RECENT TRENDS IN INDIA'S eCOMMERCE MARKET IN INDIA

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Abstract

The cost is high, but the retailer considers this option necessary to develop consumer trust and confidence in the retailer. While such at-home pickup for returns is typical in other emerging markets, markets tend to shift from this labor-intensive, often inconvenient process to prepaid return labels as the eCommerce ecosystem develops. eBusiness professionals with an interest in the online retail market in India must understand how India differs from other leading eCommerce markets and where hurdles do and don't exist. In this report, we outline some of these local nuances and explain the key trends shaping eCommerce in India. In 2011, venture capitalists invested US$177 million in eCommerce in India — more than recent estimates of eCommerce investment in Russia in 2011, for example.8 A partner at one of India's top early- and mid-stage venture funds noted that India's online population — which is largely upper and middle class — has moved well beyond the initial stage of online shopping. As of May 2012, the Telecom Regulatory Authority of India reported more than 929 million wireless subscribers in the country. While 3G penetration today is estimated to be in the low single digits and users complain of low network speeds, mobile will be a key tool in helping users connect in a market where overall Internet penetration remains low. However, retailers can take a series of steps to ensure they are offering the payment types that most appeal to consumers today. By doing so, these businesses position themselves to capitalize on growing online spending as infrastructure issues are addressed. eBusiness professionals .

Introduction

The eCommerce market in India is smaller than in other markets that Forrester forecasts in Asia, but it is growing the fastest. Retailers have a sizeable opportunity as the online population starts to spend more and buy more frequently online. Today's online shopper in india has infl ated expectations Similar to retailers in most emerging eCommerce markets, retailers in India are doing whatever is necessary to drive consumers to shop online. Online shoppers expect to see good deals online accompanied by free or very low-cost shipping.

Localization is Crucial

To be successful online in India, eBusiness professionals must understand local eCommerce trends. Two key areas that companies must focus on in all markets localized payment and fulfi llment options -- are particularly essential in India.

Why e commerce need?

India's eCommerce market is at an early stage but is expected to see huge growth over the next four to five years. Over the past 12 months, venture capitalists have invested

heavily in India's eCommerce market, new players have emerged, and the eCommerce ecosystem has developed, presenting a huge opportunityfor companies willing to work through some of the logistics and payments challenges in India. eBusiness   professionals with an interest in the online retail market in India must understand how India differs from other leading eCommerce markets and where hurdles do and don't exist. In this report, we outline some of these local nuances and explain the key trends shaping eCommerce in India.

Trends In India's eCommerce Market
India's eCommerce market is small but will grow Strongly

An increasing number of global companies are eyeing the rapidly growing eCommerce market in India as improvements in infrastructure are made and India's economy grows. As the world's 11th-largest economy (and fourth-largest emerging economy after BRIC peers China, Brazil, and Russia), India is starting to appear on eBusiness organizations' lists of key international markets.[1] While Internet penetration is low at just 10% of the overall population, the government is building infrastructure to improve and enable connectivity in metropolitan and rural areas.[2] And with the 2001 census showing an estimated English-speaking population of 125 million, India currently appeals to global companies looking to sell online using their English-language websites.[3] Currently, shoppers in metropolitan India are driving eCommerce: These consumers are primarily buying travel, consumer electronics, and books online.4 And although spending per online buyer remains low, some 59% of online consumers in metropolitan India already make purchases online at least monthly.5 Consumers in nonmetropolitan areas will also help fuel growth; unlike online consumers in cities, they are more likely to shop online for goods that are unavailable at local stores.

The eCommerce Market In India Is Poised For Rapid Growth

eCommerce revenues in India will increase by more than five times by 2016, jumping from US$1.6 billion in 2012 to US$8.8 billion in 2016 . While US$8.8 billion is still less than other countries in Asia Pacific, such as China and Japan, India's CAGR is much higher than any othercountry that Forrester forecasts in the region.7 The following factors are influencing this growth:

a) Venture capitalists are bullish on eCommerce growth

In 2011, venture capitalists invested US$177 million in eCommerce in India — more than recent estimates of eCommerce investment in Russia in 2011, for example.8 A partner at one of India's top early- and mid-stage venture funds noted that India's online population — which is largely upper and middle class — has moved well beyond the initial stage of online shopping. Another venture capital firm in India that is investing heavily in eCommerce stated that it is confident that consumers in both urban and nonurban areas are

ready to shop online. Investment firms are also diversifying to include retail sectors that have faced challenges offline: Women's lingerie, for example, is expected to grow quickly online, where women can purchase anonymously.

b) Online grocery shopping is starting to appeal to the upper- and middle-class consumer

Grocery, traditionally a category that shifts online in the later stages of eCommerce development, has started to move online and is doing well with the middle- and upper-class online shopper in metropolitan India. Revenues are small today but poised to grow: MyGrahak.com, for example, expects to have a turnover of US$179.1 million by 2015.9 The site currently has only 22,000 registered users, but sign-up rates are increasing by 25% per month. In 2012, the firm is focusing its efforts on raising more capital to double warehouse capacity and improve logistics.

c) eCommerce is expanding into nonmetropolitan India

eCommerce retailers in India are expanding their offerings to the online population outside metropolitan India and are investing heavily in the infrastructure to support these cities.10 Online apparel retailer Myntra. Com is already seeing demand for its products outside metropolitan India: 50% of its sales are outside India's 10 biggest cities. To widen their reach, for example, multiple retailers are building warehouses outside central locations; testing shipping options that work in rural areas; offering payment options like cash on delivery (COD) that provide options for the unbanked; and subsequently marketing these to semi-urban and rural consumers. Additionally, retailers often view urban and rural users as having two distinct goals: Many of the former shop online because they have more money but can't access the products they want (such as unique or imported items), while many of the latter shop online for things they need (such as shoes) but can't access or can't access cheaply where they live.

d) Large retailers are looking to build an online presence

Some brick-and-mortar retail operations are also recognizing the opportunity online in India. For example, Croma, one of India's largest consumer electronics stores, moved online to sell its full range of products. And global multibrand, multichannel retailers like Walmart that are currently restricted by India's foreign direct investment (FDI) laws are anxiously following developments to take advantage of opportunities as they arise.

e) Social media and mobile are helping accelerate eCommerce adoption

The social and mobile trends that are prominent worldwide are also underway in India. With 51 million Facebook users (5 million of whom joined in the past three months alone), India is ranked as Facebook's third-largest audience in the world after the US and Brazil.12 Social networks have not been major drivers of eCommerce transactions in other

markets, yet these sites play an important role in driving consumers online and getting them to engage with brands.13 And in mobile, India has close to 1 billion wireless subscribers: As of May 2012, the Telecom Regulatory Authority of India reported more than 929 million wireless subscribers in the country.14 While 3G penetration today is estimated to be in the low single digits and users complain of low network speeds, mobile will be a key tool in helping users connect in a market where overall Internet penetration remains low.

f) Consumers expect the returns process to be seamless and convenient

Traditionally, the shopping culture in India is not returns-friendly. However, online shoppers have come to expect the option to return items purchased online, and retailers have made doing this convenient — at their own cost. One of the top online retailers in India, for example, has gone so far as to offer an at-home pickup service for returned goods. The cost is high, but the retailer considers this option necessary to develop consumer trust and confidence in the retailer. While such at-home pickup for returns is typical in other emerging markets, markets tend to shift from this labor-intensive, often inconvenient process to prepaid return labels as the eCommerce ecosystem develops.

g) Free door-to-door shipping is commonplace

Like eCommerce retailers in other emerging markets such as Brazil, it is standard for eCommerce retailers in India to offer free, relatively quick delivery of online orders. HomeShop18, for example, offers free shipping for the majority of its items and delivers within five days. MyGrahak offers free 48-hour delivery, but it will deliver within 24 hours for an extra US$0.88. To compete in India's nascent eCommerce market, online retailers have little choice but to offer the same convenience and low cost that their local counterparts are offering, a situation that venture capitalists have identified as unsustainable in the long term. While retailers cite free shipping as an essential first step to drive customers to shop online and win customer loyalty, companies investing in the space must consider how long they can sustain this type of offering.

h) Consumers have been trained to expect low prices

In addition to the challenges of offering free shipping, retailers also face hurdles in matching the highly discounted prices that leading online retailers have traditionally offered on their sites.16 New entrants have struggled to keep up: Upstart Taggle.com ceased operations in late 2011, for example, citing its unwillingness to engage in a price war with retailers selling below cost to gain customers.

Payment options and Fulfillment are the key to localization

In India, as in all other markets, payments and fulfillment are two of the areas that retailers must most heavily localize.

eBusinesses Must Offer A Variety Of Payment Types

In India, online payments present multiple challenges. Even those companies that offer a variety of localized payment methods can hit challenges with the infrastructure: Payment gateways, for example, are notorious for being inconsistent, with failure rates as high as 35%.However, retailers can take a series of steps to ensure they are offering the payment types that most appeal to consumers today. By doing so, these businesses position themselves to capitalize on growing online spending as infrastructure issues are addressed. eBusiness professionals must keep the following in mind.

i)   Local partnerships are essential to localized payments.

As in most markets, credit and debit card payments dominate in India: 44% of online buyers cite having paid with a credit card, and 41% have paid with a debit card.19 Online bank transfers are also a common online payment method: In the past three months, 24% of online buyers in India used one to pay for a purchase made online   Local retailers offer the option to use a bank transfer with a long list of partner banks. These payment options are necessary to offer consumer convenience but will pose a challenge for non-Indian companies; there are government restrictions that keep non-local players from offering local payment solutions. Symantec, one of the top Western security software retailers in India, overcame that problem by linking its site to Flipkart.com thereby giving customers without an international credit card the option to purchase with a localized payment.

ii)   In India, COD remains too big to ignore

Local players in India offer a variety of payment options. Like most emerging markets, cash on delivery, most commonly referred to as COD, is a popular option — with 23% of online shoppers in metropolitan India choosing to pay for online purchases with cash.21 COD is essential to reaching first-time shoppers who fearsharing their information over the Internet and shoppers who don't use widely accepted cards and banks. Myntra, for example, sees 60% of its transactions paid for with COD. While COD can be a great way to acquire new customers, return rates on these orders can be staggering. In India, venture capitalists report COD return rates of up to 25% in some categories.22 Indeed, COD return rates tend to be much higher than when a consumer pays online: The COO of a logistics

iii)   COD can mean more than just cash on delivery

To appeal to those who prefer to pay with cards, retailers in India have started to offer "card on delivery," also (and confusingly) known as COD. With this payment option, a courier brings a mobile point-of-sale (POS) machine to the shopper's door to accept payment.24 Online retailers in other emerging markets also offer such options: Amazon.com, for example, offers this option to online shoppers in China.

iv)   Larger online retailers are building out in-house delivery solutions.

For example, leading online retailer Flipkart solved its fulfillment issues with an in-house delivery department. In a move similar to online retailers in other emerging markets — for example, 360buy in China and Ozon in Russia — the retailer uses its own trucks and employees to fulfill orders to ensure customers receive superior service. While not an option for all companies, smaller retailers may ultimately be able to take advantage of the networks of big players: Russia's Ozon, for example, is starting to make its logistics network available to smaller eBusinesses for a fee.

v)   Effective fulfillment solutions often require multiple couriers

The lack of a wholly developed eCommerce ecosystem and underdeveloped towns require retailers to creatively fulfill an order. If a retailer's usual shipping method will not get a package to a customer, it will use more than one shipping method. While India Post, FedEx, and DHL International do deliver in India, our interviews revealed that online retailers frequently rely on couriers to deliver the last mile. For example, they send the package using FedEx or DHL to the nearest package distribution center and hire a local courier to pick up the package and deliver it to the customer's door, frequently on a bike. In rural areas, where even capturing a standard address for a consumer can be challenging, bike delivery is often the most convenient option. eCommerce "norms" are still being established in India, where the eCommerce market is just developing and experienced eBusiness professionals are still hard to find. To offer your customers the best experience — one that reflects your brand's service level — Forrester suggests the following:

vi)   eBusinesses must be willing to work with many different partners.

In India, no single player today can handle all aspects of the eCommerce business on behalf of major retailers or brands. Instead, eBusinesses will need to manage every step of the eBusiness operation — from site design to fulfillment solutions to employee training. Leading eCommerce sites in India today tend to build their capabilities rather than buy, although that scenario is likely to change as more global players with existing vendor partners enter the market. eBusinesses entering the Indian market must be aware of the need to work with a variety of partners and be willing to work through the challenges of integrating multiple solutions.

vii)   Savvy businesses will make mobile a part of the eCommerce mix from the start.

While the mobile opportunity in India is nascent, it is undeniably going to be a critical part of how consumers interact online. eBusinesses should take advantage of this growing trend by including a mobile website as part of their offering — ensuring that it is accessible on both feature phones and smartphones, given the relatively low penetration of smartphones in India today.

viii)   Multibrand retailers should be ready to launch as soon as FDI constraints are lifted.

FDI regulations currently keep multibrand retailers from establishing a business in India: Amazon.com, for example, altered the business model it used when entering other markets and launched in India with an online shopping service, Junglee.com. While it is impossible to know exactly when and if the FDI restrictions will be relaxed, foreign eBusinesses with an interest in India should map out their potential offerings in India now so that they can move

viii)   Be prepared to move beyond English to differentiate longer term

In our research, we did not come across a single major site in a language other than English. While it is a safe bet that online buyers in India will predominantly be English speakers in the short term, global businesses often overestimate the number of consumers in India who speak and understand English fluently. Global media sites have already taken notice of India's diverse online population: Yahoo, for example, provides news in Bengali, Hindi, Malayalam, Marathi, and Tamil; MSN also offers a multilingual site. eBusiness leaders should consider multilingual websites as a potential long-term option for differentiating their offerings and appealing to consumers who may understand English but prefer a local language.

Conclusion

Forrester Research conducted the Asia Pacific Technographics Online Survey, Q3 2011 in July 2011 of 7,085 consumers ages 18 and older in South Korea, Australia, Japan, metropolitan China (including Hong Kong, Shanghai, Beijing, Guangzhou, Chengdu, Wuhan, and Xian), and metropolitan India (including Mumbai, New Delhi, Kolkata, Bangalore, Chennai, Hyderabad, and Ahmadabad). Forrester weighted the data by age, gender, and geographical distribution to be representative of the adult population in each country or region surveyed. The samples in South Korea, Australia, and Japan are geographically representative of the adult population according to the latest country-specific census. The samples in India and China are representative of the urban population, with a heavier weight attributed to these countries' largest urban areas. The sample in India is representative only of the SEC ABC groups. Respondents in India completed the survey either in English or a native language: Marathi, Hindi, Bengali, Kannada, or Tamil. The survey for all other countries was administered in the country's or territory's official language.

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