

E - COMMERCE IN INDIA



SECTOR OVERVIEW

E-commerce is India's fastest growing and most exciting channel for commercial transactions. Indian E-Commerce is growing at an annual rate of 51% the highest in the world. The retail sector is also showing a promising trend of 11% Compound Annual Growth Rate (CAGR) and is expected to reach USD 1 trillion by 2020.

MARKET SIZE

India's E-Commerce market is expected to nearly double to USD 1 trillion by 2020 from USD 600 billion in 2015, driven by income growth, urbanization and attitudinal shifts. While the overall retail market is expected to grow at 12 per cent per annum, modern trade would expand twice as fast at 20 per cent per annum and traditional trade at 10 per cent.

India's Business to Business (B2B) E-Commerce market is expected to reach USD 700 billion by 2020. Online retail is expected to be at par with the physical stores in the next five years.

India is expected to become the world's fastest growing E-Commerce market, driven by robust investment in the sector and rapid increase in the number of internet users. Various agencies have high expectations about growth of Indian E-Commerce markets. Indian E-Commerce sales are expected to reach USD 120 billion by 2020 from USD 30 billion in FY2016. Further, India's E-Commerce market is expected to reach USD 220 billion in terms of Gross Merchandise Value (GMV) and 530 million shoppers by 2025, led by faster speeds on reliable telecom networks, faster adoption of online services and better variety as well as convenience.

INVESTMENT SCENARIO

The Indian E-Commerce market has received Foreign Direct Investment (FDI) equity inflows totaling USD 935.74 million during April 2000–December 2016, according to the Department of Industrial Policies and Promotion (DIPP).

With the rising need for consumer goods in different sectors including consumer electronics and home appliances, many companies have invested in the Indian E-Commerce market in the past few months.

- ✦ US apparel retail major Gap Inc, has tied up with Arvind Group's fashion portal NNNow.com to sell its products online, which will help the retailer expand its presence beyond metros and tier-I cities.
- ✦ Urban Ladder, an online furniture store, is in advanced talks to raise around USD 25-30 million from existing investors Kalaari Capital, SAIF Partners and Sequoia Capital, along with one new investor, which will be used to fund its expansion plans.
- ✦ Aditya Birla Fashion and Retail Limited (ABFRL) has announced that it will acquire exclusive online and offline rights of Forever 21, an American fast fashion brand, in the Indian market.
- ✦ Lenskart, India's largest online eyewear retailer, has raised Rs 400 crore (USD 59.3 million) in series D round of funding led by World Bank's investment arm International Finance Corporation (IFC), which will be used to enhance its technology, supply chain, lens manufacturing, and expand the reach of its high-quality eyewear products across Tier-3 and Tier-4 cities of India.
- ✦ KartRocket, a Delhi based e-commerce enabler has completed its USD 8 million funding round by raising USD 2 million from a Japanese investor, which will be used to enhance Kraftly, a mobile-first online-to-offline marketplace targeting small sellers, individuals and home-based entrepreneurs in India in product categories such as apparel and accessories.
- ✦ PurpleTalkInc, a US based mobile solutions company, has invested USD 1 million in Nukkad Shops, a Hyderabad based uber-local commerce platform that helps neighbourhood retail stores take their businesses online through a mobile app.
- ✦ Gurgaon-based e-commerce firm Shopclues has raised USD 150 million from Singapore government's GIC and its existing investors Tiger Global and Nexus Venture Partners, at a valuation of USD 1.1 billion, thereby becoming the latest among several e-commerce companies from India reaching a billion dollar valuation.
- ✦ Opinio, a hyperlocal delivery start-up, has raised USD 7 million in a Series-A funding from Gurgaon-based e-commerce fulfilment service firm Delhivery along with investment from Sands Capital and Accel Partners.

CURRENT ECOMMERCE MARKET TRENDS IN INDIA



E-Commerce has made it easier for top American brands to reach Indian customers, and has emerged as one of the fast-growing new trade channels available for the cross-border trade of goods and services. There is a growing appetite for American brands that are doing well in several categories including lifestyle products, consumer electronics, clothing, footwear and accessories, health and beauty, household goods, art and collectibles, event tickets and online music.

E-Commerce in India can be broadly categorized as- Domestic and Cross-Border, B2B and B2C, Marketplace and Inventory based and lastly Single brand and multi brand. The advent of technology enabled innovations such as Digital Payments, Hyper-local Logistics, Analytics driven Customer Engagement and Digital Advertisements have enabled the ecommerce industry to grow at a much faster rate. Other Government initiatives such as Digital India, Skill India, Start up India and Make in India are contributing to the growth of the ecommerce industry.

FOREIGN DIRECT INVESTMENT (FDI)

- 🚧 **B2B:** 100% FDI is allowed in companies engaged in B2B ecommerce, e.g. Walmart, Alibaba can operate cash and carry business.
- 🚧 **Business to Consumer (B2C):** 100% FDI is allowed in online retail of multi brand goods and services B2C under the marketplace model, e.g. Amazon, Flipkart, Snapdeal. Any E-Commerce entity providing a marketplace cannot exercise ownership over the inventory and is not permitted to sell more than 25% of total sales through its marketplace from one vendor to their group companies.
- 🚧 **Inventory-Based:** FDI is not allowed in inventory-based model of ecommerce to provide level playing field for large offline retailers.
- 🚧 **Single Brand:** A single brand retail trading entity operating through brick and mortar stores is permitted to undertake retail trading through ecommerce also known as e-tailing.

- ✦ **Food retail:** 100% FDI is allowed for trading (including ecommerce) food products manufactured or procured in India.
- ✦ **Multi Brand:** No FDI is allowed in companies which engage in multi brand retail trading by means of ecommerce.
- ✦ **Other Government Actions:** NITI Aayog has set up a high level committee to look into the issues related to ecommerce including the FDI. Food safety and Standards Authority of India (FSSAI) has also issued draft norms for licensing online food operators. Consumer Affairs Ministry is also planning to regulate ecommerce through the proposed new consumer protection law.

E-COMMERCE CONSUMER SERVICES IN INDIA

There is a new trend of emerging ecommerce aggregators aiming to digitize several offline services to create a convenient ecosystem for consumers. Below is a list of service providers by industry group:

- ✦ **Tourism:** makemytrip; Goibibo; Yatra; IRCTC
- ✦ **Education:** EduKart; Meritnation
- ✦ **Healthcare:** Portea; Healthkart
- ✦ **Entertainment/ Ticket booking:** Netflix.com; bookmyshow.com
- ✦ **Real Estate:** MagicBricks; Housing

MOBILE ECOMMERCE IN INDIA

- ✦ Mobile ecommerce (m-commerce) is growing rapidly as a secure supplement to the ecommerce industry.
- ✦ Industry leaders believe that m-commerce could contribute up to 70% of their total revenues.
- ✦ India has surpassed the U.S. to become the second largest market for smartphones after China.
- ✦ The number of Smart Phone users is expected to reach 650 million by 2019.
- ✦ One out of three phones purchased in India was sold via online channel in India's Tier 1 and Tier 2 cities.

DIGITAL ADVERTISING IN INDIA



- ✦ The digital advertising spends were about 12 per cent of the total advertisement spends in the country with ecommerce as leading sector followed by Telecom and BFSI.
- ✦ Digital advertising is expected to cross USD 3.5 billion in 2020.
- ✦ Government of India has recently introduced 6% equalization levy informally known as “Google Tax” to indirectly tax international internet companies like Google and Facebook operating in India by adding a levy on payments made to them for digital advertising space or services for online advertisements.

E-commerce is expanding steadily in the country. Customers have the ever increasing choice of products at the lowest rates and are probably creating the biggest revolution in the retail industry, and this trend would continue in the years to come.

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