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VENTURE CAPITAL FUNDING IN E-COMMERCE FIRMS IN INDIA

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Abstract *Venture capital funding is the prime source of finance for high potential startup firms. The e-commerce marketplace is one such entity, which is highly dependent on venture capital funding to fulfill the requirement of capital. Corporate venture capital has long been seen as the strongest kind of finance, but it is also the least likely to be available to entrepreneurs. Each of these funding approaches is likely to foster a distinct company culture, which might have an influence on the e-commerce venture's long-term success. The paper tries to understand the factors influencing venture capitalists to invest in these types of firms and analyses how firms are consolidating their positions in the market to increase their valuation to obtain more funding from venture capitals. The methodology used is the case study of four top online marketplaces in the Indian e-commerce market, namely Amazon, Flipkart, Snapdeal, and Paytm Mall. The study is analytical and data are collected from secondary sources from the year 2014-2019 for the purpose. The study found that Angel investors and equity finance are two of the most important sources of startup funding. The study contributes two points. First, the identification of factors that influence the valuation of the firm. Second, how these factors motivate a venture capitalist to fund particular e-commerce platforms.*

Keywords: *E-Commerce, Marketplace, Venture Capital Funding, Valuation*

INTRODUCTION

The burgeoning popularity and use of electronic commerce has increased due to the high penetration of the Internet and smartphone users in the Indian economy. Shahriari and Shahriari (2017) defined e-commerce as one of the types of business models, which enables firms or individuals to operate their business on a cloud with the help of an electronic network. E-commerce is trading goods and services on the Internet. Manipal and Shankaraiah (2018) stated that the online market platform provides an e-platform for suppliers and consumers to interact directly, without the intervention of any third party. The elimination of an intermediary in the distribution channel of e-commerce business has proved that e-commerce is the paramount way of doing business in this competitive business environment (Kim et al., 2003). Singh (2019) has presented various types of e-commerce variants, such as business-to-business (B2B), business-to-consumer (B2C), and consumer-to-consumer (C2C). Manipal and Shankaraiah (2018) concluded that among these online retailing, business-to-consumer (B2C) is the most important model that has contributed to the expansion of e-commerce in the Indian market. The business-to-consumer (B2C) model has given birth to online shopping. Gehrt et al. (2012) studied the online segment and concluded that there are two segments, which are ready to grab the attention of the Indian online shopping marketplace, namely receiving quality at any price segment and the reputation/recreation segment.

"India's internet economy is expected to get doubled from US$125 billion as of April 2017 to US$250 billion by 2020, majorly backed by e-commerce" (a). This scenario of the business environment has created the interest of the young entrepreneurs in launching e-commerce start-ups. Shetty (2017) mentioned that in 2015, 26% of the Indian population accessed the Internet, which is a significant number compared to past years. The Indian government launched 'Digital India' in July 2015, which resulted in the development of the e-commerce market in India; many e-commerce firms started their operation on a large scale. A large number of startups have begun their operations in various market segments in the Indian market, like food delivery, groceries, fashion, electronics, and others. These businesses are very different from conventional businesses. These are very high potential businesses; they require high investment and the break-even duration is lengthy. These characteristics make it difficult for them to be funded by financial institutions or through IPOs.

Alternatively, the growing market of online business is attracting the attention of venture capitalists. In the past few years, the Indian economy had experienced a massive expansion of venture capitalists in the e-commerce market. Weibl and Hess (2019) has defined venture capitalists as a form of private equity firm that invests in high growth companies to hold an equity stake in the funded firms.

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Later, they wish to be benefited if the firm goes for an IPO or is acquired by another company. Venture capitalists are helping e-commerce startups by mentoring and offering financial resources to them. Before investing in any startups, venture capitalists value a firm to ascertain their share in the firm. They expect a high return on their investment in case the firm goes public or is acquired by another firm. The high funding from venture capital results in the growth of startup firms. On the one hand, various venture capitalists find it lucrative to invest in firms; on the other hand, many failures were experienced in this domain (b). Many investors could not find the desired company to fund. Venture capital funding is like angel funding for new ventures.

As new ventures do not have the past background and accounting information, venture capitalists value a firm based on numerous other factors. Dittmann, Haug and Kemper (2004) concluded that firms should apply multiple valuation approaches, as the failure rate of funding agreements can be reduced by using multiple valuation methods. There are many factors, which contribute to the valuation of the firm, depending on the nature of the firm. Given the distinct nature of the firm, we cannot apply the conventional factors, which are responsible in deciding the valuation of the firm. This situation presents a problem before both the parties – the firm and the venture capitalist; the firm needs to work on those factors to strengthen their position in the market, and the venture capitalist needs to value the firm to ascertain their share and assess the potential of the firm.

To solve this problem, the study tries to identify and analyse the factors that motivate the venture capitalist to invest in e-commerce platforms. The study also investigates how firms are consolidating their positions in the market to increase their valuation to obtain more funding. We did the case study of four top online marketplace firms operating in India, namely Amazon, Flipkart, Paytm Mall, and Snapdeal, to understand the dynamics of the venture capital funding in e-commerce firms in India. The study is analytical; the data are collected from secondary sources and examines how a firm is valued. To answer this question, the paper has done an empirical support for the relationship between venture capital funding and the growth of e-commerce firms in the Indian market. It hypothesises the relationship between the factors motivating venture capital funding and venture capital investment in Indian e-commerce firms. It examines empirical support for the hypothesis using a sample of 4 leading e-commerce firms in India.

This study is significant for two reasons. First, it empirically examines the relationship between 6 factors, namely gross merchandise value; cash burn; market share; business model; technology advancement; and acquisitions, with the increase in the valuation of a firm to invest in particular e-commerce firms. Second, the study determines whether these factors motivate venture capitalists to fund e-commerce firms. The paper contributes to earlier research by suggesting the factors, which contribute considerably to the valuation of the firm. These factors will help the investors in taking an informed decision by undertaking all factors comprehensively.

Purpose of the Study

The paper tries to understand the factors influencing venture capitalists to invest in online firms, and analyses how firms are consolidating their positions in the market to increase their valuation to obtain more funding from venture capitals.

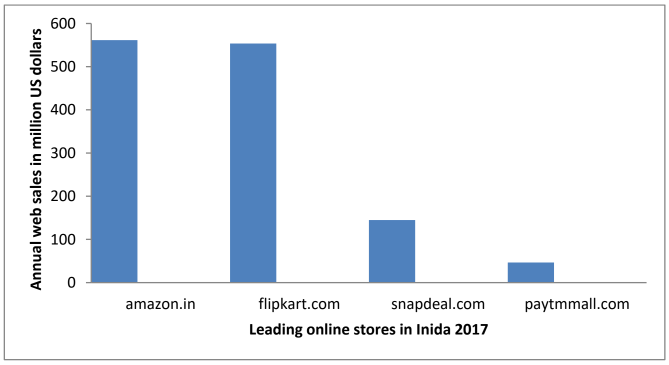
REVIEW OF LITERATURE

E-Commerce (India)

The e-commerce market in the Indian context is expected to grow from USD 38.5 billion in 2017 to USD 200 billion in 2026 (c). With awareness of usage of the Internet in terms of business, the e-commerce sector is now burgeoning at a rapid rate and attracting more firms to sell their goods from this platform. According to the IBEF report, in 2017-2018, the Indian e-commerce market was USD 33 billion, and with a growth rate of about 17%, the market had reached USD 38.5 billion in the financial year 2018-2019 (d). Now, e-commerce is a market in India at its peak and provides an immense market for investors funding in the Indian e-commerce market. Mahipal and Shankaraiah (2018) conclude that the size of the market in 2010-2016 had risen from INR 26,263 crores to INR 168.891 crores, with a CAGR of 36.3%. The statistics revealed that the use of the Internet in India is about 635.8 million and ranked second globally, after China. The result of this is the penetration of mobile shopping, which has gained momentum in the country and is increasing at a high speed; about 49% of Indian consumers started using their mobile phones for purchasing goods and services. Reddy (2018) concluded that there were various key factors, which trigger a consumer towards online or mobile shopping, like Internet penetration; high standard of living; busy lifestyle; categorised sites, and so on. Javed (2016) explained that convenience is the only reason that the consumers prefer online shopping. Electronic payment is also one of the major factors contributing to the success of an e-commerce or online market. There are 4 popular and top e-commerce platforms in the Indian online market; they are Flipkart, Amazon, Paytm Mall, and Snapdeal.

Retail E-Commerce in India

The online retail business works on the B2C (business-to-customer) model, in which there is a transaction between the firm and the customer (Javed, 2016). The emergence of online retailing has attracted customers to online transactions. There are two main reasons that contribute to the growth of online retailing: delivery at the doorstep and hassle-free online/mobile payment gateway. Tomi, Guo and Ondrus (2015) has concluded that the motivation behind the increasing online retailing market in e-commerce is technology adoption by the consumer. Growth in digital buyers has provoked retail e-commerce in India and in 2016, it amounted to about USD 16 billion and is estimated to grow to USD 45 billion in 2021, reported the statistical portal Statista. The surge in e-commerce gives a boost to online marketplaces like Flipkart, Snapdeal, Paytm Mall, Amazon, and so on. Fig. 1 shows the annual Web sales of the top leading online stores in India in 2017.



https://www.statista.com/statistics/297355/leading-e-retailers-in-india-ranked-by-annual-web-e-commerce-sales.

Fig. 1: Top Online Stores in India Ranked by Net E-Commerce Sales (in Million USD Dollars)

Table 1: Total Retail Sales in India from 2014-2019

Year	Share of E-Commerce in Total Retail Sale in (%)
2014	0.8%
2015	1.7%
2016	2.6%
2017	3.6%
2018	4.4%
2019	4.8%

Source: Statista.com (https://www.statista.com/statistics/379167/e-commerce-share-of-retail-sales-in-india/).

Table 1 shows a portion of e-commerce platforms' shares in online retail sales in India from 2014-2019. This shows how the online retail sale is booming in the Indian business culture. Fig. 1 shows the percentage share of Amazon, Flipkart, and Snapdeal in the total Indian online retail sales from 2016-2019.

Table 2: Indian Retail E-Commerce Revenue Forecast for 2017-2023

Years	In Billion US Dollars
2017	18.03
2018	22.14
2019	27.34
2020	33.26
2021	39.46
2022	45.55
2023	51.24

Source: Statista.com (https://www.statista.com/statistics/289770/e-commerce-revenue-forecast-in-india/)

Because of the high growth rate of online retailing in the Indian e-commerce market, the country is benefiting due to development in the economy in terms of advanced technology, the launching of many new companies, the increasing financial transactions, and so on. Table 2 shows that with increasing business operation on the online platform, a good amount of revenue is also generated in the past years, and a large amount is expected to be generated in the coming years.

TOP LEADING ONLINE MARKETPLACE FIRMS IN INDIAN E-COMMERCE

Amazon

Amazon was founded by Jeff Bezos in 1994. It started its business as a bookstore, and later included movies and TV shows. Later, it expanded into various categories of products, which include food, fashion, electronics, and e-books. Amazon India launched its operation in June 2013. US-based e-commerce giant Amazon Inc. introduced Amazon in the Indian online market. Presently, it is offering millions of products on its platform and has millions of registered users (Reddy & Rojarani, 2018). Amazon also operates a payment service – 'Pay with Amazon' and 'Amazon Business', a members-only B2B website where the products are sold in bulk quantities at wholesale prices.

Flipkart

Flipkart.com is a homegrown company. It was introduced in 2007 by Sachin Bansal and Binny Bansal. They were former employees of Amazon and opened the main office of Flipkart in Bengaluru in 2008, and then opened office branches in Delhi and Mumbai in 2009. In the year 2011, Flipkart domiciled to Singapore. Flipkart initially started its business by selling books; later, it added a range of products that includes music, games, electronics, and mobiles. Now in the Indian e-commerce market, it has come up as the top-most leading e-commerce firms. Flipkart was marked as the first billion-dollar Indian e-commerce company. According to Livemint and Bloomberg, 2018, Flipkart had sold eight million products across 80 plus categories and had 100 million registered users, 100,000 sellers, 21 warehouses, and ten million daily page visits. In the years 2014 and 2016, Flipkart acquired Myntra at approximately $300 million and Jabong for $70 million. PhonePe is also a startup of Flipkart launched in 2016. eBay marked a cash investment of $500 million in Flipkart and sold its business to Flipkart in 2017.

Snapdeal

Snapdeal.com was founded by Kunak Bhal and Rohit Bansal in 2010; initially started as a business in offline mode, it eventually marked a growth phase and turned into an online B2B marketplace in September 2011. In early 2011, Nexus Venture Partners and Indo-US Venture partners invested around $12 million in the company. In the year 2018, the company had doubled its daily order to 40,000-45,000, from a low 20,000 in 2017.

Paytm Mall

Paytm mobile payment is a mobile wallet that was started in 2015. It has created a web of payment in the offline and online channels, where consumers can do transactions via the Paytm wallet. This mobile payment and recharging business launched an e-commerce market app called Paytm Mall in February 2017 by offering numerous varieties of products, such as apparel, foot wares, smartphones, bus and movie tickets, and so on. The Paytm Mall was inspired by China's largest B2B retail platform, TMall. With the same Paytm payment bank app, the Paytm Mall marketplace is a part of it. Paytm Mall presented a new concept of shopping to the Indian customers – Mall and Bazaar (O2O – offline to online).

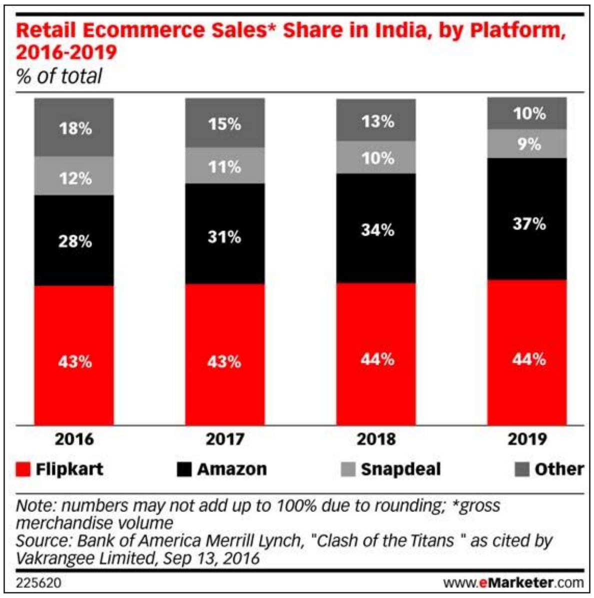


Fig. 2: Retail E-Commerce Sales Share of Online Platform Firms in India (https://retail.emarketer.com/article/amazons-india-investments-look-like-theyre-paying-off/58f51babebd4000a54864b12)

VENTURE CAPITAL

In the field of entrepreneurial finance, academics frequently use samples of companies that have achieved unusual milestones like raising venture capital. While this makes it easier to study the dynamics of high-potential businesses, it also creates a gap between these tiny, selected samples of businesses and the general population of new businesses (Catalini et al., 2019). Companies heavily funded by venture capitalists may build a culture that places excessive emphasis on speedy money returns to investors. Large organisations' ponderous decision-making processes, on the other hand, are frequently incompatible with Internet time (Hamilton, 2001). Most people in Asia are still unfamiliar with venture capital, a financial concept with a 30-year formal history in various western nations, primarily the United States. Venture capitalists in Asia invest in firms at various phases of the company life cycle and across a variety of industries (Chu & Hisrich, 2001).

Venture capitalists provide finance to new ventures. Some of them get their client and some of them fail by not finding the right kind of business in which to invest. For this, the valuation of the firm is extremely significant, because the worth of the company determines the portion of the shares they would receive in return for their investments. Besides, to decide on the company they would like to finance depends on the characteristics of the business and determines the per cent of gain they would gain against the funding. Many researchers studied the parameters, which are considered by venture capitalists before investment decisions. Miloud et al. (2012) carried out an empirical study on startup valuation from the venture capitalists' perspective. The factors that were considered in valuing firms are industrial growth, entrepreneurial resources, and external ties. Venture capital funding in e-commerce firms depends largely on external factors like acquisition, customer lifetime value, cash burn in the market, and so on. Kohn (2016) developed an integrated framework of determinants of startup valuation in the venture capital (VC) context and identified various determinants related to VCs, startup, and character of entrepreneur, and concluded that the valuation of the firm by venture capitalists is more influenced by the external environment. The outer environment and inner environment also affect the valuation of the firm from venture capitalists' point of view. Khanin et al. (2008) concluded the same for investment in startups by venture capitalists.

VENTURE CAPITAL FUNDING

Venture capital plays a major role in the early stages of a startup development. Venture capital, other than offering financial support, also offers mentorship to the firms. The venture capitalists provide a platform of collaboration to firms, so that they can expand their business on a large scale and be exposed to other market segments. Venture capitalists assist the firms at every stage of startups, from deal origination to post-investment activities (Weibl & Hess, 2019; Bonni & Capizzi, 2019; Davila, Foster & Gupta, 2003). The venture capital industry is an important source of funding for a wide range of businesses. A venture capitalist with significant unfavourable selection risk must make a difficult investment choice. An investment is illiquid once made, and its success is mainly dependent on a small group of managers/entrepreneurs.

In India, e-commerce startups received USD 786.67 million in the first half of 2018 (e) from venture capitalists or private equity firms. There are many venture capital firms in India, which are investing in startups, namely Helion Venture Partners, Sequoia Capital India, Nexus Venture Partners, Kalaari Capital, and so on. According to a recent report by Bain & Company, in 2018, VC investors shared almost \$3.5-4 billion across 400 deals until September 2018, in comparison to 515 deals in the whole of 2017, by investing \$3.4 billion. The average venture capitalist deals in 2018, 2017, and 2016 are \$8.7 million to \$10 million, \$6.6 million, and \$3.8 million, respectively. In 2018, 5-15% of the portfolio companies of large funds like Sequoia Capital, Accel, and Nexus Venture Partners collectively raised above \$100 million, according to a Bain report.

The present study has taken various influencing parameters for analysing the investment activities of a venture capitalist in Indian e-commerce firms. The study has taken 6 factors for analysing their influence on the decision procedure of venture capitalists. It depicts the relationship between these six factors and the venture capitalists' investment decisions. The six factors are cash burn, gross merchandise value (GMV), market share, product segments, business model, acquisition, and adoption of advanced technology by the firms. Each variable or factor is discussed in-depth and supported by relevant and latest data. Table 3 shows the total funding to companies until now and their latest funding firms.

Table 3: Total Funding to Companies (Till 2018)

Companies	Total Funding Rounds	Total Funding	Total Lead Investors	No. of Investments	Name of the Latest Funding Firms
Amazon	02	\$108M	01	75	Parent Company
Snapdeal	12	\$1.8B	14	10	Nexus Venture Partners
Flipkart	19	\$7.5B	09	-	Flipkart
Paytm Mall	02	\$645M	02	01	Venture series unknown round

Source: curnchbase.com

BUSINESS MODEL

Pineiro et al. (2017) said that a business model is a canvas on which the success of the business is dependent. Canvas's business model, as a tool, gives an overview of the business to entrepreneurs. The online platform business has a different business model. The business model of e-commerce firms is of two types, namely the marketplace model and inventory-led model. Paytm Mall operates its business operation on the online-to-offline (O2O) business model. The marketplace business model adheres to a standard of a zero inventory model, e.g. Naaptol, eBay, and Shopclues. It is a digital platform where consumer's and merchant's transactions are done online without warehousing the products. Inventory-led models are those shopping websites where online consumers choose products that are owned by the online shopping company itself and also take care of the entire process end-to-end, starting with a product purchase, warehousing, and ending with product dispatch. The next section discusses the business model of these e-commerce firms.

Paytm Mall

On the principle of China-based Taobao Mall, Paytm introduced the Paytm Mall in India. Paytm Mall is functioning on an online-to-offline (O2O) model. The management team is working to make it a significant portion of the online commerce business.

Flipkart

Flipkart started its operation based on the ‘inventory-led model’. The inventory-led model requires a massive investment in warehouse and logistics. Earlier, Flipkart started its business operation by selling books, but soon it started accumulating other customised products like clothing, mobile phones, electronics, and so on. Later, Flipkart.com e-commerce websites started with a mix of both the models (inventory-led and marketplace). India never experienced this kind of friendly shopping on the online platform, and soon Flipkart became popular and one of the top shopping destinations among customers.

Amazon

Amazon started its operation by adopting the ‘marketplace model’ as a business model. In marketplace model’, the goods are sold directly to customers; productions from third-party merchants are also offered on the website. Generally, the model generates a commission on each sale, listing charge fees for sellers, and also generates additional revenue through services such as payments, logistics, and advertising.

Snapdeal

The Snapdeal business model is a combination of the two business model, the inventory model and the marketplace model.

TECHNOLOGY ADVANCEMENT

Overall, e-commerce has certainly been developing in popularity. For the ‘digital generation’, technology is part of their daily life. Because of this environment, technology is additionally paving a path for e-commerce to turn out to be a chronic presence in the lives of the consumer in an implausible fashion. According to eMarketer, global retail sales are projected to reach $4 trillion in 2020. In the absence of technology, the e-commerce market cannot achieve this figure. Technology is a major source of support of e-commerce, as it assists both sellers and buyers on mobile and web networks, and in addition, it efficiently manages the customer’s orders, deliveries, returns, and payment of purchased goods and services. Five emerging technologies in e-commerce are ever-present; they are 24/7 sales; digital supply chain; AI-powered personalisation; demand-driven forecasting; and new payment services. For gaining a competitive advantage and to maximise profits, the e-commerce companies are also investing in technology. In the current e-commerce marketplace, top business giants like Amazon, Flipkart, and Alibaba are focusing on providing a superior experience. In 2013, Amazon patented a “method and system for anticipatory shipping”. This system saves the valuable time and effort of the customer so that they can be free from ordinary tasks such as shopping for household essentials and to visit the market. In 2017, Flipkart partnered with Microsoft to use the Azure technology platform to scale up its e-commerce business, and owns its logistic arm, that is Ekart. Amazon India had Amazon transport services. So, for a successful business, adoption of advanced technology plays a vital role in the competitive environment.

ACQUISITIONS

When a company decides to expand its business and grow the market size of the firm, the managers take many strategic decisions. Among them, acquisitions is a more powerful strategic decision, where firms instantly increase the size and share and can operate in a new segment/market. Acquisition refers to the takeover of one firm by another firm. An acquisition provides the path for the company to expanding its business in the market. Amazon had acquired many firms like Zappos online retailer, Kiva Systems Robotics Company, Twitch game streaming startup, and many others. Flipkart acquired Myntra and Jabong in the year 2014 and 2016, respectively, and others. Growth through acquisitions is faster, cheap, and less risky in comparison to other methods of increasing business. It also reduces competition among rivals. The same strategic decisions are also used in e-commerce firms, where one company acquires mall companies for the motive of expanding their business. Table 4 shows the number of acquisitions gained by top leading e-commerce platforms like Amazon, Flipkart, Snapdeal, and Paytm Mall.

Table 4: Total Acquisitions by E-Commerce Firms to Date

Companies	Total Acquisitions to Date
Amazon	82
Flipkart	12
Snapdeal	12
Paytm Mall	-

Source: cruchbase.com

The table shows that Amazon has gained the largest number of acquisitions to expand its business or to add service quality. The venture capitalists, before attempting the practice of valuation, may consider this factor before valuing a firm. Amazon is not funded by VCs. However, other firms are funded by venture capitalists.

GROSS MERCHANDISE VALUE

Gross merchandise value is a term used in online retailing to indicate the total sales dollar value for merchandise sold through a particular marketplace over a certain time frame. A platform's revenue comes from fees and is different from the dollar value of items sold. In terms of GMV, there is a neck-and-neck competition between Amazon and Flipkart. Amazon has a high gross merchandise value of goods sold in a marketplace than Flipkart. In 2015, according to Morgan Stanley, the combined GMV of Flipkart and Snapdeal was $13.8 billion. Flipkart entered the Indian market in the year 2007. Flipkart's gross merchandise value in the year 2017-2018 was 51% to $6.2 billion, and is expected to reach $17.6 billion in 2020-2021 (Economic Times, July 2018). Amazon marked its space in the Indian market in 2013; in FY2018, the GMV of Amazon's Indian arm was nearly $7.5 billion (report by investment bank and financial services company Barclays) and is expected to reach $17 billion in 2020 and $23 billion in 2021, according to a May report presented by Citi Research (Shahriari & Shahriari, 2017). Flipkart had a GMV of $6.2 billion (excluding Myntra and Jabong). The following are the data regarding GMV from FY15-FY18. As Paytm Mall was launched in 2017, according to Forrester, in 2017 Paytm Mall holds 5.6% market share and GMV was $1 billion (f); other data were not available.

Table 5: Gross Merchandise Value (GMV) ($ billion) of Online Marketplace Firms

Year	Amazon	Flipkart	Snapdeal	Paytm Mall
FY15	1	2	3	-
FY16	1.9	3.8	4	-
FY17	4.2	4	-	1
FY18	7.5	6.2	-	9

Source: Report by Barclays (https://qz.com/india/1475828/amazon-india-has -higher-gmv-than-flipkart-but-lags-in-revenue/).

Market Share

Online marketplace firms like Flipkart, Amazon, and Snapdeal had a combined gross merchandise value (GMV); market share was 83% in 2015. In 2016, the individual GMV market share of companies was as follows: Flipkart – 45%, Snapdeal – 26%, and Amazon – 12%, and Others – 10%, as reported by Morgan Stanley.

Table 6: Market Shares of Companies

	Snapdeal	Amazon	Flipkart	Paytm Mall
Launched/ Market Share	Feb. 4, 2010	Jun. 5, 2013	Oct. 15, 2007	Feb. 2017
2014	32%	15%	44%	-
2015	26%	12%	45%	-
2016	11-13%	28-30%	36-38%	-
2017	2.5%	30-32%	40-42%	5.6%
2018	-	31.9%	31.1%	-

Source: Economic times, business-standard (integrated data from various sources).

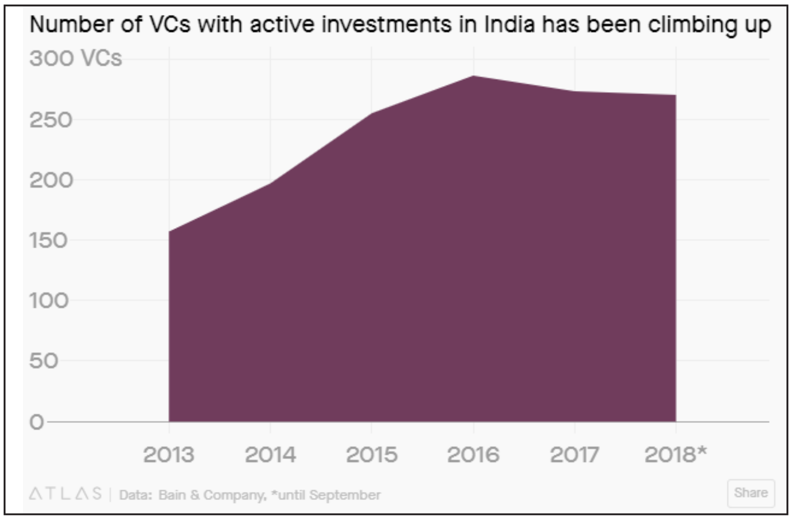
METHODOLOGY

The paper examined and found how venture capitalists carry out the funding process and how they value e-commerce platforms and decide on a specific amount as the fund. To elaborate on this situation, we have conducted a detailed study of four e-commerce giants in the Indian market. This paper conducted an extensive review of the literature and reputed database, and discussed various factors affecting the valuation of e-commerce platforms.

The research methodology of the paper is analytical, as it had analysed various parameters of firms with supporting data. The last five years of data are collected from secondary sources – websites of the organisations, articles, journal papers, and conference proceedings. Data from the last five years were collected from a range of databases (e.g. Crunch base, Statista, IBEF report, and so on). The rationale for choosing this time range is because digitisation began in India in 2014, and looking back five years is a fair way of assessing the current situation. Customers were encouraged to purchase online as payment gateways became easier to use. While cash on delivery was still an option, some discounts were provided on online purchases.

RESULTS AND DISCUSSIONS

Through analysis, the results show that e-commerce in India is marking its space in the business market at a very high speed. According to market researcher RedSeer Consulting, "The e-commerce market may expand to $28 billion in 2018, up from $17.8 billion last year" (g). As a result of this, the interest of venture capitalists in e-commerce firms has also increased considerably in recent years. This can be seen in Fig. 3.



https://qz.com/india/1490981/vcs-are-investing-more-money-in-fewer-indian-startups/

Fig. 3: Increasing Number of VC Investment in India

The investment criteria of venture capitalists depend on the following factors.

Table 7: Financial Particulars (2017-2018)

	Flipkart	Amazon	Paytm Mall	Snapdeal
Launched	Oct. 15, 2007	Jun. 5, 2013	Feb. 2017	Feb. 4, 2010
GMV	$6.2bn	$7.5bn	$9bn	$1.5bn
Acquisition	12	80	-	12
Market Size	31.9%	31.1%	5.6%	2.5%
Valuation	$20.8 billion	$1 trillion	$10 billion	$2.5 billion
Segments	e-commerce and wholesale entity	e-commerce, retail, services	e-commerce, retail, shopping	e-commerce, retail, consumer electronics
Losses (FY 18)	Rs. 3,222cr	Rs. 5,018cr	Rs. 1787.55cr	Rs. 613 cr
Revenue(FY 18)	Rs. 24,717cr	Rs. 6,287cr	Rs. 774.86cr	Rs. 436.1cr

Source: http://economictimes.indiatimes.com, Livemint, Your Story, Business Today.

ANALYSIS

Flipkart was valued at $20.8 billion and acquired by Walmart on 9 May 2018; the deal was finalised at $16 billion (h). According to Bloomberg, this deal is the largest ever in e-commerce. For expanding the business and gaining more customers, Amazon acquired the highest number of firms, but in terms of market share, the size of Flipkart is more compared to other e-commerce firms. Gross merchandise volume is a term used in online retailing to indicate a total sales dollar value for merchandise sold through a particular marketplace over a certain period. The platform's revenue comes from fees and is different from the dollar value of items sold. "Amazon holds the highest GMV at $7.5 billion in FY18, 20% higher than Flipkart's GMV" (i). The combined loss of Flipkart (both e-commerce platform and the wholesale entity) was Rs. 3,200 crores in FY17-18 (k). In FY18, the combined net loss of all four companies – Amazon, Flipkart, Snapdeal, and Paytm Mall – was Rs. 9,847 crores, with a total operating revenue of Rs. 8,898 crores. In fiscal 2017, the companies reported an operating revenue of Rs. 5,920 crores and a loss of Rs. 11,131 crores (j).

DISCUSSION

In this study, the above mentioned financial particulars, and the total funding to firms were analysed. Given that Amazon is funded by the parent company itself, we took it as a proxy for venture capital financing. Technology advancement is also a significant factor in the performance of such types of firms. The investment in technology was taken as a proxy to measure technology advancement adopted by the firm. In addition, venture capitalists are scouting for companies that have a "strong tech team". In 2018, Indian startups have witnessed huge funding rounds, which resulted in eight new companies, which were valued at $1 billion and called "unicorns". Venture capital investors claimed that startups are capable of scaling up quickly, which has resulted in higher rounds of investment. In 2018, numerous Internet firms or online companies in the various markets, such as Swiggy, Zomato, Oyo, policy bazaar, B2B marketplace Udann, online retailers like Paytm Mall, Byju's, an education platform, and Freshworks entered the unicorn hub. According to the Morgan Stanley report in 2016, $6.6 billion investment was done by venture capitalists and private equity in the country. Fig. 3 supports that this has contributed to a steep growth in the GMV e-commerce companies in the Indian market.

CONCLUSION

The present research depicts the relationship between the six identified factors and the funding of venture capitalists in the e-commerce marketplace. The 6 factors areas are gross merchandise value; cash burn; market share; business model; technology advancement; and acquisitions. The e-commerce firms are adopting different business models to attract customers to their websites to increase sales. Firms are engaged in the acquisition of other firms to expand their market share, as well as to eliminate the competition, so all these parameters play a significant role in increasing the market size, as well as the valuation of the firm from the perspective of venture capitalists. The results suggest that before funding any firm, the venture capitalists find out the reasons behind funding it. So these factors motivate the venture capitalists to invest in a particular firm, by taking all these factors comprehensively; the venture capitalists identify the product line, business model, and aggressiveness of a company so that they can take hold of stake inequity and can gain profit. It shows that a firm that can grow its market size by acquiring a firm or investing/adopting advanced technology or providing numerous products to attract a large customer base, can obtain more funds from a venture capitalist.

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