

# Q4 2020 E-Commerce Trends Report

(October 2020 to December 2020)

**Joint Report By**



**& KEARNEY**

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# Foreword



In the last year, the world dealt with one of the biggest pandemic faced by mankind. Industries and companies across the globe are realigning their strategies and making considerable efforts to revive from the impact of COVID-19 crisis. However, e-commerce as an industry has seen significant uptick in demand during these times.

As we all engrain the new lifestyle with masks , virtual meetings and practice social distancing, the year 2020 will surely be considered a redefining year for the e-commerce industry and consumers at large. E-commerce is gradually becoming an integral part of our lives from being a mere discount seeking channel. As the rising number of consumers started shopping online post lockdown was announced, e-commerce companies and e-tailers left no stone unturned to service this demand and cover up from the losses in other channels. The last quarter of the year is always special for India's e-commerce industry with high sales volume due to the festive season being celebrated throughout the country and lucrative offers along with marketing campaigns by marketplaces and e-tailers. Particularly in 2020 it was an interesting quarter, as it was a real reflection of how much shift to e-commerce is real and long term and how much was triggered by the lock down

In the current financial year, India's e-commerce industry is expected to report the maximum growth ever witnessed. Businesses across sectors are moving online, sectors like FMCG and personal care which were predominantly offline are now seriously considering online and D2C platforms. Companies are deploying multiple technology solutions to meet the rising consumer demand and ensure error-free on-time delivery.

This report assesses the e-commerce growth in Q4 2020 (October 2020 to December 2020) and deep-dives into the sector- wise analysis. It talks about emerging sectors, consumer demand from Tier II and Tier III cities of India and changing consumer preferences. Given the rising number of online shoppers and the maturing ecosystem, this report presents a point-of-view on the rising number of D2C brands and important technology solutions needed to thrive in the ever-evolving e-commerce ecosystem.



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# Executive Summary



## Acceleration of e-commerce growth

The last quarter of 2020 saw e-commerce grow by 36% and 30% YOY in terms of volume and value respectively. The growth accelerated in light of COVID-19 and the effects of lockdown led to a massive change in consumer habits with many new shoppers and sellers coming online.

## New segment making their presence felt

Fashion and Accessories (F&A) and Electronics have traditionally been the two key segments driving e-commerce growth. However, consumers are now shopping across categories. Personal care, Beauty and Wellness (PCB&W) as well as FMCG<sup>1</sup> & Healthcare (F&H) were the biggest beneficiaries and saw volumes grow by 95% and 46% YOY respectively. FMCG & Healthcare (F&H) also reported significant uptick in Average Order Value (AOV) as consumers preferred purchasing in bulk

Electronics segment was buoyed by homebound consumers turning towards high-end products. The category witnessed 12% YOY growth in AOV in addition to 27% YOY growth in volumes and continues to drive the highest share of the e-commerce value

Fashion and accessories continue to be the largest segment by volume. It reported 37% YOY volume growth but AOV declined by 7% YOY even when discounts offered by sellers were marginally lower this year as compared to the same period last year, indicating increased preference of lower value products among the consumers



## Bharat driven growth

New consumers from Tier II and Tier III+<sup>2</sup> cities are driving incremental e-commerce growth. During the quarter in review, these cities accounted for a whopping 90% YOY incremental volume and value growth. As a result, these cities reported significant gains in share of overall e-commerce sales –volume share grew to 46% from 32% and value share to 43% from 26% during the quarter as compared to the same period last year. Tier III+ cities reported particularly impressive growth. While Tier I cities have seen marginal growth in order volume and volume, the sector which has performed exceptionally well in Tier I cities is FMCG

## Direct to consumer getting a new lease of life

Brands are adopting Direct-to-consumer strategy with renewed vigour to develop a strong connect with consumers. The strong volume growth of 94% for brand websites showcases immense potential going forward. The growth of D2C is visible across almost all segments. As an increasing number of brands are looking to build unique online positioning, it will be interesting to see how they manage to attract customers and fare against marketplaces

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1. FMCG as a category predominantly includes food and beverage brands

2. Districts are classified into Tiers based on the latest census information of X, Y, Z classification. X is Tier 1, Y is Tier 2 and Z is Tier 3. For the practical purpose, we have included NCR (Gurgaon, Ghaziabad, Gautam Budha Nagar -Noida) in Tier1 as Delhi NCR. Similarly, Mumbai is Mumbai Metropolitan which includes Thane and Kolkata is Kolkata Metropolitan which includes 24 Paraganas and Howrah.



# E-commerce Trends

# E-commerce growth is driven by rising consumer demand

## E-commerce growth in India



Figure 1: E-commerce volume growth

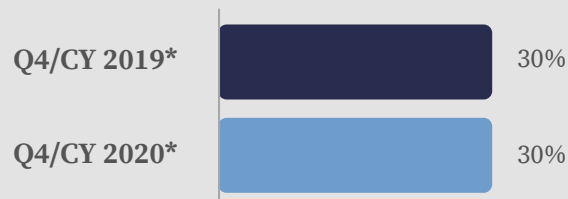


Figure 2: E-commerce value growth

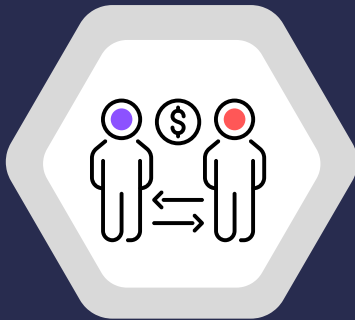


Average order size declined by **5%** in Q4-2020 vs Q4-2109

- ▶ The impact of the COVID-19 pandemic has been widely visible ever since the lockdown was announced in March last year. The e-commerce industry has emerged as the backbone of the retail industry and small and big players have realized the immense potential that e-commerce holds. The e-commerce volume growth continued to accelerate in the last quarter of the pandemic hit year. The last quarter of the year holds a significant value for the e-commerce industry with 'Diwali season sale' and 'end of the year sale' being the marketing-driven and discount led e-commerce campaigns. Even consumer spending is higher in the last quarter of the year for both the online and offline retail industry.
- ▶ The e-commerce volume continues to grow in Q4-2020 with a 36% rise in demand as compared to the same period last year. However, in order to understand the real impact of COVID-19, it's important to measure the growth of the same period during the previous year. The Q4-2019 witnessed a 26% order volume vis-a-vis Q4-2018. The sharp spike in volume growth of Q4 2020 signifies that the demand for e-commerce has increased significantly in the last year.
- ▶ The offline retail continues to have a single-digit growth, whereas the ecommerce sector is growing at a CAGR of more than 20%. This has led to an increasing number of offline players venturing into the online world and focusing on creating a mark in the online ecosystem. It's also leading to the increasing adoption of D2C model.

- ▶ However, it's interesting to observe that value growth in Q4 2020 as compared to the same period last year remained similar to Q4 2019 growth vis-a-vis Q4 2018. The last quarter has reported maximum growth in the whole year, which is a strong sign for the Indian economy.
- ▶ The disparity between the volume and value growth in the last two years is a consequence of new consumers from Tier II and Tier III+ cities and uptick in low-value products and categories. This has led to reduced average order size by 5% for Q4 2020 as compared to Q4 2019.
- ▶ This online retail acceleration was led by pandemic driven necessities. Initially, consumers were reluctant to venture out into physical stores and thus opted to shop online which led to the surge in the number of first-time online shoppers. However, the continuous growth in every quarter and the phenomenal response during festive season sale reflects the fundamental change in consumer behaviour and rising acceptance towards online shopping

## Key Highlights



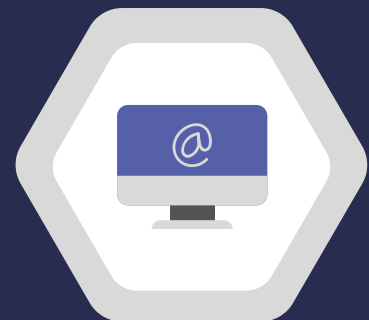
**Growth of value-conscious consumers**



**Sharp surge in first-time shoppers**



**Increasing demand for low-value product categories**

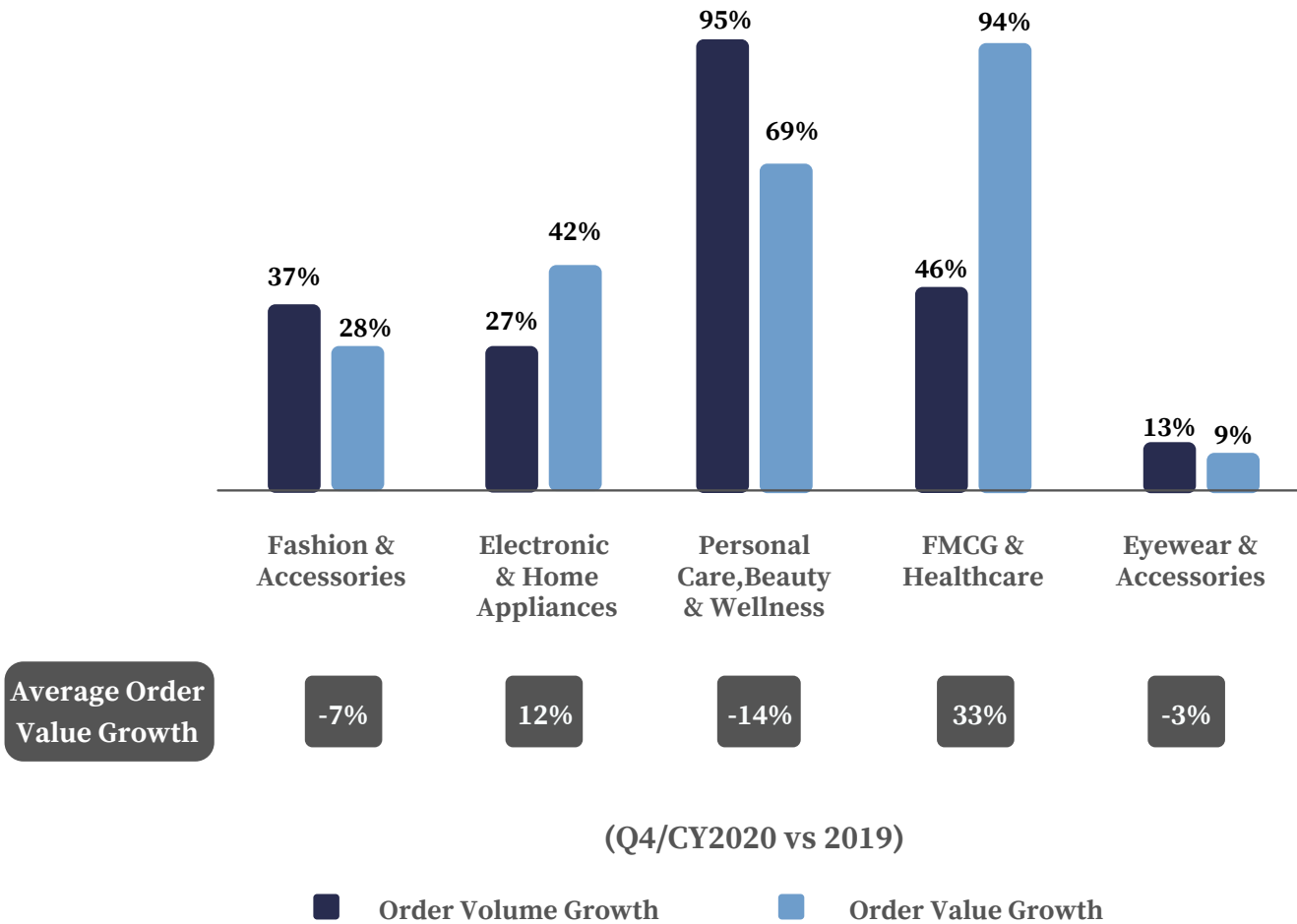


**Rising number of Brand Websites**



# Personal Care and FMCG: Emerging star categories of e-commerce growth

Figure 3: Category-wise order volume and order value growth



- ▶ The Personal Care, Beauty and Wellness category has witnessed stupendous volume growth of over 95% in Q4-2020 as compared to the same period last year, making it the category with the highest growth in the industry (see Figure 3). The volume growth is well supported by the overall value growing by 70% YoY during Q4. The sector has seen an upsurge with a host of new online players that are driving the volume growth and are giving tough competition to traditional brands with a global presence. The slower growth of value as compared to volume signifies that people are buying lower value products and becoming value-conscious, this had a direct impact on Average Order Value (AOV) for the category with a sharp decline of 14% in Q4 2020 (see Figure 3).

- ▶ FMCG & Healthcare is another category that has shown a significant uptick in YOY volume growth (see Figure 3). The lockdowns and reluctance to venture out resulted in many first-time online grocery shoppers, making it an important category for mainstream e-commerce players like Flipkart and Amazon to actively focus and promote the grocery business. The strong focus on FMCG has provided a pathway for the accelerated value growth of 94% in Q4-20 compared to the same period last year. This is the maximum value growth registered by any category in this quarter. The strong value growth is supported by the 46% order volume growth in Q4 2020. This has helped the category to achieve the highest AOV growth of over 33%, with the increased size of the consumer basket as consumers seek larger packs/ more SKUs.
- ▶ In response to changing consumer habits, major FMCG companies in India are now looking to ramp up e-commerce efforts with many adopting online-only or online-first for select brands and products. The category is expected to witness a fair share of innovations with the entry of new players in the next few years.
- ▶ The Electronics and home appliance has always been the category with the highest order value, with a strong consumer base in metropolitan and Tier I cities, therefore, the category was witnessing a steady volume growth of 10% in Q4 2019. However, the situation was completely different this year as the category witnessed volume growth of 27% and value growth of 42% in Q4 2020 as compared to the same period last year. It's the only category after FMCG that has recorded an increase in AOV. The category saw an uplift of 12% in the AOV.
- ▶ Demand for electronic goods was facilitated by the pent-up demand after months of lockdown. Consumers also turned towards 'quality' high-end purchases for items such as high-end TVs and dishwashers as they are spending more time at home.
- ▶ The Fashion & Accessories category saw a 37% volume growth in Q4 2020 with an average order value growth of 28%. Despite being one of the most mature categories with the largest share of order volume, it continues to showcase constant growth and the numbers are almost similar to the overall industry growth. However, YOY AOV declined by 7% (see Figure 3), even when discounting reduced during the current period, indicating the preference for lower value products/categories such as comfortwear, nightwear etc.

### **Additional Information:**

**Online lags offline on price premium for Apparel.** E-commerce is a discount led industry. For online Apparel sales, the average discount rate ranges between 37 - 45%. The offline brick & mortar concept is driven by a different consumer mindset looking for high quality specially curated products based on personal preferences with a much lower price elasticity than online purchases leading to lower average discounts leading to a price differential of 12 – 20 percentage points compared to online channels.



## FMCG & Healthcare Biggest Gainer

33%

Average Order Value Gain

46%

Order Volume Growth

94%

Gross Merchant Value Growth

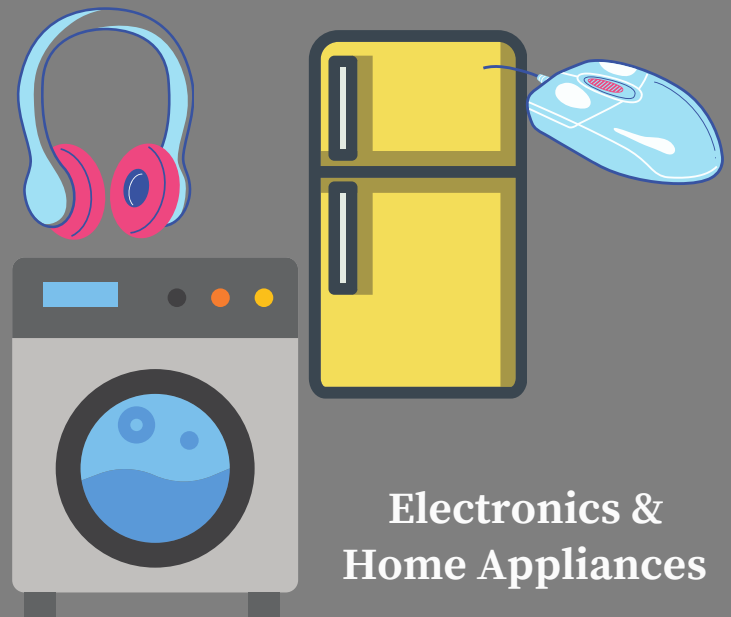
### Category with Highest Order Volume

Fashion & Accessories

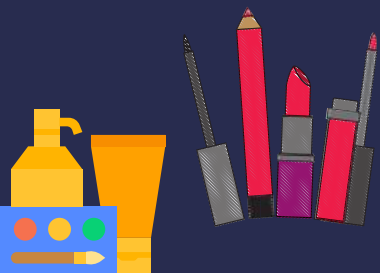


### Category with Highest Order Value

Electronics & Home Appliances



95% Personal care and Beauty and Wellness demonstrated highest order volume growth

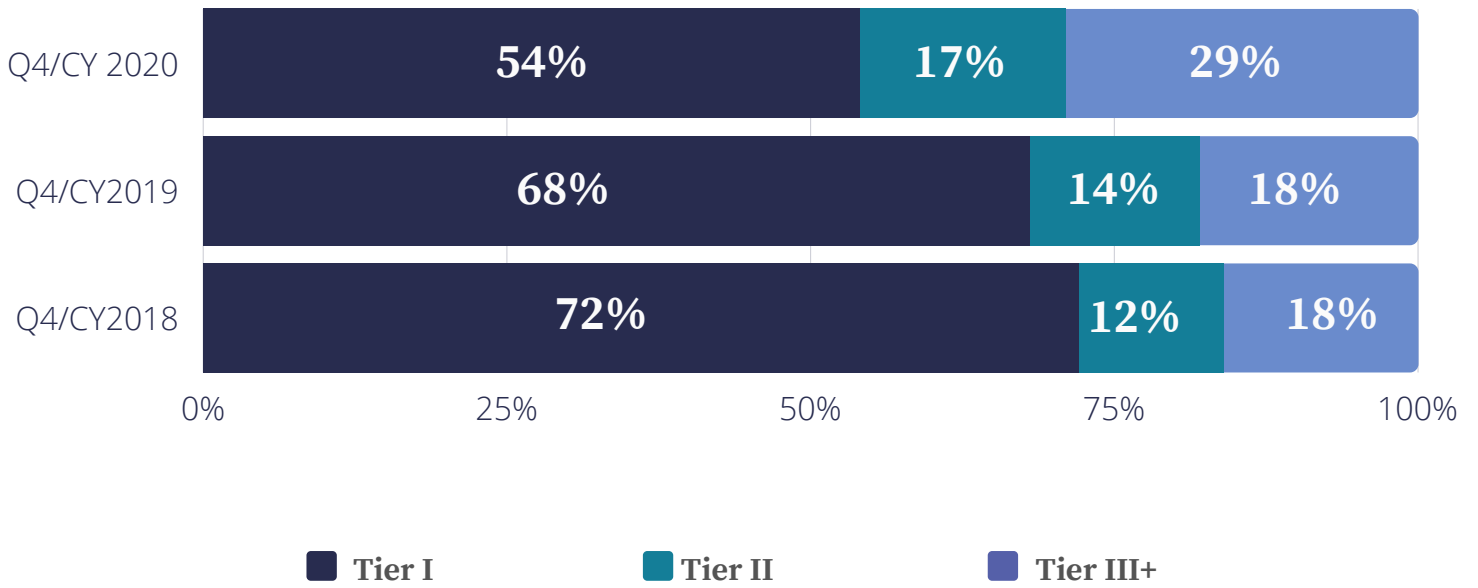


# Tier-II and beyond continue to drive e-commerce growth

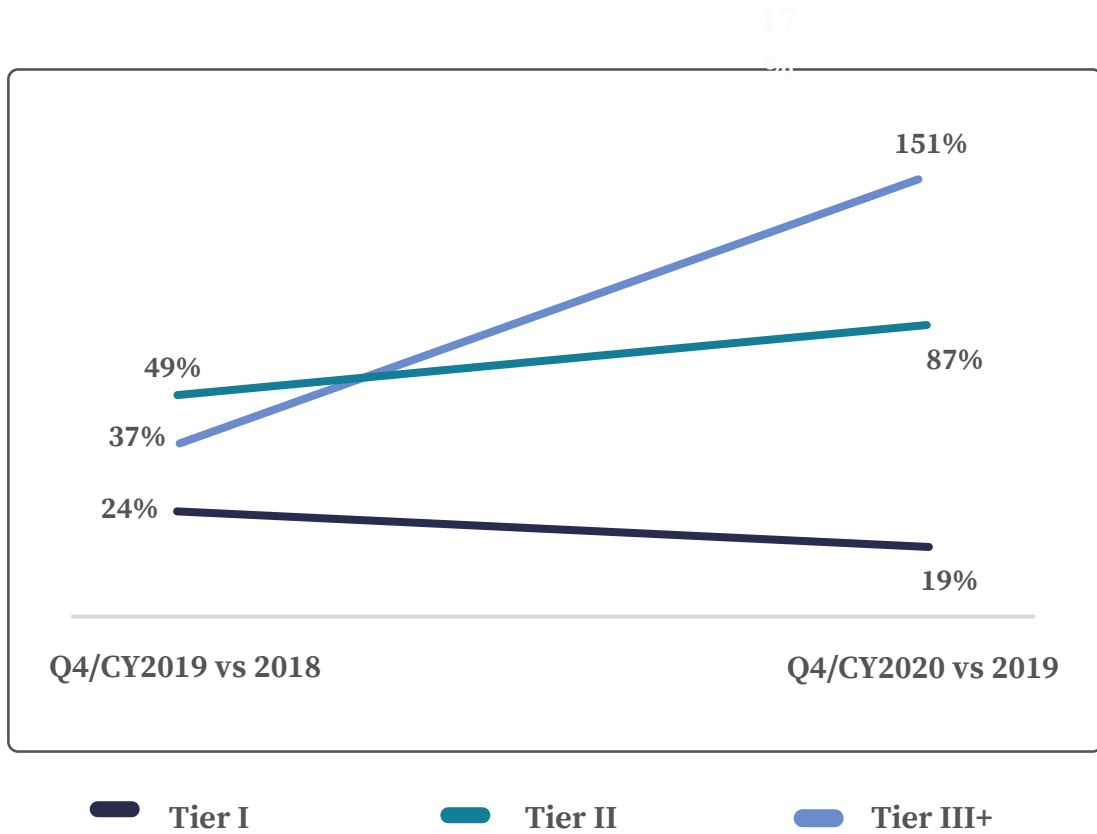
- ▶ The traditional metropolitan and Tier I cities continue to command the lion's share of volume and value (see Figure 4). As e-commerce companies start increasing their focus on Tier II and Tier III+ cities, their contribution to the overall e-commerce pie continues to increase gradually over the last few years. The total contribution of Tier II and Tier III+ cities increased from 32% in Q4 2019 to 46% in Q4 2020, eating up the 14% share of traditional metropolitan and Tier I cities.
- ▶ The much talked about growth of e-commerce in 'Bharat vs India' is clearly visible as the Growth of Tier II and Tier III+ cities far outpace Tier I cities. Meanwhile, growth in Tier I cities slowed down to 19% (see Figure 5). It is expected that e-commerce in Tier II and Tier III+ cities will continue to expand at a faster pace as was observed through an astonishing growth of 87% and 151% in Q4 2020 respectively as compared to the same period last year.. The growth is supported by multiple factors like the rising adoption of social commerce, faster and timely deliveries, content in vernacular language, and rising adoption of digital payment coupled with greater internet penetration.
- ▶ The consumers in Tier III cities are the biggest shoppers of Q4 2020 with steep value growth of 178% in Q4 2020 from 66% in Q4 2019 vis-a-vis Q4 2018. Tier III cities also reported phenomenal growth in order volume growth from 37% growth in Q4 2019 vis-a-vis Q4 2018 to astonishing growth of 151% in Q4 2020 as compared to Q4 2019.
- ▶ Tier I cities and metropolitan are the mature geographies where e-commerce has already built a strong presence. If we further deep-dive and evaluate category-wise growth basis geography, then FMCG and Healthcare category reported the strongest growth in Tier I cities. The bigger categories such as Fashion & accessories and Electronics & home appliances have shown maximum growth in Tier III cities. These categories were earlier the major growth drivers of Tier I cities. Personal care is the only category that has reported almost similar growth across regions of India



**Figure 4: Cluster-wise share by volume**



**Figure 5: Tier Wise Volume Growth**



**90%** Incremental volume growth from Tier II+



2X volume growth in Tier II+ cities as compared to 2019



**FMCG** the fastest growing category in Tier I and metropolitan with 150%+ growth



**Personal Care Sector** with 300%+ growth across geographies



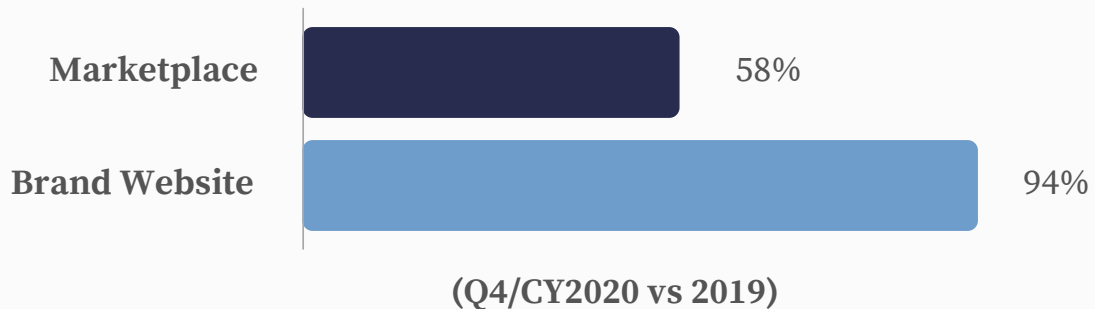
**Fashion & Accessories and Electronic** reported 100%+ growth in Tier III cities

**Volume Growth Rate** in Tier III+ cities in 2020 was 4X+ as compared to 2019



# D2C seeing an uptick

**Figure 6: Brand Website vs Marketplace Growth**

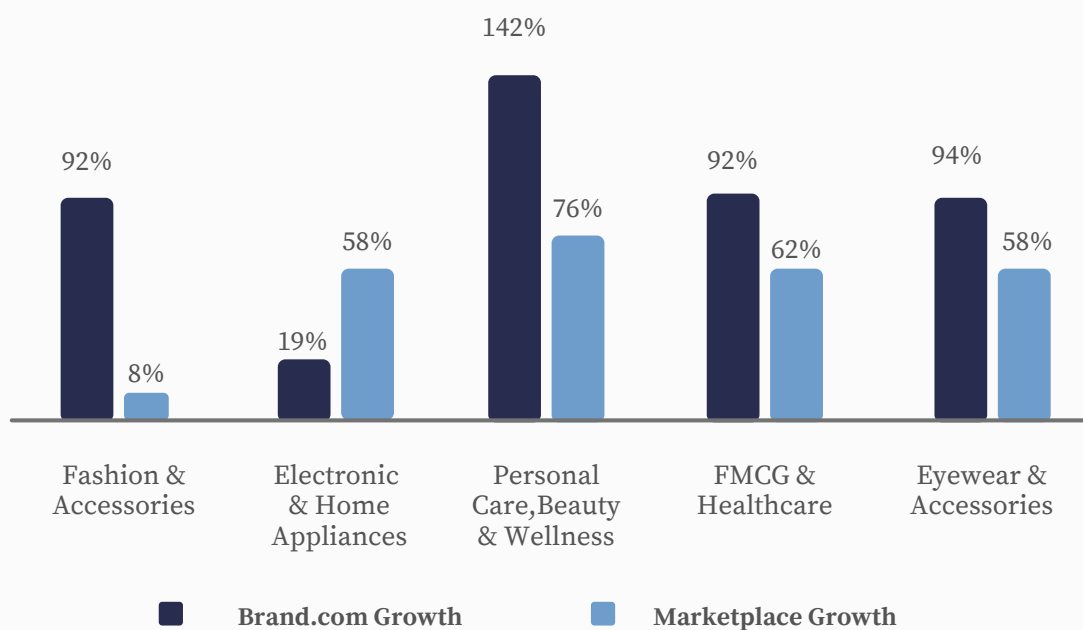


The pandemic and the initial lockdown have given a rise to the growing trend of D2C. Brands' own websites are finally turning a page in the Indian e-commerce space. The rising consumer demands and maturing e-commerce ecosystem has led to brands focussing more on selling to consumers through their own websites. Many new sellers chose the brand.com route to drive sales – the number of clients investing in developing their own websites increased by 51% YOY in Q3 and 66% YOY in Q4 20.

- ▶ As the rising number of e-tailers start developing their own websites, the brand websites will continue to see order volume growth. Brand websites have recorded a startling growth of 94% in Q4 2020 as compared to the same period last year, while the marketplaces saw a growth of 58% during the same time frame. Brand websites have showcased at least 3-4X faster growth than the marketplaces in previous quarters. However, marketplaces have been able to perform fairly well in the Q4 2020 due to strong promotion of the festive season and year-end sale period and celebrity-driven sales campaigns for the same.
- ▶ Multiple trends that support the growth of D2C include the development of plug-and-play supply chain and logistics options enabling brands to compete with marketplaces for fulfilment. Since D2C as a trend has picked up in the last few years, their contribution to overall e-commerce is minimal as of now, however, it's expected to increase in the years to come.

- ▶ Personal Care, Beauty & Wellness have been the biggest gainers of the D2C trend. In the light of the low online presence of established offline beauty retail players, it gave rise to digital-first players in the category. These players addressed niche whitespaces by introducing new products at attractive price points to attract young online consumers. The new-age digital-only D2C brands continue to drive the category growth with 142% growth of brand website as compared 76% growth on the marketplace
- ▶ Fashion and accessories as a category is witnessing a rising number of D2C brands in India. Even big offline retail players are now focusing on selling through brand websites. Therefore, there is a huge gap between the growth of D2C vis-a-vis the marketplace in Q4 2020. The brand websites reported growth of 92% as compared to the slow growth of just 9% on marketplaces.
- ▶ FMCG and pharma as a category reported impressive growth on the brand website as well as marketplaces. The category reported growth of 92% on the brand website and 62% growth on the marketplaces. The foods category within FMCG saw the rising adoption of direct-to-consumer models
- ▶ Large brands which have been following the traditional approach are also launching own-brand stores to capitalize on increasing acceptance of online purchases, premiumizing their portfolio and improve customer connect.

**Figure 7: Brand website vs Marketplace Volume Growth (Q4/2020 vs 2019)**





# Key imperative for retail companies



## 1. Winning in new markets

Tier II and Tier III+ cities accounted for 90% of incremental YOY growth - it's imperative for brands to seek growth opportunities in these regions. It would serve brands well to adapt to the needs of these regions – steps such as tailored price points, use of vernacular content and leveraging social commerce can help drive penetration. They can seek partnerships with rural-focused marketplaces and assisted e-commerce companies to successfully foray into these regions.

## 2. Protect turf in wake of increased competition

In select categories, companies with existing online presence are facing competition from new entrants and digital native players and will need to re-orient their strategies in response to the evolving competitive landscape. For instance, in Personal Care, Beauty and Wellness category, digital-native players saw volumes and value grow much faster than overall category growth. These brands have succeeded on the back of identifying and exploiting whitespaces in the market – they are particularly adept at launching new products in the market at a much faster pace. Similarly, large e-commerce players within FMCG need to augment capacity across the value chain from procurement to fulfilment to cater to increased demand in wake of COVID-19.

### 3. It's time to relook at D2C strategy

An increasing number of brands are turning to brand.com route resulting in higher traffic and sales. During the quarter, sales volumes across brands' own websites grew by 94% YOY which is substantially higher than overall e-commerce growth of 36% YOY. The divergence in the growth of traffic on brand.com and overall e-commerce became more prominent in 2020 compared to 2019 when corresponding growth was reported at 54% YOY and 26% YOY respectively. Though it is important to consider a brand.com play, numerous established brands have experienced limited success due to a myriad of challenges. Some of the key challenges brands face include high customer acquisition cost (CAC) and lack of technological prowess to compete with marketplaces. There are three key success factors to overcome these challenges and create a viable brand.com play -

- ▶ Differentiated Product Assortment - Switching customers online with digital-first launches, customized offerings & prioritizing fresh arrivals over marketplaces can help drive traffic
- ▶ Targeted marketing - Direct targeting of offline consumers and partnerships with payment service providers can lower customer acquisition cost (CAC). A dedicated digital marketing and content team to create top of the funnel traffic and engagement is critical. Further, building a loyal customer base via subscriptions/loyalty programs can improve marketing efficiency.
- ▶ Technology & Analytics – Investments in technology to enable smart cataloguing and back-end tech such as omnichannel integration and warehouse management system along with analytical capabilities to bring out customer insights becomes critical.

### 4. Important to win the supply chain battle

The thin margins in E-commerce and rising customer expectations for faster delivery lead times make it imperative for brands to set up a robust supply chain. Investment in forward and reverse supply chain capabilities with technology-led integration across channels (marketplaces, own websites & offline) is critical for success. Each category has its own share of supply-chain challenges and there is no one solution that fits all. Companies need to find a tailored supply-chain solution that helps them automate the processes and improve business efficiency. For example, cosmetic products require different shipping label printouts due to their smaller size or an electronic brand may have different SLA's as compared to an apparel brand, an FMCG company may require more complex integrations etc.

Having said that, establishing a robust supply chain is a journey that often takes 12 – 18 months – lack of adequate investments in technology for order, inventory & warehouse management as well as shipping can further lengthen the journey. Investment in robust reverse supply chain capabilities is also important to handle returns effectively which can improve profitability by preventing inventory obsolescence and stockouts.

## **5. Build a new e-commerce salient organization**

Dedicated teams with specialized skill sets (e.g. – digital marketing) and industry experience would act as the backbone of any e-commerce driven organization or business unit. Organization structure and incentives need to be designed to support differentiated objectives of e-commerce and various channels (e.g. – Ship from store KPIs for store sales staff for omnichannel play).



## 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, Udaan, Jack & Jones, Vero Moda, W, Marico, Kaff, NetMeds, 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. Unicommerce offers an array of online selling solutions which includes Multichannel Order Management, Multichannel Inventory management, Warehouse management, Omnichannel management and Marketplace seller management solution. The company has developed a Uniware Mobile App for its consumers

### To Know more:

<https://unicommerce.com/>



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# KEARNEY

## About Kearney

As a global consulting partnership in more than 40 countries, our people make us who we are. We're individuals who take as much joy from those we work with as the work itself. Driven to be the difference between a big idea and making it happen, we help our clients break through.

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