

DATA ANALYTICS-DRIVEN E-COMMERCE FOR THE SMALL SELLER: ZILINGO

Entrepreneurship rests on a theory of economy and society. The theory sees change as normal and indeed as healthy. Moreover, it sees the major task in society—and especially in the economy—as doing something different rather than doing better what is already being done.

- Peter F. Drucker¹

Bangkok, December 2017. Ankiti Bose, the founder and CEO of Zilingo, was hopping through the streets of Chatuchak market, remembering her previous shopping experiences in the city a few years back. Nothing appeared to have changed since then, and the streets still smelled of lemon grass, bamboo and delicious Thai street food. However, the local shops selling apparel, shoes and bags had found a new avenue for selling their products – made possible through Bose’s start-up, Zilingo. Established with the vision of enabling small sellers in Thailand and Singapore to sell fashion products online, Zilingo had grown 25% month-on-month in its second year of operation, and it was now time for its management team to develop an expansion strategy judiciously.

Bose had loved to shop for apparel on the streets of Bangkok. During her shopping sojourns, she had observed that most local sellers appeared to have a steady stream of customers for their products. A quick search on the Internet had also made her realise that small vendors catered to almost 60% of all Southeast Asia’s fashion and lifestyle retail demand - but most of these sellers were not taking advantage of the Internet revolution. After gathering business insights from several small sellers in the market, Bose and co-founder Dhruv Kapoor had launched their start-up company, Zilingo, in 2015.

By December 2017, Zilingo had built a significant consumer base with seller hubs in Hong Kong, Korea, Vietnam, Cambodia, Indonesia, Thailand, Singapore and China. Bose now needed a strategy to expand Zilingo’s customer base rapidly across the region. For a fact, there were not many e-commerce companies solely focusing on fashion from small sellers in Southeast Asia. However, with international delivery services becoming more and more efficient, an e-commerce business could practically be run from anywhere across the globe. Therefore businesses like Zilingo faced competition not only from local players but also from international players.

As she strolled through the familiar streets of Bangkok, Bose wondered what would be the best competitive strategy for Zilingo. How could the company further expand its consumer base? Would geographical expansion be a more appropriate strategy? Would expanding offerings on its e-commerce platform be a more viable strategy? Alternatively, would reaching out to consumers and increasing their stickiness to Zilingo’s platform be a more plausible approach?

¹ Drucker, Peter Ferdinand, “Innovation and Entrepreneurship: Practice and Principles”, New York: Harper & Row, 1985, pg. 26, accessed February 2018.

This case was written by Professor Reddi Rayalu Kotha and Lipika Bhattacharya at the Singapore Management University. The case was prepared solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

Zilingo

Zilingo was an e-commerce company whose vision was to bring real value to thousands of small sellers who did not have the resources to create an online presence for themselves. The Zilingo e-commerce platform sold products that ranged from apparel, accessories, bags and shoes to lifestyle products. Sellers could sign up directly on the online platform to sell their products, and the products would go straight from the buyer to the seller. Bose explained,

In 2014, there were thousands of small merchants who were not selling their products online in Southeast Asia. This market had been aggregated in China and India, so I knew that it could be done in Southeast Asia as well. Other e-commerce companies in the region at that time were not doing marketplace for designers, long-tail sellers and fashion sellers.

However, Southeast Asia is not similar to China or India, which are large markets in themselves. There are several countries in the region, and each of them has their unique market, currency, language and consumer choices. So building one single platform that can cater to all these markets was not an easy task to undertake. Moreover, many small merchants do not understand English, so we had to consider all these factors when we built our multilingual platform.

The idea is not to discriminate between price points; our platform allows anyone to register and sell on Zilingo. However, we have strict guidelines and policies against counterfeit products.

Wavemaker, a venture capitalist, had decided to invest in Zilingo in October 2016, during the start-up's series A round of funding. Headed by Paul Santos and Dennis Goh in Singapore, Wavemaker was dual headquartered with its two other partners based out of Los Angeles. Santos knew that Zilingo was one of the fastest growing start-ups in Southeast Asia. However, what had drawn him to invest in the company was the incongruity of the market that the company had tried to capture.

Growing Rapidly

Zilingo had raised US\$27 million from funding rounds held in 2015, 2016 and 2017. The major investors in the company included Sequoia Capital India, Venturra, Burda Principal Investments and Susquehanna International Group. A key capability that venture capitalists looked into when investing in a start-up was its key merchandise, which was essentially the amount of money going in and the amount of money going out of the business.

Within the first two years of operation, the company experienced booming growth. It started to expand internationally in 2016, and the team size grew from just nine people in 2015 to 80 in 2017. Started as a small setup in Bangkok, the firm had two offices in Singapore and Bangkok by 2017. The company had also been able to create a significant marketplace in Indonesia for its products.

The monthly gross merchandise product (GMP) for Zilingo was an impressive US\$1.6 million per month in 2016, which translated to about US\$19 million annually. By the end of 2017, the company was able to increase its GMP to close to US\$14 million per month. The company was also able to expand its product line quickly. As of June 2017, the company sourced fashion, beauty and lifestyle products from around 5000 small retail enterprises from Taiwan, Hong Kong, Indonesia, Vietnam, Korea, Cambodia, Thailand and Singapore. By December 2017, the Zilingo platform had

over a million active users. As of September 2017, the company was exporting to eight countries and had seller hubs in seven countries.²

With an average employee age of 30, Zilingo was a young team. The company promoted a ‘fun and chilled’ work environment to complement its young workforce. The organisation had a flat hierarchy, and most people had considerable autonomy on work matters. The employees comprised people from five nationalities, and they largely served three very different markets (Thailand, Singapore and Indonesia), and worked in three time zones. The company’s recruiting strategy was based on hiring employees with the right mindset, along with a passion for working in a data analytics-driven work environment. Talking about the company’s work culture, Bose explained, “Zilingo is highly receptive to constantly changing viewpoints and encourages exploration of new directions. The work environment is one of organised chaos.”

Market and Strategy

Started with the vision of becoming the go-to website for shops across Southeast Asia for selling local brands, Zilingo had suppliers like Thai brand Jipata Swimwear, which sold handmade swimming apparel, and Blood B Plus Jewellery, which offered unique and modern accessories. The site also carried Singaporean brands sold at youth-oriented, hip spots such as Haji Lane and Bugis Street. These included Lead Design, which sold framed typography and watch brand Shoplavotre.

Developing a Seller Base

The company did not hold inventory for any of its suppliers, and sellers would directly ship products to their customers. Bose recollected,

Initially, we had started with about 100 merchants. For the first few merchants, we had to meet them individually and convince them to try our platform. Interestingly many of these sellers are close-knit and operate on word-of-mouth references. Therefore, when the first few merchants were able to make profits, the rest came to us quite easily. Our platform is intelligent, and now it can predict which seller wants to reach us even before they have actually tried to contact us. Through advertisements on the seller's site, we may have got about 20-25% of the leads; the rest are mostly digital leads. Currently, our actual physical contact with the seller is less than 10 per cent. Most of our profit though comes from a commission on transactions based on the volume plus a per order fee, rather than from flat fees on any sellers.

Market-Making Services

There were several inbuilt features in the Zilingo e-commerce platform to attract both sellers and buyers. Features included tools to enable buyers to chat with sellers and to make payments. Buyers could take a picture of a product in a magazine or store, and buy it online on Zilingo and have the products delivered to their doorstep. Bose shared,

98% of Zilingo customers access our site on mobile, and 83% of our customers are millennials. Ours is a mobile-first online platform.

The idea was to create an experience that allowed buyers to shop for products found in malls and street markets from the comfort of their home, and stay up to date with fashion trends around the

² Jack Ellis, ‘Fashion Marketplace Zilingo Nets \$17m Round Led by Sequoia and Burda’, Technasia, 12 Sep 2017, <https://www.technasia.com/zilingo-series-b>, accessed December 2017.

world. The company also enabled sellers to reach buyers across the world; get free end-to-end logistics services; create a personalised online store; use free analytic tools to maximise online sales; chat with their customers; connect through social networks, and sell more. Other services (through third-party tie-ups) offered by Zilingo to sellers included product cataloguing, photography, video production and working capital loans at discounted rates.

The mobile-first platform allowed merchants (sellers) to list their inventory, set their prices and fulfil online orders all at one site. The mobile app allowed sellers to upload products, manage inventory, schedule pickups, and even provide customer care and marketing services. This was especially helpful for small sellers who lacked the workforce to manage these services on their own. The other major merchant services offered by the platform included payment options, order tracking, refund collection and consultation services on pricing strategy—and these services were free of charge to the seller. In 2016, the platform began using Vue.ai's artificial intelligence to incorporate visual search and personalisation features in its mobile application.

For order fulfilment, Zilingo had partnerships with over 12 logistics partners, including DHL, Ninja Van, and JNE (Indonesia's largest logistics firm). When the buyer placed an order on the website, the seller was notified of the order on his or her mobile app. After that, the logistics partner picked up the order from the seller and shipped it to the buyer at a predetermined timeslot. Zilingo's delivery time in Thailand was 2 to 2.5 days. (refer to **Exhibit 1** for Zilingo Seller page).

An issue faced by Zilingo was the consumer perception of online payment mechanisms; low trust in online transactions in Southeast Asia implied that a large number of customers did not want to pay by credit card on the web. Hence, cash on delivery and money transfers by ATMs or bank kiosks were the preferred mode of payment by the buyers.

Monetisation Strategy

Being an e-commerce platform, Zilingo's monetisation process derived revenue from the value of the services it offered. Some of these services were paid for by suppliers, while others were offered gratis based on a commission model upon successful sale. However, monetising the platform had to be carefully designed to ensure that users were happy with the experience and there were long-term opportunities for the seller. Bose explained,

Our monetisation strategy is multi-pronged. One is the take rate, where we decide on 15-20% of the sale revenue as our commission, plus a per-order fee. The second lever is marketing as a service, which allows service to happen offsite. Our platform is super-efficient, and sellers could do search engine optimisation through us. The third lever is the seller ecosystem, where the seller side can behave as a platform using our API-based services.

When fashion brands or sellers try to sell through our platform, the KYC (background check) has already been done, we already have an existing customer base, and we have loan financing contacts, which they can obtain through our website for short-term legitimate loans. They can also go to various logistics companies and photo-shoot companies through us. Loan financing, logistics, and photography and videography are charged services; the rest are free. Our commission policy is simple and straightforward and is based on order of earnings from our website.

By 2017, most of the marketing for the platform was done through digital means, but in markets like Indonesia and Thailand, a big contributor to building its brand awareness were offline channels.

Rather than focusing on generating hyper-growth in revenues or the GMP, Bose had focused on unit transaction economics for profitability for her company. She postulated, “Instead of starting with a large fixed cost base, our strategy was to make the unit transaction economics profitable, such that we could then extrapolate the volumes and add customers at an exponential rate to become profitable eventually.”

Competitors

There were several players in Southeast Asia in the e-commerce market making space. Zalora and Lazada were significant players in Singapore. Sale Stock was a key competitor in Indonesia. Other players included Ava in the Philippines, Chon.vn in Vietnam, Dressable, Pomelo, VIP Plaza and Maskoolin in Singapore.

Zalora was a leading fashion e-commerce venture in Asia-Pacific which had become an international player after becoming part of the Global Fashion Group in 2014. The company operated in eight countries in Southeast Asia and sold fashion items like clothes, shoes, accessories and beauty products. Although its focus was to sell international brands on its platform, it had also started to sell local brands unique to each market in Southeast Asia.³

Pomelo, another online fashion retailer in Southeast Asia, had started to gradually shift from a purely online fashion retailer to being an online-to-offline retailer by opening physical stores to market the brand’s profile. The Bangkok-based fashion retailer was different from other e-commerce retailers in the region in that it sold its own-label fashion products rather than sourcing products from sellers.

Talking about Zilingo, when compared to its competition, Bose explained,

Zilingo is focused on a customer commitment strategy. We have a higher repeat customer proportion than most of our competitors, and our basket size on average is comparatively higher than our competitors.

Collaborating with suppliers and repeat customers was an essential feature of market-making for Zilingo, and Bose felt that her company’s business model had unique features that enabled it to build long-term relationships with both sellers and buyers.

Harnessing Data Analytics

Bose was of the opinion that winning in the marketplace was a supply game, so Zilingo’s goal was to get as much of the right supply as it could. Thus, as she grew the company, it became more important to source the right supply, and then get more stock from the right supply. Zilingo also concentrated on harnessing the power of data analytics to gain a wider footprint in the market. It used data analytics for almost everything from filtering suppliers, identifying fashion trends, to designing its ad sets and integrating quality checks.

The firm had focused a lot on market trends and had concentrated on building data analytics capabilities into its platform. The platform performed comprehensive trend analysis on Instagram posts, hashtags, what other fashion platforms were selling, and other sources like fashion blogs. It also identified the latest styles in fashion by rigorous trend analysis of data. Zilingo identified both

³ Srinivas Reddy, Sandeep R Chandukala and Sarita Mathur, SMU Case Study, “Zalora: Dressing up the Mobile App to Engage Customers”, 2018, <https://cmp.smu.edu.sg/case/3551>, accessed April 2018.

the creative aspect of the trend, as well as its network aspect. For example, if a celebrity style started getting popular, it would immediately pick up that trend pattern and pass it on to its sellers.

Bose cited an example to illustrate her company's trend analytics capabilities, 'If there were eight trends in a runaway season out of which four were picked up by chains like Zara and H&M, then we pass on those four trends to our fashion brands and sellers.' For such trends, Zilingo often made a huge margin for a short period, and then moved on to the next trend (refer to **Exhibit 2** for data analytics powered features).

Fashion or Market Voice

Whether its platform would be guided by the fashion voice (i.e., curating and developing catalogues based on themes and seasons using advice of designers and fashion experts), or by the market voice (i.e., letting the market determine which product or service was featured prominently for consumers) was something that the management team at Zilingo had to determine carefully.

As was the case for other retailers in fast fashion like Zara, Zilingo had decided to be guided by the market voice. Rather than be a late follower of what was popular in the market, Zilingo had developed detailed market research capabilities to uncover nascent market trends that were sweeping the target consumer market.

Trend report for sellers

The company democratised its trend analysis and shared it with all its sellers. Sellers were then able to purchase these trends from its bulk business website – Zilingo Asia Mall.

Bose reported that in the past six months, the firm had already identified three trends when they were budding, and its hit rate in identifying nascent trends had been about 60%. Given that about 70% of its shoppers were female millennials, the team had optimised its digital marketing for this segment of the population with the identified trends. Zilingo's strategy was to focus deep on this demographic of female millennials and then cast a wide net geographically for that segment (refer to **Exhibit 3** for Zilingo home page).

Basket size

The basket size of Zilingo was larger than most of its competitors. For Indonesia, the basket size was about US\$35, US\$40-45 for Thailand, US\$85 for Singapore, and about US\$120 for cross-border markets in Southeast Asia. About 50% of Zilingo buyers were deal hunters (but deal hunters were not considered 'bad' customers). The screen content of Zilingo's buyers was automatically customised by its digitised platform based on the customer demographic, purchase pattern and current trends - so Zilingo monetised on the 'impulse of the moment of the buyer'.

Customer focus and agile management

The management team at Zilingo reviewed performance reports every day at midnight, to ensure the agility of their responses. The company's everyday ad sets were different too, and it optimised and changed its ad set within hours. 15% of the marketing budget had been allocated towards keeping its existing customers happy, but its strategy was to increasingly offer fewer discounts. Zilingo's repeat customers were highest in Indonesia, and 40% of the company's monthly orders came from repeat buyers.

Quality Assurance

There were strict policies for sellers, in order to protect the interest of buyers on the Zilingo platform. This had been an issue for many marketplaces globally. For example, the Chinese government had censured Alibaba repeatedly for not expelling sellers who sold fakes to customers.

An ‘algorithmic approach’ was implemented to protect the interests of the buyers using the platform. For quality assurance, every seller on Zilingo’s website had a rating. So for a seller, if they were below three on a scale of a customer user rating of 1 to 5, Zilingo’s team tracked their authenticity and performance. If the seller rating fell below 2, the seller was evicted from the platform. In addition to the user rating, Zilingo also tracked how promptly the seller was shipping, the quality of products being shipped, and if the actual products matched the product photographs on the website. By the end of 2017, Zilingo had 8000 merchants, and its seller attrition rate was 8% a year, which included sellers who had stopped selling and sellers who had been evicted from its platform.

What next?

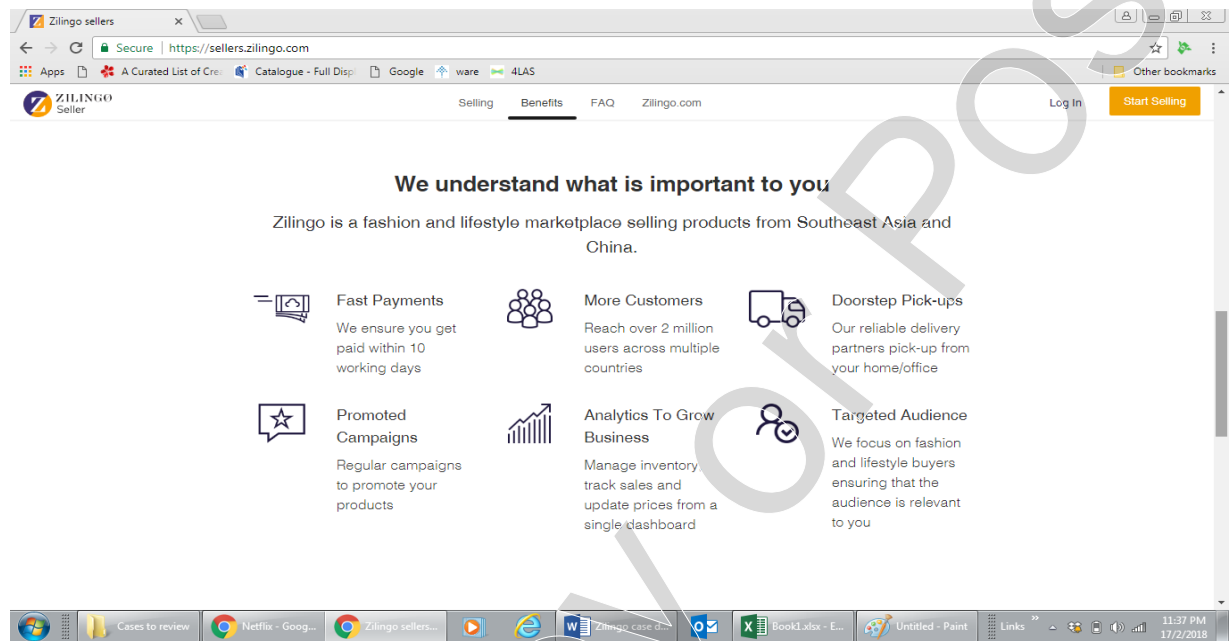
Asia had seen a huge growth in e-commerce fashion over the past few years. The revenue in the ‘Fashion’ segment was expected to show an annual growth rate of 12.3 % (CAGR 2018-2022), resulting in a market volume of US\$380 billion by 2022. In Singapore, revenue in fashion was expected to show an annual growth rate of 11.6 % (CAGR 2018-2022).⁴ Given these estimates, there was no doubt that the online fashion industry would continue to attract shoppers, and Zilingo could potentially tap on this further with the right expansion strategy (refer to **Exhibit 4** for Asia e-commerce fashion outlook).

Invariably the success of Zilingo’s business was dependent on not just the volume and stickiness of sellers that it could reach out to, but also the stickiness of the consumers who visited its website. Zilingo was essentially a platform, but e-commerce technology was expanding in leaps and bounds, and the future of business across the world relied increasingly on providing unique experiences to customers by bridging the gap between human interaction and digital experiences.

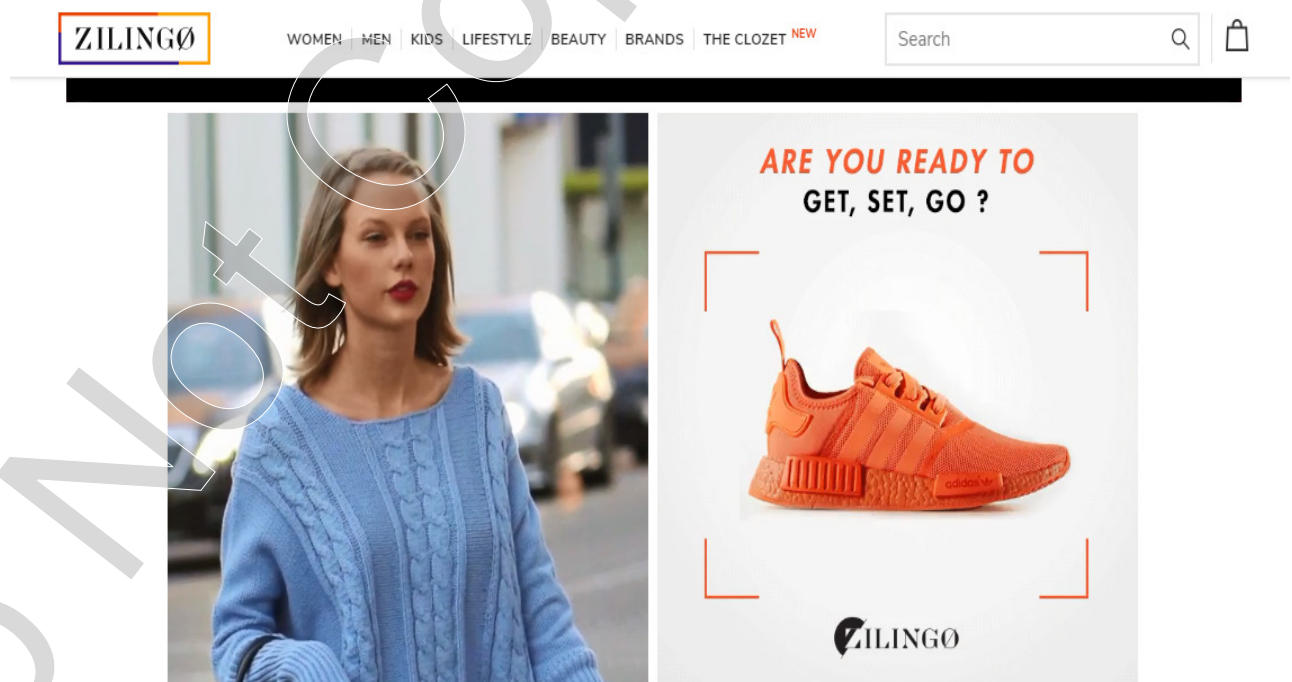
Bose felt that Zilingo was on the right track regarding using technology to solve very critical pain points for customers and vendors in the fashion space. In a management meeting later that evening, she stated,

With high margins and an open playing field for fashion e-commerce, the industry is ripe for disruption. As a platform that’s providing a host of services and value additions for our user base, Zilingo is in a good position to leverage our platform towards further scale and success.

4 Market Data, Ecommerce-Fashion, Statista, <https://www.statista.com/outlook/244/124/fashion/singapore#>, accessed December 2017.

EXHIBIT 1: ZILINGO SELLER PLACE

Source: Company website, Zilingo.com

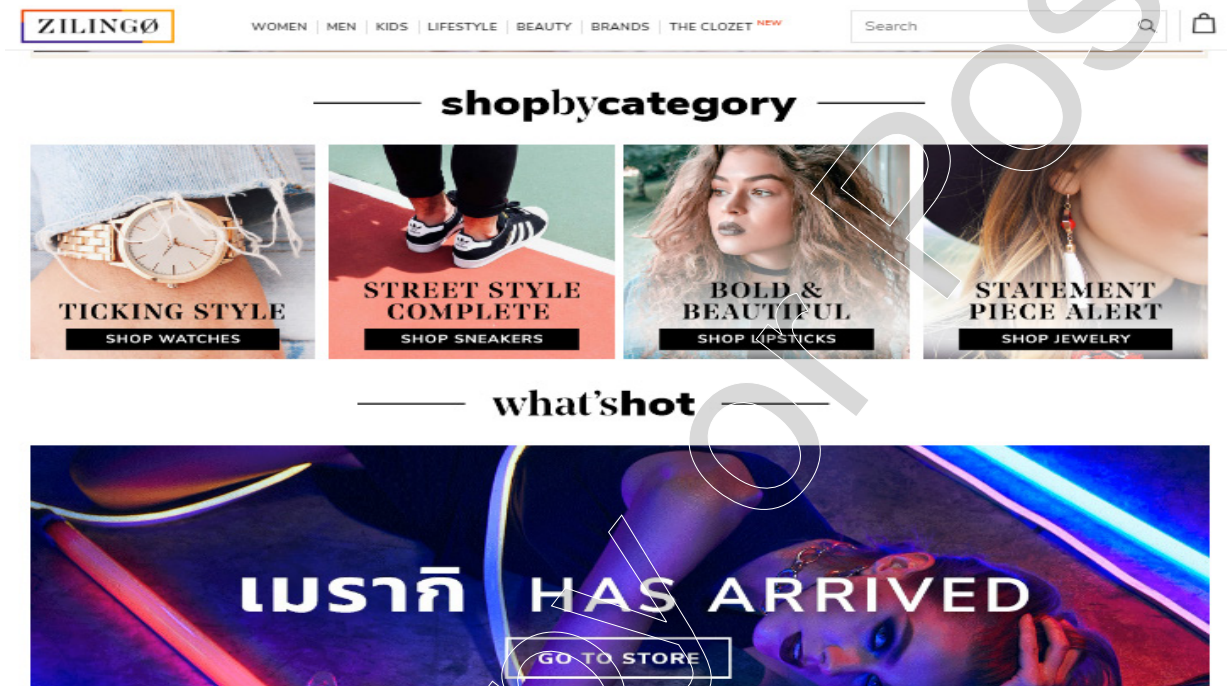
EXHIBIT 2: DATA ANALYTICS POWERED FEATURES

/GET THE LOOK FOR LESS
Outfits inspired by Taylor Swift

/HOTTEST TREND
Style It Up With Sneakers!

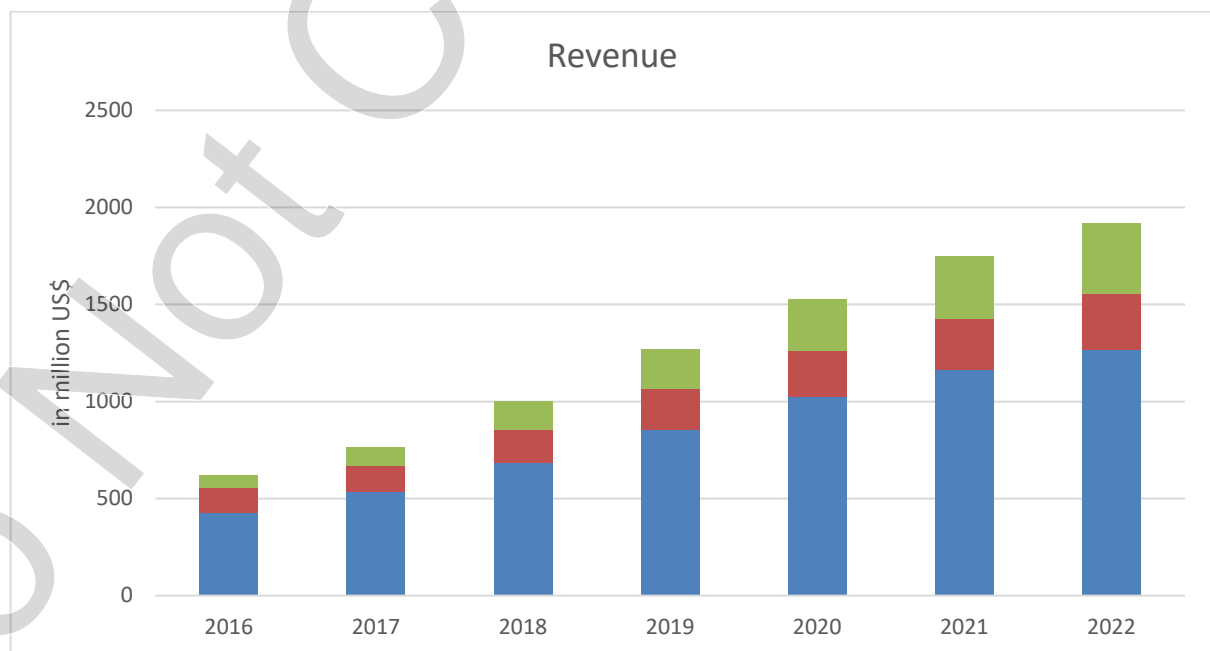
Source: Company website, Zilingo.com

EXHIBIT 3: ZILINGO HOME PAGE



Source: Company website, Zilingo.com

EXHIBIT 4: ASIA E-COMMERCE FASHION OUTLOOK



Source: Market Data, Asia e-commerce-fashion outlook, Statista, <https://www.statista.com/outlook/244/124/fashion/singapore#>, accessed December 2017.