

PLAYING THE RIGHT E-COMMERCE CARDS

India and Indonesia share a number of characteristics that position them on the tipping point of explosive e-commerce growth

By Serena Jacob & Vivek V. Krishnan

Between them, India and Indonesia account for one out of every five people alive on earth. With India's economy predicted to grow 7.5 per cent in 2016 and Indonesia emerging from economic slowdown, they also represent some of its most attractive and important consumer markets. However, the complexities of India and Indonesia have locked many international brands out of these opportunities. Could the apparently imminent take-off of e-commerce be about to change the game in their favour? Only if they have the right cards up their sleeve – and know when to play them.

The new e-commerce games in town

India and Indonesia share a number of characteristics that position them on the tipping point of explosive e-commerce growth. These are rapidly urbanising, high-growth markets, with a ready supply of low-cost labour to act as potential delivery networks, a lack of entrenched modern trade shopping habits, and an interest amongst both urban and rural consumers in accessing a broader range of products than are available to them through offline channels. India's internet penetration has doubled in the past two years whilst Indonesia's is growing at 15 per cent year-on-year, with low-cost smartphones putting potential e-commerce devices into the hands of more and more people. Both markets also have the players in place for the e-commerce game to begin: new payment solutions are trialled on a regular basis – and e-commerce brands are attempting to build awareness and buzz through above-the-line advertising. However, the fact that we can predict e-commerce growth for India and Indonesia does not mean that the nature of e-commerce in these markets will be in any way predictable. Brands expecting to play a familiar game with tactics that have worked well elsewhere are likely to find themselves quickly out-manoeuvred. India and Indonesia will not follow the same pattern of e-commerce growth as the US and Europe; they may not follow the same pattern as China either. This unpredictability is partly a result of the factors providing such fertile ground for e-commerce. The limited reach and influence of

Digital infrastructure and internet connectivity may be advancing – but that advance is not even or predictable. **Despite the growing penetration of smartphones, most of the network speeds available through those smartphones remain stubbornly low.**

modern trade means that Indian and Indonesian consumers do not approach online shopping with the same assumptions, attitudes and behaviours as consumers in developed markets.

The role of smartphones in accelerating internet penetration mean that patterns of e-commerce have not been defined by desktop computers, as they were in the US and Europe. In India and Indonesia, e-commerce will rewrite the rules of the game whilst it is being played. It's not just consumer attitudes and behaviour that will be different. Brands cannot afford to wait for all of the usual supporting systems of e-commerce to fall into place before they begin to play. In some situations, a robust delivery infrastructure might be lacking; in others it's a trusted payments system that's missing. Brands must be prepared to innovate business models to meet the different scenarios that they encounter in these markets, rather than relying on a single, rigid business model that applies nationwide.

The challenges ahead

The challenges start with the physical infrastructure. As anybody who has travelled in India can tell you, roads are a challenge: heavily congested within major cities, hugely underdeveloped in many of the rural areas beyond them. Delivering goods across Indonesia's far-flung archipelago of more than 17,500 islands is only possible through expensive courier services (logistics

accounts for 27% of the cost of goods sold online – more than in any other market). This makes fulfilling orders cost-effectively a challenge; the difficulties of returning goods that consumers are unhappy with (a vital pillar in building trust in e-commerce), are an equally significant barrier.

Distribution challenges don't end with the physical difficulty of moving goods around; there's also the issue of trust that comes with hiring unregulated labour at scale. Many workers have little or no documentation, and background checks are difficult, increasing the risk of fraud and making customer safety an issues that brands must address.

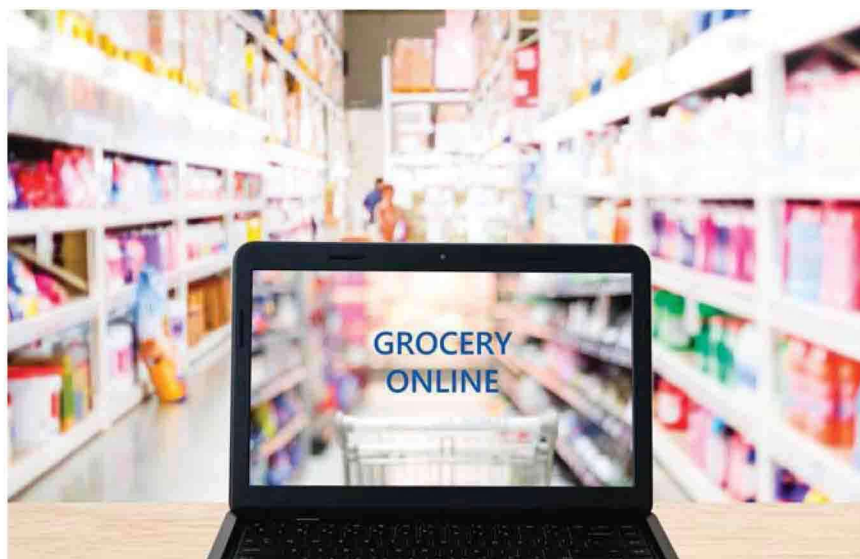
The sheer size of both India and Indonesia present other problems besides distribution. Bureaucracy and local lawmaking and regulation are a significant issue in India, where sales taxes vary across states, as do regulations banning items such as alcohol or certain types of packaging.

Immense linguistic diversity is another product of the vast geographical spread of these countries. India has over 120 major languages and over 1500 languages in total, with 22 of these recognised in its constitution and no single national language. Over 700 languages are spoken within the Indonesian archipelago – and the national language of Bahasa Indonesia is the first language of less than half

the population. In such situations, 'speaking the consumer's language' is a significant challenge for brands. They don't need one e-commerce strategy; they need a strategy for each significant language community.

Digital infrastructure and internet connectivity may be advancing – but that advance is not even or predictable. Despite the growing penetration of smartphones, most of the network speeds available through those smartphones remain stubbornly low. India is the setting for several highprofile efforts to improve internet access, supported by global technology firms. Google's Project Loon aims to extend highspeed internet access to remote rural areas via a network of wi-fi transmitters carried on futuristic hot air balloons; the same company is championing an initiative to install free wi-fi hotspots at the country's vast network of railway stations Attempts to roll out 4G are bringing high-speed internet to some rural areas. These are promising developments – but they do not yet add up to internet connectivity on anything approaching a national scale.

Even as internet accessibility and speed improve, e-commerce players must still tackle the issue of whether people have sufficient trust in buying things over the internet. Despite the strengthening incentives for doing so, two considerable barriers remain: a lack of cashless payment systems, with credit cards and mobile payments a



rarity and the vast majority of Indians and Indonesians still lacking basic bank accounts; and consumers' wariness about buying goods they cannot see or touch. While the average European fashion website receives queries on only 5 per cent of its orders, the fashion website Zalora receives at least one query for every single order placed through its website in Indonesia. At this point in the development of

e-commerce, even those consumers willing and able to try the experience of buying online need constant support throughout the process – and this requires a major investment in customer service on the part of e-commerce platforms. The interesting thing about the Zalora story is that this is exactly what the website is prepared to do. It cuts into its margins and takes away many of the efficiencies of

e-commerce that established developed market players have come to see as fundamental to the whole exercise. And yet Zalora's marketers know the value of investing in building trust at this stage in its market's development. Its approach is an acknowledgement that, of all the potential barriers to e-commerce that exist in India and Indonesia, consumer trust is the only barrier that really matters.

The only way to start building trust is to start building solutions that can deliver positive experiences despite the inefficiencies and costs that other barriers result in. Like Zalora, brands must go all in if they are going to make longterm gains. This is a game that rewards boldness – but only from those who know the right cards to play, and the right consumer buttons to push.

THE URBAN/RURAL DIVIDE

India and Indonesia, much like China, have distinct urban and rural areas that are starkly dissimilar when it comes to people's access to goods and ability to buy. For urban buyers, lower product prices and the ease and convenience offered by e-commerce sites is cause enough to switch to online shopping. However, as the markets mature, the lower prices will soon become the norm and the success of the business will hinge instead on the convenience they offer their customers. Most online retailers, including large players like Amazon, are experimenting with new ways to increase convenience, for example through innovative payment solutions and sameday delivery. Convenience also includes flexibility – allowing the shopper to decide when they want to receive the product. Some brands such as Matahari Mall in Indonesia have tied up with traditional retailers to create pick-up points where buyers can collect their purchases at a convenient time.

Yet rapid urbanisation in both countries is causing severe infrastructural issues: congested roads, unplanned commercial areas with little or no parking space, high real estate costs. These are both a challenge and an opportunity for e-commerce brands.

Challenges faced while travelling around the city will drive more urbanites to make purchases online. However, these same factors create issues delivering the goods to customers within the stipulated time. For rural shoppers, the key driver is access to products. Traditional retailing in rural areas has never been able to offer the same range of products available in urban areas. e-commerce in these markets delivers the first real opportunity for rural shoppers to access new products and services at the same time as their urban counterparts, even if this access is going to cost them a little more. However, providing broad access to a variety of products requires several innovations.

Rural areas in both countries suffer from poor road infrastructure, inefficient waterways, or simply sheer distance from urban distribution centres. Although online portals allow shoppers to source and buy products, last-mile delivery remains a challenge. This lack of infrastructure also limits the speed of delivery that can be offered by online retailers. To overcome this, companies like Amazon are working with traditional trade retailers to use their local warehouses as pick-up points. Businesses also need to consider the most effective payment solution once the product arrives. Delivering goods to shoppers who want to pay cash on delivery to a third party distributor requires very careful management if it is going to become profitable.

Finally, affluent shoppers in both rural and urban environments are looking to buy international brands that are currently out of reach because the business does not ship there yet. There is huge potential for e-commerce companies that can enable these cross-border purchases and give enthusiastic online shoppers access to a far-greater range of products.

Evolving business strategies

From China to the US and Europe, players in developed e-commerce markets are accustomed to building brands and business models on a national scale. Their brand comes to represent a consistent and





When it comes to reaching consumers across countries with **inconsistent online habits, choosing the right platform is often the key to success.**

wellunderstood type of customer experience that is underpinned by a single, efficient business model. They may not achieve full national coverage (not everyone in China has access to Alibaba), but anyone who does use the platform can expect a similar experience.

In India and Indonesia, things are different. Attempting to roll out a single nationwide business model runs the risk of delivering inconsistent experiences, failing to deliver on customer promises and damaging brands. The only way to build a strong e-commerce brand in these markets is to have multiple business models in play, adapting strategies to reflect different situations, selecting the ones that work best, and abandoning those that become defunct as the landscape changes.

Across India and Indonesia we see brands successfully doing so for every stage of online shoppers' journeys. Successful global brands have had to re-evaluate their strategy for the complex Indian market. India, for example, is the only market in which Amazon operates exclusively as a marketplace. This enables it to circumvent restrictions on foreign direct investment that make the online retailer model it adopts elsewhere simply untenable.

Uber has had to remove surge pricing, a key element of its business model, to adapt to the state laws in Delhi and Karnataka. It's not just business models that change. Adapting

operations to a new competitive environment can also help to overcome many of the challenges that India and Indonesia represent. Hindustan Unilever Ltd has taken a direct approach to building e-commerce platforms by partnering with small, neighbourhood 'kirana' stores in India, in order to bypass many of the issues involved in delivering online purchases. Its humarashop.com pilot connects shoppers with local retailers from whom they can pick up the goods they order, whilst also providing these small retailers with a relevant, local e-commerce presence.

When it comes to reaching consumers across countries with inconsistent online habits, choosing the right platform is often the key to success. The affiliative culture of Indonesia has supported strong growth in social platforms, accessed through mobile handsets, and these are likely to prove the most powerful channel for building e-commerce solutions.

Both brands aggregate products that users advertise for sale on networks such as Instagram. In doing so, they are helping people who once sold goods to their friends, families and connections, to scale their businesses and reach new customers. Socialising the experience of online shopping has other important advantages as well. Instant feedback and affirmation from friends and family can help to overcome misgivings about

buying goods without seeing or touching them first. That's the thinking behind Flipkart adding the Ping social network to its e-commerce platform in India.

Working with shopper concerns

Overcoming the perceived risks associated with buying online is the driver of much innovation in Indian and Indonesian e-commerce. Zalora has partnered with Virtusize, to help customers gauge the size and fit of the items they buy by comparing them to items they already own. In India, fashion retailer Jabong tackles the same problem in a different way, by sending a range of different styles and sizes for customers to try at home prior to making a final choice. Big Basket in India does something similar for the fruits and vegetables that it sells online, allowing its customers to make a final choice when they have their items in front of them.

What about the final stage of the online shopper's journey? The process of actually paying for goods? Here again, brands cannot afford simply to wait for Indian and Indonesian shoppers to overcome their concerns about cashless forms of payment, or for the Indian governments efforts' to persuade citizens to open bank accounts to bear fruit. All major players in the market offer some form of cash on delivery option – or work with fast-evolving third-party payment systems such as PayTM, KasPay or BukaDompot. As a result, e-commerce take-off in India and Indonesia could well take place without the mainstream adoption of credit and debit cards.

Brands in India and Indonesia will be rewarded for maintaining an open mind about what e-commerce looks like. The route to market may not be as clear as in other markets – but it is a very valuable route to travel. The opportunity is huge, and those prepared to be nimble and innovative in grasping it will have a major advantage when it comes to securing the consumer trust that all e-commerce players need to succeed. **IR**

About the author:

Serena and Vivek - are Managing Director and Regional Shopper Expert respectively at TNS, which is part of Kantar Retail.