



Navigating India's E-commerce Crossroads

This editorial is based on “[E-commerce has done more good than harm](#)” which was published in Hindu Business Line on 25/08/2024. The article highlights the rapid growth of India's e-commerce industry, which, while empowering consumers and small businesses, also raises concerns about potential disruptions to traditional retail.

For Prelims: [Indian e-commerce industry](#), [Open Network for Digital Commerce](#), [Unified Payment Interface](#), [BHIM](#), [Competition Commission of India](#), [Gig economy](#), [Foreign Direct Investment](#), [Equalisation Levy Rules 2016](#), Social-Ecommerce, RBI Guidelines on Payment Aggregators and Gateways.

For Mains: Major Growth Drivers of E-commerce in India, Major Issues Related to the E-Commerce Sector in India.

The [Indian e-commerce industry](#) is experiencing rapid growth, with projections estimating it will reach **USD 350 billion by 2030**. However, this expansion has sparked significant debate. Recently, India's Commerce Minister has expressed concerns that the **rise of e-commerce could disrupt traditional retail**, potentially harming small businesses, a concern that may seem belated given the government's previous support for the sector.

Conversely, e-commerce has empowered **consumers by offering a wider range of choices, efficient delivery systems, and improved return policies**. It has also enhanced access to products in smaller towns and strengthened logistics infrastructure. Many small businesses are adapting by leveraging online platforms, leading to increased sales and employment opportunities. E-commerce has disrupted traditional distribution models, **enabling smaller Indian brands to compete more effectively with established players**. This evolving landscape promotes a consumer-centric market, reducing the likelihood of predatory practices taking root.

What is E-Commerce?

- **About:** E-commerce, short for electronic commerce, refers to the buying and selling of goods or services using the internet, and the transfer of money and data to execute these transactions.
- **Types of E-Commerce**
 - **Based on Parties Involved**
 - **Business-to-Consumer (B2C):** Amazon selling products to individual customers
 - **Business-to-Business (B2B):** Wholesalers selling to retailers through online platforms
 - **Consumer-to-Consumer (C2C):** Individuals selling on platforms like eBay or OLX
 - **Consumer-to-Business (C2B):** Freelancers offering services to companies on platforms like Upwork
 - **Business-to-Government (B2G):** Companies bidding for government contracts

- online
- **Based on Platform**
 - **Social Commerce:** Leveraging social media platforms for e-commerce (e.g., Facebook Marketplace)
 - **Mobile Commerce (M-Commerce):** Transactions conducted through mobile devices
 - **Local Commerce:** Online platforms connecting local buyers and sellers (e.g., Nextdoor)

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What are the Major Growth Drivers of E-commerce in India?

- **Digital Revolution-Smartphones and Internet Penetration:** India's [digital landscape](#) has transformed dramatically, fueling e-commerce growth.
 - India will have **1 billion smartphone users by 2026** with rural areas driving the sale of internet-enabled phones.
 - In the case of India, the average cost of 1GB of mobile internet data is among the lowest globally, at just **Rs 13.98**, this has brought millions online.
 - This digital accessibility has made **online shopping a reality for millions, especially in Tier 2 and 3 cities.**
 - Also, the [Open Network for Digital Commerce \(ONDC\) initiative](#), aims to democratise digital commerce,
- **Rise of Digital Payments-UPI and Beyond:** The surge in digital payments has been a key enabler for e-commerce.
 - [Unified Payment Interface \(UPI\)](#) transactions clocked a new high in value in May 2024 by processing **14.04 billion** transactions worth **Rs 20.45 trillion.**
 - The ease of digital transactions, coupled with initiatives like BHIM has reduced the reliance on cash-on-delivery.
 - This shift has not **only simplified online purchases** but also broadened the customer base for e-commerce platforms.
- **Evolving Consumer Behavior-Convenience and Choice:** Changing lifestyles and increasing time scarcity have tilted consumer preferences towards the convenience of online shopping.
 - E-commerce platforms offer unparalleled product variety, Amazon India alone lists **over 170 million products.**
 - This vast selection, combined with **competitive pricing and doorstep delivery**, has

made e-commerce an attractive option for urban and rural consumers alike.

- **Logistics and Last-Mile Delivery Innovation:** Improvements in logistics have been pivotal for e-commerce expansion.
 - India's logistics market, valued at **USD 250 billion in 2021**, is expected to grow to **USD 380 billion by 2025**.
 - E-commerce-focused logistics players like **Delhivery** and Ecom Express have revolutionised last-mile delivery.
 - Innovations like **hyperlocal delivery (Dunzo, Swiggy Instamart)** have reduced delivery times to as little as 10-30 minutes in some cities.
- **Rise of Social Commerce and Live Shopping:** **Social commerce** is emerging as a significant trend, blending social media with e-commerce.
 - Platforms like **Meesho** have tapped into the power of social networks for product discovery and sales.
 - **Live shopping**, popularised by platforms like **Flipkart's Shopsy and YouTube's integrated shopping features**, is expected to be a **USD 4-5 billion market in India by 2025**.
 - This trend is particularly appealing to young, digitally-native consumers and is driving impulse purchases and engagement.
- **Personalisation and AI-Driven Recommendations:** Advanced data analytics and AI are enhancing the online shopping experience through personalisation.
 - E-commerce giants like Amazon report that **35% of their sales come from personalised recommendations**.
 - AI-powered chatbots handle 30-40% of customer queries on major platforms.
 - These technologies not only improve customer satisfaction but also drive higher conversion rates and average order values.
- **Vernacular Approach and Voice Commerce:** Catering to India's linguistic diversity has opened up new markets for e-commerce.
 - Voice-based shopping, supported by platforms like **Amazon's Alexa and Google Assistant**, is gaining traction.
 - According to a report by the **Internet and Mobile Association of India**, **57%** of internet users prefer to access the internet in Indian languages, presenting a massive opportunity for voice and vernacular e-commerce solutions.

What are the Major Issues Related to the E-Commerce Sector in India?

- **Predatory Pricing-The Race to the Bottom:** Allegations of predatory pricing have dogged major e-commerce players.
 - In 2020, the [Competition Commission of India \(CCI\)](#) ordered a probe into Amazon and Flipkart for deep discounting practices.
 - For instance, during the 2022 festive season, e-commerce sites offered discounts up to **80% on electronics**. While beneficial for consumers in the short term, this practice raises concerns about long-term market health and fair competition.
- **Data Privacy- The Double-Edged Sword of Personalisation:** As e-commerce platforms collect vast amounts of user data for personalised experiences, concerns about data privacy and security have intensified.
 - **High-profile data breaches**, like the alleged **Domino's India** breach affecting **180 million orders in 2021**, underscore the risks.
 - Balancing personalisation with privacy remains a significant challenge for the industry.
- **Counterfeit Conundrum:** The proliferation of counterfeit products on e-commerce platforms poses a major threat to brand integrity and consumer trust.
 - A 2018 LocalCircles survey found that **38% of consumers had received fake products** from e-commerce sites.
 - In 2022, a [Parliamentary panel](#) recommended stricter penalties for e-commerce firms selling counterfeit goods.
 - The challenge lies in effectively policing millions of listings without stifling legitimate sellers.
- **The Small Retailer Squeeze:** The rapid growth of e-commerce giants has put immense pressure on **India's 63 million small retailers**.
 - In FY23, about **1.5-2.5 million MSMEs** were selling products online, making up **only 2-3%**

of total MSMEs.

- Government initiatives like [Open Network for Digital Commerce \(ONDC\)](#) aim to level the playing field, **but small retailers still struggle to match the tech prowess** and economies of scale of e-commerce behemoths.
- **Last-Mile Logistics-The Rural Reach Riddle:** While e-commerce has made significant inroads, reaching India's vast rural population remains challenging.
 - Poor road infrastructure, lack of proper addresses, and limited warehousing facilities in remote areas **inflate delivery costs.**
 - Innovations like **Amazon's I Have Space program** and **Flipkart's partnership with kiranas** have helped, but reaching the last mile profitably in a country where **65% of the population is rural** remains a formidable challenge.
- **The Environmental Cost of Convenience:** The e-commerce boom has raised significant environmental concerns.
 - The [packaging waste](#) generated by online orders is staggering, India generated **3.4 million tonnes of plastic waste in 2019-20**, with e-commerce being a major contributor.
 - The [carbon footprint of last-mile deliveries](#), especially with the rise of quick commerce, is substantial.
- **The Gig Economy Grapple:** The e-commerce boom has fueled the growth of the [gig economy](#), particularly in logistics and delivery services.
 - While offering flexible employment, quick commerce has raised concerns about **worker rights, job security, and safety**, particularly with its promise of 10-minute deliveries.
 - **Gig workers** are typically **isolated** and lack the ability to unionise or collectively bargain for better working conditions and remuneration.
 - This power imbalance makes it difficult for them to advocate for their rights or negotiate better terms with the platforms they work for.
- **The Influencer Impact:** The growing role of influencer marketing in e-commerce has raised concerns about authenticity and disclosure.
 - The issues of undisclosed paid partnerships, and misleading product endorsements have come under scrutiny.
 - [Advertising Standards Council of India \(ASCI\)](#) reported that **30% of influencer posts** it analysed violated disclosure guidelines.
 - Balancing the power of influencer marketing with maintaining consumer trust and regulatory compliance presents an ongoing challenge for the e-commerce sector.

What are the Government Initiatives Related to the E-Commerce Sector in India?

- **Foreign Direct Investment (FDI) in E-Commerce:** The government has allowed 100% [FDI](#) in the e-commerce marketplace model, particularly in B2B transactions.
- **Government e-Marketplace (GeM) Portal:** Launched in August 2016 by the Ministry of Commerce and Industry, the [GeM portal](#) promotes transparent and efficient public procurement, with procurement crossing ₹2 lakh crore in FY23.
- **Open Network for Digital Commerce (ONDC):** Introduced in 2022, [ONDC](#) aims to democratise e-commerce by providing equal opportunities for MSMEs to thrive in digital commerce.
- **Consumer Protection (E-commerce) Rules 2020:** These rules mandate **e-commerce platforms** to display the country of origin and disclose product listing parameters to ensure transparency for consumers.
- **Equalisation Levy Rules 2016 (Amended in 2020):** These rules impose a 2% tax on [foreign e-commerce operators](#) selling goods or services in India, ensuring fair taxation of digital businesses.
- **RBI Guidelines on Payment Aggregators and Gateways:** In 2020, the Reserve Bank of India issued guidelines for payment aggregators and payment gateways, crucial for e-commerce transactions.
 - These guidelines mandate licensing for payment aggregators, **impose stricter operational and governance requirements**, and enhance customer grievance redressal mechanisms.
- **National E-Commerce Policy:** The forthcoming National E-Commerce Policy, initially proposed in 2018, seeks to enhance sector growth and boost exports, with a draft released in 2019.

What Measures can be Adopted Related to the E-Commerce Sector in India?

- **Leveling the Playing Field of Small Retailers:** Launch a nationwide "**Digital Kirana**" initiative to equip small retailers with digital tools and skills.
 - Partner with established e-commerce players to **create dedicated "local seller" sections on their platforms**, highlighting nearby small businesses.
 - Provide **subsidised access to e-commerce enablement platforms**, digital payment systems, and inventory management software.
 - Implement a tiered commission structure on e-commerce platforms, **with lower rates for small sellers to boost their competitiveness.**
- **ONDC Acceleration-Democratizing Digital Commerce:** Fast-track the implementation of the ONDC initiative across all major cities.
 - Provide **financial incentives for early adopters**, both sellers and technology providers, to boost participation.
 - Launch a nationwide awareness campaign to educate consumers and businesses about **ONDC's benefits and usage.**
- **Streamlining the E-commerce Ecosystem:** Formulate a comprehensive, **forward-looking e-commerce policy** that provides clear guidelines on FDI, data localisation, and cross-border trade.
 - Establish a **dedicated e-commerce regulatory body** to oversee compliance, address grievances, and promote fair competition.
 - Simplify [GST compliance for e-commerce transactions](#), potentially introducing a single-point GST collection mechanism for marketplaces.
- **Last-Mile Innovation Fund-Bridging the Rural-Urban Divide:** Create a government-backed "**Last-Mile Innovation Fund**" to support startups and existing players in developing cost-effective rural delivery solutions.
 - Offer **tax incentives for companies investing in rural logistics** infrastructure, including **micro-warehouses and digital addressing systems.**
 - Partner with [India Post](#) to leverage its extensive rural network for e-commerce deliveries, potentially creating a "**rural e-commerce assistant**" role within post offices.
- **Green E-commerce Push:** Implement a mandatory "**Green Rating**" system for e-commerce packaging, incentivizing the use of eco-friendly materials.
 - Introduce **tax benefits for e-commerce companies** adopting electric vehicles for last-mile delivery.
 - Launch a "**Circular E-commerce**" initiative, promoting refurbished goods marketplaces and incentivizing product repair and recycling.
- **Consumer Protection Enhancement:** Strengthen the e-commerce dispute resolution mechanism by establishing **dedicated online consumer courts for faster grievance redressal.**
 - Implement a **blockchain-based product verification system** to combat counterfeits, starting with high-value and commonly faked items.
 - Mandate **clear disclosure of pricing components**, including base price, discounts, and platform fees, to enhance pricing transparency.
- **Inclusive Gig Economy Framework:** Develop a **comprehensive social security scheme** for e-commerce gig workers, including health insurance and retirement benefits.
 - Implement a "**Portable Benefits**" system allowing gig workers to accumulate benefits across multiple platforms.
 - Establish **minimum wage guidelines for gig workers** based on local cost of living and task complexity.
 - Launch a "**Gig Worker Upskilling Program**" to help delivery personnel and other gig workers transition to higher-skilled roles in the e-commerce ecosystem.

Drishti Mains Question:

Discuss the impact of the rapid growth of e-commerce on traditional retail in India. What measures should the government consider to ensure a balanced and inclusive growth of the retail sector?

UPSC Civil Services Examination, Previous Year Question:

Q. With reference to foreign-owned e-commerce firms operating in India, which of the following statements is/are correct? (2022)

1. They can sell their own goods in addition to offering their platforms as market-places.
2. The degree to which they can own big sellers on their platforms is limited.

Select the correct answer using the code given below:

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

Ans: (b)

PDF Reference URL: <https://www.drishtias.com/printpdf/navigating-india-s-e-commerce-crossroads>

