

2017

SNAPSHOT OF ONLINE PURCHASE BEHAVIOUR IN URBAN INDIA

A Survey of 600 consumers was conducted across six major cities in India including Delhi, Mumbai, Chennai, Hyderabad, Bangalore and kolkata. The study is restricted to six main players of e-retail industry. These include Amazon, Flipkart, Paytm, shopclues, e-bay and snapdeal. The results highlighted in the report reflect the true picture of current e-retail industry in India.



FOREWARD

Dear reader,

Maction Consulting is delighted to present their first publication on Indian e-retail Industry. The report collates the summary of the responses from 600 customers across six metropolitan cities in India including Delhi, Mumbai, Bangalore, Chennai, Kolkata and Hyderabad. The objective of the survey was to map the views of the existing urban customers to get their insights on existing online retail market and their perception and preferences for online retailers. Furthermore, report highlights the latest trends prevailing in the retail operating environment along with the opportunities that can be seized by online retailers for differentiation and future growth prospects. We hope that this report will act as a base in contextualizing customers' behaviour and their perception on e- retail market.

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EXECUTIVE SUMMARY

USD 672 billion retail industry is one of the fastest growing industries in India and contributes nearly 10% to GDP and 8% to the employment of the country. Owing to the introduction of several new business models and technological initiatives, retail industry has undergone a radical transformation in its structure and processes over the last two decades.

E-tailing started stretching its wings in India over a decade ago. Many Private and foreign players embraced with modern practices and sophisticated technologies have penetrated in the Indian retail industry and many players (like Alibaba, China's Tencent) are lined up to enter the Indian e-retail sector through mergers or investments.

There are various factors that influence the e-retail market in India. Huge base of Internet users spending time online, penetration of Smart phones and internet enabled services, Youth skewed demographics, Improved Supply Side and several government initiatives etc. are some of the key influencing factors affecting e-retail market.

With the intensification of competition in e-retail industry, retailers have introduced several new strategies to cope up with the competition. These include introduction of New Categories of products, Introduction Of private Brands, New Product and Service aggregator in E-tailing Industry, Omni channel retailing, Mobile Wallets, Artificial Intelligence and many others. Still there is a long way to go for addressing several challenges to increase penetration of online retailing in India.

Highlights

- *Active Participants of online shopping fall under the age of 40.*
- *Amazon tops the list in the category of most preferred brand for online shopping.*
- *Cash on delivery is still the most preferred Payment gateway among Indians.*
- *Promotional Sales and discounts found to be the most prominent reasons for visiting online shopping sites.*
- *Mobile is found to be the most influential device in e-shopping.*
- *Most favourable timeslot for Internet shopping is 6 pm- 9 pm.*
- *Most Sought Online product categories are Electronics and Apparels.*

INDIAN E- RETAIL INDUSTRY AT A GLANCE

USD 672 billion retail industry is one of the fastest growing industries in India and contributes nearly 10% to GDP and 8% to the employment of the country. Owing to the introduction of several new business models and technological initiatives, retail industry has undergone a radical transformation in its structure and processes over the last two decades. Today, web based models have considerably replaced traditional mortar and brick formats and have paved the way to timeless, boundary less and effortless 24*7 business across the world. These web based models have made e-tailing as the buzz world in the retail operating environment. Although, E-tailing accounts for only 0.4% of the overall retail market but it is on a rapid growth trajectory.

E- Tailing or online retailing is the process which allows consumers to directly buy goods or services from a seller over the internet without intermediary service. E tailing started stretching its wings in India over a decade ago. Many Private and foreign players embraced with modern practices and sophisticated technologies have penetrated in the Indian retail industry and many players (like Alibaba, China's Tencent) are lined up to enter the Indian e-retail sector through mergers or investments. Various factors like increased use of internet, penetration of smart phones, increasing disposable income and several government initiatives like digital India, cashless economy, increased FDI limit in retail etc has made India an attractive destination to invest in retail industry. According to a report by IBEF(2017), India is the fifth largest preferred retail destination globally and is poised to grow to US\$ 1.3 trillion by 2020, registering a Compound Annual Growth Rate (CAGR) of 16.7 per cent over 2015-20 and online retail market is expected to reach \$ 64 billion by 2021, with 31.2% CAGR over five years according to a study by ASSOCHAM-Forrester.

KEY DRIVERS OF E-TAIL IN INDIA

Huge base of Internet Users spending time online: The increased penetration of internet in India has given a boost to India's electronic retail business. Currently, we have 355 million internet users in India and it is expected to reach by 650 million by 2020. Urban India has close to 60% Internet penetration and overall Internet penetration in India is currently around 31%. (Source: IAMAI-IMRB report). But industry need to focus on modifying the customers behaviour on online shopping in India as the no. of online shoppers are not growing proportionately to the number of internet users .

Penetration of Smart phones and internet enabled services : According to a data released by the Telecom Regulatory Authority of India, currently India has a mobile phones phone subscriber base of over one billion and a Smartphone use base of over 300 million. (HT, July, (2017). This increased base in India's telecom market and the efforts of reliance industry to promote digitalization would drive the electronic retail industry in India . Moreover , the potential base of 750 million customers in rural areas can be exploited to change the landscape of Electronic retail industry. (livemint, sept17).

Youth Skewed Demographics: India is a country of youth and 75% of Internet users in India falls in the age group of 15-35 years . These form the potential customer base for online shopping. Mere promotional efforts on social networking sites by retail industry can help to attract the large tech savvy customer base .

Improved Supply Side: Retailers promotional efforts, discounts, festive schemes, cash on delivery, multiple payment options and hassle free return are incentivizing customers to go for online shopping.

Government Initiatives: The following initiatives taken by government have acted as growth drivers to e-tail industry:

- **Digital India:** Digital India and Make in India are also contributing to the growth of the e tailing industry in India.
- **FDI:** The Government of India has allowed 100 per cent Foreign Direct Investment (FDI) in online retail of goods and services under the arrangement that the products sold must be manufactured in India to gain from the liberalized regime.(SOURCE: IBEF).
- **New Consumer Protection Bill:** Government of India has drafted a bill to ensure simple, speedy, accessible, affordable and timely delivery of justice to consumers which will promote electronic shopping.

CHALLENGES OF E-TAILING INDUSTRY:

Weak Logistic Infrastructure: Despite of technological advancements e tail industry is still lagging as far as the procurement operations and transportation is concerned. The accessibility to tier2 and tier3 cities is still limited. This could act as a deterrent to the growth of retail industry.

Increased failure rate of payment gateways: No doubt, the availability of different payment options has increased the sale of e-tail industry but the inconvenience faced by failure in the operations of payment gateways hampers the trust of the customers towards the company.

Security: Security is one the prime concerns of customers during online shopping. Increased number of online scams and hacking activities have created distrust among the customers..So security challenge is one of the factor due to which customers are reluctant in doing internet shopping.

Infrastructure Problem: Internet is the backbone of the e-commerce .Due to its limited accessibility and poor network services to rural areas retail industry is still in the developing stage with limited customer base of urban population.

Digital illiteracy: Most of the population in India is living in rural areas and have inadequate digital literacy. Lack of digital awareness among customers is acting as inhibiting factor in the growth of e commerce industry in India.

Absence of e-commerce laws: Another challenge before E-tailing industry is the lack of cyber laws to regulate online transactions. The lack of cyber laws in retail sector questions the integrity of the customers towards company.

High Competition: With the entry of large number of private and foreign players , ecommerce industry is facing fierce competition. The marketers have to make innovative product or promotional strategies very often to gain competitive edge in the industry. Devising unique selling strategies is a cumbersome job which requires high skilled professionals.

Feature Phones Still Rule the Roost: Majority of the population in India lives in Villages and semi urban areas and people in those areas have more inclination to feature phones rather than smart

phones. In the absence of smart phones, reaching the majority population in semi urban areas presents a challenge for e-com players.

Return rate of products: The rate at which consumers return the products is very high in India. This cause loss to the retailers as they reverse logistic presents unique challenges. Customers' skeptical behaviour about purchasing things online is a great challenge before retailers.

TRENDS IN E-TAILING INDUSTRY IN INDIA

Introduction of New categories of products: Companies are introducing themselves into the retail segment by horizontal integration of new category of goods and services in the catalogue of their existing products. For Example Paytm is in the line of introducing service of water and milk at the doorstep of the customers. New categories of e-wallet and online grocery have also been added to the basket of Amazon. Currently Amazon online grocery has its reach in over 30 cities and it has its plan to expand the grocery segment by making alliances with large offline grocery and supermarket chains. The E-commerce giant Flipkart is also moving on the same path of introducing online grocery into their existing product mix for which a pilot programme has already been initiated in Bengaluru .

Introduction Of private Brands: Some of the companies have also launched private labels to create dominance in the retail industry. For example, Flipkart has introduced a private label, 'Billion', under which it sells products in various categories and has plans of introducing more products across categories such as large appliances under the same brand over the coming months. Nykaa.com which was launched in 2012 for selling premium and international cosmetics has launched a private label last year under its own name which it plans to grow significantly.

Entry of new product and service aggregator in E-tailing Industry:

New sector of online medicine and medical website has brought a revolution in medical industry. This category of online medicine aggregator focuses on selling complementary and prescription medicines online. For example pharomeasy.in, a Mumbai based start-up is one of the largest pharmacy aggregators in India. On the other hand medical websites like Practo with over 100000 doctors' profiles is patient focused patient website where patients can easily book confirmed appointments with listed doctors on Practo's website.

Cross border Shoppers: E- retail industry also caters to the needs of customers who are class conscious and want unique product in terms of quality and differentiation. . It has been estimated that 53% of Indians purchase online products from other countries during the Diwali season and 55% during Christmas. A study revealed that around 13.8 million cross border Indian shoppers spent an average of Rs 42,400 in 2016. The categories under Cross border shopping are as follows:

Clothing, footwear and accessories- 54%

Cosmetics and beauty products- 42%

Consumer electronics- 43%

Omni channel retailing: Today, retailers are trying to create Synergy between online and offline products by creating traditional Mortar and brick store along with their online shopping space . They have a perspective that a physical store network is equally important as an extensive online presence. Most of the e tailing players have already adopted this multi channel strategy through which consumers can click, collect and return goods on their terms and at their convenience For

example Nykaa , has opened its two stores in Mumbai and Bangalore and has expansion plans of opening 30 offline stores across India by 2020. The presence of ecommerce players through physical stores enables customers to purchase things online and exchange them offline and vice versa. This strategy is expected to increase the touch base with customers' thereby increasing sales and augmented customer experience.

Mobile phones wallets: The introduction of e- wallets has altered the way by which customers make payments while purchasing good and services. Paytm, Mobikwik , ICICI –Pockets etc are some of the digital wallets that customers are using to shop products and services. Recently, ecommerce giant, Amazon has also introduced Amazon pay to increase customers convenience of making payments. With this spread of digitalization, it is estimated that 55 per cent of online sales will be driven by cashless transaction by 2020 with a contribution of mobile phones wallet share of 15 per cent from current 8 per cent.

The role of discounts: Indians have a tendency to purchase goods when available on discounts. This behaviour has been rightly understood by the retailers and using the same strategy retailers have been able to generate huge sales and profits. According to a study it is estimated that 92% of the internet traffic leads to conversion if the online store is offering some good discounts. Flipkart and Amazon are amongst the top retail players who are using the discount strategy to attract customers by introducing heavy festive discounts.

Cash back offers: Retailers are providing lucrative offers of cash back on certain product purchases and are attracting customer base by creating win-win situation for both customer and the marketer.

Use of Social Media: Social Media has a greater influence in the promotion of goods and services. Facebook, twitter, instagram are the social platforms that enable marketers to advertise products and services and are bringing newer audiences to the online space.

Artificial Intelligence: Use of artificial intelligence to create customer intelligence has become a catchphrase in retail industry these days. It provide marketers with a base to support decisions by anticipating futuristic customers' needs .Another trends backed by artificial intelligence is chatbots which creates a chat interface between marketer and customers.

MARKET STRUCTURE OF E-TAIL INDUSTRY IN INDIA

The e-tailing sector is considered to be in its nascent stage with continuous emergence of new business models..The e-tailing market in India is split into horizontal and vertical players. The horizontal players have captured almost 85 -90% of the market share. Included in the category of horizontal players are e -tail giants like Flipkart, Amazon India, Paytm, Snapdeal, eBay and Shopclues and major segments in which vertical players operate includes fashion, furniture and home furnishings, eye care products, healthcare products etc .These are the players with small share of the market, but are growing rapidly.

As far as the different verticals of e-tailing industry are concerned, at present, electronics and apparels dominate the online space in India. Women are more interested in apparels and majority of the men has been found more interested in buying electronics.

Also, it was found that majority of the customer base of e tailing industry comprises of youths with age group of 18-40 yrs. According to ASSOCHAM, the value of online retail purchases made by

consumers in India is projected to cross USD100 million by 2017 and as per the study done by Indian Institute of e-commerce, India is expected to generate \$100 billion online retail revenue by 2020

COMPETITIVE ENVIRONMENT

Competitive landscape of the e-retail industry can be understood by porters' five force framework. This model identifies and analyzes five competitive forces existing in the industry and helps to determine the attractiveness of the industry.

Threat of New entrants: E-tail industry provides ample opportunities for new players to enter in the industry with minimum investments and minimal entry barriers. With the high penetration of internet & smart phone across India, new players can easily increase their market share by capturing not only tier I cities but also Tier 2, tier 3 cities and rural areas . This poses a great threat of new entrants to the existing players.

Threat of Substitutes: In the e-tailing industry there are a lot of options available for the same product and customers can easily switch from one brand to other. Since a large numbers of players with wide product range are available in the industry, the crucial factor determines the customers' preference of the products is the price and the available discounts. So the currently e tailing industry is facing threat from increased low priced substitutes products.

Bargaining power of Supplier:

Millions of sellers list their products on online marketplaces which influence the bargaining power of suppliers in the marketplace. There is a need that retailers should be conscious while dealing with price or policy changes as this can lead to dissatisfaction among customers.

Bargaining power of Buyers:

With the easy accessibility of information customers are aware of the prices of different e-retailers and the increasing competition in the retail industry has increased the bargaining power of the customers as retailers need to keep their prices low to prevent customer churn.

Rivalry among Competitors:

The competition in the e-retail industry in India is very intense as the marketer faces threat from both online and offline retailers. Marketers have to find different strategies every often to survive in the marketplace. Various factors like prices, services , differentiation and ease of access to the product affect the product decision of the customers. With the threat of new players, the competition in the industry has become more fierce.

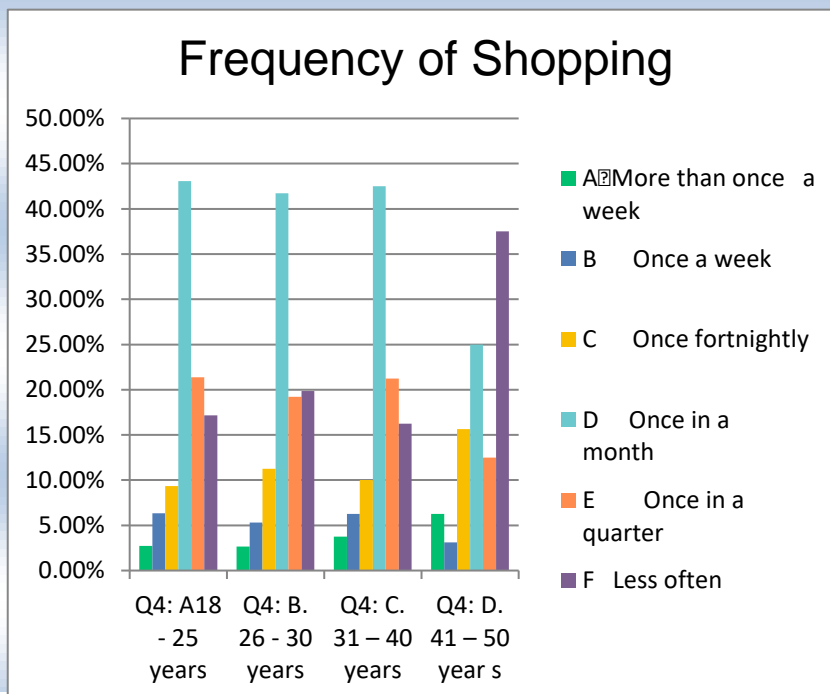
Considering the above parameters it is analysed that the competition is industry is intense and will heighten up with the entry of new players. This will also affect the bargaining power of the suppliers as well as buyers.

CUSTOMERS' INSIGHTS

ACTIVE PARTICIPANTS OF ONLINE SHOPPING FALL UNDER AGE OF 40.



The trend of online shopping in India is found to be most prevalent among youngsters, active participants being college going students and working professionals. . Also, the most active groups for online shopping fall in the age groups 18- 30 Years and 30-40 years. Moreover, the frequency of online shopping appears to be once a month for the age group under 40 . But for other age group(40-50 years) the shopping behaviour varies from less than once in 3 months or less often. They are playing the role of traditional shoppers with an interest of going to brick and mortar stores for purchasing goods and services.



BEST



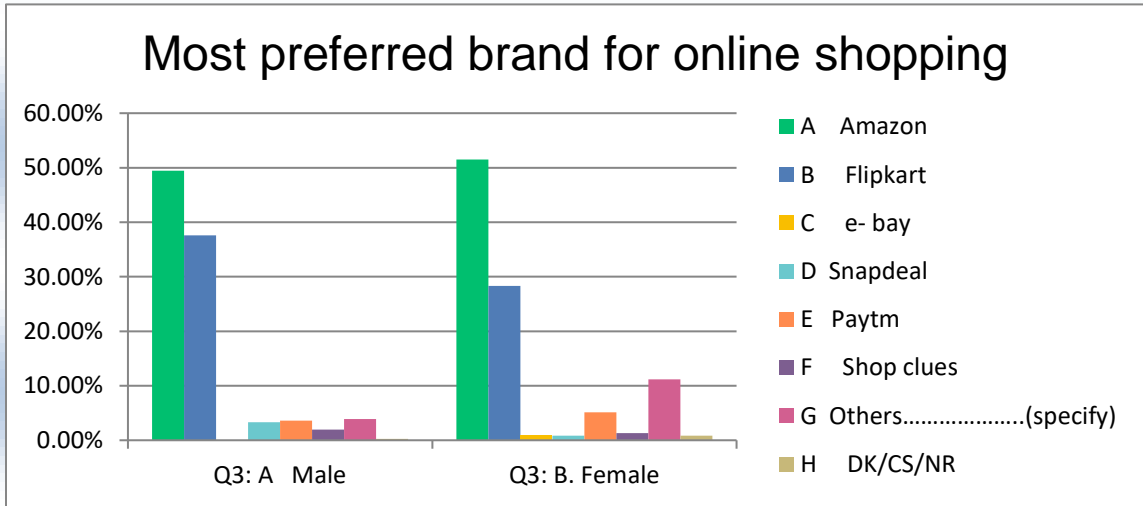
Online Shopping Sites

AMAZON TOPS THE LIST IN THE CATEGORY OF MOST PREFERRED BRAND FOR ONLINE SHOPPING

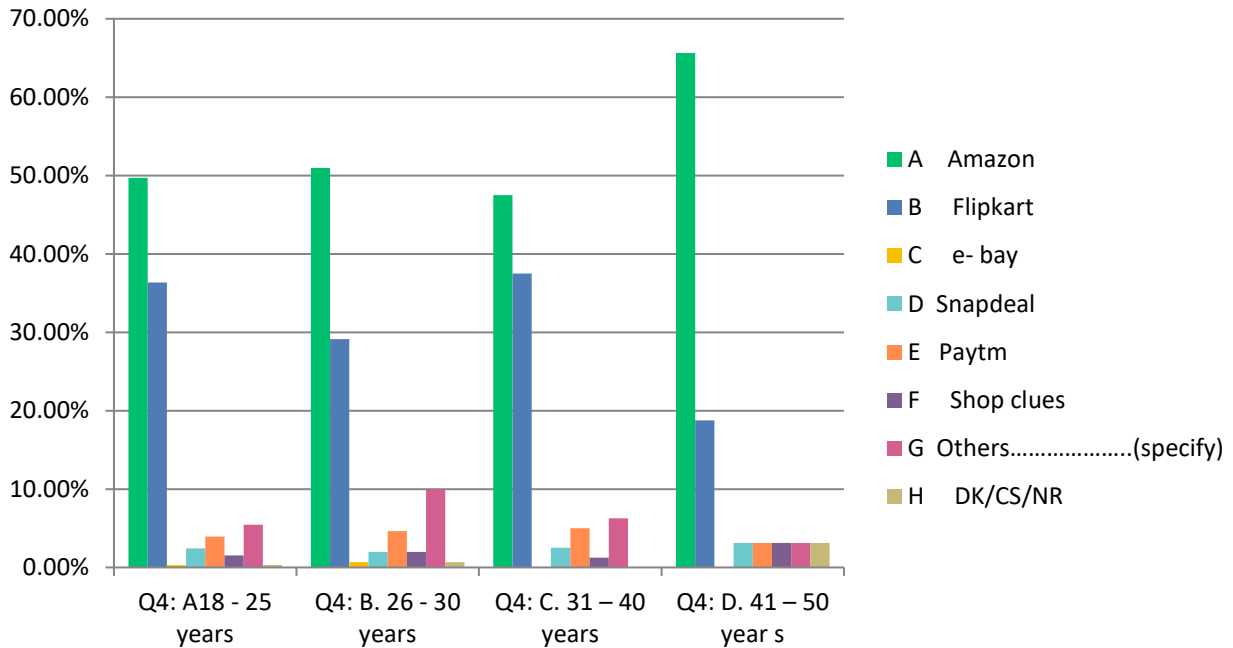
Amazon is the preferred choice in urban India for online shopping.. People in the age group of 18 -50 years irrespective of gender, education and profession have a preference for shopping from online retail giant Amazon. On further probing the reasons revealed were highest product range, best schemes/deals and highest customer reach .No doubt promotional efforts have played a great role in up surging the status of Amazon but the strategies adopted by Amazon from time to time have positioned it as the most attractive brands among Indians.

Flipkart, another dominant player of e –retail market is also moving neck to neck with Amazon but lack of awareness among Indian masses and less promotional efforts by the company have made it difficult to maintain the position of topnotch player in Indian e-retail market. Though the company has adopted new marketing strategies and introduced private brands under its own name but the spread of information seems to be lower in comparison to Amazon which is giving a set back to the company.

Other players like paytm, shopclues, e-bay and snapdeal are also witnessing a major threat from Amazon but are making constant efforts to maintain their customer base by introducing various lucrative offers from time to time.



Most preferred brand for online shopping

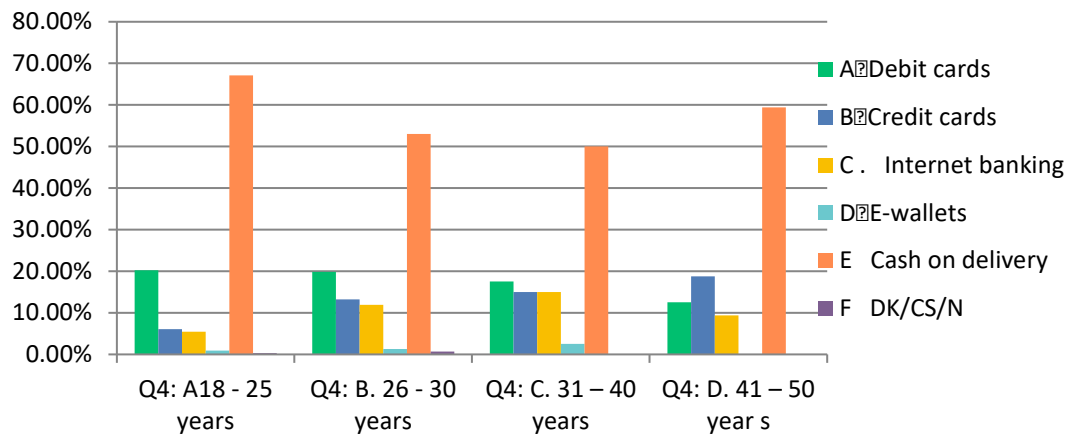


Cash on delivery is still the most preferred Payment gateway among Indians.

Cash on delivery is the widely accepted payment method during online shopping in India. Indians are risk averse by nature. Fear of getting robbed online, receiving of defected products, absence of robust online infrastructure etc are some of the threatening factors that create doubt in the minds of customers before opting for online purchase by any other payment gateway. It has also been found during survey that people prefer cash on delivery for all product categories.

Though the companies have tried to incentivize the customers through cashback offers for using other payment modes including e-wallets, payment through credit card and debit card, accepting cards on product delivery but it appears that these are not able to attract the attention of Indians who are still opting cash on delivery as the desirable payment method.

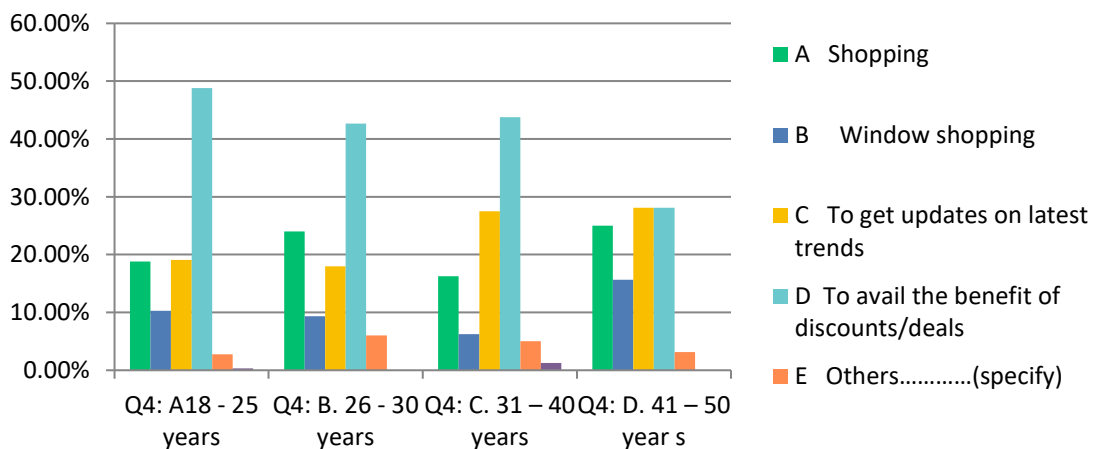
Most preferred payment mode



PROMOTIONAL SALES AND DISCOUNTS FOUND BE THE MOST PROMINENT REASONS FOR VISITING ONLINE SHOPPING SITES.



Purpose of visiting online retail websites



Urban Indians are in the habit of visiting online sites very often. But the fact that emerged out from online shopping behaviour was inconsistency between visiting online sites and shopping pattern.

It is matter of concern for marketers that online purchasing frequency is not proportionate with the visiting frequency. People in India visit online shopping sites not with the intention of purchasing but for various several other reasons too. A survey was conducted among 600 people from metropolitan cities and the pushing factor that emerged out from the study was that most people visit online shopping portals just to avail the benefits of sale and discounts.

Some of the people during survey also revealed that these online portals are a source of updating themselves with the upcoming trends in the market.

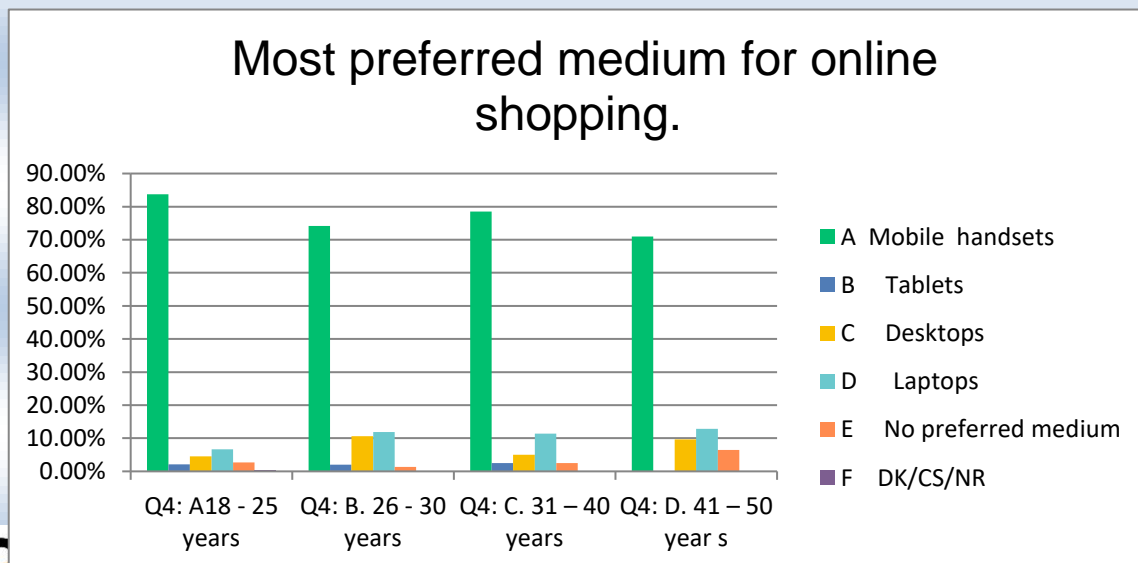
The purpose of visiting online sites also varies according to the product category. Shopping is the most dominant activity during online visit if the people intend to purchase grocery and bags.

If the companies want to modify the shopping frequency / behaviour of the people in a country like India then they seriously need to be on their toes as people are very conservative in their habit of spending.

Mobile Phone is found to be the most influential medium in e-shopping.

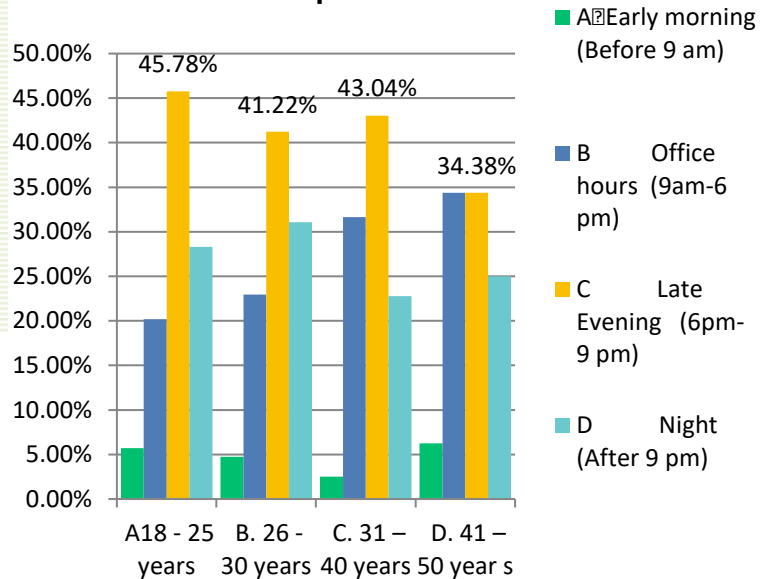
The people in urban India highlighted mobile phones as the primary device when it comes to online shopping. The results revealed that people of almost all age groups prefer mobile phones for doing electronic shopping. Differentiation in gender, profession, Income and education has no effect on the choice of any other medium.

As evident from day to day environment, the advancement of technologies has given a setback to traditionally used connecting mediums like desktops and laptops thereby giving supremacy to mobile phones. Today, people make use of mobile phones more often to access any application /site whether it is for online communication, social networking or shopping the products of their choice.



Most favourable timeslot for Internet shopping is 6 pm- 9 pm

Favourable time of online purchase

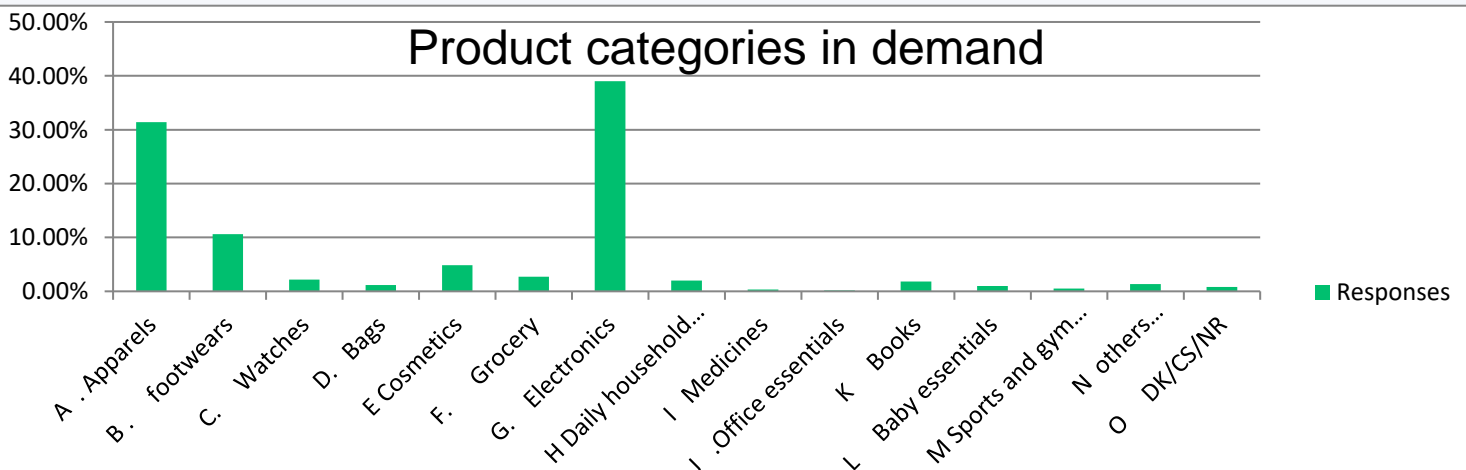


In Urban India, it has been found that people generally shop online during evening. It has also been observed that people of all age groups except 41 - 50 years prefer to purchase goods online during 6 pm-9m. It is the time during which most of the offices are closed down or are on the verge of closing and people are travelling to homes. They found it as

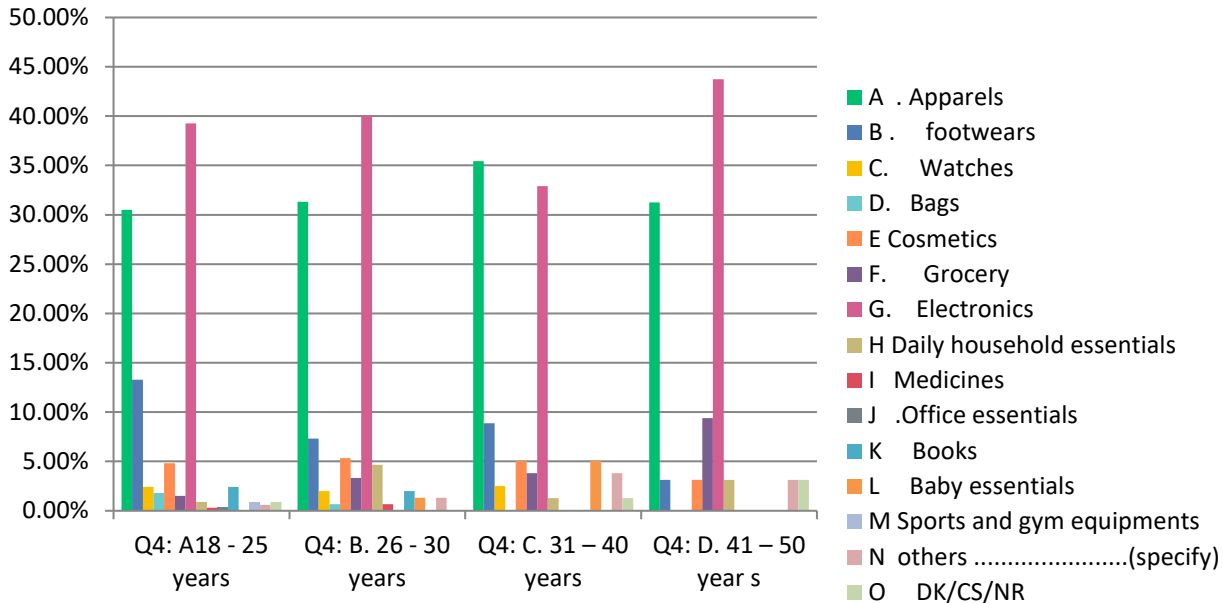
the ample time to surf, browse and shop. It is considered as the best time spending activity along with listening songs and watching movies in metros on phone.

People that fall in the age group 41- 50 years do not have any favourable time as far as online shopping is concerned. They shop as per their convenience between 9 am- 9 pm.

Most Sought Online product categories are Electronics and Apparels.



Product categories in demand



The product categories that are purchased online most often include electronics followed by apparels. It has been found that people in the age groups 18- 30 years and 41-50 years are more interested in buying electronics online while apparel is the favourite product category for people in age group 31-40 years.

When it comes to purchasing electronic products online, it has been revealed that males form the dominant category and females have more inclination towards apparels.

Also, apparel is the preferred category of shopping for government employees and electronics is mostly purchased by people of all professions including housewives, private employees, self employed and students.

Corporate office:

Maction Consulting Private Limited
 A/1/D, Chinubhai Tower, Near HK College,
 Ahmedabad, Gujarat-380009
 Tel: +91-9677762888, +91-7940190593
 Email: info@maction.in
 Website: www.maction.in

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