

## **Sustainability of Inorganic Growth in Online Retail by Snapdeal: A Case Study**

**Dr. Rajesh Tiwari,**

Director,  
United College of Education,  
Delhi NCR, India.

**Dr. Khem Chand,**

Assistant Professor,  
Asia Pacific Institute of Information  
Technology SD India, Panipat, India.

**Dr. Bimal Anjum,**

Assistant Professor,  
DAV College, Chandigarh, India.

**Rakesh Pathak,**

Management Consultant,  
Pune, India.

### **ABSTRACT**

*This paper is meant to examine the impact of financing, rapid inorganic growth on the viability of e-commerce Start up. The inorganic growth strategy used by emerging start ups by acquiring firms to expand the goods and services offered and improve the gross merchandise value has been evaluated.*

*Snapdeal had been a contender for the top slot in online retail segment in India. Suddenly a company with 9000 employees had gown down to 200 employees. The case examines the journey of Snapdeal and the implications of aggressive growth and relying on few big investors. Snapdeal focused on a strategy of leaner organisation after failing in rapid expansion and acquisitions. The strategy has yielded positive results and the losses have reduced from Rs 4,638.9 crore in FY2016-17 to Rs. Rs 440.7 crore in FY 2017-18. It is found that aggressive inorganic growth fuelled by big ticket investments and relying on few large investors can lead to disastrous results if fast growth is not sustained and major financiers back out. Snapdeal should focus on developing satisfied customer base, efficient operations, satisfied employees, diversified financing options and organic growth to become profitable and take on the market leaders with equity financing from stock markets.*

**Keywords:** Sustainability, Snapdeal, Growth, Merger & Acquisition, Startup.

### **INTRODUCTION:**

Snapdeal was founded by Mr. Kunal Bahl and Mr. Rohit Bansal in February 2010. Snapdeal product offerings are than over 35 million in over 800 categories to 6000 plus cities. More than 3,00,000 sellers are associated with Snapdeal offering over 125,000 national, international and regional brands (snapdeal.com, 2018).

**Table 1: Major Investments in Snapdeal**

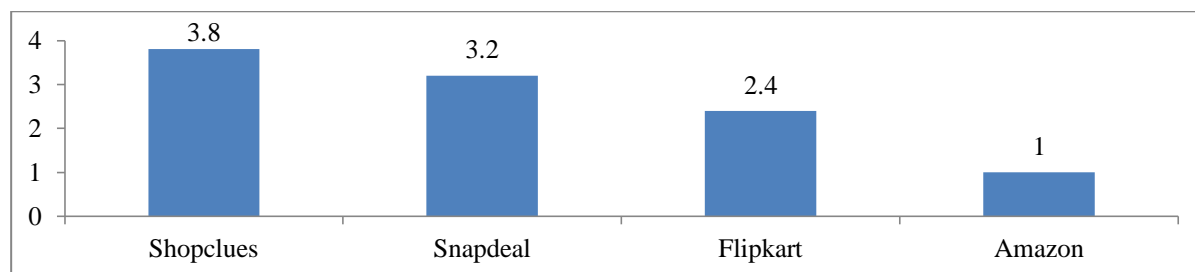
<b>Date</b>	<b>Lead Investors</b>	<b>Invested Amount (US \$)</b>
Jan-11	Nexus Venture	\$ 10 Million
Apr-11	e Bay	Undisclosed Amount
Sep-11	Bessemer Venture Partners	\$ 40 Million
Apr-13	e Bay	\$ 50 Million

Date	Lead Investors	Invested Amount (US \$)
Jun-13	Intel Capital	Undisclosed Amount
Aug-13	Softbank Capital	\$ 75 Million
Feb-14	e Bay	\$ 133.77 million
May-14	Blackrock	\$ 100 Million
Aug-14	Mr. Ratan Tata	Undisclosed Amount
Oct-14	SoftBank Telecom Corp	\$ 627 million
Aug-15	Alibaba, Foxconn Technology Group, Softbank Telecom Group	\$ 500 Million
Feb-16	Ontario Teacher's Pension Plan	\$ 200 Million
Aug-16	Clouse Se	\$ 21 Million
May-17	Nexus Venture (Rs. 97 crore), Mr. RohitBansal & Mr. Kunal Bahl (Rs. 17 Crore)	RS. 113 Crore

**Source:** Economic Times, (2017), Sengupta (2017)

Snapdeal was second ranked in Gross Merchandise Value (GMV) to capital raised ratio in 2015 as judged by Morgan Stanley, making Snapdeal better in terms of capital efficiency as compared to Amazon and Flipkart (Sen, 2017).

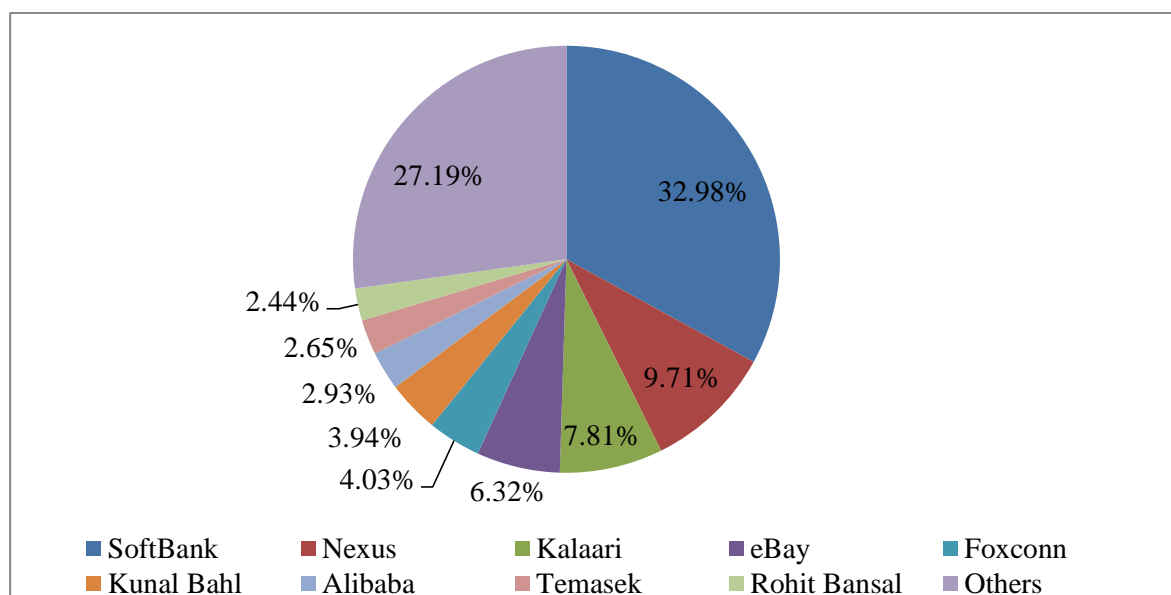
**Figure 1: GMV to Capital Raised**



**Source:** Sen, 2017

The promoters (Mr. Rohi Bansal & Mr. Kunal Bahl) now hold only 6.38% shareholding in Snapdeal (snapdeal.com, 2018).

**Figure 2: Shareholding Pattern of Snapdeal**



**Source:** Verma (2014)

**Table 2: Investments by Snapdeal**

Gojavas	\$20 Million	2015 (Oct)
Peppertap	\$36 Million	2015 (Sept)
Nuvoex	\$ 36 Million	2015 (Sept)
Bewakoof	Undisclosed	2015 (Jan)
ZUMBL	\$20,000	2013 (Jul)

**Source:** Gooptu (2015), Crunchbase (2018)

## **OBJECTIVE:**

To examine the sustainability of inorganic growth in online retail by Snapdeal

## **LITERATURE REVIEW:**

Stock market expert Rakesh Jhunjhunwala has considered e-commerce business model unsustainable. It was argued that discount model of e-commerce firms is not sustainable and it is difficult to make profits. Jhunjhunwala argued that e-commerce is like a father in law pumping money in his son in law's business, once that stops, business also stops (Pani, 2016).

Guo (2016) examined e-business models from the point of view of value creation. It was found that two types of business models exist. E<sup>3</sup> model and E business model ontology (EBMO). Majority of business models focused on value creation aspect. Fifty percent articles on value creation category belonged to EBMO category and fifteen percent fall into the category of E<sup>3</sup> model. The models are focused on value creation through networking, linking consumers and corporations.

Niraj, Rao (2015), analyzed the sustainability of e-retail in India. It was argued that the model is environment friendly, creates jobs, adopts CSR initiatives but profitability is a concern due to operational losses. It was recommended that the e-retailers should move away from market acquisition to profitability. Unless right strategy is implanted at right time, the e-retail bubble will burst.

Dybdahl (2015) examined business models for sustainable fashion in Norway. Five fashion companies from Norway were investigated. The study analyzed It was found that firms are using renewable fibre, localising, product longevity, slow fashion and consumer education to ensure sustainability. It was suggested that firms with robust e-commerce orientation will be more successful.

Chang, Jackson and Grover (2003) examined executive perspective on e-commerce as a strategy. It was argued that information and communication technology offers efficiency in operations, offering products and services on information and personalization. The study analyzed letter of 145 CEO's of Fortune 500 companies. It was found that firms are using renewable fibre, localising, product longevity, slow fashion and consumer education to ensure sustainability. It was suggested that firms with robust e-commerce orientation will be more successful. It was concluded that e-commerce should be viewed as a strategic initiative instead of addition to existing organisation.

## **METHODOLOGY:**

The study is exploratory in nature. The study is done using secondary data. Secondary data was collected from published sources. Scope of study was to analyse the inorganic growth of Snapdeal.

## **FINDINGS:**

### **Ambitious Growth:**

Snapdeal had adopted an ambitious M&A strategy, backed up financing from big ticket investments. Snapdeal acquired seven companies in 7 months of 2015. These acquisitions came after \$627 million investment in Snapdeal by Softbank in 2014.

**Table 3: Acquisitions by Snapdeal**

Grabbon	2010 (June)	Freecharge	2015 (April)
esportsbuy.com	2012 (April)	Letsgomo	2015 (May)
Shopo.in	2013 (May)	Martmobi	2015 (June)
Doozton.com	2014 (April)	Fashiate	2015 (August)
Wishpicker	2014 (Dec)	Reduce Data	2015 (Sept)
Exclusively.com	2015 (Feb)	TargetingMantra	2016(May)
RupeePower.com	2015 (March)	Gojavas	2016 (July)

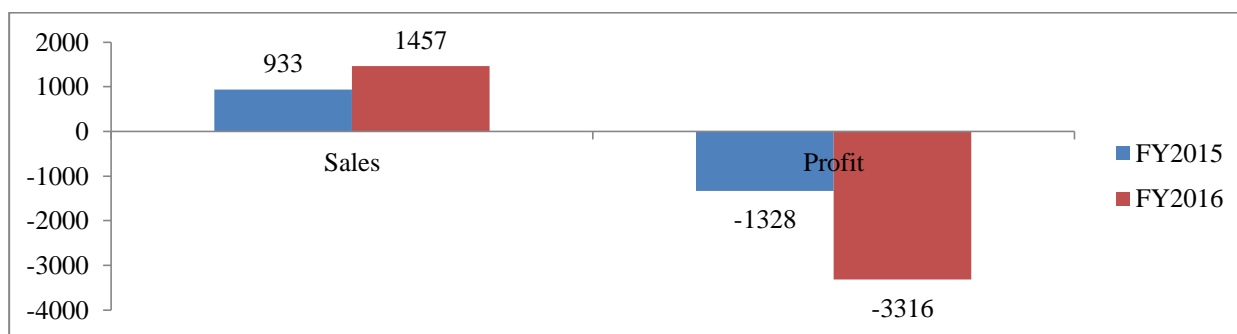
**Source:** Sen, 2017, Economic Times (2017a)

Snapdeal founder had commented that Snapdeal will move ahead of Flipkart in 2016. The competitive rivalry between the two firms can be seen in their twitter comments also. After moving from Okhla to Gurugram, Snapdeal started working like a big conglomerate. Large teams were hired from top class institutions and ambitious targets were set, and left when they were not met (snapdeal, 2018)

Snapdeal ventured into services. Platforms of firms like redBus, Urban Clap, Cleartrip and Zomato was integrated to provide opportunity to consumers to book tickets on hotels, flight, bus and food. Each booking done provided some commission to Snapdeal.

2016 was disappointing year for the firm, it lost market share to top two firms (Verma, 2017). The spokesperson commented after financial results of FY2016, that the firm had focused on investment to augment capacity in supplier ecosystem, logistics and technology (Verma, 2017).

**Figure 3: Sales and Losses after Financing from SoftBank**



**Source:** Malviya and Maheshwari (2017), Verma (2017)

The founder admitted that some mistakes were made as he commented in an email reply to employees, with more capital coming into the market we made mistakes like others in the industry Verma (2017).

**Table 4: Market Share of Top Five Online Retail Firms**

Company	Ave Daily Order	Market Share (GMV)
Flipkart	4.5-5 lakh	39-40%
Amazon	4-4.5 lakh	32-33%
Shopclues	80,000- 1 lakh	4%
Paytm	60,000	4%
Snapdeal	30,000-40,000	5-6%

**Source:** Ganguly, Chanchani (2017)

The online retail market has become a battle ground for showing financial strength among the companies. Amazon has committed \$5 billion, Snapdeal has got financing of \$2 billion and Flipkart had raised \$ 6 billion since inception. Flipkart got \$ 2.5 billion investment from Japan's Softbank after failed merger talks (economictimes, 2017b).

#### **Role of Largest Investor:**

SoftBank promised more investments on condition of Snapdeal making investments on rebranding, marketing. Later SoftBank did not fulfil the promise and left the firm in a state of disappointment for the founders. First SoftBank asked them to rebrand, spend money on marketing, promising all along that more investments are on way and then they suddenly left them high and dry. Investment in branding during September-October 2016 was Rs. 200 crore. The firm launched new logo and television campaign (Verma, 2017). After failed merger talks of Snapdeal with Flipkart, Softbank made investment of \$2.5 billion in Flipkart (economictimes, 2017b). The episode demonstrated the risk involved in funding source dominated by a large investor and the consequences it can have on the operations and sustainability of the startup, in case they go against the wish of the largest investor.

### **Failed Merger Talks: Could it be a Failed Opportunity for Snapdeal:**

SoftBank has been mulling selling Snapdeal to Flipkart, although few investors were opposed to the deal. From a high valuation of around \$6.5 billion, Snapdeal's valuation came down to around \$1 billion. The founders and other investors who invested in early stage were disappointed with the way SoftBank has marked the valuation to a significantly lower value. Flipkart wanted immunity from board decisions for two years after merger. Snapdeal investors, such as Nexus, Kalaari and others, who are exploring for selling their stakes, would find it difficult.

### **Impact of Rapid Inorganic Growth:**

The rapid inorganic growth led by mergers and acquisitions not supported by rapid increase in revenues led to financial, human resource problems.

### **Vendor's Dues not Settled:**

Cotton Rajdhani has filed a police complaint against Snapdeal for delay in payment of dues, and many more are planning to resort to legal option as issues raised by All India Online Vendors Association (AIOVA) regarding delay/nonpayment of dues have been ignored by Snapdeal. Payment of Rs. 20 lakh to a vendor supplying warehousing services to Vulcan is pending since April 2015. The excuses given by Snapdeal are funny. Loss of invoice, concerned person not available and sometimes Snapdeal refusing that they received any service from the vendor. According to Mr. Rajat Gupta, Cotton Rajdhani, commented that Snapdeal owe them Rs. 67 lakh but they now are offering Rs 10 lakh only. Large number of employees left the company which has made life even more difficult for the vendors (Das, 2017). Snapdeal spokesperson commented on vendor dues that company believes in transparency and a proper system is in place for resolving the disputes within the boundaries of the legal framework (Das, 2017).

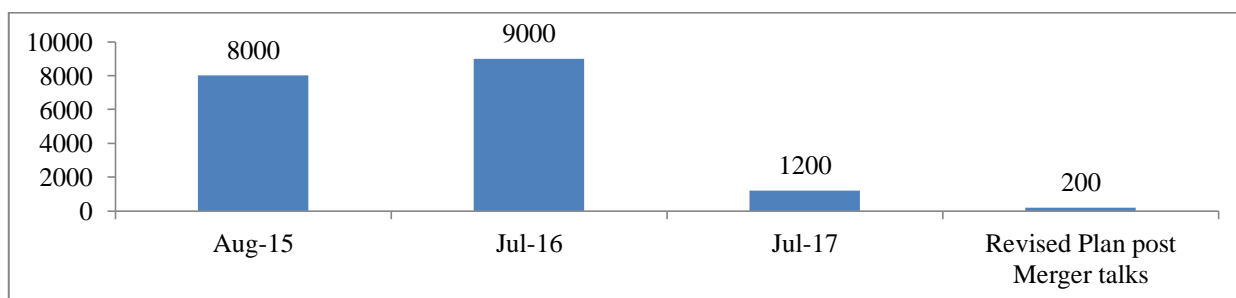
### **Employee Lay Off:**

In July 2016, Snapdeal had 9000 employees, which came down to 1200 in July 2017. Employees were given one month salary and one month severance pay. Out of present strength (July 2017) of 1200, 1000 employees would be removed, and department heads were instructed to prepare the list (EconomicTimes, 2017a). In February 2017, six hundred employees were fired.

In February 2016, employees were offered to go for performance improvement plan (PIP) to achieve a satisfaction score of customers of eighty five percent. Employees opted to exit and not to go for PIP, as achieving a customer satisfaction score of 85% was too ambitious target as customer satisfaction score has touched to a maximum of sixty four percent. The company spokesperson commented that only employees who do not meet the expected standards of performance were put on PIP and there were no layoffs (Malviya and Maheshwari (2017).

Founders Mr. Rohit Bansal & Mr. Kunal Bahl have taken a hundred percent cut from salary voluntarily, and many other employees' also proactively significant reductions (businessToday, 2017).

**Figure 4: Number of Employees**



**Source:** Economic Times, 2017a, Businessinsider, 2017

### **Selling Non Core Assets:**

The sale of noncore assets is considered for enhancing sustainability of the firm. With the sale of certain non-core assets, Snapdeal is expected to be financially self-sustainable. Freecharge was sold to Axis Bank for Rs 385 crore (economicTimes, 2017c). Vulcan express was sold to Future group for Rs 35 crore (livemint, 2018).

### **Lean Organization Strategy:**

Mr. Vijay Shekhar Sharma argued that scalability and sustainability is the crucial factor for e-commerce business (Sen, 2016).

After failure of merger talks with Flipkart, Snapdeal has high expectations on lean way to profitability. A lean organization, Snapdeal 2.0 with only 200 employees has been planned, to cut cost, make the organization more efficient and turn the organization into a profitable venture by 2018. The IPO option would be used for financing the expansion, after turning into a profitable venture. Over dependence on a single largest investor and sudden departure has brought the risk involved in a financing mix which relies to a great extent on a single big investor. IPO route would overcome such risk. Few early investors (Nexus Venture Partners, Kenneth Glass) had shown confidence on the new lean organization strategy of Snapdeal 2.0 (livemint, 2017).

Snapdeal lean organisation strategy has yielded positive results and the losses have reduced from Rs. 4,638.9 crore in FY 2016-17 to Rs. 440.7 crore in FY 2017-18 on account of reducing fixed and variable costs. The promotional expenses were reduced by 88% year on year basis, employee expenses were reduced by 68% and fulfillment expenses were lower by 67% year on year basis (timesofIndia, 2018).

### **Assignment Questions:**

- I. Discuss the weaknesses in the financing strategy of Snapdeal?
- II. Evaluate the capability of Snapdeal to face competition from leading e-commerce players after decision to reject merger offer of Flipkart
- III. Analyse the inorganic growth strategy of Snapdeal for rapid growth by acquisitions.
- IV. Examine the viability of lean organization strategy of Snapdeal.
- V. Recommend sources of finance for Snapdeal?
- VI. How can a start up ensure sustainability of financings?

### **CONCLUSION:**

Snapdeal demonstrates the startup challenges of competing with large firms and consequences of rapid inorganic growth. Sustainability of business model and robust cash flows, efficient operations are needed to sustain in the gross merchandise value game, dominated by firms with deep pockets and ability to withstand the burn for a longer time period. Just depending on venture capital firms, marquee investors for rapid inorganic growth without consolidating revenue base is unreliable in the long term. Startups need to first build up satisfied customer base, efficient operations, satisfied employees, diversified financing options reach a scale sufficient to sustain organically before moving to a rapid inorganic growth.

### **REFERENCES:**

- Business Insider, (2017). Employees are panicking as Snapdeal looks to slash salary bonus by 60%. [online] Available: <https://www.businessinsider.in/Employees-are-panicking-as-Snapdeal-looks-to-slash-salary-bonus-by-60/articleshow/57204578.cms> dated February 17<sup>th</sup> 2017 (December 28, 2017)
- Business Today, (2017). After merger talks with Flipkart fail, Snapdeal may lay off 80% workforce. [online] Available: <http://www.businesstoday.in/current/corporate/flipkart-snapdeal-merger-fail-layoffs-job-cuts/story/257453.html> dated July 31<sup>st</sup> 2017 (December 29, 2017)
- Chang K., Jackson J., and Grover V., (2003). E-commerce and corporate strategy: an executive perspective, *Information & Management* 40 (2003) 663–675, ELSEVIER
- Crunchbase (2018). Snapdeal's 10 Investments. [Online] Available: [https://www.crunchbase.com/search/funding\\_rounds/field/organizations/num\\_investments/snapdeal](https://www.crunchbase.com/search/funding_rounds/field/organizations/num_investments/snapdeal) (October 20, 2018)
- Das S., (2017). Snapdeal sellers threatens moving court, AIOVA says Flipkart too not clean. [online] Available: <https://retail.economictimes.indiatimes.com/news/e-commerce/e-tailing/snapdeal-sellers-threatens-moving-court-aiova-says-flipkart-too-not-clean/58604211>, dated May 10<sup>th</sup> 2017 (January 28, 2018)
- Dybdahl (2015). Building Business Models for Sustainable Fashion: A case study of Norwegian fashion companies focusing on local value chains and locally sourced wool, Norwegian University of Life Sciences, Master Thesis, [online] Available: [https://brage.bibsys.no/xmlui/bitstream/handle/11250/2388690/dybdahl\\_2015.pdf?sequence=5](https://brage.bibsys.no/xmlui/bitstream/handle/11250/2388690/dybdahl_2015.pdf?sequence=5) (April 7, 2018)
- Economic Times, (2017a). Snapdeal undergoing major layoff, to slash 80 per cent workforce. [online] Available: <https://economictimes.indiatimes.com/small-biz/startups/snapdeal-undergoing-major-layoff-to-slash-80-percent-workforce/articleshow/59845950.cms>, dated July 31<sup>st</sup> 2017 (March 30, 2018)

- Economic Times, (2017b). Flipkart raises \$2.5Bn from SoftBank Vision Fund. [online] Available: <https://tech.economictimes.indiatimes.com/news/internet/softbank-vision-fund-invests-2-5bn-in-flipkart/60001604>, dated August 10<sup>th</sup> 2017 (January 9, 2018)
- Economic Times, (2017c). Snapdeal sells Freecharge at 90% discount to Axis Bank, <https://retail.economictimes.indiatimes.com/news/e-commerce/e-tailing/snapdeal-sells-freecharge-at-90-discount-to-axis-bank/59792247>, dated July 27<sup>th</sup> 2017. (November 15, 2017)
- Ganguly P., Chanchani M., (2018). Battle for top slot: Flipkart continues to nudge ahead of Amazon in terms of gross sales. [Online] Available [https://economictimes.indiatimes.com/articleshow/58388338.cms?utm\\_source=contentofinterest&utm\\_medium=text&utm\\_campaign=cppst](https://economictimes.indiatimes.com/articleshow/58388338.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst) (October 17, 2018)
- Gooptu B., (2015). Snapdeal invests additional \$20 million in GoJavas. [Online] Available: [https://economictimes.indiatimes.com/articleshow/49257390.cms?utm\\_source=contentofinterest&utm\\_medium=text&utm\\_campaign=cppst](https://economictimes.indiatimes.com/articleshow/49257390.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst) (September 23, 2018)
- Guo Z., (2016). A Literature Review of Representation Models of E-Business Models from the Perspective of Value Creation, *American Journal of Industrial and Business Management*, <http://www.scirp.org/journal/ajibm> <http://dx.doi.org/10.4236/ajibm.2016.62013> (May 9, 2018)
- LiveMint, (2017). Snapdeal 2.0 gets Nexus Venture backing after Flipkart deal scrapped [online] Available: <http://www.livemint.com/Companies/60iy6vpxl4ekwzvfJOXRJ/Snapdeal-20-gets-Nexus-Venture-backing-after-sale-to-Flipka.html> dated August 3<sup>rd</sup> 2017 (April 13, 2018)
- LiveMint, (2018). Future acquires Snapdeal's logistics arm Vulcan Express for Rs35 crore [online] Available: <http://www.livemint.com/Companies/tAgqaGmJIH7bVuOK6xcC4H/Future-acquires-Snapdeals-logistics-arm-Vulcan-Express-for.html> January 26<sup>th</sup> 2018 (May 2, 2018)
- Malviya S., and Maheshwari R., (2017). Snapdeal owner Jasper's loss more than doubles to Rs 2,960 crore, [online] Available: <https://economictimes.indiatimes.com/small-biz/money/jaspers-loss-more-than-doubles-to-rs-2960-crore/articleshow/56633696.cms>, dated January 18<sup>th</sup> 2017. (January 14, 2018)
- Niraj S., Nageswara Rao S.V.D., (2015). Sustainability of E-retail in India, [online] *Journal of Internet Banking and Commerce*, 20:107 doi:10.4172/2165-7866.1000107 (November 10, 2018)
- Pani P., (2016). Not a sustainable model, says Jhunjhunwala of e-comm business, *The Hindu BusinessLine* dated 11<sup>th</sup> February 2016, [online] Available: <https://www.thehindubusinessline.com/markets/not-a-sustainable-model-says-jhunjhunwala-of-e-comm-business/article8222649.ece> (October 5, 2018)
- Sen S., (2016). Snapdeal's Bahl vs Flipkart's Bansal: All's not well with etailers. [online] Available: <http://www.hindustantimes.com/business/flipkart-snapdeal-twitter-war-proves-all-is-not-well-with-india-s-largest-etilers/story-mFqgTNadMd89FR8izdHw7M.html> dated March 28<sup>th</sup> 2016. (August 16, 2018)
- Sen S., (2017). Death of a Unicorn: Inside the fall of Snapdeal, once a \$6.5 bn startup. [online] Available: <https://factordaily.com/snapdeal-flipkart-merger-kunal-bahl-rohit-bansal/> (July 6, 2018)
- Sengupta S, (2017). Why Snapdeal debacle may compel Nexus to rethink its future direction. [Online] Available: <https://www.livemint.com/Companies/yUod9DevhPNKELg5QZqG1N/Why-Snapdeal-debacle-may-compel-Nexus-to-rethink-its-future.html> (July 19, 2018)
- Snapdeal, (2018). About Us, [online] Available: <https://www.snapdeal.com/page/about-us>. (June 3, 2018)
- Times of India, (2018). Snapdeal trims losses to Rs 613 cr for FY18, exudes confidence on hitting profits. [online] Available: [http://timesofindia.indiatimes.com/articleshow/66527673.cms?utm\\_source=contentofinterest&utm\\_medium=text&utm\\_campaign=cppst](http://timesofindia.indiatimes.com/articleshow/66527673.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst) (September 7, 2018)
- Verma S., (2014). Here's who owns how much of Snapdeal. [Online] Available: <https://www.livemint.com/Companies/X8RCIyaHbRtleawh5ruc9O/Heres-who-owns-how-much-of-Snapdeal.html> (September 12, 2018)
- Verma S., (2017). Snapdeal loss more than doubles to Rs 3,316 cr in FY16, Live Mint.[online] Available: <http://www.livemint.com/Companies/Qt7vyAZ1ywO0y9e3P1Mjcl/Snapdeal-losses-more-than-doubled-in-201516.html>, dated January 18<sup>th</sup> 2017. (October 8, 2018)

----