Retailing in India is one of the biggest industries accounts for 14 to 15% of total GDP of country. The Indian retail industry currently estimated at US $ 463 billion is projected to grow at a compound annual growth rate (CAGR) of 6 per cent to reach US $ 648 billion by year 2018. Majority of Indian retail sector is unorganised in form of mom and pop stores or kirana shops. Online retailing is the latest format of Indian retail industry. E-retailing is a process whereby consumers directly buy goods or services from a seller in real-time, without an intermediary service, over the internet. It is expected to grow at US $ 220 billion till the end of year 2030, from the present level of only US $ 7 billion.

1. Introduction
The perception of Indian consumers regarding shopping has been changed with the introduction of internet. Internet has shrunk the entire world including traditional retailing. As technology continues to grow rapidly, e-commerce retailers are adopting newer techniques to facilitate sellers and buyers to sell and buy online more efficiently. Modern concept of shopping is e-retailing. Indian e-commerce and online shopping are set to witness greater heights in the coming years, not just owing to the increasing internet population, but also due to the changing dynamics of the supporting economic system. The key forces behind driving the trend for e-commerce are dropping rates of internet surfing, the rise of social networks and mass adoption of smart phones which is complimenting to the soaring population of internet users.
Growth drivers of the E-commerce in Indian Retail Industry

- Increased number of internet users,
- Growth in disposable income and customer aspiration,
- Easily credit availability,
- Emergence of nuclear families,
- An increase in the double-income households trend,
- Large working population,
- Demand as well as increase in expenditure for luxury items,
- Growing preference for branded products and higher aspirations,
- Growing liberalization of the FDI policy in the past decade,
- Increasing urbanisation.

2. Research Methodology
The prime objective of the study is to analyse the status of e-commerce in Indian retail sector and analytical by nature. Secondary data is collected from various sites.

3. Development of E-commerce in India
The evolution of e-commerce in India can be broadly divided into three phases based on the emergence of various sub segments.

First Phase (1991-2000)
The introduction of internet in India in 1995 marked the beginning of the first phase of e-commerce in the country. The economic reforms launched in 1991 attracted MNCs and brought about the growth of the IT industry by introducing FDI up to 51 per cent under the automatic route in selected priority sectors in country. The implementation of liberalization policies led to the demise of the license regime and high taxes and import restrictions, as well as facilitated the growth of small and medium enterprises. The IT industry and SMEs were the early adopters of internet. This led to the emergence of business to business e-commerce online portals, job searches and matrimonial portals. India’s first online business to business (B2B) directory was launched in 1996. It enabled buyers and sellers to easily connect with their global counterparts. In the same year, a unique concept was launched in India as first online matrimonial portals which transformed the perception about the matchmaking process from “marriages are made in heaven” to “marriages are made in cyber space.” The growth of the services sector, following the launch of economic reforms in 1991, resulted in the creation of additional jobs. Online recruitment industry took shape in 1997 and job portals replaced the traditional practises of weekly government magazines such as Employment News and newspaper notifications.1 In 1997, FDI up to 100 per cent was allowed under the automatic route in cash and carry model for wholesale businesses.

Second Phase (2001-2005)
Although online businesses had begun to develop in the late 1990s, the supporting economic system had not been put in place. This phase of e-commerce in India was characterized by low internet penetration, a small online shopping user base, slow
internet speed, low consumer acceptance of online shopping and inadequate logistics infrastructure. Thereafter, the IT downturn in 2000 led to the collapse of more than 1,000 e-commerce businesses in India. Following this, there was muted activity in the space in India between 2000 and 2005.

Third Phase (2006 onwards)
The entry of low cost carriers in the Indian aviation sector in 2005 marked the beginning of another phase of e-commerce in India and online selling of tickets in travel emerged as the largest segment. People began relying on internet to search for travel-related information and to book tickets. As a ripple effect, the success of the online travel segment made consumers comfortable with shopping through the medium, thus leading to the development of online retail. The Indian Railways also initiated e-ticket booking by the time. This segment developed further in 2007 with the launch of multiple online retail websites. New businesses were driven by entrepreneurs who looked to differentiate themselves by enhancing customer experience and establishing a strong market presence. Online retailers launched heavy price discounts and lucrative offers to get attention of Indian customers. The great online shopping festival was introduced in December 2012 by Google India partnered with e-commerce companies including Flipkart, Homeshop18, Snapdeal, Indiatimes shopping and Makemytrip. In early June 2013, Amazon.com launched their Amazon India marketplace without any market campaigns. In the mid October 2013, Flipkart started its price discount campaign named as Big Billion Days sale, which was a huge success, therefore repeated every year. The Indian government runs one of the largest e-commerce portal in the country as IRCTC (Indian Railway Catering and Tourism Corporation). It is the online railway ticketing platform used by the Indian Railways. It provides the first touch point of e-commerce for the vast rural and suburban population, which is otherwise untouched by the current e-commerce industry in India. The success of this online site can be measured in terms of number of transactions (463,000 per day in the year 2014).

Social networking gained steam in the Indian online space and gradually become an integral part of people’s lives. Initially social sites were used for staying connected with friends, have now emerged as an anchor in any company’s digital strategy. Companies have started establishing their presence in the social media space for branding activities, connecting with customers for feedback and advertising new product launches. People have come to rely heavily on internet for activities ranging from accessing email and searching for information to keeping in touch with friends. Internet user base has been growing significantly, with an exponential increase in internet usage. This trend has been aided by the increasing personal computers and broadband penetration, coupled with the declining prices of all necessary supporting equipments. Tablets and smart phones have given a new meaning to connectivity and user experience. The adoption of 3G and launching of 4G in India, coupled with the declining prices of smart phones, is expected to further increase internet usage in the country. Improvements on the payment front have brought about the increasing use of plastic money by Indian consumers. Payment gateways have now been made more secure through multiple levels of
4. Analysis of Retail sector in India

The total retail sector in India can be divided into organized and unorganized sectors. The trading activities undertaken by licensed retailers are categorized as organized retailing. Licensed retailers are those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains and also the privately owned large retail businesses. Unorganized retail or traditional retail on the other hand, include a large number of small retailers that consists of local kirana shops, owner-manned general stores, chemists, footwear shops, apparel shops, paan and beedi (local betel leaf and tobacco) shops, hand-cart hawkers, pavement vendors, etc.

The Indian retail market is in its nascent stage where organised retailers faced huge competition from the unorganised retailers or kirana stores (mom-and-pop stores) that generally cater to the customers within their neighbourhood. The unorganized retail sector constitutes over 92% of India’s total retail sector till 2013 (fig. 4.1) and thus, poses a serious hurdle for organised retailers. If put numerically, the organised retailers are facing stiff competition from over 15 million kirana stores that offer personalised services such as direct credit to customers, free home delivery services, apart from the loyalty benefits. Generally, it has been observed that customers shop impulsively and end up spending more than what they need at organised retail outlets; however, in kirana stores, they stick to their needs because of the limited variety.

There is significant scope for expansion in organised retail and expected to account for 24 per cent of the overall retail market by 2020 (fig. 4.2).

(Source-BCG-KPMG- Indian Retail Next growth story 2014, indiaretailing.com)
4.1 FDI in Indian Retail Sector

The retail sector reported a limited growth due to inadequate investment by domestic investors. Therefore, FDI limit up to 51 per cent was allowed with the prior government approval in single-brand retail in 2006. Further, it was increased up to 100 per cent in 2012 and another 51 per cent FDI in multi-brand retail was approved by the government of India to encourage investments from MNC’s (fig. 4.3). The sourcing and investment rules for supermarkets were relaxed and consequently private label brands were increased in retail sector. In 2013, Indian government eased further foreign investment rules in a renewed attempt to attract global super market chains. Foreign retailers were keen to enter in India’s $500 billion retail market but ambiguity around entry rules has kept them away. The cumulative FDI inflow in retail for March 2015 was USD 275.38 million. Foreign retailers are continuously entering the Indian market with hope of introduction of Goods and Service Tax (GST) as a single unified tax system from coming fiscal year (2016-17).

From the foreign direct investment point of view, India has occupied a remarkable position in global retail rankings:

- The country has high market potential, low economic risk and moderate political risk,
- In market potential, India ranks eleventh (after United States, China, Canada, UK, Brazil, Germany, Austria and Mexico)
- India’s net retail sales are quite significant among emerging and developed nations; the country is ranked third (after China and Brazil)
Overall, given its high growth potential, India compares favourably with global peers among foreign investors (fig. 4.4).

**Figure 4.4: FDI Confidence Index 2015**
(Source: AT Kearney 2015 FDI Confidence Index, TechSciAnalysis)

### 4.2 Benefits of FDI in Retail sector
The major benefit of relaxation in FDI for multi-brand retail helps to control over inflation. Allowing international retailers such as Wal-Mart, which have already set up wholesale operations in the country, assist in keeping food and commodity prices under control as well as reduce the wastage as big players have to build backend infrastructure. It would also help to narrow the current account deficit. Some other benefits are as follows:

- Development of infrastructure,
- Increase in investment and infrastructure,
- Technological advancement,
- Emergence of new categories,
- Healthy competition in favour of customers,
- No threat to local kirana stores,
- No need of intermediaries.

**Figure 4.5: Indian Retail industry’s growth**

![Graph showing the growth of the Indian retail industry from 2013 to 2018](image-url)
The retail sector in India is emerging as one of the largest sectors in the economy. Total market size is increasing with 12.10 per cent compound annual growth rate form the year 2013 (fig.4.6). Retail industry is expected to grow to USD 642 billion by 2018 (fig. 4.5).

E-tailing market in India is expected to reach US$7bn of gross merchandise value in 2015, more than double the US$3bn market in 2014. It is going to be at US$220bn in 2030 and consisting 1.8 per cent of India’s nominal gross domestic production (GDP) and many domestic companies may emerge as multi-billion dollar revenue business models (fig. 4.6). E-tailing companies are creating supporting system by establishing logistics solutions, warehousing and distribution centres to enhance the internet shopping experience of Indian customers.

Figure 4.6: E-Commerce in Retail sector in India (in USD Billion)
Source: India internet-Unlocking the potential of a billion digital user’ Goldman Sachs, 04 may, 2015

E-tailing in India

Figure 4.7: Online Shopping Penetrations in India
Source: India internet-Unlocking the potential of a billion digital user’ Goldman Sachs, 04 may, 2015.
The shopping habits of Indian customers is going to shift from traditional mode to online mode due to the increased number of smart phones, internet penetration etc. The online shoppers are expected to grow from 24 million in year 2014 to 380 million till the year 2030 (fig. 4.7).

![Commodity distribution in E-tailing](image)

**Figure-4.8: Share of Products in E-retailing in India**

*Source: Internet and Mobile Association of India research, 2015*

The Electronic segment has the highest share in sale volume of e-commerce in retail sector, followed by clothing, books and beauty items etc (fig. 4.8).

### 4.3 Growth Drivers of E-commerce in Retail Sector

**I. Rising disposable income of Indian middle-class**

The Indian middle-class can be categorised into seekers and strives, which is the consuming class and the prime target segment for retailers in India. In 2005, these two categories together constituted around 6.4% of total households in India but accounted for 20% of the disposable income. By 2015, the middle class is expected to constitute around 25% of total households and account for 44% of the total disposable income, and by 2025, the respective figures are likely to go up to 46% and 58%. The Indian middle-class population and their growing disposable income levels will drive the future growth of e-commerce in retail sector in India.  

**II. Changing preferences and shopping habits**

The prime reason for a paradigm shift in the shopping attitude of the Indian consumer is the change in their preferences and tastes. Due to the increasing use of IT and smart phones, Indian consumers have become aware of brands and shops for lifestyle and value brands according to the need and occasion.

**III. Changing demographics**
India is one of the youngest and largest consumer markets in the world with a median age of around 25 years, which is the lowest as compared with other countries. According to estimates, India’s median age would be 28 by 2020. It is expected that over 53% of the population will be under the age of 30 by 2020. Moreover, new generation will be more dynamic than the previous one because their consumption is driven by wants rather than needs.

IV. Increase in working population

India is the second-largest country in the world in terms of population, and is the largest consumer markets in the world owing to its favourable demographics. In 2011 India’s working population (in the 15-54 years age group) constituted more than 50 percent which shows the huge potential of spending their income in shopping.

V. Spurt in urbanisation

The urban population’s contribution in India’s GDP shot up from 29% in 1951 to 60% in 2001 and is expected to increase to 70% by 2018, as migration to cities and towns grows rapidly in anticipation of higher income opportunities provided by these epicentres. Moreover, the continuous development in urban areas has invariably attracted substantial inflows of capital both from domestic and foreign investments have led to the transition of urban areas. This would undeniably emerge as the India’s largest market for e-commerce business model and therefore the challenge for the e-tailers to leverage the full potential of flourishing urban areas.

VI. Internet drives awareness and online purchases

There has been a substantial increase in the number of Indians who use the internet and a parallel increase in the number of online purchases. (fig. 4.9) Indians have started using the Internet not only for increasing awareness but also to shop online, which has opened a whole new channel of retailing in the Indian retail scenario. Online retailing offers consumers the convenience of ordering merchandise to their doorstep.

![Internet Users (in Millions)](image_url)

**Figure 4.9: Internet population in India**

*Source: India internet-Unlocking the potential of a billion digital user’ Goldman Sachs, 04 may, 2015.*
Increasing smart phone users

Mobile commerce has a huge impact on the online retail industry in India. Over 90% of all internet users in India are also active internet users on their mobile devices and this percentage actually continues to rise. All legitimate online retailers in India have a mobile optimized site and many have an app for smart phones to make the mobile commerce experience better for consumers. A leading e-retailer company Myntra has already shifted its entire business from website to mobile application.

4.4 Future of E-Commerce in India

Future of E-Commerce looks promising in India as it is the fastest growing online retail country in the Asia Pacific. Many online retailers are looking at India as a possible destination for global expansion. E-commerce sales in India are expected to grow from $14 billion in 2015 to $55 billion in 2018. Pure-play E-Commerce companies such as Flipkart, Snapdeal and Amazon will see more competition, with brick-and-mortar entities such as the Tata group and the Aditya Birla Group announcing plans to enter India’s growing E-Commerce market. Flipkart, India’s largest online marketplace has raised $3.15 billion in funding, while second-largest firm Snapdeal has raised $1.54 billion. Amazon.com is also going to invest as much as $2 billion in its Indian arm. Online retail accounts for 0.8% of all retail sales in India in 2015, compared with a global average of 6.3%, and this would grow to 4.8% by 2019, when it is projected to be 12.8% globally. (eMarketer). The sector has grown by almost 35 percent compound annual growth rate (CAGR) from 2009 to 2013, according to data from PwC. If this growth rate continues, the country’s e-retail industry is poised to reach to US$10-20 billion by 2017-2020.

India has seen the fastest growth in the retail e-commerce section among the Asia-Pacific countries, growing 133.8% in 2014 and 129.5% in 2015. It is expected that this growth will stabilize to 23.9% in 2019 as compared with an Asia-Pacific projected average growth of 23.5%. The growth in e-tailing is supported by the increasing use of internet by Indians. According to the report by Internet and Mobile Association of India (IAMAI) that internet in India took more than a decade to move from 10 million to 100 million and 3 years from 100 to 200 million but it took only a year to move from 200 to 300 million users in 2015. Currently, India has the third largest Internet user base in the world but it is estimated that by December 2016, India will overtake the US (as the second largest base). Recently Indian government launched “Digital India” initiative which entails a capital expenditure of US$19bn. The purpose is to accelerate the spread of internet connectivity by improving infrastructure (broadband connectivity to 250k village councils, 400k internet access points, Wi-Fi in 250k schools and all universities) and easing bottlenecks as enabling private investments in technology. Clearly, internet is main stream in India today.

5. Conclusion

The Indian e-commerce story has witnessed a lot of action in the last so many years with sites like Flipkart, Bookmyshow, Makemytrip becoming household names. This growth
has inspired many to launch their own e-commerce startups to get a slice of this multi-billion dollar opportunity. Many have succeeded but the number is nowhere close to the number of businesses that have failed. There are various issues still to be addressed before taking the full benefits of e-commerce in India.

India’s ecommerce path is not only affected by low purchasing power and fractured market, poor infrastructure is another stumble block for India. India is one of the least E-Commerce friendly country globally, the country ranked 83rd out of 130 countries in terms of its e-commerce environment, judged by factors such as the number of Internet users, availability of secured servers, credit card penetration, logistics and trade facilitation, and legal and regulation framework.4 Broadband penetrations remain low in India and not growing rapidly. Less than 5 per cent Indians have access to a computer, so as a result seven out of eight Indian accesses to the internet on mobile phones. There are only 69 percent of those who have access to the Internet have broadband connectivity. Moreover they are often discouraged by its slow speed and access their internet with only 2 Mbps average speed, if compared with average speeds of 18.3 Mbps to 60.1 Mbps in developed markets. According to AT Kearney’s Global retail E-Commerce index 2015, India ranks 116th worldwide in terms of internet access. India’s underdeveloped financial and physical infrastructure also poses daunting challenges to e-commerce. The emergence of e-commerce put enormous pressure on the country’s supporting logistics and transportation facilities. Terrible roads make deliveries difficult, while warehouse space in India’s densely packed cities is next to impossible to obtain, due to a scarcity of land and can cost more than in the developed world. Another problem with the payment options required for e-commerce transactions. Majority of online buyers prefer cash on delivery method, which is not suitable for e-commerce firms. According to PWC report, credit cards are used by only 1.8 per cent of the population and it is estimated that 50 - 80 per cent of purchases are paid via cash on delivery basis. In addition, a lot of uncertainty surrounds the nation’s laws on foreign direct investment (FDI) into the e-commerce sector. In general, India has been resistant to foreign retailers coming in, even in brick and mortar formats, because they are seen as threats to local retailers. Unquestionably, the India market is changing and showing more promise than ever before. However it’s a market with a ‘long runway’, especially where return on investment is concerned. The Indian e-commerce story has witnessed a lot of action in the last so many years with sites like Flipkart, Bookmyshow, Makemytrip becoming household names. This growth has inspired many to launch their own e-commerce startups to get a slice of this multi-billion dollar opportunity. Many have succeeded but the number is nowhere close to the number of businesses that have failed. There are various issues still to be addressed before taking the full benefits of e-commerce in India.

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