

# FLIPKART: WINNING IN INDIA?

**Alan Eisner, Pace University**

**Saad Nazir, Pace University**

**Helaine Korn, Baruch College CUNY**

**Dan Baugher, Pace University**

## CASE DESCRIPTION

*In 2019, India's Internet users were expected to deliver double-digit growth, reaching 627 million, driven by rapid Internet expansion in rural areas.<sup>1</sup> This sharp rise is the result of increasing acceptance of online payment gateways, the critical mass of Internet users, the rising middle class with disposable income to spend, and most importantly, the widespread adoption of low-cost smartphones and data plans. India's e-commerce revenue is expected to jump to US \$120 billion in 2020, growing at an annual rate of 51 percent, the highest in the world.<sup>2</sup> As a result, the number of e-commerce businesses has grown rapidly in India. Flipkart and Amazon are the two main players in the Indian e-commerce industry, each with a 30 percent market share in 2018.<sup>3</sup>*

*This case centers on Flipkart, analyzing and exploring its business strategies, e-commerce challenges, value-added differentiation, and, most importantly, its interaction with primary rival, Amazon. Observing the intense competition between Flipkart and Amazon, there remain a few important questions: Will Flipkart be able to keep up with the pace of Indian e-commerce growth? Will Flipkart be able to compete with or beat a giant such as Amazon? Who will be the leader of the Indian e-commerce industry?*

*The case is rich enough for advanced and graduate students and has been developed to be used in a Business Strategy class, a Competitive Business Strategy class, a Globalization class, or an International Business class. The authors wrote the case in a style that overviews the situation, but intentionally avoids guiding students through specific application questions or any particular analytical framework. The case is designed to be taught in one to one and a half class hours and is expected to require one to two hours of outside preparation by students for reading and analysis.*

## CASE SYNOPSIS

*Flipkart was the brainchild of Mr. Sachin Bansal and Mr. Binny Bansal (not related), both alumni of the Indian Institute of Technology, Delhi. The two Bansals worked for Amazon and eventually quit to start their new venture – Flipkart Online Services Pvt Ltd. – in 2007. The company is headquartered in Bangalore and operates exclusively in India. During its initial years, Flipkart focused only on selling books, but soon started offering other products like electronic goods, air conditioners, stationery supplies, lifestyle products, and e-books.*

*Flipkart epitomizes the Indian e-commerce industry and has managed to maintain a top position among online shopping platforms in India. Being one of the most studied and researched companies, it is also known as one of the best startups in India. Although Flipkart*

*has managed to retain a top position in the Indian e-commerce industry, the entry of the global giant Amazon has introduced tough competition to Flipkart.*

*Since Amazon's entry to India in 2013, the global giant has flourished. With its deep pockets and aggressive marketing campaigns, Amazon has almost matched Flipkart, becoming one of the few top e-commerce giants in India. In response, Flipkart has taken many steps to expand its market share and compete with Amazon: Flipkart completed mergers and acquisitions, changed its business model, and launched an innovative and secure payment system. But questions remain. How can Flipkart survive the increasingly tougher and well-capitalized competition? Can it keep up with Amazon's pace of innovation? Can it ever beat Amazon?*

## INTRODUCTION

The electronic retail market, commonly known as the e-tailing, was hardly known by Indian consumers before Flipkart. Started in Bangalore in 2007, by two former Amazon employees, its online shopping platform offers Indian customers a wide variety of product categories, such as consumer electronics, fashion, and lifestyle products. Bangalore, known to be the Silicon Valley of India, is one of the country's most progressive and well-established cities. Due to governmental regulations on foreign direct investment in business to consumer firms in India, Flipkart is registered in Singapore by a holding company.<sup>4</sup> Since its inception, the company has grown significantly, with over 100 million registered users, 8 million shipments per month, 100,000 sellers, and 21 warehouses.

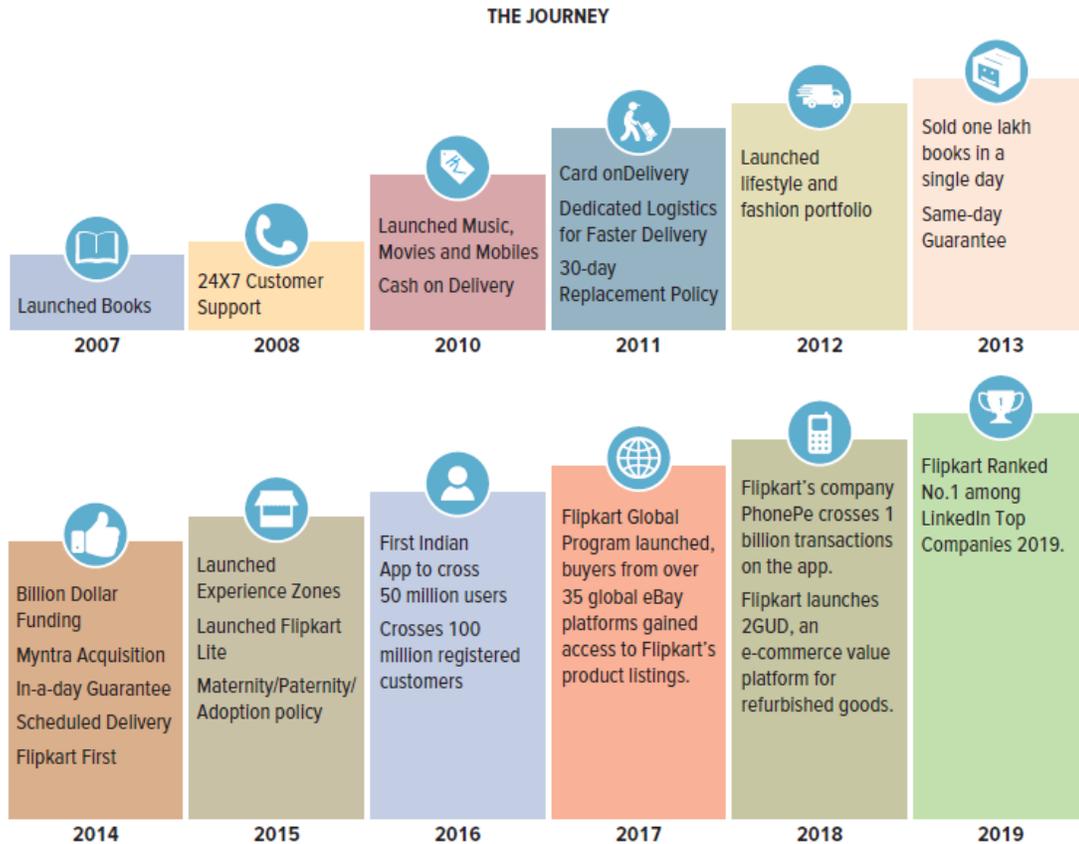
Flipkart has acquired several companies, switched its business model, and overcome many challenges to maintain its lead. A major concern the company has been facing from the beginning is convincing Indian consumers to trust online shopping as much, if not more, than traditional brick and mortar stores. After all, the Indian economy has been predominantly cash-based until the government's recent efforts to digitalize the economy.

This tremendous success has illuminated the potential of the Indian e-commerce sector to businesses around the globe, resulting in increased market entrants and competition for the company. Amazon India was launched in 2013, six years after Flipkart's inception, with aggressive marketing campaigns. Amazon has been closing the gap as a top player among the Indian online retailers by total sales. With the entrance of the e-commerce giant, Amazon, in the Indian market, all eyes are on Flipkart to see if the company can sustain its leading position despite Amazon's well-known deep pockets. Many industry experts wonder if Flipkart's home-brewed advantage is enough to triumph over Amazon and win the hearts of Indian consumers.

Sachin and Binny started out using a modest investment of about US \$6,000 to build the Flipkart website. Following in Amazon's footsteps, they began by selling books online. Soon, they began to offer product across many categories including electronic goods, air coolers, air conditioners, stationery supplies, lifestyle products, and e-books (see Exhibits 1 to 3). Since its launch, the company has raised US \$3 billion worth of capital. Now offering over 80 million products across over 80 categories, the company is credited with establishing the e-commerce market in India.<sup>5</sup> Its website is among the 10 most-frequented websites in India.<sup>6</sup>

**Exhibit 1** The Journey of Flipkart

**EXHIBIT 1** The Journey of Flipkart



Source: Flipkart.com.

**EXHIBIT 2** Flipkart Balance Sheet (figures in thousand US\$\*)

	March 31, 2018	March 31, 2017
<b>Equity and Liabilities</b>		
<b>Shareholders' Funds</b>		
Share Capital	\$ 103	\$ 77
Other Equity	903,038	560,683
<b>Share Application Money Pending Allotment</b>		
<b>Non-Current Liabilities</b>		
Long-Term Provisions	1,083	806
<b>Current Liabilities</b>		
Short-Term Borrowings	32,482	
Trade Payables	408,041	325,183
Other Current Liabilities	318	821
Short-Term Provisions	1,468	1,460
<b>Total Equity and Liabilities</b>	<b>\$ 1,404,293</b>	<b>\$905,231</b>
<b>Assets</b>		
<b>Non-Current Assets</b>		
Property, Plant and Equipment	\$ 16,118	\$ 20,045
Capital Work-in-Progress	1,953	1,472
Goodwill	259	259
Intangible Assets	5	18
Investments	81,160	
Loans		211
Other Financial Assets	128,544	17,984
Other Assets	2,255	1,618
<b>Current Assets</b>		
Inventories	320,269	247,787
Investments	228,600	109,509
Trade Receivables	175,634	126,910
Cash and Cash Equivalents	9,987	109,989
Short-Term Loans & Advances	44,588	189,753
Other Current Assets	125,985	28,411
<b>Total Assets</b>	<b>\$ 1,404,293</b>	<b>\$905,231</b>

\*Original data in INR converted at USD \$1 = INR 70.35

Source: Toftler, Business Research Platform.

**EXHIBIT 3** Flipkart Income Statement (figures in thousand US\$\*)

	March 31, 2018	March 31, 2017
Revenue from Operations	\$ 3,047,427	\$ 2,169,783
Other Income	31,132	43,332
<b>Total Revenue</b>	<b>\$3,078,559</b>	<b>\$2,213,115</b>
Cost of Materials Consumed		
Purchases of Stock in Trade	\$ 3,363,310	\$ 2,238,566
Changes in Inventory	72,482	45,907
Employee Benefit Expenses	47,128	23,691
Finance Costs	3,322	1,428
Depreciation and Amortization	8,847	7,988
Other Expenses	21,942	22,136
<b>Total Expenses</b>	<b>\$3,372,067</b>	<b>\$2,247,903</b>
<b>Total Revenue Less Total Expenses</b>	<b>\$ 293,508</b>	<b>\$ 34,788</b>
<b>Profit From Continuing Operations</b>	<b>(293,508)</b>	<b>(34,788)</b>
<b>Net Profit/Loss</b>	<b>(293,508)</b>	<b>(34,788)</b>

\*Original data in INR - converted at USD \$1 = INR 70.35

Source: ToFler, Business Research Platform.

## EVOLUTION OF E-COMMERCE IN INDIA

### Traditional Indian Retail Culture

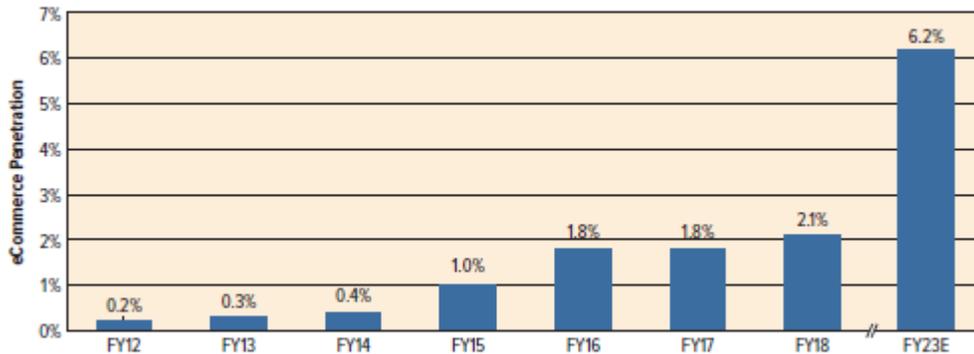
Indian consumers have historically preferred shopping at small retail stores rather than online. India has over 14 million small shops, most of which are smaller than 600 square feet in size. India's Foreign Direct Investment (FDI) government regulations are structured to protect these local shops. Traditional retail shops also complement India's cash economy; many people in the country think e-commerce to be overly difficult and time consuming.

The experience of walking into a small Indian retail shop is unlike that of any American retail shop. For Indians, chai (tea) is an integral part of their lives. Businesses, whether small or large, incorporate tea into the shopping experience. Customers walk into a store and expect to be offered a cup of tea or light refreshment with no cost or expectation of purchasing a product. The customer then begins to leisurely look at products offered by the shopkeeper. If a substantial amount of time has passed, the customer may even be offered snacks from nearby food carts. The intent is hospitality—to put the customers first and make sure their needs are met. After selecting items that a customer is interested in purchasing, the negotiation commences. In India, listed prices are a mere suggestion or starting point. People negotiate in practically every transaction, whether it be for individual grocery items, clothes, or even taxi fares.<sup>7</sup>

## Growth of E-commerce in India

The e-commerce market in India has undergone exceptional growth, as the majority of the Indian population is gaining access to personal computers, smartphones, tablets, and high-speed Internet services. Demographics rule the destiny of online business in India, where 75 percent of the adults are between 15 and 34 years old, an age group more likely to be proficient at utilizing modern technology, ultimately making digital commerce in India very attractive. According to Bain & Company, e-commerce in India is projected to grow four times faster than the total retail market over the next five years (see Exhibit 4)<sup>8</sup>. Businesses have expanded the e-commerce consumer base by employing strategies such as online shopping websites, establishment of online marketplaces for third-party transactions, business-to-business buying and selling, online data gathering through social media, publishing online newsletters, and retailing novel products to prospective clients.

**EXHIBIT 4** India's e-Commerce vs. Total Retail Growth



Source: Walmart-Flipkart Group Investor Presentation, Walmart, May 9, 2018.

While the current retail market in India is predominantly served by traditional brick and mortar stores, which form 90 percent of the total market, sales from e-commerce are expected to reach 17.5 percent by 2021.<sup>9</sup> E-tailing will grow at a fast rate, from the present US \$0.6 billion to US \$76 billion by 2021, which is over a hundredfold. The acceleration in growth will be due to improvements in the market-enabling environment and ecosystem formation for e-tailing. Overall, a larger adaptation of e-commerce in India will offer numerous gains to the Indian economy, aside from the advantages it will bestow upon consumers.<sup>10</sup>

## BECOMING BIG

In the early years, Flipkart faced many challenges in the e-commerce industry. Flipkart co-founder, Sachin Bansal, admitted in an interview that initially the idea of creating the company seemed absurd and that most of his peers believed Flipkart was a ridiculous idea.<sup>11</sup> One key operational challenge was supply chain management; ensuring that goods are punctually delivered is integral to the success of an e-commerce company. Flipkart's logistical infrastructure and supply chain were not initially prepared to handle the volume. Additionally, with its user base growing year after year, maintaining optimal user experience was becoming a challenge.

Nevertheless, New York-based private equity firm Tiger Global Management LLC—Flipkart's biggest investor at the time—believed in the idea and its founders, as did others. With

external investment of substantial funds, Flipkart was not only able to improve its supply chain and logistics, but also to expand and grow through several strategic acquisitions (see Exhibit 5).<sup>12</sup>

### Exhibit 5 Flipkart Acquisitions (2010–2018)

Year	Acquisitions
2010	WeRead, a social book discovery tool, which extended Flipkart's categories to include music, movies, electronics, mobiles, and games.
2011	Chakpak, an online Indian entertainment community. Flipkart acquired the rights to Chakpak's digital catalog. Flipkart has categorically said that it will not be involved with the original site and will not use the brand name.
2011	Mime360, a digital content platform company that links content owners with content publishers.
2012	LetsBuy.com, an Indian e-retailer in electronics. Flipkart has bought the company for an estimated US \$25 million. Letsbuy.com was eventually closed down and all traffic to LetsBuy diverted to Flipkart.
2014	Acquired Myntra, a fashion e-commerce company, in an estimated \$310 million deal.
2014	Flipkart purchased a majority stake in Jeeves, which offered maintenance, repairs, and product guarantees.
2015	Ngpay, which is a mobile payment gateway company.
2015	Appiterate, a mobile marketing start-up, which Flipkart acquired to help strengthen its mobile platform.
2015	FXMart is a payment services company.
2016	Flipkart's Myntra acquired rival fashion shopping site Jabong. They both have separate identities today but operate under Flipkart's umbrella.
2016	PhonePe, which is a revolutionary payment start-up.
2017	In April, in exchange for an equity stake in Flipkart, eBay agreed to make a \$500 million cash investment in Flipkart and sell its eBay.in business to Flipkart; however, according to a company statement eBay.in would continue to operate as a separate entity from Flipkart.

Source: A Timeline of Flipkart's Acquisitions. <http://techseen.com/2017/04/10/flipkart-acquisition-ebay-weread/>

In 2014, Flipkart acquired Myntra, a leading fashion e-commerce company in India. Myntra increased Flipkart's margin in the e-commerce sector, giving the company an important advantage over rivals Amazon and Snapdeal. The acquisition also helped Flipkart, a formerly generic e-commerce company, scale and endure in the ecosystem. Pradeep Udhas, Head of Technology Sector at KPMG India, stated: "Firms lacking scale or a niche presence will find it tough to survive in the sector." Moreover, Flipkart and Myntra could experience enormous cost savings since both companies pursue a similar customer and demographic base.<sup>13</sup>

The co-founders of Myntra believed that the two companies together could better challenge a big player like Amazon. "It was an aligned viewpoint between founders of the two companies," stated Ashutosh Lawania, co-founder of Myntra. Lawania's Myntra co-founder, Mukesh Bansal (not related), said "both companies had a strong cultural fit. Flipkart would bring many things to the table to accelerate Myntra's growth, which would also help Flipkart to fight competition."<sup>14</sup> The fact that both companies had common investors made acquisition easier and helped improve synergies. Following the acquisition, Flipkart's valuation was estimated to be around \$15 billion, five times more than its previous valuation.<sup>15</sup>

## ORGANIZATION

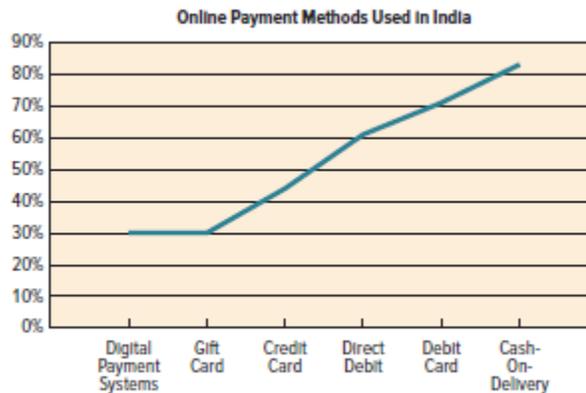
Flipkart believes that its success is due, in large part, to its employees. Smrithi Ravichandran, Senior Director at Flipkart, stated, “Innovations are only unique for a small duration of time, but its people are what make the business thrive. That killer attitude, that we will do whatever it takes to see this through, which you see from the CEO all the way down to the entry-level staffer—I don’t know if it’s because we hire people like that, or if people come here and change.”<sup>16</sup>

The culture at Flipkart is pervasive, and the fact that Flipkart employees call themselves “Flipsters” reflects its strong values, which are to be audacious, customer-focused, unconventional, and beyond standards.<sup>17</sup> The friendly work environment Flipkart created has led to the company being rated the most desirable workplace in India for two years in a row. It surpassed its biggest rival, Amazon, which came in second.<sup>18</sup>

In January 2017, Flipkart underwent an organizational restructuring by creating an umbrella over all of its units, calling it Flipkart Group Organization. Through this process, founder and then CEO of Flipkart, Binny Bansal, became the Group CEO. Bansal planned to concentrate on constructing a high-growth portfolio of new businesses and on capital allocation across group companies. Kalyan Krishnamurthy, who joined Flipkart in June 2016 from Tiger Global Management as head of the Category Design Organization, became the CEO of Flipkart. Krishnamurthy oversaw customer experience, talent management, and overall profit and loss for Flipkart.

### THE FLIPKART GAME CHANGER – CASH ON DELIVERY

Infosys co-founder Nandan Nilekani stated in his post in the Economic Times of India, “One of the reasons Flipkart took off was that they brought in cash on delivery,”<sup>19</sup> people pay for goods when they are delivered rather than in advance. Many Indians did not have a method for completing online transactions, since India had traditionally been a cash-based economy, so this innovation was a game changer for Flipkart. He went on to say that the cash on delivery (COD) system gave Flipkart a competitive edge over its rivals, particularly over foreign businesses that did not recognize the problem with digital payments (see Exhibit 6). Moreover, when rivals did catch on, they were forced to adjust to the COD system due to its popularity among Indian consumers.<sup>20</sup>

**EXHIBIT 6** Online Payment Methods Used in India

Source: Nielsen Global Connected Commerce Survey.

When Flipkart introduced COD in 2010, only 0.5 percent of the population in India utilized credit cards and 7.5 percent of the population used the Internet.<sup>21</sup> The COD service enabled Flipkart to become remarkably popular and made online shopping more attractive and trustworthy for its customers. Suddenly, everyone from a college student without a bank account to a person from a remote town who did not own a debit card was able to purchase goods with just a click.

Factors that aided the growth of Cash on Delivery payments in India included:

- Convenience
- Experience with cash payments
- Population of unbanked consumers
- Small amount of credit/debit card users
- Scarcity of secured payment gateways
- Consumer hesitancy in online payments, due to lack of trust
- Apprehension of online scams

### **CONSUMER CONVENIENCE**

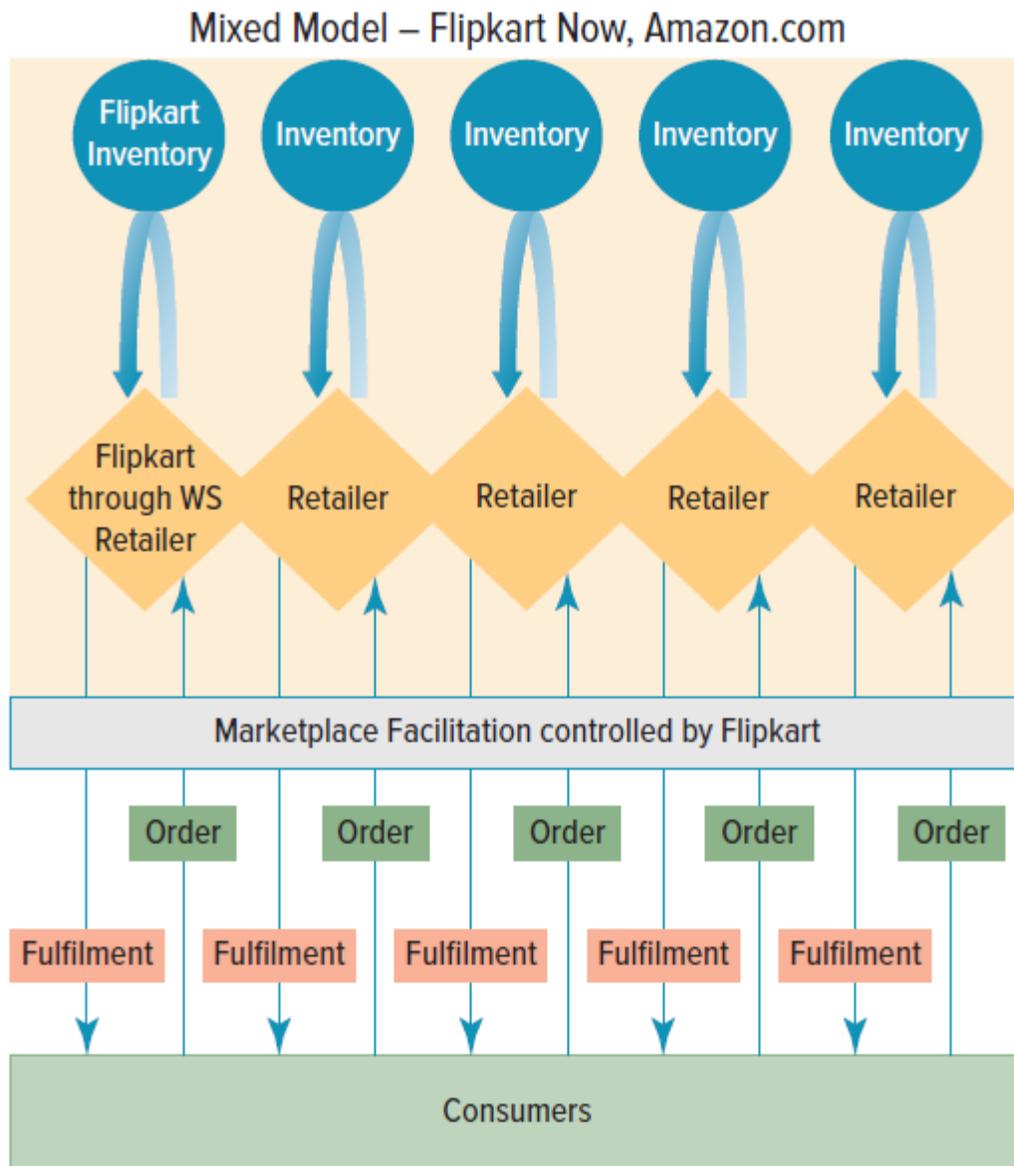
Flipkart continued increasing its customer base with the announcement of an easy return policy. Many consumers in India were reticent to shop online because they want to be able to physically see and examine the products. In order to address this, Flipkart offered a no-questions-asked return/exchange policy, wherein customers could return goods that did not meet their expectations. Making purchases online through Flipkart became extremely appealing to Indian consumers because brick and mortar stores never offered the same deal.

Flipkart also recognized that mobile network connectivity was not homogeneous throughout India, prompting the creation of Flipkart Lite, similar to Flipkart yet designed for a mobile experience. The mobile browser, developed within 45 days by five engineers, was easier to use while in areas with an inconsistent network. In addition, Flipkart Lite enabled users to access shopping search history. Flipkart Lite was considered very innovative and other companies such as LinkedIn began using similar technology.<sup>22</sup>

## **FLIPKART BUSINESS MODEL**

The introduction of a marketplace system changed the way Flipkart conducted its business, transforming its website portal into a “virtual mall” allowing consumers to shop different sellers and brands on a single platform. No longer required to maintain an inventory of its own, Flipkart greatly reduced overhead, while retaining control of the sales, with delivery completed by Flipkart’s logistics and supply chain division. The model can be compared to eBay India, Tradus, or Amazon. Since foreign companies in India are restricted from multi-brand e-tailing, Flipkart sells its products through WS Retail, a private limited e-commerce company in India (see Exhibit 7).

**EXHIBIT 7** Flipkart Business Model—Current Marketplace Facilitation



Source: What is the difference between the marketplace model and the warehousing model related to e-commerce? *Quora*, October 9, 2014. <https://www.quora.com/What-is-the-difference-between-the-marketplace-model-and-the-warehousing-model-related-to-e-commerce>

Online marketplaces have several sources of revenue. A listing fee is charged to the seller. This charge can be one-time or on an annual basis. Sellers who wish to feature their products can pay for advertisements on the site. Sales commissions provide Flipkart a profit on each purchase transaction. The commission charged by online marketplaces varies by product type. In June

2019, Flipkart revamped its fee structure, significantly reducing the percentages that sellers must pay. The timing of this change suggests it is a strategic move to inspire seller loyalty, as competition heats up. Amazon is doubling down on investments in India, after finally admitting defeat and pulling out of China.<sup>23</sup>

## FLIPKART COMPETITORS

Flipkart has faced several competitors throughout its decade-long battle in the Indian e-commerce industry. The major competitors included Myntra, Jabong, Snapdeal, eBay, Paytm, and its strongest competitor, Amazon. Flipkart remained in the spotlight in the Indian e-commerce industry through frequent mergers and acquisitions, acquiring most competitors and increasing market share in an effort to compete with Amazon.

### Paytm

Paytm, an acronym for Pay Through Mobile, is the largest mobile payment platform in India. It is owned by One-97 Communications, and its headquarters is located in Uttar Pradesh, India. Back in 2010, the company initially offered mobile recharge and utility bill payments. Today, Paytm provides a full marketplace through its mobile apps. The company has over 100 million registered users and gets approximately 60 million orders per month. Paytm offers the option of recharging a secure online wallet, Paytm-cash, enabling customers to shop from any location.<sup>24</sup> Paytm can also be accessed from a browser, and the Paytm app is accessible on mobile devices compatible with Android, Windows, and iOS operating systems. Paytm has attracted many notable investors, including Tata of India and Alibaba Group of China. Transactions completed on Paytm are completely free with no concealed charges.<sup>25</sup>

Paytm Mall has over 17 fulfillment centers across the country and over 40 courier partners for sellers.<sup>26</sup> In 2017, Flipkart cut the commission that it collected from sellers to combat Paytm Mall. Reliance Capital invested about \$41 million in Paytm, increasing valuation for Paytm's parent company, One-97 Communications. Paytm's valuation is estimated to be approximately \$5 billion, whereas Flipkart's is \$5.39 billion.<sup>27</sup> In March 2019, Paytm took on Amazon and Flipkart as it launched its subscription-based loyalty program, Paytm First. Through this program, the company aims to offer exclusive benefits over and above the regular Paytm cashback offer, while looking to promote further usage (of its platforms) and to increase customer retention.<sup>28</sup>

### Snapdeal

Snapdeal, founded by Kunal Bahl and Rohit Bansal (not related), is another rapidly developing e-commerce company in India. Snapdeal evolved from a group coupon business to an online marketplace that eventually turned into a billion-dollar company. Snapdeal has a relatively young workforce, with an average age of about 25 years. Snapdeal's values include innovation, change, openness, honesty, and ownership, which have propelled the company to great success. Snapdeal's impressive growth is the result of relentless determination to prosper as the best B2C (Business to Customer) marketplace in India.

Snapdeal's most important success factor was investment by Vani Kola, a venture capitalist. Snapdeal began as an offline business and eventually went online in 2010. In November 2011, the founders of Snapdeal were inspired by the success of Jack Ma's Alibaba and wanted to develop a somewhat analogous business. Hence, Snapdeal exited the deals

business and moved into the online marketplace. The decision was risky since Snapdeal held a large market share in the deals business. However, Snapdeal's value is now estimated to be around \$1 billion, and, currently, there are more than 50,000 sellers and approximately 5 million products on Snapdeal.<sup>29</sup> The company has grown through acquiring several companies since 2014 (see Exhibit 8).

### Exhibit 8 Snapdeal Acquisitions (2014–2019)

Date	Acquisitions
April 2014	Fashion products discovery site, Doozton.com
December 2014	Gifting recommendation site, Wishpicker.com
March 2015	E-commerce management software and fulfillment solution provider, Unicommerce.com
April 2015	Mobile-payments company, FreeCharge.com
May 2015	MartMobi, an innovative mobile technology company
June 2015	Letsgomo Labs, a mobile-focused technology company
September 2015	Reduce Data, a programmatic display advertising platform
February 2016	TargetingMantra, a tech marketing company
July 14, 2016	GoJavas, a supply chain solutions company

Source: Crunchbase. [https://www.crunchbase.com/organization/snapdeal/acquisitions/acquisitions\\_list#section-acquisitions](https://www.crunchbase.com/organization/snapdeal/acquisitions/acquisitions_list#section-acquisitions).

### Amazon India

Amazon, founded by Jeff Bezos in 1994, is an American e-commerce company based in Seattle, Washington. It is the largest Internet-based company in the United States. Amazon started as an online bookstore, but shortly diversified, offering compact discs, VHS, video and MP3 downloads and streaming, software, video games, electronics, apparel, furniture, food, toys, and jewelry. Amazon has individual retail websites for countries all over the world, including: United States, United Kingdom and Ireland, France, Canada, Germany, The Netherlands, Italy, Spain, Australia, Brazil, Japan, China, India, and Mexico. Amazon provides international shipping to other specific countries for selected products. In June 2013, Amazon started its Amazon India marketplace. One month later, Amazon publicized that it would invest US \$1.85 billion in India to expand its business, seemingly in response to news that Flipkart decided to invest US \$1 billion in expansion.<sup>30</sup>

Amazon came into the Indian market with the reputation of being the king of e-commerce. Initially, Amazon's success in India was uncertain, as Indian consumers are considerably different from the rest of the world. Amazon lags behind Asian e-commerce companies such as Alibaba, overwhelmed by competitors in China, with no indication of catching up. Amazon believes that the failure in China was because the company did not spend enough. That is why Amazon is investing more in India.<sup>31</sup> Amazon's CEO Jeff Bezos enlisted Amit Agarwal to lead Amazon's India business. Agarwal told Forbes, "Amazon's entry into India is big, we can add significant customer value, and we can generate significant cash

flows.”<sup>32</sup> Amazon already committed to spend \$5 billion for Amazon India, and Bezos has indicated additional investments will be made as time goes by.<sup>33</sup>

One of the main reasons why Amazon stands out among Flipkart’s competitors is because Amazon is customer-centric, similar to Flipkart’s business strategy. Amazon has an edge in terms of reputation and brand recognition. The company is admired and well-known for providing excellent customer service internationally. People are confident making purchases with Amazon due to product replacement offerings and after-sales services.<sup>34</sup>

Flipkart has expanded by mergers and acquisitions. It has been trying to become self-sustained by developing its own payment gateway and logistics services. However, Amazon is also acquiring companies in India, although not on as grand a scale as Flipkart. For instance, in 2016, Amazon acquired Emvantage Payments Pvt. Ltd., an Indian payments company, to facilitate online payments.<sup>35</sup>

### **Home-Brewed Company versus International Giant**

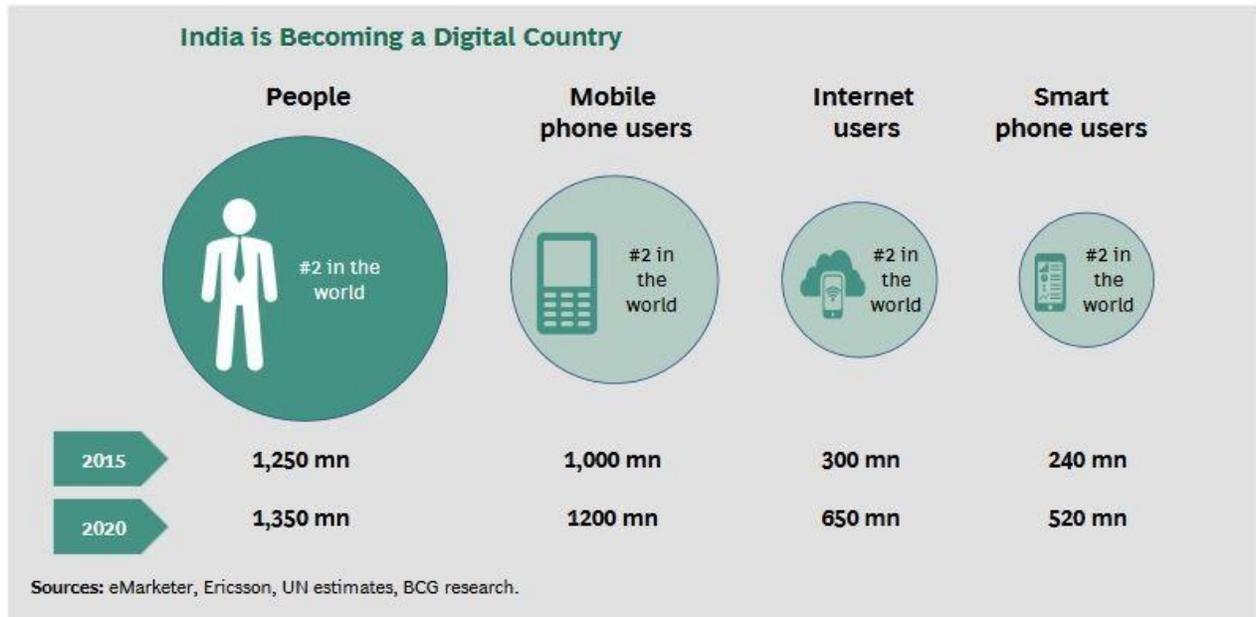
Flipkart definitely used home advantage by adapting to the Indian environment quickly. In 2015, Flipkart launched Flipkart One Stop (F-1 Stop) to provide sellers services such as training, registration, cataloguing, packaging, and financial assistance. The support services aim to help first-time merchants get their businesses up and running online.<sup>36</sup>

Even though Amazon only entered the Indian e-commerce market in 2013, it aggressively marketed itself to catch up. Amazon launched the Chai Cart campaign to connect with small sellers. As mentioned earlier, India has a very strong chai (tea) culture, and Amazon found a way to capitalize on it. A chai cart operated by Amazon associates would move around various Indian markets and share with local sellers the advantages of online selling, over a cup of chai. It created a safe space for local sellers to raise questions and concerns about growing their businesses online. It also helped create brand recognition. Within four months, the Amazon Chai Cart team traveled 9,495 miles across 31 cities, served 37,200 cups of tea and connected with more than 10,000 sellers. The campaign was innovative and successful with Indian consumers.<sup>37</sup>

### **LOOKING AT THE FUTURE – FLIPKART’S PHONEPE APP**

India is swiftly evolving into a digital giant (see Exhibit 9). The increasing use of smartphones and Internet access has enabled Indian consumers to remain continuously connected. Consumer behavior and preferences are changing. This is only the beginning of digital payments in India, since a large portion of the population remains an untapped market. Digitization of cash will be faster over the next few years. In addition, non-cash payment transactions are estimated to surpass cash transactions by 2023. Overall, the proportion of cash transactions in the total consumer spending in the country has dropped from 78 percent in 2015 to 68 percent in 2017.<sup>38</sup>

It is projected that the total payment transactions through digital payment tools will be around US \$500 billion by 2020. Person to merchant (P2M) transactions compelled by digital payments at the physical point of sale, trailed by business to business (B2B) and peer to peer (P2P) transactions, are predicted to be key suppliers of growth.<sup>39</sup>

**Exhibit 9** India is Becoming a Digital Country

Source: Digital Payments 2020—The Making of A \$500 Billion Ecosystem In India, The Boston Consulting Group & Google.

Flipkart currently offers several payment options, which include cash on delivery, Internet banking, or payment by credit and debit cards. Flipkart's most recent offering, the PhonePe wallet app, developed in partnership with YES Bank, is revolutionizing payments. PhonePe enables customers to connect bank accounts securely to their smartphone through the encrypted software of the National Payments Corporation of India, which makes PhonePe especially attractive to Indian consumers. In the earlier stage of its launch, Flipkart's cash on delivery option drove success, as Indian consumers were not ready to commit to online payments. However, with the PhonePe app, Flipkart offers secure transaction options for almost all types of payment methods. The PhonePe app permits users to carry out transactions at no cost and users can exchange or return items to Flipkart and receive reimbursement in the PhonePe wallet.<sup>40</sup>

PhonePe is based on the government-backed Unified Payment Interface (UPI) platform. UPI permits consumers to transfer money between any two parties' bank accounts via secure unique identifiers. This means that the exchange of bank account details is not necessary. This makes it stress free to send or receive money. In addition, customers can pay straight from their bank account to both online and offline merchants. It eliminates the necessity of entering credit or debit card details or a one-time password.

### INDIA: THE E-COMMERCE FRONTIER

Amazon may be the largest online e-retailer in the world but it is not yet the market leader in India. While that honor still belongs to Flipkart, Amazon is determined to conquer India. Amazon has a multibillion-dollar plan to dive into the online grocery business in India. Reduction in government restrictions allows online retailers to sell domestic products such as

processed foods and groceries directly to consumers. The Ministry of Commerce and Industry is prepared to let Amazon create a nationwide network to stock and distribute such groceries.

Flipkart is choosing instead to focus on artificial intelligence (AI). Flipkart's research team is based in the United States, working at F-7 Labs, located in Silicon Valley. The company believes that investing more in AI will help Flipkart advance its business processes and customer interactions. "There is an understanding at Flipkart that, to deliver at scale, we will need artificial intelligence and that the Valley is the place where the cutting-edge research is being done," says Mihir Naware, Director, Product Development at F-7 Labs.<sup>41</sup>

Amazon can also afford to undercut Flipkart by offering a wider variety of services and more discounts; this may be enough to attract Indian consumers used to the tradition of negotiating prices. On the other hand, Indians are known to be nationalistic, and Flipkart has utilized this to their advantage. Other domestic start-ups have sought government intervention to give Indian businesses a formal edge over competition. While protectionist policies have helped create world-class technology companies like Alibaba, Tencent, and Didi in China, with Indian Prime Minister Narendra Modi courting foreign capital from the Silicon Valley companies, protectionist policies do not seem to be a realistic scenario in India at this point of time.<sup>42</sup>

The battle is intense because the stakes are high. What makes India so attractive is its huge population and growing consumer market. Growing Internet and mobile permeation are increasing the use of online payments. The e-commerce sector in India is expected to grow by four times its current size and is anticipated to go over \$100 billion within the next five years. If so, e-commerce in India has the potential to add more than 4 percent to India's GDP.<sup>43</sup> Mobile commerce (m-commerce) is developing rapidly as a steady complement to the e-commerce industry. The government's "Digital India" project intends to promote the sector by bringing Internet and broadband to secluded corners of India. Supported by an investment of approximately \$17 billion, this initiative will help make India a more connected economy. It will lead to additional investment in electronics manufacturing, creating millions of jobs.

During this time, the American multinational retailer, Walmart, had been struggling to come up with a play for India. However, that ambiguity ended in August 2018, when Walmart invested \$16 billion to acquire a 77 percent stake of Flipkart. While Flipkart's management team would lead the India business, Walmart would finally have a platform for business in India. Walmart would also infuse \$2 billion into Flipkart to grow the business.<sup>44</sup>

In November 2018, three months after its celebrated acquisition by Walmart and following a probe into an allegation of "serious personal misconduct," Flipkart Group's CEO Binny Bansal left the company.<sup>45</sup> Flipkart underwent a management reshuffle, where several top and mid-level executives moved to new roles, and Kalyan Krishnamurthy became Group CEO. Krishnamurthy looked to tighten firm performance across all units and reduce Flipkart's reliance on smartphones, which continues to generate more than 50 percent of Flipkart's overall sales.<sup>46</sup>

Walmart remains extremely optimistic about Flipkart. Walmart's President and CEO Doug McMillon said, "I got to visit our teams in India and China a few weeks ago. I continue to be excited about the opportunity I see with Flipkart and PhonePe. I'm impressed with the team and their ability to innovate for customers with speed."<sup>47</sup> The company said that its plans for India includes investments that "support national initiatives and will bring sustainable benefits in jobs creation, supporting small businesses, supporting farmers, supply chain development, and reducing food waste."<sup>48</sup> Walmart is investing in the future of Flipkart, however, Walmart has not mentioned a hands on management approach yet. Armed with a \$2 billion USD equity investment from the new owners, Flipkart should be ready to compete.<sup>49</sup>

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