



# GROWTH OF E-COMMERCE IN FASHION BUSINESSES

By **Amit Gugnani**, Sr. VP - Fashion & Sakshi Chhillar, Associate Consultant, Textile and Apparel, **Technopak**

THE INDIAN RETAIL INDUSTRY WITNESSED A BOLSTERED GROWTH CURVE AFTER THE ADVENT OF E-COMMERCE AND ITS IMPACT ON THE FASHION INDUSTRY IS VERY EMINENT. AMONG THE SEVERAL SIGNIFICANT CHANGES THAT THE INDUSTRY HAS WITNESSED IN RECENT YEARS THE FACT THAT BUSINESSES ARE EMBRACING TECHNOLOGY AND INNOVATION AT A PACE UNFAMILIAR TO DATE IS A TESTAMENT TO THE COUNTRY'S EVOLVING RETAIL MARKET. AUTHORS AMIT GUGNANI, AND SAKSHI CHHILLAR FROM TECHNOPAK DETAIL THE E-TAIL INDUSTRY IN INDIA, ALONG WITH TYPICAL CONSUMER BEHAVIOUR, GROWTH DRIVERS AND THE CHALLENGES.



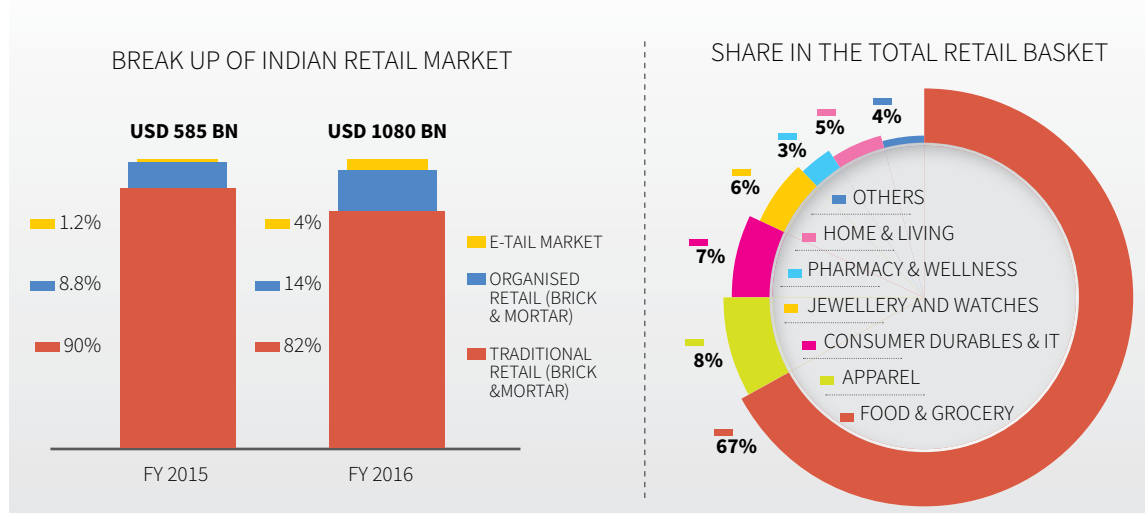


The Indian retail market is expected to grow at CAGR of 13 percent to reach USD 1080 billion in 2020 with current market size of USD 585 billion. The share of apparel in Indian market is 8 percent. Organised apparel retail contributes to 21 percent of the total apparel retail while organised lifestyle contribution in total lifestyle retail varies from 32 percent in footwear to 49 percent in watches.

The Indian fashion retail market has witnessed several significant changes in recent years, which indicates country's evolving fashion retail market. One of the significant changes is advancing online retail or e-tail of fashion products across the country. The current online retail accounts to about 1.2 percent of total retail market.

/// THE INDIAN FASHION RETAIL MARKET HAS WITNESSED SEVERAL SIGNIFICANT CHANGES IN RECENT YEARS, WHICH INDICATES COUNTRY'S EVOLVING FASHION RETAIL MARKET. ///

#### EXHIBIT 1: INDIAN RETAIL MARKET



SOURCE: TECHNOPAK ANALYSIS

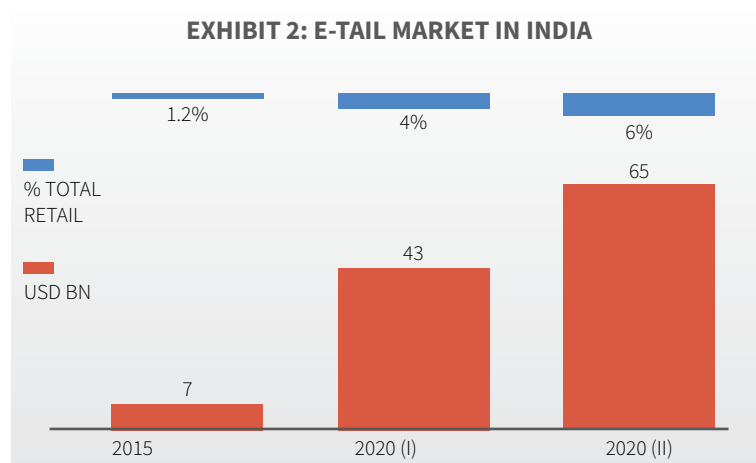
/// E-TAILING MARKET AT PRESENT IS LED BY ELECTRONICS CATEGORY WITH A SHARE OF 45 PERCENT FOLLOWED BY APPAREL AND LIFESTYLE THAT CONTRIBUTES 30 PERCENT OF THE MARKET WITH THE REST BEING CAPTURED BY OTHERS. ///



## E-tail in India

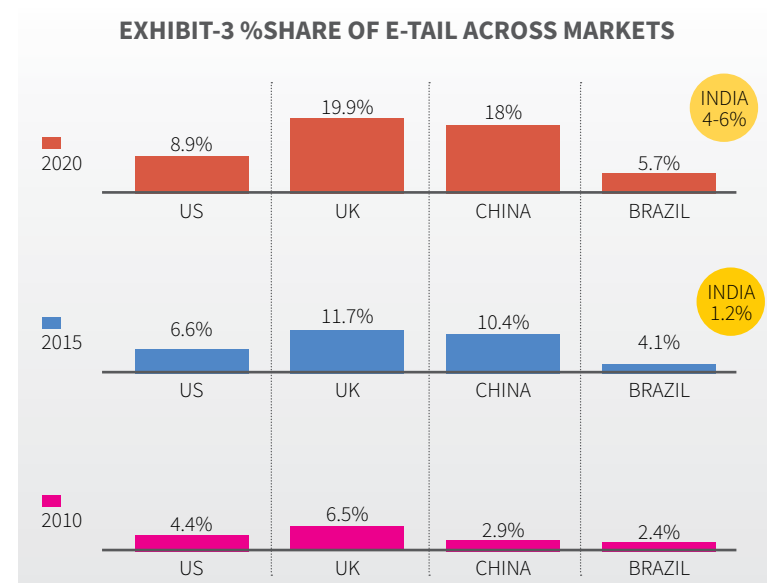
World over, e-tailing took-off around 2007 driven by advancements in quality of internet access, payments and computing on mobility platforms that dramatically changed consumer behaviour towards internet consumption. This ecosystem creation has altered the consumer behaviour of a sizeable consumer mass (referred to as active internet user base). This active internet user base is key consumer of online retail.

The online retail growth has followed a disruptive trajectory across markets. In relatively mature markets, like USA where organized retail penetration is high, multi-channel retail chains lead the online market.



SOURCE: TECHNPAK ANALYSIS (BASED ON GMV)

In a relatively newer market like India (with 10 percent organized retail) and China (with 20 percent organized retail) web-only players are dominating the market, given the low organized retail penetration. The e-tailing opportunity in India is expected to unfold as per the two scenarios in 2020: e-tail at 4 percent of retail (USD 43 billion) or e-tail at 6 percent of retail (USD 65 Billion).



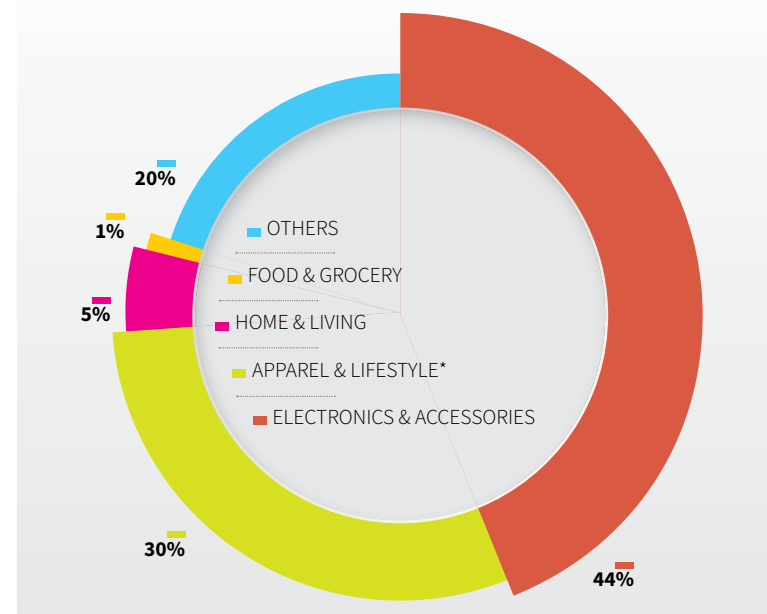
SOURCE: TECHNPAK ANALYSIS, WORLD BANK, INTERNET LIVE STATS, SECONDARY SOURCES

### Contribution of Fashion in E-tailing

The e-tailing evolution started in India with books and media as a key category. Electronics got adopted next and apparel, lifestyle gained acceptance at the next level. The other categories that have found traction include baby care, home and living, etc. E-tailing market at present is led by electronics category with a share of 45 percent followed by apparel and lifestyle that contributes 30 percent of the market with the rest being captured by others. The category split of e-tail is projected to remain same in 2020 with electronics contributing to 44 percent of the total e-tail market in India followed by apparel and lifestyle at 30 percent.

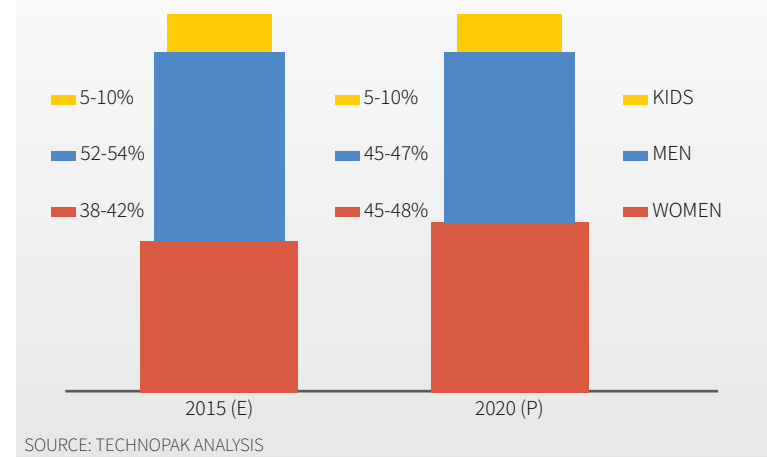
Currently, menswear dominate the fashion and lifestyle space with contribution of 52-54 percent followed by women contributing to approximately 38-42 percent and contribution of kids ranges from 5-10 percent. However in light of increasing women in the workforce with more financial independence, the share of women in e-tail is expected to increase to 45-48 percent, whereas men's segment is expected contribute 45-47 percent, with kid's section remaining constant around 5-10 percent.

EXHIBIT 4 CATEGORY SPLIT OF E-COMMERCE IN INDIA



\*THIS WILL INCLUDE CATEGORIES LIKE FOOTWEAR, BAGS, BELTS, WALLETS, WATCHES, ETC.  
SOURCE: TECHNOLPAK ANALYSIS

EXHIBIT 5 CONTRIBUTION IN APPAREL AND LIFESTYLE E-TAIL  
SEGMENTWISE CONTRIBUTION IN APPAREL & LIFESTYLE E-TAIL



SOURCE: TECHNOLPAK ANALYSIS

### Key Growth Drivers of E-tail in India

India online retail will grow from 1.2 percent of the total retail market in 2015 to 4 percent — 6 percent of total retail by 2020. This will be driven by number of factors that can be classified under four broad categories: growth of digital penetration, limitation of brick and mortar formats, growth of internet habitual customers and improved supply side.



/// AN INTERNET HABITUAL CONSUMER IS A CONSUMER WHO IS ADEPT AND COMFORTABLE CONDUCTING COMPLEX TASKS ON THE INTERNET. WITH GROWING NICHE OF INTERNET HABITUAL CUSTOMERS, ETAILING SHALL GROW AT A FASTER PACE. ///

**Digital Penetration:** As physical and digital retail space converges, the shopping experience finds more places. Digital retail has reached critical costs where interactive displays and mobile connected stores are now able to actualize at much lower cost.

Smartphones and internet penetration are boosting online retail industry. The internet penetration in 2015 is estimated to be 25 percent and is expected to reach 43 percent by 2020 (Source: Internet and Mobile Association of India, Technopak Analysis). This shall lead to increased penetration of fashion e-tailing.

**Growth of Internet Habitual Customers:** Internet habitual consumers are rapidly growing in India. An Internet habitual consumer is a consumer who is adept and comfortable conducting complex tasks on the internet. With growing niche of internet habitual customers, e-tailing shall grow at a faster pace. Online portals for social e-commerce for fashion enthusiasts are an added advantage to these internet habitual fashion customers that let users post pictures of their outfits, which are then surfaced and showcased to others, who are also given details of where they can go to buy them — both online and at offline outlets near them.

**Limitation of Brick & Mortar Formats:** Organized retail (primarily Brick & Mortar) has been in India for two decades now, it's contribution to total retail is still low (~10 percent in 2015) due to structural issues faced by brick & mortar retail. Organized retail (brick and mortar) is concentrated in top 25-30 cities (where retail consumption is concentrated). Majority of the brick & mortar brands are concentrated in larger cities and are unable to meet the rising aspirations in smaller cities across India. This skew in retail presence is fuelling the growing demand through online channel owing to wide reach and delivery to even smaller cities and

towns where brick and retail stores are either not viable or will take years to reach.

Owing to fast penetration of the e-tail, many brick and mortar fashion retail brands have started entering online retail.

**Improved Supply side:** The availability of discounts & promotions, cash on delivery, wider product range, better product details, easy returns, faster delivery, option for EMLs and mass media campaigns & events have contributed towards further penetration of e-tail in fashion industry. Also, 3D trial room concept is developing across fashion e-tailing portals to provide experience of virtual trials for apparel and lifestyle products.

### Key Concerns and Challenges

Fashion is a fast evolving segment. As customers progress from research to purchase to fulfilment stages, their expectations change fast. E-Commerce companies need to understand these change drivers and adapt their proposition accordingly. Also, there is need a to focus on new brands and products and simultaneously tackle a hypercompetitive pricing environment.

Another key challenge is ensuring the quality of the product. There is higher percentage of Customer Initiated Returns (CIR) in apparel and lifestyle segment in comparison to other segments. This increases the cost of reverse logistics. Higher CIR is the result of dissatisfactory product quality and size. This adds to concern of e-tailers dealing with apparel and lifestyle. ●●●



### CONCLUSION

The digital advancement is becoming eminent in the fashion retail industry where online businesses are embracing technology and innovation at a pace never evident in the past. With a growth rate of 44 percent online retail is estimated to contribute 4-6 percent of total Indian retail market in 2020. Apparel and lifestyle is estimated to contribute 30 percent of the total online retail market in 2020 same as in 2015. However, category spilt for women apparel and lifestyle is expected to increase from 38-42 percent to 45-48 percent, whereas men's segment is expected contribute 45-47% to the category, with kid's section remaining constant around 5-10 percent. This shift accounts to increase in women entering the workforce, which shall lead to increased demand for different retail categories. With financial independence, more women will have higher discretionary spending power. This can have an impact across multiple categories (clothing, personal care and grooming, accessories, etc.)

