

# Wal-Mart: Can It Succeed In India

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## ABSTRACT

*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.*

**Key Words:** Wal-Mart, Retail Trade

## INTRODUCTION

### BHARTI-WAL-MART TIE 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. 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 about 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-Marts stores are huge stores with size varying from 42,000 sq.feet to more than 2,00,000 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 top most global retailer in the world with revenue of more than \$400 billion from worldwide operation in 2009.

## 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 development for Defence personnel. It also provided support to rural retail initiatives by constituting the khadi and village industries commissions.

The emergency of organized retails chains was seen in the 1980s when textiles 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 the needs. The stores emerged in various formats such as supermarkets, hypermarkets, departmental stores and discount stores.

## 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 other 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.

### OBJECTIVES OF THE STUDY

1. To study the impact of Wal-Mart in Retail Business.
2. To know the awareness of Wal-Mart among public.
3. To know the strength and weakness of Wal-Mart.
4. To know the challenges of Wal-Mart in Retail Business

### REVIEW OF LITERATURE

**Emek Basker (2007)** This paper to dispel some of the myths regarding Wal-Mart and to replace them with a systematic accounting of what is known about Wal-Mart's impact on the U.S. and global economy. Media reports often portray Wal-Mart as a "job destroyer" and a force that levels Main Streets, but there is little evidence to support this view. Wal-Mart's impact on jobs is modest, and probably positive; and the effect on other businesses is also relatively small. In the process, I highlight potential areas for future research and discuss available data sources as well as some methodological pitfalls.

**Dr. Arun Mittal (2013)** The international operations and success strategies of Wal-Mart and its entry in India with Bharti. The study is based upon secondary data accessed from Wal-Marts annual report and other sources. The information has shown significant increase in Wal-Marts performance in International segment.

## PROMINENT INDIAN RETAILERS

### 1. 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 “Pantaloon” 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 ‘Home Town’ and rural 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 100<sup>th</sup> stores, thereby becoming the fastest growth hypermarket.

The other group of companies include Future Generali, the groups insurance venture in partnership with Italy’s Generali Group, ‘Future Brands’, a brand development and intellectual property rights company, ‘Future Logistics’, the logistics services provided 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 support bars and family entertainment centers called ‘F123’. Through its partner company, Blue Foods, Future Groups operates around 100 restaurants and food courts with brands like Bombay Blues, Spaghetti Kitchen, Noodle Bar, The Spoon, Copper Chimney and Gelato. The Groups 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.

### 2. 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.

### 3. Tata Group

Trent, the retail of Tata group launched operations in 1998. The portfolio of Trent consists of lifestyle chain called 'Star Bazaar', books and music chain called 'Landmark' and family fashion stores called 'Fashion Yatra'

### 4. RPG Group

The retail of RPG, called 'Spencer's Retail' was established in 1996. Spencer's focused on supermarket and hypermarkets with verticals like food and beverage, electrical and electronics goods, home and office essential garments and fashion accessories, toys, personal care, music and books.

### 5. Aditya Birla Group

Aditya Birla Retail Limited, the retail 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'.

## CONSUMER SHOPPING BEHAVIOR IN INDIA:

Consumers in India select a store for shopping based on the following

### 1. Travelling Time

If the describe products are available in the neighborhood store, consumers would not visit the far away supermarket of 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 services, 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 stores were for the elite. However, over the 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 if 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 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 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**

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 Ahmadabad, Pune, Kanpur, Nagpur, Surat, Ludhiana, Coimbatore, Chandigarh, Lucknow, Kochi, Jaipur, Vadodara, vizag, Indore, Vijayaeada, 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 services users. Retailers such as ebay.in, indiatimes.com and rediff.com were early entrants. Many small retailers have their portals for online sale of merchandize.

### **Could Wal-Mart succeed in India**

Wal-Mart recently announced that much of the mega-retailer's future growth will come from expanding internationally, especially in emerging markets such as India and China. That's risky business. Last year,

Wal-Mart had to close up shop in South Korea and Germany. In fact, less than a third of international retail expansions succeed, according to the consulting firm Bain & Co.

If Wal-Mart in India were anything like Wal-Mart in the United States, there are some obvious reasons why its operations just wouldn't fly:

1. **Lack of huge parking lots.**

Americans tend to go to Wal-Mart once a week and buy a ton of stuff. Hauling the loot home requires cars and parking lots. In India, expansive parking lots don't exist, and it's unlikely that Wal-Mart could find enough land to build one in India's dense cities. (And Wal-Mart would have to target urbanites; the rural folk are too poor.)

2. **Lack of cars.** Most Indians don't have cars, much less ones with capacious trunks to hold a week's worth of purchases. Instead they walk or bike to a nearby corner shop or open-air market, and make small purchases on a nearly daily basis. Plus, vegetable sellers wheel their carts through neighborhoods (sort of like ice-cream trucks in the United

States), so an Indian homemaker often doesn't even have to leave her doorstep to get the ingredients for that evening's dinner.

3. **Lack of large fridges.** Buying a week's worth of fruit, veggies, and milk won't work because Indians lack American-sized refrigerators to store large quantities of perishable foods. Plus, electricity in many places is sporadic.

4. **Protests from mom-and-pop grocers.** In a nation with a tiny shop or kiosk on every corner, Wal-Mart would easily invoke the wrath of small-business owners, just as it has in small-town America.

### STRENGTHS OF WAL-MART

1. Huge and loyal customer base
2. Strong employees base
3. Strong financial position
4. Offer low prices to its customers in retail industry
5. Holding top position in Fortune 500 companies
6. Power brand in retail industry
7. It has been offering wide range of products



8. Wal-Mart core competencies included information technology, supply chain and inventory
9. Strong operations in USA, UK and China
10. Large network of retail outlets
11. Domestic presence in USA is very strong
12. Huge market share in USA

### **WEAKNESSES WAL-MART**

1. Complaints have been received regarding the product quality of Wal-Mart
2. Improve HR policies for employee retention
3. Product recall
4. Simple retail outlet structure
5. Revenues are declining
6. In past, Wal-Mart was criticized for pressurizing employee union.
7. Reducing suppliers profit margin.

### **CHALLENGES FOR WAL-MART:**

1. Severe Infrastructure
2. Policy issues
3. Lack of a skilled work force
4. Unorganized sector out of business

### **CONCLUSION:**

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.

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