Impact of Wal-Mart – Bharti Alliance on Indian Organized and Unorganized Retail Market

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Abstract

In January 2006, the Union Cabinet approved a major rationalization of the policy on 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 FDI inflow, FDI up to 100% was allowed under the automatic route for cash and carry wholesale trading and export trading. However to protect the interests of Indian retailers, the FDI in retail was limited to 51 % in single brand retail only. Currently, the share of organized retail continues to remain at 6 %. India has limited presence of international retailers such as McDonalds, Pizza Hut, Dominos, Adidas and Nike to name a few. In 2007, Wal-Mart entered into a 50:50 joint venture with Bharti Retail to distribute products in India. The paper studies consumer perception relating to impact of Wal-Mart – Bharti alliance on organized and unorganized retail market in India. Consumers of different age groups and gender visiting organized and unorganized outlets in Pune have been surveyed. Questionnaire method was used for survey. Sample size of 100 respondents visiting various outlets (organized and unorganized) in Pune is expected to be covered. The survey is in progress and findings will be presented in final paper. The paper is significant to understand whether increasing presence of global retailers in India will change the market scenario or not?

Keywords :

Organized retail, Wal-Mart, Bharti Retail, market scenario, consumer perception

1. Introduction

Since liberalization in 1991, the Indian market has 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 only. In 2006, Wal-Mart of US entered into a 50:50 joint venture with Indian retail major, Bharti Retail to foray into the wholesale business in India. The first Wal-Mart - Bharti store opened in Amritsar in late 2009. In the same year, A.T. Kearney's Global Retail Development Index (GRDI), ranked India as the most emerging destination for retail ahead of Russia and China. Global retailers like French based Carrefour and US based Starbucks were exploring opportunities in the Indian retail market while; Swedish retailer IKEA shelved its plans.

1.1 Organized Retail in India

Organized Retail in India refers to the modern retail formats like supermarkets and hypermarkets that have an organized structure, systems, people and processes. Currently, the share of organized retail continues to remain at 6 % (A.T. Kearney & CII, 2008). The drivers of organized retail in India include higher disposable incomes of consumers, change in consumer lifestyles, double income households, product variety and one stop solution for all needs coupled with shopping and entertainment.

1.2 Unorganized Retail in India:

Unorganized Retail in India is refers to kirana stores, street markets, kiosks and roadside peddlers. The term "unorganized retail" is better understood by the following characteristics:

1) Family-run stores

2) Lack of best practices when it comes to inventory control and supply-chain management

3) Lack of standardization

4) Essentially a sector populated by anyone who has something to sell

Major concentration of retail has been limited to the urban markets. This is because 44 % of total villages in India have population of less than 500 and only 33 % of total villages are connected by proper roads (McKinsey survey, 2007). The rural market is highly heterogeneous besides having lower per capita consumption making it impossible for the retailers to make higher profits. India has presence of global retailers such as McDonalds, Pizza Hut, Dominos, Adidas and Nike to name a few. Wal-Mart of US has been the latest entrant by opening its store in 2009 in collaboration with Bharti Retail of India.

2. Wal – Mart and Bharti Alliance

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 the topmost global retailer in the world with revenues of more than $ 400 billion from worldwide operations in 2009.

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 were estimated at $ 10 billion.

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 millon which could go upto $1.46 billion. Wal-Mart was already procuring goods from various Indian companies to the tune of $1.5 billion. Industry observers say that the Wal-Mart would benefit from Bharti’s experience in India while 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.

3. Wal-Mart’s tale in three countries

3.1 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.

3.2 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 means 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 loses to the tune of $ 1bn and exit Germany in 2006 by selling its 85 stores to Metro.

3.3 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 center of the cities where consumers felt more comfortable with their shopping needs. 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 were still cheap. They preferred 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.

4. Consumer Shopping Behavior in India

Consumers in the west are accustomed to shopping at organized formats while in India such formats are still evolving. Various researchers analyzing consumer shopping behavior in India made the following observations with respect to selection of stores by consumers:

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.

5. Research Methodology

Secondary data for this study has been collected from various published reports on Indian retailing and research journals related to retailing and consumer behaviour. Primary data was collected through questionnaires from customers visiting organized retail outlets in Pune. Sample size of 110 respondents was collected using simple random sampling method. The respondents belonged to different age groups and gender. They were asked the following questions :

Exhibit 1

60 respondents were males and 50 respondents were females

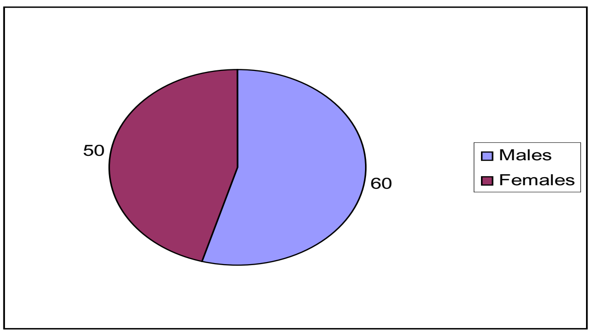


Exhibit 2

35 respondents belonged to age group of 26 – 30 yrs, 35 respondents belonged to age group of 21 – 35 yrs and 35 respondents belonged to age group of 31 – 35 yrs.

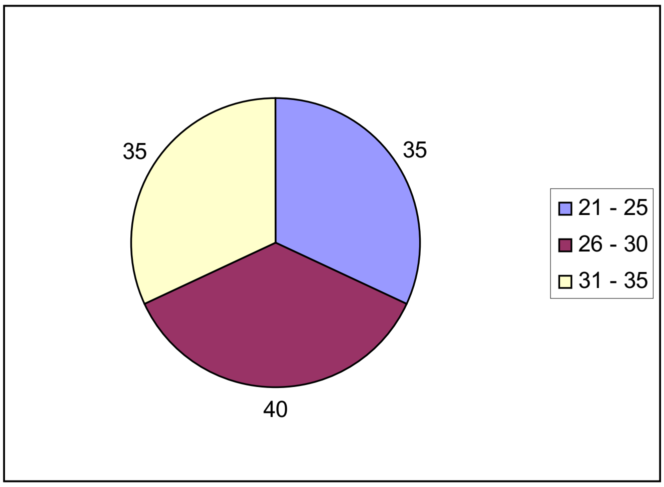


Exhibit 3

Q1. Do you visit global retail outlets for shopping ?

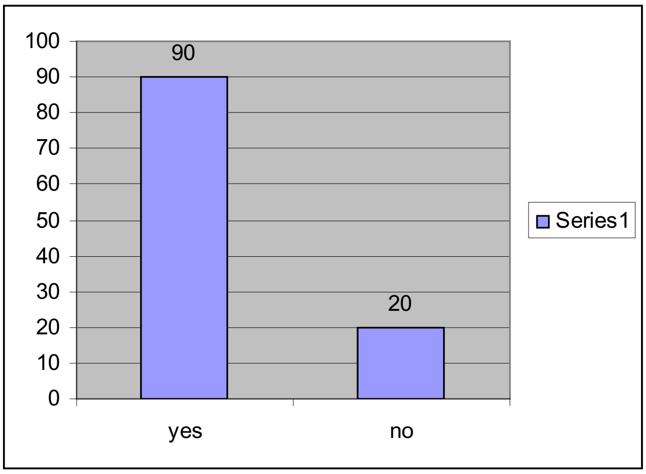


Exhibit 4

Q2. Have you heard of Bharti – Wal-Mart alliance ?

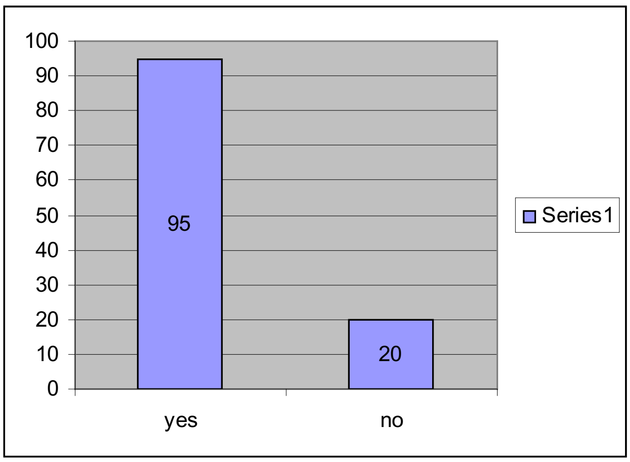


Exhibit 5

Q3. What factors help you decide a global store ?

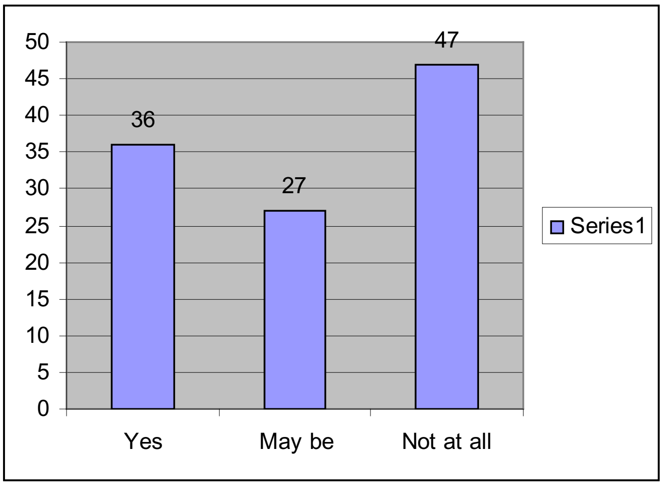


Exhibit 6

Q4. Do you think Wal-Mart and Bharti can capture the Indian market in future ?

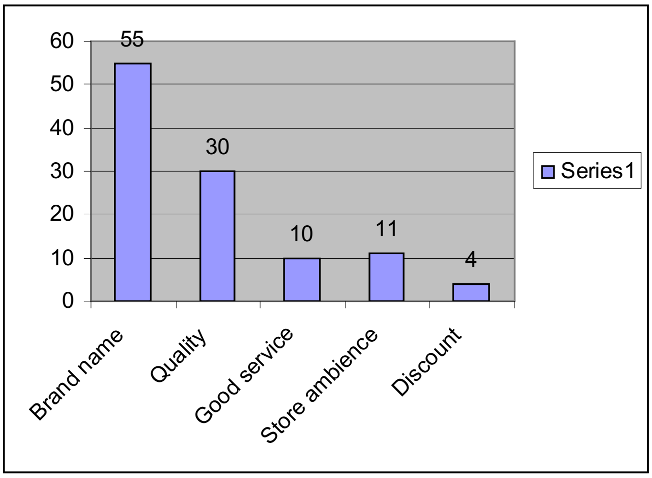


Exhibit 7

Q5. Which brand name will influence you more Bharti or Wal-Mart ?

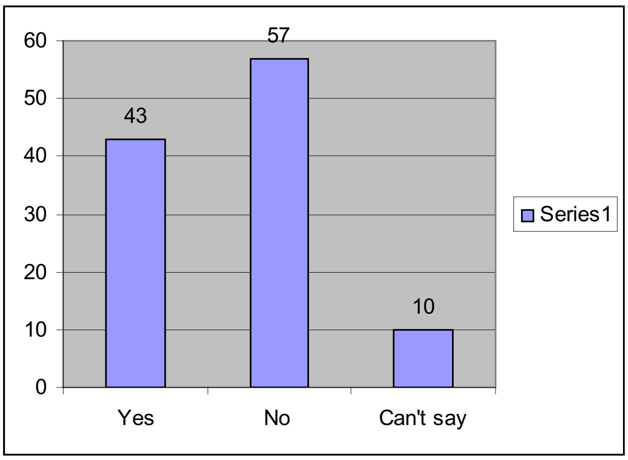
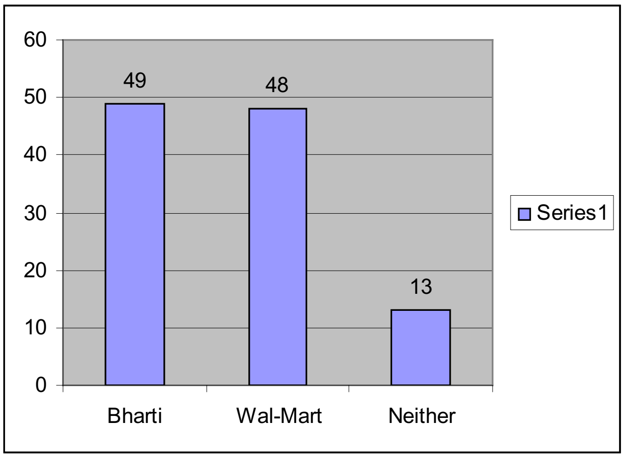


Exhibit 8

Q6. Do you think Wal-Mart – Bharti alliance will lead to closure of local store ?



6. Interpretation of Results

1. Exhibit 4 has shown that respondents have heard about Wal-Mart – Bharti alliance.
2. Exhibit 5 has shown that many of the consumers would visit a global retail store because of brand name. However Exhibit 7 has shown that both Wal-Mart and the Bharti brand name have equal influence on the consumers.
3. Exhibit 8 has shown that many of the consumers are of the opinion that Wal-Mart Bharti growth will not lead to closure of stores in organized sector.
4. Exhibit 6 has shown that many of the consumers do not feel that Wal-Mart – Bharti alliance can capture the entire retail market.

7. Conclusion

The failure of Wal-Mart in Japan, Germany and South Korea may be taken as a backdrop to analyze its failure or success in India. The results of the primary survey have shown that most consumers do not feel of the alliance capturing the entire market. The question is whether the global retailer will learn from its mistakes in Japan, Germany and South Korea. Wal-Mart has adopted a very cautious approach in India by partnering with Bharti Retail and leveraging on the Indian retailer's expertise. Consumer Behaviour experts are of the view that global retailers would have to understand shopping behavior in India and provide answers to "why should Indian's consistently shop at foreign retail outlets?" The success or failure of Wal-Mart will be seen in terms of how well the global retailer understands consumer shopping behaviour in India and customizes its format and strategy to meet the needs of Indian consumers.

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