

Analyze of business environment of Amazon in India

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Abstract:

India's e-commerce industry has experienced remarkable growth, making it one of the key markets in the global e-commerce sector. This rapid expansion is driven by improvements in the country's digital infrastructure, government initiatives like the "Digital India" campaign, and increased internet accessibility, even in rural areas. With widespread adoption of mobile internet and declining smartphone prices, e-commerce platforms have penetrated various segments of the Indian market. As a result, India's e-commerce sector is projected to surpass the United States and become the second-largest market in the world by 2034. Amid this thriving landscape, Amazon has emerged as a significant player, capitalizing on India's vast market potential. However, the company faces various challenges, including strict regulatory policies, fierce competition from local platforms like Flipkart and JioMart, and logistical difficulties in rural regions. This analysis delves into Amazon's current market situation in India, the strategies it employs to overcome these challenges, and explores potential future prospects in this dynamic and evolving market.

Keywords: E-commerce; FDI restriction; innovation

1. Introduction

India's e-commerce industry is rapidly expanding, supported by improved digital infrastructure and the government's "Digital India" initiative. Internet penetration grew from 4% in 2007 to 48.48% in FY19, with projections of 829 million users by 2021. Major players include Flipkart, Amazon, and JioMart, with Flipkart holding a 38% market share and Amazon 35%. Strict regulations limit foreign e-commerce companies, impacting Amazon's pricing strategies. Despite challenges in rural logistics and payment preferences, Amazon's localization efforts and logis-

tics investments enhance its competitiveness. Prime membership is crucial for user loyalty, leading to increased engagement during sales events.

This essay will combine the e-commerce environment in India and the current situation of Amazon to analyze how Amazon can well managed in India.

The Indian government imposes strict restrictions on foreign direct investment (FDI) in e-commerce, requiring companies like Amazon to operate as third-party marketplaces and limiting their ability to offer discounts or exclusive sales. This impacts Amazon's competitiveness by preventing direct sales

of private-label goods and lowering prices. Additionally, complex tax regulations, platform liability requirements, and data localization laws increase operational costs and compliance burdens. Social and cultural factors, such as Indian consumers' price sensitivity and preference for cash on delivery, require Amazon to adapt its payment methods, product recommendations, and customer service to the local market. Historically, India has sought economic self-reliance, fearing that foreign investment could harm local industries. Indian capitalists, used to protectionist policies, opposed liberalization, as seen in the Confederation of Indian Industry's 1996 critique of multinational corporations like Amazon. To protect domestic businesses, the Indian government imposed policies limiting Amazon's expansion. Looking ahead, Amazon can leverage AI to offer personalized shopping experiences, boosting customer loyalty. AI can enhance product recommendations, dynamic pricing, and after-sales support. By engaging in corporate social responsibility (CSR) and collaborating with Indian trade associations, Amazon can mitigate regulatory risks and improve its operating environment.

2. Literature review

The rapid expansion of e-commerce in India has been extensively studied, with scholars highlighting factors such as increased internet penetration, mobile access, and supportive government policies like the "Digital India" initiative. Authors such as Dutta and Biswas [1] emphasize that the growth of digital infrastructure has created new opportunities for both local and international players in the Indian e-commerce market. Studies also project India's e-commerce market to surpass the U.S., positioning it as a major global player by 2034 [2]. Research by Statista shows that internet penetration grew from 4% in 2007 to 48.48% in FY19, enabling companies to reach a wider audience, especially in rural areas [3].

Multiple sources explore the challenges that multinational companies face due to India's protectionist regulatory policies. Scholars like Singh argue that India's historical focus on economic self-reliance and protectionism has led to restrictions on Foreign Direct Investment (FDI) in sectors like multi-brand retail. Singh's research on the role of multinational corporations in India underscores how fears of foreign dominance have shaped India's regulatory policies, particularly in e-commerce. More recent studies, such as those by Arora, highlight how these restrictions impact companies like Amazon, forcing them to adopt a third-party seller model and limiting their ability to sell private-label goods directly [4-5].

Amazon's adaptation to India's unique social and cultural

context has been a key focus of both academic and industry research. Several studies, including those by Sharma and Kumar, have discussed how companies like Amazon have localized their operations to meet Indian consumers' preferences, such as offering cash on delivery (COD) and supporting regional languages. Amazon's investment in logistics infrastructure and initiatives like "Amazon Easy" have also been widely praised in the literature for expanding their market reach in rural and semi-urban areas [6-7]. Scholars like Chaudhuri have analyzed the intense competition between Amazon and local companies like Flipkart and JioMart, which enjoy advantages due to their earlier market entry and understanding of Indian consumer preferences [8]. Chaudhuri's work points out that Flipkart's 38% market share compared to Amazon's 35% in 2022 reflects the fierce competition in the e-commerce space, further complicated by strict regulatory policies that favor local players.

The growth rate of India's e-commerce industry is astounding, making it one of the key markets in the global e-commerce sector. In recent years, improvements in India's digital infrastructure have laid the foundation for the expansion of the e-commerce industry. The government's launch of the "Digital India" initiative aims to increase nationwide internet penetration and the use of digital services. This initiative has enabled e-commerce platforms to reach India's vast rural and remote areas. Additionally, the widespread adoption of mobile internet, the decline in smartphone prices, and competition in the telecommunications industry have facilitated access to the internet for a large number of users. India's e-commerce industry has been experiencing rapid growth and is projected to overtake the US as the second-largest e-commerce market globally by 2034. The market is expected to expand significantly, reaching Rs 13.97 lakh crore (US\$ 200 billion) by 2026, up from Rs 2.69 lakh crore (US\$ 38.5 billion) in 2017 [9]. India's e-commerce market has the potential to grow more than four folds to Rs 10,48,350 crore (US\$ 150 billion) by 2022 supported by rising incomes and surge in internet users (Figure 1). Internet penetration in India increased from a mere 4% in 2007 to 34.42% in 2017, achieving a compound annual growth rate (CAGR) of 24% over that period. By the end of FY19, internet penetration had further risen to 48.48% (Figure 1). The number of internet users in India is projected to rise from 636 million in March 2019 to 829 million by 2021. In rural areas, internet penetration is anticipated to reach 45% by 2021, up from the present level of 25.36%. Major players in the Indian e-commerce market include local platforms and international e-commerce giants. Flipkart, Amazon and Reliance Jiomart are the biggest e-commerce companies in India.

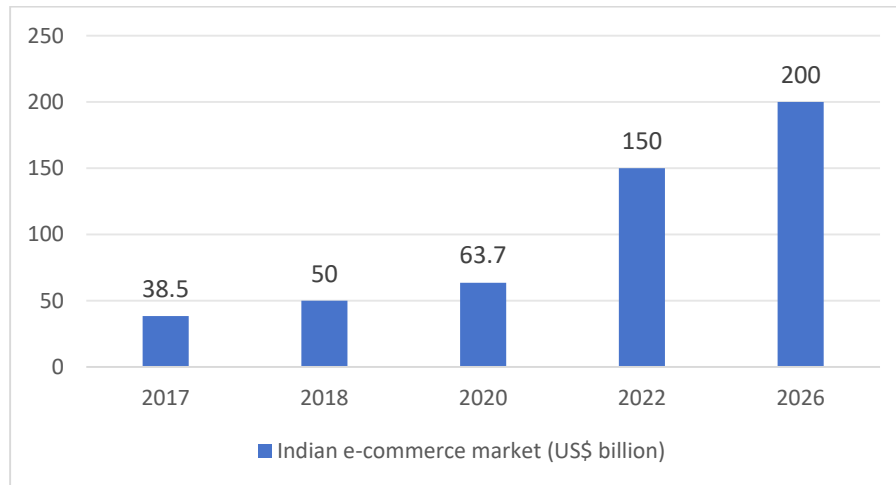


Figure1 Indian e-commerce market

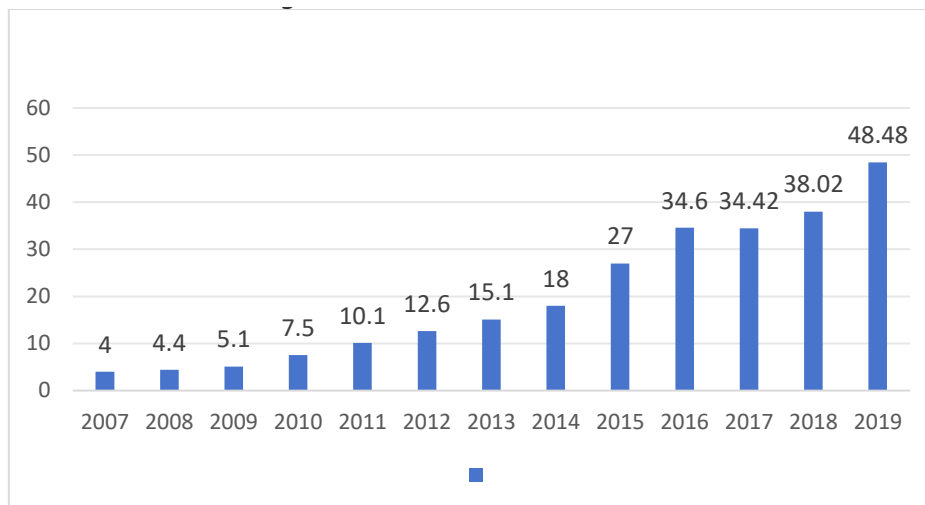


Figure2 The trend of development

Amazon has invested over 6.5 billion dollars since it began operations in India. In 2017, Amazon India led the e-retail market with sales of \$561 million, narrowly surpassing Flipkart with \$554 million in sales. As evidenced by recent data from March 2024, Amazon India attracted over 295 million monthly visitors.

India has strict regulatory policies for foreign e-commerce companies, especially in terms of foreign direct investment (FDI) restrictions (Figure 2). Foreign Direct Investment (FDI) was perceived as a new manifestation of ‘Western imperialism,’ which the Indian nation sought to counter by strengthening its own domestic capabilities [4]. According to Indian regulations, foreign e-commerce platforms are not allowed to conduct multi-brand retail directly and can only operate through a third-party seller model. This means that Amazon cannot sell its own branded goods directly and must rely on local sellers in India to sell goods. In addition, in order to protect local

small and medium-sized retailers, the Indian government has introduced policies to restrict discount promotions and exclusive sales of goods on e-commerce platforms. These policies have restricted Amazon’s ability to compete on price and hindered its market share expansion.

Amazon faces strong local competitors in India, especially Flipkart. Founded in 2007, Flipkart entered the Indian market before Amazon and understands the needs of local consumers. It has maintained fierce competition with Amazon through massive promotions, customized product lines and logistics networks. According to Statista, in 2024, by 2022, Flipkart has the highest market share in India’s online retail market at 38%. In second place is Amazon India with 35% market share [7]. In addition, JioMart, owned by the local giant Reliance Group, has also become an important player in the e-commerce market. Relying on Reliance’s strong retail and communications network, JioMart has a significant advantage in the grocery and dai-

ly necessities e-commerce segment in particular.

While Amazon has invested heavily in logistics infrastructure in India, the country's rural areas are inaccessible, leading to high delivery costs. In addition, despite the growing popularity of digital payments, a large segment of consumers in India still prefer to use cash on delivery (COD) methods, especially among rural and low-income groups. This has created a challenge for Amazon to control costs in payments and logistics.

Amazon's success in India is largely due to its deep localization strategy. In order to cater to the diverse consumer needs in India, Amazon has introduced multiple local language support, payment methods that conform to local payment habits (such as cash payments, digital wallets and UPI), and personalized shopping experiences. At the same time, Amazon has opened thousands of delivery centers and pickup points in rural areas and small towns through its "Amazon Easy" program, allowing consumers to place online orders and pick them up nearby, thus expanding its reach in third - and fourth-tier cities.

To address India's complex geography and underdeveloped infrastructure, Amazon has invested heavily in logistics. Through the establishment of dozens of warehouse centers, distribution stations and its own Amazon Transport Services, Amazon has achieved fast and efficient logistics delivery services in most regions. Amazon India has developed a robust fulfillment network, with nearly 20 warehouses across the country; besides, the company has localized its delivery operations through the introduction of EasyShip and SellerFlex, which streamline shipping and logistics processes. This expansion of infrastructure not only improves the shopping experience of consumers, but also enhances the service capabilities of the platform.

Prime membership is an important part of Amazon's strategy in all major markets around the world, and India is no exception. Amazon has introduced a price-competitive annual Prime membership fee and offers members digital content services such as fast free shipping, Prime Video, music streaming and e-books. A report shows Prime Day 2024 saw as many as 24% more Prime members shop during the sale event, which is the highest ever Prime member engagement so far. This service attracted a large number of consumers to join the Prime membership system, which increased user loyalty and overall sales of the platform.

The Indian government has strict restrictions on foreign direct investment (FDI) in the e-commerce sector, especially for multi-brand retail (B2C model) with foreign capital. Under Indian policy, foreign companies cannot sell goods directly online to consumers, but must do so through third-party sellers. This means that Amazon in India must adopt an "online marketplace" model, which

can only provide services to third-party sellers on the platform, and cannot sell private-label goods directly to consumers. In addition, in order to protect small local retailers, the Indian government has introduced some policies to restrict foreign e-commerce companies to discount promotions and exclusive sales of goods. Such regulations affect Amazon's ability to attract consumers with low prices, thus undermining its competitive advantage in the Indian market.

Amazon also faces complex tax and compliance requirements in India. The Indian government has a strict tax policy on multinational companies, especially indirect taxes and Goods and Services Tax (GST) for e-commerce platforms. In addition, the Indian government also has clear regulations on platform liability issues, requiring e-commerce platforms to be responsible for counterfeit goods, product quality and data protection. These compliance requirements increase Amazon's operating costs and management difficulties.

The Indian government has stepped up regulation of data privacy and data localization in recent years. Under India's draft Personal Data Protection Act, multinational companies operating in India will be required to store user data within the country. This data localization requirement puts significant compliance pressure on multinational companies like Amazon, as they need to invest extra in data storage, management, and security.

In addition to policies and regulations, social and cultural factors are also part of the "non-market treatment" Amazon faces in India. Indian consumers have different shopping habits and cultural preferences than consumers in European and American markets. Many Indian consumers are more price sensitive when shopping, preferring promotions and discounts. Moreover, while digital payments are gaining popularity, many Indian consumers still prefer traditional payment methods such as cash on delivery (COD). To adapt to this cultural difference, Amazon needed to make a lot of local changes in payment methods, product recommendations, and customer service.

3. Discussion

Historically, there was a strong desire of Indian people for economic self-reliance and national sovereignty, leading to fears that foreign investment could undermine local industries and jobs. Many Indian capitalists, who had grown accustomed to protectionist policies over several decades, were concerned about how liberalization might affect their interests. They joined forces to argue that foreign capital could potentially push them out of the market. This perspective was echoed by the director of the Confederation of Indian Industry, a prominent business lobby group, in

an April 1996 critique of the increasing presence of multinational corporations in India [4].

Additionally, as Amazon is a company from the USA, in order to protect local industries and promote domestic businesses, the government aims to prevent foreign companies from dominating the market, ensuring that local players can compete and thrive, Indian government has carried out a lot policies to limit its development.

Utilizing AI to provide personalized service and after sales support is a great market strategy. Personalization is key to building customer loyalty. A research of Epsilon reveals that 80% of consumers are willing do shopping if brands offer personalized experiences. AI is widely used in e-commerce space nowadays. AI enables highly personalized shopping experiences by analyzing vast amounts of data. This allows platforms like Amazon to offer tailored product recommendations, personalized marketing messages, and even dynamic pricing. This also boosts customer loyalty by making each interaction more relevant and engaging. AI can also provide some coupon for users and guarantee the sellers does not lose money. At last, sometimes customers may have some problem with the things they bought, and AI can reply to them immediately.

Keeping well touch with government and trade associations in India can help Amazon get a better environment. Amazon can mitigate regulatory risks through corporate social responsibility (CSR) initiatives or local development projects and participating in making some policies relevant to itself.

4. Conclusion

India's e-commerce market presents both immense opportunities and significant challenges for companies like Amazon. Despite a rapidly growing market fueled by increased internet penetration, mobile accessibility, and supportive government initiatives, Amazon faces hurdles such as strict regulatory policies, strong local competition, logistical complexities, and diverse consumer preferences. The company's success in navigating this landscape so far

can be attributed to its deep localization strategies, investments in logistics infrastructure, and a focus on enhancing customer experiences through services like Amazon Prime. Moving forward, Amazon's ability to leverage AI for personalized services, engage in corporate social responsibility initiatives, and maintain constructive relationships with the government and trade associations will be critical in overcoming regulatory constraints and enhancing its market presence. While competition and regulatory challenges remain, Amazon's ongoing efforts to adapt to India's unique market dynamics position it well for future growth in this rapidly evolving e-commerce sector.

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