Impact Factor: 3.37

Bharti Wal-Mart tie up: opportunities and challenges

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***Abstract*: The Indian retail scene was abuzz with activity with A T Kearney listing India as the topmost in market attractiveness, many foreign retailers were looking to enter India. Wal-mart, the world-renowned retailer had tie-up with Bharti Enterprises Ltd, a leading telecom company in India. while many synergies were expected out of the deal, the Indian retail scene had its share of challenges.**
The case outlines the areas of opportunities and challenges that the Indian retail scene offered. It provides scope for the student to understand the dynamic of the Indian retail scene and facilitates debate on the future of Indian retail. It also allows for discussion on whether the Bharti Wal-Mart combine would win the race in the Indian Retail market.

Published in IJIRMPS (E-ISSN: 2349-7300), Volume 3, Issue 2, March-April 2015

Objectives:
1. To understand the retail scenario in India
2. To discuss the rationale behind the Bharti Wal-Mart tie-up
3. To analyze the future of Wal-Mart in the Indian retail scenario.

Introduction
Wal-Mart the world-renowned retail behemoth was keen on entering the Indian market. Stymind by FDI regulations in the retail sector, Wal-Mart looked at different routes of entry. In November 2006, it announced its decision to enter the Indian market through a tie-up with Bharti Enterprises Ltd, a leading telecom company in India. While Wal-Mart's expertise and experience in retail is bound to be a major strength for the combined venture, it is expected to face a number of challenges.
The Indian retail industry is highly fragmented. According to global consultancy firm A C Nielsen, India has the highest shop densities in the world. In 2001, it was estimated that there were 11 outlets for every 1000 people. Organized retail formed only 3% of the entire retail market and it is highly under developed in terms of talent availability, supply chain and sourcing. There is also a rise in the level of competition with an increasing number of players entering the fray. The Indian market is also considered to be a diverse one with varying consumer needs and preferences. In this background, it has to be seen if the Bharti and Wal-Mart tie-up would succeed in the Indian retail market and what strategies they would adopt to do so.

The retail scene in India:
To many retailers across the globe, India is an attractive retail market. According to A T Kearney ranked the country based on more than 25 macroeconomic and retail-specific variables. The Indian retail market is estimated at $300 billion with an expected growth rate of 13%. Of this the share of organized retail which is hardly 3% is expected to grow to 10% by 2010. The Indian retail market is evolving, especially in the urban areas, with changing consumption patterns. Increase in salary levels and changing lifestyles are seen as key factors influencing the Indian retail markets. The economy is also on the rise.

The deal with Bharti:
On November 27th , 2006, Wal-Mart announced its alliance with Bhardti a business conglomerate focused largely on telecommunications. Wal-Mart had won the deal with Bharti, edging out Tesco, the retail from UK, which was also in the race . terming the deal a partnership of equals Sunil Bharti Mittal, the chief executive of Bharti , said that under the deal, a joint venture would be set up to manage procurement, inventories and logistics, while store would be set up under a franchise agreement with Wal-Mart. Commenting on investment size, Sunil Mittal said, "I cant put a number today, but given the size of India, it will be fair to assume that we

are talking in terms of billions of dollars. Although financial terms of the deal were not disclosed, press reports said that the two firms would initially invest $100 mkillion , increasing it to $1.46billion. Adding that this would be a comprehensive with Economic Times, a leading financial daily from India. Wal-Mart said that it planned to open hundreds of stores all over India, in the next four to five years, to give Indian consumers access to its every day low prices.

Synergies and challenges of the deal:

The entry of the worlds largest retailer was viewed with great expectations across the market. "it is a defining moment for India's retail industry", said Kishore Biyani, chief executive of the leading Indian retail company. Future Group, Biyanik whose group operates more than 200 stores, said he and his colleagues were closely watching the strategy of the new venture. Some operators in the industry hailed Wal-Mart's entry into India saying that it would increase the consumer consumption and usher-in best practices in the industry. It's a welcome sign. with competition increasing, we should see world class retail which will help consumption boom , B S Nagesh, managing director, Shopper's Stop Ltd, which operates many stores across India added. Analysts hailed the tie up and said that Wal-Mart could not have done it alone in India. They quoted Wal-Mart's experience in South Koria and Germany where it had to pull out mainly due to problems of localization. Bharti and Wal-Mart make a formidable combination. One is the worlds largest retailer and the other is amongst India's most aggressive companies " said Arvind Singhal, chairman of KSA Techno park, a retail consultancy based in New Delhi. Analysts pointed to the synergies that would emerge through the deal, they said that by partnering with Bharti, Wal-Mart could avoid problems of localization they faced in South Korea and Germany. Although Bharti did not have experience in retail, it is India's largest mobile operator serving 30.26 million mobile customers, as of end November 2006. Bharti's cell phone in its experience in catering to the vast needs of the Indian consumer.

Future:

While speculating was rife on whether the Bharti Wal-Mart combine would evolved as a leading player in the Indian retail scene, estimates of the Indian retail potential was optimistic. 3% of the current organized retail segment is pegged to grow to $64 billion by 2015. Also India's present two square –feet per capital retailing space is estimated to rise by 15-20% by 2010 and given the large young working population with high disposable incomes, the Indian retail scene looked bright. However , given the background of the competition imminent in the Indian retail scene , most analysts agreed that the market could at best support 10 largest players with revenues in excess of $2 billion each by 2015. They predicted that the wear player would drop out of the race and the market would witness consolidation. According to Hemant Kalbag, principal , At Kearney, "I see consolidation happening in the next five years. That's when the shakeout will happen and the successful retailers will look acquiring less profitable ones". The key factors for success is said to be customer loyalty apart from other factor such as location, value added services, price and the ability to read shifting trends. Retailers were already evolving programs with the help of co-banded credit cards offering discounts, e-shoping and through in store magazines that updated customers continuously on the best deals. How retailers positioned themselves is also considered to be crucial for success. Companies would have to really look for new ways to position themselves in different types of cities. For every city or town in the tier-1 , tier-2 and tier-3 segment, market demands and mindsets would be different. Therefore, success to a large extent would also depend on the positioning , an Ernst and young analyst commented.

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