



MERGERS & ACQUISITIONS IN E-COMMERCE: - REVIEW of Selected CASES

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Abstract: In this Digital scenario, everything is shifting from offline to online. Due to COVID-19 consumer's perception regarding shopping has been entirely changed & online shopping has become NEW NORMAL. E-Commerce sector has witnessed major revolution in changing technology oriented business diegesis. Technology is playing important role in confronting the new challenges in E-Commerce in world. The increasing technological proliferation combined with internet and mobile penetration, presents a favorable eco-system for the development of e-commerce in India. This sector is beholding a swathe of consolidation owing to various Mergers & Acquisitions. US retail giant Wal-Mart has set a new chapter in Indian E-Commerce sector by acquiring 77% stake in Flip kart in May 2018. Likewise merger of Reliance & Future group is a big recent scene changer. This review article is an attempt to study the dynamics of recent Mergers & Acquisitions & trends in E-Commerce.

Key Words: Merger & Acquisitions, Digitization, E-Commerce, Technological change.

1. Introduction

Presently, the market place is flooded with several e-commerce options for shoppers to choose from. A variety of innovative products and services are being offered & online shopping is no more a privilege enjoyed by people living in the US or UK. Today, due to COVID situation, it is a reality & necessity in India. E-commerce refers to electronic commerce which deals in goods and services through the medium of electronic media and internet. A more complete definition is: E-commerce is the use of electronic communications and digital information processing technology in business transactions to create, transform, and redefine relationships for value creation between or among organizations, and between organizations and individuals (**Prajapati & Nakum 2019**).

On the internet, E-Commerce links itself to a website of the vendor who trades products or services from the portal directly to the customers. And the portal generally has a digital shopping cart or digital shopping basket system which allows payment through different online modes like credit card, debit card or EFT (Electronic fund transfer) payments and even provides an option of cash on delivery. As noted by **Bagga & kataria (2016)** E - Commerce is classified into 5 categories:

1. Business-to-business (B2B) 2. Business to- consumer (B2C) 3. Business-to-government (B2G) 4. Consumer-to-consumer (C2C) 5. Mobile commerce (m-commerce).

In the last couple of years, the growth of e-commerce industry has been phenomenal as more shoppers have started discovering the benefits of using this platform. This rapid growth of E-Commerce is attracting big giants to invest in this sector through Merger & Acquisition (**Malik 2014**). Mergers and acquisitions are a response to new technologies or market conditions that require a strategic change in a company's direction or use of resources

This review article will deal with evolution, trends & recent mergers & acquisitions cases in Indian E-Commerce sector.

2. Evolution

E-Commerce is changing continuously and has evolved over the years. Nowadays, from big giants to small entrepreneurs everyone has adopted E-commerce. The E-commerce industry has experienced a lot of changes in the last 10 years. From big giants leading the market from front to many small business units, which have started their business online by advertising on various social media platforms with use of the internet and smart gadgets to reach more target audiences (**Chaudhary**

2015). India stands **second** in the world for number of mobile internet users and at present has nearly **700 million internet users** across the country which have enabled small business units to set up their business easily and people are also keener on shopping online with the use of various applications and sites (Das & Ara 2015).

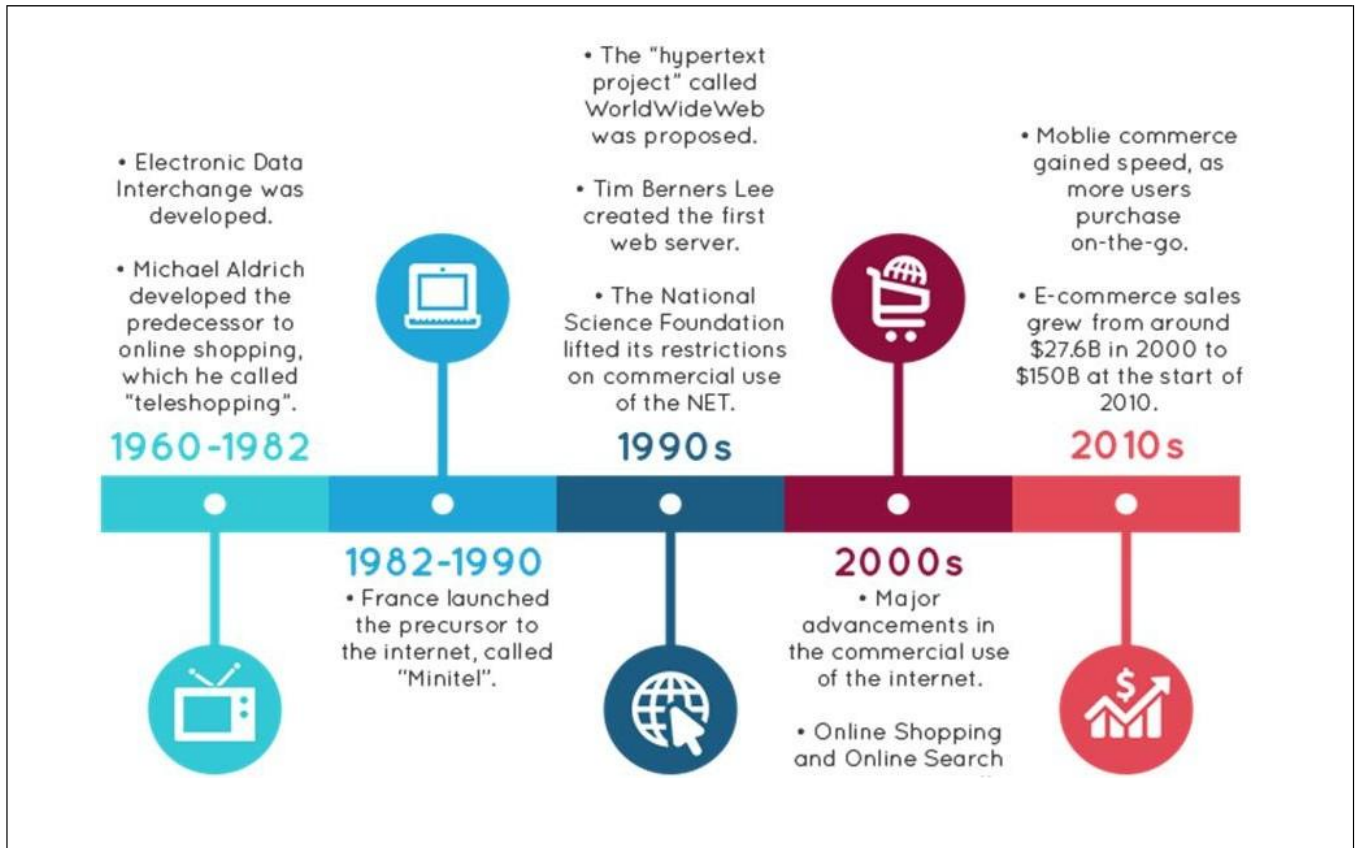


Figure 1: Source –Cheq-systems 2019

E-commerce sites and applications are designed in such a manner which is easy to use by the customers and according to their needs and aspirations.

2011: Google launched its online wallet payment app i.e Gpay and Facebook made its early move by launching sponsored stories for advertisement purpose.

2014: An online payment application, Apply Pay, launched by APPLE. An online shopping portal, Jet.com was also launched.

2017: Shoppable tags were introduced by Instagram which enabled people to sell directly from the online platform.

2020: COVID-19 has changed the scenario completely from offline to online. People are shopping all necessary and luxury items from different E-Commerce sites like Amazon, Myntra, Gofers', Big basket, Flip-kart and other sites in India. From 2017 to till date, following **massive reforms** are listed which have taken place in the e-commerce industry

Large retailers were pushed to sell their products online.

Small businesses with local sellers started to operate directly from social media platforms. As a result, they saw a rise in their profits.

Operational costs were reduced in the B2B sector.

As the e-commerce industry was growing, Parcel delivery costs also saw a significant rise.

After the introduction of automation tools and artificial intelligence (AI), logistics has evolved.

With the rapid growth of the e-commerce sector, Social media became a tool to increase sales and market brands of the products.

Customers' buying pattern and habits eventually changed.

3. Trends

E-Commerce is not just a way to sustain any business practices or enhance those practices but rather, it is a paradigm shift. It is a troublesome innovation which is fundamentally changing the old custom method of doing a business. On the other hand, it is showing remarkable growth in the country and the reason behind its growth is an increase in the no. of internet users. E – Commerce has also helped the online tourism industry in multiple ways that resulted in its new sales avenue. Following are new trends in the e - commerce industry:

1. **D2C-** A huge number of companies has started to sell **directly to consumers** without any middleman & digital space had made it easier for them to reach out to customers directly and exercise greater control over its sales. For the consumers, the bargain isn't bad either since they are offered exceptional service and exclusive deals by the brands.
2. **Role Of Social Media-** With the introduction of buying option on social media platforms, it's playing a paramount role in the world of ecommerce. Each platform can provide demographic information of its users, including age, gender, education, and income which means businesses that can find their target market on these platforms have a unique opportunity to boost their visibility and drive sales.
3. **Mobile-Commerce-** According to **Prajapati & Nakum (2019)** increasing smart- phone penetration, the launch of 4G networks and growing consumer wealth, the Indian E-commerce market is expected to grow to US\$ 200 billion by 2026.

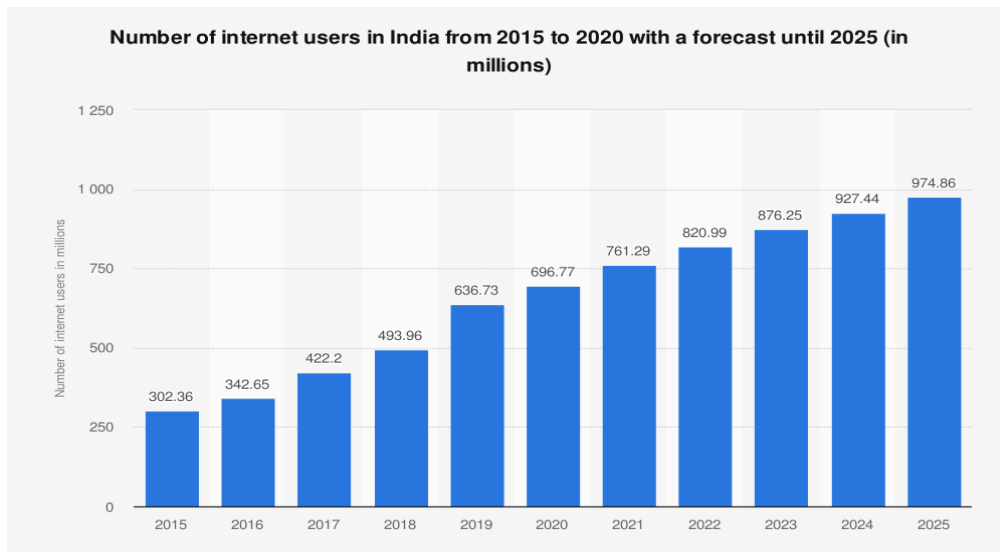


Figure 3: Source-statista2020

From the graph, it can be depicted that in the year 2019, India had nearly 650 million internet users around the country but in 2020, it increased from 650 million to nearly 700 million. A forecast was made which projected to grow over 974 million users by the year 2025, which indicates a giant market potential in internet services for the south Asian country (**Kumar & Khosla 2017**). In 2019, **Statista** estimated that by the end of 2021, 73% of ecommerce sales will take place on a mobile device & also in 2019, India ranked as the second largest online market worldwide after China.

4. **Role of Artificial Intelligence-**Global retailer spending on Artificial Intelligence (AI) will reach \$7.3 billion per annum by 2022, up from an estimated \$2 billion in 2018 (**BusinessWire,2018**). This happens as retailers target new avenues to increase personalization of the customer experience. These AI tools range from **automated** marketing platforms that are equipped to generate timely offers, to **chat bots** that respond to customer queries instantly & **voice assistant search, warehouse robotics**. AI involves analyzing data about consumer behavior to make informed business decisions.AI is most helpful in **Personalization** of shopping experience as it is new standardization and the future of ecommerce.

5. **Drone Delivery:** Companies like UPS, Amazon, and even Dominos are in the advanced stages

of drone delivery testing, so it's only a matter of time before this becomes standard.

6. **Always-On-Shopping:** Due to increasing use of internet and tremendous on-going discounts, schemes and festive offers consumers are always on shopping.

7. **Sustainable Ecommerce:** Sustainability is taking on a renewed importance for modern shoppers and brands are finding ways to weave that into their products, their fulfillment strategies, and their marketing. Brands that are improving their operations on behalf of the environment will have a robust impact on buying decisions.

8. **Future of E - commerce after COVID-19:** Undeniably, COVID-19 is biggest game changer in ecommerce sector. This is because people are getting comfortable with the comfort and convenience of online shopping and the benefits of contactless payments, both of which are likely to cause a permanent behavioral shift towards digital purchases.

4. Mergers and Acquisitions

Mergers and acquisitions (M&A) can be characterized as consolidation of companies. On differentiating both the terms, **Mergers** refers to the amalgamation of two companies to form one company, while **Acquisitions** refers to the process where one company is taken over by the other. Merger is generally done in a friendly and planned manner but on the other hand Acquisition is generally considered to be hostile and sometimes involuntary (**Sagar K. & Verma 2014**).

Case-1

The Merger of Walmart and Flipkart.

Walmart, the Bentonville, US based retail behemoth has acquired a 77% stake in Flipkart India's e-commerce top giant, valued at 16 billion USD. This deal is considered the largest M&A deal of the year, putting Flipkart valuation at 20.8 billion USD. The remainder 23% shares are held by Binny Bansal (Co-Founder), Tencent Holdings Ltd., (China), Tiger Global Management and Microsoft Corporation. The buyout includes 2 billion USD of fresh investment as Walmart looks to taken on Amazon's global expansion (**Polisetty, Manda & Naveenan 2019**)

About Walmart

It was founded in 1962 in Arkansas by Sam Walton, and evolved into a chain of hypermarkets, discount department stores, and grocery stores. Walmart became a public-listed company in 1970. By 1980 Walmart had expanded to over 2200 stores and today owns over 119496 stores in 27 different countries with 50 different names. Walmart is often cited as an example of a successful retailer that has grown in international markets through a combination of appropriate marketing strategies ("Everyday low price") and entry modes. It is the largest company in the world and employs over 2.2 million worldwide. Walmart operated under 3 reportable segments -Walmart U.S., Walmart International and Sam's Club. Revenue recorded till 2020 was US\$523.964bn and it is believed that 176 Million Shoppers visit Wal-Mart stores per week (**Amin,Kasnsana & Majid2016**)

About Flip-kart

Flipkart.com India's e-commerce giant usually referred as 'Amazon of India' was started by two ex-employees of Amazon Sachin Bansal and Binny Bansal in the year 2007 with an investment of Rs 0.4 million. The company initially started as an online bookselling platform with only 50,000 books and received its first order four months after its launch. By the end of 2009, it was the largest online book store. Flipkart continuously worked hard since its inception and continuously searched for opportunities. With constant innovation and ability to overcome every obstacle successfully made flipkart as the leading e-commerce platform in India. Flipkart even developed its own logistics center to improve its supply chain management system (**Fatima F.2014**).

Reasons /motive behind the deal:

- Wal-mart wanted to enter and capture Indian E-Commerce market as it has shown rapid growth in recent years.
- Since flip-kart was in need of equity infusion in order to expand and compete with Amazon.
- Supply chain of flipkart is best as it serves in more than 800 cities and does 50,00,000 deliveries daily (**Economic times**).
- Main reason behind merger and acquisition is having strategic edge over the competitor which in current case is Amazon.

VALUE CREATED BY WALMART-FLIPKART DEAL:

Customers	Associates	Communities	Shareholders
Broad Product choices	Better opportunities	Job creation	Attractive Growth market
Quality and affordable products	Strong business	Support all partners of supply chain (Mom & pop stores)	Strengthen Global Portfolio
Easier & quicker ways of shopping	Wider-scope	Support women entrepreneur	Generates long term value

Case analysis

The Indian e-commerce sector is growing very fast and everyone now wants the biggest bite from this cake. The recent acquisition of the Indian e-commerce stalwart Flipkart by the retail giant Walmart for a whopping sum of \$16 billion makes this more evident. This brown field investment puts Walmart directly on the map of Indian e-commerce market ahead of its global rival Amazon. While there is so much buzz around this deal from the small retailers opposing this, and from the millennials excited about this. Indian e-commerce space is turning super lucrative and Walmart’s acquisition of Flipkart gives it the early entrant advantage, helping it in higher penetration of the market and better awareness among the consumers for the brand. The Flipkart investment transforms Walmart’s position in a country with over 1.3 billion people, strong GDP growth, a growing middle class and significant runway for a smartphone, internet and e-commerce penetration.

Advantages:

Large data of Indian shoppers is being shared with the US retail giant. Real time data analysis helped in identifying the consumers & their needs better than domestic players.

Walmart wanted to extend its supply chain arm through partnerships with around 60 lakhs Kirana Stores. This increases the market presence of small stores.

Walmart has also stated that it is planning to infuse further investments to develop the market infrastructure of Flipkart.

Flipkart benefited from improvised supply chain mechanisms, and purchasing power of Walmart, and Walmart benefited from the technology prowess of Flipkart in Software, Artificial Intelligence, etc.

The investment of Walmart in Indian Start up ecosystem also gave a much needed boost for FDI, as it increased the confidence in Indian markets among foreign investors.

Reverse Merger:

Flipkart Group has acquired 100 per cent stake in Walmart India Pvt Ltd, which operates the Best Price cash-and-carry business. Senior vice-president of Flipkart old-timer Adarsh Menon decided to lead the venture with help of Walmart India CEO Sameer Aggarwal to ensure a smooth transition. In this reverse acquisition of the business-to-business segment of Walmart in India, Flipkart got the

opportunity to expand its footprint in the food and grocery segment and further strengthen its supply chain. The company has already piloted FMCG retail to kirana (mom and pop corner stores) in the Delhi NCR region

Case 2

The Merger of Reliance and Future Group:

Reliance Retail now become undisputed pioneer in the composed retail fragment by acquiring the future group retail business and this mega transaction had a combined value of Rs 24,713 crore which included the wholesale, logistics and warehousing business of the Future Group. The Future Group houses leads following retail formats which includes supermarket chain Big Bazaar, upmarket food stores Foodhall, and bargain clothing chain Brand Factory. As a part of a scheme, the acquisition is done where the Future Group merges certain no. of companies into Future Enterprises Limited (FEL).

Reason behind the deal:

One of the major reasons of this deal was that it would help Mukesh Ambani oil-to-media firm control more than one-third of India's organized retail sector. Ongoing concerns basis, a subsidiary of Reliance Industries, Reliance Retail Ventures Limited (RRVL), is acquiring the Retail & Wholesale Business and the Logistics & Warehousing Business from the Future Group for an amount of Rs 24,713 cores.

About Reliance Industries

Reliance Retail Limited was founded in 2006 which is a subsidiary company of Reliance Industries Limited and is one of the largest retailers in terms of revenue in India. Reliance Fresh, Reliance Digital, Reliance Trends, Reliance Time-Out etc are some of the divisions and subsidiaries under Reliance Retail.

About Future Group

An Indian conglomerate company was founded in 1987 by Kishore Biyani which is headquartered in Mumbai. Big Bazaar, Food Bazaar, lifestyle stores like Brand Factory, Central etc are popular supermarket chains of the company which is known for having a significant prominence in Indian retail and fashion sectors. Future Retail Limited, Future Lifestyle Fashion Limited, Future Consumer Enterprise Limited, Future Supply Chains Limited, Future Brands Limited, Future Capital Holdings Limited, Future Style Lab etc are various subsidiaries of the Future Group.

“DELIVERY IN 90 MINUTES” CONCEPT:

The Covid-19 pandemic has led to faster convergence between online and offline commerce, with traditional businesses increasingly collaborating with online channels as a long-term strategy to generate demand. Reliance Retail is coming with the concept of delivering everything in 90 minutes with the help of hyper-local **MOM & POP** stores. Earlier they were making deliveries from their own dark stores, or local warehouses and select shops, but over time it will expand that to corner stores and modern retailers within a select neighborhood.

RECENT UPDATE ON DEAL:

After announcement of acquisition deal of future group by Reliance industries, Amazon has opposed the deal in Singapore court & had written to SEBI and stock exchanges to take into consideration the Singapore arbitrator's interim judgement that put on hold the deal between Future group and Reliance Industries. Now SEBI is waiting for some clarifications from BSE on this Deal.

5. Conclusion

The advent of e-commerce in India has revolutionized the approach towards running a business. Increasing use of smart phones, Internet penetration & COVID-19 has changed the shopping experience entirely & accelerated the growth of E-Commerce. Due to this phenomenal growth E-Commerce is presenting big investment opportunities through Merger & Acquisition. It is also offering a huge number of benefits to customers starting from wide comparability of products, time saving, quick delivery and amazing discounts. With innovation becoming the new strength, entrepreneurs are coming up with clutter-breaking ideas to create newer verticals and because of this paradigm shift E-Commerce will be the future of world business.

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