



E-Tailing Market in India

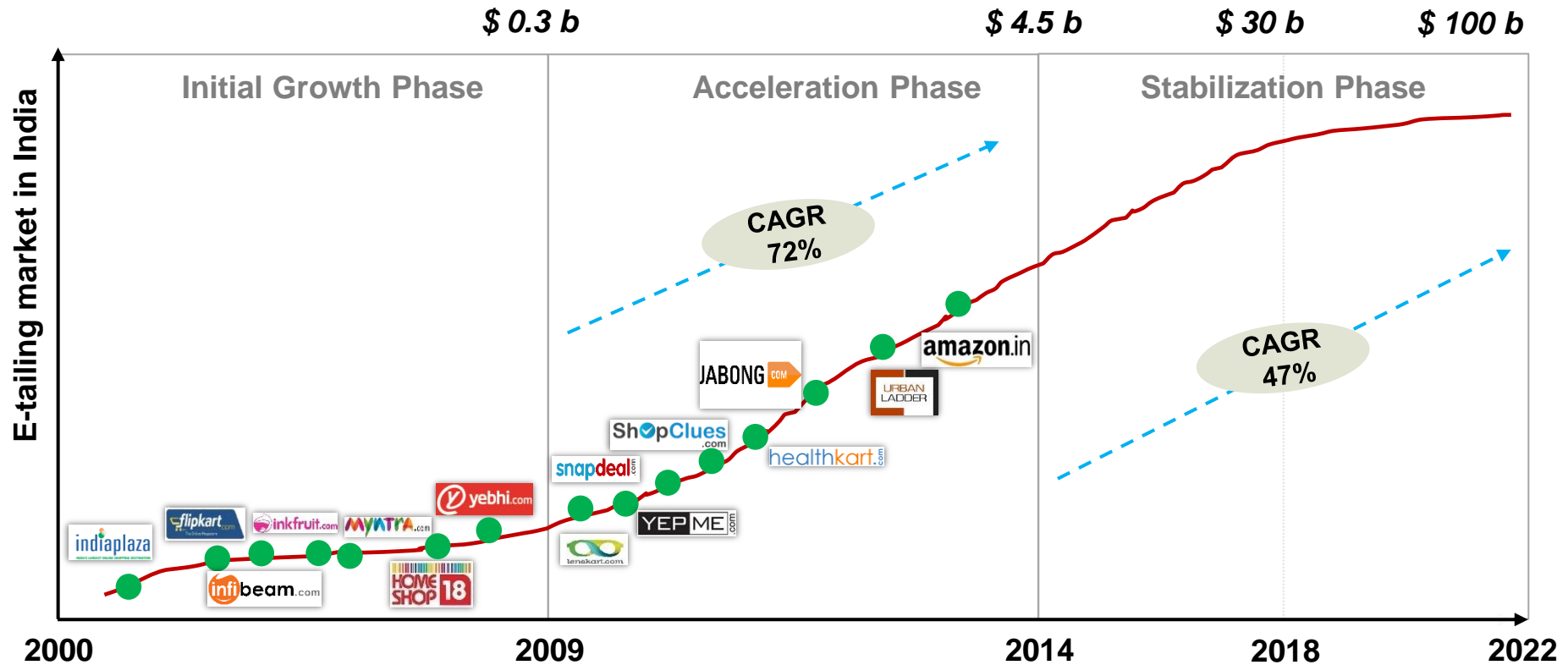
Funded by large global investors, the e-tailing market in India is growing exponentially. Going forward, what are the megatrends likely to emerge in this market?

March 2015

Starting from humble beginnings in the year 2000, the Indian e-tailing market is expected to reach \$100 billion in annual sales by 2022

Evolution of the Indian e-tailing market

Overview, market sizes in \$ billion



- Domination of Inventory based models
- Sales of books, CDs dominate
- Competition is mostly domestic
- Moderate discounting
- Low focus on customer loyalty

- Domination of marketplaces
- Domination of electronics categories
- Entry of global players
- High levels of discounting
- Steadily growing M&A activity

- Focus on categories like fashion, wellness, furniture, babycare etc.
- Growth of niche/vertical players
- Reducing discounts, bottom-line focus
- Rapidly growing M&A activity

The \$4.5 billion e-tailing market in India is split into horizontal and vertical players; horizontal players have captured ~80% share of the market

Split of e-tailing market by nature of player

2014 sales figures

Indian e-tailing market

\$ 4.5 billion

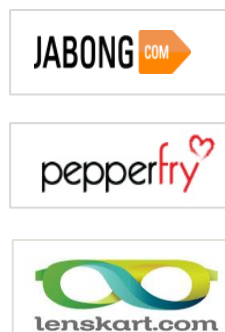


\$ 3.6 billion

\$ 0.9 billion

Horizontal Players

Vertical Players



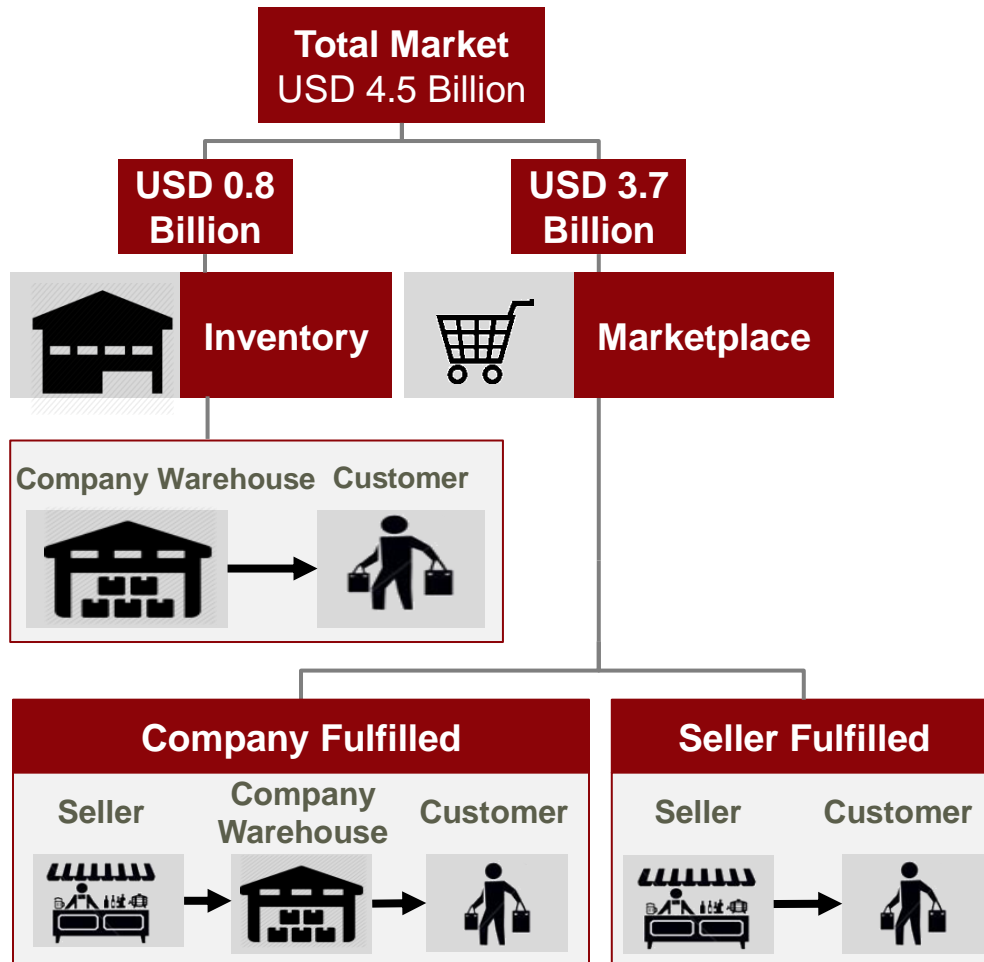
Key insights

- Horizontal players i.e. players selling products across verticals, dominate the e-tailing market
- The major horizontal players Amazon, Snapdeal and Flipkart contribute ~75-80% of sales to the e-tailing market
- Major verticals which vertical players operate in includes fashion, furniture and home furnishings, eye care products, healthcare products etc.
- These niche players constitute a small share of the market currently, but are growing rapidly

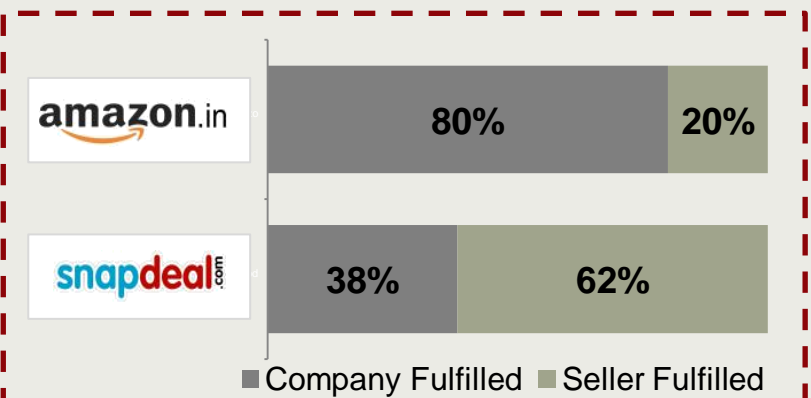
The marketplace model contributes ~80-85% share of Indian e-tailing market; company fulfilled marketplace models are popular with horizontal players

Split of e-tailing market by business model

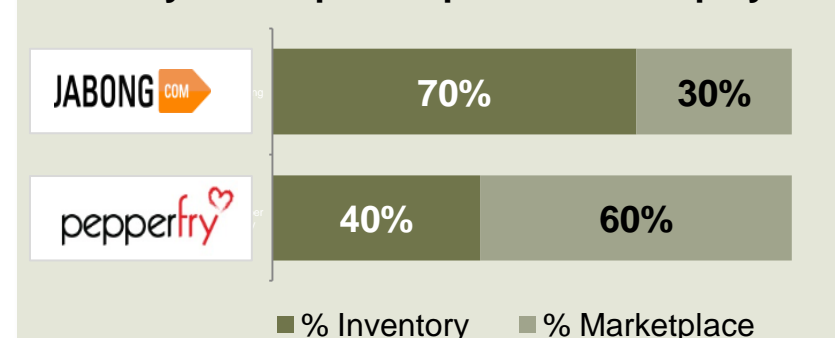
Market Size based on 2014 sales figures



Marketplace model split of horizontal players






Inventory/Marketplace split of vertical players



GMV run-rate of major horizontal players passed \$1 billion in 2014; we expect it to cross ~\$10 billion by 2018 inspite of stiff competition from vertical players

Player 2014 and future expected GMV run rates

USD Billion, 2014 Run rates based on December 2014 GMV

	2014 Run Rate	CAGR	2018 Run Rate
	\$ 3 b	50%	\$ 14-16 b
	\$ 1.3 b	62%	\$ 8-10 b
	\$ 1.1 b	69%	\$ 8-10 b
Vertical players	\$ 1.4 b	61%	\$ 9-10 b

Key Insights

Horizontal players to continue relentless growth

- Leading horizontal players have already hit the \$1 billion GMV run rate mark in 2014
- Their GMV run rate is expected to further rise to ~\$ 10+ billion each by 2018, as they seek to compete in niche categories through acquisitions

Vertical players pose a challenge to horizontal players

- Niche categories like furniture, babycare etc., are expected to become the next battleground for e-tailers
- A deeper product selection and promise of a superior shopping experience is expected to give vertical players an advantage

1. Note: Run rates refer to monthly GMV multiplied by 12 and hence are different from actual annual sales figures mentioned earlier. Here, the 2014 Run rates refers to monthly GMV for December 2014 x 12

SOURCE: Primary Research; Online Reports; RedSeer Analysis

The e-tailing market growth is expected to be driven by greater internet and smartphone penetration and continued discounting

Drivers and challenges to e-tailing growth

Key points

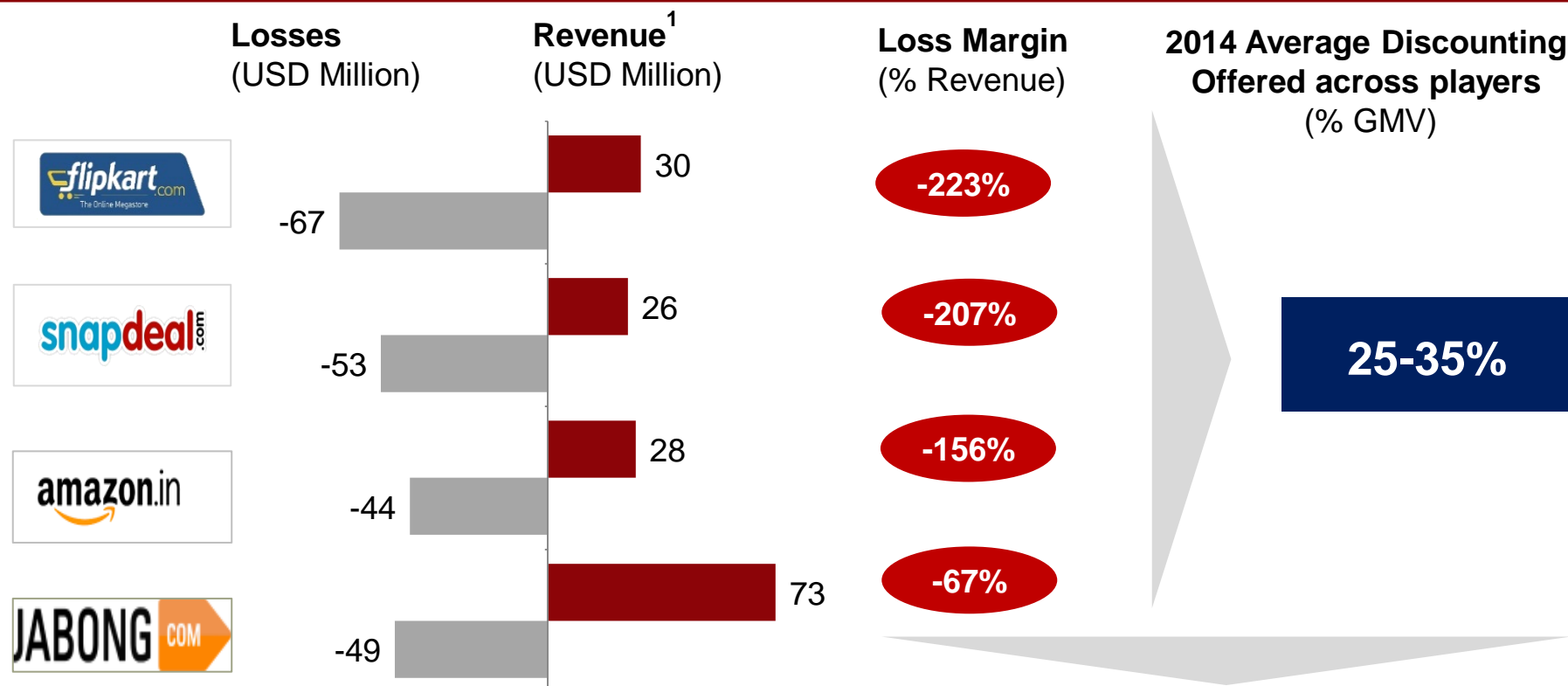
 Drivers  Challenges

Drivers and challenges	Description
1 Growing mobile internet penetration	<ul style="list-style-type: none"> Mobile internet users in India are expected to jump from ~800 million in 2013 to 1.1 billion by 2020 As mobile apps get more optimized, this is expected to be a strong driver of online sales
2 Growing smartphone penetration	<ul style="list-style-type: none"> Smartphone users in India are expected to nearly quadruple from the ~120 million in 2014 to 450 million by 2020
3 Increased urbanization leading to less leisure time	<ul style="list-style-type: none"> It is estimated that around 60-70% of time of an individual in urban India is taken up by sleep, time spent at work, and commuting to work Paucity of time for shopping at regular stores and convenience of online shopping is expected to continue driving sales, especially as urbanization increases
4 Growing purchasing power and product variety needs of small town customers	<ul style="list-style-type: none"> Growing purchasing power is driving strong demand from smaller cities The convenience of obtaining products online, which are unavailable in physical stores in smaller towns, is further fuelling demand This has led players like Jabong to generate 60+% sales from smaller towns
5 Continued (but gradually reducing) discounting	<ul style="list-style-type: none"> The growth of e-tailing has been fuelled by heavy average discounts in the range of 30-40% Even as players pare down discounts, average discounts are expected to still remain over the 15-20% mark and thus remain a key driver of sales
6 Regulatory issues	<ul style="list-style-type: none"> Leading players in the Indian e-tailing space including Amazon and Flipkart have been bogged down by issues related to tax compliances and FEMA rules Slow evolution of the framework for managing e-tailers is expected to continue to bog down players and investors alike, thus posing a challenge to the growth of the sector

However, the discounting led growth of e-tailers has led to significant losses; average discounting levels are expected to come down over next few years

Revenue, losses and discounting % of players

Player comparison, FY14 figures



1. Note: Revenues for the three horizontal players refers to revenues from commissions and other sources e.g. advertisements. For Jabong, revenue includes a mix of sales revenue i.e., GMV along with some seller commissions, hence it is higher

An era of low discounts?

- Current average industry discount levels of 25-35% are 5-10% lower than discounting levels of last few years, and are expected to come down by further 10-15% over next few years
- This is expected to lead to slower growth but better bottomlines

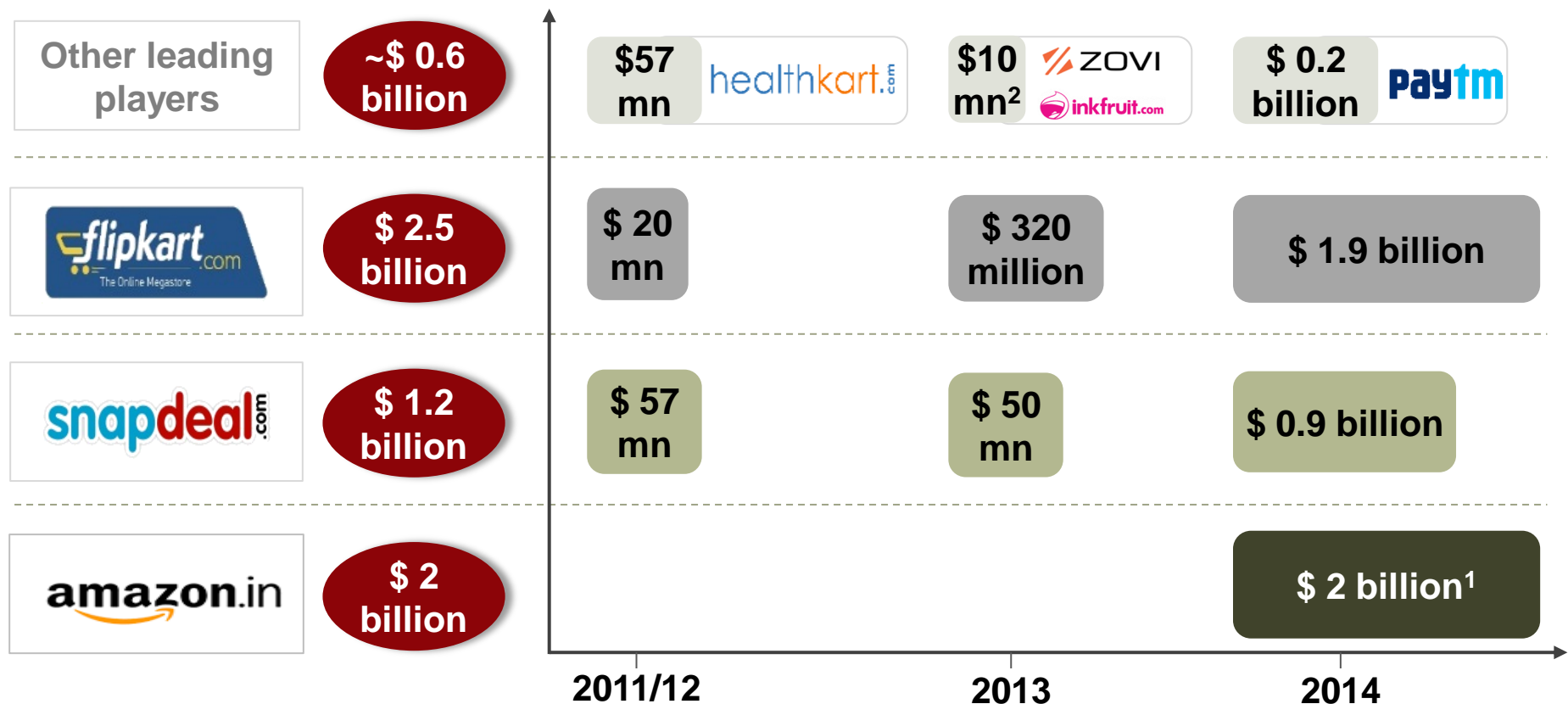
The discount led model of growth is being funded by foreign investors; Indian e-tailers have raised ~\$ 6.5 billion over last few years

Investments trends in e-tailing

Key Investments made in \$ and key investors

Cumulative funds raised till date

Year-wise split of funds raised



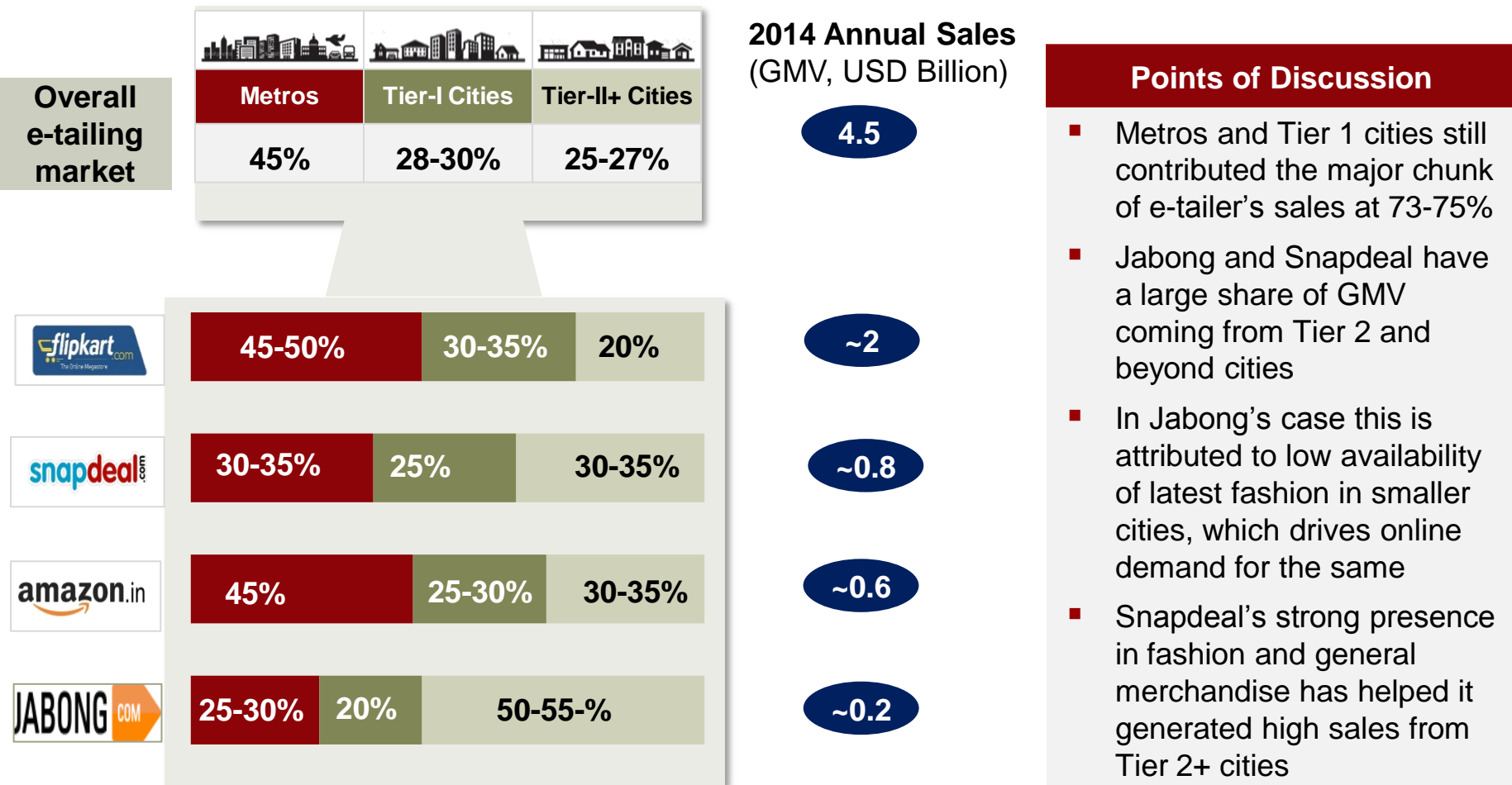
1. Amazon's is an internal fund raising, with \$2 billion being committed by Amazon Global for Amazon India

2. The Funds have been raised by the combined Zovi Inkfruit entity, which was formed from the merger of the two companies in 2013

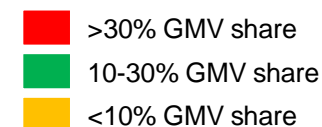
~75% of overall online retail sales are generated from Metros and Tier 1 cities; Tier 2+ cities generate significantly high % sales for Jabong

Split of e-tailing market and e-tailer's GMV by city tiers

Player comparison



Electronics constitutes the largest share of GMV in the Indian e-tailing market; fashion and home décor are other large categories



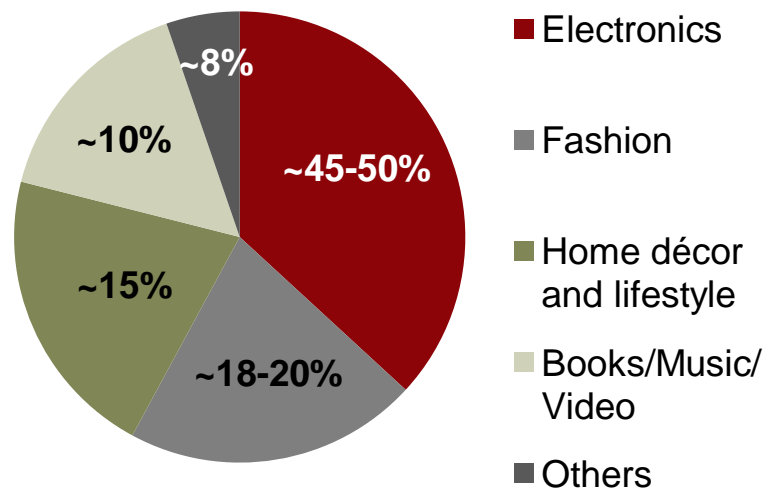
Product category-wise analysis

Player and market comparison

Category wise split of online retail market

Total e-tailing market sales (GMV)

USD 4.5 Billion



Clear dominance of electronics

- Electronics, including large and small appliances, are the major constituents of Indian e-tailing market
- Other includes niche categories like grocery, furniture and automobile accessories

Player's category wise GMV share

	flipkart.com The Online Magazine	snapdeal.com	amazon.in	JABONG.COM
Electronics	>30%	>30%	>30%	NA
Fashion	10-30%	10-30%	10-30%	>30%
Home décor and lifestyle	<10%	<10%	<10%	<10%
Books, Music, Video	<10%	<10%	<10%	NA
Others	<10%	10-30%	<10%	NA

High share of other products in Snapdeal

- Niche categories like furniture, kitchenware, automotive and luggage are doing well for Snapdeal

Rapid growth of relatively smaller categories like fashion has led to horizontal players acquiring niche vertical players to increase selection

Acquisitions by horizontal players

Key acquisitions



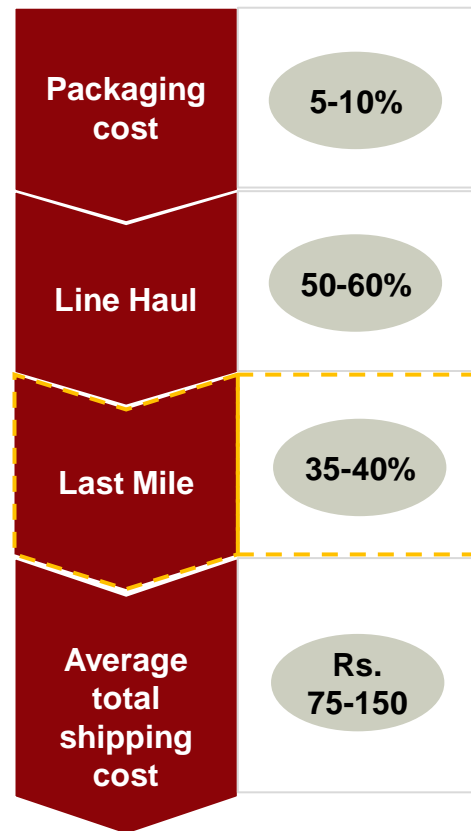
Going forward, acquisitions across niche categories like fashion, sports and toys, luggage, furniture etc. are likely to increase as players seek to differentiate themselves on basis on range and variety of products offered

E-tailer's last mile delivery costs are nearly 35-40% of total shipment cost; delivery innovations are reducing these costs while increasing convenience

Supply chain strategy analysis of e-tailers

Key points

Shipping cost breakdown for a typical e-tailer



Reducing last mile delivery costs through novel initiatives

amazon.in

- Amazon India has launched delivery hotspots in major universities and also has tied up with kirana stores and petrol pumps which carry out deliveries and also enable pick-ups

JABONG.COM

- Jabong has tied up with coffee shops and petrol pumps for pick-up facilities across cities

Delivery innovations have high impact on customer convenience and reach

- Initiatives like pick-up stores and university hotspots enable e-tailers to effectively service the two large customer segments: students and salaried employees
- Going forward, delivery innovations will become increasingly important to reduce costs and reach out to other segments as well, e.g. rural customers

High seller count and seller satisfaction is turning into an important differentiator ; players are taking innovative initiatives to achieve the same

Seller management strategy analysis

Key points

Onboarding



- Amazon India has established “Prione”, an entity to specifically provide seller onboarding services to Amazon

Training



- Flipkart has a programme called 'Karigaar ke dwar' to guide artisans in selling on its platform.

Operations



- Amazon India has created “Clouddtail”, an aggregator entity that helps sellers in the operations by taking over their sales management, warehousing and packaging

Financing



- Snapdeal facilitates soft loans from multiple banks for top earning sellers, based on how long seller has been in business and what his overall income is

COD usage is decreasing as companies disincentivize the same due to high direct and indirect costs; % orders generated through mobile are on the rise

Customer ordering and payment preferences

Key points

% Sales split of COD v/s Card

% Orders split of mobile v/s desktop

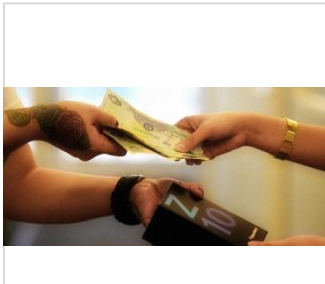
2012

75%

25%

COD

Card

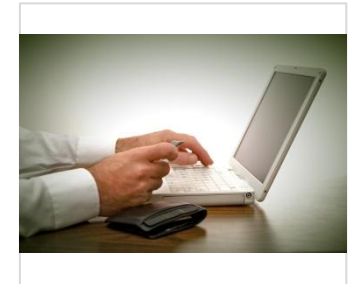
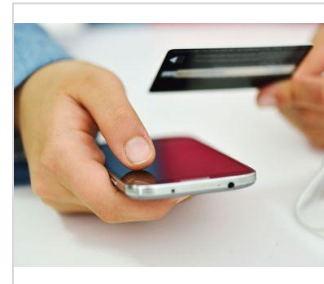


20%

80%

Mobile

Desktop



2014

65%

35%

35%

65%

Key drivers





- Affordable smartphones and data plans, coupled with user friendly apps for mobile browsing and ordering and extra incentives/discounts for mobile orders are pushing up the popularity of mobile ordering
- Also driven by higher number of orders from smaller towns, players like Snapdeal are generating 55+% of orders through mobile
- Companies incur high direct costs and blockage of working capital through COD and are disincentivizing COD sales by charging for COD or by capping the value of COD orders

Customers perceive Flipkart and Jabong highly; Snapdeal's service performance is perceived poorly

Customer perception rating of players on key parameters

Rating on a scale of 5, N=50 responses

■ Good
■ Neutral
■ Poor

	Ease of Payment	On Time Delivery	Ease of returns	Product condition/quality
	Good	Good	Good	Good
	Neutral	Poor	Neutral	Neutral
	Neutral	Neutral	Neutral	Neutral
	Good	Good	Good	Good

“ We received the product 10 days after ordering, Also the payment interface is complicated to use” -*Snapdeal Customer, Kolkata*

“ We ordered speakers and dinner plates. The speakers turned out to be broken while the plates were of wrong size ” -*Snapdeal Customer, Bangalore*

“ The Jabong personnel said he would reverse pick up in 3-4 days but he did in 1-2 days. Jabong's service levels are excellent” -*Jabong Customer, Kolkata*

1. Survey conducted across 50 respondents across cities. 45% of respondents were based in metros, 30% in Tier 1 cities and 25% in Tier 2 cities and beyond.

The Indian e-tailing industry is still in its initial stages; going forward, players who stay ahead of the curve are likely to emerge as winners

Expected long term megatrends

Key points

- 1** Gradual 'verticalization' of the market and sharp growth in size and importance of vertical players across grocery, furniture, babycare, jewellery etc.
 - 2** Mobile platform to be the next battleground with 80+% of orders placed over mobile over the next few years, thus driving innovation in mobile apps and advertising
 - 3** Reduced discounting and increase in bottom-line growth initiatives like 1) Exclusive launches 2) Private Labels and 3) Subscription based services (e.g. Flipkart first)
 - 4** Increase in delivery innovations like hyper-local delivery, customer pick up facilities, instant returns and same day delivery to provide a superior customer experience
 - 5** Increased focused on seller satisfaction for marketplace players and growth in range of services offered to sellers including warehousing, training and financing
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Thank You!

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