

## “Recharging: the Right Way??”

### A case study on e-payment giants: Freecharge & PayTM

Dr. Karminder Ghuman<sup>1</sup>, CS Shruti Srivastava<sup>2</sup>

<sup>1</sup>(LM Thapar School of Management, Thapar University, Patiala, India) <sup>2</sup>(Brightways Learning, Mohali, India)

**ABSTRACT:** *The case study poses a strategic question that in the emerging internet based service provision industry, whether it is a better strategy to develop a unique positioning on the basis of single key service or it's better for an organization to offer multiple services, thereby reducing risk, increasing traction and thus increasing its valuation? To answer this fundamental question, the present study employs the case example of two leading e-platforms: Freecharge and PayTM that are employing diametrically opposite strategies in order to scale up their ventures. It also examines the role of Push and Pull strategies in a single industry, thus drawing the reader to take a position, which is better and why?*

**Keywords** - cloud computing, mobile agent, load balancing.

#### I. INTRODUCTION

With Internet user base in India reaching 354 million by the end of June 2015 [1] and Internet and Mobile Association of India (IAMAI) reporting that the internet users in India grew 17% from January to June 2015, the emergence and future growth of e-commerce and m-commerce is a foregone conclusion. This is evident from the billion-dollar valuation that the top seven Indian e-Commerce companies including Flipkart and PayTM have reached in the early years of their inception.

Although the signs with respect to both global e-commerce as well as number of users transacting online are encouraging (Fig 1.2 and Fig. 1.5), yet the strategic framework in the online sphere is still emerging. In the absence of reference curves for various business indicators, leading organizations in the same industry are trying contradictory approaches. Some are trying to be almost everything in order to generate more and more business/traffic on their platform while others are trying to be very much focused on attaining a unique positioning in a particular domain. Only the time will determine, which of these business models in the virtual world will generate sustainable and above-average returns in the long run. The same holds true for the strategies employed by two of India's leading e-payment platforms.

The present case study portrays the two leading companies in the e-payment domain: PayTM and Freecharge. It examines the various facets associated with their strategic and operational plans and pose a question, which of the two models would emerge as a better one in the long run?

#### II. ORGANIZATION PROFILE

PayTM, as its abbreviation states, Pay Through Mobile was launched in 2010 by One97 communications as a prepaid mobile and DTH recharge company. Gradually, it made its way into the e-commerce market in the year 2014 and further added bus ticketing to its kitty in 2015. PayTM now offers multiple products ranging from primary mobile recharges to buying apparels or electronics enabling customers to get everything at one place. Thus, over a period of time, it has become both a payment platform as well as the marketplace.

This strategy not only enables PayTM to serve multiple needs of the customers, giving them a holistic experience by saving their time and efforts but is also expected to be helpful in cross-selling and up-selling and thus increasing the overall profitability of the organization. It has even obtained the license from Reserve Bank of India to run a Payments Bank. As a result, PayTM is amongst the top 7 e-commerce companies in India to

have billion-dollar valuation and transformed the business model of PayTM from a recharge web site to a payment cum e-commerce marketplace. It has 100 million Paytm Wallet users that carry out over 75 million transactions every month [2].

China's Alibaba Group with its affiliate Ant Financial invested \$680 million in PayTm in September 2015 to raise their stake to 40%, taking its valuation at somewhere around \$4 billion [3]. On account of higher valuation, PayTM had resources to stitch Rs.203 Crores worth of deal with Board of Control for Cricket in India for 84 matches. Considering the quantum of following that cricket has in India, this association with BCCI for primary sponsorship rights is sure to get a lot of visibility to PayTM brand and likely to catapult it as a national brand with significantly high brand recall amongst all sections of society.

Freecharge: On the contrary, FreeCharge, which was also, started in the year 2010 focuses on a single product delivery: one stop destination for all Prepaid and Postpaid Mobile Recharges, DTH & Data Cards recharges along with recently included Mumbai Metro Card recharges. Since the focus of the company is on a single product it tends to achieve specialization and unique positioning in the eyes of actual and potential customers.

Within one year of its operations, Freecharge was having a huge consumer base of 1 million-plus unique users because of its unique business model, which is an enviable achievement for any organization, which is just one year old. This could be achieved because for every recharge done on Freecharge, discount coupons of the equivalent amount were provided to the users.

Freecharge's business model has a wide appeal in terms of the demographic profile of its customers, but the main customer segments comprise of young students, office going people who use prepaid mobile network services, are net savvy and carry a credit card or debit card. This gives a large and growing base of customers for freecharge to explore and offer its services. Although another giant of the industry - Snapdeal acquired it in the year 2015 for \$400 million, making it the biggest acquisitions in the history of the internet industry in India [4], yet it maintains its existence as an independent entity serving the same need for which it was established.

Freecharge recently launched its 'FreeCharge Wallet' and it crossed 10 million registered users within 60 days of its rollout. It was the fastest to reach this milestone not just in the digital payments space but also in the case of any internet-based products [5].

Thus, the business model of Freecharge is based on the strategic choice to have a very sharp focused positioning of being a recharge platform. Its intent is to grow within this domain of e-payments and recharges rather than adding multiple solutions or services at the platform to increase the user base.

To promote itself, Freecharge has dedicated a budget of Rs.1,000 crores to be given back to the customers as discount coupons and cash-back for patronizing it and giving repeat business. This tested concept is core to its business model and has helped the company to grow enormously since its inception. FreeCharge has also recently launched an app called Cheatz, which is a deal aggregator and aggregates deals that are available across the Internet under various portals.

### **III. INDUSTRY DYNAMICS**

India is amongst one of the most cash-intensive economies of the world with cash to GDP ratio of 12%, this figure is around three to four times than the comparable economies for similar economies like Brazil and South Africa. The ratio of the amount of money in circulation in cash compared to that of what is in the banks in about 51% in India, whereas the ratio is 8 to 9 percent for most of the countries [6].

Total transaction value in the "Digital Payment" segment in India amounts to USD 28,961.6 million in 2016 and is expected to show an annual growth rate (CAGR 2016-2020) of 18.36% resulting in the total amount of USD 56,837.5 million in 2020. In China, it has reached USD 833,358.4 million in 2016. The "Digital Payment" market's largest segment in India is "Online B2C Commerce" with a total transaction value of USD 28,718.5 million in 2016. With the increasing sales of smart phones year after year (Fig. 1.3) and the average time that the users are spending online (Fig. 1.5), this figure is likely to increase significantly in the coming few years. To support this growth, the online payment services are also witnessing tremendous growth trajectory.

M-wallet market segment, which currently account for a minuscule part of Digital Payments includes transferring of money, banking transactions, shopping, ticketing, recharging, and bill payments is projected to

grow at a CAGR of around 30% in the next five years from 2015-2019. As depicted in Fig 1.1 the highest 38% market share is captured by money transfer businesses, followed by recharge by 30% and bill payments, and utility areas by 12% while others enjoy 20% market share [7]. Some of the major m-wallet players are Airtel Money, mRupee, Vodafone m-Pesa, Oxigen Wallet, Paytm, Mobikwik and Idea Money.

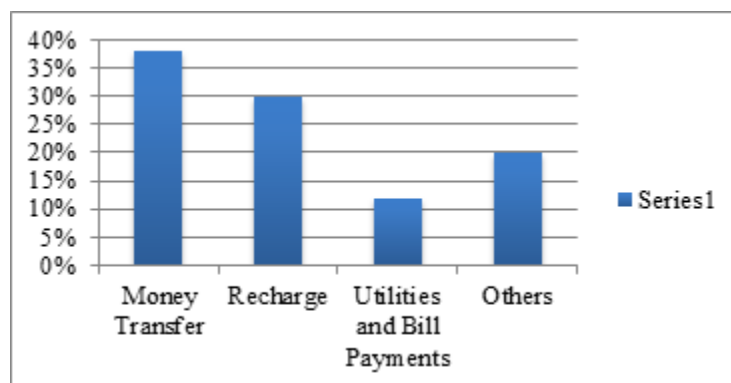


Fig 1.1: Market composition for Mobile Payments

Source: <http://www.altimetrik.com/wisdometrik/mobile-wallets-market-opportunities-and-challenges/>

According to Counterpoint Technology Market Research, mobile payment segment was worth \$3.2 billion in 2015. The market research firm and consultancy firm 6Wresearch points out that India has about 135 million wallet users and predicts the value of India's mobile wallet transactions will reach \$11.5 billion by 2022 [8]. In this market, PayU Money, Paytm, MobiKwik, Oxigen and My Mobile Payments have currently captured around 70% of the market revenue.

**IV. BUSINESS MODELS OF PAYTM AND FREECHARGE: A COMPARATIVE ANALYSIS**

Both the companies started as mobile and DTH recharge companies with e-payment as their core business, however, one chose diversification and the other did not. They represent two strikingly different schools of thoughts when it comes to strategic planning & marketing. PayTM visualizes brand building as a more concrete step in running the business whereas FreeCharge focuses on giving greater benefits to its customers in the form of cash backs and vouchers to retain their engagement. Considering the figures in Table 1.1, PayTM clearly appears to be ahead of its rival Freecharge in terms of customer base, unique visitors, revenue and valuation. Both the Companies are doing well and have become giants in just 5 years since their inception; it is very difficult to decide which one is the right way to move ahead.

**Table 1.1: Comparison between PayTM and FreeCharge**

	<b>PayTM</b>	<b>FreeCharge</b>
Customer Base	100 million	20 million
Employee Base	2000-5000	51-200
Total Fund Raise	\$1.83 Billion	\$120 Million
App Downloads	30 Million	10 Million
Daily Unique Visitors	14,00,980	2,21,377
Monthly Unique Visitors	4,20,29,400	66,41,310
Alexa India Rank	17	134
Bounce Rate	24%	17%

Daily Revenue	\$24,140	\$9,994
Monthly Revenue	\$734,750	\$304,182

PayTM’s revenues are sourced from multiple avenues: interest received from Paytm escrow account, advertising other products on its websites, annual subscription fees from different sellers, who list their products on its website, commission from the seller for their products listed at paytm websites, Paytm Wallet, etc. On the other hand, FreeCharge is keeping it simple by not adding any products or services that dilute it’s positioning.

Both, Vijay Shekhar Sharma, founder - CEO of PayTM and Kunal Shah, founder -CEO of FreeCharge, have called each other's approach as 'flawed' and 'myopic'. Shah in an interview to Hindustan Times told that combining payment business and hawking (e-commerce) on the same platform as PayTM does is a 'flawed' approach; on the other hand, Vijay Shekhar Sharma retorted that combining the shopping and payment process on a single platform will reduce the overall time for a transaction and thus, will leave more time with customers to do more transactions [9].

**Questions for discussion and analysis:**

1. Is it a better strategy to develop a unique positioning on the basis of single key service or it’s better for an organization to offer multiple services, thereby reducing risk, increasing traction on the site and thus increasing its valuation?
2. Will it be a challenge for Freecharge to attract customers to come to its site only for recharges when they can do it easily on another website where they were already shopping some other things?
3. Considering the price sensitivity of Indian consumers, whether cash-backs/vouchers as Push Strategy is likely to be more effective or the Pull Strategy that is based on building a strong brand recall?
4. Do the customers prefer a one stop shop for everything on a single platform like PayTM or specialist websites like FreeCharge that are specialists in that domain and have a strong and unique positioning?

**REFERENCES**

[1] Alawadhi, N., “India’s internet user base 354 million, registers 17% growth in first 6 months of 2015: IAMAI report”, Retrieved from [http://articles.economictimes.indiatimes.com/2015-09-03/news/66178659\\_1\\_user-base-iamai-internet-and-mobile-association](http://articles.economictimes.indiatimes.com/2015-09-03/news/66178659_1_user-base-iamai-internet-and-mobile-association), Sep 3, 2015.

[2] Subbu,R.,“Paytm crosses 100 million Wallet userbase”, The Hindu, Retrieved from <http://www.thehindu.com/business/Economy/paytm-crosses-100-million-wallet-userbase/article7531373.ece>, August 13, 2015

[3] De Waal-Montgomery, M., Alibaba inks strategic investment in Paytm; deal could be worth \$680M at \$4B valuation, Retrieved from <http://venturebeat.com/2015/09/29/alibaba-inks-strategic-investment-in-paytm-deal-could-be-worth-680m-at-4b-valuation/>, September 29, 2015.

[4] TNN, “Snapdeal buys Freecharge for \$400m” Retrieved from <http://timesofindia.indiatimes.com/business/india-business/Snapdeal-buys-Freecharge-for-400m/articleshow/46857876.cms>, April 9, 2015

[5] Pyne, S., “It’s FreeCharge Vs. Paytm in e-payments space now”, Retrieved from <http://www.businessinsider.in/Its-FreeCharge-Vs-Paytm-in-e-payments-space-now/articleshow/50120653.cms>, December 10, 2015.

[6] Agarwal, S., “India Inc lauds plan to bring digital payment at par with offline payments”, Retrieved from <http://economictimes.indiatimes.com/news/company/corporate-trends/india-inc-lauds-plan-to-bring-digital-payment-at-par-with-offline-payment/articleshow/51147487.cms>, February 26, 2016.

[7] Singh, S., “Mobile Wallets – Market, Opportunities and Challenges”, Retrieved from <http://www.altimetrik.com/wisdometrik/mobile-wallets-market-opportunities-and-challenges/>, 2015.

[8] Aulakh, G. “How wallet companies like Paytm, MobiKwik, Oxigen Wallet are trying to prevent fraudulent mobile transactions”, Retrieved from [http://articles.economictimes.indiatimes.com/2016-01-16/news/69816355\\_1\\_paytm-mobikwik-wallet-companies](http://articles.economictimes.indiatimes.com/2016-01-16/news/69816355_1_paytm-mobikwik-wallet-companies), January 16, 2016.

[9] Subramani, K., “Paytm and FreeCharge take pot shots at each other”, Retrieved from <http://www.htsyndication.com/htsportal/article/Paytm-and-FreeCharge-take-pot-shots-at-each-other/9771975>, October 31, 2015.

**APPENDIX**

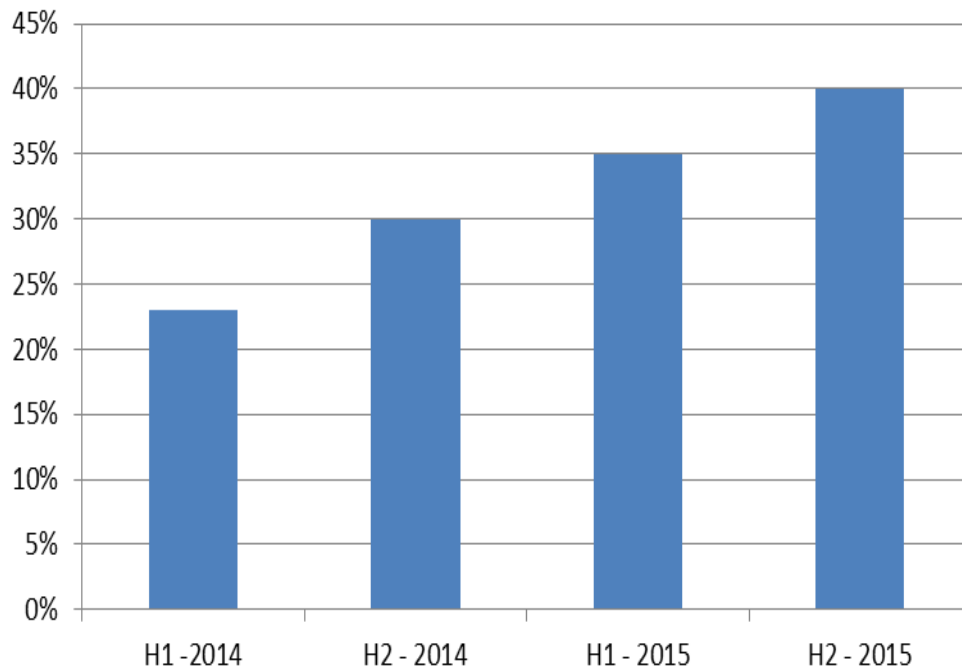


Fig. 1.2: Percentage of Mobile Share in Global e-Commerce Transactions  
Source: Criteo e-Commerce Industry Outlook 2015

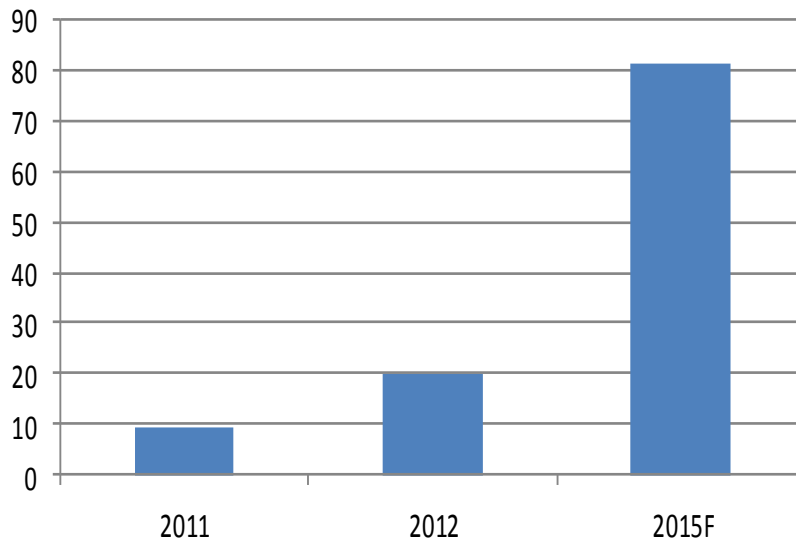


Fig. 1.3: Smartphone Sales in India (million)  
Source: Trak, Gadgetizor  
Note: Forecasted figure for 2015 is of smartphone shipments

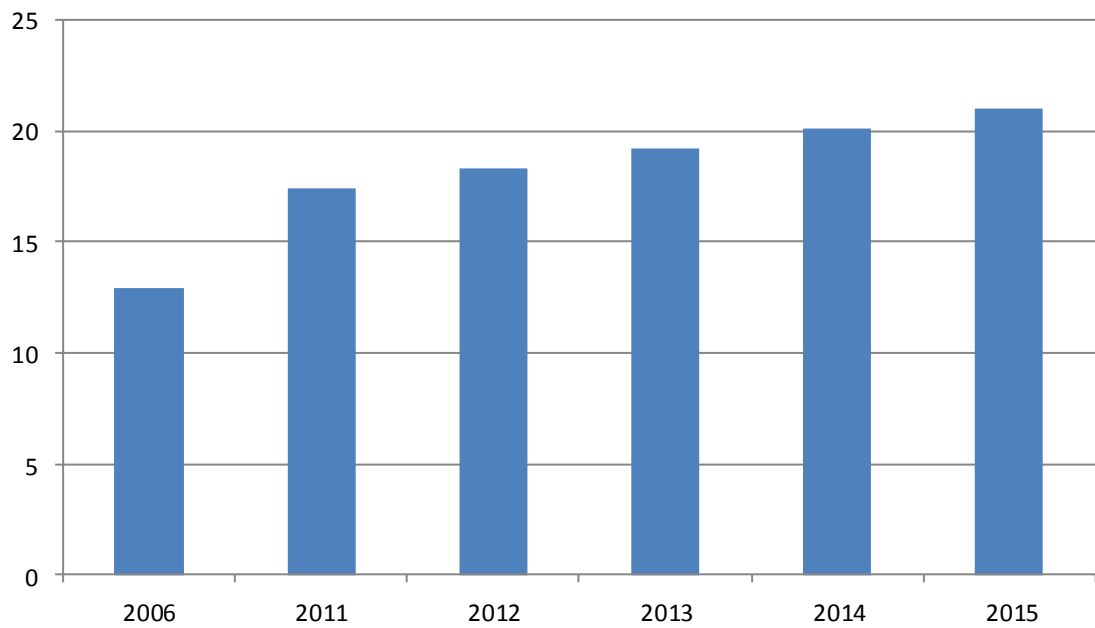


Fig. 1.4: Average Time Spent Online Per Person Per Month  
Source : EY Estimates

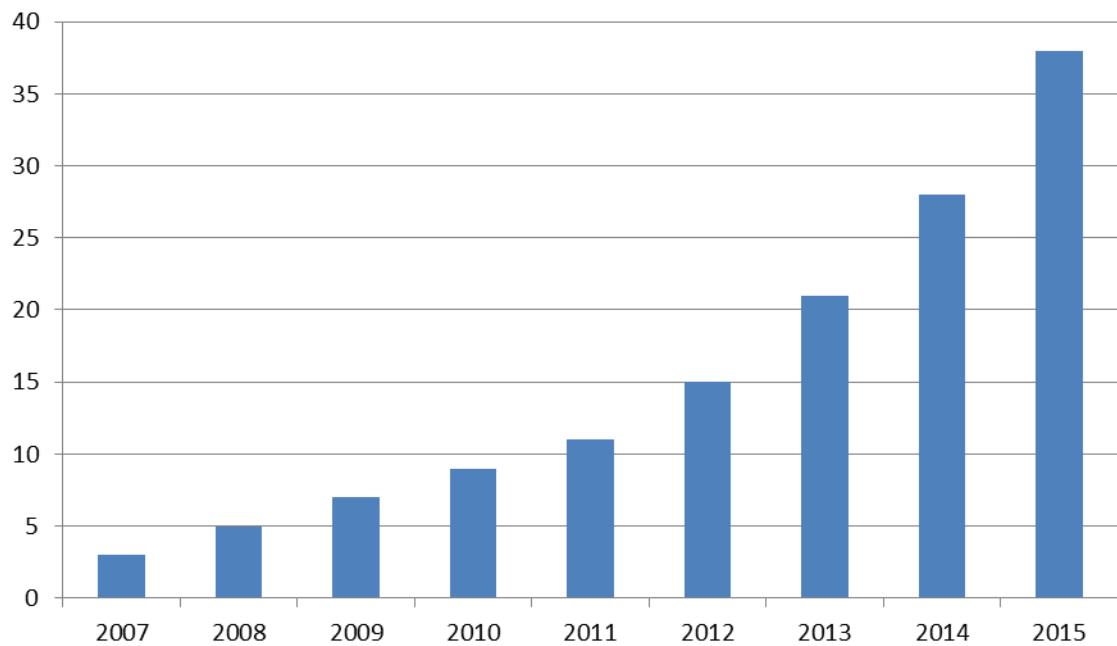


Fig. 1.5: Number of users transacting online (million)  
Source: Aventus