

## HOW INDIA'S TOP ONLINE MARKET PLAYER FLIPKART WENT ON TO BECOME BUMPY FROM BUMPER

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### ABSTRACT

*Today, Flipkart is an India's most valuable brand for online shopping. It was founded by Sachin Bansal and Binny Bansal on 2007. Both are alumni of Indian Institute of Technology Delhi. They started journey with amazon.com as an ordinary employee and then left on 2007 to create their own new venture as Flipkart online services Pvt. Ltd. It began selling books online and soon expanded and began offering a wide variety of products. Now, Flipkart is offering over 30 million products creating to a user base of 100 million registered users. Flipkart headquarter are in the city of Bangalore, India. Flipkart is now the second largest e-tailing company after Amazon in India.*

**KEYWORDS:** *Online Shopping, e-Tailing Company, Venture Capital Funds.*

### Introduction

In 2007, when Sachin bansal and Binny bansal wanted to create their own venture, they choose an online shopping with selling online books in India. The bigger you grow, tougher the challenges you face and harder it becomes to overcome them, this statement was proven by Sachin and Binny. Because in initially both taken many challenges. In its early time, they want to stick Flipkart name board on vendors shop but didn't have approval. Both brothers however faced every challenge head on, Sachin and Binny used to stand outside at a book store, name was Gangaram book stores, Bangalore and take books in hand to customers who were coming at Gangaram book stores. At that time they had to ensure selling target and to make several assumptions for success. Sometimes these prediction was wrong but they learned by mistakes to change the direction. They build good business relations with customers and suppliers. Initially, Flipkart had spent Rs. 4,00,000 only for making the website to set up the business. Flipkart raised huge funds from various investors such as, venture capital funds Accelindia, Tiger Global, Morgan Stanley Investment Management etc. It was a make or break decision. Flipkart had a huge market share in the online shopping business at that time and starting new was very risky and this move surprised the investors too, as more and more customers turned to Flipkart for shopping.

After a year, in 2008-09 Flipkart reported sales were Rs. 40 million. Then year on year Flipkart growth journey was boost with huge sales figure. "The Big Billion Day", that special day for Flipkart because on that day (6<sup>th</sup> October 2014) flipkart sold products worth of Rs. 6.5 million in just 10 hours, flipkart created history in online shopping market. Flipkart gets huge success and reputation in Indian market only because of good customer services. Sachin Bansal believes that 'quality of the service provided' is what sets Flipkart success. Both was always think on how create differentials form his competitors. Time to time Flipkart was updated attributes of services such as, availability of all sorts of products of various categories, enhanced online shopping experience; add to list, pre and post sales experience etc. Their five values- Customer first, Respect, Bias for action, Ownership and Audacity. Flipkart's growth had been phenomenal and it is their continued efforts to bring the best to the market. Excessive ideas might be important for every business, but how to implement those ideas with practically which are more important.

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### **Working Model**

Flipkart is an online platform for shopping, B2C portal which provides shopping opportunities to the Indian customers. Flipkart allows the seller to sell their products by giving attractive discounts to Indian customers. The customers choose the products and they like to buy it. The sellers get an agreed price after deducting the Flipkart's commission for their services provided to these sellers. Flipkart used two different business model, initially started its operation with inventory led model. These model requires huge investment in logistics and warehouse. Flipkart started its operation with books, but later on it started adding more products. Flipkart lately announced a shift to the marketplace model, which is about hosting many retailers on a single online platform. Now Flipkart are using mix of inventory led model and market place model. The various options for buying and selling through Flipkart are through:

- Direct via website
- Direct via mobile app
- Direct via web app
- Direct via social websites
- Direct via affiliate networks

Flipkart also generates revenue not just selling products but has various channels. Flipkart web portal provides platforms to sellers; it charges commission for all the services given to them. Flipkart charge some amount of listing fee to its sellers and convenience fee for the customers to the prompt delivery. Gift wrapping charges are includes in convenience fee. It also generates income from co-branded opportunities on the Flipkart's homepage.

### **Acquisitions**

In 2007, Sachin and Binnybansal after moving to Bangalore, they started Flipkart on a modest budget as a bookstore with a promise to deliver anywhere in India. Flipkart's first acquisition with social book recommendation portal WeRead, it happened in 2010. In 2011, Flipkart acquired a digital content platform company Mime360. In same year Flipkart acquired an online community for Indian entertainment, Chakpakand bought rights of its digital catalogue. In very next year 2012, acquired an Indian e-retailer in electronics, LetsBuy.com. In 2013, Flipkart has been taken a strong decision about acquire fashion e-commerce company Myntra. It also bought a majority stake in Jeeves, which provided maintenance, product guarantees and repairs. In 2015, for strengthen in its mobile platform, Flipkart acquired a mobile marketing start-up Appellate. Flipkart's Myntra acquire rival fashion shopping player Jabong in 2016. Now both fashion e-commerce players have independent but under Flipkart's umbrella. In same year 2016, Flipkart also acquire UPI based payments start-up PhonePe. Ebay agreed to make a million amount cash investment in and sell its eBay.in business to Flipkart in 2017, but still eBay continue to operate as a separate entity from Flipkart. Flipkart also try to acquire snapdeal and offered a huge amount in 2017 but snapdeal rejected its deal as they wanted a sum of higher than offered amount.

### **From Bumper to Bumpy**

The biggest threat from an American giant e-commerce player, is Amazon. In June, 2013 Amazon launched e-commerce business in India. It means more than five years after Flipkart's entry. And now Amazon is a tuff competitor for Flipkart. Flipkart and Amazon are also neck to neck in terms of app downloads, In Between 2016-17 Amazon's website and app was more popular than Flipkart's offerings, end of the October 2017 Amazon with 5.4 million downloads and Flipkart with 4 million downloads. It means that more users visit the Amazon app than Flipkart. For Flipkart it was a massive threat from Amazon because some data trends suggest Flipkart might be losing out.

There are several things have not gone Flipkart's way since the beginning of the year 2016. A former top Google executives, Punit Soni joined Flipkart in March 2015. Punitsoni's appointment was much celebrated in the entire Indian start up community. Punit Soni would be the trump card for Flipkart in upcoming days, Mukesh Bansal even called "the next stage of Flipkart" but few months later, Flipkart confirmed that Punit Soni had quit. Reason behind this decision was due to cultural mismatch. Instability in top management was occur, on 11<sup>th</sup> January 2016 the Flipkart announced to change in top management Binny Bansal replacing Sachin Bansal. Sachin Bansal had been CEO since Flipkart's establishment and now, Sachin Bansal is executive chairman. One month later many people surprised with one shocking information announced by Flipkart about the exit of two of its top executives Ankit Nagori, chief business officer and Mukesh Bansal, Myntra co-founder and head of the commerce platform.

In 2016, Flipkart has to raise funds soon because in March 2016, Flipkart has been devalued by Morgan Stanley and T Rowe Price. Morgan Stanley trimmed Flipkart's valuation by 27%, T Rowe Price trimmed Flipkart's valuation by 15%. Due to that event investors purchase stocks at lower valuation than during the earlier days. However, Flipkart cannot find buyers, company was desperately trying to raise funds with over 15 investors but that was unsuccessful. In March 2016, Indian government released new e-commerce policy which was not suitable for Flipkart also. In new policy, online market players are not permitted to have more than 25% of their sales from one vendor. And Flipkart's largest supplier was WS Retail, which is Flipkart subsidiary. New policy also occur that e-commerce market players will not be allowed to influence the selling price of goods and services listed on their platforms.

The break-even point is one of the most important and commonly used by every organization, but for Flipkart, not done yet. Flipkart is a giant or largest e-commerce player however has not reaching break-even. From reports, Flipkart has been heavily dependent on discounts so far, because of that Flipkart has not earn profit. If Flipkart do not offer fair discount, customers will switch back to offline retailers. But, Flipkart said we are looking to cut losses and move towards profitability during the current financial year ending in March 31, 2018. It's all detail or information just on paper but its good sign from Flipkart, let's see what happen in future. During 2017 Flipkart has reported an increase in it revenues but other side company continued to losses of INR 8,771 Cr. There are many reasons behind company's losses such as, double digit discounts, heavy war between major players and also new FDI policy issued by Indian government.

### Flipkart Competition

Every e-commerce players introduce new products and services constantly, it's easy to sell products online but every e-commerce players to face a fierce competition constantly. There are global and local players in India which constantly affecting Flipkart business.

- Physical: catalogue retailers, vendors, world retailers, publishers, many of which possess significant brand awareness, customer base and sales volume and some of which currently sell or may sell in future, products through the internet or direct marketing.
- Other all online e-commerce sites in India
- Many Companies that offer e-commerce services, including third party fulfillment and
- Customer service, website development etc.
- A number of indirect rivals, including web portals, media companies, web search engines and comparison shopping websites, either directly collaboration with other retailers

### Walmart Deal to Reshape Flipkart

On Wednesday, May 09, 2018 Walmart bought 77% stake in Flipkart for \$16 billion as part of a deal that values the Flipkart at \$21 billion. The deal makes world's biggest ecommerce deal. Walmart will invest \$2 billion directly into Flipkart and the rest of the stake from existing investors like Soft bank, Tiger global, Naspers, Accel partners. Binny bansal, Tencent holdings, Tiger Global and Microsoft will retain some portion of their shareholdings in company. Mr.Kalyan Krishnamurthy will retain his position as Flipkart CEO. In last year December 2017, top Walmart executives Doug McMillon-CEO, Emily McNeal-M&A head, Judith McKenna-International CEO visited Flipkart head quarter in Bengaluru. It became clear show that Walmart was interested about acquisition deal. This deal was not only for finances but also much about safeguarding from Amazon. The squad behind the deal:

Person Name, Age	Position	Role
Sachin Bansal, 36	Flipkart co-founder	He was involved in the talk with Walmart from the very beginning.
BinnyBansal, 35	Flipkart co-founder	He was also played a bigger role in making the deal helped with Walmart.
Greg Penner, 48	Chairman, Walmart	He is the son in law of Rob Walton, son of Walmart founder. Greg Penner influenced the Walton family to convince this deal.
Doug McMillon, 51	CEO, Walmart	McMillon visited India at least three times for this deal and making the essential discussion with Tiger Global.
Judith McKenna, 50	CEO, Walmart international	In earlier, she also visited Flipkart's headquarter in Bengaluru along with Doug McMillion.
Emily McNeal, 47	Head of M&A, Walmart	Her experience in helped Walmart pull off its major acquisition ever in a relatively short span of time.
Lee Fixel, 38	Partner, Tiger Global Management	He bought Walmart, Softbank and other investor to the negotiating deal.

Kalyan Krishnamurthy	CEO, Flipkart	He was presented to Walmart as the hands on, all action CEO who gets things done.
Ananth Narayan, 41	CEO, Myntra and Jbong	Myntra's relatively strong financials were a key reason behind Flipkart bagging a valuation of \$21 billion.
Kabir Mishra, 48	Managing partner, Softbank capital	He is a friend and business school classmate of Walmart chairman Greg Penner, these personal connection helped to this deal.

Before this deal, Amazon's CEO Jeff Bezos communicate with Flipkart's partner Global Management and Soft Bank about the Flipkart sale but both partner believed that Flipkart-Amazon deal would face regulation hurdles. Another interesting things after the deal, which will see founder Sachin Bansal exit completely.

### Path Ahead

When business expand mistakes happens, being at loss doesn't mean that shut down business. Flipkart has a very good funding amount backing it, in case of Indian online shopping market. Bansal brothers must have thought of long term strategy only. Now, Flipkart is focusing on reducing cost by introducing private labels goods such as groceries that yield higher margins. Flipkart is also working on its own loyalty programme which will compete with Amazon's Prime. Bansal brothers are making the blueprint of taking to the next level of growth and also Sachin Bansal already told that Flipkart do not want to focus on earn profit right now but focus on growth, increasing the market share, customer satisfaction, increasing the product portfolio etc. After the Flipkart-Walmart acquisition deal, it plans to help Flipkart in scaling its business fast and the same time bring in cost efficiencies. Walmart may invest more money into Flipkart after a year. The Indian market is big, company will continue to grow the business and it still require more focus on payment system and logistic.

### Implications

Flipkart adopt a flawed business model, which is attract the customers only on heavy discounts, it is bound to fail. Due to business promotion expenses and paid highest package to the top level people, the company acquires high cost. The company will need serious cost cutting just to turn profitable. The biggest focus of the spends will be on acquiring new customers therefore, the company will have to try different elements like investing offline stores to ensure growth and also should look for overseas markets. Flipkart might be a tough long battle in online shopping market and market believe Flipkart will survive.

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