Now that India shops online, how do you turn growth into profit?
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India’s still-nascent e-commerce market is growing at lightning speed. While deep discounts lured the first online shoppers and fueled e-tailers’ initial momentum, the space’s rapid evolution is giving rise to consumers who expect more than just low prices.

The new digital consumers are becoming smarter, better informed, more demanding and less tolerant of low quality. Hence, it is vital for e-commerce companies to understand their buying behavior and gain superior insights to make better business decisions that facilitate long-term success.

To look into the minds of online consumers, EY polled about 700 online respondents in six cities in India. The survey sheds light on various important aspects of online shopping in India, including the appeal for consumers, distinct buying behaviors and common operational issues facing consumers. The survey insights could help e-commerce companies understand what they can do to drive the next wave of growth.

The e-commerce space is likely to see swift action in the coming years. It could offer huge potential to buyers and sellers alike. Companies will have to be nimble enough to address fast-changing market conditions and the needs of tomorrow to sustain the momentum.

I hope you find this report useful as you engage with your customers.

Pinakiranjan Mishra

Partner and National Leader – Retail and Consumer Products
EY India
Executive summary

In India, the e-commerce revolution has become a reality. With billions in daily sales and staggering discounts, online shopping is making headlines and attracting both consumers and retailers. Traditional offline retailers are also going digital.

To better understand consumers’ online buying behavior, EY polled about 700 online respondents in six cities in India. The objective of the survey was to know:

• Why consumers shop online
• What is the demographic profile of an online shopper
• How online shopping carts vary for different consumer segments
• What, if any, are the specific characteristics of product categories sold online
• What factors influence online buying decisions
• What major challenges consumers face

The survey’s insights emphasize what e-commerce companies can do to drive the next wave of growth and sustain the momentum in a constantly evolving market of hyper-growth and hyper-competition.

Heavy discounting fueled e-commerce’s initial growth as players with deep pockets used price cuts to bring new consumers online. However, this strategy is unsustainable: it dents profitability and results in disloyal buyers who merely seek the best bargains. A company’s lasting success will depend on its innovation in meeting its customers’ needs.

Going forward, companies will have to use data and analytics to develop consumer-centric strategies that address more latent individual needs – e.g., increased convenience, timely delivery – and anticipate future challenges to outperform rivals.
1. It’s all about consumers

Sustaining in a hyper-growing e-commerce market

The e-commerce wave in India has caught on like wildfire recently, in contrast to a decade ago, when the prevalent opinion was that too many challenges – low Internet penetration, limited payment infrastructure (i.e., restricted use of credit cards), consumer psychology and behavior, logistics and warehousing issues – would prevent online shopping’s emergence.

Despite the challenges, online retail, or “e-tail,” has grown at a breakneck speed of 50%-55% compound annual growth rate (CAGR) over the last five years to reach around US$4.5 billion in 2014. The sector is expected to see similar growth going forward, driven by factors such as favorable demographics, increasing penetration of internet and smartphones changing consumer preferences.

India in 2020: e-commerce potential

### Demographics

- **Large population**: ~1.4 billion; 75% less than 50 years old
- **Household incomes** to grow 3x to ~US$18,000
- **Over 200 million** nuclear households
- **~50%** of population in middle class

### Enablers

- **e-commerce to reach**: ~US$35 billion
- **Internet users to increase**: 3x to ~600 million
- **Smartphone users to grow**: 5x to up to 700 million
- **Smartphone penetration is expected to be more than**: 50%

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Indian consumers are becoming more digitally savvy. According to EY’s recent Consumers on Board research, Indian consumers are among the most digitally savvy worldwide. More than two-thirds of India’s population owns mobile phones – nearly twice the number of those holding bank accounts. This digital consumer is able to shop anytime anywhere, thereby driving growth for e-commerce.

Given the considerable potential, even traditional retailers are launching online platforms which makes it necessary to develop an omni-channel strategy.

**How to develop an omni-channel strategy**

<table>
<thead>
<tr>
<th>Have online presence</th>
<th>Take consumer-centric decisions</th>
<th>Develop agile strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional brick-and-mortar retailers will have to integrate offline-online strategy</td>
<td>Understand what consumers want and how their needs and expectations are changing</td>
<td>Plan for future needs; segment supply chain to meet different product and channel demands</td>
</tr>
<tr>
<td>Company leadership must commit to change</td>
<td>Know what consumers really value, compared with what the company thinks is valuable</td>
<td>Use data and advanced analytics to track individual consumer</td>
</tr>
</tbody>
</table>

To succeed over the long term, companies must fully embed omni-channel in their overall corporate strategy and organizational culture. Pure-play online portals will also have to be nimble enough to reinvent themselves to keep pace with fast-changing consumer preferences. Companies will have to develop sustainable business models, keeping consumers at the center.

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6 Ibid.
Indian consumers are adopting e-commerce because of its increased convenience and different modes to access an expanded basket of goods. Additionally, cash on delivery and same day and one day delivery have addressed many consumer inhibitions.7

## Convenience, discounts: attractors; timely delivery, return policy – differentiators

### Reasons people buy online, in order of preference

<table>
<thead>
<tr>
<th>Attractors</th>
<th>Differentiators</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Convenience</td>
<td>6. Good return policy</td>
</tr>
<tr>
<td>- 40% of respondents chose e-tailing for convenience as the topmost reason</td>
<td>- A crucial differentiator; consumers prefer an e-tailer offering a good return policy</td>
</tr>
<tr>
<td>2. Discounts and cheaper prices</td>
<td>7. Timely delivery</td>
</tr>
<tr>
<td>- Consumers prefer to buy products that are less expensive online vs. offline</td>
<td>- A crucial differentiator; consumers choose service providers that offer the fastest delivery</td>
</tr>
<tr>
<td>3. Multiple product options</td>
<td></td>
</tr>
<tr>
<td>- Easy access to a wider range of goods at one place</td>
<td></td>
</tr>
<tr>
<td>4. Multiple payment modes</td>
<td></td>
</tr>
<tr>
<td>- Cash on delivery is popular among buyers ages &lt;30 years and 55+ years</td>
<td></td>
</tr>
<tr>
<td>5. Preferred brand availability</td>
<td></td>
</tr>
<tr>
<td>- Attracts buyers from Tiers II and III cities and smaller towns where retail presence is limited</td>
<td></td>
</tr>
</tbody>
</table>

| 61% will stop buying online if there are no discounts | 40% said that convenience was the most important reason for online shopping | ~30% said timely delivery and a good return policy are the reasons for shopping online |

Source: EY survey

Discounts have become ubiquitous on all e-commerce sites, and buyers have become used to them. Most of the online buyers polled are disloyal and will choose an online portal offering the best discount. To improve consumer retention and encourage repeat purchases, players are partnering with mobile/online wallets providers, which offer cash back on purchases. Going forward, e-commerce players will have to find innovative ways to retain consumers.

**How to retain a consumer**

<table>
<thead>
<tr>
<th>Enhance consumer satisfaction</th>
<th>Offer targeted discounts</th>
<th>Ensure timely delivery and a good return policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offer greater convenience: easy site navigation, seamless transactions, proactive customer service, attractive packaging, less in-transit damage</td>
<td>Provide cash back to lure consumers who hunt for the best discounts</td>
<td>Invest in logistics to support quick turnaround; delivery within committed timelines is a must</td>
</tr>
<tr>
<td>Use analytics to track changes in buying behavior to offer better product choices as a customer relationship evolves</td>
<td>Offer category-specific discounts: calibrated discounts in categories purchased by target consumer segment, special deals on social media platforms</td>
<td>Develop category-specific return policy; use analytics to address common reasons for returns — wrong sizes, different appearance, etc.</td>
</tr>
<tr>
<td>Introduce online loyalty programs – offer rewards/incentives, differentiated pricing for repeat orders</td>
<td></td>
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</tr>
</tbody>
</table>

Going the extra mile in terms of enhancing consumer satisfaction, exceeding their expectations and providing additional value for their money will help companies retain customers over the long run.

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With growing competition, e-commerce players will also have to fight harder to attract new consumers. E-commerce still remains limited to a section of the population, despite its robust growth and rising popularity. A look at the demographics of internet users in India makes it evident that a considerable proportion of the high-earning and high-spending section of the population (i.e., consumers above 35 years old), women and small town/rural consumers are still not spending significant time online. Capturing these untapped consumers will be a significant opportunity over the long term.

### Demographics of internet users

<table>
<thead>
<tr>
<th>Data for 2014</th>
<th>India</th>
<th>China</th>
<th>Brazil</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internet user base under age 35 (%)</td>
<td>75</td>
<td>59</td>
<td>60</td>
<td>56</td>
</tr>
<tr>
<td>Urban rural-split</td>
<td>63:37</td>
<td>72:28</td>
<td>81:19</td>
<td>60:40</td>
</tr>
<tr>
<td>Share of women in internet user base (%)</td>
<td>39</td>
<td>45</td>
<td>49</td>
<td>52</td>
</tr>
</tbody>
</table>

#### Capture older consumers and retain younger ones

The internet user base in India is tilted toward the younger population, with 75% below 35 years old. However, consumers above 35 years, who are more financially independent and have high spending power, are emerging to be just as important. According to our survey, consumers in the age group of 31–54 are the highest spenders, while consumers below 30 buy more frequently. The survey showed that 30%-60% of online buyers purchase at least once every two weeks.

#### Attract small-town shoppers

Although the internet user base still largely comprises urban populations, the rural user base is growing, with rising internet and smartphone penetration rates. According to the 2011 census, close to 30% of India’s 1.2 billion population resided in Tiers I (composed of about 8%), II, III or IV cities. This indicates the enormous potential the smaller cities offer to e-commerce players. Moreover, as aspirations of consumers from Tiers II, III and beyond cities converge with those in Tier-I, factors such as limited retail penetration and inadequate product offerings are creating a “sweet spot” for the online channel.

#### Target women

Online shopping has so far been skewed toward male buyers, but on the back of changing lifestyles, the growing importance of multitasking and the rising number of women in the workforce, this statistic is undergoing a change. Tech-savvy women are increasingly turning to online portals to fulfill their needs in diversified categories such as fashion, footwear, apparel and accessories, food and drink, baby care, hair care and skin care. The survey highlighted that the women who shop online tend to buy marginally more frequently than men. But, they influence buying decisions much more than men.

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Women tend to influence more online purchase decisions for their spouse. The survey demonstrated that as men grew older, their spouse had more influence in making decisions.

It is crucial for e-commerce players to target female consumers and are doing so by taking various initiatives, such as launching female-centric brands and using analytics to understand buying behavior of female shoppers to offer better service. A leading e-tailer of used products sees women consumers holding a large share across categories. The company has taken female-centric initiatives, such as launching a chat platform that keeps contact data confidential, to address concerns faced by female buyers.12

**How to capture new consumers**

<table>
<thead>
<tr>
<th>Prioritize target consumer segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offer attractive discounts to trigger impulse buying in younger consumers</td>
</tr>
<tr>
<td>Offer special deals to increase transaction sizes for younger buyers</td>
</tr>
<tr>
<td>Offer specific deals on products purchased by older buyers to lure them to the online platform</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expand in Tiers II, III and beyond cities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invest in expanding last-mile delivery by expanding local delivery services to reach smaller cities</td>
</tr>
<tr>
<td>Communicate in local/regional language to attract consumers who don’t speak English</td>
</tr>
<tr>
<td>Offer products/brands not available in stores</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Increase the share of female shoppers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offer female-centric products, brands, special discounts, mobile apps</td>
</tr>
<tr>
<td>Use analytics to understand buying behaviors of female shoppers to offer better products, suggest bundled offerings, bring in new options, etc.</td>
</tr>
</tbody>
</table>

Companies will have to move fast to capture the share of the next wave of consumers and stay ahead of the competition. In order to move toward profitable long-term success, companies must reach a sizeable mass of consumers to benefit from economies of scale.

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Although different consumer segments converge on an e-commerce platform, inherent differences in their buying behaviors continue to persist. Similarly, various product categories exhibit different characteristics, such as frequency of product purchase, ease of purchasing a category online and average purchase size. E-commerce players will have to consider these differences while devising a strategy specific to a consumer segment and a product’s offerings.

Define targeted consumer segment

Online shopping carts for men and women tend to vary, as they prefer products in different categories. Their choices also vary across age groups. E-commerce players will have to accurately define their targeted consumer segment across age groups.

Typical shopping interests across consumer segments

![Diagram showing typical shopping interests across consumer segments](image)

Source: EY survey

Understand inherent characteristics of product offerings

Along with targeted consumer segments, e-commerce players will have to understand characteristics of categories sold online. Electronics, especially mobile phones, tablets, accessories and lifestyle products (apparel, shoes, accessories) are among the most popular categories online. The popularity of electronic products can be attributed to factors such as attractive offers/discounts, plentiful options and very low product differentiation, while the popularity of lifestyle products can be attributed to their comparatively low prices, the flexibility to use cash on delivery and the ease of returns.

In contrast, furniture and food are considered by both consumers and e-tailers as better categories for in-store purchasing, although this mindset seems to be changing. Furniture shoppers prefer to address quality, color, design and other matters in person, while those buying groceries are primarily concerned about freshness. For e-commerce players, setting efficient distribution networks poses challenges: bulky furniture requires centralized distribution, while groceries call for localized supply chains.
Ideal buying experiences and strong, sustained customer loyalty can result from big data and advanced analytics, which help companies understand consumer needs, track buying journeys and offer improved suggestions, discounts and pricing accordingly.

**Purchase patterns across product categories**

![Diagram showing purchase patterns across product categories]

- **Furniture/furnishings/home decor**: 17-18
- **Food/Groceries**: 1.2-1.3
- **Baby products/Toys**: 1.2-1.3
- **FMCG**: 1.2-1.3
- **Electronics**: 12-13
- **Lifestyle (apparel/shoes/accessories)**: 1.5-1.6
- **Jewelry/watches**: 1.6-1.7
- **Computer software/hardware**: 16-17
- **Sporting goods**: 8

Source: EY survey

**How e-commerce players can fine tune offerings**

<table>
<thead>
<tr>
<th><strong>Target individual consumer</strong></th>
<th><strong>Develop category-specific offerings</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Use analytics to track an individual consumer’s buying journey</td>
<td>Offer hybrid pricing strategies (quantity-based, bundled, limited-time pricing for smaller ticket-priced categories, and seasonal pricing for larger ticket-priced categories)</td>
</tr>
<tr>
<td>Leverage analytics and improved algorithms to personalize, cross-sell, up-sell and increase consumers’ share of wallet</td>
<td>Offer discounts based on frequency of purchases from a category</td>
</tr>
<tr>
<td>Offer consumer-specific discounts and prices (e.g., introductory offers, additional discounts for repeat orders, special offers on birthdays)</td>
<td>Determine strategy for offering infrequently purchased categories</td>
</tr>
<tr>
<td>Offer consumer-specific product suggestions based on buying history and similar buyers’ selections</td>
<td></td>
</tr>
</tbody>
</table>

E-commerce is uniquely positioned to track the buying journey of an online consumer in devising a consumer-specific strategy.
Another crucial factor for consumers is multiple payment options. Cash on delivery (CoD) has been instrumental in making online shopping popular in India. CoD transactions account for around 60% of overall sales in the Indian e-commerce market, much higher than in China (40%), Indonesia (28%), Brazil (24%) and the US (2%). As the market evolves, more shoppers will move toward cashless transactions. For now, typical shoppers have started their online journey by purchasing a low priced product and paying via cash on delivery, just to try out the process. As shoppers’ journeys evolve and they earn more income, they spend more and gradually progress toward using credit/debit cards or net banking.

**Middle-aged shoppers prefer cashless transactions; CoD attracts younger and older consumers**

Middle-aged shoppers (31-54 years old) preferred a cashless transaction (credit/debit cards or net banking). They are more financially independent and comfortable with cashless transactions. CoD is popular among shoppers younger shoppers (under 30), who typically do not own credit cards, and those older than 55, who are hesitant because of cybersecurity concerns.

71% of regular online shoppers prefer cashless transactions
64% of online shoppers have concerns about sharing credit card information
51% of consumers younger than 21 years old prefer CoD

Source: EY survey

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CoD has become a necessary evil. While it is essential for sustainable and profitable growth, it poses challenges: additional working capital and logistical costs (related to returns), and risks of cash pilferage. As more buyers start shopping online frequently, e-commerce players will have to encourage them to move to cashless transactions. A leading player that acquired a recharge website aims to reduce the share of CoD transactions by 20%.

### How to encourage buyers to move to cashless transactions

<table>
<thead>
<tr>
<th>Provide incentives for cashless transactions</th>
<th>Address cybersecurity concerns</th>
<th>Encourage use of mobile/online wallets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide specific deals, coupons, discounts, money back for cashless transactions</td>
<td>Enhance cybersecurity measures</td>
<td>Offer incentives to use mobile/online wallets</td>
</tr>
<tr>
<td>Provide offers on categories purchased mainly by consumers &lt;30 and 55+ years old</td>
<td>Communicate effectively to address older buyers’ concerns</td>
<td>Partner with digital wallets</td>
</tr>
<tr>
<td>Popularize Mswipe (i.e., card on delivery) to reduce CoD reliance</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Incentivizing buyers to move toward cashless transactions will likely help companies reduce cost burdens and improve profitability over the long run.

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Just as buying behaviors vary by segment, e-tailers must customize communication and promotion strategies to fit targeted consumers’ patterns. An advertisement’s impact depends in part on the channel through which it is conveyed.

In India, TV beats social media as the most influential medium overall because of its reach. India’s top 50 e-commerce players spent close to INR12 billion from June 2015 to September 2015. E-commerce start-ups tend to spend more on TV advertising than their established counterparts.15

### Television reaches masses; social media taps the youth

#### Most influential mode of communication or promotion in order of preference

<table>
<thead>
<tr>
<th>Rank</th>
<th>Mode</th>
<th>Impact</th>
</tr>
</thead>
</table>
| 1    | Television             | • 60% respondents said that TV ads influence buying decisions  
|      |                        | • TV is the most influential medium to reach across sections of the masses  
|      |                        | • Older people tend to watch more television                                                |
| 2    | Family and friends     | • Women and consumers older than 40 years old tend to be more influenced by word of mouth |
| 3    | Promotions and offers  | • These are particularly popular among consumers 30 years old and younger                  |
| 4    | Social media           | • Most influential for 21-year-olds and younger and is used to target 21- to 40-year-olds. |
| 5    | Other (emails, SMS etc.)| • Emails, SMS and digital advertising, can be used to target niche segments                |

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>74%</td>
<td>of consumers younger than 21 years old said social media influences buying decisions</td>
<td></td>
</tr>
<tr>
<td>64%</td>
<td>of women said that family and friends influence buying decisions</td>
<td></td>
</tr>
<tr>
<td>51%</td>
<td>of buyers 55 and older said email and SMS offers influence buying decisions</td>
<td></td>
</tr>
</tbody>
</table>

Source: EY survey

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Different modes of communication influence different consumer segments. Women generally post pictures, opinions and comparisons of purchases via social media. To address this, a fashion e-tailer targeting women has integrated shopping with social media.16

E-tailers are also using local dialects to target non-English-speakers in small towns. A leading e-commerce player is offering product descriptions on its site in regional languages (e.g., Kannada, Telugu, Marathi and Bengali), as well as Hindi and Tamil.17

How to communicate effectively with consumers

<table>
<thead>
<tr>
<th>Reach the masses</th>
<th>Match channel to types of consumer and product</th>
<th>Influence both impulsive and deliberate buying</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use television to reach masses across the country</td>
<td>Family and friends: ideal for women and older shoppers; sales of baby products, FMCGs, groceries, furniture and appliances</td>
<td>Use social media to trigger impulsive buying among younger consumers</td>
</tr>
<tr>
<td>Use local/regional languages to influence non-English-speakers</td>
<td>Promotions and offers: younger consumers; electronics, computer goods</td>
<td>Use television to have a long-lasting impact on a buyer’s mind and influence deliberate buying</td>
</tr>
<tr>
<td>E-commerce start-ups can boost advertising</td>
<td>Social media: 21- to 40-year olds; apparel, jewelry, sporting goods</td>
<td></td>
</tr>
<tr>
<td>Use newspaper advertising, a cost-effective way to reach masses</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

To achieve the strongest impact, companies must vary their promotional mix by their targeted segments’ habits. Further targeting in local languages can also help drive growth.


India’s still-young e-commerce market has grown in part because of marketing strategies such as heavy discounts and free home delivery. However, this has come at the expense of profitability for many e-tailers.

96% of female consumers <21 years old only buy when discounts are offered
86% regularly look for discounts
55% do not want to pay for home delivery

Source: EY survey

The discount-based model is effective only in the early stages to attract consumers. As competition intensifies, e-commerce players will need to gradually reduce discounts and provide new value by addressing consumers’ needs.

How e-commerce players can thrive over the long run

<table>
<thead>
<tr>
<th>Reduce discounts gradually</th>
<th>Charge for delivery</th>
<th>Address operational issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offer targeted discounts to consumers &lt;30 years old and women; on apparel, jewelry, electronics, FMCGs, food/groceries</td>
<td>Crucial in commoditized categories (e.g., FMCG and groceries) in which local, unorganized shops pose stiff price competition and deliver without additional costs</td>
<td>Size and color determination: use analytics to bridge the gap between store and online</td>
</tr>
<tr>
<td>Develop hybrid strategies e.g., introductory pricing, peak season pricing</td>
<td>Players can charge for fast delivery (e.g., Amazon Prime, one-year membership)</td>
<td>Old/stale products: most affected categories – apparels and food/groceries; refresh stock regularly</td>
</tr>
<tr>
<td>Offer product bundles, encouraging higher consumption with lower operational costs</td>
<td></td>
<td>Delivery time: exceed consumer expectations, offer delivery timeslots as per consumer’s preference, offer pickup option in case of missed delivery</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Return process: offer hassle-free returns, use analytics to address common reasons for returns</td>
</tr>
</tbody>
</table>
Players must also develop a more sustainable, profitable business model in a space where a set strategy hasn't yet been defined. One leading e-commerce player is gradually shifting from an inventory-led model to a demand-led model and from commission-based to advertising-based.18

Amid the constantly evolving landscape, India’s new digital shoppers also use the internet to research products, compare prices, locate stores, and find discounts and coupons. They prefer the ROBO (research offline, buy online) practice of seeing and feeling a product at a physical store, then buying it online at the lowest price.

With so many options, these consumers expect excellent customer service. E-tailers must carefully address customers’ needs while delivering on the inherent expectations of timely and free delivery, inexpensive products and discounts.19 Agility is another must, as trends change rapidly in this hyper-growth, hyper-competitive market.


About the survey

EY surveyed 690 online shoppers across six cities in India to understand their buying behavior, challenges, factors influencing their buying decisions, etc. The respondents’ demographics are shown below. The survey was conducted online.

Age group (in years)

- <21: 6%
- 21-30: 44%
- 31-40: 40%
- 41-54: 9%
- 55+: 1%
- >55: 6%

Annual household income group (in rupees)

- <2: 5%
- 2-5: 23%
- 6-10: 36%
- 11-15: 21%
- 16-20: 9%
- 20+: 6%
- >20: 5%

Gender

- Male: 63%
- Female: 37%

Marital status

- Married: 61%
- Unmarried: 39%

Number of survey respondents: 690

Source: EY survey

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