Evolution of Business Models in B2C E-Commerce: The Case of Fabmall

K Kumar and B Mahadevan

The meteoric rise of B2C E-commerce firms during the late 90s and the subsequent bursting of the dotcom bubble have left several questions unanswered in the minds of practitioners about the viability of Internet ventures and the need for appropriate business models. What are we to learn from the Internet firms that have survived this transition? What are the transformations these firms have gone through in their business model? Professors K Kumar and B Mahadevan discuss these issues in conversation with V S Sudhakar, Managing Director of Fabmall.

Fabmart, a pureplay Internet retail platform, was set up in 1999 at the height of the Dotcom boom. Four years later, the startup transformed itself into Fabmall, a multi-channel retail business, with six physical stores, and a significant presence in cyber space. During the course of the conversation, Sudhakar shows how the transition of a pureplay Internet firm into a multi-channel retailing organisation signals the importance of changing the business model in line with market developments.

The experience of Sudhakar and his team in bringing about this transition has many distinctive features that other organisations could learn from. Having substantial clarity on the role of the Internet could well be an important element of success. Further, the ability to select and focus unambiguously on customer segments could differentiate an e-tailer and influence several elements of the business model. A successful business requires that there is a willingness on the part of the management to change several operational features of the business model from time to time. Moreover evolution of business models requires the management to be passionate and yet objectively review the business assumptions periodically.
In entrepreneurial literature, one clear categorisation is between evolutionary and revolutionary ventures. A revolutionary venture typically attempts to change the way the world lives. In my opinion Fabmall falls under this category because you are trying to change the way people buy. There aren’t many examples of such ventures in India. So from an entrepreneurial perspective, your business model is of particular interest. Could you describe briefly the key principles behind the launch of Fabmart in September 1999?

VSS: When I was the CEO of Planetasia, in the early days of the Internet, we used to advise corporates on how to leverage the Internet as a communication platform. We built a website for Shopper’s Stop and wanted them to extend it to shopping online; we were having discussions with Citibank to build an online payment gateway. The issue in those days was, once you built the gateway, who was going to use it? Without the gateway, transactions through the Internet would not be possible, and without transactions, the gateway did not make much sense. So somebody had to break that chain. We suggested to Citibank to set up an e-mall, where all their merchants could set up shop and create a transaction platform using the gateway. While they were comfortable with the idea of the payment gateway, the mall was not their core business. Planetasia, an Internet services company, too was not interested in setting up the mall. Consequently, a group of six promoters, five from an IT background, set up Fabmart as an online retail platform in June 1999. We decided on a few basic parameters of establishing the business.

First, we decided not to get lost in the Internet technology: we were very clear that the primary nature of our business was retailing, and the Internet was merely a channel. So from day one we decided to focus on the core success factors of a retail company. The challenges involved in creating a new channel excited us.

Second, we were clear that our competition was not just other online retailers. Our competition was the physical world, because when customers are looking at the value proposition it doesn’t matter whether they buy online or in a physical store. Being an Internet based retail business meant that we could get orders from anywhere in the country. Therefore the competition was any retailer anywhere in the country.

Third, we decided to do it category by category, as though we were setting up a physical store. We started with the music store, then we added books. Later, we decided to do jewellery. It is possibly the most difficult product to sell online. The jewellery store did fairly well and we realised the importance of building credibility and trust. The fact that we delivered exactly as promised was something that delighted customers.

Fourth, we were clear that in the first phase of online business all customer orders would be sourced, processed and shipped by us, not by the vendors. This would enable us to retain control and guarantee service quality to the customer.

Finally, we wanted to establish online retail as a sensible alternative to physical retail. We knew that it could never be a 100% replacement because there is an element of criticality about physical retail. In fact I had a simple formula – in any online business, I will be able to get only $x\%$ of all customers. Within that $x$ I will get only $y\%$ of their share. So the product of $x$ and $y$ is ultimately the market share that an online business could have. If $xy$ could grow to about 5-10% in five years, we were talking very big business.

BM: How did the customers respond to your venture initially?

VSS: Initially we were surprised by the positive response from the customers. Perhaps, when we started the business, there were practically no expectations on the part of the customers. The mere fact that customers were able to order online and have it delivered was significant. But this success started to build expectations. Customers began to expect quicker delivery, wider range, more features and so on. I think that was a positive change – it indicated that people can feel secure ordering online, and start looking for better features and convenience.

BM: Your point about expectations – that good performances become qualifiers is indeed interesting. What impact did this have on the business? What changes did you make in your business operations?
VSS: One of the first things we did was a major change in the software in September 2000. We realised that, for various reasons, we needed to source items from multiple cities. For instance, it is better to source Carnatic music from Chennai than from Mumbai. So we started shipping out of four locations – Bangalore, Chennai, Hyderabad and Mumbai. Moreover, as the business grew, we needed to source and ship from the closest point to the customer. This required major changes in the software and we ended up building a strong supply chain focus into the solution itself.

With the new MLMP (multi-location, multiple-payment) feature built into the software, we added sufficient flexibility for payment and customer service in several locations. We improvised as we went along, adding features when we faced problems. In this process, we were constantly striking the right trade-off between the features and the software complexity in order to ensure reliability of the software.

The second major change was the introduction of grocery, where ideally orders have to be shipped the same day. One way of achieving this is to stock the goods yourself, and the second is to work off the premises of a retailer (the Tesco model). We chose the latter model. Working on a partnership basis provided new learning opportunities for us and it initially worked well. We started with Bangalore, then added Chennai and later Hyderabad. By this time the Bangalore business had grown to about Rs 7 lakhs (Rs 70,000) per month of sales out of a partner whose business from the retail store was about Rs 14-15 lakhs (Rs 1.4 - 1.5 million). As a result, the service quality and stocking levels dropped and space constraints became evident. For the partner it was a question of focus. If he continued to give us space, his business stood to suffer. Moreover, these were individual retailers for whom working capital was an issue.

The other alternative was to look for multiple partners within a city, who were forward looking and had good systems – a difficult proposition. So we decided to have our own warehouse in Bangalore. It was a huge change for us because for the first time we actually had to buy, stock and do the entire inventory management for our business.

We were clear from the beginning that we were not a portal. **What happens there is an impulse driven buying model. Ours is a need driven buying model. It was a tricky call but we decided that it was a surer path and would clarify our positioning in the minds of the customer.**

BM: **What were the distinctive elements in the first version of your business model? For example, I remember that you never looked at advertising as a revenue stream while at that time it was considered as an important revenue stream by most B2C sites.**

VSS: Any banner advertisement is typically a link to go elsewhere. We were very clear that we would avoid anything that drew the customer away from the store. Secondly we were also clear that we would like a customer to come only to shop – or to window shop.

There are two distinct segments in online shopping: one focusses on the serious shopper and the other on impulsive buyers. A portal like Indiatimes or Rediff is in the business of offering people different activities such as mail services, news, chat and shopping, converting all of them into revenue. We were clear from the beginning that we were not a portal. What happens there is an impulse driven buying model.

Ours is a need driven buying model. It was a tricky call because clearly the number of visits generated would come down substantially in a need driven buying model. But we decided that it was hopefully a surer path and would clarify our positioning in the minds of the customer. We have seen it evolve in the last three years. Today if you look at Indiatimes or Rediff, perhaps 70-80% of the business comes from 30-50 impulse driven products. While the number of visitors is much lower in our case, our average order value is much higher, with a much larger range. Moreover, repeat purchase is also much higher.

**BM: This is very interesting. I think you have actually replicated a B2B model. In B2B a visitor does not browse a site the second time unless he is a serious customer.**

VSS: Basically, we believe in depth. We don’t want to have ten of this and thirty of that. We decided that in any particular category, our online store must compete favourably with a physical store. Although we couldn’t build a range as huge as Amazon.com’s, if we had access to the inventory of ten physical stores, we could be bigger than any single physical store. In the category of books that we sell for
instance, we carry 2.5 million titles of which around 750,000 are available on any given day. This is far greater depth for a reader than any other retailer selling books.

**KK:** On the subject of grocery, you mentioned that before you decided to set up your own warehouses, you had tied up with individual supermarkets. Did you consider looking at a more resourceful chain than individual stores?

**VSS:** In 2000 there were not many grocery chains in India. We spoke to Foodworld and later to Nilgiris in Bangalore. But Foodworld had ideas of starting their own online grocery. While Nilgiris initially appeared keen, they could not move forward on this initiative for various internal reasons. So we had no choice but to set up our own. We decided to go in for a warehouse rather than setting up a physical store. Initially, we switched over to the warehouse model in Bangalore, but continued with our Chennai and Hyderabad partnerships. Later on we realised there was a consistent pattern of partnership limitations once we hit a business of Rs 7 lakhs (Rs 70,000) per month.

**BM:** When you started Fabmart in 1999 (with grocery added in 2000), there was enough experience from alternative models such as Netgrocer, Webvan and Tesco. Going by the processes you described earlier, you seem to have reinvented the wheel. What were the business considerations that made it inevitable? Were there other contextual reasons?

**VSS:** Tesco had not really come up into the public eye then – it caught public attention as a success story sometime during 2001. Early to middle 2000 were the days of Webvan, and what really proved to be disastrous to Webvan was a billion dollar investment in a warehouse. So we believed that the key differentiator of the online models was avoidance of stocking and inventory management. The beauty of this model is that it enables a strong outward business focus – in the first eight to nine months of Fabmart, most of our time was spent on customer issues, attending to customer requests and so on, and not on internal issues like inventory management.

Another factor, which I still believe is very critical especially for start-ups, is a significant degree of outsourcing. This reduces the size of the organisation and increases the time available for market development, customer relations etc. For instance, in Planetasia about 40% of my time was spent on people management, but in the first year of Fabmart, this took less than 10%.

**BM:** Your transformation seems to signal that brick and mortar aspects are important components of a business model. What exactly triggered this move?

**VSS:** By the end of 2001 we realised that international retailers were embracing the concept of multi channel retailing. We also realised that in order to build a retail brand we needed to access the customer in multiple ways. Two of our colleagues came from a physical retail background and had considerable experience with franchising, having worked for Disney. They believed that our strong focus on customer service could be leveraged gainfully by engaging in physical retail chains as well.

**BM:** What are the key elements of this transformation to a multi-channel operation? Why did you not have the same range of products in your brick and mortar setup as well?

**VSS:** In order to make this transformation, we had to make two choices: the mode of physical operation and the product category. Between investing in a physical retail chain of our own and doing it on a franchise mode, we were in favour of the latter at that point.

Secondly, we had to choose our product category. When we did an analysis to understand what was needed to succeed in each category, we realised that, except for grocery, the products that we were selling online required specialised knowledge of what to stock and how much. In apparel or jewellery you needed to understand the trends in fashion, in books you had to estimate the volume of sale of each title, whereas the grocery business is not subject to such significant swings. By and large, what matters is building technology to efficiently move your goods across the supply chain. In this sense, it is far more technology-driven than merchandising skill-driven.

Moreover, by then we also had some experience in the field, with the online grocery business and the
warehouse. We had the necessary merchandising skills—buying, managing supplies, warehousing and stock taking—and infrastructure in place, and had developed systems and relationships with suppliers. In our online business we were able to turn over our inventory 15-16 times a year, which was better than most other retail stores. The only thing we needed to learn was how to sell in the physical store. So if we were going into physical retail, the obvious choice was grocery.

**KK:** What are the advantages of a franchisee mode of operation in your business?

**VSS:** The big advantage of a franchise network is that you can scale up investment substantially. Your investment into the stores comes from multiple people. Another critical difference is having an owner sitting in the store, rather than an employee. However, the difficulty initially lay in finding the right kind of franchisees and convincing them. It was difficult because we had nothing to show except the online business, the warehouse and how we moved the stock. We gradually got them interested and set up two stores in Bangalore.

By this time, we realised that the physical grocery business was going to be massive, and if you could make it to the top ten grocery retailers in India, you could get significant volumes and make profits even though the margins in retail are low. Everything depends on how well you control your costs and how efficiently you move the merchandise across the supply chain.

**KK:** You have two businesses under one banner: online and offline. How do you manage both simultaneously? What issues crop up in such a multi-channel operation?

**VSS:** By the end of 2002 we actually started looking at these two stores as two businesses within the legal entity called Fabmall. In fact, in terms of people, I am possibly the only common link between the two businesses today. At some point we may even look at splitting it into two separate organisations. Of course, we believe that the brand name is very critical irrespective of whether they are two organisations or one, but I think we are yet to exploit the synergy between the two. The dynamics of cost and operations are different for online and physical. So even if the brand, the management and the commitment to the customer are the same, the pricing could be different.

One characteristic of the online business is that interaction with the customer is significant compared to the physical store, which comes as a surprise to most people. Similarly, though popular perception is otherwise, I believe there is a strong brand loyalty in the grocery business. If your quality, your range of products and pricing are within the parameters of what the customer is used to and what the competition is offering, there is no real reason for the customer to shift. Although the competitor is just a click away, the customer will certainly check, but continue to stay unless there is a huge disparity in the price.

**KK:** You seem to be investing considerably less in the second phase, where you are building inventory, stores and physical infrastructure. How does that match with the overall plan?

**VSS:** We have the legacy of a strong brand, which we are carrying forward, so we are not spending significantly on brand building. Our brand value and our good track record ensure that our business partners are willing to work with us. The going will be tough but challenging because the focus is to see how to get the business cash positive and still invest in growth. Our creativity will obviously be put to test in newer and alternative areas. We have now focussed on the operating cost at a line item level, which has brought in a significant budgeting focus. The budgeting is now done at a micro level. Gross margin is a key focus area, far more critical than the top line. Today people at every level of the organisation are involved with the budget at the line item, expense level. They don’t talk top line, they talk only bottom line.

As far as the physical business is concerned, we are driving it through the franchisee route, with the store investments coming through the franchisees. The inventory is the only investment we have and the focus is on managing it well using technology. We have four big stores and two small stores where we do about Rs 1.2 crores (Rs 12 million) worth of business per month. We run on a total inventory...
base of about Rs 75 lakhs (Rs 7.5 million). So we are able to leverage it reasonably well and we are stretching the money to go much farther.

**BM:** So, in the first version of the business model the emphasis is on customer acquisition and trust building, and in the second version, you seem to be looking at costs and bottom lines and making them more viable . . .

**VSS:** I agree. The focus is on leveraging the brand value built in the first phase of the business and scaling it in the second phase.

**BM:** With 50% of the total turnover now expected from the physical infrastructure, how will you leverage the online strengths in the offline version of your business?

**VSS:** To begin with, our track record gives us the strength to look into the second phase of the business. If the first phase of the business had not existed it would possibly not have been easy for us to do what we are doing now. As I said earlier, there is significant focus on the viability of the business. We were always careful with money, even in the dotcom boom days, but there is a huge difference between being careful with your money and creating a strong bottomline focus. Creating a viable business is not easy, since we are still to reach critical mass. We have gained significant learning and maturity from the first phase, which is driving the second phase.

From the merchandising perspective, we are no longer seen as a predominantly IT oriented team. Our retailing skills are not questioned now. A lot of the learning on customer service applies to the physical business as well. From a technology point of view too, the learning of the first three and a half years is definitely useful.

**BM:** Changing the focus of the business, getting a new set of investors on board and parting amicably with your existing investors can be turbulent events in the life of any company. But the way you have described it, it all seems to have gone smoothly. Can you tell us how all these fell into place?

**VSS:** There are two parts to it. The last transition was somewhat turbulent. There were no battles, but it was high pressure, with the outcome being uncertain at some stages. It was a tough period for us. At various points we kept asking ourselves what we were willing to live with, and what we were willing to give away. Moreover, we made the transition despite being close to break point many times, which itself was a big thing. Many companies would have succumbed at that stage. We did it with our business, our people and our vision intact.

**BM:** Many B2C sites continue to have serious fulfilment problems. How important is fulfilment in a B2C online business?

**VSS:** Fulfilment, support and genuinely caring customer service are very important. One of the biggest lessons we have learnt is that, however difficult it is, you stretch your last muscle to get the fulfilment right—as close to 100% correct as possible! Only then can you keep customers happy. I think we have survived primarily because of our efforts in that direction.

Another critical thing is that we have trusted people and that has paid off. For instance, when we offered a no-questions-asked return guarantee on all goods including jewellery, people told us we were being foolish. But wherever we have had returns it has always been for a good reason. This I think also reflects the kind of customers we have—serious shoppers, not impulse buyers.

**BM:** Your observations on the customer segments in B2C are indeed interesting. It appears that differentiating and clarifying the target customer segments can make a significant difference to the success of the business.

**VSS:** I agree. In the first phase of our business, we focussed only on serious shoppers. We are now trying to leverage impulse business that can both serve to introduce the brand, and build volumes and margins on the same platform. We are in the process of coming to a mutually beneficial arrangement with MSN India. So far, MSN India has stayed away from shopping because they wanted to either do it well or not at all. If MSN brings traffic to the impulse driven business, and we are able to induce at least 20% of the traffic to move to serious
buying at a later point, we will be on to a good thing.

BM: That probably also signals the credibility and positioning you have reached for MSN to enter into such an agreement with you... How did you shut off some of the revenue streams, which are tempting to a new Internet pureplay firm? What were the implications of your decisions, with regard to VC funding, considering that in the initial stages, money is the life-blood of a B2C venture?

VSS: You have to be clear about who you are. We were very clear with our VCs from day one that our core interest was in retailing, using Internet as the platform, and therefore we would not engage in anything that would take us away from our core interest. So we never had too much pressure from them about advertisements or other revenue streams.

KK: What other mistakes do people often commit when they start an Internet retailing venture?

VSS: An Internet business requires significant and sustained investment till you reach critical mass, after which it will hopefully become a very profitable business. Unfortunately, people did not realise this in the early days. They assumed that anybody with some amount of Internet knowledge and technology experience could get into Internet retailing. But it requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a classic case, a success story. It requires a lot of investment to build a brand, relationships, logistic networks, and the stability required on an ongoing basis. Amazon.com is a cl

BM: How does an entrepreneur sense when it is time for the next edition of the business model?

VSS: I see a business model essentially as a route to a goal. If you have stuck to your goal and your path for some time and you do not see the results, it’s time for you to check whether your goal and your path are right. If you have realised that your goal itself is wrong it is critical to be able to acknowledge it unemotionally and move on. The key is for an entrepreneur to be able to be passionate about a business and still be unattached to the extent of taking a tough call if it needs to be taken.

We have been reviewing our business dispassionately to see whether it will be profitable in the long term, whether we have the sustenance to reach critical mass and what we need to create that sustenance. I am sure that if at some point we believed that it was not viable, we would have taken a tough call. Fortunately, we have passed this phase and now are within striking distance of making the business break even. For us it is always passion guided by objectivity. We are willing to rethink at the goal and the path every six months and take calls as necessary.

Our current business plan is like straddling two horses—one which can give us a short term boost both in terms of volumes and profitability, and the other which is going to be a long distance runner, which can become very profitable. In the online business, the problem really is that profitability may still be two or three years away. But we believe that if we stay on, fight this battle, keep a strong bottomline focus, find creative ways of taking this
business forward and get to the critical mass, like Amazon has done, then it will be an extremely profitable business. Meanwhile with the new physical presence, we are getting the benefit of higher volumes and a short term boost.

KK: So, in your assessment, for the pureplay online business to reach a stage of viability, it will take some time. In the meanwhile, to ensure profitability, you have shifted to the hybrid model.

VSS: That’s partly true. The multi-channel retailing model also makes sense because it gives the customer the option to buy whenever and wherever he wants, and is therefore more likely to succeed. We believe that there is a synergy between the two.

KK: Clearly there are two strategies for multi-channel offering. You may start in a pureplay Internet form and then add the physical channels, or you may start off as a physical player and then go online. What are the pros and cons of these two approaches?

VSS: In terms of focus from the management, if it goes from the Internet to the physical, there will be focus on both, whereas when it moves the other way, most likely the Internet will be inadequately focussed. When a physical retailer moves to the Internet, the Internet often never gets the respect, the energy and the time that it deserves. In order to succeed in it, the CEO should see the Internet as an integral part of the business. If you are already involved in the business on the Internet, and if the physical channel promises larger volumes, there is a greater chance that you would focus on that as well. Moreover, there are fewer chances of channel conflict if the transition is from the Internet to the physical. The other way round, with the price differentials, the chances are that the Internet would be viewed as a competing channel.

KK: Businesses always look at benchmarks in their desire to be on the top. So who is your competitor now, given this transition from online to hybrid?

VSS: Today we have two businesses. So we have to benchmark against competition in both of them. In the physical retail business, in grocery, our prime competitor is FoodWorld – they are the largest and the oldest and have definitely done a good job of building from scratch. There are the new hypermarkets like Giant which are coming up and you also have new format kiranas like Subeeeksha in Chennai — and there are other supermarkets like ourselves. I don’t think that value propositions from the different format of retailing have got frozen in the minds of customers as yet. So in the next two years there is going to be a huge power play between all these entities and formats.

Regarding the online business, there are two customer profiles that are evolving – the serious customer and the impulse customer. With the serious customer, I don’t think we have any real competition today. Whereas with the impulse customer, there is Indiatimes, and to a lesser extent Rediff. We have realised that the community of impulse customers also needs to be courted, which is the reason for our alliance with MSN. Moreover, even though you dispense with customer acquisition spend, you still need to be visible to your existing customers through modes other than your email newsletters for them to remember you.

KK: That would be a significant change in thinking between 1999 and now.

VSS: Yes. For instance, the way you do merchandising for the impulse category is different. The class of vendors you go to is different. In fact we are planning to dedicate one person to merchandise for the impulse shelf, because the way you think has to be different. But here we have to guard against inferior quality. Sometimes, the serious shopper too can be impulse driven and we have to have products which straddle both.

In conclusion, I must say that between running an IT business and being a retailer, retailing is more exciting and much more fun. It is tough, it is challenging, but one thing I can say is that it is never boring!