

India

E-tailing on the path to success



India: E-tailing on the path to success

India's e-tailing industry has the potential to grow from USD0.6 billion in 2012 to USD76 billion by 2021 – more than a hundredfold in 10 years¹. What do firms need to know about e-tailing in India to ride this wave of growth?

India's e-tailing industry

India's e-commerce market is projected to reach USD20 billion by 2015. By 2021, the projected growth would be a hundredfold, from USD0.6 billion in 2012 to USD76 billion².

India's e-tailing sector is booming, dominated by start-ups with backing from venture capital funds and driven by the younger generation. The sector's growth as well as the rise in number of Internet users in India is attracting established players to enter the e-commerce business³.

Why is e-commerce booming?

India's e-commerce market is set to reach USD6 billion in 2015⁴ with scope for more growth due to the growing Internet user population and increased usage of mobile phones. Some of the key factors behind this growth include:

Rise in Internet users

Till June 2014, India was lagging behind China and the United States in terms of the number of Internet users – coming in a close third. According to a report by the Internet and Mobile Association of India in 2014, India is projected to have the second largest population of Internet users in the upcoming three years. The report also claims that the number of online users will rise to more than 500 million by 2018⁵.

¹ E-tailing in India: Unlocking the Potential, Technopak, May 2013

² Ibid

³ India in 2014, Accenture, 2014

⁴ Gartner says India Ecommerce market to reach \$6 billion in 2015, Gartner, Inc., 16 October 2014

⁵ Over 500 Million Internet Users in India by 2020: Report, NDTV, Kashish, 15 January 2015

Mobile devices

India has tremendous potential in the mobile communication realm. This can be attributed to the 6 million new Internet users added every month – most of them through mobile phones⁶. Another factor contributing to this is the inadequacy of copper fixed line connections across the country as a whole.

The introduction of 3G and 4G network services is expected to boost e-tailing. Telecom companies in India have committed USD15 billion to acquire licenses for 3G networks. The penetration of 3G networks in 2013 stood at approximately 6 per cent of India's population with approximately 70 million users, and is estimated to reach 370 million users by 2017⁷.

Potential in Tier-2 and Tier-3 cities

Online shopping is booming in metros as well as smaller cities. Internet usages in small cities – like Bhubaneswar, Mangalore, Pondicherry and Kolhapur to name a few – are on the rise. In 2011, approximately 48 per cent of the total urban Internet users belonged to smaller cities with a population below 1 million. Hence, the biggest addressable market for internet users lies in the Tier-2 and Tier-3 cities.

Some Indian e-tailers use multilingual (local dialect) search engines to enhance the online shopping experience for customers in different regions of India.

Just over a third of Internet users came from the top 8 metropolitan cities in India. Apart from price discounting, e-tailers also adopt other approaches such as multilingual

⁶ Indian e-tailing market to reach \$15 billion by 2016: Google report, The Economic Times, Mehak Chawla, 20 November 2014

⁷ Ibid

(local dialects) search engines to enhance users' online shopping experience in different regions⁸.

Liberalization of Foreign Direct Investment (FDI)

Currently in India, Foreign Direct Investment (FDI) in Business-to-Consumer e-commerce is prohibited. This means that foreign businesses cannot sell products directly to Indian consumers online. However, due to the capital-intensive nature of the business, an estimated 70 to 80 per cent of e-commerce companies are in need of funding⁹. Liberalization of FDI norms would not only help India's e-tailing industry from a funding perspective, but would also usher in valuable operational know-how from mature markets.

What should investors look-out for?

The Indian e-tailing market is set to undergo massive changes in the coming years. Some noteworthy trends include:

Women are primary buyers

Women bought goodies worth USD500 million over the Internet in 2013 and this figure is expected to grow fivefold to reach USD3 billion in the following three years, with fashion being the most popular category. For instance, Myntra – an e-commerce player in fashion and casual lifestyle products – expects to earn 50-55 percent of its sales in the next two years from women consumers¹⁰.

Option of (Cash-on-Delivery) CoD

The penetration of plastic money is still lagging in India. Consumers have adopted CoD as a reliable and safe way to pay for online purchases. Most online retailers offer CoD as an option to boost online sales revenue.

⁸ Ibid

⁹ India absent in top global e-tailing market rankings, Livemint, Suneera Tandon, 22 November 2013

¹⁰ Women ignite e-tailing in India, ZDNet, Rajiv Rao, 31 March 2014

In 2013, Cash on Delivery accounted for 55-60 per cent of online transactions in India

However, this comes at a heavy price to the e-tailers. Not only do they suffer higher cost of payment delays, consumers are also likely to return the goods which in turn curtails margins. In 2013, Cash on Delivery accounted for 55-60 per cent of online transactions in India¹¹.

Private Equity Investments

Private Equity (PE) and Venture Capitalists (VC) are investing heavily in the Indian e-commerce market. In July 2014, Flipkart raised more than USD1 billion and another USD700 million during two separate fund-raising campaigns. Similarly, Japan's SoftBank made a commitment in October to invest USD627 million in SnapDeal¹².

Acquisition and consolidation

Mergers & Acquisitions (M&A) as well as consolidations have started popping up in India's e-commerce market as well as in other mature markets. Smaller enterprises are merging with leading companies – fueling competition. This is because e-commerce companies are running losses. Of the 193 Indian e-commerce firms that were set up over the last three years to 2013, 87 have ceased to exist¹³.

For example, Flipkart bought Letsbuy – a rival firm – for USD20 million in 2012. At the same time, Snapdeal acquired Esportsbuy – an online retailer of sports and fitness equipment – for an undisclosed amount of between USD10 to 15 million in April 2012¹⁴. In the next several years, more mergers and acquisitions are expected to follow.

¹¹ E-retail industry will be worth \$10 billion in 5 yrs time, Moneycontrol, Nivedita Jayaram Pawar, 22 November 2013

¹² Online shakes up physical format in India's retail space, The Economic Times, Aparajita Gupta, 25 December 2014

¹³ E-tailing: the next big thing, HT Media Limited, Vivek Sinha and Manoj Gairola, 26 January 2013

¹⁴ Ibid

The industry is not as rosy as it seems

Due to low Internet penetration as well as poor financial and logistical infrastructure, India is still trailing far behind its counterparts in terms of overall value. China (USD64 billion) continued to be at the top spot for the second year in a row for online market attractiveness, followed by Japan (USD52 billion) and the United States (USD177 billion)¹⁵.

🌐 E-tailing small percentage of retail

India's online market is still at a nascent stage. In 2012, the e-tailing market size was at USD0.6 billion contributing a miniscule of 0.1 per cent to the total retail sector of India worth USD490 billion¹⁶.

🌐 Low Internet penetration

There is still a long way to go until the Internet becomes truly generalized among the Indian population¹⁷. There are 900 million people with mobile subscriptions but only 10 per cent use smart phones and can access the Internet¹⁸. Thus, the potential for online shopping is huge.

🌐 Logistics constraints¹⁹

Logistics in India has always been challenging given the geographical complexity across the country. With the rapid growth of e-commerce, there is an urgent need to invest in road infrastructure for better support of online stores.

🌐 Customer service²⁰

Due to the immature state of India's e-tailing market, customer satisfaction levels are relatively low. According to a report in 2014, 62 per cent online shoppers expressed dissatisfaction in their shopping experience. Furthermore, according to an online consumer complaint

¹⁵ India absent in top global e-tailing market rankings, Livemint, Suneera Tandon, 22 November 2013

¹⁶ Ibid

¹⁷ Ibid

¹⁸ India absent in top global e-tailing market rankings, Livemint, Suneera Tandon, 22 November 2013

¹⁹ Ibid

²⁰ Ibid

site, a total of 11,980 e-commerce related complaints were registered between January - March 2013.

The majority of consumers complained of delivery of damaged goods, delivery of a different product or non-delivery. A major area of concern for complainants was the procedures for the return of goods, which were cited as either complicated or expensive.

Future outlook

India's e-tailing market is still far behind other large economies. However, there can be no doubt that the sector will growth massively in the coming years, driven by Gen-X Indians who are tech-savvy and who find online shopping more convenient.

There are several growth drivers which make the growth expectations real and achievable. Internet penetration through mobile devices is diffusing across the entire nation – allowing flexible access to online stores – while on the go. Secondly, major players in the e-tailing market are investing heavily to expand their consumer base. This is done by offering attractive price discounts and improving the online shopping experience for customers. Additionally, the government also intends to ease the policies for foreign investments in the online B2C market.

In opening up the bricks and mortar retail sector to competition, the Indian government faces huge political obstacles. This has held back the process of consolidation and modernization of retail in India, to the detriment of the Indian consumer. A farsighted policy would be for India to take measures to cautiously liberalize investment in e-tailing. This would allow consumers to exploit the prices, product range and service levels of large, modern retailers without having to leave their homes or offices.

At the same time, e-tailers complain of low and falling margins due to problems of logistics, return of goods and non-payment. It remains to be seen if online vendors can overcome these obstacles so as to both scale up volume and become profitable.