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Prevailing Trends in E-Commerce in India

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ABSTRACT:

The Research paper is centredaround exploring the present stage of e-tailing industry in India necessitating the tools of mergers and acquisitions. Through the paper an attempt is made to analyse the various reasons behind consolidation of the industry. Internet has become the most potential game changer beating the odds of time and distance. The digital revolution has ushered in a new phase of business models governed by varied unconventional structures. The industry has grown rapidly over the past two years and is now in the phase of consolidation. The global players and the India's growth story have shifted the spotlight to the e-tailing sector holding enormous prospects. The e- commerce story in India would progress on the strengths of an innovation driven start-ups and burgeoning population of youth.

KEYWORDS: E-tailing, Mergers and Acquisitions, Globalisation, efficiency

INTRODUCTION:

The new wave of globalization has popularized the philosophy of PERFORM or PERISH which brings into focus on aspects like competition and greater leverage in terms of volume and market position. Just as mergers and acquisitions bring in advantage in any businesses they are also being adopted in the e- commerce fields.

The synergy created through the domestic and international players through the Mergers and Acquisitions is the key driver of this segments growth. Today e-commerce is being counted as one of the fastest growing industries on the strength of the new economic progress and rapidly changing life styles. Greater urbanisation and impact of globalization on the cultural and economic patterns of living are expanding the scope of e- commerce.

Mergers and acquisitions are a response to technological changes and rapidly changing market dynamics necessitating the revision and restructuring of the allocation of resources in manner which brings in the greatest value to the firm.

The facilitators of the E-commerce seem to be rising internet penetration presently at 24 Crore. The internet users have been growing at the rate of 20% per annum promising a bright future. The annual household incomes have also been on the rise contributing to greater demand for a comfortable purchasing. The annual incomes have increased from 2632 $ in 2005 to 3823 in 2015 to expected 6790$ in 2025. Additionallythe increased penetration of the debit and credit card. Increasing credit (CC) and debit card (DC) penetration with higher value limits for spending. From 4.2m (CC), 0.3m(DC) in 1999 to 18m(CC), 228m(DC) in 2011 and expected to reach 73m(CC), 350m(DC) in FY15(e). (Source: Rebirth of e-Commerce in India, 2011 – E&Y).

Ever since the inception the sector has been evolving from a limited range of products to a diverse category of products. The growth and expansion of the Flipkart symbolizes the story of e- commerce in India. The change has been seen in the improvements in the delivery time and payments options. The delivery time has been drastically cut down and cash on delivery has emerged as the most important option.

REVIEW OF LITERATURE:

There are few other studies which analyses mergers as case studies only. Impact Analysis: Some of these studies have made an attempt to study the impact of M&As on the profitability of the merged companies. Das (2000) compares the pre merge and post-merger operating profit margin for a sample of 14 acquiring firms and find a decline in profitability in 8 of these companies after merger Ghosh ((2001) examined the question of whether operating cash flow performance improves following corporate acquisitions, using a design that accounted for superior pre- acquisition performance, and found that merging firms did not show evidence of improvements in the operating performance following acquisitions. There was a high correlation between pre and post-merger performance.

In a study by Prahalad and others (1977), it has been found that, Indian enterprises in both the private and public sectors are much diversified. This diversification led to M&As. They also found that India has a large percentage of unrelated diversifiers as compared to the USA, UK, France, Germany, and Italy (Kaul 1991, 2003).

Lev and Mandelker (1972) evaluate the reduction is risk of the acquiring firm. It is argued that unless returns of the parties involved in the merger are perfectly co-related, the variances of the combined firms‟ returns will be smaller than the weighted average of the variances of the returns of the individual firms – Diversification principle of portfolio theory.

Eckbo (1983) tests the hypothesis that horizontal mergers generate positive abnormal returns to stockholders of the bidder and target firms because they increase the probability of successful collusion among rival producers. Under this hypothesis, rivals of the merging firms benefit from the merger since successful collusion limits the output and raises product prices and/or lower factor prices Bhaumik and Selarka (2008) discuss the impact of concentration of ownership on firm performance. On the one hand, concentration of ownership that, in turn, concentrates management control in the hands of a strategic investor, eliminates agency problems associated with dispersed ownership. On the other hand, it may lead to entrenchment of upper management which may be inconsistent with the objective of profit (or value) maximization Amihud and Bev (1981) study a "managerial" motive for conglomerate merger is advanced and tested. Specifically, managers, as opposed to investors, are hypothesized to engage in conglomerate mergers to decrease their largely undiversifiable "employment risk" (i.e., risk of losing job, professional reputation, etc.)

Kenneth C. Laudon and Carol GuercioTraver in their book on „e-commerce‟ stated that, four major categories of issues information rights, property rights, governance and Public safety and welfare exists

OBJECTIVES OF THE STUDY:

1. To provide an overview of the online marketing in India.
2. To make out a case for the Mergers and acquisitions in the e-commerce sector.
3. Evaluation of a few case studies to predict the trend of e-tailing in India.

INDIA v/s CHINA:

India e-tailing market has just taken off and is moving towards profitability. India's E commerce market is at least ten years behind the Chinese market which reached it inflexion point way back in 2005.Indian e-commerce industry is expected to touch 20 billion dollars in 2015 in comparison to 540 billion dollars of the Chinese market in the same year. Greater internet usage at 60 crore and allied technological infrastructure has emerged as the sole reason. The chinese market is so matured enough that even Mercedes is selling cars online! This speaks about the credibility of the logistical chain in china. Additionally the Chinese sales are dominated through the smart phones unlike India which is mostly a PC led sale. Similarly Alibaba could mobilize 9 billion in sales on a single day. However varied the size and composition of the Chinese market may the next big boom will be from India.

COMPOSITION OF E- COMMERCE INDUSTRY IN INDIA:

Travel segment constitutes the largest share to the online businesses accounting for 71% of the total businesses. E- tailing accounts for only 8.7% of organised retail and a minuscule 0.3% of total retail sales. Even within sales of physical goods, books are a mere 7% of total book sales, mobile phones are 2% of all handsets sold, and fashion goods sold online are just 1%. Online jewellery sales account for only 0.2 per cent of all jewellery sold.

POSITION OF LOGISTICS IN INDIA:

The present e- commerce sector is emerging from its operational constraints. This phase could take a little longer considering the fact that US giant Amazon took nearly 20years to move into profitability. Improved logistical networks, increased internet connectivity and economies of scale derived through consolidations will push the sector towards profitability. 35 % of the companies‟ earnings go towards the logistical infrastructure requirements. Close to half of the delivery logistics are handled by the large e-tailers themselves. Involvement of the lower tier cities and innovative transport models like Flipkart tying up with Dabbawalas will further reduce the operational costs for the e- commerce players. The potential of retailing in growing cities has been hampered by the skyrocketing prices. This places the e-tailing industry in an ideal position to fill in the gap due to the favourable market demographics.

BUSINESS MODELS:

Since the e-tailing industry is still in the embryonic stage the business models are evolving according to the needs of the market. Both the front end and back end processes will continue to evolve and will remain in a state of flux in the near future. The nature of the products being offered has changed from a single category e-tailing to a multi segment offering with the best example being FLIPKART. Currently two models are in operation namely consignment and inventory led. The risk of managing the inventory differentiates both the models. While the inventory led model is in vogue widely the logistical constraints have not popularized the consignment based models. Inventory led models guarantee time and customization.

A LOOK INTO THE FUTURE:

The success stories of the e-commerce industry in other growing nations calls for introspection about the regulatory and logistical networks which facilitated the growth of the concerns. The B2C segment is expected to dominate the Indian scene with the B2B expecting growth only after consolidation happens. A further expansion of sites like Quickr and OLX is expected in the near future after greater spread of e-commerce lifestyle. The tools of payment may also undergo rapid changes with the emergence of concepts like mobile money and virtual trial rooms and simulation experiences. The transition of India into an investment led economy with abundant domestic potential holds a promising future for the e-commerce industry. Although the space for e-commerce is expanding, the absence of venture capital funds to boost up the initiative in this sector is slowing down the pace of progress. The growth of E-commerce bestows well for the IT and related domains with the market growing at a rate of 30% promising skilled and unskilled jobs for front end and back end processes. This also calls for the requisite skill development according to the suitability of the domain.

RATIONALE OF MERGERS & ACQUISTIONS:

"ONE PLUS ONE MAKES THREE" – this seems to be the guiding light of the e tailing strategies in India. The Alibaba IPO convinced investors globally that the next set of large e-commerce companies would come from markets outside the US and those that had missed investing in China were desperate not to miss out on the next big opportunity: India.

The current phase of consolidation that the e commerce is going through in India has resulted in the mergers and acquisitions of firms to exploit the market space and derive economies of scale. M&A activity will be driven more by filling strategic gaps in overall business rather than to buy companies to thwart competition.

The M& A activity is limited to limited to large players investing in technology and services to help them deliver a better customer experience. The announcements by large etailers like flipkart and Amazon is expected to result in the vertical acquisition of smaller firms for strategic advantage.

The current scenario will witness the consolidation of all mid-sized firms to be acquired by the larger firms. The situation could stabilize into one where in 3 or 4 dominant market players emerge and a few speciality stores run the business. Two types of transactions seemed to have taken the centre stage one being the desire to bring in new technology and better infrastructure translating into an effective logistical network and better consumer service. The present focus is to retain the existing customer base than to expand into new dominions.

Distress sale seems to be the only option for companies at the lower level of the operational scale. The strategic advantage could be technology, or brand, new vendor relationships, or something that they may find cheaper and faster to acquire rather than build such as an after-sales-service company as that offers healthy adjacent revenue opportunities for their white-goods business or companies building robotic solutions for warehousing and analytics firms.

The increasing use of internet as the sole channel of selling the products has led to the creation of new business models which reap more economic benefits.Ex Motorola. New models are definitely in the pipeline such as eStores - where a customer can shop online in case they lack any infrastructure themselves such as payment option or internet. As far as business models likely to exist, experts are of the opinion that both marketplace and inventory led models will co-exist.

A closer look at the industry scenario also presents an alternate view of the nature of mergers and acquisition situation prevailing. Proponents of this view are of the opinion that further investments into the sector will have to wait until the consolidation phase is completed. This could lead to a merge or purge situation for the smaller companies ending up in the smaller companies being paid less.

Three scenarios may result in the present mergers namely 1. Longer gestation periods taken forlaunching the products forcing companies to merge and reap competitive advantage. 2. In the event of a huge gap existing between the market leader and the other players. 3. The last being the cash strapped nature of the e commerce industry.

The above said reasons are better reflected in the following prospective deals which are varied in their objectives.

The deal between Myntra and Zanskar is a niche portal offering furnishings and accessories. The deal is aimed at facing competition from rivals like jabong which are heavily funded. The deal aims at securing greater leverage to Myntra in lifestyle related products. Similarly the deal between Flipkart and babyoye provides a better opportunity for the latter to realize its value which is not in a position due to the dominant position of the market leader First Cry. This deal signifies the room that the mergers provide to the smaller companies to do business and stay relevant.

The deal between Snapdeal and yebhi presents an example of horizontal acquisition by a larger firm to present the daily deal site as a serious competitor to other players like Flipkart.

Even though both the businesses operate in exclusive domains as a deal led and an inventory led businesses the deal could pose a serious challenge to the heavy weight Flipkart.

The proposed deal between pepperfry and Fashion&You is an example of firms into the same volume od business joining hands to face the market with rivals like jabong and myntra. Unlike the usual asymmetrical partnership these present an example of equals operating in the competitive world.

The current M&A strategies pursued by the industry have also spelt doom for some existing players. Among the companies that closed down was the ALL SCHOOLS STUFF that offered school and student supplies while other firms had to seriously alter their operational models to stay competitive. Online retailer Yebhi.com and online footwear Bestylish changed their business model to become price comparison websites or aggregators for other e-commerce portals.

Through all the above mentioned deals the companies are moving towards profitability in the 2015 year. The growth phase which started in the early years has matured into the quest for profitability. Though E commerce represents less than 4% of the total retailing Market potentialIndia‟s e-commerce market is expected to reach $6 billion in 2015, a 70% increase over 2014 revenue of $3.5 billion, according to Gartner Inc.

CONCLUSION:

Technology Revolution has made internet the life blood of the world forcing all the players to rethink on their marketing strategies. The current trend of M&A‟s will open new vistas of opportunities for the smaller and larger concerns. Just as it opens up the opportunities it also throws up questions related to safety, security and transparency of the businesses. The interests of the players and the consumers are to be balanced perfectly to the best satisfaction of both the parties. The sector after the consolidation will have to equip itself to an ever changing market environment and new forces demanding diverse goods tossing the new questions of efficiency and economy.

The most crucial aspect that the industry faces is the issue of trust and quality in the operations of the new business format. While the present day younger generation and urban cities have welcomed e-commerce model, there is a lot of scope to expand the operations into the tier-2 and tier-3 cities to ensure profitability. Poor internet connectivity and missing logistical networks to link up to the last mile are the key drawbacks resulting in the increased operational costs and reduced profitability. To fill up these gaps companies are forced to operate on costly options like Cash On Delivery. Hence we may conclude that India may unleash the full potential of the sector only when all the above issues are addressed

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