E-commerce transactions, particularly in the business-to-consumer (B2C) domain, are on an upswing in India, as both businesses and consumers realise the benefit of online transactions. Growing Internet (especially broadband) connectivity is fuelling growth for online services. The roll-out of broadband services by many telecommunication service providers in hundreds of cities and towns across India has given a big boost to e-commerce.

At the other end of the value chain, public and private sector banks in the country today offer online banking facilities to their customers, along with a clutch of other services including settling of utility bills, taxes, third-party payments and other transactions.

The relative ease of online payments – through credit cards or through Internet banking facilities – has enabled rapid growth in e-commerce transactions. The huge investments made by banks in ensuring secure online transactions have added to the comfort level of consumers. As portals and Internet sites adopt enhanced security features, e-commerce transactions are on the rise.

The International Market Research Bureau (IMRB), a leading market research consultancy, recently released a report on India’s e-commerce potential. According to ‘Internet in India (I-Cube)’, the report focussing on the Indian e-commerce market in 2008, there are several verticals:

* Travel, comprising travel aggregators, tour operators, hotels and railways
* E-tailing, comprising online retailers and online auctions
* Classifieds, comprising jobs, matrimony, property, automobiles and the general category
* Paid content subscription, comprising research, articles and exclusive videos
* Digital downloads, from Internet to mobile phones

“Based on our discussions with various stakeholders, the size of B2C e-commerce industry for the year 2006-07 was computed to be around US$1.5 billion,” says the report. It predicted a 30 per cent year-on-year growth for the following year, with revenues of about US$2 billion. There are about 79 million active online buyers in India, of which 80 per cent buy travel products.

The online travel industry is the largest contributor to the B2C e-commerce segment, estimated to be around US$1.5
billion by the end of 2007-08. The entry of low-cost carriers has given a boost to online travel portals. These airlines sell their tickets online to consumers, bypassing intermediaries to cut commission costs. E-commerce witnessed exponential growth in India in 2008, particularly in online ticket transactions. Today millions of consumers are buying air, train, bus and movie tickets over the Internet.

The largest player in e-commerce today is the Indian Railway Catering and Tourism Corporation (IRCTC), a public sector undertaking fully owned by the Ministry of Railways. Its online ticket booking facility is a mega hit with passengers, even with those who do not have Internet connections at home. For this segment, or those who do not have access to credit cards or online bank accounts, IRCTC has appointed agents across the country to facilitate online bookings.

With the IRCTC pushing electronic booking of train tickets and scores of online travel portals entering the business, the share of tickets sold online in the total revenues of Indian Railways doubled to nearly 30 per cent in 2008-09. The corporation, which sold 18.9 million tickets online during 2007-08, more than doubled the figure the following year. The estimated gross sales for 2008-09 were at US$730 million, making IRCTC the largest contributor to e-commerce in the country.

The entry of travel portals such as Cleartrip, Ezeego1 and Yatra into the train tickets booking business has given customers more options. Although travel portals together account for a minuscule chunk of the overall e-bookings of the railways, they are popular with the relatively affluent travellers. For instance, both Cleartrip and Yatra have an AC to non-AC bookings ratio of 70:30, while for IRCTC, the ratio is the opposite.

In the airline sector, travel portals such as Makemytrip.com (one of the oldest), Cleartrip, Yatra, Travelguru, Arzoo (started by Hotmail co-founder Sabeer Bhatia), Ezeego1 and ixigo, among others, are the preferred medium for many to book tickets.

With structured funding available, we can also foray into hotel, rail and bus bookings.

Vinay Gupta, CEO, Viaworld.in
The growing business of travel portals continues to attract funding from venture funds. Bangalore-based Viaworld.in, a full-service travel company, which was founded by a team of engineers in 2006, recently raised US$5 million from NEA Indo US Ventures, a venture capital firm. “With structured funding available, we can make investments and also foray into hotel, rail and bus bookings,” says Vinay Gupta, CEO, Viaworld.in.

Its travel network is spread across 290 cities and it issues 5,000 tickets a day. With over 3,000 agents registered with it, the company has one of the widest networks in India today. The company was also the first to introduce mobile-based search for fare details and ticketing on all airlines and reservation kiosks.

The success of travel sites has spawned a whole new range of portals with e-commerce as their business model: FlipKart.com (online book purchase), Askaila.com (information search) and redbus.in (bus ticket booking) have been launched by entrepreneurs from India’s IT hub – Bangalore, all of whom have been successful in securing funding from private equity firms.

Falling under the category of e-tailing (an online form of retailing) these portals are witnessing robust growth. According to the IMRB report, it grew from US$180 million in 2006-07 to US$230 million a
A ONE-STOP ONLINE TRAVEL SHOP

Since its launch in January 2006, Yatra.com, a leading travel portal, has carved out a niche for itself as a one-stop online travel shop, one of the fastest growing in the industry. The total value of ticket transactions recorded by it shot up to US$250 million in 2008, from US$100 million a year earlier.

When co-founder and CEO Dhruv Shringi (who has grown the company from three members to 700 at present), decided to ‘take that leap into the unknown’ over three years ago, he decided to do things a little differently from other online companies such as Cleartrip and travelguru, which started operations around the same time.

Instead of relying solely on venture capital funding – Norwest Venture Partners and Intel Capital are among its investors – Yatra brought on board strategic partners such as Reliance Capital and the TV 18 group to establish the credibility of the brand. Shringi spoke to Aarti Gupta about where the online travel business is headed in India, and whether the slowdown is adversely impacting the industry.

Do you think e-commerce has established itself in India? What kind of growth do you foresee for travel e-commerce in the coming years?

Travel e-commerce is the single-largest category, accounting for 70 per cent of all e-commerce. At US$1 billion of business grossed last year, online travel accounted for 6 to 7 per cent of the total travel market. Though it is still a predominantly offline sector, growth has been impressive 25 to 30 per cent annually from a negligible base in 2005, when it was an extremely fragmented industry.

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and explosion of broadband. By 2015, we should be about 20 per cent of the total travel market.

E-commerce should take off in a big way in India, because of limited physical infrastructure. There are issues, though, of poor last-mile connectivity here.

What kind of growth has your company seen over the last two years?
We have grown two-and-a-half times in the last two years, the fastest in the industry. Calendar year 2007 was our first complete year of operations and our total transactions were worth US$100 million. In 2008, our transactions were worth US$250 million.

What we are trying to do is to migrate the customer, who may be a first-time flyer or credit-card user, to more value-added products. Our ticket-size is increasing as a result. So we try to get a domestic flight user – which is the mainstay of the business – to graduate to bookings for hotels and holidays within the country and abroad.

Are e-retailers enhancing their investments in new technology to boost efficiency, speed and security?
Today’s users are the early adopters of e-commerce and for the industry to thrive, the buying experience has to change. Hotels are a bespoke product unlike booking for flights. What we have done, as a result, is to make online buying easier. We were the first ones to shoot videos of more than 1,000 budget hotels, plotting these on maps and co-relating these to points of tourist interest and to get feedback from actual users.

Another ‘first’ we have introduced is to have tied up with hotels to allow customers to pay later at the hotels; they need to pay only 10 per cent of the deposit while booking online. All these e-features involve investments in technology. We have UK-based CyberSource, a leading provider of secure online payment and risk management solutions, looking into our Internet security mechanisms. Execution technology and user interface are of critical importance in e-commerce.

How has the slowdown impacted business for online travel companies like yours?
My view is that consumers have financially not taken as bad a hit as consumer confidence has. Holidays are moving, for example, from Europe to the Far-East; so ticket size is down from US$2,000 to about US$950. Passenger numbers are holding up but not revenue.

Last year, 100 million people made 400 million trips on the domestic circuit, and while that may not change significantly, inbound traffic has definitely slowed down.

How much of Yatra’s business comes from overseas?
We still derive almost 80 per cent of business from domestic travellers, but the overseas business, until the slowdown, was growing 10 to 15 per cent month-on-month. We should be able to see that segment contribute about one-fourth of the business by September 2010.

Do you see e-commerce establish itself in India? Will there be rapid growth over the coming years?
India is perhaps in the initial wave of e-commerce as far as the long-tail merchant is concerned. (Long tail is an e-commerce term, referring to items that sell in low quantities, but overall generate large revenues). Though corporate India, especially the manufacturing industry, has embraced e-commerce by automating large parts of its supply chain, a large part of the consumer side of the service economy is not automated.

Newer start-ups are realising that there has to be a significant difference in the value proposition of products and services sold online – in terms of price, ease of purchase, multiple payment mechanisms and post-sale customer service. This will definitely increase consumers’ trust in e-commerce transactions and will improve online transactions. We see huge potential and rapid growth in ecommerce over the next decade.

Are consumers confident about the security of these transactions?
Consumers today are much more confident and comfortable with security issues of conducting transactions on the Internet. Credit card companies have added extra layers of passwords to enhance security. I would say online transactions’ security is not such a big issue anymore.

Are e-retailers enhancing investments in new technology to boost efficiency, speed and security?
A mature market like the US has understandably realised the basic tenet of e-retailing – transactions alone do not help; relationships do. The technology, efficiency, speed and security aspects of Indian e-retailers cannot be faulted – we are almost as good as e-retailers elsewhere in the world. Focussing on the back-end – in terms of fulfilment and customer service will probably be far more beneficial for Indian players than any online technology adoption.
year later. For instance, FlipKart.com, a Bangalore-based online book shop, is growing at a rapid pace, and expects sales of US$4.2 million this year, up from just US$1 million in 2008. The firm was set up in 2007 by Sachin Bansal and Binny Bansal, computer science graduates from the Indian Institute of Technology (IIT), Delhi, who worked for a while with Amazon India.

“We started FlipKart.com because we felt the need for a good online book store,” says Binny. “E-commerce is one of the toughest sectors to get into in India.” According to him, the market for online book shopping was around US$5.25 million in 2007-08 and is growing rapidly.

Another buoyant segment is online classifieds, which saw revenues of US$170 million in 2007-08. Similarly, online subscriptions are also witnessing brisk growth, though from a smaller base. It saw a 50 per cent growth in 2007-08, touching revenues of US$6.3 million.

Along with the PC-based Internet access, mobile-based Internet access is expected to drive growth of the B2C and consumer-to-consumer (C2C) e-commerce industry. With an increase in the number of mobile subscribers, there has been a rise in digital downloads to the mobile phone. With the surge in the usage of GPRS-enabled mobile handsets, the size of the digital downloads market increased from US$35 million in 2006-07 to US$53 million at end of 2007-08, according to the IMRB report.

Analysts say the next phase of growth in e-commerce would be marked by localised product offerings and making content available in various Indian languages.

India’s growing e-commerce business is also attracting international players. For Alibaba.com, China’s top e-commerce company (which sells everything from automobiles to fashion accessories and machinery to toys), India is now one of the fastest-growing international markets. According to Jack Ma, founder of Alibaba, e-commerce has not been affected by the global financial crisis.

“In fact, e-commerce in India and China will grow even faster because people will

With its huge growth potential, India is a very important and strategic market for Alibaba.com.

David Wei, ceo, Alibaba.com
What kind of growth has your company witnessed over the last two years?
We have grown multi-fold in the last two years. The gross bookings this year are 500 per cent higher than the previous year, when it was about 900 per cent higher than the year before.

Do you see e-commerce establish itself in India? Will there be rapid growth over the coming years?
I cannot say that e-commerce is established in India yet. However, the good news is that it is growing. Many people are now using facilities such as Internet banking, which, in turn, makes customers comfortable with e-commerce transactions. Broadband has to be made accessible and affordable for e-commerce growth.

Are consumers now confident about the security of these transactions and is that the reason for the spurt in online deals?
Consumers are certainly more comfortable than they were earlier. One reason for increase in online deals is that companies are increasingly adopting the hybrid (online, offline and mobile) model for sale and fulfillment.

Are e-retailers enhancing their investments in new technology, to boost efficiency, speed and security?
I guess e-retailers are maintaining status quo - given the economic situation. I am not aware of increased spends in new technology. Some of the changes that we are seeing on the look and feel of the websites of e-retailers are a result of programs that were triggered off in the past.