



*Build together
Win together*



Ecommerce to Profitable Commerce

August 8, 2017

Disclaimer

- This material has been prepared by Praxis Global Alliance, which is the trade name of Praxian Global Private Limited (“Praxis”) with the intent to showcase our capability and initiate a business relationship with the recipient, i.e. you. This is solely for the consideration of the recipient and is not to be disclosed in whole or in part to any third party without Praxis’s explicit prior written permission.
- The frameworks, approaches, tools, analysis and opinions are solely Praxis’s intellectual property and are a combination of collection of best data we could find publicly and Praxis team’s own experiences and observations. If you have any reservations about this, please delete this document immediately.
- We make no representation or warranty, expressed or implied, that such information is accurate or complete, and nothing contained in here can be construed as definitive predictions or forecasts. Before reading further, the Recipient expressly agrees that this might not address any and all risks and challenges facing any entity known to you, its business and the markets within which it operates, nor all possible market conditions.
- No responsibility or liability whatsoever is accepted by any person including Praxis or its Business partners and affiliates and their respective officers, employees or agents for any errors or omissions in this document.
- This document is not complete without an accompanying oral discussion and presentation by Praxis and we are not obligated to do so. Praxis does not have any duty to update or supplement any information in this document.
- If you have questions or want to discuss, we encourage you to mail us on the contacts listed at the end of this document and solely on our discretion, we will try to address your queries on a best effort basis.

Table of Contents

S. No	Content	Page No.
1.	Glossary	4
2.	E-commerce highlights FY17	5
2.	Executive summary	6
3.	Profitability Scenario	7
4.	E-commerce market size from FY14 to FY17	8
5.	E-commerce market segmentation for FY17 by players, categories, market model, transaction type, geography and customer types.	9
6.	E-commerce growth by categories and players from FY15 to FY17	10
7.	E-commerce market mix by players and categories for FY17	11
8.	E-commerce market profitability cascade FY17	12
9.	Marketplace profitability cascade FY17	13
10.	Inventory profitability cascade FY17	14
11.	CM Cascade by categories FY17	15
12.	Indian E-commerce profitability summary by categories	16
13.	E-commerce profitability by players	17
14.	E-commerce business economics by players	18
15.	E-commerce contribution margin of players across categories	19
18.	E-commerce Performance Key Metrics by Categories	20
19	E-commerce Performance Key Metrics by players	21
20	Sources of input	22

Glossary

• Cr	Crore = Ten Million
• GMV	Gross Merchandise Value
• NMV	Net Merchandise Value
• COD	Cash on Delivery
• Other Players	Jabong, eBay, Healthkart, Homeshop18, Futurebazar etc.
• Other Categories	Includes Books, Beauty and Health Toys, Baby Products, Sports, Automotive and Industry
• Metro Cities	Population more than 1million. These are
• Tier1	Population between 100,000 and 1 million
• CAGR	Compound Annual Growth Rate
• Northeast	Includes the seven sister states Arunachal Pradesh, Assam, Meghalaya, Manipur, Mizoram, Nagaland and Tripura.
• COGS	Cost of Goods Sold
• CM	Contribution margin
• CAC	Customer Acquisition Cost
• Other Costs	General and administrative cost and other fixed costs
• Myntra	Myntra includes both Myntra and Jabong
• AOV	Average Order Value
• SCP	Total cost of Shipping, Collection (payments) and Packaging
• FY	Indian Financial Year starting Apr 1 of a year and ending on 31 st March of the next year
• INR or Rs	Indian Rupees

E-commerce: Highlights for FY17



GMV: \$17B (INR 110 K Cr)



Growth: 3 Year CAGR ~45%



Market leader:
Flipkart (INR 37 K Cr, 34% share)



Average Order Value (AOV): INR ~1,800



Leading category:
Mobiles (INR 50K Cr, 45% MS)



Volume (FY17): ~600M Orders



Customer Base:
~50% repeat buyers



Annual Burn: (-)
INR ~14.5K Cr (-18% CM3)



Customer Acquisition Spend: INR 9.5 K Cr



Average discounting (as % GMV): ~20%

Key market trends

Overall E-commerce market is large and will continue to grow coming out of the plateau in FY17

- The total E-commerce GMV is estimated to be INR 109,667 Cr for FY17 with Flipkart leading the market with 35% market share closely followed by Amazon with 29% market share for FY17.
- The growth plateaued in FY17 driven by several extrinsic factors like re-monetization in Nov-Dec 2016 and industry-wide reduction in discounts.

Competition: Market is consolidating with top leaders breaking out from the pack

- Flipkart is the market leader in mobile category with 40% market share whereas Amazon leads the electronics and peripherals market with ~40% of market share in FY17. Overall, Amazon is closing the gap with time.
- Flipkart leads Apparel with 23% market share while Pepperfry leads Furniture with ~30% market share.
- Food and Grocery is still evolving and is led by BigBasket with ~50% market share in FY17.
- Large part of the sales are under with own-inventory: ~60% of Amazon NMV, ~75% of Flipkart NMV, ~20% of Snapdeal NMV and 95% of BigBasket NMV.
- More than half the orders used to be on COD but since the recent re-monetization in India, prepaid orders now account for ~60% of the total NMV.

Category mix: Category dynamics did not change dramatically in FY17

- Mobile was the largest category with 45% of the market share followed by Apparel with 21% and Electronics and Peripherals with 18% category share.
- Apparels have the highest discount rate of -35% of GMV in FY17 but the pre-discount margins are also in the 40-45% range there.
- Average order value for different categories are: INR 8,000 for Mobile, INR 2,000 for Electronics and Peripherals, INR 800 for Apparels, INR 5,000 for Furniture and INR 1,000 for Groceries in FY17.

Profitability: E-tailing in India is not profitable today. Some examples of sub-scale apparel profitable plays exist.

- At the contribution margin level (CM2), the industry is marginally profitable @2% of NMV but overall, the CM3 margins are in the (-)10-60% range of NMV
- Industry is losing INR 15K Cr annually because of disproportionately high customer acquisition (and retention) cost of around INR 9,500 Cr in FY17. Also, the players are trying to bring the next wave of shoppers online which will continue to need capital.

Route to Profitability: E-tailing can become profitable in India but it needs several stars to align

- We believe the Ecommerce market can turn profitable in the next 5 years if the following were to come true:
 1. Market size increases to approximately \$35-40B.
 2. Return percentage does not increase beyond 10% of the GMV even as the e-tailing penetration increase.
 3. Discount percentage reduces to 15% of the total GMV (from current ~20%)
 4. Growth in inventory-led sales by 10%
 5. Increase in sales margin (driven by private label or growth in take rate by marketplaces)
 6. G&A costs are rationalized

Profitability scenarios: We believe there are three scenarios in which E-commerce market can turn profitable in next 5 years

High scale market growth with low cost structure

1. Market size increases to ~\$50B
 - Increased penetration in T1/T2
 - Increased AOV
 - Increased repeat purchase
2. Return percentage decreases to below 10% of the GMV
 - Categories like apparel develop more evolved interfaces/consumer behavior and reduce returns
3. Discount percentage reduces to 15% or below of the total GMV
 - Stronger consumer habit to shop online
 - Reduced discounting by ecommerce players as market gets more rational
4. Decrease in marketplace sale by 10% (as % of overall)
 - Players re-allocate capital and shift to inventory (private label, etc.)
5. Increase in gross margin
 - With increase in sales, players get access to better procurement deals
 - Marketplace commissions go up a bit as Ecommerce grows
6. Reduction in G&A costs

Slow market but with concentrated base of repeat customers

1. Market size increases to ~\$25bn
 - Increased AOV
 - Increased repeat purchase
 - Not much capital pumped into acquiring the next wave of shoppers
2. Mature shoppers allow Return percentages to reduce to <5% of the GMV
 - Players dis-incentivize returns through partial refunds
 - Shoppers mature in their buying behavior
3. Discount percentage reduces to 10% or below of the total GMV
 - Players stock more premium products, offer better service delivery
4. Decrease in marketplace sale by 30-40% (as % of overall)
 - Significant increase in inventory-led sales as incumbent retailers promote own e-tailing plays
 - Players amass more capital and buy inventory as portfolio becomes more premium
5. Reduced CAC as growth coming from existing customers

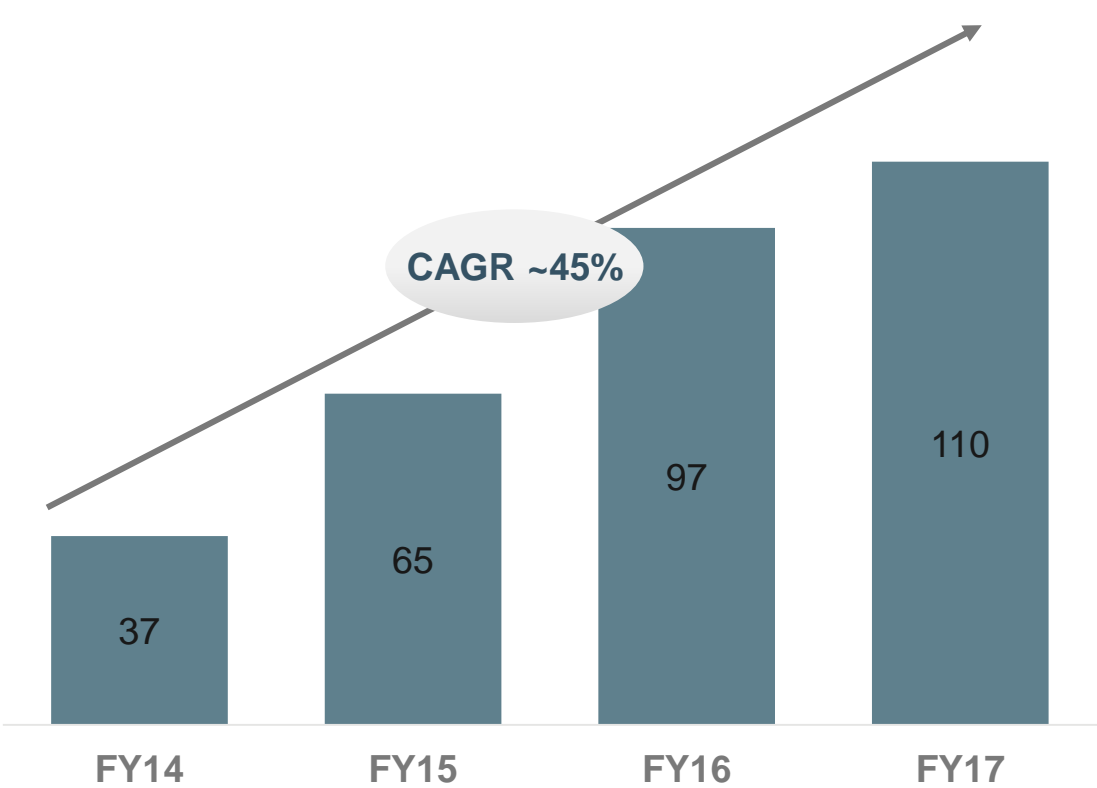
Moderate growth market with competitive rationality

1. Market size increases to ~\$35bn
 - Moderate growth in T1/2 penetration
 - Increased AOV
 - Increased repeat purchase
2. Return percentage reduced to <5% of the GMV
 - Categories like apparel develop more evolved interfaces and reduce returns
3. Discount percentage reduces to 10% or below of the total GMV
 - Players offer better service delivery and RE prices rise for offline retailers
4. E-commerce player proactively charge for shipping for smaller orders, retention for returns, etc
5. Decrease in marketplace sale by 20% (as % of overall)
6. Significant reduction in SCP and CAC costs to improve profitability levels
 - SCP – Increased scale, use of technology, new packaging materials etc.
 - CAC – Reduced and more efficient spend

E-commerce market size from FY14-17: INR 110K Cr market in FY17 but growth plateaued in the last year

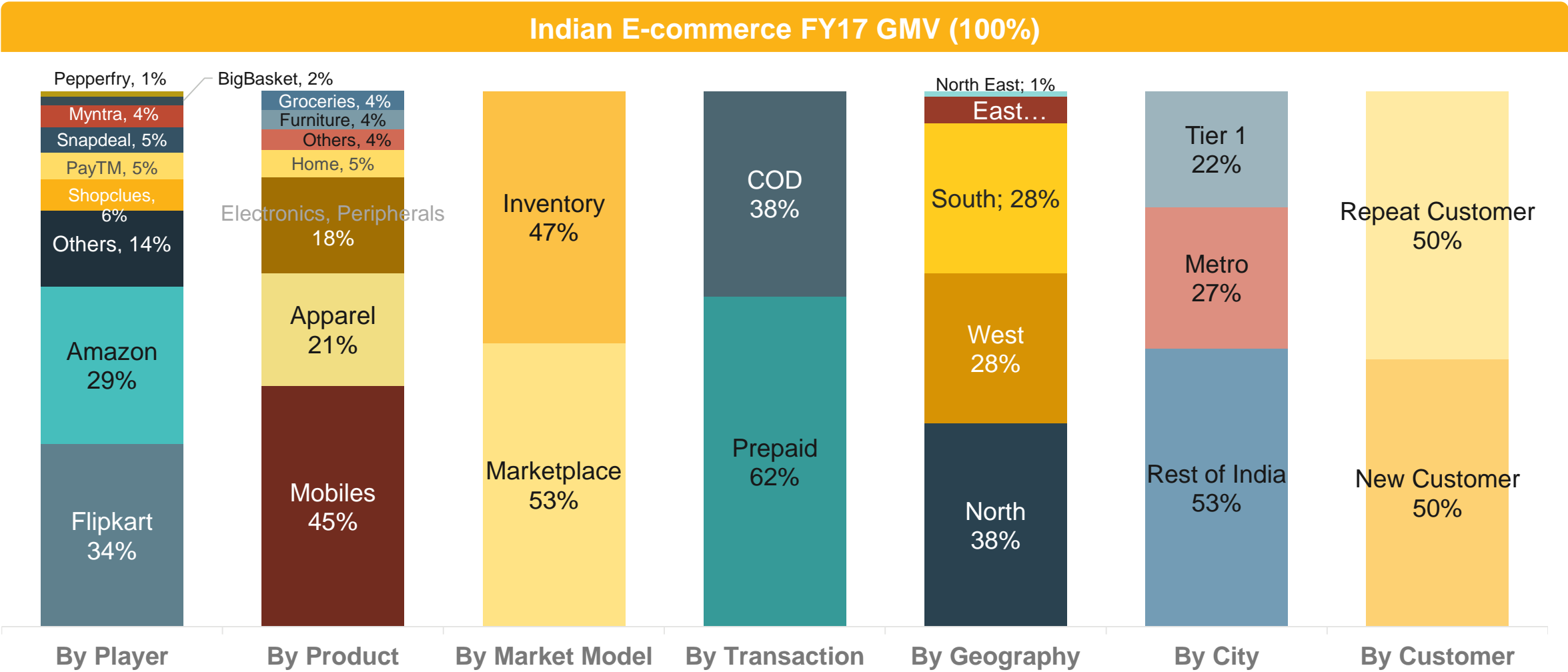
Market Growth

GMV, INR Cr ('000)



Market variable	FY14	FY17	CAGR, FY14-17
Internet Penetration % of total population	21%	34.8%	18%
AOV INR	1,900	2,300	7%
No. of E-commerce users Millions	35	69	25%

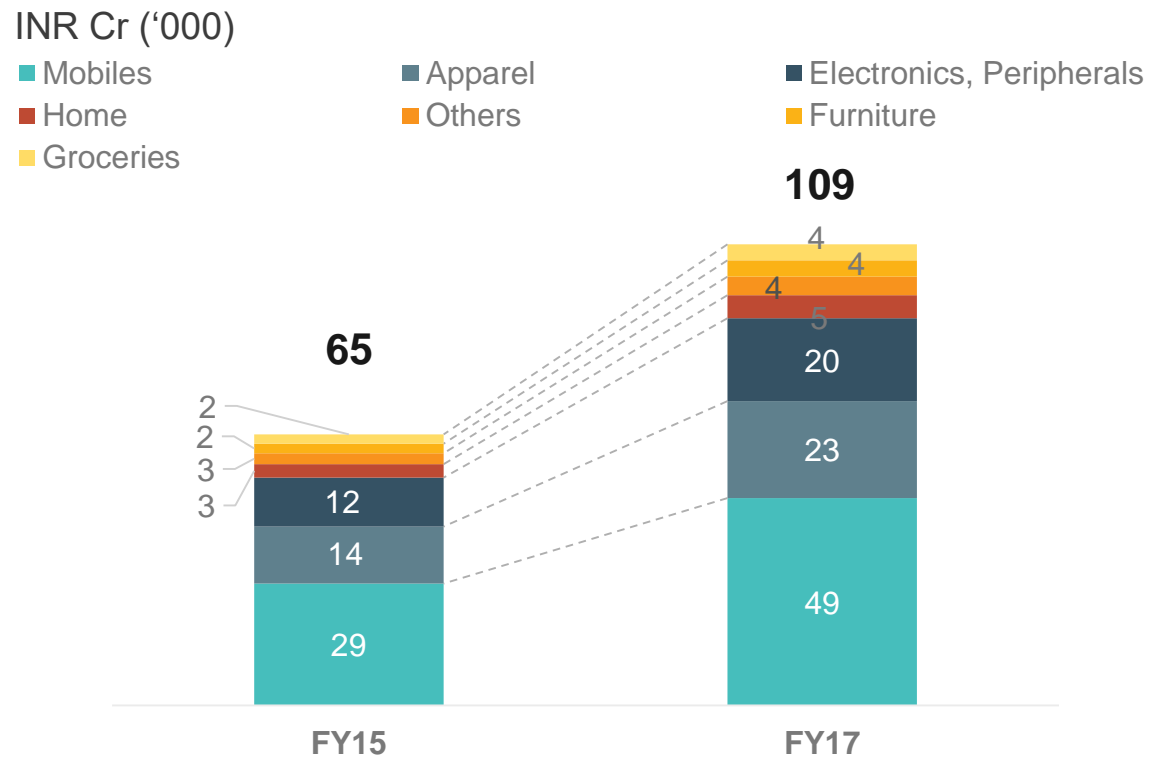
E-commerce market segmented by players, categories, models, transaction type, geo & customer types (FY17)



Notes: Other Players are Jabong, eBay, Healthkart, Homeshop18, Futurebazar etc. ; Other Categories include Books, Beauty and Health Toys, Baby Products, Sports, Automotive and Industry ; Metro Cities- Population > 1million; Tier1- 1million > Population >100k; GMV- Gross Merchandise Value; COD: Cash on delivery

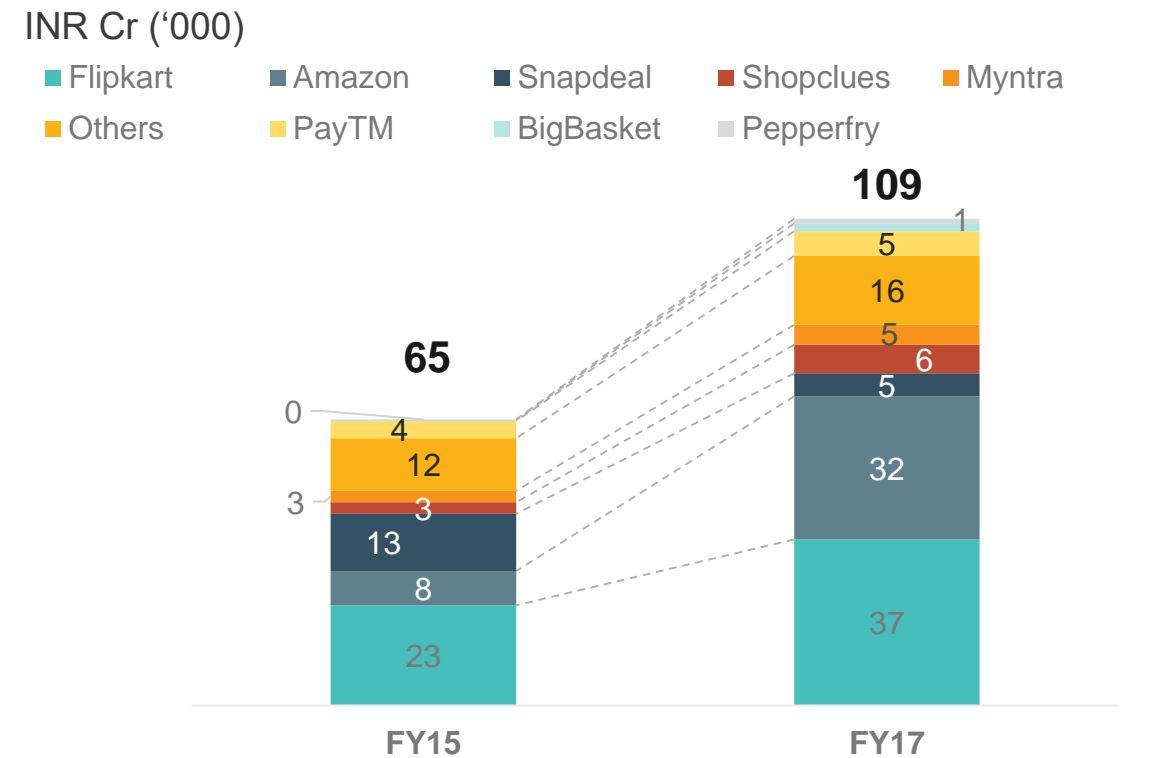
Growth by Categories and Players

GMV Growth by categories from FY15 to FY17



CAGR						
Mobiles	Apparel	Electronics, Peripherals	Home	Others	Furniture	Groceries
19%	30%	29%	72%	33%	24%	39%

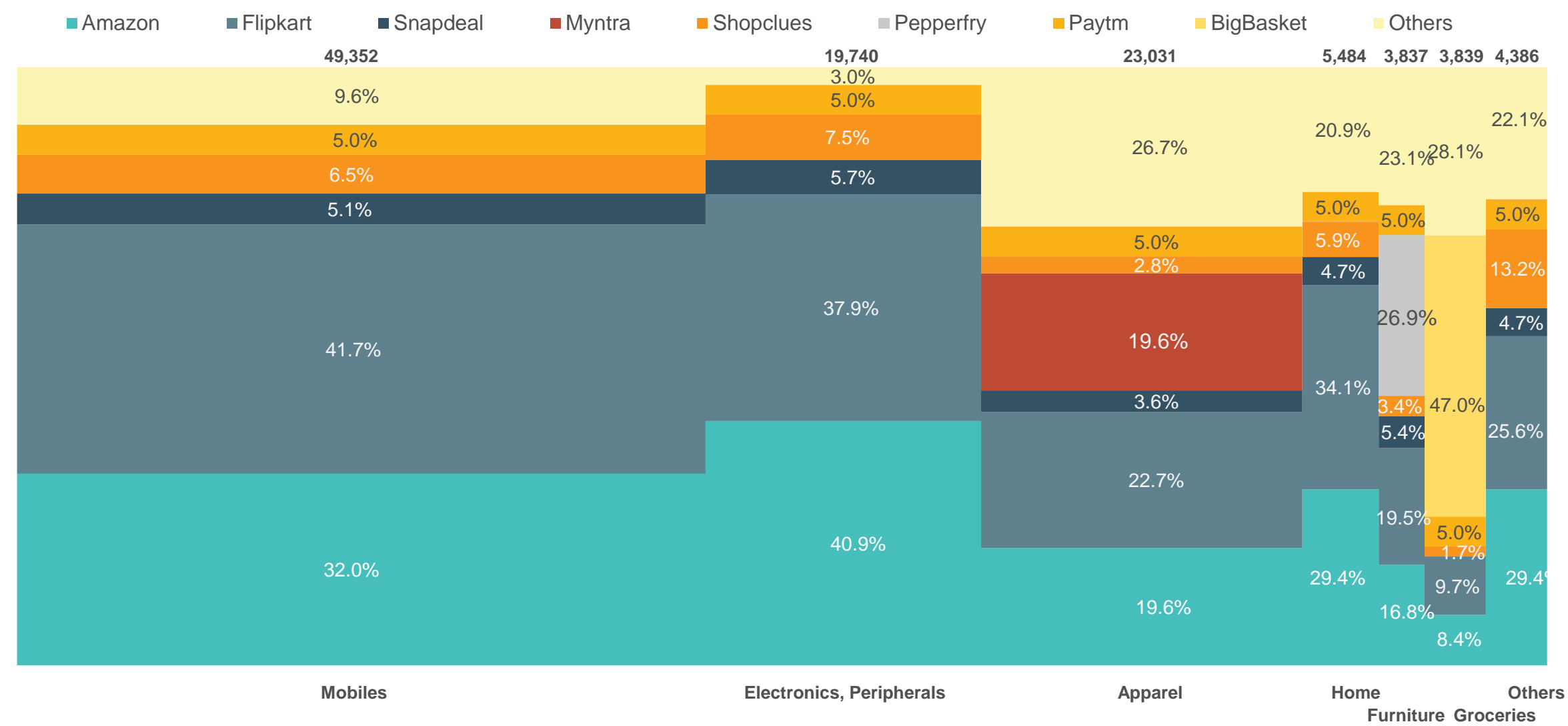
GMV Growth by players from FY15 to FY17



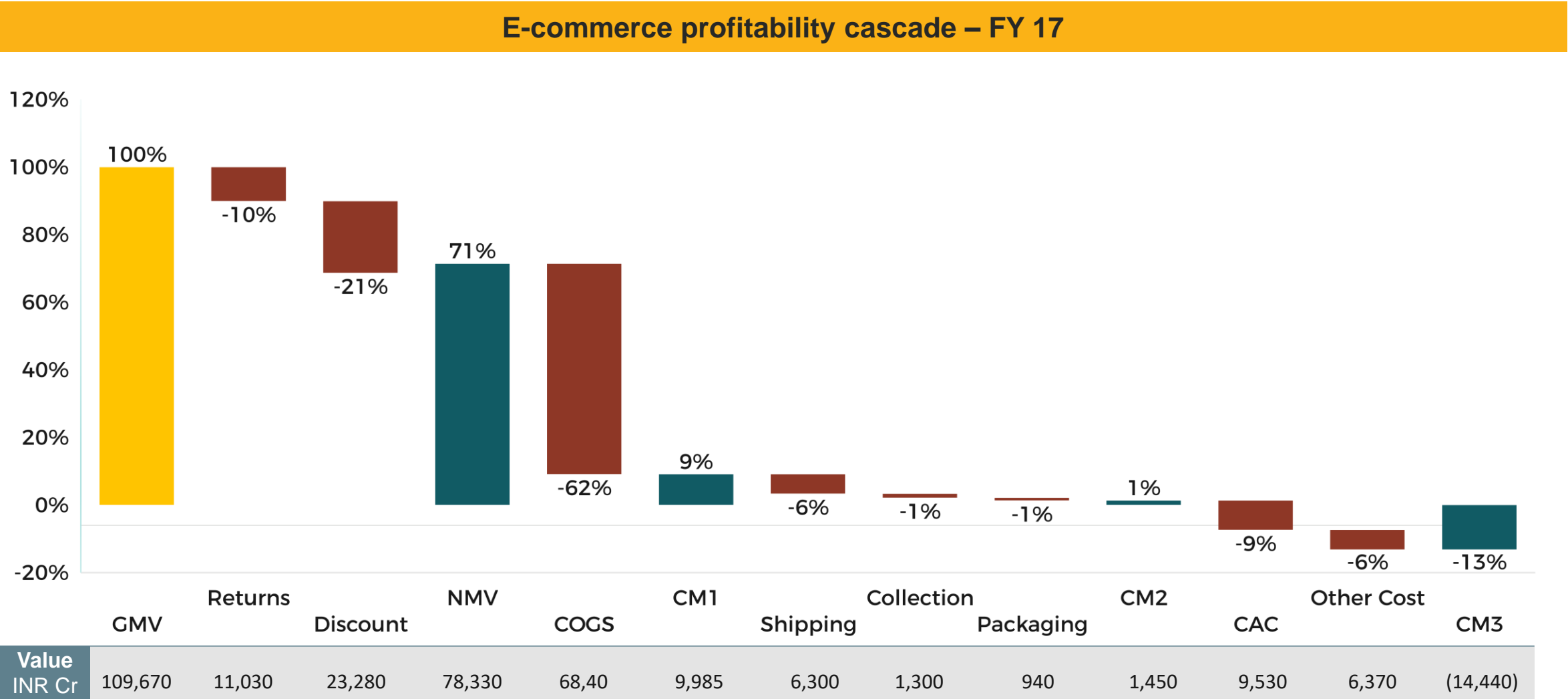
CAGR								
Flipkart	Amazon	Snapdeal	Shopclues	Myntra	Others	Paytm	BigBasket	Pepperfry
29%	104%	-37%	58%	32%	15%	19%	206%	124%

Notes: Other Players are Jabong, eBay, Healthkart, Homeshop18, Futurebazar etc. ; Other Categories include Books, Beauty and Health Toys, Baby Products, Sports, Automotive and Industry ; GMV- Gross Merchandise Value

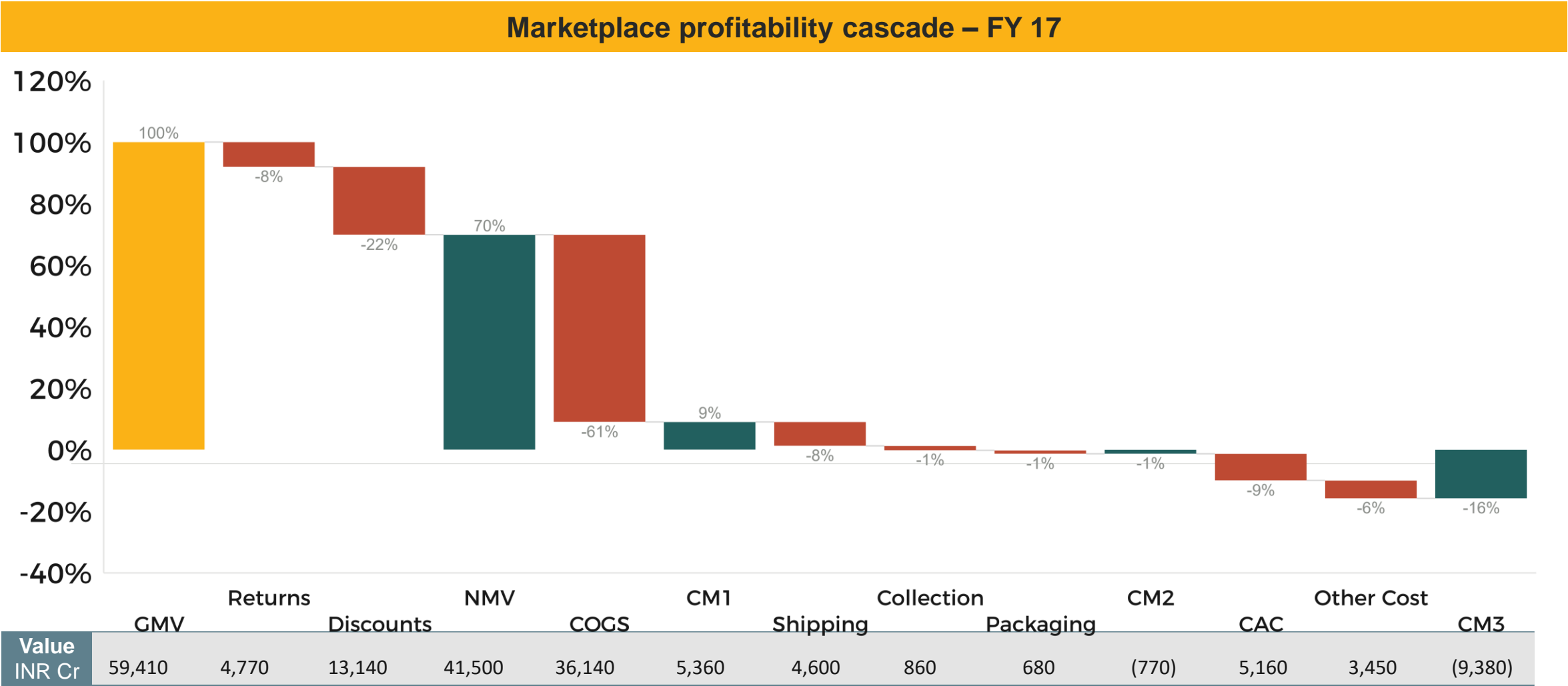
E-commerce market category mix – FY17



E-commerce market profitability cascade

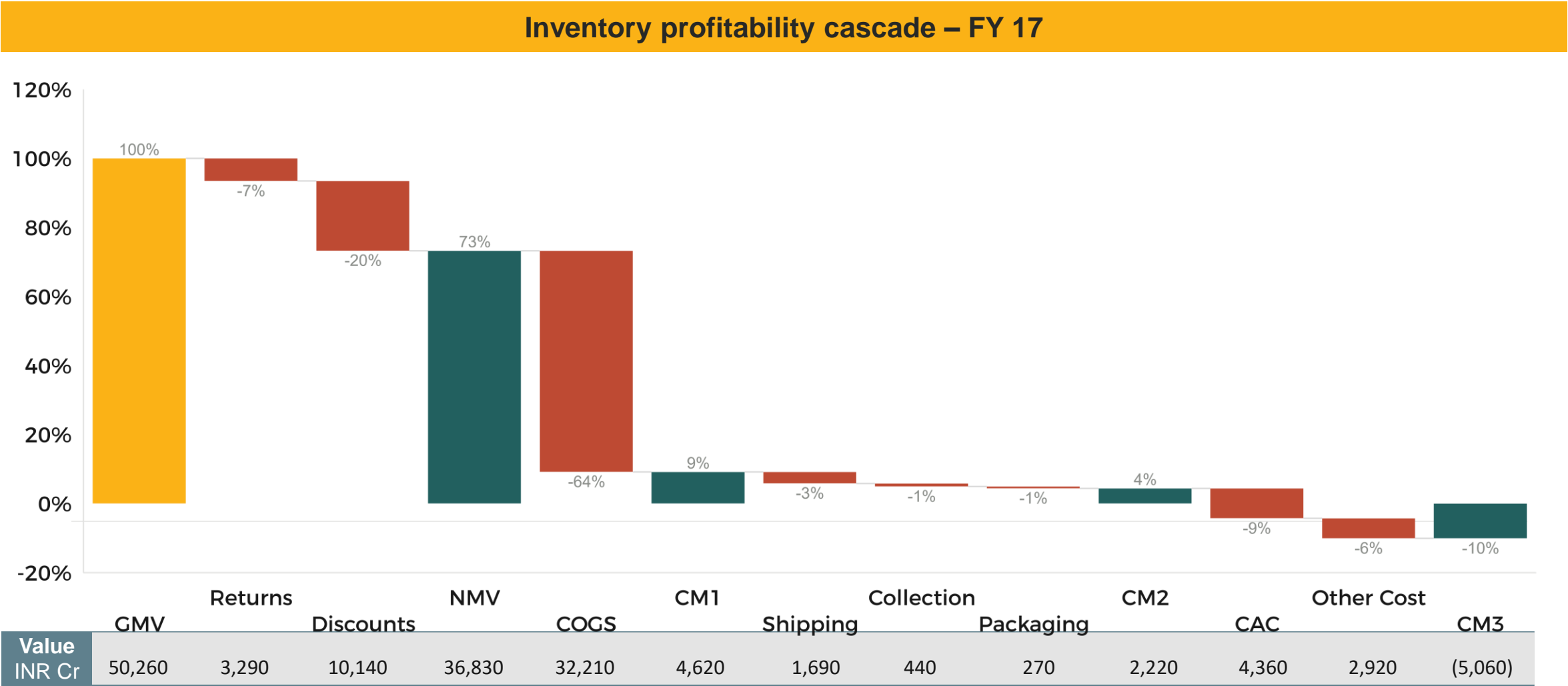


Profitability cascade in the marketplace model



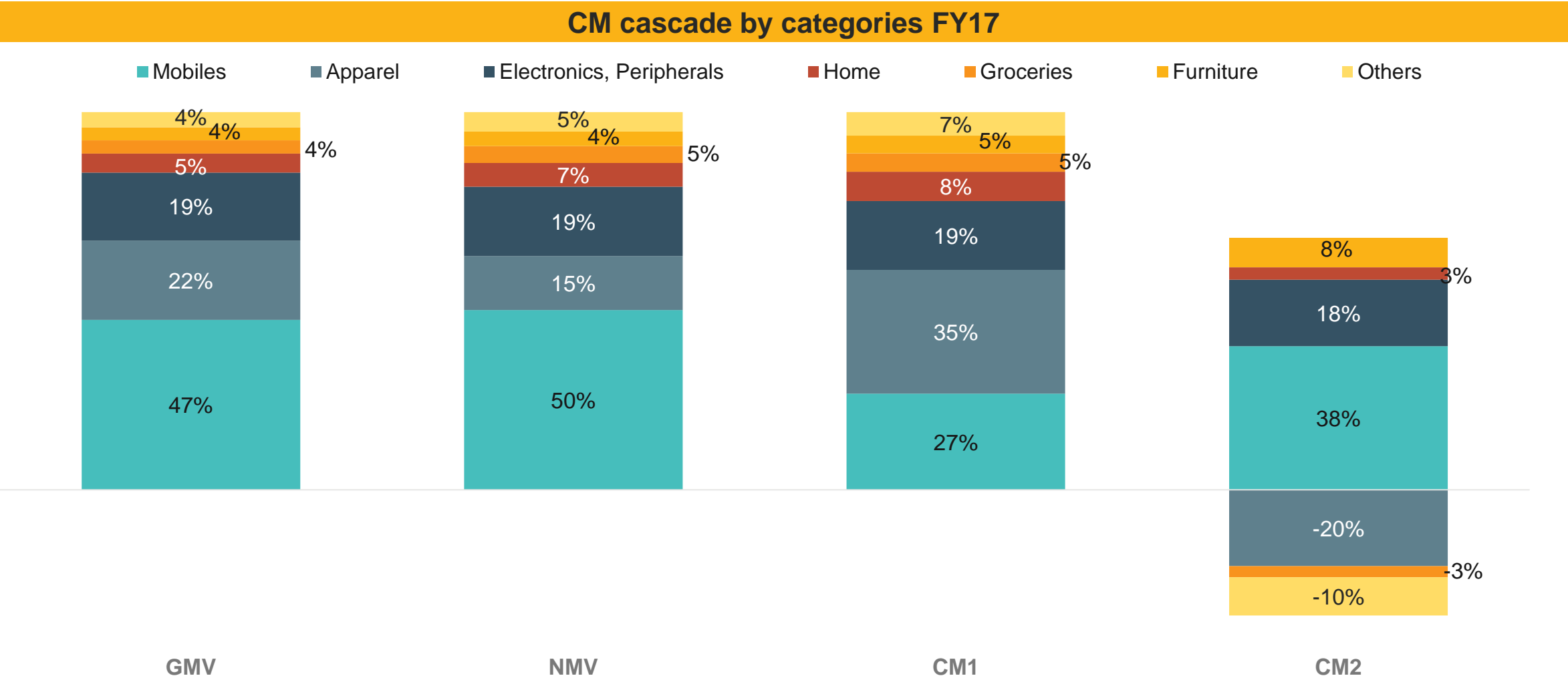
Notes: GMV- Gross Merchandise Value; NMV- Net Merchandise Value ; COGS- Cost of goods sold; CAC- Customer acquisition cost; Other Costs: G&A (General and Administration) cost, Staff cost, Advertisement cost and other fixed costs; Negative CM3 Value implies E-commerce industry Burnout value

Profitability cascade in the inventory model



Notes: GMV- Gross Merchandise Value; NMV- Net Merchandise Value ; COGS- Cost of goods sold; CAC- Customer acquisition cost; Other Costs: G&A (General and Administration) cost, Staff cost, Advertisement cost and other fixed costs; Negative CM3 Value implies E-commerce industry Burnout value

E-commerce profitability cascade by categories



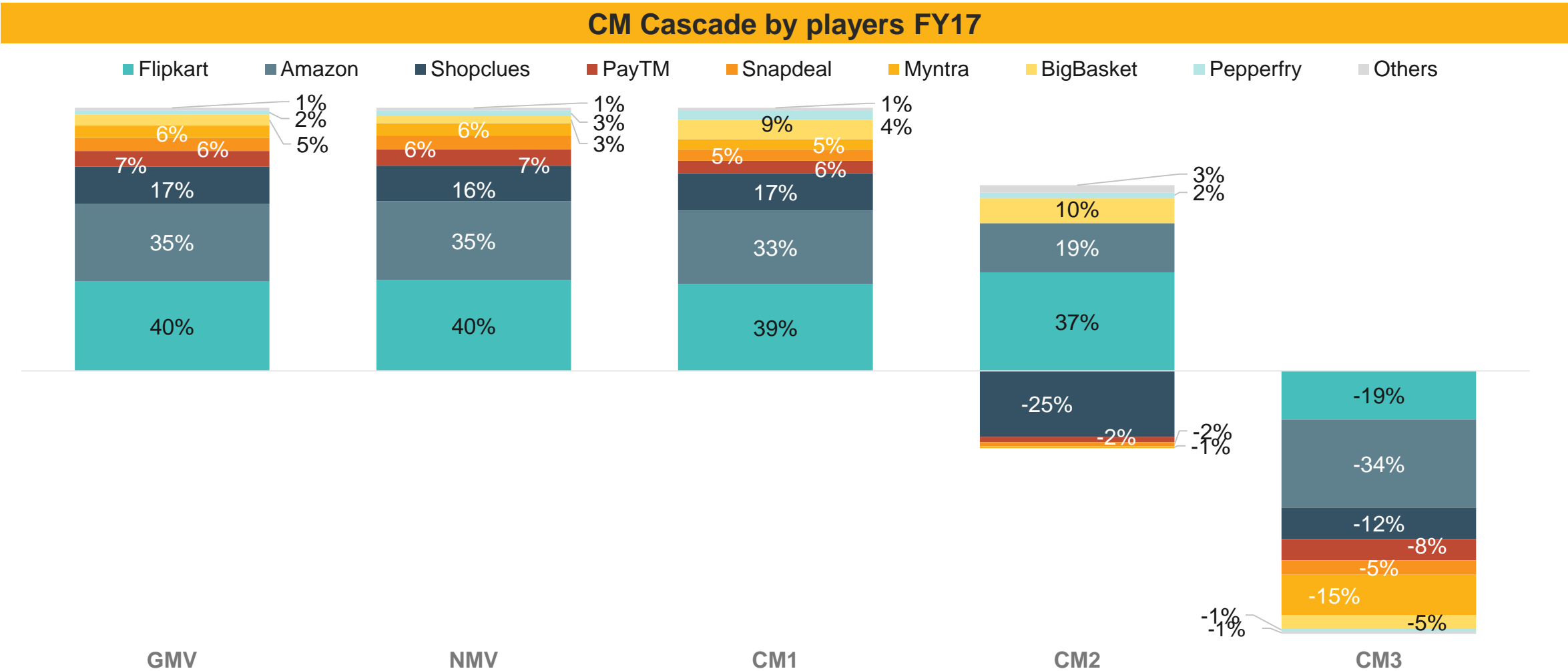
Notes: Other Categories include Books, Beauty and Health Toys, Baby Products, Sports, Automotive and Industry ; GMV- Gross Merchandise Value; NMV-Net Merchandise Value; CM- Contribution margin

India E-commerce profitability summary by category

Financials (INR Cr) FY17								
Categories	Mobiles	Electronics, Peripherals	Apparel	Home	Furniture	Groceries	Others	Total
Gross Merchandise Value (GMV)	49,350	19,740	23,030	5,483	3,838	3,838	4,387	109,667
Less: Returns	3,341	1,332	5,578	323	185	112	159	11,031
Less: Discounts	9,377	4,343	8,196	274	704	212	175	23,281
Net Merchandise Value (NMV)	37,268	14,358	11,242	4,902	2,983	3,520	4,058	78,331
Less: COGS (Marketplace)	13,861	5,988	6,352	3,002	2,112	1,566	3,260	36,141
Less: COGS (Inventory)	20,863	6,549	1,621	1,129	399	1,467	178	32,206
Contribution Margin 1 (CM1)	2,544	1,821	3,270	771	472	487	620	9,985
Shipping Costs	487	731	3,314	456	71	450	786	6,295
Collection Costs	318	186	420	100	34	90	146	1,295
Packaging Costs	90	141	413	73	27	74	126	944
Contribution Margin 2 (CM2)	1,649	763	(878)	142	340	(128)	(438)	1,451








Notes: Notes: Other Categories include Books, Beauty and Health Toys, Baby Products, Sports, Automotive and Industry ; Metro Cities- Population > 1million; Tier1- 1million > Population >100k; GMV- Gross Merchandise Value; COD: Cash on delivery

E-commerce profitability by Players



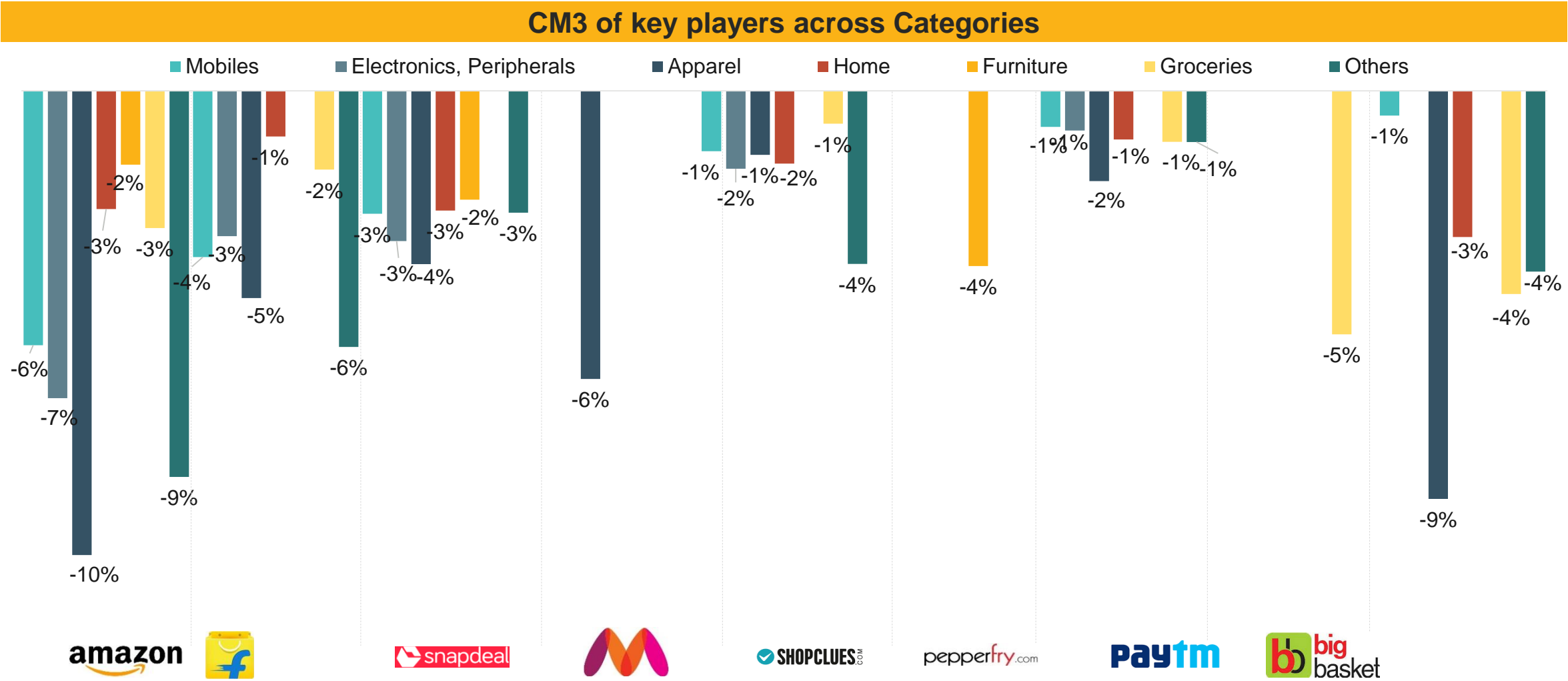
Notes: Other Players are Jabong, eBay, Healthkart, Homeshop18, Futurebazar etc. ; GMV- Gross Merchandise Value; NMV- Net Merchandise Value; CM- Contribution margin; CAQ- Customer Acquisition Cost ; SCP- Shipping Collection and Packaging cost

E-commerce business economics by Players

Financials (Rs. Cr) FY17										
										
Players	Amazon	Flipkart	Snapdeal	Myntra	Shopclues	Pepperfry	Paytm	BigBasket	Others	Total
Gross Merchandise Value (GMV)	32,255	37,416	5,161	2,580	6,451	1,032	5,483	1,806	15,547	109,667
Returns	2,993	3,483	497	645	365	52	373	36	2,103	11,031
Discounts	6,619	7,678	1,076	981	1,230	227	1,156	90	3,490	23,281
Net Merchandise Value (NMV)	23,386	27,117	3,715	1,200	4,939	765	4,051	1,682	10,578	78,331
COGS (Marketplace)	8,026	6,145	2,637	780	4,473	650	3,623	63	9,159	36,141
COGS (Inventory)	12,564	17,681	683	-	-	-	-	1,278	-	32,206
Contribution Margin 1 (CM1)	2,796	3,290	395	420	466	115	428	341	1,419	9,985
Shipping Costs	1,571	1,409	313	180	391	6	379	197	1,714	6,295
Collection Costs	331	342	60	25	83	7	43	38	347	1,295
Packaging Costs	235	220	48	23	65	3	60	33	241	944
Contribution Margin 2 (CM2)	659	1,320	(26)	192	(74)	99	(54)	73	(884)	1,451
Customer Acquisition Cost (CAC)	3,500	2,500	1,200	600	700	150	400	150	325	9,525
Other costs	2,000	1,500	1,000	450	400	64	340	112	500	6,366
Contribution Margin 3 (CM3, EBITDA)	(4,841)	(2,680)	(2,226)	(858)	(1,174)	(115)	(794)	(189)	(1,709)	(14,440)

Notes: Other Players are Jabong, eBay, Healthkart, Homeshop18, Futurebazaar etc. ; GMV- Gross Merchandise Value; NMV- Net Merchandise Value; CM- Contribution margin COD: Cash on delivery; Other Costs: includes general and administrative costs and other fixed costs

E-commerce contribution margin of players across Categories










Notes: Other Players are Jabong, eBay, Healthkart, Homeshop18, Futurebazar etc. ; Other Categories include Books, Beauty and Health Toys, Baby Products, Sports, Automotive and Industry ; GMV- Gross Merchandise Value; CM- Contribution margin

Summary: Key Performance Metrics by categories

Key Metrics	Mobiles	Electronics, Peripherals	Apparel	Home	Furniture	Groceries	Others	Total
Discount as % of GMV	19%	22%	36%	5%	18%	6%	4%	21%
Returns as % of GMV	7%	7%	24%	6%	5%	3%	4%	10%
CM1 (%)	7%	13%	29%	16%	16%	14%	15%	13%
CM2 (%)	4%	5%	-8%	3%	11%	-4%	-11%	2%
No of Orders (M)	51	76	238	58	9	39	84	554
Average Order Value (INR)	8,218	2,098	710	1,282	4,720	958	500	1,827
No of Orders / Month (k)	4,223	6,346	19,796	4,792	754	3,241	7,019	46,170
SCP as % of NMV	2%	7%	37%	13%	4%	17%	26%	11%

Notes: Other Players are Jabong, eBay, Healthkart, Homeshop18, Futurebazar etc. ; Other Categories include Books, Beauty and Health Toys, Baby Products, Sports, Automotive and Industry ; GMV- Gross Merchandise Value; CM- Contribution margin; CAQ- Customer Acquisition Cost ; SCP- Shipping Collection and Packaging cost

Summary: Key Performance Metrics by Players

Key Metrics, FY17	amazon								Others	Total
Discount as % of GMV	21%	21%	21%	38%	19%	22%	21%	5%	24%	21%
Returns as % of GMV	9%	9%	10%	25%	6%	5%	7%	2%	15%	10%
CM1 (%)	12%	12%	11%	35%	9%	15%	11%	20%	14%	13%
CM2 (%)	3%	5%	-1%	16%	-1%	13%	-1%	4%	-10%	1%
CM3 EBITDA (%)	-21%	-10%	-60%	-72%	-24%	-15%	-20%	-11%	-17%	-19%
Burn / month (INR. Cr)	(403)	(223)	(185)	(72)	(98)	(10)	(66)	(16)	(160)	(1,233)
No of Orders (M)	137	129	29	13	39	1	35	17	169	570
Average Order Value (INR)	1,866	2,306	1,427	1,250	1,322	10,000	1,226	1,000	787	1,813
No of Orders / Month (k)	11,446	10,746	2,386	1,067	3,290	67	2,941	1,430	14,092	47,467
SCP as % of NMV	9%	7%	11%	19%	11%	2%	12%	16%	24%	11%

Notes: Other Players are Jabong, eBay, Healthkart, Homeshop18, Futurebazar etc. ; Other Categories include Books, Beauty and Health Toys, Baby Products, Sports, Automotive and Industry ; GMV- Gross Merchandise Value; CM- Contribution margin; CAQ- Customer Acquisition Cost ; SCP- Shipping Collection and Packaging cost

Sources of input

1. Primary Sources (N = 77 primary discussions with various market participants)

- N = 15 discussions with category managers of top ecommerce players
- N = 10 discussions with program managers of top ecommerce players
- N = 10 discussions with process managers of top ecommerce players
- N= 5 discussions with logistics partners of ecommerce players
- N = 20 discussions with process associate of top ecommerce players
- N = 2 discussions with investors
- N = 15 discussions with management consultants*15

2. Secondary Sources

- Press searches: The Economic times, Financial Times, Business line, Financial Express, Business Standard, Mint
- Forbes
- MCA (Ministry of Corporate Affairs)
- IBEF report
- Several other publications by E-commerce by Forrester, etc quoted publicly

3. Praxis Analysis

Contact us

We will be happy to share perspectives

Get in touch:

Praxis Marketing Team
marketing@praxisga.com
insights@praxisga.com

Contributors:

Madhur Singhal
madhur.singhal@praxisga.com
[m] +91 908 221 8254

Aryaman Tandon
aryaman.tandon@praxisga.com
[m] +91 981 804 6800

Aman Pandey
Aman.pandey@praxisga.com

Build together. Win together.

Disclaimer:

This material has been prepared by Praxis Global Alliance, which is the trade name of Praxian Global Private Limited ("Praxis") with the intent to showcase our capability and initiate a business relationship with a potential partner/client to whom this has been sent by someone at Praxis (the "Recipient"). This is solely for the consideration of the Recipient and is not to be disclosed in whole or in part to any third party without Praxis's explicit prior written permission. The frameworks, approaches, tools, analysis and opinions are solely Praxis's intellectual property and are a combination of collection of best data we could find publicly or what is shared by the Recipient, and Praxis team's own experiences and observations. Recipient agrees to destroy all copies of this document immediately after close of discussions with Praxis, if it chooses to not work with Praxis on subject contained in this document.

We make no representation or warranty, express or implied, that such information is accurate or complete, and nothing contained in here can be construed as definitive predictions or forecasts. Before reading further, the Recipient expressly agrees that this might not address any and all risks and challenges facing Recipient, its business and the markets within which it operates, nor all possible market conditions. No responsibility or liability whatsoever is accepted by any person including Praxis or its Business partners and affiliates and their respective officers, employees or agents for any errors or omissions in this document.

This document is not complete without an accompanying oral discussion and presentation by Praxis though Praxis is not obligated to do so. Praxis does not have any duty to update or supplement any information in this document.

THANK YOU



Build together

Win together