

Yet another perspective on e-Commerce in India - Part 1

Having returned from a recent trip to India (3rd in the past year), all of which included conversations with retailers, logistics firms and small business, I am adding my perspective to the flood of opinions and information available on the market, players, challenges and opportunities.

There is no gainsaying the fact that the e-commerce market in India is growing at a frenetic pace, a boundless excitement with new ideas and, it seems, a bottomless supply of VC funds. The Foreign Direct Investment (FDI) rules – Indian government does not allow FDI in online retail companies that own inventory and sell directly to consumers – has compelled the largest companies such as Flipkart, Snapdeal and even Amazon in India to pivot to a marketplace (connecting sellers to end consumers) model.

While, it is reported, the current government is evaluating whether FDI in ecommerce provides an alternative entry point for foreign multi-brand retailers, it has maintained the previous government's decision to allow 51% FDI in multi-brand retail. If the Indian government wants to, as it claims, make it easy to do business in India and grow at a faster pace than China, then perhaps a uniform policy with 100% FDI on and offline should be welcomed. As for the brick and mortar stores, fighting the online retail tsunami is futile, they should revamp their strategy to be multi-channel leaders. Short term, the impact to mom and pop stores can be mitigated by being part of the ecommerce supply chain.

FDI is not the primary barrier to e-commerce growth in India, the disparate state tax laws, returning goods at a higher rate than worldwide averages, and the Indian shopper's brick and mortar mentality of bargaining that has transcended to the web for discounts and promotion, burdening online retailers with losses, are far greater barriers to overcome.

The Indian consumer parallels the American consumer more closely than any other nation in Asia but is at the receiving end of onerous regulations. At a macro level, what will drive growth is a reduction in the cost of goods sold, which in turn will be driven by infrastructure, regulatory and tax changes (land, labor and general sales tax). Online commerce will not grow unless the underlying macro factors which impact logistics costs are addressed. An argument can be made that one of the reasons the US became an economic behemoth is because of its significant reduction in logistics costs as a percentage of GDP. For India to be an economic powerhouse it is imperative that this is resolved, a collateral benefit of which is the growth of interstate business – online or B2B.

Part 2 – A perspective on the ecommerce players in India

Raghu Ramachandran, raghu@13colonyglobal.com

Partner, 13 Colony Global - Supply Chain Strategy and e-commerce Consultants.