BHARAT

B-COMMERCE SOARS:

DIGITIZING INDIA'S STOREFRONT RETAIL

JULY 2021

SMAHI

ABOUT SMAHI FOUNDATION OF POLICY AND RESEARCH

Smahi Foundation of Policy and Research is a non-profit organization based in Bengaluru. The word Smahi stands for progress. Smahi Foundation of Policy and Research (Smahi) works towards forward-looking policy making and harmonization of stakeholder views on issues of public policy to lead India towards progress. We focus on technology-led solutions to spur creation of stronger public digital infrastructure.

AUTHORS

RITU BHANDARI
Head of Research, Smahi

Ritu Bhandari is a Chartered Accountant and Chartered Financial Analyst, with extensive experience in the banking industry.

@Ritu_twt

NIMISH JOSHI
Director, Smahi

Nimish Joshi is an engineer and MBA, with experience in conceptualizing, funding and scaling technology businesses.

@nimish_joshi

https://twitter.com/SmahiFoundation

Contact us: smahifoundation@gmail.com

BHARAT B-COMMERCE SOARS:

DIGITIZING INDIA'S STOREFRONT RETAIL

July 2021

CONTENTS

01

EXECUTIVE SUMMARY

India has **500 million** Internet users and another 500 million will soon be online. India is the second largest online market and it also the largest market which is not yet online. This delicious irony makes India both a natural home for unique and customized commerce models as well as the ideal battleground for multiple ways to reach a customer base, spread deep and wide.

First time adopters in tier two and three cities are now looking at commerce not as an elite luxury but an integral part of their shopping habit.

Bharat Commerce or B-Commerce is an idea which will keep evolving and adding rapid local innovations. Indian technology firms are increasingly focused on solving Indian problems the Indian way and the shift from replicating western success stories in India to reducing existing friction will be most obvious in B-Commerce. This shift has also been accelerated due to the **Covid-19 pandemic,** which has rapidly increased digitization of business as well as catalysed user habits with respect to digital adoption.

Online penetration of retail in India is expected to reach **10.7 per cent** by 2024, versus 4.7 per cent in 2019. Comparatively, China's online penetration rate was **45 per cent** and USA **20 per cent** in 2020. B-Commerce growth can help transition the huge informal sector in India to a formal economy and generate higher tax revenues. It opens up huge space for small businesses to expand their reach and create a location agnostic customer base. Given that bulk of the Indian businesses are very small, an increased reach can also help scale the average firm size, which in turn will lend itself to greater formalization. This virtuous loop makes B-Commerce critical for India's economic outlook.

Meesho, which recently turned a unicorn, is India's leading social commerce channel for unorganised and unbranded retail. With its unique marketplace model, it empowers women entrepreneurs to start their business with zero investment.

Many new age companies are driving the growth of B-Commerce. Using social selling as a construct, new sellers, intermediaries as well as buyers are being brought online. **Facebook** and **Instagram** helped create first digital storefronts for small sellers. This helps women gain financial independence and carve an identity for themselves. **WhatsApp** is becoming an important tool that drives reach for these small app-based sellers.

The major challenges in offline businesses are high fixed and working capital costs, huge unsold inventory and low customer purchase frequency. Digital operations significantly reduce cost of operations. However, the government policies need to keep evolving to keep pace with the increasing business model innovation and to be conducive to the buyers and sellers coming online at the margin. Currently, a lot of rules governing e-commerce have been enacted keeping in the mind the traditional oligarchic industry structure.

We recommend bringing in facilitative changes to prevalent laws to spur small ticket innovation.

A key aspect of an accommodative government stance will be to remove the disparities in GST applicability for online suppliers relative to offline sellers.

While the former mandatorily register for GST, the latter only register after attaining a certain business volume. Removing this anomaly can fuel faster digitization in the economy commensurate with the objective of **Digital India.** Additionally, increasing the ease of doing business online by reducing cumbersome compliance, incentivizing MSMEs to digitize faster, facilitating easier capital access, credit and reduced borrowing costs is important. The retail market should be regulated uniformly regardless of it being a brick-and-mortar store or a digital platform.

02

OVERVIEW

Industry Size

Global Trends

Huge headroom for growth in India

Covid-19 pandemic has significantly disrupted e-commerce worldwide.

While the first three months of the pandemic and lockdown, saw a sharp drop in business levels, there has been a more than commensurate recovery thereafter. This has been facilitated by increased adoption of online shopping along with digital payments by 'first time' users as well as increased activity in the tier 2 and 3 cities. Increasing digitization of small businesses across the country and hyper-local logistics have also contributed to this trend. Poor economic conditions have forced people to search for new ways to earn income.

Massive shifts in consumer purchasing behaviour that would have occurred over many years has taken place in a Covid-19 year. The pandemic has helped change people's mindsets, who were typically used to a 'touch and feel' shopping experience to online shopping done at the safety and convenience of one's home, inculcating social distancing, contactless delivery and digital payments. Consumers, many of whom are new to online shopping, are relying on e-commerce for the purchase of goods and food, almost to the exclusion of the brick-and-mortar channel.

The last quarter of 2020 saw India e-commerce grow by **36 per cent** and **30 per cent** year-on-year (y-o-y) in terms of order volume and gross merchandise value (GMV) respectively, as compared to the same period last year, as per the e-Commerce Trends Report, released by Unicommerce and Kearney.

Personal care, Beauty and Wellness (PCB&W) and FMCG & Healthcare (F&H) categories' volumes grew by **95 per cent** and **46 per cent** y-o-y respectively with brand websites reporting a **94 per cent** volume growth. Tier 2 and 3 cities accounted for a whopping **90 per cent** y-o-y incremental volume and value growth.

MASSIVE SHIFTS IN CONSUMER PURCHASING BEHAVIOUR

- Touch and feel shopping experience giving way to online shopping done
- Safety and convenience of one's home
- Inculcating social distancing
- Contactless delivery
- Digital payments
- First time' users
- Increased activity in the tier 2 and 3 cities
- Hyper-local logistics

INDUSTRY SIZE

According to a report by World Economic Forum, India will be the world's third-largest consumer market by 2030, behind USA and China.

India e-commerce is at a nascent stage and therefore, is expected to gain solid growth trajectory in line with global trends. E-commerce is estimated to be a **$30 billion** GMV industry in India in FY20, as per Bain and Sequoia's December 2020 report.

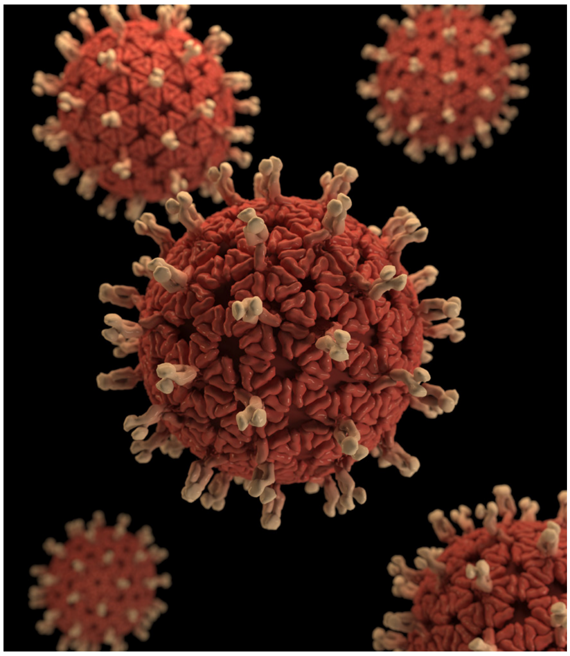
India e-commerce is expected to reach **$99 billion** by 2024, growing at a 27 per cent CAGR over 2019-24, with grocery and fashion/apparel likely to be the key drivers of incremental growth, as per the latest E&Y India Trendbook. Currently, consumer electronics and apparels each account for **40 per cent** share of retail e-commerce in India. Though only ~1 per cent or **~$10 billion** of India's grocery sales is expected to be online by 2023.

Social commerce, which is currently valued at $1.5-2 billion will be worth as much as $20 billion by 2025 at a CAGR of 60 per cent, touching nearly $70 billion by 2030 at a CAGR of 30 per cent, as per Bain and Sequoia's December 2020 report.

Social commerce and digitizing small kiranas in the neighbourhood stores in the country are the likely trends for driving e-commerce in tier 2 cities and beyond. In a recent report, UBS analysts identified social commerce and B2B marketplaces as potential sources of competition to e-commerce firms such as Amazon and Flipkart in India.

Offline and online businesses are converging and it is this collaborative model that will be the mainstay of retail growth in India.

The NASSCOM report predicts that by 2030, the offline and online collaborations will create nearly **12 million jobs,** grow e-B2C exports via commerce to **$125 billion** (from the current estimated $2.1 billion) and contribute nearly **$8 billion** in incremental tax collection, accounting for 37 per cent of total retail tax contribution.



In this report, we focus on retail e-commerce of goods viz B2C, B2B and social commerce across various categories including FMCG, electronics, groceries, furniture, fashion/apparel and luxury goods.

GLOBAL TRENDS

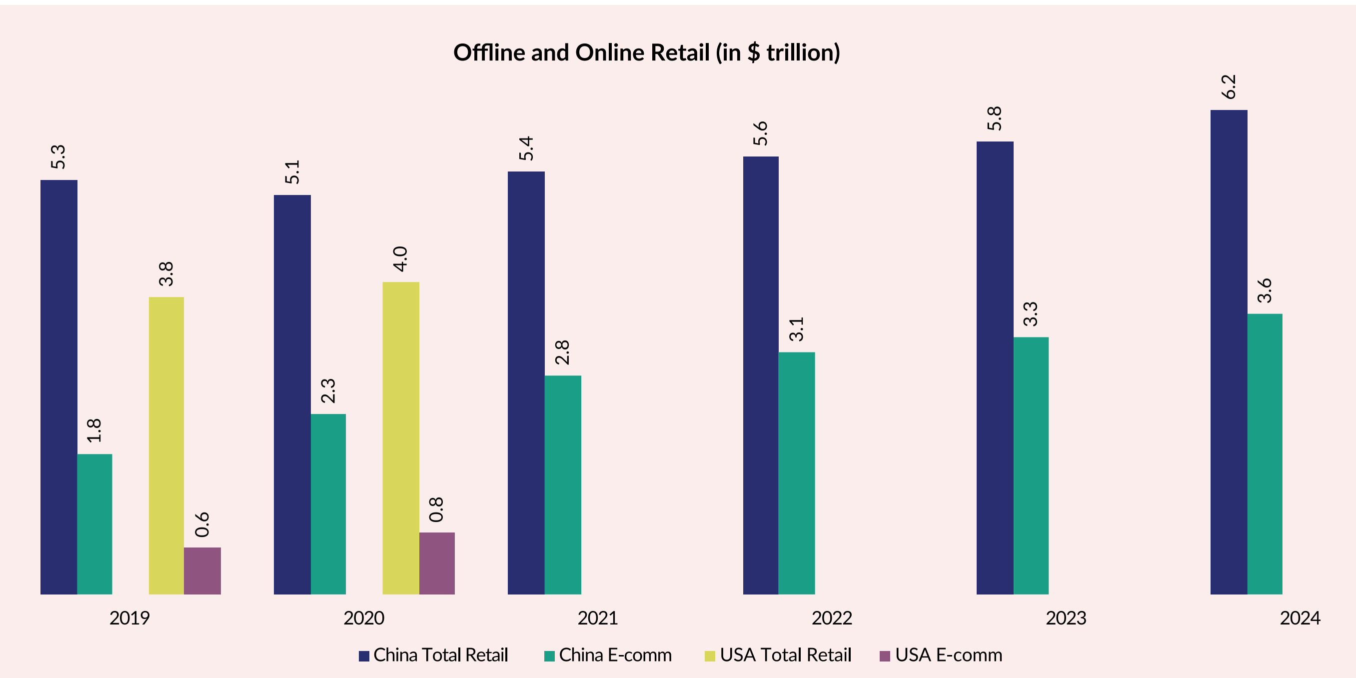
The pandemic transformed retail in 2020. The global online retail sales expanded by 32 per cent in that year, even while the overall retail market contracted by over 2 per cent as per a report by The Economist Intelligence Unit. Online grocery has been the biggest beneficiary, expanding from a small base pre-Covid to account for the lion's share of online sales in most markets.

If we look at global trends, retail e-commerce in China is projected to increase from $2.3 trillion in 2020 to $2.8 trillion in 2021, as big as India's GDP. China's online penetration rate at 45 per cent in 2020 far exceeds the 20 per cent of USA.

In China, social commerce has grown tremendously from $10 billion (i.e. 1 per cent of e-commerce) in 2015 to $250 billion (i.e. ~10 per cent of e-commerce) in 2020, based on industry reports.

In USA, e-commerce sales hit **$792 billion** in 2020 up 32.4 per cent from $598 billion in 2019, according to U.S. Department of Commerce. This is more than double the 15.1 per cent year-over-year jump in 2019. Amazon represented more than a third—or 38.3 per cent—of all e-commerce spending in 2020 in USA. Amazon recorded revenues of $303 billion in 2020, up by 41.4 per cent from $214 billion in 2019. That's more than double Amazon's 19.1 per cent online revenue jump during 2019.

Euromonitor International projects that half of the absolute value growth for the global retail sector over the 2020-2025 period will be digital. China and USA will account for 55 per cent of that value growth in e-commerce opportunities, which is to be expected from the largest e-commerce markets globally.



Source: Digital Commerce 360 Retail News; others

HUGE HEADROOM FOR GROWTH IN INDIA

There is a huge headroom for growth in internet penetration, smart phone penetration, online penetration of retail, e-retail shopper penetration and average online spending in India.

As per 2019 estimates, India had an internet penetration of 41 per cent (572 million) as compared to China 60 per cent (854 million) and USA 89 per cent (296 million). Comparatively, India had a smart phone penetration of 28 per cent with China at 55 per cent and USA at 72 per cent in 2019.

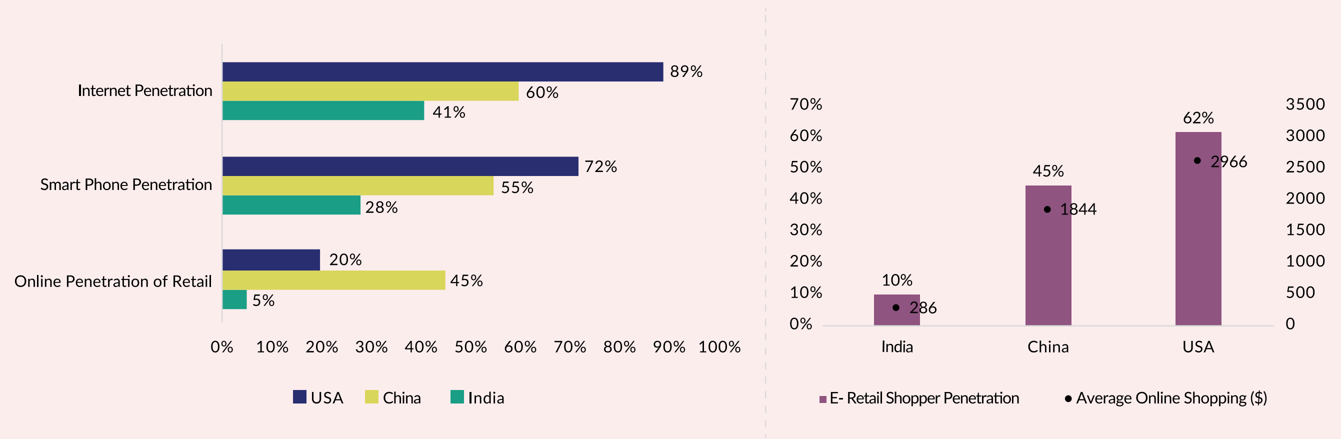
Online penetration of retail in India is expected to reach 10.7 per cent by 2024, versus 4.7 per cent in 2019. China's online penetration rate was 45 per cent and USA 20 per cent in 2020.

While India is poised for a strong growth in e-commerce, currently less than 10 per cent out of India's 80+ million small businesses sell online (including mom and pop stores), while less than 15 per cent of Indian retail market is organised.

At present, only ~10 per cent of the 700+ million internet users in India use online marketplaces, which is expected to reach 220 million by 2025. Comparatively in 2019, USA had an e-retail shopper penetration of 62 per cent (205 million) and China 45 per cent (637 million).

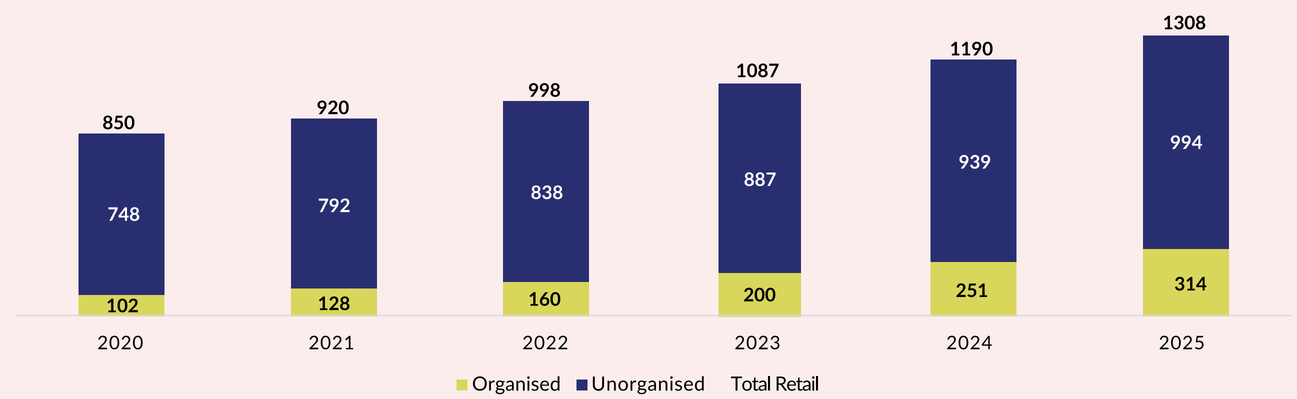
As per 2019 estimates, average online spending in India was $286 per annum, which is much lower than other countries like USA $2,966 and China $1,884 per annum.

GLOBAL TRENDS IN E-COMMERCE:



Note: All data pertains to 2019, except online penetration of China and USA, which is for 2020
Source: Bain and Sequoia's December 2020 report; E&Y India Trendbook

INDIA'S RETAIL MARKET ($ BILLION)



Source: Retail 2020 Report, BCG

03

DRIVERS OF E-COMMERCE IN INDIA

Rising internet and mobile phone penetration

Rising adoption of digital payment solutions

Increasing digitization of MSMEs

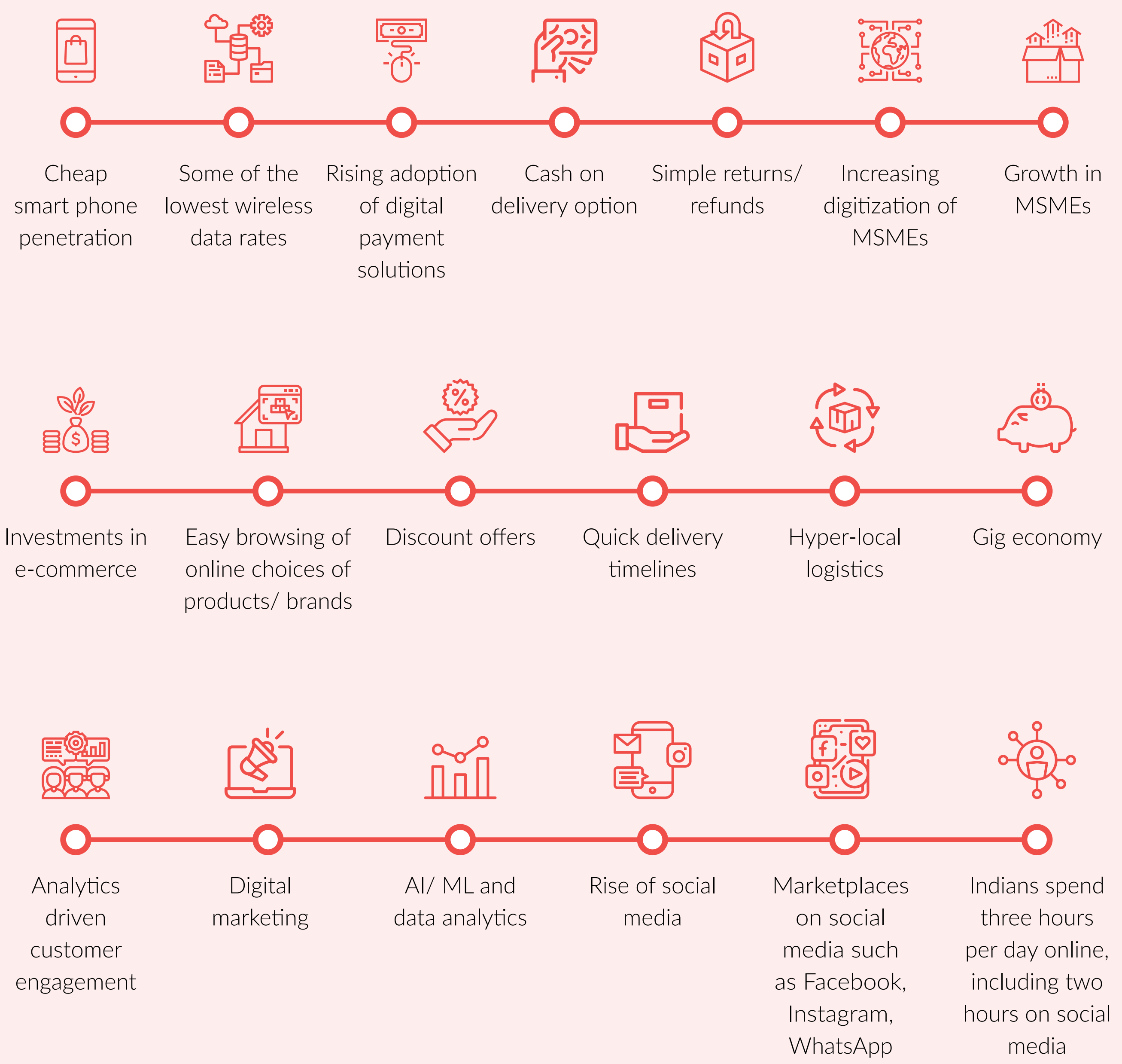
Investments in e-commerce

Covid-19 only accelerated the disruption, traditional brick and mortar retail was feeling. While, the current crisis is temporary, the effects on consumer shopping habits will be long-lasting.

Various factors that have driven retail e-commerce are easy browsing of online choices of products/ brands, discount offers, quick delivery timelines, cash on delivery option, digital payment solutions and simple returns/ refunds. Growth in MSMEs, hyper-local logistics, gig economy, analytics driven customer engagement, digital marketing are also helping e-commerce.

E-commerce players are using AI/ ML and data analytics to analyze consumer data and understand their preferences to drive sales. For eg. online fashion retailing will increasingly involve AI to allow customers to visualise themselves wearing the products they wish to buy. Rise of social media and marketplaces on social media such as Facebook, Instagram, WhatsApp are boosting social e-commerce in retail.

DRIVERS OF E-COMMERCE



RISING INTERNET AND MOBILE PHONE PENETRATION

Rising internet and mobile phone penetration have changed the way we communicate and do business. India has a high tele-density of **85 per cent** (urban 137 per cent and rural 59 per cent).

India has large and widespread cheap smart phone penetration with some of the lowest wireless data rates, contributed by Jio's ability to provide world's cheapest 4G LTE services.

While the average Indian, until 2013, spent more on voice services than on mobile data services, a significant share of an average mobile bill now pertains to data charges according to a report by the Internet and Mobile Association of India (IAMAI).

Recent evidence indicates that Indians consume on an average about 10 GB data every month. 5G would be a great enabler. Digitally connected Indians spend an average of three hours per day online, of which more than two hours are consumed by messaging, social media networking and watching videos.

There is still a huge headroom for growth in internet penetration, smart phone penetration, e-retail shopper penetration and average online spending in India. *(Refer table 2)*

(IN MILLION)

1,151 M	830M	734M
Wireless telephone subscribers (as at October 2020)	*Smart phone subscribers (expected 830 million by 2022)	Internet subscribers (as at October 2020)

Source: RBI Book on Payment;
*As per a report by the Indian Cellular & Electronics Association and management consultancy KPMG

RISING ADOPTION OF DIGITAL PAYMENT SOLUTIONS

The launch of the indigenously developed **UPI**, a platform for making payments between any bank and smart phone app, in 2016, is a watershed moment for the digital payments industry. UPI transactions have been growing at a break neck speed with about 100 million active UPI users. The transactions crossed the 2 billion mark in October 2020 and crossed Rs 4 trillion in value in December 2020, as against Rs 21 trillion in FY20.

In a bid to increase merchant adoption of digital payments, the government had abolished MDR on UPI and RuPay debit card w.e.f. December 30 2019. RBI has supported numerous innovations in payment mechanisms, such as contactless card payments, tokenisation and scanning of QR code for making payments using smartphones.

Doorstep QR code payments for post-paid orders

Recently, NPCI has come up with innovative solutions such as doorstep QR code payments to replace Cash on Delivery (CoD) for post-paid orders. Snapdeal has partnered with NPCI to allow shoppers to make QR-based digital payments at the time of accepting delivery of their orders. The facility is aimed especially at new or first-time users who are not comfortable in pre-paying for the goods at the time of purchase. The facility will work with all UPI-payment options. This integration is aimed at increasing the usage and adoption of UPI-based payments in smaller cities.

INCREASING DIGITIZATION OF MSMEs

MSME, with **63 million units**, constitutes about **90 per cent** of all enterprises in India, employing over **120 million** people and contributes significantly to the GDP. This excludes the millions of small units operating from home such as housewives, small boutiques, mom and pop stores etc, which are estimated to be over **15 million**. Union Minister of MSME, Nitin Gadkari stated that MSME sector contributes **30 per cent to GDP** and more than 40 per cent of export. 85 per cent of MSMEs are unregistered.

Out of the 63 million MSMEs in India, internet penetration is 32 per cent i.e. 20 million, which is expected to increase to ~50 per cent over the next 4-5 years. 17 per cent of MSMEs i.e. **10.7 million** use internet for business purpose.

While India is poised for a strong growth in e-commerce, currently less than 10 per cent out of India's 80+ million small businesses sell online (including mom and pop stores).

More and more small businesses are joining the e-commerce marketplace platforms. We are witnessing the small businesses reinvent themselves as digital businesses – selling to customers in-store, accepting digital payments, delivering at their doorstep, acting as delivery and pickup points and more. Small merchants across cities are now adopting mobile channels, implementing online payments and exploring collaborations with technology-driven start-ups.

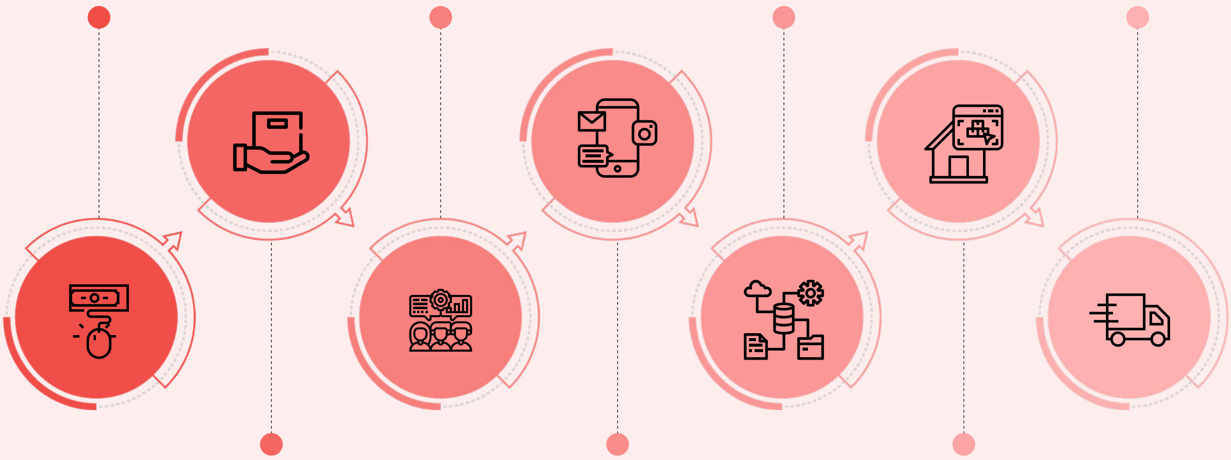
HOW SMALL BUSINESSES ARE REINVENTING THEMSELVES AS DIGITAL BUSINESSES?

Accepting digital payments

Exploring collaborations with technology-driven start-ups

Digitizing ledgers

Delivering at customers' doorstep



Acting as delivery and pickup points

Adopting mobile channels

Selling to customers in-store

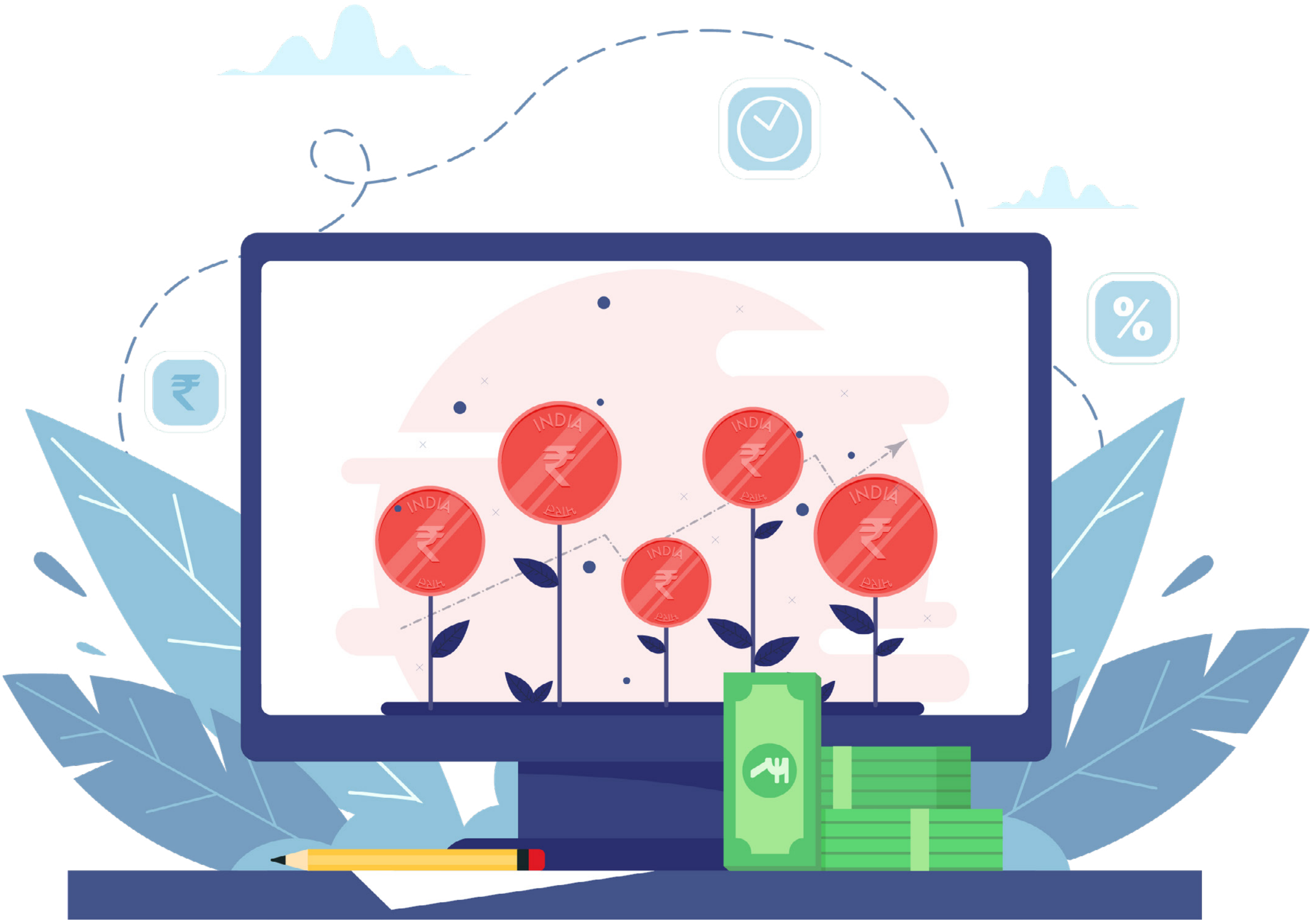
There are around **13 million kiranas** in the country each of which are doing 100-200 transactions a day on average. The transformation of just **10 per cent** of the 13 million kiranas, could boost retail consumption by more than **5 per cent** and generate approximately **3.2 million new jobs** in India, according to a new report from Accenture and the Trust for Retailers and Retail Associates of India (TRRAIN).

For instance, over **1.5 lakh** new businesses including **50,000** offline local neighbourhood stores chose to go digital in 2020 with Amazon. Many of these small businesses, often from non-metro towns, are exporting 'Made in India' products in categories such as tea, textile, apparel, home and kitchen, STEM toys, leather and jewellery products, to build strong global brands.

INVESTMENTS IN E-COMMERCE

Given the growth potential in the untapped e-commerce and social commerce, there has been substantial investments/ start-up activity in e-commerce in India.

Recently social e-commerce player **Xiaohongshu,** an Instagram-like social e-commerce platform, in China is seeking an IPO, which could be valued at more than $10 billion, up from its most recent private valuation of $6 billion. Even though China has much bigger e-commerce platforms like Alibaba and Pinduoduo, the high purchasing power of Xiaohongshu's user demographic makes the platform competitive, among China's young and sophisticated urban consumers in the largest cities like Beijing and Shanghai.



04

WHAT PROBLEMS CAN E-COMMERCE SOLVE IN INDIA?

Entrepreneurship/ Employment

Formalization- access to Funding with greater transparency and tax compliance

Financial Inclusion/ Women Workforce Participation

Skilling- Upward Mobilisation of Youth

E-commerce is helping achieve a more inclusive growth in India by creating large scale employment opportunities, enabling first generation entrepreneurs, skilling, empowering women, formalization and integrating MSMEs from tier 2 cities and beyond in national and global supply chains.

E-commerce provides new opportunities to a new generation of digital entrepreneurs, forced to start their own businesses following job losses.

The popularity of online shopping, wider adoption of digital payments and increased use of social media such as Instagram, Facebook and WhatsApp, for marketing have given many entrepreneurs the option to trade from home, without having to invest capital in renting stores or office spaces.

There have been some concerns that online is hurting small sellers or offline retailers. However, we are seeing greater convergence of offline and online. While low footfall has shut down several bricks-and-mortar outlets, retailers still need to store their goods in a way that allows them to fulfil the maximum number of online orders in the shortest time possible.

More and more offline business are supplementing their business models by going online as well and thereby increasing their market reach and access.

Increased formalization of small businesses will help in better assessment of the country's GDP and increase government revenue by way of higher tax collection. As more and more enterprises and individuals across the country adopt digital payments, it will slowly eradicate the informal sector, weaken the parallel economy and increase economic development in India.

WHAT PROBLEMS CAN E-COMMERCE SOLVE IN INDIA?

- Creating large scale employment opportunities
- Enabling first generation entrepreneurs
- Creates millions of blue-collared jobs
- Skilling- upward mobilization of youth
- Empowering women
- Formalization and integrating MSMEs from tier 2 cities and beyond in national and global supply chains
- MSMEs can focus on products and not worry about distribution
- Does not require infrastructure investment
- Access to distant/ new markets without need for any physical presence
- MSMEs get better access to funding
- Greater transparency, traceability and real-time accounting
- Better assessment of the country's GDP
- Increase government revenue by way of higher tax collection.
- Weaken the parallel economy
- Increase economic development

ENTREPRENEURSHIP/ EMPLOYMENT

India faces an elephant size problem related to its workforce – creating enough jobs for the one million addition to workforce monthly.

India needs a massive expansion in small enterprises in the private sector over the next decade to absorb its growing labour force.

E-commerce is motivating first generation entrepreneurs to start and expand businesses, given the greater ease of doing business and lesser investments in online compared to brick and mortar businesses.

Unlike the requirements necessary to run a business from a physical building, e-commerce does not require storage space or infrastructure investment on the part of the retailer. The sellers are no longer limited to their geographical location and can sell their products across the country including distant/ new markets without need for any physical presence. Thus, in a way, it gives them access to a bigger customer base which has a direct impact on their sales and incomes. It also creates millions of blue-collared jobs.

If MSMEs join an online marketplace of an e-commerce operator, they can focus on products and not worry about distribution. Many e-commerce platforms provide complete logistics and payments support to the sellers.

FORMALIZATION-ACCESS TO FUNDING WITH GREATER TRANSPARENCY AND TAX COMPLIANCE

E-commerce operators provide greater transparency, traceability and real-time accounting, thereby ensuing better tax compliance with minimal compliance/ administrative cost.

MSME, with **63 million** units, constitutes about **90 per cent** of all enterprises in India, employing over **120 million** people and contributes significantly to the GDP. This excludes the millions of small units operating from home such as housewives, small boutiques, mom and pop stores etc, which are estimated to be over **15 million.**

More than 70 per cent of these MSMEs are micro-enterprises, in active need of microfinance. MSMEs have limited access to funding, especially in smaller towns and villages, where they are primarily based, and have to resort to informal sources for debt such as family, friends, local moneylenders and chit funds. They end up paying higher rates on loans borrowed with high collateral. Most of them being in the informal sector, barely possessing any recorded financial history, which affects their capability to borrow credit from organised lending sources.

With greater formalization due to e-commerce, MSMEs will get better access to funding and growth markets. Digitization of small businesses will help formalize the economy and dilute geographical boundaries.

FINANCIAL INCLUSION/ WOMEN WORKFORCE PARTICIPATION

More than two in three women in India are not part of the workforce. As more and more women use internet and social media, social e-commerce platforms such as Meesho are enabling aspiring women entrepreneurs (mostly housewives) to start a business with ZERO investment from the safety of their homes. E-commerce thus, fits in well with various women-oriented welfare schemes started by the government, to promote up-skilling and entrepreneurship amongst women.

This is very empowering for the women, which will help them gain business acumen, financial independence, improve their lifestyle and reduce the gender inequality.

SKILLING- UPWARD MOBILISATION OF YOUTH

It is estimated that, more than **60 per cent** of the young people joining the workforce have not completed college. Many e-commerce platforms offer training in **soft skills** to sellers, resellers and workers. Examples of such skills include complementary training in spoken English, customer-service aptitude, digital skills, effective smartphone navigation, business and entrepreneurship skills, financial management, self-defence, knowledge of the city, road safety measures, learning the processes of online safety, such as preventing cyberbullying or phishing attacks etc.

This helps the entrepreneurs to expand their businesses. These skills build the overall profile of the workers, which would be useful to them throughout their life personally, professionally and socially. This skilling enables horizontal mobility across jobs, thereby increasing the income avenues for young workers. They also provide vertical mobility, which help them move up the career ladder to become an entrepreneur.

05

EVOLUTION OF BUSINESS MODELS

The e-commerce business in India is gradually moving to the **marketplace-led model** from the inventory-led model. eBay was the first participant in the e-commerce industry. Flipkart entered as a homegrown player and changed from inventory-led to a marketplace model. Snapdeal shifted from an everyday deals site to an internet-based marketplace. The market would later also see the entrance of American e-commerce giant Amazon.

The Indian government regulations on e-commerce have been cognizant of organised global retail with deep pockets adversely affecting scores of unorganised "mom-and-pop shops" and retailers.

FDI Policy prohibits foreign-funded marketplace players from engaging in inventory-based model of e-commerce in B2C, but there is no such bar on domestic-funded marketplace players in B2C.

This means that inventory led e-retailing model cannot attract FDI whereas market-place based e-retailing model can still attract FDI.

Most e-retailers have started practicing the market-place business model with suppliers storing on their behalf and delivering as per the requirement and thus falling under the B2B category.

Government has allowed 100 per cent FDI in B2B e-commerce in India, which has triggered the growth of the sector as global players are showing interest in the sector. FDI in e-commerce has enabled building of a large supply, logistics and delivery infrastructure for seamless delivery of same product across the country. Last year, Jeff Bezos announced that Amazon would invest $1 billion in India over the next five years, bringing millions of small and midsize local businesses online.

INVENTORY-LED

When an e-commerce platform sources directly from brands and sellers and stocks it, it follows an inventory-led platform. The e-commerce platform takes care of the whole process end-to-end, starting with product purchase, warehousing and ending with product dispatch. A few examples of such are BigBasket, Jabong, Yepme and LatestOne.com.

MARKETPLACE E-COMMERCE

Online marketplaces connect buyers and sellers on a proprietary platform.

Oftentimes, the marketplace operator does not hold any type of inventory, but helps the buyers and sellers to facilitate a transaction.

They provide logistics and payment support to suppliers, who can then focus on their core competency, that is providing customers with the most relevant products.

A mix of marketplace and inventory is a hybrid e-commerce model. India is witnessing emergence of many B2B and B2C marketplace/ hybrid e-commerce players. Prominent players are Amazon, Flipkart, Snapdeal, Myntra, Indiamart and Shopify. Over the last four to five years, several start-ups such as Udaan, ShopX, Ninjacart, Indiamart, Moglix and Jumbotail have been trying to digitize the wholesale supply chain in India. Amazon and Flipkart have a similar pricing structure to charge the sellers which is broadly split into commission, shipping, closing/ fixed fee and collection/other charges.

06

IS SOCIAL COMMERCE THE "BHARAT MODEL" FOR E-COMMERCE?

Growth Potential in India in line with global trends

Snapshot: Pinduoduo, China

Snapshot: Shopify, Canada

Spotlight: Meesho; empowering women

In tier 1 cities/ HNIs, there are 3 to 4 players who ultimately have more than 50 per cent of the share such as Amazon and Flipkart in the horizontal space, Pepperfry and Urban Ladder in the furniture space, Myntra in the apparel space followed by Ajio and Tata Cliq and so on. In other smaller verticals, individual offline brands have gone omnichannel and smaller brands are using Shopify or Dukaan etc., to go omnichannel using software as a service (SaaS) versus trying to build their own websites and logistics.

In tier 2 cities and beyond, social commerce platforms like in China, with their affordable, low cost, unbranded, vast product offerings and unstructured, long tail categories can help bring in the customers at the bottom of the pyramid.

Social commerce is the process of selling products directly on social media. The entire shopping experience — from product discovery and research to the check-out process — takes place right on a social media platform. Social commerce, allows, the customer to make their purchase within their social media experience. Currently, social apps that allow for social commerce include WhatsApp, Instagram, Facebook, and Pinterest.

Search led v/s Discovery led

A search-led user journey is inherently purposeful and targeted, in which a consumer actively seeks a tangible product.

While most of the e-commerce marketplace have been search led, increased social reach and discovery is the macro trend across the globe powering commerce.

This is product discovery led, not so much brand discovery.

Digitally connected Indians spend an average of three hours per day online, of which more than two hours are consumed by messaging, social media networking and watching videos. **Women,** the new class of consumer, now have the final say in more than half of the household decisions and they now form almost half of the online shoppers.

Social commerce presents a great opportunity for customers and sellers to discover one another. Most of the consumers do not know what they are looking for and are **not loyal to specific brands.**

The USP of local shops is trust and curation. Social commerce helps to build the trust factor through its personalised marketing through resellers online, which is the biggest inhibitor of e-commerce. It enables a social behaviour-led insights to deliver curated, personalised shopping experiences. Recommendations from relatives and friends are a big driver of action, and impulse purchases present an opportunity for sellers.

Ease of use, convenience, variety, cheaper prices and bridging of the trust deficit by curated, personalised shopping experiences with a fun element are major customer drivers of social commerce. Ease of selling, reach of platforms, improved order-taking/management processes and customer insights to enable curation are key drivers for sellers looking to scale.

Growth Potential in India in line with global trends

Increased social reach and discovery is the macro trend across the globe powering commerce.

Social commerce, which is currently valued at $1.5-2 billion will be worth as much as $20 billion by 2025 at a CAGR of 60 per cent, touching nearly $70 billion by 2030 at a CAGR of 30 per cent, as per Bain and Sequoia's December 2020 report.

To put it differently, India's social commerce sector will be two times the size of the current e-commerce market within ten years.

Online penetration of retail in India is expected to reach **10.7 per cent** by 2024, versus 4.7 per cent in 2019. China's online penetration rate was **45 per cent** and USA **20 per cent** in 2020.

Online penetration of unorganised retail through social commerce will be the next wave of e-commerce growth in India. India primarily shops from the unorganised retail, the local mom and pop stores.

Currently out of total retail of $850 billion, unorganized accounts for **88 per cent.** India's e-commerce growth will mimic that of China with major boost coming from small sellers; China's unorganised retail ~80%.

While India is poised for a strong growth in e-commerce, currently less than 10 per cent out of India's 80+ million small businesses sell online (including mom and pop stores), while less than 15 per cent of Indian retail market is organised.

DRIVERS OF SOCIAL COMMERCE

CUSTOMER'S POINT OF VIEW

- Indians spend three hours per day online, including two hours on social media
- Women have the final say most of the household shopping decisions
- Curated, personalised shopping experiences and fun element
- Recommendations from relatives and friends
- Bridging the trust deficit
- Ease of use and convenience
- Variety, vast product offering
- Cheaper prices, affordable, low cost
- Most consumers not loyal to specific brands
- Impulse purchases

SELLER'S POINT OF VIEW

- Ease of selling
- Unbranded, unstructured
- Long tail categories
- Reach of platforms
- Improved order-taking & better management processes
- Social behaviour-led customer insights to enable curation

If we look at other countries such as Shopee platform, which is just 6 years old, has 10 million online sellers in Indonesia, which has less than one fifth of India's population. Pinduoduo in China has 15 million sellers in less than 5 years.

Today, 85 per cent of sellers using social commerce are small, offline-oriented retailers who have found that social channels open new markets as against the larger, organised seller base on e-commerce platforms. These small retailers supplement their existing offline business with online channels and drive upto 35 per cent of their sales through social commerce. Social commerce will empower over 40 million small businesses and entrepreneurs, expanding their reach and supplementing their existing income from other channels, as per the Bain & Co and Sequoia Capital report December 2020.

In China, social commerce has grown tremendously from $10 billion (i.e. 1 per cent of e-commerce) in 2015 to $250 billion (i.e. ~10 per cent of e-commerce) in 2020, based on industry reports.

There are very successful, social commerce channels in other countries like Pinduoduo (China), Taobao.com (China), Shopee (Indonesia), Shopify (Canada).

SNAPSHOT: PINDUODUO, CHINA

Brief History

Founded in September 2015, Pinduoduo (PDD) is the fourth start-up of Colin Huang, an ex-Googler who once worked on early search algorithms for e-commerce. His previous start-ups include consumer electronics e-commerce site Ouku.com, Leqi, e-commerce platform marketing agent service and a WeChat-based role-playing game company.

Given the history between Pinduoduo and Pinhaohuo, two large players in the social e-commerce sector, the two companies merged to form one dominator, PDD.

PDD went public on NASDAQ market in 2018 and raised more than $1.6 billion with a valuation of $60 billion. PDD recorded a whopping 279 per cent y-o-y growth in market cap from September 2018 to December 2020, majorly driven by Covid.

PDD is a native smartphone app without a desktop version or a shopping-basket function. PDD is the only major consumer internet company in the world that is mobile only.

PDD's approach reflects the gamification trend and the shift from searching to browsing. It's a marriage of e-commerce and social media. With socializing foremost and shopping almost an afterthought, friends congregate on PDD to watch live streams, share deals and make purchases together, while playing the app's built-in games.

Exponential Growth

GMV in the YEDec2020 was **$255.6 billion,** an increase of **66 per cent** over YEDec19. To put things in perspective, PDD's annual GMV was only $14.7 billion in 2017, that's around two years since its inception. To hit the same milestone, Taobao took 5 years, VIP.com took 8 years and JD 10 years.

PDD's revenues of $278 million in 2017 increased to $9.1 billion in 2020, recording a 3-year revenue CAGR of more than **200 per cent.** PDD's quarterly revenue for QEMar21 rose 239 per cent year over year to $3.4 billion.

Though PDD's annual revenue of $9.1 billion in YEDec20 remains a fraction of Alibaba's $72 billion from its last year.

Losses

Despite its impressive growth, though, PDD stayed in the red with a net loss of $1.1 billion in 2020, due to its heavy marketing expenditure.

Comparatively PDD had suffered a net loss $43 million and $77 million in 2016 and 2017.

PDD recorded an operating loss of **$1.4 billion** in YEDec20, as compared to an operating loss of $1.3 billion in the previous year. PDD recorded an operating loss of **$633 million** in QEMar21, as compared to an operating loss of $671 million in the same quarter of 2020.

Making its money from advertising, PDD has spent nearly $13 billion subsidizing products in 2020, effectively paying merchants to lower their prices and offer attractive bargains.

PDD KEY FINANCIALS:

($ billion)	YEDec20	*yoy growth %*	QEMar21	*yoy growth %*
GMV	255.6	66%	NA	NA
Revenue	9.1	97%	3.4	239%
Operating Loss	-1.4		-0.6	

Source: Pinduoduo press release

Overtaken Alibaba in users

Recently, PDD has overtaken Alibaba to become China's most popular e-commerce site. PDD had 788 million users at the end of 2020, ahead of Alibaba's 779 million, as PDD makes basic necessities and groceries more affordable.

Users who bought at least one item in 2020, up by 35 per cent from a year earlier. PDD leveraged the **1.2 billion** MAUs of WeChat to drive sales, enabling commerce beyond the 700 million user reach of TaoBao.

The average PDD user spent **$324** in 2020, which has increased by 23 per cent over the corresponding period in the previous year. But is still less than a quarter of Alibaba's average user spend. Relatively untapped by e-commerce players, PDD is targeting the fresh-food segment because users potentially place orders every day.

Key Issues

PDD is on the rise as Alibaba contends with various challenges including an antitrust inquiry and increased government scrutiny. Notably, in March 2021 Chinese regulators fined PDD, alongside several other e-commerce companies, alleging anti-competitive practices.

Increasing product quality and counterfeit complaints still raise concerns for a possible low-cost and low-quality association. Complaints mainly target at the problems of poor quality, slow delivery, misleading ads, etc.

In addition to mounting domestic complaints, the Chinese shopping app was hit by a trademark infringement lawsuit in the US, shortly after filing for a US IPO. Alongside Alibaba and JD's efforts to remove fake goods on their platforms, fake goods are flooding to emerging e-commerce platforms like Pinduoduo and Weishang, according to Alibaba.

SNAPSHOT: SHOPIFY, CANADA

Background

Shopify is an e-commerce platform for online stores and retail POS systems. Shopify offers online retailers a suite of services including payments, marketing, shipping and customer engagement tools.

Shopify's integration with Instagram shops enabled their merchants to directly access 1 billion monthly active users (MAUs), exponentially increasing merchant GMV. It has more than 1 million businesses with over 1.5 million websites running on Shopify platform in 175 countries as of January 2021.

In the pandemic, Shopify launched Alipay as a payment method, allowing merchants in USA to seamlessly accept payments through Alipay from more than one billion annual active users in China alone.

High Growth

As of 2021, Shopify is the largest publicly traded Canadian company by market capitalization.

Shopify recorded GMV of **$120 billion** in YEDec20, an increase of **96 per cent** over the previous year, while revenue was **$2.9 billion** in YEDec20, an **86 per cent** increase over the previous year.

In QEMar21, Shopify recorded GMV of **$37.3** billion, an increase of **114 per cent** over corresponding period in the previous year, while revenue was **$989** million in QEMar21, an increase of **110 per cent** over corresponding period in the previous year.

Operating income for YEDec20 was **$90.2 million,** or 3 per cent of revenue, over an operating **loss of $141.1 million,** or 9 per cent of revenue, for 2019.

Operating income for the QEMar21 was **$119 million,** or 12 per cent of revenue, over a **loss of $73.2 million,** or 16 per cent of revenue, over corresponding period in the previous year.

Shopify recorded a whopping 193 per cent y-o-y growth in market cap from September 2018 to December 2020, majorly driven by Covid.

SHOPIFY KEY FINANCIALS:

($ billion)	YEDec20	*yoy growth %*	QEMar21	*yoy growth %*
GMV	120	96%	37.3	114%
Revenue	2.9	86%	1.0	110%
Operating Income	0.1		0.1	

Source: Shopify Press Release

Indian Players in social commerce

In India, social commerce platforms are targeting the **340 million WhatsApp users** social discovery led commerce, beyond the 100 million MAUs of Amazon/ Flipkart. Meesho is a market leader with 90 per cent market share in social commerce. Newer entrants in the social commerce space are DealShare, GlowRoad, Shop101 and Kiko TV, all of whom help sellers reach customers through social networks while putting them in touch with suppliers and providing other services required for e-tailing in India.

These social commerce platforms operate through apps that can be downloaded for free, and predominantly target the mushrooming number of mobile users wanting to earn an extra income. The app user is referred to as the reseller.

There are three major social commerce models currently in India. **Fashion** is the most popular social category, followed by Beauty & Personal Care, then Food and Grocery. The reseller led and influencer models work well for Fashion and Lifestyle, while the community leader buying model works for Grocery.

While social commerce is popular among Tier 2 and 3 city consumers, adoption is lower among more affluent, urban consumers and high value categories.

This demographic could be engaged by FMCG/ grocery, where people in India enjoy buying as a group. Heavy personalised/ customised marketing experience in jewellery, automobile sales and real estate can drive social commerce in these segments.

SOCIAL COMMERCE MODELS

MODEL	INDIA PLAYERS	GLOBAL PLAYERS
Reseller led	Meesho, GlowRoad, Shop101	Yunji (China)
Influencer/ video social commerce	Bulbul, Simsim, WMall	Taobao.com (China), Kuaishou (China) Xiaohongshu [Little Red Book] (China) TheTake.ai (USA)
Group/ community leader buying	City Mall/ DealShare	Pinduoduo (China), JD Pingou

Sources: Industry conversations

SPOTLIGHT: MEESHO; EMPOWERING WOMEN

Brief history

Meesho, founded by IIT-Delhi batchmates Vidit Aatrey and Sanjeev Barnwal in 2015, is the leading marketplace for unorganised/ unbranded/ lower end branded online retail in India.

Meesho is India's leading social commerce channel for unorganised/ unbranded retail with **90 per cent market share.** It creates a vast online marketplace that connects producers with resellers, who eventually market the products to consumers through social media platforms such as **WhatsApp, Facebook and Instagram.**

Apart from other social commerce players as discussed above, Meesho also competes with Reliance, Amazon, Flipkart and others in the marketplace which are vying for a chunk of the lucrative, untapped market.

Background

Meesho provides an efficient platform for SME suppliers and social resellers to onboard the e-commerce revolution in India and help them provide a personalised experience to consumers. Meesho is at the cross roads of enabling online commerce and providing a means of income. By using AI and ML, Meesho has created a platform for many small business owners to sell to the next cohort of internet users.

Its **integrated solution offerings** include order management, taking care of logistics, data analytics, online payments, real-time shop updates and allowing businesses to get their customers to subscribe. Meesho's strength lies in giving access to affordable supplies, unbranded fashion with an optimum supply and logistics chain.

Meesho has a network of more than 15 million entrepreneurs, a majority of whom are women, with a base of more than 45 million customers, over 71,000 suppliers that sell the largest unbranded assortment of more than 6 million products across 100+ categories.

INTEGRATED SOLUTION OFFERINGS

- Order management
- Taking care of logistics
- Data analytics
- Online payments
- Real-time shop updates
- Allowing businesses to get their customers to subscribe
- Giving access to affordable supplies
- Unbranded fashion
- An optimum supply and logistics chain

Meesho is a front runner in tier 2+ market, with 80 per cent of its orders from tier 2+.

Meesho has delivered orders to 26,000 pin codes in nearly 5,800 towns and cities, with an overwhelming majority of those being tier 2 cities. The business is highly fragmented across cities; top 6 cities account for only 15 per cent of the turnover. The geographical penetration in a region is highly co-related to the women's literacy rate. South India is a comparatively big region.

Product categories includes grocery, apparel, home appliances and electronics items.

Apparels account for 50 per cent of the turnover, while others include home, kitchen, kids, menswear etc.

01	Market share in social commerce	90 per cent
02	Orders from tier 2+	80 per cent
03	Towns and cities	5,800 (including largely tier 2)
04	Resellers/ entrepreneurs	15 million (90 per cent women; largely home makers, in the age group of 25-35)
05	Monthly Entrepreneur Earnings	Rs 5,000
06	Customer base	45 million
07	Households Impacted	10 million
08	Suppliers	Over 71,000
09	Largest unbranded assortment	6 million products across 100+ categories
10	Orders / day	1 million

Source: Meesho

Unicorn status

Meesho has recently, become a unicorn having raised $300 million in its new funding round led by Japan's SoftBank Group Corp.

The fundraise has valued Meesho at $2.1 billion, a three-fold jump from its previous funding round of $125 million in 2019 when it was valued at $700 million. Existing investors Prosus Ventures, Facebook Inc, Shunwei Capital, Venture Highway and Knollwood Investment also participated in the latest investment round. So far, Meesho has raised $490 million.

Empowering women

Meesho is enabling aspiring women entrepreneurs (mostly housewives) to start a business with ZERO investment from the safety of their homes.

90 per cent of the resellers are women; mostly home makers in the 25-35 age group. Other resellers include students. When Meesho entered the market, it noticed that women from across India, especially home-based entrepreneurs catering to categories such as fashion apparel like saris, suits, kurtis, were seeking new ways to grow their businesses and create a new professional identity for themselves.

Women face the issue of lack of capital to start own boutiques. Since most women were already using social media sites to connect with the buyers as curators, Meesho brought all these insights together to create a new and strong business model.

Meesho empowers the women entrepreneurs by providing logistics & payments, training & mentorship, large assorted pan-India supply at affordable price and personalized curated feed for each entrepreneur.

Meesho is a great platform for the women, who earn around Rs 5,000 per month, which helps them supplement the household income. This helps women gain financial independence, carve an identity for themselves and reduce the gender inequality.

Currently there are **340 million WhatsApp users** in India. Online women in India are projected to increase from 176 million in 2020 to 390 million in 2025E, including 270 million women in tier 2 cities. Meesho has women entrepreneurs/ resellers of about 11 million which is about 7 per cent of the online women. There is a huge, untapped opportunity for Meesho to increase the number of women entrepreneurs.

Impact of Covid-19 pandemic

The pandemic has led to a spurt in business for Meesho, with small firms as well as entrepreneurs seeking to move their business online.

Orders have also grown by 6x from 3.1 million in March 2020 to 19.6 million in March 2021.

Meesho has recorded an annualised GMV of over $2 billion.

While the first quarter of the pandemic (QEJun2020) saw a decline across the board; orders, GMV, suppliers, resellers, thereafter there has been a remarkable growth as people changed their buying preference from offline to online.

Successive benefits from price reduction has helped growth. Meesho's growth strategy is to pass the price benefits to users to attract new users and retain more users. Their catalogue prices are substantially cheaper than competition.

Big marketplaces such as Amazon and Pinduoduo have adopted negative working capital strategy to grow their business. Currently, Meesho has a 16-days working capital cycle.

New initiatives:

Meesho is adding newer streams of revenue such as advertising in the marketplace. Similar marketplaces such as Pinduoduo, Taobao.com, Shopee (Indonesia) have **80 per cent** of their revenues coming from advertising.

During the pandemic, Meesho has launched a new initiative called **Farmiso.** 'Farmiso' allows anyone to start an online grocery shop online without any investment.

	Farmiso
Description	A community buying platform for fruits and vegetables
Key statistics	2000+ orders / day
	5,000+ households served
Market opportunity	$525 billion food & grocery market
	60%+ in tier 2+ markets
Global peers	Shihuituan, China: GMV $1 billion

Source: Meesho; others

SNAPSHOT OF OTHER INDIAN SOCIAL COMMERCE PLAYERS

DealShare

Founded in 2018, by Vineet Rao and Sourjyendu Medda, Sankar Bora and Rajat Shikhar, DealShare is a multi-category social buying platform, modelled on Pinduoduo. DealShare is focused on what it calls 'WhatsApp-first India' consisting of lower- and middle-income groups in Tier 2 and 3 towns. Through the platform, users can get fruits and vegetables, grocery items, beauty and wellness products, and all other household essentials at daily discounted prices.

The start-up, which began in Jaipur and then moved to Bengaluru, claims to be servicing more than 15,000 orders daily, and is growing at 50 percent month on month. The company has a presence in over two dozen cities and towns across Rajasthan, Gujarat, Maharashtra and Karnataka. Its app has recorded 400,000 installs, and is available in several local languages, as at March 2020.

DealShare has raised around $70 million to date which includes a couple of debt rounds from Alteria and Innoven Capital. In October 2019, DealShare raised $11 million from Matrix Partners and Falcon Edge Capital, with participation from Omidyar Network, and DST Global. In December 2020, Alpha Wave and WestBridge had co-led a $21 million Series C round in the company.

Recently, DealShare has raised $28 million from Falcon Edge, WestBridge Capital and Matrix Partners. The fresh round is likely to see large infusions from Tiger Global and it could go up to $100 million.

According to Fintrackr's estimate, DealShare has reached a post-money valuation of $212 million. The company is likely to be valued at around $400 million after the completion of the fresh round.

BulBul

Delhi-based BulBul was founded by Sachin Bhatia (who had also co-founded MakeMyTrip and TrulyMadly) and Atit Jain in 2018.

It is India's first multi-language live-video e-commerce platform that seeks to redefine the way products are bought and sold online. BulBul lets sellers display their products live and answer viewers/ buyers' questions in real time. On the customer side, it offers group buying and social sharing features to users that lets them involve their peers in the purchase. Essentially, BulBul is bringing the traditional bazaar-like buying experience online.

The start-up claims to have processed over 4 lakh transactions and recorded a GMV of Rs 150 million. Its short-form seller videos have been viewed over 15 million times, as at March 2020.

In October 2019, BulBul raised $14.7 million from Sequoia Capital. Prior to that, it was also a part of Surge, Sequoia's early-stage accelerator programme in India. The start-up also counts Leo Capital and CDH Investments among its early investors.

GlowRoad

GlowRoad was founded in June 2017 by Sonal Verma, Kunal Sinha, Nitesh Pant, Shekhar Sahu, and Nilesh Padariya for stay-at-home mothers and micro entrepreneurs to sell products in their local networks and earn online.

The Bengaluru-based social commerce start-up claims to have more than 100,000 resellers, 20,000 suppliers, and 300,000 buyers on its platform, which process 15,000+ transactions per day, as at March 2020.

Resellers, who reach customers through WhatsApp and Facebook, get access to millions of products along with shipping facilities and payments. GlowRoad also provide a free personal sub-domain and storefront.

In April 2019, GlowRoad raised $10 million in a Series B round from CDH Investments, a Chinese investment firm. The round also saw participation from early backer Accel Partners, which had put in $2 million in a Series A round in 2017. In May 2019, the start-up further raised $11.5 million in a Series B+ round from Korea Investment Partners and Singapore-based Vertex Ventures.

Mall91

Founded in 2018, by Nitin Raj Gupta and Shubham Paramhans, Mall91 blends live video-based social shopping, vernacular language catalogues that can be browsed with voice commands, and WhatsApp-based checkouts on a single platform.

The Noida-based start-up claims that it already reaches 2,000 Tier 2, 3 and 4 towns and even villages, as at March 2020.

In October 2019, Mall91 raised $7.5 million in a Series A round led by Go-Ventures (the investment arm of Indonesia's Gojek). The round also saw participation from its early backers Beenext, Kalaari Capital and Angel List India.

Simsim

Founded by Amit Bagaria, Kunal Suri, and Saurabh Vashishtha in July 2019, it has already notched up more than a million users on its platform.

The Gurugram-based startup claims to be working with 1,200+ Community Opinion Leaders (or social influencers) to create content around products and sell them to buyers. Nearly three-fourths of Simsim's users come from India's Tier 2 and 3 towns.

After the orders are placed, Simsim sources the products from manufacturers and suppliers, and delivers it to the customers through its third-party logistics partners.

Within a year of its launch, the startup has raised $16 million in three funding rounds from Accel Partners, Shunwei Capital, and Good Capital.

07

KEY CHALLENGES

High returns and rejection rate of >30 per cent in apparels, footwear and accessories is a huge challenge for the e-commerce industry.

With real-time demand and tight delivery expectations along with variable and unpredictable customer demands, management of the supply chain is core to the e-commerce business. The balance between inventory and supply chain costs is therefore a dynamic decision to be taken, considering both cost and service level considerations.

The growth in e-retailing will require investments in logistics infrastructure including large fulfilment centres and warehouses, sortation centres and delivery centres. Better reach and range for the suppliers and customers results in faster service delivery and increased customer retention. Flipkart is growing its logistics arm E-Kart whereas Amazon India is building capacities with its logistic arm Amazon Logistics. Flipkart has set up several regional warehouses and is constantly increasing the supplier base across the country to achieve low transportation cost by ensuring delivery from the nearest supplier or regional warehouse.

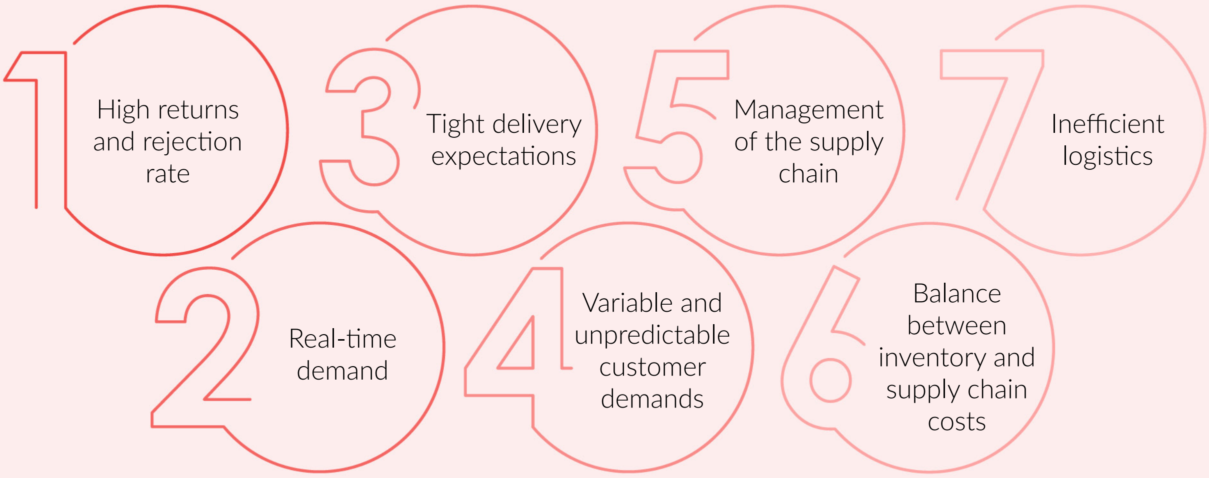
INEFFICIENT LOGISTICS

The key to success in e-commerce is an **efficient last-mile network** to ensure timebound delivery while maintaining agility in the logistics chain. Since 2008, China has made significant investments in infrastructure, such that its logistics cost is 3x cheaper than India.

Logistics infrastructure is the weakest link in the Indian e-commerce story.

In India, about 90 per cent of the goods being ordered online are moved by air, which increases the delivery costs for the e-retailers. Currently, India operates at a very low level of air cargo penetration characterised by only a few airports equipped to handle large volumes of express delivery parcels. Airport operators including the Airport Authority of India (AAI) needs to carefully evaluate this particular category of air cargo on par with other categories of airport infrastructure development in tier 2 cities and beyond.

KEY CHALLENGES IN E-COMMERCE



India has poor logistics efficiency. According to the logistics performance index (LPI), India lags behind most nations in Asia and is ranked at 44. In India, the logistics cost as a percentage of its GDP stands at 14 per cent. This cost is high compared to the similar cost in the USA 9.5 per cent, Germany 8 per cent and Japan 11 per cent.

India has around 750 last-mile links with less than 100 km distance connecting industrial belts, ports and distribution centres to highways and major long haul connectors. These links are crippled by poor infrastructure, road conditions and unskilled labourers bringing up mainly 'indirect cost' of last-mile delivery.

A recent Deloitte-Assocham study notes that the cost for coastal shipping is Rs 0.15-0.2 per tonne-km compared to Rs 1.5 for railways and Rs 2.5 for the road. Addressing these anomalies could alone provide a huge potential to lower logistics cost in the economy by Rs 21,000-27,000 crore by 2025. The draft National Logistics Policy envisages optimising the current modal mix (road 60 per cent, rail 31 per cent, waterways 9 per cent) to bring them at par with international benchmarks (road 25-30 per cent, railways 50-55 per cent, waterways 20-25 per cent). The construction of the Dedicated Freight Corridor, the national road network scheme (Bharatmala) and connecting ports to hinterlands (Sagarmala) are steps taken to improve logistics.

05

DRAFT E-COMMERCE POLICY

The 2021 Draft Policy seems to address existing imbalances in the e-commerce space to achieve a level playing field amongst the market participants.

Government intends to facilitate more inclusive growth and provide necessary impetus to MSME for exporting their goods by building synergies between relevant Government departments and by reducing their administrative and compliance requirements and costs.

Some aspects mentioned in the 2021 Draft Policy have been addressed under the E-Commerce Rules which were enforced last year and have been reiterated with the intent to likely build Government processes and streamline implementation.

Unbiased Algorithms

E-commerce operators may be required to ensure that their algorithms are not biased and are not partial towards any seller on the platform.

It is also proposed that any information collected through the platform should not be used to obtain market advantage against sellers operating on the e-commerce platform.

The code-base and the algorithm that powers e-commerce platforms are material intellectual property, which the platform owners may not share. While an argument could be made that the government may rely on historic consumer-facing data to build its case against an e-commerce operator, it is not clear how the government will legislate and enforce this.

Government plans to also bring in mechanisms to ensure that actions which are prohibited for the entity operating the marketplace, will also apply to their associates and related parties.

Transparent Discount Policy

Government will attempt to curb any monopolistic tendencies and seeks of the e-commerce operators to bring out clear and transparent policies on discount offerings and participation by vendors in various schemes.

Sector Regulator

Government plans to put in place assessment procedure to verify that goods and services sold on e-commerce platforms meet the standards and technical regulations that are prescribed by other sectoral regulators.

To this end, it is also proposed that e-commerce operators should be required to register with an authority. This is possibly an intended push to have an all-encompassing e-commerce regulator in India, which has been mooted in the past.

The implementation of a sector regulator may however help address broader compliance concerns in the industry provided that the Government enables an effective framework that safeguards the interests of the consumers without unreasonably straining the market players. The ongoing investigation by the Competition Commission of India (CCI) into practices of certain e-commerce players and the judicial review of CCI's powers in this regard could also shape the e-commerce sector regulator's purview.

Prevention of Piracy

In line with the E-Commerce Rules, the 2021 Draft Policy proposes that the e-commerce operators must develop safeguards to ensure the genuineness of the product and the sellers.

It is also proposed that if the seller fails to establish genuineness of the products within a reasonable time frame, the e-commerce platform may be required to delist the seller. The Government intends to make both the seller and the e-commerce operator jointly liable for sale of counterfeit products.

Intermediaries may be required to put in place measures to prevent online dissemination of pirated content. The 2021 Draft Policy however clarifies that a body of industry stakeholders and certain trusted parties may create and identify 'rogue e-commerce entities' that predominantly host pirated content. Once a platform is identified as such, intermediaries, including internet service providers and search engines, may be required to disable access to the identified platform, and advertisers and advertising agencies may be required to refrain from hosting advertisements on such platforms.

Sharing of Data

2021 Draft Policy proposes to allow data sharing with the government to aid in national security, economic security and law enforcement and with other industry participants to aid in innovation and fair competition.

This is similar to the Draft Personal Data Protection Bill, in which the government can require any private business to share valuable non-personal data (such as aggregate mobility data collected by apps like Google maps or Uber) or anonymized data with the government to better deliver services or to develop evidence-based policies.

Concerns have been raised on the proposed government's powers to access citizen data without consent as it can lead to violation of proprietary rights of businesses, privacy risks and discouraging business innovation and growth. This runs contrary to the Puttaswamy judgment that deals with the Right to Privacy. Justice BN Srikrishna, who led the committee that drafted the bill, has already warned that government exemption is dangerous and can turn India into an Orwellian state.

Notably, this is akin to section 69 of the Information Technology Act, 2000, which empowers the central government or a state government to intercept, monitor or decrypt or cause to be intercepted or monitored or decrypted, any information generated, transmitted, received or stored in any computer resource in the interest of the sovereignty or integrity of the country.

09

SMAHI VIEW AND RECOMMENDATION

India e-commerce is at a nascent stage and is one of the fastest growing sectors in the country today, spurring first generation entrepreneurs, large scale manufacturing by MSMEs and creating greater employment opportunities for blue-collared workers.

The nascent market in India needs an enabling ecosystem, similar to China, to achieve exponential growth and an enabling policy that can attract greater investments. Investments in e-commerce retail will flow into logistics and infrastructure allied sectors such as warehousing, air cargo, road and rail-based transportation.

As more Indians join the entrepreneurship bandwagon, the need to formalize kicks in. Formalization of business in India is happening rapidly, but there are also the constraints of very small businesses unable to cope up with the cost and process of compliance. The government currently has provided for certain thresholds below which compliance costs for micro and small businesses tend to be low. This is very critical for entrepreneurship, especially micro entrepreneurs.

But there may be a few areas, where rules and procedures maybe working at cross-purposes in achieving the trifecta – encouraging new entrepreneurs, encouraging new entrepreneurs to use the power of Digital India and keeping the compliance burden and threshold low enough for them to formalize by default.

We need to balance the government's requirement to track businesses, improving formalization of MSMEs and not burdening Micro businesses with compliance too early in their lifecycle as well as well creating a level playing field with respect to online as well as offline commerce. With lines between e-commerce and traditional retail commerce blurring, it is time for harmonisation of laws governing the retail industry as a whole.

Social commerce has the potential to bridge the digital gap in the tier 2 cities and beyond, allowing for inclusive growth along with the empowerment of women.

As a pioneer of the world-leading Digital Payments Revolution, India can integrate small suppliers and entrepreneurs along the length and breadth of the country with social commerce, tapping markets and customers dissolving geographical boundaries. The Government should wholeheartedly, encourage and provide a supportive regulatory framework to social commerce platforms, in our quest to achieve a $5 trillion economy.

WHAT SHOULD GOVERNMENT DO TO PROMOTE E-COMMERCE/ SOCIAL COMMERCE?

Key concern- GST Registration for small online sellers is a huge bottleneck for online business

MSME, with **63 million units,** constitutes about **90 per cent** of all enterprises in India, employing over **120 million** people and contributes significantly to the GDP. This excludes the millions of small units operating from home such as housewives, small boutiques, mom and pop stores etc, which are estimated to be over **15 million.** Union Minister of MSME, Nitin Gadkari stated that MSME sector contributes **30 per cent to GDP** and more than 40 per cent of export. **85 per cent** of MSMEs are unregistered.

MSMEs form the bulk of Indian firms in the formal sector. While over **13 million** firms are registered under the GSTN, about **9 million** firms are filing GSTR 3B currently.

While India is poised for a strong growth in e-commerce, currently **less than 10 per cent** out of India's 80+ million small businesses sell online (including mom and pop stores), while **less than 15 per cent** of Indian retail market is organised.

As per Section 24(ix) of CGST Act, 2017, any person who supplies goods through an e-commerce operator, is required to compulsorily register under GST, irrespective of the turnover of such persons. Accordingly, even where the turnover does not cross threshold limit, such MSMEs would be required to register under GST and undertake all subsequent compliances under GST.

If the same seller was to establish a bricks and mortar business, the MSME won't be required to take a GST registration until the turnover hits a minimum threshold. This discrepancy in procedure puts Digital India at a disadvantage against physical world and disincentivizes setting up electronic businesses.

Considering that the intention of the government to introduce threshold limit for registration was to reduce the burden on such MSMEs; bringing MSMEs undertaking supplies through e-commerce operators under the net of GST registration does not hold good with the intent of the government.

These sellers mainly consist of individuals and small businesses (including homemakers) whose turnover is below the prescribed registration threshold and thus are not currently registered under the CGST Act. This also creates disparity as offline suppliers are exempt from GST registration upto a turnover of Rs 40 lakh.

Meesho with a supplier base of 1 lakh suppliers, testifies that it has to reject more than 70 per cent of small suppliers due to the issue of GST registration. Else their supplier base would have been 3x had the GST registration issue not been there.

Periodic compliances

MSMEs operating through e-commerce operators are burdened with periodical compliances like monthly returns, reconciliation of TCS amounts, etc.

Further, considering that MSMEs may be undertaking compliances manually without any technology aid, it poses challenges in terms of undertaking reconciliations, keeping track of the TCS collected and remitted, credit reconciliations, etc. for such MSMEs.

Someone who has only seen internet via a mobile, finds it difficult to deal with the process and the website complexity.

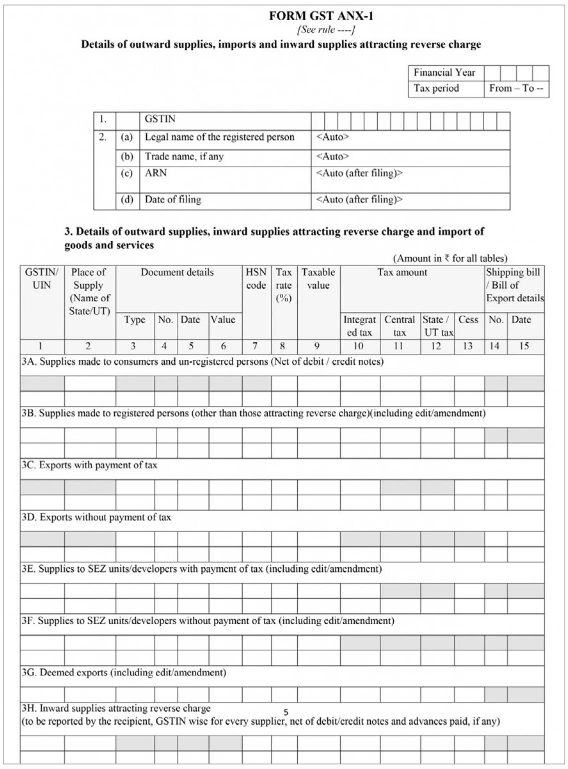
Unfortunately, the GST process, website and filing returns regularly is quite cumbersome, which acts as a major deterrent for small and mid-sized sellers covered under SME sector from starting/ expanding their businesses through e-commerce platforms. Thus, these suppliers continue to sell offline and are unable to leverage the wide access/ market reach provided by e-commerce platforms. This also results in loss of indirect tax revenue for the government as growth is constrained.

Challenges with respect to TCS and TDS

An e-commerce operator is required to deduct **1 per cent TCS** on the value of taxable supplies made by such persons through the e-commerce operators, under **section 52** of the CGST Act. Additionally, a provision for levying **TDS of 1 per cent** on payments made by e-commerce entities was introduced in the Union Budget 2020 through **section 194O** w.e.f. October 1 2020.

In case of MSMEs, the value of such TCS deducted would represent a significant amount and may therefore lead to blockage of such amount. Further, MSMEs would be required to keep a track of the TCS amount deducted by the e-commerce operators and the amount remitted to them in their electronic cash ledger.

Considering that there may not be significant outward liability, such MSMEs may be required to claim refund of the TCS and TDS, which takes significant time and effort. Some may not have the wherewithal to engage with a Chartered Accountant to claim tax refund of TCS and TDS and would end up losing their hard-earned money.



FORM GST ANX-1

[See rule ----]

Details of outward supplies, imports and inward supplies attracting reverse charge

Financial Year	
Tax period	From – To --

1.		GSTIN	
2.	(a)	Legal name of the registered person	<Auto>
	(b)	Trade name, if any	<Auto>
	(c)	ARN	<Auto (after filing)>
	(d)	Date of filing	<Auto (after filing)>

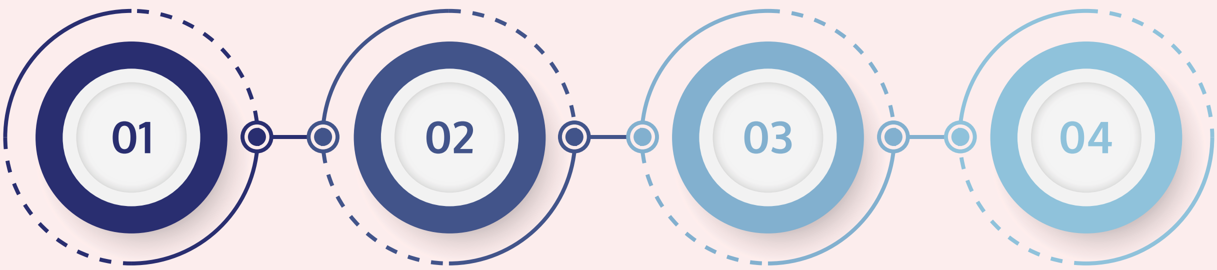
3. Details of outward supplies, inward supplies attracting reverse charge and import of goods and services

(Amount in ₹ for all tables)

GSTIN/ UIN	Place of Supply (Name of State/UT)	Document details				HSN code	Tax rate (%)	Taxable value	Tax amount				Shipping bill / Bill of Export details	
		Type	No.	Date	Value				Integrated tax	Central tax	State / UT tax	Cess	No.	Date
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
3A. Supplies made to consumers and un-registered persons (Net of debit / credit notes)														
3B. Supplies made to registered persons (other than those attracting reverse charge)(including edit/amendment)														
3C. Exports with payment of tax														
3D. Exports without payment of tax														
3E. Supplies to SEZ units/developers with payment of tax (including edit/amendment)														
3F. Supplies to SEZ units/developers without payment of tax (including edit/amendment)														
3G. Deemed exports (including edit/amendment)														
3H. Inward supplies attracting reverse charge (to be reported by the recipient, GSTIN wise for every supplier, net of debit/credit notes and advances paid, if any)														

5

POLICY RECOMMENDATIONS



Relax GST requirement for online MSMEs

Legal Metrology

Scrap section 194O of Income Tax Act and section 52 of the CGST Act

Reconsider ban on non-essential e-commerce during lockdown

01 Relax GST requirement for online MSMEs

Option 1:

- **Let any MSME irrespective of whether they sell offline or online be liable for GST only at a threshold value.**

Option 2:

- Allow the e-commerce operator to discharge the GST on behalf of MSMEs having turnover below the prescribed threshold, not having registered GST number and supplying goods through the e-commerce platform, under the ambit of section 9(5) of the CGST Act

- **The e-commerce platform shall collect and pay GST at flat 5 per cent on all the eligible products of the small suppliers selling online u/s 9(5) of the CGST Act**

- In case supplier is covered under section 9(5), then the online MSME need not require registration under CGST laws under section 24 (ix). Alternatively, if the supplier is still required to register under GSTN, they should be exempted from filing monthly GST returns

Others:

- **Mandatory Udyog Aadhar registration for all suppliers selling online**

- **Simplify the GST process including return filing in general and make the GST website, easy to navigate for all suppliers**

RATIONALE:

In the spirit of promoting Digital India and not placing it on a lower pedestal than the brick and mortar businesses, Option 1 is preferred.

Under Option 2, if the e-commerce operator is made liable for discharge of GST of the goods sold on its platform, there is no question of tax evasion. This would increase the indirect tax collection of the government as hitherto, goods excluded from GST taxation for small suppliers, would now be taxed at a prescribed rate by the e-commerce operator.

This is in line with the similar relief provided to specific categories of service providers making supplies through e-commerce platform, under section 9(5), wherein, all the provisions of the CGST Act shall apply to such e-commerce operator as if he is the supplier of such services and liable for paying the tax in relation to the supply of such services while the supplier is not required to register under GSTN. Currently the three services notified under section 9(5) of CGST are:

i) radio-taxis (e.g. Ola/ Uber platform);

ii) hotels, inns, guest houses, clubs, campsites or other commercial places meant for residential or lodging purposes except where the person supplying such service through e-commerce operator (e.g. Oyo Rooms, MakeMyTrip) is liable for registration under section 22(1) of the CGST Act;

iii) house-keeping such as plumbing, carpentering etc, except where the person supplying such service through e-commerce operator (e.g. Urban Clap) is liable for registration under section 22(1) of the GCST Act

Notably, the hesitation of small business to register under GSTN is not to evade tax but to avoid the cumbersome and time-consuming registration and returns filing process. It would be therefore, prudent for the government to simplify the entire GST process and website in the interest of all suppliers online as well as offline. The lengthy and complex process becomes burdensome and instead of facilitating and empowering business, it becomes a deterrent and hindrance for the business to initiate, grow and thrive.

Mandatory Udyog Aadhar, which is also known as Aadhar for Business, is a twelve-digit Unique Identification Number provided by the Ministry of MSME. It can be used to track business levels of online suppliers.

Relevant Regulation/ Ministry:

Central Goods and Services Tax (CGST) Act, 2017; Commerce Ministry,

Finance Ministry; Ministry of Micro, small & Medium Enterprises

02 Legal Metrology

- **Re-evaluate, simplify and streamline Legal Metrology requirements for products after taking detailed industry feedback. Among other things, requirement of 'supplier contact details' should be dropped.**

The industry feedback is that currently the legal metrology requirements are quite cumbersome and some of the things are not necessary. Therefore, the cost of compliance is quite high for both the online platform and the suppliers. This leads to non-compliance.

RATIONALE:

Legal Meteorology amongst other things details how a product should be depicted to a consumer. It has detailed guidelines on what all information should be there on the website regarding the product, what details should be affixed to the product itself (on its packaging). As per the Legal Metrology (Packaged Commodities) Rules, 2011 certain mandatory declarations have to be made on every package, which are:

i) Name and address of the manufacturer/ packer/ importer;

ii) Country of origin in case of imported packages

iii) Common or generic name of the commodity contained in the package;

iv) Net quantity, in terms of standard unit of weight or measure or in number;

v) Month and year of manufacture/ pack/ import;

vi) Retail sale price in the form of Maximum Retail Price (MRP) Rs..... Inclusive of all taxes;

vii) Consumer care details etc

Currently, different legal metrology departments (state wise) keep sending non-compliance notices and incentivise companies to compound.

There is a need to simplify the legal metrology. Markets will automatically display what a consumer will want to know to buy the product, as every product has its unique requirements.

Furthermore, if smaller platforms give full contact details of their suppliers then the bigger players can poach their suppliers - making it anti-competitive.

Relevant Regulation/ Ministry:

The Legal Metrology Act, 2009;

Department of Consumer Affairs;

The enforcement of Legal Metrology Laws is done by the State Governments by the Controller of Legal Metrology and other Legal Metrology Officers as per the provisions of Act.

03 Scrap section 194O of Income Tax Act and section 52 of the CGST Act

- Scrap section 194O of Income Tax Act, 1961 which levies a TDS of 1 per cent on all e-commerce transactions.
- Scrap section 52 of the CGST Act, which levies TCS of 1 per cent on all e-commerce transactions

Scrapping these sections would reduce the unnecessary complexity of tracking and accounting for tax deducted/ collected at source. Tracking can be done with Udyog Aadhar and GSTN of registered suppliers.

RATIONALE:

If the policy recommendation 1 above is agreed (any option), these two sections would not be applicable to MSMEs below the threshold.

The objective of these sections is mainly to track the online suppliers' business activity levels rather than tax collections.

Relevant Regulation/ Ministry:

Income Tax Act, 1961;

CGST Act, 2017;

Finance Ministry

04 Reconsider ban on non-essential e-commerce during lockdown

- **Maharashtra Government or any other State/ Central government should not ban sale of non-essential e-commerce during pandemic/ lockdown**

RATIONALE:

Currently, essential goods include food, groceries, personal care items, babycare products, petcare products. While non-essential goods include smartphones, electronics, large appliances, other high value and FMCG items.

'Essential' is a subjective term. A person who may have crashed his smartphone or laptop may need the same for important office work or online schooling for kids, which would be very essential to them. Therefore, it is in the best interest of the public and suppliers to continue e-commerce of all goods.

Online deliveries are considered 'safe'.

There is a growing belief that the probability of the virus spreading through surface infection is almost nil. Additionally, the e-commerce companies and suppliers have put in various safety measures including no-contact deliveries, card-only payments and displaying temperature readings of workers/ delivery personnel, which have boosted customer confidence.

Maharashtra government should recall the restriction on e-commerce as it causes undue hardship to public during lockdown. It also hurts numerous small traders who sell on e-commerce platform. At a time, when consumers will hesitate to buy offline, small businesses look to e-commerce to do business and earn a livelihood.

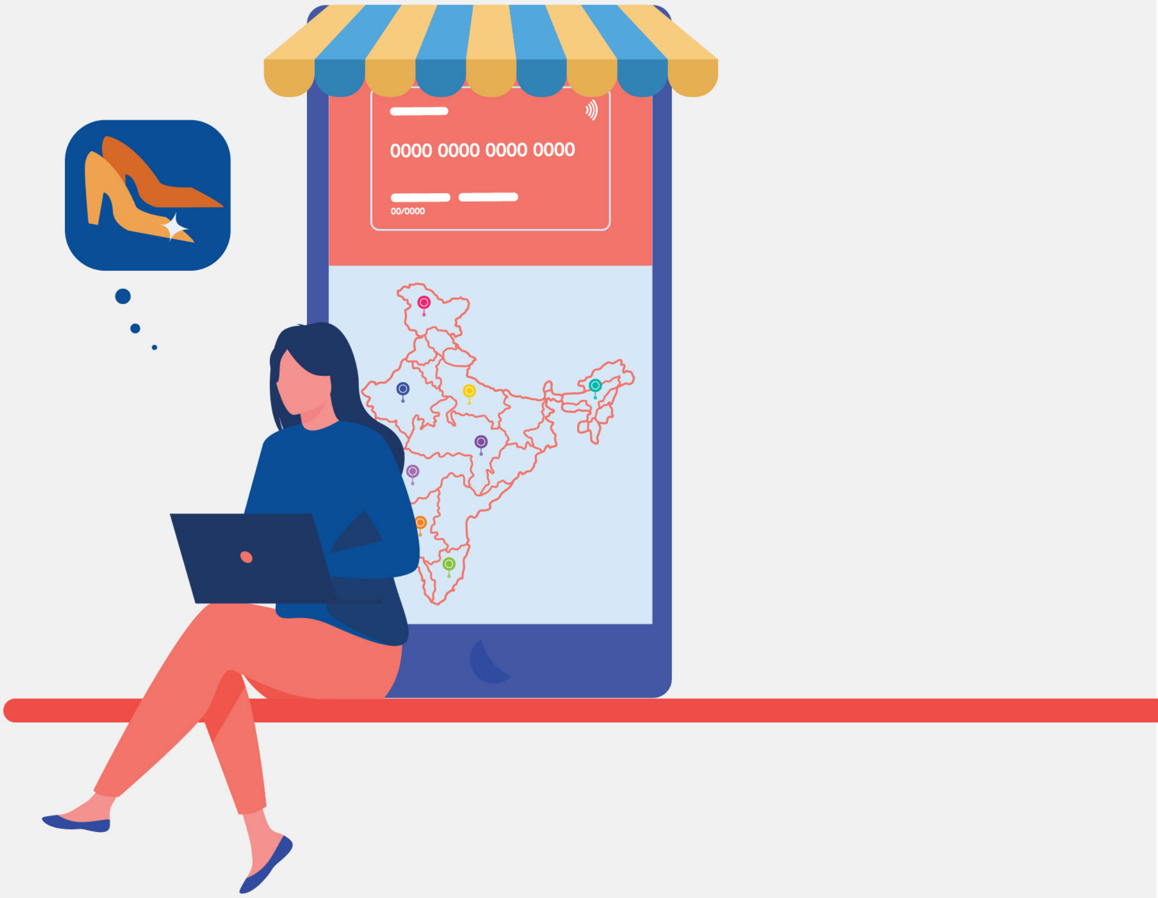
There have been threats of state-wide agitation by offline suppliers which has forced the government to ban the delivery of non-essential goods. By removing the GST registration requirement as discussed above, more and more small offline business can also start selling online and there would not be this unnecessary rivalry among them.

Relevant Regulation/ Ministry:

Commerce Ministry;

Ministry of Micro, small & Medium Enterprises

State Governments



SMAHI