Fashion e-tailing in India

- A comprehensive performance review of the online fashion retail sector
- Assessed through a regularly tracked set of performance indicators
- Published quarterly

Q1-CY17 Edition

Published in May 2017

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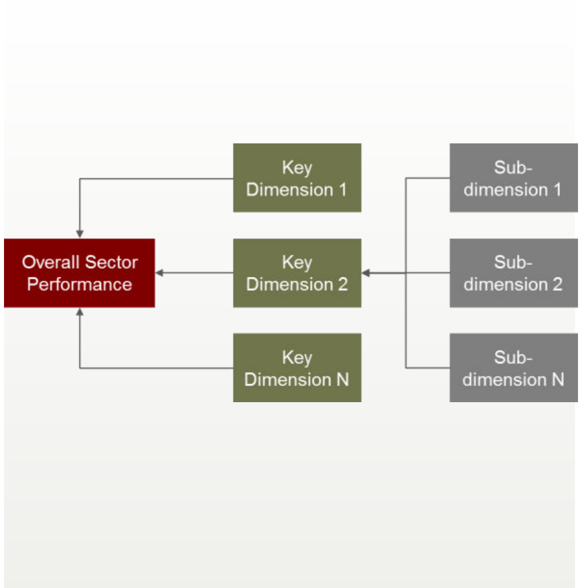
What is in this report?

1. This report includes a comprehensive assessment of Indian online fashion e-tailing sector performance across *six key dimensions*
2. Each *key dimension* is rated on whether the sector performed *above expectations* (Bullish), *broadly as per expectation* (Neutral) or *significantly worse than expectations* (Bearish) on that dimension
3. Each *key dimension* is further built up from multiple *sub-dimensions*, which are also rated for the sector using the above criteria

Sector Assessment Approach

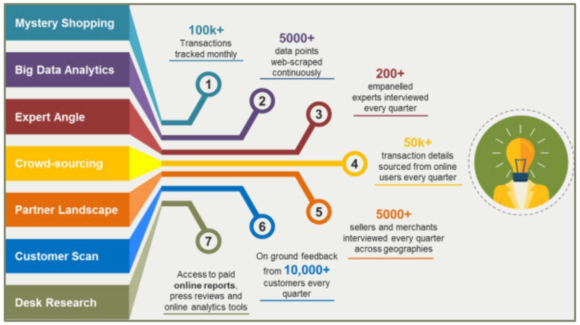


Research Methodology

RedSeer's Integrated Research Approach™ incorporating the following:

1. Primary Interviews with 1,000+ e-tailing sellers every quarter
2. Primary Interviews with 3,000+ customers every month

Integrated Research Approach™



Six Key Dimensions for Assessing Sector Performance

SN	Key Dimension	Sub-Dimensions
1	GMV Performance	1. Y-o-Y GMV performance 2. Q-o-Q GMV performance 3. Share of Horizontal vs Verticals in GMV
2	Customer Adoption	1. Growth in monthly active shoppers 2. Order share from Tier-2+cities
3	Unit Economics	1. GMV share of private labels 2. Contribution Margins (as a % of NMV)
4	Delivery Performance	1. Overall O2D time 2. Delivery Reliability (in days)
5	Customer Satisfaction	1. Overall Customer NPS
6	Seller Satisfaction	1. Overall Seller NPS
	Overall Performance	

Glossary

Key Word	Description
GMV	GMV refers to Gross Merchandise Value- i.e. the Total value of goods sold
NMV	Net Merchandise Value- Value of goods sold net of cancellations and returns
Monthly Active Shoppers	No: of online shoppers who have shopped at least once in a month in past quarter
Contribution Margin	Margins/Commission revenue net of the discounting cost and the supply chain/payment expenses
Delivery Reliability	O2D difference between the fastest e-tailer and the slowest e-tailer

Note

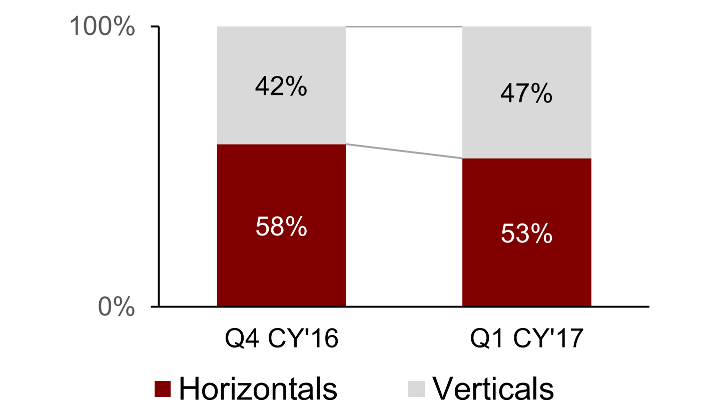
1. The report broadly covers the trends in Fashion e-tailing market in Q1 CY17
2. Trends in the offline retail market are not covered in this report

State of the Fashion e-tailing Market Q1-CY17- *Executive Summary*

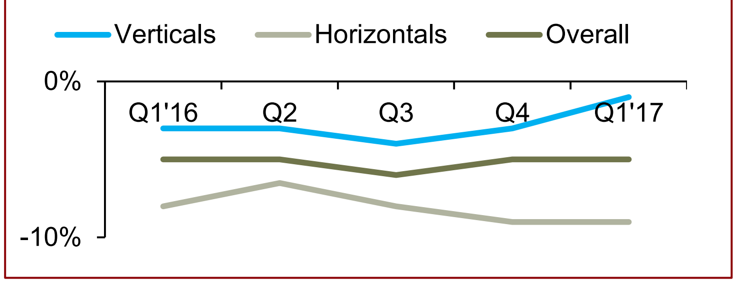
The fashion e-tailing industry remained stagnant in Q1’17 in terms of GMV and customer adoption but worked towards increasing focus on sustainability through contribution margins due to the growing popularity of private labels

- The overall fashion industry remained stagnant with a mere 5% growth y-o-y
- Verticals increased their market share in the overall market in Q1’17 due to end of season sales conducted by major players in January’17
- The contribution of fashion to the overall e-tailing market remained stable y-o-y because of difficulty of the industry in acquiring new customers in the past year
- The industry improved on contribution margins in Q1’17 because of increased popularity of private labels which have higher gross margins
- Overall, the industry also improved on consumer NPS as they showed improvement in key satisfaction metrics
- The industry also improved on delivery performance with better O2D times in Q1’17 owing to reduced operations post the high-volume sales period in Q4’16

GMV share of Horizontals vs Verticals



Contribution Margin (as a % of NMV)



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Online Fashion Sector Assessment Scorecard- *CY 2017*

SN	Key Dimension	Horizontals	Verticals	Overall fashion	Assessment Rationale
1	GMV Performance	↔	↑	↔	• Fashion GMV was flat at $ 2.9 Bn as both horizontals and verticals did not grow significantly • Verticals increased their share in Q1'17 but were marginally behind horizontals
2	Customer Adoption	↔	↔	↔	• New online shoppers grew much slower than expected • Share of orders from Tier 2 cities increased slowly for both horizontals and verticals
3	Unit Economics	↑	↑	↑	• Share of private labels improved for both verticals and horizontals • Increased popularity of private labels led to higher gross margins and improved contribution margins
4	Delivery Performance	↑	↑	↑	• O2D time for the industry improved in Q1'17 • There was a marked improvement in delivery reliability, which improved 50% y-o-y
5	Customer Satisfaction	↑	↑	↑	• Customer NPS improved for both verticals and horizontals • Key areas of improvement- Pricing Attractiveness, Product variety and Ease of browsing/shopping on web and app
5	Seller Satisfaction	↑	↑	↑	• Sellers satisfaction improved for both verticals and horizontals in Q1'17 • Key reasons- Increased online sales growth and lower costs of selling online due to reduced commissions, supply chain costs
7	**Overall Performance**	↔	↑	↔	• **Overall, Q1'17 was a mixed bag for the online fashion industry as the industry was flat on GMV and customer adoption but improved on other key metrics like unit economics and customer, seller satisfaction**

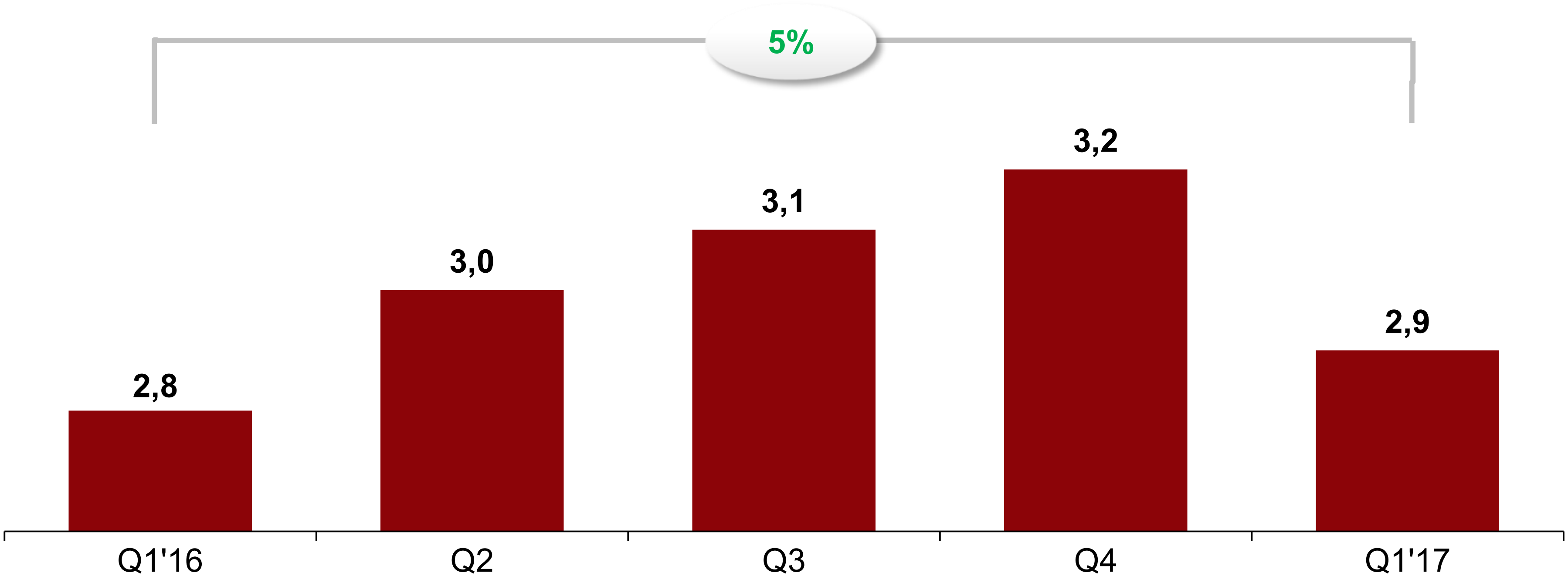
Source: RedSeer analysis

↑ Bullish ↔ Neutral ↓ Bearish

Fashion e-tailing industry has remained stagnant throughout the last year due to low customer acquisition

Online fashion retail Annualized GMV Run Rate

(For Each Quarter in Calendar Year, Pre-cancellation , USD Bn)



Q1'16
- DIPP regulations released in March lead to a growth slowdown
- Players adopted new discounting and seller management regulations

Q2
- A quiet quarter for the sector as players work on sales and seller strategy
- June sees the launch of the first sales events in the quarter

Q3
- Sales period in July/Aug organised by verticals and horizontals drove growth in GMV
- Top verticals sees 50%-100% growth in sales in July

Q4
- Highest ever GMV of USD 26 bn in Oct
- 20% GMV fall in 3 weeks of Nov after demonetization
- Sales period in December for most e-tailers

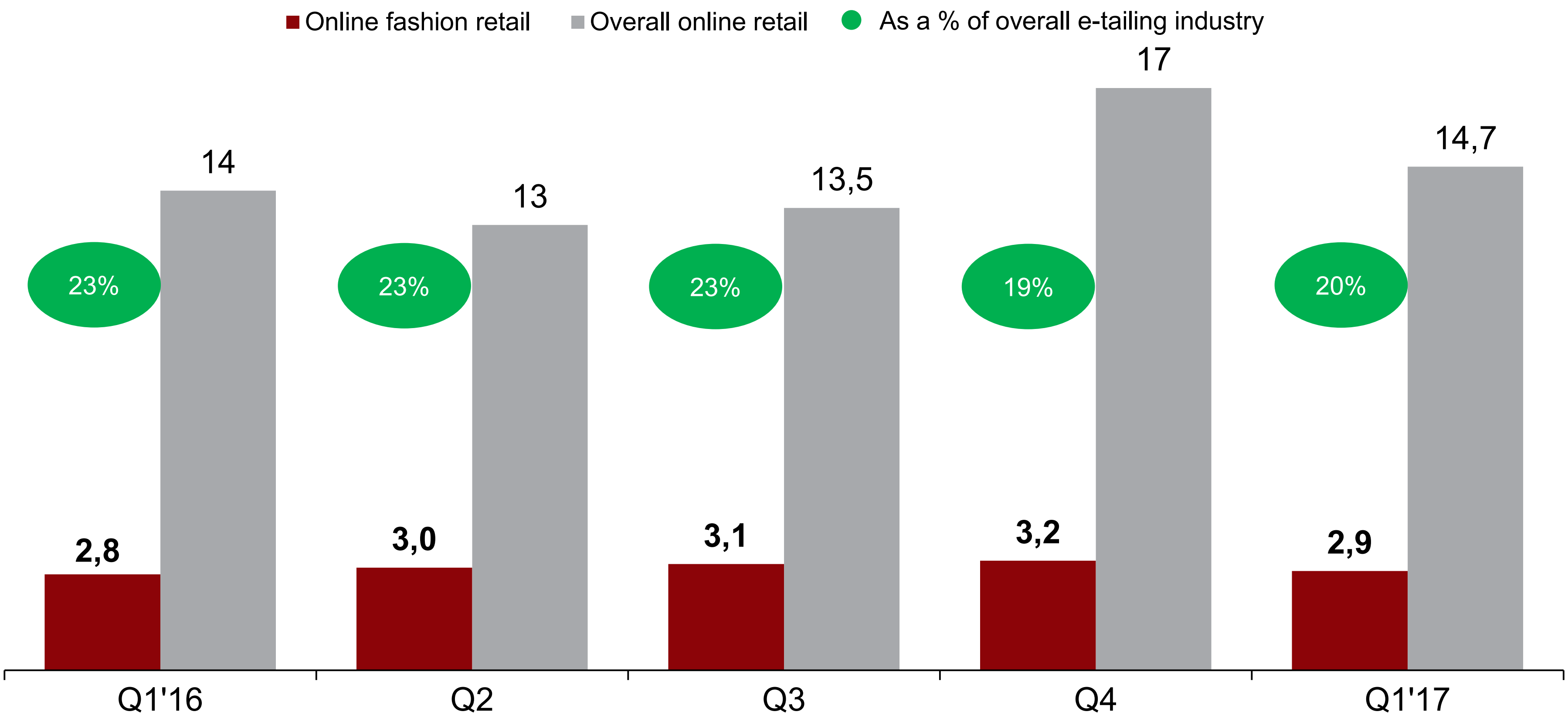
Q1'17
- Although the annualized run-rate dropped for the industry, the fashion vertical has a similar portion of the market as Q4’16 because of end of season sales

Source: RedSeer analysis

Fashion vertical continues to contribute ~20% of the overall e-tailing market driven by end of season sales for major players in Q1'17

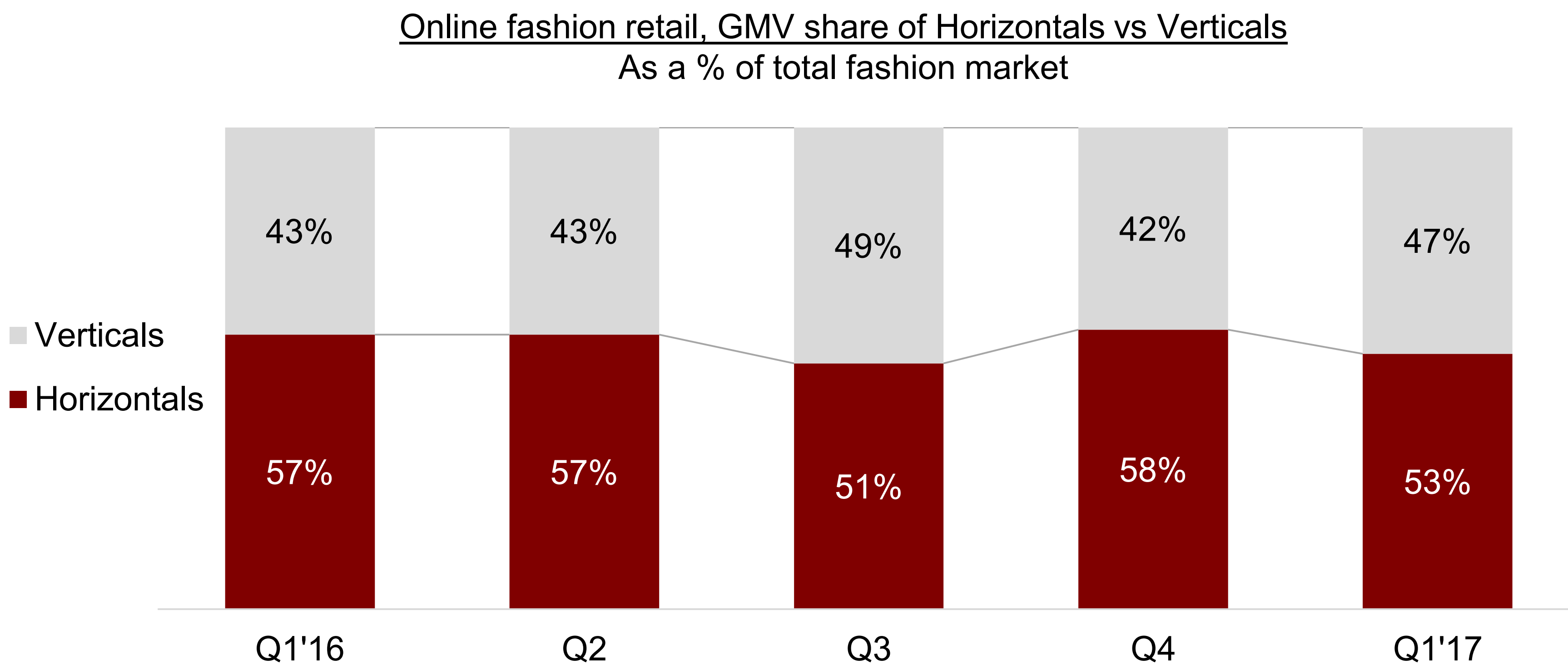
Online fashion retail Annualized GMV Run Rate

(For Each Quarter in Calendar Year, Pre-cancellation , USD Bn)



Source: RedSeer analysis

End of season sales by major vertical players in Q1’17 resulted in an increase in share of verticals in the overall fashion market



- **Vertical** players organized end of season sales all throughout Q1’17 leading to higher share in the overall market. Myntra doubled its sales in January contributing to the overall share of verticals in Q1’17
- Share of **horizontals reduced** in **Q1’17** due to absence of sales period for major players because of eventful sales periods in the Q4’16

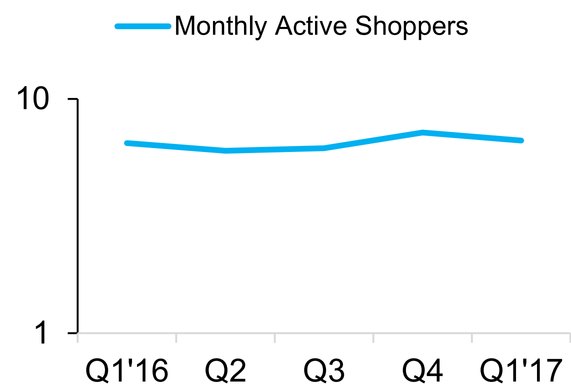
Note: Horizontals means multi category e-tailers, verticals means fashion specific e-tailers

Source: RedSeer analysis

Industry has not focussed on expanding to Tier-2+ cities resulting in a stagnant customer base in the past year

Sub-Dimension	Time Trend	Sub-Dimension Rating: Q1-CY17	Key Takeaways

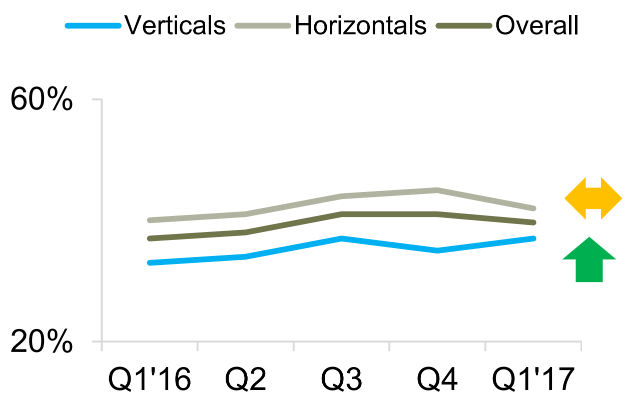
1 Monthly Active Shoppers (In Mn)



Monthly active shoppers have remained stagnant in the past year and the same was observed for Q1’17

- The fashion e-tailing industry has found it difficult to increase the active customer base in the past year mainly because of low frequency of shopping of most shoppers
- Q1’17 saw a slight dip in shoppers due to sales period attracting most shoppers in the preceding quarter

2 Order share from Tier-2+cities



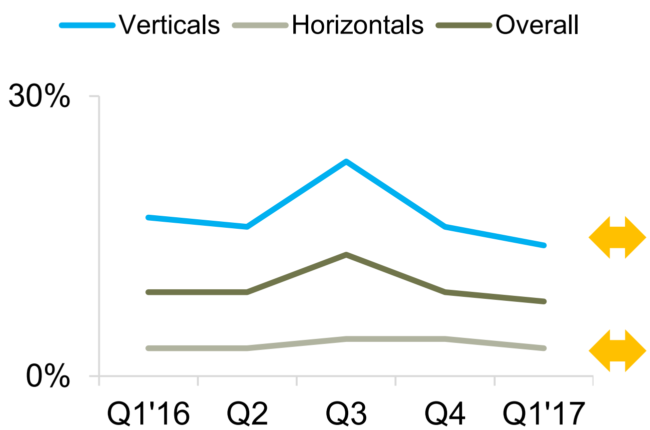
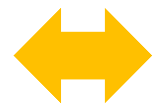
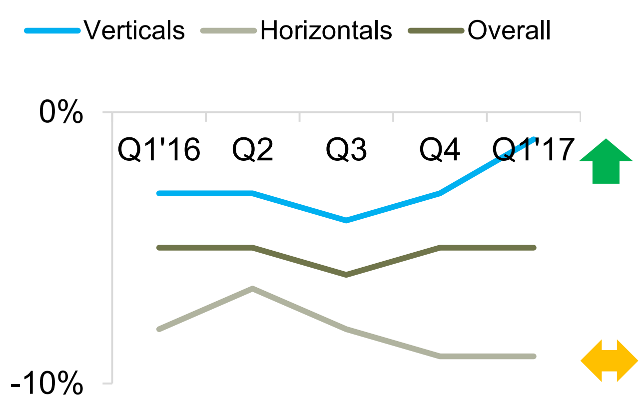
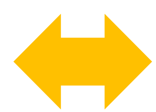
Order share from Tier-2+ cities has remained stable throughout the last year

- With players looking to improve other important metrics like profitability, there has been lesser focus to further expand in these areas and hence there has been marginal change in order share from Tier-2+ cities

Source: RedSeer analysis

Bullish Neutral Bearish

Increased focus on private labels by major fashion players has resulted in an improvement of unit economics

Sub-Dimension	Time Trend	Sub-Dimension Rating: Q1-CY17	Key Takeaways
1 **GMV share of Private labels**			**Share of private labels has remained stagnant in Q1’17** • Myntra is the leader in fashion sales in the industry with **~30%** of the overall fashion sales. It also plans to account **25%** of their revenue through private labels • Horizontal players have also increased their focus on private labels
2 **Contribution Margins (as a % of NMV)**			**Higher contribution margins were observed in Q1’17 due to focus on private labels** ▪ Increased share of orders from private labels for verticals resulting in higher gross margins ▪ Supply chain cost reduction via greater near-shipping and use of surface transport ▪ Customer discounting reduced by more than 50% y-o-y

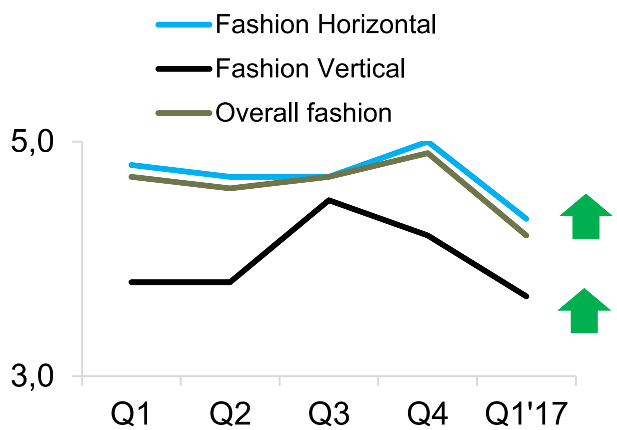
Source: RedSeer analysis

Bullish Neutral Bearish

Horizontal players improved on delivery performance owing to lesser operational load post sales, whereas verticals improved first mile delivery

Sub-Dimension	Time Trend	Sub-Dimension Rating: Q1-CY17	Key Takeaways

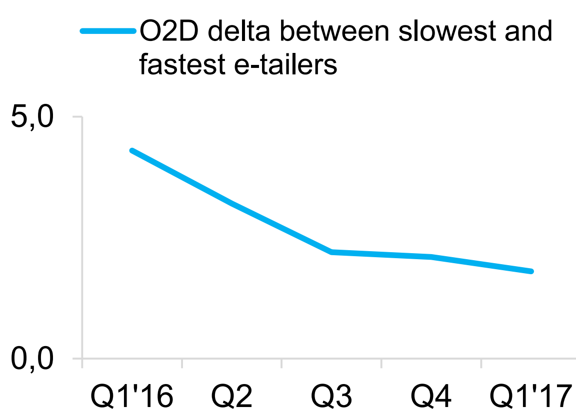
1 Overall O2D time (in days)

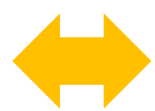


Reduced operational load on the industry in Q1’17 led to shorter delivery times

- Shipments handled by industry in Q1’17 were ~20% lower than Q4, leading to faster delivery performance from both captives and 3PLs
- Verticals improved on delivery times as they improved first mile delivery in Q1’17

2 Delivery Reliability (in days)



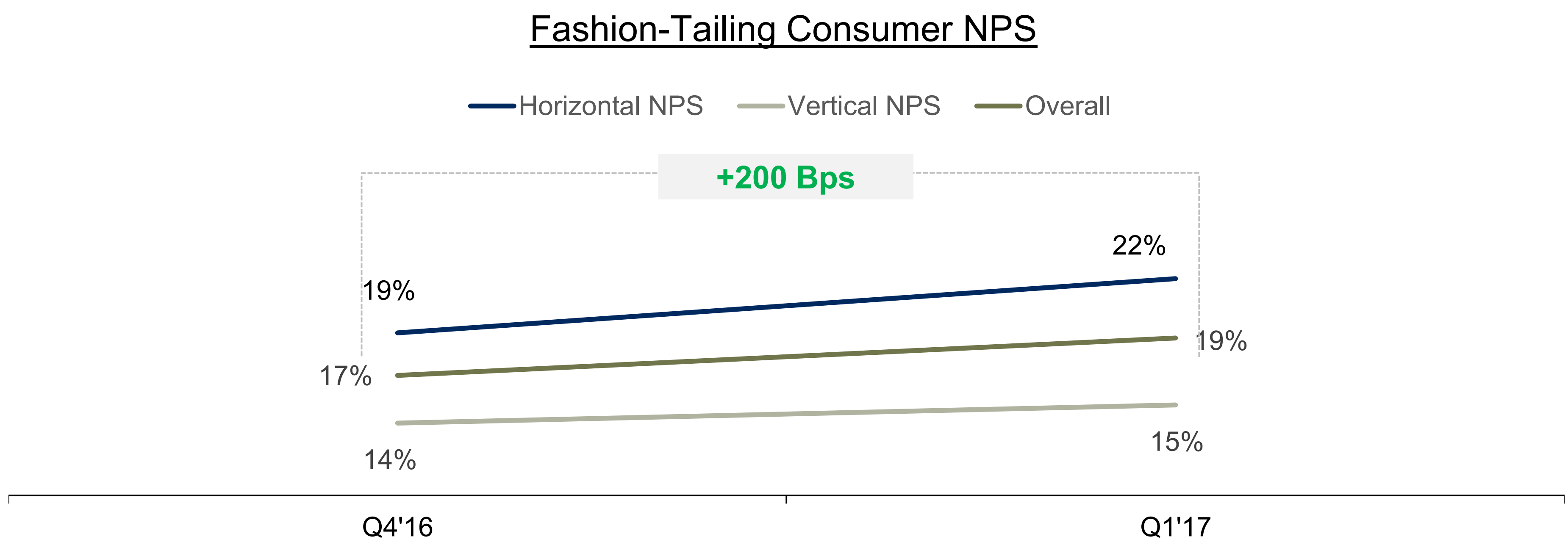


O2D differences between players have reduced significantly y-o-y

- With the industry having invested heavily in supply chain processes, the delivery consistency from customer perspective has improved
- In comparison to horizontals, verticals showed lower reduction in O2D times

Source: RedSeer analysis

Horizontal players tend to have a higher NPS than verticals in lieu of higher brand recall of these players because of other categories sold on the platform



Q4-2016: Satisfaction hit by sales events

- As the industry moved into Q3’16, sales became aggressive on all platforms through discounting
- Both horizontals and verticals suffered on consumer NPS due to higher volumes leading to poor delivery performance

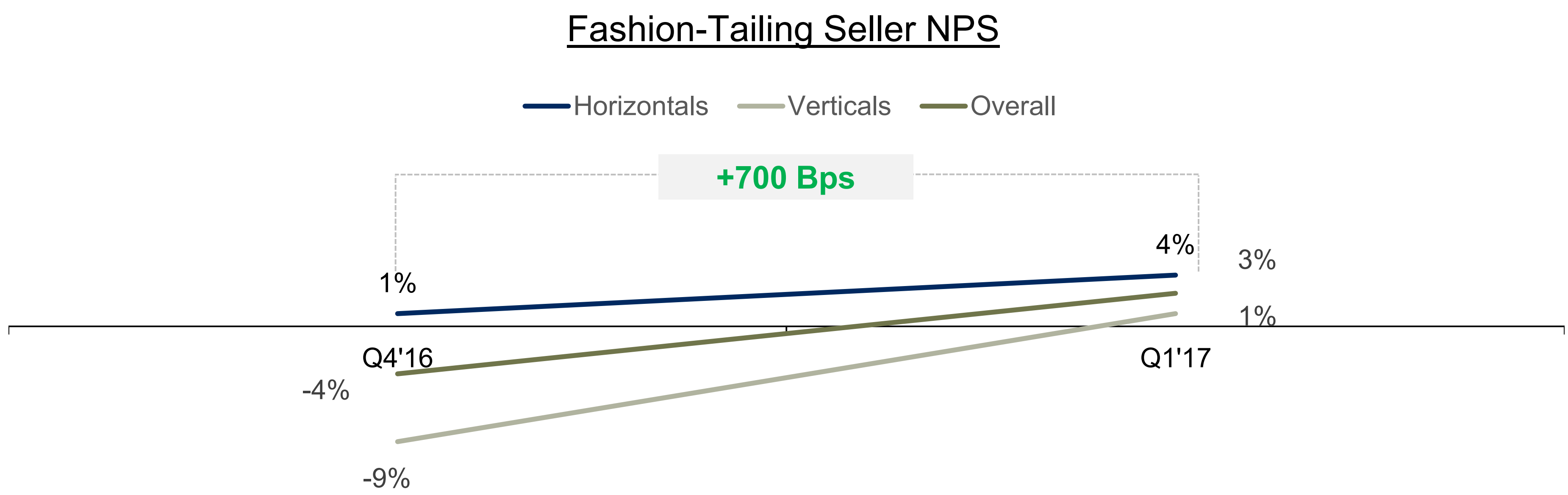
Q1-2017: Consumer NPS improved post sales period

- Recovering from Q4’16 and the festive sales period, the industry improved on key metrics like delivery performance
- This resulted in higher customer satisfaction for both verticals and horizontals

Source: RedSeer analysis

Bullish Bearish Neutral

Seller satisfaction improved for the entire industry in Q1'17 with increase in satisfaction on online sales, payment speeds and reduction in selling costs



Q4-2016: Satisfaction hit by sales events

- Increased sales in Q4-2016 for horizontals led to greater operational load on players which led to delay in processes like payment and logistics experience
- Also, higher commissions meant high costs of selling online for sellers

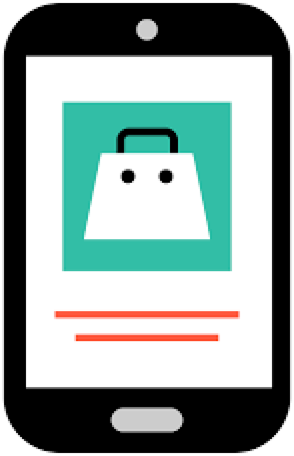
Q1-2017: Seller NPS improved post sales period

- Reduced load on operations meant faster payments and improved experience on logistics which led to higher seller NPS in Q1'17
- Major players in the industry also reduced commissions post the sales event which led to lower costs of selling online

Agenda

A Industry Review – Q1'17

B Appendix – List of Paid Reports



List of Paid Reports on E-tailing Market – Q1 CY17

All paid reports include data for all horizontals and Myntra, Jabong, Voonik & LimeRoad for the Q1 CY17[1]

List of Paid Reports	Report Description (Price available on request)
1 Comprehensive Performance Assessment	The report comprises of a comprehensive assessment of the key players Indian Fashion E-tailing Industry in Q1 CY17. The performance of the key players have been judged using six key dimensions and the areas where each of the players performed well vs where they struggled have been identified.
2 Business Metrics Assessment	The report comprises of the performance of the players in terms of GMV and the category mix in Q1 CY17. The quarterly trends of change in the GMV and share of high vs low margin categories has been identified along with revenues, contribution margins and cash-burns of the key players. And key reasons for the same have been stated along with what the future holds for the players.
3 Delivery Excellence	The report assesses delivery performance of the key players in the industry in Q1 CY17. It broadly covers the quarterly trends in overall O2D time, O2S & S2D times of the players along with compliance to promise days. And key reasons for the same have been stated along with what the future holds for the players.
4 Customer Perspective	The report comprises of the customer adoption and satisfaction with the players in Q1 CY17. On the adoption side it covers the quarterly trends in growth in monthly active shoppers and the growth in order share from tier 2+ cities. On the satisfaction side it covers the satisfaction with price and product along with ordering, delivery and post delivery experience and the key reasons for the same.
5 Seller Perspective	The report comprises of the seller behaviour and satisfaction in Q1 CY17 on parameters like sales growth, cost of selling online and first mile warehouse experience. It also includes the satisfaction with logistics experience seller panel experience and payment process speeds. And key reasons for the same have been stated along with what the future holds for the players.

1. Reports with historical data since Jan 2016 available on request

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1. Horizontals
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3. E-Logistics

B Online Mobility
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2. Bike Taxi
3. Inter City Buses

C Classifieds
1. Horizontals
2. Verticals (Real Estate, Jobs etc.)

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