

*eCommerce in India :*  
*Drivers and Challenges*  
The PwC India Proposition



# Indian eCommerce market to grow rapidly as new growth drivers emerge

## Companies will need to address challenges in this ever-evolving marketplace

As one of the fastest growing sectors in India in recent years, the megatrends that will shape the eCommerce sector in the near term are as follows:

**Geography and demography will play a critical role** in the sector's future growth. Tier II and III cities and small towns have begun contributing meaningfully to the eCommerce pie and will be pivotal for future growth driven by a rapidly growing internet population and significantly low internet penetration.

**Advancements in technology adoption** such as the increasing proliferation of devices such as smartphones and tablets, and access to the internet through broadband, 3G/4G, etc. will further lead to increase in the online consumer base.

**Business models have been changing rapidly** in the eCommerce sector largely due to heightened competition and the inability of players to sustain high costs. Newer models

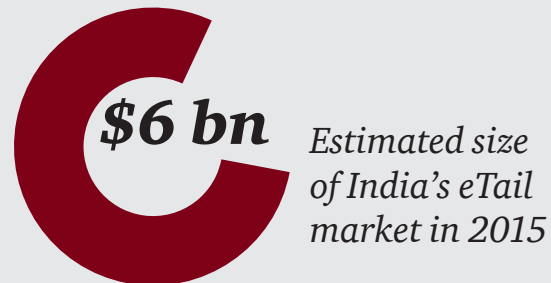
such as private, white labels and drop-ship are also becoming popular.

**Profitability (or the lack of it!)** will be the single most critical financial challenge.

**Key players continue to focus on building market share.** Investor interest has also compelled players to adopt the gross merchandize value (GMV)-driven approach compromising profitability.

**Consolidation in the near term appears inevitable.** Players are aggressively rushing to build scale and those who cannot will likely be acquired. Common investors are also pushing for mergers, alliances and partnerships among players.

**Increasing convergence of online and off line channels.** Brands and brick-and-mortar retailers are increasingly focussing on 'going online'. eTailers are setting up physical stores in order to enhance the customer experience.



*“Technological disruption has driven change in the eCommerce industry with shoppers embracing multiple touchpoints in their purchase journeys. Overall, there is humongous potential for the eCommerce companies helped strongly by a growing internet user base and advancements in technology. However, this will not be without its share of challenges –operational, regulatory, digital, etc. A company’s ability to prepare itself proactively to meet these challenges will decide the difference between a successful venture and a failed one”*

- Sandeep Ladda, Technology Sector Leader, PwC India

## Key challenges

While the growth in this sector excites entrepreneurs and financial investors alike, some serious challenges are beginning to weigh down on the sector. **Following are some of the key questions that eCommerce players are finding difficulties with:**



How to rationalise customer acquisition costs? While the customer base is expanding, how do we build **customer loyalty**? Are there ways to better and cost effective ways to acquire customers than throwing mega discounts?



How do we control the last mile delivery? How do we manage the customer delivery experience? How do we overcome the **poor supply chain infrastructure** in Tier II and III cities?



How to **manage payment costs** – especially given high preference for high Cash on Delivery (CoD)? How do we control high return rates for COD?



How do we **scale up**? Are our organizational systems geared to scale up or are they outdated? Do we have the talent, processes and systems?



How do we address the **regulations** that are still evolving? How do we formulate compliance frameworks to address bribery and corruption issues?



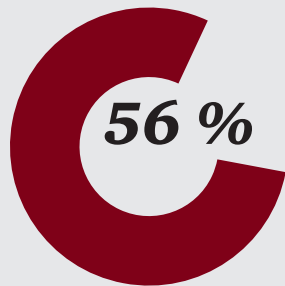
How do we interpret the intricate tax norms and complex **inter-state taxation rules**? How to manage the warehouse location and excellence planning? How do we address the issues of FDI in eCommerce?



How to **protect data** and the integrity of the system that handles the data and transactions?

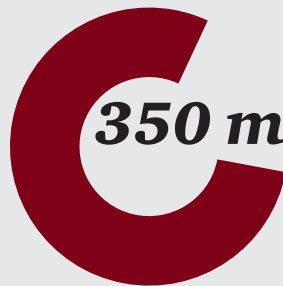


How do we come up with solutions enabling **seamless integration of back-end and front-end infrastructure**? How do we enhance the Digital experience of the users online and offline?



**56 %**

*Compounded annual growth rate of eTail market in India between 2008 – 2014*



**350 mn**

*Estimated no of internet users in India by 2015 (v. 200 mn in 2013 )*



## *eCommerce Drivers and Challenges*

# eCommerce players in India need to address eight key aspects of their business – both Internal and External

- Cyber law compliance
- Inefficient anti-corruption framework
- FEMA contraventions and regularization
- Legal exposure in agreements/arrangements
- Tax Technology

- Rapidly evolving customer segments, product portfolios
- Private/ white label strategy for markets
- Market intelligence; growth, size and share
- Multiple customer engagement platforms

- Brand Risk
- Insider threat
- Website uptime
- Employee – Vendor nexus
- Bribery and Corruption
- Suppliers from OFAC, sanctioned countries

- Sup-optimal warehouse tax planning
- Imbalance between FDI norms vis-à-vis adequate entity controls
- Inefficient holding/IPR/entity structures
- Uncertainty around GST roadmap



- Customer experience – rich, fresh and simple , not geared towards discovery
- Limited omni-channel options and experience
- Inconsistent brand experience across platforms
- Proliferation of technologies

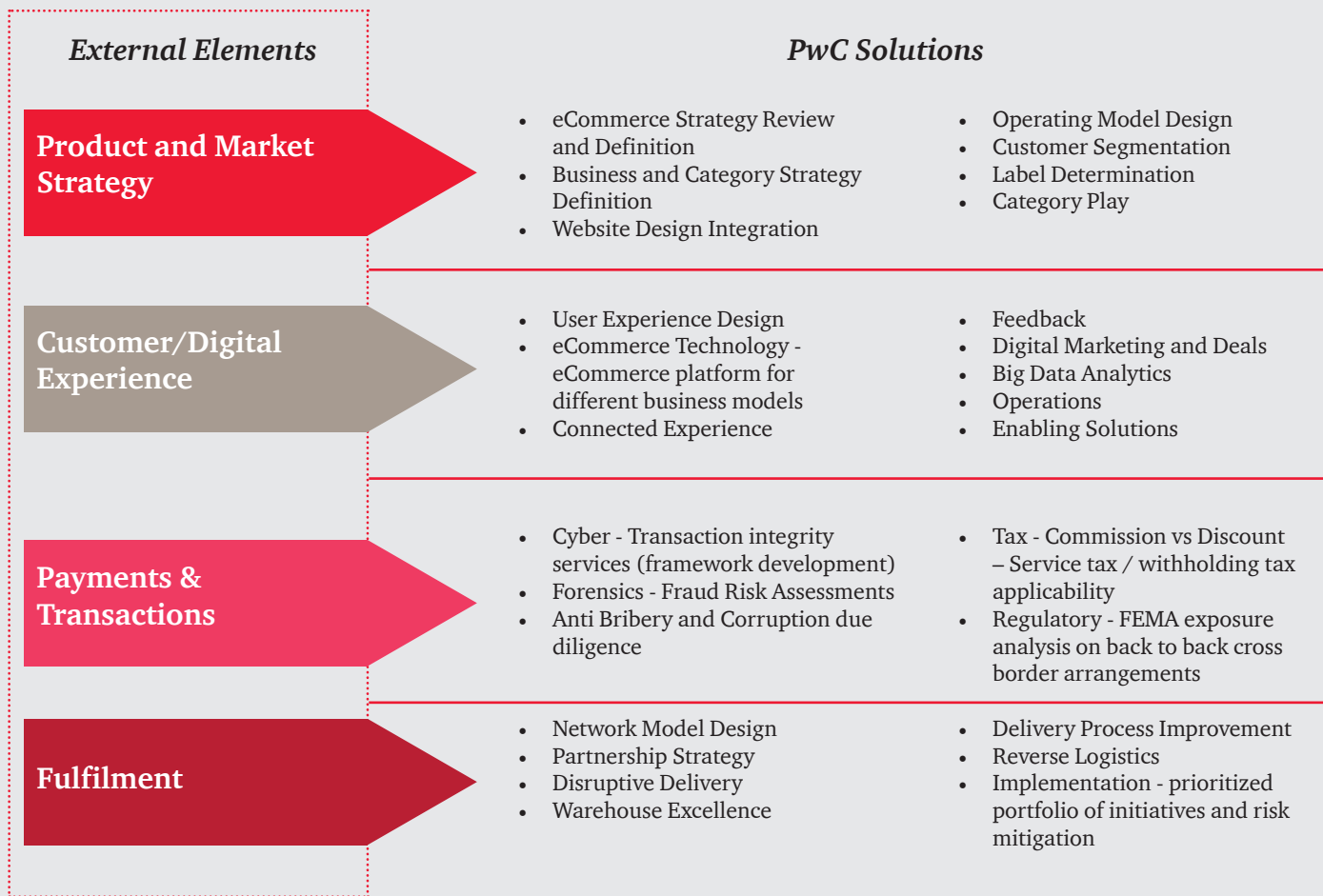
- Security and privacy breach
- Fictitious Transactions
- RBI restrictions for prepaid instruments/e-wallets
- Cross-border tax/ regulatory issues

- Keeping organization design in pace with rapidly evolving business strategy
- Evolving roles, responsibilities and KRAs
- Performance management and benchmarking
- Lack of synergy between business, technology and operations functions of the enterprise
- Transforming IT as an innovation hub

- Physical infrastructure lags growth at internet speed
- High reverse logistics cost
- Lack of innovation-focused fulfillment options
- Reverse logistics management

# Our offerings cut across the eCommerce operating model

*External forces impact how eCommerce companies plan their growth strategy and provide seamless customer experience onsite and post-transaction*





# We believe an industry-focussed and cross-functional approach is required

*Internal forces impact how eCommerce companies can organise to drive and sustain growth*

<i>Internal Elements</i>		<i>PwC Solutions</i>
<b>Organization Scaling</b>	<ul style="list-style-type: none"><li>• Organization Design</li><li>• Employee Value Proposition</li><li>• Talent Management and Leadership Development</li><li>• Workforce Planning</li></ul>	<ul style="list-style-type: none"><li>• Performance Management</li><li>• Best Practices Implementation</li><li>• Acquisition Opportunities and Fund Raising</li><li>• Enterprise Architecture</li></ul>
<b>Tax &amp; Regulatory Structuring</b>	<ul style="list-style-type: none"><li>• Indirect Tax - Warehouse location planning and Business Model analysis</li><li>• Income Tax - Tax efficient jurisdiction for holding company, IP, website, platform, servers, operating / business models</li></ul>	<ul style="list-style-type: none"><li>• Tax efficient entity/group structure, funding, etc.</li><li>• Regulatory - Obtaining RBI clarifications/special approval under PSS Act</li><li>• Regulatory - Business model validation and Regularization planning</li></ul>
<b>Risk, Fraud &amp; Cyber Security</b>	<ul style="list-style-type: none"><li>• Security Strategy and Governance</li><li>• Risk and Compliance</li><li>• Threat and Vulnerability Management</li><li>• PCI DSS Compliance</li></ul>	<ul style="list-style-type: none"><li>• Business Continuity Planning</li><li>• Incidence Management</li><li>• Media Management</li></ul>
<b>Compliance Framework</b>	<ul style="list-style-type: none"><li>• Direct Tax - Withholding tax compliance framework</li><li>• Indirect Tax - Compliance assistance</li><li>• Analyze schemes applicable under indirect tax legislations</li><li>• Forensic Technology</li></ul>	<ul style="list-style-type: none"><li>• Legal - Agreement Review and JVA/Investment Agreements</li><li>• IT - Compliance with Cyber laws and PCI – DSS</li><li>• Regulatory - Seeking FIPB/RBI/ Government approvals</li></ul>

# ***Our experience in this sector is unparalleled***

Our team brings together experience of working with some of the largest clients across functions

## ***Why us? Just consider this***

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Undertook assessment, strategy, execution and launch of eCommerce store for a ***leading Technology company***

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Assisted one of the ***largest eCommerce companies*** in overhauling its entire organisational structure from a strategic perspective

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Carried out compliance and diagnostic reviews for some of the ***largest online marketplaces***

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We have carried out due diligence on ***all key eCommerce companies*** on behalf of potential investors

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We have helped a ***large retail brand*** is designing and implementing their e-retail strategy



## Case Study 1

### **Client's problem**

Client was a leading fashion and apparel eCommerce player and was facing high procurement costs for private label products. The client was also burdened with slow moving and obsolete inventory due to improper processes and controls.

### **Our work**

Developing a blueprint of processes for the key functions in the p2p processes and SOX

### **Creating SOP's**

- Defining and creating scorecards
- Training people on new processes

### **Tangible and measurable impact**

- Reduction of procurement costs for private label products by 7%
- Slow moving and obsolete inventory brought down by 10% resulting in reduction of overall inventory costs by 7%

## Case Study 2

### **Client's problem**

The client was engaged in operating a home-shopping enterprise and operated on an inventory based model. However, the company wished to migrate to a commission based model and was evaluating various considerations for this transition.

### **Our work**

- Detailed understanding of the client's present as well as desired business model
- Study of projected costs under both models and identified cost saving opportunities
- Identifying solutions for retention of features of the present model i.e. control over quality and delivery of products and combos/free gifts

### **Tangible and measurable impact**

- Successful migration to the commission based model
- Tax efficient and compliant India business model and operating structure

## Case Study 3

### **Client's problem**

A leading eCommerce company wanted assistance with respect to regulatory guidance for various e-payment products.

### **Our work**

- Assisted the client in reviewing the application to be made to the Regulator for seeking payment system operator license
- Advised the client on regulatory implications / compliances in respect of e-payments products to be introduced in India

### **Tangible and measurable impact**

- Client managed regulatory exposures arising out of e-payments
- Client also set up a robust internal mechanism to manage risks

# Our eCommerce Core team

Highly experienced practitioners with profound industry experience, multi-disciplinary talent



## **Sandeep Ladda**

Partner and India Technology Sector Leader

- Sandeep Ladda is the Leader of the Technology Sector practice at PwC India and is part of the Global Technology, Infocomm and Entertainment & Media (TICE) Leadership Team. He is a Partner in the Tax and Regulatory Services practice of PricewaterhouseCoopers in India and serves clients in the TICE sectors. He has been with PwC for over 9 years
- Sandeep has more than 18 years of experience in assisting various MNC's in a variety of services offered by PwC across all the lines of services and for a number of Technology companies and so also for other sectors



## **Ashootosh Chand**

Digital

Ashootosh has over 20 years of industry experience delivering cloud, mobility, big data, social, smart sensors, based solutions across digital, eCommerce, CPG, etc.



## **Sumeer Goyal**

Digital

Sumeer brings on board over 20 years of software development and technology management experience. Prior to joining PwC, Sumeer was the CTO at Quikr.com.

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# *Our eCommerce Core team*

Contd...



***Meghana Reddyreddy***  
Operations



***Tarun Kumar***  
IT Risk Management (Cyber Security)



***Nikunj Seth***  
Internal Audit - Risk Advisory Services



***Abhishek Rastogi***  
Indirect Tax



***Milan Shah***  
Direct Tax



***Gopal Singh Rana***  
Forensic Services



***Hrishikesh Sathe***  
Deals – Transaction Services



***Shamit Mukherjee***  
Finance Function Effectiveness



***Richa Gupta***  
Legal



***Jigar Mehta***  
Regulatory Services

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