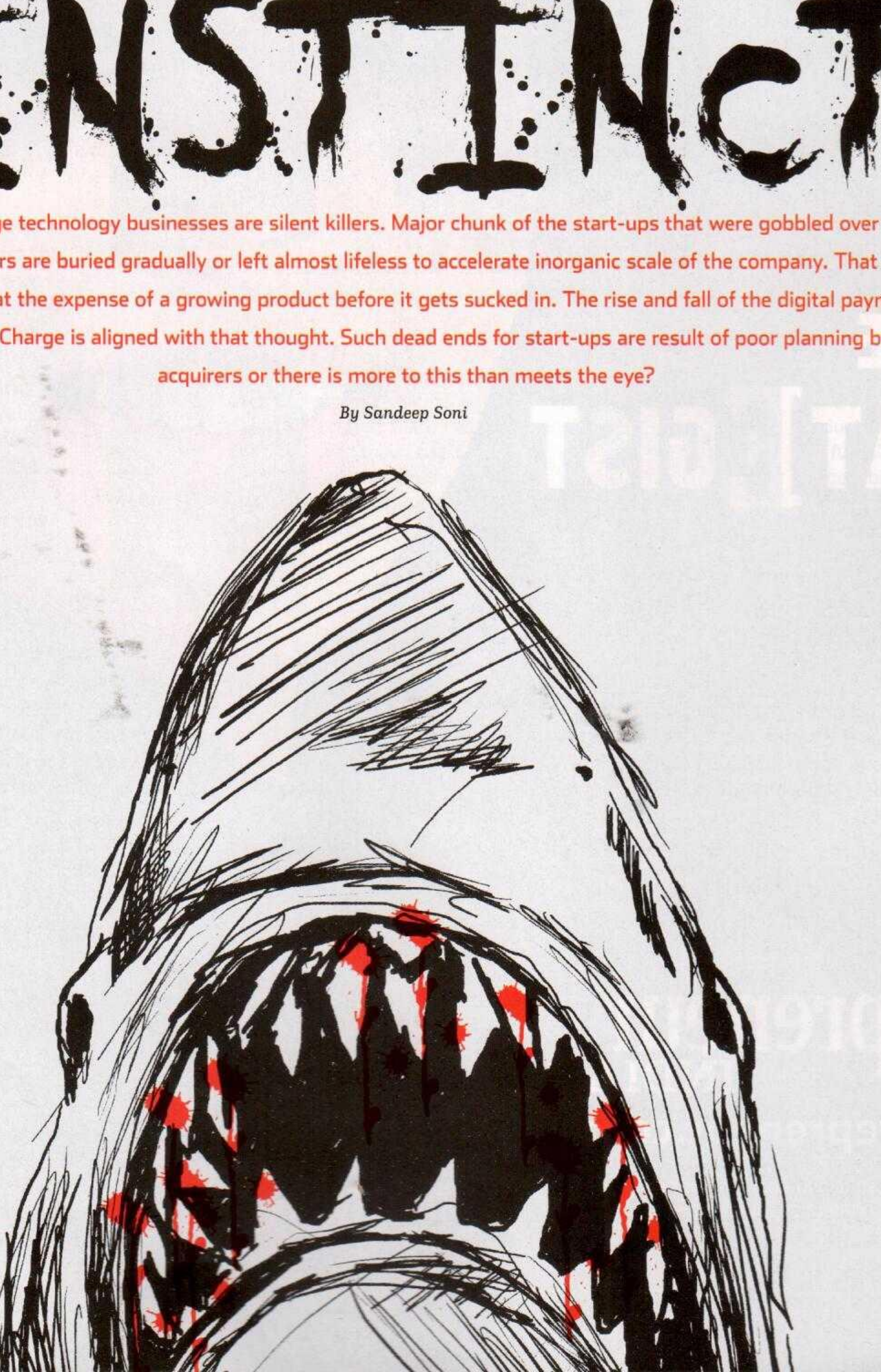
ACQUIRING THE KILLER INSTINCT

New age technology businesses are silent killers. Major chunk of the start-ups that were gobbled over last few years are buried gradually or left almost lifeless to accelerate inorganic scale of the company. That may come even at the expense of a growing product before it gets sucked in. The rise and fall of the digital payment app FreeCharge is aligned with that thought. Such dead ends for start-ups are result of poor planning by acquirers or there is more to this than meets the eye?

By Sandeep Soni



Around 12 acquisitions have been made by Snapdeal in last seven years as per global data platform Crunchbase. Roughly 10 out of them don't exist anymore and that includes ones which had clear line of growth such as online fashion and accessories start-up - Exclusively.com and advertising platform - Reduce Data. Similarly start-ups like electronics e-tailer Letsbuy, mobile marketing automation provider Appiterate were acquired by Flipkart and logistics technology start-up Sparse Labs and US-based food ordering app Urbanspoon by restaurant discovery app Zomato. More than that, it wasn't about competition (at least in India in case of Urbanspoon).

SURVIVAL HACK

Nonetheless, shutting down such businesses are more a result of the strategic objective with which a company has been bought and the decision is made to let it grow or die rather than lack of entrepreneurs' foresight. "Businesses may shut a company for consolidation of the sector. Sometimes it is also a question of running a separate entity vis-à-vis being a part of the large business and advantages and synergies that comes with it," says Rajan Wadhawan, Leader – Valuation Services, PricewaterhouseCoopers India.

Acquisitions from growth perspective can be decluttered under four heads – first, to kill the competition; second, to acquire technology; third, to acquire talent and fourth, to acquire business or domain expertise. Acquiring for technology is perhaps among the most common acquisition deal types where technology is integrated into various business processes such as logistics, finance, marketing, product discovery etc.

"It is about acquiring technology that can be added to the main business for its products or clients. It is also about acquiring a business to kill competition. If Flipkart-Snapdeal deal had gone through, the latter might not have survived. However, it takes a lot to keep both chugging along at the same momentum," says Pankaj Karna, Managing Director, Maple Capital Advisors – Delhi-based investment banking firm.

Mid-stage affordable online fashion marketplace Voonik backed by Sequoia India has already acquired half a dozen start-ups in the last four years. Its acquisition strategy spans across all kinds of acquisitions. In August 2015, it acquired Trialkart – a virtual dressing room with image intelligence capabilities that became part of Voonik's research and development division. "It helped us develop capabilities to create descriptions about products automatically be reading the images," says Sujayath Ali, CEO and Co-Founder, Voonik.com. Similarly, it acquired online salon-booking app Styl for its talent who had developed a great user interface and user experience design. But in both cases there was no value in the product or business for Voonik, hence they were shut down.

Along with Styl last year, it also acquired online store for silk sarees – PickSilk but it wasn't killed. "We acquired it because we didn't have any expertise in silk sarees. We saw that consumers had a likening for the brand and hence we didn't shut it," adds Ali. Voonik also acquired Zohraa which was into designer sarees but shut it because the brand lacked stickiness with customers.

PIGGYBACK GROWTH

(Few of the companies that were acquired despite any visible slowdown in their growth)

ACQUIRER
Snapdeal

ACQUIREE
Exclusively.com
FEBRUARY 2015

Reduce Data
SEPTEMBER 2015

ACQUIRER
Flipkart

ACQUIREE
Appiterate
APRIL 2015

Letsbuy
FEBRUARY 2012

ACQUIRER
Zomato

ACQUIREE
Sparse Labs
SEPTEMBER 2016

Urbanspoon
JANUARY 2015

ACQUIRER
Ola

ACQUIREE
Qarth
MARCH 2016

"There is no point (for Flipkart) in keeping the two (Jabong and eBay India) alive. Even in our case, the acquired businesses from domain expertise perspective would be integrated into Voonik unless they have a strong brand recall."

Sujayath Ali, CEO and Co-Founder, Voonik.com

SCALE AND RECALL

Taking Voonik as an example to how acquisitions have played out, the brand ideally should have shut down PickSilk as running two separate brands require creating two respective paths of benefits. This essentially is not efficient even from shareholders' perspective as access to cash flow gets narrow even as it gets devoid of some privileges attached to the main company. "Absorbing a company would give a much better sense on cash flows and may be leveraging on its clients. But it is case-by-case," adds Wadhawan.

However, if the brand offers better business beyond the core business then it makes sense. "It depends on multiple things such as whether there is a market for the acquired business, can it run at a unit price, is there a visibility to its profitability, does that align to larger focus area etc.," says Sharda Balaji, Founder, NovoJuris – a Bengaluru-based law firm.

Looking at it from a broader scenario, while Jabong and eBay India continues to exist as separate brands under Flipkart Group, their days seems to be numbered as from a cost-benefit analysis perspective, Jabong and eBay India won't be able to scale up to the level of Myntra and Flipkart respectively. "There is no point in keeping the two alive. Even in our case, the acquired business from domain expertise perspective would be integrated into Voonik unless it has a strong brand recall," asserts Ali. For example, Flipkart would never be able to shut down Myntra because it has a stronger brand recall than Flipkart in fashion category. Apart from brand recall, scale is also critical, without that the former doesn't make sense. "Scale is the only reason that is keeping Jabong alive," reasons Ali.

Despite that, Snapdeal kept the ailing FreeCharge as an independent identity instead of scraping it off altogether before it was sold to Axis Bank in a distressed sale worth only $60 million.

"There is a regulatory aspect to wallets and also FreeCharge's business model was different from pure ecommerce. Perhaps that's why it was kept separate," suggests Karna. However for Axis Bank it will be useful to keep FreeCharge as a separate neutral entity being a non banking vehicle. "The neutrality can essentially get Axis Bank beyond its current retail banking reach. This means you are able to leverage much beyond your own customers," concludes Karna. Ⓔ