



**Now that India
shops online, how
do you turn growth
into profit?**



The better the question. The better the answer.
The better the world works.



EY

Building a better
working world



Contents

Foreword	3
Executive summary	5
It's all about consumers	6
Fickle consumers - delivering on promise is key to retention.....	8
Focus on middle-aged consumers, not just younger buyers.....	10
Understand buying patterns to drive volume.....	12
Cash on delivery – a necessary evil; cashless transactions are crucial for sustainable growth	14
Targeted medium is the only way for effective communication	16
It's not about discounting alone – quality and efficiency matter equally	18
About the survey	20



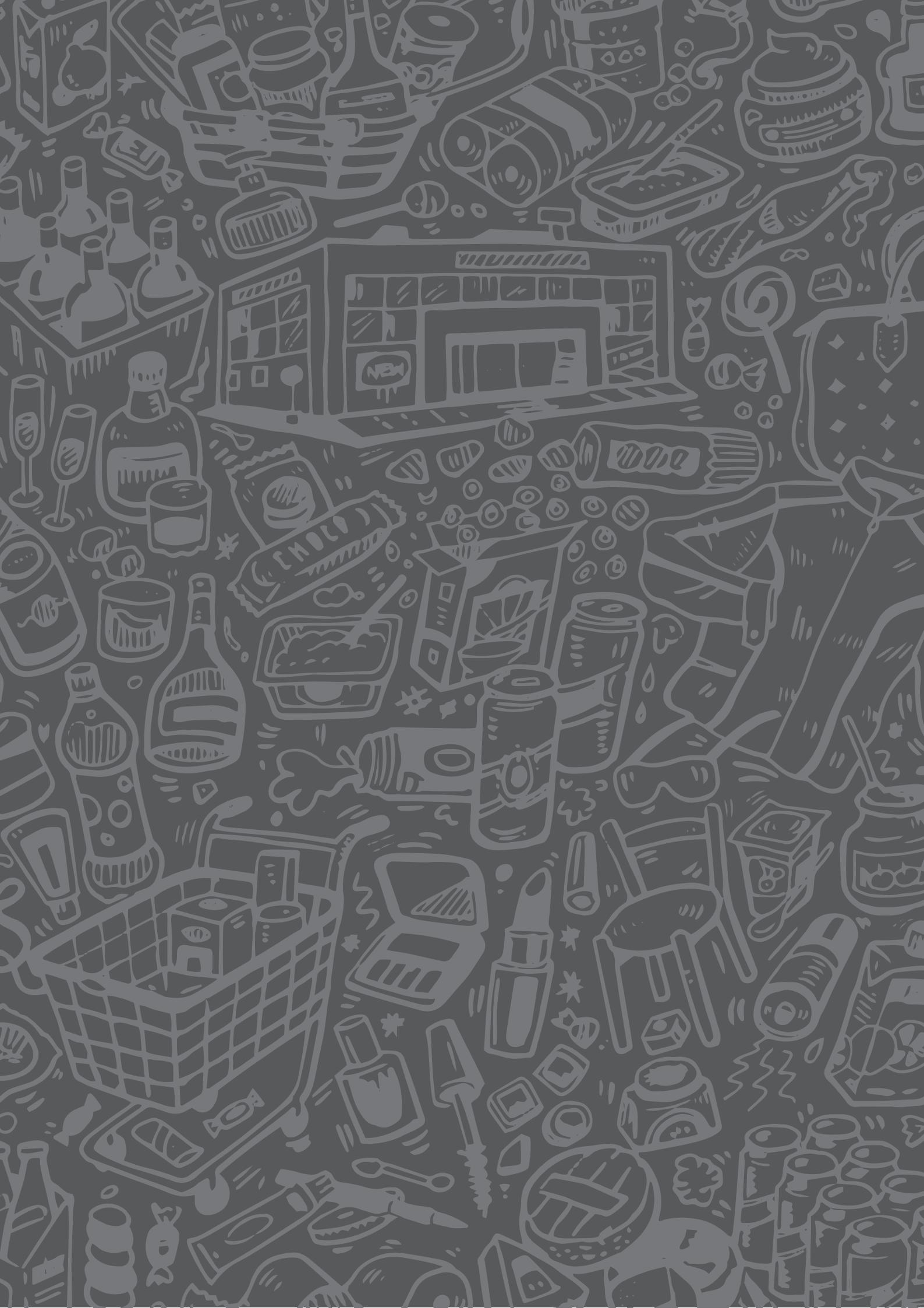
Key contacts



Pinakiranjan Mishra
Partner and National Leader
Retail and Consumer Products
EY India
Email: pinaki.mishra@in.ey.com



Amit Manna
Director
Retail and ECommerce
EY India
Email: amit.manna@in.ey.com



Foreword

India's still-nascent e-commerce market is growing at lightning speed. While deep discounts lured the first online shoppers and fueled e-tailers' initial momentum, the space's rapid evolution is giving rise to consumers who expect more than just low prices.

The new digital consumers are becoming smarter, better informed, more demanding and less tolerant of low quality. Hence, it is vital for e-commerce companies to understand their buying behavior and gain superior insights to make better business decisions that facilitate long-term success.

To look into the minds of online consumers, EY polled about 700 online respondents in six cities in India. The survey sheds light on various important aspects of online shopping in India, including the appeal for consumers, distinct buying behaviors and common operational issues facing consumers. The survey insights could help e-commerce companies understand what they can do to drive the next wave of growth.

The e-commerce space is likely to see swift action in the coming years. It could offer huge potential to buyers and sellers alike. Companies will have to be nimble enough to address fast-changing market conditions and the needs of tomorrow to sustain the momentum.

I hope you find this report useful as you engage with your customers.

Pinakiranjan Mishra



Partner and National Leader – Retail and Consumer Products
EY India



Executive summary

In India, the e-commerce revolution has become a reality. With billions in daily sales and staggering discounts, online shopping is making headlines and attracting both consumers and retailers. Traditional offline retailers are also going digital.

To better understand consumers' online buying behavior, EY polled about 700 online respondents in six cities in India. The objective of the survey was to know:

- Why consumers shop online
- What is the demographic profile of an online shopper
- How online shopping carts vary for different consumer segments
- What, if any, are the specific characteristics of product categories sold online
- What factors influence online buying decisions
- What major challenges consumers face

The survey's insights emphasize what e-commerce companies can do to drive the next wave of growth and sustain the momentum in a constantly evolving market of hyper-growth and hyper-competition.

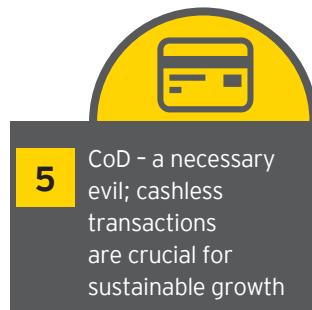
Heavy discounting fueled e-commerce's initial growth as players with deep pockets used price cuts to bring new consumers online. However, this strategy is unsustainable: it dents profitability and results in disloyal buyers who merely seek the best bargains. A company's lasting success will depend on its innovation in meeting its customers' needs.

Going forward, companies will have to use data and analytics to develop consumer-centric strategies that address more latent individual needs – e.g., increased convenience, timely delivery – and anticipate future challenges to outperform rivals.

7



key points to sustain e-commerce growth





1. It's all about consumers

Sustaining in a hyper-growing e-commerce market

The e-commerce wave in India has caught on like wildfire recently, in contrast to a decade ago, when the prevalent opinion was that too many challenges – low Internet penetration, limited payment infrastructure (i.e., restricted use of credit cards), consumer psychology and behavior, logistics and warehousing issues – would prevent online shopping's emergence.

Despite the challenges, online retail, or "e-tail," has grown at a breakneck speed of 50%-55% compound annual growth rate (CAGR) over the last five years to reach around US\$4.5 billion in 2014.¹ The sector is expected to see similar growth going forward, driven by factors such as favorable demographics, increasing penetration of internet and smartphones changing consumer preferences.

India in 2020: e-commerce potential³

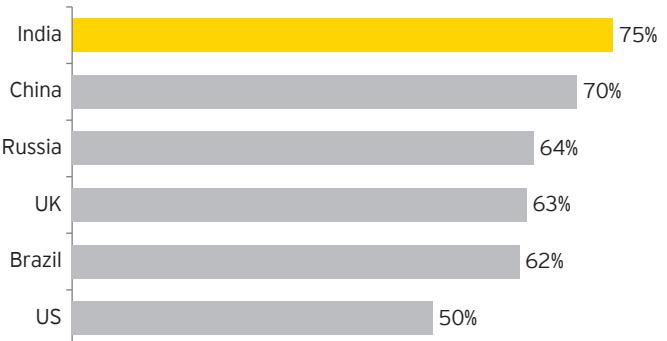


¹ "E-commerce - fast and furious," Motilal Oswal, November 2014 via Thomson One Banker.

³ *Consumers on Board: how to copilot the multichannel journey*, accessed via www.ey.com/GL/en/Services/Advisory/EY-consumers-on-board, EYGM Limited, 2014.

² EY analysis based on the articles: Dhiraj Nayyar, "India needs more banks before more bank accounts," *Livemint*, www.livemint.com/Opinion/RjQNPKizMmeyKq261I4waJ/India-needs-more-banks-before-more-bank-accounts.html?utm_source=copy, accessed 04 November 2015;

Digital consumers'* share of online population²



Note: *A digital consumer is one who either regularly or occasionally uses digital for all or part of his or her purchasing journey.



"Indian Online Market Set to Explode: Google Study," *The New Indian Express*, www.newindianexpress.com/lifestyle/tech/Indian-Online-Market-Set-to-Explode-Google-Study/2014/08/21/article2391122.ece, accessed 04 November 2015; "India Internet Sector," Credit Suisse, September 2014, via Thomson One Banker; "Internet Access Drives Revenue Growth in Booming Markets," www.mobilitytechzone.com/topics/4g-wirelessrevolution/articles/2014/06/04/380394-internet-access-drives-revenue-growth-booming-markets.htm, accessed 04 November 2015; "India: Total population from 2010 to 2020 (in millions)," *Statista website*, www.statista.com/statistics/263766/total-population-of-india/, accessed 23 November 2015.

Indian consumers are becoming more digitally savvy. According to EY's recent *Consumers on Board* research,⁴ Indian consumers are among the most digitally savvy worldwide. More than two-thirds of India's population owns mobile phones – nearly twice the number of those holding bank accounts. This digital consumer is able to shop anytime anywhere, thereby driving growth for e-commerce.

Given the considerable potential, even traditional retailers are launching online platforms which makes it necessary to develop an omni-channel strategy.

How to develop an omni-channel strategy⁵

Have online presence	Take consumer-centric decisions	Develop agile strategy
<p>Traditional brick-and-mortar retailers will have to integrate offline-online strategy</p> <p>Company leadership must commit to change</p>	<p>Understand what consumers want and how their needs and expectations are changing</p> <p>Know what consumers really value, compared with what the company thinks is valuable</p>	<p>Plan for future needs; segment supply chain to meet different product and channel demands</p> <p>Use data and advanced analytics to track individual consumer</p>

To succeed over the long term, companies must fully embed omni-channel in their overall corporate strategy and organizational culture.⁶ Pure-play online portals will also have to be nimble enough to reinvent themselves to keep pace with fast-changing consumer preferences. Companies will have to develop sustainable business models, keeping consumers at the center.



⁴ *Consumers on Board: how to copilot the multichannel journey*, accessed via www.ey.com/GL/en/Services/Advisory/EY-consumers-on-board, EYGM Limited, 2014.

⁵ *Re-engineering the supply chain for the omni-channel of tomorrow*, accessed via www.ey.com/GL/en/Industries/Consumer-Products/ey-omni-channel, EYGM Limited, 2015.

⁶ Ibid.



2. Fickle consumers – delivering on promise is key to retention

Indian consumers are adopting e-commerce because of its increased convenience and different modes to access an expanded basket of goods. Additionally, cash on delivery and same day and one day delivery have addressed many consumer inhibitions.⁷

Convenience, discounts: attractors; timely delivery, return policy – differentiators

Reasons people buy online, in order of preference

Attractors	1	Convenience	► 40% of respondents chose e-tailing for convenience as the topmost reason
	2	Discounts and cheaper prices	► Consumers prefer to buy products that are less expensive online vs. offline ► Particularly popular are small electronics, as well as products for younger (<30 years old) consumers and women buyers
	3	Multiple product options	► Easy access to a wider range of goods at one place ► Consumers like to buy premium/luxury products
	4	Multiple payment modes	► Cash on delivery is popular among buyers ages <30 years and 55+ years ► Middle-aged buyers (31-54 years) prefer cashless transactions
	5	Preferred brand availability	► Attracts buyers from Tiers II and III cities and smaller towns where retail presence is limited
Differentiators	6	Good return policy	► A crucial differentiator; consumers prefer an e-tailer offering a good return policy
	7	Timely delivery	► A crucial differentiator; consumers choose service providers that offer the fastest delivery

61% will stop buying online if there are no discounts

40% said that convenience was the most important reason for online shopping

~30% said timely delivery and a good return policy are the reasons for shopping online

Source: EY survey

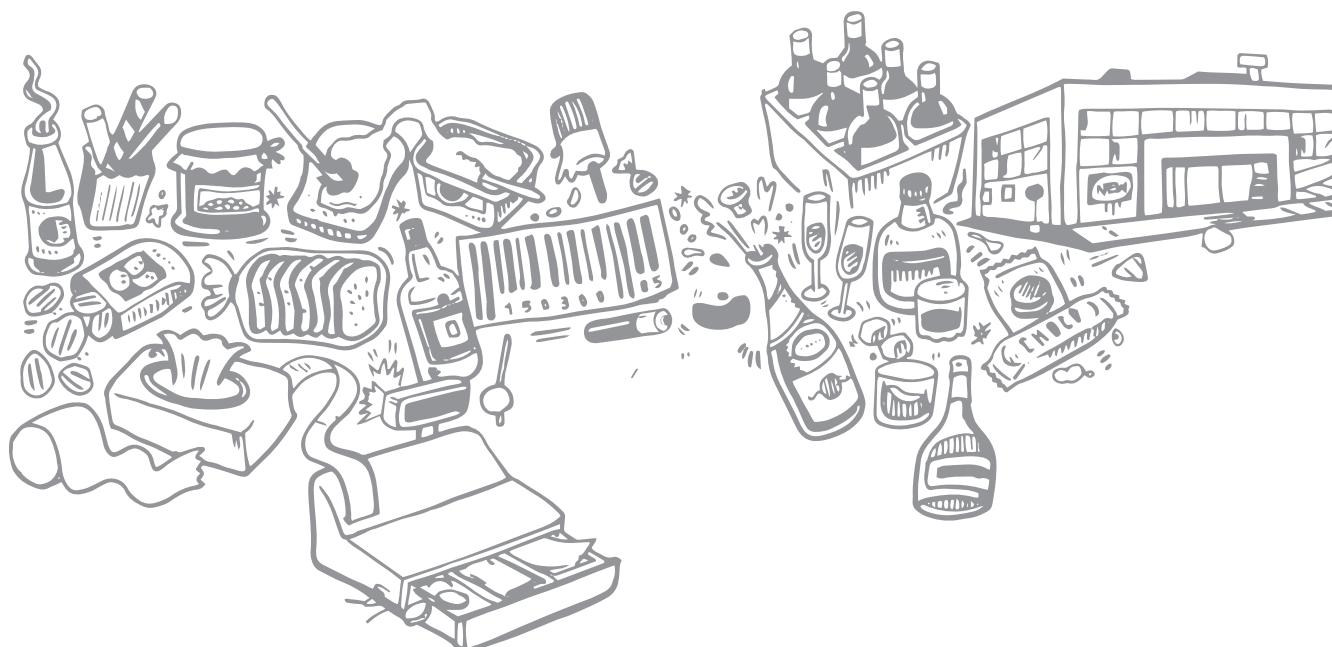
⁷ "E-commerce - fast and furious," Motilal Oswal, November 2014, via Thomson One Banker; "The omni-channel option in India," *The retailer: EY's publication in consumer products and retail sector*, [www.ey.com/Publication/vwLUAssets/ey-publication-cover-the-retailer-october-december-2014/\\$FILE/ey-the-retailer-october-december-2014.pdf](http://www.ey.com/Publication/vwLUAssets/ey-publication-cover-the-retailer-october-december-2014/$FILE/ey-the-retailer-october-december-2014.pdf), Ernst & Young LLP, 2014.

Discounts have become ubiquitous on all e-commerce sites, and buyers have become used to them. Most of the online buyers polled are disloyal and will choose an online portal offering the best discount. To improve consumer retention and encourage repeat purchases, players are partnering with mobile/online wallets providers, which offer cash back on purchases.⁸ Going forward, e-commerce players will have to find innovative ways to retain consumers.

How to retain a consumer

Enhance consumer satisfaction	Offer targeted discounts	Ensure timely delivery and a good return policy
<p>Offer greater convenience: easy site navigation, seamless transactions, proactive customer service, attractive packaging, less in-transit damage</p> <p>Use analytics to track changes in buying behavior to offer better product choices as a customer relationship evolves</p> <p>Introduce online loyalty programs – offer rewards/incentives, differentiated pricing for repeat orders</p>	<p>Provide cash back to lure consumers who hunt for the best discounts</p> <p>Offer category-specific discounts: calibrated discounts in categories purchased by target consumer segment, special deals on social media platforms</p>	<p>Invest in logistics to support quick turnaround; delivery within committed timelines is a must</p> <p>Develop category-specific return policy; use analytics to address common reasons for returns – wrong sizes, different appearance, etc.</p>

Going the extra mile in terms of enhancing consumer satisfaction, exceeding their expectations and providing additional value for their money will help companies retain customers over the long run.



⁸ Rajiv Singh, "How cashbacks are emerging as a tool for e-retailers to lure & retain customers," *The Economic Times*, articles.economictimes.indiatimes.com/2015-11-08/news/68108898_1_paytm-cashback-similar-discount, accessed 30 November 2015.



3. Focus on middle-aged consumers, not just younger buyers

With growing competition, e-commerce players will also have to fight harder to attract new consumers. E-commerce still remains limited to a section of the population, despite its robust growth and rising popularity. A look at the demographics of internet users in India makes it evident that a considerable proportion of the high-earning and high-spending section of the population (i.e., consumers above 35 years old), women and small town/rural consumers are still not spending significant time online. Capturing these untapped consumers will be a significant opportunity over the long term.

Demographics of internet users⁹

Data for 2014	India	China	Brazil	Russia
Internet user base under age 35 (%)	75	59	60	56
Urban rural-split	63:37	72:28	81:19	60:40
Share of women in internet user base (%)	39	45	49	52

Capture older consumers and retain younger ones

The internet user base in India is tilted toward the younger population, with 75% below 35 years old. However, consumers above 35 years, who are more financially independent and have high spending power, are emerging to be just as important. According to our survey, consumers in the age group of 31-54 are the highest spenders, while consumers below 30 buy more frequently. The survey showed that 30%-60% of online buyers purchase at least once every two weeks.¹¹

Attract small-town shoppers

Although the internet user base still largely comprises urban populations, the rural user base is growing, with rising internet and smartphone penetration rates. According to the 2011 census, close to 30% of India's 1.2 billion population resided in Tiers I (composed of about 8%), II, III or IV cities. This indicates the enormous potential the smaller cities offer to e-commerce players. Moreover, as aspirations of consumers from Tiers II, III and beyond cities converge with those in Tier-I, factors such as limited retail penetration and inadequate product offerings are creating a "sweet spot" for the online channel.

In fact, consumers in these regions seeking value and premium purchases alike are already accounting for a significant portion of sales and traffic for select e-tailers.¹⁰

For all the major e-commerce players, the majority of orders come from small cities. A leading e-commerce player gets more than 50% of orders from non-metro cities. It has set up dedicated rural distribution centers run by local people to deliver products received from small towns; it has also partnered with the India Post to facilitate delivery. A leading e-commerce player has been beefing up delivery staff and enhancing its mobile application to work under poor network conditions.¹¹

Target women

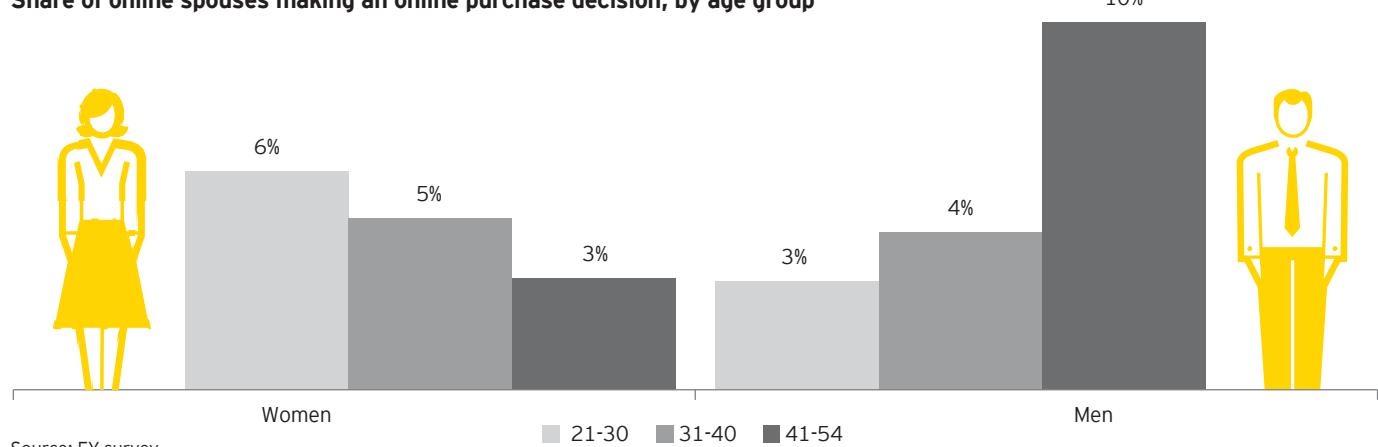
Online shopping has so far been skewed toward male buyers, but on the back of changing lifestyles, the growing importance of multitasking and the rising number of women in the workforce, this statistic is undergoing a change. Tech-savvy women are increasingly turning to online portals to fulfill their needs in diversified categories such as fashion, footwear, apparel and accessories, food and drink, baby care, hair care and skin care. The survey highlighted that the women who shop online tend to buy marginally more frequently than men. But, they influence buying decisions much more than men.

⁹ India vs. BRICs: a comparison of the e-commerce ecosystem – an EY white paper, accessed via <http://www.ey.com/IN/en/Industries/Technology/EY-india-vs-brics-the-better-ecosystem>, Ernst & Young LLP, 2015.

¹⁰ "Indian e-commerce market to touch \$200-bn GMV by 2025: BofA-ML," *ETRetail.com*, <http://retail.economictimes.indiatimes.com/news/industry/indian-e-commerce-market-to-touch-200-bn-gmv-by-2025-bofa-ml/49735275>, accessed 18 November 2015.

¹¹ Pankaj Mishra and Jayadevan PK, "How ecommerce giants like Amazon and Flipkart are piloting rural distribution model to cater small town customers," *Economic Times* website, <http://economictimes.indiatimes.com/industry/services/retail/how-ecommerce-giants-like-amazon-and-flipkart-are-piloting-rural-distribution-model-to-cater-small-town-customers/articleshow/47635478.cms>, accessed 30 November 2015.

Share of online spouses making an online purchase decision, by age group



Source: EY survey

Women tend to influence more online purchase decisions for their spouse. The survey demonstrated that as men grew older, their spouse had more influence in making decisions.

It is crucial for e-commerce players to target female consumers and are doing so by taking various initiatives, such as launching female-centric brands and using analytics to understand buying

behavior of female shoppers to offer better service. A leading e-tailer of used products sees women consumers holding a large share across categories. The company has taken female-centric initiatives, such as launching a chat platform that keeps contact data confidential, to address concerns faced by female buyers.¹²

How to capture new consumers

Prioritize target consumer segments	Expand in Tiers II, III and beyond cities	Increase the share of female shoppers
<ul style="list-style-type: none"> Offer attractive discounts to trigger impulse buying in younger consumers Offer special deals to increase transaction sizes for younger buyers Offer specific deals on products purchased by older buyers to lure them to the online platform 	<ul style="list-style-type: none"> Invest in expanding last-mile delivery by expanding local delivery services to reach smaller cities Communicate in local/regional language to attract consumers who don't speak English Offer products/brands not available in stores 	<ul style="list-style-type: none"> Offer female-centric products, brands, special discounts, mobile apps Use analytics to understand buying behaviors of female shoppers to offer better products, suggest bundled offerings, bring in new options, etc.

Companies will have to move fast to capture the share of the next wave of consumers and stay ahead of the competition. In order to move toward profitable long-term success, companies must reach a sizeable mass of consumers to benefit from economies of scale.

¹² "E-commerce companies trying to correct lack of goods of female interest," *Economic times website*, <http://retail.economictimes.indiatimes.com/news/e-commerce/etailing/e-commerce-companies-trying-to-correct-lack-of-goods-of-female-interest/49787975>, accessed 30 November 2015.



4. Understand buying patterns to drive volume

Although different consumer segments converge on an e-commerce platform, inherent differences in their buying behaviors continue to persist. Similarly, various product categories exhibit different characteristics, such as frequency of product purchase, ease of purchasing a category online and average purchase size. E-commerce players will have to consider these differences while devising a strategy specific to a consumer segment and a product's offerings.

Define targeted consumer segment

Online shopping carts for men and women tend to vary, as they prefer products in different categories. Their choices also vary across age groups. E-commerce players will have to accurately define their targeted consumer segment across age groups.

Typical shopping interests across consumer segments



Source: EY survey

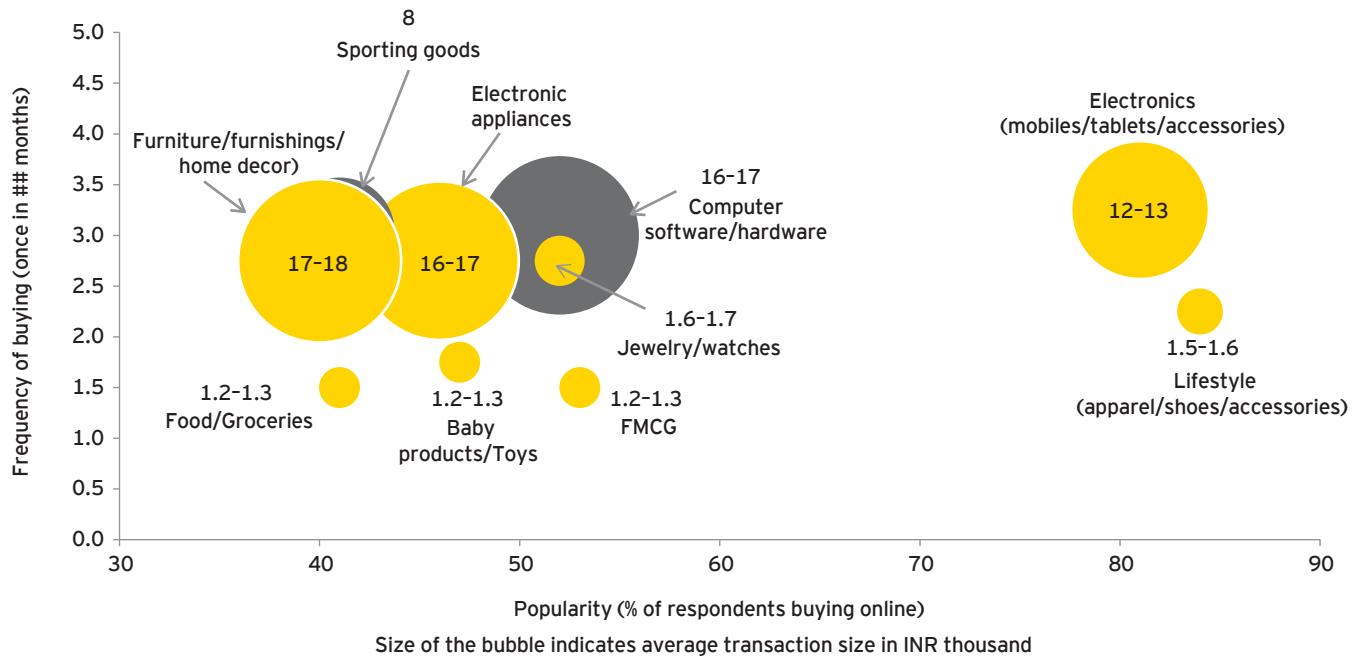
Understand inherent characteristics of product offerings

Along with targeted consumer segments, e-commerce players will have to understand characteristics of categories sold online.

Electronics, especially mobile phones, tablets, accessories and lifestyle products (apparel, shoes, accessories) are among the most popular categories online. The popularity of electronic products can be attributed to factors such as attractive offers/discounts, plentiful options and very low product differentiation, while the popularity of lifestyle products can be attributed to their comparatively low prices, the flexibility to use cash on delivery and the ease of returns.

In contrast, furniture and food are considered by both consumers and e-tailers as better categories for in-store purchasing, although this mindset seems to be changing. Furniture shoppers prefer to address quality, color, design and other matters in person, while those buying groceries are primarily concerned about freshness. For e-commerce players, setting efficient distribution networks poses challenges: bulky furniture requires centralized distribution, while groceries call for localized supply chains.

Purchase patterns across product categories



Source: EY survey

E-commerce is uniquely positioned to track the buying journey of an online consumer in devising a consumer-specific strategy.

How e-commerce players can fine tune offerings

Target individual consumer	Develop category-specific offerings
<ul style="list-style-type: none"> Use analytics to track an individual consumer's buying journey Leverage analytics and improved algorithms to personalize, cross-sell, up-sell and increase consumers' share of wallet Offer consumer-specific discounts and prices (e.g., introductory offers, additional discounts for repeat orders, special offers on birthdays) Offer consumer-specific product suggestions based on buying history and similar buyers' selections 	<ul style="list-style-type: none"> Offer hybrid pricing strategies (quantity-based, bundled, limited-time pricing for smaller ticket-priced categories, and seasonal pricing for larger ticket-priced categories) Offer discounts based on frequency of purchases from a category Determine strategy for offering infrequently purchased categories

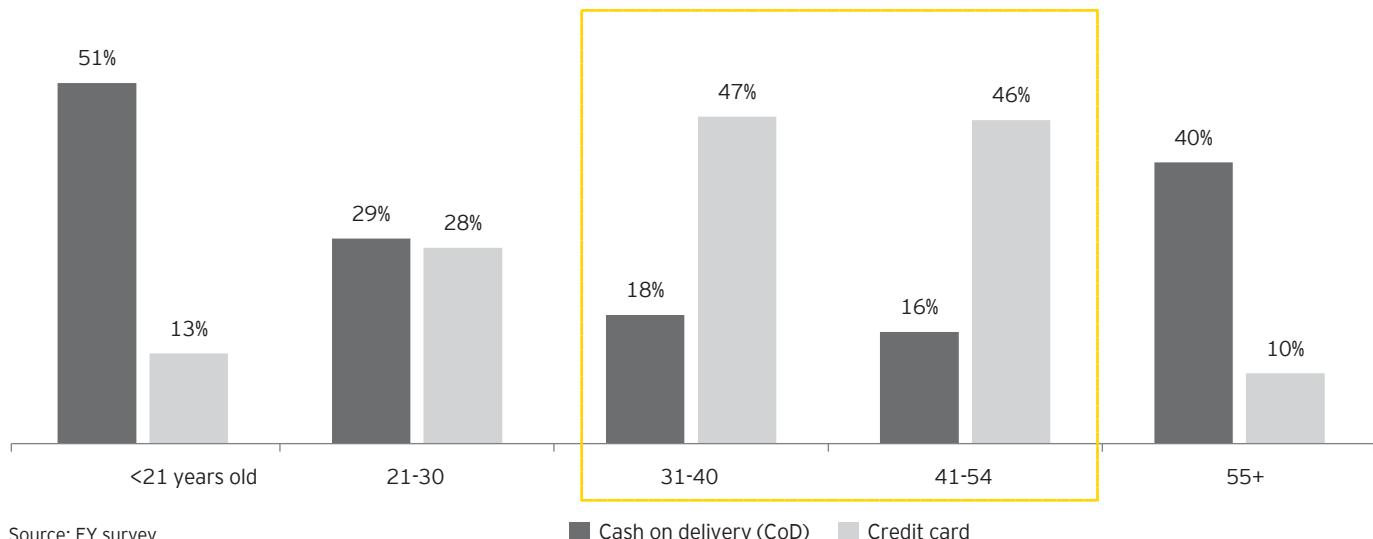
Ideal buying experiences and strong, sustained customer loyalty can result from big data and advanced analytics, which help companies understand consumer needs, track buying journeys and offer improved suggestions, discounts and pricing accordingly.



5. Cash on delivery – a necessary evil; cashless transactions crucial for sustainable growth

Another crucial factor for consumers is multiple payment options. Cash on delivery (CoD) has been instrumental in making online shopping popular in India. CoD transactions account for around 60% of overall sales in the Indian e-commerce market, much higher than in China (40%), Indonesia (28%), Brazil (24%) and the US (2%).¹³ As the market evolves, more shoppers will move toward cashless transactions. For now, typical shoppers have started their online journey by purchasing a low priced product and paying via cash on delivery, just to try out the process. As shoppers' journeys evolve and they earn more income, they spend more and gradually progress toward using credit/debit cards or net banking.

Middle-aged shoppers prefer cashless transactions; CoD attracts younger and older consumers



Source: EY survey

■ Cash on delivery (CoD) ■ Credit card

Middle-aged shoppers (31-54 years old) preferred a cashless transaction (credit/debit cards or net banking). They are more financially independent and comfortable with cashless transactions. CoD is popular among shoppers younger shoppers (under 30), who typically do not own credit cards, and those older than 55, who are hesitant because of cybersecurity concerns.

71% of regular online shoppers prefer cashless transactions

64% of online shoppers have concerns about sharing credit card information

51% of consumers younger than 21 years old prefer CoD

Source: EY survey

¹³ "Omni-channel option in India," *The retailer: EY's publication in consumer products and retail sector*, [http://www.ey.com/Publication/vwLUAssets/ey-publication-cover-the-retailer-october-december-2014/\\$FILE/ey-the-retailer-october-december-2014.pdf](http://www.ey.com/Publication/vwLUAssets/ey-publication-cover-the-retailer-october-december-2014/$FILE/ey-the-retailer-october-december-2014.pdf), Ernst & Young LLP, 2014. "Snapdeal to cut cash-on-delivery by 20% in 6 months," *Business Standard website*, http://www.business-standard.com/article/companies/snapdeal-to-cut-cash-on-delivery-by-20-in-6-months-115042800902_1.html, accessed 30 November 2015.

CoD has become a necessary evil. While it is essential for sustainable and profitable growth, it poses challenges: additional working capital and logistical costs (related to returns), and risks of cash pilferage. As more buyers start shopping online frequently, e-commerce players will have to encourage them to move to cashless transactions. A leading player that acquired a recharge website aims to reduce the share of CoD transactions by 20%.¹⁴

How to encourage buyers to move to cashless transactions

Provide incentives for cashless transactions	Address cybersecurity concerns	Encourage use of mobile/online wallets
<p>Provide specific deals, coupons, discounts, money back for cashless transactions</p> <p>Provide offers on categories purchased mainly by consumers <30 and 55+ years old</p> <p>Popularize Mswipe (i.e., card on delivery) to reduce CoD reliance</p>	<p>Enhance cybersecurity measures</p> <p>Communicate effectively to address older buyers' concerns</p>	<p>Offer incentives to use mobile/online wallets</p> <p>Partner with digital wallets</p>

Incentivizing buyers to move toward cashless transactions will likely help companies reduce cost burdens and improve profitability over the long run.



¹⁴ "Snapdeal to cut cash-on-delivery by 20% in 6 months," *Business Standard website*, http://www.business-standard.com/article/companies/snapdeal-to-cut-cash-on-delivery-by-20-in-6-months-115042800902_1.html, accessed 30 November 2015.



6. Targeted medium is the only way for effective communication

Just as buying behaviors vary by segment, e-tailers must customize communication and promotion strategies to fit targeted consumers' patterns. An advertisement's impact depends in part on the channel through which it is conveyed.

In India, TV beats social media as the most influential medium overall because of its reach. India's top 50 e-commerce players spent close to INR12 billion from June 2015 to September 2015. E-commerce start-ups tend to spend more on TV advertising than their established counterparts.¹⁵

Television reaches masses; social media taps the youth

Most influential mode of communication or promotion in order of preference

- | | | |
|---|--------------------------|---|
| 1 | Television | <ul style="list-style-type: none">▶ 60% respondents said that TV ads influence buying decisions▶ TV is the most influential medium to reach across sections of the masses▶ Older people tend to watch more television |
| 2 | Family and friends | <ul style="list-style-type: none">▶ Women and consumers older than 40 years old tend to be more influenced by word of mouth |
| 3 | Promotions and offers | <ul style="list-style-type: none">▶ These are particularly popular among consumers 30 years old and younger |
| 4 | Social media | <ul style="list-style-type: none">▶ Most influential for 21-year-olds and younger and is used to target 21- to 40-year-olds. |
| 5 | Other (emails, SMS etc.) | <ul style="list-style-type: none">▶ Emails, SMS and digital advertising, can be used to target niche segments |

74% of consumers younger than 21 years old said social media influences buying decisions

64% of women said that family and friends influence buying decisions

51% of buyers 55 and older said email and SMS offers influence buying decisions

Source: EY survey

¹⁵ "Top e-commerce start-ups spend Rs1,200 crore on TV ads in Sep quarter," Mint website, <http://www.livemint.com/Companies/Fd0HHkYFqQRNcqMLVeMtK/Top-e-commerce-startups-spend-Rs1200-crore-on-TV-ads-in-Se.html>, accessed 23 November 2015.

Different modes of communication influence different consumer segments. Women generally post pictures, opinions and comparisons of purchases via social media. To address this, a fashion e-tailer targeting women has integrated shopping with social media.¹⁶

E-tailers are also using local dialects to target non-English-speakers in small towns. A leading e-commerce player is offering product descriptions on its site in regional languages (e.g., Kannada, Telugu, Marathi and Bengali), as well as Hindi and Tamil.¹⁷

How to communicate effectively with consumers

Reach the masses	Match channel to types of consumer and product	Influence both impulsive and deliberate buying
<p>Use television to reach masses across the country</p> <p>Use local/regional languages to influence non-English-speakers</p> <p>E-commerce start-ups can boost advertising</p> <p>Use newspaper advertising, a cost-effective way to reach masses</p>	<p>Family and friends: ideal for women and older shoppers; sales of baby products, FMCGs, groceries, furniture and appliances</p> <p>Promotions and offers: younger consumers; electronics, computer goods</p> <p>Social media: 21- to 40-year olds; apparel, jewelry, sporting goods</p>	<p>Use social media to trigger impulsive buying among younger consumers</p> <p>Use television to have a long-lasting impact on a buyer's mind and influence deliberate buying</p>

To achieve the strongest impact, companies must vary their promotional mix by their targeted segments' habits. Further targeting in local languages can also help drive growth.



¹⁶ "E-commerce companies trying to correct lack of goods of female interest," *Economic Times* website, <http://retail.economictimes.indiatimes.com/news/e-commerce/e-tailing/e-commerce-companies-trying-to-correct-lack-of-goods-of-female-interest/49787975>, accessed 30 November 2015.

¹⁷ "E-com firms turn to local languages for better sales," *Business Standard* website, http://www.business-standard.com/article/companies/e-com-firms-turn-to-local-languages-for-better-sales-115033100575_1.html, accessed 30 November 2015



7.

It's not about discounting alone – quality and efficiency matter equally

India's still-young e-commerce market has grown in part because of marketing strategies such as heavy discounts and free home delivery. However, this has come at the expense of profitability for many e-tailers.

96% of female consumers <21 years old only buy when discounts are offered

86% regularly look for discounts

55% do not want to pay for home delivery

Source: EY survey

The discount-based model is effective only in the early stages to attract consumers. As competition intensifies, e-commerce players will need to gradually reduce discounts and provide new value by addressing consumers' needs.

How e-commerce players can thrive over the long run

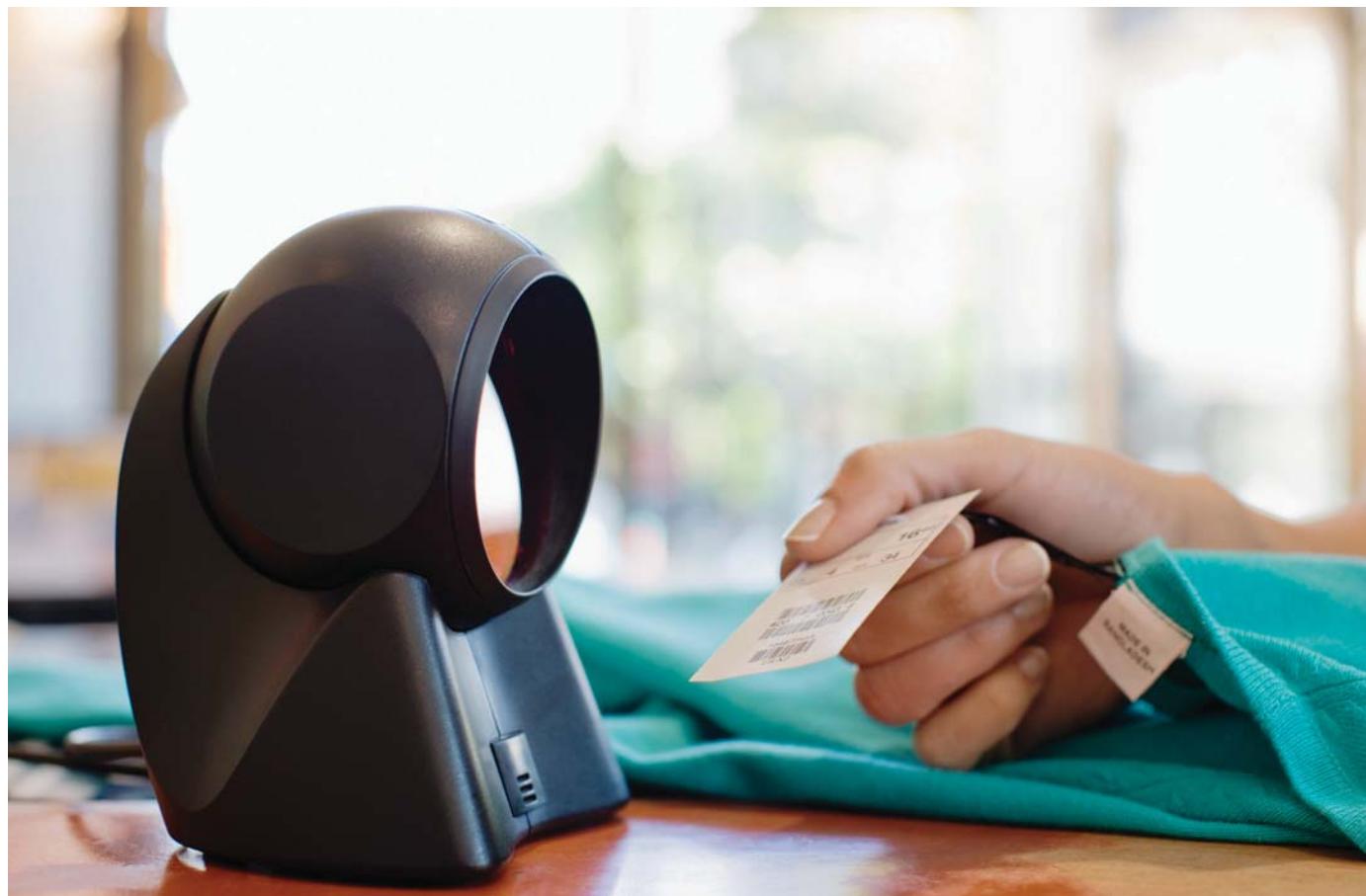
Reduce discounts gradually	Charge for fast delivery	Address operational issues
<p>Offer targeted discounts to consumers <30 years old and women; on apparel, jewelry, electronics, FMCGs, food/groceries</p> <p>Develop hybrid strategies e.g., introductory pricing, peak season pricing</p> <p>Offer product bundles, encouraging higher consumption with lower operational costs</p>	<p>Crucial in commoditized categories (e.g., FMCG and groceries) in which local, unorganized shops pose stiff price competition and deliver without additional costs</p> <p>Players can charge for fast delivery (e.g., Amazon Prime, one-year membership)</p>	<p>Size and color determination: use analytics to bridge the gap between store and online</p> <p>Old/stale products: most affected categories – apparels and food/groceries; refresh stock regularly</p> <p>Delivery time: exceed consumer expectations, offer delivery timeslots as per consumer's preference, offer pickup option in case of missed delivery</p> <p>Return process: offer hassle-free returns, use analytics to address common reasons for returns</p>

Players must also develop a more sustainable, profitable business model in a space where a set strategy hasn't yet been defined. One leading e-commerce player is gradually shifting from an inventory-led model to a demand-led model and from commission-based to advertising-based.¹⁸

Amid the constantly evolving landscape, India's new digital shoppers also use the internet to research products, compare prices, locate stores, and find discounts and coupons. They prefer the ROBO (research offline, buy online) practice of seeing

and feeling a product at a physical store, then buying it online at the lowest price.

With so many options, these consumers expect excellent customer service. E-tailers must carefully address customers' needs while delivering on the inherent expectations of timely and free delivery, inexpensive products and discounts.¹⁹ Agility is another must, as trends change rapidly in this hyper-growth, hyper-competitive market.



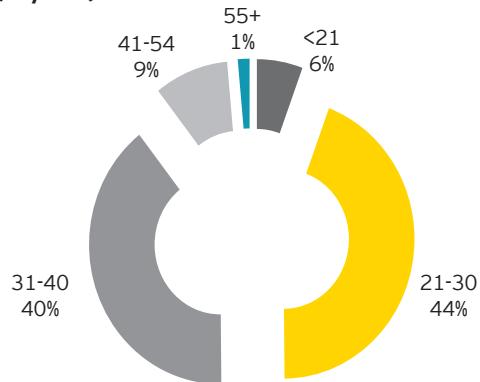
¹⁸ "Flipkart has reported Rs 2,000 crore loss. Other e-commerce sites have similar stories. Is the bubble ready to burst?," *Catch news website*, www.catchnews.com/tech-news/flipkart-s-running-into-a-loss-and-so-are-other-similar-sites-like-amazon-india-snapdeal-and-jabong-is-the-e-commerce-bubble-ready-to-explode-1449215065.html, accessed 5 December 2015.

¹⁹ "Omni-channel option in India," *The retailer: EY's publication in consumer products and retail sector*, [http://www.ey.com/Publication/vwLUAssets/ey-publication-cover-the-retailer-october-december-2014/\\$FILE/ey-the-retailer-october-december-2014.pdf](http://www.ey.com/Publication/vwLUAssets/ey-publication-cover-the-retailer-october-december-2014/$FILE/ey-the-retailer-october-december-2014.pdf), Ernst & Young LLP, 2014.

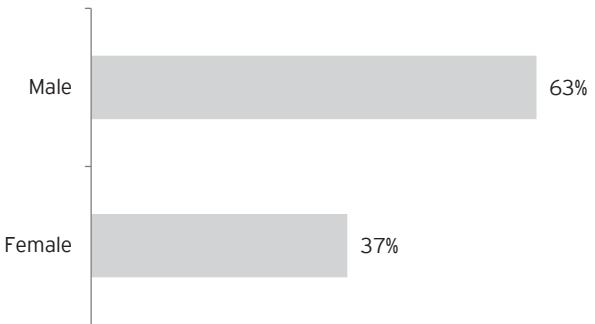
About the survey

EY surveyed 690 online shoppers across six cities in India to understand their buying behavior, challenges, factors influencing their buying decisions, etc. The respondents' demographics are shown below. The survey was conducted online.

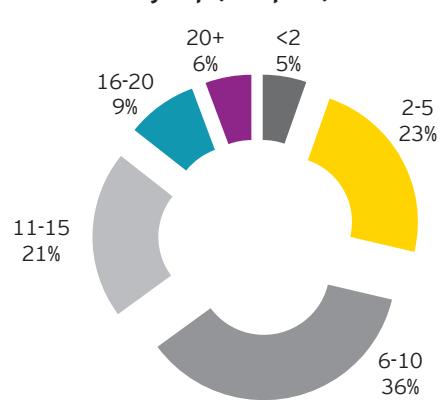
Age group (in years)



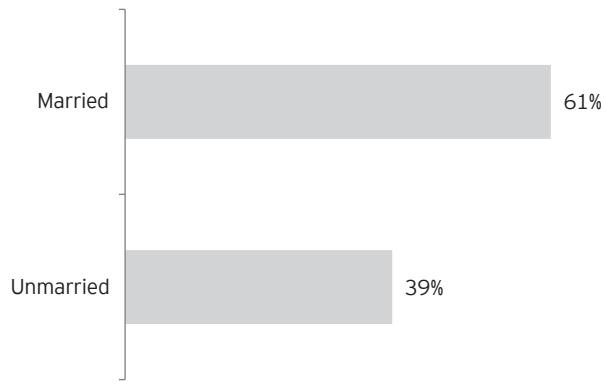
Gender



Annual household income group (in rupees)



Marital status



Number of survey respondents: 690

Source: EY survey

Research team contacts

Vivette Dcruz

Senior Manager
Retail & Consumer Products
EY India
Email: vivette.dcruz@in.ey.com

Chinmay Ojha

Associate Director
Retail & Consumer Products – Research & Insights
EY India
Email: chinmay.ojha@in.ey.com

Sudhanshu Pradhan

Senior Consultant
Retail & Consumer Products
EY India
Email: sudhanshu.pradhan@in.ey.com

Nivedita Ukidwe

Assistant Manager
Retail & Consumer Products – Research & Insights
EY India
Email: nivedita.ukidwe@in.ey.com

Our offices

Ahmedabad

2nd floor, Shivalik Ishaan
Near. C.N Vidhyalaya
Ambawadi
Ahmedabad-380015
Tel: +91 79 6608 3800
Fax: +91 79 6608 3900

Bengaluru

12th & 13th floor
"U B City" Canberra Block
No. 24, Vittal Mallya Road
Bengaluru-560 001
Tel: +91 80 4027 5000
Tel: +91 80 6727 5000
Fax: +91 80 2210 6000 (12th floor)
Fax: +91 80 2224 0695 (13th floor)

1st Floor, Prestige Emerald
No. 4, Madras Bank Road
Lavelle Road Junction
Bengaluru-560 001 India
Tel: +91 80 6727 5000
Fax: +91 80 2222 4112

Chandigarh

1st Floor
SCO: 166-167
Sector 9-C, Madhya Marg
Chandigarh-160 009
Tel: +91 172 671 7800
Fax: +91 172 671 7888

Chennai

Tidel Park
6th & 7th Floor
A Block (Module 601,701-702)
No. 4, Rajiv Gandhi Salai
Taramani
Chennai-600113
Tel: +91 44 6654 8100
Fax: +91 44 2254 0120

Delhi NCR

Golf View Corporate
Tower - B
Sector 42, Sector Road
Gurgaon-122 002
Tel: +91 124 464 4000
Fax: +91 124 464 4050

3rd & 6th Floor, Worldmark-1
IGI Airport Hospitality District
Aerocity New Delhi-110037, India
Tel: +91 11 6671 8000
Fax: +91 11 6671 9999

4th & 5th Floor, Plot No 2B
Tower 2, Sector 126
NOIDA-201 304
Gautam Budh Nagar, U.P. India
Tel: +91 120 671 7000
Fax: +91 120 671 7171

Hyderabad

Oval Office
18, iLabs Centre
Hitech City, Madhapur
Hyderabad - 500081
Tel: +91 40 6736 2000
Fax: +91 40 6736 2200

Kochi

9th Floor "ABAD Nucleus"
NH-49, Maradu PO
Kochi - 682 304
Tel: +91 484 304 4000
Fax: +91 484 270 5393

Kolkata

22, Camac Street
3rd Floor, Block C
Kolkata-700 016
Tel: +91 33 6615 3400
Fax: +91 33 6615 3750

Mumbai

14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (west)
Mumbai-400 028, India
Tel: +91 22 6192 0000
Fax: +91 22 6192 1000

5th Floor Block B-2
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai-400 063, India
Tel: +91 22 6192 0000
Fax: +91 22 6192 3000

Pune

C-401, 4th floor
Panchshil Tech Park
Yerwada (Near Don Bosco School)
Pune-411 006
Tel: +91 20 6603 6000
Fax: +91 20 6601 5900



About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2016 EYM Limited.

Published in India.

All Rights Reserved.

EYG no. 03336-164Gbl

BSC no. 1609-2068225

ED None

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.