

## **Rise of E-tailing: 'Alternate' No More**

Given its presence for more than a decade, it is incorrect to think of e-tailing as a recent phenomenon in the Indian context. However, it has gained impetus only in the past few years, with the entry of several game-changing players who have contributed to the rapid growth of e-tailing. While e-tailing, worth USD 1 billion in fiscal 2013, presently makes up only ~0.2% of overall retail, it is projected to grow rapidly to account for ~7% of the market, over the next decade.

There are several factors driving the growth of e-tailing, the foremost of which is the rapid percolation of technology enablers. The increasing adoption of devices like smartphones, tablets, and laptops, and access to the Internet through broadband, 3G, etc. has contributed to the rapid growth of the online consumer base, to the currently over 170 million users, compared to ~37 million in 2007.

Another driver is the growth in the Internet-habituated and aspirational consumer base. Online consumers have evolved over time, with their level of engagement also increasing. Multiple indicators, like the rapid increase in the number of Facebook users, tickets booked online, online banking transactions, etc. point to a rapid rise in the pool of such consumers. Another factor driving this growth is the youth-skewed demographics. India being a young nation, the Internet audience is also young, with about 75% of those accessing the Internet falling in the age group 15-34 years. This young population is tech savvy and aspirational, and forms the core customer base for e-tailing.

The growth of e-tailing can also be attributed to the stunted growth of brick & mortar retail. This subset of organized retail has not lived up to its growth expectations due to multiple challenges. As a result, a majority of the brick & mortar brands/retailers are still concentrated in the larger cities despite being present for several years. This skew in retail presence is fuelling the growing demand for online channels which offer a wider reach and delivery to even the smaller cities and towns wherein brick & mortar retail stores are either not viable or their setup can take several years. Bolstering this argument is the fact that several e-tailers have 50% of their sales accruing from cities beyond the top 10, which further establishes the case for e-tailing growth.

Another emerging trend is the attitude of brands towards e-tailing, which is now contributing a double-digit percentage of the topline of several brands. Even for others, a rapid growth has been witnessed in the past few years. Thanks to the growth, adoption, and impact of e-tailing on their overall business, brands are taking this channel seriously, and acknowledging its independence vis-à-vis brick & mortar retail. E-tailing is thus not only finding a place in their strategic plans, they are also developing focused strategies for growth through e-tailing, while addressing the challenges of this channel, which are different from brick & mortar retail, more effectively. This is only going to increase in the future.

However, it has not been easy for e-tailers to operate, in an ecosystem which is rapidly evolving, and cater to the equally rapidly evolving customer base. They have learnt and unlearnt many things, and we have seen them undergo transitions across multiple aspects, be it their business models, product portfolios, web interfaces, or service offerings.

Such efforts have borne fruit to the extent that e-tailers have swelled the number of consumers transacting online on their portals. The next challenge for them is to habituate consumers to online shopping and ensure repeated purchases. This will require e-tailers to ensure differentiation, in a market wherein there are several 'me too' players. Currently, discounts and deals are a very important motivator for consumers transacting online. However, this will not lead to sustained differentiation for e-tailers. Differentiation will need to move away from price to such other parameters as customer experience, product assortment, services, etc.

Another challenge faced by e-tailers is that of order fulfillment, with logistics remaining a key challenge for every e-tailer. While third-party logistics, or 3PL, providers have come a long way in orienting themselves to the requirements of e-tailing, and several e-tailers have also invested in in-house logistics arms, this is one aspect where much more needs to be done in terms of reach, capability creation, and cost optimization.

Several e-tailers have partially or wholly transitioned to marketplace models. While this enables higher scalability and lowers the risk along several aspects, the vendor base in India is yet to evolve; for players to ensure higher quality customer experience, they will be required to invest in vendor acquisition. Whatever choices they make, the challenge will be to ensure smooth dovetailing of customer experience and business imperatives.

E-tailing has come a long way in last few years, despite all the challenges. It promises to remain an active, and interesting, space, given the rapid growth and evolution of the entire ecosystem. With so much happening with e-tailing in India, it is perhaps not appropriate to label it an 'alternate' channel anymore. It is here to stay and become a mainstream channel for the future.

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