

**EVOLUTION OF E-COMMERCE IN EMERGING MARKETS –  
A CASE STUDY OF INDIA**

**Harish B,**

Assistant Professor, MBA Department, Rajagiri College of Social Sciences, Kochi  
Kerala, India.

**Abstract**

The Indian e-commerce market is in an exciting phase. The largely favorable demography of young consumers, the penetration of smartphones and the internet and the increased interest of global and local players have made India an exciting e-commerce case study. This chapter traces the evolution of e-commerce from 1995 to present-day highlighting the key factors that enabled an emerging country to become one of the world's largest e-commerce markets in a span of 20 years. The chapter also presents a theoretical framework for understanding how a technologically intensive industry can evolve in an emerging diverse market like India.

**Keywords**

Indian e-commerce, e-commerce framework, e-commerce in emerging market, technology adoption in emerging markets, e-commerce, internet marketing, emerging markets, e-commerce industry cycle.

**Introduction**

India which is one of the top 10 fastest-growing markets in the world is in the cusp of a major revolution in e-commerce. The growth in the Indian e-commerce market is aided by the following factors

- a) Young demography with 60% of the population below the age of 30.
- b) Penetration of smartphones across the country.
- c) Penetration of the internet aided by cheap data.
- d) Intense competition from domestic and global e-commerce firms competing for the market share thereby driving down the prices.

The chapter traces study the evolution of e-commerce in India over these years and highlight the major factors that contributed to the development of this market. The chapter also discusses the implication of this high growth market on

- a) The Indian economy
- b) The consumer
- c) The firms
- d) The regulatory environment.

The Indian e-commerce market is in an exciting phase. The largely favorable demography of young consumers, the penetration of smartphones and the internet and the increased interest of global and local players have made India an exciting e-commerce case study.

India has witnessed a significant increase in internet penetration with increasing internet users at 345 million as of September 2015 to 604 million in December 2018. Indian consumers are also adopting technology very fast. The mobile teledensity is at 79% as of November 2015.

According to a report by Economic Times, the Indian e-commerce industry is expected to be worth around USD 84 billion by 2021. One of the major driving forces in the growth of the Indian e-commerce market is the e-commerce retail market. The huge Indian retail market estimated to be worth USD 1 trillion (2017) with a potential for e-commerce growth has made this market very attractive to global players. Recently, World's largest offline retail company Wal-Mart acquired a major Indian e-commerce firm Flipkart signaling the interest of global giants in the Indian market. Amazon is also a significant player in the Indian market. The growth of the e-commerce market has enabled a parallel growth in the Indian start-up ecosystem thereby fueling a robust entrepreneurship interest in the country. E-commerce is also expected to be the creator of employment opportunities in the country.

The growth of the e-commerce market has also created growth in allied services. For example, e-commerce has ensured the next wave of growth in the logistics market which is currently at USD 1.35 billion and is expected to grow at a CAGR of 36% in the next five years. In a large and geographically diverse market like India, logistics act as a backbone for e-commerce success in India.

The regulatory framework is very critical to the success of any emerging industry in the country. While developed markets have a strong regulatory framework, emerging markets often struggle in creating a supportive regulatory system. The Indian government has been very supportive in facilitating the growth of the Indian e-commerce industry. The government has significantly eased foreign investment in the e-commerce sector. The initiatives like Digital India, development of a unique payment interface like UPI, facilitation of next-generation 5G infrastructure have accelerated the e-commerce industry in India. In order to aid the growing logistics market, the Indian government also has initiated large scale investment in infrastructure like roads, bridges, airports, and seaports across the country. This, in turn, will generate a lot of employment opportunities and economic activity in the country.

The Indian e-commerce industry can be broadly classified into B2B, Government, and B2C segments. A lot of action is seen in the B2C segment. Indian B2C e-commerce market is dominated by two models – the Online market place and Inventory model. The most popular model prevalent in the Indian market is the online market place model. The online market place is a digital platform that brings in the sellers and buyers together with the e-commerce player providing the digital platform. Players like Amazon, Flipkart Snapdeal, etc are dominating in this model.

The rising digital markets are also witnessing also a lot of innovation in this space. For example, Swiggy is a very successful Indian company that offers a platform for online food delivery. Oyo Rooms has become the largest hotel room aggregator with a unique business model. These startups have been able to successfully scale up their operations in a short span of time.

The evolution of e-commerce in the Indian market is a good case study for all emerging markets in the world. The chapter explores all the facets of the growth of e-commerce in large and diverse developing markets like India.

### **Evolution of e-commerce in India**

The evolution of e-commerce in India can be traced back to the mid-nineties with the internet gaining popularity although at a limited rate. The internet in those days was characterized by low speed, high cost, and a small user base (Karunakar & Sinha, 2016). Internet was introduced in India in 1995 and resulted in a wave of e-commerce initiatives especially in the business to business domain. The majority of users of that time were the micro, small, and medium enterprises which viewed this medium as an effective tool to reach a wider set of customers(Sardana, 2009).

Within a year of the introduction of internet services, the business to the consumer side of e-commerce began to evolve. The service was predominantly in the form of directories and listing services. Categories like matrimonial and recruitment services began to take traction in the Indian market.

However, the internet infrastructure began to pose as the major stumbling block in the growth of internet-based commerce. The next wave of growth in the Indian e-commerce industry was driven by the travel industry. The opening up of the Indian airline industry paved the way for the rise of travel-related internet services like ticket-booking and travel information related services. The travel services dominated 81% of the B2C revenues at the time (Sardana, 2009). One of the significant outcomes of the popularity of internet-based travel services was that the consumers began to be increasingly comfortable with the concept of e-commerce. It was from the year 2010, that the online shopping segment other than the travel-related services began to attain traction.

The popularity of the internet paved the way for a huge wave of e-commerce firms including the likes of eBay and Amazon entering the Indian market. 2007 saw the birth of Flipkart which went on to become India's largest e-commerce company later acquired by Walmart for \$16 bn. 2011 saw a large number of Indian e-commerce firms spreading their wings across the market. Players like Myntra, Yebhi, Jabong, etc began to take advantage of the growing e-commerce market (Thaker, n.d.).

One of the significant factors that drove the growth of Indian e-commerce market is the smartphone revolution that took place in India. Indian telecom market was thrown open to private players and the mobile telephony began to grow across the Indian market. In one way, Indian market virtually ignored the wired telephony and pager category and mobile telephony began to dominate the telecom sector. Mobile phones started with ordinary phones and feature phones but soon progressed to affordable smartphones. The intense competition from local and global players and low-cost smartphones from China began to become very popular in the Indian market. Along with this hardware revolution, data also became accessible to Indian users. Initially data was expensive but soon the internet data became the cheapest in the world with competition undercutting the price to make consumers loyal to their services.

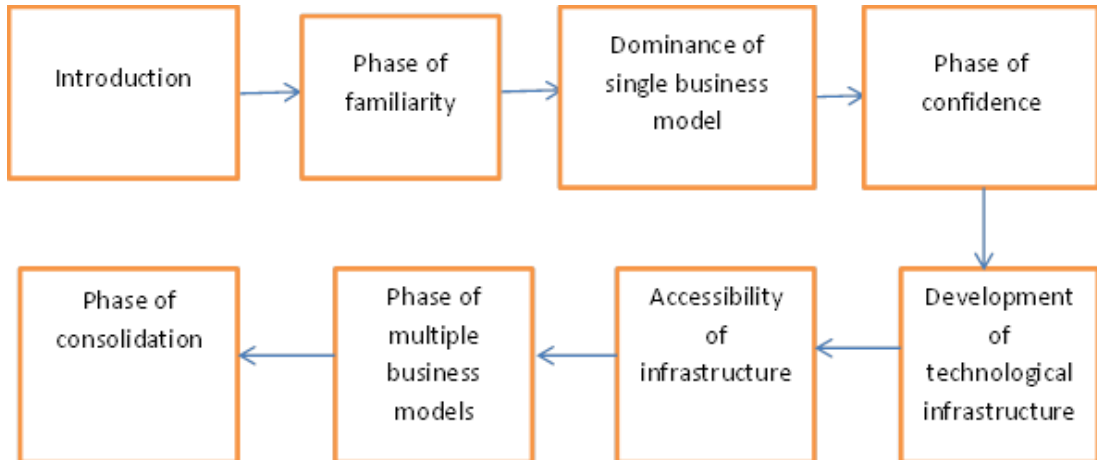
2012 saw a change in the e-commerce business models. While many firms were focusing on building online marketplaces, many Indian players began to create platforms specializing in specific verticals. Online brands like Urban Ladder, Zivame, Zovi, BlueStone, etc began to create a new pathway of growth for the market (Srivatsa, n.d.). From 2010 to 2015, many e-commerce firms began to explore newer business models. The players began to look for needs gaps that traditional brick and mortar companies could not satisfy and those gaps were addressed by innovative business models (Thaker, n.d.).

The growth of e-commerce in India is going to be robust and sustainable in the near future. Various trade and mainstream media have reported exciting projections about the growth of the Indian e-commerce market. A report by the Indian Brand Equity Foundation states that the Indian e-commerce market was valued at \$38bn in 2017 and projected to grow to \$150bn in 2022 and to \$200bn in 2027. The number of internet users in India is expected to reach a staggering 829 million by 2021 from 660 million in 2019. This growth of internet users is going to fuel the growth of e-commerce in this part of the world (IBEF Editors, 2019). According to another research report, e-commerce market revenue in India is expected to reach \$62.3 bn in 2023 (Striapunina, n.d.). The general consensus points to an exciting phase of growth in this market for the next decade.

The analysis of the evolution of the Indian e-commerce market provides a theoretical framework for understanding the phases through which a technology-intensive industry evolves in an emerging market. The framework for understanding the phases of growth of such an industry is explained below.

### **The framework of e-commerce evolution in the Indian market**

The evolution of e-commerce in India can be described through a theoretical model of how a technology-enabled business is accepted by an emerging market.



#### **Introductory Phase**

The starting phase is the Introduction phase in which the e-commerce concept is introduced into the market. This phase in India began with the introduction of the internet to the country. The development of any industry is dependent on the support provided by the government. In the Indian e-commerce industry, the government was instrumental in making the concept popular by bringing its railway ticketing business through the internet-enabled platform.

#### **Phase of Familiarity**

Once the businesses started introducing their offerings to the market, the second phase of familiarization begins. This phase is important especially in an emerging market that is not exposed to these technologies. In this phase, the platforms and technologies will be used by the innovators and gradually the news will percolate to the other segments of the consuming market. India has a huge middle-class population that has access to education and technology. Once the value of the new platform became clear, the Indian middle-class customers are willing to adopt new technology faster than any other country. For example, in the telecom industry, India for many years was using wired telephony. In western markets, wired telephony was followed by an era of pagers. In India, pagers were ignored by the consumers and mobile telephony became the main product within a short span of time.

### **Dominance of a business model**

The phase after familiarization is followed by the domination of the market by a business model or vertical. In the initial phase of the evolution of e-commerce in India, the platform was dominated by travel-related services. The success of the platform is depended on the success of the dominant business model. The dominant business model brings in a sufficient number of users to the platform and enables the platform providers and industry watchers a glimpse of potential problems and opportunities available to them. From the travel dominant business model, India gradually shifted to market place model with a lot of players adopting this model as their core.

### **Phase of Confidence**

The dominance of a business model brings a sufficient number of customers into this platform. The popularity of the online travel-services brought many new users into the e-commerce space. This confidence of the consumers on a technological platform is critical for future growth. The confidence of customers towards a new platform is driven by the perceived cost. Customers are aware of the various risks of using a new platform like monetary risk, physical risk, security risk etc. The success of a platform encourage customers to try out the services and realize that the value is more than the perceived cost incurred. The success of travel related e-commerce businesses in India gave confidence to customers to try out other e-commerce services. The risk of giving bank/card details was the biggest deterrent in using internet shopping. E-commerce companies even began offering cash-on-delivery services to customers to help them overcome the resistance of using e-commerce services.

### **The phase of technology infrastructure development**

The increasing number of users creates a need for better infrastructure that supports the platform requirement. The confidence in the e-commerce platforms and a large number of users created a need for better internet infrastructure in India and a lot of capital investment began in the development of such an investment. For example, for e-commerce businesses to succeed, there has to be a robust payment infrastructure. The e-commerce business in India flourished because the regulators allowed the development of internet-enabled payment systems and encouraged novel payment business models.

### **Accessibility of infrastructure**

The factor which drives the growth of technology-enabled services is the accessibility of both the services and infrastructure. In the Indian market, the e-commerce industry began to grow fast after the penetration of affordable smartphones and cheap internet data. Indian internet data is cheapest in the world and this cheap data opened the doors to a large consumer population ready to be tapped by e-commerce firms. Accessibility of the infrastructure is also the responsibility of the government. In India, the government helped increase access in terms of internet infrastructure and also aggressively pushed for digital payments. The increased use of digital payments, in turn, helped e-commerce firms to acquire customers from all parts of the country.

### **The phase of multiple business models**

The large consumer base and the increased consumer confidence in the internet-enabled platform encouraged businesses to innovate and execute new business models in the market. Firms like Oyo, Swiggy, Zomato, etc began to aggressively expand the operations. The emerging business models began to challenge the current ecosystem and all the players began to innovate in order to survive. The evolution of new business models was encouraged by the support of venture capitalists and new-age capital providers. India is now home to many new-generation startups who are confident of attracting funds for their future growths.

### **The phase of consolidation**

Like any industry, the phase of aggressive growth will be followed by a phase of consolidation. In the e-commerce market in India, the current phase is that of consolidation. Already many smaller e-commerce firms have either being acquired or being shut down. Large e-commerce firms are growing organically and inorganically encouraged by the size of the Indian market. In future, Indian e-commerce market will see few large mainstream e-commerce companies and many niches and specialized e-commerce companies.

### **The Future**

Indian e-commerce market is bound to grow because of the strong foundation of a robust local market and a growing economy. The future directions of e-commerce in India will be driven by the mobilephones. Indian e-commerce is going to be a mobile-first market because of the convenience and the accessibility of that platform. The young demography of India is best oriented towards the mobile device and the e-commerce firms in India have already tapped into this trend.

Another significant area that will witness growth is the internet-enabled payment ecosystem. Already lot of innovations are happening in this domain. Players like PayTm, Google Pay, BHIM UPI are all expanding the market and the reaction of the consumers has been enthusiastic. The robust payment infrastructure is going to enable bold innovations in the e-commerce market.

Although e-commerce is understood to be a virtual phenomenon, one should understand the interplay between the physical infrastructure and internet commerce. Indian e-commerce has given fresh life to the supply chain and logistics market in the country. E-commerce players have built a robust supply chain infrastructure in the country which will further help other businesses.

E-commerce acts as a disruptive force for the traditional brick and mortar retail stores. India is no different. Organized retail has suffered because of the onslaught of e-commerce firms through deep discounting and price competition. However in this era of consolidation, firms have begun to understand the importance of co-existence between traditional and internet retailing. Omni-channel retailing has become the norm and traditional retailers are restructuring their product-mix to retain their customers.

With the growth of e-commerce, the regulatory framework which was tuned to traditional business models started to seem redundant. The Indian government has initiated a comprehensive e-commerce policy that will encourage growth of this emerging business at the same time, regulate the e-commerce market to protect the consumers and other stakeholders. The future of Indian e-commerce will depend a lot on the regulatory framework which will be implemented in coming years.

## Conclusion

The evolution of a technology-intensive business like e-commerce involves the participation of various players with diverse business interests. In the Indian case, it took more than 20 years for this business to achieve sufficient scale. This is due to the complexity of the Indian market in terms of diversity and market characteristics. In a complex market, the two critical factors that will determine the success of an emerging industry is familiarity and confidence. The larger market should first be familiar with the technology and value of the emerging business. Familiarity brings in trial and a positive outcome results in confidence for further use. Indian consumers gradually grew confident about the use of internet for commerce and this resulted in widespread patronage of this business. The growth of e-commerce in recent years has been tremendous and the size of the Indian market ensures that this excitement is here to stay for a longer period of time.

## References

- IBEF Editors. (2019). Indian Ecommerce Industry Analysis. Retrieved November 12, 2019, from <https://www.ibef.org/industry/ecommerce-presentation>
- Karunakar, B., & Sinha, B. (2016). E-Commerce in India: Evolution and Growth, (July 2016). Retrieved from [https://www.researchgate.net/publication/329238151\\_E-COMMERCE\\_IN\\_INDIA\\_EVOLUTION\\_AND\\_GROWTH](https://www.researchgate.net/publication/329238151_E-COMMERCE_IN_INDIA_EVOLUTION_AND_GROWTH)
- Sardana, M. M. K. (2009). Evolution of E -Commerce in India Challenges Ahead, (Part 1), 1–13.
- Srivatsa, R. (n.d.). Shopping in India: How e-commerce evolved into a \$15 billion giant — Quartz India. Retrieved November 11, 2019, from <https://qz.com/india/1153993/shopping-in-india-how-e-commerce-evolved-into-a-15-billion-giant/>
- Striapunina, K. (n.d.). • E-commerce sales in India 2017-2023 | Statista. Retrieved November 11, 2019, from <https://www.statista.com/statistics/289770/e-commerce-revenue-forecast-in-india/>
- Thaker, N. (n.d.). Ecommerce: What the past 10 years mean for the future | Forbes India. Retrieved November 11, 2019, from <http://www.forbesindia.com/article/10th-anniversary-special/ecommerce-what-the-past-10-years-mean-for-the-future/53513/1>