Rise of the Digital Consumer Class

Time to Make for Bangladesh in

E-space

At LightCastle – we work to democratize data in Bangladesh and across the world. We aim towards a globe where the businesses are connected to the voice of the consumers and work together to build a more affluent community.

AT A GLANCE

Bangladesh is set for growth with a market of 160 million+ people packed into a territory roughly one-quarter the size of Thailand (5th most dense in the world). Geo-strategically positioned between India and China, Bangladesh consists of the world's 8th largest population, where consumer spending is around USD 130 billion+ and growing at 6% annually. Bangladesh has been the focal point in this part of South Asia providing expansion opportunities for several sectors over the last decade.

The consumer class is young, technologically adaptable and exhibits high engagement through the mobile internet. As an emerging economy, Bangladesh has embraced technology at a rapid pace. The penetration of the telecom sector, mobile commerce and advent of internet based applications designed by businesses and supported by the tech friendly government validates the growth story that is going to unfold in the e-space of Bangladesh. Bangladesh's telecom penetration has been impressive compared to regional peers and is growing with increasing per capita income.

With growing internet connectivity, proliferation of cheaper varieties of smartphones, rapid rise in social networking (10 million + Facebook users) and e-commerce firms in Bangladesh, the consumers are getting more and more digitally attuned, which eventually ends up having a profound impact on their consumption pattern.

Bangladesh

2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011

d 2002

View Full Website

CONTENTS

1.1 Bangladesh primed for growth using digital enablers

A young, consistently developing and increasingly digital economy – the country with the world's 8th largest population and an astounding 6% GDP growth rate also has a relatively young and quite tech-savvy consumer base. Yes, this is how Bangladesh is rewriting its growth story as the country sprints through a digital era.

As an emerging economy, Bangladesh has embraced technology at a fascinating speed. After 3G services got launched in 2013, internet penetration grew by 22% by the end of 2014. In 2015 the country has already added 10.5 million additional internet subscribers (BTRC report, September 2015) with an average 3% growth rate per month. Of the 54 million active internet subscribers, nearly 96% are on mobile and 10 million use smart phones.

"With growing internet connectivity, proliferation of cheaper varieties of smartphones, rapid rise in social networking and e-commerce, the consumers are getting digitally attuned which eventually has a profound impact on their consumption pattern."

With growing internet connectivity, proliferation of cheaper varieties of smartphones, rapid rise in social networking (10 million + Facebook users) and e-commerce firms in Bangladesh, the consumers are getting more and more digitally attuned which eventually ends up having a profound impact on their consumption pattern.

At present, 57% of the total population is aged between 15-54 years and this changes everything – including spending and saving behavior, technology adaptability and lifestyles including apparels, eating, travelling habits and e-commerce activities.

The catalysts behind this digital leapfrogging are threefold:

- Fast-paced telecom penetration covering more than 80% of population and providing nearly 100% basic network coverage.
- "Digital Bangladesh" – a vision being driven into action by the current Bangladesh govt.
- Increasing per capita income coupled with a demographic youth bulge that is more likely to adopt technology at its early stage and has the financial ability to do so.
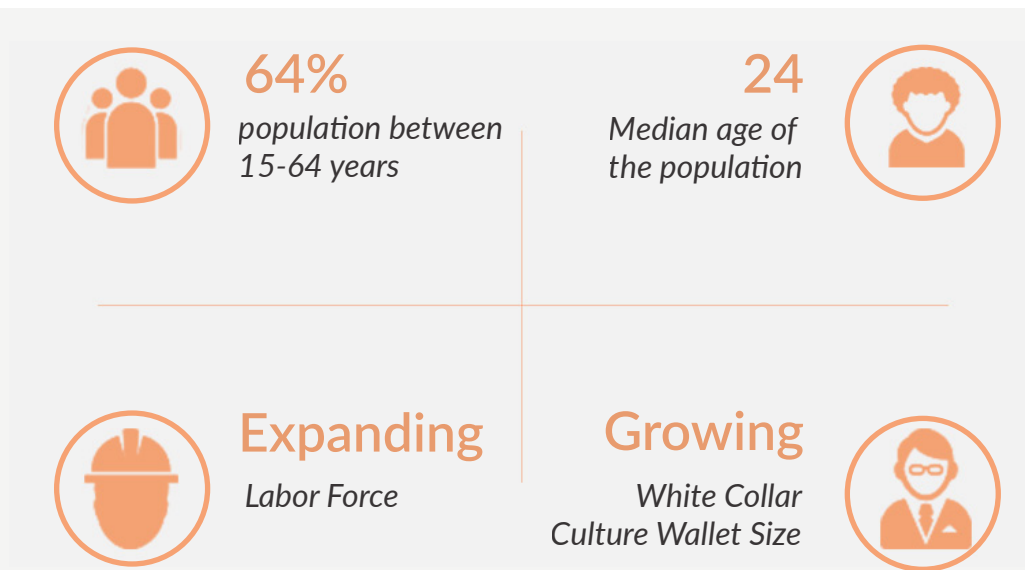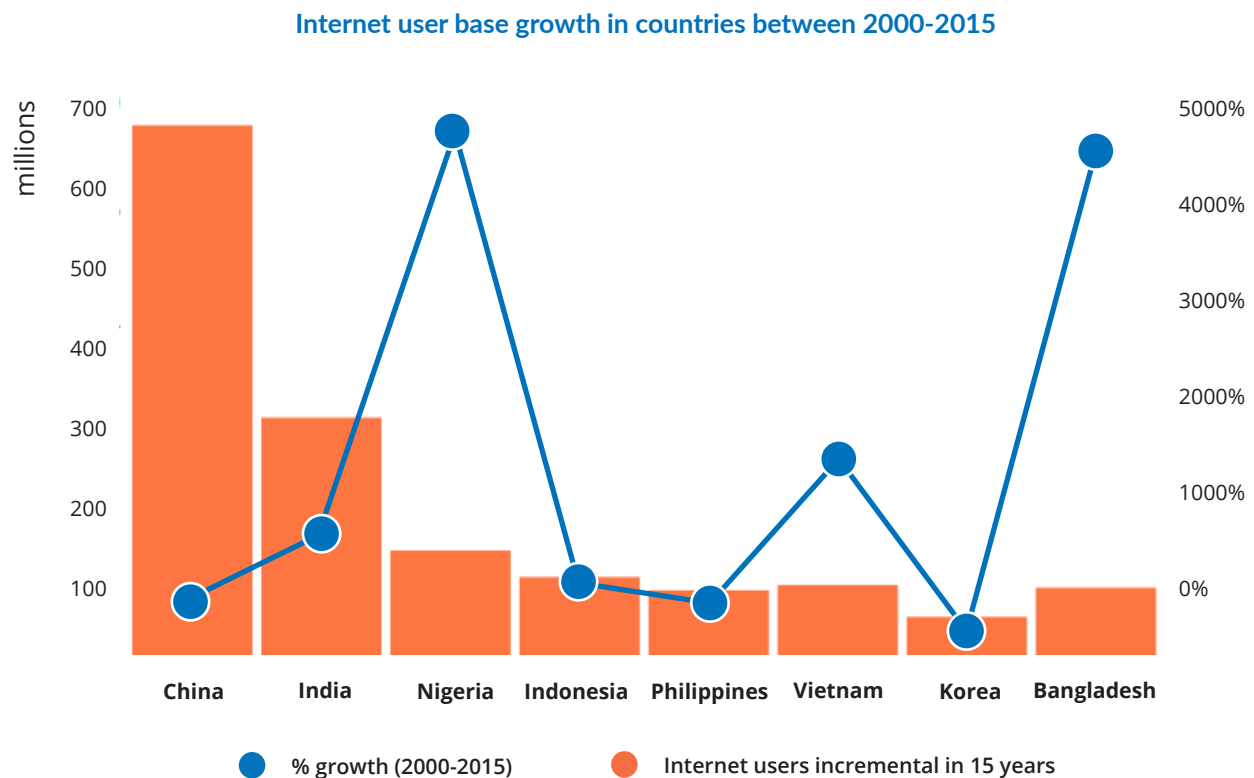
64%
population between 15-64 years

24
Median age of the population

Expanding
Labor Force

Growing
White Collar Culture Wallet Size

Figure 1: Right ingredient mix for digital growth

Although internet penetration still stands at 34% of the total population, in terms of growth Bangladesh stands second only to Nigeria in the world.

Internet user base growth in countries between 2000-2015

● % growth (2000-2015)   ● Internet users incremental in 15 years

Source: Internet World Stats Analysis, 2015

As this growing internet-enabled population is becoming more digitally attuned every day, this means businesses catering to their several needs also require a parallel transformation. Increasing investment in 3G network by telecom operators, positive economic outlook, prospect of 4G and LTE era enabling faster internet and proliferation of low-cost smartphones indicate a much bigger "online" population by 2021 than the 90% population coverage govt. is projecting currently.

To help businesses have a better understanding of this surging population base, LightCastle Partners conducted an online study with over 450 respondents in Dhaka, Chittagong and Sylhet – the three most developed markets in the country. Coming from emerging middle and the middle and affluent class (monthly income within USD 251-650 range) households, around 64.4% of these respondents are aged between 20 and 40 with 35% representation from 20-30 year age bracket.

Although 35.6% of these online respondents are from the 40-70 age groups, 67% of the base "always takes part in the family decision making process." Majority of these participants are living in Dhaka while 17.3% are from Chittagong and roughly 5% of the base are from Sylhet. Their consumption pattern for around 10 categories, their media preferences as well as their aspirations were taken into consideration to understand the decision making process and identify opportunities for businesses to create an impact on this changing market scenario.

1.2 Who are the digital consumers?

As a concept, 'digital consumerism' is still evolving and the defining parameters are changing every day. The traits also change between countries, depending on the socio-economic and technological infrastructure. Hence, we walked through the consumer decision making process and identified four major categories between our digital respondents:
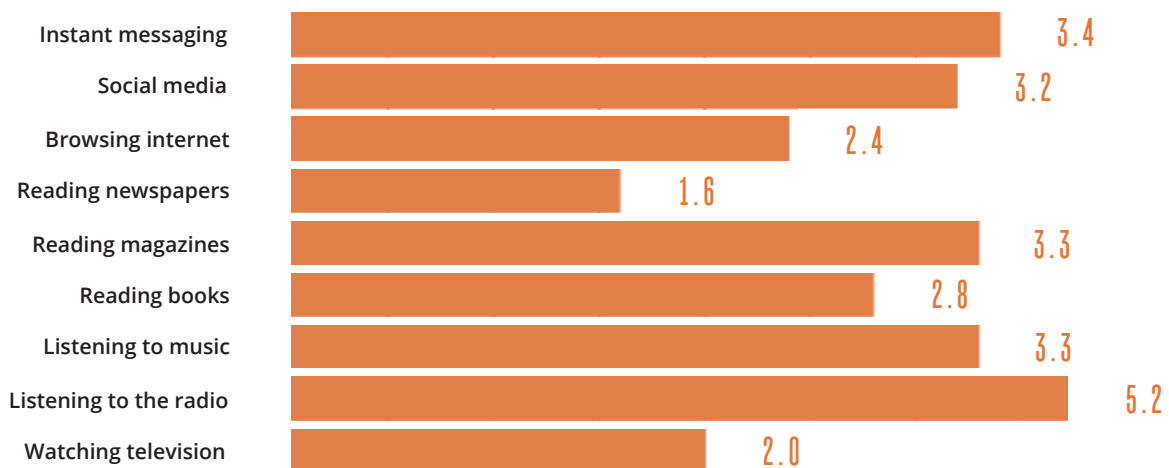
Early Starters:

Usually sole decision makers of the family who receive information and make purchase decision via online platforms. **51%** of our respondents are early starters. **26%** of them are from Chittagong, rest live in slightly established areas in Dhaka.

Digital Aspirants:

Concentrated in Dhaka, digital aspirants are one step closer to being truly digital. Around **19%** of our respondents purchase low-cost items (clothing, baby products etc.) online and prefer cash on delivery as primary payment option.

Traditionalists:

23% of our respondents receiving product information online are dependent on physical options for product evaluation and purchase/payment. Living in Chittagong, Sylhet and growing neighborhoods in Dhaka, they spend time online for communication purposes mostly.

Connected Maestro:

Though roughly **7%** of the respondent base, connected maestros have the highest potential to create an impact. Having **100%** access to laptop and smartphones, this group also involves chief wage earners of the family preferring online/ mobile payment for online purchases.

Figure 2: Digital consumer decision making funnel and major consumer categories

1.3   What do they do and want?

Our digital consumers coming from emerging middle and middle/affluent income segments, are mostly living in 3-5 member families, 47% of whom own an apartment and the rest live in rented apartments or independent houses. 44.5% of them spend USD 626-1250 monthly within the family and another 30.5% have a family expenditure between USD 250 and USD 625.

With a comfortable spending pattern, 68% of these consumers eat outside with their family at least once every 2-3 weeks and majority of them have almost equal preference for Quality and Brand Name – aspects of products they are willing to spend extra for. Analyzing the time spent by them in various media activities helped us identify the platforms to reach these digital population.

Average time spent (in hours) on various media by digital consumers

Media	Hours
Instant messaging	3.4
Social media	3.2
Browsing internet	2.4
Reading newspapers	1.6
Reading magazines	3.3
Reading books	2.8
Listening to music	3.3
Listening to the radio	5.2
Watching television	2.0

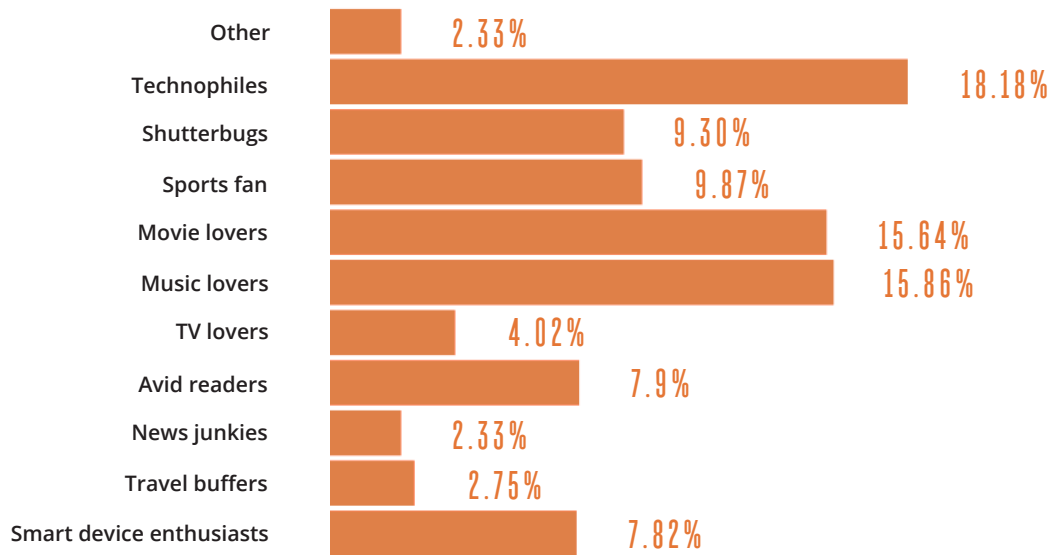*Source: LightCastle Partners Survey on Digital Consumers, 2015*

People here listen to a lot of radio – attributed to high traffic congestion – indicating even it to be an important channel for reaching customers. Besides social media usage and instant messaging – other top categories include reading and listening to music.

This surging consumer class feels the need to "buy more things every year." However 83.8% of them show a propensity to save more as their income increases. Compared across different consumer categories, the propensity to saving against spending as income goes up, the trend remains almost similar. However, this consumer group shows marginal interest in "finding the best deals, discounts or promotion offer" and propensity to consume more as well.

This indicates that, digital consumers do feel the need to scale up their consumption but their go-to-market time could be a bit lengthier than usual population as they think about saving up first, and spending later.

However, once converted, for quality or brand appeal – they will bear the additional cost and not focus on deals or limited time offers.

Areas of interests that best describe the consumers

Category	Percentage
Other	2.33%
Technophiles	18.18%
Shutterbugs	9.30%
Sports fan	9.87%
Movie lovers	15.64%
Music lovers	15.86%
TV lovers	4.02%
Avid readers	7.9%
News junkies	2.33%
Travel buffers	2.75%
Smart device enthusiasts	7.82%

Source: LightCastle Partners Survey on Digital Consumers, 2015

Online consumers generally hold an optimistic outlook. More than 87% participants were either agreeing or strongly agreeing to this perception that we live in a better consumer world compared to our parents. The same population also believe that going forward, market scenario is going to improve further to make life more comfortable for the new generations.

We also reached out to the respondents in terms of categories that interest them most. This consumer class is fragmented among sports fans (20%), music lovers (16%), movie lovers (16%) and technophiles (18%). Other important categories were shutterbugs (9%) and smart device enthusiasts (8%).

" This consumer class is fragmented among sports fans (20%), music lovers (16%), movie lovers (16%) and technophiles (18%)."
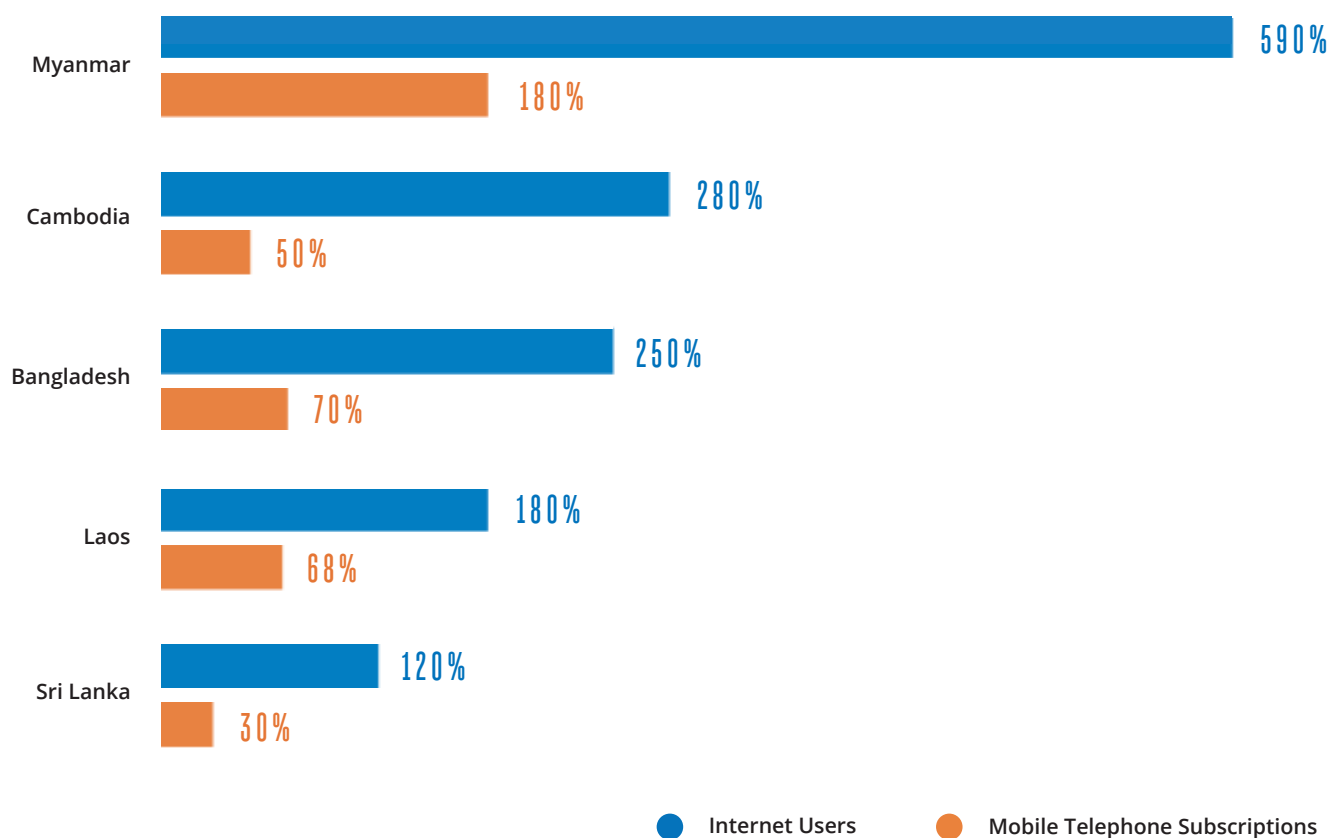
2.1 How does Bangladesh compare with others in Asia?

In ways more than one, Bangladeshi digital consumers are a bit with similar with the ones living in India, China, Malaysia or Indonesia. Given the delayed mass level introduction to latest technologies compared to the developed countries, this region and its consumers fall into the "Browse first, Buy Later" category.

Nubrati, a 39 year old teacher working in Jakarta does not feel safe sharing credit card information online. Hence she just browses internet, searches for product review or checks availability and makes the purchase from a retail store. Such are the behavior traits of Salma, an advertiser from Dhaka who is financially savvy, worries about payment safety, lack of sales support and unreliable quality. One Euromonitor study projects the growth rate of Bangladeshi consumers on digital space, among other frontier markets as such:

" Given the delayed mass level introduction to latest technologies compared to the developed countries, this region and its consumers fall into the "Browse first, Buy Later" category."

Growth in internet users and mobile telephone subscriptions 2014-2030 (%)

Myanmar
- Internet Users: 590%
- Mobile Telephone Subscriptions: 180%

Cambodia
- Internet Users: 280%
- Mobile Telephone Subscriptions: 50%

Bangladesh
- Internet Users: 250%
- Mobile Telephone Subscriptions: 70%

Laos
- Internet Users: 180%
- Mobile Telephone Subscriptions: 68%

Sri Lanka
- Internet Users: 120%
- Mobile Telephone Subscriptions: 30%

● Internet Users   ● Mobile Telephone Subscriptions

Source: Euromonitor international projections 2014

This scenario improves a bit in China where 32% of the population shops online. For Indonesia the rate comes down to 7% and for Vietnam 6% of the online population is shopping via digital channels. Access to internet is largely enabled by mobile devices in the region and for online shopping consumers, preferred device is smartphones, which has had 220% year-on-year sales growth in Bangladesh in FY 2014-15.

In the next decade, while the focus in Myanmar, Cambodia would be to bring in more people online, for countries like Bangladesh, Sri Lanka, India and Malaysia the key focus would be on true digital transformation of current and new online population. Responses from business and infrastructure side would critically transform the digital trend of consumers in these countries as well.

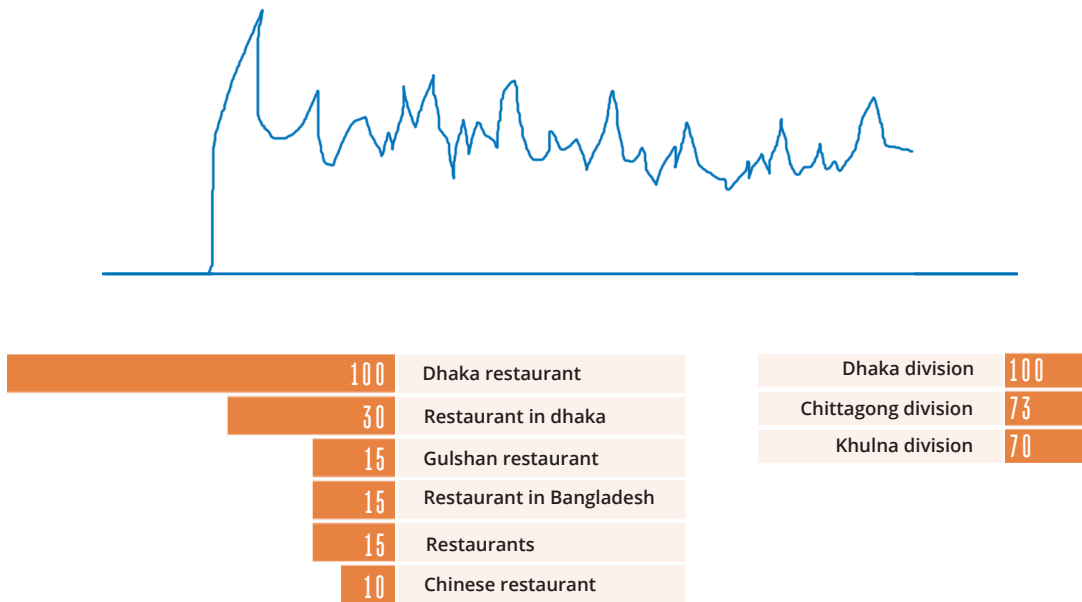# 2.2 What categories will drive digital consumption?

Bangladeshi consumers are primarily information or review seekers on the digital space as is represented by 74% of our respondents. Starting from gadgets to fall fashion collection to online contents, this population has a wide spectrum of interests. However, consumer awareness level and interest level tend to vary between product categories.

A trend analysis of two popular lifestyle items- food services and smartphones would show us exactly how much the difference in interest levels are:

Smartphone search trend in Bangladesh 2005-2015

	%	Category
	1350%	LG smartphone
	900%	HTC
	900%	HTC smartphone
	650%	Best smartphone
	300%	Smartphone samsung

Country	Value
Italy	100
Germany	91
Indonesia	89
Bangladesh	77
Brazil	74
Malaysia	72
India	69
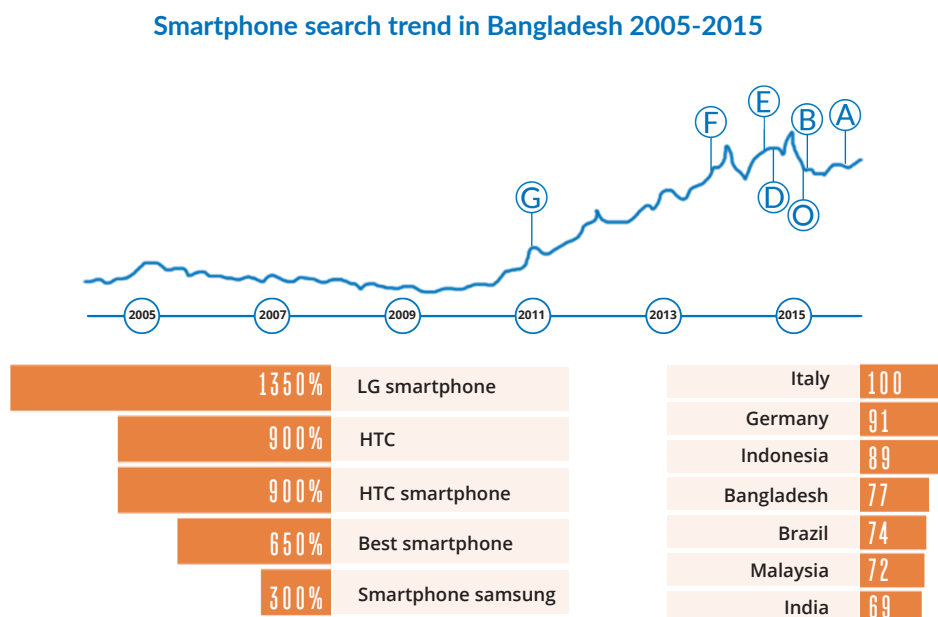
Source: Google Trends, Bangladesh

Restaurant search trend in Bangladesh 2005-2015

100	Dhaka restaurant
30	Restaurant in dhaka
15	Gulshan restaurant
15	Restaurant in Bangladesh
15	Restaurants
10	Chinese restaurant

Dhaka division	100
Chittagong division	73
Khulna division	70

Source: Google Trends, Bangladesh

While Bangladeshi consumer's interest in smartphones can be compared with the likes of Italy and Germany, restaurant search patterns are mostly popular within the country. It is also clearly visible that people using google for smartphone information are more brand conscious than consumers looking for restaurants on internet.

This indicates that our digital consumers are more interested in the infrastructure that allows them to go digital, while awareness and interest level for expanding the habit into other avenues of life is still at a dormant phase.

Thanks to thousands of Facebook enabled outlets, personal clothing and accessories is one of the popular items our digital consumers are purchasing online. Online food service platforms like Foodpanda and HungryNaki have also gained traction as 25% of the respondents admitted having subscribing to these services for at least once a month.

Comparing current trend for online purchase with the intention to go digital in the future over different product categories gave us some interesting insights.

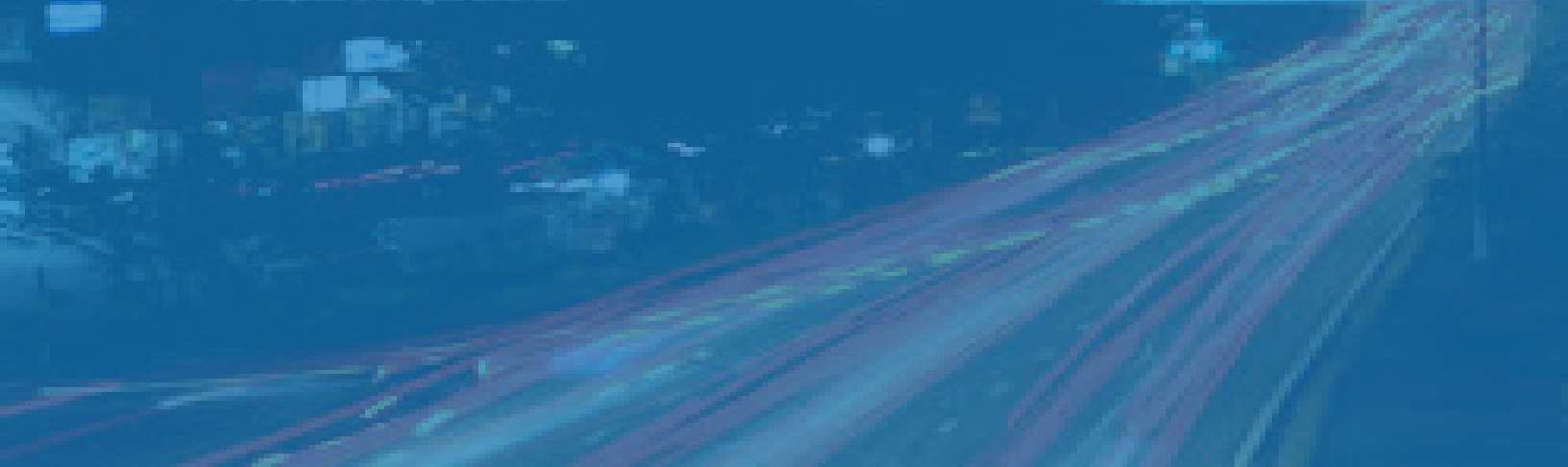## Consumption pattern over different product categories

Chart data — **Planning to start purchasing online** (orange) and **Currently purchasing online** (blue):

Category	Currently purchasing online	Planning to start purchasing online
Personal clothing & accessories	21%	32%
Baby products	5%	20%
Consumer electronics	4%	32%
Home/Apartment	1%	18%
Beauty product	7%	27%
Food services	25%	25%
Grocery	4%	28%
Financial products	4%	14%

● Planning to start purchasing online
● Currently purchasing online
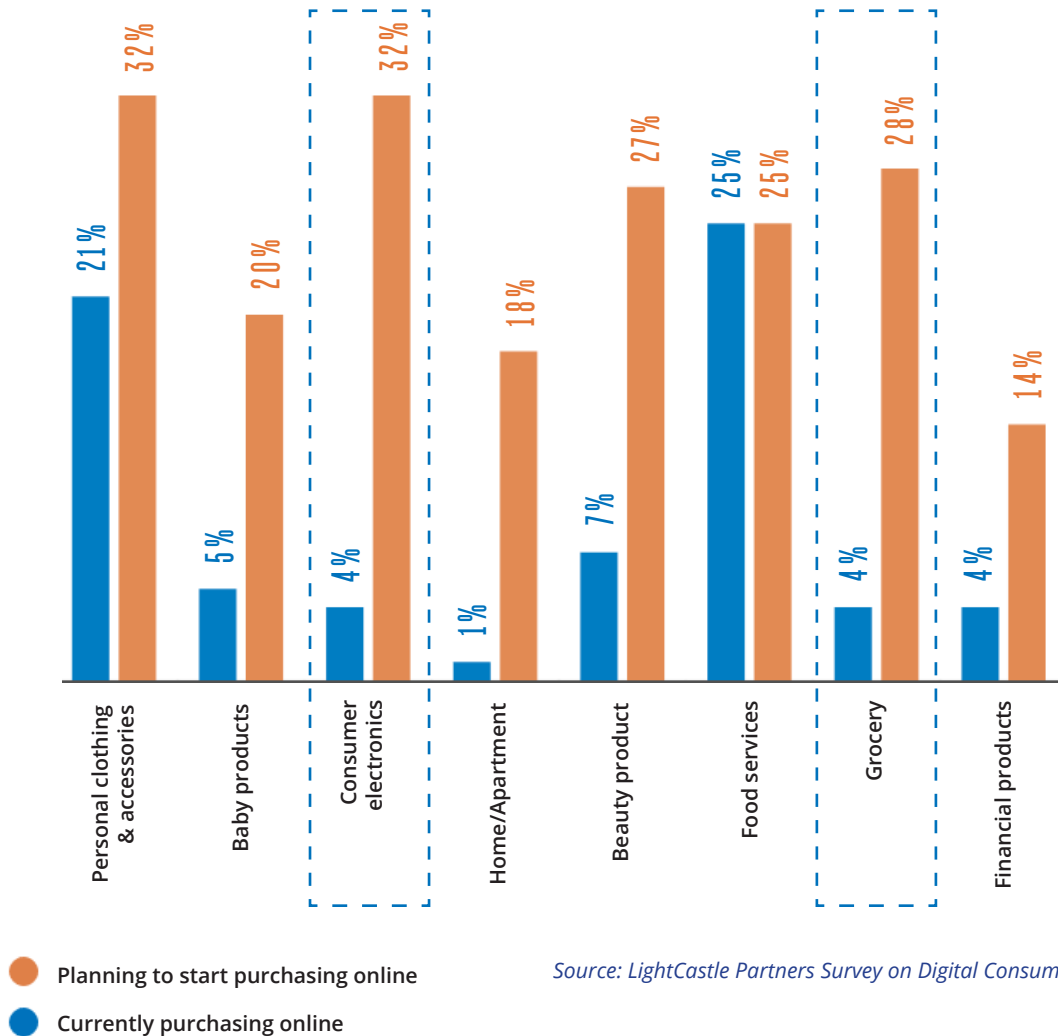
Source: LightCastle Partners Survey on Digital Consumers, 2015

Current trend for online purchases with the intention to go digital:

Within the next 12 months, a significant portion of traditionalists and early starters are going to shift from "See online and buy retail" trend and move to the "digital aspirant" group for more than a couple of items.

Roughly 4% of the consumers surveyed said they purchase consumer electronics and grocery items online. However, considering the current consumption trend, these are the categories accumulating the highest growth rate in the near future.

Conversion rate for consumers seeking digitized food services remains almost similar – indicating a need for expanding business in emerging regions as a long term business strategy.

People are willing to move online for high-value purchases/leasing such as Home/Apartment as well. Traditional real estate businesses could consider this as an important indicator for some transformation.

Despite having long exposure to social media and online review platforms, digital consumers still get influenced by 'offline peer review' as 83.8% of the consumers said they would 'Trust" or 'Strongly Trust' product or service review given offline by friends and relatives. The next big influencer is certifications obtained by organizations (BSTI approval is a good example for that). Product information found on official company website persuades 69.5% of the population and traditional media advertisements affect only 30% of the consumers. In-house store promotions also work with the same credibility level as TV commercials.
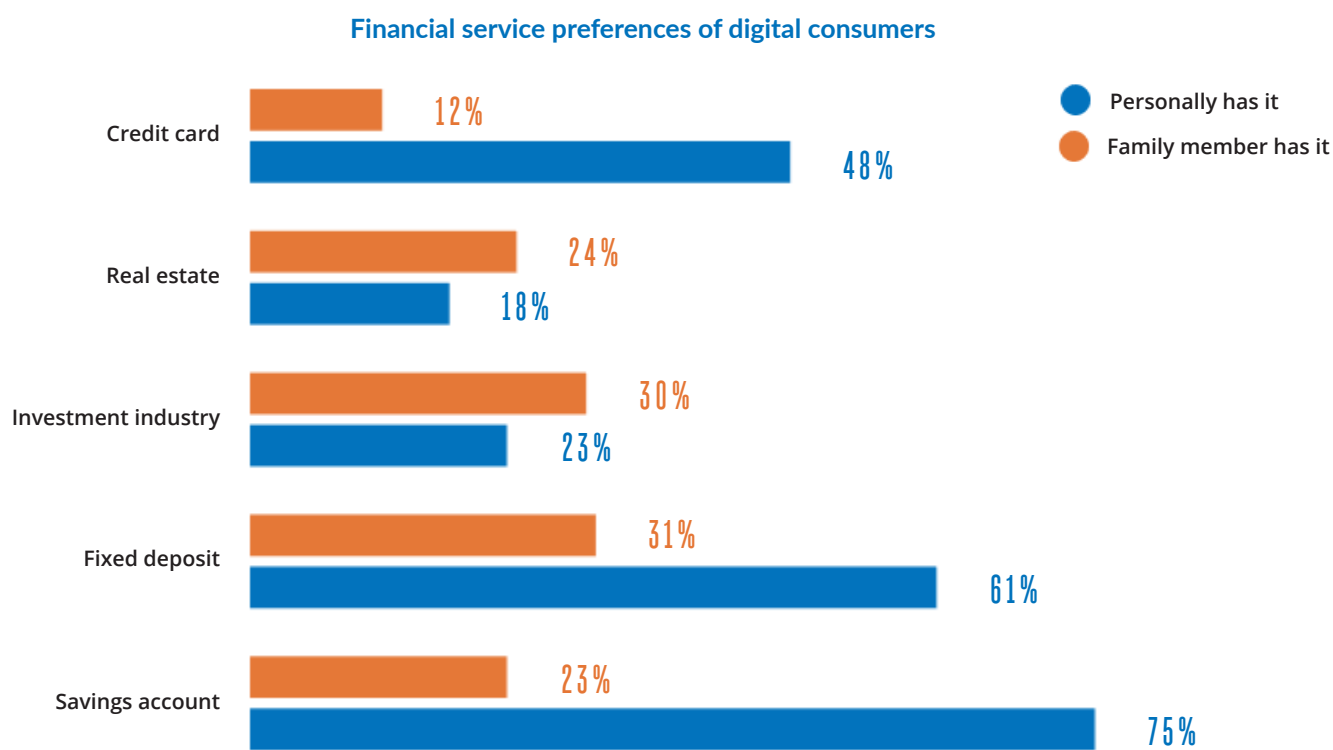
"57% of the consumers purchasing products online were 'indifferent' or rated the service 'bad.' These consumers prefer quality over price, and are loyal to brand name rather than aesthetic aspects can be converted as true brand ambassadors, if only service class is considered an integral part of creating value by e-businesses."

2.3 What is their lifestyle trends across different categories?

Where do our digital consumer stand in terms of lifestyle preferences? To map their lifestyle trends we enquired about their banking needs, healthcare, education, tourism preferences, device aspirations as well as their transportation mode.

Financial services: Digital consumers are also quite cautious regarding financial commitments and majority of them are not likely to avail a loan in the near future. However, they do utilize different financial and investment services, preferably Savings Account.

Financial service preferences of digital consumers

● Personally has it
● Family member has it

Category	Family member has it	Personally has it
Credit card	12%	48%
Real estate	24%	18%
Investment industry	30%	23%
Fixed deposit	31%	61%
Savings account	23%	75%

Healthcare: Private clinic, hospital and doctor's chambers are the most preferred healthcare options to the digital consumers and their households. Less than 3% of the respondents usually go abroad (India, Thailand etc.) for medical purposes. This consumer group usually goes for health checkup once a year or at best twice a year.

Education: 5% digital consumers spend as high as USD 6250 per month though education expense per household for 41% of our respondents remains within USD 950-1250. 43.4% of the households represented in our sample have a private tutor and preferences for schools, colleges and universities are very varied.

Tourism: Digital consumers exhibit a sense of optimism regarding trips planned within the next 12 months. Only a handful of them (16.2%) have or will avail services provided by travel agencies or agents. This is probably because majority of them are used to traveling within the country, with just 13% representation in trips to Europe/ United States/Countries other than South Asia.

Tourism preferences of digital consumers

	Next year	Last year
Euro/US trip	25%	13%
Trip to ASEAN countries	59%	46%
Trip within country	87%	80%
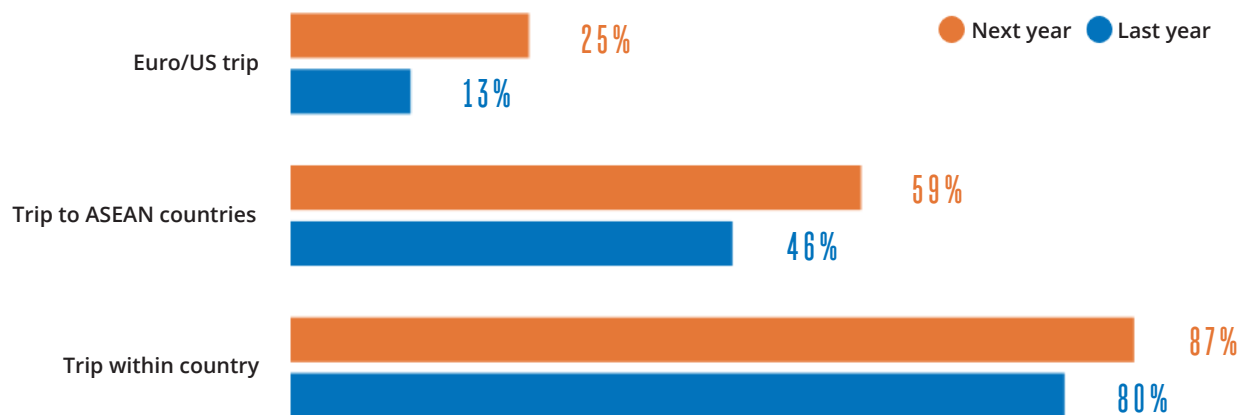
Source: LightCastle Partners Survey on Digital Consumers, 2015

Digital life: When at home, digital consumers almost exclusively access internet via their laptop and smartphones. For connection on-the-go and at work, they switch to their smartphones. ISP/PSTN seems to be their preferred internet connection option as 71.5% of consumers subscribe to such services. For making payments for such connection, they prefer post-paid mode over pre-paid. When it comes to internet consumption, more than 90% of the consumers are willing to upgrade to the immediate next level within a year.

Transportation: Roughly 12% of the digital consumers use motorcycles as their primary mode of transportation while 49% of the consumers are car owners. Only 3% of the consumers own and use more than 1 car for everyday movement. The rest depend on CNGs and public bus for mobility.

3.1 What type of digital device do they use?

Smartphone as expected is the most used digital device (used by 95% of the respondents on a daily basis) while 20% used laptops and 10% used tablets.
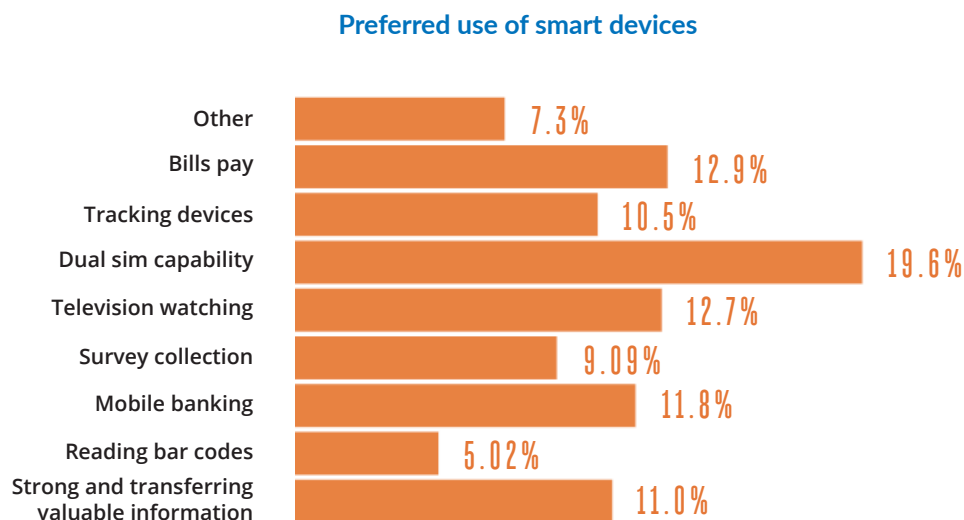
In terms of importance of device, smartphone is ranked as the top followed by laptops, tablets and cameras. In terms of purchasing channels, branded showrooms, shopping malls and retail shops in locality make up 50% of the responses. For low value baskets 14% prefer e-commerce channels.

Preferred budget for purchasing smartphones

● Below 5,000　　● 5,000 - 10,000　　● 10,000 - 20,000

● 20,000 - 30,000　　● Above 30,000

6%
17%
11%
27%
39%
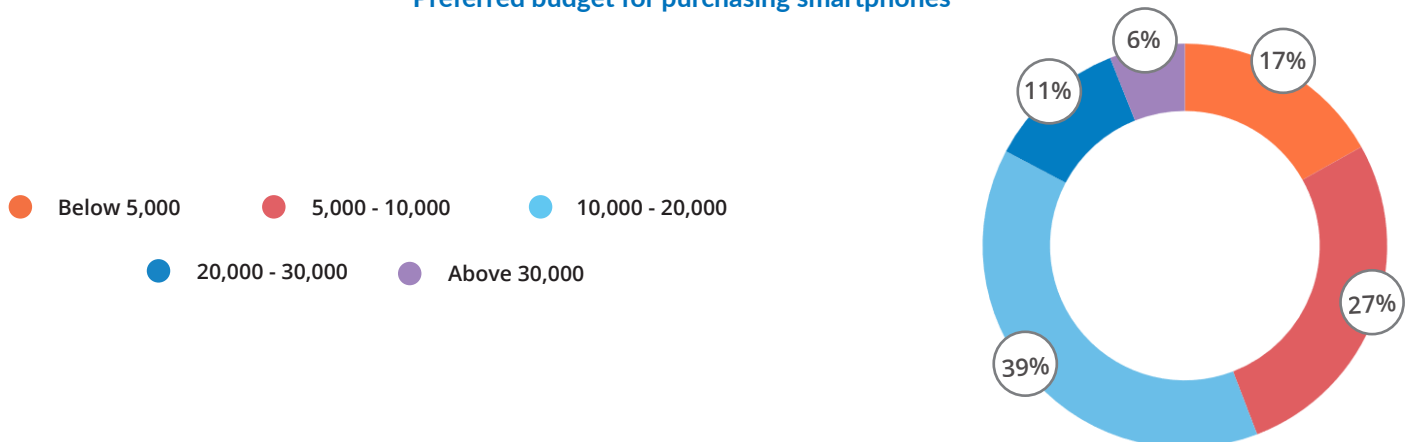
Source: LightCastle Partners Survey on Digital Consumers, 2015

However, while making purchase decisions the biggest contributors are referrals (friends/family), which is 30%. This is followed by product websites (21%) and technology related magazines (12%). 40% said they want to buy their smartphones between USD 125-250 while 27% prefer the price range of USD 63-125. The respondents replied that they mainly use their smartphones to use social media applications (30%) followed by video streaming (17%) and e-mail services (15%). Games and music make up 8% and 6% of usage respectively.

Preferred use of smart devices

Category	Percentage
Other	7.3%
Bills pay	12.9%
Tracking devices	10.5%
Dual sim capability	19.6%
Television watching	12.7%
Survey collection	9.09%
Mobile banking	11.8%
Reading bar codes	5.02%
Strong and transferring valuable information	11.0%

Source: LightCastle Partners Survey on Digital Consumers, 2015

However, future opportunities exist for more varied and online based value added services. When asked what future use would they like to get out of their smartphones, the respondents selected an assortment of uses including direct access to cable TV (13%), bills payment (13%), mobile banking (12%), storing /transferring information (11%) and tracking devices (11%).

"Additionally, 94% of the respondents would like their smartphones to include more integrative technologies (like controlling other household electronic devices)."

3.2 Where do we see the greatest opportunities for disruptions and impact on businesses?

I.   Mobile Financial Services (MFS):

In traditional banking system, a customer has to open an account with a bank of his/her choice to perform any kind of transactions. And then while performing the transactions i.e., receiving payments or depositing/withdrawing cash, he/she has to go to the branch in person which takes up a lot of valuable time. Also, he/she has to face a long queue before getting served.

On the other hand, an MFS user only has to have a smartphone with internet connectivity to perform all of these activities with Government of Bangladesh (GoB) introducing smart National ID (NID) for everyone. Thus opening of a bank account using smartphones will not be a difficult thing anymore.

Using the service the consumer can not only perform basic banking transactions but also complex transactions like foreign or domestic fund transfer, e-commerce, utility bills payment as well as advanced level activities like portfolio management [not available in Bangladesh at this moment].

Basic MFS can be performed in three ways: Pure OTC (Over the Counter), Partial OTC and Pure Wallet. According to Bangladesh Bank data, at present, most of the transactions (83%) performed via MFS platforms are over the counter as users have begun to use MFS actively for the past 2 years only. Majority of them use over the counter (OTC) transactions to make fund transfers (cash in: 43%, cash out: 36%) rather than using their own wallets (17%) since OTC is widely available, convenient and instant. But, in long term, client use of their own wallet remains a critical objective since it serves as a store of value, basis for long term relationship, a way to deliver products beyond payments and building a banking track record.
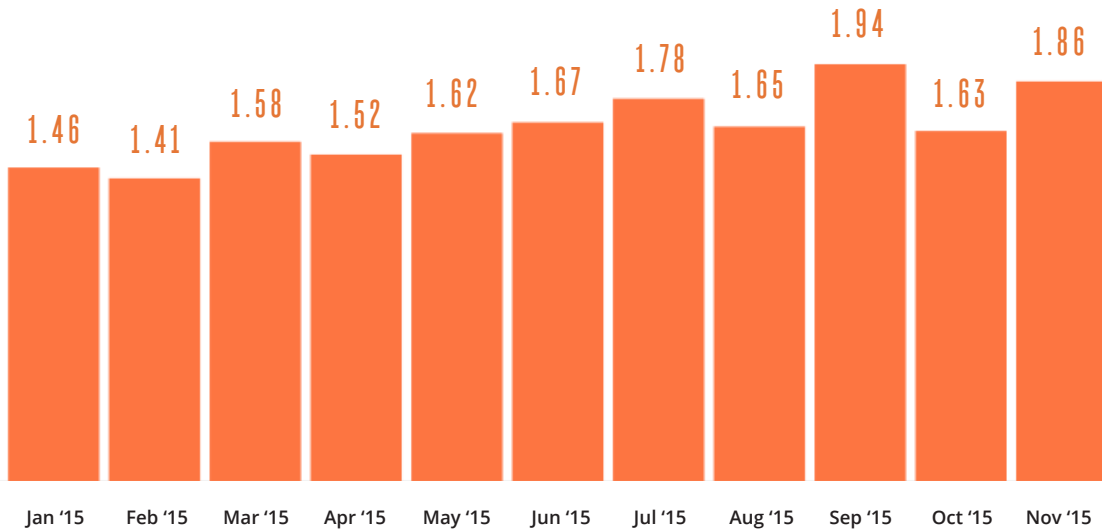

56	**9,051**	**6,035**	**693**	**40%**
Scheduled Banks	*Bank Branches*	*ATMs*	*MFIs*	*Adults have Account in Formal Financial Instt.*

Figure 3: Banking Systems in Bangladesh

Source: Bangladesh Bank

Traditional banking system includes scheduled and non-scheduled commercial banks, their branches and ATM networks across the nation as well as all the non-banking and micro finance institutions. This banking system is still running well below its full potential as only 40% of total adult population have an account in any form of the formal banking institutions, leaving a huge market totally untapped.

MFS - Monthly volume (in USD bn)

Jan '15	Feb '15	Mar '15	Apr '15	May '15	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15
1.46	1.41	1.58	1.52	1.62	1.67	1.78	1.65	1.94	1.63	1.86

Source: Bangladesh Bank

In the month of September, 2015, the monthly volume went as high as $1.94 bn with most of the population out of the MFS net. A majority of subscribers have used MFS for bill payments (77%), savings (76%), airtime top-ups (70%), education fee payments (60%), and merchant payments (55%). [Source: USAID report on mobile financial services]

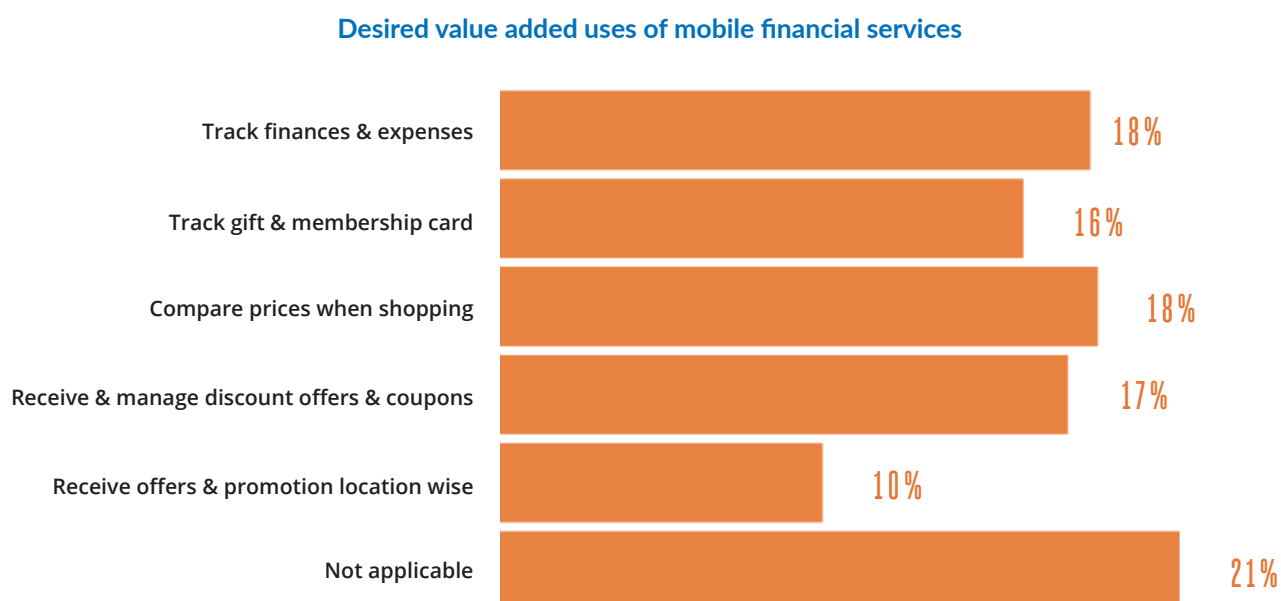| Key MFS Indicators	NUMBER OF AGENTS (in mn)	NUMBER OF REGISTERED CLIENTS (in mn)	NUMBER OF TRANSACTIONS (in	TRANSACTION VALUE (in mn USD)
Jun, 2015	0.5	286	96.	1.6
Jul, 2015	0.5	287	97.	1.7
Aug, 2015	0.5	283	102	1.6
Sep, 2015	0.5	292	106	1.9

MFS Breakdown: Sep, 2015

- Cash in transaction (43%)
- Cash out transaction (36%)
- P2P transaction (17%)
- Salary disbursement (B2P) (1%)
- Utility bill payment (P2B) (1%)
- Others (2%)

Figure 4: MFS current category wise usage breakdown

The above figure demonstrates that most of the MFS transactions are either OTCs or Partial OTCs (83%) – an indicator of early stage MFS scenario. These are one time transactions & carry limited value for clients & providers. However, rest of them are Pure Wallet (17%), the real payment gateway system that generates floats, thereby indicating MFS industry hasn't grown to the fullest of its potential in Bangladesh.

Most of the existing MFS providers got traction due to its popularity in the BoP segment of the market – especially the female RMG workers who work in factories located in Dhaka and are in need to send their salaries back home to their parents/families. DBBL and bKash are true examples of this; they even centered their promotional campaigns on this topic. UCash and mCash are the immediate major players after them; they also targeted rural and peri-urban subscribers initially.

However, as the market gets matured, businesses should start to shift their focus towards the urban consumers as the global trend suggests. They are mostly from the millennial demographics and have a monthly household income between BDT 30-100k. These target groups are most vibrant in the e-commerce industry and they are the ones who embrace new technology prior to anyone else. They use these platforms to receive salaries of their freelance works, buy tickets or top up their mobile balances.

Desired value added uses of mobile financial services

Category	Percentage
Track finances & expenses	18%
Track gift & membership card	16%
Compare prices when shopping	18%
Receive & manage discount offers & coupons	17%
Receive offers & promotion location wise	10%
Not applicable	21%

Source: LightCastle Partners Survey on Digital Consumers, 2015

Consumers still have mixed feelings towards online transactions, 20% don't trust online transactions while 45% have faith on electronic transactions. However, 86% respondents have used mobile payment services (40% of whom have used bKash – the market leader in the segment). Their biggest concern that inhibits from a more periodic use is security (32%) followed by existing habit of cash/card payments (19%) and places not accepting MFS (13%).

Interestingly, consumers would be more open to using MFS on a regular basis given that the service is bundled with benefits tracking personal services (18%), price comparison during shopping (18%), receive/manage discounts/offers (17%) and organize/track gift/membership cards (16%).

The largest security concerns at the moment for users are losing their phone (22%), unauthorized use of phone (20%) and phone getting hacked (18%). Businesses along with bundling needs to address these issues to grow the MFS market. However, the outlook of MFS use among digital consumers is positive. 47% responded that they will definitely use mobile payments within the next 12 months.
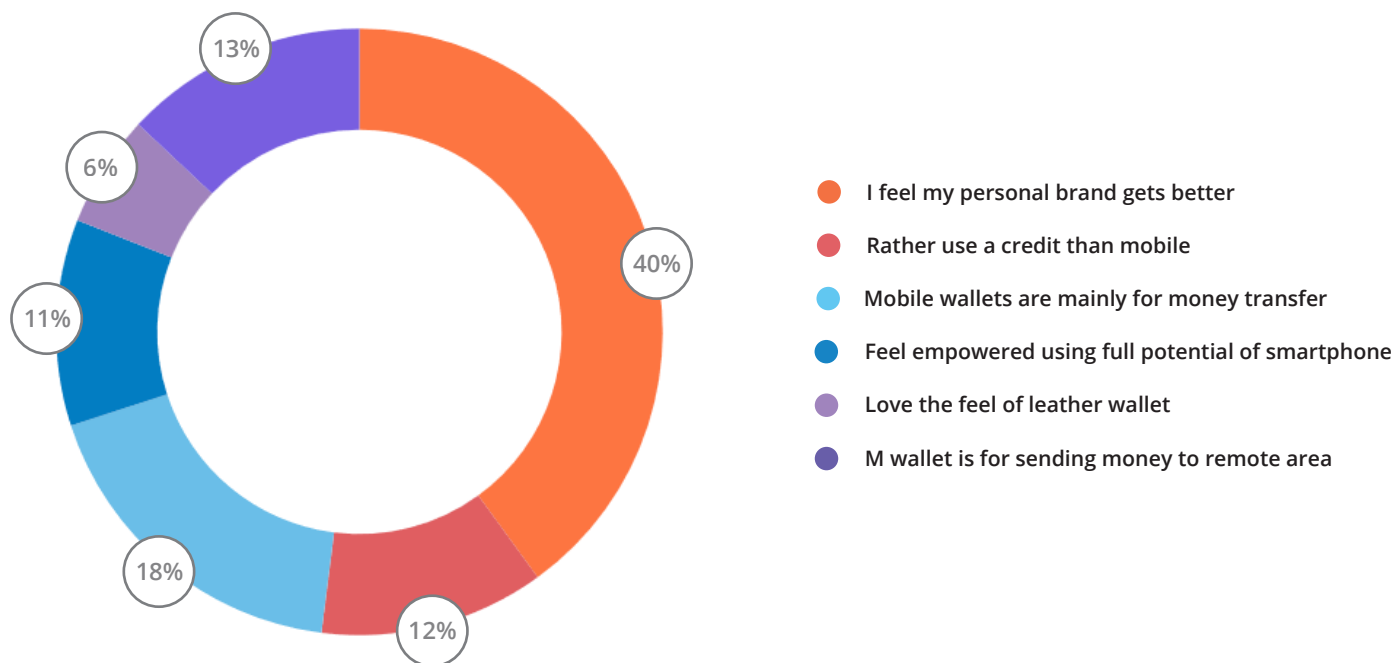
Willingness to use MFS over the next 12 months

- Definitely will use
- Probably will use
- Probably will not use
- Definitely will not use
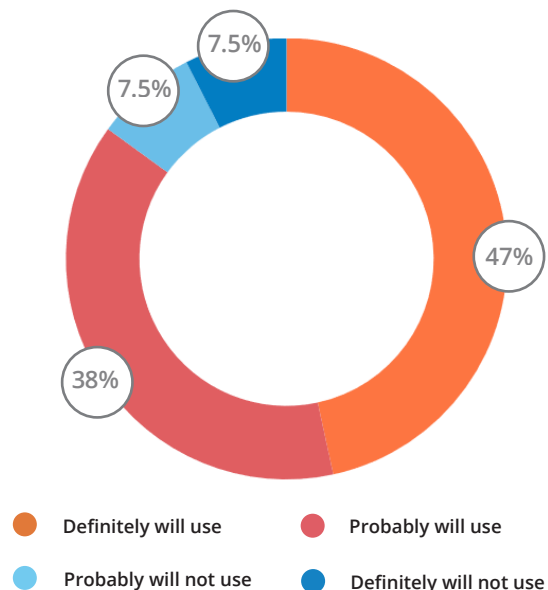
Source: LightCastle Partners Survey on Digital Consumers, 2015

Finally, there has been an ongoing debate whether MFS has established a brand image as a peri-urban/rural product. Given the right communication this can be addressed. Digital consumers actually feel empowered as 40% responded positively that their personal image gets enhanced with use of MFS.

Personal image perception with respect to using mobile wallets

- ● I feel my personal brand gets better
- ● Rather use a credit than mobile
- ● Mobile wallets are mainly for money transfer
- ● Feel empowered using full potential of smartphone
- ● Love the feel of leather wallet
- ● M wallet is for sending money to remote area

Source: LightCastle Partners Survey on Digital Consumers, 2015

II.   E-commerce

Driven by increasing discretionary income, technology adoptive consumers, literacy rate, effects of globalization, middle income societal enhancement and rapid urbanization e-commerce in Bangladesh are growing rapidly. Local businesses are jumping on to the bandwagon to reap the benefits.
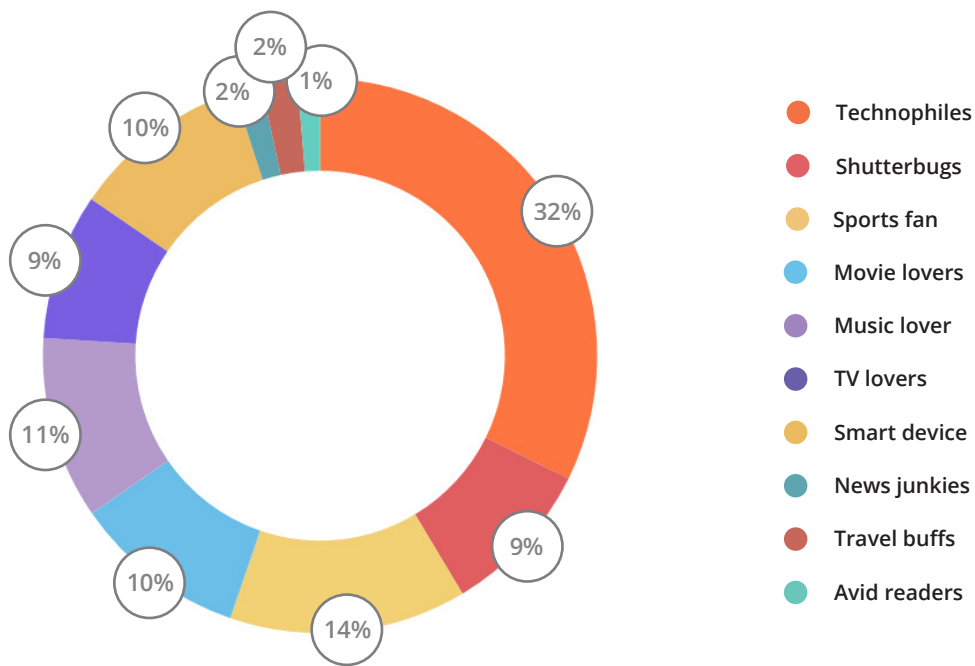

55%
Female Consumers

50%
Consumers Age 26-30 yrs

44%
Young Professionals

33%
University Students
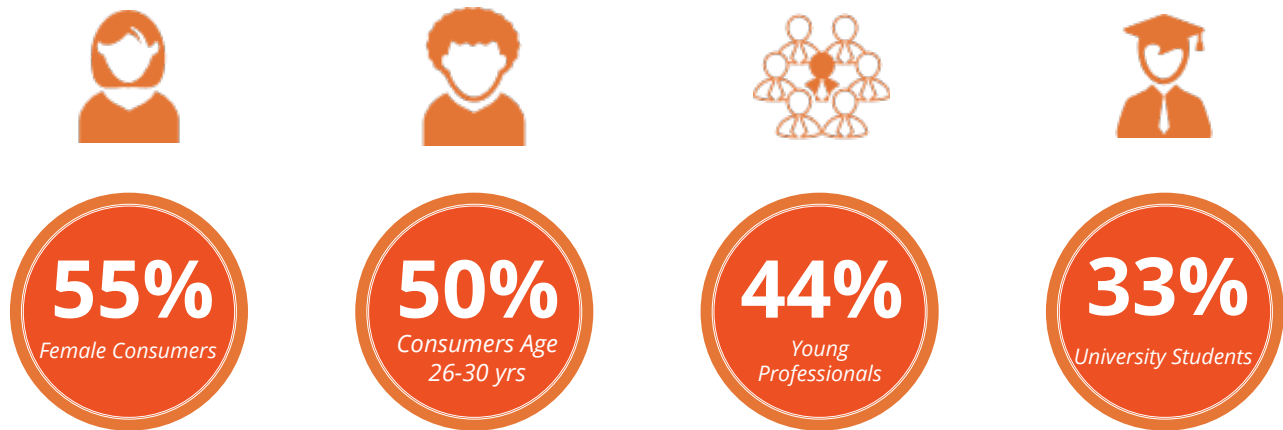
Figure 5: Patrons of e-commerce industry in Bangladesh

The current consumer demographic of E-commerce in Bangladesh is primarily made up of youth and female consumers make up the majority (55%). The most prevalent age group is 26-30 years old consisting of 50% of the consumer group. Majority of the consumers are either young professionals (44%) or university students (33%). More than 90% of them live in Dhaka and one-third of them has a monthly income of BDT 30K+. Fashion wear and consumer care products are the top selling categories in the market.

Demographic profiles

Legend:
- Technophiles
- Shutterbugs
- Sports fan
- Movie lovers
- Music lover
- TV lovers
- Smart device
- News junkies
- Travel buffs
- Avid readers

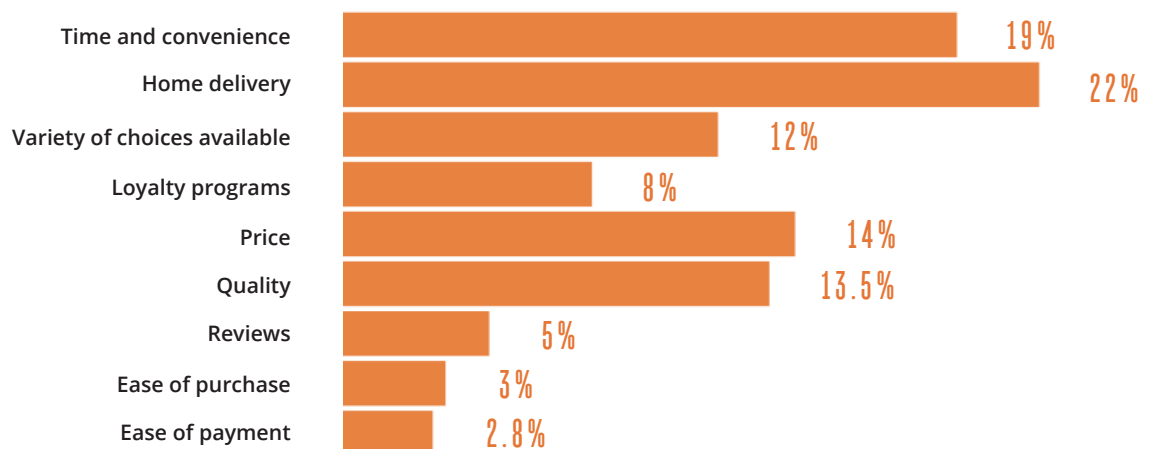Percentages shown: 32%, 9%, 14%, 10%, 11%, 9%, 10%, 2%, 2%, 1%

Source: LightCastle Partners Survey on Digital Consumers, 2015

Irrespective of their gender and professional status, the digital middle and affluent consumers would like to address themselves as technophiles (32%) and smart device enthusiasts (10%) – which indicate their level of fondness with newer technologies.

The Most Hassle-free Way to Shop.

For e-commerce right now there is a positive correlation between lower priced products and high sales. This is attributed to the fact that currently Bangladeshi consumes are more prone to value buy via e-commerce sites.

Decision making factors for e-commerce

Factor	Percentage
Time and convenience	19%
Home delivery	22%
Variety of choices available	12%
Loyalty programs	8%
Price	14%
Quality	13.5%
Reviews	5%
Ease of purchase	3%
Ease of payment	2.8%

Source: LightCastle Partners Survey on Digital Consumers, 2015

For low value items, the most important decision making factors are the home delivery of products (22%) and time/convenience (19%) – also justifying the dominance of young professionals as the major customer base. For high value items the trend is still to have a physical "Feel" of the product before purchasing.

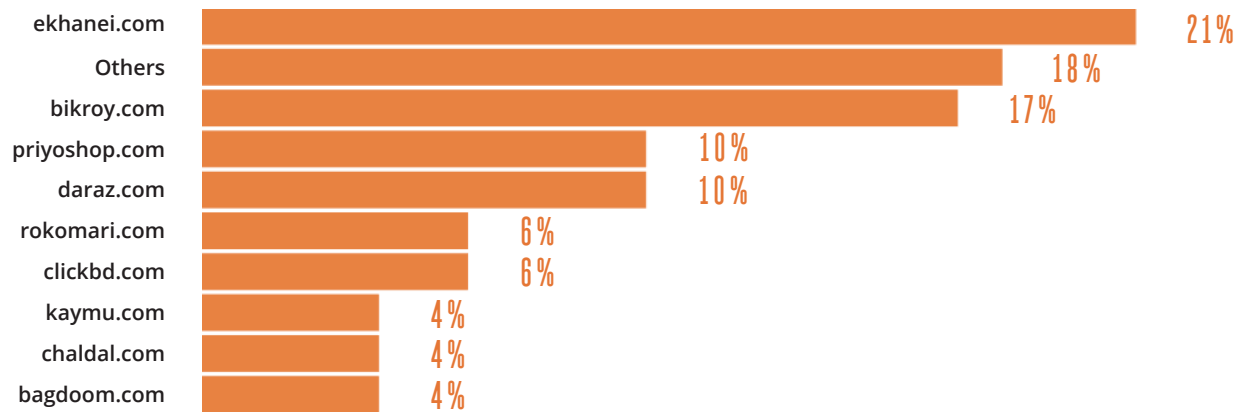**Trustworthiness of e-commerce to its patrons**

Legend:
- I strongly trust
- I trust
- Neither trust nor distrust
- I distrust
- I strongly distrust
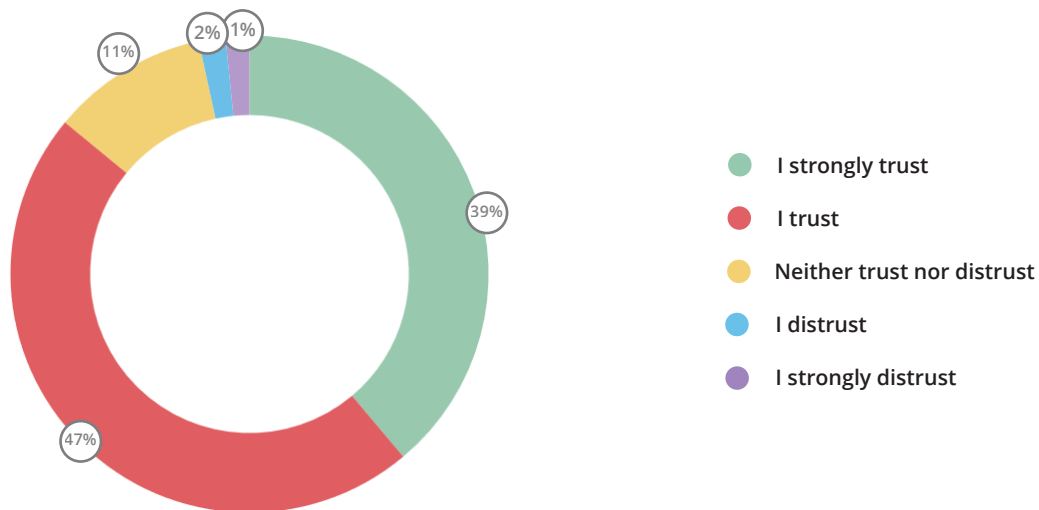
Source: LightCastle Partners Survey on Digital Consumers, 2015

Convenience is not the only factor that is contributing to the healthy growth of this sector, thanks to the excellent home delivery systems as well as the secured online payment facilities. The early adapters, digital aspirants and connected maestros – all highly trust (38% and 47% respectively) these online platforms while traditionalists remain still confused, neither trusting nor distrusting (only 11%).

Where Do They Trade Up?

The earliest e-commerce sites present in Bangladesh were back in the 90's and were primarily gift sites targeted towards Non-Residential Bangladeshis living abroad. Right now, in addition to exclusive e-space firms, existing businesses are also rehashing their business models and are offering more customized and online services to meet the ever increasing customer demand.

Most visited e-commerce sites in Bangladesh

Site	Percentage
ekhanei.com	21%
Others	18%
bikroy.com	17%
priyoshop.com	10%
daraz.com	10%
rokomari.com	6%
clickbd.com	6%
kaymu.com	4%
chaldal.com	4%
bagdoom.com	4%

Source: LightCastle Partners Survey on Digital Consumers, 2015

Majority of e-commerce businesses in Bangladesh falls under C2C (consumer to consumer) transaction business model where a consumer sells products to another consumer. Companies like **ekhanei.com, bikroy.com, priyoshop.com** and **daraz.com** are the top players. A growing number of B2C (business to consumer) e-commerce sites also operate, mostly existing businesses adding an online shop front. However there are also social media exclusive firms as well. B2B (business to business) transaction based businesses in Bangladesh is the least prevalent form of e-commerce business in Bangladesh. Mostly companies operating in the RMG sector utilize B2B online transactions to do business with foreign firms.

Currently, there is a diversified set of e-commerce models driving growth in the market:

Online Retail Stores: These are the most widespread form of e-commerce sites present in Bangladesh and the most popular ones with transaction taking place in a B2C and C2C basis. Well renowned websites include ekhanei.com, bagdoom.com, kaymu.com and bikroy.com.

Food Delivery Stores: Foodpanda.com, a concern of Rocket Internet from Germany, and Hungrynaki.com are two major players in the food delivery services in Bangladesh. As the country and culture has evolved so has the taste buds of its inhabitants. This led to the boom in the restaurant business and services like home food delivery.
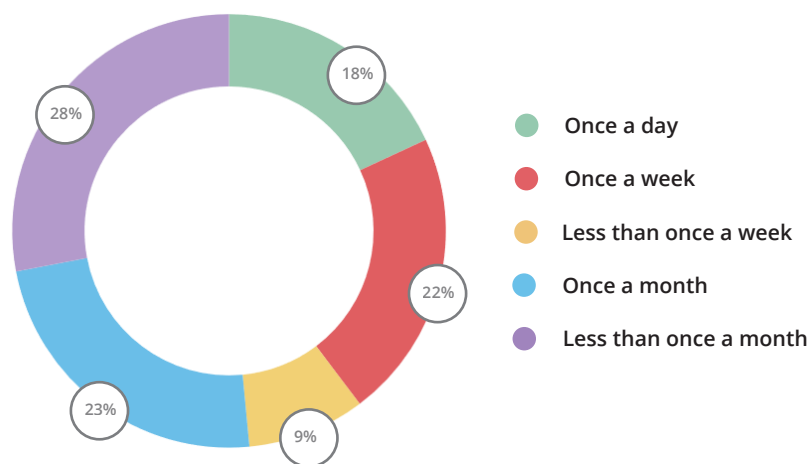
Grocery Stores: Chaldal.com serves as the most renowned online grocery store in Bangladesh where consumers can order groceries online and it'll be delivered to them. Chaldal also received funding from 500 Startups, a VC firm based out of California. Recently, Meenabazar, a concern of Gemcon group and one of the biggest retail supermarket chains in Bangladesh also opened up their own online grocery order and delivery service. In the premium market segment, Direct Fresh operates to serve clients including a large expat base.

E-ticket: During major holidays like Ramadan and Eid, most urban people travel to their villages. They have to wait in long queues for hours on end to buy tickets for bus, train and steamer. To evade this hassle, in 2012 Bangladesh Railway introduced the e-ticketing system where tickets could be bought online. Around 25% of the tickets in 2014 were bought online – the most talked about being shohoz.com. Furthermore, busbd.com also introduced online tickets for buses and they sold thousands of bus tickets online.

Online Car Market: carmudi.com serves as an online marketplace for people who want to buy used or new vehicles and individual vehicle owners or vehicle dealers that want to sell new or used vehicles. They are the first company to provide this service and also happens to be the most renowned one.

Online Real-Estate Market: Lamudi.com and bikroy.com are notable sites to explore when it comes to sourcing best real estate offers. Both Lamudi.com and Carmudi.com are concerns of Rocket Internet Group, an e-commerce focused venture capitalist firm and startup incubator from Germany.
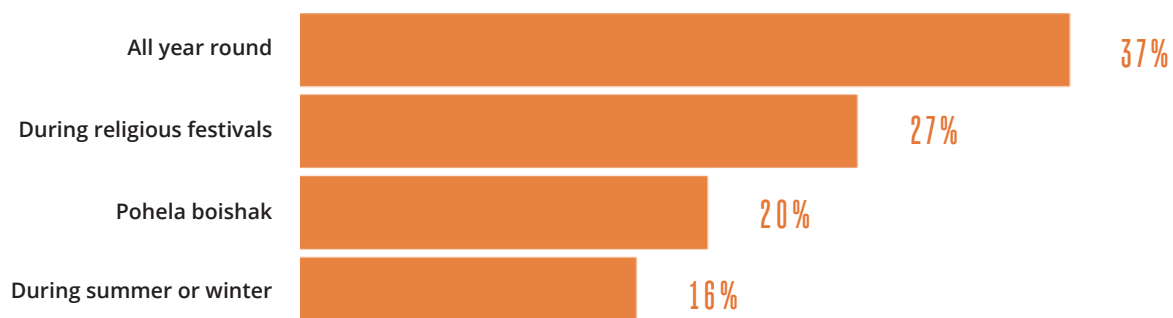
Frequency of purchase through e-commerce

- Once a day — 18%
- Once a week — 22%
- Less than once a week — 9%
- Once a month — 23%
- Less than once a month — 28%

Source: LightCastle Partners Survey on Digital Consumers, 2015

E-commerce purchase timings

- Weekends — 32%
- Weekdays — 20%
- Both — 48%
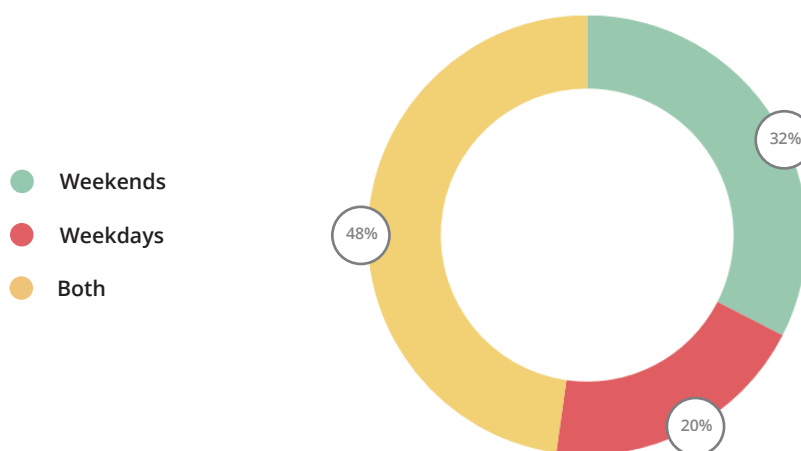
Source: LightCastle Partners Survey on Digital Consumers, 2015

E-commerce purchasing cycle

- All year round — 37%
- During religious festivals — 27%
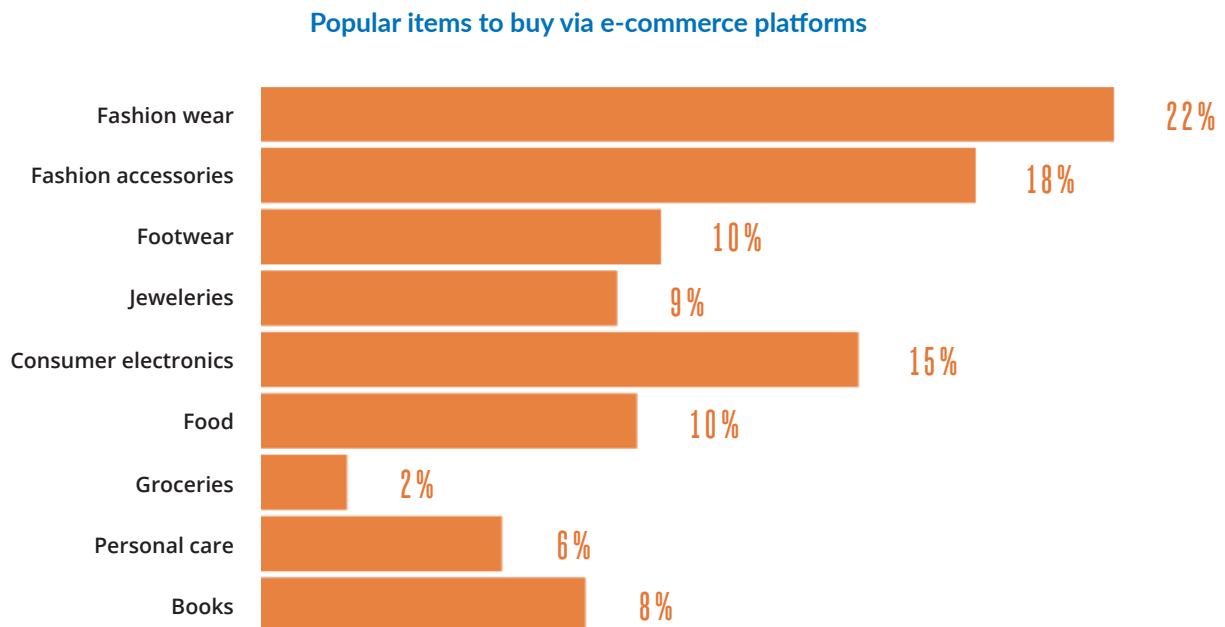- Pohela boishak — 20%
- During summer or winter — 16%

Source: LightCastle Partners Survey on Digital Consumers, 2015

Stronger security protocols and easier transaction facilities with help from the banks and trusted logistic companies, consumers are becoming more conducive to online transactions. This has resulted into more frequent transactions (once a day 18% and once a week 22%) with most of the purchases concentrated on weekends (33%). Also, this has helped establish the trend to purchase via e-commerce platforms all year round (37%). During religious festivals like Eid, Puja and Christmas (27%) and other cultural festivals such as Bengali and English New Year (20%) most of the digital middle and affluent consumers prefer to shop via e-commerce platforms.
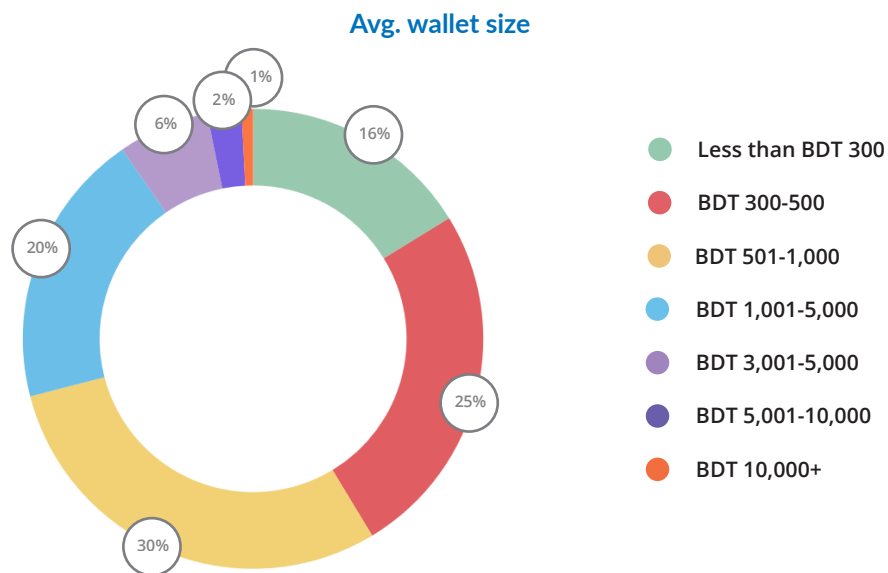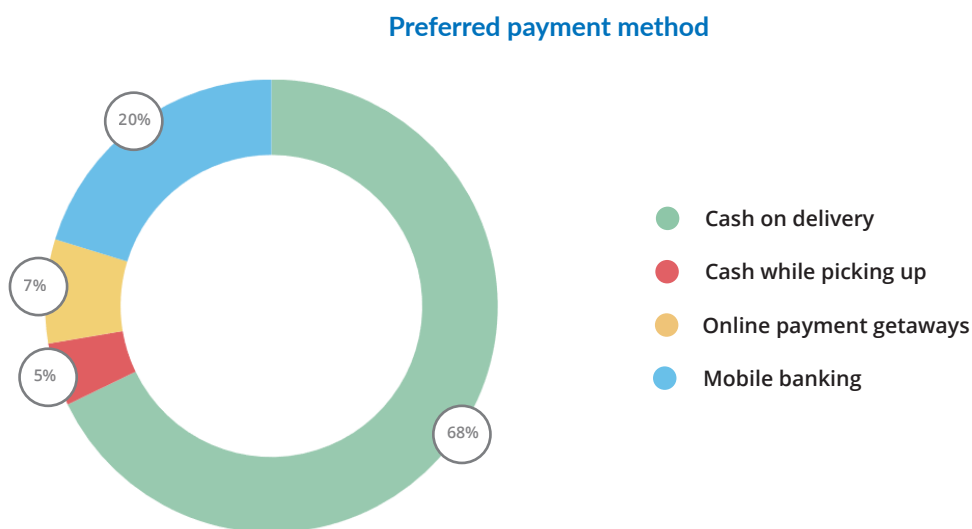
Avg. wallet size

- Less than BDT 300
- BDT 300-500
- BDT 501-1,000
- BDT 1,001-5,000
- BDT 3,001-5,000
- BDT 5,001-10,000
- BDT 10,000+

Source: LightCastle Partners Survey on Digital Consumers, 2015

Popular items to buy via e-commerce platforms

Item	Percentage
Fashion wear	22%
Fashion accessories	18%
Footwear	10%
Jeweleries	9%
Consumer electronics	15%
Food	10%
Groceries	2%
Personal care	6%
Books	8%

Source: LightCastle Partners Survey on Digital Consumers, 2015

As the research suggests, the digital consumers spend, on an average, BDT 1000 to 10,000 (28%) per visit. This is understandable as Fashion-wear (22%) and Fashion accessories (18%) are the most bought items from these e-commerce sites.

Preferred payment method

- Cash on delivery
- Cash while picking up
- Online payment getaways
- Mobile banking

20%
7%
5%
68%

Source: LightCastle Partners Survey on Digital Consumers, 2015

With the central bank allowing the implementation of e-payment gateways in 2009, e-commerce businesses have proliferated rapidly. However many B2C businesses operate under the hybrid model incorporating "cash on delivery (COD)" mechanisms. Given that large majority of the consumers would still prefer "COD" (67%) – the trend is likely to continue. However, mobile payment gateways if correctly leveraged can be a promising alternative – 32% of the respondents would like to use mobile payment gateways as well with a more easy-to-use mobile wallet.

With the advent of 3G internet coupled with proliferation of smarter gadgets and availability of secured and flexible mobile financial services, the e-commerce industry in Bangladesh is poised for exponential growth. Our research also suggests that 38% of the middle and affluent consumers would definitely like to increase their online purchases in the next year.

**Innovative and Attractive Discounts and Offers – Breaking the Ice:**

Often the first step is the hardest to make. E-commerce sites, understanding the dilemma of the traditionalists and early starters, have a wide array of special discounts and offers in place. For example, Daraz.com, in partnership with Robi has offered the "Fatafati Friday" offer last month – a local shopping extravaganza based on the idea of "Black Friday" deals.

III.   Disruptive Education

In order to ride the wave of globalization, Bangladesh has to tap into the enormous potential of its youth. Just the population below 14 years of age consists of 31%, which is an incredible amount in a country of 160 million. The fastest way of doing this is to revamp the education system into the modern era.

The total size of the current student population in Bangladesh is 29 million (19% of the total population). The graph below illustrates the spread of students between the levels, ranging from primary to tertiary.

Student mix at different education levels

Primary
56%

Secondary
25.5%

Private university
16%

Public university
2.5%

Overseas
0.05%
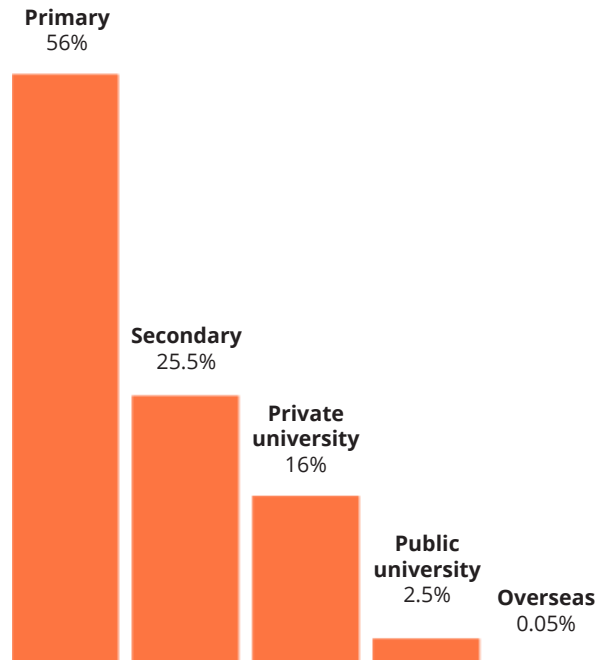
Source: BBS

Primary enrollment rates stand at 98% while secondary and tertiary enrollment rates are at around 53.3% and 13% respectively. And on a recent study conducted by LightCastle Partners on the Middle and Affluent Class (MAC) population of Bangladesh, we found that parents of kindergarten to junior high schools prefer private English mediums for their children. This shows that parents want to prepare their children for the global stage from the very outset.

Moreover, parents of high school students preferred private colleges and private English medium schools, while those sending their kids to university preferred public university, with private university coming in a close second.

Hence, MACs are showing clear preferences for sending their kids to private, mostly English medium schools, which is opening up a whole new market for augmented education, as these kids enjoy internet facilities and have a mindset attuned towards digital accumulation of knowledge.

In terms of payment characteristics, majority of parents said they would consider spending BDT 100,000 to 300,000 annually for their child's education.

43.4% of respondents said they employed private tutors for their children. This has two-fold implications. Firstly, it points to the fact that parents are concerned about the education that their children are receiving. Secondly, they are willing to pay a premium, between BDT 5,000 – 15,000, over the tuition fees to ensure their children receive the best education. So it can be safely assumed that they would also pay for enhanced education for their children that gives them access to new avenues of learning.

On another survey conducted by LightCastle Partners on MACs in Dhaka, it was found that 75% of parents agreed that teaching resources was a 'very important' criteria when choosing schools for their children. Online platforms can and to some extent are providing quality teaching resources to students in a personalized way that fosters improved learning outcomes. Moreover, curriculum and individual care was cited to be very important factors for parents. To a large extent, this reinforces the point that parents will be receptive towards the concept of their children using technology enabled online platforms to learn important concepts that augment and expand on what they are learning at their formal place of study.

As it stands, the current education system of Bangladesh has some fundamental flaws. Moreover, the statistics don't represent the overall quality of education in the country, because enrollment rates are poor predictors of actual academic ability of students. Hence major problems are often hidden in the data.
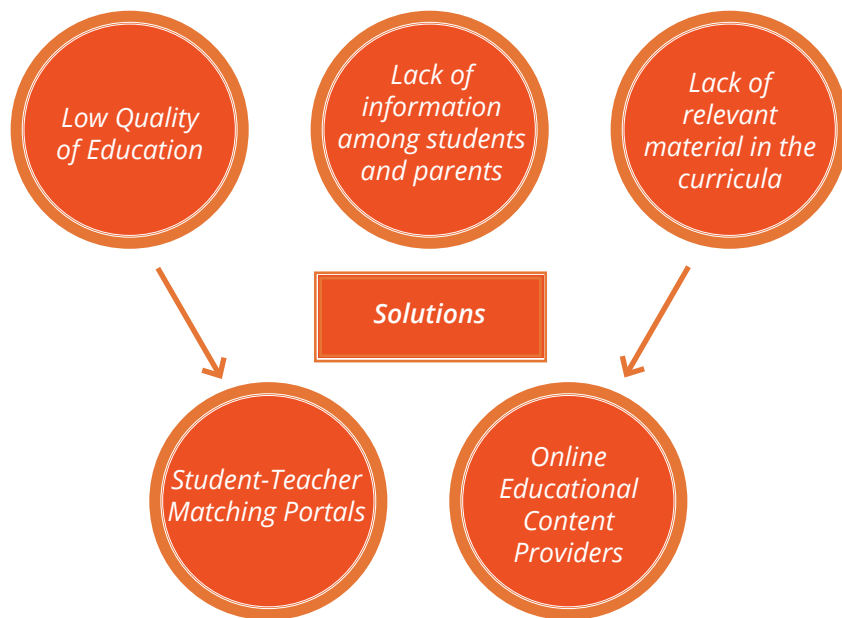
Though the challenges above seem daunting, various startups from across the board have sprung up to take them on. These range from web platforms that allow students to gain skills not taught at school all the way to providing quality education to students throughout the whole of Bangladesh.
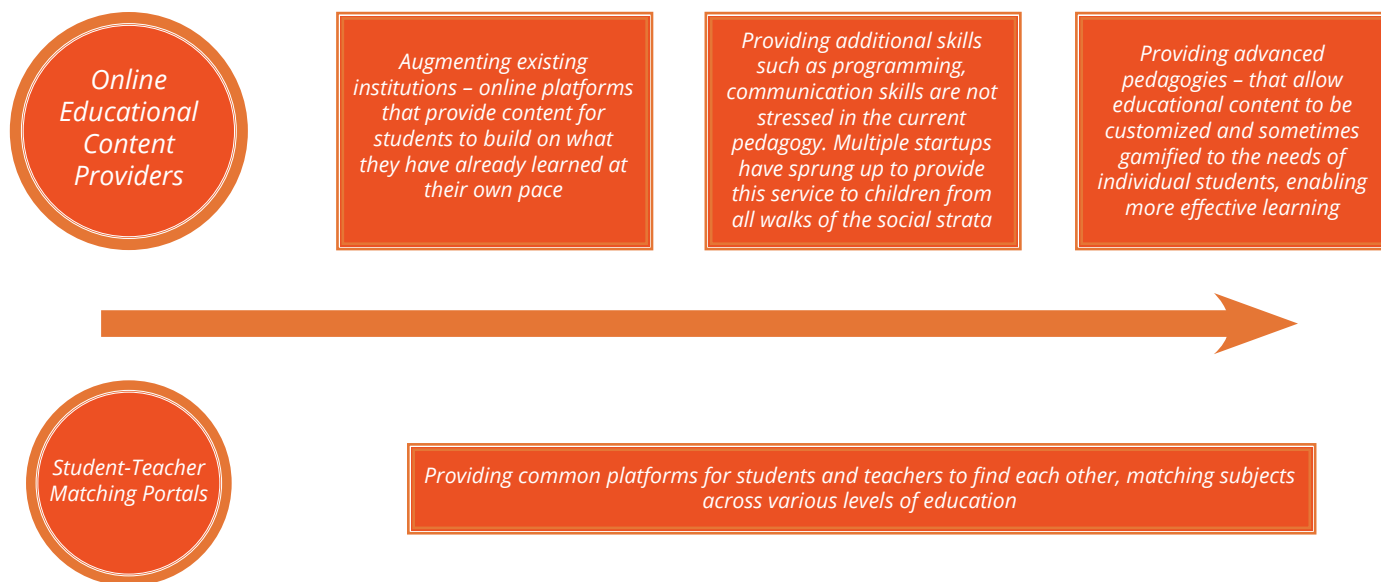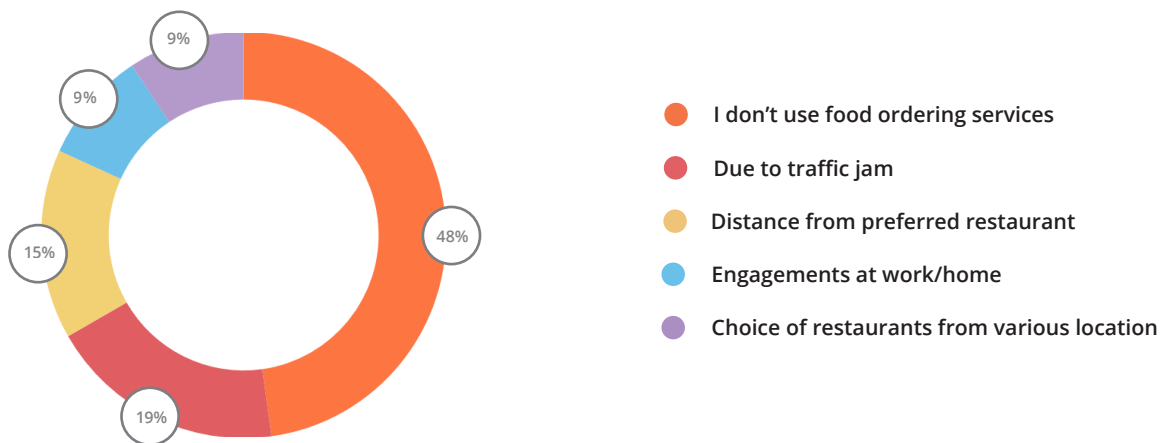

Online Educational Content Providers

Augmenting existing institutions – online platforms that provide content for students to build on what they have already learned at their own pace

Providing additional skills such as programming, communication skills are not stressed in the current pedagogy. Multiple startups have sprung up to provide this service to children from all walks of the social strata

Providing advanced pedagogies – that allow educational content to be customized and sometimes gamified to the needs of individual students, enabling more effective learning

Student-Teacher Matching Portals

Providing common platforms for students and teachers to find each other, matching subjects across various levels of education

Though the challenges above seem daunting, various startups from across the board have sprung up to take them on. These range from web platforms that allow students to gain skills not taught at school all the way to providing quality education to remote students that would otherwise never have received it.

IV.   Foodtech – Revolutionizing the Way People Dine

The industry witnessed an upward shift in demand over the last decade. With rapidly increasing per capita income, changing consumer taste and altering lifestyle coupled with massive development in electronic and social media that introduced a complete cultural shift for the entire nation – it paved the way for the introduction and the rise of the dine-out culture in the country, particularly in Dhaka.

Reasons behind upward trend in using food tech

- **I don't use food ordering services**
- **Due to traffic jam**
- **Distance from preferred restaurant**
- **Engagements at work/home**
- **Choice of restaurants from various location**

Source: LightCastle Praters Survey on Digital Consumers, 2015

Consumers are now time conscious – since the traffic jam in the capital city is almost unbearable and kills productive hours, they are opting out for home delivery of food from their favorite restaurants using online food ordering apps (34%). While more than 19% use the app due to either non-availability of favorite restaurants nearby their residences or engagement in household chores – especially female consumers who are home makers – the traditionalists are yet to break the ice and jump in (47%).
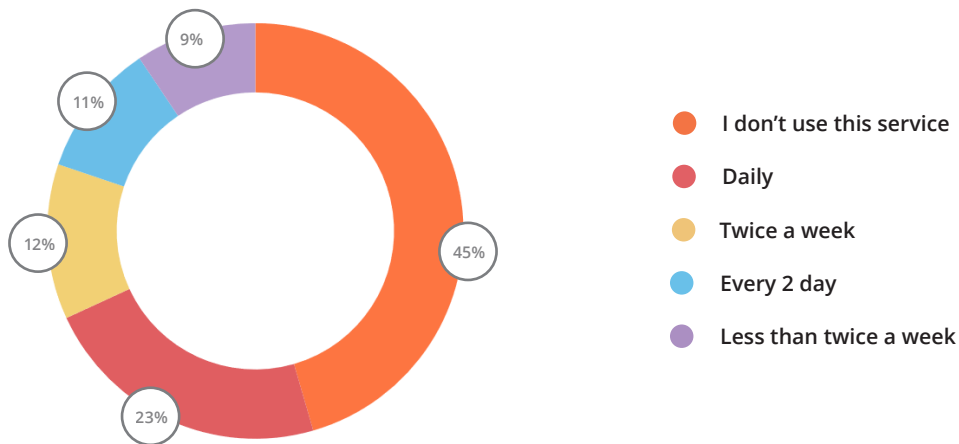
Consumers who like to dine out

Students — 82%
Service holder — 8%
Self-employed — 7%
Professionals — 2%
Homemakers — 1%
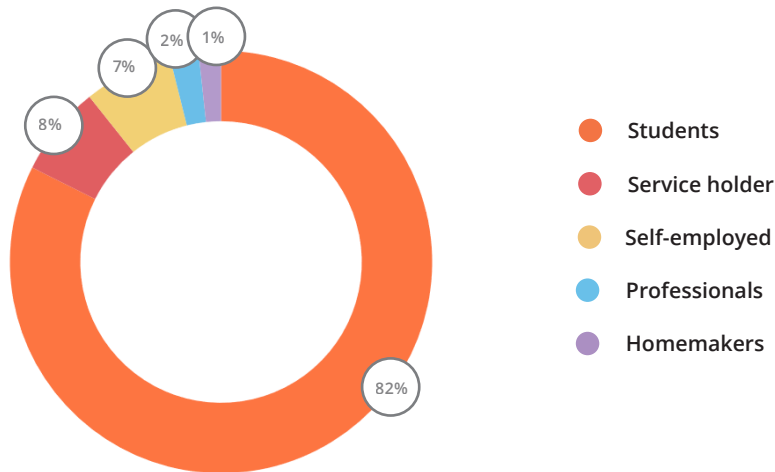
Source: LightCastle Partners Survey on Digital Consumers, 2015

It's predominantly the university going students (82%) who are the early adapters of this food tech with young professionals and entrepreneurs (14%) being the digital aspirants in this particular industry.
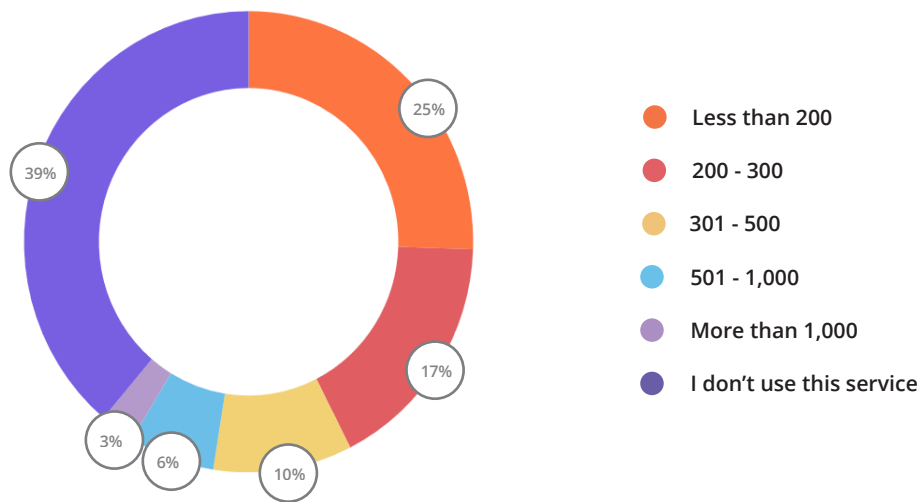
Frequency of food hunt – online

I don't use this service — 45%
Daily — 23%
Twice a week — 12%
Every 2 day — 11%
Less than twice a week — 9%

Source: LightCastle Partners Survey on Digital Consumers, 2015

Online foodies hunt for food daily (23%) using either Foodpanda (19%) or HungryNaki (15%) – our research suggests that the digital aspirants go for lunch as they are the young white collars or entrepreneurs while early starters order for dinner – university students hanging out together at a friend's house order food from their favorite places.

Wallet size per order

Legend:
- Less than 200
- 200 - 300
- 301 - 500
- 501 - 1,000
- More than 1,000
- I don't use this service

Chart values: 25%, 17%, 10%, 6%, 3%, 39%

Source: LightCastle Partners Survey on Digital Consumers, 2015

Since the early adapters (university students) are the avid users of these apps, their wallet size is substantially low (up to BDT 500-52%) while the white collars spend more than BDT 500 (9%) on each order. With the increasing 3G penetration rate strengthened by availability of smartphones and integrated apps, Food tech is here for growth. It can open a new window for catering services for the work force in this capital city of almost 2 crore inhabitants initially and then move into other metropolitan cities.

V.   Internet of Things (IoT) and the Growing Consumer Durables Industry

In today's fast paced world where people live on second screens, even consumer durables including electronics and home appliances are getting smarter. We live in an age of smart gadgets and devices where TVs are no longer just TVs – they have internet connectivity, storage capacity and even built-in telephony services with the option of touch screen! Smart ovens, smart washing machines and smart security devices – all you need is to connect these devices with your smartphone with internet connection and there you go, the Internet of Things (IoT) will take care of everything on behalf of you!

**Shopping Spree Continues Even after Festivals and Other Occasions:**
With the per capita GDP increasing, Bangladesh has entered into an era of lower middle class status as a nation. This has tremendously changed the attitude of the consumers towards shopping. Historically, Bengalis, as a nation, are known to spend much on short term assets like consumer durables and electronics other than investing in long term financial assets like stocks, bonds and even gold jewelries.

Shopping perception

- Strongly disagree
- Disagree
- Indifferent
- Agree
- Strongly agree

Source: LightCastle Partners Survey on Digital Consumers, 2015

The shopping bonanza used to take place only during the religious festivals like Eid, Puja and Christmas back in those days. However, things now have changed. Thanks to the increasing purchasing power parity of the consumers and the various lucrative offers by both the online and offline shops, the shopping spree continues all the year round. A whopping 68% of the consumers agree that every year they have newer things to buy due to the advancement in consumer durables technologies and 41% agree that they enjoy hunting best discount deals and offers.

On the other hand, 30% of the digital middle and affluent consumers admitted that they are willing to borrow money to buy durables upfront or buy in installment to improve their lifestyles. Whereas, 31% of them have said that they would like to take loans in order to purchase assets/durables that are deemed necessary to lead a decent lifestyle.
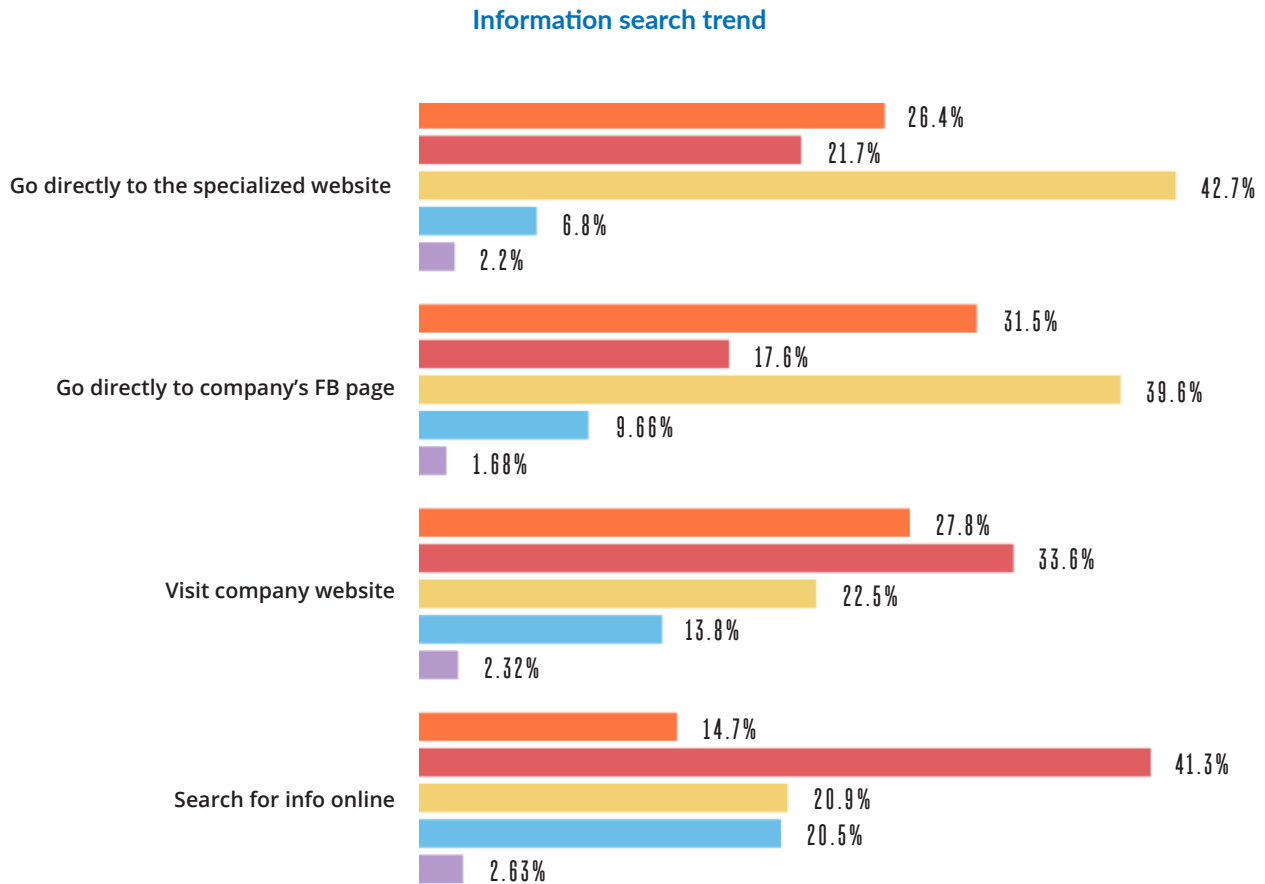
Shopping perception

Legend:
- Strongly disagree
- Disagree
- Indifferent
- Agree
- Strongly agree

Categories:
- I'm willing to borrow money/buy in installment to buy durables that will improve my lifestyle
- I'm willing to borrow money/buy in installment to buy durables that are necessary to me and my family
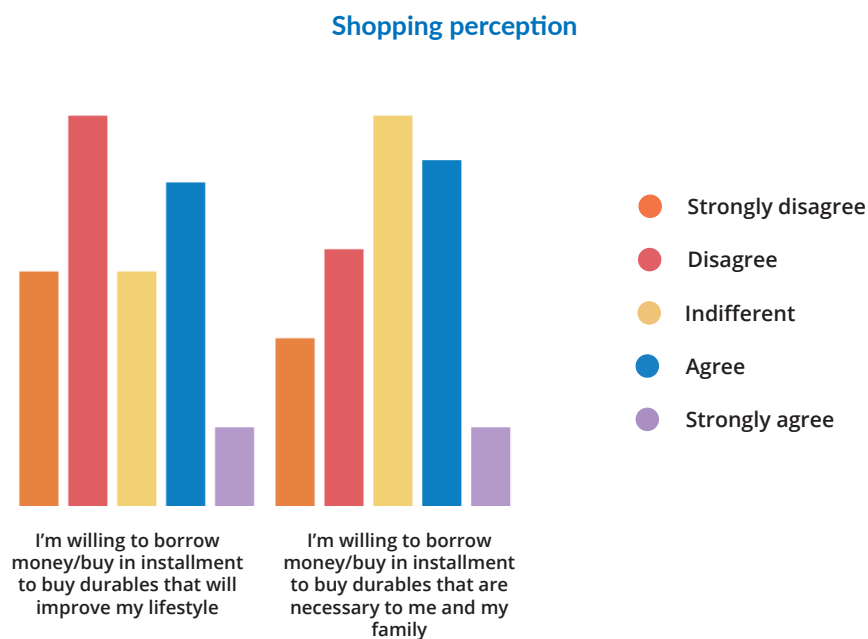
Source: LightCastle Partners Survey on Digital Consumers, 2015

How They Decide to Purchase Durables:

The traditional consumers go to the marketplace and get information from the wholesalers or retailers about different durables and electronics and then decide to buy it after comparing 3/4 shops. However, the digital middle and affluent consumers do it in a different way.

They either search for information online (23%), visit company website (16%), go directly to company's FB page (12%) or go directly to the specialized website (9%). Therefore, for digital marketing agencies, it has become quite obligatory to reach these digitally attuned consumer groups through the use of social media.

Information search trend

Go directly to the specialized website	
26.4%	
21.7%	
42.7%	
6.8%	
2.2%	

Go directly to company's FB page
- 31.5%
- 17.6%
- 39.6%
- 9.66%
- 1.68%

Visit company website
- 27.8%
- 33.6%
- 22.5%
- 13.8%
- 2.32%

Search for info online
- 14.7%
- 41.3%
- 20.9%
- 20.5%
- 2.63%

Source: LightCastle Partners Survey on Digital Consumers, 2015

Although, only 7% of the country's current population can be classified as the Middle and Affluent Consumers, these Bangladeshis will account for around 17% of the population by 2025.

"Also, our projection indicates that within the next decade, 63 cities will have MAC populations of at least 100,000 compared with 36 cities now [source: BCG- MAC Research, 2015]. These populations will have a greater impact on the way people use consumer durables, electronics and home appliances – ultimately moving towards the pinnacle of Internet of Things at home."

VI.   Disruptive Technologies in Healthcare Industry

Health is wealth. Hence, with economic prosperity, the healthcare industry in Bangladesh has also been observing phenomenal growth over the last few years. Currently the industry stands at a value of BDT 400 billion. In addition, the retail market for pharmaceuticals alone has been valued at around BDT 112.56 billion in 2015. With a steady CAGR of 10.8%, the industry is showing outstanding promise both in terms of domestic and foreign earnings.

> **Current healthcare market size over BDT 400 billion**

> **Estimated retail pharmaceutical market size in 2015 in BDT 112.5 million**

> **Industry annual CAGR of 10.8%**

> **3.6% of country's GDP spend in healthcare sector**
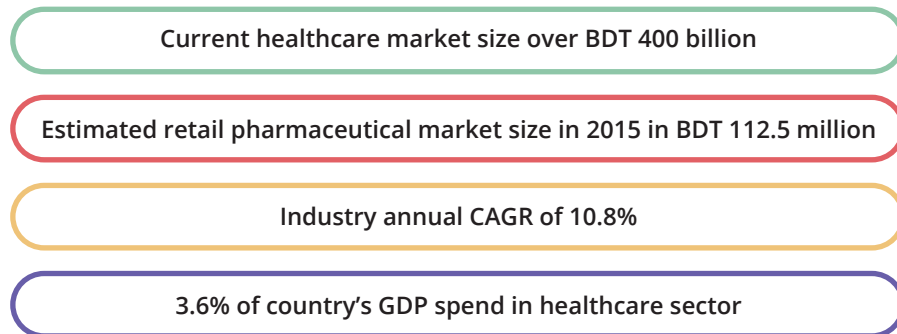
Figure 8: Healthcare industry in numbers

Today Bangladesh's healthcare expenditure per capita is around USD 27 – far behind the middle-income average and even below low-income countries. If Bangladesh were to match the middle-income country average by 2020 the healthcare sector could be worth USD 9 billion (inclusive of growing medicine markets, hospitals, medical equipment, training nurses/doctors and wdeveloping health insurance products).

This crucial industry is ripe for disruption through technology as the majority of the spending comes from private money and government spending as percentage of GDP still stood at 3.6% until recently.

The combination of these two factors will mean that as Bangladesh reaches new levels of prosperity, its population will increasingly demand, and be able to pay for advanced healthcare, brought to them by means of technology. Private consumption also means changes in industry dynamics will be more immediate and reflect the market need faster.
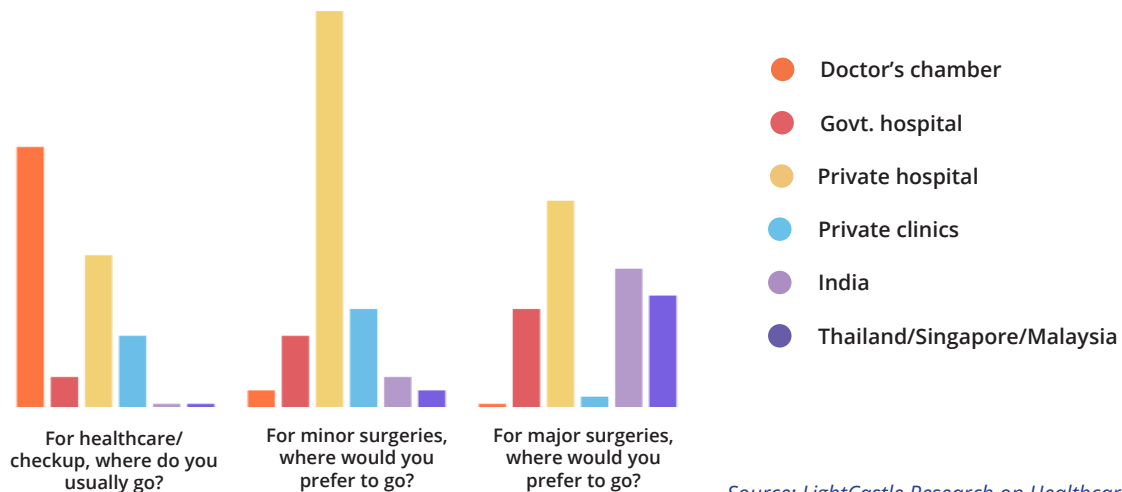
Healthcare expenditure per capita
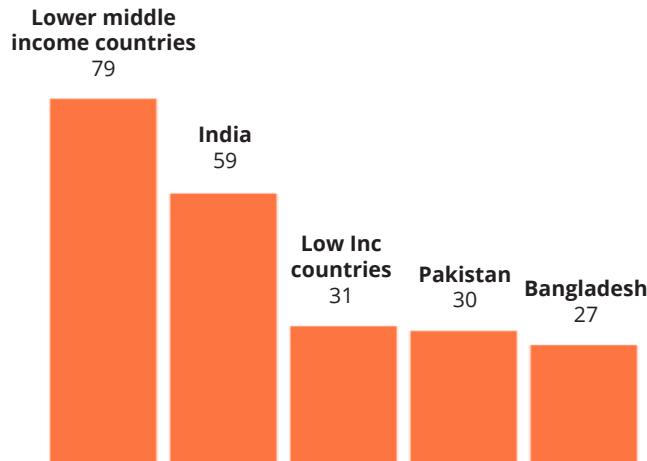
Source: World Bank

LightCastle Partners recently conducted a survey of the MAC population in Bangladesh to gauge healthcare habits.

Healthcare preferences

- ● Doctor's chamber
- ● Govt. hospital
- ● Private hospital
- ● Private clinics
- ● India
- ● Thailand/Singapore/Malaysia

Source: LightCastle Research on Healthcare Industry in Bangladesh, 2015

It was found that healthcare consumption, even among the middle and affluent classes is quite traditional, with majority of respondents either going to the doctor's chambers or private hospitals for health checkups. This trend held true when respondents had to have minor surgery as well as major ones. People in the study showed a preference for foreign countries such as India, Singapore and Thailand for major procedures, while they were content with the services in Bangladesh for minor ones. However, with rising incomes and standards of living, the population will start to demand more immediate and technology enabled solutions to better cater to their health.

To this end, there are three avenues of growth: booking & information services, med-commerce and health analytics. Some firms have already scoped out the growth in these areas and started operating, while there are avenues where there is still ample scope for expansion. However, all segments are in the nascent stages, waiting for market conditions to launch them.

Sites like doctorola provide information regarding doc-tor's visiting hours as well as provide booking services for interested patients. Many large hospitals offer built in platforms for booking as well.

Platforms like bhalothakun and bddrugstore are trying to capture the market for medical e-commerce by supplying medicines, wellbeing products, booking appointment with doctors, information of hospitals and self-help for knowledge on health related issues.

Healthcare analytics is a substantial untapped market in Bangladesh with few, if any players operating in it. With increasingly cheap communications and monitoring devices being available in the market, the time is ripe for companies to be moving into this space.

CONTRIBUTORS

Ayesha Sabrina, **Expert Consultant**, LightCastle

Ayesha Sabrina is an Expert Consultant at LightCastle Partners. She is passionate about numbers and strategy. She aspires to open a food tech business sometime in the near future.

Mohammad Kashif Choudhury, **Vice President**, LightCastle

Mohammad Kashif Choudhury is a Vice President at LightCastle Partners. His love for Economics is matched only by his passion for technology and he is always looking for areas where these two fields merge.

Md. Sazzad Hossain Nahid, **Vice President**, LightCastle

Md. Sazzad Hossain is a Vice President at LightCastle Partners. He is enamored with analysis and thus finds immense pleasure in writing reports with meaningful insights that redefine the thinking process.

LightCastle Partners
Inspiring Business | Boosting Economy