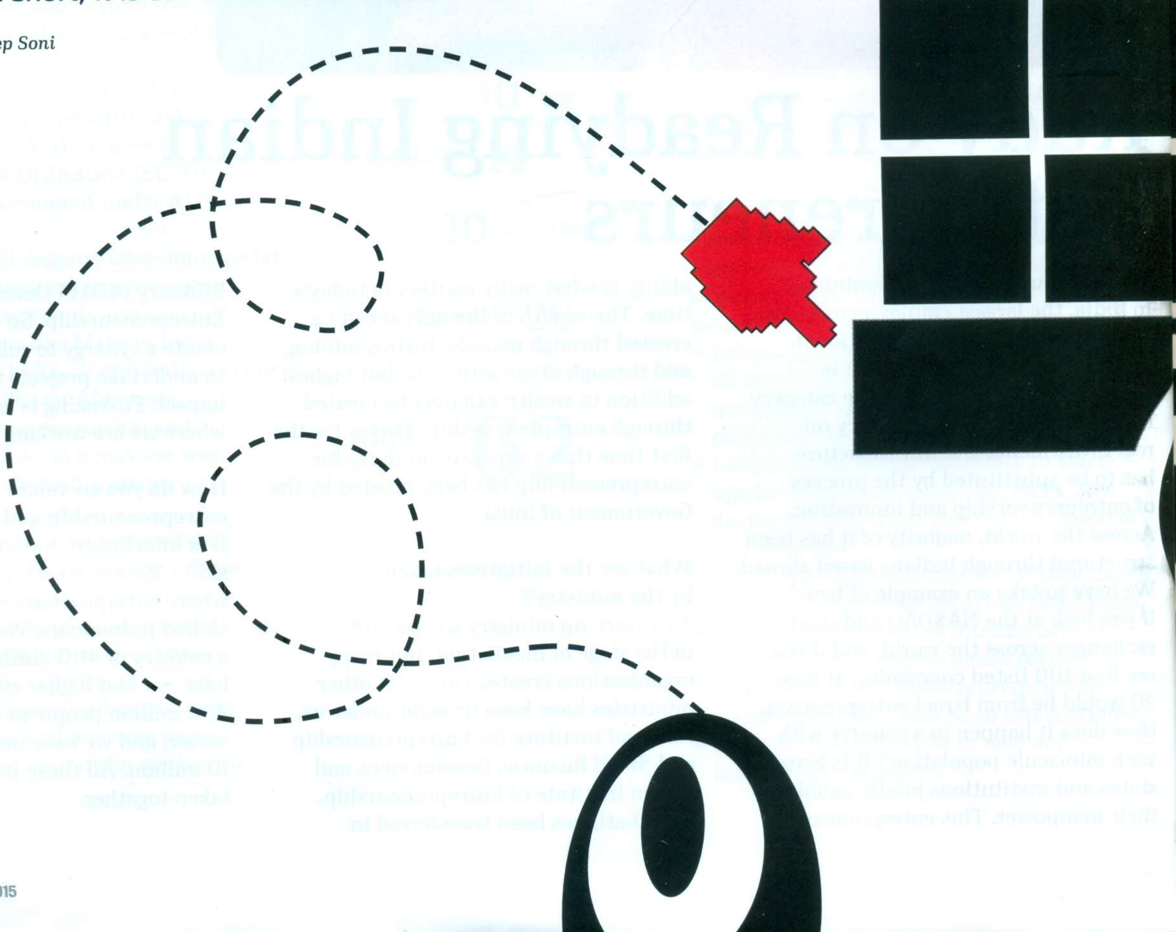
E-COMMERCE LOGISTICS RUN INTO REALITY

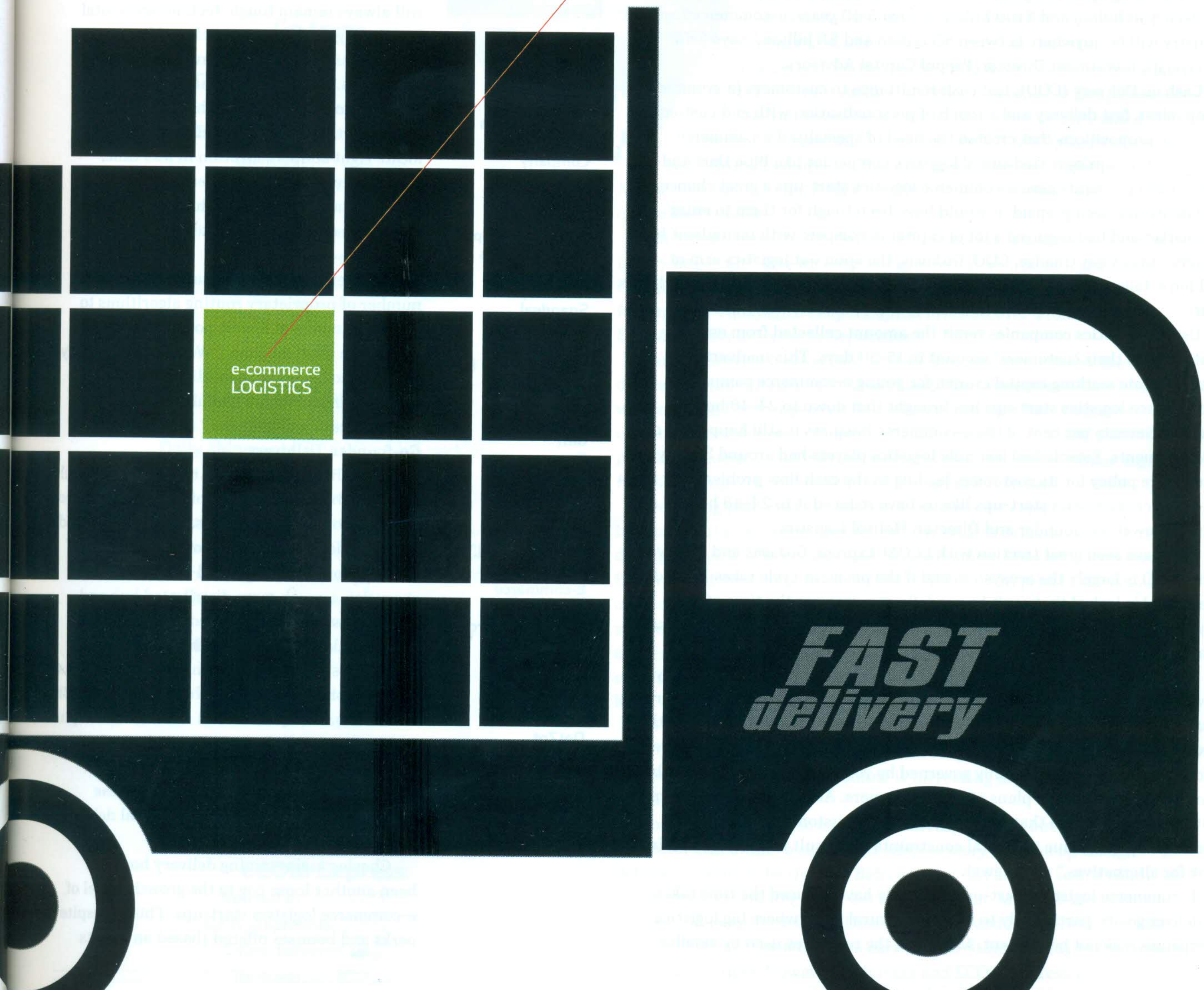
There are contentious claims about e-commerce growth being a doubled-edged sword, that is, whether it is a bubble or not. For those who swear by its growth also know that eventually e-commerce-focused logistics infrastructure is all what it is about. After all, the new age great Indian e-commerce consumption story will fall flat if consumers don't get products to consume. The sunrise sector is and will remain vulnerable, at least for few years, to challenges as basic as delivering the right product at the right time. In short, it is still a hit-and-miss affair.

By Sandeep Soni



$30-70bn

Indian e-commerce market size to reach $30-70 bn by 2020 from $10-13 bn (current size), as per various reports.



Different reports peg the rise of Indian e-commerce market between $30 billion and $70 billion by 2020 from the current size of $10-13 billion. This means that e-commerce logistics companies will grow at a completely different scale. Similar to the way offline or traditional logistics segment has grown to support the traditional or offline commerce.

"Broadly, industry seems to be having a secular trend in terms of growth. Offline logistics market is 12-14 per cent of the Indian GDP, similarly the online or e-commerce logistics market is supposed to have a particular percentage of the e-commerce and generally the trend seems to be 8-12 per cent depending upon category, industry and country. So if e-commerce will be between $50 billion and $100 billion in next 5-10 years, e-commerce logistics industry will be anywhere between $5 billion and $8 billion," says Srini Vudayagiri, Investment Director, Peepul Capital Advisors.

Cash on Delivery (COD), fast cash remittance to customers (e-commerce companies), fast delivery and a touch of personalisation with end customers are value propositions that created the need of specialised e-commerce logistics start-ups over traditional logistics companies like Blue Dart and DHL. "COD payments gave e-commerce logistics start-ups a great chance. Had deliveries been prepaid, it would have been tough for them to enter the market and had required a lot of capital to compete with incumbent big players," says Vijay Ghadge, COO, GoJavas, the spun out logistics arm of fashion e-tailer Jabong in which Snapdeal picked minority stake in March this year.

Usually logistics companies remit the amount collected from end customers to their customers' account in 15-30 days. This inadvertently used to create working capital crunch for young e-commerce companies. E-commerce logistics start-ups has brought that down to 24-48 hours. "Around Seventy per cent of the e-commerce business is still happening on COD payments. Established last mile logistics players had around 30-day remittance policy for its customers leading to the cash flow problems for them . E-commerce logistics start-ups like us have reduced it to 24-48 hours," says Naveen Rawat, Co-founder and Director, Holisol Logistics.

"We have seen great traction with ECOM Express, GoJavas and Delhivery. Since COD is largely the ecosystem and if the payment cycle takes 10-15 days, the capital is locked that can't be used. So compressing the time of COD payment reconciliation is a huge advantage in terms of managing cash," says Praveen Sinha, Founder and Managing Director, Jabong.

Although start-ups like Holisol Logistics, Ecom Express and Delhivery have raised money in the past and present. But at times, the situation turns tricky as they need to grow along with their customer's growth whether they have cash or not or else they might lose customers to other logistics players. "Your pace of growth is not only governed by your plans, but also has to be in tune with the expansion plans of your customers. Access to capital becomes critical so as to ensure that you can grow as per customer's requirement. Inability to expand due to capital constraints can result in customer having to look for alternatives," says Rawat.

E-commerce logistics start-ups definitely have reduced the time taken to deliver goods, particularly to regional or rural areas where big logistics companies may not be efficient. Moreover, the resources used by smaller players can be cost-effective compared to those of large companies' where sophisticated handling is done. "Delivering small and less value items that can be delivered on two-wheelers, instead of bigger items through vans is an inexpensive option," says Sandeep Ladda, Technology Leader, PwC India. But reaching out to end customers in time is still a challenge apart from reverse logistics that also adds to the cost as it has less economies of scale.

Although locating the precise location will always remain tough, technology is vital in reducing the time to search and locate the address apart from relying on nearby landmarks. "Ecom Express has developed a smartphone app along with a third party developer that routes our delivery boys to locate right address/location in less time," says Sanjeev Saxena, Founder Director, ECOM Express. Saxena along with his three other colleagues at Blue Dart started ECOM Express in 2013.

Delhivery, on the other hand, uses a number of proprietary routing algorithms to reach customers at lowest possible cost and within the shortest time. "We are moving away from pin codes because locality information is a more intuitive and useful means of communicating an address," says Sahil Barua, Co-founder, Delhivery.

The delivery depends on the delivery model too. It is about the number of packets delivered in a day. For lesser deliveries, a typical hub and spoke model will do, while for high number of delivers, for example around one lakh packets every day, a much more distributed hub and spoke network with intermediate points in between like Delhivery's makes it seamless while few start-ups maintain both like GoJavas.

"In Eastern Uttar Pradesh we have Varanasi as our hub, with presence in Allahabad, Kanpur and Lucknow. All areas within 25 kms of these locations are being served through our own delivery boys. For deliveries outside these zones , we rely on network of our local delivery partners," says Rawat.

Chasing and retaining delivery boys has been another loose cog in the growth wheel of e-commerce logistics start-ups. This is despite perks and bonuses offered (based on targets

MAJOR E-COMMERCE COMPANIES & THEIR LOGISTICS ARMS

Company	E-commerce logistics arm
Flipkart	Ekart Logistics
Amazon India	Amazon Transportation Services
Snapdeal	Minority stake in GoJavas
Gati	Gati E-connect
Blue Dart (DHL)	DHL eCommerce
DTDC	DotZot

"We are moving away from pin codes because locality information is a more intuitive and useful means of communicating an address."
Sahil Barua, Co-founder, Delhivery

"Since COD is largely the ecosystem and if the payment cycle takes 10-15 days, the capital is locked that can't be used. So compressing the time of COD payment reconciliation is a huge advantage in terms of managing cash."
Praveen Sinha, Founder & Managing Director, Jabong

achieved and conveyance) apart from salaries ranging between Rs 8 and Rs 12k per month. It gets more severe during summers with attrition rate hovering around 10-15 per cent every month. "Most of our delivery boys are outsourced, and if they perform well, we bring them on our payroll offering incentives and giving motivation. We promote them as well to manage small teams, look into accounts, etc. Retaining workforce is more of a summer problem," says Ghadge.

The room for growth in the e-commerce logistics market is big enough for existing players. However, the need to capture a big market share has necessitated differentiation among these start-ups even as large players like Blue Dart, FedEx and DTDC are aggressive to tap the market. Hyderabad-based Gati also announced to raise Rs 120 crore for its e-commerce arm Gati E-Connect earlier this year. E-commerce companies like Amazon have also set up its own logistics unit called Amazon Transportation Services, similar to Flipkart's eKart, and Alibaba tied up with logistics firms, Allcargo Logistics and Mypacco in June although they continue to use the services of logistics companies as well.

"Differentiation like try and buy (for lenswear, jewellery e-commerce) is very important. Investments will go into differentiated logistics. Cheaper pricing cannot be the long term sustaining differentiating factor," says Vudayagiri. Peepul Capital invested over $16.5 million in ECOM Express last year in September.

"Among service innovations, we introduced many of them like same day delivery, remittance of COD payments to e-commerce customers within 24-48 hours, open box deliveries that built a lot of trust on customers, use of Google Maps for us and customers to track deliveries, product exchanges, and upfront refund of end customers' money during reverse pickups. However most of these services are paid," says Ghadge.

Predicting year-on-year growth of e-commerce companies may not be tough. But it is hard to predict sudden peak in demand particularly during festivals or heavy sale and discount offers. Flipkart's last year Big Billion Day debacle is a classic example of failure to predict the amount of resources, technology bandwidth and manpower required to handle such events. "You can predict such demand but not the scale of it. The challenge lies in understanding which area in a city will receive more orders during such days. So whether it's south Delhi or north Delhi, Karol Bagh or Greater Kailash that will receive more orders?" says Barua.

"If the demand is coming from Kerala and supplies need to be made from Gurgaon, it is very tough. It will be tougher in time ahead as the number of customers buying online is increasing day-by-day," says Ladda.

There is more to these issues for start-ups to sort out even as the sector still awaits a significant success story to come up though Delhivery seems to be the one. Before that it has already seen a couple of failure stories including angel-backed Chhotu.in, Mumbai-based Earth Movers and Bengaluru-based Dialaservice.net and Parallelway that shut down in 2013 as they failed to secure growth-stage funding in the capital intensive business. However, Delhivery and ECOM Express were able to and continue to raise funds and managed to sail across. But they are still not profitable while GoJavas and Holisol Logistics claim profitability.

"Most of them are not profitable. Pricing and productivity are two things that need to be worked out. It is a B2B business, not B2C business. So in B2B, you need to have long term sustainable and quality conscious e-commerce customers, and as long as you control your efficiency and cost of doing business, you will be profitable," concludes Vudayagiri. Ⓔ

MAJOR PLAYERS

Delhivery

Started in: May 2011
Daily shipments: 1,20,000
Cities delivered to: 220
E-commerce customers: 1,600
Latest funding: $85 million in Series D in May 2015 led by Tiger Global Management
Fulfillment centres: 14
Turnover: Rs 220 cr. (FY15)
Expansion: Rural market, 4X growth in reach and investment in 2.5+ m sq. ft of fulfilment centers by 2015 end
Delivery team: 10,000+

GoJavas

Started in: 2013
Daily shipments: Up to 1.5 lakh
Cities delivered to: 280
E-commerce customers: 400+
Turnover: Rs 200+ cr.
Highest product categories shipped: Electronics & Fashion
Fulfillment centres: 19
Delivery boys: 8k- 9k
Expansion: 400 cities by this year

Holisol Logistics

Started in: 2009
Daily shipments: 50,000 (pick & pack), 2,000 (deliveries)
Cities delivered to: 10
E-commerce customers: Around 27
Turnover: Rs 45 cr. FY15, Rs 110 cr. in current FY
Latest funding: $1.5 m from Sundeep Bhandari
Highest product categories shipped: Apparels & Cosmetics
Fulfillment centres: Delhi, Mumbai, Bengaluru & Varanasi
Team strength: Warehouse staff 1,800
Delivery boys: 100
Expansion: 12 cities including Hyderabad, Ahmedabad, Pune & Guwahati

ECOM Express

Started in: January 2013
Daily shipments: Over a lakh
Cities delivered to: 220
Turnover: Rs 200+ cr.
Latest funding: $133 m from Warburg Pincus in June 2015
E-commerce customers: Over 200
Highest product categories shipped: Electronics, fashion
Delivery boys: Over 6000
Expansion: 300 more cities this year & 5 lakh shipments a day