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WALMART-FLIPKART: A DEAL WORTH ITS PRICE?

It was May 15, 2018, and Ananya Menon, Chief Consultant for retail and e-commerce at an Indian research and consulting firm in Mumbai, was working on a report for her client. The client, an Indian venture capital firm, had asked for a strategic analysis and overview of an acquisition deal that had startled the e-commerce startup community and set the entire retail enterprise community abuzz with debate and speculation.

On May 9, 2018, global retail giant Walmart announced that it would pay US$ 16 billion to buy a 77% share in Flipkart, an e-commerce company with a dominant share in India's growing online retail sector. Walmart, an Arkansas-based, publicly listed American company, was a traditional brick-and-mortar business that had physical and e-commerce stores operating in several countries across the globe. The company's attempt to enter India's retail sector had been thwarted by the country's restrictive foreign investment policies, which were devised to protect the interests of the dominant small traditional format traders. Walmart was clinging to its toehold at the threshold of the world's fastest-growing economy through its wholesale operations and had been waiting for more than a decade for the Indian regulatory environment to become favorable.

Flipkart, a Singapore-registered company based in Bangalore, India, was founded by techies Sachin Bansal and Binny Bansal in 2007. The company had recorded meteoric growth in the decade since its inception, both in terms of revenue and market share, and dominated India's online retail industry. It had raised massive funding from several foreign investors in multiple fundraising rounds. It had weathered a downturn in its fortunes in 2015-2016 due to strategies that had backfired and unfavorable foreign direct investment (FDI) policy reform, but had managed to bounce back. However, displeased with the direction that the company had been taking, the board of investors discreetly began to exert its influence in the management and operations of the company.

Professor Saumya Sindhwani, Dr M Kanchan and Lakshmi Appasamy prepared this case solely as a basis for class discussion. This case was developed from published sources. This case is not intended to serve as an endorsement, a source of primary data, or an illustration of effective or ineffective management. This case was developed under the aegis of the Centre for Learning and Management Practice, ISB.

Flipkart was facing fierce competition from Amazon, the world's leading e-commerce company, yet it had managed to sustain its gross merchandise value (GMV) share leadership through strategic acquisitions, attractive promotions and superior customer experience. It had also developed a robust supporting infrastructure. However, while its revenue growth was moderate, its losses were growing at an alarming rate.

The Walmart deal was long-speculated by industry observers, and the announcement was merely a formal confirmation. However, the price that Walmart offered to pay for Flipkart came as a surprise to many and sent shockwaves among Walmart's investors. Investors and observers criticized Walmart's decision to invest in a company that was burning cash at a staggering rate.

Menon's client, an investor in e-commerce startups, was keen on understanding the deal's strategic outcomes and valuation rationale, as well as its impact on the e-commerce ecosystem. She would have to carefully analyze the deal, the prospects of the e-commerce market, and the competitive environment to answer her client's questions and prepare a report with her perspectives and recommendations.

INDIA'S RETAIL SECTOR

Massive Potential

India was one of the fastest-growing economies in the world and the second most populated, with 17% of the global population. It accounted for 3% of global consumption and had the highest consumption growth among the top 10 countries ranked by size of household final consumption expenditure (HFCE).[1]

While the overall retail market was estimated to reach US$ 1.3 trillion by 2020 from US$ 672 billion, the share of organized retail trade was expected to grow from 7% in 2017 to 10% by 2020, a growth of 20-25%.[2] India's retail industry watchers believed that once per capita income hit the critical threshold of US$ 2,000, there would be a significant surge in discretionary spending, catalyzing the growth of the organized retail sector.[3] The demographic advantage of a young and economically active population, rising disposable income, rapid urbanization, growth of nuclear families, growing spread of plastic money, and availability of easy credit were driving the growth of India's retail sector (see **Exhibit 1** for various economic indicators impacting the growth of the industry).[4]

The E-commerce Ecosystem

With an estimated 440 million Internet users in 2017, India's e-commerce industry was increasingly featuring on investors' radars. In 2017 alone, there were 21 private equity and venture capital deals

[1] PricewaterhouseCoopers (PWC). (2017). *The promise of Indian retail: From vision to execution*. Retrieved from https://www.pwc.in/assets/pdfs/publications/2017/the-promise-of-indian-retail-from-vision-to-execution.pdf, in December 2018.

[2] Urs, A. (2018, October 4). India's retail sector projected to grow to $1.3 trillion by 2020. *The Hindu Business Line*. Retrieved from https://www.thehindubusinessline.com/news/indias-retail-sector-projected-to-grow-to-13-trillion-by-2020/article25125747.ece, in December 2018.

[3] Tandon, S. (2018, April 16). India's $670 billion retail market is heading for a dream run. *Quartz India*. Retrieved from https://qz.com/india/1252773/indias-retail-industry-is-heading-for-a-dream-run/, in December 2018.

[4] Care Ratings. (2017, June 2). *Indian retail industry: Structure and prospects*. Retrieved from http://www.careratings.com/upload/NewsFiles/SplAnalysis/Indian%20Retail%20Industry%20-%20June%202017.pdf, in December 2018.

worth US$ 2.1 billion. India's e-commerce industry was expected to grow at a compounded annual growth rate (CAGR) of 20.09% from US$ 38.5 billion in 2017 to US$ 200 billion by 2026. The online retail (e-tail) segment, with US$ 17.8 billion in value in 2017, accounted for 2.6% of the overall retail sector and was forecast to reach US$ 60 billion by 2020.[5] There was wide variance in the market value forecasted by brokerages and market research firms. Morgan Stanley, for example, predicted that the market would reach US$ 119 billion by 2020, whereas UBS's estimate was between US$ 48-60 billion.[6] The market size was estimated to grow to 220 million shoppers by 2025 from 120 million shoppers in 2017. The average e-tail spending in India was US$ 224 per user. Food and beverage held the largest share in the overall organized retail sector, while electronics and accessories accounted for the largest share in the e-tail sector (see **Exhibit 2** for segment-wise value contribution in the e-tail sector).[7] In the electronics category, smartphones were the fastest-growing segment with a 51% growth rate.[8]

India's digital transformation, aided by Internet and smartphone penetration, was driving the growth of the online retail industry. Internet penetration in India was 34.4% in 2017, up from just 4% in 2007[9], and the number of users was estimated to go up to 829 million by 2021.[10] A tech-savvy young demographic, higher disposable incomes, urbanization, and increasing Internet penetration and smart device ownership, combined with supply-side factors such as deep discounts, attractive promotions, hassle-free returns, clear listing of product details, cash-on-delivery options, and improved logistics and warehousing facilities, were driving the rapid growth of the e-tail industry.[11]

The Regulatory Regime

The government of India strictly regulated foreign equity participation in key sectors, and the retail and wholesale trading sector was one of them. This was viewed as essential for protecting small-scale traditional format retailers who accounted for the majority of the market, and any reforms to open the sector to FDI were always severely criticized. Following the liberalization of the economy in the 1990s, traditional format retailers, fearing the onslaught of big international retail companies and domestic modern format retailers aided by foreign investments, opposed FDI in the sector. To ensure a level playing field for the unorganized small retailers, the government of India had put in place a stringent FDI policy. However, with increasing globalization and the opening of markets, the government eventually had to relax its FDI policy for the sector.

For regulatory purposes, the sector was divided into cash and carry wholesale trading, single-brand retail trading (SBRT) and multi-brand retail trading (MBRT). Online trade operated under either the inventory-based model or the marketplace model. As the terms suggest, SBRT companies traded only one brand, of which they were the owners, and MBRT companies sold several brands that they did

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5 India Brand Equity Foundation. *Ecommerce industry in India*. Retrieved from https://www.ibef.org/industry/ecommerce.aspx, in December 2018.

6 Dalal, M. (2016, July 7). So, what's the state of India's online retail market anyway? *Live Mint*. Retrieved from https://www.livemint.com/Companies/Ig34ixeE1nJZAjMSl5Wg0O/So-what-is-the-state-of-Indias-online-retail-market-anyway.html, in December 2018.

7 Indian Brand Equity Foundation. (2018, May). *E-commerce*. Retrieved from https://www.ibef.org/download/Ecommerce-Report-May-2018.pdf, in December 2018.

8 Nair, R. (2018, March 26). Flipkart's FY 2018 report card – did the unicorn pass or fail? *Your Story*. Retrieved from https://yourstory.com/2018/03/flipkart-fy2018-fiscal-fitness/, in December 2018.

9 World Bank https://data.worldbank.org/indicator/IT.NET.USER.ZS?locations=IN

10 Internet users to double to 829 million by 2021: Report. (2017, June 9). *Economic Times.* Retrieved from https://economictimes.indiatimes.com/tech/internet/internet-users-to-double-to-829-million-by-2021-report/articleshow/59067600.cms?from=mdr, in December 2018.

11 Indian Brand Equity Foundation. (May 2018). *E-commerce*. Retrieved from https://www.ibef.org/download/Ecommerce-Report-May-2018.pdf, in December 2018.

not necessarily own. In the online format, companies that followed the marketplace model connected sellers and buyers on a digital platform. They facilitated transactions electronically without holding any inventory, while companies operating under the inventory-based model owned inventories.

Since 1997, the government had permitted 100% FDI in cash and carry wholesale entities under the automatic route,[12] and in 2006, it allowed up to 51% FDI in SBRT.[13] In 2012, after much backlash from Indian retailers, the government gave the nod to 100% FDI in SBRT.[14] However, it only permitted FDI of up to 49% in SBRT under the automatic route; FDI exceeding 49% required prior government approval. Additionally, SBRT companies with more than 51% FDI were required to procure at least 30% of the value of their purchases locally. The 2012 retail reform also allowed up to 51% FDI in MBRT under the government approval route. Still, the provision came with several riders: the foreign investor was required to make a minimum greenfield investment of US$ 100 million, 50% of which was to go towards building back-end infrastructure[15] within three years; 30% of the products had to be procured from small-scale industries; and MBRT outlets were allowed only in cities with a population of at least one million. In January 2018, the government permitted 100% FDI in SBRT under the automatic route and relaxed the 30% local procurement rule, giving companies a timeframe of five years to fulfil the condition.[16]

As for the e-commerce sector, the 2012 reform allowed 100% FDI under the automatic route in business-to-business (B2B) e-commerce companies but prohibited FDI in business-to-consumer (B2C) e-tail companies. However, e-tail operators flouted the rules by adopting a hybrid model, whereby e-commerce companies sold products and services at heavily discounted prices to their subsidiaries or related companies under B2B transactions. In turn, the subsidiaries retailed to customers in the marketplace; the heavily discounted products attracted a huge customer base to the marketplace, resulting in high sales volume and merchandise value.

Following criticisms from offline retailers of unfair advantage, in 2016, the government allowed 100% FDI under the automatic route only in marketplace model e-commerce companies, with several qualifications.[17] These companies were prohibited from providing discounts and were required to publish sellers' contact details and not allow more than 25% of the total sales in the marketplace from a single seller. The marketplace operators were allowed to provide services such as warehousing,

[12] The government of India regulated FDI inflow through two routes: the automatic route and the government approval route. In the automatic route, prior approval of the government was not needed for foreign entities to invest. However, they had to inform the Reserve Bank of India of the amount of investment within a stipulated time period. In the government route, an investment could be made only after the prior approval of the government.

[13] Rationalisation of the FDI Policy (press note no. 4 (2006 series)). (2016, February 10). Government of India, Ministry of Commerce & Industry Department of Industrial Policy & Promotion. Retrieved from http://dipp.nic.in/sites/default/files/pn4_2006_0.pdf , in December 2018.

[14] Government allows up to 51% FDI in multi-brand retail, 100% in single brand. (2012, September 14). *The Economic Times*. Retrieved from https://economictimes.indiatimes.com/news/economy/policy/government-allows-up-to-51-fdi-in-multi-brand-retail-100-in-single-brand/articleshow/16397550.cms, in December 2018.

[15] Back-end infrastructure included capital expenditure on all activities, excluding front-end units; for instance, back-end infrastructure included investments made towards processing, manufacturing, distribution, design improvement, quality control, packaging, logistics, storage, warehousing, agriculture market produce infrastructure, etc.

[16] Cabinet approves 100% FDI in single-brand retail via automatic route. (2018, January 11). *The Economic Times*. Retrieved from https://economictimes.indiatimes.com/news/economy/policy/cabinet-approves-100-fdi-in-single-brand-retail-via-automatic-route/articleshow/62441547.cms, in December 2018.

[17] Consolidated FDI policy circular of 2016. (2016, June 7). Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India. Retrieved from http://dipp.nic.in/sites/default/files/FDI_Circular_2016%281%29.pdf, in December 2018.

logistics, payment collection and order fulfilment as an intermediary between customers and sellers. However, they were prohibited from owning inventory, and the obligation of after-sales service and warranty/ guarantee was vested with the sellers. Thus, FDI in the inventory-based model was prohibited.[18]

The Retail Sector Players

Organized Offline Players

The Indian retail sector was dominated by unorganized, low-cost, family-run retailers known as *kirana stores* who accounted for 92% of the sector. In the organized offline segment, domestic retail companies, backed by the government's protective policies, held the major share. The organized players ran modern retail formats such as supermarkets, hypermarkets, department stores and specialty chains.

The top players in the organized offline retail sector were Future Group, Avenue Supermarts, Shoppers Stop and Reliance Retail. With 1,035 stores spread across 321 cities, Future Group reported total revenue of US$ 2.9 billion in FY 2018. Its flagship brands included Big Bazaar and Food Bazaar. Avenue Supermarts, trading under the brand name D'Mart, operated 155 stores in 153 cities and posted total revenue of US$ 2.3 billion in 2018. Both Future Group and Avenue Supermarts sold home utility products, including food, toiletries, beauty products, garments, kitchenware, bed and bath linen, and home appliances. The same year, Shoppers Stop, with more than 240 stores in 38 cities, declared total revenue of US$ 576 million. Its products included apparel, cosmetics, personal accessories, leather goods, homeware, electronics, books and music. Reliance Retail was the leading retailer in terms of revenue, with total revenue of US$ 7.9 billion in FY 2018. Reliance Retail's diversified retail portfolio included neighborhood stores, supermarkets, wholesale cash and carry stores, specialty stores and online stores. In all, it had 3,679 stores spread across 750 cities.

Online Players

In the e-tail segment,[19] Flipkart held the highest share of the market in terms of GMV with 31.9% as of 2017 estimates. It had a revenue of US$ 3.8 billion in the financial year ending March 2018 and registered a 51% spike in its standalone GMV, which stood at US$ 6.2 billion. GMV, also referred to as gross merchandise volume, was a business metric commonly used in e-commerce that measured the total volume/ value of sales over a given period of time on the marketplace. GMV was calculated prior to the deduction of any accrued fees and expenses associated with the sales, such as cost of delivery, discounts, marketing and returns. The actual revenue that the marketplace operator would earn in the form of listing fees, commission on sales, etc., would be less than the GMV.

Flipkart dominated the fashion and electronics segment. However, the market share of Flipkart was its standalone share, and its acquired companies Myntra and Jabong, both fashion retailers, held a share of 5% and 2.2%, respectively. Collectively, the Flipkart Group accounted for 39.1% of the e-tail

[18] Mishra, A., & Dalal, M. (2016, March 30). Govt defines e-commerce marketplace rules, allows 100% FDI. *Live Mint*. Retrieved from https://www.livemint.com/Politics/hglep85yZOQzChj6KRrrCK/Govt-allows-100-FDI-in-ecommerce-marketplace-model.html, in December 2018.
[19] Variyar, M. (2018, March 22). Amazon India reportedly closing in on Flipkart. *The Economic Times*. Retrieved from https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/amazon-india-reportedly-closing-in-on-flipkart/articleshow/63407725.cms, in December 2018.

market, with GMV of US$ 7.5 billion and net sales of US$ 4.6 billion.[20] Amazon India, Flipkart's closest competitor, held a share of 31.1% with total revenue of US$ 3.2 billion.[21] Amazon was aggressively strengthening its position in the grocery segment, whose share in the e-tail sector was expected to grow. Paytm Mall, a relatively late entrant, reported total revenue of US$ 101 million in FY2018 and had a share of 5.6% in the e-tail sector, its stronghold being the FMCG segment.[22]

As of 2017, a decade after its inception, Flipkart, the leader in the online retail space, had 100 million registered users and more than 100,000 sellers on its platform. Its 21 warehouses processed eight million shipments every month. It employed more than 33,000 people.[23]

Amazon India, akin to Flipkart, started as an online seller of books and music in 2013 but was able to expand rapidly by adding more categories and increasing its offerings. As of 2017, it had 100 million customers, 250,000 sellers and 47 fulfilment centers shipping to nearly 97% of the pin codes in India. Amazon Inc. had committed to invest US$ 5 billion in its Indian subsidiaries. Through its 5% acquisition of Shoppers Stop in September 2017, it planned to set up customer experience centers across Shoppers Stop's network of physical stores where customers could access and test Amazon's online products.[24]

The new entrant Paytm Mall was backed by Chinese e-commerce conglomerate Alibaba. Launched in February 2017, it had since raised US$ 200 million in funding and claimed to have 144,000 sellers and 68 million products across diverse categories. It did not invest in logistics and warehousing, the two money guzzling elements of e-tailing; instead, it operated on a unique online-to-offline model where the onus of fulfilment and delivery rested with the sellers and brands. To ensure the quality of service, the sellers had to undergo strict audits by Paytm Mall. Though the strategy appeared prudent, the company had limited its pace of expansion by deciding against investing in supporting infrastructure. However, it had a competitive advantage in its access to the vast ecosystem of Alibaba, the world's largest e-commerce company.

Walmart the Acquirer

A Global Retail Giant

Walmart Inc., founded in 1969, was an American multinational company that operated chains of hypermarts and departmental stores. It was the world's largest retailer.[25] The company had enjoyed unabated growth in the United States (US) and had nearly saturated its domestic market, while its local competitors were growing and expanding outside the US. Being a public listed company, it had to demonstrate growth in sales and profits. Thus, in 1991, Walmart started expanding outside the US

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[20] Variyar, M., & Chanchani, M. (2018, May 31). Amazon India ahead of Flipkart, claims Amit Agarwal. *The Economic Times*. Retrieved from https://economictimes.indiatimes.com/articleshow/64393758.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst, in December 2018.

[21] Ibid.

[22] Khatri, B. (2018, October 29). Paytm Mall scores over 100% jump in revenues for FY18. *Inc42*. Retrieved from https://inc42.com/buzz/paytm-mall-scores-an-over-100-jump-in-revenues-for-fy18/, in December 2018.

[23] Edelweiss. (2018, January 8). *India retail: Return of the Renaissance.* Retrieved from https://www.dsij.in/productAttachment/premarketreports/Market_Retail_Edelweiss_10.01.18.pdf, in December 2018.

[24] Ibid.

[25] Deloitte Touche Tohmatsu Limited. (2018). *Global powers of retailing 2018: Transformative change, reinvigorated commerce*. Retrieved from https://www2.deloitte.com/content/dam/Deloitte/at/Documents/about-deloitte/global-powers-of-retailing-2018.pdf, in December 2018.

and had pursued globalization aggressively ever since.[26] It strategically used its size to gain a bargaining advantage over manufacturers, and it was able to transfer the savings as discounts to customers in what it called the everyday low price/ everyday low cost (EDLP/ EDLC) model.[27] As of January 2018, it had 6,360 stores and 700,000 workers in 26 countries outside the US.[28]

Keeping up with market evolution, the traditional brick-and-mortar operator had expanded its services to online and mobile applications. Since 2016, its acquisitions demonstrated its commitment to e-commerce. Its latest acquisitions included Jet.com, JD.com, Moosejaw, and ModCloth, among others. Besides operating e-commerce websites in 10 countries, the company was also making substantial capital investments to improve its click and collect capabilities to leverage its online and offline assets by integrating its physical stores and virtual marketplaces.[29]

Decadal Waiting at India's Doorstep

Walmart forayed into the Indian market in 2007 as soon as it was open for FDI in wholesale, but the country's retail market had eluded it since then. Since government regulations permitted B2B wholesale operations, Walmart entered into a joint venture (JV) with Bharti Enterprises, a domestic retail operator. Under the JV, the partners set up a wholesale cash and carry business chain called Best Price Modern Wholesale. It launched its first outlet in 2009 and subsequently opened new stores across the country. The stores supplied to Bharti's retail operations and to other small- and large-scale retailers in the country.

By 2013, the chain had 20 stores, but Walmart's relationship with Bharti Enterprises had soured over allegations of corruption, and they fell out.[30] The Bharti-Walmart JV was dissolved in 2013.[31] Walmart bought back Bharti's 50% stake in the venture, and Walmart Inc., through its wholly-owned subsidiary, Walmart India Private Limited (Walmart India), started running the wholesale business.

Although the 2011 FDI policy reform allowed 51% FDI in multi-brand retail stores, it required the stores to source at least 30% of the products they sold from small-scale companies. This condition was non-viable for a company that sold high-value products such as electronics;[32] hence, Walmart chose to remain in the B2B wholesale business and wait for the government to further relax FDI norms.

Walmart India's Best Price stores offered an assortment of approximately 5,000 items at competitive wholesale prices to retailers and business owners. The sprawling stores sold a wide range of fresh, frozen and chilled food, fruits and vegetables, dry groceries, personal and home care items, hotel and restaurant supplies, clothing, office supplies and other general merchandise. As of 2018, Walmart India operated 23 Best Price Wholesale Stores in India.[33]

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[26] Govindarajan, V., & Gupta, A. (2002, June 19). Taking Wal-Mart global: Lessons from retailing's giant, strategy + business. Retrieved from https://www.strategy-business.com/article/13866?gko=e19cb in December 2018.
[27] Walmart company website, www.walmart.com.
[28] Ibid.
[29] Walmart. (2017, October 10). Press kit. Retrieved from https://news.walmart.com/2017/10/10/walmart-highlights-progress-on-strategic-initiatives-and-outlines-plan-to-win-with-customers-and-shareholders-at-its-meeting-for-the-investment-community, in December 2018.
[30] The Bharti-Walmart breakup: Where does FDI in India go next? (2013, November 1). *Knowledge@Wharton*. Retrieved from http://knowledge.wharton.upenn.edu/article/bharti-walmart-breakup-fdi-india-go/, in December 2018.
[31] Bharti, Wal-Mart end joint venture. (2013, October 10). *The Times of India*. Retrieved from https://timesofindia.indiatimes.com/business/india-business/Bharti-Wal-Mart-end-joint-venture/articleshow/23848813.cms in December 2018.
[32] Ibid.
[33] Walmart company website, www.Walmart.com.

Flipkart the Target

Inception and Evolution of the Unicorn

Flipkart was founded on September 15, 2007, by Sachin Bansal and Binny Bansal (no relation), who were former employees of Amazon Inc. Operating out of a two-bedroom apartment in Bengaluru, India, the company started as an online bookstore offering country-wide shipping. Driven by favorable market metrics, Flipkart's consumer base expanded quickly in the following years, eventually attracting the attention of venture capitalist firms. The Bansals had spent US$ 5,600[34] in building the website, and they worked on a tight budget until the sporadic orders transitioned to a sustainable business model with six million book titles, thousands of music and movie titles, and games. In 2011, Flipkart expanded its categories to include electronics, home appliances and personal care products and launched its own digital wallet. The following year, it entered the fashion and apparel segment and launched a mobile shopping application. After onboarding third-party sellers on its e-tailing site in 2013, Flipkart morphed into an online marketplace in the true sense and registered meteoric growth driven by innovative promotions, exclusive product launches and unique services that enhanced customer experience and loyalty. Amidst stiff competition from its deep-pocketed American competitor Amazon, an unpredictable regulatory maze and some slipped strategies, Flipkart, aided by its local knowledge, focus on customer experience and massive inflow of funds from venture capitalists, managed to sustain its market leadership.

A Consolidator

Market consolidation appeared to rank high among Flipkart's strategies from its early days. Several of its earliest acquisitions such as weRead, Mime360.com and Chakpak were related to book sales and digital distribution of books and content.[35,36] Its foray into online music sales called Flyte Music in 2012 ended abruptly in 2013 due to competition from free music streaming services.[37] However, the company's expansion into other product categories such as consumer electronics, fashion and lifestyle products helped it gradually gain ground in a digitally evolving market.

In 2013, Flipkart acquired Letsbuy, a leading online retailer in the electronics category at the time, for an estimated sum of US$ 25 million. Speaking to the press, Sachin said:[38]

> This acquisition fits into our strategy of building dominant shares in all the categories we operate in … We believe e-commerce in India hasn't reached a stage where players can indulge in share gain tactics. The market has to be built up by getting those who were shopping offline to [shop] online. The acquisition now gives us the opportunity to accelerate this process.

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[34] Rai, A. (2010, June 30). Flipkart: country's largest online bookstore. *The Economic Times*. Retrieved from https://economictimes.indiatimes.com/flipkart-countrys-largest-online-bookstore/articleshow/6108317.cms, in December 2018.

[35] Flipkart buys social book discovery tool WeRead. (2010, December 22). *VCCircle*. Retrieved from https://www.vccircle.com/flipkart-buys-social-book-discovery-tool-weread/, in December 2018.

[36] Pawha, N. (2011, October 11). Flipkart acquires Mime360; to launch digital distribution of music, e-books, games. *Medianama.* Retrieved from http://www.medianama.com/2011/10/223-flipkart-mime360-digital-music-ebooks-games/, in December 2018.

[37] Pawha, N. (2013, May 29). Why Flipkart shut down Flyte Music. Medianama. Retrieved from https://www.medianama.com/2013/05/223-why-flipkart-shut-flyte-music/, in December 2018.

[38] Flipkart buys Letsbuy in a cash-equity deal. (2013, January 21). *Business Standard*. Retrieved from https://www.business-standard.com/article/technology/flipkart-buys-letsbuy-in-a-cash-equity-deal-112021000101_1.html, in December 2018.

Further, in May 2014, Flipkart acquired Myntra, an online fashion retailer, for an estimated US$ 280 million.[39] Myntra continued to operate alongside Flipkart as a standalone subsidiary to leverage its distinctive product offerings and target market. In an attempt to strengthen its online marketing and services, Flipkart acquired mobile advertising company AdIquity, mobile marketing firm AppIterate, and payment services startup FX Mart, and made an investment in delivery locker service startup Qikpod. In 2016, through Myntra, Flipkart acquired Jabong, the second largest fashion e-tailer for US$ 70 million and became the largest online fashion retailer in the country.[40] In 2017, eBay, a leading American e-commerce company, sold its Indian subsidiary ebay.in, which never really took off despite being a first mover, to Flipkart. EBay also made a US$ 500 million cash investment in Flipkart.[41] The same year, Flipkart's efforts to acquire its main home-grown competitor Snapdeal failed over the inadequate offer price.[42]

A Smart Seller

Flipkart also became a leading player in the electronics category through its strategic moves in the smartphone segment. By partnering with leading smartphone manufacturers such as Motorola, Xiaomi and Micromax, the company held exclusive launches.[43,44,45] As a result, Flipkart held a 51% share in the smartphone segment in the electronics category.[46] It also reportedly had a higher share than its closest competitor in the large appliances category. The fact that it owned an after-sales services company, Jeeves Consumer Services, and an exclusive supply chain network for the category, provided it with an edge over the competition.

Apart from providing attractive discounts and exclusive launches, Flipkart, in line with its strategy of building traffic to its marketplace, rolled out innovative promotional events such as "Big Billion Day" during the Indian festive season. In its first edition, despite complaints of technical glitches and stock shortages, the company reportedly sold US$ 100 million worth of goods in a short span of 10 hours.[47]

The company also launched several private labels across categories such as the Billion in smartphones, MarQ in home appliances, Smartbuy in small electronics and accessories, and Perfect Homes in the

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[39] Big deal: Flipkart acquires online fashion retailer Myntra. (2014, May 22). *Indian Express*. Retrieved from https://indianexpress.com/article/business/companies/flipkart-myntra-announce-merger/, in December 2018.

[40] Verma, S. (2016, July 26). Flipkart's Myntra acquires Jabong in $70 million 'discount' deal. *Live Mint*. Retrieved from https://www.livemint.com/Companies/iicvIYFijqp9VRAx0ON46I/Flipkarts-Myntra-acquires-Jabong.html, in December 2018.

[41] Flipkart acquires eBay's India biz to fight Amazon. (2017, April 11). *The Times of India*. Retrieved from https://timesofindia.indiatimes.com/business/india-business/flipkart-acquires-ebays-india-biz-to-fight-amazon/articleshow/58117766.cms, in December 2018.

[42] Flipkart acquisition of Snapdeal collapses as latter decides to go ahead alone. (2017, August 7). *The Economic Times*. Retrieved from https://economictimes.indiatimes.com/small-biz/startups/its-final-now-snapdeal-ends-merger-talks-with-flipkart-will-go-solo/articleshow/59844703.cms, in December 2018.

[43] 40,000 Redmi 1S smartphones gone in 3.4 seconds: Xiaomi. (2013, September 23). *Gadgets 360*. Retrieved from https://gadgets.ndtv.com/mobiles/news/40000-redmi-1s-smartphones-gone-in-34-seconds-xiaomi-592701, in December 2018.

[44] Launch: Flipkart brings Motorola's 'Moto G' to India, prices it at Rs 12,499. (2014, February 5). *Indian Express*. Retrieved from https://indianexpress.com/article/technology/mobile-tabs/launch-flipkart-brings-motorolas-moto-g-to-india-prices-it-at-rs-12499/, in December 2018.

[45] Yu Yunique 2 launched at Rs 5,999 on Flipkart exclusively: Specs, features. (2017, July 25). *Indian Express.* Retrieved from https://indianexpress.com/article/technology/mobile-tabs/yu-yunique-2-launched-at-rs-5999-flipkart-exclusive-specifications-and-feature-4766009/, in December 2018.

[46] Flipkart 'beats' Amazon in m-sales. (2018, February 26). *The Times of India*. Retrieved from https://timesofindia.indiatimes.com/business/flipkart-beats-amazon-in-m-sales/articleshow/63073944.cms, in December 2018.

[47] Saxena, A. (2014, October 6). Flipkart hosts biggest-ever sale, website 'crashes'. *Gadgetsnow*. Retrieved from https://www.gadgetsnow.com/tech-news/Flipkart-hosts-biggest-ever-sale-website-crashes/articleshow/44485872.cms, in December 2018.

furniture category. Though the contribution of the private labels to the company's GMV was minimal, they emphasized the affordability dimension and improved the company's profitability. It must be noted that while retailers made 35-45% margins on regular brands, the margins could be as high 60-65% for private labels.[48] Flipkart was well-geared to clinch a share of small town online shoppers with its pioneering cash-on-delivery scheme in conjunction with other affordability instruments, such as no-cost EMI, debit card EMIs, "buy now, pay later" schemes, guaranteed buyback options and exchange offers.[49]

A Funders' Favorite

Venture capitalists, sensing a long-term opportunity in the Indian e-commerce market, pumped funds into Flipkart. In its very first funding round in 2009, it successfully raised US$ 1 million from Accel India, the Indian subsidiary of the American venture capital company Accel (then Accel Partner.) Tiger Global invested US$ 10 million and US$ 20 million in Flipkart in 2010 and 2011, respectively. After that, investments flowed incessantly from venture capitalists, private equity investors, mutual funds and sovereign wealth funds such as Naspers, ICONIQ Capital, Dragoneer Investment Group, eBay, Tencent, Softbank Vision Fund, Microsoft and Singapore sovereign-wealth fund GIC. With US$ 2.5 billion from Softbank in its latest and 14th round of funding, Flipkart had raised a total of almost US$ 7 billion in capital from investors. Flipkart had become the third most funded private company globally (see **Exhibit 3** for funds raised and valuation).[50] Commenting on Flipkart's packed coffers, K. Vaitheeswaran, Co-founder of India's first e-commerce company Fabmart (later IndiaPlaza), said:[51]

> Despite the downrounds across the startup ecosystem, the madness continues. This will run for two-three years. SoftBank has obviously given the money to Flipkart not for being prudent but for splurging to take out Amazon. You have to win by outcompeting. Money will take you only till the semi-finals and increases your mathematical probability. When aggregators are up against real technology companies, it is difficult to win by outfunding.

The extensive foreign funding also required a complex holding structure for the poster boy of Indian e-commerce to get around FDI regulations, leading to scrutiny and criticism (see **Exhibit 4** for the company's holding structure).

A Wobbler

The valuation of marketplaces was based on GMV. Consequently, when Flipkart's GMV growth slowed to 11% in 2016-2017 from 69% the preceding year in spite of the massive fundraises, India's leading online retailer saw its valuation wobble as investors repeatedly slashed the value of their shares. For example, in December 2016, Morgan Stanley Mutual Fund Trust marked down its shares for the fifth time in a row that year to US$ 50.51 from US$ 52.13 in September, which was a 38.2% drop from US$ 84.29 in June 2016. The markdown put the company's valuation at US$ 5.37 billion, down from US$5.54 billion in September, US$ 9 billion in the previous quarter and US$ 15.2 billion in July 2015. Other mutual funds, including T. Rowe Price, were also slashing Flipkart's valuation. A series of missteps along the way — a premature shift to a mobile-app only model, an abrupt move to an ad-

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[48] Edelweiss. (2018, January 8). Op. cit.
[49] Nair, R. (2018, March 26). Op. cit.
[50] Pillai, S., & Anand, J. (2017, August 12). Flipkart world's 3rd most funded company. *The Times of India*. Retrieved from http://timesofindia.indiatimes.com/articleshow/60028732.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst, in December 2018.
[51] Ibid.

driven pure marketplace model[52] and leadership churn — led to a massive drop in market share and revenue in 2015.[53]

A Shuffler and Sticker[54]

In June 2016, Kalyan Krishnamurthy, the Managing Director of Tiger Global Management, the biggest investor in Flipkart, was brought in to turn around the company, which was rapidly losing market share. Krishnamurthy was given the quirky title of Head of Category Design Organization and put in charge of Flipkart's marketplace, retail and advertising businesses, with the heads of marketing, private label, marketplace and customer experience reporting to him. As the company's CEO, Binny retained control of eKart, Flipkart's logistics arm, and the technology, finance and administrative functions., Sachin had made way for Binny and assumed the role of the Executive Chairman in January 2016. He was managing the private label initiatives, bringing in products branded "Made in India", and marshalling India's other Internet companies to lobby the government for protectionist policies against foreign e-commerce giants.

Flipkart entrusted the third edition of the Big Billion Day (BBD) sale to Krishnamurthy. BBD 2016 was a litmus test for Flipkart because of the fiasco it had been in its first edition and its underwhelming performance in the app-only second edition in 2015. Krishnamurthy delivered. BBD 2016 was a success, and the site sold over US$ 500 million in GMV in the third edition against the 2015 GMV of about US$ 300 million. Unlike the previous edition, it was offered across all platforms, and the marketplace dropped its flawed app-only strategy for good.

In January 2017, soon after success of BBD 2016, the board of investors orchestrated a change in leadership, making Binny the Group CEO and Krishnamurthy the CEO of Flipkart. As the Group CEO, Binny oversaw functions such as capital allocation across all group firms, merger and acquisition activities, and CEO selection at group companies, among other things. A former top executive commenting anonymously on the leadership shuffle, said, "The change had to be made. Kalyan had done a fantastic job against the odds. What Flipkart needs now is ruthless execution and he is the ideal man for that."[55]

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[52] Nearly 80% of Flipkart's sales came through WS Retail. WS Retail was a company founded by Sachin and Binny to circumvent FDI regulations that prevented foreign invested companies from retailing to customers. WS Retail acted as an intermediary for the foreign invested parent company Flipkart India Pvt. Ltd, which was a cash and carry wholesale business that routed heavily discounted products via B2B commerce to WS Retail, which in turn retailed the products at steep discounts to customers on Flipkart's e-tail site. However, this structure could not evade regulators for long and it came under scrutiny. Hence, in 2012, WS Retail was sold to two former executives and an associate of the founders. This arrangement made WS Retail appear independent on paper while it worked closely with Flipkart. WS Retail continued to account for the bulk of Flipkart's sales. However, in 2015, in a strategic shift to cut costs, Flipkart urged large sellers to sell directly to customers on its site and also undertake order fulfillment instead of routing it through WS Retail and thus switched to an ad and commission-based model (https://www.pymnts.com/news/2015/flipkarts-changing-strategy/). But the move failed as sellers were not able to deliver the expected high levels of customer service, and this hurt the image and credibility of Flipkart's marketplace, causing it to lose market share to its competitor. To counter this, it made another change, this time to a managed-marketplace model whereby it shifted the majority of its sales to a group of selected large vendors. This was in part necessitated by the 2016 FDI reforms that prohibited any one seller from contributing more than 25% of the total sales of any marketplace (http://www.businessfortnight.com/flipkart-looks-shift-sales-sellers/). Amazon also had a similar related company called Cloudtail that was estimated to account for more than 40% of its total sales.

[53] Dalal, M., & Sen, A. (2017, February 23). How Flipkart got back in the game. *Live Mint*. Retrieved from https://www.livemint.com/Companies/UYyYvB3UCV73IP26Uh10CP/How-Flipkart-got-back-in-the-game.html?utm_source=scroll&utm_medium=referral&utm_campaign=scroll, in December 2018.

[54] Ibid.

[55] Dalal, M., & Sen, A. (2017, February 23). Op. cit.

Krishnamurthy was the first outsider CEO in an Indian startup,[56] and he did manage to turn around the falling fortunes of Flipkart and fortify its position against Amazon, which was breathing down its neck. This was possible because of Flipkart's unrivalled dominance in the smartphone segment and its ability to forge exclusive deals with phone manufacturers. The stronghold of its subsidiaries Myntra and Jabong in the fashion category also aided the turnaround. A company spokesperson told the media:[57]

> The year 2017 has been a watershed year for Flipkart on all counts. We have not only managed to cement our position as India's leading e-commerce marketplace, but we also trounced the competition and made them irrelevant on several measures. Flipkart continues to be miles ahead of every other e-commerce marketplace in India today in terms of scale, reach, the pace of innovations, and customer focus.

A Guzzler[58]

Flipkart continued to make steep losses despite the massive infusions of funding it had received. Its losses grew at a faster rate than revenue, making matters worse. In FY 2017 its revenue grew by only 29% (US$ 3 billion) but its losses escalated by 68% (US$ 1.3 billion). The ever-increasing losses meant that the US$ 7 billion in funding that it had received was burning at a faster rate. Flipkart was not the only loser; its competitor Amazon was also operating under huge losses. The losses were partly attributable to the FDI reforms of 2016 that curtailed sales routed through related vendors by capping the contribution from a single vendor at 25%; notably, the growth of online retail slowed significantly that year. The persistent losses were largely attributable to the heavy discount-based model used by Indian e-commerce marketplaces to expand their customer base. The customer acquisition cost meant that companies were making a loss on every sale. For Flipkart, it amounted to a loss of 40 cents on every dollar of its sales in FY2017. In fact, on top of burning the cash raised from investors, Flipkart was also borrowing to finance the discounts and thus incurring hefty finance costs (see **Exhibit 5** for the company's financials). Even though it was making a significant loss on every sale, funding continued unabated because investors in the e-commerce sector used GMV as a key metric for the valuation of e-commerce platforms, although reportedly only 25% of GMV was realized as revenue in general.[59]

The Deal

On May 3, 2018, Walmart announced its intent to acquire a 77% controlling stake in the home-grown leader of Indian e-tail for a sum of US$ 16 billion. Of the US$ 16 billion, US$ 14 billion would go towards purchasing the shares of existing shareholders and US$ 2 billion would be a fresh capital infusion. The target was valued at US$ 22 million in the world's largest e-commerce acquisition and Walmart's biggest ever acquisition. Walmart had the option to invest an additional US$ 3 billion at the same valuation within a year of closing the deal. It was also prescribed that the minority shareholders had a right to take the company public four years after the deal was completed and at a valuation no less

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[56] Ibid.
[57] Nair, R. (2018, March 26). Op. cit.
[58] Dalal, M., & Sen, A. (2018, May 14). Walmart has long-term plans for Flipkart, an IPO isn't one of them. *Live Mint*. Retrieved from https://www.livemint.com/Companies/LRQkvFz4nvoUmwDVZUryRP/Walmart-has-longterm-plans-for-Flipkart-an-IPO-isnt-one-o.html, in December 2018.
[59] Bailay, R., & Chakravarty, C. (2015, October 28). GMV concept makes no sense & is used by ecommerce players like Flipkart, Amazon to justify valuations: Jabong's CFO. *The Economic Times*. Retrieved from //economictimes.indiatimes.com/articleshow/49559369.cms?from=mdr&utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst, in December 2018.

than what Walmart had paid. Notably, there was also a clause that stated that if Walmart should own 85% of the company at any point, the minority shareholders would lose their veto power on business decisions and transactions.[60] Reportedly, Walmart issued fixed and floating rate bonds to raise funds to finance the acquisition.[61]

Previously, to facilitate the buyout by Walmart, the Singapore incorporated holding company with more than 144 shareholders, had converted to a private company by consolidating the shareholders through a share buyback that included existing and former employees.[62] At the time of the deal announcement, the major shareholders were founders Sachin and Binny (5.5% and 5.2% respectively), Tiger Global (20.5%), Softbank (20%), Nasper (12.8%), Accel Partners (6.4%), Tencent (6%), and eBay (6%).[63] The representatives of the selling investors, as well as co-founder and Executive Chairman Sachin, would exit the board, while Binny would hold his share and remain on the board. Including Binny, the board would be restructured to constitute only eight directors, two of whom would be appointed by the minority shareholders and five by Walmart. Though Walmart expressed confidence in the existing leadership, it also reserved the right to appoint or replace Flipkart's CEO and other key executives in consultation with the board and co-founder Binny.[64]

A Heated Battle Ground

A Two-Horse Race

The competition was getting hotter between the two online majors, Flipkart and Amazon, while the other home-grown e-commerce player Snapdeal had nearly bowed out of the GMV race.[65] The new kid on the block, Paytm Mall, was playing a different game and did not pose a serious threat to the main contenders on their turf.

In the smartphone segment, which accounted for 50% of the total online GMV, Flipkart's market share had shot up to 51% in 2017, up from 44% in 2016. In the same period, Amazon's share increased only marginally from 31% to 33%. Notably, Amazon held the lion's share of 63% in the premium category of the segment, which was notorious for poor margins but helped to hold up the GMV.[66] Flipkart's lead in the segment hinged on its exclusive deals with phone manufacturers, but Amazon had also started getting exclusive launch deals.

Flipkart's share of the fashion segment, which accounted for 17% of the total GMV, was 60%.[67] Though the category offered a low average selling price, it provided better margins than smartphones.

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60 Ibid.

61 Smith, M. (2018, June 20). Walmart kickstarts mega fundraising to finance Flipkart deal. *Live Mint*. Retrieved from https://www.livemint.com/Companies/0wLpb3dAlDTAdTduaBVEUO/Walmart-kickstarts-mega-fundraising-to-finance-Flipkart-deal.html, in December 2018.

62 From 'holding' firm, Flipkart turns into 'private' firm for buyout by Walmart. (2018, May 4). India TV**.** Retrieved from https://www.indiatvnews.com/business/news-from-holding-firm-flipkart-turns-into-private-firm-for-buyout-by-walmart-440785, in December 2018.

63 Ibid.

64 Bansal, V., & Chanchani, M. (2018, May 12). Walmart can invest another 3 billion in Flipkart at the same valuation. *The Economic Times*. Retrieved from https://economictimes.indiatimes.com/markets/stocks/news/walmart-can-invest-another-3-billion-in-flipkart-at-the-same-valuation/articleshow/64134529.cms, in December 2018.

65 Singh, S. (2016, October 6). Snapdeal slips against its two main rivals, Flipkart & Amazon. Can it get its mojo back? *The Economic Times*. Retrieved from https://economictimes.indiatimes.com/small-biz/startups/snapdeal-slips-against-its-two-main-rivals-flipkart-amazon-can-it-get-its-mojo-back/articleshow/54705032.cms, in December 2016.

66 Nair, R. (2018, March 26). Op. cit.

67 Ibid

Amazon, growing at a rate of 90% in this segment, was sharpening its focus to extend this advantage. In September 2017, it launched BLINK, an imaging and cataloguing studio, to service the fashion sellers on its platform.[68]

In a market where people from small towns accounted for 41% of online shoppers, the customer acquisition race was on among the key players. While metropolitan shoppers grew only by 11%, small town shoppers increased by 18% and 34% in Tier I and Tier II cities[69], respectively. An estimated 45% of Flipkart's sales were from small towns while 65% of Amazon's sales were from the metros.[70] Flipkart's attractive affordability schemes, such as no-cost EMI, were instrumental in winning a significant share of small town shoppers. However, Amazon claimed to have the more significant share of urban shoppers whose shopping frequency and average purchase value were higher than that of small town shoppers. In addition, Amazon's Prime,[71] a subscription-based service launched in 2016 in India, had more mature online shoppers. Its subscription base in the country was growing at a faster pace than in any other country globally where Amazon offered the service. It had nearly 10 million subscribers as of April 2018.[72]

E-tail operators were looking at other categories besides consumer electronics, fashion and FMCG that could increase the stickiness of customers and the average revenue per customer. Grocery was the biggest consumer segment, with Indians spending 50% of their income on groceries and food.[73] The segment had the potential to generate repeat purchases, and further, the government had allowed 100% FDI in this segment since 2016. As a result, grocery was turning into a hotly contested category. Amazon had already launched "Amazon Now", an app selling groceries and fresh produce to customers in select cities. It had also secured the government's permission to invest US$ 500 million in a wholly-owned venture to retail locally produced and packaged food products through offline and online channels.[74] The approval would allow Amazon to control the end-to-end supply chain and retail directly to customers instead of depending on third-party sellers. Incumbent players BigBasket and Grofers had also received the nod from the government to retail directly to consumers as Amazon rolled out its pilot in the city of Pune. Flipkart also launched an app in 2015 called "Nearby" to deliver groceries and other staples from supermarkets to customers within an hour of receiving orders; however, it failed and was eventually pulled. While Amazon jumped at the opportunity to retail

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[68] Malik, Y. (2017, September 14). Amazon opens first fashion studio in India. *Live Mint*. Retrieved from https://www.livemint.com/Industry/QzDJI9ujfEUjkqMCNbS1nJ/Amazon-opens-first-fashion-studio-in-India.html, in December 2018.

[69] In India, cities were classified as Tier I, II, and III cities on the basis of population. Tier I cities were those with a population of 100,000 and above; Tier II, a population between 50,000 and 99,000; and Tier III, a population between 20,000 and 49,999. According to Ministry of Housing and Urban affairs, there were 465 Class I cities with more than 100,000 population of which 53 had more than a million population as of 2011. The Reserve Bank of India used a similar population-based classification to determine the density and network of bank branches and ATMs; accordingly, Tier I comprised metropolitan and urban centers, Tiers II, III, and IV comprised semi-urban centers and Tiers V and VI comprised rural centers.

[70] Bansal, V., & Variyar, M. (2017, December 26). Flipkart, Amazon to adopt new strategies in new year. *The Economic Times.* Retrieved from https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/flipkart-amazon-to-adopt-new-strategies-in-new-year/articleshow/62246689.cms, in December 2018.

[71] Amazon Prime is a paid subscription service offered by Amazon that gave users access to free two-day delivery (one-day in some areas), streaming music and video, and other benefits for a monthly or yearly fee.

[72] Singh, J. (2018, April 19). With 10 mn Prime subscribers, India turns out to be biggest market for Amazon. *Entrakr*. Retrieved from https://entrackr.com/2018/04/10-mn-prime-subscribers-india-amazon/, in December 2018.

[73] Why India's online grocery battle is heating up. (2018, April 26). *Knowledge @ Wharton*. Retrieved from http://knowledge.wharton.upenn.edu/article/indias-online-grocery-battle-heating/,
In December 2018.

[74] Amazon gets govt nod to invest in food retail in India. (2017, July 10). *Live Mint*. Retrieved from https://www.livemint.com/Companies/Zmbsd4phRaa6js6Hb8WGlM/DIPP-approves-Amazons-500-million-FDI-proposal-in-food.html, in December 2018.

directly in the segment, Walmart had stayed aloof, claiming that there was no economic sense in dealing in such low-margin products unless non-food FMCG products were also allowed.[75]

The Common Enemy[76]

Amazon was hot on the heels of Flipkart and was chipping away at its market share. Despite making huge losses in the Indian market, the parent company remained committed to infusing more cash in Amazon India.[77] As for Walmart and Amazon, they had crossed swords not only in their home markets but also in international markets. While Amazon's revenue grew by an average of 25% annually, Walmart's revenue growth had trickled to less than 3%. Amazon followed Walmart into the United Kingdom, forcing the latter to partially sell its supermarket subsidiary Asda. In Japan, Walmart tied up with Rakuten, the Japanese e-commerce company, to outdo Amazon in online grocery delivery. In the irresistibly attractive China market, it was unlikely that Walmart would overtake Alibaba, despite consolidating its share by acquiring JD.com. To reinforce its dominant position as the leader in organized retailing, it could not afford to ignore the opportunities in India, the world's fastest growing economy with over a billion people.[78]

Changing Market Dynamics[79]

When the online retail sector was heating up, the offline segment of the industry was also witnessing transition and convergence. Offline retailers were moving towards an omnichannel model whereby they offered online channels in addition to their physical stores. For example, Reliance Retail had digital platforms such as Ajio.com for fashion and Reliancemart.com, an inventory model e-tail site selling various products. Future Group had launched Everyday, a neighborhood store with digital capabilities enabling customers to shop online as well in the physical store. On the potential threat to offline retail players posed by Walmart's entry, Kishore Biyani, the founder of the retail major Future Group, said:

> I don't see any big shift happening in the way they do business just because Walmart has entered the fray. We are well spread and know our consumers and market really well. If anyone should worry, it is them [the global retailers] and not us. We can build our own marketplace or align with somebody.

Big Questions

With the formal announcement of the deal, which had raised the ire of the Walmart's investors, frenzied debate and speculation had erupted over the rationale behind it. Menon had to find answers

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[75] Bailay, R. (2018, February 19). Amazon becomes first foreign ecommerce firm to enter food retail venture in India. *The Economic Times*. Retrieved from https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/amazon-becomes-first-foreign-ecommerce-firm-to-enter-food-retail-venture-in-india/articleshow/62977179.cms, in December 2018.

[76] Shashiddar, A. (2018, June 17). Retail battlezone. *Business Today*. Retrieved from https://www.businesstoday.in/magazine/cover-story/e-commerce-growth-global-retail-giants-walmart-amazon-jeff-bezos-flipkart/story/277847.html, in December 2018.

[77] Philipose, M. (2018, April 7). Amazon looks set to take the lead in India, with or without Flipkart. *Live Mint*. Retrieved from https://www.livemint.com/Money/D65uyvNBokX79Pg3TxCkRM/Amazon-looks-set-to-take-the-lead-in-India-with-or-without.html, in December 2018.

[78] The fastest-growing and shrinking economies in 2018. (2018, January 5). *The Economist*. Retrieved from https://www.economist.com/graphic-detail/2018/01/05/the-fastest-growing-and-shrinking-economies-in-2018, in December 2018.

[79] Shashiddar, A. (2018, June 17). Op. cit.

to the critical questions her client had raised: What significant advantages would Walmart gain from acquiring Flipkart? Given Walmart's EDLP model, would Flipkart's discount-driven business model fit its strategic approach? What were the inherent risks in the deal?

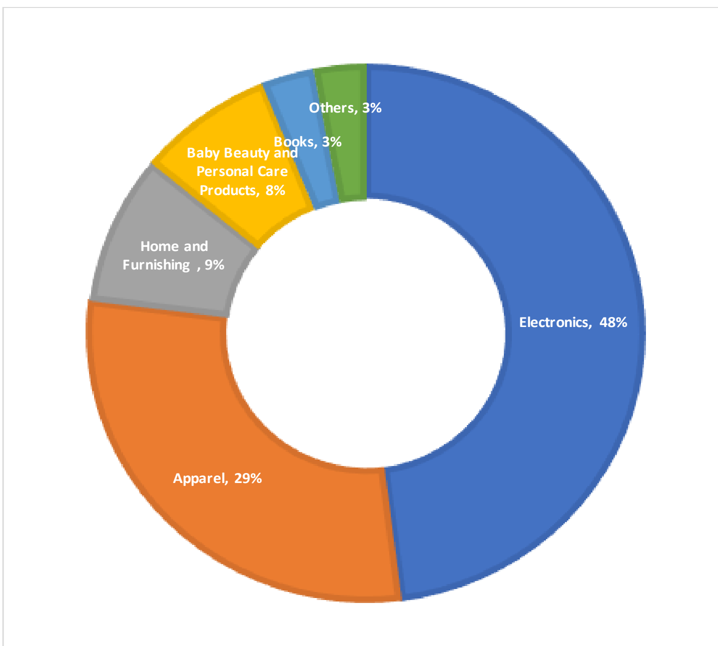
Hardly two years earlier, several of Flipkart's investors had significantly slashed the valuation of their shares. Therefore, Walmart's valuation of its target raised questions about the price it had paid. Had Walmart been diligent in its valuation of the company? Even if it had paid a premium for its long-awaited entry in the retail sector of the country, would it pay off?

Exhibit 1
Macro-Economic Indicators

Indicators	2018	2017	2016	2015	2014
Population (billion)	1.35	1.34	1.32	1.31	1.3
Urban population %	34	33.6	33.2	32.8	32.4
Population % (age 15-64)	66.8	66.5	66.3	65.9	65.6
GDP (US$ trillion)	2.7	2.6	2.3	2.1	2
GDP per capita (US$ 2010 constant)	2,104	1,987	1,874	1,752	1,640
GDI per capita (US$ 2010 constant)	2,082	1,966	1,853	1,731	1,621
Internet users	35.80%	34.50%	22%	17%	21%
Mobile subscription (billion)	1.18	1.17	1.13	1	0.94
Credit cards in use (million)	44	35	28	23	20
Debit Cards in use (million)	958	842	764	643	500

Source: Compiled from data published by World Bank (https://data.worldbank.org/country/india) and Reserve Bank of India (https://www.rbi.org.in/Scripts/ATMView.aspx).

Exhibit 2
Category-Wise Contribution to Online Retail by Value 2018



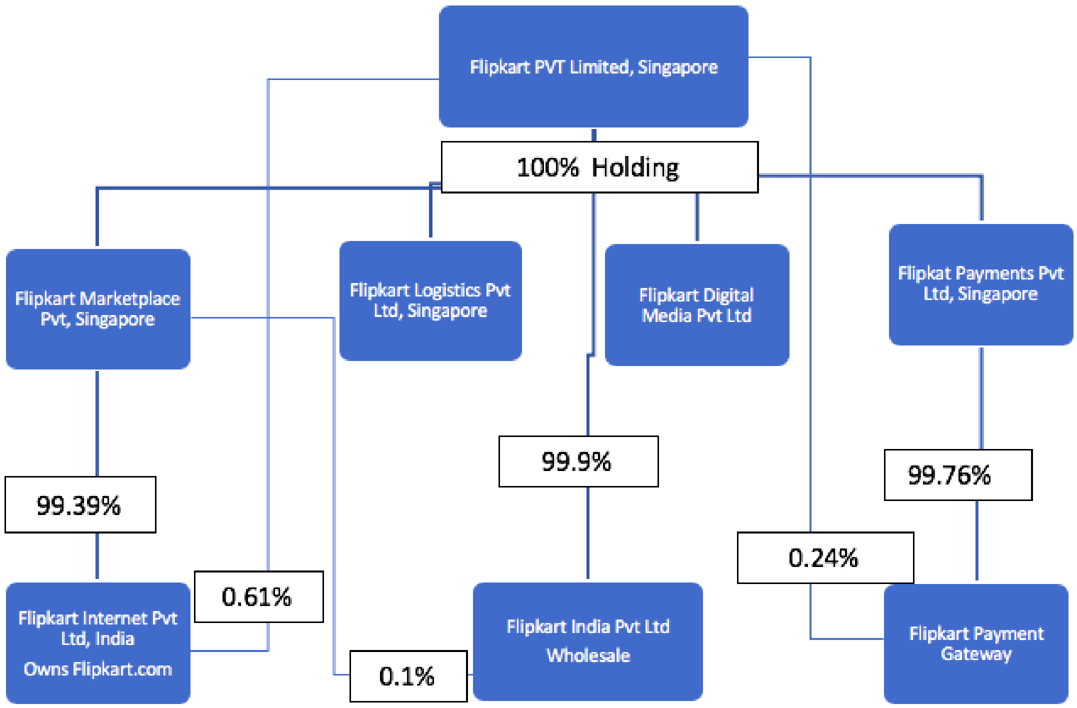
Source: Indian Brand Equity Foundation. (2018, May). *E-Commerce*. Retrieved from https://www.ibef.org/download/Ecommerce-Report-May-2018.pdf, in December 2018.

Exhibit 3
Funding Rounds and Valuation

Year	Investors	Funding	Valuation
2009	Angel Funding		Unknown
2009	Accel India Tiger Global	1 million 10 million	≈ 50million
2010-2011	Tiger Global	20 million	≈1 billion
2012	Naspers and Co.	255 million	1 billion
2013	Existing investors, Morgan Stanley, Sofina, Vulcan Capital and Dragoneer	200 million 160 million	1.6 billion
2014	DST Global	210 million	2.6 billion
2014	Existing investors, GIC Singapore	1 billion	7 billion
2014	Greenoaks, Steadview Capital, sovereign wealth fund Qatar Investment Authority etc.	700 million	11 billion
2015	Existing investors	700 million	15.5 billion
2016	Funds markdown valuation		5.6 billion
2017	Microsoft, EBay and Tencent	1.4 billion	11.6 billion
2017	Softbank	2.4 billion	11.6 billion
2018	Walmart	16 billion	20 billion

Source: Compiled by the authors from various media reports.

Exhibit 4
Flipkart Holding Structure



Source: Adapted from Verma, S., & Dalal, M. (2015, November 25). Inside Flipkart's complex structure. *Live Mint*. Retrieved from https://www.livemint.com/Companies/VXr8oJzNJ4daOYSO5wNETN/Inside-Flipkarts-complex-structure.html, in December 2018.

Exhibit 5
Flipkart's Financial Statement

Income Statement (in INR million)

	2018	2017	2016	2015
Revenue	**301,644**	**198,546**	**154,033**	**102,458**
Other income	4,796	5,994	6,598	3,150
Total income	**306,440**	**204,540**	**160,631**	**105,608**
Items of expense				
Cost of goods sold	-273,755	-184,037	-146,484	-112,994
Change in inventory	4,990	9,583	2,935	8,386
Marketplace cost	-3,180	-4,164	-3,437	-796
Employee expenses	-26,833	-20,527	-18,802	-8,374
Depreciation	-6,927	-6,069	-4,735	-1,867
Foreign exchange losses	-77	-564	-97	-7
Finance cost	-409,374	-43,086	-8,062	-4,012
Other expenses	-60,138	-44,640	-36,550	-15,788
Share of loss/profit equity accounted Investees	-100	14	-73	-1
Total expenses	-775,394	-293,490	-215,305	-135,453
Loss before taxes	-468,954	-88,950	-54,674	-29,845
Income tax (expenses)/ credit	-60	1,236	2,436	55
Net loss	**-469,014**	**-87,714**	**-52,238**	**-29,790**

Source: Company financial statement.

Balance Sheet (in INR million)

	2018	2017	2016	2015
Interest on unwinding of acquisition related liabilities	2	4	43	32
Interest on liability components of CRPS*	13,948	8,727	7,863	3,954
Fair value loss on derivative component of CRPS	384,757	34,127		
Loss on repurchase of liability component of CRPS	8,320			
Transaction cost relating to derivative component	1,038			
Fair value loss on share warrants classified as				
Fair value through profit or loss (FVTPL)	847			
Other finance costs	462	228	156	26
Total	**409,374**	**43,086**	**8,062**	**4,012**
Assets				
Non-current assets				
Property plant and equipment	8,055	9,586	11,287	5,118
Intangible assets	48,814	24,870	22,369	21,657
Investment in subsidiaries				

Investment in equity accounted investees	3,143	2,579	2,319	31
Investment	7,918	1,782		
Trade and other receivables	1,080	1,070	567	270
Other assets	27,514	972	721	988
	96,524	**40,859**	**37,263**	**28,064**
Current Assets				
Inventories	34,746	29,117	17,093	14,157
Trade and other receivables	28,167	13,657	4,870	4,245
Available-for-sale investments	50,035	9,358	50,811	43,820
Amount due from related parties				
Other assets	105,150	21,323	18,391	8,741
Cash and short-term deposits	12,058	35,787	41,038	52,467
Assets held for sale		251		
	230,156	**109,493**	**132,203**	**123,430**
Total Assets	**326,680**	**150,352**	**169,466**	**151,494**
Equity and liabilities				
Current liabilities				
Loans and borrowings	2,936	5,960	9,883	629
Trade and other payables	50,463	35,967	15,486	16,152
Provisions for employee benefit	921	965		
Other liabilities	27,564	15,927	11,490	5,672
	81,884	**58,819**	**36,859**	**22,453**
Net Current Assets	**148,272**	**50,674**	**95,344**	**100,977**
Non-Current Liabilities				
Loans and borrowings	356,910	148,534	142,944	102,884
Employee benefits liability	788	531	367	192
Other liabilities	1,915	635		219
Deferred tax liability	2,891	2,281	16,875	1,891
Derivative liability	548,481	127,628		
	910,985	**279,609**	**160,186**	**105,186**
Total liabilities	**992,869**	**338,428**	**197,045**	**127,639**
Net assets/(liabilities)	**-666,189**	**-188,076**	**-27,579**	**23,855**
Equity attributable to owners				
Share capital	559	559	559	175
Preference share capital	7	8	8	8
Foreign currency translation reserve	-7,122	-2,685	-7,470	-1,539
Reserves	32,350	48,588	78,958	72,484
Warrants	11,805			
Accumulated losses	-703,964	-235,068	-99,994	-47,834
	-666,365	**-188,598**	**-27,939**	**23,294**

Non-controlling interest	176	522	360	561
Total equity/(deficit)	**-666,189**	**-188,076**	**-27,579**	**23,855**
Total equity and liabilities	**326,680**	**150,352**	**169,466**	**151,494**

* Cumulative Redeemable Preference Share

Source: Company financial statements.

Finance Cost (in INR Million)

	2018	**2017**	**2016**	**2015**
Interest on unwinding of acquisition related liabilities	2	4	43	32
Interest on liability components of CRPS	13,948	8,727	7,863	3,954
Fair value loss on derivative component of CRPS	384,757	34,127		
Loss on repurchase of liability component of CRPS	8,320			
Transaction cost relating to derivative component	1,038			
Fair value loss on share warrants classified as FVTPL	847			
Other finance costs	462	228	156	26
Total	**409,374**	**43,086**	**8,062**	**4,012**

Source: Company financial statements.