E-COMMERCE

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January 2018

Table of Content

Executive Summary
Advantage India4
Market Overview6
Porter's Five Forces Framework15
Strategies Adopted16
Growth Drivers and Opportunities18
Case Studies26
Industry Associations
Useful Information





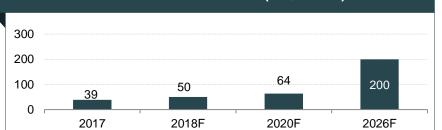
EXECUTIVE SUMMARY

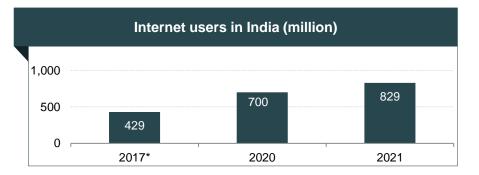


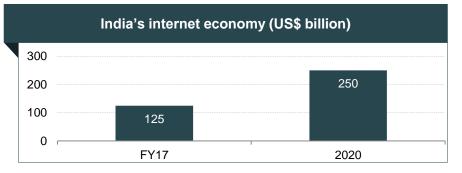
- The Indian e-commerce industry has been on an upward growth trajectory and is expected to surpass the US to become the second largest e-commerce market in the world by 2034.
- The e-commerce market is expected to reach US\$ 64 billion by 2020 and US\$ 200 billion by 2026 from US\$ 38.5 billion as of 2017.

- With growing internet penetration, internet users in India are expected to increase from 429.23 million as of September 2017 to 829 million by 2021.
- Rising internet penetration is expected to lead to growth in ecommerce.
- India's internet economy is expected to double from US\$125 billion as of April 2017 to US\$ 250 billion by 2020, majorly backed by ecommerce.

Notes: CAGR - Compound Annual Growth Rate, * - as of September 2017 **Source:** Media sources, Aranca Research







Indian E-Commerce Market (US\$ billion)

3 E-Commerce





ADVANTAGE INDIA

ADVANTAGE INDIA



- India is the fastest growing market for the ecommerce sector.
- Being driven by a young demographic profile, increasing internet penetration and relative better economic performance, India's E-commerce revenue is expected to jump from US\$ 39 billion in 2017 to US\$ 120 billion in 2020, growing at an Growing of Senand annual rate of 51 per cent, the highest in the world.

- The recent rise in digital literacy has led to an influx of investment in e-commerce firms, levelling the market for new players to set up their base, while churn out innovative patterns to disrupt old functioning.
- Private equity and venture capital investments in the e-commerce industry in India touched a record US\$ 11.2 billion in the first half of 2017, a 41 per cent rise over last year.

ADVANTAGE INDIA

Policy support

- A lot of India's blue-chip PE firms had previously avoided investing in E-commerce but are now looking for opportunities in the sector.
- Opportunities India's start-up ecosystem is growing supported by favourable FDI policies, Government initiatives like Start-up India and Digital India, as well as rising internet penetration driven by market players like Reliance Jio.

In India 100 per cent FDI is permitted in B2B e-commerce.

 As per new guidelines on FDI in ecommerce, 100 per cent FDI under automatic route is permitted in marketplace model of e-commerce

Notes: FDI – Foreign Direct Investment Source: Media sources. Aranca Research



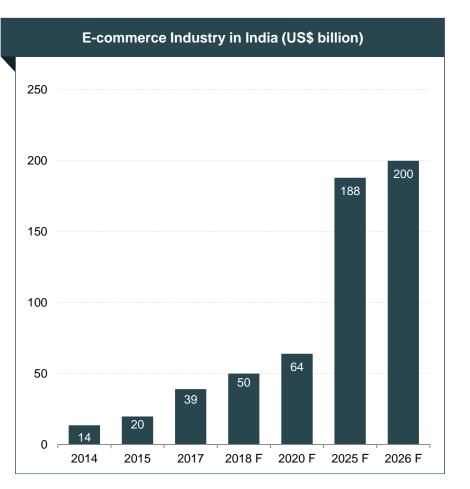


MARKET OVERVIEW

GROWTH OF E-COMMERCE IN INDIA



- Propelled by rising smartphone penetration, the launch of 4G networks and increasing consumer wealth, the Indian e-commerce market is expected to grow to US\$ 200 billion by 2026 from US\$ 38.5 billion as of 2017.
- E-commerce is increasingly attracting customers from Tier 2 and 3 cities, where people have limited access to brands but have high aspirations.
- With the increase in awareness about the benefits of online trading, there has been a significant rise in investment in E-commerce business. Hand in hand with offline trading, many established businesses, e.g. Shoppers Stop or Lifestyle, have setup online transaction channels.
- Earlier food and grocery were never thought of as items for online trading. However, with the change of working habits, and consumers opting for adaptability and convenience, there are now innumerable small and large E-commerce companies selling provisions and food items like Grofers, BigBasket, etc.
- India's ecommerce industry's sales rose 40 per cent year-on-year to reach Rs 9,000 crore (US\$ 1.5 billion) during the five-day sale period ending September 24, 2017, backed by huge deals and discounts offered by the major ecommerce companies.^

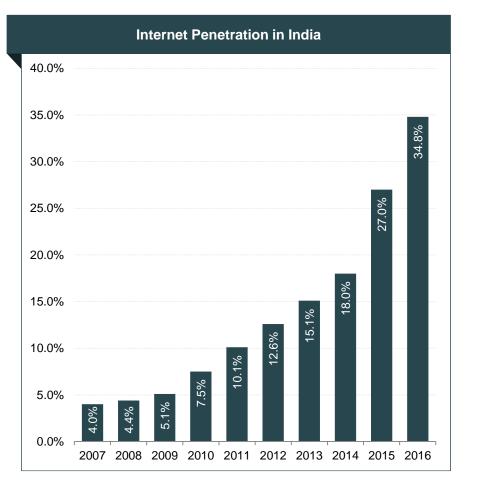


Notes: *Estimated, F – Forecasted, ^ - as per RedSeer Consulting **Source:** Economic Times, PWC, Financial Express

RISING INTERNET PENETRATION IN INDIA



- Internet penetration in India grew from just 4 per cent in 2007 to 34.08 per cent in 2016, registering a direct increase of 89 per cent in 2016 over 2007.
- Urban India with an estimated population of 444 million already has 269 million (60 per cent) using the Internet.
- Rural India, with an estimated population of 906 million as per 2011 census, has only 163 million (17 per cent) Internet users. There is therefore a great opportunity for increasing penetration in the rural areas.
- Analysis of 'Daily Users' reveal that both in Urban and Rural India, the younger generations are the most prolific users of internet.
- Rising internet penetration is expected to drive ecommerce growth in India.



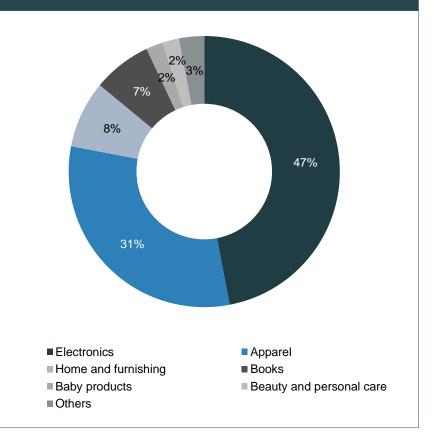
Source: Economic Times, Live Mint, Aranca Research

E-COMMERCE RETAIL MARKET



- The online retail market in India is estimated to be worth US\$ 17.8 billion in terms of gross merchandise value (GMV) as of 2017 and is estimated to increase by 60 per cent to US\$ 28-30 billion in 2018.
- Electronics is currently the largest segment in e-commerce in India with a share of 47 per cent and is expected to grow at a CAGR of 43 per cent by 2020.
- The apparel segment has the second highest share of 31 per cent in the e-commerce retail industry
- Currently, there are 1-1.2 million transactions per day in e-commerce retailing.

E-commerce retail market by value (2016)



Notes: CAGR – Compound Annual Growth Rate Source: KPMG Report – E-commerce Retail Logistics India

ONLINE RETAIL VS TOTAL RETAIL IN INDIA



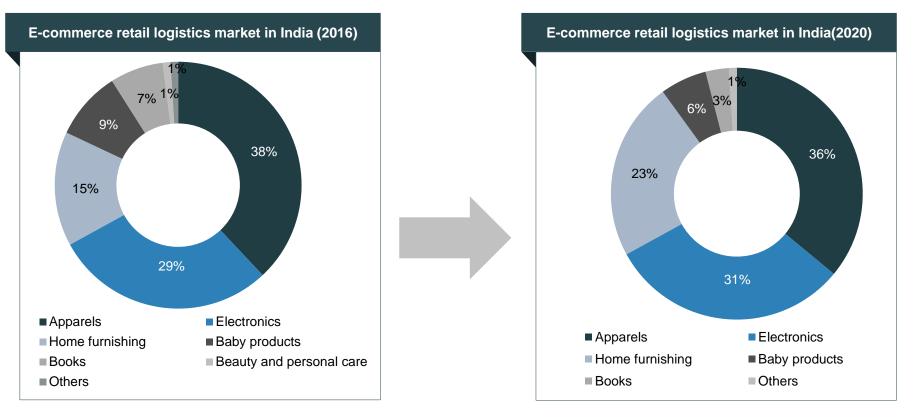


- There are a lot of opportunities for e-retailers in India to capitalise upon with the gradually growing internet penetration in India.
- The penetration of online retail in India's total retail market is expected to rise from 2.5 per cent in 2016 to 5 per cent by 2020.
- The online retail market in India increased from US\$ 14.5 billion in 2016 to US\$ 17.8 billion in 2017 and is estimated to reach US\$ 28-30 billion by 2018.

Source: KPMG Report – E-commerce Retail Logistics India

E-COMMERCE RETAIL LOGISTICS MARKET IN INDIA



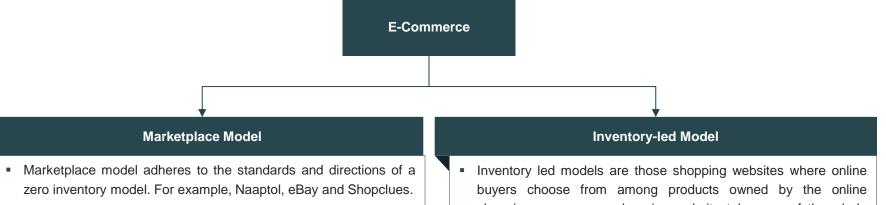


- Logistics is a major driver of the e-commerce retail industry and is an important point of differentiation between market players aiming at better customer satisfaction and service.
- The logistics sector pertaining to the e-commerce industry in India stood at US\$ 460 million in 2016 and is expected to grow at a CAGR of 48 per cent to reach US\$ 2.2 billion by 2020.

Notes: CAGR – Compound Annual Growth Rate Source: KPMG Report – E-commerce Retail Logistics India

E-TAILING MARKET BY BUSINESS MODEL





- The e-commerce marketplace becomes a digital platform for consumers and merchants without warehousing the products. Marketplaces do offer shipment, delivery and payment help to merchants by tying up with some selected logistics companies and financial institutions.
- The new FDI policy rules and regulations in the e-commerce market have permitted 100 percent FDI in the e-commerce marketplace model under the automatic route.
- Inventory led models are those shopping websites where online buyers choose from among products owned by the online shopping company or shopping website take care of the whole process end-to-end, starting with product purchase, warehousing and ending with product dispatch.
- A few examples of such are Jabong, Yepme and LatestOne.com.

PRIVATE INVESTMENTS IN E-COMMERCE

- Venture capital (VC)-backed firms in India raised a record US\$ 9.6 billion of fresh capital between January-September 2017, which is more than twice the amount of capital raised during the same period in 2016.
- The first half of 2017 recorded 26 start-up funding deals of value US\$ 100 million and above, aggregating to US\$ 7.7 billion and accounting for 68 per cent of investments during the period.

Funding Activities (As of December 2017)

Company	Investor	Funding (US\$ million)
Flipkart	SoftBank	2,500
Capital Float	Ribbit Capital, SAIF Partners, Sequoia India	45
Bank Bazaar	Experian Plc	30
Droom	Asset Management (Asia) Ltd, Digital Garage Inc	20
1 mg	HBM Healthcare Investments, Maverick Capital Ventures, Sequoia India, Omidyar Network and Kae Capital	15
Gozefo	Sequoia Capital India, Helion Venture Partners and Beenext Pte Ltd	9
Jumbotail	Kalaari Capital, Nexus India Capital Advisors	8.5
Blackbuck	InnoVen Capital	7.7
KartRocket.com	Bertelsmann India Investments, Nirvana Digital India Fund	4.1
The Label Life	Kalpavriksh, Centrum group's maiden private equity (PE) fund	3.1
Chumbak	Blacksoil Capital Pvt. Ltd	1.7
MFine	Stellaris Venture Partners, Mayur Abhaya, Rohit M.A	1.5

Source: Media sources, Aranca Research

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KEY PLAYERS



flipkart_{com}



snapdeal

Your Beauty. Our Passion.

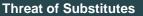




ebay



PORTER'S FIVE FORCES FRAMEWORK ANALYSIS



 High – Threat of substitutes is high as there are a lot of sellers with similar products and services; and there is no switching cost for customers.

Bargaining Power of Suppliers

 Low – Bargaining power of suppliers is low as there are many suppliers in the market, and therefore the ecommerce companies have the power to choose their suppliers.

Competitive Rivalry

High – Competition among major players is very high, as there is no switching cost for customers. The players are constantly competing on the basis on price as well as other factors that influence buyers' choice like quick delivery, discounts and offers, variety, customer service etc.

Threat of New Entrants

 High – Threat of new entrants is high, as there is very little cost involved in setting up an ecommerce website.

Bargaining Power of Buyers

 High – Bargaining power of customers is very high as there are many players in the market with similar products and there is no switching cost. Buyers prefer the company that offers the best price among other factors.

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Positive ImpactNeutral Impact

Negative Impact



STRATEGIES ADOPTED



STRATEGIES ADOPTED



Expansion	 E-commerce companies are gradually expanding to different cities, regions and even countries. They are also expanding their product range to cater to a larger amount of people. In May 2017, Uber launched UberEats, an on-demand food delivery app in India As of July 29, 2017 Amazon India has pledged US\$ 500 million for the expansion of its food retail business in India. Paytm Mall, ecommerce platform of Paytm, is planning to expand its groceries segment and is targeting a Gross Merchandise Value (GMV) of US\$ 3 billion from this segment by the end of 2018.
Ancillary services	 One of the biggest advantage of E-commerce is that along with the core product or service it can also provide numerous ancillary services without having to invest a lot. Amazon India introduced one day delivery guarantee on purchases for a nominal fee. Flipkart started with same day guarantee in 2013 too. Flipkart introduced its own payment gateway Payzippy and also, its own logistics and supply chain firm Ekart. E-commerce websites are also introducting e-Wallet services; for example - Amazon's Pay Balance.
Personalised Experience	 Site visitors demand one-of-a-kind experiences that cater to their needs and interests. Technology is available, even to smaller players, to capture individual shoppers' interests and preferences and generate a product selection and shopping experience led by individualised promotions tailored to them. Many E-commerce websites provide personalised experience to customers to cater to their needs and interests depending upon their location, choices, products they like or buy, websites they visit etc. This strategy has helped companies to know customers' demands better and serve them accordingly.
Subscription for ecommerce	 E-commerce companies are increasingly adopting subscription model to provide extra benefits and tailored services to customers to suit their needs. Amazon introduced Amazon Prime, a subscription based service for Amazon customers, in 2016. members of Amazon Prime could avail early access to selected deals, free one day delivery and other benefits. Amazon Prime subscribers in India stood at around 5-6 million as of December 2016 In 2014, Flipkart introduced Flipkart First, a premium subscription based service swherein a customer gets free delivery, discounted same day delivery, priority customer service etc.

Source: Media sources, Company websites, Aranca Research

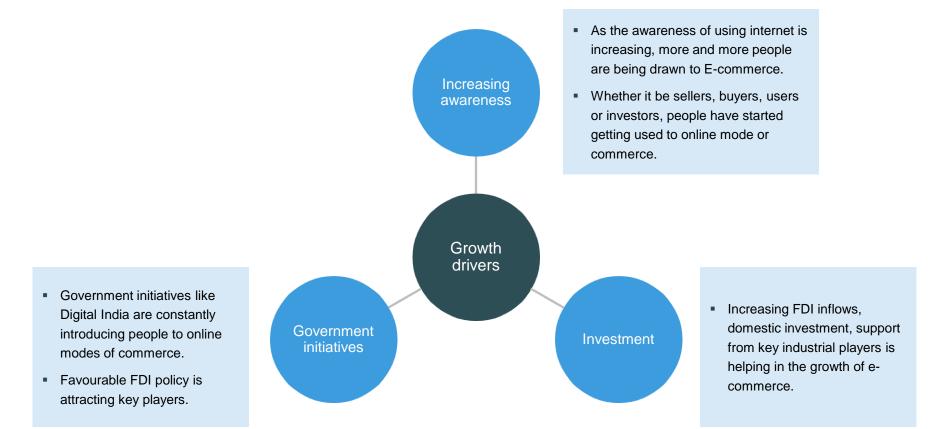


GROWTH DRIVERS AND OPPORTUNITIES



GROWTH DRIVERS FOR E-COMMERCE





Source: Aranca Research

DEMOGRAPHIC FACTORS

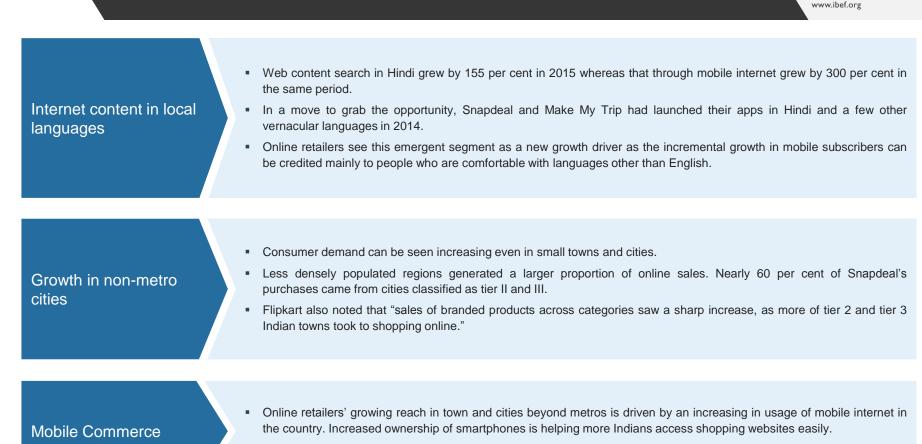
Online Shoppers	 Number of online shoppers is expected to go up to 175 million by 2020. Mobile-savvy shoppers are the backbone of India's online shopping industry. Men in India are more avid shoppers than women in part because of demographic and cultural differences.
Tier II and Tier III cities provide major sales	 Metro cities like Bengaluru, Mumbai, and Delhi, with population greater than 100,000, accounted for most online shopping in absolute numbers. Less densely populated regions generated a larger proportion of online sales. Nearly 60 per cent of Snapdeal's purchases came from cities classified as tier II and III. Flipkart also noted that "sales of branded products across categories saw a sharp increase, as more of tier 2 and tier 3 Indian towns took to shopping online."
Millennials are the most active	 Although shoppers between 25 and 34 years of age were most active on e-commerce portals, a surprising number of older people also shopped online in 2016. However, the age group of 15-34 years are the major consumers of E-commerce. The popularity of web series among millenials is growing immensely.
Convenience of E- commerce	 Discounts, added with a comfort of sitting at home and purchasing, is an effective driving factor of E-commerce. Availability of various websites gives customers a lot of options to choose from. Chatbots and personal assistance apps have made transactions seamless. One can get several brands and products from different sellers at one place. Also, one can get in on the latest international trends without spending money on travel; you can shop from retailers in other parts of the country or even the world without being limited by geographic area.

Source: Economic Times, Media sources, Aranca Research

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FACTORS DRIVING E-COMMERCE GROWTH... (1/2)



Rise in smartphone usage is expected to reach 50 per cent penetration by 2020.

Source: Media sources, Aranca Research

FACTORS DRIVING E-COMMERCE GROWTH... (2/2)



Cashless Transactions	 A net addition of nearly 140 million debit cards has been recorded in the country in the past few years. Usage of debit cards at points of sale terminal has increased by 86 per cent during the same period. This clearly reflects that people are getting comfortable with using debit cards for activities other than withdrawals at ATM. Many online retails insist use of debit cards for high value transactions, this is however a welcome change. This will help e-tailers to increase their reach. Digital payments will act as a game changer for the domestic e-commerce business and the current trend of dominance of Cash-on-delivery would be reversed in the next five years, as per Mr Sachin Bansal, Executive Chairman, Flipkart.
Growth of logistics and warehouses.	 Online retailers now deliver to "12,500-15,000 pin codes" out of nearly 100,000 pin codes in the country. With logistics and warehouses attracting an estimated investment of nearly US\$2 billion by 2020, the reach of online retailers to remote locations is set to increase.
B2B ecommerce	 Amazon has launched an online Business-to-Business (B2B) market place in India where small and medium enterprises (SMEs) can buy products. Metro Cash and Carry, Germany-based, B2B retail store chain, is planning to start e-commerce solutions for its B2B business in India by the end of 2017. Power2SME, one of the largest B2B online marketplaces in India that provides raw materials to small and medium enterprises (SMEs), has raised US\$ 36 million from Inventus Capital, Accel Partners and others in September 2017, which will be used towards technology, sales, marketing and geographic expansion.
Increasing Investments	 Chinese phone manufacturer, Xiaomi Corporation, is planning to invest about US\$ 1 billion in 100 Indian start-ups over the coming five years, with an aim to make an ecosystem of apps surrounding its smartphone brand. US-based ecommerce giant, Amazon, has invested about US\$ 1 billion in its Indian arm so far in 2017, taking its total investment in its business in India to US\$ 2.7 billion.
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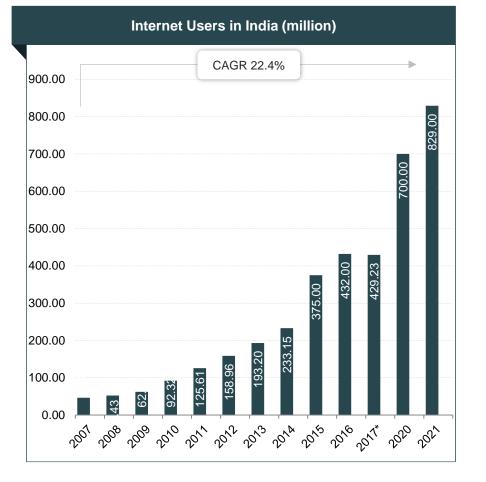
Source: Media sources, Aranca Research

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GROWTH OF INTERNET USERS



- The number of Internet users in India is 429.23 million as of September 2017, growing at a CAGR of approximately 22.4 per cent in the last decade.
- 77 per cent of urban users and 92 per cent of rural users consider mobile as the primary device for accessing the internet, largely driven by availability and affordability of smartphones.
- In urban India, the Internet user base stood at 299.83 million as of September 2017.
- Rural India's internet user base stood at 129.41 million as of September 2017.



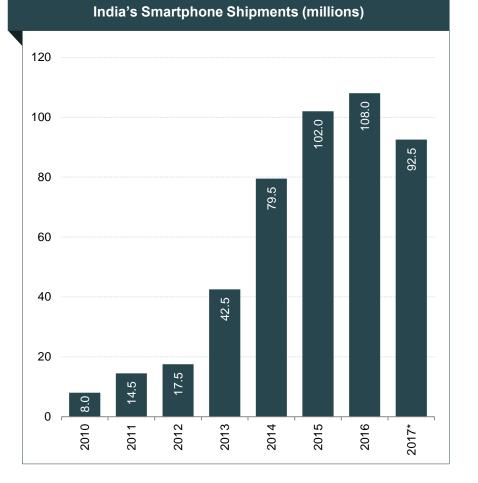
Notes: *as of September 2017 Source: Economic Times, Live Mint

INCREASE IN MOBILE SHIPMENTS DRIVING E-COMMERCE GROWTH



- The proliferation of mobile devices combined with internet access via affordable broadband solutions and mobile data is a key factor driving the tremendous growth in India's e-commerce sector.
- Smartphone shipments in India stood at 27 million units in the first quarter of 2017 and 28 million units in the second quarter of 2017, 40 million units in the third quarter, taking the total shipments to 92.5million units in 2017.*
- The overall smartphone shipment is expected to reach nearly 1.6 billion units in 2017.
- Mobile platforms have emerged as a major gateway for customer purchases as smartphones are increasingly replacing PCs for online shopping.
- Offline brands have now started focusing on online channels as well to gain extra market share.
- 65 per cent of the people who shop online, do so using their mobile phones.
- Smartphone users in India are expected to reach 700 million by 2020.
- India's mobile wallet industry is estimated to grow at a compound annual growth rate (CAGR) of 148 per cent to reach US\$ 4.4 billion by 2022. ^

Notes: * As of September 2017, ^ - 'World Payment Report 2017' by Capgemini. **Source:** IMF, World Bank, International Data Corporation (IDC)



24 E-Commerce

GOVERNMENT INITIATIVES IN E-COMMERCE



- Since 2014, the Government of India has announced various initiatives namely, Digital India, Make in India, Start-up India, Skill India and Innovation Fund. The timely and effective implementation of such programsmes will likely support the e-commerce growth in the country.
- In the Union Budget of 2017-18, government has allocated US\$ 1.55 billion to BharatNet Project, announcing availability of high speed broadband connectivity on optical fibre and accessibility of wifi hot spots and digital services at low tariffs in more than 150,000 gram panchayats, by the end of 2017-18.
- In December 2017, the Department of Industrial Policy and Promotion (DIPP) is planning to release the index to rank Indian states based on the start-up ecosystem and the measures undertaken to promote start-ups in the states.
- Finance Minister Mr Arun Jaitley has proposed various measures to quicken India's transition to a cashless economy, including a ban on cash transactions over Rs 300,000 (US\$ 4,655.1), tax incentives for creation of a cashless infrastructure, promoting greater usage of non-cash modes of payments, and making Aadhaar-based payments more widespread.
- Government announced the launch of BHIM app. It will help increase digital payments in the country. BHIM app has been adopted by 12.5 million so far. The Government will launch two new schemes to promote the usage of BHIM; these are, Referral Bonus Scheme for individuals and a Cashback Scheme for merchants.
- Under the Digital India movement, government launched various initiatives like Udaan, Umang, StartUp India Portal etc.
- The recent announcement of GST roll out, another significant reform would help e-retail competitors streamline their supply chain and simplify their tax structure, while rationalising seamless integration of goods and services across the country. Moreover it will eliminate the dual taxes being imposed on the current ecommerce eco system.
- The Reserve Bank of India (RBI) has instructed banks and companies to make all know-your-customer (KYC)-compliant prepaid payment instruments (PPIs), like mobile wallets, interoperable amongst themselves via Unified Payments Interface (UPI) by April 2018.
- In order to increase the participation of foreign players in the e-commerce field, the Indian Government hiked the limit of foreign direct investment (FDI) in the E-commerce marketplace model for up to 100 per cent (in B2B models).
- The Government of India has distributed rewards worth around Rs 153.5 crore (US\$ 23.8 million) to 1 million customers for embracing digital payments, under the Lucky Grahak Yojana and Digi-Dhan Vyapar Yojana.

Source: Union Budget 2017-18, Media sources, Aranca Research



E-Commerce PUDET ernet eCommerce Market

CASE STUDIES

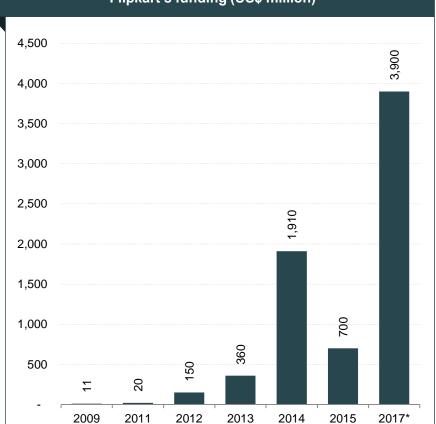
FLIPKART: OVERVIEW



- Flipkart, an Indian E-Commerce company, started in October 2007 and is currently headquartered in Bengaluru.
- Flipkart was started by Sachin Bansal and Binny Bansal and as of March 2017, has 8000 permanent employees and 20000-25000 contract workers who form part of its supply chain.
- Flipkart is the market leader in India's online marketplace with over 80 million products across more than 80 categories.
- Since 2009, Flipkart, valued at US\$ 11.6 billion as of April 2017, has raised over US\$4 billion in 11 funding rounds. American investment firm Tiger Global participated in nine of them.
- Flipkart boasts of having 100 million users and 100 thousand sellers along with 21 warehouses.
- On average, Flipkart has around 8 million shipments per month.
- In 2016, Flipkart became the first Indian App to cross 50 million users.
- In April 2017, Flipkart raised US\$ 1.4 billion from Microsoft, eBay and Tencent and in August 2017, it raised US\$ 2.5 billion from SoftBank.
- In exchange of an equity stake in Flipkart, eBay made a cash investment of US\$ 500 million and sold its eBay.in business to Flipkart, in 2017.
- Flipkart invested US\$ 400 million in its logistics arm, eKart, between September-December 2017.

Notes: *As of August 2017

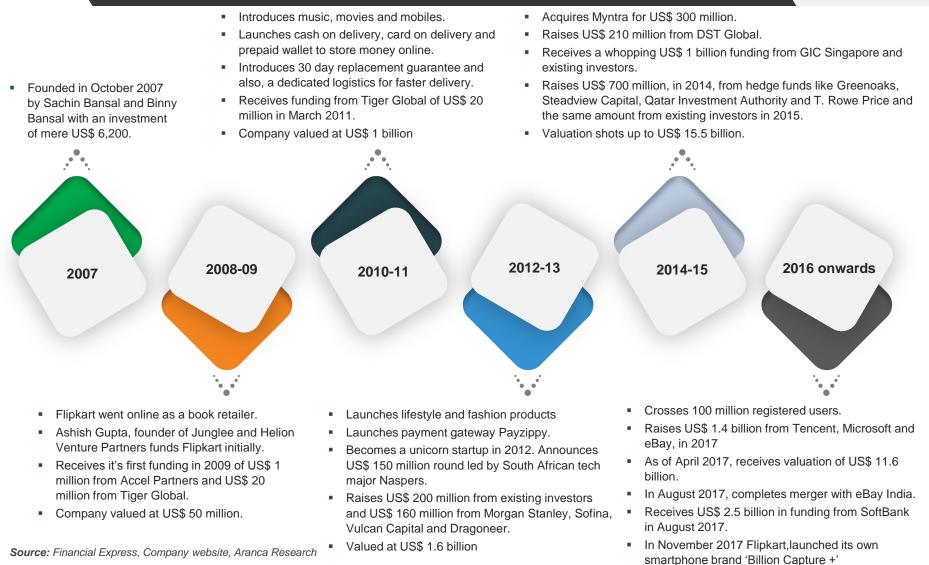
Source: Economic Times, Flipkart, Business Line, Aranca Research



Flipkart's funding (US\$ million)

EVOLUTION OF FLIPKART





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INDUSTRY ASSOCIATIONS



KEY INDUSTRY ASSOCIATIONS



e-Commerce Association of India	Retailers Association of India (RAI)
Address: 122, 1st Floor, Devika Tower	Address: 111/112, Ascot Centre, Near Hotel ITC Maratha,
Corporate Business District, Nehru Place	Sahar Road, Sahar, Andheri (E)
New Delhi –110 019	Mumbai – 400099
Phone: +91 011 41582722	Phone: +91 22 28269527 - 29
Fax : +91 011 41582722	Fax: +91 22 28269536
Email: <u>info@ecai.co.in</u>	E-mail: info@rai.net.in



USEFUL INFORMATION







- CAGR: Compound Annual Growth Rate
- GMV Gross Merchandise Value
- FDI: Foreign Direct Investment
- FY: Indian Financial Year (April to March)
- GOI: Government of India
- INR: Indian Rupee
- US\$: US Dollar
- Wherever applicable, numbers have been rounded off to the nearest whole number

EXCHANGE RATES

Exchange Rates (Fiscal Year)

Year INR INR Equivalent of one US\$ INR Equivalent of one US\$ Year 2004-05 44.81 2005 43.98 2005-06 44.14 2006 45.18 45.14 2006-07 2007 41.34 2007-08 40.27 2008 43.62 2008-09 46.14 2009-10 47.42 2009 48.42 2010-11 45.62 2010 45.72 2011-12 46.88 2011 46.85 2012-13 54.31 2012 53.46 2013-14 60.28 2014-15 61.06 2013 58.44 65.46 2015-16 2014 61.03 2016-17 67.09 2015 64.15 Q1 2017-18 64.46 2016 67.21 64.09 Q2 2017-18 2017 65.12 Q3 2017-18 64.74

Exchange Rates (Calendar Year)







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