E-RETAIL IN INDIA

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Scope

India and Customer Base

India has an internet user base of about **375 million** (30% of population) as of Q2 of 2015. Despite being the second largest user base in world, only behind China (650 million, 48% of population), the penetration of e-commerce is low compared to markets like the United States (266 M, 84%), or France (54 M, 81%), but is growing at an unprecedented rate, adding around **6 million new entrants** every month. The industry consensus is that growth is at an inflection point.

Key drivers in Indian e-commerce are:

- Large percentage of population subscribed to broadband Internet, burgeoning 3G internet users, and a recent introduction of 4G across the country
- Explosive growth of Smartphone users, soon to be world's second largest smartphone user base
- Rising standards of living as result of fast decline in poverty rate
- Availability of much wider product range (including long tail and Direct Imports) compared to what is available at brick and mortar retailers
- Competitive prices compared to brick and mortar retail driven by disintermediation and reduced inventory and real estate costs
- Increased usage of online classified sites, with more consumer buying and selling second-hand goods
- Evolution of Million-Dollar startups like Jabong.com, Saavn, Makemytrip, Bookmyshow, Zomato etc.

India's retail market is estimated at **$470 billion in 2011** and is expected to grow to **$675 Bn by 2016 and $850 Bn by 2020**. **Consumer electronics, online travel, apparel and accessories** are the market segments exhibiting promising growth.

2014 will go down as the Year of e-commerce, firing the aspiration of the Indian youth and middle class while the coming year will be even more promising both for the consumer as also the entrepreneurs, with average annual spending on online purchases projected to increase by **67 per cent to Rs 10,000 from Rs 6,000 per person.**

In 2014, about **40 million** consumers purchased something online and number is expected to grow to **65 million** by 2015 with better infrastructure in terms of logistics, broadband and Internet-ready devices will be fuelling the demand in e-Commerce.

The sector attracted the attention of investors, who included top global firms and leading industry leaders like Mr Azim Premji and Ratan Tata. The brands like Flipkart and Snapdeal are enjoying edge over the global players like Amazon.

E-commerce industry, valued at **$17 billion**, growing at an compound annual growth rate of about **35 percent each year** and will cross **$100 billion in the next five years**, The smartphone and tablet shoppers will be strong growth drivers. **Mobile** already accounts for **11%** of ecommerce sales, and its share will jump to **25%** by 2017.

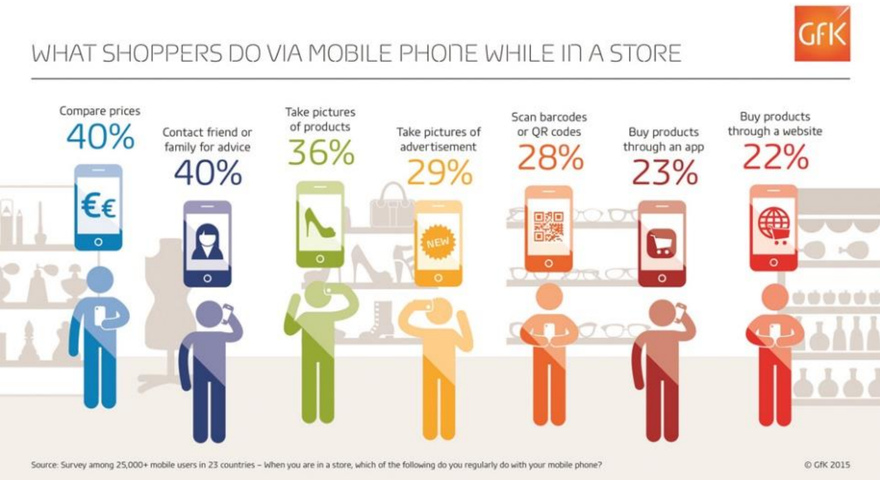
Computer and consumer electronics, as well as apparel and accessories, account for the bulk of India retail ecommerce sales, will contribute 42% of total retail ecommerce sales in 2015 from the current level of 39% With nearly one-third of internet users already making purchases online, the ecommerce growth will rely more on increased spending from existing buyers than first-time online buyers. The paper said, online shoppers and buyers starting with a base age of 18 are become more involved with ecommerce in their early teens.

New considerations for physical retailers

- Four in ten shoppers worldwide are using their mobile phones while shopping inside a store to compare prices
- Four in ten are contacting friends or family for advice
- Over a third take pictures of products they might buy

Online shoppers are famous for having instant access to price comparisons at the very moment of making a purchase – but now ‘bricks and mortar’ shoppers are bringing this behavior in-store.

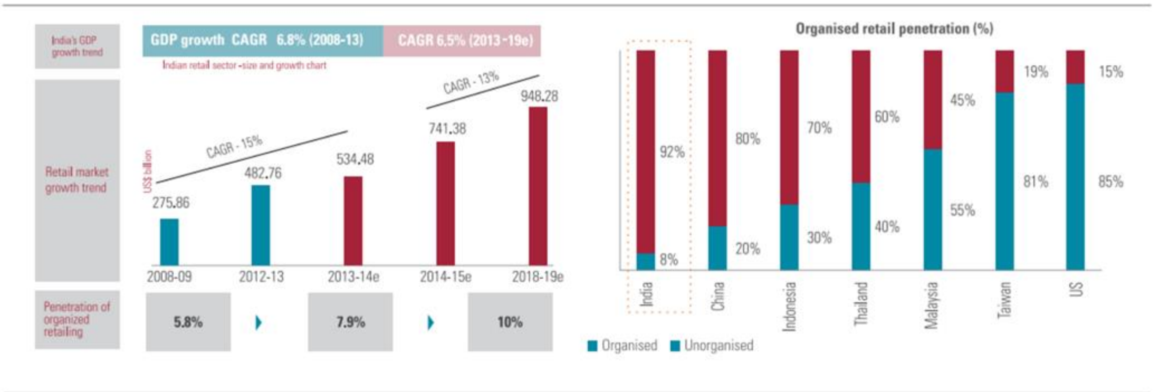
GfK asked mobile phone users in 23 countries what activities they regularly do on their mobile phones while they are inside a store. The leading behaviors are comparing prices and contacting a friend or family member for advice (at 40 percent each), followed by taking pictures of products that they might buy (at 36 percent).



Emerging Opportunity

In terms of global comparison of organized retail sector penetration, other developing countries such as Malaysia, Thailand, Indonesia and China are significantly ahead of India.

Indian retail sector - size and growth

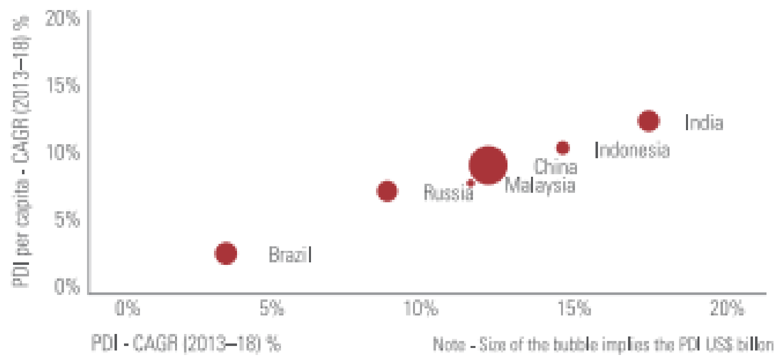


Source: Crisil Research Estimates – 2014

Global positioning of Indian Retail

India was **ranked fifth** in 2012 on **Global Retail Development Index**, by AT Kearney, highlighting it as one of the key foreign investment destinations worldwide. However, in 2013, the rank fell to fourteenth possibly due to slow spending and general **economic slowdown**, along with **policy concerns** over approval of multi-brand retail across several states in India. This trend is expected to reverse soon supported by factors such as **improving demographics, rising disposable income levels, expansion of organized retail sector into Tier 2 and 3 cities, changing consumer habits**, etc. This could provide a window of opportunities for national and international players in the next 5 to 10 years

India's personal disposable income (PDI) growth comparison with other emerging markets

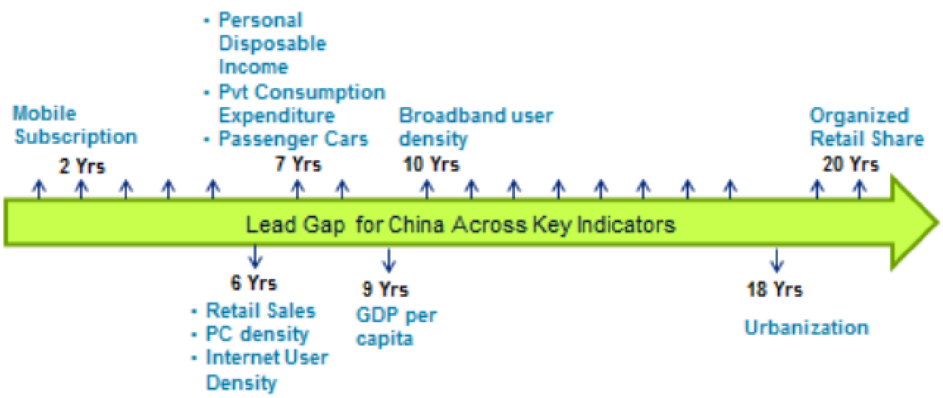


Source: Euromonitor Estimates

India vs. China

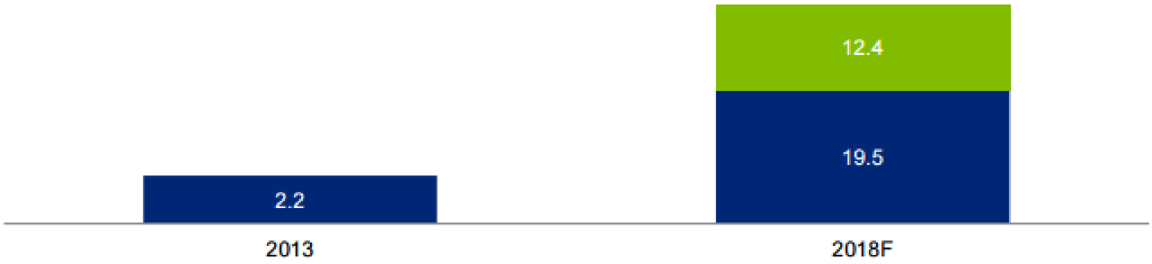
Online retail in India could potentially be a disruptive model for the Indian market. It helps players avoid two of the most oft repeated challenges in Indian retail – high rental costs and lack of skilled store level manpower. If provided with the right regulatory enablers and economic conditions playing out favorably, the online market opportunity could be substantially higher. To estimate this incremental value, the typical lag between India and China on various macroeconomic, adoption, and consumption indicators was observed . This analysis revealed a broad range of 2 to 20 years, with 6-7 years being the most common. It was interesting to note that organized retail share showed the highest gap, and this is one area which has seen significant policy restrictions in India.

Fig 11: China vs India Across Key Indicators



Thus, it is fair to assume that with the 'right' enabling framework, online retail in India can be a disruptive market opportunity. Taking a conservative 10-year gap from the above logic, we could potentially add more than $12Bn to the originally projected market size for the Indian online retail market in India.

Fig 12: Accelerated Growth of Online Retail Market in India (USD Bn)

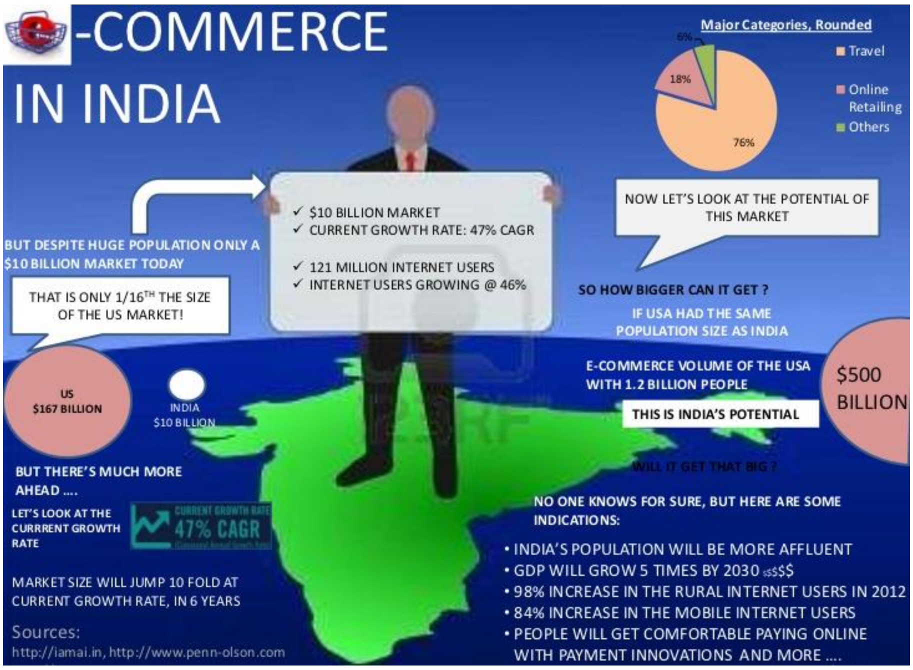


E COMMERCE

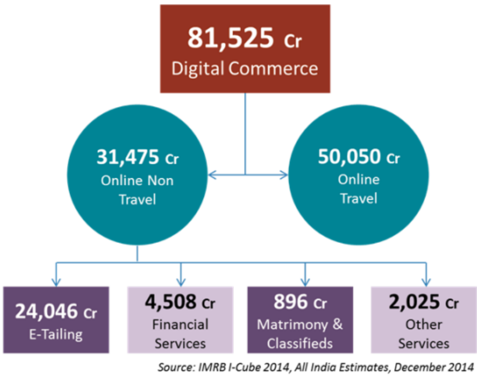
India's e-commerce industry is likely to clock a compounded annual growth rate (CAGR) of 35% and cross the$100-billion mark over the next five years, from $17 billion at present, according to an Assocham-Pricewaterhouse Coopers study.

Riding on the strong growth momentum of 2015, the e-commerce sector is estimated to see a 72% jump in the average annual spend on online purchases per individual in 2016, from the current level of 65%, the study said.

The following infographic elucidates the above in detail:

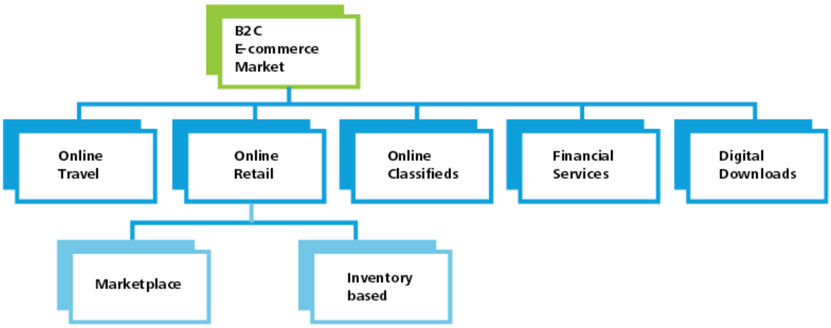


The E commerce industry's growth has been fostered by different rates of growth in different categories. There are numerous categories ranging from online retail to online travel. **88% growth in the Indian e-commerce industry in 2013 to reach $16 billion**. This is again mainly dominated by the travel segment which accounts for more than 70% of the transactions in the industry. India's travel and tourism industry is expected to grow by 7.3 per cent in 2014, outperforming the general economy by 2.5 percentage points, says The *World Travel and Tourism Council* (WTTC) in its annual economic impact report.



The financial package and personalised deals offered by online travel companies is helping the industry grow both in terms of value and volume. Some of the aspects that are driving growth in the segment are- tie-ups with hotels and lodges to provide a complete travel package and out-of-the-box solutions offered by new entrants. Apart from this, use of innovative technology –like mobile apps to help customers connect with the portal, has become a major differentiating factor when selecting long-term association with a travel company.

Again for one mode of E commerce transaction let us see the different categories existing as follows:



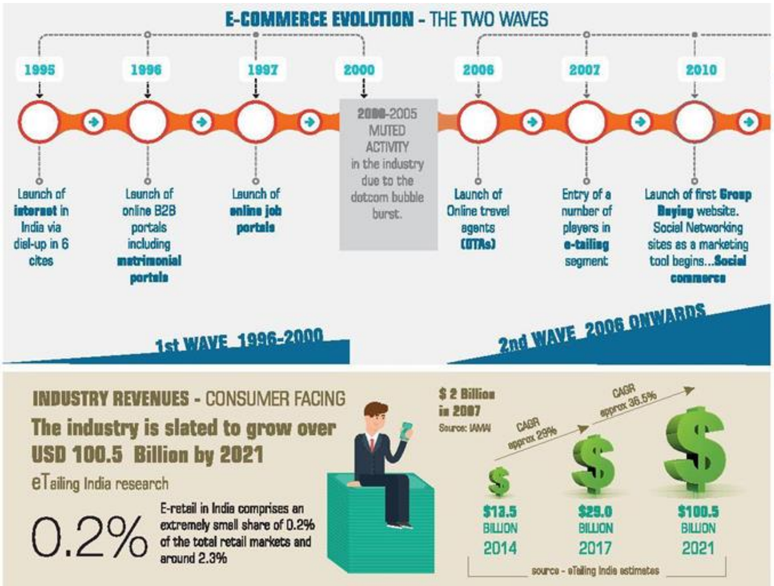
E commerce Transactions

There are different modes of E commerce transactions. As explained above, the categories are specific to a particular mode of transaction. There are broadly three modes of E commerce transaction and they are :

- B2B – business to business
- B2C – business to consumer
- C2C – consumer to consumer

Each and every one of these modes have a certain assortment of service categories and a detailed infographic to elucidate the same is as follows:

The E commerce industry in India has evolved adapting itself to the local conditions and bringing the best practises from all over the globe. The operational models – on a broad level for e-tailing has been centred around inventory based and market place only. However, at an operational level the pace of innovations has been rapid in the Indian space. The following infographic elucidates the innovations in the Indian E-commerce space.

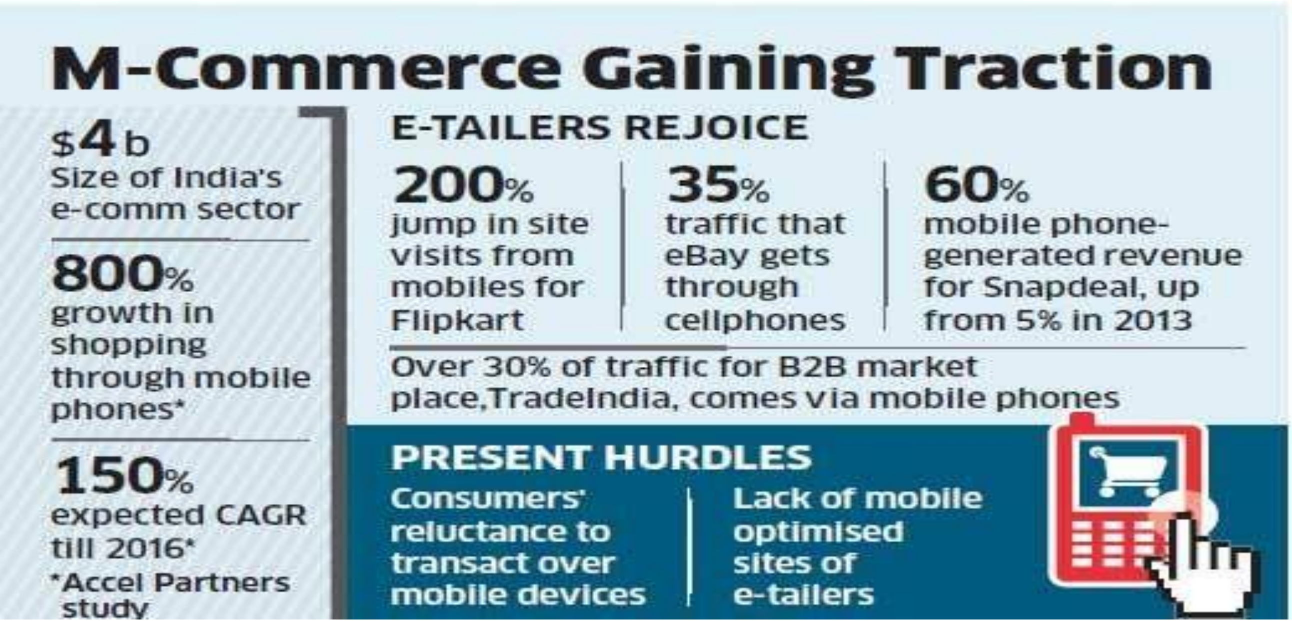


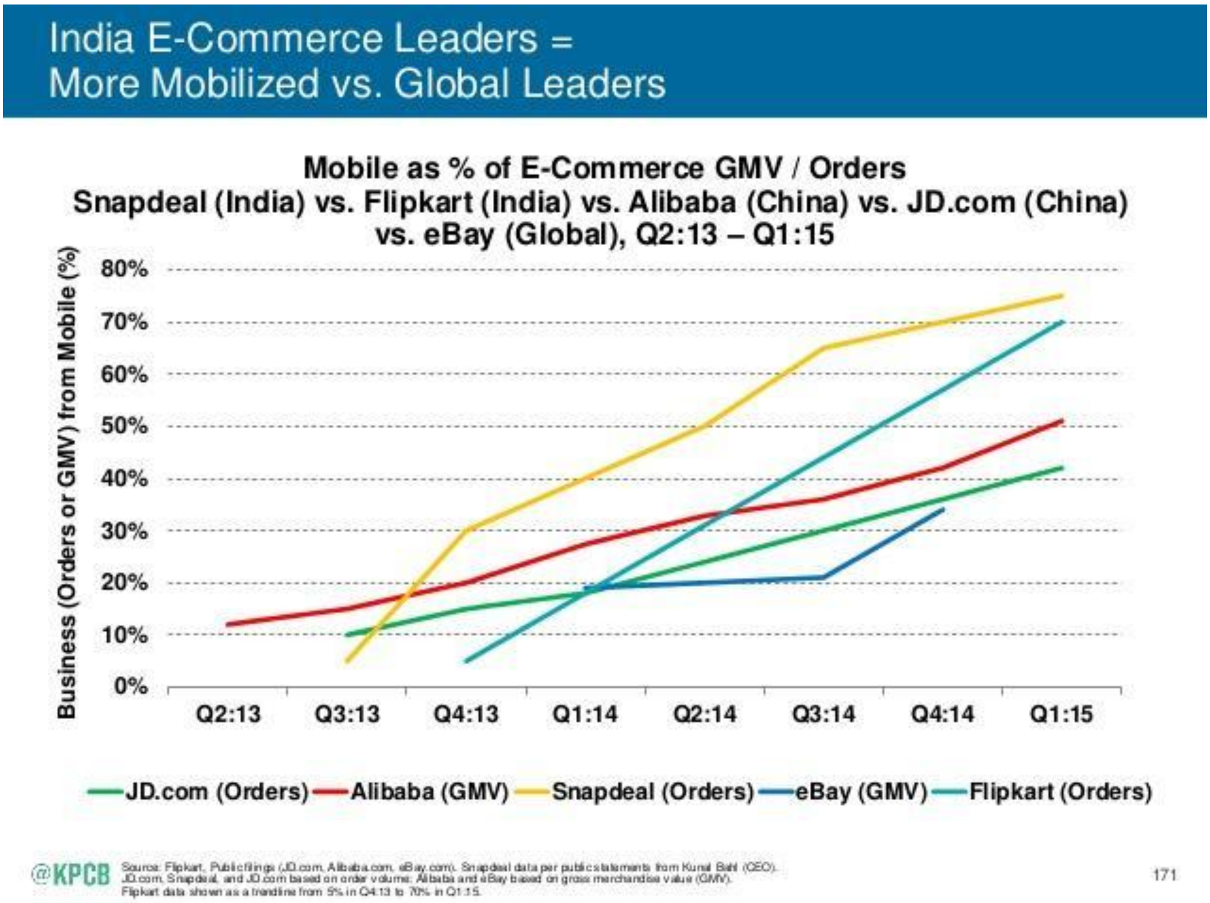
M-Commerce

As mentioned in a report released in April by market research firm Zinnov, India's mobile commerce market could rise to $19 billion by 2019, up 850 percent from its current size of $2 billion. Ever increasing smartphone sales in the world's second most populous country coupled with a tsunami of low-cost handsets is the key driver, the report said.

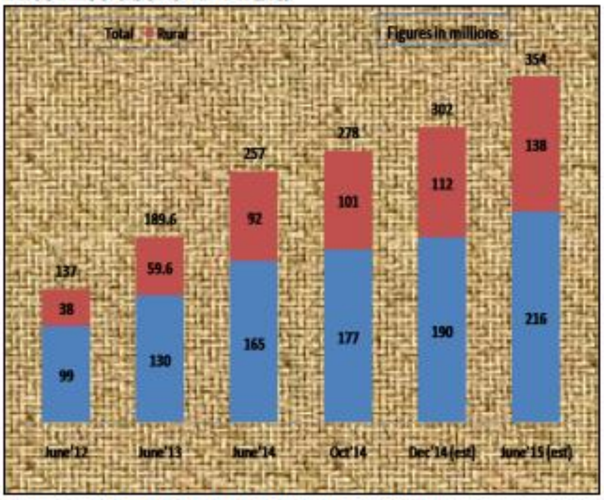
Projections by Cisco put the number of smartphone users in India at 651 million by 2019, almost five-times from 140 million by end-2014. The study, released in February, noted a 54 percent surge in the number of smartphone users in 2014 as the average price of handsets fell to around $150 last year and as smartphone penetration increases in rural India.

With the availability of inexpensive mobile data plans increasing, analysts believe this will help promote internet usage via mobile handsets — and consequently online shopping.





Internet users in India



Source: IAMAI-IMRB I-cube estimates

Urban vs Rural grow

Period
Growth YOY
October 2014
December 2014 (Projection)
June 2015 (Projection)

Growth of Mobile Te

Dec'12	864
Mar'12	867
Jun'12	873
Sep,12	870
Dec'13	886
Mar'14	904

Source : TRA

However, obstacles that threaten the growth potential of mobile commerce in India are also there. For one, India's preference on cash usage and security concerns about e-transactions is causing friction with the burgeoning online shopping market, analysts say. Large players are wary of the 'Cash on Delivery' system as it is manpower intensive, and requires time to collect the cash from the consumer's doorstep.

In addition, India's poor logistics infrastructure creates a challenge for e-retailers to offer quick delivery services, while the lack of stable telecommunications infrastructure across the country could also limit the pace of growth.

Legal Regulatory Issues

Foreign direct investment (FDI) in multi-brand retail trading (MBRT) in India has been at the centre-stage of political controversy arising from the need to balance the interests of large corporate entities and small retailers.

The Journey so Far

The Indian government has traditionally taken a conservative and cautious approach towards liberalization of FDI in MBRT. So much so that FDI in MBRT in India was a 'prohibited sector' till 20 September 2012. While FDI up to 100% under the automatic route was permitted in "cash and carry wholesale trading" (Wholesale Trading), these entities were under strict restrictions that allowed sales only to a 'business/wholesale trader' and not to an 'end consumer'.

Deterrents

Concerns:

Better infrastructure in terms of logistics

Broadband and Internet-ready devices

Internet Penetration: 25% internet penetration is still an abysmal number for any omniscient revolution to take place.

Internet Speed: The speed is only 0.5mbps in India compared to 4mbps in China.

Logistic Infrastructure: India has 90,000 postal PIN codes and still after Indian Post, there is no other company that has the capability to deliver more than 10,000 Pin posts, which means almost 80,000 PIN codes are practically unserviceable. For any commerce to pick up, last mile delivery poses the biggest challenge.

Tax and regulatory structuring

Companies need to address issues:

Sub-optimal warehouse tax planning

Imbalance between FDI norms vis-à-vis adequate entity controls

Inefficient holding, IPR or entity structures

International tax inefficiencies

The new Companies Act, policy on related-party transaction pricing, and the uncertainty around GST roadmap.

The very first step towards opening up the MBRT sector for FDI was taken on 6 July 2010, when the Department of Industrial Policy & Promotion (DIPP), under the Ministry of Commerce and Industry of the Government of India, issued a discussion paper on FDI in MBRT.

Eventually, after two years the DIPP on 20 September 2012 issued Press Note No. 5 permitting FDI in MBRT for up to 51% under the government/approval route (i.e. subject to the prior approval of the Foreign Investment and Promotion Board (FIPB)). But this liberalization came along with a list of stringent and unclear conditions and therefore failed to inspire confidence with industry participants. Press Note 5 has since been incorporated in the Consolidated FDI Policy of 2013 (Circular 1 of 2013) (FDI Circular), which supersedes all previous press notes released by the DIPP.

Taking the disappointment expressed by industry participants into consideration, the Union Cabinet and the Cabinet Committee on Economic Affairs, in a meeting held on 1 August 2013, decided to review and relax certain conditions and the relaxed conditions were notified by DIPP on 22 August 2013 under Press Note 5 (2013 series) (Amendments), perhaps in the hope of making the FDI regime in MBRT look more attractive and practical for prospective foreign investors.

Policy Framework - FDI in MBRT

- **Compulsory investment in backend infrastructure**
- 30% mandatory sourcing from small industries

Geographical Restrictions

As per geographical restriction, MBRT stores can be set up only in cities with a population of more than 1,000,000 (determined as per 2011 census). However, pursuant to the Amendments, Indian States may also at their discretion can now allow MBRT stores to be set-up even in cities which have a population of less than 1,000,000. Keeping Indian context in view, where any major tier I or tier II city typically has a population significantly in excess of 1,000,000, the easing of this condition pursuant to the Amendments is of limited benefit to foreign investors.

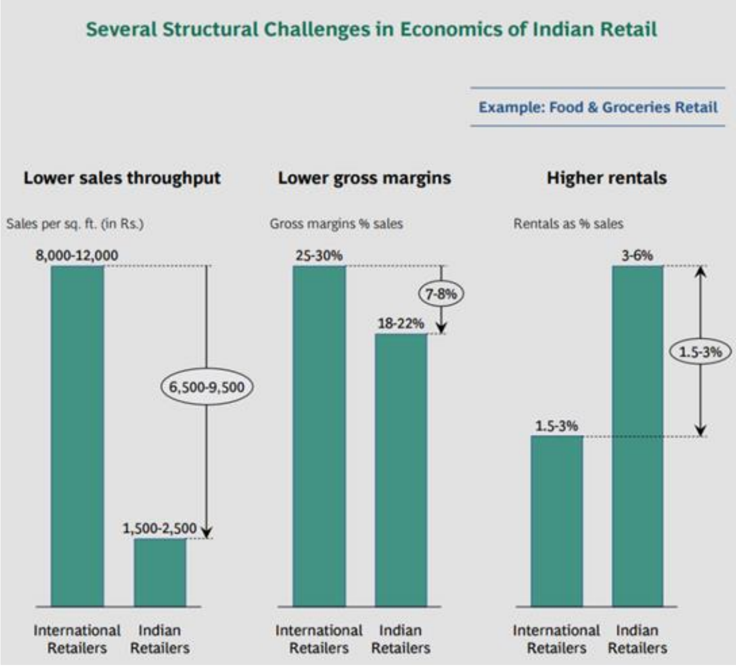
Restriction on E-Commerce and Franchisee Models

As per the FDI Circular read with the Clarifications, MBRT by way of e-commerce is not permitted for MBRT entities having FDI. The Clarifications further provide that the front end stores set up by the MBRT entity should be 'owned' and 'operated' by such MBRT entity and that FDI in MBRT cannot be operated through franchisee models.

An inter-ministerial panel has requested the Telecom Regulatory Authority of India (TRAI) to take up the role of e-commerce regulator in India or suggest the need for a separate regulator for e-commerce. At present, TRAI regulates telecommunications, media and broadcasting industries.

The panel will prepare a paper on imposing restrictions on the location of servers and on getting companies like Google and Amazon to set up data centres in India.

Internet telephony and VOIP service providers are under pressure to establish their servers in India.



Roadblocks- deterrents

ODR can be used for resolving corporate disputes, certain civil disputes, e-commerce disputes, cross border technology transactions disputes, cross border business disputes, etc.

Payments and transactions: ecommerce companies may face issues around security and privacy breach and controlling fictitious transactions. Further, RBI restrictions for prepaid instruments or wallets act as impediments. From a transactions perspective, cross-border tax and regulatory issues, and backend service tax and withholding tax can have serious implications.

Consumer

Perception

The e-commerce consumer is becoming more and more discerning when it comes to his expectations out of an e-retailer. It is not just about offering ‘Cash on Delivery’ anymore- the e-tailer needs to provide superior customer service, and simplify his current product return process in case of dissatisfaction. Apart from the service delivery aspect of e-tailing, there is also a mental barrier in the minds of consumers as to the quality of the products being sold online. Non-buyers have their doubts about the products and slow internet speeds in most parts of the country act as a barrier to online shopping.

Consumer Requirements

The need of the hour is to improve the customer experience at all touch points. Since omni-channel seems to be the mantra at the moment, a few e-tailers find themselves setting up brick-and-mortar formats and the existing physical stores are looking for ways to go online, trying to tap into an increasingly mobile audience. The customer requirement is ‘easy-to-use’ mobile apps to ensure a pull from non-buyers to start shopping online especially in Tier-1 and Tier-2 cities.

E-Competition

The current business model is fraught with difficulties (low margins, high customer acquisition costs, pressure to give huge discounts). Low levels of differentiation (similar brand/product selling, competing on price) is another characteristic of e-commerce forcing players to compete on price. Internal issues (conflicts among online/offline channel, management, investors and promoters) also add to the existing confusion in this industry.

Payment options

India faces its own set of issue when it comes to payment options for e-commerce. Since Cash on Delivery had to almost work like a Point of Parity characteristic, e-commerce players face additional issues in trying to obtain e-payments because in India, the credit card proliferation is low and online banking systems are not robust. Only around 35% of Indians have a bank account and use of online payment is even lower than credit card penetration. In India, COD accounts for around 75% of online purchases. Indian retailers who have tried using incentives to tempt consumers away from COD find that once the incentives are removed, purchasers revert back to their previous preference for COD payment. Nowadays, cashbacks are being used by wallet providers like Paytm to entice consumers to pay before delivery. However, there is still quite a long way to go.

Potential issues

Cyber law compliance is a key consideration in the online retail business. An inefficient anti-corruption framework, and uncertainty around VAT implications in different states due to peculiar business models could cause issues.

E-expectations

What is expected out of an e-tailer are the following:-

- Organisation design keeps pace with the rapidly evolving business strategy
- Fluid governance
- Strong leadership and management development
- Identifying acquisition opportunities
- Fund raising and IPO readiness
- Transform IT as an innovation hub
- Address the lack of synergy between business, technology and operations functions of the enterprise.

International e-retail developments

Fig 8: Top 20 Global Online Retailers

Retailer	Online Sales (USD Bn)	Online Share of Total Sales (%)
Amazon	85	100%
Apple	18	43%
360buy	17.8	100%
Walmart	9.2	2%
Otto Group	8.8	47%
Dell	7	100%
Tesco	5	4%
Casino	4.5	35%
Sears	3.8	9%
Netflix	4.5	100%
Rakuten	3.6	100%
Newegg	3.2	100%
Suning	3.1	21%
QVC	2.9	40%
Lojas Americanas	2.8	42%
Staples	2.7	10%
CostCo	2.6	2%
Best Buy	2.5	5%
Dixons Retail	2.4	15%
Next	2.7	33%

Indian online players should study global models in their attempt to create a sustainable businesses. Market characteristics of online retail are similar across geographies as compared to brick and mortar retail.

Similarities with Indian e-retail trends…

- The sizeable categories sold online are Consumer Electronics and Apparel, accounting for roughly 40% and 45% in the US and China
- Globally, the share of the online channel in food & grocery (F&G) retail is negligible.
- For the books category, 45% of retail sales in the US come from the online channel.

Technology: Payment options explored

Social media networks such as Facebook are likely to increasingly become channels for sales and consumer engagement. First Data already offers a loyalty solution for the Facebook social media

International e-Retail

1. **Omni Channel Retailing**: This new concept of retailing which integrates and aligns all channels of consumer engagement (stores, e-commerce, mobile apps, and social media) is called Omni-channel retailing that provides:

Flexible and seamless shopping experience to consumers, irrespective of which of the channels is being used to engage with the brand.

2. Drive Format- is a form of click and collect:

Where a retailer prepares customer orders placed online

With or without order fee

Where shoppers collect their order at a pick-up point with a dedicated car parking area at a time of their choosing

Shoppers have to identify themselves at the terminal

Where orders can be pre-paid online or paid for at the collection point

Hybrid concepts like the 'Drive Format' which is a form of 'Click & Collect' gaining ground in markets like France. This format was nearly a Euro 4Bn market in France in 2013 having grown at 75% YoY. This concept looks to target young shoppers who are looking for convenience because of hectic lifestyles.

3. Performance of niche online retailers in the developed markets. These players bypass the large online retailers. Wayfair (revenues $1Bn) started out by offering niche network as well as mobile payments opportunities using our Trusted Service Manager (TSM) service, which powers part of the Google Wallet which has made headlines recently. With Google Wallet, millions of consumers will no longer need to carry their leather wallets. This mobile application securely stores credit cards, offers, gift cards and more on their mobile phone. This virtual wallet is changing the face of commerce by enabling customers to simply make “tap and go” payments with their mobile devices, while increasing loyalty at merchant locations.

(Global Retail Channels Growth USD Bn)

The nature of payments in India is also post purchase cash centric. According to Ernst & Young (E&Y), COD accounts for 50 to 80 per cent of online transactions in India. For the larger e-retailers, this payment mechanism is available in 600 cities and towns, and has helped them acquire first-time customers rapidly. There are many reasons why India took to COD.

Credit-card penetration is low - in August 2012, former Reserve Bank of India governor D. Subbarao noted that in comparison to other emerging markets such as Brazil, Mexico and Russia, the value of banknotes and coins in circulation in India, at 12 per cent of GDP, is high. The number of non-cash transactions per person in India is six per year - low compared with other emerging economies. Many cardholders avoid paying with plastic because of security concerns.

The homegrown players have shown tremendous growth and attracted some big investors. The entry of global biggies like Amazon and Alibaba has taken the competition to a new level. E-tailers are differentiating themselves by providing innovative service offerings like one-day delivery, 30-day replacement warranty, cash on delivery (CoD), cashback offers, mobile wallets, etc. The supply chain has improved significantly and e-tailers are even leveraging on the services of Indian Post for greater reach across the country. In 2014, Indian Post collected 2.8 billion through CoD option of payment.

Vertical specific E commerce players are mushrooming signalling a follow up of trend witnessed globally

Figure 6: Vertical specific e-commerce players in India (Illustrative)

Travel	Real Estate	Fashion	Furniture	Health	Education
• MakemyTrip • Goibibo • Yatra • IRCTC • Cleartrip	• MagicBricks • CommonFloor • 99acres • Housing	• Jabong • Myntra • YepMe • Zovi • FashionandYou	• FabFurninsh • Pepperfry • Urban Ladder • Zansaar	• Healthkart • LensKart • Portea Medical	• EduKart • Meritnation • Edureka • Toppr • embibe

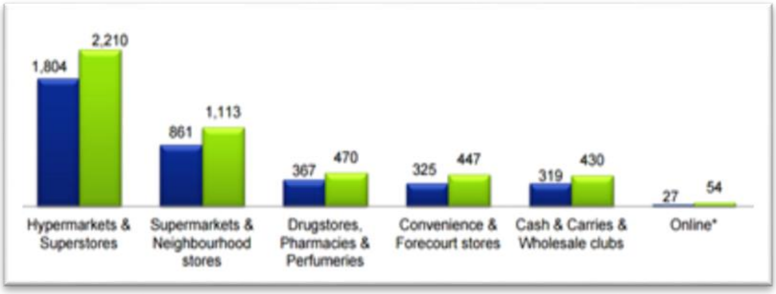
Source : Ernst and Yound Report on COD,2014 ; Uncovering Innovation Assocham Deloitte Report ; PWC E commerce Evolution In India report; Economic times; Business standard

Investments: Future

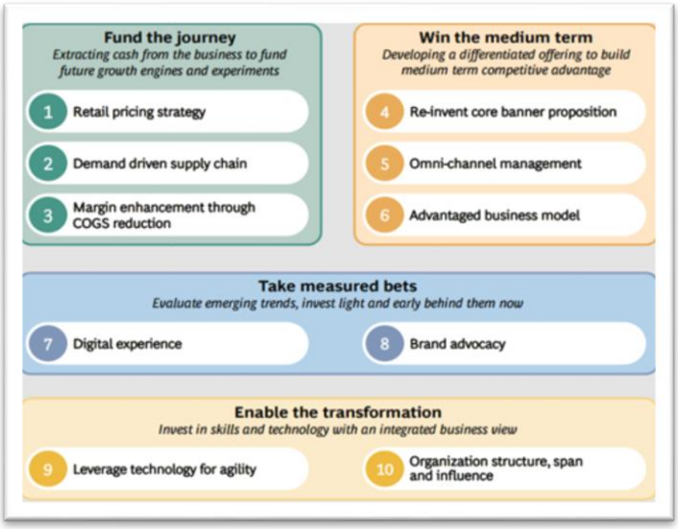
Venture capitalists (VC) and private equity players demonstrated their faith in the growth of e-Commerce. There is significant increase in the total investments (US$305 million in 2011 against US$55 million in 2010). Retrospective taxes reconsidered and relaxed for FPIs.

At $6 billion, India is minnows in global e-commerce markets where USA ($250 billion) and China ($70 billion) are at their prime. In $600 billion Indian retail industry, e-commerce contributes 1% which is miniscule where European markets boasting of as high as 20%.

For the books category, 45% of retail sales in the US come from the online channel.



(Global Retail Channels Growth USD Bn)



Solutions: Future

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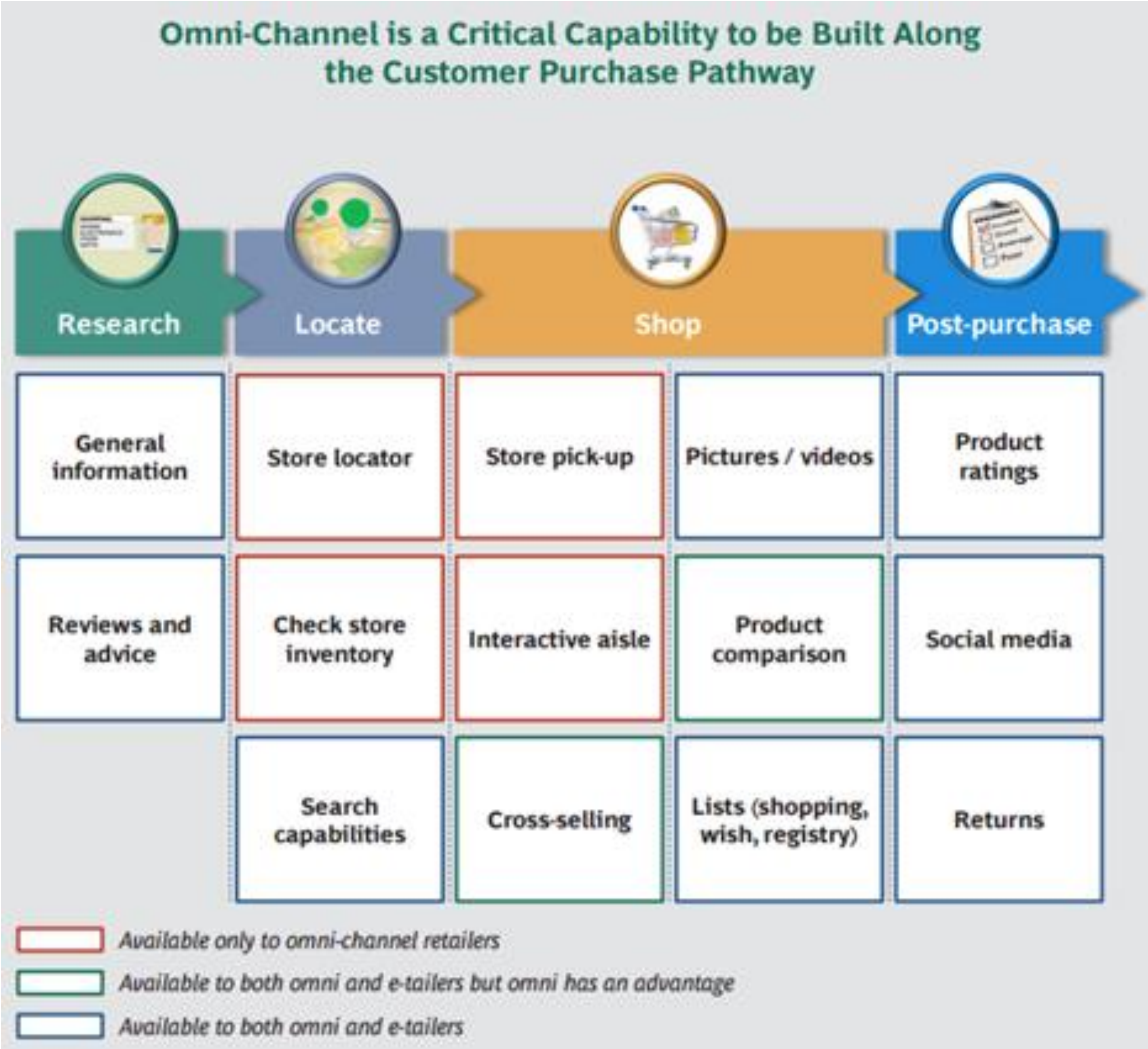
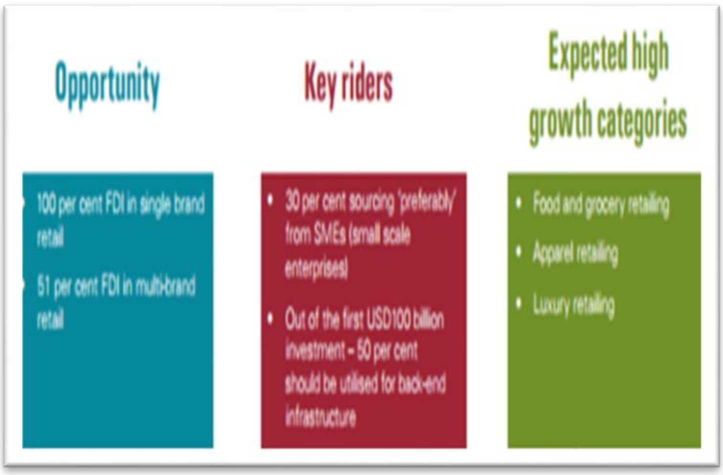
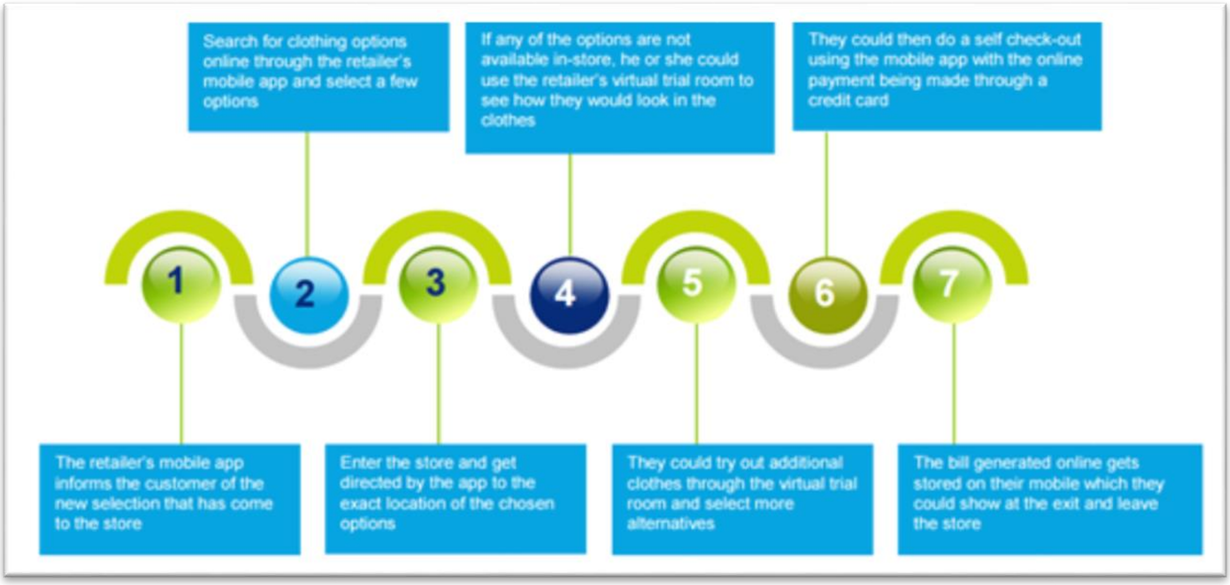


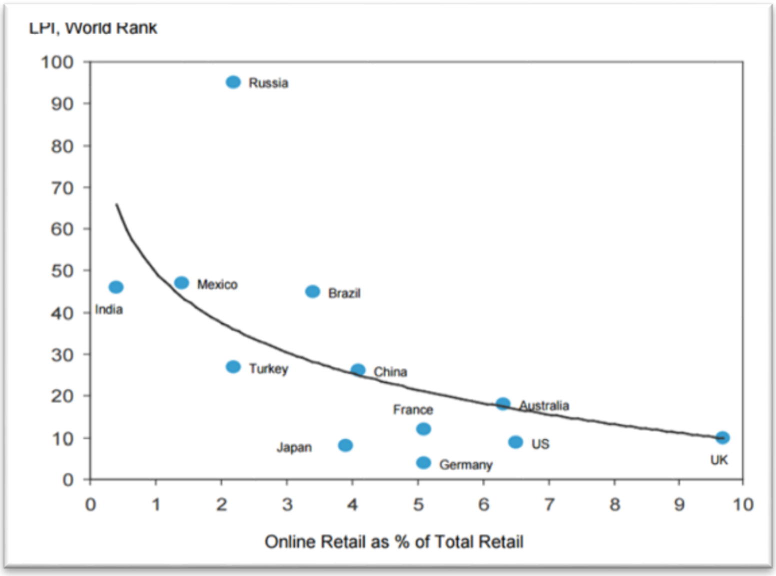


Large retailers such as Shoppers Stop, Croma, Future Group have already invested in building their online platforms but the business share is still <5%

The Brick and Mortar stores exist as the brand mascots.

The next step should be to align [redacted] complementary and not competitors





New class of Logistics and Distribution centres:

- Mega fulfilment centres
- Parcel Sorting
- Delivery Centres
- Local depots (faster order processing and return processing)

**Countries with higher proliferation of Online Retail have emerged higher on the World Bank's Logistics Performance Index (LPI)*

New Avenues and Gaps

1. Diversification

Amazon entered grocery segment with its Kirana now in Bangalore (planning to enter cities like Delhi, Mumbai and Chennai) Competition with Indian Start-ups like onedaycart.com, bazaarcart, bigbasket etc. Flipkart is also planning to enter grocery segment soon.

2. **Niche and single-branded e-commerce players**

Such companies and market places are in vogue with investors

- Slowdown in discretionary spending

- Operational issues (high rentals and limited real estate options)
- Physical retailers strengthening online presence.
- 'VoxPop' Clothing develops limited edition t-shirts in partnership with international and domestic entertainment, sports and other brands. It has witnessed 20% month-on-month growth and has been offering creative designs to fans of brands such as Disney, Marvel, Batman, Superman, Game of Thrones, Mumbai City Football Club and others.

3. Warehousing and sortation centres

This constitutes around 3 - 6% of top-line revenues for the ecommerce companies

- 450 to 900 million USD in warehousing till 2017-2020
- 500 to 1000 million USD in logistics functions till 2017-2020.
- Additional employment of close to 100000 people in these two functions alone by 2017-2020.

(currently over 25,000 people are employed in e-retailing warehousing and logistics)*

4. Virtual reality

Walls and virtual mirrors for improving customer experience

- Virtual mirrors let shoppers 'try on' clothes and accessories virtually before making buying decisions. Virtual walls help customers scan barcodes for items on an electronic wall using their mobile phones and place orders with retailers. E.g. Tesco in South Korea was an early adopter of this technology
- HomeShop18 had launched India's first virtual-shopping wall
- Scan N Shop at New Delhi's international airport uses a similar technological interface.

5. Quality and Global standards

Consumers understand global standards of product and service quality

- Rural Indians recognise the differences between the opportunities available to them and those available to their urban counterparts.
- The number of mobile subscribers in India jumped from 261 million in 2007-2008 to 910 million in 2013-2014. The number of rural internet users is growing by 58% annually.
- Number of smartphone users is expected to grow at a CAGR 91% from 2012 through 2016, jumping from 29 million to 382 million.
- Number of 3G subscribers could expand at a CAGR of 84%—from 23 million to 266 million—during the same period.

*(*the gross number of online users in India now exceeds the number of people who have completed primary education)*

6. New Business Models

- Marketplace and pick & drop: sellers partner with leading marketplaces to setup a dedicated online store on latter's website.
- Self-Owned Inventory
- Private Label: e-Commerce company sets up its own brand of goods which it sells through its own website
- White Label: setting up an online branded store which is managed by an e-Commerce player or any third party

7. Customer acquisition

Only 2% of website visits currently result into transaction. Thus, there is a gap between potential and actual buyers. Coupled with high transaction costs, this area could pose serious problems. In the US, 75% of consumers have stated that they will usually switch between brands, and for the rest of the world, this rate is 60%, according to Ecommerce Foundation.

8. Digital Infrastructure

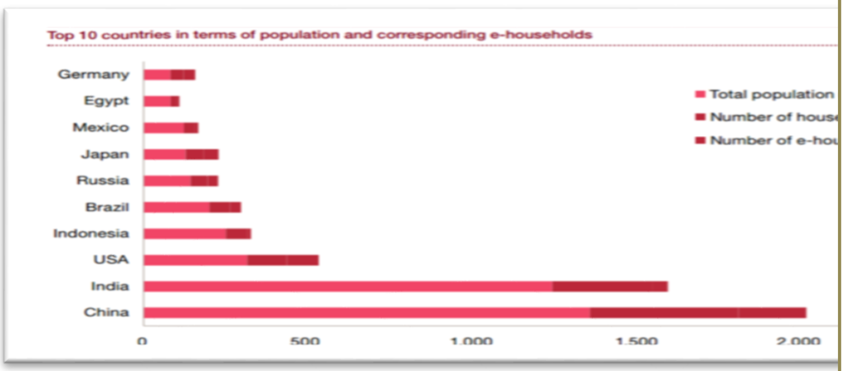
Embedding SMAC technologies in the business becomes crucial

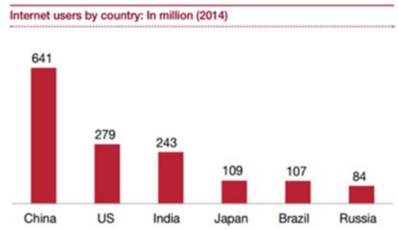
9. Addressable Market

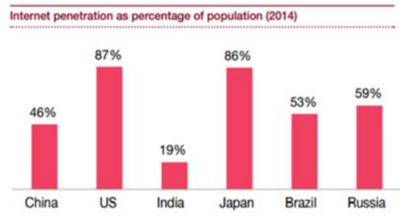
Indian e-Commerce sector needs to closely watch the growth of their markets in the Tier 2 and 3 cities. They need to improve their logistics and supply chain management in these cities, do an effective demand management to keep an eye on what products are being sought in these cities.

Is e-commerce going to take over offline retail?

Globally, e-commerce penetration of total retail is not more than 20% (USA it is just 7%). Both e-commerce and offline retail formats will co-exist with offline always being the dominant peer.



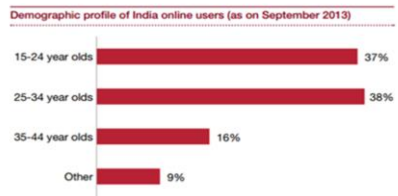




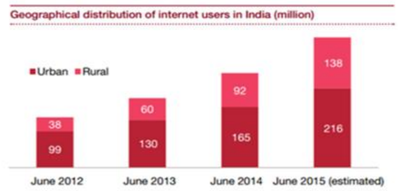
The Indian start up ecosystem received more than $5 billion in funding in 2014, compared with $1.6 billion in 2013 and $760 million in 2012. Of this, Flipkart raised around $1.9 billion, while Snapdeal netted about $1 billion in funding. Interestingly, most of this money came from big investors including Tiger Global, Helion Venture Partners, Accel Partners and SoftBank.

A comparison of valuation between ecommerce firms and traditional players would give a sense of the growing chasm between the two segments—

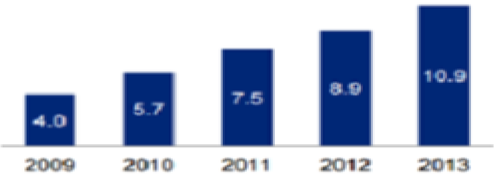
*** Flipkart is valued at $11 billion, brick-and-mortar players Trent, Future Retail and Pantaloons are valued at $800 million, $600 billion and $200 million, respectively. Flipkart and Snapdeal alone are valued much higher than the total market capitalisation of India's major brick-and-mortar retailers.*



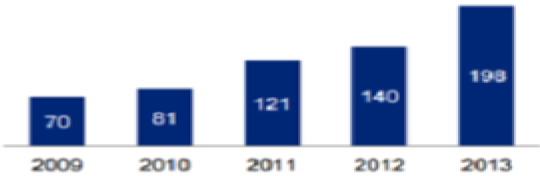
Source: Statista website accessed on 9 Dec 2014



Data that supports the growth of E-commerce in India. There has been a significant growth in the E-tailing sector in India, this growth can be attributed to rising internet users in India and growth of E-commerce supply chain.



Source: eMarketer, Deloitte analysis



Source: IAMAI, TRAI, Deloitte analysis

Fig 4: Key Segments 2013

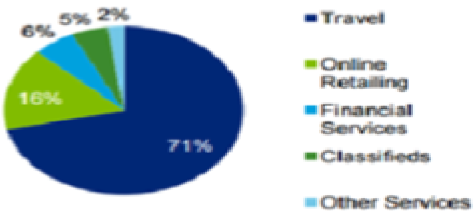
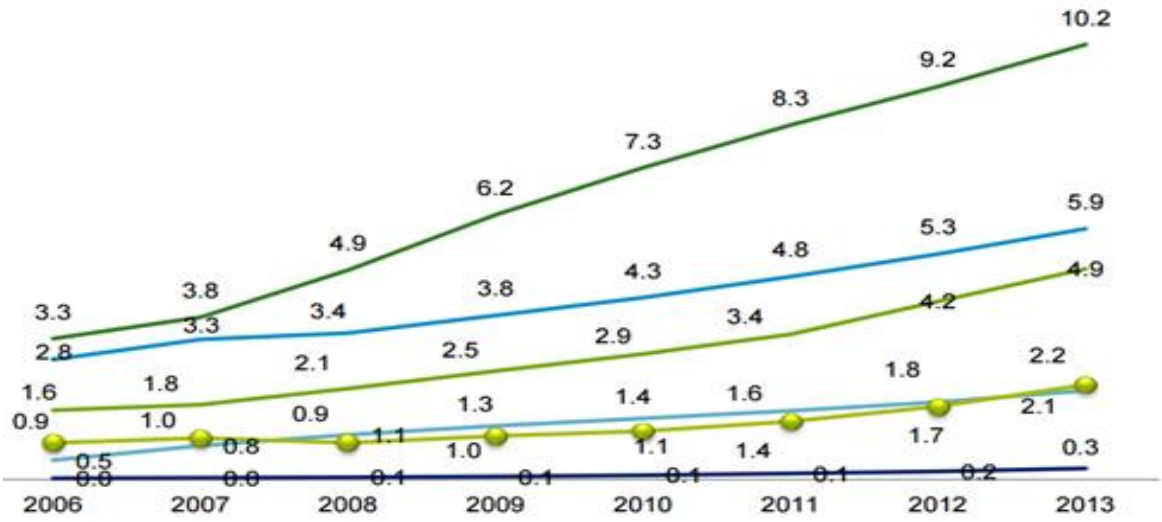


Fig 5: Online Retail Market in India (USD Bn)

Things companies need to focus upon

- Payments and Transactions: India continues to be a cash-based society due to limited banking and credit card penetration. This, combined with a lack of consumer trust in online merchants, has forced companies to offer CoD services, which imposes significant financial cost for firms in the form of labour, cash handling and higher returns of purchased items.
- Tax and Regulatory Environment: the interpretation of intricate tax norms and complex inter-state taxation rules make e-Commerce operations difficult to manage and to stay compliant to the laws.
- Operational Framework: heightened competition and the inability of players to sustain high costs are the entry barriers. So, need to adapt and innovate constantly to sustain their businesses. Well defined capabilities and organisational structure. System building,

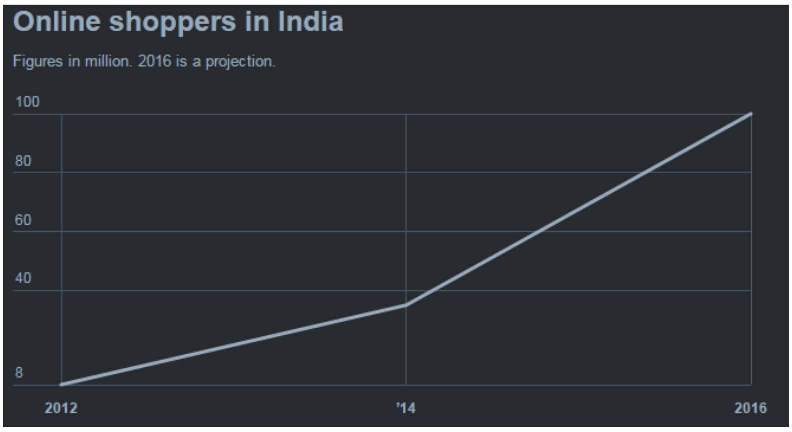
B2C/C2C E-COMMERCE SALES IN USD Bn INTERNET USERS IN INDIA (Mn)



(SHARE OF ONLINE CHANNELS IN OVERALL RETAIL)

Insights

The industry consensus is that growth is at an inflection point. Today India is at the cusp of a digital revolution. E-COMMERCE and offline retail will co-exist with offline always being the dominant peer. Supply chain of offline retail has adequate margin for e-tail going ahead. Indian online players should study global learnings in their attempt to create a sustainable business model. *Online retail has increased overall industry size and pvt consumption in growing economies, thereby playing a major role in the growth of the economies.*



The biggest benefactor:

Consumer

Wide variety

Lower Prices

Convenience

While increases in the use of traditional options for gaining knowledge, such as education, may be linear, the proliferation of knowledge through the use of new digital technologies appears exponential. Whilst COD works well for getting consumers to try online shopping, and enables those who don’t have bank cards or other online payment methods available to try ecommerce, it isn’t a sustainable model from the retailers’ perspective. Mobile wallet service provider MobiKwik has partnered with Bangalore-based Store King to provide cash-less and card-less payment management to 10,000 retail stores in small towns and villages in southern states of the country and the users will also be able to make payments for online purchases on the Store King Ecommerce platform. StoreKing is an assisted e-commerce platform that partners with a network of kirana stores located in rural areas to establish a tablet-based wireless internet connected point-of-sale terminal.

The trend of ecommerce players foraying into physical retail is fairly new to India. A slew of pure-play e-tailing companies such as Lenskart, Healthkart, Fabfurnish and Caratlane have opened physical stores to directly connect with customers. The Tier II & III cities driving Ecommerce in India: ecommerce in India has seen a significant upsurge in the number of people shopping online across 4,556 ecommerce hubs in the country with 3,313 tier II & III cities (Bharat Hubs) and 1,233 Rural Hubs dominating the shopping trends Women shoppers. The women shoppers in the country have emerged as a prominent customer in the lifestyle category. The lifestyle category has increased its share in the pie to 45%, trailing the electronics category by just 2% now as compared to 7% in the previous Census. The push for the ‘Make in India’ campaign is the key. There has been a significant divide between exports and imports in the country along with a considerable demand in the global market for unique products like Indian jewellery and handicrafts.

Fig 9- Why People Buy Online?