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- Rs 55,000 crore. That's the estimated size of the e-commerce market in India, up from Rs 8,145 crore in 2007.
- \$80 mn. That's the approximate value of total early-stage funding received by the e-commerce start-ups

From fashion apparels to perfumes, laptops to cars, spa deals to holiday packages, tattoos to personalized Ts, lingerie to jewelry, even a wedding gown to a marriage mate - Indians today know how to buy it all online - and millions do.



Many e-commerce sites in India started way back in 1999. That year, at a seminar on 'enabling e-commerce in India' organized by CII, the planning commission deputy chairman Montek Singh Ahluwalia said, Industry should make use of the concept of e-commerce and not wait for the perfect legal framework, as that being a complicated matter would take some time.

After about a decade, with the second wave of e-commerce in India rolling, Indian Internet-driven companies seem to have learnt from their experiences and have evolved in their approach to online business models. Many companies of the 1999 era couldn't survive till 2011; but those who did have certainly set some high benchmarks for the newbies.

Most entrepreneurs in online retail this time talk of the segment that they operate in; not something called e-commerce. Two, most of them are actually planning to be in the game, without looking at the valuation to be able to sell. And finally, the external factors like broadband penetration, payment systems have changed. Thanks to online travel booking one segment that never died people are also more comfortable transacting online.

Yet, they are cautious. There are just too many me-too sites without any model. Many of them have mindlessly replicated the start-ups in the US that they have modeled themselves on. And fulfillment issues still remain a big challenge.

When we started selling online in 1999, the total Internet population in India was 3 mn, and the number of people who were shopping online was just a few thousands. The market was too small. Today, with about 70 mn Internet users in India, the market is ready, says K Vaitheeswaran, founder and CEO of Indiaplaza. He should know. His is probably the only pure-play e-commerce company that has survived all these years.

While the base of users has increased, people have also got used to Internet as a medium and using it for multiple reasons. Shopping is just yet another way of making use of it. When you use a medium for multiple reasons, it becomes a part of your life, says Pearl Uppal, co-founder and CEO, Fashion and You. Uppal actually left her Yahoo! job to start this business. Today, her business is one of the leading e-tailers in India.

While the market is still highly geographically polarized with the digital divide still clearly in evidence, favorable demographics, broadband penetration, an anticipated 3G rollout, Internet banking and rise in online consumption behavior are surely the factors helping e-commerce to come back with a bang.

Also, over the last few years, the government and banks have actively pushed the use of Internet for financial transactions helping people build up trust in this medium. In recent years, the ticket-size of electronic transactions has gone up substantially.

Though a look at the volume data shows that individuals are yet to adopt electronic means for making payments in a big way, which constituted about 35.3% in 2009-10; the value-wise data shows that the share of electronic transactions has increased from 80.4% in 2007-08 to 88.3% in 2009-10.

Estimates vary though, about actual consumer e-commerce market. E-commerce market in India has grown from 8,145 crore in 2007 to 20,653 crore in 2009. It is expected to continue to grow rapidly to over 55,000 crore in 2011, says Mehul Gupta, AVP, IAMAI. This of course includes travel and financial.

E-commerce: Going Beyond Travel (Finally)

The travel segment of e-commerce always enjoyed an upper-hand with easy to deliver products and instant gratification for buyers. Thanks to the travel segment, the comfort-level of people in making online payments increased significantly and



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they were made ready for the next level of shopping online not just tickets but other products as well, says Mukesh Bansal, CEO, Myntra.com.

Today, the growth in the e-commerce market is driven by the need of urban India to save time. Many funding companies have started putting their money and trust in startups, opening ways for many zealous entrepreneurs to start their Internet businesses. With matured credit card penetration, increase in Internet penetration, and increase in peoples trust on Internet, with more options available online and with lives becoming busier, the recent years have seen a resurgence of e-commerce in India, says Kunal Bahl, CEO and founder, Jasper (SnapDeal.com)

The online non-travel industry can be categorized into e-tailing comprising online retailers and online auctions; online classifieds comprising online jobs, matrimony, property, automobile and general classifieds; paid content subscription and digital downloads comprising research, articles, exclusive videos and more. Top categories according to investors are travel, classifieds, group buying, auto sales and luxury brands.



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According to Gupta of IAMAI, online travel which includes booking rail and air tickets, hotel accommodations and tour packages was 70% of the whole pie. E-tailing, which includes durable products such as electronic items, home and kitchen appliances as well as personal items such as apparels and jewelry, was 13%.

Transactions for financial services such as insurance payments and renewals and trading accounts amounted to 9%. And downloading mobile and digital content was 2% of the overall share. Other online services such as classifieds (jobs, matrimonial, cars, real estate, and others), online food delivery and buying movie tickets and DVD rentals made 6% of the overall market.

Some unique ideas from smart entrepreneurs have changed traditional online shopping to more of a personal experience. They have learnt the very important rule of branding differentiation. In this sense some interesting online stores and unique concepts have come about.

A beautiful fragrance attracts all; and what if you are given a choice of 125 designer perfumes spanning over 3,500 fragrances, all a click away? Well, portals like Perfumes2order.com sell products that are original celebrity perfumes like JLO, Paris Hilton, Britney Spears and David Beckham for men and women, and for the little ones they sell special perfumes like Superman and Barbie and the discounts are sweet!

Ask for some more private attention and you get portals like mMyself.com, dedicated to women, that allows them to shop for



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private items, manage their health and wellness activities, express their heart out, and get expert advice online. Then there are portals like littlehood.com, dedicated to babies, moms and dads, helping parents find what they need for their little ones. And redbell.com, that's all about toys for your kids.

Whoever thought you could buy devotional items online? Portals like indiyogi.com and west2india.com even made that come true. A portal like playgroundonline.com is dedicated to sports and allows you to buy sports equipment, accessories, apparel, footwear, books, media titles, games and anything that can touch a sportsman's heart and the discount phenomenon continues!

Action Everywhere: Segments in E-commerce

Online Travel Rules: The online travel industry has a strong government presence with IRCTC, which is the most successful initiative, and some equally successful private players such as Makemytrip, Cleartrip, Yatra and more. After witnessing all that success, these travel sites are now expanding their portfolio of services to add hotel booking and holiday packages as well.

A decade ago, travel agents had a better say when it came to selling travel solutions. However, the intense competition among online travel portals and various hospitality websites have reduced intermediary commission rates thus offering for more economic value to online transactions.



E-tailing Huge opportunity for Retailers : The changing lifestyle and mindset-change of the Indian customer has led to a spur in the e-retail industry today. Retailers also see huge business opportunities as they can cater to consumers across geographies, no operational timings, unlimited shelf space and almost zero infrastructure. Companies like Snapdeal, Infibeam, Deals and You, Futurebazaar and more, are great examples. With companies like Fashion and You, 99labels and others, online fashion retail is becoming an emerging trend in this segment, bringing fashion to your doorstep and at a sweet price.

However, the cost of customer acquisition in India is high. And that eats into the margins of the most commonly retailed low value items such as books, CDs and electronic gadgets. Yet margin goods such as apparel have not caught on in popularity, may be because touch and feel still matters here.

Meanwhile, while urban India is slowly but surely getting comfortable with using credit cards online, there may be a problem with complaint resolution, especially in case of wrong or delayed deliveries. Which is why most e-tailers today focus a lot on customer care, while many others are trying to personalize each customer experience and create real consumer centric promotions?

The Indian consumer is still very need oriented, and not as impulse or deal oriented as the American counterpart. Today a lot of focus is on building a strong back-end team. We get about

1,000 orders per day and orders might come from any part of the country, big or small. To be able to ship all products effectively and keep customers satisfied, we require a very sophisticated logistic infrastructure. Which is why we employ people with deep knowledge of the supply chain, either from retail or logistics background, says Bansal who has a workforce of around 150 people. Bahl of SnapDeal says that his strong and capable IT team adds largely to the success of his company of 300 employees.

Besides believing that customer is king and treating him as one, another point to focus on is the companys presence on recognized shopping comparison sites, especially since many people visit these sites to check where the company stands and read the product reviews. All e-retailers agree that nothing authenticates their offering to an undecided customer like a good product review!

Online classifieds for hunting Indians: Till the time people keep hunting for naukri, sathi and makaan, the online classified segment of e-commerce will keep doing business safely. This segment can be broadly divided into three sectors - jobs, matrimonial and real estate.

The business of this segment has been recognized as one of the strongest in the non-travel category of e-commerce. Naukri.com, Shaadi.com, JeevanSathi, BharatMatrimony, 99 acres.com are some of the better known names in this arena.

Today business need not even shed a dime on advertising. The emergence of free online classifieds in the industry has provided with a means for business owners to save up on advertising efforts. By posting ads on the Internet, business owners are afforded with the chance to break across physical and distance barriers and reach the millions of diverse consumers from every corner of the globe. Being able to showcase their products to the wide range of consumers enable business owners to gather more patrons and subsequently increase their return of investment.

Online classifieds in the Internet is not only useful for selling goods and services, it can also be utilized in gathering a labor force and for locating people who are qualified in providing precisely what a business owner needs. So happy hunting!

Paid Content and Digital Downloads: In a paid content or subscription model, a content owner provides consumers access to content for a subscription fee. In India, paid content subscriptions are offered across various categories like news, legal or financial information, online games, audio books or research reports. Paid content sites offer more and in-depth information than free content sites and such sites usually go through a gestation period of at least 2 years before subscription starts.

E-commerce: Group Buying for Massive Discounts

The game was comparatively easier for the group buying businesses in India, as the model has been successfully tried and tested abroad. Indian buyers love discounts, that is probably why the market has been able to attract investments from private equity players, and with money flowing in, its certainly set for growth. Snapdeal,



Grabbon, Koovs, Mobstreet, Wanamo, Group2Deal and Deal and You, are some of the forward-marching players in this track, even as new players are capitalizing on the opportunity.

Another Indian group buying site, SoSasta.com, now to be re-branded as Groupon India, was acquired by popular international group buying portal Groupon in January this year, surely giving it an edge in the Indian e-commerce market. While it may be too early to paint a true and clear picture, the trend so far has been more than encouraging.

Conversely, group buying sites being in the service space need to get much localized to cater to a large audience, and that's where the challenge lies. For example, in a city as huge as Delhi, if you stay in Janakpuri, you would not care for a great deal in Mehrauli as it would easily waste 2 hours in travel time. Even though the model is exciting, there are a lot of players emerging; and how many ride the wave would depend on how deep one has been able to penetrate and go local.



This is how the business works the group buying sites join hands with merchants to offer consumers incredible savings on products and services. The merchant agrees to offer customers a specific product or service at a greatly discounted rate (usually 50% off or more) if the group buying company can generate more than the specified minimum number of sales chosen by the merchant.



"People all over the world love deals. India is no different and Taggle is working hard to make what was once considered decisions by customers into impulse decisions"

—John Kuruvilla, CEO and founder, Taggle

Once the minimum number of sales is reached, the deal becomes activated and all the customers that signed up for the deal become eligible. Eligible customers credit/debit/cash cards are charged for the purchase and they receive an email/sms of a voucher that they use to redeem the deal with the merchant. People all over the world love deals. India is no different and Taggle is working hard to make what was once considered decisions by customers into impulse decisions, says John Kuruvilla, CEO and founder, Taggle.

"The Group Buying model creates ability for small vendors to reach out to millions of consumers with no upfront costs, and for consumers to avail great savings"

—Gaurav Kachru, CEO, Deals and You

On the other hand, Group Buying model creates ability for small vendors to reach out to millions of consumers with no upfront costs, and for consumers to benefit from the promotions from these vendors resulting in great savings, says Gaurav Kachru, CEO, Deals and You. While these huge discounts might sound costly to business owners, it puts their business in front of hundreds of thousands of new customers that can sample their products and services. Merchants are essentially getting free advertising in hopes of converting one-time deal buyers into long term

customers a win-win for customers and businesses than community or group buying; at least for now.

E-commerce: Startups are Raising Big Money!

While e-commerce portals are set up by tech oriented entrepreneurs, they have very little or no experience of the technological pitch and the logistics involved in delivering products to distant areas. But these entrepreneurs are innovative and have been able to bring up many new e-commerce businesses, outshining their older counterparts. Some companies like Myntra, SnapDeal, Fashion and You, Naptop, Flipcart, Bigshoebazaar (now Yebhi.com) and Tradus have been able to raise funds.



“New ventures need to have great partnership between strong professionals and strong incubator, entrepreneurial investor with great ideas and connections with funds”

—Pearl Uppal, CEO and co-founder, Fashion and You

Even if I had the dream project, I need funds and infrastructure to make it materialize. So new ventures need to have great partnership between strong professionals and strong incubator and entrepreneurial investor with great ideas and connections with funds, says Uppal, whose venture (Fashion and You) is just about 11 months old and has already tasted success.

A VC with entrepreneurial experience is truly someone who can understand the initial hurdles faced by new ventures, and joining hands with such incubators can help form a great eco-system for the benefit of the company.

VCs however play a major role in funding as well as guiding such new ventures today. E-commerce entrepreneurs should think of VCs as more than just sources of money. VCs can help decide between tough directional choices and can add ideas, insights and connections from their experiences and exposure to a variety of relevant fields and other geographies, says Anupam Rastogi, VC investor, Nokia Growth Partners.

At an abstract level, VCs also indirectly shape the evolution of capital intensive spaces such as e-commerce by picking the models that they fund, as new industry segments eventually tend to get dominated by well funded players. Its not easy for a new venture to secure funds.

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Company	Category	Funding	VC
Bindasbargain	One deal a day	Round One (NA*)	Assign Ventures
Buytheprice	Auction	Round One (NA*)	Rajan Anandan, Rehan Yar Khan, Sunil Kalra
Dealsandyou	Member-only group buying	Round One (NA*)	Group Buying Global AG
Fashionandyou	Luxury Fashion Brands	Round One (\$8 mn)	Sequoia Capital India
Flipkart	Books & others	Round One (NA*)	Accel Partners
		Round Two (\$10 mn)	Tiger Global
Inkfruit.com	T-Shirts	Round One (NA*)	Mahesh Murthy
Magazinemall	Magazine subscription	Round One (NA*)	Global Interactive
Myntra	Customized gifts and merchandise	Round One (NA*)	Angel Funding
		Round Two (\$5 mn)	NEA IndoUS Ventures, IDG Ventures, and Accel Partners
		Series B (\$14 mn)	NA*
Naaptol	Broad-based	Round One (\$8.25 mn)	Canaan Partners
SnapDeal	Member-only group buying	Round One (NA*)	Angel Funding
		Round Two (NA*)	NEA IndoUS Ventures
Taggle	Member-only group buying	Round One (\$8.75 mn)	Battery Ventures, Greylock Partners
Tradus	Auction	Round One (NA*)	Naspers
Yebhi	Luxury fashion brands	Round One (NA*)	NA*

NA*- Information Not Available

From Logistics to Finding Right Talents - Challenges in the E-commerce Industry

Logistical bottlenecks as well as regulatory requirements might act as major barrier for the e-commerce industry, coupled with lack of high speed Internet access across the country. The fulfillment factor is another barrier. For the travel segment, every airline has a presence online; convenience of buying tickets online is very high. But this may not be true for buying a perfume. It is much more convenient to buy it from a store touch, feel and buy.

An additional challenge that Bahl pointed out is finding a suitable web development company or a techie to build applications and take care of the technology aspect, which is enormous. Few major areas of hardship faced by e-retailers are use of technology to tap business on the Internet; robust payment gateway and complex payment solutions; difficulty in building adequate traffic as a result of lack of understanding of capturing consumers online; and difficulty in handling the logistics of an online business. To address these issues there is a need to build an ecosystem which would help create simple, usable and affordable solutions.

A big reason for e-commerce's early success in the US was the fact that the US government offered e-commerce companies a 10-year sales tax holiday to help them grow.

The Indian government has not offered any specific benefits yet. If it does, we can make the retail industry shape up faster in India, says Uppal.

The players have been in discussion with the government for a long time, to bring about a change through incorporation of Common Goods and Service Tax (GST). If and when it happens, e-commerce in India will take off in a large way. Also, by allowing FDI in multi-brand retail, India



can attract large retailers from around the world resulting in better products, lower prices and increased employment.

Global retailers with thriving e-commerce components will trigger further growth of Indian e-commerce business, and the retail industry overall. Most of the challenges and constraint facing consumer e-commerce in India that prevents it from realizing its full potential and restricts its future growth pertain to lack of adequate enabling infrastructure and the inability of businesses, either individually or collectively as an industry, to address the concerns of the consumers, says Mehul Gupta, AVP, IAMAI.

E-commerce without online payment does not become commerce but just a directory of services. Online payment service providers in India are however trying to provide sustained support by creating payment access to millions of consumers who do not have appropriate payment options. There is a large percentage of consumers who do not have access to debit/credit cards unless those who have acquired prepaid cards from online payment service providers like ours, says Naveen Surya, MD, Itz Cash Card.

25% growth has taken place over the past year in average transaction volumes for the online payment business. The Gateway is integrated with over 500 of Indias leading entities (from sectors such as utility, insurance, ISP, DTH, telecom/mobile, e-shopping, flowers & fruits delivery, eateries, educations, charity, etc) and 25 of Indias leading public sector, private and foreign banks to effect online payments through net banking, adds Bikramjit Sen, CEO, TechProcess Solutions.

Existing Challenges

- n Logistical bottlenecks
- n Regulatory
- n Connectivity
- n Payment
- n Fulfillment
- n Finding skilled IT professionals

In addition to changing demographic profile and increasing consumer awareness, such online payment service providers can help bridge the gap between the service provider, customers, and payment channels with their customized, secure, and relevant e-commerce solutions, and are largely instrumental in the turnaround and growth in e-commerce.

Future Bright for E-commerce in India

Most growth drivers are in Indias favordemographics, economy, changing lifestyle, exposure to new ideas. An important aspect in ensuring continuous growth of the net commerce industry is the increasing awareness of exchanging money over the Internet by all the stakeholders as well as the acknowledgement of such possibility by the regulators.

The online users in India have evolved and are actively seeking to include their digital interactions into their daily activitiesmaking purchases and indulging in transactions being one of them. As Internet seeps more into the tier-2 and



-3 cities there is bound to be an increase in the number of online users.

Dataquest estimates the consumer online retail excluding all services which include big areas like financial services, and travel, but also smaller areas like ticket booking, online photo printing ecto be not more than \$350 mn. Contrast this with travel and you get a fair idea of where this stands.

Travel alone accounted for more than \$4 bn in revenue last year; and according to a latest report, out of the Rs 9,000 crore transacted in e-commerce in India, Rs 5,500 crore was spent on buying travel tickets alone. That means it has miles to go. But the growth is happening really fast, and the numbers are changing as we write.

Interestingly, an eBay India Census 2010 report announced that out of their 2.5 mn users, in the last one year, nearly a third came from rural locations. While Delhi is the number one e-commerce city, Mumbai and Jaipur follows, and Maharashtra as a state, tops the list.

We at Dataquest gathered information on about 150 non-travel e-commerce companies, and yet, struggled to pull out just 20 hot sites. This tells us something about the crowd in this sunshine industry. Instead of being a me-too, its time companies focus on creating a counter-brand; and instead of copying the leader, its time they focus on providing a viable alternative. Nevertheless, new challenges will keep erupting and the nature of the market will keep changing rapidly.

In the words of Darwin Kingsley You have powers you never dreamed of. You can do things you never thought you could do. There are no limitations in what you can do except the limitations of your own mind.