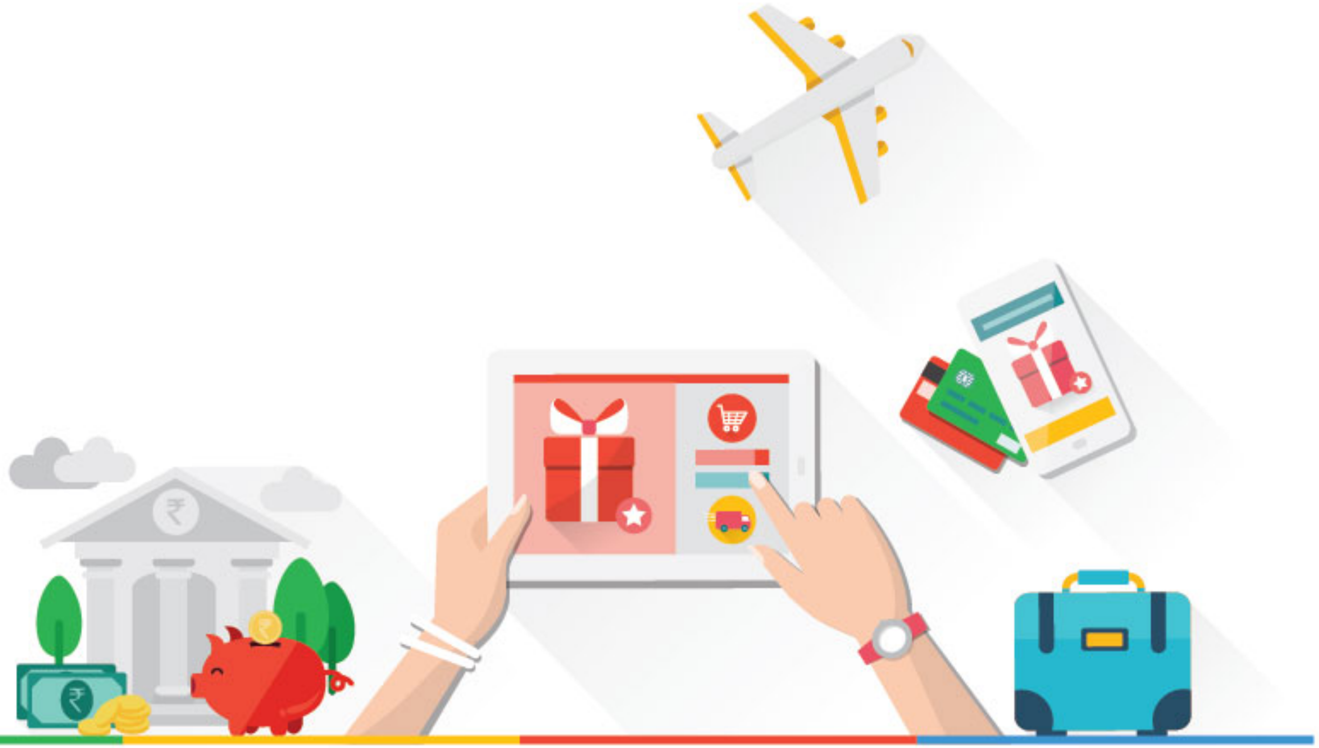
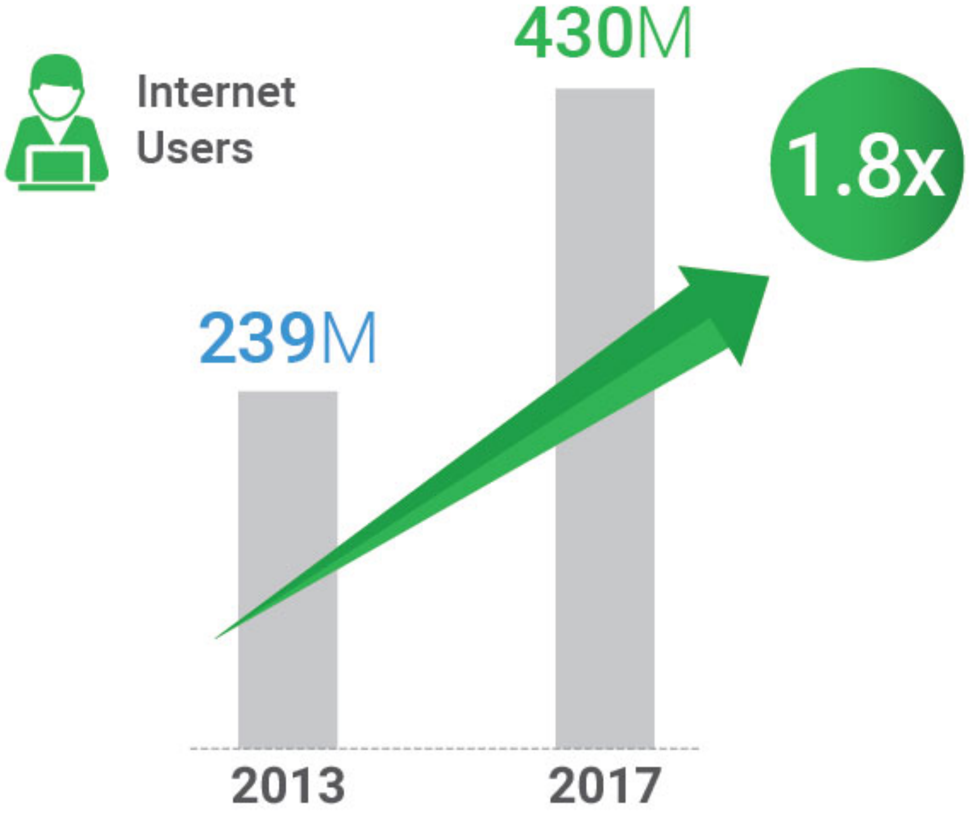
Digital consumer spending in India:
A $100 Bn opportunity

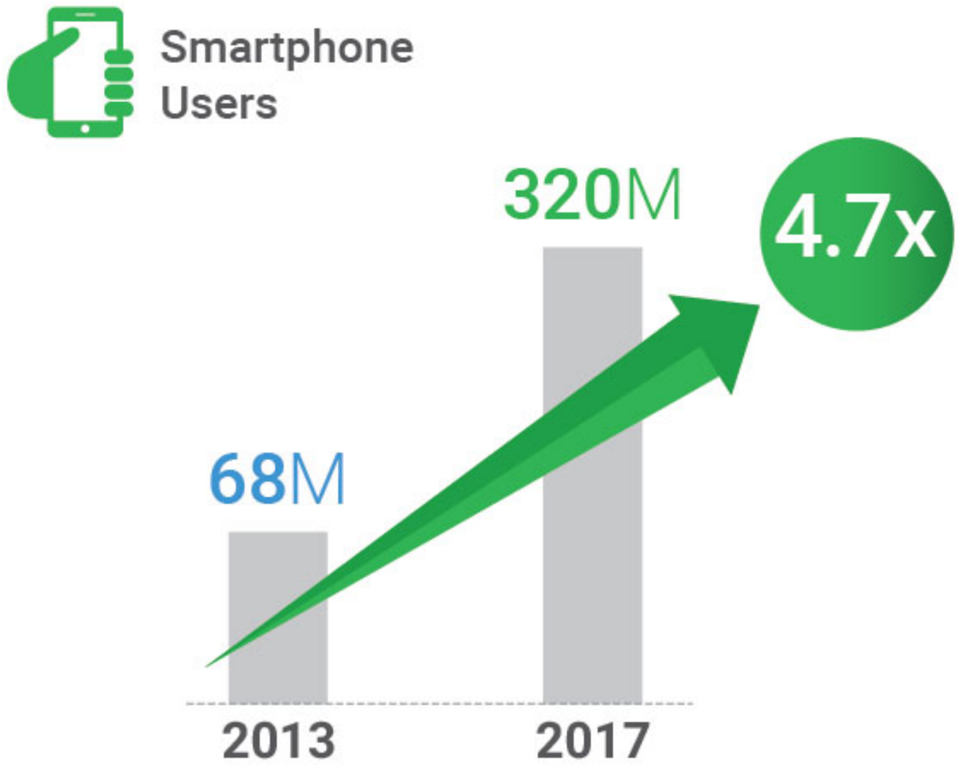


The Boston Consulting Group

February 2018

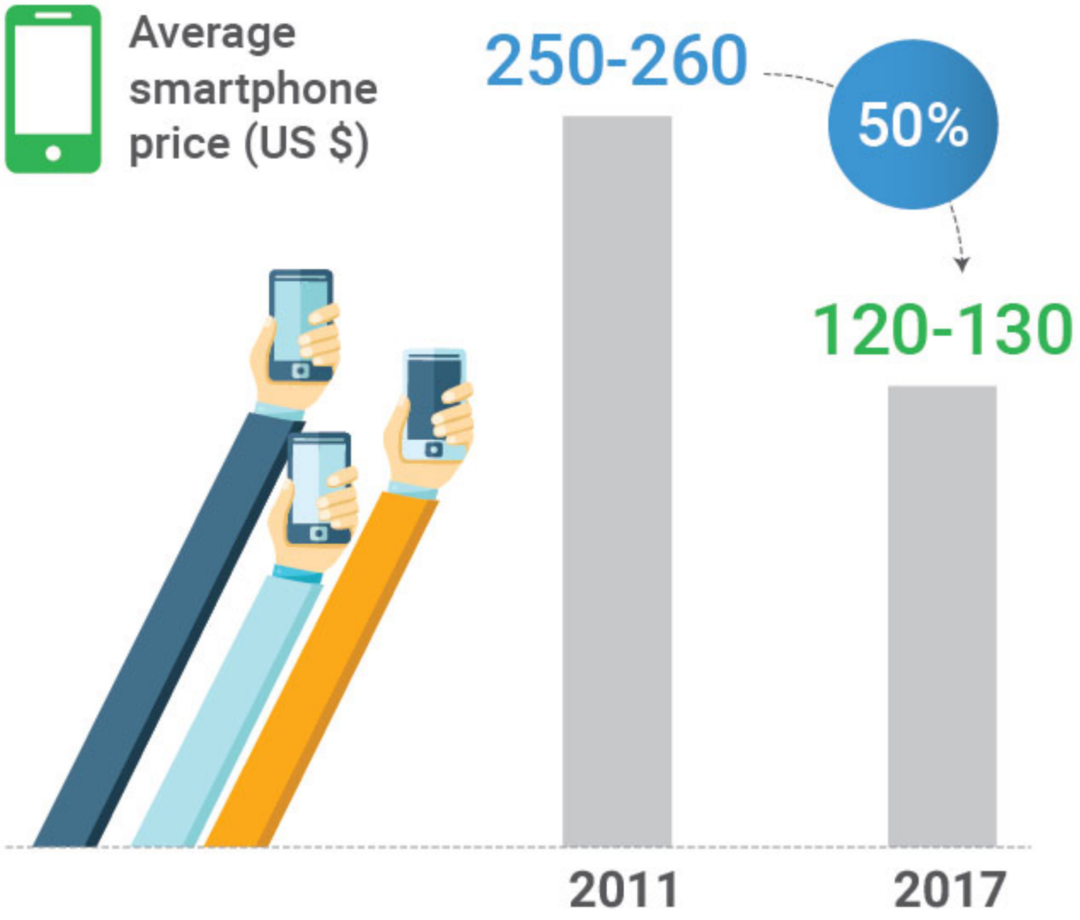
Digital India has catapulted in the last few years

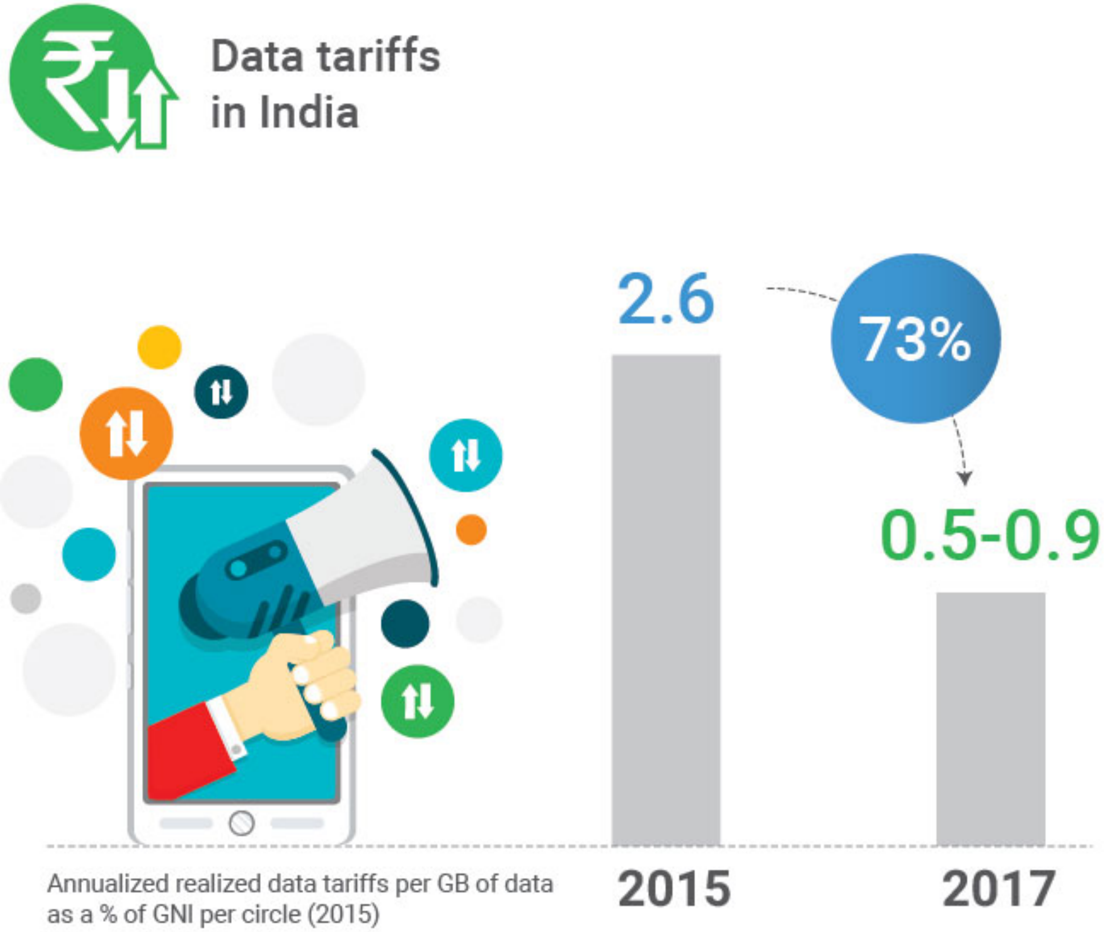




Note: 2013 figures are for December 2013, 2017 figures are as of September 2017.
Source: IDC Quarterly Mobile Phone Tracker 2017Q3, TRAI: Indian Telecom Services Performance Indicators report Dec 2013, Sep 2017, Ericsson Mobility report Nov 2017, BCG analysis based on Project Experience and Research.

Propelled by three forces





Note: 2017 figures are as of September 2017.
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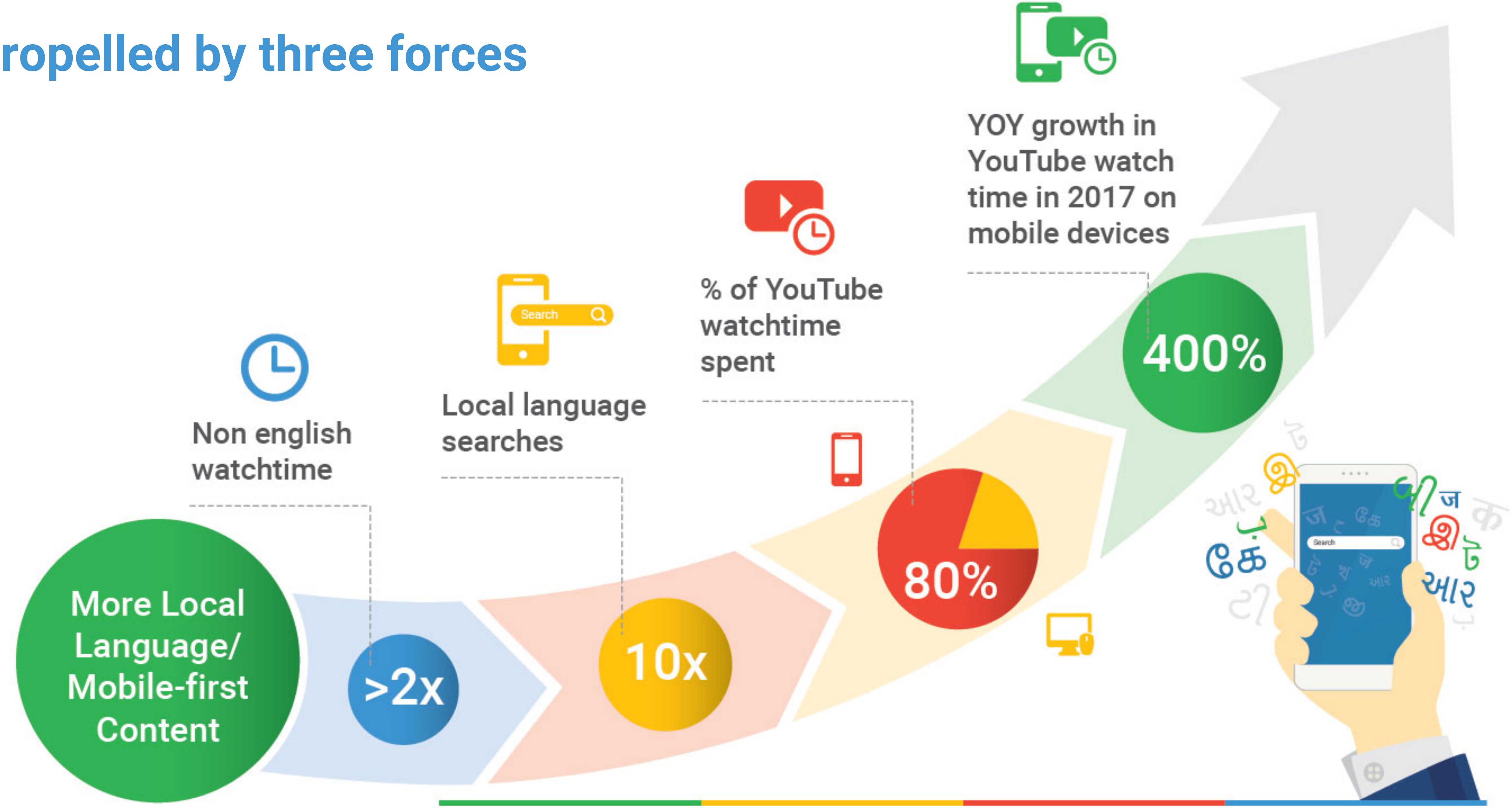
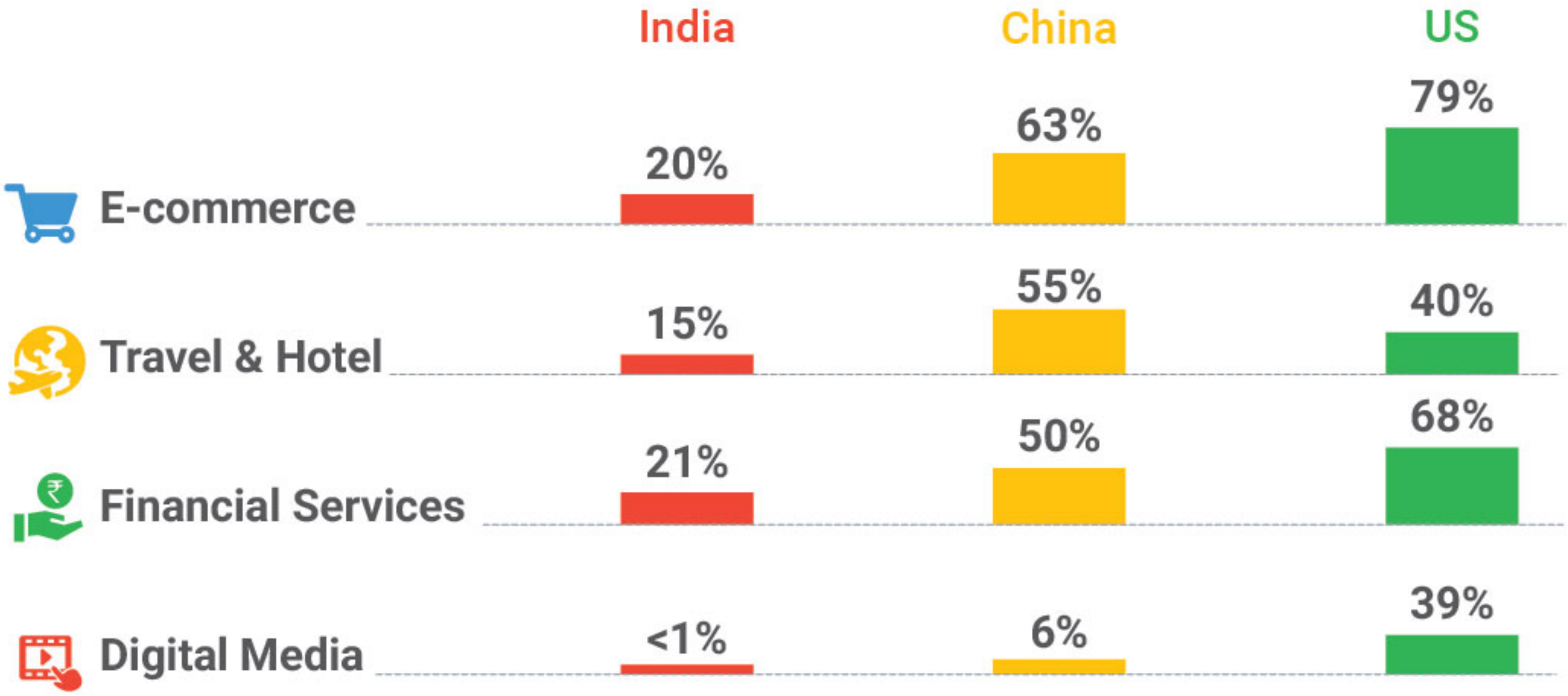


Source: Google internal data.

However, digital spending is still in an evolution phase

Online spenders among internet users (%)



Note: E-commerce includes Apparel, Consumer electronics, FMCG, Luxury, Appliances, Home, Health, Food & grocery; Travel and other bookings includes Air, Train, Bus and Holiday bookings; Financial services user base includes those users that perform online banking (undertake transactions or transfer funds using online banking, mobile banking and USSD services); Digital media includes subscription and transaction video on demand services but excludes ad revenue. Digital health and education have been excluded from this analysis given contribution from government spending vs. end consumer spending.
Source: TRAI: Indian Telecom Services Performance Indicators report Sep 2017, BCG CCI Digital Influence 2017 Study (N=18,000), BCG FIBAC 2017 report, BCG analysis based on Project Experience and Research.

Only 20% spend 60–65% of their total spends online

Online spenders profile

	Low	Medium	High
Share among all online spenders	45-50%	30-35%	15-25%
Average online spends as a % of total spends	5-10%	30-35%	60-65%
Categories bought online	Movie ticket, Travel	+ Fashion, Mobiles	+ Grocery, Home decor, Luxury

Note: Data representative of e-commerce, travel and other bookings. Does not include spends on media (online or offline).
Source: CCI Digital deep dive daily survey 2017 Q1 (N= 11,094 daily transactions), BCG analysis based on Project Experience and Research.

$100 Bn digital consumer spending by 2020

	Market Size ($ Bn) 2017	Market Size ($ Bn) 2020E	Sub-sector driving growth
E-commerce	~18	~45	Apparel & consumer electronics
Travel & Hotel	~11	~20	International air travel
Financial Services	~12	~30	Retail loans & Mutual funds
Digital Media	~0.2	~0.6	Subscriptions

Note: E-commerce includes Apparel, Consumer electronics, FMCG, Luxury, Appliances, Home, Health, Food & grocery; Travel and other bookings includes Air, Train, Bus and Holiday bookings; Financial services market size includes loans disbursed online, insurance premiums paid and mutual funds invested online (AUM); Digital media includes subscription and transaction video on demand services but excludes ad revenue. Digital health and education have been excluded from this analysis given contribution from government spending vs. end consumer spending.

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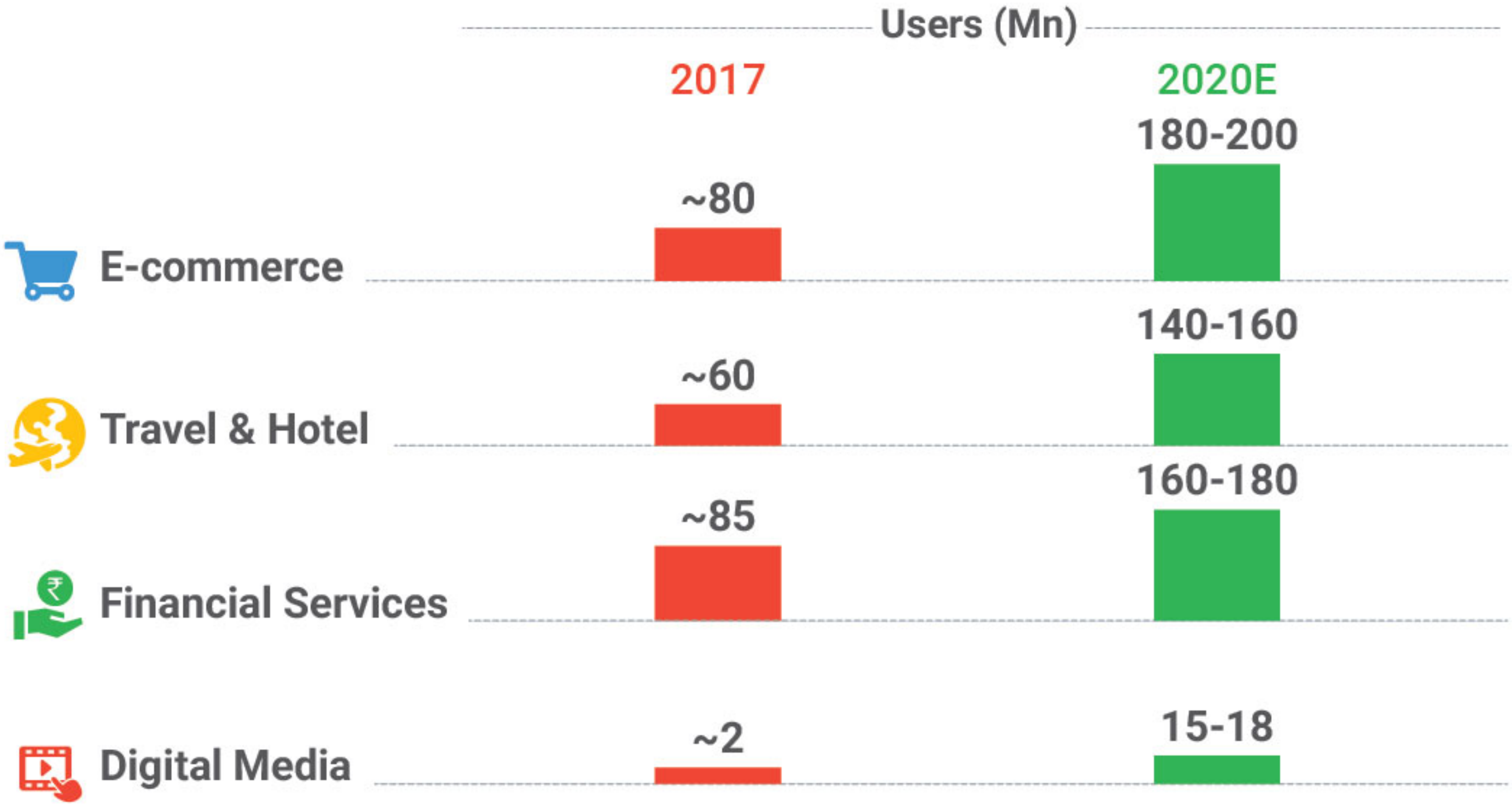
Online spender base grows 2-3x across sectors



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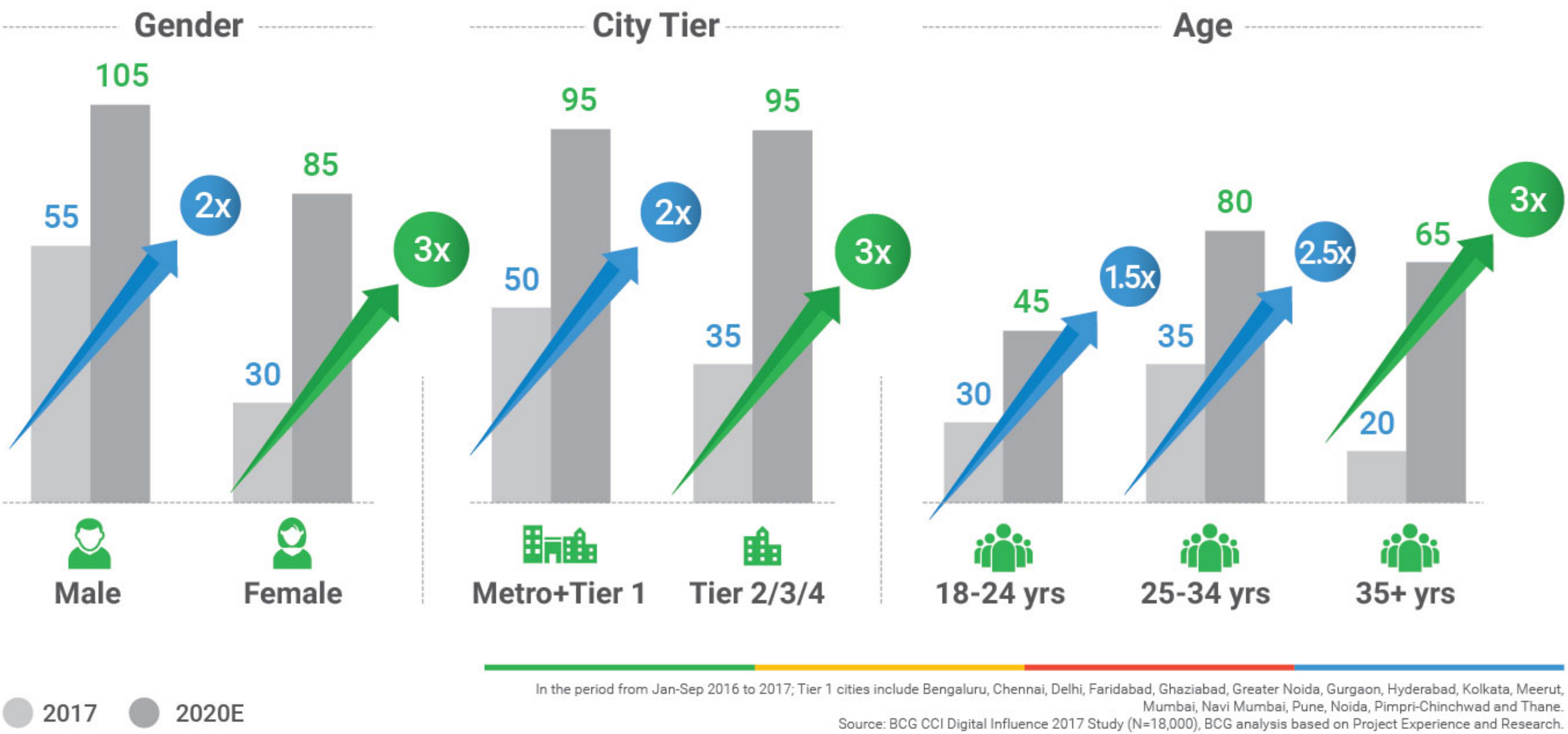
Women, non-metros and 35+ year olds will drive this growth



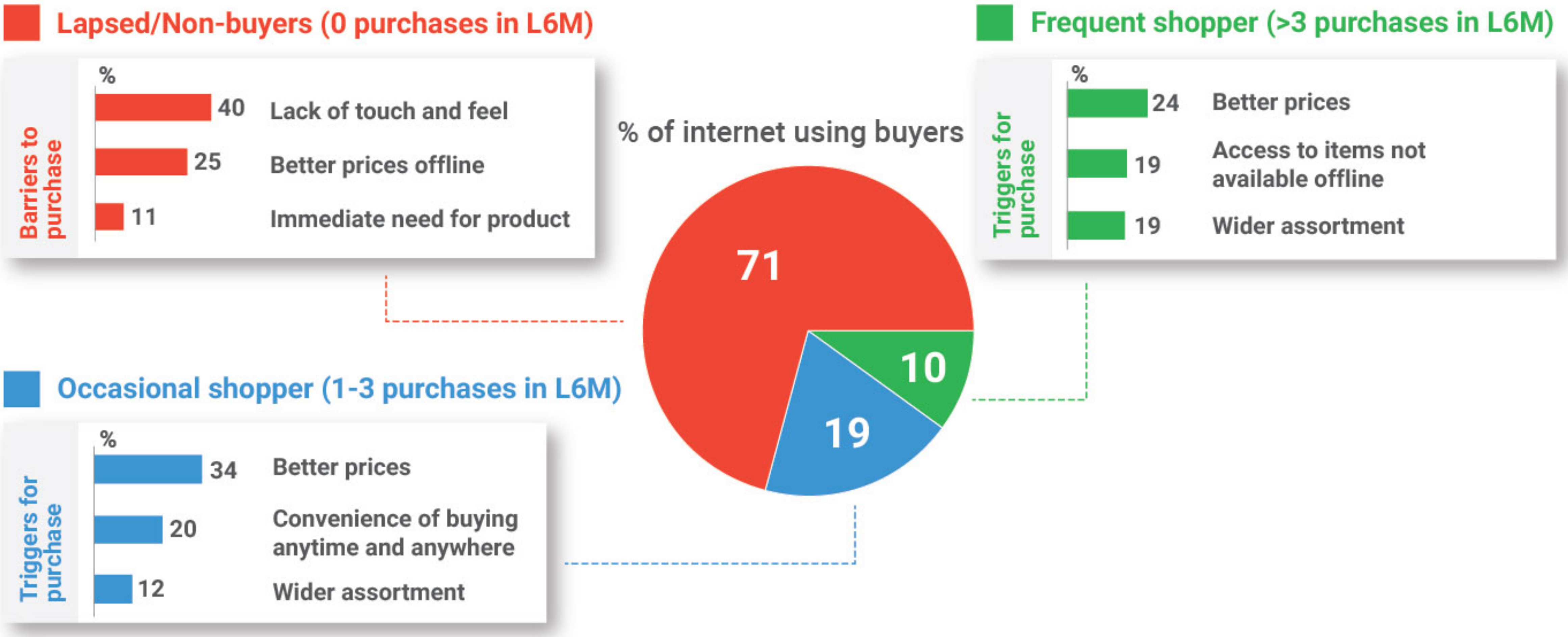
In the period from Jan-Sep 2016 to 2017; Tier 1 cities include Bengaluru, Chennai, Delhi, Faridabad, Ghaziabad, Greater Noida, Gurgaon, Hyderabad, Kolkata, Meerut, Mumbai, Navi Mumbai, Pune, Noida, Pimpri-Chinchwad and Thane.

Source: BCG CCI Digital Influence 2017 Study (N=18,000), BCG analysis based on Project Experience and Research.

The evolution of the Indian buyers

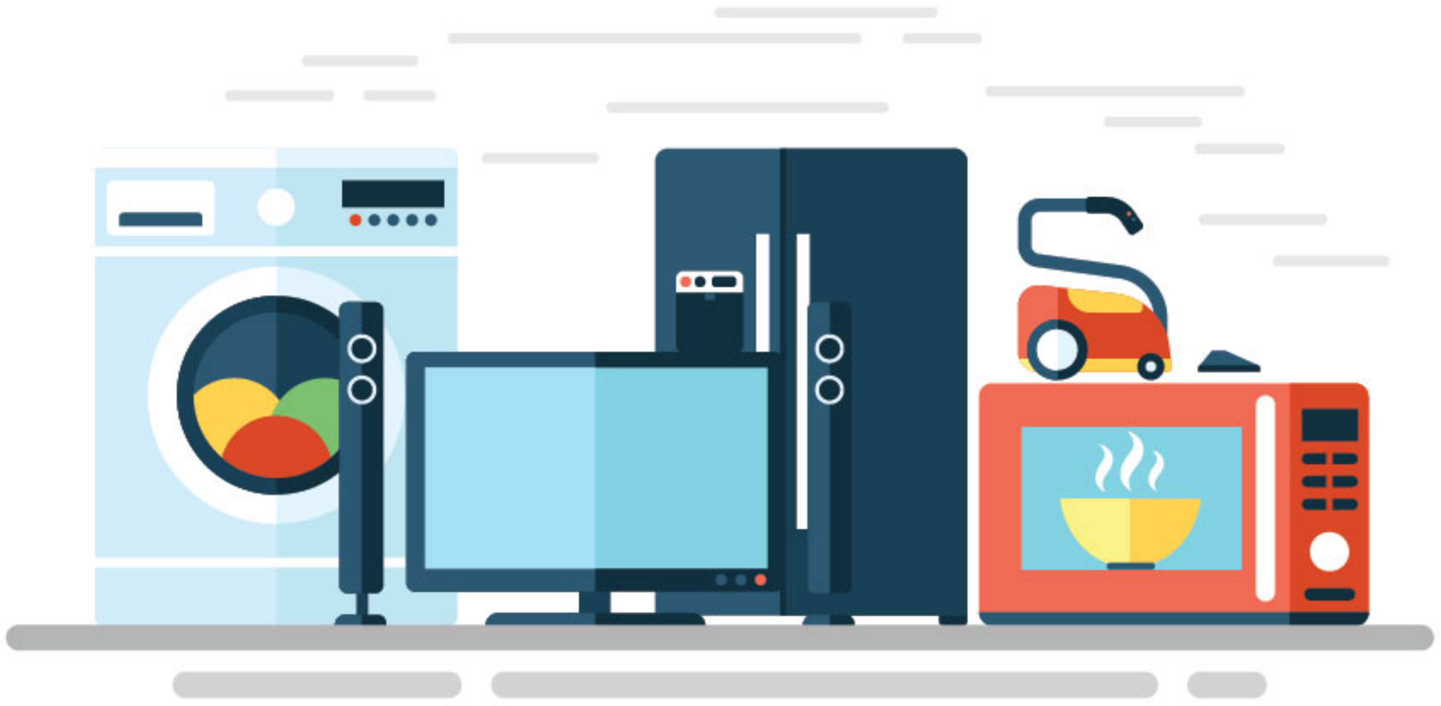
Fashion

Fashion: Lack of touch and feel and immediacy deters users

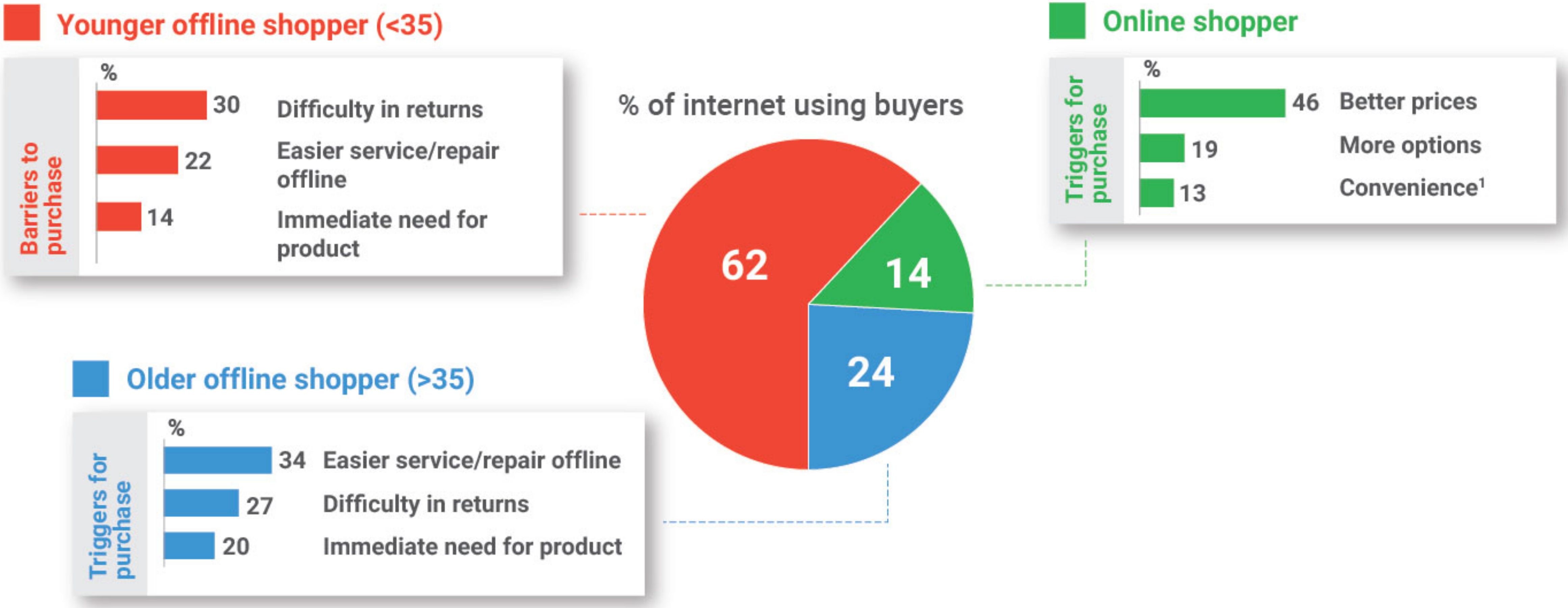


Note: Frequent online shoppers: >3 online apparel purchases in the last 6 months. Occasional shoppers: 1-3 online apparel purchases in the last 6 months
Source: CCI Digital deep dive 2016 – Among digitally influenced apparel shoppers (N=501), BCG CCI Digital Influence 2017 Study (N=18,000) Nielson 2017 survey (N=1845).

Consumer Durables



Consumer Durables: Shoppers deterred by service/repair concerns

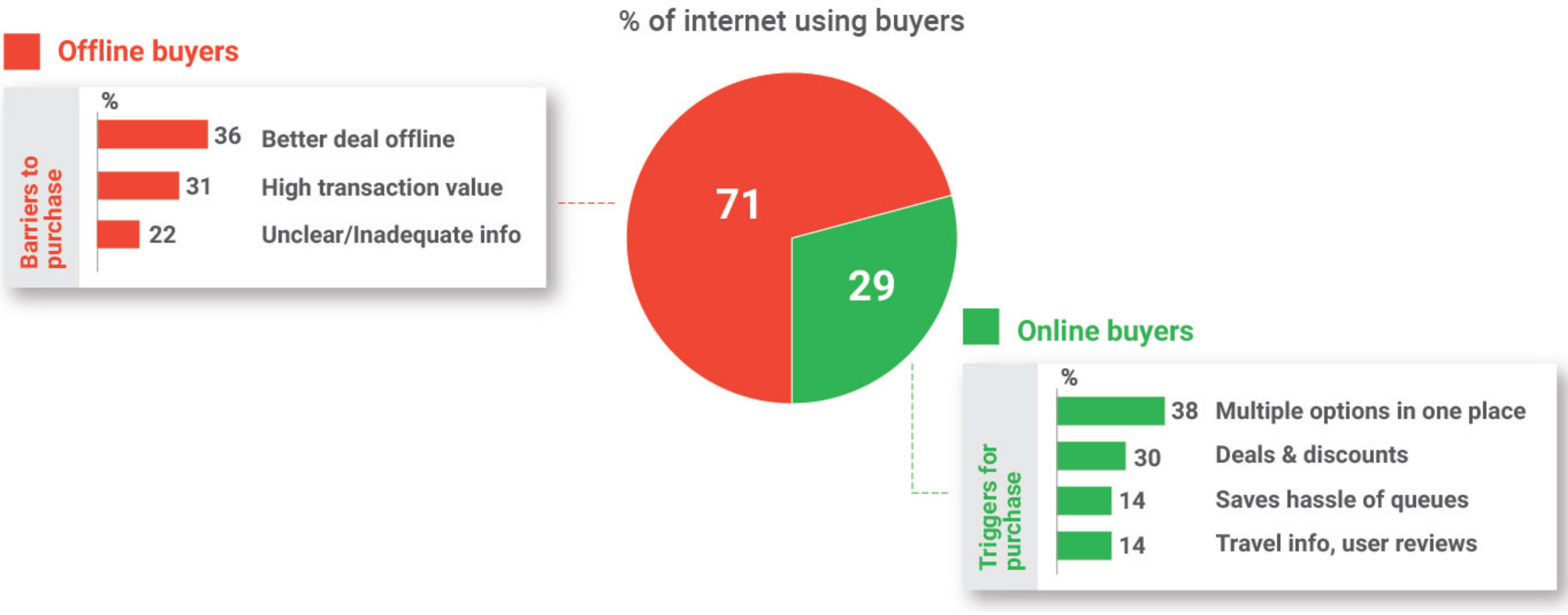


1. 'Convenience' here refers to both the ability to buy from anytime and anywhere as well as saving time and effort .

Source: CCI Digital deep dive 2016 – Among digitally influenced large appliance buyers (N=560) BCG CCI Digital Influence 2017 Study (N=18,000), Nielsen 2017 survey (N=1845).

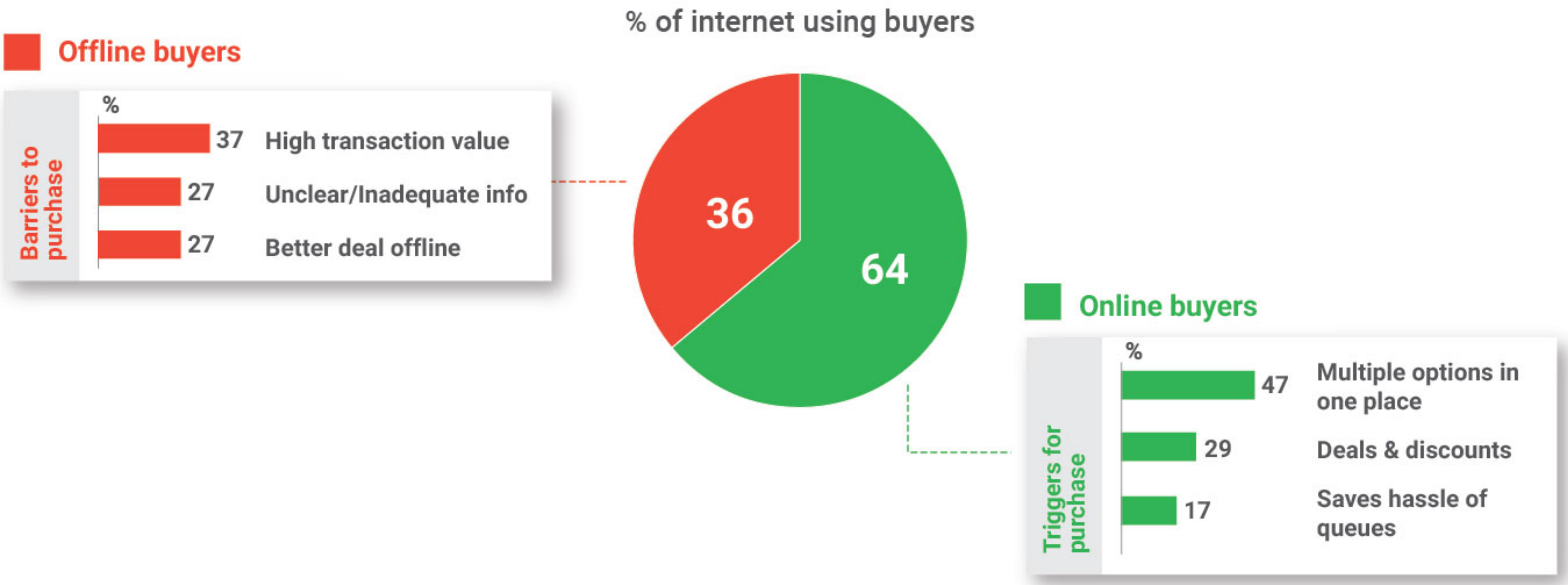
Travel

Travel: Hotels - Trust and onsite payment stated to be key reasons for buying offline



Source: Nielsen 2017 survey (N=1845), BCG Analysis, BCG CCI Digital Influence 2017 Study (N=18,000).

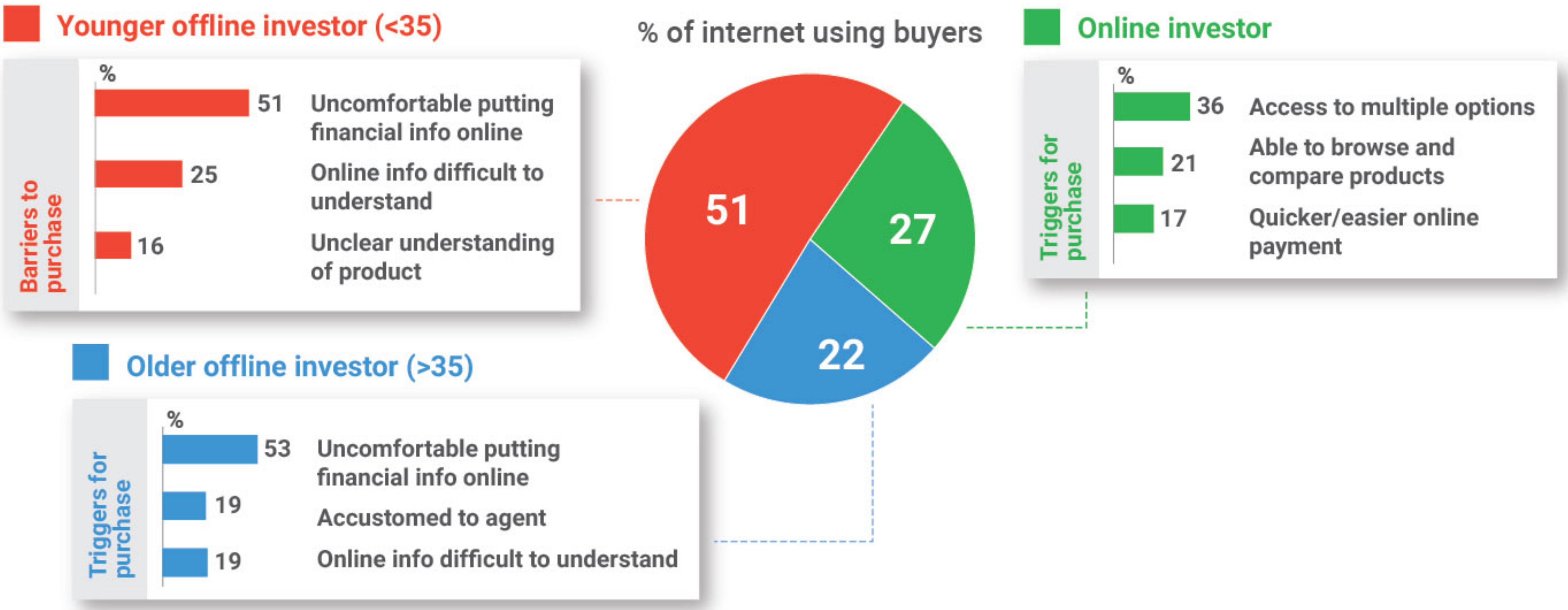
Travel: Airlines- Trust and onsite payment stated to be key reasons for buying offline



Source: Nielsen 2017 survey (N=1845), BCG Analysis, BCG CCI Digital Influence 2017 Study (N=18,000).

Financial Services

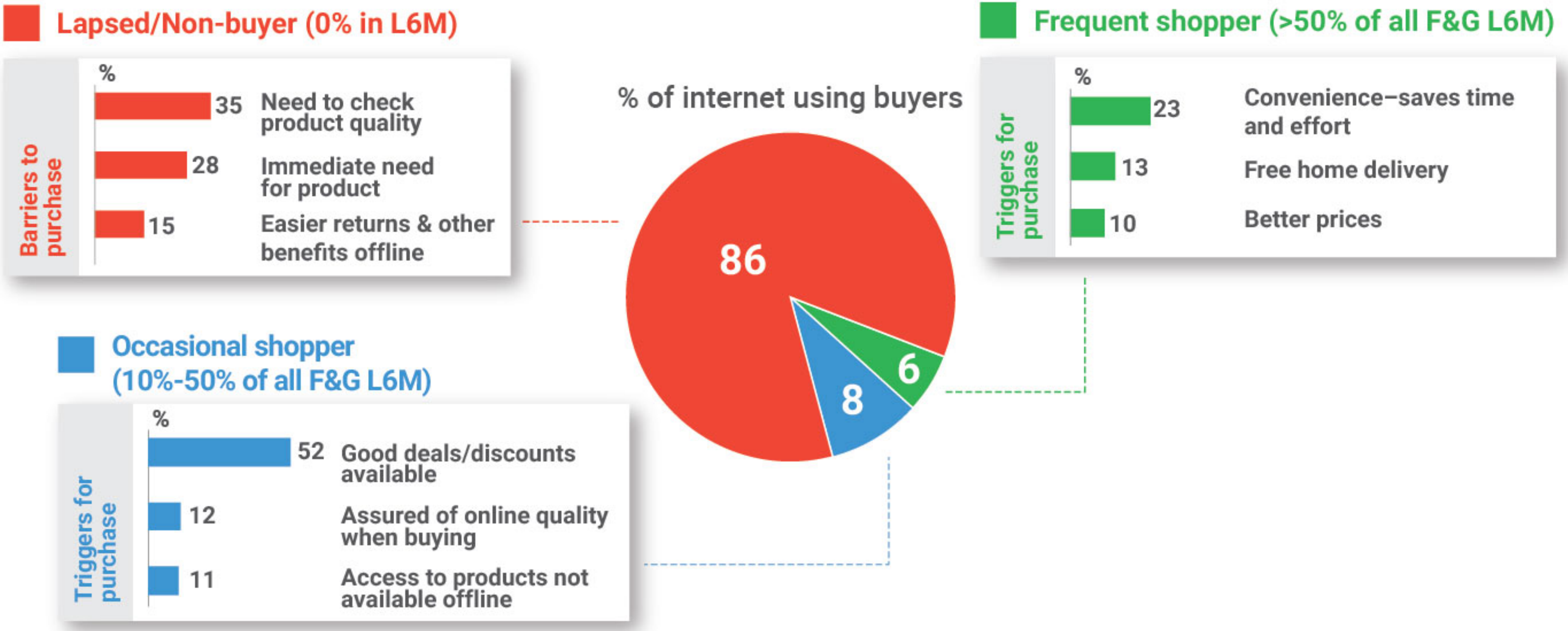
Financial Services: Offline investors prefer agents for simplicity



Source: Nielsen 2017 survey (N=1845), BCG Analysis, BCG CCI Digital Influence 2017 Study (N=18,000)
Online investor here refers to users that generate insurance, loans and mutual funds online.

Food & Grocery

Food & Grocery: Convenience is a key trigger for frequent shoppers



Note: 'Occasional' shopper here refers to those whose share of online transactions on grocery shopping in the last 6 months is between 10-50%, 'Frequent' shopper here refers to those whose share of online transactions on grocery shopping in the last 6 months is over 50%

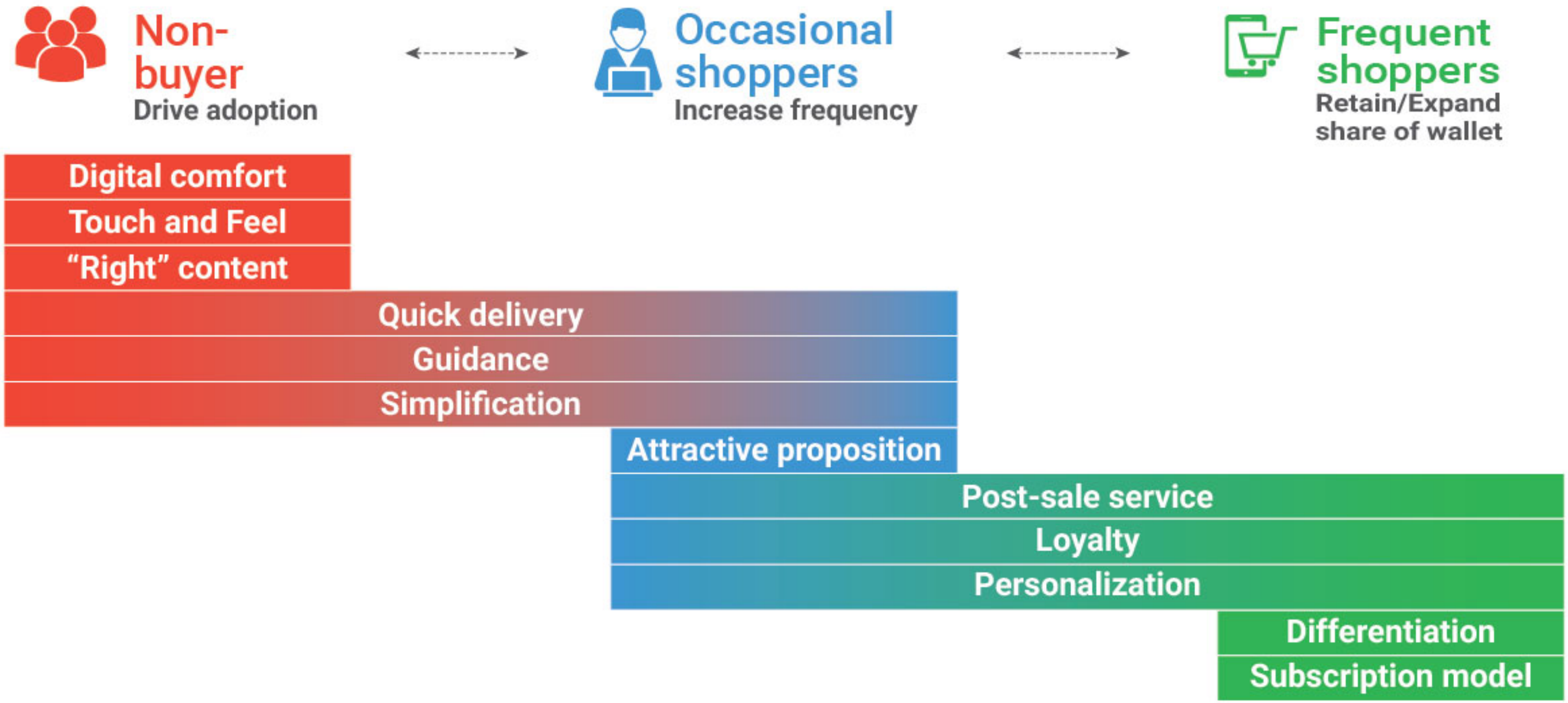
Source: BCG digital deep dive Study 2016 BCG analysis (N=502), BCG Digital Influence 2017 Study (N=18,000), Nielsen 2017 survey (N=1845).

What does this mean for you?

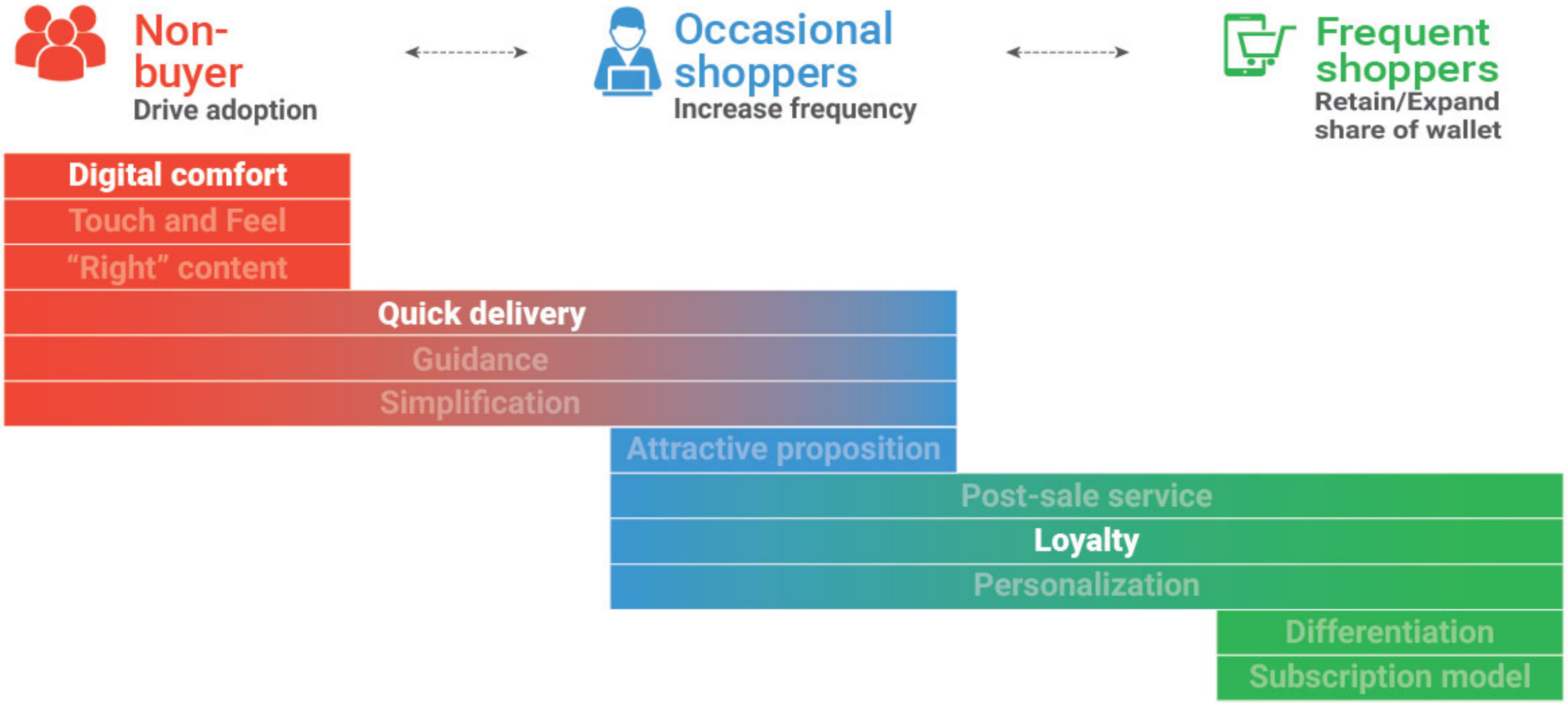
Large variation in triggers and barriers

Products	Services	Content & Media
Personalized service	**Ability to do additional things e.g. seat selection**	**Exclusivity**
Assortment		Customized offers
Convenience (home delivery, preferred slots)	Convenience	Watch 'on demand'
Discounts / deals	**Access to multiple options in one place**	**Access to wide set of content/information in one place**
Non availability in offline	Good deals	
Need for touch & feel	**Hesitation with high value transactions**	**Satisfaction with offline formats/no perceived 'need' for online**
Immediate need for product	Discomfort in sharing financial details online	

Key interventions for driving growth in digital transactions



Key interventions for driving growth in digital transactions



Digital comfort: Large ecommerce player in China

Building comfort for new users

Impact

Company's rural strategy helped grow rural ecommerce in China by 25% in FY16.

Rural service centers to help build comfort with digital among rural population

Rural service centres in 16,500 villages

- 100,000 centers planned in next 3-5 years covering 1/6th of China's villages

Outposts equipped with computers and free internet

- Service managers help first-time shoppers
- Pay utility bills, add credit to prepaid mobile plans and book travel
- Pick up goods ordered online

'Rural partners' program helps people "buy & sell" online

- Partners are internet-savvy youngsters who return to home villages to assist rural populations

Sources: External reports, BCG analysis.

Quick delivery: Large US Grocery player

Innovating delivery models to shorten time & increase convenience

Impact

Company's online grocery business grown rapidly, expecting a 40% increase in e-commerce sales in U.S. in FY18

Expanding physical stores for 'click & collect' delivery

- **1000 brick-and-mortar stores** to **pick up groceries ordered online:** Comfort to new online shoppers & extra convenience w.r.t timings & physical locations

Delivery through strategic partnerships

- **Last-mile delivery partners** and **cab services** provide faster options
- **Delivery by employees,** dropping goods off at customers' homes at end of day

Direct-to-fridge delivery

- **Partnered with a smart-security firm** to give drivers access to customer's home to **directly place groceries in the fridge**[1]
- **Tweak to suit customer needs** E.g. Deliver to garage instead of inside the house, in case of security concerns

1. In pilot stage

Sources: External reports, BCG analysis.

Loyalty: Japanese ecommerce & media company

Witnessing breakout growth through strong loyalty program

Impact

Company has been market leader position over 10+ years with 20% market share due to its strong loyalty scheme

Earn

1x Loyalty member **automatically receives 1% back** in the form of points on any purchase within ecosystem

10x Desired members behavior incentivized with cash back up to 10% in form of points:

1. **While using own payment solutions**
2. **While increasing share of wallet with company**
3. **While buying at points promotions**

Incentive to shop more often to reach next membership rank with increased rewards

Silver | **Gold** | **Platinum** | **Diamond**

Redeem

Within ecosystem

- Pay for any company service online with one click at check out e.g. Mobile phone bill payments

Outside ecosystem

- Redeem points in **13K+ offline stores** from 12 affiliated companies

Sources: External reports, BCG analysis.

DIGITAL CONSUMER SPENDING IN INDIA

A $100BN OPPORTUNITY