

## Internet

# Vendor Survey: Understanding the Supplier Side of India's E-Commerce Boom

### Key Takeaway

**With the number of internet users in India likely to touch 350mn by June 2015 but e-tailing market still minuscule at only US\$5-6bn, e-commerce in India is set to grow manifold. In this report, we survey 50 vendors selling through online marketplaces, to gain insights into the supplier perspective on India's e-commerce boom. We discuss key issues such as vendor profile, volume momentum, source of demand, fulfillment, selling costs, discounts and returns.**

**E-commerce set to grow manifold in India.** The number of internet users in India is set to touch 350mn by June 2015, ahead of the US and second only to China – yet the size of India's e-tailing market, estimated at US\$5-6bn in 2014, is minuscule. In China, online sales is already 10% of overall retail sales and is set to touch 17% by 2018 – by comparison India's online sales is less than 1% of retail sales. We believe e-commerce is set to witness manifold growth in India over the next 4-5 years.

**Survey of 50 online vendors.** For this report, we surveyed 50 vendors selling a variety of products online for suppliers' perspective on Indian e-commerce.

**A mix of traditional retailers/wholesalers, pure online sellers and brands.** Rise in online sales has led to the emergence of a new breed of pure online sellers (35% of vendor base) but many traditional retailers and wholesalers are also selling online (45% of vendor base and 60% of electronics sellers). In apparels, 60% of the sellers are brands. Nearly 40% have been selling online for less than a year, indicating the strong momentum in vendor base. The key reason for selling online seems to be volumes (90% of respondents), with a majority of vendors indicating lower margins in online sales compared with offline.

**Vendors confirm significant traction; demand from south particularly strong.** Vendors confirmed the strong volume traction in online sales, with nearly 60% witnessing over 100% growth on YoY basis and another 20% reporting growth in the range of 30 to 100%. Volume growth seems to be strongest in apparels and weakest in books likely due to base effect. Many vendors indicated particularly strong demand from south India. While overall demand still seems tilted towards the top-six cities, vendors in categories like electronics and books reported strong demand from smaller cities and towns.

**Three different fulfillment models - increasing focus on Vol model.** There seem to be three different fulfillment models, with vendors reporting rising preference by market place operators for Vendor on Inventory model. By and large, vendors did not report any major issues with fulfillment, on-boarding or user interface of the different marketplaces.

**Commissions and fulfillment fees the key costs.** Commissions form the biggest share of fees charged by market places and typically range between 4% and 20% depending on the product – it is usually lowest for mobiles and highest for apparels. In addition to commissions, marketplaces also charge fulfillment fees, fees for value added services and penalties. Jabong/Myntra charge a flat 35-40% commission but not much else. Both vendors and marketplace operators contribute to the discounts.

**Returns the biggest issue; particularly high on CoD.** Returns emerged as the biggest issue for vendors, by far, with returns on Cash on Delivery in particular being very high.

**Investment Ideas.** We identify four themes: 1> Just Dial's (JUST IN, Buy) marketplace could add Rs1,000/share to fair value if it succeeds - we discuss the pros and cons 2> courier companies like Bluedart (BDE IN) and Gati (GTIC IN) are key beneficiaries 3> many foreign listed companies have presence in Indian e-commerce through subsidiaries or investments - Amazon (AMZN US, Buy), eBay (EBAY US, Hold), Softbank (9984 JP, Buy), Naspers (NPN SJ, Buy), Alibaba (BABA US, Buy) 4> offline retailers likely to be impacted adversely.

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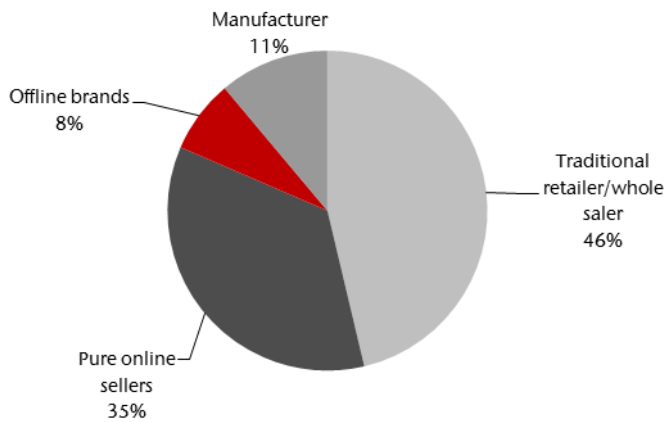
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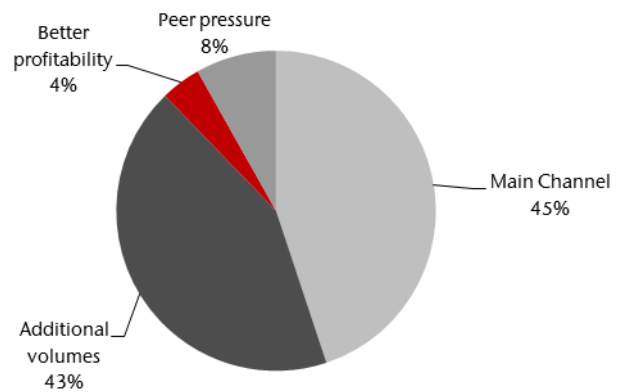
## Focus Charts

**Chart 1: Who is selling through online marketplaces?**



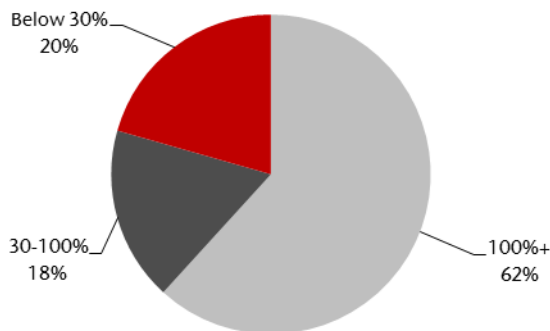
Source: Jefferies

**Chart 2: Volumes the main reason for selling online, margins are better in offline sales**



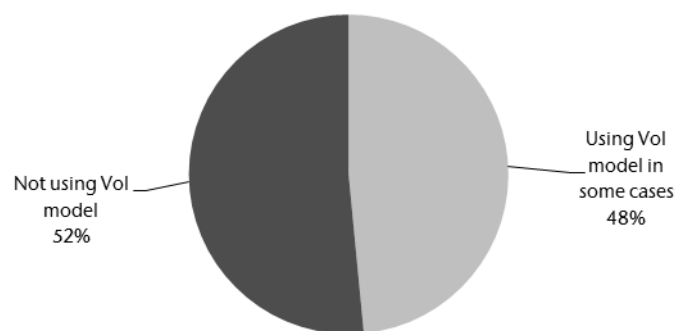
Source: Jefferies

**Chart 3: Most vendors seeing very strong volume growth in online sales; maximum momentum in apparels**



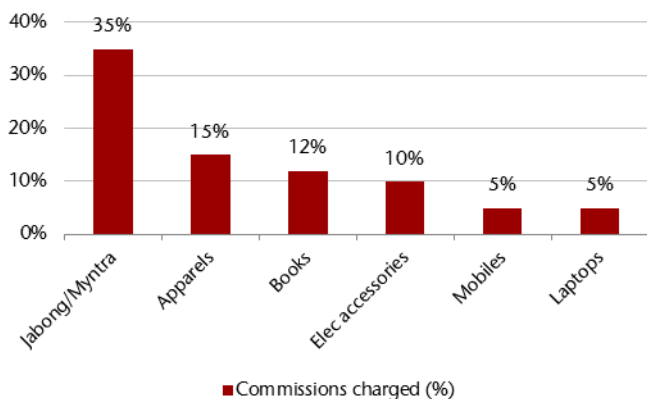
Source: Jefferies

**Chart 4: Three fulfilment models being used; increased focus on Vol model by marketplaces**



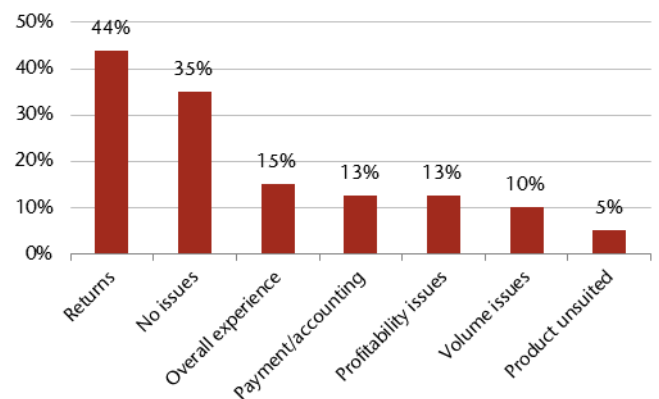
Source: Jefferies

**Chart 5: Commissions charged vary by category; higher for Myntra/Jabong but they have no additional charges**



Source: Jefferies

**Chart 6: Returns is by far the biggest issue; particularly high on CoD sales – 44% indicated it as a problem**



Source: Jefferies

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## Investment Themes

If Just Dial's market place succeeds, it could add to up to Rs1000 to fair value which is not factored into stock price

Fulfilment is a key concern for us both from customer and vendor perspective – could Just Dial end up creating a vendor base for others?

Amazon, ebay, Softbank, Naspers, Rocket Internet, Alibaba – all invested in Indian e-commerce

### #1 Will Just Dial succeed as a market place?

Just Dial has recently launched a market place like offering through the “Shop Online” feature which is a part of its Search Plus portfolio. We estimate that even if Just Dial is successful, this could add US\$1.1bn (Rs1,000 per share) which is not factored into stock price at present. However, based on our survey and an earlier report (**Mystery Shopping on Just Dial**) we highlight the following risks: 1> Absence of fulfilment is a key shortcoming from the vendor's perspective as the main reasons for vendors selling online is volumes and reach 2> There is a risk we believe that vendors who start selling on Just Dial will soon move to selling on other sites limiting Just Dial's key advantage of access to a much larger vendor database 3> Absence of fulfilment services is also a key issue impacting customer experience.

### #2 Courier companies a key way to play e-tailing

Bluedart (BDE IN, NC) and Gati (GTIC IN, NC) are two large listed courier companies which are expected to benefit significantly from the growth in e-commerce in India. Currently, for Bluedart, e-commerce related services accounts for close to 15% of its revenues while for Gati, it is 5% of revenues. Bluedart expects its e-commerce related business to increase at 50%+ cagr over the next 5 years; Gati expects e-commerce business to grow at 60% in FY16. In addition to high growth, e-commerce is also more profitable for courier companies as features such as cash on delivery and reverse logistics lead to additional revenues and better utilization of the network.

### #3 Many foreign listed companies have investments or businesses in Indian e-commerce

Many foreign companies are either directly present in Indian e-commerce sector (Amazon, ebay) or have invested in Indian e-commerce companies (Softbank - Snapdeal, Naspers - Flipkart, Rocket Internet - Jabong, Alibaba – Patym, ebay- Snapdeal).

### #4 Offline retailers likely to be negatively impacted

Growth of online shopping, presents a significant risk to offline retailers in our view. The key listed players in offline retailing in India are Future Retail, Pantaloons, Trent and Shopper's Stop. We understand that a high proportion (10-40%) of books, mobiles, tablets and laptops are already being sold online. While online sales of apparels is still low (less than 5%), our survey indicated that volume traction in online apparel sales is very high and online sellers are mainly brands, which raises risks that offline retailers could be completely circumvented.

**Table 1: Valuation table for stocks involved in Indian ecommerce sector**

Company Name	Bloomberg ticker	CMP (lcy)	Rating	TP (lcy)	Mkt Cap (US\$bn)	P/E			P/B			EV/EBITDA		
						FY15	FY16	FY17	FY15	FY16	FY17	FY15	FY16	FY17
<b>Indian E-commerce player</b>														
Just Dial	JUST IN	1,249	Buy	1,890	1.3	72.6	65.7	53.8	16.4	13.5	11.2	55.1	45.3	35.1
<b>Couriers</b>														
Bluedart	BDE IN	7,168	NC	n.a.	2.8	105.5	83.8	69.0	24.7	22.9	18.7	78.5	60.1	50.2
Gati	GTIC IN	235	NC	n.a.	0.3	45.8	33.3	n.a.	2.5	2.3	n.a.	12.9	10.8	n.a.
<b>Foreign investors into Indian e-commerce</b>														
Naspers Limited	NPN SJ	172,200	Buy	170,000	58.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	74.7	64.5	n.a.
Rocket Internet AG	RKET GR	45	NC	n.a.	7.8	31.3	n.a.	n.a.	8.8	3.7	4.2	n.a.	n.a.	n.a.
Amazon.com Inc	AMZN US	370	Buy	400	171.6	174.3	116.2	79.0	15.6	13.1	10.8	25.9	19.8	15.3
eBay Inc	ebay US	59	Hold	55	71.6	20.4	19.1	16.9	3.8	3.2	2.7	12.1	1.4	12.1
Softbank Corp	9984 JP	6,918	Buy	12,200	68.4	10.9	13.6	11.6	3.1	2.5	2.1	7.3	6.6	5.9
Alibaba Group	BABA US	83	Buy	118	204.5	5.9	4.7	3.5	1.6	1.2	0.9	4.8	3.8	3.0
<b>Offline Retailers</b>														
Future Retail Limited	FRL IN	106	NC	n.a.	0.6	415.5	30.4	16.8	0.8	0.8	0.7	n.a.	8.2	7.0
Shoppers Stop	SHOP IN	446	NC	n.a.	0.6	282.0	63.1	33.7	7.5	7.1	6.2	22.5	16.3	12.0
Trent Limited	TRENT IN	1,471	NC	n.a.	0.8	73.6	29.6	18.9	4.1	3.6	3.0	40.9	22.1	15.1
Pantaloons	PFRL IN	114	NC	n.a.	0.2	n.a.	n.a.	n.a.	1.8	n.a.	n.a.	60.7	n.a.	n.a.

Source: Bloomberg, Jefferies. Prices as of 10<sup>th</sup> March 2015

\*FY15 Indicates year ending 31<sup>st</sup> Dec 2014/31<sup>st</sup> March 2015/30<sup>th</sup> June 2015

## Key Takeaways from Vendor Survey

### #1 Who is selling online? A new breed of pure online sellers but also many traditional retailers & wholesalers

Traditional retailers & wholesalers – 45% of vendor base (60% in electronics)  
Pure online sellers – 35% of vendors  
Brands – 60% of apparel vendors

The rise of e-commerce has led to the emergence of a new breed of more tech-savvy “pure online sellers” who are selling only through the online channel – in our survey about 35% of the vendors fell under this category. However traditional retailers and wholesalers constituted the largest share of the vendor base at over 45%. In electronics, in particular, traditional retailers and wholesalers accounted for 60% of the vendors surveyed. In apparels on the other hand, 60% of the sellers were brand owners while only 20% were traditional retailers. As expected, most of the sellers have started selling online sometime in the last 3 years (90% of those surveyed) with 40% having started in the last 12 months.

### #2 Reason for selling online? Reach and Volumes, not margins.

Volume and wider reach rather than margin is overwhelmingly the main reason for vendors selling online. In fact nearly 75% of the vendors indicated that margins on a per unit basis are higher for offline sales but reach and scalability of online channel is the key differentiator.

### #3 Where are they selling? Most selling on multiple sites; Myntra, Jabong preferred for apparel

85% of the vendors who are selling online are selling across multiple sites. Snapdeal, Flipkart and Amazon are easily the most popular. Myntra and Jabong emerged as favourites for brands selling apparels. Category focus (Snapdeal), coverage issues (Amazon), and competition with platform’s own inventory based sales (Flipkart) are reasons for sellers not selling through some sites.

### #4 Momentum in online sales? 60% have seen sales more than double in the last 6-12 months; Strongest in Apparels

60% of vendors have seen volumes more than double in the last 6-12 months; strongest growth in apparels likely due to smaller base

Most vendors reported strong growth in online sales over the last 6-12 months with over 60% reporting 100%+ growth on YoY basis. Growth is strongest in a new category like apparel where 90% of the vendors reported 100%+ growth and weakest in a mature category like books where online penetration is higher. Snapdeal topped in terms of platform driving maximum volumes followed by Flipkart; for apparel, vertical sites like Myntra and Jabong seem to be driving the most volumes.

### #5 Source of demand? Across tiers for electronics, books; big cities for apparel; South stands out

Across tiers for electronics, books etc.  
Mainly from metros for apparel  
South accounting for most sales  
Bulk online ordering by retailers/wholesalers in smaller towns

On an overall basis, online purchases still seem to be more tilted in favour of the large metros. However, this is likely driven by apparels & accessories where demand is clearly higher from the large metros with 75% of vendors saying that metros account for bulk of the sales. For most other categories like electronics, books and demand seems much more evenly distributed between larger and smaller cities. Some vendors spoke of bulk ordering by retailers/wholesalers of smaller towns. On a geographic basis, several vendors singled out South as the biggest driver of online sales.

### #6 How does the fulfilment process work? Three different models, primarily – Rising focus on Vol by marketplace operators

Three main fulfilment models followed by marketplaces

Rising focus on Vol model

Based on the vendor survey and our own channel checks we identified 3 distinct models through which order fulfilment is taking place: 1> Vendor on Inventory/Fulfilled by Amazon/Snapdeal Plus in which the vendor’s inventory is pre-stocked at the e-tailers’ warehouse allowing for faster despatch and better control over customer fulfilment 2> Fulfilment by Vendor/Drop Ship where vendor is fully responsible for shipping the item giving the e-tailer no control over the fulfilment process 3> Fulfilment by e-tailer where the e-tailer is using his own (Flipkart/Amazon) or a third-party courier (Snapdeal) to pick up the item from the vendor and ship it to the customer. In case of e-tailers like Myntra and Jabong, the items are picked up in bulk from the vendor and then checked for quality

and packaged at the e-tailers' fulfilment centre. By and large vendors did not report any major issues with fulfilment. There seems to be an increased push towards the Vol model by most of the e-tailers. Bluedart, Fedex and Delhivery were named as some of the popular third party couriers being used.

**#7 How are the on-boarding experience, user-interface, payment cycle? Largely no issues**

On-boarding takes less than a week in most cases now

By and large vendors did not indicate any major issues in these aspects. On-boarding usually takes less than a week though it takes longer for the Vol model and for Myntra and Jabong. On-boarding seems to have come down over time as processes have been smoothed. Frequency of payment is typically weekly and credit cycle is usually delivery plus 7 to 10 days for most sites.

**#8 What about returns? Returns a key issue, particularly high for CoD**

Returns particularly high on CoD orders; 5-20% returns for electronics, 10-40% for apparels

High rate of returns emerged as a key issue for many of the vendors surveyed. Returns tend to be particularly high for sales made on Cash on Delivery basis (over 50% of online sales in India are CoD) with some respondents even indicating returns of more than 50% for such orders. Within categories returns are higher for apparels as compared to electronics. We found returns for apparels varying between 10 to 40%; for electronics, returns tend to be between 5-20%.

**#9 Pricing and Discounts? Discounts by both vendor and e-tailer; increasingly targeting repeat purchase**

Vendors reported that discounting is common in the online channel with both vendors and marketplace giving discounts. Marketplace discounts are typically adjusted against commissions. Increasingly though e-tailer discounts are being targeted to encourage app downloads and repeat purchase.

**#10 Commissions? Category-wise, Highest for apparel, Higher on Snapdeal, Lower on Amazon for now**

Commissions range from 4 to 20% - lowest for mobiles, highest for apparels  
Highest on Snapdeal, lowest on Amazon (for now)  
Jabong/Myntra charge 35-40% but no additional charges

Commissions charged by the e-tailer typically range between 4-20% and are usually lowest for mobiles and highest for apparels. Vendors indicated that amongst horizontal marketplaces commissions are higher for Snapdeal and relatively lower for Amazon. The likely reason for lower commissions on Amazon is promotional commission rates currently being offered by the company as of now till FY15 end. Vendors reported commissions of 35-40% on vertical sites like Myntra and Jabong but we understand these sites do not levy any additional charges for shipment, returns, listing etc. and also seem to be more involved in customer experience and promotions.

**#11 Fee structure & overall cost? Non-commission fees account for up to 30% of total fees charged**

1> Selling fees 2> Fulfilment fees 3> Value added services fees 4> Penalties – not much advertising revenues as of now

In addition to the commissions that are directly linked to the selling price of the item, there are a number of other fees and charges that are levied by the market-place operators. Broadly these can be categorized as: 1> Selling fees 2> Fulfilment fees 3> Fees for value added services/subscriptions and 4> penalties. We estimate that non-commission fees can account for up to 30% of the marketplace operators' total take. Typically the proportion of non-commission fees is higher for greater involvement of marketplace operator in fulfilment and lower ticket size items.

**#12 What are the key issues faced by vendors? Returns by far the biggest issue**

Returns by far the biggest issue – highlighted by 45% of vendors

Return related issues emerged as the biggest concern by far for online sellers with 44% highlighting it. Significantly, more than a third of the vendors did not have any issues to highlight for any of the sites. Other issues reported by vendors include: 1> issues with overall experience 2> payment/accounting related issues 3> volume traction issues 4> profitability issues and 5> product not suited to be sold online.

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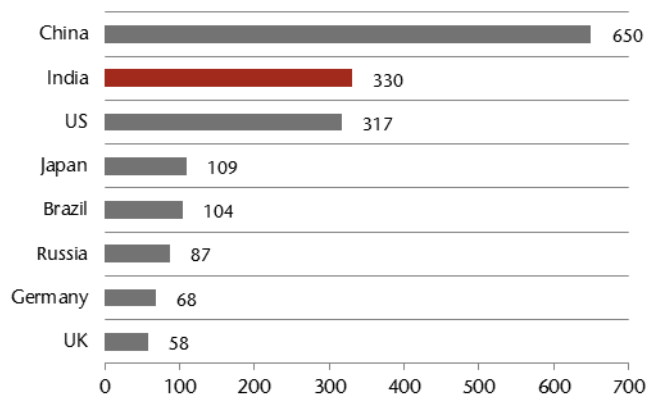
In this section we present in detail the takeaways from our survey of 50 vendors selling through online market places. We address 12 key facets: 1> profile of online sellers 2> reasons for selling online 3> websites through which they are selling 4> volume traction in online sales 5> source of demand 6> fulfilment processes used by e-tailers 7> experience with selling online 8> returns 9> pricing and discounts 10> commissions 11> fee structure and overall costs 12> issues faced.

## India's E-Commerce Boom

The number of internet users in India is expected to touch 350mn by June, 2015 ahead of even the US and second only to China. Yet India's e-tailing market, estimated to have been US\$5-6bn in 2014, is miniscule in comparison to either US or China. We believe e-commerce presents a massive opportunity in India and is set to grow manifold over the next 4-5 years as it has done in China. In her report: **A Taste of Domestic Consumption: The Unleashing of China's E-commerce Power**, Jefferies China Internet analyst Cynthia Meng notes that online sales already accounts for over 10% of total retail sales in China and could account for a sixth of retail sales by 2018. By comparison, online sales in India are still less than 1% of retail sales.

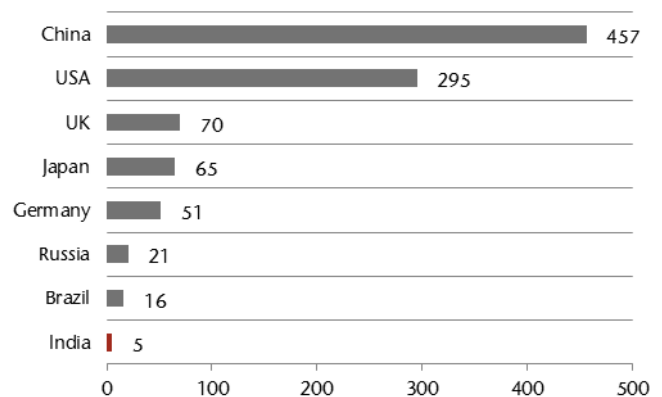
India's e-tailing market size is miniscule at US\$5-6bn (less than 1% of retail sales) though the number of internet users is second only to China and ahead of the US

**Chart 7: India has the second largest base of internet users (mn) in the world, second only to China and ahead of US**



Source: Jefferies estimates

**Chart 8: But current size of e-tailing market(US\$bn) in India is miniscule compared to China or US**



Source: Jefferies estimates

**Chart 9: Online sales in China is already over 10% of total retail sales and is expected to touch 17% by 2018; for India online sales is still 1% of retail sales**

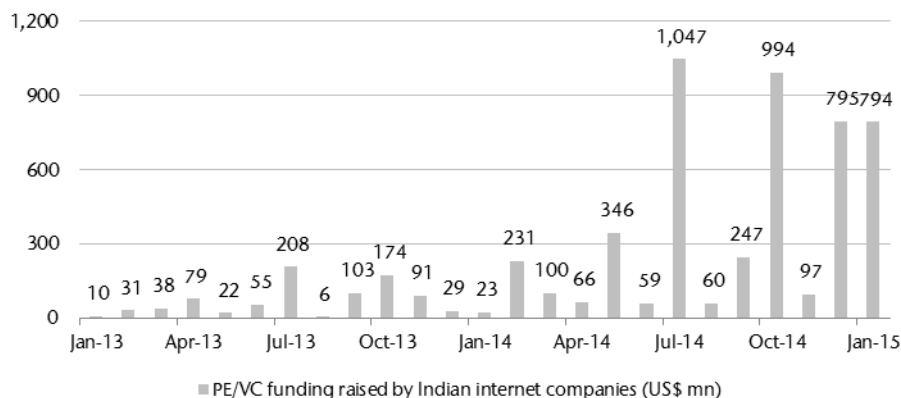


Source: iResearch, Jefferies estimates



The signs of India's e-commerce boom are perhaps most visible in the private funding market. In 2014, Indian e-commerce companies raised over US\$4bn in funding vs. US\$1bn in 2013. In its most recent round of capital raising, Flipkart the biggest e-tailing company in India by GMV has been valued at US\$11bn, more than 5x the market-cap of all listed brick and mortar retailers combined. Similarly, Snapdeal has been valued at US\$3bn in its last round, also higher than the market-cap of all listed offline retailers.

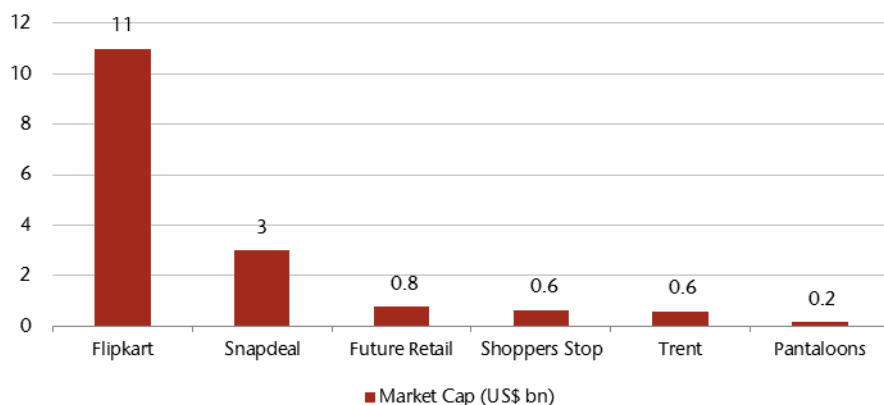
**Chart 10: Significant boom in private funding for e-commerce companies**



Source: Jefferies estimates

Flipkart and Snapdeal are already valued higher in private markets than all the listed offline retailers combined

**Chart 11: Both Flipkart and Snapdeal's estimated valuations are higher than that of all the listed offline retailers combined**



Source: Jefferies estimates, company data, Media reports

Most e-tailing sites in India are following a market-place model either partially (Flipkart, Jabong, Myntra) or completely (Snapdeal, ebay, Amazon)

Most major e-tailing sites in India are following a market-place model either partially or completely. Sites like Snapdeal and ebay have been following a marketplace-only model from their inception; Amazon is also following primarily a marketplace model due to restrictions on FDI (Foreign Direct Investment) in inventory based e-commerce in India; other like Flipkart, Myntra and Jabong are following a mix of market-place and inventory based models. Market-places offer the advantage of being less capital intensive and less complex and thus easier (and cheaper) to scale.

**Table 2: Most e-tailers are targeting to exceed 100k sellers over the next 12-18 months**

S.No.	Site	Inventory	Marketplace	# of vendors
1	Snapdeal	X	✓	~100k vendors
2	Amazon	X	✓	~16k vendors as of Jan-15
3	Flipkart	✓	✓	Targeting 100k vendors by end of 2015
4	ebay	X	✓	~50k+ sellers
5	Shopclues	X	✓	100k sellers as of Jan 2015; Target 10 million sellers in next 3 years
6	Patym	X	✓	15k sellers as of January 2014, Target to add 100k in 1 year
7	Infibeam	✓	✓	30k sellers on BuildaBazaar



**Table 2: Most e-tailers are targeting to exceed 100k sellers over the next 12-18 months**

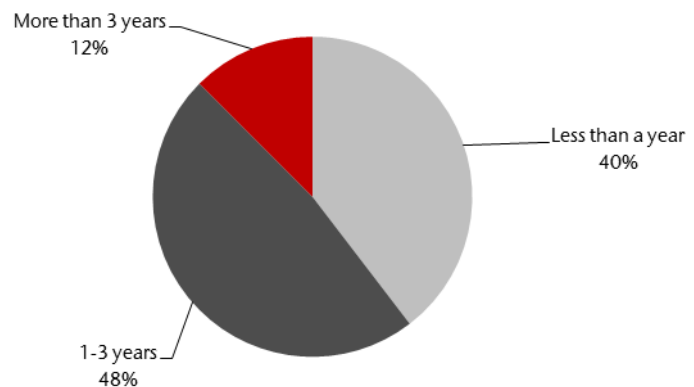
S.No.	Site	Inventory	Marketplace	# of vendors
8	Myntra	✓	✓	~1k sellers currently
9	Jabong	✓	✓	n/a
10	Fashionara	✓	✓	500+

Source: Jefferies, company data, Media reports

## #1 Who is selling online? New breed of pure online sellers but also traditional retailers/wholesalers

40% of the vendors surveyed have been selling for less than a year; 90% for less than 3 years

The number of vendors selling on these marketplaces has been growing exponentially. Of the vendors surveyed by us, 40% have started selling online only over the last 12 months (less than a year), while another 50% have been selling since the last 1-3 years. Established marketplaces like Snapdeal, ebay and Shopclues are reported to have anywhere between 50k to 100k sellers already. Others like Amazon, Flipkart and Patym are also reported to be targeting 100k sellers over the next 12-18 months.

**Chart 12: Nearly 40% of vendors in our survey have been selling for less than a year, another 48% since last 1-3 years**

Source: Jefferies

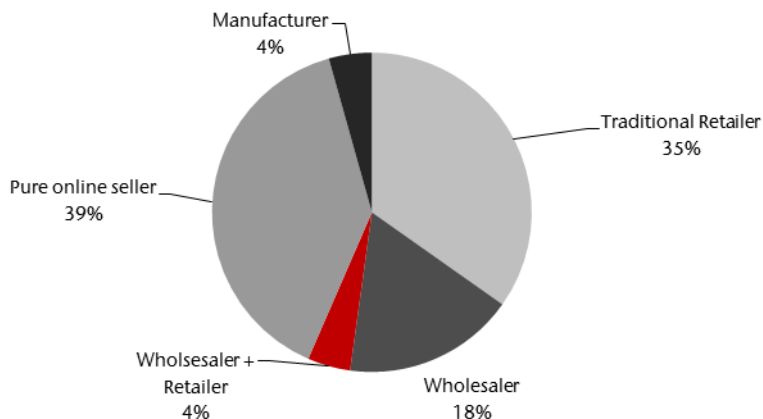
Pure online sellers form 35% of the overall vendor base in our survey; traditional retailers/wholesalers accounted for 45% of the sellers

The profiles of the online sellers also provided some interesting insights. The rise of e-commerce has led to the emergence of a new breed of more tech-savvy “pure online sellers” who are selling only through the online channel – in our survey about 35% of the vendors fell under this category. However, a higher proportion of the vendors are traditional retailers and wholesalers who are now also selling through the online channel. In the case of electronics items in particular, traditional retailers/wholesalers formed 60% of the vendor base. Wholesalers/dealers often comprised of importers who are selling some of their stocks through the online channel.

Mobiles, mobile accessories (mobile cases and covers, screen guards, power banks) and miscellaneous IT products (speakers, headsets, keyboards, hard-drives) emerged as some of the top selling products followed by tablets, laptops and cameras. We found relatively fewer vendors selling larger appliances like refrigerator, TV, AC and washing machines.

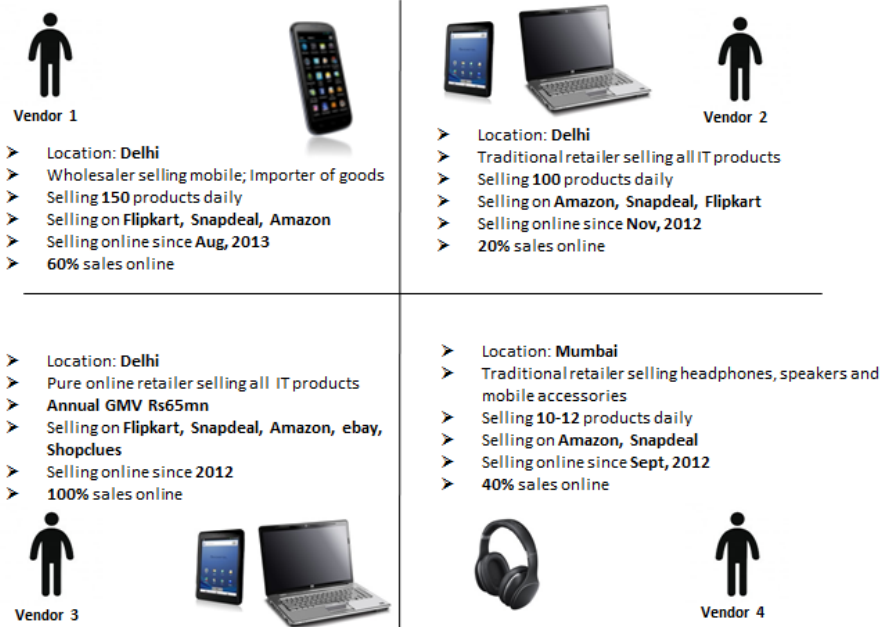
For electronics, nearly 60% of online sellers are traditional retailers and wholesalers

**Chart 13: In electronics, nearly 60% of sellers are traditional retailers or wholesalers, 40% are pure online sellers**



Source: Jefferies

**Chart 14: Typical electronics retailer profile**

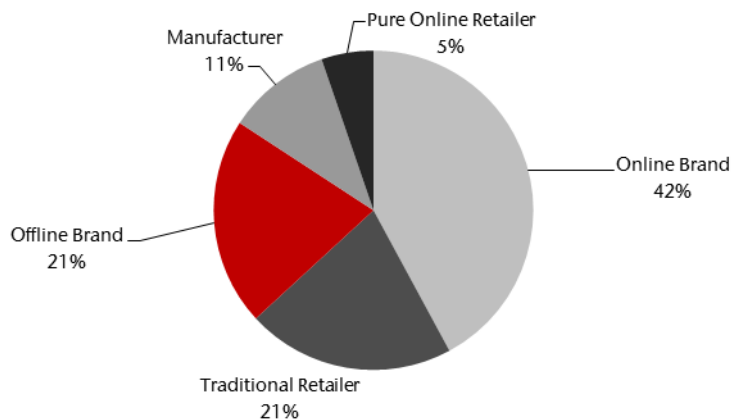


Source: Jefferies

Brands form 60% of online sellers for apparel; traditional retailers relatively less active

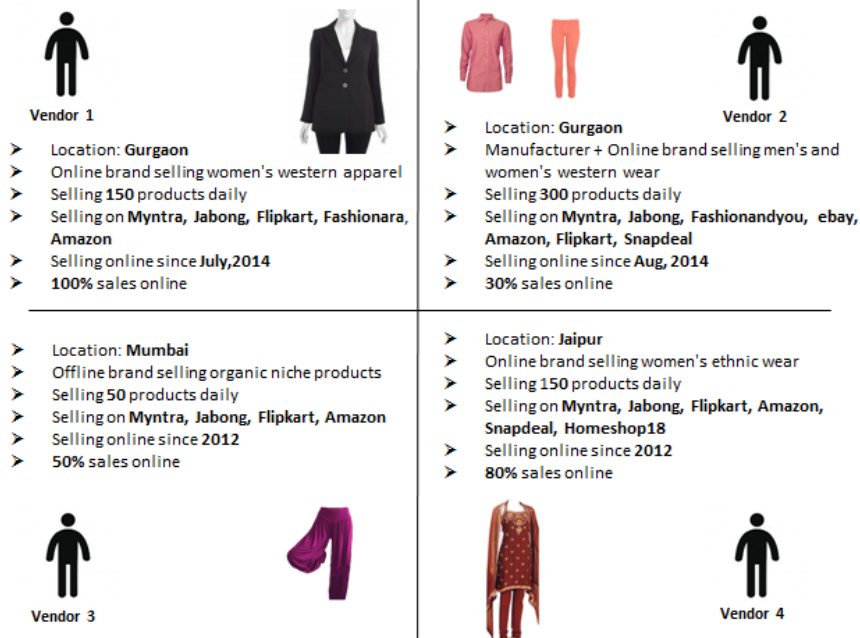
In case of apparels and accessories though, the picture seems to be somewhat different with traditional retailers forming only a fifth of the vendor base. Over 60% of the vendor base comprised of brands with more than 40% being brands which are mainly selling online. Our channel checks indicated that given the complexity involved in this category, e-tailers usually prefer to interact directly with the brands rather than with the traditional retailers. As a result, increase in online sales in apparels & accessories could have significant negative impact on the traditional retail chain as these might be completely circumvented by the brands.

**Chart 15: In apparels & accessories, 60% sellers are brands with 40% being mainly online brands; traditional retailers are relatively less**



Source: Jefferies

**Chart 16: Typical apparel retailer profile**

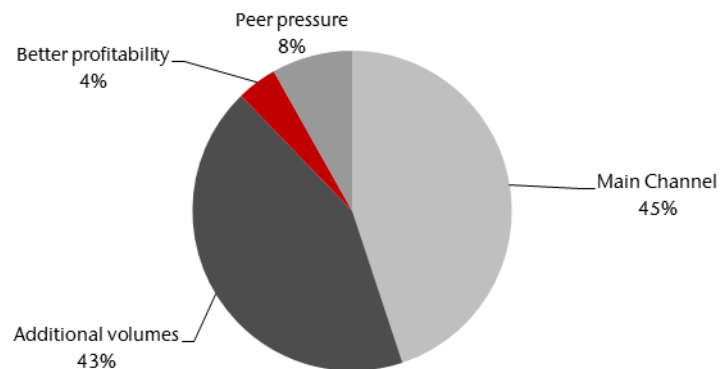


Source: Jefferies

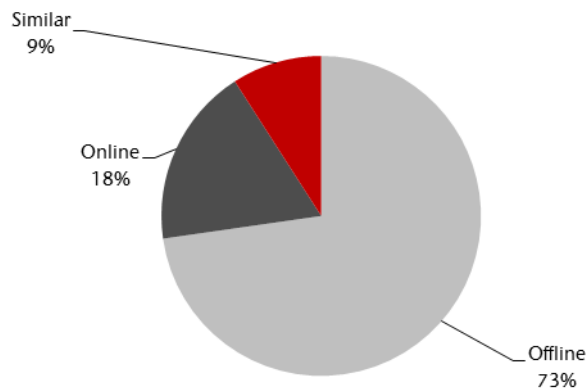
## #2 Reason for selling online? Volumes, not margins

Volumes seem to be the key reason for selling online; nearly 75% reported better margins in offline sales compared to online

Volumes and not margins seem to be the key reason for vendors selling online. In fact most vendors across categories, particularly retailers and brands indicated that margins are higher for offline sales but volumes and reach can be much better through the online channel. Most traditional retailers, wholesalers and offline brands are using the online channel to generate additional volumes. In a few cases, we found that online volumes have now become so significant that they are hardly selling anything offline. Peer pressure has also forced vendors to start selling online – as the significance of the online channel keeps rising, we suspect more and more traditional retailers, dealers and brands will face peer pressure to also start selling online.

**Chart 17: Key reason for selling online? (Across all categories)**

Source: Jefferies

**Chart 18: Which has better margins?**

Source: Jefferies

**Table 3: Comments on online vs. offline margins and reasons for selling online**

S.No	Category	Products	Type classification	Online vs. Offline profitability
1	Apparels	Garments	Traditional Retailer	Offline is more profitable than online
2	Apparels	Women's western wear	Online Brand	<b>Was earlier selling offline - offline profitability is higher but volumes better online</b>
3	Apparels	Sports apparels and equipments	Traditional Retailer	For us offline order (bulk order) gives us more profitability as we do end to end for offline orders; margins are around 25-30% for offline orders
4	Apparels	Sports apparels and equipments	Traditional Retailer	Offline is more profitable; also relationship with customers in offline
5	Accessories	Footwear	Manufacturer + Wholesaler + Retailer	<b>Online is much lower profitability because of out of stock charges, commissions, labour cost, packing charges</b>
6	Electronics	Computers	Traditional Retailer	Offline definitely more profitable than online
7	Electronics	IT products	Mainly Online Retailer	Profitability kind of same in both the channels
8	Electronics	Headphones, speakers, mobile accessories	Traditional Retailer	Online is more profitable than offline
9	Electronics	Headphones, Earphones, Accessories	Traditional Retailer	Profitability is higher for online
10	Electronics	All kinds of IT products	Traditional Retailer	Offline profitability more than online
11	Electronics	Home appliances, electronics, mobiles	Wholesaler	Offline is more profitable
12	Electronics	All kinds of IT products	Pure Online Retailer	<b>Online is less profitable but more volumes leads to higher gross profits</b>
13	Electronics	Pen drive, Memory card	Traditional Retailer	Lower margin in online sales but drives incremental volumes
14	Electronics	Printers and scanners	Wholesaler	<b>Profitability more in offline; Rs500 or 2% of sales value more in offline vs online</b>
15	Electronics	Lighting products	Traditional Retailer	Online and offline: no difference in margins for us
16	Health & Personal care	Medical patch	Manufacturer	<b>Online profitability much higher vs. offline channels</b>
17	Musical Instruments	Musical instruments	Traditional Retailer	Online profitability is lesser but it is about the volumes
18	Musical Instruments	Western musical instruments	Traditional Retailer	<b>Offline - much higher margin; online we have to bear shipping cost which is 10-15%</b>

Source: Jefferies

**How might the profitability of an online vendor compare?**

In order to understand the point about margins being lower in offline sales vs. online, we think it is important to look at different categories of sellers. For traditional retailers/wholesalers who are selling only incremental volumes through the online channel, it is easy to understand why online margins are lower as for them there is hardly any saving in selling online and only the additional cost of selling fees, fulfilment charges,

For retailers selling only incremental volumes online margins likely to be much lower than offline

For manufacturers and brands with no retail presence, online margins are likely to be higher

Higher volumes through online channel can improve vendor's profitability significantly

returns and penalties. On the other hand, for manufacturers and brands which do not have their own retail outlets, online margins are likely to be higher as it allows them to avoid the distribution network which often charges 50% of the final selling price. The tricky comparison is a pure online seller vs. a pure offline seller. Here, we show that the difference in margins narrows considerably once all operating costs for an online vs. offline seller are considered. The key variable which we have not looked at is volumes as a large part of the operating costs are fixed in nature. Higher volumes in online sales vs. offline sales could therefore alter the results significantly in favour of online.

**Table 4: Comparison of margins for offline vs. online sales for incremental online sales by traditional retailers**

	Books	Mobiles/IT products	Apparel	Comments
<b>Offline sales</b>				
Selling price to end customer	100	100	100	
Retailer/wholesaler margin (%)	40	15	35	
<b>Realization to retailer/wholesaler</b>	<b>40</b>	<b>15</b>	<b>35</b>	
<b>Online sales</b>				
Selling price to end customer	100	100	100	
Selling fees	16	6	18	Commission as per Amazon standard rates
Fulfilment costs	11	2	4	
Returns costs	4	1	2	Assuming 20% returns and 20% of that borne by vendor
Total online selling costs	31	8	23	
Retailer/wholesaler margin (%)	40	15	35	
Cost to retailer	40	15	35	
<b>Realization to retailer/wholesaler</b>	<b>9</b>	<b>7</b>	<b>12</b>	
<b>% diff in online vs. offline net realization</b>	<b>(78)</b>	<b>(53)</b>	<b>(66)</b>	

Source: Jefferies

**Table 5: Comparison of margins for offline vs. online sales for manufacturers/brands with no retail operations**

	Value	Comments
<b>Offline sales</b>		
Selling price to end customer	100	
Distributor margin (%)	40	Large distributors charge 40-50% margins
Distributor margin	40	
<b>Realization to brand/manufacture</b>	<b>60</b>	
<b>Online sales</b>		
Selling price to end customer	100	
Selling fees	18	Assuming 15% commission plus some fixed charges
Fulfilment costs	4	Based on Amazon easyship non-promotional charges
Returns costs	2	Assuming 20% returns and 20% of that borne by vendor
Total online selling costs	23	
<b>Realization to brand/manufacture</b>	<b>77</b>	
<b>% diff in online vs. offline net realization</b>	<b>28</b>	

Source: Jefferies

**Table 6: Comparison of margins for pure offline retailer vs. pure online seller**

	Books	Mobiles/IT products	Apparel	Comments
<b>Pure offline seller</b>				
Selling price to end customer	100	100	100	
Retailer/wholesaler margin (%)	40	15	35	
Gross margin to retailer/wholesaler	40	15	35	
Operating costs	32	12	28	Assuming op. costs at 80% of gross profits
<b>Net margin to offline seller</b>	<b>8</b>	<b>3</b>	<b>7</b>	
<b>Pure online seller</b>				
Selling price to end customer	100	100	100	
Selling fees	16	6	18	
Fulfilment costs	11	2	4	
Returns costs	4	1	2	
Total online selling costs	31	8	23	
Gross margin (%)	40	15	35	
Gross margin to pure online seller	40	15	35	
Realization to pure online seller	9	7	12	
Operating costs	6	4	7	Assuming op. costs in online is 20-30% of offline costs
<b>Net margin to pure online seller</b>	<b>2</b>	<b>3</b>	<b>5</b>	
<b>% diff in online vs. offline net realization</b>	<b>(69)</b>	<b>14</b>	<b>(31)</b>	

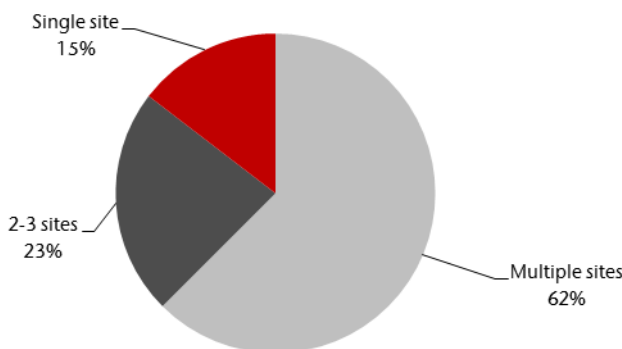
Source: Jefferies

Majority of the vendors are selling through multiple sites

### #3 Where are they selling? Most selling on multiple sites; Myntra, Jabong preferred for apparel

Most vendors we surveyed (85% of sample set) are selling across multiple sites while only 15% are selling on a single site. In fact, 60% of vendors are selling across all the major sites. While this finding seems inconsistent with the difference in the number of sellers as per media reports – Snapdeal for instance indicated 100k sellers currently while the number is likely to be much lower for Flipkart which is still transitioning from a pure-inventory model to an inventory plus marketplace model – we suspect the reason for the mis-match is that only a small proportion of the total vendor base is currently very active.

**Chart 19: Most vendors who are selling online are selling across multiple sites**

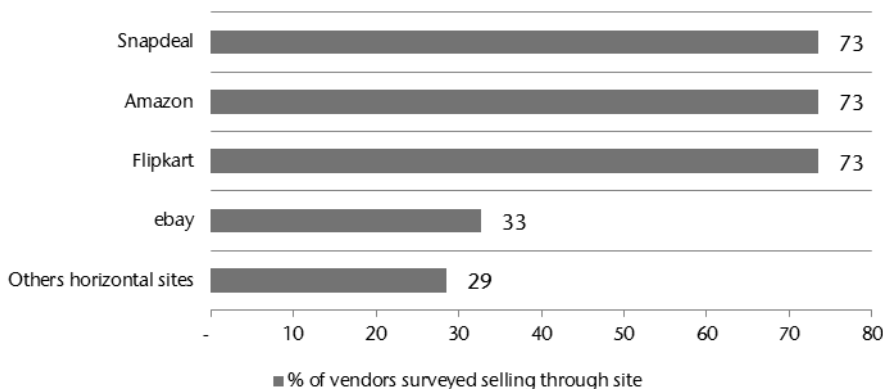


Snapdeal more popular for electronics; Flipkart, Myntra and Jabong more popular in apparels

Source: Jefferies

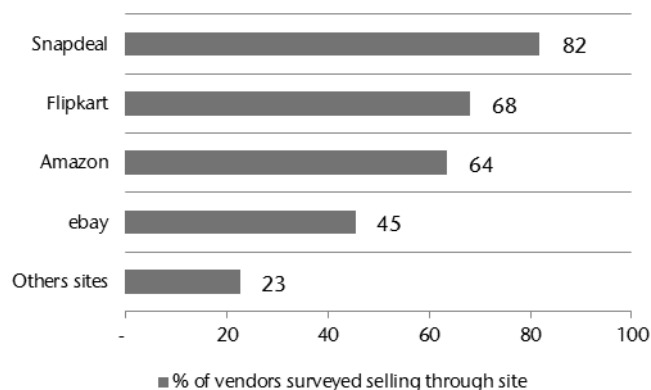
Snapdeal, Amazon and Flipkart emerged as the most popular sites for vendors across categories. Split by category, Snapdeal appeared to be the most popular in electronics while Flipkart was more popular amongst apparel & accessories sellers. Myntra and Jabong, which are focussing exclusively on apparels, also emerged as highly preferred by vendors in that category.

**Chart 20: Amazon, Flipkart and Snapdeal are by far the most popular sites for vendors**



Source: Jefferies

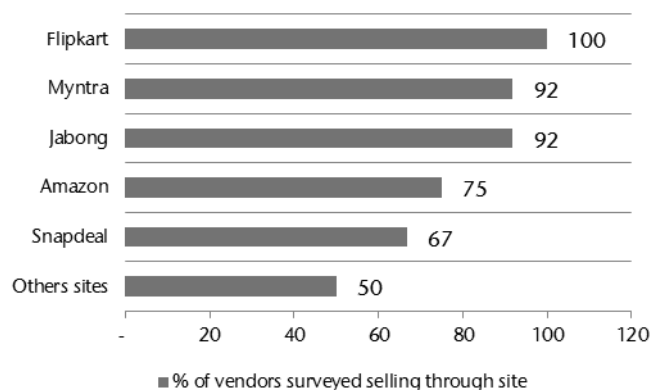
**Chart 21: Snapdeal tops in vendor penetration in the electronics category**



Source: Jefferies

Competition with WS retail an issue with selling on Flipkart; Snapdeal has closed its books category and is perceived to be less focussed on apparels

**Chart 22: Flipkart, Jabong, Myntra top in vendor penetration in apparels**



Source: Jefferies

Reasons for not selling through some of the e-tailing sites included 1> service coverage (issues with customer service in Amazon likely in FBV model ) 2> category focus issues (Snapdeal is not selling books anymore and there is a perception that it is less focussed on apparels) 3> competition with e-tailers own inventory based selling (issue with Flipkart where items sold by WS Retail get better visibility) and 4> lack of awareness (many were not aware of Just Dial's recently launched Search Plus option through which one can sell online). We believe though that most of these issues will get addressed by e-tailers over time and expect the proportion of vendors selling on more than 3 sites to rise over time.

**Table 7: Why are you not selling through some of the sites?**

S.No	Category	Selling since	Selling on	Not selling on	Comments
1	Apparels	Less than a year	Multiple sites	Amazon, ebay	<b>Not selling through Amazon and ebay as customer service is more difficult here</b>
2	Apparels	1-3 years	Multiple sites	Amazon, ebay	Not selling through Amazon and ebay as customer service is more difficult through these
3	Apparels	Less than a year	Multiple sites	Snapdeal	Not selling through Snapdeal as they are more electronics focussed
4	Apparels	1-3 years	Multiple sites	Snapdeal	Not selling on Snapdeal as they want us to do Supplier Owned Inventory model
5	Books	1-3 years	2-3 sites	Snapdeal	These are the key sites for selling books; <b>Snapdeal has closed its books division</b>
6	Books	1-3 years	Single site	Flipkart, Snapdeal	Amazon & Flipkart are the key site for this category. Selling to WS Retail, so not selling on Flipkart
7	Books	1-3 years	Single site	Flipkart, Snapdeal	Not selling through other sites to avoid hassle of uploading inventory separately
8	Books	1-3 years	Multiple sites	Flipkart, Snapdeal	<b>Finding it difficult to compete with WS Retail on Flipkart; Snapdeal has closed its books division</b>
9	Electronics	Less than a year	2-3 sites	Flipkart	Some technical issues with Flipkart
10	Electronics	Less than a year	2-3 sites	Flipkart, Amazon	Planning to sell through more sites going forward
11	Electronics	Less than a year	2-3 sites	Snapdeal	Snapdeal did not show much interest
12	Electronics	Less than a year	2-3 sites	Amazon	<b>Not selling through Amazon as there were some logistics issues</b>
13	Electronics	1-3 years	Multiple sites	Flipkart	<b>More inventory based selling on Flipkart</b>
14	Electronics	1-3 years	Single site	Flipkart, Snapdeal, Amazon	Not selling on other websites but will do so very soon after raising some capital
15	Electronics	Less than a year	Single site	Flipkart, Snapdeal, Amazon	Not selling on other websites for reasons like: Snapdeal: very high commissions, Amazon: Can't sell unbranded stuff; <b>Flipkart: the search algorithm is not as good</b>
16	Musical Instruments	1-3 years	2-3 sites	Flipkart	In talks with Flipkart, their musical instruments section will open soon
17	Bean Bags	1-3 years	Multiple sites	Flipkart	<b>Not selling on Flipkart as they were not in our category till recently</b> but we will sell there soon

Source: Jefferies

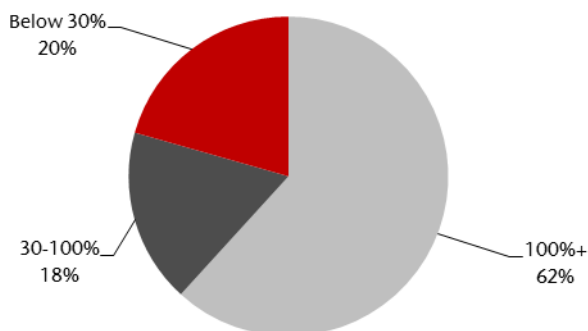
## #4 Momentum in online sales? 60% seeing 100%+ growth overall; Strongest in Apparels

60% of vendors reported 100%+ growth; another 20% reported 30-100% YoY growth in online sales

Majority of the vendors surveyed reported very strong growth in online sales over the last 6-12 months. For assessing volume growth we mainly considered vendors who have been selling for more than a year though for apparel where there were many new vendors we also considered a few who just missed the 1 year criteria. On an overall basis, nearly 60% of the vendors indicated 100%+ growth in online sales while another 20% indicated sales growth in the range of 30-100%.

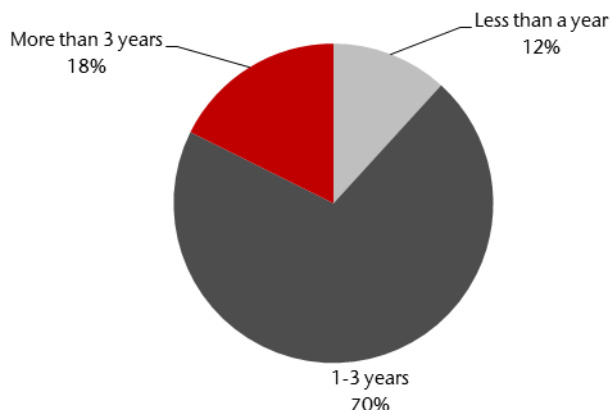


**Chart 23: 80% of the vendors reported significant momentum in online sales with 60% reporting at least doubling of volumes on YoY basis**



Source: Jefferies

**Chart 24: For this analysis, we only considered vendors who have been selling for some time**



Source: Jefferies

Growth strongest in apparels;  
weakest in books

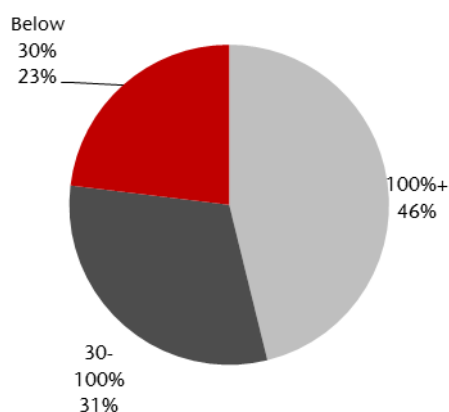
The growth picture varies considerably by category though – 90% of apparels & accessories vendors reported 100%+ growth in sales while the number was close to 50% for electronics and only 20% for books. In fact for books 60% of the vendors indicated fairly tepid growth of below 30%. We believe this is reflective of the stage of online penetration of the different categories – books were the first items to sell online in India and is relatively more mature; by contrast online sales of apparels and accessories is still very new with many of the vendors selling online for less than 2 years.

The high growth reported by electronics vendors (75% are growing at over 30%, with nearly 50% growing at 100%+) where the base is relatively high (our channel checks indicate that 20-25% of mobile phones are already being sold online) is most indicative of the strong momentum in online sales in our view.

Significant growth spurt during  
mega sales such as Billion Day sales,  
Diwali Dhamaka, Savings Day

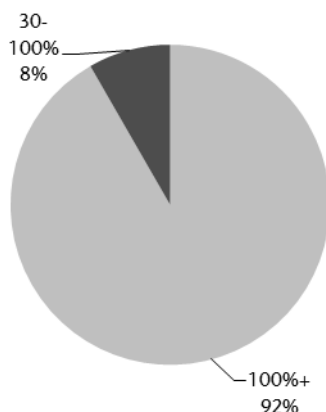
Many vendors also pointed out sharp event driven spurts during GOSF (Great Online Shopping Festival), End of Season sales, “Savings Day” of Snapdeal, “Diwali Dhamaka” of Amazon or “Billion Day” sale of Flipkart.

Chart 25: Electronics



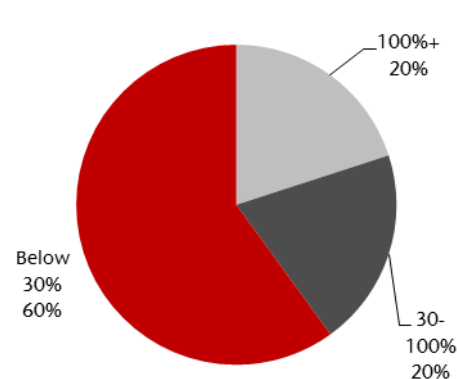
Source: Jefferies

Chart 26: Apparel &amp; accessories



Source: Jefferies

Chart 27: Books



Source: Jefferies

Table 8: Comments on growth by Electronics vendors

S.No	Category	Selling for	Selling on	Sales growth	Comments
1	Electronics	1-3 years	Multiple sites	100%+	<b>In the last 6 months volumes through etailers have increased 300-400%</b>
2	Electronics	More than 3 years	Multiple sites	100%+	<b>150% growth in last 1 year</b>
3	Electronics	1-3 years	2-3 sites	100%+	Visible strong growth in last 1 year
4	Electronics	Less than a year	2-3 sites	100%+	<b>Continuous growth in online sales every month</b>
5	Electronics + Toys	1-3 years	Multiple sites	100%+	<b>Online sales has grown 5x in last 2 years; E-tailers have generated huge traffic through enormous marketing spends</b>
6	Electronics	More than 3 years	Multiple sites	30-100%	Sales have doubled in last 2 years
7	Electronics	More than 3 years	Multiple sites	30-100%	Strong growth in the last 1 year
8	Electronics	1-3 years	Multiple sites	30-100%	65% growth in FY14, 80% in FY15 to date
9	Electronics	1-3 years	2-3 sites	30-100%	1 year ago online sales was 40%, now it has grown to 60%
10	Electronics	1-3 years	Multiple sites	Below 30%	No major growth for my product as mine is niche and expensive product so discounts and offers don't work much

Source: Jefferies

Table 9: Comments on growth by Apparel &amp; accessories vendors

S.No	Category	Selling for	Selling on	Sales growth	Comments
1	Apparels	Less than a year	Multiple sites	100%+	30% growth every month in last 6 months
2	Apparels	Less than a year	Multiple sites	100%+	More than 100% growth in sales in last 6 months
3	Apparels	Less than a year	Multiple sites	100%+	Volumes have been increasing every month
4	Apparels	1-3 years	Multiple sites	100%+	Sales up 50% in the last 6 months
5	Apparels	1-3 years	Multiple sites	100%+	<b>Online sales have doubled in last 6 months</b>
6	Apparels	1-3 years	Multiple sites	100%+	<b>Online sales now 80% of volumes vs. 10% a year ago</b>
7	Apparels and accessories	1-3 years	Multiple sites	100%+	Online volumes have doubled in the last 7-8 months
8	Apparels and accessories	1-3 years	Multiple sites	100%+	<b>Online sales now 35% of volumes vs. 10% a year ago</b>
9	Sports Apparels	1-3 years	Multiple sites	100%+	Last 12-18 months, there has been tremendous growth in online selling with 25-50% growth every quarter
10	Accessories	1-3 years	Multiple sites	100%+	Rs0.7mn annual revenue in FY13; Rs2mn in FY14 and targeting Rs8-9mn in FY15; So massive growth
11	Apparels	1-3 years	Multiple sites	100%+	<b>Last 12 months volumes have growth 4-5x</b>
12	Apparels	1-3 years	Multiple sites	30-100%	<b>Periodic, event based spurt in growth in the last 1 year</b>
13	Apparels	Less than a year	Multiple sites	n/a	<b>Sharp surge in sales during festive season</b>

Source: Jefferies

Table 10: Comments on growth by books &amp; musical instrument vendors

S.No	Category	Selling for	Selling on	Sales growth	Comments
1	Books	1-3 years	Single site	100%+	Online sales have doubled in last 6 months
2	Musical Instruments	More than 3 years	Multiple sites	100%+	<b>Growth of 4x in last 1 year</b>
3	Books	1-3 years	Single site	30-100%	Strong growth in online sales in last 5-6 months
4	Books	1-3 years	2-3 sites	Below 30%	<b>Average sales growth in online sales, no spike in last 1 year</b>
5	Books	1-3 years	Multiple sites	Below 30%	<b>No tangible growth in our segment</b>
6	Books	1-3 years	Multiple sites	Below 30%	Sales had picked up but has now decline 30-40%
7	Musical Instruments	1-3 years	2-3 sites	Below 30%	Online volumes have declined for us in last 5-6 months

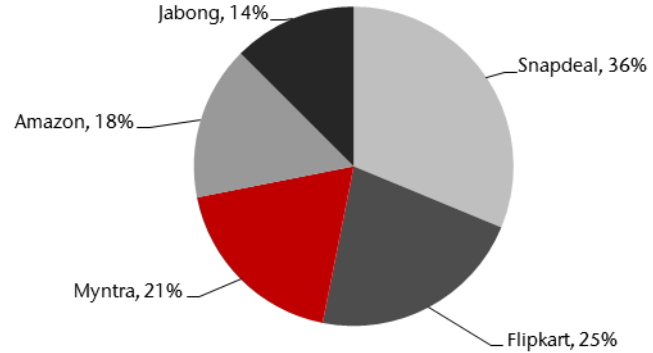
Source: Jefferies

Snapdeal tops the list in terms of site giving maximum volumes to vendors; Myntra/Jabong dominant in apparels

In terms of sites driving most volumes, the most consistent trend was in apparels, where vertical sites like Myntra and Jabong emerged as the clear favourites driving the most volumes. In other categories, Snapdeal, Flipkart and Amazon emerged as the top sites along expected lines with Snapdeal somewhat ahead. Our finding appears to be largely in line with media reported GMV trends of the three companies – Flipkart has the highest

GMV but we understand that 67 to 75% of this is inventory based selling; Snapdeal is #2 but is a market-place only model which should give it an advantage from a vendor sales perspective; despite scaling up significantly in the last 18 months, Amazon is still lagging Flipkart and Snapdeal in terms of GMV as per media reports most likely due to a late start.

**Chart 28: Site driving most volumes as indicated by vendors**



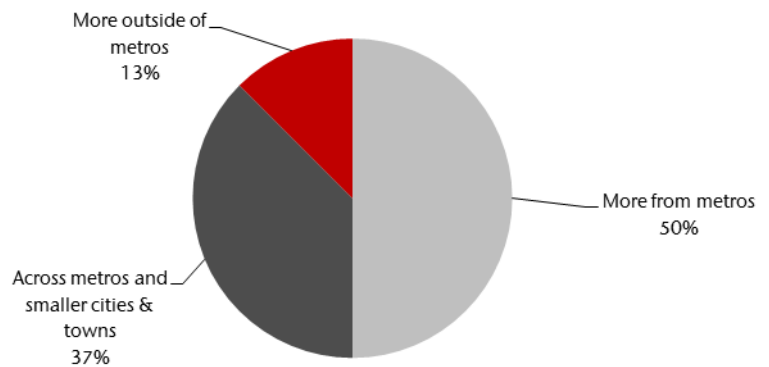
Source: Jefferies

**#5 Source of demand? Across tiers for electronics, books; big cities for apparel; South very strong**

Demand for electronics fairly strong from outside of the metros; for apparels demand mainly from metros

Overall demand still seems tilted towards the metros/Tier 1 cities. However, the picture is quite different between apparels & accessories and other categories. For apparels & accessories demand is much more tilted towards the top tier cities. This is probably because this is a relatively newer category with lower online penetration; the fact that some of the vendors are selling women’s western wear may also have played a role in our view. For most mature categories like electronics and books though, vendors reported a much more equitable distribution of demand from metros (Delhi/NCR, Mumbai, Chennai, Kolkata, Bangalore and Hyderabad) and smaller cities and towns.

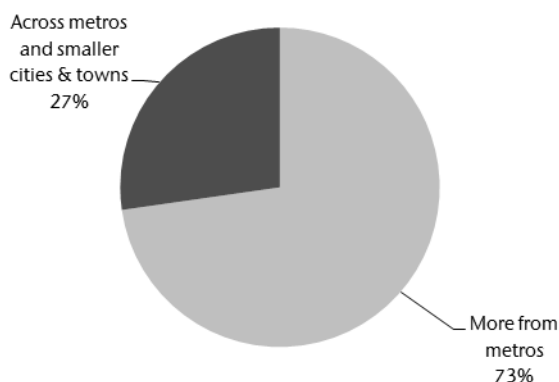
**Chart 29: Demand is strong from outside the Tier 1 cities for 50% of the vendors**



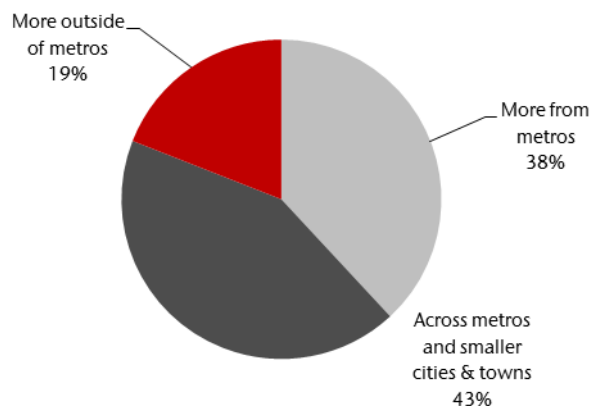
Note: Metros include Delhi/NCR, Mumbai, Bangalore, Chennai, Hyderabad, Kolkata; Source: Jefferies

Retailers/wholesalers in smaller towns ordering through online sites in some cases

Some vendors (mainly selling electronics products) who are witnessing strong demand from smaller towns and cities suggested that wholesalers and retailers in smaller towns may be buying in bulk through the online channel and to take advantage of the benefits of discounts and free/subsidized shipping. We understand from our channel checks though that this is more likely to happen for items where an established distributorship does not exist.

**Chart 30: Apparels & accessories – online shopping still dominated by big cities**

Source: Jefferies

**Chart 31: Electronics, books, others – strong demand from outside the metros**

Source: Jefferies

**Table 11: Comments on demand source by apparel & accessories vendors**

S.No	Category	Products	Comments on demand source
1	Apparels	Garments	Orders from all places - Tier 1/2/3 cities & towns
2	Apparels	Women's western wear	<b>50-60% from top 4 cities</b> , 40% from non-metros
3	Apparels	Pop culture and licensed merchandise	Demands mostly coming from metros but some smaller cities also
4	Apparels	Men and Women's western wear	<b>Demand mostly coming from Tier I</b> but also from some Tier II cities
5	Apparels	Bags	<b>Demand mainly coming from Tier I and tier II cities</b>
6	Apparels	Women's ethnic wear	Demand from all cities - metro & non-metro
7	Apparels	Organic baby clothes	<b>75% of demand from top 5 or 6 cities</b>
8	Apparels and accessories	Kids wear	Mostly demand coming from South India and bigger cities
9	Apparels and accessories	Men and Women's western wear and accessories	Sales mainly from metro cities; Share highest in West and South but growth is highest in East
10	Sports Apparels	Sports apparels and equipments	<b>70-75% from bigger cities</b> , 25-30% smaller towns

Source: Jefferies

**Table 12: Comments on demand source by electronics, books and other vendors**

S.No	Category	Products	Comments on demand source
1	Books	Books	Mix of large and small cities for customer orders
2	Books	Books	Demand coming from all over India from all types of cities
3	Books	Books	<b>95% demand coming from smaller towns which do not have large book stores</b>
4	Electronics	Mobiles	<b>Now a days wholesalers from smaller cities like Faridabad buying from e-tailers, driving bulk orders</b>
5	Electronics	Mobile Phones and Consumer Electronics	North - More demand from smaller towns, East - mainly from large cities, South - All tiers, West - Cities
6	Electronics	Mobile and tablet accessories	<b>2-3 years ago orders from big cities only, but now orders mostly from smaller cities</b>
7	Electronics	Headphones, speakers and mobile accessories	Mix of larger and smaller city customers
8	Electronics	Hard-drives, pen drives, memory cards	High sales to states like Gujarat, AP, North East India and also from smaller towns
9	Electronics	All kinds of IT products	Most orders coming from South India and mostly larger cities
10	Electronics	IT products	Orders come in from all over India, small and large cities alike; <b>retailers in small towns buying through us</b>
11	Electronics	Home appliances, electronics, mobile phones	Orders come in from all over India, small and large cities alike
12	Electronics	All kinds of IT products	Demand 60-70% coming from Tier I cities, rest smaller cities
13	Electronics	Gaming console and gaming software	Highest sales is from Bangalore, rest is evenly distributed across India
14	Electronics	Mobile accessories	Mostly Tier I cities, metro cities
15	Electronics + Toys	Toys+ Electronics	Demand: Tier I major buyer; <b>Tier II also specially for categories like high end toys or niche tech products which is not available offline there</b>
16	Musical Instruments	Musical instruments	Orders come in from all over India, small and large cities alike
17	Musical Instruments	Western musical instruments	Selling mostly to Tier II cities where physical stores are not there; lots of orders from North East
18	Supplements	Supplements	For supplement most demand comes from Tier I cities, but growth coming from Tier II and Tier III cities

Source: Jefferies

Demand particularly strong from the South

In terms of geographic distribution, we found vendors reporting particularly strong demand from the South. Quite a few vendors from other regions and across key categories singled out South India as a source of very strong demand for online sales. As expected demand from the East was reported to be the weakest though there seems to be high demand specifically from the North East for certain vendors.

**Table 13: Many North based vendors singled out South as a source of strong online demand**

S.No	Category	Products	Location	Comments on demand source
1	Apparels	Organic baby clothes	Delhi	<b>Particularly strong demand from South</b>
2	Apparels and accessories	Kids wear	Gurgaon	<b>Mostly demand coming from South India and bigger cities</b>
3	Apparels and accessories	Men and Women's western wear and accessories	Delhi	Sales mainly from metro cities; Share highest in West and South but growth is highest in East

**Table 13: Many North based vendors singled out South as a source of strong online demand**

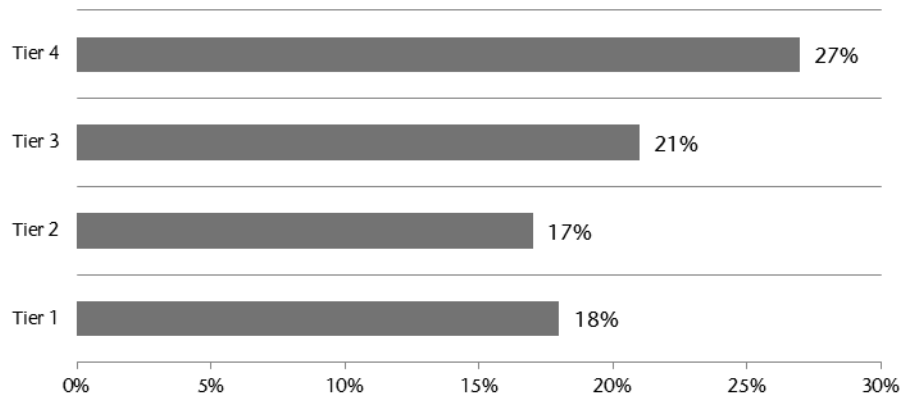
S.No	Category	Products	Location	Comments on demand source
4	Electronics	Gaming console and gaming software	Delhi	<b>Highest sales is from Bangalore, rest is evenly distributed across India</b> North - More demand from smaller towns, East - mainly from large cities, South - All tiers, West - Other cities ex Mumbai
5	Electronics	Mobile Phones and Consumer Electronics	Multiple	
6	Electronics	All kinds of IT products	Delhi	<b>Most orders coming from South India and mostly larger cities</b>
7	Electronics	Mobiles, mobile accessories, laptop, tablets	Delhi	<b>Orders coming mainly from South India</b>
8	Electronics	Hard-drives, pen drives, memory cards	Bangalore	High sales to states like Gujarat, AP, North East India
9	Electronics	Lighting products	Mumbai	Lot of demand from North and north-east <b>Demand coming 50% from North India and 50% from South India but very less COD cancellations from South India</b>
10	Bean Bags	Bean Bags	Ranchi	

Source: Jefferies

In China people in smaller cities are spending a higher share of their wallet online – will India follow suit?

### China case study: Higher wallet share directed to online spending among people in lower Tier cities

In China, a McKinsey study showed a higher wallet share is directed to online spending among people in lower Tier cities given the greater availability of goods online and limited shopping choices offline. Will India follow a similar trend? Already anecdotal evidence suggests significant online ordering of branded shoes (Nike, Adidas) from smaller towns of India due to access issues.

**Chart 32: Wallet Share Directed to E-Commerce (As a % of Disposable Income) in China**

Source: McKinsey Insights China database; McKinsey iConsumer survey; McKinsey Global Institute analysis, Mar 2013

## #6 How does the fulfilment process work? Three different models, primarily – Rising focus on Vol

Based on vendor responses as well as our own channel checks, we identified 3 different ways in which orders are being fulfilled under the market place model. As shown in the table below, most marketplace operators/e-tailers are using a combination of all three models.

**Table 14: Who is following what?**

E-tailer	Pre-stocking inventory	Shipment by vendor	Fulfilment by e-tailer		
			Own Courier	Third-party courier	Quality control & packing
Flipkart	✓	✓	✓✓✓	✓	x
Snapdeal	✓	x	x	✓✓	x
Amazon	✓	✓	✓	✓	x
ebay	x	✓✓	x	✓	x
Myntra	x	x	x	x	✓✓
Jabong	x	x	x	x	✓✓

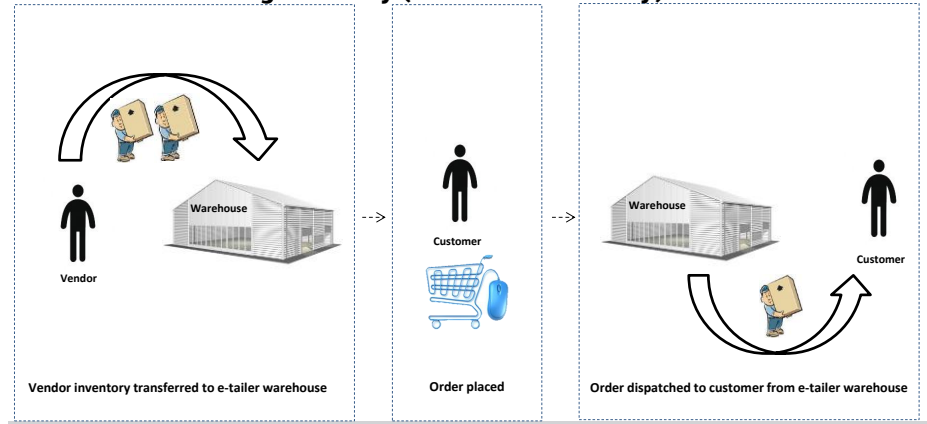
Source: Jefferies

Amazon (Fulfilled by Amazon), Snapdeal (Snapdeal Plus) and Flipkart use Vol as one of the fulfilment models

**#1 Pre-stocking inventory (Vendor on Inventory).** Under this model, the vendor sends products to the e-tailers' warehouse in advance. When a sale happens, the e-tailer picks up the inventory from its warehouse, packages it and ships it for delivery. This usually allows for faster delivery (often qualifying for same-day/1-day delivery) and better

customer experience but in such cases the vendor has to pay the e-tailer additional fees for packaging, weight handling, storage and delivery. The Vendor on Inventory model is being used by Flipkart, Snapdeal and Amazon - in case of Amazon, this is referred to as “Fulfilment by Amazon” (FBA) model while in case of Snapdeal it is referred to as “Snapdeal Plus”.

**Chart 33: Pre-stocking inventory (Vendor on Inventory)**

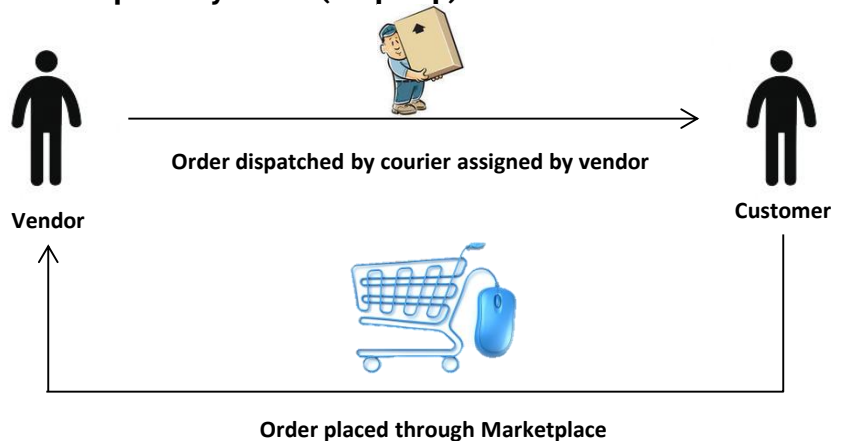


Source: Jefferies

Amazon and ebay allow the vendor to directly ship the item using a courier of his choice

**# 2 Shipment by vendor (Drop-ship).** Under this model, the item is directly shipped by the vendor to the customer using a courier of his choice and the marketplace operator has no control whatsoever over the fulfilment process. Amongst the large horizontal e-tailers Amazon and ebay are using this model. Cash on delivery option is often not available under this model and is a key disadvantage given the high proportion of CoD sales in India.

**Chart 34: Shipment by vendor (Drop-ship).**



Source: Jefferies

**#3 Fulfilment by e-tailer.** Here, the e-tailer arranges for the item to be picked up from the vendor and shipped to the customer after an order is placed. There are many variations of this model:

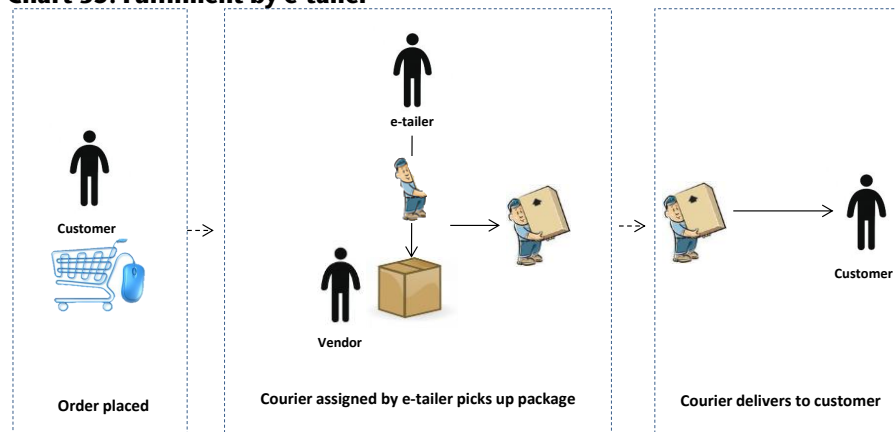
1> For Snapdeal and ebay (ebay refers to this as PowerShip program) which do not have their in-house courier service, the shipment is picked up by a third-party courier appointed by them and delivered directly to the customer. This model is used to a lesser extent by Flipkart and Amazon.

2> For Flipkart and Amazon (Amazon refers to this as the Amazon Easy Ship service) which have their own courier service and also use third-party couriers, the item is picked up from the vendor at a designated time typically by the in-house courier and often brought to its own consolidation centre. From here it is dispatched to the customer using own or third-party courier.

Jabong and Myntra require all items to be first shipped to their own fulfilment centres where they are checked for quality and packed before shipping to the customer

3> For niche apparel e-tailers like Myntra and Jabong, the items are not individually packed by the vendor but are picked up in lots by the courier and delivered first to the e-tailers' fulfilment centre. Here the items are checked for quality and individually packed by the e-tailer and then shipped to the customer. In fact for these sites vendors are billing to the marketplace and not directly to the customer meaning that these are not technically marketplaces though they have a separate inventory based model as well.

**Chart 35: Fulfilment by e-tailer**



Source: Jefferies

**Table 15: Pros & cons of different models**

	CoD option	Fulfilment experience	Ease of return handling	Delivery time	Vendor take
<b>Pre-stocking inventory</b>	√	√√	√	√√√	√√
<b>Shipment by vendor</b>	x	√	x	√	√√√
<b>Fulfilment by e-tailer</b>					
Own Courier	√	√√	√	√√	√√√
Third-party courier	√	√	√	√	√√√
Quality control & packing	√	√√√	√√√	√	√

Source: Jefferies

Bluedart, Fedex, Delhivery some common third-party vendors being used

Most of the vendors did not report any major issues with fulfilment. Bluedart, Fedex, Delhivery were named as some of the third-party couriers being used. Flipkart seems to be doing most of its pick-up at least using its in-house courier company Ekart.

Many sites are pushing vendors to shift to the Vol model

About 50% of the vendors surveyed by us are selling through the Vol model on at least one of the sites. Many indicated that there is an increased push to move more fulfilment to Vol model by the larger e-tailers, particularly Snapdeal and Amazon. For the e-tailers, Vol model would allow faster delivery and ensure a better customer experience especially compared to the shipment by vendor model. Some vendors were not keen to move to this model as they have their own storage space and would not want to pay the additional charges for the Vol model.

**Table 16: Key comments on fulfilment**

S.No	Category	Selling through	Comments on fulfilment
1	Apparels	Snapdeal, Flipkart	<b>Fulfilment currently done by Snapdeal through various delivery companies like Delhivery, Bluedart</b>
2	Apparels	Myntra, Jabong, Snapdeal, Flipkart, Amazon	<b>Amazon has FBV where they can't ship such as North East regions; No COD for such orders</b>
3	Apparels	Myntra, Jabong, Flipkart, Amazon	<b>Snapdeal has been asking us to move to Vol</b> , we prefer holding inventory
4	Apparels	Firstcry, Babyoye, Jabong, Myntra, Snapdeal, Flipkart, Amazon, ebay	Amazon is through FBA model; even Snapdeal has asked us to move to Vol model
5	Apparels & accessories	Flipkart, Snapdeal, Amazon, Naaptol	Flipkart through ekart and others through courier companies
6	Apparels & accessories	Snapdeal, Amazon	Amazon is doing through their own courier and Snapdeal doing it through Bluedart, Fedex
7	Accessories	Snapdeal, Crafts Ville, Flipkart, Amazon, ebay	We are doing pre-stocking inventory for all the websites; also doing own inventory <b>Flipkart, Amazon have own delivery, Snapdeal, Ebay have tie-ups with couriers like Bluedart, Fedex, Delhivery</b>
8	Electronics	ebay, Snapdeal, Flipkart, Amazon	We do not prefer <b>Vol on which there is increased focus these days</b>
9	Electronics	ebay, Snapdeal, Flipkart, Amazon	Flipkart's local logistics is very good; <b>Snapdeal has also started Vol and is promoting it quite a bit</b>
10	Electronics	Snapdeal, Flipkart, Amazon	In Snapdeal every product is free shipping; so the vendor always has to pay the shipping fee
11	Electronics	Flipkart, Snapdeal, Amazon, Homeshop18	We prefer dispatching from our own warehouse <b>though there is increased trend by e-tailers to shift to Vol</b>
12	Electronics	Amazon, Snapdeal, ebay, Groupon	<b>Facing issues in co-ordinating pick-up with one of the sites</b>
13	Health & Personal care	Snapdeal, Amazon	
14	Musical Instruments	Snapdeal, amazon, ebay	We use own warehouse and also e-tailers' warehouse; like amazon's warehouse for FBV for some of the smaller items

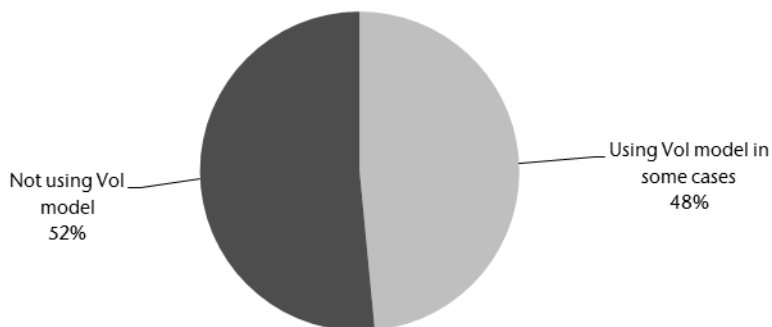


**Table 16: Key comments on fulfilment**

S.No	Category	Selling through	Comments on fulfilment
15	Bean Bags	Snapdeal, Amazon, Ebay, Shopclues	For Snapdeal and Amazon both options of pre stocking inventory and drop ship are there but we are doing only despatch from our own warehouse; For Snapdeal their courier partner , for Amazon it's our courier partner

Source: Jefferies

**Chart 36: Nearly 50% of the vendors surveyed are using the Vol model with one of more e-tailers**

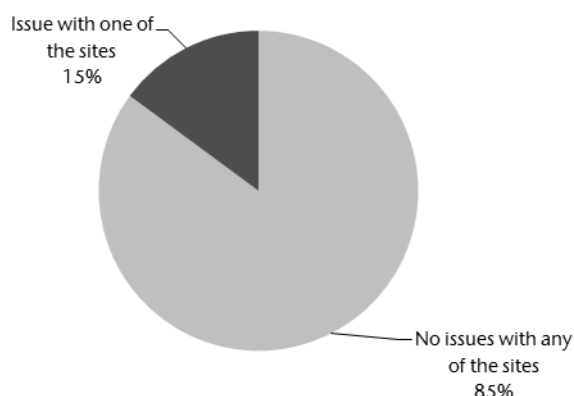


Source: Jefferies

## #7 How are the on-boarding experience, user-interface, payment cycle? Largely no issues

We also questioned vendors on other key aspects of their experience of selling on online sites such as on-boarding and set-up experience, user interface and payment cycle. By and large, vendor experience has been positive with only 15% of vendors facing issues with only one of the sites used.

**Chart 37: Only 15% of vendors surveyed are facing some issue with one of the sites used**



Source: Jefferies

### On-boarding usually takes less than a week now; much faster than 2 years ago

Most vendors indicated that on-boarding process is usually fairly smooth and typically takes less than a week across most sites and can even happen in 1-2 days in some cases. The exception seems to be niche apparel sites like Myntra and Jabong where on-boarding takes up to 2 weeks. In general on-boarding for apparels seems to be taking longer than vendors of other categories such as electronics and books. Moreover, even on the same site on-boarding for the Vol model typically takes longer (up to 10 days) as compared to

On-boarding typically takes less than a week – longer for Vol model and Myntra/Jabong

On-boarding time has shrunk over time – now can be done in 2 days in many cases

on-boarding for the vendor fulfilled model due to the additional time required for warehouse registration.

The other observation we made is that on-boarding time seems to have reduced perceptibly now compared to 2 years back. Vendors who started selling online more than 2 years back indicated longer on-boarding times (between 1 week to a month) as compared to those who have started recently.

**Table 17: Onboarding usually does not take long – less than a week for most sites/categories, 2 weeks for Myntra, Jabong**

S.No	Category	Selling through	Onboarding
1	Apparels & accessories	Snapdeal, Flipkart	On-boarding process takes 3-4 days
2	Apparels & accessories	Myntra, Jabong, Fashionara, Flipkart, Amazon	<b>On boarding time longer on Jabong/Myntra as compared to Flipkart, Amazon</b>
3	Apparels & accessories	Flipkart, Snapdeal, Amazon, Naaptol	<b>On boarding process takes 10-15 days</b>
4	Apparels & accessories	Snapdeal, Amazon	On boarding process for both of them were smooth, it took 1-2 days
5	Accessories	Snapdeal, Crafts Ville, Flipkart, Amazon, ebay	<b>On boarding time: For us it was 7-30 days; but it was 2 years ago, now it might have changed</b>
6	Books	Flipkart, Amazon	On boarding time 1-2 days
7	Books	Amazon	On boarding time 1-2 days
8	Electronics	ebay, Snapdeal, Flipkart, Amazon	Best on boarding experience with ebay and Amazon
9	Electronics	Snapdeal, Amazon	For Amazon on boarding process was faster than Snapdeal
10	Electronics	Amazon, ebay, Snapdeal, Flipkart, Shopclues	Shortest for e-bay longer for Flipkart, Amazon you need to provide more details
11	Electronics	Snapdeal, Flipkart	On boarding time: Flipkart: Took time of around 10 days; Snapdeal: quite fast as I had all the data ready from Flipkart's process
12	Electronics	Snapdeal	On boarding time- 1 day flat for Snapdeal <b>Amazon - Vendor fulfilled model 3-4 days; for FBA it is 7-10 days since warehouse registration takes time. Snapdeal also on boards very quickly</b>
13	Health & Personal care	Snapdeal, Amazon	<b>On boarding time 1-2 days for everyone as everyone is very aggressive</b>
14	Musical Instruments	Snapdeal, amazon, ebay	On boarding time Snapdeal earliest 1-2 days, Amazon it took much longer
15	Bean Bags	Snapdeal, Amazon, Ebay, Shopclues	On boarding time: 1-2 days to sign up and paper work, and 15 days to make product live
16	Supplements	Snapdeal, Amazon, Ebay, Flipkart	

Source: Jefferies

#### **No issues with user interface – preference varies across vendors; need for a single channel manager operating across sites?**

Vendors are typically provided with access to a seller's site by the different platforms through which the entire order management happens including uploading the inventory, setting the price, order notification (also comes through e-mail), billing, shipping details and payment notification. By and large vendors seemed satisfied with the different interfaces provided by the e-tailers. Preference for the best seller panel varied across vendors with no clear favourite emerging.

No channel manager for managing inventory across multiple websites in e-tailing unlike in hotels

Given that most vendors are selling across multiple sites, there seems to be the need for a channel manager that can be used to upload inventory and manage sales across multiple websites. Some vendors specifically mentioned that uploading inventory separately on multiple websites as a key issue. We note that in our survey of hotels in the report **Survey #2: Hotels' Feedback on OTAs**, we found at least the 3 star and above hotels using channel managers in order to manage inventory across different OTAs.

**Table 18: Feedback on user interface of the different sites was fairly mixed**

S.No	Category	Selling through	User interface
1	Apparels & accessories	Myntra, Jabong, Snapdeal, Flipkart	Myntra is the best, very simple, very clean
2	Apparels & accessories	Snapdeal, Amazon	Panel of both websites are good
3	Books	Flipkart, Amazon	Panel of both websites are very good
4	Electronics	ebay, Snapdeal, Flipkart, Amazon	Flipkart has the best panel
5	Electronics	Flipkart, Amazon, Snapdeal, ebay	Panel of Flipkart and Amazon are very good
6	Electronics	Snapdeal, Flipkart, Amazon	Like Amazon's seller page the best as compared to Snapdeal and Flipkart
7	Electronics	Snapdeal, Flipkart, Amazon	Snapdeal's panel is the best - everything at one place
8	Electronics	Flipkart, Amazon, ebay	Panel is better for Amazon, but Flipkart is also improving
9	Electronics	Amazon, ebay, Snapdeal, Flipkart, Shopclues	ebay has the best interface, gives freedom to list product as per our convenience
10	Health & Personal care	Snapdeal, Amazon	Seller portal created by Amazon - we get email notifying orders. It's an elaborate portal where you can create invoice, packing details, update courier details

Source: Jefferies

#### **No major issues with payment – weekly payment for most, 7-10 days post-delivery, longer for Myntra and Jabong**

Most vendors are not facing any issues with payment. An order typically becomes eligible for payment 7-10 days after delivery across most of the sites and payments for all orders that have become eligible for payment are usually made on a weekly basis. Ebay seems to be paying twice a week resulting in the shortest payment cycle while Myntra and Jabong typically pay once every month resulting in a longer payment cycle. For Flipkart, we got

Payment typically happen 7-10 after delivery based on a weekly payment cycle; longer for Myntra/Jabong

different responses from different vendors indicating that the payment cycle likely varies and may be based on terms negotiated at the time of on-boarding.

**Table 19: Commonly quoted payment cycles for different e-tailers**

S.No	E-tailer	Frequency of payment	Eligible for payment after
1	Snapdeal	Weekly	Delivery + 10 days
2	Amazon	Weekly	Delivery + 7 days, Dispatch + 7 days for FBA
3	Flipkart	Every 10 days	Delivery + 7 days
4	ebay	Twice weekly	Post delivery
5	Myntra	Monthly	Post delivery
6	Jabong	Monthly	Post delivery

Source: Jefferies

## #8 What about returns? Returns a key issue, particularly high for Cash on Delivery

Returns are particularly high for Cash on Delivery – over 50% of items are usually sold on CoD basis

Returns between 10 to 40% for apparels; 5 to 20% for electronics

Returned good sometimes not in good condition or come back after a lot of delay

High rate of returns emerged as a key issue for many of the vendors surveyed. Returns tend to be particularly high for sales made on Cash on Delivery basis (over 50% of online sales in India are CoD) with some respondents even indicating returns of more than 50% for such orders. The biggest reason for high returns on CoD seems to be that customers are not there to receive and pay for the order; in addition some customers are also ordering from multiple websites and accepting the one that reaches first.

Within categories returns are higher for apparels as compared to electronics. We found returns for apparels varying between 10 to 40%; for electronics, returns tend to be between 5-20%. Also within apparel, returns seem to be lower for small ticket items as compared to large ticket items.

Typically, in the vendor shipment model, the vendor is expected to arrange for the return while in the Vol or fulfilment by e-tailer models the e-tailer arranges for the return. If the return is due to some fault of the vendor, the vendor is expected to pay for the reverse pick-up whereas if the return is due to some issue on the part of the customer, the e-tailer bears the cost. However, vendors cited multiple issues on account of returns: 1> returned good is sometimes in damaged condition 2> sometimes, the customer uses the product for some time before returning it 3> in e-tailer fulfilled models, the e-tailer sometimes sends back the product with a lot of delay 4> in vendor shipment model, the e-tailer sometimes fails to compensate the vendor for cost of return shipment when the return is due to some issue on the customer's side

**Table 20: Comments on returns indicate that it is a key issue for vendors**

S.No	Category	Products	Selling on	Comments on Returns
1	Apparels	Women's western wear	Myntra, Jabong, Fashionara, Flipkart, Amazon	<b>Post-dispatch return rates is around 20-25%</b>
2	Apparels	Pop culture and licensed merchandise	Myntra, Jabong, Snapdeal, Flipkart	<b>Returns lower for small ticket items, high for others - anywhere between 10-40% across items and across sites</b>
3	Apparels	Organic niche products	Myntra, Jabong, Flipkart, Amazon	Return rates in general 10%; lower returns for smaller sites; higher for bigger ones
4	Apparels	Women's ethnic wear	Myntra, Jabong, Amazon, Snapdeal, Flipkart	Major issue is return of products; 25% earlier, now it has come down
5	Apparels	Organic baby clothes	First cry, Babyoye, Jabong, Myntra, Snapdeal, Flipkart, Amazon, ebay	Returns of 7 to 10%
6	Accessories	Footwear	Snapdeal, Flipkart	<b>30-40% returns; vendor pays if vendor at fault</b>
7	Books	Books	Amazon, Patym, Rediff, Shopclues	<b>Returns very high for CoD orders as customers are not there or if there is a delay they order it from some other place</b>
8	Electronics	Mobile Phones and Consumer Electronics	ebay, Snapdeal, Flipkart, Amazon	<b>Returns as high as 15-40% on CoD orders</b>
9	Electronics	Headphones, Earphones, Accessories	Snapdeal	<b>Returned products not in good condition</b>
10	Electronics	Mobiles, mobile accessories, laptop, tablets	Flipkart, Amazon, ebay	<b>Customers faking problems with product after using for few days and sites taking it back without protest</b>
11	Electronics	All kinds of IT products	Amazon, ebay, Snapdeal, Flipkart, Shopclues	5% return rate
12	Electronics	Gaming console and gaming software	Snapdeal, Amazon, Flipkart	Return rate is 15-20% now and is a key concern
13	Electronics	Mobile and tablet screen guards	Amazon, Flipkart, Snapdeal, Shopclues, Patym	<b>10-12% return rate; In all websites higher COD is equal to higher returns and cancellations</b>
14	Electronics	Home appliances, electronics, mobile phones	Amazon, Snapdeal, ebay, Groupon	Returns are high on CoD
15	Electronics	Lighting products	Snapdeal, Flipkart	Returns: 10-15 orders out of 90 orders returned in the last 3 months
16	Electronics + Toys	Toys+ Electronics	Flipkart, Snapdeal, Amazon, Homeshop18	Return of products are also a problem; up to 5% returns

**Table 20: Comments on returns indicate that it is a key issue for vendors**

S.No	Category	Products	Selling on	Comments on Returns
		Musical		
17	Instruments	Western musical instruments	Snapdeal, amazon, ebay	<b>50% return on one of the sites as most of it is COD</b>
18	Bean Bags	Bean Bags	Snapdeal, Amazon, Ebay, Shopclues	Returns 25-30%
19	Supplements	Supplements	Snapdeal, Amazon, Ebay, Flipkart	<b>Higher returns because of COD; 12-15% returns</b>

Source: Jefferies

**What is the cost of returns for vendors and marketplace operators?**

We do some basic analysis to understand the cost of returns for vendor and marketplace operators. Most couriers charge an additional fee for returns – for instance Delhivery charges 1.5x forward freight charges for reverse logistics; E-com Express charges Rs75 additional fees for reverse pickups. We have assumed that in 80% of the cases the marketplace bears the cost of return while in 20% cases it is borne by the vendor.

Our analysis shows that returns can increase seller costs by up to 4% (assuming seller bears only 20% of cost of returns and reduce marketplace revenues by up to 25%. It is positive for courier companies though.

**Table 21: Impact of returns on vendor and marketplace margins**

	Book	Apparel	Mobile	Laptop	Comments
Selling price (Rs)	498	1,695	9,745	28,130	
Selling fees (Rs)	78	297	559	1,592	
Fulfilment costs (Rs)	56	70	160	367	
Return cost (Rs)	21	26	60	138	Assuming 1.5x forward freight cost (as charged by Delhivery) and 20% returns
Selling costs w/o returns (% of selling price)	26.9	21.7	7.4	7.0	
Selling costs incl. returns (% of SP)	27.8	22.0	7.5	7.1	Assuming vendors pay for 20% of return
Marketplace take w/o returns (% of SP)	13.9	15.6	5.1	5.0	
Marketplace take incl. returns (% of SP)	10.6	14.4	4.6	4.6	Assuming marketplace pays for 80% of returns

Source: Jefferies

**Table 22: Sensitivity of seller costs and marketplace revenues to return rates**

Return rate (%)	Book	Apparel	Mobile	Laptop
	Increase in seller costs (%)			
10	1	1	1	1
20	3	1	2	1
30	5	2	3	2
40	8	4	4	4
50	13	6	7	6
Return rate (%)	Decline in marketplace take (%)			
10	(11)	(4)	(4)	(3)
20	(24)	(8)	(10)	(8)
30	(41)	(14)	(17)	(13)
40	(65)	(21)	(26)	(21)
50	(97)	(32)	(39)	(31)

Source: Jefferies

**#9 Discounts? Discounts by both; increasingly targeting app download and repeat purchase**

Discounts by both vendor and marketplace; latter's share usually adjusted in the commission

Vendors confirmed that discounts are being provided both by the vendor and the marketplace operators. Most vendors indicated that they often end up offering discounts on online sales either to participate in some promotional event being run by the e-tailer or due to competitive pressure from other vendors.

In addition, e-tailer also provides additional discounts which do not impact the vendor's take. This is interesting since technically, marketplace operators are not supposed to play a role in price setting. The discount given by the e-tailer is typically adjusted against commissions charged from the vendor.

Discounts by marketplace higher during events; increasingly targeting app downloads or repeat purchase

Based on vendor responses we found a few trends in discounting: 1> discounts from e-tailers tend to be higher during sales, major promotional events 2> marketplace operators are increasingly designing discounts to target mobile app downloads and increase customer loyalty and repeat purchase. Discounts linked to next purchase and

credits into customer accounts are becoming more prevalent compared to discounts on individual items. Some vendors also expressed concern that heavy discounting in online sales is affecting pricing in the offline market and eventually e-tailers will stop discounting and force vendors to share most of the burden of discounts.

**Table 23: Comments on discounts**

S.No	Category	Selling on	Comments on discounts
1	Apparels	Myntra, Jabong, Fashionara, Flipkart, Amazon	E-tailers give discounts from their own pockets sometimes.
2	Apparels	Myntra, Jabong, Snapdeal, Flipkart	Snapdeal shares the discounts but for others we have to pay for the discounts
3	Apparels	Myntra, Jabong, Fashionandyou, ebay, Amazon, Flipkart, Snapdeal	Myntra forces us to give discounts and also gives a discount of out of their commission
4	Apparels	Myntra, Jabong, Snapdeal, Flipkart, Amazon	<b>Discount is generally shared between vendor and e-tailer</b>
5	Apparels	Jabong, Limeroad, Myntra, Snapdeal, Flipkart	<b>Discounts are shared between vendor and e-tailer; Myntra, Jabong share a part of the higher commission with customers</b>
6	Apparels	Jabong, Myntra, Snapdeal, Flipkart, Amazon	E-tailer can give additional discount but we have to approve
7	Apparels	Myntra, Jabong, Flipkart, Amazon	Significant discounting going on from both vendor and e-tailer side in online sales
8	Apparels & accessories	Myntra, Jabong, Amazon, Snapdeal, Flipkart	<b>Discounts are shared between e-tailers and vendors</b>
9	Books	Amazon	We have to bear discounts but there is no compulsion - we do not participate in large 60-70% discounts
10	Books	Amazon, Patym, Rediff, Shopclues	<b>Flipkart is giving heavy discounts from their commission - difficult to compete with them</b>
11	Electronics	Amazon, ebay, Snapdeal, Flipkart, Shopclues	Discounts are given by marketplace only; we get commission on our given price
12	Electronics	Snapdeal, Amazon, Flipkart	<b>Right now e-tailers also bearing discounts as they are in promotion mode but eventually we will have to bear it</b>
13	Electronics	Flipkart, Snapdeal, Amazon, Homeshop18	Discount shared between vendor and e-tailer currently but eventually the vendors will only have to bear it
14	Electronics	Amazon, Snapdeal, ebay, Groupon	E-tailers increasingly giving discounts in the form of gift coupons rather than on the price
15	Health & Personal care	Snapdeal, Amazon	Promotional offer by seller, Amazon only a facilitator

Source: Jefferies

**Chart 38: Promotional sales events by etailers**



Source: Jefferies



Chart 39: Discounts given in the form of coupons by etailers



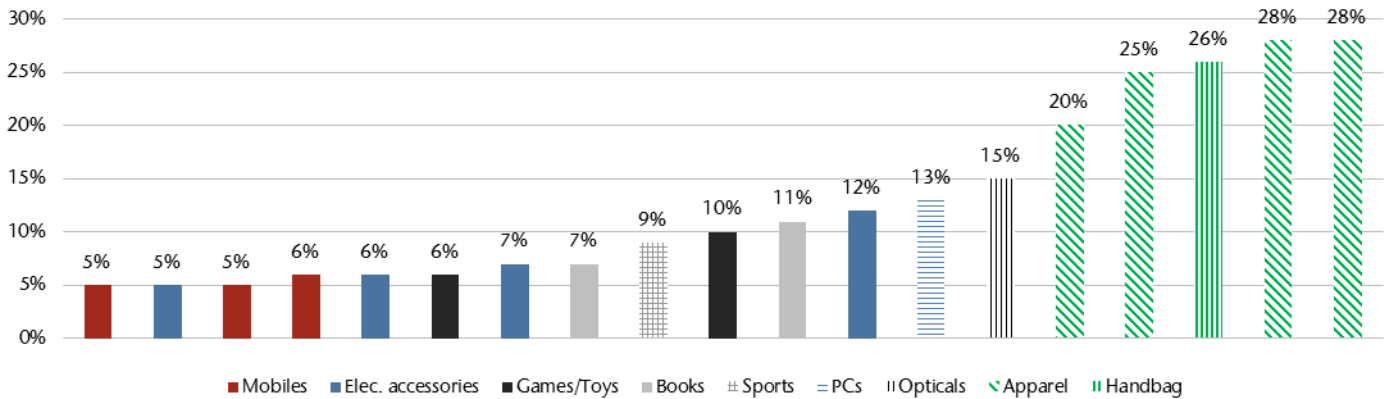
Source: Jefferies

### #10 Commissions? Category-wise, Highest for apparel, Higher on Snapdeal, Lower on Amazon

Commissions range from 4 to 20% - lowest for mobiles, highest for apparels

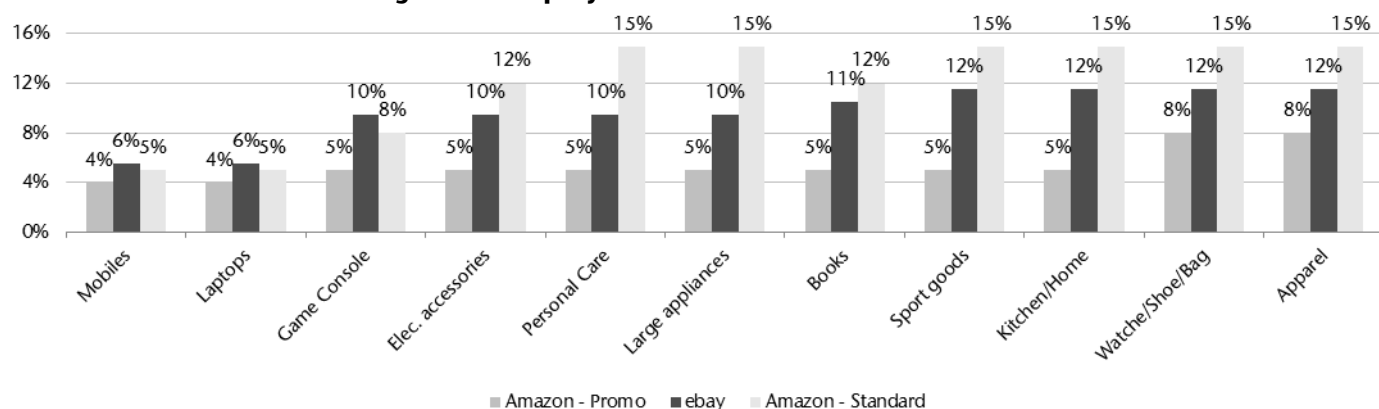
Commissions charged as a percentage of sales value is usually the most important part of the marketplace operator’s take and often the largest cost for vendors selling online. For most of the horizontal sites, we found sales commission varying in a range of 4 to 20% depending on the category. Commissions are typically lowest for items like mobiles and laptops and highest for apparels & accessories. Commission rates for IT products, mobile accessories and books lie in between. Amazon and ebay’s seller sites give details of category-wise margins which by and large match with our survey responses.

Chart 40: Commission across categories – survey responses



Source: Jefferies

**Chart 41: Commissions across categories – company seller sites**



Source: Jefferies, company data

Commissions currently lower on Amazon due to promotional rates till FY15 end

Many vendors indicated that commissions charged are slightly lower for Amazon. This is likely due to lower promotional commission rates being offered by Amazon currently. In fact Amazon’s seller site clearly states a standard commission rate and a promotional commission rate with most of the promotional rates running till FY15 end. We suspect though that given Amazon’s focus on scaling up significantly over the next 12-18 months, it may continue with the promotional rates for longer. Amazon’s standard rates though are slightly higher than that of ebay for different categories – ebay’s highest commission rate of 11.5% whereas for Amazon the highest commission is ~15%.

**Table 24: Amazon is offering low commissions as part of its introductory promotional rate**

Category	Promotion End Date	Promotional Rate	Standard Rate	ebay Rate
Electronics - PC	31-Mar-15	4%	5%	5.5%
Mobile Phones and Tablets	31-Mar-15	4%	5%	5.5%
Electronics - Device	31-Mar-15	5%	8%	6.5%
Video Games - Console	31-Mar-15	5%	8%	5.5%
Books	31-Mar-15	5%	12%	10.5%
Movies	31-Mar-15	5%	12%	10.5%
Music	31-Mar-15	5%	12%	10.5%
Video Games - Games	31-Mar-15	5%	12%	9.5%
Accessories (Electronics, PC, Mobile and Tablet)	31-Mar-15	5%	12%	9.5%
Fashion Jewellery	31-Mar-15	8%	15%	14.5%
Watches	31-Mar-15	8%	15%	11.5%
Luggage	31-Mar-15	8%	15%	11.5%
Handbags	31-Mar-15	8%	15%	11.5%
Apparel	30-Apr-15	8%	15%	11.5%
Eyewear	30-Apr-15	8%	15%	11.5%
Shoes	30-Apr-15	8%	15%	11.5%
Baby Products	31-Mar-15	5%	15%	11.5%
Beauty	31-Mar-15	5%	15%	6.5%
Health & Personal Care	31-Mar-15	5%	15%	9.5%
Personal Care Appliances	31-Mar-15	5%	15%	11.5%
Pet Supplies	31-Jul-15	5%	15%	n/a
Large Appliances	7-Oct-15	5%	15%	9.5%
Musical Instruments	19-Nov-15	5%	15%	11.5%
Gourmet	30-Oct-15	5%	15%	11.5%
Toys	31-Mar-15	5%	15%	11.5%
Sporting Goods	31-Mar-15	5%	15%	11.5%
Kitchen	31-Mar-15	5%	15%	11.5%
Home	31-Mar-15	5%	15%	11.5%
Office Products	4-Dec-15	5%	15%	10.5%

Note: Commissions for ebay include 4.5% Paisa Pay charges as over 90% of transactions use PaisaPay; Source: Jefferies, company data

Commissions highest on Snapdeal amongst horizontal sites

Vendors also indicated that amongst the horizontal sites, commissions are slightly higher for Snapdeal for the same product. It will be interesting to see if Snapdeal can continue to charge higher or whether increased competition will lead to lower rates over time.



Myntra/Jabong charge 35 to 40% commission but not much else

Commissions charged by vertical apparel focussed sites like Jabong and Myntra are higher at 35 to 40% but these sites do not levy any additional charges for shipment, returns, listing etc. and also seem to be more involved in customer experience and promotions.

Lastly even for the same products and same sites there seem to be some variation in commission rates which we believe is a function of negotiations.

**Table 25: Comments on commissions by electronics vendors**

S.No	Products	Selling through	Comments
1	Electronic, Toys	Flipkart, Snapdeal, Amazon, Homeshop18	Amazon, Flipkart, ebay similar - Category % commission + Selling fee of Rs10 + Shipping charges (if free shipping given to customer); Snapdeal different - In Snapdeal every product is free shipping; so the vendor always has to pay the shipping fee
2	Mobile and tablet screen guards	Amazon, Flipkart, Snapdeal	Snapdeal - 15% + other charges like logistics of Rs50; Flipkart - 25% commission+ shipment charge + order closing fee of Rs5/order, Amazon - 15% now it was 5% last year as promotional commission was going on
3	All kinds of IT products	Amazon, ebay, Snapdeal, Flipkart, Shopclues	Ebay and Amazon are taking commission+ transaction charges of 5% fixed across products, so for electronics commission is 1% and total is 6%
4	Gaming console and gaming software	Snapdeal, Amazon, Flipkart	Commission: Amazon 5%+ tax; Flipkart 7% + tax; Snapdeal 2% for Software, 6% for hardware
5	Mobile phones	ebay, Snapdeal, Flipkart, Amazon	<b>Snapdeal charges highest commission, followed by Flipkart, amazon, ebay in that order</b>
6	IT products	ebay, Snapdeal, Flipkart, Amazon	Commission is around 6% for Amazon, Flipkart. It is lower on ebay and highest on Snapdeal
7	Mobile Phones and Consumer Electronics	ebay, Snapdeal, Flipkart, Amazon	<b>Commission is lowest on Amazon and slightly higher on Flipkart and Snapdeal</b>
8	Headphones, speakers, mobile accessories	Snapdeal, Amazon	<b>Commission range 10-15%, Snapdeal higher commission than Amazon</b>
9	Hard-drives, pen-drives, memory cards	Snapdeal, Flipkart, Amazon	<b>Snapdeal has highest commission, Amazon has the lowest. Amazon is actually running a 1 year promo plan till June 2015, they will increase it after that</b>
10	All kinds of IT products	Snapdeal, Flipkart, Amazon	Amazon charges less for large ticket items if using FBA but for vendor fulfilled commission is same for all
12	Mobile accessories	ebay	Not selling on Snapdeal because of very high commission of 20% compared to ebay's 10%

Source: Jefferies

**Table 26: Comments on commissions by apparel, accessories and other vendors**

S.No	Products	Selling through	Comments
1	Women's western wear	Myntra, Jabong, Fashionara, Flipkart, Amazon	Myntra & Jabong charge much higher commission than Flipkart, Amazon <b>Myntra &amp; Jabong charge flat 35-40% like offline sales model; Snapdeal, Flipkart 15-20% commission but other charges like delivery charges, penalty for out of stock.</b>
2	Pop culture and licensed merchandise	Myntra, Jabong, Snapdeal, Flipkart	<b>Myntra, Jabong have highest commissions of 40%; Amazon 6+4%; ebay 7+4%; Flipkart, Snapdeal 20%</b>
3	Men and Women's western wear	Myntra, Jabong, Fashionandyou, ebay, Amazon, Flipkart, Snapdeal	Jabong, Myntra charge higher commission because they give higher volumes, better advertising, better packaging, better logistics delivery within hours
4	Men and Women's western wear	Myntra, Jabong, Snapdeal, Flipkart, Amazon	<b>Commissions for Myntra, Jabong is 35 to 40%; for others it is 10-15% plus other costs takes it to 20-25%</b>
5	Organic baby clothes	Firstcry, Babyoye, Jabong, Myntra, Snapdeal, Flipkart, Amazon, ebay	Commission: Jabong, Myntra 35-40% ex of taxes; Snapdeal 15%+tax+ logistic charge, Flipkart 11% + tax+ logistic charges
6	Bags	Jabong, Limeroad, Myntra, Snapdeal, Flipkart	Commission: varies greatly from 14-45%; 55% charged by some small website and this does not include logistics cost
7	Jewellery	Snapdeal, Craftsville, Flipkart, Amazon, ebay	Commission varies from 7-10%, it is up for negotiation depending on volumes etc.
8	Sports apparels and equipments	Flipkart, Snapdeal, Amazon, Naaptol	<b>Commission: Myntra, Jabong 35-40%; Amazon, Flipkart 15-20%. Commissions are 11.5% on Amazon and 18% on Snapdeal; For the vendor profitability is higher with Amazon but volumes higher with Snapdeal</b>
9	Men and Women's western wear	Myntra, Jabong, Amazon, Snapdeal, Flipkart	Commission: 6-7% on books, fairly uniform across sites
10	Opticals	Snapdeal, Amazon	Profitability on Amazon better than Snapdeal for small ticket item like ours
11	Books	Amazon, Patym, Rediff, Shopclues	Commission on musical instruments: 7% across sites; Now reduced to 5.5% but there are hidden charges and penalties
12	Medical patch	Snapdeal, Amazon	Commission: 15% for Snapdeal, Amazon, ebay 12%
13	Western musical instruments	Snapdeal, Amazon, ebay	
14	Bean Bags	Snapdeal, Amazon, ebay, Shopclues	

Source: Jefferies

### China Case Study: Commission rates lower for Chinese marketplaces like Tmall and JD.com

Interestingly commission rates in India seem to be much higher than in China where both Tmall and JD.com are charging from 0.5% to 8% across categories. What remains consistent though is the relative commissions between different categories – as in India, in China too, commissions are highest for apparel, lowest for electronics & computers and somewhere in between for other categories.

**Table 27: Commissions on Tmall and JD.com**

	JD.com	Tmall
Apparel	8%	5%
Shoes	8%	5%
Home furniture	8%	2%-5%
Household goods	6%-8%	2.5%-5%
Electronics & computers	6%	2%
Mother, baby products & toys	3%-8%	2%-5%
Handbags & Suitcases	8%	5%
Cosmetics & beauty products	5%	4%
Food	3%-5%	1%-2%
Nutritional supplements	6%	3%

**Table 27: Commissions on Tmall and JD.com**

	JD.com	Tmall
Sports	5%-8%	5%
Outdoors	9%	2%-5%
Auto accessories	3%-6%	0.5%-3%
Jewellery	1%-8%	0.5%-5%
Local lifestyle service	n.a.	0.5%-2%
Virtual goods	n.a.	0.5%
Books & audible	n.a.	2%

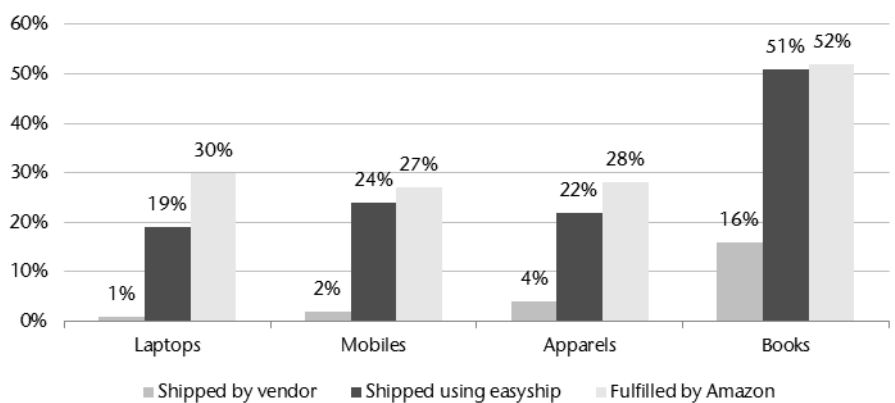
Source: Jefferies, company data

## #11 Fee structure & overall cost? Non-commission fees account for up to 30% of total fees charged

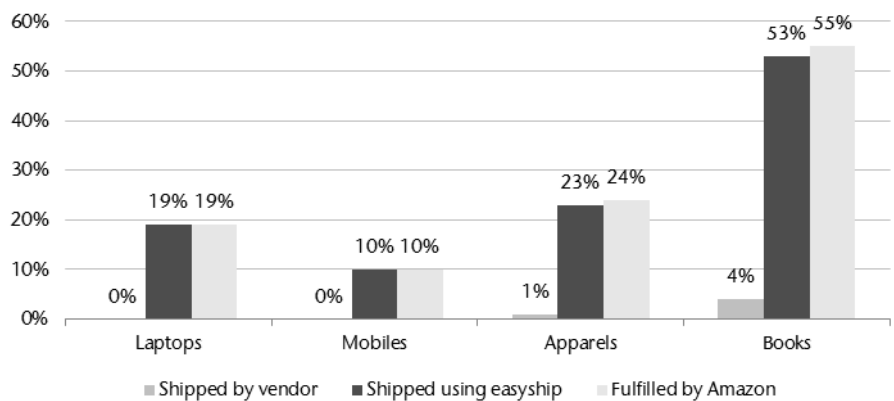
In addition to the commissions that are directly linked to the selling price, there are a number of other fees and charges that are levied by the market-place operators. Broadly these can be categorized into:

- 1> Selling fees
- 2> Fulfilment fees
- 3> Fees for value added services/subscriptions
- 4> penalties

We estimate that non-commission fees can account for up to 55% of the marketplace operators' take. Typically the share of non-commission fees is higher for higher involvement in the fulfilment process (highest for Vol model) and lower ticket size items (as these are often fixed in nature). Myntra and Jabong seem to be the exceptions and are charging only a commission (though as pointed out in the previous section, their commission rates are higher at 35-40%).

**Chart 42: Share of non-commission fees charged by Amazon**

Source: Jefferies, company data

**Chart 43: Share of non-commission fees charged by ebay**

Source: Jefferies, company data

Selling fees include commission, listing charge and selling charge

**1. Selling fees.** Selling fees usually form the biggest part of the marketplace operator's take and includes the commission charged on sales. In addition there are other elements to selling fees such as listing fee, charged for listing the item on the website and closing fee, which is a fixed charge when a product is sold. Based on our conversations with vendors we understand that listing fee is only charged by ebay and a fixed closing fee is only charged by Amazon and sites like Snapdeal and Flipkart are only charging a variable commission linked to the selling price of the product.

**Table 28: Key selling fees charged**

Fees charged	Fixed/Variable	Explanation
Listing fee	Fixed	ebay charges an "Insertion Fee" ranging from Rs2 to Rs 5 based on number of days product is listed
Closing fees	Fixed	On Amazon, sellers pay fixed fee of Rs. 10 on each item sold
Sales commission	Variable	Known as "Referral fee" on Amazon and "Final Value Fee" on ebay, it ranges between 5-15% on Amazon and 1-10% on ebay and is a % of selling price; This is the only selling fee charged by Snapdeal and Flipkart
Payment processing charge	Variable	Known as "PaisaPay Facility Charges" on ebay it is 4.5% of the selling price

Source: Jefferies, company data

**2. Fulfilment fees.** Fulfilment fees usually form the second largest part of the fees charged by the marketplace and depends on its involvement in the fulfilment process – for instance in the vendor fulfilled model where the item is directly shipped by the vendor using a courier of his choice, there is no fulfilment fees payable to the e-tailer. On the other hand, fulfilment fees payable to the marketplace is highest under the Vol model where the vendor pre-stocks his inventory at the e-tailers' warehouse.

**Table 29: Key fulfilment fees charged**

Fees charged	Fixed/Variable	Explanation
Cost of package	Fixed	Additional charge of Rs3-10 per order levied by some websites
Freight charges	Linked to weight, location	Fees are charged linked to weight of product and location of delivery
Delivery Service fee	Variable	Linked to value of product - 1% for Amazon "easyship", 0.5% for E-com express
CoD charges	Variable	No additional charges by Amazon and ebay as of now; 2-2.5% of value by courier companies
Return charges	Fixed plus variable	Usually at a premium over forward freight charges; 1.5x on Delhivery, Rs75 extra on Ecom Express

**Additional charges under Vol model**

Packing fee	Fixed	Charged for every unit that is sent out to the customer - Rs10-25/item on Amazon
Storage fee	Linked to volume	Based on daily average volume

Source: Jefferies, company data

**3. Fees for value added services/subscriptions.** E-tailing sites charge fees for value added services such as advertising, seller tools etc. In addition, sites like Amazon and ebay also charge a monthly subscription fee. These are mostly fixed in nature.

**Table 30: Fees for subscription and value added services**

Fees charged	Fixed/Variable	Explanation
Subscription fees	Fixed	Monthly subscription fee is Rs499 for both Amazon and ebay (optional on ebay); higher fees of up to Rs3999 on ebay for premium packages; Free on Snapdeal and Flipkart

**Table 30: Fees for subscription and value added services**

Fees charged	Fixed/Variable	Explanation
Seller Tool fees	Fixed	ebay charges up to Rs399 for different seller tools such as Selling Manager Pro and Seller Report Plus
Advertising fees/listing upgrades	Fixed	Additional fees for advertising or scheduled listings and other upgrades

Source: Jefferies, company data

**4. Penalties.** Most marketplaces charge the vendors a penalty as % of the sales value for non-fulfilment of orders due to the product not being in stock, defective items shipped or some other reason. This is usually between 2 to 3% of selling price. Vendors indicated that immediately updating all the sites for an out of stock item is not always feasible and can lead to penalties being levied and is an issue in selling online.

**Table 31: Structure of selling fees on Amazon**

Item	Standard rates			Promotional rates		
	Samsung Galaxy core	Samsung Galaxy core	Samsung Galaxy core	Samsung Galaxy core	Samsung Galaxy core	Samsung Galaxy core
Site	Amazon	Amazon	Amazon	Amazon	Amazon	Amazon
Seller Location	Delhi	Delhi	Delhi	Delhi	Delhi	Delhi
Buyer location	Mumbai	Mumbai	Mumbai	Mumbai	Mumbai	Mumbai
Selling method	Direct ship using own courier	Direct ship using Amazon Easy Ship	Fulfilled by Amazon	Direct ship using own courier	Direct ship using Amazon Easy Ship	Fulfilled by Amazon
List price	9,700	9,700	9,700	9,700	9,700	9,700
Delivery charge	45	45	-	45	45	-
<b>Price paid by buyer</b>	<b>9,745</b>	<b>9,745</b>	<b>9,700</b>	<b>9,745</b>	<b>9,745</b>	<b>9,700</b>
<b>Selling fees</b>						
Closing fee	11	11	11	11	11	11
Referral fee	547	547	545	438	438	436
<b>Subscription fees</b>						
Monthly subscription fee	1	1	1	-	-	-
<b>Fulfilment fees</b>						
Weight handling fees	-	51	51	-	34	22
Delivery service fee	-	109	109	-	-	109
Pick & pack fee	-	-	28	-	-	-
Storage fee	-	-	0	-	-	-
<b>Fees collected by e-tailer</b>	<b>560</b>	<b>720</b>	<b>745</b>	<b>449</b>	<b>483</b>	<b>579</b>
Service tax	69	89	92	56	60	72
<b>Fees ex-service tax</b>	<b>491</b>	<b>631</b>	<b>653</b>	<b>394</b>	<b>423</b>	<b>507</b>
% of list price	5.1	6.5	6.7	4.1	4.4	5.2
Courier charge borne by seller	119	-	-	310	-	-
<b>Amt. received by seller</b>	<b>9,066</b>	<b>9,025</b>	<b>8,955</b>	<b>8,986</b>	<b>9,262</b>	<b>9,121</b>
% discount on list price	6.5	7.0	7.7	7.4	4.5	6.0

Source: Jefferies, company data

**Table 32: Structure of selling fees on ebay**

Item	Non-shop subscriber			Shop subscriber		
	Samsung Galaxy core	Samsung Galaxy core	Samsung Galaxy core	Samsung Galaxy core	Samsung Galaxy core	Samsung Galaxy core
Site	ebay	ebay	ebay	ebay	ebay	ebay
Seller Location	Delhi	Delhi	Delhi	Delhi	Delhi	Delhi
Buyer location	Mumbai	Mumbai	Mumbai	Mumbai	Mumbai	Mumbai
Selling method	Direct ship using own courier	Direct ship using Power Ship	Direct ship using Power Ship	Direct ship using own courier	Direct ship using Power Ship	Direct ship using Power Ship
Features used	x	x	√	x	x	√
List price	10,175	10,175	10,175	10,175	10,175	10,175
Delivery charge	-	-	-	-	-	-
<b>Price paid by buyer</b>	<b>10,175</b>	<b>10,175</b>	<b>10,175</b>	<b>10,175</b>	<b>10,175</b>	<b>10,175</b>
<b>Selling fees</b>						
Insertion Fee	2	2	2	1	1	1
Final value fee	114	114	114	114	114	114
PaisaPay Facility charges	514	458	458	514	458	458
<b>Subscription fees</b>						
Monthly subscription fee	-	-	-	1	1	1
Feature Fees (Optional)	-	-	2	-	-	2
Seller Tool Fees (Optional)	-	-	1	-	-	1
<b>Fulfilment fees</b>						
PowerShip fees	-	62	62	-	62	62
<b>Fees collected by e-tailer</b>	<b>631</b>	<b>637</b>	<b>640</b>	<b>631</b>	<b>637</b>	<b>640</b>
Service tax	78	79	79	78	79	79
<b>Fees ex-service tax</b>	<b>553</b>	<b>558</b>	<b>561</b>	<b>553</b>	<b>558</b>	<b>561</b>
% of list price	5.4	5.5	5.5	5.4	5.5	5.5
Courier charge borne by seller	119	-	-	310	-	-
<b>Amt. received by seller</b>	<b>9,425</b>	<b>9,538</b>	<b>9,535</b>	<b>9,234</b>	<b>9,538</b>	<b>9,535</b>
% discount on list price	7.4	6.3	6.3	9.2	6.3	6.3

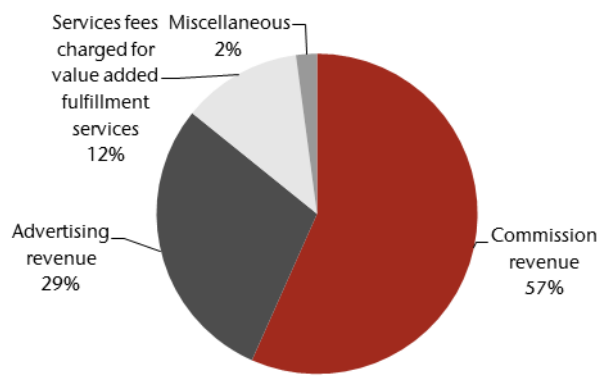
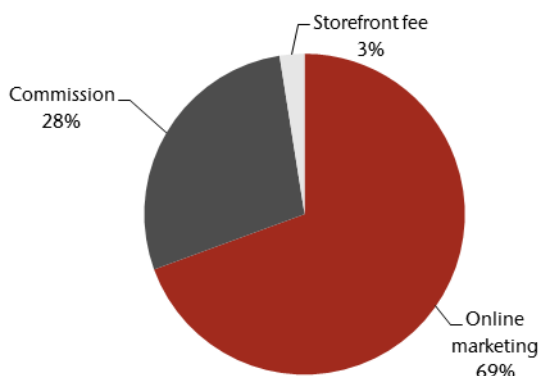
Source: Jefferies, company data

**China Case Study: Commissions much smaller part of overall revenues for Alibaba and JD.com**

Significantly higher contribution from advertising for Chinese e-tailers like Alibaba and JD.com

Interestingly for Chinese sites like Alibaba and JD.com, even in their marketplace platform, commission revenues are a much lower portion of their overall take. For Alibaba for instance commission revenues is less than 30% of marketplace revenues; for JD.com it is 57% in 2014 but is expected to decline going forward. For both the share of advertising revenues is much high. Based on our conversations with vendors, marketplaces in India do not seem to be earning much from advertising as yet.

**Chart 44: Alibaba Retail B2C China commerce revenue split - FY14**      **Chart 45: JD.com marketplace revenue split – 2014**



Note: Only B2C retail China commerce sales considered for Alibaba; Source: Jefferies, company data

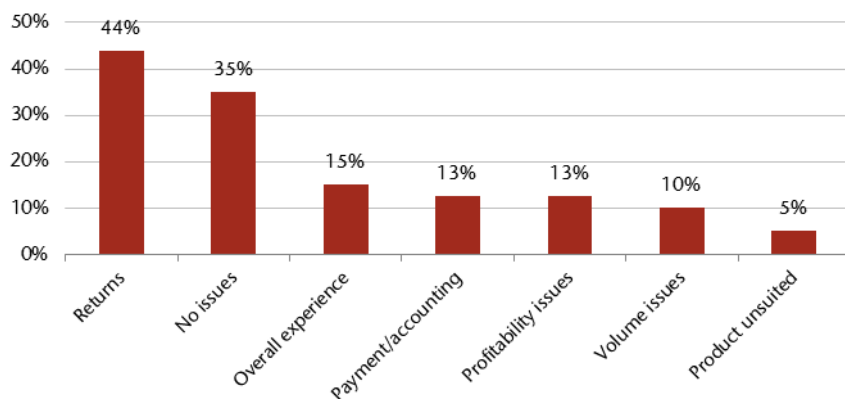
Note: Only marketplace revenues considered for JD.com; Source: Jefferies, company data

**#12 What are the key issues faced? Returns by far the biggest issue**

Returns by far the biggest issue for vendors in selling online

We also asked vendors about the issues faced by them in selling online. Returns emerged as by far the biggest issue. Also, nearly a third of the vendors surveyed indicated that they are not facing any major issues in selling online with any of the sites, which we believe is a fairly high number. About 5 to 15% of the vendors surveyed indicated other kinds of issues related to payments, volume traction, profitability and overall experience. We have already discussed the return related issues in a previous section. In this section we will focus on some of the other issues highlighted by the vendors.

**Chart 46: Returns emerged as the biggest issue faced by vendors in selling online**



Source: Jefferies

**Overall experience.** A few vendors reported difficulties in day to day dealings with market-place operators with the most common complaint being on co-ordinating pick-up. Also the cumbersome process of uploading inventory details on different sites also

appears to be an issue. However, we note that usually these problems are limited to only one of the marketplaces for most of the vendors.

**Payment/Accounting related issues.** Payment related issues reported by vendors centred on late payments and maintaining accounts while selling online. Some vendors reported delayed payments from the marketplace operators. Also a few vendors reported issues in accounting for online sales especially when discounts are given by the marketplace operators as in such cases the customer billing happens at the discounted price whereas the vendor gets a higher price. We understand that there may be issues related to appropriate service tax in such cases as well.

**Limited volume traction.** A few vendors are not happy with the volume traction they are getting from the online channel. These are mostly those with volume growth below 15% with two even reporting declining sales through online channel.

**Profitability issues.** While we have indicated earlier that almost 75% of the vendors surveyed reported lower margins in online selling as compared to offline selling, we found only a few vendors complaining about the high rates of commissions charged by online sites. Particularly for small ticket items, this seems to be a challenge given the high proportion of fixed charges related to fulfilment.

**Product not suited to online selling.** Some vendors indicated that specific products are not suited to online selling. For instance in case of screen guards for mobiles the customer wants the seller to put it on the mobile; also for high-end printers service contract details and warranties are better explained offline.

## Investment Ideas

### #1: Will Just Dial succeed as a marketplace?

#### **Just Dial (JUST IN, Rs1250, Buy) has launched a hyper-local marketplace as part of its Search Plus offering**

Just Dial has launched a hyper local market place that allows vendors to sell within the same city

Just Dial (JUST IN) has recently launched a market place like offering through the “Shop Online” feature which is a part of its Search Plus portfolio. This allows SMEs which are listed on Just Dial to also sell online through its platform. However, this is a hyper-local offering, meaning the SME delivers within the same city using his own delivery system - Just Dial has no involvement in the fulfilment. Currently, Just Dial is only allowing sales of electronics & appliances on its platform though management has indicated it intends to roll out more categories including apparels & accessories. The platform is enabled for 15 top cities across India, though our analysis indicates that for now there is reasonable depth of sellers only in top metros of Mumbai, Delhi and Bangalore.

#### **Fairly large number of sellers and competitive pricing due to its ability to tap into large vendor database**

Just Dial has very quickly got a fairly large vendor base making use of its massive data base of 15mn SMEs

In our recent report: **Mystery Shopping on Just Dial**, we found that pricing on Just Dial’s platform is fairly competitive compared to other popular market places like Amazon, Snapdeal and Flipkart at least for the top 3 cities. We also found that typically in market places there is a fairly high correlation between pricing and number of sellers – the higher the number of sellers for a product, the better the pricing is likely to be. Just Dial’s competitiveness in pricing is a result of the large number of sellers it has been able to get for many of the products. In fact for the 50 products analysed by us, Just Dial had the maximum number of sellers on 20 occasions compared to 27 for Snapdeal, 14 for Amazon and 4 for Flipkart. This is particularly creditable given that Just Dial has only recently launched its market place and each seller in Just Dial is specific to a particular city unlike other market places where the same seller can sell everywhere in India. The key seems to be Just Dial’s ability leverage its massive data base of nearly 15mn SMEs.

#### **Fulfilment is a key limitation for Just Dial’s model**

Fulfilment experience not as smooth compared to other marketplaces

Fulfilment is a key limitation of Just Dial’s model as management has indicated on several occasions that it does not intend to get into fulfilment. In our recent report we had indicated several concerns with Just Dial’s fulfilment from a customers’ perspective: 1> Vendors were unwilling to deliver to far off areas even in the same city despite no such restriction mentioned on the site 2> vendors are sometimes asking for additional delivery charges vs. what was mentioned 3> the process required significant intervention and co-ordination by Just Dial’s call centre.

For vendors as well will Just Dial give significant incremental volumes given its limited reach?

Post the survey, we believe absence of fulfilment is also an issue from the vendor’s perspective. As we indicated the biggest reason for vendors selling online seems to be volumes and additional reach. Just Dial’s model limits their reach to only intra-city demand. Moreover, delivery capacity is a key constraint - for instance during festive season when demand is likely to be high, managing delivery will be extremely tough.

#### **Surprisingly little overlap with vendors in our survey – a threat?**

Will Just Dial end up developing vendors for others?

As per our survey there seems to be surprisingly little overlap between online sellers in the key market places and those selling through Just Dial despite Just Dial reporting a fairly large number of sellers. We believe this is because Just Dial is tapping into a very different database of mostly small traditional retailers. We believe there is a risk that once these retailers get used to selling online using Just Dial’s platform they may start selling on other platforms, threatening Just Dial’s unique database advantage.

#### **Online Shopping for Just Dial could add up to Rs1,000 to fair value not in our current estimate, if it succeeds**

Currently Just Dial is not charging anything for those selling online through its platform. We understand from management that it will start monetizing Search Plus slowly with revenues likely only from 2HFY16 at the earliest. Also initially, it is likely to be a fixed



subscription model in line with their legacy business which may gradually be moved to a % commission model.

Our pro forma for Just Dial's market place is based on the following assumptions:

- E-tailing market in India will cross US\$50bn by FY20 from US\$5-6bn in FY15 and account for 6% of total retail sales
- Just Dial will have a 5-6% market share by FY20 of the total online market
- Just Dial will gradually move to a commission based model with take rates of 4-5% GMV (as charged by most market places for electronics products)
- Just Dial will have a EBITDA margin of 25% in this business by FY20
- Discount rate of 12.5% and terminal growth rate of 6%

Using these assumptions, we get a fair value for Just Dial's market place of US\$1.1bn (~Rs1000 per share) which is not currently factored into our price target and implies an upside of 80% to current market price of Rs1250.

**Table 33: Pro Forma for Just Dial's market place through Search Plus**

Rs mn	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E
India Retail market (US\$bn)	729	822	928	1,047	1,181	1,332	1,503	1,695	1,912
% online	2.0%	3.0%	4.0%	5.0%	5.5%	6.2%	6.8%	7.0%	7.3%
E-tailing GMV (US\$ bn)	14.6	24.7	37.1	52.3	64.9	82.6	102.2	118.7	139.6
% YoY	151	69	50	41	24	27	24	16	18
JD market-share (%)	2.0%	3.0%	4.0%	5.0%	6.0%	6.0%	6.0%	6.0%	6.0%
JD GMV (US\$mn)	292	740	1,485	2,617	3,896	4,955	6,131	7,119	8,375
<b>Revenue [A+B+C]</b>	<b>1,613</b>	<b>2,350</b>	<b>2,976</b>	<b>5,990</b>	<b>11,267</b>	<b>15,952</b>	<b>19,905</b>	<b>23,304</b>	<b>27,375</b>
% YoY	1139%	46%	27%	101%	88%	42%	25%	17%	17%
<b>Revenue (US\$ mn)</b>	<b>27</b>	<b>39</b>	<b>50</b>	<b>100</b>	<b>188</b>	<b>266</b>	<b>332</b>	<b>388</b>	<b>456</b>
Shop front fees [A]									
% of sellers having shop front	3	4	5	6	7	8	9	10	10
Shop front fees per campaign (Rs)	23,175	24,333	25,550	12,775	13,030	13,291	13,557	13,828	14,105
<b>Total Shop front fees [A]</b>	<b>246</b>	<b>455</b>	<b>749</b>	<b>495</b>	<b>746</b>	<b>1,087</b>	<b>1,513</b>	<b>1,946</b>	<b>2,249</b>
Subscription fees [B]									
Only Subscription fees per campaign (Rs)	19,312	20,278	21,292	10,646	10,859	11,076	11,297	11,523	11,754
Selling fees per campaign (Rs)	3,862	4,056	-	-	-	-	-	-	-
% of Paid who are also selling									
<b>Total Subscription fees [B]</b>	<b>1,367</b>	<b>1,895</b>	-	-	-	-	-	-	-
Take rates (%)	-	-	2.5	3.5	4.5	5.0	5.0	5.0	5.0
<b>Total Commission on Sales [C]</b>	-	-	<b>2,227</b>	<b>5,495</b>	<b>10,520</b>	<b>14,865</b>	<b>18,392</b>	<b>21,358</b>	<b>25,126</b>
<b>Costs for Shopfront</b>									
Technology and Content	52	100	172	119	179	261	363	467	540
Sales and Marketing expenses	98	182	300	198	298	435	605	778	900
General and administrative expenses	47	82	127	79	119	174	242	311	360
<b>Costs for Selling business</b>									
Technology and Content	451	569	668	1,511	2,630	3,345	3,127	3,631	4,271
Sales and Marketing expenses	889	1,137	1,225	2,473	4,208	4,831	4,598	5,340	6,282
General and administrative expenses	438	474	557	962	1,052	1,189	1,471	1,709	2,010
<b>EBITDA - Shop front</b>	<b>49</b>	<b>91</b>	<b>150</b>	<b>99</b>	<b>149</b>	<b>217</b>	<b>303</b>	<b>389</b>	<b>450</b>
<b>EBITDA - Selling</b>	<b>(410)</b>	<b>(284)</b>	<b>(223)</b>	<b>550</b>	<b>2,630</b>	<b>5,500</b>	<b>9,196</b>	<b>10,679</b>	<b>12,563</b>
<b>Total EBITDA</b>	<b>(361)</b>	<b>(193)</b>	<b>(73)</b>	<b>649</b>	<b>2,779</b>	<b>5,717</b>	<b>9,499</b>	<b>11,068</b>	<b>13,013</b>
<b>EBITDA margin (%)</b>	<b>-22.4%</b>	<b>-8.2%</b>	<b>-2.4%</b>	<b>10.8%</b>	<b>24.7%</b>	<b>35.8%</b>	<b>47.7%</b>	<b>47.5%</b>	<b>47.5%</b>
EBIT	(361)	(193)	(73)	649	2,779	5,717	9,499	11,068	13,013
Adjusted tax	(108)	(58)	(22)	195	834	1,715	2,850	3,320	3,904
<b>NOPLAT</b>	<b>(253)</b>	<b>(135)</b>	<b>(51)</b>	<b>454</b>	<b>1,946</b>	<b>4,002</b>	<b>6,649</b>	<b>7,748</b>	<b>9,109</b>
Capex	327	344	361	325	292	263	237	213	149
WC investment	(231)	(162)	(113)	(91)	(73)	(58)	(46)	(37)	(37)
Depreciation	-	-	-	-	-	-	-	-	-
<b>Net Investment</b>	<b>96</b>	<b>182</b>	<b>248</b>	<b>234</b>	<b>220</b>	<b>205</b>	<b>190</b>	<b>176</b>	<b>112</b>
<b>FCF</b>	<b>(349)</b>	<b>(317)</b>	<b>(299)</b>	<b>220</b>	<b>1,726</b>	<b>3,797</b>	<b>6,459</b>	<b>7,572</b>	<b>8,997</b>
Terminal growth rate	6%								
Discount rate	13.0%								
PV of explicit forecast period	(557)								

**Table 33: Pro Forma for Just Dial's market place through Search Plus**

Rs mn	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E
PV of 1st growth phase	866								
PV of 2nd growth phase	20,263								
PV of terminal value	48,955								
<b>Total equity value</b>	<b>69,527</b>								
# of shares (mn)	70								
<b>Fair value (Rs/share)</b>	<b>988</b>								

Source: Jefferies estimates, company data

**Table 34: Sensitivity of fair value to market share and take rate**

Take Rate (%) ^ ---->	Market Share --->				
	Rs/share	5%	6%	8%	10%
4	667		797	1,057	1,316
5	827		<b>988</b>	1,312	1,635
6	986		1,179	1,566	1,953
7	1,145		1,371	1,821	2,272

Source: Jefferies estimates, company data

## #2: Courier companies a key way to play e-tailing

### Bluedart and Gati expect 50%+ growth in e-commerce related business

Courier companies are key beneficiaries of growth in online selling in India. Based on our conversation with the management of Blue Dart, we understand that currently, about 50% of the e-tailing market is handled by third-party couriers while the remaining 50% is handled by in-house couriers of the e-tailing companies. Flipkart and Amazon for instance have their own couriers viz. Ekart and Amazon Logistics Services respectively.

Bluedart (BDE IN, NC) and Gati (GTIC IN, NC) are two large listed courier companies in India. For Bluedart, e-commerce related services accounts for close to 15% of its revenues while for Gati, it is 5% of its revenues. For both these companies e-commerce is a key growth driver – Bluedart management expects its e-commerce related business to increase at 50%+ cagr over the next 5 years; Gati management expects e-commerce business to touch Rs1bn in FY15 against Rs620mn in FY14, a YoY increase of 60%.

We understand that both Bluedart and Gati are planning more initiatives in e-commerce related services. Bluedart for instance is considering setting up and managing fulfilment and consolidation centres for e-commerce companies; Gati has delivery capacity of 30,000 shipments per day for ecommerce business and is looking to expand it further. It currently has 600 bikers for the last mile network and has setup 10 E-pack centres. It is also planning to have 90 E-logistics outlets and 19 E Fulfilment centres as part of its ecommerce expansion plans. Management has recently approved a plan to raise Rs1.2bn for expanding its ecommerce business.

**Table 35: Snapshot of Bluedart and Gati**

	Blue Dart	Gati
Bloomberg ticker	BDE IN	GTIC IN
Mkt-cap (US\$bn)	2.8	0.3
Revenues (Rs mn) in FY14	19,383	14,888
EBITDA (Rs mn) in FY14	1,741	1,122
EBITDA margin (%)	9.0	7.5
Net profit (Rs mn) in FY14	1,226	378
Share of e-commerce business (%)	15	5
Employees	8,000	5,000
Fleet of Vehicles	8,685	4,500

Source: Jefferies, company data

### Reverse logistics, CoD additional sources of revenue for couriers in e-commerce business

In addition to high growth, e-commerce is also likely to be a more profitable business for courier companies due to features such as cash on delivery and reverse logistics.

- Cash on delivery accounts for over 50% of e-tailing transactions in India. Courier companies usually charge anywhere between 1-3% of the value of the item as CoD charges

Both Bluedart and Gati expect e-commerce business to grow at 50-60% and be the key growth driver

E-commerce business also likely to be more profitable due to features such as CoD and returns

- Also payment from the courier to the e-tailer for CoD shipments usually happens with a lag which should also be positive for working capital cycle of courier companies
- As revealed in our survey, high returns, particularly on CoD items, is a key problem faced by vendors selling online. Courier companies usually charge a premium for handling reverse logistics
- E-commerce is also likely to lead to higher value items. Many couriers charge an additional fee linked to the value of the item for higher value products

**Table 36: Additional revenues from e-tailing shipments**

Item	Charges
CoD charges	2% of value for Delhivery, 2.5% of value for Ecom Express,
CoD remittance	Once a week for Delhivery
Reverse logistics	1.5x forward freight charges for Delhivery, Rs75 per shipment additional for Ecom Express
Valuable cargo handling charges	0.5% of value of product for value above Rs5000 for Ecom Express

Source: Jefferies estimates, company data

**Stocks have re-rated over the last 12 months but higher valuation benchmark of e-tailing focussed courier companies could help**

We note that both Blue Dart and Gati have outperformed the market significantly over the last 12 months and have undergone appreciable valuation re-rating due to their unique positioning as proxies to investing in e-commerce through listed markets.

**Table 37: Valuation table for courier companies**

Company Name	Bloomberg ticker	CMP (lcy)	Rating	TP (lcy)	Mkt Cap (US\$bn)	P/E			P/B			EV/EBITDA		
						FY15	FY16	FY17	FY15	FY16	FY17	FY15	FY16	FY17
Bluedart	BDE IN	7,168	NC	n.a.	2.8	105.5	83.8	69.0	24.7	22.9	18.7	78.5	60.1	50.2
Gati	GTIC IN	235	NC	n.a.	0.3	45.8	33.3	n.a.	2.5	2.3	n.a.	12.9	10.8	n.a.
Fedex Corp	FDX US	170	NC	n.a.	48.2	18.9	15.4	13.4	2.9	2.6	2.2	7.2	6.3	5.7
United Parcel	UPS US	99	NC	n.a.	89.8	20.9	19.2	17.3	14.7	19.2	18.5	10.7	10.1	9.4
Singapore Post Ltd	SPOST SP	2	NC	n.a.	3.0	27.4	24.3	21.2	5.0	4.8	4.3	18.7	16.8	15.6

Source: Bloomberg, Jefferies. Prices as of 10<sup>th</sup> March 2015

\*FY15 Indicates year ending 31<sup>st</sup> Dec 2014/31<sup>st</sup> March 2015/30<sup>th</sup> June 2015

The size of opportunity in e-commerce logistics and its unique features such as high CoD and reverse logistics has also led to the emergence of many new e-commerce focussed logistics companies such as Delhivery, E-com Express and Quickdel Logistics. Fund raising by these companies in private markets could lead to higher valuation benchmarks for the e-commerce business of listed companies like Bluedart and Gati and would be key to look out for in our view.

**Chart 47: Ecommerce dedicated logistics players**

Source: Jefferies estimates, company data

### #3: Many foreign listed companies have investments or businesses in Indian e-commerce

Many foreign companies are either directly present in Indian e-commerce sector (Amazon, ebay) or have invested in Indian e-commerce companies (Softbank, Naspers, Rocket Internet, Alibaba). While for most of these companies their India business or India investments are still relatively small and is typically less than 5% of their market cap, we believe India represents a massive growth opportunity for these companies and we expect the contribution of Indian e-commerce to their overall value to rise manifold over the next 4-5 years.

**Table 38: Summary of foreign companies' investments in Indian e-commerce**

Investor Company	Naspers	Amazon	Softbank	Rocket Internet	ebay	Alibaba
Investee Company	Flipkart	Amazon India	Snapdeal	Jabong	Snapdeal	Paytm
Valuation of investee Company (US\$bn)	11.0	2.0	3.0	0.6	3.0	2.3
% stake held	17%	100%	21%	21%	9%	25%
Value of stake (US\$bn)	1.9	2.0	0.6	0.1	0.3	0.6
Market Cap of Investor Company	62	177	74	9	73	204
<b>% of market cap</b>	<b>3.0%</b>	<b>1.1%</b>	<b>0.8%</b>	<b>1.4%</b>	<b>0.4%</b>	<b>0.3%</b>

Source: Jefferies, company data

#### Softbank (9984 JP, CMP: JPY6932, Buy, PT: JPY12,200) – Over 20% stake in Snapdeal

Softbank has over 20% stake in Snapdeal

In October, 2014, Softbank invested US\$627mn in Snapdeal. Media reports suggest that the post-money valuation of Snapdeal was US\$3bn which would imply Softbank's stake of 21%. Recent media reports indicate that Snapdeal is looking to raise US\$400mn at a post-money valuation of US\$5bn. If Softbank does not participate in this round, its stake in Snapdeal would be worth close to US\$1bn (for 19% stake). Apart from Snapdeal, Softbank has also invested US\$210mn in Ola Cabs at a post-money valuation of nearly US\$1bn implying a stake of 20-25%.

Softbank CEO Masayoshi Son has announced that he plans to invest JPY1tn (US\$8.5bn) mainly in Indian e-commerce and telecom. He said: "To us, India looks very much like China, where we began actively investing 10 years ago. Lots of people were sceptical when we invested in Alibaba Group Holdings, a Chinese e-commerce company...More than 10 years have passed, and we are now starting to reap bountiful rewards from it. In this respect as well, India is an extremely exciting market."

**Table 39: Softbank's investments in Indian e-commerce**

Date	Company	Amt invested (US\$mn)	Comments
Jul-12	Hike	n/a	P2P messaging app with ~35mn users as of August, 2014
Oct-14	Snapdeal	627	Leading pure market-place valued at post-money valuation of US\$3bn
Oct-14	Ola Cabs	210	Leading cab aggregator valued at post-money valuation of US\$1bn
Dec-14	Housing.com	90	Online real estate classifieds site

Source: Jefferies, company data

#### Naspers (NPN SJ, CMP: ZAR1,68,016, Buy, PT: ZAR1,70,000)- Significant stake in Flipkart

Naspers has close to 18% stake in Flipkart

Naspers owns significant stake in Flipkart estimated at close to 18% and is the second largest shareholder after Tiger Global. Post its most recent fund raising in December, 2014, Flipkart is reported to be valued at US\$11bn which would value Naspers' stake at close to US\$2bn. Naspers has invested in Flipkart in several rounds starting in 2012.

**Table 40: Naspers has invested in Flipkart in multiple rounds**

Date	Amt invested (US\$mn)	Other investors
Aug-12	150	Tiger Global
Jul-13	200	Accel Partners, Tiger Global, ICONIQ Capital
May-14	210	DST Global, Tiger Global, Iconiq
Jul-14	1,000	Tiger Global, Singapore's GIC, Accel Partners, DST Global, ICONIQ Capital, Morgan Stanley Investment Management and Sofina
Dec-14	700	Qatar Investment Authority, T Rowe Price, Steadview Capital, Greenoaks Capital Management, Baillie Gifford, Iconiq Capital, GIC, Tiger Global, DST Global

Source: Jefferies, company data

In addition to Flipkart, Naspers has also invested in a number of other Indian e-commerce companies such as Olx, Ibibo and PayU.

**Table 41: Naspers investments in Indian e-commerce**

Company	Naspers stake	Comments
Ibibo	80%	Ibibo is an online travel group and owns sites like goibibo, redbus and travelboutiqueonline
PayU	100%	PayU is an online payment facilitator
Olx India	n/a	Online classifieds site mainly for selling used goods

Source: Jefferies, company data

Amazon has committed to invest US\$2bn in its India business and is scaling up aggressively

### Amazon (AMZN US, CMP: US\$370, Buy, PT: US\$400) – US\$2bn investments planned in India

Amazon launched its India specific website Amazon.in mid 2013. Since then it has scaled up very fast. Jeff Bezos, founder of Amazon, announced in July, 2014 that the company would invest US\$2bn in Its India business and said “At current scale and growth rates, India is on track to be our fastest country ever to a billion dollars in gross sales... We've never seen anything like it”. In India Amazon is mainly operating as a marketplace due to current restrictions on foreign investment in inventory based e-commerce. It has also been expanding its in-house logistics service in India with media reports indicating 6k employees in logistics already and plans to hire another 8k over the next 12 months.

### ebay (EBAY US, CMP: US\$59, Hold, PT: US\$55) – ebay India plus investments in Snapdeal

ebay has been in India since 2005. As of end FY14 it had 30k merchants selling annually and over 1.1mn live listings across 20 categories of products in Electronics, Lifestyle, Collectibles and Media verticals. In addition ebay has also invested in Snapdeal in multiple rounds.

**Table 42: ebay's investment in Snapdeal**

Date	Amt invested (US\$mn)	Other investors
Apr-13	75	Intel Capital, Saama Capital, ru-Net
Jun-13	50	Recruit Holdings, Intel Capital, ru-Net, Saama Capital
Feb-14	133	None

Source: Jefferies, company data

### Rocket Internet (RKET GR, CMP: EUR46, NC) – Jabong and other investments

Rocket Internet is the key investor in Jabong, the niche apparels & accessories e-tailing website. Our survey results indicated that apparel vendors are seeing very good volumes traction from niche sites in this segment like Myntra and Jabong. In addition Rocket Internet is also invested in other e-commerce sites in India such as FabFurnish and Foodpanda.

**Table 43: Rocket Internet's e-commerce investments in India**

Company	Rocket internet's stake	Comments
Jabong	21%	Jabong is India's leading online fashion retailer
Foodpanda	45%	Foodpanda is an online food delivery and takeaway marketplace present in 39 countries including India
Fabfurnish	26%	FabFurnish is a leading player in the online home décor segment in India

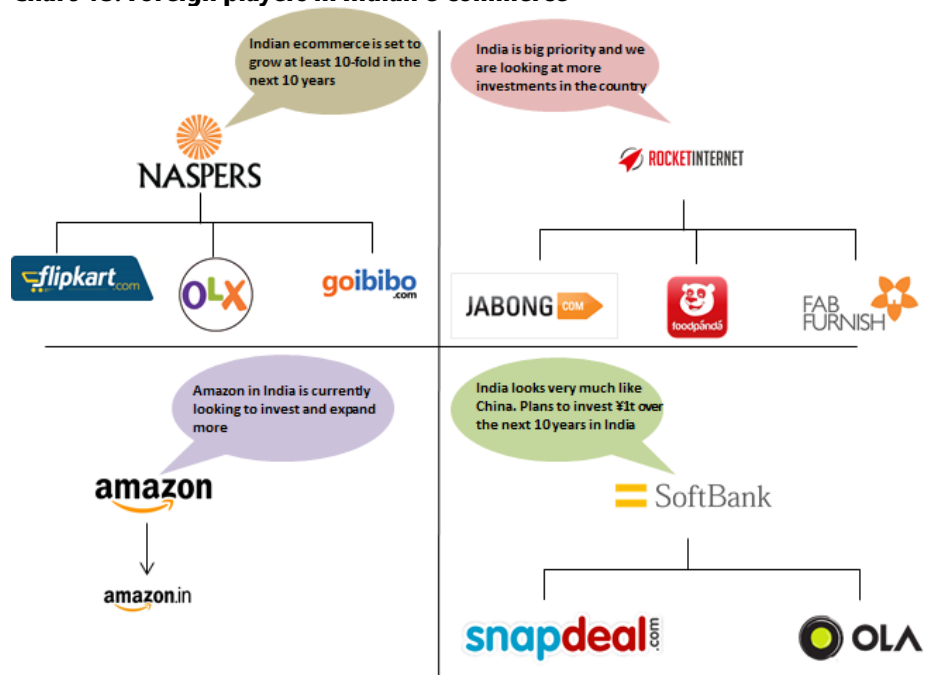
Source: Jefferies, company data

### Alibaba (BABA US, CMP: US\$83, Buy, PT: US\$118) – Recently invested US\$575mn in Patym

Alibaba recently committed to invest US\$575mn in Patym

Alibaba has also recently entered the Indian e-commerce market by acquiring close to 25% stake in Patym for US\$575mn as per media reports. Patym is primarily a mobile payment facilitator but has recently started its own online shopping platform as well. Alibaba founder Jack Ma has also indicated intentions to invest more in India.

Chart 48: Foreign players in Indian e-commerce



Source: Jefferies, company data

## #4: Offline Retailers likely to be negatively impacted

### Online sales a high proportion in mobiles, books and laptops; strong momentum in apparels

High proportion of books, mobiles, laptops and tablets are already being sold online

Growth of online shopping, presents a significant risk to offline retailers in our view. The key listed players in offline retailing in India are Future Retail, Pantaloon, Trent and Shopper's Stop. We understand that a high proportion (10-40%) of books, mobiles, tablets and laptops are already being sold online. While online sales of apparels is still low (less than 5%), our survey indicated that volume traction in online apparel sales is very high and online sellers are mainly brands, which raises risks that offline retailers could be significantly adversely impacted.

**Table 44: Category-wise revenue mix of offline retailers**

Company	Revenue mix
Trent	90% apparel & accessories, 10% books & gifts
Pantaloons Fashion & Retail	83% apparel, 17% non-apparel
Shoppers Stop	65% apparel, 35% non-apparel
Future Retail	20% apparel, 80% value

Source: Jefferies, company data

### Threat of rising online sales admitted by most offline retailers

Offline retailers have acknowledged the threat from rising online sales.

- **Pantaloons** for instance in its FY14 annual report observed: "Another significant competition entering the industry is online retailers. Apparel E-tailing is also gaining increasing traction on the back of factors like increasing time-poverty, changing lifestyles, convenience and flexibility of shopping from home".
- Similarly **Shoppers Stop** noted that "Online shopping is also in the early stages, with e-commerce sales not more than 1 percent of total retail sales, but growth is expected as more people access the Internet".
- **Trent** also writes in its annual report that "The books and music retail format is a format faced with increasing threats from the internet, which has resulted in decline

of the books and especially the music category wherein digital downloads have for the most part become the norm, including through mobile phone platforms”.

Exact volume impact of rising online sales on numbers of offline e-tailers is difficult to quantify for now as many of the e-tailers have also been hit by a weak economy. Empirical evidence suggests that margins are already getting impacted as online sellers are forcing offline retailers to give higher discounts and launch frequent sales.

#### Offline sellers also adapting to sell online

At the same time rise of online sales also presents some opportunities. Many offline sellers are also selling through the online channel. Trent for instance has been talking of selling through its online offering “landmarkonthenet.com”. Future Retail has also observed that “While online retailing has emerged as a key trend setter in shopping behavior, a look at the global top 50 e-retailers as compiled in Deloitte Global Powers of Retailing 2014 report shows that less than 5 of them are pure online retailers. The dominant players in technology-enabled commerce are physical retailers who are investing heavily in developing omni-channel strategies. While physical retailers retain their core competence in understanding consumer needs, sourcing efficiently, merchandising and in moving goods from producers to consumers, they are becoming platform-agnostic. They aim to become equally good on selling across platforms – whether these are physical stores, online, assisted commerce platforms, on television or outdoor medium, or on mobile platforms”.

**Table 45: Valuation table for Indian offline retailers**

Company Name	Bloomberg ticker	CMP (Icy)	Rating	TP (Icy)	Mkt Cap (US\$bn)	P/E			P/B			EV/EBITDA		
						FY15	FY16	FY17	FY15	FY16	FY17	FY15	FY16	FY17
Future Retail Limited	FRL IN	106	NC	n.a	0.6	415.5	30.4	16.8	0.8	0.8	0.7	n.a.	8.2	7.0
Shoppers Stop	SHOP IN	446	NC	n.a	0.6	282.0	63.1	33.7	7.5	7.1	6.2	22.5	16.3	12.0
Trent Limited	TRENT IN	1,471	NC	n.a	0.8	73.6	29.6	18.9	4.1	3.6	3.0	40.9	22.1	15.1
Pantaloons	PFRL IN	114	NC	n.a	0.2	n.a.	n.a.	n.a.	1.8	n.a.	n.a.	60.7	n.a.	n.a.

Source: Bloomberg, Jefferies. Prices as of 10<sup>th</sup> March 2015

\*FY15 Indicates year ending 31<sup>st</sup> Dec 2014/31<sup>st</sup> March 2015/30<sup>th</sup> June 2015



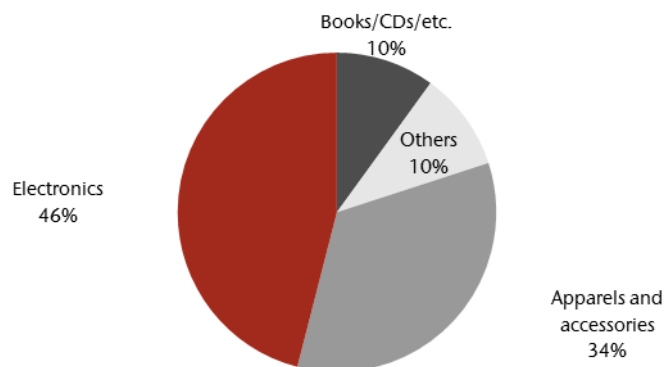
## Survey Methodology & Caveats

### Sample characteristics

#### Sample size and category-wise split

The survey sample size was ~50 vendors who are selling online through one or more websites. The sample included vendors across all categories and all locations across India. Since the majority of online sales happen in Electronics category followed by Apparels, we designed our survey to include more vendors from these two categories. 46% of the vendors surveyed were from Electronics category and 34% were selling Apparels and accessories. The “Others” category includes vendors selling diverse items such as musical instruments and medical items.

**Chart 49: Electronics and Apparel vendors made up majority of the sample set**

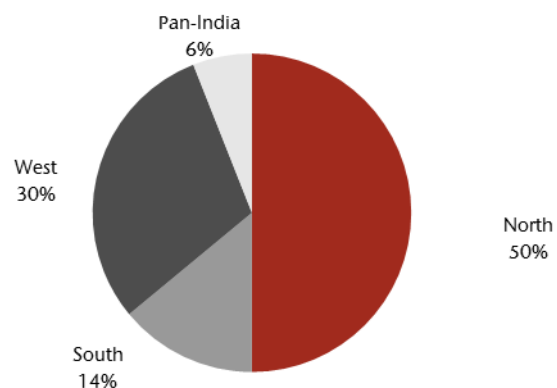


Source: Jefferies , [www.IndianOnlineSeller.com](http://www.IndianOnlineSeller.com)

#### Geographic distribution of vendors

The geographic distribution of the vendors in our survey was not so much intentional but more a reflection of the actual distribution of vendors on the e-tailing websites. We did try to include vendors from all the three 3 key business regions though, i.e. North, West and South India. 50% of the vendors surveyed were from North India while 30% and 14% of them were from West and South respectively.

**Chart 50: Electronics and Apparel vendors made up majority of the sample set**



Source: Jefferies, [www.IndianOnlineSeller.com](http://www.IndianOnlineSeller.com)

### Survey administration

#### Questionnaire for the survey

The questionnaire used for the survey consisted of multiple choice questions as well as some descriptive ones. It has close to 20 questions and typically took anywhere between 20 to 45 minutes to administer depending on the willingness of the vendor to share

information. The questionnaire went through a few iterations in the initial stages of the survey as we incorporated insights from the initial responses. For vendors who were willing to discuss everything in more detail, we did not restrict ourselves to this questionnaire.

## Chart 51: Questionnaire used

### Page 1

#### 1. Vendor basic information

- o Products sold \_\_\_\_\_
- o Manufacturer/Distributor/Retailer/Brand? \_\_\_\_\_
- o Location(s)? \_\_\_\_\_

#### 2. Proportion of online sales?

- a) <10% b) 10-40% c) 40-60% d) 60-80% e) >80%

Comments \_\_\_\_\_

#### 3. Through which websites are you selling?

- a) Flipkart b) Amazon c) Snapdeal d) eBay e) Myntra f) Jabong g) Any other

Comments \_\_\_\_\_

#### 4. Why are you not selling through the other websites?

\_\_\_\_\_

#### 5. Why are you selling through online channel?

- a) Better Profitability b) Main Channel c) Additional Volumes d) Any other

Comments \_\_\_\_\_

#### 6. Since when have you been selling through online channels?

- a) More than 3 years b) 1-3 years c) Less than a year

Comments \_\_\_\_\_

#### 7. Which fulfilment process are you employing for the different websites?

- a) Pre-stocking inventory b) Shipment by vendor c) Fulfilment by e-tailer d) Any other

S. No	e-tailer Name	Fulfilment process	Description	Comments
1				
2				
3				

#### 8. Rate of cancellation/return for products sold online?

- a) <5% b) 5-20% c) >20%

Comments \_\_\_\_\_

#### 9. On boarding experience with different e-tailers?

S. No	e-tailer Name	On boarding time	Issues faced
1			
2			
3			

Source: Jefferies

**Chart 52: Questionnaire used**

**Page 2**

**10. Commission rate and structure of different e-tailers?**

S. No	e-tailer Name	Commission Rate	Structure	Comments
1				
2				
3				

**11. Payment terms and conditions of different e-tailers?**

S. No	e-tailer Name	Payment cycle - Prepaid	Payment cycle - COD	Issues faced
1				
2				
3				

**12. How has online sales grown over the last year?**

a) 100%+ b) 30-100% c) 0-30% d) Negative growth

Comments \_\_\_\_\_

**13. User interface of different e-tailers?**

S. No	e-tailer Name	Ease of usage – Easy/Medium/Hard	Issues faced
1			
2			
3			

**14. Source of demand?**

a) >50% outside of metros b) <50% from metros c) ~50% from metros\*

Comments \_\_\_\_\_

\*Metros are Delhi, Mumbai, Kolkata, Chennai, Bangalore and Hyderabad

**15. How does pricing/discounting work?**

a) Discount given by vendor only b) Discount given by e-tailer only c) Discount given by both vendor and e-tailer

Comments \_\_\_\_\_

**16. Which website gives you the maximum volume?**

\_\_\_\_\_

**17. Key issues related to online selling?**

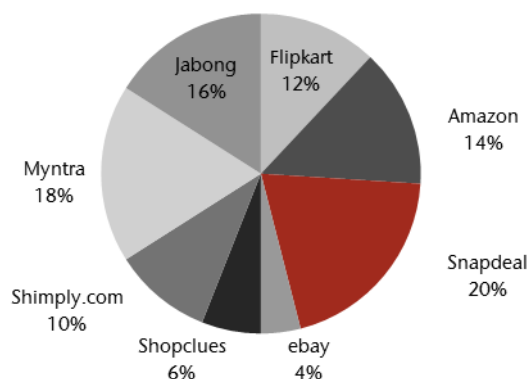
\_\_\_\_\_

Source: Jefferies

**Identification of vendors & Administration of survey**

We identified vendors from different e-tailer websites to avoid any biases. The final proportion of vendors from different websites was impacted by the responsiveness of the vendors. In general, smaller traditional retailers were less responsive as compared to pure online sellers and brands. For our sample size of 50 respondents, we had to reach out to nearly 350 vendors across India.

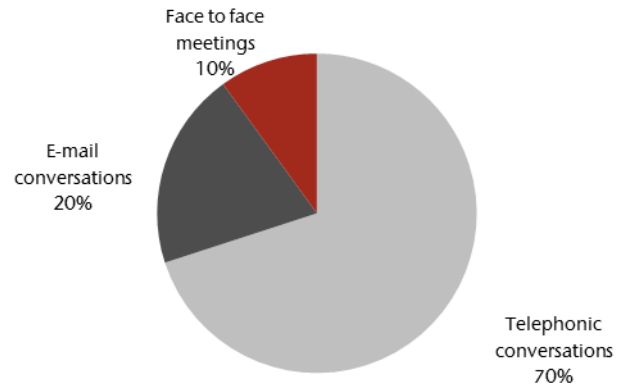
**Chart 53: We identified vendors from all the major e-tailer websites**



Source: Jefferies

The survey was mainly carried out over a period of two months in January and February, 2015. The survey was administered either over the phone by cold calling the vendors or via email. For a few we also did face to face meetings to collect their responses.

**Chart 54: Execution of survey mostly by cold calling vendors**



Source: Jefferies

## Caveats, biases & shortcomings

In this section we highlight some of the issues and biases in our survey that the reader should keep in mind while reading the takeaways.

- **Sample size.** The biggest caveat for the survey we believe is the sample size. Theoretically, a sample size of 500 is ideal in order to reduce the margin of error to below +/-5%. Our sample size of 50 leads to a margin of error +/-14%. We note that our sample size for individual categories like electronics and apparel is even lower leading to higher margins of error.
- **Category mix bias.** Many of the responses are very different depending on the category. As a result, the aggregate takeaways would be coloured by proportion of vendors from different categories. We have provided category-wise split in many places to try and show the significance of categories in those responses but the aggregate results need to be read keeping the mix bias in mind.
- **Vintage of sellers.** Some of the vendors surveyed by us have been selling online for less than 3 months. Their responses may be of relatively poor quality compared to those who have been selling for longer periods. However in our aggregation we have not accounted for this with any differential weights for sellers who have started selling online very recently.
- **Vendor selection.** While we selected vendors at random from all the key marketplaces, only 1 out of every 7 vendors we contacted was willing to participate in the survey. In general, smaller traditional retailers were less responsive as compared to pure online sellers and brands. This is likely to have had an impact on our sample set. Also we mainly surveyed vendors who spoke in either English or Hindi and thus missed out on vendors who only spoke a regional language.
- **Recency bias.** Recency bias is also likely to have played a role in some of the responses. For instance, responses to online sales growth and website giving maximum volumes may have been skewed by promotional events like “GOSF 2014” or “Flipkart Big Billion Day Sale” which happened recently.
- **Period on which response is based.** Vendors may have used different periods as the basis for their response to some of the questions such as proportion of sales, source of demand and growth in online sales.

- **Not revealing the truth with respect to sensitive information.** Comments on payment terms and commissions charged are competitive in nature so there can be understatement of these figures to camouflage advantageous positioning of the vendor.
- **Responses determined by one site.** In some of the cases, the responses might be biased in favour of a particular e-tailing site which is giving him the highest volumes and may not apply to all the sites.
- **Interpretation of processes.** There may have been some incorrect interpretations on process related queries (fulfilment, billing, discounting processes) particularly for respondents who did not give us adequate details in their responses.

### What our survey was not able to capture

- **Proportion of mobile transactions.** Our survey could not capture how much of the online orders are placed through mobile phones vs desktops as the vendors had no way to figure this out from their panels
- **Proportion of CoD transactions.** While some vendors did indicate that the proportion of CoD transactions across sites is over 50%, we did not get enough responses on this to reach any definite conclusion
- **Region-wide distribution of online sales.** We also could not capture a more precise region wise break up of demand for online goods in India as many of the vendors had not maintained records and did not have the break-ups

## Appendix 1: Commissions charged

**Table 46: Commissions charged by Amazon**

Category	Promotional Rate	Promotion End Date	Standard Rate
Electronics - PC	4%	31-Mar-15	5%
Mobile Phones and Tablets	4%	31-Mar-15	5%
Electronics - Device	5%	31-Mar-15	8%
Video Games - Console	5%	31-Mar-15	8%
Books	5%	31-Mar-15	12%
Movies	5%	31-Mar-15	12%
Music	5%	31-Mar-15	12%
Video Games - Games	5%	31-Mar-15	12%
Accessories (Electronics, PC, Mobile and Tablet)	5%	31-Mar-15	12%
Fashion Jewellery	8%	31-Mar-15	15%
Watches	8%	31-Mar-15	15%
Luggage	8%	31-Mar-15	15%
Handbags	8%	31-Mar-15	15%
Apparel	8%	30-Apr-15	15%
Eyewear	8%	30-Apr-15	15%
Shoes	8%	30-Apr-15	15%
Baby Products	5%	31-Mar-15	15%
Beauty	5%	31-Mar-15	15%
Health & Personal Care	5%	31-Mar-15	15%
Personal Care Appliances	5%	31-Mar-15	15%
Pet Supplies	5%	31-Jul-15	15%
Large Appliances	5%	7-Oct-15	15%
Musical Instruments	5%	19-Nov-15	15%
Gourmet	5%	30-Oct-15	15%
Toys	5%	31-Mar-15	15%
Sporting Goods	5%	31-Mar-15	15%
Kitchen	5%	31-Mar-15	15%
Home	5%	31-Mar-15	15%
Office Products	5%	4-Dec-15	15%

Source: Jefferies, company data

**Table 47: Commissions charged by ebay (4.5% payment fees is additional to this)**

Category	Sub category	Final Value Fees
Mobile Phones	All	1%
Mobile Accessories	All	5%
Laptops & Computer Peripherals	Desktop PCs, LCD / TFT Monitors, Laptops	1%
	Panel PCs (All in One), Printers/Scanners & Cartridges, CD / DVD Drives & Writers, Speakers, Webcams & Multimedia, Networking Equipment, Keyboard & Mouse, Computer Components, Software	2%
	USB Modem, Router & Networking, PC Tools & Laptop Accessories, Internet & Services, Laptop Batteries & Adapters	5%
Tablets & Accessories	iPads & Tablets	1%
	Rest	2%
Cameras & Optics	Digital Cameras, Film Cameras, SLRs, Binoculars	1%
	Microscopes, Camcorders, Digital Photo Frames, Telescope, SLR Camera Lenses	2%
	Camera, Camcorder Accessories, Other Optics	5%
LCD, LED & Televisions	TV Accessories	5%
	Rest	1%
Audio & Home Entertainment	Projectors & Accessories	1%
	Apple iPods, MP3 & MP4 Players, Portable Audio & Video, DVD & Blu-ray Players, DVD/ VCD Accessories, Home Audio, Head Phones, Head Sets, Home Theatre & Accessories,	2%
	Landline Phones, Batteries & Chargers, Batteries & Chargers, Apple iPod Accessories, MP3 Accessories & Everything Else	5%
	Rest	1%
Memory Cards, Pen Drives & HDD	All	1%
Home Appliances	Home Security Systems, Other Home Appliances	5%
	Rest	1%
Games, Consoles & Accessories	Gaming Accessories	5%
	Rest	1%
Clothing & Accessories	All	7%
Shoes	All	7%
Fragrance, Beauty & Health	Bath and Spa, Make Up, Deodorants, Nail Care & Polish, Shampoo, Powder & Talc, Toners & Astringents, Body and Skin Care, Hair Care, Shaving & Hair Removal	2%
	Health Care & Instruments	5%

**Table 47: Commissions charged by ebay (4.5% payment fees is additional to this)**

Category	Sub category	Final Value Fees
	Perfumes, Massage & Other, Wholesale Lots, Sexual Wellness	7%
Watches		7%
Jewellery & Precious Coins	Diamond Jewellery, Loose Diamonds, Fashion & Imitation Jewellery, Jewellery Storage & Cleaners, Loose Gemstones & Pearls, Men's Jewellery	10%
	Precious Metal Coins & Bars, Gold Jewellery	1%
	Sterling Silver Jewellery	7%
Home & Living		7%
Kitchenware, Dining & Bar		7%
Toys, Games & School Supplies		7%
Baby & Mom	Baby Bath, Grooming, Skin Care, Baby Food & Feeding Items, Baby Gift Packs, Baby Health & Safety	2%
	Rest	7%
Coins & Notes		7%
Stamps		5%
Collectibles		7%
Cars & Bike Accessories	All	7%
Fitness & Sports	All	7%
Books & Magazines		6%
Movies and music		6%
Stationery & Office Supplies	Office Electronics	5%
	Rest	7%
Tools & Hardware		7%
Musical Instruments		7%
ebay Daily		7%
Everything Else	FMCG	2%
	Rest	7%
Cars & Bikes		7%

Source: Jefferies, company data



## Appendix 2: Profiles of our Respondents

**Table 48: Profiles of respondents**

S.No	Category	Products	Type classification	Location	Selling through
1	Health & Personal care	Medical patch	Manufacturer	Delhi	Snapdeal, Amazon
2	Electronics	Mobile phones	Pure Online Retailer	Delhi	ebay, Snapdeal, Flipkart, Amazon
3	Apparels	Garments	Traditional Retailer	Ludhiana	Snapdeal, Flipkart
4	Electronics	Computers	Traditional Retailer	Hyderabad	Flipkart, Snapdeal
5	Sports Apparels	Sports apparels and equipments	Traditional Retailer	Mumbai	Flipkart, Snapdeal, Amazon, Naaptol
6	Electronics	IT products	Pure Online Retailer	Ghaziabad	ebay, Snapdeal, Flipkart, Amazon
7	Electronics	Mobile Phones and Consumer Electronics	Pure Online Retailer	Multiple	ebay, Snapdeal, Flipkart, Amazon
8	Opticals	Opticals	Pure Online Retailer	Bangalore	Snapdeal, Amazon
9	Books	Books	Wholesaler + Traditional Retailer	Delhi	Flipkart, Amazon
10	Books	Books	Wholesaler	Mumbai	Amazon
11	Electronics	Mobile and tablet accessories	Pure Online Retailer	Delhi	Flipkart, Amazon, Snapdeal, ebay
12	Electronics	Headphones, speakers and mobile accessories	Traditional Retailer	Mumbai	Snapdeal, Amazon
13	Electronics	Headphones, Earphones, Accessories	Traditional Retailer	Vadodara	Snapdeal
14	Musical Instruments	Musical instruments	Traditional Retailer	Delhi	Snapdeal, Amazon
15	Electronics	Hard drives, pen drives, memory cards	Pure Online Retailer	Bangalore	Snapdeal, Flipkart, Amazon
16	Electronics	All kinds of IT products	Traditional Retailer	Delhi	Snapdeal, Flipkart, Amazon
17	Electronics	Mobiles, mobile accessories, laptop, tablets	Traditional Retailer	Delhi	Flipkart, Amazon, ebay
18	Electronics	IT products	Wholesaler + Traditional Retailer	Delhi	Flipkart, Snapdeal, Amazon, ebay
19	Electronics	Home appliances, electronics, mobile phones	Wholesaler	Mangalore	Flipkart, Snapdeal
20	Apparels	Women's western wear	Online Brand	Gurgaon	Myntra, Jabong, Fashionara, Flipkart, Amazon
21	Apparels	Pop culture and licensed merchandise	Online Brand	Mumbai	Myntra, Jabong, Snapdeal, Flipkart
22	Apparels	Men and Women's western wear	Manufacturer + Online Brand	Gurgaon	Myntra, Jabong, Fashionandyou, ebay, Amazon, Flipkart, Snapdeal
23	Apparels	Men and Women's western wear	Online Brand	Noida	Myntra, Jabong, Snapdeal, Flipkart, Amazon
24	Apparels	Bags	Online Brand	Bangalore	Jabong, Limeroad, Myntra, Snapdeal, Flipkart
25	Apparels	Women's western wear	Online Brand	Delhi	Jabong, Myntra, Snapdeal, Flipkart, Amazon
26	Apparels	Organic niche products	Offline Brand	Mumbai	Myntra, Jabong, Flipkart, Amazon
27	Apparels and accessories	Kids wear	Offline Brand	Gurgaon	Jabong, Myntra, Patym, Flipkart, Amazon
28	Apparels and accessories	Men and Women's western wear and accessories	Offline Brand	Delhi	Myntra, Jabong, Amazon, Snapdeal, Flipkart
29	Apparels	Women's ethnic wear	Online Brand	Jaipur	Myntra, Jabong, Amazon, Snapdeal, Flipkart, Homeshop18
30	Books	Books	Traditional Retailer	Bangalore	Amazon
31	Electronics	All kinds of IT products	Pure Online Retailer	Delhi	Amazon, ebay, Snapdeal, Flipkart, Shopclues
32	Electronics	Gaming console and gaming software	Wholesaler	Delhi	Snapdeal, Amazon, Flipkart
33	Books	Books	Pure Online Retailer	Mumbai	Amazon, Patym, Rediff, Shopclues
34	Electronics	Mobile and tablet screen guards	Manufacturer	Delhi	Amazon, Flipkart, Snapdeal, Shopclues, Patym
35	Electronics	Computer hardware and peripherals	Wholesaler	Ahmedabad	Own website
36	Electronics	Pen drive, Memory card	Traditional Retailer	Mumbai	Just Dial
37	Electronics + Toys	Toys+ Electronics	Pure Online Retailer	Mumbai	Flipkart, Snapdeal, Amazon, Homeshop18
38	Sports Apparels	Sports products - shoes, dumbbells	Traditional Retailer	Delhi	Multiple sites
39	Electronics	Home appliances, electronics, mobile phones	Traditional Retailer	Pan India	Amazon, Snapdeal, ebay,groupon
40	Books	Books	Traditional Retailer	Hyderabad	Amazon, Infibeam, Flipkart
41	Electronics	Printers and scanners	Wholesaler	Mumbai	Snapdeal
42	Accessories	Jewellery	Online Brand	Gurgaon	Snapdeal, Craftsville, Flipkart, Amazon, ebay
43	Musical Instruments	Western musical instruments	Traditional Retailer	Mumbai	Snapdeal, amazon, ebay
44	Electronics	Mobile accessories	Pure Online Retailer	Ahmedabad	ebay
45	Electronics	All electronics products	Pure Online Retailer	Mumbai	ebay
46	Electronics	Lighting products	Traditional Retailer	Mumbai	Snapdeal, Flipkart
47	Bean Bags	Bean Bags	Manufacturer + Wholesaler	Ranchi	Snapdeal, Amazon, ebay, Shopclues
48	Accessories	Footwear	Manufacturer + Wholesaler + Retailer	Delhi	Snapdeal, Flipkart
49	Supplements	Supplements	Manufacturer + Wholesaler	Delhi	Snapdeal, Amazon, ebay, Flipkart
50	Apparels	Organic baby clothes	Offline Brand	Delhi	Firstcry, Babyoye, Jabong, Myntra, Snapdeal, Flipkart, Amazon, ebay

Source: Jefferies, [www.IndianOnlineSeller.com](http://www.IndianOnlineSeller.com)

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12 March 2015

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- Alibaba Group Holding Limited (BABA: \$81.99, BUY)
- Amazon.com, Inc (AMZN: \$366.37, BUY)
- eBay, Inc. (EBAY: \$59.68, HOLD)
- JD.com, Inc. (JD: \$27.51, BUY)
- Just Dial Limited (JUST IN: INR1,139.35, BUY)
- Naspers (NPN SJ: ZAR171,078, BUY)
- SoftBank Corp. (9984 JP: ¥6,918, BUY)
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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
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HOLD	839	40.55%	159	18.95%
UNDERPERFORM	174	8.41%	11	6.32%

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