

Cost Optimization in E-Commerce Industry: An Analytical Study

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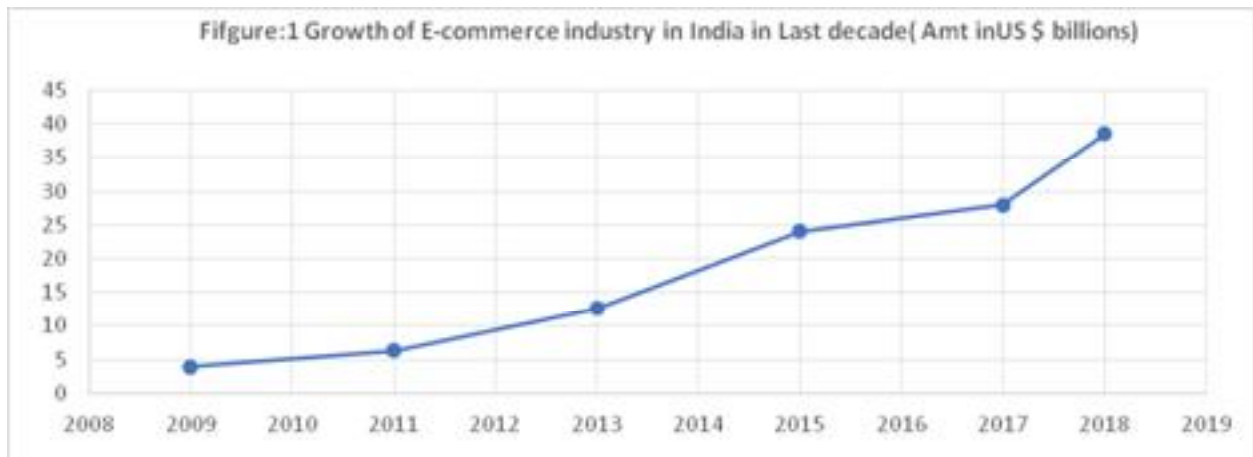
ABSTRACT

The e-commerce has transformed the way business is done in India. The Indian e-commerce market is highly potential segment and is expected to grow to US\$ 200 billion by 2026 from US\$ 38.5 billion as of 2017. Much growth of the industry has been triggered by digital penetration facilitated by internet and smart phone. The exploded increasing internet and smartphone penetration. India will have some 1.2 billion mobile phones by 2030 The ongoing digital transformation in the country is expected to increase India's total internet user base to 829 million by 2021 from 604.21 million as of December 2018. Ecommerce is highly competitive and potential industry. Due to tough competition maintaining profit margins and pricing products is one of the great areas of concern for the ecommerce industry. The aim of this research is to study the various strategies to optimize the cost in the ecommerce industry. Based on the Extensive review of literature and interaction with the marketing professionals, the cost optimization strategies in ecommerce industry has been segregated in three categories i.e. pricing strategy, Sales boosting strategies and cost reduction strategies. There is a huge potential in India for the growth of ecommerce industry due to digitization. Base on the primary discussion and review of literature the research has designed the Ranking matrix for the cost optimization strategies and ranked the various cost optimization strategies which will help the ecommerce companies in boosting their revenues and profit margins.

Keywords: E-commerce, cost optimization, digital penetration

1. INTRODUCTION

The e-commerce has transformed the way business is done in India. The Indian e-commerce market is highly potential segment and is expected to grow to US\$ 200 billion by 2026 from US\$ 38.5 billion as of 2017. Much growth of the industry has been triggered by digital penetration facilitated by internet and smart phone. The exploded increasing internet and smartphone penetration. India will have some 1.2 billion mobile phones by 2030 The ongoing digital transformation in the country is expected to increase India's total internet user base to 829 million by 2021 from 604.21 million as of December 2018. India's internet economy is expected to double from US\$125 billion as of April 2017 to US\$ 250 billion by 2020, majorly backed by ecommerce. E-commerce startups have seen around 30% growth in investments the last five years. 75% of these investments have been in e-marketplaces, while only 25% of the investments have been in e-commerce enabling ventures. In 2018, e-commerce startups in 72 countries raised \$76.9 billion from 1401 rounds. Eastern Asia, comprising of China, Japan, Hong Long and South Korea, topped the list recording the highest growth in the last five years. Not just that, there has been a 68.45% annual increase in the average investment amount raised as well in the same region for the given period. India's E-commerce revenue is expected to jump from US\$ 39 billion in 2017 to US\$ 120 billion in 2020, growing at an annual rate of 51 per cent, the highest in the world. As per the sources India will be the third largest consumer Economy



(Source: IBEF)



(Source: IBEF)

2. OBJECTIVE OF THE STUDY

Ecommerce is highly competitive and potential industry. Due to tough competition maintaining profit margins and pricing products is one of the great areas of concern for the ecommerce industry. The aim of this research is to study the various strategies to optimize the cost in the ecommerce industry.

3. RESEARCH METHODOLOGY

The study is based on secondary data and strategies are identified through study of extensive review of literature and discussion with selected marketing professionals who are working in the ecommerce business.

4. REVIEW OF LITERATURE

Devendra et. al., (2012) defined that electronic commerce, commonly known as ecommerce or eCommerce, consists of the buying and selling of products or services over electronic system such as internet and another computer network. Waghmare (2012) pointed out that many countries in Asia are taking advantage of Ecommerce through opening of economies, which is essential for promoting competition and diffusion of Internet technologies. Zia and Manish (2012) found that, currently, shoppers in metropolitan India are driving ecommerce: These consumers are primarily buying travel, consumer electronics, and books online. And although spending per online buyer remains low, some 59% of online consumers in metropolitan India already make purchases online at least monthly. Ruckman (2012) suggested that Internet research becomes an increasingly important tool during the purchasing process; more marketers are seeing the advantages too. It's a win win situation Moreover, Aditya Kulkarni, Product Manager at Google (Jan 15, 2013) pointed out that India maybe behind the curve on the numbers, but they are growing fast, and when they reach the 200-300 million online shoppers, you can safely assume that there will at least be as many e-Commerce players

in India as there are in China. Wagisha Jain (2015) E-commerce is the procedure of doing business through computer networks and Internet. In this Paper, Researchers have analyzed the various factors impacting the growth of E-commerce such as technology, market, supply chain and security. D. K. Gangeshwer(2013) analysed the conceptual knowledge of search engine marketing (SEM) or ecommerce, literature review, current and future aspects of e-commerce in Indian context. Research discussed about the top motivator factors of shopping online. The present development would be a valuable addition to researcher and academicians; and useful theory for practitioners, advertisers, and entrepreneurs. With the ability to track customer's activities, mapping their social networks and come close to them proactively, present personalized offerings and administer individual lifecycle has changed the E-commerce over the past few years. This paper divulges that E-commerce is restricted and complex practice which involves the utilization of a focused cross-functional team to undertake a variety of barriers along the way. various Factors Affecting E-commerce

Some of the major developments in the Indian e-commerce sector are as follows:

- As per Morgan Stanley report India E commerce market will top \$200 billion by 2026
- Flipkart, after getting acquired by Walmart for US\$ 16 billion, is expected to launch more offline retail stores in India to promote private labels in segments such as fashion and electronics.
- In September 2018, Flipkart acquired Israel based analytics start-up Upstream Commerce that will help the firm to price and position its products in an efficient way.
- Paytm has launched its bank - Paytm Payment Bank. Paytm bank is India's first bank with zero charges on online transactions, no minimum balance requirement and free virtual debit card
- Limited access to china makes the India most preferred destination for Amazon and google
- Google is also on the verge to enter into the E-commerce space. India is expected to be its first market.
- Reliance retail is going to launch online retail this year. Reliance Retail Ltd is already testing its food and grocery app among its employees before the commercial launch of its e-commerce venture. In order to reach the 95% of the Indian population, the company was said to be setting up ecommerce kiosks at Jio point stores to allow potential buyers to place orders online with the help of the store executives.
- E-commerce industry in India witnessed 21 private equity and venture capital deals worth US\$ 2.1 billion in 2017 and 40 deals worth US\$ 1,129 million in the first half of 2018. The largest investment in April 2018 was made by Softbank invest USD 400 million for a 21 per cent stake in Paytm Mall.
- Google and Tata Trust have collaborated for the project 'Internet Saathi' to improve internet penetration among rural women in India.

Table: 1 Advantage India in Ecommerce Industry

Advantage India	Potential Market	<ul style="list-style-type: none"> ❖ Fastest growing market ❖ Growing at an annual rate of 51% ❖ Demographic dividend
	Available Opportunities	<ul style="list-style-type: none"> ❖ Growing PE and Venture Fund ❖ Supportive Ecosystem ❖ Increasing internet and mobile user
	Government Policies	<ul style="list-style-type: none"> ❖ Political stability ❖ Favorable Government policies ❖ 100% FDI are allowed
	Increasing Investments	<ul style="list-style-type: none"> ❖ Inclination towards digitization ❖ Growth in PE and Venture funds ❖ 100% FDI through automatic route

Source (IBEF report)

5. COST OPTIMIZATION STRATEGIES IN E-COMMERCE

Based on the Extensive review of literature and interaction with the marketing professionals, the cost optimization strategies in ecommerce industry has been segregated in three categories i.e. pricing strategy, Sales boosting strategies and cost reduction strategies

**A. Pricing Strategies: Key facts for the Pricing strategies of E commerce products**

- ❖ 75% customers search the prices in advance before the purchase of the product through e commerce platforms.
- ❖ As per google survey 90% customers are master of grabbing the deals
- ❖ Price comparison engines plays an important role in e-commerce marketing stack, as they constitute around % 20 of e-commerce traffic for all sorts of product categories

The most popular pricing approach for the ecommerce industry are

I. Cost based pricing approach: A company can set the enquired margin over the cost, but this approach has two risk

- a. A company can undervalue its products
- b. A company can lose its competitiveness

That's why cost-based pricing should be used as basis along with other strategic pricing approaches and should be applied together

II. Market-based pricing or competitive pricing

Market competition should be one of the major key consideration for the e-commerce company. It can not only focus on its costs and the desired profit margins. It shouldn't ignore the market competition as well. customers care heavily about the price and they compare the prices with your competitors all the time.

In a competitive pricing strategy there is always a danger of opening a race to the bottom contest with your rivals which no one would want to enter in. The major and often neglected benefit of market-oriented pricing with solid competitive pricing intelligence is that it sometimes shows companies exceptional price increase opportunities where the price might be low versus the competitors. This mostly happens when a company has cost advantages versus its competitors and when identified a price increase can be applied while still holding the competitive edge.

B. Cost Reduction strategies

- I. Minimize PCI (Payment card industry) compliance expenses Maintaining, and validating PCI compliance is an expensive and time-consuming effort for most merchants
- II. Reduce the occurrence of fraudulent transactions as this puts an extra burden on the organization and erode the profitability of the business. Customer due diligence should be done efficiently so that such incidence can be avoided.

- III. Decrease interchange fees Corporations are increasingly taking advantage of online channels for procurement
- IV. Use data more intelligently and use it for multipurpose. Plan for the low-cost data capturing methods.
- V. Reduce Product Returns by giving better display, clear review and detailed description
- VI. Negotiate with suppliers so that cost of acquiring will be low, and it will add more to the margins of the business.
- VII. Negotiate Lower Credit Card Processing Fees and seek more positive collaboration with the payment banks

C. Sales Boosting Strategies

- I. Multi-channel selling: Balancing the operation and logistics to cater the needs of increasing crowded market is one of the biggest challenges. However, this increasing crowdedness is giving potential to expand and make more profit. Recent studies have shown that online buyers are using multi platforms. Many customers are tied to one platform and attempting to dislodge them would be an uphill task. Instead, invest the time and effort to make your products available on as many platforms as you can.
- II. Efficient payment processing and Checkout Process One of the biggest causes of customer aborting the transaction is fuss with the checkout process. The payment process is so crucial to select the option that offers a smooth and secure system. Design a process with as few hoops as possible for your customers to go through before completing their orders. All the cost should be disclosed properly before moving to make the payment
- III. Improve Customer service As per Hendry Ranawijaya, CEO of Vape Active. "With eight in 10 customers saying they'd switch to a competitor due to poor customer service, businesses have to train their staff intensively to respond to queries in a helpful, human way," "One simple step is to feedback convenient by opening your social media handles to getting messages and publishing multiple channels through which customers can reach out." In addition to that, businesses also must encourage their customers to use the feedback channels by reaching out to them occasionally and asking them to share their thoughts. Some e-commerce platforms are also coming with digital chat
- IV. Collaborate with Others: Due to huge transformation in e-commerce landscape collaboration has become the buzz word. Outreach multifold, the credibility of the business increases, enhancement of the creativity are the few advantages of collaborating with other in the e-commerce business.
- V. Focus on your target audience: Having extra information about the buyer persona will always be an add on feature for your business, because you can target your audience more accurately. Improve the product display

CONCLUSION

The growth in e-commerce sector will also boost employment, raise standard of living, increase revenues from export, increase tax collection and provide better products and services to customers in the long-term. There is a huge potential in India for the growth of e-commerce industry due to

Based on the primary discussion and review of literature the research has designed the Ranking matrix for the cost optimization strategies.

Table-2: Ranking Matrix for the cost optimization strategies

Rank/Strategy	Pricing Strategy	Sales boosting Strategies	Cost Reduction Strategies
Rank 1	Competitive marketing pricing	Multi-channel selling	Negotiate with suppliers
Rank 2	Dynamic pricing	Improve Customer service	Reduce Fraudulent transaction

Rank 3	Value based pricing structure	Focus on your target audience	Reduce Payment processing fees
Rank 5	Behavioral pricing	Collaborate with others	Less Product Return
Rank 6	Cost based pricing	Optimize as per mobile	Minimize PCI

ROAD AHEAD

The e-commerce industry has been directly impacting the micro, small & medium enterprises (in India) by providing means of financing, technology and training and has a favorable cascading effect on other industries as well. The Indian e-commerce industry has been on an upward growth trajectory and is expected to surpass the US to become the second largest e-commerce market in the world by 2034. Technology enabled innovations like digital payments, hyper-local logistics, analytics driven customer engagement and digital advertisements will likely support the growth in the sector.

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