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Ecommerce in India – Version 3.0

Flipkart's successful raising of US$ 200 million (about Rs 1200 crores) in its fifth round of funding could well mark the launch of version 3.0 for India's still fledgling but rapidly maturing e-commerce activity. The timing for this announcement could not have been more propitious since till just before this event, there were growing legions of sceptics questioning the viability of merchandise oriented e-commerce business models in India and then others who felt that e-commerce may have a future in India but it would be many years down the line. Perhaps some of these sceptics would now give a fresh look at the potential of e-commerce and begin to accept that it is a phenomenon whose time has already come even in India.

The first wave of e-businesses, better known as the "dot.com", came with a big bang in the late 90's but fizzled out with a big whimper by 2001. In hindsight, the reasons for the collapse of the dot.com phenomenon were quite obvious with the most glaring being the near absence of a tangible revenue model itself. The second version of e-commerce took off after a brief hiatus of 4-5 years. In this version, there was much sharper focus on generating of revenue both through sale of a wide assortment of merchandise and services. Most of these second generation e-commerce start-ups had a much more tangible business proposition, and a much better configured business model. The biggest challenge for most of those start-ups was to deliver profitability even though many were able to generate revenues and create repeat customers. The biggest challenge in achieving profitability was high cost of acquisition of new customers, and excessive discounting that negated the fundamental cost-advantage that an e-commerce venture could potentially offer, compared to a brick & mortar retail business, after achieving a certain scale.

Flipkart's incubation in 2007 (and several others that followed soon thereafter) was in such an era where most global e-tailers were trying hard to figure out how to grow profitably and hence while Indian emulators could see what the likes of Amazon, eBay, Taobao, 360buy, and hundreds of others were successfully doing in USA, China, UK, and elsewhere to generate revenues, they had to figure out the path to profitability entirely on their own since India had its own unique set of challenges that included poor penetration (and poorer quality) of internet, poor penetration of credit or debit cards and at the same time, the wide prevalence of "cash" economy, and under-developed supply chains and logistics infrastructure on the ground. It also did not help that almost all of these start-ups were by bright, young, and enthusiastic entrepreneurs who did not have much else by way of business experience or capital.

While it was (and is) no surprise that the India's political and bureaucratic leadership have consistently missed (or dismissed with disdain) some of the most transformation trends since India's independence be they relate to physical infrastructure (such as roads, energy, affordable housing, and public transport) or social infrastructure (such as education, healthcare, clean water, and sanitation), what was (and is) more surprising is the near lack of enthusiasm from India's leading industrial houses and other large businesses. Historically, Indian conglomerates and big businessmen have been the first to spot emerging business opportunities and commit huge quantum of resources even if such investments are likely to loss making for years to come. Several examples of such exuberance abound in diverse sectors that include power generation and distribution, roads and airports and other such infrastructure, telecom, oil and gas exploration and production, brick & mortar retail, and many others. Inexplicably, there is yet no major mega-investment push from groups such as Tata, Birla, Ambani, etc. in a pure-play e-commerce oriented business be it consumer oriented or business – to – business focused, or even in providing logistics and the back-end support to the consumer facing e-commerce businesses where the last mile connectivity has to be provided by logistics providers who can reach out to the length and breadth of India.

However, while the Government of India continues to ignore the irreversible trend towards non-store retailing and continues to prohibit any international investment in such ventures (and prohibit even the brick & mortar retailers with foreign investment to carry out an e-commerce activity), and while the big boys of Indian business continue to look at e-commerce either as a fad or an idea whose time is yet to come, the current Indian players in the space can rejoice in the success of Flipkart's raising this impressive quantum of additional funding. It is quite certain that this vote of confidence from Flipkart's investors shall enthuse many other investors too and more funds shall flow into the e-commerce space. Further, almost all of these investors have been providing a much needed mentoring support to these typically very young promoters, and also providing them support to get some top quality managerial talent on board.

Hence, India's e-commerce version 3.0 launch year could well be 2013-14 which would see beginning of a much more rapid convergence of many enabling conditions that include a rapidly increasing pan-India base of internet users, imminent launch of relatively better quality 4G platform data services, continued and enhanced access to financial capital and experienced managerial talent for e-commerce ventures, much better understanding on revenue and profitability drivers for e-commerce formats, and above all, the very steadily increasing acceptance of e-shopping as the retail channel of choice by middle and upper middle class Indian consumers across India.

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