

India Business & Finance

Alibaba targets India as key ecommerce battleground

Chinese retail group set to face off with Amazon over spoils of burgeoning market



Alibaba first dipped into India's undeveloped ecommerce market three years ago, and its presence is rapidly growing through a series of partnerships
Simon Mundy in Mumbai and Louise Lucas in Hong Kong 3 HOURS AGO

When Alibaba reported [sales of \\$25bn on its Singles' Day extravaganza](#) in November, the sum comfortably surpassed estimates of total Indian ecommerce turnover in the whole of last year.

That has not stopped the Chinese tech giant from making India its first major overseas foray, as it pumps investment into the country at a growing pace. In the past week alone it has secured a \$200m stake in leading online grocery group BigBasket, while its payments affiliate Ant Financial agreed to pump the same sum into food-ordering app Zomato.

These moves came on the heels of a recent investment in logistics group XpressBees, which slotted in the final element of a three-pronged business model that Alibaba honed on its home turf: shopping, payments and delivery.

“Just as Amazon is playing its global strategy in India, so will Alibaba,” says Kashyap Deorah, an Indian technology entrepreneur and author.

Alibaba, founded by former English teacher Jack Ma, began its India adventure in February 2015

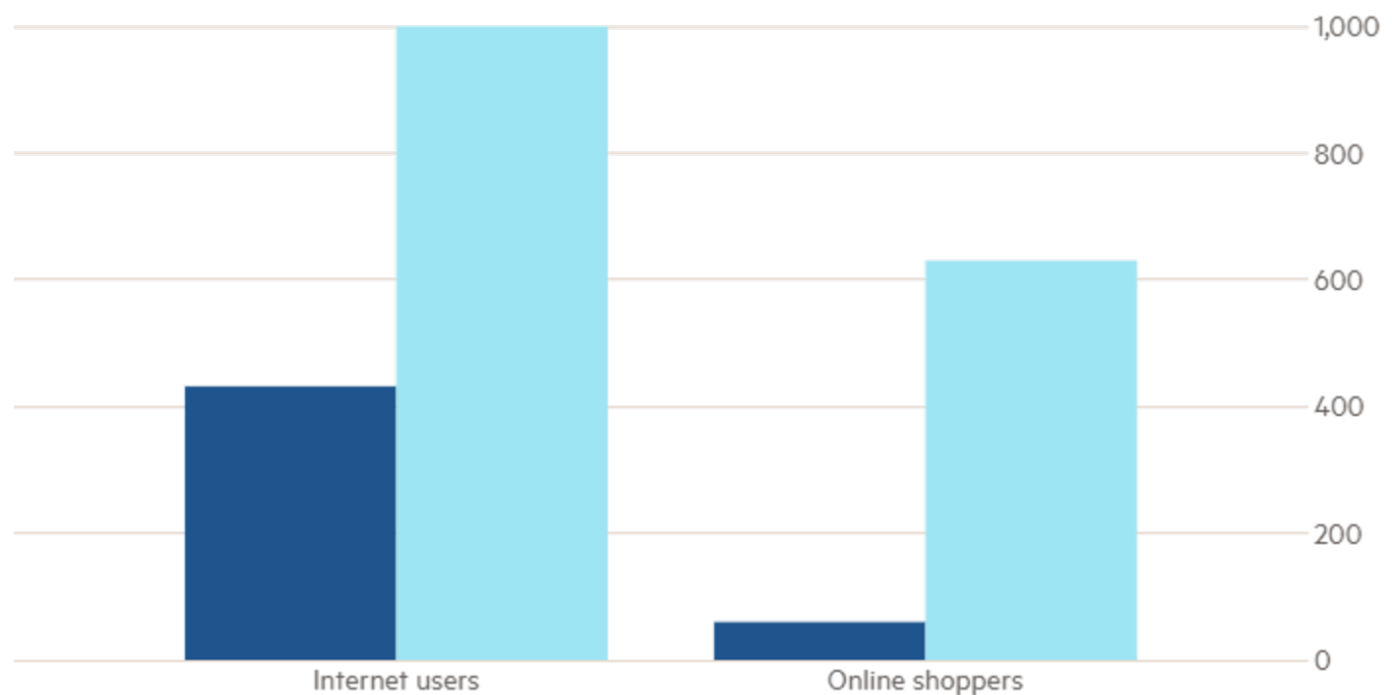
with an undisclosed investment in financial technology start-up Paytm — later becoming its [biggest backer](#) after another \$680m injection, and then taking a [majority stake](#) in its ecommerce unit.

China and India are dramatically different ecommerce markets. India brings aggressive competition — including with deep-pocketed [Amazon](#), which barely registers in China — ropery infrastructure and a poorer population.

India's enormous ecommerce potential

Number in millions

■ 2017 ■ 2027 bullish forecast



Source: Morgan Stanley Research

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Amitava Saha, XpressBees co-founder, admits that logistics are also a tougher challenge in India. Online grocery shopping relies on scale, which enables Alibaba in China to serve customers within hours through a huge network of small local warehouses. Limited uptake in India makes such systems prohibitively expensive, he says.

On top of that, Indians have less spending power. At \$1,709, India's nominal income per capita is less than a quarter of China's \$8,123, based on 2016 numbers. They are also less equipped to shop online: fewer than a quarter of Indians had a smartphone last year, according to research by Omidyar Network, and a third of these devices did not have a data connection. In China, half the population has a smartphone.

Ecommerce still accounts for a [tiny portion](#) of Indian retail, with sales of \$19.6bn last year, 20 per

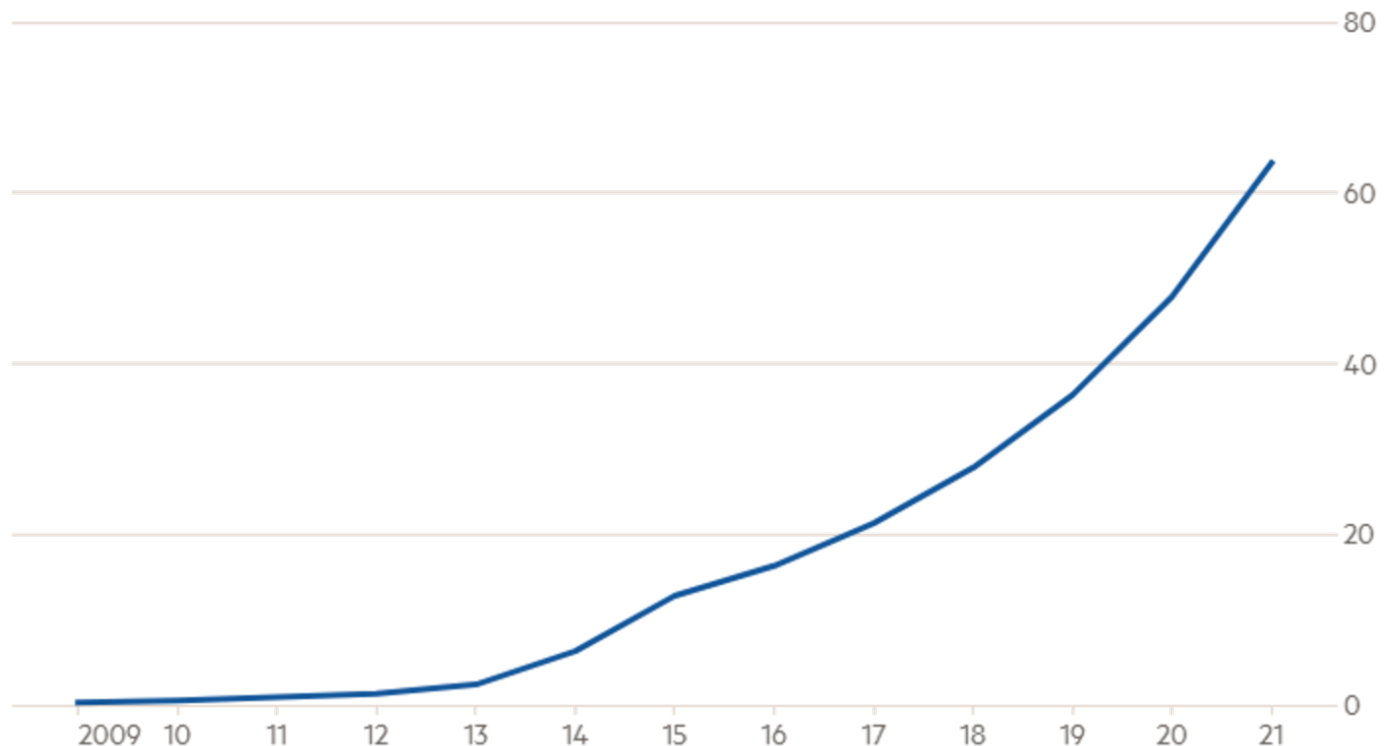
cent up year-on-year, according to Forrester Research. That was a marked deceleration from the pace of 103 per cent two years before, as ecommerce companies struggled to expand their customer base beyond prosperous early adopters in the big cities.

Yet deals will continue as companies put their stakes in the ground, says Bhavtosh Vajpayee, analyst at Bernstein Research. While Alibaba builds its ecosystem, tech rival [Tencent](#) and Japan's [SoftBank](#) — a big Alibaba shareholder — are putting muscle behind local ecommerce group Flipkart. “Where China started off 15-20 years ago, maybe that’s where India is now,” he says, it’s in the early phases of what will prove a long game.

Amazon, meanwhile, has [committed \\$5bn](#) to India, having identified it as a key international priority.

Rise in India's online spending

Retail ecommerce, forecasts from 2016 onward (\$bn)



Source: Forrester

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Alibaba is countering this with a strategy focused on Paytm, founded by Vijay Shekhar Sharma who claims to have gathered inspiration from a 2011 speech by Mr Ma. Madhur Deora, chief financial officer, says the shopping-to-payments platform is “very similar” to Alibaba’s domestic model, but “there are important differences in terms of emphasis”.

One is the sequence in which Alibaba is putting its ecommerce ecosystem together. In China, it

began with merchants; payments and logistics followed. Paytm is pursuing expansion in the opposite direction. It is by far India's most popular digital payment operator, with more than 200m registered users.



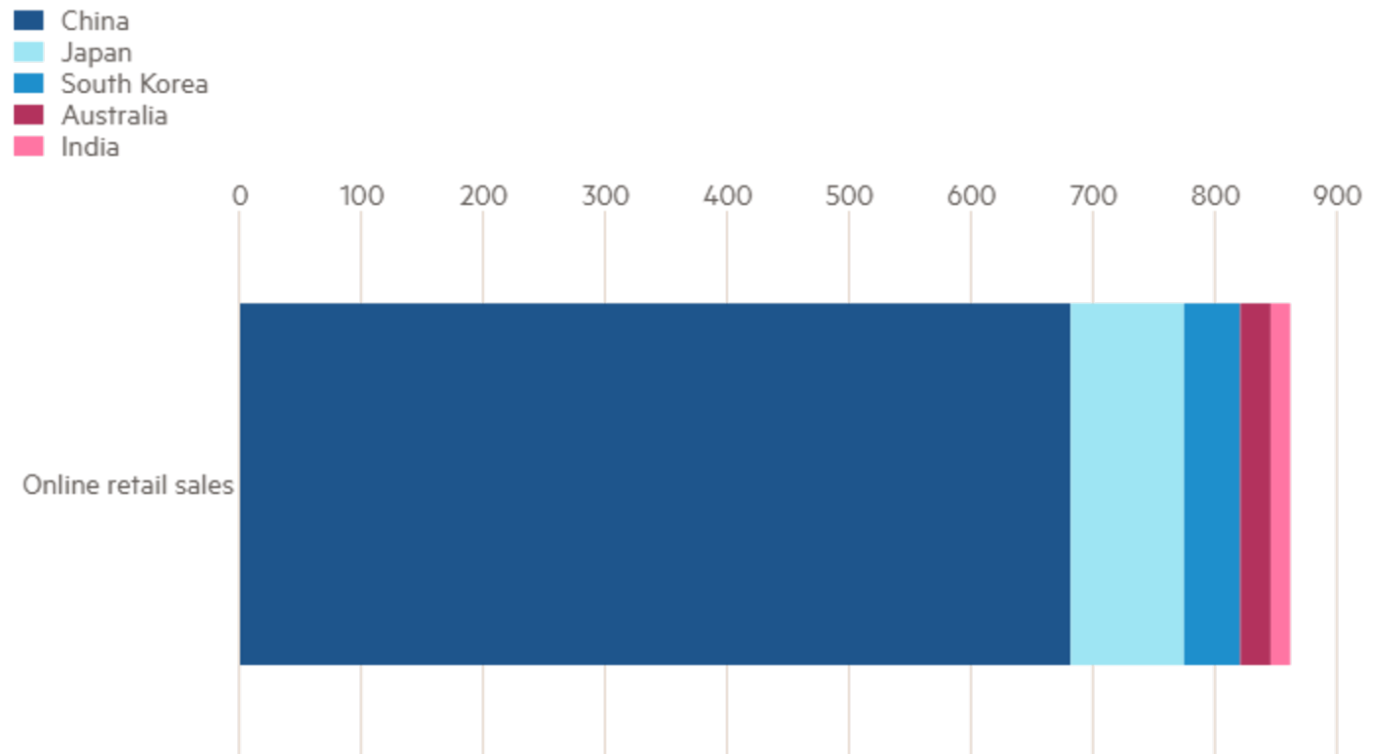
Advertisements for the Alibaba-backed Paytm at a merchant's stall in Kolkata © Reuters

With Alibaba's backing, Paytm has expanded its suite of financial services but remains some way short of leadership in ecommerce. A year after Alibaba took control of the platform, it has roughly two-thirds the monthly turnover of Flipkart or Amazon, according to a person close to Paytm.

Last year the business was relaunched as Paytm Mall, pursuing a model closer to Alibaba's: an eBay-type virtual marketplace for merchants to market their wares, rather than the capital-heavy, inventory-filled warehouses model pursued by Amazon and Flipkart.

China dominates Asia-Pacific ecommerce

By leading countries, 2016 (\$bn)



Source: Forrester

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This approach offers Alibaba the potential to expand far more quickly and at a lower cost than its Indian rivals, says Sanchit Vir Gogia, founder of consultancy Greyhound Knowledge Group. “Their model is more inventory-light so they can really focus their investment on building the network,” he says.

Paytm has particular opportunities in smaller Indian cities where ecommerce rivals have had limited impact but which could be a big driver of future growth, he adds.

But Alibaba is also gunning for higher-income customers in major cities — as proved by its investment in BigBasket, whose upmarket grocery service is favoured by a growing number of well-off Indian households. The move reflects Alibaba’s desire to create a comprehensive, deeply integrated network of companies that guide customers from one digital service to another.

“We will get access to a tremendous amount of traffic” through the new relationship with Paytm, says Hari Menon, BigBasket’s chief executive.

Alibaba’s India drive shows no sign of letting up, as it pushes ahead offering other services it pioneered in China. Last month it segued into gaming with a tie-up between Paytm and Alibaba’s Hong Kong subsidiary AGTech, as well as launching a first Indian data centre for its cloud

computing service in a bid to poach Indian business clients from Amazon's rival offering.

It is also eyeing a move into video streaming in India, putting it up against Amazon, Netflix and Rupert Murdoch-controlled Star India.

Ultimately, says Satish Meena, an analyst at Forrester Research, Alibaba will "reach a stage where think they have everything in place. And then they can really start putting a lot of money in."

India: not quite China 2.0

It is a common refrain among multinational tech companies and start-ups alike: India was supposed to be the next China but it is taking ever so much longer to get there.

Disposable incomes are lower and taking longer to rise and internet usage is far less prevalent. Moreover, while Beijing has prioritised tech development, allowing companies to flourish in China, that focus is lacking in India, where industrial policy — such as it is — is more targeted at [building up manufacturing](#).

Shoals of start-ups have simply thrown in the towel, with balance sheets squeezed by aggressive discounting and once spendthrift foreign venture capital firms less willing to plug the gaps.

Their bigger international peers have taken different approaches, seeking to overcome bandwidth shortages and smaller wallets with tailored offerings. Thus Google, for example, offers YouTube offline in India and in other similar markets.

These efforts have not always been successful, as [Facebook](#) discovered when it tried to roll out [Free Basics](#), its limited free mobile internet service — less kindly dubbed "[digital colonialism](#)" — but India [rejected](#) the gesture, saying it would distort open access.

Similar efforts have been adopted locally. Jio, Reliance Industries' telecom unit, entered the market 18 months ago with bundled packages, including data, for little more than the cost of voice-only packages: a 28-day package with a daily download allowance of 1GB costs Rs149 (\$2.30).

More recently, WhatsApp-wannabe [Hike Messenger launched](#) a platform that allows users to go online for limited functions — like cricket score updates — without any mobile data subscriptions at all.

That in turn has informed the Chinese players' gambit: to go in with local players. Hence Alibaba's stakes in Paytm and the rest, and Tencent's backing of Hike Messenger and Flipkart.

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