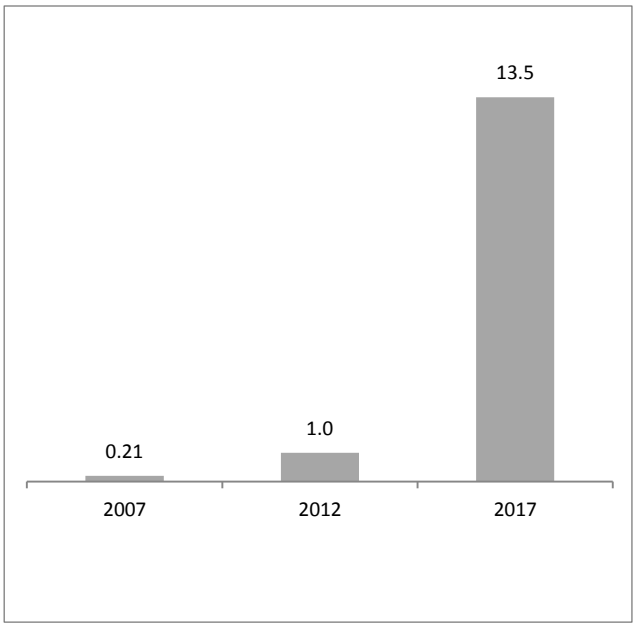
Retail E-commerce – The 'Channel' Forward

Retail e-commerce (or e-tailing) is perhaps the most written about retail topic in recent days. But unlike the sudden spurt in attention it has received, this has not been an overnight phenomenon. Somewhere in mid-90s VSNL introduced internet to India and the 2000's was the decade when internet penetration increased steadily, technology advancements enabled better online interfaces with safer transactions and e-commerce inched into common man's life through travel retail, financial services and e-tailing. Now that the critical mass has been achieved, the decade of 2010 is taking this phenomenon to the next level where it no longer can be ignored.

E-commerce market size in India is estimated to be USD 14 Bn in 2012 and is projected to reach USD 74 Bn by 2017. Retail e-commerce or e-tailing is essentially the selling of retail products and services through internet. Late 1990's and early 2000's saw launch of several e-tailing sites like www.rediff.com, www.indiaplaza.com etc. However, the real defining entry in this domain was that of Flipkart in 2007 and since then we have seen an increased urgency in the space with the entry of several new players across categories; highly discounted pricing; better interfaces and delivery; high decibel media campaigns; investments in players at high valuations - all leading to aggressive competition to grow and scale-up as quickly as possible. Though e-tailing is still a very small part of overall retail in India (0.2%), it is projected to grow at a fast pace (reaching ~2% by 2017) and over the next decade its presence will be even more significant.

E-tailing Market in India (USD Bn)



Key drivers for e-tailing include:

- Increasing penetration of technology enablers like internet, broadband, 3G, PCs, laptops, smart-phones, tablets, dongles etc.
- Young demographics and changing consumer lifestyles seeking the convenience e-tailing offers- in terms of access (ease and time), decision making (information, ease of making choice and time), transaction (ease and time) and timing (flexibility)

- An improved supply side - better customer interfaces, execution and marketing

There are several models through which e-tailers are targeting their customers:

- 'Standard' - This is the basic model wherein products are listed on the web portal, and customers browse and buy the products e.g. www.flipkart.com
- Deal based - These sites focus on providing lucrative deals across product and service categories e.g. www.snapdeal.com
- Club based –These sites position themselves as private shopping clubs and are open to members only Eg. www.fashionandyou.com
- Marketplaces - These sites essentially bring together buyers and sellers and serve as a platform for their interaction e.g. www.ebay.in

Whatever the model they opt for, given e-tailing is a volume game, all the players in the space have been aggressively trying to capture a large customer base to grab the top slots in the long run. E-tailers in India are still evolving and most are yet to make money from their ventures – the frenzy to attain the critical mass of customers where they can start to make money is leading to customer acquisition by heavy discounting (even below costs). Clubbed with mass media advertising, and lucrative delivery options (like cash on delivery which result in high returns) the online channel players will continue to face the challenge of disengaging from the bleeding price wars in the near future.

The e-tailing market skew has been towards categories like consumer electronics (mobile phones, cameras etc.) and books & music. These categories are the first ones to get offered as well as adopted in the online space because of high standardization of products and less need of touch, feel and fit factor involved while purchasing them. However, with more younger and female consumers becoming active in the space, clubbed with highly discounted brand offers, lifestyle categories are increasingly become popular. Introduction of new technologies like virtual try-outs to enhance customer buying experience will further fuel this growth. Another factor which will fuel growth across newer categories is the easy returns and free shipping provided by players, de-risking the consumers and making them indulge further in newer categories.

Also, unlike several organised retailers, e-tailing is not limited to large cities. As per IAMAI, ~48% of the total urban internet users were in smaller cities (with population below 1 Mn) and only a third of internet users were in top 8 metros in 2011. Other factors that have been equal contributors towards the rise of online buying in these cities are growing aspirations, changing lifestyles and increasing purchasing power of people. Consumer awareness of the latest brands and fashion trends has further fuelled aspirations to own global products and brands, but the limited availability of these in tier II and II cities is driving consumers to go online and shop. Another driver for growth is multiple payment options offered by players (like cash on delivery) and the flexibility in product replacements/exchanges, which have instilled confidence in the small town consumer and created trust in online buying. The eBay India Census 2011 indicates that ~40-50% business in the online space comes from consumers from tier II and III cities.

Players like Fashion and You, Snapdeal etc. are also doing significant business from non-metro cities. It is therefore not surprising that pure e-tailers have grown faster than most brick and mortar retailers in last few years.

As a result of increasing popularity and penetration of e-tailing, going forth, for brick and mortar retailers, competition will not only be from the brick and mortar space but increasingly from e-tailers. This makes the online channel a threat to brick and mortar retailers and is one of the several reasons that have started to affect brick-and mortar retailer sales globally. The effect is more pronounced in some categories e.g. books where it is one of the key factors responsible for closure of several stores globally.

Hence, it is fast becoming imperative for brick and mortar retailers to integrate e-tailing channel in their sales strategy. They may do it by launching their own online sales portal, making their products available through other portals, or integrating online& offline channels.

While e-tailing forms a small share of sales for multi-channel retailers, it is a strategic tool to ensure customer retention and avoid losing them to online competition as well as to reach out to a wider customer base in smaller cities and towns where is not feasible for retailers to set up stores. Activity in the space has already picked up, with many Indian retailers setting foot in the space through launch of their e-tailing portals. .e.g Shoppers Stop, Puma, Bata, GKB Opticals, Crossword, more. etc

E-tailing however has different dynamics than brick and mortar retail, hence retailers will need to focus on integrating the channels through right assortment, pricing and execution to avoid cannibalization of physical store sales and productivity.

Many established retailers across the globe have integrated channels such that they can complement each other in several ways. Some examples in the space include:

- Sephora offers the facility of ordering online and returning at store
- Best Buy offers online ordering, pick up at store facility (40% of online purchases are picked up at the store); online returns and exchanges at store; order online and friends and family can pick up at store on one's behalf etc
- Walmart has facility for placement of orders online and pick up at store ; order online and get it delivered to a chosen Walmart store in US for collection etc

Retailers will not only need look at integrating the front-ends but also various functions such as customer relationship management, supply chain, sourcing, marketing, systems and processes to maximize synergies. At the same time they will also have to define an independent strategy for each channel which faces different consumer dynamics, while ensuring that the brand proposition and essence is preserved.

Increasingly, brand retailers will not only retail through physical stores and own brand portals but also by showcasing their products on other websites as well. This will help them reach out to a larger customer

base, enhance brand value, add on to revenues as well as counter competition from other brands present on such popular portals. For example, players like Bata and Puma have recently launched their online portals and are also selling products on other e-tailing websites such as eBay and Fashion and You etc

Ensuring smooth and efficient execution in terms of delivery will be as important for multi-channel retailers as much as for pure e-tailers. They will also need to continuously evolve by upgrading interface and customer experience based on technology advancements as well as customer behavior, expectations and maturity. Despite the challenges faced, e-tailing is here to stay and for brick and mortar retailers it is increasingly becoming important to adopt and integrate this channel in their sales strategy - this opportunity of today may become a necessity tomorrow.

Authored By:

Pragya Singh, Associate Director, Retail and Consumer Products