E-commerce
Trends Report

August 2020

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Foreword

India is one of the world's most promising internet markets, with the second-largest internet user base globally. The massive growth of internet users led to the unprecedented growth of the e-commerce sector in India. Today, we have consumers shopping online from small towns and villages across the country, making India the fastest-growing e-commerce market in the world.

The increasing number of online shoppers presents a huge growth opportunity for e-commerce and retail companies. E-commerce companies started leveraging multiple-fulfilment models to ensure an error-free delivery process in a country with a broken supply-infrastructure system. Online sellers also started evolving and adopting new-age technology solutions to meet the rising consumer demand and streamline processes for faster delivery. This evolution also led to the birth of multiple SaaS solutions to help companies manage inventory, warehouses, orders and every other aspect of e-commerce and retail business.

While the world was looking forward to e-commerce growth in India, the business dynamics changed globally with the breakout of COVID-19. The pandemic has changed the way people live and shop, leading to a drastic change in consumer behaviour. As people are practising social distancing, the e-commerce industry is witnessing an important chapter with a surge in first-time online shoppers, and this change will provide a significant boost to the sector in the long run. The pandemic has also helped brands discover cracks in the supply chain ecosystem and presented a unique opportunity to address these gaps.

With e-commerce at its all-time high, Unicommerce is uniquely positioned to provide e-commerce supply chain technology cloud solutions to help industry players of all sizes manage their business efficiently. Established eight years ago, Unicommerce is a market leader processing over 20% of India's e-commerce volume in the country and works with leading online players across segments. The company processes 700k+ order items per day, amounting to US$ 2.5 Bn+ GMV for over 10,000 registered customers across India, Middle East and Southeast Asia.

Unicommerce is committed towards simplifying e-commerce selling and this report is another step in the same direction. The report will try to shed light on changing consumer behaviour and the industry response to address the newly emerging e-commerce trends. It will also decode the consumers shopping pattern and will help e-commerce players and retailers plan their business strategies efficiently. The report will cover insights on product delivery & return trends as well as growth potential across different sales channels as we prepare to enter the post COVID-19 world.

By Kapil Makhija, CEO, Unicommerce

Executive **Summary**

India's e-commerce growth

India's e-commerce sector grew by 20% in the last one year. The electronics segment remains the biggest sector with a maximum share of GMV. However, fashion and accessories is the most popular segment amongst consumers, with the highest percentage of order volume during the same period. The Beauty and Wellness segment became the fastest growing sector with 130 % growth in order volume, followed by the FMCG, eyewear and Health and Pharma sectors.

Rising demand from hinterland of India

All leading e-commerce companies are focusing on beyond metropolitan cities. Currently, Tier II and beyond cities contribute around 2/3rd of the total online consumer demand in India and this share is expected to rise in the coming years. The aspirational young Indian consumer in these cities is driving growth for the sector. Tier III and beyond cities witnessed 53% growth, making it the fastest-growing region.

Brands going direct to consumer

Companies with strong online presence are establishing their website to develop a direct connect with consumers and offer a great experience to its patrons. While the brands have created their own website, the brands continue to sell on the marketplace as it still drives the majority of the order volume. The number of consumers shopping directly from the website has witnessed a growth of 88% as compared to 32% growth on the marketplace. The top 3 segments that have seen an increasing penetration of D2C brands are Beauty & Wellness, Fashion & Accessories and FMCG & Agricultural sectors. Considering the rising number of brands establishing their own website, the share of D2C platforms in overall e-commerce will increase significantly in the coming years.

Return orders on decline

Managing returns is an integral part of running an e-commerce business. The total percentage returns (as a percentage of forward dispatches) has seen a decline of ~13% as compared to last year and it constitutes ~17% of the overall order volume as compared to ~20% in the previous

year[1]. Fashion Apparel is the category with the highest returns.

E-commerce in the post COVID-19 world

A pandemic hit the world, and it has exponentially changed the way we live. It has given a significant boost to India's e-commerce and it will be considered as a major turning point for the country's e-commerce ecosystem. It's not surprising that e-commerce has not only recovered but have grown by 17% as compared to pre-lockdown order volume. The consumer buying patterns and preferences have changed significantly, categories like health & pharma and FMCG & agriculture have seen a surge and exponential growth, with the rise of a large number of first-time online users.

The retail brands across the world are now strengthening online capabilities and opting for different approaches to connect with consumers. We can expect to see increasing adoption of omnichannel solutions as a result of this. There will be increasing digitisation by brands across multiple categories leading to the improved shopping experience for consumers. It will be interesting to see which habits and patterns of the pandemic-life continue and how these evolve as we step into the post COVID-19 world.

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[1] All year-on-year data points by Unicommerce are for the period of February 2019 - February 2020

ORDER VOLUME GROWTH — **20%**

GMV GROWTH — **23%**

TOP 3 STATES

DELHI NCR

MAHARASHTRA

KARNATAKA

SHARE OF TIER-II AND BEYOND CITIES IN CONSUMER DEMAND

67%
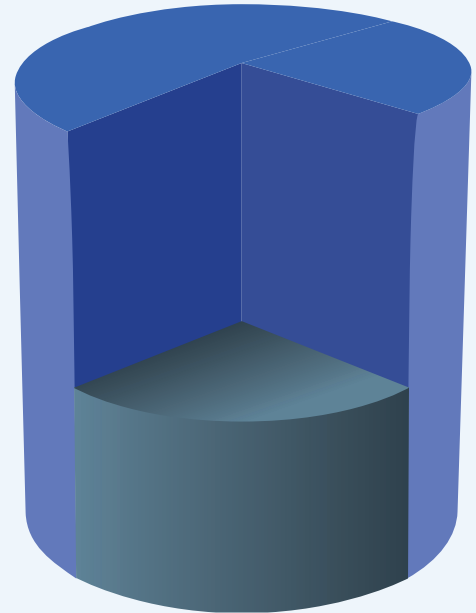
Category with maximum returns:
FASHION APPAREL

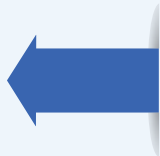**D2C BRANDS SAW A GROWTH OF** → **88%**

Returns in 2019
20%

Returns in 2020
17%

13% ← **RETURNS DECREASED BY**

* 13% is the decrease in % returns per forward order in 2020 compared to 2019. On absolute value; returns per forward order decreased by 3%.

CHECKOUT

ADD TO CART

BUY

CREDIT CARD

Evolution of
E-commerce

E-commerce has transformed the way business is done in India. India is the fastest-growing e-commerce market in the world with immense growth potential. Currently, it constitutes less than 5% of India's overall retail, and it's expected to be one of the largest e-commerce markets in the globe in the next few years.

Not so long ago

India was introduced to the internet in 1995 and a year later, India's e-commerce journey began with the launch of Indiamart, India's first online B2B commerce website. Ever since its inception, the e-commerce landscape has exponentially evolved over the last two decades. E-commerce became mainstream post-launch of Flipkart in 2007 and the subsequent launch of Snapdeal in 2010. Interestingly, around the same time, BookMyShow and MakeMyTrip were gaining popularity in another niche segment of online ticket booking. India adopted online travel bookings before any other category of e-commerce. These companies, in their own ways significantly contributed to the first wave in the evolution of e-commerce in India.

By 2013, the e-commerce industry started booming steadily with Snapdeal and Flipkart being the major players and people getting used to the idea of ordering things online. Amazon entered India in the same year and revolutionised the dynamics of e-commerce

completely.

As the industry was evolving with big e-commerce players selling everything under the sun, there was another emerging trend of vertical e-commerce on the horizon. This entailed companies focussing on selling niche products or services. Myntra, Lenskart, Firstcry, Nykaa, Urban Ladder, Zivame, these are some of the prime examples of vertical e-commerce players. In the last decade or so, these companies have gained immense popularity among consumers and enjoy high brand loyalty. Today we have sector-specific niche players in almost all segments.

E-commerce growth driven by hinterland consumers

Until a few years ago, e-commerce companies were focused on targeting consumers in metros and other developed cities. However, affordable smartphones and economical internet plans led to a rise in the adoption of e-commerce by people living in Tier II and Tier III cities of India. Only one-third of India's population live in urban cities and rest are distributed across the millions of towns and villages across the country.

Rural India is driving the digital revolution in the country with 45% growth in internet penetration in 2019 as compared to urban India's 11%. It's projected that there will be ~700[2] million internet users in the country by this year-end and out of these ~150 million internet users will be active shoppers. The local language content and video drive the internet boom in rural India, with a 2.5 times rise in penetration in the last four years.

The above statistics are a testimony to the fact that there is immense growth potential in rural India. Every e-commerce company is trying to get a piece of this vast unexplored market. Major e-commerce players like Snapdeal have developed their strong foothold in these cities. The two big players Amazon and Flipkart are also focusing on targeting customers and sellers from Tier II and beyond regions of India. The e-commerce industry is also helping artisans and small retailers to get a platform where they can sell their products to consumers across the world. Most of the e-commerce companies have launched a website in Hindi and other regional languages to attract more consumers and retailers on the portal. During the festive season sale, most brands witness the maximum volume of orders from Tier II and Tier III cities.

Social commerce: a hero in the making

As people from across the country became habitual of shopping online, the e-commerce industry started adopting new business

[2] https://www.ibef.org/industry/ecommerce/infographic

models to make the experience more interactive. In the last couple of years, social commerce has emerged as one of the fastest-growing business models for online retailers in India. Social commerce is an amalgamation of the use of social media and e-commerce and its growth can be estimated with India's vast social media user base and our appetite for e-commerce. The use of videos in social media platforms such as Instagram and Snapchat is driving massive growth of social commerce, especially among millennials. Similarly, regional social networking platforms like ShareChat and Roposo, have developed their strong foothold in the niche market with its vernacular content which furthers boosts the use of social commerce.

In the last half a decade, the homegrown social commerce players have been able to establish their niche, especially in Tier II and Tier III cities. In the past 12 months, these players on-boarded over 10 million resellers and raised over $100 million in fundings. Meesho, BulbulTv, Shop101, and Mall91 are some of the leading players in the social commerce domain.

A recent survey revealed that India is already the leading Asian market for social commerce and is projected to become a $100 billion vertical of e-commerce by 2025. One of the critical reasons for this massive success of social commerce in India is the strong regional connect and the role of personal referral. Social commerce players are now experimenting with both marketplace and reseller models. They have been able to crack the code to reduce customer acquisition costs and establish more trust among consumers. Leading retail brands are also creating chatbots and leveraging technology to help consumers shop directly on Whatsapp. Whatsapp has a monthly active user base of over 400 million in India and it provides e-commerce companies with a platform to interact directly with consumers. This makes WhatsApp one of the most lucrative platforms for small and medium sellers. Over 1mn sellers are using Whatapp for Business in the country. In the last few years, we have seen the emergence of companies that build Whatsapp chatbots for retailers, which helps them manage a large number of orders with the help of AI.

India's e-commerce landscape has evolved drastically with new business models, a robust supply chain, and a rising number of online consumers in the last decade making it the most promising market across the globe with tremendous growth potential in the future. Industry reports from the pre-COVID times estimated that the e-commerce market in India is expected to reach $200 billion by 2027 from $38.5 billion in 2017, and the number of online shoppers may reach 220 million by 2025[3].

[3] https://www.ibef.org/industry/ecommerce-presentation

Supply Chain:
The Backbone of E-commerce
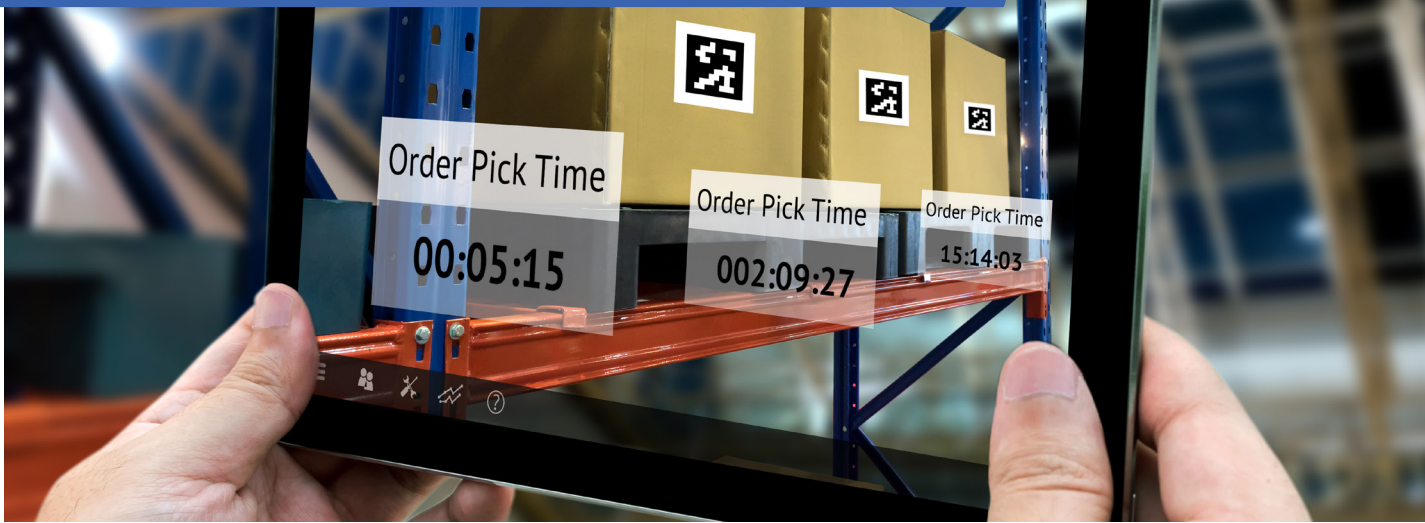
The Beginning

The supply chain plays a pivotal role in the e-commerce industry. In the initial years, e-commerce companies used to rely on traditional logistics payers for delivering products. Back then, the conventional logistics systems were primarily used by enterprises and were not designed to serve the complexities of online deliveries. As the systems were mostly supply-driven with negligible technology intervention, the whole process was expensive with little or no integration with various software systems used by different stakeholders across the supply chain ecosystem. Therefore, the traditional logistics system was ineffective as well as a high investment for companies.

We have come a long way since then, and the e-commerce logistics industry has evolved significantly in the last decade with multiple business models designed to deliver products in a fast and cost-effective manner.

Birth of third-party logistics

As online transactions grew multi-fold, e-commerce companies realised the dire need for a robust supply chain ecosystem to manage last-mile delivery in a country like India, with a population of over 1 billion. It became a daunting task for e-commerce companies to manage their

logistics operations and as a result, they started outsourcing their supply chain to 3rd Party Logistics (3PL) service providers. This led to the birth of e-commerce and technology focussed logistic players like Delhivery, GoJavas, EcomExpress, Ekart and XpressBees to name a few. As e-commerce evolved with new business models, the supply chain industry has also evolved with time to ensure a quick turnaround. In the last five years, there has been a large amount of capital inflow in the logistics sector and some tremendous technological advancements in the operational cycle of e-commerce players. 3PL companies have established their niche and are one of the key driving factors in e-commerce growth. They constitute over 28% of overall e-commerce logistics in India[4]. From a long cumbersome delivery process to hyperlocal delivery being the buzzword of the present time, the supply chain cycle went through a tremendous transformation.

E-commerce companies have also developed their in-house logistic arms which helps them in reducing costs and ensures more comprehensive control over customer experience. The in-house logistics arm provides consistent and great customer experience and exercise control over the whole process. The rising consumer demand is also leading to e-commerce companies exploring new ways to ensure faster delivery and with warehouse and logistics ecosystem companies being able to process orders at a much quicker pace.

Connecting India: Forward logistics

The rising consumer demand and increasing focus on consumer experience led to

immense pressure on the supply chain system of companies to be error-free and cost-effective. Consumers have become accustomed to quick and same-day delivery along with free shipping options. With a large amount of capital inflow and rising demand for e-commerce; logistics companies will continue to rejig business models to accommodate the fast, free and convenient delivery services that are essential to increasing consumer demand.

Today e-commerce companies have been able to capture a huge customer base in Tier II and Tier III cities of India which is now growing faster than metro cities in terms of new users. Over 70% of India's population lives in rural areas and e-commerce companies are banking on the rising aspiration of these consumers. Companies are extensively investing in logistics and warehousing to ensure faster deliveries in the region. Consequently, the dynamics of the supply chain industry are fundamentally shifting as logistics companies are now investing in smaller fleets of transportation vehicles that can deliver goods on shorter and quicker routes with more frequent runs, needed to accommodate a significant increase in last-mile delivery.

Fulfilling the rising online shopping appetite of India

As online shopping demand soars across India, e-commerce companies started innovating and adopting different fulfilment models depending on the nature of business and products. While there is no perfect business model that companies can imitate,

[4] https://assets.kpmg/content/dam/kpmg/in/pdf/2018/05/e-commerce-retail-logistics.pdf

an online seller or marketplace chooses a model that works best based on the scale of operations, partnerships, and required control over supply chain operations.

Two of the most popular models are the 'seller-fulfilment/dropship model' and 'marketplace-fulfilment model'. In the seller fulfilment model, the marketplace informs the seller about the order, assigns a courier partner and the seller takes care of packaging and delivery. In the marketplace fulfilment model, sellers share inventory with the e-commerce companies and the company takes care of the entire order and the delivery process. This model helped e-commerce companies to have direct control over quality and delivery time.

Over the years, different aspects of the above two models have evolved into a Hybrid Fulfillment model. In this, marketplaces lease a dedicated part of the seller's warehouse and offer them relevant technology solutions to operate efficiently. Another model, which is widely practised in the vertical commerce segment is the "Just In Time" model, where the marketplace places an order with the seller whenever there is a demand and seller sends the product to the marketplace warehouse and company takes care of all the deliveries.

Reverse logistics

While all the e-commerce brands and logistics companies are working towards quick product delivery, the other important aspect of managing logistics is ensuring hassle-free returns. Returns constitute a major part of the

logistics cost and e-commerce companies have been consistently working to reduce returns with the help of technology and improvement in supply chain processes. The returns can be broadly classified into two categories:

▶ Return To Origin wherein (RTO): In this, the order is returned before reaching the customer or could not be delivered due to multiple reasons like "Wrong Address", "Couldn't Reach Customer", "Canceled Before Delivery" etc.
▶ Customer Initiated Return: In this, the return is initiated by the consumer post-delivery and this can also be due to multiple reasons like "Didn't like products", "Wrong Size", "Quality Issues" etc.

An industry report suggests that return shipments constitute roughly 20 percent of total shipments[5]. To reduce return cost, companies have adopted two-pronged strategies. First by adopting a customer-centric return policy, which means allowing customers to purchase a product with confidence and peace of mind, knowing they have an option to return it later. Generally, companies offer 15-30 days return policy, the companies with extended return time often witness that the number of returns reduces gradually. While this sounds counter-intuitive, but this reduces the urgency to return and it is observed that the longer the customer has the product, they are more likely to get attached to the product they were going to return. Another critical factor in customer-centric policy is helping them make an informed choice by factors like listing high-quality images along with detailed descriptions, 360

[5] https://assets.kpmg/content/dam/kpmg/in/pdf/2018/05/e-commerce-retail-logistics.pdf

product view, implement size guides & fitting tools or share dimensions and encourage product reviews by customers.

The second aspect to reduce returns is seamless operation supported with consumer analytics and a robust supply chain. One of the key reasons for returns is the wrong product or incorrect size. This can be easily addressed with the help of technology solutions that help in better and faster management of inventory, order and warehouse on a single platform. It's also observed that companies that maintain a record of every return for evaluation are able to identify the core causes and are better positioned to address the factors leading to maximum returns. These are some of the steps adopted by e-commerce to manage returns efficiently and yield long term sustainable results besides increased profitability.

The future of supply chain

The increased focus and importance on effective supply chain systems has led to many disruptions in the industry. The increasing adoption of models like hyperlocal and omnichannel retailing, showcase the evolution of e-commerce. Omnichannel retailing keeps customers' convenience as a top priority by offering a consistent and seamless experience across sales channels such as online shopping on phone, laptop or in a brick-and-mortar store. Due to its multifaceted benefits, omnichannel retailing is being adopted by many retailers in India and across the globe.

The hyperlocal model is an upcoming trend and is expected to re-define the e-commerce industry in the near future. The USP of hyperlocal e-commerce businesses lies in their ability to deliver products and services at unbelievably fast speed. A hyperlocal model enables local offline enterprises to reach out to their targeted customers ensuring product delivery within a very short period. Under this model, hyperlocal companies partner with local merchants like Kirana stores, restaurants, and maintain a network of local delivery partners to deliver products instantly.

SaaS

Connecting E-commerce and Supply Chain

E-commerce is often cited as a driver of economic growth. In a fast-growing and dynamic country like India, e-commerce plays a significant role in the economy and gives retail brands a platform to sell products in global markets. As more and more consumers are shopping online, e-commerce companies are looking for software solutions to bring operational efficiency & transparency, improve supply chains and give enhanced visibility of product movement to consumers and sellers.

Typically, a supply chain ecosystem consists of multiple parts from distributed order management system, warehouse management system to last-mile delivery, and all these processes have to work in sync to deliver a product to the consumer. However, the situation has changed drastically, and today consumers expect the same or next day delivery. The companies have adopted technology solutions across various levels to simplify the e-commerce supply chain and rising adoption of SaaS solutions by e-commerce companies and retailers enables companies to expedite the delivery process by streamlining supply-chain.

Role of Saas solutions

Over the years, supply chain systems have transitioned from being a mere functional

arm (more cost-focused) to now being a more responsive arm (more customer-focused capability) for the companies. With increasing demand, the companies are widening their horizons and adopting innovative cloud-based SaaS solutions that make the supply chain more robust with better visibility and greater control over the product movement. Apart from its operational benefits, these SaaS based solutions are highly cost-effective, as companies only spend a one-time fee on the subscription to use the software without any long term investment in any extensive IT infrastructure.

A supply chain cycle has many layers of operations and different SaaS companies focus on different avenues of the supply chain cycle. These solutions/systems can be categorised into supply chain/inventory planning, warehouse management, multichannel order management and transport/logistics Management.

As per Unicommerce internal analysis, the overall global supply chain management (SCM) software market is growing at a CAGR of ~10.7% and is expected to reach $42.1 billion by 2027. The majority share, almost 61%, of this market will be taken by the Freight Management software market which is expected to reach $25.6 billion by 2027 and will grow at a CAGR of ~10%[6].

Warehouse Management System (WMS) is one of the most popular and important SaaS solutions. WMS helps to automate various warehouse operations and helps in improving efficiency. It facilitates the management of day-to-day operations by organising, staffing, directing and controlling the movement inventory inside the warehouse. The growth of e-commerce and the government's relentless focus on Digital India is going to rule the growth of WMS in India. The industry estimates that India's warehouse management systems market size is expected to grow from USD$231 million in 2019 to USD$488 million by 2024, at a Compound Annual Growth Rate (CAGR) of 16.2% during the forecast period[7].

Inventory management efficiency

The other important aspect of the supply chain ecosystem is inventory management. Maintaining the right balance of stock and stock reordering plays a vital role in defining the operations cost and business growth. An inventory management system automates the inventory update, replenishment, sale orders, deliveries, and returns to provide an exact stock position. This helps in real-time assessment of stock across multiple channels and provides a centralised panel to ensure clear visibility of the stock. The industry report suggests that market revenue for Indian Inventory Management Softwares will cross USD 350 Million by 2023 and is estimated to grow at a CAGR of over 14.5% from 2017 to 2023[8].

Companies connect with consumers through multiple platforms including marketplaces, physical stores, its own website and others. With its multifunctional use, SaaS platforms and solutions are being adopted by a large number of online sellers. There is increasing adoption of Omnichannel Software Solutions by companies with multiple online and offline sales channels. The omnichannel solution helps brands offer consistent and seamless shopping experiences across all

[6] Warehouse Management System Market | WMS Industry Report, 2025
$2.44 Bn Multichannel Order Management Market - Global Forecast to 2023 - Booming Retail and eCommerce Sector is Driving the Growth
Inventory Management Software Market Size Report 2020-2026
Freight Management System Market Size, Share and Global Market Forecast to 2023 | COVID-19 Impact Analysis
[7] https://www.marketsandmarkets.com/Market-Reports/india-omni-channel-warehouse-management-systems-market-3747439.html
[8] https://www.infoholicresearch.com/press-release/indian-inventory-management-software-market-revenue-to-reach-351-3-million-by-2023

platforms. The Omnichannel software will provide an immediate and centralised cross-channel order and inventory management dashboard. To simplify a retailer can check his inventory level, orders, shipping status, sales and every other aspect of the business on a single platform. It also helps in routing orders made online directly to the nearest store for the fulfilment, thus reducing the order processing time and logistics expenses.

Increase in cloud technology investment
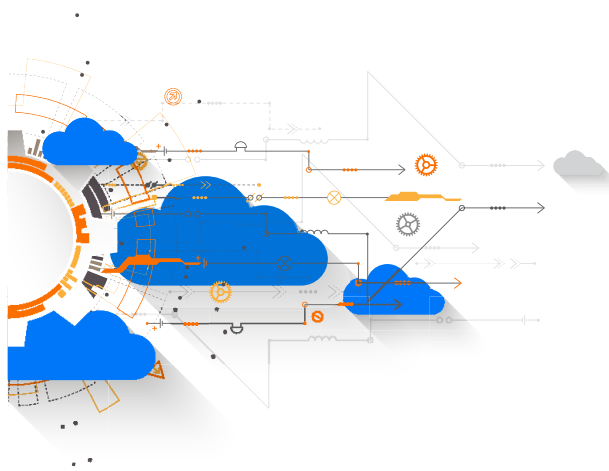
A Gartner study highlights that more than 33% of the surveyed companies have indicated that investing in cloud technology is one of their top three priorities and predicts a paradigm shift from cloud-first to cloud-only in new software investments. This signifies an accelerated growth for the SaaS subscription-based cloud applications over license-based software applications whose sales are predicted to nosedive further. The study also highlights that the SaaS-based cloud implementation is further expected to

grow and take over the major chunk of the on-premise applications by 2025 given strong management focus to build cloud capabilities that can handle dynamic consumer demands. This is also evident from the fact that traditional players like SAP, Oracle, and others have already started moving to cloud SaaS for their warehouse and inventory management solutions.

The novel coronavirus pandemic has also impacted the supply chain ecosystem and business in every sector across the world but we believe that the e-commerce sector is expected to be one of the first to recover as very few people would want to visit outside for both non-essential and essential items and would prefer stuff to get delivered to their homes. New sectors like FMCG, Pharma, Groceries etc. are expected to see further growth in their e-commerce operations. Traditional brands will now start formulating their e-commerce/omnichannel strategies to capitalize on changing consumer preferences. The supply chain SaaS start-ups would need to build their solution to make their supply chains more responsive and smart to cater to dynamic consumer demands. Supply chains will need to be enhanced to be able to take care of omnichannel use cases and category-specific logistics is expected to come up to cater to demands from new sectors. The supply chain cloud solutions can enable these sectors to manage their inventory and logistics in real-time across multiple warehouses and cities and would prove to be a major competitive advantage over traditional supply chains.

Trends to simplify
E-commerce selling

▸ Smartphone penetration has enabled consumers to go online and shop. However, the significant change in shopping behaviour is driven by convenience, 24X7 availability, multiple product choices, easy finance options, and lucrative online offers.

▸ In 2016, online retail constituted 1.5% of overall retail and it took three years to add another 1.5%. By 2019, online retail contributed almost ~3% to the overall retail. Whereas within just six months of 2020, the online retail contribution has increased by 4.5%. However, this number may see a slight dip by next year, as offline retail starts recovering in the coming months[9].

▸ Before COVID-19 hit us, the e-commerce order volume saw a growth of ~20% while the GMV witnessed a surge of ~23%[10]

▸ Beauty & wellness is one sector that has witnessed an unprecedented order volume growth of ~130% as compared to the last year. This is more than six times the overall e-commerce growth. FMCG & agriculture and health & pharma are the emerging sectors with a growth of 55% and 38% respectively.

▸ These three are comparatively new sectors and have come to light in the last couple of years. While these sectors have showcased phenomenal growth, their combined contribution to the overall e-commerce order volume is just about ~10%. It's expected that these sectors will have a much faster order volume growth than the other categories as their product consumption cycle is comparatively much smaller, leading to faster customer repeat rate.

▸ The consumer electronics sector has given the maximum revenue contribution to the e-commerce sector of India. The average order value is much higher as compared to other categories. If we further breakdown the electronic segment, smartphones hold the maximum share, followed by television and white goods. The overall electronic segment saw a growth of 22% in the last year.

▸ The fashion & accessories sector is the most popular category with maximum share of order volumes in India. The segment saw a growth of over 26%. If we further breakdown the fashion segment, the footwear segment witnessed a 40% growth making it the fastest-growing category in the fashion & accessories sector.

[9] https://redseer.com/newsletters/accelerated-digitization-in-india-internet-post-covid-part-2
[10] Growth is adjusted to remove the effect of new merchant acquisitions in the year.

Online Sale percentage of total retail

India 4.5%   China 15%   Global Average 14%

Biggest category in terms of GMV: Electronics

Biggest contributors Smartphones, TVs and white goods

Biggest category in terms of Order Volume: Fashion

Biggest contributors Apparel and Footwear

20% Growth in order volume

Average Order size: ~₹1100

23% Growth in GMV
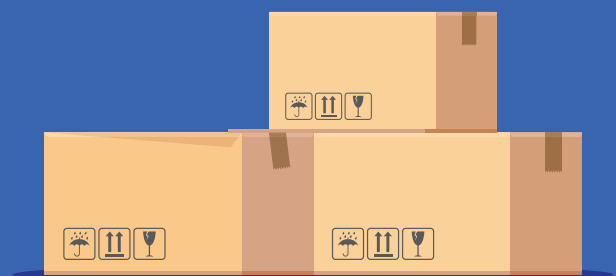
E-commerce Category - Volume Growth

Fashion & Accessories	Electronic & Home Appliances	Eyewear & Accessories	Beauty & Wellness	Health & Pharma	FMCG & Agriculture	Others	Overall
26%	22%	47%	130%	38%	55%	13%	20%
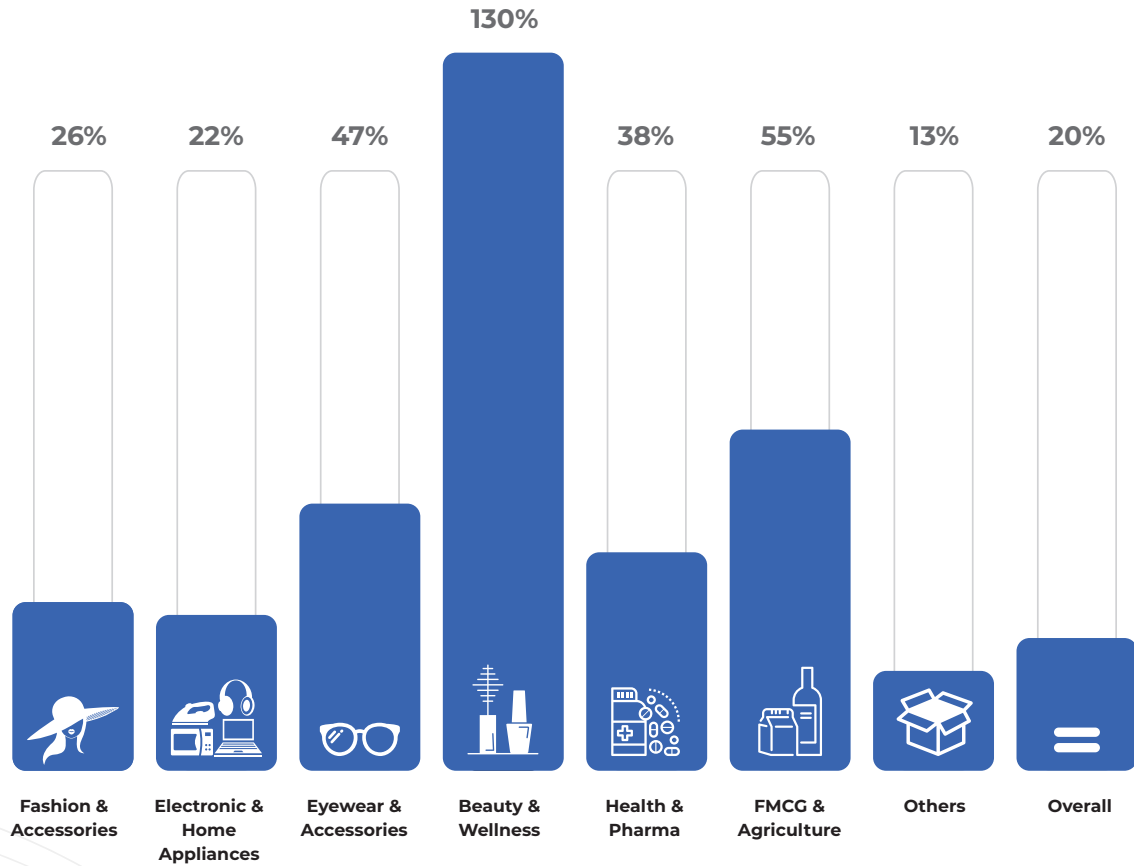
2020 vs 2019

▸ In the last half a decade, e-commerce companies have been able to establish their niche, especially in Tier II and Tier III cities. With demand growing more so than ever, the Indian e-commerce industry is banking heavily on the growth of new consumers based out of Tier II and beyond cities of India. Together it contributes around 2/3rd of the online consumer demand in India, while traditional metros[11] contribute 34% to the overall online retail.

▸ The unique number of online shoppers annually in Tier-II and beyond cities and rural areas stood at around 50 million in 2018 that is expected to grow to approximately 170 million in 2023. The share of unique shoppers from Tier-II cities and beyond will be 1.6X of those in the Tier I cities. Rise of social commerce, vernacular language content and improved last-mile delivery will further drive e-commerce growth in Tier II and beyond regions.

▸ Currently, consumer demand, especially in traditional metros, is concentrated in a few cities. The ~90% of the consumer demand of Tier I cities is coming from its Top 5 cities.

▸ Interestingly, demand from Tier III regions is well balanced with the top 5 cities contributing only ~22% of the overall Tier III volume. The increasing focus of brands in Tier III markets has led to the tremendous growth of 53% in the last year.

▸ Fashion apparel is the most popular category in Tier III cities and it constitutes over ~50% of Tier III consumer demand as compared to 44% in the previous year.

▸ Historically, most marketplaces and brands have focussed on Traditional metros, but this is changing over time. Though traditional metro cities have seen higher growth than the rest of India in order of volume, this trend has reversed post COVID19. The rest of India witnessed a growth of over 31%, which was primarily contributed by 53% growth in Tier III and beyond cities.

▸ The top 3 states, with each over 15% of overall India's e-commerce volume, are Delhi NCR[12], Maharashtra, and Karnataka. Together they constitute over 65% of consumer demand. The large metropolitan cities in these states are the major reason for the maximum share of consumer demand.

[11] Delhi, Mumbai, Bengaluru, Chennai, Kolkata, Ahmedabad, Pune and Hyderabad
[12] Includes NCR region: Haryana (Gurgaon, Faridabad, Jhajjar and Sonepat) and Uttar Pradesh (Gautam Budha Nagar, Ghaziabad, Baghpat)

66%
Rest of India

34%
Traditional Metros

Top states 3
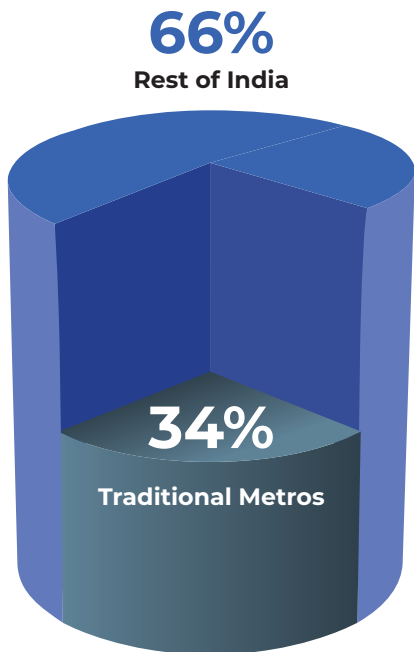
Delhi NCR   Maharashtra   Karnataka

Share of overall consumer demand >65%

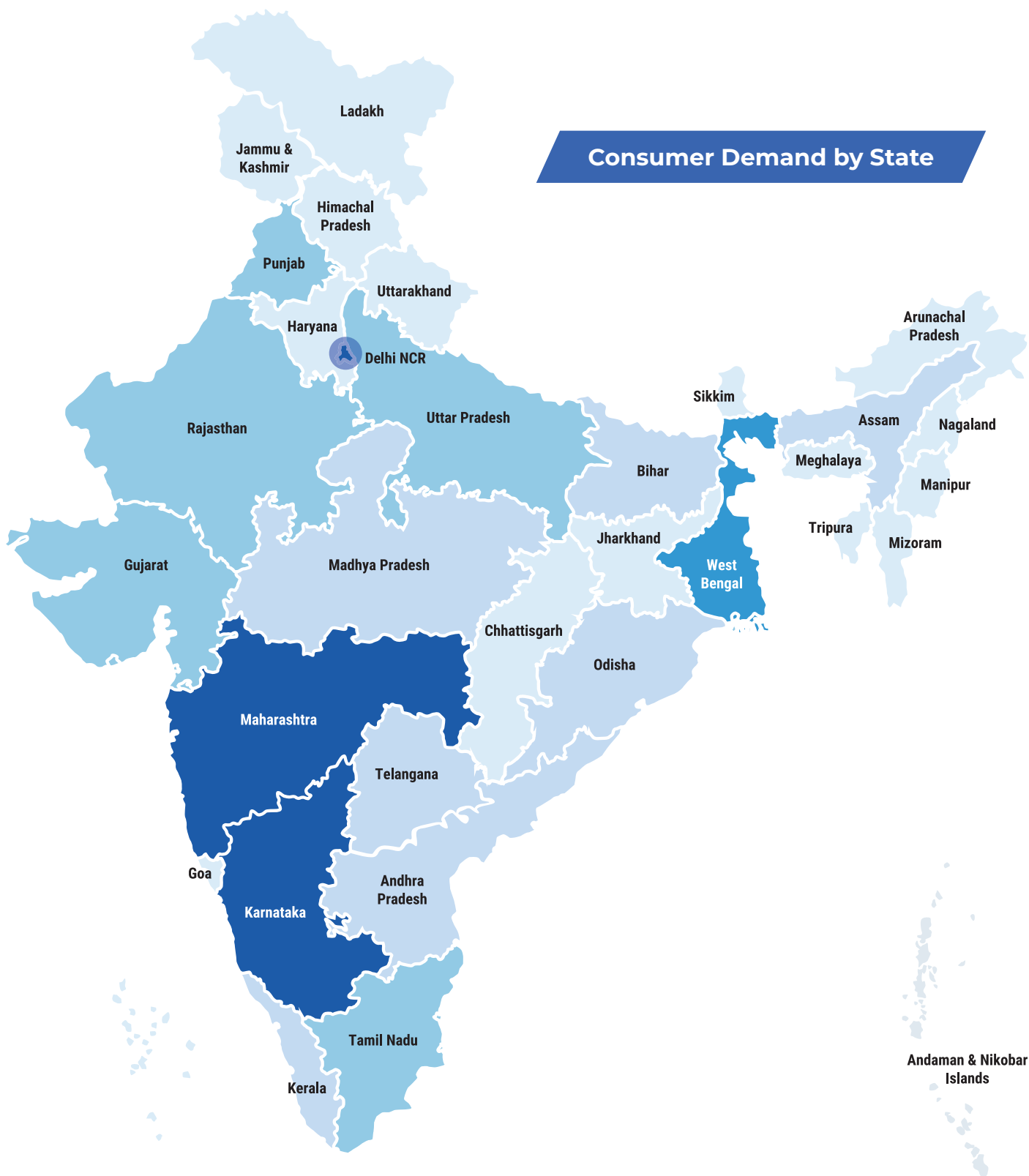**Top 5 Tier III cities constitute over 22% of overall Tier III volume**

Tier III growth of 53%

Fashion Apparel

is the most popular category, contributing around 50% of overall Tier III e-commerce volume

Consumer Demand by State

Ladakh

Jammu & Kashmir

Himachal Pradesh

Punjab

Uttarakhand

Haryana

Delhi NCR

Rajasthan

Uttar Pradesh

Sikkim

Arunachal Pradesh

Assam

Nagaland

Meghalaya

Bihar

Manipur

Jharkhand

Tripura

Mizoram

West Bengal

Gujarat

Madhya Pradesh

Chhattisgarh

Odisha

Maharashtra

Telangana

Goa

Andhra Pradesh

Karnataka

Tamil Nadu

Kerala

Andaman & Nikobar Islands

Percentage Share of Consumer Demand

<0.5% >15%

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[13] Delhi NCR region includes Delhi and adjoining districts of Haryana (Gurgaon, Faridabad, Jhajjar and Sonepat) and Uttar Pradesh (Gautam Budha Nagar, Ghaziabad, Baghpat)

III. The Emerging Trend of Direct To Consumer

▸ As the e-commerce ecosystem matures in India, there is an increasing trend of brands going directly to consumers. In India, most brands are looking for an amalgamation of D2C and marketplace model. The online retailers are establishing their online stores and continue to sell on marketplaces. It helps sellers to be visible to consumers at multiple online channels and also develop brand love in the long run.

▸ Developing own websites helps sellers to capture robust consumer data to understand consumer buying patterns and preferences, that can be further leveraged in developing business strategy and offer better consumer buying experience to the patrons.

▸ Large retail brands are investing in analytics technology that helps in categorising customers and offer a personalised shopping experience. Customer and merchandising analytics is also helping them in predicting consumer demand.

▸ The number of consumer shopping directly from the website has witnessed a growth of 88% as compared to 32% growth on the marketplace. This implies that consumers are now opting to shop directly from the brand.

▸ The considerable growth on D2C Channels can be further attributed to the increasing number of brands establishing their own website. Brands developing their own website have increased by 65% in the last year.

▸ The brands with their own websites have also developed strong logistics capabilities with the help of 3PL and these companies often opt for self-shipping for marketplace orders as well. Overall, we have observed ~26% growth in self-shipped[14] orders (percentage of self-shipped orders increased from ~28% to ~35% YoY)[15]. This is primarily driven by the increasing trend of brands setting up their own websites.

▸ The top 3 segments that have seen increasing penetration of D2C brands are beauty and wellness, fashion & accessories and FMCG & agriculture products. The companies are investing marketing budgets to drive traffic on D2C platform instead of the marketplace, and this is further accelerating the growth of D2C in India.

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[14] For self-shipped B2C orders on marketplaces and brand's website
[15] This excludes self-shipped orders of the brand's own website

Consumer Demand YoY Growth 2019-20

Brand Website — **88%**

Marketplaces — **32%**

Number of brands opting for own websites increased by 65%

Shipping Trends*

Self-Shipped vs Marketplace-Shipped Orders

72%
Marketplace-Shipped Orders

28%
Self-Shipped Orders

2019

65%
Marketplace-Shipped Orders

35%
Self-Shipped Orders
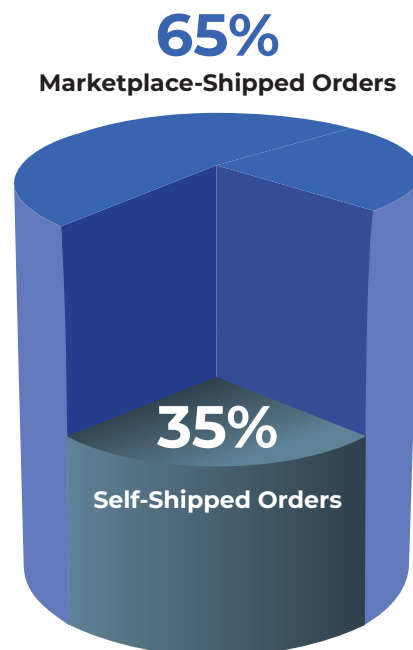
2020

Self-shipped orders for orders received on marketplaces: 13%

* Includes orders from both marketplaces and websites

IV. E-commerce Returns: The Necessary Evil

- Returns management is an essential part of running an e-commerce business. E-commerce and logistics companies are trying to reduce return orders with the help of technology solutions and better customer services. However, it's still a necessary evil which constitutes a significant part of the logistics cost and is an operational challenge.

- The total return requests per thousand forward orders have seen a decline of ~13% as compared to last year.

- The share of return orders for the current year constitutes ~17% of the overall order volume as compared to ~20% in the previous year.

- There has been a consistent trend that returns on Cash on Delivery (COD) orders have been much higher as compared to the prepaid orders. However with increasing technological interventions by e-commerce players, returns on COD orders have reduced more steeply as compared to prepaid orders. The total returns on COD orders reduced from 27% in 2019 to 20% in 2020 and for prepaid orders, the total return has decreased from 12% in 2019 to 11% in 2020.

- Fashion & accessories continue to be the top category for returns, with overall return volume of about ~22% followed by 15% returns in the electronics & appliances segment.

- E-commerce companies are leveraging technology to improve last-mile delivery in the hinterland of India, which has resulted in a significant reduction of ~23% in overall returns in Tier II and beyond cities.

Returns decreased by 13%

Total Returns Per Forward Orders

2019
20%

2020
17%

Return in Tier-II & Beyond Cities Decreased by 23%

Returns on COD

2019
27%

2020 Decreased by ~25%
20%

Returns on Prepaid

2019
12%

2020 Decreased by ~5%
11%

* 13% is the decrease in % returns per forward order in 2020 compared to 2019. On absolute value; returns per forward order decreased by 3%.

E-commerce in the post
COVID-19 World

Digitisation & New Wave of Online Consumer Propelling Post COVID-19 E-commerce Growth

The novel coronavirus started to create news with its massive impact in Wuhan in late 2019 December and within a span of a few months, its impact was felt by every living organism across the globe. On the evening of March 23rd, the Hon'ble Prime Minister of India announced a 21-day nationwide lockdown for its 1.3 billion population. This is when the country realised the seriousness of the situation and figured a pause button was the need of the hour. Since then, a lot has changed, with the world currently on a reboot mode as everyone is finding ways to adapt to the new reality and get ready to face the post COVID-19 world.

For the last few years, India has been the fastest-growing e-commerce market in the world. E-commerce was gaining momentum across the country and the companies were focusing on creating a strong foothold in Tier II and Tier III markers. Prior to the lockdown, online shoppers had a clear distinction between people who like to buy online due to convenience and people who prefer the experience of buying through brick and mortar stores. After the lockdown was announced, the problem of limited availability and fear of getting infected created a new shift in consumer behaviour and their buying patterns leading to a new wave of online consumers. Among other things, the pandemic has given a major boost to India's e-commerce and it will be

considered as a major turning point for the country's e-commerce ecosystem.

An industry report which was released before the pandemic suggested India's e-commerce is expected to grow to USD 200 billion by 2027. However, the recent trends indicate that the industry will reach the number much sooner, with people reluctant to physically visit the stores even after the lockdown is lifted, leading to a fundamental change in consumer behaviour with the increasing trend of online shopping. If we see the overall trends in consumer spending there's been a decline; on the contrary, online spending has increased drastically and so have the online payments.

While startups are trying to evolve and reimagine their strategies, the retails brands also realise that the world is changing at a much faster pace than anticipated. With the impact of COVID-19, companies now understand the importance of direct to consumer strategy and relevance in tough times such as these. Companies are innovating to connect with consumers, like popular apparel brands have also launched 'store on wheels' which are parked at prime residential localities from where consumers can shop, it also allows them to take clothes back home for trials. Some premium brands are also offering a feature where staff members will show clothes on video calls and later deliver it to the customer. FMCG companies which have been following the traditional supply-chain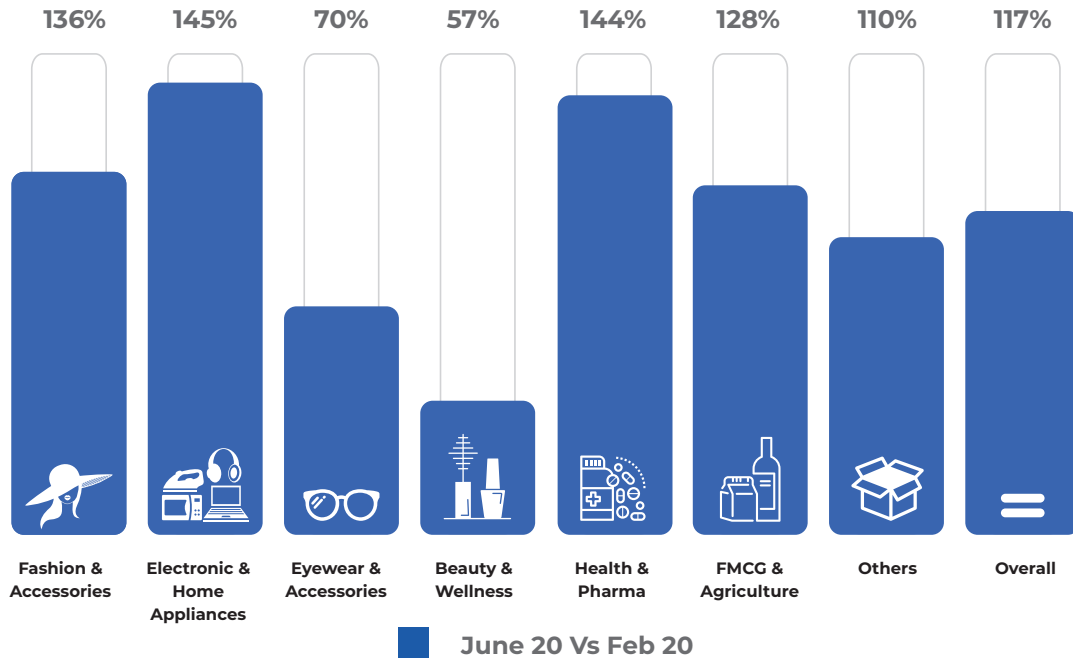 have started adopting digitised supply-chain solutions to reach out to consumers at a much faster pace. FMCG companies have also begun focusing on e-commerce and adopted new strategies like direct store deliveries, and partnerships with tech-enabled delivery platforms like Swiggy, Scootsy, Delhivery and Dunzo for the last mile delivery. Some companies have also partnered with housing societies and petrol pumps to ensure a wider reach.

It's safe to say that during a pandemic like this, e-commerce has been a real-life saviour to get the essentials through a simple click. More importantly, this global crisis has led to companies and consumers realising the importance of delivery personnel as our true frontline warriors. These testing times have also accelerated the adoption of online platforms for other activities as well, like virtual classes for students, movies scheduled for theatre releases being released on OTT platforms, consulting doctors virtually, increasing consumption of online gaming. The increasing adoption of online services may create a long term behavioural change in the ways people live. The initial trends showcase that e-commerce and online services will benefit at large, however, it will be interesting to see how long these new consumer behaviours sustain once we are on the other side of this pandemic without wearing a mask and worrying about social distancing and the world will get back to its original ways.
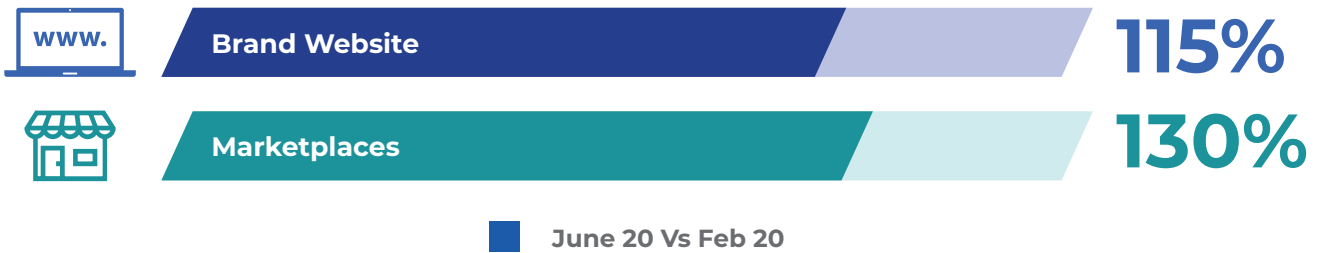
E-commerce Laying Foundation Stone of The Post-Pandemic World

▶ While the businesses have started operations, the world is still with fighting COVID-19 and the post-pandemic world is going to be very different from the previous years, especially for the e-commerce industry.

▶ There has been a drastic change in consumer behaviour, leading to more and more people opting to shop online.

▶ Unlock 1.0 began in June and the order volume for June was 17% higher as compared to pre-lockdown volume. This signifies that consumers are getting more inclined towards online shopping.

▶ Health and Pharma, FMCG & agriculture and electronic appliances (excluding smartphones) have been the fastest-growing categories, since e-commerce companies resumed operation on May 4th, 2020.

▶ The fear of Covid-19 with people practising social distancing along with uncertainty about the availability of essential products at physical stores propelled consumers to shop online. The growth of electronic appliances can be attributed to the rising adoption of technology and increasing work from home.

▶ Brands with own website have recovered faster as compared to companies with presence only on the marketplace. However, marketplaces were able to fast-pace recovery with major sales in the month of June, but in the long term we believe that websites will continue to demonstrate similar growth as last year, as more brands begin to go direct to consumer.

▶ After e-commerce resumed operations post COVID-19, the return rate has seen a dip of ~10-30% depending on the category. The reduced return can be attributed to the new safety norms, increasing demand for essential products, which are generally non-returnable. However, it will be interesting to see if the trend of lower returns continues in the long term.

▶ Post COVID-19, the percentage of self-shipped orders declined from 35% in Feb 2020 to 30% in Jun 2020. This can be attributed to brands trusting marketplace logistics due to better service levels and lower unpredictability during current uncertain times.

▶ As the COVID-19 situation improves across the country, we expect the brands will move towards the self-shipped orders due to higher share of D2C orders and better margins. We expect similar or faster growth in self-shipped orders in 2020-21 as we observed during 2019-20.
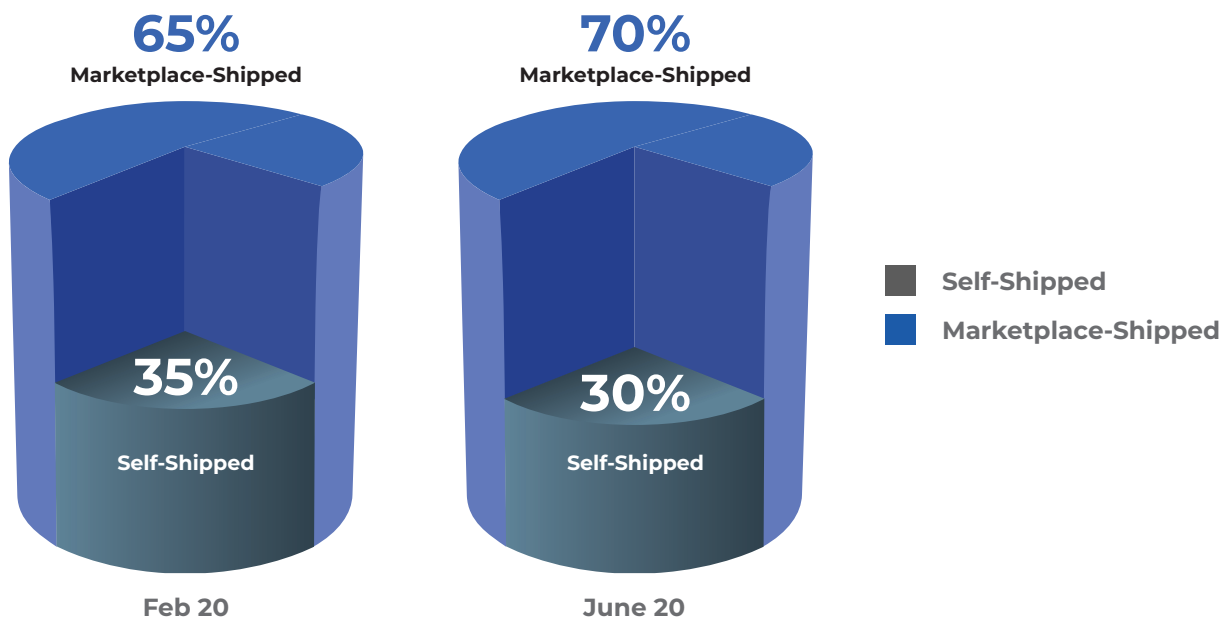
Post COVID-19 Consumer Demand - Across Category

136%	145%	70%	57%	144%	128%	110%	117%
Fashion & Accessories	Electronic & Home Appliances	Eyewear & Accessories	Beauty & Wellness	Health & Pharma	FMCG & Agriculture	Others	Overall

June 20 Vs Feb 20

Consumer Demand Recovery Across Marketplace and Brand Website post COVID-19 Lockdowns

www. Brand Website **115%**

Marketplaces **130%**

June 20 Vs Feb 20

Post COVID-19 share of Self-Shipped Orders

65%
Marketplace-Shipped

70%
Marketplace-Shipped

- Self-Shipped
- Marketplace-Shipped

35%
Self-Shipped

30%
Self-Shipped

Feb 20

June 20

* Brand Websites showed ~17% higher recovery in the Non-Sale month of May-20 compared to Marketplaces

Road Ahead

The world is dealing with one of the biggest pandemics the human race has ever witnessed. Not only has it created extreme turmoil globally, but it has also impacted human lives to a great extent. With each passing day, the world is trying to adapt to the new normal, the virus has brought upon us. Having said that, the e-commerce industry, surprisingly, has been given a significant opportunity to turn things around and provide a major boost to the economy. The early numbers of recovery establish that there is a systematic shift in consumer demand from offline to online. The post-pandemic world will entail new consumer behaviours and retail strategies. Below are consumer and e-retail trends that are going to impact the future of the industry in a big way.

Emerging product categories

As more and more people opt to shop online, the massive increase in the overall number of online shoppers has led to cross-platform user growth. The users who were earlier using online shopping platforms for selected sectors are now shopping across multiple industries. Electronics and fashion, have always been the two segments driving the overall e-commerce growth with almost 70% share. Within the last several months, the new sectors that have garnered consumer interest are the grocery and pharma

sectors. There has been a dynamic change in consumer buying preferences in popular categories or segments such as fashion and electronics. In the fashion apparel sector, there is a significant increase in demand for options such as athleisure wear, comfort wear and nightwear; while in the electronics segment, consumers are increasingly looking for accessories and computer peripherals and products required for easy work from home setting. Another interesting example of product mix change is the cosmetics category, where consumers are buying more eyeliners, whereas demand for lipsticks has declined as wearing masks has become both mandatory and essential.

This has also led to an increase in the overall wallet share for new categories and spending per consumer has also increased significantly in the last year. The e-commerce for alcohol has also become a reality with few states permitting for online liquor delivery to maintain social distance in the country. The other categories, like gym equipment and cycle, have also seen exponential growth with people opting for workout from home.

The new wave of online sellers

The COVID-19 crisis has spurred the adoption of technology and telecommerce, powered by millions of Kirana stores, or local mom-and-pop shops, small merchants, and even farmers. Moving to online platforms have now become inevitable for traditional retailers to keep up with the current scenario.

The local Kirana shops are getting smarter and adopting digital technologies to cater to a wider consumer base and e-commerce players like Jio mart, Swiggy, and Zomato are providing them with necessary technology platforms. This is a win-win situation for both, as it helps e-commerce players to go hyperlocal and meet consumer demand at a much faster rate and help local Kirana stores to increase their sales and target a broader customer base. This will enable the SME players to be part of an organised retail ecosystem. There is also an increasing trend of leveraging messaging app like Whatsapp for e-commerce. Whatsapp for Business has introduced retailers to the power of social commerce, large retail brands are also using Whatsapp Chatbots. A large number of small business owners use WhatsApp to conduct business through messaging and sharing pictures.

Streamlining supply chain with technology and automation

With the industry evolving at a rapid pace and with more than ever demand, there has been immense pressure on the supply chain ecosystem to be error-free and cost-effective. The e-commerce industry has already started witnessing an increasing digital adoption by e-tailers to improve supply chain processes and manage multiple sales channels. The current situation has built a strong case for diversification of supply chain networks to bring stability in the system. This has also led to the democratisation of supply chain, for instance, e-retailers are now pushing slowly on the marketplace model.

Brands going direct to consumer and omnichannel

As more consumers start embracing e-commerce as an integral part of their lives, the rise of D2C and omnichannel is indisputable. So far, the D2C platform was often considered a nice to have platform;

now, it has become a necessity for the brands. The lockdown gave brands a chance to understand the cracks in their supply chain, particularly in the current environment of uncertainty and examine their online direct to consumer (D2C) strategies. Consumers are also evolving and want to make an informed choice by understanding the core values of the brands.

As brands start connecting with consumers through multiple channels, it becomes important for them to have a centralised system to manage product distribution. The adoption of omnichannel solutions helps e-commerce sellers to meet consumer demand, reduce bad inventory, optimise logistics cost and improve operational efficiency. Categories like FMCG and pharma, which have been following the traditional distribution channels, have now built D2C channels, as they understood the importance of creating a direct connect with consumers. The industry will see many emerging D2C platforms and brands adopting omnichannel and hyperlocal solutions in the next few years.

About **Unicommerce**

Established in 2012, Unicommerce is the Indian market leader in e-commerce enablement software for multi-channel, warehouse management and omnichannel services. Unicommerce has emerged as one of the most preferred middleware solutions as it serves over 10,000 registered customers across India, Middle East, South East Asia and South Asia with an average relationship of 4+ years with enterprise customers. Some of its key clientele include Forever New, Chumbak, Jack & Jones, Vero Moda, W, Being Human, Liberty Shoes, Kaff, Guardian Pharmacy(GNC), Metro Shoes, among many others.

Its platform is also seamlessly integrated with more than 100 partners across marketplaces, logistics providers and ERP systems. Few of the key platform partners of Unicommerce are Amazon, Flipkart, Myntra, Shopify, Magento, Delhivery, FedEx, Blue Dart, DTDC, Ginesys, Logic, Tally, among many others.

In its endeavour to simplify e-commerce selling for everyone, Unicommerce has developed various SaaS tools for small sellers, brands and e-commerce companies. The different solution offered by Unicommerce are:

- **Multichannel Order Management** – The multi-channel order solution platform offers seamless integration across 40+ marketplaces and website platforms. This is specially built for multichannel retail business where you can manage orders and purchases in bulk over multiple channels; offline stores, online marketplaces and carts, and can be seamlessly integrated with 10+ ERP systems.

- **Multichannel Inventory management** – The multichannel inventory management solution offers a centralised view of inventory across all marketplaces and websites. It

automates the inventory update, replenishment, sale orders, deliveries, and returns to provide an exact stock position. The platform helps in automatic stock synchronisation to maintain the right balance of stock and stock reordering and helps improve the sales and controls order cancellations.

- **Warehouse management** – Unicommerce WMS is designed to enhance the efficiency of e-commerce operations resulting in superior customer experience. The solution helps in automating all warehouse operations from picking, packing dispatch to how goods are received from the suppliers in the warehouse.

- **Omnichannel management** – Central system across online and offline operations by merging offline and online sales inventory on one platform. Helps the company's route their online orders to the closest offline store to minimize logistics cost and enhance customer experience by reducing the fulfilment time. Can be integrated with both omnichannel marketplaces as well as website platform.

- **Marketplace seller management solution (also called Dropship panel/PO panel)**: Designed for large marketplaces to manage multiple vendors. The vendor panel helps in allocating order to the right vendor and manage inventory and returns across multiple vendors

We also have a Uniware Mobile App which is a comprehensive dashboard where all products can be accessed across multiple channels, in addition to providing complete order processing, inventory management, and various advanced warehouse management features.

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