Demonetization and Internet Shopping Trends in India

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Abstract

The move of ‘Demonetization’ by the Hon’ble Prime Minister of India, Mr. Narendra Modi swayed everybody on November 08, 2016. It resulted into a panic situation because people were short of cash in their hands. Demonetization impacted internet shopping at initial phase but later the online sellers witnessed manifold increase in their sales and revenue. The consequences of this led to the use of digital payments and online transactions in almost every part of the country. This move also increased the use of digital and mobile wallets offered by various companies and banks.

Keywords: Demonetization, Internet Shopping, Online Transactions, Mobile Wallets, Alternative Payment Methods.

Introduction

Internet shopping in India is not a new phenomenon. The technological developments, increased speed of internet (3G to 4G), availability of low cost smart phones are contributing towards the growth of internet shopping in India. In addition to this, internet shopping offers various advantages to the shoppers such as convenience, discounts, variety of products, price comparison, discreet shopping, etc. The trends show that in past years, internet shopping is increasing with a faster pace. The latest move of ‘Demonetization’ of currency notes of Rs. 500 & Rs. 1000 announced by the Hon’ble Prime Minister of India Mr. Narendra Modi on Nov 08, 2016 had its impact on individual level and industrial level for traditional shopping as well as internet shopping.

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Background

On November 08, 2016, the Hon’ble Prime Minister of India Mr. Narendra Modi announced demonetization of old currency notes of value five hundred and one thousand to counter the problems of fake currency, black money and terrorist funding in the country. This sudden move left everybody stunned because it eliminated almost 86% of currency in circulation and created a huge cash crunch in the economy. It has its positive and negative consequences on every aspect of Indian economy. The consequences of this led to the use of digital payments and online transactions in almost every part of the country. This move also increased the use of digital and mobile wallets offered by various companies and banks.

India’s largest mobile wallet company, Paytm witnessed the 700% increase in overall traffic and 1000% growth in value of money in Paytm accounts. In addition to this, mobile app download was increased by 300% along with 200% increase in average transaction. Some other mobile wallet companies such as Mobikwik, Freecharge, Oxigen, etc. find this move supporting in increasing their business. The transactions at Oxigen wallet were increased from Rs. 450 Crore to 600 Crore in the month of November 2016. Freecharge mobile wallet witnessed 9 fold jump in merchant transaction whereas Mobikwik witnessed 18 fold increase in transaction volumes.

Review of Literature

Banerjee & Sayyed (2017) conducted a survey on 100 respondents in Pune city and found that 53% consumers preferred online shopping after demonetization. The CoD (cash on delivery) mode was reduced to 2% from 43% (Pre demonetization) and people are using their plastic money & mobile wallets for their payments. The frequency of online shopping has increased from 27% to 53%. The researchers found that demonetization has led the customers to opt for mobile wallets and plastic money. They concluded that demonetization will prove to be a boon for digital payment market and e-commerce industry.

Kumudha & Lakshmi (2016) stated that demonetization will help in setting the new trends of digital payment and online shopping. The researcher expressed that the scope of digital marketing can be broadened with the increase in internet adoption and ease of banking operations. The first week after
Demonetization was declining for the businesses but later they found rise in customer orders through online payment. Many mobile wallet companies such as Paytm and Mobikwik found a sudden spike in their customer base after the move of demonetization. To combat the situation of cash crunch, offline retailer also offered alternative payment method to their customers.

Sabnavis, Sawarkar & Mishra (2016) published a report on Economic Consequences of demonetization of 500 & 1000 Rupee notes. They stated that the move of demonetization of notes of Rs. 500 & 1000 would have its impact of various sectors of Indian economy. In the short run, there may be shortage of cash, reduction in demand of luxury items, gold, real estate, etc, price fall of some items, etc. In the long run, demonetization will boost the Indian economy by removing the problem of black money hoarding. There will be an increase in the use of alternative modes of payment such as internet banking, use of plastic money (credit/debit cards), mobile wallets, etc.

Saini (2016) stated that after demonetization, online monetary transaction increased up to 250% as compared to the previous months which shows that there is a scope of e-banking in India. According to the reports, people have started using online payment platforms and app-based payment system such as credit/debit card, mobile/net banking, POS machines, e-wallets (Paytm, Mobikwik, Freecharge), etc. With the rise of cashless transactions, there is a need to make electronic transactions safer. Additionally, the National Payments Corporation of India (NPCI) is offering Unified Payment Interface (UPI) which enables the users to access bank account using their mobile phones with the help of Unstructured Supplementary Service Data (USSD).

Mathew (2015) conducted a study on changing trends in online shopping and found that Ecommerce is growing with rapid pace. The advanced technological developments assure safe transactions over the internet. Many e-commerce websites are offering free delivery, gift coupons, easy return policy and several other offers to their customers. The study revealed that Flipkart, Amazon, Snapdeal, Paytm, Myntra, eBay, Jabong, Shopclues, Homeshop18, Infibeam are top 10 e-commerce websites in India. Customers browse different websites to compare products, price, better return policy, etc. before making an online purchase.
Economic Consequences of Demonetization

According to a report published by CARE (Credit Analysis & Research Limited), there may be some consequences on various economic entities. These are as following:

- **Effect on Parallel Economy**: The move of demonetization is expected to remove the existence of black money from the economy. In addition to this, the problem of counterfeit currency and funding to anti social elements can also be curbed.

- **Effect on Money Supply**: In the short run, the circulation of money is expected to be reduced. The circulation of new currency notes will solve the problem of money shortage gradually.

- **Effect on Demand**: The overall demand is most likely to be affected in various areas such as real estate, consumer goods, luxury item and gold, automobiles, etc.

- **Effect of Prices**: Demonetization may lead to lowering the price levels due to moderation in demand. The demand of consumer goods may have a slight fall as the cash purchases would be replaced by plastic money and cheques. The demand of real estate sector is reduced because its major part is cash based.

- **Effect of other economic entities**: Some other sectors may face disruption in short run until the circulation of new notes. These entities are small traders, agriculture & related products, households, SMEs, service sector, political parties, professionals, retail outlets, etc.

- **Effect on GDP**: Demonetization could impact GDP due to the decrease in consumption demand. However, this impact on GDP will be temporary till the new stream of cash enters the market.

- **Effects on Banks**: Demonetization will increase more deposits in savings and currents accounts of banks which will enhance their liquidity position. These deposits can be used for further lending purposes. However, households would withdraw some amount in the later stage.

- **Effect on Online Transactions and Alternative modes of Payment**: Demonetization will increase the use of alternative form of payments due to shortage of cash in the hands of people. These methods include digital
transaction system, mobile & e-wallets, net banking, use of credit/debit cards, etc.

Effect of Demonetization on Internet Shopping & Online Business in India

Internet shopping refers to buying a product or service over the internet instead of going to a traditional physical store. Nowadays, internet shopping is facing an increasing trend in all over the world due to various advantageous factors such as time saving, ease of shopping, price & product specification comparison, availability of assortment, availability of user reviews, discreet shopping, etc. Internet shopping has some demerits too such as online frauds, stealing credit/debit card, sending wrong products, etc. Companies offer various modes of payment for internet shopping such as Credit/Debit card, Net Banking and Cash on Delivery (COD). In India, COD is most popular because Indian shoppers are hesitant to online payment. The trends show that demonetization led to increase in online payments for internet shopping.

According to a survey conducted by India’s largest Cashback & Coupons site, CashKaro.com, 85% out of total 1000 respondents are in favour of the move of demonetization. 78% of the respondents moved to internet shopping due to cash crunch. 25% customers are buying groceries and daily items at Amazon.com, 15% at BigBasket.com, 7% at Flipkart.com, 7% at Grofers.com and 5% at Snapdeal.com respectively. 91% of the respondents accepted that cashback offers help them to save & earn during the situation of such cash crunch. In addition to this, retailers are also offering various incentives for to the online shoppers. After demonetization, the most preferred payment method is Paytm wallet and CoD through bank cards. As per the data released by Reserve Bank of India (RBI), in the first four days of December, the volume of daily transactions through eight leading mobile wallets and prepaid payment instruments (PPI) was approx. 25 Lakh, i.e. worth of approx Rs. 60 crore.

- **Increased Digital Payments:** The move of demonetization led people towards digital payment such as use of Credit/Debit cards, Mobile/Internet Banking, mobile wallets. Some of the popular mobile wallets which gained manifold popularity are Paytm, Freecharge, Mobikwik and CitrusPay. Paytm is most preferred mobile wallet with almost 50% user share which is followed by Freecharge, Mobikwik, CitrusPay and Oxigen respectively.
Online purchase of Grocery & Consumables: Online grocery and consumable shopping gained momentum because people were short of cash and local vendors refused to accept demonetized old currency notes. Most of the customers turned towards online shopping for their everyday essentials and some customer started using plastic money for their purchases at local retail stores. The sales and revenue of online sellers like Amazon, BigBasket, Grofers and Snapdeal increase by leaps and bounds.

Dominance of Cashbaks and Coupons: Indians love to bargain when they shop. This bargaining attitude led many people towards online shopping because many websites are offering discounts and various deals. Some cashback and coupon sites such as CasyKaro.com offer dual benefits in the form of saving to the buyers and increased sales for online sellers.

Reduction in Cash on Delivery: Indian economy is largely dependent on cash transactions. Approx 80% of the internet shoppers prefer the mode of payment as Cash on Delivery (CoD). But, after the announcement of demonetization, many e-commerce giants such as Amazon, Flipkart, Snapdeal, and many others witnessed cancellation of many Cash on Delivery orders because people were short of cash in their hands to pay for their orders.

Conclusion

From the above discussed matter, it can be concluded that the move of demonetization will impact various sectors of Indian economy. It will help to remove the problem of black money, terror funding, money hoarding, corruption and fake currency. Demonetization and cash crunch has resulted into increased use alternative payment methods such as plastic money, mobile/internet banking, mobile and e-wallets, UPI based payment and many more. The initial phase of demonetization was not favorable for online sellers and many of their COD (cash of delivery) orders got cancelled. Later, the use of mobile and e-wallets were on the rise and people started using them for their online orders. The sale of day-to-day use items and grocery items were also on the rise due shortage of cash in the hands of people. In addition to this, many e-commerce sites such as Amazon, BigBasket, Grofers, Snapdeal, etc. witnessed manifold increase in their sales and revenue. Thus, we can say that the move of demonetization supported the growth of internet shoppers and online transactions.
References


