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IMAGES Retail™

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E-COMMERCE BOOM IN INDIA

Online Retail Triggers Transformation in Retail Industry

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- THE STATE OF INDIAN E-COMMERCE – TRENDS AND OPPORTUNITIES
- IS ONLINE RETAIL A THREAT OR AN OPPORTUNITY?
- E-COMMERCE IS BIG, ITS OPERATIONAL FINANCE ISSUES ARE BIGGER
- WHEN IT COMES TO E-COMMERCE, SOFTWARE TESTING IS A MATTER OF SURVIVAL!

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From a buzzword to a current-day reality, e-commerce in India has come a long way and has managed to change the way people transact and shop. To focus more on this burgeoning sector, this issue of IMAGES Retail is dedicated to the rise of e-commerce in India. Thanks to online retailing, people today can shop anywhere and anytime from the comfort of their homes, or in their spare time when they are travelling for work or leisure. The online market space in the country is growing in terms of offerings ranging from apparels, fashion accessories, furniture, precious jewellery, grocery, books to providing services such as online travel booking, hotel reservations, movie booking.

Pegged at US$ 2.3 billion, e-tailing is still a minor part (0.4 per cent) of overall retail in India, but it is projected to grow at a rapid pace to reach 3 per cent of the total Indian retail market, that is US$ 32 billion by 2020, according to Technopak. There are four key factors that contribute to the growth of e-tailing – growth of digital penetration, growth of Internet-habitual customers, limitation of the brick and mortar format, and improved supply side.

According to Technopak, Internet penetration is currently ~20 per cent, and is projected to reach 40 per cent by 2020. The growing penetration of technology facilitators, such as Internet connections, 3G and now even 4G services, laptops, smart phones, tablets and dongles coupled with increasing acceptance of the idea of online shopping, is set to drive the e-commerce eco-system in the country. The e-commerce story in India would surely witness a new era of digitalisation with a host of start-ups emerging to compete with existing bigwigs in order to draw benefits from the potential markets. To capitalise on the anticipated growth of e-commerce, many venture capital and private equity firms are closely tapping the opportunities available in e-commerce startups. The e-commerce sector is also witnessing consolidation owing to various mergers and acquisitions. However, the e-commerce sector has come a long way, but it is just the tip of the iceberg and it still has miles to cover, before reaching its final destination.

Amitabh Taneja

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E-COMMERCE BOOM IN INDIA

The emergence of e-commerce has created a boom in the marketplace offering faster, convenient and cheaper methods of buying and selling. The increasing number of Internet users and new mobile apps, credibility of transaction, entry of big players like Amazon etc is accelerating the growth further. If experts are to be believed e-commerce business in India will be around USD 50- 70 billion by 2020. Factors fueling this growth are Internet-connected population and improvement in basic infrastructure like payment and delivery systems.

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JULY 2014

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THE STATE OF INDIAN E-COMMERCE TRENDS AND OPPORTUNITIES

E-commerce has come a long way since its inception and is only getting bigger. As technology continues to grow rapidly, e-commerce retailers are adopting newer techniques to facilitate sellers and buyers to sell and buy online more efficiently. The rise of social networks and mass adoption of mobile devices is acting as a catalyst to accelerate this drive further, shaping the e-commerce trends for the Indian market.

By Saif Ahmad

Consumers are more connected than ever before and have more information and choices at their fingertips today. They are leaving behind their preferences, behaviour and interests, which create a knowledge ground for e-commerce companies to analyse behaviour pattern and offer more interesting and competitive products.

The proliferation of this digital activity and resulting data is a stimulating factor for devising e-commerce strategies, thus affecting the business model and driving growth for e-commerce players in the Indian market. Let us establish more understanding considering the current scenario and in-sighting some of the upcoming trends in this space.

Critical health of sector: Losers and gainers

According to a study by Accel Partners, online shopping of physical goods in India will grow to US$ 8.5 billion in 2016 and the number of online shoppers in India will be more than double to 40 million. The internet user base is predicted to increase to 300 million by 2015.

Does that mean that e-commerce is here to stay, and every small and big fish will survive? That might not be the case. The ones that show potential to succeed are international deep-pocket incumbents who have experience, concepts and variety of offerings, and tend to grow at a fast pace as compared to the other existing players in the Indian market. Even Indian e-commerce players are trying hard to bring in similar concepts as their international competitors. They are trying to bring impending and imminent consolidation, which is evident from the probable mergers of India's biggest e-commerce players

Key market and technology trends that we believe will define e-commerce in near future include:

Brand loyalty

Price has been the dominating factor in the Indian market and the customer is not hesitant in changing brands frequently to avail the lucrative offers presented by competing brands. There is a lot that e-commerce players in India would have to do to make their customers feel special to retain them, as the loyalty erodes fast when the shopper is confronted with promotions and deals.

Retailer's own logistics

Logistics have been a major issue for online retailers in India, which leads them to build their own strategies in the absence of established systems to handle cash-on-delivery (CoD) and same-day shipments. Online market leaders are choosing to build their own logistics such as Flipkart, who has launched eKart that is open to its rivals as well.

PENNYFUL.IN GET PAID FOR SHOPPING!

Incepted in 2011, Pennyful.in, a leading cashback and discount coupons website, allows customers to make the desired purchases by directing them to the online retailer's site and availing of the cashback offer. Today, Pennyful.in has entered into collaborations with over 250 of the most popular e-commerce merchants like Amazon, Myntra, Jabong, Yebhi, Tradus, Homeshop18 and Flipkart among others. In conversation with *IMAGES Retail, Ravitej Yadalam,* CEO and Founder, Pennyful.in discusses the brand's strategy and highlights the measures taken by the company to offer a good customer experience.

By Kanak Prabha

Inception

Pennyful.in, a brainchild of Ravitej Yadalam, is one of the first players in the Indian cashback and discount coupons market. Yadalam originally put to test the concept of a cashback and discount coupons website in the US market with Pennyful.com, and based on the positive feedback he received, along with the emerging popularity of e-commerce in India, he took the concept to the Indian market with Pennyful.in.

Talking about the inception of Pennyful.in, Yadalam says: "The idea of Pennyful came to me when I was in college. The e-commerce space always fascinated me, and I began experimenting with the idea in college during the 2007–2008. During that period, I used to work with some market vendors to sell products and that is when I witnessed a significant trend in consumer behaviour. I saw that customers preferred branded products to unbranded ones, in spite of the latter having just as many features at a lower cost. This made me move my e-commerce experiments to the affiliate marketing space. Through affiliate marketing I was able to tie up with big brands and deliver to customers the products they wanted."

"While doing this helped solve the problem of selling large brands, I figured out that there was another challenge at foot–that of customer loyalty. There were many sites that offered the same product

Ravitej Yadalam, CEO and Founder, Pennyful.in

Pennyful.in gives their customers 1–50 per cent of their spending through cashback. **This means that the company shares anywhere between 50–90 per cent of the commission with its customers.**

at the same price. So the question I asked myself was, how could I make my customers choose me over my competitors? The answer was to offer my customers something that others weren't offering, to ensure customer stickiness. I realised that through affiliate marketing, I make an 'x' amount of money as commission, and if I shared part of this with my customers as an incentive, I would be able to deliver the best customer shopping experience. And, the feedback I got for this model was incredible. This is how Pennyful Online was born and Pennyful.com was launched for the US market in January 2011. Through Pennyful.com, we started offering real cash back to our customers for every purchase they made through us," he added.

According to Yadalam, the initial challenge in the US market was that e-commerce there is extremely sophisticated. There are many players and thus establishing a differentiation was initially challenging. Some of the challenges included setting up the office and ensuring the operations, which ran out of India, aligned with the US time zone. However, they overcame those challenges and currently work with around 1,500 e-commerce players in the US.

After registering noticeable success in the US market, and seeing that the Indian e-commerce market was becoming popular and more relevant, they decided to take this concept to the Indian customers.

Formed in November 2011, Pennyful.in is one of the first online cashback sites in India. As one would know, the Indian market is extremely cost-conscious and the concept of cashback here has been gaining traction at a rapid pace. In fact, they are the only cashback player to offer cashback, or reward vouchers, on both Amazon.in and Flipkart.

Profit ratio

Pennyful.in gives their customers 1–50 per cent of their spending through cashback. This means that the company shares anywhere between 50–90 per cent of the commission with its customers. As they refer more sales and business to partners, these numbers are expected to grow.

The feedback they have been receiving from customers so far has been overwhelming. According to Yadalam, "We did expect to see positive traction for the site, but the way our customers have been reacting to receiving their money back from us suggests that we are on the right track."

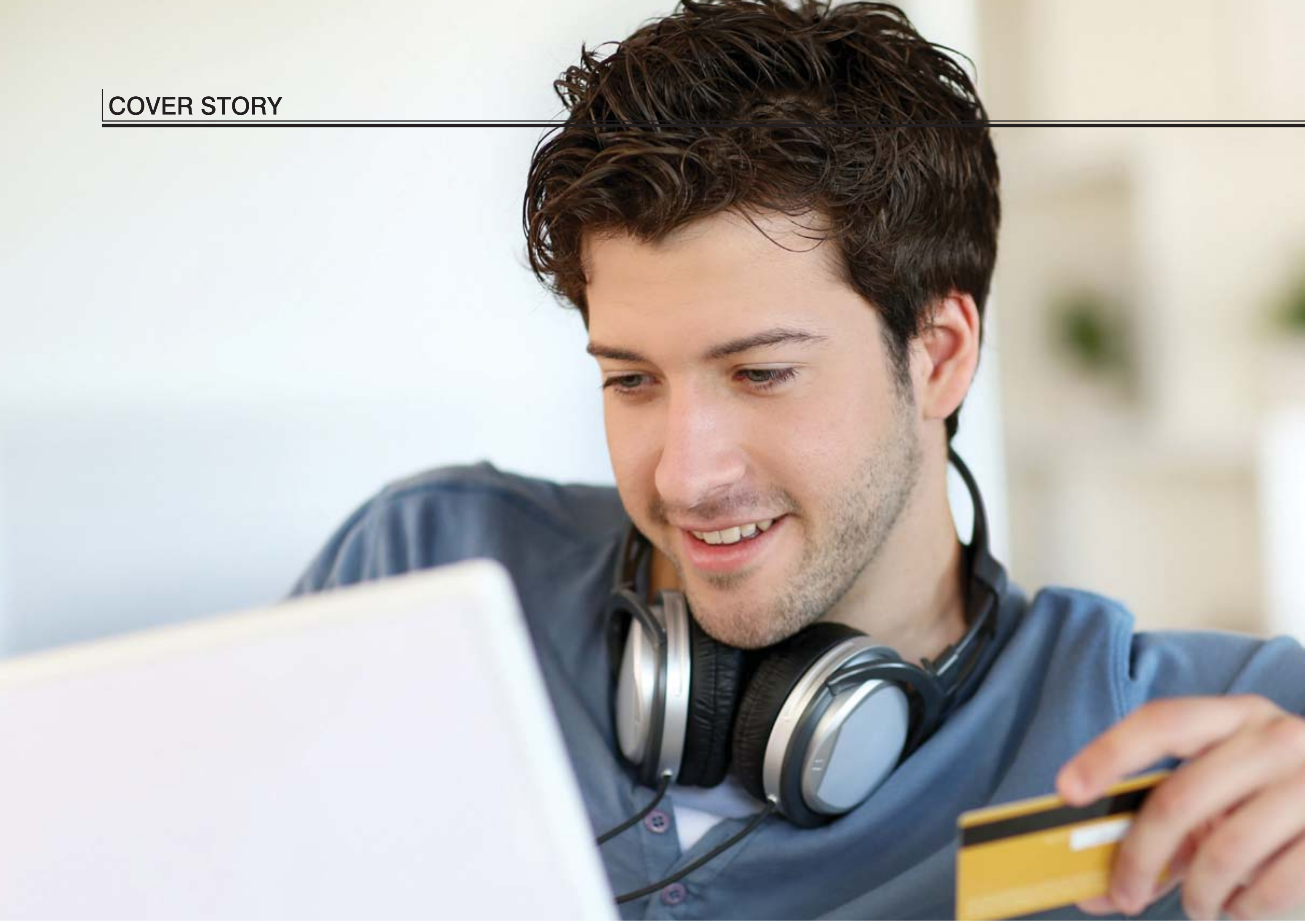
Progress and current developments

Talking about the performance of Pennyful.in, Yadalam asserts: "As of now, we have given close to ₹1 crore back to our customers in the form of cash. While metros and large cities constitute a large portion of our audience, we have also been seeing an increase uptake in tier-II and -III cities. In fact, today 25–30 per cent of our audience rests in these cities. Mobile is also garnering traction, which is not very surprising. 15 per cent of sales is achieved through mobiles and this should go up to 25 per cent by the end of this fiscal. From a business perspective, we have been seeing a growth of 300 per cent Y-o-Y and we hope to break even by the end of this year."

According to the company, the last 2 years have been extremely fruitful and exciting for Pennyful.in. Yadalam points out: "In fact, when we compare our growth in terms of our customer base with last year, we saw a 150 per cent increase Y-o-Y, and this is expected to grow up to 200 per cent this year. We look at the last two years and compare it with the time we started off. The next few years are going to be very exciting."

Initiatives

"Customers are the lifeline for a company like Pennyful and we are continuously focusing on delivering the best customer experience for our users. Keeping this in mind, we recently launched a mobile compatible version of our website. Also, customer acquisition is obviously important to us and while we encourage our users to share Pennyful.in with their family and friends, we also want them to be rewarded for doing so. In order to do so, we came up with a Refer-a-Friend



E-COMMERCE BOOM IN INDIA

By Manisha Bapna

The emergence of e-commerce has changed the dynamics of Indian retail industry. E-commerce offers faster, convenient and cheaper methods of buying and selling. The increasing number of Internet users and new mobile apps, credibility of transaction, entry of international players like Amazon, etc is accelerating the growth further.

In the age of e-commerce, it is almost criminal for a business to not sell online and more so ever, not to be omni present across channels. Businesses (like FlipKart and Snapdeal) first started as inventory based models but are now moving on to the market place models (where they do not carry inventory) to attract investments and reduce cost.

Online stores turning Market places

A marketplace is more like a virtual mall, which provides an established platform for sellers and buyers to connect, share, sell, buy and build ongoing relationships. Amazon was the first to introduce the online marketplace model in India last year followed by FlipKart, Quikr, OLX, Snapdeal, eBay, shopclues, etc.While Snapdeal has converted into a purely marketplace model, FlipKart converted into the hybrid marketplace model last year and hosts about 1000 retailers already. Marketplace strategy may be a boon for some retailers, and could be a bane for others. But how it affects a business depends on a number of variables like the type of products one sells, the kind of market one is operating in, intensity

of competition in a particular category, marketplace fees and restrictions etc. A majority of marketplace models are using FDI in retail of 51 per cent for setting up their businesses. But setting up the system for online retailing-supply chain, logistics and payments, electronic as well as cash-isn't an easy task and requires deeper integration for all e-commerce platforms to work in synergy. Few international players that help in smooth functioning are, Shopify.com which is a popular US-based service providers that supports a large number of payment gateways. Their e-commerce website services start from $14 (about ₹600) per month. In India, Zepo.in offers hosted online store solutions starting from ₹750 a month. BuildABazaar.com offers similar services starting from ₹1,000 per month. Ahmedabad-based start-up-39Shops.com-is also offering a hosted e-commerce platform starting from $10 per month.

The online marketplace is becoming a vast hunting ground for the best deals, with multinational behemoths and Indian e-commerce giants running cat and the mouse chase to offer the best prices (at the cost of margins) to lure the excited customer.

"We chose a marketplace model in order to leverage the innate entrepreneurial spirit that we have in India. We want to provide a great experience of online selling to the millions of small entrepreneurs who sell their goods offline today and want to enable it on a device everyone has today–the mobile phone" says Pratyush Prasanna, (VP–Business) Paytm.

Most e-commerce websites are managed marketplaces where middlemen charge brands a margin for acquiring customers. If you consider the formats in which individual designers sell, it is either through retail presence where the brand mark-ups are substantial, or through a managed marketplace. Either way, the customer gets no price advantage and is forced to pay high prices. Stylista changes this format. Stylista.com is India's first collaborative platform for limited edition designer garments at guilt-free prices.

> Opening up of a market place is more of a strategic decision to increase profit margins **and this helps portals expand its reach to smaller Indian cities and towns.**

ShopClues.com and few other marketplace portals have introduced new checks to ensure that goods are packaged and shipped on time. "When we started ShopClues.com two years ago–'MarketPlace' was a concept and term we had to really sell to both our investor and customer base. Inventory-led models dominated Indian e-commerce and there were many, many ardent supporters who truly believed that was the only model that could survive. Of course, over the last year things have changed and online 'marketplaces' have drawn much attention.

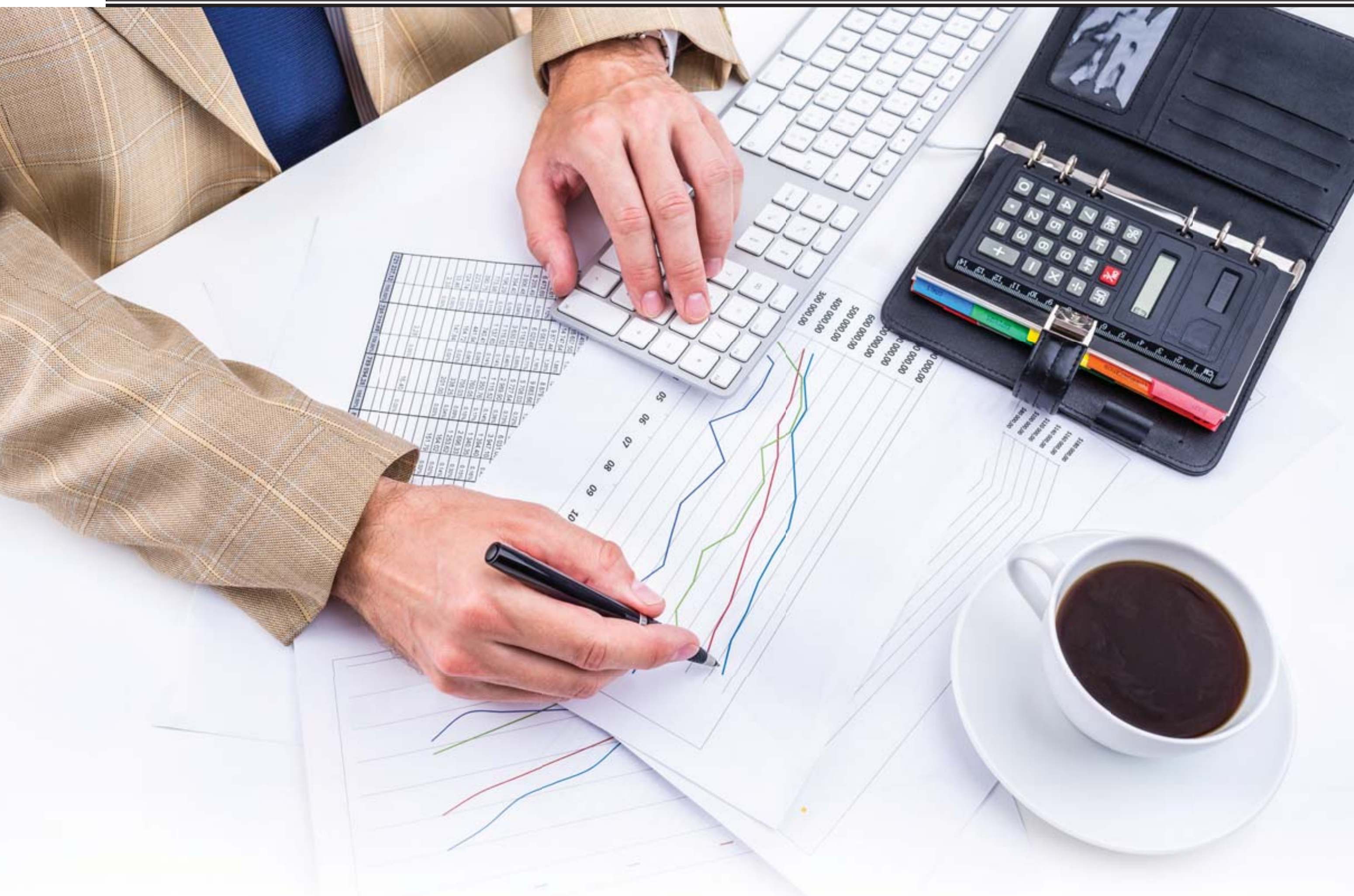
Opening up of a market place is more of a strategic decision to increase profit margins and this helps portals expand its reach to smaller Indian cities and towns.

The marketplace model gives the following two major advantages:

- Significant reduction in capital expenditure due to the absence of inventory, thus
- Providing adequate funds for essentials like marketing and promotions.
- More variety and choices of products can be offered as there is no hassle of inventory space crunch.

In a thin margin competitive environment, with standardised MRP, MOP, etc, there is hardly any room for marketplaces to make money in the categories like Electronics, Consumer durables, and even Clothing and Footwear. "The margins are only between 5-10 per cent," says Rohit Bapna, Entreprenuer. We incur a huge cost in acquiring, retaining and bringing back the customers to buy online amidst the price war competition among the offline and online players.

Marketplace model in India has been primarily driven by FDI regulations in multi-brand retailing. According to Anand Ramanathan, Associate Director, KPMG



E-COMMERCE IS BIG
ITS OPERATIONAL FINANCE ISSUES ARE BIGGER

E-commerce industry is growing at such a breakneck growth rate, it needs to give importance to processes and guidance in place to sustain growth without committing mistakes and heartburns for employees and customers. It's imperative to also look at the issues faced by the companies in finance and related sectors.

By Deepak Dhamija

E-commerce's growth story in India has been phenomenal. The e-commerce market was worth $14 billion in 2012. It is expected to grow at a pace of 57 per cent annually till 2016, the fastest in the Asia-Pacific region, according to Forrester, a leading market research firm specialising in technology. More importantly, a large ecosystem of specialised service providers have sprung up to support the growth of e-commerce companies: this is an ecosystem that is beginning to sustain itself.

With such breakneck growth rates, it is important to have systems, processes and guidance in place to sustain fast growth without committing fatal mistakes and heartburns for employees and customers. It's imperative to also look at the issues faced by the companies in finance and related sectors.

The most critical issue faced by the e-commerce companies, as is typical of most Indian firms, is compliance and sound financial advice. In the absence of these factors, companies can grow but after some time start facing issues that not only stall their growth but can also lead to much bigger threats. In most cases, e-commerce entails pan-India operations, which throw up unique problems. For example, tax- and labour-related laws vary from state to state. Under labour laws, Labour Welfare Fund registration is required in Maharashtra but not in Haryana. Professional Tax is applicable in Maharashtra but not in Haryana. So, these companies have to either resort to tailor-made solutions as per state laws, effectively meaning employing more effort and human resource or they tend to adopt the strictest compliance practice, the lowest common denominator, to be compliant with all states. Adding to the complexities, the big firms typically sell across multiple categories: again, it means having specific tax treatment and compliance for each category.

This kind of complicated tax structure makes right advice indispensible for long-term growth of business and reduced litigation costs. The right advice at the right stage is required to ensure that companies do not pay hefty fines and get it right the first time.

Another major problem area is financial controls. The product based e-commerce is a transaction-heavy business, compared to other industries. The return volume of sold products is quite high across this industry, going as high as 40 per cent in certain cases. There are two main reasons behind this: (i) liberal return terms–for example, cash on delivery, returning the product in 10 days from the date of purchase–set by companies to gain the trust of end-customers, a lot of whom are shopping for the first time; and,

(ii) a lack of physical touch by end-customers, which quite often leads to a mismatch between the client's expectation and the product.

These kinds of unique terms and conditions increase the probability of mistakes in finance and accounting. So, companies require robust financial controls to ensure that daily transactions are being accounted properly.

Another major problem encountered by e-commerce companies is the complicated delivery/transaction model. Typically, a product is shipped from a manufacturer/wholeseller to the company's warehouse (for big firms) and is shipped out to a third-party e-commerce logistics company, which handles the last-mile delivery. Depending on the transaction model, the product can be billed directly to the company or the vendor. In most cases, it involves multiple transactions: a purchase order being issued by the company, inwards/goods received by the company, quality control rejections, shipping to the logistics company, sales returns, and commission paid to payment gateways, etc.

This makes systems and financial controls the need of the hour. It requires multiple and independent verifications to be done to ensure that chances of fraud are minimised. Time-to-time reconciliations with vendors is a must to ensure the accounting books are closed on time and disputes do not arise between vendors and the company months after a transaction is completed,

The most critical issue faced by the e-commerce companies, as is typical of most Indian firms, **is compliance and sound financial advice.**

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