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India's Online Booksellers Try to Write a New Chapter

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In September 2009, on the day of the release of Dan Brown's novel "The Lost Symbol," Flipkart.com sold more than 2,000 copies -- as much as any brick-and-mortar retail store in India. It was a watershed moment of sorts for the struggling Indian online book retail industry. For more than a decade, the sector has made very little progress at growing its customer base. Could this be the inflection point?



The Indian book market is valued at around US\$2.6 billion, according to a Technopak Advisors report of 2008. "Less than 1% of [India's] US\$2 billion book industry comes from the online segment, so the potential of the Internet is huge," says Sachin Bansal, co-founder and CEO of Flipkart. "We have done well because of the service we provide. The existing players were simply not meeting consumer expectations, [and that was] the precise reason we started the company."

Bansal's success with "The Lost Symbol" may have given the optimists reason to cheer. The company has indeed been living the start-up dream. Started in 2007, with initial costs of just under US\$9,000 and 50,000 titles, Flipkart made over US\$4 million in revenue last year. It expects to reach US\$20 million by March 2011. The site sells a book a minute. Earlier this year, Flipkart raised US\$8-10 million from New York-based venture capital fund Tiger Global Management. This was the business' second round of funding; it received an undisclosed amount from Accel India Venture Fund last October.

Flipkart isn't the only hopeful in India's online bookstore arena. Gujarat-based Infibeam has also announced a US\$20 million revenue target for the year. Several new players with ambitious growth targets -- Firststandsecond, Librarywala and Tradusbooks, to name a few -- are also hoping to gain a foothold in the market.

But there are doubts over whether the optimism is warranted. "I don't think any of the online vendors are currently profitable," notes Arun Naikar, business head of Landmarkonthenet, the 10-year-old online arm of the Tata Group-run Landmark chain of bookstores. There is considerable potential, however, for a profitable business model to evolve for selling books online in India, he adds.

Growing evidence suggests that book e-tailing will eventually trump retailing. The advantages are many: potentially infinite shelf space, no real estate costs, an absence of the personnel and infrastructure expenses involved with running a physical store, lower prices and no inter-state taxes. And the best part: easy scalability. But there are problems too. "There has to be a level of maturity in the market before e-tailing and e-commerce can take off," Mahendra Swarup, president, Indian Venture Capital Association, stated at an Internet Retail Vision event earlier this year. "I would guess the inflection point in this country is a good 10 years away."

The reason for Swarup's cautious prognosis stems from India's relatively low levels of Internet penetration. According to an I-Cube (Internet in India) study conducted annually by IMRB International and the Internet and Mobile Association of India (IAMAI), India had 52 million active (defined as those who have used the Internet at least once in the past month) Internet users as of September 2009. "But only 10% of those users indulge in e-commerce," according to Balendu Shrivastava, a group business director for the eTech Group at IMRB International. Even the Nielsen Global Consumer Report of June 2010 says that 41% of e-commerce users in India allot less than 5% of their monthly spend to online shopping.

The numbers are clearly dismal. An even more critical issue for online retailers, however, is that "e-commerce is not a purely Internet-based business," states chief operating officer K. Vaitheeswaran, chief operating officer of Indiaplaza, an online shopping mall. "The more important part happens outside the web, and given the delivery and documentation hassles

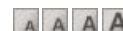
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in India, it is not easy to overcome the last-mile challenges."

Breaking Barriers

Delivery delays are the leading complaint of Flipkart's customers, Bansal says. Locally available books take three to five days to arrive, and those that have to be ordered from international suppliers can take anywhere from two to six weeks. In a world obsessed with instant gratification, that is a "big disadvantage," Bansal points out. "If we could deliver all books in three to five days, it would definitely help push sales."

Often the cause of delay is beyond the companies' control, notes Vishal Mehta, founder and CEO of Infibeam. For example, "very recently, the customs' software at the airport was not working for four days. When you combine all the perturbations in the system, the overall standard deviation in your process is huge. During our initial days, we depended more on luck than anything else."

Unfortunately, no amount of luck has been able to transform the massively disorganized Indian book market. "That makes sourcing of books extremely difficult," Bansal states. "There is no single person who can give you all the books, and adding new suppliers means [hiring] a bigger team to manage them. A lot of resources actually go into training and educating suppliers on how good service can actually boost sales." Supplier relationships are directly related to what Indiaplaza's Vaitheeswaran considers the biggest challenge facing e-commerce in India -- inventory management. The amount of inventory the companies carry is dependent on supplier lead times. If the lead time is 24 hours, the business will carry only one day's worth of inventory in its warehouse. That makes optimization of the existing supplier-inventory-shipping network a priority. "E-commerce will take off when we have access to accurate inventory information," Vaitheeswaran adds. "We are always dependent on third-party information about the availability of products, which at very best is modest."

Another challenge lies in overcoming psychological barriers. Some observers say Indians are reluctant to use their credit cards online, and India's banking regulator, the Reserve Bank of India, only recently introduced fraud checks on credit card misuse. But Bansal notes that "online travel companies are making billions of rupees in transactions every month." Yet the introduction of a cash-on-delivery option helped Flipkart increase its user base of 5 million by approximately 25% in a month-and-a-half. However, Gaurav Saraf, founder and director of Epiphany Ventures, a Mumbai-based early-stage venture capital fund, suggests that consumers differentiate between buying "products" such as clothes or furniture, and buying "content", including books, movies and games. "The low credit card penetrations in India of less than 5% notwithstanding, people have to see significant value in buying books online, either by way of massive discounts or by way of wider choice or information/reviews about the book. The value provided by low-cost [air] carriers and the convenience of online ticketing is colossal, [because] it nullifies the extra trip, and time in queues."

Catering to Customers

But even a compelling value proposition of assortment, convenience, service and price won't help if another core Indian trait doesn't change, some experts say. "Indians don't read," notes IMRB's Shrivastava. "Their hobbies are centered on [other forms of] entertainment." In spite of India being the third largest publisher of English language books (according to the National Book Trust of India), in percentage terms, the number remains insignificant compared to developed markets. "No matter where you are in America, or the U.K., you are reading and writing in just one language. A book in America becomes a bestseller if you sell 500,000 copies. In India, 5,000 copies are enough," Vaitheeswaran points out. "That's because the number of people that know English is low and those that read in English is even lower. In India, in the interiors and semi-urban areas, there is a lot more stress on reading and writing in the 27 different local languages. It is difficult for Indian readers to come together and spur the English books market."

While most online vendors stock regional language books, those titles usually account for less than 1% of a total stock that averages 6-7 million. Landmarkonthenet's Naikar suggests that "a lot of growth will come from regional language books but that will be a second phase. We should first concentrate on expanding the market within the existing categories." For Flipkart, however, "getting all the major regional language books on the website" is a target for the coming year, according to Bansal. But that has its own challenges, says Vaitheeswaran of Indiaplaza. "[Regional language] publishing is largely unorganized, of poor quality, and the selling prices are very low, which means lower margins."

But more than regional language books, observers say Indian websites are most lacking in user interface and service. In a country like India, shopping is often a family outing -- everybody participates in the purchase decision. Thus, the online experience must be truly compelling to offset the benefits of buying offline. "We have to realize that -- [the business proposition for online retailers] is a lot more than just technology or profitability. It is about selling content and making it more informative and addictive to make consumers keep coming back for more," according to Epiphany's Saraf.

Emerging vendors like Infibeam's Mehta and Flipkart's Bansal, both ex-Amazon employees, realize the importance of customer service; both implemented a "no-questions-asked" return policy on their sites and plan on including user history, reviews and recommendations in the near future. Almost all of the general interest e-commerce sites have also increased their product offerings to include music, movies and games. "Improving the online experience for the user is definitely one of our biggest tasks ahead," Flipkart's Bansal adds.

Customer satisfaction is what will ultimately provide online book retailers enough positive word-of-mouth to meet another significant challenge -- marketing. Bibek Banerjee, professor of marketing and economics at the Indian Institute of Management (Ahmedabad) and chairman of the Centre for Research in Retail, notes that "there is a lack of awareness about online bookstores." He recently conducted a dipstick survey in a class of 500 MBA students to find out how many shopped online. "It was a woeful figure," Banerjee says. "But the problem is that very few even know about the existence of online bookstores, including the fact that Amazon delivers in India." Most e-tailers only use online social media, including company blogs, Twitter and Facebook, to reach out to consumers. Some, including Landmarkthenet, have commercial arrangements with other organizations, such as banks and television channels, to create specific online stores and promotions for those businesses' employees. "The question e-tailers have to ask is, what percentage of awareness [they] can actually convert into purchases," Banerjee adds. "Unless they have worked that out, it is difficult to determine how they should be spreading awareness, because the broadcast medium is very expensive. Below-the-line viral marketing strategies might actually work better."

Trying Out Click-and-Brick

As antiquated as it may seem, experts say a brick-and-mortar store is still possibly the best means of creating the kind of brand equity with customers that online vendors are struggling to establish. Some analysts feel that Indian consumers are more secure transacting with a retailer who is present in both formats; a clicks-and-bricks hybrid model -- in which the business has both a physical and virtual presence -- could be the better way forward.

Prominent Indian bookstore chain Crosswords is set to launch its online store in three months. Marketing manager Sivaraman Balakrishnan says "it's actually bigger and better if you're present first in brick-and-mortar format, and then venture online, because then you have your physical stores and member database to promote your online format in a big way."

A physical store -- a known model -- would make it easier to ride the online learning curve. "When Kellogg came to sell cornflakes, they knew they were not going to make profit for the first 15 years," says Banerjee. "I think online retail is as challenging a deal as changing people's breakfast habits to accept cold breakfast. It is going to be a long gestation period, but I don't think the process is reversible. It is such a compelling proposition that once you're in, you're in."



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