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Snapdeal: A Case Study
The Rise & Fall of an E-commerce giant

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Abstract

This case study focuses on the journey of snapdeal from a daily deal company to the second largest E-commerce player in the market to again falling down with huge losses, a failed merger and lot of operational &financial loopholes. This case study will help us to understand the Indian market scenario with respect to the E-commerce industry in India. Also this case study helps us to understand the pitfalls and strategic problems faced by the start-ups of the Indian E-commerce industry. The discussion reveals the journey of snapdeal, its business model, strategies adopted by the company, factors leading to its downfall and present day strategies adopted by the company to overcome the loses. The detailed causes, reasons and impact of the failed merger of snapdeal with flipkart is also discussed which will help in understanding the volatility of the market. This study will help the future strategists to lay foundation of stronger business models by learning from the mistakes done by the companies in the past.

Keywords: *Snapdeal, Case study, Snapdeal's SWOT*

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IntroductionAboutSnapdeal

Snapdealwas originally founded byKunalBahl and Rohit Bansal as an online daily deals platform in Februaru 2010. The original working model was inspired by the website groupon.com but again ispired by the growth and success of Alibaba, a chinese e-commerce giant, the founders took a big risk with changing the entire business model of the company in September 2011 to become an online marketplace. Since 2011 **Snapdeal** kept on taking baby steps to reach a promising position as an online E-commerce player in India with 12million products, 1,50,000 sellers and a user base of 25 million members. In 2015 Snapdeal was the second largest E-commerce player in India.

The Journey OfSnapdealThe Humble Beginning

In 2010, KunalBahl and Rohit Bansal started MoneySaver, an couponing and deals company offline which managed to sell 15000 coupons in a short span of 3 months. Both of them knew that it is the time to take this company online.

The Online Presence

For taking their company online, they needed funding and an investor. After several rounds of discussion with Vani Kola, her venture capital firm decided to invest in the new company which was to be named Snapdeal. In the year 2010 Snapdeal went online. No doubt it was a rough ride for the cofounders but along with the mistakes, important lessons were learnt too.

Time to Change

In November 2011, Rohit and Kunal took the decision of shutting down the couponic business completely and start something along the lines of an online marketplace just like Chinese giant alibaba.com.

It was a very crucial decision as Snapdeal was doing exceptionally well in the couponic and deals business. But the cofounders knew that online market place platform is the future of Indian E-commerce industry. Their decision of shutting down a good business was surprising for the investors as well. It was the time when only eBay was in the market with same product offering.

The Peak

Staring from November 2011 when the cofounders decided to change the company from online deals business to an online marketplace platform to March 2015, the growth of the company was spectacular. Five-year-old Snapdeal offered around 20 million products across more than 500 categories connecting over 100 million users to 2,00,000 sellers in 2015. Speculations were ripe that in next three years, Snapdeal could reach over one million merchants.The billion dollar evaluation of the company was the result of the hardwork and vision of its cofounders Rohit&Kunal. The company recorded year on year growth of 600% in 2015. This was the time when company started focusing on improving speed and building scale. For this a number of acquisitions & investment rounds happened.

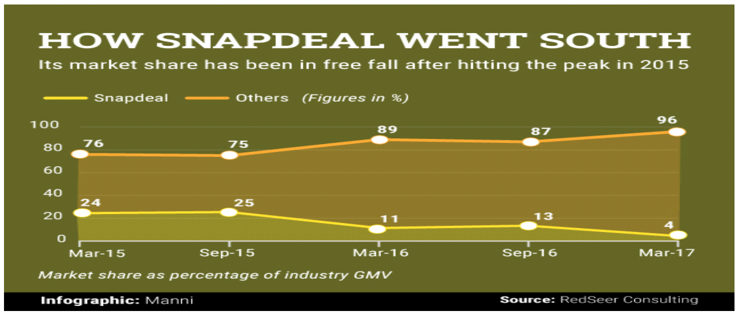
Snapdeal has received 7 rounds of funding till date:

- **Round 1**: In January 2011, $12 million received from Nexus Venture Partners and Indo-US Venture Partners.
- **Round 2:** In July 2011, $45 million from Bessemer Venture Partners, along with existing investors
- **Round 3:** $50 million from eBay
- **Round 4:** $133 million on Feb 2014 from eBay along with all the current institutional investors, including Kalaari Capital, Bessemer Venture Partners, Nexus Venture Partners, Samaa Capital and Intel Capital.
- **Round 5:** $105 million in May 2014 by Blackrock, Temasek Holdings, Premji Invest and others. Snapdeal was evaluated at $1,000,000,000.
- **Round 6:** In Oct 2014, Softbank invested $627 million and became the largest investor in Snapdeal.
- **Round 7:**$500 million in August 2015 from Alibaba, Softbank and Foxconn.

Acquisitions

- In June 2010, a Bangalore-based group buying site, Grabbon.com
- In April 2012, esportsbuy.com, a Delhi based online sports goods retailer.
- In May 2013, Shopo.in, an online handicraft product marketplace.
- In April 2014, Doozton.com, fashion products discovery site.
- In December 2014, Wishpicker.com, a gifting recommendation site
- In January 2015, a small stake in Smartprix.com, a product comparison website.
- In February 2015, Exclusively.in, a luxury fashion products discovery site.
- In March 2015, 20% stake in Gojavas.com.
- In March 2015, Unicommerce, an online multi-channel e-commerce order fulfillment platform, for an undisclosed amount.
- In March 2015, Snapdeal acquired majority stake in a digital financial products distribution platform, RupeePower.
- In April 2015, Snapdeal acquired Freecharge, am-Commerce payments firm.
- In May 2015, Snapdeal acquired MartMobi, a Hyderabad-based mobile technology startup.

The Beginning of the fall



Source: "How Snapdeal went south" Report published by Redseer Consulting in April, 2017

After 2015, Snapdeal started losing its grip on the market and their downfall began.

While its counterparts understod the market trends and concentrated on growing categories such as consumer electronics, mobiles and fashion that dictate online retail, Snapdeal proved unsuccessfulindistinguishing itself meaningfully.

While Flipkart and Amazon both managed to launch new brands and products from mobile phone category by inking exclusive partnerships with new smartphone launches, Snapdeal kept itself out of this new trend and in return majority of people preferred Flipkart & Amazon over Snapdeal when it came to buying mobile phones. This was the first setback of Snapdeal.

Not only Snapdeal was left behind on the smartphone front but Amazon was promising better delivery options and better pricing than Snapdeal.

Snapdeal was also unable to leverage on the fast growing, high-margin, fashion segment as it was lacking behind in the level of quality and product assortment given by Flipkartand Amazon.

The entry of Amazon in the Indian E-commerce set up changed the market dynamics completely and compelled Snapdeal to change its business model yet again. Snapdeal then shifted to a controlled marketplace model with own warehouses which were called SD+ centres to ensure quality control. But here again company did not adopted a hybrid model like their competitors and thus failed at this front as well.

By 2016, Snapdeal began to take the heat of its short term strategies and heavy cash burn which compelled the company to focus on unit economics. This sudden shift in focus had an adverse impact on their marketing spend which in turn led to a flat growth.

Snapdeal's rapid fall from grace was completed with the end of its merger talks.

ControversiesThe Merger Controversy

VC Circle published an exclusive article in Aug 2016that speculated about merger talks of Snapdeal with its biggest competitor Flipkart. All these speculations proved to be true when news from various sources surfaced which stated that Softbank which is the biggest investor of Snapdeal wanted this merger to happen. The discussions regarding merger went on for a few months but ended in July 2017 due to following factors:

- All the investors could not agree upon the merger terms which was required by Flipkart.
- It is said that founders were not willing for the merger.
- Most of the stakeholders were not happy with the special payout provision for the earliest investors i.e. Nexus Venture partners and Kalaari Capital.
- Flipkart added many indemnity clauses to Snapdeal's financials which was again not well received by stakeholders.

It is believed that the merger did not happened because of non-willingness of Snapdeal's founders and their earliest investers i.e. Nexus Venture partners and Kalaari Capital.

The Labour Issues

With Snapdeal's losses skyrocketing, they had to take tough decisions regarding their manpower. This lead their employees to ask for intervention from Labour department in February 2016 claiming that Snapdeal is forcing their employees to resign. This matter too gained a lot of attention from the media and had an adverse impact on Snapdeal's brand image.

The Amir Khan Controversy

Amir Khan was chosen as brand ambassador for the brand in 2015, but in November 2015, Amir Khan made some comments about intolerance in India which received a lot of backlash from social media. The brand refrained from making any remarks about this controversy but said that it is in "personal capacity" of the actor. Though, following the steps of Indian tourism which replaced Amir Khan as brand ambassador of government's Incredible India tourism campaign, they too did not renewed their contract with the actor.

The Flaws in Working Model

The major setback for Snapdeal was that it opted for a conservative viewpoint while making investments for its processes. They wanted to do more in much less than their counterparts which is why they never owned any inventory till 2013. After 2013 they were forced to have inventory because of the competition Amazon and Flipkart put forward. Also they did not had any quality check in their process which did not helped as a lot of customers complaint about the quality of products they received. They started SD+ warehouse model but did not integrated them well to have a complete control over quality and processes.

Lacks Innovation

The company always adopted working models from successful companies. The approach implies selecting a model working exceptionally well in the foreign market and try to replicate it in India. This is a short ermapproach. A company lacking innovation cannot live up to their customer's expectations for long. Such companies end up putting massive amount of money in these business models and fail to provide good execution due to lack of understanding of the business model thoroughly. This approach may work well with countries like china where they have a secured market which does not allow foreign players and they know how to create perfect replicas but in an open economy like India where well established players with immense experience like Amazon, eBay etc. compete, it is almost impossible to stay in the competition without innovation.

The Reaction approach

It is evident from company's marketing as well as operational strategies that they always followed the reaction approach where they only reacted to what their competitors are doing. This ended up with Snapdeal being followers not leaders in online marketplace environment. Also while reacting, they failed miserably to execute these strategies properly.

Poor Execution

Poor execution of strategies was another roadblock for Snapdeal. It takes a lot of focus and experience to plan and execute strategies right from the beginning. Also snapdeal had a lot of investors which led to the condition where "too many cooks spoil the soup".

Costly Decisions

- The brand spent around 200 crore while rebranding itself, that too when the company finances were already draining. But all this effort was in vain due to lack of direction of the campaign.
- Too many acquisitions where company failed to capitalize them for long terms and ended up selling their digital payment platform FreeCharge to axis

bank for a decreased value of 60%. The acquisition of FreeCharge was the biggest acquisition at that time in the history of Indian Start-up Industry.

- Snapdeal failed to execute their omnichannel strategy which was believed to be a possible game changer as it could have helped customers in finding the product online and get it delivered faster due to local fulfilment of demand. It even promised demonstration, activation or return to the nearby dealer and one could order products in a short span of two hours but this model also failed due to internal clashes, inefficient implementation and strategic mismanagement. It also wasted 10 crore of the company's money.

No Differentiation or USP

While Amazon & Flipkart both have themselves differentiated over different categories, Snapdeal was failed to do so. Flipkart have an upper hand in consumer electronics and Amazon pantry is a unique proposition but Snapdeal never focused their efforts on developing a USP for the brand.

Lack of Democracy

Many high level officials came and went as Snapdeal completed a decade in Indian E-commerce industry. It is said that company lacks bonding and flat structure. According to a source, before company went down, the founders were drawing around 46 crore as annual salary. There was no secondary management team that could lead the company in absence of the founders. It is also said that they excluded their teams from all major decisions and had an autocratic environment in the company.

Too Late

It is also believed that late adopting to digital wallets and online payments through popular platforms was another setback for Snapdeal. It is always important to understand and predict the future pattern of the market and Snapdeal failed to do so, on many fronts.

SWOT Analysis

Strength:

- Lots of experience on the table with experienced investors.
- Have an established brand name in Indian E-commerce Industry
- The company is reviving with the volumes being doubled to over 45,000-50,000 from a dip of 20,000-25,000 in 2017 during its slowest period.
- Snapdeal already has a good market position with 300,000 sellers, 60+ million products and 6000+ cities according to their website.

Weakness:

- Autocratic Environment in the company.
- Internal issues between founders and investors.
- Technology led model might collapse if the logistics network is not trained constantly.
- Small time entrants entering into market share end up as competition.
- Cut throat competition from big rivals like Amazon and Flipkart might end up changing company's policies and work models.
- Customers are already finding Flipkart faster by a day or 2 due to its inventory based model.
- Strategic mismanagement & Execution loopholes.

Opportunity:

- Still time to differentiate and create USP into untapped categories of online retail.
- New partnerships & ventures
- New markets, more customers and penetration of internet provides ample opportunities.
- More focus on rural market.
- Creating Niche market.
- TIER I & TIER II cities have many untapped possibilities.

Threats

- Fierce competition
- Volatile market
- Brand name associated with some controversies in the past.
- With rise in FDI limit more new entrants may enter the market.

What Experts say

Ramesh Bhat who is a former professor at IIM Ahmedabad believes Snapdeal to be a typical example of short term approach. He adds "I think many of the e-commerce companies, Snapdeal in particular, were following a short-term approach without any clarity or vision, and without standing to their values. There is always a trade-off between maximizing gross merchandise value and costs; oscillating between the two always creates a distortion and if this continues for some time, it will create serious sustainability issues. Snapdeal was a victim of this oscillation."

Bhatadds "if a company has to reduce costs, one does not shut down a key driver of efficiency such as the closing of a warehouse where sellers have stocked their inventory. The cost and finance functions are deeply tied to operations and business, and thinking in a delinked manner will create serious issues. The management of assets seems to be an issue. Their warehousing policy and the acquisition of warehouses might not have generated a good return on investment leading to a short-term focus,"

Another expert Harish Bijoor who is a Brand Expert and Founder of Harish Bijoor Consults Inc. believes, "Snapdeal was all about a parripassu business model in a cluttered market where everyone was trying to eke out a living. The ones who survive are the ones who are deeply funded and those with a deep desire to be different. The ecommerce space is cluttered with me-too models that seem to want to please all, even at the cost of the basic metric of business called profit. When there are five big players offering the same set of products at literally the same prices, with literally the same degree for customer service at play, with logistics efficiencies being largely the same as well, there is little scope for brand play. Ecommerce in India denigrated to commodity play. And in a commodity play, the early burnouts are the ones who run out of funds early. Snapdeal was that early one. For now, expect more to follow."

KritikaSaxena who is the Deputy Chief of Bureau (Mumbai), CNBC-TV18,sums up the Snapdeal situation as "Snapdeal bit off more than it could chew. It expanded too aggressively and too fast. A lot of capital was invested in aggressive expansion without keeping in mind that investment must be linked to financial viability. That clubbed with the fact that the sector had too many players in the market and what Snapdeal had to offer didn't really stand out. Though, it started out with a very clever business proposition, they failed to reinvent to stay relevant in the face of their peers. They were competing with the likes of Amazon and Flipkart who were bigger and had more financial muscle. Snapdeal didn't have resources to be resilient and they were not able to realize that, and hit the pause and reset button," she states.

"Snapdeal was always in reaction mode rather than thinking proactively and trying to create the differentiation factor. If one examines their offer pattern, it will suggest that they always followed Flipkart or Amazon with no differentiation strategy. No company can sustain just by copying others. It would be interesting to find out why the investors assumed a passive role and not put a serious mentoring system in place to manage these frictions as it happens in most situations. There seems to be a bigger failure," Bhat further explains.

Saxena also speculates that the next phase in Indian E-commerce Industry would be consolidation, "It's a war of survival where the smaller ones can get eaten by the bigger ones if they are not watching. You will see only Amazon and Flipkart as the main players that are here to stay, armed with a war-chest of funds. All small ecommerce players will have to learn from Snapdeal's mistake. They need to be able to innovate and reinvent themselves. What this era will bring is aggressive competition, between Amazon and Flipkart and others that are trying to stay relevant."

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