ON LINE RETAILING...

A VIRTUAL SHOPPING XPERIENCE

DEEPAK NIRMAL

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(DEEPAK NIRMAL)

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Introduction

Direct marketers use all the major media to make direct offers to the potential buyers. News papers and magazines carry abundant print ads offering books, articles of clothing, appliances, vacations, and other goods and services that individual can order by dialing a toll free number. Radio ads present offers to listeners 24 hrs a day. Television is used by direct marketers to promote direct sales.

Some companies have designed "customer –order-placing machine" called Kioks (in contract to the vending machines, which dispense actual product) and placed then in stores, airports, and other locations. The Florsheim Shoes Company includes a machine in several of its stores in which a customer indicates the type of shoes he/ she wants (dress / sport), along with the colour and size. Picture of the Florsheim shoe that meets the criteria appears on the screen. If the particular shoe is not available in the store, the customer can dial an attached phone and type in a credit card number and an address where the shoe should be delivered.

Thus the most recent channels for direct marketing are electronic channels. The term electronic commerce (e- commerce) describes a wide variety of electronic platforms, such as electronic data interchange (EDI), the use of ATMs, EFTPOS, and smart cards to facilitate payment and obtain digital cash, and the use of the internet and online services. All of these involve doing business in a "market space" as compared to a physical "marketplace".

Underlying electronic business are two phenomena: *digitalization and connectivity*. Digitalization consists of converting text, data, sound and images into a stream of bits that can be dispatched at incredible speed from one location to another. Connectivity involves building networks and expresses the fact that much of the world's business is carried over networks connecting peoples and companies. These networks are called *intranet* when they connect people within the company; *extranets* when they connect company with its suppliers and customers and the *internet* when they connect users to an amazingly large "information highway"

As a whole, the internet population is younger, more affluent, better educated than the general population. Internet “Search Engine”, such as Yahoo!, Info seek, and Excite, gives consumers access to varied information sources, making them better informed and more discerning shoppers.

Now that e- commerce is big business, the battle is on for

Customer retention.

Chapters 1: Online Retailing for Millennium and Beyond

After years of stagnation, there are indications that the Indian consumer has finally come online. Major online shopping sites Fabmall, Rediff, Indiatimes and Sify report that during 2005-06, Indian consumers have spent Rs1,180 crore, more than double the Rs 570 crore netted during 2004-05. The Internet and Mobile Association of India(IAMAI), which collated this data, says that over the past two years, online purchases have grown nearly four-fold from 200,000 (in 2002-03) to 790,000 in 2005-06.

This flicker of success has others making a beeline for this segment. Major retailer Pantaloon has launched FutureBazaar.com in November. The site, which have an e-retailing format for the entire group — Pantaloons, Big Bazaar, Food Bazaar, Central Depot, Converge, Home Solutions, e-Zone and Electronics Bazaar — approximated net revenues of Rs 300 crore in the first year itself. Other consumer groups, too, are looking online. Eight months ago, AdityaBirla Group's Madura Garments — which has brands like Allen Solly and Peter England — started selling on the online

TOP 10 BUYS

Products bought online	% of respon-dents*
Books	41
Electronic gadgets	40
Railway tickets	39
Accessories	36
Apparel	36
Gifts	35
Computers and peripherals	33
Airline tickets	29
Music	24
Movies	21

Electronic gadgets include cameras, handy-cams, cellphones, mobile accessories; Apparel includes shirts, trousers, T-shirts, sarees, lingerie; Gifts include flowers, chocolates and mithai; Luxury products include watches, pen sets *Base: 1,493 respondents. Source: IOAI Ecommerce Report '05

Despite this upturn, online shopping remains a minuscule fraction of the Rs 52,000-crore organized retail. It started with low-margin products like books and cassettes (see 'Top 10 Buys'), and higher-margin items like consumer durables and apparel entered this space in 2001. Even with a wider choice available, consumers typically surf these sites to compare prices and features.

But according to the latest figures from Internet & Online Association of India (IOAI), 40 per cent of online shoppers said they bought electronic gadgets online. "The perception that electronic items need to be 'touched' before buying has changed. Whether you buy a microwave at Fabmall or at a brick-and-mortar shop makes no difference, unless you get an electrician to test the oven," says K. Vaitheswaran, CEO, Fabmall.

There are, however, certain trends that persist. The IOAI points out those maximum sales come from cheaper products — on Rakhi day in August 2006, Fabmall and Sify sold hampers worth Rs 75 lakh. Another discernible trend is the NRI factor. About 35-40 per cent of transactions on Indian shopping sites are done from abroad.

To strengthen their footing, Sify has acquired Globe Travels, an online company in the US, for the US-India travel segment. It already offers an e-zine Samachar.com to lure NRI shoppers with news from India.

Rival Rediff Shopping has other plans. It has devised a platform wherein a company can list its products for free and is charged only when a consumer views them. This allows companies to sell their products online without shelling out the extras for real estate, electricity and inventory. Fabmall, on the other hand, has introduced the e-gift certificate that companies can distribute among their employees. A person in Delhi can send an e-gift to his parents, say, in Assam, who can then shop at the portal. Organizations like Infosys Technologies, Wipro and ING Vysya have also subscribed to the e-gift concept.

With traditional retailers buying into cyberspace, online shopping is set to graduate to a new level. In the West, offline retail giant Wal-Mart has achieved some success in synergizing its online business with its malls. It directs its in-store shoppers to its site — where they can choose from 100,000 music titles, against just 3,000 in a store —while the site showcases its offsite products allowing surfers to compare and choose.

As more Indians, and their kin abroad, get hooked to the World Wide Web, more retailers are likely to log on to the online shopping cart.

Creating a successful online retail business

The online retail sector in India can be a winner if it is able to meet customer expectations.

Online retail is one of the fastest growing segments of the global economy and the second largest in the US both in terms of establishments and employees. The predictions for online retail in 2004 indicated that it would reach $65 billion, a 24 percent increase over 2003, with continued heavy growth in home and personal care categories (Source: Jupiter

Research). A Forrester Research report says that online sales now represent 5.4 percent of the retail business. Online travel sales increased last year by 91 percent to $52.4 billion, home and office sales reached $11.1 billion and computer hardware and software sales were $11 billion for the year. Web-based retailers saw operating margins surge by 15 percent, compared with margins of a negative 16 percent in 2002. That's the global market; let us examine the domestic scenario.

India's wide open for online retail

There is no doubt that India is moving towards broadband, and is experiencing strong growth in Web-based sales. This fact is reaffirmed by statistics, which predict that the number of Internet users will reach 50 million by end-2004 and India could build a $17 billion Web-enabled industry by 2008 (Nasscom-McKinsey report). Piquet, a global retail specialist says that India's total retail market was estimated at $202.6 billion, which is expected to grow at a compounded 30 percent over the next five years. The domestic FMCG sector sells items of daily use such as toothpaste, shampoo, and food staples, and accounts for a small part of the industry. The organized segment is estimated at Rs.1,500 to Rs 2,000 crore ($309 million-$412 million), which is expected to grow to Rs 4,000 crore ($2.9 billion) by 2006. Much of this is still hidden inside retail outlets.

Globally, it is evident that the online retail industry is headed in an upward trajectory and industry predictions are further spurring the enthusiasm with estimates that online retail will grow at 10-20 percent compound annual growth rate (CAGR) over the next six years. Categories including tools and hardware will experience above-average growth, as consumers become increasingly comfortable buying products that have historically seen slow growth online. Flowers will also experience an above-average spike as consumers continue to shift spending away from telephone orders. As more retailers increase and improve their multi-channel efforts, such as in-store pickup, categories such as home appliances will see an increase in sales.

Nobody stands in line any more

It is also likely that in a subtle way, retailers will focus on ways to increase customer loyalty as well as strategies and tactics to acquire new customers. To achieve this they will need to increase visibility amongst their target audience while ensuring that their Web sites perform flawlessly to accommodate any surge in customer traffic. To increase their customer base, retailers might invest in one-to-one marketing efforts to help find new customers. By targeting blogs, chat rooms, and message boards, they can run appropriate ads while consumers are discussing a specific product, or content related to that product.

From there, they will need to shift to the most important aspect of online retail—what kind of Web sites do they have? Is it one that falters as traffic increases? Or worse, will it fail so that no one is able to access the site? Will it be possible to have a Web site that can provide audio-video streaming content? Will it be possible for customers to make their selection and move from there to billing without waiting forever in an e-queue?

Retailers who reap the highest online rewards will offer easier, more intuitive navigation, expanded product selection, industry leading product information, unbiased customer reviews and downloadable music and software.

Outsourcing online requirements

For those who want a share of this growing pie with minimum resources and require an up-gradation of the site to its optimal efficiency can look at Content Delivery Network (CDN) service providers. The advantage of opting for a CDN service provider is the nearly 80 percent reductions in infrastructure costs. Obviously a faster and an always on site can mean much higher online revenues.

CDN services can also enhance the security of Web sites by distributing the delivery infrastructure, making it more resistant to security threats such as distributed denial of service attacks.

Most importantly, for those in the online retail business, a CDN service allows businesses to showcase their products to visitors almost as if they were in a brick-and-mortar store. Rich media such as Flash, streaming media, MP3 or even images that are dynamically rendered on-the-fly for zooming in on product details and rotating images to show products in virtual 3D make all this a reality. Last but not least, a Web site's content is distributed over a global delivery network, reducing server load while dramatically increasing capacity and boosting performance up to 25-times for users worldwide.

Chapter 2: Retail Evolution in India

An Overview of the Retail sector:

The Indian retail sector is highly fragmented with 97% of its business being run by the unorganized retailers like the traditional family run stores and corner stores. The organized retail however is at a very nascent stage though attempts are being made to increase its proportion to 9-10% by the year 2010 bringing in a huge opportunity for prospective new players 1. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10% of India's GDP 2.

Source: Ernst &Young, The Great Indian Retail Story, 2006.

A look at the statistics shows that the retail sector in India is worth USD 394 billion and is growing at the rate of 30% annually. An ICRIER study has found that retailing ($180 billion) contributes to 10 per cent of GDP and employs 7 per cent (21 million) of the workforce 3. According to AT Kearney, India is given the top ranking as the next foreign investment destination, as markets like China become increasingly saturated 4. India is the 4th largest economy as regards GDP (in PPP terms) and is expected to rank 3rd by 2010 just behind US and China1. Over the past few years, the retail sales in India are hovering around 33-35% of GDP as compared to around 20% in the US. The table gives the picture of India's retail trade as compared to the US and China.

Retail Trade – India, US and China

	Trade ($bn)	Employment (%)	Shops (million)	Organised sector share (%)
India	180-394	7	12	2-3
China	360	12	2.7	20
US	3800	12.6 – 16	15.3	80

Source: Compiled from different sources

Source: Economist, Let gradualism guide FDI in retail, 2006.

The last few years witnessed immense growth by this sector, the key drivers being changing consumer profile and demographics, increase in the number of international brands available in the Indian market, economic implications of the government increasing urbanization, credit availability, improvement in the infrastructure, increasing investments in technology and real estate building a world class shopping environment for the consumers 4. In order to keep pace with the increasing demand, there has been a hectic activity in terms of entry of international labels, expansion plans, and focus on technology, operations and processes. This has lead to more complex relationships involving suppliers, third party distributors and retailers, which can be dealt with the help of an efficient supply chain. A proper supply chain will help meet the competition head-on, manage stock availability; supplier relations, new value-added services, cost cutting and most importantly reduce the wastage levels in fresh produce 5.

Large Indian players like Birla's, Ambani's, Tata's, K Raheja's, Bharti AirTel, ITC and many others are making significant investments in this sector leading to emergence of big retailers who can bargain with suppliers to reap economies of scale. Hence, discounting is becoming an accepted practice. Proper infrastructure is a pre-requisite in retailing, which would help to modernize India and facilitate rapid economic growth. This would help in efficient delivery of goods and value-added services to the consumer making a higher contribution to the GDP.

International retailers see India as the last retailing frontier left as the China's retail sector is becoming saturated. However, the Indian Government restrictions on the FDI are creating ripples among the international players like Walmart, Tesco and many other retail giants struggling to enter Indian markets. As of now the government has allowed only 51% FDI in the sector to `one-brand' shops like Nike, Reebok etc. However, other international players are taking alternative routes to enter the Indian retail market indirectly via strategic licensing agreement, franchisee agreement and cash and carry wholesale trading (since 100% FDI is allowed in wholesale trading).

How has the Indian consumer changed over the years?

In the past few years the whole concept of shopping has been altered in terms of format and consumer buying behavior. With the increasing urbanization, the Indian consumer is emerging as more trend-conscious. There has also been a shift from price considerations to designs and quality as there is a greater focus on looking and feeling good (apparel as well as fitness). At the same time, the Indian consumer is not beguiled by retail products which are high on price but commensurately low on value or functionality. However, it can be said that the Indian consumer is a paradox, where the discount shopper loyalty takes a backseat over price discounts 6.

Indians have grown richer and thus spending more on vehicles, phones and eating out in restaurants. The spending is focused more outside the homes, unlike in other Asian countries where consumers have tended to spend more on personal items as they grow richer7. Spending on luxury goods have increased twice as fast with 2/3 of India's population is under 35, consumer demand is clearly growing. The mall mania has bought in a whole new breed of modern retail formats across the country catering to every need of the value-seeking Indian consumer. An average Indian would see a mall as a perfect weekend getaway with family offering them entertainment, leisure, food, shopping all under one roof.

Map of India's income classes

	1994-95	1999-00	2005-06
▪ **RICH** (Annual income > US$ 4,700) **Benefit Maximisers:** Own cars, PCs	1 million households	3 million households	6 million households
▪ **CONSUMING** (US$ 1,000- 4,700) **Cost-benefit optimizers:** Have bulk of branded consumer goods, 70% of two-wheelers, refrigerators, washing machines	29 million households	55 million households	75 million households
▪ **CLIMBERS** (US$ 500-1,000) **Cash-constrained benefit seekers:** Have at least one major durable (mixer, sewing machine/television)	48 million households	66 million households	78 million households
▪ **ASPIRANTS** (US$ 350-500) **New entrants into consumption:** Have bicycles, radios, fans	40 million households	32 million households	33 million households
▪ **DESTITUTES** (Less than US$ 350) **Hand-to-mouth existence:** Not buying	35 million households	24 million households	17 million households

Source: Ernst & Young, The Great Indian Retail Story, 2006.

Indian consumer is also witnessing some changes in its demographics with a large working population being under the age group of 24-35, there has been an increasing number of nuclear families, increase in working women population and emerging opportunities in the service sector during the past few years which has been the key growth driver of the organized retail sector in India. The emergence of a larger middle and upper middle classes and the substantial increase in their disposable income has changed the nature of shopping in India from need based to lifestyle dictated. The self-employed segment has replaced the employed salaried segment as the mainstream market, thus resulting in an increasing consumption of productivity goods, especially mobile phones and 2 - 4 wheeler vehicles. There is also an easier acceptance of luxury and an increased willingness to experiment with the mainstream fashion, resulting in an increased willingness towards disposability and casting out from apparels to cars to mobile phones to consumer durables. Indians spend over USD 30,000 a year (in PPP terms) on conspicuous consumption that represents 2.8% of the entire population (which is approx 30 million people) making it the 4th largest economy in PPP terms next only to USA, Japan and China 1.

With reference to the map of India's income class, it can be noticed that the real driver of the Indian retail sector is the bottom 80% of the first layer and the upper half of the second layer of the income map. This segment of about 40 million households earns USD 4,000-10,000 per household and comprises salaried employees and self-employed professionals and is expected to grow to 65 million households by 2010 1. In addition to this, facilities like credit friendliness, availability of cheap finance and a drop in interest rates have changed consumer markets. Capital expenditure (jewelry, homes, and cars) has shifted to becoming redefined as consumer revenue expenditure, in addition to consumer durables and loan credit purchases.

FDI in Retail:

Global retailers have already been sourcing from India; the opening up of the retail sector to the FDI has been fraught with political challenges. With politicians arguing that the global retailers will put thousands of small local players and fledging domestic chains out of business.

The only opening in the retail sector so far has been to allow 51% foreign stakes in single brand consumer stores, private labels, high tech items/ items requiring specialized after sales service, medical and diagnostic items and items sourced from Indian small sector (manufactured with technology provided by the foreign collaborations). Parties supporting the FDI suggest that the FDI in retail should be opened in a gradual/ phased manner, such that it can promote competition and contribute to the growth of the Indian economy. The impact of the FDI would benefit the end user of the consumer to a great extent and will help to generate a decent amount of employment as more and more entrepreneurs would be coming forward to invest and taste the new generation in retail marketing. The opening of FDI should be designed in such a way that many sectors - including agriculture, food processing, manufacturing, packaging and logistics would reap benefits. The table below lists the pros and cons of allowing FDI into retail.

<table>
<tr><th>Benefits of FDI in retail</th><th>Drawbacks of FDI in retail</th></tr>
<tr><td>

Inflow of investment and funds.
Improvement in the quality of employment.
Generating more employment.
Increased local sourcing.
Provide better value to end consumers.
Investments and improvement in the supply chains and warehousing.
Franchising opportunities for local entrepreneurs.
Growth of infrastructure.
Increased efficiency.
Cost reduction.
Implementation of IT in retail.
Stimulate infant industries and other supporting industries.

</td><td>

Would give rise to cut-throat competition rather than promoting incremental business.
Promoting cartels and creating monopoly.
Increase in the real estate prices.
Marginalize domestic entrepreneurs.
The financial strength of foreign players would displace the unorganized players.
Absence of proper regulatory guidelines would induce unfair trade practices like Predatory pricing.

</td></tr>
</table>

Thus it can be said that this investment boom could change the face of Indian retail by offering quality goods at lower prices to the consumers. In addition to this, the presence of global retailers will further enhance exports from India as they would also source Indian goods for their international outlets in a big way leading to a remarkable increase in Indian exports.

Segment analysis:

The structure of Indian retail is developing rapidly with shopping malls becoming increasingly common in the large cities and development plans being projected at 150 new shopping malls by 2008. However, the traditional formats like hawkers, grocers and tobacconist shops continue to co-exist with the modern formats of retailing. Modern retailing has helped the companies to increase the consumption of their products for example: Indian consumers would normally consume the rice sold at the nearby kiranas viz. Kolam for daily use. With the introduction of organized retail, it has been noticed that the sale of Basmati rice has gone up by four times than it was a few years back; as a superior quality rice (Basmati) is now available at almost the same price as the normal rice at a local kirana. Thus, the way a product is displayed and promoted influences its sales. If the consumption continues to grow this way it can be said that the local market would go through a metamorphoses of a change and the local stores would soon become the things of the past or restricted to last minute unplanned buying.

Food and grocery retail:

The food business in India is largely unorganized adding up to barely Rs. 40,000 crore, with other large players adding another 50% to that. The All India food consumption is close to Rs. 900,000 crore, with the total urban consumption being around Rs.330,000 crore. This means that aggregate revenues of large food players is currently only 5% of the total Indian market, and around 15-20% of total urban food consumption. Most food is sold in the local `wet' market, vendors, roadside push cart sellers or tiny kirana stores. According to McKinsey report, the share of an Indian household's spending on food is one of the highest in the world, with 48% of income being spent on food and beverages.

Apparel Retail:

The ready-mades and western outfits are growing at 40-45% annually, as the market teems up with international brands and new entrants entering this segment creating an Rs.500 crore market for the premium grooming segment. The past few years has seen the sector aligning itself with global trends with retailing companies like Shoppers' stop and

Crossroads entering the fray to entice the middle class. However, it is estimated that this segment would grow to Rs. 300 crore in the next three years.

Gems and Jewellery Retail:

The gems and jewellery market is the key emerging area, accounting for a high proportion of retail spends. India is the largest consumer of gold in the world with an estimated annual consumption of 1000 tonnes, considering actual imports and recycled gold. The market for jewellery is estimated as upwards of Rs. 65,000 crores 9.

Pharma Retail:

The pharma retailing is estimated at about Rs. 30,000 crore, with 15% of the 51 lakh retail stores in India being chemists. According to Vikas Bali, Principal, A.T. Kearney (India) Ltd, "Pharma retailing will follow the trend of becoming more organised and corporatised as is seen in other retailing formats (food, apparel etc)". A few corporates who have already forayed into this segment include Dr Morepen (with Lifespring and soon to be launched Tango), Medicine Shoppe, Apollo pharmacies, 98.4 from Global Healthline Pvt Ltd, and the recently launched CRS Health from SAK Industries. In the south, RPG group's Health & Glow is already in this category, though it is not a pure play pharma retailer but more in the health and beauty care business 10.

Music Retail:

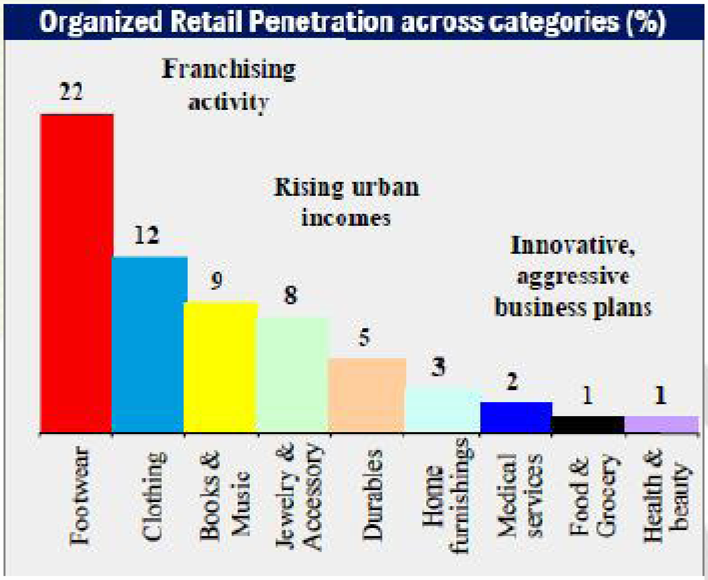
The size of the Indian music industry, as per this Images-KSA Study, is estimated at Rs.1100 crore of which about 36 percent is consumed by the pirated market and organized music retailing constitutes about 14 percent, equivalent to Rs.150 crore 11.

Book retail:

The book industry is estimated at over Rs. 3,000 crore out of which organized retail accounts for only 7% (at Rs.210 crore). This segment is seen to be emerging with text and curriculum books accounting to about 50% of the total sales. The gifting habit in India is catching on fast with books enjoying a significant share, thus expecting this sector to grow by 15% annually.

Consumer durables retail:

The consumer durables market can be stratified into consumer electronics comprising of TV sets, audio systems, VCD players and others; and appliances like washing machines, microwave ovens, air conditioners (A/Cs). The existing size of this sector stands at an estimated USD 4.5 Billion with organized retailing being at 5% 12**.**



Source: E&Y, The Great Indian Retail Story, 2006.

As noticed in the figure above, the organized retail penetration (ORP) is the highest in footwear with 22% followed by clothing. Though food and grocery account for largest share of retail spend by the consumer at about 76%, only 1% of this market is in the organized sector. However, it has been estimated that this segment would multiply five times taking the share of the organized market to 30 percent in the coming years.

Industry analysis of the Indian retail sector:

Modern retailing has entered India in form of sprawling malls and huge complexes offering shopping, entertainment, leisure to the consumer as the retailers experiment with a variety of formats, from discount stores to supermarkets to hypermarkets to specialty chains. However, kiranas still continue to score over modern formats primarily due to the convenience factor.

Source: IT Retailing: Are You In The Loop?, July 16, 2006.

The organized segment typically comprises of a large number of retailers, greater enforcement of taxation mechanisms and better labor law monitoring system. It's no longer about just stocking and selling but about efficient supply chain management, developing vendor relationship quality customer service, efficient merchandising and timely promotional campaigns. The modern retail formats are encouraging development of well-established and efficient supply chains in each segment ensuring efficient movement of goods from farms to kitchens, which will result in huge savings for the farmers as well as for the nation. The government also stands to gain through more efficient collection of tax revenues. Along with the modern retail formats, the non-store retailing channels are also witnessing action with HLL initiating Sangam Direct, a direct to home service. Network marketing has been growing quite fast and has a few large players today. Gas stations are seeing action in the form of convenience stores, ATMs, food courts and pharmacies appearing in many outlets.

In the coming years it can be said that the hypermarket route will emerge as the most preferred format for international retailers stepping into the country. At present, there are 50 hypermarkets operated by four to five large retailers spread across 67 cities catering to a population of half-a-million or more. Estimates indicate that this sector will have the potential to absorb many more hypermarkets in the next four to five years.

List of retailers that have come with new formats:

Retailer	Current Format	New Formats, Experimenting with
Shoppers' Stop	Department Store	Quasi-Mall
Ebony	Department Store	Quasi-Mall, smaller outlets, adding food retail
Crossword	Large Bookstore	Corner shops
Piramyd	Department Store	Quasi-mall, food retail
Pantaloon	Own Brand Store	Hypermarket
Subhiksha	Supermarket	Considering moving to self service
Vitan	Supermaket	Suburban discount store
Foodworld	Food Supermarket	Hypermarket, Foodworld express
Globus	Department Store	Small fashion stores
Bombay Bazaar		Aggregation of Kiranas
Efoodmart		Aggregation of Kiranas
Metro		Cash and carry
S.Kumar's		Discount Store

Traditionally, the small store (kirana) retailing has been one of the easiest ways to generate self-employment, as it requires minimum investments in terms of land, labour and capital. These stores are not affected by the modern retailing as it is still considered very convenient to shop. In order to keep pace with the modern formats, kiranas have now started providing more value-added services like stocking ready to cook vegetables and other fresh produce. They also provide services like credit, phone service, home delivery etc.

The organized retailing has helped in promoting several niche categories such as packaged fruit juices, hair creams, fabric bleaches, shower gels, depilatory products and convenience and health foods, which are generally not found in the local kirana stores. Looking at the vast opportunity in this sector, big players like Reliance and K Rahejas has announced its plans to become the country's largest modern retainers by establishing a chain of stores across all major cities.

A few facts:

- Rural India consists of 720 million consumers across 627 villages
- 17% of these villages account for 50% of the rural population
- 60% of the rural wealth reaches out to almost 100,000 villages to address just 50% of this opportunity>

Apart from metro cities, several small towns like Nagpur, Nasik, Ahmedabad, Aurangabad, Sholapur, Kolhapur and Amravati as witnessing the expansion of modern retails. Small towns in Maharashtra are emerging as retail hubs for large chain stores like Pantaloon Retail because many small cities like Nagpur have a student population, lower real estate costs, fewer power cuts and lower levels of attrition. However, retailers need to adjust their product mix for smaller cities, as they tend to be more conservative than the metros.

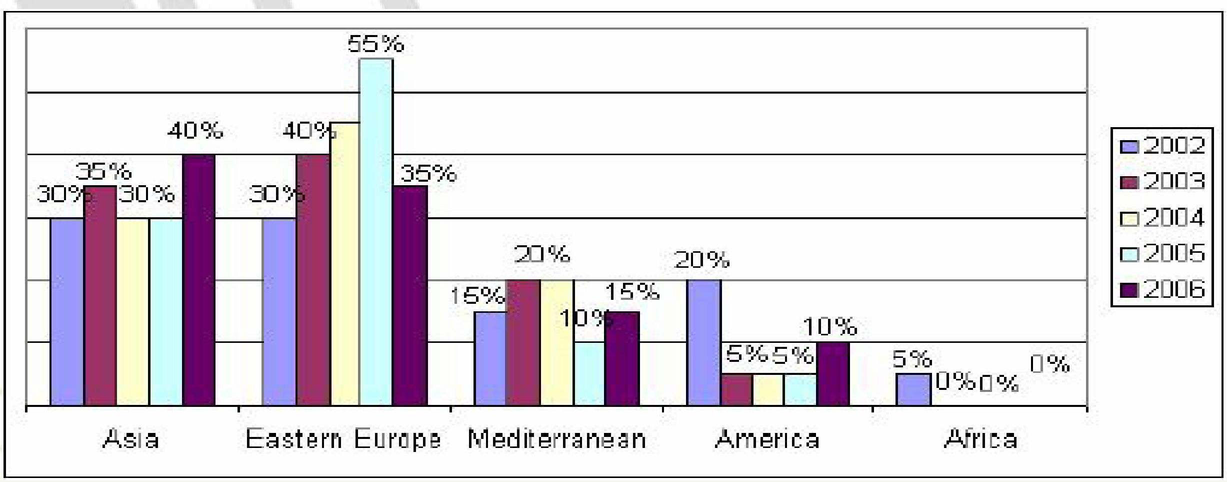
In order for the market to grow in modern retail, it is necessary that steps are taken for rewriting laws, restructuring the tax regime, accessing and developing new skills and investing significantly in India.

Business analysis of the Indian retail sector:

The size of modern retail is about US$ 8 Billion and has grown by 35% CAGR in last five years. 14 (KSA Technopak, June 2006). In modern retailing, a key strategic choice is the format; retailers are coming up with various innovative formats to provide an edge to retailers.

Most attractive developing markets for retail by region according to AT Kearney Study:

Percentage of markets that are `on the radar' and `to consider':



Source: AT Kearney, GRDI 2006.

A look at the graph above shows that the Asian markets are considered attractive for retail as per the AT Kearney's report; India is being placed on the radar by the USA and UK. Global giants like Tesco and Walmart are experimenting with various options to enter India. One possibility for Walmart would be to open Sam's club wholesale business through a joint venture and sell strictly to other retailers. This strategy skirts the issue of not being able to sell directly to customers and establish a strong presence in the local market. On the other hand, Tesco is planning to get into a partnership with Home Care Retail Mart Pvt. Ltd expecting to open 50 stores by 2010 4. The government is taking gradual steps in allowing the FDI into Indian retail, when it takes the final steps the peak time will quickly pass giving the existing players competition.

What makes foreign firms come to India?

A host of traditional `brick and mortar' companies such a Tatas have entered the retail business. With demographic changes like rising disposable incomes and rapidly expanding middle class, the Indian retail sector is at an inflexion point where the growth in consumption and growth of organized retailing are taking it towards higher growth. Market liberalization and an increasingly assertive consumer population have attracted bigger Indian and multinational operations to make investments, but are yet to achieve success or reach break even.

The Indian consumption pattern and preference have undergone vast changes over the years allowing the foreign retailers to play with the psyche of the brand conscious modern Indian, who has no qualms spending a fortune on overhauling his wardrobe. This led to the entry of up-market brands like Nautica and New Balance into the country to cash in on this opportunity.

India has the youngest population in the world, with large population between 20-34 age groups in the urban regions boosting the demand. All these factors have tempted the foreign firms such as Walmart, Tesco and Carrefour to enter India. India is now firmly placed on the US and UK radars as US retailers are gradually realizing the potential of the retail and consumer goods sector. The timing is the most important source of competitive advantage for global and regional retailers in the globalization race. Knowing when to enter emerging retail markets is the key to success.

AT Kearney's study on global retailing trends found that India is the least competitive as well as least saturated of all major global markets. This implies that there are significantly low entry barriers for players trying to setup base here, in terms of the competitive landscape. The report further stated that global retailers such as Walmart, Carrefour, Tesco and Casino would take advantage of the more favourable FDI rules that are likely in India and enter the country through partnerships with local retailers. Other retailers such as Marks & Spencer and the Benetton Group, who operate through a franchisee model, would most likely switch to a hybrid ownership structure.

However, in order to achieve breakthrough growth the global retailers might have to face some glitches in India. High taxes, poor infrastructure, bureaucratic hurdles and high cost of real estate are some of the challenges that overseas retailers may have to tackle in the country.

IT and latest development: Technology has played a key role in retailers' efforts to compete in this volatile market. With e-tailing channels making its presence felt in India companies are using either their own web portal or are tying up with horizontal players like Rediff.com and Indiatimes.com to offer their products on the web 15 (www.alexa.com). IT has been used by retailers ranging from Amazon.com to eBay, in order to radically change the buying behavior across the globe.

Retailers worldwide are looking forward to increase their IT spending by almost 15% in 2006, allocating almost half of this increase to application software with a particular focus on tools that facilitate multi-channel customer relationships, point of sale systems, strategic merchandising and supply chain management 17. The last 2-3 years have seen several retailers ranging from F&B operations to discount clothing implementing supply chain management (SCM) solutions to improve core business processes such as global sourcing, distribution, logistics, innovations, transparency and visibility in financials and inventory, compliance and management of point of sale (POS) data. However, organized retailers have not taken well to the concept of 3PL (third party logistics) due to their apprehensions of losing control over the supply chain. Currently, the transportation is carried out partly by organized service providers and partly by truckers and local transporters.

In conclusion, it can be said that in order to deliver the levels of quality and service that consumers are demanding; the organized retailers are in a pressing need for a single enterprise wide IT platform to manage operations, which will become increasingly complex once the market expands.

Size of modern retail likely to touch US$ 60+ Billion by 2011:
At least 2.5 Million additional direct jobs likely to be created in the next 5 years.

Hyper-competition is expected to set in by 2008-9 as the footprint of the top-5 players starts significant overlapping in top 20 - 30 towns.

Significant impact on other retailers and branded good players – creating new opportunities and threats:

According to Assocham, the overall retail market would grow by 36 per cent with the organized sector expected to register three-fold growth to Rs 15,000 crore by 2008. The total size of the market is also expected to increase to Rs 14,79,000 crore from the current level of Rs. 5,88,000 crore.

Chapter.3 Evolution of Online Retailing in India

One machine can do the work of fifty ordinary men. No machine can do the work of one extraordinary man. ~Elbert Hubbard

The above quote beautifully sums up the status of the current e-retailing scenario of India. Mere technology and imitation are not enough – the need of the hour is innovation. Mere good technology is not enough – good business plans and good vision are also required. Technology can no longer be the differentiator – keen business foresight and clairvoyance are a must to survive in the brutal online world where customer loyalty has so far been an elusive myth. Our challenge is tough – turning surfers to shoppers.

First things first – it is actually tough to concentrate on one particular country while analyzing any e-business. Internet knows no boundaries. And even the firms which are primarily domestic are bound to be compared with the global giants. So every Indian futurebazaar. com should prepare itself to be compared with the global amazon.com. Hence we start with examining the minds of the customers who are likely to go for e-tailing in favor of the brick and mortar model. We will then explore the current best practices of e-retailing throughout the world and then we shall see which of them can be adopted in India and developed further. We will also look into the aspects of retailing which make e-retailing especially more challenging in India and suggest ways to deal with them. We will then suggest ways in which the government can promote e-retailing.

The first benefit that a customer derives from e-retailing is convenience. In the current fast paced settings of his professional life, the time starved customer finds it difficult to allocate time to shopping and entertainment. E-retailing provides him a plethora of choices for the category of items he is interested in. He even has the luxury to compare the offerings from different vendors – all at the click of his mouse! This saves time – it's infinitely more convenient to locate hard to find or out of stock products on the Internet than to search for that ever-elusive product in an endless array of aisles. And then the most obvious benefit is the significant discounts that most of these e-retailers provide to attract the customers. The 'pure' retailers are not unnecessarily worried about the threat from this new breed of retailers. The latter are making it increasingly more difficult for the former to develop customer loyalty. Most of the pure retailers are already contemplating plans to go digital.

One big benefit for the retailers is that he gets a chance to capture and analyze the purchase data and analyze them to predict the future patterns. The assets of the e-retailer are low overhead costs, good IT infrastructure, customer tracking skills and fast execution speed. The liabilities are – No 'touch-feel-buy' and lack of trust.

E-retailing is the way to go for the products that can sell cheaper or that require consumer research or that are hard to find (i.e., collectibles and specialty items) or that appeal to tech-savvy users. As in any other business, even here the ultimate aim of the e-retailer is to develop a sustainable competitive advantage. If we look into the history of a few of the most successful e-retailers of the world, we can conclude that most of them have developed this advantage based on – (i) Price/Value: the price and/or value of the product or service surpassing that of the competitors (ii) Unique service features: new, different, and better customer service (iii) Notable product attributes: customized product to better meet customer needs (iv) Customer experience: offering a pleasant "shopping" experience (v) Accessibility: additional convenience or availability.

The interaction between the business and the customer in e-retailing takes place at three levels (B Florental, 2007) – Product level (customization, price discrimination), Process level (reading reviews by other users) and Partnership level (loyalty programs, past data analysis). The aim of any e-retailer should be to take the customer from the product level to the partnership level. The expected customer behavior and the ideal e-retailing strategy at each level have been captured in a framework. (Appendix A) Here the role of the 'electronic agents' becomes crucial since they assist customers with making purchasing decisions and/or conducting information searches. They help develop trust in the customers. These sites help consumers reduce time in sniffing through dozens of e-retailer sites for finding deal of the week. Forging partnerships with the leading agents can be a good strategy for any e-retailer, provided he has no budgetary constraints. The role of the customer-communities is very significant here, because the word-of-mouth publicity is the most effective way of generating trust in the minds of the suspecting customers.

The Indian Story – turning surfers to shoppers

Indians have always been avid shoppers and they enjoy shopping anywhere in the world. With malls and departmental stores springing up in India now, Indians are just beginning to get a taste of things to come. Internet shopping is one such taste which the Indians have begun to savor.

There are enough statistics to point to the rapid growth of the Internet in India – number of connections, e-mail accounts, and transaction revenue – all very convincing. The web is fast replacing the traditional brick and mortar model of retailing. Be it finding jobs or wives, picking stocks or new friends, web is the way to go. There are two kinds of e-retailing websites – the ones, which promise to be a one-stop-shop, and the ones that are focused and specialized. Recommendation by friends and relatives is the most popular (but certainly not the best) way to select a website in India. Hence the e-retailers try all the tricks to emerge as the most popular choice.

There are a few basic questions that any aspiring Indian e-retailers must answer before embarking on any digital venture:

i) What architecture will the site use? (Realistic estimates of the daily transactions and allocation of budget will be needed)
ii) What e-payment system will the site use? (The more secure the better)
iii) Is the supply chain management in place? (E-retailing isn't just about taking online orders and shipping the products. It is also about developing partnerships with the wholesalers and inventory management)
iv) Trouble shooting or help desk? (The suspecting Indian customer would really appreciate if there were an assurance of 24-hour help)
v) How to manage the customer data? (This will help analyze the past data to predict future patterns and hence reduce inventory levels)
vi) What is the overall revenue model?
vii) What is the investment in advertisement that the venture can afford?

There are 38.5 million Indians online as per the last forecast from IAMAI. The current growth rate is 54% and its expected to accelarate further. The total number is expected to surpass 100 million by the close of 2008. The e-commerce market of Rs 1,180 crore (Rs 11.8 billion) in India in 2005 is likely to grow to Rs 2,300 crore (Rs 23 billion) by 2006-2007 (at a phenomenal growth rate of 300%) As of now, there is no indication that the traditional brick and mortar models are under any serious threat from the digital players. But the merger of the traditional and the digital has resulted in the 'click and mortar' model of retailing. (e.g. subhiksha.com, futurebazaar.com) The single most important consideration for an aspiring Indian e-retailer is the level of penetration of the internet for the segment which he is targeting. Selling low-end merchandise on the Net in India may be senseless as Net penetration in these segments is still very poor. Travel services, financial services and such other products oriented to a wealthy or high-income target audience will do better, at least for now, than mainstream merchandise, considering the skew of Internet access.

Taking orders on the Web site may appear to be much easy compared to reaching the goods to the customer's specified delivery point in time and at reasonable cost. Customers in India (or anywhere else in the world for that matter) are never too keen to pay any extra charges for delivery and, in most business models, the owner has to factor in the delivery charges as an additional overhead of the business. Logistics (or order fulfillment, to be precise) is the key issue that distinguishes survivors in the e-retail business from losers. Hence the e-retailer should explore all the possible logistics models and then arrive at the optimum strategy for his business.

For example, Subhiksha looked at various possibilities but finally settled on delivering through the nearest store. This gave them the flexibility of quick response and low-cost and enabled them to leverage the large spread of stores they have in Chennai. This also gave the customer the comfort of knowing that in the unlikely event of needing any grievance handled, the physical store is not too far away. At Subhiksha, they relied on the logic that the goods are real, not virtual like music, and bulky and are delivered through a proprietary network. Futurebazaar (the e-retailing arm of the futuregroup of Mr Kishore Biyani) intends to "provide customers with a streamlined, efficient and world class personalized shopping experience, which will be supported with the best technology platform". Futurebazaar.com sells a limited range of products it has a decent, no-nonsense approach, while providing a good shopping experience.

A tricky area, despite the steps taken to put cyber laws in place, is payment. Indian consumers are unlikely to be willing to pay before delivery, and handling payment against delivery increases the complexity of, and the load on, logistics. More important, service charges on credit cards are exorbitant (5 per cent is the fee charged by credit card companies here for Net transactions) and the concern, real or otherwise, of credit card information being stolen remains. The e-retailer needs to work out a payment model, which the Indian consumers will accept and develop his systems with this payment model factored in. Subhiksha has chosen a payment against delivery mode; they collect cash or a charge-slip at the time of delivery.

Another key aspect is customer service. The Indian online customer expects to be pampered. Fabmart.com has a seven-day, no questions-asked return policy under which customers can return any items, with a small note stating the reason for dissatisfaction, and Fabmart bears all shipping expenses. It also clearly states that customer details are not sold, rented or leased out to third parties. Such declarations go a long way in establishing credibility of the websites. An innovative idea would be to introduce an online call center (live chat) where a customer can get instant feedback on his/her queries. This would go a long way in allaying the fears of the suspecting customers.

Internet familiarity is perhaps the biggest factor influencing the Indian customer's to buy online, but cultural factors regarding credit card use and the local mail order infrastructure also have an impact. The Indian customer's aversion to use credit cards is a big hindrance block for the domestic e-retailers. Even when compared with the card usage statistics of the Asian counterparts, India has a long way to go before it becomes card-savvy. According to a survey by Mastercard, seventy-two per cent of Indians use their credit cards 1-2 times (or less) a month, while 23 per cent of Indians use their cards between 3-5 times and the remaining 5 per cent use cards 6 times or more every month. In the UAE, 31 per cent of cardholders use their cards more than 10 times during a month, while only 15 per cent use their cards 1-2 times (or less). 73 per cent of Indians spend less than $35 on an average each month, while 25 per cent spend between $35 and $300. Only two per cent of Indian cardholders spend over $300 on their credit cards during a month.

Retaining the e-customer is a tough challenge. The Internet customer is very hard to predict and is different from the normal customer. Retaining him is not so simple. While a retailer expects strong loyalty, such a loyalty on the Net is difficult to obtain. A customer may shift from the Internet if someone else offers him a better deal. After all the ad-spend, will the customer remain loyal to the e-retailing site? To attract and retain needs a lot more effort than to just attract. It is very easy to lose an e-customer. To retain him, a mix of marketing tools such as public relations, advertising, promotions, direct marketing and Internet advertising should be used. Customer loyalty programs should be initiated. Just a gesture as simple as giving him a free ticket for this weekend's blockbuster movie would make him happy and loyal.

Even among e-tailers there is the first mover advantage. If the first mover gets everything right - its website, its order fulfillment and distribution - a newcomer might find it much harder to beat an established person at the game. For an Indian online customer, the first online purchase is a special one, and if the e-retailer satisfies him in his first deal, then he is all set to retain him.

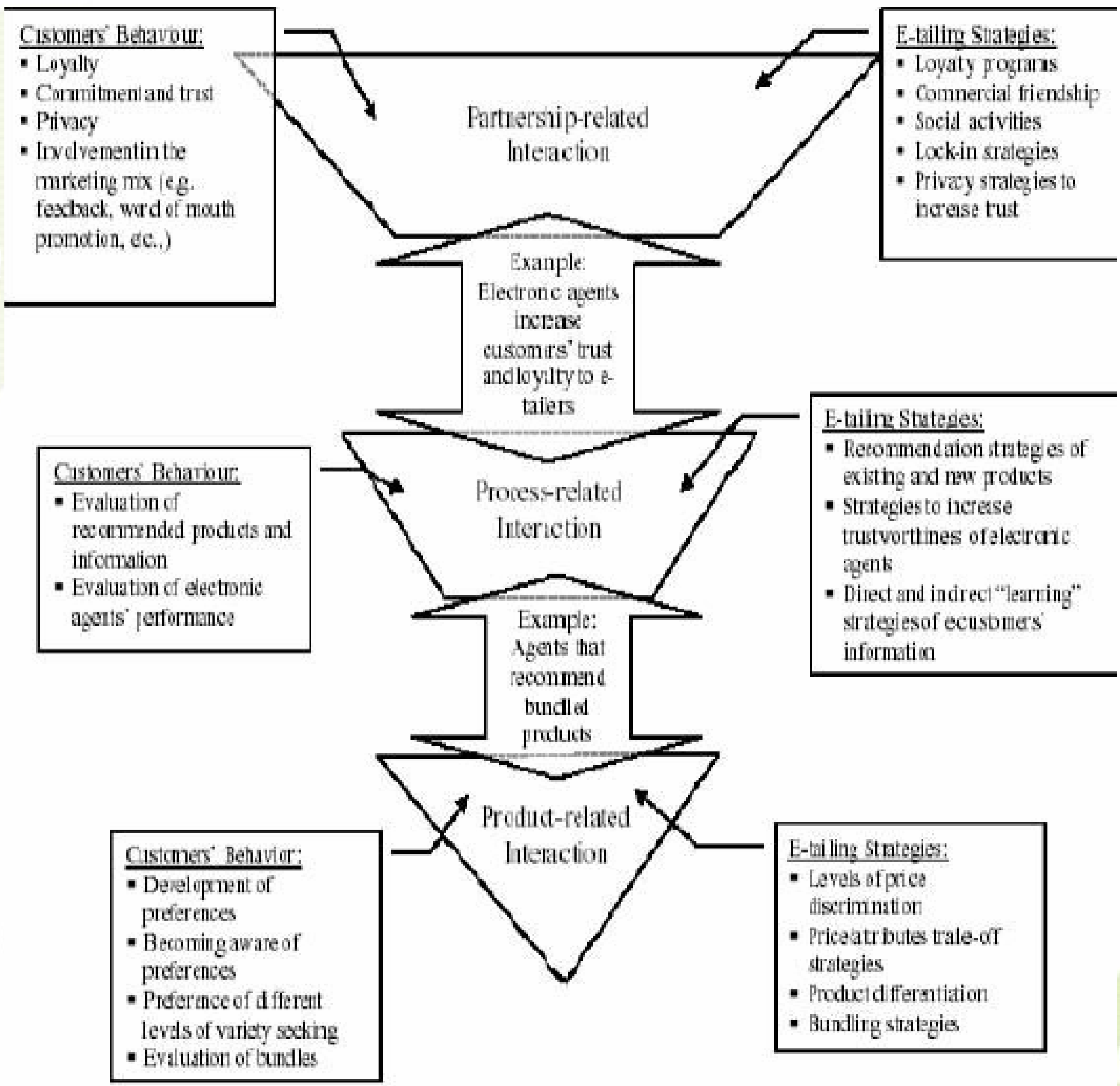
The first need however is to generate a critical mass. This is vital for any successful ecommerce project. Growth in e-retailing will come not from well-designed websites or web marketing but from deeper penetration of the Internet. That is why a case has been made out for increasing broadband Internet connections. This is where the government should step in. Having already put the IT law in place in year 2000, the government now needs to make people aware about it so that they become less skeptical about using the online mode of transaction. The government also needs to put special emphasis on the e-business models. This would help India capitalize on its great IT infrastructure. The government can provide tax relief (for the first two years) to the entrepreneurs who invest in e-business.

Although the value of online shopping for travel, books, clothing, cosmetics, and music has been realized, it is still unclear if online shopping will reach its projections for "everyday" shopping in India. Grocery sales would comprise a chunk of e-everyday-sales. But in India, where there is a grocery shop in every nook and corner, selling fresh grocery is an uphill task, because the lady of the house may not be convinced that fresh grocery can be bought online! In the field of education, already the coaching institutes are designing attractive websites for competitive exams (engineering, medical and MBA entrance tests). The next challenge is to design a complete online program with virtual classrooms.

All said and done, it requires no great foresight to predict that the model that will work for India has to have a peaceful and complementary co-existence of retailing and e-retailing. The promise is immense, but it can be transformed to reality only if the entrepreneurs take a realistic view of their business models and adopt a futuristic view. The bottom line is that the Internet is no magic wand, it is yet another marketing tool, and like all other marketing tools, and it will work only if used wisely. The Indian e-retailing race has just started and all the start-ups are echoing the words of the first cyber song of India (by Remo Fernandez):

“I’m a cyber-viber, In a virtual sea
I’m a glider rider, On a surfing spree
Come and…come and… vibe with me……”

APPENDIX A: THE THREE LEVEL FRAMEWORK OF E-RETAILING (B Florental)



Chapter 4: Analyzing E- Retail Opportunities – in INDIA

As mentioned earlier, travel, matrimony and jobs sector have already grown big. They have received lot of funding, have a considerable user base and are set for more growth in years to come. The interesting sector to me is online retail, because this is one of the proven models of Internet business and have a large pie of the ecommerce industry in markets other than India (just for some perspective, US alone has at least 100,000 online retailers and more than double this number if you count all the small merchants on ebay and other marketplaces). Its not that online retail is something new to Indian market, in fact this has been around for a while in India, but has really not picked up because of various reasons including

1. Lack of credit card penetration, mindset of the Indian online population and lack of quality overall experience for shoppers.
2. Another interesting angle is that there are so many new and fancy shopping malls (note that these are not only very upscale ones, but for middle class population too like Big bazaar etc.) springing up in India, which is relatively new concept for Indian customers. These malls not only provide a great shopping experience but have added entertainment value also as they are often seen as hangout places as well.

Considering above points, I am sure online retail market will take off, how fast depends on (obviously other than increase in number of internet users) how merchants can make the online shopping experience better than #2 above. The reasons cited in #1 can be overcome if the online merchants can provide a real cost benefit and top-of-the-line shopping experience. Good shopping experience may include reliable and smooth delivery process, easy returns, dependable product and merchant reviews and multiple payment options

This has some interesting stats on online retail market in India. The main ones being:

1. Online spend on retail was roughly $260 million in 2005-2006, which is still a very small fraction of the total $11.5 billion of organized retail.
2. About 35-40 percent of the online transactions on Indian sites are done from abroad

3. Things that people like to buy online are books, electronic gadgets, railway tickets, accessories, apparel, gifts, computers and peripherals, airline tickets, music and movies (in that order).

Electronic Presence:

Consumers can do online shopping due to presence of internet. Thousands of businesses have established a presence of the internet. Many of these websites offer users a wide variety of services.

A company can establish an electronic presence on the web in two ways: it can buy space on commercial on line service or it can open its own website. Buying a location on a commercial service involves renting storage space on the online service's computers or establishing link to the company's own computer to the online service's shopping mall. For example, JC Penney has links to America Online, CompuServe, and Prodigy. The online services typically design the storefront for which the company pays the online service an annual fee plus a small percentage of the company online sales.

Alternatively, ten of thousands of the companies have created their own websites, typically aided by a professional web design agency, these sites has two basic forms:

1. **Corporate Website:** A company offers basic information about its history, mission and philosophy, products, Services, location, current events etc. These sites are set up to answer customer questions by email, to build closer customer relationships, and generate excitement about the company. They are designed to handle interactive communication *initiated by the consumer by p*aying attention to basics, such as providing names, phone numbers and dates, and making it easy for customers to purchase product on-line.
2. **Online purchase website:** This kind of website is designed to bring prospects and customers closer to a purchase or other marketing outcome. The site might include a catalog, shopping tips, and promotional features such as coupons', sales events, or contests.

A key challenge is designing a website that is attractive on first view and interesting enough to encourage repeat visits. Early websites were only text based. They have increasingly been replaced by sophisticated websites that provide text, sounds (e.g. www.gap.com). To encourage revisits, companies run fresh news and features stories, contests and special offers.

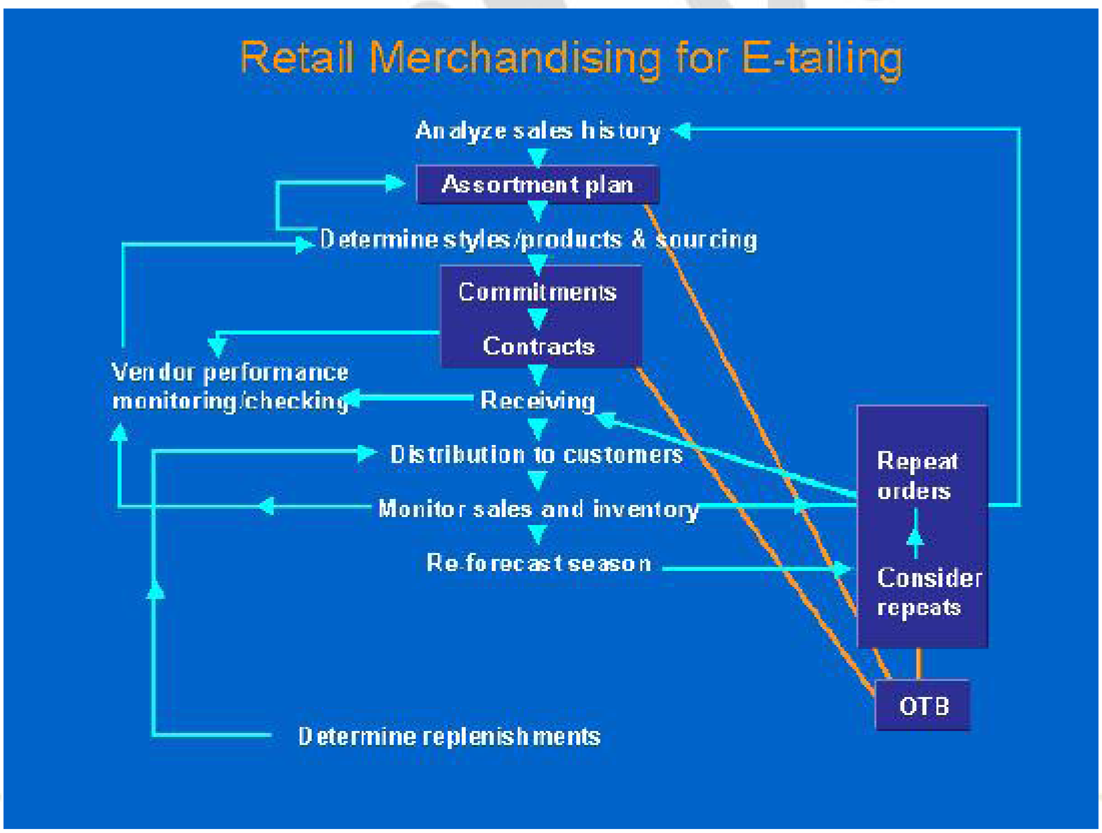
Not only must companies make sure their websites are well designed and informative, they must also be certain they are not unwittingly stranding surfers-potential customers – in cyberspace. Most companies plaster the same URL (website address) on all their promotional literature. Yet if some one is drawn to the site in search of specific product information, he usually has to wade through items like the company philosophy, its history or the resume of the chief executives. Or in order to get the product she seeks, a customer may have to go through so many pages that she loses interest and exits. This problem has led many companies to develop “micro sites”- small specialized website for specific occasions or products.

Chapter 5: On-Line Merchandising Process & Criteria

Merchandising for the Web

Merchandising processes should be different for eRetailers compared to store based operators - they are more similar to catalog and home shopping companies. However, the basic principles are the same for all types of retailing. The aim of this short article is to highlight areas where there are differences and where most benefit can be achieved by adopting more targeted merchandising techniques. The Merchandising Process for eRetailers.

The process is summarized in the chart below. Merchandising for eRetailers or catalog retailers is essentially a more straightforward process, where potentially less inventory is needed to service the customer, as there is no need to distribute via stores. At the moment most eRetailers are capturing only size and color information about the merchandise they sell. In future, web retailers will use a much more complex set of data including the assortment and depth of item attributes as well as consumer traits.



Assortment Planning

Assortment planning is an essential process for all types of retailers. It is the plan for the mixture of items found on the web site.

Some of the analyses that a merchant would consider when planning an e-tail assortment include: · Sales analysis by product trait, e.g. color · Comparison of new items to similar items · Contribution of the product to the segment or category · Time to contribution analysis · Product sales vs. plan comparison · Best and worse sellers ranked by sales contribution · Historical assortment trending, e.g. colors and sizes Open-to-Buy.

At first many web retailers did not operate an Open-to-Buy system, mainly because they did not hold much inventory - vendors fulfilled their orders. There are about four main types of merchandise held by eRetailers:

- ***Normal inventory*** held by the web retailer - this should be handled through the open- to-buy as normal.
- ***Special orders*** - most eRetailers do not include these in their open-to-buy as they do not affect cash flow or add extra inventory that is not allocated to a customer.
- ***Consignment inventory*** - it is sensible for this type of inventory to be monitored in the OTB as a separate category from regular merchandise.
- ***Sale or return merchandise*** - again this should be handled as a separate category in the OTB, as it can be taken back to the vendor and so does not affect cash flow in the same way as regular merchandise.

Pricing

eRetailers, such as priceline.com are already run their business on new pricing models where consumers effectively name the price they are prepared to pay for goods and services. Some pricing strategies eRetailers are adopting include:

- Change prices depending on time and circumstances. For example a compact disk may sell for $12 in the first 3 weeks it is out, $9 in the next 2 weeks, $6 if the sales go platinum or $4 for a frequent buyer who buys two other CDs at the same time. This is a much easier strategy for an eRetailer to implement than a bricks and mortar retailer.

- Premium pricing for exclusive products - it may be possible to charge premium prices for goods sold on the web before they are introduced into the bricks and mortar stores.
- Using the web to test the effect or either increasing or decreasing prices to accelerate sales. You can then set a more realistic price for the bricks and mortar stores.
- Reduce prices to frequent customers to boost sales. eRetailers like CDNow offer customers the chance to keep a "wish list" of CDs. It would be possible to offer a discount to these frequent shoppers at certain times.
- A web site also offers the ability to vary the layout of the store dynamically according to consumers' preferences. If you ask what price ranges are acceptable to them you can present goods that fall into the correct price bands for them. Also, you can build up a picture of their price sensitivity.

Performance Indicators

Finally, a word about measuring the success of your web merchandising - E-tailing introduces a new set of KPIs to measure success. These include:

- Look and buy conversion ratio, which measures the ratio between the number of consumers accessing the site and those that made a purchase.
- Traffic / page measure, which determines the number of consumers who accessed specific pages on the web site.
- Basket size, the number and total cost of the items purchased on each shopping occasion.
- Fulfillment ratio, the number of orders that can be fulfilled within n days of the order being received.
- Returns ration, the percentage of returns made against a specific product – this can be as high as 40% for apparel.

Pricing separately discussed in next chapter….

Criteria for efficient service provider

Portal/Services - A popular category from the Web 1.0 era. The sites in this category either have day-to-day utility or entertainment value. Lot of early local players here from the 90's, yet only a few established ones. Google, Yahoo, MSN are again the big players, although the good news here is that there are at least a handful local players in the sector. News/entertainment/communication - rediff, timesnetwork and sify - decent content but poor user experience (broken links, popup ads, flashy ads) classifieds - This is one category which has achieved the best success rate as far as the local players are concerned. One of the reasons is the demographics that is online in India and the fact that these players jumped on to the opportunity quite early in the game and more importantly stuck it out at the time of dotcome burst. Naukri, Shaadi, Bharatmatrimony, etc. are a few examples.

Social networking / web2.0 - A rapidly growing category. Very few decent Indian sites. Mostly dominated by the likes of Orkut, Facebook, Youtube etc. Again this is a category where one would think a local player can gain an edge as they would presumably understand the sensibilities of the youth better. Like I mentioned above, once English ceases to remain the predominant language on the web, more possibilities will open up..

Ecommerce – It is my personal favorite but not a popular category in India yet. We really need to catch up here if Internet has to sustain. The reason is simple - the most popular business model on the Internet is advertisements and for ads you need companies who are ready to advertise in the first place. Yes offline companies do want to advertise online, but there is only so much they will do. Real spending will come only from ecommerce players as they can directly affect the sales/branding using this form of advertising. We are seeing growth in this category. Travel is definitely a hot sector which already has a bunch of players (makemytrip, yatra, travelguru, cleartrip etc.) followed by entertainment (seventymm). The next big sector is retail which is currently dominated by Ebay India, but definitely expect to see some action here. Indiaplaza.in and Future bazaar are upcoming players. Remains to be seen who will emerge out as the Amazon of India

About why Indian companies are lagging behind global players (as opposed to Chinese, Korean, European markets). You can read the complete article for details, but the summary is that dominance of English language and poor user experience of Indian sites are the two main reasons.

Comparison Shopping in India: Current State & what's in future:

With the increasing Internet penetration, ecommerce is steadily growing in India. In the travel sector, it has reached a tipping point where buying tickets online has become quite common place. I believe it hasn't reached that stage yet in the other sectors, but it is surely inching there. The number of sites selling stuff online is increasing at a good rate too – there are at least 150+ decent sites doing retail over the Internet. Surely, a lot of these have started off with focus on NRI customers, but it is not difficult for them to switch gears and start focusing on the customers in India, when there is demand.

Start of the concept

As the number of sites increase, how do you know where to go and buy stuff. Surely ebay is the current leader, but as other sites start becoming more and more competitive, it becomes a pain to find out the site offering the best deal. In comes the concept of comparison shopping sites. These guys build an index from the product inventories of as many online shopping sites as they can get the data from and provide search on this index. As a result, users can come to the site, search for products and see what each online merchant has to offer and eventually click out and go to the merchant site to do the transaction. The way these guys make money is by charging the online merchant for driving traffic to their site (mostly cost per click). As with the standard CPC concept, this marketing channel is very effective and accountable for the online merchants as they pay only when they actually get the user on their site. With more than 150+ shopping sites out there, you'd think someone would have seen an opportunity and started a comparison shopping engine. Obviously, the more items and stores that a player has, the better job it can do by helping users find the best products and best prices.

How to scale?

Now the next question then is - how do these players get the data? Couple of options here: they can get data feeds directly from online merchants or they can scrape/crawl the shopping sites and extract data from there. The first method is an easier technological problem, because of the fact that data feeds that they get are much more structured compared to unstructured HTML from the websites (which of course does not mean that no one takes this approach. Sometimes this is pretty much the only way to go. more on this approach in a later post). But the problem is that as more and more comparison shopping players come up, it is not scalable for the online merchants to provide data feeds to each of these players. Providing data feeds is not the only problem, the online merchants need to track how much traffic a comparison shopping site is generating so that they can pay appropriately and measure their ROI. As the industry matures and comparison shopping becomes popular, we will see "middle-men" in the form of data feed aggregators coming in, who will collect data from the online merchants and supply it to anyone looking to create a comparison shopping site. This is also a very attractive business as each these middle-men get a cut from the revenue that comparison shopping sites generate. Have not seen any player doing the data feed aggregation in India yet. To give examples from the US market, a few examples of comparison shopping sites are shopping.com, shopping.yahoo.com, pricegrabber.com.

A Remote Retail business

When you think retail, you think walk-in, you think proximity. And yet, we are running a retail business where we are thousands of miles away from our nearest customer!

Hungry for Online Deals

One of the most prevalent business models in Internet companies is advertising. The basic aim of advertisements is to generate leads for the advertiser. The beauty of CPC (cost per click) advertising on the Internet is that the vendors (advertisers) need to pay only when they actually get the traffic, which makes their marketing costs much more accountable compared to traditional banner advertising. Realizing the ROI that this promises to the advertisers, in the US, people have set up companies that solely do this - generate leads for online vendors. Of course any website that has google ads already does that. But let's talk about sites that are dedicated to generating leads without focusing on any other content at all. One of the categories of sites that is quite popular in the US markets is the "deals" sites. These sites publish the latest and the greatest deals and discounts regularly, some updated throughout the day. People hungry for deals keep coming back to the site to check out the latest deals. Because of the timely nature of these deals, the daily traffic volume is high and since these sites publish hot deals that tend to expire soon, the click through ratio is also very high. FatWallet is the big daddy of all such deal sites. There are dime a dozen other deals sites like edealinfo.com,

Naturally the trend is already beginning to catch on in the Indian markets.

Sources of data: Both of these sites use a combination of feeds from vendors and handpicked deals from variety of websites.

Freshness of data: allindiadeals updates the site once a day while tripmela does that 2-3 times a week.

Business model: The source of revenue for both of these sites comes from a mix of CPC based listings plus google ads on the site.

Marketing: Both the sites realize the power of SEO and are doing things to promote their site high up in the organic search results. allindiadeals uses the power of social networks like orkut and other online communities to spread the word. tripmela has used techniques like press releases and Search Engine Marketing to buy sponsored listings in search engines. tripmela also delivers weekly newsletters to the inboxes of the registered users and a lot of customers seem to like this feature. (Tip: Doing RSS based subscription could also be quite useful)

Problems they are facing: This is probably the most interesting data that we got:

1. allindiadeals says initially people were not really familiar with the concept of online deals, although with the competition increasing among the online merchants, people are starting to get it now.
2. Both players mentioned that a lot of the online vendors do not understand the power of CPC based advertisement, as a result of which they are not willing to give data feeds. This is starting to change as well, with the increasing competition and increasing advertising budgets for online companies.

Bottomline

It's clear from our conversation that a lot of merchants still do not understand the concept of lead generation and CPC advertising. We think as the market evolves, lead generation phenomenon will pick up steam - online vendors will realize the importance of CPC based advertising and they will start providing feeds of their data. As a result, we will start seeing more players who will get into lead generating business in the form of comparison shopping, vertical searches, affiliates and deals publishing sites.

How To indianize your ecommerce site?

Ecommerce is very important to sustain the growth of Internet. The ecosystem just doesn't complete without ecommerce. After all that's where the real money exchange happens between users and businesses. All other revenue models and businesses are just supporting, they cannot stand on their own. For example, there cannot be much expansion in ad revenues, or revenues from affiliates unless customers are ready to buy stuff that businesses are trying to advertise in the first place. Here is a list of points that we have come up to make a site better suited for users in the Indian context.

Payment system

People are not used to online payments. Forget online payments, people living outside of metros don't even do a lot of credit card transactions. Customers need to be educated about this. They need to be given extra assurance that these transactions are safe. They should be given multiple payment options. Credit Card, Cash on Delivery, Cheque, Net Banking are just few of the days. Just today came across these two pieces of news, which talk about how BharatMatrimony (PAYMENT AT LOCAL POST) and Yatra (PAYMENT AT WEB WORLD) are using interesting ways of making payments easy for the users - quite neat.

Customer Service

Customer service is not a concept that a lot of Indian companies are associated with. (Isn't it ironic that India considering that world's leading companies have their call centers in India?) In any case, customers need to be assured that they will get top notch service. Phone numbers, live chat are some of the ways. Providing them assurance of smooth returns/exchanges will help quite a bit as well.

Shipping (delivery) assurance

Postal service is not exactly something that people in India count on. Of course most ecommerce companies use private courier companies for delivery, which are much more reliable. This needs to be spelled out explicitly on the site. Users need to be given guarantees about this.

Offline presence

Having offline presence just gives a feeling that its all “real”. This can be a very important psychological factor for many users.

Mobile angle

We have seen a lots of companies using interesting ways to promote their service using mobile as a medium. This needs to be continued. Shipping info, tracking, price alerts, there are so many things that can be done using mobile. One of the biggest things that will help is mobile payments, when that hits the mainstream.

Price break

All things said and done, there is no real compelling reason for people to buy online unless they get a real break in the price. And this should happen. Businesses avoid the cost of building and maintaining physical stores and hiring employees by selling stuff online. At least a part of these savings should be passed on to the customers. And again customers need to be given proofs that they are getting non-trivial savings because they are buying online. Schemes like price matching will also definitely help.

Local language

The largest circulated daily in India is not English. To reach the critical mass, Internet has to go local language in India. Ecommerce sites typically have very little content. Having options to see them in local languages can be a very useful value adds.

User interface

Keep it simple. Lot of Internet users are new and will be new in this growth phase. Lot of them would be doing their shopping first time. There is no point having complicated Ajax site or having a site full of flashy ads or million options for customizing what users are buying. Remember that most of Internet users still use dial-up, so the simpler the site, the faster it will be and more reach it will have.

Chapter 6: Consumer Attitude towards Internet shopping.

This section of the report considers the theoretical and methodological approaches used in studies of online consumer behavior, from the disciplines of Psychology, Sociology, Marketing, IT and Business Studies. It examines the theoretical models used in these fields, to explore the different ways in which online consumption is understood, viewed and approached theoretically in academic research. Such models help us by providing not only a framework for study, but also an insight into some of the factors which impact upon online shopping, as well as an assessment of the ways in which these variables interrelate.

It is important to note that, while much academic research in the field is theoretically driven, not all academic studies draw upon a theoretical framework, and many of the findings included in this report have been reached with no reference to theory. A discussion of theory is important, however, as it:

- identifies the theoretical tools which are available to study online shopping
- provides an insight into the different ways in which online shopping can be understood
- helps to draw out the different assumptions that are made regarding the nature of online shopping.

Theoretical and methodological background

A thorough review of the field of internet shopping, from the perspectives of Psychology, Sociology, IT, Marketing and Business Studies, reveals that the theoretical approaches used within these disciplines draw largely upon behavioral models of psychological origin, in order to predict and explain consumer behavior. A review of this literature also reveals that methodologically the field is largely based upon quantitative approaches, while qualitative approaches, though represented, have been under utilized.

Academic studies of online consumer behavior are fragmented, in terms of both scope and theoretical approach. Indeed, Cheung, Chan and Limayem (2005) state that 'no unifying theoretical framework is found in this area'

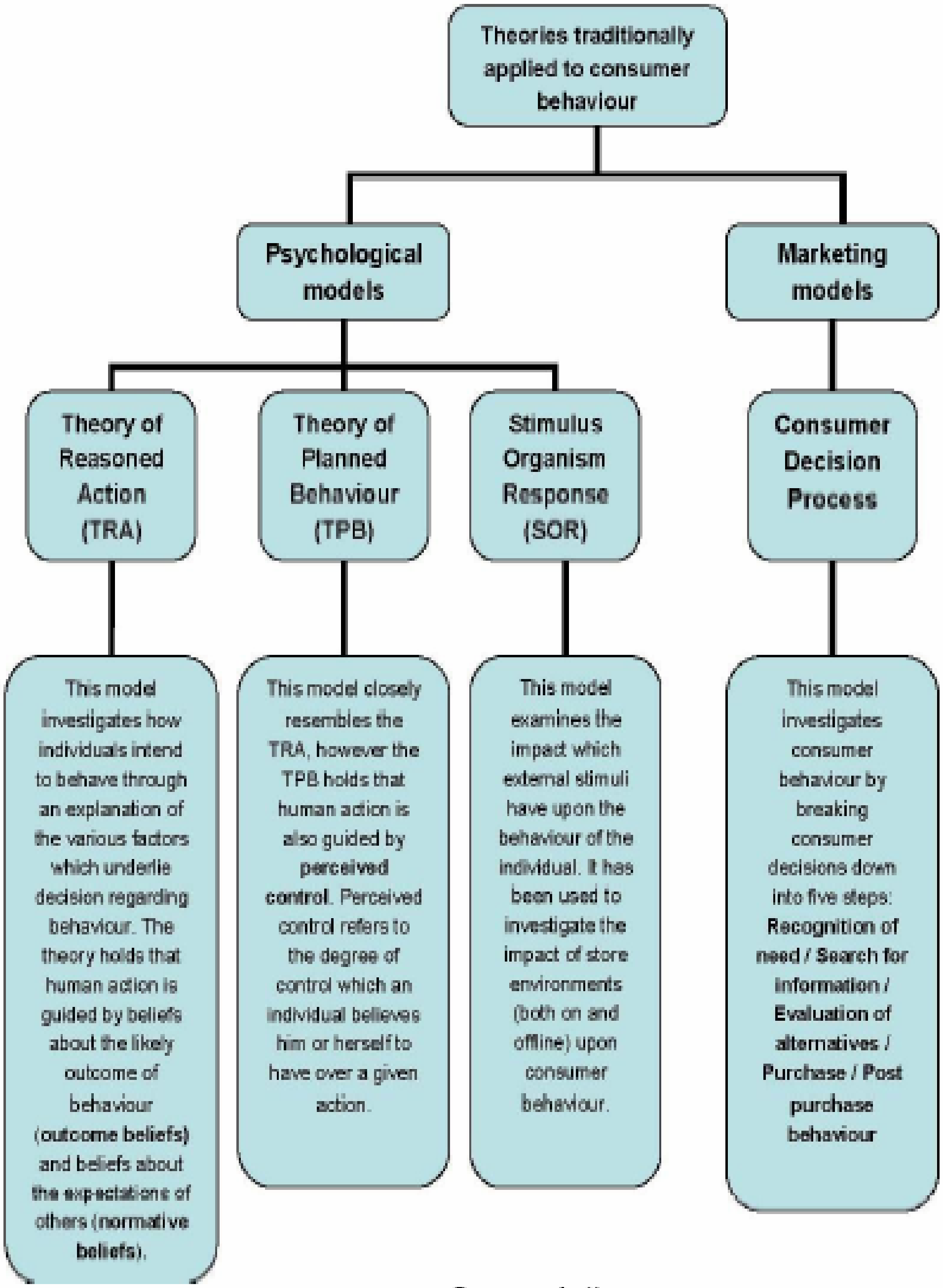
Theoretically based academic studies of internet shopping can be divided up into two groups:

- those which use approaches which have traditionally also been applied to offline consumer behavior, and
- those which use approaches which have been developed or adapted specifically to study the behavior of online shoppers.

The former, and larger, of these groups, views online shopping in a way very similar to offline shopping, in that it approaches its study through the same set of theoretical lenses, and their applicability to online shopping is 'taken for granted'. Some theories within this group begin from the assumption that shopping online is based upon the same cognitive and social factors as offline shopping. Other approaches within this group are 'neutral' in this regard. This is because these approaches tend to employ universal behavior models (such as the **Theory of Reasoned Action**), which seek to identify the factors which influence action, rather than identify what is particular about internet shopping behavior.. The latter group, in using theoretical approaches which are specific to online shopping, work on the assumption that online shopping behavior has significant differences to its offline counterpart. Figures 1.1 and 1.2 map out these two families of theories in diagrammatic form. This section of the report will be primarily based around a discussion of these different theoretical approaches to online shopping.

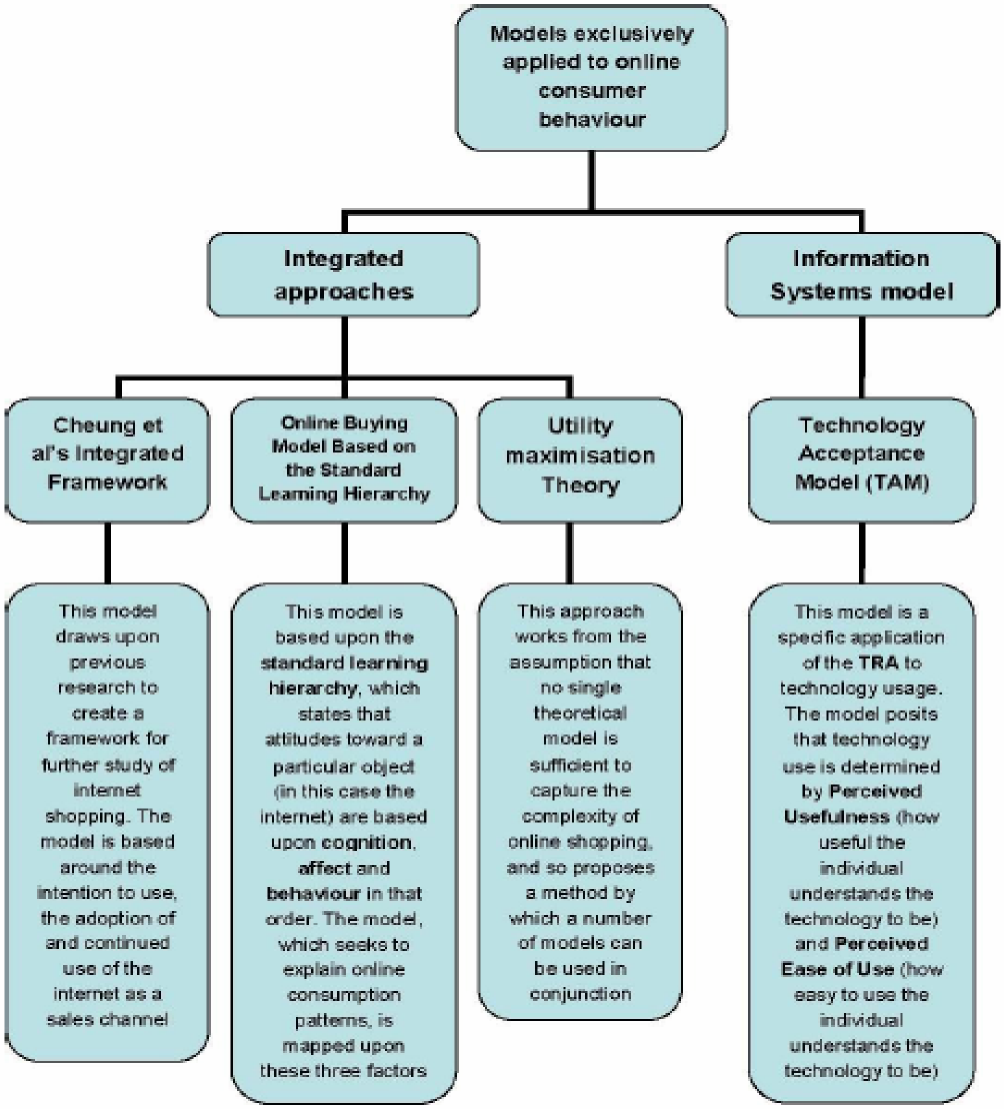
We begin by exploring the approaches from the first group (that is, those theories which have also been used to study offline behavior), before turning to the second group. We then consider recent attempts within the field to develop integrated frameworks for further study, before considering under utilized approaches to the study of online shopping.

Fig. 1.1: Theoretical models traditionally applied to consumer behavior



Source: Authors own.

Fig 1.2 - Theoretical models exclusively applied to online consumer behavior



Source: Authors' own

Traditional theories of consumer behavior

This review identified four main theories traditionally applied to offline consumer behavior which researchers have also used to analyse consumer behavior towards online shopping:

- The Theory of Reasoned Action
- The Theory of Planned Behavior
- Stimulus Organism Response
- Decision making models of consumer behavior.

The **Theory of Reasoned Action** (TRA) is a theoretical approach which has been used extensively as a tool to help explain consumer actions, in both on and offline contexts. Cheung et al. (2005), in a review of 335 different articles on internet shopping, drawn predominately from the fields of Marketing, Business and IT, found that approaches utilising some form of TRA (including the **Theory of Planned Behavior** and the **Technology Acceptance Model**) were the most prevalent theoretical approaches to the study of online consumer behavior.

The TRA (Figure 1.3), created by Ajzen and Fishbein (1980, see also Ajzen, 1985), is a psychological model which investigates the various factors underlying the decision of an individual to behave in a particular way. The theory holds that human action is guided by two kinds of considerations:

- Beliefs about the likely outcomes of the behavior and the evaluations of these out comes (outcome beliefs)
- Beliefs about the normative expectations of others and motivation to comply with these expectations (normative beliefs).

The first of these considerations, outcome beliefs, deals with the perceived gains and losses resulting from a given action. If the individual perceives that the result of a given action will be mostly positive then, he or she will, in general, will hold a favorable attitude toward the action; if he or she perceives that the outcome will be mostly negative, then he or she will hold a negative attitude toward it. Outcome beliefs, therefore, influence the **attitude** which an individual has towards an action. The TRA states that an individual's attitude toward a given action. determines an individual's intention to perform that action. Intention to perform an action is also determined by their normative beliefs, which refer to the social influences that bear on decision making (known as the 'subjective norm'). Essentially, normative beliefs refer to the influence of the social pressure perceived by the individual to perform, or not perform, a certain behavior. If people important to the individual see performing the behavior as positive and the individual is motivated to meet the expectations of these social peers, then the individual will be more likely to perform the action. In contrast, if relevant others see the behavior as negative and the individual wants to meet the expectations of these others, then the individual will be less likely to perform the action.

As it is a general theory, the TRA does not specify a method for the measurement of either outcome or normative beliefs, and so it is left to the researcher to determine the specific issues to test for. For example, outcome beliefs, in the case of internet shopping, may concern perceptions about the relative convenience, or the relative expense, of shopping online as opposed to shopping offline. The TRA would then provide a framework for testing empirically whether these beliefs and attitudes were indeed related to the intention to shop online. Figure 1.3 illustrates the TRA in diagrammatic form, showing that outcome beliefs and normative beliefs influence an individual's intention to perform particular behaviors. In essence, in terms of internet shopping, this theory suggests that an individual's decision about whether to shop online is influenced by what they consider they will gain, and how others will see them.

The theory of reasoned action

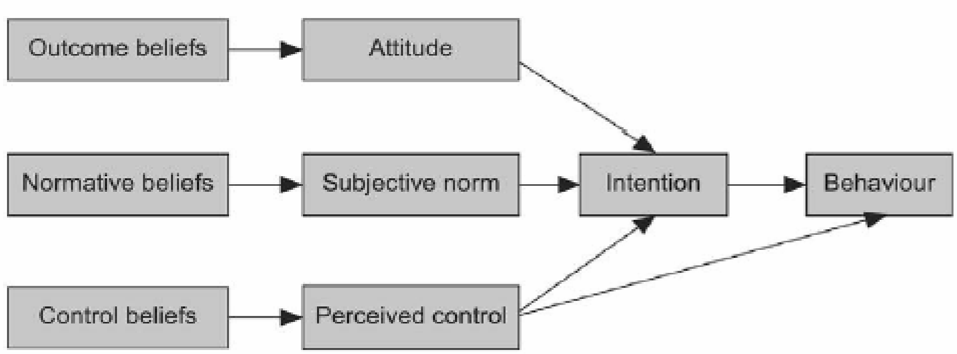
While the application of the TRA to the study of internet shopping is a continuation of a trend established in general consumer research, Hansen, Jensen and Solgaard (2000) draw attention to the theory's suitability to the study of online consumption. Drawing upon Lupton (1995), Hansen et al. state that shopping is a cultural practice, and the internet a social medium, and, therefore, we would expect the influence of social norms to be significant. He also draws attention to previous research, identifying perceived risk as an important element of online shopping, and suggests that, in seeking to reduce this risk, consumers may seek the opinions of others before engaging in the practice. The TRA has been applied and validated extensively in the study of online shopping. Vijayasarathy (2002) applied the TRA to an empirical study of 767 research participants from an upper mid-western city in America. Although the target sample included equal numbers of males and females, the response rate amongst females (62.7 per cent) was higher than those of male respondents (35.3 per cent). Therefore, the results of this study may be more descriptive of opinions held by females than by males.

Vijayasarathy revealed that intention to shop using the internet was negatively influenced by the tangibility of the product in question (that is to say, the extent to which direct sensory information was required during the purchase decision). Intention to shop via the internet was higher for goods of low tangibility than for goods of high tangibility. The study also revealed that some of the consumers' normative beliefs (that is, the perception of what people important to the individual think of the action) also differed according to the tangibility of the product. This indicates that 'not only do consumers themselves have less favourable opinions about online shopping for tangible products, but they also believed their important referents have similar views' (p. 422). Vijayasarathy discusses the implications of this finding, suggesting that, even though the use of the internet for shopping is often conducted at home and in private, people's use of this medium is nevertheless highly influenced by normative beliefs. Verhoef and Langerak (2001) also employed the TRA in a study of 415 Dutch internet shoppers and found that outcome beliefs had a significant influence on the intention to shop online. They found that this intention was positively influenced by the perceived 'relative advantage' of shopping online, compared to other forms of shopping, and negatively influenced by the degree of complexity which these consumers perceived would be involved in the process.

The Theory of Planned Behavior

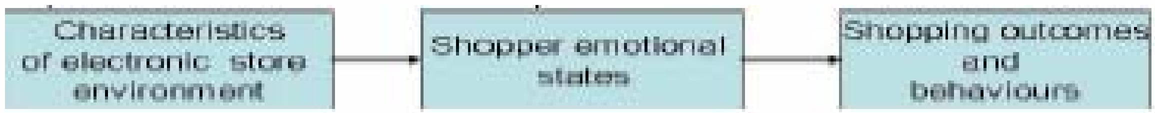
The **Theory of Planned Behavior** (TPB) (Figure 1.4) closely resembles the TRA, however the TPB adds the important factor of **perceived control**. Perceived control refers to an individual's perception of the difficulty of performing a given action. Perceived control is described as a control belief. Control beliefs suggest that a person's motivation to perform an action is influenced by how difficult that action is perceived to be, as well as the individual's perception of how successfully s/he can, or cannot, perform the activity. Therefore, if an individual has a high degree of confidence that s/he can perform the activity, then s/he will be more likely to perform the action.

Fig. 1.4 - The theory of planned behavior



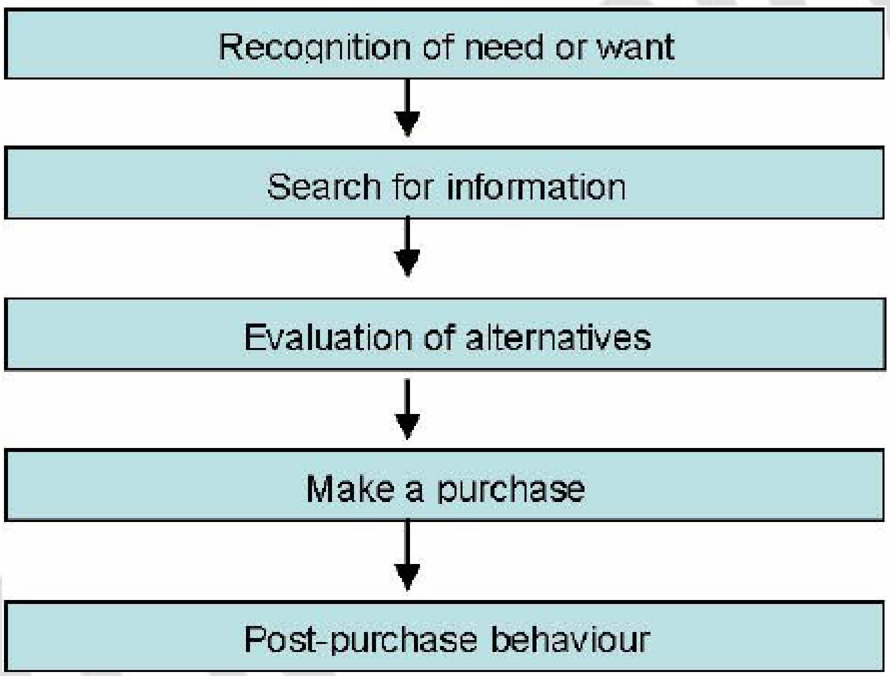
Source: Davis, 1989

Fig. 1.5: Effects of online shop environmental characteristics on shopping behaviors

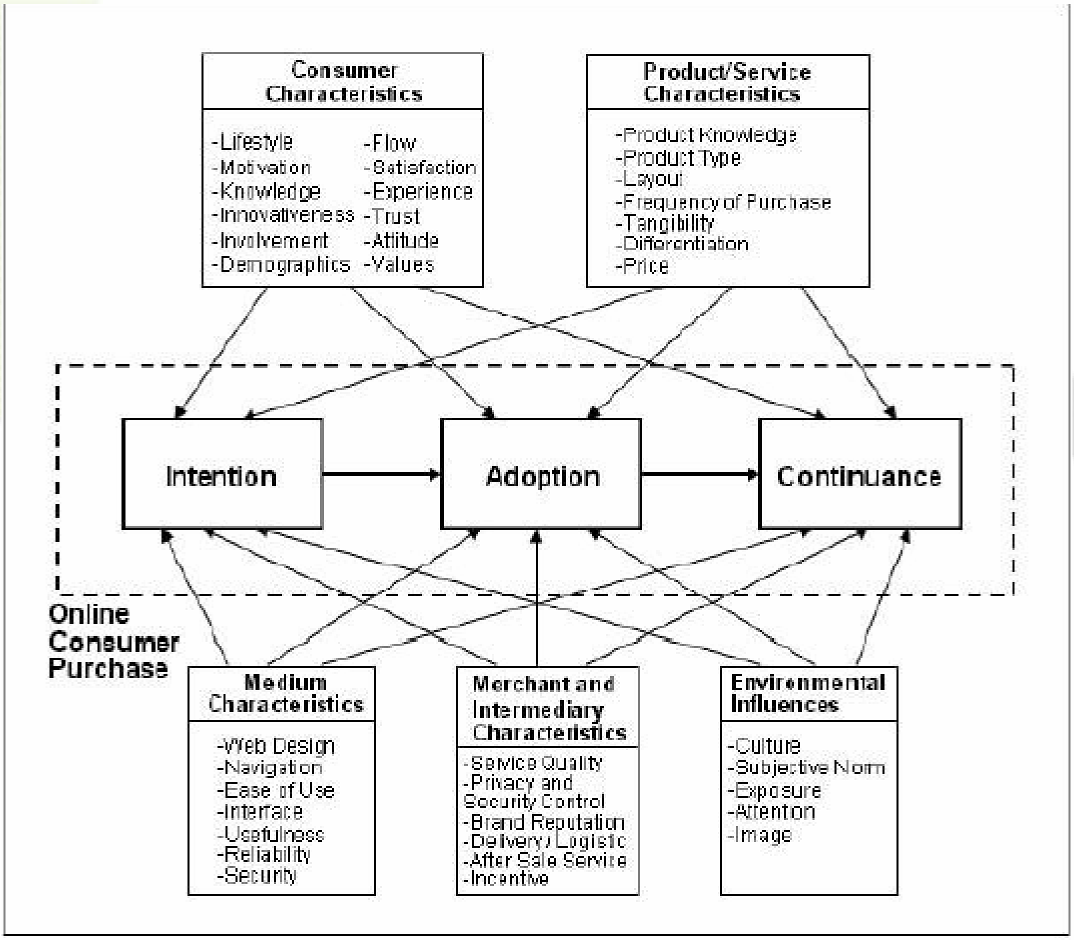


The model, which falls within the field of consumer behavior which investigates the way consumers think about their purchases, seeks to map the consumer decision process and has gained wide acceptance. In many marketing and academic texts, it is considered to be standard model for explaining consumer behavior.

Five step model of consumer decision process

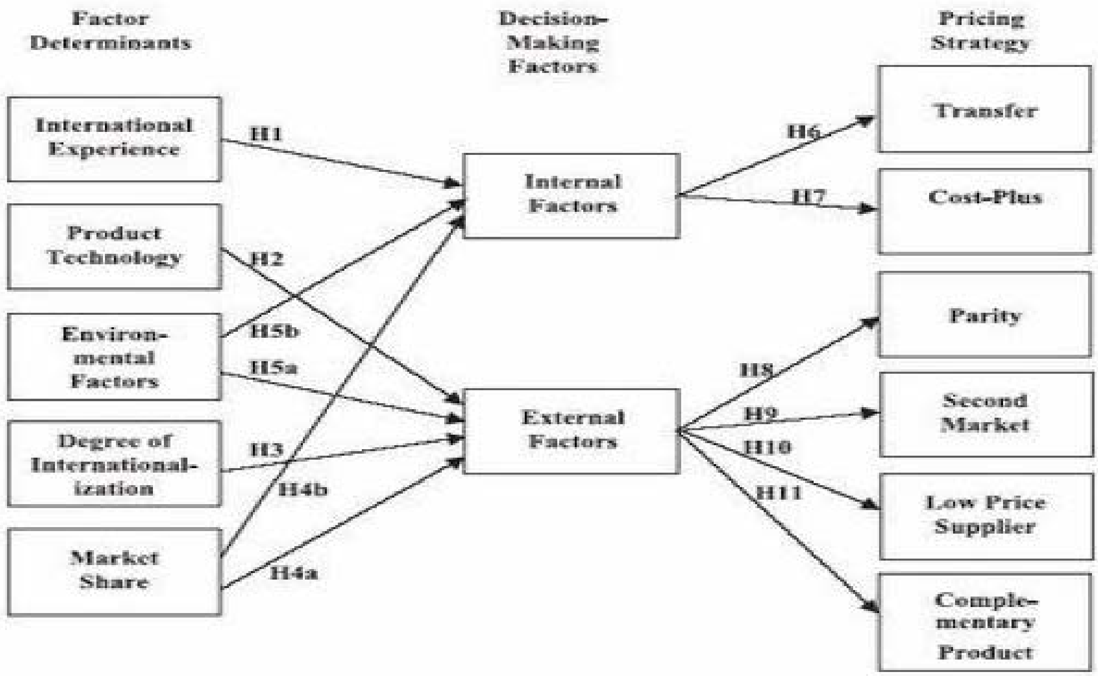


Cheung et al.'s framework for online consumption shows how each determinant is related to the following three elements of online shopping:



Chapter 7: Pricing Strategies.

International Pricing Strategies



Transfer pricing strategy

Transfer pricing is a strategy used when MNCs sell products to their divisions in other countries. Transfer prices between divisions will vary depending on variables such as the taxation rates (i.e., higher income tax rates in the parent's home country will lead to lower transfer prices emanating from the home country to foreign divisions) and the desire to minimize profitability of subsidiaries as a barrier to entry. Market prices are charged when tax rates are less favorable in the receiving divisions.

Cost-plus pricing strategy

This is the most widely used pricing strategy. Cost-plus pricing plays an important role in export pricing of industrial products, especially when firms begin to export to guard against market related uncertainty. Thus, when entering countries for the first time, it is easiest to develop a price based on the most accurate available information, internal cost figures.

Parity pricing strategy

A firm adopts this strategy when it sets its prices in a range where most buyers would find the prices acceptable and appropriate. Parity pricing is used by firms with lower industry control and market share. Firms adopting this strategy do so in lieu of charging a higher price for fear that competition could gain a significant advantage due to volume sales and experience cost savings.

Second market pricing strategy

Second market pricing is a strategy where different prices are charged based on distinct international markets. This strategy is viable when the price differential between markets does not exceed the transaction costs associated with arbitraging a product from one market to the next. Accordingly, this strategy must be employed with caution. If price differences between markets are too great, parallel markets may develop, thus reducing overall profitability. Second market pricing is a particularly important international pricing strategy in the industrial products sector. In fact, the use of this strategy is pervasive in the industrial sector as most of the dumping (an extreme form of second market pricing) complaints filed with the International Trade Commission are for goods such as chemicals and machine parts.

Low price supplier strategy

Firms using this strategy tend to adopt one of Porter's (1980) three generic strategies, low cost provider. Three conditions must be in place in order for this pricing strategy to be effective. The first is that the low cost suppliers need to be in a market in which their price changes are not easily detected by competitors. Second, these suppliers be in a market position in which competitors cannot effectively retaliate against them. For example, the ability of a competitor to retaliate would be limited if it is already producing at full capacity and cannot increase output. The third condition favorable to a low price strategy is that competitors' willingness to retaliate should be low, or unthreatened. If larger competitors were to retaliate in the case of a restricted market, the price reduction might undermine overall sales and profits in the larger related markets. In some cases this type of retaliation may be restricted by governmental regulations that prevent larger firms from engaging in price retaliation.

Complementary product pricing

This pricing strategy is usually more appropriate with products with high switching costs. The motivation of firms to use this strategy is to enhance customers' involvement with the original product to the degree that they are likely to purchase increased amounts of ancillary products or supplies. In effect, this scenario renders customers captive to the original product. As a result, higher profits are frequently realized by the supplier. Thus, the advantage-accorded firms using complementary products is that by charging a lower price for the primary product, they realize the benefits of higher profits through the sale of the complementary products or supplies. Firms that compete on price with their primary products are pressured to recoup their costs on these products, while no such pressure exists for producers of complementary products

Chapter 8: Success Factors in E-retail

According to research company Forrester (www.forrester.com), two-thirds of e-Shopping transactions are aborted after the shopper has already placed goods in the shopping basket, and nine out of ten buyers do not make a repeat purchase. e-Retailers need to make the purchasing process reliable, easy to use and efficient, removing the reasons for abandoning purchases. Human contact needs to be available to sort out problems — at least by email, but preferably also with a phone option. A software device such as HyPhone from Byzantium allows ‘phone- through’ without dropping the Internet connection (www.byzantium.com during office hours for a live demonstration).

A US survey correlated **Web site** characteristics with customer satisfaction. The conclusion was that success followed the content. A further important discriminator between high and low customer satisfaction was the ‘chat’ aspect (Feinberg 2001). Other US studies have found that the strongest predictor of consumers’ intention to e-Shop was `hedonic’ ; that is, the pure enjoyment of the experience (Childers *et al.* 2001; Dholakia and Uusitalo 2001). The importance of the enjoyment and human communication aspects is borne out by, for example, eBay (a US auction site (www.ebay.com)), with its emphasis on community interests such as chat rooms and bulletin boards, ‘one of the few Internet start-up companies to be avoiding financial pain’ (Reynolds 2000).

In-store, male and female behavior have been demonstrated to be different, with females tending to value the social and experiential aspects, males being more purposeful shoppers. e- g. Shopping, though, is poor at providing the social and experiential benefits, but good at finding the best deals quickly — the male purposeful style (Dennis *et al.* 2001; Lindquist and Kaufman- Scarborough 2000). Male and female shopping behavior tend to be much more similar on the Web than in-store, meaning that females are losing out on social and experiential benefits. According to US surveys, two-thirds of **Web site** visitors ‘will not buy online until there is more human interaction’, and women in particular want a ’sense of personalized relationship’ (Harris 1998; McCarthy 2000). e-Retailers should make the buying process more personal and interactive, especially for female shoppers.

DOS AND DON'TS OF E-RETAILING

Don'ts

- **Save your best page till last**
- Use too many graphics (long download)
- Fill each page, leaving no 'white space'
- Use too much narrative and long-winded wording
- Have too many sequential click-through pages

Do's

- Make it easy to buy (`three clicks')*
- Provide good service and aftercare*
- Provide membership incentives*
- Human communication, chat rooms and bulletin boards*
- Make e-Shopping an enjoyable experience — especially for female shoppers. Design the Webmosphere' for enjoyable shopping: video, audio, graphics and virtual store layout*
- Open with a strong introduction — great home page
- Design creative visual images
- Create a company image that makes your **Web site** stand out
- Avoid a clustered visual image (too many banners, too much information)
- Reinforce brand image and build brand strength
- Use short, concise phrases
- Vividly describe product benefits
- Offer speed-navigation to known points
- Build in customer interactivity
- Provide expert information
- Update displays regularly
- Price competitively
- Provide loyalty incentives
- Include testimonials from satisfied customers and, if possible, well-known personalities
- Offer a clear guarantee

Chapter 9: E- Retail transition in Aditya Birla Retail

The Group's foray into the retail sector began in 2006, when the Aditya Birla Group acquired Trinethra, the south-India based chain of stores. Trinethra has over 350 outlets spread across Andhra Pradesh, Karnataka, Tamil Nadu and Kerala.

May 2007 saw Aditya Birla Retail Ltd. launching their brand of stores **more. for you**
& March 2008 we opened our first hyper store **more. Mega store**

At **more.** retail chain is positioned on a platform that promises consumers a refreshing shopping experience that gives them better quality, better value and more variety, combined with convenience and ease of shopping.

more. promises a world class shopping experience to consumers, in their very own neighbourhood. Fulfilling everyday shopping needs for fruits, vegetables, grocery, frozen food, bakery, homecare, personal care and pharmacy. Offering branded FMCG products and house brands.

Till date 530 supermarkets have been rolled out spanning Pune, Mumbai, Ahmadabad, Delhi, Vizag, Bangalore, Hyderabad, Punjab, Gurgaon & Kolkata.

The Supermarket format has been launched keeping in mind the concept of "CONVENIENCE" to the customers and hence the idea of a Neighborhood store. The Hypermarket format is based on the concept of "VARIETY" to the customers under one roof.
Combining "CONVENIENCE" and "VARIETY", ABRL plans to foray into Online Retailing.

The biggest question that comes up is "WHY GO ONLINE"….especially when we have these age old concepts of Indian customers wanting to feel and see the products and then make their purchase decisions. A very valid concept…but what do you do in this modern era where we have nuclear families where the husband and the wife do not have the time for each other forget about shopping!! Here where Online Shopping comes to the rescue.

Also, looking from the retailers point of view, the real estate prices are touching the skies and then there are no guaranteed returns on investment. Hence, they foray into the concept which is Online Retailing.

So, what is Online Retailing in Aditya Birla Retail all about? As mentioned earlier, ABRL is an year old organization and is still in the process of making its presence felt through its Brick and Mortar stores. But keeping in mind the foresightedness of the group as a whole, we have already embarked with the initial preparation to venture into online retailing.

As is true with any other new business formats, here also, the basis is Planning and Strategy. The ABRL approach is "**SEA**" which implies **SPEED, EASE and ASSORTMENT,** hence offering the customers an ocean of pleasant experience by offering **high** speed, **absolute** ease and a **huge** assortment.

To elaborate further on the same, let's look at each of the elements of "SEA" in a more focused manner:

SPEED: We do come across site where the just doesn't seem to stop and we ultimately tend to log off the site. Here where the concept of speed comes in. We are talking about offering the customer convenience and at the very first step the customer's takes towards us, we have to focus on the convenience we are providing to our customer and that can be captured through high Speed. - High Speed in logging in, High Speed in Surfing and Speedy transaction.

EASE: Imagine when you have to just keeping moving from one page to another to reach your product of interest!!! Hence we have adopted the contemporary concept of Search Engines which will directly lead to the customer to his/her desired destination. Also, to a greater extent we have tried to consolidate the varied product categories in limited number of pages.

ASSORTMENT: We have ensured that the customer logs in smoothly, the transactions happen without any hassle and the last and the most important part is what we are offering to the customers. The answer is the variety in our assortment. Our variety of product categories includes:

- Apparel
- Electronic Gadgets
- Mobile and mobile accessories
- Toys
- Kitchenware
- Home Linen
- Computer and Peripherals
- Books
- Music
- Sports Utilities
- Watches and Sun Glasses

As observed from other retailer's experiences who have forayed into online retailing, the key driver categories are Apparel and Electronic Gadgets. The idea is to keep to the merchandise at attractive prices and focus on value packs.

Although, we have conceptualized the basic strategy of ABRL's foray into Online Retailing, we are in our infancy stage and shall mature in another year's time in being able to offer our customers a **VIRTUAL SHOPPING EXPERIENCE** and offer "SEA" of opportunities.

Some New dimension's of E-Retailing which has emerged recently but is yet to tap in India is been shared in the next chapter's....

Chapter 10: Multi-Channel Integration for Retail Website.

ABSTRACT

The demise of electronic-only retailers has led to the domination of electronic retailing by multi-channel retailers. Many of the latter have recognized that multi-channel integration can improve their customer acquisition and retention capabilities. To realize these benefits, however, retailers need to provide a consistent and superior shopping experience across channels. This implies that the purpose of Web sites should no longer be solely to induce consumers to purchase products online. Instead, Web sites should facilitate and support consumers in their interaction with retailers throughout their purchase and consumption activities, regardless of in which channel the actual transaction takes place. Web sites thus become IT-based self-service instruments for consumers. Focusing on the retailing of tangible products, this paper elaborates on how multi-channel integration can lead to benefits for consumers and retailers. Specifically, the paper elucidates the new requirements and opportunities that arise for Web sites as integrated parts of retailers' channel portfolios.

During the previous two years, we have witnessed a severe shake-out and consolidation among electronic retailers. Many Internet start-ups that had market valuations vastly exceeding those of their traditional counterparts have now vanished (with the notable exception of Amazon.com). Gartner Group estimated that electronic-only retailers are left with a mere 17% share of the US e-retail market. Electronic retailing as a whole, however, continues to enjoy increasing popularity. It is still growing across the globe. It is now dominated, though, by traditional retailers that have successfully added the Internet as another channel to their channel portfolio. Moreover, these multi-channel retailers benefit not only from online sales. They also use the Internet to strengthen their traditional business. A study by Active Decisions in June 2001 found that two out of three online shoppers make their actual purchase offline. This business would be lost by electronic-only retailers. Multi-channel retailers, on the other hand, can still profit from such online shoppers if they are able to draw them to their own stores. In order to accomplish this, retailers need to integrate their channels and make them consistent, giving online shopper's incentives to stay with the same retailer when they switch channels.

The objective is to illuminate how multi-channel integration can lead to benefits for consumers and retailers.

MULTI-CHANNEL INTEGRATION AND CRM

Multi-channel integration is used to refer to the simultaneous and consistent employment by a retailing organization of Web sites and physical store-fronts possibly in addition to other channels, such that customers derive a seamless experience when they switch channels during their interaction with the retailer. The focus of this definition is thus the *customer interface*, i.e., the set of all touch-points between a retailer and a customer. the term *retailer* comprises both intermediaries and other organizations that sell products directly to end consumers. As mentioned before, only retailers of tangible products are considered.

The Relationship between Multi-Channel Integration and CRM

Customer relationship management (CRM) has emerged as a new trend in retailing during the Previous decade. The interest in CRM was raised by Reichheld [1996], where he showed that acquiring new customers could cost five times as much as retaining current ones. Other studies subsequently confirmed this effect (cf. Winer [2001] for a list of such studies). The goal of CRM can thus be defined as the attraction, sustainment, and development of successful customer relationships over time. CRM is based on the relationship-marketing paradigm. Customer relationships have been common in industrial marketing long before the advent of CRM. Further impetus for relationship marketing came from the services marketing perspective where relational marketing practices were important for success due to the experiential nature of services [Egan, 2001]. The widespread availability of advanced information and communication technologies has now also enabled retailers to employ relational practices in their marketing strategies.

CRM to consist of three phases: acquisition, extension, and retention. *Customer acquisition* is important to establish a customer base. It consists of two steps: attracting visitors and converting visitors into buyers. *Extension* is achieved through cross-selling and up-selling, which deepens and widens the customer relationship. Finally, *retention* is the continued use of a store, Web site, or other channel by the customer, who thus becomes a repeat customer. Despite its advantages, it is not certain that CRM is the right approach for all retailers. Customers might simply not wish any relationship. A study by the Meta Group showed that experienced customers allow at most between 10 – 20 relationships with online retailers. Egan [2001] also pointed out that CRM might not be appropriate for certain types of industries or products. Multi-channel integration can support all three phases of CRM. For example, studies by shop.org and Greenfield Online found that multi-channel customers are more loyal and spend substantially more than other customers. This is not to say, though, that multi-channel integration is only valuable for retailers that engage in CRM. Multi-channel integration makes sense also for a transactional marketing approach, where retailers are only interested in effective customer acquisition and possibly extension. Nevertheless, it is useful to consider the three phases of CRM as the goals of multi-channel integration efforts. The reader only has to keep in mind that while a CRM strategy requires all three phases to be implemented, multi-channel integration remains valuable even if only one or two goals are pursued.

SYNERGIES AS A RESULT OF MULTI-CHANNEL INTEGRATION

There has been a debate in the literature and among practitioners whether multi-channel retailers should integrate their channels, i.e., coordinate their Internet endeavors with their existing business (cf. Gulati & Garino [2000]). Many companies initially opted for a separation, spinning off separate Internet businesses or at least granting autonomy to the management of Internet operations. The American book retailer Barnes & Noble was an example of a company with such a strategy, essentially leaving its biggest asset – its physical presence – unused. The reasoning behind such approaches was often influenced by the hype surrounding the Internet during its early times, when physical operations were deemed endangered or even obsolete. Now that many electronic-only retailers have disappeared and multi-channel retailers compete with each other online and offline, more and more of the latter seem to recognize multi-channel integration as the preferable strategy. In their annual holiday shopping study Answerthink's Retail Solutions Group (www.answerthink.com) found that the number of U.S. multi-channel retailers that present a consistent shopping experience across channels has increased from 82 to 93 percent during the last year. The reason for the overwhelming preference for multi-channel integration is that it enables synergies between channels, which benefit customers. These benefits in turn improve retailers' customer acquisition, extension, and retention capabilities. It appears therefore that the advantages of multi-channel integration under most circumstances outweigh the benefits of channel separation as well as the difficulties of channel integration (cf. Gulati & Garino [2000]). Potential synergies between stores and

Web sites were first pointed out by Steinfield et al. [1999]. Here their work is extended by scrutinizing all possible purchase and consumption activities of consumers for potential benefits that they might gain through multi-channel integration. The *purchase and consumption* ***process*** (PCP) comprises all activities consumers may perform to satisfy a need. It includes both pre-purchase and post-purchase activities, as these constitute service encounters that can significantly influence customer behavior It is important to understand that the PCP is cyclical with regard to customer extension and retention, since subsequent purchases are significantly impacted by experiences a customer makes during earlier interactions. The PCP is thus an ideal framework for the identification of synergies between channels, as it includes all possible touch-points between retailer and customer. In the following, the synergies that could be derived based on the PCP are discussed and linked to the three aforementioned goals of multi-channel integration (see also Figure 2 in section 4). The focus is thereby mainly on synergies between Web sites and stores, as these are the most important channels (even though the considerations similarly apply to other channels).

The Purchase and Consumption Process

Increased awareness: As a first step of any interaction with a retailer, the consumer needs to become aware of the retailer and its product offerings. Retailers compete for this consumer awareness, because it is crucial for customer attraction. However, creating consumer awareness is difficult both for physical and electronic retailers. Store retailers often create awareness through superior location(s) [Newman & Staelin, 1972]. Without a superior location, they are at a disadvantage. The problem of awareness creation is even exacerbated for electronic retailers, as they cannot benefit from location advantages. Accordingly, e-retailers need to spend more money on marketing and advertising, driving up their customer acquisition costs [Rosen & Howard, 2000]. Through multi-channel integration retailers can use their Web sites and stores to mutually enhance their level of consumer awareness. According to a study by McKinsey, multi-channel retailers spend only about $5 to bring an existing customer online, whereas electronic retailers need to spend on average $45 for acquiring a customer. This improved awareness creation is a benefit for both retailers and consumers.

Increased trust: Tan & Thoen [2000] conceptualized consumer trust and perception of risk as interdependent factors influencing a consumer’s willingness to purchase. The perception of risk and the potential gains from the transaction determine a trust threshold that needs to be surmounted either by trust in the other party or by trust in control mechanisms. Jarvenpaa et al. [1999] viewed trust as a belief or expectation that the word or promise by a merchant can be relied upon and the seller will not take advantage of the consumer's vulnerability. Trust is particularly important during first-time interactions between retailers and consumers and therefore most pertinent to customer acquisition. Lack of online consumer trust is an important impediment to electronic retailing [Tan & Thoen, 2000; Vijayasarathy & Jones, 2000]. According to Lei & Robey [1999], consumers have cultural expectations about how to conduct shopping and payment as well as cultural norms concerning privacy, security, and ethical use of information. Due to their novelty and the absence of many trust-building features on the Internet, electronic retailers have problems in achieving the same status of cultural legitimacy as physical retailers, which often results in mistrust regarding their commercial conduct [Steinfield et al., 1999]. Doney & Cannon [1997] found consumers' trust to be affected by the sellers' investments in physical buildings, facilities, and personnel. Jarvenpaa et al. [1999] mentioned prior interactions with merchants, interactions with knowledgeable salespersons, and protection by strong social and legal structures as positively influencing consumer trust. Associating electronic stores with traditional retail outlets can therefore be an effective method to increase consumer trust [Steinfield et al., 1999; Vijayasarathy & Jones, 2000]. This association must be sufficiently strong for consumers to perceive electronic and physical channels not as separate entities.

Reduced risk: Dowling & Stealin [1994] defined risk as a consumer's perception of the uncertainty and adverse consequences of engaging in an activity. Consumer purchase behavior is significantly influenced by the perception of risk [Sheth & Parvatiyar, 1995]. Risk therefore affects acquisition, extension, and retention. Jarvenpaa & Todd [1996] found that lower perceived risk is associated with more favorable attitudes toward shopping. Moreover, when the perceived risk is minimal, consumers need recognition search & decision , transaction (order & payment), product receipt return /exchange consumption or use / repair etc. Bypass the search and evaluation phase [Hauser et al., 1993], which reduces the likelihood of destructive price competition for retailers. Jarvenpaa & Todd [1996] found two types of risk to be important impediments to electronic retailing: personal risk and performance risk. The former involves possible harmful consequences such as stolen credit card numbers. The latter refers to the difficulty of establishing whether a purchased product would perform as expected. The perception of higher risk in electronic channels stems primarily from the limited amount of sensory cues and the lack of personal interaction [Kolesar & Galbraith, 2000; Vijayasarathy & Jones, 2000]. Customers may hence want to obtain additional assurances offsetting these limitations. Multi-channel retailers can reduce online risk by offering customers to physically inspect products at their stores before purchase as well as to pick up products ordered online from stores or to return them to stores. Conversely, comprehensive information provided online should reduce offline risk.

Increased convenience: One of the most important antecedents of satisfaction with shopping is convenience [Szymanski & Hise, 2000]. Customer satisfaction, in turn, is likely to have a very positive impact on customer acquisition, extension, and retention. Convenience includes the ease of locating merchants, finding items, placing and canceling orders, and returns and refunds, as well as timely delivery of orders [Gehrt et al., 1996]. Multi-channel integration offers a number of opportunities to improve on these factors (see section 4). Convenience also implies that purchase activities can be conducted wherever and whenever a customer wants to. Therefore, a combination of online and offline channels should further increase convenience. Consumers may search online or offline or both order the product in one channel and obtain it in the other, and so forth.

Increased perceived control: According to Bateson [1985], perceived control has a positive effect on customer satisfaction. The possibility to choose different channels for their shopping activities should increase the level of control customers perceive. Moreover, the level or perceived control rises with the availability of resources and opportunities to perform a behavior [Keen et al., 2000]. As self-service instruments for customers, Web sites can provide precisely such resources and opportunities (see section 5). In comparison to the use of stores only, the use of retailers' Web sites to support offline purchases (e.g., for information search or post-purchase support) should therefore augment the perception of control even further.

Enhanced support: One branch of consumer choice theory views consumers as producers of "final desires" [Crouch, 1979] or "ultimate objects of choice" [Stigler & Becker, 1977]. A consumer's production depends on the array of acquired goods and services, the time allocated to production, and the ability to combine the goods and services in the given time into various quantities of final desires [Lei & Robey, 1999]. Value-adding services and supplementary products can support customers in the role of producer, adjusting for differential capabilities and knowledge. Providing such support also decreases the risk of commoditization. Enhanced support should particularly strengthen customer extension and retention. Multi-channel integration gives retailers the ability to provide support to customers, independently of in which channel the transaction has taken place. Moreover, since a multi-channel customer can utilize all channels, some of the supplementary products and services offered can be channel-specific, exploiting the strengths of the respective channels.

Ubiquitous personalization: Sheth & Parvatiyar [1995] proposed that consumers would engage in relational market behavior when marketers succeed in meeting their personalized needs. Relational market behavior, in turn, is tantamount to higher degrees of customer retention. On part of the retailers, personalization involves better understanding of individual customers' needs and offering the products and services addressing these needs [Keeney, 1999]. Multi-channel integration allows retailers to gather information across channels (to gain a more holistic picture of customer preferences) and then to meet individual needs across channels. This should strengthen customer retention and extension. Furthermore, comprehensive cross-channel information on customer preferences should also be beneficial for customer acquisition. Finally, customers benefit more directly if retailers enable consumers to access personal information (e.g., on past purchases) in all channels.

COORDINATION AND INTEGRATION REQUIREMENTS

According to a study by Indiana University and KPMG in 2000, most Internet users in the U.S. prefer to use multiple channels when shopping. The study found that 82 percent of respondents prefer to use multiple channels to learn about new products, 77 percent to search for product information, 59 percent would like the option of receiving merchandise through the mail or a store visit, and 39 percent would like to be able to return products through both channels. By enabling customers to use multiple channels during their interaction with retailers, multi-channel integration provides the platform to fulfill these consumer desires and thus leads to the synergies presented above. While the existence of these synergies becomes now widely recognized, however, it is less clear what requirements and options multi-channel integration involves for retailers' channel strategies. At present, most retailers are still experimenting with different solutions and strategies.

In the following, six elements are proposed to reflect the coordination and integration requirements of multi-channel integration in terms of the customer interface (i.e., the sum of all touch-points between retailers and customers). In other words, these elements determine how customers perceive the interaction with a multi-channel retailer during the purchase and consumption **process** in terms of their ability to utilize different channels. Therefore, these elements can be seen as the antecedents of the synergies presented in the previous section. Figure 2 details the relationships between the elements of multi-channel integration, customer benefits, and ultimately retailer benefits.

Branding: Integrated branding across channels, i.e., using the same brand name, logos, slogans, and colors as well as conveying the same image across channels, should strengthen customers' perceived association between channels. This improves awareness creation (e.g., often consumers simply type in the name of a retailer to find the Web site) and trust (a brand is a surrogate for factual information about a retailer and the quality of its products). Moreover, encountering the same brand name in multiple channels should enhance consumers' awareness of the brand itself.

Channel cross-promotions comprise the provision of information on other channels as well as financial incentives for using them (e.g., coupons). Cross-promotions serve as a means to direct customers to other channels and to strengthen customers' perceived association between channels, increasing awareness and trust in other channels. Gateway, for example, successfully employs physical show rooms for this purpose. Similarly, the California-based apparel retailer Gap Inc. views its physical stores as a powerful advertising medium for their Web site. On the other hand, Web sites can be used to drive traffic to physical stores, an option particularly interesting for retailers with store location disadvantages.

Consistency: Enabling customers to utilize multiple channels for their shopping activities leads to the benefits of increased convenience and control as well as reduced risk. This requires that the major product categories are available online and offline; for products available only in one channel, at least information on them should be accessible in both channel. Instore kiosks can be used to give store customers access to products available only online. Products should also be priced consistently, including promotional discounts (e.g., during clearance sales). However, a specially designated Web discount (possibly offsetting delivery costs) might be in order. Consistency should even extend to customer support and policies (e.g., warranties, product return policies). Absence of consistency destroys the customers' association of channels and limits their channel choices. Without consistency in product selection, pricing, support and policies, retailers might not only forgo important customer benefits but also confuse or even irritate customers.

Integrating logistics is pertinent to a retailer's ability to offer in-store product pick-up and return as well as informational services, such as online information on store inventories. Gap Inc. reported that customers buying clothing online appreciate the possibility to return products at physical stores, primarily out of convenience and cost reasons. According to research by Jupiter Media Metrix in 2001, 83% of U.S. online buyers preferred to return online purchases at physical stores and 59% would like to order products online but pick them up from offline stores.

Channel-specific capabilities can be exploited to support customers in their efforts to satisfy their final desires. Stores are superior for product sampling and social interaction between customers and sales assistants, catalogs for relaxed browsing, call centers for specific enquiries, and Web sites for information-based services as well as the provision of digital accessories (see more in section 5). Multi-channel integration does not mean that channel-specific advantages should be leveled. On the contrary, multi-channel retailers can enhance their customer support by exploiting unique channel capabilities. Through multi-channel integration this enhanced support can then be made available to the entire customer base. Ultimately, such a division of labor should also lead to cost savings. However, this needs to be carefully implemented, as customers might get irritated when essential services or products are only available at channels to which they do not have access.

Information management: It is with the help of customer information that companies can create a personalized environment for their customers. This not only improves the manner in which they respond to customer needs, it even allows them to actively anticipate those needs [Winer, 2001]. Furthermore, customers should also be given access to their personal information across channels. Channel-spanning personalization thus necessitates the collection of customer information in all channels, their integration, and their use for sales support across channels. Presently, only few retailers perform all three steps. According to a survey by Jupiter Media Metrix, only 18% of hybrid retailers are capable of assessing a customer's consolidated account activity while 67% of online buyers expected store staff to be able to view their online account information. A major difficulty of cross-channel information management is that customer behavior may differ across channels. Retailers need to take into account such differences when interpreting the data. On the other hand, comparison of information between channels can help retailers to identify strengths and uncover weaknesses of channels. Finally, retailers need to address privacy concerns of customers.

Integration Elements and Synergies

Multi-channel retailers have some leeway as to how to implement these requirements. Moreover, the importance of the different requirements and the strengths of the resulting synergies may depend on market conditions, organizational capabilities, and product categories sold. However, these issues are beyond the scope enhanced support increased convenience reduced risk improved customer acquisition, customer extension, and customer retention increased trust increased awareness ever-present personalization.

THE ROLE OF WEB SITES IN A MULTI-CHANNEL CONTEXT

Table 1 presents a list of features serving these requirements. This list has been compiled from examples of retailers pursuing multi-channel integration. The list is intended to be comprehensive with regard to commonly employed features.

Table 1 - Implications of Multi-Channel Integration for Web Site Design and Functionality

Integrated branding –

1) Clear and visible association of brand names (incl. logos and possibly slogans) across channels (either by using same name or cross-branding)
2) Web site design should reflect offline image and positioning of retailer.

3) Web site name (URL should be found by typing the name of the retailer) Channel cross-promotion.
4) Provision of information on other channels: store addresses, opening hours, and phone numbers; information on how to get in touch with customer support in different channels; store locators; information on call centers.
5) Encouraging channel switching: enabling customers to order catalogs; explicit advice on services available offline or in other channels; advertisement of offline events; easy print-out of product information.
6) Encouraging cross-channel purchases: online coupons etc. for offline purchases; enabling to redeem coupons etc. obtained offline Consistency.
7) Offering most products that can be obtained in other channels.
8) Information on product lines that are available in stores.
9) Consistent prices, discounts, customer support, and policies Integrated logistics.
10) Provision of information on options for offline pick-up, return, and repair.
11) Enabling customers to determine pick-up location, schedule repair appointments, etc.
12) Provision of information on order and delivery status (also for products ordered offline)
13) Real-time information on product availability in stores.
14) Courtesy hold-on Exploiting channel-specific capabilities.
15) Online offering of accessories and product support.
16) Provision of informational services supporting a customer's value creation.
17) Provision of convenience services.
18) Online offering of additional product types Integrated information management
19) Provision of information on offline transactions; pending offline transactions modifiable and cancelable.
20) Providing customers with access to personal information pertaining also to other channels (e.g., information on past purchases, email news letters)
21) Adjustment of product selection, recommendations, and services based on information
22) collected in all channels.

The implications of multi-channel integration for the design and functionality of retail Web sites. A list of features was presented that should be incorporated by retailers to contribute to synergies between their Web site and other channels. This list is based on considerations arising from consumer behavior theory and illustrated with examples of successful multi-channel retailers. It was shown that the goal of multi-channel integration must be to provide a superior customer experience that is consistent and seamless across channels. Web sites have an outstanding role in a channel portfolio, as they can function as self-service instruments for customers supporting also their shopping activities in other channels. However, here is mounting evidence that multi-channel integration can also lead to cost savings for retailers. More research is necessary to investigate cost-saving potentials. Furthermore, no arguments have been made as to the organizational implementation of multi-channel integration elements. Retailers will face different challenges depending on their existing **process** infrastructure, their capabilities, their organizational structure, and their relationships to business partners. Challenges include: IS integration (including, for example, ERP and CRM systems), integration with business partners in the supply chain, creation of appropriate managerial and staff incentives, internal channel conflicts, and risks such as brand dilution. Further research is necessary to elucidate the hurdles and challenges of implementing multi-channel integration and possible paths to their solution. Finally, the research presented is exploratory and thus to some extent hypothetical. Further research needs to be undertaken in order to validate the suggested relationships between elements of multi-channel integration, consumer benefits, and retailer benefits. There are three avenues for further research: a) a series of case studies to gather in-depth information on benefits and difficulties of multi-channel integration from the perspective of retailers, b) a survey of retailers to gain broader validation across product categories and other external factors, and c) a survey of consumers to verify the existence, antecedents, and consequences of cross-channel synergies from their perspective.

Chapter 11: Challenges for Automatic home supply replenishment

To offer value added services to current business practice, eCommerce expands into services increasingly cost efficient and consumer-oriented. At the same time the retail sector attempts to expand efficiency levels with Internet based collaborative, cross-organizational supply chain models [3] that provide a direct, shared and cost efficient channel from the supplier all the way to the customer. This interaction brings a novel kind of service, which is on demand, ubiquitous and personal. This paper reports on the experience gained through the EU funded My-Grocer project (IST 2000-26239) which aims to provide the service of automatic replenishment of home supplies (a service also known as vendor managed inventory or VMI) through monitoring of radio frequency identifiable consumer goods. Indeed, the main objective of MyGrocer [5] is to introduce advanced B2C e-services over intelligent mobile access devices, to enable full interactivity, personalization and automation of the replenishment process of home supplies. The project focuses initially on products in the grocery sector but it is designed to facilitate future extensions to the retail sector in general. To this end, it develops the necessary infrastructure for the products, the supermarkets and the "smart" homes, as well as a supportive mediation platform to act as the gateway between retailers and consumers, providing personalized services to consumers and advanced marketing facilities to retailers.

However, a global deployment of MyGrocer faces several challenges both technological and societal. This paper will focus on the required supporting infrastructure to MyGrocer before it enters the mainstream. In particular, the focus of this paper is on the need for standardization in identification product codes and electronic product catalogues and electronic business processes. Successfully resolving issues relating to consumer trust and protection of user rights will also be addressed.

The efficiencies of electronic inventory management

The use of RFID technologies for e-retailing focuses on its ability to provide faster inventory counts based on shelf content as well as significant reductions in point of sale (POS) costs. In particular, it has been estimated that in a typical supermarket out of stock conditions cause up to 3 percent loss of revenue due to the loss of sales.

According to a study by Andersen Consulting, in 53 percent out of stock conditions are due to store replenishment inefficiencies. Even worse, a further 8 percent of on the floor out of stock conditions occur despite the fact that the necessary supplies are in storage on site. A possible solution to this problem is to distance the store from the ordering process that is to establish ordering on the basis of consumption. A goods receipt system that automatically and accurately adds incoming material to inventory book-keeping combined with point of sales (POS) demand information, enables new, possibly order-less, replenishment solutions between distribution centre's and supermarkets. It is expected that this approach would reduce significantly out of self-stock conditions.

For an automatic goods receipt the identification of products would not have to be item level, transport package or pallet level identification would already be sufficient. For after sales, wireless product identification technologies also make new customer service models possible. Especially in the business-to-business situation new solutions based on wireless product identification can create notable after sales benefits to the customer.

For example, RFID technology could be used as the basis for new after sales solutions by constructing a portable maintenance database that may be updated with each service transaction. In the case of a grocery product, when the customer exhausts her inventory and discards packaging, the tag is read, the database is updated and a consumption alert generated and delivered to the customer most probably through her mobile device (Gould, 2000).

Technology standardization for interoperability

Standardization efforts relevant to MyGrocer are in the areas of product identification and intelligent tagging, business processes and data sharing and exchange. Central in this respect are the efforts of the Global Commerce Initiative (GCI). GCI is not a standards body but rather a coalition of user groups and initiatives. Its work is expected to result to standards through traditional bodies in this filed, for example EAN International and the Uniform Code Council, Inc. (UCC). Although the technical details that underlie these requirements are beyond the scope of this paper, in this section we will discuss briefly the missing components before a successful global deployment of MyGrocer type services.

The first MyGrocer requirement is for the uniform identification of products and automated data capture along the supply chain. The current situation is that there exists a range of complementary standards and implementation guidelines, a fact that leads to confusion for users in most cases. On the other hand, GCI aims to create a set of clear implementation guidelines for a global recommended standard for identification of products and evaluate its costs and benefits, thus defining a clear migration path for users.

One of the core requirements for the success of this aim is that the developed standard has global scope and that it includes current UCC, ECCC and all EAN Numbering Organizations. Thus, GCI aims to address Product Identification so as to remove barriers that hinder the free exchange of goods across borders. It is expected that widespread adoption of any resulting standards will be through the use of the collective involvement of GCI members to recommend improved standards and best practices. As part of this effort, GCI expects to deliverable a unified standard for the resolution of current divergent product lists as well as an integrated system to ensure current work fits with emerging technologies, primarily RFID.

A second MyGrocer requirement is for the development of a globally adaptable, flexible Product Classification system for the general merchandise and grocery business. This is particularly important as a catalyst to foster competition within the market segments, especially for own and budget shopping. The product classification should also provide methods for item set-up, maintenance, authorization and query. A first version of the Product Classification for Food & Beverages has been developed by GCI and is available since April 2001. It is currently planned that the product classification system will be extended to cover the apparel, drug, food service, general merchandise and indirect purchasing segments.

The third requirement of MyGrocer is for the extension of Enterprise Resource Planning (ERP), Advanced Planning and Forecasting (ASP) and Supply Chain Management (SCM) systems to cater for the free information flow between and across trading partners. Indeed, ERP is internally focused and ensures that all departments within the same organization talk the same language and ASP does for planning what ERP does for execution. Last but not least, SCM succeeds in facilitating the synchronization of information between organisations. Alas, ERP, ASP and SCM although they have undergone significant evolution have at their basis a fundamental focus on transactions.

On the other hand, the commerce over the Internet has opened up new channels but it does not imply that simply putting activities over the Internet immediately changes the nature of the relationship between trading partners. Internet-based Collaborative planning is that consumer behavior could be communicated "live" within multiple levels of the value chain (or trading partners) so as to make public the interpretation of the change in pattern. Instead of focusing on individual transactions which most frequently disguise the true nature of demand, the wholesaler and manufacturer could collaborate on the interpretation of change. If they collectively agreed that the demand change was real, they would collectively accelerate product push through the supply chain without any locally harmful effects. To this end the VICS CPFR and the ebXML efforts have produced specifications for process description and data exchange which bring this target closer to realisation.

Thus, a key requirement of MyGrocer is for real-time, global, secure and simultaneous communication: Real-time updates are necessary since if the information is outdated it losses its value; global is an implication of the fact that participants in a particular value chain may be from diverse geographic locations; security is paramount if trust is to be established across multiple trading partners and simultaneous since each value chain is a many-to-many relationship which is also the root of complexity of the phenomenon. Indeed, information is shared between numerous interested parties at the same time.

Social barriers to service adoption

Aiming at capturing user requirements MyGrocer project conducted research into consumer perception of its services. Research was carried out in Athens, Greece and there are plans to repeat it in Helsinki, Finland. Four focus groups were presented with a description of the My-Grocer services in development and were asked to discuss the implications in their everyday life.

Barriers to acceptance of the MyGrocer services referred primarily to the collection and processing of personal data as well as to the installation of RFID readers (perceived as monitoring devices) in consumer homes. A fundamental distrust in technology and technology providers in particular made the vast majority of the interviewees skeptical about MyGrocer. Especially the home scenario was treated with particularly negative remarks.

Substantial skepticism about the fair use of purchase statistics accumulated per customer was expressed by a number of respondents. A large percentage of them was particularly concerned about the use of this information: the sensitivity of this group was triggered principally by the eponymous customer identification and the idea of a preference list created by an analysis of their own purchase history.

A second barrier of acceptance lied in the fact that the suggested shopping format for some respondents seemed to imply a life-style regulated by technological means. In addition to this, the idea of a preference list based on a historical record of their purchasing habits appeared threatening and patronizing. In fact, most interviewees rejected the possibility that their behavior could be effectively captured by any kind of information technology system since they considered their shopping activity unpredictable to anyone but themselves. The implication of close monitoring of their activities and the resulting promotions was considered as limiting to the fun of shopping and contrary to the concept of shopping according to their mood and individual needs at any particular time. Furthermore, several respondents objected to the implications of this scenario in employment since MyGrocer services were perceived to limit working positions at supermarket stores.

The in-home scenario created strong defensive attitudes among respondents. This fact may be primarily attributed to the perceived intrusion of consumers' homes by monitoring devices which are perceived as the centerpiece of their private lives. As a direct consequence to that, respondents felt the need to defend their family environment by external factors. Individual habits were perceived as in need to be treated with the utmost discretion and thus the idea that they could be monitored and examined by experts for the benefit of retailers was strongly opposed to. Some interviewees even questioned the ability of technology providers to protect customer rights and as evidence to that they cited the currently frequent defacements of commercial web sites.

Observation

In this paper we have discussed the implications of emerging wireless product identification technologies for vendor managed home inventory. In particular, we claim that to maximise the return from the introduction of such services it is necessary to accelerate the adoption collaborative commerce processes. On the other hand, collaborative processes over the Internet depend on the adoption of open standards and provision of access to internal processes to trade partners. A significant step to this direction is the introduction of the GCI product code and categorization as well as the e-business process specification. Furthermore, a crucial step to this direction is the development of trust relationships with end consumers. Since VMI depends on personal data sharing between vendor and consumer, the intimacy of this relationship reaches an unprecedented degree.

Chapter 12: Return Policies – A Vital Process

Return policies can make the difference between a satisfied shopper and a frustrated ex-customer.

In our recent mini-eRetail Scorecard report (2000-11), we analyzed the return policies on the websites of traditional retailers and Internet only retailers.

In particular, we looked at four key criteria:

1. Can the shopper return merchandise to a local store?
2. The cost to the shopper to return merchandise
3. Can merchandise be returned without authorization?
4. The clarity of the returns policy and the simplicity of the returns process

Why the Returns Process Makes A Difference

Returning merchandise is possibly the most annoying facet of the online shopping experience, especially when it's the result of a damaged shipment or an error by the eRetailer.

If I make a mistake and order the wrong thing, then I accept some responsibility and suffer through the often painful return process without much complaint. Although, the more difficult this process is, the less inclined I am to shop at that particular store again.

What really gets me annoyed is when an eRetailer makes a mistake in shipping, or when the merchandise arrives damaged, and I have to put myself out to ship the product back to the company. By "put myself out" I mean anything that requires me to leave my house (or office, or wherever it is I typically order products online).

If I can order something and have it delivered without needing to leave my home there is no reason why I shouldn't be able to return it the same way, i.e. without leaving home.

Some companies recognize this fact, carefully including in each shipment return labels that allow the package to be collected from the home by the carrier, such as UPS. All that is required to ship the merchandise back is a quick phone call or online transaction to arrange for pickup and have the correct merchandise delivered.

Pre-paid return labels that use the postal service are also good, unless the package is too big to fit in a mailbox. In this case, a trip to the post office is a considerable annoyance.

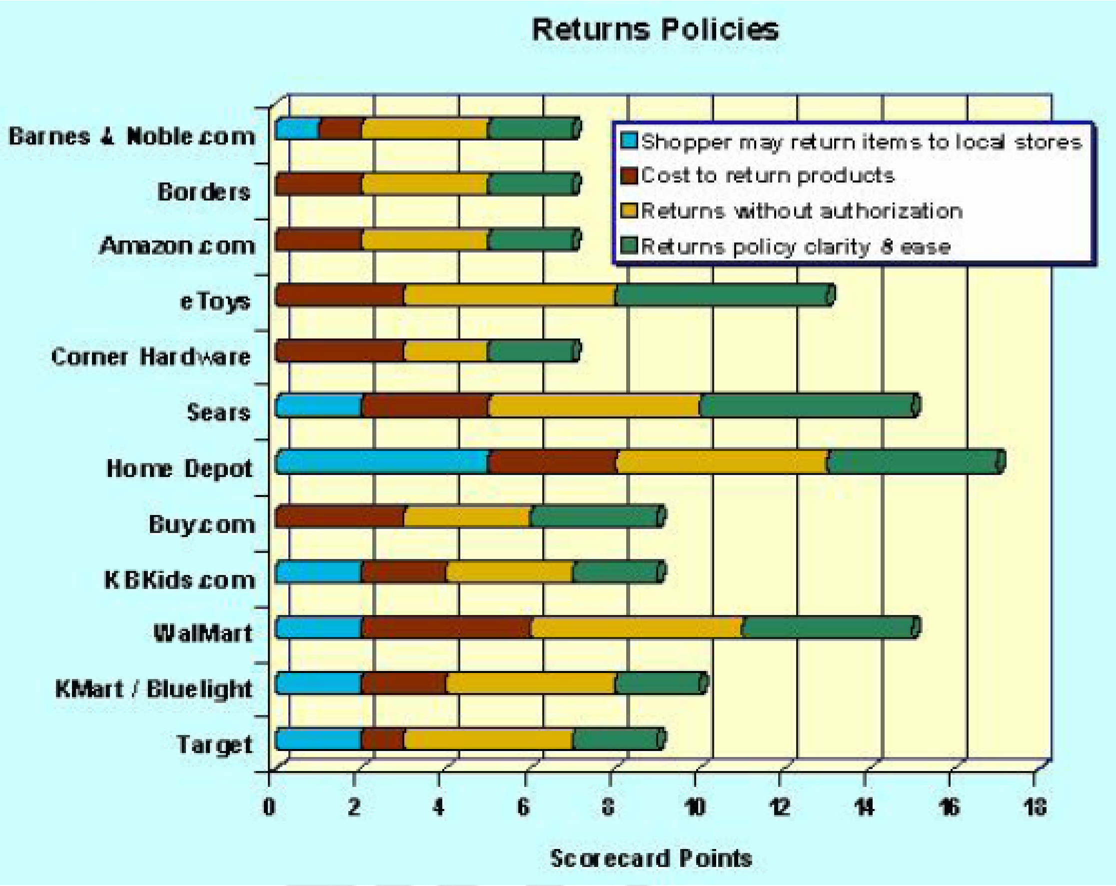
Then there are the eRetailers that suggest I should take my merchandise to the Post Office, UPS or another carrier, and pay to ship the merchandise back, making sure I request some form of tracking number and proof of delivery. Not only have I been inconvenienced, but now my total cost for this transaction has gone up considerably. Of course most eRetailers do say they will refund return shipping if the return is a result of their error, but how do they know how much I paid? And what happens if I received this item as a gift from someone else? All of this casts a pall of uncertainty over the whole process and makes many shoppers feel uneasy about shopping online, especially after they have had to return something!

From my perspective, being able to return something to a local store is not particularly useful in that it requires me to leave the house. On the other hand, it has the big advantage that I know I have received a credit for the return, something that always lingers in the back of the mind when returning merchandise through a third party carrier.

If a shopper is buying gifts to send to someone else, having a local store where the recipient can return or exchange their new gift is especially useful. That way the recipient doesn't even need to notify the gift giver they are exchanging the merchandise.

Not every online shopping transaction results in a return. Because of this, a shopper may happily make several purchases before discovering the inadequacies of a particular return process. From the eRetailer's perspective, it may be difficult to identify returns as a cause for losing repeat customers. One way to do this is to analyze the fall-off in repeat purchases for shoppers who have made returns vs. those who have not.

For many shoppers, returning a product is simply an extension of the shopping experience. If the returns process is difficult, the shopper assimilates that information to complete their perception of the entire online experience. eRetailers that economize on returns are in danger of alienating their customers.



Conclusion

I take the opportunity to share some stray thoughts emerging out of the learning's of my journey of the last 10 years in the Textile / Retail Industry.

It is clear that the customer in India is very different from the customer outside India. A single brand, a single URL will be hard pressed to do justice to both of these customer types, at the same time. From merchandising, to presentation, to pricing, and to the key value proposition offered, these will be entirely different for the two customer types. Even the quality of service that one needs to give to the customer, and which one can afford to give to the customer, varies a lot, between these two markets. As an organization also, this means two different cultures or attitudes, which cannot co-exist easily. So where we see many others attempting to address both of these markets simultaneously, it is our firm belief that we need to be focused to a market, and ensure that we have the best offering for that market.

Back in 1998-99, the decision to go NRI or India, was a simple one. There was no serious user base or market in India, and the NRI space certainly appeared far more attractive. Today, one may actually sit back and think – where should one rather be. And of course, each one will come to their own conclusion. For us, it still remains a relatively simple question to answer. The Indian consumer still has a distance to go before he embraces online shopping, especially for products that are otherwise in easy reach of his, in the offline world. There will be some early adaptors, and there will be specific unique product niches, where traction will happen. However on a mass acceptance front, I believe, it is still a while away. On the other hand, the market outside India has got only more attractive. In addition to the NRI, we see an increasing interest in things Indian, from foreigners – Americans, Europeans, etc. With the increasing interest in India, there is an increasing interest in Indian things. <u>And while finding the specific customer/s for Indian products in the large global population may be like finding needles in a haystack, yet, once found, these needles are made of gold and diamond tipped – essentially in terms of what they ARE.</u>

India Internet has come a long way just in the last decade , but I think we are still in early stages. It might still take some time to reach the maturity level of more developed markets. To me, it looks more like the pre-bubble period ('97-98) of the US market. is happening, user base is increasing, new companies are coming up - things seem to be moving in the right direction.

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