

Democratising digital commerce in India

An open network for inclusive, competitive marketplaces

—
Sub-Report on
Fashion &
Lifestyle

May 2023

A woman with dark hair, wearing a blue and white patterned sari, is looking down at a piece of fabric she is holding. She is smiling slightly. The background is blurred, showing other people in a market setting.

This booklet is an excerpt from the Fashion & Lifestyle section of the report 'Democratising Digital Commerce in India' and is based on joint research conducted by ONDC and McKinsey & Company. The complete report covers 11 sectors. To access the full report, please use the QR code provided below.



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Fashion & Lifestyle

India's fashion and lifestyle sector could double by fiscal year 2030 to a market size of \$220 billion. The rapid growth of digital commerce, at a CAGR of around 28 percent during this period, could create an even more vibrant sector that makes space for a range of stakeholders—from the largest brands to the smallest independent sellers and from big-city buyers to small-town and village-based customers.



The landscape

India's fashion market—historically unorganised—has evolved quickly, with around 35 percent of the fashion market organised and 10 to 11 percent now digitalised.¹

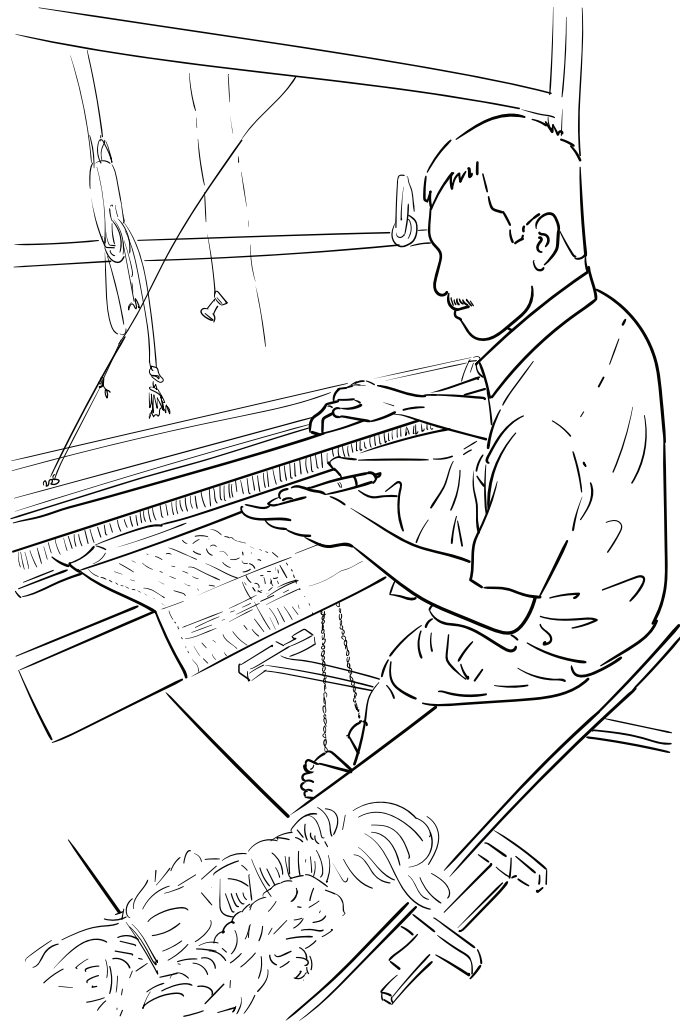
The rapid growth of digital commerce is blurring the boundaries of style that would otherwise separate large and small towns. Trend-based, fast-fashion brands are bringing runway styles to the consumer within weeks, and Instagram influencers are educating a new wave of fashion consumers in novel trends.

As new brands emerge to define their own styles and language, a wider, more inclusive marketplace could allow them to grow out of the boundaries of a platform and compete head-to-head with private labels. A plethora of diverse providers—ranging from haute couture to mass-clothing designers and supported by a vast network of bespoke fashion players (tailors, dry cleaners, and embroiderers)—form the backbone of local fashion markets. India's fashion and lifestyle sector is valued at approximately \$110 billion and could double to \$220 billion by fiscal year 2030, with the fastest growth expected in the online segment (Exhibit 1).

The ability to shop online can transform wardrobes regardless of geography and demographics. However, only 10 to 11 percent of fashion commerce takes place digitally.² The United States and China were at that number nearly eight years ago through significant investments in digital commerce by players such as Amazon and Alibaba and offline retailers expanding to omnichannel play.

Digital commerce penetration is also significantly skewed towards tier-1 markets (around 30 percent), with only 5 percent penetration in tier-2+ markets. Things could change dramatically by the end of this decade if digital commerce grows at the projected rate of 26 to 28 percent, soaring to a third of the overall market size (more than 35 percent).

This growth could also stem from the growing clout of the influencer ecosystem (57 percent of fashion and beauty brands use influencers to promote their products). Around 86 percent of women in India turn to social media for purchasing advice before buying branded fashion products.³ Social commerce would showcase both the inspiration and the opportunity to shop on online platforms, especially for celebrity- or entertainment-led merchandise.








¹ All numbers in the fashion landscape are taken from syndicated McKinsey research.

² ET Retail.

³ Digital Marketing Institute Study.

The fashion and lifestyle market in India is expected to double to about \$220 billion by fiscal year 2030.

Fastest growth is expected in the online segment

Category	Overall market size, \$bn			Online market size, \$bn		
	FY22	FY30E	CAGR 22-30	FY22	FY30E	CAGR 22-30
 Apparel	64-66	128-130	9-10%	5-7	42-44	27-29%
 Footwear	12-14	24-26	9-10%	1-2	8-10	25-27%
 Accessories	4-6	7-9	5-6%	0.4-0.6	0.5-1	13-15%
 Home ¹	27-29	54-58	9-10%	4-5	24-26	25-27%
 Fashion and Lifestyle	\$108-112	\$220-224	8-10%	\$11-13	\$80-82	26-28%

¹ Includes gardening, home improvement, smart home, furnishings and furniture; home and kitchen appliances not included.

Barriers to digital commerce and potential solutions from ONDC.

Brands and channels



Barriers to digital commerce

- The **return rate of 25 to 30 percent** for online purchases is a massive challenge for fashion retailers (versus 8 percent for general merchandise):
 - Sellers face high costs due to full-refund policies on returned products and additional logistics costs to pick up the returns.
 - Instances of wrong product returns and unsettled claims can sometimes result in a write-off and loss for the seller.
- Commissions affect the **thin margins for smaller brands and sellers**.
- Sellers also face stiff **competition as leading marketplace private labels** have captured a significant volume of the online fashion market.
- **Operational and financial hassles** pose challenges to online business. For example, sellers need to digitalise and update their inventory regularly and maintain minimum inventory requirements online for order fulfillment.¹
- Sellers might need help **competing on prices and managing working capital** for everyday costs.

Consumers



Potential use-cases

- Leading technology providers on the network could **offer customers features such as virtual try-on** and recommendations, potentially lowering the return rate.
 - Seller apps could **digitise and onboard bespoke fashion providers** that offer tailoring services to customers to reduce returns and cut logistics costs.²
 - **Cost synergies** with the existing business for the buyer and seller apps could reduce take rates and grow profit margins for brands and sellers. Buyer and seller apps could utilise a portion of human resources (e.g., technology, HR, and finance teams) and infrastructure (e.g., customer support, IT, office spaces, etc.) from existing businesses to save costs.
 - The growth of eB2B could help sellers to **discover more business partners** (e.g., retailers could discover wholesalers or manufacturers offering the best prices, and vice versa) to fulfill just-in-time orders and prevent lost sales.
 - Digitalised stores could enable an omnichannel play for **higher seller discoverability** and customer mindshare – increasing seller competitiveness (Exhibit 2).
 - D2C brands that register as a seller app on the network could gain higher traffic from multiple buyer apps without significant marketing spend.³
 - An open network and new age selling formats such as social/video commerce could give smaller sellers in Tier 3 and 4 towns, market information on the latest fashion trends, helping them to **update their inventory and remain competitive**.
 - Based on historical data, financial institutions on the network could **offer credit to sellers** to meet their working capital requirements.
-
- Many customers are **discouraged by the inability to try on items** when shopping online, especially for high-ticket items or categories where fit is crucial but is hard to assess online, e.g., suits and trousers require personalisation.⁴
 - Enhanced omnichannel play could provide the **convenience of discovering the nearest offline store** to try on products before purchase.
 - Vibrant **social commerce and the P2P ecosystem** enabled by resellers and influencers could empower the customer to make a more informed purchase decision via the online channel.
 - Technology features such as **virtual try-on** present on the network could attract customers to shop online.
 - Customers could consider buying high-ticket items with **access to finance options** (e.g., EMI, BNPL) from credit lending institutions on the network.

¹At times, certain SKUs may require a minimum of 10 units in stock.

²Seller/ seller apps could provide customers with coupons to promote local tailoring so they could save logistics costs on returns.

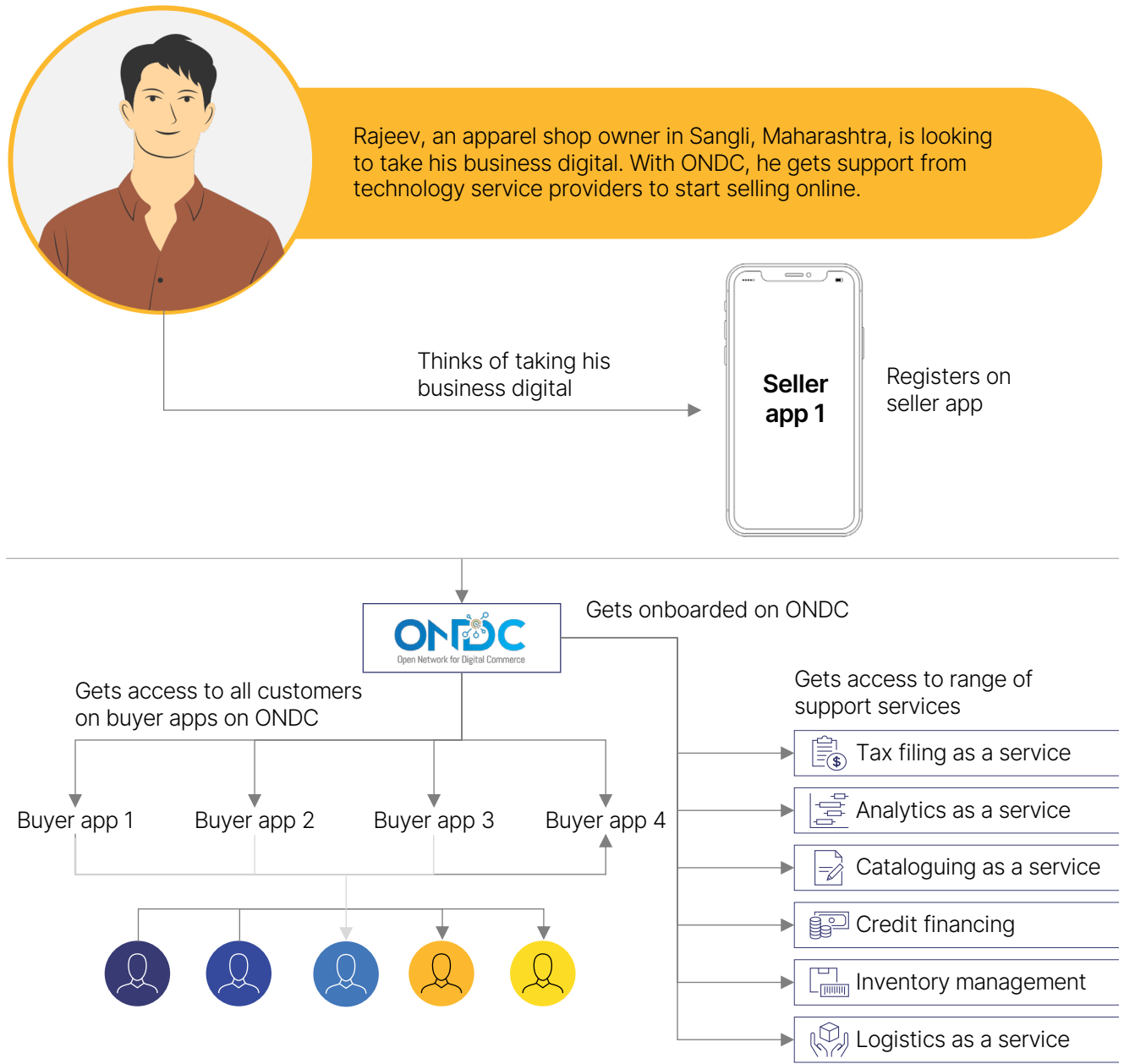
³Cost of lead generation on a D2C website would be higher as compared to that on the network that diverts traffic from buyer apps.

⁴Digital penetration of men's formal wear is only ~3% currently.

Source: Brand Equity.

New possibilities: ONDC could give a small seller access to customers across the country.

Illustrative



Four considerations to shape digital commerce in the **fashion** sector

01

Explore more interactive and exciting ways to sell fashion

With the power of fast internet, sellers could innovate to attract customers—for example, through live commerce, an immersive experience that invites potential buyers to interact and engage, via make-up tutorials or interviews with style icons. In China, a leading short-video social platform converted sales through livestreaming, with a closed loop for transactions on branded stores.

02

Support sellers to digitalise inventory

Seller apps could take the lead to support sellers on complex skills, such as digitalising the inventory management process. Technology service providers on the network could also offer services such as cataloguing,¹ photoshoots and tax management, and customer-relationship-management offerings to facilitate smooth online business.

03

Handle returns effectively

Seller apps could train sellers to properly verify and process returned products (for example, immediate dry-cleaning to make the product resale ready). Buyer apps could also use historical data across the network to create customer profiles, assess their likelihood of returning purchases, and possibly apply tailored charges for returns.

04

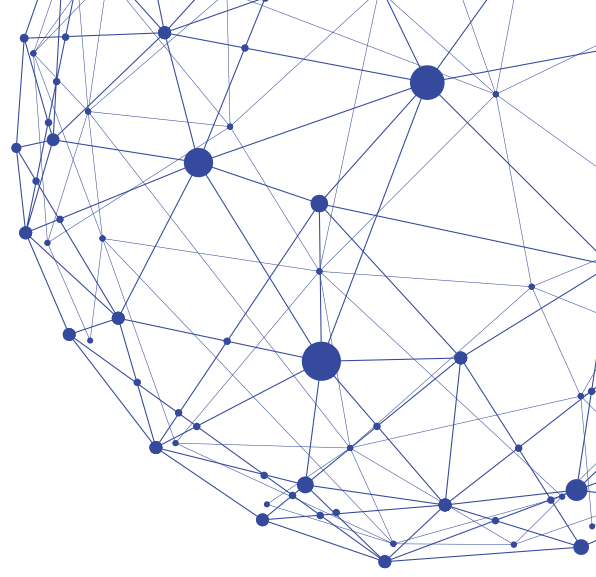
Design a robust customer interface

The customer experience is at the heart of online fashion, and the buyer app defines this experience. Buyer apps could build a best-in-class team of industry experts and technical/IT professionals to offer a world-leading, competitive customer experience. They could also collaborate with leading marketing agencies to design attractive campaigns to convert and retain customers.

Deeply personal and aspirational, fashion shopping could receive a tremendous boost through an enhanced digital commerce experience—creating opportunities for buyers and sellers and changing how Indians engage with fashion trends.

¹ Service providers could share a catalog score with the sellers with action items so they could improve their online presence.





Getting on board with ONDC

O NDC holds the potential to create open, inclusive, and competitive marketplaces in the virtual world. It will be important for companies to carefully evaluate the options available to them as they consider entering this space. This could help them to identify plays that maximise benefits from the immense opportunities unlocked by the open network. As company leaders look to make the most of the opportunities ONDC offers, they could explore the possibilities across two themes.

First, they could determine which use cases have potential to scale fast and which would take longer to yield results. And second, they could evaluate where they are best positioned to play—through the lens of the market opportunity, their own capabilities, and the consequent feasibility of investing in specific use cases. This could support them in making the most relevant investments to achieve their company's strategic objectives.

Assessing scalability

As a market maker keen to create and democratise opportunities for all participants, ONDC could catalyse a range of business opportunities in the short, medium and long term (Exhibit 3).

This answer emerged after analysing three indicators of potential to scale:

- Short term: Digitisation of existing hyperlocal goods and services
- Medium term: Scaling up and innovating in D2C businesses
- Long term: Digitising new use cases for ONDC-first business models, especially in B2B

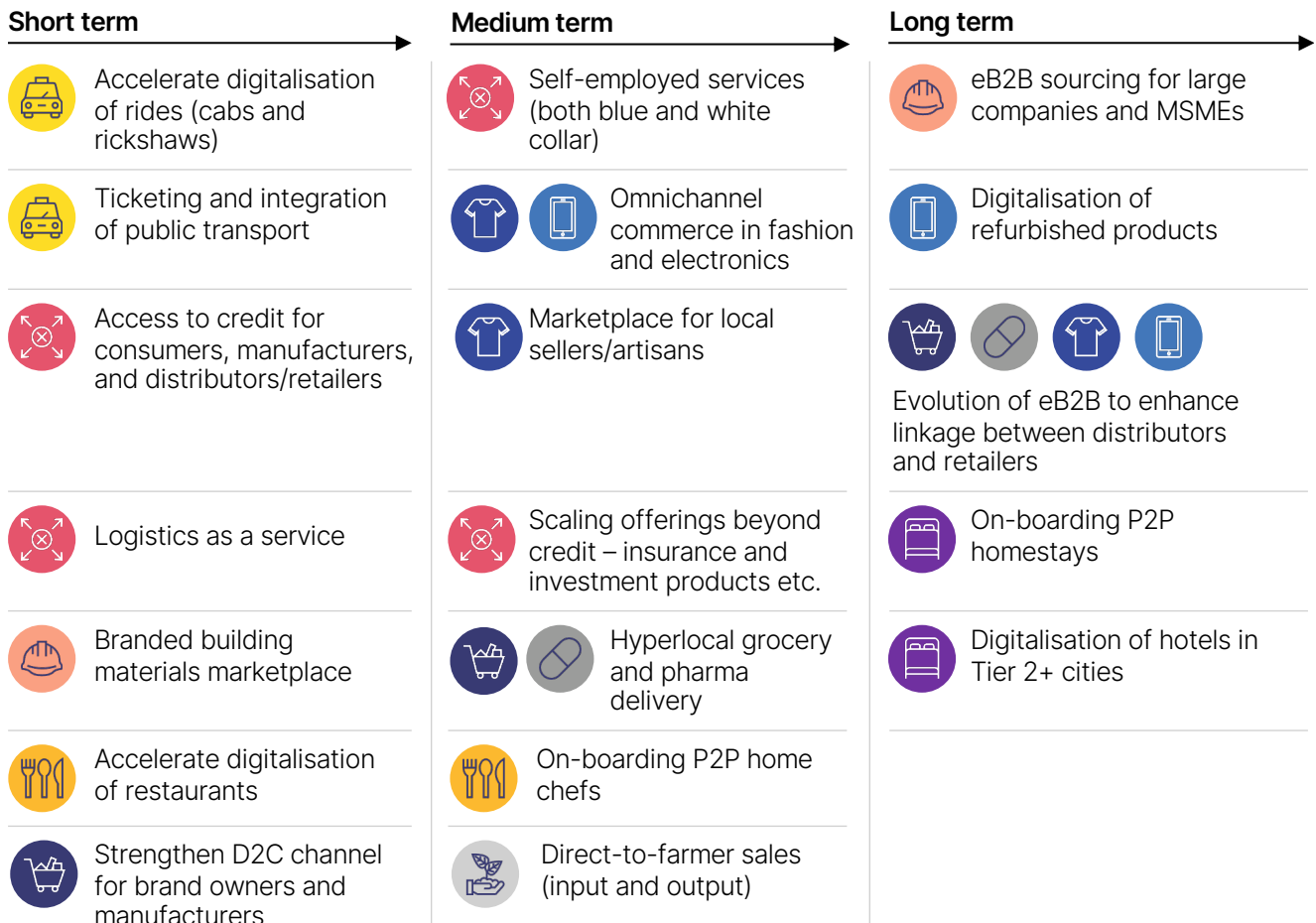
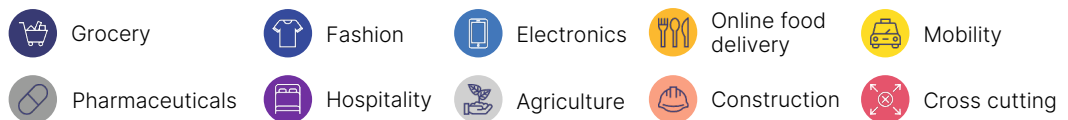
As companies think about use cases they could prioritise, it would make sense to look at their options through three lenses:

1. The use case should solve an unsolved problem.
2. It should have a ready ecosystem (for example, digitalised supply chain, standardised goods and services, or ease of logistics and fulfilment).
3. It should be economically viable.

Exhibit 3

Use cases in the short term could prove the most beneficial for driving early adoption and scale.

Not exhaustive



Identifying the best-fit use case for a company

Companies looking to develop innovative business models that tap the open network can examine the opportunity against two considerations: how to participate immediately in a fast-developing space, and how to reimagine their business for an open network and its possibilities.

Businesses need to zero in on the most relevant use cases that map to their chosen stance as a shaper or a fast follower. They can accordingly identify a pool of investable resources to help them pursue the opportunity.

If the collective investments of companies across industries can support the expansion of ONDC, they could unlock the full potential of digital commerce for buyers, sellers, third-party providers, and India as a whole. Companies and entrepreneurs must carefully consider several strategic questions:

- **Evaluate the opportunity.** How will an open network disrupt the sector? What is the problem that it will solve, and for whom? Which are the most relevant use cases for the business? What are the

potential benefits of addressing this problem? What are the potential risks and challenges in implementing these use cases?

- **Identify the capability required.**

Which role (e.g., seller, buyer, tech service provider, etc.) is the company best positioned to play? What are the key capabilities needed to execute the use case? What are the resource requirements (for instance, people, time, or money) in building out these use cases? How should governance be managed, including engagement with the ONDC core team and network participants?

- **Evaluate feasibility of the use cases.**

When should a company decide to implement or pilot a use case? Should the organisation be a leader or a fast follower? What are the feasibility considerations for executing the use case (for example, market, financial, or legal)? What should be the pilot structure for prioritised use cases including the initial investment and scale-up milestones?

ONDC presents a unique avenue for India to revolutionise its digital commerce landscape and set an example for the world, much as it did with UPI. With vast potential for a robust buyer and seller ecosystem, ONDC represents an opportunity that arises once in a decade. Stakeholders—government, industry players, and consumers—can determine how to seize this ‘tech-ade,’ putting their best, most innovative selves forward to democratise digital commerce for all.

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