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E-Commerce in India: Issues and Challenges

Abstract

India's retail market is worth US\$600 billion. Today, e-commerce only accounts for 5% of total sales. Compare that to the 15% share of the e-commerce has in the US market, and clearly there is still a lot of room for growth. Despite such efforts like "Digital India", affordable smartphones and data plans, most Indians have to come online yet. India's total internet user base is expected to grow from 665 million in 2015 to 829 million in 2023. However, e-commerce remains very underdeveloped with only 50 million online shoppers, of which only 50 million online shoppers, of whom only 20 million are monthly active buyers. This gap demonstrates the need to address the issue if India is to maintain its role as a global e-commerce lynchpin. To this end, the corporate sector must work closely with the

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Government of India to ensure a smooth transition and with minimal disturbance. For that, a holistic e-commerce framework must be created to engage the best management practices while addressing the unique needs of this new, broad user base. A robust physical and digital infrastructure must be created that can cope with the great stresses of everyday life. While major portion of the e-business sector is impacted by the challenges outlined below, few are still online giants like Makemytrip.com, flipkart.com, Snapdeal.com that have overcome challenges and represent perfect growth of e-commerce trends in India. Equally important are efforts to support the transition to a digital economy. While the Government of India 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 credit facilities for citizens. Currently, 70% of e-commerce customers are male with an average age is 25 years. This paper aims to examine the challenges of e-commerce in India and also highlight potential problems making India's e-commerce ecosystem a buzzing place.

Key Words

E-commerce, India, Consumer, Inventory, Unified Payments Interface, Digital Economy.

Introduction

Electronic commerce or e-commerce refers to a commercial transactions taking place over the internet. This means buying and selling of goods, products or services over the Internet. Transactions of money, funds and data are also considered as electronic commerce. These business transactions can be done in four ways: Business to Business (B2B), Business to Customer (B2C), Customer to Customer (C2C), Customer to Business (C2B). The e-commerce industry has seen tremendous growth in recent times. Much of the growth

for this industry has been driven by increased access of internet and smartphone penetration. According to information by India Brand Equity Foundation (IBEF) India's e-commerce market is expected to grow to Rs. 14,596.2 crores by 2026 from Rs 2,810 crore in 2017. In August 2020 amount of internet connections in India rise significantly to almost 76 crore, driven by "Digital India" programme. Although the Covid pandemic has severely affected the Indian economy, the e-commerce sector experienced a steady growth, especially since April 2020. According to a report by US company Payoneer, India's e-commerce sector is ranked 9th worldwide in cross-border growth. The e-commerce sector also saw massive investments from global players like Facebook and Google in recent years.

Laws Governing E-commerce in India

E-commerce companies are subject to various extant rules and regulations. Owing to the cross cutting nature of e-commerce, different laws and regulations across sectors govern the present e-commerce activities, some of which are:

- The Income Tax Act, 1961.
- The Consumer Protection Act, 1986.
- The Information Technology Act, 2000.
- The Foreign Exchange Management Act, 2000.
- The Payment and Settlement Systems Act 2007.
- The Companies Act, 2013.
- Laws related to Goods and Services Tax.

Consumer Protection (e-commerce) Rules, 2020

The Consumer Protection (e-commerce) Rules, 2020 (Rules) were notified in July 2020. The Rules aim to do just that complement the Consumer Protection Act, 2019 (Act) by regulating all electronic commerce activities and transactions. Government announced new Rules for e-commerce businesses, including mandatory "country of origin" indications on their products, any deviations will attract penal action. The new rules will apply to all electronic retailers (e-retailers) registered in India or abroad but offering goods and services in Indian market. The violation of the rules will result in punishment under the Consumer Protection Act, 2019.

E-commerce businesses must provide information about total price of goods and services offered for sale along with a break-up of other charges. E-commerce entities must display details about return, refund, exchange, warranty and guarantee in a way that stands out to their users about vendors offering goods and services, including their company names, whether registered or not. They must also indicate the geographical address of the seller, customer care number and any rating or other aggregated feedback about such seller, among others under the new rules. They must provide a ticket number for each complaint lodged, through which the consumer can track the status of complaint. New rules prohibit any inventory e-commerce unit from falsely impersonating itself as a consumer and post reviews of goods and services or misrepresenting the quality or characteristics of any goods and services.

The inventory e-commerce units need to ensure that the advertisements for marketing of goods and services are based on real features, access, and terms of use of the goods or services. Inventory e-commerce business has no right to refuse return of goods or revoke or cancel services purchased, subject to different terms and conditions.

Future of E-commerce in India

The e-commerce industry is expected to grow will become 4,08,769.2 crores rupees in India by 2023, and it will become 6.5% of the total retail market. Cash on Delivery and free return options have definitely given a push to online shopping. Social media helps the e-commerce industry by creating a bigger customer

base. Mobile apps, improvement in logistics, focus on small towns, brands technology consolidation and innovation can further enhance the e-commerce industry in India. India's e-commerce industry is on an upward growth trajectory and is expected to overtake the US to become the second largest e-commerce market in the world by 2034. The e-commerce sector in India is projected to reach 7,22,417 crores rupees by 2024 Rs 2,18,904 Crores in 2019, growing at 27% Compound Annual Growth Rate (CAGR), with food and fashion/clothing likely to be the main drivers incremental growth. India's e-commerce is expected to increase by 4% of total grocery, apparel and consumer electronics retail trade in 2020 to 8% by 2025. The Government of India's guidelines and regulatory framework like 100% Foreign Direct Investment (FDI) in B2B e-commerce and 100% FDI under automatic route under the marketplace model of B2C e-commerce is expected to further propel growth in the sector. Under the new FDI policy, online companies cannot bid through foreign investment offer the products sold by retailers in which they hold equity stake.

CCI Study on E-commerce in India

The Competition Commission of India (CCI) released a Report titled 'Market Study on E-Commerce in India'. This study suggests specific areas for self-regulation of e-commerce marketplace platforms with a view to reduce information asymmetry and promote performance competition. The Commission under its advocacy mandate, has called for e-commerce platforms to introduce self-regulatory measures such as search ranking, collection, use and sharing of data, user mechanism of review and evaluation, revision of contract terms and warranty discount policy for ensuring competition, harnessing efficiency and greater transparency. This study confirms that online commerce is becoming increasingly important in the sectors studied. Online section prevalence and relative importance to traditional channels varies widely between products. According to research, online trading has increased price transparency and price competition. The search and comparison function of the online platforms reduce search costs for consumers and offer them a wide variety of alternatives to choose from. For businesses, e-commerce has helped expand the market participation by supporting innovative business models. The published report presents the key trends also identify and discuss issues that may directly or indirectly has a bearing on competition, or may hinder realization of its full pro-competitive potential of electronic commerce. These include problems with the lack of platform neutrality, unfair contract terms between the platform and the company, exclusive contracts between online marketplace platforms and vendors/service providers, platform price parity restrictions and big discounts. The CCI is of the view that many of these questions would lend themselves to a case-by-case examination by the CCI in accordance with the relevant provisions of the Competition Act, 2002. The report outlines these issues and presents the ICC's observations on the same without assessing whether a conduct is anti-competitive or is justified in certain contexts.

Conclusion

In India, logistics and courier services need to be greatly improved. While, perfect and strong logistics service is one of the keys reasons behind the success of online business, India is lagging far behind most of the small towns and villages in the sector not yet part of the range of services of many courier and logistics companies. E-commerce is severely hampered due to the limited services offered by courier service companies.

The tax rate system in the Indian market is another factor behind the slow growth rate of e-commerce in India compared to other developed countries such as the United States and the United Kingdom. In those countries, the tax rate is the same for all sectors, while India's tax structure varies from sector to the sector. This factor creates accounting problems for Indian online businesses. Asked about the most exciting developments taking place in e-commerce in India today, Mehta mentions the rise of 'phygital' commerce: "Today's Customers have no channels and are looking for a connected and traveling experience anytime, anywhere. To handle this many Indian retailers are increasingly turning to phygital (a combination of digital and physical retail). This is now being fought especially from brands operating in the fashion and lifestyle categories.

The line between online and offline is blurring when players realize that a complete 360-degree shopping experience can be provided by bringing together the best of both worlds.”

Fear of online payments is a universal psychological factor for Indian customers. With the dissemination of knowledge on online transactions and its reliability, a few percentages of customers ignore these fears and engage fearlessly themselves in shopping online. However, most of the customers are not aware of online transactions and its security. They often reluctant to give out their credit card and bank details and preferred to stay away from the world of online shopping.

Indian customers feel more comfortable in buying products physically. They tend to choose the product by touching the product directly. Hence, Indian buyers are more likely to buy tickets and book online in travel sectors, books and electronics. Businesses that deal in products such as clothing, crafts and jewellery have to face the challenge of selling their products to buyers. They want to see and touch these things before they buy them.

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