RQ- What are the key factors that prevent adoption of online distribution channels by small and medium enterprises (SMEs) specifically in the Indian ethnic wear industry when expanding into emerging markets?

ABSTRACT

Small and medium sized enterprises have a large contribution to the economy and its growth of GDP. However, the emergence of advanced technology adoption are restricted to and targeted usually for large-scale companies and are not used by a majority of small firms in the Indian market. To throw light on this issue, the study focuses on the reasons why these Small and Medium sized enterprises (SMEs) prevent from using technologies and ecommerce to expand their business organically.

The Distribution channels have changed majorly with the arrival of online channels, and many firms have built have built an omni-channel by using both online channels and offline in-store distribution channels. However, these small enterprises face dif-faculties expanding their distribution through online means due to several reasons that will later be found in study.

INTRODUCTION

The use of e-commerce business by small and medium sized enterprises(SMEs) has been a topic of research for the past 15 years,and this is due to increased popularity with over sales topping $800 billion. With references to the recently added ARTS release of 2020, the e-commerce world has grown in terms of sales by $244.2 billion or 43% in 2020, rising from $571.2 billion in 2019 to $815.4 billion in 2020. The interest in this topic is because of the emergence and popularity of online business due to its diverse range of benefits and new opportunities. In India there are various businesses that prevent the use of e-commerce platforms to grow organically . These businesses are typically small and medium enterprises that lack the understanding and working of online distribution. These businesses in India provide a large contribution in the economy and are amongst the target of governments online transformation programs. The use of technology can help organizations reap the benefits of economies of scale as they are able to utilize the available resources better. Additionally, e-commerce helps businesses to reach a larger customer base worldwide However ,the emergence of advanced technology use is only restricted to large -scale companies and is not used by SMEs. To address this issue, this study unboxes the reasons why these small businesses in India prevent diversifying into ecommerce business distribution and instead only use traditional in-store offline distribution. There have been many studies in the past

that primarily focus on this issue, however no study has yet focused on the fashion industry of ethnic wear in India that involves small scaled vendors selling sarees, suits and lehengas.

The Indian market of ethnic wear is not just growing domestically and nationally but also has shown popularity in the international markets, with increased popularity for traditional clothes.There are various famous designers and companies in India that use online websites to distribute their inventory. On the other hand, many small vendors in multiple cities of India only use in-store distribution. This is the reason why many of these vendors have no presence nationally and only are known to customers of their respective cities.

This research primarily focuses on the factors that prevent these vendors from selling sarees, lehengas etc online and has found some specific complications faced by vendors of small and medium sized enterprises operating in traditional ethnic wear industry. These factors are briefly explained in the results and analysis section of the paper. To conduct this research, the paper uses qualitative data to analyze the factors , wherein the experts of the ethnic wear industry were interviewed and the results were then formatted. The candidates chosen for the interview had major experience in terms of sales in this industry and have been operating in the traditional distribution (in-store) for over 20 years . We have specifically chosen this sector because of its contribution to the gross domestic product overall in india and due to its increased popularity in India and worldwide too. More than the jewelry sector in india, the traditional clothing sector is

growing in the wedding industry as it has become a symbol of status. Post the covid pandemic, this ethnic wear sector has grown to 40% to its previous sales revenue. Due to this both small and medium sized enterprises are able to benefit in terms of sales and consecutively profits.

LITERATURE REVIEW

- **Online Vs Traditional Distribution**

The traditional distribution channel involved the in-store distribution to customers , wherein the customers used to walk in and purchase their requirements. However due to the emergence of e-commerce there has been increased popularity of diverse distribution via online means. The Indian e-commerce market was worth more than 55 billion dollars in gross merchandise in 2021 and is estimated to go uptill 350 billion dollars.The distribution industry has matured and store expansion has slowed since the 1990s, requiring distributors to expand the range of possible distribution channels in the consumer market (Schoenbachler and Gordon, 2002). Online channel provides a wide range of consumer reach, flexibility and lower set up cost as compared to the traditional in-store (offline) distribution. Additionally researchers found that consumers have become more adaptive to ordering their purchase through websites since the covid-19 pandemic. This has resulted in an increase in values of e-commerce businesses like Amazon, Alibaba , myntra etc.

This has been possible due to increased infrastructure globally allowing firms to take advantage of ease of business like better delivery systems etc .Using the Internet as the distribution

channel can reduce not only the delivery cost substantially, but also ensures instant delivery of products/services(Min Ho Ryu a). In addition to that, it is proven to be far cheaper as it does not require any physical cost, store running and maintenance costs too are eliminated. However The online distribution channel has its drawbacks too. It, faces problems such as in-sufficient after-sales services, consumer distrust of electronic payment systems, and privacy risks, have not completely replaced offline dis-tribution channels (Hammond et al., 1998).

This specifically is a major problem in the Indian textile industry wherein features of clothes like their color and quality are not properly communicated. Taking this aspect a bit niche , the ethnic wear in textile industry of India wherein sarees and women lehengas are sold, face problems explained above.Further many vendors, typically small scale find it immensely difficult to diversify to e-commerce due to lack of technical knowledge and required team.

Further online distribution channels, also face problems such as insufficient after-sales services, consumer distrust of electronic payment systems, and privacy risks, have not completely replaced offline distribution channels (Hammond et al., 1998).As a result many retailers have turned to multi channel or omni channel distribution and have discarded single channel catalogs methods. The change in customer patterns and the unforeseen economic crisis during the corona pandemic, omnichannel marketing has emerged in terms of popularity. Cuiet al. (2021) was the first to define omnichannel marketing officially as the synergisticmanagement of all customer touchpoints and channels (internal and external), to make sure that the customer experience across channels, as well as firm-side marketing

activity,including marketing mix and marketing communication (owned, paid, and earned), is optimized for both firms customers. This emerges a new era for omni channel distribution This enables the customer to decide his preference of shopping and allows the business to reach a wider target market. The omni-channel retail

distribution was made in regards to changing consumer expectations. With Availability of the Internet at any time through various digital devices, customers want to be

able to use online, offline, and mobile channels and touchpoints interchangeably and simultaneously when shopping (Verhoef, Kannan, and Inman 2015).

A multichannel strategy enables real interaction, allows customers to purchase across channels anywhere at any time, providing with a USP, complete, and fascinating shopping experience taking down the barriers between channels. 2017).Due to the development of the

In the digital world, this way of distribution of both online and offline (in-store method) has become a game changer in the retail industry,changing the traditional independent purchasing route through a seamless universal purchasing model (Bell, Gallino, and Moreno 2014).

However businesses need to understand the additional costs of doing omni channel distribution and should do a cost benefit analysis wherein only if the new strategy benefits the business , is taken into consideration

(Murillo). Many vendors who started omni channel distribution in the ethnic wear industry of India complained about the low response of consumers, purchasing through online means while the in- store (traditional) approach remained outstanding. This was due to perceptions of consumers that clothes such as sarees and suits cannot be bought online as they lack physical touch and until worn or having to try the designs cannot be bought. In addition the omni channel and diversification via online means resulted for some vendors to gain nothing and also lose some of the revenues through offline media due to lack of focus through one way.

- Small And Medium Enterprises

The emergence of technology has viciously given benefits to large scaled enterprises around the globe,however small and medium enterprises still face major difficulties in adapting to this change. These enterprises have a very long and extremely slow process in e-commerce adoption and this is especially slower in developing countries than in developed ones.
There are several barriers that result in this, which are briefly explained below.

- **Technological barriers**- small and medium enterprises (SMEs) find it very difficult to understand and adapt with new technology due to lack of expertise and knowledge. This acts as a barrier as these enterprises fail to know the working of e-commerce platforms. This can be a result of lack of skills , experts and high costs of adapting to new change which does not provide a guaranteed success.
- **Lack of Funds-** These enterprises do no have the necessary fund requirement to implement e commerce distribution as it requires a wide range of costs which include hiring a appropriate team to build the website portal, managing inventory online, and since SMEs do not reap benefits of economies of scale like marketing or financial economies, since they produce of a very small industry output, they find it more expensive and face a higher average cost than compared to Large scale organizations.

- **Attitudes towards online business-** often after doing a cost benefit analysis, these small enterprises realize it is not in their favor to distribute online as costs are greater than the benefits. This analysis is usually not done based on empirical evidence or quantifiable data but rather is done based on instincts of the owners of small and medium enterprises. This is awfully biased as their general attitude towards e-commerce

is undesirable . They believe it requires a lot of extensive hard work which is not required in their scale of operations. They also tend to think it is out of their capabilities as they feel e-commerce is a game played by large dominant players of the market.

- **External influences -** After researching it was found that there are various external influences that act as barriers for small and medium enterprises. Firstly the government policies are usually in favor of large enterprises which include granting subsidy to them, to adapt to new technology, however many small businesses run without any financial assistance from the government. This results in large enterprises to have additional competitive advantage due to which small and medium sized firms fail to match their level and decide that it's better not to adapt to new technology.

Methodology

The participants of the Sample were chosen based on characteristics such as geographical location and product type (retail,manufacturers of different varieties in ethnic wear ; in addition, all selected firms had common trends like - small scaled, similar products, failing to sell online, and using only in store distribution strategies. These quotas were established using a study of “Fashion innovativeness in India: shopping behavior, clothing evaluation and fashion information sources”, conducted by Osmud Rahman and Devender Kharb. Thus, the distribution is as follows: 7 interviews with distributors of women's wear like lehenga, saree; 2 in menswear like

sherwani, suits; 2 interviews with an omni channel distributor. A qualitative analysis has been carried out consisting of 5 in-depth interviews with the people responsible for offline only-distribution of indian traditional clothes in the indian fashion companies who were capable of providing us with answers to our questions, such as “what are the reasons for not expanding through e-commerce and only focusing on in-store channel rather than an omni channel”
They all were interviewed until we got the saturation of the speech. The interviews were done through zoom meetings , in person conversations and were conducted from July 19,2023 to August 15,2023. This study is qualitative work which manages the Indian ethnic wear sector in the Indian fashion industry.
Most of them are retail brands in cities famous for ethnic wear, and are very famous in their regions, with almost having a monopoly. The purpose to include famous in-store distributors is explicitly to gather insights about their opinions of not using e-commerce even after being established for over 50 years. Most of them have their own stores in cities of lucknow, jabalpur, indore.Iit was considered appropriate to include the perspective
of sector experts (ES) so that the results are more accurate.
The center idea of this qualitative research was to gain 2 insights-

- First, what are the primary difficulties faced by small and medium enterprises (SMES) in expanding through online distribution
- Secondly , what is it about Indian clothes that makes it more difficult.

After gaining insights from these respective enterprises an official report was prepared, results of which are briefly described below under the ‘Results’ section.

RESULTS AND ANALYSIS

- ***Technical constraints***

The emergence of online and e-commerce business was first given light by Amazon in the late 1990's. It was later brought to India in the 2000's and it took several years for both the producers and consumers to understand this concept. Despite the wide presence of e-commerce platforms, there are multiple businesses in India that still fail to understand the technical workings of online distribution, even though it has been present for over 20 years now. Taking this problem of technology into our niche study that only engages in understanding the problems faced by small medium sized enterprises in India who are dealing with traditional ethnic wear. In India, there are a huge range of retailers of ethnic wear(sarees, lehengas,sherwani) who do not have sufficient knowledge related to using computers. These businesses have been established for over 50 years now and still only use in-store distribution with little or no knowledge about creating a website, online portal etc. This is also supported by an expert in the industry who said " even if I wanted to start selling sarees online, I do not know the process of developing a website and uploading my inventory". A common response found in the qualitative analysis was the difficulties in uploading the Inventory online, as it requires a lot of professionalism like photoshoots, studios, appropriate models etc which goes out of budget for small-medium sized shopkeepers. Further another respondent reported about not having to understand the payment system in online distribution. Also it was found that many small and medium sized retailers consider online distribution as relatively costly as there are additional expenses like outsourcing a team to manage their website, social media and photoshoot etc. it was found that there are more expenses like google ads, paying the influencers to gain popularity on social media platforms and all these costs just keep on piling up. Since these

small scaled retailers only sell a very insignificant output of industry and find it extremely challenging as they do not reap in the benefits of economies of scale.

Additionally another technological problem that was discovered through qualitative analysis was the limitation of the product itself. Distributing a tshirt, cargo pants or any kind of ordinary cloth online is still possible, however selling lehengas or sarees online is not advisable as it does not communicate the physical aspects of the product. The photo posted online of a saree does not convey its original features and designs , regardless how professionally taken, and results in misconception of the color due to which many customers reject the apparel. Also these sarees and lehengas come in a variety of product materials like cotton,georgette,silk ,velvet etc and online distribution on websites restricts the customer to feel and recognize the material and cloth for which they are paying the excess amount. The quality of the material of the ethnic wear is what makes it unique and allows producers to charge surplus based on the purity of the material used. However in the photo on the website, customers do not get to see the refined quality of a saree as they are unable to see it physically which results them to think it's overpriced. Had they seen it in-store, the price would have been justified. Another problem which was found in this market, was that in e-commerce distribution of clothes,consumers are unable to try the product on themselves which is a major disadvantage as what looks good on a “perfectly shaped” or body type of a model with lightings, makeup etc in the photo might not necessity look good on the consumer buying it online and often results in return of the parcel. Had this been a large brand with a significant market share it wouldn't have been much of a problem but is one for small scale retailers as for them each order is important as it has input costs like delivery charge, packing etc which goes to waste. When it comes to women's shopping behavior, they tend to spend a lot of the time trying multiple products in-store, so many

that the stock of the shopkeeper gets over. Even after this, they do not buy the products many times, saying “it does not look good on me”. So it is impossible for a woman to buy a traditional dress online as they are unable to try the product on themselves and often do not get to see much of a variety.

Another problem which was found through the interview was that selling a traditional wear requires a lot of convincing and persuasion by the salesperson inorder for him to make a sale Due to this excessive influence of the salesperson ,the shopkeeper is able to sell the product to customer at a range greater than his/her original budgets which adds to the additional revenue of the shop . However this is not possible online. Another industry expert said “ we are not just in business for selling clothes, in fact we sell a look to the consumer which requires them to be satisfied and this cannot be done online.” Further in India,the wedding season is considered to be the biggest festival for a family where they spend a huge amount of time shopping with the entire family for all the various functions. In many regions of india, it is a tradition that the mother-in-law along with the whole husband’s side of family takes the bride for purchasing the bridal lehenga as a gift from their side and is considered an event of bonding and conserving the tradition. Henceforth, these retailers of Indian ethnic wear only focus in-store distribution and choose not to diversify into e-commerce.

- **BRAND AWARENESS**

Brand awareness refers to the extent to which existing and potential customers know and recognise a specific brand and its products in the entire industry. The problem with online

shopping is that consumers only prefer to buy from well-recognised brands or firms famous all over the nation and who have a good market share. This problem is also seen in the ethnic industry in India wherein if consumers are making a purchase online, they automatically tend to search big players or designers like Ritu kumar, Sabyasachi,Manish Malhothra and many more who are verified not just nationally but globally too. Such competition from large scaled designers and retailers is what prevents these small scaled shopkeepers from diversifying into online distribution. One of the interviewees said “the main purpose to distribute products online is to increase the customers reach and establish a good customer base all over the nation”. He then added “ My shop has a shared monopoly in my present city but has no recognition outside the region”. So for him to make an online portal and a website to present his inventory would not add value to his revenue as firstly due to the immense competition online by all these big brands all over the nation or globe and Secondly, the competition from other in-store sellers in different cities from where the customer can buy. Hence this would result in additional costs for the retailer and would cause a fall in the profits.

Any person sitting in a Tier 1 city like Delhi , Mumbai , Bangalore etc would not prefer to buy from retailers in small cities like Indore, Jabalpur etc where usually these Small - medium sized retailers are present. Hence the main targeted cities where most consumers are, give no response.

As explained above, weddings in India are a huge deal for families and have become a Symbol of Status where the main focus is on the bride and groom family who spend a huge amount of money purchasing their look. A Lot of the guests in the typical Indian weddings are focused on the fit of the bride and the Groom and often they are questioned about the brand of the purchase. Hence weddings in India have become a day to blow one's trumpet and showcase family status and that results in all the customers buying from Brands like Manish Malhothra , Sabyasachi, Falgooni shane peacock etc and no focus is given onto small and medium sized retailers. Hence they prevent diversifying online.

- **Safeguarding against duplication**

The biggest asset for a ethnic wear shopkeeper is his/hers inventory as no matter how big and fancy the showroom is, without multiple and unique stock there is no other way to sway customers from competitors. The Indian wear market has become extremely rigorous and every day there are new designs created and the shopkeeper who has the most designer stock takes the market share away. Every customer wants to stand out in terms of their outfit from everyone on their special day like a wedding and hence wants to wear a dress so unique that no one has worn it ever. Due to this, the designs get “old-fashioned” very quickly hence the retailer has to keep up with the consequences like dead stock. Hence every firm, no matter how big or small, is very conservative about their designs and does not want them to float in the market, unless purchased. Such a problem results in shopkeepers to distribute through in-store only so that the designs do not go in hand with the competitors. A website or a portal enables the rival competitors to see all of a firm's designs along with price, which allows them to copy the same, and sell it at a lower price so as to gain customer loyalty. Since the customer is rational, he/she goes to the firm selling at a lower price. This problem is so serious in this specific industry that many shopkeepers do not allow their customers to take photos of designs until the check is cleared, just to conserve their designs.

Further, as explained above,the customer always wants to buy something new which has just recently been dropped in the market. So posting photos online would allow the customers who purchase directly from the store to interpret how old the product is, which otherwise they would

have no knowledge about. It often happens that the salesman influences the customer to purchase by telling them that the product has just dropped yesterday and in fact they are the first one's seeing it. This has a psychological impact on their consumption pattern and often results in them making a purchase from the store. However, by checking the photo of the products on the website ,can result in customers not making the purchase as they are well aware of how old the product is.This can result in a fall in the revenue in-store, which they previously were excelling in.

Conclusion

To conclude, the problems faced by small and medium-sized enterprises (SMEs) in the ethnic wear industry of India, as they examine the use of distribution through online channels for expansion into emerging markets, are complicated and diverse. These factors, as depicted in the research, begin with major **Technical constraints**. The SMEs in the Indian ethnic wear face difficulties with digital expertise and resources. The complications of developing and running websites, online inventories, and payment systems lead to a uncertainty that prevents the use of e-commerce. Additionally, the costs of online distribution are typically high due to additional expenses like photoshoots by professionals, hiring of models and the outsourcing of digital marketing teams which creates problems for SMEs especially, as compared to large scaled enterprises as they do reap benefits of economies of scale.

Another factor that comes forth is due to the **Nature of the products** themselves. Traditional Indian wear clothes like sarees, lehengas, and sherwanis, have exclusive features that are difficult to communicate through use of websites. Online images on websites, regardless how professionally taken, do not convey the minor details like textures, quality and colors that play a major role in purchase of these products. The lack of physical touch, feel, and to try the product

physically in store plays a major drawback in the online distribution for customers. Due to this, customers return the products which results in enterprises to bear costs.

Further, the personal touch and persuasive skills of in-store sales has a significant role in Indian ethnic wear. The inability of salespeople to persuade the customers to increase their budgets is not possible in online distribution. The selling of clothes, especially the ethnic wear requires the salesperson to interact with the potential customers which is not possible in online distribution

Moreover, cultural factors and the deep-rooted significance of in-person shopping in Indian society, particularly during events like weddings, further reinforce the preference for in-store purchases. Weddings in India represent a monumental occasion, marked by elaborate rituals and lavish attire. The act of physically visiting a store, especially for the bride's attire, is an integral part of these traditions. The focus on brand prestige during these events further cements the dominance of established names like Manish Malhotra and Sabyasachi.

Lastly, in the effort to safeguard against duplications of designs of a particular firm,enterprises hesitate to showcase their products online. In such a competitive market,wherein the differentiation is what customers pay for, vendors of ethnic wear do not want to showcase their entire inventory online, as they fear that competitors may simply copy the designs of their products and charge lower prices, which may sway customers to rivals.This causes disincentive to showcase the entire catalog appeal in online platforms.

The above reasons prevent the online presence of ethnic wear vendors and restricts their organic growth in emerging markets. The firms in this industry prefer using In-store distribution only as they believe that e-commerce is not suitable due to the type of products they deal with. These factors are closely dealt with in this research. This research proves that the vendors of

ethnic traditional indian wear, hesitate to do online distribution due to many factors discussed deeply above. There have been many researches in the past that focus on this issue, however no study has unboxed the factors specifically for the niche market of Indian wear. This study not only provides the argument from the vendors point of view but also gives understanding about the reasons why existing and potential customers in this industry do not want to buy through online platforms since they prefer traditional in-store purchase.