



# Collective gains

B2B online marketplaces help SMEs reduce costs and lead time by offering a more transparent and faster procurement process

*Shilpa Elizabeth Abraham*

**F**or many of us, until recently, e-commerce revolved pretty much around Amazon and Flipkart. The B2C or the consumer-oriented marketplaces were cool, sexy and investors' darlings, whereas B2B e-commerce was old school, boring and everything that B2C was not. It took almost over a decade after IndiaMART – the country's first online B2B directory – was established in 1996, for the next set of players to emerge in this space. But things have been evolving.

According to data by Tracxn, B2B e-commerce start-ups in 2017 raised \$196.5 million—the highest in 10 years. Power2SME with its \$35 million series E round, and Moglix, which raised \$12 million, were among the prominent names. The same year also witnessed the entry of Amazon in the B2B space with the launch of Amazon Business. Meanwhile, Chinese giant Alibaba, who sold goods worth \$547 billion in FY17, has been trying a different model in India by focusing on cross-border wholesale trade. Alibaba's B2B platform has been there for some years, but hadn't scaled up much. To better the situation, the company is entering into a series of partnerships with DHL, Delhivery and the likes for providing domestic and international logistics support to Indian sellers and offering financial aid through its tie-ups

with Aditya Birla Group's NBFC arm and Kotak Mahindra Bank.

Launched in 2012, Power2SME is the biggest online procurement platform for SMEs and sources raw materials such as steel, chemicals and polymers for manufacturers. With 400 suppliers on its platform the company has catered to around 70,000 SMEs till date. After clocking revenues of ₹865 crore in FY17, Power2SME is aiming for ₹1400 crore in FY18. And a revival in the manufacturing sector is resulting in increased pre-orders for raw materials. A cluster-wide focus and a wider product portfolio have also contributed to the company's growth.

Founder R Narayan believes his strategy for growth has been simple. Prior to starting out, he noticed that in order to get better prices, SMEs were bunching up their raw material purchases, which caused a strain on their cash



**POWER2SME**FOUNDED  
**2012**CUSTOMERS  
**70,000**SUPPLIERS  
**400**FY17 REVENUE  
**₹865 crore**  
FUNDING  
**\$ 70.8 million**

*The most important success factor for B2B marketplaces is to have repeat orders of more than 85%*

—R NARAYAN, founder, Power2SME



flow, in turn, hampering their overall growth. Around 70-80% of a SME's spend was on raw materials and the rest on maintenance, repair and overhaul (MRO) supplies. Hence, Narayan decided to capture the largest piece of their spend. Instead of asking SMEs to bring in large orders, the startup purchases in bulk from large suppliers such as GAIL, Posco, SK Corporation (S Korea), Imerys (Europe), Bhushan Steel, Essar Steel, SAIL and passes on the benefits to the SME customers, who save about 3-4% of their procurement costs.

However things were not as easy as he would have liked them to be.

### ***Power2SME buys in bulk from large suppliers and passes on the benefits to SMEs who save 3-4% of their procurement costs***

The conventional nature of the industry proved to be the main challenge and the team faced issues from the supplier side. Narayan explains, "It was initially difficult to convince suppliers. For instance, when we approached a chemical supplier who has been in the business for decades to convince him to use internet as a medium to sell his

products, he was initially hesitant. But as we built more and more case studies it became easier."

According to Narayan, one of the critical success factors in B2B e-commerce is the cost of customer acquisition and given Power2SME's average ticket size was around ₹40 lakh, just 3% was enough to cover the customer acquisition cost. While larger ticket sizes were possible when it came to raw material sourcing, B2B startups that were focused on MRO supplies and industrial equipments found it difficult to scale up as large ticket sizes were hard to come by. This is because products such as safety

shoes or power drill are not purchased in bulk quantities, unlike raw materials. "If you look at the players whose order values are around ₹2,000, their cost of customer acquisition would be around ₹10,000 which means—to become profitable the customer has to transact with you five times, till then you will be making losses,"

explains Narayan. Adding that the main criteria for a successful B2B business is to have high repeat orders of more than 85% which help the business scale, Narayan says, "Unlike B2C, neither can impulsive buying be expected, nor can customers be attracted with discounts. For many companies, the repeat rates are around 20% which makes it very difficult."

Realising the importance of working capital for SMEs, around 9 months ago, the company launched FinansME, an online platform to facilitate credit for its customers by tying up with around 22 financial institutions. Loans are offered at around 11-12% interest (while NBFC charge around 19% for these loans, local money lenders charge a whopping 30%) which offers further savings to SMEs on top of the 3-4% savings they make on purchases. Any client which is referred to any financial institution will be passed through the accreditation system of FinansME which gives the assurance in terms of credit quality of the customers. These factors help them negotiate the best interest rates and other commercial terms with the banks and NBFCs.



The startup which saw participation from investors such as Inventus Capital Partners, Accel, Kalaari Capital and Nandan Nilekani also saw IFC, a member of the World Bank Group, coming on board in its latest fund-raising round in September 2017. "As per a latest survey, only about 2% percent of total MSMEs in India are tech savvy and are using digital means to do their business. In future, this number will only grow creating more room for Power2SME to operate," says Ruchira Shukla, South Asia Regional Lead for Venture Capital at IFC, World Bank Group

Among the few selected startup investments IFC has made in India, Power2SME and Moglix have been the only companies from B2B e-commerce space. While Narayan hopes to enter the unicorn club by 2022, Rahul Garg, founder of Moglix believes that it will get there earlier. Garg refuses to disclose Moglix's revenue but claims a growth of 50x over the last 20-24 months. According to data from Zauba Corp, the last disclosed revenue of the company was ₹50 lakh as on December 2016.

Launched in August 2015, this Ratan Tata backed startup aims to digitise the supply chain of manufacturing sector and specialises in the procurement of industrial products such as MRO supplies, safety items, pneumatics and so on. While those are not big ticket items, Moglix got its business model right by increased focus on medium and large enterprises over small businesses. The company felt it would be easier to scale up an industrial tools procurement plat-

### ***Moglix, which has warehouses and fulfillment centres in 20 locations, has raised \$12 million in August 2017 from investors***

form that way since an increased focus on larger enterprises would mean regular, larger, organised purchases unlike SMEs whose buying pattern is sporadic. "Medium to large enterprises do business differently from SMEs. We provide them tech-enabled trackable and predictable supply chain system which can be integrated in to their ERPs. This helps improve the cost, quality and delivery of the purchases," explains Garg.

The startup caters to over 200 large enterprises and around 100,000 SMEs with an average ticket size of ₹10,000-15000. It follows a transaction based model where sellers are charged a commission on every transaction done through the platform. The startup makes sure it has full control over end to end processes by taking care of the logistics as well.

The startup which has warehouses and fulfillment centres in 20 locations raised \$12 million in Au-

gust 2017 from IFC and Rocketship, vc along with existing investors Accel Partners, Jungle Ventures and Venture Highway. Subrata Mitra of Accel Partners remembers how they had started working with Moglix even before the idea had shaped up. "In fact, it was some of our research that helped Rahul identify a large market segment," he says. According to him, B2B commerce is a huge opportunity that remains largely undisrupted

*A certain amount of competition is welcome because we need to build the ecosystem together*

—RAHUL GARG, founder, Moglix



#### **MOGLIX**

FOUNDED

**2015**

CUSTOMERS

**200** enterprise customers and  
**100,000** SMEs

SUPPLIERS

**2** lakh SKUs listed

REVENUE

**₹50** lakh as on December 2016

FUNDING

**\$16.2** million



by technology and Moglix with its unique blend of supply chain and commerce enablement is making the entire procurement lifecycle efficient. Mitra notes that although technology adoption has historically happened slower than expected, if the overall GDP expansion takes place as projected, companies like Moglix are likely significantly from the acceleration.

Gurgaon based ofBusiness, although an online procurement platform for SMEs, differs drastically in approach. Asish Mohapatra

procure through their platform. "The working capital cycles of SMEs, which are primarily used for raw material purchases, are getting longer. A pure B2B marketplace or supplier cannot extend credit for a longer period because then they would struggle for capital themselves. Whereas we can since we are also an NBFC. For us the longer cycle the better, because we also earn more interest," Mohapatra says.

OfBusiness funds the working capital loans through debt and has a debt of ₹150 crore till

turned profitable at the operating level. At ofBusiness, while data and lead acquisition happens online, credit assessment, payment and fulfillment happens offline. With around 80 sellers, the startup has catered to around 5,000 SMEs across 22 industrial clusters so far. It raised \$11 million in December 2016 from Zodiuss Capital and Matrix Partners. "ofBusiness was right in identifying this as a credit-first problem and building a credit engine and a transaction engine simultaneously. B2B marketplaces mostly see big ticket transactions and no big transaction happens in the country without being credit involved," says Vikram Vaidyanathan, managing director, Matrix Partners.

While the B2B online marketplace has been steadily growing, it has seen its own share of failures too. Among those that have wilted include RocketInternet backed OfficeYes and IndiaMART's own Tolexo.

Lack of infrastructure, inadequate logistics, funding woes and the fragmented nature of the industry has been posing challenges. In March 2017, Tolexo, which ramped up to the monthly revenue of more than

## *For every customer, ofBusiness sets a financing limit using which raw materials can be purchased from their platform*

and his team who felt the primary need of an SME is working capital, launched the platform in 2015 is to offer credit to SMEs. For every customer, ofBusiness sets a financing limit using which raw materials can be purchased exclusively from their platform. Mohapatra believes this gives the startup an edge over others. "We act both as a finance as well as fulfillment network for SMEs," he says. Only those SMEs who avail finance from them can

date. A consortium of 4 NBFCs and 2 banks led by Kotak Mahindra Bank extend the debt. The company charges an interest of 18-19% on its loans as well as earns a commission on product sales. Dealing in raw materials such as copper, aluminium, zinc, steel, polymers, the startup sees a minimum ticket size of ₹7-8 lakh. Clocking a revenue of ₹220 crore in FY17, ofBusiness is looking at ₹700 crore by March 2018 and has

*We act as both as a finance as well as fulfillment network for SMEs*

—ASISH MOHAPATRA,  
Co-Founder, OfBusiness  
(Top left)

### OFBUSINESS

FOUNDED  
2015

CUSTOMERS  
5,000

SUPPLIERS  
80

FY17 REVENUE  
₹220 crore  
FUNDING  
\$19.9 million







*Our revenue has grown at a CAGR of 35% over the past three years on better product and price discovery*

—DINESH AGARWAL, founder, IndiaMART

## INDIAMART

FOUNDED

1996

CUSTOMERS

5 crore including small, medium and large enterprises

SUPPLIERS

40 lakh

FY16 REVENUE

₹300 crore

FUNDING

\$10 million

₹2 crore in less than a year of its inception in 2014, announced that it is shutting its B2B retail wing citing slow momentum in the aftermath of demonetisation. “We grew very well in 2015, but meanwhile IndiaMART was also evolving and by 2016 we saw lot of overlap happening between both,” says Dinesh Agarwal, founder and CEO, IndiaMART. “We saw that product discovery and price discovery was happening better across large number of categories in IndiaMART rather than few concentrated categories across Tolexo,” he adds.

IndiaMART has everything from industrial machines to building and construction materials to industrial supplies, packaging machines, chemicals, auto parts, and metals. Tolexo, on the other hand, focused on specialised industrial tools and equipment. Given its niche focus area, the startup struggled to scale-up after its initial spurt. So, instead of pumping in more funds into Tolexo, the company decided to add a payment layer to IndiaMART, making it a full-fledged B2B e-commerce platform. Tolexo, which had seen an investment of around ₹200

crore till then, was finally shut down in March 2017.

According to Agarwal, IndiaMART’s revenue has increased at an average of 35% over the past three years. According to the last reported figures, the company which has a listing of 40 lakh suppliers, clocked a revenue of ₹300 crore in FY16.

IndustryBuying, another major player, is also planning to layoff

the Indian B2B market, but the start-ups aren’t losing sleep just yet. While Amazon could be a stalwart, Narayan of Power2SME feels the DNA of B2B and B2C companies are very different. “Amazon may not go after the same segments that we operate in. For instance, they may sell stationery items and similar supplies rather than going after raw materials since they are wired to handle small ticket sizes bet-

## *The stage is set for some tough competition as Amazon and Alibaba have their eyes set on the Indian B2B market*

around 30-50% of its 500-strong workforce, according to reports. Despite raising a total of \$37.8 million from investors, the company who has around 5000 sellers and close to ₹1 lakh SMEs registered on its website, is struggling to scale up as funding woes and competition increase.

While it remains to be seen who will eventually survive and who will wilt in the long run, the stage is set for some tough competition. Deep-pocketed players such as Amazon and Alibaba have their eyes set on

ter,” says Narayan. But he is more than happy have more foreign players join the fray since he feels their deep pockets would help in expanding the overall market which would be beneficial for everyone.

Moglix’s Rahul Garg agrees with him. “At this stage, a certain level of competition is more welcome because we still need to build this ecosystem. If the adoption goes from 0.5% to 10%, thanks to the entry of new players, it will be great for everyone because that’s the battle we are fighting today,” he concludes. 📊