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OPPORTUNITIES AND OBSTACLES OF CONSOLIDATION OF E-COMMERCE: AN ANALYTICAL STUDY OF SOME MAJOR BRAND

Dr Virendra Nath Gupta

Assistant Professor, Department of Commerce
Pt. LMS Government PG College, Rishikesh, UP

ABSTRACT

Clearly India is moving towards consolidation as the mergers and acquisitions have grown by 187% in 2010 as compared to the previous year. Also, 2009 witnessed merger and acquisition deals worth $310 million compared to $108 million in 2010.Consolidation will play a major role in reaching the $100 billion revenue target of the Indian E-Commerce industry. This paper aims at provide an insight into the impact of consolidation of the B2C E-Commerce industry from a customer/consumer perspective. The different factors that led to the consolidation of E-Commerce in India will be evaluated initially. Further, various case studies will be considered and their success and failure reasons will be analysed. Based on the secondary data an attempt will be made to bring out an insight into the future trends in the industry due its consolidation. The entire paper is customer centric and evaluates the advantages and disadvantages to the customer due to these changing trends in the industry.

Keywords: *Consolidation of E-Commerce, India, future of B2C E-Commerce, FDI, CAGR*

INTRODUCTION

When K. Vaitheeswaran founded, what is believed to be, India’s first e-commerce company in Fabmart.com, in 1999, few would have predicted that India’s ecommerce industry would grow to a USD 50 billion-plus industry in less than 20 years. Fuelled by a surge in consumerism made possible by rising average incomes over the past two decades, the ecommerce industry is, today, one of India’s fastest growing industries and one of its most attractive for foreign investors.

With strategic and financial investors from all over the world armed with vast reserves of cash to deploy, and eager for a piece of the pie, M&A in the ecommerce industry has become increasingly active. The recent multi-billion-dollar acquisition of Flipkart by Walmart stands as the world’s biggest ecommerce acquisition at a reported deal value of a staggering USD 16 billion. Interestingly enough, this acquisition, along with the acquisition by ecommerce giant Amazon of a part of India’s fourth biggest supermarket chain, more, from the Aditya Birla group, is pointing towards an increasing synergy between ecommerce and retail.

If one were to read the chapter on the growth of the ecommerce industry in India in more detail, it has been aided by a number of factors including technological advancements, data made affordable, and the government’s various policies pursuant to their Digital India campaign. Growth all around also means that the industry players are constantly looking to consolidate

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their position and ensure long-term growth and sustainability in an increasingly competitive market. Being a sector with stiff entry barriers, one of the most prevalent methods today of consolidation and branching out in the ecommerce industry is through the acquisition of smaller firms.

Flipkart is an interesting case study. It was founded in 2007 and focused primarily on consumables. It then acquired Myntra and then Jabong to strengthen its position in the fashion and lifestyle segment. Flipkart did not just eliminate competition for its own fashion and lifestyle activities, but also broadened its customer base, technical know-how and assets to give it an edge over global ecommerce giant Amazon in the online apparel and fashion segment, with Flipkart having a reported 39.5-percent market share compared to Amazon's 31 percent. Flipkart itself has now been acquired by new India entrant and global retail giant Walmart.

Capital requirements for an increasingly cash-intensive industry are being met by global venture capital firms and investors. Recently, in addition to Ola's USD 1 billion funding round, Berkshire Hathaway reportedly invested between USD 300 and USD 400 million in Paytm, India's leading mobile payments platform, which already has substantial investment from the Alibaba Group. Makemytrip Group reportedly raised around USD 330 million from Naspers, Ctrip.com and other investors in 2017.

The significant growth and sustained investments in the Indian ecommerce industry have also attracted the sustained interest of the Indian government, which is seeking to find ways to regulate it without disincentivizing investment in a sector that is becoming increasingly appetizing for global investors and, consequently, a growing contributor to the nation's coffers. The government recently released a draft ecommerce policy in a bid to regulate various aspects of ecommerce from foreign investment to data protection to competition issues. However, the policy has drawn severe criticism from various stakeholders, and latest reports indicate that the policy may need a substantial relook. Given the size and importance of the ecommerce industry, however, it is only a matter of time before the government puts in place a regulatory framework, although industry expectation is that the framework ultimately drawn up will remain industry-friendly.

Indian E-Commerce industry has its origin back in the late 1990's with the entry of job portals and matrimonial sites. Most of them could not make it big though mainly due to the low internet penetration then. Later, the entry of online ticketing and travel services by agencies like yatra.com and Makemytrip in around 2006 considerably grabbed the public attention as ticketing was a huge task during that time. Further on, online retailer like Flipkart and Myntra were game changers of the E-Commerce industry in India in 2007.

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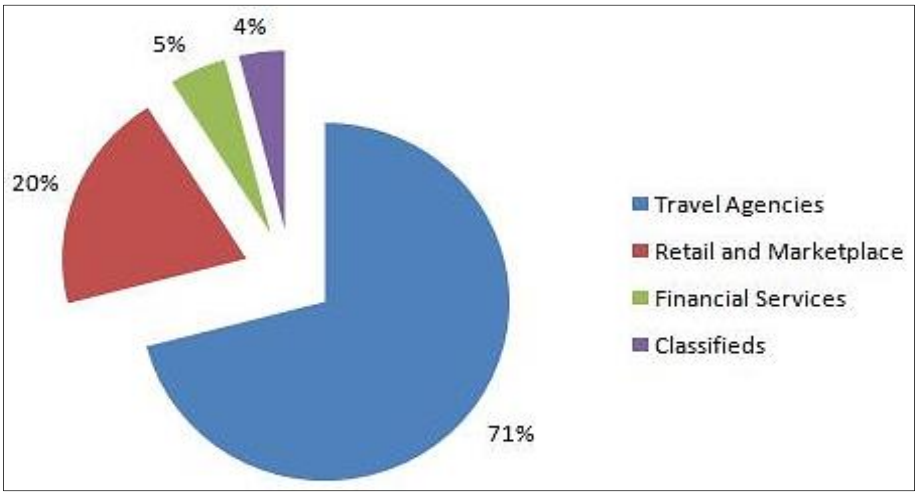

***Fig. 1**: Composition of Indian E-commerce Sector.*

The entire sector has been rapidly expanding since then with lateral entries and developments in payment gateways, logistics, dataanalytics andfinancial services.The E-Commerce industry in India today is of worth $16 billion [1]. Among these, online ticketing and travel portals have the giant share of 71%, followed by retail with 20% and the rest by other services as shown in the Figure 1[2]. With the CAGR of around 50–60%[3] and growing internet and smart phone penetration, the E-Commerce market is expected to multiply in the coming years as in Figure 2 [2]. The massive rise in numbers is also being supplemented by better services, competitive prices, variety of options and other benefits to customers.

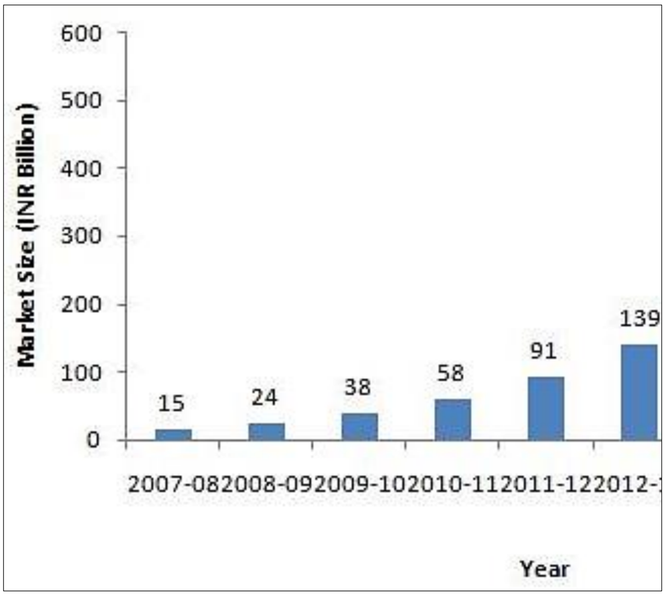

***Fig. 2:** E-retail and Online Market Places-projected Market Size.*

As in any other industry, after all the immense growth and development over the years, the E-Commerce industry in India is finally heading to a consolidation stage.

FACTORS LEADING TO CONSOLIDATION

Consolidation of the E-Commerce industry in India is mainly due to the following major reasons:

1. Capital Intense Industry

E-Commerce is a highly capital intense segment. Huge investments in the form of infrastructure, product stock, and in-house logistics are required for the success of the company in the long run. The availability of these resources has a huge impact on the success factor of the firm. Small Companies generally tend to outsourcethese most required resources due to lack of availability of capital and expertise to setup everything in-house. Apart from the additional cost bearing, the companies service efficiency also tends to come down, in comparison to the big major players. This is widely evident especially in logistics operations where in the huge players with enough investments and capital has the advantage of providing better service to the customer with options like one day delivery or same day delivery. On the contrary, the small and new companies are devoid of these resources and end up with a dissatisfied customer, there by affecting the business over a long run. Moreover, according to the statistics only 18 of 52 E-Commerce start-ups in India which rose a total funding of about $700 million were successful in raising follow on investments[4].From these numbers, it is truly evident that raising continuous follow on funds for the company is a huge challenge. Unable to meet the funding requirement and there by not being able to provide the necessary services, small firms generally tend to offer buy outs or mergers to industry leaders.

2. Entry into Niche and Speciality Segments

Consolidation is an easy option for the industry leaders to extend their business operations reach and product portfolio into newer segments. It is very difficult for the big players to extend their entry into new products organically. So, the big players generally tend to acquire the vertical players in a particular segment there by gaining total control of the market in that particular segment and also widening and establishing their presence. This advantage is one of the major driving forces for consolidation in the industry as it is a win-win situation for both the companies.

3. Companies with the Same Investors

For investors who invest in multiple companies in the same industry, it often happens that only a couple of their ventures are profitable. So, in order to compensate for this, it often happens that one of their collapsed firms merges with another profitable one. By doing this, the collapsed company does not need to shut down shop at once, thereby giving it the time and resources to recover. Also, the losses incurred due to this collapsed firm can be easily compensated for, over time. Furthermore, the investors today are strategically investing in competing companies, there by developing healthy competition between the companies and in the industry for better service and product innovation. Over time, they are moving towards merging these competing companies, there by gaining high exits. This strategic consolidation is a huge benefit for the investors as their ROI rates are multiplying. Also, the large players are well positioned and have the capital and the necessary resources. On the other hand, the smaller ones have the agility and speed for reaching the market. Large players which lack this quality are looking for acquisitions into companies with this high market reaching potential.

CONSOLIDATION IN INDIA

Indian E-Commerce industry has witnessed several mergers and acquisitions in the past couple of years in the initial development stages of the industry itself. Consolidation is seen not only in online retail, but also in other segments like online ticketing and travel, food, job recruitments and sports.

Flipkart - Myntra

The $300 million worth acquisition is considerably the biggest ever recorded in the Indian E-Commerce industry. Flipkart is the industry leader and a horizontal player with a wide product portfolio. On the contrary Myntra is a vertical player with niche market in the online fashion industry. It has a 30% share in the Indian fashion e-tailing market. Though acquired, Myntra would function independently, only banking on Flipkart’s resources for fast and better penetration into the market. With this acquisition, Flipkart has expanded beyond bounds and leaps into the online fashion market with a total share of 50% in the segment, which is experiencing almost 100% growth rate over the past couple of years. This acquisition has been a win-win situation to both the companies. Flipkart will gain advantage of Myntra’s fashion expertise and expand its vendor brand base there by establishing a stronger mark in the fashion e-tailing market. Also, setting up an entire fashion vertical will boost up Flipkart’s profit margins as the fashion industry has the highest margins, around 35%–40% of all the products sold online[5]. On the other hand, Myntra will leverage on the extensive logistic network of Flipkart which is spread over 21000 PIN codes. This will help Myntra reach Tier 2 and Tier 3 cities more easily, there by expanding its presence. Moreover, both the companies together would be able to tackle and put up strong competition to emerging giants like Amazon and Snapdeal.

MakeMyTrip – Easy toBook.com

MakeMyTrip is an online travel assistance portal started in the year 2000 with a present turnover of about INR 2200 crore. After, continuously beating against all odds, the company moved ahead to be the market leader today in online ticketing and travel booking with a present market share of about 48% in the segment. MakeMyTrip acquired Netherland based Easy to Book (ETB) which has a strong presence in the hotel reservations market especially in Europe and North America. In addition to acquiring the entire stake in EasytoBook, MakeMyTrip also additionally invested $5 million in the company[6].

This acquisition helped the company to establish a global footprint.Easy to Book has a strong focus on technology and innovation and being a pure play hotel site, it has brought strong domain expertise to MakeMyTrip. Apart from this, considering the extremely low booking margins and tough competition in the online ticketing and booking industry, it is very difficult for a company to organically enter a completely new international market and sustain. By consolidation, the cost of servicing and acquiring new customers in Europe and North America has been drastically reduced for MakeMyTrip. Also, apart from serving customers there, there is also an increased range of international hotels that the company could offer to its customers in India and other regions.Previously also, MakeMyTrip has acquired many small companies like Singapore based Luxury Tours and Travels, Delhi based My Guesthouse Accommodations Private Limited to establish a strong presence in the online ticket booking and hotel reservation sector both in India and abroad.

Zomato – Menu Mania

Zomato is an Indian restaurant discovery service found in 2008. It has about 25 million visitors globally and has acquired multiple companies for establishing the global presence. MenuMania on the other hand is a similar leading restaurant listing portal in New Zealand. This strategic acquisition helped Zomato have a strong global presence. Zomato organically launched in New Zealand in 2013, but facing global competition and succeeding was a big challenge. MenuMania is well established in the saturated New Zealand market and it would take lot of time, money and effort for Zomato to succeed in such intense competition. So, the company took an alternate route and started to grow inorganically by acquiring MenuMania. This helped Zomato achieve complete control over the New Zealand market and become an industry leader. Any other competition is directly eliminated by this consolidation [7]. Zomato follows a similar strategy in all other global markets, thus having a monopoly in the restaurant listing business. They see global expansion and consolidation as their vision and mission to growth.

ESPN – CricInfo

ESPN is a global sports media houseinvolved in the broadcasting of global sports events. It is actively involved in online broadcasting, television broadcasting, and live scores and also has a magazine publishing house. CricInfo was started by a few college students in the 1990’s for keeping themselves updated about live cricket scores.

This further went on to be a big hit and developed a strong internet fan base. The acquisition helped ESPN to be the market leader as cricket is one of the widely followed sport around the world. After a few strategic investments in the technology aspect and digital marketing into the company, ESPN CricInfo has developed a significant brand as the leading cricketing information provider and is one of the major revenue providers for ESPN[8]. Like every other issue, consolidation also has its share of advantages and disadvantages. It could create a winning situation at times, but may also have some bad effects if exploited unethically.

ADVANTAGES OF CONSOLIDATION

Consolidation can bring in all the advantages and economies of scale. Establishing a larger customer base can bring down operation costs, maintenance costs and fixed capital costs, thereby reducing the per customer costs, which means the customers served and considerably lower prices.The companies will have greater access to capital to invest in technology, logistics and expansion there by serving a larger customer base. With fewer players the probability of receiving continuous investments increases, there by functioning and serving better.

The customers will have wide options while choosing the required product. Also, the user experience is greatly improved by the merchant site being a one stop shop for all the customer needs. This advantage is especially evident in the airlines ticketing industry where in customers easily can find all the connecting flight by just selecting their start point and their destination. Human effort is reduced many fold.Customers will have a single better reliable source of online shopping rather than having many small unreliable sources. This majorly helps in building customer trust and better customer relationship. This is most important especially in an emerging market like India with a large potential for E-Commerce.

The companies will have large customer base which is a major influencing factor for the success of an organization. The company can rely always on at least a share of them at all times for generating revenue and gaining profitability.

The expertise and skilled man power also will be organized under one umbrella rather than being scattered at various places. This will fuel innovation in the company's functioning and policies.Consolidation is a win-win situation for both the companies and the customers as it greatly reduces the expenses in an increasingly competitive industry like E-Commerce which further reflects in the cost of goods and services provided to the customer.

DISADVANTAGES OF CONSOLIDATION

One major disadvantage which may occur due to consolidation is the monopoly of a company in an industry. This would force the customer to use the company's products or services due to no other alternatives. This may lead to exploitation of the customers.Loss of employment is another concern of consolidation. The bigger company may or may not wish to retain all the employees of the acquired company.

This incident has been witnessed when Satyam Computer Services Private Limited has been acquired by the Mahindra group. Lot of Satyam employs that were promised about retaining their employment were asked to discontinue from their services to the company.The customers of the company being acquired also will have to face a few discrepancies if there are any major policy changes in the company after the acquisition. The company's promised deliverables to its customers may or may not be possible after the acquisition.Funding for newly developing innovative companies may be at stake as all the investments are locked up in the larger companies due to consolidation and it takes a lot of time to get returns especially in a capital intense industry like E-Commerce.In few cases, companies may lose their individual identity

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and working style and may be forced to follow the bigger company's working methodology. This may cause conflict in opinion at times, leading to unnecessary conflict and tension.

CONCLUSION

Overall, if properly worked upon consolidation can bring upon revolutionary changes in the industry. It is better for the industry as a whole as all the investments are pumped into potential profit making organizations. This will make sure the loss making ventures either merge with the profit making ventures or weed out thus moving the industry towards profitability.

Clearly India is moving towards consolidation as the mergers and acquisitions have grown by 187% in 2014 as compared to the previous year. Also, 2014 witnessed merger and acquisition deals worth $310 million compared to $108 million in 2013[9].Consolidation will play a major role in reaching the $100 billion revenue target of the Indian E-Commerce industry.

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