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Customer Value – Explored, Created, Communicated & Delivered

Related to India's e-commerce Market

“Innovation is whatever brings value to the consumer—it takes many forms, sometimes it’s a breakthrough in technology and sometimes it’s just about thinking different in the way we approach problems” says Andrew Garrihy, chief marketing officer for Western Europe at Huawei.

▶ INDIA’S E-COMMERCE SPACE

India’s e-commerce space today is mainly dominated and defined by 2 players—Flipkart and Amazon. Flipkart is the fashion leader. After acquisition of Myntra and Jabong, Flipkart commands more than two-thirds of India’s fast growing online fashion retail market. Amazon is the tech power. Over 20 years of learnings in technology and online retail business has resulted in faster execution and fewer mistakes. Amazon excels in providing powerful search and recommendation engines to users.

India’s apparel and lifestyle market is worth \$70-billion, and currently only 2% of that is online. According to a recent Google report, the sector is expected to scale up to \$35 billion by 2020, growing at four times in the coming years. The report also states that fashion will outstrip consumer electronics as the largest online retail category, accounting for about 35% of consumers’ total online spending by 2020.

How big is online fashion?

More women in India will take to shopping online in the next few years, increasing from

15 Million in 2015

75 Million in 2020

Apparel will continue to be the top category for women shoppers, whose share of online spending on apparel will increase from

| | |
|------|-----|
| 2015 | 20% |
| 2020 | 42% |

Lifestyle products will overtake consumer electronics as the largest online retail category by 2020. The lifestyle category is expected to drive on in three purchases by 2020.

Annualised gross sales of fashion products will reach \$3.6 billion by the end of this year, boosted by 30-40% growth during the festive season.

Fashion account for 20% of the online retail market and will grow to 23-25% over the next year. In terms of revenue, the share of fashion in online retail is 35-40% due to high margins

Every second search on Google is related to fashion

SOURCES: AT KEARNEY-GOOGLE REPORT AND RIDSEER CONSULTING

The outliers

Smaller online fashion marketplaces that came around when Jabong was established in 2012 have built their own USPs and corpora of funds

| Company | Year | Capital raise | Investors | Differentiation |
|--------------------|------|----------------|--|--|
| Voonik | 2013 | \$25.5 Million | Sequoia Capital, Beenos, Beenext | Personalized style recommendation |
| Limeroad | 2012 | \$50 Million | Tiger Global, Matrix Venture Partners, Lightspeed Venture Partners | User-generated styles and scrapbooking |
| Craftsvilla | 2011 | \$54.5 Million | Sequoia Capital, Nexus Venture Partners, Lightspeed Venture Partners | Ethnic and handcrafted fashion and accessories |

► THE GROWTH STORY OF FLIPKART AND E-COMMERCE IN INDIA

For a vast multilingual nation like India, building an e-commerce company was indeed a tough task for Flipkart. Some of the factors like weak infrastructure, myopic bureaucracy, and above all, an ingrained distrust of the merchant class made the task even more challenging.

The Bansals, the founders of Flipkart were confident on one thing, that India was ready for e-commerce. The country's highly fragmented retail sector, mostly ruled by mom-and-pop stores with poor services were the major problems identified by Bansals which had the potential to get converted into opportunities for building up a new business in 2007.

Flipkart found the right gaps in the market and offered relevant products and services that fitted those areas perfectly. Finding that few Indians use credit cards, Flipkart pioneered cash on delivery. In Mumbai, it deployed *dabbawallas*, the famed lunch delivery network, to get packages to customers. Its pledge to take back unwanted goods for a full refund was a big propeller. Two of its strongest ethos of customer-friendliness and genuineness of its products connected very well with the Indian consumers.

The company added third-party sellers to its platform and set up its own logistics company, Ekart in 2009, with warehouses and an army of delivery personnel. By 2011, sales had reached \$100 million, and very soon Flipkart was seen in different categories—sports equipment, electronics, baby goods and more.

In 2012, sales in the Indian e-commerce market were estimated at \$1.6 billion. Flipkart, Jabong & Myntra, all home-grown players were leading the Indian e-commerce market at that time. Some of the major tactics which helped these players to gain market share in the Indian market were cash-on-delivery payments, liberal return policies, free or subsidised shipping and in-house logistics. Since its founding nine years, Flipkart has become the nation's most valuable start-up which introduced online shopping to the Indian masses.

Amazon launched its Indian website on June 5th, 2013 with the third-party marketplace model instead of selling directly. This forced consolidation in Indian market and Flipkart acquired the online clothing retailer Myntra in 2014 followed by Jabong in 2016. This deal further strengthened its' number one position in the fashion and lifestyle e-commerce category with an estimated market share of 60-70%.

In this hyper competitive market, consumer is having last laugh and is being pampered with choice, service and experience. Each player is continuously forced to innovate and take steps that add value to its consumers in a "real and meaningful way". Stuart Eames, Operational Improvement Manager at Waitrose put it very well "If you don't evolve, if you don't do something better or different to the competition you end up not being around."

► CHANGING MODELS OF BUSINESS ENHANCING VALUE

The online stores from the inventory model moved to third-party marketplace model where independent merchants in their network sell products directly to shoppers. It turned out to be a viable way to work in order to overcome the problems posed due to poor logistics and high costs of inventory. Further movement has come in when many online commerce companies have now started venturing into the hybrid model of running online stores with selective physical presence.

Global e-commerce giant Amazon in 2016 opened a brick-and-mortar store in New York. In India, players like furniture e-tailer Pepperfry and eyewear seller Lenskart have explored the offline route as well.

E-tailers are under pressure to grow profitably and hence, Fashion e-tailer Myntra has created “top-selling” outdoor lifestyle brand, ‘Roadster’, which has a current sales of ₹600 crore, contributing 8% to the overall revenue and expected to reach sales of ₹1,000 crores by 2019. Seeing this kind of growth potential of this brand, Myntra, in association with one of its franchise partners, has in March 2017, launched the first retail store for its private label Roadster in Bangalore.

► COST EFFICIENCIES ON VALUE CHAIN

New companies indulge in market expansion activity and have high spent in the initial period hoping for future gains resulting in negative cash flow (known as burn rate). In a bid to acquire maximum customers, Flipkart indulged in aggressive spent on marketing and discounts, biggest being in October 2016 “Big Sale”, resulting in its burn rate at its highest two years ago. As of 2017, its burn rate is said to be \$40-50 million per month, according to industry estimates. Flipkart successfully lowered its burn rate by 5-10% every quarter in 2016 and wants to sharply accelerate this process.

The board has asked Flipkart to bring down the burn rate to one-fourth by March 2017 and is forcing Flipkart management to think differently to grow and to streamline its operations. The company also decided to slash the budget of Myntra by about 10% and re-allocate these funds to itself to fight the ongoing war against Amazon. To ease its cash crunch situation, Flipkart plans to save \$150-200m by Dec 2017 and is also in talks with Walmart stores for investment of \$1b. At the same time, Amazon’s Chief Executive Officer Jeff Bezos pledged in June 2016 to invest another \$3 billion in his company’s Indian operations, bringing the total to \$5 billion, which definitely sounds a big threat to Flipkart, the home-grown e-tailer.

To bring in sharper focus on its core business model and make it nimbler, Flipkart is consolidating the operations of its logistics and supply chain arm. Delivery to customer’s doorstep even in the remotest location popularly termed as last-mile connectivity plays a vital role in the online business and Ekart, the in-house logistics arm, has been able to provide this service efficiently and forms the backbone of its business. Flipkart has also started monetising EKart and offers warehousing solutions and end-to-end logistics and supply chain capabilities to other clients.

The two fashion verticals, Myntra and Jabong, owned by Flipkart, commands a 45% market share in this vertical. They are bringing together their back-end operations and supply chain for stronger integration.

They are also integrating their private brand portfolios in order to give a push to the trifling private label business at Jabong. Despite such integrations, the consumer-facing platforms continue to run independently as the consumer segments and geographies targeted by each of them differ widely. While Jabong’s main revenue source is North and East, Myntra is big in South and West. Similarly, Jabong’s consumer base mainly consists of women and first-time shoppers, while Myntra targets more towards men and affluent consumers.

► MARKET SHARE V/S PROFITS

In a country like India where affordability means value for the masses across various categories, Flipkart took different initiatives on this front as a big bet to revive sales. Initiatives like low-interest monthly payments clearly attended to affordability issue; under “Flipkart Assured” stringent quality checks were provided. There were exclusive partnerships, exchange programme on smartphones, and sales of its own brands or products.

The Seattle-based Amazon has also experienced success with private label offerings. Across categories as diversified as electronics, accessories and baby care, Amazon has built a robust private label unit. It launched AmazonBasics in September 2015 in the consumer electronics category, home and kitchen brand Solimo in early 2016, followed by fashion offerings Myx and Symbol in the latter half of the year. “Private brands play a role in providing great value to the customer by reducing costs from the value chain (optimised design for ecommerce)” says an Amazon India spokesperson. The private brands developed in-house help ecommerce firms squeeze out additional margins—15-20% more than competing-third party brands—from this business. Private brands offering reliable products at an attractive price point are backed by high intent to purchase.

At a time when discounting and deep discounting had become a norm in the highly competitive e-commerce space, it's then Myntra announced the launch of its biannual sale event, “Big Fashion Gig” from April 8 to 10, 2017. Unlike other previously run sale events, this one claimed to be different in terms of being a low-discount event with a sharp focus on exclusive brands. The event also saw the launch of a new line and style by celebrities on the platform. Unique propositions were built for the customers such as guaranteed ‘never-on-discount’ brands and other features to gain competitive advantage. 35 new brands were launched including international names such as Dorothy Perkins, Next, Aeropostale, Forever 21 Men, Clinique, Bobbi Brown, Corelle, and Howards. Myntra’s efforts to spice up its premium fashion brand positioning with an exclusive line-up of brands is definitely to strengthen its dominance in online fashion sales and boost profits through higher margins. Premiumisation of line is expected to bring in new users and also attract existing ones looking for new benefits and experience.

► CUSTOMER EXPERIENCE AND ENGAGEMENT—A NEW VALUE TAPPED

To differentiate itself and enhance the shopping experience of its customers, Flipkart has given a new, vibrant and glamorous look to its fashion section. Data derived from extensive research suggests that customers searching for fashion are mainly influenced by celebrities, Bollywood, Hollywood, friends, and other influential brands. Thus, Flipkart has tied up with such brands, celebrities, TV channels and Bollywood movies and has completely revamped its fashion section where selections will be seen presented in line with consumer liking. The country’s ecommerce major has relaunched its core fashion category by putting in place a team of 100 style consultants, who will help curate outfits based on searches made by customers.

Myntra has started to open physical stores for its private brands like Roadster, All About You and HRX, is converting these stores into experience zones and the stores are loaded with technology at every step and promises a great brand experience. The Roadster store has highly engaging elements which

include a video wall controlled by shoppers through a futuristic, multifunction touch-interface. This wall showcases to them the intricate details of Roadster products and provides an update on key international trends and communicates the brand story. Data on key looks and the Roadster catalogue can be accessed by the interested shoppers through multiple touch screen displays around the store. Then there is this unique 'Scan & Go' purchase mechanism which allows shoppers to add their favourites to their shopping cart on the Myntra App, doing away with shopping bags, check-out counters or billing queues.

Global loyalty marketing agency ICLP (A Collinson Group Company) released a research report recently whose findings on personalization and customer recognition by e-commerce top rivals say that 70% of Amazon and 67% of Flipkart customers felt that they were provided with relevant recommendations for products and services that were of interest to them. On customer recognition front, 63% of Amazon and 58% of Flipkart shoppers expressed that their chosen retailer had taken the time to really get to know them and understand what they want.

► INTO THE NEW AGE OF ARTIFICIAL INTELLIGENCE

"Voice is a big part of the computer interface of the future," said Gene Munster, a veteran equity analyst and now head of research at Loup Ventures. "Whoever owns voice will be the gateway of commerce."

Amazon is all set to make a headway in developing voice assistants or "chatbots" to decode speech. In April 2017, technology powering voice assistant Alexa was rolled out to developers so that they can build chat features into their own apps. Alexa is said to compete with Apple Inc's Siri. Amazon will take the text and recordings people send to apps to train Alexa to understand more queries.

On the similar stand is Flipkart, working on project Mira, an artificial intelligence-focused effort. It will lead the search experience of the customers to be guided with relevant questions, conversational filters, shopping ideas, offers, and trending collections.

Not just quenching the customer's needs but Mira will also help streamline the back-end processes, including accurate classification of products, accurate product descriptions, and avoiding duplications. Once streamlined, this will later be used in issues such as product returns and quicker delivery.

Globally, Amazon and eBay have invested exhaustively in artificial intelligence to improve their marketplaces. In India, it is still in its infancy with a lot of ground to cover as Indian shoppers are still coming to grips with buying online.

► SELLERS' EXPERIENCE

Various measures are being taken by the e-commerce marketers to expand their network of sellers, to keep them satisfied and add to their experience. Amazon is doubling its investment in the year 2017 on seller infrastructure, spending on warehouses, fulfilment services, service provider network, in-person support, and other services like seller cafes and instant registration to attract the potential investments. All these initiatives have made Amazon a seller-friendly marketplace, offering a frictionless experience to the sellers.

"As of March, there has been 160% year-on-year growth in the seller network on Amazon India, with more than 1.75 lakh sellers. This has ensured that on an average, there are 1.8 lakh products

for sale in the marketplace at any given time, compared with about 15,000-20,000 products in a brick-and-mortar supermarket," said Gopal Pillai, Amazon India director and general manager (seller services).

Flipkart in order to make itself the most low-cost marketplace for sellers has altered seller fees for certain categories and price ranges. "When we reduced rate cards, we reduced fixed fee, shipping fee and collection fee and also offered a 10-20% discount for gold and silver (tier I and II category) sellers," said Nishant Gupta, director of marketplace, Flipkart. The fee reductions and discounts so offered are passed on by 60-65% sellers across categories to consumers in the form of reduced prices resulting in at least a 25% jump in sales.

Both platforms are seen by the sellers as fairly even now on the cost front. Difference between the two is only while Amazon has brought global technology experience, Flipkart has compensated by giving localised features and inventory management.

► RELEVANCE FACTOR WELL ATTENDED

To gain an edge over its rival, Amazon, certain value additions in its services were brought in by Flipkart such as introduction of 7am deliveries which reached customers in Mumbai and 43 other cities reliably. Smartphones being the biggest revenue generating category of Flipkart, was proactively attended to by adding a unique service primarily to reduce the number of returns on them. A team of technicians was created who were sent by Flipkart to fix minor glitches before customers returns them and hence, providing experience similar to nearby electronic store.

Amazon has rolled out its global Prime membership service in India which gives customers access to unlimited free one-day and two-day delivery on lakhs of products. Membership further extends to include Prime video service which gives its members access to movies and TV shows from Indian and global content providers.

With developments in the market taking panther pace, Flipkart in order to keep itself armed strongly, is setting sight on new businesses. With its biggest round of funding of ₹9,000 crore from Tencent, eBay Inc and Microsoft in this year 2017, it aims to grow its payments arm PhonePe, expand its portfolio of private labels, and relaunch categories with high potential such as furniture and grocery.

Competitive intensity is being seen at its peak, with new entrants in this space, newer benefits for all stakeholders, business models turning more efficient and flexible, and technology setting a revolution engulfing all.

Most recent development being the launch of Paytm Mall, a pure play marketplace, which does not stock any inventory. It has tied up extensively with brands, distributors, and multi-brand stores, thus offering same-day delivery and installation of large appliances across 20 cities to make the most of the high margins and prices that this segment offers. For fulfilment, Paytm Mall has also created a massive network of 40-plus service partners like Blue Dart, Delhivery, and Xpress Bees to handle logistics with specialised services on correct handling and shorter delivery time.

Sensing the looming threat, Flipkart and Amazon India are following suit. They have also announced their investments for installations of large appliances ordered on their platforms, creating a chain of specialised warehouses and distribution centres.

► IMAGE BENEFIT AS A CRUCIAL ELEMENT TO VALUE

After investing big in India, offering tailor-made features, and providing benefits filling the right gaps, one setback that Amazon faces time and again is of it being tagged as non-Indian. Especially in contrast to the home-grown leader, Flipkart who claims to understand the needs of its countrymen much better than any foreign player. Amazon in order to raise its brand equity further in the Indian market had to work on changing its perception in the minds of Indian consumers.

Amit Agarwal, head of Amazon India, once responding to the ‘foreign’ tag said his company was very much Indian. “I just want to reiterate that Amazon (India) is a company incorporated in India, domiciled here. It follows all mandated laws, such as two-factor authentication, and pays service tax as well.”

Efforts made by Amazon to emotionally connect with Indians include the airing of TV spots that talk about Indians’ love for *asli* (original) 100% original products and their desire to browse through innumerable options. Then there are series of ads where Amazon is referred by Indians as *apni dukaan*, or our own store. Amazon sponsors a Kabaddi league to connect with grassroot Indian consumers.

The company is shunning many of its global practices as well and is banking on a host of locally tried and tested methods. To further add the value of Indianness to its image, in December 2016, Amazon.in launched a programme called Amazon Launchpad, a dedicated web store that enabled Indian start-ups to launch, market and distribute their products to customers not just in India but globally. The company very aptly linked it with the Indian Government’s “Start-Up India” initiative.

As Bezos of Amazon had done 13 years earlier, Binny and Sachin Bansal of Flipkart also started out with selling books. From then to now, these 2 behemoths of the e-commerce segment—along with so many others—have continually been developing unique plans and creating superior value for the consumer. May be time has arrived for the e-commerce giants to abandon their obsession with GMV (gross merchandise volume) and develop new barometers to measure their success.

► QUESTIONS

1. Customers always seek to maximize value from every purchase. They will buy from the firm that they perceive to offer the highest customer-delivered value (difference between total customer benefits and total customer cost). Explain with reference to the given case.
2. Explain the value delivery process which involves the exploration, creation, communication and delivery of superior value to the customer. (With the help of any example covered in the case)
3. Market oriented strategic planning by Flipkart enabled it in staying in sync and relevant to the changing market opportunities. Explain.
4. In the light of the case explain the Porter’s value chain and its key activities and how it has helped Flipkart to bring cost efficiencies and create value in a specific business.
5. Continuous value enhancement for the customer is the new goal of every marketer to differentiate and stay ahead on the curve. Lay down in detail the various value enhancing initiatives being taken by different players in the e-commerce segment.