e-Commerce
Rhetoric, Reality and Opportunity

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Executive Summary
The e-Commerce industry was in its infancy for the larger part of the previous decade. However, in last three years, the industry has witnessed an incredible growth of 150 percent, increasing from USD 3.8 billion (INR 19,249 crores) in 2009 to USD 9.5 billion (INR 47,349 crores) in 2012. A number of business models for e-Commerce have evolved and are in varying stages of maturity. Of the various business models that are prevalent, consumer e-Commerce is perceived to have a wider and stronger impact on retail or direct consumer and has engaged entrepreneurs, VCs/ PEs and others. It is expected to grow by 33 percent in the year 2013. As India moves towards becoming a consumption driven economy, this consumer centric model presents a very large and transformative opportunity.

Various demand and supply driven factors aided by dynamics in external (government/ regulatory) environment are supporting the growth of the industry. Favourable demographics, increasing number of urban households, growing internet penetration in smaller towns and rural areas, proliferation of mobile devices and emerging need for convenience, choice and access are acting as prime movers from the demand side. The e-Commerce and allied companies have also turbo-charged the e-Commerce growth engine by introducing innovative business models, by offering convenient payment options and by introducing technological innovations and customer friendly policies to capture online time and wallet share. Concepts such as flash sales, ‘by invite only’ sales, India ‘Cyber Monday’ or the ‘Great Online Shopping Festival’ have been smashing hits in the past and such innovations will continue to play an important role to promote online shopping. These tactics, in addition to the existing sales, coupons and deals are welcome by the Indian customer.

The government and regulatory bodies are also playing their part by investing in infrastructure and policy support. These bodies have also initiated awareness drives to get wider users (including SMEs/ MSMEs) on to the e-Commerce bandwagon

The e-Commerce industry offers great benefits to the Indian economy, the customers and the society at large, especially to small businesses, small merchants, semi urban and rural population. In recent years, the growth of the global e-Commerce market has made cross-border transactions an intensifying force in India’s foreign trade, offering millions of enterprises, most of which are SMEs/ MSMEs, to expand beyond the domestic market. Over 30,000 sellers sell on eBay India annually to 4 million consumers in 3,311 Indian cities. Over 15,000 sellers export a variety of Indian handcrafted products to 112 million customers in over 190 countries. It must be noted that this is just the tip of the iceberg. Many small businesses still do not have their own website, which greatly impacts their ability to reach out to a wider and bigger market. However, the third party B2B exchanges/ marketplace platforms afforded by e-Commerce is providing the required firepower for the growth of SMEs/ MSMEs by opening a window to new markets, by shortening traditional supply chains, and by reducing costs, thereby, leading to higher revenues and profit margins.

It is estimated that the e-Commerce industry is expected to contribute around 4 percent to the GDP by 2020. In comparison, by 2020, the IT-BPO industry is expected to account for 10 percent of India’s GDP, according to a NASSCOM report, while the share of telecommunication services in India’s GDP is expected to increase to 15 percent by 2015. However, with enabling support, the e-Commerce industry too can contribute much more to the GDP.

The growing industry will also have a positive spillover effect on associated industries such as logistics, online advertising, media and IT/ ITeS. Currently e-Commerce accounts for 15-20 percent of the total revenues for some of the big logistics companies. The revenue for logistics industry from inventory based consumer e-Commerce alone may grow by 70 times to USD 2.6 Billion (INR 14,300 crores) by 2020. Currently, the inventory based consumer e-Commerce model alone provides direct employment to approximately 40,000 people and is estimated to create 1 million direct and another 0.5 Million indirect jobs by 2020. Low entry barriers have attracted many young and enterprising individuals to try their hand at entrepreneurship. A significant 63 percent of e-Commerce ventures have been started by first time entrepreneurs.

Although many factors support the growth of e-Commerce in India, the fledgling industry is faced with significant hurdles with respect to infrastructure, governance and regulation. Low internet penetration of 11 percent as compared to world average of 34 percent impedes the growth of e-Commerce by limiting the internet access to a broader segment of the population. Poor ‘last mile connectivity’ due to missing links in supply chain infrastructure is limiting the access to far flung areas where a significant portion of the population resides at. High drop-out rates (25-30 percent) on payment gateways, consumer trust deficit and slow adoption of online payments are compelling e-Commerce companies to rely on costlier payment methods such as COD (Cash on Delivery). (access, logistics, payments are part of infrastructure).

1 Digital – Commerce, IAMAI-IMRB (2013)
2 Digital – Commerce, IAMAI-IMRB (2013)
3 D&B, Technopak, KPMG in India analysis
4 Press Releases (2013)
5 Technopak and KPMG in India analysis
6 Technopak (2013); KPMG in India analysis
7 Technopak (2013); KPMG in India analysis
8 Internet World Stats (2013)
9 Internet World Stats (2013)
10 KPMG in India primary research
Further, restrictions on foreign direct investment (FDI) in inventory based consumer e-Commerce have led to a severe capital constraint which has put a question mark on the survival of many e-Commerce players. e-Commerce is a capital intensive business and with problems abounding in technology infrastructure, low profit margins and poor physical infrastructure (logistics and distribution), this industry needs regulations that are supportive and that provide for an environment conducive to growth. Only companies that are able to attract investments on a sustainable basis are likely to thrive in the Indian market.

Given the benefits that accrue to various stakeholders, creation of a favorable yet controlled environment for supporting the growth of e-Commerce industry is imperative. All stakeholders in the e-Commerce ecosystem viz. government, regulatory and industry bodies, e-Commerce players and providers of supporting infrastructure/services would have to jointly tackle the challenges to create a constructive growth environment for the e-Commerce industry. Investment in human capital, technology backbone, leading business practices and enabling policy framework are major areas of opportunity for active participation of players that form the ecosystem.

Concerted efforts would be required for developing and for onboarding the skills such as merchandising, product development etc that are core to e-Commerce. Sustainable growth would necessitate the e-Commerce players to invest in technology to move beyond the customer acquisition phase and to focus on holistic customer experience. Solutions enabling seamless integration of back-end and front-end infrastructure, customer experience enhancement initiatives, integrated inventory management and analytics would be crucial to embark on the transformational journey.

The Government can play a pivotal role in tackling the issues related to ‘last mile connectivity’ and low internet penetration that are currently ailing this industry. Innovative solutions by way of public-private partnerships can go a long way in addressing challenges related to supply chain. Formulation of guidelines and regulations around consumer protection and legal framework could be chaperoned with the key tenet of enabling growth of industry.

Favorable regulatory environment would be key towards unleashing the potential of e-Commerce. Implementation and roll-out of GST would simplify tax and jurisdictional laws for e-Commerce. The real and perceived benefits of allowing FDI in the Indian retail sector such as efficiency in operations, creation of jobs, growth of the industry, investments in back-end infrastructure and overall contribution to economy also hold true for the e-Commerce industry. Multiple factors such as minimal product category overlap, the perishable nature of goods sold at kirana stores, small transaction size for such goods and different target consumer profiles suggest that e-Commerce is not a threat to the unorganized retail sector in India. The much needed capital infusion, therefore, would need to be facilitated either by relaxing the existing FDI norms applicable to inventory based consumer e-Commerce or by encouraging domestic sources of funding. The establishment of a well-administered yet supportive FDI framework requires key considerations around the list of product categories that could be sold by e-Commerce entities, modus operandi for sourcing of products, treatment of strategic and financial investments, minimum/maximum cap on investment requirements and mandatory investment in backend infrastructure.

In conclusion, India is staring at a new paradigm of digital consumerism. As the clocks ticks, the people of India are enthused and excited to get on to this digital bandwagon. They are connected, they are informed and they can’t get enough of it. The e-Commerce industry is offering them their chance. However, the industry needs the required support from all stakeholders in its ecosystem to surmount the challenges and to embark on profitable growth. The Government, the regulatory agencies, the logistics service providers, the payments processing gateways, other supporting parties and the e-Commerce players have to step-up and dodge these challenges.

Further, the interpretation of intricate tax norms and complex inter-state taxation rules make e-Commerce operations difficult to manage and to stay compliant to the Indian Tax Code. The government should study the taxation and jurisdiction laws to address the multi-jurisdictional nature of e-Commerce transactions. Additionally, clarity around in the interpretation of the tax laws for transactions involving information products needs to be provided. The government’s plan to introduce GST (Goods and Services Tax) is a positive step towards simplifying the tax structure on sale of goods and services. According to a report by the National Council of Applied Economic Research, GST can provide an impetus to economic growth by between 0.9 percent and 1.7 percent. More than 140 countries have already introduced GST in some form.