Summary
ShopClues adopted a differentiated path by following zero-inventory marketplace model, targeting low-income consumers in small cities and focusing on unstructured products. With an aggregation of 3PL partners and extensive use of high-end technology, it joined the *Unicorn Club*. However, factors like changing FDI policies, demonetization, failure to provide customer satisfaction, increasing product returns, and e-commerce industry shift to marketplace model, made it lose its market share. Its ambition to launch an IPO in 2017 by controlling burn rates decreased its GMV substantially. Once valued at $1.1 billion, it now is on the verge of getting acquired.

ShopClues Operating Model

Unlike major e-commerce companies like Flipkart, Snapdeal and Amazon India, ShopClues adopted a zero-inventory marketplace model since it started in June 2011 [1]. With extensive use of state-of-the-art and robust technologies, and by tying up with regional 3PLs, ShopClues became an effective digital platform for customers and sellers. ShopClues' strategy to target consumers in small cities differentiated their operating model from their major competitors who focused primarily on consumers in big cities. Also, in terms of products, ShopClues was different from its competitors as it sold unstructured, non-branded and low-cost product categories that price-conscious consumers of smaller cities are mostly interested in. This differentiated path played a critical role in ShopClues' success. As stated in [2], "The differentiated path from Flipkart, Amazon and other vertical players had played a pivotal role in ShopClues' closure of $100 million Series E round in 2015. During the round, it was valued $1.1 billion and became the 4th Indian Internet company to join 'Unicorn club".

In India, major companies like Flipkart, Snapdeal and Amazon India entered through an inventory-led market. After realizing the importance of having a marketplace model in India, they later completely/partially switched to marketplace. Also, in 2016, the Indian Government allowed 100% FDI for marketplace but not for inventory-led model [2a]. In general, both inventory-led models and marketplace models have their advantages and disadvantages [2] (see Table 1 below). In summary, inventory-led models require setting up warehouse and therefore complete supply chain processes is expensive. However, with marketplace model, companies primarily focus on marketing and technology, and product warehousing, logistics, conflict handling, etc. are outsourced to third parties. Quality control of products is easier in inventory-led models.

Table 1: Pros and Cons of Relevant Operating Models [2]

	Marketplace Model	**Inventory-led Model**
Pros	Highly scalable, investor friendly, wide product portfolio, large number of sellers	Speedier delivery, better quality control, better customer experience and trust
Cons	Inventory blocking (multiple sellers listing one product)	Difficult to scale, high fixed cost, restricted cash flow

In recent years, ShopClues' marketplace model started to lose customer trust and loyalty primarily due to inventory blocking and inability to conduct quality checks [3]. Also, the product return rate was ~30-40% which is exceptionally high in comparison to other competitors [3]. ShopClues' market share was also eaten by competitors who switched to marketplace model. ShopClues with an intent to launch IPO also controlled burn rates that significantly reduced its Gross Merchandise Value (GMV). Demonetization in 2017 posed a major challenge to ShopClues which got hit the most as 30% of their customers used Cash on Delivery [9].

By: Pragyan Sharma

Logistic Requirements – ShopClues vs Traditional Offline Retailers

ShopClues' Logistics requirements are very different from those of a traditional offline retailer. Some relevant differences in the requirements are discussed here:

Geographical Reach: Offline retailers sell products through a storefront location in-person and mostly follow an inventory-led model. ShopClues' marketplace model with partnership with 3PL partners provide it a wider geographical reach, both in terms of sellers and customers. Offline retailers in general have their operations limited to smaller local areas. This difference in the scale of operations brings in a lot of logistics related complexities for ShopClues.

Product Delivery: While offline retailers mostly do not provide delivery services to its customers, timely and cost-effective delivery is paramount to the success of any ecommerce business. To have advantages over others, ShopClues relies on competitive transportation cost for small items and optimum delivery time for long-distance deliveries.

Customer Expectations: Electronic transactions on web portals in general raise customers' expectations for both service quality and speed of delivery. This is not the case for in-person transactions made at an offline retailer.

Reverse Logistics: Managing the reverse logistics for sales returns is another major effort for ShopClues. Reverse logistics in today's e-commerce is an integral part of logistics. It can be a costly component if not implemented effectively. To control reverse logistics flow, ShopClues uses its 3PL partners and has well-defined set of return policies and infrastructure [1]. However, in case of offline retailers, such a complex set of policies and infrastructure is not required. Products to be returned are brought back to the store by customers and have low damage probabilities.

Integrated System for Logistics: Due to vast scale of operations, ShopClues requires a reliable automated technology platform to ensure seamless logistics. Such an integrated system is usually expensive. Offline retailers however can manage operations with a simpler software.

Uncertainties: For delivery of products to an offline retailer location, transportation cost is mostly fixed as the retailer usually uses same logistics partners who operate mostly on same routes. Offline retailers have almost fixed demand and supply; however, this is not the case with ShopClues.

ShopClues' Logistic Strategy and Its Benefits

Until 2014, ShopClues only used airways for product delivery, which turned out to be an inadequate strategy. It led to increased transportation costs and did not provide ShopClues with the geographical reach they needed to cater to small tier 2 and tier 3 cities. Later, they partnered with 3PLs and switch to surface based transport for both forward and reverse product flows. This not only gave them a competitive advantage by widening its delivery network, but also enabled it to deliver small items cost effectively and long-distance shipments fast.

ShopClues uses an integrated technology platform that allows real-time effective communication between the portal and 3PLs and ensures efficient logistics. The system is highly scalable as it, in general, does not requires manual interventions. ShopClues develops APIs for sellers and 3PLs to strengthen their logistics capabilities. ShopClues' Vice President stated [7], "We have invested and developed technology that integrates with 90 percent of our third-party logistics partners to ensure faster tracking and information flow between merchants and customers. This has resulted in faster shipping, integrated tracking and real-time updates on deliveries both in the forward as well as returns." Investing in technology has proven to be a game changer for its logistics strategy.

ShopClues' Order Fulfillment Cycle

ShopClues provides three types of fulfillment options to merchants. 97% of the ShopClues' order fulfillments are handled by sellers, and except for Merchant Direct Fulfillment service [1] which is limited to special categories like furniture, most deliveries are taken care of by 3PL partners. In India more than half of the organizations have already outsourced logistics activities to 3PLs, and ~30% of the surveyed organizations have been successfully using 3PL providers for over 3 years [13]. Similarly, 3PL partners play a crucial role to order fulfillment for ShopClues because they can provide one-stop customized solutions from scheduling pick-up from sellers or the fulfillment center to delivering to customers. Customers can obtain shipment information and order status using a tracking number. ShopClues follows up with 3PLs for delayed deliveries, especially the within-city orders that were not completed within 3 days [1].

One of the major benefits of using a 3PL for order fulfillment was that the 3PL network can be scaled based on the demand and market conditions. It provided ShopClues the flexibility and scalability during the high-demand festive seasons. Also, working with a 3PL provider better enabled its business to grow into new territories with fewer barriers to entry [8], which gave them a competitive advantage over competitors. However, there were some disadvantages of tying up with 3PLs. It lost control of the delivery process that may directly impact customer satisfaction. Misplaced or delayed deliveries by 3PLs can negatively impact a customer's impression of ShopClues. Therefore in 2016, they included real-time vehicle tracking to have better control of logistics, but inadequate mobile coverage across smaller cities is still a challenge it faces.

Importance of Reverse Logistics in e-Commerce

Reverse logistics can be one of the costliest and work intensive parts of an e-commerce business [7]. However, with a well-planned reverse logistics strategy, which includes a well-defined return policy, returns preparation and transportation, credit adjustment, inspection and repackaging, scrap, etc., e-commerce businesses can reduce costs and manage risks [8]. According to the Bizrate.com survey results discussed in [7], return policies influence the decision to buy for ~89% of buyers, and ~68% of prospective customers chose not to buy because return policies did not have enough time for returns. Some advantages [8, 9] of having reverse logistics are discussed below:

Customer Satisfaction: An easy and well-planned return policy that allows customers to easily return damaged or undesired goods makes customers satisfied.

Customer Retention: Reverse logistics is imperative for businesses to be able to retain customers. For any business, loyal consumers tend to purchase more frequently and therefore have a much higher value than single-time customers.

Strategic Advantage: Customers interact with an ecommerce company's operations in two ways: through the website while browsing for a product and then during order fulfillment. If customers have a hard time returning a product, they will likely do the business with other competitors.

Return on Investment (ROI): It may take a lot of investment to implement reverse logistics strategy, but a return on investment is almost guaranteed [9]. As discussed in [7], "45% of shoppers made an additional purchase when processing a return on a web site."

Shareholder Value: Businesses with a reverse logistics strategy hold competitive advantage and can grow across multiple channels [3], which makes it easy to deliver value to its shareholders.

ShopClues' reverse logistics strategy has a well-structured return and replacement policy. Some key features that make their strategy strong are: (1) Wide network of 3PL partners for reverse flow, (2) Ease of filing a return request form, (3) Free and speedy product pickup by 3PL partners, (4) Fast refunds, (5) “Doorstep-quality-check” and “return-to-seller” services via 3PL partners, (6) Reimbursement of courier charges for locations not covered by 3PLs, and (7) a well-defined set of guidelines for the handling of returned products [1].

Role of technology in the logistics management of ShopClues

Since its inception in 2011, ShopClues has heavily emphasized on the use of technology which has been the backbone of its logistics management. It has always believed that having a combination of manual and automated systems is not scalable [10]. Its entire supply chain system is fully automated and monitored using technology. With high-end technology, they have been able to meet customer expectations, enhance customer satisfaction. empower sellers and 3PL partners, efficiently manage key business processes [1], etc. In terms of technology usage, they have done better than other major ecommerce companies in India. ShopClues’ stated [10] that their entire supply chain system is fully automated and monitored using technology. ShopClues’ technology use for logistics management is discussed below:

Integrated System: Knowing the importance of automation and the financial constraints of its 3PL partners, ShopClues has built an integrated technology platform that allows real-time communication between the portal and its logistics partners [1]. Technology-based procurement and inventory management system, along with robust predictive analysis tools are used for controlling stock-outs and demands using 3PL partners’ capacity and past performances [10].

Individual Application Program Interfaces (APIs): ShopClues has Built and integrated individual APIs to empower its logistics partners. In May 2016, ShopClues also partnered with GoDaddy for developing e-commerce websites for its partners [11].

Order Processing: ShopClues has used technology to improve customer satisfaction by making order processing efficient. It uses software that has automated order processing. It also utilizes a decision support system (DSS) for the selection of logistics partners. DSS uses algorithms and machine learning protocols for order fulfillment.

Shipment/Order Tracking: The company has also invested in technology to improve the tracking of shipments to enhance customer satisfaction by improving delivery times.

Other Platforms: ShopClues launched its *Android app* for sellers in 2015. In 2016, it launched a financing platform *Capital Wings* to fund its merchants [11] and an ad platform *AdZone* wherein sellers may market products with the help of advertising [11].

Conclusion

With the differentiated business model ShopClues started with in 2011, it had the first-mover advantage, but with other major ecommerce companies shifting towards marketplace model in later years, it started to lose its market share. The company could not capitalize on the lead as it was unable to find investors. ShopClues has used technology efficiently, and its logistics strategy after moving to surface based transport has helped them reducing logistics costs. However, in recent years, its failure to improve customer satisfaction, reduce high product returns, and enhance quality control have marred its progress. ShopClues should explore new market segments and continue to invest in high-end technology to further minimize logistics costs. It should take steps towards maximizing customer satisfaction and customer retention by improving product quality and quality control. Increasing acceptance of internet and mobile phones in smaller cities, young population, and developing economy should work in its favor.

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