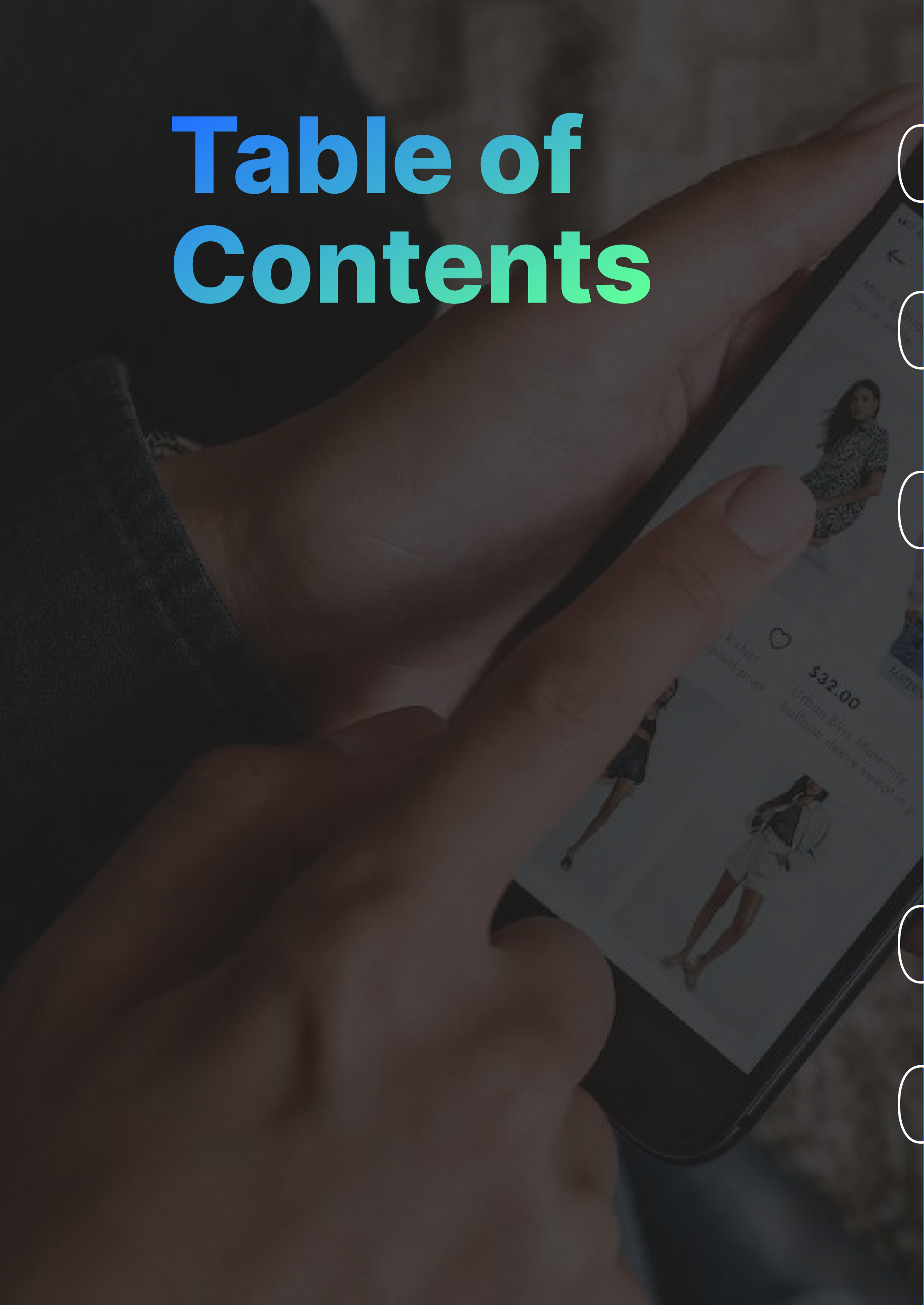
Beyond E-Commerce 3.0

Going D2C | E-Commerce Enablement | Impact of ONDC



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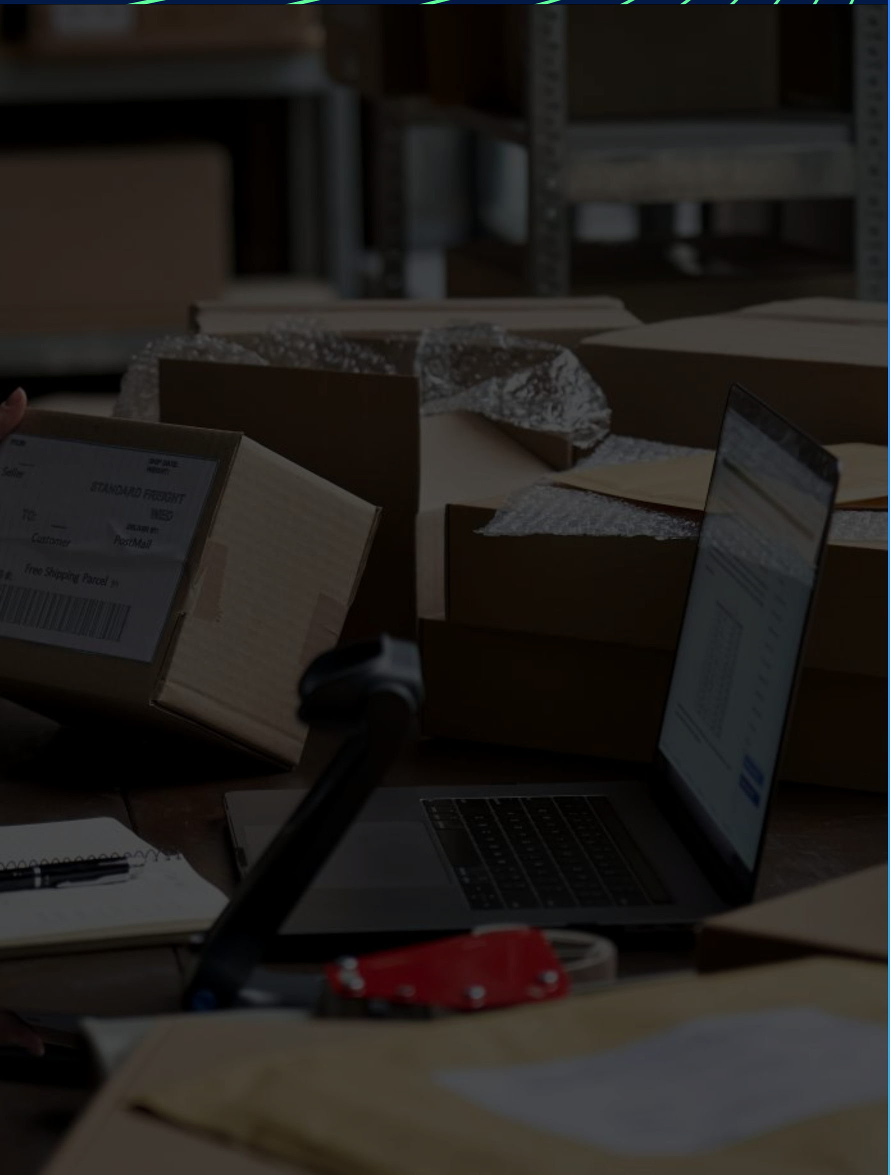

Overview

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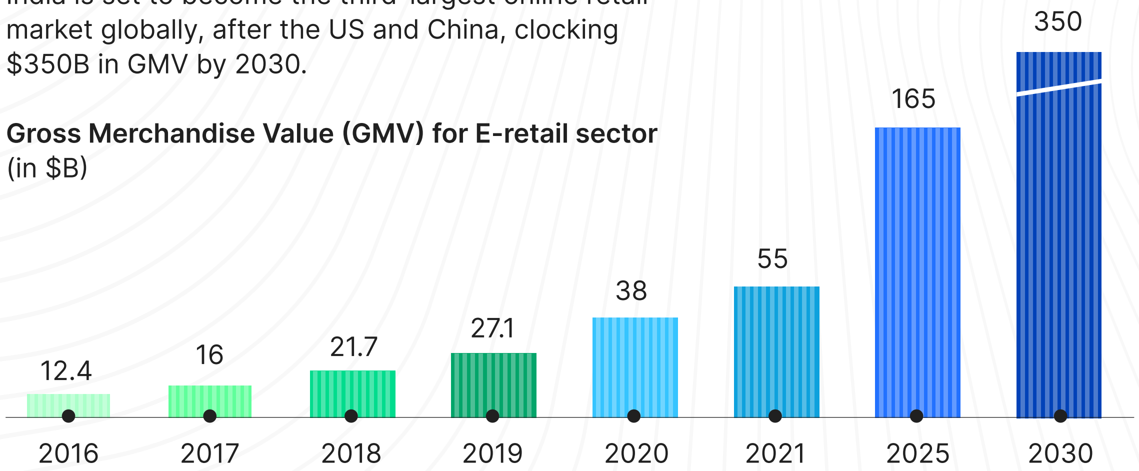
As we enter 2023, we have put together our thesis on the E-Commerce enablement space and how we think the market will evolve over the next few years. India's E-Commerce ecosystem symbolizes the optimism and excitement around the India story. **India has emerged as the hottest E-Commerce market in the world** - a central battleground for E-Commerce giants (Jio, Walmart, Amazon, eBay, among others).

Exhibit 1: Online Retail Boom - fastest growing E-Commerce market

Online Retail Boom
India is set to become the third-largest online retail market globally, after the US and China, clocking $350B in GMV by 2030.

Gross Merchandise Value (GMV) for E-retail sector
(in $B)



By 2025:

$165B GMV of India's E-Commerce market

350M E-Commerce shoppers

$50B Size of India's D2C Market

There is good reason for the global scramble to capture a slice of India's E-Commerce pie. India is the fastest growing major economy and offers a massive market that has enormous headroom for growth. There are more than 180M addressable online shoppers in India - higher than the combined populations of the UK & Australia. Overall E-Commerce penetration is still about 8.5% of the total population – the true power of a billion is yet to be tapped.

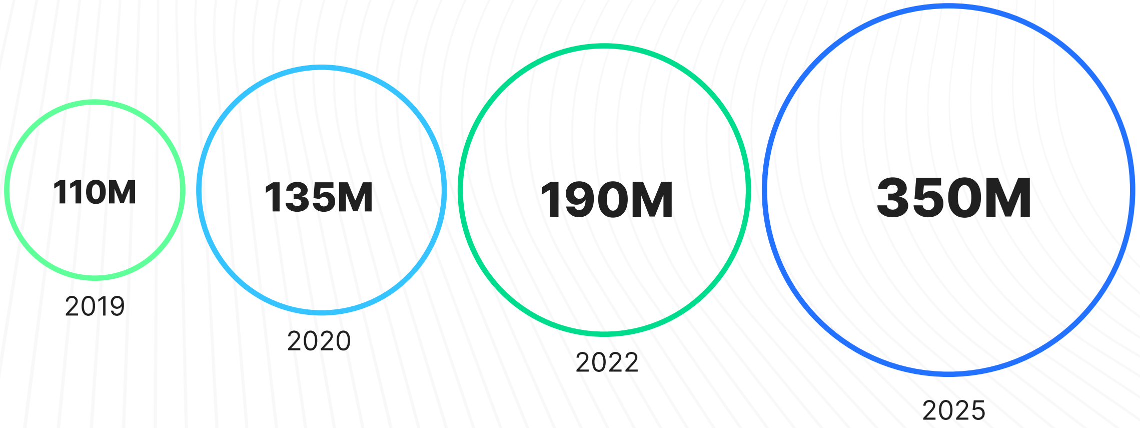
India E-Commerce Landscape

$165B

India's E-Commerce market (by 2025)

India's E-Commerce market is expected to hit $165B by 2025. The COVID-19 pandemic was a dark episode for humanity, but a silver lining was that it accelerated E-commerce penetration and digital touchpoints into India's rural hinterlands. Rapid digitisation in the pandemic's wake has led to the addition of ~50M shoppers over the last 2 years. The number of internet users in India is expected to hit 1.1B by 2025, with 30% of them becoming online shoppers.

Exhibit 2: Growth in Online Shoppers



India's E-Commerce evolution has broadly come in three waves

First wave:

The first wave of E-commerce helped bring products online. The likes of Flipkart and Amazon allowed users to purchase products through marketplaces.

Second wave:

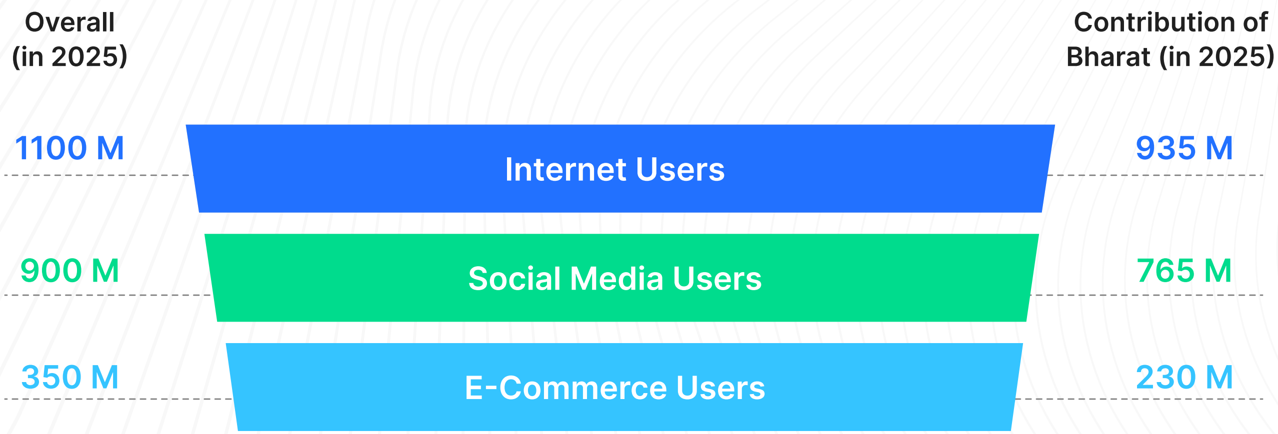
In the next cycle, E-commerce was democratized. Players like Shopify and Dukaan enabled smaller merchants to come online through independent storefronts.

Third wave:

Platforms enabling discovery proliferate : Websites, SMS/E-mails or even social media feeds. Retailers are increasingly looking to offer customers the best omni-channel experience.

Bharat Opportunity

Exhibit 3: Bharat will have 230M shoppers by 2025



The fastest growth in E-Commerce penetration is expected across Tier 3 towns with a 100 Cr population – the next billion. These users are coming online for the first time and understanding their distinct behaviours – preference for video/audio over reading/typing, massive dependence on WhatsApp, among others – will be key to unlocking their E-Commerce potential.

We will aim to unpack all of these trends starting with the **move towards D2C –** the reasons behind consumers and retailers adopting this strategy. We will then dive into the **underlying technology infrastructure** that is making it possible. Finally, we will cover important trends in the ecosystem that have the potential for massive impact – **the promise of ONDC** and the opportunity that it represents.

Going Direct to Consumer (D2C)

CONTROLLING CUSTOMER EXPERIENCE END-TO-END

In recent times, the rise of D2C retail has caught the eye of investors and the media alike. D2C, in some ways, is embedded in the DNA of Indian retail. The unique tastes of Indian shoppers have shaped the evolution and trajectory of Indian retail. Kirana stores, or neighbourhood shops, are the backbone of Indian retail. The owners of these stores often know their customers personally and understand their preferences - D2C commerce reflects a similar ethos.

The potential of D2C brands is massive. One of the fastest-growing E-commerce segments, D2C brands are expected to clock $50B in sales by 2025. Most of their revenue, however, continues to come from listing their products on marketplaces. We estimate that contribution from direct channels will increase from the current 20% to 30% by 2025 – this means that ~$15B in revenue will flow through a brand's direct channel.

Growth drivers for D2C:

- Merchants do not want to be dependent on marketplaces and desire greater control of end customer experience in terms of personalisation
- There is an increasing willingness among merchants to spend on technology infrastructure as there is access to more affordable plug-n-play software
- Merchants want to have a direct relationship with their end customers with the goal of driving higher lifetime value by virtue of retention

By 2025:

$50B

In annual sales by D2C brands

$15B

Revenue flow through a brand's direct channel

The Rise of the D2C Enablers

This market is split across 3 key legs of the transaction flow:

$15B

Opportunity in E-Commerce SaaS divided across Pre-Checkout, Checkout & Post-Checkout

Pre-Checkout: Driving customer intent to purchase

- Digital storefronts provide a means for businesses to display their offerings and even embed them into social media feeds to drive purchases.
- Marketing platforms enable the creation of digital campaigns at scale, omnichannel targeting of shoppers, and reducing customer acquisition costs.
- Analytics platforms offer insights into website traffic and conversion funnels, enabling businesses to optimise their marketing spends. These tools also help curate products that sell well together, creating upsell/cross-sell opportunities to increase Average Order Value.

$8B **Pre-Checkout** SaaS Opportunity in 2025

Checkout: Once there is purchase intent, reducing friction in closing transactions

- Seamless payments and on-time settlements help merchants manage their working capital cycles better. One-click checkout reduces drop-offs at the cart level.

$3B **Checkout** SaaS Opportunity in 2025

Post-Checkout: Getting the product to customers, and driving repurchase

- Logistics orchestration platforms help fulfil orders end-to-end, from order management and inventory tracking to courier allocation and returns management.
- Rewards programmes and warranties drive customer loyalty and enable higher LTVs for platforms.

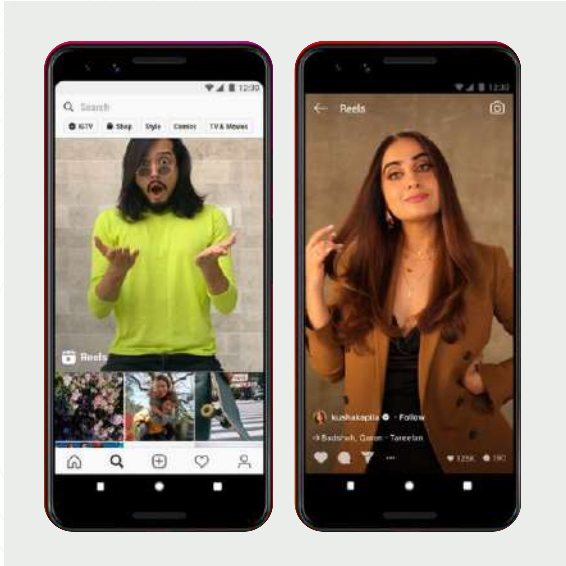
$4B **Post-Checkout** SaaS Opportunity in 2025

Swift ShipBob Shiprocket

The success of D2C E-commerce relies on the cultivation of an entire digital ecosystem to support their growth. This includes technological infrastructure that can aid in acquisition of customers, payment infrastructure as well as fulfilment of orders.

Earlier, merchants were dependent on a single provider to help them build the entire E-commerce experience. As customers have grown savvier, there is pressure on merchants to provide a more personalised experience at each step of the transaction flow. In parallel, the technical architecture behind these platforms has evolved allowing merchants to choose best in-class providers for individual legs of the journey: digital storefronts, marketing tools, payments/one-click checkout technologies, and shipping.

Emerging Commerce Models



Quick commerce has provided access to a limited set of SKUs in 15-30 mins – targeting customers who do not plan their purchases in advance and are willing to pay a premium for convenience.

Live commerce is an upcoming vertical – providing shoppers the ability to interact with the seller directly and understand the nuances of the product - potentially increasing conversion rates.

Creator-led commerce is providing an opportunity for consumers to purchase products from individuals that they follow on social media – fulfilling a desire to look and dress like their favourite influencer

While these models are mostly limited to marketplaces at present, a host of players are looking to provide similar infrastructure for D2C brands.

ONDC: The UPI Moment for E-Commerce?

Over the past decade, the central government has launched numerous initiatives to promote E-Commerce, including Make in India, Digital India, Start-up India, and others. In 2016, the government introduced Unified Payments Interface – a technology stack that has revolutionised FinTech infrastructure in India.

amazon Flipkart

The posterchildren of E-Commerce 1.0, continue to control 60% of India's overall E-Commerce market.

Now, the government is looking to build infrastructure protocols that democratise E-Commerce. The promise of the Open Network for Digital Commerce (ONDC) is that it will deliver equal opportunities to all market players and consumers.

While ONDC has generated a lot of buzz, we aim to unbundle the opportunities that it provides for E-Commerce entrepreneurs as well as the challenges that lie ahead. Like UPI, ONDC may also take time before it could potentially disrupt the E-commerce market.

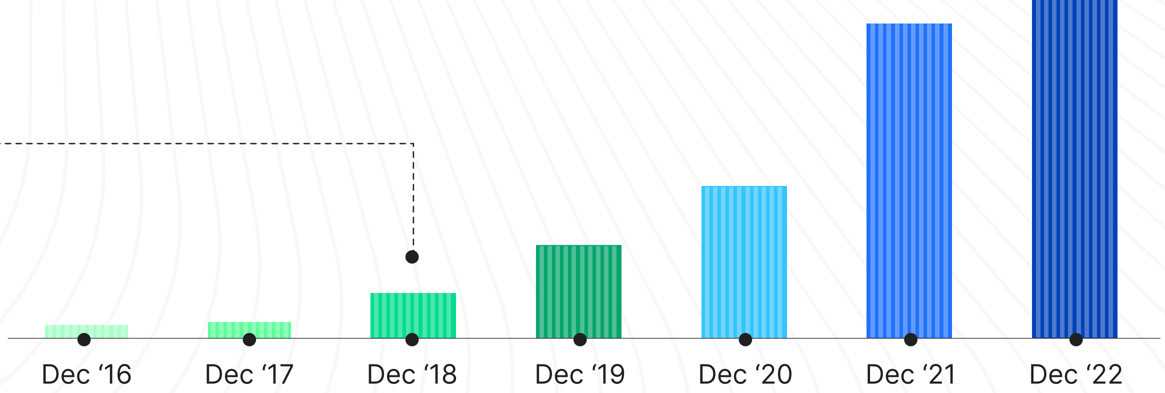
UPI saw an inflection point in 2018 due to the launch of:

Google Pay

Expansion of

PhonePe Paytm

Exhibit 4: UPI Growth in Numbers



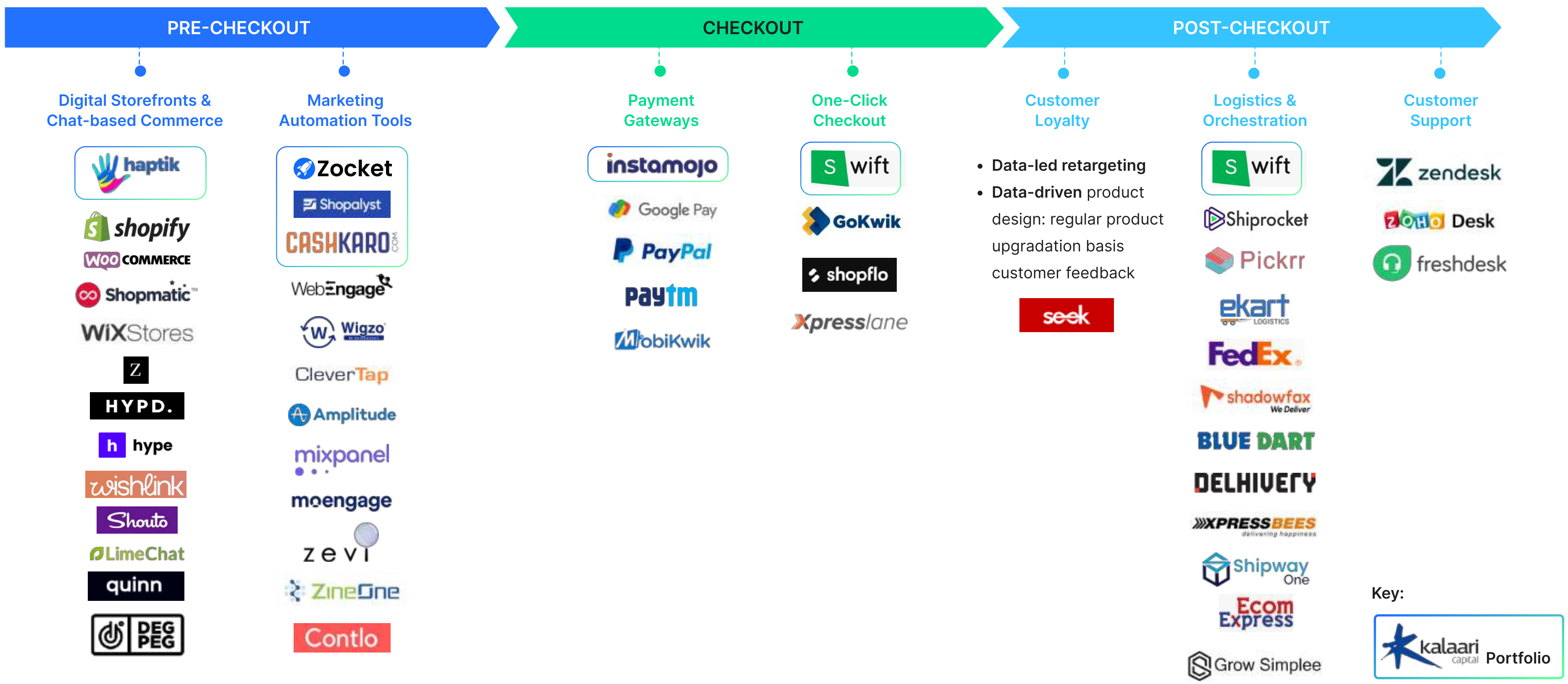
Building a Playbook for E-Commerce Enablement

500+

Deals seen in the E-Commerce space by Kalaari

While there is a large opportunity in the E-commerce enablement domain, it is also one where there is intense competition. We have tried to expand on the right to win across categories. We have interacted with entrepreneurs laying the technological foundations for E-commerce. This report draws on these conversations and examines the entire ecosystem of E-commerce enablement. Hope you enjoy the insights!

Exhibit 10: Market Map of E-Commerce Enablers



Going Direct

The D2C Opportunity

The D2C Opportunity

As we have discussed earlier, a shift in consumption patterns coupled with improvements in technological infrastructure are making the transition to D2C channels lucrative for retailers.

Brands that build strong D2C offerings have a deep emotional connect with their consumers, they stand for the values their customers believe in and have a story beyond the product itself. D2C brands are characterized by their agile DNA, innovative marketing, efficient operational processes and effective use of technology.

A key advantage that D2C brands have compared to marketplace focused brands is access to customer data. This allows them to analyse consumption patterns and develop offerings that cater to the needs of their customer.

The rise of D2C is fueled by a fundamental shift in consumer preferences and behavior:

- **Premiumization:** Consumers are on the lookout for premium offerings due to the associated quality assurance that comes with them.
  Eg: in BPC, premium categories are expected to grow at 19% CAGR as compared to mass categories (9% CAGR).

- **Digital-first discovery:** Customers are habituated to quick service and convenience; looking for similar experiences while shopping online.
  Eg: 500M+ social media users, 30+ minutes spent daily on short video apps

- **Values-driven purchases:** Customers are looking to associate with brands that have a philosophy beyond profit making - sustainability, organic ingredients, scientific backing are some of the aspects that can turn a casual browser into a brand loyalist.
  Eg: Sustainable living by Kindlife, 100% vegan products by Plum, Science backed products by Deconstruct

We see 4 paths to building a large E-Commerce business

HORIZONTAL MARKETPLACE APPROACH

With wider assortment of categories and products, **horizontal marketplaces fundamentally solve for user trust and purchase convenience.** They enable bringing traditional offline purchasers into the ambit of E-Commerce. Once these users are comfortable with online transactions, marketplaces aim to go deeper into user wallet share by pushing customers to try newer categories and higher margin products.

VERTICAL MARKETPLACE APPROACH

The second successful approach that we have seen is focusing on building a **verticalised marketplace in underserved categories.** Nykaa and Firstcry are prime examples of this approach and are synonymous with the BPC and baby care categories respectively. After gaining the trust of their users, these companies launch their own private labels as well in a bid to expand margins.

$500M revenue run rate -
10% contribution of private label

$200M revenue run rate -
$40M profit

Key:
Portfolio

BUILDING STRONG D2C BRANDS

The likes of boAt and Mamearth have successfully **built large brands** with strong consumer recall. They started off with a differentiated positioning (organic products/affordable yet high performance) in crowded categories and built a niche for themselves. They then expanded across categories and channels by leveraging the goodwill that they had already gained from consumers. Today, their core products sold via D2C channels remain a smaller part of the business – as compared to the volumes that they drive on marketplaces and offline distribution from newer categories.

mamaearth

$200M revenue run rate -
35% contribution of offline

boAt

$350M revenue run rate -
5% contribution of D2C channel

aastey | PORTL | deconstruct | ELEVAR | SAMOSA PARTY

HOUSE OF BRANDS STRATEGY

The final approach that has tasted success is that of rolling up smaller brands under a **House of Brands architecture.** Acquisition targets are in the $2.5M revenue range with 15-20% profit margins and are valued at 2-4x of earnings. These institutions scale brands by utilizing a highly specialized operating team, bringing together expertise across : Technology, Growth, Marketing, Brand Building, Supply Chain & Finance.

MENSA HOUSE OF BRANDS

Valued at $1B, $200M revenue -
Categories: Apparel, Home, Garden, B&PC

GlobalBees

Valued at $1.1B, 15+ brands
Categories: Home, B&PC, Sports, Apparel

KEY OPPORTUNITIES FOR D2C BRANDS TO LEVERAGE DIGITAL INTELLIGENCE

Listening to consumers

While this might seem like table stakes, digital channels allow brands to segment customers more granularly. We will expand upon digital storefronts and marketing automation tools in the next chapter - these tools allow brands to understand what is working with consumers, where to concentrate efforts in new product development, which consumers to retarget and how to get them to purchase again.

As an E-Commerce SaaS player building in this space - brands have multiple solutions that they currently use in silos. Solving for one use case while building deeper integrations with other products will make for more sticky user behaviour.

Optimizing inventory and working capital

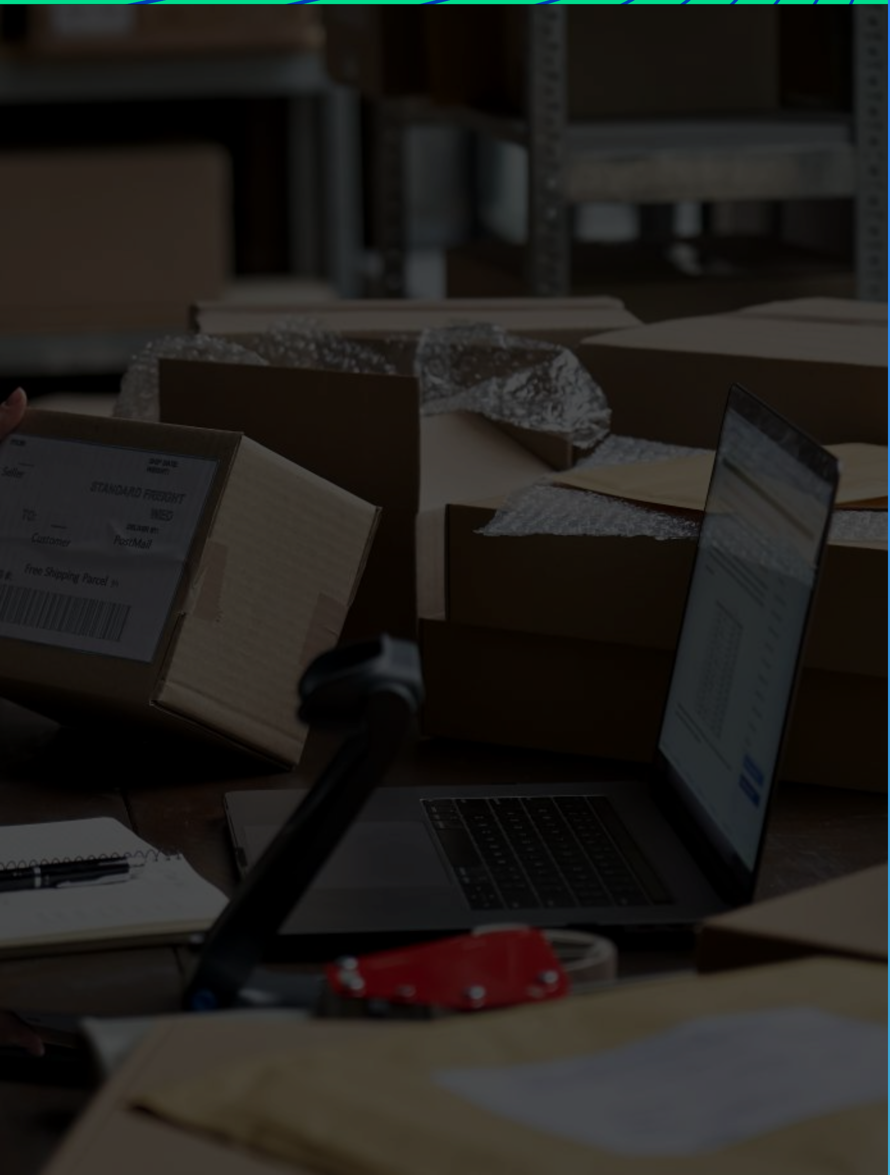
Lost sales due to inventory stock outs is an age old problem. Today, it is possible to scrape data to predict demand more accurately. Brands like Shein have proven this thesis with tight coupling between demand prediction and manufacturing, allowing them to bring styles to market faster than any other player while managing inventory efficiently.

As an E-Commerce SaaS player building in this space - highlighting the cash flow that you can unlock for brands, ease of integration into the brand’s existing solutions and accuracy of prediction are key selling points. Cracking 1-2 large clients in a vertical creates a domino effect that allows you to quickly onboard other similar brands.

Brand building

Storytelling becomes an integral part of brand building. Today, it is possible to amplify your brand’s story through influencers who stand for the same values. However, there is a fine line between brand building and overt selling. Gen-Z consumers do not want to be sold products - they want to buy into a narrative around the brand that ties into their values.

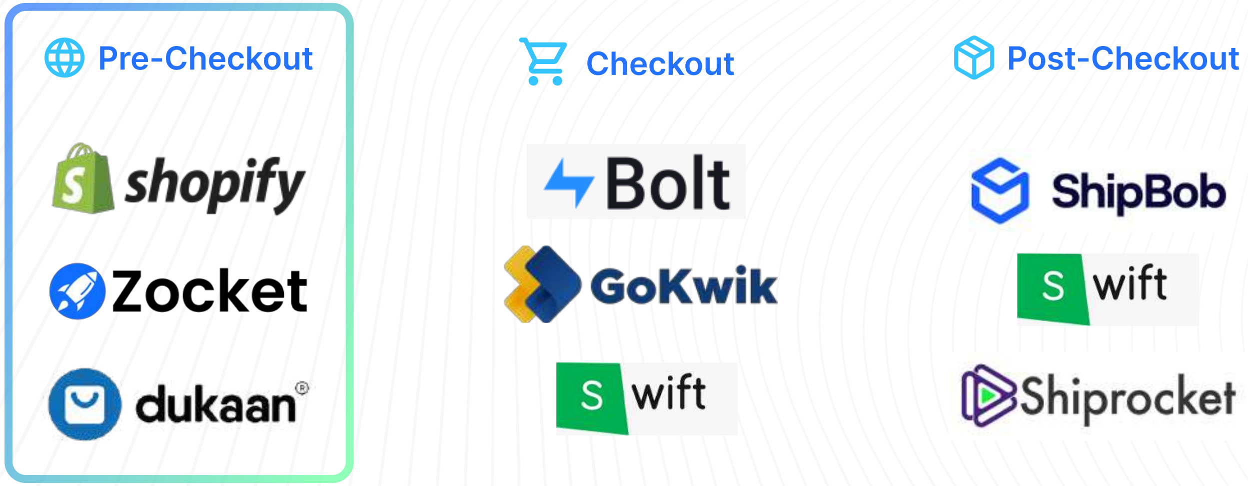
As an E-Commerce SaaS player building in this space - developing a deeper understanding of the influencers on your network that goes beyond follower counts and engagement is the key to cracking clients.



E-Commerce Enablement

in the next decade

Pre-Checkout: Driving the customers intent to purchase



Pre-checkout covers all the decisions that the user must make prior to deciding what to buy. Comparing this to offline purchase behavior provides a useful analogy: shop owners need to list their wares and distribute pamphlets to get people into their stores. Once people are inside, they will walk around the aisles and browse through the offerings before deciding what to buy. This is exactly what happens online as well: merchants must find ways to list their products as well as advertise them across channels. They can also nudge customers to increase their cart value by suggesting products that are often bought together.

We will be discussing two major aspects of the pre-checkout journey here:

Digital storefronts that enable merchants to reach their customers wherever they may be: chat-apps, social media feeds, or even dedicated mobile applications.

Marketing automation tools that provide merchants with the ability to create content, target users and granularly analyse the impact of their campaigns.

DIGITAL STORE-FRONTS POWERING D2C COMMERCE

Website builders have been around for a long time. Wordpress has been a trusted tool for many E-commerce operations. Famously, Etsy and Walmart's websites are built on top of Wordpress itself!

But user behavior online is evolving, making it difficult to draw customers directly to your website. In such an environment, we see tools emerging that can create new storefronts at other online touchpoints: such as when users are browsing their social media feeds or even while they are chatting with their friends online.

PRE-CHECKOUT | CHECKOUT | POST-CHECKOUT

Digital Storefronts & Chat-based Commerce · Marketing Automation Tools · One-Click Checkout · Customer Loyalty · Logistics & Orchestration

$5B

Storefronts opportunity by 2025

Combining subscription plans and transaction fees, we estimate that storefronts present a $5B opportunity by 2025. We see two types of emerging tools for digital storefronts.

Creator-led store fronts – these are mobile-first platforms that enable creators to plug in products that they want to recommend to their audience.

Conversational/chat-based commerce – these tools enable you to purchase through the simple act of using your favorite chat app.

LTK

- LTK (Like To Know) generated **$3B in GMV** for brands last year, & charged ~15%-17% commissions – with ~10% paid out to creators.
- Apart from helping creators set up store fronts, **LTK provides analytics and marketing support**, & leverages this data to facilitate connections between creators & brands.

Creator-led Storefronts

Consumers are increasingly discovering brands through their social media feed – employing content creators has become a cheaper means of customer acquisition for brands. On the flip side, creators require avenues for monetization beyond ads – the advertising model is able to generate sustainable revenue only for top creators.

As a result, we are seeing the rise of creator-led commerce - creators driving purchase decisions through the influence that they wield.

Entrepreneurs building in this space should keep the following things in mind :

What creators want

Creators are willing to try new platforms that provide them with avenues for monetisation. But creating new content with the sole aim of monetising takes a great deal of effort on the creator's part. Instead, if you are able to empower the creator with tools that turn their existing content repository into shoppable pieces, then time-to-value from a creator's standpoint is reduced. In a world where multiple platforms are vying for the same creators, this can be an important advantage that drives creator loyalty.

What brands want

Brands come to these platforms with clear goals: either they want to reduce their cost of customer acquisition and drive purchases (business-related goals) or they want to improve the perception of their brand by engaging with creators (branding/reach-related goals). Building deeper intelligence around their creators enables platforms to go beyond follower counts and expected reach: composition of followers, product categories that will work well for a collaboration, and even values that the creator stands for.

Unit economics for these platforms goes through a period of evolution considering the tough nature of building a three-sided marketplace that caters to users, creators and brands. However, paying minimum guarantees to creators in the early stages of platform building can be a double-edge sword : creators are loyal only due to the fixed pay out they are receiving and have limited incentive to actually push for more transactions.

We are at an exciting time in the journey of creator-led commerce in India. The likes of Zaamo, Hypd, Hype, Wishlink, ShoutO and Shop The Looks are building in this space.

Start-ups building in this space

Z HYPD. h hype wishlink Shouto

Chat-based Commerce

Chat commerce enables brands to interact and transact with customers through messaging in real-time.

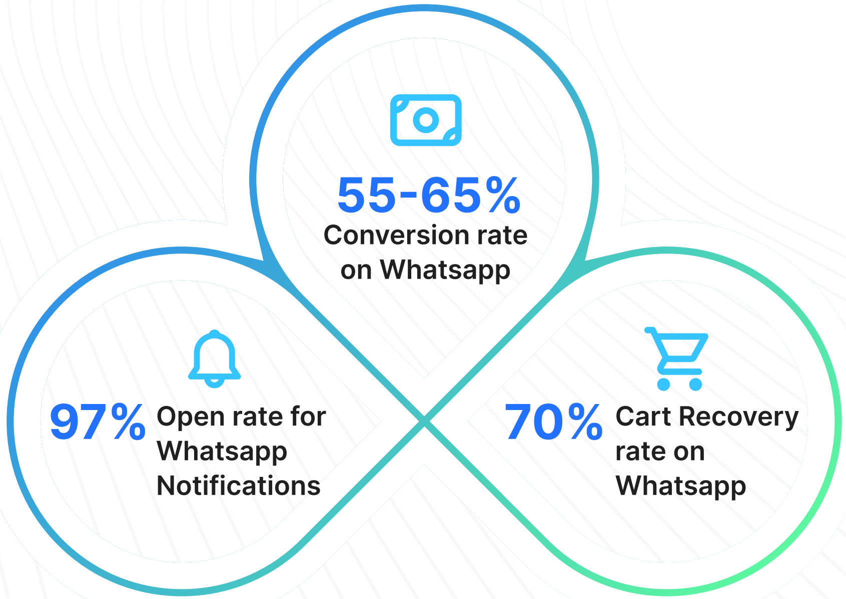
One of the main reasons that professional messaging communication is seeing such success is simply because messaging apps have enormous reach, globally.

Chat commerce entails the full commerce journey from product discovery, placing an order, making payments, tracking deliveries, chatting to a live agent, resolving issues and providing feedback.

Therefore, the technology stack needs to support the entire customer experience lifecycle to unlock the full potential of commerce in chat. The likes of Haptik and Limechat are building solutions in this space that simplifies the commerce journey for retailers.

The rapid advancement of AI technologies like ChatGPT provide a window to the future. While it is bounded by the depth of its training data set, the long-term promise is that these technologies will enable people to move away from search boxes to interactive Q&A instead.

Unlike Facebook and YouTube, communication over messaging apps like WhatsApp is personal and direct. India has even more WhatsApp users than social media users. In 2022, India counts 487.5M WhatsApp users. This makes India WhatsApp's biggest market, after Brazil, with 118.5M WhatsApp users.



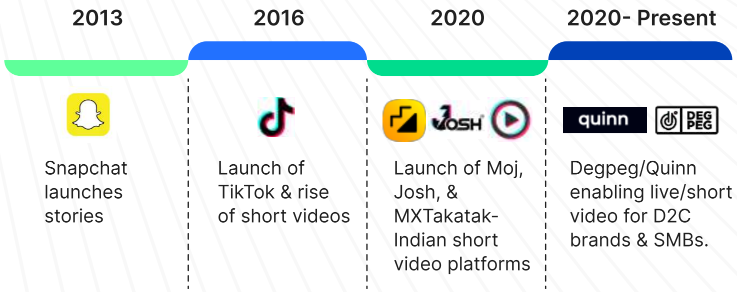
Companies can now send more types of proactive notifications to people that opt-in to receive them.

- Share visual reminders of products that are left abandoned in carts
- Brands can send personalized offers to customers, apart from providing shopping assistance
- Order tracking and delivery updates allow consumers to be aware of delivery timelines

JioMart BETA

Chat-based commerce is being embraced by some of the biggest names in Indian retail. In August'22, Meta launched grocery shopping on WhatsApp in association with JioMart. JioMart on WhatsApp will enable people in India, including those who have never shopped online before, to seamlessly browse through JioMart's entire grocery catalog. Shoppers can add items to their cart and make a payment to complete the purchase — all without leaving the WhatsApp chat.

One of the key emerging opportunities that we see is personalisation of storefronts based on newer media formats like stories and short videos. The likes of Quinn and Degpeg in India are building for this thesis.



THE PROMISE OF MARKETING AUTOMATION TOOLS

PRE-CHECKOUT | CHECKOUT | POST-CHECKOUT

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John Wanamaker was founder of America's earliest department store, Oak Hall in the 1870s. His company collected specialty shops under one roof - Wanamaker was noted for his successful use of advertising, and he was one of the first major merchandisers to employ advertising agencies. Wanamaker famously said, 'Half the money I spend on advertising is wasted; the problem is I don't know which half'.

$3B

Marketing automation in India is expected to reach (in 2025)

Rise of Social Media Usage: India MAU (Monthly Active Users)

230M	**108M**	**467M**
Instagram	Snapchat	YouTube

With Apple's recent changes in privacy policy, CAC for consumer businesses has been on the rise (grown 7x in the last 3 years). Business owners are caught in a dilemma between spending on brand building (where impact is not immediately measurable) vs spending on performance marketing (where efficiency is plummeting). In such an environment, tools that help business owners profitably acquire customers, retain them, and retarget them for future use cases will see a massive adoption.

Exhibit 7: Globally digital ads are booming, by 2025, ~70% of global ads will be digital

Global Ad Spend Ranking

Country	2019	2022	2025
US	1	1	1
China	2	2	2
Japan	3	3	3
UK	4	4	4
Germany	5	5	5
India	9	9	7

Despite being the 5th largest country (by GDP), India lags behind in Ad spends

Digital Ad Spending Worldwide ($Bn): % of total media ad spending

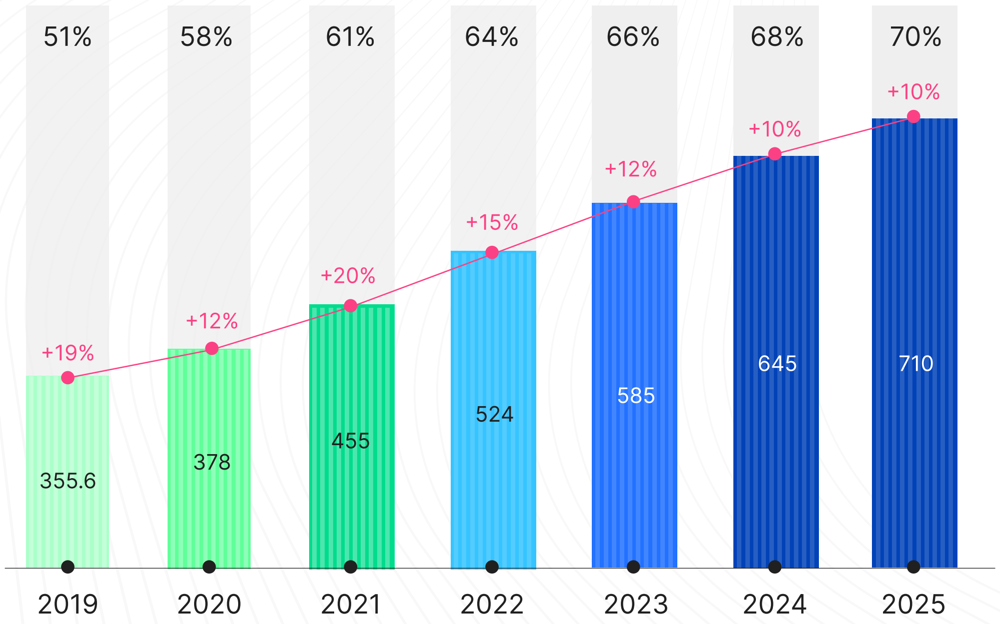
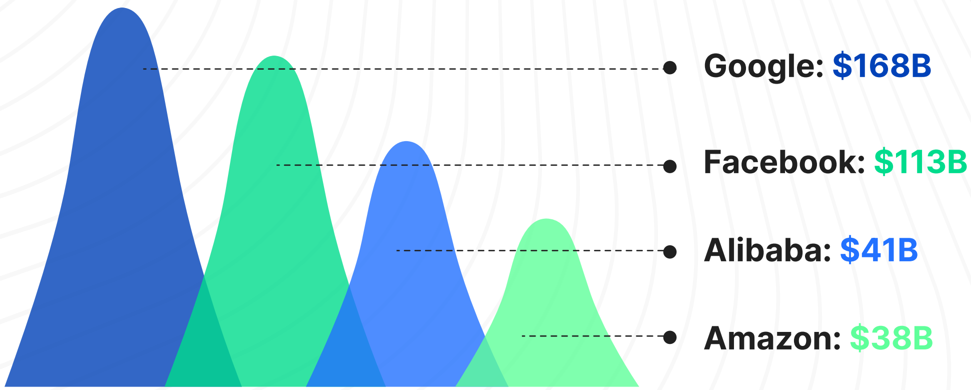


Exhibit 8: Major global digital ad sellers (2022)



Nearly 40% of all Digital Marketing spend is on Google, Facebook, and Amazon.

KEY OPPORTUNITIES IN PRE-CHECKOUT

Tools that enable improved AOVs through cross-selling and upselling
Once a customer has completed a purchase, it is possible to serve them a personalised set of offers and products that drives a higher purchase value in the same interaction or pushes them to come back for another purchase.

The likes of Carro, Rokt, Canal and Disco have built large businesses in the US based on the same premise. However, in India – the post order purchase experience still requires personal and payment details to be refilled which makes this a slightly broken experience.

Tools that enable brands to build multichannel shopping experiences
Today, brands are struggling with CPM on traditional ads. Click throughs on affiliate commerce are falling as well. Managing multiple sales channels for brands is also a pain due to effort of integration and consequent syncing of inventory.

In such a situation, the ability to simplify multichannel sales is a large opportunity. ~60% of online shoppers in India purchased impulsively at least once in 2021. This involves solving for two key challenges : a) Enabling any app or website to effortlessly become a channel for affiliate commerce b) simplify operations on the brand's side so they can manage these orders easily.

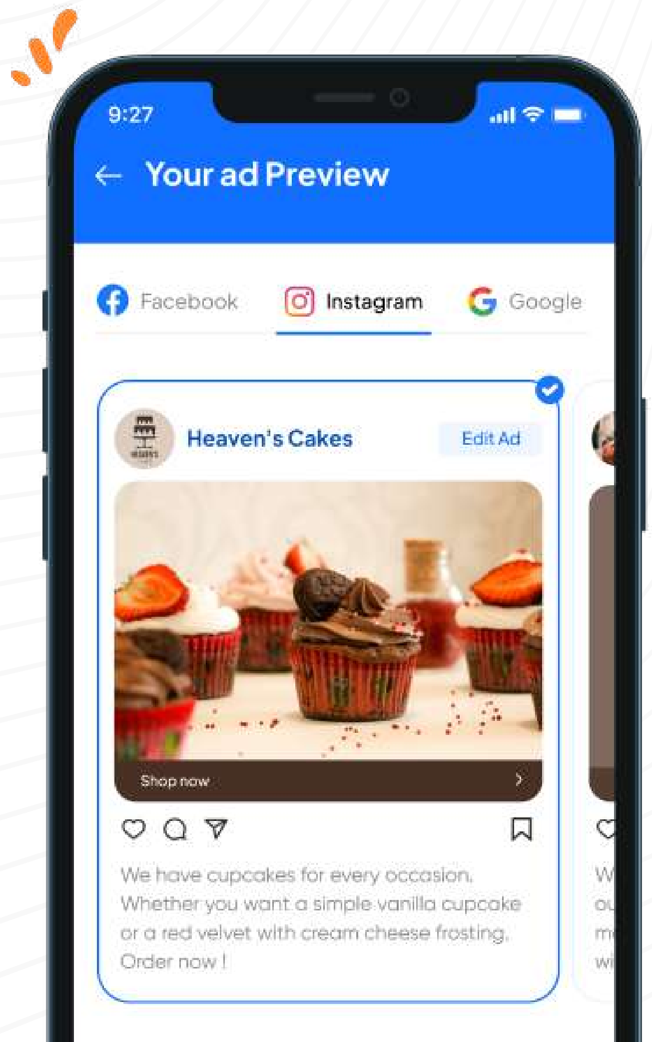
Tools that simplify content generation for marketing and ads
SMBs today end up hiring content marketers or advertising agencies to generate copy for them. Simplifying this process by helping business owners generate instant content, publish advertisements across different platforms while optimizing for ad spends is a key pain point to solve for.

With the launch of GPT3, we are also seeing the rise of Grammarly-like tools that enable marketers to easily generate content by simply providing prompts. These tools help generate SEO optimized content instantly.

Zocket

WHY CHOOSE ZOCKET?

Say good-bye to hard work when you can be way smarter with AI



Roughly 47% of total global digital ad spend comes from SMBs. India has 70M SMBs. However, >60% of SMBs in India do not have a digital marketing strategy and most find it challenging to manage online ads. SMB growth and lead-gen are becoming heavily reliant on digital marketing which has challenges including
1) Content creation
2) Ad campaign management across multiple platforms, and
3) Ad spends optimization & analytics.

What if every SME has access to a digital marketing agency on demand? That is the problem Zocket decided to solve.

Zocket has built an end-to-end tech platform that helps generate instant content using generative AI, publish across different platforms, and optimize ad spending for the highest ROI. The product is mobile-first, launches campaigns in minutes, and incorporates multiple vernacular languages.

Zocket has launched an Invite only Beta Access for businesses on Google Play Store. Currently they acquire businesses that have their social media presence setup – either through Facebook, Google or other social media platforms.

PRE-CHECKOUT | CHECKOUT | POST-CHECKOUT

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Checkout: Reducing friction in closing the transaction

Pre-Checkout	Checkout	Post-Checkout
shopify	Bolt	ShipBob
Zocket	GoKwik	Swift
dukaan	Swift	Shiprocket

amazon

In 1999, Amazon secured a patent for a 1-Click button for ordering. It represented a breakthrough for the idea of hassle-free online shopping. One-click buying helped alleviate shopping cart abandonment while creating a massive database of customer payment and preference information.

Now that we have user intent to purchase, it becomes important to close transactions quickly. In physical retail, once the customer has decided what they want to purchase, they often have to wait in line at the checkout counter for billing and payment. Purchase intent is high in brick-and-mortar and people rarely decide to leave without purchasing what they came for. However, customers online have multiple distractions to deal with – coupled with this, a complicated checkout process or unclear pricing can be a recipe for disaster.

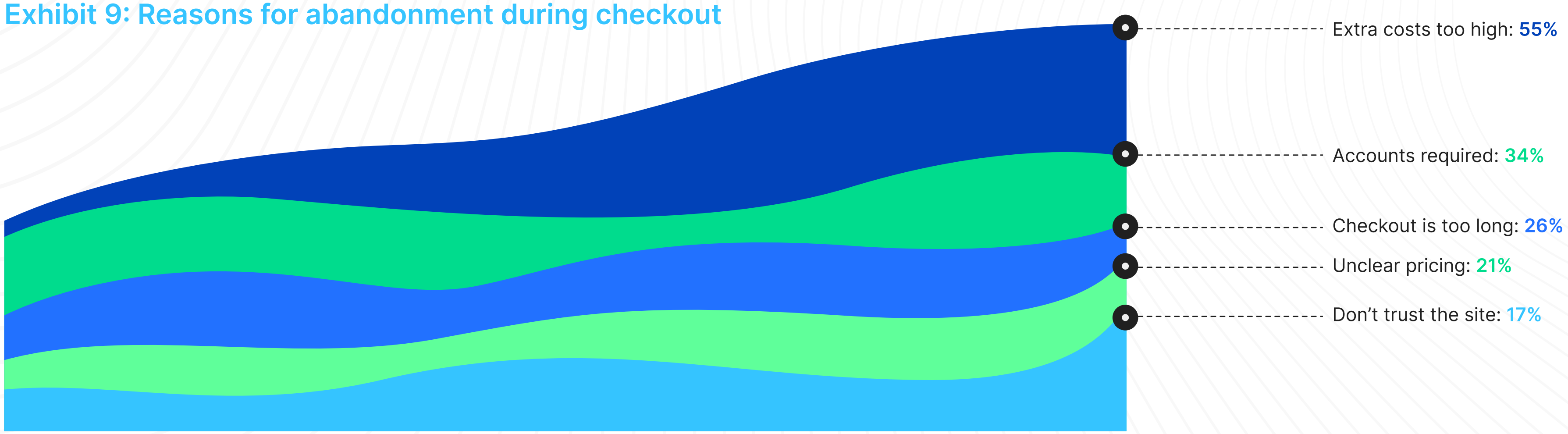
Globally, startups like Bolt have raised more than $200M with the goal of providing a seamless online purchase experience — input all your information once, and then never again. As more consumers use these platforms, there is greater data available to build stronger anti-fraud tools and checkout personalisation technology

51%

Average cart abandonment rate in India

The average cart abandonment rate in India is about 51%, but in some industries it can climb to 70-75%. The numbers go higher during festivities and the holiday season when the competition for consumer attention skyrockets. Major reasons behind cart abandonment are listed below. The likes of **GoKwik, Swift, Xpresslane, Shopflo** are solving for this pain point by building one-click checkout services for merchants.

Exhibit 9: Reasons for abandonment during checkout



Key opportunities in checkout

One aspect that entrepreneurs building in this space should consider is the closed loop ecosystem that gets built based on the payment provider. For example, Shopify has its own checkout product called Shop Pay – but Shopify insists that payments are also processed via its own payment gateway. This provides an interesting nuance to the problem, while also creating an opportunity for entrepreneurs to build solutions that have wider integrations across infrastructure providers.

Post-Checkout: Order Fulfilment & Customer Loyalty

Pre-Checkout	Checkout	Post-Checkout
shopify	Bolt	ShipBob
Zocket	GoKwik	Swift
dukaan	Swift	Shiprocket

Once the customer has completed the purchase, goods need to be transported to the customer's address – this is where logistics players can play a key role in driving efficiencies as well as improve customer experience by meeting Service Level Agreements and providing seamless tracking services.

In an E-Commerce transaction, fulfilment of the order may be the only time that D2C brands have a physical interaction with the consumer. Logistics has traditionally been viewed as a cost centre for businesses – with the rise of quick commerce, purchase decisions are being driven based on speed of delivery. **This also means that logistics is moving from a cost centre to a revenue centre in some cases.**

PRE-CHECKOUT | CHECKOUT | POST-CHECKOUT

Digital Storefronts & Chat-based Commerce · Marketing Automation Tools · One-Click Checkout · Customer Loyalty · Logistics & Orchestration

There is also a layer of customer loyalty that can be built through rewards programs. As we have discussed earlier, customer acquisition is hard by itself – but having acquired a customer, retaining them is the fundamental goal of any business. To achieve this, curated discounts, notifications to replenish purchases as well as information around new launches can be helpful in bringing customers back to the platform.

This is broken today on both sides: customers as well as brands. Customers are unable to get a hold of what sort of discounts are available to them, and what offers they are eligible for – marketplaces have solved this to some extent, but individual brands do not have infrastructure built around this. It is usually delegated to someone on the customer success team to reach out to customers and understand their reviews as well as to notify them regarding sales and new launches.

There is a huge gap in customer expectation versus service delivery in this regard – while also providing an opportunity to drive customer loyalty.

We believe platforms which help merchants launch and manage product protection and warranty programs across categories will be needed as D2C commerce gains momentum.

SEAMLESS AND RELIABLE ORDER FULFILMENT - THE POTENTIAL FOR LOGISTICS SAAS

Logistics is a $200B market opportunity in India today, but E-commerce logistics remains a small piece of that pie at ~$2B – 60% served by third party logistics players. E-commerce logistics is expected to grow to $8B by 2025, driven by increasing penetration as deeper coverage of fulfilment infrastructure in Tier 2/3 and beyond.

$200B

Logistics Market opportunity in India (2022)

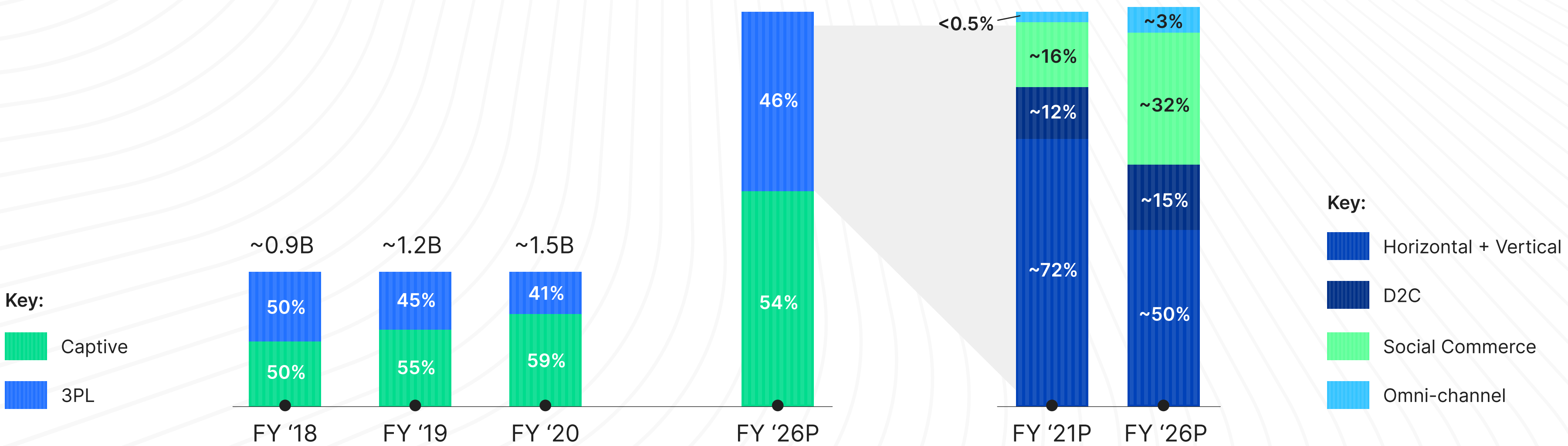
$8B

E-Commerce logistics market by 2025

$2B

D2C logistics market by 2025

Exhibit 10: Split of E-Commerce logistics shipments



KEY OPPORTUNITIES IN POST-CHECKOUT

E-Commerce logistics for D2C brands alone is expected to hit $2B during the same period. Consumer brands are mostly focused on their own product development and brand building. There are a suite of services centred around fulfilment orchestration and RTO reduction that can be offered by external platforms.

Data-driven decision support
A brand's return policy is a major factor in the decision-making process while buying online. Lenient returns policies drive impulse purchases and loyalty, however reverse logistics costs ~1.5x regular forward logistics — storage of these items is also a concern. Receiving wrong or damaged products are the largest cause for returns from consumers, which also drives churn. However, it is possible to predict potential returns based on customer behaviour, payment mode usage and pin code coverage of the shipping partner.

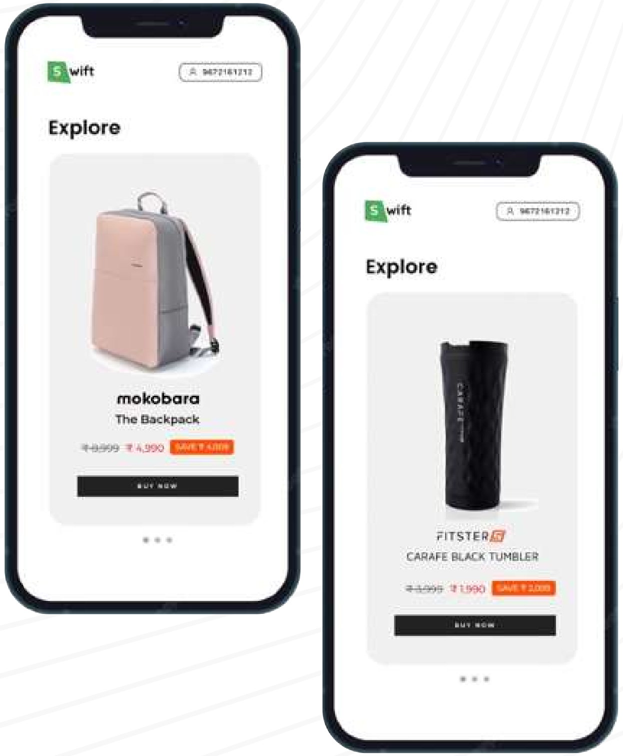
Advanced data analytics capabilities when applied to integrated supply chain data has enabled new-age players to create more opportunities to optimize decisions such as facility placement, inventory management, fulfilment route selection, truck selection and fraud detection.

Hardware and software automation
Warehouse and Transportation Management Systems (WMS/TMS) are automating business workflows, reducing paperwork, and improving operational visibility and precision. Further, investment in automation and robotics are improving operational throughput and precision, thereby lowering human errors and operating costs.

OUR INVESTMENT

360º POWERFUL E-COMMERCE SUITE

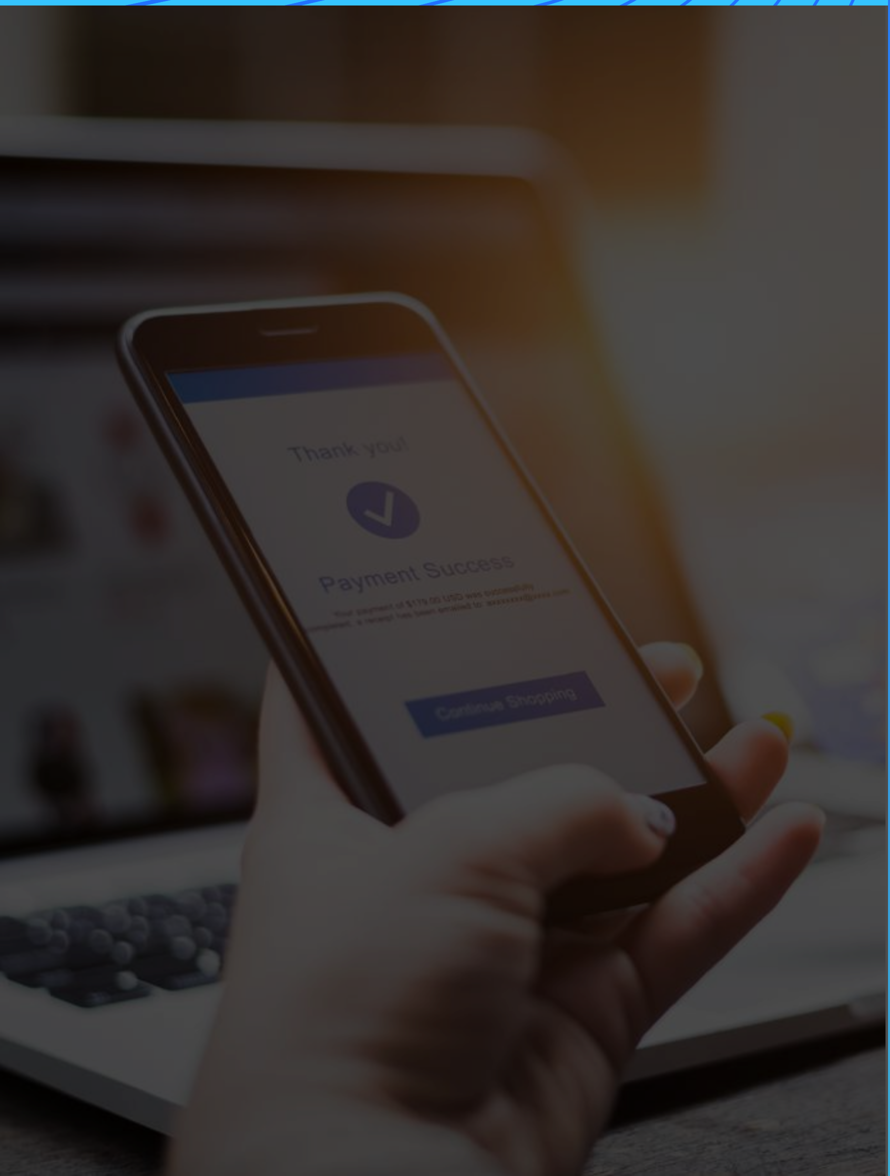
Upscale your business and maximize your revenue by 2x



Swift has built a fulfilment platform for D2C brands and SMEs which sits on top of 3rd party logistics (3PL) players. They provide automated selection of logistics partners as well as automated non-delivery reports (NDR) and insights around return-to-origin (RTO) reduction. The platform also provides retailers with a single-view dashboard with order level tracking, coupled with insights on abandoned carts and retargeting tools.

Swift Checkout provides a one-click checkout for consumers by storing all their payment and address details. Brands benefit through reduced cart abandonment. Swift's offering will also provide them the capability to offer a one-click sign on for brands. Swift has built the foundation of their product with a focus on scale, performance, and security.

Swift has grown 8x in terms of GMV processed over the past year. With their platform-first approach, Swift has evolved from providing just shipping solutions to enabling E-Commerce end-to-end.

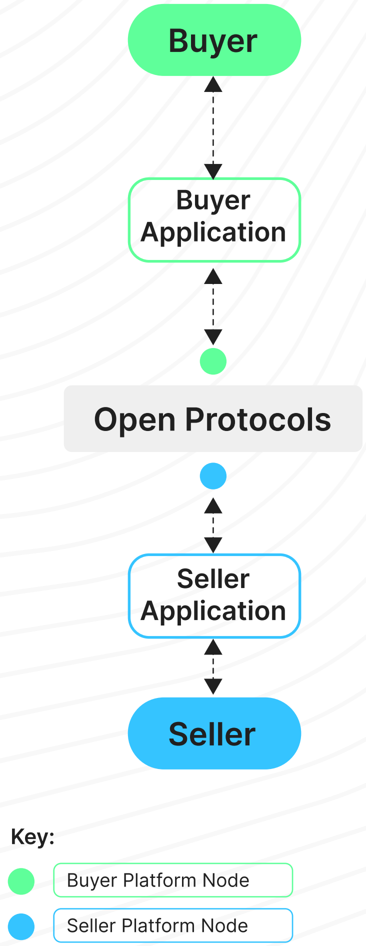


Impact of ONDC

UPI moment for E-Commerce?

Overview

Exhibit 9: Open-Network-centric E-Marketplaces



Source: ONDC, Jefferies

Over the past few chapters, we have covered how product discovery is moving away from static websites to social media feeds. But discovery can happen at different touchpoints, e.g. on the tracking screen for pending shipments or on payments' applications. We will now cover an important technological infrastructure that the government plans to launch to boost E-Commerce beyond the traditional portals.

ONDC (Open Network for Digital Commerce) is a community-led network that aims to create an open, inclusive & competitive marketplace. Currently, marketplaces have end-to- end control, right from seller on-boarding, customer acquisition, order fulfilment, complaint redressal and managing payments. ONDC will 'unbundle' this complex system into separate micro-services that can be addressed separately.

Just as UPI enables instant P2P payments, ONDC's protocols promise to help shopkeepers discover customers across multiple apps, along with options for logistics and fulfilment. The promise of ONDC is that it will deliver equal opportunities to all market players and consumers – Amazon and Flipkart today control 60% of the online retail market. **An unbiased, open-source E-commerce network will help set clear policies for cataloguing, vendor matching, and price detection.**

This means that a large client base can be reached without enrolling on several sites and all online firms will benefit from increased visibility and equitable access to growth prospect. For example, even if a seller Z is listed on platform C, while the end-customer is listed on platform D, the end-customer can directly buy items of seller Z without being listed on platform C right from the ONDC network.

OPPORTUNITIES TO BUILD ON TOP OF ONDC

While it is still in its early stages, ONDC has the potential to become a pivotal infrastructure that unlocks commerce for SMBs. We see the following opportunity areas for startups to innovate and solve for:

Intent plays a key role in driving E-Commerce transactions. We open the Amazon/Flipkart/Myntra app with the intent of browsing through the catalogue or making a purchase. However, with ONDC – it is likely that you open your payments app or OTT app, and are served with suggestions for products that you might like to purchase.

Contextualising and personalising discovery of products will be a critical aspect in driving intent as well as purchases. Faster checkouts to reduce drop-offs and cart abandonments will also play a key role in driving transactions.

On the logistics front, we see that sellers will have to tie up with individual providers to ship their products. Considering that they will have multiple orders across platforms, there is an opportunity to use an intelligent 4PL layer to orchestrate these deliveries across sellers and logistics providers.

Since sellers will have to aggregate orders across multiple platforms – there is a need for an intelligent order management/inventory management system that can streamline operations for business owners and help them avoid going out of stock.

As many as 200 sellers from ~15 cities have already joined the ONDC network and many more are expected to follow suit. Currently, brands can get onboarded on ONDC by integrating with seller applications like eSamudaay, Digiit, GoFrugal, Growth Falcons among others. Interestingly, media reports have said that ONDC will keep referral commissions capped at 3-5% at a later stage (for now, it is free). Currently, businesses have to pay 23%-28% commission on the cart value for selling their goods online through marketplaces. On the buyer side, E-commerce remains a matter of trust. While many large players have tried to offer embedded E-commerce offerings, they have struggled to scale.

There are plans to create an online dispute resolution framework in case of failure - whether delivery-related, payment-related or product return-related – which is a key driver for purchase decisions.

But this infrastructure can go beyond just E-commerce. ONDC and the National Bank for Agriculture and Rural Development (NABARD) are working on a programme to bring the network to the agriculture sector with the belief that ONDC may be an invaluable tool to assist farmers in finding the right prices for their produce. India has struggled to offer a single Agri market for all agricultural and allied products for a long time. But a solution may not be elusive anymore.

While there are open questions around the operations of ONDC – it still holds the promise of bringing non-digital savvy retailers into the ambit of E-Commerce.

“ONDC's role is 3-fold:

Creating a digital rating of buyers/sellers/ products that is verified

Handholding for retailers /wholesalers to join the network seamlessly;

Act as a regulatory body for transactions that happen on the network.”

- T. Koshy, CEO of ONDC

Conclusion

While understanding your consumer is important in any sector – it takes on an added significance in the context of E-Commerce in India today.

Brands and vertical commerce platforms will emerge to cater to the specific needs of each niche and consumer segment. We believe there are large opportunities in enabling these brands to provide the most seamless purchase experience for their customers. While the term D2C conjures up an image of the 400+ VC backed digital-first brands, there is a much wider base of **250K online merchants and 20M retail focused SMBs that need support.**

$5B
Market for digital storefronts

Emerging digital storefront tools like **creator-led discovery and chat-based commerce** provide an opportunity to acquire customers directly in their social media feeds or chat application. Use of **short-form video to drive purchase decisions on websites** is an emerging opportunity as well.

$3B
Marketing automation tools

Measuring ROI from ads will become a critical factor in driving adoption from retailers and we see an **emerging opportunity in simplifying and automating content generation for ads** among other whitespaces.

$8B
Logistics for E-Commerce

Advanced data capabilities have enabled optimizing fulfilment decisions such as **RTO reduction, facility placement, inventory management, fulfilment route selection, courier allocation and fraud detection.**

As established entrepreneurs look to increase their TAM, we believe there are opportunities for E-Commerce enablers to **expand into sub-Saharan Africa and Southeast Asia where E-commerce adoption is approaching an inflection point.** Another interesting development is the creation of geo-specific Shopify alternatives: for eg. Nuvemshop has become the go-to platform for merchants in Latin America.

At Kalaari, we are excited by the potential for E-Commerce in India and are looking to back promising founders. If you or someone you know is building solutions that enable E-commerce, we'd love to hear from you.

Reach out to us at **ecomm@kalaari.com**.

About Kalaari

Kalaari Capital is an early-stage, technology-focused venture capital firm based in Bengaluru, India. Since 2006, Kalaari has empowered visionary entrepreneurs building unique solutions that reshape the way Indians live, work, consume and transact. The firm's ethos is to partner early with founders and work with them to navigate the inevitable challenges of fostering ideas into successful businesses. At its core, Kalaari believes in building long-term relationships based on trust, transparency, authenticity, and respect.

For more insights, follow us on:

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