

e-Commerce in India – a win-win-win?

May 2018

As I peruse the Indian newspapers on a daily basis, sitting in Atlanta, not a day goes by without significant column inches being taken up by either stakeholders in the e-Commerce eco-system or Indian government diktats on potential incentives, regulatory changes etc. Clearly this can be construed as hype – but is it? Have we transitioned from this to a hyper growth phenomenon? Noted below are my thoughts based on multiple visits a year and conversation with key providers and consumers.

And then there was one. At the time of writing this brief, there is every indication that Walmart will consume Flipkart in a matter of days (Update: May 9, 2018 - WMT announced the \$16B investment in Flipkart). Thirty months ago, when I penned my perspective on the e-Commerce market in India, I opined that Flipkart and Snapdeal were in a race to the bottom and Amazon, with its relentless focus on the consumer, will be the clear market leader. Over the next few years, Alibaba and Walmart will not cede the market to Amazon without a fight, billions of dollars will be spent on enhancing the Indian e-Commerce eco-system. The Indian conglomerates will be nipping at the heels. So, market watchers, get your popcorn and drinks, the fight for leadership of the Indian market is definitely going to be interesting. The ultimate winner will be the Indian consumer as the online market grows from 2.2% of all retail to 12% in less than 10 years.

Millions of packages have been delivered, hundreds of thousands of customers have been excited or disappointed with the shopping, delivery, and product experience over the past few years. The incumbents in the e-Commerce eco system had to contend with demonetization, rollout of GST and sub-optimal infrastructure spending along with upheaval in the mobile phone/data market. Despite the headwinds, the networks and investments have expanded beyond the Tier 1 and 2 cities, and firms that continue to address the customer needs will thrive.

Behind the US and China, ANY enterprise interested in growing their business cannot ignore the Indian market for its breathtaking potential. However, there are characteristics unique to the Indian market; they include cash payments (demonetization is history?), human interaction for shopping and product questions, significant returns, higher than normal fraudulent transactions and

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preference (at least in the Tier 2/3 cities) for small monthly payments on high ticket items.

Amazon, always focused on the retail value chain and having learned their lessons from the China foray, has paid greater attention to these and are closer to meeting the consumer needs. Flipkart should leverage their “home” advantage along with the Walmart retail experience to finally compete. Until now, in my humble opinion, the focus has been on price rather than customer experience.

I have attempted to address some of the questions I had posed in my earlier note (30 months ago) including:

- 1 Is the market large enough to accommodate three large players (at time of writing it was Flipkart, Snapdeal and Amazon) and then some?

A: We are left with two large players – AMZN, WMT (Flipkart) and a host of niche players. Will BABA invest more to establish Paytm, what about the Indian conglomerates – TATA, Reliance, Future & Birla? I expect them to focus on niche segments, whether it be grocery, apparel, electronics or other. Be on the lookout for acquisitions and consolidation. The Indian biggies would do well to focus on the B2B marketplace before the US companies turn their focus to that market.

- 2 Do the consumers see any differentiation? What value do they offer?

A: As outlined above, the Indian consumer has some unique needs and clearly, they have spoken. Despite the discount race, Amazon seems to address most of their needs.

- 3 Do they become vertically integrated (marketplace, logistics and when rules allow fulfillment providers)?

A: Thanks to the GST rollout this is getting closer to reality. The recent acquisition of Vulcan by FSC to gain last mile capabilities is a start. I expect more consolidation, it is likely that logistics providers such as Delhivery and Ecom Express are targeted in the not too distant future.

- 4 Will they recruit leaders who experienced the teething troubles in other markets?

A: While Amazon was able to pass along lessons learned, it took a couple of attempts before Flipkart got the right leadership in place. Unfortunately, Snapdeal completely ignored this need and went south.

Three key changes - Demonetization, GST and Reliance Jio - have totally upended the online market. The biggest beneficiary of demonetization was Paytm. Paytm

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has achieved hyper growth and with Alibaba's 40% stake able to extend its product portfolio. Rather than a domestic supplier network, I see more cross border volume filling their coffers.

The logistics providers are just getting back to pre- Nov 2016 levels in terms of volume and service. Without large investments I cannot see them leverage the new GST regime by developing a network of distribution and fulfillment centers which complements their last mile capabilities. Logistics is a core competency of both Amazon and Walmart and their ability to invest significantly in building/acquiring the network will transform the logistics landscape over the next 12 months. Even with investments, it would require some creativity to reduce fraudulent returns and streamlining the reverse logistics network.

The biggest advantage Indian conglomerates – TATA, Reliance, Future & Birla – have is their network of brick and mortar stores. Each of them in their own way is fighting the online retail tsunami with a strategy to be multi-channel leaders with Tata Cliq being the farthest along. Reliance Jio, more than any other company, greatly expanded the online market to Tier 2/3 cities. Can the parent Reliance leverage that to gain a foothold in the online market? I am sure the leadership in all of the firms above has been paying close attention to the devastation that Amazon has wrought in the US market. The Indian firms - without being intimidated by the billions of dollars sloshing around from Amazon and Walmart - can be omni-channel leaders. They, more than the US firms, are more capable of addressing the unique requirements of the Indian consumer. However, the focus should be on providing a consistent customer experience across channels.

With more than 300 Million internet users and over 80% of the web traffic via mobile, the potential online market is significantly greater than the US. The expectations have been set, the Indian consumer definitely views this as a channel which is here to stay and only grow leaps and bounds. As a percentage, while it is a small fraction of worldwide revenues for Walmart and Amazon, the Indian firms can grow significant profitable revenues. It would be interesting to see how the Indian conglomerates tweak their strategy to ride the wave – without government intervention – and win consumers at the expense of the US giants.

A perfect win-win-win situation for the Indian consumer and Indian/US firms.

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