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Auto E-tailing: Mistakes and Opportunities

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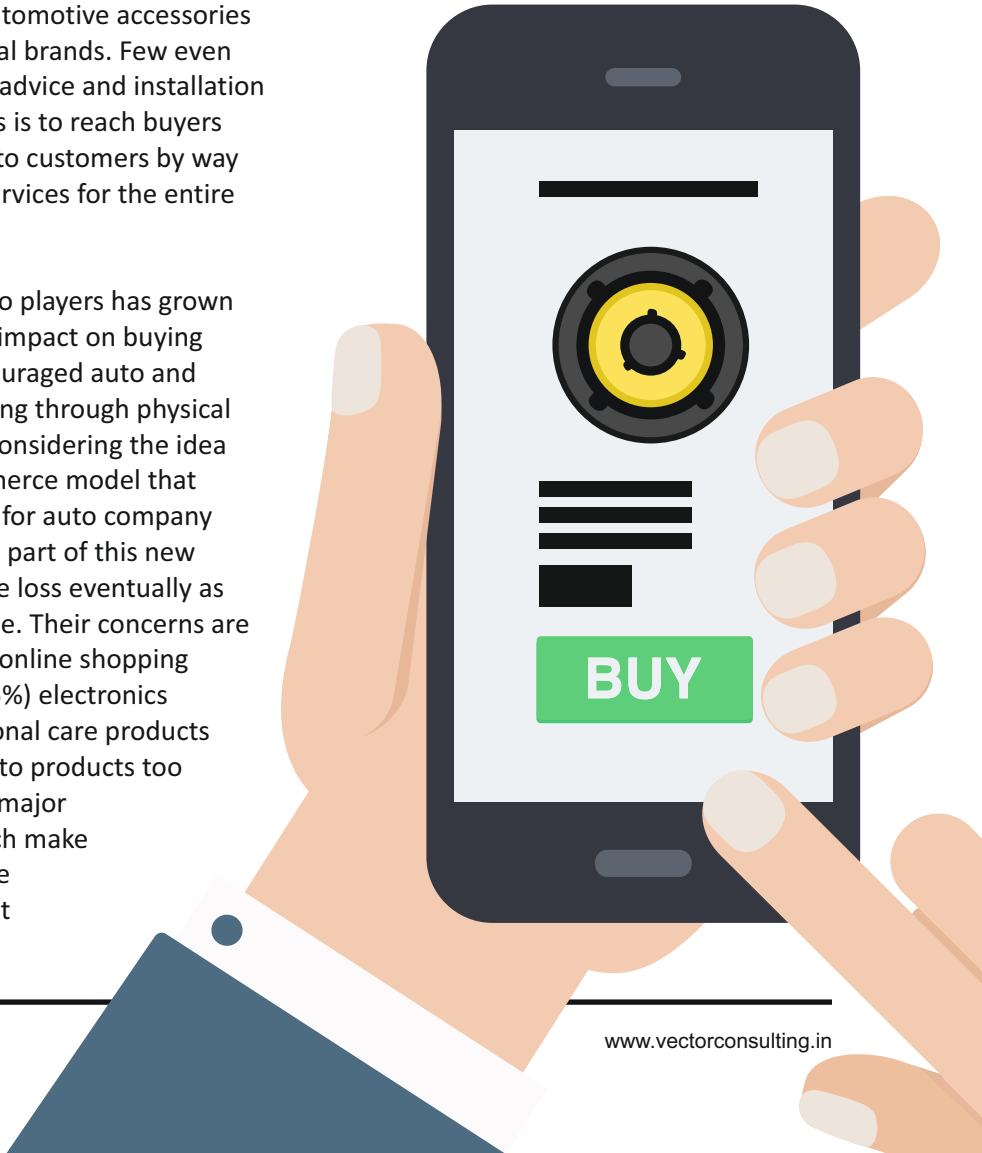
eCommerce has grown in popularity over the last decade. Explosion of Internet connectivity and the offer of products at throw away prices by well-funded e-tailing players has drawn shoppers online. In addition to the new entrants to the digital markets, many companies operating with conventional supply chains too have jumped on the e-tailing bandwagon by either offering their products through these portals or by launching their own e-tailing arms. Reports indicate that e-sales in India are expected to touch US$ 120 billion by 2020 from just US$ 30 billion in Fy2016.

The sector is now growing into niche markets with niche products as well. Some etailers are offering Indian customers a wide choice of original automotive accessories and parts from Indian and International brands. Few even offer doorstep delivery, free technical advice and installation support. The intention of these portals is to reach buyers across geographies and offer support to customers by way of technical expertise and products/services for the entire life-cycle of ownership of a vehicle.

Interestingly, none of these online auto players has grown significantly or has made a significant impact on buying behavior. That, however, has not discouraged auto and auto part companies currently operating through physical distribution networks from seriously considering the idea of entering the fray. Finding an ecommerce model that works for them is a top strategic issue for auto company CEOs. They believe that if they are not part of this new channel they could suffer market share loss eventually as more and more customers move online. Their concerns are valid. With significant y-o-y growth of online shopping in various categories like apparel (69.5%) electronics (62%), baby care products (53%) personal care products (52%) and home furnishings (49%), auto products too may go this route soon. But there are major contraindications in this business which make it inadvisable for companies to venture thoughtlessly into the auto component e-tailing business.



Why auto component e-tailing may not work

Auto companies selling products online will have to offer lucrative discounts to shoppers in order to attract them and stay ahead of the competition. Since retail points of auto parts rarely sell at MRP and offer up to 10% discounts, the discounts offered online will have to be much deeper. This can hurt companies in two ways. First, the necessity to sacrifice margins to survive in that channel (by continuously giving discounts) can lead to erosion of profitability. Second, huge discounts on one channel and normal prices in the traditional wholesale channel could create conflicts between the two. Companies in other categories are already experiencing this. The Confederation of All India Traders (CAIT) even led a nationwide agitation that saw about 250 unions (primarily of small retailers) holding street protests against the "predatory pricing" of online retailers. Samsung faced a rebellion from all its traditional dealers. Hundreds of Samsung dealers across the country threatened to boycott the company's products unless the South Korean tech giant took measures to narrow the wide gap between online and offline prices of its phones.

That's just part of it. Even if auto companies can manage to handle the channel conflict, they will still be faced with other problems arising from the buying behaviour of consumers. Runners in this trade are maintenance and repair parts. They account for the largest share of auto companies' sales. But the parts requirement list for maintenance and repair is generated only after the mechanic opens up the vehicle. Due to the logistics involved, the soonest online companies can deliver is within 12/24 hrs. Unfortunately customers will not be happy to wait this long with an opened up vehicle (even if offered deep discounts). Moreover, buyers are mostly mechanics, not vehicle owners. Since there is near-zero customer tolerance time in vast majority of requirements and because they themselves need fast turnaround of vehicles, mechanics too are unlikely to order online and wait; especially when they can make a quick visit to a traditional retailer they have an ongoing relationship with and be serviced instantly.

Therefore, auto and auto component companies may not meet with much success in the e-retail business. Moreover, such a move may ultimately destroy the traditional channel through which companies sell significant volumes at good prices.

The Way ahead

Due to the above enumerated obstacles, e-tailing may sound like a bad idea for auto component companies. But this is not true either. If, instead of falling for the short-term lure of "buying" sales from the e-tailers by offering massive discounts, auto companies look beyond to a long term and sustainable model, this channel has tremendous advantages to offer. But for building a sustainable model with a decisive competitive edge, the new channel has to solve a significant problem of the targeted customers and the model should not be easy to copy. (Discounts are the easiest to copy!).

An in-depth study by Vector Consulting Group has revealed that there is potential to serve a large number of small and medium enterprises in this country through e-tailing. SMEs (fleet owners, mining companies, and contractors etc.) who use large number of vehicles in their day-to-day operations, have two major issues:

- **Poor availability of genuine parts:** These small and medium size business owners are often forced to use spurious parts even for maintenance and repair because genuine ones are not readily available. They prefer to use genuine parts to protect their equipment but can't afford to wait for them to arrive because keeping their assets idle at the cost of revenue is not an option.

- **Stranger parts are not available:** Stanger parts like axels, transmission systems, cabin, frame, door, fuel tank, central locking system, etc., are available in very few stores. With infrequent and very low sales volumes, not even spurious equivalents are available.

So, businesses that require only genuine parts or need stranger parts/insurance parts, usually keep some in stock. While these businesses cannot wait for parts to do an immediate repair, they can easily wait to receive a replacement to be stocked for later use. E-tailing is probably the answer to cater to the disparate needs of these businesses spread across the country. It can offer unprecedented

- Range Amplification: Unlike traditional retailers, e-retailers can carry a massive variety without incurring heavy inventory carrying costs.

- Reach Amplification: With Internet connections increasing at an exponential pace, a good enough logistics support will provide 'reach' much faster and cheaper.

A workable B-B e-tailing model

A website with a listing of parts would be the easiest part of this business. Considerable leg work would be needed to build this business. A framework of logistics and logistics partners to support reliable deliveries to even the remotest parts of the country has to be painstakingly put in place.

And for a business to be profitable from the start, the website has to attract paying customers from day one. So, once potential customers are identified, they have to be made an irresistible offer that addresses their real problems. While access to genuine parts can convince many customers to start sourcing form this new channel, only an experience of 100% availability and reliable delivery, will keep them coming back to the site.

Ensuring spares availability, however, is a major challenge due to the enormous variety of parts involved. Moreover, this business has a large number of infrequently demanded “stranger” items. With new models being launched with increasing frequency, the number of spare part SKUs that have to be serviced also multiplies. So, for excellent reliability to be achieved, companies should have already implemented a TOC-based “pull” model in its central warehouse and regional warehouses before they launch the e-commerce venture. Unfortunately, the traditional forecast model of managing supply chains is inherently error prone and creates situations wherein some items are stocked out and others are in surplus. Such a supply chain cannot support the high availability needed to offer value to SMEs. This guarantee of availability may even convince customers that they no longer need to keep stock, especially if their maintenance periods are pre-planned. Since this frees up considerable working capital for them and ensures that their assets work uninterrupted, customers will be happy to pay the MRP or even a premium.

Therefore, with this model auto companies can increase their reach and range significantly without any price conflicts with their traditional channel. And with minimal investment, e-tailing can increase the market share of companies and help them create loyal customer bases in even remote corners that their distribution channel has not been able to service hitherto.

Vector Consulting Group (www.vectorconsulting.in) is the leader of ‘Theory of Constraints’ consulting in India. Vector has been working closely with some of the well known FMCG, Engineering Goods, Custom Manufacturing and Auto Components companies to improve their overall profitability through supply chain effectiveness.