

Large appliances the next growth driver for online retail sales

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Every morning for the past four weeks, Sandeep Karwa, who heads the large appliances business at Flipkart Internet Pvt. Ltd, has been on frantic phone calls, urging suppliers and brands to ship their televisions, refrigerators, washing machines and microwaves to Flipkart warehouses.

"Our 'inwards' stop on 28 September. After that, the warehouses have to be reconfigured. Many of our products are manufactured in India. So the goods move from the brands' factory to our warehouses. Then we import some products. In some cases, we directly import from brands. Then there are cases when brands import but we take over from the port. (So) the first half of my day just goes in making calls and finding out where the stuff is," said Karwa.

The frantic calls are in preparation for the Big Billion Days sale, Flipkart's annual shopping festival and India's version of Cyber Monday in the US and Singles Day in China, held in October.

Flipkart and Amazon are betting that deep discounts, a wide product range and product exchange offers will lift sales of large appliances.

For once, Flipkart and arch-rival Amazon India, which has a rival sale event called the Great Indian Festival around the same time as Big Billion Day, will be working towards the same goal: persuading more and more shoppers to shift their purchases of large electronic items online.

Typically, less than 8% of large appliances are sold online in a given month, according to industry executives. In the Diwali sale period, however, Flipkart, which is the market leader among online retailers in this category, and Amazon are betting that deep discounts, a wide product range and product exchange schemes will lift sales of large appliances.

Critical for growth

As much as 25% of sales of all LED TVs, 10% of all washing machines, refrigerators and air conditioners (ACs), and 40% of all microwaves will happen online in India next month, according to Flipkart estimates. The company itself expects to sell 20% of all LED TVs sold, or some 200,000 units, in October.

That's big. And it is critical to the continued growth (and rising valuation) of online retailers.

Since Flipkart introduced low-end, high quality smartphone brands such as Xiaomi and Moto in 2014, e-commerce firms have struggled to find another big hit. Large appliances present an interesting opportunity. They account for less than 10% of e-commerce and online retailers are hoping this category will be the next big driver of growth.

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The market is attractive. By 2018, TV sales in India will increase to \$14.7 billion from \$8.3 billion in 2014, according to a January report by India Brand Equity Foundation and TechSci Research, a market research firm. Typically, large-size TV sets, the 32-inch and 40-inch models, sell well online as shoppers who buy these tend to be richer than the average offline customer. The Diwali sale will be the first big indicator if more shoppers are open to shifting their purchases of large appliances online.

Flipkart and Amazon are slashing prices to induce shoppers to buy bigger TV sets.

"Our upselling this Big Billion Day will be to sell a lot of 40-inch TVs and smart TVs. The prices that we will be offering for these will be almost a level lower. So a 40-inch TV should be around the price of a 32-inch TV. We are also making a massive push for customers in premium TVs (that cost more than Rs50,000) in this Big Billion Day. People who are looking for these TVs certainly won't be first-time TV buyers; they will have old TVs. So the exchange offers we are going to have are going to be so crazy. Consumer finance will help," said Karwa.

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Amazon India, too, is preparing for a jump in sales in TVs and other large appliances next month. The online retailer said it offers more than 4,100 products across TVs, washing machines, refrigerators and microwaves. The Indian arm of the US e-commerce giant is also casting its net wide.

It will deliver to more than 100 cities by the end of the month compared with 37 cities currently, said Sumit Sahay, director (category management).

"We believe we have the largest selection in these categories. We have direct engagements with leading brands such as Samsung, Whirlpool, Godrej and Hitachi as well as engagements with sellers of appliances. Apart from having the largest selection, we will have exclusive products from brands and offer them at attractive prices next month," said Sahay.

E-commerce helps the growth of appliances essentially by increasing access to customers for brands, said Manish Sharma, president and chief executive officer (CEO) at Panasonic India and South Asia. It can reach small markets that "physical retail can't", he added.

According to Sharma, most companies have common festive season plans for physical and online retail currently, but will likely have a separate one for "e-commerce only starting next year".

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E-commerce firms, particularly Flipkart, have helped introduce brands that were relatively unknown once to a large audience. Brands such as VU and LeEco, which were exclusive to Flipkart until this month, have become among the highest-selling appliances brands online, giving stiff competition to established rivals such as Samsung and LG.

VU, for instance, started selling on Flipkart in 2014 and is now the site's highest-selling TV brand in terms of units, selling up to 25,000 televisions every month, according to Devita Saraf, CEO, VU Technologies Pvt. Ltd.

Flipkart's edge

"Flipkart as a channel has worked well for us, backed by high visibility and user engagement (customer reviews)," Saraf said.

In August, LeEco India launched 55-inch and 65-inch TV sets online in an exclusive partnership with Flipkart at a price almost a third that of comparable flat panel TVs from its rivals. Not surprisingly, the company sold 5,000 units between 10 August and 10 September online, nearly 50% of the average flat panel TV sales, in a month across online and offline retailers. Typically, 85% of the 10,000 flat panel TVs sold every month have screen sizes of at most 40 inches.

And unlike smartphones and fashion, two categories where Amazon India has caught up with Flipkart, it will be tougher for the American giant to beat Flipkart in large appliances. Flipkart has built two important advantages over Amazon in this category: an independent supply chain network for large appliances and its ownership of Jeeves Consumer Services Pvt. Ltd, an after-sales services provider. Flipkart acquired a majority stake in Jeeves for an undisclosed amount in late 2014.

Product installation is as important as on-time delivery in the case of large appliances. This is where Jeeves helps Flipkart, which delivers large appliances to more than 200 cities.

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It also helps the cause of smaller appliance brands that don't have the offline network of, say, a Samsung to provide installation and after-sale services.

"Almost half of our business is serviced by Jeeves. A strong and sustainable advantage that we have over other brands is Jeeves," said Flipkart's Karwa.

BPL's comeback

A sideshow of the expansion of online sales of appliances is the return of BPL, an electronics brand that was popular with shoppers for nearly two decades until it was driven out of the TV business in the late 2000s because of competition from the likes of Samsung Electronics and LG Electronics, weak finances and a feud in the family that runs the company. BPL relaunched on Flipkart last year and it now accounts for up to 10% of the marketplace's TV sales in some months.

"Other than the fact that Flipkart is by far the leader in this category what brought us to Flipkart was that if you have a good product it needs to be sold well, installed well and serviced post-sale as well," said Ajit Nambiar, executive chairman and managing director at BPL. "The only guys who have that end-to-end infrastructure were Flipkart with Jeeves and Ekart. Online, it's all about customer reviews and we didn't want to have bad reviews because of service issues. Flipkart also has a lot of data on buying behaviour, who the customer is... That was very valuable. We started making our marketing strategy based on this kind of data."

Amazon doesn't provide after-sale services but rather connects customers with the brand owners themselves to install the product after Amazon has delivered it.

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"(Appliances) brands take on the responsibility of after-sale services and it is often their requirement that it happens this way," said Amazon's Sahay. "We don't see it as a big pain area (not providing own after-sale services). More often than not brands are able to meet customer requirements in this area."

He said the company has built "separate fulfilment capabilities in this category". Like Flipkart, Amazon also provides scheduled product deliveries for large appliances.

ALSO READ | Online, it's all about customer reviews: BPL's Ajit Nambiar

Apart from lining up a wide range of products at discounted prices, both online sellers have strengthened their supply chain and customer care departments ahead of the festive season. Both are hoping their customer service standards—delivery time, consistency and customer response rates—don't decline too much amid the expected rush of orders.

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Guardrails

Flipkart will supply large appliances to customers from seven warehouses compared with six currently by the end of the month. Amazon will supply large appliances from 10 warehouses next month, up from eight currently.

"When we were planning for Big Billion Day, we considered how much can the OTD (order to delivery time) degrade. That was one guardrail. Everything needs to fall inside the guardrail. The other guardrail was installation timelines. Another was the number of calls in our call centres. We took a call that the degradation in these guardrails cannot be more than 30% of the usual month and (has to be) lower in installation," said Karwa.

This festive season is the most important in recent years for e-commerce firms, particularly Flipkart.

Online retail sales fell to an annualized \$12 billion in June, compared with \$15 billion in December, according to estimates by research and advisory firm RedSeer Management Consulting.

Flipkart, Amazon and smaller firms such as Snapdeal are hoping to generate massive sales in the last quarter to make up for a poor first half.

Unlike the previous two Diwali season sales, Flipkart and Amazon will offer deep discounts on a wide range of products through October even after their respective flagship events end.

"A lot of people will get their Diwali bonuses later in the month. Then, there are offline customers who aren't hooked to e-commerce yet. We want to catch hold of this customer as well this October. So we will be there with offers and pricing through the month," said Karwa.

"In India, online sales account for approximately 7-8% of the overall sales for the television category. It is too early to comment (if television sales could move online in a big way like that of mobile phones)." - Niladri Datta, corporate marketing head, LG India

To be sure, a lot of Diwali shopping is impulsive, and works well with online platforms as compared to offline shopping, which is predominantly need based. The trigger can be anything from attractive pricing to new launches to just the novelty of a product. "Categories such as television and laptops are already seeing success online, following the success of the mobile phone category. It has to be seen whether large products such as washing machines and refrigerators will move online the way the others have," said Sreedhar Prasad, partner (e-commerce) at consulting firm KPMG India.

Staying offline

While smaller TV manufacturers have embraced online wholeheartedly, many of the large ones that have their own extensive distribution networks haven't. For LG, Samsung, even Videocon, online sales account for a fraction of all sales. Samsung doesn't even sell online and all its sales are offline. For LG, only 7-8% of TV sales happen online.

"We expect to have one of the best Diwali sales this year after nearly three-four years. The optimism is based on the fact that sales during the Independence Day weekend and also during Onam were good. Moreover categories like laptops and mobile phones, which were shrinking in the last four years due to large discounts available online, are once again showing growth for the retailer as discounting online has reduced." - Nilesh Gupta, managing director, Vijay Sales

"Samsung officially has yet not formulated any strategy for online and does not have a direct presence online. It is focusing on offline for growth," said Rajeev Bhutani, vice-president (consumer electronics) at Samsung India. He added that the company is focusing on increasing its presence in smaller towns and cities that are driving growth.

Videocon Industries Ltd is doing the same—focusing on modern retailers such as Vijay Sales in western India and Adeshwar Electricals Pvt. Ltd in the southern markets—to push its sales. "We are expecting a 30% growth this festive season largely driven by new launches of refrigerators, televisions and washing machines," said Anirudh Dhoot, director. He added that online sales accounted for just around 5% of all sales.

"Samsung officially has yet not formulated any strategy for online and does not have a direct presence online. It is focusing on online for growth. The company is experiencing higher growth in tier III, IV compared to urban centres and is increasing visibility there." - Rajeev Bhutani, vice-president (consumer electronics), Samsung India

Meanwhile retailers like Vijay Sales and Croma, a consumer durables and electronic appliances retail chain operated by Infiniti Retail Ltd, a unit of Tata Sons Ltd, are also expecting a bumper Diwali after a gap of nearly three-four years.

After two consecutive years of drought, the country has received normal rainfall in the June-to-September southwest monsoon season and is set to reap a record kharif (summer) crop. Moreover, the government has rewarded a million civil servants and retirees with generous increases in pay and pensions.

"We expect to have one of the best Diwali sales this year after nearly three-four years," said Nilesh Gupta, managing director of Vijay Sales. Already, he added, sales during the Independence Day weekend and harvest festival Onam, which kicks off the festive season, have been good.

"From the end of Shraadh to Bhai Dooj is a 30-35 day period which contributes to about 30% of overall sales. Online is less than 5% of overall sales. The company has the same online and offline products and offers as it is driving an integrated channel strategy where a consumer can look online and buy online or visit the store and then buy online." - Ritesh Ghosal, chief marketing officer, Infiniti Retail (Croma)