

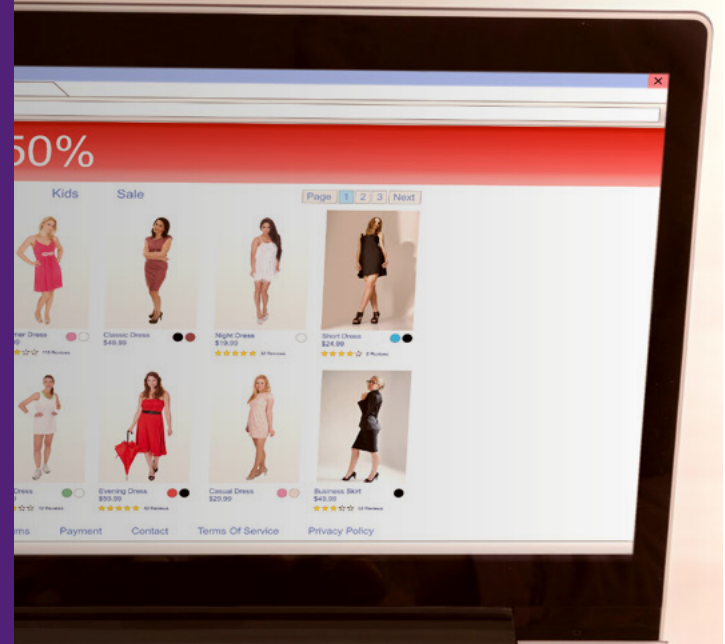
Sector flash: E-commerce market in India

April 2021



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Foreword

The COVID-19 pandemic has disrupted the way people buy products and services. The existing norms of social distancing and limited mobility of individuals have tilted consumers towards e-commerce.



Consumers have switched from shops, supermarkets and shopping malls to online portals for the purchase of products, ranging from basic commodities to branded goods.

The e-commerce sector has responded positively and leveraged the opportunity presented. Innovative solutions, along with increase in the span of coverage within the e-commerce gamut, have led to unprecedented growth and launch of new digital businesses. E-commerce companies continue to expand beyond the metropolitan cities to increase their reach.

This report explores the current market opportunity of the Indian e-commerce industry. It also captures the key trends and recent developments that are shaping the industry.

Rahul Kapur

Partner

Grant Thornton Bharat

A person wearing a purple suit jacket is holding a tablet computer. The tablet screen displays a futuristic control panel interface with various gauges, buttons, and data visualizations. The background is a blurred industrial or laboratory setting with large white cylindrical objects.

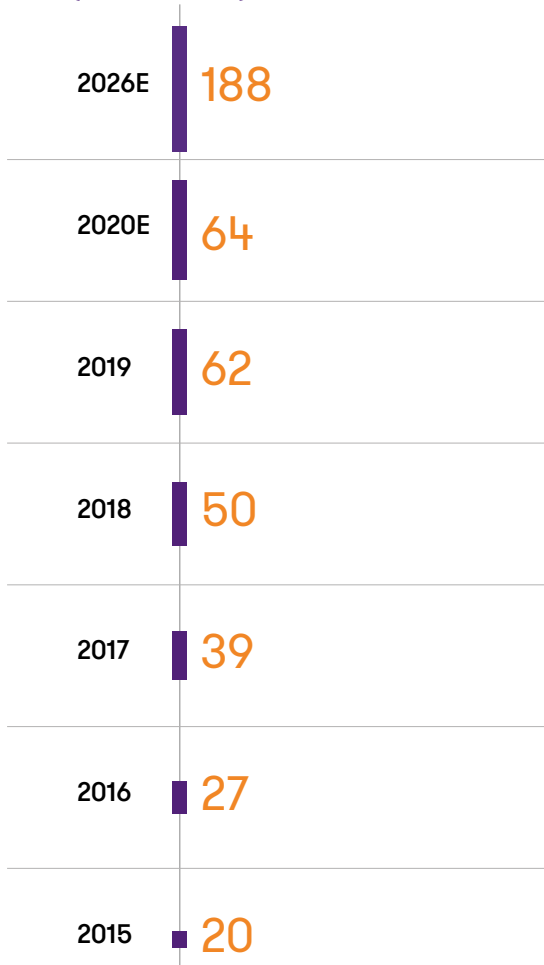
Market landscape

E-commerce in India continues to gain traction, with total market size expected to reach USD 188 billion by 2025¹



- Much of this growth so far has been driven by increase in urbanisation, spike in consumer spending, high penetration of internet and smartphone adoption
- Technology-enabled innovations, such as digital payments, hyper-local logistics, analytics-driven customer engagement, increasing consumer awareness and digital advertisements, are likely to support the growth going forward
- The Indian e-commerce industry is expected to surpass the e-commerce market size of the US to become the second-largest e-commerce market in the world by 2034²

Indian e-commerce market size (USD billion)³



Industry fast facts

25.1%⁴

Compound annual growth rate (CAGR) for 2015-25



1.2 million⁵

Daily e-commerce transactions



974 million⁶

Internet users in India by 2025



220 million⁷

Online shoppers in India by 2025

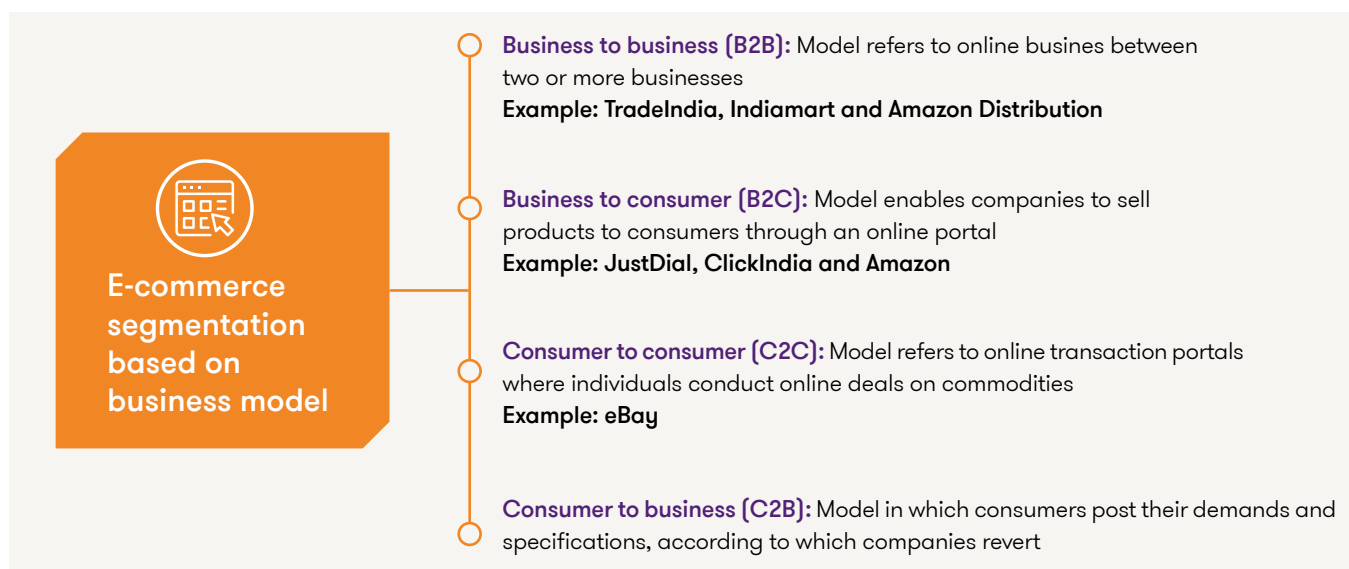


Sources: 1. Global Markets 2. IBEF; 3. Global Markets and Statista; 4. Global Markets and Statista; 5. IBEF; 6. Statista; 7. Statista

With various sectors going online, e-commerce continues to operate through multiple channels

E-commerce segmentation based on industries

- **Online retail:** Sale of electronics, apparel, personal care products and books through an online portal
- **Online financial service:** DTH, telephone bills, electricity bills, water bills, insurance premium payment, net banking, etc.
- **Online travel:** Domestic and international air ticket booking, rail booking, hotel booking, tour packages, etc.
- **Online matrimony and classified:** Online job portals, real estate services, matrimonial websites, etc.
- **Auto services:** Online trade (buying and selling) of cars. Eg: Droom, Carvana, etc.
- **Taxi services:** Ride hailing and ride sharing services offered by Uber, Ola, Zoomcar, Rapido, etc.
- **Other online services:** Online ticket bookings for entertainment, online grocery and online food delivery (Swiggy)

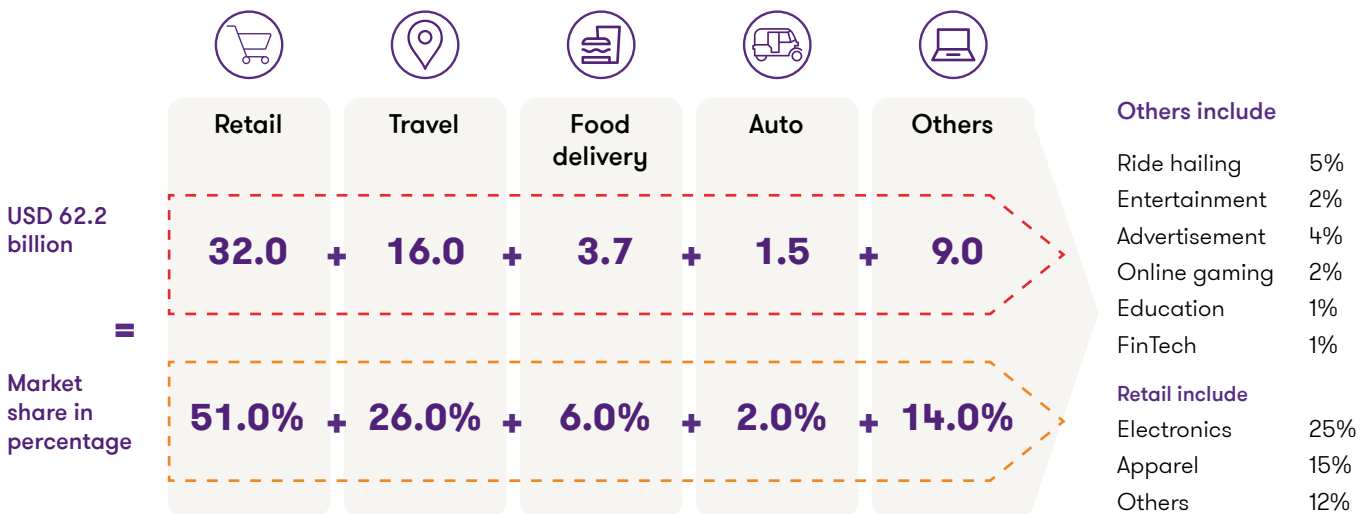


New models, such as **Direct to Consumer (D2C)**, are gaining ground with younger brands reaching out to the masses without having to invest significantly in infrastructure to support sales.



Most of the segments in e-commerce are anticipated to witness significant growth

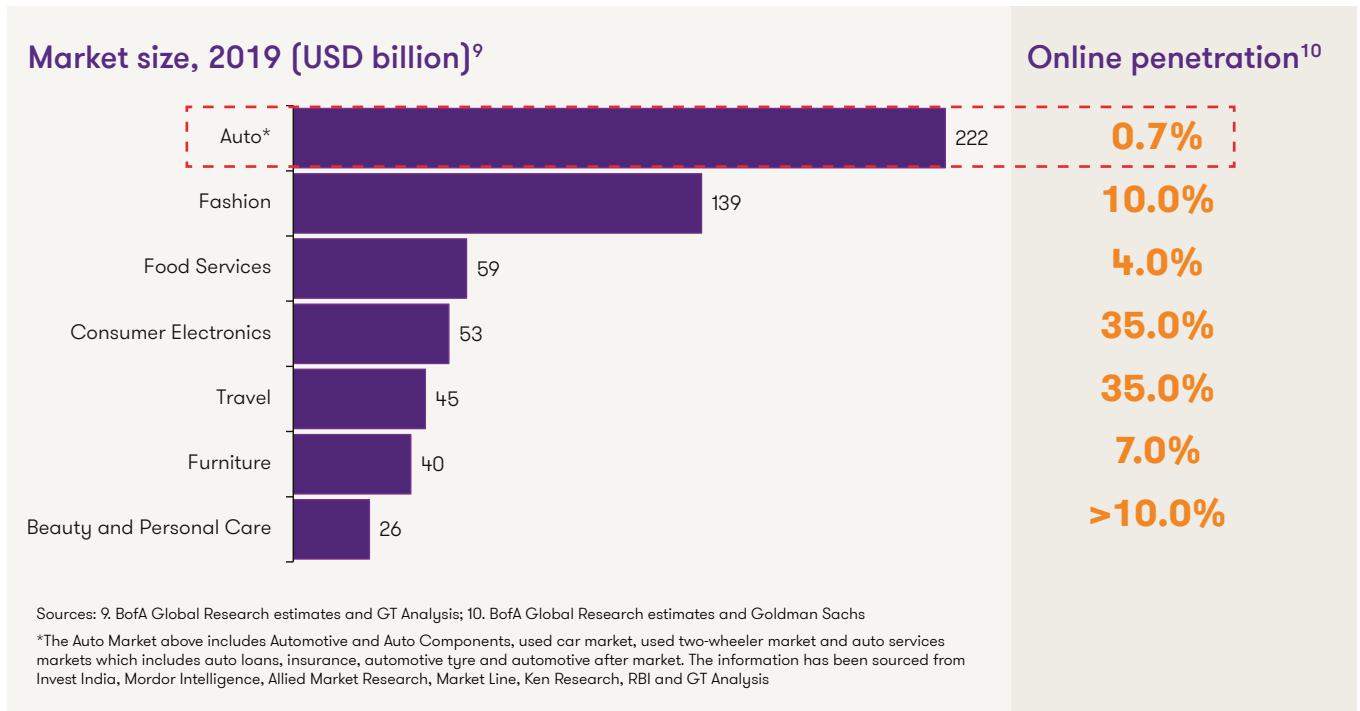
E-commerce market in India, 2019⁸



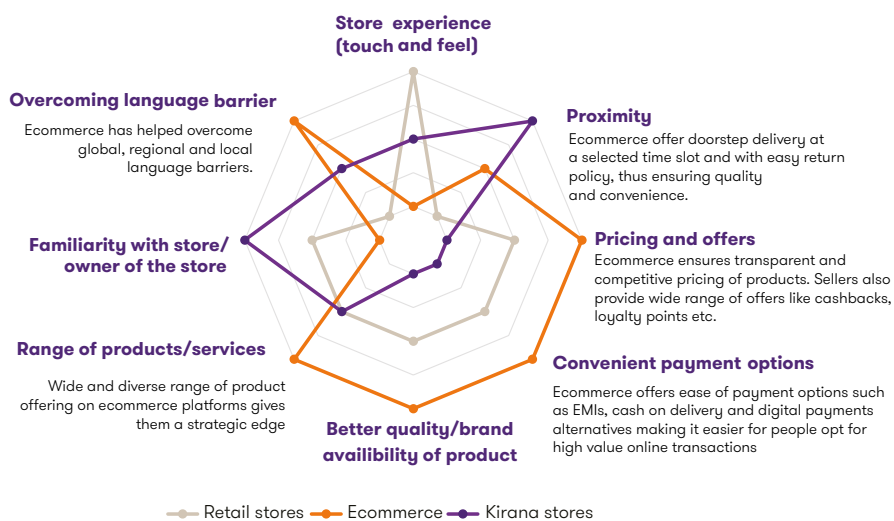
- Most businesses and consumers are looking for online solutions as a preferred choice. Thus, various segments in e-commerce are expected to witness significant growth
- Electronics is currently the largest contributor to online retail sales in India. It includes mobile phones, gadgets, appliances, etc.
- Fashion is also one of the major categories searched on various e-commerce sites not solely for the purchase of apparel but for also researching the latest fashion trends
- The consumer buying patterns and preferences have significantly changed with categories, such as health and pharma, groceries and food delivery, witnessing a surge and exponential growth mainly due to rise number of first-time shoppers
- The need for personal mobility due to growing need for social distancing and concern over the hygiene of public transport is likely to drive the demand for used cars, followed by two-wheelers and budget new cars, which will further boost prospects of used vehicle sales platforms

Sources: 8. Goldman Sachs, Statista and GT Analysis

Significant opportunity to improve the online shopping penetration, especially in the auto sector



E-commerce channels are becoming the preferred mode of shopping, surpassing brick and mortar and kirana stores



Key advantages - E-commerce channel

Convenience	Competitive pricing
Price comparisons	Range of products/services
Scheduled delivery time	Easy return policy
Multiple payment options	Avoid crowded stores
No need to travel	Overcoming language barrier

A man in a dark suit and striped tie is speaking and gesturing with his hands in a meeting. He is looking towards another man whose back is to the camera. The background is a blurred office setting with large windows.

Emerging trends

Individuals are now spending more time online than ever. Adding to their convenience, efficiency and safety this trend is likely to grow

According to a Cyber Media Research (CMR) report, the average usage of smartphones in India is estimated to have increased by 25% to almost seven hours a day, as people depend on gadgets for work/study from home and entertainment amidst the pandemic.

Percentage of internet users, aged 16 to 64, that uses each type of mobile applications each month (December 2020)¹¹

92 Chat (Messengers)	90 Social networking	75 Entertainment and video	72 Shopping
68 Map	57 Game	54 Music	37 Health, fitness, and nutrition
32 Banking and financial services	16 Dating and friendship		

Percentage of internet users, aged 16 to 64, that has performed each e-commerce activity in past month (December 2020)¹²

79.3 Searched online for a product or service to buy (any device)	95.3 Visited an online retail site or store (any device)	76.7 Purchased a product online (any device)	57.3 Purchased a product online via a mobile phone
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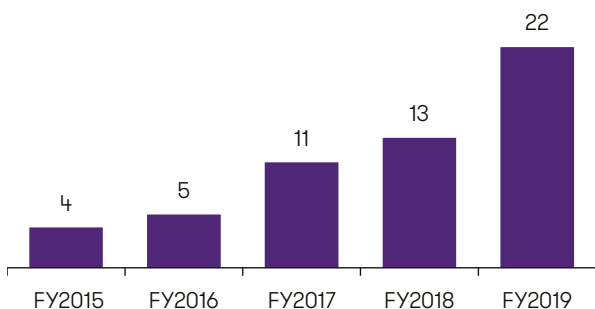
Sources: 11. Digital India 2021; 12. Digital India 2021



Acceptance and dependence on digital payments have increased significantly

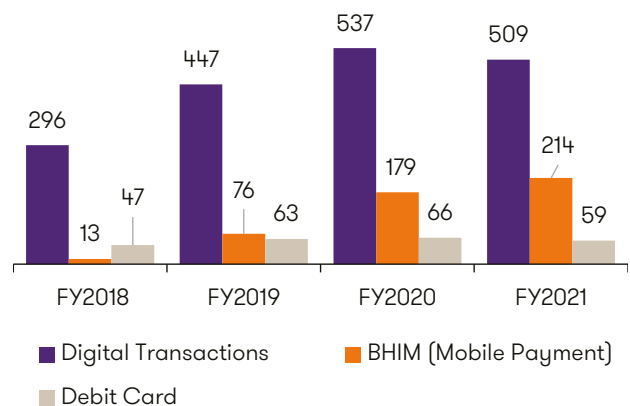
- India's regulatory and digital infrastructure support have been driving the online payments
- The country has taken rapid strides in advancing government e-payments, as a result it has moved up to 28th rank in 2018 from 36th in 2011 in Government E-payments Adoption Ranking (GEAR)
- The value of mobile payment app Bharat Interface For Money (BHIM) transactions increased significantly post 2018. Among the cashless payment options currently, BHIM has overpowered the debit card payments
- COVID-19 has further triggered the increase in online transactions. Individuals are now comfortable using online platforms and hence online purchases across e-commerce platforms have witnessed a massive boost
- While hygiene was the primary reason in increase of digital payments, other factors such as convenience, ease of use, acceptance, and incentives, have given impetus to this adoption
- The ongoing pandemic has brought a paradigm shift, as awareness and adoption of digital payments in Tier II and Tier III cities have increased drastically

Digital payment per capita (India)¹³



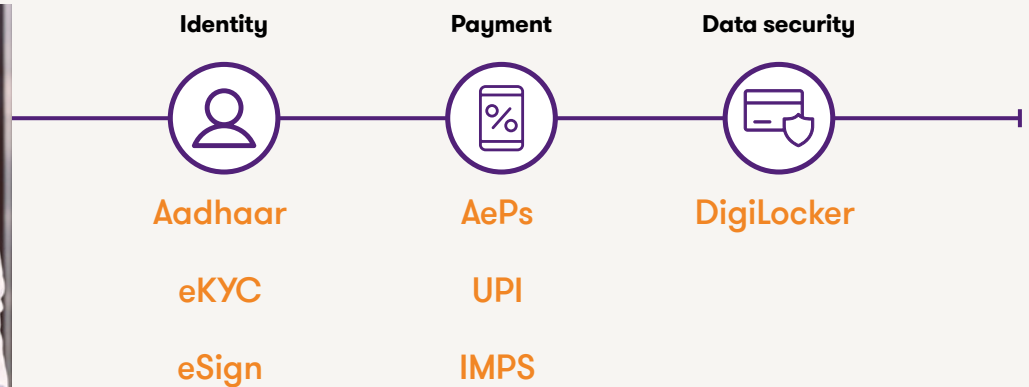
Sources: 13. Statista; 14. Statista; 1USD= INR 70

Total value of digital payments in India from 2018 to 2021, by transaction type (USD million)¹⁴



India's robust digital infrastructure and the participation of banks and NBFCs to further provide assistance to e-commerce players

The Government of India, along with various financial institutions, have created digital infrastructure to pace up India's digital adoption.



Aadhaar

The UIDAI was created with an objective to issue unique identification (UID) numbers, named as Aadhaar, to all citizens of India. It is not only robust enough to eliminate duplicate and fake identities, but it can be verified and authenticated in an easily and in cost effective manner.

Aadhaar Enabled Payment Services (AePS)

It empowers individuals to use Aadhaar as an identification to access bank accounts. Services it offers allow customers to perform basic banking transactions with ease.

Banking channels assisting e-commerce growth in India

- Banks have started extending e-Smart SME e-commerce loans
- State Bank of India (SBI) was the first bank to launch this offering in collaboration with Snapdeal. After that banks, such as Canara Bank, Syndicate Bank, Bank of Baroda and Punjab National Bank, also launched e-commerce loans
- Capitalising on the strengths of large existing customer base and efficient payment gateways, banks are not only complementing the e-commerce players, such as Amazon and Flipkart, and non- bank payment aggregators, but also improving the backend supply chain of e-commerce in India
- Several Non-Banking financial corporations (NBFCs) are also engaged in extending e-commerce loans to e-sellers who trade their goods or services on popular online portals such as Amazon and Flipkart
- E-commerce marketplaces are using transaction data of thousands of vendors on their platforms to help them raise working capital through tie-ups with banks and financial service firms

Delivery and fulfilment companies boost the e-commerce experience by strengthening supply chain

Customers in India are getting accustomed to next-day delivery of products. Quick and efficient delivery becomes extremely critical to facilitate convenience. This has seen a rise in number of fulfilment and delivery companies.

Large number of e-commerce players today outsource a part of their business to overcome challenges.



Timely delivery of the product



Ensuring consistent quality



Business have resource shortage



Availability of space to stockpile quantities of your product

Role of fulfillment companies

Fulfillment involves entire e-commerce process starting from the sale up until the post-delivery experience of the customer.

- Warehousing, or storing, the product or its components
- Producing or assembling the product
- Packing the order
- Labeling the order for shipment
- Shipping
- Notifying the customer
- Processing payment and transferring funds to the business

Role of delivery companies

They collect the product from a retailer or a fulfillment company and deliver to the customer. Delivery company ensures safety of the product as well as timely/bulk delivery.

Some key advantage

Large number of the e-commerce have benefitted by strengthening their backend supply chain through fulfillment and delivery services.

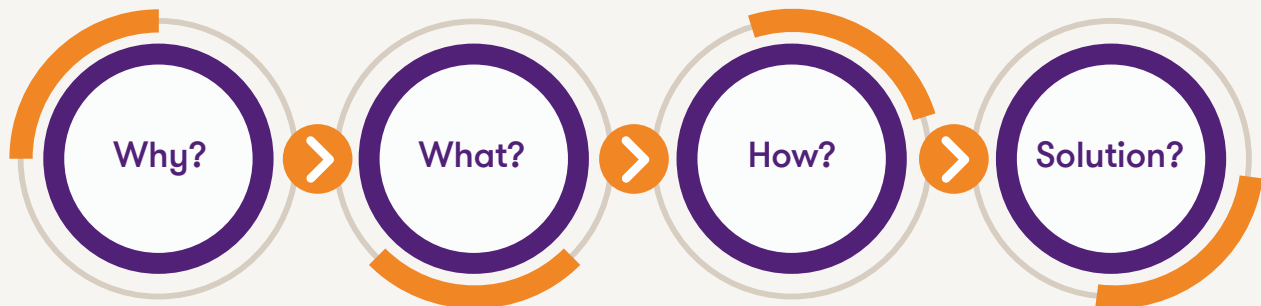
- Avoid long-term leases
- Bring on the experts
- Use your time to optimise
- Infrastructure support
- Cost reduction

Key players

- Shiprocket fulfillment
- Shopify fulfillment services
- DHL e-commerce fulfillment
- Delhivery
- Fedex



Companies across sectors today are strategising and revolutionising their business around a hyperlocal delivery model



- The present scenario, with shift in consumption patterns, disrupted supply chains and most consumers stuck at homes due to coronavirus pandemic, offers an opportunity for services like hyperlocal to grow
- Customer today prefer hassle-free doorstep delivery of quality product or service swiftly
- Hyperlocal empowers local offline businesses to connect to the end customer through a digital platform
- It enables quick deliveries as it covers short distances
- The model has been adopted across segments such as food, logistics, groceries, pharmacies, horizontal and concierge services
- In this business model, the logistics provider acquires the requested product from nearby shops and delivers it to the customer
- The moment request is placed, it can be monitored real time by the customer during entire delivery process
- Small sellers get the infrastructure to connect with their customers
- This model enables last mile delivery
- Helps to control associated costs, time, and resource optimisation
- Hyperlocal offers transparency and real-time updates for smooth last-mile deliveries

Triggered by e-commerce boom, the online car trade market has also witnessed a surge

India's leading online car sales platforms have witnessed a 175% surge in inquiries for used cars since mid 2020¹⁵

- The digital revolution is positively disrupting used-car retailing. These portals put consumers in spotlight and the user experience, convenience back by technology is attracting more users to transact.
- More customers are turning to digital channels due to seamless service offerings, including hassle-free registration certificate transfer, car checks, security checks and payments.
- Consumers are confident using services offered by digital platforms, as not only number of inquiries but sales too have increased. Companies have reported 20% growth year-on-year in lead conversion for September to October in 2020.

Key growth drivers

- Convenience
- Greater readiness to use online services
- Price comparison
- Expert and user reviews
- Comprehensive specifications, photos and videos

Impact¹⁶

- Online platform are witnessing a 36% increase in traffic year-on-year
- Companies in online trade space have witnessed a 175% surge in inquiries for used cars
- 146% rise in car-loan leads through online platforms
- According to Google's Auto Gear Shift India Report 2020, 94% of used-car buyers research online to buy or sell their vehicle

Sources: 15. Techcircle News Articles; 16. New Articles



Key players

International

- Carvana
- Vroom
- Shift
- Carmax

Domestic

- Droom
- Cars24
- CarTrade
- Spinny

Adoption of technology and digitisation are key trends that are driving the e-commerce market



Sharp increase in online shopping

- India's online shopping population has increased drastically in the past few years
- Digitisation of small and medium business enterprises could take center-stage and investments in segments such as grocery, telemedicine, car trade is expected to increase



Adoption of technology to augment services

- Companies in the e-commerce sector are increasingly leveraging data, technology and innovation to increase customer satisfaction and experience
- Players are also experimenting with robots, chatbots and customised-search algorithms to serve customers faster and better
- Further, to give a more personalised experience, e-commerce platforms are adopting voice search technology



Virtual automobile stores coming home

- The average number of visits to auto dealerships in India fell by 50%. Thus, to aid business recovery, businesses are encouraged to take their dealerships to customers online
- As per a Google report, digital sources are now contributing close to 30% to Hyundai India's sales inquiries¹⁷



Rise in collaboration between retail and online players

- In April 2020, Reliance formed partnerships with local grocery stores in Mumbai through WhatsApp. This was done to carry out home delivery of essentials
- In May 2020, PepsiCo India partnered with Dunzo for its snack food brands that include Lay's, Kurkure, Doritos and Quake¹⁸
- In May 2020, Hershey India partnered with Swiggy and Dunzo to launch their flagship online store in order to increase reach¹⁹

Sources: 17. Motorworld Article 18. Business Line; 19. Economic Times



A photograph of two men in a car. The man in the driver's seat is wearing a checkered shirt and a tie, smiling broadly. The man in the passenger seat is wearing a light-colored shirt and a tie, also smiling. The text "Key market developments" is overlaid on the left side of the image.

Key market developments

Government regulations continue to impact the segment

Trend

Impact

Digital payments

In 2019, Government e-Marketplace (GeM) partnered with the Union Bank of India to offer an array of services and promote a cashless, paperless and transparent payment system.

Increased digital payments and customer confidence to make high-value transactions online.

Digital India

It aims to create a trillion-dollar online economy by 2025 by enabling initiatives such as Bharat Net, Jan-Dhan-Aadhar-Mobile (JAM) trinity and BHIM.

Initiative has helped India to take a massive jump in financial inclusion with increase in banked population and have unique identification across India.

5G network

Major investments made by the Government of India in rolling out fibre network for 5G will help boost e-commerce in India.

Improved internet services will enhance and improve consumers online screen time experience.

Increase in foreign direct investment (FDI)

In order to increase the participation of foreign players in e-commerce, the Indian government raised the limit of FDI to up to 100% (in B2B models).

Increase influx of foreign investments will result in boosting e-commerce infrastructure and will further improve customer experience.

Consumer Protection (E-commerce) Rule, 2020

Rules delineate roles and responsibilities for marketplace and sellers, and will reinforce competition and efficiency within the Indian e-commerce market.

Regulation will ensure fair and transparent practices in the e-commerce sector.

Open Network for Digital Commerce (ONDC)

Providing equal opportunities to all market players to make optimum use of the e-commerce ecosystem, the Department for Promotion of Industry and Internal Trade (DPIIT) will set protocols for cataloging, vendor discovery and price discovery by utilising its ONDC.

Regulation will not only add quality and transparency but competitive placement of products and services.

Growth drivers

Demographic advantage

- According to the United Nations' list of countries by urbanisation levels, India ranks 160th with around 34% of its population living in urban areas in 2019²⁰. Increase in urbanisation is largely driven by rapid rise in technology and digital adoption. Moreover, urbanisation has led to convergence in investments, consumption and opportunities across India.
- During 2015-19, India has witnessed a steady growth in its GDP²¹ per capita and consumer spending. However, in 2020, with ongoing coronavirus pandemic the economies globally witnessed an unprecedented downturn, but the recovery for e-commerce sector is expected to be fastest.

Rising smartphone and internet penetration

- The ongoing digital transformation in the country is expected to increase India's total internet user base to 974.9 million by 2025 from 696.8 million in FY20²².
- The number of smartphone users in India has increased to 696 million in 2020 from 250.7 million in 2015. Further it is estimated to reach around 973.9 million by 2025 at a CAGR of 12.4%. Such factors are expected to lead to an increase in penetration of the Indian e-commerce market.²³

Increasing government support

- The Government of India has launched several schemes to support the industry. This includes initiatives like Digital India, which aims to introduce people to online modes of commerce.
- The government has also eased FDI norms, allowing 100% FDI in B2B e-commerce and 100% automatic FDI in the marketplace model of e-commerce.
- Providing equal opportunities to all market players to make optimum use of the e-commerce ecosystem, the DPIIT will set protocols for cataloging, vendor discovery, and price discovery by utilising its ONDC.



Improvements in digital payment infrastructure

- Consumers have become more comfortable using digital payment platforms such as mobile wallets and UPI platforms.
- Further, the online retail segment provides various credit and payment options to customers – driven by developments in technology and cybersecurity
- Such improvements are expected to boost the number of customers preferring e-commerce.

Sources: 20. Worldbank Data; 21. Worldbank Data; 22. Statista ; 23. Statista

Challenges faced

Cash on Delivery

Despite increased penetration of digital payments in India, there still is a section of people that is uncomfortable with digital transactions. Ensuring touchless delivery of services many e-commerce companies have dropped the 'cash on delivery' option.

High returns

A lot of e-commerce customers are first-time buyers, as a result they are not sure of the products they want to order and hence they return the goods post delivery. Reverse logistics involved in returns is extremely expensive and impacts profitability.

Uneven address and postal codes

Given the lack of standardisation in address, delivery to the exact locations become a challenge for e-commerce players. As a result, timely delivery of goods becomes an issue resulting in order cancellations.

Delayed deliveries

With increase in online shopping coupled with rise in exchange and refund orders has led to a decrease in on-time deliveries.



A photograph of three business professionals in an office setting. Two men and one woman are gathered around a tablet computer. The man in the center is wearing a white shirt and a dark tie with white polka dots, and is smiling as he looks at the tablet. The woman on the right is wearing glasses and a blue blazer, and is also smiling. The man on the left is wearing a dark suit jacket and is pointing at the tablet. The background is a bright window with a soft glow.

Outlook

Triggered by e-commerce boom the online auto, grocery, education and pharmacy markets are also expected to witness a surge in demand



Focus on smaller towns

- Indian e-commerce sites are gradually shifting their focus from metro cities Tier II and smaller towns in sync with the internet and mobile penetration
- While bigger brands are not physically present in Tier II and Tier III cities, e-commerce makes these brands available to people across the country.



Technological Innovations

- They will be crucial for e-commerce firms to stay in the highly competitive market
- Technology-enabled innovations, such as digital payments, hyper-local logistics, analytics-driven customer engagement and digital advertisements, will likely support the growth in the sector.



Improve online purchase paths

- E-commerce being extremely competitive would come up with solutions improving
- Robust search and filtering
- Personalisation
- Enriched purchase information
- Streamlined returns and exchange
- Ensuring quality



Increase demand in online auto market

- Used car market is likely to witness a steady growth due to increasing urbanisation and consumer spending, rising demand for owning a vehicle due to hygiene hazards and others
- Driven by the growth of used car market the online auto market is set to grow. Offering a range of benefits over a physical stores a large number of consumer a likely to shift to online purchase



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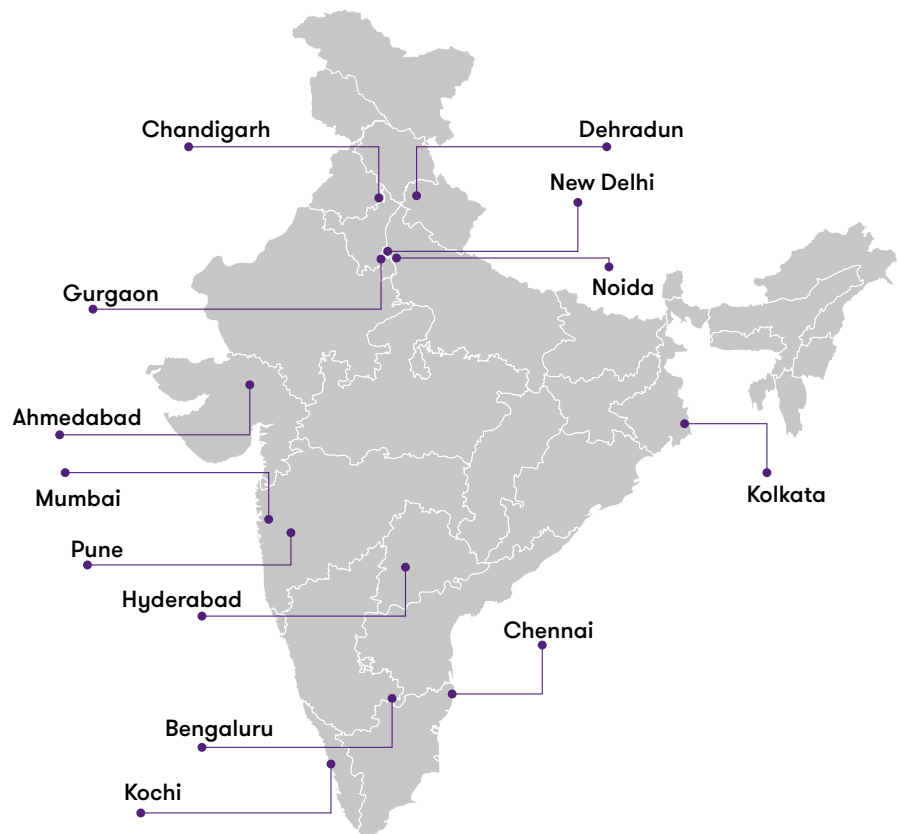
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