e-tailing in India

@ inflection point

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About the Outlook

In India, the retail market is primarily served by traditional Brick & Mortar (B&M) stores which make up 92% of the total market. Organized B&M retail which has a ~ 8% share in the total retail pie is set to reach ~14% by the year 2020. However, this type of B&M retail will continue to face structural issues within the retailing ecosystem, which will be a challenge for retailers to address individually. E-tailing is emerging as a viable third alternative by which organized retail can expand its share of the total retail pie.

While e-tailing has been around for over a decade, the current wave of e-tailing started only around 2007. Though a lot has been said about the current e-tailing market structure, it has without doubt reached a scale where it attracts serious discussions from all quarters. Almost all Indian businesses are looking at e-tailing with an intellectual curiosity for determining the role e-tailing can play in their growth. Undoubtedly, we are witnessing the birth of a new industry which is at an inflection point where rules are being defined, future scenarios being constantly revisited, and businesses increasingly becoming convinced about the strength of e-tailing.

This outlook is a synopsis of the trends defining the e-tailing revolution at this inflection point.

E-tailing Services

Market and Category Assessment

- Market Size, Growth, and Segments Assessment
- Category Assessment
  - » Category Size and Growth
  - » Category Segmentation
  - » Seasonality Study and Calendar Plan Development
  - » Sizing Standardization
  - » Value Chain Mapping

Consumer Insights

- Online Consumer Segments Identification
- Shopping Behavior Analysis

Private Labels Strategy

- Private Labels Strategy (lifestyle space)
- Private Labels Implementation (apparel space)
  - » Sourcing Centers Identification
  - » Vendors Identification and Evaluation
  - » Vendor Tie-up Facilitation

Performance Enhancement

- Warehousing Operations and Inventory Control
- Packaging Material Assessment
- Logistics and Delivery Optimization

B2B Opportunity

- Online B2B Opportunity Assessment
- Target Group Identification
- Business Model Development

Capital Advisory

- Commercial and Operational Due Diligence
- Strategic Alliances Facilitation

Start-up Assistance

A. Concept Formulation

- Positioning and Target Segments Definition
- Products and Services Definition
- Business Volume Estimation
- Geographic Reach and Fulfilment Model Feasibility
- Operating Model Development
- Financial Planning

B. Implementation Assistance

- Overall Project Management
- Service Providers Selection
  - » Web design and IT services agency
  - » Marketing agency
- Business Partners Selection
  - » Logistics partner
  - » Payment gateway partner
- Organization Design and Creation
- Beta-site trial run

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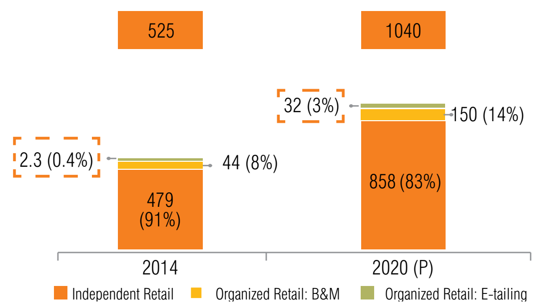
The Inflection Point for Indian E-tailing

E-tailing has now been present in India for over a decade. The late 1990s and early 2000s witnessed the emergence of several players. However, most of them could not survive the dotcom boom and bust of 2000. The second wave of e-tailing, which emerged in 2007, witnessed the entry of several game-changing players that gave impetus to e-tailing's growth with the innovation and evolution of business models. Today, with players battling it out for leadership slots, specialist players finding their groove, ecosystem elements starting to fall into place, and investors reaffirming their faith in the sector, the market is at an inflection point.

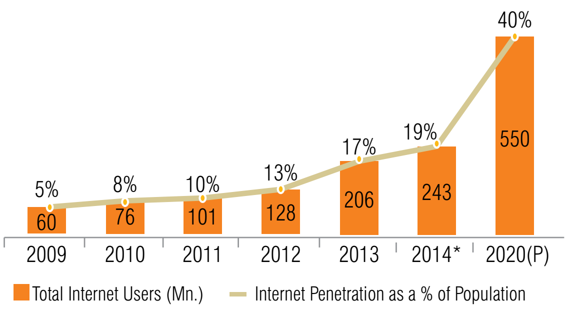
Exhibit 1 **Indian Retail and e-tailing Market (USD bn.)**



Source: Technopak Analysis

Although e-tailing is still a small contributor to retail, accounting for only 0.4% of the overall market, it is on a rapid growth trajectory. It is projected that the ~USD 2.3 billion e-tailing market in 2014, will reach 3% of Indian retail i.e. USD 32 billion by 2020.

Exhibit 2 **Internet User's Growth in India**



Source: IAMAI, World Bank, Technopak Analysis
**Estimated User Base for June 2014*

Underpinning the disruptive growth of e-tailing in India are the following factors:

Rapid Percolation of Technology Enablers

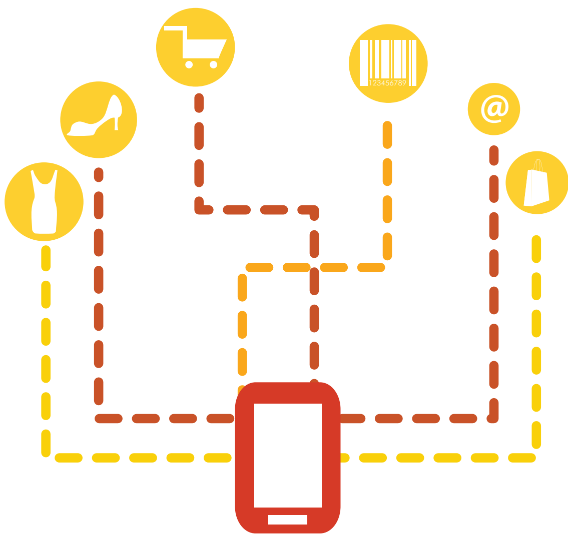
The increasing adoption of devices like smartphones, tablets, and laptops, and access to the Internet through broadband, 3G, etc. has contributed to the rapid growth of the online consumer base. India's Internet user base is expected to reach ~550 million, by 2020, with a penetration of nearly 40%, from the current estimated base of 243 million and penetration of 19% (Refer *Exhibit 2 & 3*).

Exhibit 3 **Penetration of Digital Devices**

Number of Users (in mn.)	2014	2020(P)
Mobile Phones (Feature & Smart Phones)	487	550
Smart Phones	74	440
PC/Notebooks	51	75

Source: IDC, Industry Sources, Secondary Sources, Technopak Analysis

As compared to broadband users, the number of mobile Internet users has seen much faster growth, which is expected to continue given the increase in the penetration of smartphones and high speed Internet, primarily driven by the rollout of 3G and 4G wireless technology. This will further drive the growth of e-tailing in India.



Growth of Internet-Habituated Consumers

Online consumers have evolved over time, with their level of engagement also increasing to include diverse and interactive activities like social networking, banking transactions, travel bookings etc.

This Internet-habituated consumer will be further enabled by increased access to debit and credit cards, even as Cash on Delivery (COD) remains an important and essential option. Already, close to 400 million debit cards are in circulation, with close to half of India's population also likely to possess one over the next three years. Mobile banking, an important non-cash payment mechanism for e-tailing's growth, is also registering an average annual growth of close to 50%, in volume terms.

Stillbirth of Organized B&M Retail

While organized B&M retail, has been in India for two decades now, its contribution to total retail is still low, at ~8% in 2014, due to the structural issues faced by B&M retail. Organized B&M retail is concentrated in the top 25-30 cities and most B&M retailers and brands are unable to meet the rising aspirations in smaller cities across India. This skew in retail presence is fuelling the demand for online channels due to their wider reach and delivery to even such smaller cities and towns where B&M retail stores are either not viable or will take years to reach.

Exhibit 4 **Growth Challenges**

High Cost of Real Estate

- Rental averages 8% of turnover for retailers in International markets
- In India it averages ~15% of turnover

Limited Availability of Real Estate

- Even at 6% growth of Retail, India will require additional 2000 Mn. sqft. of retail space by 2020
- To be serviced through malls, high streets, etc.
- Quality of real estate remains a concern

Source: Technopak Analysis

Improved Ecosystem and Supply Side

Ecosystem (un)readiness is often touted as a hurdle in the path of e-tailing's growth in India. Issues such as poor web experience, fulfilment inefficiencies, limited vendor capabilities, and lack of human resources are often critiqued as stumbling blocks. The ecosystem and e-tailing evolution has moved in tandem. While we do believe the journey is still in progress, the ecosystem is today more geared up to cater to the online channel. Brands are taking the online channel more seriously and developing focused strategies. In addition, vendors are also upgrading themselves to cater to the demands of marketplaces more efficiently. Service providers for logistics, payment gateways, etc. are developing and fine-tuning their offerings to cater to the requirements of e-tailers more effectively and efficiently. There is increased focus on improving the web experience and more human resources capability within the system.

Also, unlike a decade ago, the e-tailing landscape is today characterized by better consumer interface, execution, and marketing. Consumers have increasingly been attracted, and habituated, to online shopping through more products and services being offered, attractive discounts & promotions, better shopping experience, easier returns, faster delivery, multiple payment options (like COD, EMI schemes), offline activation, and mass media campaigns. The credit for this transformation needs to go to the e-tailers who have invested capital and effort in growing the market through multiple means.

E-tailing in India is at an inflection point today, where the next phase of growth will play a critical role in defining it's trajectory. @

Comprehending the E-Consumer

India's online shoppers have rapidly evolved to adopt and adapt to e-tailing in their lives. Initially, e-tailers spent a fortune on marketing and customer acquisition costs in order to entice consumers to shop online. This has resulted in online shopping becoming a habit for an increasing number of consumers. It has thus become imperative to understand who is shopping online, why, and how to make them loyal consumers.

There are three key characteristics of Indian online consumers:

Young Demographics

India has one of the youngest online demographics globally with 75% of the Internet audience* falling in the age bracket of 15-34 years. About 60% of Internet users visit e-tailing websites. This age segment forms the core customer base for e-tailing in India as they are aspirational, well-connected, tech-savvy, and mobile and have high spending power. They are not only Internet-habituated but also comfortable with making online transactions. Such favorable young demographics will continue to drive the growth of e-tailing in India.

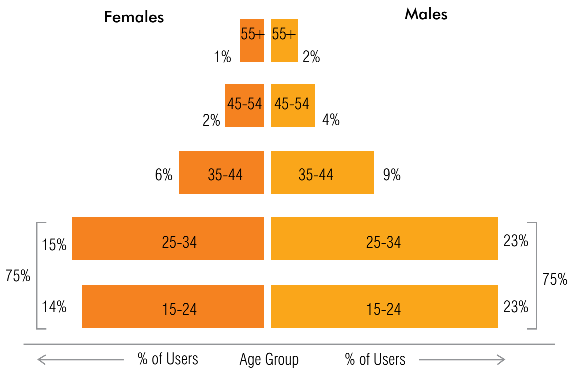
However, the e-tailing market, as characterized by its young demographics, is also expected to reach a tipping point in 5-10 years when the currently young population would have crossed the age of 35 years but will continue to transact online. This expected demographic shift will make it important for e-tailers to maintain their relevance for the young generation as well as for the consumers who would have grown older shopping online. This approach will help in retaining these customers when they become a part of the next age group.

Gender Balance

In terms of gender, the Indian e-tailing consumer base has thus far been skewed towards the male population. India's Internet user demographics are also similarly skewed, with the male population contributing ~60% of users. This has been due to higher male working population (thereby earlier exposure and access to technology) as compared to women. Also, the early days of e-tailing witnessed the penetration of categories such as electronics, books, music, etc. for which the male population typically displays a higher shopping propensity.

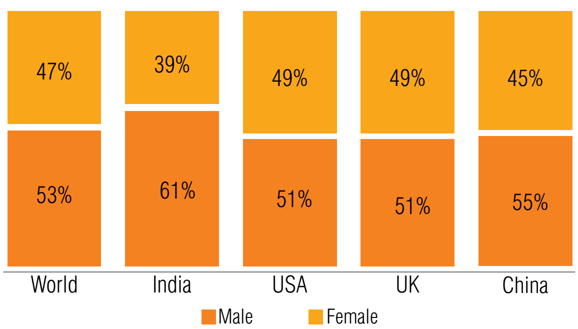
In comparison, mature markets like the USA and UK exhibit a higher parity between male and female Internet users, with an almost 50:50 split. It is expected that the gender distribution in India will also even out in future. In fact this skew has reduced significantly in the last few years, from

Exhibit 5 **Demographic Profile of India's Internet Audience, 2014**



Source: ComScore, Technopak Analysis

Exhibit 6 **Gender Split of Internet Users**



Source: ComScore

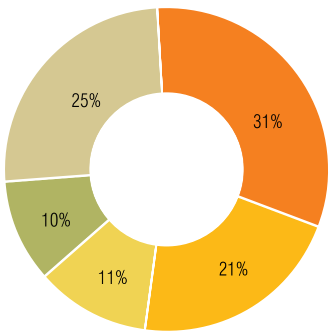
**Internet Audience - People above the age of 15 years accessing the Internet from home or work*

20% female Internet users in 2009 to ~40% now. Entering the workforce and access to mobile internet provides women with higher access and exposure to technology, which makes them a key consumer segment in the e-tailing market, who are likely to drive categories like lifestyle, home, etc. in the coming years. E-tailers will therefore have to ensure that their portals are as much relevant to women as to men.

Market Beyond the Metros

Nearly two-thirds of the urban Indian Internet user base is in cities and towns beyond the top 8 cities. Interestingly, a significant share of online consumers also belong to towns and cities beyond the Metros. This is corroborated by the fact that several e-tailers derive nearly 50% of their sales from beyond the top 10 cities.

Exhibit 7 **Geographic Distribution of Urban Indian Internet Users**



Source: IAMAI June 2013

While the time-constrained large city consumers seek value, easy access, and convenience offered by online shopping, consumers in smaller towns and cities have adopted this channel also for the access to aspirational brands, which have not been able to penetrate to these cities and towns.

Faced with various structural issues, majority of the B&M brands/retailers are still concentrated in the larger cities despite being present for several years.Thus, the market beyond the Metros becomes important for e-tailers both in terms of lower competition from B&M retailers and also as a growth driver for the future. E-tailers will, therefore, have to remain relevant to consumers from both larger and smaller cities and towns.

The second point to understand is: Why are consumers shopping online? Although online consumers are evolving and this has influenced the factors driving them to shop online, price, convenience, and availability remain the most important factors. E-tailers are still trying to understand the sequence and interplay of these factors as they are different for different consumers.

Low prices continue to be an important factor for most online shoppers. This is true even globally. As per a study by National Retail Federation, over 70% of the online consumers surveyed in the USA stated 'low price' as the most important factor. However, there is little differentiation when it comes to price among several players operating across similar categories. It will be challenging for such 'me too' players to differentiate themselves from others in the minds of consumers and sustain this over the long term. Hence, increasingly, players are looking to differentiate beyond price. The competition has moved to technology, product range, and services. The challenge is to develop a unique positioning, which can be a function of multiple factors like product/service offerings, interface experience, order execution, fulfilment quality and consistency, price, discounts, trust, etc.

While e-tailers are trying to build a substantial consumer base, with focus on new customer acquisition, driving stickiness will become critical for upgradation of existing customers in terms of purchase frequency, transaction value and basket size. The role of advanced consumer analytics is important here to enable personalized offerings, promotions, cross–selling, and higher engagement.

Indian consumers are evolving as rapidly as the e-tailing ecosystem itself. Hence, as e-tailing in India matures, it is imperative for Indian e-tailers to understand the online shoppers' demographics and psychographics, the changing drivers of their shopping habits, as well as the factors that will continue to drive customer stickiness towards online shopping.

Evolving Operating Models: The 'Place' for Marketplace

Indian e-tailers have continuously altered and adapted their operating models to better handle the changing market and competitive scenario. This is only to be expected in a high growth emerging sector like e-tailing. While marketplace models, have existed since the early days of e-tailing, in the last 5-7 years several players chose to adopt inventory-led models, with a view to control and enhance customer experience. However, over the past two years, many e-tailers have transitioned to marketplace models.

Different versions of the marketplace model have emerged, e.g. managed (back to back, drop ship) and pure play. The managed marketplace model has been more popular with e-tailers than the pure marketplace model as it allows for greater control over fulfilment and customer experience. Snapdeal, which was initially a deals site, and Flipkart, which was inventory-led, have both transitioned to managed marketplace models. Amazon entered Indian shores last year, with a marketplace model. Players like Jabong have moved to hybrid models by adopting the managed marketplace model for part of their merchandise (rest being inventory-led).

Exhibit 8 **Key Players who have Changed Operating Models (wholly or partially)**

Player	Category	Inception Year	Year of Marketplace Adoption
Naaptol	Mass Merchant	2008	2009
Snapdeal	Mass Merchant	2010	2011
Flipkart	Mass Merchant	2007	2013
Jabong	Fashion & Lifestyle	2012	2013
Yebhi	Fashion & Lifestyle	2009	2013

Source: Secondary Sources

The adoption of marketplace models by e-tailers, in any of its forms, is based on compelling reasons with business scalability and Foreign Direct Investment (FDI) policy compliance being the predominant ones. Marketplace models are characterized by the 'network effect' which generates a two-way virtuous cycle. Offering more, and unique products helps attract consumers, and higher traffic generation attracts more vendors which in turn draws more shoppers. Being a marketplace enables players to offer a wider product assortment to consumers and optimize capital efficiency which is central to business scalability. It does not require the e-tailer to invest in either capital or space for inventory. As a result, marketplace players are able to scale up quickly with lower investments. Moreover, the Indian government's current FDI policy also favors the marketplace model as the policy does not permit FDI in B2C e-commerce.

Exhibit 9 **Comparison of Different Operating Models**

Attributes	Outright	Consign-ment/SOR	Managed Market-place	Pure Market-place
Vendors (no.)/ Assortment	◔	◑	◕	●
Gross/Intake Margins	●	◕	◑	◔
Inventory Risk	●	◑	○	○
Overhead Costs	●	●	◑	◔
Customer Experience Control	●	●	◑	◔

○ Very Low ◔ Low ◑ Medium ◕ High ● Very High

Source: Technopak Analysis

Marketplaces also benefit several thousand vendors listed on them by providing them with an additional sales channel. The marketplace vendor base is constituted by various types of vendors, e.g. large brands/authorized distributors, dealers/ sub-distributors/resellers and small brands. Smaller vendors gain the most, as the marketplace gives them a platform through which to set up their online business with minimal investment and risk as such supporting functions like marketing, logistics, and customer support are managed by the e-tailer. Vendors particularly favor online marketplaces for the high, 'ready' traffic which makes for a better sales opportunity. Even if in terms of unit economics the online marketplace may offer similar or lower margins than offline channels, the higher volumes in the online space usually more than compensates for the same. Small and regional players get the opportunity to reach out to customers nationwide and thus grow their business - which they could not have done on their own. It also allows smaller vendors to create their own brands and compete with the larger ones who have a better distribution setup and more marketing muscle.

Another untapped and attractive opportunity in marketplace model is the B2B market. Players like Tolexo, Wal-mart, etc. are eyeing this space.

Globally, the marketplace model is one of the most popular in markets like the USA and China. Marketplace players in China account for over 90% of the e-tailing market. Amazon, eBay, and other marketplace players, like Buy.com and Sears, make up almost 27% of the total e-tailing sales in the USA. Further, the evolution of some successful marketplace models makes an interesting case for the adoption of the marketplace model. As this model scales towards a tipping point, (often in 3-5 years) players start attracting highly-targeted M&A which brings in growth and augments the organic growth.

Marketplace models, however, are challenging to execute, especially in the Indian context. Lower margins, a digitally ill-equipped vendor base leading to poor service levels, and sub-optimal logistics services which result in fulfilment complexities are some of the extant challenges. In particular, the marketplace shopper experience is under great scrutiny. With the growth of the marketplace model, complaints regarding inconsistencies in delivery, customer service, and quality of products are also on the rise.

Vendor quality is a major concern area for e-tailers as most vendors in India are still in the process of learning and understanding the online channel. They lack adequate IT infrastructure, inventory management, packaging skills, analytical skills, and process efficiency which results in sub-optimal service levels. The percentage of cancellations in India is 10-15% across various marketplace players, as compared to mature markets which have cancellation rates of 2-4%. While customer cancellations are also part of these (which are also higher in India), a significant share is contributed by vendor cancellation as well. This is largely due to the non-availability of products, which is a result of poor IT infrastructure and inventory management. This is a characteristic of an evolving and growing vendor base. Although this is expected to reduce as vendors mature, there is a risk for it remaining high if the vendor base scales up too rapidly and e-tailers are unable to streamline the entire process.

For a high quality vendor ecosystem, players are required to have well-defined and streamlined vendor on-boarding, Service Level Agreement (SLA) compliance, vendor evaluation/rating, and de-boarding processes. System integration, with vendors, is also required. It has become almost imperative for e-tailers to invest in 'digital literacy' of their vendors so as to ensure seamless order fulfilment and high quality customer experience. Realizing this gap, some e-tailers have initiated vendor training programs to educate vendors on the best practices of taking their business online.

Going forward, the focus on scalability will increasingly drive the adoption of the marketplace model. Growing assortments from broad and shallow to broad and deep by expanding within existing categories will become essential to drive differentiation. However, success will follow only if the transition is undertaken in a seamless and controlled manner. Effective methods to manage vendor ecosystem will become a fundamental requirement. The impact of these efforts will then benefit players in the form of better fill rates, delivery services and higher quality customer experience. @

Filling the Fulfilment Gap

Order fulfilment is one of the biggest challenges and concerns for Indian e-tailers. Logistics, which is a key component of order fulfilment, is challenging given the geographical complexity, sub-optimal infrastructure, and regulatory variations across India. Further, logistics services have traditionally not been designed to serve B2C needs like that of e-tailing. India has witnessed a direct correlation between the evolution of e-tailing and that of B2C logistics and while we have seen considerable progress in the past five years in terms of the development of the B2C logistics ecosystem, this still remains the biggest challenge in this sector.

The industry has seen the emergence of three types of players serving the logistics needs of online retailers:

Captive/affiliate players, which started out as captive logistics arms of e-tailers. E-tailers were forced to invest in own logistics in absence of efficient B2C capabilities in the country. Many of these have been sold/spun off as separate entities and offer their services to other e-tailers as well e.g. eKart, Myntra Logistics, JaVas, ATS, etc.

National 3PL services providers are the incumbent players in the Indian logistics landscape, who have added e-tailing to their portfolio of services e.g. Blue Dart, First Flight, DTDC, FedEx, Gati, etc.

Specialist 3PL services providers are players who have emerged with a focus on e-tailing requirements, e.g. Delhivery, Ecom Express etc.

Whether such services are owned or outsourced, each has its own set of pros and cons (Refer *Exhibit 10*).

As players move to marketplaces and widen their supplier networks, while also luring customers by shrinking delivery times, they will also need robust logistics networks to support their growth initiatives.

Exhibit 10

Different Types of Logistics Players

Type of Player	Pros	Cons
Captive/Affiliate	• High control and more flexibility in last mile delivery, which is the only 'tangible' consumer interface, and hence better control on customer experience • Easy and shorter cash collection cycles of COD orders vis-à-vis those of external service providers • Flexibility to reach out to cities important to e-tailer • Generally lower cost per delivery especially for services like COD, reverse logistics, etc.	• Own logistics requires a threshold city-level scale to be feasible and cost effective • Scaling in-house logistics operations to meet rapidly growing and more spread-out demand is challenging • Requires investments in infrastructure and technology • Captive business becomes akin to running two businesses, viz. e-tailing and logistics
National / Regional 3PL	• Bring experience in Indian logistics domain especially intercity movement • National players have extensive domestic network, warehousing capabilities, technological support in logistics and investment potential • Large players also have sophisticated tools to analyze and monitor practices and thereby eliminate inefficiencies and optimize operations	• E-tailing is not the core service for most of these players and their original networks are not designed for e-tailing. They are still gearing up to cater to this sector • Underdeveloped capabilities in last mile delivery. Still developing expertise in customer interaction, cash handling, returns handling etc. While they reach to more PIN codes than affiliate/captive players, ability to handle cash is not available in most of them
Specialty 3PL	• Core competency in B2C logistics. Designed to serve various unique e-tailing requirements like COD orders, reverse logistics, packaging, vendor pick-up, etc. • Being small, they are more flexible • Generally more cost effective to e-tailers than larger players	• Players have strengths in few geographies and are in process of scaling up, hence do not provide a pan-India solution • Players are new and need to establish credibility (through Service Level Agreement adherence) and sustainability of their businesses • They lack the investment potential that are available to larger players

Source: Technopak Analysis, Industry Sources

E-tailers with captive/affiliate logistics will have to make judicious choices in terms of balancing own and outsourced logistics services. Key issues for logistics services will remain capacity, capability, and cost. Addressing these elements will be the key in alleviating the challenge of logistics.

Capacity

India has more than 150,000 PIN codes, of which less than a fifth are serviced by leading 3PL players. COD service, which today forms 60-70% of all orders for most e-tailers, is available in less than a fourth of those served by these players.

With the rapid growth in volume, it will become important for players to ensure that their affiliate/3PL partners are able to handle the surge. As more and more orders originate from smaller cities and towns, logistics services will be required to cater to these new geographies. Leveraging India Post's formidable network, and its already established mechanism to handle money orders, is an opportunity which few players are already looking to tap into.

Capability

Capacity and capability creation go hand in hand. Logistics service providers need to complement capacity creation with capabilities which are solution-led to address all aspects of e-tailing fulfilment. Some of the areas involved include:

Vendor Pick-up: As most logistics players have extended their network to Tier I and Tier II cities, vendor pick-up is less challenging in these cities. However, as more and more vendors across smaller cities and towns come on board, these capabilities will also need to be enhanced. The vendor pick-up process has also seen innovation with the emergence of the 'one-ship' model wherein, one 3PL player collects all orders from vendors in a location and brings them to their fulfilment center. The orders are then sorted and handed over to the other logistics players. Such innovations and optimizations will continue to emerge to drive efficiencies in the process.

Delivery Time: With shrinking delivery time commitments, service parameters are becoming critical differentiators for e-tailers. Timeliness is important as it reduces returns and enhances customer satisfaction. Many e-tailers began providing express delivery in several cities, however they are increasingly finding it challenging to deliver on this commitment and scale up this service. Logistics players need to completely integrate with their e-tailing partners so as to ensure consistent, timely, and coherent delivery as well as communication with customers.

Cash Handling: Most 3PLs offer COD in a limited number of PIN codes, mostly in the larger cities. COD makes all the more sense in smaller cities and towns where access to credit/debit cards is lower and the hesitancy in using them online is higher. While, most players have increased their cash handling capabilities and are trying to provide COD facility to more PIN codes, a significant gap still remains to be bridged.

Reverse Pick-up: Reverse pick-up costs are 40-50% higher than forward shipment costs. Not many players in the market provide these services as there are lower economies of scale and more challenges, e.g. customers returning the wrong/damaged products leading to vendor dissatisfaction. Over the past year many players have increased their attention towards this aspect and are seeing this as an area wherein capabilities need to be developed.

Timings: With the increase in volumes, it will soon become a necessity for logistics providers to work across shifts. Deliveries prior to 9:00 AM or after 6:30 PM will become more popular in the larger cities as the probability of finding consumers at their homes is higher during these hours.

Costs

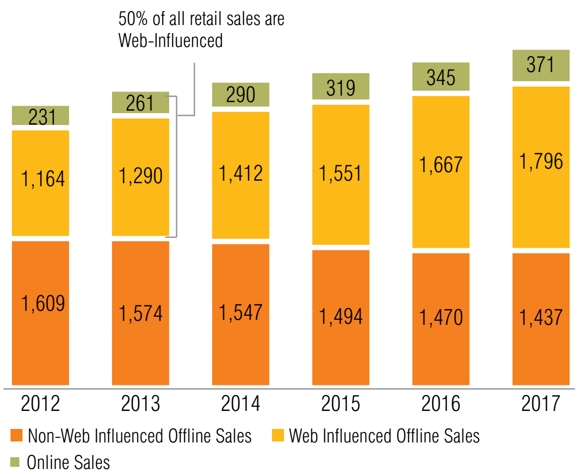
Logistics costs typically make up 6-8% of the Gross Merchandise Value (GMV) for e-tailers. Logistics process and cost optimization is the most critical element of operational efficiency as the players scale up. While several factors exert an upward pressure on logistics cost, it is anticipated that scale benefits and process improvements will trickle in, benefitting e-tailers in the medium to long-term.

As players scale up quickly and make delivery an important service differentiator, it is clear that the continued pressure on fulfilment will demand an increased focus on reach, capability creation, and cost optimization. The gap between captive/affiliate logistics and 3PL service providers is reducing rapidly as the latter are realizing the potential of this sector and willing to make investments in developing and optimizing capabilities. However, the gap between current state and an optimal logistics network remains high. E-tailers will need to work closely with their logistics partners, who in turn will need to adopt an integrated approach in getting this most important piece of their operations sorted. @

Clicks & Bricks: Emergence of Multi-channel Retail

As the retail world becomes more consumer-centric, reaching out to consumers through all possible shopping points is becoming important. With the rapid proliferation of digital technology, the Web is greatly influencing B&M retail sales (Refer *Exhibit 11*).

Exhibit 11 **Cross-channel Retail Sales in the USA (USD bn.)**



Source: Forrester Research, as cited by Business Insider, (March, 2014)

B&M Retail Going Online

In developed countries, the concept of multi-channel or omni-channel retailing has been adopted by many players in a number of ways:

Click & Brick: Order online and pick-up from the store, e.g. John Lewis, Best Buy, Wal-mart, Argos, GAP, etc.

Brick & Click: Visit the store and order online through a kiosk or mobile phone, or, visit the store, compare the prices through a barcode scanner and find the product at another store, e.g. Sears, John Lewis, Boots, etc.

A number of international B&M retailers have adopted the multi-channel concept and built sizable online businesses. In the USA, retail chains and consumer brand manufacturers contribute to over half the e-tailing market. Underpinning their success are such major factors as a well-entrenched, organized retail sector, the ability to capitalize on the rapid growth of technology to achieve successful integration, ensuring smooth deliveries with retail stores serving as fulfilment centers, and offering the touch-and-feel experience to consumers through their physical presence. Some examples include John Lewis, GAP, Sears, etc.

Exhibit 12 **Contribution of Online Sales as a Percent of Total Sales**

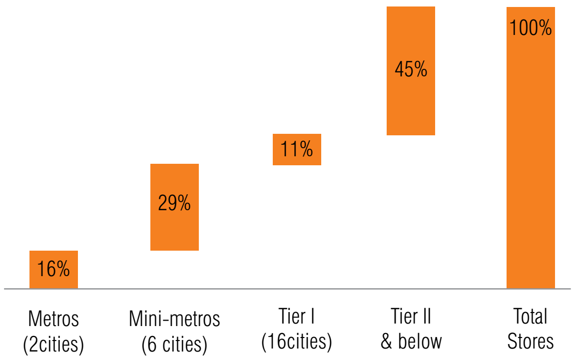
Player	2009	2013
John Lewis	12%	25%
GAP	8%	14%
Sears Holdings	6%	13%
Tesco	3%	5%

Source: Company Annual reports, Secondary Sources

In India too, disruptive growth in the adoption of digital devices and the increasing growth of web-influenced sales is pressurizing retailers to keep up with a changing environment. Players are thus increasingly focusing on becoming multi-channel, driven by key factors as :

• Structural issues limiting the expansion of B&M retail to smaller cities. ~56% of the total organized retail is in top 24 cities (Refer *Exhibit 13*). However, e-tailing equips them to reach out to consumers in smaller towns and cities

Exhibit 13 **Geographical Distribution of Organized B&M Retail, India**



Source: Technopak Analysis
** Stores of Key Players for 8 categories*

• High real estate and distribution costs are also hindering expansion

• There is a need to address multi-channel consumers with shifting preferences

• Physical stores are facing the challenge of being able to showcase only a limited assortment and face competition from web-only players

• Better access to consumer data is required. 85-90% of retail transactions in India are conducted using cash, implying low access to consumer demographics and shopping data. Online channels have the benefit of direct consumer connect and a transparent system whereby consumer data can be captured and analyzed and thus help in outlining more effective strategies

• Online retail also allows for experimentation with products, pricing, and promotions

We see the following types of retailers emerging within the Indian e-tailing industry:

B&M Retailers Going Online: Taking cues from the success of multi-channel retailing in such mature markets as the USA and UK, and facing increasing competition from web-only players, B&M retailers are trying to leverage their physical presence in their approach towards multi-channel

Brands Going Online: Many brands have started embracing the online channel through mass merchants and own websites in order to create a more direct connect with their consumers and capitalize on the opportunity created by the growth of e-tailing. The online channel is now contributing a double-digit percentage of the topline of several brands (Refer *Exhibit 14*)

• Some international, youth-focused and aspirational brands like Dorothy Perkins, River Island and Miss Selfridges have taken the online route to enter the Indian market, bypassing the conventional physical retail format. This gives brands immediate access to their young target audience which is tech-savvy and habituated to online shopping. By directly reaching their target audience, the online channel also offers a quick feedback on the product range and the price points for these brands. Entry through the online channel also turns out to be time and cost effective since such costs as real estate, distribution, marketing, etc. can be avoided

Exhibit 14 **Few Examples of Retailers and Brands Embracing Online Channel**

	Player/Brand	Year of Player Inception/Entry in India	Year of E-tailing Portal Launch
B&M Retailers Going Online	Madura Group (trendin.com)	1956	2013
	Future Group (futurebazaar.com)	1987	2007
	Shoppers Stop (shoppersstop.com)	1991	2008
	Croma (cromaretail.com)	2006	2012
Brands Going Online	Bata	1931	2010
	UCB	1995	2010
	Puma	2002	2009
	Franco Leone	1995	2010

Source: Secondary Sources, Industry Sources

Exhibit 15

Offline Initiatives of Some Online Players

Player	Year of Inception	Offline Launch	Offline Presence
FabFurnish	2012	2012	Operates 4 offline stores
HealthKart	2011	2012	Operates 4 offline stores
FirstCry	2010	2011	Operates about 70 physical stores through the franchise model
Lenskart	2008	2012	Runs 7 stores through franchise model
Caratlane	2008	2012	Operates 3 experiential lounges. Offers "Try-At-Home" option to consumers before buying

Source: Secondary Sources

At this point in time, B&M and online businesses are more often than not operating as independent models. Most retailers are yet to successfully integrate the two models to leverage the benefits offered by each of them. Physical stores have played an instrumental role in the growth of multi-channel retail in developed countries by serving as fulfilment centers. In comparison, given the impeded state of organized retail in India, the penetration and benefits of an integrated model will be limited. Moreover, for a successful, integrated multi-channel retail, the efforts of the retailers are required to be centered on balancing the facets of offering a seamless consumer experience across the physical and virtual formats, attaining real-time tracking of the stock across channels, and keeping pace with the movement of consumers across channels. This makes the case for an integrated business model more complex and challenging to implement.

Though retailers have begun adopting the multi-channel model, such models are still in their infancy. The greatest challenge for retailers seeking sustainable growth will be to develop a model which ensures dovetailing their current operations with their multi-channel initiatives to realize the benefits of optimization. One aspect which has been firmly established in the past few years is the acceptance of multi-channel retail as a way forward. With this acceptance the journey towards the evolution of integrated multi-channel players in India has begun.

Online Embracing Offline

While B&M retailers are embracing the online channel, e-tailers are also increasingly looking at establishing offline presence to drive online sales. However, the key point of difference lies in the fact that while going online is an important topline driver for most B&M retailers, for the web-only players embracing offline retail is more about developing more effective fulfilment and building the trust and credibility of their brand or product range, and generally less about pure play sales.

Some e-tailers have opened stores to induce brand trials in a touch-and-feel environment. Others have used marketing kiosks in high footfall strategic locations like malls and office spaces. There are others who have incorporated some form of "try at home" for consumers prior to making a purchase decision. Offline retail is also becoming crucial for online retailers for the following reasons.

Experience: By coming closer to a physical store experience, e-tailers are trying to make decision making as easy as possible for the consumers

Direct Connect: A physical presence allows e-tailers to directly connect with their target consumers

Awareness: Going offline is also to create awareness about their portal and proposition

Credibility & Trust: Being present offline gives credibility to players, especially the smaller ones, besides establishing the credibility of their products. There are some categories wherein technology is yet to bridge the trust gap or product experience, e.g. such non-standardized big ticket size categories as fine jewellery, furniture, etc.

Going forward, players will increasingly adopt such hybrid models because shoppers are equally hybrid in their shopping patterns. This will require retailers to define the objective for each channel, e.g. whether the offline channel's primary objective is to complement/promote the online channel or it being a sales driver is in itself a primary objective. The offline experience will then need to be built-up accordingly. The other important factor for players will be to figure out the ways in which the offline and online channels can leverage each other and can operate as an integrated multi-channel business. @

'Brand' Wagon: Revisiting Rules

Another off-shoot of multi-channel retail which has gained prominence is the attitude of consumer products brands towards the online channel. Initially, e-tailing was viewed with skepticism and was touted as being a youth-centric passing fad. However, e-tailing's growth, its adoption, and its impact on their overall business is now making many brands take this channel seriously, irrespective of whether they are pro-e-tailing or not.

With e-tailing gaining pace in India, there has been a mixed response from brands across categories. While many are viewing this as an opportunity and have embraced the channel, others have adopted a more guarded approach by testing waters and not aggressively pushing online sales. There are also brands which are unwilling to be a part of this channel, in its current form.

Of the first type of players, most have started focusing strategically on the online channel only in the last two years. From an attitude of skepticism, and from using the online channel as a liquidation channel until a couple of years ago, these brands are now embracing the online channel which is reflected in having dedicated personnel or teams as well as by making the online channel an integral part of their strategy and planning cycles. Several players are trying to have distinct strategies for the offline and online channels to leverage the two without conflicts. Many brands have already witnessed high growth with e-tailing contributing double-digit percentage of total sales. Few brands have done exclusive product launches online. This is expected to continue to grow further in the years to come.

The second type comprises of those brands which are open to e-tailing, but are still taking time in deciding how to approach it. Going forward, these brands are expected to formulate their online strategy more sharply.

On the flip side, are some brands which are not comfortable with the online channel primarily owing to the discounting and promotions strategies of e-tailers focused on growing this market and capturing a larger market share. There are two key concerns for such brands:

• Some premium brands are hesitant in adopting the online channel due to lack of an environment conducive to their brand and as desired by their customers. Such brands are unable to find

desired brand adjacencies on websites which are perceived to be aligned with discounts and deals that can result in the dilution of brand equity. Few brands also fear losing equity due to the presence of unauthentic or fake products on online channels which are difficult to control. They, therefore, abstain totally from the online channel so as not to confuse their customers. However, most brands are open to the concept of launching their brands online given they find the right platform.

• The other type of brands are those who are concerned with their products getting "over-discounted" online and thereby not maintaining price hygiene.This adversely impacts their offline trade channel, which still drives the majority of their sales. Brands feel that this encourages the practice of 'showrooming', wherein consumers visit the physical stores to get a look and feel of the product and end up buying the same from online channels given the lower prices. Many consumer durables and electronics players are those among concerned with the online discounting policies as their products are standardized, direct price comparison is easy for consumers, and unlike lifestyle and other categories it is more difficult to maintain different product ranges across channels. This conflict with the offline trade partners, viz. distributors/dealers, retailers, etc. is putting pressure on the brands to resolve the problem. As a result, some brands have announced that certain online retailers are not authorized partners/dealers for their products in India and have asked buyers to check their warranty entitlements when buying their products from these sites.

Globally too, the online channel has faced resistance from offline players. Adidas, Guess, Ralph Lauren, and LG Electronics are among the companies which have tried to stop dealers from selling online or complained about the discounting on websites. Experience however indicates it is challenging for brands to control this. In 2013, a luggage manufacturer was prohibited by a court in Berlin, Germany from banning an online merchant from selling their products on marketplaces such as eBay and Amazon.

Most brands do realize that controlling and maintaining prices, especially in a marketplace environment, is highly challenging. Brands and e-tailers will need to work together in this regard for a win-win solution. While e-tailers can look at ways to rationalize or control the discounting and promotions, brands, on their part, can work at charting out their margin structures to justify trading through either of the channels, establish exclusive tie-ups and schemes with e-tailers who can control discounts, differentiate, to whatever extent possible, between merchandise for each channel to reduce 'showrooming', etc. Some brands have already started approaching the online channel via some of these routes.

The online channel has now become too significant to be ignored, and in whatever form, it is encouraging that brands are taking e-tailing seriously. This will ensure that the rules of the game will now get defined and brands will seek ways of addressing the e-tailing world. @

Niche & Specialty Play: The Success Mantra

"*Do not undermine the small for the big. What a needle can do, a sword cannot*". These were the words of Abdul Rahim Khan-I-Khana, the famous sixteenth century poet, to emphasize the unique role and value of small entities. These words hold true for e-tailing as well. Niche/specialty players (those who offer products across one or few focused categories), play a role in e-tailing which more often than not, cannot be replicated by larger players.

Indian e-tailing has undergone consolidation in the last couple of years. The market is led by a few large multi-category, multi-brand, mass merchants who account for a majority of the market. However, this market has also seen the emergence of a long tail of niche/specialty players. While many of them were not able to grow and sustain themselves and subsequently shut shop, some of them have managed to gain traction and acquire funding. It is important for these players to understand what it takes to survive, sustain, and be successful in the e-tailing market.

Exhibit 16

Niche & Specialty E-tailers in India

Player	Inception Year	Total Unique Visitors Per Month*('000)	Capital Raised# (USD mn.)
Myntra (now acquired by Flipkart)	2007	26,119	125
Jabong	2012	16,536	100
Koovs	2010	N/A	37(through an IPO)
FirstCry	2010	675	33
Pepperfry	2012	514	28
Caratlane	2008	212	27
Yepme	2010	1,892	22
HealthKart	2011	530	22.5
Zivame	2011	463	24
LimeRoad	2012	760	20
BlueStone	2011	170	15
Babyoye	2010	334	N/A
Lenskart	2010	3,481	14
FabFurnish	2012	1,237	N/A
BigBasket	2011	193	13
Zansaar	2012	266	6
Voylla	2012	259	~6
Nykaa	2012	196	N/A
PlayGroundOnline	2007	54	N/A

Source: ComScore, Estimates Based on Media Reports & Published Sources
**Three Month Average (Feb-Apr, 2014)*
#Till May, 2014
N/A - Information Not Available

The factors that have driven the growth of such players:

Differentiated Product Lines: Focusing on a single category, or on a few related categories, with a deep selection of products in a curated manner is the key factor enabling these players to differentiate themselves from the larger players dealing in the same category. Niche/specialty e-tailers are focused on a select space and are known to operate in an area wherein they curate an intelligent, targeted, and relevant assortment. These are typically, unique, non-commoditized products which are not easily available elsewhere or, even if available, their curation may be more relevant to a target segment who may feel fatigued in going through a larger, but mostly irrelevant range. Some of the opportunities are under-represented spaces e.g. premium play, plus size etc. Sometimes, the category may require specific expertise and for a mass merchant it may not be viable to invest in such expertise. These players are also able to offer a more category-customized experience on their portals in terms of navigation, photography, content, and other services. As a result, these players do not compete directly with mass merchants who carry a wider range of products to cater to a wider range of customers in a standardized manner.

Customer-centric Approach: Their deep product catalogues targeted at consumers, backed by good consumer service, helps them develop the loyalty of shoppers. Being small gives these players the flexibility to address the concerns or demands of their customers in a more personalized manner. This helps niche/specialty players develop consumer satisfaction and trust on their portal and drives repeat purchase behavior.

Attractive Break-even Economics: These players, with their sharply focused categories, also have different unit economics as compared to a mass merchant. They require a smaller scale for sustenance, do not need to invest as heavily in mass marketing and promotions, and can achieve break-even much faster.

Online Ecosystem Creation: From a market perspective as well, these e-tailers have benefitted from larger players who have invested in creating the online retail ecosystem comprising consumers, vendors, 3PL service providers, fulfilment models, etc. Leading players have become the face of innovation and market creation for e-tailing in India and have led the way in creating market enablers which have benefitted smaller players as well.

As the market evolves towards maturity, category specialists will find increased acceptance and traction. Although Series A funding has dried up and incumbent mass merchants have taken up the lion's share of newer investments (in terms of value), several niche and specialty players are doing well in the Indian market and have consequently attracted funding.

The experience of international specialty players also points to a plausible case for the sustenance of these players in the medium- to long-term. Some successful players like Zappos and Diapers.com, specializing in the footwear and baby products categories, respectively, did well in the market and eventually ended up getting acquired by market leader Amazon. Other players such as ASOS, Etsy and Zazzle have been successful in creating disruptive demand in the market and gaining market share.

Though niche and specialty players are gaining traction in India, they also face challenges. It is often argued that while mass merchants enjoy a larger and more loyal consumer base, their specialized counterparts tend to appeal to select needs of buyers and hence the challenge to drive repeat behavior and scale up is higher and the risk of losing existing customers to competitors is also higher. Also, it is imperative that they continuously work on their value proposition and maintain differentiation in the market or risk sustenance. These players can also struggle to meet the high expectations the customers have developed by making purchases on larger websites, e.g. promotions, discounts, same day delivery, etc. Shortage of capital and inability to inspire funding can also become an impediment for these players as most of them operate on a much lower scale than mass merchants which may not be attractive to some investors. In most cases, funding goes to only the leading players in categories.

Going forward, this segment will continue to evolve. While mass merchants will make up the majority of the market, a long tail of specialty and niche players, across categories, will continue to exist. Differentiated and high-potential specialty players will continue to inspire funding and gain traction in the market. Some of them may become attractive acquisition targets for mass merchants, like the recent acquisition of Myntra by Flipkart. There is also opportunity for such players to partner with mass merchants.

The key to their success will be to maintain differentiation and business sustainability by sticking to fundamentals of retailing. @

Decoding Investors' Grail: Scalability, Sustainability & Profitability

It goes without saying that without the investors' belief in the Indian e-tailing story, it would not have reached where it has today. Investors have reaffirmed their faith in this sector by continuing to invest large amount of capital as a result of which an entirely new sector has emerged. Indian e-commerce (of which e-tailing is a part) has attracted a total funding of USD1.6 billion across over 140 deals since 2012 (Refer *Exhibit 17*).

Exhibit 17 **PE/VC/Angel Deals in E-Commerce**

Year*	Deal Value (USD mn.)	No. of Deals
2012	371	73
2013	592	60
2014 (as of May 2014)	637	>20

Source: VCC Edge, Secondary Sources
** Calendar Year*

In the initial phases, investors were betting on a large number of players since all the players were small in size and the market leaders had not emerged. However, as the market is moving towards an inflection point, leaders are emerging and, consequently, investors are getting more selective.

While the number of deals in e-commerce has reduced from 73 in 2012 to 60 in 2013, the aggregate value of investment has increased substantially in the past year. Interestingly, no major Series A investments have been received in this period and funds have largely been drawn by mass market leaders and players leading within the specialty space. Many smaller players struggled for sustenance due to the limited access to capital and high cost structures and were eventually forced to shut shop or get acquired. Another development that has taken place in the past year has been the entry of Amazon in the Indian e-tailing market. The global leader is expected to vie for the top slot in India as well, which has triggered an increased urgency and competitiveness within the sector. As a result, there has been a significant increase in the investments that are being injected as well as the speed of consolidation.

Exhibit 18 **Recent Key Acquisitions in E-tailing**

Acquirer	Acquired Player
Flipkart	Myntra
Babyoye	Hoopos
Tradus	BuyThePrice
Zovi	Inkfruit
BookAdda	KoolSkool

Source: Secondary Sources

Going forward, the consolidation process will continue. Players sharing common investors will increasingly look at mergers/acquisitions, while niche & specialty players possessing unique positioning, assets, or capabilities will attract acquisition by the bigger players.

At a time when international e-tailers are becoming aggressive, investors in domestic players do believe that the home grown e-tailers have an edge for succeeding in the market and grabbing the top slots. Unlike e-tail in more mature economies which is built on fundamentals of logistics and technology, e-tailing in India is much more challenging. The assimilation of local knowledge is likely to play a crucial role in defining the success of an international player in the Indian boundaries. It will require players to continuously unlearn and relearn and be nimble in their approach to the market.

There has been a change in investor focus too. While, in the initial years, topline growth was the most important parameter, increasingly cash burn rate and bottomline have become equally important. The leading e-tailers in India have so far worked towards building up scale to gain leadership position in the market by following

Exhibit 19 **Key Recent Investments in E-tailing**

Player	Capital Raised (USD mn)	Investors	Date
Flipkart	210	Group of investors led by DST Global Solutions	May 2014
Snapdeal	133.7	eBay, Kalaari Capital, Nexus Venture Partners,Bessemer Venture Partners, Intel Capital, Saama Capital	February 2014
	100	Temasek Holdings, BlackRock Financial Management, Myriad Investments, Premji Invest, Tybourne Capital Management	May 2014
Jabong	100	CDC Group , Others	February 2014
Myntra (now acquired by Flipkart)	50	Group of investors led by Premji Invest	February 2014
Pepperfry	15	Bertelsmann India Investments, Norwest Venture Partners	May 2014
FirstCry	15	SAIF partners, IDG Venture, Vertex Venture Holdings	January 2014
LimeRoad	15	Tiger Global, Lightspeed Venture Partners, Matrix Partners	May 2014
BlueStone	10	Investors led by Kalaari Capital	March 2014

Source: Estimates Based on Media Reports & Published Sources

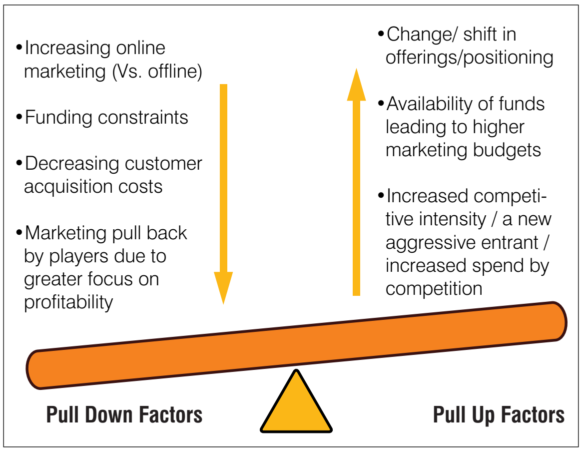
a discount and price-driven strategy. However, they do realize that in the long run this approach will not be sustainable and therefore, are increasingly looking at driving consumer loyalty through avenues beyond price and promotions such as assortment, experience, delivery, packaging etc. Product assortment, vendor development, web interface, payment gateways, fulfilment, and analytics are some areas wherein investments are needed in order to ensure a better customer experience.

E-tailing is characterized by low margins and bringing in cost efficiencies is thus critical for the long-term sustenance of the business. Two major costs are marketing and fulfilment. While marketing is a very important expenditure for e-tailers who seek to build scale, most e-tailers do realize that marketing and customer acquisition costs need to be rationalized with a view on profitability.

Fulfilment costs also need to be continuously reviewed with increasing volumes, changing service levels, and greater competition among service providers.

It is the e-tailers' bid to achieve balance among scalability, sustainability, and profitability which is continuing to justify investors' faith in e-tailing players. While investments in the sector seem high, it is important to remember that e-tailing is an industry which needs patient capital and wherein profitability follows scale for mass merchants. It will thus be a test of patience and faith for both investors and e-tailers in order to see investments yielding results and investors achieving desired exit options. @

Exhibit 20 **Marketing Spend Drivers**



Source: Technopak Analysis

The Rise and Rise of Mobile Commerce

Perhaps the most significant and disruptive change witnessed in the past 1.5 years, in e-tailing, is the penetration of m-commerce, or e-tailing transactions through mobile phones. M-commerce is expected to be the driver of the next phase of e-tailing and will account for a majority of the sales through e-tailing in the years to come. Some key features of m-commerce include:

- India is estimated to have over 243 million Internet users and 185 million users accessing the Internet using their mobile devices[1](like mobile phones, dongles etc.)
- The number of 3G users is estimated to be about 30 million[2] as against the 60 million[3] fixed line broadband users amassed since the launch of Internet services in India
- There are nearly 74 million smartphone users in India, as compared to ~51 million PC/notebook users
- Mobile data traffic in India[4] is projected to grow 24-fold between 2013 to 2018 at a CAGR of 88%
- Currently, leading mass e-tailers are already registering close to a third of their sales via mobile devices

Just as mobile penetration in India bypassed wired telephone network and thus revolutionized voice communication, m-commerce is paving the way for a similar transformation in e-tailing. The overall mobile ecosystem has created favorable conditions for m-commerce to grow at a disruptive pace. The major drivers for this trend include:

Low Broadband Penetration

Internet penetration is considerably low in India, close to 20%. This is in stark contrast to countries such as the USA and China where the Internet penetration is over 80% and 45%, respectively. The low penetration can be largely attributed to the abysmal broadband penetration, which is also cited as a bottleneck to e-tailing's growth in India. Moreover, the slow broadband Internet speeds translate into a poor user experience. As compared to broadband users, mobile Internet users have registered faster growth, which is expected to continue given the increase in the penetration of high speed Internet, primarily driven by the rollout of 3G and 4G wireless technology at affordable rates.

Increasing Affordability of Mobile Devices

The usage of smartphones and tablets is growing steadily, driven by affordable entry level devices which have features similar to high-end devices. Larger screen size, high-definition resolution, and easier access to wireless Internet are some of the features that enable a fulfilling mobile browsing experience. Smartphones currently account for nearly 20% of the mobile handsets market. However, over the next five years, the share of smartphones is estimated to increase to over 80% of the total mobile phone market, making Internet access more broad-based. There are around 74 million smartphone users currently and this is slated to grow to 440 million by 2020.

Easy Device Access

Mobiles are personal devices which consumers have access to almost all day long, giving them the freedom to access the Internet on the go. Technological advancements have also made it easier to browse and shop on mobiles as compared to devices from previous generations. Also, in smaller cities and towns, where the penetration of laptops, PCs, and tablets is lower, mobile phones are the primary Internet access devices.

[1] As of June, 2014 IAMAI
[2] As of December, 2013 as per a study by Nokia Solutions Network
[3] As of March, 2014, TRAI
[4] As per Cisco Visual Networking Index Mobile Forecast

M-commerce is driving online retail sales in such mature markets as the USA and China as well. As per Forrester, mobile commerce will contribute to nearly one-third of total online retail sales in the USA this year. In China, 8% of online sales in 2013 occured via mobile devices. The contribution of m-commerce to the e-commerce market is projected to grow to 15% by 2015 as per Credit Suisse.

Exhibit 21 **Online Retail Sales via Mobile Devices, 2013**

Country	Online Retail Sales (USD bn.)	% of Online Sales via. Mobile Devices
USA	263	23%
UK	155	26%
China	~300*	8%

Source: US Census Bureau, Javelin Strategy & Research, iResearch, Credit Suisse, IMRG Capgemini e-Retail Sales Index, Technopak Analysis
** Includes C2C Sales*

Going forward, mobile devices will be the primary Internet access device. Several e-tailers are expecting mobile traffic to surpass their PC user base this year. Most players have launched responsive design platforms which enable consumers to shop through their mobile devices. E-tailers can be seen pushing their mobile apps aggressively through promotional offers. While some leading players are offering a discount on shopping from mobile apps, others are providing free deliveries and mobile-only deals to encourage such shopping. In the days to come, more and more players will invest in launching mobile apps. The key to success will be to develop user-friendly apps and ensure that the shopping experience is not lost across different devices, which requires attention to be paid to device operating systems, varying device resolutions, different browsers, wireless networks, and payment solutions. @

'Advancing' Analytics

With the virtue of operating in the digital world, online retailers have access to large amounts of data which can be extremely useful in comprehending consumer shopping behavior. Online tools can also help in gaining visibility and benchmarking with other market players. This can enable e-tailers to drive differentiation and to take better business decisions that impact the topline as well as the bottomline. E-tailers can approach several aspects of the business including merchandising, supply chain, inventory management, pricing strategy, marketing strategy, cross-selling, upselling, fraud prevention, optimizing payment mix, returns management, customer delivery, etc. in a scientific way so as to optimize costs and improve revenues. Moreover, they can also detect bottlenecks and identify opportunities, and accordingly plan for the future with the visibility that data solutions offer.

In mature e-tailing markets, the use of advanced analytics is widespread, both in the B&M and the online retail space. Several analytical models have been developed. Some of these are in *Exhibit 22*.

The primary objective of such analyses is to identify the most valuable customer segments, the opportunities to improve their online experience and influence their behavior, which helps allocate resources for the greatest impact. This approach involves a variety of statistical modeling and data mining techniques to study recent and historical data. The outcome of such data analyses is used to build business strategies by e-tailers.

Exhibit 22

Illustrative Consumer Analytics Tools

Consumer Behavior Analyses	Details
Predictive Customer Lifetime Value Analysis	Helps in optimizing acquisitions based on customer lifetime value, i.e. the amount of revenue or profit a customer generates over his or her entire lifetime
Persona Analysis	Looks at all the purchases a customer makes over their lifetime to identify types of customers and allows the brand to tailor its marketing via a more comprehensive understanding of what customers might like to buy
Churn Detection	Helps understand individual customer tendencies and notifies when they veer from their normal habits so that they can be reached before they drift away
Customer Segmentation	Helps understand the customer lifetime value across every customer segment using lifecycle, persona, demographic, and product dimensions, and enables better marketing that can target high-value segments
Cohort Analysis	Drills down past aggregates and defines how different groups of customers behave over time
Trend Analysis	Helps in learning how every customer segment is changing year-over-year and month-over-month
Lifecycle Segmentation	Looks at every customer's unique buying tendencies to find out exactly to what stage of the customer lifecycle they belong and allows designing a communications strategy that reaches out with effectively tailored messages when most necessary
Satisfaction Analysis	Quantifies satisfaction with the online experience and helps in predicting future behavior across customer touch points to reveal which improvements have the greatest impact and the highest ROI

Source: Industry Sources

Examples of International players benefitting from predictive analytics include the following:

Official online store of a football league: Using predictive analytics the retailer gained a new insight and found that women visiting their site were actually shopping for themselves instead of buying for the men in their lives as assumed. Acting on this information, the retailer launched a women-focused ad campaign and realized a 25% growth in online sales.

Major e-grocer in the United Kingdom: Saw a 4% increase in profits on average over six months when doing a test simulation of the data-driven approach to customer home delivery. By mining customer data, the new approach took into account accepted orders-to-date as well as expected orders, and created dynamic pricing for home delivery time slots. This allowed the retailer to optimize the price and timing of delivery and offer discounts on certain time slots.

On the competition and market visibility front as well, there is an emergence of retail analytics systems specifically for the e-tailing industry which provides market intelligence across products and pricing that could drive crucial retail decisions. E-tailers can benefit from these tools as they provide visibility across market players, allowing them to benchmark business parameters. This helps them assess, and manage the risk involved in forward planning of product ranges and improve in-season trading. International e-tailers are already displaying an interest in such tools to take strategic decisions and stay ahead of the competition.

Exhibit 23 **Color Mix: Women's Maxi Dress, ASOS,UK**

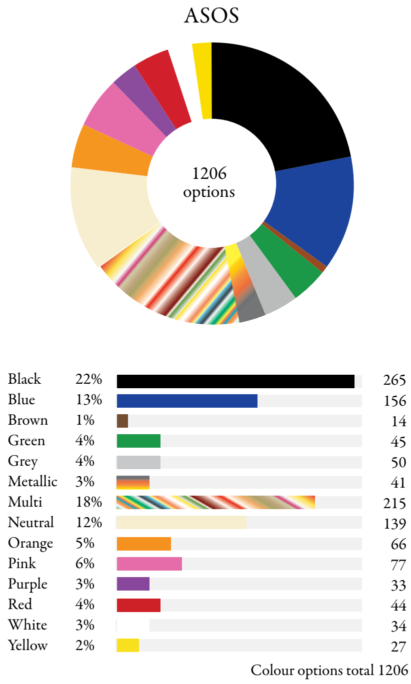


Exhibit 24 **Product Mix: Apparel, GAP, USA**

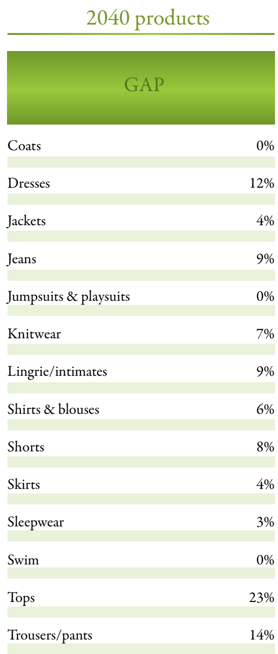
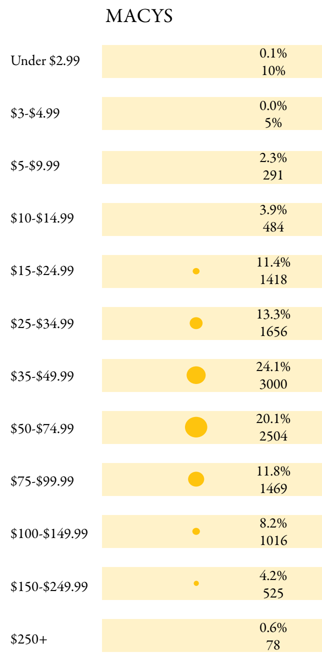


Exhibit 25 **Pricing Architecture: Apparel, Macy's, USA**



Source: WGSN INstock (www.wgsninstock.com)

In comparison, the use of analytics is still in its infancy in India. One reason for this is the limited role analytics plays in B&M retail, with organized B&M retail comprising only ~8% of the total retail in India. Also, a majority of the transactions in India still happen in cash, hence data correlating consumers and transactions is not available in a majority of the cases.

E-tailing, however, does not suffer from this drawback even if consumers pay in cash. While global e-tailers have ready access to such tools from other markets, Indian e-tailers are also increasingly realizing the importance of advanced analytics. Amid the scenario of increasing pressure on cost optimization to meet bottomline objectives and increasing competitive intensity, analytical tools can give e-tailers the edge to differentiate by personalizing shopping experiences and making them more operationally efficient, and customer-focused. It is expected that, as the e-tailing market matures, the use of advanced and made-for-India analytical tools will become more available and ingrained into e-tailers' businesses. @

About Technopak

India's leading management consulting firm with more than 20 years of experience in working with organizations across consumer goods and services.

Founded on the principle of "concept to commissioning", we partner our clients to identify their maximum-value opportunities, provide solutions to their key challenges and help them create a robust and high growth business models.

We have the ability to be the strategic advisors with customized solution during the ideation phase, implementation guide through start-up and a trusted advisor overall.

Drawing from the extensive experience of close to 125 professionals, Technopak focuses on four major divisions, which are Retail & Consumer Products, E-tailing; Fashion (Textile & Apparel); Food & Agriculture, and Education.

Our Key Services:

Business Strategy: Assistance in developing value creating strategies based on consumer insights, competition mapping, international benchmarking and client capabilities.

Start-up Assistance: Leveraging operations and industry expertise to 'commission the concept' on turnkey basis.

Performance Enhancement: Operations, industry & management of change expertise to enhance the performance and value of client operations and businesses.

Capital Advisory: Supporting business strategy and execution with comprehensive capital advisory in our industries of focus.

Consumer Insights: Holistic consumer & shopper understanding applied to offer implementable business solutions.

Our Other Divisions

Retail & Consumer Products

Technopak aids retailers and consumer product companies in formulating growth strategy and performance enhancement mandates. Over the past two decades, we have worked on various facets such as entry into the Indian market, development of new category, activation of new retail formats, channel development, product extension, region expansion etc. One key reason why Technopak is considered the industry leader is the relentless focus on the Indian Market. We help clients understand the market dynamics in India and help them arrive at the best method to grow business in India. Our Retail and Consumer Products expertise helps gain a competitive edge by providing execution capabilities and corporate strategies.

Fashion (Textile & Apparel)

With almost 20 years of experience in delivering end-to-end solutions to the entire gamut of the textile industry, right from fibre to retailing, the Fashion& Textile division at Technopak assists the textile and apparel organizations in optimizing their profits through enhancement and expansion. Many leading Indian and international Textile manufacturers and Apparel brands have benefited from our offerings in the areas of business planning and strategy, apparel operations, supply chain management and strategic alliances. Our team consists of top calibre advisors who have worked closely with a diverse group of clients comprising textile manufacturers, apparel retailers, garment manufacturers and exporters, apparel sourcing organizations, trade promotion councils, industry associations, international development bodies, and financial institutions as well as central and state governments.

Technopak is WGSN's partner in the South Asian region comprising India, Pakistan, Bangladesh and Sri Lanka looking after their sales, marketing and customer relationships. WGSN (www.wgsn.com) is the world's leading fashion forecaster providing trend forecasting and analysis to the largest and most influential businesses in the world. Launched in 1998, today WGSN has 6000+ clients across the world which include, leading brands, retailers, design houses, buying agencies, textile companies. WGSN's inspiration and insight are available through online subscriptions and bespoke advisory services.

WGSN INstock, which is one of the services of WGSN, uses advanced data science to enable fashion companies to make better buying decisions. Millions of data points are sourced from websites across 3k brands daily and presented back in a simple, visual format wgsninstock.com. WGSN INstock keeps track of fashion apparel & footwear and accessories retailers' average online price per item and percentage of products on markdown and avoids terminal stocks

Know first, act first with WGSN INstock insight.

Food Services & Agriculture

Technopak's Food Services & Agriculture team comprises of established domain experts who build and enhance the business performance of organizations which are either working in the sector or are willing to enter this space. Our end-to-end solutions are customized as per the business's requirements and capabilities. We continuously strive to create strong industry relationships and work for a global footprint by delivering a wide range of services to organizations that operate or wish to operate in the Food and Agriculture sector, in India as well as internationally.

Education

Technopak Education division has a vast understanding of the sector in terms of industry environment, growth potential, regulation and policy, which has enabled us to become a thought leader in the sector. Technopak caters to all the education segments – K-12, Higher Education, Vocational Training and ancillaries. Innovative business models and government thrust on privatization has led to assertive participation by private organizations. Such participation spans various levels of investment and operational scale, be it organization planning for expansion in the country or foreign institutions aiming to foray into the Indian education sector.

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