



## A STUDY ON THE FACTORS RELATED TO E-COMMERCE IN SECOND TIER CITIES IN INDIA

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### ABSTRACT

E-commerce refers to the buying and selling of goods and services over the internet. The availability of mobile-data and other wireless capabilities has led to tremendous increase in e-commerce on a year over year basis over the last few years. E-commerce in second tier cities is on the rise because of a host of factors ranging from product unavailability in local markets to trust building with easy return policies for goods purchased online. The study deals with the trends, the reception and the factors accelerating e-commerce in second tier cities in India. The demands and approach of the customers in such a market are understood using a survey conducted and the insights from the survey are discussed. An impact analysis of e-commerce in second tier cities including both pros and cons in such markets has been done.

## INTRODUCTION

E-commerce refers to the selling of goods and services by authorized sellers on a multi-seller online portal or own brand specific portal to customers. E-commerce has witnessed massive growth over the second half of the last decade and now poses a major threat to brick and mortar businesses. Buyers can view the online portals and flip through products based on filters or offers and choice to add items to their cart before eventually checking out. Most online portals require creating a profile with Delivery Address, Email id, phone number and other personal details before completing your purchase. There are multiple payment options like Cash on Delivery, Card payment, Bank payment using EMI, electronic payment using Online wallet applications providing flexibility to the end users. Penetration of smart phones and high speed 4G internet services have made it feasible to use mobile application to order goods in multiple clicks. Once the goods are ordered and the payment options are specified, seller confirmation happens post which Supply chain ensures the goods are delivered at the door steps of the customer. It is a well-known fact that the major cities are well connected with e-commerce but Second-tier cities account for major

population chunk of the country and are emerging markets which have high potential. The number of branded outlets, Shopping malls are relatively lesser compared to cities and they are regional bound bargain prone markets. There is in general a trend of heavy enquiry and heavy comparison with other competitors before the purchase of goods. So, in this paper we'll initially discuss the advantages and cons of e-commerce in second tier. Later the reach of e-commerce in such markets and how the people response is to e-commerce. Emphasis is also laid to understand the effects of e-commerce in the local markets and how local vendors are responding to the change in trends.

### E-Commerce in Second Tier cities

The only fixed asset e-commerce sites generally have locally is their own delivery system ranging from warehouse to storage facilities in multiple areas based on the reach of the entity. Smaller e-commerce chains generally use third party services like local logistics, postal services or have tie ups with other small agencies. So, with all goods and services virtually available the aspects of e-commerce in Second tier cities that help increase the user base are discussed below. e major selling point of e-commerce in such regions is the range of

availability of goods as the local market is generally region bound. So, customers get the option to go for more varieties.

- Availability is another factor, offering 24\*7 hours of service increases the accessibility as local goods vendors close early as second tier cities wind down early.
- No incessant delay in the availability of new goods as there's generally a delay in Supply chain to second tier cities especially for electronic goods.
- Discounted prices and offers round the year helps increase the user base as there are generally only a maximum of two discount sales during the year in second tier cities.
- The prices are fixed digitally and there is no bargaining to be done and the prices don't vary based on the relationship between the customer and the seller.

The above factors contribute to the increase in the available customer base and similarly the factors that lead to customers refraining from using e-commerce are discussed below.

- There is a general myth in such cities that goods are expensive and hence people refrain from venturing with it.
- Brand loyalty with local brands and retailers exists among the people which is hard to break.
- Groups of People still prefer to buy a product based on look and feel and may continue visiting outlets/showrooms to buy goods.
- Certain segments of people with lack of technical expertise or technical capabilities may have lack of accessibility.

The discussed factors give a general outlay on the perception of e-commerce in such markets.

### Reach of E-commerce

Second tier cities are emerging markets and have heavy potential to be the backbone with the economic value and the population numbers they possess. A study states seven in ten new e-commerce customers in 2016 are from second tier cities. The following factors have led to the drastic increase in the reach of e-commerce in such cities. With heavy word of mouth prevalent in second tier cities, the availability of unique goods online spreads immediately which is the major reach factor increasing demand. Entry of new mobile operators in the telecom industry has led to High speed internet availability at cheaper rates off late increasing Internet consumption in the country specifically in second-tier markets which weren't as Internet prone as they currently are. Free Home delivery is a totally new exciting concept in such cities and the luxury of the service free of cost has helped drive the reach factor in households. A host of other factors including the ability to read product reviews and the possibility to compare similar products online and decide, have increased customers fixation to the whole idea of online shopping coming from traditional markets. As almost all e-commerce companies offer exchange policy in case of customer satisfaction, the consumers don't have the fear of being cheated. The availability of e-commerce has led to the availability of high priced goods as generally high margin shops fail in second tier markets as only minority of people prefer expensive brands. Also, hardly is there a

family who doesn't have a family member living outside the city so gifting loved ones living in other parts of the world and other cities for occasions like Birthdays, Wedding anniversaries is made possible by e-commerce. Eg. A son earning abroad can gift a HD-Television to his family. In conservative second-tier cities women aren't allowed to go out much on their own in few families. so with e-commerce the womenfolk sit in their home and buy their essential goods. The availability of price bound range of electronic gadgets attracts youngsters who purchase variety of quality earphones, speakers and trending gadgets/Items which are otherwise pricey in the local markets. There is also an unattended market which deals with expensive sportswear, varieties of sauce, imported designs, products for pets, Blu-Ray CD's which are reached by e-commerce. There also local e-commerce facilitators currently who help you order goods at online portals from their stores acting as Traders. Customers can walk in and order the goods they desire with such vendors and purchase the product once it has arrived by availing cash on delivery. Such vendors help improve the reach in regions where users aren't tech savvy or don't have the necessary technical capabilities. The profit margins for such vendors comes from the different schemes offered by e-commerce vendors.

### Impact and Effects of e-commerce

E-commerce does influence the local ecosystem with its own merits and demerits are discussed below. The merits of e-commerce are initially discussed.

- Employment- The growth of E-commerce provides high salaried employment to the local youth in the capacities ranging from Delivery executives to Warehouse managers who get the opportunity to work in Multinational companies.
- Local Entrepreneurs- The increasing reach of e-commerce prompts many local entrepreneurs in homemakers, enthusiasts and local vendors. The operation costs are very less as they can venture into business without the hassles of setting up of a shop, investing in heavy retail premises, managing a sales team and credit sales to local outlets. There is also demand for certain unique goods from local markets which is tapped by these local Entrepreneurs.
- Competent Local Sellers- The pan India exposure of e-commerce brings prompts local sellers and vendors to improvise their pricing strategy, product availability as they are exposed and competing with national vendors from different parts of the country.
- Increased Product Availability- E-commerce helps bridge the gap between cities and second tier cities with its pan India Seller and Buyer capabilities. With no limitation to the range of products available there is no price bound or range bound capability in such markets.

The de-merits of e-commerce have led to sections of people lending their voice against it. So we discuss the factors leading to it.

- Effect on Local Vendors – Certain local vendors who offer high quality goods in local markets are affected as margin levels are generally lesser Online. Also round the year offers on Mobile phones has prompted more people to buy Mobile phones online so Offline vendors

suffer. The in-competency of few vendors to adapt to the high price and quality competent market with the presence of e-commerce has a gradual effect on them as Customer expectations increase.

- Retail Rentals- Major branded outlets have showrooms in all major and minor cities spanning the length and breadth of the country contributing to the local economy. Such branded outlets generally don't cash in much in second tier cities except during major festivities and occasions. Shifting trends to online portals together with the limited customer base prompt outlets with online capabilities to shut down local operations which affects retail rentals.
- Local Ecosystem- The local trade ecosystem gets affected as generally second tier cities depend on trading which accounts for a major chunk of the local ecosystem. Local trade and cash flow gets affected with national vendors entering the market.

**Customer Trends**

Customer demands vary from region to region based on the economical richness of the region. In major cities there is more brand prioritization for the product as they are cash rich markets. In second tier cities the priority is more on Value for Money as the average income levels are lesser compared to major cities result of which the spending capabilities are lesser. The customer demand is generally more inclined towards goods that are not available in local markets as otherwise customers will have to travel to major cities to purchase goods or stick to using the local variants. In such second-tier cities which are highly price sensitive markets, there is a spike in sales during annual Offers and Discounts and the customers are more centric to buying during major festivals and occasions compared to cities where there is an equal distribution in sales all-round the year. A survey was conducted on 100 men and women in a second-tier city. Women were more inclined or interested to buy online compared to men who weren't as open to the idea of purchasing online. 62% of the women surveyed were open to the idea of purchasing online whereas only 26% of the men surveyed were open to the idea. The below trends were found based on the tabulated survey table of those interested in buying online.

- Dressing and personal grooming together accounted for 66% of what Women wanted to purchase online. The vacuum for luxury goods in the segment and range of products in local markets was the major causality for such incremental demand.
- Men were more interested towards Electronic goods which accounted for 41% of their demands and the causality for the high demand was the delay in supply of newly launched goods to local markets and the high prices and demand once the goods reached such markets.

- The demand for Grocery items was considerably low around 1% and 3% which was significantly low compared to cities where online grocery sales was on a high. The reason for it is the high customer loyalty with local grocery store vendors who are distributed area wise.
- Similarly, the demand for books was found to be lesser and demand for Kitchen appliances was also found to be less in such markets.
- Demand for other products like fishing rods, dog feed, expensive sports equipment accounted for the Other category of men's consumption.

Segment	% consumption Men	% consumption Women
Fashion	17%	55%
Personal Grooming	24%	11%
Books	5%	2%
Baby Products	2%	7%
Electronics	41%	5%
Grocery	1%	3%
Kitchen Appliances	3%	16%
Other	7%	1%

These were the observed trends in the customers from the specific second tier city taken for the survey and target marketing can be done with insights to improve sales in such regions.

**Conclusion**

The factors and the reach of e-commerce in second tier cities have been discussed in detail giving insights and picturizing the trends in such markets. Second tier cities have a huge potential market which is still not completely tapped. The high populations and the economies they possess make them ideal markets. The customer trends specific to second tier cities has been discussed and can be used for specific target marketing in such regions.

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