

### **2014: The Year That India's eTail Announced Its Arrival**

2014 can safely be marked as the year when India's fledgling e-tail business announced its arrival with a bang. The bugle was first sounded in early October with Flipkart's "Big Billion Day", followed up by Google's 3-day online shopping festival that has seen a dramatic rise in number of unique visitors and merchants, and rapid growth in product categories on offer that included homes, motorcycles, and holiday packages too. 2014 also saw valuations of some of the larger players touch a billion US dollar mark and then end the year with at least one player rumored to be valued closer to US\$ 10 billion!

All this frenzy of activity in the e-tail space expectedly caught the Indian government confused and the brick & mortar organized retailers frothing anger. As we enter 2015, it is likely that the central and the state governments will continue to remain mired in examining the non-issue of FDI in retail sector rather than applying mind urgently to develop a contemporary policy framework that makes India's consumer products distribution infrastructure efficient. The romance of investors with e-tail (and ecommerce) sector is likely to get even more intense, and penetration of e-tail becoming even more ubiquitous. Some may wonder if there is an e-tail bubble in the making but other than questioning the valuations of some of the players, the fundamentals per se of e-tailing in India are very sound even though it is likely to account for a relatively low share of overall consumer spending even after 10 years.

India's current consumer spending on merchandise (and hence the size of India's retail market) is about US\$ 525 billion. If India sees a real GDP growth of 7% CAGR in the next 10 years, and the consumer price inflation remains around 6% CAGR in the same period, India's merchandise retail spending will touch about US\$ 1100 Billion by 2020, and touch US\$ 2100 Billion by 2025.

For getting a better understanding of how India's e-tail may evolve in the near future and then in the long term, it is important to understand what India is currently consuming and how that consumption is split between rural and urban.

Retail Consumption Across Key Categories						
	In US\$ Billion					
Categories	2014		2020		2025	
Food and Grocery	350	66.7%	729	66.3%	1343	65.0%
Apparel	46	8.8%	96	8.7%	176	8.5%
Jewellery (& Watches)	40	7.6%	88	8.0%	169	8.2%
Consumer Electronics	26	5.0%	57	5.2%	110	5.3%
Pharmacy (& Wellness)	15	2.9%	30	2.7%	52	2.5%
Furnishings & Furniture	19	3.6%	40	3.6%	73	3.5%
Footwear	6	1.1%	13	1.2%	25	1.2%
F&B Services	11	2.1%	27	2.5%	56	2.7%
Beauty Services	2	0.4%	5	0.5%	11	0.5%
Health/Fitness Services	3	0.6%	8	0.7%	17	0.8%
Others	9	1.7%	19	1.7%	35	1.7%
<b>Total</b>	<b>525</b>		<b>1100</b>		<b>2065</b>	

As the above table shows, now and even 10 years from now, almost 2/3<sup>rd</sup> of India's retail spending (not total consumer spending that also includes services such as housing, healthcare, transportation, education etc.) is on food, followed by about 9% on apparel, then jewelry, and then consumer electronics that include mobile handsets too.

Of this retail spending, rural India (spread across 660,000+ villages) currently accounts for almost 52%. Even by 2025, rural spending would still account for 43% of spending as shown in the table below.

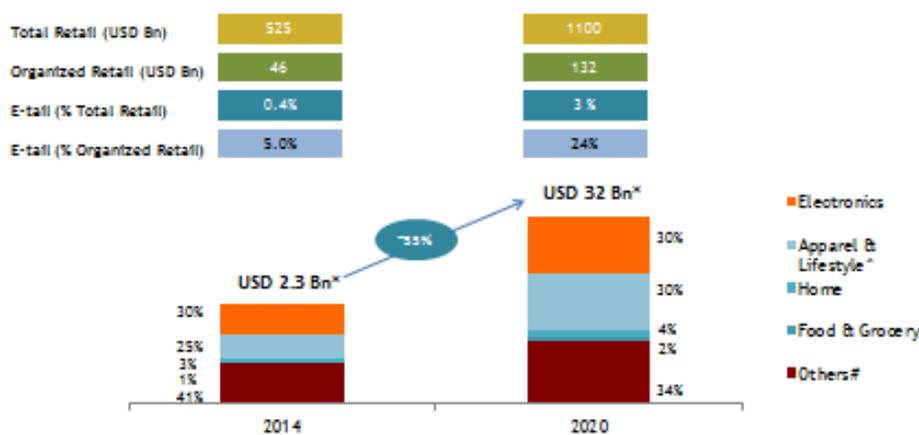
### Distribution Of Merchandise Consumer Spending



As the above table shows, India will see very strong growth in all channels of retail: the traditional independents, the modern corporatized chains, and e-tailing not only in the coming 10 years but indeed, even much beyond that. Those who fear for the demise of traditional retail from corporatized retail (whether Indian or foreign owned) and now from e-tail will do well to note that Indians who are currently consuming US\$ 479 billion worth of merchandise from the independent mom & pop stores will consume more than 4 times of that (i.e. about US\$ 2125 billion worth) from the mom & pop stores by 2025. The corporatized retailers do not have much to fear either and they are likely to increase their own collective revenues (only from physical stores) from about US\$ 46 billion today to over US\$ 100 (excluding e-tail) billion by 2020 and perhaps over US\$ 345 billion by 2025.

As far as e-tailing is concerned, notwithstanding its immense appeal for the metro / relatively large city urban India, and notwithstanding its immense appeal in select categories such as the mobile phones and consumer durables, will have a fairly small share of the overall retail spending in India as the table below shows.

## Current Impact And Future Impact Of E-tailing In India



The reasons are not too difficult to fathom. Firstly, as much as 2/3<sup>rd</sup> of the total consumer spending is accounted by food (and of that, more than 50% is accounted for by perishables that include dairy, vegetables, meat, and fruit). Further, almost 50% of the total consumer spending is still spread across the entire rural India where it is yet not likely that e-tail will make a big impact (e-commerce would comprising of services such as financial, entertainment, information and education etc.). The most important impact categories for e-tail (consumer electronics, durables and appliances, apparel and

footwear, and furniture) account for just about 18% of the total consumer spending on merchandise and again, this spending is spread well across urban and rural India through several hundred thousand independent stores as well as the brick & mortar corporatized retail department stores, hypermarkets, and specialty stores.

Hence, if seen only from the perspective of a few select categories (such as consumer electronics, apparel and footwear, furniture and home furnishings, and a few others) and that too largely in the top 12-15 Indian cities and for products that are targeted towards the middle / upper middle income socio-economic strata, there would be a measurable impact of e-tail channel in 2014, and a fairly significant one by 2025. However, if seen from the overall consumer spending perspective, the share of e-tail channel by 2020 is expected to be around 3% on a net sales value (and perhaps 4% by gross merchandise value) and no more than 10% by 2025.

Finally, would the nascent but vibrant e-tail sector see any significant consolidation in 2015? It is more likely that the sector will see an organic entry of a few giants that could include Reliance, Tata Group, and Aditya Birla Group and then more intense multi-channel play from large organized brick & mortar retailers such as the Future Group, Shoppers Stop, Lifestyle, and others. In addition, 2015 should also see launch of several hundred new e-tail startups focusing on single product categories and then many small niches too. Some consolidation may happen only in 2017 or even a bit later.

Till then, India's e-tail sectors promises continuation of "acchey din" for consumers, for select category of service providers in the e-tail ecosystem such as logistics and packaging companies, and for tens of thousands of job seekers.

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