
- A shake-out in the content providers segment following large-scale redundancy as e-commerce and online advertising sink their roots deeper.
- Intense competition in the Internet Service Provider (ISP) segment is likely to focus on generating alternative streams.
- In the case of Internet enablers and software service providers, a significant increase in market size was expected in the long term.
- On the structural front, a spate of mergers, acquisitions and alliances in the Indian Internet business in the medium to long to long terms, paving the path for greater consolidation is expected.

- Most larger companies in the Internet business categories were expected to follow the merger and acquisition (M&A) route to widen the portfolio of products and services, increase geographical coverage and reduce the marketing costs and gestation period.
- Internet penetration was low in India. India's subscriber base reach 8.3 million users in 2005, with the highest growth rate being witnessed by DSL (digital subscriber line) and cable connections
- Dial-up connections, however would still account for the largest share of internet connectivity options. Net subscriber base upto 45 lakhs



FUTURE PROSPECTS ON E-COMMERCE

The report of the United Nations Conference on Trade and Development (UNCTAD) on E-commerce and Development makes the point that although world economic growth has slowed, and in spite of the difficulties in which the information technology and telecommunications sectors are mired, the rapid growth of internet use and electronic commerce continues. Estimates show that internet use is increasing by around 30 per cent annually, and although the rate of growth of transactions through the internet is much slower, e-commerce could represent up to 18 per cent of worldwide business-to-business (B2B) and retail transactions in 2006. Segments such as B2B have shown rapid growth.

And in certain sectors, such as finance, travel services, software, information and other e-services, online transactions have been growing at a much faster pace. For instance, in the developed countries, online banking already represents between 5 and 10 per cent of total retail banking transactions. Much of the growth has occurred in Asia.

The Report classifies India as a 'rising star' in this regard, pointing out that India's IT services exports have almost doubled in two years and now account for more than 16 per cent of total exports and 8 per cent of all foreign exchange earnings. Given the extraordinary growth rates of e-services exports, the latter figure is expected to reach 30 per cent by 2008. Policy measures to support exporters of e-services should focus on increasing market access in e-services for exporters from the developing countries, as well as addressing domestic obstacles related to technology, payments, infrastructure (telecommunications) and standards.

But the overall message of the Report is a very positive one — despite the current slowdown, the internet and online services are poised to grow, and India will be one of the main beneficiaries.

CONCLUSION

The e-commerce is one of the biggest thing that has taken the business by a storm. It is creating an entire new economy, which has a huge potential and is fundamentally changing the way businesses are done. It has advantages for both buyers as well as sellers and this win-win situation is at the core of its phenomenal rise. Though there are some weak links, with improvements in technology, they will be ironed out, making the e-commerce easy, convenient and secure. The e-commerce is certainly here to stay.

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