

A New Playing Field: The Challenges of an Indian Online Business

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Abstract

This paper looks at the growth of Internet start-ups in India and what makes them different from traditional small and large-scale retailers in the Indian economic and social environment. We also emphasize the importance of various security issues in the face of constant incidents of customer data breaches, and its effects on the concept of online shopping in the country. Given that these businesses are fairly recent, we look at confidence-building measures that Internet companies use to retain the existing consumer base and also attract new customers through positive word of mouth publicity.

The data used in the paper is a mix of primary and secondary research, wherein monetary figures will be secondary and user experiences will be through surveys of a sample of college students that include rare, occasional and regular online shoppers.

Keywords

Internet Business, Innovation, Online Security, Customer Service

JEL Classification: D02, D11

I. Introduction

The boom of smartphones and cheap internet packages in the hands of the billion-plus Indian population has substantially increased the growth of an industry that, up until recently, was lurking in the shadows with most of its potential untapped- the E-commerce industry. In this paper, we look at certain aspects of businesses both unique from and similar to traditional brick and mortar businesses, and how firms that do not have any physical presence and are completely located in a virtual world handle these issues.

Flipkart and Amazon undisputedly India's two leading dominant online shopping destinations-are at the forefront of this \$36 billion industry (in 2017). According to reports from NASSCOM and PwC this industry is forecasted to be worth \$150 billion as population swells, more people continue to be lifted out of poverty and India's middle-class increases in size (Ahuja, 2018).

The main question that we will try to address in this paper, therefore, is, 'How do these firms settle in for the long run?' Essentially, it will be a comparative study between the operations and policies of the two firms towards retaining and protecting their consumer base.

We will look at threats of security issues, mainly breaches of customer data and other ways that e-commerce firms are spied upon by hackers of malicious intent. In a country that is traditionally reliant on the small shop and supermarket experience- how do e-commerce firms build user confidence, and create a demand for their services? What issues do customers have with these companies, and how can they be resolved?

II. Literature Review

Different types of attacks on e-commerce sites have been detailed in previous research papers (Niranjanamurthy M, 2013). While it offers solutions to individual users safeguarding themselves while shopping on the Internet, and since it is written by an Indian author, there is an understanding of scams that happen in an Indian scenario such as phishing. However, a limitation is that there is no recourse in case of large-scale attacks on databases of online businesses which puts the personal information of millions at risk.

Many have considered the effects of security issues on the faith of customers in the brand and hence the goodwill of the online businesses. They have underlined the presence of consumer trust as the backbone for a firm's success in the virtual marketplace and also devised models to understand an outline the factors that determine how consumer trust in online stores develops (Sirkka L. Jarvenpaa, 1999). The findings loosely correspond with the results of this paper- the larger the size of the merchant, the greater the probability that the average first-time consumer will trust the brand. In the paper, Amazon's bookstore was compared to the Internet Bookshop, another online retailer, and it was reported that consumers generally felt safer with Amazon due to its superior size. It is interesting to note, however, that the study found people who were more experienced than their peers do not trust online stores as much, and those who are not extremely familiar with the intricacies of online shopping, have a much lower sense of risk perception. As we go into the analysis of the security aspect of online shopping in the paper, we must remember this claim.

There have also been comparative studies between Flipkart and Amazon in the Indian sphere, detailing the hits and misses in the operations of both competitors (Vidya Shree DV, 2015). This author has adopted a similar methodology of asking questions to a sample size of 50 respondents about their preferences when it comes to online shopping, however they have failed to take into account the security aspect, the complaints that customers may tend to have with the whole process starting from their order to the delivery of the products and the importance of loyalty programs when it comes to customer retention.

There are few studies that have taken models that have worked wonders for certain businesses in different countries and hence different business environments. However, this paper aims to address a certain gap by studying the feasibility of adopting in the Indian market these policies that were quite successful abroad.

III. Research Methodology

This paper contains a mix of both primary and secondary data, wherein the use of information from older research papers, online news outlets and journals and even certain newspaper publications. We have identified threats that both companies face with customer retention - which itself is broken down into two parts:

- Security of customer data
- Customer service and overall user experience

IV. Security

One of the greatest fears of shoppers, both experienced and novices, is the safety issue that comes with having a virtual presence on cyberspace. Given that online payment methods on all these websites are linked to individual bank accounts, any customer data breach that has become almost commonplace in today's world invites hundreds or even thousands of lawsuits that can certainly make a severe dent in the finances and goodwill of companies even as large as Amazon, and surely throw smaller companies into bankruptcy.

The fact that these two companies are even being compared on an equal footing despite one having a staggering global presence is remarkable. But with a greater market area comes greater security threats.

The most common attacks that hackers use are generally Denial of Service (DOS) and Distributed Denial of Service (DDOS) which involves hackers placing software agents onto one or a number of third-party systems respectively and setting them off to simultaneously send requests to an intended target. This is aimed to not allow actual users of the website to access the site due to the excessive fake requests that exceed the traffic the site can handle with its resources on hand. Often sites crash and they end up losing credibility and trust in front of their customer base, which switches over instantly given that there is generally a lot of overlap in products between e-commerce sites. In an example of this case, in late 2016, Amazon's operations were hit badly on the East Coast of the USA (Leswing, 2016). Amazon responded quickly and even put out an investigation into the matter, but it did not stop consumers from deviating.

Aside from its traditional business, Amazon also has a subsidiary which has been making waves in the tech industry with its extremely high profile and also commoner client base - Amazon Web Services (AWS). Essentially anyone could hire a group of computers that act as a single giant computer- generating massive power for anyone looking to expand their operations and need servers and computers for the same. A Bloomberg report came out detailing Chinese efforts to spy on Amazon through the servers of its newly acquired compression startup - Elemental Technologies. The acquisition made sense as it was seen as a major tool to boost Amazon's video streaming service- Amazon Prime Video. However, Elemental purchased their servers from Super Micro Computers - a company that produced in manufacturing factories across China. Bloomberg described the chip as 'not much bigger than a grain of rice' (Riley, 2018). Although Amazon vehemently rejected the findings of the report- customers' faith in the company was severely dented.

Although this hardware breach is part of a much larger effort to spy on large American companies and also prominent government agencies, Amazon also consistently has a target on its back.

The Indian scenario, however, has slightly different problems to be tackled. While tech literacy has improved significantly in India quite a significant part of the population still remains quite gullible and vulnerable to scams. The problem is exaggerated by the number of scammers pretending to be Flipkart employees and

calling or messaging customers letting them know of impossibly cheap products. Sadly once scammed, customers blame the actual Flipkart and other customers who are were wary and on the edge about shopping on Flipkart decidedly go against it. Therefore, through no fault of its own Flipkart loses out on both existing and potential customers. Since much of crimes similar to this go unreported, there aren't many reliable statistics available to gauge the extent of the problem. However, it has become so significant that Flipkart is actively running an educational social media campaign enlightening users of the site fraud detection techniques. They also put out a statement on their blog, an excerpt from which is quoted below:

"The content of the fraudulent messages/calls sent by these individuals or agencies may include references to tempting deals, discounts and offers on Flipkart. These messages may be designed to closely resemble Flipkart's official trademarks including logos, typefaces and brand colours. Some of the fake websites may also have the word 'Flipkart' in the URL or logo." (Stories, 2018).

However, both companies are doing well in India despite the security risks Indians are known to be notoriously price-conscious and the average Indian tends to be price-conscious before everything else, as inferred from a joint study between ASSOCHAM and Resurgent, wherein most of the shoppers. One of the major drawbacks that shoppers brought into the light was the fear of posting their personal and financial details online (ANI, 2018).

IV. Customer Service

We surveyed 99 individuals in the age demographic of 18-25. According to some population estimating organizations - this age group consists of almost 200 million people - who are on average considered to be significantly more tech literate than people both older and younger than them. We asked them a variety of questions aimed to gauge their opinion of arguably India's two largest online shopping sites- and also their complaints with both the sites.

V. Findings

Q1. Where do you prefer to shop from?

S.No.	Options	Percentage
1.	Physical Retail Stores	72.4%
2.	Online Shopping Websites	27.6%

Q2. Which online website do you prefer to shop from?

S.No.	Options	Percentage
1.	Flipkart	20.7%
2.	Amazon	69 %
3.	Other	10.3%

Q3. How often do you shop at these websites?

S.No.	Options	Percentage
1.	Twice a month	17.2%
2.	Once a month	13.8%
3.	Once in two months	20.7%
4.	Only during special occasions	48.3%

Q4. Which interface is more convenient?

S.No.	Options	Percentage
1.	App version	55.2%
2.	Website version (Desktop Version)	44.8%

Q5. Which feature do you find most useful?

S.No.	Options	Percentage
1.	Wishlist	6.9%
2.	Recommendations	10.3%
3.	SMS Alerts	3.6%
4.	Sponsored products	6.8%
5.	Reviews of previous buyers	62.1%
6.	Other	10.3%

Q6. Do you think the 'Reviews' feature is authentic and reliable?

S.No.	Options	Percentage
1.	Yes	25%
2.	No	13%
3.	Maybe	37.9%
4.	Can be improved	24.1%

Q7. Which payment method do you use?

S.No.	Options	Percentage
1.	Net banking	37.9%
2.	Credit cards/Debit cards	20.7%
3.	Mobile wallets	10.3%
4.	Cash on delivery	31%

Q8. What benefit do you look forward to deriving the most from these websites?

S.No.	Options	Percentage
1.	Discounts	69%
2.	Variety	24.1%
3.	Access to Brand new products/features	6.9%

Q9. Which one would you prefer?

S.No.	Options	Percentage
1.	Amazon Prime	86.2%
2.	Flipkart Plus	13.8%

We also asked respondents to justify, in their opinion, the biggest problem of these websites and online shopping in general. Quite a few respondents noted the discrepancy in the image on the website and the actual product that they received. It is also a major reason why almost three-fourths of the respondents, despite being a part of a progressively tech-friendly generation, still prefer turning to traditional offline stores to shop for their needs. As an extension to the aforementioned point, a few users also claimed that they

believe the products that were being delivered to them were old and not fresh, in an attempt to clear the stock pile up. Online stores need to step up the quality assurance processes at their fulfilment centres to make sure the negative image in the consumer's mind does not continue. Flipkart Assured was a step forward in this regard, and it was marketed quite well too.

VI. Interpretation and Analysis

With the revolution in the internet economy and the digitalization in India, it is no surprise that e-commerce culture is here to stay. However, the Indian household still is pretty wary about performing their purchasing on online shopping websites. In March 2017, a study showed that the local retailers stood undeterred by the rise in e-commerce companies, as they generated 91% of the sales revenue (PTI, 2017). There is no denying the fact that a lot of factors provided by the offline stores will always supersede the benefits of the online stores. This is also due to the conservative and the precautionary mindset of the Indian buyers who wish to make a purchasing decision by satisfying all their five senses of feeling, which is only possible at offline stores. On the contrary, in the case of online stores, the buyer can make a decision only by looking at the product i.e. by satisfying only one sense of feeling. Moreover, e-commerce websites have started emerging only around a decade ago, so there hasn't been much market penetration in all the geographic locations in India. There are some towns where Cash on Deliveries are not available due to lack of logistics and channels of distribution.

When we talk about the features and interface of the websites, both Flipkart and Amazon are on par with each other. Amazon offers one-day delivery by charging an extra charge on the bill, while Flipkart First' offers free shipping on all your orders, same day delivery, priority customer service, exclusive offers and priority access to newly launched products and offers, at a cost of Rs 500 per year. (Verma)

However, in the case of customer loyalty and experience, Amazon trumps Flipkart by providing better after sales and customer care services. In 2014, when Flipkart acquired Myntra it resulted in the loss of a substantial amount of existing customer as it shut down the desktop version of Myntra, which compelled the customers to use the App version. Amazon capitalized on this opportunity and gained a huge quantity of potential customers and increased its client base. Moreover, Amazon has collaborated with Zendesk through Amazon Connect which enables it to manage customer call centres and reliable customer engagement at any scale (Services). It also allows the company to effectively address the issues of the customers and also reduces their waiting time. It has also been observed that the advertisements of Flipkart focus solely on the business and trading aspect, while those of Amazon connect with the customers emotionally (Diwali, Rakhi, IPL). Moreover, Flipkart strategies are mostly short-sighted stimulating prompt sales, while Amazon is focused on the habit building of the customers and prepares long term strategies (Padhy, 2017).

For the past two years, Flipkart's centre of attention is enhancing their customer experience through the incorporation of incentives such as categorizing the customers like gold, silver, bronze; and providing benefits added benefits including discounts on shipping fee, faster payouts, exclusive promotions and priority seller support. Furthermore, a cloud telephony platform Exotel has partnered with Zendesk to provide customized customer communication through

SMS and voice calls, to a number of Indian startups including Flipkart (Vignesh, 2017).

Online stores, where the customers have limited considerations to support their decision making, the Reviews feature to play a significant role to help them judge, rate, and grade the products and provide clarity in their purchasing decision. One of the most important steps towards confidence building, include assuring the genuineness of the Review feature which can also be verifiable. Recently, these shopping websites have been dumped with humongous fake and fraudulent reviews. These reviews are posted by third parties who are hired by the sellers to promote their products in return for financial incentives. Earlier this year, both Flipkart and Amazon received a lot of complaints regarding these fake reviews and bogus products especially electronics, that caused distress among several customers. In April 2018, the Indian Cellular Association (ICA), asked the Commerce and Industry Minister Suresh Prabhu to take action against these websites (Sawai, 2018).

Although prior to these complaints both the websites adopted various measures to eliminate these fake reviews, but these tools were unable to provide 100% authenticity to the customers. Flipkart incorporated both scientific and manual approaches to detect fake reviews and ratings through the application of customized algorithms and by tracking the IP address of multiple review sources. Similarly, Amazon collaborated with ReviewMeta.com and FakeSpot.com to analyze reviews by URLs to improve the customer's shopping experience. However, there was a need for much more stringent mechanism to put an end to these fake reviews.

In 2015, when a Chinese shopping website, Taobao exposed the fake reviews issue on various social media platforms, it was observed that several fake review websites in China had formed at fake review chain. Several researchers and innovators came together to develop a proper mechanism to hunt these fake review chains and created a strategy called the collaborative hyping detection model (CHDM), which could identify spam comments generated by the Spam Reviewer Cloud and detect products that use evolving spam strategies for promotion. The websites can then track these fake review chains and put an end to their unscrupulous acts. Various experiments were conducted to test the practicability and effectiveness of this model, and the results were positive (IEEE Computer Society, 2017). This model can be incorporated by Flipkart and Amazon with regard to the framework of the Indian laws and regulatory policies that these websites operate within. Along with this mechanism, these websites should send follow-up emails to the customers, provide certifications to authentic reviews and give them the best experience possible.

Customers are undoubtedly the main essence of any business, and building customer confidence and loyalty are the main drivers of a long term sustainable business. This is also true in the case of E-commerce businesses. A well established and efficient Customer Relationship Management enables the organization/websites to manage their customer base, communicate with their existing as well as potential customers, and improve their overall relationship with the customers. Today more and more e-commerce businesses are focusing more on upgrading their customer service than boosting their sales. From the survey conducted, on asking the customers if there were areas and aspects of these websites that

needed improvement, most of them gave suggestions to refine certain features of the websites by providing better filters and recommendations; a much more organized and effective after-sales service centre, enhancement in the quality of the products and better accessibility of the website. These websites need to run a background check and assess the track record of the suppliers and conduct verification of the authenticity of their products to ensure they meet the quality standards.

VII. An international example of a successful approach to customer service

Zappos stands undefeated when it comes to mastering in excellent customer service till date. It started off as a shoe retailer and on its way to expand and become one of the largest online clothing retailers in the world; it realized the power of building strong customer relationships. While other websites like Amazon used the technological approach to provide customer service, Zappos used a perfect mix of both technological and human interaction to develop better customer relations and this gave an edge to the company over others. The Customer Service Model of Zappos includes a Customer Loyalty Team which prioritises connecting with the customers to only provide them with the required service but to also build friendly relations with them. They called it "Wowing" their customers. Also, they have replaced the automaton with live customer servers to reduce the waiting time of the customers. Furthermore, the company offers free shipping and return which acted as one of the forces to retain existing customers and attract potential customers (Warren, 2018). This model can be replicated by Flipkart and Amazon to enhance its customer service and win their customer's confidence.

VIII. Long term strategy- loyalty programs

Furthermore, as we talk about the ways to retain customers and attract potential customers, Amazon definitely came forward as a pioneer with its groundbreaking loyalty program called the Amazon Prime. Launched in 2005 as a program to provide free and prompt deliveries as a nominal fee of \$79, it has expanded its operations over the past years by providing free access to content-heavy services such as Prime Video, Prime Music, Prime Reading and Prime Air to the members of Prime. Today Amazon has built an empire having around 100 million memberships. In India, an annual subscription is priced at Rs 999.

In 2018, Flipkart came up with an indigenous response and decided to combat Amazon Prime by introducing its own benefits program with Flipkart Plus. One of the striking features of this program that provided an edge over Amazon Prime was that along with providing benefits like free and fast shipping, early access to sale events and better customer service, its membership was free of cost. The membership of Plus was based on the number of coins earned which depended on the quantum of shopping done by the customer. A coin is credited to the customer's account for every Rs 250 spent on Flipkart, and to gain membership of Flipkart Plus customer should earn a minimum of 50 coins. Moreover, Plus also has a "Plus coin" scheme which the customer is rewarded with for each of their orders placed on Flipkart Plus. These coins can be used to avail a number of services such as free subscription of Hotstar, Zomato Gold, Café Coffee Day and many more. It is smart of Flipkart in the way that it does not have to invest large sums of money into content creation for original shows as Amazon is doing, but that same reason is also why Amazon Prime is so massively popular in comparison to Plus according to our focus

group results. However, this is a measure for the long run, so it will definitely take time to get off the ground. Flipkart however, needs to incorporate a proper USP into Plus to make it more viable for the average Indian consumer so that they can tackle Amazon in the only area of customer retention where they are at a clear disadvantage.

IX. Conclusion

The paper observes certain security issues that continue to exist in the online world of trade which still keep many Indian consumers attached to the physical stores. Internet and smartphone penetration has exploded in India in the last few years, which means that e-commerce sites have an ever-increasing mammoth audience that they can sell to. However, we conclude that despite Indians preferring lower prices to all other things, the firms must continue to raise their customer service standards, as a lot of Indians continue to depend on word of mouth before making their decision to shop online.

X. Discussion

The paper provides hindsight to present managers the current view that the college students hold towards e-commerce and explains why they think so. Further, a firm expanding the scale of its operations requires practical case studies of problems that they might face in the future considering the uncertain nature of pitfalls on the internet platform. This paper looks in depth at the problems that big firms such as Amazon and Flipkart have faced and continue to face and how they overcome them.

Moreover, this paper also considers other examples of businesses that have done well in the field of customer retention. A customer-oriented approach such as that of Zappos allows a firm to build long term strategies and keep its customers close to them in order to avoid the negative press that comes from being scammed by other unscrupulous elements and build a better long lasting future for themselves.

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