A GUIDE TO E-COMMERCE IN INDIA

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Australian Government
Australian Trade and Investment Commission

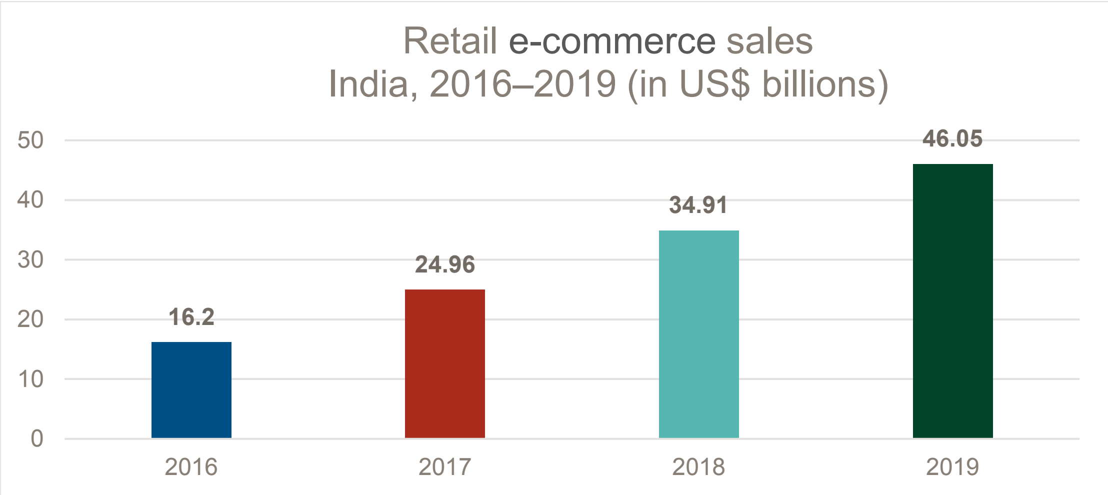
Contents

Introduction

India is one of the fastest growing e-commerce markets in the world. It is also one of the world's fastest growing large economies. Taken together, this means India provides a range of commercial opportunities for Australian companies that might previously have been too difficult or risky to consider.

Estimates of projected growth in India's e-commerce market vary. However, one thing is clear. They are united in overall direction of travel (up) and time to run (long). The value of e-commerce retail is expected to exceed US$46 billion in 2019, an increase of more than 30 per cent over the previous year. Looking ahead, sales projections range from US$170–200 billion between 2026 and 2030. The next 10 years are forecast to see continued growth in an already booming sector.

India's e-commerce ecosystem includes well-known international business such as Amazon, the American online giant that has been active in India since 2013. BigBasket is the country's largest online supermarket and has more than 18,000 products. Nykaa is an Indian online success story founded by the former banker Falgani Nayar. Flipkart is the Bangalore-based e-commerce pioneer that was purchased by Walmart for US$16 billion in 2018.



Source: eMarketer, accessed November 2019

Market features	E-commerce activity
Internet users: 464 million	Retail e-commerce sales (2018): US$34.91 billion
Internet user penetration: 38.6%	2013–2018 total growth: 416%
Smartphone ownership: 94.3%	% of total retail sales: 4.2%
Use of a mobile phone to access the internet: 97%	E-commerce spend per capita: US$27
	Online shoppers: 90+ million users
	Demography: male, aged 25–34, living in metro and Tier 1 cities

*Retail e-commerce sales exclude online services such as travel, software and deliveries.

Source: Euromonitor Passport; Hootsuite/We Are Social; BCG

India’s e-commerce consumers

Current estimates indicate that India has more than 90 million online shoppers. They are more likely to be male than female, though this imbalance is changing and expected to change further. In some traditional families, women can be discouraged from accessing the internet as it may be seen as a source of “negative influences”.

While current internet users are generally younger (aged 25 to 34), and found in metropolitan and tier-1 cities, this too is changing. A consumer market of women in Tier 2 and 3 cities is emerging as they discover a range of products that had previously been unavailable in their area. Nykaa, the beauty and cosmetics retailer, has attracted a large number of women to its online platform on this basis.

The online shopper in India continues to be more urban, better educated and more modern in their tastes than the average consumer. They are part of India’s rapidly growing middle class. These factors can be seen influencing the growing appetite for international brands and better-quality foreign and imported products among digitally connected shoppers.

While consumer electronics and fashion apparel are the major e-commerce retail categories in the market, food and grocery, baby products, personal care and home furnishings are significant categories that are also growing quickly.

Factors driving sector growth

There are a number of key factors contributing to the growth of India’s e-commerce industry.

Internet usage continues to rise. India has the world’s lowest overall mobile data costs and 97 per cent of online traffic is from mobile devices. The current average cost of a gigabyte of mobile data in India is around US$0.26, which may also help to explain why Indians consume more mobile data than any other nationality. This cost is little more than a tenth of the cost in Australia, which is already well below the worldwide average. The entry of telecommunications company Reliance Jio to the market in 2016 is said to have added 100 million new users in its first six months alone. Smartphone penetration is also high, at around 300 million users and growing.

The desire for convenience is also helping create growth in the sector. Indian consumers, particularly high-frequency premium shoppers, are attracted to the ease of shopping from home. Roads can often be congested and retail environments are not always of the highest quality. Furthermore, the range of products available online, both local and imported, is extensive and shows availability. Low-cost delivery options also help boost the attractiveness of shopping online.

Online retailers are also developing marketing campaigns to attract more price-sensitive shoppers. Shopping festivals such as the Big Billion Days sale from Flipkart and the Great Indian Festival at Amazon are high-profile events that attract a lot of publicity as well as new online consumers.

Challenges for Australian exporters

Despite the growth in e-commerce in India, a number of sector challenges remain.

- **Building trust:** while major e-commerce players are building trust by offering cash on delivery (COD) and 100 per cent refund policies, some online shoppers are still apprehensive about product authenticity and quality.
- **Logistics and delivery:** the lack of robust road and rail infrastructure continues to act as a constraint to major e-commerce players in providing cost-effective, speedy deliveries across all cities.
- **Touch and feel:** Indian shoppers are used to being able to touch and feel a product to assess quality and appearance, especially in popular retail categories like jewellery, cosmetics and accessories.

For imported products, a number of additional challenges are also worthy of consideration by Australian exporters. The lack of a current free trade agreement between India and Australia means customs duties can be high. Product registrations can be complex and time-consuming to obtain. Finally, strong international competition is already present in this large and growing market. Despite this, a number of Australian companies are already enjoying commercial benefits from India's emerging e-commerce sector.

Key online marketplaces in India

Major international businesses have made significant investments in the Indian e-commerce market. Amazon has established Amazon India, Walmart has purchased Flipkart and Alibaba has invested heavily in BigBasket and Paytm. As of 2019, Amazon India and Flipkart are the industry leaders, with more than 70 per cent market share combined.

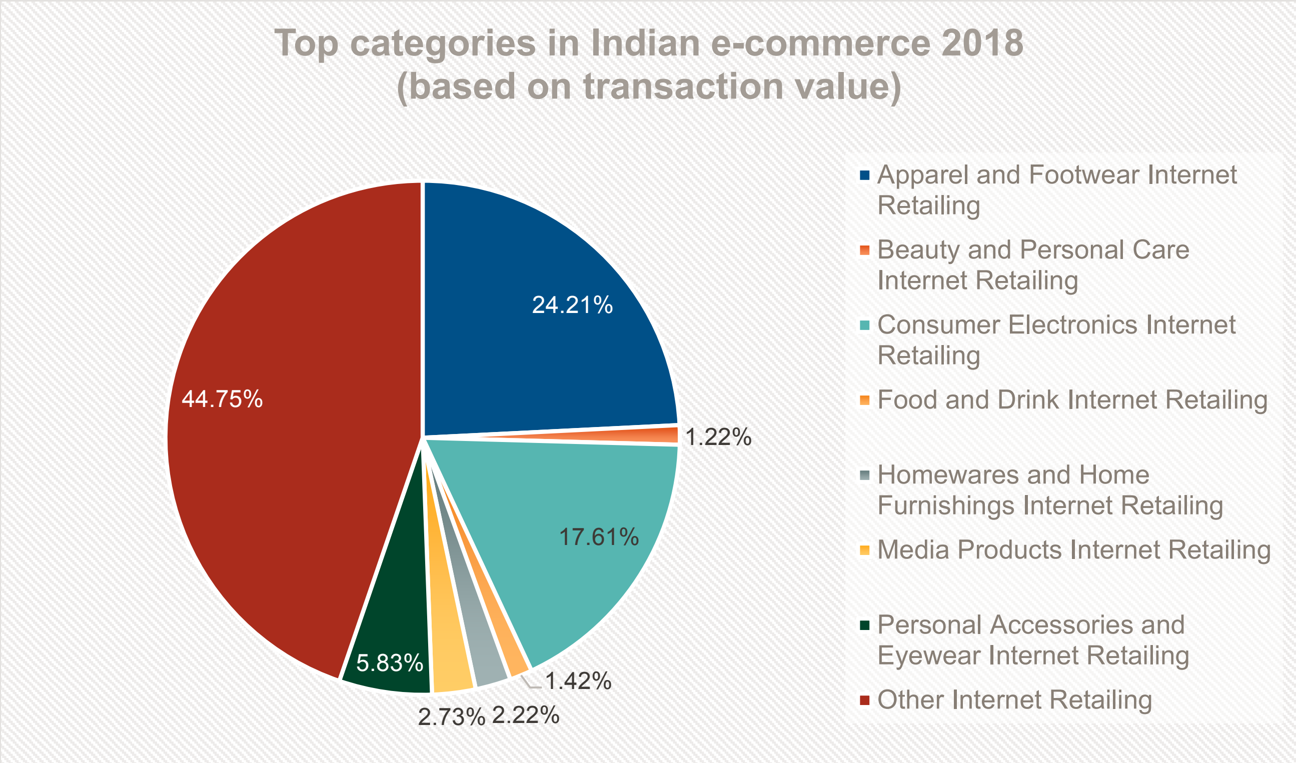
Amazon India was established in 2013 and with continuous support and investment from Amazon has become one of the key online marketplaces in India. Its website currently lists more than 170 million products. Australian exporters have the option of either listing and fulfilling by themselves or using the Fulfil by Amazon (FBA) model, where Amazon handles local warehousing and last mile delivery (terms and conditions apply for eligible items). Amazon India covers 100 per cent of the pin codes (postcodes) in India, meaning they have last-mile delivery services covering the whole country.

Founded in 2007, Flipkart is a leader in Indian e-commerce. In 2018, Walmart, one of the largest companies in the US and a leading e-commerce platform, acquired 77 per cent of Flipkart for US$16 billion.

Besides the giants of the sector, Australian companies can also consider exposing their products to premium online shoppers through more focused e-commerce retailers in selected categories. Some of these niche e-commerce players are:

General merchandise	Amazon, Flipkart, Snapdeal, ShopClues, Infibeam, Paytm Mall
Fashion and accessories	Myntra, Koovs
Baby products	FirstCry, babysWorld, Hopscotch, Babyoodles
Groceries	BigBasket
Home furnishings	Pepperfry, Urban Ladder, Engrave, MaddHome, The Décor Kart
Health and personal care	Netmeds, 1mg, HealthKart, Nykaa

Top categories in Indian e-commerce



Source: Euromonitor, November 2019

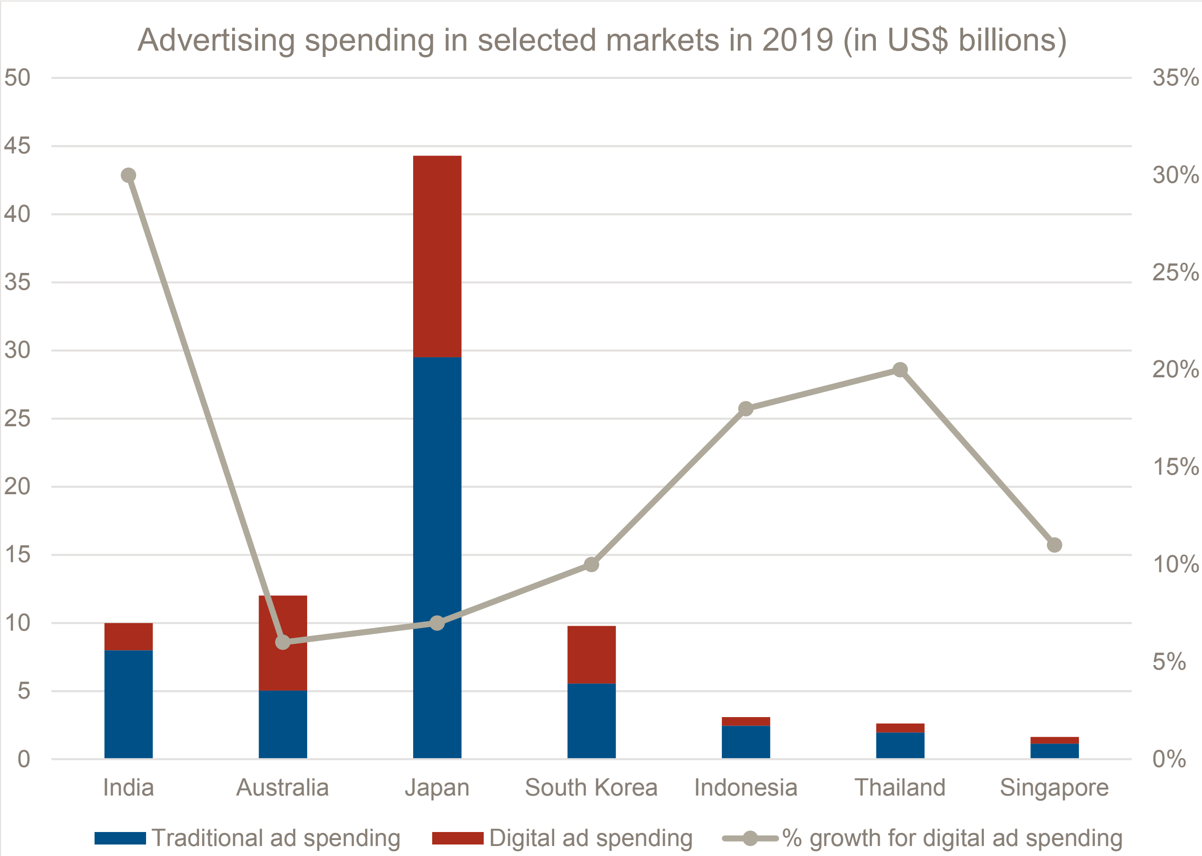
Electronics and apparel account for approximately 70 per cent of India's e-commerce value at retail. However, other categories are growing faster, including baby products, home furnishings, personal care, food and groceries. Within the food and beverage category, branded and imported goods have the largest overall share at 26 per cent and growth of more than 50 per cent year on year.

Australian companies focusing on packaged food, personal care, health and sports supplements, baby food and accessories may have the most success in India's rapidly developing e-commerce market.

Digital marketing and media in India

As of 2019, Indian consumers still spend the majority of their media time in traditional channels compared to digital channels. Television takes the largest share of total time spent (at 59 per cent), while digital is now the second most popular media source, representing 30 per cent of total media time.

While digital may still lag behind television in terms of media hours per consumer, online advertising expenditure increased by 30 per cent from 2018 to hit US$1.98 billion in 2019. It is estimated that ad spending in digital channels will increase by an average of 20 per cent in each of the next five years, according to a November 2019 eMarketer analysis.



Source: eMarketer, November 2019

As in many international markets, YouTube, Facebook and WhatsApp are the three most commonly used social media platforms in India.

Payment methods in India

Consumer payment transactions

	2018
Card payment transactions (excl. commercial)	15%
Electronic direct/ACH transactions	5%
Paper payment transactions (cash transaction)	80%

Source: Euromonitor, accessed November 2019

Unusually among large e-commerce markets, cash on delivery (COD) is still the most common payment method for Indian online transactions. However, the market is experiencing rapid growth in debit card and other electronic payments. Paytm has more than 350 million registered users and Google Pay (created specifically for India) sees more than 67 million people using the service every month.

According to the Reserve Bank of India, in June 2018 Indians had 944 million debit cards that could be used for online payments. While digital payments may still be relatively small in overall terms, they are growing. The Unified Payments Interface (UPI), launched in 2016 by the state-owned National Payments Corporation of India, is a game changer. The UPI allows e-commerce delivery staff to collect money electronically even for COD transactions. It is reasonable to conclude that the current dominance of COD (using banknotes) will be reversed in the next five years, especially considering the growth of Paytm, Google Pay and others.

Warehousing

For fashion and apparel items, Australian exporters can use a local third-party logistics warehouse model, such as Fulfil by Amazon, which allows them to fulfil and ship locally. Some exporters use a drop-ship model whereby online orders collected in India are supplied in batches at regular intervals to the distributor for onward customer fulfilment.

For skincare, cosmetics and food items, Australian exporters will need to find a local distributor and register the product in India before listing on any online marketplaces. Austrade's India offices can help exporters with more detailed information and support.

Government regulatory landscape for e-commerce foreign direct investment

In December 2018, the Department for Promotion of Industry and Internal Trade (DPIIT) under the Ministry of Commerce introduced stricter guidelines governing foreign direct investment (FDI) in e-commerce firms.

Clarification to the FDI policy

Setting forth the definitions for e-commerce and e-commerce entities, marketplace-based models and inventory-based models, the policy clarifies that 100 per cent FDI is permitted in marketplace models of e-commerce but no FDI is permitted in inventory-based models of e-commerce. These changes came into effect on 1 February 2019.

Equity ownership

The new guidelines also bar online retailers from selling the products of companies in which they own equity stakes. The policy states that a business having equity participation or control of its inventory by e-commerce marketplace entities will not be permitted to sell its products via the online platforms of such marketplace entities.

Inventory-based or marketplace-based

The policy further explains that a marketplace e-commerce entity shall not own or exercise control over the goods sold on the platform. Any ownership or control over the goods sold by the marketplace entity will render the entity an inventory-based one. The inventory of a vendor will be deemed to be controlled by the e-commerce marketplace entity if more than 25 per cent of vendor sales are from the marketplace entity.

Exclusivity

The new guidelines also bar exclusive tie-ups between e-commerce entities that follow the marketplace model and sellers using their platform. An e-commerce entity is prohibited from directing a seller to exclusively sell only on one platform. As an example, this may affect smartphone brands that have operated to date as online-exclusive brands on online marketplaces such as Amazon India and Flipkart.

Services offered by the e-commerce entity

In the marketplace model, e-commerce firms are not allowed to directly or indirectly influence the sale price of goods or services and are required to offer a level playing field to all vendors. Furthermore, services offered by the e-commerce entity are to be offered to all vendors on the platform in a fair and non-discriminatory manner. These services include, among other things, quick delivery, logistics, warehousing, advertising, marketing, payments and financing.

Contact Austrade

The Australian Trade and Investment Commission (Austrade) is the Australian Government's international trade promotion and investment attraction agency.

We deliver quality trade and investment services to businesses to grow Australia's prosperity. We do this by generating and providing market information and insights, promoting Australian capability, and facilitating connections through our extensive global network.

We also provide financial assistance for exporters through programs such as the Export Market Development Grants scheme.

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