

A Study of Operating Practices and Supply Chains in the e-Commerce Online Retail Businesses in India

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ABSTRACT

Beginning with the Fabmart.com founded by K Vaitheeswaran in 1999 the Indian online stores industry has taken baby steps to enter the country's business map. The Five layer Business Model, as has been proposed by the authors after their study of the industry, has been adopted by all the players, to a smaller or larger extent. The USP of the online industry is the low cost mantra facilitated by prepaid sales, online ordering and delivery at customer doorstep. The authors have proposed KPI's for all the layers of the business model.

We have studied the Indian e-commerce industry structure and practices and found that apart from the lack of investment capital (Indian banks do not, as a rule, lend to newly forming online companies, the industry has to rely mainly on venture capitalists), the supply chain management, the reverse logistics, the infra issues relating to prepaid sales vis-à-vis COD (Cash-On-Delivery) are all to be matured for the sustainability of online enterprises. We have studied two examples, one of a fashion online shop which has some unique features and another of an online venture selling a bouquet of products. Both these companies are at the two extremes of the Indian online industry spectrum – the latter is the largest in terms of size and oldest in terms of its antiquity (Flipkart was started in 2007), and the former is a recently started niche retailer. While some of their problems are common, there are differences which can make them take different ways in the future to pursue their businesses. The authors have tried to study and bring out the salient features and have proposed some thoughts on the way forward for the e-commerce industry.

Keywords: E-Commerce, Investment, Business Model

1. INTRODUCTION TO E-COMMERCE IN INDIA

The e-commerce business is the latest trend in connecting with the customer in a hyper competitive world where things change rapidly. Online transactions have brought a new dimension to the buying and selling of goods and services. Today the e-commerce industry is on the ramp up, thanks to the phenomenal success of amazon.com and other similar online enterprises. This is another area where the ever expanding computer and connectivity mechanisms have had a dramatic impact on day-to-day life.

The website http://en.wikipedia.org/wiki/Electronic_commerce defines electronic commerce, commonly known as e-commerce, as the buying and selling of product or service over electronic systems such as the Internet and other computer networks. Electronic commerce draws on such technologies as electronic funds transfer, supply chain management, Internet marketing, online transaction

processing, electronic data interchange (EDI), inventory management systems, and automated data collection systems. Modern electronic commerce typically uses the World Wide Web at least at one point in the transaction's life-cycle, although it may encompass a wider range of technologies such as email, mobile devices and telephones as well. (also see Urbaczewski et al., 1998)

According to the website <http://www.economist.com/blogs/schumpeter/2012/04/e-commerce-india> (accessed on 26/12/2012) “ .. in 1999 K Vaitheeswaran founded Fabmart.com (now IndiaPlaza), India's first e-commerce site. Nowadays more than 100m surf the web. Close to 30m scour for bargains online, and the number which grows by 1.5m every month. The industry is worth around \$10 billion, though travel-ticket sales alone accounted for \$8.4 billion last year. .. in 2011 investors ploughed more than \$450m into Indian e-commerce. Flipkart, India's largest online store by revenue has so far raised \$31m since it was founded in 2007 and employs more than 5,000 people. With average daily sales of \$500,000, the company aims to hit \$1 billion by 2014-15. ... In just two years

Figure 1: The Five Layer business model of an e-Commerce entity

Supply Chain	Suppliers- Regular, including own manufacture if applicable			Suppliers – spot purchases	
Logistics	Logistics	Warehousing	Wholesalers	Distributors	Retailers
Business	Marketing and sales	Web administrators	Website, online access	Administration, strategy	Business Sustenance
Markets	Customers				
Stakeholders	Media		Advertising	Competition	Regulations

Snapdeal's venture-capital (VC) backers have stumped up \$52m. Myntra, a popular seller of fashion products, has managed to tap investors for \$40m since its launch in 2007". (Also see <http://www.business-standard.com/india/news/indian-e-commerce-players-bullish-/460002/> accessed on 27/12/2012 and <http://forbesindia.com/printcontent/27042> accessed on 27/12/2012 for more details on the state of the Indian e-commerce industry)

e-Commerce has been in vogue for some time now . Many companies have resorted to e-commerce which term covers a broad range of activities principally related to offer of goods by organisations via the Internet and purchase of the same by customers. A growing part of the e-commerce business in India is the online shopping store. There are many of them selling a wide variety of consumer products – durables as well as consumables – and their importance is increasing by the day. The value chain in e-commerce store usually includes the following

1. The value creator – could be a manufacturing organisation or an organisation which provides access to customers to goods and services through the medium of the web or Internet or a combination of both.
2. The value offerings – could be multiple categories of goods (for example, branded retail, eBay , Jabong), or single category (for example, book-sellers like amazon.com , or fashion / clothes / electronics goods) or a combination thereof . The choice of offerings is dependent on how the value creator organises the business model.
3. The website and the related processes which make the customer accept the offers being made by the creator.
4. The warehouses and other arrangements which the creator uses to access goods and services from suppliers which are on offer through the website (could be termed as the backend processes).
5. The logistics and related processes which allow the creator to fulfil the promises to customers who accept the offerings online.

6. The reverse logistics processes which enable the creator to attend to the customer comments , experiences , complaints and other feedback.
7. The administrative and strategic planning processes of the value creator that use the data generated by the various parts of the value chain described above to run and sustain the business over the long term.
8. The summarised block diagram of an e-commerce store's business is shown in figure 1, which shall be termed as the “ Five Layer Business Model of an Online Store.

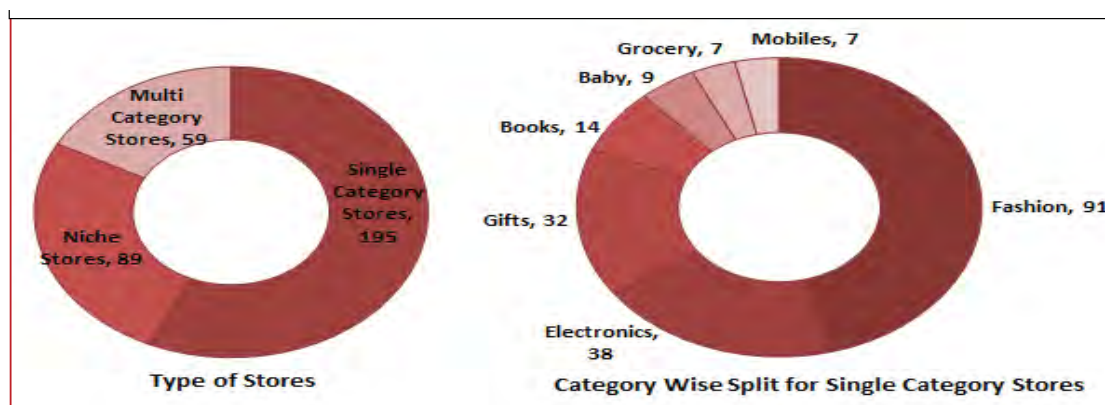
Thus in any e-commerce business there are FIVE cost centres or value addition centres. The unique feature of an e-commerce business is that the cost centres are also value adding centres. For example, unlike manufacturing where the Supply Chain is considered an outsourced or support activity, in an e-commerce business it becomes the central value adding activity. In a manufacturing system the cost of the supply chain activities could vary from 30 to 70 percent (from metals to automobiles), in an e-commerce business the cost is almost 80 percent of the total cost (see for example, Thomas Eisenmann and Alastair Brown, 2000). Similarly the warehouses, distributors, retailers become an integral part of the operations of the business, unlike in manufacturing where they are treated as the extensions of the main production activity. These features provide opportunities to e-commerce businesses to differentiate from their competition. Whereas e-commerce businesses do not need to have knowledge about the technical / production aspects of their goods and services which they offer to the customers, they need to nevertheless manage these aspects rather carefully, else these may become the Achilles Heel. Ever since Michael Aldrich of the UK invented “online shopping” in 1979 (http://en.wikipedia.org/wiki/Michael_Aldrich, accessed on 26/12/2012), others have also gotten into this way of doing business. The UK, USA, France, Germany have all embraced e-commerce in a significant way in trade, selling of consumer goods, electronics. The story of the Dell online sales model is well known in the industry,

Figure 2: Number of E-Commerce Online Shopping Stores in India

343	Stores Included in this Study The stores we were able to dig out and were actually selling some stuff
59	Stores classified as Multi-Category Stores selling more than one category like Books, Media, Electronics etc.
195	Stores classified as Single Category Stores selling single category like only Fashion, only Electronics, only Books etc.
89	Stores classified as Niche Stores selling a sub set of category. Ex. Travel Books, Novelty Items etc.
26	Brands that have their own online stores Example: Nokia, Puma, Samsung, Rebook. Bata etc.
23	Online stores of offline retail chains Example: TheMobileStore, CromaRetail, Next, Landmark, Crossword etc.
130	Stores selling Clothes and Apparels This is the most popular product category
91	Stores in Fashion Category Example: Myntra, Zovi, Jabong etc.
36	Stores selling Lingerie (and Innerwear) Why should boys have all the fun shopping online!
6	Stores with 'Kart' in their name Who says everyone follows Flipkart
23	Stores with 'Shop' in their name Yeah, it's all in the name
7	Stores selling Grocery Online Guess these stores need to add the feature of real time bargain
14	Stores selling only Books Seems like selling books is not easy after all

Source: <http://mysmartprice.com/blog/2012/05/the-great-indian-e-commerce-bazaar/> (accessed on 26/12/2012)

Figure 3: Category Split Across the E-Commerce Online Shopping Stores



Source: <http://mysmartprice.com/blog/2012/05/the-great-indian-e-commerce-bazaar/> (accessed on 26/12/2012)

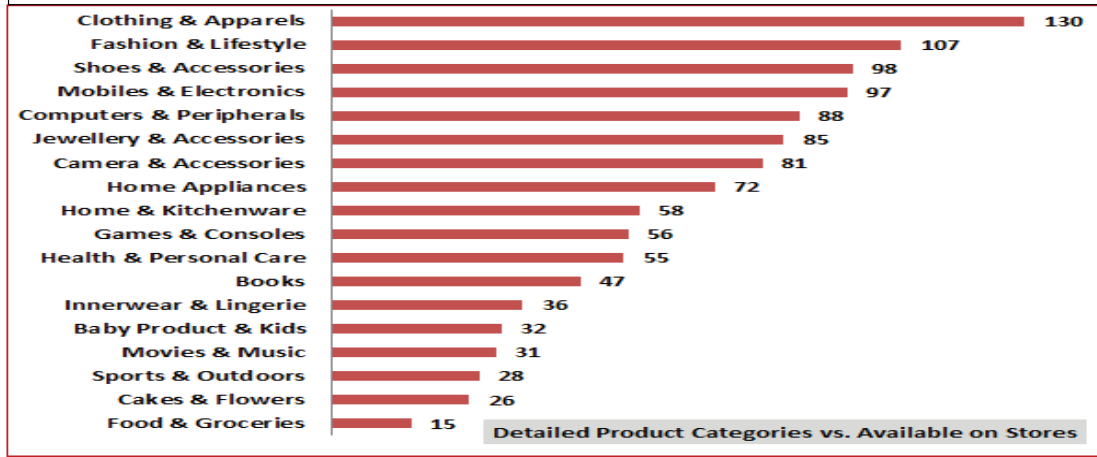
as is of eBay, amazon.com, the Indian Railways Ticket Booking System .

Indian e-commerce space percentage is getting higher as more and more online retailers are entering the market. One estimate of the e-commerce activities in the recent past and as of date is given below in Figure 2.

The ranking of the websites which offer e-commerce online shopping stores facilities in India is shown in Figure 5.

Above are the numbers that indicate the growing trend of e-commerce and the different segments each e-commerce website was focussing on. Although this level of entry

Figure 4: Product Categories Sold Through Different Websites



Source: <http://mysmartprice.com/blog/2012/05/the-great-indian-e-commerce-bazaar/> (accessed on 26/12/2012)

Figure 5: Alexa Rankings of different e-commerce websites (rankings as on May 15, 2012, as quoted in the website referred to in Figure 1)

23		175	
25		185	
35		199	
46		209	
102		247	
108		271	
138		336	
153		340	

in the e-commerce market is good from a long term perspective, the challenge is that most entrepreneurs don't have the resources or capital to wait for years before they can get profits.

2. THE SUPPLY CHAIN IN E-COMMERCE

The typical supply chain mechanism in an e-commerce website is shown in Figure 6.

Figure 6 shows how intricate the supply chain in e-commerce is. The more complex the offering of the e-commerce website, the more flexible and adaptable the supply chain adopted. However flexibility comes with a price and usually the choice of flexibility is a differentiator.

2.1 Process of ordering and supply of goods in e-commerce

Step 1: Customer orders the product on the website

Step 2: Production control orders the product and this purchase order goes to the vendor

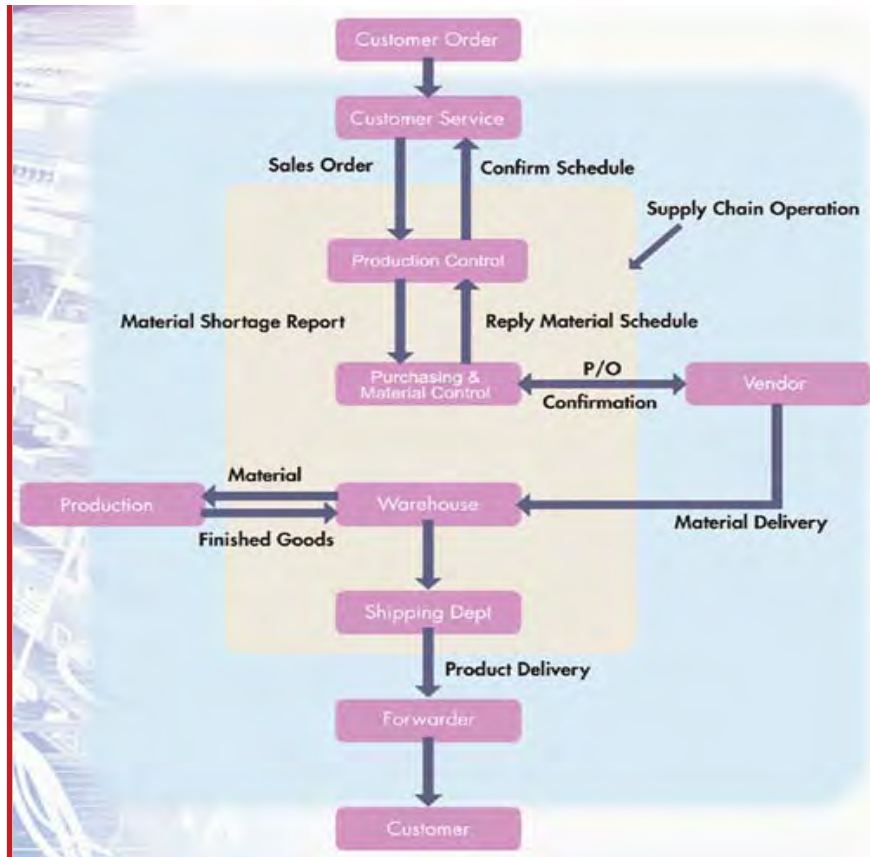
Step 3: The vendor delivers the product at the warehouse

Step 4: The production department is intimated about the receipt of the material

Step 5: The shipping department picks up the material from the warehouse

Step 6: The forwarder delivers the product to the customer

Figure 6: Supply chain in e-Commerce



2.2 Challenges in Supply Chain in e-Commerce (Figure 7)

At the strategy level, joint optimization of logistics with the suppliers, integrated IT solutions for management of goods receiving, high share of cross docking, fully automated notification system, highly efficient replenishment and restocking processes, fully automated organization and high forecast accuracy are some of the key areas which define the efficiency of the retail supply chain.

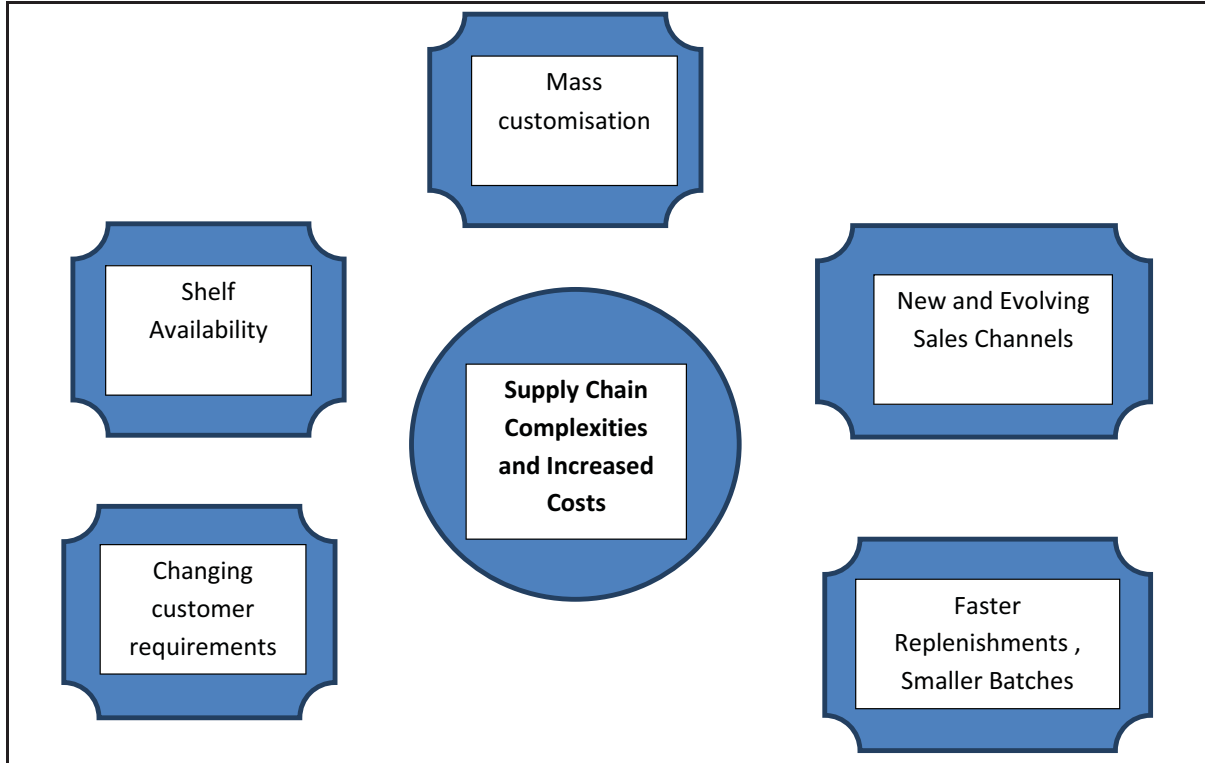
Similarly, an optimum network should focus on all the four aspects namely, network structure optimization i.e. having optimal number of platforms, delivery mode optimization whether direct or through distribution channels, inbound optimization and outbound transport optimization. These aspects are a must for a better delivery mechanism. Inventory planning to reduce stock-outs, inventory, ordering cost etc. leading towards demand fulfilment, cost minimization and capacity utilization are some of

the key levers for optimizing inventory management. Choosing the right combination of replenishment methods (pull vs push) also goes a long way in better inventory management. While inventory turns is the main KPI for evaluating retail supply chain agility, logistics cost KPI allow firms to evaluate the efficiency of their logistics and SCM operations.

Based on the Figures 1, 6 and 7 each e-commerce business has to identify the KPI's that can influence its profitability and profit. Given in Table 1 are the KPI's for each facet of the business.

Amazon chose the "books" segment to start off its foray into e-tailing in 1994 because the vast number of stock keeping units – titles - offered the possibility of compiling a vastly more selection than that available in any conventional retail book store (Stig Leschly et al., 2003). Since then there have been many new entrants into the e-commerce field. We have chosen two important e-commerce stores in India in the two most important product spaces – fashion retailing and general merchandise retailing – and

Figure 7: Supply Chain Challenges in e-Commerce



Source: http://www.aquameg.com/DesktopModules/ListingOfEvents/UploadFile/633773242659278750Fashioning_a_new_Supply%20Chain.pdf

Today’s supply chain needs to be engineered to cope with short life-cycles, high volatility, low predictability and a high impulse purchase phenomenon. Lean in-store logistics, efficient warehousing and staffing using cross-docking significantly, focused cooperation, demand replenishment, including customers in planning process, integrated organization are some of the levers with highest importance for an efficient and effective business functioning.

Table 1 : KPI’s for e-Commerce

Area	Stakeholder / Processes	KPI’s
Supply Chain	Suppliers	Number of suppliers, cost of supplies, delivery adherence, flexibility to change output and service, comprehensive product line, quality of output, ability to strategise and keep current with business needs
Logistics	Distributors / Logistics Companies	Warehouse locations, Reach, efficiency of performance like delivery adherence, defects free supply, reverse supply chain abilities
Business	Internal Business Processes	Order Tracking, Delivery Tracking, Stocking and Inventory Management, Customer Complaints Handling, Web Maintenance, Items to be stocked, Pricing and Terms of Offer, Daily Management
Markets	Customers , Customer Feedback and Market Information	Customer Data Capture and Analyses, Customer Preferences, Competition Activities, New Channels of Meeting Customer Demands
Stakeholders	External Circumstances	Regulations, Banking Methods, Cyber laws, Taxes, Filings with Government Bodies

two large e-commerce companies in this space today in India are Fashion and You and Flipkart . These have been chosen to illustrate the need for greater attention to the business model as well as the development of a comprehensive approach to e-commerce. For example, fashion sales online, at 31 billion USD, exceeds that of computers online sales at 30 Billion USD – apparel is the biggest selling category on the Internet (source: <http://fits.me/news/online-apparel-retail-and-what-future-brings> - accessed on 26/12/2012) in the US market . In spite of the issues like customers being not able to try or touch the fabric or see the “true” colour of the fabric, fashion continues to be a popular outlet for internet shops.

mentioned that she wanted FNY to be the global leader in online apparel retail and wanted to be responsible for 10% of sales for major apparel brands. Presently, the company is growing at a tremendous pace. According to a report by FNY, within 15 months, the company had over 1.8 million members, with a new member registering every 6th minute. They started selling apparel products and have included selling consumer appliances and lifestyle products such as bed linen etc. They also have more than 1.1 mn page views per day with 75,000 members logging in everyday at 1100 hrs to take full advantage of the daily sale which begins then. FNY has been growing at a rate of 35% since its inception.

3. CASE STUDY 1: FASHION AND YOU (FNY) (WWW.FASHIONANDYOU.COM ACCESSED ON 27/12/2012)

FNY was founded in 2009 and is a pure click company. It dealt in high fashion and was on an invitation-only basis when it started, not anymore though. FNY has over 400 brands from across the globe, reach in 550 cities, has 450 employees across their offices in Mumbai, Bangalore and Gurgaon, lastly it has a support of 2.8 million registered users. In an interview in early 2011, CEO Pearl Uppal

3.1 Order Processing at Fashion and You

Figure 8 shows the order processing at Fashion and You. There are few distinct observations when we look at the order processing.

- ◆ The customers are invited and not all can access
- ◆ The promotions are targeted based on customer interests
- ◆ Customer orders are received from 11 am

Figure 8: Order processing at Fashion and You

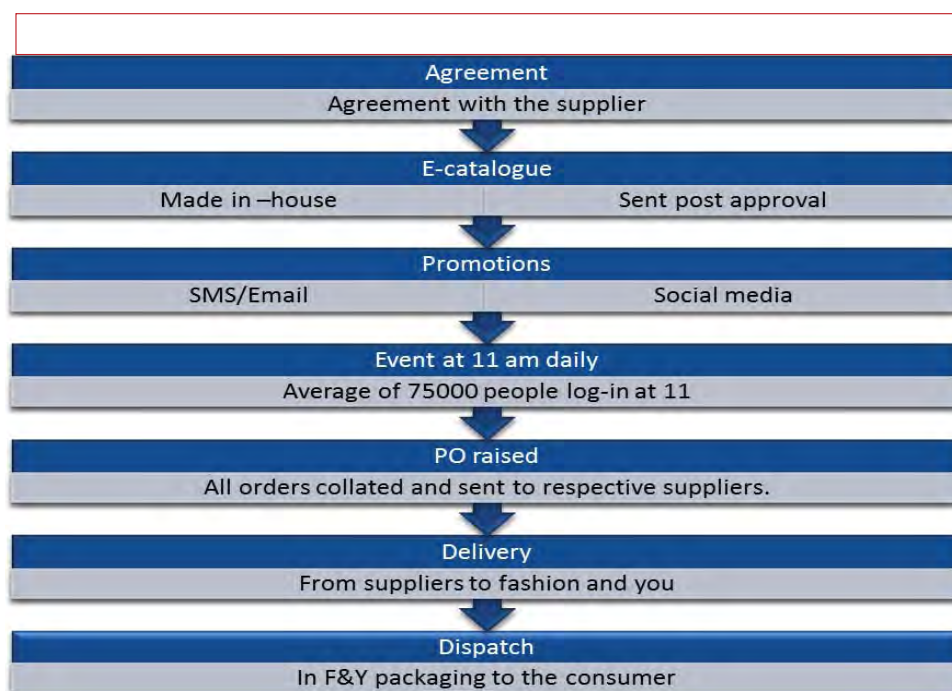


Figure 9: Forward Value Chain at Fashion and You

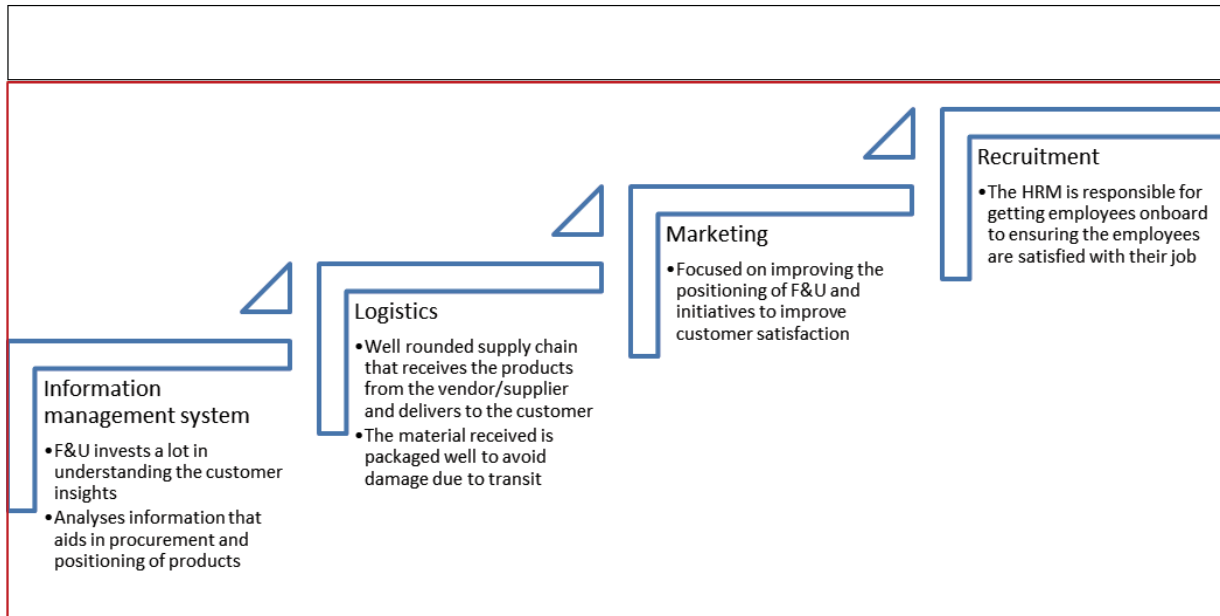
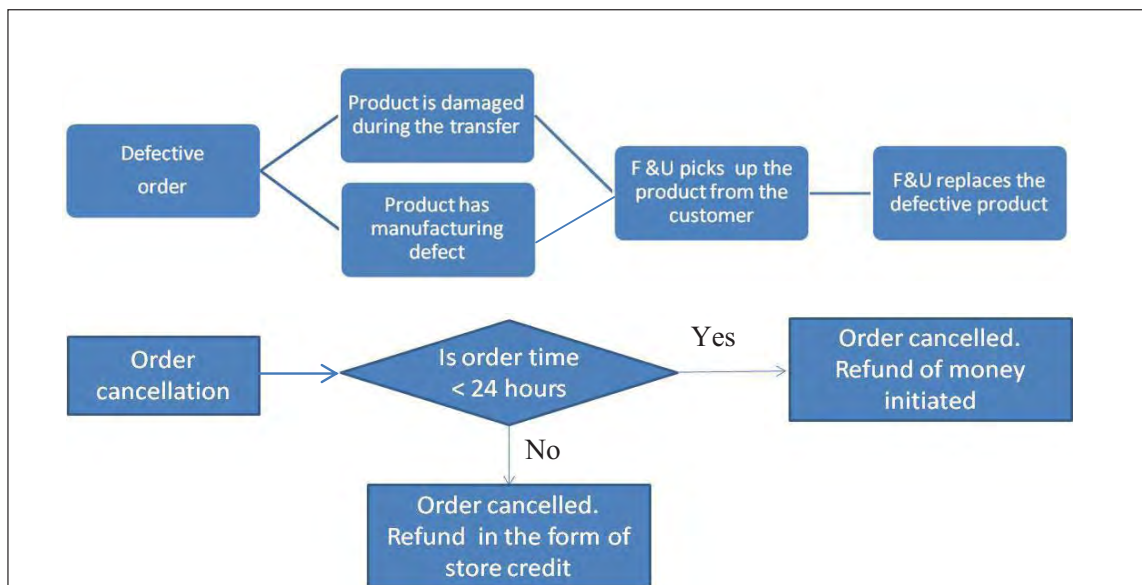


Figure 10: Reverse Value Chain at Fashion and You



This concept is pretty unique in e-commerce wherein the customers are invited and not all can log in to order. The success of Fashion and You indicates that this strategy has worked in their favour.

3.2 The Forward Value Chain at Fashion and You

Figure 9 shows the forward value chain wherein the focus is on four segments:

- ◆ Information management system
 - ◆ Fashion and You invests in information management systems that help in profiling customers to whom the promotions are targeted.
 - ◆ The system also helps in preparing the e-catalogue that Fashion and You prepares to understand which products sell and otherwise.
- ◆ Logistics
 - ◆ Fashion and You has tie up with suppliers. The supply chain at Fashion and You is well rounded and integrated with the supplier/vendor's supply chain. This enables Fashion and You in fulfilling the delivery and promise to the customer.
- ◆ Marketing
 - ◆ The marketing of Fashion and You is through email and social media. The marketing focuses on targeting segment of customers through data received through profiling. This enables Fashion and You in delivering the customer with intended information and a higher probability of purchase from the customer.
- ◆ Recruitment
 - ◆ The HR management is responsible for recruitment of people to Fashion and You. Currently, there are 450 people at Fashion and You. The HR management also ensures that the employees are motivated and are satisfied with their job so that it augurs well for the company.

3.3 The Reverse Value Chain at Fashion and You

Figure 10 shows the reverse value chain adopted at Fashion and You. There are two scenarios that need to be dealt with in the backward value chain.

- ◆ Defective order
 - ◆ In case an order is defective the Fashion and You delivery personnel picks up the defective product and replaces it with a new product. The defect could be either due to transit or due to manufacturing defect.
- ◆ Order cancellation
 - ◆ In case an order is cancelled and the order time is less than 24 hours, the order is cancelled and the money is refunded. However, if the order time

is more than 24 hours, then the refund is in the form of credit that is credited to the account of the customer.

3.4 Areas of concern for Fashion and You

The area that Fashion and You should be most concerned about is their supply chain. Purchase orders are issued only after the sales events are over. In Fashion and You's case this is hazardous. In case, there is a shortfall in supply, Fashion and You cannot deliver the product to the customer and will have to cancel that order. This leaves the customer angry and he loses faith in the company. What Fashion and You needs to do is to buy products from suppliers in bulk, store them in their warehouses and then set up a sales event. This way they have complete track of how many products have been ordered and how many remain. The fact that Fashion and You sends a PO after the sales event is over has led to a lot of cancellations and has also left many customers disheartened. (For example, see http://articles.economictimes.indiatimes.com/2012-03-13/news/31159922_1_online-retailers-online-transactions-cash accessed on 27/12/2012). This process also lengthens the delivery time as through this process, deliveries are made after 3-4 weeks. Most online retailers globally deliver within a week. If Fashion and You buys products before hand and stores them, they can take care of both these situations at once. Immediate steps:

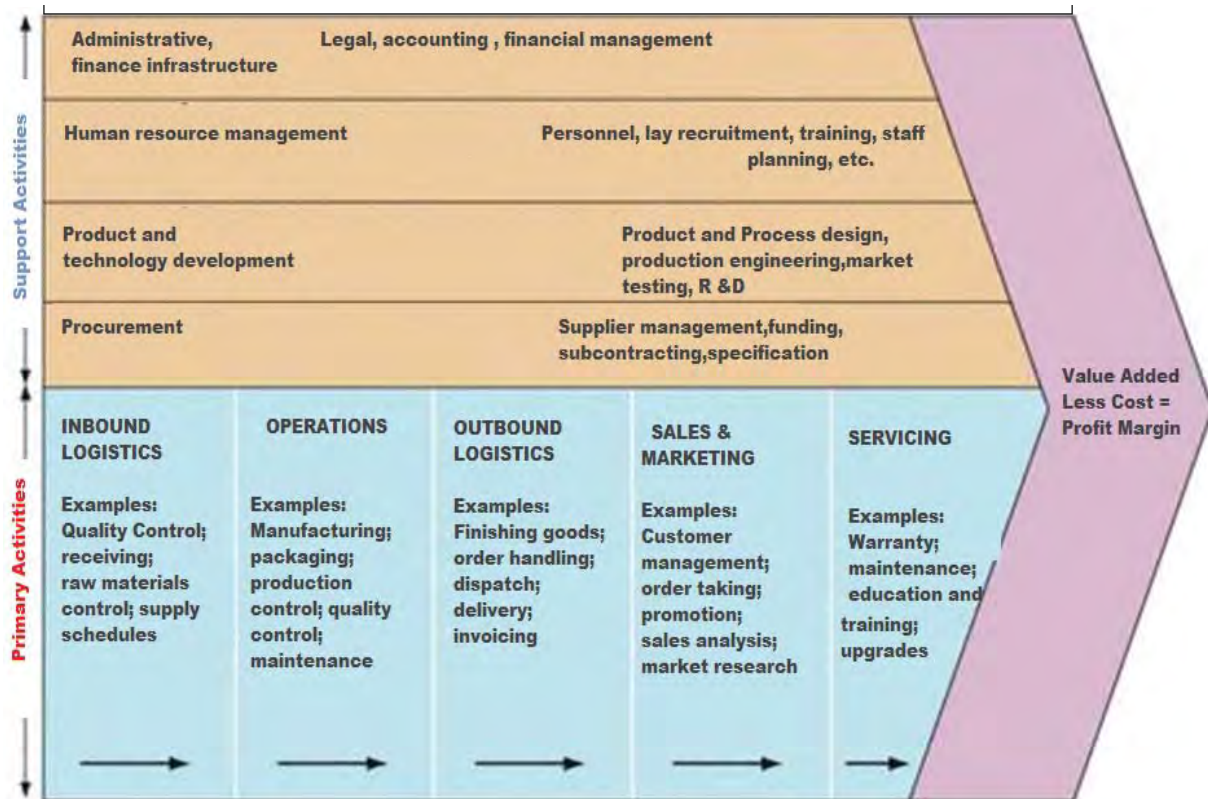
- ◆ Need to invest in warehouses
- ◆ Need to improve their service level
- ◆ Need to expand their product portfolio

The downside of this policy is the possibility of an inventory pile up of unsold goods. The fashion industry is well known for the short life cycle of its wares and hence the possibility of not selling something, which may not catch the fancy of its customers, is for real. However in the long run it may be a risk worth taking as it will avoid lost sales due to cancellations and consequent customer dissatisfaction.

4. CASE STUDY 2: FLIPKART

(also see <http://flipkart.com/>, <http://businesstoday.intoday.in/story/flipkart-online-shopping-e-commerce-order-books-online/1/20797.html> and <http://businesstoday.intoday.in/story/flipkart-online-shopping-e-commerce-order-books-online/1/20797.html> accessed on 27/12/2012)

Figure 11: Value chain at Flipkart



Flipkart is an Indian e-commerce company headquartered in Bangalore, Karnataka (see, , <http://forbesindia.com/article/boardroom/can-flipkart-deliver/> and <http://thenextweb.com/in/2012/08/27/flipkart-150-million-funding/>, both accessed on 26/12/2012). It was started in the year 2007. In its formative days Flipkart mainly dealt with books but now, it has expanded to electronic goods and a variety of other products. Primary categories of products sold at Flipkart are:

- ◆ Books
- ◆ Mobiles & Accessories
- ◆ Computers
- ◆ Home and Kitchen
- ◆ Personal and Health Care
- ◆ Gaming
- ◆ Watches and Fragrances
- ◆ Music and Movies
- ◆ Stationery

Some other facts about Flipkart are –

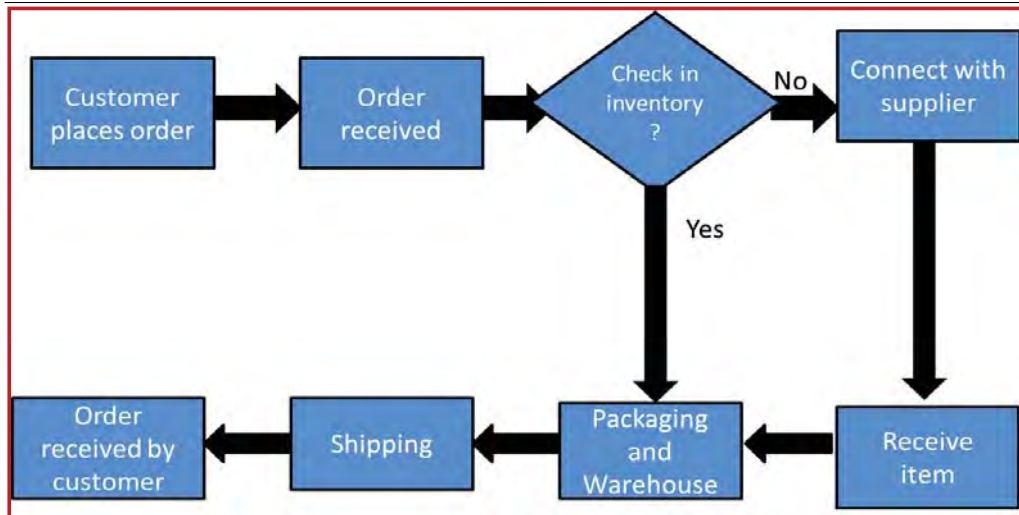
- ◆ It has 2,000,000 registered users
- ◆ 8,000,000 customer visits every month.
- ◆ It has team strength of 5,000 human resources
- ◆ It has 27 cities covered with own delivery network and has 7 warehouses.

4.1 Flipkart's Value Chain

4.2 Forward Value Chain at Flipkart–Primary Activities:

- ◆ **Inbound Logistics:** This involves receiving goods from suppliers, and storing and moving those good.
- ◆ **Operations:** This involves activities like packaging and quality control.
- ◆ **Outbound Logistics:** It includes order handling. Flipkart delivers through its strong network of 15 courier providers. All the Flipkart products are in-

Figure 12: Supply chain at Flipkart



sured against theft and damages incurred during transit.

- ◆ **Marketing and Sales:** Marketing involves understanding customer needs, communicating those needs, and promoting the end products.
- ◆ **Service:** This primarily involves after-sales support (e.g., handling, complaints, order return).

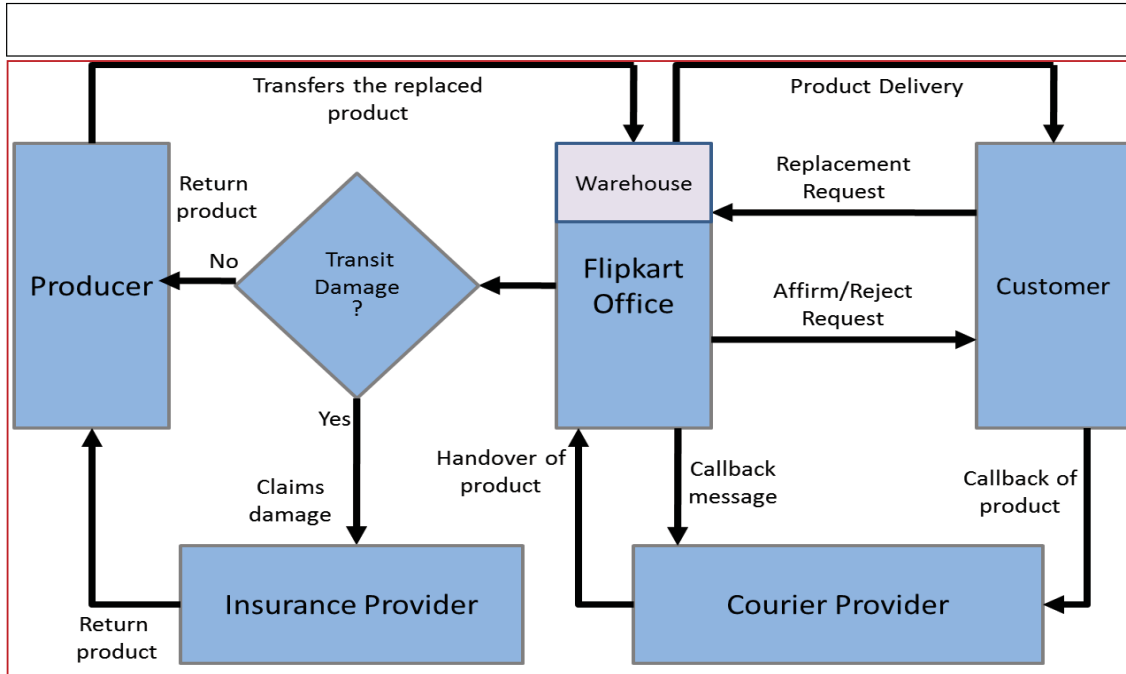
4.3 Forward Value Chain at Flipkart- Secondary Activities:

- ◆ **Procurement:** Procurement involves activities such as purchasing frequently used items and other items used in operations.
- ◆ **Human Resource Management:** HRM encompasses activities such as Recruiting, hiring, firing, training, developing, compensating. Flipkart currently has 4500 employees.
- ◆ **Technological Development:** Flipkart invests heavily in research and development, process automation, software, hardware, equipment, etc., to support operations and provide better and timely services to its client.
- ◆ **Infrastructure:** Infrastructure services include accounting, legal, finance, planning, public affairs, government relations, quality assurance and general management.

4.4 Reverse Value Chain at Flipkart:

The reverse value chain at Flipkart demonstrates the flow of products from end customers to the manufacturer. Presently, Flipkart processes delivered products or in-process orders as part of Reverse Value Chain. There are two possible scenarios:

- ◆ **Product replacement:** Flipkart's Supply Chain mechanism considers product for replacement in case of defects/damage that are newly purchased and are covered under the 30 day replacement scheme. There can be two scenarios in case of a product defect/damage:-
 - a. Product damaged during the transfer: In this case, Flipkart sends its courier partner for receiving the damaged product from the customer location. Product is analysed at the Flipkart premises. Since, all the fragile products are insured by Flipkart, it then files a claim for damage with the insurer. Meanwhile, a replacement product is delivered by Flipkart to customer premises.
 - b. Product with manufacturing defect: In this case if the product is delivered within past 30 days, Flipkart sends its courier partner for receiving the defective product from the customer location. Product is analysed at the Flipkart premises. Defective product is reverted to the manufacturer for replacement and the replaced product is re-delivered to the customer. Flipkart follows an SLA

Figure 13: Reverse Logistics at Flipkart for Remote Locations

(Service Level Agreement) with its suppliers for on-time delivery and replacements.

Meanwhile, Flipkart has also started maintaining warehouses for the frequently used products. If, the defective product belongs to this category then it is replaced directly from the warehouses which saves time and improves efficiency for Flipkart.

- ◆ **Order cancellation:** Flipkart allows order cancellation in some scenarios from users. There are two possible cases:
 - ◆ **Order cancelled before shipping:** In such scenario, Flipkart refunds the money to user and cancels the order.
 - ◆ **Order cancelled after shipping:** If the order is already shipped to the customer location by Flipkart then such orders are considered only for replacements as per the defined clauses and not for cancellation.

4.5 Supply Chain at Flipkart (see Figure 12)

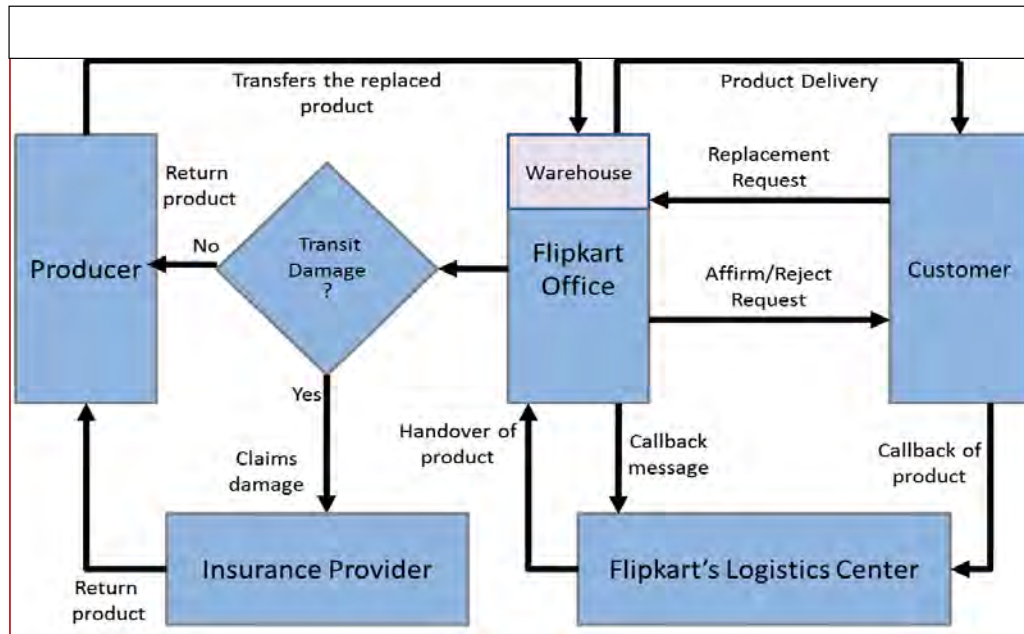
Below are the phases in supply chain at Flipkart:-

1. Customer Places Order: Customer visits <http://www.flipkart.com> and selects from the large range

of available merchandise. Customer enters his contact details including the address of delivery. Flipkart currently provides customer with multiple options for payment. These include – Payment by Credit card/Debit Card, Net Banking or Cash on Delivery (COD). Flipkart's online system also provides customers with tentative date of delivery.

2. Order Received and Acknowledged by Flipkart: As soon as the order is confirmed by the customer, the order information is sent to the Flipkart Order Management System (OMS) which then processes the order for procurement and other activities.
3. Order Procurement: If the requested product belongs to the frequently asked product category and is available at Flipkart's warehouses then its directly packaged else the order request is forwarded to supplier who then delivers the product to Flipkart's facility.
4. Packaging and Shipping: Once, the order is received at the Flipkart's facility, it is tested and packaged and shipped to the customer's location through its courier partner.
5. Order Received by Customer: Flipkart ensures through its large network of courier suppliers that

Figure 14: Reverse Logistics at Flipkart for Metro Locations



the order is timely and safely delivered at customer's premises. The user is acknowledged about the transit and other details via SMS. Also, the user can at any point of time check his order status through the Order status page on Flipkart's website.

4.6 Reverse Logistics at Flipkart

Reverse logistics is the circumfluence and disposal process of the material entity from the destination. It includes the basic functions such as transportation, storage, load and unload, portage, packaging, circulate to process, distribution information treating. It includes returned reverse logistics and call-back reverse logistics. The returned reverse logistics is a merchandise entity transfer process that the downstream customers send back the goods that has a certain faults or quality problem to the upstream suppliers. The call-back reverse logistics is a process that upstream suppliers take back the goods that need to be reform or is excessive stock and out of season from downstream customers and distribution departments.

4.7 Reverse Logistics at Flipkart for Remote Locations (see Figure 13)

Below are the steps as part of the Reverse Logistics:

1. Customer places replacement request.

2. Flipkart affirms request if it is placed within 30 days of delivery else rejects the request.
3. Flipkart sends callback message to its network courier provider.
4. Courier provider picks the product for replacement from customer's premise and delivers it to Flipkart's facility.
5. a) If the product is a case of transit damage, then Flipkart claims damage and the product is delivered by producer through insurer to Flipkart.
b) If the product is a case of manufacturing defect, the product is directly returned to manufacturer.
6. Manufacturer delivers the replaced product to the Flipkart's warehouse facility.
7. The product is checked, packaged, and redelivered to the customer.

4.8 Reverse Logistics at Flipkart for Metro Locations (see Figure 14)

Below are the steps as part of the Reverse Logistics:

1. Customer places replacement request.
2. Flipkart affirms request if it is placed within 30 days of delivery else rejects the request.

3. Flipkart sends callback message to its Logistic centre.
4. Courier provider picks the product for replacement from customer's premise and delivers it to Flipkart's facility.
5. a) If the product is a case of transit damage, then Flipkart claims damage and the product is delivered by producer through insurer to Flipkart.
b) If the product is a case of manufacturing defect, the product is directly returned to manufacturer.
6. Manufacturer delivers the replaced product to the Flipkart's warehouse facility.
7. The product is checked, packaged and redelivered to the customer through its own logistics centre.

4.8 Flipkart's Competitive Advantages

Some of the advantages include:

- ◆ Strong technological infrastructure with a single platform.
- ◆ High investments in supply chain management. Currently Flipkart has strong delivery network across 27 cities.
- ◆ Consumer insights for better demand forecasting. Constantly soliciting suggestions on new products to the customers.
- ◆ Easy and fast payment system - 24*7 operations.
- ◆ Free replacements within 30 days.

4.9 Areas of Concern for Flipkart Going Forward

When Amazon began its operations in Seattle it sourced almost all of its books requirements from Ingram. It located its offices close to the Ingram buildings so as to minimise on transportation as well as co-ordination and inventory holding costs. This worked well for a few years till such time as Amazon started to augment its product mix with other offerings, other than books. So what started out as a book store became an online superstore with products covering a large part of the consumer goods segments. The story of Flipkart is no different. Beginning with books, Flipkart also has diversified its portfolio of products and is planning to add more lines in the near future.

The area that Flipkart should be most concerned about is their reverse supply chain and warehousing. 2/3rd of purchase orders are COD(Cash on Delivery) based. This is a practice which every online business tries its best to avoid, instead relying mostly on prepaid sales – either through debit or credit cards - but losing out in implementation, for two reasons. One, more importantly, many customers in India who want to do business online do not hold either debit or credit cards. Secondly many such holders are not yet comfortable with the security arrangements associated with making online payments through these cards. The first Indian online venture Fabmart.com started by the veteran of this industry Vaitheeswaran in 1999, tried its best to restrict its COD sales , but lost out in the end.

With such large volumes of COD sales and due to the presence of replacement clause of 30 days, it becomes extremely essential for Flipkart to strengthen its reverse logistics value chain. It is well known in the Indian online industry that at some stage or the other the online company also starts to build an organisation to collect on the COD's and to deal with the complexities that are attendant upon the system of reverse logistics chosen by Flipkart described in Figures 13 and 14 above. The cost of collection could end up almost upto Rs 150 per transaction, and the money could be locked up in inventory for more than 30 days. This strains the working capital management of the online company which is designed on a "simple" business model , to offer the lowest costs to its customers .

The competition is fierce in e-commerce industry with large players like Amazon trying to enter into Indian market with their own local subsidiaries (Amazon has made an entry into India through its wholly owned subsidiary Jungle.com in February 2012). This poses a serious challenge for Flipkart to provide on-time and high quality products. In order to provide faster and reliable delivery, Flipkart will need to stretch itself beyond metro cities and open new delivery channels and warehouses in Tier 2 Cities. Immediate steps could be:

- ◆ Improvisation on reverse logistics
- ◆ Invest more in warehouses
- ◆ Cost optimization to improve profitability

Some innovative thinking on how to deal with the dilemma posed because of having more warehouses, inventorying goods and offering sales on COD basis is called for. One thought could be to have a controlling interest in an outsourced collection agency which will relieve the online company of its daily management responsibility but could enable exercise of control through the boardroom presence. Secondly it is better

to operate as a listed company in India where tax rates are far higher if the company is privately or closely held – which most online companies are, at least for five to more years as investors are shy of investing in a standalone online venture . Not all can be as resourceful as Jeff Bezos who could withstand the market forces as long as amazon has done . This leads to another thought that large corporate groups could think of having an in-house, commonly pooled online agency as a sales and customer relationship platform, which will ensure cost control, operational efficiency and considerable reduction in prices of products . The logic could be the same as for a corporate bank which looks possible in the light of the recent changes in the banking licences act.

5. CONCLUSIONS

The online e-commerce industry in India is about a decade old and is still in its infancy. While the brainpower to set up the IT systems to design and run an online business the same is not true of the managerial and the entrepreneurial acumen needed to operate an online business. There is still a whole lot of learning that is still needed for Indian companies. In the recent past some e-commerce ventures have worked well in India. One outstanding example is the railways ticketing system. The other examples could be the fashion retailing, books retailing and electronic goods retailing. However like its twin the retail sector, the e-commerce industry as a commercially viable venture is still looking for sustainable models. We have studied the Indian e-commerce industry structure and practices and find that there are still a lot of constraints which are to be overcome by the fledgling industry. Apart from the lack of investment capital (Indian banks do not , as a rule , lend to newly forming online companies, the industry has to rely mainly of venture capitalists), the supply chain management, the reverse logistics , the infra issues relating to prepaid sales vis-à-vis COD are all to be matured for the sustainability of online enterprises. We have studied two examples, one, of a fashion online shop which has some unique features and another, an online venture selling a bouquet of products. Both these companies are at the two extremes of the Indian online industry spectrum – the latter is the largest in terms of size and oldest in terms of its antiquity (Flipkart was started in 2007), and the former is a recently started niche retailer . While some of their problems are common, there are differences which can make them take different ways in the future to pursue their businesses. The authors have tried to study and bring

out the salient features and have proposed some thoughts in the way forward .

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