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ROLE OF E-COMMERCE IN REDUCING OPERATIONAL COST

S. Karthik
Ph.D Research Scholar (PT),
Department of Commerce, AVC College (Autonomous), Mannampandal, Mayiladuthurai,
Email: ponselvakarthik@gmail.com

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ABSTRACT

E-commerce is the process of conducting business electronically, using the internet and digital tools. E-commerce can help businesses reduce their operating costs in several ways, such as lowering overhead costs, automating processes, and reaching a larger audience. This paper examines how e-commerce can reduce the expenses associated with running a physical store or office, such as rent, utilities, and staff salaries. It also explores how e-commerce can enable businesses to use software and artificial intelligence to automate many of their tasks, such as inventory management, order fulfilment, customer service, and marketing. Finally, it discusses how e-commerce can help businesses access a wider and more diverse market, both locally and globally, by using the internet and social media. The paper concludes that e-commerce can help businesses improve their efficiency, profitability, and competitiveness in the global market.

Introduction

E-commerce, or electronic commerce, is the process of buying and selling goods and services over the internet. It involves the use of electronic platforms, such as websites, mobile applications, and social media, to conduct transactions between businesses and consumers or between businesses. E-commerce has revolutionized the way businesses operate and has created new opportunities for entrepreneurs and consumers alike.

Benefits of e-commerce

- It offers a more convenient and efficient way to conduct business. Consumers can browse and purchase products from the comfort of their own homes, while businesses can reach a global audience without the need for a physical storefront.
- It enables businesses to streamline their operations by automating many of the tasks involved in the sales process, such as inventory management, order processing, customer service, and marketing.
- It helps businesses access a wider and more diverse market, both locally and globally, by using the internet and social media. This can increase sales and revenue, as well as reduce marketing costs.

Types of e-commerce

- Business to Consumer (B2C): When a good or service is sold to an individual consumer by a business, e.g., we buy a pair of shoes from an online retailer.
- Business to Business (B2B): When a good or service is sold by a business to another business, e.g., a software-as-a-service is sold by a business for other businesses to use.
- Consumer to Consumer (C2C): When a good or service is sold by a consumer to another consumer, e.g., we sell our old furniture on eBay to another consumer.
- Consumer to Business (C2B): When a consumer’s own products or services is sold to a business or organization, e.g., an authority offers exposure to their online audience in exchange for a fee or a photographer licenses their photo for a business to use.

Objectives of the study

- To increase the efficiency and productivity of business processes by using electronic platforms and tools.
- To lower the overhead costs of running a physical store or office, such as rent, utilities, and staff salaries, by using digital technologies.
- To expand the market reach and customer base of the business by using the internet and social media to access a wider and more diverse audienceand to provide more information and choice to buyers and sellers.
- To enhance the competitiveness and profitability of the business by using e-commerce to reduce transaction costs.

Evaluation of e-commerce

E-commerce is a growing and competitive industry that involves buying and selling goods and services over the internet. There are many ways to evaluate the performance and success of an e-commerce business, such as using metrics, valuation methods, audits, and market research. Here are some examples of how to use these methods:

Metrics measurements

Metrics are quantifiable measurements that help you track and analyze various aspects of your e-commerce business, such as sales, traffic, conversion, retention, and profitability. Some of the key metrics you should monitor are:

- **Revenue**: the total amount of money your business generates from selling products or services.
- **Gross margin:** the percentage of revenue that remains after deducting the cost of goods sold (COGS).
- **Customer acquisition cost (CAC):** the average amount of money you spend to acquire a new customer.
- **Customer lifetime value (CLV):** the estimated net profit you can generate from a customer over their entire relationship with your business.
- **Average order value (AOV)**: the average amount of money a customer spends per order.
- **Conversion rate:** the percentage of visitors who complete a desired action on your website, such as making a purchase or signing up for a newsletter.
- **Cart abandonment rate:** the percentage of visitors who add items to their cart but leave the website without completing the purchase.
- **Repeat purchase rate:** the percentage of customers who make more than one purchase from your business.
- **Customer retention rate:** the percentage of customers who remain loyal to your business over a given period of time.
- **Net promoter score (NPS)**: the measure of customer satisfaction and loyalty based on how likely they are to recommend your business to others.

E-Commerce Growth Rate

Year	Global retail e-commerce sales (in billion U.S. dollars)	Retail e-commerce sales in India (in billion U.S. dollars)	Annual average growth rate%	Annual average growth rate%

			of Global retail e-commerce sales	**of Retail e-commerce sales in India (in billion**
2015	1,3361	16.32	-	-
2016	1,8451	20.62	38.1%	26.3%
2017	2,3041	26.82	24.9%	30.1%
2018	2,8421	32.72	23.4%	22.0%
2019	3,5351	39.42	24.4%	20.5%
2020	4,2801	51.32	21.1%	30.2%
2021	5,4181	74.82	26.6%	45.8%
2022	6,3881	111.42	17.9%	48.9%
2023	7,4741	168.32	17%	51.0%

Sources: E-commerce worldwide - statistics & facts-commerce and Online Shopping in India – Statistic.

The data shows the global and Indian retail e-commerce sales from 2015 to 2023. Retail e-commerce refers to the online sale of goods and services to consumers. The global retail e-commerce sales have increased steadily from 1.34 trillion U.S. dollars in 2015 to 7.47 trillion U.S. dollars in 2023, with an average annual growth rate of 22.6%.The retail e-commerce sales in India have also grown rapidly from 16.32 billion U.S. dollars in 2015 to 168.32 billion U.S. dollars in 2023, with an average annual growth rate of 38.9%.

The share of India in the global retail e-commerce sales has risen from 1.2% in 2015 to 2.3% in 2023, indicating that India is becoming a more significant player in the e-commerce market. The e-commerce penetration rate, which is the percentage of internet users who have purchased products online, is estimated to be 93.5% globally and 76.7% in India in 2023, suggesting that there is still room for growth in both markets.

Cost reduction strategies

E-commerce is the trading or facilitation of trading of products or services using computer networks, such as the internet or online social networks. E-commerce businesses face various types of costs, such as cost of goods sold, labor costs, marketing costs, shipping costs, transaction fees, taxes, etc. These costs can affect the profitability and competitiveness of e-commerce businesses, so it is important to implement cost reduction strategies.

Ways to reduce costs for e-commerce businesses

- ❖ Optimizing the product portfolio and inventory management to avoid overstocking or understocking.
- ❖ Negotiating with suppliers and vendors to get better prices, discounts, or free shipping.
- ❖ Choosing the most suitable e-commerce platform and payment gateway that offer low fees and high security.
- ❖ Implementing effective marketing strategies that target the right audience, use the right channels, and measure the return on investment.
- ❖ Automating and outsourcing some business processes, such as accounting, customer service, order fulfilment, etc. to save time and money.
- ❖ Improving the website design and user experience to increase conversion rates, customer loyalty, and referrals.
- ❖ Leveraging data analytics and artificial intelligence to optimize pricing, product recommendations, and customer segmentation.

Cost Reduction Strategy	Potential Benefit
Optimizing product portfolio and inventory management	Lower inventory holding costs, less waste, higher sales
Negotiating with suppliers and vendors	Lower purchasing costs, better quality, faster delivery
Choosing the most suitable e-commerce platform and payment gateway	Lower transaction fees, higher security, better functionality
Implementing effective marketing strategies	Lower marketing costs, higher customer acquisition, retention, and satisfaction
Automating and outsourcing some business processes	Lower labor costs, higher productivity, efficiency, and quality
Improving the website design and user experience	Lower bounce rate, higher conversion rate, customer loyalty, and referrals
Leveraging data analytics and artificial intelligence	Lower pricing errors, higher sales, customer satisfaction, and profitability

Conclusion

E-commerce is a powerful tool that can help businesses reduce their operational costs by leveraging the advantages of digital technologies, such as lower overhead costs, automation, and wider market reach. E-commerce can also help businesses save on transaction costs by negotiating lower fees and using third-party logistics providers. E-commerce can thus enhance the efficiency, profitability, and competitiveness of businesses in the global market.

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