

Amazon takes cowboy tactics to 'wild, wild East' of India

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A woman slowly moves a damp mop across cracked tiles in a small Amazon outpost here. Her hands are as weathered as the floor she is cleaning.

Dust on this humid June day settles almost as quickly as she wipes it away. Ceiling fans swirl, providing the barest of respite from the swelter.

This 2,600-square-foot hole-in-the-wall in the Yeshwanthpur neighborhood in northwest Bangalore is unlike any other part of the Seattle retail giant's vast global empire. It's a distribution center, one of more than 170 way stations the company has opened to help move packages to Indian customers.

The centers are among the dozens of Amazon's concessions to both the chaos and opportunity of India.

It's the only way to ensure the timely delivery of packages in a country where the infrastructure is overwhelmed and the gridlock seems never-ending.

Amazonians like to cite the similarities between customers here and everywhere else in the world: They all want low prices, vast selection and fast delivery. But India poses so many new challenges for the company that it has had to overhaul its playbook to gain a foothold in a market that one analyst believes could be the company's second-largest, after the United States, in less than a decade.

And yet, when the leaders of Amazon's Indian retail operations pitched company founder and Chief Executive Jeff Bezos their strategy for the country three years ago, he hated it.

"You guys are going to fail," Bezos told the group when it presented the plan, according to Samir Kumar, one of the top Indian executives who was there.

Amazon hasn't failed in India. In fact, the growth it has seen is unlike anywhere else it operates in the world. Sales in India reached \$1 billion faster than in any of the other 10 countries where Amazon sells goods. Moreover, Diego Piacentini, [senior vice president](#) of Amazon's international consumer business, recently told the Times of India that the company is selling 500 percent more products this year than it did a year ago. Amit Agarwal, the former Bezos technical assistant who runs the Indian operation, doesn't expect growth to taper any time soon.

"There are so many people," said the Mumbai native during an interview at Amazon's Indian headquarters in this city of more than 8 million people. "Just think about a retailer that sells shoes. You have more than 2 billion shoes to sell, just because there are more than a billion legs out there."

Bezos believed, with the chaos of India, that Amazon's most successful strategies, everything from warehouse automation to credit-card payment systems, would need to be revised or discarded altogether.

But the original strategy Agarwal and his team presented was too methodical, too precise and, perhaps most crucially, too much like the rollouts of Amazon's other international markets, in countries where the economies are developed. In India, where the infrastructure is overwhelmed, where the rules are opaque, where retailing is primitive, Amazon's familiar playbook would flop.

"I don't need computer scientists in India. I need cowboys," Bezos told the team.

Agarwal, who earned a master's degree in computer science from Stanford University, found Bezos' critique particularly "jarring." But the message, that online Indian retail was in its infancy, was delivered.

"We need to get big fast and, as such, it's important for us ... to think like cowboys, where we're not afraid to take risks, where we're not afraid to fire, and then aim," Agarwal said.

PLAYING CATCH-UP

Amazon's rapid growth is particularly astonishing, given India's foreign direct investment laws, which preclude Amazon from selling directly to customers. That means every sale on Amazon.in is from a third party that has chosen to sell on the website.

At the same time, Amazon is playing catch-up to India's e-commerce leader Flipkart, founded in 2007 by two former Amazonians, making India one of the few markets where Amazon is battling an entrenched leader in online retail.

That's one reason why Bezos, when he visited India last year, committed to investing \$2 billion more in Amazon's Indian operations. The company won't say where the money will go, or the time frame in which it will be doled out. But it's clear Amazon and its Indian e-commerce rivals are hemorrhaging cash to persuade Indians to shop online while establishing a beachhead in the world's second-largest country, with its 1.3 billion people.

The appeal isn't just that India is large, trailing only China in population. It's that its population is young - an estimated two-thirds are 35 or

younger - and eager to embrace new technology. And while poverty seems endemic - nearly 22 percent lives below the poverty line, according to the Asian Development Bank - government data suggest the middle class is booming.

You see it on the streets of Bangalore, Delhi, Hyderabad and elsewhere, where buses are crammed with workers racing to jobs. Construction cranes dot skylines where office towers and apartment buildings are rising. The congestion, pollution and cacophony cause all sorts of problems. But to Amazon and its rivals, that growth translates to sales, and lots of them.

Morgan Stanley estimates the online sales should reach \$100 billion by 2020, a pot of gold that makes the challenge of India and the cost of investing there worth the risk for Amazon.

"They are not letting the investment scare them away," said Robert W. Baird & Co. analyst Colin Sebastian, who believes India will be Amazon's second-largest market, after the United States, within a decade.

That said, Amazon has struggled in China, the only other emerging market where it has a track record of developing retail operations. After more than 10 years there, Amazon remains an afterthought for many Chinese, who more readily associate giant Alibaba with online shopping.

Kumar, who focused on China as Piacentini's technical assistant in 2010 and 2011, believes one reason is that "Amazon, at the core, was somewhat missing."

It was a misstep that Kumar didn't want to make as Amazon pushed into India. The key, he believes, is to create an army of "Jeff Bots," workers who have so absorbed Bezos' business philosophy - codified in Amazon's

14 leadership principles such as "Have Backbone; Disagree and Commit" and "Insist on the Highest Standards" - that they can enact it without hesitation.

"We are all Jeff Bots. At least, I am," Kumar said.

The intense culture of dedication to those principles recently came under fire in a New York Times investigation into the company's sometimes bruising workplace.

But Amazon's leadership believes infusing the company's operations here with its culture is necessary to get Indians to rethink the way they shop. To be successful, Amazon has to sell Indian shoppers, as well as merchants, on such ideas as fixed prices and hassle-free returns, practices that are novel to them.

That's forced Amazon to improvise, more so than in any other market in which it operates.

Many sellers, for example, don't have the means to provide professional photography of products for the website. So Amazon has built studios in its warehouses to snap those images for them. Indian customers also remain most comfortable paying with cash on delivery. So Amazon has developed payment schemes that let customers give delivery men money when they hand customers a parcel.

But the biggest hurdle is on India's roads, an unfathomable morass of traffic, inadequate public transit and street addresses that barely resemble ones that the developed world takes for granted.

Take Bangalore, a city that has quickly outgrown its infrastructure. Here, the white stripes dividing a road into three lanes are nothing more than suggestions, totally ignored, as battered cars, brightly painted trucks,

packed-to-the-windows buses and ubiquitous green-and-yellow rickshaws cram themselves five across. Motorcycles and scooters inch forward in the narrow spaces between cars and, often, in lanes meant for oncoming traffic.

The sound of car horns is incessant, polite beeps by Indian standards, that let other cars know they are passing. And every mile or so, a cow blocks a lane, chomping on garbage discarded at a curb.

That nearly round-the-clock snarl has forced Amazon to rethink package delivery. Rather than the massive warehouses outside major cities in the developed world, Amazon has opened 20 smaller ones in and around India's largest cities to get products closer to customers. Early each day, many of those packages move from warehouses to one of the smaller distribution centers, and then into either backpacks, from which they are delivered by motorcycle, or on to neighborhood storefront shops where customers can collect them.

To Agarwal, India is the "wild, wild East," a market that requires cowboys willing to try untested ideas. The cowboy mindset isn't without problems. Shooting before aiming has led Amazon into a dispute with tax authorities in Karnataka, one of India's 29 states. Regulators there want Amazon to pay taxes on goods sold from its warehouses in the state. Srivatsa Krishna, Karnataka's information-technology secretary, recently wondered in an Indian television interview: "Why can't they (Amazon India) follow the laws of the land?"

Amazon, though, believes those taxes should be paid by the merchants who sell the goods. Agarwal said the company is "hopeful" the matter will be resolved. But he has threatened to take Amazon's \$2 billion investment in India to states that don't impose similar taxes.

Amazon also is lobbying to change foreign-direct investment, or FDI,

rules that preclude the company from selling goods directly to Indian customers. That change would clearly benefit Amazon. But sellers, who are generally thrilled with the opportunity to hawk their wares across India through Amazon, see the law as the only way to keep the company as a benevolent partner rather than a cutthroat competitor.

"I think everything is good as long as FDI is there," said Sunil Nichani, director of New Delhi-based Fotocolor Emporium, a giant Canon camera gear dealer in India that sells on Amazon.

Fotocolor gives Amazon 6 percent of every sale on the site, a commission every camera-equipment company pays. If Amazon were allowed to sell directly to customers, Nichani says, Fotocolor wouldn't be able to compete.

Some Indian retailers are also unaccustomed to the level of Amazon's automation, a cornerstone of the company's success elsewhere. Reducing human interaction for both buyers and sellers is so central to Amazon that Bezos has said that when people try to contact the company it reflects a defect in the company's operations.

In India, though, human touch is still the norm in business relations. On a Tuesday afternoon this summer, workers at Zovi, a hip Bangalore apparel seller, stopped work and lined up for pani puri, a popular Indian street food, part of a daily break the company offers employees.

But Ashish Aggarwal, Zovi's head of marketplace sales, bemoans the coldness of his interactions with Amazon. Earlier this year, Zovi, whose sales have exploded since launching on Amazon, Flipkart and other online sites, had difficulty delivering clothes to an Amazon warehouse near Delhi.

Aggarwal struggled to roust an Amazon executive to help. "Out of 100

(calls to Amazon), 98 times the phone doesn't get picked up," said Aggarwal, who previously worked at Amazon in India. "Sometimes they need to be reminded there are some problems that the system can't resolve."

While Amazon's Agarwal called the experience a "defect," he said automation is the only way Amazon will ever be able to manage its India sellers, given the country's size.

India also poses one more challenge: rivals established before Amazon entered the market, bolstered by investors racing to fund them. A day before Bezos announced the \$2 billion investment, Flipkart disclosed it had raised \$1 billion from such heavyweight backers as Tiger Global, Accel Partners, and Morgan Stanley Investment Management. Snapdeal, seen by many as the No. 3 online retailer in India, has received more than \$1 billion from such investors as eBay, SoftBank and Indian tycoon Ratan Tata.

"The ability to write a big check will be a commodity among all the big companies," said Anand Chandrasekaran, Snapdeal's chief product officer.

BIGGEST DIFFERENCE IS SIZE

Much of Amazon's money is being spent on warehouses. Like so much else about Amazon's Indian operations, warehouses here are different from Amazon's more than 50 warehouses spread across the United States.

Perhaps the biggest difference is size. Amazon's largest Indian warehouse, opened May 3 in the Mahboobnagar district in the outskirts of Hyderabad, is 280,000 square feet, about twice as large as the typical Costco store but roughly a quarter that of Amazon's U.S. warehouses.

There's even a 7,000-square-foot warehouse in Jaipur.

Amazon can build the smaller warehouses rapidly, and place them strategically. "We want to be close to our sellers. We also want to reach our customers fast," said Projesh Kundu, director of fulfillment-center operations for Amazon in India.

That also has led Amazon to set up distribution centers like the one in Bangalore's Yeshwanthpur neighborhood. Amazon, which handles as much as 55 percent of its Indian deliveries on its own, uses the smaller centers to carve the country's massive cities into more manageable pieces.

Some 70 percent of the parcels that come to the Yeshwanthpur center fill specially designed backpacks handed off to Amazon motorcycle couriers - the company has more than 4,800 across India - who then navigate the city's gridlock.

The street addresses are unlike anything an American might recognize. There's no 123 Main St. Many addresses don't have street numbers. When they do, the numbering isn't always sequential. Often, addresses are building names, and they include nearby landmarks as a guide. As one courier, Ranjeeth B.R., weaves his Bajaj Pulsar 150 from one stop to the next, he uses local knowledge and the kindness of strangers to guide him.

The packages at the distribution centers that aren't handed off to motorcycle couriers get loaded into the small trucks. Some are taken directly to customers' homes or workplaces. Other loads are dropped off at yet another way station, tiny neighborhood mom-and-pop shops where customers can pick up their order or have a shop clerk deliver it to them.

The pickup points debuted in February 2014, with 18 stores handling 50

packages a day. Now, 20,000 packages make their way to nearly 1,000 pickup points each day.

It's still too early to say whether Amazon's cowboy thinking will turn into profits in India. But the company can point to some early successes. Despite starting some six years after Flipkart, Amazon.in surpassed its rival with more unique visitors in May, according to Web analytics firm comScore. Amazon slipped back to second place among India e-commerce sites in the three months that followed.

Agarwal believes the cowboy culture empowers workers to experiment and take risks they might not otherwise take in a more mature business.

"Failure becomes an option. Fear is not an option," Agarwal said. "That's very liberating."

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THE PLAN

Few online retail markets are as enticing as India, with a huge population, a rapidly growing middle class, and increasingly Web-connected shoppers. Amazon's pockets are deep enough to invest in the opportunity.

THE CHALLENGES

India's laws bar Amazon from selling directly to consumers, so it relies on third-party sellers. And the company has had to build a costly delivery network to navigate the country's transportation mess.

THE PAYOFF

Two years after launching, Amazon.in is among India's three top online retailers. Morgan Stanley predicts Amazon's Indian online sales reaching \$100 billion by 2020.

Unlike in the developed world, where the company often hands packages off to carriers such as the United Parcel Service and DHL, Amazon regularly handles Indian delivery itself. The company often brings orders to customers by motorcycle, and has even turned to India's three-wheeled auto-rickshaws during popular gift-giving seasons such as the five-day Diwali festival.

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