

## CASTING THE NET WIDER

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BRAHM Vasisht smiled as he read the e-mail. It was from his son Bhrigu in Singapore. “Why is your mobile phone switched off? Great news for you – no, not another dot-com but a wonderful daughter! Samyukta was born to us two hours ago...” The e-mail was sent two days ago. Since then he had called Bhrigu 10 times. But he still liked reading the message. He was going to preserve it. A new generation was born and he wondered what technological feats Samyukta would unleash on the family.

The last three years has been particularly eventful for the Vasishts. Bhrigu had changed the course of the family business in 1998 by setting up a Net-based supermarket. And early this year his other son, Bali, had also decided to ‘dotcom’ himself. Both boys were working wonders, but they had been through a lot of uncertainty. And here was Samyukta, he thought. Twenty years from now, she would bring about more changes in the business. “I am going to document the last three years for her to read when she comes of age,” thought Brahm. His mind ran back to 1998, the year when so much changed in his life.

Brahm was the owner of the Pinock chain of superstores in the Middle East and Singapore. A wise and wealthy man who started business 40 years ago. He moved out of a grimy dull office in Mumbai’s Princess Street to make his fortune in the Middle East. In 1998, Brahm wanted to invest a part of that in India where in any case retailing looked like a good bet. He wanted to set up a supermarket, one in Mumbai, his birth place and one in Bangalore.

India was exciting, agreed Bhrigu, but the real estate costs were prohibitive, besides which he too had a dream, distinct from that of his father. “If we must set up a superstore, it will be on the Net,” he had declared.

Brahm was not going to discount Bhrigu’s dream readily. Back in Dubai, where the family business was centered, he spoke to a number of upcoming Net companies and each had come up with a unique model.

One said, move your entire business to the Net. Another said only advertise, a third said, straddle both. Brahm was confused. As it is they were talking of an investment like Rs.2 crore for an intangible spot in space, which his accountant said could not be capitalized (“it’s not a fixed asset.’ At best, we can consider it under deferred revenue expenditure.”) and here was more confusion in the proposed models.

Finally, Brahm called Markandey Pant, a close friend of Bhrigu’s and a successful infotech consultant in the US. “You sort this mess for me,” said Brahm. “These chaps are talking a language that is completely alien to me. I have barely come to grips with a reality called space. I want to stay with the times, and yes, I will consider selling in Web space. But at the end of the day, I don’t want to find that it’s a big lemon! The advice seems to be, try

everything and something will happen. Throw darts in space and one of them will hit the bull's eye. That's making me uncomfortable."

The following month, Brahm and Bhrigu met Markandey in Plaza International. Markandey was on his way to Saudi Arabia on an assignment. "Let's understand what you expect the Net will do for your business," said Markandey.

"It's like this," started Bhrigu. "One-to-one selling in a superstore is difficult. Customers rarely ask questions, they pick up what they want, yes, they do browse but time is a limitation for many. I think now browsing on the Net has become more interesting. You can actually examine an entire product category and take your time deciding on the brand and price."

"Are you expecting to sell more?" asked Markandey. "Yes, I want more sales," said Bhrigu, "and I also recognize that the Net as a medium is now and customers are likely to be wary of making big decisions so impersonally. But the day is not far when people will be relying heavily on the Net. Hence, I want to start now."

"But don't forget that right now you are servicing a local market," said Markandey. "What if you get an order from India? It has implications of logistics and cost. Delivery is a crucial aspect. Today, your physical stores have 28 product categories. Each product category lends itself differently to selling on the Net.

"Your target market will depend on how much time it takes you to deliver. Some markets can wait a week; there will be others who would want to wait for only three days and also those who would want delivery in 24 hours. It is around this that you must define your target market."

But those were core retailing issues, felt Bhrigu. "As I see it, there is a huge market on the Net and convenience shopping that is a click away is the trend of tomorrow. Besides on the Net the whole world is your market."

Brahm was overwhelmed. "Surely you are not seeking to sell globally?" he asked Bhrigu, "You must aim big, dad," said Bhrigu. "We have been in the supermarket business for more than 20 years; we know the parameters for operating successfully like sourcing and shop brands. For the Net, we need to consider sourcing issues for distant markets, for one. And two, evaluate what kind of customers will come to us."

"That's a good place to begin." Said Markandey. "What are the kinds of customers who will buy on the Net? Therefore, consider what kind of people browse on the Net and for how long. The average time on the Net for an average household is taken away from television time. As a broad thumb rule, 50% of the television time is now becoming Net time. It varies across browser categories.

“Then, how many of the surfers are browsing with an objective and how many are simply surfing? Who are the people who normally browse? Do women browse? The feeling is that women don’t, partly valid for the same reasons that less women watch sports programmes and news. Men return from work and reach out for the remote. Women return from work and don the apron. It is time for dinner and time to check the homework. But that does not mean women don’t browse. They do, sites on history, science etc. that have a bearing on the child’s homework.

“Most women who browse are goal-oriented. They are looking for information on the civil rights movement or genetic engineering... that kind of stuff. In the process, if they see an ad, they won’t take a detour; they might tuck it away for a later day. Therefore, the probability of your store popping up in the course of such browsing is very low. Hence, your customer building strategies for the Net have to be unique and vastly different from your traditional ones. You have to zero base your thinking as if on a new planet!

“Then again, on the Net, the customer decides what he or she will see. You can’t stand there like the McDonald sign down the road which will be seen willy-nilly. On the Net, the surfer has to first want to see after which he or she will access your site. Your site cannot happen by chance.”

“How do I make myself visible?” asked Brahm. “Where do I post my site brand so that a surfer chances upon me?” “That depends on the linkages to the everyday sites,” said Markandey. “Let me give you an example of how this ‘rushing the Net’ syndrome can be counterproductive. A brand of electronic depilatories offered itself as a gift on a Net contest. Ninety seven per cent of the hits were males in the age group of 25-35 and between 11 p.m. and 3 a.m.! See? You cannot post yourself without researching your customer segment or target present on the Net”.

“Does supermarketing on the Internet make sense?” asked Brahm.

“Depends on what your objective is,” said Markandey. “How are you viewing it? The Net is not yet another medium or channel. It is a new business opportunity where you are dealing with a browser, not a consumer. A browser is not visible to you like a consumer in your physical store. You cannot even make assumptions on his intention or needs. In fact, he is even genderless, he is a mere cursor browsing and he has to make the first move. Can you see how vastly different this is? You have to change your whole approach. You have to start with getting a share of his or her interest and lead from there using a new set of wooing skills. Mind you, you know nothing about this cursor! Therefore, first consider the Internet as a new business opportunity and go from there.”

Brahm felt like a balloon drifting in space. “Let’s look at the specifics first,” he said. “Given that I have at least 25 categories in my store, can I have a common strategy or one for each? Bhriгу wants to replicate the store on the Net, but my fear is: will I end up transferring the entire sale to the Internet? I am confused.”

They were going back and forth. Markandey expected this. He said: "The Net will certainly impact the way you do business, like the advent of TV changed the way marketers sold or reached consumers. But it will not replace or change the way business is done in the same way that TV did not replace radio nor did magazines replaces newspapers."

Brahm was a trifle relieved. "I take great pride in my physical stores," he said. "Which I have built painstakingly over the years. If as Bhrigu wants, we develop a Net-based superstore, I want it to augment the physical store, not make it redundant."

"For some products the Net will be only an exposure." Said Markandey.

"For other products, it could be an alternative channel. There is a different leverage based on the product. What you do with the channel depends on the product category. Whether it is a low involvement product, a high involvement product, impulse or non-impulse, requires immediate delivery or delivery can be deferred. Depending on this, you decide whether you want to provide information or seek actual sales. If it is low involvement, and then chances of sale happening on the Net are high. But if it needs immediate fulfillment, chances become lower." He said.

"Let's consider a bookstore. It can use a site for exposure, to announce new arrivals, reviews, books going out of print... which will simplify book buying. Therefore, if I am looking for a book on team building, I too on the site, do a search for team building and get a menu of title at the store. Then I study the book reviews and select my preference. So, here you see that the product did not change; it only simplified my purchase procedure by being interactive.

"If I perceive that a book on the Net is exactly what I can buy in a store, the rate of changeover is low. But if I am able to introduce some change at the product level, by way of information or service support, then the consumer starts perceiving a different value in the product. But the Net is enabling me to add that value. That is how it is a new business opportunity.

"It does not make sense to sell the same product 'Pinock' on the Net with no differentiator. For the bookstore, even providing information amounts to redefining the product," said Markandey.

"Let's look at the various product categories in the physical store. At least, it will serve as a good starting point." Said Bhrigu. So, Pinock had toys and board games, electrical accessories, hardware, clothes, cosmetics, electrical appliances, foods, shoes and swim wear. Picking toys and games, Markandey said: "Both lend themselves differently to net-based marketing.

“Take cuddly toys. It is a relatively high involvement product with impulse buying habits. Impulse buying needs a demonstration effect, where the consumer might want to touch and feel. It is, thus, less amenable to Web-selling. But other toys like board games do not need demonstration. It can be sold on the Net, as can CD-ROMs. But toys are usually high involvement products, and in today’s context, unless it is for gifting purposes, the user, i.e. the child, would want to be present and would want immediate delivery.”

“What about food products?” asked Bhrigu? “Perishables are out,” said Markandey. “However, other packed foods and grains, flour, hygiene products and personal care products, can work.”

“I don’t see consumers buying food products on the Net,” Said Brahm. “Sometimes, consumers buy to stock, like five tins of Red Head Tomato paste. So, to ensure that the warehouse dispatches suitably-dated stocks will be a logistic nightmare. But I have other concerns. Who are the people who will buy on the Net? In the physical store, assume 70% of shoppers are women but on the Net, the ratio changes, as you said. What is the point in selling food on the Net? As you see it, shopping will continue to be a weekend habit, while goods that require immediate satisfaction, typically perishable foods, will happen on a daily-need basis.”

They discussed various product categories present in the offline store, classifying them as Web-able and Web-unable. “Clothes too are out,” said Markandey. “While colour and sizes can be known, styles lead to high involvement. Unless it is inner wear where brand, size and colour is what is needed to order. For the same reason shoes are out. But hardware, electrical accessories and tools, office supplies, groceries, beverages... these are all low involvement, non-impulse and do not demand immediate delivery.”

Brahm felt that was to limit a range for a Net market “That’s restricting, isn’t it?” he asked Bhrigu.

“But the good news is that you can augment your range for the Net market,” said Markandey. “There must be a range which is cost ineffective for a physical store, but will work well on the Net. The trick is to differentiate, be interactive and pick and choose what products is Web wise. Products which occupy space, like IKEA’s furniture, may be more viable for Net selling but probably not in a physical departmental store, where display etc. becomes expensive. Then again, I find that your physical store does not have electronic equipment like calculators, fax machines, tape recorders because as you say, the variety is so wide, it becomes difficult to be selective about brands. But on the Net you can offer all brands!”

Bhrigu agreed. “The Net can be a good business opportunity for us, since we can offer a lot more brands. SKUs and variations which we, at present, are not stocking in the physical stores,” he said.

Markandey, however, had a word of caution. “Just because it is possible to set up a store on the Internet, it does not mean it will be profitable,” he said. Both Brahm and Bhriгу were surprised as he continued. “There are new costs that you will have to take into account. Some obvious, some unexpected, Supermarkets are self-help stores. There is less service support for picking and handling. The customers picks, carts it, gets it billed and even fills it into his poly bags. On the Net, there will be the cost of picking, selecting and packing for dispatch. Also, there is the delivery cost. And given that an average supermarket earns 1-2% profit on sales, your margins come under more pressure.”

Then there is the initial set up costs too. “An effective website will cost you, at least, Rs. 3 crore,” said Markandey. “And I am not adding promotion and advertising expenses.”

“Ghosh!” said Brahm. “Then how do I know if this is a viable investment? How will I know how many people will buy on my site, how many people will visit me...?”

“That gets recorded each time someone accesses your site,” said Markandey. “But that is a post-event,” said Brahm. “But even before I invest, I have no means of knowing! If I set up a physical store and it is not very cost effective. I can sell the goods, the property and recover my investment. But a website? That is a sunk cost! No, I am not ready for this,” said Brahm.

“For the same amount, I can set up two other physical superstores. Worse, my name gets ruined, because people will say Pinock tried to sell on the Web and lost. That can affect the image of my physical stores!”

“Maybe, I didn’t mention this before, but you should not use your physical store name for the Web store. They must be separate, distinct identities. One big mistake is to make your brand an Internet brand as well as a real world brand. The Net is a new business, it requires a distinct identity from the name Pinock superstores. If Pinock online and Pinock offline are not different then why have two of them? And if they are different, why have the same name for both children? You create confusion for yourself as a marketer and for the surfer as a consumer.”

“That means an entire new cost of brand building!” said Bhriгу. “That’s right,” said Markandey, “and there are more costs too. Cost of security on the Web is another serious cost. You need to protect your site from hackers, and these creatures can do more damage than you can imagine. Security and controlling customer pilferage are critical costs in a physical store. The equivalent of that on the Web is hacking. Somebody can enter and wipe out your product list, change the prices, wrong deliveries can happen. It is a nightmare.”

Brahm turned to Bhriгу – “This does not make sense. First, our capital cost is a sunk cost, then there is an ongoing security cost that is huge, added to which we will be exposing our strategies to competition!”

“When you are entering a new business,” said Bhriгу, “you will incur some risks. It is the price you pay for being competitive. If we demur, someone else will step in. It is only a matter of time. You may not be competitive for six years, but this opportunity is far too promising to let go for such reasons. We are businessmen and risk taking is not new to us. Today, if you are not the first on the Net, then you cannot win by being a me-too. Being first allows you to set benchmarks for others to follow. I am clear we have to be on the Net.”

Brahm shook his head. “It will be a mistake, Bhriгу,” he said. “Look at another issue. In the physical stores, the customer comes to buy one thing and ends up buying much more. But on the Net, I can see that is not going to be the case. Straightway impulse buying goes out of the window. Are we going to lose sales?”

“Of course, impulse purchase is very big, that is how we discovered that so many products in a supermarket will do so well!” said Bhriгу. “However, we will have to create an equivalent on the Internet. It is a new business opportunity that will naturally demand a new way of thinking. I am confident it will work.”

As two businessmen, they had their views on what would succeed and distinct risk taking thresholds Brahm made a decision. “I am not sure this plan is viable. But let me not dampen your confidence. I will hand over the Singapore chain of Pinock to you. That is yours anyway. I have two other sons and it is only fair that I wait till they are old enough to decide. For the moment, as a custodian of their wealth, I decide to stay in the physical stores. When Bali graduates from a B-school, he can decide what he wants to do.”

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