



MAKING IT CLICK

Cracking the Indian retail market, the online way

INDIA – A COMPELLING YET INTRICATE STORY

Retail in India – Opening up to the world gradually

It is no secret that as the world's second most populous country India holds a vast opportunity for any consumer brand with its 1.2 billion consumers; half of these are below the age of 25 and 65% are below the age of 35.

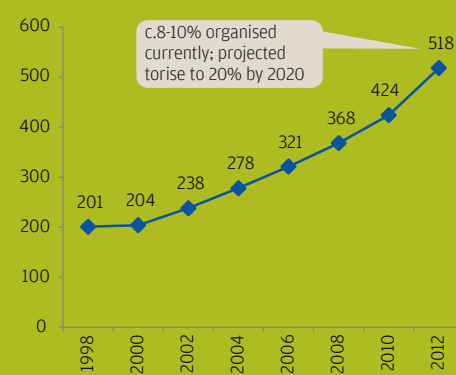
While the FMCG sector has been open to 100% foreign direct investment for a long time, the country has been cautious to open the flood gates to FDI in the retail sector due to concerns on impact on the small retailer.

India today allows for 100% FDI in the cash and carry (wholesale) and single brand retail areas. In the latter, investment is subject to sourcing a minimum of 30% of goods by value from small and medium enterprises.

Multibrand retail is an area of concern even for the new Government which came into power in May 2014. While current policy allows for 51% of FDI in this segment, it comes with riders of a minimum investment of USD 100 million to be made – half of which will need to be in back end infrastructure. The sourcing clause for single brand retail also applies to multi brand retail. Scaling up the FDI limit to 100% is expected to be a long term careful move by the new government.

FDI in B2C e-commerce is currently not permitted for brands that have entered the country as retailers.

Growing Retail Market & Organisation (USD Bn)



Source: Secondary research

A complex market with its fair share of challenges

India presents a fair set of challenges to brands not accustomed to operating in large fast developing markets.

Consumer product preferences vary significantly across the country:

Think of a north south divide where the two halves of the country behave very differently due to historical cultural factors. Brands will encounter further shades of differentiation in consumer preferences as they enter each of India's 28 states. This variation in preference will however reduce over the long term as cities become more

urbanised. But today, it is a real challenge faced by western brands.

The market is fragmented geographically:

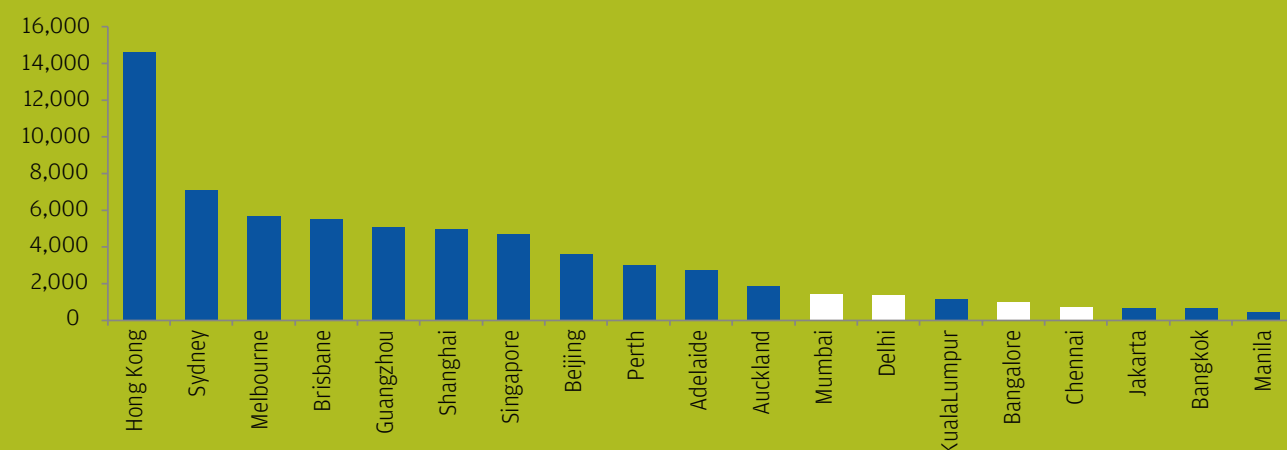
Beyond the large metros of Mumbai, Delhi, Chennai, Hyderabad and Bangalore, India has an additional 48 urban centers that house a population of over a million. These large markets are mostly spread across the north, south and west of India – a vast country that stretches 3000 kilometers from north to south and also east to west. Managing a retail operation of this scale

and fragmentation requires good local knowledge.

Good retail real estate is scarce and expensive:

With consumers gravitating towards malls as shopping destinations, the country has seen a sudden growth in shopping malls. However, not many of them are quality builds. This has led to good real estate commanding a significant rent premium – comparable at times to prominent shopping locations in developed markets (see chart)

Asia Pacific Shopping Centre Rents, 1Q14 (USD psm pa)



Source: Jones Lang LaSalle Retail Index

SO WHAT CLICKS IN INDIA?

Learning from incumbents

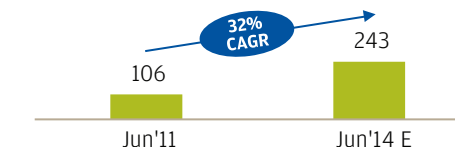
Despite the inherent challenges, a host of international brands have entered this market (or plan to enter) with varying business models (see box). Many of them have chosen to partner with an Indian entity.

While not all these partnerships have stood the test of time, for those that have worked it has been a synergistic relationship.

The Indian player has gained global retailing best practices and the international brand has gained a foothold in the country by leveraging on the local partner for liaising with the local government, identifying and acquiring quality real estate and hiring good manpower.

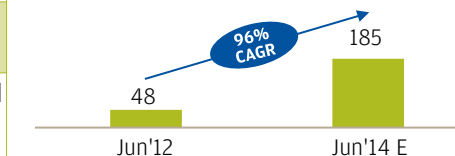
Most brands have partnered with prominent retail houses such as TATA, Birla, Reliance, Arvind and the Future

1 In 5 Indians has internet access (Mn)



Source: IAMAI-IMRB, OC&C Research and Analysis

1 In 6 accesses internet via mobile (Mn)



Source: IAMAI-IMRB, OC&C Research and Analysis

Entry Models for India

Entry Model	Companies
Solo Entry	Ikea and H&M are amongst brands who have planned solo investments in India
Manufacturing Licence	Arvind Mills, a leading Indian textiles company has signed licensed agreements to manufacture denim wear and other products for brands like Arrow, Hanes and Wrangler
Franchise & JV Agreements	Spanish retailer Zara has a JV with Tata Group's retail arm, Trent Ltd, while shoe major Clarks has teamed up with Future Group

Source: News reports

Group such that these local companies are today positioned as the preferred partners for a retailer entering the country and in search of local help.

Despite the presence of a local partner, growth can be slow and painful, forcing brands to constantly invent new business models and look for alternate channels of sale.

E-commerce – A rising star

India is witnessing hyper growth in e-commerce. The country has close to 250 million citizens with internet access and more than 900 million mobile phone users (see chart). Most mobile users will trade up to smart phones with internet access in the near future.

Releasing traditional constraints

E-Commerce and its rapid march through India's retail and geographic landscape has removed traditional constraints of dispersed demand centres and expensive real estate for most brands. This will mean scale up in the country will be faster and easier (see graphic)

Advantage online

% of Online Purchases Made via Mobile Phones **>40%**

Size of Online Retail Business in India

\$250 MN

\$2.3 BN

\$8.0 BN

2007

2012

2015E

Size of Online Fashion, Footwear and Accessories Market

\$559 MN

\$2.8 BN

2013

2016E

Source: Crisil Research, News Reports

SHARE OF E-COMMERCE IN ORGANISED RETAIL

8%

2012

18%

2015 E

SHARE OF SMALL TOWNS IN REVENUES OF E-COMMERCE PORTALS

>50%

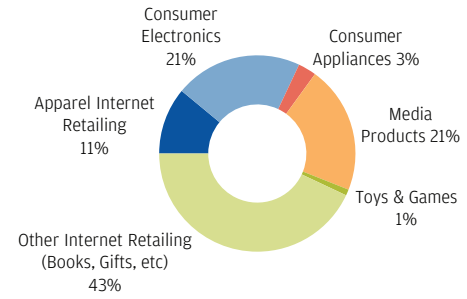
NUMBER OF CITIES AND TOWNS COVERED BY E-COMMERCE

>150

Source: Crisil Research, News Reports

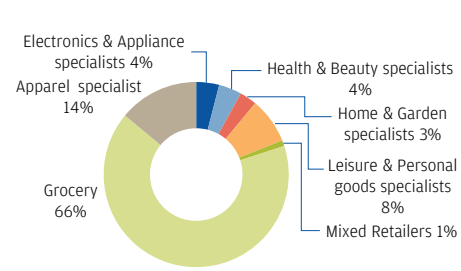
What India Is Buying Online

Segment wise share of internet retailing



Source: Euromonitor Database, KPMG research

Segment wise retailing



Source: Euromonitor Database, KPMG research

Not surprisingly, the Indian consumer has followed his western counterpart in migrating purchase in categories such as travel, electronics, consumer appliances and apparel online.

Grocery e-retail is also showing promise with bigbasket.com and zopnow.com expanding coverage.

Indian E-Commerce Portals – Striking IT Big

From relative non-existence 7-8 years ago, some of the prominent names in the Indian e-commerce space such as Flipkart, Snapdeal and Jabong have overtaken some of the long-standing names in multi-brand brick and mortar space such as Shoppers Stop. By taking brands to Tier 2 and Tier 3 cities, they have also unleashed latent demand prevalent there.

	Started	Model	Estimated FY14 Gross Merchandise Value ²
FLIPKART	2007	Inventory + Market Place	\$1bn
MYNTRA ¹	2007	Inventory-based	\$204mn
JABONG	2012	Inventory (Dominant) and managed market place	\$300mn
SNAPDEAL	2010	Pure Marketplace	\$500mn

Source: News reports

¹ In May 2014, Myntra was acquired by Flipkart in a deal valued at 300 Mn USD

² Based on companies' estimation of FY14 revenues

Amazon's Adapted Avatar

Undeterred by laws disallowing them to sell merchandise directly, Amazon and E-Bay are present in India in a different avatar, in that, they offer their platforms to other vendors for a commission. This decidedly underscores their longer term India ambitions and augurs well for more competition and hence, better market development for e-commerce.

E-ENTERING INDIA – FIVE POINTS TO PONDER



“ONLY ONLINE” – THE PERFECT BETA TEST

Certain fashion brands in particular are entering via an “online only” model, by tying up with leading Indian e-commerce players. For many, this is a beta test for the Indian market, prior to a full-blown ramp up of physical stores.

A case in point is UK-based high-street fashion retailer **Dorothy Perkins** who has entered into an exclusive tie up with **Jabong.com**. Under the agreement, Jabong imports the product directly and retails it locally via a micro-site. **Miss Selfridges** has also entered into a similar agreement with Jabong, as have **Desigual**, **Stanley Kane** and **GAP**, with **Myntra**.

Motorola, who is no stranger to the Indian market, exclusively launched the Moto X and Moto G handsets on **Flipkart**, which resulted in sales of a whopping 20,000 Moto Gs on the first day. E-tailing is catching the Indian consumer's fancy like never before.

ETAILING MODELS – A SNAPSHOT

1 **Exclusive Tie Ups**
Indian e-tailer directly imports at wholesale FOB prices, pays import duty and sells online

Most widely used model

2 **Independent agents**
Independent agent imports the goods but retails via exclusive mono-brand e-stores or via multiple e-commerce players

Better scalability and better control over the brand

3 **Brand Stores**
Same as Model 1, except the merchandise is retailed via exclusive portals-within-portals on some Indian e-commerce websites to maintain “premiumness”

Still at a nascent stage

1. A great tool to understand the consumer

An e-entry into India provides a low cost approach to understanding customer preferences in this diverse country. Brands have the ability to test different ranges and price points to move closer to an acceptable product portfolio prior to a big-bang brick and mortar expansion.

2. Determine demand patterns

Brands will ultimately have to follow a multi-channel approach in India just like any other market. E-commerce will help you understand relative demand from different geographic locations and help you decide the best way to serve your target markets - through physical stores, only e-retail or both.

3. Capture share of mind

While regulations may take time to turn favorable, smart brands will use e-commerce to gain traction with their target customers. This will give them a first mover advantage and help them gain time over later entrants in positioning the brand appropriately.

4. The need for local sourcing will emerge sooner than later

It is likely that import duties and freight will make for very prohibitive prices at the retail level, despite any premium positioning.

It may therefore be necessary to move to sourcing locally to maintain costs if this is not already the case. India has well developed manufacturing capability in most retail categories - brands having an existing supplier base in India will be prudent in undertaking direct supply of demand in-country.

5. Short term play

Despite e-commerce providing a clear opportunity to tap demand, it is not the end game. Brands will need to quickly follow up the e-retail entry with a serious entry strategy to the market encompassing physical retail to make a mark in this market and achieve profitability.

Doing it remotely will not cut it.

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