The E- Tailing Revolution: The Tip of the Iceberg

✍ ***Rahul Vyas***
Asst. Professor
Faculty of Management Studies
Pacific University, Udaipur

A recent TechnoPak report observes that e-tailing has the potential to grow more than hundred-fold by 2023. The size of e-tailing is estimated to grow from the current $1 billion to $56 billion when it will account for at least 6.5 % of the total retail market, driven by an ecosystem favoring the nascent e-tail marketplace. This growth will be driven by the country's growing Internet-adapted consumer base, which will consist of more than 180 million broadband users by 2020 and a mushrooming class of smartphone based apps.

India has a large and growing retail market but only a small portion of it can be attributed to organized retail-retail sales generated by organized establishments such as neighborhood stores like Reliance Fresh, Big Bazaar etc. The overall retail market generated more than US$ 540 billion worldwide sales in 2013 and is expected to grow at a CAGR of 8–9% over the next 3–5 years. Organized retail accounted for about 10 % of the market in 2013, and much of its revenue was generated in category A & B cities (metro cities). Regions outside the top-eight metros contributed 60% of the overall retail revenue, but less than 40% of the organized retail revenue. The penetration of organized retail will increase to account for about 15% of the total market in the next five years, but will remain low outside the metropolitan cities.

E-tailing is not entirely new to India. However, the increasing internet usage and credit card penetration in the country is definitely helping its growth. In reality there is a large number of e-retail players in India who are in the red, another grim reminder of the same is that e-retail contributes a miniscule 0.50 per cent to the $500-billion retail sector. FlipKart, Snapdeal ,Jabong, Myntra, Yepme, Naaptol etc. are still minnows in this sector.

It is imperative to understand that e-tailing in India presents a unique set of challenges and opportunities. Firstly, it caters to urban as well as rural India. Secondly, it is fraught with marketing complexity and finally the geographical spread of the target market and the mostly unorganized logistics sector demands extra attention to ensure glitch-free delivery. This is further increased by the socio-cultural diversity of our country and the limited scope for localization on the internet.

By 2025 , E-commerce shall be the dominant “organized” retail channel in the top-75 Indian cities (cities with population of 1 million or more) with as much as 30-35% share of total merchandise sale by value in these cities and then about 20% of total merchandise sales in the rest of urban India. The traditionally small and independent retail outlets shall continue to account for a very significant 35%-40% of total merchandise sale in the top 75 cities and closer to 50%-55% in whole of urban India. Organized retail – the so called brick & mortar channel sales shall be limited to between 25% - 35% share in top-75 cities and between 20-25% for rest of urban India. Travel is the biggest e-commerce category because initially airlines started offering heavy discounts online and then IRCTC happened. Reasons like low broadband speeds and an insufficient number of people who subscribe to this medium has a ring of truth only outside of the so called category A cities i.e the metros. Mostly it's a myth that Indians don't want to use their credit cards online as many urban Indians are getting good deals and buying from various on line sites. India's Internet base, already the third largest in the world after China and the US, is growing by 40 per cent a year .

E-tailing has the potential to provide employment to 1.70 million people by 2021; its expansion will help create new skills in the areas of technology, logistics, packaging and financial innovation in the distribution channels. Also, such growth will promote the growth of service entrepreneurs who will have the chance to earn, on an annual basis, close to a whopping US$ 8.5 billion. Additionally, it will open up the international markets for the SME (Small and Medium Enterprise) sector and become an important facilitator for the growth of the domestic telecom and logistics industries. The growth of e-tailing in India will be complementary to the growth of traditional retail and will not be in conflict. Conversely, it will improve efficiency and a reduction of transaction costs in retailing and in the process boost the productivity of manufacturers (SMEs) and service providers.

E-tailing is as different from retail as chalk and cheese and therefore requires a different mindset and novel approach from the policy makers and participants. Despite persistent pressure and deceleration in the Indian economy, merchandise retail will continue to witness sustained growth.

The organized retail industry is largely dependent on the categories such as grocery, fresh consumables and private label brands. Retail business has a lower margin and a higher volume whereas lifestyle retail has high margin and low volume. The Indian organized retailers will have to evolve their own strategy. Also, foreign jewellery designs and brands are not practical in India since people prefer to have localized products during marriages and festivals.

From 2013 onwards, a slew of the global investors have competed to invest into India's online retail industry, which is estimated to expand from the current (2014) $2.3 billion to $32 billion (Rs 13,700 crore to Rs 1.9 lakh crore) in the next six years. Over the past four quarters, e-commerce companies cornered 72% of the $1.3 billion (Rs 7,700 crore) that went into Indian technology companies across 266 deals.

Amazon.com Inc. has bet $2 billion on India's nascent e-commerce market and is ready when the market takes off. India's e-commerce market is set to boom in the coming years and Amazon needs to build a nationwide delivery system and invest in new technology to be ready to serve Indian consumers. The investment, announced on July 30 2014, does not really make any financial sense if it were to be viewed on the current market scenario but it does make a sound business plan if based on a 10-year viewpoint, henceforth. Amazon has stated that the money invested will be used to develop enhanced websites, superior mobile technology and improved logistics to reach the huge and growing Indian middle class.

Amazon will recruit and train thousands of merchants to use its website and logistics services to sell their products. The number of sellers on Amazon's Indian platform has grown over the past oneyear and has already crossed the figure of 10,000.

Amazon's investment is startlingly large, around the same size as India's current e-commerce market size. This market is most likely to grow but even that would still be a small portion of the size of the e-commerce market in China, which had around $300 billion in online sales in year 2013. Millions of customers are coming online for the first time and have mobile phones as their only access point.

Flipkart- India's largest online company by sales, raised $1 billion from investors the day before Amazon announced its $2 billion investment. Flipkart announced that it had raised $1 billion (over Rs 6,000 crore) in the latest round of financial support from a group of investors. Flipkart however hasn't made public the fresh holding pattern , this latest boost has put the value at about $7 billion (around Rs 42,000 crore). Existing investors Tiger Global Management and Naspers along with Singapore's sovereign wealth fund, GIC, Accel Partners, DST Global, ICONIQ Capital, Morgan Stanley Investment Management and Sofina also participated in this financing round.

A billion dollars in fresh funding is nonetheless a first for the Indian startup industry and is among the biggest fund raised globally this year. Flipkart, which crossed $1 billion in sales in March and acquired online fashion retailer Myntra in May, also launched customer service initiatives like same-day delivery in multiple cities and at-home trials for certain fashion categories. With its orders crossing the Rs 5-million-a month mark, Flipkart will have to continue investing in its backend operations in a cut throat market.

Snapdeal raised further funds of $100 million (Rs 600 crore) in May 2014 from Temasek, BlackRock Inc.,Myriad, Premji Invest and Tybourne at an estimated valuation of $1 billion. According to some consumer research firms, Amazon is already outselling Flipkart in tablets and cameras but it should be noted that neither company gives out actual numbers so it is very hard to verify them. But, if it is true then the Indian start-up is already facing the heat. Amazon now is close to selling 15 million products across 20 product categories.

E-commerce in India has just hit the tipping point and companies with higher market share will reap the biggest returns. Flipkart has put on hold its plan to go public, however that doesn't mean that it will be profitable in the near future. The top Management has clearly said that the company doesn't intend to become profitable anytime in the foreseeable future. Even with $1 billion of funding, Flipkart's problems aren't so easy to solve. The $1 billion invested will need to find some new avenues. Flipkart has come a long way from just selling books. It virtually sells everything, from Addidas to Zovi . Nonetheless, with a rival like Amazon, whose deep pockets are not a secret , Flipkart can't be expected to exist as another ordinary e-commerce store. Flipkart is leading, but Amazon is catching up. Now, with Amazon pumping in $2 billion, it shows that the US e-tailing giant is looking for a good fight in the Indian e-tailing space.◆