1. Introduction

E-commerce, short for electronic commerce, means buying and selling products and services over the internet. Since its arrival on business scene, e-commerce has significantly changed the way businesses and customers transact products and services. Electronic commerce operates in all four of the major market segments: business to business (B2B), business to consumer (B2C), consumer to consumer (C2C) and consumer to business (C2B). Almost any product or service can be offered via ecommerce, from books and music to financial services and plane tickets. E-commerce enabled businesses reach customers across the globe. It has expanded its reach and scope by offering a greater breadth of choice and offering products and services at a much more competitive price.

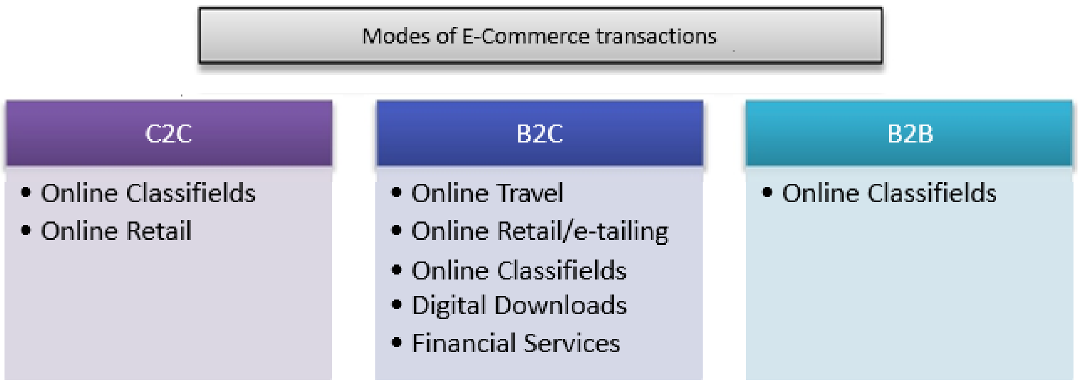


Figure 1.1*: Modes of E-Commerce Transactions*

Over last few years, India has shown remarkable growth in e-commerce especially in the business to customer (B2C) segment and is likely to see significant growth in future. Ever-changing lifestyles and higher disposal incomes, combined with enhanced aspirational levels, especially amongst the demographically youthful population have been driving ecommerce.

One of the major catalysts for e-commerce has been the increasing reach and breadth of internet penetration in India. India with 73.9 million web users has third largest base of internet users in the world after China and the United States. This estimate excluded mobile users and considered only users above the age group of 15+ who accessed the internet from a home or work personal computer. In another estimate, Telecom Regulatory Authority of India (TRAI) pegged the number of internet subscribers in India at 164.81 million as on March 31, 2013, with seven out of eight also accessing the internet from their mobile phones. The accessibility of the internet has served as the backbone for growth of e-commerce and has helped in pushing this revolution to greater heights.

Electronic commerce is generally considered to be the sales aspect of e-business. It also consists of the exchange of data to facilitate the financing and payment aspects of business transactions. This is an effective and efficient way of communicating within an organization and one of the most effective and useful ways of conducting business. It is a Market entry strategy where the company may or may not have a physical presence.

1.1 E-Commerce: Global Scenario

The e-commerce world is getting flatter every day. In the United States, e-commerce is growing at 4X the rate of retail, while in China; it grew a staggering 51% in 2013. The global leaders are well funded, well-organized and driving massive change in retail. In the world of e-retail, cities like Seattle, Washington and Bentonville hold their own against Beijing and Hamburg. It's a world that is changing quickly with fierce competition on a global scale.

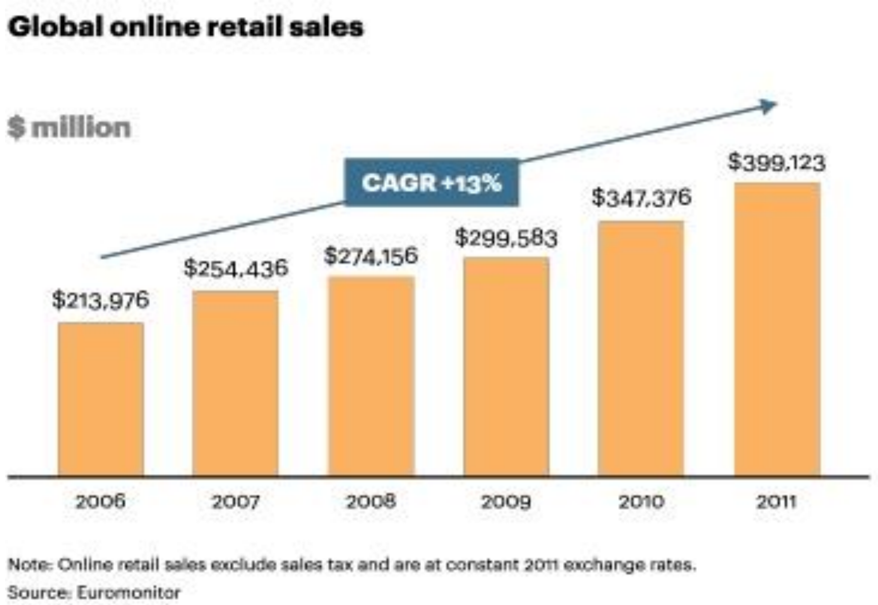


Figure 1.2: *Global Online Retail Sales*

As e-commerce sales skyrocket across the developing world, building an online presence is a low risk way to test new markets or complement existing store footprints. Gaining maximum advantage from such strategies requires knowing a country's true e-commerce potential and its online market challenges. Global e-commerce is thriving as infrastructure, laws, and consumer preferences evolve.

Global e-commerce has grown 13 percent annually over the past five years(see figure 1.2). Retail expansion is increasingly occurring through online channels as a way to tap into growth markets, build brands, and learn about consumers while investing less capital than traditional formats. For example, American luxury retailer Neiman Marcus acquired partial ownership in a Chinese fashion website to test China's market, learn about Chinese consumer's likes and dislikes, and capitalize on the country's increasing demand for luxury goods. Neiman Marcus got all the information it needed without entering into expensive real- estate contracts or trying to navigate the complexity of tier 2 and tier 3 cities. French luxury retailer Louis Vuitton Moet Hennessy (LVMH) used a similar strategy, acquiring Sack's, Brazil's leading online beauty retailer, to develop local recognition of its Sephora cosmetics line.

1.2 The Indian Scenario

India, though started late in E-Commerce, did an excellent job in bringing growth to this industry and is already giving physical retail a run for its money. Let's look at some of the interesting statistics related to E-Commerce industry in India.

- India's E-Commerce market was worth about Rupees 19 billion in 2009 and it went up to Rupees 47 billion in 2012.
- Further the E-Commerce market is expected to reach Rupees 80 billion by the year 2015.
- E-Commerce market is expected to contribute around 4% to GDP by 2020.
- Online Retailing comprises about 12.5% ($300 Million as of 2009). India has close to 10 million online shoppers and is growing at an estimated 30% CAGR vis-à-vis a global growth rate of 8–10%.
- Electronics and Apparel are the biggest categories in terms of sales.
- India has more than 50% of its population below the age of 25 and more than 65% below the age of 35.
- The IAMAI-KPMG report noted that the US had 245 million Internet users and 156 million online buyers; China had 538 million users and 270 million online buyers; Sri Lanka had 3.2 million users and 2 million buyers; and India 137 million Internet users and 25 million online buyers. A new a study conducted by the Associated Chambers of Commerce and Industry of India (ASSOCHAM) and comScore predicts an even faster growth - reaching 330 million to 370 million users in the next two years, making India the second largest audience after China.

The e-Commerce market in India has enjoyed phenomenal growth of almost 50% CAGR in the last five years (See in figure 1.3).

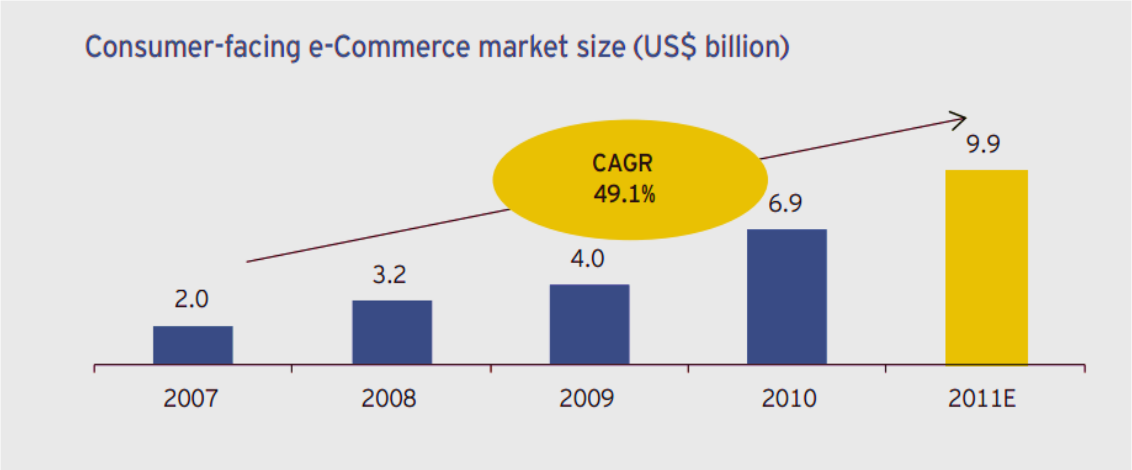


Figure 1.3: *Consumer-facing (B2C) e-commerce market size in India*

The country's consumer-facing (B2C) e-Commerce sector can be split into two broad categories:

- Travel and
- Non-Travel

Online travel is the largest domestic B2C e-Commerce segment, accounting for 81% revenues in 2011. The online non-travel market is further segmented into **e-tailing**, financial services and classifieds

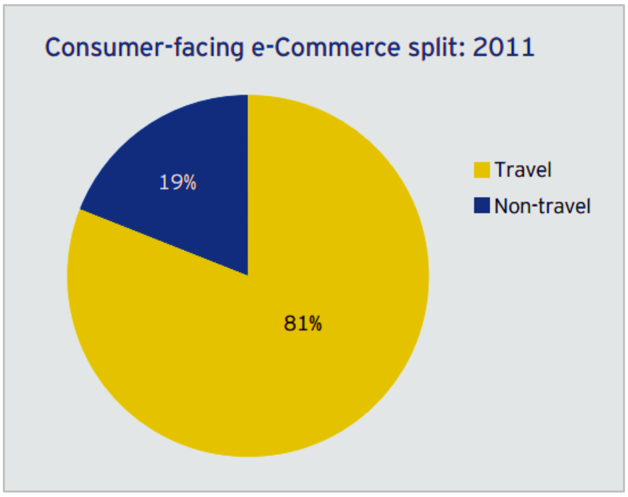


Figure 1.4: *Consumer-facing e-Commerce split in India, 2011*

The Indian online retail market is in a nascent stage, yet it is growing rapidly. Despite all of the existing challenges related to underdeveloped logistics and supply chain operations, poor last-mile connectivity, delivery rejections at the doorstep when cash on delivery payments are used and low conversation rates, online retail in India grew by 67% in 2013. Forrester expects India's online retail spending to grow at a compound annual growth rate (CAGR) of more than 50% over the next five years as more Indian consumers start purchasing online.

The rapidly growing Indian economy is witnessing the emergence of new economic centers of consumption. So far the country's metros and tier-I cities were the hubs of economic activity; however, the focus is now shifting to the next 40 cities1 that are experiencing rapid urbanization and economic growth.

A surge in consumerism, the desire to experience superior lifestyles and own global brands are creating opportunities for both national and international brands to establish a presence in these centers. As brick and mortar players build a presence, e-commerce players have gained a first mover advantage by catering to this unmet demand. It is estimated that non-metro cities generate around 40–45 percent of business for e-commerce portals.

Jones Lang LaSalle India's 2011 study highlights the retail attractiveness and market potential of some of the emerging centers of consumption.

***Figure 1.5**: Retail Attractiveness Index, 2011*

<u>Current E-Commerce Enablers in India</u>

India is at the cusp of a digital revolution. Declining broadband subscription prices, aided by the launch of 3G services, have been driving this trend. Furthermore, the likely launch of 4G services is expected to significantly augment the country's internet user base. Internet has become an integral part of this growing population segment.

The changing lifestyles of the country's urban population have also led many people relying on the internet for their shopping needs. The convenience of shopping from the comfort of one's home and having a wide product assortment to choose from has brought about increased reliance on the online medium.

- Consumer online spending will grow double fold by 2015.
- Average time spent online per Indian has increased drastically from 12.9 hours in 2009 to 18 hours in 2012.
- Usage of Credit Cards is increasing for online shopping than Debit Cards/Net Banking. And Increase in number of payment options.
- Payment gateways have become more secure with multiple level of authentications.
- 3G and 4G spectrum bands are growing at very high rate in India.
- Mobile commerce will have a far reaching effect given the extent of mobile use in India. Against a mere 137 million internet users in India, the number of mobile subscribers is 951 million.
- Young India is the key to drive E-Commerce and M-Commerce in India given the fact that India will have 200 million mobile Internet users by 2015, a big jump from 65 million users in December 2012.

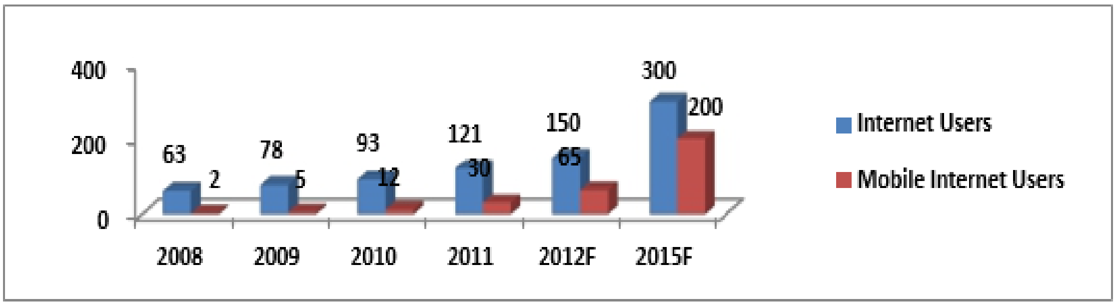


***Figure 1.6:** Growth rate of Internet & Mobile Internet users*

***Source**: I-cube, IIFL, IAMAI, Caris & Company, Ernst & Young estimates*

Areas restricting E-Commerce in India

The accessibility of the internet has served as the backbone for growth of e-commerce and has helped in pushing this revolution to greater heights. But there are many areas which are inhibiting the growth of e-commerce in India.

- Considerably high failure rate of online transactions.
- Internet infrastructure still needs improvement. Low average broadband speed and flat average internet speed are real cause of concern.

- People prefer Cash On Delivery method of payment as the safest option making e-commerce companies to continue bleeding money on such services.
- Internet penetration in India is still the lowest as per the E&Y report.
- The IAMAI-KPMG report established a direct co-relation between the number of Internet users, the number of online buyers, the value of e-commerce, and openness to FDI (foreign direct investment)—India is the only one among a list of developed and developing economies that does not allow such FDI.

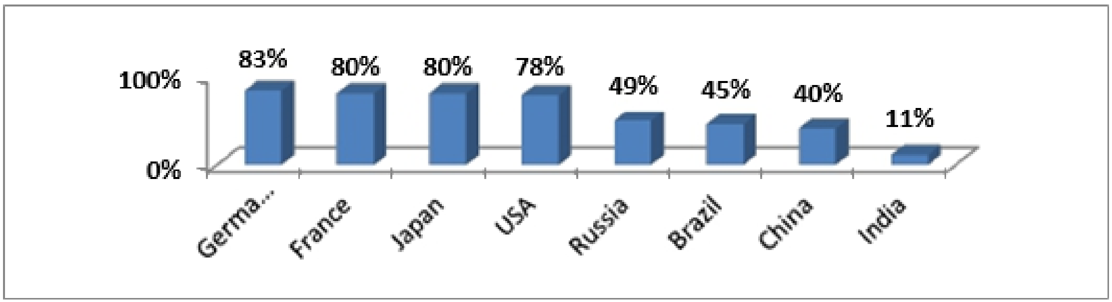


Figure 1.7: *Internet Penetration Rate*

Source*: Internet World Stats*

1.3 Online Retail/e-tailing in India

Retail e-commerce (or e-tailing), is essentially the selling of retail products through internet. E-tailing revenue can come from the sale of products and services, through subscriptions to website content, or through advertising. E-tailing requires businesses to tailor traditional business models to the rapidly changing face of the Internet and its users. E-tailers are not restricted solely to the Internet, and some brick-and-mortar businesses also operate websites to reach consumers. Online retailing is normally referred to as e-tailing.

In India, the retail market has been primarily catered by traditional brick and mortar stores which even today handle over 93 percent of the total market. According to Technopack, India's leading management consultancy firm in retail sector, e-tailing is still a small part (0.1 percent) of overall retail in India but it is projected to grow at a rapid pace to reach 7-8 percent of the total Indian retail market by 2020. In value terms, the report states, e-tailing has the potential to grow to as much as $76 billion by 2021.

In terms of numbers, the current share of organized retail is growing at 24% per annum. The online retail is only 1% of the total organized retail market in India. (Source: Re-birth of E-Commerce in India, E&Y, 2012)

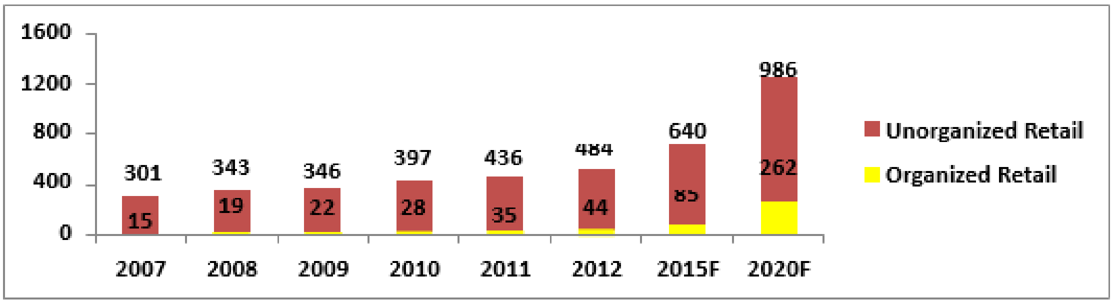


Figure 1.8: *Size of Organized and Unorganized retail in India*

Source: BCG

Though travel is the largest segment of E-Commerce market, online retailing will soon come at par with it as per the E&Y report below:

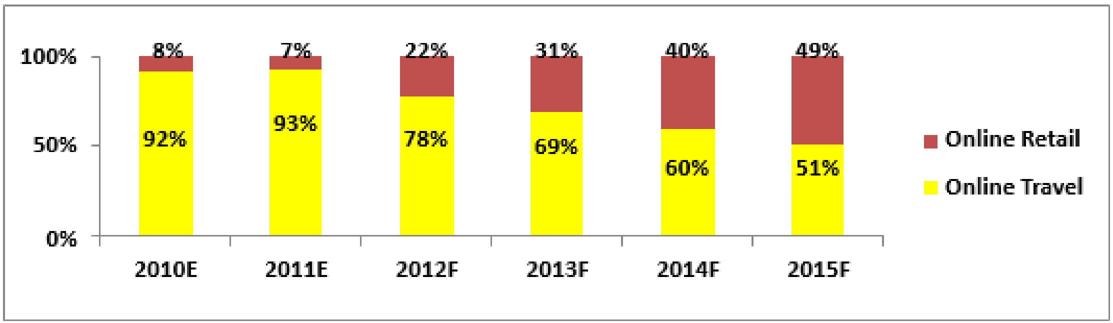


Figure 1.9: *Market share of Online Retail vs Online Travel*

Source: Ernst & Young estimates, Avendus (These shares have been calculated by considering the online travel and e-tailing market)

The current structure of online retail market can be broadly divided into two parts:

1. Category focused players or Vertical Players

2. Multi category players or Horizontal Players

While the vertical players focused on penetrating a single category deeply to offer huge variety and range of products, horizontal players offered wide range of categories to the consumers making it a one stop online shop for them.

The current trend is that either most of the single category players are getting acquired by multi-category players or the single category players have started added multiple categories to their own business thus converting into Multi-category players. It gets hard these days to survive as a vertical player unless you provide a niche segment of product or service.

Having said that the multi category players is a safer bet to run your business, category focused vertical players are here to stay as they bring with them the deep understanding of their target customers and provide customization to suit their consumer's needs.

E-Commerce in India is now witnessing another emerging model of online marketplace which has attracted many established E-Commerce players in India to switch from traditional E-Commerce business model to marketplace model as it gives the consumer a greater hold on the options to select from different sellers of their choice. The pricing power in this model is not with the retailer but with the vendors/sellers selling on the marketplace.

Group buying is another major model that has come up in India where the deal is decided based on the collective buying of a deal leading to larger volumes for merchants and hence a great deal on prices. This model is yet to be replicated by other E-Commerce players in India but can prove to be advantageous for both the retailer as well as consumer.

Amidst all these factors that look promising for the E-Commerce growth in India, one major area of concern is the logistics industry which is still in its nascent stage. The logistics in online retailing can be either in-house or given to a 3rd party logistics company. There are pros and cons of using either of them. Given below are some of the benefits of having in-house logistics:

- Increase in customer delight as in-house logistics cater to the customized customer delivery requirements, if any
- Refined and polished delivery agents take the company branding personally and make sure they leave an impact with the customer about how much their company cares for their customer
- If funded properly, the company can make their in-house delivery team tech enabled by giving them GPS and other enablers helping to reach customer on time and making last mile deliveries
- Trained personnel can also be used to take feedback from the customer and can also assess the customer in case of returns

Given the potential of e-tailing and the inhibitions shown by customers, online retailers are looking towards promotions as one of the important tools to influence the customers to visit the website and make purchases from the website. 'Online promotions', the promotions carried out by shopping websites, is seen as one of the main influencer in converting a non-customer to customer. In this project, we present the different types of pricing strategies and online promotions carried out by Indian shopping portals. We start the paper by looking at the drivers of the e-commerce and the challenges and hurdles faced by online retailers in India. This is followed by a description about the different types of e-retailers prevailing in Indian online market space. In the next section, we try to understand why investors are so optimistic about investing in e-commerce space; despite of the fact that none of the Indian online shopping portals are profitable. We also try to deduce the reasons why online retailers opt for particular pricing strategies and online promotions; and if these tactics will lead to a sustainable business model.

Subsequently, the paper explains the consumer psychology and price sensitivity, about online shopping and their views on online promotions offered by e-retailers. In the last section we examine the growing trend of online promotions using social commerce and conclude the research.

2. Literature Review

Back in late 90s and first decade of 21st century, online travel sites encouraged and built trust for the customers to transact over the internet. While customers patronized online portals for services due to the convenience that they offered, sale of products through online medium did not take off as expected.

Customers for products tended to have a lengthier pre-purchase cycle as they gathered information on features, warranties, and prices from various touch points. Moreover, for categories like apparel and accessories, ‘touch and feel’ was considered a prerequisite. However, with service available across 24/7/365 days, online shopping offered an opportunity which the traditional brick and mortar outlets could never offer.

2.1. Facilitators of e-commerce in India

Over the years, with busy schedule and lack of time with customers, online shopping portals offered convenience to customers to log in at their free time and convenience which appealed to customers in metropolitan areas (tier-I towns). The online retailers also brought in a number of initiatives to encourage the customers to opt for online shopping. The list attests some of the initiatives implemented by online retailers.

Cash on delivery (COD): COD payment option has been the innovation that has added a lot of momentum to online shopping and improved Indian customers’ perception towards online shopping. It addressed two major issues related with payment which online retailers faced. Earlier, many customers feared sharing their credit/debit card details over internet which was proving to be a major deterrent in online shopping. COD permitted buyers to purchase without disclosing their credit/debit card details by allowing the customers to make payments when products were delivered. Eventually, even those who possessed credit card have started preferring to shop online using COD. It is suggested that 60 percent of Indian online buyers who owned credit cards, still preferred to transact through COD in their most recent purchases (BCG, 2013). More than 50 percent of all online transactions in India were based on the COD payment option.7 COD was also instrumental in reaching out to customers in non-metropolitan areas (tier-II and tier III cities) where most of the customers did not have credit/debit cards. The perspective with which a customer from tier-II and tier-III city shopped was quite different from the way metropolitan customers shopped online. A customer from metropolitan area would shop online because she found it convenient and it saved time. However, tier-II and tier-III city customers shopped online as these customers were unable to access the choices they had aspired for at the cities where they lived. By giving the option to make payment by COD, online retailers were able to quickly build upon the untapped demand of aspiring customers.

Innovative and customized services for attracting customers: To capitalize and appeal to the Indian customer to try online shopping, e-commerce companies have started a number of innovative services. Now majority of e-retailers in India offer free home delivery, though a nominal fee is charged for very small value orders. Other similar initiatives are benefits such as hassle free return policies within 7–30 days, referral discount, wish list, Try and Buy, tracking the consignment once the product is ordered etc. In case of online shopping of garments, majority of the online retailers have started offering customers the option to return and even exchange the product within 30 days if they are not satisfied by the product which was delivered to them. In an extension, some online portals are offering Try and Buy services in certain cities as it was found that more than 70 percent of the returns happened because of size misfits. In this arrangement, the online retailer sends a salesperson to the customer's house with the merchandise which has been pre-selected by the customer. Based on the fit trails, the customer can select the item which fits her and make payments while returning the others to the online retailer. Additionally, many e-retailers offered the options of saving the product that customers liked in their wish list in case they were not in a position to buy immediately. Thus the customer did not make any commitment to purchase the product immediately and at the same time it offered her the flexibility to come back to the site and decide whether to go ahead and buy or even upgrade for a better deal at a later date, if she came across it. All these services have helped in expanding the customer base of online retailers.

Investment in distribution channel: Having realized that delivery charges form a major component of the product cost, many online retailers have made investments in developing the distribution channel. This investment is aimed at facilitating the e-retailer in building a good customer base in medium to long term with the idea that retaining an existing customer is more profitable for a company than acquiring a new customer. With the distribution system in place, the product costs have been brought down and it has helped in improving the average turnaround time for delivering products from 4-5 days to 1–2 days. This has also improved the customer satisfaction with higher probability of retention. With many online retailers developing their own distribution channel, some of them have also started Card on Delivery (CoD) services. CoD is for catering to those customers who don't keep cash handy. In this payment option, a logistics person, along with the products, brings a mobile point-of-sale (POS) swiping machine to customer's door to accept payment. However, a card reader comes at an annual rental of Rs 6000-12000 per reader thus it is yet to become a very attractive option.

2.2. Challenges and hurdles faced by Indian e-commerce:

In spite of the numerous initiatives by online retailers to bring customers online for shopping, e-tailing, as reported by Technopack, only account for 0.1 percent of the total retail market in India. This section lists some of the major challenges and hurdles faced by online retailers in India.

The major hurdle normally faced by e-tailing companies was that customers would do research online but would buy offline from the neighborhood store whom they trusted. Also, there were doubts with respect to warranty enforcement while purchasing online. Moreover, customers were not willing and were hesitant to share their personal details online. Further, customers feared that 'what they see may not be what they get' as touch and feel factor was absent online.

Absence of human touch: One of the key differences between traditional brick and mortar versus e-tailing is the replacement of human to human interaction with human to machine interaction. For the same, the missing link in any e-com0merce site has been of the one-to-one relation between the salesperson and customer. In the traditional brick and mortar environment, the customer tends to take cues from the salesperson about the trends as most customers believe that salesperson is duly informed and is well aware of the developments in her area of expertise and work. Added to such concerns, the element of personal reassurance which a salesperson offers in traditional brick and mortar store is missing in online shopping. The inability to bargain, wherein customer can ask for additional discount during interaction with shopkeeper, also dampens the joy of shopping.

Acquisition and retention of customer: Lack of adequate trust is considered as one of the most frequently cited reasons for customers unwilling to purchase online (Lee and Turban, 2001).Therefore, building up the minimum threshold trust can play a critical role in reducing and even eliminating the hesitation customers have while transacting online. It not only facilitates acquiring customers but also helps in retaining customers. However, building such trust in an online environment takes time, and sustained effort. For example, in India, traditionally customers have trusted their family jeweler for purchasing jewelry made of gold and diamonds as these are high ticket transactions. To bridge the gap of trust and creditability, one of the largest online jewelers, caratlane.com has opened a solitaire ‘experience’ lounge. It is a ‘hybrid’ experience for the customer where she can come to a physical store and still buy it online. In another initiative, caratlane.com asks the customers to select any 5 products from try@home catalogue which they can try at their home. This gives the company an opportunity to build trust, increase volume and also helps the company to up-sell and cross-sell its products. However, in order to build trust, online retailers often end up spending significant amount per customer. It was reported that majority of Indian online retailing websites spend between Rs 800-1,500 to acquire a customer. This becomes even more challenging and expensive as repeat purchase tends to be less often the norm. Also, with growth of online retailing, there are multiple players, often with undifferentiated offerings, who are competing for the same set of customers. The resultant stickiness and inability to retain customer loyalty is becoming a growing concern.

Delay in remittance of cash by logistics provider: Although COD has encouraged more customers to buy online, from an e-retailer’s perspective; this mechanism is not a great payment mechanism for the retailers, especially in the Try and Buy type of transactions. COD transactions lock-up the working capital of the company, sometimes up to six weeks. Adding to this concern, e-retailers have to bear heavy shipping costs when customers return the product or change their minds after the product arrives at their door step. Sometime, the returns have been as high as 40-45 percent of all COD shipment.

Time lag between order placed and order delivered: One of the major reasons for customers to opt for and prefer buying products from brick and mortar shops is that products are available almost immediately. This is in contrast to online shopping wherein the customer has to wait for the product to be delivered. This means that in online shopping, the customers have to pre-plan her purchase process, in order to accommodate the delivery process. In certain categories, for example, grocery, customers prefer the delivery within couple of hours of placing the order. To address this concern, myntra.com, which is a lifestyle e-commerce site, has piloted the delivery system wherein the goods purchased by customers in Delhi and Bangalore are delivered within two hours of placing the order.

Short attention span of customers during online shopping: One of the major difference between online and offline mode of shopping is that customers often show short attention span and lack of patience in online shopping. Customers easily navigate to the next site if they don’t find the product they were looking for. This problem gets further compounded by slow internet speed in many cities in India. Some reports suggest that customers expect transactional-based pages to download on average within two seconds. Additionally, 40 percent will wait no more than 3 seconds for a web page to respond. This presents a big challenge for online retailers to keep the customers attentive.

Expectation of lower prices in online shopping: Customers, due to practice followed by online retailers over the last few years, have been trained to expect lower price and free shipping during online shopping. Many a times, the shipping costs makes the cost of the product higher than expected and customers tend to drop the idea to shop online unless it is one of the rarest of rare kind of product that they are looking for. Inspite of the above-mentioned challenges and hurdles, a Google India study reports that online shopping in India saw 128 percent growth between 2011 and 2012 compared to only 40 percent growth in 2010 to 2011, making 2012 the tipping point for online shopping in India.

2.3. Different categories of e-commerce site operating in India

Before we explain the rational for online promotions, and the different methods, manner and mechanisms in which e-retailers offer online promotions; the paper will describe the different types of e-retailers prevailing in Indian online market space. They can be classified according to the range of merchandise sold by them or according to the inventory management system followed by them. We will first describe the e-retailers based on the inventory management system.

2.3.1 Marketplace Model

In the marketplace model, (sometimes also referred as consignment based model), online retailers tie up with network vendors to procure the product who also prepares a web catalog which is put up on the website of the e-retailer. Once the product is ordered by the customer on the e-retailer's website, a notification is sent to the network vendor for fulfillment of the order. The vendor then ships the product to the customer and financial statement is made for the transaction done between vendor and online retailer.

This model is advantageous to the online retailers as it allows them to offer large number of choices to customers while the product gets directly shipped from vendor and there is no need for investment in warehouse and logistics by e-retailer. Moreover, from an online retailers' perspective, these models present an opportunity to the merchants/vendors wherein they can procure and supply locally and sell nationally, enhancing their reach and spread.

Thus, marketplace model requires less investment upfront and is easy to expand the business quickly. However, marketplace model has its set of drawbacks like longer delivery time, non-updating of web catalog, and issues with sub-standard quality. These are some of important aspects as they ultimately affect the brand reputation of a particular e-retailer. However, this business model works out well for online retailers due to difficulty in assessing and forecasting the choice of customers in online shopping especially during initial days. Also, this model has special relevance for Indian markets as there are a number of unorganized players. Ebay was a pioneer in development of marketplace model. Recently, Getit, through its website getitbazaar, and Infibeam, through its initiative ‘Build a Bazaar’, has implemented marketplace model in Indian markets.

2.3.2 Inventory based model

The second type of model, known as inventory based model, is designed in a way so that online retailers buy and stock the products in their warehouse and sell them through their websites. This model allows the e-retailer to provide assurance of the quality of product and allows them to have better control over the services through timely and faster delivery of products thereby providing better customer experience.

Inventory based model has worked better for e-retailers who offer products in niche segment as they are able to procure products in bulk, thus obtaining higher discount from manufacturers. However, inventory based model is not always financially viable as it has its drawbacks like higher working capital and higher operating cost leading to higher expenses. Also, there are chances of stock getting out-dated, pile up of rejections or non-moving goods. In some cases, excess inventory stock-up may lead to big losses. It becomes all the more challenging when the competition, in order to capture bigger market share, offers the same value proposition but heavier discount.

2.3.3 Managed marketplace model

Recently, a number of online retailers are exploring the opportunity to expand and enter into managed marketplace model. In this model, the online retailer does not hold on to the inventory of the vendor but they have to undertake same quality checks and the supply mechanism so that there is no comprise on customer shopping experience. Customers are informed about the same so that they don’t build up on the expectations, as the delivery may take more than usual time.

Shopclues.com is the first and the largest fully managed marketplace e-commerce site in India that had more than 1.2 million SKUs across 900+ categories and had built the largest community of merchants in India with eleven thousand merchants. E-retailers can also be classified as having horizontal (multi-category) business model and vertical (niche category) business model based on the range of merchandise sold by them.

2.3.4 Horizontal business model

Multi-category e-retailers who sell wide range of product assortments ranging from apparels, shoes, lifestyle products, books, music etc. are known to follow horizontal business model. Some of the popular ecommerce sites like flipkart.com, jabong.com, myntra.com, snapdeal.com are examples of multi-category players.

The drawback with being a multi-category player is that in order to tap in more customers, online retailer has to stock up more inventories of each of the categories. With more product category options, the e-retailer needs to analyze and understand the purchasing patterns of a number of customers in order to effectively cater to them. Also, it presents a challenge for design of the e-commerce website as all product categories need to be visible on main page of the website.

2.3.5 Vertical business model

Some e-retailers keep their range of merchandise limited by offering the customers products which are focused on single/niche category. Firstcry.com, gkboptical.com, bigbasket.com, urbanladder.com are few examples of niche category e-retailers. These e-retailers bring their deep understanding of customers' need to serve the customers in what they consider themselves as best. Also, it doesn't create confusion in mind of customers. Niche e-tailing also offers an opportunity for personalized service.

For example, if a customer wants to purchase grocery for a month, then the traditional kirana store knows tentatively what the customer will buy based on her past purchase. In the same way, online e-commerce sites offer history of purchase to the customer which makes the whole process easier and less time consuming for the customer. Babeezworld.com, an online shopping site for babies uses the past purchase data of the customer in order to improve the whole experience. This e-retailer offers personalized suggestions to customers. Here, when a mother buys diapers for her kid, the site knows that she has an infant and is likely to buy more in future. So, the site tentatively suggests when the mother will need the next bigger size for her growing baby.

Till 2012, electronics was the fastest growing segment in the online shopping space. However by 2013, apparel has been the fastest growing category in online retail and has reached 15 percent online users in India. In the vertical e-commerce categories, baby products, healthcare, and home and furnishing have also shown good growth.

The Path to Profits

Success in online retail requires patience, persistence, and an ability to adapt to local markets. There are four main success factors for entering new markets either online or as part of a multichannel strategy.

- **Develop a customized value proposition**. As in bricks-and-mortar retail, e-commerce requires adaptation to local markets. A one-size-fits-all approach will not work because online consumers in different countries exhibit unique behaviors and make Internet purchases for different reasons. Success requires adjusting websites, payment methods, shipping options, and business models according to the needs of each market.
- **Manage the customer experience**. The convenience of ordering products at the click of a button and having them delivered to your home is a main benefit of online shopping. Thus, managing the customer experience from online browsing and product purchase to delivery and return is critical. In markets where logistics are a challenge, constant communications with customers about shipping timelines can help manage expectations and build trust.
- **Do not underestimate local players**. Domestic companies dominate online retail in developing markets because they understand local consumer preferences and the e- commerce challenges and have well-honed online retail skills developed in their home countries. Even as foreign retailers enter, these local firms will continue to be formidable competitors.
- **Have a long-term focus**. Launching e-commerce operations in developing markets demands patience. It takes time to navigate a market, learn about online consumers, and build a reputable online brand.

Expansion and Long-Term Rewards

The race to expand online retail in developing markets has already begun for both international and home-grown retailers. E-commerce and multichannel integration in emerging markets offer tremendous opportunities—at potentially lower risk and investment than building bricks-and-mortar stores. The best path to online retail success is the one that creates an immediate impact in developing markets and builds a growing, long-term advantage.

2.4. Pricing approaches and strategies in e-retail

There are three main approaches a business takes to setting price:

- **Cost-based pricing:** price is determined by adding a profit element on top of the cost of making the product.
- **Customer-based pricing:** where prices are determined by what a firm believes customers will be prepared to pay.
- **Competitor-based pricing:** where competitor prices are the main influence on the price set.

2.4.1 Cost based pricing

This involves setting a price by adding a **fixed amount or percentage to the cost** of making or buying the product. In some ways this is quite an old-fashioned and somewhat discredited pricing strategy, although it is still widely used. After all, **customers are not too bothered what it cost to make the product** – they are interested in what value the product provides them.

Cost-plus (or "mark-up") pricing is widely used in retailing, where the retailer wants to know with some certainty what the gross profit margin of each sale will be. An advantage of this approach is that the business will know that its costs are being covered. The main disadvantage is that cost-plus pricing may lead to products that are priced un-competitively.

Here is an example of cost-plus pricing, where a business wishes to ensure that it makes an additional £50 of profit on top of the unit cost of production.

Unit cost	£100
Mark-up	50%
Selling price	£150

Mark-up percentage largely depends on the normal competitive practice in a market and also whether the resulting price is acceptable to customers.

The main advantage of cost-based pricing is that selling prices are relatively easy to calculate. If the mark-up percentage is applied consistently across product ranges, then the business can also predict more reliably what the overall profit margin will be.

2.4.2 Customer-based pricing

<u>Penetration pricing</u>: The aim of **penetration pricing is usually to increase market share of a product,** providing the opportunity to increase price once this objective has been achieved. You often see the tagline "special introductory offer" – the classic sign of penetration pricing.

Penetration pricing is the pricing technique of **setting a relatively low initial entry price,** usually lower than the intended established price, to attract new customers. The **strategy aims to encourage customers to switch to the new product** because of the lower price.

Penetration pricing is most commonly associated with a **marketing objective** of increasing market share or sales volume. In the short term, penetration pricing is likely to result in lower profits than would be the case if price were set higher. However, there are some significant benefits to long-term profitability of having a higher market share, so the pricing strategy can be often justified.

Penetration pricing is often used to support the launch of a new product, and works best when a product enters a market with relatively little product differentiation and where demand is price elastic – so a lower price than rival products is a competitive weapon.

<u>Price skimming</u>: Skimming involves **setting a high price before other competitors come into the market**. This is often used for the launch of a new product which faces little or no competition – usually due to some technological features. Such products are often bought by **"early adopters"** who are prepared to pay a higher price to have the latest or best product in the market.

Good examples of price skimming include innovative electronic products, such as the Apple iPad and Sony PlayStation 3. There are some other problems and challenges with this approach:

- Price skimming as a strategy cannot last for long, as competitors soon launch rival products which put pressure on the price (e.g. the launch of rival products to the iPhone or iPod).

- Distribution (place) can also be a challenge for an innovative new product. It may be necessary to give retailers higher margins to convince them to stock the product, reducing the improved margins that can be delivered by price skimming. A final problem is that by price skimming, a firm may slow down the volume growth of demand for the product. This can give competitors more time to develop alternative products ready for the time when market demand (measured in volume) is strongest.

Loss leaders: The use of loss leaders is a method of sales promotion. A loss leader is a product priced below cost-price in order to attract consumers into a shop or online store. The purpose of making a product a loss leader is to encourage customers to make further purchases of profitable goods while they are in the shop.

Pricing is a key competitive weapon and a very flexible part of the marketing mix. If a business undercuts its competitors on price, new customers may be attracted and existing customers may become more loyal. So, using a loss leader can help drive customer loyalty.

One risk of using a loss leader is that customers may take the opportunity to "bulk-buy". If the price discount is sufficiently deep, then it makes sense for customers to buy as much as they can (assuming the product is not perishable).

Using a loss leader is essentially a short-term pricing tactic for any one product. Customers will soon get used to the tactic, so it makes sense to change the loss leader or its merchandising every so often.

Predatory pricing (note: this is illegal): With predatory pricing, prices are deliberately set very low by a dominant competitor in the market in order to **restrict or prevent competition**. The price set might even be free, or lead to losses by the predator. Whatever the approach, predatory pricing is illegal under competition law.

Psychological pricing: Sometimes prices are set at what seem to be unusual price points. For example, why are DVD's priced at £12.99 or £14.99? The answer is the **perceived price barriers** that customers may have. They will buy something for £9.99, but think that £10 is a little too much. The aim of **psychological pricing** is to make the customer believe the product is cheaper than it really is. Pricing in this way is intended to attract customers who are looking for "value".

2.4.3 Competitor-based pricing

If there is strong competition in a market, customers are faced with a wide choice of who to buy from. They may buy from the cheapest provider or perhaps from the one which offers the best customer service. But customers will certainly be mindful of what is a reasonable or normal price in the market.

Most firms in a competitive market do not have sufficient power to be able to set prices above their competitors. They tend to use **"going-rate" pricing** – i.e. **setting a price that is in line with the prices charged by direct competitors**. In effect such businesses are **"price-takers"** – they must accept the going market price as determined by the forces of demand and supply. An advantage of using competitive pricing is that selling prices should be line with rivals, so price should not be a competitive disadvantage.

The main problem is that the business needs some other way to attract customers. It has to use non-price methods to compete – e.g. providing distinct customer service or better availability.

2.5. Promotions employed by e-commerce websites in India

It is expected that most of the customers will like to save on their shopping expenses and therefore they will look for discounts and coupons. Research has indicated that coupons can directly impact happiness of people, promote positive health, and increase their ability to handle stressful situations. Coupons make customers 11 percent happier and 68 percent more motivated to try a new business. This kind of behavior of customers where customers prefer coupons holds true for online as well as offline mode of shopping. For customers, e-coupons and various online promotions act as a strong incentive to shop online, especially in urban areas. Promotions by e-commerce websites who are multi-category players or follow market place model provide additional incentive to customers besides offering a range of products under one roof which the traditional brick and mortar stores rarely offer.

According to a BCG report, 37 percent of the customers valued the convenience of shopping from home.

The report also stated that 30 percent of online buyers were drawn to internet shopping for discounts. The same report stated that 29 percent customers appreciated the expanded variety of products available online compared with what was available at an average brick-and-mortar store (BCG, 2013). Thus, though convenience and assortment have acted as pull for the Indian customers to shop online, discounts and online promotions provide an extra incentive for the shoppers to shop online.

Wide usage of social media by customers has also pushed the online retailers to offer promotions during online shopping. According to a study conducted on customers in United States, it was found that online US shoppers were using the social media to shop for the best deals. This can be expected to be true for Indian shoppers as well, as they spend significant time online on social media. Thus, e-retailers see online promotions as the extra incentive for attracting customers who are already looking for such opportunities.

Besides, online promotion works as an alternative for e-retailer, especially who work on inventory based model, to liquidate excess product inventories.

From the perspective of e-retailers, online promotions increase the potential of sales for the e-retailers and at the same time they act as an emerging opportunity for customers to experience the online shopping platform. Majority of the online retailers offer at least 20 percent discount on the first purchase in order to encourage customer to experiment and experience the online shopping. E-retailers use online promotions to build awareness about their brands by driving more traffic on to the online retailer's website. There have been a number of strategies adopted by e-retailers in India for online promotions.

2.5.1 Deal Aggregators (Daily deals websites/Group buying websites)

Daily deal websites provide daily discount offers in various categories like restaurants, apparel, lifestyle products and travel. On the other hand, group buying websites work on the premise that collective buying will lead to larger volumes for merchants by which they can make offering to customers at attractive prices. These discounts attract deal hunters and price-conscious customers and they tend to buy the product and services which they would have not bought otherwise. While both types of deal aggregators work on similar business models, there is a subtle difference between the business model of daily deals and group buying websites. In group buying, a minimum number of buyers is required for a deal to go live or get activated (commonly known as tipping point), whereas daily deal sites do not have such requirements. The group buying sites generally provide hyper-local deals to customers which customers can access easily from the proximity of their localities.

Daily deals are generally designed for business that has a fixed cost and excess capacity. This model works well in service sector wherein if the perishable inventory remains unused then the revenue is lost for that period of time. For example, most of the salons and restaurants offer deals on weekdays or afternoon hours when the traffic is usually low compared to weekends and evenings respectively. This kind of offers drives customers to the merchant's venue and merchants are able to increase their revenue. This also gives an opportunity for the merchant to serve the customers better as the rush is comparatively lower and customers get a more personalized experience. If the merchant is able to provide the personalized attention to the customer without making him/her realize that the customer has come to commercial establishment just because he has been offered discounts or coupons then the chance of that customer being a satisfied customer will be higher. It also increases the chances that she will return back as a satisfied customer. Small and new business owners have looked at daily deal websites and group buying sites as an opportunity to increase awareness about their brand. Sometimes, these websites plan deals on their own websites to create awareness about their websites. One of the recent examples of this phenomenon has been initiative by groupon.co.in, an online deal and coupons website when onion were selling at Rs. 60-100 per kg, three-four times their normal prices. Groupon, who has been known for its deep discounted deals on everything from restaurant meals to shoes and watches, received an overwhelming response when it offered onions at Rs. 9 in India which was about 80-90 percent less than the market price. As per the deal, the customer could buy 1 kg of onion from Groupon website on 'first-come-first-serve' basis with sales limited to 3,000 kg per day. The deal was offered for the next seven days across 78 cities in India until it sold 21,000 kg of onions. On 5th September 2013, the day offer was launched; Groupon sold 3,000 kg of onions in 44 minutes. As the news spread, second day saw heavy rush to its website causing the website to crash. By the 5th day of this promotion, the website claimed that the entire stock of onions for that day was bought within 7 minutes and deal was closed for that date. As per the terms and conditions, only 1 kg per delivery address was allowed and delivery was expected within 10 working days and this deal was no offered under cash on delivery. The company officials claimed that the offer was not about profit or loss but was designed to generate shock and awe among customers and spread brand awareness.

2.5.2 Flash Sales

The concept of flash sales started off when the retailers/companies sold the whole unsold stock in a different market. Flash sales aided retailers/companies to liquidate their unsold capacity or off season stocks. Sometimes, retailers would buy unsold merchandise from one country and sell it into another country where the last year's collection was not only "good enough" but also considered as "great". Generally, flash sales were held for only few items of merchandise which was offered for limited period of time along with very huge discounts. Thus, retailer would try to create an illusion of exclusivity in the minds of customers. The retailers resorted to flash sales during recession when affluent customers controlled their spending. In these times, the only option left to the retailers was to sell the excess inventory through flash sales which otherwise they would never sell at discount. Vente-Privee, a European e-retailer, started the trend of flash sales in online medium and it was later adopted in U.S.A by Gilt Group. Flash sales sites offer extensive reach for the e-retailer which the traditional brick and mortar store does not offer. Thus, it's a win-win situation for both the e-retailers and customers. The e-retailer gets rid of surplus stock while customers get the opportunity to buy their favorite brands at a "great bargain". However, liquidation of inventory is not the only reason for e-retailers to undertake flash sales. Gilt, the most prominent flash sale site in US, was used to introduce Volkswagen's all-new 2011 Jettas. Volkswagen was the first automotive brand to be sold through any flash sale site in the US. Volkswagen sold three of the $15,995 cars for $5,995 on Gilt. Fifty-five thousand people who missed out added their names to the wait list and Volkswagen sent them $500 coupons to buy or lease a Jetta. Volkswagen was able to sell 69 full-price cars as a result of the Gilt flash sale and created an e-mail list of interested customers. The company officials claimed that the sales wasn't the actual objective for Volkswagen, it just wanted to create a buzz and awareness.

Many companies have offered flash sales through different websites in India. EBay.in offered Nokia Lumia 620 for only Rs 13,379 in its 'One Day Flash Sale' offer in March 2013. In another example, spicejet.com offered 'The Big Sale' for three days in which '10 lakh seats' were made available for an all-inclusive fare of just Rs 2013 through its website. The offer was valid for bookings of domestic flights made during January 11 to January 13, 2013 while the customers could undertake their travel from 1st February to 30th April, 2013. The company officials claimed that it sold 7,05,000 tickets in just three days (of the promotional fare) and the carrier managed revenue of Rs 165 crore (1 crore = 10,000,000).

However, a flash sales site also has certain drawbacks. A flash sale site creates a false sense of urgency among customers expecting them to act immediately. However, over a period of time, these customers discover that the same merchandise may be available for less with another e-retailer. This affects the reputation of the e-retailer if different e-retailers offered the same merchandise and fight for the same set of customers. Moreover, adding to these drawbacks are the high shipping costs and tough return policies, especially for products, which make online flash sales a less shopper-friendly option.

2.5.3 Cash Back Sites

Cash back sites like pennyful.in, cazback.in, and cashkaro.com are becoming popular in the e-commerce market in India which helps the e-retailers in increasing visitors at their websites. Under this model, most of the e-retailers in India like myntra.com, jabong.com, flipkart.com, and yebhi.com work on cost-per-sale mechanism and pay the cash back sites marketing/referral fee, in the range of 3-5 percent, to bag in more business for them. In exclusive tie-ups, this referral fee percentage can go higher. For example, snapdeal.com offers cashkaro.com (cash back site) 7.5 percent flat commission. However, in most of the cases the marketing fee that cash back sites get from e-retailers is based on actual transactions, and about 80 per cent of the marketing fee is then passed on to the customers by a transfer to their bank accounts. The schemes offered by cash back sites facilitate e-retailers towards bringing in more repeat customers and create a win-win situation for all involved in the process. From e-retailers' perspective, it is able to acquire more business while the cash back sites gets referral fee from the e-retailer for being the middle man and online customers get a share of the profit as a reward for shopping with that e-retailer. For example, when a customer visits Jet airways via cashkaro.com, the customer will get at least Rs 260 cashback every time. Therefore, though a customer can still shop at the same Jet Airways website and pay exactly the same amount, now because the customer has made her purchase through cashkaro.com, he/she earns extra savings. As the example suggest, promoting sales through cash back sites lead to some cannibalization of sales to customers who could have come on her own. However, it is expected that increased customer inflow through cash back sites will compensate the sales lost due to cannibalization.

There are cash back sites like cashkaro.com that offers cash back in addition to coupon saving for the customers. For example, if there is a 20 percent coupon at jabong.com, not only does the customer get this discount, but she is able get an additional 6 percent cash back. Some cash back sites offered bonus credit for signing-up or referring a friend.

2.5.4 All In A Day's Shopping

In a bid to boost online shopping adoption in India, leading e-commerce players and Google has come together to bring in the concept of Cyber Monday[1] to India - titled 'Great Online Shopping Festival' (GOSF). First version of GOSF was organized on 12.12.12 (December, 12, 2012) and it was followed in 2013 when it was organized from 11-14 December. GOSF has seen participation from a large number of partners including leading e-commerce players, local and classified websites, online travel websites and banking, financial services and insurance (BFSI) industry offering their best deals to customers all across India for pre-specified number of hours with unheard of discounts for merchandise. This initiative is aimed to reach out and promote online shopping to first time buyers. 'All In A Day's Shopping' format of promotion was also employed by shopclues.com in November 2012 which was first of this kind of initiative by any Indian ecommerce company. Citibank also started with 'Oh My God' sale in 2012 which was a 24 hour deep discount sale after tying up with 17 e-retailers.

[1] *Cyber Monday refers to the Monday after Thanksgiving in United States. This marketing term was coined by e-commerce firms who gave very high discounts on this day to persuade people to shop online. (Source: Wikipedia.org)*

3. Research Methodology

3.1 Need/Significance of Study

As of 31st December 2013, India had an internet user base of about 238 million. The penetration of e-commerce is growing at a very fast pace with a large number of new entrants. India is staring at a new paradigm of digital consumerism. As the clocks ticks, the people of India are enthused and excited to get on to this digital bandwagon. They are connected, they are informed and they can't get enough of it. The e-Commerce industry is offering them their chance. However, the industry needs the required support from all stakeholders in its ecosystem to surmount the challenges and to embark on profitable growth.

It is worthwhile to note that none of e-retailers in India is profitable. Their sales/revenues are growing manifold but they haven't been able to record profits yet. This could be because of various reasons such as lack of supply chain infrastructure, high operational costs, high CAC (Customer Acquisition Costs), returns, etc. These portals are offering low prices and promotions to allure customers and improve their sales; however lack of profits raise a question on sustainability of these businesses when there are no more fundings available in this space.

Hence, it becomes inevitable to understand what drives the online shopping business.

3.2 Scope of Study

The study is limited to Indian e-commerce market and focusses on key players in the Indian market. The consumer survey restricts itself to educated respondents from the cities primarily Delhi NCR. The average age of respondents was around 25 years, so the sample majorly represents a young population. The data for study is primarily the data openly available on the internet.

3.3 Data Collection

The project started with the secondary research regarding the worldwide e-commerce trends and the growth opportunity that lies in the global markets. The research then narrowed down to the Indian market which is comparatively new to this online shopping mania. The primary data for understanding consumer preference in online shopping was collected through a survey floated over internet. 132 respondents answered the survey.

Interviews of professionals from e-retailing companies

The viewpoints of senior executives of major online shopping portals were studied to understand their aim and goals. These viewpoints were available on various media channels. Also, few professionals from e-retail companies such as Myntra, Snapdeal, Jabong, Zivame, Flipkart and E-commerce backend infrastructure providers Unicommerce were interviewed personally to get an insight about the industry.

Survey and Sample Collection

A survey of 132 respondents majorly from NCR region aging from 12 to 60 years was conducted, to know their online shopping habits. The respondents included working professionals, students and housewives. The aim of the survey was to identify the percentage of population that uses internet as a shopping destination. Also in order to understand what most excites them most about online shopping, which are the favorite destinations for the same. We also tried to understand the importance of various factors that affect the choice of an online shopping portal; the importance of pricing strategies and promotions used by those e-retailers. We also tried to deduce which are the most effective media of promotion(such as display ads, emails, TV ads, YouTube ads, etc); that makes consumer land on an e-retailers' website.

We also targeted the consumers to judge their awareness and brand loyalty (for their favorite portals) i.e. how likely they are, to switch the shopping portal if some other portal offers lower prices. This would help us gauge the price sensitivity of Indian consumers. To further suggest the upcoming trends, we tried to seek what would future of online shopping would look like.

Sampling technique used was stratified random sampling technique -

A method of sampling that involves the division of a population into smaller groups known as strata. In stratified random sampling, the strata are formed based on members' shared attributes or characteristics. A random sample from each stratum is taken in a number proportional to the stratum's size when compared to the population. These subsets of the strata are then pooled to form a random sample.

The main advantage with stratified sampling is how it captures key population characteristics in the sample. Similar to a weighted average, this method of sampling produces characteristics in the sample that are proportional to the overall population.

Stratified sampling works well for populations with a variety of attributes, but is otherwise ineffective, as subgroups cannot be formed.

For purpose of this project the strata used were different online shopping habits against different gender, age groups, education level & different monthly income.

The survey was available online on the following link-

https://docs.google.com/forms/d/1BYE9xeeMPOXInauQF_13mQ4JQnHi99KSfahdKu-XLs0/viewform?usp=send_form

4. Retailer views

4.1 Expert views of e-retailers

A recent article from economic times helped to collect the perspective of the experts that have tried their hands in this industry and have been able to identify the opportunities and threats in the industry.

"E-commerce business in India is expected to reach around $50-70 billion by 2020 on the back of a fast growing internet-connected population and improvement in related infrastructure like payment & delivery systems. We had to build our own supply chain, since five-six years ago India didn’t have the supply chain capabilities required to support a large operation such as Flipkart. "

- Sachin Bansal, Founder and CEO of Flipkart

"One of the effects of the boom in e-commerce has been a spurt in regional courier companies. They are cheap and still maintain good services. This competition has also brought down the courier charges of large players by as much as 60 per cent.”

- Kunal Behl, Founder and CEO of Snapdeal

“We do have 300-350 employees as part of our in-house supply chain. But they cater to the top 10 cities only, which generates 60 per cent of orders. The rest is serviced by the third party firms,”

- Pearl Uppal, co-founder of Fashion and You.

“We also follow a mix of in-house team and couriers for delivery. The company owns 50 per cent of logistics for delivery catering to to the top 16 cities. The balance is managed by Blue Dart and Quantum Co.”

- Mukesh Bansal, Founder and CEO, Myntra.com

India's e-commerce business jumped by more than 80 percent in 2013 and the momentum is likely to continue for at least the next five-six years, according to the founders of the country's largest e-commerce firm, Flipkart.

Flipkart co-founder and chief executive officer Sachin Bansal said the e-commerce business in India is expected to reach around $50-70 billion by 2020 on the back of a fast growing internet-connected population and improvement in related infrastructure like payment and delivery systems. He added that online shopping is becoming increasingly popular in smaller cities. "Tier-II and Tier-III cities are opening up very rapidly. By 2020, he expects e-commerce to penetrate everywhere, whether it is smaller cities or rural areas. Sachin Bansal emphasized on the need for implementing a uniform goods and services tax (GST) as this would help boost the e-commerce business. "Right now it's a bit complicated for sellers to ship products across India because taxes vary from state to state and it is also calculated differently. GST will really be a help for the industry," he said.

Flipkart founders claim that the company now controls nearly one-third of India's online retail business and has over 1 crore (10 million) registered users. "By 2020, our target is to be a $20 billion company. We are thinking really big. We are investing a lot on technologies, especially on mobiles and the supply chain," said Binny Bansal. "We have raised a good amount of funding this year. We are well funded for the foreseeable future. However, we will continue to raise funds as and when required," he said when asked about funding for the company's expansions.

Bansal said online retail, also known as "e-tail", will lead the industry's growth in the coming years. "Consumer mentality and shopping patterns are changing very fast. Online shopping is going to become main stream in the coming five-six years," Bansal told IANS in an interview. He pointed out that despite high growth in recent years, India's e-commerce industry is still in a nascent stage. Online shopping accounts for less than one percent of the total shopping in the country. Total global online sales reached $1.22 trillion in 2013. In China alone it was around $200 billion.

Just around 12 percent of Indian population is into online transactions against more than half of their Chinese counterparts. This proportion is much higher in the developed countries like the US, where the figure is 64 percent.

Internet connectivity and other logistics infrastructure are still a big drag. This makes servicing in smaller towns a bit challenging, said Bansal.

4.2 Objectives of e-retailers

After all the research we found the following as the key Objectives of the e-retailers –

Supply Chain Expertise Is one of the key factor that defines the profitability of any online retailer. Attributes includes - Investment in inventory planning, 3PL, association with local courier service providers.

Strong Supplier Relationship Has become critical for not the customer but also the retailer. Attributes includes - Owning their freight, In transit delivery etc.

Building Infrastructure Includes the retailer's ability equip themselves with IT and other Infrastructure to handle large product lines.

Improving Customer Experience need to be enhance for greater repeated sales. Attributes include- Easy user interface, reverse pickup services etc

Differentiation Is one of the attributes that would distinct the portals from each other. Attributes include different marketing strategy, Niche product line or exclusive services.

5. Investments in E-commerce:

5.1 Venture Capitalists shows faith: Huge investments

Venture capitalists have demonstrated their faith in the growth of e-Commerce in the country. Investments in this sector accounted for more than 20% of total VC investments in the country in 2011.

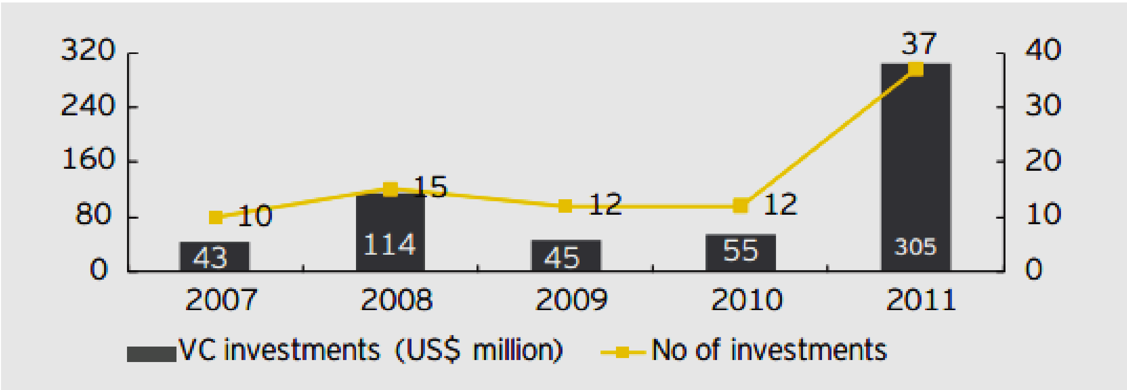


Figure 5.1: *Growing VC investments in e-commerce in India*

The figure (fig 5.1) shows the significant increase in the total investments - US$305 million in 2011 against US$55 million in 2010. In 2014, Investments are expected to cross US$1 billion mark.

According to a report(May,2013) from Allegro Corporate Finance Advisors Pvt Ltd, 52 E-Commerce companies raised close to ~ USD 853 Mn in Venture Capital over the past 3 years[1].

11 Horizontal e-retailers (multi category) have garnered ~USD 458 Mn (over half the amount invested in the sector)

- 20 Apparel & Accessories firms have been funded to the tune of USD 231 Mn
- 5 Baby Products focused firms have raised USD 41 Mn cumulatively
- Daily deals portals raised USD 25 Mn; however, most of them have pivoted, shut down or merged with horizontal e-retailers
- 14 niche category players have raised about USD 98 Mn
- Of the 53 firms who raised Series A, only 11 companies have managed to raise further rounds2

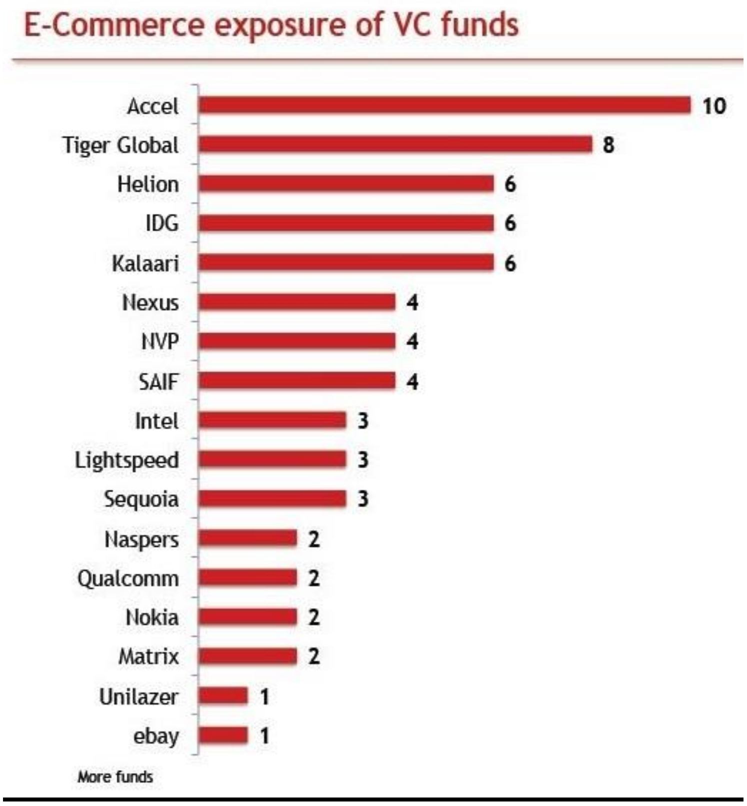
[1] *Excluding Seed and Angel funding and un-reported deals until May 2013*

[2] *Jabong and other Rocket Internet backed firms are not included in this report as investment data has not been disclosed*

***Figure 5.2**: Break-up of VC investments in e-commerce in India*

***Source:** Allegro Corporate Finance Advisors Pvt Ltd*

- 49 Venture Funds and Institutional Investors have invested in 53 ecommerce companies over various rounds
- 11 investors have invested in 3 or more companies, with estimated exposure of $40 - $50 Mn per fund
- 18 investors have more than 1 E-Commerce investment



Flipkart has raised nearly $550 million since 2009 from venture capitals like Tiger Global, Accel Partners, Iconiq Capital and Naspers Group.

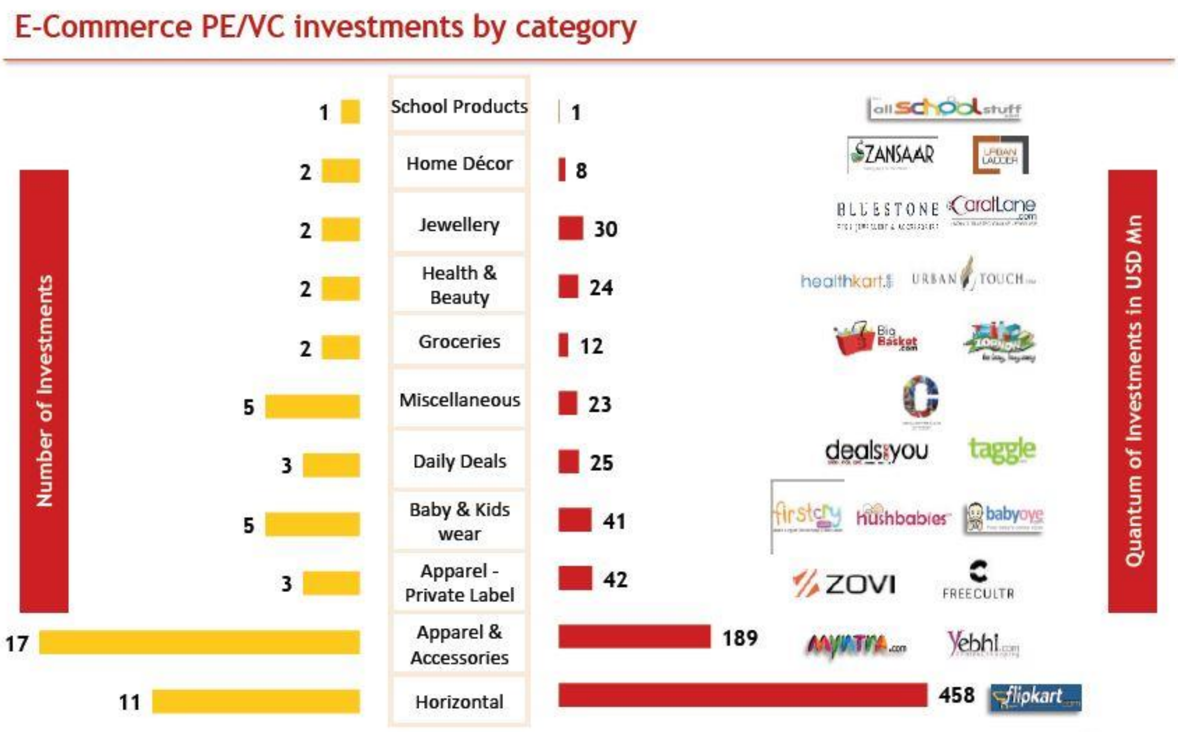


***Figure 5.3**: E- Commerce PE/VC investments by category*
***Source:** Allegro Corporate Finance Advisors Pvt Ltd*

5.2 <u>Current Status:</u>

- Series A non existent and Series B drought for E-Commerce Companies; only 30% of funded companies have managed to raise Series B
- Capital required to achieve profitability is a factor of 10 of initial estimates (High Customer acquisition costs leading to negative unit level margins)
- Investors are trying to salvage investments via consolidation of companies

Company	Acquirer	VC
Lets Buy	Flipkart	Accel & Tiger Global (common investors)
Urbantouch	Fashionandyou	Accel, Tiger, Sequoia, Intel, Norwest & NGP
Exclusively.in	Myntra	Accel & Tiger (common investors), Kalaari & IDG

- Estimated 70%- 80% of VC funded companies are on life support, in dire need of funds
- Current FDI rules and the investigations against Flipkart and others for alleged violations are adding to investor caution and apprehension
- Year 2014 has already seen 10 transactions worth $288 million (aroundRs.1,785 crore) in the space, according to VCCEdge, a deals tracker.

5.3 Why investors are betting big on Indian e-commerce firms:

Investors are pumping huge sums of money in yet-to-be profitable e-commerce firms in India in the hope that these companies will gain sizeable market share as more young people with higher disposable incomes start buying online over the next five years, say analysts.

Earlier in March 2014, Mumbai-based online and mobile classifieds firm, Quikr India Pvt. Ltd, said it has raised $90 million from Investment AB Kinnevik of Sweden. “The proceeds (of the $90 million) will be used for marketing, talent acquisition and improving customer experience,” said Pranay Chulet, co-founder and chief executive of Quikr. On 26 February, Snapdeal.com, one of India’s largest online marketplaces, said it was raising $133.7 million from existing investors, including eBay Inc., a company that has struggled in India despite being an early mover.

Despite the show of confidence by investors, India lags behind China and the US in e-commerce.

Facts supporting investments:

- A report on e-commerce by the Internet and Mobile Association of India (IAMAI) and audit firm KPMG, pegged number of Internet users in India at 213 million. The report put the size of the e-commerce market in the US, China, and Sri Lanka at $224 billion, $220 billion, and $2 billion, respectively. It said the market was worth $13 billion in India.
- Analysts expect the situation to improve with growing access to the Internet penetration and the availability of broadband, and the rapid adoption of smartphones and tablets which could prompt more young people to shop online. An Internet penetration of 25% could be the tipping point for e-commerce growth, the IAMAI-KPMG report said.
- The current spate of investments in e-commerce firms suggests “the huge potential within”. Investors are banking on the emerging shopping habits of a growing middle class made up of younger people with more income to spare.
- The rise in incomes and growing access to the Internet even in smaller cities had ensured that e-commerce gets a lot of attention from investors
- Young people in India spend 16% of their disposable income online and an estimated 828 million Indians will be less than the age of 35 in 2015, the IAMAI-KPMG report said.

- These people increasingly use mobile devices to shop, and the increasing penetration of smartphones in the country can only help the cause of e-commerce say experts. According to research firm Convergence Catalyst, smartphones sales in India more than doubled in 2013 to reach 41-43 million units. For the first time, monthly sales crossed four million units in the December quarter.
- According to a September report by Avendus Capital, smartphone penetration in India is forecast to touch 382 million by 2016.

While these numbers and the obvious potential for growth make investments in e-commerce logical, investors could still find it difficult to exit. “Most of the marquee investors have put in their money in the top e-commerce firms which makes secondary transactions slightly more difficult. Lack of secondary exits can be a spoiler in the absence of an IPO market.”

5.4 Future Outlook:

- Fundamentals of E-commerce are strong – growing internet user base, acceptance of online commerce, payments and logistics infrastructure improving (as shown by the huge spike in online sales on GOSF day - Dec 12, 2012)
- 2 or 3 horizontal brands and one or two players in the larger verticals - apparel, babywear, jewelry and home décor – are likely to survive and eventually become profitable entities
- Inventory carrying horizontal players may require $200 MN to get to profitability; others may require est $80 to $100 Mn
- Higher ticket size categories like jewelry and furniture may require lesser capital (est $50 -$60 Mn) as they have higher absolute margins that can cover the customer acquisition cost
- VC’s need to brutally cull their portfolio and back one or two portfolio companies with the necessary capital
- Investors need to figure out meaningful exits for companies that manage to survive – IPO’s likely to be challenging and acquirers willing to pay valuations required to show returns may be even harder to find
- In summary, brave investors with deep pockets, infinite patience and global e-commerce experience have the opportunity to create winners

6. Cues on profitability:

Forrester estimates that Indians spent around $1.6 billion online on retail e-commerce sites in 2012. The projection is for this number to reach $8.8 billion by 2016. Despite this potential, and the ongoing excitement, Indian e-commerce is not profitable.

6.1 Challenges faced by the Online Sellers in India

Almost 50 per cent of the e-commerce ventures launched in 2012 have shut shop. Why isn't Indian e-commerce profitable? What needs to be done?

There are four factors in Indian e-commerce today that cause significant profitability challenges.

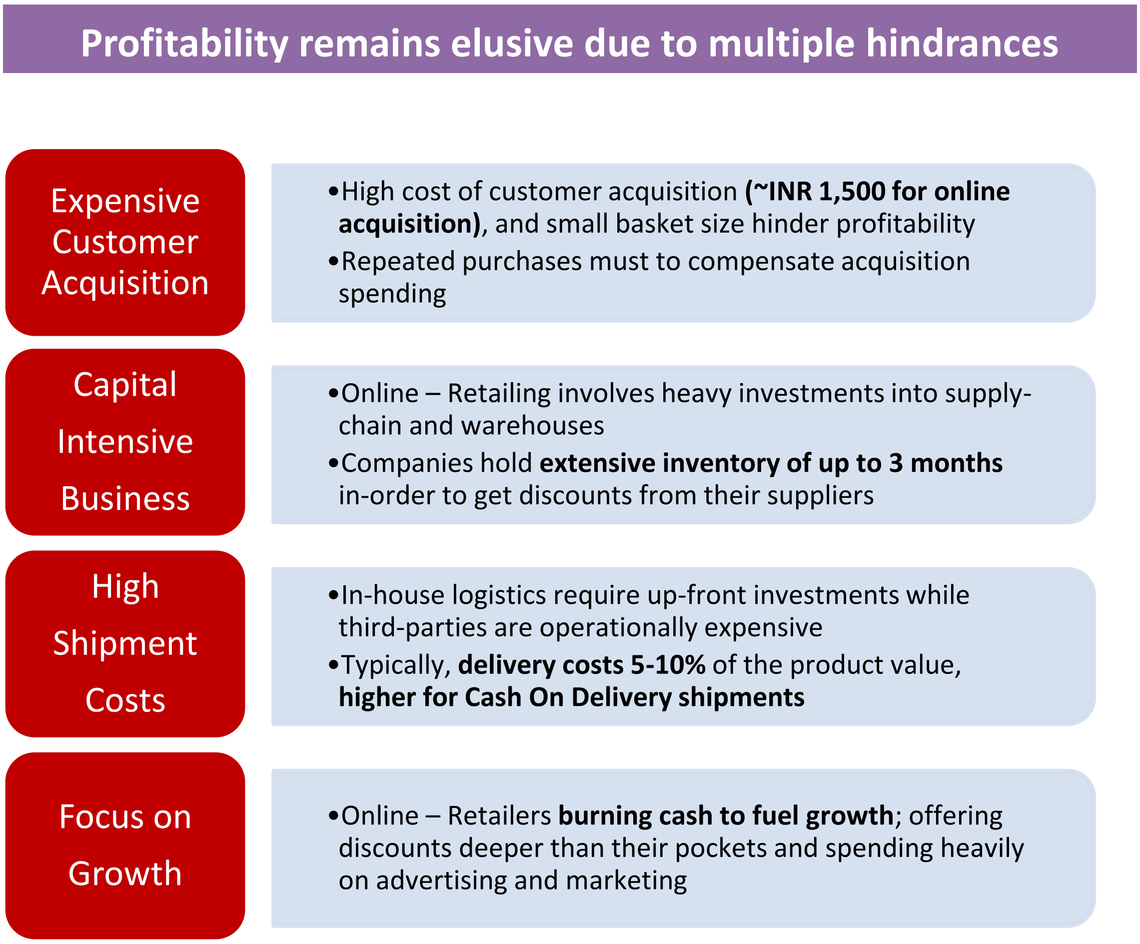


Figure 6.1: *Key Challenges in e-commerce industry*

High customer acquisition cost:

Given the low Internet penetration and distrust around online buying, customer acquisition is expensive. Most sites spend between Rs 800-1,500 to acquire a customer. Considering that the average order size is around Rs 1,500, and that gross margins range between three to eight per cent, the customer needs to transact over 10 times for the retailer to recover the acquisition cost. That doesn’t happen a lot.

<u>High inventory carrying costs:</u>

Most Indian e-commerce sites carry their own inventory. While this offers a better shopping experience (by giving visibility into availability), it causes a heavy drain on working capital due to unsold inventory and carrying costs.

<u>Cash on delivery (COD) is expensive:</u>

COD has encouraged more people to buy online, but it is a fundamentally inferior payment mechanism for e-commerce.
COD transactions have a higher rate of product returns (incurring greater shipping costs), are more prone to fraud and lock-up working capital.

<u>High cost of fulfilment:</u>

Most e-commerce sites have had to invest heavily in their own fulfilment network. This allows them to ensure predictability of delivery and a better experience. But it not only requires deep pockets to invest upfront, but also incurs greater operational costs that can further erode margins by five to seven per cent.

Other challenges faced by the sellers include:

1. Way too many players

A developing market needs a fine balance between demand and supply. However, when a trend starts in India, several people jump in and soon supply starts to exceed demand. This causes an imbalance in the market.

Real-estate market in cities like Pune makes a classic example; where property prices were artificially pushed up by the builder-agent nexus and when the recession started, a situation of excess inventory and slashing prices appeared. Similarly, e-commerce space is expected to see lot of poor business practices adopted by the "me too" guys trying to survive the game.

E-commerce is inherently a very capital intensive game and a winner takes all market - consolidation happens fast and the company that can build & scale the fastest gets to destroy the rest of the players in the market. This is going to happen in India. We are already starting to see some of it in the daily deals space. Snapdeal has torn away from the rest of the market. Most of the other players are trailing this market and some like Taggle closed shop.

The VC feeding fenzy in this space is crazy. A lot of the smaller "follow-on" VCs are going to lose their shirts in this game.

2. Logistics & Supply Chain

India's logistics sucks. We still have 3rd world logistics. A large part of the ecommerce success in the developed nations was because they already had rock-solid logistics in place. In the US fedex, ups and USPS were already around nationwide and goods could be moved within 24 hours between 5000 miles. In India trying to find an address or a location is a nightmare. We don't even have a properly standardized "physical postal address system".

Even Courier companies in India, don't even have bar code readers to scan the packages in transit. Companies like Flipkart are doing a great job working around the issues in the logistics industry by setting up their own logistics. They should really be pumping those $$ into tech so that they can build recommendation engines that can recommend products that customers may be interested in based on buying behavior etc. Largely the other 99% of the players will not be able to solve the logistic issues that exist in the market.

3. Payments

This is a major challenge and results in poor customer experience. The payment gateway vendors and banks lag in technology. Payment gateway error rates are high (>25% of transactions fail at the gateway). RBI has made it really hard for anyone to use virtual mediums of payments (credit/debit cards, cash transfers etc). Payment gateway's and banks also charge way too much commission on each transaction which is bad for the smaller players - which eats into their margins significantly.

4. Large volume of transactions

Large volume of transactions in India are cash-based transactions A small fraction of Indians have virtual payment instruments like credit cards or bank accounts. Largely we are a cash driven economy. Almost every e-retailer has started COD in India and for the right reasons. As humans are involved in the collection of cash etc, fraud rates will be very high which will dip into the margin levels of the ecommerce players.

5. Market Size / CLV / Margins

While India is a huge market, the Customer Lifecycle Value will be very low (similar to the mobile industry - India has the lowest levels of ARPU anywhere in the world). e-commerce players will have to resort to deep discounting to build scale. Amazon had to do this for 9 years.

In India the margins will be extremely thin due to the inefficiencies in all the underlying infra for ecommerce like logistics, payments and cash collection. For Flipkart to be successful not only do they have to be an online retailer but they have to build a UPS and a paypal and a physical cash collection system that works (which doesn't exist in developed countries as ecommerce players don’t support COD). That is a mammoth task to pull off for a small startup.

6. Ecommerce in India is not for startups

Due to physical/infrastructure challenges that exist in India, a startup will need to raise huge amounts of capital. They will wait for someone like Flipkart to create the momentum in the market and spend all the VC money to evangelize the market. Then they will jump in and use the billions of $$ in their coffers (remember that they are cash rich companies) and existing infrastructure (physical stores, warehouses, people) in their brick and mortar business to build and scale out e-commerce.

I strongly feel that in India e-commerce is a game for the large players and not startups as there are significant infra challenges that exist and it will be impossible for startups to address the scale of these problems.

7. Amazon.in could play spoiler

I believe that the single biggest threat to the e-commerce play in India is from Amazon.com. Amazon has a lot of cash and can use it to out-run the e-commerce startups. They have plenty of tech that help a lot in demand generation and sales which the e-commerce players in India have not even started to work on.

They have a lot of experience in logistics and last mile issues of e-commerce. Their entry into India is largely gated by the FDI in multi-brand retail policy that is now going through the final stages for tabling in the parliament. Once this policy is passed, I believe Amazon is going to get very aggressive in the market.

Amazon is the world’s largest Online retailer founded in 1994 by Jeff Bezos. Even in the U.S.A, where Amazon is the market leader, it doesn’t make money at all. Net sales increased 22 percent to $74.45 billion in 2013, compared with $61.09 billion in

2012. As seen in **figure 6.1**, it's become a quarterly ritual - Amazon reports that it's losing money, and its investors cheer and hand over more.

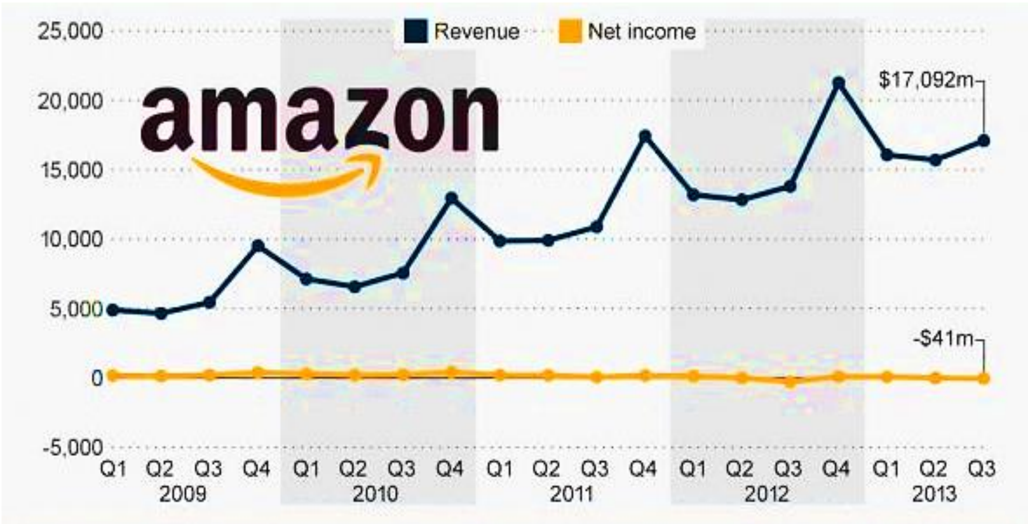


Figure 6.2: *Amazon's quarterly revenue and net income YOY*

6.2 Indian e-retailers losing money

Top players such as Myntra have maintained a growth rate of about 400% year-on-year. Despite huge increase in sales and revenues, none of the players is generating profits; in fact all of them are incurring huge loses. e-retailing companies are inefficiently using the funding's given by VCs to continue their operations despite making loses and lack of clarity on possibility of generating profits in the future.

Name	Founded In	Total Funding (Million US$)	Revenue FY 2013	Loss
Flipkart	**2007**	**550**	**Rs. 1100 crore**	**Rs. 281.7 Crore**
Myntra	**2007**	**125**	**Rs. 250 Crore**	**Rs. 134.7 Crore**
Snapdeal	**2010**	**103**	**Rs. 600 Crore**	**Rs. 120.1 Crore**

Figure 6.3: *Revenue and losses of major Indian e-retailers*

7. Analysis : Online Consumer Behavior Survey

7.1 Respondent Demographics

The survey questionnaire was filled by 132 respondents, primarily belonging to Delhi-NCR region. 70% of respondents were males, however only 30% were females.

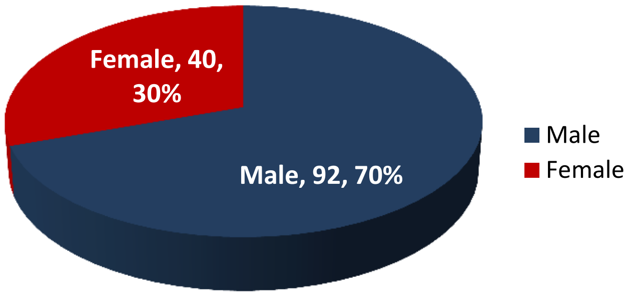


Figure 7.1: *Gender of respondents*

Average age of respondents was calculated to be 25 years (approx.). A huge 80% of respondents belonged to age group of 21-25 years.

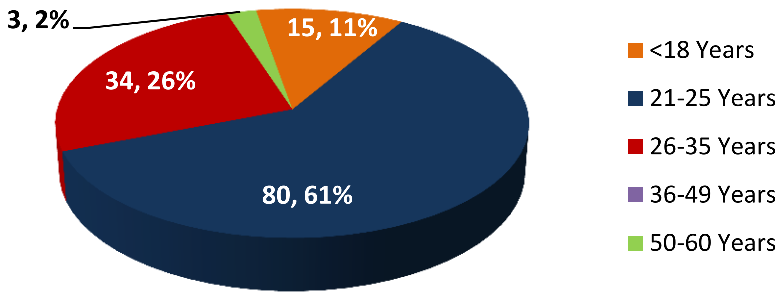


Figure 7.2: *Age distribution of respondents*

As far as occupation is concerned, 69% of respondents were students, while 26% of respondents were working professionals.

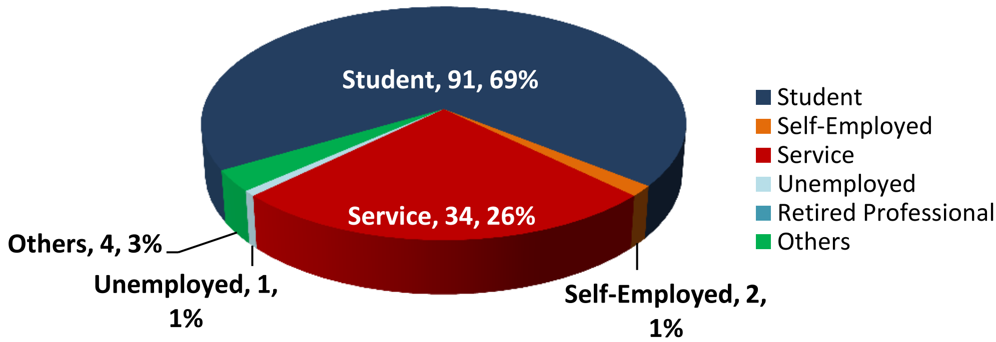


Figure 7.3: *Occupation of respondents*

7.2 Result of the Survey

The online shopping habits and preferences of online shoppers were evaluated on the basis of the responses of survey.

★★★★★★★★★★★★★

Majority of respondents said that they like to shop online. This is quite expected from a respondent base which mostly comprises of youngsters.

★★★★★★★★★★★★★

Figure 7.4 : *Distribution of liking towards online shopping*

★★★★★★★★★★★★★

For the given set of respondents:

- 34% said that they shop online almost every month,
- 30% shop online occasionally
- 20% shop online almost every quarter
- 12% shop online almost once in 6 months
- Only 3% shopped on a weekly basis.
- 1% never shop online

★★★★★★★★★★★★★

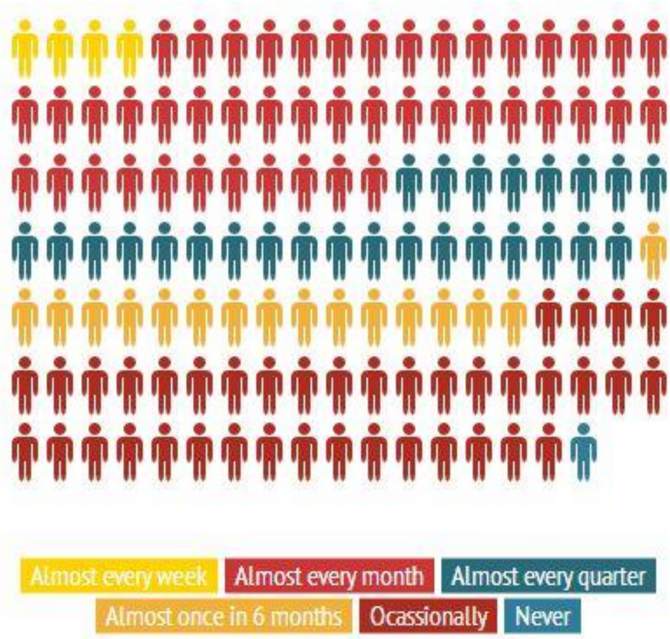


Figure 7.5: *Distribution of online shopping activity*

It came out from the survey that:

"Men tend to shop online more frequently than women."

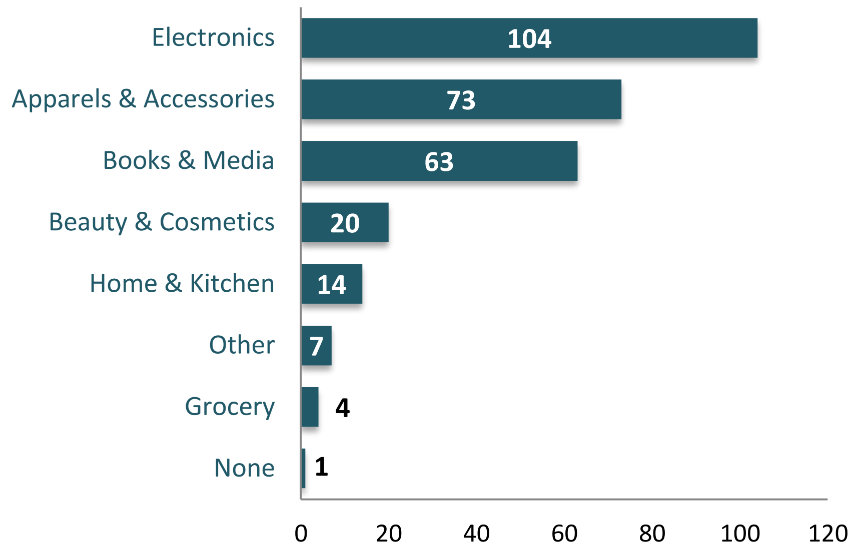


Figure 7.6: *Preference for categories of products for shopping online*

- Majority of respondents (79.3 %) said that they shop electronic goods online. This is quite expected from a respondent base which mostly comprises of youngsters.

- Apparels & accessories and books & media were next favorite categories amongst online shoppers

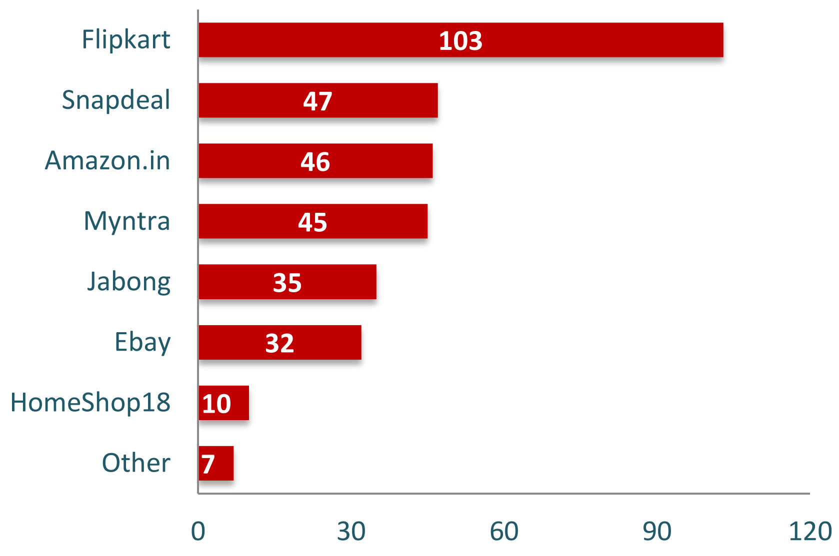


Figure 7.7: *Most referred online shopping portals*

- Flipkart is the favorite online shopping portal for most of the respondents (78%). It seems Flipkart's quick delivery service makes it favorite of masses despite its higher pricing compared to competitors. Now, with its same-day delivery service, it might even attract more customer attention.

- Snapdeal, Amazon.in & Myntra seems to be at the same level and they all rank to be second most favorite shopping portals amongst online shoppers.

★★★★★★★★★★★★★

Majority(70%) of respondents said that when they shop online, they compare the prices of a product offered by various websites i.e. a huge section of online consumers are aware and price sensitive

★★★★★★★★★★★★★

While shopping online, do you compare prices of products offered by various websites?

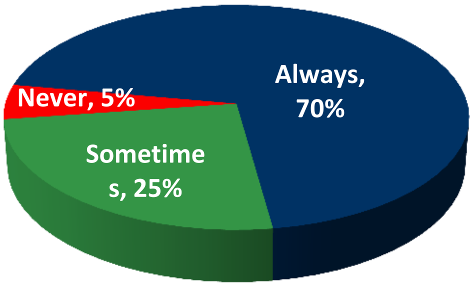


Figure 7.8: *Price comparison by online shoppers*

Out of 6 people who said that they never compare prices offered on various websites, 2 said that they only buy from Flipkart, without comparing prices. Others said that they buy products, wherever they like the products/merchandise. This shows that most of the consumers are very price sensitive; and the rest few are ready to pay more for a good service. Also, Flipkart emerges out to be most preferred brand for online shopping in Indian markets. This gives a clear message that the other portals should focus on service, to improve their customer reach and try to improve efficiencies to deliver quality products faster. Providing good service is the only way to get customer loyalty.

★★★★★★★★★★★★★

32% of respondents said that while shopping offline, they compare the prices of a product offered online. This shows that about one-third of consumer segment is highly price sensitive and aware and equipped to find places where they get lowest prices for products.

55% of respondents said that they do this comparison only sometimes. This segment can also be considered price sensitive, as they must be comparing prices for at least expensive products.

★★★★★★★★★★★★★

While shopping offline (malls, traditional markets, etc); do you compare prices of products with prices offered on online portals?

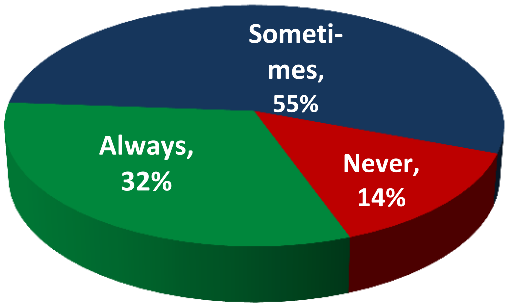


Figure 7.9: *Level of price sensitivity: comparing prices online while shopping offline*

Would you leave your favorite online shopping portal to switch to a new one if it offered lower prices?

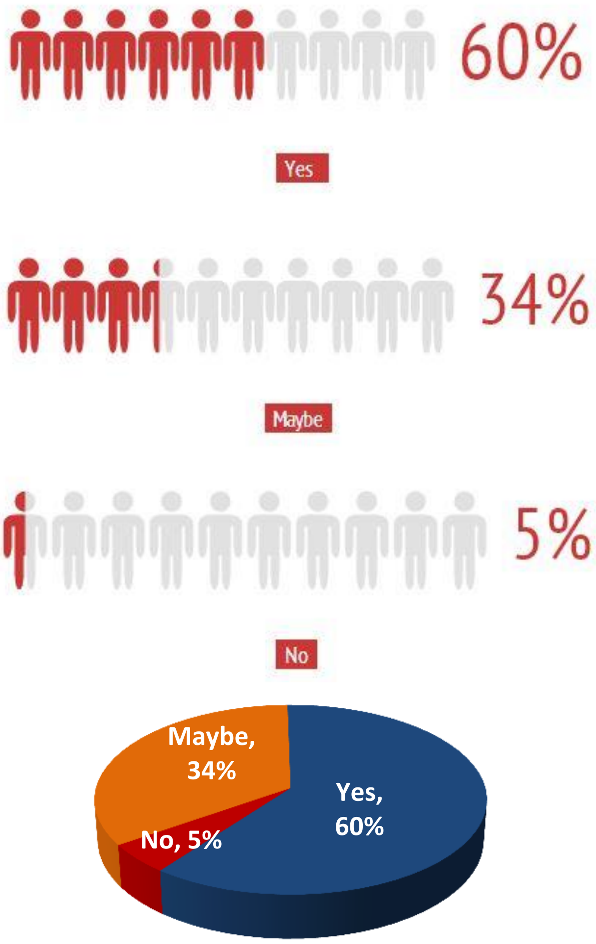


Figure 7.10 : *Level of price sensitivity of online shoppers*

★★★★★★★★★★★★★

60% of respondents accepted that they would leave their favorite online shopping portal and switch to a new one, if it offered lower prices.

Rest 34% also said that they may consider switching portal for lower prices. This shows that most of the shoppers would go where they get lowest prices.

Only 5% of buyers said that they would stick to their favorite brand even if it offered product at higher prices compared to other e-retailers.

This proves that India consumers are highly price sensitive.

★★★★★★★★★★★★★

It is very evident from responses of last three questions that a large segment of Indian consumer is very price-sensitive and very few of them are service-oriented. So, they will always opt for an online shopping portal which offered them best deals and lowest prices. So it is a very challenging task for e-retailers to keep their customer engaged and loyal towards their brand. They cannot assume that offering low prices and discounts once, would give them a loyal customer base.

★★★★★★★★★★★★★

- Electronics, Apparels & Accessories and Books & Media are the top three categories for online shopping for both men and women.
- However, men tend to shop for electronics the most. 85.86% of men said they shop electronics goods online however only 62.5% of women said that.
- As expected, 40% of women indulge in shopping Beauty & Cosmetics online, however men rarely do that.
- 22.5% women bought Home & Kitchen products online; however only about 5% men indulged in shopping this category of products.

★★★★★★★★★★★★★

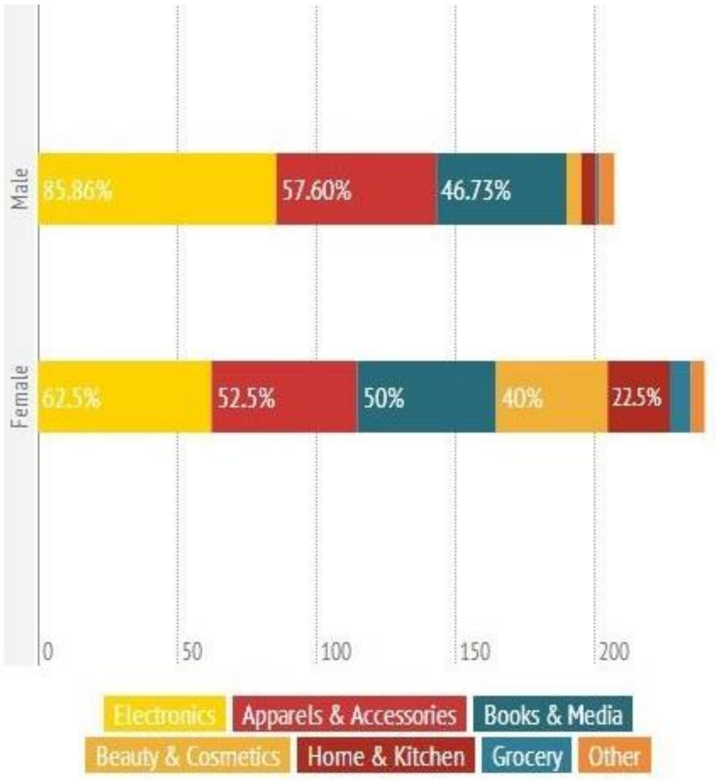


***Figure 7.11:** Categories of products bought online by men vs. women*

Kids toys, travel tickets, mobile accessories, etc were mentioned amongst the other products bought by online shoppers.

Online grocery shopping has not yet evolved as a category in India, despite many niche stores coming up for this segment. Very few respondents (mostly women) said that they shop grocery online. However, online grocery shopping is very common in developed countries such as USA, Australia & European countries.

Convenience, better prices and variety of products
are the most important factors that allure people to shop online.

Figure 7.12: *Advantages of online stores over offline stores*

'Convenience' of shopping anywhere anytime came out as the most important factor that attracts people to indulge in online shopping according to 82% of respondents. '**Better or lower prices'** was the second most important factor and was chosen by almost 63% of respondents. Huge **'variety'** and '**no crowd and billing queues**' together made the third most important reason for people to shop online, according to almost 55% of respondents.

Respondents were also asked to rate (on a scale of 1 to 5) the importance of various factors, while choosing an online shopping website. The scores of each factor were calculated on the basis of rating given by respondents. The calculated scores of factors are tabulated here:

Factor	**Rating Score**
Pricing	30.3
Service Quality	30.2
Time taken for delivery	28.6
Return Policy	29.3
Minimum order amount for free home delivery	25.2
Merchandise/Products	26.3
Payment methods offered	26.3
User Interface	26.2
Cash on Delivery(COD)	25.6

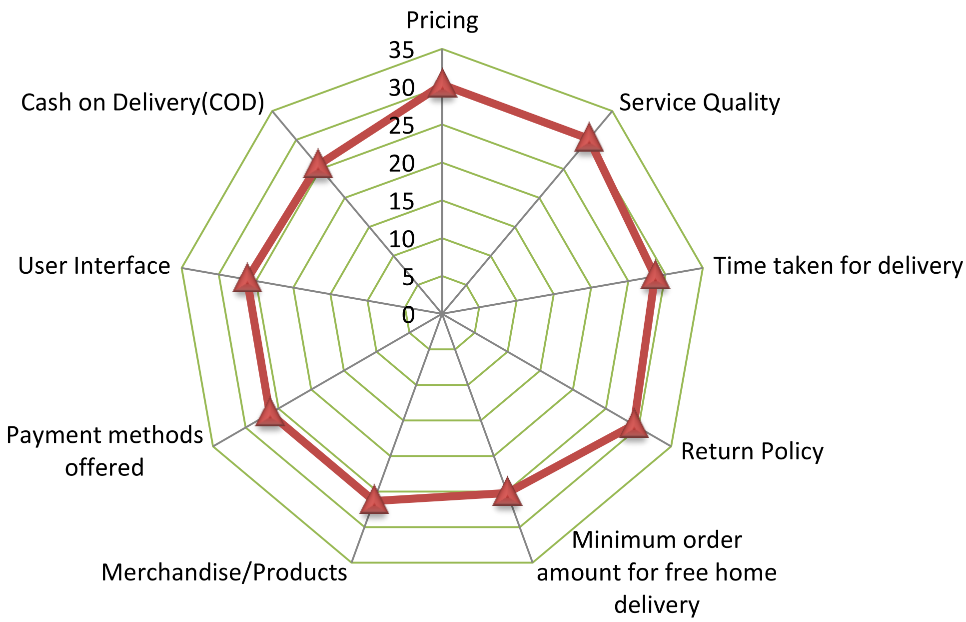


Figure 7.13: *Importance of various factors affecting choice of an online portal for shopping*

The scores and graph (Fig. 7.13) clearly shows that '**pricing'** and '**service quality'** emerged as most important factors for buyers, while choosing an online shopping portal. This re-asserts the price-sensitivity of even young Indian consumers; as this sample majorly comprises of youngsters. '**Return policy'** and '**time-to-delivery'** came out as second and third most important factors.

Respondents were asked to rate the probability of various media channels such as organic search, display ads, TV ads, YouTube ads, etc to take them to an online shopping portal. The scores of their ratings were calculated as shown in fig 7.14. Organic/Google search came out to be the most likely medium to take buyers to an online shopping website i.e. when buyers need a product and search for it voluntarily. Hence, using SEO be amongst the top results in an organic search is very important for an e-commerce website.

Display advertisements on various websites came out to be second most likely media that lands buyers on a shopping website. For this, e-retailers need to spend a good sum of money to pay publishers for ad-space, creating catchy advertisements to maximize the hits on the ads, proper analytics to optimize the ad spend, etc.

Surprisingly, YouTube ads came out to be most unlikely media to take buyers to an online shopping website. However, we have seen various companies such as Flipkart spending hefty amounts on YouTube banner ads and in-stream ads.

Which of the following is likely to take you to an online shopping website?

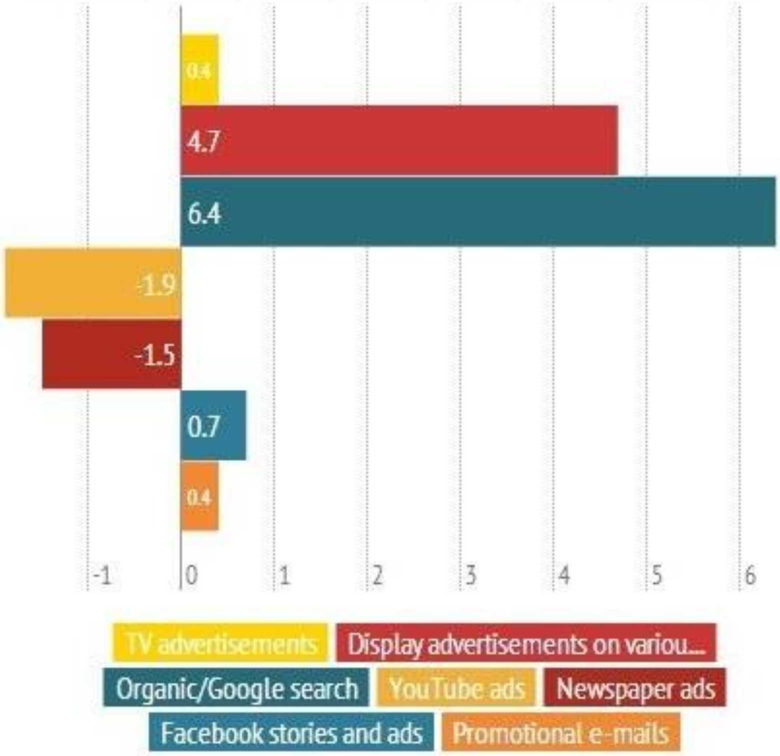


Figure 7.14: *Likeliness of various media to take buyers to online shopping websites*

Rate the impact of the following promotional tactics by e-retailers, on your buying decisions.

Figure 7.15: *Impact of promotions on consumer buying decision*

Respondents were asked to rate the impact of various promotional tactics such as discounts, flash sales, cashback offers, coupons, Facebook offers, etc by e-retailers on their buying decisions. The score of various promotions were calculated as shown in figure 7.15. Lucrative discounts came out to be most effective promotion that encourages consumers to buy products online. Exciting discount coupons were the next best promotional tactic followed by flash sales and cashback offers. Facebook offers came out to be least impactful; however all the promotions had some positive impact on consumer buying decision. This proves shows how promotions fuel the consumers to buy more online as illustrated by the infographic in fig. 7.16

Figure 7.16: *Power of promotions*

8. Interpretation of Results & Recommendations

8.1. Interpretation of results

We've seen many investors attracted to the seeming ease with which top line can scale; but it's easy to underestimate just how hard it is to really generate value in e-commerce. Revenues are increasing several times year-on-year, but the firms are not making any profits. E-commerce is **attractive on the surface**: it's big ($13BN) and early (1% of retail), but it's a hard game to build really valuable and/or highly profitable companies. The survey results clearly show that Indian consumers are highly price sensitive. The investors' futuristic hopes of making huge money can be derailed if we look at price sensitivity of Indian consumers; majority of whom are ready to switch their favorite shopping portal for lower prices despite huge Customer Acquisition Costs (CAC) incurred by these e-commerce firms in promotions. Various promotional strategies such as flash sales, discount coupons, cashback offers, etc are effective in acquiring new customers, but it is very hard for these companies to retain those customers. These companies are running in losses due to the magnanimous inevitable expenses of this business, lack of supply chain infrastructure in Indian context and inefficiencies in operations.

Customer Acquisition is ruthlessly competitive and can destroy you. Customers are generally **blind to your brand** and don't often fundamentally care where they shop. Flipkart still has some brand loyal customers like the Amazon in the U.S, but proportion of such customers is very less. The market is largely price sensitive, cautious and aware about promotions. Transparency is absolute, inventory fungible, and all shoppers care about is price and speed. You can make assumptions about recurrence, but most of the time recurrence is a mirage and (because of weak attribution analysis) you end paying full CAC on your returning customers anyway. Grey markets, private sales, returns can finish off the job of killing your margins. In other words, **it's easy enough to get off the ground with some capital but to build a profitable sustainable business is another story**.

Even the top two e-players in the U.S are two companies that nailed a specific angle each : scale (Amazon) and marketplace dynamics (eBay). Arguably Amazon was enabled by a visionary founder but also by capital markets that were incredibly supportive of extremely long periods of high burn (i.e. Amazon is the dot com that ruled the world). Both started leveraging the amazing power of dynamic marketplaces early, to the point that Amazon has de facto become the totemic company of the Cloud age.

If you want to win in e-commerce, you've got to be crystal clear about the dimensions on which you are going to compete. Scale will crush you unless you fully understand your angles. Without an angle that helps you achieve better margins, whether on customer acquisition, buy-side margins or recurrence, it's going to very, very hard. We stand on the cusp of another 20 years of massive disruption in the commerce landscape that are going to yield huge opportunities, but don't be naive going in.

Conclusion 1: The investors' futuristic hopes of making huge money can be derailed if we look at price sensitivity of Indian consumers; majority will readily switch their favorite shopping portal for lower prices despite huge Customer Acquisition Costs (CAC) incurred by these e-commerce firms in promotions. If companies cannot continuously offer low prices and keep their customers engaged, then they will lose the acquired customers and their sales would drop. However, continuously offering low prices and high discounts would not be sustainable keeping in view the high operational costs for these e-tailing firms.

Conclusion 2: Indian e-commerce market is moving towards **consolidation** of portfolio companies in the next 6 months. Market saturation has put the brakes on the country's e-commerce industry, which is expected to undergo significant amalgamation. About 70 percent of venture-funded Indian e-commerce companies will disappear over the next six months, as the local industry undergoes significant consolidation. Hence, 2-3 major players will emerge as market leaders. Only those players will survive who will keep getting good funding, as surviving at current magnitude of losses requires a strong financial muscle. Small me-too players will find it difficult to sustain, so they'll either merge with bigger players or exit the market. Some niche segment players with innovative ideas can also emerge, but they'll also need strong financial baking, either from big business houses or through VC investments.

8.2. Recommendations:

A WIN-WIN DEAL

Here I explore one important strategy that leads to a reduction in customer acquisition costs. For this however, e-commerce firms will have to make a fundamental shift in how they engage with consumers.

Most Indian e-commerce sites have seemingly assumed that e-commerce is nothing more than replicating the basic model of in-store shopping, but on the Internet — showcase the products, provide some product information, create a platform to carry out the transaction, and invest in branding. Nothing could be further from the truth.

Consumers typically do not first decide to buy a product, then fire up their browser, go to your Website and place an order. Consumers may make purchase decisions as they move in and out of TV and print commercials (some viewed online), a friend's recommendation on social media, product information online, product reviews on a trusted blog and the best deals in their local store. It is a highly non-linear process. If you want the consumer to buy from you, you need to be accessible when she is close to making her purchase decision.

The easiest and most effective way, of doing this is by being part of the consumer's decision-making journey. You engage with the consumer across all the places where she is likely to access information she needs, and then lead her to your site when she wants to buy. This is a practice that the world's most successful online retailers effectively use. The key to doing this is engagement through content.

ENGAGE WITH THE BUYER

Provide rich and relevant information on your site (like video reviews, or expert opinions) that the consumer seeks so she chooses to come there.

Engage her in an authentic and relevant dialogue in all the places she is likely to be as she moves through her journey, across online and offline platforms. Consider net-a-porter.com, a premier online luxury retailer. It started as a hybrid between a fashion blog and a retail site, and became the leading destination for anyone interested in fashion. As people spent a lot of time reading about the latest trends, browsing photographs, and engaging with authors, it was natural for them to turn to net-a-porter to fulfil their desire to buy. In 2012, net-a-porter.com grew by 55 per cent.

Sneakerpedia is a highly engaging community site launched in 2011 by Footlocker, where "sneakerheads" share their personal sneaker stories, contribute to, and search for information on sneakers. Despite not being a shopping site, it is a preferred destination for anyone passionate about sneakers, and connects Footlocker with the sneaker culture. This engagement has served Footlocker well — in the year it launched sneakerpedia, online revenues grew by 22 per cent.

So what should Indian e-commerce firms do?

They need to create engagement by fulfilling their consumer's emotional and information needs, and not just their functional needs. Indians purchase durables through a highly planned and researched decision process, yet how many sites focus on providing rich information to enable this decision? Could social media be used to show which of my friends recommend the same product? Apparel shopping is driven by occasion, rather than functional need, but how often do you find e-commerce sites creating emotional engagement around festivals? What if a fashion retailer invited you to create your family album on their site before Diwali, and virtually dress those photographs with apparel available on the site, with the best submission getting the complete wardrobe free? Could it trigger desire, and cause an association between the site and your emotional need to celebrate?

The path to profitability for Indian e-commerce is long, and not for the faint of heart. But it exists. Indian firms need to embrace tested global strategies alongside their home-grown wisdom.

A Flexible Strategy Is The Key To Success In India's Online Shopping Market

eCommerce "norms" are still being established in India, where the eCommerce market is just developing and experienced eBusiness professionals are still hard to find. To offer your customers the best experience — one that reflects your brand's service level — We suggests the following:

- **eBusinesses must be willing to work with many different partners.** In India, no single player today can handle all aspects of the eCommerce business on behalf of major retailers or brands. Instead, eBusinesses will need to manage every step of the eBusiness operation — from site design to fulfillment solutions to employee training.

  Leading eCommerce sites in India today tend to build their capabilities rather than buy, although that scenario is likely to change as more global players with existing vendor partners enter the market. eBusinesses entering the Indian market must be aware of the need to work with a variety of partners and be willing to work through the challenges of integrating multiple solutions.

- **Savvy businesses will make mobile a part of the eCommerce mix from the start.** While the mobile opportunity in India is nascent, it is undeniably going to be a critical part of how consumers interact online. eBusinesses should take advantage of this growing trend by including a mobile website as part of their offering — ensuring that it is accessible on both feature phones and smartphones, given the relatively low penetration of smartphones in India today.

- **Multibrand retailers should be ready to launch as soon as FDI constraints are lifted.** FDI regulations currently keep multibrand retailers from establishing a business in India: Amazon.com, for example, altered the business model it used when entering other markets and launched in India with an online shopping service, Junglee.com.
  While it is impossible to know exactly when and if the FDI restrictions will be relaxed, foreign eBusinesses with an interest in India should map out their potential offerings in India now so that they can move quickly when this type of investment is allowed. It will be hard for slow movers to get a piece of the action, given that so many global companies already have their sights set on the market.

- **Be prepared to move beyond English to differentiate longer term.** In our research, we did not come across a single major site in a language other than English. While it is a safe bet that online buyers in India will predominantly be English speakers in the short term, global businesses often overestimate the number of consumers in India who speak and understand English fluently.
  Global media sites have already taken notice of India's diverse online population: Yahoo, for example, provides news in Bengali, Hindi, Malayalam, Marathi, and Tamil; MSN also offers a multilingual site. eBusiness leaders should consider multilingual websites as a potential long-term option for differentiating their offerings and appealing to consumers who may understand English but prefer a local language.

9. What Withholds the Future of e-Retailing'

There is a common saying about the Indian retail consumers' "can't touch, won't buy" mentality. However, this is gradually changing with the rising trend of online shopping. Consumers understand that shopping online offers them far more variety as compared to offline. Besides, the larger stores haven't penetrated the smaller towns yet.

The number of online shoppers in India is expected to hit 38 million by 2015, with the e-commerce industry estimated to grow to $24 bn. Industry watchers predict that the launch of 4G services will be a big growth driver.

9.1 Short/Medium-term trends shaping the Indian e-commerce landscape

Emergence of marketplace model	▪ Inventory holding costs will continue to put pressure on margins; horizontal players are adding third-party sellers on to the platform to transfer the inventory holding burden ▪ We expect horizontal players to generate significant business from marketplace model in the future ▪ Local retailers/manufacturers will use market-places to tap into new demand channel ▪ Pure play marketplaces need to work hard on controlling the buying & fulfillment experience and address trust issues of first time online buyers
Emergence of new categories and markets	▪ Demand centers will expand beyond Metro/ Tier I cities to Tier II/III cities and beyond ▪ Offline brands & OEMs increasingly focusing on online channel ▪ New categories like auto parts, pharma, groceries will develop
Economics will remain challenging	▪ Cost of customer acquisition continues to remain high and profitability remains elusive ▪ E-Commerce players will move to outsourced logistics and fulfillment services, as self-logistics will remain unviable ▪ Of the 53 VC funded companies, it is unlikely that more than 15 will survive as independent entities by 2014

9.2 Funding & Exit Outlook: Market moving towards consolidation

- Now that the land grab is over, Series B and follow on rounds will continue to be a challenge for most E-Commerce Companies except category leaders and the big 3 or 4 horizontal players
- Series A funding for e-commerce will be virtually nonexistent for the next 12 months; however, E-Commerce services companies in logistics, payments, front-end technology, etc may see some investments.
- The FDI & regulatory overhang still continues; however, a marketplace is technically not ‘retailing’ as per law and this seems to have prompted some of the ‘pivots’ to marketplace model.
- For cash strapped E-Commerce companies, venture debt is proving to be an option for bridge funding despite stringent loan terms. Snapdeal, Myntra, FirstCry, etc have raised debt from SVB.
- We expect to see a few more **consolidation** of portfolio companies in the next 6 months. Market saturation has put the brakes on the country's e-commerce industry, which is expected to undergo significant amalgamation.
- About 70 percent of venture-funded Indian e-commerce companies will disappear over the next six months, as the local industry undergoes significant consolidation.
- India’s e-commerce market is projected to grow sevenfold to $22 billion in the next five years, and investors and global e-commerce companies want to have a piece of the action.
- The consolidation will be driven by the need for better capital efficiency, VCs taking multiple bets on the sector, and shutdown in cases where performance has been low.
- The are reasons for consolidation are :
  - There are several ‘me-too’ players and they are not making any money.
  - Some of the existing players will acquire company to expand into other categories, which they have not been able to do so organically.

  Eg : Flipkart acquired Letsbuy, and signalled the trend towards consolidation. Both the companies had common investors — Tiger Global and Accel Partners. Letsbuy, which had presence in the same categories as Flipkart, seemed like an effort of the latter as a consolidator.
- There has been a buzz that online auction and marketplace player eBay is planning to acquire a minority stake in Snapdeal.com.
- Another example is Flipkart is In Merger Talks With Fashion Retailer Myntra.

- Myntra, one of the bigger fashion portals in the country focusing both on traditional and more western fashion, has closed a $50 million round of funding.
- As that round closed, Myntra got approached by both Amazon and Flipkart. Flipkart had made an acquisition offer in the region of $200 million. This proposal being pushed by their common investors Accel Partners and Tiger Global.
- Discussions included a proposal to merge with Flipkart or acquire another e-commerce company to gain certain size.
- Possibility of Flipkart or Homeshop18 doing an IPO in the next 12-18 months; but unlikely to be more than 2 or 3 IPO's in the space in the foreseeable future. Listings likely to be outside India, since they cannot match the continuous profitability criteria for listing in India

9.3 Upcoming Trends

Internet Penetration: With an exponential increase in internet usage, there's an increasing PC and broadband penetration, coupled with the declining prices of PCs. Tablets and smartphones have given a new meaning to connectivity and user experience. The adoption of 3G and upcoming 4G technology, along with the declining prices of smartphones, is expected to result in an additional increase in internet usage in the country. Improvements on the payment front have brought about the increasing use of plastic money by Indian consumers. Payment gateways have now been made more secure through multiple levels of authentication via one-time passwords (OTPs). This has helped strengthen users' confidence in carrying out online transactions.

M-Commerce: India has more than 900 million mobile users, of which around 300 million use data services. This is expected to grow 1200 million by 2015. Also, more than 100 million mobile users are expected to use 3G and 4G connectivity in the coming few years. Of the total 90 million mobile users, only 27 million are active on the Internet. Moreover, only 4 per cent of the active mobile internet users buy products through mobiles. However, mobile shopping is on upward trend and is expected to increase five–fold to 20 percent in the medium term. Bansal, Flipkart CEO said smartphones would be the biggest online shopping driver in the coming years. "Over half a billion Indians will switch to smartphones in the next five-six years. That's going to be a big driver of e-commerce in India," Bansal added.

FDI in E-Commerce sector: Presently the Indian Government has allowed 100 per cent FDI in B2B e-commerce, while business-to-consumer (B2C) is prohibited. In addition to that there's a compulsory 30 percent local sourcing norms for foreign players.

Companies like Amazon, eBay, and Tesco are coaxing and holding meetings with the DIPP to invest in an emerging market India. They have even been investing some of the local start-ups here like Amazon entered India via Junglee.com.

The news that Department of Industrial Policy and Promotion (DIPP) has started consultations with stakeholders on allowing foreign direct investment in retail e-commerce before the end of this financial year, has nonetheless raised our expectations of expansion of Indian E-Commerce industry.

Undoubtedly, it's an expansion time for E-Commerce Industry. E-Commerce players are banking on the Indian internet growth story. The fact that an average online user is spending more time online gives these players the opportunity to draw more users to their websites through innovative marketing strategies such as those revolving around social media.

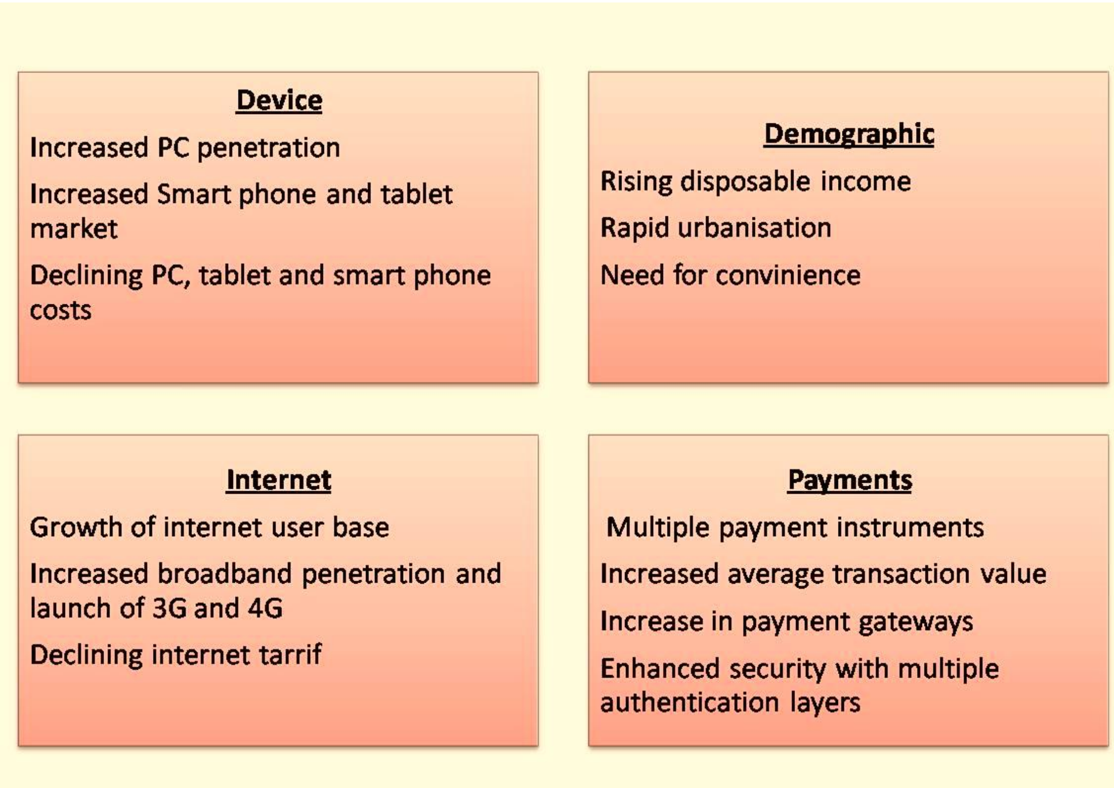


Figure 9.1: *Summarization of factors determining future of E-Commerce in India*

Furthermore, to fully utilize the opportunity, players need to leverage the growing number of mobile devices in the country. They should focus on developing mobilecompatible websites and applications. This would allow customers to log on to easy-to-access platforms and browse e-Commerce websites on their mobile devices.

They also need to focus on innovation to tackle challenges arising from low credit and debit card penetration. They could consider working with financial intermediaries to develop payment systems, such as escrow services, for resolving issues around security and product delivery. The RBI could step in and reduce the number of online transaction failures by defining service metric quality and monitoring it at regular intervals. This would enable it keep a close eye on the performance of financial intermediaries and plug gaps as soon as they occur.

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