Digital consumer spending in India: A $100 Bn opportunity
Digital India has catapulted in the last few years

- Internet Users: 239M (2013) to 430M (2017), an increase of 1.8x
- Smartphone Users: 68M (2013) to 320M (2017), an increase of 4.7x

Note: 2013 figures are for December 2013, 2017 figures are as of September 2017.
Propelled by three forces

Average smartphone price (US $)

- 2011: 250-260
- 2017: 120-130

50% decrease over 6 years.

Data tariffs in India

- 2015: 2.6
- 2017: 0.5-0.9

Annualized realized data tariffs per GB of data as a % of GNI per circle (2015)

Propelled by three forces:

- More Local Language/Mobile-first Content
- Local language searches, up 10x
- Non-English watchtime, up >2x
- % of YouTube watchtime spent, up 80%
- YOY growth in YouTube watch time in 2017 on mobile devices, up 400%

Source: Google internal data.
However, digital spending is still in an evolution phase

Online spenders among internet users (%)

- **E-commerce**
  - India: 20%
  - China: 63%
  - US: 79%

- **Travel & Hotel**
  - India: 15%
  - China: 55%
  - US: 40%

- **Financial Services**
  - India: 21%
  - China: 50%
  - US: 68%

- **Digital Media**
  - India: <1%
  - China: 6%
  - US: 39%

Note: E-commerce includes Apparel, Consumer electronics, FMCG, Luxury, Appliances, Home, Health, Food & grocery; Travel and other bookings includes Air, Train, Bus and Holiday bookings; Financial services user base includes those users that perform online banking (undertake transactions or transfer funds using online banking, mobile banking and USSD services); Digital media includes subscription and transaction video on demand services but excludes ad revenue. Digital health and education have been excluded from this analysis given contribution from government spending vs. end consumer spending. Source: TRAI: Indian Telecom Services Performance Indicators report Sep 2017, SCG CCI Digital Influence 2017 Study (N=18,000), SCG PIBAC 2017 report, SCG analysis based on Project Experience and Research.
Only 20% spend 60–65% of their total spends online

### Online spenders profile

<table>
<thead>
<tr>
<th></th>
<th>Low (45-50%)</th>
<th>Medium (30-35%)</th>
<th>High (15-25%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share among all</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>online spenders</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average online</td>
<td>5-10%</td>
<td>30-35%</td>
<td>60-65%</td>
</tr>
<tr>
<td>spends as a % of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>total spends</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Categories bought</td>
<td>Movie ticket</td>
<td>Fashion</td>
<td>Grocery</td>
</tr>
<tr>
<td>online</td>
<td>Travel</td>
<td>Mobiles</td>
<td>Home decor</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Luxury</td>
</tr>
</tbody>
</table>

Note: Data representative of e-commerce, travel and other bookings. Does not include spends on media (online or offline).

Source: CCI Digital deep dive daily survey 2017 Q1 (N= 11,094 daily transactions), BDG analysis based on Project Experience and Research.
$100 Bn digital consumer spending by 2020

<table>
<thead>
<tr>
<th>Sub-sector</th>
<th>Market Size ($ Bn)</th>
<th>2017</th>
<th>2020E</th>
</tr>
</thead>
<tbody>
<tr>
<td>E-commerce</td>
<td>~18</td>
<td>~18</td>
<td>~45</td>
</tr>
<tr>
<td>Travel &amp; Hotel</td>
<td>~11</td>
<td>~11</td>
<td>~20</td>
</tr>
<tr>
<td>Financial Services</td>
<td>~12</td>
<td>~12</td>
<td>~30</td>
</tr>
<tr>
<td>Digital Media</td>
<td>~0.2</td>
<td>~0.2</td>
<td>~0.6</td>
</tr>
</tbody>
</table>

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

Online spender base grows 2-3x across sectors

<table>
<thead>
<tr>
<th>Sector</th>
<th>Users (Mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>E-commerce</td>
<td>~80</td>
</tr>
<tr>
<td>Travel &amp; Hotel</td>
<td>~60</td>
</tr>
<tr>
<td>Financial Services</td>
<td>~85</td>
</tr>
<tr>
<td>Digital Media</td>
<td>~2</td>
</tr>
</tbody>
</table>

Note: E-commerce includes Apparel, Consumer electronics, FMCG, Luxury Appliances, Home, Health, Food & grocery. Travel and other bookings includes Air, Train, Bus and Holiday bookings. Financial services user base includes those users that perform online banking (undertake transactions or transfer funds using online banking, mobile banking and USSD services). Digital media includes subscription and transaction video on demand services but excludes ad revenue. Digital health and education have been excluded from this analysis given contribution from government spending vs. end consumer spending.

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

Gender:
- Male 2017: 55
- Female 2017: 30
- Male 2020E: 105
- Female 2020E: 85
- Male vs Female: 2x

City Tier:
- Metro+Tier 1 2017: 50
- Tier 2/3/4 2017: 35
- Metro+Tier 1 2020E: 95
- Tier 2/3/4 2020E: 95
- Metro+Tier 1 vs Tier 2/3/4: 3x

Age:
- 18-24 yrs 2017: 30
- 25-34 yrs 2017: 45
- 35+ yrs 2017: 35
- 18-24 yrs 2020E: 80
- 25-34 yrs 2020E: 45
- 35+ yrs 2020E: 20
- 18-24 yrs vs 35+ yrs: 3x

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

Source: BCG ODI Digital Influence 2017 Study (N=18,000), BCG analysis based on Project Experience and Research.
The evolution of the Indian buyers

- Non Buyer
- Occasional Shopper
- Frequent Shopper
Fashion: Lack of touch and feel and immediacy deters users

**Lapsed/Non-buyers (0 purchases in L6M)**
- Lack of touch and feel: 40%
- Better prices offline: 25%
- Immediate need for product: 11%

**Frequent shopper (>3 purchases in L6M)**
- Better prices: 24%
- Access to items not available offline: 19%
- Wider assortment: 19%

**Occasional shopper (1-3 purchases in L6M)**
- Better prices: 34%
- Convenience of buying anytime and anywhere: 20%
- Wider assortment: 12%

Note: Frequent online shoppers: >3 online apparel purchases in the last 6 months. Occasional shoppers: 1-3 online apparel purchases in the last 6 months. Source: CCI Digital deep dive 2016 – Among digitally influenced apparel shoppers (N=500), BCG CCI Digital Influence 2017 Study (N=1,900) Nielsen 2017 survey (N=1,845).
Consumer Durables
Consumer Durables: Shoppers deterred by service/repair concerns

Younger offline shopper (<35)
- 30% Difficulty in returns
- 22% Easier service/repair offline
- 14% Immediate need for product

Older offline shopper (>35)
- 34% Easier service/repair offline
- 27% Difficulty in returns
- 20% Immediate need for product

% of internet using buyers
- 62%
- 14%
- 24%

Online shopper
- 46% Better prices
- 19% More options
- 13% Convenience

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

Source: CCI Digital deep dive 2016 – Among digitally influenced large appliance buyers (N=560) BCG CCI Digital Influence 2017 Study (N=18,000), Nielsen 2017 survey (N=1645).
Travel
Travel: Hotels - Trust and onsite payment stated to be key reasons for buying offline

- **Offline buyers**
  - Better deal offline: 36%
  - High transaction value: 31%
  - Unclear/Inadequate info: 22%

- **Online buyers**
  - Multiple options in one place: 38%
  - Deals & discounts: 30%
  - Saves hassle of queues: 14%
  - Travel info, user reviews: 14%

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

- **Offline buyers**
  - %
    - High transaction value: 37
    - Unclear/Inadequate info: 27
    - Better deal offline: 27

- **Online buyers**
  - %
    - Multiple options in one place: 47
    - Deals & discounts: 29
    - Saves hassle of queues: 17

Financial Services
Financial Services: Offline investors prefer agents for simplicity

Younger offline investor (<35)

<table>
<thead>
<tr>
<th>Barriers to purchase</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uncomfortable putting financial info online</td>
<td>51</td>
</tr>
<tr>
<td>Online info difficult to understand</td>
<td>25</td>
</tr>
<tr>
<td>Unclear understanding of product</td>
<td>16</td>
</tr>
</tbody>
</table>

% of internet using buyers: 51

Online investor

<table>
<thead>
<tr>
<th>Triggers for purchase</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to multiple options</td>
<td>36</td>
</tr>
<tr>
<td>Able to browse and compare products</td>
<td>21</td>
</tr>
<tr>
<td>Quicker/easier online payment</td>
<td>17</td>
</tr>
</tbody>
</table>

Older offline investor (>35)

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<tr>
<td>Uncomfortable putting financial info online</td>
<td>53</td>
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<tr>
<td>Accustomed to agent</td>
<td>19</td>
</tr>
<tr>
<td>Online info difficult to understand</td>
<td>19</td>
</tr>
</tbody>
</table>

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

Online investor here refers to users that generate insurance, loans and mutual funds online.
Food & Grocery
Food & Grocery: Convenience is a key trigger for frequent shoppers

- **Lapsed/Non-buyer (0% in L6M)**
  - Need to check product quality: 35%
  - Immediate need for product: 28%
  - Easier returns & other benefits offline: 15%

- **Frequent shopper (>50% of all F&G L6M)**
  - Convenience—saves time and effort: 23%
  - Free home delivery: 13%
  - Better prices: 10%

- **Occasional shopper (10%-50% of all F&G L6M)**
  - Good deals/discounts available: 52%
  - Assured of online quality when buying: 12%
  - Access to products not available offline: 11%

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

What does this mean for you?
### Large variation in triggers and barriers

<table>
<thead>
<tr>
<th>Trigger Type</th>
<th>Products</th>
<th>Services</th>
<th>Content &amp; Media</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequent Shopper</td>
<td><strong>Personalized service</strong></td>
<td><strong>Ability to do additional things e.g. seat selection</strong></td>
<td><strong>Exclusivity</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Assortment</strong></td>
<td><strong>Convenience</strong></td>
<td><strong>Customized offers</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Convenience (home delivery, preferred slots)</strong></td>
<td><strong>Convenience</strong></td>
<td><strong>Watch ‘on demand’</strong></td>
</tr>
<tr>
<td>Occasional Shopper</td>
<td><strong>Discounts / deals</strong></td>
<td><strong>Access to multiple options in one place</strong></td>
<td><strong>Access to wide set of content/information in one place</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Non availability in offline</strong></td>
<td><strong>Good deals</strong></td>
<td></td>
</tr>
<tr>
<td>Non Buyer</td>
<td><strong>Need for touch &amp; feel</strong></td>
<td><strong>Hesitation with high value transactions</strong></td>
<td><strong>Satisfaction with offline formats/no perceived ‘need’ for online</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Immediate need for product</strong></td>
<td><strong>Discomfort in sharing financial details online</strong></td>
<td></td>
</tr>
</tbody>
</table>
Key interventions for driving growth in digital transactions

Non-buyer
- Drive adoption

Occasional shoppers
- Increase frequency

Frequent shoppers
- Retain/Expand share of wallet

- Digital comfort
- Touch and Feel
- “Right” content

- Quick delivery
- Guidance
- Simplification

Attractive proposition
- Post-sale service
- Loyalty
- Personalization

Differentiation
- Subscription model
Key interventions for driving growth in digital transactions

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**Attractive proposition**
- Post-sale service
- **Loyalty**
- Personalization

**Subscription model**
- Differentiation
Digital comfort: Large ecommerce player in China

Building comfort for new users

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

- **Rural service centres in 16,500 villages**
  - 100,000 centers planned in next 3-5 years covering 1/6th of China’s villages

- **Outposts equipped with computers and free internet**
  - Service managers help first-time shoppers
  - Pay utility bills, add credit to prepaid mobile plans and book travel
  - Pick up goods ordered online

- **'Rural partners' program helps people “buy & sell” online**
  - Partners are internet-savvy youngsters who return to home villages to assist rural populations

Impact

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

Sources: External reports, BCG analysis.
Quick delivery: Large US Grocery player

Innovating delivery models to shorten time & increase convenience

- 1000 brick-and-mortar stores to pick up groceries ordered online: Comfort to new online shoppers & extra convenience w.r.t timings & physical locations
- Last-mile delivery partners and cab services provide faster options
- Delivery by employees, dropping goods off at customers' homes at end of day
- Partnered with a smart-security firm to give drivers access to customer's home to directly place groceries in the fridge
- Tweak to suit customer needs: E.g. Deliver to garage instead of inside the house, in case of security concerns

Impact

Company's online grocery business grown rapidly, expecting a 40% increase in e-commerce sales in U.S. in FY18
Loyalty: Japanese ecommerce & media company

Witnessing breakout growth through strong loyalty program

Impact

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

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

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

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

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

- Silver
- Gold
- Platinum
- Diamond

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

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

Sources: External reports, BCG analysis.