E-commerce in India – Understanding its uniqueness

In the first of a series of papers discussing the development of e-commerce in India, ICICI Merchant Services and First Data offer insight based on their deep expertise in the market to help merchants reach a much wider base of potential customers online.

The rapid growth of e-commerce in India is being driven by greater customer choice and improved convenience. Having a strong business model coupled with a first class level of service is critical to success. Before these aspects are explored, it is important to understand the unique attributes which define e-commerce in India. Amrish Rau, General Manager of First Data India and ICICI Merchant Services, discusses.

India has an internet user base of over 50 million users. The penetration of e-commerce is low compared to markets like the US and the UK but is growing at a much faster rate with a large number of new entrants. The industry consensus is that growth is at an inflection point with key drivers being:

- Lower prices compared to brick and mortar retail driven by disintermediation and reduced inventory and real estate costs

**Market Size & Growth**

India’s e-commerce market is worth about Rs 50,000 crores in 2011. About 80% of this is travel related (airline tickets, railway tickets, hotel bookings, online mobile recharge etc.). Online retailing comprises about 15%. India has close to 10 million online shoppers and is growing at an estimated 40-45% CAGR vis-à-vis a global growth rate of 8-10%. Electronics and apparel are the biggest categories in terms of sales.

**Characteristics of India**

Some of the characteristics that define e-commerce in India are:

- Cash on Delivery as a preferred payment method. India has a vibrant cash economy as a result of which 80% of Indian e-commerce tends to be Cash On Delivery (COD)
- Direct imports constitute a large component of online sales. Demand for international consumer products (including online purchases from international retailers) is growing much faster than in-country supply from authorised distributors. E-commerce uses sophisticated technology and logistics to create a cross-border supply chain that allows consumers to shop online for international products that are delivered duty paid to their doorstep.

- Increasing broadband Internet (growing at 35% MoM) and 3G penetration
- Rising standards of living and a burgeoning, upwardly mobile middle class with high disposable incomes
- Availability of a much wider product range (including online purchase from international retailers and direct imports) compared to what is available at brick and mortar retailers
- Busy lifestyles, urban traffic congestion and lack of time for offline shopping
Drivers of growth

Rising incomes and a greater variety of goods and services that can be bought over the internet is making buying online more attractive and convenient for consumers all over the country.

We believe it’s the simplicity of the transaction processes which will facilitate and encourage adoption of e-commerce. Hence we continually review and reengineer our processes to make them easier and simpler for our customers. For example, with First Data’s global expertise we are in a position to offer multiple payment channels for our merchants ranging from e-commerce, Interactive Voice Response, POS terminals, e-POS and batch processing.

Building consumer confidence is key and overcoming concerns about the risk of fraud is essential. The enhanced security measures introduced by the Reserve Bank of India through second factor authentication was an important development, making transactions safer by reducing fraud and risk. With comprehensive security standards in place, merchants must still be careful to choose an acquirer with a proven track record of service reliability and transaction speed to ensure a high level of customer service is achieved.

In addition to the assurance of increased security, consumers are also likely to be tempted online by new and more convenient ways to pay. ICICI Merchant Services and First Data are well positioned to deliver those new payment tools and will work closely with the regulator to deploy global solutions locally.

The future

Mobile commerce is the next logical step for Indian merchants. With the growth of mobile phones and increased issuing and use of debit and credit cards, mobile commerce will deliver strong growth over the coming years.

Mobile technology gives us the edge over our competitors. First Data’s mobile commerce solutions can help businesses meet the growing demands of the mobile and social media revolution.

Social media networks such as Facebook are likely to increasingly become channels for sales and consumer engagement. First Data already offers a loyalty solution for the Facebook social media network as well as mobile payments opportunities using our Trusted Service Manager (TSM) service, which powers part of the Google Wallet which has made headlines recently. With Google Wallet, millions of consumers will no longer need to carry their leather wallets. This mobile application securely stores credit cards, offers, gift cards and more on their mobile phone. This virtual wallet is changing the face of commerce by enabling customers to simply make “tap and go” payments with their mobile devices, while increasing loyalty at merchant locations.

New and exciting developments in India will enable our merchants to attract new tech savvy customers who are ready to use their mobile devices for secure online transactions.

The future of e-commerce and how merchants can capitalise on this opportunity is explored further in future papers by ICICI Merchant Services and First Data.
How E-commerce can improve the customer experience and increase revenues

About the Author

B. Amrish Rau is General Manager, First Data India and ICICI Merchant Services. In this role, he is responsible for leading and growing First Data’s presence in India with executive management responsibility for all of First Data’s payments services businesses including card issuing, merchant alliance programs and ATM services.

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
Wikipedia

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