

Impact Of E-Business on Organized Retail Sector

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Abstract

With a deep retrospection it is identified that India has transitioned from various phases of growth in almost all sector and hence there were lot of transformations occurred in retail segment too. From barter system in ancient India, it has transitioned from unorganized retail, organized retail and now e-commerce is booming and there is already entry of m-commerce which is extension of e-commerce. Digitization followed by Digital India initiative have brought about a real time transformation such as mobile-commerce, E-commerce and services dependent on digital platforms. Thus, these ensures that there exists a possibility of bigger impact on organized retail. Over decades we all can evidence that Indian retail market has seen drastic deviations. Looking at the potential size of market top three business houses also ventured in retail market with Reliance Fresh, Star Bazar, More along with major players like Future group with Big bazar and D-Mart etc. Even amid pandemic many went providing their services even online. Thus, each business made an attempt to focus on reducing the levels in distribution cycle by reaching close to manufacturer and providing many products under one roof at discounted rates. All these are part of Organized retails. E-commerce has transformed the way business is done in India. The Indian E-commerce market is expected to grow to US\$ 111.40 billion by 2025 from US\$ 46.2 billion as of 2020. Online retail sales in India is expected to grow 31% to touch US\$ 32.70 billion in 2018, led by Flipkart, Amazon India and Paytm Mall. Various social, political, technological environmental changes are helping this shift in positive way. The literature review is presented with sole objective of identifying the research gaps to validate undertaking the present research work by the researcher. This study concludes with creation of an know how that there exists an impact of e-business on direct retail sector.

Keywords – Direct retail, E-business, E-commerce, digital transformation.

Introduction

Much of the growth for the industry has been triggered by an increase in internet and smartphone penetration. As of April 2021, the number of internet connections in India significantly increased to 782.86 million, driven by the 'Digital India' programme. Out of the total internet connections, ~61% connections were in urban areas, of which 97% connections were wireless. The Indian online grocery market is estimated to reach US\$ 18.2 billion in 2024 from US\$ 1.9 billion in 2019, expanding at a CAGR of 57%. India's e-commerce orders volume increased by 36% in the last quarter of 2020, with the personal care, beauty and wellness (PCB&W) segment being the largest beneficiary. India's consumer digital economy is expected to become a US\$ 800 billion market by 2030, growing from US\$ 537.5 billion in 2020, driven by strong adoption of online services such as e-commerce and edtech in the country. Propelled by rising smartphone penetration, launch of 4G network and increasing consumer wealth, the Indian E-commerce market is expected to grow to US\$ 200 billion by 2026 from US\$ 38.5 billion in 2017. Indian consumers are increasingly adopting 5G smartphones even before roll out of the next-gen mobile broadband technology in the country. Smartphone shipments reached 150 million units and 5G smartphone shipments crossed 4 million in 2020, driven by high consumer demand post-lockdown. According to a report published by IMAI and Kantar Research, India internet users are expected to reach 900 million by 2025 from ~622 million internet users in 2020, increasing at a CAGR of 45% until 2025. In festive season CY20, the Indian e-commerce GMV was recorded at US\$ 8.3 billion, a significant jump of 66% over the previous festive season. Similarly, the Indian e-commerce market recorded ~88 million users in festive season CY20, a significant jump of 87% over the previous festive season.

With technological advancements, world has come closer and the game of retail has completely changed with the new wave of e-commerce. All these changes have also bought changes in various policy decisions of countries and India is no exception to same. The policies related to Foreign Direct Investment i.e. FDI, plans related to digital India, Make in India etc will certainly have constructive impact on E-commerce in India and this potentially can have impact on retail sector both organize and unorganized [1]. With globalization there is significant change in Indian consumer behaviour which will have impact on retail. Thus, while studying impact of e-commerce on organized retail, it is important to consider the literature review on all these factors. This study would help us to understand several impacts that are created on retail sector with the disruption of e-commerce platforms.

Indian retail industry has emerged as one of the most dynamic and fast-paced industries due to the entry of several new players. Total consumption expenditure is expected to reach nearly US\$ 3,600 billion by 2020 from US\$ 1,824 billion in 2017. It accounts for over 10% of the country's gross domestic product (GDP) and around eight% of the employment. India is the world's fifth-largest global destination in the retail space. India ranked 73 in the United Nations Conference

on Trade and Development's Business-to-Consumer (B2C) E-commerce Index 2019. India is the world's fifth-largest global destination in the retail space and ranked 63 in World Bank's Doing Business 2020. India is the world's fifth largest global destination in the retail space. In FDI Confidence Index, India ranked 16 (after US, Canada, Germany, United Kingdom, China, Japan, France, Australia, Switzerland, and Italy).

As per Forrester Research, in 2020, India's retail sector was estimated at US\$ 883 billion, with grocery retail accounting for US\$ 608 billion. The market is projected to reach ~US\$ 1.3 trillion by 2024. Revenue of India's offline retailers, also known as brick and mortar (B&M) retailers, is expected to increase by Rs. 10,000-12,000 crore (US\$ 1.39-2.77 billion) in FY20. India's direct selling industry would be valued at US\$ 2.14 billion by the end of 2021. According to the Retailers Association of India (RAI), the retail industry achieved 93% of pre-COVID sales in February 2021; consumer durables and quick service restaurants (QSR) increased by 15% and 18% respectively. After an unprecedented decline of 19% in the January-March 2020 quarter, the FMCG industry displayed signs of recovery in the July-September 2020 quarter with a y-o-y growth of 1.6%. The growth witnessed in the fast-moving consumer goods (FMCG) sector was also a reflection of positivity recorded in the overall macroeconomic scenario amid opening of the economy and easing of lockdown restrictions. India's e-commerce market is estimated to record sales worth US\$ 55 billion during 2021 with the addition of 40 million new online shoppers. The number of online shoppers for 2021 is estimated to reach 190 million compared with 150 million last year and is estimated to reach 300 million shoppers in the next five years. India is set to become the third-largest online retail market by 2030 after the US and China with an annual Gross Merchandise value (GMV) of ~US\$ 350 billion. The new-age logistics players are expected to deliver 2.5 billion Direct-to-Consumer (D2C) shipments by 2030. Online used car transaction penetration is expected to grow by 9x in the next 10 years. During the festival period in 2020, Amazon, Flipkart and various vertical players sold goods worth US\$ 9 billion despite the pandemic onslaught.

E-commerce is expanding steadily in the country. Customers have the ever-increasing choice of products at the lowest rates. E-commerce is probably creating the biggest revolution in retail industry, and this trend is likely to continue in the years to come. Retailers should leverage digital retail channels (E-commerce), which would enable them to spend less money on real estate while reaching out to more customers in tier II and tier III cities.

By 2024, India's e-commerce industry is expected to increase by 84% to US\$ 111 billion, driven by mobile shopping, which is projected to grow at 21% annually over the next four years. In 2020, the most common payment methods online were digital wallets (40%), followed by credit cards (15%) and debit cards (15%). Online penetration of retail is expected to reach 10.7% by 2024 versus 4.7% in 2019.

Nevertheless, long-term outlook for the industry looks positive, supported by rising income, favourable demographics, entry of foreign players, and increasing urbanisation.

Literature Review

'Indian Council for Research on International Economics Relations' on the retail industry, is broad and thorough analysis related to the impact organized retail can have on different parts of the financial system. The conclusions are based on one of the comprehensive surveys of various stakeholders including retailers from unorganized sector, different manufacturers, various arbitrators, wide range of customers and farmers and retailers from organized sector before 2008[2]. Based on the study, retail trade in India as predicted by researchers is to grow at the rate of 13% per annum, unorganized retail at 10% annually while Organized retail 40-45% annually. Another observation is that low income consumers are saving more than others in Organized retail outlets taking benefit of offers and discounts. Farmers are also getting benefited due to direct sale to organized retailers[3]. Based on the data analyzed, team has made number of recommendations in unorganized and organized segments both for policy changes. The two most important recommendations made by the team are that the government must help in the emergence of a 'private code of conduct / ethics' for organized retailers in doing transaction with small suppliers and government should also simplify the licensing and permit which will promote the expansion of organized retail[4].

Objectives

- To study the impact of e-business on direct retail sector.
- To evaluate the preference of mobile usage for e-business and impact on retail segment.
- To analyze the key factors influencing the growth of e-business.

Research Gap

The Indian retail has seen tremendous changes over couple of years. From barter system, small shops, departmental kind of stores, Organized retail to current e-business / e-commerce & m-commerce based sale of products. There are various factors, direct and indirect, that has brought these changes. The factors like political environment, globalization, government policy changes, competition, growth of IT, technological improvements, growth of internet, growth of infrastructure, improved internet speed, exposure to global environment, changes in consumer behavior are the key

factors for this change. Various factors have been studied by many scholars and professionals [5]. There are articles and papers explaining various formats of retail stores which have been studied. There are various articles on Indian retail growth story by KPMG and India Brand Equity foundation. There are some papers on Organized Retailing discussing about the Challenges. There are articles related to Policy with respect to Foreign Direct Investment, there are many articles and papers presented. There are many papers by different authors talking about FDI, the Opportunities it brings and challenges it can put forth of India. One more important factor which potentially will be having huge impact on Indian economy is Digital India Initiative. There are many papers which discuss various aspects of digital India initiative, its potential impact on economy etc [6]. The digital India site itself gives details regarding its objective, vision, mission etc.

There are lot of papers and articles available on e-commerce. All these papers and articles are primarily focusing general characteristics of e-commerce [7]. Going through all the research work and papers and articles related to area of retail, ecommerce in specific, FDI, Digital India initiative etc. it looks like all these aspects are studied with very different perspective in mind. There has been study done on impact of Organized retail on un-organized retail. But there is no study done in area of impact of e-commerce on Organized retail [8]. With potential benefit of e-commerce to consumers at large, it has already made its presence felt by all retail operators. They have already started feeling the impact on volume of sale, profitability etc [9]. With Wal-Mart working out strategic entry in Indian market and Organized retail has already made its presence felt by all consumers, this research work focuses on linkages between these factors with respect to e-business growth and in turn impact of e-business on Organized retail sector due to e-commerce which is missing part in all the study done so far [10].

The key challenges pointed out in the paper are

1. Knowing the customer.
2. Increasing the footfall in the shop.
3. Retaining the loyalty while competing with e-commerce.

The Main Findings are

- a. Unorganized retailers experienced a reduction in business volume and hence profit in the initial years when large organized retailers entered the market. This negative impact has reduced over time.
- b. The competition for unorganized retailers is increasing from traditional retailers using better business strategy and technology.
- c. Most retailers in unorganized sector want to continue in the business
- d. Small retailers are attracting and retaining customers by giving credit to customers.
- e. Consumers have gained from organized retail on multiple counts.
- f. There is increase in Spending observed.
- g. Unorganized retailers do have significant competitive advantage which include consumer credit sales, goodwill, possibility of bargaining, possibility of selling loose items in smaller number, convenience of timings and home delivery due to nearby location and relationship with consumer.
- h. Farmers are getting more prices due to direct selling hence farmers are benefited most due to organized retailers. There is increase of almost 25% experienced in average price and profit almost to the tune of 60%.
- i. Quite a large number of manufacturers are now starting to feel the impact of competition from organized retail in form of price and payment pressures.
- j. To minimize this impact, manufacturers are focusing on building and leveraging their brand strength, getting into retailing themselves, setting up dedicated teams to deal with organized retailers and 'adopting' small retailers.
- k. There is no significant impact on small manufacturers of organized retail. Gone are those days when once customer is won, he will be loyal throughout his life. Now a day's customer has to be satisfied on every interaction. Due to this retail has become more customer centric now. Also, it is generally said that retained customers tend to have higher level of perceived quality of service. It is quite evident that cost of acquisition of customer is more than cost of retention of the customer. All efforts are directed to retain already acquired customers and relationship marketing has proved to be one of the key tools in same. Through membership approach, customer data is acquired with respect to his/her interest and demand structure.

Justification of the Study

Considering the gap identified above it is clear that all the study has been done on ecommerce, internet penetration, organized retail etc but in isolation. There is no study done on impact of e-commerce on high investment Organized Retail [11]. Considering the fast growth of e-commerce it is necessary to study in detail the customer sentiment, their preferences with respect to e-commerce and also Organized Retail sector so that both the systems can leverage strength of each other with less impact on overall economy. Hence this research aims to study the impact of e-business on Organized Retail Sector.

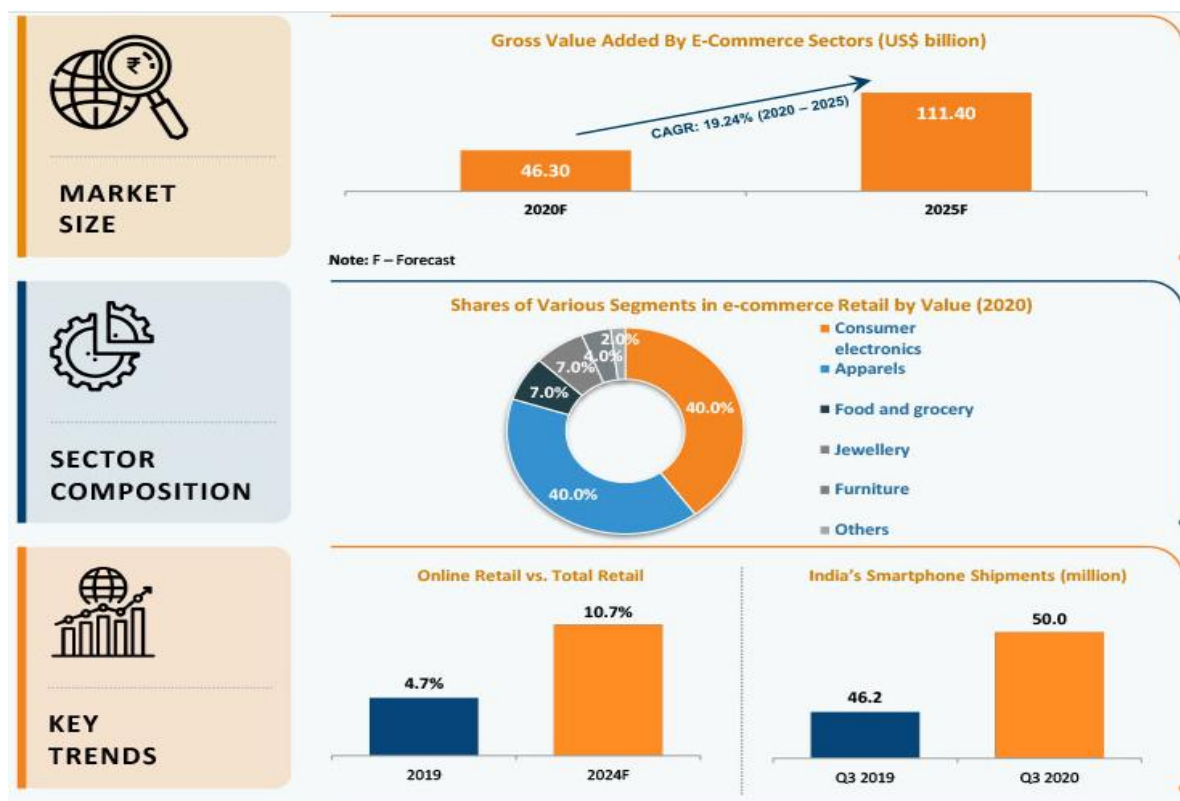


Exhibit – Growth of E-commerce Industry in India

Source - www.ibef.org

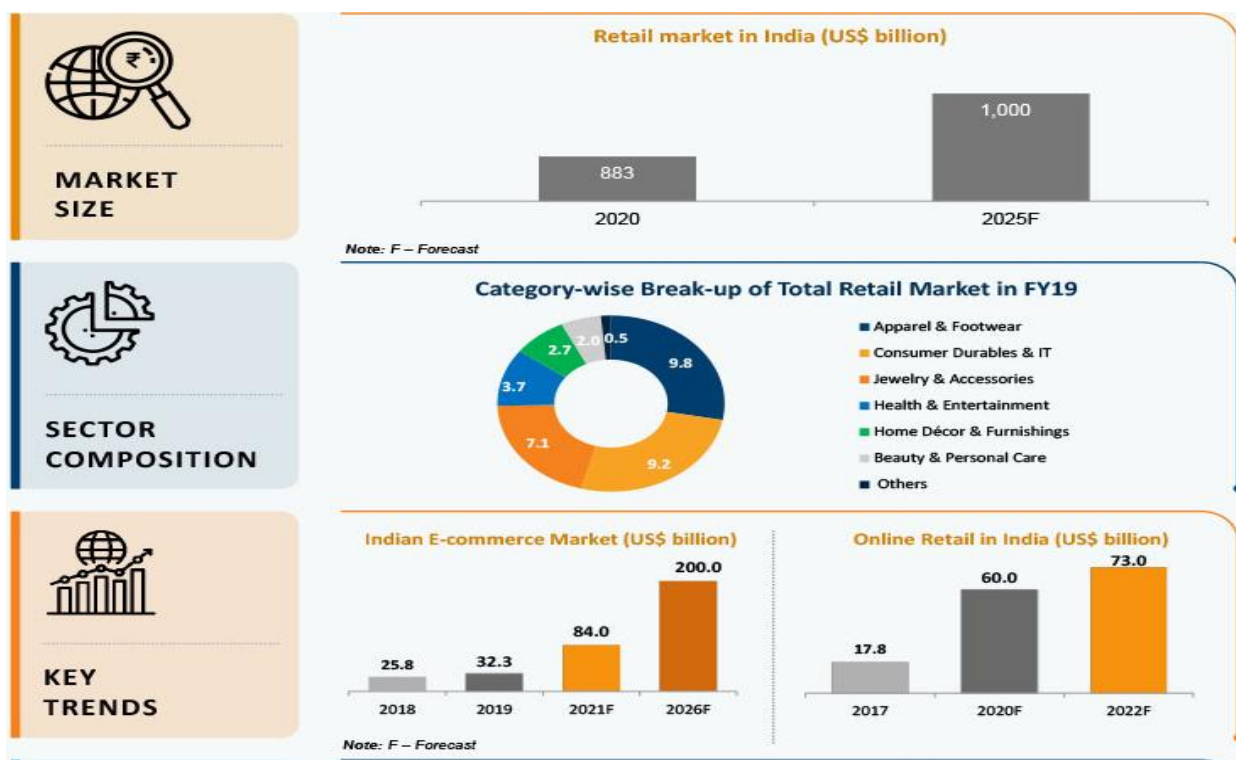


Exhibit – Growth of Retail Industry in India

Source - www.ibef.org

As of June 25, 2021, the Government e-Marketplace (GeM) portal served 6.87 million orders worth Rs.116,291 crore (US\$ 15.67 billion) from 2.0 million registered sellers and service providers for 52,651 government buyers. Through its Digital India campaign, the Government of India is aiming to create a trillion-dollar online economy by 2025. It has

formed a new steering committee that will look after the development of a government-based e-commerce platform. The new committee, set up by the Commerce Ministry, will provide oversight on the policy for the Open Network for Digital Commerce (ONDC), which is an e-commerce platform that the government is backing for the development. The ONDC will serve as the infrastructure for setting up the final storefront, which will be similar to Flipkart and Amazon. The E-commerce industry has been directly impacting micro, small & medium enterprises (MSME) in India by providing means of financing, technology and training and has a favourable cascading effect on other industries as well. Indian E-commerce industry has been on an upward growth trajectory and is expected to surpass the US to become the second largest E-commerce market in the world by 2034. Technology enabled innovations like digital payments, hyper-local logistics, analytics driven customer engagement and digital advertisements will likely support the growth in the sector. The growth in ecommerce sector will also boost employment, increase revenues from export, increase tax collection by ex-chequers, and provide better products and services to customers in the long-term. Rise in smartphone usage is expected to rise 84% to reach 859 million by 2022.

E-retail market is expected to continue its strong growth - it registered a CAGR of over 35% to reach Rs. 1.8 trillion (US\$ 25.75 billion) in FY20. Over the next five years, the Indian e-retail industry is projected to exceed ~300-350 million shoppers, propelling the online Gross Merchandise Value (GMV) to US\$ 100-120 billion by 2025. According to Bain & Company report, India's social commerce gross merchandise value (GMV) stood at ~US\$ 2 billion in 2020. By 2025, it is expected to reach US\$ 20 billion, with a potentially monumental jump to US\$ 70 billion by 2030, owing to high mobile usage.

According to the Ground Zero Series findings of the consulting firm RedSeer, the retail sector is expected to recover ~80% of pre-Covid revenue (amounting to US\$ 780 billion) by end-2020. India will become a favourable market for fashion retailers on the back of a large young adult consumer base, increasing disposable income and relaxed FDI norms. Many fintech companies are competing for their presence in local stores. In May 2020, Paytm announced a US\$ 1 billion loyalty programme and launched online ledger services for kirana stores in India. Other fintech companies such as PayNearby, Phonepe, BharatPe and MsSwipe introduced different services for small shop owners, enabling better digital payments and delivery options at these stores. For example, Amazon partnered with local stores to provide a platform for many small shops and merchants on its Amazon marketplace. While, Walmart has its own network of 28 'best-priced' stores serving local stores across the country. Flipkart Wholesale, a digital B2B marketplace, announced strengthening of its commitment towards growth and prosperity of kiranas and MSMEs by boosting supply chain infrastructure and enhancing employment opportunities. During the online festive sale in October 2020, the Indian e-commerce firms—Flipkart, Amazon, Myntra and Snapdeal—together sold goods worth US\$ 3.1 billion. Online retail rose to record high during the festive season in October-November 2020 with smartphone sales accounting for 53% of the total sales.

Conclusion

Considering the repaid growth of e-business and e-commerce, there was a perceived threat to organized retail sector. The study reveals many aspects related to e-commerce which support this possibility.

- a. For some product categories e-commerce has already become the most preferred option. This number will certainly keep increasing where product is a low value product and frequently purchased.
- b. Other high value items from categories like home & living, fashion and cloths and sensitive products like baby care, health and skin care etc. are becoming equally preferred items on e-commerce site.
- c. There is certainly shift from preference from Unorganized retail to Organized retail for large number of people. But at same time not all the products at the moment are preferred products to be purchased through e-commerce. Hence retail shops from organized retail sector would continue in existence but they would need to revisit level of investment in huge infrastructure considering the growth of e-commerce.
- d. As of now the considerable population preferred most of the products from company owned shops which earlier was any road-side shop but now these products are slowly moving on e-commerce platform.
- e. Indians prefer to touch and feel the products before purchase. With new generation, this need is also reduced. The need to touch and feel the product is there for few products and primarily for products close to heart for females like grocery, fashion & clothing and baby care.
- f. India is moving very fast on digital way through Digital India Initiative, which will present new way of purchase to people in villages and open up huge market for retail sector.
- g. Very big population will be coming on e-commerce platform due to digital India initiative from Villages where organized retail has not reached yet. These people will move more easily on e-commerce platform.
- h. Organized retailers have started feeling the impact already on profit due to reduced footfalls to sale ratio, reduced turnover and high investments in infrastructure.
- i. For e-commerce retailers maintaining quality would be key factor for survival as cost and discounts & offers are not the preferences for people who are moving on ecommerce platform as it is often thought of. Considering all the above points, it can be concluded that e-commerce aspect of e-business is growing very fast and has potential of becoming a major contributor in India's growth.

It has also proved to be a big competition for organized retail. In current scenario, Organized retail has started experiencing the impact but replacing them may not be feasible for all the products. Like few years back, when organized retail was new concept and both organized retail and un-organized retail co-existed, with e-commerce also these both will co-exists. But considering the growth of ecommerce, major share would be contributed by e-commerce in overall retail including organized and unorganized retail both. The collaborative model like Wal-Mart – Flipkart wherein Organized Sector join hands with e-commerce player will evolve and can survive with win-win situation for both. Wining brand loyalty is not one time activity it is continuous process in this dynamic environment. Customer relationship and Customer retention are the key metrics of success Today's customer value outcome and unique experience hence customized marketing is one of the important key of success. Customers expect convenience in shopping which is customized to satisfy individuals need, choices, easy payment options and warranties. Moreover, customers want to enjoy all these wonderful experiences - online and in the store both.

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