
Consumer E-Commerce Market in India 2006/07



A Report by **eTechnology Group@IMRB**
for Internet and Mobile Association In India

Foreword

Internet and Mobile Association of India (IAMAI) and IMRB International are pleased to present the B2B and C2C E-Commerce report for the year 2006-07. This report, based on a consensual industry definition of E-Commerce and extensive interaction with industry leaders, seeks to estimate the total market size of B2C and C2C E-Commerce in India. IAMAI, until now, has been publishing separate research studies on various segments of the E-Commerce industry such as online travel, online shopping, classifieds etc. This is the first time that a consolidated and comprehensive report on the total B2C and C2C E-Commerce report has been compiled.

The report is unique in two aspects:

- a) For the first time, we have attempted to evolve a commonly accepted definition of E-Commerce in India in consultation with business leaders;
- b) In order to arrive at the near correct numbers, several rounds of interactions, questionnaires, feedback and debates have been undertaken with the industry leaders.

The definition of consumer E-Commerce and the methodology followed in this report are elaborated separately.

At the end of this protracted but rather enjoyable exercise, we are reasonably confident that we have been able to present an accurate picture of “what is happening” to our readers. We hope that you enjoy reading the report as much as we have enjoyed compiling it.

Mohan Krishnan
Vice President, IMRB

Subho Ray
President, IAMAI

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Research Methodology

The research team at eTechnology Group@ IMRB conducted both Primary as well extensive Desk Research for this report.

Secondary data sources were used to gain a comprehensive and in-depth understanding of the E-Commerce market in India. Inputs related to the internet users in India, and segment-wise users of Internet in India etc. have been taken from *I Cube 2006*, a syndicated research product of the e technology group at IMRB International. These annual syndicated set of reports on the Internet market in India are based on a large scale primary survey covering 65,000 individuals across 26 cities in India

Information from various published resources and other research bodies were also used to perform a data validation check and also to reach at the final numbers.

Primary Research was conducted using in-depth interviews with large and medium-sized B2C and C2C E-Commerce players. A detailed questionnaire was administered to the players from various verticals of the E-Commerce Industry.

Executive Summary

For the purpose of study, the B2C/ C2C E-Commerce market was defined as **Buying and selling of products & services on the Internet or on any other application that relies on the Internet.** In other words, it comprises transactions for which Internet acts as a medium for contracting or making payment or for consuming the service/product by the end consumer, who is an individual.

Combinations of these three conditions can be as follows

- *Paying online & Consuming Online (e.g. Online gaming)*
- *Consuming online & Paying offline (e.g. Matrimonial ads)*
- *Contracting & Paying online & Consuming offline (e.g. Travel, Books)*

Another pre-requisite for the study was that the seller of the product/service should be based in India.

The analysis of the demand side is based on the data captured during survey for IMRB's syndicated research product - Internet in India (I-Cube) Reports for the year 2006 and 2007.

To outline the current supply side industry, inputs were sought from key players operating in the B2C and C2C E-Commerce Industry, which was further divided into the following verticals:

1. **Travel**, comprising Travel aggregators, Tour Operators, Hotels and Railways
2. **E-tailing**, comprising Online Retailers and Online Auctions
3. **Classifieds**, comprising Online Jobs, Online Matrimony, Online Property, Online Automobile and General Classifieds
4. **Paid Content Subscription**, comprising research, articles, exclusive videos, etc
5. **Digital downloads**, from Internet to Mobiles and internet

Based on our discussion with various stakeholders, the size of **B2C E-Commerce Industry** for the year 2006-07 was computed to be around **Rs. 7080 crores**. The market is expected to reach the mark of **Rs. 9210 crores** by the end of 2007-08, a growth of about 30% over the current year.

Online Travel Industry is the largest contributor to the B2C E-Commerce Industry, sized at Rs. **5500 crores** for the year 2006-07 and is expected to rise to **Rs. 7000 crores** by the end of 2007-08. The overwhelming response of the consumers towards this segment is triggered by the entry of low cost carriers. The industry saw an upsurge in the travel aggregators and tour operators, thereby bringing affordable travel at doorsteps of Indian travelers. The industry has witnessed an increase in the number of travelers as well as number of travels per traveler. However, the

biggest issue facing this industry is limited penetration of credit cards, coupled with consumer's apprehensions towards using their credit cards online.

Moving on to other segments that have been clubbed into **Online Non-Travel Industry**, they are smaller than online Travel industry as they cater to the niche segments and are faced with a specific set of triggers and barriers.

eTailing stands at **Rs. 850 crores** in the year 2006-07 and contributes maximum to the Online Non-Travel Industry. It is expected to be **Rs 1105 crores** industry at the end of 2007-08. Owing to elimination of physical costs, the category offers the best deals for low-end as well as high end products. However, many customers complain about the untimely delivery of products ordered online.

Online Classifieds is the second largest contributor to Online Non-Travel industry. The size of Online Classifieds was around **Rs. 540 crores** at the end of 2006-07. It is expected to rise to **Rs. 820 crores** by the end of 2007-08. Since, this segment is consumer-driven, it provides the users flexibility to access large database at the lower costs.

Though there is no dearth of free data available online, sale of information online is becoming a success. More and more players are entering the market to sell exclusives videos, research data, reports, etc. The size of **Online Subscription** market is expected to grow by 50% from **Rs. 20 crores** in 2006-07 to **Rs. 30 crores** at end of 2007-08.

Along with the PC-based internet access, the mobile-based internet access is expected to drive the growth of B2C and C2C E-Commerce industry in the country. With increase in the mobile subscribers, there has been a rise in **digital downloads** to the mobile phone. With the surge in mobile penetration and usage of GRPS enabled mobile handsets, the size of digital downloads market is expected to rise from **Rs. 170 crores** in 2006-07 to **Rs. 255 crores** at end of 2007-08.

Thus, with continuous efforts towards making online payment systems safer and rise in online shoppers from smaller cities owing to increasing Internet and mobile phone penetration, the growth of B2C E-Commerce industry is inevitable in the country. The next phase of growth would be marked by **localized product offerings** and **making content available in various Indian languages**.

“Watch for the big problem – they may hide big opportunities”

- Anonymous

Evolution of Commerce

Commerce has evolved over the centuries. Prior to the evolution of money it was a simple “**barter process**” where things could be exchanged, say milk for grains. The evolution of money brought with it, the concept of a “**marketplace**”. In a marketplace, Commerce is function of 4 P’s – Product, Price, Place and Promotions. All these four components play a vital role in a transaction to take place. Different combinations of 4Ps determine different forms of Commerce.

Once the marketplace came into existence, a few pioneers realised that people would be ready to pay extra if they could deliver products at customer’s doorsteps. A slight modification on Price and Place led to the convenience of getting products at their homes. This concept delighted the customers and thus, the concept of “**Street Vendors**” was born.

When the Postal System came into being the sellers decided to cash in on the new opportunity and started using mailers giving description of their products. It led to the concept of “**Mail Order Cataloguing**”. From here, the evolution of the “**Tele shopping**” networks was inevitable with the development of media vehicles.

The latest generation of commerce is one that can be done over the internet. Internet provides a virtual platform where sellers and buyers can come in contact for sale and purchase of goods and services. They can be thousands of miles apart, may belong to different parts of the world, might speak different languages, “**E-Commerce**” emerged as the boundary-less trade medium in the era of globalization.

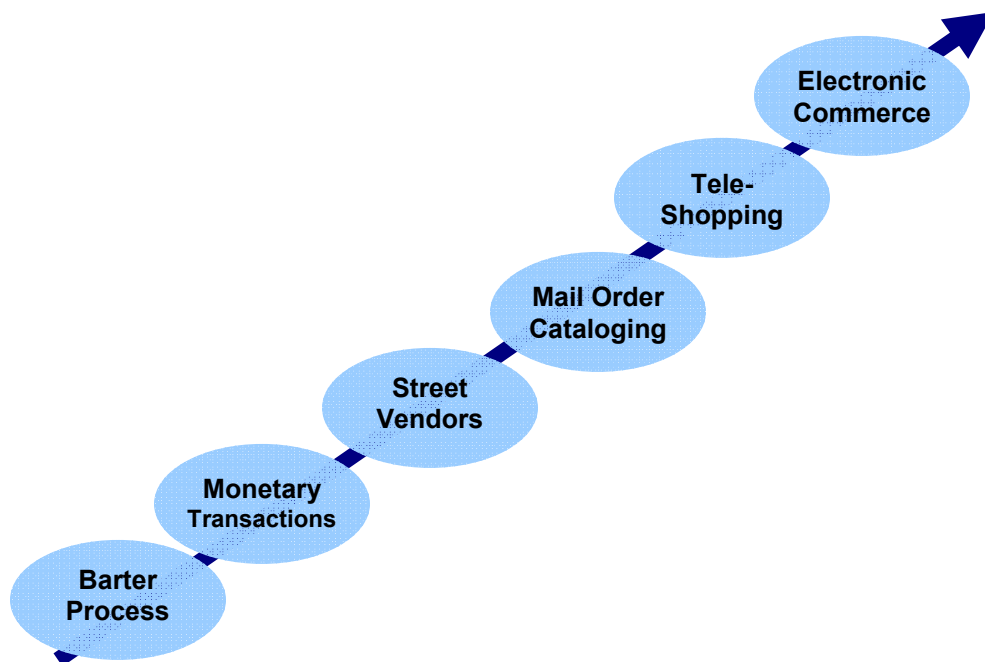
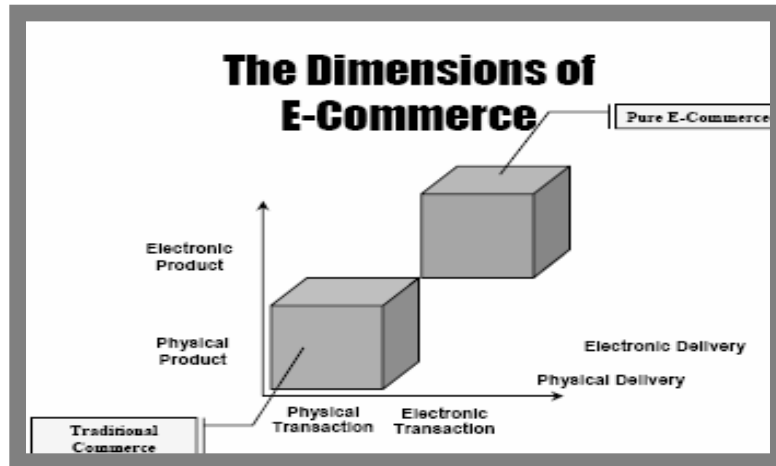


Fig: Evolution of Commerce

Since, Internet has the ability to reach the customer's home; the Distribution Channel has started to assume new meaning to the B2C and C2C eMarketer. The Physical delivery got converted to electronic delivery; physical products were now electronic products, displayed on a website. With options of paying online through debit and credit cards, even the transaction was purely electronic.



Another important P for the e marketer, the Promotion, assumed importance, especially because there is no face to face interaction between the buyer and seller.

The focus of online promotions is the 'great deals', 'discounts', 'convenience' offered by the eMarketers.

Usage of E-Commerce in India – a Demand Side perspective

Since the introduction of E-Commerce, there have been debates on future of its prospects in India.

Would it be as successful as it is in US or is it a mirage that attracts many but offers nothing worthwhile?

True enough; the players in the online marketplace are still struggling to settle with a successful business model. Most of them are settling for Advertising Model, hoping it would help them break-even. However, to grow beyond, the majority of the revenue needs to be generated from customers.

Customers on the other hand, have become choice-spoilt. There is no dearth of offerings for them. They skip from one seller to other in search of best deals in the standardised products market.

In this section, we would,

- focus on the usage of E-Commerce in India, and
- understand the triggers and barriers for the online marketplace

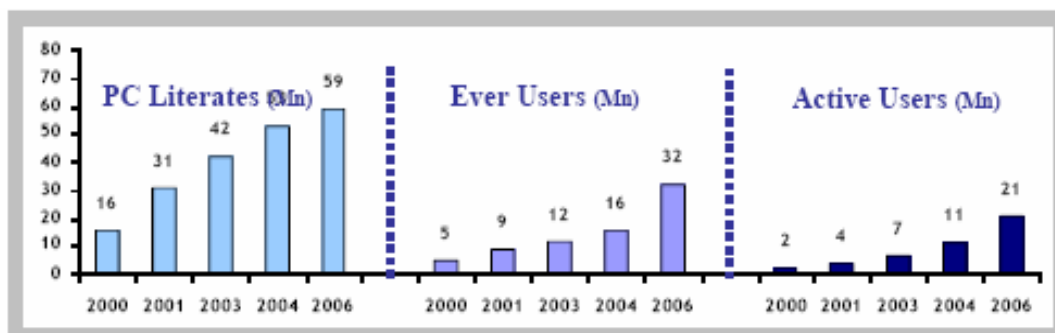
Usage Of E-Commerce

According to the survey conducted among the Industry players, the E-Commerce Industry in India was worth **Rs 7080 crores** at the end of 2006-07. Is it big enough? How much is it expected to grow?

The adoption and usage of E-Commerce in the country is a function of the overall environment for Internet usage in a country. To correctly understand the likely growth path for E-Commerce in India it is imperative to understand the internet ecosystem in the country.

Some of the key variables that need to be understood are the proportion of computer literates, internet penetration, frequency of access to the internet, purpose of internet access etc.

A correct mapping of these would help in understanding the overall framework of E-Commerce in the country.



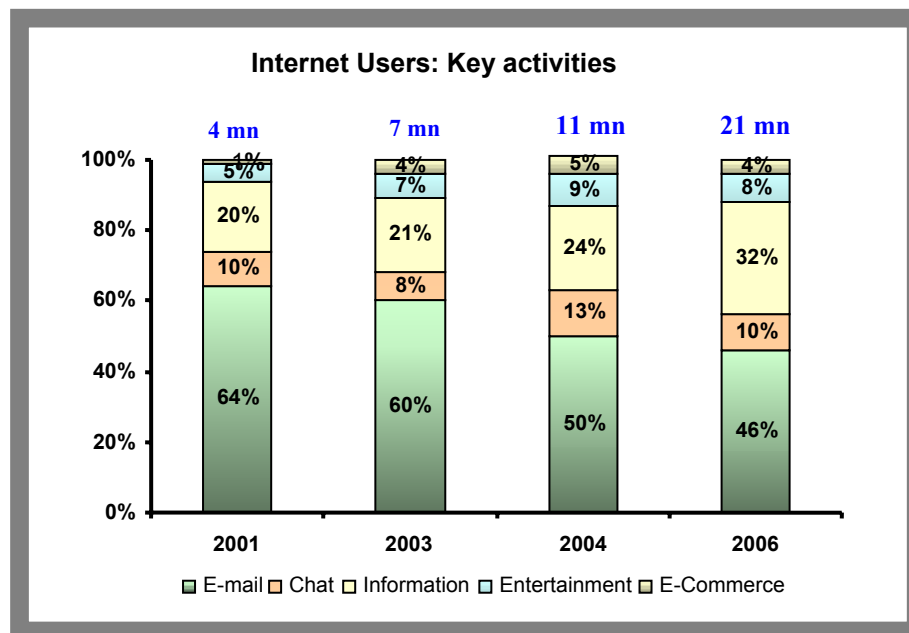
Source: I-Cube 2006, Syndicated Research of e-Technology Group@IMRB, March 2006

The PC literate population is on a fast growth curve having grown 100% in 2006 over 2004. Though in India overall penetration is still low the important factor is that a critical mass of users is shaping up which will fuel rapid growth over the next 3-4 years.

A Claimed or Ever Internet User is defined as one who has ever accessed Internet.

A subset of Claimed Internet users, Active Internet Users are defined as those who have accessed Internet at least once in the last one month. They are the regular users of Internet and are aware of the recent trends and applications emerging on the Internet. The population of Active Internet Users was 21 million in March 2006.

As these Internet Users mature with respect to exposure and awareness of internet, they tend to spend more time online; access internet more frequently and surf non-communication based applications and advanced online applications like gaming, E-Commerce, etc. However, as it is evident from the charts below, E-Commerce is still not the key driver of the internet. Internet usage in the country is still driven by email and information search.



Source: Active Internet Users, I Cube 2006, Syndicated Research of Technology Group@IMRB, March 2006

However, the interesting part is that out of the 13.2 million internet users across 26 cities covered in I-Cube 2006, (Syndicated Research of e technology group @IMRB International), 14.2% use the internet to buy travel tickets; 5.5% people do online shopping especially products like Books, Flowers, Gifts etc. and 5% people deal in stocks and shares through the internet. Though the percentage contribution of E-Commerce is almost same over the years, however, the number of Internet users using E-Commerce is growing rapidly.

Thus, E-Commerce is surely being adopted by the Internet users as a way to shop. They are buying a variety of products online and visiting various websites to buy products from. Given the rate of growth in E-Commerce users, size of the E-Commerce industry is expected to reach **Rs. 9210 crores** at the end of 2007-08, a big jump of 30% over the current industry size.

Triggers and Barriers for the E-Commerce market in India

In addition to the industry size, it is imperative to understand the reasons behind the growth and reasons hampering the growth E-Commerce industry in the country. This section elaborates the triggers and barriers that impact the adoption of E-Commerce by the Internet users

We would start by enlisting the triggers which motivate the online shoppers to buy products online.

Top 6 reasons given by shoppers in buying through Internet	Rank
Saves time and efforts	1
Convenience of shopping at home	2
Wide variety / range of products are available	3
Good discounts / lower prices	4
Get detailed information of the product	5
You can compare various models / brands	6

Source: I-Cube 2006, a syndicated product of IMRB International

As evident from the table above, time saving is the major reason that drives Internet users to shop online. It is followed by convenience of anyplace, anytime shopping online.

Online stores do not have space constraints, thus, a wide variety of products can be put for display. Companies can display whole range of products being offered by them. This further enables the buyers to choose from a variety of models after comparing the looks, features, prices of the products on display.

To attract customers to shop online, eMarketers are offering great deals and discounts to the customers. This is facilitated by elimination of maintenance, real-estate cost of the seller, selling its products online.

An insight into some of the problems stated by customers while buying through Internet will help us to have a closer look at the issues which need to be addressed by the online community.

Top 6 concerns while buying online	Rank
Not sure of product quality	1
Cannot bargain/Negotiate	2
Not sure of security of transactions /Credit card misuse	3
Need to touch and feel the product	4
Significant discounts are not there	5
Have to wait for delivery	6

Source: I-Cube 2006, a syndicated product of IMRB International

Absence of touch-feel-try creates concerns over the quality of the product on offer. Another roadblock in the way of E-Commerce is lack of interactivity so as to allow for negotiations between the buyer and sellers.

In addition to above, the security of online payments is a major issue requiring immediate attention of the eMarketers. Increasing rate of cyber crimes has made customer apprehensive of revealing their credit card details and bank details online.

Moreover, the duration of selecting, buying and paying for an online product may not take more than 15 minutes; however, delivery of the product to customer's doorstep may take about 1-3 weeks.

Further more our past observation has been that in India shopping is an experience itself. Consumers look forward to it as an opportunity to get out of their homes and interact with other people. The recent growth in the malls and the hypermarkets only corroborate this fact. Thus, E-Commerce has to bank on the convenience and discount platform as there is no way that they can compete with the offline platforms on the experience that they provide.

There is no doubt that Internet shopping has a number of benefits to offer. With changing lifestyles, E-Commerce is surely the most appealing and convenient means of shopping. However, the grave issues surrounding the market do not make it the "choice" of most of the Internet users. Addressing the above specified issues, thus, has become critical to expand beyond the current user base.

Categorization of Internet Users

In I-Cube 2006, a survey done among Internet Users, details of products they looked information for and the products bought by them online in last 6 months were captured along with the details of products they are likely to look information for and the products they are likely to purchase. On analysis of the data, following trends were observed:

Category	Sub-Category	Looked for Information	Will look for Information	Bought in last 6 months	Will buy in future
Travel	Railway Tickets	31.62%	18.06%	8.25%	15.76%
	Air Tickets	16.16%	7.13%	2.39%	5.21%
	Hotel Reservation	5.41%	1.46%	0.26%	0.99%
	TOTAL	53.19%	26.65%	10.90%	21.96%
Digital Downloads	Ringtone Download	18.58%	11.04%	2.11%	8.11%
	Games Download	13.55%	8.54%	1.78%	5.85%
	Music/Video Download	11.54%	5.96%	1.42%	4.31%
	Picture Messages/Wallpaper Download	8.28%	5.14%	0.34%	3.37%
	TOTAL	51.95%	30.68%	5.65%	21.64%
Classifieds	Matrimonial Services	5.53%	2.16%	0.69%	1.34%
	Jobs	7.77%	3.45%	0.95%	2.09%
	TOTAL	13.30%	5.61%	1.64%	3.43%
e-Tailing	Food, Home Provision & Grocery	8.04%	2.89%	0.32%	1.53%
	Automobile(Car/Motorcycle)	10.68%	4.27%	0.26%	2.08%
	Home Electronics (Audio System, TV, Cell Phone)	9.89%	4.24%	0.49%	2.05%
	Home Appliances (AC, Fridge, Washing M/c etc.)	7.43%	2.80%	0.18%	1.00%
	Computer/Notebook/Laptop	10.13%	4.74%	0.37%	2.51%
	Computer Peripherals (Printer, Mouse etc.)	6.76%	2.99%	0.35%	1.56%
	Computer Software	10.02%	5.77%	0.47%	2.84%
	CDs/MP3/Video Cassettes/DVD	12.76%	6.70%	0.53%	4.19%
	Books	14.41%	9.05%	1.13%	6.64%
	Cinema Ticket	7.73%	3.06%	0.90%	2.29%
	Clothes/Shoes etc.	9.00%	3.37%	0.70%	2.31%
	Jewellery/Watches etc.	5.82%	2.68%	0.18%	1.68%
	Cosmetic/Perfumes etc.	3.54%	1.11%	0.05%	0.61%
	Flowers	2.80%	0.57%	0.19%	0.36%
	Toys/Games for Kids	3.58%	1.01%	0.16%	0.30%
Sweets/Dry Fruits	1.89%	0.11%	0.06%	0.04%	
TOTAL	124.48%	55.36%	6.34%	31.99%	
Paid Content Subscription	Paid Content Subscription: news; videos; reports	2.89%	1.01%	0.08%	0.65%
	TOTAL	2.89%	1.01%	0.08%	0.65%

According to the data, of total **21 Million Active Internet Users** in March 2006 (*Source: I-Cube 2006*), around 53% have had looked for information on travel while 27% are likely to look for information on travel services online. Though, only 10% of the Internet Users have booked Air tickets rail tickets or hotel rooms in last six months, only, 22% are likely to avail these services in the near future.

Except for Travel, percentage users looking for information and buying online is pretty low. For instance, only 13% of the total Internet users have had looked for information on online classifieds, however, only 2% of the total Internet Users have paid for availing any of the services online. In future, only 3.4% of the total Internet Users interviewed is expected to avail paid classifieds service online.

Based on their behavior towards buying online, Internet users can be classified into the following four categories:

USER CATERGORY	CHARACTORISTICS
Conventional	People who shop in Brick and Mortar stores
Looked for Information (LFIs)	People who browse for information but do not shop
Apprehensive	People who will not shop on the net unless their concerns are addressed
Enthusiasts	People who are willing to try out

Though majority of Internet Users look for information on various product categories online, a relatively smaller portion of them actually buy online.

Some of the reasons to explain this behavior are:

1. Apprehensions with paying online
2. Lack of touch-feel-try
3. Concern with authenticity of seller and products sold online
4. Time lag between placing order and delivery of the product

The sequence in which the above-mentioned category of Internet Users can be targeted by the online players:

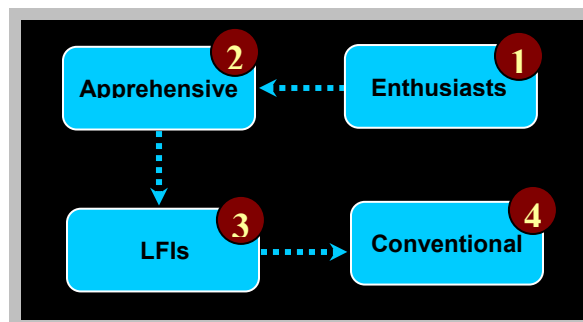


Fig: Segmentation of Internet Users based on probability of converting online

It has been observed that most of the Online Shoppers start their e-Shopping journey with buying Air/ Railway Tickets. This might be because the service provided in case of Travel, especially Ticketing is undifferentiated with the place of buying the tickets. The buyer is ensured that he would get the same service as his co-passenger who has bought his tickets from the physical counters.

However, the need for '*touch-feel-try*' might be important for product categories like Apparels, Jewelry. Product categories like Electronics, Mobile phones fall in the zone of 'high-risk' products, for which there are many 'LFIs' and very few 'Enthusiasts'.

The above-mentioned factors make 'Travel' more attractive to the Enthusiasts than other product categories. As a result, the Online Travel Industry is growing at a faster pace than other online categories

We are, therefore, dividing the rest of the report into two segments:

1. **Online Travel Industry**, comprising Air, Rail, Hotel Reservations; Car Rentals, Tour Packages
2. **Online Non-Travel Industry**, comprising eTailing, Digital Downloads, Classifieds and Paid Content Subscription

Online Travel Industry

In the last 3 years, the Indian skies started getting covered with **low cost** or the '**no frills**' airlines. The travelers got their biggest surprise when Air Deccan, India's first low cost airline, introduced trips to major cities of India at fares comparable to the Indian Railways.

In no time, there were others joining the league. The competition among the Airlines led to of great offers and deals to the customers. As a result, dreams of thousands of Indians belonging to SEC A and SEC B came true; they could now fly from Delhi to Mumbai with Re 1 and Rs 500 tickets.

The travel industry was riding on a high wave. Along with the travelers, the tour operators too thought of cashing in the opportunity offered by low airlines. A number of online travel aggregators and tour operators, operating on lines of brick-and-mortar business models swarmed the Online Travel Industry, offering customized choices to its users comprising of choice for place to visit, ticket bookings, stay etc. The sites even take one through virtual tours to the places selected by the user.

The online ticket reservation website of Indian Railways is also experiencing a very high inflow of travelers, booking tickets online.

For the purpose of the study, we have subdivided the Online Travel industry into four types – Travel Aggregators, Tour Operators, Railways and Hotels. This classification is based on the way these entities operate. We would cover these entities in details to understand the dynamics of Online Travel Industry.

- **Travel Aggregators:** They offer Air tickets, tour packages, hotel reservations, car rentals across the globe in collaboration with multiple service providers. The attractive packages offered by Travel Aggregators with a guarantee of '*most economical deals*' attracts a lot of Internet Users to their websites. Their operations are mainly online and are supported by 24-hours customer care to provide information and solve queries of the **Trialists**. Since they are collaborators of travel services, they generate revenue through commissions on every sale.
- **Travel Companies/Tour Operators:** They comprise the traditional travel agencies like. Those who now have a click and mortar model. They are the key intermediaries bringing travel products and services of various players closer to the customers. Like Travel Aggregators, they offer air tickets, hotel reservations, car rentals,

tour packages for India and abroad. Their revenues are also determined by the commissions through the sales generated.

- **Hotels:** These comprise hotel chains that have spotted the potential of adding yet another channel to reach out to their customers. Today, most of the three to seven star hotels have started developing the websites for online bookings of their room inventory. With hotels moving their inventory online, customers can book a room with just a few clicks from anywhere in the world.
- **Railway Bookings:** The online ticketing website of the Indian Railways has emerged as one of the largest single-product E-Commerce sites in the country. Online rail reservation system proved to be a major relief to the travelers spending hours in queues at railway reservation counters.

Size of the Online Travel Market for the year 2006-07 and 2007-08

Due to overwhelming response from the Online Buyers, the size of Online Travel Industry stands at **Rs 5500 crores** at the end of 2006-07.

According to one of the industry expert, *"airlines travel is the biggest sub-segment in the online travel market. It accounts for 80 per cent of the travel industry"*. The segment has witnessed a revolution with the entry of low cost carriers. As a result, air travel that was earlier limited to the upper and upper-middle strata of the society is now affordable to the masses. Given the current scenario, the number of travelers is expected to increase five-fold, from around 300,000 to 1.5 Million within a year.

Online railway bookings also witnessed a major jump in the revenues and the number of travelers. The transaction value has more than doubled in a year, from Rs.300 crores in the year 2005-06 to Rs.700 crores in 2006-07. The total transaction value is expected to rise to Rs 1500 crores by the end of current year. The number of users has increased three folds, from 25 lacs to 70 lacs in a span of one year.

Online hotel industry is yet to take off as their target group is limited to the most affluent Indians and NRIs and overseas travellers. Unless the concept of motels and budget hotels gets popular in the country the rate of growth of hotel industry would be limited.

From above, it can be deduced that travel sold online, or "online travel", is the leading and the fastest category in the E-Commerce market.

The key drivers steering the growth of the travel Industry are:

- **India shining:** The Indian economy is growing at a rate of more than 9% per annum. This has led to increase both business and leisure related travels.
- **Increase in the Internet users:** Increasing penetration of Internet connectivity and PCs has led to an increase in the Internet users across India. The demographic segments that have witnessed maximum growth comprise college going students and young persons. These segments are the users of advanced applications and technologies online and are most likely to be heavy E-Commerce users.
- **Growth in low cost carriers:** The concept of 'Low Cost Carriers' or 'No Frill Airlines', targeted primarily at the middle-class has brought a revolution in the Indian Travel Industry. With Air Tickets getting cheaper, growth in the number of travelers and the number of travels per person has increased tremendously. This has in-turn affected the entire travel industry in a positive way.
- **Convenience is the priority:** The online processes are constantly being worked upon to make them easier to understand and use. Besides, the travelers are constantly seeking comfort and ease in planning their trips. Combination of the two has led to the increase in the usage of websites as against physical booking counters.
- **Secure Payment Mechanisms:** Security of transactions online has been a major barrier to the growth of the E-Commerce. However, with secure payment interface being provided by the websites, the Internet Users are fast overcoming their apprehensions. According to major players, 65%-90% of their customers pay through credit cards.

For those who are apprehensive of paying online, various websites provide various options of paying offline like, cash on delivery and cash cards.

Given the above-mentioned drivers, the potential of Online Travel is not being exploited fully. There are still some major issues limiting the growth of Online Travel to its full potential. Till these issues are worked upon, the number of users and the amount spent by them would be limited.

The Critical Issues in the Online Travel Segment are:

- **Poor enabling Infrastructure:** Though the status is improving, at the moment, the market has low PC penetration in households and limited broadband penetration. As

each of these plays an important role in developing the market, these are significant roadblocks to overcome.

- **Apprehension of paying online:** A majority of Internet users are still uncomfortable when it comes to paying online. They prefer standing in queues for hours rather spend a few minutes to book railway tickets. This is further limited by low penetration of credit cards in the country.
- **Limited Inventory:** Low Inventory is a big factor for the low percentage of hotel bookings currently happening online. According to a major hotelier, size of the inventory offered online is limited to 122 rooms that can be booked through 100 odd websites. The online booking is thus limited to only 10% of the total bookings.

However, the issues related to penetration of Internet and apprehensions with paying online can be solved with the use of alternate technology, known as **m-Commerce**. The rise in number of subscribers and the replacement market for mobile handsets has made it one of the lucrative channels for reaching the customers.

With rise in usage of GPRS enabled handsets, accessing internet from mobile phones has been made easy. To assist m-Commerce, various mobile payment cards have been introduced in the market. These payments cards are relatively safer to use than the credit cards.

Another way to address the fear of using credit cards is introduction of limited payment cards and debit cards, where the amount, and hence, the risk of the buyer is limited to the value of the card. However, the websites that allow users to use these cards for paying online are limited.

As these issues are addressed, coupled with increase in awareness of secure payment gateways being installed by various travel sites, the industry is expected to rise by 50% to **Rs 7000 crores** at the end of year 2007-08.

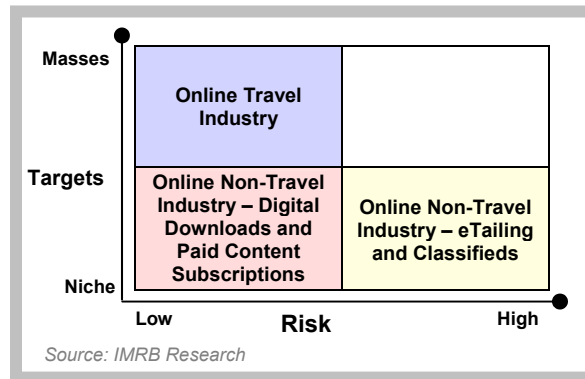
Thus, introduction of new trains and low cost airlines, coupled with increasing confidence in payment gateways and hot deals offered by various players is expected to draw attention of more people online making Travel stay at number one position among various B2C E-Commerce categories.

Online Non-Travel Industry

As mentioned earlier, we have clubbed the online categories other than Travel into Online Non-Travel Industry. Accordingly, in this report, the Online Non-Travel Industry comprised eTailing, Digital Downloads, Classifieds and Paid Content Subscription.

The Online Travel Industry caters to the masses, whereas, the Online Non-Travel Industry caters to niches, thereby attracting comparatively less number of Internet users.

Another roadblock in the growth of Online Non-Travel Industry is the lack of ‘touch-feel-try’, especially in case of eTailing and Classifieds. In absence of the same, risk in buying products and availing of services online are felt to be higher. The usual suspicion is that the products and services offered online once delivered might differ from what the customer had anticipated it to be!



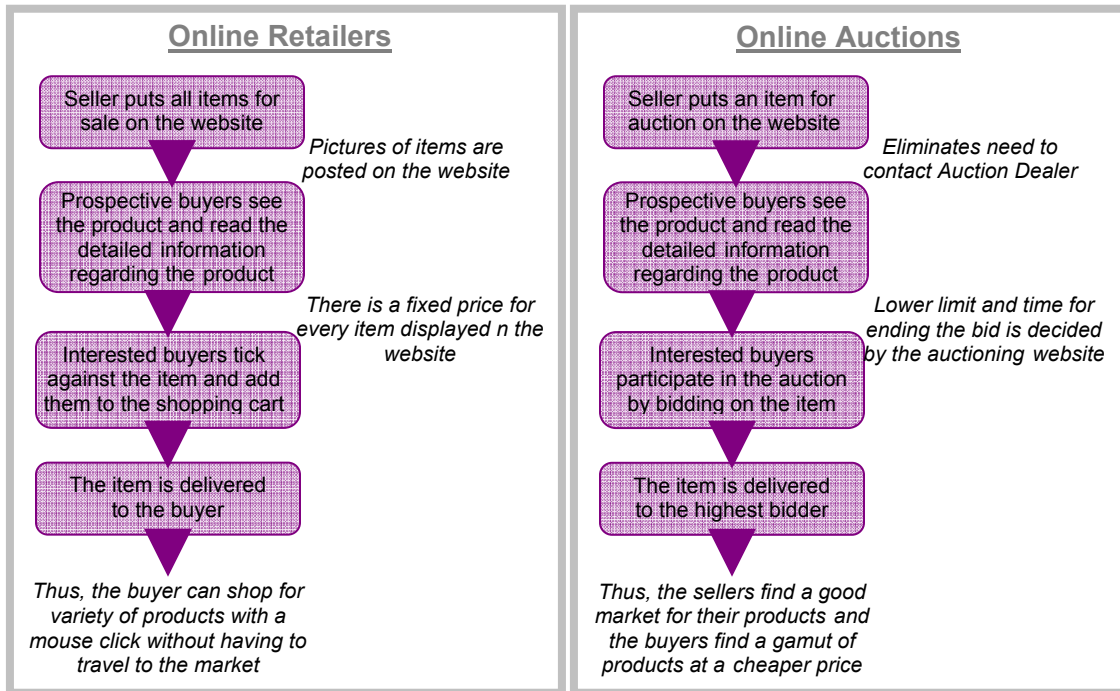
As evident from the above classification, various segments in the Online Non-Travel Category are different from each other and are constrained by a factors specific to their category. Thus, to understand the potential of each of the four segments of Online Non-Travel Industry, it is necessary to look at each of them separately.

e-Tailing

As the name suggests, e-Tailing is the web version of Retailing. In other words these are online shops where a customer can choose from a variety of items like Apparel, Accessories, Mobiles/Cell Phones, Cameras, Computers, Books, Magazines, Music CDs and DVDs, Electronic Goods, Shoes, Furniture, Health Equipments, Flowers, Jewelry, etc.

The two popular models that exist in the eTailing marketplace are **Online Retailers** and **Online Auctions**. The Website of an Online Retailer is used as a storefront to sell physical goods that are then delivered by a third party.

The Online Auctions, on the other hand, serves as a platform where a seller can offer to sell its products to interested buyers and provides the enabling infrastructure for electronic transactions. In the past, auctions were limited to only high valued items such as paintings, antiques and collectibles or for commodities in the wholesale market places. However, now it is possible to auction even low valued items like old books, music cassettes, CDs, etc. Thus, both formats of eTailing differ in the procedure for conducting an electronic transaction. These differences can be highlighted in form of the following process flow:



Another difference between online stores and the online auction sites is that the former earns transaction revenues while the latter charges a commission from the buyer and seller once the deal is closed.

Size of the eTailing Market for the year 2006-07 and 2007-08

After collating the responses from various players in the Industry, the size of eTailing Market for the year 2006-07 was computed to be **Rs. 850 crores**. eTailing contributes around **12%** to the total E-Commerce Market size in the year 2006-07. The reasons that limit the growth of this online segment comprise of lack of trust, especially for unknown brands, lack of 'touch-feel-try' experience, higher chances for discrepancy in the product delivered, low margins, etc. These factors have been elaborated upon in the next section.

However, with branded stores coming online, providing consistent service delivery, both online and offline, this segment is expected to rise by 30% to **Rs. 1105 crores** at the end of 2007-08. These branded stores are likely to be visited by more buyers in the metros than from non-metros.

Growth in the eTailing Market is driven by:

- **Increase in the number of buyers and sellers:** The success of a marketplace depends on the presence of a large number of buyers and a large number of sellers. Over the years there has been a sharp increase in the number of buyers and sellers in this segment. In addition to online buyers, many offline stores have begun to sell their products in the online marketplace. The greater the number of sellers and buyers, the faster the market grows.
- **Change in the customer's attitude:** According to a leading eTailer, "*There has been a significant change in the attitude of an average Internet user. He is ready to experiment to suit his convenience*". Truly, an average user is buying a variety of products online. These may vary from low-end items like books to high-end items like laptops; less involving items like flowers to high involvement items like jewelry.
- **Convenience:** As rightly pointed out by an eTailer, "*a 15 minutes trip online can save a two-hour trip to the mall...we offer widest variety, the best deals and option for buying and paying online that won't take more than 5-6 clicks*" Thus, an online buyer saves time, effort and money when buying online as compared to buying from physical stores.
- **Better Bargains:** e-Tailing eliminates the need to maintain expensive and fancy showrooms. Instead, what attracts customer attention to online stores is the '*great deals*' '*best prices*' and '*better bargains*'. According to an industry player, "*Online retailers can manage to offer attractive offers as they operate out of websites and thus save on inventory handling and maintenance costs*".

Barriers to growth of eTailing Market

- **Consumer Bias:** According to a leading industry player, *“Consumers will display a bias for brands that they know well and have had a good experience in the past”*. Thus products of brands with a favorable bias will score over the products of less popular brands. *“A few would risk to buy expensive jewelry from an unknown jeweler online”*, adds another industry expert.
- **Lack of ‘touch-feel-try’ experience:** We have heard a lot of Internet Users say *“would the diamonds in the ring be as big as shown in this picture”*, *“it seems like my size but what if does not fit well”*, *“what if this camera does not work”*. Thus, lack of ability to try a product before buying acts as a barrier for some Internet Users. In addition, often the product or the service delivered differs from the standards displayed on the website. The customer is not sure of the quality of the product unless it is delivered to him and post delivery of the product, it is sometimes a lengthy process to get a faulty or the unsuitable product changed. Thus, unless the deliverables are as per the customers expectations, it is hard to infuse more credibility in the e-Tailing market.
- **Mounting competitive pressures:** The market for online buying is still at a nascent stage. However, at this early stage too, the market is swarmed by the players selling their or third party’s products online. To attract customers, the competing online players are adopting all means to provide products and services at the lowest prices. This has resulted in making the consumers choice-spoilt, who in turn surf various websites to spot the lowest price for the product. Thus, although the number of transactions is increasing, the value of the products sold is continuously falling owing to high competition and leaner margins.
- **Seasonality:** eTailing Market is faced by seasonal fluctuations. As told by an Industry player, *“August to February is the peak seasons for sale, while March to July is the dry seasons for sale”*. During the peak season, occasions that drive the sales are Diwali, Rakhi, Valentines Day, New Year, Christmas, Mother’s Day, Friendship Day etc are. On these occasions younger generations prefers buying and sending gifts online.
- **Credibility in payment system:** According to a leading eTailer, *“online frauds and breach is the biggest barrier to online sales”*.. As a result, prospective buyers prefer staying away from revealing their credit card and bank details.
- **Untimely Delivery of products:** it might take a few minutes to search, book and pay for products and services online, but the delivery of the product may take unreasonable time.

Thus, the online retailing raises more issues than the benefits it currently offers. The quality of products offered online and procedures for service delivery are yet to be standardized. Till the same is done, the buyer is at a higher risk of frauds.

In addition to above, efforts need to be taken to educate the online buyers on the steps that need to be undertaken while making an online purchase. Moreover, the feedback of an online buyer should be captured to identify flaws in service delivery. This can be done through online communities and blogs that serve as advertising and marketing tools and a source of feedback for enterprises.

Thus, unless the issues surrounding the eTailing market are addressed, the benefits provided by the industry would fail to attract high value and volumes of transactions.

Online Classifieds

B2C Online Classifieds is a customer driven market. It enables Internet Users to place their offerings, including, CVs for jobs, profile for matrimony, ads to buy/ sell property and automobiles on websites. Though the Online Classifieds market targets niche segments, for example, the working population can place their CVs on job portals, those greater than 18 years are eligible to avail of services of a matrimonial website, etc., this segment still manages to attract the maximum attention owing to the fact that it targets the young population, that contributes maximum to the pie of Internet users.

However, there is another potential segment comprising of middle aged and senior citizens, who might be interested in availing matrimony services (for their children) and buying/ selling property. Since this segment is not comfortable in accessing the internet, they still rely on service of middlemen like marriage consultants and property dealers. Having realized this, players in the Online Classifieds Market are opening physical counters. The physical counters assist the not-so-Internet-savvy population by applying search as per the parameters specified by the customer.

Size of Online Classifieds segment for the year 2006-07 and 2007-08

As mentioned above, most of the online classified portals have set up offline counters that use the database from the portal, the size B2C Online Classifieds segment has been calculated by taking into account the money spent by the consumers at the online and offline counters of the Online Classifieds players.

Taking these figures into account, the size of Online Classifieds industry comes to **Rs. 540 crores** for the year 2006-07. At the end of 2007-08, the industry is expected to grow by 52% to **Rs. 820 crores**. Following is the break-up Online Classifieds Market:

MARKET SIZE FOR THE YEAR	2006-07 (Figures in Rs.)	2007-08 (Figures in Rs.)
Online Classifieds Segment	540 crores	820 crores
Online Matrimony Segment	100 crores	140 crores
Online Jobs Segment	400 crores	600 crores
Other segments: property, automobile, etc	40 crores	80 crores

Triggers driving the growth in Online Classifieds Market are:

- **Lower Investment:** According to an Industry player, “when compared with traditional media, such as newspaper, radio, etc. for placing classifieds ads, online advertising is cost-effective as the cost (to reach) per thousand people (CPT) is very low...” a customer who buys a 100 column centimeters (CC) advertisement in print can use the same money on the Internet for more than 15 to 30 days and create a much higher noise level and recall value”
- **Over and above the Traditional offerings:** In addition to convenience, flexibility and access to a large database, Online Matrimonial Sites provide a number of advantages over the Traditional Match-Making centers. The online Matrimonial Sites and Job Sites offer services like mobile alerts, content in local languages and reference checks. Also, these sites provide its customers an opportunity to interact without revealing their identity and contact details.
- **Enhancing personal touch:** Till some time back, lack of personal touch was the greatest barrier to the growth of Online Classifieds. Now, the Online Classifieds Sites offer value adding services like Counseling, Information on planning marriage, 24-hour call centers, blogs for disseminating information and obtaining feedback, online reference checks, online horoscope checks etc. Doing so, have helped the Online Classifieds sites to give a personal touch to the service delivery.

Barriers to growth of Online Classifieds:

- **Lack of trust on Online Media:** Individuals are yet to develop the same kind of trust on the performance of the online media that they have for traditional media like newspaper for classifieds. Once the initial inhibitions are driven away there would be a spurt in individuals availing services of these sites.

- **Payment Mechanism:** Since the services are being offered by these sites for free, charging money for the same services to generate revenue might drive away the majority of Internet users. According to an Industry Expert, *“Charging money from customers for posting their resume would be difficult...I would have to rely on Advertising Model for the fear of driving away my customers to the competitors”*

This segment is fast overcoming the barriers that have been facing the industry. The industry is moving ahead with a strong focus on the advantages offered by the online medium. To attract more audience, the Online Classifieds sites are offering innovative features. However, generating revenue from the customers seems the next issue to be addressed by the players in Online Classifieds industry.

Paid Content Subscription

After a faltering start at the end of the nineties, the content subscription market is now building on a very solid foundation. Content providers have realized the power of Internet for dissemination of the 'right' content.

There is no dearth of data available freely over the Internet, but the value being added to that data makes it saleable even on the internet.

Having realized the potential of selling information online, today, Internet is swarmed with the paid-content providers and other fee-based service providers, selling information across verticals. The most popular verticals with paid-content are: sports, games, research and reports, shopping guides, exclusive videos, financial information, adult content and audio books. It also comprises of brick-and-mortar models of magazines and newspapers.

Size of Paid Content/ Subscription-Based Market

Since this category targets niche segments, it attracts the smaller percentage of Internet users who would be ready to pay for getting information online. In the year 2006-07, the size of the paid-content industry was around **Rs. 20 crores**.

With players mushrooming in the paid-content space, the industry is expected to grow by 50%, and is expected to be worth **Rs. 30 crores** at the end of 2007-08

The paid-content market is growing well, given the rising awareness about the sources for quality content online and changing perceptions of Internet users towards paying for quality content.

However, the industry is faced with issues like,

- **Quality of content offered online:** “Given the fact that they are looking for more and more information at the optimum costs consumers are not willing to pay for any plain vanilla content”, comments an industry expert.
- **Availability of content in vernacular languages:** To grow beyond its current capacity, the content has to be provided in the vernacular languages.
- **Repetition of content:** As mentioned by an industry expert, “The content available for subscription on the website of a leading magazine is exact copy of the hard copy of the magazine”. Thus, to exploit the potential of Internet as a medium to sell content, the content provided online should match the profile and interests of Internet users and must offer something that would attract visitors online.

Digital Downloads

The definition used in study for ‘Digital Downloads’ is content downloaded to mobile phones and Internet, with the prerequisite of using a website for the downloading. Thus, we have taken into consideration the WEB and WAP based mobile downloads and have excluded SMS based mobile downloads.

Given the rate at which mobile subscribers are increasing, the telcos in addition to various content aggregators, including portals and mobile content publishers are providing facility to download ring tones, wallpapers, picture messages, logos, games, music/ videos, etc to mobile phones.

With the mobile phones bridging the digital divide in smaller towns and villages the digital downloads market has significant opportunities in India. Wireless operators, music and film companies, cartoon artists, game makers and musicians are all aggressively entering this market.

To download content from the Internet, the users need to have a GPRS or WAP enabled mobile handset and the SIM card that is WAP or GPRS enabled. Once the same is ensured, users can download the content to their mobile phones directly.

Another way to download mobile content is to log on to the content provider’s website via PC, select the content to be downloaded and provide the mobile number to which a download is to be made.

Similarly, several content aggregators allow Internet users to download wallpapers, games, music/ videos, etc to their PC.

Size of the Digital Downloads market for the year 2006-07 and 2007-08

The profile of users using this service consists mainly of school and college going students and the young working population. The Internet is also driven by youth making digital downloads a favored application over other online categories. Since it also includes option to download content to mobile phones, the business is driven mainly by volumes. The size of the industry at the end of 2006-07 was about **Rs 170 crores**.

With rise in high-end phones becoming popular and rise in usage of non-communication based advanced applications like gaming, coupled with decreasing prices for the content, the digital downloads industry is expected to grow by **50%** to **Rs. 255 crores** by the end 2007-08.

Summarizing: Size of B2C and C2C E-Commerce Market in India

The total market size of B2C and C2C E-Commerce industry in India is around Rs. 7080 crores at the end of 2006-07. It is expected to rise to Rs. 9210 crores by the end of 2007-08.

Following is the break up for B2C and C2C E-Commerce Industry in India for the year 2006-07 and 2007-08:

MARKET SIZE FOR THE YEAR	2006-07 <i>(Figures in Rs. Crores)</i>	2007-08 <i>(Figures in Rs Crores.)</i>
Online Travel Industry	5,500	7,000
Online Non-Travel Industry	1,580	2,210
- eTailing	850	1,105
- Online Classifieds	540	820
- Pain Content Subscription	20	30
- Digital Downloads	170	255
Total B2C/ C2C E-Commerce Market	7,080	9,210

The Online Travel Industry has been driving the growth in the B2C E-Commerce industry, owing to entry of low-cost airlines and increase in online bookings for railways and hotels.

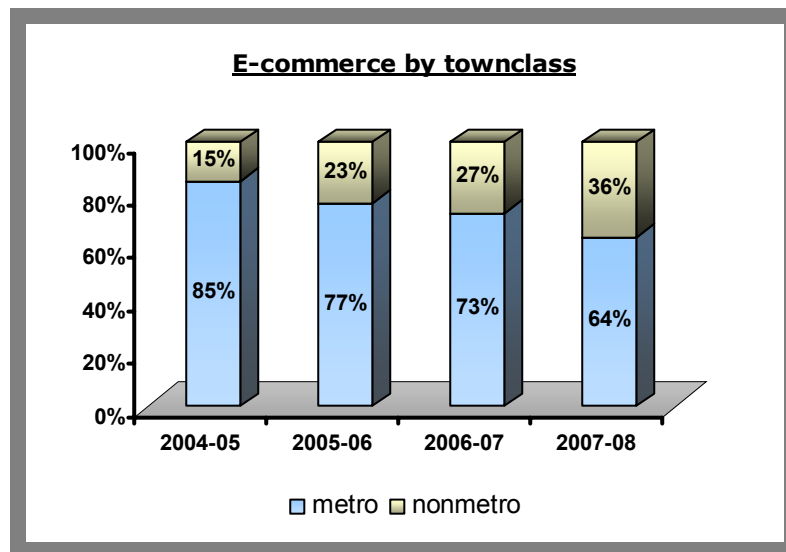
With an increase in mobile subscribers across the country, the digital downloads segment is expected to be one of the main contributors to the Online Non-Travel Industry in future.

The Future of E-Commerce

E-Commerce is the future of shopping. Thus, it would be apt to quote *“The future is here. It’s just not widely distributed yet”*- William Gibson

The Internet economy will continue to grow robustly; Internet users would buy more product and buy more frequently online ; both new and established companies will reap profits online; and...

- **Safer Online Payment Systems:** As the Internet becomes a safer place to transact, the amount spent by the Internet Users online is bound to increase. Those apprehensive of divulging their credit card and bank details would be active online shoppers. The Internet users are expected to buy high-end products like automobile, property, home durables online.
- **Customization of content and offerings:** As the internet users mature, the demand for customization will increase. The content would adopt the regional flavors. More niches will be formed, seeking for offerings *made for them* and content that meets their requirements.
- **More number of shoppers from Non-Metros:** Currently, following the spread of users coming from Metros and Non-Metros.



Source: Research, eTechnology Group@ IMRB, IMRB International

By the end of year 2007-08, the contribution from the Non-Metros is expected to increase. This change would be bought by higher penetration of Internet in the small towns and limited reach of physical distribution channels of the established sellers to

these towns. These factors coupled with higher disposable income would compel the Internet users in these towns to buy online.

- **Expanding User Base:** Going at the current rate of growth in the Internet users transacting online, the user base for E-Commerce is expected to rise and expand exponentially. A large portion of the Internet population is under the age of 35 years and is increasingly moving northwards as far as the purchasing power is concerned. The uncanny nature of this segment *“to use now and pay later”* is going to play an important part in the future growth of the e-commerce market. Be it picking new stocks or new clothes, finding a job or a bride, the web way of doing things will gain precedence.
- **mCommerce:** Currently E-Commerce is synonymous with PC and browser-based interaction. However, in the near future GPRS-enabled mobile phones will rule the online transactions. Today, online downloads to mobile phones is limited to low value services like music downloads, picture message downloads and ringtone downloads. However, as the mobile users get more familiar with buying online, the purchase of high-involvement products is expected to rise. Certain verticals like Banking and Finance, Travel, Entertainment, and Retail are likely to drive the growth of m-Commerce in the country.

In the recent past, E-Commerce and its variants like the m-Commerce have yearned for the position of being the most important drivers of the Internet. They are continuously evolving and upgrading to make a consumer's e-Spending experience hassle free and memorable. However, to attain that position, it needs to awaken its inner beauty – simplicity and security of transaction.

Internet and Mobile Association of India (IAMAI)

The Internet & Mobile Association of India (IAMAI) is a not-for-profit industry body registered under the Societies Act, 1896. Its mandate is to expand and enhance the online and mobile value added services sectors. It is dedicated to presenting a unified voice of the businesses it represents to the government, investors, consumers and other stakeholders. The association addresses the issues, concerns and challenges of the Internet and Mobile economy and takes a leading role in its development. The association's activities include promoting the inherent strengths of the digital economy, evaluating and recommending standards and practices to the industry, conducting research, creating platforms for its members, communicating on behalf of the industry and creating a favorable business environment for the industry. Founded in January 2004 by leading portals in India, IAMAI is the only specialized industry body in India representing the interests of online and mobile value added services industry.

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Our continuous link with industry and a constant eye on the pulse of the consumer ensures that we can decode the movements of technology markets & consumers. To our clients we offer an understanding of the present market environment and a roadmap for the future.

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