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Cover Story e-commerce

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SEQUOIA CAPITAL
\$30-35 MILLION
Invested in Via, Fashionandyou, Freecultr, etc.

but because they have systems to manage the backend. "Why would someone like to take control of logistics? Logistics is infrastructure and it is a different ballgame," says Warikoo.

According to Mahendra Swarup, president of India Venture Capital Association: "The cost of doing business is lower in the marketplace model. The model will succeed. Keep costs minimal. Volumes, not high margins, will drive bottom line." "It takes time to build a profitable business. If this is just a rat race for customer acquisition, it is not worth it," says Muralikrishnan, who believes most of the traffic is paid for. Agrees Mangrove Capital Partners' managing partner Mark Pluszcz. "The problem with cash is that it generally makes you stupid as a startup and there is a fine line between having enough and having too much cash," says Pluszcz who has invested in Bestylish and Nim-buzz. "Most firms have a TV

SHAILEN AMIN, CEO, BESTYLISH
"If we have to meet the delivery promise to our customers we have to take charge of inventory."



commercial, which costs half a million dollars. A young company should not worry about all this but build a profitable business."

Hop, Skip And Jump...

As investors keep a close watch on investee firms' financials, at least some of the entrepreneurs are hopping from model to model. Among the earliest entrants into e-tailing, Indiatimes Shopping, which followed eBay for 12 years, is the biggest convert to the Amazon model. "People do not trust sellers who are not established brands. We see a warehousing model work as customer experience is better," says Indiatimes Shopping director of technology and e-commerce, Gautam Sinha. If Indiatimes failed to make the marketplace model work, Letsbuy was burning cash so fast following Amazon that its investors Tiger Global Management and Helion Venture Partners managed to convince it to sell-out to Flipkart. Another die-hard supporter, Yebhi, which has India's largest e-tail warehouse (a 100,000 sq. ft facility in Gurgaon) is also said to be in financial crunch.

Among the biggest transitions has been by Reliance Entertainment's Bigadda, which converted into an e-tailing platform last year. Movies rental site Seventymm converted to an aggregator in 2011 and Koovs, a specialised deal site, not only had a change of ownership, but also strategy by moving to selling products as an aggregator.

In August 2011, Snapdeal got 90 per cent of its business from discounted services and was certain it wanted to stick to its image of being a provider of discount coupons for services such as spas and restaurants. By December, it had a makeover. Bahl has now flooded his website with products. "We had to listen to what our customers were looking for," smiles Bahl. Services are now less than 50 per cent of its business. Futurebazaar, which has seen four CEOs in five years and so far failed to create a distinct identity, has become an online retailer of selected categories such as home and lifestyle and fashion after experimenting with the model thrice. Bigshoebazaar, which started as an online shoe retailer jumped to a horizontal business by transforming its business to Yebhi selling all products.

To Delight Or Not To Delight...

...the customer, that is. The industry is torn between those who believe they have done their job if the customer is 'happy' and those who say it is essential to 'delight' the customer. The difference between the two is — 8 per cent. 'Happiness' seekers are in quest of 92 per cent of the customers, who they believe are happy if the

products are delivered, even if slightly late, provided they work tightly with logistics providers. 'Delight' seekers not only want to make the 92 per cent customers happy, but also the remaining 8 per cent by stocking inventory in own warehouses and delivering them through their own delivery boys, mostly before time. They believe a delighted customer creates the buzz around the website by word of mouth.

On the ground, however, logisticshipment problems may be higher than anticipated by most opponents of the warehousing-logistics model. An exclusive e-tailing consumer survey conducted for *BW* by MouthShut.com during January-October 2011 found that a shocking 45 per cent consumers had a shipment-related complaint. Another 19 per cent complained of poor service and bad customer support.

Industry watchers say the biggest reason behind the stunning revenue ramp-up at the four-year-old Flipkart, and the two-and-a-half-year-old Letsbuy and Yebhi has been their ability to ship the product from warehouses within hours of receiving the order. Flipkart and Yebhi, in particular, went further by controlling the last mile through its own delivery boys. Home-shop18 is doing the same with over 500 delivery boys, as is Indiatimes.

They also hope to capitalise on the online buyers' apprehension of timely delivery. Because e-tailers banking on courier firms have been largely disappointed. "Courier firms Blue Dart, Aramex, First Flight are oriented towards documents and not packages. For them, delivering in 72 hours was not happening for the past three years. Finally, everyone has started taking control of last mile delivery as we have not seen any improvement," says Indiatimes' Sinha.

Flipkart has built eight fulfilment centres with 250,000 sq. ft of space across the country and has 1,500 employees on its rolls delivering products in 30 cities. "Inventory is the strength of our supply chain and distribution makes us different from others. Our research found people who are served through our delivery network come back to us much faster," says Sachin Bansal. About 70 per cent of the 30,000 orders Flipkart processes daily are delivered by its own team. Flipkart will ramp up to more than 2,000 delivery personnel in 50 cities by 2013 to create a same-day-delivery experience that China's 360buy promises. "E-commerce firms have to take end-to-end delivery responsibility. E-retailing is an execution business and getting all these things right is important for success," says Rajan Anandan, managing director of Google India.

Hoopos has one warehouse in Bangalore and plans to open one each in Mumbai and Delhi. "We get orders even from the Northeast where



MURALIKRISHNAN B. COUNTRY MANAGER, EBAY INDIA
"It takes time to be profitable. If this is a rat race for garnering customers, it is not worth it"

delivery is a challenge. With a distribution centre or warehouse in multiple cities, we can deliver faster in and around that city," says Vijay Juman, co-founder and CEO of Hoopos.

When Amazon began in the US, it marked one of the fastest growth stories in the Internet space. In five years, it touched revenues of \$2.8 billion, while eBay had merely grown to \$0.4 billion. Amazon built a service that continues to be addictive and unbeatable, thanks to a secretive network of 52 fulfilment centres or warehouses with 26 million sq. ft in six countries. Its market-cap is almost two times that of eBay's.

While Amazon ties up with couriers such as Fedex and USP, it even employs bicycle couriers in, say, China where logistics is unreliable. The logic is simple: capex-heavy 'fulfilment centres' coupled with own logistics and delivery teams create entry barriers and differentiators that are hard to replicate. The bigger these firms get, the tougher it becomes for a newbie to dislodge them. "For the first generation of Internet successes in India, you better know how to do delivery systems, payment methods or you can't succeed," says Pluszcz. "Building a delivery system, any other logistics or payment methods is worth every penny as that is an entry barrier for anybody else. That will be a big differentiator." He adds: "We are heavily invested in Russia too and we have seen similar issues in logistics. So you have to have your own delivery and you have to control the customer relationship."

On the other hand, a disruptive technology or platform can pose a threat to the marketplace model, even though proponents of this model such as eBay have over the years built strong links with suppliers, banks and logistics firms that would be hard to replicate. Yet, experts say, theoretically, the marketplace model is on a

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NEXUS VENTURE PARTNERS
\$20-25 million
Invested in Snapdeal, Yebhi, Craftsvilla, etc.

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HELION VENTURE PARTNERS
\$15-20 MILLION
Invested in Exclusively, Letsbuy, Redbus, Hoopos, etc.