

E-Commerce Market: Reliance Jio-Facebook Partnership Challenge to Amazon, Walmart-Flipkart

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E-Commerce Market

Market size was estimated to be US\$50 billion in 2018, and projected to grow to US\$64 billion in 2020, US\$81 billion in 2021, and US\$188 billion by 2025 by Statista. Users shopping online are expected to increase from 120 million in 2018 to 175 million in 2020. The Internet user base touched nearly 700 million by the end of 2019, while smartphone shipments crossed 150 million. It is this group of users which will give a fillip to e-commerce. Start-up India, Digital India programs and deeper Internet penetration are creating opportunities for companies to explore e-commerce to increase their sales. Digital fibre will be reaching 150,000 gram panchayats to provide broadband access by March 2021, under the BharatNet program of the government. All the telecom companies are investing in fibre and adequate base stations to enable 4G access across the country. And 5G is not far behind.

After early beginnings by several start-ups like FabMart in 1999, it was Flipkart, Snapdeal, Myntra, and others 2007 onwards that e-commerce became acceptable as a B2C (business-to-consumer) platform. People could order goods online and receive them offline in their homes. These companies increased their scale through investments from venture capitalists, leading to mergers and acquisitions too. Snapdeal acquired Unicommerce and Freecharge in 2015. Myntra acquired Jabong, which was in turn acquired by Flipkart. PhonePe, a digital payment system, was also acquired by Flipkart. Amazon India quietly made its debut in 2013, and invested US\$2 billion in 2014 to launch its e-marketplace. With its strength in technology and inventory model, it soon emerged as a leader in e-commerce in the country.

But the big bang happened when Walmart invested US\$16 billion for 77% stake in Flipkart in 2018. Tencent, Microsoft, Tiger Global, and Accel continued to invest in the biggest e-commerce company.

Flipkart (31.9%), along with its owned brands Myntra and Jabong, had 38.3% market share of e-commerce in 2018. Amazon was second with 31.2% market share. So, between them they hold 70% of e-commerce market in India. There are others like Paytm Mall, which have major Chinese investors. Then there are others which are getting millions of visits every month – BookMyShow, Firstcry, Nykaa, IndiaMart, Snapdeal.

Government supported Udaan in a B2B (business-to-business) platform that connects small and medium manufacturers and wholesalers with retailers and also provides them with logistics, payment and technology solutions. It has sellers in 80 cities, and delivers to over 500 cities.

Government's e-commerce policy announced in 2019 allows 100% FDI in B2B and e-marketplace companies. In the latter case, the companies cannot hold inventories so that deep discounts that they were offering earlier, to the detriment of small companies and offline stores, are discouraged.

It is against this background that Reliance Jio Platforms, owned by a large Indian corporate, has to be viewed as an e-commerce company. Its deals with Facebook for a minority stake of 9.99% at

US\$5.7 billion, 1.12% to Silver, and 2.32% to Vista Equity Partners have generated a total of Rs 60,596 crore investment in Jio Platforms to drive its plans for consumer digital economy. This is the first major Indian company in e-commerce, not a start-up, not an entity created by foreign investors, not a marketplace created by 100% FDI. The biggest players Flipkart and Amazon are foreign owned.

Jio Platforms-Facebook Deal

Jio Platforms is a wholly owned subsidiary of Reliance Industries limited (RIL). Jio Platforms, in turn, owns the telecom connectivity unit Reliance Jio Infocomm and various digital app platforms – OTT (over the top) - such as JioMart and Ajio.com (e-commerce), Jio-Saavn (music) and JioCinema (movies). Jio is the digital ecosystem of RIL. With nearly 388 million data users, it's the largest telecom network operator in India.

On April 22, 2020, Mukesh Ambani, CMD, RIL and Marc Zuckerberg, CEO, Facebook (FB) announced a deal which enables the latter to buy a stake of 9.99% at Rs 43,574 crore, subject to necessary regulatory approvals. The deal values Jio Platforms at Rs. 4.62 crore, nearly US\$66 billion (at conversion rate of 70 rupees to a dollar). FB investment of US\$5.7 billion makes it the largest investment of a technology company for a minority stake across the world, and the largest FDI in the technology sector in India. FB will have a seat on the board of Jio Platforms, with one more as an observer.

In addition, Jio Platforms, Reliance Retail (retail unit of RIL) and WhatsApp have signed a commercial pact to cross-leverage e-commerce platform JioMart and WhatsApp to grow both businesses. In fact, this is the one that's planned to take off first. WhatsApp is the dominant OTT messaging platform in India. Over 400 million WhatsApp users (FB has over 700 million Indian users) are expected to transact with local kirana stores, on the JioMart platform, with the kirana stores delivering products and services locally. Mukesh Ambani said that, "In the very near future, JioMart and WhatsApp will empower nearly three crore small Indian kirana shops to digitally transact with every customer in their neighbourhood. This means all of you can order and get faster delivery of day-to-day items from nearby local shops. At the same time small kiranas can grow their businesses and create new employment opportunities."

Reliance Jio Strengths

The press release of 22 April 2020, by RIL emphasised the "world-class digital platform built by Jio, which is powered by leading technologies such as Broadband connectivity, Smart devices, Cloud and Edge Computing, Big Data Analytics, Artificial Intelligence, Internet of Things (IoT), Augmented and Mixed Reality and Blockchain." With a digital ecosystem comprising network, devices, applications, and content, Jio has emerged as a one stop shop for users for all kinds of services. It combines carriage, content and commerce. Through this partnership, it wants to help achieve 'Ease of Life' and 'Ease of doing Business' as part of its effort to contribute to PM Modi's 'Digital India' mission. (www.ril.com)

Furthermore, Jio has developed the 5G platform indigenously. It has developed end-to-end 5G technology – own hardware for 5G, and own Cloud-native platform. It is actively building 5G and IoT technology capability in-house. The move is said to be unprecedented not only in India, but globally, since technology vendors are distinct from network operators. Samsung was its only vendor for 4G

radio technology. Reliance Jio will be the only 4G and 5G network independent of Chinese technology – a first in India, and perhaps in the world. Jio plans to customize its technology based on 5G and IoT standards that will be adopted by India. It needs to be underlined that Jio's own IMS (IP Multimedia subsystem) solution (vIMS) for VoLTE and VoWiFi is live since October 2019. It was previously using Nokia's and Oracle's IMS, and related technology for 4G voice service. (<https://economictimes.indiatimes.com/industry/telecom/telecom-news/reliance-jio-builds-in-house-5g-iot-replaces-nokia-oracle-tech-to-reduce-dependence-on-foreign-gear/articleshow/74541379.cms>) These indigenous 5G products and services, like any other from global competitors, should be tested by the government under the STQC Labs through accredited private labs under the Common Criteria plus 3GPP Standards, for functionality as well as for security.

Marc Zuckerberg, CEO, Facebook said on the deal, "...Facebook is teaming up with Jio – we're making a financial investment, and more than that, we're committing to work together on some major projects that will open up commerce opportunities for people across India." FB stated that its goal was to enable new opportunities for businesses of all sizes, but especially for the more than 60 million small businesses across India. It underscored the fact that India is home to the largest FB and WhatsApp communities, which can be leveraged to accelerate the digital transformation underway, in partnership with Jio Platforms. (moneycontrol.com)

Reliance expects that WhatsApp users, currently on Airtel, Vodafone and BSNL networks; and FB and Instagram users, will bring business to other Jio platforms like JioCinema, and JioSaavn (music), JioCloud, JioTV, MyJio or JioMoney (payments), JioChat, JioSecurity, JioHealth-Hub, JioMotive (IoT for smart car connectivity), among hundreds of others. FB, on the other hand gets access to the Indian telecom space, through the largest telco and digital ecosystem with nearly 388 million users. It has been trying to enter the Indian Internet scene – the Internet users – since its failed attempt in 2016 when it offered free Internet to users in the country - under its FreeBasics Plan – with the condition that they could access only the Internet sites it would choose to enable. Upholding the Network neutrality principle, the regulator didn't allow that.

FaceBook – taking a foothold outside of the US and Canada as a business platform

FB revenues, per its 4Q 2019 results, come largely from the US and Canada – US\$10.25 billion, while its user base is less than 10% there. This is one half of its total revenue. The other half came from Asia Pacific (US\$3.67 billion), Europe (US\$5.16 billion), Rest of the World (US\$2.01 billion). The number of users is very large in these countries. With China out of its reach, India is the best option though even by 2021, the e-commerce market will only 7% of the US\$1.2 trillion retail market. Organized retail will be 17%, while traditional retail (mom-and-pop or kiranas) will still be 75%. (Deloitte Report, quoted by Bloomberg). And the latter has proved its utility during the corona lock down by keeping the supplies available to people. It is this segment that Ambani wants to get onboard his JioMart. And FB believes that it can enable the 3 crore (30 million) kiranas, and 60 million small businesses that get on board JioMart using WhatsApp Business tools. The kiranas need digital tools. Together they wish to roll out superapps which have been very popular in China. All the major players Baidu, Alibaba, TenCent have created superapps to keep customers locked into their platforms by making available all: chat, e-commerce, window shopping, taxi hailing, gaming, entertainment, TV, and much more. This approach of superapps has clicked in Indonesia too. Even the western e-commerce platforms trying to replicate.

Jio wants to leverage WhatsApp's business features to quickly bring on board local stores and the nearly 60 million small businesses and merchants to reach out to their customers. The partnership will solve the problem of small merchants and stores locating people, who, in turn, will be able to find the former and the products they are looking for on the JioMart. WhatsApp Pay is the payment platform, with only a million users; and JioMoney integrated with JioMart is also not a big platform as yet, though it will make the payments seamless. However, it has been clarified by Jio Platforms that the two can compete in the digital payments market, notwithstanding the partnership. Similarly, JioChat can also compete with WhatsApp.

Data Localisation – divergent views of partners

WhatsApp Pay has not yet been approved by the government, as a full-fledged digital payment platform by National Payment Corporation of India (NPCI), since it has not complied with the RBI's norms of data localisation. Its plans of scaling up its user test bed from 1 to 10 million has hit a roadblock, according to ET of 23rd April 2020 (<https://telecom.economictimes.indiatimes.com/news/whatsapp-pay-to-comply-with-all-rules-in-india-by-may/75339589>).

Further, Reliance Jio and WhatsApp have held different views on data localisation from the beginning. Mukesh Ambani is on record that data localisation, access to law-enforcement agencies under the Indian laws even with end-to-end encrypted messages must be accepted by digital platforms. FB, on the other hand, considers the Indian government's request for decryption of data in WhatsApp messages going against the global norms of privacy, and individual's rights. It takes umbrage under the privacy judgement of the Supreme Court of India. The matter is still subjudice. As a global platform, it is not likely to make an exception for India, since this will open it up to similar requests from other governments. It seems that the partners have agreed to disagree on this crucial matter. However, **it is clear that the Jio Platforms data will be stored in its local data centres.**

Will the massive users' personal data and transaction data on this joint platform pose privacy challenges? Laws of the land will have to be complied with. Both the players have said so. It is for the regulators to oversee. But then the regulation should be based on light touch that enables innovation and economic growth, not a control-oriented one!

It's thus clearly an e-commerce opportunity that FB and Jio have partnered for. A big gamble indeed, given that it's going to fructify, post Covid-19, after regulatory approvals, when the economy will be looking down. JioMart will have stiff competition from Amazon, which is already there promoting itself as a local store. Amazon is investing a billion dollars this year to digitise small businesses and kiranas to enable them board its platform. And now the Department for Promotion of Industry & Internal Trade (DPIIT) along with Confederation of All India Traders (CAIT) have announced the setting up of e-commerce platform for local kirana stores connect with their customers, for the last mile contactless delivery and digital payments. Other promoters for the e-marketplace include Startup India, Invest India, All India Consumer Products Distributors Federation. It aims to have 7 crore traders onboard this platform. With learnings from the Covid-19 crisis, especially in supply chains for kiranas in Tier 2 and 3 cities, this e-marketplace will include manufacturers, distributors, wholesalers, retailers of all verticals of domestic trade and consumers. (<https://economictimes.indiatimes.com/small-biz/sme-sector/coming-soon-e-commerce-platform-for-small-traders/articleshow/75341923.cms>)

An interesting e-commerce scenario is in the making. Flipkart, Snapdeal, Myntra and many more are presently catering to customers for consumer goods. They already have a connect with customers; they can leverage that to expand their offerings to include groceries as well. Will they too try to be in the kiranas, and small businesses space? Additional competition comes from the recently launched e-commerce platform tatacliq.com from the Tata house, which has high standing among customers. Tatas do things very quietly. Their plans will become clear as the lock down eases.

But speed is the name of the game. Reliance is known for that along with that of scale. JioMart has already taken a WhatsApp business number, which can be added by customers on their phones (8850008000). With the link sent by JioMart to customer's WhatsApp chat window, he they fill in their details like address, phone number etc to get the product catalogue information. An order placed by a customer is shared with a local kirana or JioMart store. It's going live in Navi Mumbai, Thane and Kalyan. Merchants are already consolidated by Jio on its platform through Reliance Retail. Its focus is on replicating the Alibaba's approach of O2O (online-to-offline) marketplace, in which the customer searches for products online, but buys it offline in a physical store. It has been christened in the west as 'phygital' – physical with digital combined (<https://www.livemint.com/companies/news/jiomart-gets-a-whatsapp-number-goes-live-11587830909415.html>)

Synergies and Differences

What, therefore, are the salient ways in which the partnership will affect the two giants individually, and the Indian marketplace? In my view, these are as follows:

1. Reliance Jio, with this investment, is likely to emerge as a healthier telco compared to its competitors – AirTel and Vodafone. (Not counting BSNL as a state enterprise). If its proposed deal with Brookshield, for selling a stake in tower business, goes through, Jio will be even stronger on its balancesheet than the competition.
2. Jio Platforms will enhance its reach to WhatsApp and FB users, for promoting its numerous apps like JioCinema, Jio-Saavn, JioCloud, JioSecurity, JioTV. This can help increase its customer base.
3. JioMart will be able to onboard small businesses and kiranas quickly with WhatsApp business platform, transforming them into digital stores. Already started as noted above, but Amazon is likely to be a big challenger, since it has been promoting the idea of it being a neighbourhood dukan (shop), for quite sometime.
4. JioMoney and WhatsApp Pay will compete for digital payments to attract customers on their respective payment platforms, though the latter is yet to receive permission to operate by NPCI, beyond its existing trial user base of a million. But the dominant payment platform, Paytm, backed by Japan's SoftBank and Chinese investors like Alibaba, is likely to lose its pre-eminent position. It has reported loss of over US\$500 million in 2018-19. It already has stiff completion from Google Pay and Walmart's PhonePe. RuPay, launched by NPCI, too has established strong presence in the digital payments system with government support. India is likely to see bruising competition in this area. Jio is developing necessary software to enable all digital payment systems on its platform. Walmart is pumping in US\$28 million to keep PhonePe as a strong contender. Will JioMoney play the second fiddle to WhatsApp Pay? Reliance is not known to relish such an idea.

5. What would be of great value to FB is that it will be able to use 5G technology indigenously developed by Jio. A first in the world that will not use any Chinese technology.

The partnership presents great potential to digitize the Indian market, with a win-win possibility for both in the e-commerce opportunity that is knocking the doors of India. The two can develop superapps to compete with China in transforming the Indian digitization marketplace. **The technology platforms that the two partners bring together are not based on any Chinese hardware, software or networking technology. And with 5G developed in-house by Reliance Jio, the future too likely will be free of Huawei and ZTE.** The Indian government should welcome this, given the security issues that have been raised around 5G technology from the Chinese vendors. This is also worthy of being taken note of by the US government and the European Union. Reliance technology can have long term value for the west after successful rollout of FB apps in India.

As noted above, the only concerns that the partnership presents are around data security and privacy. How will data be viewed? Clearly, it has business value for FB. How will it be monetized by it through this partnership? FB was fined US\$5 billion under the US Laws in the Cambridge Analytica case. But then both FB and WhatsApp are committed to maintaining privacy of individuals' data. They have locked horns with the Indian government on revealing identity of messages to the law-enforcement agencies (LEAs) since it violates privacy. It also is opposed to data localization, while agreeing to help the government on case to case basis. Government of India has yet to announce the rules under the Information Technology Act. Reliance, on the other hand, considers data localization necessary, and that it must be made available to LEAs when asked for under the Indian laws. How will this partnership handle this difficult issue? Only time will tell.

Finally, does this partnership break any laws of the country? This is subject to approvals by Competition Commission of India, and other regulatory agencies. Investment of 9.99% in the stake of Jio Platforms does not seem to break foreign investment limits. Does it affect other major players like Flipkart-Walmart, Amazon, and the emerging e-marketplace promoted by the government? This has to be analysed by the concerned government agencies. Primary issue will be to examine whether it impacts level playing field in any way. Will it make the business of kiranas easier, or make them overly dependent on Jio for survival? Small businesses have complained against the likes of Amazon and Flipkart for deep discounts that are hurting their market. With deep pockets, these platforms are willing to take make losses in order to retain customers, and get the smaller players out of the marketplace. Will Reliance Jio combination be yet another player to hurt small businesses, or it will truly emerge as a platform for the latter to engage with their customers profitably? With nearly 3 crore kiranas that will be targeted by Jio Platforms, will they have opportunities to continue to survive as corner stores? More so, because of the Amazon experience of 'apni dukan' which has reportedly cut their profitability. The government's proposal to set up an e-marketplace to connect small businesses and kiranas with wholesalers and distributors may act as an alternate platform for them. It is heartening to note that in the current lock down in the country, it's the local kirana stores, partnering with their suppliers, who have ensured delivery of essential supplies to their customers. Their digitisation will be a win-win for all those involved in the e-commerce chain.

The key message of Jio-FB partnership for e-commerce is that the domination of B2B and e-marketplace by foreign players through 100% FDI, has been challenged by an Indian company – the largest telco of India. It is set to create a new paradigm for digitisation of small businesses and

kiranas to let them transact with their customers, thereby transforming the e-marketplace and taking India forward in its digital economy march. E-commerce will not be the same anymore.

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