Development of Omnichannel in India: Retail Landscape, Drivers and Challenges

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Abstract This chapter presents the organised retail landscape in India with a special focus on the retail growth in online trade and the retailers' journey from physical stores to e-commerce, multi-channel, and omnichannel retailing. It highlights the steps that need to be contemplated by retailers moving towards building an omnichannel strategy. The challenges that e-commerce players face while operating in this retail landscape are examined. The characteristics of Indian consumers and their behaviour are also discussed as they further define India's markets and future growth opportunities. The business models that are evolving as retailers explore newer channel modalities to transform their businesses are discussed, along with the logistics innovations that facilitate such retail operations. There is also a comparison between the Indian and Chinese retail market. While India is a large market, with many potential customers, and a growing middle class that implies business opportunities, there also major challenges, such as access and quality of the transport infrastructure and logistics networks, as well as access to the rural population.

1 Introduction

India has a large consumer market and its retail sector is undergoing rapid changes to meet market requirements. Digital channels are also expanding at an unprecedented rate that is boosting the growth of e-commerce in the country. The mindset of consumers is undergoing a major psychological shift and a significant number of shoppers are buying online frequently. Consumers are now getting into a frame of mind where they are consistently expecting retailers to provide exceptional services in product delivery across all touchpoints. Implementing an omnichannel retail strategy is an appropriate step for retailers at this juncture. Technology trends like cloud services, big data, and real-time analytics will facilitate retailers in implementation though it will need substantial Information Technology (IT) budgets. The

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retailer's eventual aim is to merge the information-rich experience and the convenience of shopping online with the tangible atmosphere of shopping in physical stores.

This chapter delves into the Indian retail growth story and the retailers' journey from physical stores to e-commerce and multi-channel retailing. It highlights in detail the steps that may be ultimately contemplated by retailers towards building an omnichannel strategy. The challenges that e-commerce players face while operating in this retail landscape are examined. The typical nuances of Indian consumers are also discussed as they further define India's markets. The business models that are evolving as retailers explore newer channel modalities to transform their businesses are deliberated at length, along with the logistics innovations that facilitate retail operations. This chapter is based mainly on secondary sources.

2 Retail Landscape in India

India has a population of 1.34 billion people. With total retail sales of $1.01 trillion and retail sales CAGR[1] of 8.8% over the period of 2013–2015, the country shows prospects of a strong growth phase over the next coming years. Modern retail (or organized retail) is still at 8–10% of total retail sales. Traditional retail which is marked by *kirana* (or mom-and-pop) stores, wet markets, a public distribution system (PDS), and cooperative stores, still dominate the retail landscape. The evolution of organized retail is driven by the growth of an aspiring middle class with greater disposable income who are now seeking choice, access to branded goods, and an improved shopping experience. At the same time, the market is restricted by local regulations which limit the entry of foreign modern retailers. There were more than 15 million mom-and-pop stores in 2015. International retailers in India are still confined to the cash-and-carry and wholesale formats like Metro and Walmart, or the single-brand retail formats where 100% Foreign Direct Investment (FDI) is allowed. Currently many new entrants are choosing between partnerships with local companies (e.g. Gap, The Children's Place) and company-owned stores (e.g. Nike, IKEA, Sisley and H&M), as only 51% FDI is allowed in multi-brand retail at the time of writing, though with riders such as 30% mandatory local sourcing, minimum $100 million investment with 50% in the backend infrastructure, among others.

[1]Compound Annual Growth Rate (CAGR) is a measurement of growth over multiple time periods.

3 Market Penetration: Percentage of Traditional, Organized and Online to Total Trade

The emergence of online trade (or e-commerce, e-retail) has further changed the dynamics of the Indian retail sector, though the e-commerce market will remain challenging in the near future. Until 2015, India had remained unranked in major reports, such as A.T. Kearney's Global Retail E-commerce Index. Indian online retail is just 2.5% of the total Indian retail market (eMarketer Chart 2016). Only 69% of India's population has access to broadband and mobile Internet (A.T. Kearney 2015a, b). There are only 39 million online buyers in India, which is approximately just 3% of the whole Indian population; this indicates potential growth in online trade.

4 Online Retailing

Major e-commerce players are Flipkart, Amazon India, and Snapdeal. Their websites serve as *"Online Marketplaces"* for other retailers and other companies to sell their goods. Companies store their products in the online retailer's warehouses, but ownership of the product does not transfer to the online retailer. Companies pay the online retailer a fee for the storage and distribution of its products and for access to the website as a selling platform. In 2014, e-commerce spend in India increased by 27% to $3.8 billion, and it is expected to grow over the next 5 years by 21%, that is slightly higher than the global average. A KPMG-CII report has identified the e-commerce market in India at $27.5 billion in 2016 and is expected to reach $80 billion by 2020 with a CAGR of 31% (Tanwar and Doger 2016).

In the recent past, online retailers have wooed consumers with deep discounts and promotions causing a substantial dip in the revenues of brick and mortar (physical, offline) retailers, as the consumers shopped online. To cope with the competition, physical retailers like The Future Group, Spencer's Retail, and Aditya Birla Group are gradually shifting to e-commerce (Table 1). While some are launching their own websites, others are making their products available online through the marketplace platforms like Flipkart, Snapdeal and Amazon. The concept of omnichannel retailing in India thus originated as a response by offline retailers to mitigate the threat that was posed by the pure online retailers.

5 From Multi-Channel to Omnichannel Retailing

Technically omnichannel retailing refers to integrated multichannel touch points for consumers. The consumer decides where and when to shop and from which device. A consumer can look for a product in the physical store and if it is unavailable,

Table 1 Offerings from Major Retailers

	Big Bazaar	Food Bazaar	More	Reliance Fresh	Spencer's
Parent Organization (Retail Arm)	Future Group (Future Retail Limited)	Future Group (Future Retail Limited)	Aditya Birla Group (Aditya Birla Retail Limited)	Reliance Industries (Reliance Retail Limited)	RP-Sanjiv Goenka Group (Spencer's Retail Limited)
Website	bigbazaar.com	Webpage available in: futureretail.in	morestore.com	reliancefresh.co.in	spencersretail.com
Online Shopping	Separate website: bigbazaardirect.com	No	Link available on More's website that opens to separate website: mymorestore.com	Separate website: reliancefreshdirect.com	Separate website: spencers.in
Mobile App	Select cities only	No	No	No	Select cities only
Online Coupons	No	NA	Limited discount coupons available	Limited food coupons available	No
In-store Wi-Fi	No	No	No	No	No

Source: Author's own

browse for it on the website or through a mobile app to complete the order. The consumer may then pick up purchase from the store, at a delivery location or through home delivery, decide on appropriate delivery windows and is able to return purchased products in any of the retailer's physical stores without any encumbrances. Customers connect across the range of platforms, searching for means to integrate their buying experiencess, providing seamless interaction for the consumer across the various platforms, when the lines between channels are disappearing and focus is on brand, not channel management (Piotrowicz and Cuthbertson 2014). The physical and online formats are seamlessly developed so that the consumer's convenience remains the focal point of the retailer's strategy. Indian retailers are still in a reactive phase and it may take a some years before they can fully leverage the synergies between their physical stores and online presence to generate a competitive advantage.

6 Online Retail in India

Online retail growth has been broadly envisaged as a disruptive business model across the world. A disruptive innovation is described as "*an innovation that creates a new market and value network and eventually disrupts an existing market and value network, displacing established market leaders and alliances*" (Bower and Christensen 1995).

The factors that cause retail disruption are the changing nature of retail competition, the increase in the digitally-influenced shopping experience, and the availability of the numerous technologies as enablers.

6.1 E-Retail Growth Phases

Similar to other disruptive business models, e-retail growth has revealed three successive phases worldwide—the incubation phase, the inflexion phase and the acceleration phase (Sharma and Flamind 2015).

The incubation phase in India lasted broadly from 2007 to 2012 when India was marked by a period of slow growth in Tier-1 and Tier-2[2] cities, during which e-retailers developed new capabilities in technology and infrastructure, investors opened up funding the new businesses, and consumers adapted to the new forms of consumption. CAGR was relatively low at 38% during this period.

[2]Tier 1 cities are commercialized metropolitan cities and comprise of Delhi, Mumbai, Kolkata, Chennai, Bengaluru and Hyderabad. Tier 2 cities are smaller cities hubs with a population of one million approximately and are industrialized hubs or regional centers like Chandigarh, Bhubaneswar, Lucknow. Tier-3 and Tier-4 cities are the cities beyond Tier-1 and Tier-2. This is based on the X, Y and Z Classification of Cities by the Government of India.

The inflexion phase was from 2012 to 2014 during which point of time the e-retailers reached the necessary level of development to match the market's needs. Growth increased remarkably with a CAGR of 80%.

The acceleration phase from 2014 onwards is expected to be a longer phase during which the pace of growth will further increase, transforming e-retail into a conventional market space. India has already passed the inflexion phase and moved into the phase of accelerated growth. Presently though e-retail is less than 1% of the total retail sales, it is a matter of contemplation to many as to how fast e-retail can expand in this phase of development, given the huge size of the overall Indian market.

6.2 Similarities and Differences with the Chinese Market

A study by A.T. Kearney of the top 30 developing countries for retail investment ranks China and India at No.1 and No.2 respectively with scores of 72.5 and 71 (The 2016 Global Retail Development Index). Further comparisons of relevant retail-specific variables reveal certain similarities and contrasts that exist between the two countries. E-retail growth in India may be expected to mirror the growth path of China as studies show that both countries have a number of similar fundamental characteristics that facilitate its fast progression. In both countries, economic growth has fuelled growth in the number of consumers who have greater spending power, higher disposable income with more women entering the workforce, rising aspirations to buy brands and to shop in modern store formats. However, for the majority of consumers in both India and China, accessibility to desired products and brands is difficult as the organized retail landscape is not adequately developed. Data shows that organized retail is at 8% in India and 20% in China, while it has been more than 80% for over a decade in countries like the USA and the UK (Sharma and Flamind 2015). A plausible reason for this insufficient development is that both India and China are vast countries and have consumers coming from diverse social and cultural backgrounds, so it becomes very difficult for a retailer to address this immense diversity with product offerings and grow their brand nationally. Rather, the retailer expands their store footprint in distinct pockets where there is a higher density of target customers. This leads to a demand-supply gap and fragmentation of the overall physical retail landscape. It is possible for e-retail to meet this gap as it enables consumers to get access to products and brands that would otherwise have remained inaccessible to them through the existing retail stores. Another important feature common to both countries is that smartphones have been instrumental to the growth of online retail. As mobile internet usage is increasing, it is leading to the growth of e-retail.

The marketplace platform is the major model through which e-retail operates in India and China, as compared to the inventory-based model or the online website presence of physical store retailers. In China, 90% of online sales happen through marketplaces whereas the figure is only 20 to 25% in the USA (Sharma and Flamind

2015). Marketplace platforms enable online retailers to expand rapidly as in these models it is the vendors present on the websites who are responsible for regularly increasing their product offerings, sourcing and stocking their inventory. This allows the online retailers to focus on improving their logistics infrastructure and delivery operations, especially in countries that are marked by rudimentary infrastructure mechanisms and inadequate accessibility to third party logistics (3PL) providers. Another focal point for online retailers is to establish the network effect, in which a greater number of visitors to the website attracts more vendors and vice versa. As the retailers build positive feedback through the network effect, they gain scale and are able to attract further investment for their business.

To attract visitors to their platforms, marketplaces initially offered deep discounts and sustained heavy losses in the process. In such a hyper-competitive environment, many small online retailers are forced to exit the market or consolidate and get acquired by larger players. This phase is currently evident in India with major players like Flipkart and Snapdeal acquiring not only other category specific e-retailers (Flipkart acquiring Myntra, Snapdeal acquiring Exclusively) but also companies that provide them with technological capabilities (Flipkart acquiring AdIQuity, Appiterate and DSYN Technologies; Snapdeal acquiring MartMobi, Letsgomo Labs) to capture the shift in customers' preferences for shopping through smartphones than from desktop computers and laptops.

6.3 Online Consumer Behaviour

In the Asia Pacific (APAC) region, the average millennial aged between 16 to 30 years spends 2.8 hours a day on their mobile phones. Across APAC mobile use among millennials differs. While Thailand has the highest daily usage at 4.2 hours, China is at 3.9 hours. India clocks 2.2 hours and Japan has the lowest daily usage rate at 1.6 hours (Connected Life—TNS 2015). 46% of millennials spend their time on mobiles browsing social media platforms, 42% watch videos, and 12% shop online. When compared to the other BRIC economies, India has a higher proportion of internet users between the age of 15 and 35 years though fewer women go online (Ernst & Young 2016). In fact, the women internet-user population in India is the lowest in comparison to the other BRIC economies. It implies that the 'high earning-high spending' women population aged above 35 years are currently more comfortable shopping offline than online. Similar to the other BRIC countries, internet usage in India is mainly an urban phenomenon though the user mix is currently shifting toward rural areas. This has been driven by the easy access to smartphones in rural areas. The rural segment is too significant for e-commerce players to ignore. A recent survey of 700 online users across six cities by Ernst & Young reveals that in India 71% of online shoppers prefer cashless payments and 64% of online shoppers have concerns about sharing card details. 55% do not want to pay for home delivery. 86% regularly look for discounts and 96% of women consumers below 21 years of age buy only for discounts. Most online high-spending individuals are above 35-years and are predominantly from cities. Room for e-commerce growth in Tier-1 and Tier-2 cities still exists.

It is also important to note that the older generations who generally have higher disposable income and established buying patterns, are spending more time online. This is where a major challenge is posed to marketers. They are exploring ways to market to the digitally most-advanced millennial consumers on the newest digital platforms and the need to make sure that they are focusing on the content-driven, shareable campaigns that are effective with this group. At the same time marketers have to bear in mind that the older customers cannot be targeted only through traditional media as their patterns of behaviour are also shifting. A tiered marketing strategy with tailored messaging and media plans that also takes into account the higher spending power of the older generations will best address the digital divide caused by the dual pace of consumer's digital media adoption rates. To reach out effectively to both segments, marketers will have to create relevant content for each segment, communicate in a significant manner to each segment using the media channels, and engage them with the brand.

6.4 Challenges Faced by e-Commerce Companies in India

Though the growth potential envisaged in e-commerce is promising, there are certain challenges that render major impediments to the sector. Among others, four key areas that can be identified are the Indian consumers' buying habits, lack of necessary infrastructure, predatory pricing strategies, and lack of readiness in omnichannel technology.

Consumers' Buying Habits Indian consumers have an innate preference to touch and feel a product before buying which is impracticable to fulfil by e-commerce companies. To some, shopping as an activity is not regarded as a chore but as a social activity that allows them to interact with friends and acquaintances that cannot be fully replicated in an online shopping environment. However, for customers who are time-constrained, online shopping tends to be less stressful than conventional shopping because it helps to evade delays in the queues and navigation of traffic in peak hours. Shopping at flexible times from the convenience of their homes as well as day-and-night product delivery services make e-commerce attractive to such customers. It is also thought that consumers spend less while shopping online as impulse buying happens predominantly while shopping in ambient environments in physical stores. Online shoppers have doubts on the reliability of the websites in portraying the actual product that they will receive after ordering. They are also apprehensive about the return policies and money refund should the need arise. Security of online payments also remains a cause of concern to buyers. Shoppers so far do not tend to have loyalty to any specific e-commerce platform. They are price-sensitive and compare prices between e-commerce platforms before choosing the best deal.

Lack of Necessary Infrastructure As India has a relatively low internet penetration of 34.8% of the country's total population (India Internet Users 2016), browsing products online and shopping is impaired. Success in e-commerce requires having a robust supply chain in place and ensuring last-mile delivery at the lowest possible cost. Distribution costs in Tier-2 and Tier-3 cities are very high as the physical infrastructure for e-commerce, such as warehouses or fulfilment centres and technological infrastructure like global positioning systems (GPS), is still fragmented and in a state of development. Road infrastructure is a critical issue. India's road and highway density is underdeveloped with many roads being unpaved and poorly maintained in the hinterlands. There is no standardized street address system for which building and street names and landmarks are often needed to locate a house. Other challenges faced by e-retailers include supply chain issues relating to delivery personnel and order-taking centres, inventory management, storage requirements for diverse product categories, errors in delivery, and timely delivery of products in good condition. A dearth of skilled manpower is another major challenge as e-commerce companies require a talent pool of specialized digital experts. The companies have to concentrate on building relevant capabilities by recruiting people with the right capabilities, especially in marketing and sales teams.

Predatory Pricing Strategies A key cause of concern is that currently e-retailers steeply discount their product prices to attract both online customers and customers of brick and mortar retailers. E-retailers undertake steep discounting to acquire customers, build customer loyalty, and increase their market share. Each player hopes that once the customer finds the lowest price on its portal and makes repeat purchases for a sustained time period, the customer will eventually stop comparing prices and have a higher brand recall towards that particular e-retailer, thereby building loyalty. But such steep discounting renders businesses unsustainable for e-retailers without deep pockets and drives existing players out of the market while creating a formidable entry barrier for new players. It also disrupts the physical retailers who do not have the financial muscle and have no intention to operate with severe losses. Product brand value is another issue for the physical retailers and manufacturers, as with the heavy discounts offered on the same products by the e-commerce players on their platforms, the image of the brand could be eroded. This would lead to an inability to effectively price the product even in the brick and mortar stores. It is a common perception that steep discounting is the result of the undue amount of funding that e-retailers are obtaining. Flipkart has raised $3.4 billion and Snapdeal $1.7 billion through investor funding since inception in 2007 and 2010 respectively, while Amazon has invested a total of $47.43 million in India since 2014. As Amazon continues to invest aggressively, Flipkart and Snapdeal continue to spend heavily on discounts, advertising and logistics to defend their market shares. To enable their activities the three companies require fresh funding at regular intervals. In reality, the deep discounts that are funded by investors' funds erode the e-retailer's bottom line, whereas the funds are ideally needed for investment in improving technology, hiring relevant talent, and acquiring new customers in a creative fashion.

Lack of Readiness in Omnichannel Technology Customers are steadily becoming channel agnostic and want a seamless experience across the channels that they choose to shop in. Yet retailers have some distance to go in upgrading and integrating their back-end systems that will help them to deliver the customers' expectations. Currently retailers are exploring technology projects in silos, in their attempt to providing new experiences to the customers, and not as part of an integrated road map.

Retailers are realizing that their existing core systems of merchandise planning, inventory management, order management, and POS (Point of Sale) will not be able to support an exhaustive omnichannel transformation and provide them with the long-term flexibility and agility that they will need to facilitate the transformation. To elabourate, omnichannel implementation entails that the retailer build a single view of the customer, of the product, of the inventory, as well as the orders. To obtain a single view of the customer, retailers can store the data from their sources like POS, merchandising, marketing, loyalty programmes, social media, blogs, social shopping services, and websites, in a common customer database and develop analytical capabilities to leverage that data. To obtain a single view of the product, retailers need to bring together product information, such as product attributes and descriptions, related content, such as manufacturer's information and instructions, digital assets like product images, and product relationships, such as recommendations and adjacencies, to enable better purchase decisions for the customers across channels. To obtain a single view of inventory and orders, retailers must integrate their supply chain, merchandising, store operations, and e-commerce solutions, as well as their order management systems. This will help retailers to optimize the location from which they select inventory to fulfil an order while minimizing costs and ensuring speedy delivery.

However, retailers' current systems have isolated software that result in fragmented views of their operations. So for retailers, this omnichannel transformation means a fundamental change in investments. Major IT infrastructure investment decisions need to be made and budgets have to be adjusted to factor in the transformation. These decisions need substantial deliberations as in the immediate future, when the transition to omnichannel is in process, it may be difficult to measure the individual contribution of the different channels to the retailer's return on investment: for example, measuring whether increased footfalls in the store have been caused by website communication or promotion in the store window. In due course though when the transition to omnichannel has been put into practice, store Wi-Fi devices and big data usage may help provide such answers.

7 Online Retail Terminology: Showrooming, Webrooming, m-Commerce, Apps

A study of shopping behaviour by market research firm Openbravo reveals that 52% of shoppers like to check the prices before selecting a product, 50% trust reviews and information, 39% believe in taking the opinion of a family member or friend, and 30.2% are traditional shoppers who prefer the in-store shopping experience. It is evident that consumer journeys are becoming increasingly complicated and that retail terminology now includes words such as "Showrooming" and "Webrooming". Showrooming is when a customer is in a store and checks on a mobile device whether a better price is available online. Webrooming is when a customer researches a product online, makes a purchase decision online and goes to the store to make the final purchase. Gradually consumers are seeking to control their shopping experiences and marketers strive for the consumers' loyalty by enabling them with multi-channel experiences.

The spurt in growth of m-commerce is increasingly more important than desktop-based sales. A report by Mary Meeker shows that India (at 41%) ranks higher than China (at 33%) in its mobile usage as a percentage of total e-commerce sales. It has also the highest share across major economies like Brazil (20%), Russia (13%), UK (20.5%) and USA (15%) (KPCB 2015). With smartphones becoming cheaper and more readily available, these upward trends are expected to continue further. A strong focus towards the development of m-commerce infrastructure is essential for a retail player as simply converting an active e-commerce website into a mobile website will not yield the desired outcome. It calls for reinvention and establishing a mobile-centric infrastructure. Providing targeted content such as personalized notifications to the customer at the right time through mobile apps would be a key value proposition. One major obstacle is the diverse regional languages in India. There is limited usage of the English language beyond the Tier-1 cities and marketers will have to invest considerably in localizing their content.

From the middle of 2014 e-commerce players have been promoting and offering discounts to customers on purchases made through their mobile apps. While smartphones are equipped with powerful web browsers that let a consumer do any activity that was once confined to a desktop computer, navigating through a URL bar on a mobile phone can prove to be a cumbersome experience. Online sites and services provide the app in an attempt to provide users with superior control and simpler usage techniques. Apps enhance the functionality in a simplistic yet more user-friendly manner. A study by Nielsen has shown that users with expensive handsets (exceeding INR 15,000) spend 1.6 times more time on shopping apps as compared to those with cheaper phones, and some correlation exists between higher time spent on mobile phones with higher spending in mobile shopping (Jha and Varma 2015). Flipkart is the leader in mobile shopping apps in terms of both penetration (35%) and engagement (60 min per month) followed closely by Snapdeal (penetration 20%, user engagement 35 min a month). Amazon India Shopping is a more recent launch and has ranked third.

With the emerging familiarity of shopping apps among consumers, it is an opportune time for the organized retailers to take the cue and develop mobile-based platforms and apps for their customers to browse, purchase, and have the goods delivered to them without requiring them to visit the physical stores. This will help the physical store retailers expand their markets.

Benefits of apps however do not negate the benefits of websites. A case in hand was when online fashion retailer Myntra shut down its website to operate as an app-only platform in February 2015 as its mobile sales had exceeded its sales from personal computer figures. Myntra's sales figures had indicated that 70% of its sales were generated from smartphones. Shutting down the website meant that users were not left with any alternative but to download the Myntra app. Within 6 months, the app-only strategy failed as Myntra faced a loss of sales. A plausible reason would be that the Indian shoppers were not ready to completely abandon shopping from their personal computers or mobile browsers and found the app-only option too restrictive. Myntra has thereafter reworked and come up with a mobile site, which is a lighter mobile version of its website, rather than being present on an app-only format. As Myntra still relies on Google searches for new users, being available on the website put Myntra back on the Google search platform.

8 Analysis of e-Retail Sector Using Porter's Five Forces Framework

In the ensuing chaotic market condition, it is necessary to assess where the power lies in the e-retail sector. This analysis will provide an understanding of the e-retailers' competitive situation in India and the position that they are attempting to move into, as well as the profitability and the attractiveness of the e-retail sector:

1. Competition in the industry—Overall industry rivalry is high with a large number of e-retailers entering the market who have low differentiation in terms of their product offerings. A high degree of polarization is evident with larger players like Flipkart, Snapdeal and Amazon existing with numerous small e-retailers. The market is showing signs of consolidation with bigger e-retailers acquiring smaller players who have developed certain competencies.
2. Power of suppliers—The suppliers in e-retail indicate the sellers, who generally have moderate power. The marketplace model provides an attractive channel for vendors to sell their products and they have several alternatives available to them in the online landscape. Should the e-retailers choose to change the technology providers to their websites, they will have to incur high switching costs. There is also a dearth of skilled manpower in e-commerce. Nevertheless, this model lets the e-retailer focus on being an efficient logistics provider and increase profitability through low cost, high volume opportunities while also expanding rapidly.
3. Power of customers—The overall power of customers is high as the products are seldom differentiated across the various platforms and there are few switching

costs. The differentiated services, like free home delivery for any billing amount, are fundamentally unsustainable and e-retailers are opting out of such service offerings. Mechanisms to lock-in customers are also largely absent.

4. Threat of new entrants—The threat of an existing player's market share depletion by new players joining the market is moderate. The regulatory framework is currently being drawn up and FDI investment is restricted for an inventory-based model. The number of product categories that are required to be developed for e-retail requires time as the e-retailer has to build the infrastructure and competencies. Gaining consumer trust also is time-consuming for a new entrant. However, compared to brick and mortar stores relatively low capital investment is required for online retail in such a vast country.
5. Threat of substitute products—The threat from substitute services is relatively low for e-retail. Though its market share is currently small, a lot of growth is expected to happen in this segment. Traditional retail, direct marketing by manufacturers, and tele-retailing exist as shopping substitutes to customers, yet the advantages of e-retailing have generated profound interest among the consumer base.

As the market is evolving, retailers are working out their business models on a trial-and-error basis. Which of the retailers will profitably survive will predominantly be governed by their ability to innovate and evolve in ways that can best serve today's empowered consumers.

9 Migration of Business Model from Owned-Inventory to Marketplace Platform for Online Retailers

Online retailers like Flipkart initially had a just-in-time delivery model where they received orders from customers and then placed orders with their suppliers. The existing courier partners lacked the organization, capability, scale, and capital to meet Flipkart's growing requirements which led to delays in delivery. In many cases shoppers abandoned carts due to delayed delivery. This prompted Flipkart to invest in its supply chain services. The distribution network in this owned-inventory setup was a hub-and-spoke model that had fulfilment centres (FC) in the pan-India metropolitan cities (Delhi in the north, Hyderabad and Bengaluru in the south, Kolkata in the east, and Mumbai in the west). The FCs were around 250,000 square feet each and undertook the initial sorting and packing. From FCs the goods were transported to the mother hubs that catered to four or five major cities and several smaller cities within a 200 km radius where additional sorting was done. From the mother hubs the goods were moved to the hubs, which were around 2500 square feet each, from which they were carried on motorcycles to the customers' homes by the delivery boys. Flipkart used algorithms to determine ideal warehouse locations and invested in technology to track packages and provide text alerts to customers before a scheduled delivery.

Flipkart had a Gross Merchandise Value (GMV)[3] close to $1 billion in 2013 and very soon its competition intensified with Snapdeal and Amazon India leading to deep discounts and price wars. To meet the competition and enhance its market share, Flipkart undertook a strategic change to shift to a marketplace model and so opened up its platform to a large number of sellers. This thought process was supported by observing Airbnb and Uber on a global platform which were pure-platform companies that had scaled up using technology. The marketplace model was expected to enhance revenues for Flipkart as the company would earn relatively high-margins from the commissions that it charged on every transaction which occurred through their platform, without incurring any cost of holding inventory. Flipkart also proposed to earn substantial revenues from the search advertisements and display advertisements of the sellers on its platform. Sellers relied on the advertising on Flipkart's platform to draw customers. They could use their in-house labour for storing, shipping and packing functions for delivery or use the services of Flipkart for storage, packaging, cataloguing, delivery, and payment options, for which Flipkart charged the sellers a fee.

10 Shift from Multichannel Retailing to Omnichannel Retailing

The rise of marketplace platforms does not indicate that the other online or offline retail formats will become redundant in India. Rather, retailers are strategizing to become omnipresent and make their products available through multiple channels so that they can map their customers through the complete purchase process. An online-to-offline integration is gradually developing in the retail scenario where online retailers are opening physical stores. Simultaneously physical store retailers are building their online presence through both their own platforms and through marketplaces. The retailers are building their competitive advantage by streamlining their offers to ensure that consumers get the same brands at the same prices irrespective of the channel that they use. 'Online' and 'offline' are not regarded as mutually exclusive channels anymore but as highly integrated channels that can offer a unique value proposition to customers.

This transition is largely because retailers have realized that their businesses can no longer continue to connect with the customer in a unidirectional manner—from themselves to the consumers. With the advent of the internet, information is accessed and disseminated much faster, resulting in the customer being more conscious and having greater expectations. Companies are adopting the omnichannel approach so that they can remain engaged with the customer constantly and give the customer the

[3]Gross Merchandise Value—The total value of merchandise sold in an established time period before deducting fees or expenses. E-retailers use this measure to quantify business growth. It is also considered as gross revenue.

option to decide when, where, and how to shop. It provides customers with a single holistic view of the business through multiple channels that operate concurrently and offers the customer a seamless experience. Thus customers gain visibility of retailers' inventory and availability in their preferred channel. The difference with the multi-channel approach is that each channel in an omnichannel approach automatically knows details of the customer's interaction with another channel and uses it to guide and carry on the customer experience. The brand takes into account how one channel or message will affect the other and ensures that the experience is similar across platforms. The customers are then able to switch adeptly between the channels and receive a similar quality of experience wherever they go. According to a report by IDC Retail Insights, internationally retailers utilizing multiple channels in their marketing and retail activities saw an increase between 15 to 35% in average transaction size, along with a 5 to 10% increase in loyalty customers' profitability.

There is still a large number of people who prefer to touch and feel a product before purchasing it and for e-commerce players, brick and mortar stores are a way to capture the segment of customers that shop in physical formats. Physical stores provide a place for the company to differentiate itself through its ambience and also provide a network of after-sales centres where customers can get their purchases exchanged, repaired or refunded. These are the factors that are compelling e-commerce companies to look at establishing physical stores. Yet the road to establishing an omnichannel strategy is not without its inherent uncertainties. Online retailers have expertise in supply chain capabilities but lack an understanding of the telecommunication technology crucial to this domain. Efficient technology usage will help them make meaningful insights into customers shopping online. Also, the deep discounting that is done by e-commerce players will not be sustainable in physical formats. Hence they will need to identify the target audience, analyse how to reach out to them, and communicate relevant messages to gather maximum response. Providing customized solutions to customers based on real-time information and consumer data are effective tools for building a customer base and helps the companies bring the offline experience online to customers, though this can be a very complex and costly proposition in an omnichannel strategy. Companies like Lakmé and L'Oréal have been experimenting with apps like Lakmé Makeup Pro and L'Oréal Makeup Genius where customers upload their pictures and use virtual make-up to create different looks, receive suggestions, and purchase the products used for those looks.

While retailers are making inroads into newer channel modalities for growing their businesses, three trends are emerging as dominant: physical stores foraying into online retailing, online retailers opening physical stores, and the hyperlocal e-commerce model.

10.1 Physical Stores Foraying into Online Retailing

To compete with the threat posed by e-commerce, Future Group (the parent organization of Future Retail and Future Lifestyle Fashions) was one of the first physical store retailers to have come up with an online strategy. While a normal Big Bazaar hypermarket stocks 40,000 to 60,000 SKUs, the ‘endless aisles’ available online or in the in-store kiosks offers more than 250,000 SKUs. The physical stores hold the inventories and the products are home-delivered or customers pick them up from the stores. An initial investment of more than $15 million[4] over a period of 18 months since September 2014 had been undertaken to implement the strategy. The same discounts that are available in the physical stores are also available to the online format and deep discounting is refrained from as incurring negative gross margins will render the business proposition unprofitable. What it lacks in terms of deep discounting, it hopes to compensate by mining the customer data of its 30 million customers alongside the purchase data that it has accumulated through its loyalty programmes. Big Bazaar caters to 20 to 30% of the consumer’s overall shopping basket and aims to hike it to 60% of the overall basket, with the aid of the technology and data analytics that are becoming an integral part of the organization.

In a parallel omnichannel business model Future Group has introduced the Online Selling Agent model, where the agent plays the role of a trusted link between the physical and online retail. Customers browse the products on a tablet that is provided to the Agent and selects the products. The Agent places the order and a confirmation message is received in the customer’s mobile. The agent only takes the payment from the customer. Delivery of purchased products to the customer and any after-sales queries are handled by the retailer through its Distribution Centres and the agent is not involved in this part of the process.

To venture into e-commerce and compete with strong online players in the food and grocery segment (like Grofers), RP-Sanjiv Goenka Group’s Spencer’s Retail Limited (SRL) acquired 100% stake in Omnipresent Retail India, which operates Meragrocer.com, an online grocery business that since 2014 delivers grocery items to consumers in the Northern Capital Region (NCR) of Delhi and Gurgaon. Customers can order online, through a mobile-app or interactive voice response (IVR), and pay online through an e-wallet or through cash-on-delivery while choosing their delivery slots. It is a scalable model and allows SRL to expand quickly into the e-commerce space. The synergies between the two companies are being realized as SRL is responsible for the merchandising and providing the back-end infrastructure from the Spencer’s hypermarkets while Meragrocer is providing the technology platform along with their e-commerce expertise. It has provided SRL an accelerated learning curve in the e-commerce industry, as a green field venture would have taken 10 months to18 months to launch, along with significant cost-savings as the cost of development of a green field e-commerce venture would have been significantly higher (approximately $25 million) than its cost of acquisition. Currently Spencer’s

[4]Exchange rate of $1 = Rs. 66.5275 has been used for conversion.

has 122 stores across 35 cities with 1.5 million square feet space and 3.7 million monthly footfalls. Spencer's will not adopt the deep discount model. This online format was initially providing grocery and food category only but will gradually enter into other product categories like homeware, electronics, and apparel. The online set-up would gradually provide delivery within a few hours while currently offering delivery within 1 day. Also, it is available only in those cities where Spencer's has an offline presence as the online model is expected to supplement Spencer's catchment area with a deeper penetration in an existing market.

Departmental retailer K. Raheja Corp Group's Shoppers Stop had invested in their online platform thrice—in 1999 2008 and 2011, but had to shut down each time. Shoppers Stop had been facing declining sales per square feet from Rs 8518 in 2010–11 to Rs 7837 in 2012–13, and a conversion ratio from 24% to 22% in the same period (CRISIL Research 2014). Currently Shoppers Stop is taking concerted efforts to implement their omnichannel strategy, to mitigate this declining trend. Fortune India magazine had ranked Shoppers Stop as the "No. 1 Social Networth Company" for 2 consecutive years (2011 and 2012) for its Facebook page and Shoppers Stop is attempting to connect these customers to its stores through the omnichannel route. The customer may browse through the trends on the store's Facebook page, view a YouTube video, shop from the physical Shoppers Stop stores in the neighbourhoods or airport stores, or online from the e-store. Customers are also able to shop online and exchange products in the physical stores. Shoppers Stop has been awarded the 'Most Admired Fashion Retailer of the Year: Omnichannel Initiative' by IMAGES Fashion Awards 2016 in recognition of its initiatives towards implementing an omnichannel strategy.

Some apparel brand manufacturers like Raymond Group and the Aditya Birla Group have launched their own e-commerce ventures (Raymondnext.com and trendin.com). Competition from online players may not have been their reason for getting into the online space and their e-commerce activities coincided with the growth of e-commerce in the market. The compelling motive for them has been the need to upgrade operations with investment in technology for which a centralized warehouse and distribution centre was put in place.

To alleviate competition from e-commerce, brands like Van Heusen, Puma and Allen Solly are also digitizing their stores. They need to keep reinventing themselves which assists them in increasing store footfalls and average ticket sizes. They are using technology solutions like digital display, summarizing day's new styles and fashion tips, booking trial rooms and selected items waiting in the changing room in their flagship stores to improve their brand images and create excitement among buyers. Brands undertake such initiatives to differentiate themselves and be perceived as tech-savvy by customers. However these creativities may be more relevant from the marketing perspective for creating enthusiasm among potential buyers rather than providing any additional benefit to customers or improving their shopping experience.

10.2 Online Retailers Opening Physical Stores

Online retailers are working on building their offline presence. India's largest e-commerce retailer Flipkart in conjunction with its logistic company eKart is providing customers with 'experience zones' to facilitate buying and pick-ups for consumers at their convenient time. In due course, these experience zones evolve to offer value-added services like spot trials, reverse pick-ups, instant returns, cash on returns, and exclusive product demos. The experience zone initiative stems from the customers' dissatisfaction with the delivery process due to unavailability of delivery at preferred timings and restricted entry of delivery persons into office complexes, gated communities, and educational institutions. Through the experience zones Flipkart is also contemplating its rural expansion strategy as it proposes to expand into Tier-4 towns and rural areas by making them serviceable from a pick-up centre. This is a reliable alternative to door-delivery in remote areas where logistics add significant costs.

Amazon, as a major competitor of Flipkart, has come up with a similar model and added pickup services with BPCL's In & Out stores and with *kirana* stores in Bangalore for in-store pickups by customers.

A leading online baby products portal called Firstcry.com is expanding with an offline presence and increasing the number of its stores, as a large proportion of baby product sales still happen offline. Currently they have around 70 stores through a franchisee model in Tier-1 2 and 3 cities across India. Similar to Flipkart's experience zones, Firstcry's stores act as experience centres and provide the touch-and-feel factor for customers. The physical stores display 300 to 400 brands, whereas through the kiosks in the physical stores customers can browse through approximately 70,000 SKUs, order online, and get the product in the store within 2–3 days.

The e-commerce industry is replete with examples of online retailers like Myntra.com (fashion), Zivame.com (innerwear), Bluestone.com (jeweller), Healthkart.com (fitness products), and Lenskart.com (eyewear), who are trying to start an offline presence by setting up stores and trial rooms with different modalities. The physical stores enable these retailers to reach buyers in smaller towns and cities as a major segment of sales for these companies happen in the smaller towns. The stores help to establish customer trust and build the brand as the buyers are reassured that there is an actual store to go to if they face problems with the products. In the long run, this offline strategy also helps the online companies to attract investors for funding.

10.3 The Hyperlocal e-Commerce Model

As per a report by retail consultancy firm Technopak, market share of the grocery e-store has been estimated at less than $100 million but is expected to cross $25 billion by 2020, growing at a rate of 25% to 30% year-on-year in major Indian cities. This segment has resultantly attracted funding and a few major players like

BigBasket, Local Banya, Grofers, Zopper and PepperTap have started operations in this space. While companies like BigBasket source from wholesalers and stock their inventory, players like Zopper, Grofers and PepperTap operate a hyperlocal model.

The hyperlocal model is an on-demand delivery model that takes groceries from a neighbourhood shop and brings it to the consumer's doorstep. Customers use the website/app of the hyperlocal retailer to order groceries and the retailer delivers the groceries through its delivery boys deployed at the mid-level grocery shops that have tied up with it. For its services rendered, the hyperlocal retailer charges a commission from the sellers. Ordinarily, the neighbourhood stores use their in-shop attendants to double as delivery boys when required. The hyperlocal retailer offers the owners of these neighbourhood stores professional logistics and technology support to attract customers and helps the grocery stores to compete with both the developing modern retail and e-commerce formats that are increasingly denting their business. For the hyperlocal grocers, it is a very asset-light business model as they do not need to carry their inventory (the products the retailers carry is their inventory), do not have any warehouse requirement (the retailers' shop is their warehouse), and does not involve any high-cost delivery infrastructure. They divide the area of operations into different zones, with one shop in each zone that caters to a catchment area of 3–4 km in the immediate vicinity. The available stock items of the shop are accessible on the website/app through which customers select their products.

Numerous challenges are faced by the hyperlocal retailer start-ups in identifying the right local stores for supply, right talent for vendor acquisition and fulfilment, maintaining the quality of the products to be delivered, logistics, retention of delivery staff, maintaining customer satisfaction, and raising investment funding to enable the growth of the company. Such business models have many crucial components that must work in tandem and it calls for adequate strategic planning to sustain the business. While Zopper with its focus on electronics category is looking at expanding its city reach and doubling its gross sales, PepperTap failed to raise sufficient funds to sustain its growth and closed down.

11 Logistics Innovations in the e-Commerce Industry

Currently there are 1 to 1.2 million transactions occurring daily in leading categories like apparel (43%), electronics (24%), and books (22%) and the logistics sector catering to e-commerce was valued at USD 0.2 billion in 2014 and is projected to reach $2.2 billion by 2020 with a CAGR of 48% (Dogar and Tanwar 2015).

Logistics is a critical aspect for the success of an e-commerce company and until a few years back it has been a fragmented process with scarce IT enablement and insufficient investment leading to operational inefficiencies. E-commerce companies are gradually foraying beyond the Tier-1 and Tier-2 cities and the emphasis on logistics will naturally increase with this progression into surrounding areas. Companies like Flipkart and Snapdeal reportedly get more than 60% of their businesses from the hinterland. Logistics infrastructure is also expected to get a substantial boost when international players like Alibaba (who has until now invested in Snapdeal and Paytm) make a full-fledged entry into the Indian market.

Numerous e-commerce companies have invested in building their logistics networks and capabilities and the e-commerce logistics market is replete with both in-house logistics firms (like Flipkart's Ekart) and third-party providers. As the emphasis shifts from standard to specialized deliveries, companies are growing their logistics businesses in the e-commerce industry in the form of secure locker deliveries, long-distance truck freighting, hyperlocal deliveries, software optimization platforms, and reverse logistics, among others.

To help e-commerce companies solve the critical problem of an individual last-mile delivery that is time-consuming and costly, new companies like QikPod are proposing to use lockers in places where consumers live, work, shop or travel through (like information technology parks, commercial and residential complexes) to help e-commerce companies ensure faster deliveries. The products are shipped to a secure locker and the customer is provided with a code through a text message to unlock the locker. In this case, the consumer also benefits as they are not required to stay at home or at work to receive a delivery and take recurrent calls from delivery agents for providing them directions.

Due to the broken road-freighting system in India, e-commerce deliveries usually take a week or more. To reform long distance truck freighting in India, Rigivo has come up with a new business model. Truckers have signed up with Rigivo and the company has set up pit stops (a stop during a trip for fuel, food, rest or for use of a restroom) for them where drivers change but the truck does not stop. This relay mechanism ensures that deliveries happen 50% to 70% faster while the driver returns home the same day.

Specialized logistics provider for e-commerce like Delivery are investing in newer capabilities and developing their automation sortation capacity, GPS mapping, and address systems to scale up to meet the demands of the e-commerce sector. The address and mapping systems are broken and require innovations for efficient delivery. Legacy logistics companies like Blue Dart have also taken initiatives like cash-on-delivery, hand-held devices for on-the-move usage, smart trucks, and mobile point-of-sale solutions for e-commerce. They commenced operations in their first eFulfilment centre in Delhi in 2015 and are undertaking initiatives to launch more such centres. Hyperlocal delivery businesses (like Opinio engaging in food delivery within a seven kilometer radius) have started to play a pivotal role in helping small businesses expand and build an online presence, though they too face similar challenges of broken address and mapping systems. Flipkart had initially set up its logistics arm eKart Logistics for its in-house deliveries only but now that its technology infrastructure has been established, eKart has opened its services for other e-commerce players and delivers packages for its competitors too.

Software platforms like Loginext provide solutions to logistics providers and focus on improving efficiency for e-commerce companies by automating route-planning through analysing their location, traffic, time, and carrying capacity. This translates to more deliveries, fewer missed deliveries and kilometres travelled thereby providing three to four percent cost savings to customers.

Reverse logistics is another crucial component in e-commerce as companies offer returns and exchanges as a part of their product promise of an enhanced customer experience, in an attempt to acquire and retain customers. Unlike conventional logistics, reverse logistics is under-served and a lot of ambiguities exist in areas like the condition of the product, packaging, how to deal with the owners. New companies like Blu Birch focus on reverse logistics and propose to use technology to improve efficiency across the reverse logistics chain by working on eliminating factors for which returns happen. They want to provide their customers with insights that will help the e-commerce companies reduce or eliminate product returns. Until now reverse logistics in e-commerce has been traditionally controlled by sundry middlemen and e-waste handlers.

Over the last 2 years the Department of Post through India Post has entered into tie-ups with the country's top online sellers—Amazon, Snapdeal and Flipkart-Myntra for offering them last-mile connectivity in areas outside of large cities and cash-on-delivery payments. India Post has unparalleled reach with 156 thousand post offices in all, out of which 125 thousand are in rural areas. India Post has set up 57 modern delivery centres to handle the e-commerce traffic. The deliveries are predominantly directed at Tier-2 towns and parts of the rural heartland. India Post handled cash-on-delivery showing a jump of 200%, as per Mr. Ravi Shankar Prasad (union minister for communications & IT).

The trend that can be observed is that the growth in e-commerce has led to the development of new service requirements and created a new section of logistics operators. All of the innovative logistics businesses are on a growth trajectory and have expectations of future growth. In spite of the projected potentials, the companies are not contemplating operations only in e-commerce and are aspiring to expand into new verticals and explore opportunities beyond e-commerce.

12 Recommendations and Conclusion

India is a country with extensive rural areas where online shopping may be difficult and product delivery may be a time-consuming affair for retailers. Yet the country has a market of 1.34 billion consumers who are discerning in their habits and view shopping as a personal journey of obtaining information and indicating their preferences seamlessly across several platforms. It is paradoxical that it is the consumers who appear to be orchestrating the change and not the retailers. The established retailers appear to have a reactive, not proactive, stance in this market evolution. The connotation of omnichannel suggests that the retailers be omnipresent to the consumers. Yet cognizance of transitional market dynamics has allowed 100% FDI in online retail of goods and services under the marketplace model through the automatic route in an attempt to legitimize the existing businesses of e-commerce companies operating in India. FDI is however prohibited in e-commerce companies that own inventories of goods and services and sell directly to consumers using online platforms. Also the marketplaces are prohibited from offering deep discounts on the products and warranty/guarantee of the goods. These can only be offered by the sellers and their contact details have to be displayed online in the marketplace platform. Sales from an individual vendor in such a marketplace is capped at 25% of the total sales. The e-commerce retailer can continue to provide support services like warehousing, logistics, order fulfilment, call centre, and payment collection to the individual sellers. These directives of the Government can potentially end the price wars in the e-commerce space and level the playing field with physical stores. As the retail players in the online space gear up towards implementing the transitions laid down by the Government, it is evident that their transformative role in the Indian market have been duly acknowledged. Over the next few years, it will be of much interest to monitor the retail landscape and analyse the market dynamics that unfurl among the dominant stakeholders.

Questions for Discussion and Review

1. Conduct a SWOT Analysis of the Indian e-retail sector. Match its strengths to opportunities and indicate any competitive advantage that the sector may have.
2. A customer notices that a particular product available at the store is cheaper on the retailer's website and requests to get the same price at the store. The salesman says that online offers are limited to those buying online. In this context, discuss the implications of a customer walking out of the store and buying online instead.
3. Analyse the evolution of e-retail as a disruptive business model and identify the stage of development that India has currently reached.
4. Is China the most relevant benchmark for global CEOs who are attempting to study future changes in Indian e-retail? Discuss.
5. Explain some of the current challenges encountered by e-commerce retailers in India.
6. Discuss the strategies that are being taken by online and offline retailers to build sustainable omnichannels for their organizations.
7. Delivery logistics is innovating to add value and provide delivery speed to customers. Discuss its impact of delivery the e-commerce business.
8. Indian consumers often abandon their online shopping carts because of unexpected costs such as high cost of shipping, tax rate, accessory charges at the point of payment. Explain how omnichannel retailing can help lessen this problem?
9. Critically evaluate the factors that may make the Indian e-commerce sector profitable in the long run.
10. Discuss the Government's policy regulations that are shaping the overall retail sector in India.

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