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# CASE 6.3 AMAZON AND FUTURE GROUP: RETHINKING THE ALLIANCE STRATEGY[1]



In 2014, Kishore Biyani, founder and chief executive officer (CEO) of Future Group, and Jeff Bezos, founder and CEO of Amazon, led their two companies in a business alliance: Amazon would sell Future Group's clothing brands and eventually retail other categories of goods for Future Group. The alliance started on an optimistic note, but by early 2016, the alliance partners were in conflict over discounts and who would bear the burden of those costs. Could the partners find a way to resolve the conflict or was it time for the companies to be independent again? Was the alliance continuing to deliver value for the companies?

## The Global Retail Industry

The global retail industry had grown steadily from US$21.189 trillion in 2013 to $25.366 trillion in 2016, and was expected to reach $28.300 trillion in 2018.[2] Worldwide retail e-commerce sales had also grown. As a percentage of total retail sales, retail e-commerce sales grew from 5.1 per cent in 2013 ($1.077 trillion) to 5.9 per cent ($1.316 trillion) in 2014, 6.7 per cent ($1.592 trillion) in 2015 and 7.4 per cent in 2016 ($1.888 trillion). They were expected to reach 8.8 per cent ($2.489 trillion) in 2018. Interestingly, although a majority of American consumers were purchasing online, more than $10 out of every $11 were still spent in stores. In comparison, China and the United Kingdom, the other largest retail e-commerce markets, had much higher proportions of online to total retail sales (see Exhibit 1).

## The Indian Retail Industry

By 2000, the retail sector had emerged in India as one of the largest sectors in the country's economy, registering a Compound Annual Growth Rate (CAGR) of 7.45 per cent. By 2014, the retail

[1] This case has been written on the basis of published sources. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Future Group or Amazon or any of their employees.

[2] All currency amounts are in USD or INR unless otherwise specified; ₹ = INR = Indian rupee; US$1 = ₹66.235 on January 1, 2016.

**Exhibit 1**
**E-Commerce Sales as a Percentage of Total Retail Sales**

| | 2013 | 2014 | 2015 | 2016* | 2017* | 2018* |
|---|---|---|---|---|---|---|
| United Kingdom | 11.6 | 13.0 | 14.4 | 15.6 | 16.9 | 18.0 |
| China | 8.3 | 10.1 | 12.0 | 13.8 | 15.5 | 16.6 |
| United States | 5.8 | 6.5 | 7.1 | 7.7 | 8.3 | 8.9 |
| Brazil | 3.4 | 3.8 | 4.1 | 4.4 | 4.6 | 4.8 |
| Russia | 2.0 | 2.2 | 2.4 | 2.6 | 2.8 | 3.0 |
| Spain | 3.6 | 4.1 | 4.8 | 5.4 | 6.0 | 6.5 |
| India | 0.6 | 0.7 | 0.9 | 1.1 | 1.3 | 1.4 |
| Indonesia | 0.5 | 0.6 | 0.8 | 1.0 | 1.2 | 1.4 |

*Note*: *The forecast is from September 2014.
*Source*: "Retail Sales Worldwide Will Top $22 Trillion This Year E-Commerce Eclipses $1.3 Trillion, Led by China and U.S.," eMarketer, December 23, 2014, accessed March 15, 2016, www.emarketer.com/Article/Retail-Sales-Worldwide-Will-Top-22-Trillion-This-Year/1011765.

sector had been showing a CAGR of about 15 per cent over the previous five years–a growth that exceeded the overall growth in India's gross domestic product during the same period.[3] As an industry, Indian retail grew from $204 billion in 2000 to $600 billion in 2015, and was expected to reach $1.3 trillion by 2020.[4] Retailing in India accounted for about 10 per cent of the country's gross domestic product and 8 per cent of employment.[5] Almost all of the retail business came from a fragmented, unorganized sector of individual and family-owned businesses.[6] The organized sector that accounted for 8 per cent of the market in 2015 was expected to account for 24 per cent of the overall retail market by 2020.

The Indian retail industry was attractive to investors, but Indian rules restricted foreign retailers' ability to sell directly to Indian consumers or invest on their own in a retail business.[7] Under its foreign direct investment policy, the government approved foreign direct investment of up to 51 per cent in multi-brand retail and up to 100 per cent in single-brand retail. However, both multi- and single-brand retailers had to source 30 per cent of their goods from Indian suppliers.[8]

Growth in organized retail was driven by, among other factors, a healthy growth in the Indian economy, changing demographic profiles, increased disposable incomes, and changes in the tastes and preferences of consumers.[9] The number of millennials were increasing, and it was expected that they would make up more than half of India's population by 2025. Shoppers increasingly depended on technology for consumption. In 2015, India had the third largest number of Internet users in the world (after China

[3] KPMG, Indian Retail: The Next Growth Story, 2014, 2, accessed March 15, 2016, www.kpmg.com/IN/en/IssuesAndInsights/ArticlesPublications/Documents/BBG-Retail.pdf.

[4] "Indian Retail Industry Analysis," India Brand Equity Foundation, January 2016, accessed March 15, 2016, www.ibef.org/industry/indian-retail-industry-analysis-presentation.

[5] "Retailing Sector Analysis Report," India Brand Equity Foundation, January 2016, accessed March 15, 2016, www.equitymaster.com/research-it/sector-info/retail/Retailing-Sector-Analysis-Report.asp.

[6] KPMG, op. cit.

[7] "Amazon India and Future Group Tie the Knot to Sell Fashion Online," Fashion United, October 13, 2014, accessed March 5, 2016, www.fashionunited.in/news/fashion/amazon-india-and-future-group-tie-the-know-to-sell-fashion-online-131020147656.

[8] "Indian Retail Industry Analysis," op. cit.

[9] Ibid.

and the United States), and was similarly ranked in penetration of smartphones.[10] Economic forecasters predicted that by 2020, India would be a $3 trillion economy with 5.8 per cent of global spending happening in the country–a significant increase from 2.6 per cent in 2015.[11] Anil Agarwal, then managing director of Amazon India, observed, "Everything is nascent in India–the seller ecosystem, the logistics, the payments. . . . We have to connect the dots on a massive scale that involves hundreds of cities, thousands of sellers, and millions of products."[12]

Even though the online retail industry in India occupied only about 2 per cent of the country's overall retail industry, online retailing was growing quickly, from less than $500 million in 2009 to about $5 billion in 2014.[13] According to a report by the consulting firm Technopak, the overall retail industry was expected to double by 2020. The online retailing market represented an increasing portion of that growth; the $2.3 billion online retail market in 2014 was expected to be $32 billion by 2020, an increase from 2 per cent to 3 per cent of the Indian retail sector.[14]

Growing Internet penetration, aggressive pricing strategies, and e-commerce companies with resources of investor cash spurred the growth. Young companies like Flipkart and Snapdeal dominated general e-commerce, and Myntra and Jabong dominated in apparels.[15] In FY2014/15, online retailers collectively captured $6 billion of the $40 billion organized retail market (excluding *kirana* or small neighbourhood stores). Regular retail stores were on the decline as evidenced by sales figures during the festival season in October to November 2014; visits at most of the bricks and mortar stores fell by 12 per cent.[16]

The growing energy around online retail was also reflected in the valuations of online retail companies (see Exhibit 2). At the end of 2014, India's biggest online retailer, Flipkart, was valued at $11 billion (₹700 billion) while Future Group's three listed companies were collectively valued at $1.2 billion (₹80 billion). The online retailer, Snapdeal, then just five years old, was already valued at $1.85 billion (about ₹117 billion), and after a round of fundraising in 2015, was valued at $4.9 billion (about ₹330 billion).[17]

Heavy discounting was leading to increased level of conflict between the online and offline retailers. Traditional retailers that were being hit by aggressive pricing or undercutting protested Flipkart's Big Billion Day Sale held on October 6, 2014. Flipkart promised to hold "the greatest sale ever in the history of our nation" on that day.[18] The government responded to retailers'

[10] "2BConsumers Worldwide to Get Smartphones by 2016," eMarketer, December 11, 2014, accessed March 23, 2016, www.emarketer.com/Article/2-Billion-Consumers-Worldwide-Smartphones-by-2016/1011694.

[11] Ajita Shashidhar and Nevin John, "The Rebirth of Kishore Biyani," *Business Today*, June 7, 2015, accessed March 22, 2016, www.businesstoday.in/magazine/cover-story/kishore-biyani-strategy-turnaround-future-group-bharti-retail/story/219409.html financials.

[12] Saritha Rai, "Amit Agarwal Leads Amazon India as Online Retail is Taking Off," *Forbes*, June 4, 2015, accessed June 13, 2016, www.forbes.com/sites/saritharai/2015/06/04/primed-for-battle/#35139af91c0e.

[13] "Why the Future Group–Amazon Tie-Up is a Win-Win for Both," Money Control, October 14, 2014, accessed March 5, 2016, www.moneycontrol.com/news/business/whyfuture-group-amazon-tie-up-iswin-win-for-both_1202970.html.

[14] Sagar Malviya, "Amazon and Future Group Ink Deal to Sell Goods Online; Starting With Apparel," *Economic Times*, October 13, 2014, accessed June 13, 2016, http://articles.economictimes.indiatimes.com/2014–10–13/news/54970694_1_bangalore-based-flipkart-and-snapdeal-future-group-kishore-biyani.

[15] "Why the Future Group–Amazon Tie-Up is a Win-Win for Both," Money Control, October 14, 2014, accessed March 5, 2016, www.moneycontrol.com/news/business/whyfuture-group-amazon-tie-up-iswin-win-for-both_1202970.html.

[16] Shashidhar and John, op. cit.

[17] Shashidhar and John, op. cit.; T. E. Narasimhan, "Snapdeal, Flipkart Top Valuation Growth League Table in 2015," *Business Standard*, January 7, 2016, accessed June 13, 2016, www.business-standard.com/article/companies/snapdeal-flipkart-top-valuation-growth-league-table-in-2015-116010700020_1.html.

[18] Alok Soni, "How Big Was the Big Billion Day?," Your Story, October 6, 2014, accessed June 13, 2016, http://yourstory.com/2014/10/flipkart-big-billion-day.

**Exhibit 2**
**Comparison of Large E-Commerce Retailers**

| Portal | Valuation | Gross Merchandise Value | Number of Items Stocked |
|---|---|---|---|
| Flipkart | $11 billion | $4 billion | 20 million |
| Snapdeal | $1.85 billion | $3 billion | 10 million |
| Amazon | $200 billion (market capitalization) | $1 billion | 19 million |

*Source:* Ajita Shashidhar and Nevin John, "The Rebirth of Kishore Biyani," *Business Today*, June 7, 2015, accessed March 22, 2016, www.businesstoday.in/magazine/cover-story/kishore-biyani-strategy-turnaround-future-group-bharti-retail/story/219409.html financials.

complaints by saying that the e-commerce policy would be reviewed.[19] Amazon, in response, offered Diwali sales but did not offer the kind of heavy discounts that Flipkart and Snapdeal offered.[20]

With the popularity of e-commerce, traditional, brick-and-mortar retailers had to change their approach to business by partnering with e-commerce entities in order to grow and survive. One of the major retailers, Cromā, owned by the Tata group, entered into an alliance with Snapdeal.[21] Just three companies in the offline retail market–Aditya Birla's Madura Fashion and Lifestyle, Arvind Lifestyle Brands, and Future Group–owned or sold more than two dozen brands each, thus qualifying to be a preferred partner for an online retailer (see Exhibit 3).[22]

Successful and faster delivery of products was the key to success for most of the e-commerce sector. Companies were trying to make their delivery networks increasingly efficient. Flipkart and Amazon had delivery networks: eKart Logistics and Amazon Transportation Solutions. Snapdeal acquired a stake in GoJavas; acquired an online order management start-up, Unicommerce; and made an investment of $3.7 million (₹250 million) in its own wholly-owned logistics unit, Vulcan Express.[23]

The battle in the Indian e-commerce industry was expected to intensify. Amazon's main rivals in India–Bangalore-based Flipkart and Delhi-based Snapdeal–sold goods worth more than $4 billion in 2014, with Flipkart alone estimated to have grossed $2 billion. Industry experts believed that the Indian e-commerce sector would undergo a spate of consolidation with smaller companies lacking the ability to sustain competition against a company like Amazon. Flipkart's acquisition of online fashion retailer Myntra in May 2014 set the trend.[24]

## Amazon

Amazon.com, an e-commerce company, was incorporated in 1996. The company, operating

[19] Malviya, op. cit.

[20] Nivedita Bhattacharjee, "Biyani's Future Group Ties Up with Amazon India," ed. Stephen Coates, Reuters, October 13, 2014, accessed March 5, 2016, http://in.reuters.com/article/future-retail-amazon-idINKCN0I206E20141013.

[21] "Future Group, Amazon India Announce Strategic E-Commerce Alliance," *Business Standard*, October 14, 2014, accessed March 5, 2016, www.business-standard.com/article/reuters/future-retail-amazon-in-enter-into-strategic-partnership-114101300146_1.html.

[22] Malviya, op. cit.

[23] "Flipkart and Amazon Eyeing to Buy Stake in Biyani's Future Supply Chain Solutions," Inc42, April 9, 2015, accessed March 22, 2016, http://inc42.com/buzz/flipkart-amazon-eyeing-to-buy-stake-in-biyanis-future-supply-chain-solutions.

[24] "Amazon Future Group Deal Spurs E-tail Competition," CXO Today, October 13, 2014, accessed March 5, 2016, www.cxotoday.com/story/amazon-future-group-deal-spurs-e-commerce-competition.

**Exhibit 3**
**Comparison of Large Offline Retailers**

| Name | Number of Stores | Size (million square feet) | Formats | FY2013/14 ($ millions) | | FY2012/13 ($ millions) | |
|---|---|---|---|---|---|---|---|
| Reliance Retail | 2,621 | 12.5 | Value, hypermarket, digital, fashion, etc. | Revenue<br>PBDIT<br>PAT | 190.41<br>9.78<br>4.08 | Revenue<br>PBDIT<br>PAT | 136.89<br>2.18<br>(2.03) |
| Aditya Birla Retail | 2,371 | 7.1 | Fashion, supermarket, hypermarket | Revenue<br>PBDIT<br>PAT | 110.97<br>3.53<br>NA | Revenue<br>PBDIT<br>PAT | 73.86<br>1.98<br>NA |
| Shoppers Stop | 340 | 4.1 | Fashion and lifestyle, hypermarket, furniture and home décor, consumer brands, books, airport duty-free, games | Revenue<br>PBDIT<br>PAT | 43.10<br>2.79<br>0.56 | Revenue<br>PBDIT<br>PAT | 35.91<br>2.4<br>0.59 |

*Note:* "PBDIT" = profit before depreciation, interest, and taxes; "PAT" = profit after tax; US$1 = ₹66.235 on January 1, 2016; Ajita Shashidhar and Nevin John, "The Rebirth of Kishore Biyani," *Business Today*, June 7, 2015, accessed March 22, 2016, www.businesstoday.in/magazine/cover-story/kishore-biyani-strategy-turnaround-future-group-bharti-retail/story/219409.html financials.

in North America and internationally, offered a range of products and services through its websites.[25] Amazon's quarterly growth in international sales came down from 20 per cent in 2013 to 12 per cent in the second quarter of 2014 and then to 3 per cent in the second quarter of 2015.[26] In the United States over the past decade, Amazon entered into alliances with retailers such as Target Corporation (Target) and Toys R Us. After Target gained scale and attracted other large brands, the relationship with Amazon soured.[27] In November 2015, Amazon expanded beyond e-commerce to open its first physical bookstore in Seattle; it planned to open as many as 400 more.[28]

Amazon started its e-commerce operations in India in 2013 with its marketplace Amazon.in, selling in just two product categories: books and movies. It was quickly a major competitor for the top position in the country's growing e-commerce market.[29] In July 2014, within one year of its launch in India, Amazon announced that it would spend $2 billion on its Indian operations. The investment exceeded its gross merchandise sales in India of more than $1 billion.[30] In order to extend its reach and delivery speed,

[25] "Amazon.com Inc.," Reuters, http://in.reuters.com/finance/stocks/companyProfile?symbol=AMZN.O, accessed March 23, 2016.
[26] Jillian D'Onfro, "Amazon's Next Big Challenge: Winning India," *Business Insider*, July 24, 2015, accessed June 13, 2016, www.businessinsider.com/amazon-growth-in-india-2015-7.
[27] Malviya, op. cit.
[28] Greg Bensinger, "Amazon Plans Hundreds of Brick-and-Mortar Bookstores, Mall CEO Says," *Wall Street Journal*, February 2, 2016, accessed March 23, 2016, www.wsj.com/articles/amazon-plans-hundreds-of-brick-and-mortar-bookstores-mall-ceo-says-1454449475.
[29] "Future Group, Amazon India Announce Strategic E-Commerce Alliance," op. cit.
[30] Malviya, op. cit.

Amazon built two centres, one in Bangalore and the other in Bhiwadi on the outskirts of Mumbai.[31]

Sellers joined Amazon from all over India. In 2015, the number of sellers joining Amazon was two times more than those that joined in 2014. But the number of orders received by sellers in 2015 was three times the number of orders received in 2014, with sellers' total business increasing in the same period by $150,000 (₹10 million). The number of sellers using fulfillment centres–inventory storage space–increased by three times, with 86 per cent of those using the fulfillment centres increasing their sales volume. The storage space provided to sellers increased from 28,000 square metres in 2014 to 765,000 square metres in 2015.[32]

Amazon's logistics innovation for the Indian market, EasyShip, was paying off. Amazon picked up products from suppliers' outlets and distributed them to customers using its logistics services. The number of sellers using EasyShip increased three times, and the sellers using Amazon's Easy Ship increased their sales by 40 per cent. In response, Amazon increased the shipping service from covering 2,000 postal codes in 2014 to covering 20,000 postal codes in 2015 (see Exhibit 4).

## Future Group

Future Group was controlled by Biyani, known in India as the man who introduced large scale retail to the country.[33] Central, Big Bazaar, Foodhall, Planet Sports, Brand Factory, Home Town, and eZone were some of India's most favourite retail chains operated by Future Group. The company had more than 75 of its own brands that earned the Group at least 15 per cent higher margins on average compared to other national brands.[34] The Group operated approximately 480,000 square metres (17 million square feet) of retail space in 98 urban, and 40 rural locations. Approximately 30,000 small, medium, and large enterprises were connected to its retail formats and about 300 million customers yearly visited them.[35] The company had 140,000 stock units across India.[36] See Exhibit 5 for Future enterprises financials.

The core value of the Group was "Indianness." Future Group believed in building a strong understanding of Indian consumers, and built its business based on Indian ideas. The Group's corporate principle was "Rewrite rules, retain values."[37] Future Group claimed to have a well-developed and well-equipped logistics system.[38] In addition to its own logistics chain, the Group also had a third-party logistics arrangement that it planned to leverage for its omni-channel strategy.[39]

In September 2014, Future Group entered into a collaboration with SAP Hybris, an e-commerce service, for an omni-channel retail strategy that would allow the Group to converge its digital and physical channels. According to Rakesh Biyani, the joint managing director at Future Retail, "The overall investment in this [business to consumer]

[31] Raghavendra Kamath, "Amazon Builds India Business Quietly," *Business Standard*, April 4, 2014, accessed March 23, 2016, www.business-standard.com/article/companies/amazon-builds-india-business-quietly-114040300984_1.html.

[32] Rasul Bailay and Chaitali Chakravartyl, "Amazon and Future Group Partnership on Rocks Over Funding of Discounts," *Times of India*, January 13, 2016, accessed March 5, 2016, http://timesofindia.indiatimes.com/tech/tech-news/Amazon-and-Future-Group-partnership-on-rocks-over-funding-of-discounts/articleshow/50557364.cms.

[33] Nivedita Bhattacharjee, op. cit.

[34] Malviya, op. cit.

[35] "Future Group, Amazon India Announce Strategic E-Commerce Alliance," op. cit.

[36] "Future Group Ties Up with Hybris for Online Synergy," *Business Standard*, September 3, 2014, accessed March 16, 2016, www.business-standard.com/article/companies/future-group-in-pact-with-sap-company-hybris-for-omni-channel-technology-114090301134_1.html.

[37] Bhattacharjee, op. cit.

[38] "Future Group Ties Up with Hybris for Online Synergy," op. cit.

[39] The omni-channel retail strategy allowed customers to view products online, check store inventory and location, order the product to be delivered, or reserve the product for pickup at the nearest store. The strategy required significant inter-departmental cooperation from supply chain management, suppliers, stores, merchandising, logistics, and technology.

**Exhibit 4**
**Amazon.com Financials**

**Annual Income Statement (excerpts), in US$ thousands**

| Period Ending December 31 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| Total Revenue | 61,093 | 74,452 | 88,988 | 107,006 |
| Cost of Revenue | 45,971 | 54,181 | 62,752 | 71,651 |
| Gross Profit | 15,122 | 20,271 | 26,236 | 35,355 |
| Sales, General & Administrative Expenses | 14,446 | 19,526 | 26,058 | 33,122 |
| Operating Income | 676 | 745 | 178 | 2,233 |
| Earnings Before Interest & Tax | 636 | 647 | 99 | 2,027 |
| Net Income | (39) | 274 | (241) | 596 |

**Balance Sheet (excerpts), in US$ thousands**

| Period Ending December 31 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| Total Current Assets | 21,296 | 24,625 | 31,327 | 36,474 |
| Long Term Assets (including fixed assets and goodwill) | 32,555 | 40,159 | 54,505 | 65,444 |
| Total Current Liabilities | 19,002 | 22,980 | 28,089 | 33,899 |
| Total Liabilities | 24,363 | 30,413 | 43,764 | 52,060 |
| Total Equity | 32,555 | 40,159 | 54,505 | 65,444 |

*Source:* "AMZN Company Financials," Nasdaq, accessed March 31, 2016, www.nasdaq.com/symbol/amzn/financials?query=income-statement.

enabler (typically an e-commerce platform) is about ₹1 billion and is spread over the next 18 months. . . . This kind of omni-channel retail will change the way we interact and serve the customer."

Future Group had earlier launched the Big Bazaar Direct portal that allowed online purchasing of products, but failed in that initiative. It was planned to make the initiative part of the omni-channel strategy.[40] As part of the omni-channel strategy, Ezone, Future Group's electronic format, was expected to be the first to be available online. It would be followed by Foodhall and Big Bazaar, the food and hypermarket retail chains, respectively.

The omni-channel strategy became apparent as a promising alternative for the corporate retail chains that had been losing sales to online retailers who had already captured around 15 per cent of the retail market world-wide.[41] Govind Shrikhande, managing director of Shoppers Stop–another big player in the retail industry–argued for the importance of offline retailers in an omni-channel shopping experience:

> A pure online player can never be an omni-channel retailer as they don't have a physical presence. A customer can go into a physical store, shop the physical store merchandise, and they can also use a kiosk or an iPad within the store to order online in the store, get it delivered in the same store next day, or get it delivered to their home or any other place.[42]

[40] "Future Group Ties Up with Hybris for Online Synergy," op. cit.

[41] Shashidhar and John, op. cit.

[42] Ibid.

Over the next 18 months, Future Group aimed to earn approximately 20 per cent of revenue from online sales and around 40 per cent by 2020."[43]

Biyani's negotiations with Flipkart to jointly sell goods stretched over 20 days, then collapsed in October 2014. According to media sources, Future Group wanted a fee of $10 million for giving sole, online retail rights–a price that Flipkart found excessive. Flipkart maintained that it did not pay for exclusive rights to retail products. Instead, Flipkart wanted Future Group to pay a commission on every sale on its platform. Future Group would have preferred a lower commission fee. A person involved in the talks said, "There was no warmth between the two parties." Another source said, "The Flipkart team felt the terms were onerous."[44]

Biyani was not in favour of marketplace models used by companies such as Amazon, Flip-Kart, and Snapdeal. He strongly believed their models were "front-end retailing with smart accounting to dodge Indian laws that bar overseas investment in these ventures."[45] Biyani accused online marketplaces of trying to destroy competition by selling products below manufacturing costs. He pointed out that online retailers were spending huge sums on advertising and customer acquisition. Biyani maintained, "Just because [online retailers] have foreign funding, they can't kill local trade like that."[46]

## The Amazon–Future Group Deal

In October 2014, Biyani and Bezos met to finalize a deal to sell brands from Future Group's portfolio on Amazon's marketplace in India. Amazon would be the exclusive online platform for the brands.[47] Fulfillment of orders and customer service of the products on its portal would be handled by Amazon.[48]

To provide visibility of its brands on Amazon.in, Future Group entered into an exclusive marketing arrangement with Amazon. Cloudtail, a 49:51 joint venture between Amazon and the Indian investment firm Catamaran Ventures, would sell brands owned by or licensed to Future Group, including Lee Coopers, Converse, Indigo Nation, Scullers, Jealous 21, and 40 other private label brands owned by Future Group. The products would be offered to customers at a discount of 30 per cent to 40 per cent.[49] Following the deal, more than 40 brands owned by Future Group were to be removed from other online marketplaces where they were presently being sold.[50] While the deal involved fashion and food labels first, Amazon was expected to pick up other categories from Future Group's portfolio in the future.[51]

The deal was meant to be an arrangement built on customer service. Biyani's strategy for Future Group retail was to know and cater to Indian consumers, "The bottom line in each of our retail success stories is 'know your customer.' Insights into the soul of Indian consumers–how they operate, think, dream, and live–helps us innovate and create functionally differentiating products and experiences."[52]

Biyani saw Amazon as an opportunity to extend that strategy to customers in about 19,000 postal codes in India served by Amazon, "Partnership with Amazon, which obsesses to be Earth's most customer-centric company, will enable us to leverage their strengths,

[43] Malviya, op. cit.

[44] Radhika P. Nair, "How Flipkart's Cold Response Sealed Future Group and Amazon's Deal," ETRetail.com, October 14, 2014, accessed March 5, 2016, http://jetairways.globallinker.com/bizforum/news/how-flipkart-039-s-cold-response-sealed-future-group-and-amazon-039-s-deal/13440805?indid=0.

[45] Bailay and Chakravarty, op. cit.

[46] Vikas SN, "One Week After Dissing E-Tailers, Future Group Ties Up with Amazon," Medianama, October 13, 2014, accessed March 5, 2016, www.medianama.com/2014/10/223-future-group-amazon.

[47] Bailay and Chakravarty, op. cit. [48] Malviya, op. cit.

[49] Bailay and Chakravarty, op. cit.; Bhattacharjee, op. cit.

[50] Malviya, op. cit.

[51] "Future Group, Amazon India Announce Strategic E-Commerce Alliance," op. cit.

[52] Amazon.in, "Amazon.in and Future Group Enter Into a Strategic Partnership," press release, October 13, 2014, accessed March 5, 2016, www.amazon.in/b?ie=UTF8&node=8520579031.

investments, and innovations in technology to reach out to a wider set of consumers across India."[53]

Biyani's goals for the deal were considerable: "We are targeting gross merchandise sales of ₹60 billion in the next three years through the alliance."[54]

For Amazon, the partnership was an important growth opportunity in the Indian retail industry. Future Group helped to provide Amazon with the Indian sources it needed under India's foreign direct-investment policy. The partnership was also expected to be a crucial step for Amazon's growth in the much sought after fashion category. Because of high margins and growing demand, fashion was the focus category for most of the e-commerce retailers. Flipkart and Snapdeal were leading in terms of product assortment and number of sellers and brands, and Flipkart, Myntra, and Jabong had their own private labels in India, which Amazon did not have.[55]

Amazon acknowledged the strategic partnership with Future Group. Amit Agrawal, vice-president and country manager for Amazon India reported:

> We are excited to collaborate, leverage each other's unique strengths, and serve customers across India. The product portfolio of Future Group, their innate understanding of the Indian consumer mindset, and our ability to serve and deliver a convenient, easy, trusted, and reliable delivery experience to a nationwide set of customers is a win-win for all.[56]

The Amazon–Future Group partnership was evidence of the importance of combining product with technology in omni-channel retailing. Amazon India noted that the partnership would benefit customers "in making a purchase decision through rich product content, secure payments, fast delivery, and easy returns on the www.amazon.in platform."[57]

The media reported:

> The partnership ... is not one between two retailers but of vendor and technology platforms offering technology and logistics services. This will help in the growth of new brands and private labels.... It establishes that leading brick and mortar retailers cannot be dismissive about e-commerce players, which have become a brand in the online space."[58]

News of the partnership triggered an intra-day jump in the shares of two of Future Group's listed companies: Future Retail Ltd. and Future Lifestyle Fashion Ltd.[59] However, industry experts felt there were also possible pitfalls in the deal. Devangshu Dutta, chief executive officer at the retail consultancy firm Third Eyesight, said, "If the business is not aligned in terms of orientation and customer service, then it could create issues going forward, especially when one of the biggest barriers for online sale is inconsistency of products."[60]

Under the deal, Amazon and Future Group would work together to navigate the discounting conflict between online and offline retailers. The two businesses would jointly develop the pricing and discounting strategy. To avoid a conflict between the online and offline channels that could, in the end, undermine the business efforts of both, Amazon and Future Group agreed that the online price of products under Future Group's

[53] Bailay and Chakravarty, op. cit.; Malavika Velayanikal, "Amazon Now Has a Powerful Brick-and-Mortar Ally in India. Flipkart and Snapdeal, Your Move," *Tech in Asia*, October 13, 2014, accessed June 14, 2016, www.techinasia.com/amazon-partners-future-retail-to-become-click-and-mortar-in-india.

[54] Ibid.

[55] "Future Group, Amazon India Announce Strategic E-Commerce Alliance," op. cit.

[56] "Amazon.in and Future Group enter into a strategic partnership," op. cit.

[57] Ibid.

[58] Insight attributed to Arvind Singhal, Chairman, Technopak; "Future Group, Amazon India Announce Strategic E-Commerce Alliance," op. cit.

[59] "Amazon India and Future Group Tie the Knot to Sell Fashion Online," op. cit.

[60] Malviya, op. cit.

brands would not be very different from the prices at the stores.[61]

The partnership was also expected to extend to exploring synergies in distribution, customer acquisition, and cross-promotions.[62] Amazon announced that Amazon.in would also partner with Future Group brands in promoting existing and new brands in the market, exploring co-branding opportunities, and accelerating development of new products in categories that were not presently served by retailers.[63]

Food was expected to be the next category of products for the partnership. Amazon was already offering ready-to-eat foods and similar products online, and Future Group had plans to begin retailing food brands as well.[64] Biyani had a big vision for retailing fast-moving consumer goods: he wanted to move beyond the 25 per cent to 30 per cent margin of Future Group's immediate competitors and, instead, earn a margin of 40 per cent on premium products. This would have put Future Group in a category with Hindustan Unilever, Nestlé, and Britannia.[65] Biyani admitted that he lacked the product development experience of consumer goods companies, but he hoped to bridge the gap by entering into collaborations with experts in various fields.[66]

Interestingly, even after partnering with Amazon, Biyani continued his previously established criticism of foreign-funded e-commerce companies.[67] Biyani boldly declared in an interview with *Business Standard* that "the mindspace [e-commerce stakeholders] have occupied is far larger than their share of the market."[68] Biyani was particularly critical of deep-discounting schemes, criticizing Flipkart and other e-commerce retailers for the deep discounts they offered during a Diwali promotional sale event. Biyani feared deep discounting would hurt the other retail channels.[69]

## The Downturn

In January 2016, the media reported that differences had emerged between Future Group and Amazon over the funding structure for discounts Amazon offered on products sold from Future Group's fashion brands. Discounting was a common practice with online retailers in India, but it affected the profitability of most e-commerce companies. Amazon asked Future Group to bear a portion of offered discounts by taking a reduced margin on sales.

Given Biyani's public criticism of deep online discounting and his reluctance to share the cost of rebates, the media didn't expect Biyani to accept Amazon's proposal. If Future Group did agree to Amazon's request, the result would be different prices for the products sold in Future Group's physical stores and sold online. The rumour was that Amazon, in turn, told Future Group to end the exclusive deal with Amazon and instead, like any other vendor, list its private labels online and pay Amazon a commission on sales.[70]

Industry experts criticized the Amazon–Future Group deal, alleging that it was a media strategy for attention. According to Harminder Sahni, founder of retail consultancy firm Wazir Advisors, "Discounts should be the first thing to be discussed [in an e-commerce arrangement]. What priority pricing Future [Group] will give to Amazon, what price differentiation will work between offline and online, should be the first things to be discussed."[71]

## The Way Forward

Biyani felt that there was a limit to the number of physical stores Future Group could have. He planned to increase the number of stores to 260 by 2018, but added, "Even if we add another

[61] Ibid. [62] Bhattacharjee, op. cit.
[63] Amazon.in, op. cit.
[64] "Future Group, Amazon India Announce Strategic E-Commerce Alliance," op. cit.
[65] Shashidhar and John, op. cit. [66] Ibid.
[67] Bailay and Chakravarty, op. cit.
[68] "Future Group, Amazon India Announce Strategic E-Commerce Alliance," op. cit.
[69] Bhattacharjee, op. cit.
[70] Bailay and Chakravarty, op. cit. [71] Ibid.

**Exhibit 5**
**Future Enterprises Financials**

**Profit and Loss (excerpts), in $ millions**

| | June 2010 12 months | June 2011 12 months | December 2012 18 months | March 2014 15 months | March 2015 12 months |
|---|---|---|---|---|---|
| Operating Profit | 90.07 | 62.85 | 116.45 | 164.06 | 167.41 |
| PBDIT | 101.13 | 65.30 | 159.09 | 164.72 | 186.49 |
| PBT | 32.35 | 17.29 | 43.25 | 1.91 | 9.20 |
| Reported Net Profit | 26.93 | 11.50 | 40.99 | 0.42 | 11.11 |

**Balance Sheet (excerpts), in $ millions**

| | June 2010 | June 2011 | December 2012 | March 2014 | March 2015 |
|---|---|---|---|---|---|
| Net Worth | 413.44 | 431.72 | 498.38 | 487.75 | 779.69 |
| Total Debt | 207.93 | 289.65 | 480.84 | 825.57 | 630.14 |
| Total Liabilities | 621.37 | 721.37 | 979.22 | 1,313.32 | 1,409.83 |
| Net Block | 168.32 | 220.05 | 342.33 | 651.04 | 724.75 |
| Total Current Assets, Loans and Advances | 292.15 | 377.58 | 574.45 | 794.40 | 932.21 |
| Total Current Liabilities and Provisions | 148.49 | 228.86 | 311.21 | 389.12 | 482.65 |

*Note:* Exchange rates on January 1, 2016: ₹1=US$0.015; US$1 = ₹66.235; PBDIT = profit before depreciation, interest, and taxes; PBT = profit before taxes.
*Source:* "Future Enterprises," Money Control, accessed June 17, 2016, www.moneycontrol.com/financials/futureenterprises/profit-loss/PR03.

30 to 40 more physical stores, we can go to 300 and not beyond that ... So the next option is to take the help of technology to penetrate deeper into the market."[72]

In March 2016, the Government of India changed its foreign investment policy to allow 100 per cent foreign direct investment in the business-to-consumer online marketplace. However, the government restricted e-commerce companies from directly or indirectly effecting the selling price of goods on online marketplaces. This came as a big relief to offline, brick-and-mortar retailers.[73] According to the directive, no

[72] "Future Group Ties-Up with Hybris for Online Synergy," *Business Standard*, September 3, 2014, accessed June 14, 2016, www.business-standard.com/article/companies/future-group-in-pact-with-sap-company-hybris-for-omni-channel-technology-114090301134_1.html.

[73] John Sarkar, Digbijay Mishra, and Shilpa Phadnis, "100% FDI in E-Commerce Marketplaces: Days of Huge Online Discounts May End Soon," *Times of India*, March 30, 2016, accessed March 31, 2016, http://timesofindia.indiatimes.com/tech/tech-news/100-FDI-in-e-commerce-marketplaces-Days-of-huge-online-discounts-may-soon-end/articleshow/51610085.cms.

single vendor or their group of companies could account for more than 25 per cent of the overall sales on a platform.[74]

The policy change was a major blow to Amazon, which had been lobbying for foreign direct investment on an inventory-based model[75] of e-commerce. In 2015, Amazon's Cloudtail posted a loss of $4.7 million (₹317 million) on revenues of $170 million (₹11.5 billion), but was expected to turn profitable in 2016.[76]

Amazon and Future Group needed to sort out their differences in the context of the changing market and evolving policy. Should the companies nurture the partnership on the existing terms and conditions, look for alternate options for growing together, and adjust the terms of the partnership, or exit from the partnership altogether?

[74] Ibid.

[75] In an inventory based model one is in control of the of the physical inventory of products thereby enabling a superior post-purchase customer experience. It enables one to deliver faster and with higher accuracy. In a market place model buyers and sellers transact on a technology-based platform, with no physical inventory in the possession of the seller.

[76] Shilpa Phadnis and John Sarkar, "Flipkart, Amazon Need to Downsize Sellers," *Times of India*, March 30, 2016, accessed March 31, 2016, http://timesofindia.indiatimes.com/tech/tech-news/Flipkart-Amazon-need-to-downsize-sellers/articleshow/51609319.cms; *BS Reporter*, "Cloudtail Reports Rs. 32-cr Loss on Rs.1,145 Cr-Sales in FY15", December 31, 2015, accessed March 31, 2016.

## Chapter 6 Recommended Practitioner Readings

- Paul W. Beamish, *A Note on the Design and Management of International Joint Ventures* (Ivey Publishing, 2017).

  *"A Note on the Design and Management of International Joint Ventures"* examines the alliance form that typically requires the greatest level of interaction, cooperation, and investment: the equity joint venture. The reading focuses on two primary issues. The first of these considers the reasons why companies create international joint ventures. These include strengthening the existing business, taking existing products to foreign markets, bringing foreign products to local markets, and diversifying into a new business. The second of these considers the requirements for international joint venture success. These include testing the strategic logic, partnership and fit, shape and design, doing the deal, and making the venture work.

- Ulrich Wassmer, Pierre Dussauge, and Marcel Planellas, "How to manage alliances better than one at a time," *MIT Sloan Management Review*, 51:3 (2010), 77–94.

  In "How to manage alliances better than one at a time," Wassmer, Dussauge, and Planellas focus on how companies can employ a more strategic approach to configuring effective alliance portfolios. The authors advocate a two-stage alliance assessment process (which includes both individual alliance analysis and alliance portfolio analysis) that can be used when considering any new alliance opportunity. They contend that when a company adds a new alliance to its portfolio, the firm tends to focus on how much value the alliance will