**Dissertation on**

# Analyzing Competitive Landscape & Identifying Opportunities for e-Retail in India

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# Certificate

This is to certify that the project report titled "**Analyzing Competitive Landscape & Identifying Opportunities for e-Retail in India**" submitted by the candidate, Abhishek Jain in partial fulfillment of the requirement for the award of **Master of Business Administration by Delhi School Of Management, Delhi Technological University, New Delhi** is a record of the candidate's own work carried out by him under my supervision.

The matter embodied in the report is original and has not been submitted for the award of any degree.

**Signature of Guide** **Signature of HOD (DSM)**

**Place:**

**Date:**

# Declaration

I Abhishek Jain – 2K12/MBA/02, student of Delhi School of Management would like to state that I have pursued research project under guidance of Dr. Archana Singh. The report of the project work entitled **'Analyzing Competitive Landscape & Identifying Opportunities for e-Retail in India'**, is based my own work carried out during the course of my training.

I assert that the statements made and conclusions drawn are an outcome of the project work. I further declare that to the best of my knowledge and belief that the project report does not contain any part of any work which has been submitted for the award of any other degree/diploma/certificate in this Organization or any other Organization.

**Date**: 5$^{th}$ May, 2014

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# Acknowledgement

**"Successful passage and outcomes of every work comes with dedication, determination and team work. All these turn futile in absence of a visionary guidance."**

I gratefully acknowledge my profound indebtedness towards my esteemed guide, Dr. Archana Singh for her invaluable guidance, excellent supervision and constant encouragement during the entire duration of the project work. This project would never have been possible without her guidance and supervision.

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And last but not the least I am heartily thankful thanks to my beloved parents for their blessings and wishes for the successful completion of this project.

**Abhishek Jain**

# Executive Summary

India has an internet user base of about 238 million as of 31st December 2013. The penetration of e-commerce is low compared to markets like the United States and the United Kingdom but is growing at a much faster rate with a large number of new entrants. Hence, it becomes inevitable to understand what drives the online shopping business. In the report we shall try to answer of the following questions, some in brief and some in great detail.

## Key Objectives

- To understand the key criterion Customer selects an online shopping portal.
- To understand the retailers perspective on improving online shopping experience.
- To identify best practices and opportunities in e-Retail in India
- Recommend possible solutions which positively impacts the growth of e-Retail
- Understanding the future of online shopping for India 2020.

## Key Drivers of the Online Retail Industry

Indian online retailing growth is at an inflection point with key drivers being- Increasing broadband Internet (growing at 20% MoM) and 3G penetration. Also, the rising standards of living and a burgeoning, upwardly mobile middle class with high disposable incomes. Then we can not neglect the growing availability of much wider product range (including long tail and Direct Imports) compared to what is available at brick and mortar retailers. Also,the busy lifestyles, urban traffic congestion and lack of time for offline shopping.

In addition, lower prices compared to brick and mortar retail driven by disintermediation and reduced inventory and real estate costs. Increased usage of online classified sites, with more consumer buying and selling second-hand goods. Evolution of the online marketplace model with sites like ebay, Flipkart, Amazon etc.

## Key Performance Factors from Customers Perspective

After interviewing and surveying 100+ odd respondents we found that the their were few key factors that determined the customer choice of buying or not buying the from the online shopping portals. These were-

- Product Quality It still remains the most crucial factor for the customer. Attributes included are accuracy of product description in terms of quality,size, taste or color, reverse pickup services.
- Product Range Is one of the key determining factors for the success of an online shopping portal. Attributes included here are various product ranges, sub categories, variety with them for different price points.
- Competitive Pricing Has always been the discrimination factor, but has never been easier than times today. Attributes included are -Offers, Loyalty Discounts, Seasonal offers etc.
- Timely Delivery Throughout the market customer is sensitive to the on time delivery of the products and the services. Where generic products offer delivery time to 2-5 days, generoc products may take 7-30 days.
- Brand Value It was easy to expect the brand value as a key determining factor as that could be one of the ways to ensure a good quality product.Attributes included are the presence of differnent known brandsin product portfolio.

While creating the performance matrix we used these performance indicators to judge the various online shopping portals.

## Key Performance Factors from Retailers Perspective

After interviewing studying various industry reports, we tried to understand what are the key areas each of the retailer is trying to excel. Our study found that few retailers performed quite well on the benchmarked areas while few terribly failed. It was also evident from their overall performance. So the goals from the retailer's pint of view were-

*Supply Chain Expertise* is one of the key factor that defines the profitability of any online retailer. Attributes includes - Investment in inventory planning, JIT system, 3PL etc. Then its *Delivery Efficiency* has become critical for not the customer but also the retailer. Attributes includes - Owning their freight, In transit delivery etc. Third important criterion was *Improved Merchandising* which includes the retailer's ability to large product lines. Attributes include - Large No. of Brands, Large product range etc.

Also, Customer Experience need to be enhanced for greater repeated sales. Attributes include- Easy user interface, reverse pickup services etc. And finally the call for tomorrow- Differentiation: Is one of the attributes that would distinct the portals from each other. Attributes include -e service, product portfolio etc.

## Online portals used for the Competitive Landscape Analysis

Out of more than 750+ local online shopping portals we studied 5 of them in detail and marked them against each other to identify the best practised followed by them and identify the best and worst performer against various indicators. The portals identified for the same were-

- Jabong.com (The recent success story, trying to make a mark in 18 months of its inception).
- Flipkart.com (First Indian online shopping portal founded by Bangalore based Sachin Bansal and Binny Bansal in 2007)
- Amazon.com (A recent venture in Indian market, yet to make its mark but stands strong in International presence)
- ebay.in (An international brand in Online shopping but yet to discover its full potential in Indian markets)
- Myntra (Indian by origin and famous for unique products at an exceptional value for Indian households)

## What withholds Indian Market to Reach its Full Potential?

The domestic e-retail market has the potential to grow between $ 125 billion and $260 billion by 2024-25, according to an industry report. The report, 'E-retail: A boon for the current economic downturn' by First Data Corporation and ICICI Merchant Services, says urban Indian consumers are now confident enough to make online purchases of up to Rs 25,000, from Rs 2,000- 5,000 in the recent past.

Having said that, what withholds the market from reaching its full potential?? We studied this aspect in detail to indentify that the reasons correspond to 3 levels forming a Scope Pentagon. Three levels are-

- General market perspective and best practises followed.
- Limitations of the retailers in terms of logistics and product merchandising
- Limitations from customer's point of view i.e. low credit card penetration and Internet coverage.


**Figure** : *Scope Pentagon Model*

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# 1. Introduction

E-commerce, short for electronic commerce, means buying and selling products and services over the internet. Since its arrival on business scene, e-commerce has significantly changed the way businesses and customers transact products and services. E-commerce enabled businesses reach customers across the globe. It has expanded its reach and scope by offering a greater breadth of choice and offering products and services at a much more competitive price.

Over last few years, India has shown remarkable growth in e-commerce especially in the business to customer (B2C) segment and is likely to see significant growth in future. Ever-changing lifestyles and higher disposal incomes, combined with enhanced aspirational levels, especially amongst the demographically youthful population have been driving ecommerce.

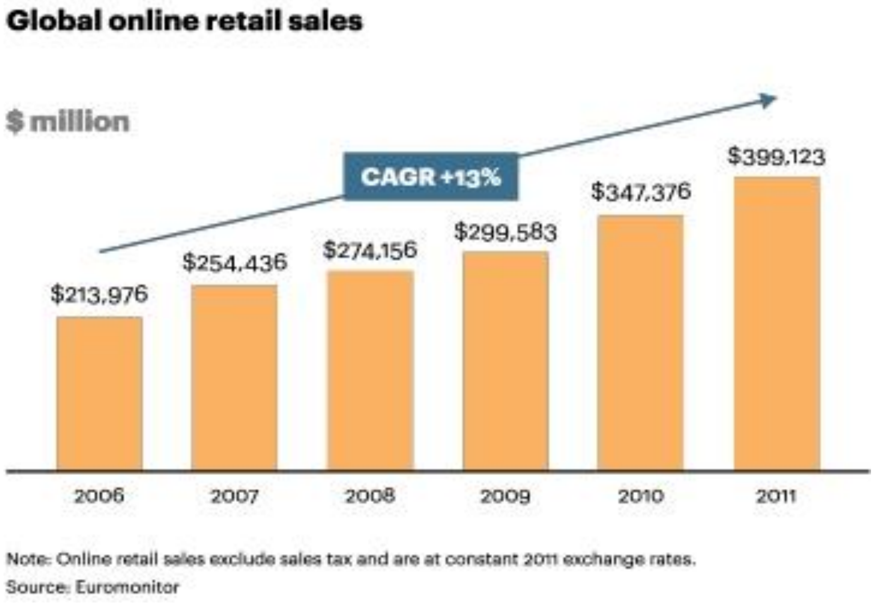


***Figure 1.1***: *Global Online Retail Sales*

One of the major catalysts for e-commerce has been the increasing reach and breadth of internet penetration in India. India with 125 million web users has third largest base of internet users in the world after China and the United States. This estimate excluded mobile users and considered only users above the age group of 15+ who accessed the internet from a home or work personal computer. The accessibility of the internet has served as the backbone for growth of e-commerce and has helped in pushing this revolution to greater heights.

India, though started late in E-Commerce, did an excellent job in bringing growth to this industry and is already giving physical retail a run for its money. Let's look at some of the interesting statistics related to E-Commerce industry in India.

- India's E-Commerce market was worth about Rupees 19 billion in 2009 and it went up to Rupees 47 billion in 2012.
- E-Commerce market is expected to contribute around 4% to GDP by 2020.
- About 75% of this is travel related (airline tickets, railway tickets, hotel bookings, online mobile recharge etc.), the fastest growing industry in the world.
- Online Retailing comprises about 12.5% ($300 Million as of 2009). India has close to 10 million online shoppers and is growing at an estimated 30% CAGR vis-à-vis a global growth rate of 8–10%.
- Electronics and Apparel are the biggest categories in terms of sales.
- India has more than 50% of its population below the age of 25 and more than 65% below the age of 35 .
- More than 125 million Internet users and are one of the top three fastest growing markets in the world.

## 1.1 E-Commerce in India: Overall Understanding

As per the report 'Re-birth of E-Commerce in India' published by E&Y, there can be three different modes of E-Commerce transactions depending on the audience involved. This can be summarized as below:

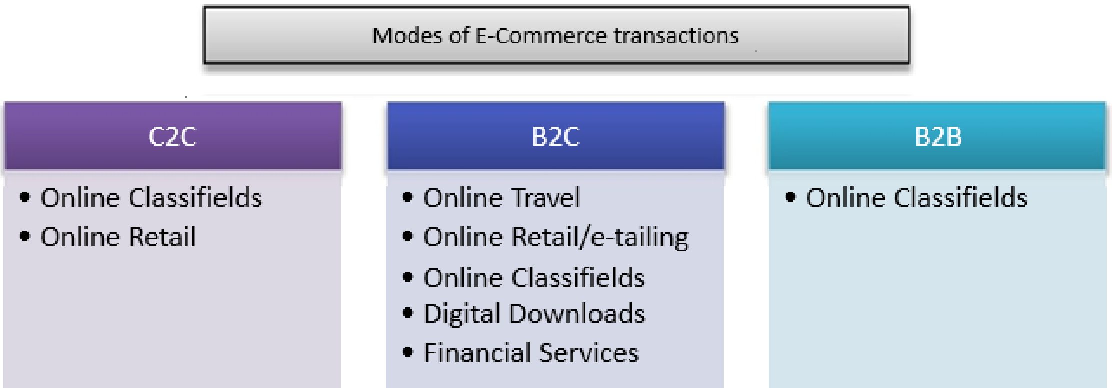


***Figure 1.2**: Modes of E-Commerce Transactions*

Initially, the market was restricted to print media dominated classified services. With the launch of internet in 1995 in India led to the launch of first online B2B directory in 1996 along with India's first online matrimonial site in the same year. A year ahead and India saw its first online recruitment industry taking shape. Though the E-Commerce started taking shape slowly in India, it was met with infrastructural limitations and un-supportive ecosystem such as:

- Low internet penetration
- Slow internet speed
- Inadequate logistics infrastructure
- Users skeptical about online shopping

However, the E-Commerce market started to move up after 2005 when the country was recovering from IT Bubble burst and led to the start of Low cost carriers in aviation industry and bringing travel portals online for electronic transactions.

By 2007, the online retail industry also picked up pace and led to the launch of multiple online retail websites due to the following drivers:

- Changing urban consumer lifestyle
- Convenience to shop from home or office
- Increase in consumer spending
- Increase in use of Credit Cards/Net Banking

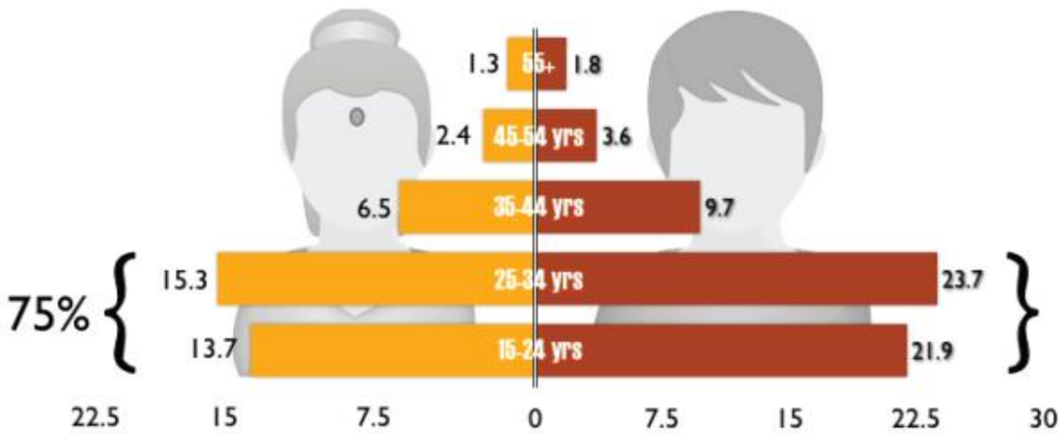


***Figure 1.3:*** *Demographic Prole of Online users in Millions (July 2012)*

*Source: ComScore*

## 1.2 Current E-Commerce Enablers in India

- Consumer online spending will grow double fold by 2015. And sale of tablets and smartphones will grow significantly.
- Average time spent online per Indian has increased drastically from 12.9 hours in 2009 to 18 hours in 2012.
- Usage of Credit Cards is increasing for online shopping than Debit Cards/Net Banking. And Increase in number of payment options.
- Payment gateways have become more secure with multiple level of authentications.
- 3G and 4G spectrum bands are growing at very high rate in India.
- Mobile commerce will have a far reaching effect given the extent of mobile use in India. Against a mere 137 million internet users in India, the number of mobile subscribers is 951 million.
- Young India is the key to drive E-Commerce and M-Commerce in India given the fact that India will have 200 million mobile Internet users by 2015, a big jump from 65 million users in December 2012.

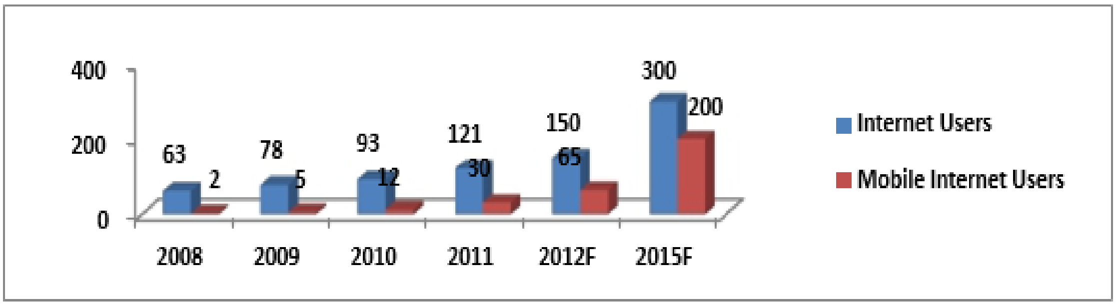


***Figure 1.4***: *Growth rate of Internet & Mobile Internet users*

*Source: I-cube, IIFL, IAMAI, Caris & Company, Ernst & Young estimates*

## 1.3 Areas restricting E-Commerce in India

The accessibility of the internet has served as the backbone for growth of e-commerce and has helped in pushing this revolution to greater heights. But there are many areas which are inhibiting the growth of e-commerce in India.

- Considerably high failure rate of online transactions.

- Internet infrastructure still needs to be improved a lot. Low average broadband speed and flat average internet speed are real cause of concern.
- People still prefer Cash On Delivery method of payment as the safest option leading to E-commerce companies to continue bleeding money on such services.
- Internet penetration in India is still the lowest as per the E&Y report.

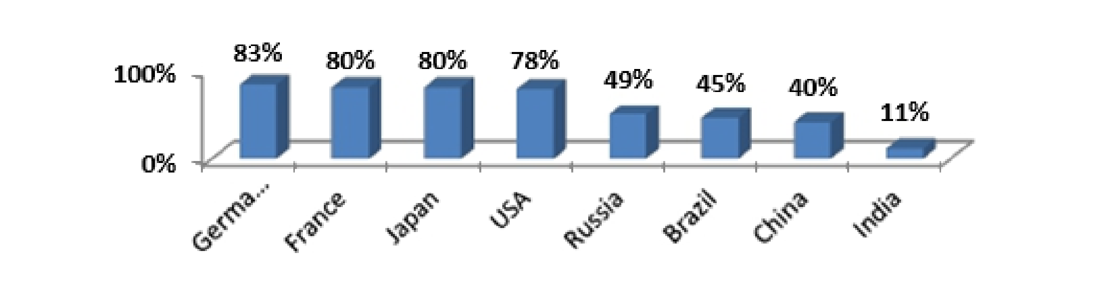


***Figure 1.5***: *Internet Penetration Rate*

*Source: Internet World Stats*

## 1.4 Online Retail/e-tailing in India

E-tailing is growing at a very fast pace in India. Considering the total retail in India, organized retail is growing significantly although it still forms a smaller portion of total retail market. Though the online retailers have started building their own warehouses and stocking inventory, the logistics arm still need to have a considerable improvement in their operating model considering the road/rail networks in India and the climatic conditions.


***Figure 1.6***: *Average Transaction Size*

Another factor that I see as a hindrance in the growth of online retailing in India is the complex tax structure which is making it difficult for the retailers to open up warehouse or to ship from one state to another.

In terms of numbers, the current share of organized retail is growing at 24% per annum. The online retail is only 1% of the total organized retail market in India. (Source: Re-birth of E-Commerce in India, E&Y, 2012)

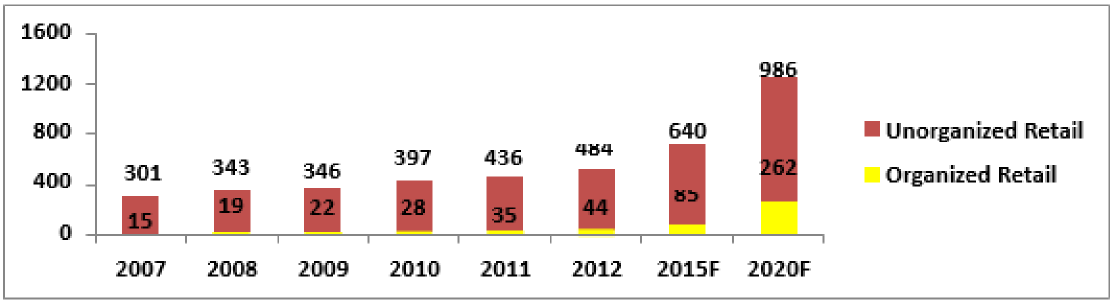


***Figure 1.7***: *Size of Organized and Unorganized retail in India*

*Source: BCG*

Though travel is the largest segment of E-Commerce market, online retailing will soon come at par with it as per the E&Y report below:

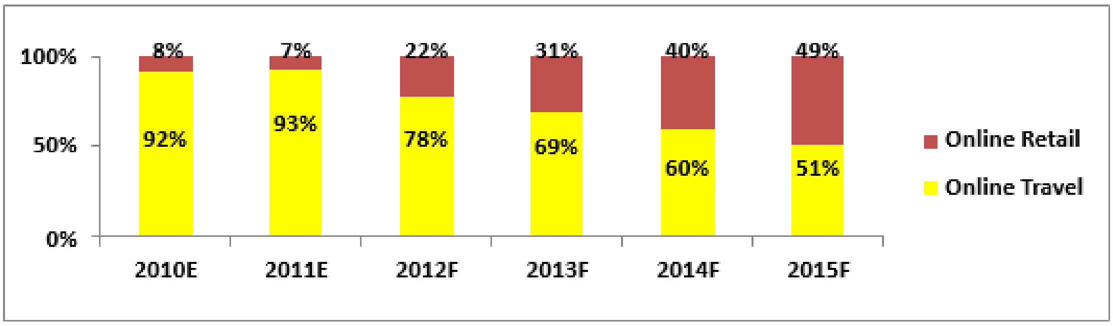


***Figure 1.8:*** *Market share of Online Retail vs Online Travel*

*Source: Ernst & Young estimates, Avendus (These shares have been calculated by considering the online travel and e-tailing market)*

The current structure of online retail market can be broadly divided into two parts:

1. Category focused players or Vertical Players
2. Multi category players or Horizontal Players

While the vertical players focused on penetrating a single category deeply to offer huge variety and range of products, horizontal players offered wide range of categories to the consumers making it a one stop online shop for them.

The current trend is that either most of the single category players are getting acquired by multi-category players or the single category players have started added multiple categories to their own business thus converting into Multi-category players. It gets hard these days to survive as a vertical player unless you provide a niche segment of product or service.

Having said that the multi category players is a safer bet to run your business, category focused vertical players are here to stay as they bring with them the deep understanding of their target customers and provide customization to suit their consumer's needs.

E-Commerce in India is now witnessing another emerging model of online marketplace which has attracted many established E-Commerce players in India to switch from traditional E-Commerce business model to marketplace model as it gives the consumer a greater hold on the options to select from different sellers of their choice. The pricing power in this model is not with the retailer but with the vendors/sellers selling on the marketplace.

Group buying is another major model that has come up in India where the deal is decided based on the collective buying of a deal leading to larger volumes for merchants and hence a great deal on prices. This model is yet to be replicated by other E-Commerce players in India but can prove to be advantageous for both the retailer as well as consumer.

Amidst all these factors that look promising for the E-Commerce growth in India, one major area of concern is the logistics industry which is still in its nascent stage. The logistics in online retailing can be either in-house or given to a 3rd party logistics company. There are pros and cons of using either of them. Given below are some of the benefits of having in-house logistics:

- Increase in customer delight as in-house logistics cater to the customized customer delivery requirements, if any

- Refined and polished delivery agents take the company branding personally and make sure they leave an impact with the customer about how much their company cares for their customer
- If funded properly, the company can make their in-house delivery team tech enabled by giving them GPS and other enablers helping to reach customer on time and making last mile deliveries
- Trained personnel can also be used to take feedback from the customer and can also assess the customer in case of returns

# 2. Literature Review

Back in late 90s and first decade of 21st century, online travel sites encouraged and built trust for the customers to transact over the internet. While customers patronized online portals for services due to the convenience that they offered, sale of products through online medium did not take off as expected.

Customers for products tended to have a lengthier pre-purchase cycle as they gathered information on features, warranties, and prices from various touch points. Moreover, for categories like apparel and accessories, 'touch and feel' was considered a prerequisite. However, with service available across 24/7/365 days, online shopping offered an opportunity which the traditional brick and mortar outlets could never offer.

## 2.1 Facilitators of online retail in India

Over the years, with busy schedule and lack of time with customers, online shopping portals offered convenience to customers to log in at their free time and convenience which appealed to customers in metropolitan areas (tier-I towns). The online retailers also brought in a number of initiatives to encourage the customers to opt for online shopping. In this section, we list some of the initiatives implemented by online retailers.

**Cash on delivery (COD):** COD payment option has been the innovation that has added a lot of momentum to online shopping and improved Indian customers' perception towards online shopping. It addressed two major issues related with payment which online retailers faced. Earlier, many customers feared sharing their credit/debit card details over internet which was proving to be a major deterrent in online shopping.

COD permitted buyers to purchase without disclosing their credit/debit card details by allowing the customers to make payments when products were delivered. Eventually, even those who possessed credit card have started preferring to shop online using COD. It is suggested that 60 percent of Indian online buyers who owned credit cards, still preferred to transact through COD in their most recent purchases (BCG, 2013). More than 50 percent of all online transactions in India were based on the COD payment option. COD was also instrumental in reaching out to customers in non-metropolitan areas (tier-II and tier III cities) where most of the customers did not have credit/debit cards.

The perspective with which a customer from tier-II and tier-III city shopped was quite different from the way metropolitan customers shopped online. A customer from metropolitan area would shop online because she found it convenient and it saved time. However, tier-II and tier-III city customers shopped online as these customers were unable to access the choices they had aspired for at the cities where they lived. By giving the option to make payment by COD, online retailers were able to quickly build upon the untapped demand of aspiring customers.

**Innovative and customized services for attracting customers:** To capitalize and appeal to the Indian customer to try online shopping, e-commerce companies have started a number of innovative services. Now majority of e-retailers in India offer free home delivery, though a nominal fee is charged for very small value orders.

Other similar initiatives are benefits such as hassle free return policies within 7–30 days, referral discount, wish list, Try and Buy, tracking the consignment once the product is ordered etc. In case of online shopping of garments, majority of the online retailers have started offering customers the option to return and even exchange the product within 30 days if they are not satisfied by the product which was delivered to them.

In an extension, some online portals are offering Try and Buy services in certain cities as it was found that more than 70 percent of the returns happened because of size misfits. In this arrangement, the online retailer sends a salesperson to the customer’s house with the merchandise which has been pre-selected by the customer. Based on the fit trails, the customer can select the item which fits her and make payments while returning the others to the online retailer.

Additionally, many e-retailers offered the options of saving the product that customers liked in their wish list in case they were not in a position to buy immediately. Thus the customer did not make any commitment to purchase the product immediately and at the same time it offered her the flexibility to come back to the site and decide whether to go ahead and buy or even upgrade for a better deal at a later date, if she came across it. All these services have helped in expanding the customer base of online retailers.

**Investment in distribution channel:** Having realized that delivery charges form a major component of the product cost, many online retailers have made investments in developing the distribution channel. This investment is aimed at facilitating the e-retailer in building a good customer base in medium to long term with the idea that retaining an existing customer is more profitable for a company than acquiring a new customer.

With the distribution system in place, the product costs have been brought down and it has helped in improving the average turnaround time for delivering products from 4-5 days to 1–2 days. This has also improved the customer satisfaction with higher probability of retention. With many online retailers developing their own distribution channel, some of them have also started Card on Delivery (CoD) services. CoD is for catering to those customers who don't keep cash handy. In this payment option, a logistics person, along with the products, brings a mobile point-of-sale (POS) swiping machine to customer's door to accept payment. However, a card reader comes at an annual rental of Rs 6000-12000 per reader thus it is yet to become a very attractive option.

## 2.2 Challenges and hurdles faced by Indian e-commerce

Inspite of the numerous initiatives by online retailers to bring customers online for shopping, e-tailing, as reported by Technopack, only account for 0.1 percent of the total retail market in India. This section lists some of the major challenges and hurdles faced by online retailers in India. The major hurdle normally faced by e-tailing companies was that customers would do research online but would buy offline from the neighborhood store whom they trusted. Also, there were doubts with respect to warranty enforcement while purchasing online. Moreover, customers were not willing and were hesitant to share their personal details online. Further, customers feared that 'what they see may not be what they get as touch and feel factor was absent online.

**Absence of human touch:** One of the key differences between traditional brick and mortar versus etailing is the replacement of human to human interaction with human to machine interaction. For the same, the missing link in any e-commerce site has been of the one-to-one relation between the salesperson and customer.

In the traditional brick and mortar environment, the customer tends to take cues from the salesperson about the trends as most customers believe that salesperson is duly informed and is well aware of the developments in her area of expertise and work. Added to such concerns, the element of personal reassurance which a salesperson offers in traditional brick and mortar store is missing in online shopping. The inability to bargain, wherein customer can ask for additional discount during interaction with shopkeeper, also dampens the joy of shopping.

**Acquisition and retention of customer:** Lack of adequate trust is considered as one of the most frequently cited reasons for customers unwilling to purchase online (Lee and Turban, 2001). Therefore, building up the minimum threshold trust can play a critical role in reducing and even eliminating the hesitation customers have while transacting online. It not only facilitates acquiring customers but also helps in retaining customers. However, building such trust in an online environment takes time, and sustained effort. For example, in India, traditionally customers have trusted their family jeweler for purchasing jewellery made of gold and diamonds as these are high ticket transactions.

To bridge the gap of trust and creditability, one of the largest online jewellers, caratlane.com has opened a solitaire 'experience' lounge. It is a 'hybrid' experience for the customer where she can come to a physical store and still buy it online. In another initiative, caratlane.com asks the customers to select any 5 products from try@home catalogue which they can try at their home. This gives the company an opportunity to build trust, increase volume and also helps the company to up-sell and cross-sell its products.

However, in order to build trust, online retailers often end up spending significant amount per customer. It was reported that majority of Indian online retailing websites spend between Rs 800-1,500 to acquire a customer. This becomes even more challenging and expensive as repeat purchase tends to be less often the norm. Also, with growth of online retailing, there are multiple players, often with undifferentiated offerings, who are competing for the same set of customers. The resultant stickiness and inability to retain customer loyalty is becoming a growing concern.

**Delay in remittance of cash by logistics provider:** Although COD has encouraged more customers to buy online, from an e-retailer's perspective, this mechanism is not a great payment mechanism for the retailers, especially in the Try and Buy type of transactions. COD transactions lock-up the working capital of the company, sometimes up to six weeks. Adding to this concern, e-retailers has to bear heavy shipping costs when customers return the product or change their minds after the product arrives at their door step. Sometime, the returns have been as high as 40-45 percent of all COD shipment.

**Time lag between order placed and order delivered:** One of the major reasons for customers to opt for and prefer buying products from brick and mortar shops is that products are available almost immediately. This is in contrast to online shopping wherein the customer has to wait for the product to be delivered. This means that in online shopping, the customers have to pre-plan her purchase process, in order to accommodate the delivery process. In certain categories, for example, grocery, customers prefer the delivery within couple of hours of placing the order. To address this concern, myntra.com, which is a lifestyle e-commerce site, has piloted the delivery system wherein the goods purchased by customers in Delhi and Bangalore are delivered within two hours of placing the order.

**Short attention span of customers during online shopping:** One of the major difference between online and offline mode of shopping is that customers often show short attention span and lack of patience in online shopping. Customers easily navigate to the next site if they don't find the product they were looking for. This problem gets further compounded by slow internet speed in many cities in
India. Some reports suggest that customers expect transactional-based pages to download on average within two seconds. Additionally, 40 percent will wait no more than 3 seconds for a web page to respond. This presents a big challenge for online retailers to keep the customers attentive.

**Expectation of lower prices in online shopping:** Customers, due to practice followed by online etailers over the last few years, have been trained to expect lower price and free shipping during online shopping. Many a times, the shipping costs makes the cost of the product higher than expected and customers tend to drop the idea to shop online unless it is one of the rarest of rare kind of product that they are looking for. Inspite of the above-mentioned challenges and hurdles, a Google India study reports that online shopping in India saw 128 percent growth between 2011 and 2012 compared to only 40 percent growth in 2010 to 2011, making 2012 the tipping point for online shopping in India.

## 2.3 Different categories of e-commerce site operating in India

Before we explain the rational for online promotions, and the different methods, manner and mechanisms in which e-retailers offer online promotions; the paper will describe the different types of e-retailers prevailing in Indian online market space. They can be classified according to the range of merchandise sold by them
or according to the inventory management system followed by them. We will first describe the e-retailers based on the inventory management system.

### 2.3.1 Marketplace model

In the marketplace model, (sometimes also referred as consignment based model), online retailers tie up with network vendors to procure the product who also prepares a web catalog which is put up on the website of the e-retailer. Once the product is ordered by the customer on the e-retailer's website, a notification is sent to the network vendor for fulfillment of the order. The vendor then ships the product to the customer and financial statement is made for the transaction done between vendor and online retailer.

This model is advantageous to the online retailers as it allows them to offer large number of choices to customers while the product gets directly shipped from vendor and there is no need for investment in warehouse and logistics by e-retailer. Moreover, from an online retailers' perspective, these models present an opportunity to the merchants/vendors wherein they can procure and supply locally and sell nationally, enhancing their reach and spread.

Thus, marketplace model requires less investment upfront and is easy to expand the business quickly. However, marketplace model has its set of drawbacks like longer delivery time, non-updating of web catalog, and issues with sub-standard quality. These are some of important aspects as they ultimately affect the brand reputation of a particular e-retailer. However, this business model works out well for online retailers due to difficulty in assessing and forecasting the choice of customers in online shopping especially during initial days. Also, this model has special relevance for Indian markets as there are a number of unorganized players. Ebay was a pioneer in development of marketplace model. Recently, Getit, through its website getitbazaar, and Infibeam, through its initiative 'Build a Bazaar', has implemented marketplace model in Indian markets.

### 2.3.2 Inventory based model

The second type of model, known as inventory based model, is designed in a way so that online retailers buy and stock the products in their warehouse and sell them through their websites. This model allows the e-retailer to provide assurance of the quality of product and allows them to have better control over the services through timely and faster delivery of products thereby providing better customer experience.

Inventory based model has worked better for e-retailers who offer products in niche segment as they are able to procure products in bulk, thus obtaining higher discount from manufacturers. However, inventory based model is not always financially viable as it has its drawbacks like higher working capital and higher operating cost leading to higher expenses. Also, there are chances of stock getting out-dated, pile up of rejections or non-moving goods. In some cases, excess inventory stock-up may lead to big losses. It becomes all the more challenging when the competition, in order to capture bigger market share, offers the same value proposition but heavier discount.

### 2.3.3 Managed marketplace model

Recently, a number of online retailers are exploring the opportunity to expand and enter into managed marketplace model. In this model, the online retailer does not hold on to the inventory of the vendor but they have to undertake same quality checks and the supply mechanism so that there is no comprise on customer shopping experience. Customers are informed about the same so that they don't build up on the expectations, as the delivery may take more than usual time.

Shopclues.com is the first and the largest fully managed marketplace e-commerce site in India that had more than 1.2 million SKUs across 900+ categories and had built the largest community of merchants in India with eleven thousand merchants. E-retailers can also be classified as having horizontal (multi-category) business model and vertical (nichecategory) business model based on the range of merchandise sold by them.

### 2.3.4 Horizontal business model

Multi-category e-retailers who sell wide range of product assortments ranging from apparels, shoes, lifestyle products, books, music etc. are known to follow horizontal business model. Some of the popular ecommerce sites like flipkart.com, jabong.com, myntra.com, snapdeal.com are examples of multi-category players.

The drawback with being a multi-category player is that in order to tap in more customers, online retailer has to stock up more inventories of each of the categories. With more product category options, the e-retailer needs to analyze and understand the purchasing patterns of a number of customers in order to effectively cater to them. Also, it presents a challenge for design of the e-commerce website as all product categories need to be visible on main page of the website.

### 2.3.5 Vertical business model

Some e-retailers keep their range of merchandise limited by offering the customers products which are focused on single/niche category. Firstcry.com, gkboptical.com, bigbasket.com, urbanladder.com are few examples of niche category e-retailers. These e-retailers bring their deep understanding of customers' need to serve the customers in what they consider themselves as best. Also, it doesn't create confusion in mind of customers. Niche e-tailing also offers an opportunity for personalized service.

For example, if a customer wants to purchase grocery for a month, then the traditional kirana store knows tentatively what the customer will buy based on her past purchase. In the same way, online e-commerce sites offer history of purchase to the customer which makes the whole process easier and less time consuming for the customer. Babeezworld.com, an online shopping site for babies uses the past purchase data of the customer in order to improve the whole experience. This e-retailer offers personalized suggestions to customers. Here, when a mother buys diapers for her kid, the site knows that she has an infant and is likely to buy more in future. So, the site tentatively suggests when the mother will need the next bigger size for her growing baby.

Till 2012, electronics was the fastest growing segment in the online shopping space. However by 2013, apparel has been the fastest growing category in online retail and has reached 15 percent online users in India. In the vertical e-commerce categories, baby products, healthcare, and home and furnishing have also shown good growth.

## 2.4 The Path to Profits

Success in online retail requires patience, persistence, and an ability to adapt to local markets. There are four main success factors for entering new markets either online or as part of a multichannel strategy.

Develop a customized value proposition. As in bricks-and-mortar retail, e-commerce requires adaptation to local markets. A one-size-fits-all approach will not work because online consumers in different countries exhibit unique behaviors and make Internet purchases for different reasons. Success requires adjusting websites, payment methods, shipping options, and business models according to the needs of each market.

Manage the customer experience. The convenience of ordering products at the click of a button and having them delivered to your home is a main benefit of online shopping. Thus, managing the customer experience from online browsing and product purchase to delivery and return is critical. In markets where logistics are a challenge, constant communications with customers about shipping timelines can help manage expectations and build trust.

Do not underestimate local players. Domestic companies dominate online retail in developing markets because they understand local consumer preferences and the e-commerce challenges and have well-honed online retail skills developed in their home countries. Even as foreign retailers enter, these local firms will continue to be formidable competitors.

Have a long-term focus. Launching e-commerce operations in developing markets demands patience. It takes time to navigate a market, learn about online consumers, and build a reputable online brand.

## 2.5 **Expansion and Long-Term Rewards**

The race to expand online retail in developing markets has already begun for both international and home-grown retailers. E-commerce and multichannel integration in emerging markets offer tremendous opportunities—at potentially lower risk and investment than building bricks-and-mortar stores. The best path to online retail success is the one that creates an immediate impact in developing markets and builds a growing, long-term advantage.

# 3 Research Methodology

## 3.1 Competitive Landscape Analysis Framework

For this project the framework used is “Competitive Landscape Analysis”. Competitive Landscape Analysis is a systematic framework developed by Zenesys. This framework helps to 5 important criterions on the same platter. Hence, gives a comprehensive view of the situation. The 5 important criteria are-

- Customer Preferences
- Seller’s objectives
- Interdependence between customer preferences & seller’s objectives
- Identifying the Top Sellers to compare
- Ranking each seller corresponding to each buyer and seller preference cross-section.

**Understanding the Framework used**

Competitive Landscape Analysis is a three dimensional framework where left axis we state the Consumer Preferences and top axis we have the Seller’s goals and objectives. More than often Sellers goals and objective strive to fulfil consumer preferences in order to achieve higher customer acceptance. But, many a time’s sellers are not able to score fair against the customer preferences.


***Figure 3.1:*** *Competitive Landscape Analysis*

Hence, the framework first defines the interdependence between the two. Then, the final task is to mark each competitor for each of the cross section point. This framework not just gives the relative ranking of the competitors participating, but also the opportunities and threats in the market.

The framework helps to rank competitors against each other and against the customer preferences. It also identifies the opportunities and challenges in the market.

Find below a snapshot of the CLA model used for the project. On the vertical axis we have the customer preferences and on horizontal axis we have the Seller's objectives. The red-green bar represents the relative importance of each goal/preference against each other.

**Computation of results-**

- The first step was to determine the market leaders.

- The next step in this methodology was to determine buyer preferences and vendor goals These preferences and goals were determined by secondary research through product literature, white papers, industry reports, product reviews, blogs, news articles, and other indirect indicators such as sales figures, customer profiles and customer feedback.

- In the third step, we create a matrix by cross referencing the Vendor Goals and Customer Preferences.

- In the fourth and final step, research was done to see which market leaders were able to address the customer preferences while realizing their goals. Which ever vendor is fulfilling this, their name was put into that particular cell.

Now the interpretation of the populated matrix is quite simple. The cells in a column that show a lot of vendor names are the best practices and the ones that are relatively empty are the opportunity areas

**Limitations of the Framework-**

Weights assigned to the various preferences are based on sample set of 117 responses captured. Also, the activity index score and correlation index are based on secondary research which might not be in sync with actual reality. More research is demanded in this regard to make the analysis result depict an accurate picture.

## 3.2 Survey and Sample Collection

We conducted a survey of 135 respondents aging from 12 to 40 years, to know there online shopping habits. The aim of the survey was to identify the percentage of population that uses internet as a shopping destination. Also in order to understand what most excites them most about online shopping, which are the favourite destinations for the same.

We Also targeted the non users to understand what is that keeps them away from this upcoming trend. To further suggest the upcoming trends, we tried to seek what would future of online shopping would look like.

**Sampling technique used was stratified random sampling technique -**

A method of sampling that involves the division of a population into smaller groups known as strata. In stratified random sampling, the strata are formed based on members' shared attributes or characteristics. A random sample from each stratum is taken in a number proportional to the stratum's size when compared to the population. These subsets of the strata are then pooled to form a random sample.

The main advantage with stratified sampling is how it captures key population characteristics in the sample. Similar to a weighted average, this method of sampling produces characteristics in the sample that are proportional to the overall population. Stratified sampling works well for populations with a variety of attributes, but is otherwise ineffective, as subgroups cannot be formed. For purpose of this project the strata used were different online shopping habits gainst different gender, age groups, education level & different monthly income.

# 4 Online Retailer & Data Collection

## 4.1 Expert views regarding the objectives of the Suppliers

A recent article from economic times helped to collect the perspective of the experts that have tried their hands in this industry and have been able to identify the opportunities and threats in the industry.


"We had to build our own supply chain, since five-six years ago India didn't have the supply chain capabilities required to support a large operation such as Flipkart."

- Sachin Bansal, Founder and CEO of Flipkart

"One of the effects of the boom in e-commerce has been a spurt in regional courier companies. They are cheap and still maintain good services. This competition has also brought down the courier charges of large players by as much as 60 per cent."

- Kunal Behl, Founder and CEO of Snapdeal

"We do have 300-350 employees as part of our in-house supply chain. But they cater to the top 10 cities only, which generates 60 per cent of orders. The rest is serviced by the third party firms,"

- Pearl Uppal, co-founder of Fashion and You.

"We also follow a mix of in-house team and couriers for delivery. The company owns 50 per cent of logistics for delivery catering to to the top 16 cities. The balance is managed by Blue Dart and Quantum Co." - Mukesh Bansal, Founder and CEO, Myntra.com

***Figure 4.1:*** *Expert views of Industry Players*

## 4.2 Challenges faced by the Online Sellers in India

After analyzing the size and growth opportunity in Indian Markets it was time to study the supply side of the industry. We began by looking at the challenges faced by the sellers-

**1. Way too many players**

When any market develops, there is a fine balance between demand and supply. In India what I have observed is that whenever a trend starts several people jump in and soon supply starts to exceed demand and that causes all kinds of issues in the market. Classic example is the real-estate market in cities like Pune where prices were artificially pushed up by the builder-agent nexus and then when the recession hit, we have a situation of too much inventory, declining prices etc. I believe the e-commerce space will see a lot of bad business practices adopted by the "me too" guys trying to survive the game.

E-commerce is inherently a very capital intensive game and a winner takes all market - consolidation happens fast and the company that can build scale the fastest gets to destroy the rest of the players in the market. This is going to happen in India. We are already starting to see some of it in the daily deals space. Snapdeal has torn away from the rest of the market. Most of the other players are trailing this market and some like Taggle closed shop.

The VC feeding fenzy in this space is crazy. A lot of the smaller "follow-on" VCs are going to lose their shirts in this game.

**2. Logistics & Supply Chain**

India's logistics sucks. We still have 3rd world logistics. A large part of the ecommerce success in the developed nations was because they already had rock-solid logistics in place. In the US fedex, ups and USPS were already around nationwide and goods could be moved within 24 hours between 5000 miles. In India trying to find an address or a location is a nightmare. We don't even have a properly standardized "physical postal address system".

Everytime someone ships a product to me I invariably get a call from the courier company asking for directions even though I live in a very prominent address in the city. This just surfaces some of the basic issues that face India. Courier companies don't even have bar code readers to scan the packages in transit.

Companies like Flipkart are doing a great job working around the issues in the logistics industry by setting up their own logistics but that just is really inefficient use of Flipkarts funding. They should really be pumping those $$ into tech so that they can build recommendation engines that can recommend products that customers may be interested in based on buying behavior etc. Largely the other 99% of the players will not be able to solve the logistic issues that exist in the market.

**3. Payments**

This is a major challenge and results in poor customer experience. The payment gateway vendors and banks suck at technology. Payment gateway error rates are high (>25% of transactions fail at the gateway). RBI has made it really hard for anyone to use virtual mediums of payments (credit/debit cards, cash transfers etc). Payment gateway's and banks also charge way too much commision on each transaction which is bad for the smaller players - which eats into their margins significantly.

**4. Large volume of transactions**

Large volume of transactions in India are cash-based transactions A small fraction of Indians have virtual payment instruments like credit cards or bank accounts. Largely we are a cash driven economy. Almost everyone has started COD in India and for the right reasons. However, my thesis here is that this is incredibly hard to scale. As humans are involved in the collection of cash etc, fraud rates will be very high which will dip into the margin levels of the ecommerce players.

**5. Market Size / CLV / Margins**

I believe that while India is indeed a large market, the Customer Lifecycle Value will be very low (similar to the mobile industry - India has the lowest levels of ARPU anywhere in the world). Ecommerce players will have to resort to deep discounting to build scale. Amazon had to do this for 9 years.

In India the margins will be extremely thin due to the inefficiencies in all the underlying infra for ecommerce like logistics, payments and cash collection. For Flipkart to be successful not only do they have to be an online retailer but they have to build a UPS and a paypal and a physical cash collection system that works (which doesn't exist in developed countries as ecomm players dont support COD ). That is a a mammoth task to pull off for a small startup.

**6. Ecommerce in India is not for startups**

My thesis is that in India because of all the physical/infrastructure challenges that exist, a startup will need to raise huge amounts of capital if they attempt to solve all of these problems. They will wait for someone like Flipkart to create the momentum in the market and spend all the VC money to evangelize the market. Then they will jump in and use the billions of $$ in their coffers (remember that they are cash rich companies) and existing infrastructure (physical stores, warehouses, people) in their brick and mortar business to build and scale out e-commerce.

I strongly feel that in India e-commerce is a game for the large players and not startups as there are significant infra challenges that exist and it will be impossible for startups to address the scale of these problems.

**7. Amazon.in could play spoiler**

I believe that the single biggest threat to the e-commerce play in India is from Amazon.com. Amazon has a lot of cash and can use it to out-run the e-commerce startups. They have plenty of tech that help a lot in demand generation and sales which the e-commerce players in India have not even started to work on.

They have a lot of experience in logistics and last mile issues of e-commerce. Their entry into India is largely gated by the FDI in multi-brand retail policy that is now going through the final stages for tabling in the parliament. Once this policy is passed, I believe Amazon is going to get very aggressive in the market.

After all the secondary research we found the following as the key Objectives of the Sellers -

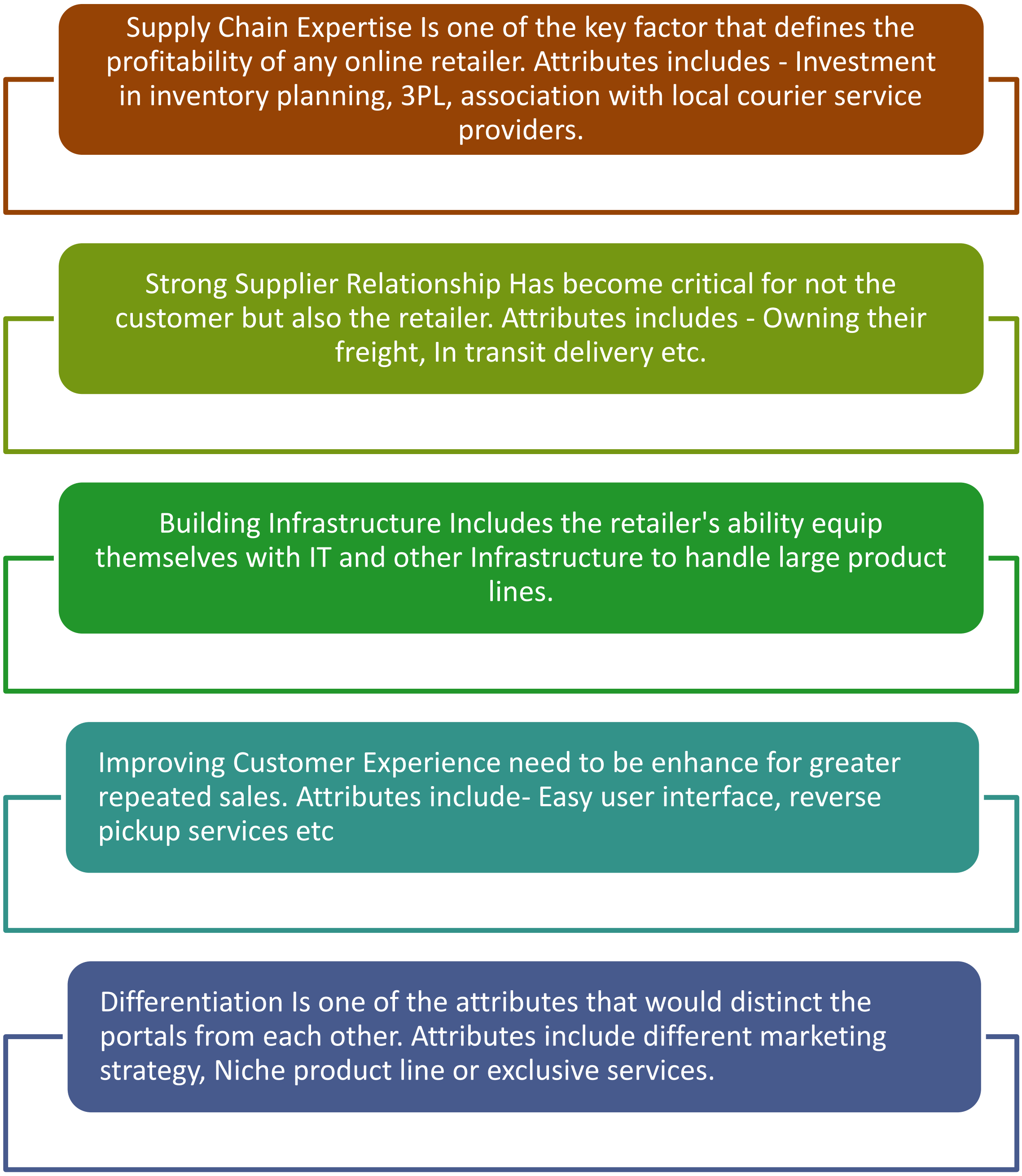


***Figure 4.2:*** *Objectives of Online Retailer*

# 5 Online Consumer Behaviour Survey

## 5.1 Result of the Survey

The survey was conducted for 185 respondents, most of which were based out Delhi/NCR, India. Following are the results of the survey based on the survey being filled by the respondents.

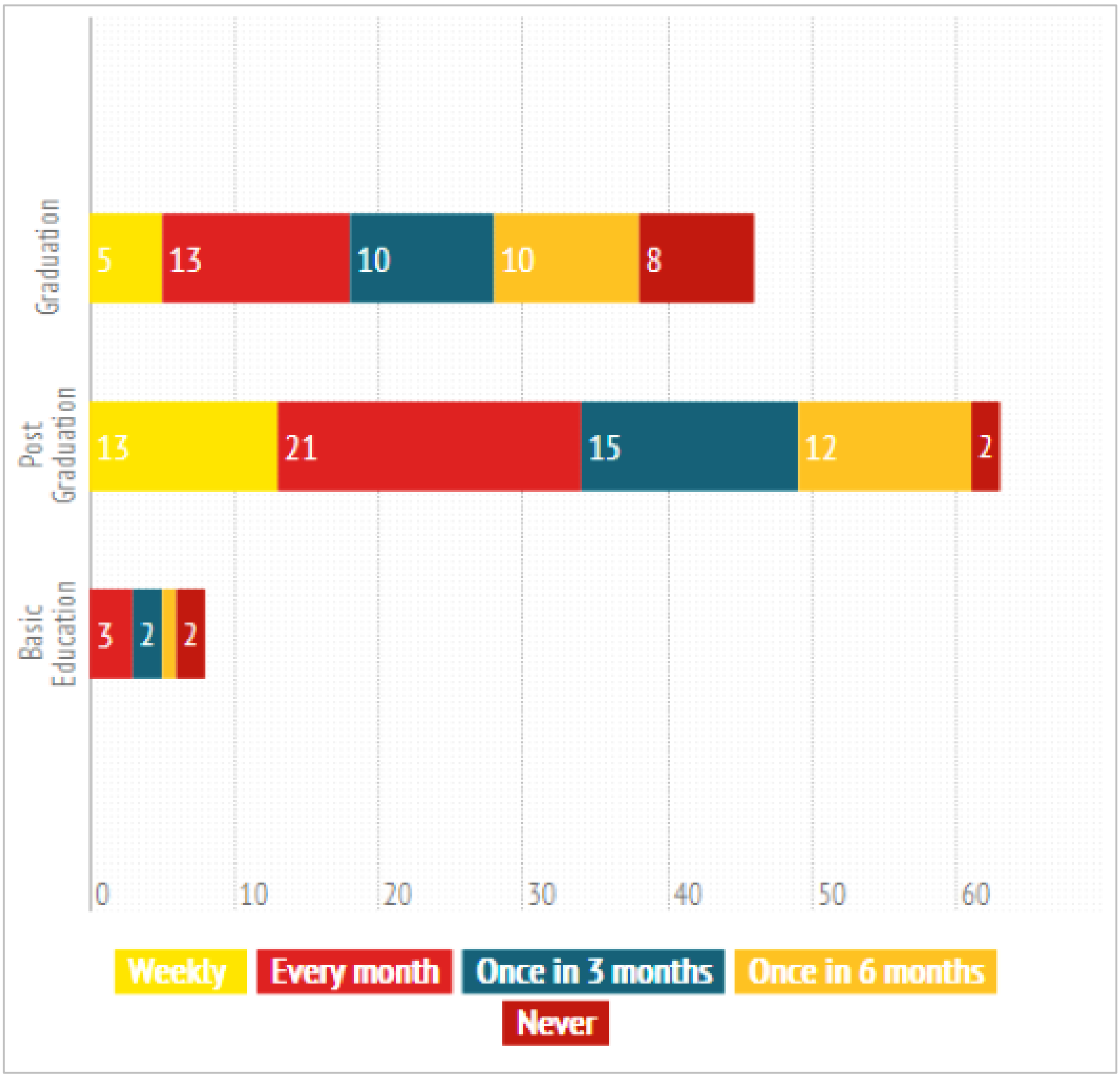


***Figure 5.1:*** *Education Status*

This graph shows that for most of the online shopping users had access high education and can be assumed to be computer literate and regular access to internet facilities. Only 4% of the respondents had basic education and still did online shopping.

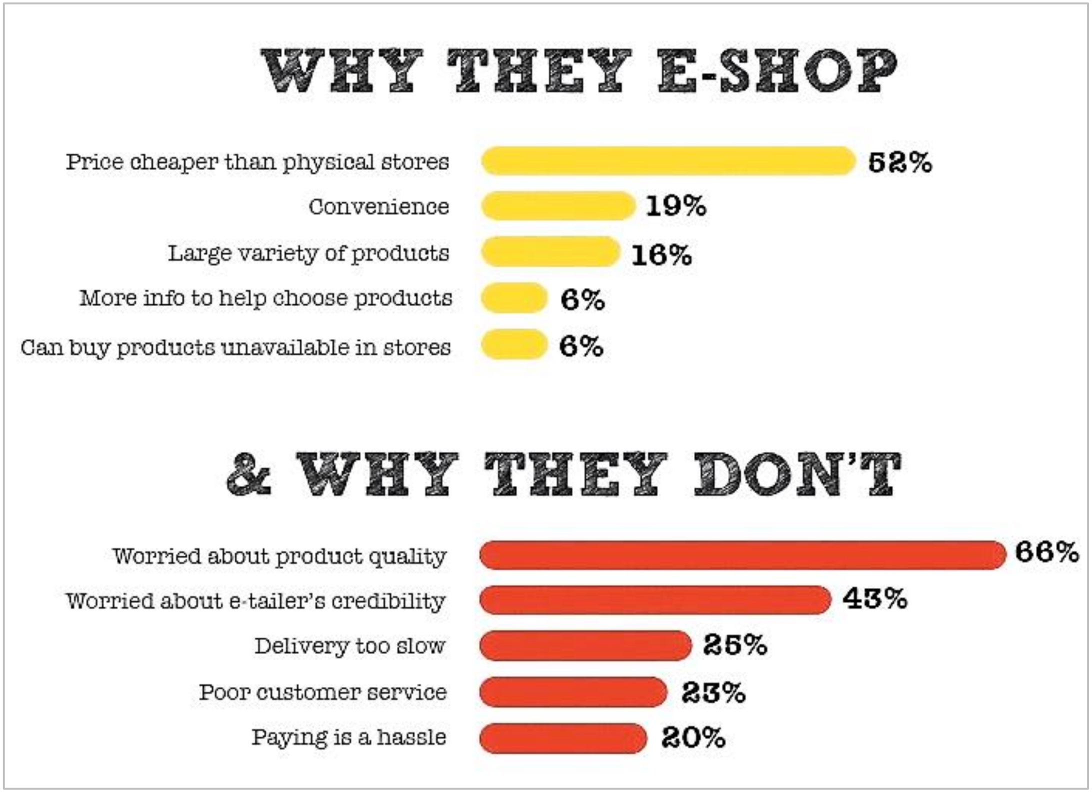


***Figure 5.2:*** *<u>Reasons of consumer to go for E-Shop</u>*

This graph shows the reasons of respondents why they shop online and why they don't. We saw that more than 50% repondents prefer to do online shopping because they find price online cheaper than physical stores. And two-third people don't prefer online shopping because they are worried about product quality.

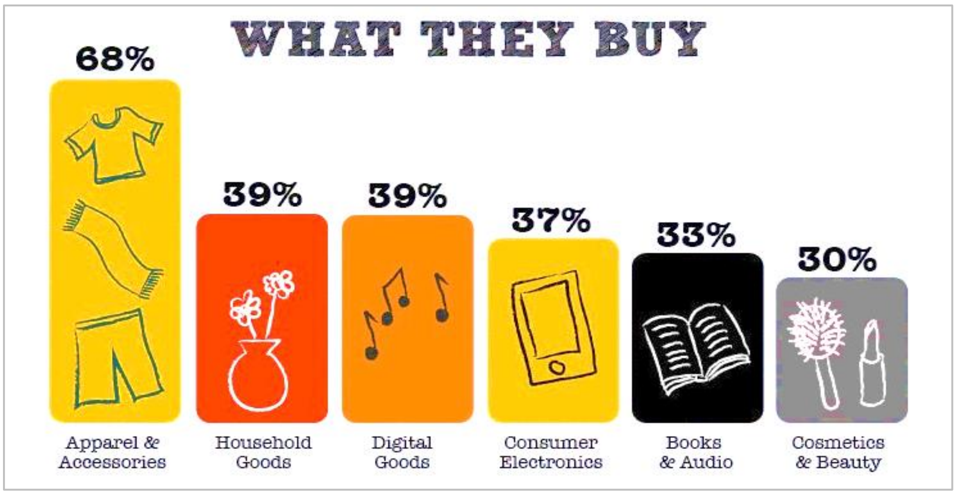


***Figure 5.3:*** *<u>Consumer Buying Preferences</u>*

This graph shows the preferences of online shoppers. We saw that more than two-third of the respondents prefer to buy apparel & accessories in online shopping followed by household goods and electronic items.


***Figure 5.4:*** *<u>Popular E-commerce Brands</u>*

Flikart, Ebay, Myntra Jabong, and Home Shop 18 were identified as the most popular brands in the survey. Respondents gave their opinion according their past experience with online shopping.

## 5.2 Most important Customer Preferences

What makes a customer “GO FOR” Online shopping.

**1. Product Quality**

Is still the most critical judging criterion for any online shopper. Attributes included are accuracy of product description in terms of quality,size, taste or color, reverse pickup services. Many successful purely virtual companies deal with digital products, (including information storage, retrieval, and modification), music, movies, office supplies, education, communication, software, photography, and financial transactions. Other successful marketers use drop shipping or affiliate marketing techniques to facilitate transactions of tangible goods without maintaining real inventory.

Some non-digital products have been more successful than others for online stores. Profitable items often have a high value-to-weight ratio, they may involve embarrassing purchases, they may typically go to people in remote locations, and they may have shut-ins as their typical purchasers. Items which can fit in a standard mailbox—such as music CDs, DVDs and books—are particularly suitable for a virtual marketer.

Products less suitable for e-commerce include products that have a low value-to-weight ratio, products that have a smell, taste, or touch component, products that need trial fittings—most notably clothing—and products where colour integrity appears important. Nonetheless, some web sites have had success delivering groceries and clothing sold through the internet is big business in the U.S.

**2. Product Range**

Is one of the key determining factors for the success of an online shopping portal.Attributes included here are various product ranges, sub categories, variety with them for different price points. Online stores must describe products for sale with text, photos, and multimedia files, whereas in a physical retail store, the actual product and the manufacturer's packaging will be available for direct inspection (which might involve a test drive, fitting, or other experimentation).

Some online stores provide or link to supplemental product information, such as instructions, safety procedures, demonstrations, or manufacturer specifications. Some provide background information, advice, or how-to guides designed to help consumers decide which product to buy.

Some stores even allow customers to comment or rate their items. There are also dedicated review sites that host user reviews for different products. Reviews and even some blogs give customers the option of shopping for cheaper purchases from all over the world without having to depend on local retailers.

In a conventional retail store, clerks are generally available to answer questions. Some online stores have real-time chat features, but most rely on e-mails or phone calls to handle customer questions.

**3. Competitive Pricing**

Has always been the discrimination factor, but has never been easier than times today. Attributes included are -Offers, Loyalty Discounts,Seasonal offers etc. One advantage of shopping online is being able to quickly seek out deals for items or services provided by many different vendors (though some local search engines do exist to help consumers locate products for sale in nearby stores). Search engines, online price comparison services and discovery shopping engines can be used to look up sellers of a particular product or service.

Shipping costs (if applicable) reduce the price advantage of online merchandise, though depending on the jurisdiction, a lack of sales tax may compensate for this.

Shipping a small number of items, especially from another country, is much more expensive than making the larger shipments bricks-and-mortar retailers order. Some etailers (especially those selling small, high-value items like electronics) offer free shipping on sufficiently large orders.

Another major advantage for retailers is the ability to rapidly switch suppliers and vendors without disrupting users' shopping experience.

### 4. Timely Delivery

Throughout the market customer is sensitive to the on time delivery of the products and the services. Where generic products offer delivery time to 2-5 days, generic products may take 7-30 days. Online stores are usually available 24 hours a day, and many consumers have Internet access both at work and at home. Other establishments such as internet cafes and schools provide internet access as well. In contrast, visiting a conventional retail store requires travel and must take place during business hours.

In the event of a problem with the item (e.g., the product was not what the consumer ordered, the product was not satisfactory), consumers are concerned with the ease of returning an item in exchange for either the correct product or a refund. Consumers may need to contact the retailer, visit the post office and pay return shipping, and then wait for a replacement or refund. Some online companies have more generous return policies to compensate for the traditional advantage of physical stores.

### 5. Fraud and security concerns

Given the lack of ability to inspect merchandise before purchase, consumers are at higher risk of fraud than face-to-face transactions. Merchants also risk fraudulent purchases using stolen credit cards or fraudulent repudiation of the online purchase. However, merchants face less risk from physical theft by using a warehouse instead of a retail storefront.

Secure Sockets Layer (SSL) encryption has generally solved the problem of credit card numbers being intercepted in transit between the consumer and the merchant. However, one must still trust the merchant (and employees) not to use the credit card information subsequently for their own purchases, and not to pass the information to others. Also, hackers might break into a merchant's web site and steal names, addresses and credit card numbers, although the Payment Card Industry Data Security Standard is intended to minimize the impact of such breaches.

Identity theft is still a concern for consumers. A number of high-profile break-ins in the 2000s has prompted some U.S. states to require disclosure to consumers when this happens. Computer security has thus become a major concern for merchants and e-commerce service providers, who deploy countermeasures such as firewalls and anti-virus software to protect their networks.

Phishing is another danger, where consumers are fooled into thinking they are dealing with a reputable retailer, when they have actually been manipulated into feeding private information to a system operated by a malicious party. Denial of service attacks are a minor risk for merchants, as are server and network outages.

Quality seals can be placed on the Shop web page if it has undergone an independent assessment and meets all requirements of the company issuing the seal. The purpose of these seals is to increase the confidence of online shoppers. However, the existence of many different seals, or seals unfamiliar to consumers, may foil this effort to a certain extent. A number of resources offer advice on how consumers can protect themselves when using online retailer services. These include:

Sticking with known stores, or attempting to find independent consumer reviews of their experiences; also ensuring that there is comprehensive contact information on the website before using the service, and noting if the retailer has enrolled in industry oversight programs such as a trust mark or a trust seal.

### 6. Lack of full cost disclosure

The lack of full cost disclosure may also be problematic. While it may be easy to compare the base price of an item online, it may not be easy to see the total cost up front. Additional fees such as shipping are often not be visible until the final step in the checkout process. The problem is especially evident with cross-border purchases, where the cost indicated at the final checkout screen may not include additional fees that must be paid upon delivery such as duties and brokerage. Some services such as the Canadian based Wishabi attempts to include estimates of these additional cost, but nevertheless, the lack of general full cost disclosure remains a concern.

### 7. Privacy

Privacy of personal information is a significant issue for some consumers. Different legal jurisdictions have different laws concerning consumer privacy, and different levels of enforcement. Many consumers wish to avoid spam and telemarketing which could result from supplying contact information to an online merchant. In response, many merchants promise to not use consumer information for these purposes, or provide a mechanism to opt-out of such contacts.

Many websites keep track of consumer shopping habits in order to suggest items and other websites to view. Brick-and-mortar stores also collect consumer information. Some ask for a shopper's address and phone number at checkout, though consumers may refuse to provide it. Many larger stores use the address information encoded on consumers' credit cards (often without their knowledge) to add them to a catalog mailing list. This information is obviously not accessible to the merchant when paying in cash.

### 8. Hands-on inspection

Typically, only simple pictures and/or descriptions of the item are all a customer can rely on when shopping on online stores. If the customer does not have prior exposure to the item's handling qualities, they will not have a full understanding of the item they are buying. However, written and video reviews are readily available from consumers who have purchased similar items in the past. These can be helpful for prospective customers but can also be based on personal preferences. Hence, reviews from other consumers may not reflect end-user satisfaction once the item has been received.

Because of this, many consumers have begun going to real-world stores to view a product, before purchasing online, a practice known as show rooming (using the store as a showroom for the online merchant). Brick-and-mortar merchants have responded with various countermeasures. For example, Target has requested distributors give them equally low prices, or alternatively, products available exclusively from their store.

### 9. Impact of reviews on consumer behaviour

One of the great benefits of online shopping is the ability to read product reviews, written either by experts or fellow online shoppers.

The Nielsen Company conducted a survey in March 2010 and polled more than 27,000 Internet users in 55 markets from the Asia-Pacific, Europe, Middle East, North

America and South America to look at questions such as "How do consumers shop online?", "What do they intend to buy?", "How do they use various online shopping web pages?", and the impact of social media and other factors that come into play when consumers are trying to decide how to spend their money on which product or service.

According to the research, reviews on electronics (57%) such as DVD players, cell phones or PlayStations and so on, reviews on cars (45%), and reviews on software (37%) play an important role in influencing consumers who tend to make purchases online. Furthermore, 40% of online shoppers indicate that they
would not even buy electronics without consulting online reviews first.

In addition to online reviews, peer recommendations on online shopping pages or social media websites play a key role for online shoppers when they are researching future purchases.

# 6 Computing Competitive Landscape Analysis

The final list of Seller's Objectives –

A. ***Supply Chain Expertise*** is one of the key factor that defines the profitability of any online retailer. Attributes includes - Investment in inventory planning, JIT system, 3PL etc.

B. ***Strong Supplier Relationship*** has become critical for not the customer but also the retailer. Attributes includes - Owning their freight, In transit delivery etc.

C. ***Building Infrastructure*** includes the retailer's ability equip themselves with IT and other Infrastructure to handle large product lines.

D. ***Customer Experience*** need to be enhance for greater repeated sales. Attributes include- Easy user interface, reverse pickup services etc

E. ***Differentiation*** is one of the attributes that would distinct the portals from each other. Attributes include -e service, product portfolio etc.

The final List of Consumer Preferences –

A. ***Product Quality*** still remains the most crucial factor for the customer. Attributes included are accuracy of product description in terms of quality, size, taste or color, reverse pickup services.

B. ***Product Range*** is one of the key determining factors for the success of an online shopping portal. Attributes included here are various product ranges, sub categories, variety with them for different price points.

C. ***Competitive Pricing*** has always been the discrimination factor, but has never been easier than times today. Attributes included are - Offers, Loyalty, Discounts,Seasonal offers etc.

**D.** ***Timely Delivery*** throughout the market customer is sensitive to the on time delivery of the products and the services. Where generic products offer delivery time to 2-5 days, generoc products may take 7-30 days.

**E.** ***Consumer Protection*** is important in todays scenarioin order to build customer confidence.Here attributes included are easy return policies, cash back offer, free trials at home etc.

Final list of Competitors –

- **Jabong** is one of India's leading fashion and lifestyle ecommerce portals.It retails apparel, footwear, accessories, beauty products, fragrances, home accessories and other fashion and lifestyle products. The site started operations in January 2012. It is spearheaded by Arun Chandra Mohan, Praveen Sinha, Manu Jain & Mukul Bafana.

- **Flipkart** is an Indian e-commerce company headquartered in Bangalore, Karnataka. It was founded by Sachin Bansal and Binny Bansal in 2007. In its initial years, Flipkart focused on online sales of books, but it later expanded to electronic goods and a variety of other products. Flipkart offers multiple payment methods like credit card, debit card, net banking, e-gift voucher and Cash on Delivery.

- **Myntra** was established by Mukesh Bansal, Ashutosh Lawania, and Vineet Saxena in February 2007. All three are IIT alumni, and have worked for several start-ups. It is headquartered in Delhi and has been funded by Venture Capital funds like IndoUS, IDG & Accel Partners.

- **Amazon, Inc.** is an American multinational electronic commerce company with headquarters in Seattle, Washington United States. It is the world's largest online retailer. Amazon.com started as an online bookstore, but soon diversified, selling DVDs, CDs, video and MP3 downloads/streaming, software, video games, electronics, apparel, furniture, food, toys, and jewelry. The company also produces consumer electronics—notably the Amazon

Kindle e-book reader and the Kindle Fire tablet computer—and is a major provider of cloud computing services.

- **eBay Inc.** (stylized as ebay) is an American multinational internet consumer-to-consumer corporation, headquartered in San Jose, California. It was founded in 1995, and became a notable success story of the dot-com bubble; it is now a multi-billion dollar business with operations localized in over thirty countries.The company manages eBay.com, an online auction and shopping website in which people and businesses buy and sell a broad variety of goods and services worldwide.

  In addition to its auction-style sellings, the website has since expanded to include "Buy It Now" standard shopping; shopping by UPC, ISBN, or other kind of SKU (via Half.com); online classified advertisements (via Kijiji or eBay Classifieds); online event ticket trading (via StubHub); online money transfers (via PayPal) and other services.

<u>Sources and references for Computation of results</u> - Different sources were researched in order to understand the activity index of different portals in terms of the consumer preference index and seller's objectives.

## Synthesis Matrix

**Key Performance Drivers - from Retailers**

(Flipkart,Jabong,ebay,Amazon,Myntra)

| Key Performance Drivers (Importance) / Urgency | Supply Chain Expertise | Strong Supplier Relationship | Building Infrastructure | Customer Experience | Differentiation |
|---|---|---|---|---|---|
| Product Quality | F,j,e,A | No Correlation | J,F,A | J,f,a | A,J,F |
| Product Range | f,J,A,m | f,J,e,A | f,J,A,e,m | | A,j,m |
| Competitive Pricing | J,m,a,e | f,J,m,A | J,f,e | J,f,a | J,m,a |
| Timely Delivery | F,J,A,e,M | J,F,A,m | No Correlation | F,J | J,F,A,e |
| Consumer Protection | No Correlation | J,m,f | f,J,A | F,J,a | f,j,a |

**Correlation Index** 4 High 3 Medium 2 Low 1 No

***Figure 6.1:*** *Synthesis Matrix*

# 7 Interpretation of Results and Recommendations

Different weights were assigned to the various customer preferences and distinct seller objectives on the basis of relatie importance of the preferences and objectives.

| Customer Preferences | Weights | Goal 1 (10) | Goal 2 (8) | Goal 3 (6) | Goal 4 (4) | Goal 5 (4) |
|---|---|---|---|---|---|---|
| Preference 1 | 10 | 100.0 | 80.0 | 60.0 | 40.0 | 40.0 |
| Preference 2 | 8 | 80.0 | 64.0 | 48.0 | 32.0 | 32.0 |
| Preference 3 | 8 | 80.0 | 64.0 | 48.0 | 32.0 | 32.0 |
| Preference 4 | 8 | 80.0 | 64.0 | 48.0 | 32.0 | 32.0 |
| Preference 5 | 6 | 60.0 | 48.0 | 36.0 | 24.0 | 24.0 |

***Figure 7.1:*** *Different Weight in Synthesis Matrix*

***Cumulative scores calculated –***


***"The results show that recent invaders in the industry like Flipkart that market their presence in 2009 only had an unprecedent growth rate much higher than the Global players like Amazon.com."***

**Writers View** : I believe that the single biggest threat to the e-commerce play in India is from Amazon.com. Amazon has a lot of cash and can use it to out-run the e-commerce startups. They have plenty of tech that help a lot in demand generation and sales which the e-commerce players in India have not even started to work on.

Amazon has a lot of experience in logistics and last mile issues of e-commerce. Their entry into India is largely gated by the FDI in multi-brand retail policy that is now going through the final stages for tabling in the parliament. Once this policy is passed, I believe Amazon is going to get very aggressive in the market.

Flipkart is having a strong market presence at present because of early mover advantage and the strong supply chain expertise and lean inventory model. But, just behind the leaders is Jabing.com backed up by deep investment model launched by investment firms rather than angel entrepreneurship venture. By heavy marketing efforts it has the capacity to become larger in terms of its market size.

***Conclusion 1-***

Flipkart is the market leader in terms of the sales volume handled by the company. Myntra is soon catching up with the market leader. Has the potential to outperform within next 12 months.

***Conclusion 2-***

Most of the companies have been focussing on sustainability and profitability factors. Big names like Amazon and ebay have held there hands tight till now to plunge in the Indian Industry only when it has matured enough to yield profits comparable to the global levels.

***Conclusion 3-***

Differentiation in terms of product catalogue is seen as the next upcoming trend that would define the leaders of tomorrow. Some of the brands have opted for niche marketing to stand out of the crowd. Mainly, the differentiated in terms of the product and services being delivered.

***Conclusion 4-***

Most of the online shopping portals are relying on their supply chain expertise and 3PL relationship for delivery purposes, tie ups and good supplier relationship are the key trends driving and sustaining this market.

## High Cost Of Fulfilment

Most e-commerce sites have had to invest heavily in their own fulfilment network. This allows them to ensure predictability of delivery and a better experience. But it not only requires deep pockets to invest upfront, but also incurs greater operational costs that can further erode margins by five to seven per cent.

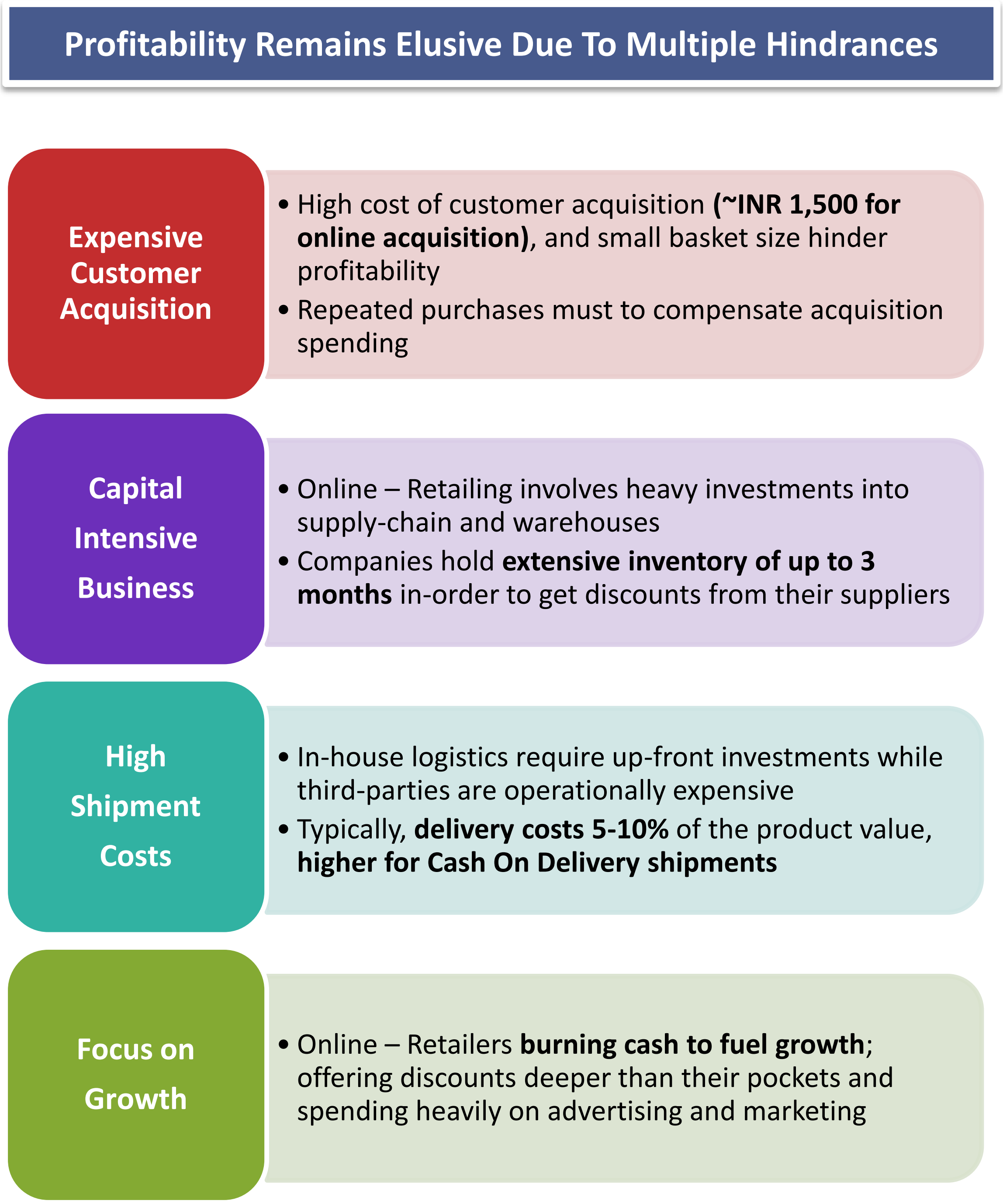


***Figure 7.2:*** *Key Challenges in e-commerce industry*

## Online Consumers In India Have Specific Demands

As the eCommerce market in India develops, so will its consumers. Retailers should be aware that:

- **Consumers expect the returns process to be seamless and convenient**. Traditionally, the shopping culture in India is not returns-friendly. However, online shoppers have come to expect the option to return items purchased online, and retailers have made doing this convenient — at their own cost. One of the top online retailers in India, for example, has gone so far as to offer an at-home pickup service for returned goods. The cost is high, but the retailer considers this option necessary to develop consumer trust and confidence in the retailer. While such at-home pickup for returns is typical in other emerging markets, markets tend to shift from this labor-intensive, often inconvenient process to prepaid return labels as the eCommerce ecosystem develops.

- **Free door-to-door shipping is commonplace.** Like eCommerce retailers in other emerging markets such as Brazil, it is standard for eCommerce retailers in India to offer free, relatively quick delivery of online orders. HomeShop18, for example, offers free shipping for the majority of its items and delivers within five days. MyGrahak offers free 48-hour delivery, but it will deliver within 24 hours for an extra US$0.88. To compete in India's nascent eCommerce market, online retailers have little choice but to offer the same convenience and low cost that their local counterparts are offering, a situation that venture capitalists have identified as unsustainable in the long term. While retailers cite free shipping as an essential first step to drive customers to shop online and win customer loyalty, companies investing in the space must consider how long they can sustain this type of offering.

- **Consumers have been trained to expect low prices.** In addition to the challenges of offering free shipping, retailers also face hurdles in matching the highly discounted prices that leading online retailers have traditionally offered on their sites.16 New entrants have struggled to keep up: Upstart Taggle.com ceased operations in late 2011, for example, citing its unwillingness to engage in a price war with retailers selling below cost to gain customers.

## Logistics are one of The Largest hurdles For eBusinesses in india

As in most emerging markets, the infrastructure to support eCommerce in India remains at the development stage. Deliveries to remote areas can require retailers to piece together multiple logistics partners. No full-service eCommerce solution provider exists for companies interested in outsourcing all parts of their offering in India. To overcome these challenges, retailers are coming up with solutions to problems as they arise:

- **Larger online retailers are building out in-house delivery solutions**. For example, leading online retailer Flipkart solved its fulfillment issues with an in-house delivery department. In a move similar to online retailers in other emerging markets — for example, 360buy in China and Ozon in Russia — the retailer uses its own trucks and employees to fulfill orders to ensure customers receive superior service.

  While not an option for all companies, smaller retailers may ultimately be able to take advantage of the networks of big players: Russia's Ozon, for example, is starting to make its logistics network available to smaller eBusinesses for a fee.

- **Effective fulfillment solutions often require multiple couriers.** The lack of a wholly developed eCommerce ecosystem and underdeveloped towns require retailers to creatively fulfill an order. If a retailer's usual shipping method will not get a package to a customer, it will use more than one shipping method.

  While India Post, FedEx, and DHL International do deliver in India, our interviews revealed that online retailers frequently rely on couriers to deliver the last mile. For example, they send the package using FedEx or DHL to the nearest package distribution center and hire a local courier to pick up the package and deliver it to the customer's door, frequently on a bike. In rural areas, where even capturing a standard address for a consumer can be challenging, bike delivery is often the most convenient option.

## Recommendations - A Flexible Strategy Is The Key To Success In India's Online Shopping Market

eCommerce "norms" are still being established in India, where the eCommerce market is just developing and experienced eBusiness professionals are still hard to find. To offer your customers the best experience — one that reflects your brand's service level — We suggests the following:

- **eBusinesses must be willing to work with many different partners.** In India, no single player today can handle all aspects of the eCommerce business on behalf of major retailers or brands. Instead, eBusinesses will need to manage every step of the eBusiness operation — from site design to fulfillment solutions to employee training.

  Leading eCommerce sites in India today tend to build their capabilities rather than buy, although that scenario is likely to change as more global players with existing vendor partners enter the market. eBusinesses entering the Indian market must be aware of the need to work with a variety of partners and be willing to work through the challenges of integrating multiple solutions.

- **Savvy businesses will make mobile a part of the eCommerce mix from the start.** While the mobile opportunity in India is nascent, it is undeniably going to be a critical part of how consumers interact online. eBusinesses should take advantage of this growing trend by including a mobile website as part of their offering — ensuring that it is accessible on both feature phones and smartphones, given the relatively low penetration of smartphones in India today.

- **Multibrand retailers should be ready to launch as soon as FDI constraints are lifted.** FDI regulations currently keep multibrand retailers from establishing a business in India: Amazon.com, for example, altered the business model it used when entering other markets and launched in India with an online shopping service, Junglee.com.

  While it is impossible to know exactly when and if the FDI restrictions will be relaxed, foreign eBusinesses with an interest in India should map out their potential offerings in India now so that they can move quickly when this type of investment is allowed. It will be hard for slow movers to get a piece of the action, given that so many global companies already have their sights set on the market.

- **Be prepared to move beyond English to differentiate longer term.** In our research, we did not come across a single major site in a language other than English. While it is a safe bet that online buyers in India will predominantly be English speakers in the short term, global businesses often overestimate the number of consumers in India who speak and understand English fluently.

  Global media sites have already taken notice of India's diverse online population: Yahoo, for example, provides news in Bengali, Hindi, Malayalam, Marathi, and Tamil; MSN also offers a multilingual site. eBusiness leaders should consider multilingual websites as a potential long-term option for differentiating their offerings and appealing to consumers who may understand English but prefer a local language.

# 8 What Withholds the Future of e-Retailing

“We extensively researched to understand what withholds the future growth of this sector. Is it the customer perception that is the biggest hindrance? Or the Lack of good industrial practises that is not able to match customer’s expectations? Or is it the lack of maturity in terms of infrastructure that needs to be built to cater to such demand? Or is it the absence of the basic facilities available to the customer such as Credit Card penetration or low Internet coverage that is posing the hindrance!!”

- *All these factors define “**The SCOPE PENTAGON**.”*


**Figure 8.1** : *Scope Pentagon Model*

## 8.1 Building the Trust and Good Practises

In the Internet age, many people believe the traditional way of doing retailing is too old-fashioned,” he said. “But in this case, the traditional retail channel still has a lot of value, because there’s a lot of incentive for manufacturers to produce high quality products when they know they will be displayed on a shop floor and tested by consumers before they're purchased."

According to Liu, out of the most highly successful traditional retailers, none sell directly to consumers, which, for consumers, turns out to be a bulwark against declining product quality. "If you're talking about clothing, prices are higher at the older department store chains but the product quality is usually very high," he said. "However, if we look at the direct channel manufacturers – that is, the factory outlet stores, the direct-to-channel outlet manufacturers – the price is lower but the product quality is not high."

According to Liu, there are two types of consumers: Those who care about quality over price, and vice versa. "The latter type of consumer wins with the advent of e-commerce, because they don't care about quality – they only like low price," he said. "But the first group of consumers are hurt, because quality as a whole is dragged down by manufacturers who cater to the Internet."

For consumers, the take-away from the research is simple: "If you want a high-quality product, buy from a physical store," Liu said. "If you want the cheapest possible price, buy through the Internet." Although the reports of the demise of traditional retailers have been greatly exaggerated, Liu6 says they can survive and even thrive in the e-commerce age by playing up the quality angle to consumers. "Since they're not going to win in a price war versus the Internet bricks-and-mortar stores not only need to stock high-quality products, they need to let consumers know that they can out-compete the Internet with the quality of their products.

## 8.2 <u>Building Strong Logistics and Supply Chain</u>

eCommerce player Flipkart recently announced the launch of Flipkart Marketplace. To start with, Flipkart has on-board 50 sellers that will sell books, media,and consumer electronics. The announcement means a change in the way Flipkart does business. With a marketplace model, Flipkart will no longer have an inventory of its own, rather buyers can deal with sellers directly and the delivery will be done by Flipkart. The model will be similar to eBay India.

Going forward, users will be able to compare sellers and get the best prices at varied service levels for most products. Flipkart will also introduce this model to categories like clothes, shoes among others.

“We created the blueprint for Flipkart Marketplace with the determination to take online shopping to the masses. In the last 12 months, more than 80 million unique visitors have come to Flipkart. Five out of six online Indians visit our website. Sellers on Flipkart will get access to this vast user base - which is akin to the footfall in prime retail spaces in the top 10 cities of the country,” said Sachin Bansal, CEO
and Co-Founder, Flipkart.

In terms of enabling the SME community, Marketplace will now allow smaller players to transact on the same platform as larger established retailers and help them garner business intelligence by understanding their position vis-a-vis competition based on factors such as pricing, offers, deals, etc.

At present, the entire inventory of Flipkart is being managed by WS Retail. While WS Retail will continue to be one of the sellers, Flipkart will also slowly incorporate new sellers. However, the ecommerce company will continue to manage the delivery and shipping of products. Flipkart, the poster boy of India’s e-commerce story, might have grown rapidly because of its inorganic growth route and inventory-based business model, but there are many early entrants that have either avoided that route or tweaked it substantially for better efficiencies.

Take the case of Snapdeal, which started as a coupon retail site designed on the model of the US-based Groupon. Four years later, the company is a full-fledged e-commerce site, catering to categories like lifestyle, mobiles, electronics, perfumes, books, footwear and others.

Snapdeal works like a market place, similar to that of eBay. Brands can use the Snapdeal platform to showcase their products. When it comes to delivery, it has opted for a “fulfillment centre” rather than a warehouse. The centre is used only in case of a retailer not wanting to fulfill a transaction (delivery). If a retailer does not want to take the onus of shipping they can send the package to the fulfillment centre of Snapdeal, and the latter ships it out.

Due to its diversification into a market place concept seven months ago, Snapdeal has 4,000 brands listed on its website. Unlike Flipkart, it has chosen to depend on third-party courier firms for delivery. “One of the effects of the boom in e-commerce has been a spurt in regional courier companies. They are cheap and still maintain good services. This competition has also brought down the courier charges of large players by as much as 60 per cent,” said Kunal Behl, Founder and CEO of Snapdeal. Behl clarifies he did not want to build a business which depended on creating a large inventory. According to industry estimates, the apparel space has unsold inventories worth Rs 30-40 crore and in the case of electronics, it is around Rs 70-60 crore.

Fashion and You, which also created an internal logistic team for prompt delivery, tweaked its supply chain by having a good mix of third-party courier firms. “We do have 300-350 employees as part of our in-house supply chain. But they cater to the top 10 cities only, which generates 60 per cent of orders. The rest is serviced by the third party firms,” said Pearl Uppal, co-founder of Fashion and You. For Uppal, the other significant focus was increasing business from repeat customers. “Today, 70 per cent of our revenues come from repeat customers, for which we focused on our loyalty programmes. A regular customer on our portal on an average makes six transaction in a year,” says Uppal. This has also brought down the rejection rates in the cash on delivery (CoD) segment. At Fashion and You, if a customer rejects a product, he will not get the CoD option next time, depending on the reason for rejection. Also, CoD customers need to pay for shipping. Uppal claims the rejection rates on CoD is eight per cent.

Along with Flipkart, the other e-commerce player that started copying the Amazon business model was Ahmedabad-based Infibeam. Like Flipkart, Infibeam had ventured into other categories, but this year it went a step closer to the Amazon model, as it opened its IT and supply infrastructure to different retailers (both large and small), under the name of ‘Build a Bazaar’ initiative.

“This gives retailers access to our infrastructure, which includes IT support, and access to our supply chain. We have 36 courier companies integrated into our platform. We have signed up 13,000 retailers and expect this to take up to 100,000 by the end of this year,” said Vishal Mehta, CEO and Founder Infibeam. The platform allows the retailer to sell their own products and also sell Infibeam’s product. In case

Infibeam's product are sold through another retailer's online store on this platform, then Infibeam pays one to 1.5 per cent seller commission. If the retailers products are sold on any of the Infibeam portals, then the retailer gives a commission of one to five per cent to Infibeam.

Mukesh Bansal, Founder and CEO, Myntra.com, also follows a mix of in-house team and couriers for its delivery. The company owns 50 per cent of logistics for delivery catering to to the top 16 cities. The balance is managed by Blue Dart and Quantum Co. "In terms of cost, it is much cheaper than managing everything internally," he said.

## 8.3 Upcoming Trends

Internet Penetration: With an exponential increase in internetusage, there's an increasing PC and broadband penetration, coupledwith the declining prices of PCs. Tablets and smartphones have given a new meaning toconnectivity and user experience. The adoption of 3G and upcoming 4G technology, alongwith the declining prices ofsmartphones, is expected to result in an additional increase in internet usage in the country.Improvements on the payment front have brought about the increasing use of plastic moneyby Indian consumers. Payment gateways have now been made more secure through multiplelevels of authentication via one-time passwords (OTPs). This hashelped strengthen users' confidence in carrying out online transactions.

M-Commerce: India has more than900 million mobile users, of which around 300 million use data services. Thisis expected to grow 1200 million by 2015. Also, more than 100 millionmobile users are expected to use 3G and 4G connectivity in the coming few years. Of the total 90 million mobile users, only 27 million are active on theInternet. Moreover, only 4 per cent of the active mobile internet users buyproducts through mobiles. However, mobile shopping is on upward trend and isexpected to increase five–fold to 20 percent in the medium term.

FDI in E-Commerce sector: Presently the Indian Government has allowed 100 per cent FDI in B2B e-commerce, while business-to-consumer (B2C) is prohibited. In addition to that there's a compulsory 30 percent local sourcing norms for foreign players.

Companies like Amazon, eBay, and Tesco are coaxing and holding meetings with the DIPP to invest in an emerging market India. They have even been investing some of the local start-ups here like Amazon entered India via Junglee.com.

The news that Department of Industrial Policy and Promotion (DIPP) has started consultations with stakeholders on allowing foreign direct investment in retail e-commerce before the end of this financial year, has nonetheless raised our expectations of expansion of Indian E-Commerce industry.

**Device**

Increased PC penetration

Increased Smart phone and tablet market

Declining PC, tablet and smart phone costs

**Demographic**

Rising disposable income

Rapid urbanisation

Need for convinience

**Internet**

Growth of internet user base

Increased broadband penetration and launch of 3G and 4G

Declining internet tarrif

**Payments**

Multiple payment instruments

Increased average transaction value

Increase in payment gateways

Enhanced security with multiple authentication layers

**Figure 8.2:** *Summarization of factors determining future of E-Commerce in India*

Undoubtedly, it’s an expansion time for E-Commerce Industry. E-Commerce players are banking on the Indian internet growth story. The fact that an average online user is spending more time online gives these players the opportunity to draw more users to their websites through innovative marketing strategies such as those revolving around social media.

Furthermore, to fully utilize the opportunity, players need to leverage the growing number of mobile devices in the country. They should focus on developing mobile-compatible websites and applications. This would allow customers to log on to easy-to-access platforms and browse e-Commerce websites on their mobile devices.

They also need to focus on innovation to tackle challenges arising from low credit and debit card penetration. They could consider working with financial intermediaries to develop payment systems, such as escrow services, for resolving issues around security and product delivery. The RBI could step in and reduce the number of online transaction failures by defining service metric quality and monitoring it at regular intervals. This would enable it keep a close eye on the performance of financial intermediaries and plug gaps as soon as they occur.

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