

## MERGER AND ACQUISITION IN E-COMMERCE SECTOR

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### Abstract

There are generally two tools i.e Merger and acquisition used by companies time to time to remove competitors and to capture the market when the E commerce market was initially started walmart and flipkart was the biggest deal for it. Walmart paid \$16 billion to own 77% shares of flipkart. The reasons and other future possibilities of Indian e commerce market. In the E commerce market the players may be small but they are prominent and this system was acquired by flipkart. Walmart then acquired the same changes. To bypass one possible reason from many other reasons for the cottage investors for doing business in the foreign country.

**KEY WORDS:** Merger and acquisition, competitors, E-Commerce, market, investors

### INTRODUCTION

Companies have been developing day by day competition is increasing and environment is changing constantly. Expansion of companies can be done by two ways i.e. internal and external. When implied growth of firms slows down, they may deal to external strategies like M & A.

The word 'merger' means combination of two or more companies into one. It is an arrangement were by two or more existing companies combine into one and the word 'acquisition' refers to the acquisition of assets by one company from another company, when a company buys more than fifty percent of the assets or stocks of target firm. M & A have been taken place at the end of 19th century.

WAVES	PERIOD	FACET
First	1897-1904	Horizontal merger
Second	1916-1929	Vertical merger
Third	1965-1969	Diversified Conglomerate merger
Fourth	1984-1989	Co-generic mergers hostile takeover corporate raiders
Fifth	1992-2000	Cross border mega merger
Sixth	2003-2008	Globalization private equity shareholder activism

(Source: York University)

E-commerce business was only possible due to increase in activation of mobile phones and internet.

### LITERATURE REVIEW

**Rajasekar & Agarwal(2016)** In their study on Impact of e-commerce on India's Commerce they conclude that the growth of e commerce is possible because of the rapid growth in IT sector thus increase in internet user have increased the user of e commerce. They have given the key drivers of e commerce in India. Along with that there are challenges such as internet speed, cost if internet, customer trust etc. They have mentioned the historical development of e commerce for the period of 1971 to 2015 which shows the rapid growth in E commerce.

**Shahjee(2016)** found that majority of people live in rural area and they have not enough knowledge of computer and internet so they do not prefer the e commerce and customers who live in urban area have not the credit availability so e commerce is limited to the urban areas who have computer knowledge and credit availability.

**Verma & Sharma(2013)** The pre and post-merger performance of these companies have been compared to indicates that though an increase in PAT, CR and IER allows for an increase in Return on shareholder's funds (ROSF) before the mergers and acquisitions but due to some reasons it leads to a decrease in Return on shareholder's funds (ROSF) after the mergers and acquisitions. The analysis of the study indicated that though companies may have been able to leverage the synergies arising out of the merger or acquisition, but they unable to improve their financial and operating performance.

**Turban et al.(2002)** in their study“E-commerce and its impact on operations management”, elaborating with reference to e-trading and defining- how it has allowed every field of business. The paper proves the role played by earlier internet applications like e-mail and electronic data interchange and details the changes brought by the internet technologies in manufacturing, marketing, purchasing, design, production, selling and distribution, warehousing and human resource management. Internet based technologies have made possible for businesses to shorten development, purchase and procurement cycles, maintain upto date product and market information, significantly increase the speed of communications and increase the quality of customer relationships by facilitating close contact and constant communication. The analysis of paper in detail, the significance of web based technologies in different business operations, thus improving their efficiency through effective B2B e-commerce.

**Mishra &Kotkar(2015)** by developing B2C e-commerce in “A Study on Current Status of E-Com/merce in India: A Comparative Analysis of Flipkart and Amazon” with establishment in the mid 1990s through the arrival of matrimonial and job portals. However, due to limited internet accessibility, weak online payment systems and lack of awareness, due the slow moving progress, Indian B2C e-commerce industry got augment in mid 2000s with the expansion of online services to travel and hotel bookings which continue to be major contributors even today.

**Kruse et al.(2007)** found that the long term operating performance of mergers of Japanese companies with a sample of 56 mergers of manufacturing companies from the time period of 1969to1997. By analysing the cash flow performance in the five year period following mergers were found evidence of improvement in operating performance and also pre and post merger performance are highly correlated exist between pre and post merger performance concludes that long term operating performance of control firms was positive but insignificant.

**Danzon et al. (2007)** researched that in huge pharmaceutical and biotech firms mergers are inspiring by excess capacity, provides for restructuring of asset base also noticed if smaller firms actively participate in mergers they would accomplish more due to economies of scale as compare to other larger firms

**Said &Tumin. (2011)** studied the financial performance of Malaysian banking sector using Pre and Post merger accounting and financial data. There were three methods used to compare Pre and Post merger performance: Firstly Ratio analysis was used, then t-Test were used to measure the significant difference between Pre and Post M&A performance, and finally, DEA approach was used to measure the bank's efficiency

### OBJECTIVE OF THE STUDY

- To find the advantages and disadvantages of M & A in E Commerce.
- To check the growth of E commerce due to M & A.
- To analysis the future opportunities.

### RESEARCH GAP

Research work is specific to the illustration mentioned and it may not reflect scenario of the industry as a whole.

#### RECENT M & A IN E-COMMERCE

Walmart, the largest brick-and-mortar retailer in the world acquired a 77 percent stake in India's Flipkart for \$16 billion, marking the beginning of its first real battle with Amazon in an emerging market. It starts with the size of India — it's the second-most-populous country in the world, just behind China. Obviously, size alone doesn't matter — rather, it's the shifting behavior of Indian consumers. India is home to a rising middle class, fueling household spending growth on par with that of China — and at a faster clip than the more mature U.S. market. With a broke brick-and-mortar retail market in the country, more of that spending is gravitating online where the Indian shopper can buy a wide range of products in one spot — whether on Flipkart or Amazon. In 2017, consumers in India spent \$21 billion on ecommerce, making it the 10th biggest e-commerce market in the world, according to data from digital research firm eMarketer. The deal, having 77 percent stake in the Indian e-com company has many reasons for Walmart why an Indian company, Indian market, and e-commerce market. One of the strongest reason may be presence of Amazon in the Indian market and global rival of Walmart. Deal of Walmart-Flipkart would give a big push to the e-commerce market—estimated to grow from a share of 2-2.5% of the retail market to about 30% in 10 years—and thereby act like a force multiplier for the start-up ecosystem. This deal is a good news for the future e-com market and new startups to mark their presence in the international and national market, many startups founded and some of them are successful, and Flipkart is one of those successful Indian startup.

#### ABOUT FLIPKART

**2007** Founded in 2007 and launched books.

**2010** Launched Music, Movies and Mobiles category. Launched cash on delivery. Flipkart also launched its logistic arm, Ekart

**2011** Launches digital wallet. Deliver to more than 600 cities in India.

- 2012** Launched lifestyle and fashion portfolio. Launched electronics private label DigiFlip.
- 2013** Launched PayZippy, an online payments solution for merchants and customers. Sold 100,000 books in a single day.
- 2014** Flipkart becomes the first Indian internet retailer to record US\$ 1.9 billion gross merchandise value (GMV). Acquired fashion e-seller Myntra.
- 2016** Crossed 100 million registered customers. Acquire Unified Payment Interface (UPI) based startup PhonePe. It also Launched PhonePe, India's first UPI based app.
- 2017** PhonePe crosses 10 million download on Google Playstore. Softbank Vision Fund invested in Flipkart after which Flipkart had in excess of US\$ 4 billion of cash on its balance sheet
- 2018** Walmart acquired 77 per cent stake in Flipkart for US\$ 16 billion.

#### **ABOUT WALMART**

- 1962** The first Walmart store is opened by Sam Walton in Rogers, Arkansas.
- 1970** The company officially incorporates as Wal-Mart Stores, Inc. Walmart becomes a publicly traded company. The first stock is sold at \$16.50 per share.
- 1987** The company installs the largest private satellite communication system in the U.S., linking the company's operations through voice, data and video communication.
- 1991** Through a joint venture with Cifra, a Mexican retail company, Walmart goes global, opening a Sam's Club in Mexico City.
- 1994** Walmart grows into Canada with the purchase of 122 Woolco stores.
- 1998** The Neighborhood Market format is introduced with three stores in Arkansas. With the acquisition of Asda, Walmart enters the United Kingdom
- 2000** H. Lee Scott, Jr. succeeds David Glass as CEO. Walmart.com is founded, allowing U.S. customers to shop online.
- 2002** Walmart tops the Fortune 500 ranking of America's largest companies for the first time. Through its investment in Seiyu Walmart enters the Japanese market
- 2005** Walmart takes a leading role in disaster relief, contributing \$18 million and 2,450 truckloads of supplies to victims of hurricanes Katrina and Rita.
- 2006** Walmart introduces its \$4 generic-drug prescription program.
- 2007** Walmart.com launches its Site to Store service, enabling customers to make a purchase online and pick up merchandise in stores.
- 2009** With the acquisition of a majority stake in D&S S.A, Walmart enters Chile. For the first time, Walmart beats \$400 billion in annual sales.
- 2010** Bharti Walmart, a joint venture, opens its first store in India. Through the end of 2015, In the United States Walmart commits \$2 billion to help end hunger., Pointing to strengthen resident farmers and economies, Walmart introduces a worldwide commitment to sustainable agriculture, while providing customers access to affordable, high-quality food.
- 2011** Walmart expands its business into South Africa by acquiring 51% of Massmart Holdings Limited. In South Africa with the acquisition of Massmart, Walmart surpasses 10,000 retail units around the world.
- 2013** Walmart U.S. announces it will hire any honorably discharged veteran within their first year off active duty. Walmart projects hiring over 100,000 veterans in the next five years. Walmart acquires Bharti Walmart Private Limited, including the Best Price Modern Wholesale cash and carry business in India. Walmart commits to purchasing \$250 billion in goods manufactured in the United States over the next 10 years. Walmart opens its first store in the District of Columbia.
- 2015** 100% stake acquired by Walmart in Yihaodian, an e-commerce business in China, up from the 51% stake since 2012.
- 2016** Jet.com Online retailer becomes part of the Walmart family with the two companies joining forces to save customers even more time and money. Hayneedle, a subsidiary of Jet.com, is also included in this merger. More than 1.2 million Walmart and Sam's Club associates get a pay increase as part of the company's two-year, \$2.7 billion investment in its people. Walmart and JD.com, China's largest e-commerce company by revenue, form a strategic alliance to better serve consumers across China, covering both online and offline retail
- 2017** Walmart acquires Moosejaw, ModCloth, Bonobos and Parcel. Jet acquires ShoeBuy.com, which is later renamed Shoes.com. Walmart launches Store N° 8, a tech incubator, with a focus to drive commerce forward and transform the future of retail. Walmart launches Project Gigaton, asking suppliers to help reduce greenhouse gas emissions from its supply chain by 1 gigaton. The company also sets a new goal to decrease its consumables chemical footprint by 10% by 2022.
- 2018** The company takes thoughtful and deliberate actions to serve customers and position its International business for long-term growth with the acquisition of Flipkart in India, divestiture of its business in Brazil and proposed merger of Asda and Sainsburys in the U.K. Walmart acquires Eloquii, Bare Necessities, and Art.com

#### **REASONS OF M & A**

Main reason behind merger and acquisition is having strategic edge over the competitor which in current case is Amazon.

Since flipkart was in need of equity infusion in order to expand and compete with Amazon.

#### **ADVANTAGES AND DISADVANTAGES OF THE DEAL**

M & A has effects and immediate reaction from market. Every organization which is related to the M & A directly or indirectly has some reaction on the deal. The Confederation of All India Traders (CAIT) said that the deal is nothing but a clear try to control and dominate the retail trade in India by Walmart through e-commerce in the long run. On the other hand, Retailers Association of India while staying away from commenting directly on the acquisition, said that some e-commerce companies in India have been flouting FDI Policy for marketplaces. CAIT said in a statement that Digitally powered Walmart will certainly vitiate the e-commerce and retail market. There will be an uneven level playing field to the drawback of retail traders. Only the venture capitalist, investors and promoters will be helped and not the country,.

'Make in India,' through direct procurement as well as increased opportunities for exports through global sourcing and e-commerce.

"It is a good sign for the industry as large investments coming to Indian e-tailing market will lead to better customer experience and global best practices being implemented in India," said, Anil Kumar, CEO of Red Seer Consulting. Kumar further added that the deal can impact ancillary industries also.

"It will also positively impact the ancillary industries like logistics and SAAS products, as the industry will invest more to provide better experience and value to the stakeholders. For Walmart, this will be a good way to get entry into the fast-growing Indian e-commerce ecosystem," adds Kumar.

This deal is more than just money for Flipkart. If they are looking to raise more funds they already have Softbank as a backer. However, to remain the number one player in India (Amazon coming a close second in just 4 years in India), they are looking to increase beyond smartphones and fashion. With this deal Walmart can offer Flipkart the skill of running offline stores, access to sellers, manufacturers and supply chains, and the know-how to get into the grocery segment. Amazon has been selling grocery in India for the past one year while Flipkart has not rolled out this category. With Amazon closing the gap in categories other than fashion, Flipkart needs Walmart to remain competitive in extended term."

#### **There is some disadvantage:**

##### **Walmart has overpaid**

K Vaitheeswaran, founder of FabMart, the man who is also known as the father of e-commerce in India, feels that Walmart has over paid for Flipkart.

"I feel Walmart has overpaid for Flipkart. I feel anything above USD 5 billion to USD 6 billion is too much. They can build the same business in 24 to 30 months with USD 5 billion or USD 6 billion. Even if they had paid a premium of 40 percent, they could have made it USD 10 billion. Anything more than USD 10 billion they have over paid. So clearly USD 20 billion is more than twice the amount," adds Vaitheeswaran.

##### **Wrong message to Startups**

According to Vaitheeswaran, while it is good that startups are getting good exits, the deal also indicates that sustainability and profitability is not important as long as paper valuation is achieved.

"The deal shows that investors can put money in Indian startups and get big returns. But also the risk here is that, it also communicates to startups that it is right to build enterprises that do not make money. Sustainability and profitability is not important as long as a startup builds valuation. I am personally of the view that this is not correct. My view is that this is not the right way to build startups; building sustainability and profitability is critical," Vaitheeswaran adds.

By increase in Internet user, mobile user, online purchasing trends, many retailers and shop owners became seller for selling online their reach to all over India, employment Increase and many other things. Customer, associates, Investors, communities and other persons everyone will be benefiting in longer run. Thus, there is growth in Indian E Commerce market.

##### **ADVANTAGE OF E COMMERCE IN INDIA**

Growing demand: India is the fastest growing market for the E-commerce sector with the e-commerce market expected to grow approximately 1,200 per cent by 2026. It is focused by a young demographic outline, increasing internet diffusion and relatively improved economic performance, India's E-commerce revenue is expected to jump from US\$ 39 billion in 2017 to US\$ 120 billion in 2020, growing at an annual rate of 51 per cent, the highest in the world. Increasing investment: The recent rise in digital literacy has led to an influx of investment in Ecommerce firms, levelling the market for new players to set up their base, while churn out innovative patterns to disturb old functioning. E-commerce industry in India observed 21 private equity and venture capital deals worth US\$ 2.1 billion in 2017 and 40 deals worth US\$ 1,129 million in the first half of 2018

Attractive Opportunities: A lot of India's blue-chip PE firms had previously avoided investing in E-commerce but are now looking for opportunities in the sector. India's start-up ecosystem is growing supported by favourable FDI policies, Government initiatives like Start-up India and Digital India, as well as rising internet penetration driven by market players like Reliance Jio.

Policy Support: In India 100 per cent FDI is permitted in B2B E-commerce, As per new guidelines on FDI in E-commerce, 100 per cent FDI under automatic route is permitted in marketplace model of E-commerce

### **GROWTH IN E COMMERCE**

Via increasing smartphone penetration, the launch of 4G networks and growing consumer wealth, the Indian E-commerce market is expected to grow to US\$ 200 billion by 2026 from US\$ 38.5 billion in 2017. E-commerce is increasingly attracting consumers from Tier 2 and 3 cities, where people have limited access to brands but have high aspirations. Average online retail expenses in India were US\$ 224 per user in 2017.

### **CONCLUSION**

To take advantages of competitor and to get maximum share. M & A is the but there are some legal restriction. Deal of walmart and Flipkart is the biggest deal of \$16billion. M & A will bring in global stocks and seller to indian marketplace and this will give solution of unavailability of some best product. With increase in population, internet, payment modes, etc. People preferring online buying and selling i.e E commerce. As walmart is foreign co. and acquiring in Indian co. that will create problem to existing organizations who is serving the niche areas.

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