Australian Government
Australian Trade and Investment Commission

Entering India's Online Retail Market

Guide for Australian Companies to Sell Online in India

April 2021

AUSTRALIA

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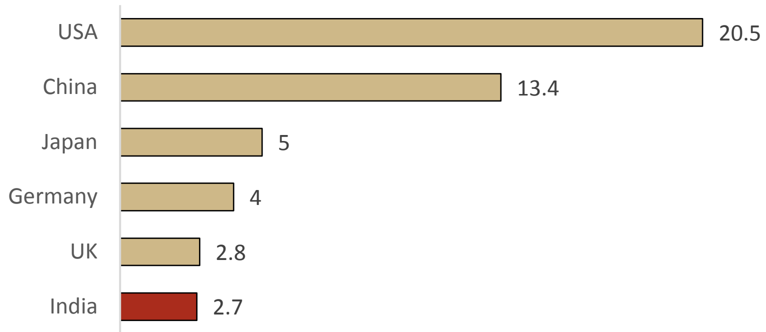
Introduction

Indian economy is 6th largest globally and it is poised to grow further driven by favourable demographic factors.

Overview of the Indian Economy

The Indian economy is 6th largest globally; however, it is also one of the fastest growing economy and is expected to be the 5th largest economy globally by 2025 and 3rd largest by 2030.[1]

Figure: GDP of leading countries (in US$ Trillion)



Source: IMF, World Economic Outlook (2020), Accessed in March 2021

Personal consumption forms about 60% of the Gross Domestic Product (GDP) in India. The share of government consumption and total fixed investment are around 11% and 29% respectively in the recent years. Imports are higher than exports by about 2% of the GDP; with this being balanced by the change of stocks and valuables.

While the Indian economy is expected to become the 5th largest economy globally, the other aspiration that it has set is achievement of the $5 Trillion economy target. In achieving the same, the digital transformation of the country is expected to play a pivotal role by creation of tremendous economic value and the empowerment of millions of Indians as new digital applications permeate and transform activities and types of work at a national scale.

Over the past few years, the government has taken a multitude of steps for development of foundational measures to drive digital in the country through digital infrastructure setup and driving large scale digital adoption along with private sector. Apart from this, implementation of key reforms like GST and boost provided to the cashless economy by demonetisation (withdrawal of 500 and 1000 currency notes in 2016) have further added to the digital economy in the country. Card and mobile payments now comprise 20% of the GDP in Dec 2019 and is expected to grow with increasing competition in this space.[2] Local content availability and mobile first content has driven adoption across markets in India along with significant decrease in data tariffs and smartphone prices.

[1] Source: CEBR, World Economic League Table (December 2020)
[2] Source: S&P Global, 2020 India Mobile Payments Market Report (July 2020)

Now with the advent of Covid, the Indian economy stands at a decisive point wherein retail economy is expected to transform as adoption of ecommerce is being driven out of necessity, convenience and safety across age groups.

Almost 1.3-1.7 times surge was seen in number of online customers in India during the pandemic with the surge been sharper in India than China, Brazil and Indonesia. It has led to advancement in ecommerce adoption by almost 2-3 years already. Even high value items like jewellery which had seen low ecommerce adoption earlier saw large growth in both bill value and sales through online channel. This makes it imperative for players to tap into the ecommerce opportunity presented in the country.

Demography

India has the second largest population in the world, after China. Its present population is estimated to be about 1.38 billion. India is poised to become the most populated nation in the world by 2027. It is projected to remain as the most populous nation for the remaining part of the present century.[3]

The country has a relatively young population, with the median age being just above 28 years and is expected to have a faster growth of the population in the working age (25-64 years), leading to a demographic dividend towards the economy and retail sector in particular.

In addition to the above, India's burgeoning high income and upper middle-income base is projected to form 51% of the overall population in 2030 from 24% currently and this segment is expected to drive the consumption in the country.[4]

The above is expected to increase the disposable income available with the population, represented by an expected increase in per capita income by almost 2.5 times till 2025.[5]

Further, the expected growth in urban population base from 35% now to 38% by 2027 will accelerate urban consumption. All of the factors together augers well for the Indian consumption story.[6]

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[3]Source: DESA of United Nations, 'The World Population Prospects' (2019)
[4]Source: World Economic Forum and Bain & Company, Future of Consumption in Fast-Growth Consumer Markets: INDIA (January 2019)
[5]Source: EIU, Long Term Economic Outlook (2020)
[6]Source: NCP of Ministry of Health & Family Welfare, Report of the Technical Group on Population Projections (November 2019)

Overview of Indian Retail Market

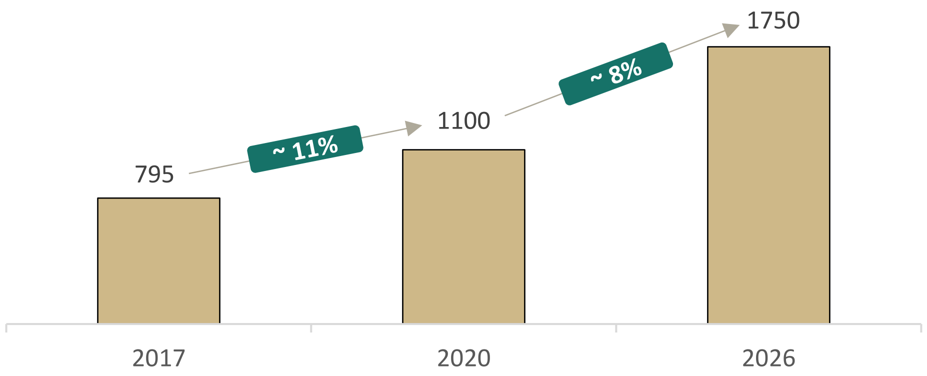
Indian retail is now estimated to be a $ 1.2 trillion in size and expected to grow annually by 7-8% to reach $ 1.7 trillion in 2026. Traditional retail (comprising of modern and general trade) forms over 90% of the market currently.

Indian Retail: Size & Growth Rate

The present size of the Indian retail market is about $1,200 billion[7]. India is Asia's third-largest retail market and the world's fourth largest after the US, China, and Japan. The size of India's retail market is poised to rise to about $ 1,700 billion by 2026. The average growth rate is expected to be around 7-8% per annum during the same.

The following table gives the size of Indian retail and its growth rate.

Figure: Size of the Indian Retail Market (in US$ Billion)



Source: Deloitte and Federation of Indian Chambers of Commerce and Industry (FICCI), EVOLVE for consumers (October 2019); Other researchers also reported similar results (IBEF June 2020)

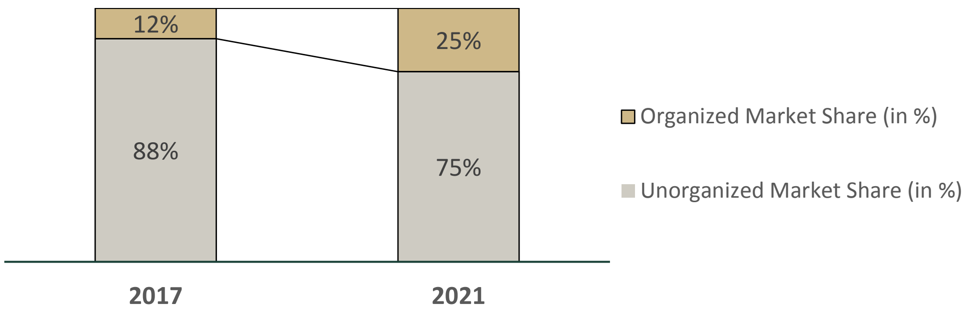
Increasing Shift Towards Organized Retail

The Indian retail sector can be subdivided into Organized and Unorganized segments. Organized retail segment constitutes of licensed retailers who largely adhere to government regulations governing retail trade. This may include the large retail chains, hypermarket, supermarkets, large-scale owned retail ventures as well as ecommerce among others. Unorganized retailing broadly comprises of smaller retailers who operate their own Kirana or general stores.

While the unorganized segment comprised 88% of the Indian retail market in 2017, there has been an accelerated growth of the organized segment over the past few years driven by multiple policy implications as well as adoption of online channels across the country. This has reduced the share of unorganized segment to 75% of the market by 2021.

[7]Source: Deloitte and FICCI, EVOLVE for consumers (October 2019); Other researchers also reported similar results (IBEF June 2020)

Figure: Share of Unorganized market in India's Retail Market (as a % of total)



Source: Deloitte and Federation of Indian Chambers of Commerce and Industry (FICCI), EVOLVE for consumers (October 2019); Other researchers also reported similar results (IBEF June 2020)

Growth Drivers of the Retail Market in India

The major growth drivers of the Indian retail market are listed below:

1. Rising Working Population

The India population is expected to grow from 1.38 billion in 2020 to 1.41 billion in 2025.[8] The working population (in the age group of 15-64 years) is projected to cross 950 million by 2025[9]. As the working population is increasing faster than the country's overall population, this will lead to greater income in the hands of consumers, thus driving consumption.

2. Enhanced Income Levels

There has been a two-fold increase in the per-capita incomes in India, which have nearly reached US$ 2,100 in 2019, from less than US$ 1,000 in 2008.[10] This is expected to grow further with increasing propensity to spend on discretionary items.

3. Growing Urbanisation

India's cities and towns contain 35% of its total population[11]. These are expected to have about 38% of its population by 2026. Further, 17 of the 20 fastest-growing cities in the world between 2019 and 2035 will be from India[12]. Cities will contribute to 70% of the economy by 2030. Tier-II and Tier-III cities are expected to drive a major part of the growth.

4. Emergence of Nuclear Families

In India, the number of households is increasing with a reduction in the household size. As per various estimates, the average household size has fallen from 5.6 in 1991 to 4.8 in 2015, while

[8]Source: MoHFW, Report of the technical group on population projections (November 2019)
[9]Source: NITI Aayog, Report on India Vision 2025 (n.d), Accessed in March 2021
[10]Source: Work Bank, National accounts data (n.d), Accessed in March 2021
[11]Source: DESA of United Nations, 'The World Population Prospects' (2019)
[12]Source: Oxford Economics, Global Cities (November 2018)

their numbers have risen from less than 150 million to over 270 million within the same period. Nuclear families are expected to form about three-quarters of all households by 2025.

5. Increased Discretionary Spending

The share of basic expenses (food, housing and transport) as a part of the personal consumption has been falling in India. In 2007, these accounted for 71% of the total personal consumption, and their share had fallen to 65% by 2015. By 2025, these are expected to constitute just 55% of the consumer spending.

Consumers' discretionary spending is also increasing in India, along with rising disposable income. The share of discretionary expenses is projected to rise from about 20% in 2007 to 25% in 2025. This is expected to lead to increased purchase of apparel, footwear and accessories, personal care products, home décor, furnishing, etc.

The above factors together have driven the retail industry in the country. Along with the growth of retail industry there has also been growth in the online retail market with improved penetration of data and mobile phones in the country.

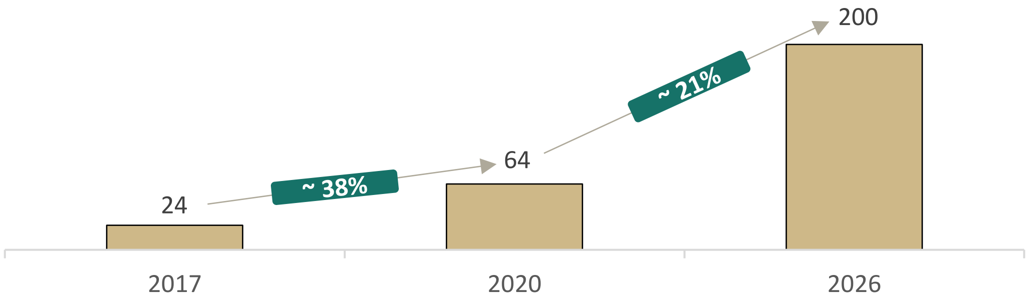
Overview of Online Retail in India

Online retailing constitutes 6% of the overall retail market in India. This share is expected to increase significantly after the onset of the pandemic.

Indian Online Retail: Size & Growth Rate

The size of online retailing in India is expected to reach $84 billion by 2021. Online retail will then be about **6-7% of the size** of the Indian retail market. The size of online retailing is expected to rise to nearly $200 billion by 2026 and has further accelerated post the onset of the pandemic.

Figure: Size of the Indian Online Retail Market (in US$ Billion)



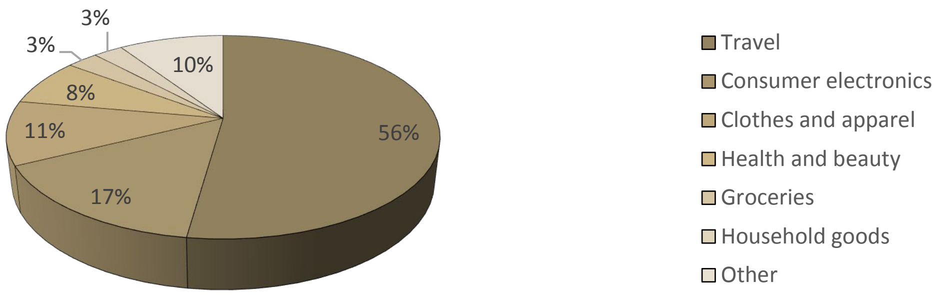
Source: Deloitte, Consumer LEADS Report (October 2018)

Sector Composition

At present, Business to Consumer segment (B2C) forms about two-thirds of the online market in India. India's online market has the potential to surpass the US and become the second largest in the world by 2034.[13] It has enabled foreign brands to reach Indian consumers and emerged as the fastest growing channel for cross-border trade of goods and services. Tourism, consumer electronics and apparel together comprise about 80% of the online market in the country.[14]

[13]Source: IBEF, Indian Ecommerce Industry Analysis (January 2020)
[14]Source: J.P. Morgan, Payments Trends – Global Insights Report (2019)

Figure: Percentage contribution of segments to online retail market in India



Source: J.P. Morgan, Payments Trends – Global Insights Report (2019)

Growth Drivers of the Online Retail Market

Apart from the factors fuelling the growth of the Indian retail industry, key drivers of online retail can be attributed to various demand side and supply side factors:

Demand Side factors

1. Growing Online Spending

India is expected to have 350 million online buyers by 2025, up from 90 million in 2017[15]. Digital spending will increase more than tenfold to US$550 billion (A$715 billion)[16]. This will account for 35% of all retail sales by 2025.

Online spending is expected to be driven by increased numbers of users, apart from their average spending and their usage rates. The average revenue per user is expected to reach A$108 by 2021. It was just A$62 in 2017, which is expected to accelerate the growth of the online retail. Smaller cities are expected to be the next drivers of growth, due to the growth in population in these cities, rising aspirations and disposable income, lower service costs and growing focus of the e-commerce players to include non-metro, semi-urban and rural areas of the country under their coverage.

2. Increasing Young Millennial Households

India will add nearly 90 million new households headed by the millennial generation[17], which was born in an economically liberalized India. If the population which grew up in a liberalized India is included, then about 70% of India's population is covered. This generation is open to a consumption driven lifestyle. Average age of the country by 2025 will be 29 with the world's largest skilled manpower pool of over 600 million persons by 2025[18].

[15]Source: National Investment Promotion & Facilitation Agency, Retail & E-commerce sector report (n.d), Accessed in March 2021
[16]Source: Boston Consulting Group, Fashion Forward (March 2017)
[17]Source: National Investment Promotion & Facilitation Agency, Retail & E-commerce sector report (n.d), Accessed in March 2021
[18]Source: World Bank: Report on Skilling India (June 2017)

3. Growth in Internet Penetration and Smart-phone Usage

In India, there are 1.17 billion telephone connections, of which 98% are mobile connections. The number of broadband connections is nearly 735 million. The number of internet connections will include about 50 million narrow-band connections. This indicates that the number of internet users is about 55% of the population of the country.[19] Further, India is adding about 10 million internet users every month. This is the highest rate in the world.

The number of smart-phone users has exceeded 500 million by December 2019. This number will rise to over 830 million by the end of 2022.[20] Further, over one-fourth of rural India had a smart-phone by 2018. About 60% of the users viewed vernacular (Indian language) content, and about 75% of them were below 35 years in age.[21]

4. Rise of Tier-II & Tier-III Cities

Leading online retail companies have started exploring the potential of expanding beyond metros and Tier-1 cities in India. Small cities have emerged as the next growth centres. Cities in Tier-III witnessed 53% growth in the lockdown period in 2020 as 'small cities also saw the emergence of first-time online shoppers'.[22] Small cities have witnessed a faster evolution in growth in disposable income, mobile internet, and support infrastructure. Small towns and cities are expected to drive the next wave of retail growth and have received five time more investments in retail infrastructure compared with metros and tier-1 cities in the last decade in India. Further, the impact of Covid-19 on retail activity has been less severe in small towns and cities as well.[23]

Supply Side Factors

1. Investment in Online Retailing

In 2018, Government had allowed 100% FDI in single brand retail and 51% in multi-brand retail under the automatic route, which has propelled investment in the retail sector in the country from multiple global players.

As reported previously, US majors like Amazon and Wal-Mart have entered into India's e-commerce market, with a focus on online retailing. They have spent heavily in India, with **Amazon** investing about US$1.5 billion (almost A$ 2 billion) in 2019-20. The company has been spending upon sales promotions, infrastructure and logistics to attract customers. In all, Amazon has brought in over US$6.5 billion (nearly A$8.5 billion) into its Indian operations.

In 2018, **Wal-Mart** had purchased 81% of the shares of Flipkart, India's leading e-commerce entity, for a deal worth US$16 billion. Subsequently, it has reportedly invested US$1.2 billion (A$1.6 billion) in its Indian entity. **Reliance Retail Ventures** Ltd, Ambani's retail arm, has raised INR 47,265 crore (nearly A$8.4 billion) to challenge the US majors. Facebook has invested US$5.7 billion (A$7.4 billion) in Ambani's **JioMart**.

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[19]Source: TRAI, The Indian Telecom Service Performance Indicator (December 2019)
[20]Source: ICEA, India to get 829 million smartphone users by 2022 (July 2020)
[21]Source: WEF, Future of Consumption in Fast-Growth Consumer Markets: INDIA (2019)
[22] Source: BCG & Facebook, Turn the Tide (2020), Accessed in March 2021
[23] Source: Kearney, Kearney India Retail Index (March 2021)

2. Emergence of Robust Logistics

The recent years have witnessed the growth of ecommerce retail logistics industry in India. In order to explore the growth potential in this space, the traditional logistics service providers (LSPs) have started providing e-commerce logistic solutions. Captive logistics arms of large e-retailers however contribute to a significant share in this space. These have supported the growth of e-commerce in India, apart from ensuring delivery of items to customers in thousands of cities across the country. During the pandemic, last mile delivery has further shaped in the industry with increasing requirement for same day delivery and product visibility across the supply chain.

3. Growth of social ecommerce

Digitally connected Indians spend an average of three hours per day online, of which more than two hours are consumed by messaging, social media networking and watching videos. By leveraging a variety of formats, ranging from conversational commerce on chat platforms to video-led commerce to a vibrant social reseller community, millions of small retailers are finding innovative ways to sell directly to consumers through social networks and social media. Social commerce is democratising India's e-commerce sector, which has been dominated by a few large players, paving the way for a more distributed model that's built on community, connection and trust.[24]

4. Convenient trial and return options

Lack of trust about finding reliable product and concerns around exchange/ return is the biggest impediment in e-commerce adoption in India. Virtual trial options have also seen traction as it provides consumers a trial view of the product (apparel and jewellery) on themselves through the comfort of home. Increased focus on try and buy as well as easy return policy have provided necessary impetus to growth of ecommerce sales.

[24] Source: Bain & Company, Unlocking the Future of Commerce in India (December 2020)

Impact of COVID-19

While the demand for online purchase is already there, the onset of the global pandemic has led to increased adoption of online buying across various sectors in retail for low to high value items.

COVID-19 in India

In India, over 11 million persons had been affected by COVID-19, by mid-March 2021. Nearly 160,000 persons have died of this disease till now, as per the Government of India records.[25]

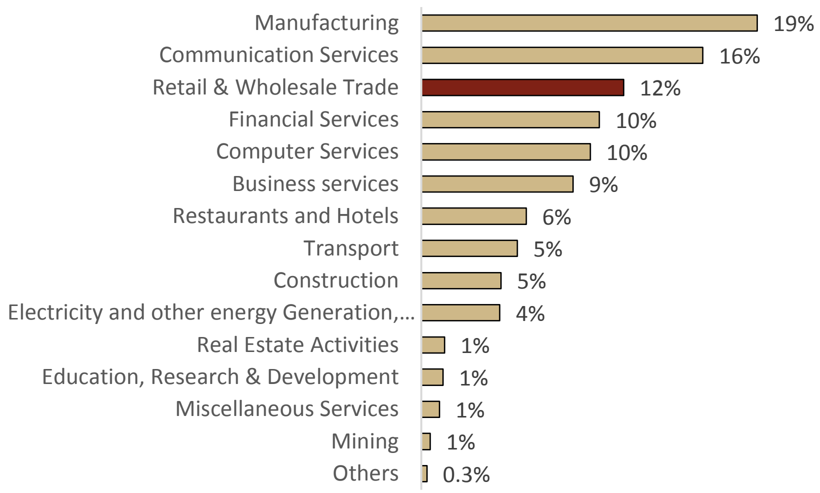
COVID-19 has significantly affected the Indian economy due to various actions taken up in order to prevent its further spread, like lockdowns and travel restrictions.

Due to the above restrictions and other measures, the GDP of India contracted by almost 24% in the first quarter (April to June) of the present financial year (FY 2020-21), and by 4% in the second quarter compared to previous year. However, robust growth in the H2 of FY 21 allowed addressing some of the decline in H1 FY 21. As a result, the **Indian economy is estimated to contract by 7.7% in 2020-21**. However, the economy is expected to grow by 11% during the next financial year.[26] Sector-wise breakup of the GDP contraction further shows that, **agriculture and food / FMCG sector remained the silver lining growing at 3.4%** during the same period whereas services, manufacturing, construction were hit hardest, and have been recovering steadily.

Despite the contraction, India remained a preferred investment destination in FY 2020-21 with FDI pouring in amidst global asset shifts towards equities and prospects of quicker recovery in emerging economies, specifically India. Further, retail and allied areas continue to be the top 3 preferred sector for FDI in the country and investment in it has grown by almost 5% since FY 16. Much of this investment over the last few years has been towards online retail segment.

[25]Source: Ministry of Health and Family Welfare,Government of India, Daily statistics (n.d), Accessed in March 2021
[26]Source: Ministry of Finance of Government of India, Economic Survey 2020-21 (January 2020)

Figure: Percentage contribution of different sector to FDI in India (2020P)



Source: Reserve Bank of India, Foreign Direct Investment Flows to India, Accessed in March 2021

Consumer Behaviour & Buying Trends in the Post-COVID times

The nation-wide lockdown led to changes in the way consumers research and purchase products. Preference to maintain physical distance, safety and hygiene has accelerated growth of online retailing in India. Key consumer trends that are visible in the recent months and may have a lasting impact have been summarized below:

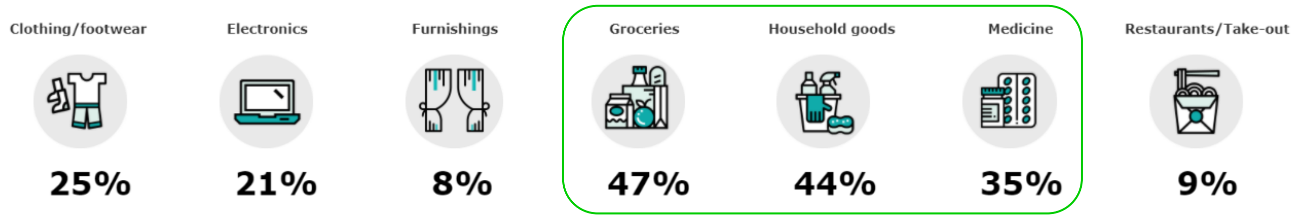
- Growing importance of safety and hygiene: Consumers are in search of a wellbeing experience through an entirely new lens built around a sense of uncertainty as to when life will shift to more balanced routines. This is driving demand for comfort and structure. FMCG companies are tapping into this opportunity by launching immunity-boosting versions of their products for concerned consumers (e.g. 'Turmeric Milk' by Mother Dairy). Over 75% of consumers in a Deloitte India survey indicated concern for their family's physical well-being.[27]
- Preference for convenience: Need to maintain safety and distance along with growing preference for convenience has led to a marked shift towards online purchase as well as increase in demand for neighbourhood stores as consumer prefer to purchase from stores closer to home and comfort of their home. Further many of the customers who shifted online are planning to stick to it for most of their future purchases. 70% of consumers in a Deloitte India survey indicated preference to pay more for convenience.[28]
- Preference for trusted brands: While brand stickiness reduced during the pandemic, it also has led to increasing preference for trusted brands as customers became more concerned about the environment, sustainability and have a higher sense of responsibility towards communities they live in. As a result, consumers are paying increased attention to hygienic packing and sustainable, eco-friendly products with 70 percent consumers in a Deloitte survey

[27]Source: Deloitte India, State of the Consumer Tracker, Accessed in March 2021
[28]Source: Deloitte India, State of the Consumer Tracker, Accessed in March 2021

indicating preference for locally sourced items and would not hesitate to spend more on responsible brands.[29]

- Decline in discretionary spending: Consumers are increasing their spend on products geared toward at-home consumption, essentials, and health and wellness, while they have decreased their spending on more discretionary products and high value items post the pandemic. Intent to spend on different categories has been shown below:

Picture: Spending Pattern of Consumers across different categories of product and services during COVID



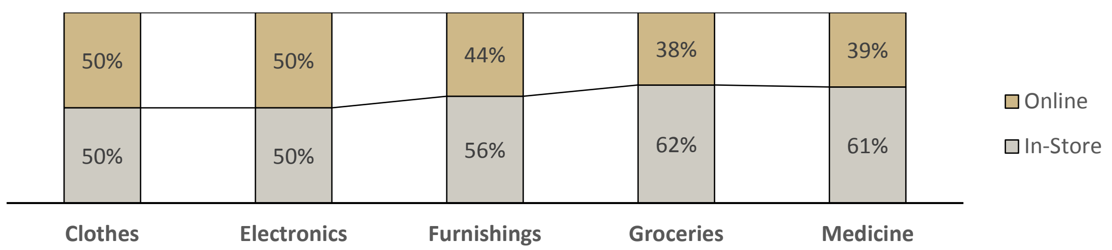
Source: Deloitte, State of the Consumer Tracker, Accessed in March 2021

Due to low per capita income and price sensitive nature of buyer in India, small packs drive sales in India. The small pack sizes are also driven as it allows consumers to try different products and as it makes product more accessible to the masses in the country.

Increased Adoption of Digital and Emergence of New Business Models

Over the last decade, India has embraced digital technologies, aided by more affordable smart-phone prices, decline in data tariffs and increase in availability of local language / mobile-first content. This has been further fuelled by onset of the pandemic which led to a lockdown and impacted online retailing positively on the whole. E-commerce based retailing which was at 6-7% of the Indian retail industry is expected to see better adoption as a result. In a survey conducted by Deloitte on preferred channel for purchase during COVID-19, there was a strong preference to purchase from online / omni-channels.

Figure: Preferred channel for purchase by category during COVID-19



Source: Deloitte, State of the Consumer Tracker, Accessed in March 2021

[29]Source: Deloitte India, State of the Consumer Tracker, Accessed in March 2021

The sudden adoption and stickiness to online channels has led to the emergence of new innovative business model in retail industry:

- Direct to Consumer (DTC) model**:** Increase in preference for convenience has led to emergence of direct to consumer model with many brands exploring the option to service the customer directly rather than through marketplace or retailers.
- Omni-channel model: Given the adoption of online channel, need to maintain safety and to offer seamless customer experience, omni-channel has gained prominence across retail industry during the pandemic. e.g. Tanishq has introduced offered virtual jewellery try on zones as well as option to click and collect
- Hyperlocal model: Preference to shop for neighbourhood stores is increasingly being tapped using hyperlocal model by companies wherein start-ups and other retailers are forging partnerships with local kirana or neighbourhood stores and supermarket who are willing to embrace technology for servicing customers. This has improved last mile delivery and allows for offering "on-demand delivery". e.g. online food delivery platform Swiggy has explored it effectively to connect customers to restaurants
- Aggregator model: the model has picked up pace with aggregators offering a platform to connect customers and sellers. The model provides improved product visibility, logistics for last mile delivery and marketplace for connecting customers. e.g. start-up such as Ninjacart is focused on bridging rural producers with markets

Business Models for India’s Online Retail Market

Emergence of different customer buying behaviour has led to new models for servicing them. The various models relevant for entering the Indian online retail market are discussed below.

There are five different types of e-commerce models prevalent in India. Each of these e-commerce models has its own features which leads many companies to operate in several of these categories simultaneously as per their product and service catalogue.

Table: Type of e-Commerce models prevalent in India

E-Commerce Models	Features
B2C (Business to Customer)	B2C e-commerce model refers to the distribution of goods and services from business to customer. Brands can create their own online stores. In India, brands like HP (Information Technology), Samsung (mobiles & electronics), Peter England and Monte Carlo (textiles) have such stores. Indian consumers can buy foreign products on B2C platforms (like Amazon Global Store) only for their own use or making gifts and not for any resale or commercial purpose.
B2B (Business to Business)	Caters to businesses, including selling to Government Agencies. The parties involved can be a manufacturer and wholesaler or a wholesaler and retailer.
B2B2C (Business to Business to Customer)	A kind of business model where a company, rather than accessing the consumer market directly, does that via another business
C2C (Customer to Customer)	Typically, these are developed on sharing concept – where one customer buys from another: Classified Advertisements, Auction of Products
C2B (Customer to Business)	Provides an opportunity to consumers to sell their products /services to companies (popular in freelancing and professional services)

Out of all the prevalent e-Commerce models, B2C, B2B and B2B2C are the most preferred models for the players in product-based companies whereas other models are more relevant for the service driven companies.

Foreign companies can list themselves in online marketplaces like Amazon (in India) or Flipkart after establishing a business entity in India or having a tie-up with an Indian seller registered in Amazon and having experience in import formalities and logistics.

There exist multiple e-Commerce models, and operating models also vary across models depending on the investment requirement, overall risks, and operational complexity.

Operating Models	Features
Marketplace Led Model	Provision of an information technology platform by an e-commerce entity on a digital and electronic network to act as a facilitator between buyer and seller. Amazon and Flipkart, Wal-Mart's Indian affiliate, are leading online marketplaces in India.
Inventory Led Model	It is an operating model where inventory of goods and services is owned by an e-commerce entity and is sold to the consumers directly. This is also termed as the 'direct purchase model' in some nations.
Hybrid Model	This is a mix of marketplace and inventory led model. Ecommerce players also infuse inventory-led in a marketplace by having operational control over seller entities

While using their own website (inventory led model), a company can manage their own logistics or outsource it (fully or partially); in marketplaces the sellers have the flexibility to choose from multiple operating models. Various operating models from which seller can choose from have been highlighted below:

- End-to-end logistics being managed by the marketplace: Storage, pickup and last mile delivery is managed by Marketplace
- Seller managing end-to-end logistics by outsourcing it to third party: Storage, pickup and last mile delivery is managed by the seller
- Hybrid Model: Storage is managed by the seller whereas pickup and last mile delivery is managed by the marketplace

Indian Customs levies duties and taxes on the CIF value (cost, insurance and freight) at the port of entry to India. Hence, freight charges and insurance have to be added to the cost of the item for declaration to Indian Customs. Air-freight is used for perishable items or high value goods, as it costs more than sea freight. The latter can take on an average of 17-22 days[30] to reach India from Australia.

While the domestic players can follow any combination of the e-commerce models and operating models mentioned above, there are certain restrictions when it comes to any foreign player establishing its e-Commerce business in India

- FDI policy permits 100% FDI under automatic route for B2B (Business to Business) e–commerce in India), but there were heavy restrictions on B2C (Business to Customer) with a few limited exceptions:
    - Manufacturers selling products manufactured in India can sell through e-commerce retail
    - Single brand trading entities who are operating through brick and mortar stores

[30] Based on discussion with third party logistics service providers

- Indian manufacturers selling their own single brand products through e-commerce retail

- The Foreign Direct Investment Policy ("FDI Policy") prohibits foreign-funded marketplace players from engaging in inventory-based model of e-commerce
- Foreign-funded entities operating as marketplaces have to comply with certain prescribed conditions.
  - Existing regulations state that e-commerce firms cannot exercise ownership over the goods sold on their online marketplace.
  - The rules state that the inventory of a seller or vendor will be seen as being controlled by a marketplace if the vendor purchases more than 25 percent of its inventory from the marketplace, or any of its group firms[31].

The restrictions put in place by the Government of India are intended to protect the conventional brick and mortar stores from the deep-pocketed e-commerce marketplace entities. The policies in place for the e-Commerce industry will to liberalize the e-commerce sector - a sector that is gaining momentum in the Indian market and has enormous potential.

Australian exporters can select a model of their choice. Additional details have been furnished subsequently to help in the decision making.

Overview of Chinese Ecommerce

Market Size & Growth

The size of online retailing in China has been estimated to be about A$2.3 trillion in 2020, when it grew by more than 10% over the previous year's volumes.[32] About 29% of all retail sales here are now taking place digitally.[33] China is expected to be the first country where more than half of all retail sales is expected to occur digitally.[34]

By 2019, about 640 million shoppers in China had been using digital platforms, mostly on their smartphones. However, 56% of all Chinese have not yet made their first online purchase[35]. This indicates that there is sufficient room for growth.

By 2023, the size of the Chinese online retailing is expected to reach A$2.6 trillion, which will constitute more than one-third of its retail sales. As a result, it is expected to become about 2.7 times the size of online retailing in the US.

In recent years, the Chinese government has attached great importance to the development of Ecommerce, which it regards as an important instrument for economic transition and opening up.

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[31] Source: Ministry of Commerce & Industry of Government of India, E-commerce business model rules (December 2019)

[32] Source: IBIS World, Online Shopping Industry in China - Market Research Report (December 2020)

[33] Source: JP Morgan, 2020 E-commerce Payments Trends Report: China (n.d), Accessed in March 2021

[34] Source: eMarketer, https://www.emarketer.com/content/global-historic-first-ecommerce-china-will-account-more-than-50-of-retail-sales

[35] Source: JP Morgan, 2020 E-commerce Payments Trends Report: China (n.d), Accessed in March 2021

It has hence introduced measures to continuously support the ecommerce industry as detailed below:[36]

- Lowering the access threshold to support E-commerce infrastructure construction: The government strongly supports the construction of E-commerce platforms, and is simplifying procedures of capital registration, reducing barriers to access and cleaning up existing preapproval issues in the field of E-commerce.
- Setting up of additional 46 new integrated pilot zones for cross-border e-commerce, on top of the 59 existing ones across 30 provinces to promote investment. Tax incentives are offered to companies in these zones, such as exemptions on value-added tax (VAT) and consumption tax, as well as in the levy of corporate income tax (CIT)
- Financial support to ecommerce: Government policy includes a tax incentive reform programme for high-tech SMEs to replace business tax with a value-added tax and a multi-channel financing mechanism to support Ecommerce companies
- Ecommerce Law 2018: In August 2018, China passed its e-commerce law, which came into effect from 1st January 2019. The new law has defined the responsibilities of all participants in the CBEC supply chain, like the foreign seller, market-place operator and logistics service providers. The benefits under this law include:
    - Extension of waiver of pre-importation registration requirements on specified categories of products like cosmetics, health food, medical device, etc.
    - Expansion of the positive list for Cross Border e-Commerce (CBEC) to 63 categories
    - 30% discount for the products imported through the CBEC channel.[37]

Comparison with India

While China's rapidly growing online retail marketing is large, it is also sophisticated and fiercely competitive. Its local companies are quite large and active abroad. Foreign companies have made less impact upon China's market. Amazon has a small market share, with a focus on cross-border sales. Wal-Mart, has a minority stake in JD.com, one of the leading online retailers.

Further the new e-commerce law which got implemented in 2019 creates both benefits and challenges to foreign companies. While the benefits have been discussed earlier, some of the challenges posed are below:

- Overseas sellers must now name a Chinese 'responsible party', which will be held responsible by the authorities for addressing matters such as consumer complaints, product recall, product quality, and safety obligations.
- Discretionary Inspection: The Chinese Customs and market regulators continue to conduct discretionary inspection and testing of cross-border products to check whether they meet the national standards.

[36] Source: UNIDO, National Report on E-commerce Development in China (2017)
[37] Source: https://melchers-china.com/chinas-new-e-commerce-law-improves-online-market-regulation/, Accessed in March 2021

- High compliance by small firms: basis the new law small businesses which have fewer resources to implement the site development, training and business model adaptations are also required to be fully compliant. The new law therefore creates a higher cost of entry.[38]

The above is also expected to create hurdles for foreign companies in entering China's ultra-competitive online retail market. Apart from the above there are other existing challenges like requirement to use either a domestic Chinese sales platform or invest in creating Chinese language portal including a smart-phone app. Requirement of product descriptions and site navigation in the native language is also a challenge for foreign players.

Further, companies need a strong brand identity in order to enter China's online markets. Their products must have a distinct difference as compared to the local offerings. Despite it, the new entrants may need celebrity backing to make significant sales inroads. The above factors may deter most medium and small exporters for entering the Chinese market.

In contrast to the above, India's ecommerce market is relatively nascent and expected to grow at a faster pace due to support from policy makers in the form of allowance for 100% FDI in B2B ecommerce and for marketplace model under the automatic route among others. The policy support coupled with growing demand from households in Tier II and smaller cities which have started adopting ecommerce due to advent of Covid and improved internet penetration offers plethora of opportunities for foreign players to invest in this sector in the country.

Suitable e-Commerce Models for Online Retailing by Foreign Player

Out of all the e-Commerce models mentioned in previous section, foreign players can choose from a few models for entering in the Indian online retail market due to regulatory and operational challenges.

Listing the products on an existing marketplace in India

Business Model

The intending entrant can list itself as a seller on the digital marketplace operated by e-commerce companies in India such as Amazon India or Flipkart, only after establishing a business entity in India or having tie-up with an Indian seller registered on these platforms. **These market-places (like Amazon India) are not open to sellers based outside India**.

The conditions that need to be kept in mind include:

- The sellers equity shall not be held by the company which operates the marketplace, either directly or (as now proposed) indirectly; and
- The seller shall not purchase more than 25% of its inventory from the e-commerce entity[39].

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[38] Source: China.org.cn, China's new e-commerce law: A step in the right direction (2019)

[39]Source: Ministry of Commerce & Industry of Government of India, E-commerce business model rules (December 2019)

The entrant may obtain services from the e-commerce entity operating the marketplace, such as warehousing, logistics, order fulfilment, advertising, call-centre services, and payment collection on the same terms as offered to other sellers. This model will not entail significant investment from the seller as the marketplace will act as a facilitator. However, a significant part of the proceeds will go towards commission to the marketplace.

On the other hand, there are models like the 'Self-ship' fulfilment option offered by Amazon. Here, the entrant's Indian entity (or its Indian partner) can store, pack and deliver products to the customers after paying the fees to Amazon (like referral fee and closing fee). Import formalities will have to be undertaken by the company or its Indian partner. It can also choose to partner with marketplace's recommended carriers, who will help it to clear the customs formalities smoothly and enable the customer to track the progress of transit of the items.

On the other extreme is the model in which end-to-end logistics within India are handled by marketplace**.** Here, the seller does not have to take up the task of reaching its buyers. This model is an all-in-one solution to sell products to marketplace's customers. Once the seller sends its products to marketplace's fulfilment centre, thereafter the responsibility is taken by the marketplace.

Present Status

As reported previously, Amazon and Flipkart (owned by Wal-Mart) have over 63% of the online retail marketplace in India (2018), while the next biggest companies like Myntra, PayTm Mall and Snapdeal together account for 12%[40]. Thus, a few companies account for over three quarters of the online retail market. These marketplaces have large number of foreign sellers listed as sellers on their portals. However, these are largely smaller companies.

Advantages & Disadvantages

Advantages

- Suitable for medium and small enterprises who want to enter Indian markets
- Helps in overcoming some of the operational challenges in selling in India; such as importing procedures and logistics etc.

Disadvantages

- Lower customer's wallet share due to highly competitive market
- May not find prominence on the portal of the e-commerce entity, which can affect sales in most categories

Prognosis

Using the digital marketplaces of existing e-commerce entities may enable a small and medium sized company to enter the Indian market, in partnership with Indian company or by establishing its Indian presence. However, the seller receives a lesser share of the revenue generated in such

[40]Source: Forrester Research, Online Retail Forecast, 2017 To 2022 (Asia Pacific) (2018)

cases based upon the degree of its dependence upon the e-commerce entity and the latter's infrastructure.

Creating a B2C digital marketplace of its own in India

Business Model

Under this model, an e-commerce entity establishes a digital marketplace that brings its listed sellers and buyers together. The entity cannot control the inventory (or equity) of the seller or hold its equity. 100% FDI is permitted under the 'Automatic Route' for the establishing a digital marketplace under the above model. The various parts of the value chain are given below.

- **Order placed** by customer in website or mobile app
- Items **picked & packaged** in Fulfilment Centre, to which these have been transported from the sellers (including after being cleared through customs for imported items)
- Items sent to **Processing Centre** of 3PL (Third Party Logistics)
- **Line Haul** from Main Supply Centre to Main Demand Centre
- **Last Mile Delivery** from Delivery Hub to Customer

The e-commerce entity can provide services to the sellers on a non-discriminatory basis for warehousing, order processing, logistics, billing, payment collection, market promotion etc.

The cost of logistics can range up to 20%-22% of the item value, depending upon various factors. This is around the margins of the wholesaler and retailer under the brick and mortar (B&M) model. In addition, customer acquisition and retention costs are much higher in the on-line model, about 12%-15%, as compared to around 5% spent upon media in the brick and mortar model. Hence, margins are under immense pressure for digital marketplaces in India[41].

Advantages & Disadvantages

Advantages

- Suitable for a merchandiser with intent to reach out to large customer base through online retail market in India
- Enables e-commerce entity to on-board several sellers and increase revenues quickly

Disadvantages

- Highly competitive market with demanding consumers
- Requires substantial investments – both in terms of initial and recurring expenditures in order to attract and convert customers and working capital management
- High breakeven point - Operating costs out weight the revenues till a critical mass is achieved

[41]Source: Based on discussions with Industry players

Prognosis

The above model will require substantial investments, as well as continued investment to fund the losses till the e-commerce entity is able to establish itself in the market.

Popularize Existing Digital Platform (Own Portal)

Business Model

Companies can sell through their own branded sites through appropriate media campaigns in India aimed at select markets. The customers can place their orders on the global web-store and receive the goods (or services) in India after the customs duties and cost of shipment is paid. The purchase takes place outside India and the Indian buyer is the 'importer on record' for customs clearances. The buyer is responsible for lawfully importing the item into India, including paying customs duties and fees. These are charged to the buyer at the time of purchase and added to the cost of the item. The buyer can purchase the product only for **own use or for making a gift,** but not for resale or any commercial purpose.

Current Status

Indians are permitted to place orders on global web-stores, but the use of such avenues is not very prominent due to hurdles related to logistics, trust, price, and experience. Items imported for personal use through courier attract 10% basic customs duty on the assessable value (based on cost, insurance and freight costs), with taxes and surcharges extra.

The main challenges are listed below:

- Lack of **awareness** and **experience** in shopping from abroad;
- **Higher costs** due to shipping & customs duties, which add 40%-50% to the item cost;
- **Longer time** taken for delivery, which can extend to week or more;
- **Non-availability** of the popular **'Cash-on-Delivery' mode** that Indians use widely;
- Hassles in **making payment** as many credit cards or digital wallets may not be valid for use abroad;
- Problems of **sales returns**, which are not faced in case of purchases from domestic portals; and
- Hesitation of most customers to place orders on foreign sites, which are beyond the Indian jurisdiction in case of any **dispute**.

Electronic items and fashion apparel are among the top purchased items, followed by beauty products and cosmetics, and toys. Indian customers have stated that they purchase from abroad due to better quality, non-availability of some brands locally, and the availability of special offers. United States, United Arab Emirates and Hong Kong are the main sources of cross-border e-commerce purchases by Indians.

Advantages & Disadvantages

Advantages

- Lower investments needed to serve the Indian market
- Can be started quickly, especially if an Indian partner is involved for warehousing and logistics

- Avoids prolonged and loss-making efforts in developing digital marketplace for India

Disadvantages

- Higher prices of products due to customs and shipment costs
- Longer time required to fulfil customer orders
- Advance payment for customs charges

Prognosis

Businesses that specialize in niche fields (like foods and consumer goods) can aim to popularize their websites with Indian customers through media campaigns and facilitate the logistics by tying up with an Indian logistics partner. This can be done individually or as a group. Despite challenges, companies can develop their own appeal to customers in a narrower and high spending geographies (Metro and Tier-1 cities), besides overcoming the existing hurdles related to logistics and trust.

Establishing a B2B E-Commerce Portal

Business Models

The above model of Business-to-Business (B2B) e-commerce can be used by 'cash-and-carry' wholesalers and manufacturers to sell to Indian businesses with 100% Foreign Direct Investment (FDI) allowed under 100% automatic route. This requires much lower investments than the amounts needed for the initial development and sustenance a digital marketplace for B2C e-commerce catering to sellers and buyers.

The cash & carry wholesaler can use it for selling goods to other wholesalers, retailers, and other buyers in the industrial, commercial, and institutional markets under this model. Here, the logistics may be handled by the buyer business.

The manufacturer can use it for selling products manufactured in India only using the e-commerce to reach other businesses (wholesalers, retailers, and other buyers in the industrial, commercial, and institutional markets) as well as consumers.

Companies seeking to enter the B2B e-commerce in India under the 'cash & carry' wholesale mode can adopt the following **working models**:

- Entry in collaboration with an **exclusive Indian partner**, who handles the import formalities and warehousing in India, and (if needed) the logistics arrangements to reach inland businesses for an 'end-to-end' solution.
- Entry through its **own office** which handles imports and port-side warehousing, while one (or more) **third party logistics providers** handle the transportation from the mother warehouse to the buyer businesses in select territories.
- A **hybrid model** where imports are handled by its local office, warehousing by an Indian agent, and logistics by a third-party logistics provider as needed.

Such models can be used by companies which seek to sell to Indian distributors or retailers in select niche segments like food and grocery, consumer goods, apparel etc.

The task of finding an Indian partner can be a time-consuming exercise. The Australian exporter needs to undertake a due diligence process. The assistance of local Indian trade bodies or associations can be availed of in this connection. In addition, there are reputed agencies which can be engaged to carry out the work of background check of the potential Indian partners.

Current Status

Globally, B2B e-commerce volumes are larger than other formats of e-commerce. However, in India, B2C e-commerce is larger, and accounts for about two-thirds of the market now. Since the volumes and profits may be larger in selling to businesses in the medium term, the Indian B2B e-commerce sphere holds significant promise. Now, it is still at a nascent stage despite benefitting from recent events like introduction of Goods & Service Tax (GST), demonetization, and availability of cheap and reliable broadband in India.

For example, Amazon Wholesale (its B2B arm) had just A$600 million revenues in FY 2019-20. In fact, this represented a fall of 70% of its revenues in FY 2018-19, which were about A$1.99 billion[42]. This happened as the Government of India restricted selling by marketplace entities (or their group companies) to sellers listed in their marketplaces.

Smaller businesses in India may be inclined to adopt a B2B format in view of their experience during the recent pandemic, which has disrupted usual models. In addition, B2B format can assist them in compliance with Goods & Service Taxes. IndiaMart, a pioneering B2B company, has over 130,000 businesses who subscribe to its services. Another B2B company, TradeIndia, has nearly 50,000 registered users. Udaan is another prominent player in the B2B space focused primarily on electronics, fashion and grocery, which are the three key segments in Indian online retailing.

Prognosis

Companies which seek to enter the Indian B2B e-commerce market have to invest in the infrastructure, and for market development. Revenue growth may not be spectacular in the initial period. Hence, the companies may need to adopt a longer-term perspective for this market.

B2B route can be used by companies to reach out to MSME units, which form a large sector in India. The focus can be upon areas like food and grocery, electronics, apparel etc. which are the mainstays of India's B2C e-commerce sphere.

This model can be used for reaching out to India's small neighbourhood shops, popularly called as kirana shops. Amazon has taken an initiative to list such kirana outlets as sellers on its platform from September 2020 onward. About 500 stores in 28 Indian cities were reported to have been covered by then.

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[42]Source: Business Line, Amazon's e-comm business sees 42% jump in revenue in FY20 (December 2020), Accessed in March 2021

Selection of an Optimal Model for Entry

The company seeking to enter India's online retail market can seek a suitable model for this purpose. The model will differ depending upon several factors like:

Table: Comparative analysis of the prevalent e-Commerce Models

Parameters	**Models**			
	Model 1: Listing the products on an existing marketplace in India	**Model 2:** Creating a B2C digital marketplace of its own in India	**Model 3:** Popularizing Existing Digital Platform (Own Portal)	**Model 4:** Establishing a B2B E-Commerce Portal
Coverage / Volume of Sales	●	◕	◑	◕
Working Capital Requirement	◕	◑	◕	◔
Ease of Operations	●	◕	◑	◔
Level of Collaboration with channel partners	●	◑	◔	◔
Investment Requirement	●	○	◑	◔

Note: All the parameters have been rated on a 5-point scale

● Most Favorable ○ Least Favorable

While the above parameters assess the models based on the financial and operational viability, competitiveness in each model will vary depending on the parameters mentioned below. The models further need to mapped with the below factors to come up with suitable e-commerce model.

- **Type of product and service** planned for the Indian online retail market;
- **Target markets** in India – in terms of products (or services), geography, prices etc.;
- **Competitive Position** in Target Market;
- **Visibility requirements** for the products or services (based on above factors);
- Whether selling to other businesses or to consumers (**B2B or B2C**);
- **Logistic model** for order fulfilment;
- **Time frame** for entry into the market
- **Financial Strength** of the Company, including its access to different sources of funds; and
- Above all, the **Long-term strategy** of the Company regarding the Indian market.

The above factors will differ from company to company and will depend on their objectives, strategic priorities and strengths. In addition, the **market and regulatory** opportunities and threats may vary. Hence, each entrant will have to make its own decision based on a careful appraisal of the above facts, as well as the advantages and disadvantages of the above models.

Government Guidelines on Selling International Products

E-Commerce regulations are complex for overseas sellers and are evolving; hence it is pertinent to be aware of various rules and regulations which governs the online retail in India.

Government Policies and Procedures

Foreign Trade Policy

In India, foreign trade is governed by the provisions of the Foreign Trade (Development & Regulation) Act, 1992 as amended in 2010. In accordance with the above, the Government of India frames the Foreign Trade Policy of India, commonly referred to as the Exim Policy. This consists of a set of guidelines and instructions related to the import and export of goods.

The Government of India notifies the above policy for a period of five years. The earlier policy covered the period from 2015 to 2020. The new Foreign Trade Policy is expected to be rolled out on 1^{st} April 2021, for the period 2021-26.

Handbook of Procedure

This handbook has two volumes and is issued by the Director General of Foreign Trade (DGFT) of the Government of India. It is a compendium of all rules and regulations governing foreign trade in India. It is issued after every five years, to reflect the changes in the Foreign Trade Policy. Any changes in the rules and regulations are carried out by means of notifications and amendments that are readily available in the government website.

ITC-HS Code

Indian Trade Clarification based on Harmonised System of Coding (ITC- HS Code) has been adopted in India for import-export business. This is a compilation of codes for all goods for export and import. Goods are classified based on their group or sub-group at 2/4/6/8 digits.

Additional information regarding Government rules and regulations for imports is available on the website of the Director General of Foreign Trade, India and in the Indian Trade Portal (www.indiantradeportal.in)

Labelling & Other Requirements

All foreign goods imported into India for direct consumption have to conform to the prevailing labelling requirements. These may differ from international norms. Improperly labelled goods may be detained by the customs officials.

Activities like packing, repacking and labelling can be done in a 'Customs bonded warehouse' in India and import duties and taxes can be paid after clearance of the goods for local consumption. There is no limit on the storage period. However, the use of this facility will depend upon the volumes being imported into India, and the cost-benefit of undertaking the labelling in Australia as compared to the cost-benefits of similar exercise in India.

Labelling of Non-food Items

All pre-packaged goods imported into India and intended for direct retail sale must include the following details:

- Name and address of importer;
- Generic or common name of commodity packed;
- Net quantity in calculated in metric measurements;
- Month and year of packing in which the commodity was manufactured, packed, or imported; and
- The maximum retail price (MRP) at which the commodity in packaged form must be sold to the end consumer. (The MRP should include all taxes, freight transport charges, commission payable to dealers, and all charges towards advertising, delivery, packing, etc.).

Labels should be in either English or Hindi, but English is understood by most educated customers across India.

Labelling of Food Items

Imported food items must display the logo of the Food Safety and Standard Authority of India (FSSAI) along with the FSSAI licence number. Additionally, packaged food should indicate whether it is non-vegetarian or vegetarian. In India, non-vegetarian means food which contains any animal or part of an animal. Eggs are non-vegetarian while milk and milk by-products are considered vegetarian. Non-vegetarian food must have a symbol of a brown dot inside a brown square displayed prominently on the package in a way that contrasts with background of the packaging yet while being displayed near the product's name or brand. The symbol for vegetarian food is the same but green in colour.

The labels of food items must include:

- Name, trade name, or description;
- Name of ingredients used in the product in descending order of their composition by weight or volume;
- Name and complete address of manufacturer/packer, importer, country of origin of the imported food (if the food article is manufactured outside India, but packed in India);
- Net weight, number, or volume of contents;
- Distinctive batch, lot, or code number;
- Month and year of manufacture and packaging;
- Month and year by which the product is best consumed; and
- Maximum retail price.

It may be noted that some of India's labelling requirements are inconsistent with the Codex General Standard for the Labelling of Pre-packaged Foods.

Import of Food Items

The NOC from FSSAI is required to import food items into India. This can be obtained through the Food Imports Clearance System (FICS) of FSSAI. NOC is issued to Indian importer or his Customs

Handling Agent (CHA). Importer with IEC and CHA having License from Indian Customs can register themselves on the FICS for it. The Importer must have Central Licence of FSSAI.

FSSAI has different types of Licences: (a) Central Licence: given for annual turnover of INR 200 million or more. This licence is meant for large manufacturers, and all importers and exporters of India. (b) State Licence: intended for medium scale manufacturers, transporters, wholesalers etc. In addition, small food business operators are required to register themselves with annual turnover more than INR 1.2 million but below INR. 200 million for food businesses (c) Basic License: Food Business Operators who are involved in the small-scale food business with Annual turnover below INR 1.2 million from food businesses [43]

The cost of FSSAI Licenses is: Basic License Registration - INR 100 per year, State License - INR 5000 per year and Central License - INR 7500 per year. The basic registration (for small food business operators) takes 7-10 days, while the Central Licence and State Licence can take about 30 days. [44]

Import Duties & Taxes

Goods imported into India are subject to the following import duties and taxes.

Basic Customs Duty (BCD)

Basic Customs Duty is charged on the assessable value of the goods being imported. The assessable value of the imported goods is equal to the CIF (Cost Insurance Freight) value of such goods plus a Landing Charge, which is taken as 1% of the CIF value.

The First Schedule to the Customs Tariff Act, 1975 gives the rates of the BCD, which are modified from time to time. Imports from nations (or groups of nations) having trade agreements with India are covered under preferential rates of BCD. India and Australia are currently in talks for such a bilateral trade agreement.

Social Welfare Surcharge (SWS)

Social Welfare Surcharge is levied from 2nd February 2018 @10% on the aggregate of duties, taxes and cesses levied as per Section 12 of the Customs' Act. It replaces the Education Cess and Higher Education Cess. Social Welfare Surcharge is not levied on IGST, as this has been declared to be fully exempt as per Customs Notification (13/2018) dated 2nd February 2018.

Integrated Goods and Services Tax (IGST)

Goods and Services Tax (GST) was introduced in India from 1st July 2017. IGST is applicable for import of goods. The actual rate applicable to an item will depend on its classification and will be specified in Schedules notified under Section 5 of the IGST Act, 2017. IGST rates are applicable on the sum of the assessable value, BCD and the SWS.

[43] Source: FSSAI, Different types of FSSAI Food License (n.d), Accessed in March 2021
[44] Source: FSSAI, Different types of FSSAI Food License (n.d), Accessed in March 2021

Example of Import Duties & Taxes

An example is given below, which discusses the impact of customs duties and taxes on the landed price of 'natural honey' (ITC HS 0409 0000) in India. A hypothetical consignment, whose CIF value is A$100, has been taken.

Table: Customs Duties & Taxes: An Example for Natural Honey (ITC HS 0409 0000)

	Description	**Value (A$)**	**Remarks**
1	CIF Value of Consignment	100.00	Cost, Insurance & Freight (CIF) value at Indian port of entry
2	Landing Charge	1.00	@ 1% of the CIF Value
3	Assessable Value	101.00	= (1) + (2)
4	Basic Customs Duty	60.60	@ BCD Rate x (3) BCD Rate on Natural Honey is 60%
5	Social Welfare Surcharge	6.06	Rate is applicable on the 'aggregate of duties, taxes and cesses levied' = SWS Rate x (4), SWS Rate is 10%
6	Sub-Total	167.66	= (3) + (4) + (5)
7	IGST	8.38	= IGST Rate x (6); IGST Rate is 5% Figure is rounded off from 8.383
8	Cost after Customs Clearance	176.04	= (6) + (7) Cost to Customer will include the costs of inland freight, warehousing, agent's commission etc.

NOTES:

1. Assessable Value is determined by adding CIF Value with a Landing Charge @ 1% of the CIF Value (thus, Assessable Value = 1.01 x CIF Value)
2. Social Welfare Surcharge is levied from 2nd February 2018 @10% on the aggregate of duties, taxes and cesses levied and collected under Section 12 of the Customs' Act. It replaces the Education Cess and Higher Education Cess.
3. GST was introduced in India from 1st July 2017. IGST is applicable for import of natural honey @ 5% (if put in container and bearing a registered brand name)
4. Levy of Social Welfare Surcharge on IGST is fully exempt as per Customs Notification (13/2018) dated 2.2.18.

Customs duties and taxes of some other items that are typical to e-Commerce have been tabulated below.

Table: Customs Duties & Taxes: Some Other Items typical to e-Commerce

Product	Basic Customs Duty (BCD)	Social Welfare Surcharge (SWS)	Integrated Goods & Services Tax (IGST)	Total Duties & Taxes (as a % of CIF Value)
PACKAGED FOOD				
Sugar Confectionary containing cocoa	30	10	18	57.50940
Syrups	30	10	18	57.50940
Aerated Waters / Lemonade	30	10	28	70.94240
Soya Milk Drink / Fruit Juices	30	10	6	41.38980
Potato Chips	150	10	18	214.82700
Rusk & Toasted Bread	30	10	5	40.04650
Gingerbread, Sweet Bread, Pastries & Cakes	30	10	18	57.50940
VITAMINS	7.5	10	18	28.01235
FACE CREAM	20	10	18	44.39960
APPAREL & CLOTHING ACCESSORIES	10	10	5	16.71550
SOAP	10	10	18	31.28980

Source: Central Board of Indirect Taxes and Customers

Notes:

1. Basic Customs Duty (BCD) is levied as a % of Assessable Value (AV), which is equal to the CIF value of Item + a Landing Charge (with Landing Charge being @ 1% of CIF)
2. Social Welfare Surcharge (SWS) is levied as a % of BCD
3. Integrated Goods & Services Tax (IGST) is computed as a % of the sum of AV + BCD+ IGST
4. Total = BCD + SWS + IGST. This is the total of customs duties and taxes as a percentage of the CIF Value of the Product at the Indian Port of Entry

Items imported for personal use (including for gifting but excluding resale or commercial use) attract a basic customs duty of 10% for most items. In addition, SWS and IGST are levied on such imports. This will apply for any items purchased for own use from a web-site abroad.

Along with Basic Customs Duty and Social Welfare Surcharge, IGST has to be paid at the time of clearance of goods through Indian Customs as computed at above.

The importer or his Customs Handling Agent responsible for the clearance of the goods through the Indian Customs has to ensure the payment of the above. The Australian company will have to pay or the importer can pay (and be reimbursed) as per the arrangements between the parties.

Step-by-Step Guide to Sell Online in India

End-to-End Approach for Selling Online in India

The Indian Presence

A company seeking to sell through an online market-place in India like Amazon India or Flipkart has to establish an Indian presence, unless it enters into an arrangement with an Indian partner to import and distribute its products in its behalf. Establishing an Indian presence for this purpose can include undertaking the following steps:

- Securing **physical space** in city (or cities) of choice, after ensuring that the space can be used for commercial purposes; (applicable for Popularizing Existing Digital Platform and Establishing a B2B E-Commerce Portal)
- Obtaining **Director Identification Number** (DIN) for Directors of proposed Company, if the same is planned to be registered in India
- Obtaining **Digital Signature Certificate** (DSC) for use in India
- Establishing a **Company** or a **Limited Liability Partnership** (LLP)
- Opening a **Current Account** in an Indian bank;
- Securing a **Trade Licence** from Municipal Authorities in cities where company plans a physical presence;
- Getting a **Permanent Account Number** (PAN) Card for Income Tax and other purposes;
- Registering for **Goods & Services Tax** (GST);
- Registering with Directorate General of Foreign Trade for **Import Export Code** (IEC) Number;
- Compliance with local regulations like **Shop & Establishments Act**; and
- Obtaining a **Trademark Registration** in India.

In addition, the import of certain items into India is restricted, notably some agricultural and electronics goods. Companies have to obtain an **Import Licence** to import these goods.

They have to also register with the concerned Export Promotion Council for obtaining a **Registration cum Membership Certificate** (RCMC), since this is needed for obtaining permission to import these restricted items.

The time and cost for the above steps have been given below.

Table: Time & Cost for Establishing an Indian Presence

Process	Cost in INR	Time Required (Indicative)
Securing physical space	Average Rentals per sq. feet per month can vary from INR 50-120 (depending on regions)	1 -2 months
Obtaining Director Identification Number (DIN) for Directors	200	2-3 days
Obtaining Digital Signature Certificate (DSC) for use in India (2 years validity)	700-2500	2 days
Establishing a Company or a Limited Liability Partnership (LLP)	5,000 Inclusive of Stamp Duty of Rs 3,000 for paid up share capital of Rs 500,000/- and Company Stamp Excludes fees to Professional Consultant	20 days
Company Seal	500	2 days
Opening a Current Account in an Indian bank	No charge	2-4 days
Securing a Trade Licence from Municipal Authorities in cities where company plans a physical presence	1,500 + Fees to Professional Agent	12-15 days
Getting a Permanent Account Number (PAN) Card for Income Tax and other purposes	200 + Agent Charges	7 days
Registering for Goods & Services Tax (GST)	5,000 + Professional Fees to Consultant	5-10 days
Registering with Directorate General of Foreign Trade for Import Export Code (IEC) Number	500 (Govt. Fees) + Professional Fees to Consultant	10-15 days
Compliance with local regulations like Shop & Establishments Act	10,000-15,000 + Agents Charges	10-15 days
Obtaining a Trademark Registration in India	10,000 per mark per class + Professional Fees to Consultant	18-24 months

Source: World Bank Data on Doing Business; supplemented by the Consultant's experiences and secondary data

NOTES:

1. All cost and time details are estimates, and the actual time and costs may vary widely depending upon the city / cities concerned.

2. **Charges of Professionals & Agents:** Professional Fees to Consultants may be about INR 5000/- for the entire process of establishing a Company, while each registration (such as for GST, DGFT for Imports, Shop & Establishment Act, Trade Licence, and Professional Tax) may cost from INR 2,000 to INR 15,000.

Setting up an Online Business in India

The various steps for establishing an online business may differ, depending upon the model chosen by the company to reach its customers in India. However, these will include the following activities:

- Developing an India-oriented **digital catalogue** for the products complying with Indian regulations and using Indian languages if needed
- **Highlighting online presence** through social media (like Facebook, Instagram, Twitter and their equivalents), company website and other channels aimed at India.
- Setting up the **end-to-end process** including essentials like importing, warehousing, order-fulfilment, logistics, billing, payment gateway etc.
- Entering into **business agreements** with Indian companies for aspects like customs clearance, warehousing, third party logistics, payment gateway services etc.
- Putting in place, a reliable **inventory tracking software** which can trace the flow of the goods across the sub-continent sized country

Cost Components in Online Selling

Companies intending to sell online in India will incur various costs. These include:

- Packaging Costs: This can range up to 2% of the cost of the item, depending upon the type of material used[45]. Packaging has to conform to Indian regulations, like FSSAI for food items.
- Shipping Costs: Apart from the cost of shipping to India, costs for shipping inside the country can be considerable. These may range up to 20% (or even 25%) of the cost of the item. Courier services by air can be costly – these may be even three times that of the cost of surface delivery.
- Storage Costs: Companies will have to incur storage costs for storing items at points along the logistics channel, both at the source side (entry point in India) and at the destination side, before goods are sent to the customer.
- Payment Gateway Costs: The Company will need to enter into arrangements with payment gateways for transactions in India. These may charge a percentage, based on the volume of transactions. The charges ranges between 0 – 2% per transaction (for domestic transactions)[46], but this can be negotiated. Government of India has directed banks and payment service providers in India not to charge any fees from companies (and others) for United Payments Interface (UPI) and RuPaydebit card transactions.
- Marketing Costs: The above costs can be quite high in India, especially for the initial acquisition of customers and for their retention. Depending upon the item and the competition, these charges may vary from 12%-15% of the costs [47](or even be higher).

[45]Source: Based on discussion with Industry Players
[46]Source: PayTm, Pricing for online payments (2021), Other payment gateways also reported similar results
[47]Source: Based on discussion with Industry Players

Logistics & Warehousing

Logistics and warehousing is a major driver of the e-commerce based retail industry in India, as the customer experience largely depends upon timely fulfilment of an online order. The logistics required to reach customers across India is one of the major investments made by e-commerce companies. It also serves as an important point of differentiation between companies competing to secure the same market space. Logistics and warehousing involve the following steps:

- First mile logistics - pick-up of goods from the sellers and transporting it to the e-retailers' fulfilment centre or directly to mother-warehouse near the point of entry;
- Order Fulfilment - picking and packaging of products once an order is placed on the website;
- Processing &Sorting - based on the delivery location at the processing centre;
- Line Haul – which involves connecting the main supply centre with the main demand centre, via surface or air; and
- Last Mile delivery – involves dispatch and shipping of products from the mother hubs to the delivery hubs, from where they are shipped out to the customers.

Logistics Costs: Any entrant to the e-commerce market of India has to address the relatively high expenses on logistics. These are greater in comparison to developed nations such as USA, Japan and most of Europe. Currently, line haul and last mile delivery account for almost 90% of the logistics costs. These costs can vary depending upon many factors, and be up to 20% of the cost of the item delivered to the customer[48].

Apart from infrastructural inefficiencies, logistic costs are higher on account of factors like high return rate of consignments (estimated to be around 20% in 2018), high share of Cash on Delivery (COD) orders etc. The advent of Goods and Services Tax (GST) has also led to higher compliance requirements.

Service Providers: Logistics and warehousing services are extended by Third Party Logistics (3PL) agencies. These include traditional logistics service providers like FedEx, Blue Dart, GATI etc., as well as new entrants like Shiprocket (which covers 26,000 PIN Codes in India), Ecom Express and Delhivery (both of which serve around 2500 cities in India). The two largest players in the Indian e-commerce market, viz. Amazon and Flipkart, have captive logistics companies that handle over 80% of their needs.

Australia-India Logistics Cost & Time Needed:

(a) By Ship: The cost of containers from Australia to India can vary depending upon the origin and destination ports, international rates, shipping company used, type of product being conveyed, load type, type of container etc. The present freight rate is estimated to range from A$ 3,000 – 3,500 for 40 feet containers (from Sydney to Mumbai) as per www.worldfreightrates.com for carrying items like apparel or personal care products, inclusive of insurance. The time needed is reported to be about 15-20 days.

[48]Source: Based on interaction with Industry Players

(b) By Air: The demand for air freight is limited by cost, as this is typically priced 4–5 times that of road transport and 12–16 times that of sea transport. For Australia to India, the charges may be about 15%-20% of the value of the consignment, inclusive of insurance. The rates will vary depending upon the route, carrier, season, type of product, weight, dimension of package, etc.

Payment Systems for E-Commerce

The major channels of payment for online purchases have been listed below.

- Bank Cards
- Mobile Payments (UPI & Digital Wallets)
- Bank Transfers
- Cash
- Other Channels

Bank Cards (Debit Cards and Credit Cards) were the most popular channel in 2018, when they accounted for 29% of the e-commerce payments. **Mobile Payments** accounted for 25% share in 2018. This is expected to become the most used payment method by 2021, when such payments may have 35% of the market. Within Mobile Payments, the **UPI** based payments have overtaken **Digital Wallets**. The use of cards and mobile payments has already crossed cash withdrawals from ATMs across India.

Bank Transfers (via net banking) had one-fifth share of e-commerce payments in 2018, and their share may fall. **Cash** had a 17% share in 2018, but are expected to decline to 10%. Many of the e-commerce marketplaces are restricting the use of cash, especially the Cash on Delivery (COD) route due to sales returns[49].

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[49]Source: JP Morgan, E-commerce Payment Trends (2019)
Other researchers also reported similar results (S&P, India Mobile Payments Report 2020)

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