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# *eCommerce in India*

## Accelerating growth





# Foreword

The eCommerce sector has seen unprecedented growth in 2014. The growth was driven by rapid technology adoption led by the increasing use of devices such as smartphones and tablets, and access to the internet through broadband, 3G, etc, which led to an increased online consumer base. Furthermore, favoured demographics and a growing internet user base helped aid this growth. In terms of highlights, the growth shown by homegrown players such as Flipkart and Snapdeal and the huge investor interest around these companies displayed the immense potential of the market.

With the entry of eCommerce behemoths such as Amazon and Alibaba, the competition is expected to further intensify. Both these international players come with deep pockets and the patience to drive the Indian eCommerce market. Also, their strong domain knowledge and best practices from their international experience give them an additional edge. Additionally, these companies have been part of markets where they have seen the eCommerce market evolve and are aware of the challenges and strategies to address issues thereof.

Indian companies realise this, and are therefore aiming to continue their focus on expanding sellers and selection on their platforms, innovating on multiple customer touch points, and providing seamless and rapid delivery services in order to compete with the international entities. Competition is expected to continue, with these eCommerce companies experimenting with different ways to attract customers and increase online traffic.

The Indian government's ambitious Digital India project and the modernisation of India Post will also affect the eCommerce sector. The Digital India project aims to offer a one-stop shop for government services that will have the mobile phone as the backbone of its delivery mechanism. The programme will give a strong boost to the eCommerce market as bringing the internet and broadband to remote corners of the country will give rise to an increase in trade and efficient warehousing and will also present a potentially huge market for goods to be sold.

For India Post, the government is keen to develop its distribution channel and other eCommerce related services as a major revenue model going ahead, especially when India Post transacted business worth 280 crore INR in the cash-on-delivery (CoD) segment for firms such as Flipkart, Snapdeal and Amazon. Both these projects will have significant impact on increasing the reach of eCommerce players to generally non-serviceable areas, thereby boosting growth.

India's overall retail opportunity is substantial, and coupled with a demographic dividend (young population, rising standards of living and upwardly mobile middle class) and rising internet penetration, strong growth in eCommerce is expected. From an investment perspective, the market is a primarily minority stake market, with maximum traction in early-stage deals. Such early stage funding will help companies develop a strong foundation to start from. With such strong market prospects and an equally upbeat investor community, we look forward to many more eCommerce companies from India entering the coveted billion-dollar club.

This report has attempted to showcase the current state of the eCommerce landscape in India and industry concerns. Additionally, it looks at PwC's interpretation of the industry's key drivers and challenges, and suggests efforts which will help eCommerce companies accelerate and sustain growth.

I hope you find this report interesting and look forward to your suggestions.

Sandeep Ladda

Leader, Technology Sector Practice, PwC India

# Industry on an upturn

In 2013, Asia-Pacific emerged as the strongest business-to-consumer (B2C) eCommerce region in the world with sales of around 567.3 billion USD, a growth of 45% over 2012, ranking ahead of Europe (482.3 billion USD) and North America (452.4 billion USD). The top three were followed by Latin America, and the Middle East and North Africa (MENA) region, according to Ecommerce Europe<sup>1</sup>. Globally, B2C eCommerce sales increased by 24% over 2012. This reflects the huge untapped potential of eCommerce by retail companies, both in their country of origin and across borders.

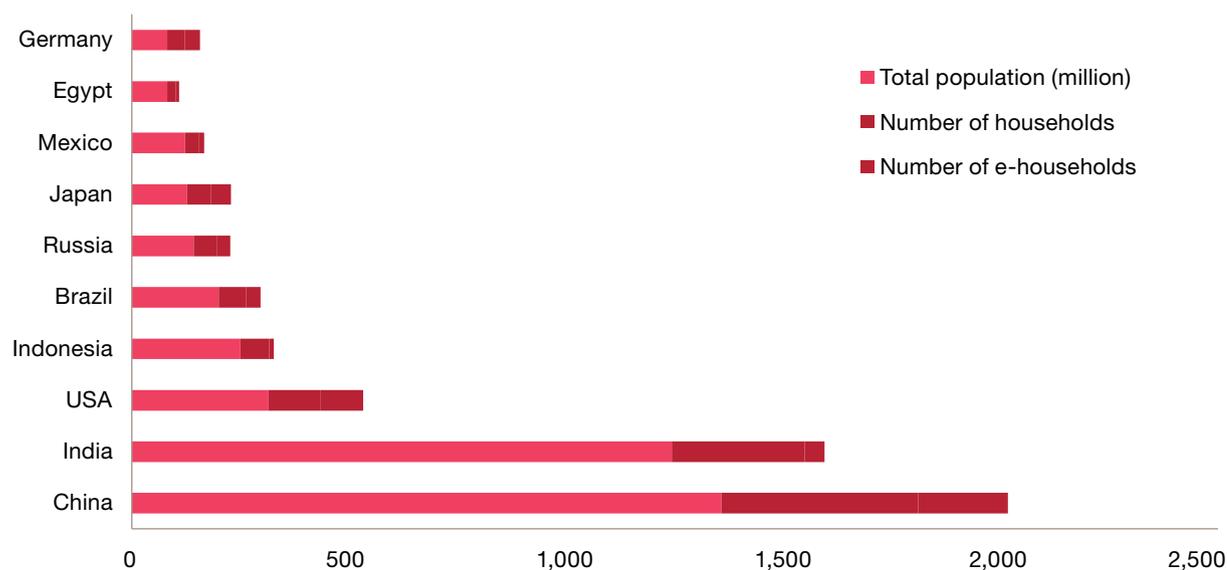
eCommerce or electronic commerce, deals with the buying and selling of goods and services, or the transmitting of funds or data, over an electronic platform, mainly the internet. These business transactions are categorised into either business-to-business (B2B), business-to-consumer (B2C), consumer-to-consumer (C2C), consumer-to-business (C2B) or the recently evolved

business-to-business-to-consumer (B2B2C). eCommerce processes are conducted using applications, such as email, fax, online catalogues and shopping carts, electronic data interchange (EDI), file transfer protocol and web services and e-newsletters to subscribers. eTravel is the most popular form of eCommerce, followed by eTail which essentially means selling of retail goods on the internet conducted by the B2C category.

According to Ecommerce Europe, country-wise, the US, UK and China together account for 57% of the world's total B2C eCommerce sales in 2013, with China having total sales of 328.4 billion USD. As against this, India had sales of only 10.7 billion USD, 3.3% of that of China in 2013 with fifth position in Asia-Pacific. This is despite the fact that India enjoys high demographic dividends just like China. India's internet penetration with total e-households at 46 million against China's 207 million is one of the reasons behind India's poor B2C sales growth.

<sup>1</sup> Ecommerce Europe and Ecommerce Foundation are independent non-profit organisations, started by national eCommerce associations and online and omni-channel selling companies from industries such as retail, travel and finance.

## Top 10 countries in terms of population and corresponding e-households



Source: Ecommerce Foundation, 2014

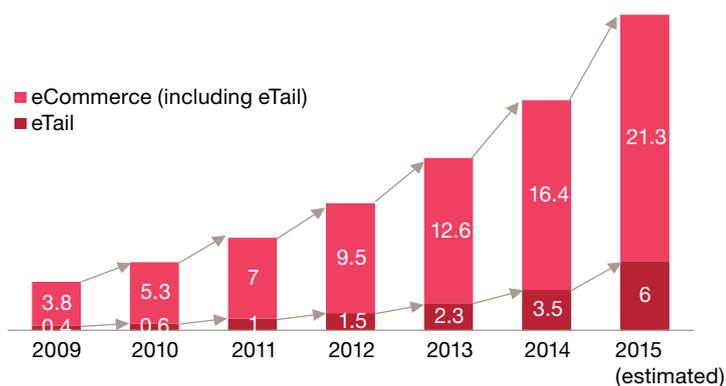
According to Forrester Research, an independent technology and market research firm, only 16% of India's total population was online in 2013 and of the online users only 14% or 28 million were online buyers. India, therefore, was still in a nascent or immature stage of evolution of online retail spending. China was in ascending stage at 50%, whereas Japan (69%), Australia (57%) and South Korea (70%) were in mature stage.

## India's growth potential

Since the eCommerce industry is fast rising, changes can be seen over a year. The sector in India has grown by 34% (CAGR) since 2009 to touch 16.4 billion USD in 2014<sup>2</sup>. The sector is expected to be in the range of 22 billion USD in 2015.

<sup>2</sup>Internet and Mobile Association of India (IAMAI), CRISIL, Gartner, PwC analysis and industry experts

### India's eCommerce and eTail growth



Source: IAMAI, CRISIL, Gartner, PwC analysis and industry experts

Currently, eTravel comprises 70% of the total eCommerce market. eTailing, which comprises of online retail and online marketplaces, has become the fastest-growing segment in the larger market having grown at a CAGR of around 56% over 2009-2014. The size of the eTail market is pegged at 6 billion USD in 2015. Books, apparel and accessories and electronics are the largest selling products through eTailing, constituting around 80% of product distribution. The increasing use of smartphones, tablets and internet broadband and 3G has led to developing a strong consumer base likely to increase further. This, combined with a larger number of homegrown eTail companies with their innovative business models has led to a robust eTail market in India rearing to expand at high speed.

## eCommerce ecosystem

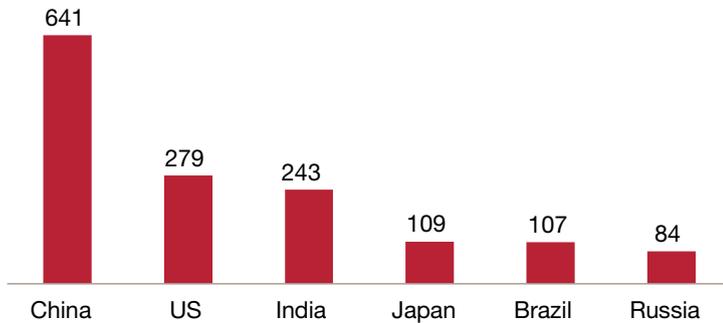
-  Online travel, ticketing, etc.  
Ticketing for air, rail, bus, movies, events
-  Online retail  
Retail products sold through online route
-  Online marketplace  
Platform where sellers and buyers transact online
-  Online deals  
Deals purchased online, redemption may or may not happen online
-  Online portals classified  
Includes car, job, property and matrimonial portals



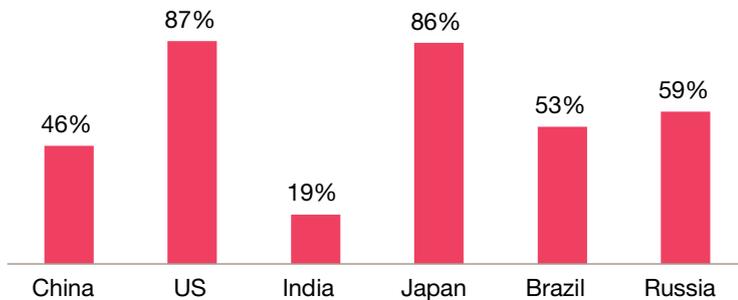
## Factors that will fuel growth

A significantly low (19%) but fast-growing internet population of 243 million in 2014 is an indicator of the sector's huge growth potential in India.

Internet users by country: In million (2014)



Internet penetration as percentage of population (2014)



Source: Internet Live Stats website accessed on 9 December 2014

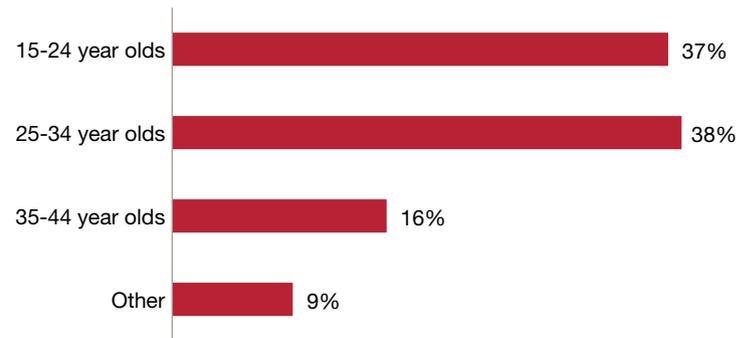
It is evident that in absolute terms India's internet users are short by only 36 million as compared with 279 million in the US and higher than that in Japan, Brazil and Russia. However, in relation with its population, only 19% Indians use the internet. This indicates the potential of internet use in India and as internet penetration increases, the potential of growth for the eCommerce industry will also increase.





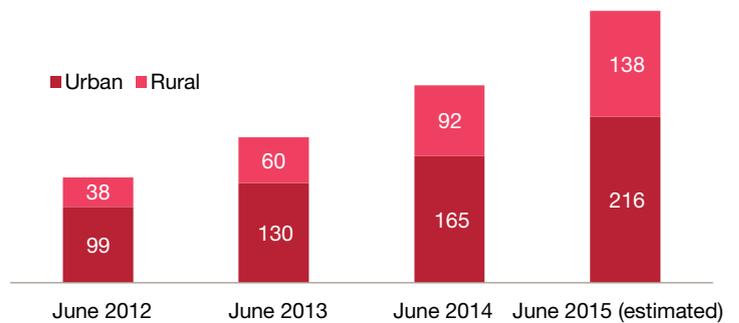
An analysis of the demographic profile of internet users further testifies that eCommerce will rise rapidly in India in coming years. Around 75% of Indian internet users are in the age group of 15 to 34 years. This category shops more than the remaining population. Peer pressure, rising aspirations with career growth, fashion and trends encourage this segment to shop more than any other category and India, therefore, clearly enjoys a demographic dividend that favours the growth of eCommerce. In coming years, as internet presence increases in rural areas, rural India will yield more eCommerce business.

#### Demographic profile of India online users (as on September 2013)



Source: Statista website accessed on 9 Dec 2014

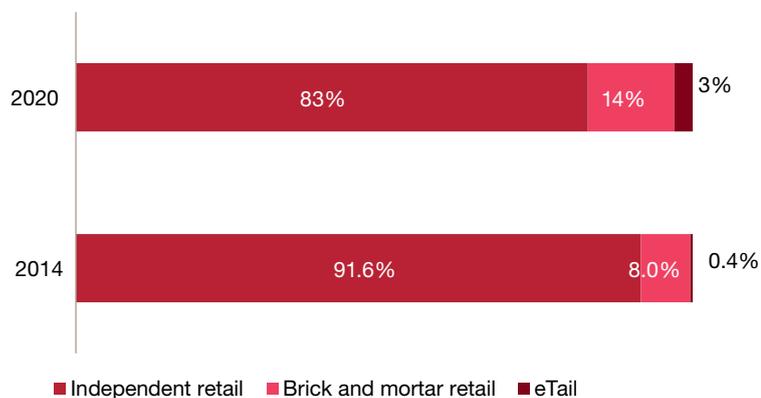
#### Geographical distribution of internet users in India (million)



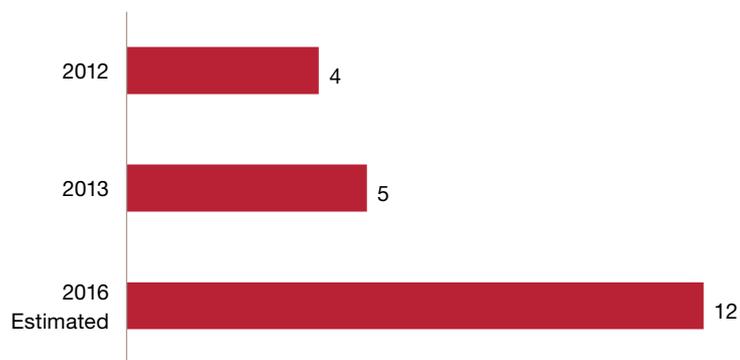
Source: IAMAI-IMRB

By 2020, eTail in India is expected to account for 3% of total retail. Further, orders per million are expected to more than double from five million in 2013 to 12 million by 2016, which will mean more opportunities for both consumers and eTail companies. While the share of online shopping in total retail has increased at a fast pace in the last few years, it is still miniscule compared to the figure in China, where the share is 8-10%.

Share of eTail in Indian retail



Orders per month (in million)



Source: Technopak; Accel Partners

## Online business models

To get the maximum benefit from eCommerce business, a large number of companies are adopting different innovative ideas and operating models including partnering with online marketplaces or setting up their own online stores. Some key operating models include the following:

- **Marketplace and pick-up & drop** is a model where sellers often partner with leading marketplaces to set up a dedicated online store on the latter's website. Here sellers play a key role of managing inventory and driving sales. They leverage on high traffic on the marketplaces' website and access their distribution network. However, the sellers have limited say on pricing and customer experience.
- **Self-owned inventory** is a model where the eCommerce player owns the inventory. The model provides better post-purchase customer experience and fulfilment. It provides smoother operations due to ready information on the inventory, location, supply chain and shipments, effectively leading to better control over inventory. On the flipside, however, there are risks of potential mark downs and working capital getting tied up in inventory.
- **Private label** reflects a business where an eCommerce company sets up its own brand goods, which it sells through its own website. This model offers a wide-ranging products and pricing to its customers and competes with branded labels. Here, margins are typically higher than third-party branded goods.
- **White label** involves the setting up of a branded online store managed by the eCommerce player or a third party. The brand takes the responsibility of generating website traffic and providing services by partnering with payment gateways. It helps build trust, customer affinity and loyalty and provides better control of brand and product experience.

## Investments in the eCommerce sector

With the new government being elected, business confidence has significantly improved. In 2014, investors aggressively funded the eCommerce sector due to strong growth prospects. Apart from the traditional online formats of retail and lifestyle, newer online business segments such as classifieds, real estate, grocery and healthcare were also tapped.

The eCommerce businesses will continue to attract investor interest. Several of India's blue-chip PE firms, which previously avoided investing in eCommerce, are now looking for opportunities in the sector. The focus is mainly on ancillary service providers—companies involved in support functions ranging from delivery, logistics and payments—with investments largely driven by the relatively lower valuations and smaller amounts of capital required.

### Top 20 PE deals in the eCommerce sector in 2014

Date	Company	Amount (million USD)	Key investors
Jul-14	Flipkart	1,000	Morgan Stanley, GIC, Tiger Global, Accel India, Iconiq Capital, DST Global
Dec-14	Flipkart	700	Tiger Global, Iconiq Capital, DST Global, Steadview, Qatar Investment Authority
Oct-14	Snapdeal.com	637	Temasek, PremjiInvest, SoftBank Corp
May-14	Flipkart	210	Tiger Global, Iconiq Capital, DST Global
Oct-14	Olacabs	210	Tiger Global, Matrix Partners India, SoftBank Corp, Steadview
Feb-14	Snapdeal.com	134	Kalaari Capital, Intel Capital, Nexus Ventures, Bessemer, Saama Capital
May-14	Snapdeal.com	100	Temasek, PremjiInvest
Nov-14	Housing.com	90	Helion Ventures, Nexus Ventures, Qualcomm Ventures, SoftBank Corp, DST Global, Falcon Edge Capital
Mar-14	Quikr	90	Warburg Pincus, Norwest, Matrix Partners India, Nokia Growth Partners, Omidyar Network, Kinnevik
Sep-14	Quikr	60	Warburg Pincus, Norwest, Tiger Global, Matrix Partners India, Nokia Growth Partners, Omidyar Network, Kinnevik
Nov-14	Zomato Media	60	Sequoia Capital India, Vy Capital
Feb-14	Myntra	50	Kalaari Capital, Tiger Global, IDG Ventures India, Accel India, PremjiInvest
Aug-14	Snapdeal.com	50	Ratan Tata
Jul-14	Olacabs	41.6	Sequoia Capital India, Tiger Global, Matrix Partners India, Steadview
Nov-14	Proptiger Realty	37	SAIF, Accel India, Horizen Ventures
Sep-14	Freecharge.in	33	Sequoia Capital India, Ru-Net Holdings
Sep-14	BigBasket	32.7	Helion Ventures, Ascent Capital, Zodius Capital, Lionrock Capital
Jun-14	Amazon.com India	30	Catamaran Ventures
Oct-14	CarTrade.com	30	Warburg Pincus, Tiger Global, Canaan Partners
Sep-14	CommonFloor	30	Tiger Global

Source: Venture Intelligence

# Key developments in 2014

The last year has seen several developments that have given a fillip to the eCommerce industry.

## **Mobile to be the most influential aspect of eCommerce**

With mobile apps being developed by most eCommerce websites, smartphones are increasingly replacing PCs for online shopping. In 2013, only 10% of the mobile users used smartphones, and only 5% of the eCommerce transactions were made through a mobile device. This figure has more than doubled, and more than 13% of all eCommerce transactions today happen via mobile<sup>3</sup>. According to some industry players, over 50% of the orders are being placed through mobile apps, which is not only leading to substantial customer acquisition but also building customer loyalty for various brands. However, most mobile transactions so far are for entertainment, such as booking movie tickets and music downloads. This trend will change soon with more and more merchandise being ordered online.

<sup>3</sup> IAMA-IMRB



## **More business coming from smaller towns**

eCommerce is increasingly attracting customers from Tier 2 and 3 cities, where people have limited access to brands but have high aspirations. According to eCommerce companies, these cities have seen a 30% to 50% rise in transactions.

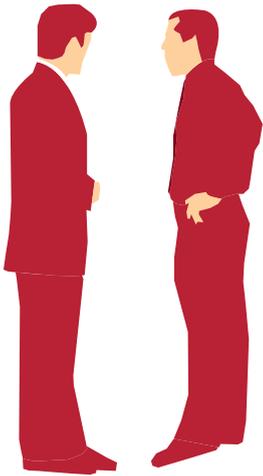
## **Enhanced shopping experience**

Besides general online shopping, customers are also shopping online for weddings and festivals, thanks to wider range of products being offered and aggressive advertisements. The free and quick shipment and wider choice of products, along with the ease of shopping online as compared to in-store shopping, is also helping eCommerce gather momentum.<sup>4</sup> Further, eCommerce companies are doing rapid business due to sales.

New concepts such as sales on weekends, holidays and festivals are attracting a lot of new customers and building customer loyalty among existing customers. Television and social media, particularly Facebook, are playing a proactive role in promoting eTailing through aggressive advertisements. This has helped several eCommerce companies build substantial brand image.



<sup>4</sup> Outlook 15: What Indian niche e-commerce companies plan to do in 2015, Medianama <http://www.medianama.com/2015/01/223-outlook15-niche-e-commerce/>



### **Exclusive partnerships with leading brands**

Over the year or so, there has been a trend of exclusive tie-ups between eTailers and established boutiques, designers, and high-end lifestyle and fashion brands. For instance, in 2014, Jabong added international fashion brands such as Dorothy Perkins, River Island, Blue saint and Miss Selfridge, along with local fashion brands through Jabong Boutiques. Similarly, Myntra benefited from exclusive tie-ups with brands such as Harvard Lifestyle, Desigual and WROGN from Virat Kohli.

### **Expanding the product basket**

There is a recent trend of relatively newer products such as grocery, hygiene, and healthcare products being purchased online. Similarly, lingerie and Indian jewellery has also been in great demand among customers outside India. Export comprises 95% of cross-border eCommerce, with the US, UK, Australia, Canada and Germany being the major markets.<sup>5</sup>



### **Key market factors to be evaluated before entering a new eCommerce business**

To achieve their vision, eCommerce companies will need to understand the intricate landscape of new markets in addition to their own internal capabilities and limitations. The following factors must be considered:

- **Market size:** Before moving too aggressively into a new market, it is important to consider how sizable the overall opportunity is.
- **eCommerce readiness:** It is essential to fully understanding the payment and logistical infrastructure, consumer behaviour, retail opportunity and technological developments.
- **Scope of growth:** It is also important to look at the internet penetration, demographics of the online buying population and understand which phase of development each market is in.
- **Barriers to entry:** Players should understand the regulatory environment and connect with solution providers, content distribution networks, and digital agencies.
- **Competition:** There is also a need to do an in-depth assessment of what competitors are doing, their online strategy and the nature of each offering.

<sup>4</sup> The Paypers, Netherlands-based leading independent source of news and intelligence for professionals in the global payment community

# Industry speak

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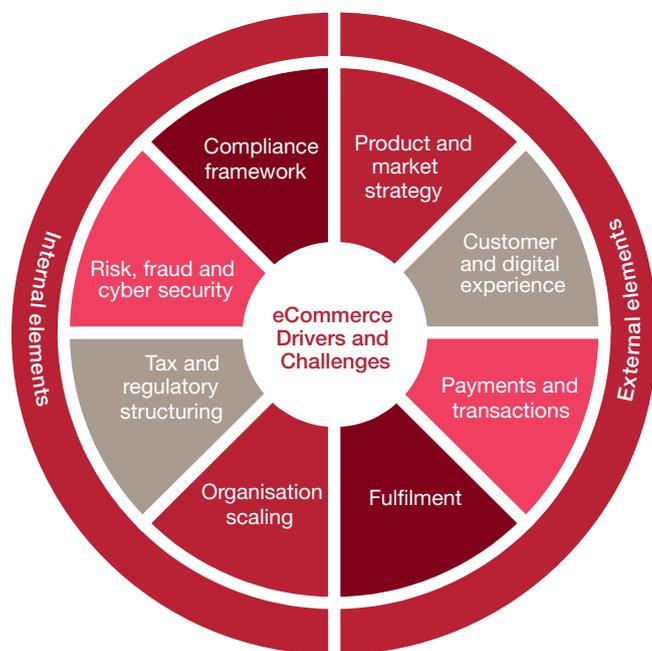
Certain eCommerce players and industry observers have raised concerns that deep discounts, free shipping, intense competition and higher rejection rates due to cash on delivery (CoD) have impacted online eTailing adversely. Some of these concerns are specific to India and are more difficult to overcome than issues such as internet penetration and getting more people to shop online.

Some of the key concerns are listed below:

- **Generation and sustenance of traffic:** Competition from established eCommerce players is making it difficult for private label brands to generate traffic on their white-label websites.
- **High customer acquisition cost:** The customer acquisition costs have been rising due to intense competition by the relatively better off companies with more funds.
- **Last-mile delivery:** Poor last-mile connectivity, especially in remote areas with larger population, is another problem faced by Indian eTailers.
- **High payment cost:** CoD services impose substantial financial cost. In India, unlike in developed markets, CoD continues to be a preferred route of payment.
- **Low profitability:** Profitability is negatively impacted by high customer acquisition costs, free shipping and high rejection rate of CoD orders.
- **Regulatory barriers:** Regulatory barriers in the Indian eCommerce market are higher as compared to more mature markets.
- **Skilled manpower:** Lack of talent availability and high attrition are causing manpower crunch, which is fast becoming a hurdle.

# PwC perspective

While the growth in this sector excites entrepreneurs and financial investors alike, some serious challenges are beginning to weigh down on the sector. **eCommerce players in India need to address eight key aspects of their business, both internal and external.**



## External challenges

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

- **Product and market strategy:** eCommerce companies have to address issues pertaining to rapidly evolving customer segments and product portfolios; access information on market intelligence on growth, size and share; manage multiple customer engagement platforms; focus on expansion into new geographies, brands and products; and simultaneously tackle a hypercompetitive pricing environment.
- **Customer and digital experience:** Companies have to provide a rich, fresh and simple customer experience, not geared towards discovery; manage inconsistent brand experience across platforms; manage proliferation of technologies; and handle time-to-market pressure for new applications. In the recent past, social media has become more influential than paid marketing.

- **Payments and transactions:** eCommerce companies may face issues around security and privacy breach and controlling fictitious transactions. Further, RBI restrictions for prepaid instruments or eWallets act as impediments. From a transactions perspective, cross-border tax and regulatory issues, and backend service tax and withholding tax can have serious implications.
- **Fulfilment:** Companies will need to check if the physical infrastructure gets affected by the internet speed. Also, the lack of an integrated end-to-end logistics platform and innovation-focused fulfilment option could cause delivery issues. Challenges around reverse logistics management and third party logistics interactions could also act as barriers to growth.

## Internal challenges

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

- **Organisation scaling:** eCommerce companies will have to make sure organisation design keeps pace with the rapidly evolving business strategy, along with fluid governance, strong leadership and management development. From a growth perspective, identifying acquisition opportunities, fund raising and IPO readiness becomes necessary. From a technology perspective, it is important to transform IT as an innovation hub and address the lack of synergy between business, technology and operations functions of the enterprise.
- **Tax and regulatory structuring:** Companies will need to address issues around sub-optimal warehouse tax planning; imbalance between FDI norms vis-à-vis adequate entity controls; inefficient holding, IPR or entity structures; and international tax inefficiencies. Future challenges include the new Companies Act, policy on related-party transaction pricing, and the uncertainty around GST roadmap.
- **Risk, fraud and cyber security:** From a risk perspective, eCommerce companies could face issues around brand risk, insider threats and website uptime. Issues around employee-vendor nexus, bribery and corruption make companies vulnerable to fines. Cyber security also raises some concerns around website exploitation by external entities.
- **Compliance framework:** eCommerce companies have to comply with several laws, many of which are still evolving. Potential issues around cyber law compliance, inefficient anti-corruption framework, legal exposure in agreements or arrangements, indirect and direct tax compliance framework and FEMA contraventions and regularisation could pose problems. Also, uncertainty around VAT implications in different states due to peculiar business models could cause issues.

# Outlook 2015

In 2015, eCommerce players see mobile commerce as the most preferred route with mobile wallet as the preferred way of payment. With 4G services expected to be launched in 2015, internet penetration is likely to take a significant leap, which is likely to give another boost to mobile commerce. Changes in lifestyle and shopping choices will see buyers preferring online and mobile channel over physical channel to save time and seek wider range and possibly comparative pricing. For mobile wallets, improvements on the payments front with multiple payment instruments and increase in payment gateways aided by enhanced security with multiple authentication layers will help the consumers with a seamless mobile experience.

Niche categories are also expected to gather momentum including cars and real estate. Premium and international brands are likely to join eTail, purchases from Tier 2 and 3 cities will continue to rise and differentiated products such as exclusive brands by designers will grow. Riding high on the growth prospects eCommerce companies will look at more ways to raise funds such as IPOs. Some consolidation will also happen with the leaders focusing on high growth and smaller players finding their own niche.<sup>6</sup>

<sup>4</sup> Outlook 15: What Indian niche e-commerce companies plan to do in 2015, Medianama <http://www.medianama.com/2015/01/223-outlook15-niche-e-commerce/>

## Top 10 things the eCommerce companies need to do to accelerate growth

### Customer experience

*As the customers progress from research to purchase to fulfilment stages, their expectations change fast. eCommerce companies need to understand these change drivers and adapt their proposition accordingly. Easy transitions between ordering on tablets, mobile phones or PCs will have to be facilitated. Besides, convenient multichannel returns and delivery options need to be developed along with the provisions of touch and feel the product before buying. They should also ensure sufficient after sales service and support. Online product reviews and ratings, videos, more advanced sizing and fitting tools should be provided.*

### Technological advancements

*eCommerce companies constantly have to upgrade their offerings with changing technology. For instance, shopping through mobiles have truly arrived, they need to devise easy to use mobile apps for their websites. They need to ensure that their websites have the required speed to do fast business, especially during sale, deals and discounts. Solutions enabling seamless integration of back-end and front-end infrastructure, customer experience enhancement initiatives, integrated inventory management and analytics would be crucial for the eCommerce firms.*

### Convergence of online and off line channels

*As the customers progress from research to purchase to fulfilment stages, their expectations change fast. eCommerce companies need to understand these change drivers and adapt their proposition accordingly. Easy transitions between ordering on tablets, mobile phones or PCs will have to be facilitated. Besides, convenient multichannel returns and delivery options need to be developed along with the provisions of touch and feel the product before buying. They should also ensure sufficient after sales service and support. Online product reviews and ratings, videos, more advanced sizing and fitting tools should be provided.*

## **Delivery experience**

*With lack of integrated end to end logistics platform, the eCommerce industry is facing issues related to procurement operations and transportation. Online purchases from Tier-2 and Tier-3 cities are expected to significantly increase, thanks to the emergence of low cost smartphones, however, poor lastmile connectivity could act as a deterrent. Keeping control on logistics and on ground fleet management, especially courier companies, is essential for growth.*

## **Payments and transactions**

*India continues to be a cash-based society due to limited banking and credit card penetration. This, combined with a lack of consumer trust in online merchants, has forced companies to offer CoD services, which imposes significant financial cost for firms in the form of labour, cash handling and higher returns of purchased items. Data protection and the integrity of the system that handles the data and transactions are serious concerns. Companies should take necessary action for management even if this imposes a cost on them.*

## **Tax and regulatory environment**

*Laws regulating eCommerce in India are still evolving and lack clarity. Favourable regulatory environment would be key towards unleashing the potential of eCommerce and help in efficiency in operations, creation of jobs, growth of the industry, and investments in back-end infrastructure. Furthermore, the interpretation of intricate tax norms and complex inter-state taxation rules make eCommerce operations difficult to manage and to stay compliant to the laws. With the wide variety of audience the eCommerce companies cater to, compliance becomes a serious concern. Companies will need to have strong anti-corruption programs for sourcing and vendor management, as well as robust compliance frameworks. It is important for the eCommerce companies to keep a check at every stage and adhere to the relevant laws, so as to avoid fines.*



## Operational framework

*Business models have been evolving rapidly in the eCommerce sector largely due to heightened competition and the inability of players to sustain high costs. Companies in eCommerce will need to adapt and innovate constantly to sustain their businesses. Furthermore, several of these companies entered into the eCommerce industry as startups and have grown to a huge size aided by the continuous growth in the market but lack well defined capabilities and organisational structure. System building, financial and talent management become key.*

## Customer acquisition

*The customer acquisition costs in Indian eCommerce have been climbing rapidly due to intense competition between multiple well-funded players. Only 2% of website visits currently result into transaction. Thus, there is a gap between potential and actual buyers. Coupled with high transaction costs, this area could pose serious problems. In the US, 75% of consumers have stated that they will usually switch between brands, and for the rest of the world, this rate is 60%, according to Ecommerce Foundation.<sup>7</sup> This suggests companies should constantly work on their brand positioning.*

<sup>7</sup> Global B2C E-commerce Report, 2014

## Digital infrastructure

*Digital disruption has driven change in the eCommerce industry with shoppers embracing multiple touch points in their purchase journeys. Companies should spend enough resources on technology development as also advertising and branding, especially because the younger population is demanding. In the journey toward digital business transformation, embedding SMAC technologies in the business becomes crucial.*

## Addressable markets

*To grow their businesses, the Indian eCommerce sector needs to closely watch the growth of their markets in the Tier 2 and 3 cities. They need to improve their logistics and supply chain management in these cities, do an effective demand management to keep an eye on what products are being sought in these cities. With eCommerce largely being a borderless activity companies need to keep in mind that customers always have the option to buy across the border if they cannot fulfil customers' expectations.*



# Conclusion

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According to the PwC report Future of India - The Winning Leap, emergence of new technologies, especially mobile, in India has sparked a social change that's difficult to quantify. While mobile, internet, and social media penetration and growth can be quantified, describing the changes in social values and lifestyles that have accompanied those trends is far more challenging.

New technologies such as virtual walls and virtual mirrors will further help improve the retail customer experience, thereby encouraging greater consumption. Virtual mirrors let shoppers 'try on' clothes and accessories virtually before making buying decisions. Virtual walls help customers scan barcodes for items on an electronic wall using their mobile phones and place orders with retailers. Tesco in South Korea was an early adopter of this technology. In India, HomeShop18 has launched India's first virtual-shopping wall. Scan N Shop at New Delhi's international airport uses a similar technological interface.

A key outcome of the technology revolution in India has been connectivity, which has fuelled unprecedented access to information. Millions of people who had little means to join the national discourse can now gain new insights into the world around them. Farmers know crop prices. Consumers understand global standards of product and service quality. Rural Indians recognise the differences between the opportunities available to them and those available to their urban counterparts. And citizens have a mass forum for expressing their political opinions. The upshot of this connectivity revolution has been empowerment of Indians.

The number of mobile subscribers in India jumped from 261 million in 2007-2008 to 910 million in 2013-2014. Along with telephony, internet penetration is soaring in rural and urban India. Moreover, the number of rural internet users is growing by 58% annually. Increases in the number of smartphones and 3G subscriptions are further driving this growth. Indeed, the number of smartphone users is expected to grow at a CAGR 91% from 2012 through 2016, jumping from 29 million to 382 million. Similarly, the number of 3G subscribers could expand at a CAGR of 84%—from 23 million to 266 million—during the same period.

Thanks to rising internet penetration, the gross number of online users in India now exceeds the number of people who have completed primary education. This shift emphasises the increasing relevance of India's digital economy. The number of internet users soared from approximately 20 million in 2004 to nearly 250 million in 2014. By contrast, the number of people who have studied beyond the eighth standard is about 200 million, indicating that even uneducated people



are accessing the internet. While increases in the use of traditional options for gaining knowledge, such as education, may be linear, the proliferation of knowledge through the use of new digital technologies appears exponential.

The eCommerce industry in India may currently be behind its counterparts in a number of developed countries and even some emerging markets. However, with India's GDP growth pegged at 6.4% by the International Monetary Fund and the World Bank, it is expected to grow rapidly. Moreover, the Indian eCommerce industry has access to funds from within the country and international investors. Overall, the eCommerce sector is maturing and a number of serious players are entering the market.

What differentiates the Indian eCommerce market from that of a country like China is that while market concentration in China is largely on account of Alibaba-owned Taobao and Tmall (with these players holding a higher percentage of market share than the top players in most of the other major markets), in India the market share is divided amongst several ecommerce companies, each coming up with its own business model. As a result, customers have a wide range of products and services to choose from.

In our view, there is humongous potential for eCommerce companies owing to the growing internet user base and advancements in technology. However, this will not be without its share of challenges, be it operational, regulatory, or digital. How a company prepares itself to meet these challenges will decide whether or not it succeeds.



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JAMES JOHNSON

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PD 325 - February 2015 e- commerce report.indd  
Designed by Corporate Communications, India