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Combining ODM and e-commerce…and omni-channel retail?

Singapore Management University

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IUIGA overcame manufacturers' reluctance to supply them. Now it has to figure out how to go from online to offline

When **Zang Hao** launched Singapore-based e-commerce startup IUIGA in May 2017, the goal was to provide quality home products at affordable prices. The goal, as it now appears on the IUIGA website, was to create a "middle ground" between overpriced premium brands and mass-market options that lacked the necessary quality.

The basic strategy was simple: IUIGA acquired complete control over its value chain, from ownership of the items retailed by adopting the original design manufacturer (ODM) business model, to storage, logistics, distribution and marketing.

IUIGA contracted the manufacturers of big global brands, known for their superior quality, to manufacture the same products for them. Shorn of the premium brand tags, IUIGA sold them under its own brand name at much lower and transparent prices on its website and mobile app.

WHERE ART THOU, ODMS?

The Chinese ODMs were the logical choice for IUIGA given the Chinese roots of Hao and his three partners. Most global brands had outsourced their manufacturing to China, a market which IUIGA's founders had extensive knowledge. But getting access to the right ODMs was not a given.

"We conducted market research to see if it was even possible to reach out to the manufacturers as the biggest challenge was to identify and find the ODMs of known brands," Hao points out. Even though one of the company's partners based in China – and also an angel investor in IUIGA – managed to find Muji's manufacturer within three days, Hao had to convince them and other ODMs to work with a virtual unknown.

"The hardest part was to keep going after hundreds of rejections," Hao recounts the trying period leading up the launch in 2017. "It took three months for us to get our first agreement with an ODM. But we learned along the way what things worked and what did not…how we needed to change our presentation style and make it relevant from the ODMs' perspective."

It dawned on Hao that the macro-economic challenges faced by these companies made the value proposition offered by IUIGA relevant to them. In China, the ODMs had missed out on the wave of e-commerce in the country that had overtaken the consumer market in the last couple of decades. These ODMs had ignored e-commerce brands when they were mere startups, choosing to stay with big global brands that provided heretofore steady and lucrative business.

The emergence of e-commerce in China eventually led to a reduction in orders by the global brands, leaving the ODMs to fill the production capacity utilization gap. IUIGA offered them an opportunity to not only target the untapped e-commerce markets of SouthEast Asia without stepping on the toes of their existing clients (the majority of whom were located in the U.S. and China), but also achieve optimal capacity utilisation by producing for the e-commerce start-up in their lean periods.

AT AN OMNI-CHANNEL CROSSROADS

It took IUIGA about a year to acquire the first twenty manufacturing contracts, but thereafter it became easier and faster. The word-of-mouth referrals from the ODMs on-board helped other manufacturers to gain confidence in IUIGA, and by the end of 2016, 57 ODMs had agreed to work with it.

Market response was also encouraging, with unit sales taking off at an average of 630 units for the first quarter after it starting taking order, and growing to an average of 2666 units by the third quarter. But by the ninth month, the sales growth began to plateau.

IUIGA's Head of Marketing **Jaslyn Chan** identified limited brand awareness among Iuiga's target segment as a key factor behind the slowdown, and believed that a pop-up store would be an effective marketing channel in driving customer engagement. Furthermore, given the low penetration of online buying in Singapore, she believed that the physical retail presence would also help target the large offline consumer market.

For Hao, the proposed physical store raised many concerns. Iuiga's business model was based on minimising overheads in order to pass on the savings to customers. Wouldn't a pop-up store escalate Iuiga's cost of operations?

Moreover, the omni-channel retail approach would mandate integration of the physical and online channels across different fronts – logistics, inventory and consumer experience, which would increase the expenditure even further. Hao mused:

> *"World-wide, physical retailing was predicted to be on its last legs, while online retailing was hailed as the rising star. At such a time, would going physical be the right thing for us?"*

This is an adapted version of the SMU Case, "IUIGA'S CONUNDRUM: 'CLICKS' ONLY OR 'BRICKS' TOO?" To see the full case, please click on the following link: https://cmp.smu.edu.sg/case/4066

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