

Case Study

UDAAN – Transforming B2B Business Across India

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1. Introduction

Udaan is a B2B trade platform, designed specifically for small and medium businesses in India. Udaan is revolutionizing the way B2B commerce is done in India. The mission is to provide a great equalizing platform to millions of small and medium businesses (SMBs) (www.crunchbase.com) in India and to make B2B business simple, transparent and convenient. While large companies like ITC and HUL have been able to build their own Distribution and supply chain over the years, many small firms had to go through multiple layers of distributors and wholesalers. Udaan identified a big business opportunity by providing a single window distribution solution for goods manufactured by many small and medium scale manufacturers that had the capacity for scaling up. On a conservative estimate, the business market potential at the all India level was estimated to be over Rs. 70 trillion.

2. The Founders of B2B Startup Udaan

The Founder members of B2B Startup Udaan are three former top Flipkart, Employees Sujeet Kumar, Vaibhav Gupta and Amod Malviya. Sujeet Kumar was a product of IIT, Delhi. He built Flipkart's Operation and Logistics Unit. Vaibhav Gupta was also a product of IIT, Delhi. He went on to do his MBA at Darden School of Business, University of Virginia, USA. He joined Flipkart as Senior Vice President (SVP) Business Finance and Analytics. Amod Malviya graduated from IIT, Karagpur and was Flipkart's Chief Technical Officer (CTO) best known in the startup ecosystem as the man who built Flipkart's technology backbone. All

three of them left their lucrative jobs in Flipkart and started Udaan in June 2016 as co-founders, and went on to build the Udaan team which became fully operational by early 2018. Soon after, a further intake of 25 executives from Flipkart helped to form the leadership for the various teams. ([TechCrunch, 2018](#)).

3. The Udaan Team

The Udaan team consists of hundreds of super awesome folks from IITs and NITs, carefully picked by the co-founders to be thinkers, decision-makers and executors. The stringent standards set in the operations expect them to reinvent the present supply chain model of the client and involves:-

- **Design and Implement Processes of Logistics Operations;**
- **Drive Incremental Changes in Current Processes to Increase Productivity;**
- **Process Efficiencies Using Operations Concepts.**

In implementing the changes, the operations teams are required to closely work with the Central Team, Vertical Heads, City Heads, Hub Managers and all other important stakeholders to help improve operational efficiency of the client's supply chain.. They have to conduct regular audits around cash, material and documents at the hubs and coordinate with the central team to resolve issues, remove bottlenecks in day to day operations by closely collaborating with cross functional teams involving business analytics, finance, legal aspects, administration etc., Today, Udaan has close to 1,500 full-time employees and over 15,000 contractual workers for logistics and field tasks. (www.udaan.com)

4. Udaan's B2B Net Work

Udaan operates a business-to-business online marketplace for online trading. The Company's application helps traders, wholesalers, retailers, and manufacturers to connect directly with each other on a single platform, as well as facilitates buying and selling with secure payments and logistics, enabling businesses to discover customers, suppliers, and products across various categories. Udaan connects manufacturers and wholesalers with retailers online, and also supports payments and logistics. The e-commerce startup has more than two million buyers (retailers and kiranas) in 900 cities and towns across India. and numbering about 35,000 sellers which includes small manufacturers, wholesalers across 200 cities and towns from 29 states in India on its platform. Some of the bigger firms in Udaan's network include Reckitt Benckiser, Marico and Motorola. (www.entrackr.com). Udaan uses sophisticated technology to work its network and has many technology partners. (www.crunchbase.com).

5. B2B Product Categories

Udaan deals with a wide range of products in its intercity and intra city operations.

5.1. Inter-City Trading

Inter-City Trading concentrates on clothing and accessories, electronic items, home appliances, kitchenware, toys, stationery items, footwear, baby care products. Loans against goods received ranges from 15 to 45 days for the sellers to tide over immediate cash requirements and is adjusted against final payments due to them.

5.2. Intra-City Trading

Intra-City Trading focuses mainly on consumables consisting of staple foods, FMCG products, and pharmaceutical items. A recent addition to this list is fresh fruits and vegetables presently concentrating two areas, namely, Bengaluru and Delhi. In this category, the biggest requirement is extending loans to sellers ranging from a few days to a maximum of one week to fix the immediate cash crunch.

6. Distribution

Unlike offline distributors who supply stores only when the order is sizeable with multiple SKUs, Udaan distributes smaller orders too. It also offers transparency. Shop owners can browse through Udaan's mobile application to check product features before placing orders. Hence, Udaan's distribution system is a boon to many small and medium scale businesses. (m.economictimes.com).

7. Udaan - A Startup Unicorn

With above operations, Udaan has been able to scale up significantly. Industry sources peg its gross merchandise sales value at US\$ 170 - US\$200 million per month that is driving its trade turnover to be in the region of US\$ 2 - 2.4 billion per annum. Such hyper growth has helped Udaan become India's unicorn (Wikipedia) with a valuation of US\$ 1 billion in September 2018, within 28 months of its founding.

8. Capital Funding

Udaan has attracted a total capital of Rs 1,600 crore till date. Out of it, the company has received major investments from venture capital companies such as Trust Root (www.roots-ventures.com), Light speed Venture Partners (www.lsvp.com) and GST Global (GST Global) and Russian internet billionaire Yuri Milner (www.yurimilner.com). The legal name under which these funds have been borrowed is Hive loop Technology Private Limited.

9. Market Assessment of Opportunity

The founders first learned through a market survey by visits to buyers and store owners in small towns such as Coimbatore, Dharwad and Mysore that there was a need for

- **a greater variety of goods ;**
- **a pricing guarantee ;**
- **a timely delivery ;**
- **a quality of goods ;**
- **a credit to buy these items ;**
- **a time frame to make payments.**

The survey revealed that a typical shop owner bought from 50 - 60 wholesalers or manufacturers,

who typically supplied 1,000 - 2,000 retailers. These wholesalers or manufacturers offered merchandise on credit to only about 10% of retailers, while the rest dealt in cash. This manifested an immediate opportunity - the founders identified that both sellers and manufacturers liked to increase their business with better products and better prices but could not do so due to credit constraint. This was identified as the major inefficiency in the market. Suppose a buyer in Bangalore has identified a seller, say in Gujarat, with a better product at a better price, the buyer would still go to his local supplier in Bangalore who would give him credit, which the new seller in Gujarat would not give because of his unfamiliarity with the buyer. Thus in India, one of the unacceptable things that credit in trade has done is to reduce the price efficiency which has denied the consumer from getting the best value for his money.

In order to correct this anomaly, Udaan, for a start, concentrated only on two categories of products, namely, mobile accessories and fashion wear. Udaan's platform allowed mutual understanding between sellers and buyers in respect of following aspects:-

9.1. Information Exchange Between Sellers and Buyers:

- How many purchases buyers made;
- How often buyers delayed their payments; and
- How frequently buyers returned products.
- Sellers also had the option of marketing goods by creating brand stores on the platform

9.2. Information Exchange Between Buyers and Sellers:

- Buyers knew how well a product was doing in the market;
- Which sellers delayed shipments; and
- Which sellers compromised on quality of goods.

9.3. The Supply Chain Platform:

Udaan's market survey revealed that in traditional marketing manufacturers spent up to 20% of the MRP on wholesalers and distributors. The digital platform

of Udaan substantially reduced this cost and raised the margins of the manufacturer. This has encouraged more categories manufacturers to approach Udaan to find markets for their produce. Udaan has now expanded to multiple categories of products and distributes everything a neighborhood store wants to stock.

9.4. Additional Market Support:

Even as Udaan added more sellers and buyers to its platform, it also started offering logistics and credit by partnering with third-party players. But the approach had a problem. Logistics companies fixed minimum volumes which was not suitable for many of Udaan's small and medium enterprise customers. So the company set up its own logistics unit to cater to the needs of these customers. This helped Udaan to consolidate the shipments and scale up its volume of business several fold.

Udaan also discovered that no supply chain platform handled a product on short term credit for small retailers. Those who tried build a market for these products asked retailers for their historical IT filings and e-KYC, which the merchants were not prepared to share. Having studied the volumes that these small businesses can contribute to attain economies of scale in this business, the firm set up a Non-Banking Finance Company (NBFC) in the latter part of 2018 that extended loans from Rs.10, 000 /- to Rs.2, 00, 000 / - to over one lakh buyers. In order to strengthen the NBFC functions, Udaan hired experienced leaders from other companies.

By providing such business support through logistics and credit, Udaan was able build customer loyalty and increase the buyers' dependence on the platform and reduce substantially defaults on payments or returning orders. All the intelligence on past transactions enabled Udaan to study the repayment behavior and build a strong base of loyal customers which has helped to scale up its business substantially. In addition, the performance of Udaan has boosted investor confidence that has helped raise its venture capital to US\$ 285 million as on June 2019. As it grows, Udaan will need to make heavy investments in building its

logistics and warehouse network because the volume of the volume of goods on its platform will be in thousands of tonnes.

10. Market Expansion of Some Popular Brands

Chennai based home appliances and kitchenware brand Butterfly is well known across south India for offering the middle class market typical value-for-money wet grinders, gas stoves and pressure cookers. But the firm which had a turnover of Rs.650 crore in the 2017 - 18 financial year wanted to ramp up sales by expanding to newer markets, where unlike in the south it had insignificant distribution network. In January 2018, it signed up with Udaan to act as its exclusive distribution platform in West Bengal and some northeastern states. It took field agents of Udaan a couple of months to understand Butterfly's brand positioning.. But after March 2019, Butterfly has seen sales in this geographic region more than double from Rs. 40 -50 lakhs to about Rupees one crore by expanding Butterfly's brand presence to 823 outlets in West Bengal and 620 outlets in the northeast through deep penetration and monthly visits of field agents. Subsequently, Butterfly gave Udaan exclusive distribution rights in seven other states, namely Bihar, Jharkand, Chattisgarh, Madhya Pradesh, Delhi, Himachal Pradesh and Haryana. Like Butterfly, several other consumer durable brands of smart phones and other electronic goods, apparels, branded fast moving consumer goods and staple foods, traders in commodities like fruits, vegetables, cereals and pulses now want to sell directly to Udaan's network..

Kolkata based Puni Chaudhary, who sells kitchen products on Udaan, records monthly sales of around Rs.10 lakhs. While him also an offline business, bulk orders on Udaan help him move goods faster. He attributes this to Udaan's efficiency in logistics and payment receipts.

But as Udaan scales up and matures, it has brought some changes to its platform. It has revoked its introductory pricing for logistics. More brands are also selling directly on its platform as they reach significant scales and look to expand reach in existing

and new geographies. As large brands grow on its platform, Udaan added a commission to the services provided which was mutually accepted. This in turn has increased income for Udaan.

11. Some Short Comings in Udaan's B2B Model

Surat based Pratik Bajaj, who started selling on Udaan in its early days, fashion products and sarees, said his exposure to Udaan has fallen in the past 12 months as the firm changed its policies to favour of retailers or kirana stores.

Laptop maker Dell posted a notice on its website saying it has seen its products being sold on Udaan via resellers at lower prices. It said it would not take responsibility for its products bought from Udaan or similar platforms

Udaan's founder Sujeet Kumar acknowledged these issues. According to him, most small and medium sized sellers on Udaan could use the platform to build their own brands in non-metro markets which is difficult for consumer focused portals like Amazon India or Flipkart. For instance, it would be difficult to sell products directly to consumers on this platform as delivery costs add 10%-20% to the selling price making it expensive for a value-conscious consumer (www.crunchbase.com)

12. Conclusion

Size of the B2B e-commerce market is expected to reach US\$ billion by 2020. This is because, in B2B commerce, order values are higher, there are repeat orders arising from recurring use, and businesses are used to shipping costs due to bulk volumes. Even so, several B2B startups like Just-Buy Live, Shotang and Wydr have shut down, underlining market challenges. Udaan is playing in the same market. However, Light Speed Venture's Somaia (www.timesofindia.indiatimes.com) feels that in Indian economy small businesses are the backbone and this offers an opportunity to scale with much better underlying economics. As it grows, Udaan would need to make heavy investments in building its logistics and warehousing network because the volume of goods

on its platform would be in thousands of tones, he added. Hence, strict monetary discipline was needed without which things could go out of control, he cautioned.

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