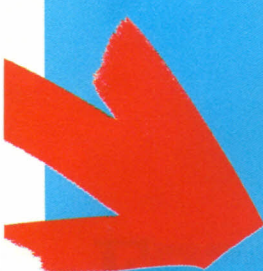


START-UP

OPPORTUNITY | LEARNINGS | WACKY IDEAS



B2B
E-COMMERCE
IN INDIA:
\$300b;
TO REACH
\$700b
BY 2020.

INDUSTRIAL
PRODUCTS
MARKET:
AROUND
15%



B2B Logging Above B2C

By Sandeep Soni

Unlike B2C e-commerce, B2B has been slow in picking up with only as early as in 2014 when it started seeing some start-up action with few exceptions like Power2SME, which was launched in 2012. While the segment hasn't been as glamorous as B2C, the ease and trust of buying online with on-time deliveries have already reposed the faith of both suppliers or vendors and buyers. What's even more underscoring is that more than 90 percent of B2B retail is unorganized where roughly 50 million Indian SMEs usually remain at the receiving end when it comes to procurement of industrial products, nothing less than a nightmare. In addition to that, with Make in India as government's centerpiece of growth, young

The impact of B2C e-commerce revolution in India has quite encompassed even its relatively poorer and lesser known B2B cousin. This is to the extent that in the past two years, the segment has evolved from a few directory services like IndiaMART to a pure e-commerce play where aggregating industrial products online is the largest pie of opportunity.

start-ups are tapping into the segment by aggregating different vendors to be the one-stop shop of industrial goods for SMEs and even large buyers.

"Today B2B is where B2C was five-six years ago. The presence of B2C online in a large measure has allowed all of us to test buying B2B goods online. These start-ups are leveraging the same infrastructure created to support B2C e-commerce. So, its growth will be much faster than B2C," says Nilesh Kothari, Managing Partner, Trifecta Capital. The venture debt firm invested Rs 12 crore in Industrybuying, an industrial supply aggregator in January 2016.

ONLINE INDUSTRIAL UPRISING

Within industrial products, while start-ups like Industrybuying and Moglix serve across categories, others cater to sub verticals in the segment. For example, Buildkar caters to construction material, Labbazaar to lab supplies, Bizongo to chemical, plastics and packaging segments, even as each of the segment is highly fragmented. A 2014 global retail giant Walmart's report pegged India's online B2B space to be \$700 billion by 2020 from current \$300 billion against petty \$6 billion estimated current B2C market. Industrial products constitute around 15 percent of the total B2B market.

Start-ups aggregate vendors (both corporate and small traders), and as per buyers' requirements find the right vendor to buy from in terms of matchmaking, offering the most competitive pricing. However, buyers can do it all by themselves. This removes the middlemen, reducing the price of total purchase order by 5-20 percent while start-ups take a cut of 5 percent that can go up to 50 percent as a commission from vendors depending on the products. For products like cements where the volume is high, the commission is in single digit while for categories like bathroom fittings the commission is high because of low volume. Similar to other platforms, industrial products aggregators offer COD deliveries as well at a nominal charge.

"There is a nominal charge of 3-5 percent for delivery. In first six months, all our deliveries were COD, but currently it is less than 40 percent. We have seen customers making Rs 90,000

or a lakh in payment online, which is surprising. This is because they trust the online model now and also there is price differential of 5-12 percent when compared to offline purchases. That is a big number as the deal volume is very high," says Vinit Bhansali, Founder, Buildkar.

But there are categories like lab supplies whose availability in itself is a major challenge as offline stores cannot keep the entire range of stocks and that delays the procurement by weeks. Hence, pricing is not quite competitive in such categories.

"It is very inconvenient for brick and mortar sellers to maintain all kinds of stocks particularly in Tier 2 and 3 cities causing non-availability of such goods. We solve this problem by maintaining inventory for pan India and that is a bigger issue. Hence we are not able to keep aggressive pricing," says Rahul Gupta, Founder, Labbazaar.

THE 'REAL' BUSINESSES

Not only the costs are lower for buyers, the margins for these aggregators are much higher with generally higher volumes along with average ticket size being larger as orders are mostly purchased in bulk. This makes these B2B aggregators more sustainable businesses being built from the ground up and hence they are profitable. Discounts are just a time-bound strategy to drive sales. This is in contrast to B2C players

that sell products below its cost while surviving on discounts.

"Last year, we had around Rs 20 crore in turnover, while we have been profitable since second month of our launch in October 2014. We have been very cautious about burning cash early on," says Bhansali. The start-up currently offers discount if buyer buys another product along with cement.

"I'm not sure if discounts are sustainable for these start-ups because order sizes are very large. So they have to sustain without discounts," says Umang Kumar, President, CarDekho.com & CEO, Gaadi.com. Kumar co-invested an angel sum in Buildkar in January 2016.

PITFALLS

Among the most acute challenges is streamlining front-end and last-mile logistics as deliveries take place in either factories or warehouses or the construction sites, which cannot be done through typical e-commerce logistics. Until there are logistics firms specializing in B2B e-commerce, these aggregators will have to rely on traditional logistics players such as DHL and FedEx used by their vendors or third-party logistics for deliveries. In a typical order, the closest vendor or supplier to the buyer's place for delivery is located to reduce cost.

"Unlike B2C, where there are probably two-three items in a single order, the number of items can go up to 200 in B2B, so breaking that order into multiple

shipments is a challenge," says Rahul Gupta, Co-founder, Industrybuying. The start-up has fulfillment centers in areas where vendor-concentration is high such as Delhi, Pune, Bengaluru, Chennai and soon to open in Ahmedabad. However, return shipments are negligible, probably 1-2 percent, so reverse logistics is not much of an issue.

Another significant problem for start-ups is to offer credit facility to SME buyers as traditionally they have been accustomed to buying goods on credit particularly when the order value runs into lakhs of rupees. To facilitate credit, start-ups are tying up with NBFCs or SME lenders, etc. "When average order size is around Rs 5 lakh or above, the buyer makes an advance payment but if it goes up for example Rs 10 lakh or beyond, the buyer looks for credit. So we are planning to tie-up with SME lenders in the market. However that kind of order size is very less," says Aniket Deb, Co-founder, Bizongo.

The kind of funding that has gone into the B2C market is unlikely to go into the B2B market as there are already some unit economics in place. Most importantly, B2B will be playing on B2C strengths and doesn't have to build an industry from scratch as B2C did half a decade back. Nonetheless, large players in each sub-verticals will emerge and this will lead to consolidation too but it is too far as of now. **E**

AGGREGATING GROWTH

INDUSTRYBUYING

LAUNCH YEAR: 2013
CATEGORY: Industrial supplies
HIGH PERFORMING CATEGORIES: Personal protective equipment, office supplies, motors and pumps, and automotive parts
MONTHLY VISITORS: 1 million (approx.)
APP: Android

and iOS app recently launched, significant traction from mobile
PRICE DIFFERENTIAL: 5-12% cheaper than offline
COMMISSION: 5-20%
NO. OF BRANDS/ VENDORS: 2,500+ brands and close to 3,000 vendors

BUILDKAR

LAUNCH YEAR: 2014
CATEGORY: Building construction materials
CUSTOMER MIX: 60% small contractors and builders, 40% house owners
AVERAGE TRANSACTION VALUE: Rs 85,000
APP: Currently under testing, focusing on house owners
DELIVERY CHARGES: 3-5% of total order value
NO. OF VENDORS: 750
COMMISSION FROM VENDORS: 5-47%

BIZONGO

LAUNCH YEAR: 2015
CATEGORY: Chemicals, plastics and packaging
REPEAT BUYERS: 50-70% monthly
DELIVERY CHARGES: Rs 50 (approx.)
AVERAGE TRANSACTION VALUE: Rs 30,000-50,000
NO. OF VENDORS: 1,000 (approx.)
COMMISSION: 2-15%
REVENUE: Rs 1.5 crore/ month

LABBAZAAR

LAUNCH YEAR: 2015
CATEGORY: Lab supplies
NO. OF BRANDS & PRODUCTS LISTED: 40 brands & 3,000 products
MONTHLY TRANSACTIONS: Around 1,000
PRICE DIFFERENTIAL: 5-15% selective goods

Source: companies

THE 10 MISTAKES THAT THREATEN STARTUPS

THE MORE YOU KNOW THEM, THE LESS YOU'LL MAKE THEM.

By Paula Andruss



COUNTLESS STARTUPS FAIL every year. But there are not countless reasons that they fail. "I'm talking to entrepreneurs three or four times a week, and they're all coming to me with the exact same issues," says Tarek Kamil, a serial entrepreneur with five launches under his belt (most recently, as founder and CEO of the communications platform Cerkl). "People are falling into the same traps over and over. If they could just avoid those common mistakes, the chances of their company being successful would significantly increase."

He's not the only one who thinks so. Mentors, VCs and serial entrepreneurs all say they routinely see entrepreneurs fall prey to a common set of mistakes. So what are they? You should know.

ENGAGE



Tarek Kamil has heard your problems before.

1

Not prepping your life

No one would show up to run the Boston Marathon without training first. The same should be true of start-ups. You need to warm up with some prelaunch training, from getting proper rest and nutrition to shoring up relationships. "You have to be rigorous about making sure you're ready and that every area of your life is in check," Kamil says. A startup will take a toll on your life, guaranteed.

If friends and family don't understand what's about to happen and are not supportive of your vision, they'll cause personal misery, not to mention a major distraction from the business. Have a candid conversation to manage expectations. "Tell them, 'I'm going to give this my attention—and while it doesn't mean you're not important to me, it may feel that way,'" Kamil says. "You need to make sure these areas are buckled up, because entrepreneurship will shine a light on whatever parts of your personal life are weak."

2

Confusing a product with a business

In this age of apps, Atlanta-based serial entrepreneur and company strategist Eric Holtzclaw says wannabe 'treds don't always know how to build upon their success. "A product solves an individual need," he says, "but a real business has something customers will come back for again and again."

Here's how to make the distinction: Do you have potential revenue streams beyond the customer's initial purchase of a product? That's a key factor for prospective investors, who "want to see what the next thing is and want to make sure that there's some longevity beyond what you're offering today," Holtzclaw says. "Are you going to license the technology to someone else? What does the business look like in three or five years? That's a big concern from an investor perspective, and that will help you determine if you even have a business at all."

3

Not paying for expertise

We say this with full respect: You're not good at everything. You can't be. And yet, every part of a business should be done expertly—particularly the tricky stuff like taxes and legal issues. "Structuring not only the company but also potential investments in the wrong way can come back to haunt you," says serial entrepreneur Greg Rau, COO of Ridago, a hardware engineering firm based in Oregon.

So where it really matters, don't download some free online guide or think you can handle it yourself. Find an expert whose job is to know exactly what you need to do. The place Rau says entrepreneurs are particularly in need of an expert eye: "When drafting the terms you accept investment on," he says, "if you don't pay attention to things within the terms sheets, like liquidation preferences, that could hurt you on the future sale of the company to the point where the founders may end up with nothing."



Greg Rau,
an expert on
hiring experts.

4

Ignoring data

"Magical thinking can kill any business," says Lisa Stone, the San Francisco-based cofounder of the online community BlogHer. You can't just believe you'll succeed—you need to actually crunch some numbers and figure out if you will succeed. There has to be data that validates that your big idea is real, or at least provides a leading indicator that it could be. Once you collect that data, use it to create key performance indicators or milestones to show your idea or business is progressing.

Stone speaks from experience. In the early stages of BlogHer, she and her partners were told that women would never blog in large enough numbers to support an annual conference. But the data they collected from their first small test conference confirmed their belief that the plan would work. The event, organized in four months, sold out with more than 300 women showing up and netted the team \$60,000, which was poured back into the company.

Scaling too quickly

Here's a scary number: Seventy-four percent of high-growth internet startups fail because they scaled too fast, too soon. (That's according to a report by Startup Genome.) "It happens a lot," says Erik Rannala, cofounder and managing partner of Los Angeles-based Mucker Capital. "People raise money, think they're flush with cash and then spend it on the wrong things. But by the time they realize that spending isn't getting them anywhere, it's often too late."

What are they spending on? Oh, anything—from marketing to hiring too many employees too quickly. But the basic problem is the same: They're draining the budget on things that aren't essential to expansion or determining whether their business is even viable. "When you start to spend money, you need to either have more or have a way to generate more," Rannala says. "Because if you run out of money before you actually hit any real business milestones, you're going to have a very hard time raising more."

6

Clinging to the wrong idea

"You have to realize that sometimes you're pushing up the wrong hill or you're pushing into a brick wall you're never going to break through," Rannala says. This mistake is especially prevalent among first-time entrepreneurs and people entering an unfamiliar market—folks who just fall in love with their original idea and can't recognize how much it's failing.

Don't go on gut. Go on evidence. Evaluate how your product fits in the market. Maybe you run experiments on what tactics or product tweaks draw in customers the best. Or maybe you closely track how much it costs you to acquire each customer—and if small tweaks make that cost go up or down. "For consumer internet companies, for example, there are five or six tried-and-true ways to acquire customers," Rannala says, "and if you try them for six or 12 months and none of those tactics are working, that might be a sign that there's something wrong."

Failing to delegate

It's perhaps the most classic problem in management: Rather than give up control and trust others to take the reins, you try to do everything yourself—and fail. The instinct is understandable, of course. "Most good entrepreneurs are very strategic, so they don't want to have to worry about whether the fine details are being accomplished," Holtzclaw says.

So, what to do? Delegate, obviously. Start by drawing up processes, almost like a guidebook for how to do things the way they should be done. That way you'll feel calmer, and your employees will have the direction they need. "If you don't do that, you'll hire too quickly because you'll think, I've got to bring somebody in because I'm so overwhelmed," he says. "Well, if you're overwhelmed and no one can take anything off your plate, you're never going to get out of that state. You have to delegate."

8

Thinking money solves everything

Struggling entrepreneurs often think that if they can *juuuuust* raise another round of financing, their problems will be solved. But money doesn't work like that. It can't solve a fundamental issue with a business model, says Carter Cast, professor of entrepreneurship at Kellogg School of Management and venture partner at Chicago-based Pritzker Group Venture Capital.

"If your business model isn't sound, throwing money at it is not going to work," Cast says. "You have to fix the problem first, and then raise the money. Doing it the other way around will only get you in more trouble."

9

Underestimating how long sales take

Let's get this out of the way: Sales take time.

Many startups even think they can close a big enterprise account in three to six months—but in reality, a deal like that can take more than a year. And if your business plan doesn't account for that, you're going to be in trouble.

"They have to sell in to the c-suite, the line manager, the technology folks and the product manager. There are multiple levels of approval, and then there's a scoping and discovery and implementation process," Cast says. "I've seen many companies run out of money because they have been too aggressive in estimating their timelines."



PHOTOGRAPH BY JESSE CHEHAK

10

Fearing failure

"Fail fast" may be a popular catchphrase, but Kamil isn't a fan of it. No matter how much entrepreneurs may glorify failure, there's still that scary word: *fail*. And nobody wants to be the opposite of success. "It's really the wrong term, because 'failing' means there's no benefit, and most times that's just not true," he says.

Change the mindset. You didn't fail—you ran an experiment that will improve your next business. "It's learning," Kamil says. "Although it hurts a little bit each time, now you've learned something, and you can apply that lesson to move forward and make your business better."

So, were these still 10 types of startup failures? Sure, technically. But that just means they're also 10 ways to learn. □