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SUMMER INTERNSHIP REPORT

Product Price and Margin Structure



INSTITUTE OF MANAGEMENT, NIRMA UNIVERSITY

Project Title:

Formulation of Product Pricing and Margin Structure

For

Sports365

(Virtual Summer Internship Project)

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Sincerely,

Kushal Gupta.

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EXECUTIVE SUMMARY

The Company Sports365 is an ecommerce company and is well established in its area of operations. It enjoys a large customer base in institutional selling with almost zero competitors. It has two revenue streams but its majority of the revenue comes from the B2B2C model. It currently deals in product categories like sports and fitness equipment, school uniform and school shoes.

The company is planning to expand its reach in existing as well as new markets by launching seven new product categories. It will sell these products on its online portal. The company does not have a proper price and margin structure for these products.

To determine the price for a product, it is important to know how it will be manufactured/purchased, stored and delivered to the customer. Accurate costing of products is necessary to arrive at a feasible listing price. Apart from this, there are many internal and external factors which can affect the pricing decision of the company. It is a planned process which allows us to finally decide a pricing strategy. As all the products have different features and the markets are unexplored and complex, each product category has to be managed uniquely. Even within a product category, pricing strategies would need to be altered timely, depending upon the branded products, geographical constraints and value of the product.

Analysis of a survey shows that local vendors would prefer selling their products on the competitor's platform like Amazon and Flipkart because they have more visibility. So the company can implement an inventory model where it would purchase the products in bulk from these vendors either through JIT method or Sale – or – Return method. Industry analysis shows favourability for the company but the major factor currently being the on-going pandemic, the company will have to be careful before indulging in new ventures.

PART A: PROFILE OF THE ORGANISATION

1. History of the Organisation:

Sports365 is an online marketplace of sports and fitness products that they merchandise through different platforms. This portal was developed in May 2012 by G. Chandra Sekhar Reddy and Aashutosh Chaudhari, with various national and international players representing the start-up as brand ambassadors. The sports and fitness equipment markets were analysed and found to be highly unstructured and thus they decided to start the business to tap into this market.

They took seed capital of around Rs.1 crore from family and friends and concentrated it on resource performance. This allowed them to develop teams and incorporate the latest technology into their products and services. Sports365 earned revenue of about 4.6 crore in the first year of its operations. Since then, Sports365 has worked diligently to present value propositions to its customers as compared to the sports brands engaged in brick and mortar shops.

In addition, they have resorted to the endorsement of famous sports and fitness icons such as Mahesh Bhupathi among others to overcome the promotional hurdle on a large scale. In 2014-15, Sports365 raised its revenue to Rs 14.5 and set Rs 120 crore goals over the next three years. The start-up raised over Rs 7 crore capital from US venture capital firm Powerhouse ventures and IT services firm Zolon Tech in 2014 and is now a leading player in both the offline and online sports and fitness products and services channels.



2. Important Landmarks:

- The company bagged its first medal when Mahesh Bhupathi joined the company as a brand ambassador and an investor.
- Tennishub.in was acquired by the company in an all-stock deal which helped the company meet the needs for the tennis sports vertical and thus brought more customized products and solutions for the tennis field.
- Sports365 had also launched Runninghub.in. This portal is responsible for supplying the necessary gears, dresses and support materials for people concerned with running exercises. They take a test to understand the requirements of the target market according to the analysis of the video posted by them while running.

3. Business Organisation:

Sports365 is a leading sports and fitness company whose management team comprises of sports and fitness icons, highly qualified professionals, as well as sports industry experts who have worked efficiently to lead the business among India's top 50 start-ups. The members of the management team of the company are as follows: -



Chandra Sekhar Reddy is one of the co-founders of the company and an expert in the sports sector. He was the one to see a vision for this company. He received numerous rewards for his immense contribution to the sports field. He brings in experience in the fields of revenue maximization, corporate strategy, new business development, operations' transformation, mergers and acquisitions, etc.



Aashutosh Chaudhari
Co-founder
Ex P&G, KPMG, IIM Lucknow

Aashutosh Chaudhari is also one of the founders of Sports365 along with Chandra Sekhar Reddy. In the early days, he played a second fiddle to the CEO of the company and currently he plays an important role in the marketing team of the company. Moreover, he is an expert in the field of sports and leads various initiatives in the e-commerce business.



Mahesh Bhupathi
Director
India's Tennis Legend

Mahesh Bhupathi is a legendary sports person with 12 grand slam titles in the sport of tennis. He is the director and brand ambassador of the company and brings along his immense experience on and off the field. He also provides the management team with the strategic plan and helps in promoting the brand at the international level.



Yuvraj Singh
Brand Ambassador
India's Cricket Legend

Yuvraj Singh needs no introduction to the Indian as well as international audience. Not only has he won 2 world cups with the Indian Cricket Team, but also he has been a motivational youth icon who fought cancer. He has been the brand ambassador for the company. His all - round performance in the team sport has helped him and the company to promote the brand across the globe.

4. Organisation Culture:

Sports365 focuses on embedding a philosophy of mind and body endurance in its workers, allowing them to work with passion in each department. They believe in imparting qualities such as one-minded concentration, multi – dexterity, patience, competence, cooperation, calmness and fair play that are all similar to every sport's player characteristics. Oriented mentality helps workers improve their productivity, contributing to improved overall efficiency.

Sports365 expects its workers to possess a diverse range of skills that will help them even in adverse circumstances and thus follow a versatile approach to problem solving.

5. Market:

Sports365 has successfully taken the pole position in India's sports segment in a very short time span since its inception. Sports365 owns and operates numerous online portals such as Sports365.in, Running365.in, Tennis365.in, and many more which are the sports lovers' favourite option in India. Sports365 also partners with leading sports & fitness brands within and outside India to help them tap Indian markets' true potential. The company's strategic brand partners include the likes of Wimbledon, Victor, Hero Cycles, V22, Mizuno, Lumo and more. Thus, it also has a strong international reach.

The company is further looking to explore new market by adding seven new product categories in its portfolio. By doing so, it plans to capitalize on its already existing non – competitive market base of schools in cities like Bangalore and Hyderabad. The company has a long term vision and plans to move up in the market through Product Development and Diversification strategy. As per these strategies, the company will try to penetrate the existing and the new markets through the launch of new product categories.

6. Business Scope:

The company generates its revenue through two channels, namely the B2B institutional sales services and the B2C e-commerce channel. These two channels generate huge cash cumulatively and help in online promotion and increasing user outreach. The majority of company's revenue comes from the B2B institutional selling channel.

The company is in the business of designing and making available customized products in multiple segments. Also, equipment related to team sports such as football, cricket, hockey,

volleyball, and basketball along with equipment of running and fitness activities are also provided with better quality and on-time delivery. It has also entered into cycling segments in the recent years.

The institutional customers of the company are mainly schools in cities of Bangalore and Hyderabad. It provides school uniform and shoes in bulk to schools. A child is sent for schooling for almost 15 years in modern societies. The customer would not look to buy a school uniform from any other place as long as it is satisfied with the pricing and the service of the current supplier. There is no competition for the company in this market. Thus, the customer lock in period for the company in institutional selling is very high.

7. Product/Service Range:

Sporst365 delivers a variety of services, to different types of individuals as well as institutions, such as sports merchandise design, sports goods delivery, product customization and further distribution of products in bulk as well as retail, facilitator and consulting of events as well as formation of the right sports infrastructure.

On the other hand, the sports products are classified into different segments which are as follows:

- Team Sports: - This consists of sports goods and various other equipment related to team sports such as cricket, hockey etc. It includes sticks, various types of balls and other accessories.
- Racket Sports: - This consists of sports equipment and accessories for individual games such as badminton, squash, tennis and table tennis such as balls, shoes, rackets, apparel etc.
- Fitness and Running: -In this category, products related to cycling, running, swimming, yoga and aerobics such as shoes, yoga mats, swim wear, etc. are included.
- Cycling and outdoor: -This segment consists of goods related to cycling, outdoors and other sports such as cycles, shoes, skates etc.

8. Positioning:

The company differentiates its goods and services by providing the various organizations the required expert guidance and counselling services so that they can take educated decisions and purchase the correct equipment as per their requirement. Sports365 also incorporates a hybrid business model; where in the sales team interacts with prospective customers and large-scale institutions and communities through the institutional engagement model along with the e-commerce channel. In addition, the team members' passion for sports creates a high entry barrier for new players, creating an ever – lasting impact on their customers and other stakeholders. The company envisages of maintaining the top position as a sports and fitness equipment distributor over the coming years, by providing satisfaction and value to its customers.

9. Distribution Structure:

Sports365 has various platforms to offer its goods and services throughout the country. It works on both, offline as well as online platforms. The institutional selling is carried out via sales team. The business also sells via various e-commerce firms including Flipkart, Amazon, Snapdeal and Paytm. Company also uses advertisements, referrals and digital advertisements on social media to reach out to Internet users.

10. Customer Profiling and Segmentation of Markets:

Sports365 has different categories of clients which are commonly categorized as individual and institutional clients. The individual clients include the online purchasers or the e – commerce users, who purchase equipment from the online platforms for their personal use. The institutional clients are bulk purchasers who are traced and contacted by the efficient sales team of the company. The company provides a variety of customized solutions for numerous institutions such as professional sports teams, schools and colleges, sports clubs and training centres, as well as various other corporate organisations.

Now, talking about the market for the company, it is broadly segmented into fitness and sports sectors. The sports segment is subsequently divided into further categories. Among the sports category, there are tournaments such as IPL (Indian Premier League), ISL (Indian Super League) and various other such leagues that demand extensive analysis and guidance as well as quality sports equipment's at affordable costs. On the other hand, in the fitness

sector, various public parks, running and cycling tracks, skating rings, swimming pools, gyms, yoga centres, etc. are included. People are increasingly becoming fitness conscious in contemporary times and this is a high opportunity for Sports365 to expand in this sector. Among sports sector, institutions like schools, colleges and corporates form a significant part requiring bulk purchase of equipment.

11. Comparative Performance:

Sports365 has an integrated culture that creates the passion for sport among the members of its team. Along with this, leading sports and fitness icons are linked with the organisation. These factors help to distinguish itself as a well-developed community that performs well in contrast to its competitors. Sports365 owns various portals for different segments that rank well above other players in terms of product and service customization.

Sports365 needs to boost its consistency and timely service delivery, which, according to customer feedback, is comparatively on the lower side to other clubs. The institutional involvement model of the business is one of its distinct models that, in terms of its consulting services, surpass other players for business with large organizations like colleges, universities and others. Sports365 has also strategically collaborated with various sports brands like Hero Cycles, Wimbledon, among many others, which has made possible for the company to harness Indian markets' potential. This has also helped the company to rank high on average from other rivals in terms of increasingly rising market share and online traffic to its websites.

12. Financial Performance:

In 2014, Sports365 acquired a capital of over Rs.7 crore from US-based venture capital firm Powerhouse ventures and Zolon Tech, an IT services company. The operating revenue of Sports365 was more than Rs.10 crore for the financial year ending on 31 March 2018. The company's Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) has increased by 113.44% from financial year ending on 2017 to financial year ending on 2018. The total paid up capital for the company stood at Rs.11.86 lakhs as according to the balance sheet ending on 31st March 2019. As per the Annual report for year 2018 – 19, the

following changes in their financial performance as compared to previous year 2017 - 18 have been reported –

- The net worth of the company increased by 0.26 percentage points.
- The debt to equity ratio is 0.51.
- The return on equity is 0.08 percentage points.
- The total assets increased by 8.84 percentage points.
- The fixed assets decreased by 27.79 percentage points.
- The current assets increased by 9.74 percentage points.
- The current liabilities increased by 16.10 percentage points.
- The trade receivables increased by 29.34 percentage points.
- The trade payables decreased by 18.70 percentage points.
- The current ratio of the company is 1.70.

13. Mckinsey's 7-S Framework to Analyse the Different Aspects of Organisation:

- **STRATEGY:** Sports365 has a strategy of being associated with sporting icons like Mahesh Bhupathi who, among many others, is constantly giving the company strategic direction in terms of its global promotion. In addition, the company's investors such as Powerhouse Ventures and Zolon Ventures are actively offering strategic advice about their marketing strategies so that more money can come into the business.
- **STRUCTURE:** Sports365 has a versatile organizational structure due to reporting to the Human Resources Department on different issues and its department is primarily divided into goods and services. The department of service contains divisions for advisory services and consulting. The marketing department is composed in subgroups in team sports, individual sports and health fields. Any problem occurring in one department can be reported to head of that department who further reports to the higher officials.
- **SYSTEMS:** In the company, the team members track and upgrade the e-commerce systems constantly to improve client experience. In addition, certain leaders are specifically recruited for updating their online infrastructure using the new web

technologies. The sales people respond every day to their customers in the B2C or B2B sector with utmost timeliness and humility, and provide the best service on time. This enhances the overall client experience.

- **SHARED VALUES:** The Corporation shares the importance of organizational engagement in the corporate wellness initiative "time out," which primarily promotes the overall wellbeing of organization workers by incentives and appreciation and concentrating on sport and fitness goals. In addition, Sports365 also focuses on productive customer care through its employees' behavioural training that focuses on personalization and changing demands of its clients.
- **STYLE:** The business relies on an inclusive and progressive leadership that focuses on including all team members in the company's big growth and other strategy decisions. This creates a sense of obligation among its employees that drives an atmosphere of innovation and creativity. Such efforts help the business sustainably expand in the long term.
- **STAFF:** The Company's employees perform various jobs from calling and responding to their clients' queries to creating websites with better integrated technologies. This helps to boost both offline and online sales and thus generates higher profits.
- **SKILLS:** The Company's team members have expertise in terms of content management, brand recognition, inbound traffic generation, as well as lead production and sales from various sources. In addition, they are also experienced in blogging, video production and search engine advertisement that helps increase the company's efficiency and enhance its web presence.

14. Michael Porter's Five Force Theory:

- **COMPETITIVE RIVALRY:** Due to introduction of more and more innovative web technology along with the creation of brand partnerships, there is intense competition among the players in the sport and fitness market. The notion of competitive pricing and web 4.0 has expanded enterprise - wide marketing management warfare, resulting in enormous number of options for the customers. Sports365 needs to deal with this situation by introducing and managing a system

that focuses on consumer feedback within its company and seeks to establish long - term relationship with them.

- **SUPPLIER POWER:** Suppliers of various sports equipment and other fitness products have very less power due to the Sports365's significant role in the operational chain. This is because the company is synonymous with numerous sports and fitness icons as well as supported by multiple investors who have considerable interest in the sports and fitness industry.
- **BUYER POWER:** Buyers are also concerned with the purchasing of Sports365 sports and fitness products, as well as with their advisory services, which reflect the brand's success with its customers. In addition, their upgrade to technology and web services further strengthens their digital presence in various social media such as Twitter, Instagram and others. It leads more and more number of customers to get locked up with the product and thereby decrease the buyer's power in relation to its products.
- **THREAT OF SUBSTITUTION:** The Sports365 organization has already built up a work culture and core values among its workers that cannot be easily substituted by other players in the industry. This has significantly reduced the threat of substitutes, and along with this, the hybrid business model structure of the organization further reduces the risk of invasion by other companies with offensive strategies.
- **THREAT OF NEW ENTRY:** - Because of its extremely unstructured nature, there is extreme likelihood of big players coming to India to have a share of the sports and fitness industry. In addition, the government is taking numerous steps to promote sports and raise awareness of different fitness acts. To tackle this problem, with its improved infrastructure and premium customer support, Sports365 poses a high barrier to new players' entry and therefore maintains its solid market position.

Part B: Project Work (Problem Solving Project)

1. Introduction:

The company is planning to expand its reach in existing as well as new markets by launching seven new product categories. These seven product categories are as follows:

- i. Footwear
- ii. Books
- iii. Stationary (Art & Craft)

- iv. Soft Line
- v. Digital e – learning
- vi. Physical e – learning
- vii. Toys & Miscellaneous

The company will develop an online portal and list these products on that platform. But, the company does not have a proper price and margin structure for these products. Given this idea, the relevant activities have been outlined as follows:

- To understand the supply – chain activities in e – commerce.
- To design a feasible revenue model for the new product categories.
- To study the fee and commission structure of other e – commerce companies.
- To suggest a pricing strategy for each product category.
- To conduct a thorough Industry Analysis.
- To suggest an estimated listing price for the products.

The above activities were carried out in the sequence they are mentioned. The objective of the project was to formulate a pricing strategy for the new product categories and estimate an initial listing price for these products, while making the company able for a long – term business in this segment.

A lack of proper information regarding the new market was a major hurdle in making a pricing decision. The above activities would allow us to get a clear picture of the market as well as other internal and external factors affecting the company and thus help us in taking an accurate decision.

2. Steps Taken to Find a Solution:

To price a product, the first step is to know about its cost. To trace out the costs of a product, it is important to understand the supply chain activities involved. This activity will allow us to target an area for cost cutting and help us set a competitive price.

- **Role of Supply Chain:** The only way to control costs, amidst increasing competition in the marketplace, is an effective supply chain. Profitability can be achieved by ensuring business efficiency at all operational levels of supply chain. The main aim of business partners is to manage this chain such that value is created for the customer

at a reasonable cost. Mainly, a supply chain model for an e-commerce company consists of the following activities:

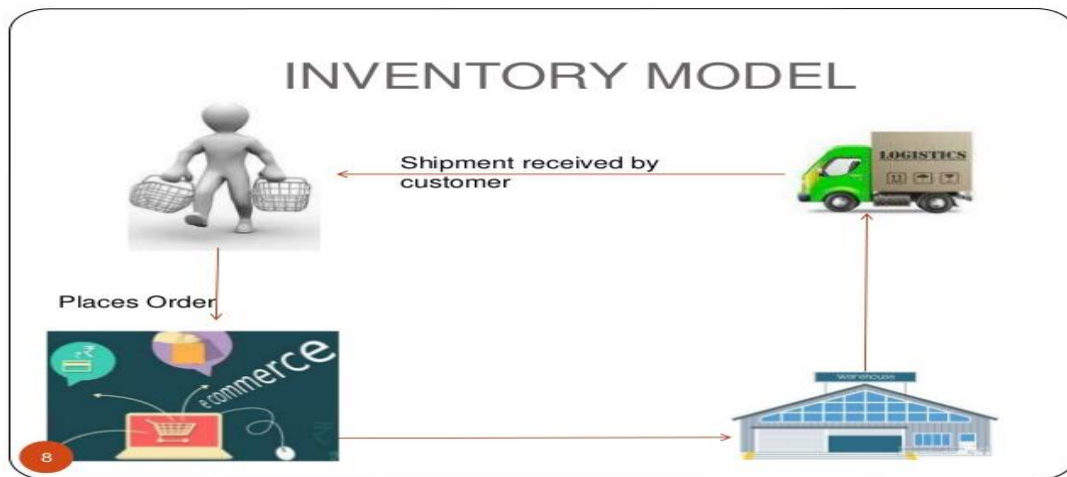
1. Procurement
2. Warehousing
3. Logistics

- **Procurement:** First and the most important stage of supply chain, procurement of goods is mainly carried out by implementing two models, namely, the marketplace model and the inventory model.

In a **marketplace model**, an online platform is provided by the e-commerce company, wherein the potential seller and buyer come into contact directly. The company acts as a facilitator between them. In return, it receives commission on every transaction. Initially, inventory management and logistics was not actively done by the company, but now they provide the sellers with an option to avail these services at a cost. Also, here the seller manages pricing of the product which will be listed on the site. The company is only concerned with the commission.



In the **inventory model**, the inventory of goods and services is owned by the e-commerce company itself and is sold to the customers directly; i.e. the customers buy from the company only and not from any third party. They maintain the inventory, manage them and deliver it to the customer, all by themselves. The risk is to be borne by the company in this model.



Mainly those companies who have retail outlets follow the inventory based model for their online operations, while the others generally opt for marketplace model.

- Successful e-commerce companies like **Amazon** and **Flipkart** follow a **Hybrid Model** which comprises the best of marketplace and inventory models. They provide platform service to multiple vendors as well as own inventory. This helps them minimize the disadvantages of both the systems.

The standout feature of these companies is that they have realized that many of the third party products can be made at much cheaper cost – and more profitably. So they have taken to manufacturing their own low-cost products, as well as white-labelling products from other sellers. This allows them to own the whole lifecycle of its products - from production to storage to marketing to shipment.

- **Warehousing:** A big part of e-commerce success relies on its warehousing strategy. It should ensure that the products are easily accessible from anywhere within the company's geographical target. Generally, the companies place their warehouses strategically near big metro cities and population hubs. Inventory is spread amongst them to ensure supply can meet demand. Companies like Amazon even maintain mini warehouses in smaller areas to ensure orders can be sent and delivered fast, no matter what is being purchased. Warehousing Management consists of 3 major activities: Inward Processing, Quality Check and Scan, and Packing of Products.

- **Logistics:** The quantifiable measure of effectiveness of supply chain of any e-commerce company is the time taken by it to deliver a product to the customer after the order is placed. Lesser the time taken, more effective the system is. If an online shopper feels that he can get the quickest delivery and an unmatched customer service experience at Sports365, they will develop deep loyalty to the company and will often choose them over other retail sites. But again, the question arises: How can delivery time be reduced along with being cost effective?

Talking about Amazon, it employs a whole host of strategies to get the goods out in lightning fast times. The company has tie ups with courier services with highest success rates like DHL, Blue Dart, FedEx and others. It also has 'Amazon' branded trucks and delivery vans and bikes. Recently, it launched drones to make deliveries at a short distance. Such wide ranging strategies allow the company to position customer orders quicker, easier and more effectively across the globe – including remote and rural areas that are not served by conventional options. Flipkart also introduced its in-house logistics known as eKart even before Amazon started it in India. Though it has its perks, the point to be noted here is a hefty investment is required for starting own logistics division. Not only capital, but also the company would require a lot of warehouse space spread all over the area where it plans to begin its deliveries from.

- It can be said that, to achieve highest possible cost reduction, companies have looked for integrating the supply chain processes downwards or upwards or both. Obviously, if a company manufactures a product, markets it online on its website, and delivers it to the end consumer, the margins of all these activities goes into the pockets of the company. It can cut costs wherever possible. In an ideal scenario, the final price of the product will be influenced only by the external factors, as all internal processes would be under control.



The next step is to design a revenue model for the company. From where will the company have its income? Or what will be the source of revenue for the company?

The e-commerce revenue model is generally taken into consideration for classifying e-commerce businesses. Revenue denotes the total amount of value generated by the company through the trade of its products or services with the customers. In this elastic e-commerce space, there are a range of options available from where revenues can be generated by the e-commerce businesses. Some of these options are:

- Advertising Revenue
- Subscription Revenue
- Transaction Fee Revenue
- Sales Revenue
- Affiliate Revenue

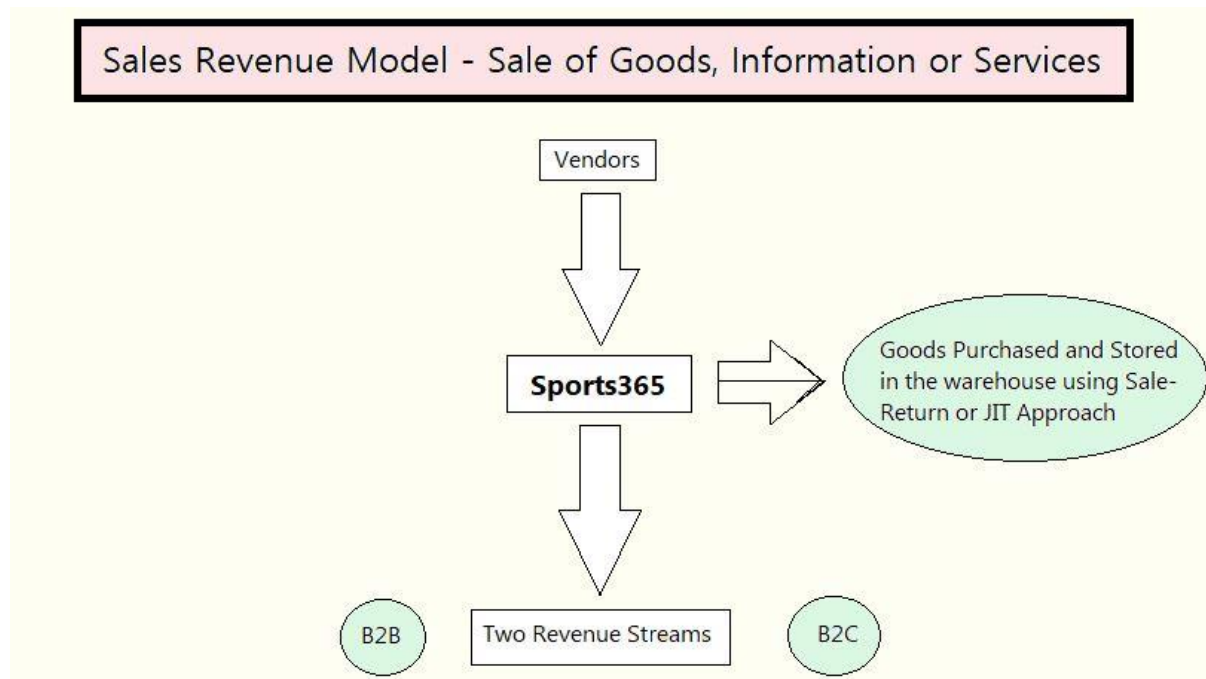
Apart from the above basic sources, this industry is never restrictive of upcoming of any other innovative mode of generating revenue. Though, to maximize the profits, it is important to implement a right mix of these strategies.

Sports365, for the new product categories, can use the Sales Revenue Model at the epicentre of its business. Now what is the sales revenue model?

Sales Revenue Business Model: This is the most common model where retailers and wholesalers sell their product over their online portals, with a purpose to reach out to a larger target market. The businesses, following this model, often come up with marketplaces as common entry points that allow them to deal with various product vendors, further letting them to grow the marketplace and therefore earn more. In some cases, the sales are directly injected in the business, so the company does not have to share profit with any other party. Based on the point of sales traffic or the size of the business, certain operational activities of the business are transferred to third parties.

Having said all this, there was one important aspect mentioned in one of the above paragraphs, i.e. 'to deal with various product vendors'. How to deal with these vendors? How to **maintain our inventory**? There are various techniques for this. One is the **JIT** method and the other is **Sale or Return** method. Both methods have their advantages and

disadvantages and it is necessary to carefully analyse the market before implementing any of them.



Apart from the sales revenue, the company can also implement the advertisement model. How can Sports365 use the advertising model?

- **Advertising model of revenue generation**

This model works by allowing various companies or start-ups selling their product/services through an online set up to use display marketing tools such as super banner, wallpaper, skyscraper or rectangular ads on the host website.

- Revenue generation is through Cost per click (CPC) or Cost per action (CPA). So basically the client pays the host depending on the costs decided per click or action by consumers.
- The ads redirect to the client website and increase its traffic which lead to purchases and hence revenue for clients.

Further, a small scale survey was conducted to understand the mind set of local manufacturers and vendors.

What motivates a seller to go online for its business? Larger reach, sure, but a business cannot sustain with just larger market reach. The business needs to ensure profitability for its survival in the long run. Profit is the main driver of a business.

Now, the question arises, is there enough profitability for the sellers in the online business? The Indian market is still in transition. Not the entire market has shifted to online shopping. Some consumers still prefer the 'touch-and-feel' concept before buying a product. Some have held the traditional roots tightly and are sceptical in adapting to change, needless to mention the entire untapped rural market. It will be a great task to manoeuvre these type of customers on a digital route.

As a customer, what can be the first thing that can make you consider online shopping? It will be those hefty discounts and cash backs which are available during special sales. So, naturally when a seller allows such discounts on his products, he / she might have to forgo some of the contribution from those units. Not to forget that the online sellers, not only have to compete with other online sellers, but also with the physical brick-and-mortar stores. So price competition is inevitable in such market.

Survey Methodology:

A rough draft of open-ended questionnaire was designed for reference and conducted telephonic interviews of individuals who sell their products online. The sample size being 17, these respondents were either owner of small businesses or carry out this activity as a side business. They do not have their own website to sell directly but use online platforms. Some of them had physical stores also. A sample of flow of questions has been attached. (*Refer Annexure 1*)

The motive was to drive the conversation to get an answer to all such above questions. The main objective behind this was to learn how do they list the pricing of their products on the online platform? What is the cost and what is their margin?

Understanding:

The respondents dealt in various product categories like apparels, mobile accessories, dairy products, customized gifts, etc. Most of them dealt with a single product category and a single platform, while a few of them also complemented their main products with other products. For example, the one respondent who sold apparels also sold fashion accessories like watches or belts, whole as a bundle or separately.

The respondent who sold dairy products used Grofers as a platform, while the others used Flipkart or Amazon. Grofers works on a totally different model which is irrelevant to us. So, the main focus will be on the respondents who sold on Amazon or Flipkart.

On being asked about the process of fulfilment of order, their replies indicated that there are three options available to them. When an order is placed, Amazon notifies the seller through email and also updates in their Amazon Seller Account. Then they have two options, either ship the product directly to the customer at own cost through any courier service of their liking or select the 'EasyShip' option, i.e. deliver it to the nearby Amazon centre and then it will be their responsibility to ship the product safely to the customer. Apart from this, the seller can also select the service of FBA, i.e. Fulfilment by Amazon. In this, Amazon takes care of storing, packaging and delivering the product all by itself. The seller receives the money of sales in the bank account every 14-15 days.

The online platform charges on the basis of the services opted by the seller. It will charge referral fees and closing fees on every sale. Apart from this, it will charge for shipping service or any other service. There is a fixed amount of referral and closing fees, while shipping charges differs depending upon size of the package and where it is to be delivered.

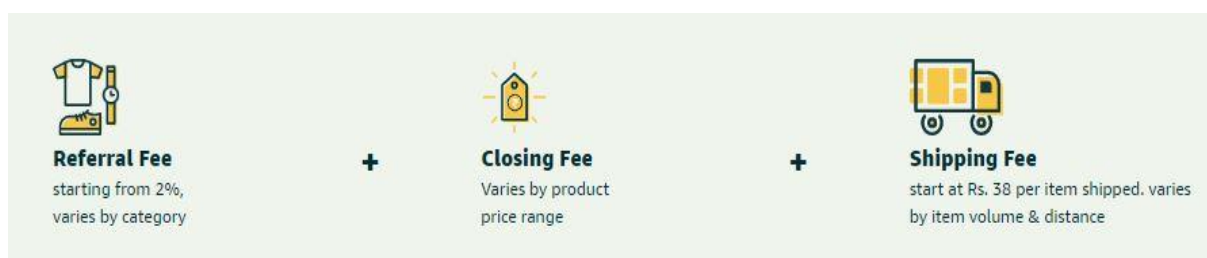
The respondents believe that selling through physical stores would have earned them more profit as costs from storing, packaging and delivering would have been eliminated. But they would not have been able to sale as much units as they are selling now online. So, the overall profit is increased. The major effect here is of economies of scale. They would not prefer to start their own website or switch to other site because the well-known sites have much enhanced online visibility.



The next step was to study the fee structure of e – commerce competitors like Amazon and Flipkart.

What makes a vendor list a specific price on the online platform? There are numerous factors responsible behind this decision but the one shadowing them all is the Profitability. How much shall the vendor earn on a sale is the driving factor. The vendors, after taking into account the cost to manufacture/acquire a product, consider the fees charged by the online platform for their services. The company, as a vendor, can eliminate these costs while consider the pricing of products and thus attain an upper hand in the price competitiveness. We shall have a look at the fees charged for listing the products on their platform by the online retail giants.

AMAZON



Amazon, on a standard contract, charges a referral fee, closing fee and shipping fee (optional). It also charges fees if it provides FBA (Fulfilment By Amazon) service to the seller. Let us briefly have a look at these costs to the seller, starting with the referral fees; concerning only those product categories that we are interested in.

Referral Fees

<u>Product Category</u>		<u>Rate</u>
Footwear	Shoes	15.5%
	Kids Footwear	10.5%
	Sandals & Floaters	10.5%
	Flip Flops & Slippers	10.5%
Books	Upto INR 1000	7%

	Above INR 1000	13%
Softline	Apparel upto INR 300	13%
	Apparel above INR 300	17%
	Eyewear	8.5%
	Watches	13.5%
	Handbags	10%
	Wallets	10.5%
	Backpacks & Suitcases	7%
	Fashion Jewellery	21.5%
Toys	All kinds	9.5%
Digital Products	Software	11.5%
	Kindle Accessories	25%
Stationary	Craft Materials	7.5%
	Physical Gift Cards	5%
	Art and Paintings	12.5%

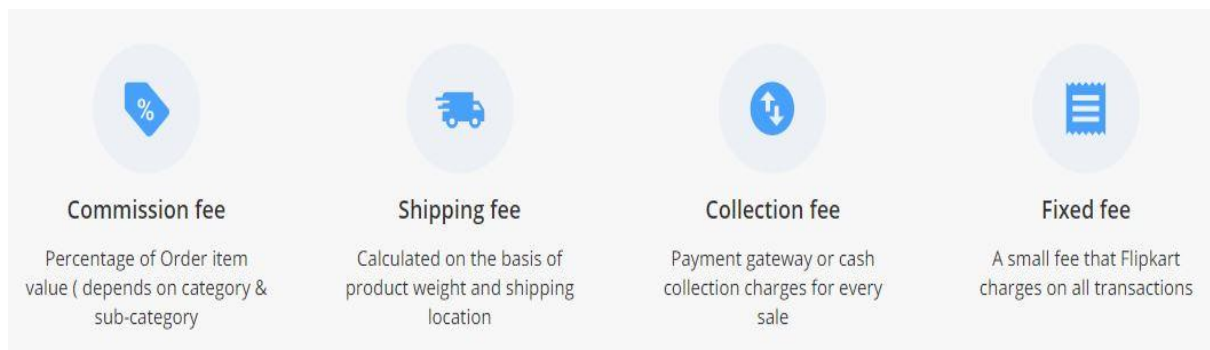
Closing Fees

Fixed Closing Fee (INR) by item price	
Easy Ship (excluding EasyShip Prime)	
₹ 0 - 250	₹ 2
₹ 251 - 500	₹ 5
₹ 501 - 1000	₹ 25
₹ 1000+	₹ 50
Easy Ship Prime only	
₹ 0 - 250	₹ 5
₹ 251 - 500	₹ 8
₹ 501 - 1000	₹ 23
₹ 1000+	₹ 43

Shipping Fees

Standard-size items			
Upto 500 gms	₹38 (Local)	₹46 (Regional)	₹66 (National)
Each additional 500 gms (upto 1kg)	₹16 (Local)	₹21 (Regional)	₹25 (National)
Each additional kg after 1kg	₹10 (Local)	₹15 (Regional)	₹20 (National)
Oversize Items			
Upto 5kgs	₹101 (Local)	₹116 (Regional)	₹166 (National)
Each additional kg	₹10 (Local)	₹11 (Regional)	₹14 (National)
Heavy & Bulky Items*			
Upto 12 kgs	₹241 (Local)	₹321 (Regional)	
Each additional kg	₹3 (Local)	₹4 (Regional)	

FLIPKART



Flipkart has a more or less similar fee structure as that of Amazon. It charges for all the services in the form of commission fee, shipping fee, collection fee and a fixed fee.

Commission Fees

Commission fee is a certain percentage of the order item value of your product. It differs across categories and vertical/sub-categories.

<u>Product Category</u>		<u>Rate</u>
Footwear	Shoes	15%
	Sandals and Flip Flops	11%
	Kids Footwear	14%
Books	(depends upon the listed price)	5% or 7% or 10%
Softline	Apparels	16%
	Watches	12%
	Bags	6.5%
	Fashion Accessories	14%
Toys	All kinds	9%
Digital Products	Educational Media	8%
	Other utilities	20%
Stationary	Art & Craft Supplies	7%
	Office Supplies	6%

Shipping Fees

To ensure ease of selling and the best possible customer experience, Flipkart mandates delivery to all customers via their logistics partners and deduct the shipping cost from the selling price before making a payment. Shipping fee is calculated on actual weight or volumetric weight, whichever is higher. This is to account for items which are lightweight but occupy a lot of shipping space.

WEIGHT SLAB	LOCAL (INTRACITY)	ZONAL (INTRAZONE)	NATIONAL (INTERZONE)
0-500 grams	₹30	₹46	₹66
+0.5Kg, upto 1Kg	₹18	₹23	₹27
+0.5Kg, upto 3Kg	₹8	₹10	₹15
+1Kg, upto 12Kg	₹8	₹10	₹15
+1Kg, beyond 12Kg	₹4	₹5	₹8

Collection Fees

Selling Price	Prepaid	Postpaid
0-750	2%	₹15
>750	2%	2%

Fixed Fees

Order Item Value	Rate
0-500	₹5
500-1000	₹15
>1000	₹30

The point of identifying these fees is that we can have an idea about the vendor's gain. We can deduct the above given fees from the price listed by the vendor to know his selling price. Also, Sports365 can have an idea about the shipping charges and develop a logistics chain which minimizes this cost. Also, the company can look at it from the viewpoint of a vendor.

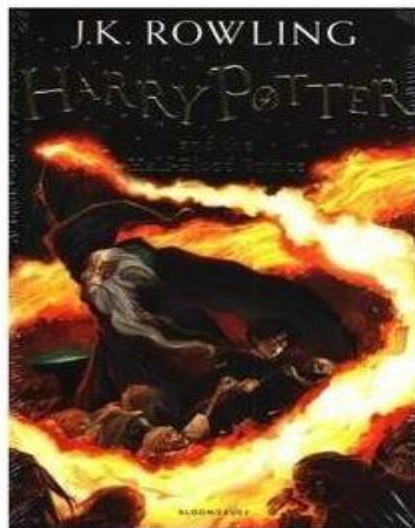
Selling Price	₹2000
<hr/>	
Commission Fee	-₹200
Collection Fee	-₹40
Fixed Fee	-₹30
Shipping Fee	-₹64
GST	-₹60.12
<hr/>	
How much you make *	₹1605.88

If a book is listed for sale on Flipkart for Rs. 2000 after considering all discounts and offers, then the vendor will make around Rs. 1600, depending upon the size of the parcel and place of delivery. Thus, for example, if the vendor had incurred a cost of Rs. 1200 on that book, Rs. 400 would be his profit.

As a retailer, Sports365 will be able to evade most of these charges as it has developed its own online platform. The company will have to bear the shipping cost. So considering only the cost to acquire the book and its shipping, the company will be able to list the book at a far lower price than other platforms, thus gaining a competitive edge.

Instead of Amazon or Flipkart, we may idealize the pricing structure of a retailer who has its own platform for selling products rather than using any other platform. That will be more relevant to our company. But in a practical scenario, Amazon/Flipkart has much larger audience. Their online presence is notable. The factor which has enabled them to reach such a height is their effective pricing.

Here is an example.



By J K Rowling (Author)

[Write A Review](#)

₹ **699**

In Stock

Sold by Crossword

Delivery within 10-15 days once the Covid-19 situation returns to normal.

Pincode checker

Enter your Pincode

Submit

A book 'Harry Potter and the Half Blood Prince' sold by Crossword on its online platform



Harry Potter and the Half Blood Prince

by J.K. Rowling | 1 September 2014

★★★★☆ 4,424

Paperback

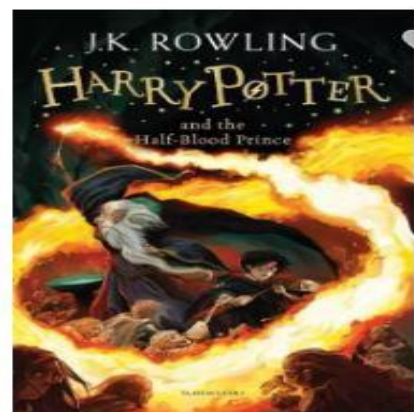
₹630 ~~₹699~~ Save ₹69 (10%)

Get it by Friday, June 12

Only 1 left in stock.

More Buying Choices

₹553 (13 new offers)



Harry Potter and the Half-Blood Prince

English, Paperback, Rowling J. K.

4.7 ★ (3,480) **Assured**

₹559 ~~₹699~~ 20% off

The same book sold at much lower prices on Amazon (left) and Flipkart (right)

Thus the benchmark set by Amazon/Flipkart, in terms of pricing, has been considered appropriate for the purpose of this project.

Further an industry analysis was carried out for deeper understanding of the effects of external environment on pricing decision.

PESTEL Analysis

- **Political Factors:** The political threats for e-retailers might not be same as for the physical retailers, but still there are several hurdles. The political challenges have kept rising for e-commerce in the recent years. Talking about India, the political stability of the current government is a relief for the businesses, but a lack of capable opposition might give them the leverage to increase their intervention in the economic affairs of the country. We have already witnessed the negative impact of Demonetisation to the economy. If this stronghold continues for a long time, the businesses will remain ever sceptical of the next move of the government and thus it will be difficult to take growth decisions. We can expect a major policy breaking through in the post COVID era, which might affect MSMEs and large scale companies negatively.
- **Economic Factors:** The Indian economy has been bearish since recent years. To tackle this problem, Indian government has taken many steps. The Prime Minister of India, Shri Narendra Modi, has been continuously stressing upon 'Make in India' as a means to become self-reliable. This initiative was launched with an aim to boost the manufacturing sector of India. This will increase the purchasing power of Indian consumers and further help in boosting the overall demand. Also, many major companies are looking to move their operations out of China. Indian government has been approaching them for setting their base in India. If this happens successfully, then the unemployment rate will go down drastically. As per my interpretation, after this pandemic, B2B sales will stabilize more quickly than B2C sales. Entrepreneurs will look to invest in business, leading to reduction in their disposable income.
- **Social Factors:** Socio – cultural factors have a deep impact on the e-commerce industry. These factors have an impact on how the e-commerce companies market themselves. In orthodox societies, e-commerce is still seen as a product of Westernization, leading to unacceptability and low growth. But the on-going pandemic is all set to bring changes in consumer habits and preferences. Recently UNICEF said that India is expected to have highest number of births, approx. 2 crore,

since COVID-19 pandemic. As Sports365 targets schools for institutional selling, high birth rate will lead to an increase in market size in the next 3-5 years.

- **Technological Factors:** E-commerce industry relies heavily on technology. Everything is dependent on technology starting from sales to customer service. Innovative technology for production, distribution and communication, helps a company gain strategic advantage over its competitors. E-commerce companies have understood that mobile is king. It isn't the future – it's now. Customers expect your site to be mobile optimized. A study shows that around 40% of consumers will shift to other website after a bad mobile experience, yet an intriguing 84% have experienced difficulty in completing a mobile transaction. This is an incredibly high number, and it shows how great the opportunity is for companies to capitalize on this aspect just by creating user – friendly websites and mobile responsiveness. Also, technologies like Product Visualization, Virtual Reality and Augmented Reality is expected to bring a revolution in the industry. Amazon has begun testing drone delivery for faster delivery of products.
- **Environmental Factors:** While the direct environmental impact of E-commerce industry is very low, still a focus on environmental sustainability is important. From eco – friendly packaging to waste reduction and renewable energy, there are multiple areas where the e-commerce companies can invest for attaining sustainability. As a part of CSR, companies have been engaged in activities like plantation of trees, organizing sanitation programmes, etc. and will look to do the same in future as well.
- **Legal Factors:** Legal compliance is necessary for all the companies in every industry. Any tussle with the law can prove to be a costly affair and even e-retail companies can become a target unless they take care of compliance. Non-compliance of rules and regulations may result into financial damage or loss of reputation or both. Sometimes, these laws differ from market to market and in case of India, state to state. The Indian government is short on funds and it may impose stricter compliance with laws. So we must possess the knowledge of these rules and comply with them accordingly.

KEY TAKEAWAYS FROM THIS ACTIVITY



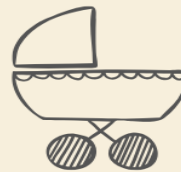
Expect a major government policy in the next financial year or so

People will invest in business rather than saving income for personal spending. Hence, B2B sale will rise faster than B2C.



Can expect an increase in investment in technology in the industry.

Increase in birth rate, which will lead to increase in volume of sales to school within the next 3-5 years.



Imposition of stricter compliance of rules and regulations by the Indian government.

The next step was to study and decide on a pricing strategy for the product categories.

Product Pricing is one of the major aspects in a business. It determines the survival and working of the business. In the business world, the experts have given us many theoretical pricing strategies. In practice, businesses use, not one, but a combination of these strategies. The modern entrepreneurs do not believe in following any textbook strategy but whatever technique they may choose, sooner or later it aligns automatically with the following strategies.

- Cost – plus pricing: “Simply calculate the costs and add a mark-up.” This strategy is implemented so that a company can make a pre-decided percentage more than the costs incurred for production or acquisition of a product.
- Competitive pricing: “Set a price based on what the competitors charge.” This strategy involves a comprehensive competition and market analysis.
- Value – based pricing: “Set a price based on how much the customer believes what the product is worth.” Pick up a product similar to our product and find out what the customer pays for it.
- Price skimming: “Set a high price and lower it as the market evolves.” This strategy is useful when an entirely differentiated product is launched in the market.
- Penetration pricing: “Set a low price to enter a competitive market and raise it later.” This is the opposite of price skimming. It is the most effective strategy in a competitive market.

For Sports365, we can use a planned combination of these strategies at different times. Let us start with the application of Cost-plus pricing strategy.

Cost plus pricing is a pricing method that plans to ensure that costs of productions are covered with minimalistic rate of profit for the seller. This strategy is a very simple cost-based strategy used for setting the price of goods or services. Usually a fixed mark-up is added to the average costs of production. This pricing strategy is used in oligopolistic market where only a few firms dominate and also share similar costs of production.

Example: Suppose per unit cost of a toy adds to Rs.1000 for Sports365. This becomes the cost of product sold. The company desires a 20% profit on each sale. Therefore the price can

be marked up at Rs.1200 and can be listed at the same price. Or the other strategy that the company can implement is, mark up the price by 50% and then show a discount of 20%. This will help in attracting the customer as well as earn the desired profit. This strategy also enables the company to justify its pricing to the customer easily.

The above method can be successful only in a hypothetical situation. A major issue with cost-plus pricing is that it doesn't consider any measure of the product or service demand. The formula does not acknowledge whether potential customers will actually buy the product at the price indicated. To account for this, some entrepreneurs have tried to apply price elasticity concepts to cost-plus pricing. Others may simply look at trends, competitive offers, and business acumen to determine what price the market will accept.

An alternative is **value-based pricing**, which is the process of determining a product or service's selling price based on the benefits it provides to purchasers, not on what it costs to produce. If your business offers specialty or unique products with highly valuable features, you might be well positioned to take advantage of value-based pricing, which typically generates a higher percentage of profit.

In the real world, there are many other factors that affect pricing. The economy of a country, demand - supply for the product, competitive nature of the market, etc. are some of the major determining factors that influence the pricing decisions. For a company to enter a new market, it is important for it to penetrate the market share. Here, penetration pricing strategy comes into picture.

Penetration pricing strategy is used by huge businesses to maximize their product/service reach and bring as many customers into their loop as possible. A lower price is offered initially to attract new customers away from their competitors. The main goal is to widen their diversity of customers and hence build market share with the hope that the customers would continue to buy their offerings even when prices rise back to normal.

Penetration pricing comes with a risk that the customers will switch back to their competitors once prices rise. Also, an initial increase in sales volume might not result in increased profits.

Example: Suppose per unit cost of a toy adds up to Rs.1000 for Sports365. Other platforms have its price listed after marking up by 20-30%. Our company can begin the listing at 5% margin. When it begins accumulating loyal customers, it can increase the price of the toy gradually.

3. Recommendation and Action Plan:

- Sports365 can start a product in a new category by sourcing from local suppliers and distributors at a cheap rate. In the beginning, the company should look for penetrating the market; even at the cost of low profitability. The cost of discounts, free shipping, replacements and warranties, should also be taken into consideration. Once there is enough generation of demand, bigger wholesalers and manufacturers can be approached for procurement purposes. Before placing an order with a supplier, prices, quality checks and percentage of returns are to be considered. The costing of new product category depends on its supply chain approach.
- The company can implement a hybrid business model with specialisation in both e-commerce and institutional engagement, in the way it has already done for its current business. It can have two revenue streams: B2C – the e-commerce store and B2B – institutional sales and services. For example, product categories like books, stationary, uniform apparels, digital learning can be sold in bulk to schools and colleges. This will benefit both the parties as the company will get the advantage of economies of scale and the institute can get a bumper discount on bulk purchase. Also, these products can be made available on the online platform. This will enable enhanced reach and greater margins.
- The company can look for the best price bidders for the seven product categories amongst the local vendors. In case of low priced products like toys or stationary, the company can maintain the inventory in bulk through **Sale or Return Model**. This will also allow the company to negotiate for even better prices. Also, as the price of the product is low, the vendor will show no hesitation to agree to sale or return policy in exchange for bulk purchase. Moreover, the burden of risk will remain with the vendor. In this approach, capital will remain stagnant in the form of inventory in the warehouse. The company will have to bear the loss of time value of money.

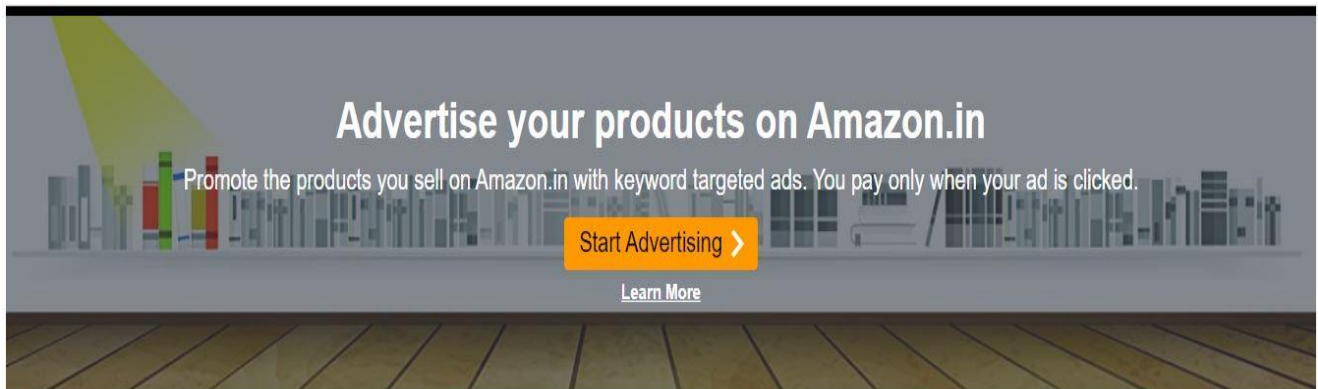
On the other hand, high priced or customized products like foot wear and books can be maintained using the **Just-In-Time Approach**. A minimal quantity of these products can be purchased and stored in the warehouse. They will keep moving out from the warehouse as and when order is placed for them, and when the inventory touches the re-order point, the company can start the process of replenishing the warehouse again. Under this approach, as low inventory levels are maintained, less capital is frozen. This capital can be utilized somewhere else. Also, a minimal warehouse space will be enough to store the inventory. The burden of risk will be transferred to the company.

Looking at the present scenario, when the company resumes its normal operations, much uncertainty will be prevalent in the market. Whatever technique the company may choose, accurate prediction of demand will be a prerequisite. It will be logical to say that the product categories not performing well in the B2B stream should not be stocked. JIT method would be more viable for such products.

- Since Sports365 plans to display and sell 7 product categories on its website i.e. Footwear, Books, Stationary (Art and craft), Soft-line (Apparel), Digital Learning, Toys, Miscellaneous, our target for advertisement purpose could be commodities or gadgets which complement our products.

For example, advertising for electronics like I-pads or laptops would enhance our selling related to the digital learning offerings. We could also advertise for brands which offer parenting advices or dietary advices which goes along with our products like toys. Also, products which do not enter our competitive platform can also be tapped for such kind of venture. Another catch would be Sports Training institutes. We could ask the institutes to recommend our products which we sell in an offline mode like sports equipment.

To understand the application of this model, we can refer to how Amazon uses this. They have a website (Amazon services) which, through a series of steps, helps us advertise our products on its website. According to their policy, we have to pay when our ad is clicked.



Likewise, Sports365 could create a website which leaves enough space to display such ads without disturbing the selling space. This will add another revenue stream to the company's business.

- PESTEL Analysis shows that it is important to not overlook the macro-economic factors and future possibilities which may affect the profitability of our company. Sports365 does not have a direct competition for now, but to capture a new market is a different ball game. The company will have to foresee these problems and design their strategy accordingly. The company should refrain from experimentation in times of uncertainty and should be prepared for the worst. Maintenance of cash liquidity should be given utmost importance.

Also, the company can focus more on its B2B activities for the next half decade or so, while gradually marketing itself for its B2C activities. The logic used here is simple. In these difficult times, almost every business is facing cash crunch. Unemployment rates are increasing constantly. So, people may not spend much on luxury items or items which aren't necessary for daily survival. Consider the example of shoes. Parents may not buy a specific pair of shoes for their kids if they already have a pair or two. But if that same pair is provided by the school as the kid's uniform, under the bundle of services/products, then those parents will pay for the shoes and buy them. Shoes are not a necessity but school infrastructure is. Thus, Sports365 should focus on selling to schools rather than individuals.

Due to increase in investment in technology, customers demand best services and value for their money. If they are not satisfied, they may move onto the next best seller. We will have to take care that we provide enough justice to the pricing of the products in the new category. To attract new institutes, they must be assured that

we provide the best prices. We should keep the margin a bit high, as it is expected that customer will negotiate for a bulk discount. Also, we can set the prices considering the geographical regions. For example, price can be listed higher for schools in Tier 1 cities like Mumbai, Hyderabad, Bangalore, Ahmedabad, than the schools in cities in Tier 2 and 3.

4. Conclusion:

Sports365 is still in its infancy stage and has a lot of scope for overall growth and development. It is backed up by all kinds of skills and resources to make it big. The company's plan to launch the new product categories can be a tremendous success if executed properly. Looking at the current global scenario amidst this pandemic, the company should take every step carefully. Keeping prices too high might provoke the customers to switch to an alternative while keeping the prices low will affect the long term sustainability of the business. So it will be necessary to keep a balance between the two.

Part C: Learnings from the summer training project

In the very first interaction with the organisation mentor, I came to understand that the project is going to be a practical one rather than a theoretical one. In the contemporary times, almost everyone is obsessed with online shopping, but rarely does anyone know how these online shops operate. This project provided me the opportunity to study the nuances of online shops and brick-and-mortar shops. I learnt about how despite of providing such hefty discounts and offers and what not, these e-commerce companies are still able to sustain in this competitive environment. Research backed information led me to estimate the costs and profits of an e-commerce company as well as a vendor from a single transaction on the online platform.

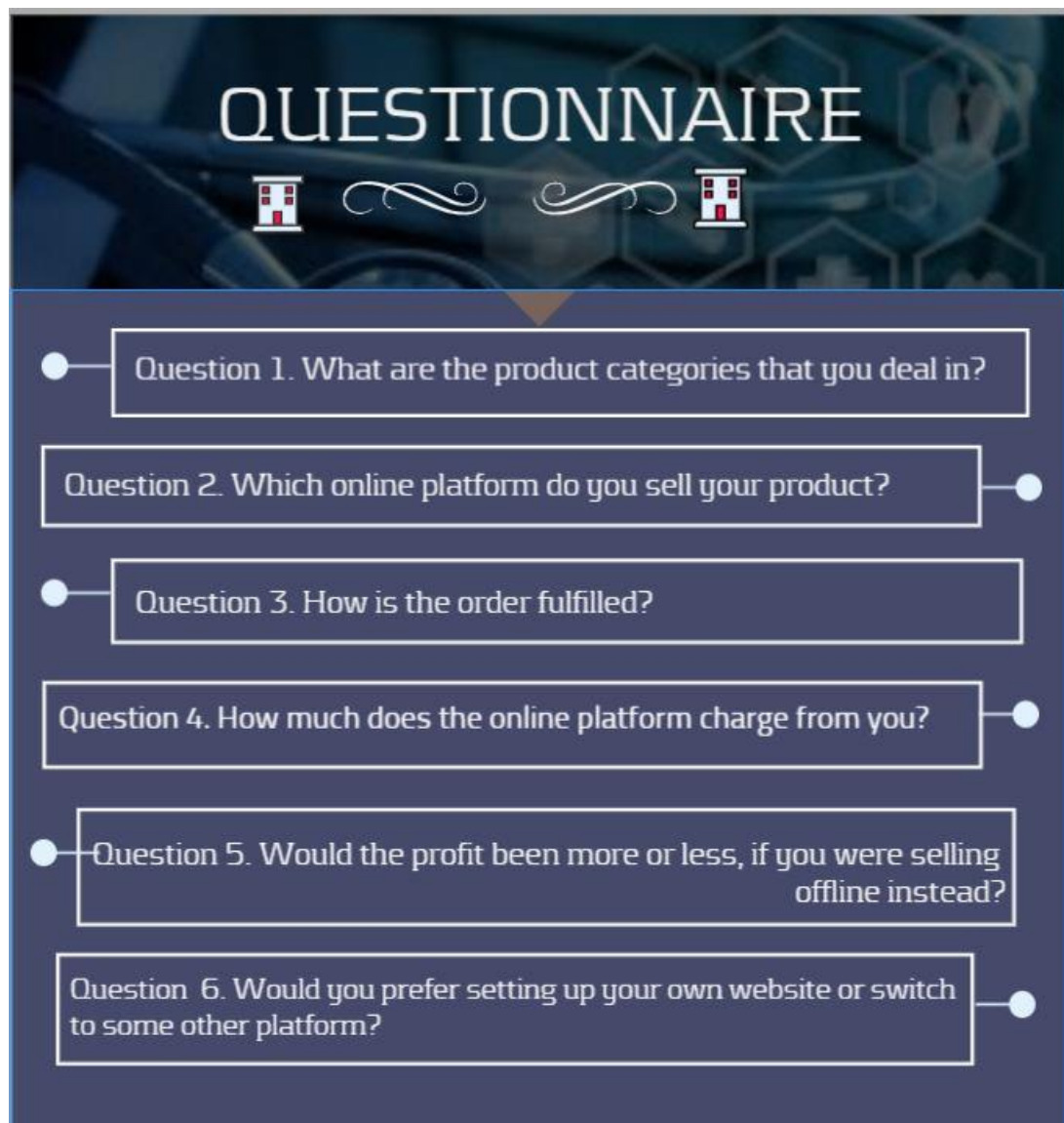
The most important learning, I believe, from this project was connecting theory to practice. The type of pricing strategies is a theoretical concept. But the companies have used this theory in practice for efficient pricing. I came to know about how we can use different pricing strategies, either solely or a combination, for pricing of various product categories. I used macro – environmental analysis of the industry to draw inferences and used these inferences to suggest the best pricing strategy as well as the overall action plan to the company.

Also, I got to learn how various functional areas of a business are dependent on each other. Finance is not just about facts and figures. To excel in this area, as well as for efficient financing, an individual should have the knowledge of every other functional area the business is connected with. For say, without knowing the cost of company's operational and marketing activities, it is impossible to price a product accurately.


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Annexure



QUESTIONNAIRE

● Question 1. What are the product categories that you deal in?

Question 2. Which online platform do you sell your product? ●

● Question 3. How is the order fulfilled?

Question 4. How much does the online platform charge from you? ●

● Question 5. Would the profit been more or less, if you were selling offline instead?

Question 6. Would you prefer setting up your own website or switch to some other platform? ●