A Merger That Became An Acquisition Between Flipkart And Myntra- A Descriptive Study

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ABSTRACT:

According to a joint report by KPMG and the Internet and Mobile Association of India, the Indian e-commerce market had a 2013 value of 75,000 crore. India may increase its economic output by double. From its current level of 1.6 percent GDP, the Internet will contribute between 2.8 and 3.3 percent by 2015 [MCkensy'2012]. 1.45 million jobs will most likely be created by Indian e-commerce over the next two years. With the advent of the new administration and its creative initiatives, local market operators are hoping to attract FDI in e-commerce. This article sheds light on India's own Amazon, Flipkart, and fashion e-tailer Myntra, which together unveil their aim to acquire more than 50% of the e-market share through strategic collaboration. This marks the biggest consolidation in the e-commerce business in India.

Flipkart exceeded its yearly sales goal by one year as they reached over 6,100 crore. By 2015, the gross merchandise value was expected to exceed $1 billion; in contrast, Myntra's sales in the previous fiscal year was approximately Rs. 1,000 crore. It wants to treble its income this fiscal year as it grows its seller base and adds products in line with Alibaba.com, China's largest online retailer. By the conclusion of the current fiscal year, Myntra hopes to have 1,000 retailers on its platform. In order to compete with international rivals like Amazon and eBay Inc., Flipkart plans to invest roughly 600 crore in its apparel industry over the next few years. It also exposes the thinking behind this massive buy and how this how this will contribute to the progression of Indian economy which will lead it to become a global player in Ecommerce.

Keywords: Strategic Alliance, Flipkart, Myntra, E-commerce, Globalization, Economic Development, Amazon.

1.Introduction:

The ultimate in business change is represented by mergers and acquisitions. A merger and acquisition is the hardest, most complicated, and chaotic event there is. According "Combining of two commercial businesses into one," according to Oxford, is what the word "merger" refers to. The phrase "Acquisition" describes the purchase of assets from another company by one company. Both businesses may remain in operation after an acquisition. The acquired company will no longer exist following the merger because the acquiring corporation will continue to operate and integrate the acquired company into itself. Technology transfer creates opportunities with a variety of difficulties for any business. Prospects include the opportunity to enter new markets that were previously inaccessible due to prohibitive costs, regulations, or other indirect hurdles, as well as the ability to beat resources such as capital, knowledge and labor. Challenges include domestic competitors cutting prices through global sourcing, shifting production overseas, or achieving economies of scale by entering domestic markets of businesses as well as reaching out to new markets. As a result of globalization, businesses must become more streamlined and effective while also expanding the geographic scope of their activities [Kraemer et al., 2002].

Moving on to the third-largest economy and the one with the fastest growth, India's e-commerce has advanced significantly over the past ten years. There are many facets of e-commerce, including mobile, online, and teleshopping, all of which are considered to be a part of digital commerce. Flipkart, Snapdeal, Jabong, and Myntra.com are the top players in the market nine years ago through the acquisition of Baazee.com, and five years prior to that was the start of organized retail in India.

It is therefore roughly 15 years old. But what's amazing about India is that the entire e-commerce revolution took place there whereas it took more than 50–60 years in mature markets like the U.S.

To counter the threat posed by Amazon.com, the largest online retailer in the world, Flipkart, sometimes referred to as the "Amazon of India," has acquired smaller e-commerce rival Myntra. Last year, in June, Flipkart lowered prices and introduced next-day delivery in an effort to gain market share in the e-commerce sector. The internet user base, which is exploding as millions of new people gain access to it through smartphones, is the foundation of the Indian e-commerce industry. As of 2013, there were more than 200 million internet users in India.

2. Literature Review:

An understanding of mergers and acquisitions as a discipline is increasingly important in modern business. A glance at any business newspaper or business news web page will indicate that mergers and acquisitions are big business and are taking place all the time [Roberts, Wallace, Moles 2003, 2010]. Competitive pressure has been identified through numerous studies as an important determinant of IT adoption, whether it is EDI diffusion [Banerjee & Golhar, 1993; Ramamurthy et al., 1999; Webster, 1995], adoption of IT innovations [Gatignon & Robertson, 1989; Grover, 1993], degree of computerization [Dasgupta et al., 1999] or e-business adoption [Zhu et al., 2002]. Outstanding planning and execution are essential for a successful strategic alliance. Integration is reached only after mapping the process and issues of the companies to be Flipkart - Myntra; From a Merger to an Acquisition 73 merged. Even then just 23% of all acquisitions earn their cost of capital.

When M&A deals are announced, a company's stock price rises only 30% of the time. In acquired companies, 47% of executives leave within the first year, and 75% leave within the first three years. Synergies projected for M&A deals are not achieved 70% of the time. Productivity of merged companies can be affected by up to 50% in the first year and financial performance of newly merged companies is often lacking [Practical guide for Merger and Acquisition, 2009]. Using the Internet for transactions and coordination can save time and money on delivery of goods by using rich information flows to simplify and streamline the flows of physical goods in the supply chain [Dedrick & Kraemer, 2002; Sturgeon, 2002]. Finally, firms that buy and sell in international markets are under pressure from trading partners to adopt e-commerce (especially B2B) to improve coordination with other members of the value chain. Subsequently Indian e-commerce has grown at a swift pace in the last 5 years from around 15 billion revenues in 2007-2008 to 139 billion in 2012-2013, translating into a compound annual growth rate [CAGR] of over 56 percent [CRISIL, 2014]. One of the biggest names in the Online Retail Industry and a leading e-Commerce player in the Country; Founded by Sachin Bansal & Binny Bansal in Bangalore, Karnataka in 2007.Which was started with initial capital of 4 lakh contributed by the founders, warehouses, offices and delivery centers across India. With over 17.5 million book titles listed, 16 different categories, more than 4 million registered users and sale of 55000 items a day their operations are simply huge. Had 8600+ employees till December 2013. Had a massive revenue of around 6,100 Crores [Raman, 2014]. On the other hand India's largest fashion e-tailer Myntra is aiming for a valuation of 2,400 crore.

3. Objective of the Study

1. To understand the existing e-commerce system of India.

2. To study the philosophy behind the acquisition of Flipkart and Myntra.

3. To examine major challenges faced by Indian consumer while shopping online.

4. To study the future of Indian e-commerce industry.

4. Research methodology

This research study is descriptive in nature and is based on secondary data collected from a variety of secondary sources, including previous research papers, numerous e-journals, books, websites, whitepapers, newspapers, and some governmental data, among others. Statistics from the Indian e-commerce sector is compared to earlier data in terms of the global economy.

4.1 E-commerce ecosystem of India

In India, e-commerce is expanding quickly thanks to a sophisticated ecosystem that expedites the delivery of goods from manufacturers to online customers. Based on the parties participating in the transactions, the sector is divided into four broad categories: business-to-business (B2B), business-to-customer (B2C), customer-to-business (C2B), and customer-to-customer (C2C). the development of user-friendly, well-designed online payment, delivery, and trading services.

E-commerce (B2C, C2C) revenue increased by a staggering 50% year over year in 2011, reaching USD 10 billion. According to Technopak, e-tailing in India will increase more than one hundredfold from its present USD 0.6 billion to USD 76 billion by 2021. The main driver of this disruptive expansion is that e-tailing would see faster ecosystem development and market enabling conditions than corporatized brick and mortar retail. Along with vast benefits for consumers, this rise will boost the Indian economy in various ways.

Customers have become more accustomed to ordering online due to the expanding needs of consumers in numerous areas, including travel, employment, entertainment, and changing fashion trends. Building a critical mass has been made possible in large part by the companies.

4.2 Philosophy behind the acquisition of Flipkart and Myntra.

The traditional and online players who act wisely and strategically will continue to enjoy the lion's share by maximising operations for profit as the online shopping community in India expands. Gaining a competitive edge in the worldwide market and accelerating a company's growth are the key goals of any merger or acquisition, especially when a company's expansion is being restricted by a lack of resources. The corporation may lack technical expertise when launching new products or markets, and may need specialised marketing abilities as well as a broad distribution network to reach various market segments. The two businesses joining or merging provides additional value that we refer to as "synergy" value.

Synergy value can take three forms:

4.2.1 Revenues: By combining the two companies, we will realize higher revenues then if the two companies operate separately.

4.2.2 Expenses: By combining the two companies, we will realize lower expenses then if the two companies operate separately.

4.2.3 Cost of Capital: By combining the two companies, we will experience a lower overall cost of capital.

Cost-cutting initiatives are a common catalyst for mergers. The best mergers, though, appear to include corporate pairings for strategic reasons.

Positioning-Taking advantage of potential future prospects that arise from the union of the two businesses. For instance, if a telecommunications company acquired a provider of broadband services, it might strengthen its position going forward. In order to benefit from new trends in the market, businesses must position themselves.

Gap Filling-While the other company may have some notable strengths, one company might have a substantial shortcoming (like insufficient distribution). Each company fills in key deficiencies necessary for long-term existence by uniting the two Flipkart - Myntra; From a Merger to an Acquisition 77 enterprises.

Bargain Purchase-Purchasing another business could be less expensive than making internal investments. Let's say a business is thinking about expanding its fabrication capabilities. Very comparable facilities owned by another corporation are vacant. It can be less expensive to just buy the business with the underutilised facilities than to venture out and construct new facilities on your own.

4.3 To examine major challenges faced by e- commerce industry of India

The following issues account for India's low levels of user adoption and engagement (ranked 49 out of 57 nations in Internet user engagement and accessibility), which are reflected in its inadequate Internet infrastructure and levels of e-engagement on most other dimensions(Tripathi, A. 2019).

Limited access to internet infrastructure: India does well in terms of the availability of human and financial resources, but it performs poorly in terms of the internet's infrastructure, engagement, e-commerce platform, ease of online entrepreneurship, and influence of e-government. India is ranked in the bottom quartile of our comparison group of 57 nations on the majority of measures of the strength of the Internet. For every 10,000 people in the seven aspirant nations, the average international bandwidth capacity is 28 Mbps, compared to 6 Mbps in India.

Poor management of the distribution channel: Payment Options for both urban and rural clients, differ. Cash on delivery is an option for clients in metro areas, while customers in non-metro areas or in rural areas must make an advance payment. Customers worry about whether they will actually receive the merchandise if they make an advance payment.

High access and usage costs: At $61 per Mbps (on a PPP basis), India has one of the highest median costs of broadband connection among comparable developing nations. It is 20 to 30 percent more expensive than Vietnam and Malaysia and more than four times as expensive as China, Brazil, and Argentina.

Applications and services are limited in scope: Internet applications have not yet reached their full potential in a number of crucial societal sectors, including agriculture, education, health care, and citizen services. There is limited nationwide access to online government services because there is still much government data that needs to be digitised, such as land records or health information, and because major Internet infrastructure initiatives, such the National Optical Fiber Network, are still under construction.

Absence of digital literacy: Compared to the norm of 56 percent in developing nations, just 35 percent of enterprises in India offered online services like a Web presence. India's organised SMEs mentioned the lack of Internet literacy as a problem in an online survey that they conducted. [McKinsey survey of 554 SMEs, 2012].

4.4 Indian e-future commerce's depends on luring customers, investors, and international businesses.

The depth of Internet penetration in a nation is one of the key drivers of e-commerce. India now has a penetration rate of 10.1%, and it has the third-largest Internet user base in the world, behind the United States and China, with a population of about 125.0 million (as of 2011). The number of Internet users is anticipated to reach 150.0 million by the end of 2012. According to a survey by IMRB and IAMAI, as of June 2012, 80.0 million of the 99.0 million urban Internet users were active, compared to 31.0 million of the 38.0 million rural Internet users (Tripathi, A. 2014).

By 2015, if things continue as they are, this population might more than triple to around 380.0 million, surpassing both China and the US. Notably, the percentage of active Internet users in rural India has significantly increased, rising from 2.1% in 2010 to 3.7% in June 2012. By the end of 2012, there will be 38 million active rural Internet users, up from 24 million in 2011. However, while having a sizable consumer base, just 1% of them (less than 10.0 million Internet users) engage in e-commerce, leaving a sizable untapped market. By 2015, this figure is anticipated to reach 39.0 million users as Internet usage grows and online transactions become safer. The younger Indian demographic base has helped the e-commerce industry grow as a result of changing customer lifestyles. Over half of India's 1.2 billion people fall under the "below 25 years of age" category. Additionally, due to their increasing disposable income, 65.0% of India's population, or those who are working age (15 to 64), would contribute to the continued expansion of e-commerce. Notably, India's discretionary spending is anticipated to increase from 52.0% in 2005 to 70.0% by 2025.

Increased Internet-driven usage and applications could possibly double the Internet's contribution to India's GDP, to roughly 3.2 percent even at current levels of investment, bringing India's Internet share to developed country levels of ICT expenditure. India has the ability to virtually treble its share of Internet-related GDP to 2.8 to 3.3 percent by 2015, even if we use aspirant nation criteria.

Conclusion:

There are many factors that influence corporate decisions about strategic alliances. According to certain studies, corporations merge to increase efficiency and cut expenses.

According to other studies, businesses often make acquisitions to boost their market share and obtain an edge over rivals. A merger or acquisition's overarching objective is to create synergistic benefits. The secret to determining whether synergy values do in fact exist is sound strategic planning. The likelihood of achieving synergy values will be significantly increased by a well-researched and practical approach. The strategic alliance between Myntra and Flipkart will offer conventional players some direction. They'll pursue adjacent expansion by utilising their current tools and platforms. To increase their consumer base, they can branch out into new vertical markets, work with businesses to design their websites, and build offline storefronts.

The rapid expansion of Indian e-commerce, particularly e-retail, is luring international firms and piquing the interest of investors. India must bring the advantages of the Internet to economic areas that have not yet benefited from it. The country's Tier 2 and Tier 3 cities, as well as the semi-urban and rural regions, which are home to 70% of the population and account for an estimated 50% of all household consumption, all need to have strong internet infrastructure.

The Indian government has made it illegal for foreign businesses to use the internet to market their goods in India. With the help of this policy, Indian businesses are protected from major international competitors like Amazon and eBay. In India, 100% FDI is currently permitted in business-to-business (B2B) e-commerce, but it is not permitted in business-to-consumer (B2C). Additionally, there is a requirement for local sourcing of 30% for overseas players. Despite having one of the largest online populations, the inventory-based e-commerce sector in India did not expand as quickly as its overseas counterparts that receive FDI funding, according to a new analysis by IAMAI-KPMG. While B2C companies and the government have been in communication since the beginning of 2013. However, the next administration may permit FDI in e-commerce. In order to broaden businesses' horizons, protect fundamental rights like intellectual property, consumer protection, fraud prevention, and confidentiality, the government should establish legal frameworks and regulations for e-commerce. In this way, businesses can grow more efficiently and make a greater contribution to the development of the Indian economy.

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