

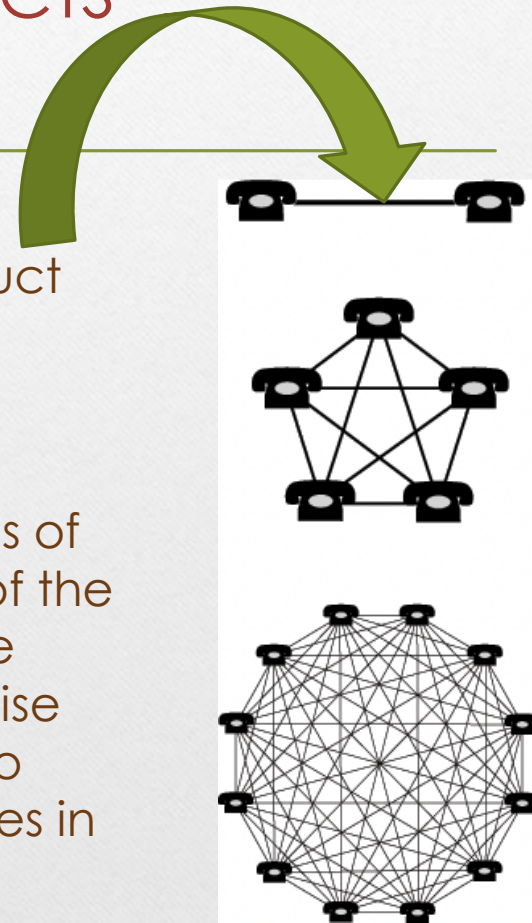
RELEVANT MARKETS  
MERGERS IN MULTI-SIDED MARKETS ONLINE  
PLATFORMS (FLIPKART/WALMART REVIEW)

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Competition Commission of India

# NETWORK EFFECTS

- **Direct Network Effects** - a kind of externality where value of the product changes with number of users e.g. telephone
- **Indirect Network Effects** are the basis of two-sided markets where one side of the market exerts an externality over the other side e.g. in a night club subsidise women to attract men – this leads to disconnect between costs and prices in each separate market





# NETWORK EFFECTS

CONTD.

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- Subsidise side where demand is more elastic and which generates externalities over the other side – means pricing decided by platform and so no bargaining (side-payments (between customers on each side))
  - Increasing size (scale) of network effects business
    - Costs fall with increasing scale (size)
    - Value to users increases (more people to call, connect with in bar etc.)
  - Could lead to dominance

# INDIRECT NETWORK EFFECTS - EXAMPLES

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- **Credit cards:** Two sides = merchants and card holders, Platform = payment system (2 banks) => « four-sided market
- **Operating systems:** Two sides = users and developers, platform = operating system
- **Media:** Two sides = readers and advertisers, platform = newspaper, search engine, TV channel
- **Search engines:** Three sides at least : internet users, content providers and advertisers

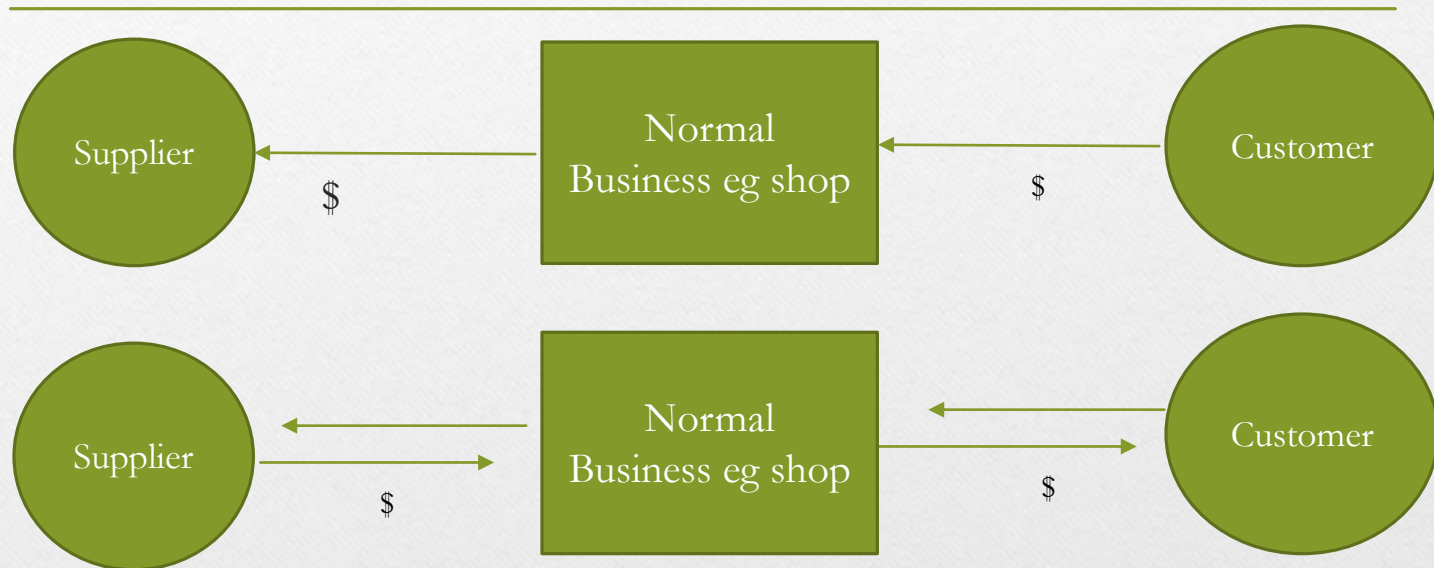


# TWO-SIDED MARKET OVERVIEW

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- Involves two distinct groups of consumers where a platform provides consumers of one group with access to the other group of consumers
- Indirect network effects (externalities) exist between those two groups so **the demand for platform services (eg. Amex, Grab etc.)** by one group of consumers depends on the demand of the other group of consumers
- The value that consumers of the good or service on one side of the market increases with the number of consumers on the other side of the market

# DIFFERENCE BETWEEN NORMAL MARKETS AND TWO-SIDED MARKETS



Two-sided markets or platforms provide each other  
With beneficial indirect network effects (positive externalities)



## ISSUES IN DEFINING MARKETS

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- Whether different sides of multi-sided platforms constitute same relevant market
- Approach to be taken in markets featuring indirect externalities

COMB. REG. NO. 2018/05/571

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**WAL-MART INTERNATIONAL HOLDINGS, INC.**

**AND**

**FLIPKART PRIVATE LIMITED**



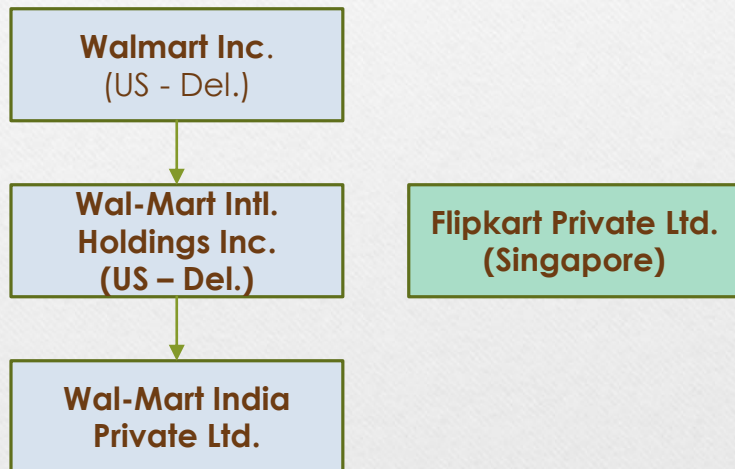
# Combination

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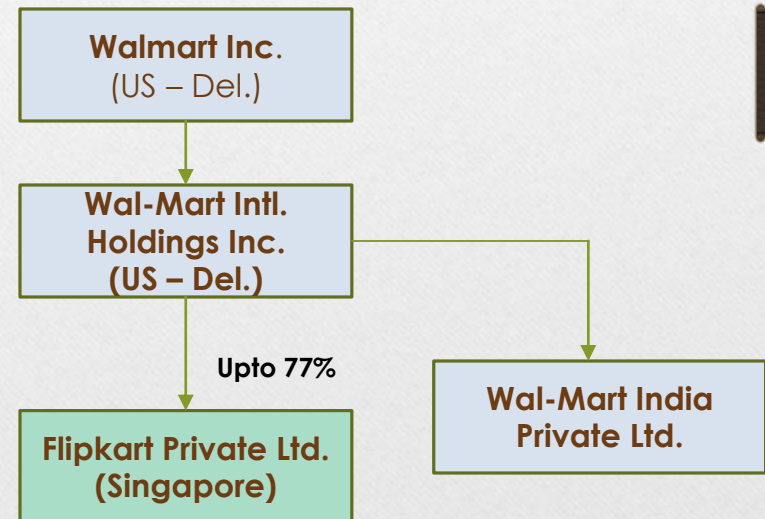
- The proposed combination relates to acquisition of (approximately 51%-77%)shareholding in Flipkart Private Limited by Wal-Mart International Holdings, Inc.
- Transaction documents (9 May 2018):
  - Share Issuance and acquisition agreement (**SIAA**) – USD 2 to 5 bn.; and
  - Share purchase agreement (**SPA**) – USD14 bn.

# DEAL STRUCTURE

## Pre-combination



## Post-combination





## SHAREHOLDING STRUCTURE OF FLIPKART, AT DIFFERENT STAGES OF THE DEAL

Shareholder	Initial ownership	Post SPA (%)	Post subscription by Wal-Mart (%)	Post – SB call option (%)
Softbank	20.5	20.3	18.5	0.0
Tiger	19.6	5.6	5.1	5.1
Naspers	11.5	0	0	0
Sachin Bansal	5	0	0	0
Binny Bansal	4.7	4.1	3.8	3.8
Accel	5.8	1.7	1.6	1.6
Ebay	5.6	5.5	5	5
Tencent	5.4	5.3	4.9	4.9
DST	2.6	0	0	0
INQ Holding	2.3	2.2	2	2
Iconiq	2.1	0	0	0
Microsoft	1.5	1.5	1.4	1.4
GIC	1.3	0	0	0
Sofina	1.2	0	0	0
ESOP	6.7	6.3	5.7	5.7
Others	4.3	0	0	0
<b>Total existing</b>	<b>100</b>	<b>52.7</b>	<b>47.9</b>	<b>29.5</b>
<b>WMT</b>	<b>0</b>	<b>47.3</b>	<b>52.1</b>	<b>70.5</b>

# NON-COMPETE OBLIGATION

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- Shareholders – So long as they hold certain level of shareholding (2-3%) plus 36 months
- KMP – So long as employed with Flipkart plus 18 months thereafter



# THRESHOLDS

## Assets and Turnover of the parties

Name of the Party	Assets		Turnover	
	In India (in INR Crs.) (in between)	Worldwide (in USD Mn.) (in between)	In India (in INR Crs.) (in between)	Worldwide (in USD Mn.) (in between)
WIH (Acquirer)	1,000-1,500	100,000-150,000	3,000-4,000	111,000-120,000
Flipkart (Target)	32,000-35,000	5,000-6,000	30,000-31,000	4,000-5,000
Total	33,000-35,000	100,000-150,000	33,000-35,000	110,000-120,000

# BUSINESS OF THE PARTIES

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- Walmart
  - B2B sales
- Flipkart
  - B2B sales
  - Online market place for B2C sales (Flipkart does not sell to end consumers)



# OVERLAP

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- Horizontal – B2B

*Cash & Carry Wholesale trading/Wholesale trading, would mean sale of goods/merchandise to retailers, industrial, commercial, institutional or other professional business users or to other wholesalers and related subordinated service providers. Wholesale trading would, accordingly, imply sales for the purpose of trade, business and profession, as opposed to sales for the purpose of personal consumption. The yardstick to determine whether the sale is wholesale or not would be the type of customers to whom the sale is made and not the size and volume of sales. Wholesale trading would include resale, processing and thereafter sale, bulk imports with ex-port/ex-bonded warehouse business sales and B2B e-Commerce.*

[ - FDI Policy 2017, DIPP ]

- Vertical – No overlap: FDI restriction on multi-brand retailing

## PROCUREMENT AND SALES OF PARTIES IN B2B MARKET FY 2016-17

No.	Product Category (Procurement)	FLIPKART	WALMART
		% of total	% of total
1.	Mobile	60-65	0-5
2.	Other Electronics	10-15	5-10
3.	Lifestyle	20-25	15-20
4.	Home furnishing	0-5	0-5
5.	Books	0-5	0-5
6.	Toys	0-5	0-5
7.	Grocery	Nil	50-55
8.	Others	2-5	20-25

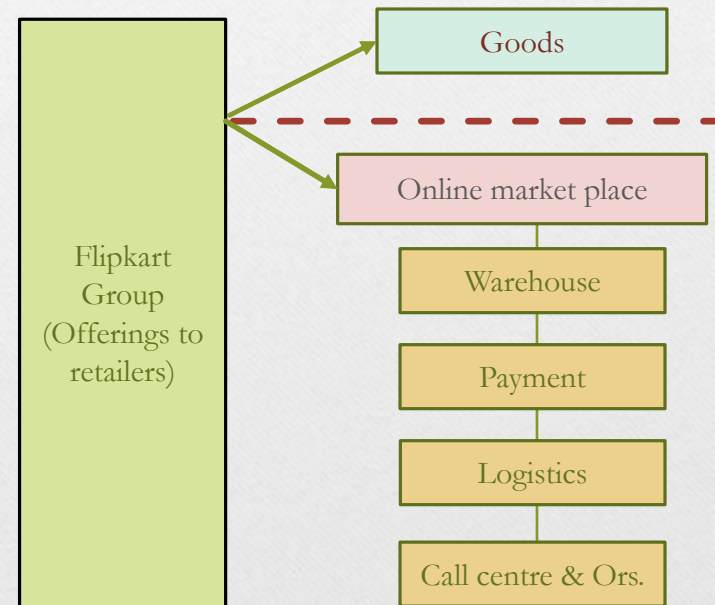
No.	Product Category (Sales)	FLIPKART	WALMART
		% of total	% of total
1.	Mobile	65-70	0-5
2.	Other Electronics	10-15	5-10
3.	Lifestyle	15-20	15-20
4.	Home furnishing	0-5	0-5
5.	Books	0-5	0-5
6.	Toys	0-5	0-5
7.	Grocery	0-5	50-55
8.	Others	0-5	20-25

Others include laundry, cleaning, aircare, electronic batteries, pest control, pet care, office supplies, houseware, furniture, paper goods and disposable, luggage and bags and tobacco.



# POTENTIAL ISSUE

- Combined entity's Economic Control over goods sold in online platform
- Facilitating regulatory architecture:
  - B2B allowed with B2C retailers
  - B2B WT entity could offer the following to the retailers
    - online market place (B2C platform)
    - Warehousing
    - Logistics
    - Payment
    - call centre & Other services
- Effect: Except legal title after B2B sales, WT entity that also, directly or indirectly, offers e-commerce platform could control the entire supply chain i.e. since procurement till delivery of goods to consumers (& even post sale issues).



# POTENTIAL COMPETITION HARM

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- Flipkart the leading online market place in India with around 50-60 % market share
- Aggressive pricing by resultant entity in B2B segment to boost sales in Online Market Place - likely to affect level playing field (Online and offline)
- Synergies of an efficient platform v. premature exclusion of less efficient alternatives
- Likely changes to retailing culture in several product categories
- B2B entity operating a dominant online platform likely to raise monopsony concerns



FLIPKART INDIA PRIVATE LIMITED V. ASSISTANT COMMISSIONER OF INCOME-TAX  
ITA NO.693 /BANG/2018 (ASST. YEAR - 2015-16)  
25<sup>TH</sup> APRIL, 2018

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52.....On sale to the retailers the Assessee [Flipkart] incurs loss. The case of the AO is that a wholesale trader normally sells his products at cost + his mark-up (margin) + indirect costs incurred in the business of wholesale trading. **The plea of the Assessee is that E-commerce was at a nascent stage and therefore to attract customers to purchase goods through E-Commerce, the only way was to offer goods at a lesser price than what the retailers in physical market in show room offer (referred to as retailers in brick and mortar). The further plea of the Assessee was that by offering goods at a lesser price, the Assessee in the long run will capture a huge market and generate profits in the long run.** According to the AO the strategy of selling goods at lower than cost price was to establish customer goodwill and brand value in the long run and reap benefits in the later years.

- Judicial notice of the fact that Flipkart is discounting in B2B segment to boost sales in e-commerce platform for B2C
- Admission of economic links between B2B business and e-commerce platform.

## B2B DISCOUNTS VS. B2C SALES

(INR Cr.)

Description	FY 13 -14	FY 14 -15	FY 15 -16	FY 16 -17	FY 17 -18
Discounts	200-300	900-1000	500-600	700-800	1,000-2,000
GMV of all sellers on Flipkart Marketplace Platforms	4,000-5,000	15,000-16,000	26,000-27,000	32,000-33,000	49,000-50,000
Revenue earned by Flipkart Marketplace Platform Entities	100-200	600-700	1,000-2,000	2,000-3,000	3,000-4,000



# COMMON CUSTOMERS (B2B & MARKETPLACE)

## COMMON CUSTOMERS (Flipkart B2B & Marketplaces)

Period	Common customers as % in total sellers in Flipkart market place
As on March 2016	<1%
As on March 2017	<1%
As on March 2018	<1%

## Revenues in Marketplace (in INR Cr.)

Description	FY 15 -16	FY 16 -17	FY 17 -18
Revenue earned by common customers on Flipkart Marketplace Platforms as % on the total GMV recorder	60-65%	75-80%	80-85%

# COMMON CUSTOMERS (B2B & MARKETPLACE)

## Value of Commission from common customers

Description	FY 15 -16	FY 16 -17	FY 17 -18
Value of Commission earned by Flipkart Marketplace Platform Entities from Common Customers (%)	20-25%	25-30%	<b>40-45%</b>
Value of Commission earned by Flipkart Marketplace Platform Entities from other Customers (%)	75-80%	70-75%	<b>65-70%</b>

## Quantum of discounts offered to common customers

Description	FY 15 -16	FY 16 -17	FY 17 -18
Quantum of discounts offered to common customers by Flipkart Marketplace Platforms	500-600	600-700	500-600
Quantum of discounts offered to common customers by Flipkart B2B Entities	500-600	700-800	1,000-2,000



# COMMON CUSTOMERS (B2B & MARKETPLACE)

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## Quantum of discounts offered to common customers

Description	FY 15 -16	FY 16 -17	FY 17 -18
Quantum of discounts offered to common customers by Flipkart B2B Entities	500-600	700-600	1,000-2,000
Total discounts in Flipkart B2B Entities	500-600	700-600	1,000-2,000

# INFERENCES

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- Preferential treatment to B2B sellers in online market place:
  - 80-85% sales in online marketplaces by common customers
  - Common customers – <1% of all registered customers
  - Common customers contribute only 40-45% of revenues in market place
  - Almost all discounts in B2B segment were to common customers.
- Leveraging/ entry barrier
- Undue advantage to common customers of B2B and online marketplace segments



## CCI FINAL DECISION

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- Concerns relating to probable vertical restraints are not specific to the combination
- Concerns were industry practice and were partly within the domain of DIPP
- Markets were left open

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THANK YOU !