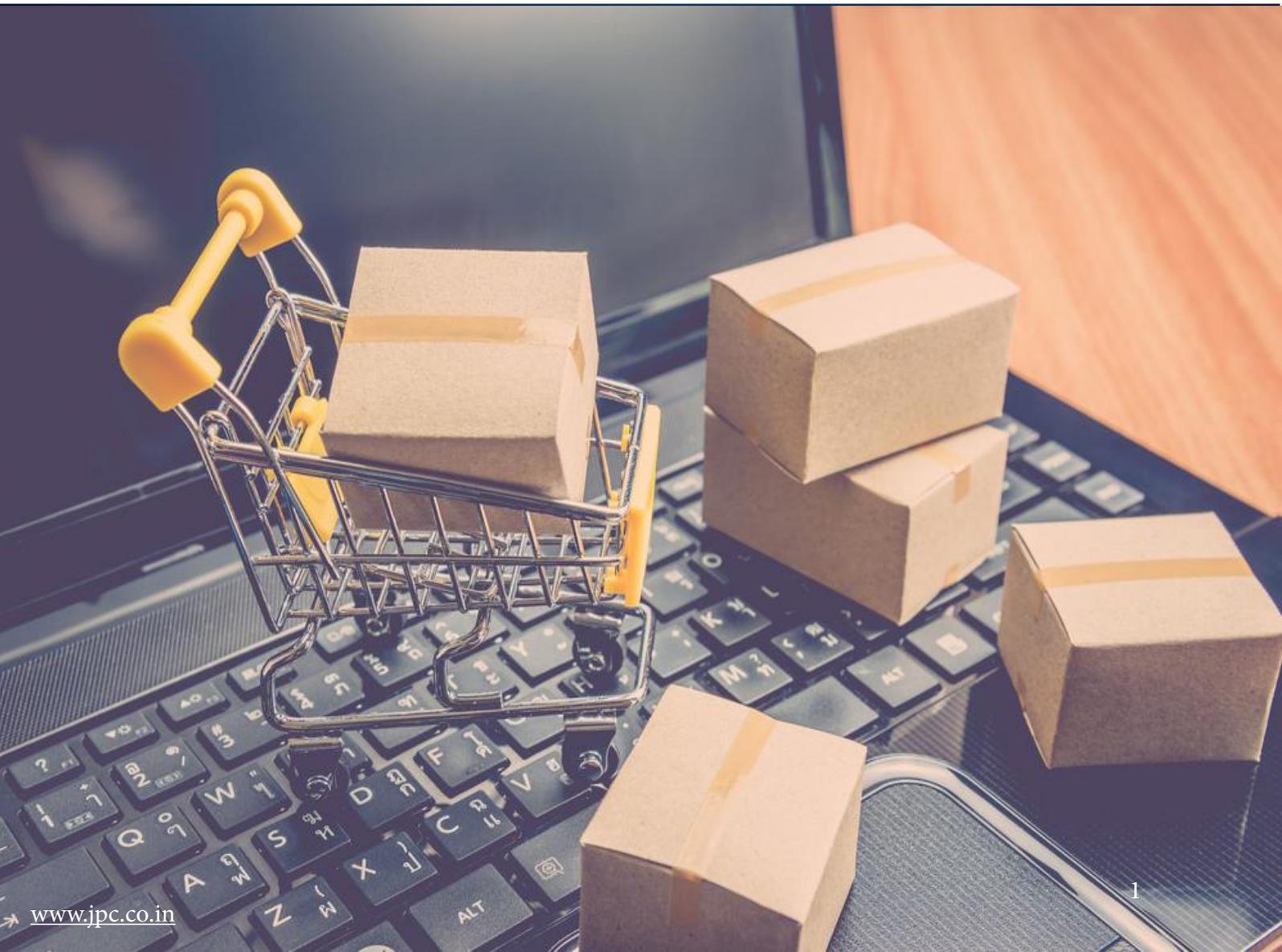


# INDIAN E-COMMERCE INDUSTRY

J P Chawla & Co. LLP

Chartered Accountants

Taxation | Audit | Outsourcing | Regulatory | Transaction Advisory | Consultancy Services



## Introduction to E-commerce Sector of India

E-commerce refers to the sale of physical goods via the internet to private consumers. Increased internet penetration, usage of smartphones, foray of international retailers, and digital payments are the catalysts for the explosive growth in the sector. Demonetization and GST have provided significant impetus to the advancement and embracement of a digital economy framework. The high growth and potential of the industry have attracted PE and VC funds, evidenced in the number and size of deals in the e-commerce sector. As many as seven start-ups attained the 'Unicorn' status in 2018, with a net value of over USD 1 billion (INR 6,989.65 crore). The world is undoubtedly upbeat on India's reputation as the most profitable investment destination for e-commerce and consumer internet segments.

## Market Overview

The e-commerce market in India is expected to grow at CAGR of 51 percent with an estimated reach of USD 120 billion (INR 8,52,505 crore) by 2020 from USD 38.5 billion (INR 2,67,036 crore) in 2017. India Brand Equity Foundation (IBEF) has predicted the e-commerce market in India to reach USD 200 billion (INR 13,80,930 crore) by 2026. Over 75% of buyers are expected to come from Tier-II cities in the future. Of the total retail sales in India, e-commerce has a share of 4.8%. The retail e-commerce sales are expected to show a steep rise, owing to an increase in disposable incomes and the launch of 4G networks. The most significant contributor to online retail sales is electronics with a share of 48%, followed by apparel at 29%. The Indian e-commerce market is expected to become the largest e-commerce market in the world by 2034, only second to the US. Such growth will be further propelled by a significant push from the government which has allocated USD 172 million (INR 11,893.83 crore) to commerce and industry in the "Union Budget 2019-2020."

## Major Trends

The e-commerce sector is looking at an exciting 2019-2020 with an annual growth of 51% contingent on the trends below.

**Omnichannel to Phygital:** There is a definite shift from omnichannel to a merging of digital and traditional retail. Retailers are offering a seamless online and offline customer experience to promote brand imagery, trust, and maintain relevance.

**Experiential Marketing:** Despite the advancement in e-commerce, consumers still prefer physical store experience. Experiential marketing or incorporating engaging in-store customer experience is the trend. The aim is to provide complete brand experience while creating an emotional attachment. For example, Sula wines invite consumers for wine tasting, offering a unique vineyard experience.

**Rise of social commerce:** Social commerce refers to selling products on social media platforms. The expansion in social commerce is attributed to the increase in the number of social media channels and the amount of time spent on it. Millennials are the most significant consumer force with a continuous connect on social platforms.

**Growth of e-commerce facilitators:** E-commerce facilitators enable a brand to execute its digital strategy. They optimize content creation, web platform, technology, inventory management, customer care, and logistics. The growth of facilitators has opened a plethora of job opportunities as well as private equity investments in the industry.

**Technological innovations:** Advances in technology have increased investment by companies in Augmented and Virtual Reality. Enhanced customer experience enabled through innovations in technology is the mantra. Over 85% percent of customer communication would be technologically enabled by 2020, according to a recent study. Lenskart has facilitated a virtual frame-trying experience for customers to help them choose.

**Influencer Marketing:** Influencer marketing has occupied a prominent seat at the marketing budget table. Influencer marketing focuses on using critical leaders with large follower base to drive the brand's message. Influencer campaigns constituting social media and content marketing will see a significant spurt.

**Result-driven Marketing:** Business strategies are focusing more on ROI (Return on Investment). The bottom-line impact has gained importance over plain GMV (Gross Merchandise Value). The buzzword is performance marketing. Marketing spends are being tracked to determine their contribution to total revenues.

**Attention to rural markets:** Developers and retailers are eyeing untapped potential in Tier II and Tier III cities. The demand growth in these sectors is estimated to grow from USD 5.7 billion (INR 39,378.45 crore) today to over USD 80 billion (INR 5,52,680 crore) by 2026.

## Technology- As a GameChanger

The rise in e-commerce has led to the adoption of the latest technology to improve the customer experience. Lowering costs, increasing efficiency, and building brand loyalty are some benefits. Here are top trends expected to revolutionize e-commerce business.

**AR and VR:** Augmented and virtual reality provides augmented buyer experiences on both online and offline retail. It allows customers a 'virtual' touch and feel and influences a sale. It merges the online and offline experience making it seamless, irrespective of the channel opted.

**Blockchain technology:** This will bring about a revolution in online business management. It will provide practical solutions to payment gateways, supply-chain management, and data security.

**Machine Learning and Artificial intelligence:** Algorithms can track consumer buying and browsing patterns, enabling brands to offer personalized experiences and product recommendations. It also facilitates inventory forecast and predicts market demand.

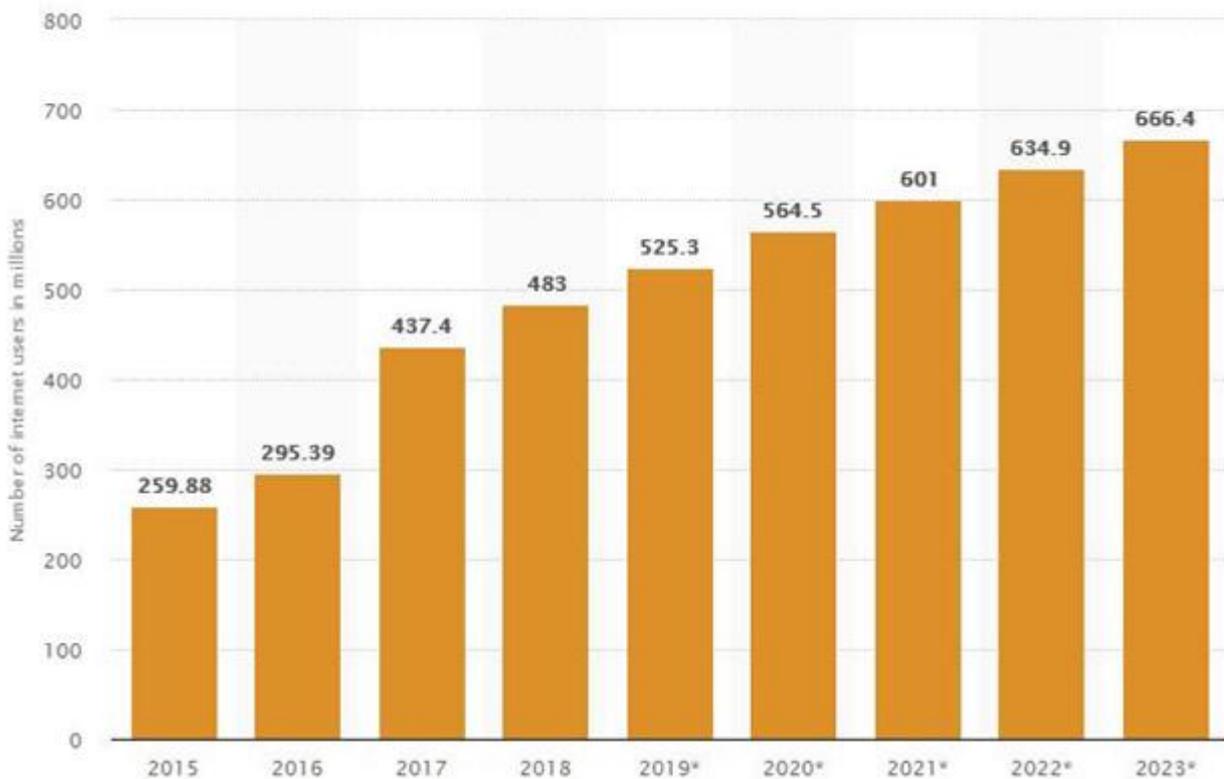
**Multichannel eCommerce:** Brands are selling products wherever consumers consume content. They follow them on messaging apps, social media, online groups, and marketplaces to close sales.

**Automation:** Automation in areas like order and inventory management increase efficiency. Companies like Amazon have evolved to using drones for deliveries. Smart shopping carts will soon guide customers to buy the items on their list and even enable self-checkouts.

### Growth Drivers

Increasing internet and smartphone penetration is one of the key drivers. India ranks second, after China, the number of internet users in the world. India’s internet usage penetration has currently crossed the 500 million mark and is expected to touch 666.4 million by 2023. Internet access is majorly through smartphones, with 320.57 million smartphone internet users in 2016. This figure is estimated to reach 492.68 million by 2022. Rural India will see a surge in internet usage from 23.87% to 45 percent by 2021.

**Number of internet users in India from 2015 to 2023 (in millions)**



Reduced handset prices, 4G high-speed internet, increased use of social media will act as the major contributors to the growth in internet commerce. It is important to note that millennials constitute 34% of India’s population and form 48% of the workforce, which is the highest in the Asia Pacific region. Increased connectivity and spending power will act as crucial contributors to the growth of millennials as drivers of the consumer market.

## Investment Opportunities

By 2026, online retail will contribute 12% to the overall Indian retail market, from just 2% in 2016. From FY 2020, India will be teeming with a matured set of internet users with at least five years of internet usage. Online shopping will reach a crescendo, with fashion and electronics as top performers.

- In 2018, the e-commerce industry received USD 7 billion in private equity and venture capital.
- To increase the penetration of internet among rural women, Google and Tata Trust have started 'Internet Saathi.'
- Digital wallet companies are launching e-commerce marketplaces, banks with zero balance requirement and credit cards will remain relevant and counter competition.
- Beauty segment is fast growing and will have more takers in the coming years.
- The year 2020 will see over 10% penetration in sectors like nutraceuticals and color cosmetics.
- US online giant Amazon and China's Alibaba are in a fight to grab the Indian online pie. While Amazon India is going strong, Alibaba has acquired a stake in the digital wallet, Paytm and e-commerce portal, Snapdeal. Similarly, Softbank, Alibaba's largest shareholder, has bought a stake in Flipkart.

## Major players

While many e-commerce sites are mushrooming, some major e-commerce players are:

**Amazon India:** Founded in 1994 as a marketplace for books, it is today the largest revenue generator in Indian e-commerce.

**Flipkart:** Flipkart began operations in India with discounted book offers as its USP. It has, since, diversified into various other sectors.

**Myntra:** Started in 2007 as an e-commerce website for fashion. Today, Flipkart, Jabong, and Myntra have been consolidated to capture market shares.

**Paytm:** It started as a service for online recharge of mobile and is, today, an e-commerce platform called Paytm Mall.

**Swiggy:** A food tech e-commerce player with real-time food tracking as its USP has gained tremendous popularity.

**eBay:** eBay is an e-commerce platform that facilitates C2C and B2B transactions. Buyers bid for products, and the highest bidder gets the product.

**Makemytrip:** This player sells tickets for travel by air, bus, train as well as holiday packages.

**Nykaa:** Multi-brand e-tailer for beauty and wellness products

**Bookmyshow:** Started in 1999, it is a marketplace for tickets for movies, plays, music shows, sports events, etc.

**Groffers:** An e-commerce firm selling groceries, it has achieved remarkable growth in the five years since its inception in 2013.

**Urban Clap:** Founded in 2014, Urban clap is a leading online marketplace for location specific services in health, wellness, salon, repair and maintenance, pest control, packers and movers, event management etc. It offers over 100 services and has over 1 lakh trained workers.

**Editorji:** Launched by Vikram Chandra, former CEO of NDTV Ltd, Editor ji is a video news app that aims to provide credible news and information through an algorithm based on Artificial Intelligence (AI). Supported by Bharti Airtel and HT Media, It offers the viewer an opportunity to create a personalised newscast on preferred locations, news categories, style, etc.



## Road Ahead

The surge in e-commerce and resultant availability of ready finance, technology and training has made MSME (Micro Small and Medium Enterprises) in India the greatest beneficiaries. The boom in the Indian e-commerce industry will have a positive effect on employment, export revenues, and tax collection.

The introduction of 100% Foreign Direct Investment (FDI) in B2B and B2C eCommerce will drive further growth. The Draft National E-Commerce Policy released by the Government of India in February 2019 supports FDI in the marketplace model of e-commerce. It has restricted the sale of products by any entity which has a leading marketplace as a shareholder, to ensure a level playing field.

## Conclusion

India is witnessing a change in the perception of digitized commerce. E-commerce policies by the government will foster more certainty and fair play in operations. The steady growth in FDI is evidence of the confidence exhibited by the global community in India's e-commerce segment. India is, without a doubt, on the cusp of explosive growth in the e-commerce and consumer internet space.

**Dear Valuable Client / Colleague,**

In case you require any further detailed analysis on above mentioned content, please do get back to us and we shall be happy to provide you the same.

**With Best Regards,**

**Team JPC**

## **About JPC**

JPC is a professional services firm based in Noida- National Capital Region and New Delhi, India. We were established in the year 1974 with the aim to create value for our clients by delivering quality, comprehensive, timely, practical and innovative services. We offer a comprehensive range of services, including taxation services, regulatory services, transaction advisory services, financial & management consultancy services, assurance & risk services, and outsourcing services. Over the past several decades, we have established significant competitive presence in the country. Our vast and diversified client base includes Multinational enterprises, domestic companies, high net worth individuals, government companies and institutions in all leading industry verticals. We are a team of distinguished Chartered Accountants, Management Accountants, Corporate Financial Advisors and Tax Consultants. Our team has the requisite skills and experience to provide complex business, financial, assurance, tax and regulatory services to our clients. Our strength lies in our timely performance-based, industry-tailored and technology-enabled services which are delivered by some of the most talented professionals in the country. For more information about JPC's service offerings, visit [www.jpc.co.in](http://www.jpc.co.in)

In this document, "JPC" refers to J P Chawla & Co. LLP Chartered Accountants (a limited liability partnership firm regulated by the Institute of Chartered Accountants of India, FRN : 001875N/ N500025).

## **Disclaimer:**

*This content is provided on the basis of secondary research only and J P Chawla & Co. LLP (JPC) does not make any representation or warranty of any kind with respect to its contents. JPC specifically does not warrant or represent that any analysis or its content are timely, complete or accurate. This document consists of content for knowledge purposes only and does not constitute an advertisement or opinion or copyright of any kind.*

# J P Chawla & Co. LLP

Chartered Accountants

## **New Delhi office:**

43 Darya Ganj,  
New Delhi - 110002  
INDIA

## **Noida office:**

C-129, Sector 2,  
Noida - 201 301 (U.P.), INDIA  
Phone: +91-120-4573207, 4573208  
General Email: info@jpc.co.in

## ***Main Partners Hand Phone & Email***

Rajat Chawla

+91-9871494499 | rajatchawla@jpc.co.in

J.P. Chawla

+91-9811028918 | jpchawla@jpc.co.in

Richa Chawla

+91-9990509709 | richajuneja@jpc.co.in

*For further information, please email your details to [rajatchawla@jpc.co.in](mailto:rajatchawla@jpc.co.in) or call +91-9871494499.*

