

RETAIL INDUSTRY DILEMMA ONLINE RETAILERS GOING FROM CLICKS TO BRICKS

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Abstract: The retail sector is one of the fastest growing in India over the last few years. With the online medium of retail gaining more and more acceptance, there is a tremendous growth opportunity for retail companies, both domestic and international. India's urban population has contributed immensely to the growth of the online market in the country. The Biggest factor in the tremendous growth of online retail is the Internet penetration, be it through computer or mobile. As the data suggests the internet penetration is going to be very robust in the years to come & the e-commerce, especially online retailing will grow at a very rapid pace. In spite of the above facts, there are lots of retailers who started as pure online retailers, are changing their tracks. The fact is that shopping is a social activity, and people like to see, feel and try on the merchandise. Another reason for this move by online retailers is that traditional retailers and manufacturers have begun to catch up to them with their online platform. This phenomenon is spreading across globe, as the online retailers going from clicks to bricks. Lots of International online retailers have diversified into offline or physical stores. Shoppers visit offline stores to check out products and then go online, where they might get better deals and prices, to purchase them. This is being primarily driven by the deals and discounts offered by online stores and are perhaps not sustainable. But it signals the need for buyers to touch and feel certain products before they buy it. The chances of increased sales and increased loyalty are brighter, once customer's experience has been improved and he has been properly informed and educated. As of now it is just Tip of an Iceberg, as there are only handfuls of online retailers which are opting for bricks along with the clicks. But in the near future we can expect other big names in the online retailing to join this race.

Keywords: Consumer Buying Behavior, e-commerce, online retail

Introduction: The retail sector is one of the fastest growing in India over the last few years. The Indian retail industry, which comprises organized and unorganized retail, is currently estimated at US\$ 490 billion. It has experienced high growth over the last decade with a noticeable shift towards organized retailing formats. The industry is moving towards a modern concept of retailing. "Demand from international and domestic brands as well as retailers continued to strengthen throughout 2013; with the second half of the year witnessing an increase in demand for quality retail space in Delhi NCR, Pune and Chennai," according to the findings of CBRE's latest report, India Retail Market View H2 2013.

As India's retail industry is aggressively expanding itself, great demand for real estate is being created. Further, easy availability of debit/credit cards has contributed significantly to a strong and growing online consumer culture in India. With the online medium of retail gaining more and more acceptance, there is a tremendous growth opportunity for retail companies, both domestic and international.

Favorable demographics, increasing urbanization, nuclear families, purchasing power of consumers, preference for branded products and higher aspirations are some factors are driving retail consumption in the country.

The current estimated value of the Indian retail sector is about 500 billion USD and is pegged to reach

1.3 trillion USD by 2020. The penetration level of modern retail (currently 5%) will increase six-fold from the current 27 billion USD to 220 billion USD in 2020. The Indian retail sector is expected to grow at a CAGR of 15 to 20%

Online Retail in India: India's online retail industry has grown at a swift pace in the last five years from around Rs 15 billion (US\$ 249.64 million) revenues in 2007-08 to Rs 139 billion (US\$ 2.31 billion) in 2012-13, translating into a CAGR of over 56 per cent. The nine-fold growth came on the back of increasing internet penetration and changing lifestyles, and was primarily driven by books, electronics, apparel, beauty and personal care. According to Crisil Research, the online retail business in India is expected to grow at a whopping 50-55 per cent annually to become Rs 50,000 crore (US\$ 8.32 billion) business in the next three years. During the same period, ecommerce companies could capture around 18 per cent of the country's organized retail market, up from their current share of about 8 per cent.

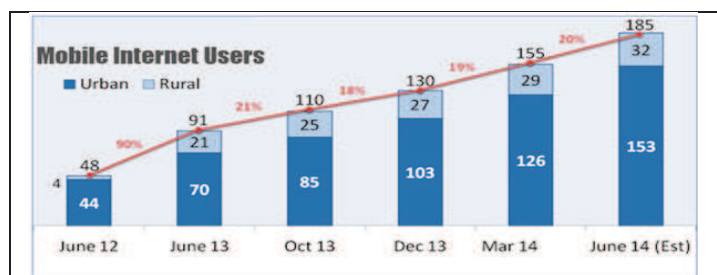
India's urban population has contributed immensely to the growth of the online market in the country. Mumbai have left behind all other cities in India in shopping online; Delhi ranks second and Kolkata ranks third in the preference for online shopping in 2013.

From around 8 per cent share of the organized retail market in India now, online retailing will zoom to

around 18 per cent by 2016. But as a proportion of overall retail — including the massive unorganized segment — it will be just over 1 per cent at the end of that year. Yet the potential is huge. For example, in the US, which is the biggest market for online retail, and the UK, the share of online retail is around 9-10 per cent. Even in a developing market such as China, it is 4-5 per cent.”

Key Driver of online Retail - *the Biggest factor in the tremendous growth of online retail is the Internet penetration, be it through computer or mobile. In the last three years internet user base has grown at CAGR of 35%. 4.The number of mobile internet users has reached a landmark figure of 155 million in India by*

March 2014, and is expected to be 185 million by June, maintaining a quarter-on-quarter (Q-o-Q) growth of 20 per cent, according to a report released by the Internet and Mobile Association of India (IAMAI) and market research firm IMRB International. Going forward, urban India will continue to account for a large percentage of the mobile internet users has reached 126 million by March 2014 and is expected to be 153 million users by June, accounting for over 82 per cent of the total mobile internet users. In comparison, the number of mobile internet users in rural India will register an impressive 50 per cent growth over previous year to reach 32 million by June 2014.



The following table shows the internet user growth in India
Internet Usage and Population Statistics:

Year	Users	Growth Rate	Population	% Pen.	Usage Source
1998	14,00,000		1,09,48,70,677	0.10%	ITU
1999	28,00,000	100%	1,09,48,70,677	0.30%	ITU
2000	55,00,000	96%	1,09,48,70,677	0.50%	ITU
2001	70,00,000	27%	1,09,48,70,677	0.70%	ITU
2002	1,65,00,000	136%	1,09,48,70,677	1.60%	ITU
2003	2,25,00,000	36%	1,09,48,70,677	2.10%	ITU
2004	3,92,00,000	74%	1,09,48,70,677	3.60%	C.I. Almanac
2005	5,06,00,000	29%	1,11,22,25,812	4.50%	C.I. Almanac
2006	4,00,00,000	-21%	1,11,22,25,812	3.60%	IAMAI
2007	4,20,00,000	5%	1,12,96,67,528	3.70%	IWS
2009	8,10,00,000	93%	1,15,68,97,766	7.00%	ITU
2010	10,00,00,000	23%	1,17,31,08,018	8.50%	IWS
2012	13,70,00,000	37%	1,20,50,73,612	11.4%	IAMAI
2013	19,00,00,000	39%	1,20,50,73,612	11.4%	IAMAI
2014*	24,30,00,000	28%	1,20,50,73,612	11.4%	IAMAI

2014* Projected figures by IAMAI ending June 2014 in The Hindubusinessline.com

Global Retailers Changing Tracks: As the data suggests the internet penetration is going to be very robust in the years to come & the e-commerce,

especially online retailing will grow at a very rapid pace. In spite of the above facts, *there are lots of retailers who started as pure online retailers, are*

changing their tracks. Changing tracks means moving from online to offline i.e. physical stores. One of the major advantages of going offline might be the ability to improve customer engagement, brand presence, brand credibility and also bridge the virtual gap between the offline online experiences. The fact is that shopping is a social activity, and people like to see, feel and try on the merchandise. Another reason for this move by online retailers is that traditional retailers and manufacturers have begun to catch up to them with their online platform.

This phenomenon is spreading across globe, as the online retailers going from clicks to bricks. Lots of International online retailers have diversified into offline or physical stores.

Athleta: The athletic wear brand launched e-commerce operations in 1999, but physical stores didn't follow until more than 10 years later. After Gap acquired it in 2008, the retailer brought the brand to the physical space in 2011, planting its first flag in San Francisco. The chain currently has about 70 stores, with plans to grow to around 100 this year.

BaubleBar: Although fashion jewellery label BaubleBar started out online, co-founder Amy Jain said she and co-founder Daniella Yacobovsky set their sights on bricks and mortar from day one. "We've always believed that an offline presence was key to building a brand," Jain said. "Men and women touch and feel our product and they immediately understand what BaubleBar is about."

After operating a three-month pop-up store in New York City last summer, the brand launched an exclusive collection with Anthropologie in December. It recently entered 35 Nordstrom locations, and come June, it will be sold at all Nordstrom stores, Jain said.

Bonobos: After five years as an online-only retailer, Bonobos expanded into bricks and mortar in 2012, opening stores in 20 Nordstrom locations. The brand is now sold at all Nordstrom stores, and it just launched a shop-in-shop at eight **Belk** stores. It's also sold within 11 specialty stores and has eight of its own shops, called the Bonobos Guideshop. "We believe the future is digital, but that great in-person experiences aren't going away," said Bonobos co-founder and CEO Andy Dunn.

Warby Parker: After kicking off as an online-only retailer in 2010, the fashion-forward eyewear brand now operates 13 stores across the U.S. Warby Parker's "showrooms" are operated within boutiques in cities such as Miami and Chicago, while the brand has stand-alone locations in New York City, Los Angeles and Boston. "We view the future of retail as a truly blended approach. Customers are shopping online [including on their phones] more than ever, but people still crave in-person experiences and interactions," said co-founder Neil Blumenthal.

"Having physical stores is another way we can bring customers into the world of Warby Parker—both existing customers and people who happen to walk past the store without having encountered us before."

JustFab: The members-only footwear site, which gives shoppers recommendations based on stylists' picks, launched its first physical store in Glendale, Calif.

Frank & Oak: Canadian menswear retailer opened its first location in Montreal. While at the store, shoppers have the opportunity to meet with style advisors—and even get a haircut.

Birchbox: A believer that good things come in small packages, the monthly sample delivery service will open a physical store in New York City's. The permanent store follows a string of pop-up shops in New York.

Baby Tow: When Ocean and Tracy Zhang, owners of online costume shops Costume Alibi and Costumelicious, conceived the strategy for Baby Town, they saw no choice but to spread their wings offline as well as on. "It was getting harder and harder to compete side by side with Amazon," Ocean Zhang said. Year by year, the giant retailer has been eating into its market share in the costume business. Amazon currently carries about 7% of the merchandise sold by Costume Alibi, but at prices 25% lower. Zhang predicts that next year Amazon will carry as much as 15% of the same goods, "as they steadily increase their product selection," he said. "And it would be impossible to match their price."

Indian Retailers Changing Tracks: Indian retailers have also started following the footsteps of their global peers, although not at that pace. *But there are some players who are opting for the Brick and mortar along with the online platform.*

Firstcry: The first in the list is online portal Firstcry which could end up having the most number of offline baby care stores in the country by the year end. This is because despite all the challenges they face, brick-and-mortar stores still have advantages that are difficult to ignore. Pune-based Firstcry plans to expand its network of franchisee brick-and-mortar stores from 70 to 125 by the end of 2014. Firstcry has focused on growing its network in smaller towns and cities like Ambala, Bhilai, Srikakulam and Bhagalpur, where customers are still wary of buying online.

Greendust: Online retailer Greendust sells refurbished goods through its online site and through 250 franchise stores. The brick-and mortar stores, located mostly in smaller towns, account for 70 per cent of sales.

Hitendra, founder of the five year old company, said nothing helps build customer trust like a physical store.

Lenskart: Eyewear site Lenskart, which is registering

sales of \$1 million (Rs 6 crore) a month, has 20 teams that do eye checkups at a customer's location in the top seven Indian cities. They also have at-home trials, where a buyer can try out five eyewear frames at home before buying one. "We do not want to give the customer any reason for not buying from Lenskart," said Peyush Bansal, 30, founder of Valyoo Technologies that runs the site.

Healthkart: Gurgaon-based nutrition and healthcare products portal Healthkart has set up two company owned stores in Delhi, one store in Chandigarh & recently it has opened one store in Bangalore. The company intends to expand the larger store format, where nutrition counselors will assist customers choose the right products. "We want to play to our strengths. In our category customers want authentic products and expert assistance," said Sameer Maheshwari, cofounder of Healthkart. The company plans to open another 20 stores in a year's time.

Fabfurnish: Mid 2013 Rocket Internet backed online furniture store Fabfurnish opened its second offline store in Bangalore, bringing the total number of offline stores it operate to 4. The company already has 2 stores in the Delhi-NCR region and one store in Bangalore.

Some retailers have also opened up to the hybrid model just to improve brand presence and experiment with customer experience like in the case of tele shopping ecommerce company Homeshop18, who earlier last year launched a 'Virtual shopping wall' at the Delhi International Airport's domestic terminal of bringing a different user experience to the offline model.

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