

A Study on Failure of Flipkart And Snapdeal Merger

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Abstract- In the today's competitive business world, mergers and acquisitions is used as a corporate action which alters the share capital structure and changes the number of shares of the company. Mergers and acquisitions will be forced on a company because of achieving a set of strategic objectives and management failure. Different studies about mergers and acquisitions would have explained about the financial performance of the companies pre&postmerger and the company strategies after the merger. This study focused on the non-financial factors such as investors intention towards merger and internal conflicts among investors which resulted in the unsettled merger deal between both the companies.

Keywords- mergers, acquisitions, flipkart, snapdeal, logistics, warehouses.

I. INTRODUCTION

A merger or an acquisition in company sense may be outlined because the combination of two or a lot of companies into one new company or corporation. The main distinction between a merger and an acquisition lies within the method during which the combination of the two companies is brought about.

“Merger refers to two companies combining together to form a new company.”

“Acquisition refers to one company wholly acquiring the other company.”

Some scenarios for failure of mergers and acquisitions:

- **An inability to agree terms:** There are some cases that the planned merger might never even be enforced as a result of the senior managers within the 2 corporations are unable to agree terms for the merger. In such cases the merger has got to be classified as a failure due to the price concerned and time wasted. There have been several examples where a number of large mergers that failed to materialize because the senior managers could not agree on the management and organizational structures of the proposed new organization.

- **A failure to realise all identified potential synergies:** The underlying explanation behind mergers and acquisitions is usually influenced by the potential to come up with and exploit synergies. These potential synergies could seem to be achievable throughout the design stage, however really realising and exploiting them are often considerably tougher than anticipated.
- **An inability to implement change:** A merger or acquisition results in a considerable amount of change in the organization. In a merger or acquisition all departments of each organization may be subjected to change of varying degrees. In some cases there may be a basic inability to plan and manage change effectively. In other cases there may be a deep-rooted cultural opposition to change.

1.1 NEED OF THE STUDY

The present study is an attempt to find out the reasons for the raise of merger deal between flipkart and snapdeal and the reasons for failure.

1.2 SCOPE OF THE STUDY

In the present global E-commerce market many mergers and acquisitions took place. This study is based on the reasons for the failure of snapdeal merger with flipkart.

1.3 OBJECTIVES OF THE STUDY

- To study and analyze the reasons for merger deal between flipkart and snapdeal.
- To expose the reasons for the failure of merger.
- To know about snapdeal strategy after the failure of merger.

1.4 LIMITATIONS OF THE STUDY

- The data is collected from secondary sources.
- Time period is limited.

1.5 RESEARCH METHODOLOGY

This project is descriptive in nature and based on secondary data attained from various resources such as E-journals, websites, newspapers, articles, magazines.

II. ANALYSIS

OBJECTIVE-1: To study and analyse the reasons for merger deal between flipkart and snapdeal.

Earlier snapdeal was the 2nd best alternative for individuals when compared flipkart, however emergence of amazon gave a higher difference. Snapdeal has gone through various anxious breaks like struggling to raise capital, confusing against internal conflicts, job cuts, some costly decisions.

Here are some mistakes the founders have made about where the company has gone wrong.

- **Execution errors:**

Over the last few years, with funding coming back into the market, Snapdeal like several within the trade started creating mistakes, the founders said.

“Has our company and industry been probing a troubled time? Absolutely. Did we make errors in our execution? No doubt about that.”- Kunal Bahl, Snapdeal Founder

- **Some Decisions Proved Costly**

The trade name is its ‘overpriced’ rebranding exercise which burnt Rs200-crore hole in its pocket. At a time when the trade name was already draining, it tried to seem profligate by payments of an insane amount of money. They spent a great deal of cash to shout in the undifferentiated marketplace.

- **Late entry into mobile payments**

Snapdeal has entered into mobile payments a bit late with FreeCharge Wallet. Paytm’s wallet services have previously covered their way far ahead.

While the marketplace today has full of payment wallets, Snapdeal’s failure to grow and best utilize Freecharge’s platform has also not gone down well with industry experts and investors.

- **No differentiation**

Busy in building too many warehouses and burning cash, Snapdeal never built any category as their USP like Flipkart did with fashion and electronics, and Amazon with Prime and pantry.

Snapdeal’s tie-ups with ClearTrip, redBus, Zomato, and UrbanClap for their respective services also failed to make any impact.

- **Acquisitions for nothing**

Many of snapdeal’s acquisitions covered to finish poorly. The exception is supplying firm Gojavas. However snapdeal did not capitalize it in long run, and fell into the hands of pigeon express despite snapdeal’s 2crore investment in it. Snapdeal’s own logistics firm valcum express was also rumored to be in the talks for sale.

Snapdeal’s acquisition of FreeCharge also failed to make waves for the company, as Paytm continued to be the leader in digital payments and FreeCharge failed to capitalize on demonetization like Paytm.

- **Drop in its Valuation**

Snapdeal’s losses more than doubled to INR 3,316 crore in fiscal 2015-2016, while its revenue growth dropped. Snapdeal had posted a 150% increase in losses from INR 1,328 crore in the year ended March 31, 2015. Revenue grew by 56% to INR 1,457 crore from INR 933 crore in the same period, according to documents.

OBJECTIVE-2: To expose the reasons for failure of merger

- Kunal Bahl and Rohit Bansal - the founders of snapdeal were always opposed to the deal. In the days and weeks preceding the calling off of the deal, Kunal had managed to persuade some of the important board members on his vision of a Taobao, which he called Snapdeal 2.0.
- Some of Snapdeal’s minority shareholders, including Azim Premji had protested and opposed the proposed pay outs under the Flipkart deal to Nexus Venture Partners, Kalaari Capital and to the Snapdeal founders, Kunal and Rohit. Snapdeal co-founders Kunal Bahl and Rohit Bansal were likely to receive \$30 million in cash each from SoftBank after their exit from the company. Kalaari and Nexus were to receive \$60 million from SoftBank, in addition to equity in Flipkart.
- Nexus Ventures and kalaari capitals always remained negative on the Flipkart deal. Nexus was the first of Snapdeal’s investors. Both Kalaari and Nexus remained opposed to the Flipkart deal till Kalaari’s Vani Kola failed to resist to SoftBank pressure, resigned from the Snapdeal Board and fell in line with the SoftBank proposal which

some say included a \$30 million bribe for Kalaari. But Nexus remained fully aligned with promoters Kunal Bahl and Rohit Bansal, including bringing in \$17 million in fresh equity into the company. Kalaari on the other hand were smarter. Reports have it that Kalaari cashed out at least \$100 million by selling a portion of its original stake to SoftBank a couple of years ago. The Flipkart deal would have left Nexus looking very stupid.

- SoftBank had been nudging Flipkart on changing the deal structure somewhat to accommodate issues it was having with possible tax liabilities that would get imposed on SoftBank. Flipkart did not willingly oblige. Separately, SoftBank had prepared what some say was a Plan B to invest \$1.5-2 billion into Flipkart directly if the Snapdeal deal were to fail. The continued resistance within the Snapdeal Board had alerted SoftBank to the possibility of a possible talks failure.
- The sale of FreeCharge for \$60-65 million to Axis Bank, encouraged Kunal Bahl to announce Snapdeal 2.0. The cash generated by the Freecharge sale to Axis bank gave Snapdeal the oxygen that Kunal Bahl and Rohit Bansal were looking for. The corpus of about Rs 400 crores provided the necessary lifeline to the Snapdeal promoters to nullify the Flipkart offer and try one more time to run Snapdeal as their company, rather than lose control over their company.

OBJECTIVE-3: To know about snapdeal strategy after the failure of merger

The founders of Snapdeal had alternate plan called Snapdeal 2.0, which is an operating platform connecting buyers and sellers, additional services such as logistics.

As per the sources Kunal Bahl and Rohit Bansal had meetings with investors and senior executives to chart out a revival of Snapdeal that may see them reducing a majority of the workforce. The headcount of the company currently stands at 1,200 people and the founders are looking to slash as many as 1,000 jobs.

Snapdeal expects that the proceeds from the sale of FreeCharge to Axis Bank amounting to about \$60 million will keep the company afloat for the time being, until it secures a fresh round of investment from new or existing investors.

The company has significantly reduced cash burn to less than \$10 million a month. To re-energize culture, the company set up a rewards and recognition for employees who were performing well.

Snapdeal would need to match the spending prowess of Amazon and Flipkart to survive in the market. Snapdeal's chances of survival after it exhausts the proceeds of the FreeCharge sale are very less.

III. CONCLUSION

From this project it is identified that Snapdeal is the major competitor for Flipkart. When Amazon entered the Indian E-commerce market Snapdeal has gone through anxious breaks struggling to raise capital, confusing against internal conflicts. Snapdeal has decided to stop all non-core actions and to be cost-effective.

Softbank was the investor who raised about the thought of merging with Flipkart. Flipkart has quoted the deal for \$850-\$950 millions. But the founders of Snapdeal rejected the deal and decided to continue as an independent company.

Therefore conclude that Snapdeal is now continuing as an independent company in the Indian E-commerce market.

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