

TIER 2 CITIES OF NORTH INDIA: AS AN EMERGING MARKET SEGMENT FOR ONLINE MARKETERS

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Abstract: India's online retail market can be subdivided into two parts in terms of the geography –tier 1 cities, which include the metropolises and the highly developed industrial and cultural hubs and the tier 2 and 3 cities which include the developing regions around the country. The disparity between these two parts is pretty blatant – tier 1 cities are prioritized in terms of most amenities, they are valued more within a state since they contribute more to the economy and thus they also tend to be more glamorous. In fact, until recently it was thought that the online retail business wouldn't have much support outside the tier 1 cities. Turns out this is a gross misconception. Although it is true that the online retail business has a huge market in tier 1 cities, the contribution of tier 2 and 3 cities can scarcely be ignored. Markets have been saturated in bigger cities; thus, online marketers are focusing into non-metros cities to avail maximum profit out of this new segment. Moreover, a high cost of living and increasing pollution level in metro cities has further motivated people to shift from metro to tier 2/3 cities. Additionally, government initiatives such as- Digital India, Smart Cities Campaign, Entrepreneurial supportive schemes/programs have helped these cities to be sound in terms of infrastructure it provides to marketers. These government initiatives have led to increase in the employment opportunities and people from metros as well as from small cities find tier 2/3 cities very attractive in all aspects (low cost of living, increasing job opportunities, less-polluted etc.) The limited retail penetration and inadequate product availability and diverse demographics of consumers (who are now internet users) are forming a “sweet spot” for online marketers. Online marketers aiming to respond to the growing potential of tier 2 cities need to assess consumer perceptions and reflect on the design of their market offerings. Presently, discounts and logistics remain the focus area of online marketers to appeal to consumers. These deep discounts model can benefit the larger players who can easily afford discounts and aggressive advertising costs for a longer time. However, it would be challenging for smaller online marketer players who are already struggling to create a niche by focusing on a particular product segment. In a highly competing market (online marketplace) e-marketers need to come up with unique market strategies (segment-specific) to deal with the consumers from tier 2 cities. There is a greater call on the companies to effectively manage the marketing process—beginning to end—for a competitive advantage. Given that marketing activities are a conscious effort to elicit a favorable response from the target market the point to ponder is – What kind of philosophy and strategy should they adopt to balance the interests of organizations and consumers from tier 2 cities? This paper is an attempt to understand and explore the factors responsible for rapid growth potential of online marketing business in tier 2 cities of northern India. In particular, for the marketers the study suggests that non-metro cities can no longer be overlooked as they have emerged as significant markets for the future. It also suggests that marketers cannot come up with the homogeneous marketing strategies when catering in emerging market like tier 2/3 cities.

Keywords: Digital marketing, e-tailers, tier 2 cities, online consumers, marketing strategies.

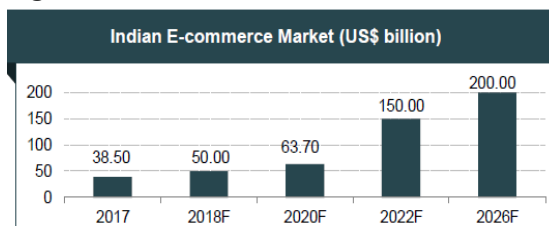
INTRODUCTION

The e-commerce industry in India has come a long way since its early days. With rapid economic growth and an increase in prosperity, Indian consumer markets have seen unprecedented expansion in interest and activity. Better social attainment in terms of education coupled with the advent of the internet and telecommunication has further intensified this growth. In the present environment, technological development in the field

of telecommunication and computer technologies has made computer networks an integral part of our economic infrastructure. The adoption of technology is enabling the e-commerce sector to be more reachable and efficient. Devices like smartphones, tablets, and technologies like 3G, 4G, 5G (introduction stage in India), Wi-Fi, and high-speed broadband is helping to increase the number of online users in the country (Curran, 2021). In the upcoming years, e-commerce is expected to boom in

the Asian region. The number of digital buyers in the Asia Pacific is projected to pass the one billion mark for the first time in 2020, which will account for 60 percent of all internet users in the region. In line with the regional growth, India, a fast-growing emerging Asian market, shows optimistic projections for the e-commerce industry (E-Commerce in India-Statistics & Facts, 2019). India's e-commerce market has the potential to grow more than four folds to US \$150 billion by 2022 supported by rising incomes and surge in internet users (Indian Brand Equity Foundation, 2019). Figure 1.1 presents the forecast growth of India's e-commerce market.

Figure 1.1: India's E-Commerce Market.



Source: Indian Brand Equity Foundation, 2019
(www.ibef.org)

The government of India has long recognized the need for the development of the IT industry and information infrastructure as these are twin engines for the growth of the economy. Deeper penetration of IT applications in the economy, and in society as a whole can help boost the economy. E-commerce applications can make it easier for the country to better integrate with the global markets, the e-marketplace. This has led the government, over the last few years to formulate liberal policies for the development and growth of the IT industry. Govt. initiatives such as digital India, make in India, smart cities campaign, Favourable business policies and increasing investment opportunities have intensified the growth of online marketers (e-commerce).

2.GROWTH OF E-TAILING IN INDIA

Shopping in its early form was a simple process for people, they used to visit a physical store to buy something for themselves. At that time people were not highly literate to access a laptop or PC to buy something online and absence/weak internet connection in some regions was another barrier in online shopping. The year 1991 noted a new chapter in the history of the online world where e-commerce became a hot choice amongst the commercial use of the internet (Commerce-Land, 2020). At that time nobody would have even thought that buying and

selling online or will become a trend in the world and India will also share a good proportion of this success. India first came into interaction with the online portal to experience the services via the IRCTC in the year 2002. The government came forward with the IRCTC online passenger reservation system, which for the first time encountered the online ticket booking from anywhere at any time. This was a boon to the common man as now there was no need to wait for long in line, no issues for wastage of time during unavailability of the trains, no burden on the ticket bookers and this was a big achievement in the history of India in the

field of online e-commerce (Dudhewala A., 2014). After the unprecedented success of the IRCTC, the online ticket booking system was followed by the airlines (like AirDeccan, Indian Airlines, Spicejet, etc.) in the year 2003. Airline agency encouraged, web booking to save the commission given to agents and thus in a way made a major population of the country try online portal for the first time. Today, the booking system is not just limited to transportation rather hotel bookings, bus booking, etc. are being done using websites like Makemytrip, Goibibo, and Yatra.

The acceptance of the online websites on a larger proportion by the Indian people encouraged other business players to pursue the same model for new venture and growth. Flipkart in the year 2007 started its business in India. Initially, Flipkart started its business by providing books, stationery items, and later on when saw people interest in online buying it added a wide range of products on its website. After the success of Flipkart in Indian online retailing, other portals such as- Amazon, Jabong, Myntra, etc. started hunting India for their businesses. Presently, India has emerged as one of the most dynamic online retail industries in the world. In the last two years, the retail industry has been growing at a higher rate of about 12% on account of favorable demographics, growing per capita income, a rising middle class, urbanization and attitudinal shifts in consumer spending patterns, etc. (Retail Industry Update-Outlook, 2020).

The Indian e-tailing industry has seen good momentum from 2014. Online retail marketing in India is growing rapidly and it was expected to grow by 31% to touch USD 32.70 billion in 2022 (Indian Brand Equity Foundation, 2019). The latest report (E-Tailing In India: RedSeer Perspective, 2018) has

highlighted the e-tailing industry growth over the years (shown in Figure 2.1). The key reason for this growth is the emerging tier 2/3 cities in India. As the cost of servicing tier 2/3 and other smaller cities going down, most of the e-tailing growth in the country is coming from there. Overall, online shoppers in India are expected to cross 220 million by 2025 (Indian Brand Equity Foundation, 2019). The metros witnessed slower growth in the number of new shoppers comparatively. The report revealed that the number of online shoppers has grown by 15%, 30%, and 50% in metros, tier 2, and tier 3/small towns respectively in 2018 (E-Tailing In India: RedSeer Perspective, 2018). Another report by Fortune India stated that there is a growing demand for international brands from tier 2 cities and e-tailers have reported above 50 % growth in sales from non-metro cities (The big fat online shopping frenzy, 2019). The growth rate of online shoppers from the metro, tier 2/3 cities, and the smaller town is presented in Figure 2.1 and the detailed discussion on rising consumerism, online shopping trends in tier 2 cities is presented later in next section.

Figure 2.1: Growth of Online Shoppers from the metro, tier 2/3, and smaller town.



Source: RedSeer Analysis.

It is evident that online retailing in India is on the rise and offers immense opportunities for existing online players. Although online market players like Flipkart and Amazon are enjoying a 75% market share, there are several smaller online players such as- Purple, Nyka, Limeroad, Craftsvilla, etc. who are trying to create a niche. These smaller players require to identify the unique consumers' needs or expectations and to provide them more customized shopping experiences. To survive the competitive landscape of online retail, such niche retailers would need to focus on customer loyalty and shopping experience. To provide a customized shopping experience, these players (bigger and smaller) need to understand their consumers and alter market strategies accordingly.

3. MARKETING ORIENTATION OF E-TAILER

It is evident from the previous section that Indian consumers have adopted e-tailing very rapidly. Thus, the industry will also get bigger and better in the coming years and consumers will look for a seamless shopping experience. E-marketers need to keep track of changing lifestyles, tastes & preferences, attitudes, and buying behaviour of online consumers. Presently, the deep discounts model and logistics remain the focus area of the online market players. At the initial stage of online business, the discounts started to lure customers for whom shopping online was a whole new concept. At that time, it was mostly about the “CAC- Customer acquisition cost” and “Educating the customer”, customers who were away from the shopping online. However, as the market began to mature, the players in the space received an uncomfortable surprise – rising competition prevented them from pulling back on the discount front. Now, these deep discounts are being backed by aggressive advertising by online players to gain market share and it is benefitting the larger players who can easily afford discounts and aggressive advertising costs for a longer time. While on one side the bigger players such as- Amazon, Flipkart, Snapdeal, etc. have established well in the online market place, small business players such as- Shopclues, Voonik, Shien, Craftsvilla are still struggling to make their place in the market. Bigger online players are easily putting consumers on ease of selection of the vast varieties of products available on one platform whereas, smaller players are trying to create a niche by focusing upon a particular product segment. For instance- Voonik focusing on the fashion segment for women, Nykaa focusing on cosmetics & personal care segment, Fabfurnish focusing on home furnish & décor, Peppery focusing on furniture segment and Babysworld.in focusing on baby care segment. Being the smaller players, it remains challenging to sustain the business and gain market share while competing bigger players. Online marketers (bigger and smaller players) need to move beyond discount models and find new ways to beat the competition.

Figure 3.1: Online Market Skew.

Source: Author Compilation.

Additionally, the online discount will definitely be affected by e-commerce policy. National e-commerce policy has clearly stated the clause, which defines the maximum duration of differential pricing strategies (such as deep discounts) that are implemented by e-commerce platforms to attract consumers, would be introduced and these clause of the government of India might restrict the ability of e-commerce players to offers deep discounts. Secondly, the restriction imposed on the e-commerce marketplace, to not directly or indirectly influence the price of the sale of goods and services, would be extended to group companies of the e-commerce marketplace (Explained: The policy that could kill deep discounts by e-commerce firms, 2018). Thus, online players would not be able to sustain cashback and deep discounts soon. These discounts can be helpful to get the consumers on online shopping sites and boost sales but it cannot create loyalty among online consumers, neither it can engage consumers for a longer time.

In the coming years, it would be difficult for even bigger players to sustain in the market while relying on the only discount led model because it will create a financial burden on online players as well as on investors. With the e-tailers burning a greater part of their inflows by funding the discounts which they are using as baits to lure customers, they ultimately have to work out strategies to break even. Unable to bear the entire financial burden of such hugely discounted prices all by themselves, they seek discounts from their suppliers e.g. Myntra has already begun to pressurize suppliers to give them discounts to the tune of 36-38%. Brands are also under immense pressure because of a tussle between the online retailer and physical store based on discounts only (Why Indian Online Retailers Need To Think Beyond The Discount Led Model For Seducing Buyers?, 2015). As far as present strategies are concerned online marketers are not seen focusing on another aspect of markets

especially when dealing with consumers from a different segment (tier 2). Online marketers that specifically aim at some particular market segments for instance tier 2 cities should not impose some of their standard marketing practices followed in metropolitan markets without reflecting on the response it elicits in the market segment. Also, consumption behaviour varies with respect to product type. If consumers favour discounts for one product type, they may be looking for warranties or service support for another product. This should be taken care of online marketers while developing market strategies. Marketers can do so while implementing segment-specific strategies (tier 2). Artificial intelligence and consumer profiling can further be a good base for forming an effective market segment. E-marketers can tie-ups with designers & celebrities and sponsor big fashion events which can also help to build a unique image rather than a discount-driven image. Digital technology (website design, website quality, tech readiness, etc.) can influence the present and future revenues of online marketers, hence, online marketers should leverage the integrated power of various digital technologies to better achievement of business goals.

4. TIER 2 CITIES AS AN EMERGING ONLINE MARKET

4.1 Rising Consumerism in Tier 2 Cities

The growth and trends of online retailing in Indian cities have been changed drastically over the years. Traditionally, the focus of online marketers was on metropolitan cities, however close to 3,133 cities that fall under tier 2 and tier 3 category, comprising of almost 31.16% of India's total population has attracted the attention of marketers in last few years. The EY report revealed that 26.4 trillion of household income in India is concentrated in tier 2/3 markets as compared to 800 billion in India's big 8 metros. There are a vast demand and supply gap in these fast emerging markets (India's growth paradigm: How markets beyond metros have transformed, 2018). Several reports from the industry reflect on the increasing economic potential on tier 2 cities, some are quoted below:

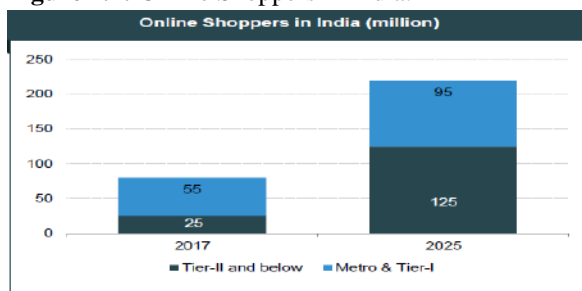
- According to Boston Consulting Group, the tier 2/3 cities comprise almost 80% of the sale in the travel industry by 2020.
- A report by e-travel marketing India has been revealed that 37% of hospitality in India wants to

grow in tier 2 cities (E-Travel Marketing India, Octane Research, 2015).

- A report stated that the business activities are shifting from tier 1 to tier 2 cities and a requirement for office space in these cities are growing rapidly (India Brand Equity Foundation, Real Estate, 2018).
- The property searches in 2018 also surge 173% in tier 2 cities during the first quarter of 2018 compared to the first quarter of 2017 (Property searches surge 173% in tier II cities, but still too early to buy, 2019)

It is beyond doubt that cities that fall under tier 2 and tier 3 segments are most definitely India's financial and developmental future with both balanced and equitable growth are fast becoming the core of projected urbanization in future India. With the exposure facilitated by television, social media, internet penetration, and migrant population, the consumers of tier 2 and tier 3 cities are increasingly following and trying to emulate lifestyles of their counterparts in metros and tier 1 cities. E-commerce has emerged as a potent leveler between rural, semi-urban, and urban populations. An evident influence of e-commerce on tier 2 and tier 3 cities is tied to the paradigm shift in consumption patterns and buying behaviour. With the cost of servicing tier 2 and other smaller cities going down, most of e-retail's growth in the country is going to come from there. Figure 4.1 shows the expected growth of online shoppers (from metro and tier 2 cities) in the coming three years.

Figure 4.1: Online Shoppers in India.



Source: Indian Brand Equity Foundation, 2019.

It is of no surprise therefore that one of India's leading e-commerce player Flipkart is focusing on adding customers, especially from Middle India (non-metro cities) (Variyar M., 2017). The same sentiment is echoed by Jayant Sood, chief experience officer, Snapdeal (another leading e-tailer), "e-commerce solves the big problem of access and availability for people in non-metro areas. This indicates an evolution in consumer behaviour and expectations, leading to the growing adoption of e-commerce as a habit in these regions."

Amidst such a promising scenario it is imperative to understand that small-town consumers have their buying behaviour distinct from their big-city counterparts. The BCG report on the changing facets of Indian consumers rightly highlights the same by stating – "They (tier 2/3) have a strong value-for-money orientation, significant local cultural affinity, and a more conservative financial outlook. They have high purchasing aspirations but are often constrained by product availability. These cities have become an attractive market segment for online marketers and it has captured the attention of marketers worldwide" (The Changing Connected Consumer in India- BCG Perspectives, 2015). Consumers' expectations from tier 2 cities from online retailers are shifting due to varying dynamics of the retail environment (online and offline) including the entry of bigger players. It is challenging for online marketers to know their customers from tier 2/3 cities (expectations) and capitalize on gaps that offline retailers do not provide. As the cities grow larger, online marketers will need to segment further within each one, to identify small areas of opportunity". Given the rapid reach of the internet in the erstwhile alienated tier 2/3 segments, the bottom line for organizations is, therefore, to seek newer models for marketing, brand engagement, and ultimately, commerce

Online Shopping in Tier 2 Cities

As India grows economically, its rising purchasing power has naturally made its emerging cities promising yet untapped markets. Furthermore, aspirational customers from tier 2 and tier 3 cities have moved away from the notion of wanting a car and house to wanting an international vacation. They are willing to pay the price for their demanded comfort level. Social media plays a vital role as well. It has been able to influence customers in the way they want to fit in particular categories with their peers (Evolving shopping habits in Tier II cities, 2017). Low internet tariffs combined with low-cost smartphones, have enabled people from smaller cities to keep them updated about the trends & fashion in metro cities and all over the world, thus, they try to emulate the lifestyle of their counterpart in metros or tier 1 cities. Until now, the Indian consumer was considered only price-conscious, but now even product consciousness is creeping in, which poses a new challenge in smaller towns. As markets in metro cities mature, retailers are moving into non-metros to make the most of changing behavioral patterns brought about by increased earnings, western influences, increased number of working women, and a growing desire for luxury items. Less densely populated regions generated a

larger proportion of online sales. For instance, Flipkart noted that sales of branded products across categories saw a sharp increase, as more of tier 2 and tier 3 Indian towns took to shopping online (Indian Brand Equity Foundation, 2019). Similarly, Amazon also witnessed 91 percent of the new shoppers during the sale season came from tier 2 and tier 3 cities (Tier 2 cities drive flagship Flipkart, Amazon sales; fashion and smartphones top-selling segments, 2019).

Despite the current inflationary environment, tier 2/3 towns are showing strong momentum with an improved demand appetite. Currently, tier 2/3 markets are one of the fastest-growing market segments and providing a lot of business opportunities for national and international investors. Buying behaviour of consumers from tier 2 cities is distinct from their big-city counterparts and it would be a mistake to approach consumers in these cities as a homogeneous group. There is an eminent need to adapt segment-specific marketing strategies to manage consumers from tier 2 cities. Online marketers need to continuously examine or re-examine their business strategies. The marketers need to come up with newer models for marketing, brand engagement rather than relying on what was primarily designed to cater to sophisticated urban markets. It would be unwise to ignore or underestimate these emerging market segments (tier 2).

5.CONCLUSION

It is evident from various reports & articles that future of ecommerce industry in India is quite promising and growing internet users have fueled to its growth especially among middle class people. Online business has added a new sales dimension in selling structure of our country in online retail as well as other online business. Further, India being a developing country can become industrialized and modernized if it can extensively apply IT to enhance productivity and international competitiveness, develop ecommerce and e-governance applications. An information-based society or knowledge based society is composed of IT products, IT applications in society and economy as a whole. The Government also is providing a legal framework for E Commerce so that while domestic and international trade are allowed to expand their horizons, basic rights such as privacy, intellectual property, prevention of fraud, consumer protection etc. are all taken care of. The government is also focusing on overall economic development; they may look at careful calibrated

approach for opening up B2C model in India to FDI. Opening up of Foreign Direct Investment (FDI) in this segment shall change the contours of E-commerce industry in India. Digital disruption has driven change in the e-Commerce industry with shoppers embracing multiple touch points in their purchase journeys. It is clear from the previous discussion, if online market players have to serve in this competitive market, then they need to come up with unique market strategies - especially when you are operating in a country like India having a myriad set of diversity- geographical, social, cultural, political, etc. It would not be sufficient for online marketers to use homogeneous strategies for all online consumers. They need to come-up with segment-specific strategies. Additionally, online marketers need to spend enough resources on technology development as well as on advertising and branding, especially because the younger population is demanding. Issues like prompt delivery, supply chain, demand nature, reverse logistic, accuracy and problem like cart abandonment need to be resolved carefully as these are major challenges for online marketers. On the behalf of the reports experts view showed that the future of e-commerce in India would be bright in the upcoming years and tier 2 cities will grow drastically if all essential factors would be implemented.

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