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ANALYSIS OF THE EXPANSION OF E-COMMERCE INTO INDIA AND GROWTH OPPORTUNITIES FOR FLIPKART

Keith Eisenberg¹ & Gaurav Gupta

INTRODUCTION

The tremendous advancements made in the field of information technology and technology in general over the last few decades as well as favorable demographic shifts has allowed many domestic focused companies in the United States an opportunity to grow their consumer base in an increasingly global economy (David B. Audretsch 2014). These globalization strategies hope to capture potential markets anywhere feasible in the world. One of the most prevalent strategies companies are focusing on to capture these markets around the world is through the use of e-commerce platforms. E-commerce can be defined as the use of the internet “for exchanging information of value between firms and their trading partners, employees, and customers with the absence of geographical and time restrictions (Claycomb 2001).” These companies basically connect buyers and sellers to each other in the most convenient way for both parties. Small businesses are now able to reach anyone who has a need for what they are offering. Everyday consumers are now able to buy an array of goods and services to be shipped to their doorstep upon a click of a button. E-commerce creates value through efficiency, complementarities, novelty, and lock-in (Zott 2001). These four distinct areas allow companies to develop an effective competitive advantage as well as act as an incentive to grow their e-commerce platforms.

One of the most important prerequisites for a successful e-commerce industry within a developing nation is strong institutional quality where governments are open to the adoption of advanced technologies (Williams 2010). Along with technology infrastructure, trust and national policy initiatives are needed for the sustainable success of e-commerce (W.H. Makame 2014). E-commerce adoption in developing countries initially takes place due to a high performance expectancy and social influence. With those factors present, technological opportunism can then act as the bridge to introducing e-commerce. Prior to technological advancements, the macroeconomic status of the developing country must be benign in order for e-commerce to become favorable (Datta 2011).

India represents a developing economy with a favorable and new political outlook combined with a vastly untapped potential market. Newly elected Prime Minister Narendra Modi pledged to digitalize rural areas in India through a “Digital India Project” where approximately Rs. 1 lakh crore (\$16.7 billion dollars) will be invested (CNN-IBN 2014). Demographic disparities within the states of India results in varying economic conditions (James 2011). Domestic e-commerce companies like Flipkart have enjoyed much success up to now covering nearly all urban consumers in India. However, rural consumers make up a large proportion of the untapped marketplace in India. The goals of this paper are to analyze the entry and growth strategy of Flipkart in a developing country like India and use the results as a template for e-commerce companies looking to enter developing or emerging economies.

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Development and growth of E-commerce

Throughout the last 20 years, the emergence of the internet and the wide scope with which it has been adopted by nearly all Americans has caused the spread of e-commerce to be exponential. E-commerce transactions as a percentage of total retail transactions has grown from ~2.4% in 2005 to ~6% in 2014 (Ian Thomas 2014). This demonstrates a consistent positive trend towards the adaptation and exploitation of the unique e-commerce opportunities. In the United States it all began in the mid-1990s as the internet was being widely distributed at an affordable rate, giving businesses a new channel to reach their potential consumers. Dell became the first major success story as an e-commerce retailer as they reached a million order milestone for their computers in 1997 (Hung 2011). Following their lead, companies like Gap, Pizza Hut, Expedia, Zappos, Apple, Barnes & Noble, Best Buy, Sony, Staples, Macy's, Nike, Target, Coach, Amazon, and many others began launching their own unique websites where people can browse their inventory, hunt for deals, and make purchases via the internet. At that time, the concept was revolutionary and gave these companies a significant competitive advantage (Hayes 2012). As time went by, other companies followed setting up their own web sites. These companies all offered unique value propositions with the products they sold. However, e-commerce was also being widely used for business-to-business (B2B) and consumer-to-consumer transactions. For example, eBay allowed consumers to sell products to other consumers through an auction. General Electric began buying and selling industrial and commercial products to other businesses in 2000 (Times 2000). B2B transactions occurring over the internet from 1998 to 2003 grew from \$43 billion to \$1.3 trillion (Vokurka 2003). The healthcare industry had also taken advantage of the e-commerce trends. In 2005, half of the hospitals in the United States used internet-based trading exchanges to do business with their suppliers (Conway 2005).

Adoption of e-commerce spread like wildfire primarily because the benefits greatly outweighed the negative consequences and there was a strong incentive to have an E-commerce platform in order to create and sustain that advantage. The main benefits of having an e-commerce platform include increased sales, decreased costs, increasing customer awareness, improved access to new markets, better customer service, and efficient communications (Carlo A. Mora-Monge 2010). These outweigh the disadvantages which include hidden costs (restocking, delivery, optimization of supply chain), the reliance on a network with which you have limited control over, vague and outdated internet legal compliance, consumer privacy, and cyber-security (Cengage n.d.).

E-commerce in the United States drastically changed when in November of 2000, Amazon.com launched its online marketplace service (Amazon.Com 2000). Typically businesses had brick and mortar stores along with a customizable website which sold its unique product selections to consumers. However, Amazon changed the game when instead of just selling books online without physical store locations, it began connecting supply with demand. Being a first mover allowed Amazon to gain market share rather easily and sustain their competitive advantages by offering low costs to consumers at the expense of the company's bottom line.

Growth of E-commerce in Asia

Throughout the last decade, the number of internet users around the world has skyrocketed. (Pingdom 2010) Expansion of e-commerce follows this trend directly; therefore

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it can be observed that Asia represents the next opportunity for growth due to a large population base, high population growth rates, increasing middle class, growth in small business ownership in need of online marketplaces, and an ever increasingly lenient political outlook on foreign direct investment. Examples of countries that have embraced such changes are India, Indonesia, and Myanmar. India's new prime minister, Narendra Modi has promised to expand the Indian economy by being more lenient towards foreign direct investment. India represents the largest democracy in the world as well as the largest untapped potential market. Indonesia has recently elected Joko Widodo who pledged to focus on improving infrastructure and allowing foreign direct investment at the same time maintaining a certain acceptable level of national sovereignty (Nicholas 2014). Myanmar has recently transformed from a brutal dictatorship into a peaceful republic. President Thein Sein has recently hosted the annual ASEAN conference and is looking to differentiate the FDI they receive (Ghosh 2014). China currently accounts for a third of all Myanmar's FDI therefore it is a priority for Sein to attract business from elsewhere in the region to diversify and hedge against economic risks in China (Song 2013).

China represents the largest emerging market in the world, with a vast and growing economy and middle class. E-commerce grew exponentially within the last decade in China. In the process, the e-commerce industry had to overcome a few obstacles, including "restricted access to computers, lack of internal trust, lack of enterprise-wide information sharing, intolerance towards failure, and incapability of dealing with rapid change." (Jing Tan 2007) These challenges were primarily felt for the business-to-business transactions. The Chinese e-commerce market for business-to-consumer transactions has been protected domestically by the Chinese government. Internet sites like JD.com and Alibaba have grown to become behemoths. These companies rival Amazon in terms of size just by capturing the Chinese domestic consumers.

For U.S. based companies such as Amazon India is a very attractive market with its vast population, changes in political climate, and a largely untapped consumer base. Domestic e-commerce companies like Flipkart (is a Singapore based company that is managed domestically with logistics and distribution handled within India servicing Indian consumers), Jabong, and Snapdeal have grown exponentially over the last couple of years by just targeting the urban population. They have taken advantage of favorable regulations and the industry is inevitably going to hit critical mass where network externalities will allow for an even further adoption of e-commerce for the neglected consumer base in India (Licker 2005). The common trends of internet usage, availability, and disposable income for even rural citizens will lead to more demand for products which can be supplied by small businesses with the help of e-commerce platforms. According to the Hindustan Times, the e-commerce market in India is expected to be \$9 billion in 2016 and \$70 billion by 2020 A study in the Journal of Internet Banking and Commerce found that the most crucial perceived risks for online consumption in India is the accuracy of the item delivered, damages to goods delivered, and a secure payment system. All of these risks are being mitigated by domestic e-commerce companies like Flipkart and Jabong with guarantees and cash on delivery services leading to consumer adaption to the online marketplace (Mathew 2013). With the expansion of Amazon into India becoming inevitable, it is crucial that domestic market share leaders like Flipkart look to expand even further in India to try to capture the potential market that Amazon looks primed to take over and shore up their current market positions.

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Objectives

Our objectives for this paper are:

To analyze how e-commerce is able to flourish in a developing economy by looking at Flipkart's initial success as an e-commerce company in India;

Second, we will review the long-term sustainability of e-commerce in India by analyzing the current socio-economic conditions;

Third, an analysis of the macroeconomic and demographic data will be used to draw some correlations

These successful launch and expansion strategies can be used as a template for other e-commerce companies looking to do business in a developing economy.

Methodology

The proposed methodology for predicting the likelihood of consumer adoption of e-commerce in a developing country like India is based on an analysis of prior research into the factors that act favorably towards this transition. These factors include the decision maker's age, education level, cosmopolitan outlook, perceived compatibility, cost, customer pressure, and perceived relative advantage (Ellis 2004). Boateng, Molla, and Heeks segmented these using five factors including technology, managerial, organizational, cultural, and environmental (Richard Boateng 2012). Karimov observed that underdeveloped telecommunication systems, legal framework, infrastructure, and economic and socio-cultural factors act as a hindrance to the adoption of e-commerce in developing nations (Karimov 2011). Currently, most urban areas in India have e-commerce coverage and their growth has led to cost efficiencies for e-commerce companies.

In order to observe the factors contributing to Flipkart's success, we used data from the Census of India for 2011 (Office of the Registrar General & Census Commissioner 2014) and The Economist Pocket World in Figures 2014 Edition (mostly 2011 data) (Economist, Pocket World in Figures 2014). In order to determine the factors leading to Flipkart's success, we collected demographic data in areas initially penetrated by Flipkart.

Additionally, we ran a correlation analysis of Flipkart's revenues and factors such as changes in government expenditures to improve quality of its citizens (measured by GDP per person employed PPP), rate of internet usage (measured by internet users per 100 people), literacy rates (measured by gross secondary school enrollment), and size of the population.

Analysis

Prior research on e-commerce growth in a developing economy suggests some pre-conditions that must be met for e-commerce. These include, technology improvements, educational advancements, population growth, changes in buyer behavior, level of income, and the political climate. Flipkart, from their launch to the present, has been a very successful domestic e-commerce company in India.

Flipkart strategically launched in the most prosperous areas according to e-commerce prerequisite guidelines. Currently, Flipkart is present and has set up warehouses in Andhra Pradesh, Delhi, Karnataka, Maharashtra, Tamil Nadu, and West Bengal. Geographically, these states are spread out for the ideal coverage for Indian consumers.

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Flipkart's entry and its later success was vastly aided by the drastic social changes taking place in many of these states combined with transitioning political favoritism for retail changes and interconnectivity, and the technological know-how of not only the employees and creators of the company, but of the everyday consumers as well.

Prior to Flipkart's launch, social changes were occurring at a snail's pace across the most populous states in India. Initially, the internet was used as an information gathering tool which allowed most citizens the opportunity to get comfortable with the format and structure. The internet had become an everyday item for most people who lived in these populous areas. The social stimulus had changed in terms of the acceptability of the internet as well as mobile phones for most urban and liberal Indians. Trade in India mostly occurred within specific geographic areas with very little cross border trade. The impediments to cross border trade were geographic limitations of distance combined with poor infrastructure conditions and a lack of public transportation. Consumers were ready for a change, all that had to happen was a favorable political environment including e-commerce adaptability, creation of jobs to increase consumer spending and the technological know-how to create, develop, and sustain a successful e-commerce platform.

The results in Exhibit 5 demonstrate the positive and high correlation between Flipkart's sales/revenues and all of the prerequisite factors discussed previously that acted as the ideal environment for the success of an e-commerce company in a developing nation. The results show that the sales of Flipkart have a high correlation with internet users (0.92) which is the factor related to the advancement in internet users and technology, school enrollment in secondary schools (0.90) which is the indicator of education, population (0.92) which is the total population factor, and GDP per person employed (0.87) which is the indicator for government's leniency towards the internet and progressive policies. These high correlations suggest that these factors are driving the sales of Flipkart throughout its existence and support the previous research findings by other researchers.

China, India, Russia, Brazil, and South Africa (commonly referred to as the BRICS) represented the new prospectus of emerging economies in the world order entering the 21st century. As their economies grew rapidly, technological progresses were being made domestically, and globalization was occurring at a more rapid pace due to the interconnectivity of the world economy made possible by the internet and information technology advancements. However, when you look at the economies of these emerging market nations today, only China stands out as a successful powerhouse on a global scale. What differentiates China from the other 4 countries has to do with developments and progress made in manufacturing, infrastructure, and strategic global trading and alliances. These moderations were made possible through the political will power that was set up by the national system as well as the individuals and groups who hold power.

India was projected to be an economic powerhouse in the mold of China. As both countries had large population bases and both countries had well educated people. However, the political differences between the nations, most notably the leaders of each nation not the systems with which leaders were chosen, have made India fall short of its potential. The prior government of India under the leadership of Manmohan Singh and the Indian National Congress Party was too preoccupied in elevating the income inequalities of the masses at the cost of neglecting the private sector. The new government under the leadership of Narendra Modi has embarked on some progressive economic incentives that stresses FDI, infrastructure improvements, improved sanitation, and operating the government within a stable budget. This is the perfect opportunity for Flipkart to master the Indian e-commerce marketplace.

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Along with the favorable social changes that allowed the internet to become widespread in India as well as the political shift that allowed the economy to open up and infrastructure to improve, the next most crucial aspects for the success of e-commerce in India have to do with the widespread availability of the internet. In addition, other factors that are aligned to assist the growth e-commerce are: the population size and growth represents a large potential market, the purchasing power of that population in terms of disposable income from increasing wages and better living standards, and the availability of a well-educated society.

The development of the initial business model and usage rate increases for Flipkart was an instant success not only due to internet usage and availability growth in urban areas, but also due to the expertise of the founders and creators of the company Sachin Bansal and Binny Bansal. These two used their technology know how from their experience at Amazon, the first real mega powerful e-commerce company, to create a successful e-commerce company in domestic India. On the consumer side, the growth of the internet throughout India has largely taken place in urban areas which explains one of the very important reasons Flipkart chose to launch in the most urban geographic areas in India. 72% of the population has a mobile telephone subscription (Economist, Country Profiles-India 2014) which also contributes to consumers being comfortable using the internet and exploring options online. Additionally, the acceptance of the internet in India is reflected through its ranking as the third largest number of Facebook users with over 63 million signed up (Economist, Facebook Users 2014). Another promising data point is the percentage of schools having internet access. On a state wide comparison, the states with which Flipkart initially launched ranked: Delhi (3), Tamil Nadu (7), Maharashtra (11), Andhra Pradesh (13), Karnataka (17), Uttar Pradesh (20), and West Bengal (31) (Office of the Registrar General & Census Commissioner 2014). Internet access in schools represents the growing trend of students being exposed to the internet and taught how to use it as a tool to better their lives. The younger generation will in effect, be more comfortable and open to using the internet for e-commerce purposes in the future.

India is ranked 2nd in the world for population that is living in urban areas with approximately 378.8 million people. (Economist, Biggest populations living in urban areas 2014) The states in which Flipkart chose for their coverage represent approximately 51% of the total population of the country. (Office of the Registrar General & Census Commissioner 2014) These vast amounts of people all represent a significant potential market for Flipkart, as well as highlight the 49% untapped market that can be reached when logistical constraints are overcome in the future. The economic prospects of India as a whole is looking promising. In addition, the foreign currency inflows from the overseas workers' remittances are the highest in the world in India with inflows of approximately \$63,011,000. (Economist, Workers' Remittances 2014) According to the Big Mac Index, India has the most under-valued currency in the world. (Economist, The Economist's Big Mac Index 2014) This does not affect domestic trade but it allows India the opportunity to increase its exports which are seen as cheap throughout the world. India ranks 7th in industrial outputs, 10th in manufacturing outputs, 2nd in agricultural outputs, and 9th in services output. (Economist, Largest Industrial Outputs, Largest Manufacturing Outputs, Largest Agricultural Outputs, Largest Services Outputs 2014) The increased exports result in global demand for Indian manufacturing, agricultural, and services, all leading to more job growth, more pay for average citizens, and more disposable income. The average per capita household income growth over 1 year for citizens in the states in which Flipkart covers ranges from 10%-15%. (Office of the Registrar General & Census Commissioner 2014) This favorable trend means that more people will

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have more money to spend in urban areas throughout India where Flipkart mostly operates. All of these factors in the specific areas of coverage by Flipkart represent the reason for the rapid success of the e-commerce company.

Conclusion:

The instant success and positive feedback mechanisms of Flipkart have made the company a major player in the global e-commerce marketplace. This template for success in developing and emerging markets can also be observed through the success of MercadoLibre which essentially is in a similar position and adaptation stage but in Latin American markets. The research in this paper has mostly focused on what Flipkart has already accomplished and how the conditions leading to their success in the external environment were favorable from the top-down, however it is even more important for them to consider future threats to their business model. The domestic e-commerce marketplace in India is growing rapidly as the large potential market (49% of the country) is becoming the target market. Additionally, lots of small businesses are popping up that are able to serve consumers throughout India, using e-commerce platforms and services to reach them. As the market grows, e-commerce giants like Flipkart will be forced to acquire competitors to leverage their sustainable competitive advantage of economies of scale and efficiency. The promised opening up of the economy by Prime Minister Modi will lead to greater FDI opportunities for e-commerce's global giants like Amazon and Alibaba.

In order to prevent these global giants from taking market share, Flipkart will need to look to expand into rural areas as soon as they can. States with market growth potential include Bihar, Madhya Pradesh, Rajasthan, Gujarat, Jharkhand, and Assam (Office of the Registrar General & Census Commissioner 2014) according to the assessments we made based on data from the most recent census. Flipkart should work with community leaders to advance the progress of infrastructure improvements in order to make the logistics more feasible. Whatever Flipkart actually decides to do moving forward, it must be swift and flexible in order to adapt to the ever changing marketplace of India.

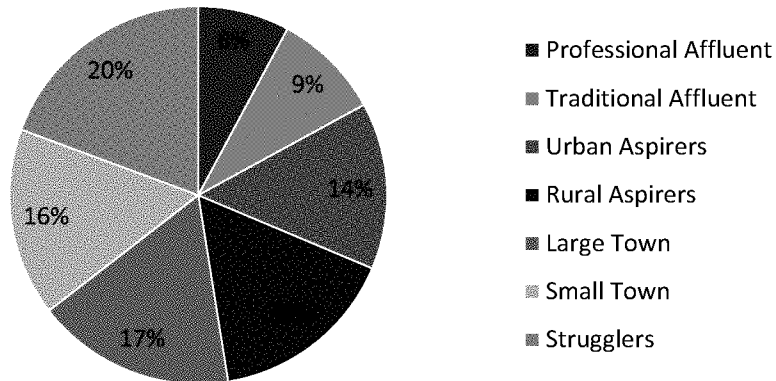
Limitations

This paper attempts to provide a base-line status of e-commerce in developing countries using one firm, Flipkart in one developing country, India as an example. Although we have accomplished part of our original goal, we could not provide a complete scenario due to lack of data as the firm we were analyzing has a short history. Future research in this area should use more data points and do a comparative study using two different countries.

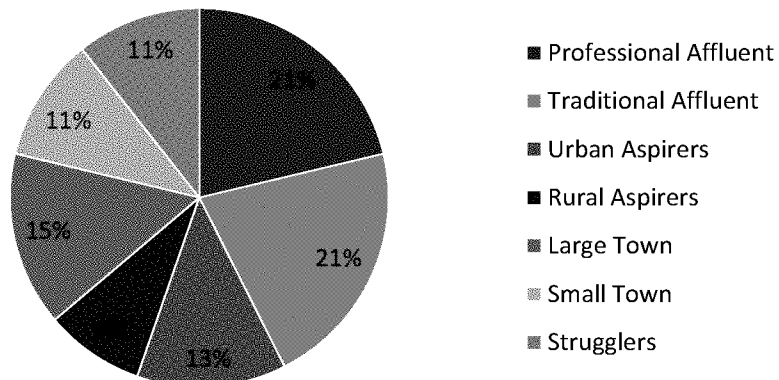
EXHIBIT 1:

Consumer spending (%) in different areas delineated by the consumer type.

Food Spending

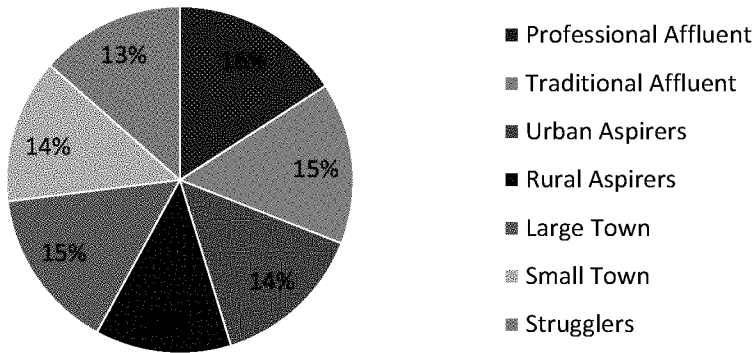


Clothing and Footwear

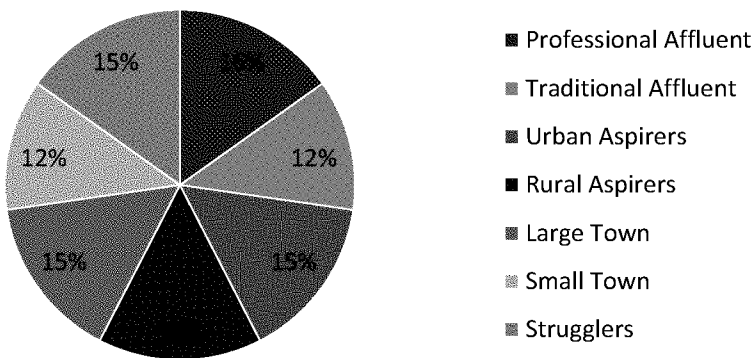


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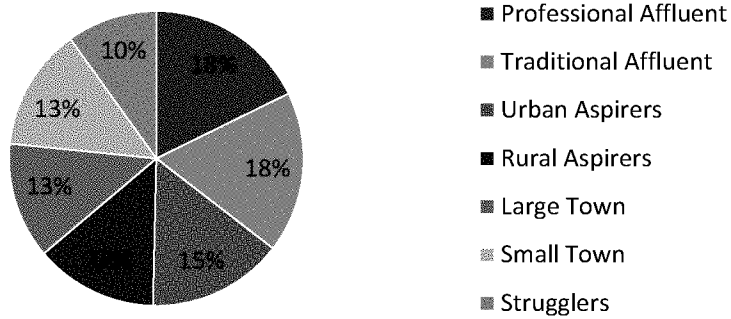
Housing and Consumer Durables



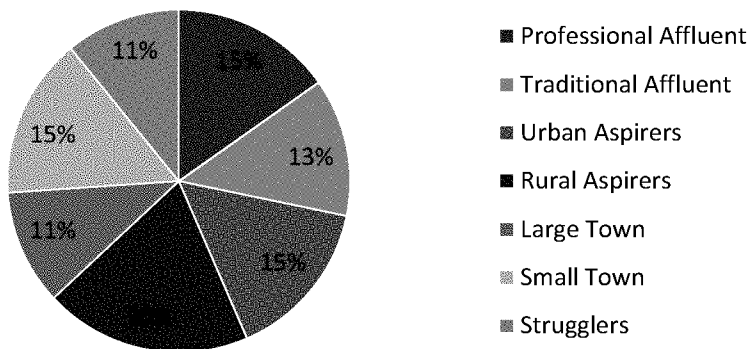
Health



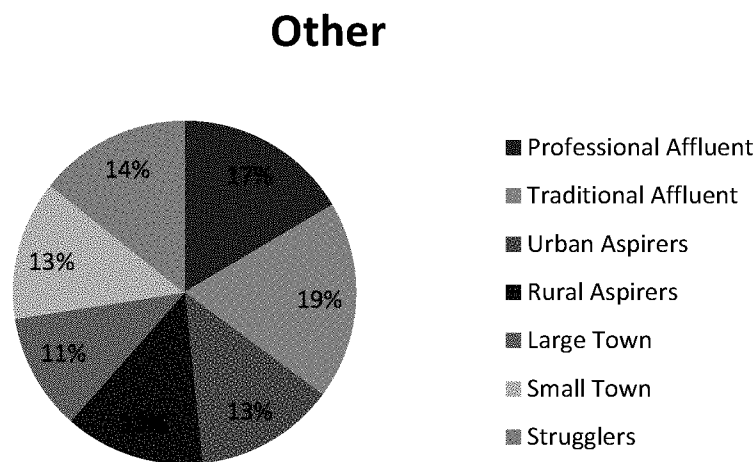
Transportation and communications



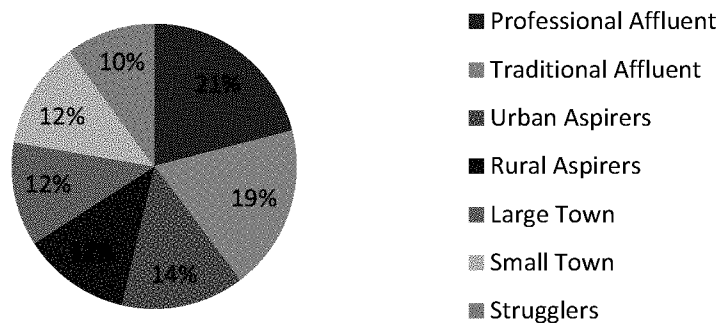
Education and Leisure



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Discretionary Spending/Total Spending



Source: <https://www.bcg.com/documents/file97584.pdf>

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EXHIBIT 2:**Average household size and the number of households in the shortlisted states by rural and urban areas**

<i>States</i>	<i>Average Household Size</i>			<i>Households</i>		
	<i>Total</i>	<i>Rural</i>	<i>Urban</i>	<i>Total</i>	<i>Rural</i>	<i>Urban</i>
Uttar Pradesh	6	6	5.7	33,232,433	25,564,125	7,668,308
Maharashtra	4.6	4.6	4.5	24,296,607	13,161,832	11,134,775
Bihar	5.5	5.5	5.7	18,867,444	16,827,481	2,039,963
Madhya Pradesh	4.8	4.7	5	15,019,706	11,041,438	3,978,268
Rajasthan	5.4	5.4	5.3	12,651,423	9,462,395	3,189,028
Gujarat	4.9	5.1	4.7	12,193,328	6,752,275	5,441,053
Andhra Pradesh	4	3.9	4.1	20,927,188	14,190,615	6,736,573
Jharkhand	5.3	5.3	5.2	6,237,147	4,718,522	1,518,625
Assam	4.9	4.9	4.4	6,387,047	5,406,784	980,263
Chhatisgarh	4.5	4.5	4.6	5,633,422	4,354,036	1,279,386
Haryana	5.2	5.4	4.9	4,835,765	3,033,695	1,802,070
Jammu & Kashmir	5.8	5.8	5.8	2,104,533	1,546,860	557,673

Source: <http://www.censusindia.gov.in/2011census/hh-series/hh01.html>**EXHIBIT 3:****Average household income for the shortlisted states by rural and urban areas**

<i>States</i>		<i>Income ('12-'13)</i>	
		<i>Per Capita</i>	<i>% Growth</i>
Uttar Pradesh		33,269	11.70%
Maharashtra		107,670	12.90%
Bihar		28,317	23.70%
Madhya Pradesh		43,864	15.40%
Rajasthan (data from 2011-12)		53,735	20.20%
Gujarat (data from 2011-12)		89,668	13.80%
Andhra Pradesh		78,177	13.30%
Jharkhand		43,384	13.40%
Assam		42,036	12.80%
Chhatisgarh		52,689	12.70%
Haryana		122,660	13.20%
Jammu & Kashmir		50,641	11.60%

Source: <http://trak.in/tags/business/2012/03/30/average-per-capita-income-indian-states/>

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EXHIBIT 4:**Percentage of schools having internet access by states**

<i>States</i>	<i>% of schools having computer</i>	<i>Rank</i>
Puducherry	96.53	1
Lakshadweep	95	2
Delhi	91.22	3
Kerala	84.16	4
Chandigarh	57.14	5
Andaman and Nicobar Islands	38.65	6
Tamil Nadu	27.22	7
Sikkim	21.62	8
Gujarat	18.53	9
Daman & Diu	18.03	10
Maharashtra	17.07	11
Uttrakhand	12.87	12
Andhra Pradesh	12.26	13
Punjab	12.04	14
Mizoram	12	15
Goa	11.53	16
Karnataka	8.86	17
Haryana	6.89	18
Nagaland	5.7	19
Uttar Pradesh	4.37	20
Himachal Pradesh	4.31	21
Odisha	3.74	22
Rajasthan	3.47	23
Dadra and Nagar Haveli	3.47	24
Jharkhand	3.4	25
Jammu & Kashmir	3.17	26
Madhya Pradesh	3.09	27
Arunachal Pradesh	3.06	28
Chhatisgarh	2.9	29
Meghalaya	2.89	30
West Bengal	2.71	31
Tripura	1.38	32
Manipur	1.35	33
Assam	0.85	34
Bihar	0.59	35

Source: <http://www.censusindia.gov.in/2011census>

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EXHIBIT 5

Correlation Matrix

Variable list

y=Sales of Flipkart

a=consumption expenditure (current US\$)

b=GDP per person employed (constant 1990 PPP \$)

c=Fixed broadband Internet subscribers

d=Internet users (per 100 people)

e=School enrollment, secondary (% gross)

f=Total Population

	Y	a	b	c	d	e	f
Y	1.000	0.790	0.873	0.829	0.917	0.903	0.923
a	0.790	1.000	0.999	0.997	0.958	0.894	0.995
b	0.873	0.999	1.000	0.998	0.961	0.895	0.997
c	0.829	0.997	0.998	1.000	0.977	0.923	0.998
d	0.917	0.958	0.961	0.977	1.000	0.981	0.976
e	0.903	0.894	0.895	0.923	0.981	1.000	0.917
f	0.923	0.995	0.997	0.998	0.976	0.917	1.000

Sources:

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