Yet another perspective on e-Commerce in India - Part 1, 2 & 3
October 2015

Having returned from a recent trip to India (3rd in the past year), all of which included conversations with retailers, logistics firms and small business, I am adding my perspective to the flood of opinions and information available on the market, players, challenges and opportunities.

There is no gainsaying the fact that the e-commerce market in India is growing at a frenetic pace, a boundless excitement with new ideas and, it seems, a bottomless supply of VC funds. The Foreign Direct Investment (FDI) rules – Indian government does not allow FDI in online retail companies that own inventory and sell directly to consumers – has compelled the largest companies such as Flipkart, Snapdeal and even Amazon in India to pivot to a marketplace (connecting sellers to end consumers) model.

While, it is reported, the current government is evaluating whether FDI in ecommerce provides an alternative entry point for foreign multi-brand retailers, it has maintained the previous government’s decision to allow 51% FDI in multi-brand retail. If the Indian government wants to, as it claims, make it easy to do business in India and grow at a faster pace than China, then perhaps a uniform policy with 100% FDI on and offline should be welcomed. As for the brick and mortar stores, fighting the online retail tsunami is futile, they should revamp their strategy to be multi-channel leaders. Short term, the impact to mom and pop stores can be mitigated by being part of the ecommerce supply chain.

FDI is not the primary barrier to e-commerce growth in India, the disparate state tax laws, returning goods at a higher rate than worldwide averages, and the Indian shopper’s brick and mortar mentality of bargaining that has transcended to the web for discounts and promotion, burdening online retailers with losses, are far greater barriers to overcome.

The Indian consumer parallels the American consumer more closely than any other nation in Asia but is at the receiving end of onerous regulations. At a macro level, what will drive growth is a reduction in the cost of goods sold, which in turn will be driven by infrastructure, regulatory and tax changes (land, labor and general sales tax). Online commerce will not grow unless the underlying macro factors which impact logistics costs are addressed. An argument can be made that one of the reasons the US became an economic behemoth is because of its significant reduction in logistics costs as a percentage of GDP. For India to be an economic powerhouse it is imperative that this is resolved, a collateral benefit of which is the growth of interstate business – online or B2B.

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Part 2

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.

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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.

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Part 3
Note: There are several comprehensive studies on the Indian Logistics industry, this is not one of them. This brief is based on visits, conversations and observations during my trips to India over the past year and my prior experience of 28+ years working for the world’s largest package delivery company.

The growth of online retail in India has resulted in rapid changes and growth to the Indian Logistics Industry. Innovation is not just limited to the online market; as I mention in a previous brief there has been renewed attention on the fulfillment and delivery aspects of the end consumer experience. A host of new ideas and companies have entered the market to address those needs. The billion-dollar question is, Will the Indian logistics industry keep pace with the rapid changes and growth in online commerce? The short answer is, yes; but only with significant assistance from the Government through infrastructure investments and uniformity in laws.

The Indian courier industry has long been dominated by legacy B2B players – BlueDart, TNT, GATI, DTDC and First Flight. While they have adapted to the special needs of the Online segment and B2C volume, leveraging the warehouse and delivery infrastructure built over the years, their dominance is being challenged by several B2C focused providers. These new providers – Delhivery, Gojavas, Ecom Express, Connect India, LogiNext – to name a few, are giving the established players a run for their money. While these new providers are focused on the intra and inter state volume, a new class of providers focused on local delivery (“hyperlocals”) has emerged backed by abundant VC funding. However, amidst all the old and new last mile providers, a sleeper who has the most to gain with online retail growth is the Indian Post Office. The Post Office has a network that is unparalleled, but still suffers from a stodgy reputation that may take several years to overcome.

Besides the providers mentioned above, the online retailers have both formed logistics subsidiaries to address their warehouse and delivery needs or invested in providers to gain leverage. Though the market is crowded with last mile logistics provider's, the rate of online growth has made it difficult to provide a consistent, timely and quality delivery experience. A consistent theme across the entire country is the lack of a cost effective transport infrastructure, - roads, rails, water or air. The new B2C providers have limited leverage and are, with VC money, scaling up to meet the demands of the Indian consumer and online. It does not help that their margins are squeezed by online retailers who spend most of their money on technology and marketing to gain brand recognition and market share at, what I reckon, unsustainable losses. The logistics companies with good consistent service should have the leverage on pricing.

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India generates approximately 50% of its GDP from less than 50 cities. Less than 10 (Tier 1) of those cities are high volume urban locations which adapted first to the online revolution and created demand for a last mile delivery infrastructure. The courier companies are serving a market with a unique need created by the online retailers. Delivering to flats/apartments in the midst of chaotic traffic and infrastructure challenges, collecting Cash on Delivery (COD), waiting for the Indian consumer to accept or reject the product by opening the box, and hauling the returns if necessary within a certain timeframe will frustrate the most patient operators. There are several models developed to serve this market including; city center’s, drop boxes, using local mom & pop stores and hiring an army of foot/bike/motorcycle/van couriers. Addressing the needs of consumers in Tier 2, 3 cities which constitute the remaining 40 of the Top 50 cities contributing 20% of GDP while maintaining operating leverage with cost control is an even harder challenge.

As mentioned in a previous brief, FDI rules compelled online retailers to gravitate to a marketplace model where they connected suppliers with consumers using technology and logistics as key differentiators. Each of the online retailers have tens of thousands of suppliers (not exclusively that I am aware of) selling their wares. The suppliers, located all over India, move goods from their warehouse to that of the logistics company. The online retailer makes the time in transit commitment (hopefully based on logistics provider's capabilities), though my experience did not include an option to upgrade to a faster service for a price, and the logistics companies deliver to those needs.

The logistics provider starts the arduous task of navigating the Indian roads in not so modern trucks on the first leg, preferably, to a consolidation point to minimize the cost per package. Depending on the product or time in transit commitment, they may move it via air freight; rail use is not widespread though it has increased significantly over the past year in certain geographies. None of the new providers have an air network, they are dependent on belly space of the scheduled common carriage flights. With enough volume between two cities (across states) a dedicated truck would be the preferred low cost option which enables the transport company to bypass state borders to pay taxes with the required paperwork. However, this may not meet the time commitments made by the retailers, compelling them to use multiple modes of transport at a higher cost. It is not unheard of for a 200-mile trip taking anywhere up to 12 hours depending on the geography.

From supplier to consumer, the number of handles of every package is significantly higher (in some cases by a factor of 10) than the US. Once the product reaches the destination city, most companies have a dedicated network of couriers to deliver the packages. The demand for Raghu Ramachandran, raghu@13colonyglobal.com Partner, 13 Colony Global - Supply Chain Strategy and e-commerce Consultants.
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experienced/professional couriers has increased turnover and driven retention costs up significantly, posing a challenge in terms of consistency of service with the largest bidder being the winner.

Use of technology and professionalism in terms of service providers is inconsistent. All the providers I talked/met with have developed a network which barely meets the needs of online retailers today and the retailers have to rely on multiple providers across the nation to meet their commitments to the consumer.

As I write this note, I am reading about the challenges that both retailers and logistics providers are facing this holiday season. However, I will wait to read the post-mortem at the end of the peak season from the resident experts in India. I believe, eventually, the leader in the logistics space will be a provider who will be able to:

- Differentiate their value to the online retailer from the competition
- Offer new services and demonstrate the use of value added technology for both retailer and consumer
- Expand beyond being a transportation provider, going upstream with operations in all States.
- Standardize the operations process and provide consistent training to all their service providers.
- Manage their costs and incentives effectively and last but not least
- Develop an employee strategy including compensation

As of today, I have not come across any company who met the criteria above. These are early days and I am certain there are a few who have the potential to exceed expectations. Excited and looking forward to see that happen soon.

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