

Impact of Demonetization on E-Commerce in Indian Economy

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Abstract

Demonetization has given a boost to digital payments and is encouraging people to shop online more. This will definitely provide an opportunity for e-commerce players to push customers towards adopting cashless instruments and recalibrate business models to incentivize cashless instruments. E-commerce (electronic commerce or EC) is the buying and selling of goods and services, or the transmitting of funds or data, over an electronic network, primarily the internet. These business transactions occur either as business-to-business, business-to-consumer, consumer-to-consumer or consumer-to-business. On November 8th 2016, India came to a standstill when Prime Minister Narendra Modi Ji announced the demonetization of Rs 500 and Rs 1,000 currency notes of the Mahatma Gandhi series. 86 per cent of the currency in circulation ceased to become legal tender after midnight of that day. Demonetization aims at pushing consumers towards making digital payments, thereby contributing to a cashless economy. Niti Aayog published a report on the growth of digital payments in India post-demonetization. Despite bringing chaos in its initial days, demonetization in the long run is considered beneficial to the growth of e-commerce in India. One of the long term benefits for the e-commerce industry is reduction in payments via Cash on delivery (COD). More companies now try to entice consumers directly online, using tools such as digital coupons, social media marketing and targeted advertisements.

Keywords : Demonetization, Digital Payments, E- Commerce, Cash on Delivery, NITI Aayog.

JEL Classification : A 12, E 41, E 52, L 81.

1. INTRODUCTION

E-commerce (electronic commerce or EC) is the buying and selling of goods and services, or the transmitting of funds or data, over an electronic network, primarily the internet. These

business transactions occur either as business-to-business, business-to-consumer, consumer-to-consumer or consumer-to-business. The terms e-commerce and e-business are often used interchangeably. The term e-tail is also sometimes used in reference to transactional processes for online shopping. The beginnings of e-commerce can be traced to the 1960s, when businesses started using Electronic Data Interchange (EDI) to share business documents with other companies. In 1979, the American National Standards Institute developed ASC X12 as a universal standard for businesses to share documents through electronic networks.



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E-commerce is conducted using a variety of applications, such as email, online catalogs and shopping carts, EDI, File Transfer Protocol and Web services. This includes business-to-business activities and outreach such as using email for unsolicited ads (usually viewed as spam) to consumers and other business prospects, as well as to send out e-newsletters to subscribers. More companies now try to entice consumers directly online, using tools such as digital coupons, social media marketing and targeted advertisements.

Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency. The current form of money is pulled from circulation and retired, often to be replaced with new notes or coins. The government has implemented a major change in the economic environment by demonetizing the high value currency notes of Rs 500 and Rs 1000 denomination. These ceased to be legal tender from the midnight of 8th of November 2016. People have been given up to December 30, 2016 to exchange the notes held by them. The proposal by the government involves the elimination of these existing notes from circulation and a gradual replacement with a new set of notes. In the short term, it is intended that the cash in circulation would be substantially squeezed since there are limits placed on the amount that individuals can withdraw. Demonetization cracked down the whip on black money forcing people to go digital. In fact, the first 2 months after demonetization did see a decline in e-commerce growth in India as there was a reduction in sales.

According to Ernst and Young, payment for 50 per cent to 80 per cent of online transactions in India is through cash on delivery. Online stores offer a wide variety of payment options like credit/debit cards, net banking, e-wallets and cash on delivery. Compared to other countries, e-commerce in India has always been more dependent on COD. Flipkart was the first among the three major e-commerce players in

India to push cash on delivery. The cash crunch and cap on ATM withdrawal limits affected the buying capacity of majority of consumers, especially customers in tier-2 and tier-3 cities who are used to the payment mode of cash on delivery. Some of the online retailers had to temporarily suspend their COD payment option. Though demonetization brought with it a sudden decline in e-commerce transactions, the first quarter of 2017 has brought some positive changes. Demonetization aims at pushing consumers towards making digital payments, thereby contributing to a cashless economy. NITI Aayog published a report on the growth of digital payments in India post-demonetization. According to this report, digital payments have seen a whopping surge of 271 per cent in the very first month following demonetization. The number of mobile wallet transactions has increased to 63 lakhs from 17 lakhs. Paytm, one among the biggest players in the mobile wallet space revealed that it served 45 million customers within 3 weeks after demonetization. Transactions via RuPay cards have also increased suggesting that more Jan Dhan account holders have started using debit cards for online transactions.

2. RESEARCH METHODOLOGY

In this research paper both primary and secondary data are used to analyze the impact of demonetization on e-commerce. The primary data is collected from 100 respondents through interview method in Meerut region.

Objectives of the Research Paper

- a) To analyze the impact of demonetization on e-commerce in Indian economy.
- b) To analyze the customer's preference towards e-commerce before and after demonetization.

Data Type : Primary supported by Secondary

Area : Meerut City basically Service Class residents.

Sampling : Random Selection.

3. IMPACT OF DEMONETIZATION ON E-COMMERCE IN INDIAN ECONOMY

The benefits of e-commerce include its around-the-clock availability, the speed of access, the wide availability of goods and services for the consumer, easy accessibility, and international reach. Its perceived downsides include sometimes-limited customer service, consumers not being able to see or touch a product prior to purchase, and the necessitated wait time for product shipping. Despite bringing chaos in its initial days, demonetization in the long run is considered beneficial to the growth of e-commerce in India. One of the long term benefits for the e-commerce industry is reduction in payments via cash on delivery. For online retailers cash on delivery involves additional cost and the risk of returns or thefts is higher in this form of payment. The demonetization has affected the four main segments of the e-commerce industry in India are:

a) Online Retail

Online retailers like Amazon and Snapdeal welcomed the Government's move on demonetization but they have also had to deal with a slump in business. There has been a 30-40 per cent reduction in COD orders. The final quarter of 2016 was definitely not as fruitful as in the previous years for giants in the e-commerce industry. The consumer is not in a mood to spend and this situation is expected to continue till the end of the first quarter in 2017. Most of the online retail stores continue to be dependent on cash payments as it is going to take some time for all customers to switch to digital payments. More companies now try to entice consumers directly online, using tools such as digital coupons, social media marketing and targeted advertisements.

b) Payments

The digital wallet and payment segments have emerged clear winners post demonetization. Local vegetable shops and paani puri vendors have been showcased on

social media for displaying signs asking for digital payments. Payment gateways have already seen an 80 per cent growth and the number is increasing each week. There is a growth in low-value transactions too.

c) Logistics

E-commerce based logistic firms have taken a hit as 20 per cent of COD orders were cancelled post the demonetization announcement. In the transport industry most of the transactions are done through cash and this is expected to take more than a quarter to normalize. There are some other logistics firms that do not offer card payments and will require some time to scale up their operations.

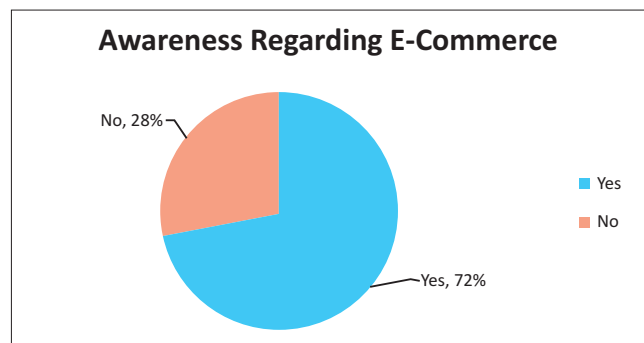
d) Hyper-local Delivery

This sector in the e-commerce industry has seen tremendous growth post demonetization. Hyper-local delivery firms supply groceries, household items and food from restaurants to customers. The number of new customers that this segment receives is increasing by the day and there is a surge in pre-paid orders. Online food-ordering platforms like Swiggy and Zomato have seen a rise in transactions.

4. CUSTOMER'S PREFERENCE TOWARDS E-COMMERCE BEFORE AND AFTER DEMONETIZATION

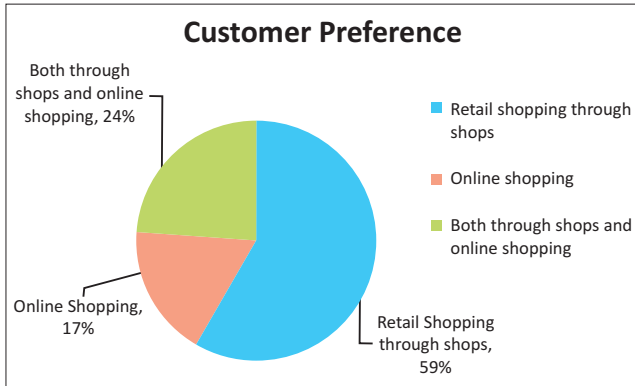
The primary data is collected from 100 respondents through interview method in Meerut region.

Q. 1. Do you aware about the online shopping or e-commerce activities?



Q. 2. Which of the following segment of shopping do you favour before demonetization?

- a) Retail Shopping (through shops)
- b) Online shopping
- c) Both segments

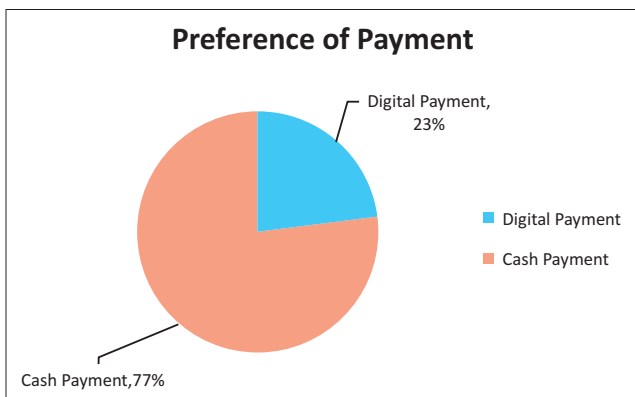


Q. 3. Which of the following segment of shopping do you favour after demonetization?

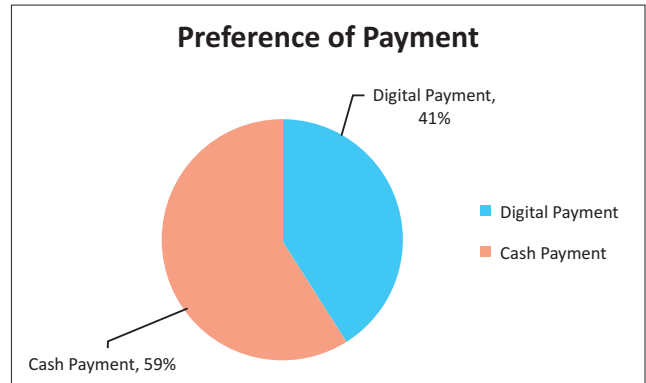
- a) Retail Shopping (through shops)
- b) Online shopping
- c) Both segments



Q. 4. Do you favour online payment or digital payment instead of cash payment while shopping before demonetization?



Q. 5. Do you favour online payment or digital payment instead of cash payment while shopping after demonetization?



5. ANALYSIS

The above study has been conducted for this paper specially in the residential areas of Meerut where service class people resides. 100 of such people have been randomly selected for this survey. A primary and brief five question tool was given to them for answer in Yes or No.

72 per cent of the respondents were aware about the e-commerce activities while 28 per cent answered in NO. The author discussed with these who answered in NO. Later, they accepted that they know about e-commerce but never used this.

In second question, 59 per cent answered that they favoured retail shopping directly from shops before the demonetisation while 17 per cent did online shopping and there were 24 per cent such respondents who practiced both online and direct shopping.

Further, this preference changed after demonetisation, 43 per cent favoured Retail shopping through shops, 28 per cent online shopping and 29 per cent favored both sectors.

This means that a sharp decline in retail shopping and upward trend in online shopping is seen before and after demonetisation.

While inquiring about digital payments, 77 per cent preferred cash payments and only 23 per cent preferred digital payments. But, after demonetisation, cash payment preference

reduced by 18 per cent and digital payments increased by 18 per cent. Therefore, these data indicates that demonetisation has a positive impact if digitalisation is seen as a positive attribute in e-commerce.

6. CONCLUSION

E-commerce (electronic commerce or EC) is the buying and selling of goods and services, or the transmitting of funds or data, over an electronic network, primarily the internet. E-commerce is conducted using a variety of applications, such as email, online catalogs and shopping carts, EDI, File Transfer Protocol, and web services. Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency: The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. The Indian government has implemented a major change in the economic environment by demonetizing the high value currency notes of Rs 500 and Rs 1000 denomination. Despite bringing chaos in its initial days, demonetization in the long run is considered beneficial to the

growth of e-commerce in India. One of the long term benefits for the e-commerce industry is reduction in payments via Cash on delivery (COD). More companies now try to entice consumers directly online, using tools such as digital coupons, social media marketing and targeted advertisements. Though demonetization brought with it a sudden decline in e-commerce transactions, the first quarter of 2017 has brought some positive changes. Demonetization aims at pushing consumers towards making digital payments, thereby contributing to a cashless economy. NITI Aayog published a report on the growth of digital payments in India post-demonetization. Hyper-local delivery firms supply groceries, household items and food from restaurants to customers. The number of new customers that this segment receives is increasing by the day and there is a surge in pre-paid orders. The digital wallet and payment segments have emerged clear winners post demonetization. Local vegetable shops and paani puri vendors have been showcased on social media for displaying signs asking for digital payments.

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