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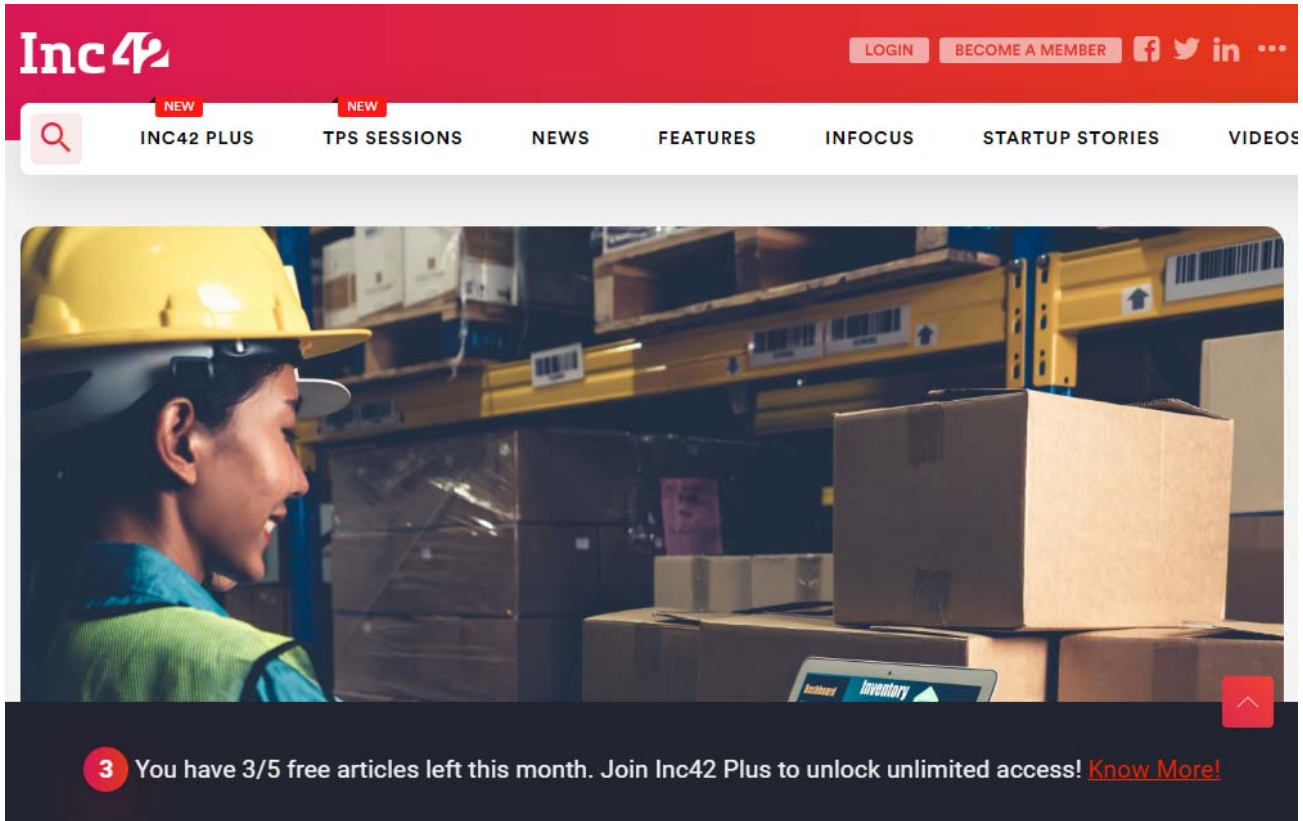
Industry Story – INC 42

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The screenshot shows the Inc42 website header with the logo, navigation menu (INC42 PLUS, TPS SESSIONS, NEWS, FEATURES, INFOCUS, STARTUP STORIES, VIDEOS), and social media links. Below the header is a large image of a woman in a yellow hard hat and green safety vest working in a warehouse. A dark banner at the bottom of the image contains a notification: "3 You have 3/5 free articles left this month. Join Inc42 Plus to unlock unlimited access! [Know More!](#)"

FEATURES

D2C Brands Look Beyond Flipkart, Amazon For Warehousing Tech, As Startups Come To The Fore



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09 Nov'20 13 min read

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Warehousing is increasingly evolving from being just an infrastructure necessity for D2C brands and retailers to an essential tech-enabled process especially in the festive season where demand has spread across India

Retailers are seeking D2C presence beyond marketplaces like Amazon and Flipkart to cater to a widening consumer base with startups such as Udaan, Unicommerce, WareIQ, Origo enabling the fulfillment technology

Traditional commodity warehouse businesses have also invested in upgrading the tech infrastructure with latest technologies such as IoT and robotics to build better capabilities for supporting online sellers

For homegrown beauty D2C brand Organic Riot, the lockdown not only meant a freeze on sales for weeks, but even when things resumed, the startup had to revisit a crucial component in its manufacturing chain. Given the pandemic, its own warehouses had to be shuttered due to employee safety concerns and the fact that achieving operational safety under the lockdown rules was cost-intensive.

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“We took the call of moving all our warehousing with a company like WareIQ as we knew they took lots of precaution and safety in packing and fulfilment. This was great as we could then have warehouses all over the country via WareIQ and also be sure that there would be enough safety and precaution taken,” Siddharth Somaiya, founder and director of the D2C brand, told us.

It’s the same story for most of India’s D2C brands — fulfilment through warehouses and third-party logistics tech have proven to be a cost-effective option especially as demand has spread and grown. On-time delivery and being close to the last-mile are critical pieces of the D2C game now, even in the hinterlands. These are the things that most ecommerce startups would think Indians don’t care about, but with the changing market and the growing traction for online selling, the cream of the Indian consumer base has evolved too.

Given that most D2C brands are competing on tight margins and slim differentiation, the right customer experience from ordering to on-time delivery is a crucial competitive edge. And this is all the more critical in these times with festive sales going full steam ahead.

Next-day delivery, priority shipping, returns and exchanges — ecommerce during the festive season is more about the fulfillment and delivery than pricing or even stock-keeping. With the pandemic creating greater demand for ecommerce, especially during the festive season, warehouse management and fulfillment centres have become a key success factor for online retailers who do not have the deep resources to match the scale of Amazons and Flipkarts of the world.

Beyond ecommerce, even in traditional areas of bulk commodity warehousing, businesses are adopting tech enabled digital solutions to keep their processes running.

D2C Retailers Drive Warehousing Tech Demand

Since the pandemic, ecommerce and online grocery demand has picked up across the country. [This has in turn fuelled a D2C revolution](#). The larger stakeholders like Amazon, Flipkart, Reliance Retail

and other retail giants already have their warehousing tech in place, but what happens when new to digital retailers or even smaller suppliers seek to do the same? Where do they start?

Here's how a typical online seller operates — For sellers that take the marketplace route as well as D2C route, products or stock-keeping units (SKUs) with lower margins follow the in-house fulfillment route (i.e company-owned assets), whereas those products with a higher margin are processed through third-party fulfillment centres such as Amazon and Flipkart or other startups.

One problem that smaller sellers and D2C brands have always raised with the larger marketplaces is that their algorithms tend to push private labels and larger sellers with ad budgets, whereas the small and niche players lose out.

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On the other hand, for a smaller business or a new direct-to-consumer retail brand, which can manage to create its own buzz via social media and customer connect, it is easier to sell directly via the likes of WareIQ, ShopX, StackBox, Unicommerce and Udaan among many others.

Kapil Makhija, CEO of Unicommerce, an ecommerce focused SaaS platform that enables omnichannel selling said that while pre-Covid, sellers chose to divide inventory across separate warehouses to meet ecommerce and in-store requirements, the current D2C market is creating demand for integrated warehouses. “Coupled with the demand from both customers and stores in tier 2 and 3 regions, we have witnessed our own (warehouse) client conversion cycles reduce from upto 45 days to less than a week as people seek plug and play warehouse management solutions,” said Makhija.

Most of these companies offer aggregated warehouse and supply chain solutions like Unicommerce's omnichannel solutions that can be integrated with all the marketplaces and website platforms across Flipkart, Myntra Omnichannel, Amazon, Shopify, Magento etc., along with logistics providers such as FedEx, Delhivery etc. and ERP systems such as SAP, Navision etc.

Another major operator in this space is Udaan, focussed on the B2B segment. The unicorn startup uses warehouse management tools to enable better risk management, pricing, packaging and shipping services while reducing wastage. Udaan services small and medium business enterprises in lifestyle, electronics, home & kitchen, staples, fruits & vegetables, FMCG, pharma, toys and general merchandise enabling a 4-7 day delivery cycle, said a company spokesperson.

These omnichannel enablers have monetised their technology by taking a cut out of the volume of orders processed, unlike marketplaces such as Flipkart and Amazon that charge for storage and fulfillment fees as well as value-added ecommerce services such as promotions and advertising when selling through the marketplaces. For a lot of small sellers, the choice is less about pricing differential and more about the [flexibility of choosing the go-to market](#) strategy.

While no startup operating in the warehousing tech space revealed in any great manner about the pricing models given the competitive nature of the market, the price differential between such startups and going with ecommerce partners can be up to 20% lower, which is a big cut in the game of margins.

Unicommerce's Q3 report on the ecommerce market in India showed that single brand websites reported a growth of over 78% as compared to 35% growth from the marketplaces year on year, indicating that an increasing number of brands want to create an independent presence. More importantly, the number of non-fashion segments seeking an omnichannel presence is diversifying rapidly in 2020.

Safety Concerns As Covid Brings In Customers

When the country went into lockdown in March and for weeks after it emerged from multiple lockdowns, the [supply chain and warehouse ecosystem bore the brunt of pent up consumer demand](#). Most of these businesses, including those handling foodgrain supply, had to mobilise solutions against all odds to keep the nation fed.

Sunoor Kaul, cofounder and director of Origo Commodities, an agritech startup that manages end-to-end commodity supply chain, said that while technology has not traditionally been a highlight of the bulk warehousing ecosystem, the past few months have created a pressing need for information security, transparency and scope for Internet of Things (IoT) solutions.

Origo has noticed that since the pandemic, the client conversations have moved towards remote monitoring and audit solutions beyond just inventory mapping and storage. The buyers needed video access, monitoring and ways to check quality of the produce before trade as it became harder for people to travel physically during the lockdown, Kaul added. [Small to mid-sized clients have been seeking digital payment solutions](#) for suppliers along with record keeping of these transactions through cloud based ledger and book-keeping solutions.

"People have been concerned with what happens with their commodities post purchase which is usually reported by someone at the warehouse who may or may not be skilled. IoT solutions are being used at warehouse level as well as for weighing through a simple combination of smartphone and moisture/ weight reading devices. These updates are given real time to the buyer and it creates more transparency," said the Origo founder.

Solutions such as enabling smartphone apps for procurement monitoring have been major wins for a lot of smaller warehouse operators during the past six months, plus the healthy adoption of such tools from the customer side has been a positive as well.

Is Real Estate Ready For Warehousing Growth?

According to Shopx founder and CEO Amit Sharma, a company that digitizes B2B supply chain, warehouse lease rentals in most of these geographies have gone up since the pandemic by 15-30% due to the high demand. But traditional commodity and bulk warehousing providers haven't missed the tech bus either.

Most of these startups that provide warehousing solutions have leased warehouses across key ecommerce geographies, like Bangalore, Delhi, Mumbai from where they can further manage localised distribution. And now the footprint is expanding to smaller towns too. According to a JLL report, the reimagination of the logistics sector is making retailers embrace technology, innovative solutions, modern processes and digital transformation to meet evolving consumer habits

Chandranath Dey, head of industrial operations, business development, industrial consulting & supply chain consulting, JLL said that over the past 3-5 years, the warehousing footprint in India has gradually been moving towards more industrially-compliant grade A spaces which are adaptive to tech solutions.

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“India’s warehouse ecosystem is still midway between mechanised and automated and probably considering taking a leap of faith, only restrained by cost. However, over the last few years, the payback time for investments in tech-compliant smart warehouses has come down from 12-15 years to 6-7 years, thus making it a viable option to consider,” Dey told us.

Ecommerce penetration in India is a mere 5%, as against online retail sales accounting for 14% of global retail sales in 2019. Rapid growth of online sales in the coming years will push the creation of suburb warehouses, in-city warehouses, tier-1 and tier-2 city warehouses and multi-storied warehouses, the report says. With ecommerce driving the logistics sector in the time of Covid-19, there has already been a spike in demand for temporary warehouses and fulfilment centres with longer lease tenures.

But solutions like cloud-based warehouse management systems to monitor operations and analytics and blockchain to predict demand surge and supply chain constraints may still continue to bring comfort only to the larger established warehouse management companies.

Seasoned ecommerce platforms like Amazon, Flipkart, Bigbasket, Pepperfry among others have their own warehouse chains that are managed by independent teams. They have been deploying robots, automated forklifts and automated storage and retrieval systems for some time now.

But enhanced safety solutions like smart wearables, sensors and surveillance systems are increasingly becoming a necessity across the warehouse ecosystem apart from paperless documenting systems. These are some of the more sophisticated solutions that more mature brands are trying to utilise and it is not only a key differentiating factor against large ecommerce marketplaces, but are geared towards the needs of smaller businesses and suppliers

Ecommerce Meets Social Commerce

Harsh Vaidya, CEO, WareIQ a Bangalore-headquartered, Y Combinator-backed startup said that even if India’s online commerce market is small, it is driving traditional retailers to step up their game in the warehouse space. WareIQ has just raised a \$1.65 million seed financing round from YC, FundersClub, Pioneer Fund, Soma Capital, Emles Venture Advisors and founders of Flexport.

The one-year-old startup operates a platform to leverage leased warehouses across the country for enterprise retailers coming online as well as the digital only stores. The startup takes a cut by the volume of orders it processes. Online stores can send their products to WareIQ, which has integrations with several popular ecommerce platforms and marketplaces. WareIQ also enables online sellers to set up their own store and engage with customers directly, thereby saving fees they would have paid to the ecommerce marketplaces to deliver products within a day or two.

“The festive season demand has increased greatly across our client base although we have just been around for a year. A lot of seller demand is coming through people who sell via social commerce like Facebook marketplaces or Whatsapp. Even brands that have a strong offline presence but want to ensure festive sales this time around have come on board,” said Vaidya.

Skilled Workforce – A Factor In Warehousing?

Grocery demand, both online and offline, witnessed a boom due to the pandemic, however, it came with its own set of challenges for the enablers.

For new age providers like Bigbasket, the shift was to ensure that smarter algorithms helped improve existing processes. “During the last 6 months, we made changes in software related to the classification of products based on the sale velocity and method of stacking which helped increase the productivity of our team in stacking and picking. This enabled us to improve productivity of our warehousing team and thereby achieve higher throughput with lesser manpower,” said Seshu Kumar, national head of buying and merchandising, Bigbasket.

But for online suppliers at the grassroots, the challenges were entirely different. Minus the pandemic, probably many warehousing businesses would have continued the traditional way but the pandemic alerted them to the need for a skilled tech backbone. For example, Sohan Lal Commodity Management (SLCM), an agro-warehousing company, has seen a lot of smaller businesses reach out to be franchisees in order to avail solutions that smaller family run warehouses would not have invested in themselves.

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“Buyers want the assurance of professionally sanitised warehouses with data that can be tracked digitally. We barely had access to a skilled workforce in Bikaner to provide such assurance and it was increasingly becoming a necessity. As a franchisee (to SLCM) we don’t have to worry about that setup anymore and it also improved our own ability to connect with buyers across states,” said Sanjay Agarwal, director of Visionstar Agrofood Private Limited, a Bikaner-based commodity warehouse provider.

SLCM is currently managing more than 1 Lakh sq ft of warehouse area under franchise agreements and in the next 2-3 quarters, the group is planning to acquire and operate over 1 Mn sq ft area under the franchisee revenue sharing model said Sandeep Sabharwal, CEO, SLCM. “We used to provide our staff with tabs in the past to operate the warehouses earlier but post pandemic and especially with a lot of family-run warehouses coming on board we ensured that the software was available on simple smartphone apps that anyone could operate,” said Sabharwal.

According to estimates by market research firm RedSeer Consulting, Covid-driven digital adoption will add 30-40 Mn new online shoppers in the whole of 2020, in addition to the 130 Mn online shoppers that were recorded in 2019. Property consultant Knight Frank India, in its latest research report, noted that till September 2020, [the warehousing sector attracted PE investments](#) worth \$221 Mn, that is 10% of all PE investments in real estate.

Global investors are expecting the warehousing segments to emerge stronger from the crisis driven by the renewed demand from ecommerce segments due to lockdown and have been taking up

positions in warehousing assets. These assets now have to be ready for more than a few days of business disruption, with digital management solutions and connectivity for both sellers and buyers. It's not an easy task, but for a change, even the smallest stakeholder in the ecosystem is now aware of what it takes to be relevant.