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UNICOMMERCE eSolutions: THE EXIT DECISION

Nilesh Gupta and Shantam Shukla wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On a late evening in December 2014, Ankit Pruthi called Vibhu Garg and Karun Singla for a meeting. It was the 10th time over the last three days that the three co-founders had met to discuss the future of their company, Unicommerce eSolutions Pvt. Ltd. (Unicommerce). Unicommerce needed investments to scale up their existing business to service 10,000 or more clients. A couple of months ago, they had received an offer for US$10 million[[1]](#footnote-1) in series-B funding from Tiger Global Management (Tiger Global). The offer seemed fair, and the co-founders were inclined to pursue the deal. However, 15 days earlier, they had received an unexpected offer from Snapdeal, a leading e-commerce firm, for a buyout. In the last week, the team had discussed and debated their options several times without coming to an agreement. While walking to the meeting room, Pruthi knew that the time for deliberations was over. By 9:00 a.m. the next day, he would have to call Snapdeal and communicate Unicommerce’s decision.

Company History

Unicommerce was set up in 2012 as a software-as-a-service solution provider for order- and warehouse-management activities in the e-commerce industry. Pruthi, Singla, and Garg had been classmates from the Indian Institute of Technology Delhi (IIT Delhi), class of 2007. They came together to found a start-up in the rapidly growing e-commerce industry. Since their undergraduate days, they had dreamed of working together and starting their own business. Pioneers of the e-commerce industry in India—Sachin and Binny Bansal of Flipkart Pvt. Ltd. (Flipkart), Rohit Bansal of Snapdeal, and Deepinder Goyal of Zomato—had their roots in IIT Delhi. However, unlike their alumni, Pruthi, Garg, and Singla wished to be technology providers, rather than front-end customer-facing retail platforms. They envisioned Unicommerce as the core platform for information exchange between e-commerce sellers and e-commerce companies. They dreamed that every retailer, every distributor, every warehouse, and every e-commerce firm would engage with Unicommerce for their warehouse- and order-management needs.

In the past three years, Unicommerce had witnessed phenomenal growth, emerging as the leading warehouse- and order-management solution provider to sellers of goods on online platforms in India. Keeping up with the frantic pace of e-commerce growth in India, they grew from five clients in June 2012 to nearly 1,000 by the end of 2014. In 2012, they were financially sustainable, enjoying a very slow burn rate[[2]](#footnote-2) within a year of operation—a feat unheard of in the e-commerce industry.

The E-Commerce Industry in India

E-commerce in India took off exponentially in the latter half of the 2000s. A novelty and luxury for most, Internet access was available to only 5 million users in 2000, a mere 0.5% of the population[[3]](#footnote-3) . Internet connectivity was slow, and it was used mostly for seeking information. Using the Internet for the sale and purchase of goods was inconceivable for a large part of the population. Low demand, coupled with the lack of a supporting ecosystem, could have affected the viability of online businesses that did not survive the dot-com bust of 2000.

The second wave for online retail was enabled by the advent of low-cost airlines in early 2000. As more Indians had the opportunity to fly, online travel agencies emerged as intermediaries to facilitate air travel (see Exhibit 1). E-tailing, or the sale of goods through online platforms, also started in early 2000, with Indiaplaza, Rediff Shopping, and Indiatimes.com being the early starters. However, it was much later, in 2004, with eBay Inc., and then in 2007, with Flipkart, that e-tailing started emerging as a significant market for New Age entrepreneurs. In the first decade of the 21st century, Internet penetration increased exponentially in India, with the number of Internet users growing from 5 million in 2000 to nearly 90 million in 2010.[[4]](#footnote-4) This increase was reflected in the growth of the e-commerce sector (see Exhibit 2), which grew from $300 million in 2005 to $3.9 billion in 2009. In the next four years, it quadrupled to reach $17 billion in 2013, with over 1 million large and small retailers selling products online[[5]](#footnote-5).

Rapid growth heralded the third phase of the e-commerce sector in India from 2010 onward. The early success of Flipkart and Snapdeal inspired many to join the e-commerce bandwagon. This was supported by venture capitalists providing capital amounting to $691 million, $760 million, and $1.6 billion for 2011, 2012, and 2013, respectively.[[6]](#footnote-6) For venture capitalists and founders, the early success of e-commerce firms was just the beginning, as a large number of potential users were still untapped. The phenomenal growth in e-tailing business was supported by a mere 1 per cent of Indian Internet users who engaged in e-commerce actitvity by end-2012[[7]](#footnote-7). Online retail made up less than 1 per cent of annual retail turnover in India till as late as 2014.[[8]](#footnote-8)

According to Unicommerce’s founders, for early e-commerce ventures, the challenge was twofold: the first was to build trust among apprehensive first-time buyers in India, and the second was to build a strong back-end infrastructure that could support the rapid growth and development of their business. To build customer confidence, early e-commerce start-ups introduced innovative schemes like cash on delivery (COD), trial services at home, and easy return policies. In a country where less than a quarter of the population had access to a debit card and less than 20 million had a credit card, online payments became a bottleneck for e-commerce growth. COD emerged as an instrument to address customer concerns regarding online payment.

Reflecting on the early initiatives in establishing Flipkart, Sachin Bansal suggested that “we are building highways for the growth of e-commerce in India.” Though a blueprint for e-commerce existed in the West, business processes such as online payment, logistics, quality monitoring, and feedback systems were significantly different. Sales from Internet retailing in India grew from ₹82.1 billon[[9]](#footnote-9) in 2010 to a projected value of ₹400 billion in 2015—a projected compound annual growth rate of 70 per cent over the previous year.[[10]](#footnote-10) Such steep growth put heavy strains on the infrastructure supporting the e-commerce ecosystem. The challenges in the industry were predominantly in the area of building infrastructure and delivering a superior customer experience—from payment gateways to efficient supply chain partners. A solution to these challenges would increase the number of customers transacting online.[[11]](#footnote-11)

Most early e-commerce firms operated using the inventory model. This model overcame problems of trust between buyers and sellers. However, the inventory model tied up capital in purchasing and stocking inventory, exposing the firm to the risk of inventory markdown. Both of these problems increased exponentially with size. Firms realized that higher and higher capital would be needed to maintain the same growth rate if they continued with the inventory-based model. Around the same time, the inventory-based operating model was deemed to be at odds with the norms of Indian foreign direct investment (FDI).[[12]](#footnote-12) In addition, the Indian market had massive fragmentation in both supply and retail distribution. Less than 8 per cent of retail in India was organized. There was a very, very long tail on the supply side. The only way to aggregate supply was to allow sellers to list on the platform, which had a lot of demand.[[13]](#footnote-13) Giving in to these pressures, most of the e-commerce firms transitioned to the marketplace model.

**A Need for Technology: An Emerging Business Opportunity in the E-commerce Industry**

When e-commerce companies build scale, cost comes down. Companies that can handle scale and reduce costs over time will win. . . . Technology is the answer at large scale.[[14]](#footnote-14)

Sachin Bansal, chief executive officer, Flipkart

The e-commerce industry witnessed an exponential growth from 2007 to 2011, with the number of individuals transacting online increasing from 3 million to 11 million—a number that was projected to rise to 40 million by 2016. Managing a large and diverse customer and retailer base for a seamless shopping experience was possible only through the committed use of technology. On the customer-facing end, there had been increasing use of recommender systems by e-commerce platforms to offer customized offerings to a diverse clientele. Recommender systems used technology to identify user buying patterns through detailed profiling, prior shopping experience, location, and, social-platform interactions, with a view to improving customer conversions—from visits to actual purchase. The Unicommerce team considered this as a possible technology offering in 2011, but the uptake of recommender systems by e-commerce platforms was in its nascent stage. Also, Unicommerce’s founders believed that e-commerce firms were of the opinion that the user recommender system and analytics were critical corporate knowledge that had to be kept in-house for their perceived long-term benefits.

On the seller side (i.e., the e-commerce platform and retailer end), technology had a role in automating order-processing systems. For instance, payments for online purchases were made through multiple channel partners such as credit and debit card companies, bank websites, digital wallets, and Internet banking systems. Not only did these platforms have differing protocols and processing guidelines, even their performance to complete a transaction was contingent on existing load, pending transactions, and system downtime. A good payment-gateway system would be able to tell which channels faced heavy loads and recommend that the customer choose an alternative channel. This ensured that fewer transactions were dropped or delayed due to authentication delays at banks or credit card companies.

Other than payment-gateway challenges, technology was also needed for e-commerce platforms in managing inventory and post-purchase activities. After a customer made a confirmed purchase, order-processing engines and systems took over. These systems managed the complete life cycle of an order—from purchase to delivery and returns (if present). A good inventory-management system ensured that the number of units of product in the warehouse matched the number displayed online. A mismatch could either lead to a failure or delay in processing the order, thus reducing customer satisfaction. A warehouse-management system was able to ensure that orders were fetched and packaged as soon as possible. In a marketplace-oriented model, a fulfillment system was also needed that could interact with the seller and the courier system to ensure that the item was packed, labelled, and delivered to the customer. In the early days of the e-commerce industry, the online platforms had very little or no technological systems to manage their processes. E-commerce platforms had built excellent websites for the display and purchase of goods, but it took them much longer to have software systems for their back-end processes. Once an order was received on the website, activities such as sourcing, packaging, delivery, tracking, and returns were done with manual intervention.

In his earlier role as chief technology officer of Snapdeal, Singla had realized the importance of technology for e-commerce players. He knew that as the number of transactions rose, firms would have a very difficult time in managing and scaling up their systems without excellent technology systems. After leaving their jobs in October 2011 and armed with this understanding, Pruthi, Singla, and Garg dug deeper into opportunities for technology providers in the e-commerce industry. After discussions for three months on probable products, they settled on creating an order- and warehouse-management solution for India. Though customer-end technology solutions such as a recommender system also seemed attractive, the team felt that there was little demand at that time for such a system in the industry. Additionally, user purchase patterns were considered proprietary information by competing platforms, thus limiting the opportunities for third party solutions.

In contrast, the team felt that there was considerable latent demand for order- and warehouse-management solutions. After a purchase was completed on the website, each order had to go through a process before it ended up with the customer. When the customer on the web store placed an order, it was downloaded into the order-management system. The order-management system allocated the inventory against that order and updated the order into the inventory-management system. The order then went for pick-list generation (or, wave management). The invoice and the shipping label were generated for that order, and the order was shipped from the warehouse. The team knew that managing a high volume of customer requests, routing product orders, and tracking logistic support was a challenge for e-commerce players. Automating this process was essential to reducing delivery errors and improving customer satisfaction. Also, with an increasing number of online transactions, online e-tailers would be more open to seeking external solutions to support and manage the growth of their servicing platform.

According to Unicommerce’s founders, warehouse-management solutions were not a new product for the e-commerce industry. In 2011, software solutions were available for firms operating in the United States. Prominent companies such as Oracle Corporation (Oracle), SAP SE (SAP), and Vinculum Solutions Ltd. had established products in this space. However, localized versions of these offerings, catering to Indian businesses and legal structure, were limited and had incomplete features. These solutions were developed for retail stores and were not suitable for e-commerce business processes. They were developed for users in developed markets, and Indian user preferences were not factored into the product design. Secondly, most of the solutions were costly standalone applications, for which firms had to spend a lot of money upfront. Some of the products were not suited to work with Indian taxation laws. Global majors such as Oracle and SAP asked for payment of a year’s licence fees upfront. In addition, they would need about six months of technical effort for implementation, and there was no guarantee of success after the implementation period. Consequently, Indian e-commerce firms were not able to easily adopt these solutions for their businesses’ needs. The Unicommerce team considered this vacant space a lucrative opportunity.

Their business idea of developing an order- and warehouse-management system received support from experts and venture capitalists, who also identified it as a pain area for growing e-commerce platforms. During discussions with industry leaders and senior management of leading e-commerce businesses, the team realized that firms would be open to off-loading technical investments, provided reliable and cost-effective solutions were available in the market. A good technical solution would enable them to grow faster and gain a sustainable competitive edge over competitors.

By the end of December 2011, the team had commenced the development work of their software solution. They reached out to industry experts like Ankush Mehra, co-founder and vice-president of Supply Chain Operations at LimeRoad, an Indian e-commerce firm, to help shape their technology offering. Additional technical resources were hired in February 2012, as the development effort continued. By April 2012, they were ready with a cloud-based order and warehouse-management system for the rapidly growing e-commerce industry in India. Within a four-month period, the team rolled out the first version of their offering. However, they faced challenges in testing the system for peak transaction loads reaching up to thousands of transactions per hour.

The first version of the product was well received by clients. By the end of June 2012, the Unicommerce platform was managing 200,000 transactions per month. Within the first month of the rollout, the team secured contracts from five leading e-commerce platforms including Bluestone.com, Jabong.com (Jabong), Snapdeal, and MangoStreet.com. Firms like Snapdeal were impressed with the speed of the Unicommerce team’s response as well as their technical prowess. Their idea was well received by Snapdeal, who was looking for strong warehouse-management systems to support their multiple warehouses. Once established firms like Jabong and Snapdeal adopted Unicommerce, it became much easier to gain adoption by other firms. After the team had demonstrated their capabilities in early 2012, they pursued their short-term objective of having zero cash burn by the end of the year. Being a technology-product company, their expenses were small and mostly related to the salaries for a couple of hires, server space, and a small office. Assuming a revenue of ₹1 million from each client, 20 clients would be enough to achieve their objective.

From X to 10X: Evolving THE Product Offering

By the end of 2012, the major e-commerce firms were already using order- and warehouse-management systems developed by Unicommerce. The team quickly realized that the size of the market for their enterprise solution was not as large as they had initially estimated. A software-management solution for order processing and warehouse management was only needed by players who had a sizeable transaction volume. At that point, barely 60 to 70 e-commerce platforms in India net this criteria. The product had emerged as the leading warehouse-management system in the industry, but there were doubts concerning future growth opportunities in the Indian market if they continued with only an enterprise product. Growth was dependent on a larger number of e-commerce platforms participating in the market, which seemed unlikely. It was looking difficult to continue growing by 10 times in this saturated market.

By the end of 2012, increasing capital costs in an inventory-based e-commerce business model and issues related to multi-brand FDI[[15]](#footnote-15) speeded up the adoption of the marketplace model in India. In the marketplace model, e-commerce platforms emerged as facilitators, helping in (a) the discovery of products, (b) pricing, and (c) assisting logistic support for the transfer of goods from the seller to the buyer. This change immediately increased the number of sellers from a few hundred to a few thousand, providing a boost to the number of possible clients for Unicommerce. Instead of a few single-digit sellers having thousands of transactions per month, Unicommerce’s target market increased to thousands of small sellers, such as small-time traders with one to ten transactions a month. Pruthi and the team realized that targeting this segment would enable them to achieve their goal of growing by 10 times.

To remain relevant in the new industry structure, Unicommerce had to evolve its product offering. With the industry growing at a rapid rate, the team had to move in fast to secure their foothold in modified industry dynamics. By November 2012, the team realized that the software developments required for the marketplace model would take much more time and effort than any of their previous developmental efforts. To compound matters further, they only had sufficient funds for the next eight months. Venture funding at this stage would help in providing monetary resources to develop the next version of the order-management system for individual sellers and traders interested in participating in online retail.

In August 2012, Unicommerce had made an appearance at an event conducted by NextBigWhat.com—a popular website tracking early-stage start-ups. Unicommerce discussed their product and how it was helping clients improve their shelf-to-dispatch time as well as saving labour costs. By November 2012, Unicommerce received promising valuations from both venture funds they initially connected with. The team’s interactions with venture funds and experts during their funding process confirmed their belief that the e-commerce business model in India would evolve toward the marketplace model. For Unicommerce, these interactions were a validation that they were on the right track. The team’s minimal cash burn within a year of inception built confidence among venture capitalists.

In December 2012, Unicommerce accepted Nexus Venture Partners (Nexus)’s offer to be potential investors for their firm (see Exhibit 3). Nexus was known among the start-up community for their fair practices and mentoring support—a critical need for first-time entrepreneurs. During discussions with Nexus, the team learned about VC term sheets for the first time. They had reservations about provisions in the term sheet that could influence changes in the share capital of the firm. Items such as liquidation preference, right of first refusal, anti-dilution protection, and participating preference were discussed in detail by the team, both among themselves and with the funders. After detailed deliberations on the clauses, Nexus and Unicommerce agreed on the terms of the investment. As part of the investment offer, Anup Gupta from Nexus joined the board with an agreement to utilize funds for new product developments and intensifying sales and marketing efforts of the venture.

**Post-Series-A Funding: Growing from X to 10X**

A large part of 2013 was spent in development of the new system. After 15 months of developmental effort, in March 2014, Unicommerce launched a multi-channel order- and inventory-management solution for sellers. The seller version was developed to help individuals and small traders manage their online inventory, billing, and logistics activities. The model supported individual sellers selling their goods on multiple e-commerce websites. The product offered sellers the capability to maintain a consistent inventory across multiple websites, along with support for different fulfillment models in the Indian e-commerce industry (see Exhibit 4). This software allowed sellers to see all of their online orders in one place, process orders in bulk for quick dispatch, show 100 per cent of the seller’s inventory across multiple channels, and update the accounting software of the seller immediately. Sellers put the same items up for sale on multiple e-commerce websites. Without multi-channel inventory-management software, the sellers used to partition their inventory across the different marketplaces. This would lead to stock-outs in one marketplace and unsold inventory in the other.

There was a need for automation software in the market—a need Unicommerce was able to meet with its new product launch in 2014. Unicommerce was able to provide a single user interface, where sellers could manage their inventory and synchronize product displays for multiple e-commerce marketplaces on a single panel and prepare bulk invoices and shipping labels. The product was extremely helpful to sellers who were selling online for the first time. The complexities of order routing, managing online inventory, and even legislative and taxation policies in e-commerce were new to the sellers, and the product simplified their lives. Unicommerce built software services and integrated the application programming interfaces to exchange data with 30 leading e-commerce platforms in India to allow its customers seamless management of their inventory on a single panel. Unicommerce’s interface and features made it easy for small vendors and traders to manage their inventory across platforms, without investing resources in technology teams.

Armed with their new product, in May 2014, Unicommerce surpassed 500 active sellers on their platform, processing over 100,000 orders per day. In addition to providing handy features for sellers, the product pricing was kept low to incentivize adoption. In 2014, the team had a subscription-based model where a seller was charged ₹5,000 per month in addition to ₹2 or ₹3 per order. This pricing was further reduced to a purely fee-based model, where ₹2 or ₹3 was charged to sellers per transaction (see Exhibit 5). Customers who had very high transaction volumes, greater than or equal to 50,000 per month, were charged only ₹1 per transaction. Unicommerce ensured that their product was compatible with common financial software used by small sellers and traders (such as Tally, Busy, and Logic) to lower any resistance to adoption. According to Garg, the major feature that contributed to Unicommerce’s success was its adaptability. Unicommerce was able to adapt their solution and offering to meet the market demand—faster than the competition.

The phenomenal growth of the e-commerce industry and success of homegrown firms like Flipkart and Snapdeal made even global firms like Amazon.com Inc. (Amazon) and Alibaba Group Holding Limited (Alibaba) line up investment plans for India. With an early promise of $2 billion in India operations, Amazon had identified India as its next growth market.[[16]](#footnote-16) The investments led to another round of intense competition, with e-commerce firms burning cash to acquire and retain customers. Local e-commerce giant Flipkart raised funding of $1 billion from Naspers and Tiger Global in June 2014. In October 2014, even Snapdeal received funding of $627 million from SoftBank Internet and Media[[17]](#footnote-17). SoftBank was an early investor in Alibaba and shared a good relationship with Jack Ma, the founder of Alibaba. Alibaba had co-invested with SoftBank in quite a few rounds of venture funding. There was a distinct possibility that Alibaba would follow SoftBank and soon invest a large amount in Snapdeal. Entry of global giants such as Amazon and Alibaba was potentially bad news for third party vendors for e-commerce firms. Along with huge cash reserves, both Amazon (approx. 1.1 billion transactions per year[[18]](#footnote-18)) and Alibaba (12.7 billion transactions per year) had experience in running an operation with millions of transactions per day.[[19]](#footnote-19)

Increased investment cycles in the industry were reflected in not only the online transactions but also in the number of discreet sellers on e-commerce platforms. Soon Flipkart, Amazon, and Snapdeal were having over 25,000, 40,000, and 100,000 sellers, respectively, listed on their platform. However, only a few hundred sellers on these platforms were profitable, whereas a large number of sellers were doing little or no business. At such low volumes, many suffered losses and exited the marketplace. Experts felt that India might not evolve as a long-tail market, where a large number of sellers would profit with lower order volumes. The experience of the Unicommerce team seemed to validate such trends. With nearly 30 per cent market share, Unicommerce was already processing 8 million transactions per month for various sellers on various e-commerce platforms. However, increasing the customer base was dependent on the increase in the overall number of sellers going forward. Also, the entry of large foreign e-commerce players meant faster introduction of new technologies, which were already in use in developed markets. For Unicommerce, this meant continued investment in building new technologies to grow or retain its market share.

THE OFFERS

In late 2014, Unicommerce received a $10 million funding offer from Tiger Global, a US-based VC fund founded in March 2001 (see Exhibit 6). Tiger Global was one of the largest investors in Flipkart and Amazon. Lee Fixel, head of Tiger Global, had a huge role to play in shaping the Indian e-commerce industry. He was known for being very fast in deal making, and he gave full operating freedom to the entrepreneur after providing them with the finances. Indian VC firms were wary of betting against the companies in which Tiger Global had invested. Within start-up circles, Lee Fixel was seen as a clear-headed investor who was always available for his investee companies. He had identified India as its next growth market, and was prompt in replying back to emails from the investee company founders—he usually replied within an hour. He believed that founders should achieve financial freedom quickly so that they could focus on building their start-ups without worrying too much.[[20]](#footnote-20)

The second offer from Snapdeal (see Exhibit 7) was very much unlike the offer from Tiger Global. Snapdeal was offering to buy out the founders and merge Unicommerce with Snapdeal. Until receiving the offer from Snapdeal, the team had never thought about selling their business venture. Snapdeal was one of their earliest customers. It had transitioned into a marketplace system earlier than Flipkart and hence had a larger number of sellers on its platform. With a growth of 600 per cent over the past year, Snapdeal had broken many records in the e-commerce space.[[21]](#footnote-21) It had recently acquired funding from SoftBank. As a part of the deal, Nikesh Arora, president and chief operating officer of SoftBank, had joined the board. Kunal Bahl, one of Snapdeal’s co-founders, envisaged Snapdeal as a technology company that enabled others to do e-commerce. He was willing to invest in technology both organically and inorganically.[[22]](#footnote-22) Over the past year, Snapdeal had acquired online product-discovery platform Doozton, Shoppo (an online marketplace for handicrafts), and gift-recommendation site Wishpicker.com. Pruthi and the team had worked with Kunal and Rohit since 2012. They were familiar with the founders as well as the working culture and structure at Snapdeal.

Pruthi wondered about the time he and the rest of the team had spent discussing these options over the past few weeks. They realized that as the industry consolidated, Unicommerce would have to either align with a large e-commerce firm or invest significantly in the development and expansion of technology offerings for long-term growth. Unicommerce had come a long way since the three entrepreneurs had left their jobs (see Exhibit 8). They had worked through the challenges as a team and come out together and stronger. For first-time entrepreneurs, the journey had been nothing less than remarkable, as indicated by the company’s financial growth (see Exhibit 9). Would they pursue the buyout interest or would they pursue the investment and build an improved product? Ankit was wondering which decision would be agreeable to all three founders.

The authors would like to acknowledge the funding received from the Indian Institute of Management Tiruchirappalli for this case.

Exhibit 1: E-COMMERCE growth (in ₹ BILLIONS)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **December 2009** | **December 2010** | **December 2011** | **December 2012** |
| **Online Ticketing** | 149.53 | 204.4 | 265.72 | 345.44 |
| **E-tailing** | 15.5 | 23.72 | 38.42 | 64.54 |
| **Financial Services** | 15.4 | 18.48 | 22.55 | 28.86 |
| **Classifieds** | 7.75 | 10.85 | 16.82 | 23.54 |
| **Other Segments** | 4.31 | 5.18 | 7.92 | 11.1 |
| **Total Industry Size** | 192.49 | 262.63 | 351.43 | 473.48 |

Source: Digital Insights, “Latest Report on Growth of E-commerce in India,” LinkedIn SlideShare, May 12, 2013, accessed November 15, 2015, www.slideshare.net/allinsights/growth-of-e-commerce-in-india.

Exhibit 2: e-commerce GROWTH iN INDIA (in ₹ BILLIONS)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2009** | **2010** | **2011** | **2012** | **2013** | **2017–2020**  **(Expected)** |
| **Revenues** | 4.2 | 5.9 | 8.0 | 11.0 | 14.9 | 10.0 |

Source: PricewaterhouseCoopers Private Limited, *Evolution of E-commerce in India: Creating the Bricks behind the Clicks*, August 2014, accessed November 15, 2015, www.pwc.in/assets/pdfs/publications/2014/evolution-of-e-commerce-in-india.pdf.

EXHIBIT 3: NEXUS venture PARTNERS

Nexus had been one of India’s leading venture funds, with investments primarily in the early stage and growth stage of start-ups. It had approximately US$1.1 billion under management in 2012, with a diverse portfolio including companies across technology, Internet, media, consumer, and business-services sectors.

**Sectors invested in by Nexus Venture Partners (until end of 2012)**

|  |  |
| --- | --- |
| **Sector** | **Number of Companies Funded** |
| Mobile | 13 |
| Enterprise Software | 12 |
| E-commerce | 9 |
| Analytics | 7 |
| Internet | 7 |
| Cloud Computing | 6 |
| Applications | 5 |
| Software as a Service | 4 |
| Education | 3 |
| Video | 3 |
| Curated Web | 3 |
| Shopping | 3 |
| Travel | 3 |
| Supply Chain Management | 3 |
| Advertising | 3 |
| Health Care | 3 |

Funding rounds Nexus participated in

|  |  |
| --- | --- |
| **Stage of Funding** | **Number of Companies Funded** |
| Seed | 16 |
| Angel | 7 |
| Venture | 19 |
| Series A | 21 |
| Series B | 12 |
| Series C | 5 |
| Series D | 4 |
| Series E | 2 |

Source: Nexus Venture Partners, “Nexus Venture Partners Portfolio Companies”, Crunchbase, accessed August 1, 2016.

**Exhibit 4: MODELS IN E-COMMERCE DELIVERY**

On a broad scale, the fulfillment models followed in India could be classified based on the entity who stocked the inventory. The inventory could be stocked either by the retailer/marketplace or by the seller.

**Inventory stocked by the marketplace**

This model had two subdivisions, based on the entity that owned the inventory.

**(a) Inventory-led model**

In the inventory-led model, the e-commerce retailer/marketplace bought and stocked the entire inventory at its warehouse. This model lacked scalability and was capital intensive. However, it allowed the marketplace to have complete control over the entire process and increased customer satisfaction.

**(b) Fulfilled-by-marketplace model**

In this model, the seller was registered at the warehouse of the e-commerce platform and was given some shelf space in the warehouse. The seller kept its inventory at this warehouse, owned by the platform. The platform stocked the seller’s inventory in the platform’s warehouse own warehouse and managed the life cycle of the order.

**Inventory stocked by the seller**

Also known as the drop-ship model, this model allowed an e-commerce marketplace to avoid purchasing a large amount of inventory. Here, e-commerce marketplaces bought products individually from sellers and shipped them directly to customers. An e-commerce marketplace could partner with a drop-shipping supplier and list their merchandise for sale. On receiving the order, the marketplace would forward the order to the seller for fulfillment. This type of fulfillment model could be classified into two subtypes:

**(a) Drop-ship model: Shipped by seller**

In this variant of the fulfillment model, the seller would ship the product from its warehouse to the customer and charge the marketplace the price of the shipped item. The marketplace would not have any process for checking the quality of the shipping and packing done by the seller.

**(b) Drop-ship model: Shipped by marketplace**

In a variation of the earlier model, the courier firm of the e-commerce platform picked up the order from the seller and dispatched it. The seller owned the inventory and kept it at his warehouse, but the marketplace took care of the shipping process. This model allowed the marketplace to have tighter control of the shipping process.

Source:KPMG, *Fulfilled! India’s E-Commerce Retail Logistics Growth Story*, August 2016, accessed May 17, 2016, https://assets.kpmg.com/content/dam/kpmg/in/pdf/2016/08/E-commerce-retail-logistics-India.pdf.

Exhibit 5: PRODUCT FEATURES AND PRICING

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Type of Package** | **Monthly Subscription** | **Upgrade Amount** | **Minimum Recharge Amount** | **Price per Transaction** |
| Lite | NIL | ₹0 | ₹0 | ₹0 |
| Standard | NIL | ₹2,000 | Multiples of 1,000 | ₹2 |
| Professional | NIL | ₹10,000 | Multiples of 1,000 | ₹3 |
| Enterprise pricing | CUSTOM PRICING | | | |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Lite** | **Standard** | **Professional** |
| **Channels** | 6 | Unlimited | Unlimited |
| **Multi-channel order sync** | **✓** | **✓** | **✓** |
| **Channel-wise inventory management** | **✓** | **✓** | **✓** |
| **Bulk invoicing, labelling, and shipping** | **✓** | **✓** | **✓** |
| **Users** | 1 | Unlimited | Unlimited |
| **Centralized inventory across channels** |  | **✓** | **✓** |
| **Accounting integration and tax management** |  | **✓** | **✓** |
| **Role-based customization view** |  | 3 roles | 9 roles |
| **Barcoding** |  |  | SKU level |
| **Purchase management** |  |  | **✓** |
| **Inbound operations** |  |  | **✓** |
| **Returns management** |  |  | **✓** |
| **Multiple warehouses** |  | **✓** | **✓** |

Note: ₹ = INR = Indian rupee; US1 = ₹61.93 on December 1, 2014; SKU = stock-keeping unit

Source: “Introducing Credit-Balance Based Billing,” Unicommerce*,* accessed March 21, 2016, http://support.unicommerce.com/customer/portal/articles/1896324-introducing-credit-balance-based-billing-system.

EXHIBIT 6: TIGER GLOBAL Management

Tiger Global Management (Tiger Global) was a hedge fund based out of New York. Founded in March 2001, Tiger Global made investments in public- and private-equity markets across the globe. The private-equity business of Tiger Global specialized in investing in early-stage companies, growth companies, and start-ups. Tiger Global had a long-term orientation and generally invested in companies with a horizon of a decade. The fund had investments in Internet companies, technology, real estate, telecommunications, energy, media, and retail sectors. These investments were made across the United States, India, China, Southeast Asia, Latin America, and Eastern Europe.

The private equity arm of Tiger Global was a highly respected firm all over the world. The firm had a proven track record for recognizing and investing in firms that became subsequent blockbusters. Some of the famous investments included titans such as Facebook Inc., LinkedIn, Airbnb Inc., Zynga Inc., and Quora. It was the venture fund that funded the e-commerce industry in India. It made investments in MakeMyTrip Limited (MakeMyTrip), Flipkart Pvt. Ltd. (Flipkart), Myntra, Justdial, LimeRoad, Ola Cabs, Grofers, Quikr, Delhivery, PolicyBazaar, Inshorts, ZO Rooms, The Viral Fever, and Hike. Tiger Global had successful exits from MakeMyTrip and Justdial, which had been sole-equity listings of the Indian e-commerce space until 2014.

Tiger Global had been a doyen of the Indian venture capital scene. It was rumoured to have earmarked over $2.5 billion for investment in 2015. Tiger Global was one of the early investors in Flipkart in 2010, and it continued investing in Flipkart over subsequent years. It also invested in LetsBuy.com (a website selling electronics) and Myntra, which were later merged with Flipkart, citing reasons of operating synergies. Out of these two firms, LetsBuy.com was completely merged with Flipkart, whereas Myntra continued to maintain an operational website. Tiger Global was planning to ramp up their investments in India, and they were actively looking for good companies to add to their portfolio.

Source: Kunal N. Talgeri, “Trail of the Tiger,” *Fortune India*, May 5, 2014, accessed May 31, 2017, www.fortuneindia.com/technology/trail-of-the-tiger/100529.

EXHIBIT 7: SNAPDEAL

Snapdeal, India's largest online marketplace, featured best-priced deals on products such as mobile phones, computers, consumer electronics, apparels, watches, and footwear. Founded in February 2010 by Kunal Bahl and Rohit Bansal, Snapdeal started its life as an online-deals company, along the lines of Groupon. Snapdeal was initially funded by the likes of Nexus Venture Partners, Kalaari Capital, Bessemer Venture Partners, and eBay Inc (eBay). At the end of 2011, Snapdeal pivoted from the group-deals business to the marketplace model. At the end of August 2014, Snapdeal was the second-largest e-tailing company after Flipkart, with 50,000 merchants selling five million products on its site, adding a product every 20 seconds. With a growth of 600 per cent over 2013 to 2014, Snapdeal had broken many records in the e-commerce space.

Up until 2014, Snapdeal had secured funding to the tune of US$1.5 billion from investors such as eBay, SoftBank Capital, Azim Premji, Ratan Tata, Foxconn Technology Group, and Alibaba Group Holding Limited. Funding from Ratan Tata raised Snapdeal’s profile significantly in the start-up ecosystem. Snapdeal had acquired Grabbon.com in 2010, eSportsBuy.com in 2012, and Shopo in 2013. Snapdeal acquired Doozton in April 2014 and Wishpicker.com in December 2014. Over 2015, Snapdeal was looking to acquire companies that would give it a strategic advantage in the e-commerce space.

Source: Sunny Sen, “Supercharged: How Kunal Bahl and Rohit Bansal Created the Country's Biggest Online Marketplace,” Business Today, August 17, 2014, accessed April 19, 2016, www.businesstoday.in/magazine/features/snapdeal-flipkart-alibabacom-kunal-bahl-rohit-bansal/story/208582.html; Masoom Gupte, “How Snapdeal Caught Ratan Tata's Eye,” *Economic Times*, September 10, 2014, accessed May 31, 2017, https://economictimes.indiatimes.com/magazines/panache/how-snapdeal-caught-ratan-tatas-eye/articleshow/42149664.cms.

**EXHIBIT 8: ENTREPRENEUR PROFILES**

Ankit Pruthi, co-founder and chief executive officer, Unicommerce

Pruthi graduated from the Indian Institute of Technology Delhi (IIT Delhi) in 2004. He worked as a technical resource in Infosys and Qwest Software Services for about four years before joining the Indian Institute of Management Ahmedabad for his master of business administration. After his degree, he worked for a couple of years in Estee Advisors Private Limited before co-founding Unicommerce.

Karun Singla, co-founder and chief technology officer, Unicommerce

Singla, a mechanical engineer from IIT Delhi worked in various technical roles in software firms before co-founding Unicommerce with Ankit Pruthi and Vibhu Garg. He started his career in Infosys Technologies Ltd. before moving on to work at Headstrong Services LLC and British Telecom. Karun’s first brush with e-commerce platforms came when he worked as a technical architect at ixigo, a portal for flight aggregation. After a couple of years, he moved to Snapdeal in the role of vice-president of engineering, where he designed back-end and full-stack technology architecture. He left Snapdeal in December 2011 to start Unicommerce.

Vibhu Garg, co-founder and chief operating officer, Unicommerce

Garg, also a graduate of IIT Delhi, started as a software engineer in Infosys Technologies Ltd. Subsequently, like Singla, he moved to Headstrong Services LLC and then to ixigo as a product lead. Vibhu was the second employee to join ixigo. He managed the product and worked on the user interface of the website. His product and technology skills played a critical role in ixigo’s launch. Garg managed the product team and ensured continuity during a period when ixigo did not have seed funding. Over due course, ixigo went on to win product-of-the-year awards for its design. In 2014, SAIF Partners and MakeMyTrip Limited funded ixigo in a landmark deal. After working in ixigo for approximately three years, Garg left to co-found Unicommerce with Pruthi and Singla.

Source: Le Travenues Technology Pvt. Ltd., “Ixigo.Com Voted Product of the Year 2013,” PR Newswire, March 12, 2013, accessed April 9, 2016, www.prnewswire.com/news-releases/ixigocom-voted-product-of-the-year-2013-197282971.html.

EXHIBIT 9: UNICOMMERCE Balance Sheet for years ending March 31 (in ₹)

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **2012** | **2013** | **2014** |
| **Equity and liabilities** |  |  |  |
| **Shareholders’ funds** |  |  |  |
| (a) Share capital | 227,000 | 1,362,100 | 1,362,100 |
| (b) Reserves and surplus | 1,871,491 | 59,836,957 | 58,034,586 |
| **Non-current liabilities** |  |  |  |
| (a) Deferred tax liabilities (net) | 14,648 |  |  |
| (b) Long-term provisions |  | 146,106 | 703,878 |
| **Current liabilities** |  |  |  |
| (a) Short-term borrowings | 2,884,000 | 1,233,000 |  |
| (b) Trade payables |  | 687,164 | 2,283,326 |
| (c) Other current liabilities |  | 938,484 | 6,335,566 |
| (d) Short-term provisions | 86,843 | 8,571 | 33,032 |
| **Total** | 5,083,982 | 64,212,382 | 68,752,488 |
| **Assets** |  |  |  |
| (i) Tangible assets | 128,975 | 657,494 | 3,057,135 |
| (ii) Intangible assets | 160,384 | 618,318 | 3,348,894 |
| (iv) Intangible assets under development | 0 | 511,575 | 0 |
| (a) Long-term loans and advances |  | 1,795,663 | 4,394,882 |
| **Current assets** |  |  |  |
| (a) Trade receivables | 80,000 | 713,651 | 6,163,580 |
| (b) Cash and cash equivalents | 4,639,996 | 57,117,429 | 46,656,552 |
| (c) Short-term loans and advances | 74,627 | 606,219 | 1,188,592 |
| (d) Other current assets |  | 2,191,583 | 3,942,853 |
| **Total** | 5,083,982 | 64,211,932 | 68,752,488 |

Income statement as on March 31 of the year ending

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **2012** | **2013** | **2014** |
| **Total revenue** | 200,000 | 6,113,963 | 36,000,928 |
| **Expenses** |  |  |  |
| Employee expenses | 168,600 | 2,579,956 | 20,974,585 |
| Managerial remuneration | 0 | 300,000 | 4,167,000 |
| Auditor payments | 6,000 | 250,000 | 350,000 |
| Power and fuel costs | 6,840 | 102,541 | 325,585 |
| Depreciation and amortization | 12,315 | 209,529 | 1,070,896 |
| Other expenses | 100,106 | 3,638,710 | 12,145,614 |
| Total expenses | 293,861 | 7,080,736 | 39,033,680 |
| **Profit before taxes** | −93,861 | −966,773 | −3,032,752 |
| **Taxes** | 14,648 | −14,648 | 0 |
| **Profit after taxes** | −108,509 | −952,125 | −3,032,752 |

Source: “Financial Statements of Unicommerce Ltd,” Ministry of Corporate Affairs, Government of India, accessed May 31, 2017.

1. All dollars amounts are in US dollars unless otherwise indicated. [↑](#footnote-ref-1)
2. A burn rate refers to the rate at which a company spends its initial capital. [↑](#footnote-ref-2)
3. "Percentage of Population Using the Internet in India from 2000 to 2016.", *Statista*, accessed May 26, 2019, https://www.statista.com/statistics/255135/internet-penetration-in-india/. [↑](#footnote-ref-3)
4. “The Incredible Growth of the Internet since 2000,” *Pingdom* (blog), October 22, 2010, accessed November 20, 2015, http://royal.pingdom.com/2010/10/22/incredible-growth-of-the-internet-since-2000/. [↑](#footnote-ref-4)
5. Deloitte Touche Tohmatsu India, *Future of E-commerce: Uncovering Innovation*, 2015, accessed November 20, 2016, www2.deloitte.com/content/dam/Deloitte/in/Documents/technology-media-telecommunications/in-tmt-future-of-e-commerce-noexp.pdf. [↑](#footnote-ref-5)
6. Morgan Hartley and Chris Walker, “The Growing Pains of Indian E-commerce: What You Need to Know,” *Forbes*, January 24, 2013, accessed November 16, 2015, www.forbes.com/sites/morganhartley/2013/01/24/the-growing-pains-of-indian-e-commerce-what-you-need-to-know; Team YS, “$1.6 Billion Invested in Indian Startups in around 300 Deals in 2013,” YourStory.com, December 28, 2013, accessed March 20, 2016, <http://yourstory.com/2013/12/1600mn-invested-in-indian-startups-in-2013/>. [↑](#footnote-ref-6)
7. “The Rise and Rise of Ecommerce in India,” *IBEF*, January 2013, accessed May 27, 2019, www.ibef.org/download/The-Rise-and-Rise-of-E-commerce-in-India.pdf. [↑](#footnote-ref-7)
8. “E-commerce Share of Total Retail Sales in India from 2014 to 2019,” *Statista*, accessed May 27, 2019, www.statista.com/statistics/379167/e-commerce-share-of-retail-sales-in-india/. [↑](#footnote-ref-8)
9. ₹ = INR = Indian rupee; US$1 = ₹61.93 on December 1, 2014. [↑](#footnote-ref-9)
10. Shrutika Verma and Mihir Dalal, “No More Doubts about E-Commerce Survival,” *Livemint*, December 29, 2014, accessed August 16, 2018, www.livemint.com/Industry/bsG98NCj3GVvbMAmufgQBI/No-more-doubts-about-ecommerce-survival.html. [↑](#footnote-ref-10)
11. Dana Stanley, “An Interview with Snapdeal CEO Kunal Bahl,” Research Access, March 15, 2012, accessed March 25, 2016, http://researchaccess.com/2012/03/an-interview-with-snapdeal-ceo-kunal-bahl/. [↑](#footnote-ref-11)
12. The Government of India had allowed FDI in the wholesale business-to-business segment as well as single brand retail in 2006. However, multi-brand retail was closed for FDI. Once Indian e-commerce firms received venture capital funding from funds established abroad, this became equivalent to an FDI. [↑](#footnote-ref-12)
13. Mihir Dalal, “Snapdeal CEO Says Inventory Model Is ‘Dead’, Looking for Deals,” *Livemint*, April 11, 2013, accessed November 16, 2015, www.livemint.com/Industry/D2Xufph6zu7w9ZYg8Ze0dM/Snapdeal-CEO-defends-marketplace-model-looking-for-acquisit.html. [↑](#footnote-ref-13)
14. Archana Rai, “We’re Building Highways for E-commerce: Sachin Bansal, CEO, Flipkart,” *Economic Times*, October 10, 2013, accessed November 16, 2015, https://economictimes.indiatimes.com/opinion/interviews/were-building-highways-for-e-commerce-sachin-bansal-ceo-flipkart/articleshow/23841837.cms. [↑](#footnote-ref-14)
15. According to Indian government notification D/o IPP File No. 5/12//2010-FC-I, dated September 20, 2012, retail trading, in any form, by means of e-commerce, would not be permissible for companies with FDI, engaged in the activity of multi-brand retail trading. [↑](#footnote-ref-15)
16. Reuters, “Amazon to Invest $2 Billion More in India as E-commerce Race Heats Up,” Business Insider, July 30, 2014, accessed May 17, 2016, www.businessinsider.com/r-amazon-to-invest-2-billion-more-in-india-as-e-commerce-race-heats-up-2014-30?IR=T. [↑](#footnote-ref-16)
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22. “Snapdeal: Connecting the Dots between Demand and Supply in India,” *Livemint*, November 26, 2014, accessed April 13, 2017, www.livemint.com/Companies/VH36sYyY6Y3x520yQ23VdI/Snapdeal-Connecting-the-dots-between-demand-and-supply-in-I.html. [↑](#footnote-ref-22)