



Snapdeal: A Strategic Dilemma!

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In Q1 2015, Snapdeal, one of the top three online marketplaces in India (other two being Flipkart and Amazon), launched a new brand campaign called 'Dil Ki Deal' featuring arguably the top Bollywood star, Aamir Khan. The campaign was instrumental in highlighting the shift in the strategy of Snapdeal from its earlier positioning of "Bachatey reho" (Deals all the time) to an 'emotional connect' with customers. The 'Dil ki Deal' campaign was also important to enhance the position of Snapdeal amongst the e-commerce marketplace sector.

**Figure 1: Aamir Khan endorsing Snapdeal in "Dil ki Deal" brand campaign
(Source: Snapdeal website)**

At the backdrop of this competition were industry reports that claimed that the marketplace firms were using the investor funds to increase customer acquisitions, offer discounts and increase products on offer. For example, Flipkart which claimed no 1 position and was aiming to reach \$

Rs3213mn and Rs1689mn respectively.¹ If these reports can be believed, then the financial position of Snapdeal looked to be the healthiest among the top 3 marketplace firms in India.

But Ranjan Kant, Head-Strategy, Snapdeal was

commerce retail sales share was only \$ 5.3 bn, which paled in comparison to \$ 426bn for China and \$ 305bn for USA. China and US combined controlled more than half of global retail e-commerce sales in 2014. On a global scale, e-commerce is expanding so fast that by 2007, and more than 85% of internet users had made purchases through the internet.⁴

Despite a lag, India was expected to catch up fast in the internet enabled retailing given her demographic dividend (India had more than 60% population which was young, much in contrast

Innovations within the firms, both technical as well as in marketing are also responsible for faster adoption of online shopping among Indian shoppers. Leading players such as Flipkart, Snapdeal as well as Amazon have introduced innovative business models, convenient payment options such as cash on delivery (COD), backed by back-end technological support, and extremely customer friendly policies. For example, marketing initiatives such as flash sales, ‘by invite only’ as well as coupons and short-duration deals have helped these firms to gain a wallet share very quickly. Other marketing initiatives of the firms included: 30 day return policy, Money back guaranty, Equated Monthly Installments (EMI), Exchange offers, Try and Buy services, Festive Dhamaka, Flash sale offer, and the much popular, The Big Billion day/Big day/ Biggest sale of the world. However, such marketing innovations such as flash sales often create frictions not only for the manufacturers and their channel partners but also for the online marketplace firms, as Flipkart had to face with Xiaomi and Motorola.

On September 2nd, 2014, Xiaomi Tech (a Chinese technology giant) sold its low priced smartphone Redmi 1S through a Flash Sale in a tie up with Flipkart, selling 40 thousand units within 4.3 seconds, followed by a second sale of another 40,000 units on September 9th which was sold in 4.5 seconds⁹. The third flash sale was held on a week later which sold another 40,000 in 3.4 seconds¹⁰, a week later 60,000 units was sold in 5.2 seconds¹¹ and on September 30th another 60,000 took 13.9 seconds to sell¹² and a 100,000 units were sold off on October 14th in 4.2 seconds¹³, making the total sale of more than 300,000 units in a time period of just 35 seconds altogether (besides the 150,000 units sold in the big-billion day).

⁹<http://tech.firstpost.com/news-analysis/40000-xiaomi-redmi-1s-units-go-shelves-less-minute-233050.html>

¹⁰<http://gadgets.ndtv.com/mobiles/news/40000->

Earlier in 2014, Flipkart also in a similar successful flash sale fashion sold four other smart phones of Motorola Mobility named Moto G, Moto X and Moto E in a similar fashion, which was followed by another Xiaomi Mi3 high-end smartphone of Xiaomi Tech. This has created a huge backlash in the traditional retail market, complains have been made due to the undue advantage these online retailers possess for greater connectivity through internet. Brick-and-Mortar retailers have complained that they are unable to cope up with such tie ups between producers and online retailers and are facing a sales drop, and that such schemes favor online sellers so much so that they can be forced to stop selling.

There are several other growth impediments also in the e-commerce growth story. It is an extremely capital intensive business that requires high and continuous infusion of huge capital at regular intervals, in a business model that has wafer thin profit margins, and in a business environment that has weak infrastructural and logistical support. The competition is also so intense that in 2012, there were as many as 1877 online retail firms.¹⁴ Other challenges include low internet penetration rate in India of about 11% which is much below the global average of 34%; high drop-out rates of up to 30% on payment gateways, consumer trust deficit and lower adoption of online payment options that leads to costlier payment mechanisms such as COD.¹⁵ In India, as on June 2015, 100% foreign direct investment (FDI) is allowed in business-to-business (B2B) e-commerce, but no FDI is allowed in B2C e-commerce. However, online marketplace firms such as Amazon, Flipkart or Snapdeal mostly allow vendors to sell to their customers, rather than selling their own products to customers (Amazon and Flipkart do have few private labels, but Snapdeal is yet to launch its own private label), due to which the FDI regulation is not applicable to these firms.

Snapdeal's Strategy dilemma

There are three sources of revenues for Snapdeal:

1. Commissions on sales this varies between 5% for so

towns¹⁶. Amazon has been working on extending its customer centric strategy in India by focusing on localizing their suite of products and services as well as the business model for the Indian customers. The strategy revolves on building 4 key propositions –(1) personalized offerings, (2) low cost, (3) error free experience (for both customer & seller) and (4) fast & reliable delivery. In comparison to Flipkart and Amazon, Snapdeal's strategy focusses on 4 key aspects:

™ Personalization (discovery process & communication),

™ Localization (assortment & operations),

™

the cart based on their shopping priorities, yet they do not 'check-out' a cart. However, recent trends based on advanced analytics show that even though customers are slowly moving towards acceptance and adoption of shopping cart, yet a large proportion of sales today is 'one product at a time' kind of purchase. Snapdeal uses analytics to understand what % conversions of total visits made by the customers (see Exhibit 1) to understand how many visits lead to purchases and what % of the journey was completed, which could yield insights into where and how the cart was abandoned. Follow-up with visitors

3. Lack of relevance to (metro) customers – User profiles available but decision drivers and purchase impulse insights limited
4. Limited insights on Offline market such as what is available and selling in the offline market and at what price
5. Limited ability to predict what will become big in the future

The firm has a large seller base, but close relationships existed only with few top sellers providing head end assortment. Moreover, there was a limited analysis of long tail assortment availability but no mechanism to assess the gap against assortment mix available in offline space.

On the pricing front, there is a centralized pricing team that provides recommendations but the final pricing remains decentralized. For comparable products, efforts are made to match competition in somewhat automated manner. But the following processes remain inefficient:

- x Extent of gap vs. competition is currently manually determined.
- x At times, price may be kept higher than competition to meet internal targets, and this may be leading to breaks in customer perception about best price.
- x For non-comparable products, discounts demanded even for non-elastic items to meet sales targets, though may have no correlation to perception or elasticity.
- x

It is important to tag important critical gaps in the assortment based on top list of competition, trending searches, no results on site, high GSV and ratings based on which the seller acquisition team would be given focused inputs to onboard the assortment. For rejigging the dashboards, the assortment updating status, extent of delays from TAT (turnaround time), deviations from target prices would be studied.

Once analytical capabilities develop further, Snapdeal aims to use analytical model based centralized pricing to convey “best priced perception” to its customers. There were 3 big dilemmas facing Snapdeal today:

- 1. How to expand the market for online shopping and drive online purchase behavior of Indian consumers?**

Exhibit 1: Visits and Conversions on

Home Decoratives	2,091,551	1,314,172	1,337,890	2,284,685	1,503,635	2,769,573	3.24 %	4.46 %	3.82 %	4.23 %	5.06 %	5.66 %	4.52%
Beauty & Personal Care	-	515,443	1,257,017	1,906,046	2,690,364	2,998,947	N/A	3.12 %	3.43 %	3.26 %	3.64 %	4.40 %	3.73%
Home Improvement	1,411,251	1,176,239	981,704	1,397,010	1,841,042	1,988,374	2.16 %	2.79 %	3.15 %	2.78 %	2.38 %	3.36 %	2.80%

Collect							%	%					
Household Essentials	-		-	-	-	554	N/A	N/A	N/A	N/A	N/A	115.48%	254.56%
Snapdeal Select	-	-	-	-	190	-	N/A	N/A	N/A	N/A	25.32%	N/A	212.03%

Exhibit 2: A sample of the co-occurrence of purchases made by online customers across few categories on Snapdeal (Source: Company)

Categories Æ	Innerwear	Laptop Adaptors	Curtains & Accessories	Kitchen Tools	Air Conditioners Split AC	Earrings
Earrings	2.4%	0%	0%	0%	0%	0%

**Exhibit 3: Financial Highlights of Various promotions run by Snapdeal in Recent Past
(Source: Company)**

Date of event	Event	Days	Visits	Unique Visitors	Orders	GMV	New Customers	Marketing Spends in Crores (Offline+ Online)	CAC (Cost/Acquisition)	%GMV (Spend s/ GMV)	Cost / Unique Visitor
Sep-14(30 days avg.)	Non Sale Time Frame- Pre Diwali	30	4,038,726	1,608,741	203,223	388,138,330	70,725				
Oct-14(31 days avg.)	Diwali 2014	31	7,099,862	2,324,275	361,347	666,951,574	137,412	52.00	122.07	2.52%	7.22
Sep-15(30 days avg.)	Non Sale Time Frame- Pre Diwali	30	6,230,356	1,582,162	371,390	606,644,028	106,745				
Oct-15(29 days avg.) excluding 30&31st	Diwali 2015	29	11,287,314	2,905,734	757,845	1,032,580,250	196,830	65.00	113.87	2.17%	7.71
11-Nov-14 (1 day)	Snapdeal Savings Day	1	16,884,477	8,972,440	878,533	1,313,937,024	309,452	4.95	159.96	3.77%	5.52
Rest Of Nov'14(29 days avg.)	Non Sale Time Frame	29	5,269,764	1,688,538	296,382	494,440,686	97,860				
25-May-15 (1 day)	India Mobile Day	1	10,676,938	7,146,730	693,033	1,606,070,220	170,204	6.24	366.62	3.89%	8.73
Rest Of May (30 days avg.)	Non Sale Time Frame	30	8,100,764	2,470,976	423,645	730,182,946	134,955				
26-Feb-15 (1 day)	App Fest	1	8,673,999	5,977,601	570,168	905,588,516	149,142	2.99	200.48	3.30%	5.00
Rest Of Feb (27 days avg.)	Non Sale Time Frame	27	6,884,777	2,157,983	384,921	623,489,548	111,261				