



## E-Commerce in India with Reference to Credit Cards Market

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### Abstract:

*Internet is one component which has recently become the key ingredient of quick and rapid lifestyle. Be it for communication or explorations, connecting with people or for official purposes, 'internet' has become the central-hub for all. Resultantly, Internet growth has led to a host of new developments, such as decreased margins for companies as consumers turn more and more to the internet to buy goods and demand the best prices. The implication of perfectly competitive market as the world will observe is that market will produce an efficient allocation of resources. Internet has truly been an effective agent in changing the fundamental ways of doing business. In any market with no entry barriers – the Net is biggest of them, the continuous influx of competition will, automatically, drive down the prices. In such a case, in long term all firms could only earn normal profits.*

**Keywords:** E-Commerce, Commerce, Credit cards, Market

### 1. E-Commerce- Introduction

Electronic commerce (or e-commerce) encompasses all business conducted by means of computer networks. Advances in telecommunications and computer technologies in recent years have made computer networks an integral part of the economic infrastructure. More and more companies are facilitating transactions over web. There has been tremendous competition to target each and every computer owner who is connected to the Web. Although business-to-business transactions play an important part in e-commerce market, a share of e-commerce revenues in developed countries is generated from business to consumer transactions. E-commerce provides multiple benefits to the consumers in form of availability

of goods at lower cost, wider choice and saves time. People can buy goods with a click of mouse button without moving out of their house or office. Similarly online services such as banking, ticketing (including airlines, bus, railways), bill payments, hotel booking etc. have been of tremendous benefit for the customers. Most experts believe that overall e-commerce will increase exponentially in coming years. Business to business transactions will represent the largest revenue but online retailing will also enjoy a drastic growth. Online businesses like financial services, travel, entertainment, and groceries are all likely to grow.

### 2. E-Commerce in India

For developing countries like India, e-commerce offers considerable opportunity. E-commerce in India is still in nascent stage, but even the most-pessimistic projections indicate a boom. It is believed that low cost of personal computers, a growing installed base for Internet use, and an increasingly competitive Internet Service Provider (ISP) market will help fuel e-commerce growth in Asia's second most populous nation. Indian middle class of 288 million people is equal to the entire U.S. consumer base. This makes India a real attractive market for e-commerce. To make a successful e-commerce transaction both the payment and delivery services must be made efficient. There has been a rise in the number of companies' taking up e-commerce in the recent past. Major Indian portal sites have also shifted towards e-commerce instead of depending on advertising revenue. Many sites are now selling a

diverse range of products and services from flowers, greeting cards, and movie tickets to groceries, electronic gadgets, and computers. With stock exchanges coming online the time for true e-commerce in India has finally arrived. On the negative side there are many challenges faced by e-commerce sites in India. The relatively small credit card population and lack of uniform credit agencies create a variety of payment challenges unknown in India. Delivery of goods to consumer by couriers and postal services is not very reliable in smaller cities, towns and rural areas. However, many Indian Banks have put the Internet banking facilities. The speed post and courier system has also improved tremendously in recent years. Modern computer technology like secured socket layer (SSL) helps to protect against payment fraud, and to share information with suppliers and business partners. With further improvement in payment and delivery system it is expected that India will soon become a major player in the e-commerce market.

While many companies, organizations, and communities in India are beginning to take advantage of the potential of e-commerce, critical challenges remain to be overcome before e-commerce would become an asset for common people. India's e-commerce industry is on the growth curve and experiencing a spurt in growth. The Online Travel Industry is the biggest segment in e-commerce and is booming due largely to the Internet-savvy urban population. The other segments, categorized under online non-travel industry, include e-Tailing (online retail), online classifieds and Digital Downloads (still in a nascent stage). The online travel industry has some private players such as Makemytrip, Cleartrip and Yatra as well as a strong government presence in terms of IRCTC, which is a successful Indian Railways initiative. The online classifieds segment is broadly divided into three sectors; Jobs, Matrimonial and Real Estate. Mobile Commerce is also growing rapidly and proving to be a stable and secure supplement to e-commerce due to the record growth in mobile user base in India, in recent years. Growth drivers and barriers are present in equal measures for new e-commerce ventures.

A report by the Internet and Mobile Association of India has revealed that India's e-commerce market is growing at an average rate of 70 percent annually and has grown over 500 percent since 2007.

The current estimate of US\$ 6.79 billion for year 2010 is way ahead of the market size in the year 2007 at \$1.75 billion. The following chart depicts the growth of E-commerce in India in the last couple of years.

Apparently, more online users in India are willing to make purchases through the Internet. Overall e-commerce industry is poised to experience a high growth in the next couple of years. The 70 percent year on year growth is expected to continue and India's e-commerce market is forecast to reach a whopping \$US 10 billion by the end of 2011. The e-commerce market in India was largely dominated by the online travel industry with 80% market share while electronic retail (E-Tailing) held second spot with 6.48% market share.

E-Tailing and digital downloads are expected to grow at a faster rate, while online travel will continue to rule the major proportion of market share. Due to increased e-commerce initiatives and awareness by brands, e-Tailing has experienced decent growth.

According to the third edition of eBay India census 2010 conducted across 28 states and seven union territories, India's top five rural e-commerce hubs are Ambalapuzha (Kerala), Sajibavadar (Gujarat), Adala (Gujarat), Abdalipur (West Bengal) and Kangayampalayam (Tamil Nadu). This means there are two rural e-commerce hubs of Gujarat in top five across India.

The survey reveals that Gujarat has emerged as one of the top five online shopping markets in the country. Gujarat is ranked 4th after Maharashtra, Delhi and Tamil Nadu. During the census in 2009, Gujarat was ranked at seventh, from which it has jumped to fourth position.

The city of Ahmedabad ranks 7th among top 10 e-commerce hub in the country, eBay India, a 100 per cent subsidiary of eBay Inc one of the leading e-commerce hub in India , has observed a surge in the number of e-commerce hubs in India from 2,500 last year to 3,300 this year.

According to the eBay Census Guide 2009 for Indian e-commerce scenario, it has been found that India has over 2,471 e-commerce Hubs. These hubs are the cities, towns, villages and smaller towns covering the entire length and breadth of the country. Technology or technology related products dominate India's domestic e-commerce. Whereas, lifestyle product category dominates in the global trade.

Technology, being India's favourite traded vertical category contributes 44% of totals e-commerce transactions according to the latest eBay Census. Lifestyle category at 35% comes second in popularity for online Indians. For Global Trade, lifestyle is the clear winner at 64% of all transactions followed by Media & Collectibles at 15% each.

Elaborating India's domestic online shopping scenario, South India has the most active buyers at 41% of all transactions, followed by West India at 27%. However, West India has the most active sellers at 46%, followed by North India at 28%. Delhi entrepreneurs sold the most technology gadgets at 46% of all transactions to buyers in India. Lifestyle scored on the Exports front at 67% of all transactions.

Delhi sells the most musical instruments – percussion, brass, synthesizers, and guitars - in the country. In addition to this, Delhi buyers bought the most sunglasses in the country according to the eBay census. Delhi buyers have also bought the most number of high end digital cameras in the country.

India is showing tremendous growth in the Ecommerce. Rival tradeindia.com has 700,000 registered buyers and it has the growth rate of 35% every year which is likely to double in the year 2010. Indiamart.com claims revenues of Rs. 38 crores and has a growing rate of 50 every year.

It receives around 500,000 enquiries per month. Undoubtedly, with the middle class of 288 million people, online shopping shows unlimited potential in India. The real estate costs are touching the sky. The travel portals' share in the online business contributed to 50% of Rs 4800 crores online market in 2007-08. The travel portal MakeMyTrip.com has attained Rs 1000 crores of turnovers which are around 20% of total e-commerce market in India. Further an annual growth of 65% has been anticipated annually in the travel portals alone.

### 3. Growth of E-Commerce

During the year 2000-2001, two major Industry Associations produced separate reports on e-commerce in India. One was prepared by the National Committee on Ecommerce set up the Confederation of Indian Industry (CII), while the other was commissioned by the NASSCOM and prepared by the Boston Consulting Group. Both the reports are optimistic about the growth of e-commerce in India. The Confederation of Indian Industry (CII) report estimates the volume of e-commerce to grow to Rs 500 billion (US\$ 10.6 billion) in the year 2003. The NASSCOM-BCG Report, on the other hand, estimates for the same year that the total volume of ecommerce will be Rs 1,950 billion (US\$ 41.5 billion). Amul, a milk cooperative, is successfully using ecommerce to deepen its brand loyalty. Likewise, corporate in the automotive sector are improving their customer relations through this medium. Some of the new names that are rediscovering e-commerce through new portals at relatively low capital cost, without venture capital funding include: Key 2 crorepati, Music Absolute, Gate 2 Biz. The low cost of the PC and the growing use of the Internet has shown the tremendous growth of Ecommerce in India, in the recent years. According to the Indian Ecommerce Report released by Internet and Mobile Association of India (IAMAI) and IMRB International, " The total online transactions in India was Rs. 7080 crores (approx \$1.75 billion) in the year 2006- 2007 and expected to grow by 30% to touch 9210 crores (approx \$2.15 billion) by the year 2007-2008. According to a McKinsey-Nasscom report the e-commerce transactions in India are expected to reach \$100 billion by the 2008. Although, as compared to the western countries, India is still in its initial stage of development.

#### 4. Facilitators of E-Commerce in India

**A. Information directories:** The products and services are listed with appropriate sub-headings to make it easy for a serious information-seeker to find what he wants. Allied services provided by them: Message boards, chat rooms, forums, etc.

#### **B. Banks:**

1. **Net banking/phone banking:** This is an online banking facility available for savings account holders as well as current account holders. Some of the special Net banking services are: Demat accounts for sale/purchase of stocks and shares, Foreign Exchange services, Direct/Instant payment of bills on the account-holder's behalf, Financial Planning.
2. **Credit/Debit Cards-** Banks facilitate E-commerce by providing the most vital trade instrument, namely the Credit or Debit Card, without which E-commerce would be impossible.

#### 5. E-Commerce and Competition

The changes brought about by E-commerce have the potential to significantly increase competition by increasing consumers' choice of products and traders. They also enable business to achieve significant efficiencies in their commercial operations as they move from high cost paper-based transactions to faster, lower cost electronic transactions.

At the same time, care must be taken to ensure that the opportunities for competition in the dynamic new area of economic activity are not stifled by **anti-competitive issues**. While it is true that in rapidly changing high technology markets competition may be fierce but in some instances businesses may achieve significant market power, and use their position to stifle further competition. From a consumer protection perspective, there has also been a no. of international cases where unscrupulous traders have taken advantage of the internet as a medium to propagate old-fashioned scams.

A theme which emerges in this area of competition policy is whether new technology alters the way in which market power issues should be analysed. The purpose of this paper is to analyse the type of potential issues that can emerge in E-commerce in developing country like India under the competition Act and role that Competition Commission of India can have in dealing with these issues.

#### 6. Potential Competition Issues

Generally, e-commerce has the potential to increase competition by enabling the development of new services, new distribution channels, and greater efficiency in business activities. Competition policy issues may arise in relation to joint ventures to develop B2B electronic marketplaces (e hubs), particularly when they are developed by existing market participants with a significant combined market share (as buyers and sellers) in underlying wholesale markets. Competition policy issues may arise in relation to eHubs on an ongoing basis if they appear to have developed sustainable market power resulting from network effects and other factors, and/or engage in strategic acts to preserve or maintain their market power. Potential issues would include evidence of price fixing or tacit collusion, or anti-competitive discrimination against, or refusal of access to third parties. Issues will not arise in all cases, and this will depend on the details in each case. In many situations there will be pro-competitive and other public benefit issues that should be taken into account. A recent Federal Trade Commission report identified a range of potential efficiency gains that may accrue from the use of eHubs. They include reductions in administrative costs, reductions in search costs when accessing appropriate trading partners, creating new markets (e.g. markets for surplus stock), economies of scale in joint purchasing, and more effective supply chain management.

#### 7. Future of E-Commerce in India

Today, we are talking about e-commerce progress level of India, the seventh-largest by geographical area, the second-most populous country, and the most populous democracy in the world. Indian e-commerce space percentage is getting higher as more and more online retailers enter the market. Although this level of entry in the e-commerce market is good from a long term perspective, the challenge is that most entrepreneurs don't have the resources or capital to wait for years before they

can get profits .The past 2 years have seen a rise in the number of companies' embracing e-commerce technologies and the Internet in India. Most e-commerce sites have been targeted towards the NRI's with Gift delivery services, books, Audio and videocassettes etc. Major Indian portal sites have also shifted towards e-commerce instead of depending on advertising revenue. The web communities built around these portal sites with content have been effectively targeted to sell everything from event and movie tickets the grocery and computers. This is not to say that the e-commerce scenario has been bad in India as highly successful e-business like baba bazaar and India mart have proved. Indian Banks too have been very successful in adapting EC and EDI Technologies to provide customers with real time account status, transfer of funds between current and checking accounts, stop payment facilities. ICICI Bank, Global TRUST BANK AND UTI-Bank also have put their electronic banking over the internet facilities in place for the upcoming e-commerce market speed post also plan to clone the federal express story with online package status at any moment in time. The future does look very bright for e-commerce in India with even the stock exchanges coming online providing a online stock portfolio and status with a fifteen minute delay in prices. The day cannot be far when with RBI regulations will be able to see stock transfer and sale over the Net with specialized services.

### 8. Credit Cards in India

In context of the Indian market, the leading credit card service providers are ICICI, HDFC, HSBC and Standard Chartered to name a few. These financial institutions have tried their hands on ensuring value-addition while offering customer-friendly credit card deals. The Best credit cards in India are usually meant for specific user group such as women, students and small business owners. These cards are offered to the prospective customers with appealing deals. Statistics have clearly revealed that the numbers of credit card holders in India are close to 22 million as on January, 2007. It has been also revealed that the increasing consumerism in the country has led to a two-fold increase in the number of credit card transactions from FY 2003-04 to 2005-06. The trends were as favourable as ever in the financial years, FY 2006-07 and 2007-08 and the same is likely to continue in the coming financial years.

A snapshot, as in Figure below, indicates that in volume terms 56% of retail electronic transactions are through credit and debit cards (though in value terms, it is only 10%).

In India, the number of valid credit and debit cards in circulation is 2,000 lakh. During 2009-10, the number of transactions on such cards had been of the order of 4,040 lakh and the amount of transactions ` 89,270 crore. The number of card transactions increased by 193% during the period 2003-04 to 2009-10.

### 9. International Interventions in Credit Cards Market

Anti-trust cases in credit cards:

- APRIL, 1974 - That peak came with a settlement in April 1974 of an antitrust suit brought by Consumers union against the AMERICAN EXPRESS Co. and bank America card. The lawsuit complained that the credit-card companies' contracts with merchants who honoured the credit cards barred them from giving discounts to customers who paid cash. The legal action was based on the premise that since the participant sellers paid the credit-card companies a service fee of 3 per cent to 6 per cent of charge – card sales, cash customers should get a discount in proportion to a store's lower costs on a cash sale.

In settling the case, American Express agreed to allow dealers honouring its credit cards to give discounts. 6

- OCT, 2005

The National Association of Convenience Stores, the Association for Chain Drug Stores, the National Community Pharmacists Association, and the National Cooperative Grocers Association have filed suit against Visa International Inc., MasterCard International Inc., and their member banks, claiming they charged merchants illegally inflated transaction fees. According to The Charlotte Observer, Visa and MasterCard, the two biggest credit-card companies, conspired with their member banks to dictate inflated rates for so-called interchange fees, the groups claimed in a complaint filed September 23rd in federal court in Brooklyn, N.Y. Visa and MasterCard force merchants "to pay supracompetitive, exorbitant, and fixed prices for general purpose card network services and raise the prices paid by all of their retail customers," argued the groups in the complaint. The groups that sued represent the operators of more than 130,000 stores.

- In U.S, Last year , The Department of Justice and seven state attorneys general filed an antitrust lawsuit against Visa, MasterCard and American Express, charging that the credit card networks' rules prevent retailers from providing discounts to consumers. Financial institutions that issue the card charge the retailer a fee, typically, 1% to 3%. The Justice Department contends that rules imposed by the three credit card networks stop merchants from offering consumers discounts or rewards for using other, less expensive forms of payments. When consumers use a credit card to make a purchase, the card networks and price. These fees have been extremely lucrative for the three credit card companies and their affiliate banks, Holder said, generating more than \$35 billion last year. Consumer groups charge that these fees lead to higher prices, even for consumers who pay with cash.

**The proposed Final Judgment** prohibits Visa and MasterCard from adopting, maintaining, or enforcing any rule, or entering into or enforcing any agreement that prevents any merchant from:

- (1) Offering the customer a price discount, rebate, free or discounted product or service, or other benefit if the customer uses a particular brand or type of General Purpose Card or particular form of payment;
- (2) Expressing a preference for the use of a particular brand or type of General Purpose Card or particular form of payment.
- (3) Promoting a particular brand or type of General Purpose Card or particular form of payment through posted information; through the size, prominence, or sequencing of payment choices; or through other communications to the customer; or
- (4) Communicating to customers the reasonably estimated or actual costs incurred by the merchant when a customer pays with a particular brand or type of General Purpose Card.

**The proposed Final Judgment removes restrictions on three kinds of merchant competitive behaviour:**

- ❖ Steering among General Purpose Card brands, or networks (e.g., from Visa to Discover);
- ❖ Steering among payment methods (e.g., from a MasterCard General Purpose Card to PayPal or a debit card); and
- ❖ Steering among card types (e.g., from an expensive Visa rewards General Purpose Card to a cheaper non-rewards Visa or MasterCard General Purpose Card).

## 10. Future of Credit Cards in India

With high and industry-favourable figures as above, there is no doubt that the rise in number of credit card providers and users have come of age. With these positively-influencing trends expected to continue in the near and far-future, the writing is on the wall. The credit card industry is likely to soar more than any industry segment. To add to that, easy and continuous payments' structures with each passing day and with every Bank poised to expand its network, the Indian credit card user community is the biggest beneficiary. The intensifying competition prevalent in the present day Indian credit card market has further fuelled the usage of credit cards in the country like never-before. In an aim to

overpower the peers and to sustain and prosper themselves, the Banks and financial institutions have started cutting down the interest rates and offering lucrative deals.

Payment card systems such as MasterCard and Visa involve four main parties, i.e.

- The cardholder;
- The institution that provides the card to the cardholder – the issuer;
- The merchant that provides the goods or services to the cardholder; and
- The institution that provides services to the merchant – the acquirer

Thus, the system consists of a customer who holds a credit / debit card from his issuing bank (issuer), a merchant who has been given the facility of accepting credit cards by his acquiring bank (acquirer) and the payment network MasterCard / Visa, etc. In this system, first a merchant who decides to accept credit or debit cards in exchange for goods or services establishes a merchant account by forming a relationship with an acquiring bank. This relationship enables the merchant to receive sale proceeds from credit / debit card purchases through credits in his account. However, the acquirer, while paying such credits to the merchant, applies a Merchant Discount Rate (MDR), which is a proportion of the sale proceed that is paid by the merchant to the acquirer in consideration for card acceptance services. Thus, the MDR is a percentage of sales that a merchant pays to the acquiring bank to process credit / debit card transactions. In India on MasterCard and Visa card transactions this rate generally varies from 1% to 2%. The MDR is generally greater for premium cards than for standard cards.

#### 11. Role of Credit Cards in India (CCI)

- ❖ As e-commerce and credit cards market in India is still developing and on nascent stage, these anti-competitive agreements and anti-trust issues are likely to arise in India in the near future.
- ❖ Competition Act 2002, section 3 and 4 will be applicable in this case of anti-competitive agreement between credit card companies, if it arises in India.

As a general point, when investigating anti-competitive behaviour in e-commerce markets, the CCI will need to evaluate the pros and cons of intervention with great care.

- On the one hand, where there are likely to be first-mover advantages, anti-competitive behaviour over the short-term can deliver significant long-term effects. Any delayed reaction to foreclosure by competition authorities could therefore have substantial and prolonged implications
- On the other hand, the area of e-commerce is highly innovative, and developing very quickly. Premature intervention by competition authorities could in some cases inhibit innovation and the development of new markets.
- One potential approach to this problem might be to apply competition law with a light hand for the present, but to raise awareness of the large fines and risk of structural break-up that might occur at a later date if competition law is found to have been breached.
- In order to improve the monitoring of collusion, it might also be useful for competition authorities to provide guidance as to the long-term storage of electronic data. They might also wish to develop their own market-monitoring search engine software, which might be used to track prices, sales and conversations in chat rooms, with the aim of detecting evidence of collusive behaviour.
- The existing competition framework and tools would appear largely sufficient to deal with these various issues. There may, however, be benefits to be gained from preventing companies from sharing sensitive information about customers' shopping habits and giving customers rights to greater access to the information held about them in suppliers' databases.
- This might allow customers to make more sophisticated and informed choices between suppliers.

## 12. Conclusion

As e-commerce in India is at budding stage but growing at a very high rate, these competition issues may arise in the near future. E-commerce may become a platform for the anti-competitive agreement between the companies. There are some international cases where anti-trust issues have come up with E-commerce as a platform. Credit cards being the facilitators of E-commerce, some international case studies are done where anti-competitive agreements and anti-trust issues between the credit cards companies have come up. Credit cards market in India is growing at a fast rate. These issues may come up in India in the near future. As stated in the last section, CCI must keep an eye on developing E-commerce market in India as well as the credit cards companies that might indulge in the anti-competitive practices to increase their own profits.

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