



Ushus J B Mgt **12**, 4 (2013), 131-143
ISSN 0975-3311 | doi: 10.12725/*ujbm*.25.8

flipkart.com's Strategy on Amazon.com's Entry into India: A Case Study

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Introduction

The online retail industry in India is expected to grow to Rs. 7000 crores by 2015. Its size in 2013 is Rs. 2500 crores. By 2014 India is expected to become the 3rd largest nation of Internet users and this would provide huge potential to the online retail Industry¹. Among the major cities in India, consumers in Mumbai topped the chart in doing online shopping followed by Ahmedabad and Delhi². As per Google study conducted in 2012, 51 percent of the traffic for its Great online shopping festival (GOSF) was due to customers from cities other than the four metros. Referring to the growth in online sales, Nitin Bawankule, industry director, e-commerce, online classifieds and media/entertainment at Google India said, "Top motivators for shopping online include cash back guarantee, cash on delivery, fast delivery, substantial discounts compared to retail, and access to branded products"³.

The E-commerce space in India has seen a lot of action and there are many online players like flipkart.com, Myntra.com, Fabmart, Indiaplaza and Indiatimesshopping. Amazon.com made an indirect entry through Junglee.com. The reason for this indirect entry is the result of government policy towards foreign direct investment. The Government of India announced in September 2012 the revised foreign direct investment policy in retail. As per this announcement foreign investments are blocked in e-commerce sector while allowing 51 percent FDI in multi-brand retail stores and 100 percent FDI in single brand retail. Amazon has been eyeing the Indian E commerce market which is estimated around \$2 billion⁴.

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flipkart.com is one among the leaders in the E-commerce space in India having a spectacular growth since its inception. As per Indiaranker.com ranking of top ecommerce web sites in India, flipkart.com takes the second position⁵. With the indirect entry of Amazon.com and huge investments by other companies in the E-commerce space, flipkart.com has to gear up with strategies to take on its competitors and particularly Amazon.com.

About flipkart.com

flipkart.com was founded by Sachin and Binny Bansal in 2007 and shipped close to 30,000 items per day. flipkart.com started its online foray with books and by 2013 sold merchandise across 12 product categories. Its reasons for success are cash on delivery payment, timely delivery and quality. It had a turnover of 11.6 crores in 2009-10 which increased to 50 crores in 2010 -11. In 2011-12 it had revenue of 500 crores. Its daily sales were about Rs. 2.5 crores. flipkart.com in 2012 had 4,800 employees and serviced 50,000 orders a day. Its average order size was Rs.1200. It had a user base of 4.5 million, of which 2.6 million are active customers (those who have shopped at least once in 12 months). It had set itself a target to reach 5,500 crores by 2015⁶.

flipkart.com has been looking at opportunities for growth as well as cost reduction in payment gateways, content, logistics, reviews and technology. It is also planning to add new verticals like fashion apparels. Explaining this move Bansal further added, "We can create a separate brand if specialty experience is required". Many investors opine that flipkart.com is a company to look out for in the future, for it seems to have got its business model in place and the customers were having a good shopping experience with flipkart.com⁷. This online success has been complemented by offline hard work. One of the areas for hard work was the supply chain "It's imperative that you control the supply chain as much as possible if you want to succeed. Third parties would not focus as much as you would," said Binny Bansal. flipkart.com had leased four warehouses and it could meet more than 50 percent orders directly from warehouses. It had planned and put up in 2011 another six warehouses, so that 80 percent of orders it can meet immediately which makes deliveries quite fast⁷.

flipkart.com offline initiatives have a deal with 15 courier companies for free delivery to customers. At the same time, it has put in place its own delivery team to take care Cash on delivery customers⁷. The above strategy will definitely help flipkart.com since, in addition to selling more than seven million titles of books, it is also offering other categories like music, games, mobile phones and movies. In the coming year it wants to add computers, laptops and cameras to its catalogues, and apparel, sports goods, footwear and stationery the year after.

Issues Faced by flipkart.com

Gross margin loss is one of the major issues facing flipkart.com. According to a Bangalore based Investor "E-commerce is a capital-intensive business and flipkart.com's current funds (in 2012) will last only till next year," They have to raise money for their growth. He also added that flipkart.com is making a gross margin loss per unit sale⁶. The gross margin loss is attributed to the delivery cost incurred, since flipkart.com has been single mindedly pursuing more customers and providing free delivery option. flipkart.com decided to restrict its cash loss and improve profitability by announcing in Middle of 2012 that a minimum order size of 300 rupees will only be eligible for free delivery option.

One issue is the cost of acquiring online customers in India and it is about \$15-18, which is double when compared to the US. The online purchases are small and in the range of \$5-7 a book. This results in a gross margin of only 30 percent. If we add to this logistics and other costs, the margins gets further squeezed to less than 10 percent. The above observation is from Avinash Bajaj, Managing director, Matrix partners India⁷. Bajaj further adds "Even for a Rs. 2000 transaction, a company cannot break even with such high customer acquisition costs. For building an e-commerce business, capital efficiency is a must." In spite of the above comment, he still believes in flipkart.com's success story.

Another issue is to get funding for the growth of the company. Investors have become wary of the negative gross margins and no likely profitability in the near future. Sachin Bansal, one of the founders, said "We will be operationally profitable in 2013. We

were profitable in the first two years, but growth puts pressure on profits. Its a trade off," Sachin Bansal further adds:"flipkart.com will be operationally profitable on all the fixed and variable costs associated with the delivery of an order, and our investments in technology and infrastructure will continue⁶".

As volume goes up, revenue rises too, as also costs such as packaging and warehousing. "As we have our own warehousing, which has the capacity to handle growth over the next four years, our costs will increasingly come down," said Ravi Vora, vice-president (marketing) at flipkart.com.com⁶.The indirect entry of Amazon.com in India in 2012 through junglee.com is another area of concern for flipkart.com for it has to strategize its future moves keeping in mind the entry of this big player having a wealth of experience around the world.

Tracing flipkart.com's Major Strategic Moves

Acquisition of letsbuy.com byflipkart.com was done during February 2012. letsbuy.com which is Gurgoan based and is an internet startup company. Amanpreet Bajaj and Hitesh Dhingra started this consumer electronics Company in 2009. It was selling more than 400 brands and employed around 350 staff members. flipkart.com would allow letsbuy.com to function independently. "The acquisition came at a very attractive price for us and the timing has also been ideal. The synergies will now allow us to accelerate faster and get to a share similar to what we enjoy in the online books category," said Sachin Bansal, co-founder and CEO of flipkart.com. Unconfirmed reports say the deal is valued at \$20 million. letsbuy.com founder and CEO Hitesh Dhingra said, "The company had a choice to raise a large round of funding as well, however, aligning our business with the largest player in the market made sense." ⁸ He added that the firm's expertise in selling consumer electronics and computers, "matched with flipkart.com's superior technology and supply chain, and could be a killer combination⁹."

During February 2012, flipkart.com made a foray into the digital content market with the unveiling of its digital Music store 'Flyte'. Customers could download from Flyte individual songs or full

albums. All leading music companies' collections will be available on Flyte. "This is an unexplored area of business for us and music downloads is not a prevalent habit yet among Indians. We will wait and watch for the response," Mr. Nigam said. Single song prices on Flyte start at Rs. 6 and albums at Rs. 25. Flyte also allows users to download the same file three more times after the initial download at no extra cost. According to Mr. Sachin Bansal, Co-founder and CEO, flipkart.com, "An online music store made sense given the wide appeal this category enjoys in the country. All features that delight flipkart.com customers like selection, convenience and customer service will also be intrinsic to Flyte." ¹⁰

during April 2012 flipkart.com unveiled a new marketing campaign with the release of a new advertisement campaign. flipkart.com came out with a new marketing campaign with the tagline -'shopping ka naya address' (Meaning the new address for shopping). The purpose of the campaign was to make online shopping popular beyond metros. The advertisement highlighted the advantages provided by flipkart.com like cash on delivery scheme, 30 day replacement policy and guarantee of getting original products. flipkart.com chose the (IPL) Indian Premier League as the launch vehicle of the campaign. (IPL is a league for Twenty20cricket championship in India started in August 2008.)

flipkart.com VP-marketing Ravi Vora said, "So far we were addressing a target group that had already shopped online and was aware of its nuances. Now, to further expand the consumer base, we are going to an audience that hasn't experienced online shopping at all. The objective here is to build basic awareness about online shopping, apart from reinforcing the benefit of trust and reliability." ¹¹ Happy Creative Services CEO Kartik Iyer added, "It's always a challenge to do a follow up to a campaign that's been loved and spoken about. I think we have managed to do that pretty well taking the experience to a new level without diluting the message or alienating the new-to-ecommerce audience."

The growing Indian E-commerce industry has started spending big money on mass media advertising as they want to expand to a broader consumer base than they are at present. Advertising from e-tailing portals surged 228% on television, 78% in print and 797% on radio in Nov 2011 compared to the same period last, said data

from TAM Media Research¹². (TAM Media Research (abbreviated TAM) is a joint venture company between AC Nielsen and Kantar Media Research/IMRB. It is one of the two television Audience measurement analysis firms of India)

flipkart.com had earmarked Rs 100 crores as its advertising budget in 2011 which was quite significant for a four year old firm which had not yet reached breakeven and suffered losses. Justifying the decision, Ravi Vora, VP, marketing, flipkart.com remarked: "E-commerce is at a very nascent stage but witnessing a lot of traction with urban audiences. Mass media advertising by e-commerce players will hasten this process and make more people shop online¹²." During November 2012, flipkart.com received certification of payment Card Industry Data Security Standard 2.0 (a leading security standard for payment card processing). This is a security certification for payment solution. The risk of data theft and fraud gets pre-empted with this certification which ensures that the company's proprietary technology and platform, stores and processes data in a secured environment. The certification was awarded by SISA Information Security, a qualified security assessor from PCI Security Standards Council. The certification is received after a rigorous audit.¹³

During November 2012, flipkart.com provided a feature 'Save Card' through which the customers need not type card information for every transaction to make it easy for customers to do online buying. Once entered, they could invoke the details of debit or credit card. With this facility the customers can check out with one click payment. "We have always focused on technology that can make the platform for e-commerce not only easier - but safer as well. With more transactions happening online, it has become extremely important to be able to offer a trust-worthy and secure payment environment," said Mekin Maheswari, President (Technology), flipkart.com. It has been reported that the retailer has built its own payment gateway to store card details, allowing flipkart.com's increased control over the user experience.¹³ During July 2012, flipkart.com decided to reduce its cash loss and improve margins by increasing its minimum order from Rs. 200 to Rs. 300 to avail the facility of free home delivery. flipkart.com started to sell books at very cheap prices but with the above move it means it was

trying to move away from its core customer base. During the middle of 2012, flipkart.com expanded its portfolio by adding 16 new categories signaling its decision to reduce dependency on selling books. The new categories included some of the categories like toys, electronic products, health care, mobile phones, and beauty and baby care products.

According to Ankit Nagori, VP, Retail at flipkart.com "This impacts less than 15% of our customers. However, it gives us much larger efficiencies in our supply chain and we will be to pass on more benefits to our customers. after this change. The charge for shipping for orders below Rs. 300 remains same as earlier at Rs. 30,"¹⁴. Products like books which are of low value do not have big margins and with free delivery and transportation given, do not make any profits. Ankit Nagori further added "Such a proposition is not sustainable for players. Therefore it is a positive move by flipkart.com to increase the free delivery. It may have a short-term impact on their profitability and competitiveness, but in the long run it can become a standard for others in the industry to follow".

"To me it is a healthy sign. All e-commerce businesses have to make margins on unit transactions for long-term hygiene," added Gautam Sinha, Director (technology and e-commerce) at *Indiatimes*¹⁴. flipkart.com facing heat as its competitors like Infibean, *Indiatimes Shopping*, eBay, *Jungle*, *Dial-a-book*, *Friends of Books*, *uRead*, *Bookadda* and more who have started providing bigger discounts for online books sale. flipkart.com deployed social media effectively in 2012 when it used its user base of 50 lakh to preview its advertisement campaign before it went live on television. It also took feedback from the social media for fine tuning its media plan.

According to Ravi Vora, Sr. Vice President - Marketing, flipkart.com, the qualitative response as well as the 'likes' actually helped in sharpening the media-plan and changing the relative weightage of the advertisements within the campaign.¹⁵ In Feb 2013, flipkart.com divested its front -end operations company *WS Retail Services*. *Rajiv Kuchhal* (former *OnMobile COO*) and two other investors are now controlling the Bangalore based *WS Retail*, which is managing the entire operations of flipkart.com in India. During the latter part of 2012 flipkart.com incorporated a new

parent company in Singapore which is called flipkart.com Holdings Singapore.

As per the corporate restructuring, flipkart.com Holdings Singapore acquired the back-end technology company of flipkart.com and sold off the front-end operations WS Retail -the two domestic outfits of flipkart.com. WS Retail employs around 5000 staff members. As per the agreement the former company's brand and technology can be used by WS Retail.¹⁶ By 2013, flipkart.com has become India's largest online retailer and has started allowing third party merchants to sell their products on its website. For this flipkart.com launched its market place platform on 6th April 2013. This is a service similar to what EBay provides.

The marketplace platform gave customers access to various brands and sellers. They have been given an option to compare prices across various brands and make an informed purchase decision. Initially, flipkart.com had signed on 50 merchants who will sell books, media and consumer electronics. Clothes, shoes and other products launching will also follow soon. Sachin Bansal CEO and Co-founder says: "In the last 12 months, more than 80 million unique visitors have come to flipkart.com. Five out of six online Indians visit our website. Sellers on flipkart.com will get access to this vast user base - which is akin to the footfall in prime retail spaces in the top 10 cities of the country."¹⁷ flipkart.com is handling the shipping and delivery of products sold on its marketplace platform through its logistics partners and the company will continue to offer the 'cash on delivery' option. flipkart.com had relied on technology intelligence to understand and serve its customers better.

flipkart.com had been extensively using technology in its website design, pricing its products and making useful suggestions to its buyers. The above, according to the company, will increase its profits. It is also planning to improve and optimize its supply chain by using technology better and decreasing the time taken from the manufacturer's warehouse to reaching its customers. Amod Malviya, Senior Vice-President for Engineering at flipkart.com comments on Technology helping the online companies to make profits thus: "For example, if you can build out great learning systems of customer behavior, you can drive great

recommendations to the customers thus increasing the amount of purchase from a customer. Let's say a parent ends up purchasing diaper for the kid; it's quite likely that depending upon the size of the bag one had purchased, my systems could automatically shoot out an email saying-you must be running out of stock any day now and why don't you order that." Malviya adds, explaining how technology can increase the business for the company. "Your customer acquisition costs ends up being lower as you are driving a lot more repeat visitors." ¹⁸ Further, Malviya remarks with respect about technology helping in right pricing the products by answering such questions like "How do I decide the pricing of my products, how do I figure out which products are going to sell, how do I place my products as close to the customers as possible and at an efficient cost¹⁸".

About Amazon.com

Amazon.com, the leading online retailer in US started its US operations in July, 1995 with an online bookstore. It went public in May 1997. It followed with a launch of music store in June 1998. As years progressed, several other categories were added like house ware, kitchen wares, videos, music, toys, beauty products, health and electronic products. In 2012, Amazon sales topped \$61 billion and the world's biggest online retailer swung from a healthy profit to a nearly \$40 million loss as it continued to invest in its Kindle business and global infrastructure.

As per the 2012 Internet Retailer Top 500 report, for the year ended Dec. 31, Amazon.com figures were as given below:

Net sales were \$61.09 billion, a 27.1% increase from \$48.08 billion last year. North American net sales totalled \$34.81 billion, up 30.4% from \$26.70 billion in 2011. North America accounted for 57% of sales in 2012. International net sales totaled \$26.28 billion, up 23% from \$21.37 billion in 2011. International accounted for 43% of sales in 2012. The reason for the operating profit margin remaining thin was because of Amazon's huge spending on content acquisition which will help its streaming video business, the opening of new distribution centers and the continued development of devices, like its Kindle Fire tablet.

Amazon.com has expanded both nationally and internationally over the years. It had also added services like auctions, 1-Click ordering (1-Click ordering speeds up shopping times by reducing the number of mouse clicks and downloaded pages required to purchase products) and zShops. (Amazon.com's zShops allows other businesses to offer products for sale through Amazon.com.) BarnesandNoble.com was Amazon.com's main competitor in online book retailing in the beginning. In the category of internet music retailing, Amazon.com displaced CDNOW and N2K who were the earlier top two Internet music retailers. Initially Amazon.com did promotional alliances and advertising using internet allies to get more traffic to their website. The internet allies in their websites gave links to Amazon.com website. Yahoo was one such company with which Amazon.com had tied up in the beginning. Yahoo directed users to the related Amazon.com book titles based on the Yahoo search result.

Amazon.com used strategies in various areas to grow to its present leadership position. The strategies were in areas like forming alliances with other companies like Yahoo, Geocities communities, Alta Vista, Microsoft's MSN and Netflix.com to name a few. Pricing strategies used were like offering 30 percent discounts on more than 400,000 titles, free delivery for orders more than \$100 during Christmas holidays. Expanding in the offline area by investing in drugstore.com, investing in Greenlight.com, a new car buying service, investing in HomeGrocer.com, an online grocer, launching a co-branded toy store Imaginarium.com along with Toy "R" Us. Amazon.com had entered into foreign countries like United Kingdom (Amazon.co.uk in 1998), Germany (Amazon.de in 1998), France (Amazon.fr in 2000) and Japan (Amazon.co.jp in 2000).

Amazon's Entry into India

In 2012 Amazon.com made an indirect entry into India by launching jungle.com. This website helps customers in India to find and purchase products through offline and online retail channels. Amazon used Jungle.com to become the gateway between retailers and online shoppers. The review features provided on jungle.com can become popular and help customers in purchasing decision. Jungle.com, in addition to featuring

Amazon.com, also has many links to popular websites like Hidesign, UniverCell, Homeshop18.com, Fabindia, Bata India, Reebok and Gitanjali. Customers cannot buy directly on Junglee - they can buy online by following the link to the seller's Web site. The other features are, locating a seller's physical store and also ordering through telephone. The site provides access to over 1.2 core products and more than 14,000 brands. The categories are quite exhaustive and spread over more than 25 including items like books, movies, music, cameras, games, toys, mobile phones, baby products, clothing, kitchen products, home products and jewelry.

Mr. Amit Agarwal, Vice-President, Amazon.com, says: "We are excited to give customers in India a single online starting point where they can shop for a wide selection of products sold by local and global retailers, and make informed purchasing decisions¹⁸." The retailers can list their products on Junglee.com by creating an account, uploading and refreshing their product catalogue. This can be done after they tie up for the Amazon Seller Services program. The facilities provided by Junglee are creating advertising, building a product detailed page and putting up targeted product advertisements as buying options when customers search or shop for that or a related product on Junglee.com.

flipkart.com 's response to Amazon.com

Mr. Bansal, the Co-founder said flipkart.com is not worried about Amazon.com's entry into India through Junglee.com. "In the current form, it is just kind of an aggregator of different e-commerce Web sites," Mr. Bansal said of Junglee. "It isn't a consistent experience. Price comparison engines already exist in India. We don't feel a threat from this model²⁰." Mr. Bansal added that Amazon, like all companies, would face a host of challenges trying to build a true online retail business in India. "It's quite hard in India to set up a large delivery and supply chain operation," he added. flipkart.com has been able to adapt to online retailing for an Indian market where the credit card users are less and offer the facility of Cash on delivery. This has been a hit with housewives and students. How flipkart.com will chart out its future strategies

with the entry of world renowned brand name like Amazon.com has to be seen. The indirect entry of Amazon.com in India clearly demonstrates the threat of competitive forces to local online players. flipkart.com has to consider how it will address all its present issues and what future strategies it will come out with to take on Amazon.com in the Indian E jungle market.

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