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E-commerce market: A potential of economic growth in India

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Abstract

E-Commerce in India is one of the fast growing sectors of India's Digital Economy. The leader in retail e-commerce Flipkart recently announcing that it crossed $ 1 Billion in sales early this year, this development has sent many small e-commerce companies scrambling to gather a piece of the online e-tailing action. India is at the cusp of evolution in its Internet economy. With more than 200 million Internet users, and adding 4.5 million every month, India will surpass the US in the number of Internet users by the end of 2014, becoming the second largest user base globally.

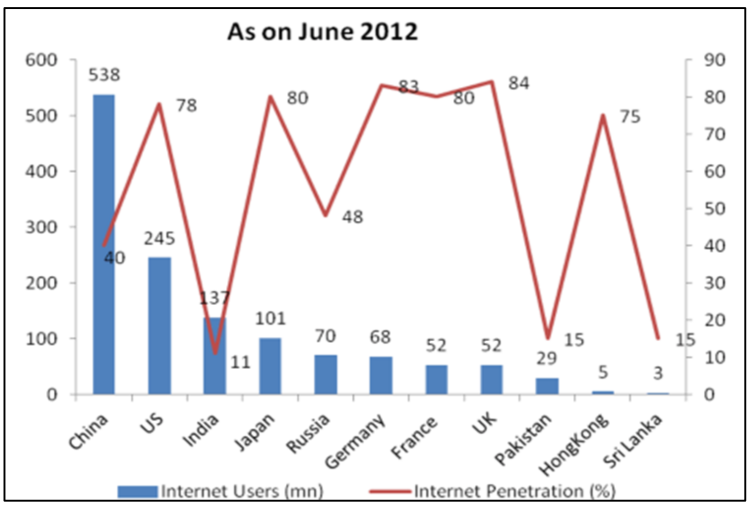
Keywords: E- Commerce, internet economy

Introduction

It took India a decade to get its first 100 million Internet users, but the next 100 million came in three years, thanks to mobile. The next 100 million users are expecting to come in just the next two years. India has 100 million mobile only Internet users, and another 50 million use both the PC and the mobile. To put things in perspective: in China, of the 400 million Internet users, only 150 million access it only through their mobile phones. The other big change is the Internet companies. There are at least five start-ups which have crossed a billion dollar in value: Makemytrip, Cleartrip, Snapdeal, Flipkart and InMobi. The government can do a lot to create more billion dollar companies, starting with enabling the acceleration of broadband infrastructure. Most of Indian mobile users are accessing data on a narrow band network, where the Internet speed is slow. Only 30 million out of 150 million are 3G users. The telecom companies which have seen regulatory uncertainties in the past need to roll out the 3G and 4G networks faster, and increase the reach of fibre-to-home. The Rs. 20,000 crore National Optic Fibre Network project will be critical.

The other important thing is that FDI should be allowed in ecommerce. Ecommerce, excluding ticketing, matrimony and travel has already crossed the three billion dollar mark, and has the potential to become a $100 billion industry in the coming years. The only constraint is investment. India will need another four to five billion dollar of investment to get there.

One of the pioneers of the Indian IT Industry, E-Commerce is gaining momentum globally with Asian economies like China, India and Indonesia being the fastest growing e-commerce markets. E-commerce in India is growing at a fast pace with an estimated size of Rs.43,930 crore in FY13 and a CAGR of 43.8% (FY08-13). As per the internetworldstats.com – The top 20 countries in the internet by number of users as on June 30, 2012, India ranks 3rd after China and US. The ecommerce industry is mainly dominated by the travel segment which accounts for more than 70% of the transactions of industry and e-retail's share in e-commerce stands at approximately 12.5%. In spite of the robust growth, the ecommerce industry is still in a nascent stage with significant e- commerce ventures being started by young first-time entrepreneurs. The e-commerce industry in India lags far behind various developed and developing countries (share of ecommerce to total retail is approximately 1.5% vis-à-vis 5.8% in US) mainly on account of low internet penetration due to poor infrastructure.



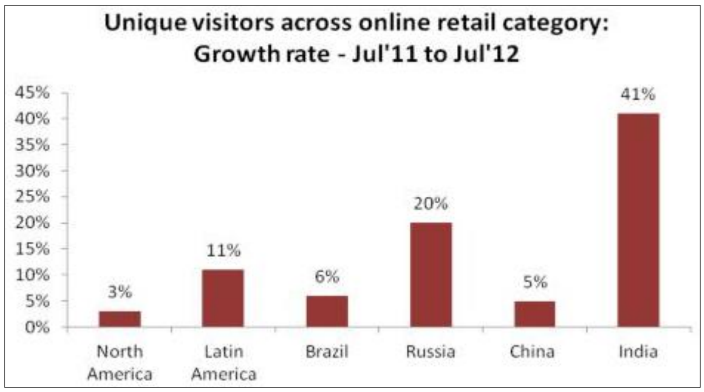
Source: Internetworldstats.com

E-Commerce in India: Evolving Models

The Indian e-commerce industry comprises two key business models: B2B (90% of market share) and the remaining 10% comprise of B2C. India and China, unlike US are characterized by 'Marketplace Model', while US follows inventory-based/independent model. 'Market Place' model only provides platform to a large number of manufacturers/traders (especially MSMEs) to advertise their products (which translates to benefit the MSMEs in the form of increased turnover) as well as manages related functions and in turn the entity earns commission from sellers for goods and services. The B2B players do not carry inventory while in the other model-B2C, the merchant owns the goods. Currently FDI is restricted in B2C model in India.

E-Retailing: At an inflexion point

The e-retailing market in India is estimated at Rs.5,513 crore in FY13 with a robust CAGR of 30.5% (FY08-FY13). However, e-retailing in India constitutes a miniscule 0.2% of the total retail market and 2.3% of organized retail in India. E-retailing industry in India is fragmented with a few large players at the top and race for high valuation has led to fierce competition and aggressive growth. Furthermore, the industry has also witnessed consolidation with the largest acquisition of Myntra by Flipkart. The trend is likely to continue in future given the foray of Amazon, inability to raise follow-up capital from PE by majority start-ups in the past couple of years and likely opening of FDI in B2C. Below-average penetration of e-retailing, has led to explosive growth of unique visitors during July 2011 to July 2012 within Indian retail online market.



15+ Age, Home and Work users
Source: ComScore

Key Drivers for E-Retailing

Today's consumer, especially the middle-class urban and semi-urban India, who are increasingly pressurized due to paucity of time as well as lured by convenience and increased use of plastic money are all leading way to more online consumption. Furthermore, favorable demographic profile (75% of internet users are aged between 15-34), limited geographical reach by brick & mortar model, increasing internet penetration, increasing smartphone usage & declining data charges offer high market potential for e-retailing in India.

Indian E-commerce: Growing under constraints

The inability to provide a direct connect with consumer is the biggest challenge in e-retailing. Further, apart from low internet penetration, like low debit card/credit card usage which is being offset by cash on delivery, multiple languages, and logistics issues which is being managed by building in-house logistics by players are also some of the challenges faced by players. However with the help of technology, backbone of e-retailing, an attempt is made to bridge this gap. Also, other challenges are developing efficient supply chain management, customer

relationship management solution and enhanced security systems which form heart of e-retailing. Foreign capital inflow is the next logical step to build the necessary infrastructure.

FDI in B2C: Next Logical Step

FDI in ecommerce in India has seen around US$1.3 billion of foreign investment in the ecommerce industry since 2010 to June 2013 and a large number of deals compared with some other peers on account of huge potential seen in India.

Source: CLSA (India Online Retailing)

At present, 100% FDI is allowed in business-to-business (B2B) e-commerce. Restriction on FDI in B2CInventory / Independent model has restricted the growth of this segment on account of lack of financial backing required for their expansion plans. Equity funding is important for growth of e-retailing given the large requirements on account of deep discounts given to customer as an acquisition strategy, for establishing logistics and creating differentiation in terms of customer service.

FDI in B2C: Pros and Cons

FDI in B2C model is likely to have a positive impact on overall economic development. It will provide the required significant financial backing to the young entrepreneurs. MSMEs, if provided financial backing, will be able to enhance their coverage through e-commerce platform. Long-term committed investment will also bring in know how and improve efficiencies in the supply chain necessary for the industry and also lead to competitive pricing. It will boost the ancillary industries like logistics, warehousing, online advertising etc. Minimum investment requirement, if mandated, in backend may also lead to infrastructure development.

On the other hand, with opening of FDI in B2C model, monopolies of foreign retailers may adversely impact the domestic industry Brick and Mortar players as well as existing B2C players leading to consolidation in the industry. It may shrink the Indian Entrepreneurship & MSME sector. However, foreign player’s entry with certain riders like mandated minimum local sourcing with the MSMEs will lead to increased manufacturing activities.

Market size and growth

India's e-commerce market was worth about $3.9 billion in 2009, it went up to $12.6 billion in 2013. In 2013, the e-retail segment was worth US$2.3 billion. About 70% of India's e-commerce market is travel related. According to Google India, there were 35 million online shoppers in India in 2014 Q1 and is expected to cross 100 million mark by end of year 2016. CAGR vis-à-vis a global growth rate of 8–10%. Electronics and Apparel are the biggest categories in terms of sales. By 2020, India is expected to generate $100 billion online retail revenue out of which $35 billion will be through fashion e-commerce. Online apparel sales are set to grow four times in coming years.

Key drivers in Indian e-commerce are:

- Large percentage of population subscribed to broadband Internet, burgeoning 3G internet users, and a recent introduction of 4G across the country [10, 11].
- Explosive growth of Smartphone users, soon to be world's second largest smartphone user base.
- Rising standards of living as result of fast decline in poverty rate.
- Availability of much wider product range (including long tail and Direct Imports) compared to what is available at brick and mortar retailers.
- Competitive prices compared to brick and mortar retail driven by disintermediation and reduced inventory and real estate costs.
- Increased usage of online classified sites, with more consumer buying and selling second-hand goods
- Evolution of Million-Dollar startups like Jabong.com, Saavn, Makemytrip, Bookmyshow, Zomato Etc.

India's *retail market* is estimated at $470 billion in 2011 and is expected to grow to $675 Bn by 2016 and $850 Bn by 2020, – estimated CAGR of 10%. According to Forrester, the e-commerce market in India is set to grow the fastest within the Asia-Pacific Region at a CAGR of over 57% between 2012–16. As per "India Goes Digital", a report by Avendus Capital, a leading Indian Investment Bank specializing in digital media and technology sector, the Indian e-commerce market is estimated at Rs 28,500 Crore ($6.3 billion) for the year 2011. Online travel constitutes a sizable portion (87%) of this market today. Online travel market in India is expected to grow at a rate of 22% over the next 4 years and reach Rs 54,800 Crore ($12.2 billion) in size by 2015. Indian e-tailing industry is estimated at Rs 3,600 crore (US$800 mn) in 2011 and estimated to grow to Rs 53,000 Crore ($11.8 billion) in 2015.

Overall e-commerce market is expected to reach Rs 1,07,800 crores (US$24 billion) by the year 2015 with both online travel and e-tailing contributing equally. Another big segment in e-commerce is mobile/DTH recharge with nearly 1 million transactions daily by operator websites. New sector in e-commerce is online medicine. Company like Reckwing-India, Buyonkart, Health kart already selling complementary and alternative medicine whereas Net Med has started selling prescription medicine online after raising fund from GIC and Stead view capital citing there are no dedicated online pharmacy laws in India and it is permissible to sell prescription medicine online with a legitimate license.

As of 2012, most of the e-commerce companies are yet to start making money. However, due to their growth prospects, many venture capital firms such as Accel Partners have invested considerably. In one of the biggest fund raising, Flipkart.com, till November 2014, has raised about USD 2.3 billion. Entertainment ticketing website BookMyShow.com raised ₹100 crores investment by Accel Partners. On 10 July 2013, Flipkart announced it had received $200 million from existing investors Tiger Global, Naspers, Accel Partners, and ICONIQ Capital. New investors making up the additional $160 million include Dragoneer Investment Group, Morgan Stanley Wealth Management, Sofina, Vulcan Inc. and more from Tiger Global. Snapdeal - USD 50 million on 13 April. Pepperfry - USD 100 million investment from Goldman Sachs, others. In February 2014, online fashion retailer Myntra.com raised $50 million from a group of investors led by Premji Invest, the investment company floated by Azim Premji, Chairman of Wipro. May 2014 also witnessed an acquisition of Myntra by Flipkart reportedly for ₹2,000 crores.

Conclusion

With the new government focusing on overall economic development, they may look at careful calibrated approach for opening up B2C model in India to FDI. Opening up of Foreign Direct Investment (FDI) in this segment shall change the contours of E-commerce industry in India as well as contribute positively to the overall economic development going forward. The government should also look at accelerating innovation. India has three million software professionals. Israel has a total population of only eight million, but had 800 new, funded start-ups last year. India had 200, which was double of that of the previous year. The government should focus on how to accelerate the innovation ecosystem by simplifying incubation process, help in easy ways of raising money. The government should look at creating a pool of capital from where venture funds should be able to raise funds. Over the next four to five, we should aim to create 2000 funded start-ups a year.

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