Online Retail in India – A disruptive force

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ABSTRACT

Online Retail in India is growing at a very fast pace in India. Even as it is growing it is beginning to cause disruption to the traditional brick and mortar retail outlets as well as causing discomfort to established brands. This conceptual paper looks at how online retail is gradually becoming a disruptive force in India. It threatens to upstage the traditional retail as well hurt a few top brands. These changes taking place in respect of Online Retail in India are highlighted by means of a series of disruptive incidents.

Key words: Online retail, traditional retail, brick and mortar outlets, Cash on Delivery (COD)

Introduction

India is on the verge of an online revolution in retail. Some of the major names in the Indian market include Flipkart, Snapdeal, Amazon, e-bay, Jabong and lenskart among others. The big players in the online retail market have successfully demonstrated by selling mobile phones that Indians are open to spending amounts up to Rs15000/- without invoking the touch and feel factor. This has emboldened these players to start vending even items like air-conditioners, televisions and refrigerators online thereby increasing the per capita spends online. Also the online retail players have experienced that apart from the metros, customers in tier-2 and tier-3 cities are also willing to order through the internet. Online retail has been defined as the concept of selling and buying goods over the internet (Sangeeta Sahney et al., 2013).There have been many studies devoted to this field and available in the Literature. Yuan Xing et al (2011) suggested that during the past decade the internet has created a retail and consumer revolution by providing a new channel for shopping. Norshidah Mohamed et al, (2014) stated thatthe internet has redefined business rules and offered alternative means of consumer shopping. HilalOzen Nil Engizek (2014) suggested that the rate of consumers who are using the online channel for shopping purposes is rising and the revenues of e-tailers continue to grow rapidly and convenience is the most known motivation which encourages consumers for shopping online. Ilias O.

Pappas et al (2014) stated that Online shopping, based on the internet's growth, is emerging in a fast manner. Talking more specifically of the Indian context Suresh Kandulapati and Raja Shekhar (2014) stated that even though the penetration rate of the internet is very low in India, the flexibility, ease of use, convenience and privacy of online shopping has resulted in an unpredictable level of growth.

It is interesting to note the factors behind such a display of affinity towards online retail in India. The first and the foremost reason has been the availability of huge discounts online. These discounts have become a big attraction even for hard core shoppers who like exploring brick and mortar outlets. So much so that a few of them visit the stores for the touch and feel aspect of the product, explore its features thoroughly in the traditional retail outlets and then come and buy online at reduced prices at higher comfort levels. Secondly, the variety of products available online has been a great attraction vis-a-vis the traditional retail stores. A traditional retail outlet can simply not match up to the range offered online. Thirdly, the increased affordability of smart phones has implied that customers can place the order through these devices. Moreover, these portals have ensured that they have applications which can be downloaded on mobile phones and this ensures that orders can be placed easily through them. As per

the Telecom Regulatory Authority of India (TRAI) estimates nearly three-fourths of the Indian population owns a mobile phone. As per Flipkart estimates, nearly 50% of the orders are placed through mobile phones. For customers of small towns, it has also been the convenience factor of not having to go to the nearest metro to purchase a product. Fourthly the facility of being provided the Cash on Delivery (COD) option has increased the customer's confidence in buying online many fold. Under this facility, the customer can simply return the product if not satisfied and no questions are asked. Anyways, there is no question of any upfront monetary investment in this option.

A Gartner study estimates that online retail in India presently accounts for $3.5 bn of the total $500 bn Indian retail market while Technopak estimates that this market could grow to $32 bn by 2020.

Even as online retail has shown that it is poised to take off, it has created a feeling of disruption among the traditional brick and mortar retail outlets. Some of the emerging trends and recent incidents which have clearly indicated that traditional retailers are feeling the business heat and the direction Indian retail is taking are discussed below:

Recent disruptive incidents in Indian Retail

1 The growing importance of online retail can be gauged by the fact that Xiami phones from China were launched only through Flipkart as a flash sale and the sale lasted just 4 seconds. In fact, Flipkart advised its prospects to register in advance to improve their chances of getting a phone and in response over 4,00,000 people registered. This flash sale clearly proved the impact of online retail and its potential for disruption in the way mobile phones were sold previously through brick and mortar outlets. In fact this overwhelming success was just on the back of the successful sale of Moto series mobile smart phones exclusively through Flipkart. Indians now were therefore getting used to buying mobiles online.

2. Samsung Dealers across the country stated that they would boycott Samsung mobile phones unless the company asked its online retailers to refrain from undercutting the prices. The dealers stated that they had to juggle with a 5.5% margin while the same phones were sold at a discount of 20-30% and there was no way they could meet the company's stiff targets. Around 300 dealers joined the movement through social media. Thus, Dealers of brands in India began to feel the pressure of sales due to online retailing.

3. The Market place model offered by the online retailers allowed any third party to sell any branded products on these websites with no control on prices. Any small dealer who wanted to liquidate his stocks could do sell premium brands at throwaway prices. This impacted sales of top brands in brick and mortar outlets in a big way.

4. Even as online retailers like Flipkart went ahead selling products of LG and Sony with discounts, the companies stated that they would not be able to offer any guarantees/warranties or any kind of after sales services for such discounted products bought online which they stated would be termed as unauthorized. Companies were getting disturbed to observe their brands being sold for huge discounts online and have began to react.

5. The companies in the Direct selling business like Tupperware, Amway, Oriflame etc. have advised the Online retailers not to vend their products online at as it was affecting the sales of their direct distributors. In fact discounts of up to 40% were being offered at these sites thereby affecting their traditional direct sales channels. In order to protect the industry, the firms have also requested the government through the Indian Direct Sellers Association (IDSA) to issue clear guidelines on this issue.

6. Flipkart organized a billion dollar sale before the festival of Diwali offering huge discounts on brands. This lead to huge surge in demand from the customers which Flipkart was unable to meet and also the discounts offered caused hurt to many of the manufacturer brands on sale at discounted prices as well as customer inconvenience. The servers of Fllipkart simply crashed under weight of the demand. Flipkart was forced to apologize to the customers. Taking cue from Flipkart other portals like Snapdeal and Amazon also organized big ticket sales purely based on discounts. These mega sales clearly proved that Indian customer simply loved these kind of bargain sales and were ever ready for such occasions.

7. The festival of lights Diwali in India is a time which results in a huge demand for products in the retail stores. However, the year 2014 is now more remembered as a disruptive Digital Diwali in view of the online revolution in retail causing a slump in crowds and thereby the sales in the traditional brick and mortar stores.

8. The booming online retail market has started impacting the sales of outlets located at major traditional electronic retail markets in India like Lamington Road in Mumbai, Nehru Place in Delhi, Ritchie Street in Chennai and Canning Street in Kolkata. Vendors in these markets claim that their sales are down 35-40% during the past three months as online market firms went on a marketing overdrive. There are an estimated one lakh small retailers in the consumer durables, information technology and telecom retail space in India, and this market is estimated to be worth Rs. 50,000 crore. A few traders are thinking to approach the Competition Commission of India, citing violation of the Competition Act.

9. Confederation of All India Traders (CAIT) had called for a probe in the business model and trade practices of e-commerce companies to find out how they are offering huge discounts during the festive season. "The unrealistic prices, unfair competition, unhealthy business practices, predatory pricing have damaged the business of offline market to the tune of 35 per cent in various segments. Therefore CAIT plans to launch a nationwide movement demanding the government to form a regulator and laws and rules to govern the e -commerce business in India," it said in a statement. This clearly showed that brick and mortar outlets were simply not ready to let go of their market shares without a royal fight.

10. As per the brick and mortar shopkeepers, customers now come to the shops just to see the products in some detail, turn them upside down, ask the price and walk out - they do not make any purchases. Most of them go to their homes, switch on their laptops and buy the simply buy the same product online. In other words customers now come to the brick-and-mortar stores for to sample the product; but actual purchase happens online due to the huge discounts offered. The owners of over six million big and small brick and mortar outlets in the country observe that business has began to come down gradually.

11. A pointer to the future- Future group tie up with Amazon - Future Group and Amazon India have formed a partnership by which the retailer will sell its merchandise exclusively online. This is the latest in a series of such moves by traditional Indian merchants. The alliance with Amazon is further evidence that traditional retailers in India have decided to join hands with e-commerce players rather than resist them. Croma, the electronics chain owned by the Tata Group, signed a similar agreement with Snapdeal.com last month. Given the trends in online retail, one can expect many more such alliances.

The above incidents clearly show how online retail is causing disruption to the traditional retail outlets.

Conclusion

Online retail is now emerging as a powerful force in India. Their way of operations has taken the Indian customers by pleasant surprise as it comes with huge discounts. Traditional retailers are trying to fight them out through various methods. A few of them are also joining the online bandwagon as perhaps they see it only as the road ahead. To sum the entire retail industry is expected to witness unexpected disruptions and perhaps consolidation.

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