

# Issues and Challenges of e-commerce in India- A Study

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## Abstract

India's retail market is estimated to be worth \$600 billion. Today, ecommerce comprises only 5% of the total. Compare that to the 15% stake ecommerce has in the US market, and it becomes clear there's still plenty of room for growth. Despite efforts like 'Digital India', affordability of smartphones and data packages, vast sections of India's population have yet to come online. India's total internet user base is set to grow from 665 million in 2015 to 829 million by 2021. So, the inherent potential of the market is undeniable. And, yet, ecommerce remains highly underpenetrated with only 50 million online shoppers, of whom only 20 million are active monthly purchasers. This gap is indicative of the need to tackle a concern if India is to maintain its role as a global ecommerce lynchpin. For this, the corporate sector must join hands with GoI to ensure that transitions occur seamlessly and with minimal disruption. To that end, a holistic ecommerce framework needs to be established, one that incorporates best governance practices while catering to the unique needs of this vast new consumer base. A robust physical and digital infrastructure must be implemented, one capable of handling the immense load placed upon it daily.

The eCommerce industry in India is growing at a remarkable pace due to high penetration of internet and sophisticated electronic devices. However, the recent growth rate of eCommerce in India is far lagging behind than other developed countries. There are many big problems and challenges faced by an e-commerce industry. Factors like safety and security of online money transaction being the biggest problem along with others, have curb the smooth expansion of the online industry in the country.

Although, major portion of e-business sectors have affected by the below mentioned challenges but still there are few online giants like Makemytrip.com, flipkart.com, Snapdeal.com who have overcome the challenges and represents the perfect growth trends of eCommerce in India. Equally important are efforts to promote a shift to a digital economy. While GoI has taken a valuable first step through the implementation of the Unified Payments Interface (UPI) system, further efforts are needed via the expansion of formal banking and easy credit facilities for the citizenry. Today, 70% of ecommerce customers are men with an average age of 25. The present paper intends to study the challenges of e-commerce in India and also show the possible issues that make the E-Commerce ecosystem in India vibrant place

*Key words: e-commerce, India, special economic zones, Unified Payments Interface, digital economy*

## Introduction

This can further be enhanced by the promotion of robust data protection frameworks along the lines of EU's General Data Protection Regulation (GDPR), levelling the playing field between offline and online players in terms of indirect taxation, and easing restrictions on cross-border ecommerce transactions.

Catering to the demands of an entirely different set of internet users demands a different approach. These future consumers are set to emerge from India's tier-2 and tier-3 cities. These efforts can be complemented by increased government support for 'Make in India' initiatives, particularly through the establishment of industrial corridors, logistics parks and special economic zones (SEZ).

The key challenges to overcome here are a diverse array of languages, an unfamiliarity with digital systems, and preferences for an eclectic array of products across micromarkets. All these factors demand the implementation of an appropriate omni-channel strategy. By combining this with a robust offline-to-online model, assisted sales and product curation, these new entrants to the ecommerce market can look forward to a smooth integration into the wider ecommerce ecosystem. But these figures are set to drastically change. Women are set to claim an equal share in the market, while the average age is expected to rise to 28 years. Also, as people become more accustomed to shopping online, the ordering of basic necessities will outpace discretionary purchases, leading to smaller overall ticket sizes. To keep up with these changing demands, it is crucial that the logistics sector, currently disorganised and fragmented, be efficient.

The primary reasons for India's underperformance are market inefficiencies and underdevelopment. This is most prominently manifested in return to origin (RTO) rates across India, especially when cash on delivery (COD) orders are involved. At present, COD rates are almost 90% in tier-3 and tier-4 cities, as compared to 50% in metros. Cash on Delivery (COD) has evolved out of less penetration of credit card in India. Most of Indian E-commerce companies are offering COD as one of mode of payment for the buyers. 30%-50% of buyers are also taking advantage of this mode of payment while making purchase of any product and service over internet. COD has been introduced to counter the payment security issues of online transaction, but this mode has been proving to be loss and expensive to the companies. It is seen that majority of the customers denied to make the payment at the time of delivery of the product. Hence, companies tend to lose the sale along with product transit fees. In order to curb the problem of COD, online companies should take some judicial steps; otherwise basic logic behind the eCommerce business will be at risk.

## Objective:

In this paper author plans to look at the issues and challenges faced by Indian E-Commerce industry and also show the effect of changes in the E-Commerce policy affecting the retailers

## **e-Commerce and new age technology Issues**

he introduction of new-age logistics partners, and the advent of technologies such as artificial intelligence (AI) and machine learning (ML), offers a solution to these issues, allowing ecommerce companies to reduce RTO rates and confidently serve customers across the country.

Much of this challenge has also been taken up by a select group of startups, all of whom are applying myriad technologies to optimise the efficient functioning of the system. In recent years, these efforts have started to bear fruit, resulting in venture capital firms committing their money and trust to these pioneers.

In the past five months of 2015, the logistics sector has already witnessed a capital infusion of \$6.25 billion. That's more than a six-fold increase from the amount it raised in the preceding year. However, to tackle the many issues facing the sector, a collaborative partnership is required between all stakeholders involved: governmental, corporate, individual. It is only then that India's full potential as an ecommerce destination will be achieved.

E-commerce in spite of opportunities, hoopla and hype, also bears the connotations of challenges as well at the same time. We, therefore, enumerate the major challenges e-commerce in small enterprises is facing and also submit the remedial measures to meet these challenges.

### ***1. Infrastructural Problems:***

Internet is the backbone of e-commerce. Unfortunately, internet penetration in India is so far dismally low at 0.5 per cent of the population against 50 per cent in Singapore. Similarly, penetration of personal computer (PC) in India is as low as 3.5 per thousand of population compared to 6 per thousand in China and 500 per thousand in US. Internet is still accessible through PCs with the help of telephone lines.

Given the penetration of telephone only 2.1 per cent of population, e-commerce remains far away from the common man. It is difficult for e-commerce to reach to 1,000 million population spread over 37 million households in 6, 04,374 odd villages and 5,000 towns and cities. Besides, both cost of PCs and internet access in India are quite high.

### ***2. Absence of Cyber Laws:***

Other big challenge associated with e-commerce market is the near absence of cyber laws to regulate transactions on the Net. WTO is expected to enact cyber laws soon. The India's Information Technology (IT) Bill passed by the Indian Parliament on May 17, 2000 intends to tackle legislatively the growing areas in e-commerce.

The Bill also intends to facilitate e-commerce by removing legal uncertainties created by the new technology. As it stand today, the Bill deals with only commercial and criminal areas of law. However, it does not take care of issues such as individual property rights, content regulation to privacy and data protection specific legislation.

### ***3. Privacy and Security Concern:***

As of to-day, quite vulnerable issues related to e-commerce are privacy and security. So far, there is no protection offered either by Website or outside watchdogs against hazard created by exploiting one's privacy.

### ***4. Payment and Tax Related Issues:***

Issues related to payment and tax is yet another problem continuously hinting e-traders. The electronic payment is made through credit card or plastic money which could, however, not become popular so far in India mainly due to two reasons. First, the penetration of credit card in India is very low (2 per cent of the population).

Second, the Indian customers are quite skeptical of paying by credit card with the increasing threat of fraud played by hackers. Like elsewhere, credit card could not gain growth in India mainly because of authentication and recognition problems of electronic signatures (Dahiya and Singh 2000: 70).

Similarly, tax administration is yet another complex problem in this seamless worldwide e-commerce. As establishing incidence of tax in case of e-commerce transactions becomes difficult, this, thus, provides ample scope for tax evasion. How to get rid of this? Some suggest total tax holiday till 2010 for e-commerce in the country.

There are others who support zero duty on e-commerce to flourish it in the country. It has already been decided in US that there will be no tax on anything sold on the internet in digital form. Should India not follow US, at least for the time being? We have to ponder over it.

### ***5. Digital Illiteracy and Consumer Psyche:***

At present, digital illiteracy is one of the formidable problems e-commerce is facing in India. On the other hand, the continuous exodus of skilled computer engineers to other countries has denuded India of software engineers. This has posed a real threat to the Indian IT industry. Obviously, solution to this problem lies in curbing the computer brain – drain and uses the same in the country.

The Indian consumer is also characterised by his unique psyche. Usually, the Indian consumer does not go long distances for having any good of his choice when a neighbourhood store provides him whatever he wants.

That is why the consumer does not browse the Net knowing the consequent hassles of connectivity and other botherations. Added to this is that building trust on the electronic media also takes long time more especially when the vendor is situated at a very far off place.

#### **6. Virus Problem:**

That computer virus is also a formidable problem in the execution of e-transactions is confirmed by the computer virus originated in Manila. A computer virus lagged 'I Love You' originated in Manila, Philippines on May 5, 2000 rippling across world, inflicted millions of computer files causing colossal loss of US \$7 billion to the governments and the businesses. The offenders causing 'virus' must be awarded deterrent punishment, otherwise similar assaults in future can cause lasting blows to the quite young e-commerce in India as well.

#### **7. English Specific:**

Last but not the least, the software so far in the country is English specific. But, in order to make e-commerce reach to the small enterprises, it needs to be available in the languages (regional) of the owners of the small enterprises to enable them to adapt e-commerce processes in their operations. Sooner it is done, better will be it for small enterprises to adapt e-commerce.

Establishment of a successful e-commerce business is not limited to merely putting an idea onto a website. There are many more issues that must be addressed by an e-commerce entrepreneur before his/her e-commerce venture becomes a successful one. These include legal issues as well that range from e-commerce compliances to brand promotion and protection. Even the domain name protection strategy is an essential part of successful e-commerce venture.

E-commerce is one of the most profitable business ventures in India these days. Not only its present growth is good but even its future and projected growth is tremendous. However, e-commerce in India is also required to be conducted in a legally permissible manner.

A dominant majority of e-commerce venture never survive the second year of their establishment. Further, many e-commerce websites are shut down due to legal violations. For instance, many Bitcoins exchanges in India have temporarily suspended their services due to legal uncertainty in this field. Some of them have even been targeted by law enforcement agencies of India for possible violation of Indian laws.

E-commerce websites operating in India are required to follow many laws of India including the Information Technology Act, 2000 (IT Act 2000). As per the IT Act, 2000 these e-commerce websites operating in India are Internet intermediaries and they are required to comply with cyber law due diligence requirements (PDF) as well.

The legal requirements for undertaking e-commerce in India also involve compliance with other laws like contract law, Indian penal code, etc. Further, online shopping in India also involves compliance with the banking and financial norms applicable in India. For instance, take the example of PayPal in this regard. If PayPal has to allow online payments receipt and disbursements for its existing or proposed e-commerce activities, it has to take a license from Reserve Bank of India (RBI) in this regard. Further, cyber due diligence for Paypal and other online payment transferors in India is also required to be observed. M-health laws and regulations in India must be followed by those who wish to explore this upcoming and remunerative field.

### **Challenges of Electronic commerce scope for growth**

With the active use of electronic commerce in India the electronic commerce dispute resolution in India is also required to be strengthened. The present litigation system of India is not conducive for the growth of e-commerce in India and online dispute resolution in India is more appropriate for such purposes.

Finally, for those who wish to engage in cloud computing, virtualisation and other Internet based services in India, they comply with techno legal regulations of India. Cloud computing legal and regulatory requirements in India for businesses and entrepreneurs are still evolving. Nevertheless they must be followed by the cloud computing business community of India. Virtualisation and cloud computing service providers in India must not only follow the encryption laws of India but they must also ensure cyber law due diligence in India. This is more so when the cyber law due diligence for companies in India has become very stringent and foreign companies and websites are frequently prosecuted in India for non exercise of cyber due diligence.

In short, the highly profitable e-commerce segment of India must be explored only after complying with the laws governing the respective e-commerce segment. There is no single set of laws and regulations that govern all e-commerce segments and every e-commerce segment is governed by different laws.

Not many international brands and retailers could afford to ignore India, the world's most populous country with 1.37 billion people, second only to China, and catching up fast. Given that 41 percent of that enormous population is using the internet, that is a whopping 562 million people or potential customers. The e-commerce market is vast yet tricky and should be navigated carefully to avoid the wrong approach. The just released "Ecommerce Report: India 2019" by the Ecommerce Foundation delves into the B2C e-commerce Indian market, including connectivity, digital readiness, and device usage.

First, the good news: The Indian GDP is expected to reach 2.59 trillion US dollars in 2015, growing at a rate of 6.63 percent, and B2C e-commerce turnover is expected to reach more than 32 billion US dollars. But, India still has a long way to go - literally - in terms of infrastructure and logistics: "India appears to be lacking in all e-commerce indices. It ranks 44th in the Logistical Performance Index, 77th in the Ease of Doing Business Index and 96th in the E-Government Development Index. Additionally, it appears Internet Inclusivity is a weak point for India, taking the 47th position in the rankings," finds the report.

India has some ways to go in terms of logistics, infrastructure, ease of doing business. The Internet Inclusivity Index takes the capacity to access the internet into account as well as the affordability to do so, the available internet infrastructure and the existence and extent of local language content. Of 86 countries, India ranks 47th. A high Ease of Doing Business ranking means that the regulatory environment is more favorable for the starting and operation of a local firm while a high score on the UN's E-Government Development Index include "concurrent past and present investments in telecommunication, human capital and the provision of online services". India ranks 96th among almost 200 countries, having climbed up from the 118th rank in 2014. The World Bank's Logistical Performance Index compares trade logistics across 160 countries.

International brands and retailers should also know that internet usage in India is greatly linked to mobile phones: With Indians accessing the internet 80 percent of the time through their mobile phones, they do so only 20 percent of the time through a desktop computer according to web analytics firm StatCounter. The reasons are affordability, computer penetration being much lower than cell phone penetration, and ease of access: While a mobile phone can be carried around and accessed anytime, anywhere there is a network, PCs do not offer that flexibility. Thus, e-commerce in India means offering mobile friendly options and websites to buy products. No wonder then that mobiles and mobile accessories are by far the most purchased category.

### **Mobile penetration is key to India's internet usage**

"Urban India has developed a very fast lifestyle and now faces infrastructural challenges when it comes to road traffic and travel times from one corner of the city to another. Yet consumers today want more choices at their fingertips and everything faster at their doorsteps. The 'near me' concept is catching up with consumers, with more and more large and small players entering the 'hyperlocal' space," says digital commerce expert Kashyap Mehta, APJ retail lead for SAP customer experience.

Anyone doing business online in India should also keep in mind that those accessing the internet are not always savvy in English; in fact, as the report found, 396 million non-English internet users are expected to use chat applications in 2021, that is more than 70 percent of all Indian internet users. Brands and retailers should thus get ready to address potential customers in the language they are comfortable in, be it Hindi, Tamil, Gujarati, Kannada, Telugu, Malayalam, Bengali or Marathi.

### **E-wallets will continue to grow as most popular payment methods**

In terms of payment, the report found that e-wallets will still be the most used payment methods in 2023. Last year, payments through e-wallets overtook the popular cash on delivery option for the first time, and this year, this payment method is expected to be the most popular payment method by far with almost 43 percent, followed by cash on delivery (28 percent), credit and debit cards (20 percent) and bank transfers (close to 5 percent). By 2023, the Ecommerce Foundation expects e-wallets to account for most of the payment methods with more than 70 percent.

"India's payment acceptance infrastructure has been significantly upgraded, with many new merchants accepting digital payments in both online and offline channels. There is a huge drive from the government side to push consumers to start using the digital payments also as one of their preferred payment modes," confirms Mehta.

### *Far less women than men shop online in India*

When it comes to men and women, there is a clear gender disparity in India in terms of internet usage. “In 2018, the distribution of online shoppers was higher for male (71%), while for women was 29 percent. Moreover, 50 percent of e-shoppers always check product reviews, 35 percent sometimes check them and 10 percent only check reviews for expensive or non-branded products,” claims the report.

In terms of age groups, most online shoppers were between 25 and 34 years old (37 percent) in 2018, closely followed by even younger online shoppers with 18-24 years (31 percent), 35 to 44 years (24 percent), 45 to 54 years (8 percent) and shoppers above 55 percent making up less than 1 percent of all online shoppers.

### **Conclusion**

In India, logistics and courier services required lots of improvement. While, perfect and strong logistics service is one of the key reasons behind the success of any online company, India is lagging far behind in this sector as most of the town and small villages are still not covered under serviceable area of many of the courier and logistic companies. eCommerce is hampered in a big way owing to the limited services offered by the courier service companies.

Tax rate system of Indian market is another factor for lesser growth rate of eCommerce in India in comparison to other developed countries like USA and UK. In those countries, tax rate is uniform for all sectors whereas tax structure of India varies from sector to sector. This factor creates accounting problems for the Indian online business companies. Asked about the most exciting developments taking place in the e-commerce space in India today, Mehta mentions the rise of 'phygital' commerce: “Today’s customer is channel-less and seeks connected experience and connected journeys anytime, anywhere, anyplace. To address this, many Indian retailers are increasingly going ‘phygital’ (a combination of digital and classic retail). This is now being driven predominantly by brands operating in the fashion and lifestyle category... The line between online and offline is getting blurred as players are realizing that a complete 360 degree shopping experience can be provided by bringing the best of both worlds”.

Fear of making online payment is a universal psychological factor of Indian customers. With the spread of knowledge on online transactions and its reliability, some percentages of customers have overlooked this fear and they are fearlessly engaging themselves in online shopping. But still, majority of customers are not aware of online transactions and its security. They often reluctant to disclose their credit card and bank details and preferred to stay away from online world of shopping.

Indian customers are more comfortable in buying products physically. They tend to choose the product by touching the product directly. Thereby, Indian buyers are more inclined to do ticketing and booking online in Travel sectors, books and electronics. Companies dealing with products like apparel, handicrafts, jewelry have to face challenges to sell their products as the buyers want to see and touch before they buy these stuffs.

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