

Where's your online arm?

The growth of online business is ushering in a quiet revolution in the retail industry in India as young consumers are adopting it in large numbers, drawn by the convenience and other advantages it offers.

BY ONKAR PANDEY



Standalone stores (*pic*) selling food and grocery items for which the touch and feel experience is essential have an advantage over online retail stores

\$240 billion in Europe, over \$170 billion in the US (*expected to touch \$250 billion by 2014*), and roughly around \$76 billion in China.

In India, the share of online retail is currently modest in comparison to the roughly \$520 billion Indian retail space — the largest contributing sector to the Indian GDP with over 15% share. But as 3G mobile and broadband penetration grows, and people's (*especially youths*) shopping behaviour evolves, consumers will increasingly opt for online shopping to save time and convenience. A further allure in the form of good discounts adds to the attraction. Already India's internet penetration has crossed 120 million or about 10% of the population, though in-home Internet usage is still low.

It is estimated that there are over 17 million Internet shoppers in India, compared to 175 million in the US (*largest globally*), and 145 million in China. But the tipping point for e-commerce might come sooner than expected. Some experts predict it to happen within five years, when the Internet-using population will reach roughly 600 million in the country. Industry reports estimate that online retail will corner a 5% share by 2015 and about 15% by 2025. This growth will be spearheaded by youth (*under 35 years*), who account for 75% of India's current web population, compared with just over 50% globally. This year, the number of PE deals in the Indian internet retail space more than doubled to 24 compared with just 11 last year. Investments grew by six times to reach \$298

Even as India Inc. keeps its fingers crossed on the eventual outcome of foreign direct investment in retail, a quiet revolution is already brewing in the sector. With FDI in retail still on tenterhooks, foreign mega retailers such as Wal-Mart, Tesco and Carrefour are still waiting in the wings. On the other hand, things aren't exactly hunky-dory for domestic retail giants like Future Group, Spencer's and Shoppers Stop. Other than having to constantly juggle around to maintain healthy bottom lines, these players are also beset with rising commodity costs, high rentals and squeezed profit margins. But away from the glare and glitz of Big Retail, the likes of Ebay, GroupOn and Amazon, not to mention a host of homegrown online shopping portals like Flipkart and Snapdeal, have been slowly and steadily upping their business stakes in the flourishing Indian Retail Bazaar.

Desi e-commerce sites like homeshop18.com, snapdeal.com, Mydala & futurebazaar.com are all mopping up significant

growth in sync with the growing trend towards online retail in India, which is clocking over 40% growth yoy. Already, flipkart.com has achieved a billion dollar valuation, and is registering 15,000 units in daily sales. In fact, the popularity of online shopping sites in India reflects international trends. In America, during the annual shopping spree prior to the Thanksgiving season in November, a study revealed that 39% of consumers bought goods online compared with 44% who visited local stores and hypermarkets. Clearly, online retail has emerged as a huge disruptive force for retail worldwide.

According to various reports by industry bodies like Assocham and IAMAI, the market size of the Indian e-commerce industry is expected to be around \$10.3 billion by December 2011 (*of this online retail is still a small part at around \$800 million, and predicted to reach roughly \$1.5 billion by 2015*). The size of e-commerce globally is well over \$700 billion. The online retail market is worth over

India's online retail market in 2025

General items of merchandise, which form a small part of the share of online retail business today, will become heavy hitters

Categories	Market by 2025 (Rs. trillion)	Estimated share of e-commerce (%)	E-biz market size (Rs. trillion)
Merchandise	75	12.0-14.0	9
Financial services	12.5	50-60	6.9
Leisure & travel	5	50-60	2.7
Healthcare	4	10.0-12.0	0.4
Communication	4.2	20.0-25.0	1
Education	2	10.0-12.0	0.2
Entertainment	1	10.0-12.0	0.1
Personal services	0.7	NA	NA
TOTAL	105	15.00%	20.2

Source: Technopak Advisors, Reports. Rupee valued at 50 to a Dollar.

million from just \$47 million a year ago.

At present, only 8-10 million Indians log on to e-commerce sites, of which only 1-1.5% transact. Most of this growth is primarily driven by the online travel (*online air & rail ticket booking*) industry, which contributes 76% to the total e-commerce industry in India today. But the success of sites like Homeshop 18 and Flipkart shows that other categories are also picking up.

Will the rising tide of online retail sink the boat of offline retailers? Anisha Singh, Founder and CEO, mydala.com says: "It is still early days yet but over time, it will pose a threat to brick and mortar stores who cannot adapt their business model to the changing environment." Experts say that retail players need not shy away from online retail and see it as a competitor. Rather, retail players need to have a robust online plan. According to industry leaders, the most affected (*hypermarts and stand-alone stores offline stores*) will be the ones who are slow to develop an online business strategy that seeks to leverage the strength of their offline assets. Already retail giants like Wal-Mart (*globally*) and Future Group (*in India*) have rolled out an extensive online retail presence and their business from the digital platform has more than complemented their sales from physical stores. The Future Group portal Futurebazaar.com boasts of 15,000 units in sales per day, which helps it rake in up to Rs.30 million, besides leading to doubling of sales every quarter. It's not surprising that the group is now actively engaged in plans for entering the mobile commerce domain as well, and is aiming to tap around 10% sales through m-commerce.

One of the biggest advantages that online retailers enjoy over offline players is that they get to save big on real estate and inventory management costs, which they pass on to consumers in the form of attractive discounts. But there are limitations as well. The lack of touch and feel experience in online retail has been a global problem, and e-tailers are constantly evolving their models to address it effectively. To address this, they have opted to work in categories where the need for product touch is minimal as in books, air tickets, mobiles and electronic goods. But this limits their scope when it comes to selling food and grocery products (*the largest segment comprising roughly 50% of the retail biz & a low margin business*) with complicated supply chain infrastructure needs. On this count, standalone stores have an advantage, and they can further leverage this by tying up with an online retail partner.

But online retailers are doing their best to iron out the wrinkles. "Till last year, issues around connectivity, user trust, supply chain and payment solutions were generally cited as insurmountable dampeners. That is no longer the case," says Singh. He believes that e-commerce will grow rapidly since it addresses what Indian users desire the most — convenience, value for the money and availability (*of desired products & services*). But what succeeds and what doesn't will largely depend on the extent to which a particular category/player can build faith. In that sense, the organised Big Retail has a huge brand equity to milk if they go online. So what are they waiting for?

B&E

"E-TAILING PICKING UP"

B&E: Will online retail pose competition to brick and mortar stores, or will it act as an enabler?

AS: Over time it will pose a threat to brick and mortar stores who cannot adapt their business model to the changing environment. Smart offline retailers will use online as an enabler for the user to have a better retail experience.

B&E: Will online retail outpace organized retail in India?

AS: The pace of online retail growth will outpace offline significantly primarily because it is a nascent vertical and starting from a much smaller revenue base. While pure play online players are quick with execution, offline players are typically slower because they are forced to avoid channel conflict (between their online and offline presence). However, it will take some time before it becomes a significant threat to organized retail.

B&E: Much of online retail is still limited to travel tickets, books and electronic gadgets. Do you see e-commerce broadbasing itself?

AS: The lack of touch and feel in online retail has been a global problem, and e-tailers are evolving their models to address it effectively: the quick solution has been doing business in categories where the need for product touch is minimal, and incentivizing the consumer with discounts and convenience to transact. Food and grocery is a low margin business with complicated supply chain infrastructure needs, so its pace of adoption will be slower.



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