

E-tailing Triggers Transformation in the Retail Industry

E-tailing has been present in India for well over a decade now. While the early 2000s can be better described as a decade of foundation building, with Internet penetration increasing steadily, later technological advancements enabled better online interfaces and safer transactions, and e-commerce inched into the common man's life through travel retail, classified services, financial services, and e-tailing. The period from 2007 onwards can be highlighted as the second phase of e-tailing which saw the emergence of game-changing players who brought in more investments and innovations into the space. The current wave of e-tailing was driven by start-ups, and backed by venture capitalists (VCs) and Private Equity firms (PEs). While the Indian e-tailing market is yet to achieve a steady state, these initial entrants have succeeded in capturing the imagination of a sizeable consuming class. These have also acted as a catalyst in the creation of an ecosystem necessary for the growth of e-tailing. Now that critical mass has been achieved, the next decade is expected to see e-tailing move into the next phase of growth.

Although pegged at USD 2.3 billion, e-tailing is as yet a minor part (0.4%) of overall retail in India, but is projected to grow at a rapid pace to account for 3% of the total Indian retail market, with a size of USD 32 billion, by 2020. There are 4 key factors which contribute to e-tailing's growth:

The widening of digital penetration: Internet penetration is rapidly expanding in India. It is currently ~20%, but is projected to reach 40%, by 2020. There is also a heightened percolation of Internet-enabling devices like laptops/ PCS and smartphones driven by the increasing affordability of entry-level devices. An interesting feature of the widening of digital penetration is the growth of Internet access via mobile devices whose user base is growing more rapidly compared to broadband users. This growth is expected to continue given the increase in the penetration of high speed Internet, primarily driven by the rollout of 3G and 4G wireless technology. Currently, the leading e-tailers are already registering around a third of sales via mobile devices. Mobile commerce is also boosted by the absence of Internet access alternatives for a large number of consumers as well as the convenience offered by mobiles which are more accessible devices. This is set to increase in the years to come, with mobiles likely to become the primary shopping device in India.

Growth of the population of Internet-habituated customers: The population of Internet-habituated consumers is rapidly growing in India. An Internet-habituated consumer is adept at, and comfortable conducting, complex tasks on the Internet including file sharing, content uploading, financial transactions, interactive tasks, etc. There has been a disruptive movement, from using the Internet merely for accessing e-mails and for casual browsing to carrying out more diverse and interactive activities. Convenient online interfaces, an enhanced user experience, and attractive offers and services are some of the key enablers for this change.

Limitation of the Brick & Mortar format: While organized retail, in primarily the Brick & Mortar format, has been in India for two decades now, its contribution to total retail is still low, at ~8%, due to the structural issues faced. Such organized retail is concentrated in the top 25-30 cities where retail consumption is also concentrated. Most Brick & Mortar brands are thus concentrated in the larger cities and are unable to meet the rising aspirations in the smaller cities across India. This skew in retail presence is fuelling the growing demand for the online channel owing to its wider reach and delivery to even the smaller cities and towns where Brick & Mortar retail stores are either not viable or will take years to reach.

Improved supply side: Credit needs to go to e-tailers who have invested much capital and effort in widening the market through multiple means like better interfaces, more products, discounts and promotions, faster delivery, easy returns, options like cash-on-delivery, EMLs, mass media campaigns, etc.

The Indian e-tailing market is led by homegrown players. The market is dominated by mass merchants followed by a long tail of specialty and niche players. The entry of the global leader Amazon.com last year has brought more competitiveness and urgency into the space and triggered more investments and consolidation. The acquisition of Myntra by the Indian market leader Flipkart has been the biggest consolidation activity in recent times. With Series A funding drying up and investors backing incumbent players by injecting more capital, going forward, we will continue to see higher competitive intensity and greater consolidation within the market.

Despite having come a long way, there still remain several challenges for e-tailers to tackle. The key challenge is the ecosystem's lack of readiness. Poor quality, in terms of speed and reliability, of data communication networks is a major hurdle in e-tailing's growth. The last mile delivery infrastructure is as yet inadequate and suboptimal. Marketplace players also face the challenge of working with a 'digitally ill-equipped' vendor base which is not yet 'ready' for serving marketplaces efficiently.

Besides the above, another challenge for e-tailers is achieving differentiation through which to break out of price wars and drive consumer loyalty. The extent of differentiation and the ability to sustain the same will help attract greater consumer share and drive up loyalty.

E-tailing in India will continue to move along a high growth trajectory in the years to come. The market is presently at a stage where new consumers are getting added every day, players are battling for the top slots, the ecosystem is starting to fall into place, and investors are continuing to show faith in this sector. This is therefore the onset of a very exciting phase of e-tailing, with the next few years possibly witnessing the emergence of clear market leaders.

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