

IMPACT OF RETAIL E-COMMERCE ON SMALL RETAIL SELLERS

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Abstract

Ever since retail e-commerce companies started their business in India in the late 1990s and early 2000s, small retail sellers have felt the brunt. The current paper attempts to find out the impact of retail e-commerce on small retail sellers and shopkeepers in India. The paper provides a comprehensive review of the trends in retail e-commerce. Further, it examines the impact of retail e-commerce and online shopping on the sales revenues of 15 selected small retail sellers from different businesses in the city of Ahmedabad. The paired samples t-test was used to determine the significance of difference in the sales revenues of these small vendors between 2015 and 2023. The test shows that there has been a significant decline in the sales revenues of the selected 15 small retail shopkeepers due to the onslaught of online shopping by customers. The paper also delves into the reasons for this significant decline. Finally, it suggests measures that small offline retail sellers can adopt to protect themselves from the competition of retail e-commerce companies.

Keywords: retail e-commerce, online shopping, small offline vendors, sales revenues

INTRODUCTION

The retail e-commerce market is the retail market in which products are sold and purchased by making use of the Internet. The electronic gadgets like mobile phones, laptops, and tablets are used to make the transactions. Fabmart was the first retail e-commerce company to start in India in 1999. The Indian retail e-commerce industry has grown very rapidly since then. As of 2023, the revenue growth of the e-commerce market was 10 percent in India. The e-commerce market had the highest growth at 53 percent in 2020. During the COVID-19 pandemic, consumers switched to online shopping for groceries and other essentials due to lockdowns and social distancing (Statista.com).

LITERATURE REVIEW

Nur Samima Begum¹ [2022] observed that the millions of small retailers in India, and even more employees working under them depend on the traditional way of selling goods and selling through their bricks and mortar shops for their livelihoods. While retail in India has been dominated by the offline retail market, and it still forms the majority chunk of the retail business in India, e-retail is fast taking up its place. Her research project studies the issue both from the shopkeepers' point of view as well as from the consumers' perspective. It also aims to analyze whether any remedial measures are being taken by the shopkeepers themselves to cope with the problem.

Schiffing, Karamperidis, and Nelson [2015] found that while online retailers are frequently used by the islanders, the small shops on the islands are vital for the communities, particularly for elderly residents. Their close connection with the community enables shop owners to flexibly respond to demand, but elevated transport costs and lack of economies of scale lead to high prices. Shops stay competitive by offering additional services to the community. Their findings strongly reveal that Online retailers are not currently perceived as direct competitors by the owners of shops on small Scottish islands. This is primarily because possibilities for food shopping online have so far been limited. This research explores the effects of increased virtual mobility on local shops in small island communities. A balance between online and local shopping activities would be desirable for both shopkeepers and consumers.

Yan Xiaoxing's [2018] study shows that the regression coefficient of the total revenue earned by shopping malls and the total amount of revenue realized by Amazon shopping mall is negative, implying that an increase in Amazon online shopping revenue leads to a decline in the amount of revenue earned by traditional stores and malls. This implies that the current trend of shopping malls closing down is significantly attributed to online shopping as the major explanation. His analysis clearly shows the pervasive negative impact on shopping malls from e-commerce.

A study by Shukla Sudhakar and Pabalkar Vanishree [2021] found that internet shopping does not have a big effect on physical stores as consumers purchase from online shops at cheap rates so they have to cut costs and will not get any money, stores cannot have a large stock, like online shops, as it would cost them a massive loss.

This article states that e-commerce is very beneficial as the supply of the products is at the doorstep with a wide variety of products and services with plenty of information and attractive images. This gives consumers convenience and allows the organization to grow its business through the Internet. The study offers an extensive analysis of the impact that online retailing has on the sales of offline retailers including all the advantages that online retailing has over offline retail stores.

METHODOLOGY

The main objective of the paper is to find out the impact of the growing e-commerce retail sector on small offline retailer shopkeepers in India.

To determine this impact, the primary data on the sales revenues of 15 small offline vendors from Ahmedabad were collected for two periods, 2015 and 2023. 2015 was selected as the year of comparison because it was around this time that online shopping in India started growing rapidly. Out of these 15 offline retail sellers, 6 were grocery shops, 3 were readymade garment shops, 3 were footwear shops and 3 were electronic shops mainly dealing in mobile phones. The paired samples t-test (also known as repeated measures t-test) has been used to determine the statistical significance of the difference in sales revenue of the vendors before and after the onslaught of online shopping.

H0: There is no significant decrease in the sales revenues of the small offline retail vendors

H1: There is a significant decrease in the sales revenues of the small offline retail vendors

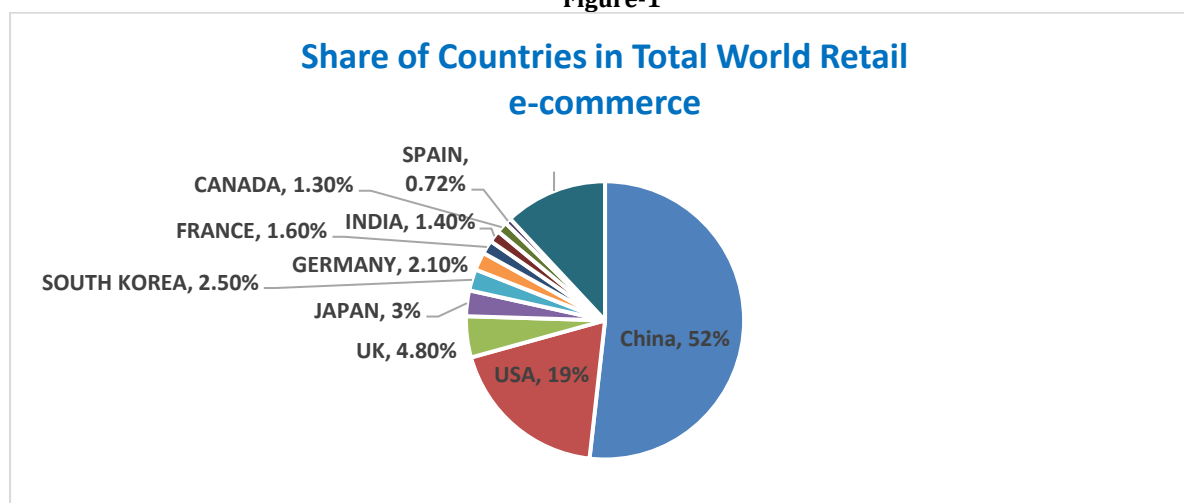
Limitations: The main limitation of the study is the very small sample size. The findings are purely based on the experience of the selected 15 vendors doing business in a limited number of products. For more conclusive evidence, there would be a need to study a larger number of sellers across varied sectors and product lines.

India's share in total world retail e-commerce:

Table-1		
Rank (2023)	Country	Share in Total World Retail e-commerce
1	China	52%
2	USA	19%
3	UK	4.8%
4	JAPAN	3%
5	SOUTH KOREA	2.5%
6	GERMANY	2.1%
7	FRANCE	1.6%
8	INDIA	1.4%
9	CANADA	1.3%
10	SPAIN	0.72%
11	OTHERS	12%
12	TOTAL	100%

(1) ASCENDIA UK <https://www.ecommerce-nation.com/>

Figure-1



In the year 2023, China had the highest share in the total world retail e-commerce market at 52%. This was followed by the USA and UK at 19% and 4.8% respectively. India's share in total world retail e-commerce was just 1.4%.

Figure-2

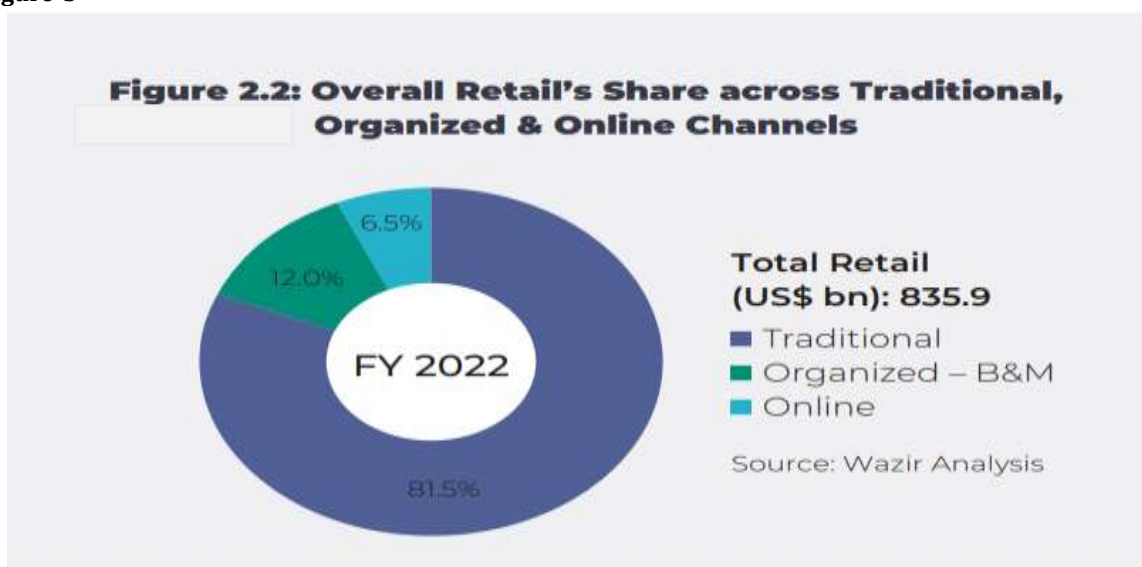


India's retail e-commerce market:

1.	Size of Total Retail Market in India (भारत के कुल खुदरा बाजार का कद)	\$ 850 billion
2.	Size of Online (e-commerce) Retail Market in India (भारत में ऑनलाइन खुदरा बाज़ार का कद)	\$ 58 billion
3.	The proportion of online shopping (e-commerce) in total retail shopping in India)	6.8%

The overall size of the Retail Market in India in 2023 was worth \$ 850 billion. In that, the size of the online (e-commerce) Retail Market was merely worth \$ 58 billion. Thus, the proportion of online shopping (e-commerce) in total retail shopping in India was only 6.8%.

Figure-3



<https://www.gapgyan.org/>

In the year 2022, 81.5% of the total retail shopping was done through traditional channels like small and medium vendors. 12% of the retail share went to organized Bricks and Morter (B&M) like brand showrooms etc. Only 6.5% of the total retail sales occurred through online media.

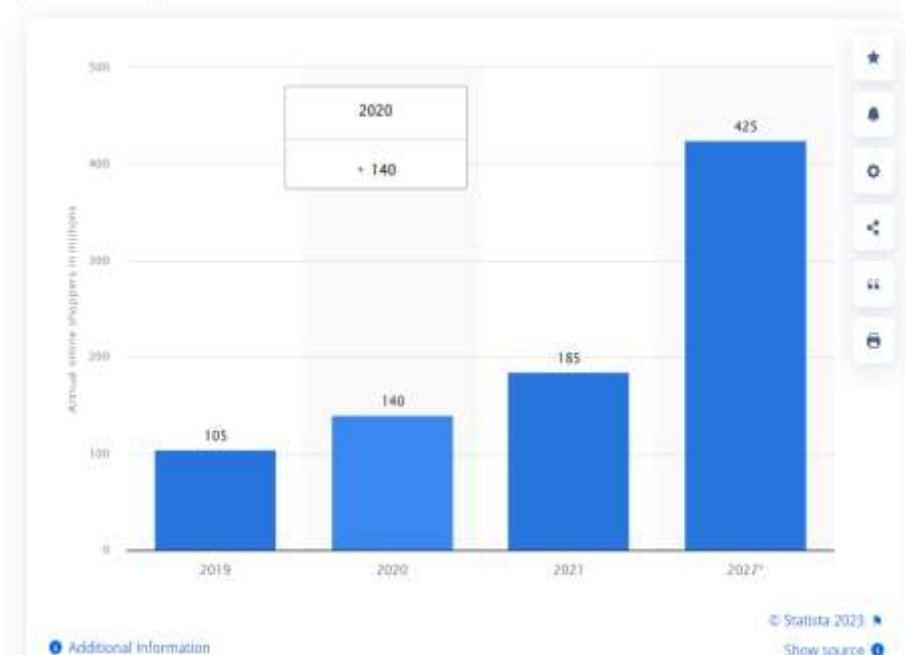
Table 3: CATEGORY-WISE SHARE ACROSS CHANNELS (FY 2022)
Source: Wazir Analysis

	OVERALL SIZE OF RETAIL MARKET (USD BILLION)	SHARE OF CHANNELS (%)		
		TRADITIONAL SHOPS	ORGANIZED BRICKS AND MORTER	ONLINE
FOOD & GROCERY	528.7	93.7%	4.9%	1.49%
APPAREL AND ACCESSORIES	65.6	56.3%	23.7%	20%
FOOTWEAR	11.3	51.9%	26.1%	22%
MOBILE	31.3	26.6%	18.4%	55%
CONSUMER DURABLES AND APPLIANCES	27.6	58.7%	23.6%	17.6%
JEWELRY AND WATCHES	71.9	59.8%	39.6%	0.6%
BEAUTY & PERSONAL CARE	16.7	72.3%	18.3%	9.4%
FURNITURE	30.1	79.1%	13.6%	7.3%
PHARMACY	29.3	81.5%	13.2%	5.3%
OTHERS	24.2	79.9%	16.9%	3.2%
TOTAL	835.9	81.5%	12%	6.5%

As far as various product categories are concerned, the items most traded online during 2022 were mobile phones, footwear, apparel & accessories, and beauty and personal care products. Out of the total mobile phones purchased during the year, 55% were purchased online. This was followed by footwear at 22% of all sales. Similarly, 20% of all the traded apparel and accessories were bought online.

Total Online Shoppers in India: Figure 4

Number of annual online shoppers in India from 2019 to 2021
(in millions)



The total number of online shoppers has been continuously increasing over the past few years. There was a total of 105 million online shoppers in 2019, 140 million in 2020, and 185 million in 2021. This rose sharply to 270 million in 2022. According to an estimate, it is likely to reach 425 million by the year 2027.

Tier-Wise Market Share: Figure-5



Compared to the FY 2021, the market share of tier-2 and tier-3 cities in online shopping increased in FY 2022. In 2021, out of the total online shopping in the country, 46.2% occurred in tier-1 cities, 20.2% in tier-2 cities, and 33.6% in tier-3 cities. In 2022, however, the share of tier-1 cities in total online shopping decreased relatively to 38.7% and that of tier-2 and 3 cities increased to 23.7% and 37.6% respectively.

Tier Wise Order Volume Growth: Figure-6



The above figures show that tier-2 and tier-3 cities have seen the highest growth in online orders from 2021 to 2022. The order volumes grew at 92.20% in tier-2 cities and 85.20% in tier-3 cities. The growth in tier-1 cities has been 47.20% during the same time.

Total Revenues and Annual Growth in Leading E-commerce Companies in India

Name of the retail e-commerce company	Total Sales Revenues (2022)	Annual Growth (FY 2021 to 2022)
Flipkart	₹ 56,013 crore	9%
Amazon India	₹ 21,633 crore	32%
Ajio.com	₹ 17,907 crore	6.2%
Snapdeal	₹ 540 crore	14%

Flipkart, Amazon, Ajio and Snapdeal are few of the leading retail e-commerce companies in India. Flipkart had a total sales revenue of Rs. 56,013 crores, Amazon had Rs. 21,633 crores, Ajio had Rs.17,907 crores and Snapdeal had Rs. 540 crores in the year 2022. The annual growth in Flipkart was 9%, Amazon 32%, Ajio 6.2%, and Snapdeal had 14%.

Profitability of retail e-commerce companies in India:

Name of the retail e-commerce company	Net Losses (2022)
Flipkart	₹ 4,834 crore
Amazon India	₹3,649 crore
Ajio.com	₹ 2,400 (Profit)
Snapdeal	₹ 510.3 crore

As is visible from the above data, most of the retail e-commerce companies are making heavy losses. Except for Ajio.com, all other companies made losses in 2022. Ajio.com made a profit of Rs.2400 in 2022. However, Flipkart made a loss of Rs. 4,834 crore, Amazon India Rs. 3649 crore and Snapdeal made a loss of Rs. 510.3 crore in 2022.

The main reason for these retail e-commerce companies to continue in business despite huge losses is the spectacular growth in sales and revenues. It's a business strategy often described as short-term pain for long-term gain. The high annual growth rates in sales and revenues indicate that these companies will soon turn profitable.

Impact of Retail E-commerce on Small Retail Vendors:

The current research attempts to determine the impact of retail e-commerce companies on the sales revenues of small retail vendors. The primary data on the sales revenue of 15 small vendors from the western Ahmedabad district was collected for the years 2015 and 2022. Out of these 15 vendors, 6 were grocery shops, 3 were readymade garment shops, 3 were footwear shops and 3 were electronic shops mainly dealing in mobile phones. The popularity of online shopping has increased mainly from 2015 in India. The comparison of the small-vendor revenues between two points of time (2015 and 2023) will give an idea about the impact of retail e-commerce on the sales and revenues of the small vendors. The paired samples t-test (also known as repeated measures t-test) has been used to determine the statistical significance of the difference in sales revenue of the vendors before and after the onslaught of online shopping.

Table-6: t-Test: Paired Two Sample for Means

	Sales Revenues RS. LAKHS (2015)	Sales Revenue RS. LAKHS (2023)
Mean	14.13333333	12.7
Variance	41.83809524	47.70714286
Observations	15	15
Pearson Correlation	0.945850448	
Hypothesized Mean Difference	0	
df	14	
t Stat	2.474957394	
P(T<=t) one-tail	0.013363868	
t Critical one-tail	1.761310136	
P(T<=t) two-tail	0.026727735	
t Critical two-tail	2.144786688	

Null Hypothesis: There is no significant decline in the sales revenues of small retail vendors due to the growth of retail e-commerce in India

Alternate Hypothesis: There is a significant decline in the sales revenues of small retail vendors due to the growth of retail e-commerce in India

The t-statistic (2.47) is greater than the t-critical (one tail) (1.76). Similarly, the p-value (one tail) is 0.013 which is less than 0.05.

Hence, we can reject the null hypothesis and conclude that there is a significant decline in the sales revenues of small retail vendors due to the growth of retail e-commerce in India.

REASONS FOR THE GROWING POPULARITY OF RETAIL E-COMMERCE

Several factors contribute to the increasing preference for online shopping over traditional offline shopping. Here are some key reasons:

1. **Convenience:** One of the primary reasons people prefer online shopping is the convenience it offers. Customers can browse and purchase products from the comfort of their homes, without the need to travel to physical stores.
2. **24/7 Availability:** Online stores operate 24/7, allowing customers to shop at any time that suits them. This flexibility is particularly beneficial for those with busy schedules or unconventional working hours.
3. **Diverse Product Range:** Online platforms typically offer a wider variety of products than brick-and-mortar stores. Customers have access to an extensive range of brands, styles, and options, often beyond what is available in local stores.
4. **Price Comparison:** Online shopping allows consumers to easily compare prices across different platforms. This transparency empowers shoppers to find the best deals and discounts, ultimately saving them money.
5. **Product Information and Reviews:** Online shoppers have access to detailed product information, reviews, and ratings. This information helps them make informed decisions, and they can benefit from the experiences of other customers before making a purchase.
6. **Personalization:** E-commerce platforms use data analytics to provide personalized recommendations based on customers' preferences and past purchases. This tailored shopping experience enhances customer satisfaction.
7. **Time-Saving:** Online shopping eliminates the need for travel, parking, and waiting in lines. This time-saving aspect is particularly appealing to individuals with busy lifestyles who value efficiency.
8. **Ease of Returns and Refunds:** Many online retailers have hassle-free return and refund policies, making it easier for customers to return products that don't meet their expectations. This builds trust and confidence in the online shopping experience.
9. **Secure Payment Options:** Online transactions are increasingly secure, with various payment options, including credit/debit cards, digital wallets, and other secure payment gateways. This security reassures customers about the safety of their financial information.
10. **Technological Advancements:** Advances in technology, such as mobile shopping apps and improved website interfaces, contribute to a smoother and more enjoyable online shopping experience. This makes it more appealing for customers to choose online channels.
11. **Global Accessibility:** Online shopping breaks down geographical barriers, allowing consumers to purchase products worldwide. This global accessibility expands choices and introduces customers to a wider array of products.
12. **Deals and Discounts:** E-commerce platforms often offer exclusive deals, discounts, and promotions, attracting cost-conscious consumers who are looking for value for their money.

The combination of these factors has led to a significant shift in consumer behavior, with more and more people opting for the convenience and benefits offered by online shopping.

Measures to Protect Small Retail Vendors from the Competition of E-Commerce Companies:

Protecting small retail vendors from the competition of e-commerce companies can be challenging, but there are several measures they can take to remain competitive and even thrive in the evolving market. Here are some strategies:

1. **Embrace Technology:** Small Vendors should leverage technology to enhance the in-store shopping experience. Implement point-of-sale systems, customer relationship management (CRM) software, and inventory management systems to streamline operations. They should also develop a user-friendly and mobile-responsive website for online sales, if applicable.
2. **Create an Online Presence:** Offline sellers can also establish an online presence through e-commerce platforms or by creating their website. This allows small vendors to reach a wider audience and compete in the digital marketplace. Utilize social media platforms to engage with customers and promote products.

3. **Unique Selling Proposition (USP):** They must also identify and emphasize a unique selling proposition that distinguishes the small retail vendor from e-commerce competitors. This could be personalized service, niche products, or a strong community connection.
 4. **Customer Service Excellence:** Offline shopkeepers should provide exceptional customer service to build customer loyalty. Personalized interactions and a focus on customer satisfaction can set small retailers apart from larger, less-personal e-commerce companies.
 5. **Collaborate with Other Small Businesses:** They can also form partnerships or collaborations with other local businesses to create a network that supports and promotes each other. This can help increase visibility and draw customers to the area.
 6. **Offer In-Store Experiences:** They should create a unique and enjoyable in-store experience that goes beyond just shopping. This could include events, demonstrations, or other activities that encourage customers to visit the physical store.
 7. **Optimize Inventory Management:** Inventories should be efficiently managed to avoid overstocking or stockouts. Implementing a just-in-time inventory system can help reduce costs and improve cash flow.
 8. **Competitive Pricing and Discounts:** Products must be priced competitively, and offering discounts must be considered or loyalty programs to incentivize repeat business should be implemented.
 9. **Adapt to Consumer Trends:** These sellers should stay informed about consumer trends and adapt offerings accordingly. Being flexible and responsive to changing preferences can help small retailers stay relevant.
 10. **Focus on Local and Sustainable Products:** They must emphasize local and sustainable products, as there is a growing demand for these items. Highlighting the community and environmental benefits can attract conscious consumers.
 11. **Invest in Employee Training:** They must also ensure that staff members are well-trained and knowledgeable about products. Excellent customer service often relies on a well-informed and helpful staff.
 12. **Leverage Customer Reviews:** Satisfied customers must be encouraged to leave positive reviews, both online and offline. Positive reviews can build trust and attract new customers.
- By combining these strategies, small retail vendors can enhance their competitiveness in the face of e-commerce competition, offering a unique and personalized shopping experience that online platforms may struggle to replicate.

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