

COVID-19: E-commerce to pave way for revival of retail sector in India

The COVID-19 pandemic has changed the way world operates. It has forced businesses as well as consumers to accept and adapt to this 'new normal'.

As economies worldwide grapple with lockdowns, businesses are struggling to ensure their products reach end users and consumers are trying to minimise exposure while ensuring that their basic necessities are met. E-commerce is bridging this demand and supply gap in the current challenging times.

Key drivers of e-commerce growth in India



Increasing internet penetration

By 2021, India will have 829 million internet users, which is ~61% of the population. With more than 65% of the country's population below the age of 35, the number of internet users is expected to continue to increase. Most e-commerce consumers in the country are 15-34 year olds. With declining data costs, India now accounts for 12% of the world's internet users, with an average consumption of ~11 GB data per month.

Despite increasing internet reach, e-commerce accounts for only 3% of the country's retail sector; this percentage is 26.7% for China and 22% for the US. Therefore, the industry has a potential for growth.



Rising number of smartphone users

Smartphone shipments in India increased 8% year-on-year to reach 152.5 million units in 2019, thereby making it the fastest-growing smartphone market in the world. With such massive growth, the e-commerce sector has a bright future in the country.

India's online shopper base is currently ~30% of its internet population, compared with 78% in China and 70% in the US. Almost 70-75% of the online traffic of e-commerce sites comes from mobile phones. Thus, an increase in the use of smartphones will eventually translate into higher volume of traffic for e-commerce companies.



Growing acceptability of digital payments

Increasing digitalisation in the country, including affordable internet and smartphones, coupled with the after-effects of demonetisation, have led to a significant boost in digital payments. India is expected to clock the fastest growth in digital payments with a CAGR of 20.2%. Preference for contactless payments due to the current pandemic will further enhance the growth of digital payments.

With increasing support from the government and the Reserve Bank of India (RBI), the industry is expected to witness further growth. Introduction of New Umbrella Entity (NUE) by the RBI is a welcome move for increasing competition in the sector.



Increasing PE, VC and foreign investor interests

The industry is also acting very fast to stay relevant, resulting in multiple new partnerships focusing on new business models. E-commerce and consumer internet companies in India received more than USD 4.32 billion in private equity (PE) and venture capital (VC) in 2019.

The trend continued in early 2020 with more investments in companies such as PhonePe (USD 28 million), bigbasket (USD 50 million) and Nykaa (USD 13 million).

The latest investment of over USD 13 billion (INR 100,000 crore) by various conglomerates in the Jio platform will also change market dynamics. With its subscriber base of 340 million (higher than population of the US: 327 million) and with a suite of 24 applications, Jio is likely to create a cohesive ecosystem, wherein apart from buying groceries, customers would buy other services including internet connections, music, electronics, etc. Jio will also have an edge over data through Facebook which has over 400 million subscribers in India.

The industry will see some bigger consolidations and mergers to stay relevant and continue bringing out new products and services.

Grant Thornton survey on e-commerce and retail sectors

To assess the rapidly changing business models and demand/supply scenario in the e-commerce space, especially due to the ongoing pandemic, we reached out to business leaders in the sector to understand their opinion on various pertinent aspects through a survey.

In the survey, we assessed the impact of COVID-19 on three key areas - sales, supply chain and operations.

Click [here](#) to access the findings from our survey that analyses the challenges, best practices and way ahead for the consumer and retail sectors.



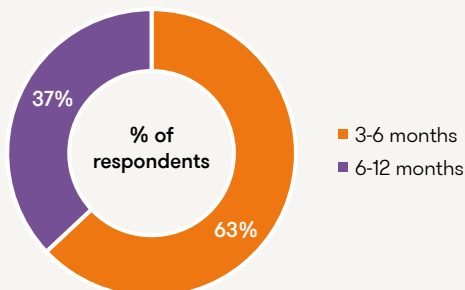
Survey findings



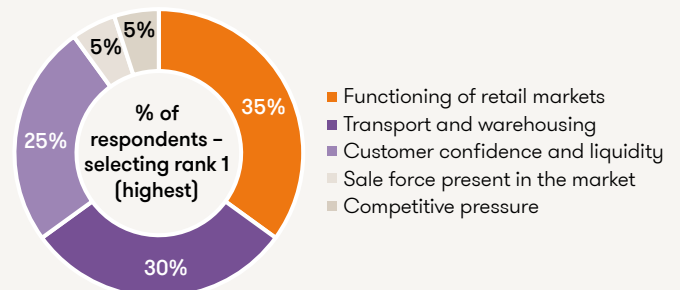
Impact on sales

- When asked about restoration in sales performance, 63% of the respondents indicated restoration in three to six months, while the other 37% indicated restoration in six to 12 months.
- For 20 consumer categories, respondents were asked to indicate the impact on sales over the next six months.
 - Majority of the respondents predicted **decrease in sales** for food takeaway and delivery, dining out, clothing and footwear, vacation and travel, luxury goods and accessories, automobiles, cinema and home furnishing.
 - Respondents indicated the sales in groceries, fruits and vegetables, medicines and pharmaceutical products, PCs and laptops, fitness and wellness and financial products would **increase**.
- **Mixed impact** on sales for personal care products, entertainment and books, energy and utilities and mobile phones.
- Majority of the respondents indicated that sales for toys and games, consumer and kitchen appliances and educational products will **remain same**.

In your assessment, when are you likely to see restoration of your sales performance?



What are the top challenges for restoration of normalcy in sales?

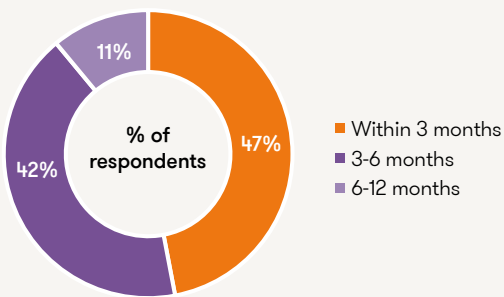




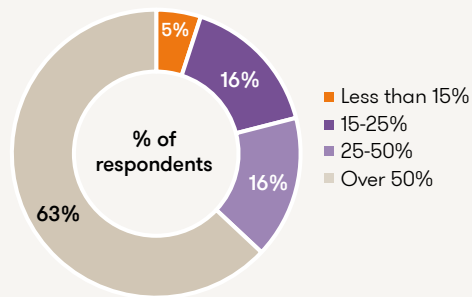
Impact on supply chain

- When asked about restoration in supply chain and production, 47% of the respondents indicated restoration within three months, while 42% indicated restoration in three to six months.
- While assessing the impact on production and supply chain, 63% of the respondents indicated that their production and supply was impacted by over 50%, compared with business as usual.

In your assessment, when are you likely to see restoration of your supply chain and production?



To what extent is your production and supply of products affected?

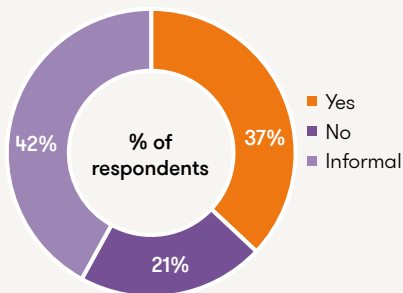


Impact on operations

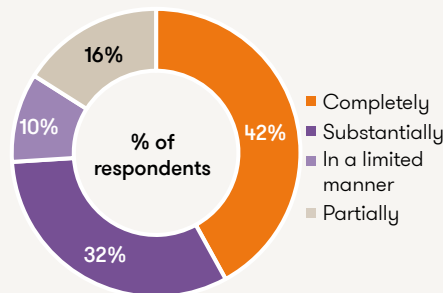
When asked to indicate their level of preparedness on cybersecurity, which is a key factor in the current work-from-home operating environment, only 37% of the respondents

rated their preparedness as 'matured'. Over 50% rated their preparedness as intermediate/evolving.

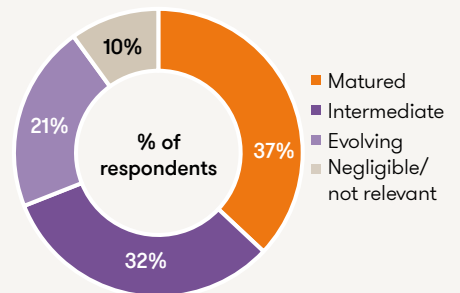
Does your organisation have a formal business continuity plan (BCP) and disaster recovery plan (DRP) in place?



Are all your statutory obligations (returns, filings, deductions) for income tax, GST, PF/ESI and TDS up to date?



How would you rate your current preparedness on cyber security?





Role of e-commerce

When asked about the top segments that consumers would shift to online from a wide range of popular 20 consumer categories, the results indicated the following as top three categories: medicines and pharma products, PCs and laptops, fitness and wellness products. These were closely followed by groceries and financial products. This indicates that users are open to trying a wide range of consumer categories online. When asked about the single largest disruption in consumer buying behaviour over the next six months, the common responses included:

- Significant share of offline spending will move to online
- Focus on essential and necessary products and curbs on discretionary spending
- Avoid relatively crowded places, such as malls, restaurants and cinema halls, for some time

These responses indicate a clear shift towards the increasing comfort of consumers in adopting the e-commerce channel in the near to medium term.

Here's what business leaders need to consider as they PLAN their long-term e-commerce strategy



Personalised content

With machine learning and business intelligence, e-commerce is likely to get more personalised in the coming future. Artificial intelligence (AI) will allow e-commerce companies to monitor customer behaviour and come up with targeted campaigns.

Brands that show customer centricity in all aspects, including products, delivery and discount models, will have an upper edge. E-commerce companies will have to make content in local languages to get a wider audience as Indian language users on the internet are expected to be 540 million by 2021.



Use of augmented reality (AR)

In the current scenario where customers are not willing to venture out of their homes, e-commerce companies are likely to increase their use of AR. This will help in creating a personalised customer experience by blurring the line between the physical reality and the virtual one. Increase in use of chatbots and personal assistance apps will make transactions on e-commerce more seamless. This will also make consumers feel more comfortable and gives the retailers that credibility that helps them earn the consumers' trust and increase conversions. For instance, if a customer wants to buy new spectacles, he/she can upload their picture on the website and try multiple frames to select the one best suited option. The AR creates a modeled version of it by visualising the product on customer's face. Similar technologies will be used by apparel retailers which will help in pushing up the sales.



Delivery time

The e-commerce industry has been struggling on the delivery front primarily due to separate state-wise lockdown regulations. E-commerce players will have to come up with smarter and efficient ways to deliver goods, which can be achieved either by setting up delivery centres near to customers or with the help of a strong network of logistic service providers. Jio plans to tie up with over 30 million kirana stores for last-mile delivery across 200 cities. E-commerce companies offering fast delivery will certainly witness a spike in demand. While most e-commerce players have a reasonable presence in Tier 1 and Tier 2 cities, they will have to come up with a more cost-efficient model, focused on innovation and AI, to tap into Tier 3 and Tier 4 cities. To manage the cost, logistics companies will try and increase usage of electric two-wheelers



Online way for small stores

There has always been a friction between e-commerce giants and local retailers from a business perspective. The new e-commerce policy being drafted by the commerce ministry might help in bridging this gap. As per the draft policy, incentives are being planned for small stores in terms of interest subventions and loans required for the switch over. Several e-commerce companies are planning to provide technologies that will integrate the small shops with their platforms. According to a press release by Amazon, they have onboarded more than 5,000 local shops on its platform during the COVID-19 period.



Niche/specialised players

While the bigger players will continue to dominate the market, there will be an uptick in demand for products from niche players. Customers will prefer specialised e-commerce players selling cosmetics, spectacles or furniture, rather than shopping on general websites. Specialisation and customisation would be the key driver for growth.



Omnichannel business model

Online/offline disparity is blurring and e-commerce and retail giants are getting into the omnichannel model of business. Key retailers, such as Walmart, Tesco and Carrefour, have realised that their existing store infrastructure that was once touted as their weakness has now become their greatest strength in the ever-changing consumer shopping behaviour landscape.

Retail locations will now play a significant role in effectively fulfilling customer shopping needs with the growing demand for online delivery and click and collect. A thriving omnichannel ecosystem will be developed that will combine the best of online and offline shopping.



Focus on domestic products

In line with the Prime Minister's vision of Atmanirbhar Bharat, it has been made mandatory for all the e-commerce companies to display country of origin on their products. This will be advantageous to sellers whose products are made within India.



Sale through videos

The pandemic has forced manufacturers to come up with novel ways to directly reach customers. Through the rise of short-form video content platforms, such as Whatsapp, Twitter, Instagram, YouTube and Pinterest, the segment is entering a new era of native e-commerce.

Entrepreneurs ranging from farmers to craftsmen to clothing designers are able to reach shoppers directly through self-recorded video clips. Soon, we will think of video apps as a platform not only for entertainment, but for retail.

Way ahead for the e-commerce sector in India

While the pandemic has dented consumer optimism, e-commerce will be a faster and efficient way of getting the retail sector back on its feet.

Certain sectors, such as groceries, household supplies, medicines and entertainment at home, have already shown a positive change, and other segments, such as electronics, apparel and personal care products, will gradually pick up. Overall, e-commerce is the 'new normal' for the retail sector.



How Grant Thornton can help

Our consumer team can help you navigate current business and operational challenges by drawing on years of experience of working with industry leaders.

Our cross functional team comprises accounting, tax, supplychain and cybersecurity professionals. We leverage our competencies and multidisciplinary approach to help businesses tackle various operational and strategic challenges.

Our digitech e-commerce offerings allow you to assess and leverage the benefits of omnichannel e-commerce in the post-COVID-19 era. We offer e-commerce consulting, operations, portfolio development and digital marketing and effectiveness services, along with our allied vendor ecosystem partners, to bring value to businesses we work with.

Our e-commerce services



E-commerce consulting

- E-commerce strategy
- Marketplace selection
- Onboarding and relationship management



Customer engagement

- Ratings and reviews
- Social listening
- Sentiment analysis



Our tools and technology

- Power BI dashboards
- Merchant words
- Sellics
- Jungle scout
- Feedback five



E-commerce operations

- Daily operations and performance diagnostics
- Tracking inventory across channels on periodic basis for stock positions
- Sales and stock reconciliation
- Forecasting the requirement as per actual sales velocity
- Financial reconciliation of all receipts from all platforms



Digital marketing and effectiveness

- Digital content development and optimisation
- Promotions and campaigns management
- analytics to increase digital presence
- Amazon marketing services
- Media planning
- A+, enhanced brand content
- Social media marketing



E-commerce website development

- Digital brand creation
- Development of customised brand websites (D2C)
- Omnichannel e-commerce store
- Personalised e-commerce store

[Click here](#) to view video recording of the recent Grant Thornton and FICCI webinar on impact of COVID-19 on consumer and retail sectors

[Click here](#) to read our recent guide on Mitigation of impact of COVID-19 on consumer and retail sectors

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[Click here to download the recently released Grant Thornton Halt-Plan-Refresh Guide on revisiting business priorities and plans](#)



For more insights on the COVID-19 crisis, scan this barcode to see continuous updates on our website

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