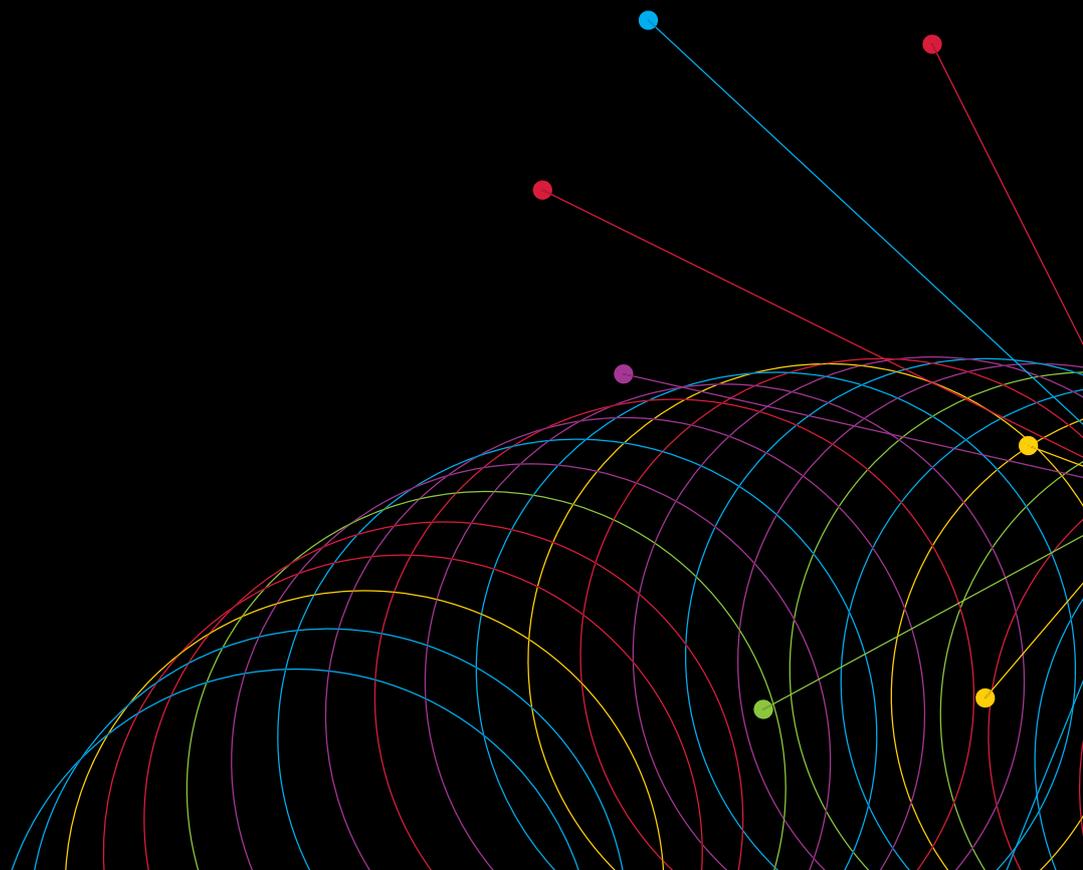


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AN UNCOMMON SENSE  
OF THE CONSUMER™

# LOGISTICS CAN HELP E-COMMERCE GO THE DISTANCE

**WHY E-COMMERCE IS THE NEXT BIG  
OPPORTUNITY FOR THE LOGISTICS  
SECTOR IN INDIA**



# ECOMMERCE: THE NEXT BIG OPPORTUNITY FOR LOGISTICS

- The rapidly growing e-commerce industry is expected to reach US\$100 billion by 2019\*, necessitating a robust support in infrastructure including logistics capabilities.
- Logistics are quickly emerging as the biggest challenge in e-tailing, while simultaneously being the key differentiator considering the stiff competition between domestic and international players.
- Cash-on-delivery orders will continue to dominate the Indian market, suggesting that logistics service providers would need to handle approximately USD 14 billion in cash by 2018.
- Currently, e-commerce accounts for 15% to 20% of the total revenues for some large logistics companies.

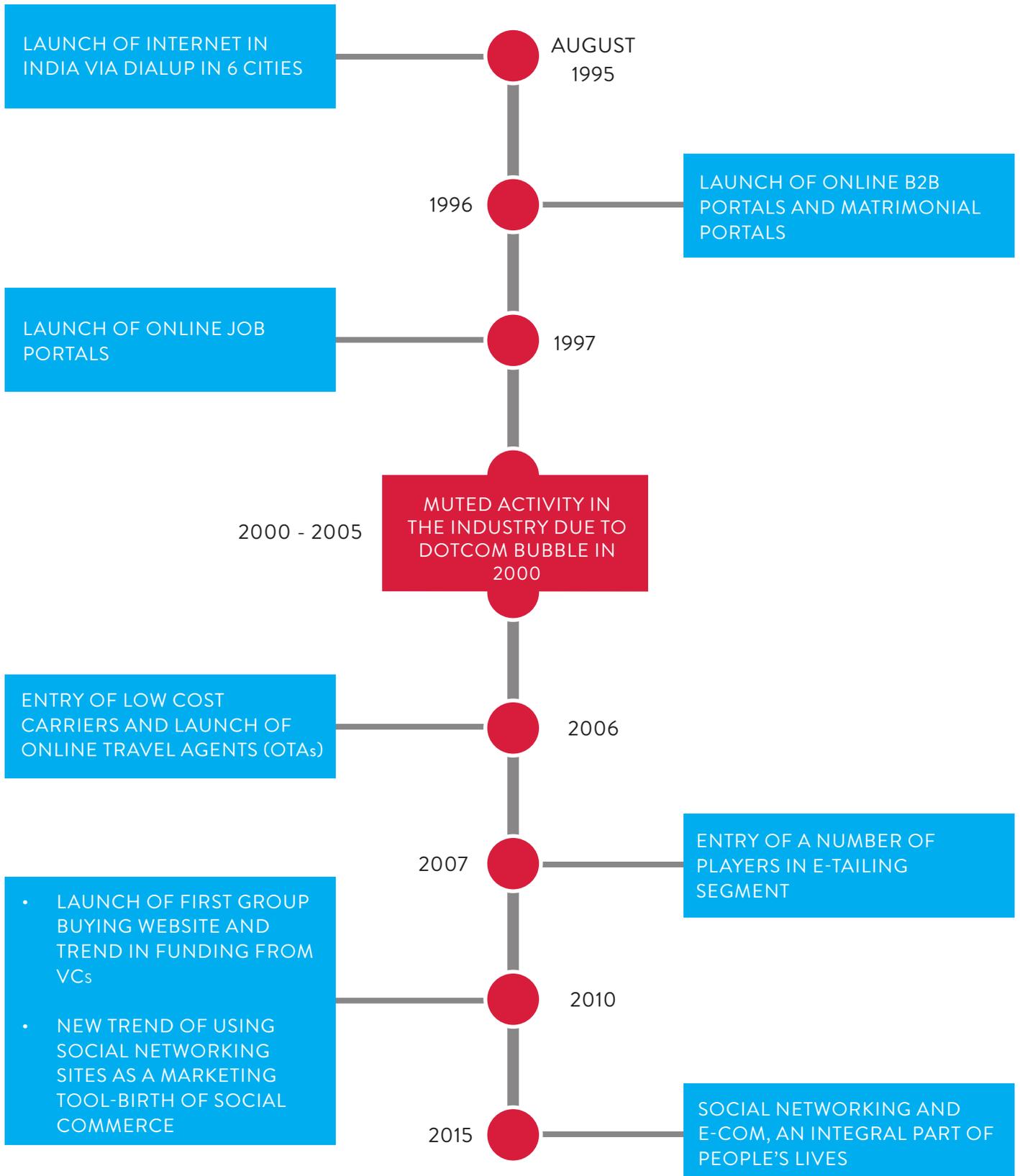
Interdependence - when two industries can work closely together towards building efficiency and driving growth - is now more of a strength than a weakness. However, it's also a relatively recent phenomenon in India. In the past, many Indian businesses would work to acquire all critical capabilities in-house to have absolute control. In the case of e-commerce, constantly rising consumer demands and stiff competition has forced industries to drive efficiencies through a renewed focus on logistics.

\*Assocham report



CONSTANTLY RISING CONSUMER DEMANDS AND STIFF COMPETITION HAS FORCED THE E-COMMERCE INDUSTRY TO DRIVE EFFICIENCIES THROUGH A RENEWED FOCUS ON LOGISTICS.

## THE EVOLUTION OF E-COMMERCE IN INDIA



Source: E&Y

Although online businesses started developing in the late 1990s, the supporting ecosystem was not yet in place. The first wave of e-commerce in India was hampered by low Internet penetration and speed, a small online shopping user base, low consumer acceptance of online shopping and inadequate logistics infrastructure. The dot-com bubble in the early 2000s led to the collapse of more than 1,000 e-commerce businesses in India and tempered activity between 2000 and 2005.

After 2005, e-tailing and social networking started to gain steam in the Indian online space, eventually becoming an integral part of our daily lives. In the beginning of this second phase in e-commerce growth, social networking merely helped consumers stay connected with friends. Now, however, social networking websites serve a far wider purpose. Most savvy brands have begun using social networking platforms to further their digital connections with consumers. Typically, companies use social media for branding activities, connecting with customers for feedback, launching products and advertising. Termed 'social commerce,' it has grown to become a key avenue for e-commerce players to extend their sales and marketing efforts.

The e-tailing industry today is crowded with a large number of home-grown and international players intent on winning with the rising base of online shoppers. And with mobile popularity growing by leaps and bounds, e-tailers are also being forced to think of moving away from traditional website-based shopping to app-based business models to enjoy customers' continued patronage.

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TYPICALLY, COMPANIES HAVE STARTED USING SOCIAL MEDIA FOR BRANDING ACTIVITIES, CONNECTING WITH CUSTOMERS FOR FEEDBACK, LAUNCHING PRODUCTS AND ADVERTISING. TERMED 'SOCIAL COMMERCE', IT HAS GROWN TO BECOME A KEY AVENUE FOR E-COMMERCE PLAYERS TO REACH OUT TO THEIR CUSTOMERS.

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## THE ROLE OF E-COMMERCE LOGISTICS

For e-commerce to function efficiently, it is necessary to have a consistent logistics system that will provide support through warehousing, inventory, delivery, invoicing, handling cash-on-delivery and product-returns. The role of logistics in e-commerce is to reduce the risk that arises from the virtual relations.

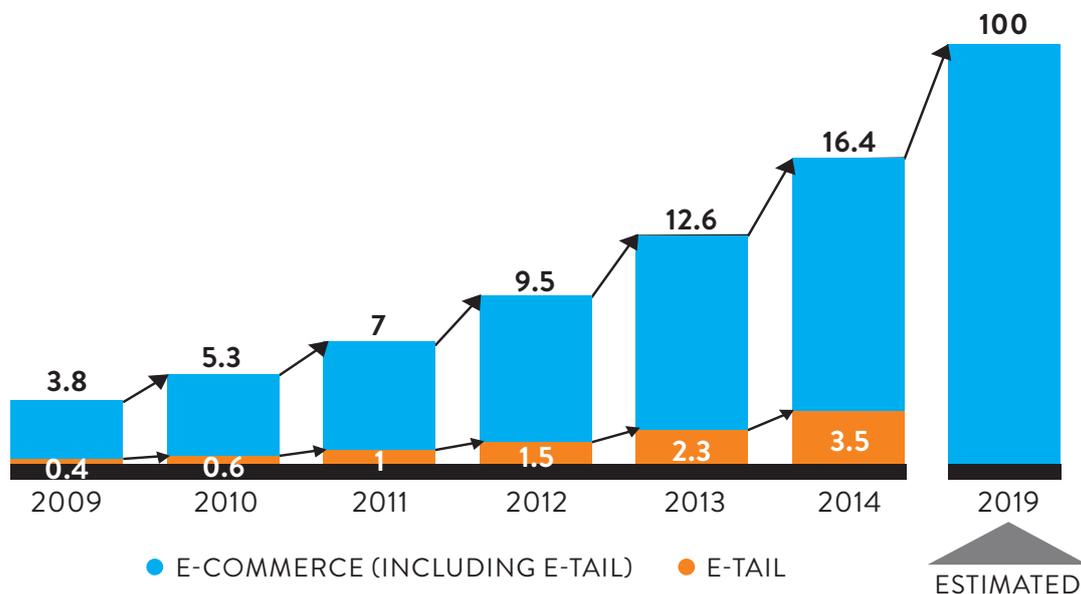
Additionally, E-commerce logistics needs to reduce the risk in the relationship between the seller and the customer by ensuring that the right product is delivered to the right customer, at the right place and at the right time.

Moreover, unlike brick and mortar stores where delivery is immediate, e-commerce firms are still grappling with the challenge of the speed with which the ordered product reaches the customer. Logistics stand to play a key role in overcoming such disadvantages, enabling e-tailers to further grow and expand.

## E-COMMERCE GROWTH SET TO ACCELERATE

In 2013, Asia-Pacific emerged as the strongest business-to-consumer (B2C) e-commerce region in the world with sales of approximately US\$567.3 billion and a growth of 45% over 2012, ranking ahead of Europe (US\$482.3 billion) and North America (US\$452.4 billion). The e-commerce sector has seen unprecedented growth in 2014. The sector has grown by a 34% compound annual growth rate (CAGR) from US\$3.8 billion in 2009 to touch US\$16.4 billion in 2014. And according to Associated Chambers of Commerce and Industry of India (ASSOCHAM), the sector is expected to hit US\$100 billion by 2019.

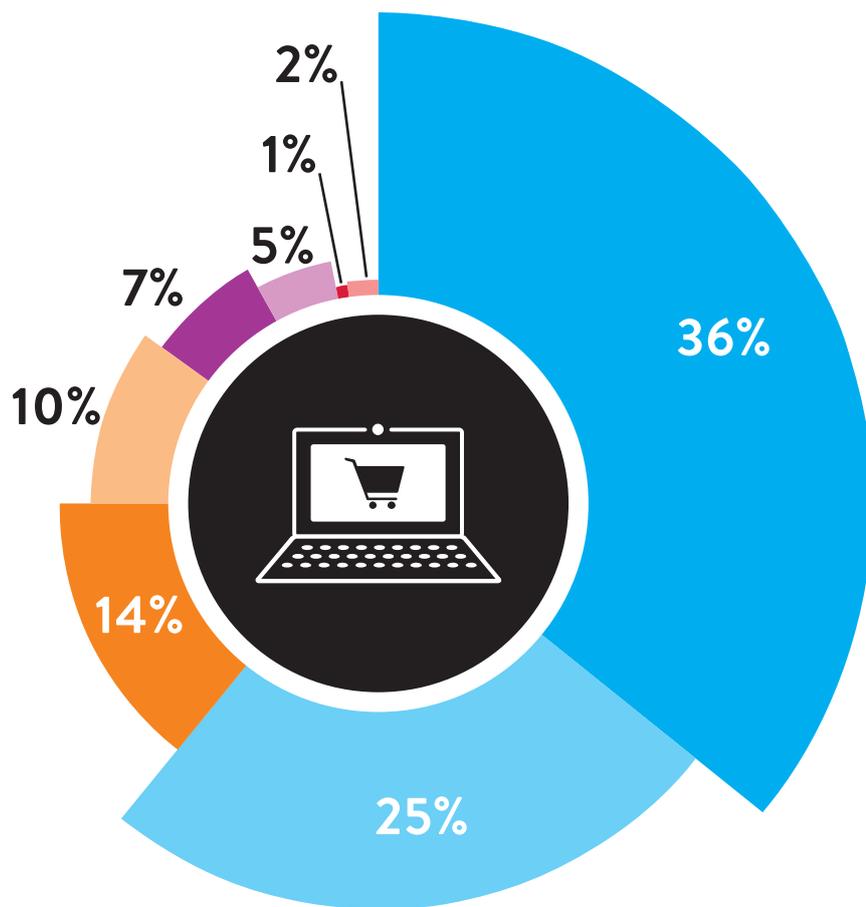
### THE GROWTH OF E-COMMERCE IN INDIA



Figs. In \$ billion  
Source: IAMAI, CRISIL, Gartner, PwC, Industry Experts and Nielsen analysis

E-tailing, which consists of online retail and online marketplaces, has been the fastest-growing segment in e-commerce, having grown at a CAGR of approximately 56% from 2009 to 2014. The future continues to look bright with the size of the e-tail market being pegged at US \$6 billion in 2015. Within e-tailing, electronics, consumer durables, fashion and books account for about 80% of product distribution.

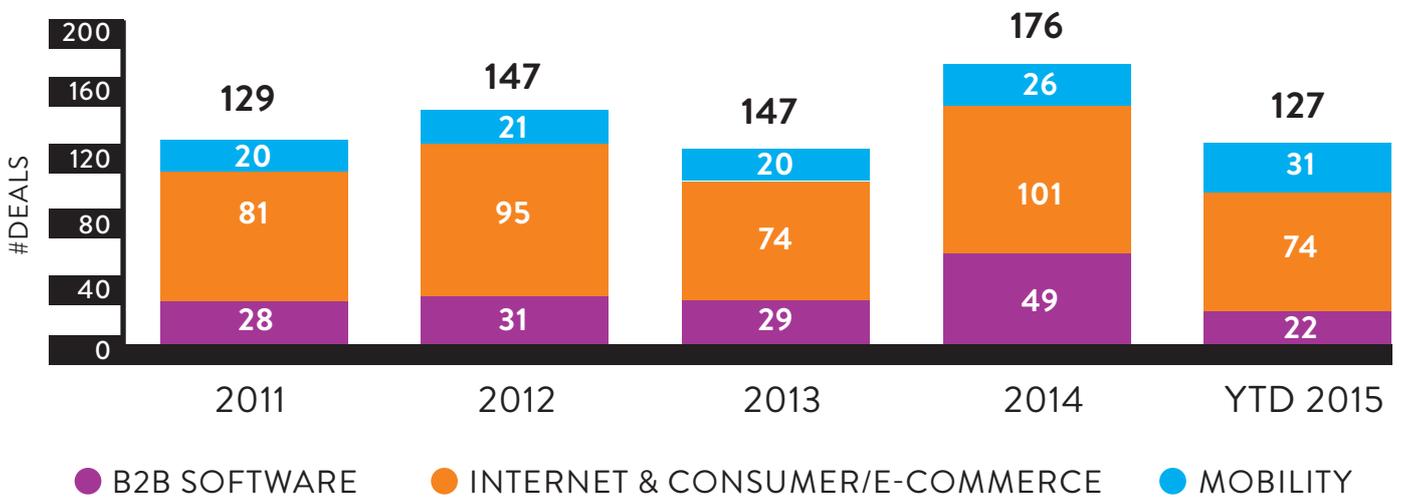
## E-TAILING MARKET BY CATEGORY



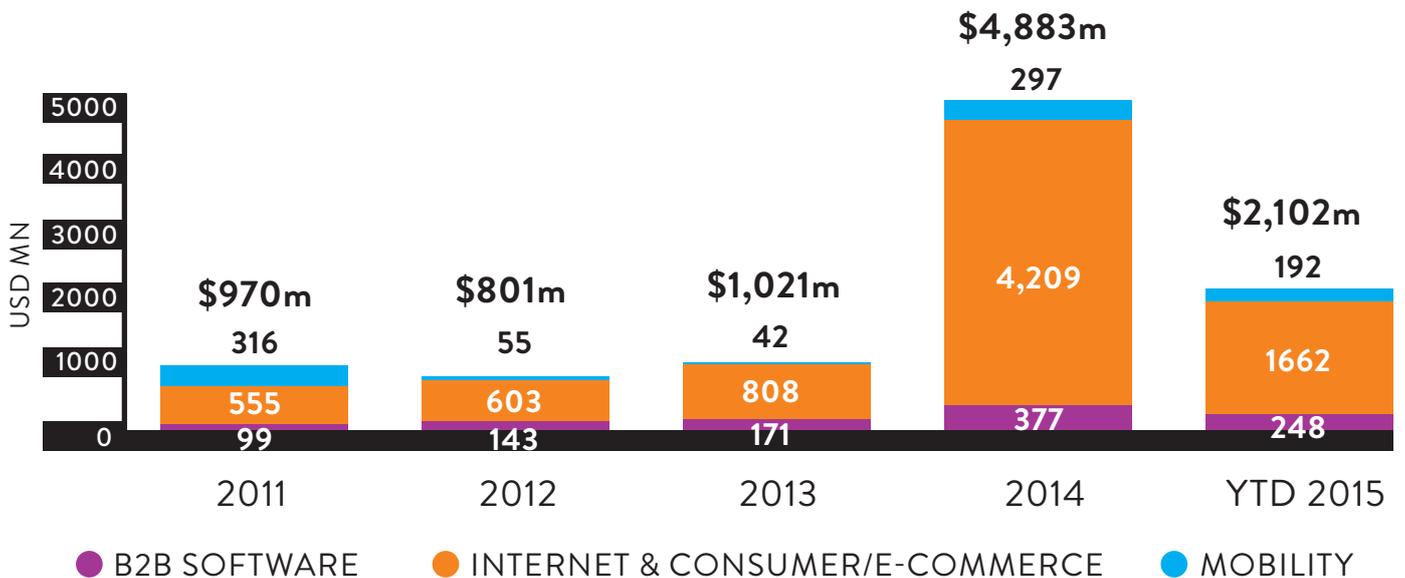
Source: PWC and Nielsen Analysis

This growth has been driven by rapid adoption of new technologies, led by the increasing use of devices like smartphones and tablets, and access to the Internet through broadband, 3G, etc., which led to an increased online consumer base. Additionally, favourable demographics and a growing Internet user base has contributed handsomely to this growth. Significantly, the growth shown by local players such as Flipkart and Snapdeal, in addition to immense investor interest around these companies, are indicative of the market's potential to continue to grow.

### INDIA VC/PE INVESTMENTS: DEAL VOLUME



### INDIA VC/PE INVESTMENTS: DEAL VALUE



Source: Signal Hill analysis and research, Venture Intelligence, YTD as on March 31, 2015

With the entry of e-commerce behemoths such as Amazon and Alibaba, competition is expected to further intensify. Both of these international players have deep pockets and therefore can sustain business for longer without generating profits. Moreover, their strong domain knowledge and best practices from their international experience give them an edge. To top it all, these companies have been a part of markets that are at a mature stage in the e-commerce evolution, and so they are aware of the challenges and strategies necessary to address issues that are bound to arise on the way.

## E-COMMERCE LOGISTICS: EMERGING TRENDS AND OPPORTUNITIES

While logistics is the biggest challenge in e-tailing, it is also the key differentiator between players and a critical link between e-tailers and customers. With e-commerce being in the midst of emerging macro trends, adapting logistics to accommodate these trends is likely to determine future success.

The key trends in the e-commerce industry that are likely to enable growth in the logistics sector include:

- **The rising relevance of Tier 2 and 3 cities necessitates a wider presence of logistics:** Industry experts say tier 2 and 3 cities are expected to contribute more than USD 10 billion to e-tailing shipments by 2019, exceeding the demand from traditional retailers in these cities. In order to take advantage of this demand, it is essential to develop a network of branches and delivery points that will enable servicing of these high-growth geographies.
- **The sheer volume of cash-on-delivery (CoD) orders will require fundamentally different cash handling capabilities:** CoD orders will continue to dominate the Indian market, suggesting that logistics service providers would need to handle approximately USD 14 billion in cash by 2018. As a result, one of the biggest differentiators for any logistics service provider will be its ability to effectively manage cash flow and address challenges such as theft, use of cash as working capital and reconciliation issues. This requires fundamentally different systems compared to those that currently exist in the market.
- **Offline retailers moving to online channels will require significant fulfillment capabilities:** Logistics service providers will need to develop fulfillment capabilities\* to gain access to the small but growing market of offline retailers who want to move online. They need to go beyond the traditional express delivery model to a higher level in the value chain with a host of value-added services, including managing inventory, handling invoicing, providing consumer insights and more.

\*Fulfilment capabilities essentially mean going beyond providing logistics support alone. This will include managing inventory, routing shipments to identify the least expensive product movement, handling invoicing and payment collection, etc.



WITH E-COMMERCE BEING IN THE MIDST OF EMERGING MACRO TRENDS, ADAPTING LOGISTICS TO ACCOMMODATE THESE TRENDS, IS LIKELY TO DETERMINE FUTURE SUCCESS.

- **A shift of focus to surface movement will create a need to develop a strong multi-modal mix:** E-tailing businesses are moving to a managed marketplace model, (where they control delivery as well as return of products purchased online) and have started increasing their fulfilment centers across multiple locations to accommodate faster ground delivery and better customer service. Apart from this, air capacity constraints appear to exist, especially during festive periods such as Diwali when orders tend to peak. Given this background, logistics service providers will need to improve surface transportation capabilities via both road and railway, across various geographies. This will create more opportunities and avenues for growth for the sector.
- **Emergence of new categories will increase complexity, requiring accurate weight reconciliation systems, and the creation of new opportunities:** With a wide variety of products being transported to and fro, proportions of weight versus dimensions no longer conform to established templates. Categories such as apparel, baby products, sports goods and furniture have already added significant challenges to logistics in this regard. Besides capturing dead-weights and volumetric-weights\*, it is essential to develop accurate reconciliation systems that allow e-tailers to determine appropriate logistic needs and cost and thereby, create transparency among sellers and e-tailers.

Both e-tailers and logistics service providers realise the importance of these trends and are starting to adapt accordingly. For example, a leading e-tailer is piloting CoD with support from India Post to accommodate the increased demand from rural areas. Similarly, a few large e-tailers are partnering with coffee shops, local grocery or *kirana* stores, petrol pumps and even Mumbai's famed *dabbawalas* (tiffin-service workforce), to increase the reach of delivery.

Logistics service providers have also taken steps to leverage these emerging trends and expand their businesses further. Some of the developments in this space include:

- A global logistics player has significantly enhanced its surface/ground transport capability to cater to the increase in e-commerce volumes.
- A domestic logistics service provider is offering specialised services, such as giving e-commerce sites the option to brand uniforms of their delivery staff and at-home apparel trials.
- *Delhivery*, an e-tailing-focused logistics service provider, acquired *Charpay* in 2013 to enhance cash-handling capabilities.

\*Dead Weight: Fixed weight of cargo (irrespective of the object inside) Volumetric Weight: Calculating the cost of transporting a shipment based on the amount of space that it occupies (dimensions) rather than actual weight.

- A domestic logistics service provider has started experimenting with road and rail transportation on some new routes necessitated by air capacity constraints.

While these developments represent increased efforts by logistics service providers to leverage a high-growth market, the challenge lies in the fact that existing players are apprehensive about scaling up. Start-ups, however, are moving fast even as the bigger players get their act together.

- Logistics brand *E-COMMERCE EXPRESS* has grown from handling about one lakh shipments a day a couple of years ago to handling nearly three lakh shipments a day today.
- *Quickdel Logistics*, which owns the delivery brand *GoJavas*, was launched two-and-a-half years ago with *Jabong* as its first client. It currently serves 200 companies, delivers to 2,300 pin codes and covers about 105 cities across India.
- *Delhivery* started in April 2011, earned INR 64 crore in revenues in full year 2013-2014 and expects to close full year 2014-2015 at INR 220-240 crore.

All the start-ups in the logistics space work closely with customers and have tailormade their services to suit their needs. Older companies like Blue Dart, DTDC, etc. are also gearing up to leverage e-commerce opportunities. These companies have either set up separate verticals or have allocated a chunk of resources to cater to e-commerce logistics.



## FORTIFYING LOGISTICS



EXPANSION: GEOGRAPHY, MANPOWER AND TRANSPORT



AUTOMATION AND ROBOTICS



END-TO-END SOLUTIONS

## HOW LOGISTICS COMPANIES ARE GEARING UP TO RIDE THE WAVE

In anticipation of growing demand, logistics start-ups are now rushing to expand their networks. The big players who already have a large network are now spreading to tier 2, 3 and 4 towns with more manpower and a fleet of vehicles.

Logistic companies are investing in automation to handle more volumes. *E-COMMERCE EXPRESS* has started using robotics sorting technology instead of the manual sorting of packages.

Most companies are working toward becoming end-to-end service providers. For instance, *Delhivery* offers services like last-mile deliveries, third-party fulfilment and warehousing services, in addition to software solutions, such as channel integration software for sellers selling across multiple platforms.

## THE FUTURE OF E-COMMERCE LOGISTICS

As demand for logistics services promises to grow, companies attempting to ride the wave, need to build their capabilities in the specific areas demanded by the current market scenario. According to a report by real estate major CBRE Asia, 2015 and 2016 are likely to see continued demand for modern warehousing and logistics spaces in most markets in the Asia-Pacific region, driven by the development of organised retail in emerging markets and the strong growth of e-commerce.

Going forward, in India, the fast growing e-commerce sector will drive the US\$167 billion (roughly INR 10,63,679 crores) domestic logistics industry. Additionally, the introduction of the goods and services tax (GST), which is expected to unify the markets, will be a big push for the sector by replacing all the indirect taxes levied on goods and services by the Central and State governments, with a single nationwide sales tax and thereby enabling the supply chain to become far more cost-effective. Currently, e-commerce accounts for 15% to 20% of the total revenues

for some of the big logistics companies. According to a joint study by consultancy firm PwC and industry body ASSOCHAM, the Indian e-commerce industry will spend US\$950 million to \$1.9 billion by 2017-2020 on infrastructure, logistics and warehousing. Further, the total spend on warehousing and sortation centers could be as high as 3%-6% of top-line revenues, which represents a cumulative spend of over US\$450 million to US\$900 million of spends in warehousing over the next five years. The report also mentions that the industry is expected to spend an additional US\$500 million to US\$1 billion during the same period on logistics functions.

The promising growth potential in India's e-commerce logistics industry has led to the entry of several new-age logistics startups, the setting up of new verticals by older logistics companies, as well as investments into a separate logistics arm by e-tailers. The sector has also recently seen a spate of interest by investors.

Experts have identified three types of logistics companies that are emerging in India—independent players like *Delhivery*, captive units or logistics arms of e-commerce firms and traditional firms such as Blue Dart. But this may change as the industry continues to rapidly grow and more independent logistics firms in India step in to fill the need.



## INDUSTRY DEVELOPMENTS

- OF THE APPROXIMATELY 90 STARTUPS THAT HAVE SPRUNG UP OVER THE PAST FEW YEARS, MORE THAN 50 FOCUSING ON LOGISTICS WERE FOUNDED IN 2014-2015 ALONE
- AFTER FLIPKART AND SNAPDEAL, AMAZON HAS SET UP A LOGISTICS COMPANY IN INDIA BY THE NAME OF AMAZON TRANSPORTATION SERVICES PRIVATE LIMITED (ATSL)

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THE PROMISING GROWTH POTENTIAL IN THE INDIAN E-COMMERCE LOGISTICS INDUSTRY HAS LED TO THE ENTRY OF A NUMBER OF NEW-AGE LOGISTICS STARTUPS, THE SETTING UP OF NEW VERTICALS BY OLDER LOGISTICS COMPANIES, AS WELL AS INVESTMENTS INTO ESTABLISHING SEPARATE LOGISTICS ARMS BY E-COMMERCE PLAYERS.

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## THE CHALLENGES

With a population of over 1.2 billion, the size of the market and the potential growth in volume of e-commerce in India is attracting the attention of global players who currently don't have a presence in the country.

Despite lower per capita purchasing power, India remains one of the most attractive emerging markets for e-commerce across the globe. However, there are several challenges that the e-commerce businesses face in this country:

- Indian customers return much of the merchandise they purchase online. Returns are expensive for e-commerce players since reverse pick-ups present their own set of challenges.
- CoD is the preferred payment mode. Unlike electronic payments, manual cash collection is laborious, risky and expensive if not managed effectively.
- Payment gateways have a high failure rate. E-commerce companies using Indian payment gateways are losing out on business, as several customers do not attempt payment a second time after a transaction fails once.
- Internet penetration continues to be low; according to the TRAI report for March 2015, only 24% of the Indian population has access to Internet.
- Though the total number of mobile phone users in India is very high and smartphone sales are shooting up, a significant majority still use feature phones. So for all practical purposes, this consumer group is unable to make e-commerce purchases on the move.
- Postal addresses are not standardised, creating last mile issues that add to logistics problems.
- Given the size of the country, there are thousands of towns that are not easily accessible. Since the real potential of the Indian market lies in its large population, absence of seamless access to a significant proportion of prospective customers is a dampener. This is compounded by the fact that CoD is still the preferred payment option in India.
- Well-funded competitors are driving up the cost of customer acquisition.

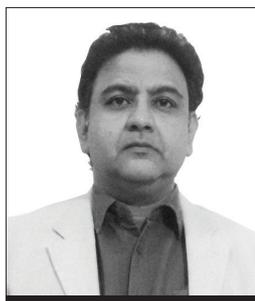
Despite the challenges, e-commerce giants are increasingly attracted to India. Existing players present in India are cognizant of the challenges and are constantly looking to innovate and find new ways of doing business. Today, e-tailing is primarily replicating the role of the distributor, wholesaler and the retailer. E-tailing will be economically more viable if their revenue margins are adequate to cover the cost of logistics as well.

The Indian logistics and warehousing industry is anticipated to grow at a CAGR of 10% to 12% from 2015 to 2019. Third-party logistics provider (3PL), e-commerce logistics and cold chain will continue to be the three biggest segments of the overall logistics industry. The need to deliver items quickly—on time or same day delivery — due to the popularity of CoD, has compelled the logistics industry to change from traditional logistics support to handling the new and nuanced logistics requirements of e-commerce companies. In fact, many of the earlier players are also diversifying their services portfolio to make space for e-commerce logistics. The increasing contribution by e-commerce logistics, government's encouragement of domestic entrepreneurship and the rise in domestic consumption will help pave the way for further growth of the logistics and warehousing industry in the years to come.

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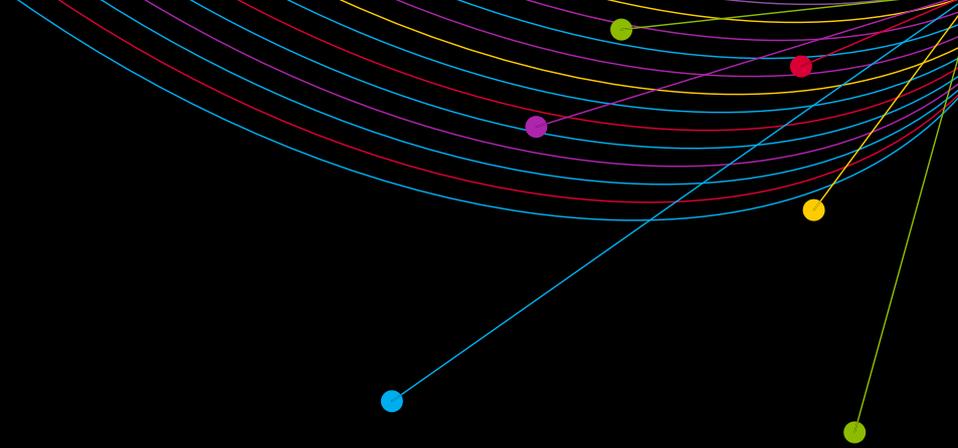
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