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# Alibaba: Expansion in the Indian E-Commerce Marketplace

**Bindu Kulkarni and Vasant Sivaraman**[1]
*S.P. Jain Institute of Management & Research, Mumbai, India*

## TEACHING NOTE

**Case Overview**
By 2014 India was one of the fastest growing internet populations- third largest after China and the US. It was estimated that by 2018 it would surpass the US in terms of internet users, making it the second largest internet population in the world. The key reason was increased awareness and affordability in the small towns and rural India. In 2013, internet had contributed to 2.7 percent of India's GDP. India's internet economy was at a juncture where, with the right steps, it could grow to USD 200 billion by 2018[2]. E-commerce was set to grow at 34 percent per annum to reach USD 75 billion in 2018[3]. The Indian e-commerce industry was being dominated by three major players Flipkart, Snapdeal and Amazon.

This case examines the competition for dominance among the three major players Flipkart, Snapdeal and Amazon India. By 2015, each of the three major players was trying to win customers with attractive deals, infusing investments to build logistics and increase their reach. Alibaba was also showing interest in increasing its presence in the Indian e-commerce market but needed to assess the market before taking big steps. Was it an attractive market for a new "full blown" entrant? How could it make a significant entry in the e-commerce market place in India? What kind of business positioning should it aim for?

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1. The authors 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.
2. Alpesh Shah, Nimisha Jain, Shweta Bajpai, - "India@Digital. Bharat Creating a $200 Billion Internet Economy" BCG-IAMAI Report, November 2014, accessed on June 15, 2015, https://timedotcom.files.wordpress.com/2015/04/file180687.pdf
3. lpesh Shah, Nimisha Jain, Shweta Bajpai, - "India@Digital. Bharat Creating a $200 Billion Internet Economy" BCG-IAMAI Report, November 2014, accessed on June 15, 2015, https://timedotcom.files.wordpress.com/2015/04/file180687.pdf

**Teaching Objectives**

The key teaching objectives of this case are:

1. To give students a broad overview of the e-commerce marketplace industry in India.
2. To enable them to do industry analysis and understand the dynamics of an industry with high potential for growth.
3. To be able to draw the value chain of the existing players in order to understand the source of their competitive advantage.
4. To give students an opportunity to evaluate whether it is an attractive proposition for new entrants and also suggest business positioning to enter the market.

**Teaching Plan**

This case is designed for an MBA audience in a course on business policy with a distinct module focusing on emerging markets, new business models and the new economy service industry. The conceptual frameworks on industry analysis and activity analysis can be introduced with this case in a 70 to 80-minute session.

The following videos can be used to get a perspective about the Indian e-commerce industry and how it operates. Instructors may wish to share the links with the class ahead of the discussion.

A. The entire process from placing an order to delivery: Inside Snapdeal: From B. Click to Delivery (https://www.youtube.com/watch?v=-NuGaBGFKEs)

B. India Post getting ready for e-commerce industry: India Post launces mobile app and e-commerce centre (https://www.youtube.com/watch?v=3pYaotxW7mQ)

C. Interview with Jeff Bezos on India: Amazon India Most Lucrative Business (https://www.youtube.com/watch?v=Hyv9uT6AQeU)

D. Panel discussion on e-commerce in India at Harvard: 2015 India Conference-Opportunities within India's ecommerce industry (https://www.youtube.com/watch?v=81wGoICSHmQ)

**Suggested Readings**

Michael E. Porter, "The Five Competitive Forces That Shape Strategy," *Harvard Business Review,* 86 (1) c, 2008, pp. 2-17.

Michael E. Porter, "The Value Chain and Competitive Advantage," *Understanding business: Processes,* 2001, pp. 50-66

**Assignment Questions**

1. What is the potential of internet penetration in India? How will it impact the e-commerce industry?
2. What advantage does an e-commerce marketplace firm have by being curated and managed?
3. Is the e-commerce marketplace industry in India attractive for a new entrant?
4. How are Flipkart, Snapdeal and Amazon India competing in India?

5. How can Alibaba make a significant entry in the B2C e-commerce market place in India?

**Analysis and Discussion**

1. What is the potential of internet penetration in India by 2018?

The face of online India has been changing. The internet population was seeing an exponential growth with an estimation of over 500 million users by 2018.The profile of the user was expected to change from being a young English speaking male accessing the internet from his PC to a more diverse largely middle-class group who would use internet services to meet daily demands. They would be largely vernacular in nature and be beyond tier-1 cities. The usage would mainly be from mobile handsets. The current youth would grow up to be the earners and big influencers in the internet economy.

The drivers of internet penetration were expected to be: reach, affordability and greater awareness of internet usage. By 2015, about two thirds of the cell phones sold in India were internet enabled. For it to be affordable for the masses in rural India, the price of the handset and the internet services would have to be further reduced. The network availability would need to be enhanced, 2G networks made available to rural India and 3G/ 4G coverage made available beyond tier-2 cities. Increased disposable income and falling data plan rates could make internet consumption more affordable. With more relevant and engaging content (maybe vernacular content) the penetration or usage of internet could increase in rural India. Lack of understanding the benefits of internet, or ways to use it had been the major reason or barrier to online internet adoption in villages. Adoption of internet by the rural segment would move India's online population over the half-billion mark and then the users in 2018 could be rural, older, more gender equal, more vernacular and more mobile than the users in 2014.

In IAMAI & KPMG July 2015 report "India on the go – Mobile Internet Vision Report 2017" [4], India was projected to have 236 million mobile internet users by 2016. It was stated that mobile internet users in India would reach 314 million by 2017. According to Ashvin Vellody, Partner –Management Consulting, KPMG in India, "*The next wave of growth in penetration of internet would be driven by adoption of mobile internet by the large population in the hinterland.*" It was mentioned by Dr.Subho Roy, President IAMAI, at the launch event that "*Growth in the internet space would come from non-metro and rural areas where mobile internet would play a key role.*" Increased internet enabled device penetration, decreasing handset prices and data plan tariffs would help to create a suitable environment for a rapid growth of mobile internet in India, with rural India taking the lead. As of June 2014, nearly 50% of the active internet

4. India to have 236 million Mobile Internet users by 2016" IAMAI Press released, July 20, 2015, accessed on July 30, 2015amai.in/media/details/3679

users in rural areas accessed internet using mobile phones, Community Service Centres (CSC) and Cyber Cafes.

2. How will internet penetration help the e-commerce industry?

In the last few years (going back to 2010) with mobile and internet penetration, the way Indians communicated and did business has changed. The internet user has been evolving. It was anticipated that the profile of the internet user would change over the next five years. This meant ample challenges and opportunities to all the stake holders. The e-tail industry (e-tailers, e-commerce) relied heavily on the internet and mobile phone evolution. With government intervention and initiatives, the urban internet population could grow to 300 million by 2018 and rural internet population would see an unprecedented growth of 40% per annum to reach 280 million by 2018. This would have a direct impact on the e-commerce industry as the number of users would exponentially increase.

As of 2015, in the metros and tier-1 cities there was more demand and more consumption and hence better buying options than tier 2 - 4 cities and also rural India. This gave rise to more products being available offline in the metros and in tier-1 cities. The reasons for an individual from a city to buy online would be mainly competitive price, product variety, reviews, ease of buying and peer feedback.

In smaller cities variety and buying options were lower for many products & services as the demand was low. It was not lucrative to set up stores catering to these low demand products; hence this pushed an individual to buy these products online. Good connectivity at lower usage cost could attract many new buyers and sellers onto the e-tail business. This in turn could give rise to a set of new sellers as it could be more lucrative for them to sell online than set up a physical store. It would give them a window to sell beyond their cities to millions of others connected online. Thus a local vendor could become a national vendor overnight.

With internet penetration, higher connectivity and lower usage costs, many more individuals from smaller cities, rural India and the urban poor would be able to connect online with ease. This could expose them to the world of internet, increase their knowledge and also give them business opportunities. This could increase online trade and also unleash entrepreneurial energy. With more vernacular content the internet penetration could be higher as large parts of India do not speak English.

For online marketplaces high penetration could lead to economies of scale, in turn leading to lower delivery costs. Firms were spending huge amounts in building infrastructure; once usage increased it reduced costs leading to a better bottom line.

The virtual world eliminated the need for search and geographical limits. Hard-to-find important information, products and services in any location could be offered or delivered by the virtual world; but the virtual world also had its own challenges of delivery or the absence of "touch and feel" of the product which made consumers uneasy at times.

3. What advantages does an e-commerce marketplace firm have by being a curated and managed marketplace?

The 'pure' market place business model was not new to India. E-bay was successful in India in the past but was later overshadowed by the inventory led e-commerce firms like Flipkart, Myntra and Jabong. These inventory-led e-commerce companies later moved to being "a managed marketplace" where they controlled the marketing, look and feel, logistics, shipping, payments and customer service, leaving only sales to the third-party sellers.

The major decision of companies to move from the inventory-led model to the marketplace model was linked to government policy on FDI (foreign direct investment). The 'business to consumer' (B2C) inventory based model carried restrictions on FDI approvals; it was also less attractive as a business model since the investment required to build logistics infrastructure was huge in India.

A. In a marketplace model the firm did not store any inventory, which made it an asset-light firm. It could offer greater variety without holding any inventory.

B. An e-commerce firm needed deep and sustained investment in back-end operations. To sustain growth firms needed to go beyond tier-1 cities. The delivery system needed to expand while catering to growing customer demands and service levels. On-time delivery had been one of the most important criteria for customer retention. To cater to these growing needs, firms had to set up a distributed chain of warehouses and fulfilment centres, use technology to determine expansion needs and train more delivery staff to handle growing customer requirements. The marketplace firms allowed sellers to store their products in their fulfilment centres at an additional fee. This helped the company to reduce the shipping time and cater to value added services like next-day delivery or express delivery. An individual seller would not be able to cater to customers in remote areas while e-commerce marketplace firms with their strong back-end logistics capability could provide this extended service to its sellers at a nominal cost.

C. The marketplace model provided the firm with extensive real-time market research data such as which products were selling well, which regions were developing, which sellers were doing well, and major insights into the consumer buying behaviour which could prove helpful in developing the business further.

D. The internet penetration was happening through mobile phones. All the e-commerce firms had to concentrate on mobile commerce and strengthen mobile payment services. This meant making payments easier and creating mobile wallets. About 60% of payments were COD (cash on delivery) which could change with creation of ‘secure, safe’ and easy payment options. By strengthening the backbone of e-commerce, making payment transactions easier and reliable for the customer, firms could increase customers’ trust leading to loyalty and retention which was the biggest problem being faced by e-commerce firms.

4. In India, was the e- commerce marketplace industry attractive for a new entrant in 2015?
The e-commerce marketplace firms had been investing huge amounts in building infrastructure. They had received a lot of funding in the years running up to 2014 and their valuations were soaring. The potential for internet penetration was high if the right steps were taken towards increasing affordability and awareness about internet usage. All the players were increasing their gross merchandise value (GMV) but were continuing to incur losses.

In the e-commerce marketplace business, the buyers were very powerful.

A. Buyers had a lot of choice as each of the portals (of the major players) was offering similar products. They were not differentiated.

B. The buyers visited the portal of all major players - Flipkart, Amazon and Snapdeal - to check the best deals and then decided on which marketplace portal to buy their product from. The e-commerce firms were trying to lure buyers with low prices and good deals. This was putting a lot of pressure on the firms as each was trying to give higher discounts and bring down the product price even though it meant selling at a loss. The race to get more buyers (GMV as a key metric tracked by analysts) even at a lower value was hence reducing the profitability of the industry. The buyers were price conscious as most of the products were not differentiated. Fashion wear, even though personalised and one of the high selling and growing categories, was also not successful in developing customer loyalty to a large extent.

C. The buyer was ready to experiment, look for good deals, buy what was in vogue and was reasonably priced. The switching cost for the buyer was low. The delivery service could be the game changer. The firms were investing huge amounts to build infrastructure to increase reach and be able to cater to buyers even in rural India. The service in terms of payment reliability and facility coupled with on-time delivery could be helpful in developing customer loyalty in the future.

D. The impact of Brand equity on the buyer was low and price and discount deals were drivers of purchase. Service did matter but all firms were investing in building logistics and payment gateways to ensure a smooth buying process and were hence considered on par.

Bargaining power of suppliers

A. The suppliers – the sellers in the marketplace industry were the ones who had benefitted greatly from the growth of e-commerce marketplace firms. In India, SMEs who could not leverage the power of internet as they did not have the knowledge or capability to use it were ones who latched on to the e-commerce firms. The e-commerce marketplace model allowed them access to millions of buyers with negligible investment from their side. The firms (e-commerce marketplaces) trained the retailers on how to use computers, send mails and how to exhibit their products online for it to look attractive to the buyers. They used digital literacy as a bait to attract retailers on to their portals. Each of the major players designed training modules to upgrade the capability of the sellers, which included effective communication, warehouse and inventory management skills. The marketplace model offered the SMEs an online channel free of intermediaries like wholesalers and retailers, which also reduced their payment cycle.

B. The big firms used the e-commerce sites as launch pads of many new products. The popularity of the e-commerce marketplace helped the firms to book orders and get visibility very quickly.

C. The e commerce firms did encounter costs when a seller chose to leave them as they invested in training and development of the seller.

D. In addition dependency on the suppliers of products & services in order to complete the buying and delivery cycle was reduced with vertical integration. All the three firms either set up their own logistics firms or invested in third party service providers to gain higher control of the delivery process. They also set up fulfilment centres and warehouses to aid the process but for last mile delivery they were still dependent on providers such as Indian Post. To ease the payment cycle and make it more reliable the firms invested in mobile payment vendors and/ or developed their own payment gateways.

E. Backward integration was low, only firms with unique product lines made for an attractive takeover target such as Myntra.
Thus the power of the supplier was not high in this industry as they were dependent on the e-commerce marketplace firms for their success but since the switching cost for them was low it made the marketplace firm vulnerable.

Substitutes

A. This industry faced a threat from the brick and mortar stores as the online store missed the "touch and feel" component of a physical store.

B. If the brick and mortar store had online presence too, it made buying from it more attractive as it offered both options of physical and online models.

C. The buyers were mainly buying from the e-commerce market places due to attractive discounted prices. If the brick and mortar store were to come up with a model of attractive pricing it had the potential to lure away online buyers.

D. Rural India and smaller cities on which online commerce was banking for growth was moving to internet usage through mobile phones. If the e-commerce firms were successful in tapping this market; while keeping their costs low, by building infrastructure and by using mobile payment gateways then the threat from substitutes in these areas would be minimal as the set-up cost to offer a comparable offering would be very high.

Thus the threat of substitutes was medium to high in this industry.

Rivalry

A. The e-commerce industry was a high growth sunrise industry as it had the potential to tap the unexplored online population of India which was expected to grow to over half a billion by 2018.

B. The e-commerce marketplace firms were recording an increase in GMV but none of the three major players were profitable. As the buyer was price sensitive and demanding high quality of service, the firms were investing in building infrastructure but targeted the buyer only through price deals and "sale days".

C. With low buyer loyalty and non-existent product differentiation, brand identity of the ecommerce firms was low. The buyer looked for best deals across the firms to decide his purchase making the industry very competitive (on price).

D. The switching costs of supplier and buyer were low leading to high efforts by the firms for winning the buyer, with price deals, offers, training the suppliers and better support services.

E. High rivalry was driving the firms to look for avenues to differentiate like vernacular sites, distinct training program for sellers, innovative ways to tackle

last mile delivery, ease of product returns, product quality assurance and new product lines.
Exit options were low but buy-out option could be an exit route.
High rivalry in the industry was beneficial for the customer in the short-term for good deals. But in the long run, for these firms to be sustainable, discounts would have to be reduced, the estimated growth needed to take place with government support in tax laws and building infrastructure for internet penetration. New revenue options had to be explored and developed, such as income from third party advertising.

New Entrants

A. This was a capital-intensive industry since the firms had to invest huge amounts in building infrastructure.

B. FDI norms were not attractive. 100% FDI was allowed only in the B2B (business to business) model.

C. Tax laws were unclear (interstate taxes) but change in taxation could make it easier for the firms to operate.

D. The potential for growth was very high as internet penetration increased.

E. Buyer loyalty continued to be low as product differentiation stayed low (among the big three firms).

F. The firms focussed on increasing their GMV but stayed with losses as the industry continued to invest for growth and fund discounts.

The threat from new entrants was low to moderate as the existing firms had a head start. But marketplace firms like Alibaba with established positions in other similar economies posed a high threat to the existing firms as they were already up the learning curve and were profitable in their country of origin. This meant they had deep pockets to either buyout firms, buy stakes and invest in creating the required ecosystem quickly.

Thus the e-commerce marketplace industry was difficult (see Exhibit TN-1) but not unattractive to operate in as the potential for growth was very high.The increasing internet penetration and changing lifestyles made it a desirable industry to invest resources with the aim to be profitable in the near horizon. Buyer power was high leading to high investments to acquire them, rivalry was high and all the firms with huge funding support were investing large amounts in building infrastructure to support sales and expand their product range. Threat from substitutes was medium to high as the majority of potential buyers still patronised brick and mortar stores. All these forces led to increase in costs for creating high value for the customer and reduction in price for acquiring the customer. This added to high valuations but low profitability in the industry.

In class, this sets up the interesting question of the game plan for the major players and the prospects for an entrant like Alibaba. Having addressed the analysis of the industry, the instructor can move on to the specifics of the key players.

5. How were Flipkart, Snapdeal and Amazon India competing in India?
With the potential of huge demand waiting to be explored, the industry invested huge amounts in building infrastructure, technology enhancement, adapting to new trends and building a product portfolio. While doing so firms tried to add value to the customer. As the industry was “structurally difficult” the added value by the firms was perceived to be low as all the competitors moved in the same direction (GMV).

The key then is to assess if any of the competitors was able to gain an edge and create a willingness to pay or reduce costs while creating different opportunities for sellers and buyers to connect. An assessment of the configuration and coordination of the activities (of the three players) in delivering a service follows (see Exhibit TN-2).

Flipkart: Vying to reach $10 billion[5] GMV by March 2016
**Product sourcing**: It aimed to be a one shop stop for all needs. To do so it planned expansion in high margin products such as furniture, home, travel booking, fashion as well as low margin but high volume products such as groceries. The aim was to have an expanded product portfolio with a mix of products to even out margins and also be able to lock in a happy customer for all his buying needs. Flipkart started a digital outreach programme which would help small merchants get crucial information on how competitors were pricing their products and how their own inventory could be managed better.
**Online Platform**: Flipkart moved towards being an app only platform for Myntra. This gave customers a personalised shopping experience while reducing costs for Flipkart. The apps would be designed to work even in low bandwidth conditions. Apps once downloaded would stay on the handset keeping the customer always connected. It would help save website maintenance costs while helping Flipkart advertise accurately and potentially increase customer loyalty.
**Marketing:** Flipkart was changing its customer acquisition game plan. They enticed people to download their apps. They achieved more than fifty percent of traffic through mobile phones and hence started mobile related promotions. To

5. BI India Bureau, “Flipkart to add more items on its list, to boost GMV to Rs. 76,000 crore”, Business Insider India, June 23, 2015, accessed on June 24, 2015, http://www.businessinsider.in/Flipkart-to-add-more-items-on-its-list-to-boost-GMV-to-Rs-76000-crore/articleshow/47782636.cms

them, if a customer downloaded their app that demonstrated an intention to purchase from the firm.

**Payments:** Flipkart offered a number of payment options such as credit card, internet banking, cash-on-delivery and EMI options. It made payments through mobiles secure, as it tried to move customers to be connected and buy through their apps.

**Delivery:** The firm worked on express delivery (delivery within one hour) with its logistics arm EKart and other start-ups. This would move them closer in experience to purchasing from a brick & mortar store where the delivery is immediate. The investment required in building up supply-chain capabilities was huge. The firm used its own logistics arm and also outsourced to meet the growing demand. It worked with Indian Post to improve its last mile delivery issues. Customers demanded more on the delivery front so the challenges that Flipkart faced were satisfying, express and one-day delivery needs in the metros and tier-1 cities while making last mile delivery happen for the growing customer base in smaller cities and rural India.

Snapdeal: Gearing up for an IPO in the U.S. at a valuation of $5-$6 billion[6]

**Product sourcing**: It aimed at strengthening its luxury and premium product portfolio through strategic alliances with national and international luxury brands. With a focus on luxury products the intent was to create a loyal set of customers interested in luxury products such as jewellery, gem studded watches, appliances, apparel and yachts and also houses.

Snapdeal created a seller zone app for merchants to help them track their inventory and get market information. Snapdeal empowered the sellers and made it easy for them to connect and do business. Snapdeal also launched Capital Assist initiative to help sellers with working capital issues.

So the focus appeared to be on increasing the portfolio with luxury products with large margins and also connecting with small sellers empowering them to improve their service. Snapdeal had the largest number of registered sellers on its portal.

**Online Platform**: It acquired a mobile commerce firm Martmobi. This would help solve merchants' (sellers') problems by empowering them with real time analytics. Earlier Snapdeal acquired FreeCharge, a mobile transaction platform making it the largest m-commerce company in India. With mobiles driving e-commerce to the next level, Snapdeal invested in firms to strengthen this arm of business. It decided to start its website in different Indian languages to cater to non-English speaking buyers.

**Marketing**: Snapdeal believed that it was a young brand and its marketing communications reflected this belief. They advertised on all channels - outdoor,

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6. Digbijay Mishra, Itika Sharma Punit, "Snapdeal plans American listing in 2016-17", *Business Standard,* April 11, 2015, accessed on June 24,2015, http://www.business-standard.com/article/companies/snapdeal-plans-american-listing-in-2016-17-115041100048_1.html

digital, television, radio and print. In early 2015 the company hired a senior executive with experience at Coca-Cola and GlaxoSmithKline to head the marketing division to build their brand and increase marketing efficiency. This appointment suggested that they were looking for people from related industries (here FMCG). In the past they spent about USD 5.4 million to be the main sponsor of Big Boss (a TV popularity show) and lately they appointed Aamir Khan (Bollywood star) as their brand ambassador at about USD 0.7 million[7] a day[8].

**Payments:** Snapdeal offered all the payment options for purchase such as Credit/ Debit card, EMI options and COD (cash-on-delivery). Recently they introduced the option of pay by debit/ credit card if the customer chose 'pay on delivery' option. This option reduced troubles of cash collection on delivery. Majority of customers used the payment on delivery option which increased risk on return due to non-payment. Non-payment due to any reason increased the cost of delivery as the product would have to be taken back and delivered another day.

**Delivery:** Snapdeal entered into a partnership with GoJavas to help it with its last mile delivery. It worked with third party delivery companies such as Ecom Express, Blue Dart, etc.

Amazon India: India became a new focus for Amazon with its $2 billion investment in 2014

**Product sourcing**: As compared to other geographies, Amazon India benefitted from accelerated product launches. Initially it introduced one product every two weeks. High variety of products did help it get a wide range of customers. It launched ten categories in 2013 and four in 2014.

**Online Platform**: To counter Alibaba, Amazon started a dedicated portal AmazonBusiness.in for small business owners and traders in India which it planned to test in Bengaluru before launching across India.

**Marketing:** Amazon targeted customers directly. It believed that with a good product range, quick delivery and easy payment options it could grow the market and gain good market share. But they also advertised through different channels such as print, digital, outdoor and television. Amazon advertised on the Delhi metro too (painting the whole train with apparel designs). This kind of advertising would give the product exposure and maybe an instant desire to purchase using handsets while in the metro, as brand recall could be higher.

**Payments:** Amazon India launched its "Pay with Amazon" service in India in October 2014, a year after it had launched it in the US. The thought was not only to serve its own e-commerce business but also offer this service to other e-commerce sites and Indian companies at a charge. This would allow customers to log in to their Amazon accounts and shop even when they were on other e-

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7. For exchange purposes use Rs 65 = 1 USD
8. Shrutika Verma, "Snapdeal names Srinivas Murthy marketing head", *Live Mint,* April 28, 2015, accessed on June 24, 2015, http://www.livemint.com/Companies/PGsatFgNHc1ylENB9XBSfL/Snapdeal-names-Srinivas-Murthy-marketing-head.html

commerce websites (those who had chosen “Pay with Amazon” feature) using single credentials through mobile or tablets, making the entire process of payment smooth and easy. This service would introduce a new line of revenue for Amazon and help it indirectly tap into the growing base of online users and be able to collect a lot of consumer insights.

**Delivery:** Amazon India’s key area of investment was supply and logistics. 90% of Amazon’s third party sellers used its logistics service ‘Fulfilment by Amazon’ (FBA). This service was a mix of Amazon’s logistics network and external firms which worked under FBA ensuring fast and reliable service. Amazon India also offered options of same day delivery and also delivery in couple of hours.

See Exhibit TN-3 for a generic value chain for this business duly integrated with the value chain of vendors, and Exhibit TN-4 for the way activities were distinctly organized by each of the three players in order to seek a competitive edge.

6. How could Alibaba make a significant entry in the B2C e-commerce market place in India?

India was important for Alibaba as it was a large market like China and had great potential for growth. Alibaba knew the Indian markets as it had been operating in India as an e-commerce marketplace for small businesses wanting to connect to global markets since 2010. It now wanted to increase its foothold to gain a larger piece of the pie of the growing B2C segment in the e-commerce marketplace industry.

The existing players were trying to enhance different activities in the value chain to increase efficiency in the chain in order to improve customer experience leading to higher customer loyalty. They were also developing services which could help them increase their revenue stream by also being a service provider to other smaller players. This was helping them gather market information on customers and their buying patterns while increasing their reach either directly or indirectly. Many of the activities which were not crucial for business to succeed or activities where it was difficult for firms to develop expertise were being outsourced. (e.g. delivery through Indian Post which was redefining its business proposition).

Alibaba needed to define its entry strategy. It was increasing its presence slowly and carefully since 2014. The payments process, which was crucial to the e-commerce business was changing its form in India, smartphone penetration in India was growing and many users were using mobile phones for payments and shopping. It was important for any player to tap this phenomenon and develop an understanding and expertise in it. Alibaba decided to invest in Paytm through its affiliate Ant Financials. Now it needed to take the next steps to enter the Indian markets.

The potential for internet penetration and its impact on growth would be immense if the costs of handsets and data packs would reduce. Feature phones were still selling in a big way. Mobile commerce would gain momentum only if the sale and usage of smart phones would increase. Initiatives such as mobile payments, app-only strategy, and access to the portal in different languages would all be a success if more of rural or semi-rural India started using phones for trade. If Alibaba connected with the right firms or policy makers to also increase the penetration it would help the industry to grow. With increased reach the seller and user base would grow, leading to efficiency in delivery costs. With more packages to be delivered to a destination, the cost of delivery would reduce thus bringing down the cost of goods. Tier-1 and metros cities were saturated with many buying options (physical and virtual), consumers in the cities were also leading towards "cash burn" by demanding more for less. The need was more in tier-2, tier-3 cities and rural India. So Alibaba should have a game plan to tap them these locations. A new entrant can also think of tapping smaller cities (tier-3 and beyond) in India by using the existing infrastructure of public offices as transaction centres, e.g., equipping post offices with computers or postmen with smartphones. In the old days money orders used to be sent through post offices, now payments could be made using their infrastructure. Indian Post was being tapped for last mile delivery; this could be leveraged even more. Rural bank tie-ups could also help (by coming up with branded cards with marketplace firms). They key would be to tap semi-rural and rural India.

The potential ways in which Alibaba could participate in the Indian markets include:

- Buy a significant stake in one of the existing big e-commerce market place firms. It would help the firm capitalise on the existing infrastructure and customer base. With its deep pockets and years of experience Alibaba could grow the industry and not spend effort and time in building the infrastructure but leverage the existing infrastructure developed by the target. As a matter of fact, from time to time there had been speculation that this was on the anvil, including the likelihood of Alibaba bringing about a combination of Flipkart and Snapdeal by this approach. Valuations however, could be a hurdle in this approach.

- Join hands with a big Indian conglomerate that had an interest in entering the e-commerce marketplace industry. The tie-up could increase the credibility of both the firms and give rise to a new business model where the expertise of both the firms could be leveraged. The tie-up could result in a model supporting both offline and online presence.

- Invest in smaller firms supporting different activities of the value chain and integrate it into its firm to get a quick start. This might involve using its own experience and expertise in key activities and organically grow the business.

Notwithstanding the competitive nature of the industry, Alibaba might be keen to enhance its existing B2B model to a B2C model. While the choices listed above might be considered as a vehicle for market entry, what is essential for the class is to evaluate the way Alibaba might wish to configure and coordinate its activities in order to enhance willingness to pay and reduce costs. Exhibit TN-2 together with the analysis of the big three players (Exhibit TN-4) can be a basis for such an open discussion.

## Case Update

In March 2016, the Government of India issued policy clarifications for FDI in e-commerce after hearing prolonged arguments from e-tailers and retailers. Essentially, 100% FDI in B2C was declared as permitted in the marketplace model and not in inventory based models of e-commerce. Specifically, ownership of inventory by the e-commerce entity would render the model to an inventory based model. In addition, the website would need to clearly state the seller who would also be responsible for after sales service. The e-commerce entity would also not be allowed to influence the sale price. In sum, the intent appeared to allow 100% FDI only where IT based marketplace services were to be made available in bringing together sellers and buyers. Deep discounts and 'cash burn' on the back of extensive private investor funding, in order to achieve GMV growth and market share were being sought to be disallowed in order to bring parity with traditional retailers.

This development would be significant for India plans of foreign players like Alibaba.

In August 2016, Paytm created two separate entities, Paytm E-Commerce Pvt. Ltd and Paytm Payments Bank Ltd to separate its e-commerce and banking services. Alibaba's stake in One97 Communications was transferred to Paytm E-commerce. Alibaba hired senior executives from other e-commerce firms to strengthen its base in India and in January 2017 it decided to open an office in a prime locality in Mumbai. It was getting ready for a battle on Indian shores.[9]

## Summary Points

1. Often, analysts tend to assume that a high growth industry is an 'attractive' one. It is only with a structural analysis of the underlying drivers that a full assessment can be made. Just as the airline industry in India during the decade ending 2015 was on a growth trajectory and yet had most players underperforming, the e-commerce industry in this case is not an easy place to compete in. The three main players continued to need extensive funding to stay in the race on account of cash burn.

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9. Deepti Chaudhary, "Alibaba's impending entry to alter India's e-commerce landscape", *Techcircle,* January 2, 2017, accessed on January 20, 2017, http://techcircle.vccircle.com/2017/01/02/alibabas-impending-entry-to-alter-indias-e-commerce-landscape/

2. Even in an industry that does not have supporting 'forces', there is room for superior performance. Occupying distinct positions in the industry allows some firms to do better than others. The three big players in the Indian e-commerce industry enjoyed significant valuations in an intensely competitive environment.

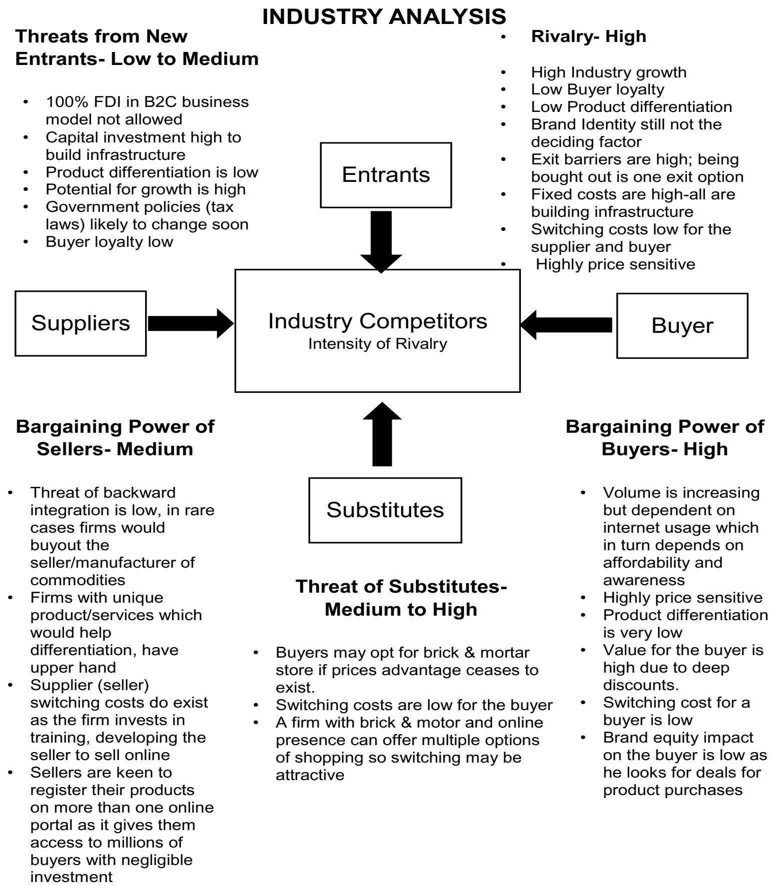
3. Distinct positions in the industry come about from the way the firm's activities are organized. In this case Flipkart, Snapdeal and Amazon configured and coordinated the activities needed to deliver their service to customers in their own ways that set them on a path to becoming what has come to be termed as 'unicorns'[10].

4. Within the constraints of the environment (tax, FDI etc.) or limitations of infrastructure (delivery, payments etc.), each firm needs to build into its strategy a response to industry forces. The big three in Indian e-commerce dealt with the industry forces in their own way and this would have to be true for any new entrant - Alibaba in this case.

10. Flipkart and Snapdeal met the criteria in India- any tech **startup** company that reaches a $1-billion-dollar market value as determined by private or public investment.

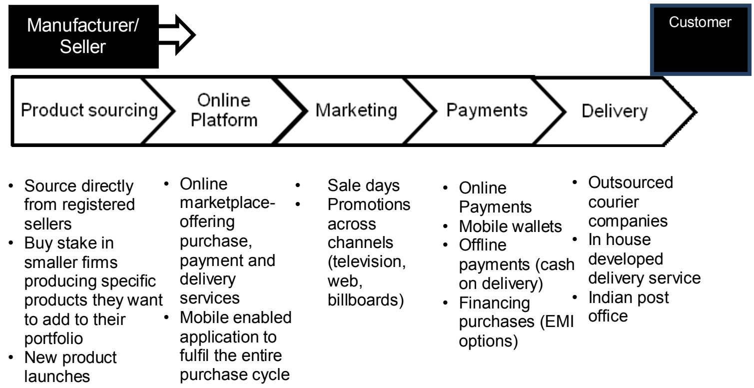
# EXHIBITS

Exhibit TN-1: Industry Analysis



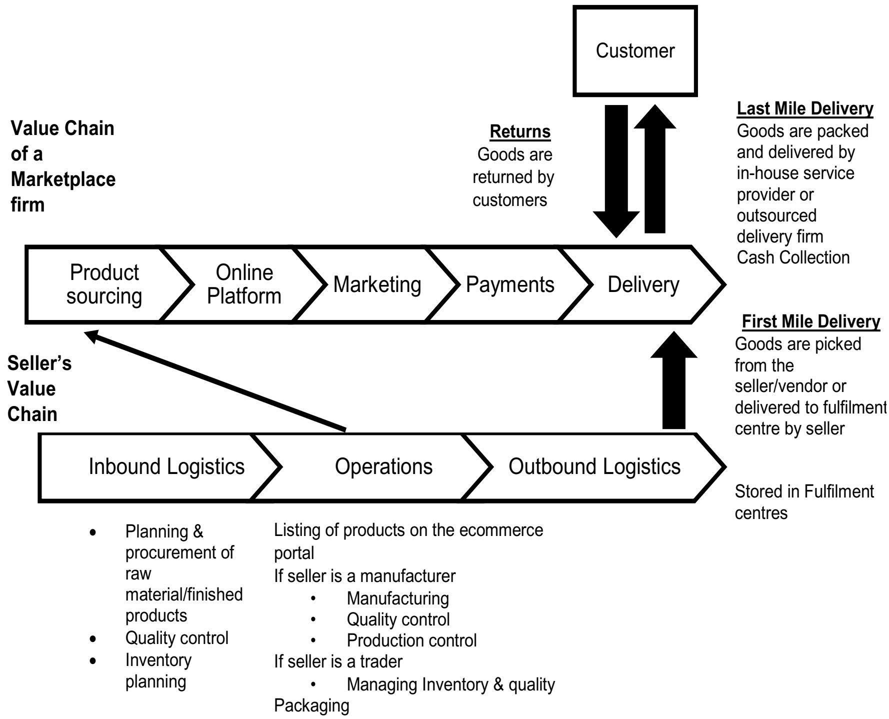

Source: Case Writers' Analysis Based On Michael Poter's Five Forces Framework

Exhibit TN-2: Generic Value Chain (E Tail- India, 2014)




Source: Case Writers' Analysis

Exhibit TN-3: Value System (E Tail- India, 2014)




Source: Case Writers' Analysis

Exhibit TN-4: Value Chains Of Flipkart, Snapdeal And Amazon- India, 2014

Manufacturer/ Seller → Customer

| | Product sourcing | Online Platform | Marketing | Payments | Delivery |
|---|---|---|---|---|---|
| **Flipkart** | • SMEs<br>• Big Launches<br>• Acquiring Myntra (fashion portal)<br>• Selling through WS retail (inhouse company) | User Friendly online portal Moving towards Mcommerce (mobile) | • Discounted pricing<br>• Sale Days<br>• Big Launches<br>• Promotions across different media | Mobile Payment- Invested in Ngpay | • EKart-<br>• internal logistics arm<br>• Indian Post<br>• Dabbawalas in Mumbai to aid last mile delivery |
| **Snapdeal** | • SMEs- training them through Snapdeal Plus program<br>• Acquired Exclusively.in- for luxury fashion products | Moving towards Mobile commerce through acquired company FreeCharge | • Ambush Marketing<br>• Discounted pricing<br>• Sale days<br>• Promotion across different media | • payment gateway Klickpay<br>• Offering cheap loans through Rupee Power<br>• Helping sellers through Capital Asset | • Set up fulfilment centres<br>• Bought stake in delivery firm Gojavas<br>• Rely on external logistics firms<br>• Indian Post |
| **Amazon India** | • SMEs,<br>• Attracting FMCG companies to launch new products<br>• Training sellers through “sellers” regional | • Friendly online Portal with reviews and comparisons<br>• New portal for small business owners | • Discounted pricing<br>• Sale Days<br>• Big Launches<br>• Promotions across all media | Amazon launched “Pay with Amazon” service | • Working through fulfilment by Amazon & Easy Ship- Amazon Transport Services Ltd.<br>• Indian Post<br>• Mom-Pop |

Source: Case Writers’ Analysis