

Wal-Mart: Can It Succeed In India?

**Komal Chopra*

BHARTI- WAL-MARTTIE UP

After entering into discussions with Tesco of UK and Carrefour of France which did not materialize, Bharti Enterprises of India finally struck a deal with Wal-Mart of US in November 2006. According to the deal, Bharti would handle front end retail stores while Wal-Mart would act as a wholesale and back-end partner. However, Bharti would use the name “Wal-Mart” for its stores. The joint partnership planned to make investments in the retail sector to the tune of \$100 million which could go upto \$1.46 billion. Wal-Mart was already procuring goods from various Indian companies to the tune of \$1.5 billion. While Wal-Mart would benefit from Bharti's experience in India, Bharti would benefit from Wal-Mart's experience in overseas markets. However, after tremendous opposition from local people and political parties, the first store opened in Amritsar in late 2009.

ABOUT WAL-MART OF US

The retail chain Wal-Mart was established by Sam Walton in 1962 in the US. Over the years, the retail chain grew leaps and bounds to be the most successful retailer in the US. The retail chain operates in various formats such as discount stores, supercentres and warehouse clubs. Wal-Mart stores are huge stores with size varying from 42,000 sq. feet to more than 200,000 sq. feet. The business model of Wal-Mart is based on selling a wide variety of merchandize at “always low prices” often referred to as “everyday low prices”. Wal-Mart successfully expanded its operations to 14 countries which included Mexico, UK, China, Argentina, Brazil, Canada, Chile, India and Puerto Rico. By 2010, the chain operated 2,980 stores outside the US. Wal-Mart also ranks among the topmost global retailer in the world with revenues of more than \$ 400 billion from worldwide operations in 2009.

ABOUT BHARTI ENTERPRISES OF INDIA

Bharti Enterprises is an Indian business conglomerate established by Sunil Bharti Mittal. The group was founded in early 1990s. The group is involved in variety of businesses such as telecom, insurance, fresh foods, retail and realty. Outside India, the company has a presence in Bangladesh, Sri Lanka, Jersey, Guernsey and Seychelles. The group is in the process of establishing itself in countries like Burkina Faso, Chad, Congo Brazzaville, Democratic Republic of Congo, Gabon, Ghana, Kenya, Madagascar, Malawi, Niger, Nigeria, Sierra Leone, Tanzania, Uganda, and Zambia in the African sub-continent. The brand names “Airtel” and “Beetel” are household names in India. Its revenues for the year 2009 was estimated at \$ 10 billion.

INDIAN RETAIL SCENARIO

The retail industry in India can be traced back to the existence of mom and pop stores. These were the neighborhood convenience stores catering to the daily needs of consumers. The Government of India also initiated its own public distribution system by starting ration shops in addition to canteen stores department for Defence personnel. It also provided support to rural retail initiatives by constituting the khadi and village industries commission.

The emergence of organized retail chains was seen in the 1980s when textile companies such as Bombay Dyeing, Raymond's, S Kumar and Grasim set up their own stores. In the same decade, Indian watch company Titan set up a series of showrooms for its premium watches. In the 1990s, organized retailers such as Future Group, Raheja group, RP Goenka group and many others started their retail chains in various formats targeted at urban population to provide a one-stop solution for their needs. The stores emerged in various formats such as supermarkets, hypermarkets, departmental stores and discount stores.

Post 2000, organized retail expanded to small cities and towns. However, the major concentration of retail had been limited to the urban markets. A study by McKinsey & Company in 2007 estimated that 44 % of total villages in India had population of less than 500 and proper roads connected only 33 % of total villages. Retail analysts explain that

**Assistant Professor, Symbiosis Institute of Management Studies, Pune. E-mail : k_omalchopra@yahoo.com*

rural markets in India are highly heterogeneous in addition to having lower per capita consumption making it financially unviable for the retailers to operate in rural markets.

Since liberalization in 1991, the Indian market had a limited presence of global retailers such as McDonalds, Landmark, Dominos, Pizza Hut and few others. In January 2006, the Union Cabinet approved the policy on foreign direct investment (FDI) in retail to further simplify procedures for investing in India and to avoid multiple layers of approvals required in some activities. To facilitate easier inflow, FDI up to 100 % was allowed under the automatic route for cash and carry wholesale and export trading. However to protect the interests of Indian retailers, the FDI up to 51 % was permitted in “single brand retail”. In 2009, A.T. Kearney's Global Retail Development Index (GRDI), ranked India as the most emerging destination for retail ahead of Russia and China.

A report on India by Northbridge Capital, UK based investment bank reveals that “Retail market size in 2009 was estimated to be of \$450 billion, growing at the rate of 30 per cent per annum. It is expected to grow to \$720 billion by the end of 2011”. An analysis by AT Kearney reveals that organized retail in India accounts for only 6 % of the total retail market. The Indian market has traditionally been dominated by unorganized retail. Hence, one may wonder whether global retailers can sustain in India considering the restrictions on FDI in retail and a strong competitive unorganized market.

GLOBAL RETAIL SCENARIO

The US market is dominated by retailers such as Wal-Mart, Kmart, Home Depot, Office Depot, Toys R Us, McDonalds, Starbucks and a few others leading to a complete saturation of the market. Markets in Latin America continue to be promising with Brazil in the lead. Due to liberalized FDI policies of the Brazilian government, the economy is projected to grow at more than 3 %. The rising disposable incomes of the middle class have offered opportunities to the country's domestic and international retailers to capitalize on the consumer purchasing power.

Europe, which includes countries such as UK, Ireland, Austria, Denmark, Spain and Finland are considered to be mature markets having significant presence of global retailers. However, Russia is considered as an emerging retail destination due to strong income growth and higher consumer spending. The GDP of Russia is expected to grow at 6 % in 2009-10 as per IMF estimates.

Strong GDP growth in Asian countries (projected at 5.6 % for India and 7.5 % for China in 2010 as per IMF¹ report) coupled with absence of major competition had lured global retailers to look towards Asia. India and China are seen by retailers as growing economies and lucrative retail destinations. Though China has a sizeable presence of global retailers, organized retailing is still evolving in India.

PROMINENT INDIAN RETAILERS

❖ FUTURE GROUP

Future group started its operations in 1993 with Pantaloon Retail as the flagship enterprise. The company operates on a multi-format retail strategy. In the lifestyle segment, the group operates a fashion retail chain called 'Pantaloons' and a chain of luxury segment hypermarket called 'Central'. In the value segment, the group operates a hypermarket format called 'Big Bazaar'. The group also diversified into specialty retail formats such as books and music stores called 'Depot', sportswear stores called 'Planet Sports', electronic goods stores called 'eZone', home improvement stores called 'Home Town' and rural retail chain called 'Aadhaar', among others. It also operates an online portal called 'futurebazaar.com'. The group has presence in 71 cities and towns and 65 rural locations across India. In 2008, Big Bazaar opened its 100th store, thereby becoming the fastest growing hypermarket.

The other group companies include Future Generali, the group's insurance venture in partnership with Italy's Generali Group, 'Future Brands', a brand development and intellectual property rights company, 'Future Logistics', the logistics service provider to group companies and business partners and 'Future Media', a retail media initiative. The Future Group has a presence in leisure and entertainment segment through domestically based company called Galaxy Entertainment Limited. Galaxy has a chain of sports bars and family entertainment centers called 'F123'. Through its partner company, Blue Foods, Future Group operates around 100 restaurants and food courts with brands like Bombay Blues, Spaghetti Kitchen, Noodle Bar, The Spoon, Copper Chimney and Gelato. The Group's overseas joint venture partners include 'Staples', US-based stationery products retailer and Middle East-based 'Axiom Communications'. The Group has a financial arm called 'Future Capital Holdings' to provide investment advisory service and consumer

finance with branches in 150 locations across India.

❖ **K. RAHEJA GROUP**

The Raheja Group launched its retail venture 'Shopper's Stop' in 1991. Shopper's Stop sold a range of branded apparel and private labels under the categories of apparel, footwear, fashion jewellery, leather products, accessories and home products. Over the years, Shopper's Stop has diversified into the speciality store formats such as book stores called 'Crossword', home furnishing stores called 'HomeStop' and coffee bars such as 'Brio' and 'Desi Café'. The group has strategic partnerships with international retailers such as Mothercare Plc of Britain, Leisure & Allied Industries of Australia and Nuance Group AG of Switzerland. Shopper's Stop and Hypercity Retail, another retail venture of the Raheja Group, have jointly entered into an agreement with Home Retail Group Plc, United Kingdom, to develop the format of catalogue retailing in India. The group has forayed into the entertainment industry by acquiring 45 % stake in Timezone Entertainment Private Ltd., which was in the business of operating family entertainment centers in India. In 2008, the group started another retail venture called 'Inorbit'.

❖ **RELIANCE RETAIL**

Reliance Retail Ltd. (RRL), the retail venture of Reliance Industries Ltd., launched its first store in November 2006 through its supermarket format called 'Reliance Fresh'. RRL established its first digital store called 'Reliance Digital' in April 2007 and its first and India's largest hypermarket called 'Reliance Mart' in August 2007. By 2007-08, the retail chain expanded to operate 590 stores in 57 cities across 13 states. In 2009, RRL forayed into specialty stores for apparel called 'Reliance Trends', footwear stores called 'Reliance Footprints', jewellery stores called 'Reliance Jewels', books, music and other lifestyle product stores called 'Reliance Timeout', auto accessories and service stores called 'Reliance Autozone' and health and wellness outlets called 'Reliance Wellness'.

❖ **TATA GROUP**

Trent, the retail arm of Tata group launched operations in 1998. The portfolio of Trent consists of lifestyle chain called 'Westside', a hypermarket chain called 'Star Bazaar', books and music chain called 'Landmark' and family fashion stores called 'Fashion Yatra'. In 2008, Trent entered into a joint venture with UK based retailer, Tesco to open cash and carry wholesale stores in India. Under the agreement, Tesco would also supply merchandize to Star Bazaar outlets. The Tata's also run electronic megastores under the brand 'Croma', watch and eye care stores under the brand 'Titan' and jewellery stores under the brand 'Tanishq'.

❖ **RPG GROUP**

The retail arm of RPG, called 'Spencer's Retail' was established in 1996. Spencer's focused on supermarket and hypermarket formats with verticals like food and beverage, electrical and electronic goods, home and office essentials, garments and fashion accessories, toys, personal care, music and books. By 2009, the retail chain operated in 50 cities across India.

❖ **ADITYA BIRLA GROUP**

Aditya Birla Retail Limited, the retail arm of Aditya Birla Group, ventured into retail in 2007 by acquiring 'Trinethra', a south-India based chain of stores. The retail chain focused on supermarkets called 'more.' and hypermarkets called 'more. MEGASTORE'. By 2009, Aditya Birla Retail had more than 600 supermarkets across India and was planning a massive expansion in the hypermarket format.

❖ **VISHAL GROUP**

'Vishal Megamart', the retail venture of Vishal Group, launched the first hypermarket in India in 1986. Since then, Vishal Megamart underwent a massive expansion and by 2009, it had presence in 100 cities and 24 states of India.

WAL-MART'S EXPERIENCE IN THREE COUNTRIES

Though Wal-Mart has been largely successful in many countries, its failure in three prominent countries has raised questions about its success in India.

❁WAL-MART IN JAPAN

Wal-Mart had acquired a majority stake in Japanese retail chain Seiyu and by early 2005 opened several big size outlets in busy streets of Japan. The global stores offered a wide variety of Japanese products. However, the initial poor decisions made by Wal-Mart put them in bad taste among Japanese consumers. The global retailer fired 25 percent of the staff, which included 1,500 employees and managers of Seiyu. As mass firings are not common occurrences in Japan, the country as a whole felt offended. As a result, Wal-Mart received negative press publicity causing the retailer to lose customers. The unique proposition of Wal-Mart is to sell products at “everyday low price”. This strategy helped Wal-Mart to achieve success in under-retailed markets such as Mexico and China. However, Japanese consumers equate low prices with inferior goods. They are willing to pay high prices for quality goods. Hence, failure to understand consumer behavior severely impacted sales. Industry observers in Japan believe that social harmony and a distaste of foreign control are heavily ingrained in the social and business environment of the country. Hence, American companies would always be far from ever achieving success in Japan.

❁WAL-MART IN GERMANY

In 1997, Wal-Mart acquired Wertkauf, a leading German retail chain. Later it acquired another leading retail major, Interspar in 1998. Wal-Mart stores are designed for customers who are willing to spend lots of time in shopping. But in Germany, the shopping hours are limited: Shops close by 5 pm on weekdays and no shopping on Sundays. This implies that German customers are not in the habit of spending lots of time in a store - wandering around for the things they need. The German customers do not like to be assisted by Wal-Mart's friendly store assistants for shopping. They prefer to do their own search for bargains. Wal-Mart got its merchandise placement wrong: Germans like to see the advertised discount products upfront - without having to ask the store assistant. This implies that the discount products must be placed at the eye level. However, Wal-Mart followed its US style merchandise display strategy - where premium priced products are kept at eye level and discount products are kept at higher shelf or in the bottom racks. This irritated the German shoppers. Wal-Mart also got its store inventory wrong. Products like clothes, hardware, electronics and other non-food products were given much bigger floor space than food products. Germans shop in big outlets mainly for food products. Hence, other German retailers like Metro stock more of food products which constitute more than 75% of their revenue. As a result of consistent mistakes, Wal-Mart suffered consistent losses to the tune of \$ 1 billion and exit Germany in 2006 by selling its 85 stores to Metro.

❁WAL-MART IN SOUTH KOREA

Wal-Mart ventured in South Korea in August 1998. Wal-Mart had relied on its proven business model and its strategy in offering low prices for products. However, “everyday low prices” alone were insufficient to make Wal-Mart successful in South Korea. Similar to the United States, most Wal-Mart outlets in South Korea were placed outside city limits. South Koreans are used to easily accessible shopping facilities without the need to travel much. Some individuals felt that Wal-Mart should have been located in the central location of the cities where consumers felt more comfortable to shop. South Koreans are visually-oriented customers, appreciating aesthetically pleasing displays and shopping environment. South Korean ladies did not like the warehouse-like atmosphere of Wal-Mart, which the American consumers seem not to mind since the products are still cheap. They prefer the department store-like, neat, clean, and sophisticated atmosphere. Wal-Mart stuck to Western marketing strategies that concentrated on dry goods, from electronics to clothing, while their local rivals' focused on food and beverages, the segment that attract South Koreans to hypermarkets. As a result, on May 22, 2006, Wal-Mart, added its name to a list of multinationals like Nokia, Nestlé, and Google that had failed to adjust to the taste of South Korean consumers.

CONSUMER SHOPPING BEHAVIOR IN INDIA

Consumers in the west are accustomed to shopping at organized formats while in India, such formats are still evolving. Consumers in India select a store for shopping based on the following:

- 1. Traveling Time :** If the desired products are available in the neighborhood store, consumers would not visit the far away supermarket or hypermarket.
- 2. Range Of Products Offered :** If the consumer shopping list is such that the required goods are not available in the neighborhood store, they would visit the supermarket or hypermarket.

3. Services Offered : The neighborhood stores offer personalized services such as credit facilities, free home delivery service, sms service and extended working hours. The organized retail formats offer good ambience, promotional offers and a good shopping experience.

4. Socio- Economic Background : The socio-economic background of consumers determine their lifestyles and the kind of stores they would be comfortable to shop. Initially, the lower income group was hesitant to shop at organized retail formats as they felt that such stores were for the elite. However, over a period of time, the retailers adopted steps to change the perception of such consumers.

WAL-MART IN INDIA

What Wal-Mart will face in India is how consumers perceive Wal-Mart. In the U.S., when you think of a big warehouse store, you think of lower prices while small boutique stores have higher prices. However, in India, the perception is exactly the opposite -- the bigger store has higher prices; smaller shops can offer lower prices because their overheads are lower. How will Wal-Mart's positioning of lower prices carry forward in a mindset where customer perceptions of big versus small are so different? Wal-Mart's another major challenge would be to find real estate at preferred locations and financing it at prevailing prices. The existing national brands would need to plan their response to Wal-Mart if they want to ensure that while supplying the retail giant, they do not alienate their existing small store network. FMCG majors like Hindustan Lever, ITC, P&G currently deal with a network of small stores. In future, they would be dealing with large buyers like Wal-Mart, so the relative power structure of buyers and suppliers will change.

OPPORTUNITIES FOR WAL-MART

According to a report by McKinsey & Company, the rise in disposable income of Indian consumers would be a major factor in contributing to the growth of retail consumption. The factors contributing to the growth of organized retailing in India include growth in working population, double income households, one stop destination for all needs, changing consumer lifestyles and easy availability of credit. Data by Investment Commission of India, 2007 reveals that significant retail opportunities exist in product categories like food and beverage, consumer durables and home improvement. It further forecasts that home improvement and consumer durables would grow at a compounded annual growth rate of 20 % in ten years time. It further mentions that India had a significant potential to emerge as a sourcing base for a wide variety of goods for international retailers. Leading international retailers including Tesco, GAP and JC Penney are already sourcing from India.

A report prepared by Ernst and Young for India Brand Equity Foundation (IBEF) reveals that there are significant opportunities for organized retailers in various cities of India such as Ahmedabad, Pune, Kanpur, Nagpur, Surat, Ludhiana, Coimbatore, Chandigarh, Lucknow, Kochi, Jaipur, Vadodara, Vizag, Indore, Vijayawada, Trivandrum, Bhopal, Nashik and Madurai. This is because these cities have households with tremendous spending power and lower penetration of organized retail compared to metro cities such as Delhi, Mumbai and Bangalore.

The online retail business has progressed in India with growth of internet connections and e-payment service users. Retailers such as ebay.in, indiatimes.com and rediff.com were early entrants. Many small retailers have their portals for online sale of merchandise.

70 % of India's population is in the rural areas which offer tremendous opportunity for retailers. Key players in the rural retail market include Indian Tobacco Company's Choupal Sagaar, DCM Shriram group owned Hariyali Kisan Bazaar and Indian Oil Corporation's Kisan Seva Kendra among others. The main product categories marketed in rural areas include seeds, urea, FMCG goods and farm produce.

Airport retailing is another emerging area for retailers. Raheja Group's Shopper's Stop partnered with Nuance Group, a leading Swiss global retailer to set up retail outlets at Bangalore and Hyderabad airports. Airport retailing offers opportunities in luggage, clothing and related accessories, food and beverage and souvenirs. The growing tourism industry has created significant demand for retailers dealing in artifacts.

CHALLENGES FOR WAL-MART

Logistics infrastructure in India has always been a cause of concern for global retailers. Lukas Ruecker, who oversaw emerging market business as Vice President at Staples commented that the overall logistics is so much more difficult from a port in Chennai or a port in Shanghai to stores. Sumant Sinha, CEO, Aditya Birla Retail, is of the view that the

logistics and supply chain infrastructure has to be built from scratch. India's retail industry seems promising but *"is tempered by the fact that the country is grappling with severe infrastructure and policy issues,"* says the CII in the report it produced in collaboration with A. T. Kearney. Cold chains (distribution chains for perishable items), warehousing and logistics infrastructure will create problems for global retailers if the Indian government does not focus on infrastructure. The report also points at inadequate quality control and the lack of a skilled workforce in India. Global retailers would have to customize their formats to suit Indian conditions. The Government of India fears that entry of global retail giants could put many retailers in the unorganized sector out of business. However, discussions at various retail forums have often proved that there is enough space for organized and unorganized retail in the country. In spite of repeated discussions on the issue at various government levels to further liberalize the retail sector, no headway has been made.

Indian retailers in organized and unorganized sector have geared themselves to face global competition. The organized retailers have focused on mall space acquisition, store expansion and diversification into various formats in addition to above and below the line promotional activities. The unorganized sector has focused on value added services. Small retailers in India have inherent advantages. They are located next to the consumers making it convenient for top-up purchases. They know the consumers well, some even by name. Fixed costs for small retailers is very low, thereby reducing their breakeven point to as low as 46 % of sales. They have also focused on re-organizing their stores and stocking a variety of products.

THE ROAD AHEAD FOR WAL-MART

Can the failure of Wal-Mart in three major countries be taken as a backdrop to predict its future in India? Consumer Behavior experts are of the view that global retailers would have to understand shopping behavior in India and provide answers to **"Why Should Indians Consistently Shop At Foreign Retail Outlets?"** Cold chain management is a significant challenge while managing fresh produce, where producers are fragmented and there are multiple levels of intermediaries causing wastage of up to 30% to 40% in the supply chain. Adequate availability of skilled and trained manpower is another area of concern.

ENDNOTE

¹World Economic Outlook, Crisis and Recovery, *International Monetary Fund*, April 2009.

BIBLIOGRAPHY

1. Andreas Knorr, Alfons Lemper, Axel Sell, Karl Wohlmuth (2003), "Why did Wal-Mart fail in Germany?", Institute for World Economics and International Management, (June).
2. "A.T. Kearney Global Retail Development Index (2009)", AT Kearney.
3. Bhatia, P. & Sharma, A. (2008), "India's organized retail players rethinking strategy", *The Economic Times*, 27 (September).
4. "Bharti retail foray with Wal-Mart", *The Financial Express*, May 18, 2006.
5. Gandolfi, Strach, (2009), "Retail internationalization: Gaining experience from Wal-Mart insights in South Korea", *Review of International Comparative Management*, Volume 10, Issue 1, (March) .
6. "Indian retail market likely to touch \$720 bn by 2011 end", *The Economic Times*, Aug 13, 2009.
7. "Neighbourhood stores go off the beaten track", *Business Standard*, June 29, 2009.
8. "Opening a Big Box: Organized Retail Confronts the Challenges of Local Markets", *IndiaKnowledge@Wharton*, March 20, 2008.
9. "Organizing for organized retail in India", Ernst & Young, 2009.
10. "Organized retail to grow from 5 pc to 14-18 pc by 2015", *Outlookindia.com*, Sept 28, 2008.
11. "Retail : Market and Opportunities", India Brand Equity Foundation.
12. "The Retail Opportunity in India 2009", UK Trade & Investment.
13. "Top global retailers say India is most sought-after market", *The Economic Times*, April 12, 2008.
14. "Trouble in Store: A Setback for India's Organized Retail Sector", *IndiaKnowledge@Wharton*, Feb 26, 2009.
15. "The Bird of Gold: The Rise of India's Consumer Market", McKinsey Global Institute, 2007.
16. William J. Holstein (2007), "Why Wal-Mart Can't Find Happiness in Japan," *Fortune*, 27 (July).