

K Rajeshwari

An MBA from IIM-A and PhD from IIT Madras. Associate Professor of Marketing, Great Lakes Institute of Management, Chennai

What defines success in consumer internet companies?

Policybazaar's model shows us what works: A relevant USP, consumer awareness and product quality

Consumer internet and e-commerce companies have emerged as the most preferred industry segments across start-ups, according to the *India Start-up Outlook Report 2016*, released by venture debt firm InnoVen Capital. Consumer internet companies are those that base their business revenues on transactions done online, in any category.

The latest *Live Mint* study reveals that most sectors in this space have done poorly — that is, losses are equal to or more than revenues for one reporting year. Only one company — insurance retailer Policybazaar — has been profitable in 2016-17 and leads the pack. The company nearly doubled its revenue in FY17. It launched a new initiative called Paisabazaar that deals in financial products such as loans and mutual funds.

When there was high buoyancy for consumer internet companies around five years back, investors gave them high valuations based on the number of consumers taking to online transactions enthusiastically as well as the sheer potential the youth segment offered. But things have not turned out rosy for most of these companies. While for some at least, revenues have been rising faster than losses, others, such as Snapdeal and those in the real estate business, have been losing funds heavily. A few others — Zomato, BigBasket, Swiggy, Oyo and Lenskart — have been improving slowly.

Are there lessons to be learnt from this?

What's your USP?

A closer look at the most successful of the lot — Policybazaar — reveals the following lessons:

First, have a unique selling proposition that is highly relevant. This may be an old adage but always delivers. Having nothing unique to offer only makes the promotional expenses go up and it almost never makes up for the lack of differentiation. For the first time in India, Policybazaar offered a 'comparative transparent view of insurance policies' through its portal.

The biggest drawback of the traditional method of taking an insurance policy through an agent is that the seller doesn't give you complete information about other schemes. When Policybazaar offered this, consumers lapped it up.

The same cannot be said about many other consumer internet companies. Whether it's Myntra, Flipkart or Snapdeal, consumers struggled to find reasons why they should opt for one over the other. This resulted in low loyalty rates. The business model in these companies was built on new customers being added over time rather than retaining the loyal base, which needs less marketing efforts. This also explains the higher profitability for Policybazaar, which relies a lot on word-of-mouth referrals.

Awareness creation

Second, focus on awareness creation. Policybazaar spent huge amounts of money on generating awareness in the initial few years. Being a new concept, even its TV advertisements showed the portal, enabling consumers to understand visually how to use the product. This removed any apprehensions in their minds on the ease of navigation or transaction.

As insurance is an intangible product, the need to touch/feel it was not present. On the other hand, many of the companies that did not succeed based their businesses on categories where consumers would want to physically look at, or touch, the products.

Distribution

The third success factor has to do with distribution. The initial phase of a consumer internet start-up involves roping in people for a pilot/trial. This helps get an estimate of how to scale up when required. Many companies, such as Paypal and Amazon, had extensive back-end tie-ups to facilitate this. When the consumer base explodes, the organisation needs to be ready to take this on rapidly. Speed is of essence as, otherwise, one will lose customers. Policybazaar planned for this in a proactive manner and when media awareness campaigns started to pay off, they were equipped to take on the market load.

Product quality

The last lesson to be learnt is on product quality. Once the consumer is made aware of the product that she/he needs and buys it, the product should fulfil what it has promised. Policybazaar was largely built on word-of-mouth referrals, showing that it had many happy and satisfied customers. Many other internet companies had quality issues in terms of unsatisfactory service, erratic delivery levels and product returns. This left consumers unhappy with the product offering.

The rules of successful business-building are common across online and brick-and-mortar platforms, with both gaining from the basics of unique selling proposition, consumer awareness, distribution and product quality. The success of Policybazaar is proof of this.