

E-COMMERCE | ETPrime

Shopify is quietly fuelling India's challenger brands. Now, it needs to nurture the ecosystem.



Synopsis

Independent brands across categories are relying in a big way on D2C websites built on Shopify's SaaS platform, which automates almost all e-commerce functions for a monthly subscription. However, Shopify will eventually have to find ways to attract small, unorganised brands and expand its potential market to make the subscription model viable.

When the pandemic hit, Gurugram-based food company Slurrp Farm knew what to do. It was “newly digital” but its website was up and running, and it had begun selling via Amazon and Bigbasket, too. Largely



BY

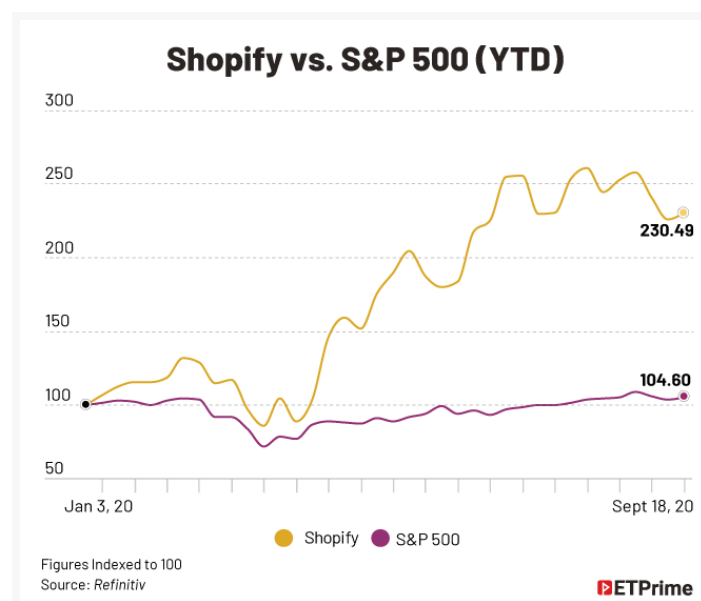
Soumya Gupta
Shabori Das

dependent on offline so far, co-founder Shauravi Malik made an almost unthinkable decision – moving 50% of Slurrp Farm's business online.

Around 1,400km away, in Mumbai, Disha Singh was grappling with a serious question: "With the pandemic forcing people home, will my customers buy wallets and bags?" Her brand **Zouk**, was already running primarily via a direct-to-consumer (**D2C**) website, along with social- media advertising. She doubled down on it and began introducing bag bundles and products for professionals working from home. Her fears seemed overrated, as business boomed.

For challenger or insurgent consumer brands targeting the urban-affluent cohort, the pandemic is their 'demonetisation' moment. Already used to selling online, they've found resilience and even dramatic growth in going D2C. And the secret sauce is neither Amazon or Flipkart nor India's supermarkets now selling online. It's **Shopify**.

Shopify's runaway success in Canada and the US is known. But Shopify Inc. has also become the gasoline fuelling challenger brands of India's new consumer economy. Across personal care, food and beverages, apparel, home décor, and other segments, small independent brands are relying in a big way on D2C commerce websites built on Shopify's software-as-a-service (SaaS) platform that automates almost all e-commerce functions for a monthly subscription.



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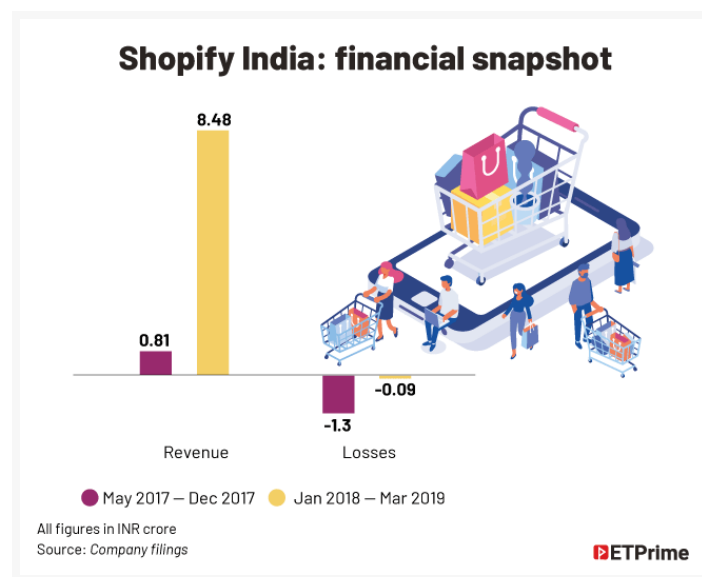


SAVE



The India story

Geography doesn't exactly hold back customers from signing up for a SaaS platform, but Shopify officially **first hit India in 2013** in partnership with Singapore-based telecom firm SingTel, along with several south-east Asian countries and later set up India operations in May 2017 with Shopify's CFO Amy Shapero and chief legal officer Joe Frasca on board.



Then (and now), Shopify India's immediate aim is to work on "how to grow our presence here", Sandeep Komaravelly, director of international at Shopify, tells ET Prime. Komaravelly is in charge of expanding the firm's presence across Asia. His team has relied on two major levers of growth:

1. A network of website developers: Shopify rolled out the same-sales growth plan it has used in other geographies – content marketing and the 'partner ecosystem', which comprises website-development agencies, digital-marketing shops, and freelancers in these industries.

"Typically, if you are a merchant, and want to set up a website on Shopify, we have a lot of partner-led initiatives, which let you upskill, and educate (you) on the API tools we have," Komaravelly says about the Shopify partner ecosystem. "We like to think of our

partners as our front-line businesses, with the help of which we reach out to merchants and help them set up and grow. This is obviously also one of the channels which bring business to Shopify.”

Shopify already **lists** over a 1,000 partners across India, offering a range of services from setting up a D2C website from scratch to organising e-mail-marketing campaigns.

2. The Shopify-app ecosystem: According to small and medium challenger brands in India, what really pulled them to the platform is the convenience to customise their specific e-commerce needs without professional help. The app store plugs in features that aren't in-built in Shopify. This encourages a new ecosystem of partners who develop features for the platform and in turn become its ambassadors.

“Shopify is really easy to use, we manage it ourselves,” Zouk's Singh says, adding, “For example, the inventory-management feature is so easy to use that I have delegated responsibility of it to one of my employees.”

Singh has also been using plug-and-play plugins to add new features she needed to get Zouk moving in tune with new business realities. For example, the brand began taking pre-orders when logistics was disrupted by the lockdown and delivery timelines were uncertain. “Shopify does not have this capability, but if you go to the app store, there is a plugin,” she says. Similarly, to integrate the existing logistics partners on her website's backend, Singh was able to use another plugin from the Shopify app store.

Slurp Farm's Malik shares a similar sentiment. Her business sells healthy breakfast and snacking alternatives for children made from millets and other ingredients. Once the lockdown hit and disrupted retail operations, Malik said the firm was strapped for cash and was facing delayed payments from several offline retailers. That's when she relied on her own website (along with Amazon and Bigbasket) to get business moving and pulled inventory from offline retail channels unable to pay. She says she always knew Shopify was a no-brainer.

"The world is going to move to Shopify. It's a great platform and there are no real equivalents. I don't even know who the [credible] competitors really are," she says.

In fact, Malik says Shopify's UX has become an industry standard for those setting up D2C operations. "I can have apps, I have it on subscription, it is the perfect UX," she says.

"Now you get used to the layout for Shopify, and with big brands moving to it, everyone will want this interface to work with."

— *Shauravi Malik, co-founder, Slurp Farms*

Similarly, inclusive-beauty brand F&E Beauty relies heavily on D2C to get

comprehensive data of its customers and get connected to them directly, which a platform like Nykaa does not let them have. This is crucial for F&E that was founded on the idea of marrying the "excitement" of premium beauty brands like MAC and Bobbi Brown with an emphasis on the idea of inclusive beauty.

"For us, D2C is the most important channel," says founder Karishma Kewalramani. "We have an open dialogue with as many consumers as we can. We try to shift as much of the sales as we can there. It's hard to scale a business when you're dependent on aggregators."

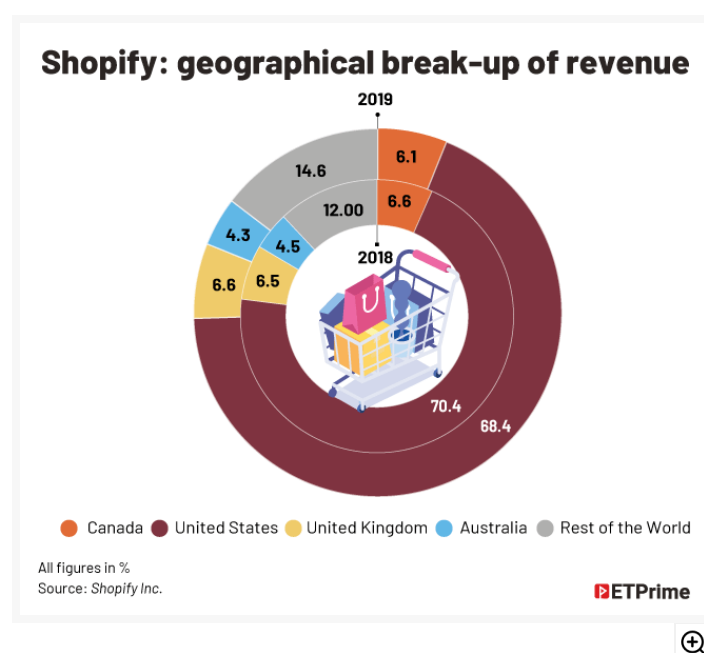
Pallavi Gupta, founder of the Bengaluru-based health-food brand Nutty Yogi, says the need of the hour was following the huge shift in customer interest and adoption rates moving to e-commerce. She wanted to capture as much of that audience on D2C as possible because it helped her directly connect with customers, get greater granular data on them, and use WhatsApp or other direct channels to get feedback and educate them on immunity and how it can be built through food.

“We considered other options, including Magneto and Shopbiz, but in our study, we were recommended Shopify,” Gupta says. “Shopify has been a boon for India. You can make changes quickly; you don’t need a tech team. We don’t have one. We can operate with a lean team, which makes starting e-commerce very democratic.”

With app plugins for different e-commerce features, brands like these are doing away with full-time tech teams and saving on costs.

Although on a small base, Shopify India’s business was already growing before the pandemic. This year, it has accelerated. “We have experienced significant growth among both large and small Indian businesses. With the number of new Shopify stores in India increasing by 123% in the first six months of 2020 compared with the same period last year, GMV (gross merchandise value) grew by 60% in 2019 compared with 2018,” Komaravelly says.

To be sure, India remains a tiny part of Shopify’s entire business, although Komaravelly declined to share country-wise financial details. According to its annual report, “rest of the world”, which includes Asia, accounted for just 14% of the company’s revenue in 2019.



But international, and particularly Asia operations, are now taking increased importance, following the pandemic. In 2019, Shopify set up an Asia-Pacific headquarters in Singapore to focus on the business expansion (and to ensure Shopify's technology remains property of the Canadian parent). "These transfers reflect the growing proportion of our business occurring internationally," the company said in a quarterly SEC filing.

In an earnings call on the financial performance in the June 2020 quarter, Shopify's Shapero said international merchants "led the pack in year-over-year GMV growth" for Shopify.

According to data from Store Leads, an e-commerce database built by former Square engineer Tyler Kovacs, the number of Shopify stores in India has grown nearly 6x since 2017 to 18,768 as of September 2020. Of these, 30% are apparel stores.

Just how crucial is the app-store system for customers in India? Store Leads data says Indian websites primarily use Shopify apps overwhelmingly for functions like e-mail and social media marketing, and to directly connect with customers.

The challenges

But none of this means that Shopify's playing field in India is clear. For one, there are millions of small and medium brands selling directly offline through standalone stores or via a local and unorganised network of retailers. Much of this fragmented ecosystem is housed in micro and small manufacturing enterprises making local foods, handmade clothes, traditional crafts, and workers who may be in such professions in small towns or by virtue of a family guild. Getting them to organise and sell online would be the holy grail for the likes of Shopify, but making it happen will require sustained and painstaking outreach efforts and perhaps changes to the way the platform is priced and operates in India (in English language only).

In the meantime, there are also more pressing concerns that could hurt Shopify's growth story.

Skewed subscription revenue

Shopify's India business is nascent, so revenue share is highly skewed towards incremental subscriptions from new businesses signing up. The more reliable source of revenue would be the transaction fees cut, which is 0.5%-2% of the total transaction value (depending on the size of the business) and grows with an increase in revenue.

Until Shopify India has a steady group of such loyal subscribers, it remains highly vulnerable to churn risk – the biggest problem for any subscription-based business. For legacy-enterprise businesses, churn is a problem that comes up only once in three, five, or 10 years. Shopify moved to break that model, but it lost this safety net, too.

Komaravelly says Shopify's India unit expects to largely make money from new sign-ups and subscription revenue in the foreseeable future. "[Right now], you are setting the business, you still haven't seen sales, and are [just] getting order volumes," he says. "As the business grows, and GMV grows, there is a break-even point after which we will start superseding your subscription numbers."

Fighting local competition

Jaipur-based Shopaccino counts well-known brands like furniture retailer Gulmohar Lane and apparel brand Diaries of Nomad among its clients. Founder Vishal Singhal, who set it up as an extension of his Web-development business in 2014, believes he may have found a way to lure customers who find Shopify intimidating.

"Retail businesses run on thin margins and they are wary of giving away part of it to a platform," Singhal says. "So, we don't charge transaction fees, only a subscription fee."

There are two kinds of businesses in India that aren't comfortable with Shopify. One, those with none to little experience selling online. They need guidance and handholding on setting up e-commerce operations. Usually, such businesses are under INR1

crore in revenue and run by small-city business owners, Singhal says, adding that the Shopaccino team offers this guidance to its clients.

Two, those selling very high-ticket items are deterred by Shopify's transaction fees. Singhal cites Gulmohar Lane, whose average-order value is often in lakhs of rupees because it sells custom-made premium and luxury furniture. Losing 2% of each sale in commissions is something they were keen to avoid.

Besides, Shopify will have to keep its eye on other foreign competitors making a beeline for India, including Magento, Woo, and Shopbiz among others.

Dependence on aggregators

E-commerce in India is currently synonymous with Amazon and Flipkart for most micro and small retailers, but they have now understood that aggregators pose serious threats to their business scalability.

One, aggregators do not give any data to the seller on their customers. Going in blind means there is no information on the product or those among whom it has traction. Where will new avenues of growth come from?

Two, a more existential threat is that aggregators are always looking at ways to increase their margins with private labels. Inspiration for those comes from studying precisely this data they do not share with sellers. Amazon's Solimo and AmazonBasics in India, for example, have been born from years of studying buying habits of customers of third-party sellers in fragmented consumer segments like home and kitchen.

The bottom line

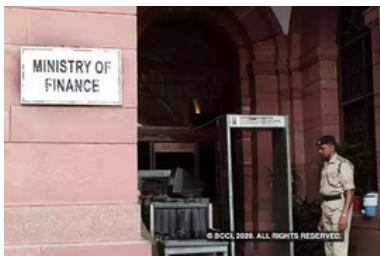
Even without the pandemic, the move to D2C was underway. Now this change in retail has been accelerated by several years in a matter of a few months. Shopify is uniquely positioned to get right in the thick of action and become an industry standard for anyone wanting to sell online. It will take away some of the wind from potential revenue streams of

Amazon and Walmart (Flipkart) in India. The challenge is staying the course and becoming not only No. 1 in India but also expand the entire addressable market itself.

(Graphics by Sadhana Saxena)

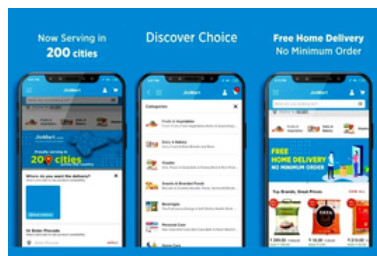
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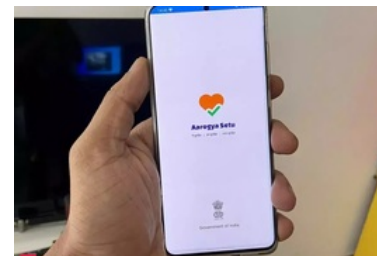
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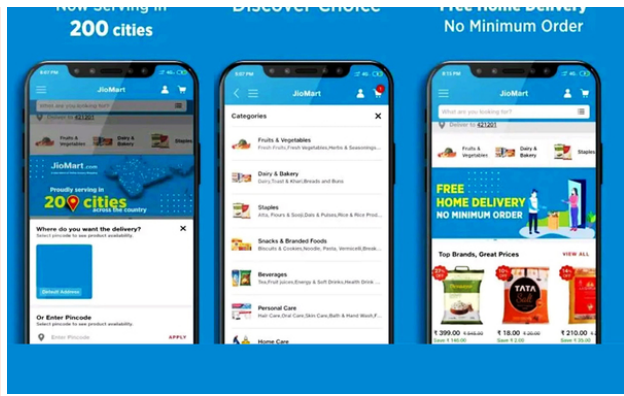
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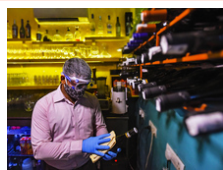




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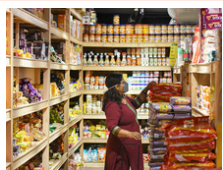
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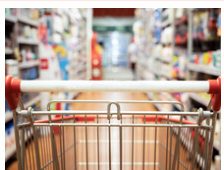
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