

# Festive Economy and e-Commerce Sales of Small and Medium Businesses in India





# Festive Economy and Online Retail for MSMEs in India



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## **Executive Summary**

India has a vibrant culture, with various communities having their own traditions and festivities. With hundreds of festivals celebrated in India all year round, it is rightly described as the country of festivals. In addition to creating communal bonding, festivals also create economic opportunities for businesses, specifically regional Medium, Small and Micro Enterprises (MSMEs). The festive economy creates employment opportunities directly as well as indirectly. However, these opportunities were hampered by the lockdown imposed in the wake of the spread of Covid-19. Small sellers, who are reliant on local geographies and seasonal sales, were badly hit by the pandemic, so much so that 35% of small businesses and 37% of self-employed individuals had to shut down their business.

In these times of uncertainty and bleak future, e-commerce offered the much-needed resilience to keep the businesses afloat and a channel to consumers to shop during lockdowns as well as other times without running the risk of exposure to the virus. The e-commerce landscape in India was already flourishing with the increasing internet penetration; however, the pandemic expedited its adoption. As per the estimates of E&Y, the last quarter of 2020 saw the online order volume growing by 36% in India with tier 2 and 3 cities accounting for a 90% incremental volume and value growth in one year. As per the 'MSME Digital Readiness Survey' conducted in 2021 to understand how Indian MSMEs have adapted during the pandemic by adopting a digital first approach, MSME saw an increase of 65% in online buying from customers.

To gain insights into the e-commerce dimension of the festive economy, we conducted a consumer survey and Key Informant Interviews (KIIs) with small sellers. A sample of 353 consumers were surveyed, out of which 331 respondents, who shop online, were considered for the analyses.

Almost half of the respondents (49.54%) belong to metro cities in India. The survey shows a general preference for shopping online, not only during the festive season but other times as well. 44.41% of the respondents reported their preference for shopping online during festive season in general while 71.30% of the respondents have reported that they prefer shopping online in the festive season during the pandemic. There are reportedly more deals and discounts offered online during the festive season, as compared to the offline stores. 37.46% of the

respondents reported that they have not received a defective or wrong product very often. No less than 75.53% respondents reported that they were easily able to file complaints regarding products or sellers online, and 61.33% reporting that their complaints were easily addressed by the e-commerce sellers, it is inferred that e-commerce has a good grievance redressal mechanism.

To understand the experience of the sellers, 14 small sellers were interviewed over the telephone using a semi-structured questionnaire. They were asked about their e-commerce experience in general, during the pandemic and during festivals. They were also questioned about their motivation for on-boarding e-commerce platforms. Amazon and Flipkart were revealed to be the preferred e-commerce platforms as 42% of the surveyed sellers were registered on only these two platforms. As many as 64% of the sellers joined the e-commerce platforms to get access to a wider customer base. Technological evolution and sustaining business during lockdown were other motivations. Sure enough, 42% of respondents experienced moderate to exponential growth, as high as 300 to 500% in sales. However, these figures were substantially hit by the pandemic. Significant increase in sales was reported by 71% of the respondents during the festive season. Handicrafts and home décor items experienced higher sales growth as compared to other commodities. On the policy side, however, 71% of the respondents were not aware of the regulations related to e-commerce, which indicates a need to sensitize the small sellers about e-commerce onboarding as well as the e-commerce policies in India and their rights.

The report concludes with a policy discussion covering the new and proposed regulations governing the e-commerce sector, such as Draft National E-commerce Policy 2019, Consumer Protection Act 2019, Foreign Direct Investment laws and policies, and Personal Data Protection Bill 2019. Based on the broad policy discussion, we recommend the following way forward:

1. The vision of the National E-commerce Policy should be to promote the growth of e-commerce by easing entry into the market and reducing the compliance burden.
2. All the laws and policies should go through a consultative process; a framework for continuing constructive dialogue with the stakeholders should also be created.



3. The playing field between domestic and foreign e-commerce players should be levelled by applying the same regulations and laws to both.
4. There should be a single set of policies/regulations governing online and offline sellers, bringing in parity.
5. Instead of restricting foreign e-commerce players from letting related parties sell on their platforms, the policy should focus on platform neutrality.
6. The regulatory intervention to micro-manage e-commerce business, such as dictating the type of sale events to be run by e-commerce players, should be avoided.
7. Data should be free flowing across borders, with bare minimum restrictions.
8. There should be more capacity building programmes to educate small sellers on onboarding and using e-commerce. The government and e-commerce players can join hands to carry it out.

## Chapter 1. Introduction

With a diverse population housing several vibrant cultural communities, India is aptly called the country of festivals. A festival is an event that is typically held by a community and focuses on some aspect of that community's religion or culture (Caves, 2004). Indian festivals have been an integral part of our lives, celebrated for a variety of reasons, such as commemorating the harvest season or honouring ancestors. Celebration of festivals not only forges bonds but also benefits the economy as it drives the consumption of gifts, clothes, household items, food, souvenirs, etc. As India is also a growing market for MSMEs, these celebrations provide opportunities for them to increase revenue and create livelihoods and jobs.

Indian marketplaces, with colour, music and lighting during festivities are a great barometer of the energy and spending power of India's very large population. Diwali and Holi festivities are spread over several days. Sales of articles like earthen lamps for Diwali, *gulaal* colours for Holi and *rakhi* for Raksha Bandhan is peculiar to the time of specific festivals, with the small seller units waiting an entire year to sell these products. These are also times when households buy new clothes, utensils, furniture, etc. It is estimated that the festival of Diwali creates employment for approximately 4 million people (*Business Standard*, 2021). During the periods of Ramzan and Eid, retail sales see a quantum jump. In Assam, Bihu fairs are organised by self-help groups from different parts of the state in which packaged delicacies and Bihu essentials are sold. Pongal is widely celebrated in southern India, mostly by Tamils. It spans across four days. Presenting gifts to employees, relatives, and friends is also very integral to Pongal festivities. Every region in the country has its own set of special festivities spread over the entire year.

The festive economy results in a lot of direct and indirect employment. The outbreak of Covid-19, however, impacted festive sales due to lockdowns and fear of the spread of virus, restricting the movement of consumers. Small sellers, who are reliant on local geographies and largely festive sales were badly hit by the pandemic. As per a survey conducted by All India Manufacturer Association (AIMA) in 2020, 35% of small businesses and 37% of self-employed individuals shut down their business as they considered it impossible to recover from losses caused due to Covid-19 (Saluja, 2020).

In the middle of the pandemic, consumers as well as the vibrant business community of India had to find other ways to carry out trade. E-commerce offered the much-needed resilience to keep businesses afloat during the time of great uncertainty and a channel to consumers to shop during lockdowns as well as other times without running the risk of exposure to the virus.

E-commerce sales, especially during festive times, hold great promise of sustenance as well as prosperity for small and medium sized businesses (SMBs) in India. The gains to SMBs are in fact beyond the sustenance of their businesses during Covid-19. Earlier they were limited to their local geography, but e-commerce platforms have opened a door for them to reach pan-India and even international consumers. In fact, in the initial months of the pandemic, there were restrictions on the sale of non-essential items through e-commerce. During that time, the sellers that were exporting goods through e-commerce platforms were able to make sales in other countries where no such restrictions were imposed. E-commerce platforms like Flipkart and Amazon sold goods worth Rs 32,000 crore during festive sales in 2021, up 23% from the previous year (*Financial Express*, 2021). A great chunk of orders also came from tier 2 and 3 towns (Bhalla, 2021; Soni, 2021).

The benefits of the festive boom on e-commerce channels has a cascading effect on employment in complementary industries as well. It is creating new employment opportunities in an economy wherein unemployment levels have been high. Almost 3 lakh permanent and seasonal jobs (direct and indirect) are expected to be generated by e-tail giants in various phases. This is evident in the case of two of the biggest platforms: Amazon India hired 1,10,000 seasonal employees in the country and Flipkart added 75,000 people to its workforce (Banerjee, 2021).

The statistics also resonate with the boom e-commerce industry witnessed since 2020. The consumer base has grown from 100-110 million in FY20 to 140 million in FY21 (Mittal & Mishra, 2021). Almost all the e-commerce marketplace platforms also noted an uptick in the seller count. For example, the number of sellers on Government eMarketplace (GeM) for MSMEs recorded a jump from 3.76 lakh sellers in May 2020 to 17.86 lakh in 2021 (*Financial Express*, May 2021). About 28% of MSMEs saw their sales doubling while another 23% saw an increase of 50 to 100% in one year (*Livemint*, 2021).

In this context, the study aims to analyse e-commerce as a vehicle to catalyse festive business growth for MSMEs in India. The scope of this study is limited to online retail, which is a subset of e-commerce. To assess that, it is important to first understand the contribution of MSMEs in the Indian economy, the e-commerce landscape in India and the e-commerce usage and experience of consumers and small sellers in India in general, during the pandemic and in the festive season. To achieve this, both primary and secondary research has been conducted. The primary research includes consumer survey and Key Informant Interviews (KIIs) with small sellers that are using e-commerce. The report further discusses the e-commerce policy framework in India to analyse if it is conducive to the growth of e-commerce, which can fuel the growth of MSMEs in India.

This research report is divided into five sections. The next chapter provides a literature review of the theme to guide the primary research presented in the subsequent chapters. Chapter 3 presents the methodology and findings of the survey regarding consumers' e-commerce usage and experience. Chapter 4 analyses the Key Informant Interviews (KIIs) conducted with small sellers to gain an understanding of their e-commerce experience. Based on the analyses, the last chapter discusses the way forward for e-commerce policies in India.

## **Chapter 2. Literature Review**

### **Online shopping and its benefits to consumers**

There is no universally accepted definition of e-commerce. In fact, within India, different laws use different definitions of e-commerce. While Department for Promotion of Industry and Internal Trade (DPIIT), FDI Policy, 2017 and Consumer Protection Act, 2019 define e-commerce as “buying or selling of goods or services including digital products over digital or electronic network”, Central GST Act, 2017 defines it as “the supply of goods or services or both, including digital products over digital or electronic network.” Ministry of Electronics and Information Technology (MeitY) defines it as “a type of business model, or segment of a larger business model, that enables a firm or individual to conduct business over an electronic network, typically the internet. Electronic commerce operates in all four of the major market segments: business to business, business to consumer, consumer to consumer and consumer to business.”

Before the Covid-19, in 2019, e-commerce was valued at US \$32 billion in India. The pandemic expedited the growth taking e-commerce to US \$41.1 bn in 2020. The market is further projected to grow manifold to US \$200 billion by 2026 (Government of Canada, 2021). The impact of growing businesses on the e-commerce medium has put India on the eighth spot in the largest markets for e-commerce in the world. Looking at the huge potential of e-commerce market growth in India, 4,658 new e-commerce start-ups have been launched in the country (Dayalani, 2021).

Online shopping is gaining popularity in India. It is more convenient than in-store shopping because consumers can fulfil their desires with a single click of the mouse without leaving home. According to Alba *et al.* (1997), Karayanni (2003), Brengman *et al.* (2005), online shopping has a number of advantages over in-store shopping: convenience, time efficiency, avoidance of queue, screening product information with ease, availability of alternatives as per the customer’s preference and price comparison. These are the advantages reeling in customers.

Jusoh and Ling (2012), Shahriari *et al.* (2015) point out that customers can shop online 24 hours a day, even on a holiday, whereas a store has limited hours. According to Shahriari *et al.*

(2015) customers can check and compare products/ services offered by different sellers and this gives them a lot of options to choose from. The internet gives consumers access to a lot of information on the desired product/service. Moreover, in online shopping, the feature of adding reviews also allows customers to exchange notes on the experience of using a product or service. Reviews are helpful and welcomed while making purchases because this way a customer can benefit from another customer who has already purchased that product/service. The internet also makes it convenient for the consumers to check and compare products/services offered by different sellers and choose what suits them the best. This makes e-commerce very competitive, which benefits customers by fetching discounts on their purchases. E-commerce also makes national and international markets accessible to consumers. If a product is not available in the local/national market, then that product can be bought from other countries via e-commerce as many sellers now ship across national and international borders due to the ease and access offered by e-commerce. In essence, the beauty of e-commerce lies in enabling a consumer to get the best price for the products they are looking for, even if the seller selling at lower price is in a different geography. E.g. if a seller of shoes is winding down his business in Vizag, he may decide to liquidate his inventories at a lower margin than another seller in India. A consumer located in, say Delhi, would also be able to see this and purchase from the Vizag seller. Given the lower prices, a price-sensitive consumer might choose to buy shoes from the Vizag seller instead of the Delhi sellers who could be closer but are not offering discounts or lower prices. The larger the delivery network of e-commerce platform, the more lucrative it is for consumers and more effective for the seller. Typically, a seller who has a physical shop in a certain locality attracts consumers only from the same vicinity but on e-commerce platforms they can attract consumers from anywhere in India. For example, Amazon, which reports 99.9% pin code coverage, would be a lot more attractive for sellers and consumers than shopping from a geographically restricted area.

The e-commerce landscape in India has flourished due to increasing internet penetration. The population using the internet grew from 20.08% in 2018 to 41% in 2019 (World Bank). The pandemic expedited its adoption. Internet penetration in rural areas has also increased, rising from 308.17 million in December 2020 to 322.77 million in March 2021 (TRAI, 2021). The last quarter of 2020 saw the online order volume growing by 36% in India with tier 2 and 3 cities accounting for a 90% incremental volume and value growth in one year (E&Y, 2021). A

whopping 97% of postal codes ordered at least one item in the year of 2020. Consumers have shown a huge interest in purchasing electronics and apparel items as it constitutes 70% of the e-commerce sector (Invest India).

### **MSMEs and digitisation**

The MSME sector plays a crucial role in the Indian economy. It is a key factor for India's transition from an agrarian economy to an industrialised one (Lone *et al.*, 2015). As per the report of the Ministry of MSME, the sector has created 11 crore jobs in rural and urban areas of the country. Till 2015-16, there were more than 633.88 lakh unincorporated non-agricultural MSMEs in the country. Out of these, 230.35 lakh enterprises are engaged in the trade sector (Ministry of MSME, 2021). FK Sudan (2005) discussed the challenges and policy issues associated with micro and small-scale enterprise development. According to the study, a vibrant MSME sector and diversified economy provide expanded employment opportunities to absorb all new labour and offer exciting career opportunities. R. Sathiyaseelan (2016) suggests that MSMEs not only create jobs but also help industrialise rural and backward areas, reducing regional disparities and ensuring a more equitable distribution of national income and wealth. MSMEs support large industries and contribute significantly to the country's socio-economic development.

The entry and growth of the e-commerce sector has played an instrumental role in the expansion of businesses conducted by MSMEs in India. E-commerce expands the outreach of MSMEs through competitive pricing, wide accessibility, overcoming information asymmetry and technological innovation (IBEF, 2021). E-commerce has proved to be an essential tool to connect small businesses with their target consumer base, domestic as well as international (Asia-Pacific Research and Training Network on Trade, 2018). As per a survey, around 56% of SMEs believe that the use of internet technologies is critical for business growth (KPMG, 2015). Amazon Business claims that understanding this opportunity, they started in India with the aim to provide GST-enabled, technology-led solutions for all kinds of businesses and the easy process of e-procurement has been beneficial to MSMEs in multiple ways, namely, cost-saving, time-saving and financial growth of MSMEs due to increased productivity. The simple ordering process also reduces paperwork, decreases redundancy, shrinks bureaucracy,

eliminates middlemen elimination and diminishes fraudulent transactions, in turn enabling and empowering MSMEs. This would be largely true for other similar platforms.

The pandemic has accelerated the growth of the e-commerce industry in India by a decade, revolutionising the way producers operate, run and grow their businesses, as well as how consumers choose to shop and pay (E&Y, 2021). A ‘MSME Digital Readiness Survey’ was conducted in 2021 to understand how Indian MSMEs have adapted during the pandemic by adopting a digital first approach. MSMEs saw an increase of 65% in online buying from customers and 52% of the MSMEs claimed to have witnessed a positive business impact post pandemic (Paypal Newsroom, 2022). According to another survey by Dun & Bradstreet (2021), 82% of surveyed small businesses digitised their daily operations during the pandemic. Majority of the respondents were reported to have cited several benefits of digitising their business including reduction in cost, enhancing competitiveness and better understanding of customer behaviour.

### **Festive economy**

In pre-pandemic times, the trade subgroup of the MSMEs in India seem to have benefitted from the festive season. Some surveys show that the discretionary spending of an average consumer in India increases during the festival season. In 2014, a study reported that 23% of respondents spent more than Rs 5,000 while another 34% spent more than Rs 10,000 during the festival season (Choudhary, 2004). As internet penetration increased in the past decade, the online shopping during the festivals exhibited growth. A survey conducted by MasterCard in the Asia Pacific region revealed a sharp increase in sales between the festive months of November and December 2013 (Deloitte, 2004). In the last festive season before Covid-19, online sales of more than Rs 19,000 crore happened on eight key festive dates through September and October 2019, an increase of 30% as per the analysis of RedSeer (Consultancy.in, 2019).

The Diwali Spending Index of YouGov is an indicator measuring the spending intent of Indian consumers during one of its biggest festivals - Diwali - based on a variety of factors like increase in gross household income, increase/decrease in household expenses, intent to invest or splurge and general optimism towards economy. The index showed a spending propensity of 90.71 among urban Indians (Singh, 2021).



Small businesses in India rely on increased festive spending throughout the year. However, the lockdowns disrupted that by limiting the access to physical stores as well as lower consumer spending due to uncertainty about the future, affected incomes and reduced need for many. When the income and spending of consumers bounce back, e-commerce addresses the accessibility problem.

As discussed above, the literature suggests that e-commerce benefits consumers as well as small sellers in many ways. The pandemic has accelerated adoption of digital transactions for both consumers and small sellers in India, provided resilience during the uncertainty and kept the festive cheer going. In the following sections, the report analyses the benefits of e-commerce to consumers and sellers through primary research.

## Chapter 3. Consumer Survey

To gain an insight into consumers' e-commerce usage and experience, a survey was conducted.

### Methodology

The data was collected through an online survey using a structured questionnaire which attempts to gauge consumers' e-commerce usage, frequency and experience. Respondents were asked questions related to demography, frequency of using e-commerce platform, the purpose of using e-commerce platform, convenience of online purchasing in comparison to offline purchasing, product availability, product pricing, product details, availability of product review on the site, effectiveness of grievance redressal method, etc. Some questions related to consumer usage of e-commerce during the pandemic and festive seasons. With 12 objective type questions and demographic information, the survey took under 5 minutes to answer, which is the ideal length for a web survey (Revilla & Ochoa, 2017).

The survey was designed using Google Forms which ensured that the same ordering of questions and responses were recorded on 13-20 November 2021.

Convenience sampling method was applied for sample selection. A sample of 400 consumers was targeted, out of which 353 responses were received. There were 331 users of e-commerce platform whose responses were considered for the analysis. The responses were recorded on a Likert-type scale. Frequency analysis was used for data analysis.

### Limitations

There are some limitations to our sample selection as discussed below.

1. **Convenience sampling:** Due to time and resource constraints, convenience sampling method was employed instead of sophisticated stratified sampling techniques that can be applied on various sub-groups, especially if such sub-groups cannot be deemed to constitute a single population. However, the survey was distributed by several people in multiple cities (17), across different age groups, via various channels and on different days and time to achieve diversification.

2. **Non-response bias:** The response rate could not be measured as the survey was shared via different media including social media, making it impossible to identify potential respondents who saw the post with the survey but did not fill it up.

### **Characteristics of the respondents**

Almost half of the respondents (49.54%) belong to metro cities in India; 36.55% were from Delhi-NCR region, 7.85% from Mumbai, 3.02% from Kolkata and 1.51% from Chennai. Out of these, 43.80% of the respondents were female and 55.89% were male. Majority of the respondents (64.95%) were in the age-group 18-30 years, followed by the age-group 31-45 years (20.54%). 3.93% of the respondents were below 18 years, 7.85% of the respondents were in the age group 46-60 years and 2.73% respondents were above the age of 60 years. Majority (55.28%) of the respondents are post-graduates.

Equal representation of metro and non-metro cities and almost equal ratio of men to women marginally reduces the sampling bias and variability of the results.

### **Findings**

The respondents were asked about their shopping channel preferences, and frequency and experience of online shopping. We observed that 53.17% of the respondents reported that they always buy from e-commerce platforms, while 27.19% shop online occasionally; 2.7% of the respondents shop online only in festive season and 2.1% started shopping online only during the pandemic. On the other hand, 14.8% of respondents use online channels for buying only selective products.

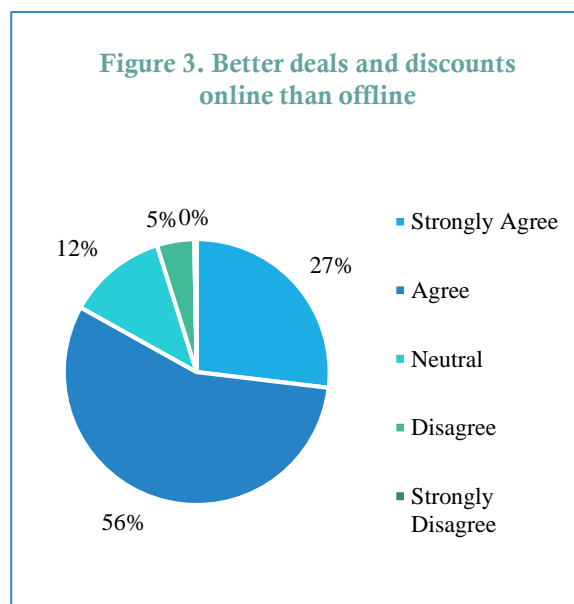
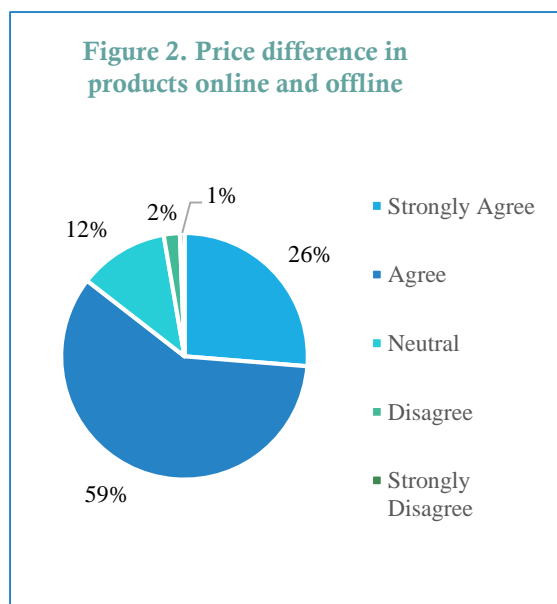
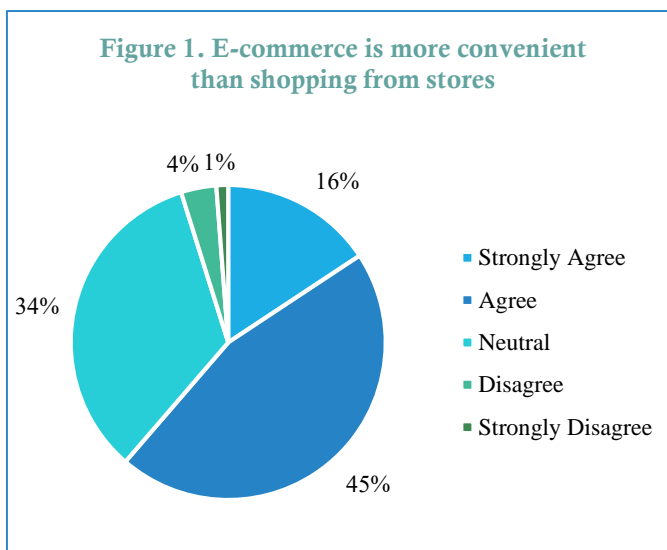
Majority of the respondents, 61.33%, agree with the proposition that shopping online is more convenient than shopping from retail stores (Figure 1), with 15.71% of these respondents strongly agreeing to the proposition, and 33.84% being neutral to the proposition, which might

mean that they either have no opinion on the matter, or have an opinion that both types of stores (e-stores and physical stores) have an equal measure of comfort.

Out of the total number of persons surveyed, 61.63% of the respondents reported that they can find all the products that they are looking for on e-stores, 15.41% of the respondents

disagree with the proposition, and 22.96 reported neutrality on the issue, meaning, they either do not have any opinion, or they sometimes find the things they are looking for on e-stores and sometimes do not.

In all, 85.50% of the respondents reported that there is a difference between the prices offered online and offline (Figure 2), and 11.78% of the respondents

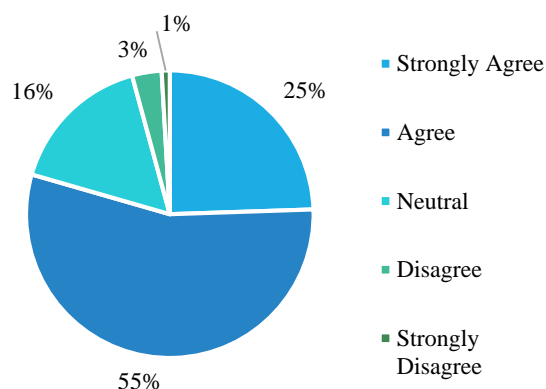


reported neutrality on the matter which might imply that they either have not observed any price difference or they do not have any opinion. Only 2.11% of the respondents disagreed with the proposition.

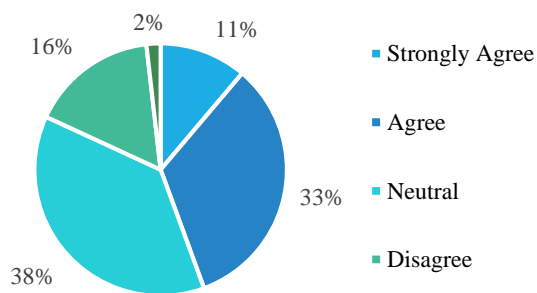
Out of those surveyed, 83.08% of the respondents reported that they got more deals and discounts online as compared to offline retail stores (Figure 3). This might be one of the reasons for a majority of the respondents observing a price difference in the products offered online and offline. Whereas 4.83% of the respondents disagreed with the proposition, 12.08% of the respondents reported neutrality.

The survey enquired about the importance of online reviews in taking the decision of making an online purchase (Figure 4). While, 79.46% respondents reported that they find online reviews about the products useful while shopping online, 16.31% reported neutrality to the proposition. This might mean that the respondents might not actively look for reviews of the products that they want to buy.

**Figure 4. Online reviews are important**

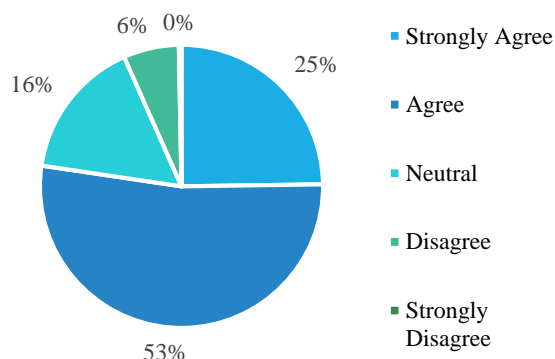


**Figure 5. Preference for online shopping in festive season**



The survey also examined the behaviour of the respondents during the festive season. It is inferred that 44.41% respondents agree that during the festive season, as they prefer shopping online only, 18.12% of respondents disagree, indicating that during the festive season, they may shop offline as well, and 37.46% of respondents were neutral to the proposition.

**Figure 6. More deals and discounts online than offline during festivals**

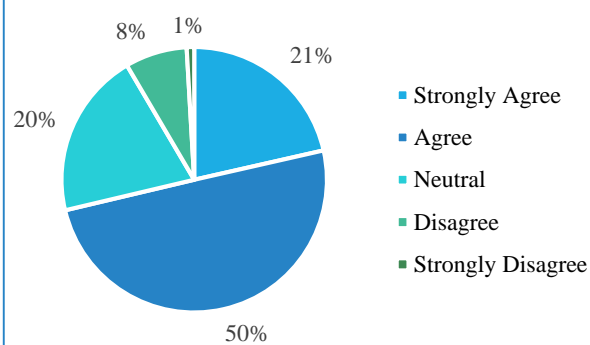


The survey finds that 77.34% respondents agree to the fact that more deals and discounts are offered by e-commerce platforms as compared to offline stores during the festive season (Figure 6). This could be one of the reasons for a large number of respondents indicating their preference for only online shopping during the festive season. Whereas, 16.01% of the respondents were neutral to the proposition, which might mean that they do

not have an opinion about it, or that they have experienced similar deals and discounts for the products that they buy online as well as offline, 16.31% of the respondents have reported that they disagree with the proposition, meaning that they do not get more deals and discounts online. It is important to note that most of the online sellers would also be selling offline, but more competition online leads to competitive pricing, which benefits consumers.

Similarly, 71.30% of the respondents reported that they shop only online in festive season during the pandemic (Figure 7), and 20.24% reported neutrality. This set of respondents might shop online as well as offline, based on their comfort level, even during the pandemic. Only 8.46% of the respondents reported that they did not shop online in festive season even during the pandemic as compared to 18.13%

**Figure 7. Online Shopping in festive season during Pandemic**



respondents depicted in Figure 5 that do not prefer only online shopping during festivals. This shows that the pandemic led to more people shopping only online during the festive season as they feared the spread of Covid-19.

Figure 8 shows that 34.44% of the respondents reported that they received either defective or wrong products from the online purchases many times, while 37.46% respondents reported that they did not receive defective or wrong products very often, and 28.10% of respondents have expressed neutrality for the proposition. This might mean that either they did not want to express any opinion on this or they received defective products enough times to not disagree with the proposition but not very often; thereby not agreeing to the proposition either.

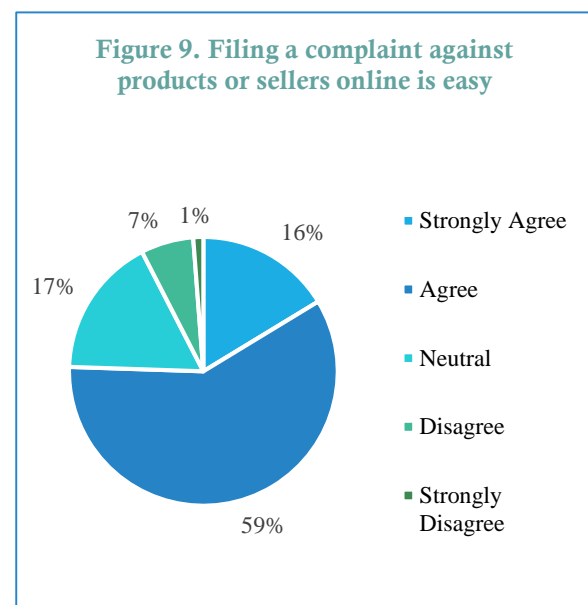
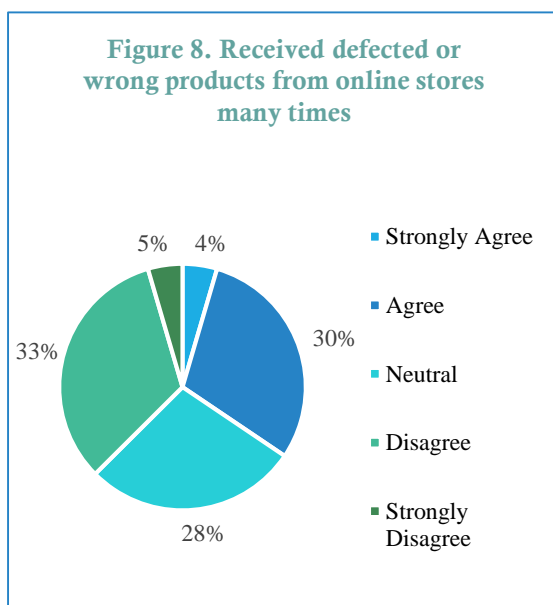
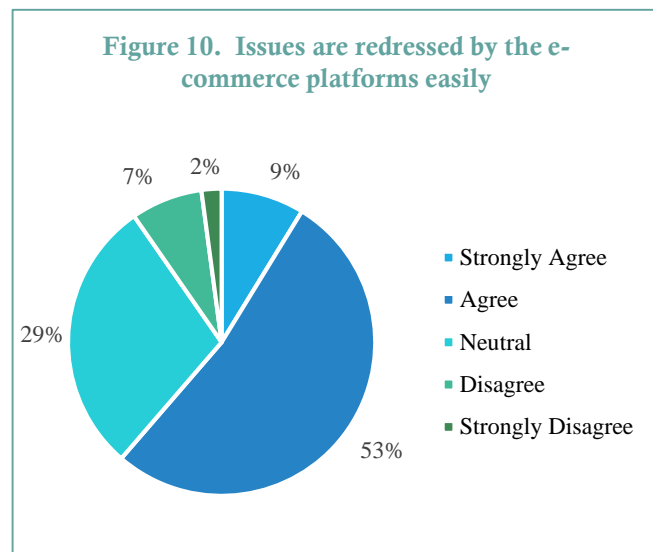


Figure 9 depicts that 75.53% respondents agreed that they are able to file complaints easily regarding shortcomings of the products or sellers, 7.55% reported their disagreement with the proposition and 16.92% of the respondents surveyed reported a neutral opinion. This might imply that they never needed to complain online against any seller or product or they do not have sufficient knowledge of the process to comment about it.

It is also noted that 61.33% of the surveyed consumers have reported that their online complaints have been easily redressed (Figure 10), 9.67% of respondents have disagreed with

the proposition, and 29% respondents are neutral in their response, meaning that they either never complained online or do not have sufficient knowledge of the matter.



## Discussion

In the survey, the respondents have shown general favourability towards shopping from e-commerce platforms than offline shopping, not only during the festive season, but during non-festive time as well, 49.54% respondents belong to metro cities, and 64.95% were in the age group 18-30 years old. Online shopping is reportedly more convenient than offline shopping with 61.63% of the respondents reporting that they find all the products they are looking for in e-stores. At the same time, 85.50% of the respondents also reported that there is a difference between the prices of products offered online and offline, and respondents have reported that they get more discounts and deals online. Online reviews are important in taking the decision to make an online purchase.

Respondents have shown a preference for online shopping in the festive season, with only 18.13% declining the proposition that they shop online during the festive season. There are reportedly more deals and discounts offered online during the festive season, as compared to offline stores, as 71.30% of the respondents have reported that they prefer shopping online in the festive season during the pandemic.

The respondents were also asked questions which would help in assessing the customer care provided by the e-commerce platforms. Here 37.46% of the respondents reported that they have not received a defective or wrong product very often whereas 75.53% respondents reported



that they were easily able to file complaints regarding products or sellers online, and 61.33% reported that their complaints were easily addressed by e-commerce retailers.

## Chapter 4. Key Informant Interviews

To gain an insight into the behaviour as well as the experience of sellers on e-commerce platforms, Key Informant Interviews (KIIs) were conducted with 14 small sellers using a semi-structured questionnaire. Various questions were asked related to their e-commerce experience in general, during the pandemic and during festivals and their motivation for onboarding e-commerce platforms. Majority of the respondents (70%) reported that they operate their business online as well as offline. One respondent started his business online, with no offline stores, one has closed the offline store and now sells online only, while one started the business online in 2015 and diversified to offline store two years later in 2017.

Only three respondents reported that they joined e-commerce platforms in 2020 mainly to sustain business during the period of easing of the lockdown imposed in March 2020. Going online was necessary as even during the phase of easing of lockdown restrictions, movement was restricted, especially to the markets. Almost all businesses were brought online in the latter half of the last decade. This surge coincided with the deeper penetration of the internet in India brought about by the 4G revolution.

From the interviews, Amazon and Flipkart are revealed to be the dominant e-commerce platforms, with 42% of the surveyed businesses registered on these two platforms only. Apart from e-commerce marketplaces, the businesses have online presence in the form of their own websites. Half the respondents revealed that they have their own websites; however, the traffic there is lower than that on e-commerce platforms or their stores. Some respondents have even shut down their websites due to low traffic.

*"I had a website around 2 years back, but did not get as many orders from it as compared to Amazon and Flipkart, so I decided to discontinue the website."*

*- A seller on Amazon and Flipkart*

When asked about their motivation for joining e-commerce platforms, 64% of respondents stated that access to a wider customer base, not bound by geographical boundaries was the prime reason for opting for online mode of business. Keeping up with technological evolution

*"I strongly believe that online is not the future, but the present, and is already upon us. It cannot be ignored, especially after the pandemic, because online ordering is part of everyone's life now."*

*- A seller on Amazon and Flipkart*

and sustaining business during lockdown were other reasons cited by the respondents for going online.

All the respondents found the process of onboarding the e-commerce platforms easy. With a GST number, PAN card, bank details and a validation process

carried out by e-commerce platforms, the entire process is reported to be short and simple.

Almost all the respondents use a hybrid model of delivery. They use their own delivery services either to deliver in their local area, or to fulfil orders that they get from their own website and use the platform's delivery services for other orders.

Opting for an online mode of business has paid off, as 42% of the businesses have experienced moderate to exponential growth in sales, as high as 300 to 500%. However, lockdown during the pandemic did affect sales, which were nearly nil (except in case the commodity was classified as essential commodity). After the easing of restrictions began, online sales were better in comparison to offline sales; however, the volume of sales was lower as compared to the pre-Covid period.

*"It was definitely after e-commerce that our business grew by approximately 300 to 400%. Even during the lockdown, we registered a good growth."*

*- A seller on Amazon*

Online sales account for at least 85% of the total sales for majority of the respondents. Some respondents have reported that their online customer base is significantly higher than their offline store. Half the respondents reported offering discounts on online platforms only. One of the reasons for this might be that they face higher competition online than offline, and discounts are a way to get more customers.

Significant increase in sales was reported by 71% of respondents during the festive season. The increase in sales ranged from as little as 5% to as high as 80%. Handicrafts and home décor

items experienced higher sales growth as compared to other commodities. Most sellers reported using different business strategies to influence sales during festive seasons, such as launching new products, offering combos and hampers. During the festive season, online sales record significantly more growth as compared to offline sales. This might be due to access to a wider customer base on online platforms.

Respondents reported that the e-commerce platforms assisted their businesses during the festive season in advertising their products, and ensuring that sellers have sufficient inventory to meet the increasing demand. As many as 71% of the respondents reported that the discount events run by the platforms also help in increasing their sales.

### **Policy suggestions by the sellers**

Of the total, 71% of the respondents were not aware of any policy of the Government of India regulating e-commerce platforms.

The sellers, mostly in the category of handicrafts, have been facing the issue of plagiarism of their products, and want a policy to counter it. They have expressed that a policy mapping the products to genuine sellers be made, if making such a policy is possible at all. The respondents also expressed that the return policy should be revised, as it has been causing unnecessary losses to sellers. The current return policy is customer friendly, and quite lenient. As a result, often people buy a product, use it for a few days and then return it. This leads to losses for the seller. The losses are higher in case a customised product is returned. Another concern raised by respondents is the practice of the platforms to promote products of their own subsidiaries over the products of independent sellers. The respondents have recommended that a policy be introduced to regulate this. The present FDI policy already limits the e-commerce companies' stakes in third parties selling on their platform and in 2021 new rules completely restricting the related parties selling on the platforms have been proposed, but respondents are ignorant of the e-commerce policy framework in India. However, in our opinion, this restriction will only reduce competition among sellers and choices to consumers. In most countries, e-commerce companies are allowed to operate on marketplace as well as inventory models. In India, instead of completely restricting related parties, the policy could focus on maintaining "platform neutrality", i.e. non-discrimination by platforms between related parties and other sellers.

One important policy recommendation that can be inferred from this study is that awareness needs to be created among sellers about their rights, and the policies/laws governing the marketplace in which they compete. This information can be disseminated through seminars, workshops, camps and other meetings of market participants with regulators.

## **Chapter 5. Policy Discussion**

Primary and secondary research establishes that e-commerce is a positive innovation for both consumers and sellers. It provides convenience to consumers as they can shop anytime, anywhere with just a click of a button, without even stepping out of their homes. It saves the time and resources required to reach physical stores. E-commerce also increases competition by bringing together sellers from all over the world, making the prices of the goods competitive for consumers. They are able to get better deals and discounts. During the pandemic, e-commerce minimised the disruption to everyday life by providing the goods at doorsteps and reducing their risk of exposure to Covid-19, especially during the festive season, as evidenced by a higher percentage of respondents reporting their preference for shopping online during festivals. Majority of the survey respondents in the study appear to have had good experience with e-commerce of not receiving damaged products often and being able to file a complaint easily in case of adverse experiences.

Similarly, small sellers also appear to have benefitted from e-commerce due to the expansion of their outreach beyond local geographies, reduction in cost, better insights on consumer behaviour, etc. Had it not been for e-commerce, many smaller sellers would have shut shop during the ongoing pandemic. It provided resilience to them. E-commerce has helped many start their business from home as well, without high capital investment. Small sellers are also reported to have benefitted from e-commerce during festivals and the festive sale events organised by e-commerce companies.

Now that we know of the benefits of e-commerce to consumers and sellers and the potential of e-commerce to grow in India, it is pertinent to look at the policy framework for e-commerce in India to determine if it is conducive to its growth.

### **E-commerce Policy Framework in India**

As e-commerce has picked up in India only in the last few years, the laws and policies governing the sector are still evolving. At present, there is no one single piece of legislation that addresses the spectrum of issues and concerns associated with the e-commerce ecosystem.

The laws are fragmented in various rules, Acts and policies. Following are some of the major policies governing the sector.

### *Draft National e-Commerce Policy, 2019*

The Department for Promotion of Industry and Internal Trade (DPIIT) released a draft of the national e-commerce policy in 2019 aimed at addressing six broad areas of the e-commerce ecosystem viz. data, infrastructure development, e-commerce marketplaces, regulatory issues, stimulating domestic digital economy and export promotion through e-commerce.

In view of increasing data privacy and security issues, the policy aims to regulate the cross-border flow of data. The policy also provides for integrating Customs, RBI and India Post systems to improve tracking of imports through e-commerce and mandates all e-commerce websites and applications available for downloading in India to have a registered business entity in India as the importer on record or the entity through which all sales in India are transacted. Considering the increasing incidents of counterfeits being sold online, the policy also prescribes anti-counterfeiting measures.

The policy aims to invite and encourage foreign investment in the ‘marketplace’ model alone. Recognising the inter-disciplinary nature of e-commerce, the Standing Group of Secretaries on e-Commerce (SGoS) is recognised as the main mechanism to tackle inter-departmental issues effectively.

Arguing that improved infrastructure, lower selling price and reduced costs associated with marketing and outreach of products over a digital platform contribute to promoting online sales, the policy proposes removal of application fee for claiming export benefit.

### *Consumer Protection Act, 2019*

The Consumer Protection Act, 1986 was repealed in 2019 and replaced with a new one, much broader in scope than the previous one. It directly brings e-commerce transactions, product liability and unfair contracts under the purview of the Act. Section 94 of the Consumer Protection Act, 2019 empowers the government to make new rules and regulations to prevent unfair trade practices in e-commerce, direct selling and protect the interest and rights of consumers. The Ministry of Consumer Affairs, Food and Public Distribution, notified the

Consumer Protection (E-Commerce) Rules, 2020 to affix duties on the e-commerce entities such as not indulging in unfair trade practices, establishing an adequate grievance redressal mechanism, mentioning the name and details of the importer in case of imported goods, and liabilities such as taking an undertaking from sellers to ensure the product description, images and other related information are accurate, provision of information related to sellers, return/exchange/refund/warranty/guarantee, available payment methods, ticket number for complaint lodged by the consumer, etc. in a clear and accessible manner. It is applicable to all the companies selling in India and all the models of e-commerce. The rules provide for appointment of a Nodal Officer to ensure compliance with these rules and regulations.

In 2021, the Ministry released a draft of proposed amendments to these e-commerce rules that was floated for stakeholder consultation. The draft amendments sought to introduce fall-back liability on marketplace e-commerce entities in case of any defaults on part of the sellers, prohibition on flash sales, restriction on the related parties to do transactions and infusing the abuse of dominant position provisions. The government also proposed registration of every e-commerce entity which intends to operate in India with the DPIIT. These rules exhibited regulatory overreach and excessive control over e-commerce. Some of the rules would result in ambiguity while some overlap with other laws. There is vagueness in certain definitions as well. Some of the rules also do not appear to benefit consumers in any way. The amendments have not been passed as of yet and the inter-ministerial consultation on the same have been concluded with apprehensions and reservations on the part of DPIIT, the Corporate Affairs Ministry and NITI Aayog.

### *Foreign Direct Investment (FDI) laws and policies*

The FDI laws have played a key role in shaping the e-commerce sector into what it is today. The earliest FDI policy regarding e-commerce was in Press Note 2 (2000 series) that allowed 100% FDI in B2B e-commerce activities provided that the company receiving the investment divested 26% equity to the Indian public within 5 years of the investment, if the company making the investment was listed in other parts of the world. After receiving complaints regarding the procedural difficulties faced by companies in meeting the divestment requirements, the government rolled back this part of the policy.



The DPIIT subsequently released Press Note 12 (2015 series) amidst a lot of controversies. It permitted FDI in B2C for single brand retail trading (SRBT) that had physical stores in India but not for multi-brand retail trading (MRBT). Press Note 3 (2016 series) introduced a number of changes to the existing framework in India. It expanded the definition of e-commerce and also categorised e-commerce models into ‘inventory-based model’ and ‘marketplace model’. The new notification took away the power of e-commerce entities with FDI to exercise ownership over the inventory or influence the sales prices of goods and services.

Press Note 2 (2018 series) introduced changes to address the concerns of small and traditional sellers in the country. It took away the exclusivity clause by prohibiting the e-commerce entities from making vendors just sell on their platform. It also introduced the concept of ‘group of companies’ that barred e-commerce entities from selling goods of any vendor in which it or its group companies had an equity stake.

As per the latest Consolidated FDI Policy 2020 released in October 2020, FDI up to 100%, is permitted under the automatic route, with certain conditions. Such entities are not allowed to engage in B2C business. The restrictions on inventory-based models for such entities are still in practice. E-commerce entities providing a marketplace will not exercise ownership over the inventory, i.e., goods purported to be sold. Such ownership over the inventory will render the business into an inventory-based model if 25% is purchased by the marketplace entity or its group of companies.

### ***Personal Data Protection Bill, 2019***

The Bill was tabled in Lok Sabha in December 2019 and was referred to the Standing Committee for review where it is pending ever since. It was introduced due to the move of the European Union to regulate the usage, storage and application of personal data by companies under the EU General Data Protection Regulation (GDPR). The Bill aims to promote fair and transparent processing of personal data through informed consent, making ethical usage of data an integral part of data management. This proposed legislation becomes relevant for the way e-commerce companies operate in the country as they need to use and store data of customers to carry on their business. The data management system will have to be compliant with this law when it comes into being. In the Bill, financial data of an individual has been categorised

as ‘sensitive personal data’ and as per section 33, such sensitive personal data cannot be stored outside India.

## **Discussion**

The e-commerce policy framework in India is developing at present, but judging from its present status and vision, it appears to be restrictive and unfavourable to the growth of the sector.

A sector policy, such as National E-commerce Policy, is a vision document for governing the sector, but the sector is regulated through several laws. While the vision for the e-commerce sector as expressed in the draft is to promote the growth of the sector taking into account the needs and interest of all the stakeholders, some of the objectives look regressive and restrictive. The policy is still at the draft stage and has not come into force. Some reports have suggested that the DPIIT is working on a new e-commerce policy (*Business Standard*, 2021).

The FDI policy has been revised several times in an attempt to restrict foreign e-commerce players. It distorts the playing field between domestic and foreign players and makes the policy making of the country unstable and unpredictable, discouraging foreign investment in the future. In a webinar<sup>1</sup> conducted by CIRC on “Festive economy and sales of small and medium businesses in India” to understand the views of policy makers and industry, former Secretary, DPIIT, Ramesh Abhishek has stated on record that the e-commerce space has been driven by FDI and FEMA related laws but a level playing field should be achieved so the same laws apply to all the players, whether domestic or FDI controlled companies. Policy should look at everyone in the same manner as issues would be the same for the stakeholders. Such views of bureaucrats must be reflected in the policy now.

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<sup>1</sup> The webinar consisted of a distinguished panel of Bidyut Swain, Secretary, Ministry of MSME; Ramesh Abhishek, Former Secretary, DPIIT and Director, Paytm Payments Bank; Kundan Kumar, Joint Secretary and Adviser, NITI Aayog; Pradeep S. Mehta, Secretary General, CUTS International and Vinod Kumar, President, India SME Forum constituted the panel, moderated by Dr Arvind Mayaram, Chairman, CIRC and former Finance Secretary, Government of India.

If the present regulations arose out of the need to protect local brick and mortar stores in India, then it is futile as the e-commerce sector is complementary to their growth. Secretary, Ministry of MSME Bidyut Swain shares the view that the market is graduating into a hybrid field where physical retail will stay and virtual retail will continue it.<sup>2</sup> E-commerce platforms rather help the small brick and mortar sellers in expanding their reach beyond local geography and reduce their operating cost, as evidenced by the study. It also benefits consumers by making the markets more competitive, which gets them more variety and competitive pricing.

The draft e-commerce rules under the Consumer Protection Act also put several unnecessary restrictions on e-commerce companies. Via rules to ban flash sales, putting fallback liability on the platforms for failure of the sellers registered with them to deliver the promised goods or services exhibited and interventionist approach of the government. This argument is supported by Abhishek who said during the CIRC webinar that one cannot be selective about discounting schemes wherein the discount in the offline sector is condoned but not on the online platforms. There should be no law or policy for regulating commercial decisions like discounting; it is best left to sellers. After backlash from various stakeholders, including NITI Aayog, the government is revisiting the clauses regarding the liability for e-commerce portals, grievance redressal, and registration of firms in the sector as they transgress on the jurisdictions of other government departments and agencies and lead to over-regulation.

The Personal Data Protection Bill has also faced criticism. It may increase cybersecurity in India but is likely to increase the compliance burden of e-commerce companies. According to a study conducted by CUTS International, data localisation norms could also have an adverse impact on the country's digital services exports, innovation and start-up ecosystem and reduce India's global digital competitiveness, as they are primarily fuelled by an ecosystem of seamless flow of data, collaboration, and the ability to scale up globally (CUTS International, 2019). The policies should be based on cost-benefit analyses, not sentiments, especially for a developing economy like India.

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<sup>2</sup> CIRC webinar

## **Way Forward**

1. The vision of the National E-commerce Policy should be to promote the growth of e-commerce by easing entry into the market and reducing the compliance burden.
2. All laws and policies should go through a consultative process and a framework for continuing constructive dialogue with stakeholders should also be created.
3. The playing field between domestic and foreign e-commerce players should be levelled by applying the same regulations laws to both.
4. There should be a single set of policies/regulations governing online and offline sellers, bringing in parity.
5. Instead of restricting the foreign e-commerce players from letting related parties sell on their platforms, the policy should focus on platform neutrality.
6. The regulatory intervention to micro-manage e-commerce business, such as dictating the type of sale events to be run by e-commerce players, should be avoided.
7. Data should be free flowing across borders, with bare minimum restrictions.
8. There should be more capacity building programmes to educate small sellers on onboarding and using e-commerce. The government and e-commerce players can join hands to carry it out.

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