

Yet another perspective on e-Commerce in India - Part 2, Online retailers

Part 1 provided a broad overview of the Indian e-Commerce market, thoughts below are on the three largest online retailers.

As I start typing this trip report on online retailers in India, the festival season has started and the retailers expect between 3 to 10 times normal volume. Wishing the entire Indian retail industry, a very happy Dussehra - Diwali season. Not unlike the U.S, most retailers expect to generate a majority of their sales and profits during this “peak” season. While the brick and mortar stores may look forward to some profit, I suspect the online retailers — at least the most popular ones — will not. Instead they will expect to minimize the hemorrhaging of VC money.

Online shopping in India has grown exponentially since last “peak” and the online retailers have been preparing for this since the last one ended, which to a certain extent, disappointingly in terms of technology and service. My belief — this will be borne out when the numbers come out mid November — is that growth will come from not just large city clusters but from second and third tier cities teeming with consumers who have joined or joining the online shopping revolution. The market has expanded considerably the past year, thanks in part to the venture funded marketing and advertising by the large online retailers. Besides the big three – Flipkart, Snapdeal and Amazon – Paytm, with investment from Alibaba has entered the marketplace model and will be experiencing their first “peak”. I am certain that the focus for most online retailers is the front end shopping experience — with a broad spectrum of suppliers across several categories — with limited attention, until I saw change on this trip, to the overall experience of which logistics is an integral part. While I was in India a few weeks back, I did an unscientific survey by talking to suppliers who use the three largest players about their experience on the process and also placing orders from them to understand the supplier, consumer shopping and delivery experience.

From what I observed and heard,

- Amazon was the easiest to set up including attention to detail provided by the supplier. The end consumer could contact the supplier directly and resolve any issues; supplier products can be searched for with many keywords and the pickup process is professional with technology a key enabler.
- Flipkart did not make it easy for suppliers to join; was very guarded in their disclosure of end consumer details to the supplier and made it very difficult for the supplier’s product to be searched — unless exact information was typed. The courier was rarely ever on time with an unresponsive customer service to calls from supplier and
- Snapdeal had a cumbersome process for becoming a supplier; search features for locating supplier products were limited, but shared the details of the end consumer with the supplier. The pickup process did not happen as promised and the supplier lost a day of service. The returns process was a failure.

Yet another perspective on e-Commerce in India - Part 2, Online retailers

As for the delivery experience, Amazon was easily the most professional with a customer friendly courier, while the other two had last mile delivery providers diminishing the customer experience. While Flipkart & Snapdeal have good customer facing technology, their delivery experience was devoid of it.

Amazon, with its 20+ year head start and lessons learned from the US, China and other growing markets, is relentlessly focused on the customer experience. However, the other two large local players have focused on the front end process and touting the number of suppliers signed as a badge of honor; they perceived logistics/last mile to be a manpower business and consequently sub optimized the end to end customer experience.

Flipkart and Snapdeal, at least reading the newspapers, are engaged in a game of one-upmanship. Using other people's money, marketing themselves, offering sales and providing discounts to gain market and mind share, these retailers I fear may be in a race to becoming niche players. Amazon has taken the high road, stayed out of the name-calling and focused on shoring up the brand and customer experience.

While there are parallels between the online market in India and the dot-com bubble that we experienced in the US, the difference is that these firms have proven revenue models. The market and VC community must see some merit in continuing to invest heavily. However, with no perceived value differentiation I don't know if their success is assured. A few of the questions that remain unanswered in my mind, include:

- 1 Is the market large enough to accommodate three large players and then some?
- 2 Do the consumers see any differentiation? What value do they offer?
- 3 Do these firms end in a segment or geographic niche?
- 4 Do they become vertically integrated (marketplace, logistics and when rules allow fulfillment providers)?
- 5 How will the market be different if the tax system is changed? Are these players in it for the long term?
- 6 Will they recruit leaders who experienced the teething troubles in other markets?

Regardless, just like last year, I expect the local players to learn more lessons from this peak. Let's face it, the experience of these players is like drinking water from a fire hydrant. They have adapted very well and are bound to do even better — however, unless they focus on the end to end experience they are likely to cede the market leadership to Amazon.

Raghu Ramachandran

Partner, 13 Colony Global, Supply Chain Strategy and e-commerce Consultants.

raghu@13colonyglobal.com