Inspira- Journal of Modern Management & Entrepreneurship (JMME)
ISSN : 2231–167X, General Impact Factor : 2.5442, Volume 08, No. 04, October, 2018, pp. 85-88

WALMART'S FLIPKART ACQUISITION:
CAN IT UNLOCK VALUE IN INDIA'S E-COMMERCE MARKET?

Anuj Aggarwal*
Dr. Alka Agrawal**

ABSTRACT

The recent takeover of India's e-commerce giant Flipkart's assets by Walmart in a multi-billion dollar deal has redefined the rules of e-commerce game in India. Some analysts think that this is a brilliant move by US based Walmart which failed to make a mark in cash & carry retail last year to now aggressively enter India's e-commerce space, while others are cautiously optimistic as there will be set of problems and challenges that Walmart will have to deal with. On the other hand, there is lack of regulatory clarity plaguing the domestic e-commerce industry. The study has gathered secondary data from a variety of sources including annual reports, articles in business press, external agencies, think-tanks, industry associations, analysts' presentations etc. The key objectives laid down for the research study are as follows:

- *To study the characteristics of India's e-commerce industry.*
- *To analyze the impact of Walmart's entry on the competitive landscape of the e-commerce business in India.*
- *To identify the challenges that lie ahead for Walmart in India's e-retailing space and possible strategies that could be adopted to overcome them.*

KEYWORDS: *E-commerce, E-business, Acquisitions, Walmart, Flipkart.*

Introduction

Zwass (2012) defined the term e-commerce as "the sharing of business information, maintaining business relationships, and the conducting business transactions by means of telecommunications networks". The technology is fast changing which allows people to buy or sell anything at the click of a mouse. The benefits of convenience and comfort accrued to all the concerned stakeholders. E-Commerce is an important part of E-Business but both terms are often used interchangeably. It provides flexibility to consumers as it offers freedom of choice, ability to transact anything from anywhere at any time, hence saves time, money and effort. It helps in collection of data on buyers and sellers which is crucial for building relationships and crafting business strategies in the long run. Moreover, it provides a platform to small and medium scale businesses to reach out to larger customer base, enter into meaningful alliances with suppliers or other business firms, hence reduce cost and increase profits. Over the years, E-Commerce in India has grown in leaps and bounds across different products and customer segments. The industry is still at a very nascent stage but there has been a paradigm shift in the shopping behavior of an Indian customer as he is moving from traditional shopping to online shopping.

The Indian E-Commerce market is worth over $25 Billion, according to a report by PWC. The internet penetration and number of smart phone users in India have registered a sustained increase in the last five years, resulting in increase in volumes on the different online shopping websites. Around 60% of India's e-commerce space is captured by travel and hospitality; another 30% is e-tailing and the

---

* Assistant Professor, Vivekananda Institute of Professional Studies, G.G.S.I.P.U.), New Delhi, India.
** Associate Professor, Kamala Nehru College, University of Delhi(DU), New Delhi, India.

remaining consists of consumables, entertainment and others. The major e-commerce companies in India are Amazon, Flipkart, Snapdeal, Myntra and Paytm. The E-Commerce sector is definitely one of the fastest growing sectors in India. There are many factors contributed to its growth including rapid urbanization, fast adoption of advanced technology, increased focus on market share and huge amount of flexibility. But there are still plenty of barriers that act as a roadblock such as poor infrastructure, inadequate logistics and warehousing facilities, customer loyalty, lack of data etc. The selection of e-commerce site depends on multitude of factors such as appearance, product line, efficiency in order processing, schemes/vouchers, other miscellaneous services etc.

There are broadly two types of e-commerce in India – Multi Product E-Commerce and Single Product E-Commerce. The Multi Product E-Commerce portals are those which sells different categories of goods and services along with a lot of variety within each category in an online market place. They basically cast a very long net for customers across demographics and geographies. On the contrary, Single Product E-Commerce portals are specialized in nature as they are catering to a niche group of customers belong a particular segment. For instance, apparrel and accessories for women or men, consumer electronics, gift items, books and magazines, beauty products, employment, travel tickets, matrimony etc.

Types of E-Commerce Business Models

There are five different models that can be adapted by different e-commerce websites, they are as follows:

Business to Business (B2B): Business to Business E-commerce model basically means a whole range of transactions that can take place between two business organizations including purchase, sale, inventory management, payments management, sales management, supplier management, distribution channel management, other support services etc.

Business to Consumer (B2C): Business to Consumer E-Commerce model includes all the exchanges and transactions between a business and consumer for the entire spectrum of products or services. It involves direct dealing among business people and end users and cut down various middlemen such as wholesalers, distributors, retailers etc.

Consumer to Consumer (C2C): Consumer to Consumer E-Commerce model is created to foster interactions among consumers themselves. In this kind of business arrangement, consumers can make exchanges with each other through virtual interface. The third party may or may not be part of the transaction. Traditionally, consumers used to transact directly with each other but only a tiny proportion of those exchanges were commercial in nature. E-Commerce has made it possible for two complete strangers to interact and transact goods or services through a common platform.

Consumer to Business (C2B): Consumer to Business E-Commerce model is relatively new but very innovative. It is in many ways the exact opposite of traditional e-commerce models. In this approach, the group of consumers can come together and create a 'Buyer's group' or a 'Seller's group' and either buy/sell goods or render services to a business through C2B relationship. For instance, the consumers can provide ideas for new product development or become demand aggregators.

Business to Business to Consumer (B2B2C): Business to Business to Consumer E-Commerce model is relatively complex than others but it can supplement the efforts of principal business entity. In this model, a new entity is employed as the additional intermediary to help/assist main business enterprise reach to its customers. It helps in reduction of costs and better service as the first business would have a reasonable degree of control of the value chain.

Flipkart vs Amazon

Flipkart is the leading e-commerce portal in India engaged in vast variety of products including fashion accessories. Amazon is the global behemoth in the e-commerce industry which has set up operations in India as well across multiple segments. But which is better – Flipkart or Amazon? There are no single criteria or parameter to answer this question. In traditional models, the yardsticks that were used in retail businesses were number of orders, profit per order or turnover. But the parameters are different for e-commerce portals. According to reports, while Amazon leads in units sold, Flipkart is better in terms of GSV or Gross Sales Value. Recently, the data suggested that Amazon has surpassed Flipkart in major cities of India where rich or upper middle class is concentrated in large numbers. As far as online fashion segment is concerned, Flipkart has an edge over Amazon as it has a substantial customer base through its subsidiaries Myntra and Jabong. Flipkart is doing better in mobile phones segment which corners a significant portion of its GSV. Similar to Amazon and PayTm, Flipkart has its own payments gateway PhonePe. But from a consumer perspective, Amazon has edged past Flipkart in terms of app downloads, average active users per day, browser visits etc.

The India's Online Fashion market is increasingly becoming a cash cow for e-tailers as it earned over Rs. 2000 crore in terms of gross sales. Within this market, Apparels contribute 40-45% of the aggregate sales, footwear 30-35% and accesories the remaining. There has also been a major shift from metro to non-metro cities as the latter are driving over 60% of the growth. According to Google-AT Kearney report, the India's online fashion market is going to be the largest among various digital categories. By 2020, lifestyle products are expected to contribute 35-40% of the total online spending estimated to be $60-65 Billion, while consumer electronics to be next to lifestyle with 20-25% of aggregate spending. Further, according to this report, online fashion has become the second most searched category on Google. Currently, Flipkart has a mammoth 60-65% market share in the online fashion space along with Myntra and Jabong, followed by Amazon and Snapdeal with 20-25% each. The biggest challenge to Flipkart is coming from emerging niche fashion retailers who have the advantage of either product differentiation or backed by an industrial group with deep pockets. Moreover, fashion as a segment demands a sizeable offline presence as well since fashion products require 'touch and feel' from the end customer. Hence, a robust omni-channel strategy with add on services is a way to go for e-tailers in the online fashion space.

The market leadership position in the fashion vertical allowed Flipkart to enjoy greater bargaining powers with the suppliers and higher pricing power with the customers. The two most prominent online fashion destinations are Jabong and Myntra, both controlled by Flipkart. The future of Flipkart in this segment is growth oriented while Amazon is yet to catch up. In the mobile phones space, Flipkart is a leading e-commerce player as it allows potential customers to navigate through the site that houses many popular brands and enjoy amazing after sales services. The online sales of mobile phones are sky-rocketing and a large chunk of it is accruing to Flipkart. The virtual medium is highly amenable to high value, personalized, not bulky, high demand and low shipping cost product like mobile phones. It is no longer a symbol of status but identity and necessity. The deals with Xiaomi and Motorola have elevated Flipkart to the next level, while Amazon is still trying to understand the dynamics of the market. Flipkart has turned into a platform for manufacturers to list their models for greater traction in the market, this gives a lot of bargaining power to Flipkart on the margins as it's a high turnover segment. It is marked by relatively low margins as compared to fashion and the risk of losses due to fraud is high but volumes are very high and shipping costs are low.

The recent takeover of Flipkart's controlling stake by Walmart will redefine the rules of e-commerce game in India. Till now, Walmart has been a retail behemoth in the brick and mortar format with 11,718 retail locations worldwide. It has come to realization that brick & mortar strategy alone will not suffice and they need to invest resources to bolster their online presence. It's incredibly hard to enter into an uncharted territory even if you have deep pockets, hence, Walmart has chosen acquisition route as the remedy for their problem. Although, Amazon is a dominating online retail force which controls a mammoth 44% of all e-commerce sales in US in 2017 and has grown a significant presence in India's e-commerce industry. But still this is a brilliant move by US based Walmart which failed to make a mark in cash & carry retail last year to now aggressively enter India's e-commerce space. In short, Flipkart is a market leader in both high margin segment (fashion) and high turnover segment (mobile phones).

Impact of Walmart's Entry on Indian E-Commerce

The Indian E-commerce industry is at nascent stages of development as compared to their western counterparts. But it is also relatively inefficient due to variety of reasons such as skewed real estate rents to product value ratio, inefficient transportation, weak infrastructure, excessive interference of middlemen, regulatory hurdles etc. Further, high tax rates and complicated procedures worsen the situation. The aggressive entry of Walmart into India's e-commerce space will have an impact on the existing competitors such as Amazon but there is no doubt that even big retail players like Big Bazaar will be bracing themselves for more competition in the future, as it will be better positioned to open physical stores in smaller towns. It is now possible for Flipkart under the Walmart's banner to test omni-channel possibilities along the lines of DMart as it has robust warehousing infrastructure already in place. Not so long ago, all the major retail players in India were not strategic in their approach as they were VC driven, who prioritized short-term growth over long-term value creation. But today, whether it's Flipkart, Amazon, DMart or Big Bazaar, they have long-term horizons which would translate into higher value creation for customers as opposed to discount-led-play which only meant transfer of value from one player to another. With the inflow of foreign capital into India's retail sector, the government could initiate major changes in the regulatory framework to bring about clarity and confidence in the institutional investors. But there is a risk of entire e-commerce in India being run on foreign strategic capital.

Challenges and the Way Forward

Walmart may have found a back door to enter into India's ever growing retail sector, but it will not be a smooth ride. Traditionally, India has been hostile towards entry of big retail chains seeking to establish their footprint in country's retail landscape. While this could be good news for end consumers on one hand, but millions of traders and mom-and-pop shop owners are feeling threatened by the set of events. It's only a matter of time before 100% FDI in multi-brand retail is allowed across different categories (it's allowed in food retail). Post Walmart-Flipkart deal, the combined entity has enormous clout and purchasing power which could translate into huge gains for Indian farmer as they can sell their produce at better remunerative prices but the US multinational has a chequered record in non-US retail markets as what is good for America may not be good for other countries.

The only way forward for Walmart is to become a partner instead of predator if it wants to succeed in Indian retail market. Firstly, it needs to do what a bank or Non-banking finance company (NBFC) does i.e granting loans (if not crop loans). In order to do this, it can partner with a clutch of banks that enjoy vast reach, underwrite a part of it or give advance payment to farmers against future deliveries. Secondly, it can make traders & shopkeepers as their logistics partners or delivery agents while having regulatory supervision. Infact, they already have a programme called "Mera Kirana" which aims to modernize India's mom & pop grocery stores. Further, Flipkart has a subsidiary known as eKart Logistics which is one of the largest supply chain company in India, it can play a very important role in connecting the dots between farm and folk.

Conclusion

The biggest takeaway of Walmart-Flipkart mega deal is that deep pockets always win particularly in the B2C technology plays. Some of the leading companies in this sector are defined by their ruthless pursuit of killing competition, gaining substantial market share and not thinking too much about capital efficiency. For some, Flipkart is the poster-child of Indian start-ups as it successfully leveraged capital and scaled up its operations in India's e-commerce space, only to sell it at a massive premium. But for others, the Indian start-up community has lost a crown jewel and there is no one left that can act as a torch bearer for the next generation of entrepreneurs.

Limitation & Future Scope

The exploratory findings of this study covers the Indian e-commerce sector, similar study could be done in the organized retail space. Further, there is a big opportunity for international management researchers to investigate the phenomenon of e-commerce in the context of other emerging market economies and suggest the path forward to them as the advanced economies are increasingly becoming less consumerist in the aftermath of global financial crisis and e-commerce sites are struggling to find untapped areas of growth i.e industry is at the mature stage of the life cycle.

References

- https://www.atkearney.in/consumer-products-retail/ideas-insights/featured-article/-/asset_publisher/3wUhKxoRuuW6/content/digital-retail-in-2020-rewriting-the-rules
- http://www.foundingfuel.com/article/walmarts-flipkart-buy-will-unleash-a-battle-royal-with-amazon-and-alibaba/
- https://www.firstpost.com/business/walmart-can-charm-indian-farmers-if-it-can-become-a-partner-of-shops-than-predator-using-finance-and-logistics-as-value-drivers-4498375.html
- http://knowledge.wharton.upenn.edu/article/wheres-value-inside-look-walmarts-flipkart-deal/
- https://www.tandfonline.com/doi/abs/10.1080/10864415.1996.11518273.

♦❐♦