

E-tailing in India

Unlocking the Potential

The Need for India to Analyze E-tailing on its Own Merit



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About the Whitepaper

E-tailing is a subset of e-commerce, which encapsulates all “commerce” conducted via the Internet. It refers to that part of e-commerce which entails the sale of product merchandise and does not include sale of services viz. railway tickets, airlines tickets, job portals, etc. In 2012, the size of India’s e-commerce market was USD 10 billion, while that of the e-tailing market was USD 0.6 billion. The current small size of e-tailing has led to it rarely being assessed on a standalone basis. It is either clubbed with e-commerce or with brick & mortar retail, which, while not incorrect, does not allow for e-tailing’s evaluation on its own merit.

This whitepaper is an attempt to evaluate and highlight the potential e-tailing holds and the role it can play in context of emerging Indian consumers, and economy. Our inferences in this whitepaper support the thesis that e-tailing needs to be viewed objectively and individually. The following key points summarize the findings discussed more broadly in this whitepaper.

- In India, e-tailing has the potential to grow more than hundredfold in the next 9 years to reach a value of USD 76 billion by 2021. The country’s growing Internet-habituated consumer base, which will comprise ~180 million broadband users by 2020, along with a burgeoning class of mobile Internet users, will drive the e-tailing story.
- E-tailing can provide employment to ~1.45 million people by 2021. Its growth will spur the creation of new capabilities and human skills in the areas of logistics, packaging, and technology. Additionally, such growth will promote the rise of service entrepreneurs who will have the potential to earn ~USD 7.5 billion, annually, by 2021. It will open up international markets for the SME sector and can become an important facilitator for the growth of the telecom and domestic air cargo industries.
- The growth of e-tailing in India will be complementary to the growth of traditional retail, and in no way be at cross-purposes. On the contrary, it will improve efficiencies and reduce transaction costs in retailing and thereby boost the productivity of manufacturers (SMEs) and service providers.
- The potential of India’s e-tailing will continue to remain untapped if the current mindset, of exclusion and seeing e-tailing as a “passing fad”, prevails. E-tailing is different from retail and therefore requires a different mindset and fresh thinking from the policy makers as well as the private sector.

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I. Introduction

In 2012, India's Gross Domestic Product (GDP) was ~USD 1.7 trillion, at current prices, of which private consumption constituted nearly 60%. USD 490 billion was the size of the merchandise retail market in India, which accounted for nearly half of private consumption. The high share of private consumption in India's economy, which is not expected to change much in the coming decade, also implies that India's retail growth rate will mirror the country's GDP growth rate. As per Technopak's estimates, India's GDP growth, in real terms, will average nearly 6% over the next decade. This growth will therefore translate to an increase in merchandise retail market, from the current ~USD 490 billion, to USD 810 billion, by 2021, in real terms, and USD 1.4 trillion in nominal terms (assuming a 7% inflation rate).

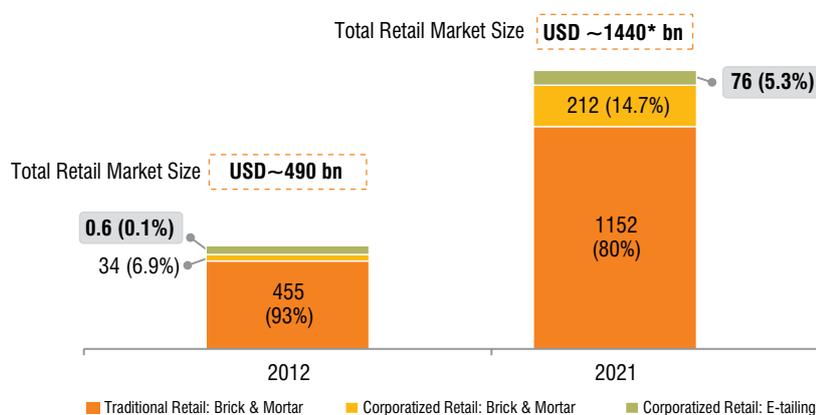
There are three types of destinations that address retail sales in any market:

- Traditional Retail: Brick & Mortar
- Corporatized Retail: Brick & Mortar
- Corporatized Retail: E-tailing

In India, the retail market is, at present, primarily served by traditional brick & mortar stores which make up 93% of the total market. Corporatized brick & mortar retail caters to ~7%, while e-tailing's share is ~0.1%. In the coming decade, these three retail destinations will behave differently in terms of their share of total retail sales (Exhibit 1).

Exhibit 1

Indian Retail Market Size



Source: Technopak Analysis

* Retail market size for 2021 is at nominal growth

Technopak estimates that, by 2021, the share of total corporatized retail, even in the best-case scenario, will increase from the current ~7% to 20%. This implies that, on one hand, private consumption will continue to grow annually at ~6%, in real terms (or 13% in nominal terms), while on the other hand traditional retail will still capture the bulk of the increase in consumption. In absolute terms, traditional retail will grow from USD 455 billion in 2012 to USD 1152 billion in 2021. The growth of traditional retail, in the current form, implies the growth of neighborhood convenience stores in new urban centers and clusters, and the continued growth of informal retail (primarily of the Food & Grocery segment).

Corporatized brick & mortar retail will increase in value from USD 34 billion to USD 212 billion by 2021, and its share of the total retail pie will just over double from the current ~7% to 14.7%. However, this type of brick & mortar retail will continue to face structural issues within the retailing ecosystem, which will be a challenge for retailers to address individually. These issues viz. real estate, labor, sourcing and supply chain, were extensively debated in Technopak's previous whitepaper on Foreign Direct Investment (FDI) in retail, and its impact on the Indian retail sector, and the Indian economy at large.



E-tailing will emerge as a viable third alternative by which corporatized retail can expand its share of the total retail pie. Technopak estimates that e-tailing in India will grow from the current USD 0.6 billion to USD 76 billion by 2021, i.e., more than hundredfold. The key reason for this disruptive growth lies in the fact that the market-enabling conditions and ecosystem creation for e-tailing will outpace the same for corporatized brick & mortar retail. This growth will offer many advantages to the Indian economy, besides bringing in immense benefits to consumers.

In this light, it is imperative to have an objective debate on e-tailing. Unfortunately, the current debate on e-tailing has largely to do with e-tailing's current share of the total Indian retail pie, which is just ~0.1%. Moreover, the debate also lacks rigor in terms of data and analysis in visualizing the impact of e-tailing on India's economy.

The fact that e-tailing's growth is going to be disruptive, is supported by several factors. This paper, in the first part, establishes these factors.

The presently small size of e-tailing has not prompted any discussion on the benefits that its growth can bring to the economy. The second part of this paper therefore takes a futuristic stance in outlining e-tailing's true impact on the Indian economy.

E-tailing is also viewed with suspicion from the standpoint that its growth will be at the cost of traditional retail. The third part of this paper is an analysis, from which it can be inferred that these fears are unfounded.

The paper concludes with some key messages and issues to be kept in mind as these will ensure that the e-tailing growth story in India is sustainable.



II. What will enable E-tailing's disruptive growth?

Given that e-tailing's growth all over the world has been disruptive, it is not incorrect to say that its historical performance has been of little use in projecting its future state.

Exhibit 2

E-tailing Market in Other Countries

Country	E-tailing Market (USD bn)		E-tailing (% of Retail)	
	2008	2012	2008	2012
US	140	225	3.6%	5%
UK	65	85	8.6%	13%
China	16	180	~1%	6%

Source: US Department of Commerce, Center for Retail Research, China Ministry of Commerce

The growth of e-tailing in three countries (Exhibit 2) outlines the trends underlying e-tailing's growth under different economic and retail scenarios.

- The US, where ~90% of retail sales is accounted for by corporatized retail, has witnessed e-tailing's double digit growth against the backdrop of sluggish economic growth, which challenged brick & mortar retail whose growth was clocked at a little over 2% between 2008 and 2012. This is further accentuated by the fact that, in 2002, the size of e-tailing market in US was ~USD 45 billion, implying that its size has surged fivefold in the past 10 years.
- The UK, which is another developed brick & mortar retail market, has struggled with nearly flat economic growth rates for the past four years. However, it has also seen e-tailing market grow by nearly 8% annually; during the same period, brick & mortar retail registered a decline.
- China, on the other hand, has not been challenged by slowing of economic growth and corporatized brick & mortar retail forms around 20% of the total retail market. It has witnessed a disruptive growth of e-tailing market in the past four years, at a CAGR of over 83%.

The tipping point in all these and other similar case studies has been the convergence of two factors. The first of these is the rise of a sizeable class of Internet-habituated consumers, while the second is the creation of an ecosystem essential for e-tailing's growth. In India's case, both these factors are poised to fall into place rapidly. From our analysis, we conclude that the tipping point for the growth of e-tailing in India will occur sooner rather than later.

A. Internet-Habituated Consumer Base

In any country where e-tailing has achieved reasonable success, consumers have shown signs of evolution on two dimensions which has enabled e-tailing market's growth- access to the Internet and Internet usage beyond browsing. In India, consumers are displaying positive traction on both of these. In 2012, ~120 million Indian consumers accessed the Internet at least once a month (also referred to as active user base). This number is often critiqued for the quality of users. For instance, it is argued that very few (<15%) have access to the Internet via broadband (assuming that the number of users is equal to the number of broadband connections), and may thus be insignificant for e-tailing. This argument is not completely incorrect- the quality of Internet access does play a key role in enabling consumers to shop online. Therefore, it is important to look at access to the Internet in conjunction with the quality of access (which we will address in the subsequent point, along with how broadband access needs to be interpreted).



The Internet browsing behavior of Indians has dramatically changed in the past two years. This change has been almost disruptive - Indian consumers today are not only spending longer hours on the Internet, but also conducting myriad activities that were non-existent a few years ago. Internet browsing is becoming a habit for a sizeable population in urban India, i.e. cities, towns, and semi-urban clusters (Exhibit 3).

Exhibit 3

Evolving Internet Users in India

	2008	2010	2012	
Online Activities	<ul style="list-style-type: none"> • E-mails • News 	<ul style="list-style-type: none"> • E-mails • News • Travel • Social Media 	<ul style="list-style-type: none"> • E-mails • News • Travel • Social Media • Shopping 	<ul style="list-style-type: none"> • Gaming • Video Streaming • Application downloads • Mobile / Internet Banking
No. of active Internet users (mn)	50	75	120	
No. of Facebook users (mn)	~1	8	71	
No. of Indian Railways tickets booked online per annum (mn)	19	72	116	
Number of income tax returns filed online per annum (mn)	2	5	16	

Source: IAMAI, Income Tax Department- Government of India, Indian Railways, Facebook, Industry Sources, Technopak Analysis

There are many ways to interpret Exhibit 3. One, the Internet is rapidly becoming a part of more and more Indian lives across the spectrum of “online” activities. Second, India’s Internet users are rapidly graduating to complex and interactive Internet usage, from merely accessing e-mails and casual browsing in the past. Over time, Indian consumers are becoming more transactional online; this is only expected to grow.

The pace of this change can be gauged by mapping examples like the spurt in the number of monthly Internet banking transactions registered by the State Bank of India. This number has grown nearly 5 times, from 7.1 million in January 2010, to 34.2 million in November 2012 (that is, in under three years).

For the creation of this vast user base, credit is due to the travel portals, e-tailers (estimated 200+ active e-tailing sites), social media, and the migration to the Internet of government services like Indian Railways reservations and online filing of income tax returns. Over the past few years, they have invested time, money, and effort to ensure that consumers transact online through multiple means; they have offered convenient online interfaces, attractive offers and services like cash-on-delivery, EMIs, hassle-free returns, etc., and advertised in the mass media. These Internet users are imperative for the growth of Indian e-tailing. Technopak estimates that the increasing number of such Internet-habituated consumers will continue to grow unabated driven by increasing access, use of interactive options, and migration of essential services to the Internet.

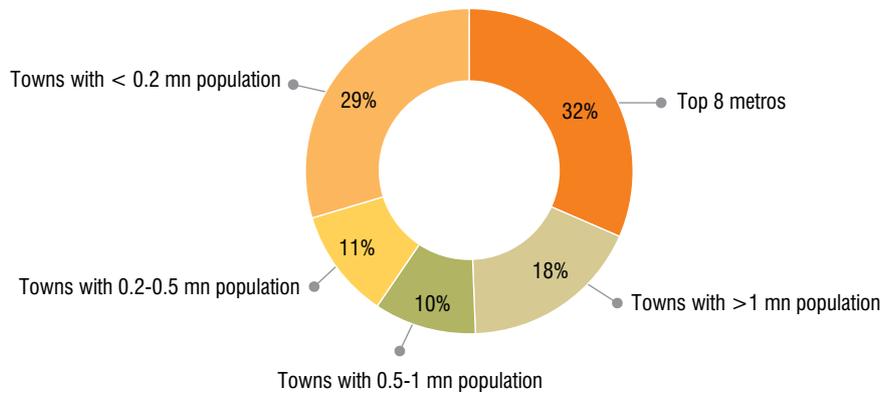
This proliferation of Internet usage will alter the manner in which such Internet-habituated consumers (especially urban) will pick up trends, form opinions, learn about new things, and consume merchandise.

An important aspect of this trend is the rise of the Internet-habituated consumer in cities and towns beyond the top 20 cities. Only about a third of India’s Internet users reside in the top 8 cities (Exhibit 4). While there is a concentration of demand in the top 8-10 cities, Indian e-tailing companies have also registered a long list of customers in other cities and towns, which account for nearly 50% of the sales for several players.



Exhibit 4

Urban Internet Users in India (2012)



Source: IAMAI

What makes the growth of e-tailing more compelling is the fact that such an Internet-habituated consumer is currently spread across India, i.e. is geographically dispersed. This dispersion does not allow for the accumulation of enough demand for brick & mortar retailers to open stores. Yet these same consumers, aggregated at a pan-India level, become an attractive opportunity for e-tailers.

There are two key reasons why such trends emerge. The first is India’s demography- India is predominantly young with a median age of 26 years. This will continue to be the case for the next ten years, with the projected median age of 29 years in 2020. By 2020, 40% of India would have been born after the launch of the Internet and mobile phones in the country. Thus, for a sizeable mass of Indians, access to the Internet and the use of mobile phones will be a norm to which they won’t have to make transition to, unlike previous generations. For these young consumers, spending time on the Internet will be as normal as watching television is for today’s consumers. This key pillar is thus quickly falling into place to facilitate the growth of India’s e-tailing sector.

Another reason lies in the quality of urbanization which forces urban consumers to look for convenience in all modes of living, including shopping. Each day is increasingly packed with an ever greater range of activities, leaving ever lesser time for such discretionary activities as shopping. As per Technopak’s estimates, 66% of the urban Indian’s time is taken up by sleep, time spent at work, and commuting to work, resulting in just a third of their time for other activities like socializing, household chores, spending time with children, health, leisure and entertainment, and shopping. These consumers are therefore seeking alternatives that can free up more time in their crunched schedules. This trend is accentuated by the increasing participation of women in the workforce. Most of these consumers also spend significant time at work and home with access to both the Internet and Internet-enabled devices. Thus, there is a disruptive growth in the adoption of Internet and mobile banking, online travel bookings, etc.

By 2020, 35%, or 465 million, of Indians will reside in urban India, compared to the current 31% (375 million). The scale and quality of urban living will result in a compelling case for the growth of e-tailing.

B. E-tailing Enabling Infrastructure

There are two key infrastructure elements which will enable the growth of e-tailing:

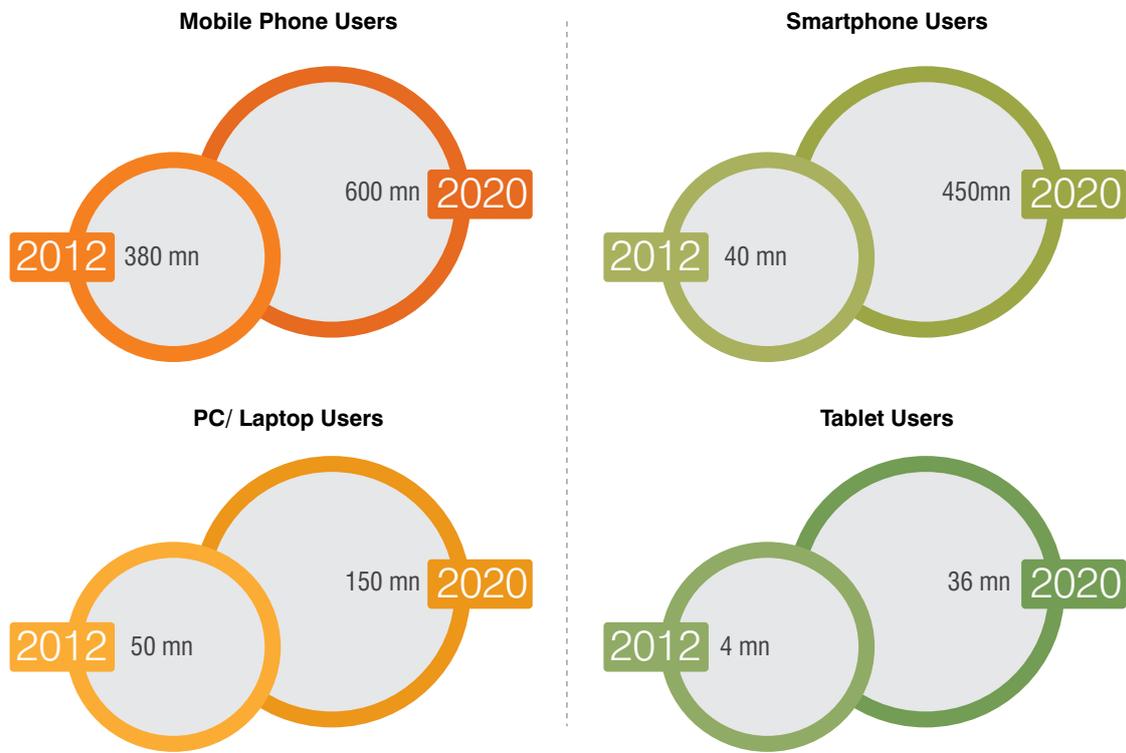
- a. Penetration of devices through which to access the Internet
- b. Proliferation of technologies enabling Internet access

a. Penetration of devices through which to access the Internet

Access to the Internet requires Internet-supporting devices, which can be broadly classified into PCs/laptops, mobile phones (smartphones), and tablets. The penetration of these devices is rapidly increasing (Exhibit 5).



Internet Enabling Device Users



Source: Industry Sources, Technopak Analysis

The usage of laptops and PCs is growing steadily, driven by increasing affordability and need. By 2020, it is projected that 150 million users will have either a laptop or a PC. However, a disruptive change is expected to be brought about by the proliferation of smart devices, i.e. smartphones and tablets. In 2012, India had over 900 million mobile subscriptions across 380 million mobile phone users. By 2020, mobile phone users are projected to increase to ~600 million. However, these mobile phone users will switch from feature phones (phones that lack data processing capability) to smartphones (phones that can process data). This will happen because of the availability of good quality smartphones at sub INR 5000 (~USD 100) price points.

The penetration of tablets will also follow a similar trend. Currently, there are 4 million tablet users, but an equal number is getting added every year. If the trend continues, there will be 36 million tablet users by 2020. However, if tablet makers break the price barrier and make a functional tablet available at under USD 100, then the number of tablet users in India will increase manifold by 2020.

As per eMarketer estimates, mobile devices (tablets and smartphones) accounted for 11% of all US retail e-commerce sales in 2012, and are expected to reach 15% this year. Mobile devices can be an important e-tailing driver for India too.

There are three reasons why smart mobile devices are critical for the growth of e-tailing in India. One, these devices are becoming more affordable. Second, these devices are also more accessible for use vis-à-vis laptops and PCs. Third, technological advancements have made it easy to access the Internet via these devices.

The use of mobiles to access the Internet is a fast growing phenomenon. As per industry sources, of the over 70 million mobile Internet users, there are 20 million mobile-only Internet users in India. Half of these, or 10 million, use smartphones to access the Internet. With the growth of the mobile-only Internet generation, this number is projected to grow manifold over the next few years making mobile commerce (m-commerce) a potentially important channel in India.

b. Proliferation of technologies enabling Internet access

- i. Broadband /Narrowband connections
- ii. Mobile Internet



i. Broadband/Narrowband connections

Currently, India has nearly 24 million wired Internet subscribers comprising broadband and narrowband subscribers. Broadband connections (> 256 kbps) are 1.6 times more than narrowband connections (< 256 kbps).

Often, broadband access to the Internet (~15 million connections) is critiqued for having a low base relative to India’s population. This is also cited as a bottleneck to e-tailing’s growth. There are two key dimensions of analysis in Exhibit 6. One is that broadband connections comprise subscriptions by households, educational institutions, public access areas, and small and medium scale enterprises. This does not include Internet access via leased lines to big corporations and government institutions.

Exhibit 6 **Broadband and Narrowband Connections in India**

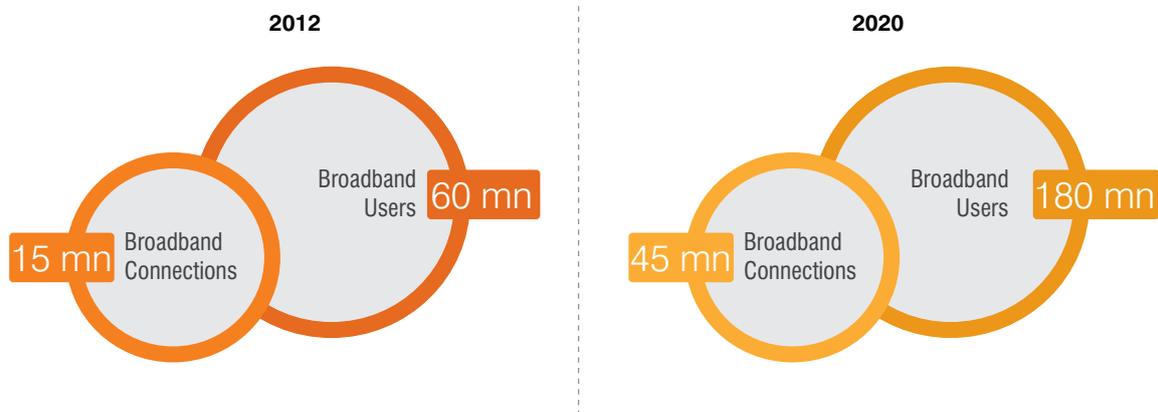
Connections (mn)	2010	2011	2012
Broadband	10.3	12.8	14.7
Narrowband	7.6	8.2	9.3
Total	17.9	21	24

Source: TRAI (Connections in Q2 of each year)

Second, each broadband connection provides access to more than one person (referred to as user connection ratio). Households have a lower ratio compared to educational institutions or access points in public areas. At an overall level, each broadband connection provides access to four Internet users (excluding public access points). This implies that there are 60 million Indians who have access to the Internet through broadband.

Given that the number of broadband connections grew by 15% between 2011-12 and assuming the same growth rate for future projections, by 2020 ~180 million Indians will have access to broadband-based Internet (Exhibit 7).

Exhibit 7 **Broadband Connections and Users**



Source: TRAI, Technopak Analysis

This will be supported by government’s National Broadband plan that aims to increase the penetration of wired (broadband-based) Internet access to eventually provide connectivity to 250,000 gram panchayats.

ii. Mobile Internet

As per the web traffic analysis tool StatCounter, Internet access through mobile phones surpassed desktop-based Internet traffic in August 2012, in India. An estimated 30% of all online shopping queries were made through mobile phones in 2012.

India, the second largest mobile phone market in the world, is poised to record a manifold increase in the penetration of high speed Internet, primarily driven by the rollout of 3G and 4G wireless technology. 3G services are a key driver of Internet access through mobile phones, providing high data speeds for downloads, content streaming, making video calls, etc.



A telecom operator's business model is based on voice and non-voice revenue sources. While the voice business provides scale, non-voice revenue is key for building a sustainable telecom business. Thus far, for Indian telecom operators, voice has been the primary revenue driver, with non-voice revenue only accounting for ~11%. This is less than half the levels achieved in countries like the US, UK, and China.

Exhibit 8 **Share of Non-Voice Revenue of Telecom Operators and E-tailing Across Countries (2012)**

Country	Non-Voice Revenue (% of total Telecom Revenue)	E-tailing (% of Retail)
US	30%	5%
China	27%	6%
UK	21%	13%
India	11%	0.1%

Source : TRAI, Technopak Analysis
 * Non-voice revenue excludes SMS

Raising the share of non-voice revenue is thus a vital imperative for the growth and sustainability of telecom operators in India. Exhibit 8 compares e-tailing's share of the total retail market across countries, so as to demonstrate that e-tailing's growth in India can lead to it becoming an attractive non-voice revenue source for telecom operators.

Telecom companies in India have committed USD 15 billion to acquire licenses for 3G networks. Data usage by users (i.e. access to the Internet) is the fundamental premise for these investments. The current penetration of 3G networks is at ~6% of India's population, or ~70 million users (Exhibit 9), and is projected to reach an estimated 370 million users by 2017 as per industry sources. Also, the rollout of 4G network services will further boost mobile Internet access.

Exhibit 9 **3G and Dongle Users (2012)**

	Users (mn)
3G/4G Networks	70
Dongles / Wireless data cards	2.7

Source: IAMAI, WCIS, Industry Sources

Notwithstanding the current uncertainty, we believe that telecom companies will continue to push for the rollout of 3G and 4G services, which will lead to an estimated 410 million 3G/4G users by 2017, thereby providing high quality access to the Internet.

III. Why is it important for E-tailing to grow in India?

The formalization and growth of e-tailing will play a pivotal role in bringing sustainability and economic viability to many facets of the economy. It will provide both direct and indirect employment as well as support such infrastructure industries as logistics, telecom, etc. by creating demand. It will spur entrepreneurship by providing business opportunities to merchandise vendors and service providers, and reduce transaction costs (tax leakages, distribution costs, etc.) by providing accessibility to quality products / solutions in an efficient manner.

In summary, the growth of e-tailing in India will positively have four broad impacts:

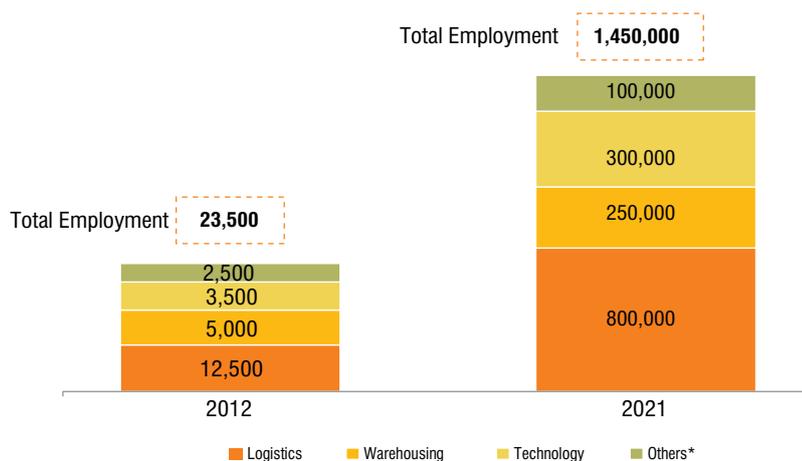
- A. Generate employment
- B. Facilitate growth of allied industries
- C. Promote entrepreneurship
- D. Reduce transaction costs

A. Generate Employment

E-tailing's employment potential, which is rarely discussed because of its current size and scale, entails two dimensions—the absolute volume of employment, and the attractiveness of e-tailing as a destination for high quality talent. As per Technopak's estimates, e-tailing has the potential to generate direct employment for nearly 1.45 million people by 2021 (Exhibit 10).

Exhibit 10

Current and Projected Employment in E-tailing



Source: Technopak Analysis

* Others include customer care employees, merchandisers, HR, finance, etc.

Employment in logistics is presently generated by third party logistics (3PL) providers who are engaged in order deliveries, and, in some cases, with e-tailers who have in-house last mile delivery expertise. However, these are severely limited in terms of capabilities and scale. With the growth of e-tailing to the projected size of USD 76 billion by 2021, the logistics industry will witness the emergence of players with scale. To tap this opportunity, some of the existing players may grow in size, while other established logistics solution providers may tweak their business models. Many new players may also emerge. In either case, the spurt of e-tailing will call for delivery capabilities that will in turn require the deployment of a vast number of feet on the ground, creating a potential 0.8 million jobs by 2021.

Warehousing jobs demand the deployment of people in order processing centers that are engaged in the function of integrating orders from various vendors with orders received from the customers. Orders are received from a large base of customers in small units (typical basket size of 1-2). However, orders are placed with a large number of vendors in high volumes. In some cases, orders are directed to vendors who ship the products directly to the customer. This is a high precision process that requires order picking and processing capabilities with minimal room for error.

In mature e-tailing markets, this function is carried out by fulfillment centers. These centers are nearly 250,000 sq. ft. in size and resemble a factory-like setup of complex assembly lines. An average fulfillment center or warehouse in the US employs 800 to 1800 workers during non-peak times which can increase by 50% or more during the peak period. India currently lacks this capability. Currently, the system is improvised by e-tailers to meet the immediate demand. If e-tailing in India has to grow to the projected size, it will require massive warehousing and order processing capabilities. There will, however, be one difference in this capability generation - India may not take a high-end technology adoption route due to its relative advantage in terms of labor costs. This function will therefore have the potential to generate employment for nearly 0.25 million people by 2021.

Technology jobs for e-tailers require a large number of technical experts that are primarily deployed in three functions:

- a. Developing & improving the e-tailer’s online interface in order to enhance customer experience on the web portal
- b. Developing proprietary algorithms to increase online traffic (i.e. more customers visit the website) and improve conversion (more customers buy on the site), and also measuring and analyzing consumer behavior for proactive targeting
- c. Building in more efficiency and control in the supply chain

In mature e-tailing markets, these technology-related functions have evolved to such high levels of complexity that many e-tailing companies view themselves as specialists in web technology and analytics. It is not surprising then that, even with the small current size of e-tailing in India, the industry has managed to attract the best engineering and management brains. In Technopak’s estimate, the e-tailing market will emerge as a destination for highly-skilled technology jobs employing nearly 0.3 million people by 2021.

Besides the above functions, e-tailing will require employees in several other roles like customer care, merchandising, vendor management, and content development, as well as in regular corporate functions like HR, finance & accounts, administration, etc. These will add nearly 0.1 million employees to the workforce by 2021.

India’s education system will need to create a vast pool of people who will bring to these e-tailers and their service providers the requisite skills, which may vary from the highly creative to the highly technical (Exhibit 11). The current size of e-tailing, however, neither generates traction for this talent in large numbers nor will it prompt the development of e-tailing-focused curriculums and courses. Unless e-tailing grows to a sizeable scale, its ecosystem will not proliferate to a critical mass that can become an attractive employment destination for these skills. For instance, today, the simple need of creating a vernacular website, i.e. one customized to the local dialect, is constrained by the lack of capable content writing service providers.

Exhibit 11

Key Skillset Requirements in E-tailing (Illustrative)

Role	Skillset Requirements
Creative - Web Design and Development	<ul style="list-style-type: none"> • Proficiency in visual arts, flash, animation, etc. • Knowledge of web design software
Technology - Web Design and Development	<ul style="list-style-type: none"> • Understanding of different technology platforms • Programming language skills • Software and tools – Web analytics, statistical, BI, etc.
Online Merchandising	<ul style="list-style-type: none"> • Understanding of merchandising and category management • Knowledge of online trends and how consumers shop online • Creative flair, with ability to design web content
Content and Photography	<ul style="list-style-type: none"> • Creative/Copy writing, editing and proof reading skills • Visual art skills with proficiency in Photoshop, Corel, Flash, etc.
Search Engine Optimization (SEO)	<ul style="list-style-type: none"> • Understanding of SEO tools and techniques, on and off page activities, social media optimization, etc. • Sound technical knowledge

Source: Technopak Analysis



B. Facilitate Growth of Allied Industries

E-tailing becomes a viable business model when it efficiently generates demand, sources products from vendors, and delivers them to consumers. Conceptually, this is not very different from traditional brick & mortar retailing. However, unlike brick & mortar retailing, e-tailing does not require the opening of physical stores to capture consumer demand. Instead, it needs an effective and inspiring website through which customers can access product information and place orders. This requires the coming together of many stakeholders so that the website stands out amid the crowd of the Internet, anticipates customer needs to display the right products, and holds the customer's imagination all the way to a purchase. Once the order is placed, it passes through another set of stakeholders who bring the ordered product to the customer's doorstep. Most e-tailers therefore view themselves as supply chain and technology integrators who manage a complex web of many stakeholders (besides direct employees), each of whom brings in specialist skills and roles to the e-tailing process (Exhibit 12).

Exhibit 12

The E-tailing Ecosystem and Key Stakeholders (Illustrative)



Exhibit 13 illustrates the share split of INR 100 of revenue earned by a typical e-tailer across the various stakeholders in a steady state. This demonstrates that the biggest beneficiaries of growth of e-tailing will be:

- Merchandise suppliers
- Infrastructure & service provider firms viz. logistics, warehousing, banking, technology, and marketing
- People employed in the e-tailing industry

Exhibit 13

Share of Revenue Split of E-tailers in a Steady State (Illustrative)



Source: Technopak Analysis

At present, no e-tailer has achieved a steady state. The development of capabilities of these industries/functions is primarily dependent on the trajectory of e-tailing’s growth. Therefore, the notion that e-tailing’s growth will create an inequitable revenue share in favor of the e-tailer is not true. On the contrary, the growth of e-tailing will enable the growth of these allied industries and functions.

Here it is important to highlight the interdependence of the evolution of the logistics industry on e-tailing’s growth and vice-versa. Logistics solutions for e-tailing demand the creation of the capability to service orders directly to customers. It requires central warehousing capabilities in order to receive merchandise in bulk from the vendors, and pick up and process this merchandise as individual orders.

Given the geographical complexity, suboptimal infrastructure and regulatory variations across the country, logistics in India has always been challenging. It has also been more of a B2B service, with the result that the B2C logistics ecosystem, which requires customer interaction, cash handling (cash-on-delivery being ~50-60% of all deliveries), and returns handling, is still a new and underdeveloped capability for third party logistics (3PL) providers.

Some of the more established e-tailers have invested in setting up their own last mile delivery networks, which is the only ‘tangible’ customer interaction, and also because most 3PL players are still in the process of developing efficient and comprehensive logistics networks.

This is however changing. Many 3PL providers are now geared up to service e-tailing clients and building dedicated verticals for this purpose while many others are fast adding the capabilities required for this sector. Many new e-tailing focused players have emerged. Some e-tailers are transitioning their logistics arms into service providers for other e-tailers as well. This move is the outcome of necessity, given the lack of viable alternatives. Ideally, e-tailers will be more than happy to outsource last mile delivery to a specialist viz. a 3PL provider. This sector has the potential to benefit by ~USD 5 billion annually by 2021.

It is interesting to envisage a role for India Post in the last mile delivery. India has ~ 21000 pin codes, and most 3PL players are able to reach about 8000-10000 pin codes at best. India Post, with its formidable network across urban and rural India, and its already established mechanism to handle money orders, can harness this opportunity in a big way. Recent media reports indicate that it already has its eyes on this emerging space.

Internationally, case studies of the US Postal Service (US) and Deutsche Post (Germany) demonstrate that these organizations have attempted to remain relevant in the changing times by tapping into and benefitting from the growth of e-tailing in their respective countries. Both these organizations are significant players in delivering parcels to e-tailing customers (Exhibit 14).

Exhibit 14

Share of Postal Systems in E-tailing Delivery

Organization	Country	Share of E-tailing Delivery Market (%)
US Postal Service	US	15%
Deutsche Post	Germany	41%

Source: Company Reports, Secondary Sources

A similar interdependence should be explored between the growth of e-tailing and benefits to other industries like domestic air cargo, telecom, and banking.

C. Promote Entrepreneurship

One of the most successful arguments in favor of e-tailing's business model is its ability to boost entrepreneurship. Many of today's leading e-tailing businesses were start-ups a few years ago. This trend continues as more and more names join this list. However, it is a less talked about fact that the growth of e-tailing creates enabling conditions for entrepreneurship across the entire e-tailing value chain. E-tailing will positively impact the development of entrepreneurship in India in two ways:

- a. It will provide easy access to consumer markets (new and existing), which will enable the growth of merchandise vendors
- b. It will open up opportunities for entrepreneurs to become service providers to the e-tailing business

a. Easy Access to Consumer Markets

The growth of e-tailing will result in the emergence of tremendous opportunities for merchandise vendors to explore new consumer markets, both domestic and international, and also achieve scale. This will not only attract existing vendors to e-tailing but it will also witness the creation of new businesses that will want to tap this opportunity.

India is a base for many vendors that service world-renowned brands and retailers. The country is also a base for proprietary and ethnic merchandise products that have a vast global appeal. However, existing structures and transaction costs do not allow these vendors to fully explore domestic and global opportunities.

E-tailing can emerge as an enabling platform for vendors to tap such opportunities as cross border tie-ups which either leverage e-tailing's reach to access regional markets, reach out to leading e-tailers for vendor opportunities, or launch own e-tailing routes and directly reach out to customers. Such a range of possibilities can prove to be a boon to the pockets of numerous local artisans who make a myriad of products ranging from fashion wear to home improvement e.g. *Shekhawati* furniture, *Moradabad* brassware, *Kolhapuri* footwear, *Channapatna* toys, etc. Such opportunities will not only spur the demand for an increased vendor base but will also catalyze the deployment of capital required to increase the capabilities needed to service this demand.

The mention of an online Indian ethnicwear player is merited to support this argument. In its ten year-long journey, this India-based player has managed to build a successful e-tailing business that focuses on Non-Resident Indians (NRIs), i.e. Indian-origin people living outside India. The player procures and customizes ethnicwear for women and men from over a 1000 vendors, and sells these products directly to customers. The business earns foreign exchange, is understood to be profitable, and has successfully created a market with direct access to NRIs in over 30 countries. An evolved e-tailing business environment can thus serve as a strong catalyst for merchandise vendors to explore many such direct-to-customer global opportunities in a number of ways.



b. Create opportunities to build new capabilities as service providers

While some e-tailing interventions are similar to those of brick & mortar retail, the key difference for an e-tailer lies in the technology, marketing, packaging, and logistics interventions.

We have already highlighted how e-tailing is leading to the emergence of newer players in the logistics space. The growth of e-tailing also creates numerous opportunities for entrepreneurship in the technology, packaging, and marketing domains. In many instances, e-tailers require these functions to provide very specific and nearly customized solutions, which may lack scale and thus not attract big service providers. Then again, there are cases wherein vendors simply don't exist to cater to such needs. Therefore, many freelancers, start-ups and small enterprises move in early to leverage this opportunity. This scenario has fuelled the start-up culture around e-tailing in mature markets.

A similar scenario will play out in India; Technopak estimates that, by 2021, such firms, small enterprises, and freelancers will have the potential to earn ~USD 7.5 billion annually by providing services to e-tailing businesses. The profiles of such entrepreneurial ventures will be as diverse as the services they provide (Exhibit 15), and they will require specialized skills ranging from creative writing to statistics.

Exhibit 15

Services for E-tailing (Illustrative)

Function	Service Providers	Services Rendered
Analytics	Analytics firms / individuals	Analyze consumer behavior and other information for insights and decision making inputs
Marketing	Freelance blog writers, independent website owners	Attract new customers to the website
Content Development	Content writers	Write content for the website and for the merchandise on the website Continuously update it for relevance
Web Design & Development	Web design & development agencies	Design and develop websites that are constantly upgraded for a superior customer experience
Packaging	Small packaging design and manufacturing firms	Develop, design, and manufacture packaging solutions

Source: Technopak Analysis

Currently, such service providers (for e-tailing in India) are in the early stages of building capabilities. The inflection point will come with the growth of e-tailing along projected lines. Until such time, service providers will remain dormant, waiting to be tapped. It is often argued that the growth of e-commerce (without e-tailing) can also fuel this growth. But the experience of mature e-tailing markets suggests that e-commerce without e-tailing lacks the potency to allow such service providers to thrive. For instance, the bulk of the work done by the analytics industry, in developed e-tailing markets, is driven by merchandise retail.

D. Reduce Transaction Costs

One of the biggest advantages of e-tailing's business model is its ingrained ability to reduce transaction costs. Transaction costs here refer to the costs incurred in making an economic exchange, which, in retailing, involve three elements:

- Cost of distribution of goods
- Use of leverage (credit) in the supply chain
- (Un)certainty of tax receipts

Retailing in India involves high transaction costs. Market structure and infrastructure inadequacies are the key reasons for this high cost. A normal retail transaction in India involves the movement of goods through a multi-layered distribution system from the producer/manufacturer to the customer. These layers of the distribution system entail distributors, wholesalers, dealers, etc. who sit across geographies in a layered hierarchy. There are three challenges with such a structure.



The first challenge is that each layer of distribution adds an extra cost in making the goods reach the final consumer. In this process, this structure makes the price of the goods higher for both the consumer and the manufacturer (due to a fixed price regime).

The second challenge is the existence of credit in the system which strains the working capital of all stakeholders. Many a times, the layers in the system primarily act as financiers to facilitate the movement of goods from manufacturers to consumers. One key reason for the presence of such an arrangement is the lag between the time of sale at the customer end and the time the manufacturer becomes aware of it.

The third challenge is that most retail transactions at point of sale are in cash. This creates a leeway in the system for tax leakages, viz. under-invoicing, under-reportage of sales, etc.

The projected growth of e-tailing in India will successfully address all the three challenges. The cost of distribution will reduce because the multi-layered distribution system will be replaced by an order fulfillment process arranged in a hub and spoke model. The layers of distributors will not be required here as this role will be fulfilled by warehousing and logistics operations which offer margin enhancement opportunities for manufacturers and better prices for consumers.

Again, given that e-tailing is made possible by the electronic medium of the Internet, the immediate recording of point of sale data and payment receipts, and the absence of intermediaries in e-tailing chain allows smoother and faster flow of money and information from the customer to the e-tailer and subsequently to the manufacturer. This has the potential to drastically improve the manufacturer's and the e-tailer's ability to manage business with lesser working capital and reduces the credit levels in the system.

Finally, e-tailing's business model provides a transparent retailing environment for both the customer and the e-tailer. E-tailing provides an electronic point of sale that records sales and thereby creates a certainty in the system about the actual volume/value of sales. Even if the customer decides to pay in cash (i.e. through cash-on-delivery), this eliminates any scenarios of under-invoicing and under-reportage. An explicit advantage of this system is that it increases the certainty of tax receipts (i.e. of VAT, CST, etc.). By Technopak's estimates, such tax collections are projected to be USD 7.6 billion in 2021 (Exhibit 16).

Exhibit 16

E-tailing Tax Receipts

	2012	2021
E-tailing market size (USD bn)	0.6	76
Tax receipts @ weighted average tax rate of 10% (USD bn)	0.06	7.6

Source: Technopak Analysis

IV. Will E-tailing's growth be at the cost of traditional retail?

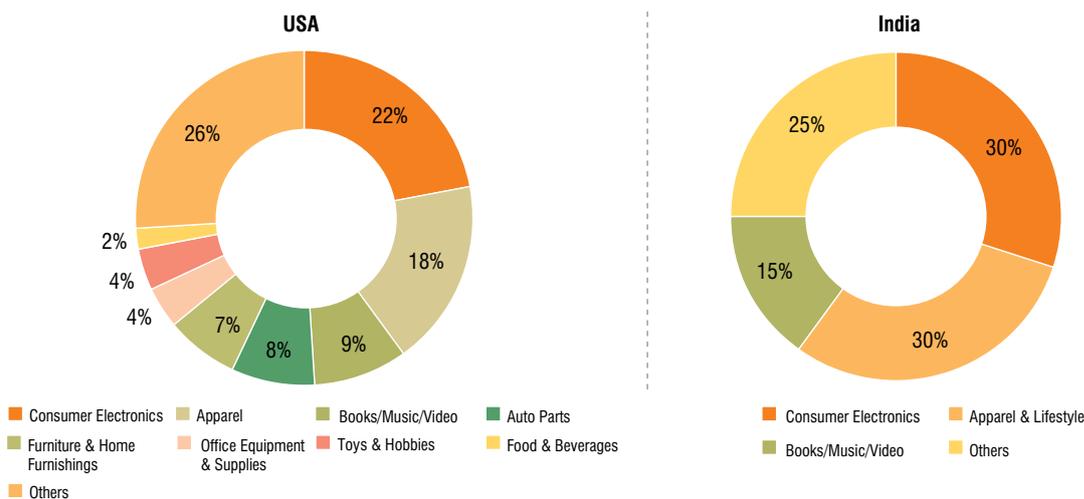
One reservation against e-tailing has been its perceived threat to traditional retail. As per Technopak's estimate, corporatized retail (of which e-tailing is a subset) will grow from the current level of ~7% of the total retail market to around 20%, by 2021, even in a best case scenario. Of this 20%, e-tailing will constitute a 5.3% share, worth USD 76 billion. One key reason for this rather low share is the fact that Food & Grocery (which forms 67% of the total retail market) will not migrate to e-tailing.

World over, e-tailers have struggled to develop a successful business model for Food & Grocery (F&G) e-tailing (Exhibit 17). The nature of consumer behavior, product perishability, and supply chain issues relating to sourcing and storage are some of the issues due to which Food & Grocery has not found a viable e-tailing route. In India, the consumption patterns and supply chain issues pertaining to Food & Grocery are even more complex. Consequently, e-tailing's growth in India will mirror the trends of more mature e-tailing markets and will be driven by non-food categories.

Another supporting fact is that while 67% of India's total retail is comprised by Food & Grocery, only 3% of this can be attributed to corporatized brick & mortar retail; this will at best increase to 5% by 2021. This implies that ~95% of the Food & Grocery market will remain with traditional retail even a decade from now.

Exhibit 17

Category Share in E-tailing Market (2012)



Source: Citi Research, eMarketer (Sept. 2012)

Source: Technopak Analysis

At present, electronics, apparel & lifestyle, and books/music/video categories dominate the e-tailing space in India. While these categories will continue to dominate, many other non-food categories will be successful in exploring e-tailing as a viable medium. It is noteworthy that many of these non-food categories are already sold through corporatized brick & mortar stores, as can be seen in Exhibit 18. These categories (like apparel, footwear, and electronics) have already registered a high degree of penetration in corporatized retail and as a result, the threat of e-tailing's growth at the cost of traditional retail is unfounded. Thus, the growth of e-tailing in non-food categories will see two scenarios unfold:



- a. E-tailing will complement existing corporatized retail, with many such retailers exploring e-tailing as a compelling additional channel of distribution
- b. E-tailing will capture incremental non-F&G retail consumption which will get created by the sustained economic growth and high share of private consumption

Exhibit 18

Corporatized Brick & Mortar Penetration across Categories in India

Categories	Retail Sales via Corporatized Brick & Mortar Formats (%)
Footwear	27%
Apparel	20%
Consumer Durables	20%
Personal Care	17%

Source: Technopak Analysis

Despite e-tailing’s strong growth, traditional retail will grow in value from the current USD 455 billion in 2012 to USD 1152 billion in 2021. It is estimated that another 9 million people will get added to traditional retail in the next decade, taking the number of direct employees from 22 million in 2012 to 31 million by 2021. Thus, e-tailing will neither impact traditional retail value growth, nor cause employment loss in any notable manner.

While e-tailing’s growth is not going to adversely impact traditional retail stores, the challenges in the Indian retail sector have less to do with fragmented points of sale (traditional retail stores), and more to do with an inefficient and broken supply chain. The go-to-market approach for any merchandise brand in India requires the brand to build its own distribution network for its goods to reach the desired retail shops. This is not only an undesirable cost but also limits that brand’s access to an optimum number of retail shelves. This also diverts the brand’s capital away from product innovation to distribution.

E-tailing can play a crucial role in consolidating wholesale & distribution, and in developing India-specific business models. By virtue of the advantages discussed in previous sections, e-tailing can bring down the cost of distribution and can complement the growth of traditional retail.



V. Conclusion

The current growth in e-tailing was driven by start-ups, and backed by venture capital and entrepreneurship. While the Indian e-tailing market is yet to achieve a steady state, these initial entrants have succeeded in capturing the imagination of a sizeable consuming class. These have also acted as a catalyst in the creation of an ecosystem necessary for the growth of e-tailing.

E-tailing's potential cannot be tapped on the premise that investments by a few organizations will unlock this opportunity. Going forward, the projected size of e-tailing by 2021 will not be composed of pure e-tailing companies, as is largely the case today. According to Technopak's estimates, e-tailing's opportunity will be captured by three set of players:

- Some of the existing, pure e-tailing businesses will manage to build sustainable businesses and grow in size. Many new pure play e-tailing start-ups will also tap the market
- Many of the current brick & mortar retailers (both traditional and corporatized) will succeed in viewing e-tailing not as an extension but as an important business growth driver
- Similarly, many consumer brands will also build e-tailing businesses as a direct go-to-market approach

E-tailing is an integrator of technology, logistics, and infrastructure, and creates a relatively efficient marketplace for vendors and consumers. At present, the Indian e-tailing market is limited by its incapability to play the role of an efficient integrator. Technopak's projection for the growth of e-tailing over the next decade is based on the premise that the current capability of e-tailing will be significantly transformed, which will require the infusion of both capital and knowledge. This role has been played in other places by retailers, technology companies, venture capitalists, and private equity investors. Given the fact that the current share of corporatized retail is under 10%, and that the domestic venture capital industry is still in its infancy, policymakers will need to seek a rapprochement with investment and expertise from overseas players.

E-tailing has to be viewed in the context of the profile of India that is poised to emerge over the next decade. This emerging India will comprise consumers who will have the desire, need, and conviction to use the Internet for a host of reasons, of which shopping will be one.

E-tailing has been often clubbed with corporatized brick & mortar retail. While there is no denial of the fact that it serves the same end purpose, it also cannot be denied that the entire ecosystem within which e-tailing operates is completely different from brick & mortar retail, as are its enablers. Therefore, it deserves to be considered on its own merit, instead of being clubbed with brick & mortar retail. This will necessitate an appropriate response from policymakers to facilitate the growth of an ecosystem conducive to e-tailing and should include:

- Opening up of e-tailing for international capital and knowledge infusion
- Facilitating the smooth rollout of wireless data access and broadband connectivity
- Incentivizing B2C logistics and warehousing capability building, including the option of building B2C capabilities into India Post
- Implementing the Goods and Services Tax, or GST

It also demands a spirited response from the private sector involving:

- Capital deployment in B2C logistics, domestic air cargo services, and warehousing industries
- Adoption of e-tailing as a key growth driver by retailers and consumer products companies
- Promotion of entrepreneurship to create relevant technology, analytics, and packaging solutions
- Building sustainable and India-specific e-tailing business models, especially in wholesaling and distribution
- Aiming for "best in class" capabilities across the e-tailing value chain to compete in the global arena

However, this leap of faith will not happen on its own. If e-tailing continues to be regarded by policymakers as being insignificant, and by business organizations as a “passing fad”, Technopak’s estimates of e-tailing’s growth will only remain aspirational statistics.

E-tailing’s current growth is like the birth of a new industry and akin to the birth of telecom and IT services in the 1990s. Both started small and recorded disruptive growth that changed our lives in many ways. That e-tailing needs to be viewed through a reformist lens is the premise for Technopak’s projections of e-tailing’s growth. E-tailing will have to be viewed as a vehicle that will drive efficiency, create new capabilities, and shun mediocrity; this is also fundamental to Technopak’s optimism about e-tailing over the next decade.

E-tailing possesses the potency to create new capabilities which India needs and offer viable employment to Indian youth over the next decade. It has the prowess to act as a catalyst and support the growth of new skills and industries. If e-tailing is ignored as a non-descript and trivial entity, it will be another case of a birth with congenital disorders, akin to brick & mortar retail.



About Technopak

India's leading management consulting firm with more than 20 years of experience in working with organizations across consumer goods and services.

Founded on the principle of "concept to commissioning", we partner our clients to identify their maximum-value opportunities, provide solutions to their key challenges and help them create a robust and high growth business models.

We have the ability to be the strategic advisors with customized solution during the ideation phase, implementation guide through start-up and a trusted advisor overall.

Drawing from the extensive experience of more than 150 professionals, Technopak focuses on four major divisions, which are Fashion (Textile & Apparel), Retail, Consumer Products & E-tailing, Education, and Food & Agriculture.

Our key services are:

Business Strategy: Assistance in developing value creating strategies based on consumer insights, competition mapping, international benchmarking and client capabilities.

Start-Up Assistance: Leveraging operations and industry expertise to 'commission the concept' on turnkey basis.

Performance Enhancement: Operations, industry & management of change expertise to enhance the performance and value of client operations and businesses.

Capital Advisory: Supporting business strategy and execution with comprehensive capital advisory in our industries of focus.

Consumer Insights: Holistic consumer & shopper understanding applied to offer implementable business solutions.

About E-tailing, Retail & Consumer Products Division

Technopak aids leading e-tailers, retailers and consumer products companies in formulating growth strategy and performance enhancement mandates. Over the past few years, we have worked on various facets such as entry into the Indian market, development of new category, activation of new retail formats, channel development, product extension, region expansion etc. One key reason why Technopak is considered the industry leader is the relentless focus on the Indian Market. We help clients understand the market dynamics in India and help them arrive at the best method to grow business in India. Our expertise helps gain a competitive edge by providing execution capabilities and corporate strategies.

Services We Offer in E-tailing

Market and Consumer Segmentation

- Market Size, Growth and Segments Assessment
- Online Consumer Segments Identification and
- Shopping Behaviour Analysis

Overall Category Assessment

(Brick & Mortar & Online)

- Category size and Growth Assessment
- Category Segmentation
- Seasonality Study and Calendar Plan Development
- Sizing Standardization
- Value Chain Mapping

Private label Strategy & Implementation

- Private Labels Strategy (lifestyle space)
- Private Labels Implementation (apparel space)
 - » Sourcing Centers Identification
 - » Vendors Identification and Evaluation
 - » Vendor Tie-ups Facilitation

Performance Assessment & Enhancement (Fulfillment)

- Warehousing Operations & Inventory Control
- Packaging Material Assessment
- Logistics & Delivery Optimization

B2B Opportunity

- Online B2B Opportunity Assessment
- Target group Identification
- Business Model Development

Capital Advisory & Strategic Alliances

- Commercial and Operational Due Diligence
- Strategic Alliances Facilitation

Start-up Assistance

Developing concept to meet the business objectives and leveraging operations and industry expertise to “commission the concept” on a ‘turnkey’ basis.

A. Concept Formulation

- Positioning and Target Segments Definition
- Products & Services Definition
- Business Volume Estimation
- Geographic Reach and Fulfillment Model Feasibility
- Operating Model Development
- Financial Planning

B. Implementation Assistance

- Overall Project Management
- Service Providers Selection
 - » Web design & IT services agency
 - » Marketing agency
- Business Partners Selection
 - » Logistics partner
 - » Payment gateway partner
- Organization Design & Creation
- Beta-site trial run

Services We Offer in Retail & Consumer Products

Business Strategy

Assistance in developing value creating strategies based on market & industry insights, competition mapping, International benchmarking and clients capabilities

- Organic Growth Strategy
- Growth through Partnerships, JVs and Acquisitions
- Real Estate Planning

Performance Enhancement

Operations, industry and MOC expertise to enhance the performance and value of client businesses

- Productivity Enhancement
- Merchandising and Category Management
- Sourcing and Supplier Management
- Pricing, Promotions and Range Architecture
- Private Label Programmes
- Transformation & change

Start-Up Assistance

Leveraging operations and industry expertise to 'commission' the 'concept' on a turnkey basis

- Project Management
- Sourcing and Buying Implementation
- Organization Design and Creation
- Supply Chain and Logistics
- Retail Operations Framework
- Post Implementation Assistance
- Franchisee Identification

Capital Advisory

Supporting business strategy and execution with comprehensive capital advisory in our industries of focus

- M&A
- Due Diligence – Commercial

Consumer Insights

Holistic consumer understanding applied to offer implementable business solutions

- Shopper Insights
- Trend Insights
- Design and Innovation Insights
- Marketing Communication

Our Other Divisions

Fashion (Textile & Apparel)

With almost 20 years of experience in delivering end-to-end solutions to the entire gamut of the textile industry, right from fibre to retailing, the Fashion & Textile division at Technopak assists the textile and apparel organizations in optimizing their profits through enhancement and expansion. Many leading Indian and international Textile manufacturers and Apparel brands have benefited from our offerings in the areas of business planning and strategy, apparel operations, supply chain management and strategic alliances. Our team consists of top calibre advisors who have worked closely with a diverse group of clients comprising textile manufacturers, apparel retailers, garment manufacturers and exporters, apparel sourcing organizations, trade promotion councils, industry associations, international development bodies, and financial institutions as well as central and state governments.

Food & Agriculture

Technopak's Food Services & Agriculture team comprises of established domain experts who build and enhance the business performance of organizations which are either working in the sector or are willing to enter this space. Our end-to-end solutions are customized as per the business's requirements and capabilities. We continuously strive to create strong industry relationships and work for a global footprint by delivering a wide range of services to organizations that operate or wish to operate in the Food and Agriculture sector, in India as well as internationally.

Education

Technopak Education division has a vast understanding of the sector in terms of industry environment, growth potential, regulation and policy, which has enabled us to become a thought leader in the sector. Technopak caters to all the education segments – K-12, Higher Education, Vocational Training and ancillaries. Innovative business models and government thrust on privatization has led to assertive participation by private organizations. Such participation spans various levels of investment and operational scale, be it organization planning for expansion in the country or foreign institutions aiming to foray into the Indian education sector.

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