

## E-COMMERCE

# INDIA SHOPS ONLINE

Indians have taken to shopping online with gusto. The e-commerce space is predicted to grow at a CAGR of 57 per cent in the period 2012-16—fastest in Asia-Pacific.

By Amar Nishant Singh

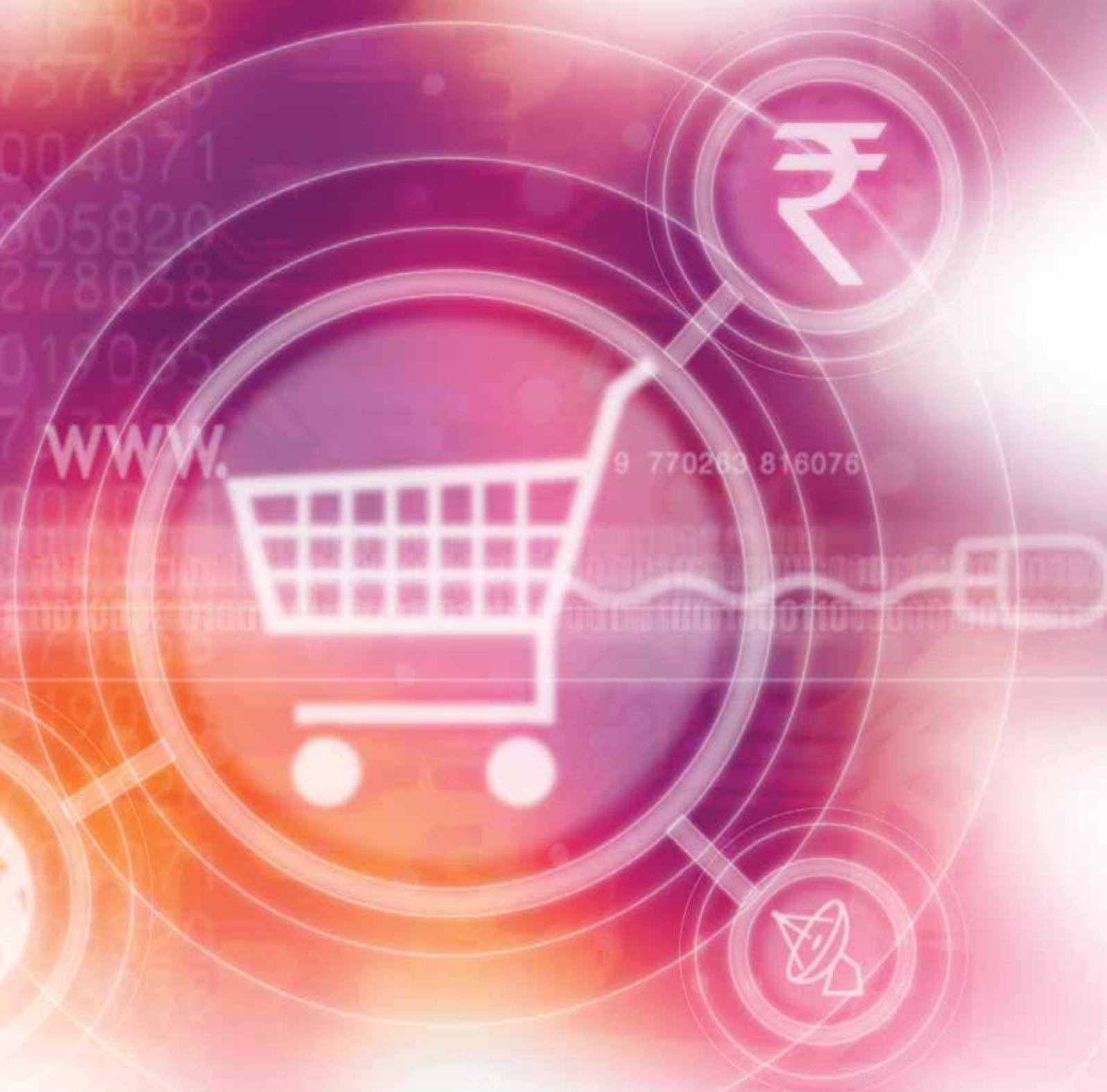
The Indian consumer is the king/queen of the retail space—online or offline. The e-commerce buzz is now a booming growth story with 3,311 e-commerce hubs, 1,267 rural hubs, 391 export hubs and 2,217 import hubs, according to the eBay census guide, 2011. From shopping for bed to bath essentials, cars to carpets, computers to corkscrews, movie shows to air bookings, an average urban Indian consumer with access to a mobile phone or a computer logs on to one of the many por-

tals and completes his transaction in a fraction of the time it would normally take him were he to do so physically. No wonder, e-commerce in India is here for a long innings.

### Land of Opportunities

If the buyers and sellers are here, the investors sensing the immense opportunities of growth, are also not far behind. A host of investors, including venture capital (VC) and private equity (PE) firms are closely





watching the sector and have acquired a stake in the startups. At the same time, the sector is also witnessing a phase of consolidation with a number of mergers and acquisitions.

The e-commerce industry saw an inflow of around ₹4,404.8 crore (US\$ 800 million) in 2011, up from ₹605.66 crore (US\$ 110 million) in 2010. Investments made in e-commerce businesses by PE firms alone more than quadrupled to ₹2,571.302 crore (US\$ 467 million) in 2011 compared to ₹545.094

crore (US\$ 99 million) in 2010. The number of deals increased to 78 compared to just 22 in 2010. The robust deal activity continued in 2012, with ₹1,332.452 crore (US\$ 242 million) invested during the January-April period. The current VC investment figure estimates stand at around ₹1,634.4 (US\$ 300 million). The trend over the period reflects that the average deal size has more than doubled due to increasing traction in e-commerce activities, which requires larger investments for growth.

## Gaining Traction

Retail e-commerce, which has about 50 players, is growing at the rate of 40 per cent per annum and an estimated five new players enter the fray every month. According to estimates, around 20,000 deal transactions and 50,000 product transactions happen every day at the top 10 retail e-commerce websites. According to research firm Forrester, the e-commerce market in India is set to grow the fastest within the Asia-Pacific region at a compound annual growth rate (CAGR) of over 57 per cent in

the period 2012-16. The e-tailing market in India was about ₹3,303.6 crore (US\$ 600 million) in 2011 and is expected to touch ₹49,554 crore (US\$ 9 billion) by 2016 and ₹3,85,420 crore (US\$ 70 billion) by 2020—an estimated CAGR of 61 per cent. According to an Internet and Mobile Association of India (IAMAI) report, the overall e-commerce market in India has recorded a robust CAGR of 54.6 per cent and crossed ₹55,060 crore (US\$ 10 billion) during 2007-11. It is estimated to add another ₹22,024 crore (US\$ 4 billion) and reach ₹77,084 crore (US\$ 14 billion) by end-2012. Of the total

Indian e-commerce market, 80 per cent is in travel e-commerce (online train, bus and airline tickets) while non-travel or retail e-commerce is only 20 per cent. The projections for the market are buoyant. By 2025, the total e-commerce market is predicted to reach ₹4,00,000 crore (US\$ 72.65 billion) at the least with the share of retail amounting to half at ₹2,00,000 crore (US\$ 36.32 billion). The market projections paint a booming picture of online e-tailing in all sectors in India as more and more people are added to the mobile network.

## Real Relief, Virtual Means

Online booking has brought relief from long queues at reservation counters, touts and overcharging booking agencies for the Indian traveller. The 2011 statistics of the online travel sales division captured

the biggest pie and accounted for 81.4 per cent of the entire market. Online travel sites such as Indian Railway Catering and Tourism Corporation (IRCTC) and makemytrip.com are the most successful. Today, almost 40 per cent of the total IRCTC bookings are done online. According to an eMarketer report titled, *BRIC Travel Markets in Transition: Trends Influence Overall Ecommerce*, India is expected to register a CAGR of 30.6 per cent for online travel sales, surpassing the rate forecast for South Korea (19.8 per cent), Brazil (18.2 per cent), China (14.1 per cent), Russia (9.8 per cent), Australia (7.4 per cent) and the US (7.2 per cent) during 2011-16.

## It's a World Wide Web

Net savvy, mobile Indians are the key pushing e-commerce in India. Even at the relatively low internet penetration rate of 10.1 per cent, India has a huge internet consumer base of around 125 million (as of 2011), the third largest in the world after US and China. By end-2012, the number of internet users is expected to increase to 150 million. A study conducted by IMRB and IAMAI observed that of the total 99 million urban internet users, 80 million were active compared to 31 million active users out of the total 38 million in rural areas as of June 2012. At its current pace, the total number of internet users in India could multiply three-fold to nearly 380 million by 2015. Notably, rural India has witnessed a significant increase in penetration of active internet users—from 2.1 per cent in 2010 to 3.7 per cent in June 2012.

## Mobility is the Key

India has more than 900 million mobile users, of which around 300 million use data services. This number of mobile users in India is expected to touch 1.2 billion by 2015. Also, more than 100 million mobile users are expected to use 3G and 4G services in the coming few years. Of the total 900 million mobile users, 27 million are active on the internet and four per cent of these buy products through mobile phones. This number is expected to go up five times to 20 per cent in the medium term. The swelling numbers are adding to the e-commerce ecosystem owing to easy compatibility with the internet.

The consumer profile of the average Indian shows a preference for shopping on the go and online. More than half of the total 1.2 billion population of India falls under the 'below 25 years of age' bracket. Also, 65 per cent of India's population, representing the working age group of 15 to 64 years, would aid the further growth of e-commerce, driven by their rising disposable income. Notably, discretionary



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MagicKart.com

spending in India is expected to jump to 70 per cent by 2025 from 52 per cent in 2005. Also, the growing inclination towards purchasing online is reflected in a trend for higher value online transactions. Shoppers are ready to shop for values exceeding ₹27,530 (US\$ 500), which earlier hovered in the range of ₹2,200-5,500 (US\$ 40-100).

Mobile telephony, the advent of 3G and the internet have brought the big brands closer to small towns. The eBay Census guide of 2011 revealed that around 3,311 Indian cities were engaged in online shopping between July 2010 and June 2011, of which over 1,267 were non-metro cities, giving just a peek into the vast untapped potential. Today, almost 40 per cent of online shopping is emanating from Tier II & III cities when earlier it was 20 per cent, while the top 10 cities form the bulk of the online shoppers. The e-commerce sector is expected to constitute 8-10 per cent of the total retail segment with 50 to 55 per cent of business coming from Tier II & III cities.

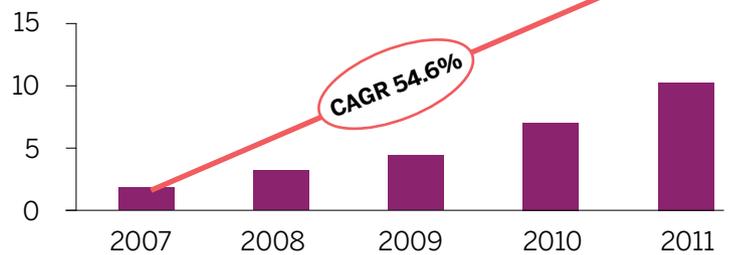
## Indovations Win the Day

This is in no small measure due to uniquely Indian innovations like Cash on Delivery (COD) method of payment which put the naturally cautious buyer at ease. Of the total 200 million credit and debit card holders, just about 10 million people transact online, indicating a huge untapped market.

According to a recent report by First Data Corporation and ICICI Merchant Services, there are about 150 million users willing to shop online. COD is the preferred payment mode for nearly 55-60 per cent of all online transactions in the fashion and lifestyle segment and has been instrumental for its phenomenal success. COD is predicted to be the preferred mode of payment for consumers for the next four to five years. It has become a major part of e-commerce in India with the emergence of big players who don't just offer products but a service that you can trust. This mode is evolving day by day as companies are coming up with new ideas such as free trial room at home or product verification on delivery. COD is not just a convenience, but is also a symbol of trust. For every order delivered via COD, third party courier companies either charge a fixed fee, ranging from ₹45-75 (US\$ 0.81-1.36), or 2.5-3 per cent of the order value, whichever is higher. Most entrepreneurs counter that a payment gateway for credit card transactions would charge a similar amount. However, recently, the Reserve Bank of India (RBI) cut merchant fee for debit card transactions to a maximum of just one per cent.

## Real Growth in Virtual Space

Growth of e-commerce market in India (US\$ billion)



Source: IAMAI, Aranca Research

To avoid hassles of third party transactions, most e-commerce companies have started doing their own deliveries with some carrying wireless card readers to facilitate COD transactions.

## Secure & Safe

As more and more people tend to shop online, security in e-commerce is becoming a major concern. Online security is like a handshake—it works both ways. Customers play a major role in security as e-commerce websites don't have any control over their PCs. So as long as users take the recommended precautions, there should be no trouble shopping online.

Given the vast untapped rural base, home to 856.6 million people, and the unavailability of offline channels deep in the lower tier cities, the scope of e-commerce in India is immense. Customised offerings like language-based content and innovations, freebies and discounts are keeping the buzz alive around the e-commerce space. The players in the e-commerce space know that for the discerning new age Indian consumer they will need to distinguish their offerings from those of competitors. To secure their place on the platform, they are busy building strong technology infrastructure, offline and online collaborations and innovating to deliver the best customer experience. Needless to say, it is an exciting space in India as it unleashes an endless possibility limited only by the imagination. ■

—Mr Singh is Founder & CEO Magickart.com.

(Inputs: Sangita Thakur Varma; Kumar Vikash & Secondary Research)