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IS **DISCOUNTING** THE ONLY WAY TO SUSTAIN AN E-COMMERCE BUSINESS?

Each one of us has at some point or the other shopped online. While for a certain section of people, shopping online has been about convenience or variety; for a majority of e-commerce customers, buying online means promo codes, discounts and savings. Unlike offline shopping, there is very little loyalty to one particular store when it comes to buying online.

Many a time, this may be because what is being sold online is a pure commodity and irrespective of where it has been bought from, the product remains identical. At other instances, the customer wants to be rewarded for saving the seller the cost of human interaction. Another store is just a click away for the customer. So, does that mean that the only way to grow an e-commerce business is through discounting? How would such a business manage to make money? How far would the investors go in sinking money to acquire new customers, in the hope that this will translate into customer loyalty?

According to a recent study, attracting new customers costs online vendors at least 20% to 40% more than it costs vendors serving an equivalent traditional market. No wonder, increasing the percentage of loyal customers by as little as 5% can increase profitability by as much as 30% to 85%, depending upon the industry involved.

The reason for this is two fold. Not only are loyal customers more prone to make frequent purchases, they are also typically willing to pay a higher price and are more understanding when something goes wrong.

A good purchase experience for the first few times ensures the customer stays with the company for the entire customer lifecycle.

But the question remains that if everyone is selling the same product on their portal, can there really be product differentiation? Is there more to it than just luring customers at the cost of burning the investors' pockets?

The good news is that there indeed are a couple of factors where e-commerce companies can ensure the customer stays with them for the entire lifecycle. The bad news is that when it comes to these key factors, most companies do not pay adequate attention.

First and foremost, the e-commerce company must provide a good online shopping experience on its website as this is the first touch-point for the customer. What a sales manager is to an offline store, a company's website is to an online customer. A non-working link, the website going slow, hanging or worse, crashing, online payment failures, can turn most customers away from e-commerce portals. But beyond the basic rules, how does one ensure the customer finds the right product for himself with minimum clicks?

How does one ensure finding the maximum about a customer asking the least upfront from the customer herself? How does one personalize the entire customer experience? Imagine visiting a website to find the exact product of your choice in the very first scroll. Simple things like knowing the customer's location, likes, interests and friends can be used as a powerful mechanism to customize the website with products targeted for each individual user. When it comes to this sort of personalized customer experience, Amazon is known to be the master of the craft. With every click, Amazon's website keeps learning about the user and rendering more customised results.

No wonder, it is a clear market leader when it comes to personalized user experience. Almost 30%-40% of searches are now taking place on the mobile phone. Indian mobile-commerce is expected to grow at 70% CAGR between 2012-16. An estimated 11% of India's e-commerce business is now taking place through mobile phones. Customers are growing device agnostic.

With the rapid growth of mobile and smart phone usage, those who have first mover advantage and can capture the users through a good mobile website and mobile application experience would likely win the race. The challenges and trade-offs though will be in terms of investment of time and resources.

Once the purchase is completed, the next point of the supply chain is delivery of the product to the customer. What if the product the customer orders is found to

have gone out of stock? What if the delivery takes a long time and requires multiple follow ups with the call-center or support teams? These are practical issues which most e-commerce portals are facing today. How much and what to stock, large variety of SKUs, maintaining real time inventory on the websites, how to ensure the customer gets what he pays for? What if the customer ordered one product and received another?

What if the product delivered is defective?

What if the customer books a hotel room online and the photos shown on the website are very different from what the rooms actually are? How do you ensure quality of service delivered does not suffer? The key is to ensure the supply chain is set up and maintained top-notch at both input and delivery side, not just in terms of speed of delivery but also quality of products. I personally have been delighted by the four hour delivery time promised and adhered to by a certain apparel website. Since then, I have switched to buying most of my apparel from this wonderful e-commerce portal for clothes.

What if the customer booked a flight with a particular online travel site and the flight was delayed? Would the customer hold the online travel agency or the airline responsible? How responsive is the company to not just acknowledge a problem but to take its ownership to get the issue resolved? Some of these issues are under the

“The key is to ensure the supply chain is set up and maintained top-notch at both input and delivery side.”

5 point formula to grow without discounting

- 1 Variety of product offerings
- 2 Best in class web experience
- 3 Efficient supply chain logistics
- 4 Customer centric call centre teams
- 5 Effective mobile platforms

e-commerce company's control and some are not.

While it is important to minimize the customers' problems, it is equally important to have a standard set for responding to customer complaints. How the lowest level resource - the call centre agent responds to a customer complaint is what will determine if the customer is likely to return to make a purchase.

On one hand, there are companies who have 'no-questions-asked' return policies; on the other there are companies which make the customer run for her money, even when their own product was defective or the customer had an unpleasant shopping

experience. Over the long term, e-commerce firms that ensure customer delight are likely to sustain, even when they start commanding a higher price for their services.

The e-commerce portals also need to have a strong feedback loop set up with their product suppliers to ensure customer delight. At the end of the day, the fact remains that if a customer has purchased a product through an e-commerce portal and is dissatisfied, then ensuring return and refund or exchange is the portal's responsibility. Whosoever takes full responsibility and for ensuring customer delight at all levels of service can become the market leader when it comes to online customer loyalty.

With all these ways of service differentiation, clearly discounting is not the only way to build customer loyalty. In fact, it is possibly the worst. Discounting only induces trial. The rest depends on what the user experience is. Even while selling a commodity like a computer accessory, all the above factors can take a particular e-commerce company way ahead in the race. Competing on service differentiation is in the e-commerce company's hands and can make all the difference even in a commoditised product market.

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QUICK FACTS: FIVE GREAT WAYS TO MAKE USE OF THE INVESTOR'S MONEY.

- 1 **Technology** – Nothing beats a great seamless, personalized online shopping experience
- 2 **Innovation & First Mover Advantage** – Can you be the first to offer something to the customer?
- 3 **Logistics** – Which customer does not love same day delivery?
- 4 **Acquisitions** – Myntra + Flipkart = The Future?
- 5 **Talent** – Great people build lasting companies!