THE ECONOMIC TIMES

Game changer? Why online retail firms like Amazon, Alibaba make offline buys

ET Bureau Oct 14, 2014, 03.24AM IST

BANGALORE | NEW DELHI: Until now they defined their identity and earned their spurs by differentiating themselves in convenience and pricing from their brick-and-mortar cousins, but can online retailers look to subsume them for the next stage of their evolution?

India's fast-growing online retailers, who are bubbling with energy and flush with investor money secured at eyepopping valuation multiples, could potentially buy department store chains, a move observers say, will precipitate consolidation in the market and redefine the sector.

Such an outcome would be a logical step, some argue, because online retailers are rapidly gaining market share as well as mind-share, putting them in a position to take over leadership of the industry.

"I think online players should make offline acquisitions as the momentum is with them right now," said Arvind Singhal, chairman of retail advisory firm Technopak. "A big chunk of customers still buy offline and acquiring a brick-and-mortar chain could be a powerful customer acquisition tool for online sites in certain categories."

According to Technopak, the Indian retail industry is valued at $525 billion (Rs. 31.5 lakh crore, or about a quarter of India's GDP) now, with online's share at about 1 per cent. By 2020, the retail industry is estimated to double in size while online will grow more than six-fold.

As for regulations barring foreign investment in multibrand retail, Vaibhav Parikh of law firm Nishith Desai Associates is of the view that as wholesale cash & carry is FDI compliant business, an online e-commerce company with FDI can buy it but cannot buy consumer retail business. However, buying a brand could be possible. "My view is that there is no restriction for a marketplace to manufacture and sell under their own brands, though there is some lack of clarity in law," said Parikh.

Globally, there is a move by online retailers to spread their wings into the world ofbrick and mortar. Last week, Amazon announced that it is setting up its first offline store in New York. Earlier this year, China's Alibaba bought a 25 per cent stake in a large department store chain, Intime Retail, for a little less than $700 million (Rs. 4,280 crore). This investment is probably a classic example of how online retail giants with much higher market value can buy into traditional retail. Alibaba's idea is that customers can shop in Intime's online store through Alibabs's online marketplace Tmall and then physically pick up the purchase at one of Intime's 36 department stores.

Mukesh Bansal, board member at India's largest online retailer Flipkart and chief executive of fashion site Myntra, said certain types of offline acquisitions make sense for online retailers. "Acquiring brands is very interesting for us," said Bansal, whose firm was acquired by Flipkart earlier this year. "The ones with a distinct brand presence and a small offline retail footprint are of interest," he said, emphasising that no such acquisitions are in the pipeline.

Online retail portals like Flipkart, Snapdeal and Amazon have grown rapidly in the past couple of years. Market leader Flipkart is targeting $3 billion (over Rs. 18,300 crore) in total value of goods sold this fiscal. Last month, Amazon chief Jeff Bezos told ET the value of goods sold by Amazon India in a year had topped $1 billion (over Rs. 6,000 crore). Snapdeal too has crossed the $1 billion milestone this year.

In comparison, Tata group's retail divisions, including Titan, Croma, Trent and Landmark, had revenue of about Rs. 17,000 crore. Kishore Biyani's Future Retail had revenue of Rs. 11,336 crore in fiscal 2014. But what gives reason for pause is the contrast in the valuations. When Flipkart raised funds this year, it was valued at $7 billion. Delhi-based Snapdeal was valued at $1 billion. In comparison, Trent has a market capitalisation of Rs. 4,546.08 crore and Future Retail less than Rs. 3,000 crore. These firms are also wellfunded. Flipkart raised $1 billion this year and Amazon's Bezos announced investment of $2 billion (Rs. 12,200 crore) in its India operations.

Concepts that caught the fancy are 'Webrooming,' which means customers research products and prices online before buying in a physical store, and 'Showrooming', where customers see a product in a store but buy it online after comparing prices. Alibaba acquisition of a stake in Intime seeks to stay in step with changing customer behaviour.

In India, if an online retail site were to buy and operate offline brand the model will be very different from what is traditionally in brick-andmortar world, with further blurring of walls separating online and offline. "Offline will be more about experience; it will be about the concept and brand interactions. It will not be a distribution strategy," said Myntra's Bansal.

THE ECONOMIC TIMES
www.economictimes.com

© 2015 Bennett, Coleman & Co. Ltd. All rights reserved

Index by Date | Index by Keyword

Advertise with us | Terms of Use | Privacy Policy | Feedback