

# E-commerce: A Boon for the Current Economic Downturn

In the final in a series of papers discussing e-commerce, ICICI Merchant Services and First Data offer insight based on their deep expertise on how e-commerce has poised itself to be a boon for the current economic downturn, both in India and abroad.

Amrish Rau, General Manager of First Data India and ICICI Merchant Services, discusses the present scenario of e-commerce around the world along with the value propositions it brings making it one of the most sought after business models today.

## E-commerce: A boon for India

By the end of 2011, the e-commerce market in India had clocked close to Rs 50,000 cores. It is interesting to consider whether the global economic downturn may have negatively impacted the growth of e-commerce or possibly accelerated it as consumers look to new online channels which can often deliver greater value than traditional stores.

Today, even though there are less than 10 million internet users who are actually engaging in e-commerce activities, there are about 150 million internet users in India or around 75 million households that are ready for e-commerce\*.

The growing reach in terms of internet connectivity to the interiors of India coupled with the positive experiences of end consumers when buying online beyond the metros and big cities are key drivers of the e-commerce boon in India. Businesses in even the smallest towns and villages are becoming increasingly aware of e-commerce and are excited by the growth potential.

The growing penetration of e-commerce along with positive consumer experiences is reflected in a trend towards higher value online purchases. Today, consumers across urban India are confident enough to make purchases that exceed Rs 20,000-25,000. Earlier, the same shoppers stayed in the Rs 2,000-5,000 ranges. According to a study\*\* almost 57% of business for e-commerce product sites came from tier I, tier II and tier III cities while the eight metros accounted for the remainder 43%. The same pattern was visible in the service sites too, with tier I, tier II and tier III cities contributing 54% of revenue versus 46 % by the eight metros.

Seeing the immense growth e-commerce can offer, merchants across the country are increasingly keen to find out how their businesses can capitalise on the online business model. With entry and operational costs being comparatively low, the second half of 2011 and the beginning of the current calendar have seen the launch of a good number of new e-commerce sites spanning across a variety of businesses.

The growth opportunity is being closely examined by angel funds and venture capital firms who are looking for opportunities to invest in e-commerce start-ups. The e-commerce landscape will continue to evolve rapidly as even more new start-ups are launched addressing existing and new market opportunities. E-commerce has already rapidly evolved to encompass sectors including women's fashion, men's fashion, shoes, followed by accessories, groceries, sports, toys, home furnishings, jewellery, automotive, bicycles, electronics and electrical equipment etc. It is becoming increasingly difficult to identify consumer

needs, that are not now served to some extent online. Innovative merchants will however find new ways to add value to the online experience and offer an increasingly personal service to the growing volume of online consumers.

According to a report by the IAMAI, the current e-commerce market in India is around US\$ 10 billion. But with different levels of adoption, the market has the potential to grow anywhere between US\$ 70 billion – US\$ 150 billion under one scenario and at another level it can grow between US\$ 125 billion – US\$ 260 billion by 2024-25.

## E-commerce: The world over

Globally, the scenario is much the same. Brazil, one of fastest growing economies in Latin America, is seeing considerable growth. According to a recent report<sup>\*\*\*</sup>, it estimates business-to-consumer (B2C) e-commerce, including both retail e-commerce and online travel sales, will total to \$18.7 billion in 2012, a growth of 21.9% over the previous year. Brazil will account for more than half of the total B2C e-commerce sales in Latin America through 2013, thanks in large to its huge populace and growing number of online buyers.

Retail e-commerce itself in the U.S. is predicted to grow at 17% and it will likely account for \$200 billion in sales in 2012, according to a presentation at a popular forum<sup>\*\*\*\*</sup>. Retail e-commerce totalled \$48.2 billion during the third quarter of 2011; an increase of 13.7% compared with the third quarter of 2010, according to estimates from the U.S. Census Bureau. <sup>\*\*\*\*\*</sup>

2011 also saw the European online market boom despite the floundering euro. Germany's online trade increased 17% in 2011 to €21.48 billion compared to 2010, crossing the €20 billion mark for the first time, outstripping traditional mail order sales by 10%. A similar growth rate of 10% to 15% is expected in 2012.

In the global scenario, China is fast emerging as the biggest player in e-commerce. According to an e-commerce report<sup>\*\*\*\*\*</sup>, by 2015, it may well surpass the U.S. In an astonishing illustration of its online growth rate, China has added the equivalent of the entire population of France in internet users in each of the last four years. It will add the equivalent of the entire population of Canada as e-shoppers in each of the next four years. China is projected to rise from 145 million e-shoppers today to 329 million by 2015.

The sheer potential and scope of e-commerce has made it feasible and more attractive than any other business channel in the economy today. From a mere click of a button and a host of payment choices; consumers can purchase virtually anything under the sun with more and more companies offering free shipping.

## E-commerce: Boon to the economy

The key reasons for the success of e-commerce, success are summarized below.

### Shopping 24x7:

E-commerce facilitates shopping anytime, anywhere and for almost anything desired. Busy consumers prefer this to the restrictions of when a mall/shop is open and the need to physically travel to a shop. Online business takes shopping a step further by taking itself to the customer creating conveniences of shopping anywhere and at anytime.

### Reduced operational cost:

Since the entire business can be moved online, the need for physical stores has become obsolete. Less infrastructural investment and associated labour costs drives up the profit margin. The seller can then transfer this benefit to the customer in the form of discounted pricing which boosts the appeal of online shopping.

### Easy to compare:

It is far easier and quicker to compare prices of goods online, equipping the customer with the information to decide the right price or terms for themselves. The comparison is not restricted to items from a single seller, or a single region. One can explore products across global markets via e-commerce.

**Safe & secure:**

Customers can trust the process of going online and purchasing only when transactions are fast, convenient and secure. A high degree of integrity is possible only when the online electronic payment provider is reputable and trustworthy. In India, all payment transaction providers are required to comply with the security requirements laid out by the Reserve Bank of India making the system more robust and reliable.

**Increased reach for the merchant:**

Just as the customer finds them able to venture across geographic markets, the merchant too is able to display his product to customers in new territories. Market penetration also becomes far more achievable with e-commerce; it is possible for a merchant in Mumbai to extend his reach to north-eastern cities or even rural villages that are now connected by the online network.

**Social media trend:**

In India, with the increasing propensity of social media, businesses have now begun to engage their customers on social networking portals such as Facebook. Promotions, sales and new products are increasingly showcased through such channels and mobile apps are now available that suggest products to users based on their profiles. These are likely to be rapidly developing marketing channels for the future.

The e-commerce world is changing rapidly in the digitized world. These e-commerce developments may have been accelerated by the global economic downturn which may be driving consumers to find new ways of reducing their costs of living. The online channel offers a clear value proposition for both merchants and consumers making it the most sought after and exciting business model today

**About the Author**

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**About First Data**

Around the world, every second of every day, First Data makes payment transactions secure, fast and easy for merchants, financial institutions and their customers. First Data leverages its vast product portfolio and expertise to drive customer revenue and profitability.

Whether the choice of payment is by debit or credit card, gift card, cheque or mobile phone, online or at the checkout counter, First Data takes every opportunity to go beyond the transaction.

**About ICICI Merchant Services**

ICICI Merchant Services is different from other merchant acquirers in India. We are an alliance between ICICI Bank, India's largest private sector bank, and First Data, a global leader in electronic commerce and payment services. This enables us to deliver outstanding level of reliability, innovative world class solutions with local expertise and customer care.

**Sources:**

- \* Internet & Mobile Association of India
- \*\* Vizisense –report on e-commerce
- \*\*\* EMarketer Digital Intelligence report
- \*\*\*\* Women's Wear Daily Digital Forum
- \*\*\*\*\* U.S. Census Bureau - U.S. Dpt. Of Commerce
- \*\*\*\*\* BCG E-commerce report

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