

COVER STORY

THE JUGGERNAUT

AMAZON'S TURBO-CHARGED RISE IN INDIA IS CHANGING THE E-COMMERCE MARKET.

BY GOUTAM DAS

100

Sellers in June 2013

200,000+

Sellers in June 2017

180,000

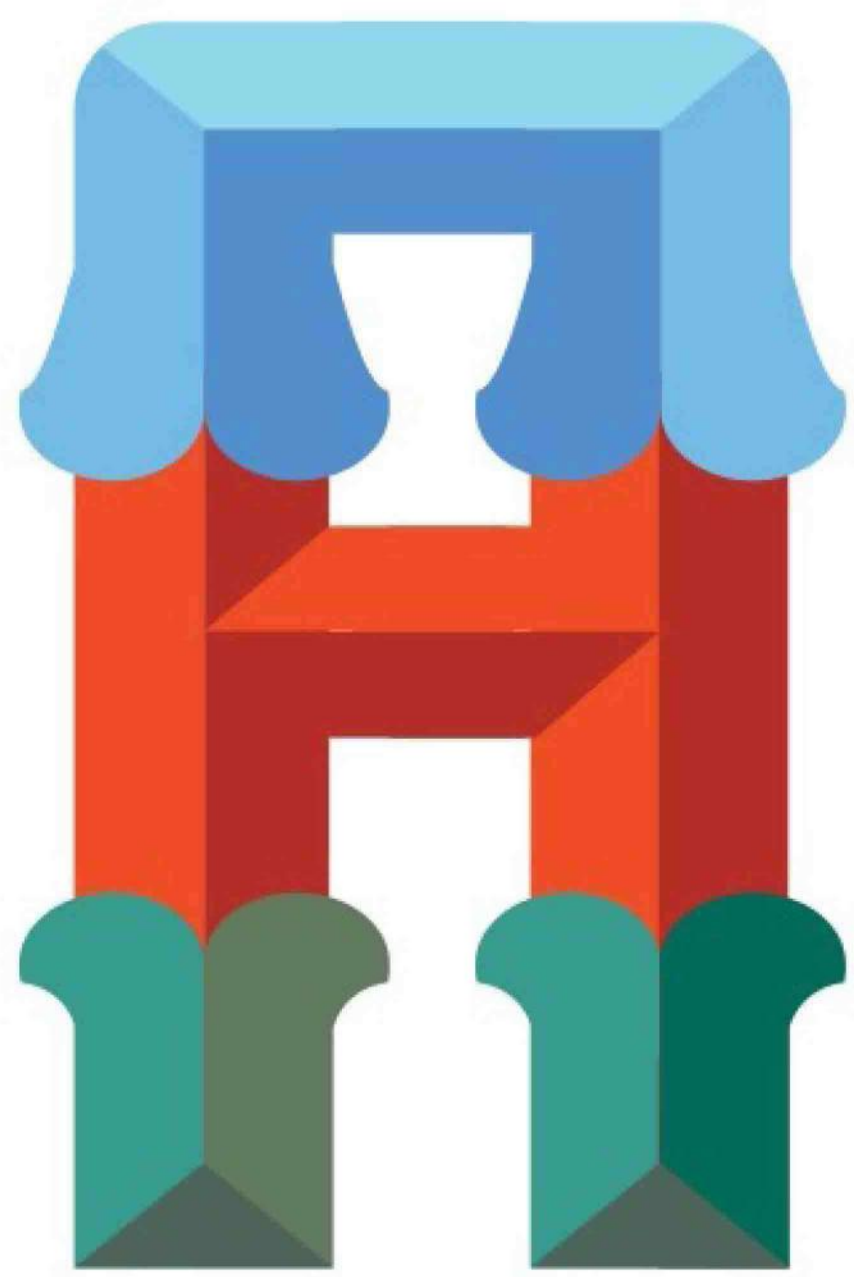
Products added every day in 2016

100,000,000

Products



Jeff Bezos, founder of Amazon, and Amit Agarwal, Country Head, say it's 'Day 1' for e-tailing in India



n orange van pulls up outside a nondescript building on a sunny April morning at a market in Mohali's Phase 7. The three-storied structure houses watch, footwear, handbag, garment, air ticketing and jewellery stores. It also has a 'Spoken English' centre. Over the course of the day, many shop owners visit the van. Some come out of curiosity, and a few because of what they have heard goes on inside.

The van is a veritable studio on wheels. Shop owners walk in with their products and get them shot and catalogued. A training video played inside provides a step-by-step guide to selling online. Amazon India, the local business of the world's largest e-tailer by revenue and market capitalisation, calls this seller enrolment drive 'Tatkal'. There is a reason to it. If all goes well, a seller can be "on-boarded" and launched on the site in less than an hour.

Gurpreet Singh owns a mobile accessory shop in Zirakpur, 15 kilometres from the Mohali market. He came to know about this van from friends and landed up with two products, a mobile charger and an extension cord. He thinks Amazon will help him "sell 24/7". Then there is Anil Mittal, owner of a paint and hardware store who was approached by Snapdeal a few months back but didn't give in to their demand for higher commission. He now sits at the cash counter of his store, sips tea, flirts with a pen, and says he is regis-



VIVAN MEHRA

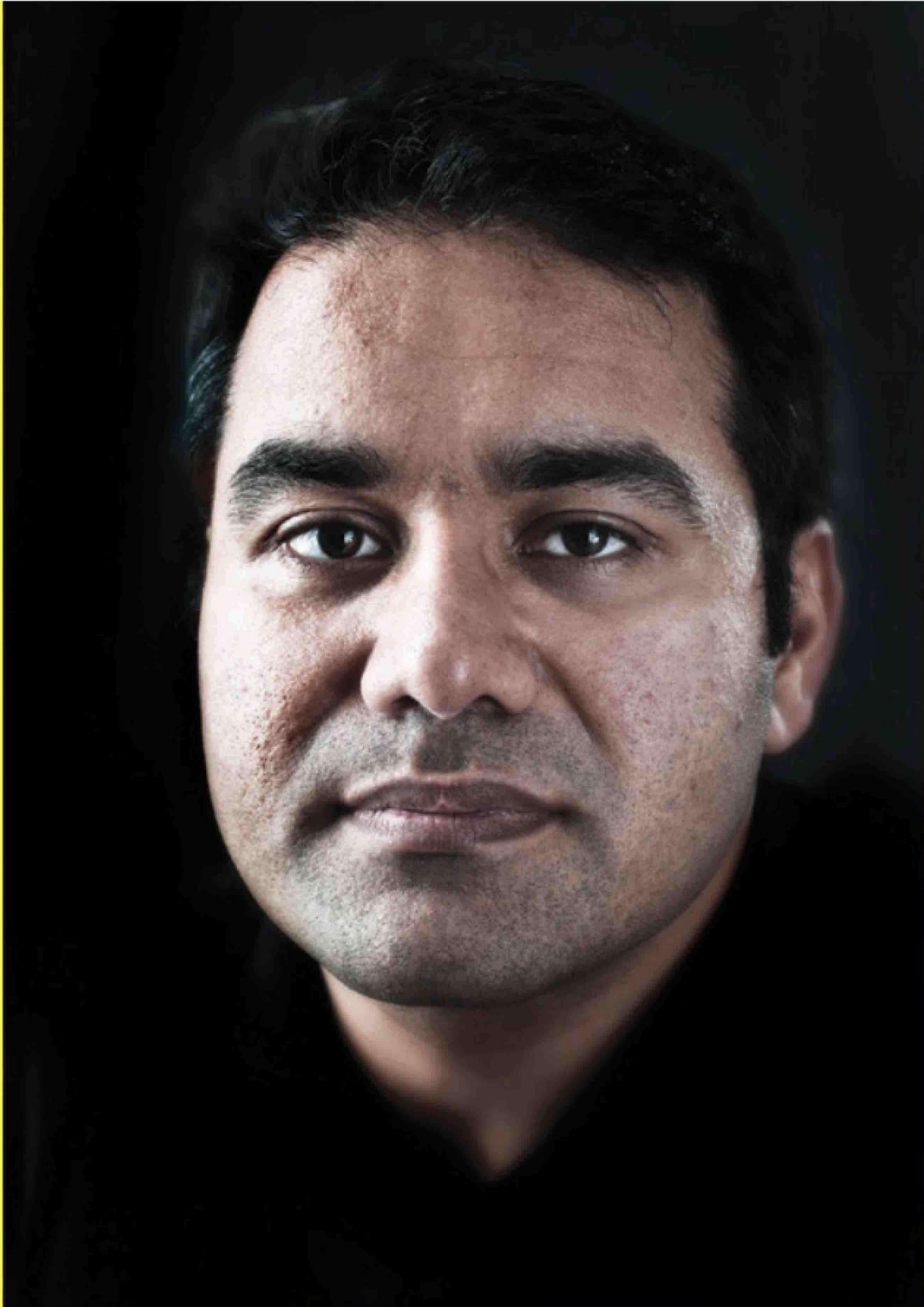
tering on Amazon. Most of his customers are locals. "I will be able to access a wider market. My main goal is to increase sales. If I earn lower margins, it doesn't matter," he says.

Amazon has taken this van to over 120 small cities and towns, in dense markets, with an aim of convincing small sellers to board the online bandwagon. The more the number of sellers, the more will be the number of products on its site. So, over the past year, it has added all sorts of small sellers, from weavers in Nadia in West Bengal and Pochampally in Telangana, to the traditional wooden toy makers of Channapatna in Karnataka. The company's executives love to explain how this diversity of products ties into a flywheel. Gopal Pillai, the Director & GM of Seller Services at Amazon India, takes this writer's notebook and draws the flywheel. It all starts with better customer experience which, he says, leads to more traffic. More traffic encourages more sellers to join the platform, which leads to more products and, eventually, a better customer experience, completing the wheel.

This flywheel has been spinning at a lively pace for Amazon India.

Starting Up

The company launched with 100 sellers in June 2013. That time, Flipkart, Amazon's biggest rival in India, was



VIVAN MEHRA

◀ Amazon's relentless rise has forced Flipkart founder **Sachin Bansal** and Snapdeal founder **Kunal Bahl** to seek protection

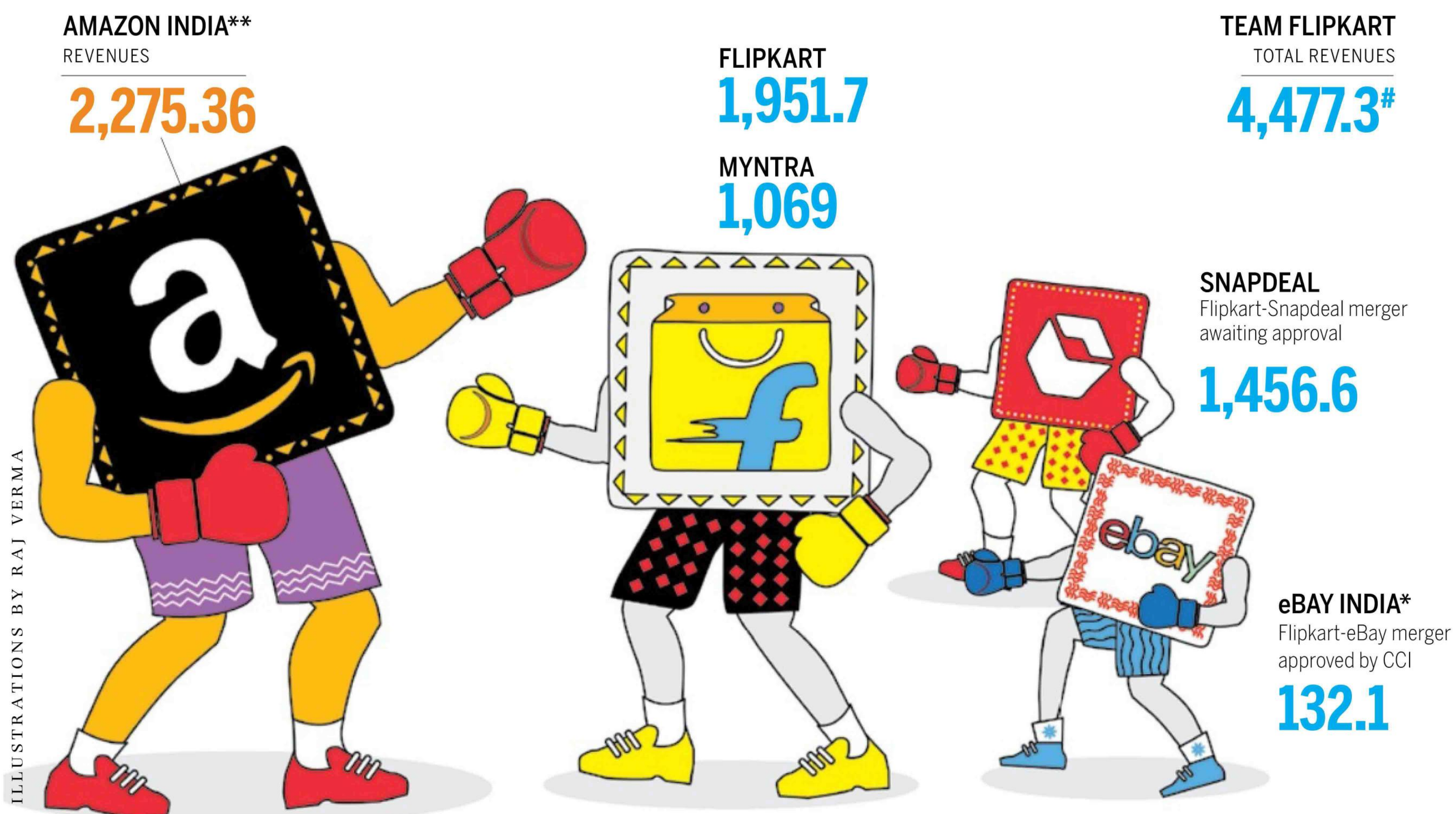
already six years old. It had just shifted from an inventory-led model and become a marketplace. It was nearing annual Gross Merchandise Value (GMV) of a billion dollars. Five out of six Indian online shoppers visited its website.

The picture is a lot different now. By July 2016, Amazon India had enrolled one lakh sellers. This count has doubled. In 2016, these sellers added over 180,000 products every day. That selection — Amazon claims over 100 million products on the platform — has resulted in a better buyer experience. Against Amazon's two lakh sellers, Flipkart's seller website talks of "100,000 + businesses growing rapidly".

BT studied data from different sources, from comScore and SimilarWeb to App Annie and Alexa. Nearly all suggest higher desktop and mobile traffic at Amazon than any Indian rival. Over the past six months, on desktop and mobile web, Amazon.in has consistently beaten

AMAZON INDIA VS TEAM FLIPKART

Flipkart group revenues are far higher than Amazon's



Figures In ₹crore for year ended March 2016; standalone data; # Group total for Flipkart Internet, Myntra and Snapdeal; Jabong numbers not available; * Data for 2014/15; **Amazon implies Amazon Seller Services: Source: MCA



▲ **AMAZON FULFILLMENT CENTRE:** Great execution is at the heart of Amazon India's success story. It now has 41 centres spread across 13 states with a storage capacity of 13 million cubic feet.

Flipkart in terms of overall visits, according to data from market intelligence company SimilarWeb. In May, visits to Amazon totalled 222.69 million, compared to Flipkart's 127.71 million. The Android app data from the company show Amazon has been beating Flipkart in daily active users, or DAU, since February 2017, although the average app usage time on Flipkart is nearly a minute higher than on Amazon. DAU is a measure of stickiness. And as a percentage of all Android devices, Amazon app installs have seen a steady rise, while Flipkart app installs have fallen.

Data from App Annie show that Amazon has been leading in app downloads over the last one year. Only Paytm had higher downloads for four months starting November due to demonetisation. And a Forrester study (Consumer Technographics Asia Pacific Online Benchmark Survey) said that Amazon surpassed Flipkart as the preferred online retail destination for metropolitan Indian consumers for the first time in 2016. "Amazon's takeover has been rapid: In 2014, 30 per cent respondents of our survey reported buying from Amazon; in 2016, the figure was 76 per cent. The company mostly stole market share from players such as Snapdeal and battled Flipkart in categories such as smartphones and electronics," the research firm wrote.

The increased traffic has resulted in a better conversion rate. Data from Registrar of Companies (RoC) show Amazon was slightly ahead of Flipkart on a standalone basis in revenues in 2015/16. Amazon clocked revenues of ₹2,275 crore, ₹324 crore more than Flipkart.

Every third Amazon India order is a **Prime order**. Launched in July 2016, Prime offers free one- and two-day deliveries. Members can also watch free video content



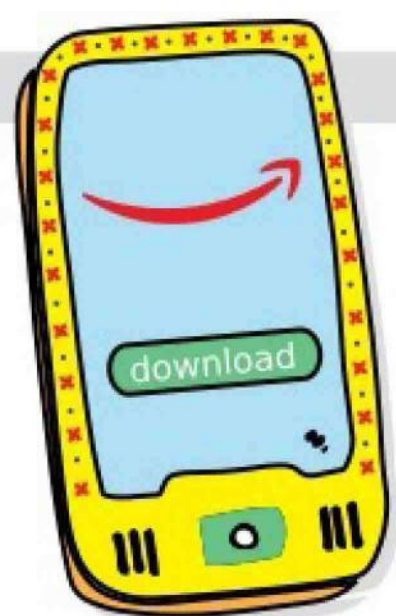
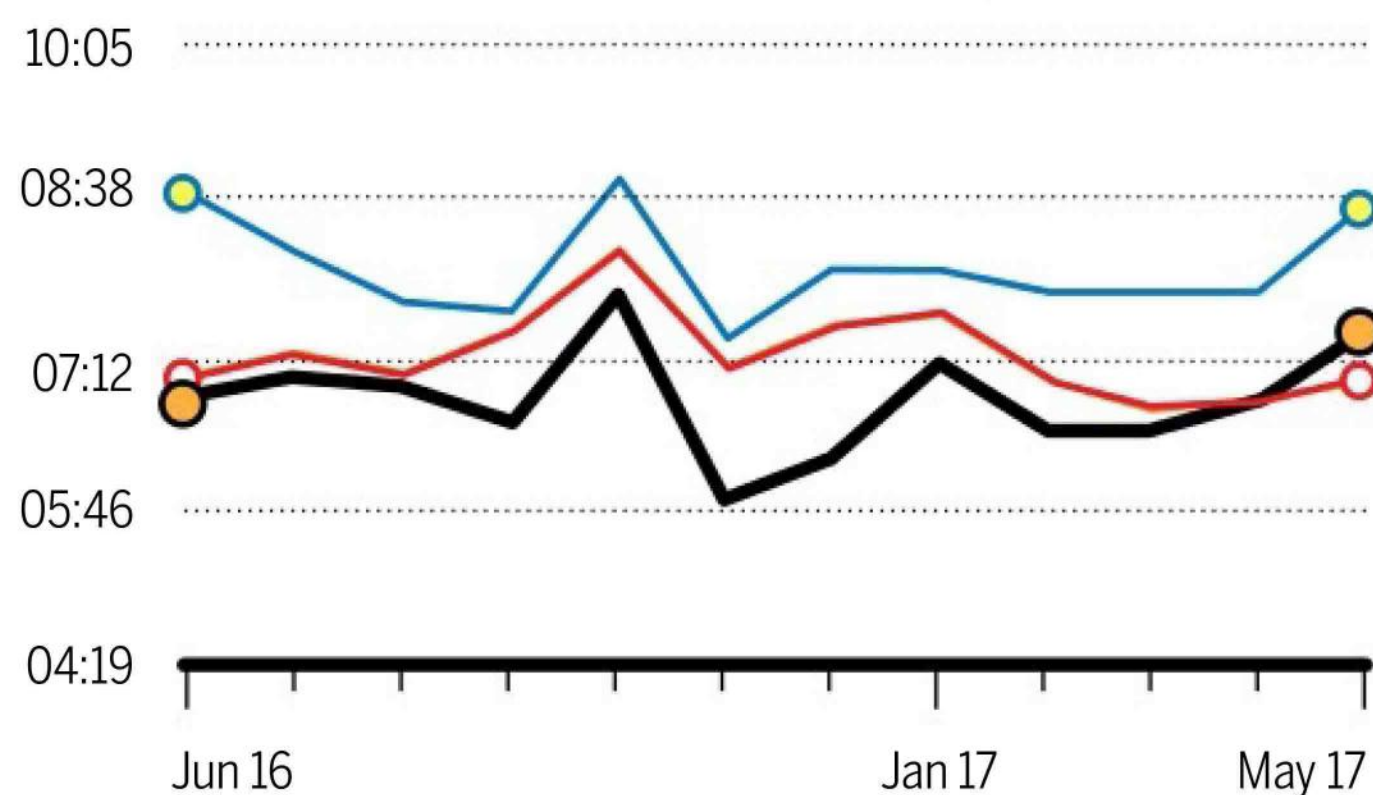
However, revenues of the Flipkart group — which now includes Myntra, Jabong and eBay India — would beat Amazon's by a handsome margin. The group is set to get a tad bulkier, perhaps complicated, if the anticipated acquisition of Snapdeal by Flipkart goes through. Snapdeal may have significantly contracted, but Amazon will still take time to counter this gang-up. The revenues of just Flipkart (Flipkart Internet), Myntra and Snapdeal total ₹4,477 crore. More on this later.

Meanwhile, Amazon's turbo-charged rise in India has impressed Jeff Bezos, the flamboyant founder and CEO of Amazon whose current net worth (\$85.7 billion) is 18 times what Flipkart has raised since 2009. "Our India team is moving fast and delivering for customers and sellers. The team has increased Prime selection by 75 per cent since launching the programme nine months ago, increased fulfillment capacity for sellers by 26 per cent already this year, announced 18 Indian original TV series, and just last week introduced a Fire TV Stick optimised for Indian customers with integrated voice search in English and Hindi," he said in Amazon.com's earnings press release for the quarter ended March 2017. "We're grateful that customers are responding — Amazon.in is the most visited and the fastest growing marketplace in India. It's still Day 1 for e-commerce in India, and I assure you that we'll keep investing in technology and infrastructure while working hard to invent on behalf of our customers and small and medium businesses in India," he added.

Before launching in India, the India project was code named "Cricket". Now, the Seattle headquarters has a

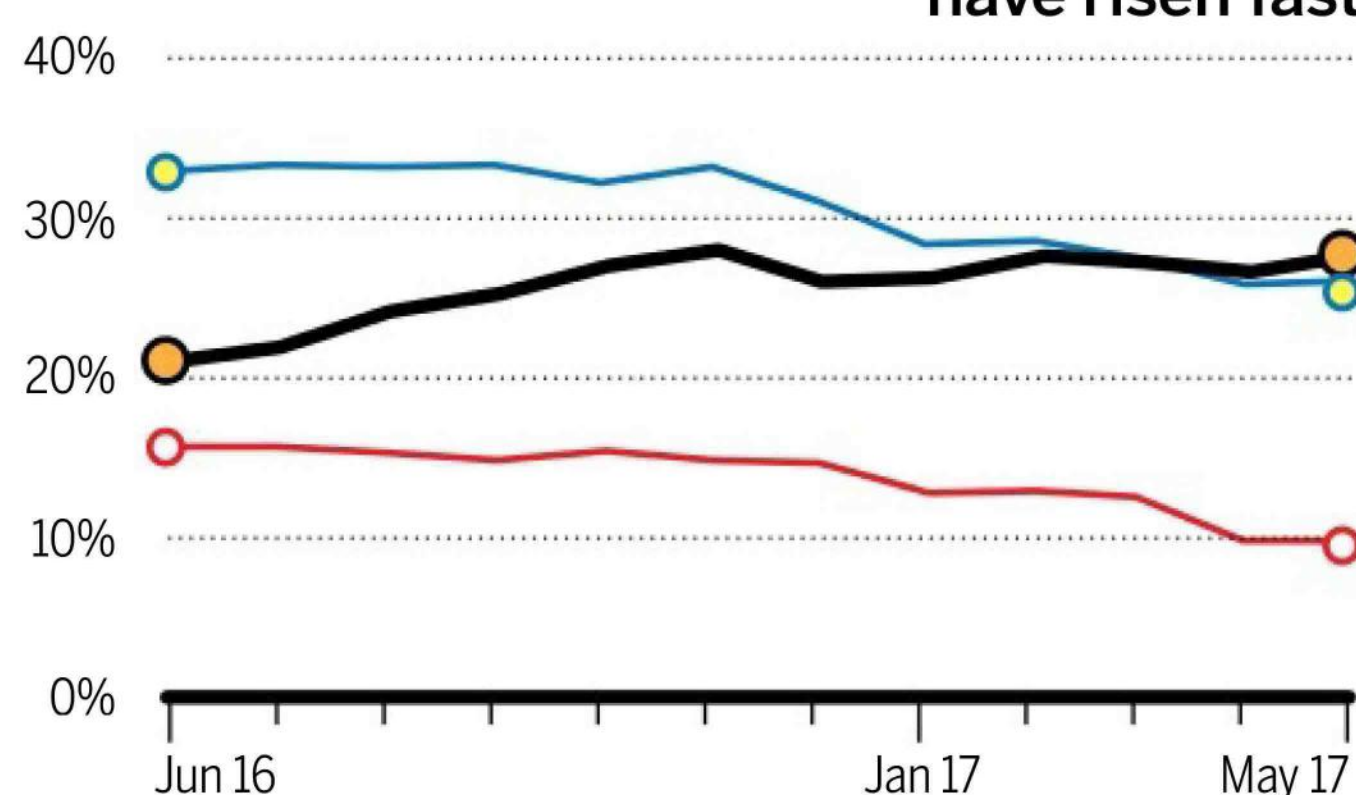
AVERAGE APP USAGE TIME

People spend more minutes on Flipkart app per visit



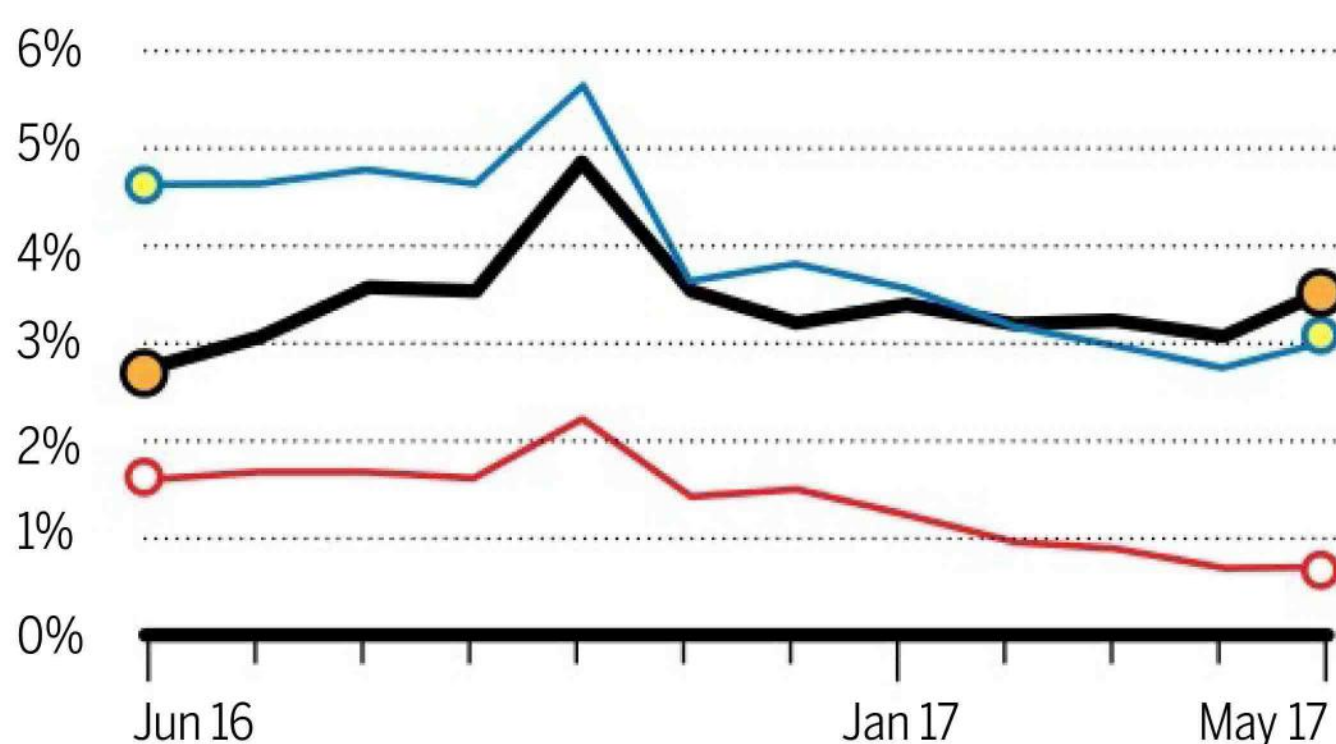
CURRENT INSTALL RATES

Amazon installs, as a % of Android devices in India, have risen fast



DAILY ACTIVE USERS

Amazon customers are proving to be more sticky



— Amazon India Online Shopping
— Flipkart Online Shopping App
— Snapdeal Online shopping

Android app data for India from June 2016 to May 2017
Source: SimilarWeb

building called Cricket. Yet another building is christened Day 1, a widely-used term in Amazon, meant to remind employees that it is still at the beginning of the innovation curve. India executives have taken that a step further.

“It is Minute 1 of our journey.”

The Gang-Up

Both Day 1 and Minute 1 are veiled threats to rivals. Amazon executives see a hockey stick curve ahead in 2017 and are investing for that growth. Amazon has, thus far, openly committed to pumping in \$5 billion, but looking at Bezos' interest in India, it would be foolish to assume he would stop anytime soon. Flipkart, in contrast, has raised \$4.67 billion in 14 rounds since 2009, according to data from Tracxn — a little more than \$4 billion of this came after Amazon's entry into the country.

Amazon is investing these billions across the board. “A lot more money is invested in trying to enable the ecosystem. People confuse it with marketing. Marketing is the smallest investment you have to make in terms of the size of the investment we are making,” says Amit Agarwal, Senior Vice President and Country Head of Amazon India. The company has built 41 fulfillment centres, which cost way more than any marketing campaign. “There is capital infrastructure, software, processes, ecosystem infrastructure. Our flywheel is spinning fast as we have invested and took a lot of pain in building this infrastructure. This is where differentiation is created on a day-to-day basis,” he says.

BT met Agarwal at Amazon India's headquarters in Bangalore's World Trade Centre. He is 42 and has completed 18 years in the company — his colleagues call him a “true Amazonian” — an engineer at heart who loves to automate, is data-driven, questioning, intense, customer-obsessed. In his 52-minute interview with this writer, he mentioned ‘customer’ 43 times. “He doesn't like distractions. Everything must tie back to the Amazon business flywheel, no matter what you are doing,” says an employee who works closely with Agarwal but didn't want to be named.

The competition is perhaps wary of this focus, which can be seen across the top leadership. That flywheel spins, and spins fast, because of good execution.

On February 9, investor Mahesh Murthy, a known critic of Flipkart, sent out a tweet: “So @Flipkart wants level-playing field with @amazonIN ? Start by cutting top exec salaries by 80%. Overpaid underperforming crybabies.” A chart supplementing the tweet compared executive remuneration at the two companies.

COVER STORY

THE INDIA TEAM



GOPAL PILLAI
Director and GM
Seller Services



ARUN SIRDESHMUKH
Director, Amazon Fashion



MANISH TIWARY
VP, Category
Management



RAJ RAGHAVAN
Director, HR
Asia Pacific



AMIT AGARWAL
SVP and Country Head,
Amazon India

AKHIL SAXENA
VP, India
Operations



KISHORE THOTA
Director, Customer
Experience and
Marketing



SRIRAMAN JAGANNATHAN
VP, Payments



NITESH KRIPALANI
Director, Amazon Video



SHALINI PUCHALAPALLI,
Director, Category
Leadership



RAVI DESAI
Director, Mass and
Brand Marketing



DALE VAZ
Director, Software
Development



AKSHAY SAHI
Director & Head
of Prime India



RAGHAVA RAO
Director, Finance

Amazon's executives were more experienced but got a fraction of the money earned by Flipkart executives. Nevertheless, his primary grouse appeared to be the fact that Flipkart, with American, European, South African, and Asian investors, was asking for protection — co-founder Sachin Bansal mentioned the need for a level-playing field against foreign competition multiple times in public forums since December 2016. It was a sign Flipkart was nervous.

Amazon's rapid rise and marketshare gains are making the competition run helter-skelter. Amazon's rise, in fact, coincided with the fall of Snapdeal, India's third-largest marketplace in an e-tailing industry worth \$16 billion. In many ways, Amazon delivered a death blow to Snapdeal, where Japan's SoftBank is a major investor.

"There was no clear positioning. They were running a pure-play marketplace very early but systems and sellers were not mature. India's supply chain is not sound. There were multiple delivery issues," says Satish Meena, a forecast analyst with Forrester.

Another factor in Snapdeal's demise was the rise of Shopclues. "While Amazon took away the high spending and premium customers from Snapdeal, the Tier-II and Tier-III customers went to Shopclues. They got hit from both sides. And lack of focus on customer experience made sure customers didn't come back to the platform," he says. As Amazon snatched marketshare, Snapdeal's valuation crashed from \$6.5 billion to around \$1 billion, according to some reports.

Snapdeal made other errors too. It kicked off a GMV battle with Flipkart that depleted its resources. When *BT* met Snapdeal's CEO Kunal Bahl early in 2015, he insisted that the race between Flipkart and his company was close. "Today, if you add FreeCharge, which is a few hundred million dollars annually, it is really neck and neck," Bahl told this writer. Snapdeal had acquired FreeCharge, a wallet company, at its peak for \$400 million, but could never make it work any better. Paytm sprinted away with wallet marketshare. Snapdeal's other acquisitions, such as fashion website Exclusively.com, also bombed; it shut down in August 2016. The founders, Bahl and Rohit Bansal, have realised their missteps too late. In a letter to employees in February this year, they wrote: "Over the last two-three years, with all the capital coming into this market, our entire industry, including ourselves, started making mistakes. We started

growing our business much before the right economic model and market fit were figured out. We also started diversifying and starting new projects while we still hadn't perfected the first or made it profitable."

Investors are now forcing a merger with Flipkart, a move that looks like a gang-up against Amazon. Every company has its own way of tabulating GMV. Since the data are not conclusive, most analysts are iffy about mentioning market-share numbers in reports. One analyst ran an exercise in December last year. "Flipkart and its group companies (Myntra and Jabong) have 38-40 per cent market-share. If Snapdeal is added, it might go up by 2-5 per cent. It is difficult to estimate because Snapdeal sales are going down significantly. Amazon India may be commanding 32-33 per cent," he says.

Industry watchers will closely watch the integration of the two firms, though most analysts think Snapdeal will not add much value to Flipkart considering it is not a leader in any category. It will probably add a whole lot of physical infrastructure, nevertheless — according to a former Flipkart executive, Snapdeal has a large number of smaller fulfillment centres, which Flipkart will be delighted to bag.

"Only time will tell if they are effective. Flipkart's incremental effort will be in the non-standard category. Jabong, Myntra and eBay are not known for computers and mobile phones. Flipkart, thus far, has followed Amazon. Now, because the big daddy is here, it is difficult to maintain differentiation. But its better late than never," says Sandeep Aggarwal, the founder of automobile marketplace Droom and e-tailer Shopclues.

The gang-up against Amazon and getting investors with big balance sheets appear the right thing to do, at least on paper. In May this year, SoftBank Group Corp. closed round one of a planned \$100 billion 'Vision' investment fund. Aggarwal cracks up. "With Snapdeal, they don't get Snapdeal. They get SoftBank."

Two Battles

At the runway of the Amazon India Fashion Week this March in Delhi, designers rolled out everything from the minimalistic to the adventurous. At one point, women models swayed sporting ties while men walked with clutch bags. Conversations erupted on expecting the unexpected.

Non-metros driving Amazon's growth –

75%
of new customers were from non-metros in 2017.

Can Amazon, the sponsor of the event, spring a surprise on Flipkart in this segment? For it is one category that Flipkart dominates; the combination of Flipkart, Myntra and Jabong accounts for nearly 70 per cent of the online fashion e-tailing market, say industry watchers. In December 2016, Myntra said it witnessed 80 per cent year-on-year growth, apart from a revenue run rate of \$1 billion.

One can never say, but Amazon is bulking up. And the battles of the future would be waged in this category, apart from grocery. The man Amazon has selected to wage the fashion battle is Arun Sirdeshmukh. He meets this writer at Sheraton Grand in Bangalore, right across the World Trade Centre. The conversation begins with a summary of his impressive CV. He has been in the fashion industry for two decades, with Madura Garments, Indus League Clothing and Reliance Trends. The current Director of Amazon Fashion then co-founded a premium online fashion mall, Fashionara. He knows that apparel companies like good custodians of their brands. And Amazon must be their next logical destination. "We ensure that the dedicated brand page actually has the voice of the brand. Things such as visuals, videos and history of the brand are the immersive content. Second is delivery experience. The water will ultimately flow to players that do fulfillment well," he says.

Amazon.in has over 70 exclusive mobile device tie-ups. The popular ones include Oneplus, Nokia, Xiaomi, Motorola, Honor, Lenovo and Coolpad

In the second half of 2016, Amazon says, it launched "over 150 top fashion brands". Overall, the company now carries 15,000 brands. Myntra, in contrast, has 2,000 brands on its platform. "In the last seven months, we have looked at everything more granularly. There were brands we were missing," says Sirdeshmukh. He is fixing that. A year back, for instance, Marks & Spencer wasn't available on Amazon. Now, it is, and with "a wide range".

Amazon is also building the grocery category. It recently created ripples in the US by proposing to acquire Whole Foods for \$13.7 billion. The Indian media, meanwhile, speculated that Amazon India could purchase



THE GLOBAL PLAY

Net sales in 2016 up
27%
to **\$136 BILLION**;
Net income at **\$2.4 BILLION**

Over **100,000 SELLERS** have sales
of more than **\$100,000**



Introduces **AMAZON GO** – a store with no check-out – in Seattle. Adopts technologies used in self-driving cars such as computer vision, sensor fusion and deep learning.



AMAZON PRIME AIR uses drones to deliver packages in 30 minutes. First delivery in December 2016 as part of a private trial in the UK



ROBOTS handle much of the work at fulfillment centres in the US

GROCERY PUSH:
Acquires American grocery chain Whole Foods Market Inc. for

\$13.7
BILLION



Bigbasket, the country's largest online grocer with five million customers. However, Bigbasket's Co-Founder Hari Menon told this magazine that no such deal was in the offing. But he does believe that Amazon will attack the sector in a "big way" and it is not necessarily a bad thing.

"The grocery business is complex. It is difficult to shift grocery-buying habits. We have done it over five years. If more players come, the market will open up faster," he says. "It is the single biggest market in the country — \$450 billion. That is nearly 70 per cent of the retail business of \$700 billion. Only a minuscule is online today. So, there is huge legroom available."

This is what interests Amazon. Also, Flipkart is not exactly known for grocery.

Amazon has rolled out several grocery-led programmes. There is 'Super Value Day' on 1st and 2nd of every month for bulk buying. AmazonNow, an app service in Bangalore, Hyderabad, Delhi and Mumbai, will help you access neighbourhood *kirana* stores for everyday essentials. Amazon Pantry, launched in September 2016, has over 3,500 everyday essentials. You can build a basket and have all the products delivered the following day. Then there is a 'Subscribe and Save' programme, launched last year, which the company thinks will become big. "There are certain items that you need every month. Like if I play tennis, I need x number of balls; or blades, or diapers. You subscribe once, and on one day in a month, the goods land up at the doorstep, and that too at an attractive price," says Manish Tiwari, Vice President of Amazon India's Category Management. The better pricing is a result of such a subscriber showing his intent to be a better customer. "It is also easier to reach your house because we can plan ahead of time. It makes delivery cheaper and we pass on that value."

Killer Moves

Soon after Amazon launched Prime in India in mid-2016, someone posted a query on question and answer forum Quora: "Which one is better, Amazon Prime or Flipkart First?" Flipkart had a two-year advantage over Prime, having launched in 2014. For a subscription of ₹500, it guarantees delivery in a day, apart from priority customer service.

Six people answered, and five picked Prime, which offers similar benefits, such as free faster deliveries, as Flipkart First, but "is a whole larger package", according to one response. By the beginning of 2017, that larger package was obvious. A Prime membership allows unlimited streaming of TV shows and movies in multiple Indian languages, apart from English. Video is a great hook to entice people to visit and shop on the site. Will music streaming be next? Flipkart may be regretting shutting down Flyte, its online music store, in 2013.

One will have to wait and watch but it is evident to most market watchers that Prime has been Amazon's killer move in India. The rise in Prime membership has rocketed, which implies a growing loyalty base for the company. It spins the business flywheel faster, because if you subscribe, you buy more. Country

COVER STORY

head Amit Agarwal says Amazon is seeing good repeat purchases: “Prime is a great example of that. During the January sale period (Amazon Great Indian Sale), half of our units were Prime units.” Now, one in three orders is a Prime order. And there is a “100 per cent increase in purchases” by paid Prime members since the January 2017 sale, the company claims.

“In India, one-two day deliveries are nearly impossible. In a marketplace situation, you take six-eight days to deliver. Prime means you are premium. Indians like being pampered. We like being treated special. That has worked well — the speed of delivery and special treatment,” says Sreedhar Prasad, Partner, Management Consulting at KPMG India.

Executing on fulfillment is another weapon. “The moment of truth in e-commerce is fulfillment and delivery experience. Amazon has nailed it better than anyone else,” says Droom’s Sandeep Aggarwal.

Exactly how the company goes about quick deliveries is a bit of a black box. But a typical flow chart would look something like this:

If a mobile phone has to be shipped from Delhi to a customer in Bangalore, there are multiple stops. Once the order is placed, the phone is picked up and packed by associates at a fulfillment centre in Delhi before it gets shipped to a sorting centre in Bangalore. It gets transported by road if the order is for standard delivery, by air if it is a fast-track one. All orders to Bangalore get aggregated at the sorting centre, which then distributes to an Amazon delivery station near the customer's address. A delivery associate finally picks up the order for delivery.

There is nothing extraordinary about this process; perhaps this is widely replicated across the industry. The secret sauce, however, is the technology used at the fulfillment centre to quickly pick, pack and dispatch, apart from route planning.

According to a third party logistics provider who didn’t want to be identified, Amazon often entrusts its own executives for delivery in areas where customers are more sophisticated — such as south Delhi. “We will be given orders for peripheral areas,” he says. Amazon responds that it’s not true. It is more to do with the network and its systems automatically select who should deliver depending on the coverage a service provider has. That could be India Post in areas where Amazon’s own network is weak.

A majority of Amazon’s sellers today use ‘Fulfilled by Amazon’, a service where the company stores the seller’s inventory, packs it, and ships whenever there is an order. “The seller doesn’t have to worry about creating space to store inventory. He doesn’t have to worry about warehouse management systems. He doesn’t have to worry about the technology re-

quired to fulfil the order. Because we have innovated on this for two decades worldwide, we are able to lower the seller cost, so that his margins improve,” says Akhil Saxena, VP, Operations, Amazon India.

If the inventory is with Amazon, it can tell the customer with greater certainty when it can be delivered. Amazon now has 41 such fulfillment centres in 13 states, with a storage capacity of 13 million cubic feet. Nine of them are for heavy and bulky items such as TVs, refrigerators, and furniture. And more the number of fulfillment centres, the faster is the delivery, simply because you are closer to the customer. Flipkart did not respond to a query on its large warehouses but former employees said the number would be under 30.

“The secret of faster delivery is a combination of many things. We can process many orders in a few minutes,” says Saxena. “The middle mile is one element of the full cycle. How do you allow a customer to order

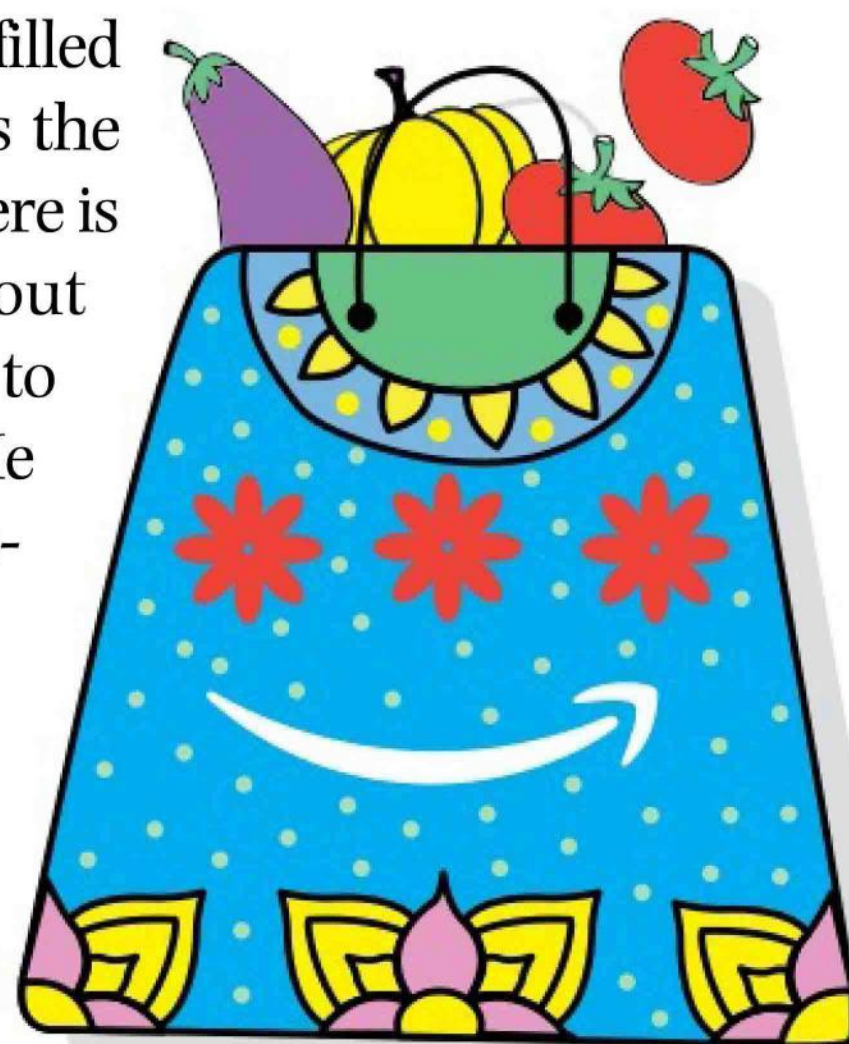
till the last minute before a flight takes off? If a flight takes off at 6pm, I need to allow the customer to order as close to 6pm as possible. That is where fast processing helps. That is where sorting centres come into the picture. Most metros have airport sorting centres. It is a combination of first mile, middle mile and last mile that helps us deliver faster.” By middle mile, he means sorting centres as well as the truck/airline haul.

Fulfillment, nevertheless, starts way before an order is placed, when predictive analytics is used to forecast demand. “We track how many people have looked at what item and where they are based. That is what drives replication of inventory across fulfillment centres,” says a senior employee who can’t be identified. Amazon executives will not tell you but in many cases the company under promises and over delivers. Often, you could receive a text: “Your order is arriving early ...”

That’s what makes a customer loyal, and its rivals anxious. ♦

Customers in
30
cities can stock up a basket of frequently purchased items using **Amazon Pantry**, launched in September 2016.

AmazonNow — a separate app — promises **two-hour grocery delivery** from neighbourhood stores linked to the company in Bangalore, Hyderabad, Delhi and Mumbai



@Goutam20