Asia Case Research Centre
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Poon Kam Kai Series

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WAL-MART AND BHARTI: TRANSFORMING RETAIL IN INDIA

> *It is the last and a very big frontier, Brazil is done. China is done. This is the last Shangri-la of retail. Where will Tesco or Wal-Mart get their growth? Here.*
>
> - Sunil B. Mittal, chairman and managing director, Bharti Enterprises Ltd[1]

On 27 November 2006, Bharti Enterprises Ltd ("Bharti"), one of India's principal business groups, and American retail giant Wal-Mart Stores Inc ("Wal-Mart"), entered into a joint venture with equal partnership for both companies. The partnership would give Wal-Mart access to the highly regulated Indian retail market, which was valued at US$320 billion. Bharti would own retail shops under the Wal-Mart franchise and the companies would jointly operate in areas of the Indian retail industry which were accessible for foreign investment, such as logistics and cash-and-carry.

This partnership between the US retail giant and one of India's most successful corporate houses was expected to bring a dose of modernity to the Indian retail landscape. It could be questioned, however, how Wal-Mart would cope with the opposition it faced from local shop owners and civil rights groups given its poor reputation with regard to social responsibility. In addition, the state of the country's transportation network was very poor and the question remained how Wal-Mart planned to implement its supply chain management model in India.

The Indian Retail Sector

> *Retailing in India is emerging as one of the largest industries, with a total market size of US$320 billion in 2006 and growing at a healthy CAGR of 5%.*
>
> - A.T. Kearney and Confederation of Indian Industry[2]

India's retail industry was repeatedly named one of Asia's most promising sectors. It was expected to slowly but surely become a booming industry, with a change in both the shopping

[1] Giridharadas, A. and Rai, S. (28 November 2006) "Wal-Mart's Superstores Gain Entry into India", *The New York Times*.
[2] A.T. Kearney and Confederation of Indian Industry (2006) "Retail in India: Getting Organized to Drive Growth".

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format as well as consumer buying behaviour. International management consultancy firm A.T. Kearney ranked the Indian retail sector first on its list of the world's most attractive retail destinations among 30 eminent markets.[3] The Indian retail industry was valued around US$320 billion, by 2010 it was forecasted to have expanded to US$427 billion and in 2015 it was expected to be worth US$637 billion.[4] Contributing 14% to India's national gross domestic product and providing jobs for 7% of its workforce (agriculture was the only sector to employ more people), retailing was a crucial mainstay of India's economy.[5]

It had not always been like that. The Indian retail sector, which mainly consisted of fashion accessories, textiles, clothing, and food and grocery, had been highly fragmented [see **Exhibit 1**]. This fragmented nature had earned it the unflattering label, "a nation of shopkeepers". According to India's Centre for Policy Alternatives, the retail market could be split into two sectors: those that were unorganised and those that were organised. Unorganised retailing referred to more traditional, usually small-scale and low-cost retailers. These included pavement and hand cart vendors, convenience stores, *paan*/*beedi* shops, owner-manned general stores, and local *kirana* shops.[6] In contrast, organised retailing referred to officially licensed retailers who complied with various requirements that came with being registered. Examples were large, privately owned retail companies, retail chains and corporate-backed hypermarkets. Because organised retailing only constituted 2% of India's total trade and unorganised retailing accounted for 98%, the latter was by far the most prevalent in India.[7]

The growth of the organised retail sector was pushed by significant shifts in Indian population demographics. Major drivers included a large number of working youths with a median age of 24 years (in 2006, more than 67% of the population was aged below 35 and approximately 52% was under 24),[8] growing numbers of working women, many nuclear families living in urban cities and a boom in opportunities in the services sector. This shift in demographics led to an increase in consumer purchasing power and higher consumption spending in India's retail market. In 2005–2008, the forecasted growth in consumption spending was around 7.1%. Market research firm A.C. Nielsen placed India together with Thailand, Indonesia and China in the top segment of its Aspiration Index, measuring "the relationship between current ownership levels and future intentions to purchase a vehicle …, highlighting countries of high future demand".[9]

Unlike the US consumer market, which could be characterised by a "buy and repay" mentality, the Indian consumer mentality had traditionally been "save and buy". To "create demand and consumer spending" in India, the advertising costs for corporate retailers would amount to millions of rupees.[10] The "shop 'til you drop" mentality would take a long time to take root in the cities, not to mention the country's vast rural areas. The Indian habit of saving was so deeply rooted that Indian industry experts had never imagined this habit would change. Indian businesses thus continued their focus on B2B business and trading, even after economic liberalisation in 1991.

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3 Ibid.
4 BBC News (10 October 2006) "Tesco Talks to Bharti over India", http://news.bbc.co.uk/2/hi/business/6036197.stm (accessed 10 July 2009).
5 Guruswamy, M., Sharma, K. and Mohanty, J.P. (December 2004) "FDI in India's Retail Sector More Bad than Good?", Thomas J. Korah Centre for Policy Alternatives.
6 Kirana shops were sometimes described as local small-sized mom-and-pop stores, while paan/beedi shops were small specialised kiosks or corner shops.
7 Ibid.
8 Indian Ministry of Home Affairs (2006) "Data".
9 AC Nielsen Company Website (16 March 2005) "Asians in the Driving Seat for Future Car Ownership", http://hk.nielsen.com/news/20050316.shtml (accessed 10 July 2009).
10 Kumar, D. (2007) "Resist Corporate Hijack of Retail Trade", India FDI Watch, http://indiafdiwatch.org/fileadmin/India_site/India_FDI_Watch_Booklet_in_English.pdf (accessed 10 July 2009)

A paradigm shift in the Indian consumer mindset started in 2000 and accelerated soon after when global brands started flooding Indian markets. The Indian industry was taken by total surprise when consumers embraced this variety of choice and began perceiving differences in quality among competing products. Companies such as LG that brought affordable prices, high quality and better product designs changed the Indian consumer's mindset. Latent desire was suddenly aroused. The refrigerator, which had earlier been a legacy purchase, was now a product that was replaced every three to five years.

Perceptible quality and immense choice had reversed the saving habit in favour of habitual spending. Increasing brand consciousness and demand for quality suddenly characterised Indian consumers. In addition, the demand for luxury products increased alongside willingness to experiment with brands [see **Exhibit 2**]. Joining the ranks of the world's biggest consuming societies, Indian consumers were changing the previous perception that Indian producers were low-cost, high-return outsourcing suppliers to the West. Because ordinary citizens were purchasing what previously could only be afforded by the rich, and as an increasing number of consumers demanded name brands, the retail landscape in India was expected to change and grow significantly.

Consumers were starting to demand organised retail experiences similar to those in developed economies. Global retailers were more than happy to fulfil these desires. However, India's strict regulation excluded foreign players from the retail industry, denying retailers such as Wal-Mart individual entry into the market. In order to protect the livelihood of around 15 million small-store owners that were much closer to the consumer end of the supply chain, foreign direct investment ("FDI") was only permitted in the wholesale business. As of 2006, the government of India permitted 51% FDI in multi-brand retailers and 100% FDI in wholesale cash-and-carry and back-end logistics.[11] Single-brand retailers such as Toyota, Nike, Lladró, Fendi and Louis Vuitton were allowed to operate as they were not seen as having a direct impact on the predominantly local, small retail outlets.

These events triggered huge investments by both foreign and local organised-sector players, resulting in an expansion of its share to 15–18% by 2012 [see **Exhibit 2**]. The penetration of organised retail was increasing rapidly and a growing number of players were making footprints in this industry in the hope of tapping this growth opportunity [see **Exhibit 3**]. The Indian Retail Report 2005 indicated that the organised retail market (valued at around US$7.17 billion) was estimated to expand at a compound annual growth rate ("CAGR") of 30%, reaching US$19.75 billion by 2010.[12] However, considering the growth trend in 2006 and the fact that key players in organised retail at the time had plans to expand, it was expected that the figures for organised retail might even double.

Major Players in the Industry

The booming Indian retail industry had transformed greatly from 1996 to 2006, particularly with the emergence of organised retailers from previously small, unorganised family-owned retail formats. From real estate companies to venture capitalists, many businesses were investing in retail infrastructure. As a consequence, the Indian retail sector was undergoing a huge revamping exercise. It was estimated that an annual US$3 billion in capital expenditure would finance the growth of organised retail. Traditional markets were increasingly being replaced by new formats (specialty stores, supermarkets, hypermarkets and departmental stores). This resulted in the development of a mall culture and the rapid emergence of malls that offered food, entertainment and shopping in one place. With 325 departmental stores, 1,500 supermarkets and 300 malls under construction, the sector was going through a phase

[11] The Economic Times (28 November 2006) "Wal-Mart Says 'Namaste India', with Bharti".
[12] Images-KSA Technopak (2005) "The India Retail Report 2005".

of spectacular growth. By the end of 2008, it was expected that approximately 9.29 million square metres of quality shopping centres would have been built.

Major local retailers planned massive expansions [see **Exhibit 3** for a more detailed description of these companies]: Pantaloon planned to have 30 million square feet by 2010; Reliance planned to invest US$5.8 billion on multiple retail formats by 2010; and Lifestyle intended to invest more then US$87.6 million over a five-year period to further develop its Home & Lifestyle Centers and Max Hypermarkets. Other important players that announced aggressive plans in retailing were RPG Group, Aditya Birla Group and Tata Group. Most of these domestic companies' operations were quite different from those of Wal-Mart.

Spencer's Retail, owned and operated by R.P. Goenka (chairman of RPG Group), was one of the oldest multi-brand retail players in the country. In 2007, Spencer's Retail invested about US$194 million in its flagship retail venture. RPG Group announced further investments of over US$58.3 million to expand its smaller retail chains operating under the brand names RPG Cellucom, Book and Beyond, and Music World. Spencer's Retail was one of the country's fastest-growing retailers dealing in books, lifestyle products, electronics, fashion, apparel and food. Under four formats (Spencer's Express, Spencer's Daily, Spencer's Super and Spencer's Hyper), the company operated 290 stores in 32 cities across the country and occupied a retail space of over 55,740 square metres. Women were the main target customers for Spencer's Retail. The new small-format businesses offered Indian and international food in pre-cooked, semi-cooked and ready-to-eat styles.

Another important Indian retailer that had big plans for the country was Reliance Industries Limited ("RIL"). It intended to have a pan-India presence with different formats, including discount stores, malls, supermarkets, hypermarkets and speciality stores. The company wanted to open stores in more than 700 large cities by 2011, stocking products ranging from food and groceries to consumer durables, and also providing financial and travel-related services. One of its focuses was on selling luxury brands to the growing number of rich Indians. In addition, the company was building a robust supply chain infrastructure spanning the entire country. Out of the total capital expenditure of US$4.86 billion set aside for the venture, RIL planned to spend US$1.94 billion on its supply chain, indicating the growing importance of a stable back end for retail operations. To support this, the company had its own fleet of both trucks and cargo planes. Reliance Retail Limited ("RRL"), a subsidiary of RIL, was targeting a sales turnover of US$17.5 billion by 2010. The company already had 30,000 people on its payroll, of which some had previously worked at Wal-Mart, Carrefour or Tesco. Senior executives from Electrolux Kelvinator, Unilever, Spencer's, Coca-Cola, Pantaloon Retail, Indus League and McDonald's were said to have also joined RRL. Intensifying competition, rising salaries and poaching of key executives were likely to inflate costs at Pantaloon Retail, Shoppers Stop and other organised retailers.

Meanwhile, Tesco and Carrefour were waiting patiently while proactively targeting local companies to become partners. It was believed that Carrefour planned to invest US$100 million initially and that it wanted to start operations in New Delhi. Some others, such as South Africa's Shop Rite and Metro AG from Germany, had already arrived in India to set up cash-and-carry businesses that supplied caterers, restaurants, retailers and other businesses.[13]

[13] "Cash-and-carry was a form of trade in which goods are sold from a wholesale warehouse operated either on a self-service basis, or on the basis of samples. … Customers (retailers, professional users, caterers, institutional buyers, etc.) settle the invoice on the spot and in cash, and carry the goods away themselves." Source: Wikipedia, "Cash and Carry (Wholesale)", http://en.wikipedia.org/wiki/Cash_and_carry_(wholesale) (accessed 13 July 2009).

The Indian Political and Business Environment

An advantage of bringing in international players was that they brought expertise in determining consumer tastes, shaving margins and building supply chains.[14] The lack of an efficient supply chain and third-party logistics ("3PL") services put serious pressure on most Indian retailers to deliver the quality and service necessary to meet consumer demand, even as the future of India's retail industry continued to look bright. In the absence of proactive channels, such issues as the absence of cold chains, logistics infrastructure and warehousing were rapidly becoming significant issues for the retail sector.

Adding to these problems was a lack of skilled employees, inadequate quality control and a variation in policy regimes across different states. Each state still imposed its own regulations, duties and inspection requirements on goods that were shipped across its borders. As a consequence, transportation was slow and could take many days, even for relatively short distances. India thus had a long way to go in its pursuit of a single internal market for consumer and agricultural goods.[15] Other problems India was facing were stringent labour laws and the lack of adequate infrastructure, which had become seriously discouraging factors for retail players. The lack of status as an industry added to these challenges by creating difficulties for retailers to raise capital to finance their expansion plans.

Attempts by the government to organise the retail sector and make way for larger organised players had met with resistance from smaller retailers. In a show of force, violent protests erupted when the government in New Delhi ordered the closure of over 30,000 small shops that had been illicitly operating in residential areas. The government's relatively positive stance towards foreign players sparked further protests from both small-scale retailers and leftist politicians, who feared this would have a disastrous impact on India's 12 million mom-and-pop shops.[16] As a result, the Indian government had stated that it would inspect whether foreign companies adhered to "permissible limits" in foreign investment.[17]

Wal-Mart

Wal-Mart, a US public corporation that ran large discount department stores, was by revenue the biggest public corporation in the world.[18] The company was established in 1962 by Sam Walton. On 31 October 1969, it was incorporated and, by 1972, it had obtained listing on the New York Stock Exchange [see **Exhibit 4**]. In the financial year ending in 2007, the global Fortune 500 list ranked Wal-Mart at the top of the list, with revenues of US$351 billion [see **Exhibit 5**].

Wal-Mart constantly emphasised its corporate philosophy of strengthening its relationships with employees, suppliers and customers. Building its own transportation systems had allowed Wal-Mart to enjoy transportation cost savings and had helped Wal-Mart to deliver products to its various stores within 48 hours. Taking advantage of its wholly owned transportation capabilities, Wal-Mart was four times faster than its competitors in replenishing its merchandise. The pricing of its products was economical and prices were allowed to vary daily. On the procurement side, owing to the huge volume of its purchases, the company enjoyed strong bargaining power. Wal-Mart stores offered better discounts than its

[14] The Wall Street Journal (11 August 2007) "Wal-Mart in India", http://online.wsj.com/article/SB118678729222894667.html, (accessed 18 March 2009).
[15] Ibid.
[16] David, R. (8 July 2007) "Wal-Mart Inks Deal to Enter India", *Forbes*, http://www.forbes.com/2007/08/07/india-walmart-bharti-markets-equity-cx_rd_0807markets1.html (accessed 23 March 2009).
[17] Commerce and Industry minister Kamal Nath's comment to reporters at the India Economic Summit in 2006. Source: The Economic Times (29 November 2006) "Govt to Study Wal-Mart Deal with Bharti: Nath".
[18] Fortune (2007) "Fortune Global 500", http://money.cnn.com/magazines/fortune/fortune500/2007/ (accessed 10 July 2009).

competitors and drove sales revenues through larger volumes. Reliably low prices ensured that sales volumes were consistently elevated. Wal-Mart's retailing activities were operated by three primary subsidiaries: Wal-Mart International, Sam's Club and Wal-Mart Stores Division US. In addition, Wal-Mart had nine different retail formats for its businesses: restaurants, cash-and-carry stores, membership warehouse clubs, apparel stores, soft discount stores, bodegas (small markets), supercenters, food and drug stores, and general merchandise stores.[19]

Pricing Strategy

Wal-Mart had been extremely successful in distinguishing itself from competitors such as Kmart and Target by introducing a low pricing strategy. Wal-Mart had traditionally operated on the "every day low prices" model with the slogan, "Always the lowest price". However, as competitors started introducing similar low-price offers in the 1990s, Wal-Mart gradually moved from "Always the lowest price" to "Always low prices". As part of its pricing strategy, Wal-Mart adopted approaches such as offering discounts of up to 10% on four key items per category for an average of 75 days. Wal-Mart thus sold an increasing number of items through promotions. This trend contributed to nearly US$10 billion of its sales in 2002.[20]

The basic prices for general merchandise (except locally sourced and sold merchandise) were set nationally. These competitive prices were based on price checks conducted in Kmart stores and Target stores every week. After doing these price checks, it was estimated that Wal-Mart, on average, was able to offer up to 4% and, in some cases, up to 10% pricing differentials compared with its competitors in most markets, particularly when compared with supermarkets. Food prices, on the other hand, were determined on the basis of zones corresponding to food distribution centres. Store managers were allowed to offer up to 5% price advantage over the best competing price in their trading areas.

Information Technology and Supply Chain Management

> *Wal-Mart shapes where we shop, the products we buy, and the prices we pay, even for those of us who never shop there. It reaches deep inside the operations of the companies that supply it and changes not only what they sell, but also how those products are packaged and presented, what the lives of factory workers who make the products are like—it even sometimes changes the countries where those factories are located. Wal-Mart has become the most powerful, most influential company in the world.*
>
> - Charles Fishman, author of *The Wal-Mart Effect*[21]

Among retailers, Wal-Mart had been one of the most effective users of technology and had always been among the front-runners in employing information technology ("IT") for managing supply chain processes.[22] It started using IT to facilitate retail in the 1970s. The company later installed bar codes for inventory tracking and a satellite communication system for co-ordinating its supply chain activities. Wal-Mart also set up electronic data interchange and a computer terminal network, which enabled it to place orders electronically to its suppliers and to plan the dispatch of goods to its stores appropriately. The bar code allowed for tracking the sales of any item for any week, any day and any hour of the day, and to identify where and when it sold the most merchandise. Owing to Wal-Mart's efforts, the retail

[19] Wal-Mart Stores (2006) "Annual Report".
[20] Ghemawat, P., Bradley, S. and Mark, K. (30 January 2004) "Wal-Mart Stores in 2003", Harvard Business School.
[21] Fishman, C. (2006) *The Wal-Mart Effect: How the World's Most Powerful Company Really Works—And How It's Transforming the American Economy*, Penguin Press.
[22] Bose, I., Lam, A., Leung, V., Li, I. and Wong, H. (2006) "Business Data Warehouse: The Case of Wal-Mart", Database Modeling for Industrial Data Management: Emerging Technologies and Applications, ed. Z. Ma, IGI Global, pp. 244–257.

industry established the universal product code, which could provide various valuable types of information to retailers. In addition, it compelled manufacturers to conform to common labelling and led to a shifting of powers towards retailers and away from manufacturers.

Internally, Wal-Mart was good at exploiting the information behind the bar code. In little time, the company had built its reputation as a leader in developing sophisticated technology to make its supply chain leaner and to track inventory. Implementation of IT helped in solving various issues retailers were facing. It had led to improved planning, accurate merchandising, enhanced customer experience, improvement of the supply chain, improved workforce management, strengthened store operations and increased profitability. Wal-Mart's Advanced Conveyor System was installed in 1978. The point-of-sale scanning system made its appearance in 1983, when Wal-Mart's key suppliers placed bar codes on every item and Universal Product Code scanners were installed in Wal-Mart stores. Later on, the electronic purchase order management system was introduced and associates were equipped with handheld terminals to scan shelf labels. As a result of the adoption of these technologies, inventory management became much more efficient.

Wal-Mart drilled even deeper into sales- and production-tracking by building and using technology in a more sophisticated fashion than any other player in the market. According to a PBS Frontline article, to enhance its barcode system, it required manufacturers to equip their products with microchips which could be used for radio-frequency identification ("RFID"). These RFID tags could be used to identify individual items. In addition, the signal sent out by the tag could be read by a RFID "reader" placed in its vicinity. Thus, it was no longer necessary to scan each item directly. Furthermore, RFID tags could hold a lot more details than a simple barcode, giving Wal-Mart instant information on the sales patterns of its products. This knowledge was an additional powerful tool when choosing which products to order from suppliers.[23]

Wal-Mart had over 1,000 products on its shelves, creating a huge challenge in terms of maintaining optimal inventory levels. By maintaining particularly low inventories, Wal-Mart was able to increase its inventory turnover ratios, thereby reducing costs. There was no way the company could have used a physical stock-taking approach with its huge volume and variety of products. Wal-Mart's RFID tags allowed it to keep track of its inventory throughout the entire supply chain. These tags allowed managers to track not only how much of a product was in its factory at a given point in time, but also where it was. Thus, the need to count inventory physically to keep accurate counts had been eliminated.[24] Eventually, the RFID technology's efficient scanning capabilities could also be used in other operations such as checkout lines, where customers could easily push their carts through, have their products scanned instantly and get a receipt as they left the store.

Global Strategy, Local Focus

With the opening of a Sam's Club near Mexico City in 1991, Wal-Mart turned into an international company. Within two years, perceiving the growing number of opportunities in the global market, Wal-Mart International was established to manage its worldwide operations. Over time, Wal-Mart expanded outside the US through different ventures with mixed results. It was extremely successful in North and South America (eg, in Canada, Mexico, Puerto Rico, Argentina and Brazil), but it had to sell its stores in Germany and South

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[23] Lewallen, B. (24 November 2004) "Wal-Mart & the Bar Code", *Frontline*, http://www.pbs.org/wgbh/pages/frontline/shows/walmart/secrets/barcode.html (accessed 20 March 2009).

[24] Williams, D. (28 July 2004) "The Strategic Implications of Wal-Mart's RFID Mandate", *Directions Magazine*, http://www.directionsmag.com/article.php?article_id=629&trv=1&PHPSESSID=a942fc54a33502601eb2cbbec3fced74 (accessed 23 April 2008).

Korea in 2006 due to sustained losses.[25] Other countries where Wal-Mart operated stores included the UK, Japan and China. Since 1991, Wal-Mart International had been rapidly growing and so had its acceptance among consumers. Wal-Mart's promise of "every day low prices" transcended language and was well understood by consumers at nearly 3,000 stores in 13 countries. Wal-Mart International employed over 550,000 people across the globe.

An important reason behind Wal-Mart International's success had been its ability to apply its unique culture and successful retailing concept despite daunting business and cultural challenges. As it expanded, the division made concerted efforts to become involved in local communities and adapt to local cultures. However, despite its standing and huge sales turnover of US$285 billion, Wal-Mart continued to be predominantly a North America-based chain. It was very discriminating in entering international markets, unlike other major US corporations such as McDonald's, Coca-Cola, PepsiCo and General Electric. Even 17 years after it ventured outside of the US market, its global presence was restricted to merely 10 countries. In contrast, Coca-Cola had operations in over 200 countries and General Electric in almost 100. While global operations accounted for over 90% of General Electric's US$72 billion turnover in 2004, global operations amounted to only 16% for Wal-Mart.[26] This was not only due to the fact that is was only operating in 10 international markets, but also because of its limited presence in the markets it did enter. When the retail giant entered China in 1996, it had fewer than 40 stores and 34 supercentres under its own name.

The Wal-Mart–Bharti Joint Venture

> *Bharti, with its deep knowledge of India's fast-growing consumer market and Wal-Mart, with its extensive global retail experience, share the same commitment to building relationships with producers in order to provide great quality at reasonable prices to consumers every day.*
>
> - Sunil B. Mittal, chief executive of Bharti[27]

In November 2006, Wal-Mart announced it was entering the Indian retail sector by partnering with Bharti. Wal-Mart had chosen Bharti for various reasons. It was a market leader in India's telecom market and it was one of India's 10 biggest companies, employing over 30,000 people. Its market capitalisation was worth more than US$25 billion [see **Exhibit 6**]. Finally, it had a long history of partnering with foreign companies. As Bharti was seen as an ideal partner for Wal-Mart, the move had long been expected

Sunil B. Mittal was Bharti's chairman and was known as the czar of Indian telecoms. According to the *Financial Times*, Mittal's story was one of "entrepreneurial drive overcoming the politically powerful industrial houses such as Tata and Reliance[28] that dominated Indian business".[29] Mittal's long list of accolades included 'Stars Of Asia' by Business Week, 'IT Man of the Year Award 2002' from Dataquest and 'CEO Of the Year 2002' by World HRD Congress. Mittal had built Bharti, a start-up cellular provider in 1995, into a full-service provider with 4.5 million customers and revenues of approximately US$642 million in 2003. Over the years, Bharti had attracted a total of US$1.2 billion in foreign equity—more than any other Indian telecom firm.

[25] Avoo, "Wal-Mart", http://avoo.com/wiki/Wal-Mart (accessed 18 March 2009).
[26] Saraf, A. (2009) "What Brings Walmart to India?", *Retailing*, http://ibef.org/attachment/WhattoIndia.pdf (accessed 18 March 2009).
[27] The Economic Times (2006) "Wal-Mart Says 'Namaste India', with Bharti", 28 November 2006.
[28] These were the biggest industrial houses in India.
[29] Johnson, J. (27 November 2006) "Profile: Sunil Bharti Mittal", *Financial Times*, http://www.ft.com/cms/s/0/4a4dcbbc-7dee-11db-84bb-0000779e2340,dwp_uuid=0da0817c-9c86-11da-8762-0000779e2340.html?nclick_check=1 (accessed 20 March 2009).

Bharti Cellular made headlines in September 1995 when it became the first company to launch cellular service in India. Adopting Airtel as its brand name, Bharti marketed its Delhi cellular service by offering free calls during its inaugural month and setting regular rates at US$0.15 per minute, well below the government ceiling rate of US$0.17 per minute. The success of Bharti in Delhi got the company noticed, but it was Mittal's ability to attract foreign financing that really got people talking. As head of a little-known telephone manufacturer in 1992, Mittal had convinced major international firms to take a risk with Bharti and, in 1996, Mittal signed a US$58 million deal with Stet S.p.A., Italy's state-owned telecom operator, at a time when foreign telecom companies were lining up to get into India. In 1992, Bharti Telecom also secured a partnership with Compagnie Generale des Eaux of France, Emtel (a Mauritian cellular telephone operator partly owned by Millicom) and Mobile Systems International of the UK to make a joint bid for the first round of cellular licensing.

In spite of initially being a small company, Mittal's professional outlook always made Bharti's presence felt. The government had been pleasantly surprised from time to time by Bharti's and Mittal's entrepreneurial ventures. In 1999, Bharti attracted a US$60 million investment from Warburg Pincus, a leading private equity firm, in exchange for a 20% equity share in Bharti Tele-Ventures. In August 2000, SingTel invested US$400 million in Bharti Telecom. This joint venture was seen as a huge opportunity for foreign retailers to get a foothold in a market that was expected to double in size to US$637 billion by 2015. Because the Indian economy continued to expand rapidly, Wal-Mart's choice of Bharti as a partner seemed ideal for both companies.

Setting Up the Joint Venture

Media reports speculated that Wal-Mart had proposed an initial investment of US$100 million, which would rise to US$450 million within a short period of time.[30] Because the regulatory environment in India did not allow non-domestic retailers with several brands to sell directly to customers, the companies decided to operate as wholesalers and offer back-end support to new or existing local retailing companies. In addition, domestic retailers were permitted to run stores that sold non-domestic brands under a franchisee agreement with the producers. Wal-Mart and Bharti thus planned to use two different formats for their stores: a franchised retail company and a wholesale cash-and-carry joint venture.[31] With the proposed joint venture, Wal-Mart and Bharti had found an arrangement that would allow the US retail giant to enter the huge Indian retail market.

Conforming to existing rules and regulations, the companies signed two separate agreements. The first agreement was to manage the establishment of a 50–50 venture for back-end supply chain management and wholesale cash-and-carry operations. The second agreement was a different contract allowing Wal-Mart to franchise itself while sharing expertise and technology with Bharti to support the retail stores that would be built by Bharti Retail Ltd, its wholly owned subsidiary. At the time, it was unclear whether Bharti Retail Ltd would utilise the Wal-Mart brand name in its new operations. Wal-Mart's greatest strength—managing supply chain operations—would be achieved through Delhi-based Bharti Wal-Mart Private Ltd ("Bharti Wal-Mart"), which would "link farmers and small manufacturers with limited infrastructure and distribution capabilities directly to retailers".[32]

The alliance enabled Wal-Mart to enter the fast-growing Indian retail sector while avoiding the regulatory prohibitions that prevented foreign retailers from investing directly in the

[30] Knowledge@Wharton (14 December 2006) "Will Wal-Mart Succeed in India? Perhaps ... But It Won't Be Easy", http://knowledge.wharton.upenn.edu/india/article.cfm?articleid=4133 (accessed 6 January 2008).
[31] The Hindu (28 November 2006) "Wal-Mart Enters India with Bharti Tie-Up".
[32] Waters, J. (6 August 2007) "Wal-Mart Finds a Way to Get into India: World's Largest Retailer to Act as Wholesaler in World's Second-Largest Country", *Market Watch.*

Indian market. The tie-up also saw Wal-Mart become the first retailing giant to enter India's market and beat major global rivals Carrefour SA of France and Tesco PLC of the UK. Wal-Mart thus enjoyed early-mover advantage in a country dominated by informal local retailers, but on the verge of rolling out the red carpet for big international companies. Wal-Mart thus had the opportunity to introduce its experience in supply chain management and logistics to India.

The joint venture was to change the country's inefficient and scattered retail industry dramatically. According to Rajan Bharti Mittal, managing director of Bharti Enterprises, one of the critical components of developing India's retail industry into a modern one was to create a strong back-end infrastructure.[33] India had not used cold chain logistics (ie, refrigerated trucks and distribution centres) in the past, and this had resulted in spoiling of 30% to 60% of food products by the time they reached customers. The existence of a solid back-end infrastructure was therefore viewed as a crucial element for developing advanced retailing in the Indian market. In addition, with its world-class processes and technologies, Wal-Mart could offer great value to both large and small retailers in India. Eventually, the entire retail ecosystem could benefit from increased quality and better options at more competitive prices.

Challenges Ahead

> *The entry of Wal-Mart will be like an economic tsunami in terms of its destructive impact.*
>
> - Vandana Shiva, environmental campaigner and organic food entrepreneur[34]

Industry experts argued that those players who would eventually lead retail in India could reach US$50 billion each in annual revenues by about 2017. This number was not insignificant, even to a giant such as Wal-Mart, which made US$312 billion in annual revenues in 2006. India was already one of the largest supply bases for Wal-Mart, which purchased almost US$1.6 billion worth of Indian textiles, leather goods and other wares anually. Wal-Mart had long been arguing with Indian officials that it could create wealth for the country with its advanced inventory control, logistics expertise and new markets for Indian businesses if the retail giant were permitted to sell locally.

However, retail was still one of the few sectors where FDI was not allowed, with the exception of single-brand outlets. Local protesters criticised Wal-Mart's operations because small- and medium-sized local businesses feared they would be driven out, stating that pollution might rise when more people would be driving to shops rather than having their products delivered, which was a common practice among small shops. Some labour unions, grassroots organisations, women's rights groups and community groups criticised Wal-Mart for not being a socially responsible company.

Corporate Social Responsibility and Wal-Mart

Wal-Mart had experienced several instances of failed operations in its otherwise vastly successful international business ventures outside North America. Problems in adjusting to local cultures had forced Wal-Mart to stop operating in South Korea and Germany (where it was reporting recurrent losses) in 2002. Within the US, Wal-Mart had been the subject of the

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[33] Wal-Mart Stores Inc (6 August 2007) "Bharti Enterprises and Wal-Mart Join Hands in Wholesale Cash-and-Carry to Serve Small Retailers, Manufacturers and Farmers", http://walmartstores.com/FactsNews/NewsRoom/6638.aspx (accessed 23 March 2009).

[34] Giridharadas, A. and Rai, S. (28 November 2006) "Wal-Mart's Superstores Gain Entry into India", *New York Times*.

country's biggest gender-discrimination lawsuit ever. Women in management positions had been paid nearly US$5,000 less per year in 2001 than men with the same job classification.[35] Wal-Mart had also been prosecuted several times for adopting temporary but significant price cuts to drive out competition, a practice known as "predatory pricing". Finally, Wal-Mart had been criticised for squeezing suppliers for lower-cost manufacturing without ensuring product quality or safety in certain instances.

Dealing with India's unique cultural factors was one of the issues that Wal-Mart and Bharti were facing. In a country with more than 6,000 castes and sub-castes, managing such diversity and heterogeneity was a big challenge for any international company entering this market. According to the opposition party, the left-wing political party and various NGOs, if Wal-Mart were allowed to enter the Indian retail sector, this would ruin the livelihoods of more than 40 million people who depended on retailing.

Supply Chain Management Challenges

Wal-Mart's plan was to bring its global supply chain capabilities and expertise to India while customising them to the unique requirements of the Indian market. Another area that Wal-Mart intended to focus on was local sourcing of goods in addition to sourcing globally through its international operations. Wal-Mart's fully owned logistics arm, Gazeley, would look after the Bharti Wal-Mart retail venture. In order to build a supply chain adaptable to the Indian market, Gazeley closely studied various logistics providers such as Radhakrishnan Foods before finalising its Indian model. Gazeley understood that having a solid supply chain would be imperative to facilitating the growth and success of India's retailers.

The fact that India's underdeveloped physical infrastructure put significant limitations on the supply chain was one of the key challenges of entering India's market. Overall, the quality of roadway infrastructure, the quality of trucking and the adoption of modern technology throughout the supply chain to the producer continued to pose significant challenges to the development of supply chain capabilities in India. Furthermore, the prominence of middlemen in the retail and wholesale industries had been a key characteristic of India's retail sector. Wal-Mart's proposition was to cut out the middlemen and connect producers directly with the retailer. It wanted to work closely with suppliers to significantly enhance productivity, packaging and quality management. Linking the producer with the retailer was also expected to eliminate several stages in the supply chain, thereby reducing the inefficiency of the industry's traditional supply chain. This was aligned through the partnership between Wal-Mart and Bharti, whereby Bharti would look at managing the retail store operations while Wal-Mart was to focus on logistics capabilities and building the supply chain. However, cutting out the middleman would create even more opposition to Wal-Mart's presence. In spite of the significant benefits that Wal-Mart could bring to India, the retail lobby continued to intensify its protest against Wal-Mart's entry into India's market.

Conclusion

The Indian economy was beginning to change quickly with the emergence of organised retail and with more supermarkets and hypermarkets springing up. Wal-Mart, with its sights set on India's growing middle class and the country's vast potential, had signed a deal with Bharti to establish itself in India. Bharti was seen as an ideal partner, providing Wal-Mart with easy access to the second-most-populous country in the world. Though its record was not flawless,

[35] Drogin, R. (2003) "Statistical Analysis of Gender Patterns in Wal-Mart's Workforce", Submitted as an expert report in Dukes v. Wal-Mart Stores.

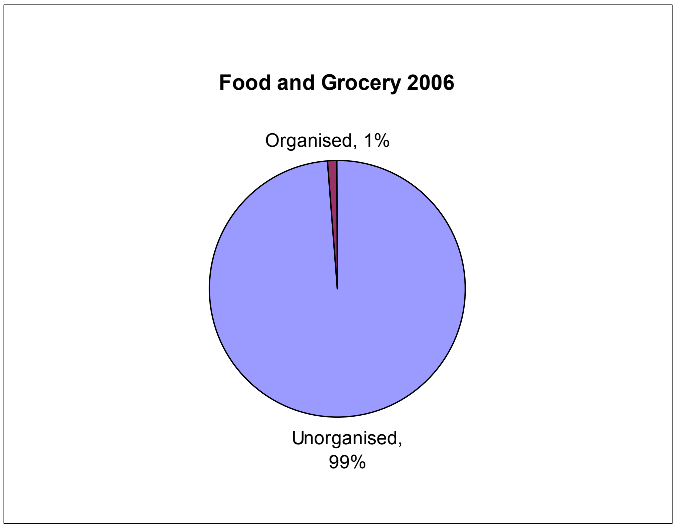
Wal-Mart had been thriving internationally. However, India posed many unique challenges and it remained to be seen whether Wal-Mart would be successful there.

Wal-Mart would have to cope with increased pressure from local civil rights groups and traditional mom-and-pop shop owners, who were expected to become more aggressive and resort to more demonstrations and protests in the future. In addition, it was expected that Wal-Mart would be facing problems concerning social responsibility. Furthermore, the quality of India’s transportation network was low and it was uncertain how Wal-Mart would implement its supply chain management in India. How did Wal-Mart plan to tackle the challenges that lay ahead? Would this marriage of titans really transform Indian retail?

EXHIBIT 1: SEGMENTAL PERFORMANCE OF INDIA'S RETAIL SECTOR IN 2006

(I) Food and grocery retail

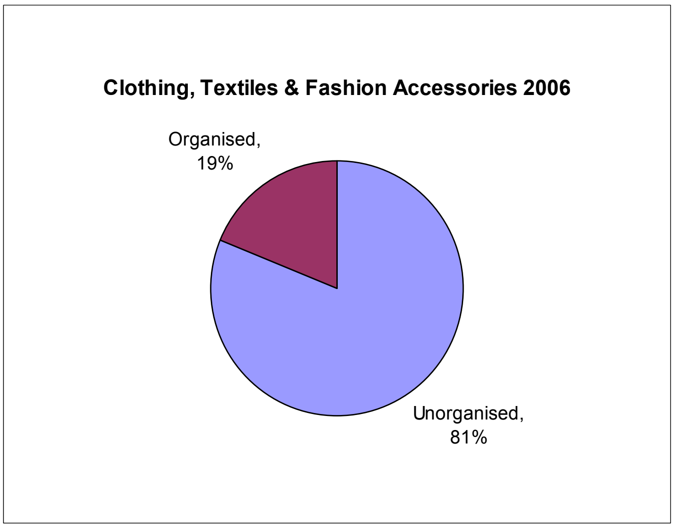
The food and grocery segment was the major driver for the organised retail industry. Shops selling food and groceries constituted more than 5 million of India's 12 million retailers. With an estimated value of US$144.8 billion in 2006, food and grocery retailing made up the largest share of the total retail industry. Some of the major players—ITC Group, TATA, RPG Group and AV Birla Group—were showing a keen interest in this segment.



Source: IMAGES F&R Research (2007) "The India Retail Report 2007".

(II) Clothing, textiles and fashion accessories retail

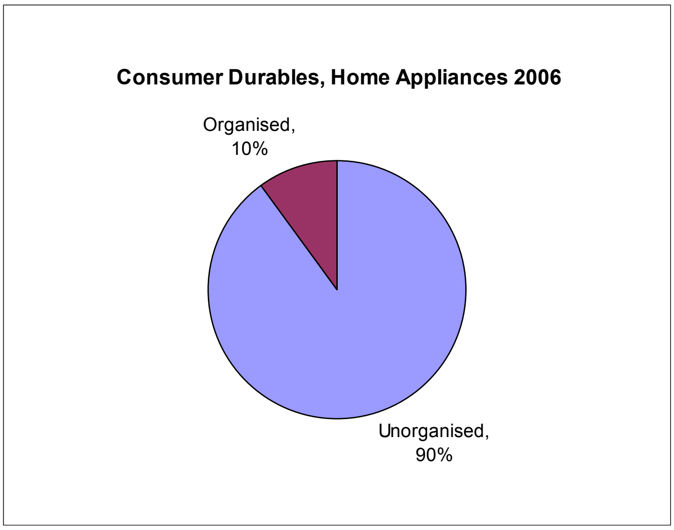
Women's and designer fashion apparel was showing its presence in the Indian market. The clothing, textiles and fashion accessories segment was valued at US$22.1 billion in 2006, with organised retail contributing around 19%. It was the only segment in which organised retail was showing its presence. The segment was attracting more and more organised retailers, pushing for the retail revolution for Indian women. Designer apparel was increasingly playing a role in boosting the market. Some of the major players—Pantaloon, Provogue Group and Westside—were showing a keen interest in this segment.



Source: IMAGES F&R Research (2007) "The India Retail Report 2007".

(III) Consumer durables, home appliances retail

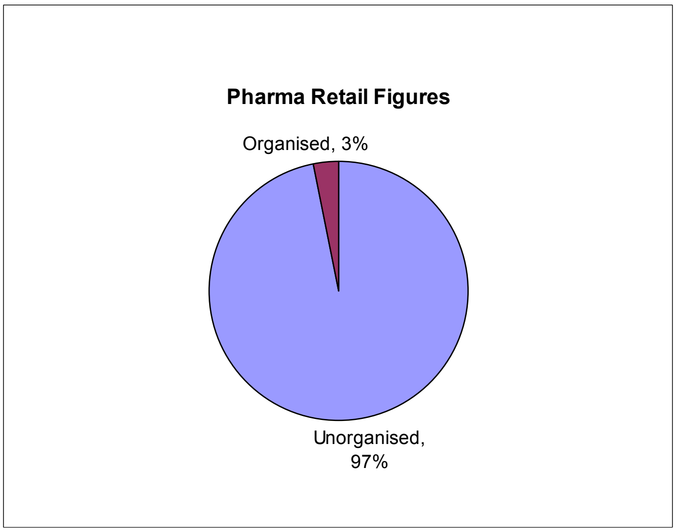
Consumers were increasingly showing interest in new technologies. The home appliances and consumer durables market was valued at US$9.36 billion in 2006, with organised retail contributing 10.4%. A few corporations that had already entered this segment included Haier, Panasonic, Onida and LG. They were pushing the market with their constant changes in technology and by stimulating consumers to upgrade fast.



Source: IMAGES F&R Research (2007) "The India Retail Report 2007".

(IV) Pharma retail

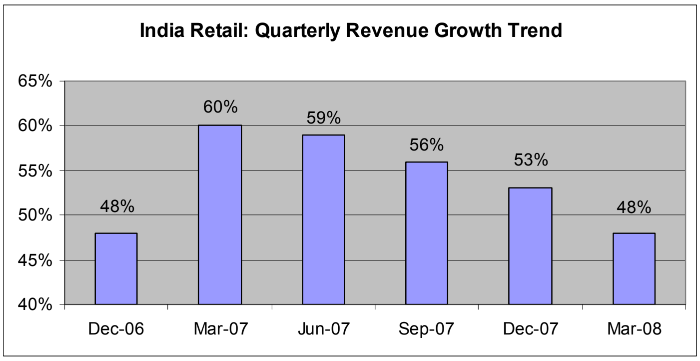
Pharma retail was becoming more and more organised although by 2006, organised retail in this segment comprised only 3%. The sector was estimated to be worth US$8.2 billion in 2006. Corporations which were already present in this segment included Dr Morepen, CRS Health, Medicine Shoppe and Apollo Pharmacies.



Source: IMAGES F&R Research (2007) "The India Retail Report 2007".

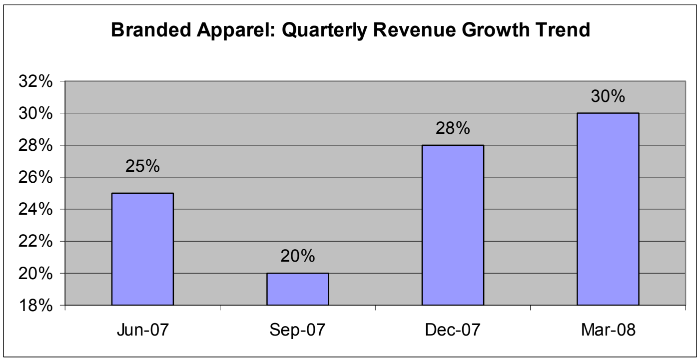
EXHIBIT 2: INDIA'S ORGANISED RETAIL SECTOR—SOME ESTIMATES

(I) India's organised retail growth trend—Morgan Stanley research data based on Dalal Street listed entities—Pantaloon, Shoppers Stop.



Source: Retail Mantra (8 May 2008) "Growth Trends in India", http://india.retailmantra.com/2008_05_01_archive.html (accessed 14 July 2009).

(II) Growth of branded apparel in India—data based on Raymond Ltd [Colour Plus, Raymond Apparel, etc] and Aditya Birla Nuvo [Louis Phillipe, Van Heusen]



Source: Retail Mantra (8 May 2008) "Growth Trends in India", http://india.retailmantra.com/2008_05_01_archive.html (accessed 14 July 2009).

(III) The organised retail sector—some estimates done by HSBC, Global Research.[36]

- HSBC estimated that the organised retail industry would grow from 5% in 2006 to 16% in 2012. The organised retail industry was likely to expand at a CAGR of 36.5% and to become an US$69.2 billion industry by 2012.
- The share of food and grocery in total retail was expected to decrease from 62% in 2006 to 52% in 2012.
- HSBC forecasted that food and grocery were likely to show the fastest CAGR in organised retailing, although apparel was expected to continue being the largest contributor to organised retail sales in 2012.
- An additional 30 million square metres of retailing space would be required in 2008–2012 to attain an organised retailing penetration rate of 16%.
- HSBC estimated that to reach this target, an investment of US$14.4 billion was needed, of which US$3.66 billion was expected to come from fresh equity infusions.

[36] HSBC (2007) "A Whole New Mall Game, Indian Retail Moves to the Next Level".

EXHIBIT 3: EXPANSION PLANS OF CORPORATE RETAILERS

Reliance: Founded in 1966 by Dhirubhai Ambani, Reliance or Reliance Industries Limited started off with operations in the oil industry, but broadly diversified its activities since then. It had an annual turnover of US$35.9 billion in 2008 and was the biggest private sector conglomerate in India. An investment of US$6.67 billion was planned for establishing multiple retail formats with expected sales of US$20 billion by 2009–2010. The company planned thousands of stores across 784 cities and towns.

Bharti Group: Based in New Delhi, Bharti was one of the largest business conglomerates in India. Established by Sunil Mittal, the initially focussed on offering mobile services in India and abroad. It planned an investment of US$7 billion to create a retail network in the country. It was to include 100 hypermalls and several hundred small stores.

Pantaloon: Headquartered in Mumbai, Pantaloon was one of India's leading retailers. Employing 30,000 people, it had more than 1,000 stores in 71 cities. It aimed at expansion into all possible formats of retail across categories and segments. It planned to have 2.8 million square metres by the fiscal year 2010, a foray in insurance, real estate and consumer finance. Turnover was expected to reach US$6.67 billion in the fiscal year 2010–2011.

RPG: In 1979, RPG, an industrial conglomerate, was founded by RP Goenka. It was involved power transmission, power generation, information technology, entertainment and retail. To expand its retail activities, RPG planned an initial public offering to build more then 450 Music Worlds and over 50 Spencer's Hypers covering 371,600 square metres by 2010.

Lifestyle: Owned by the Landmark Group in Dubai, Lifestyle India opened its first retail store in Chennai in 1999. The Group employed 3,000 people and also operated Max and Home Centre, among various others. It planned an investment of US$90 million in five years to expand its Max Hypermarkets and Value Retail Stores, as well as its Home & Lifestyle Centres.

Raheja: Another of India's major retail companies was K. Raheja Corp. It was established in 1956 as a real estate company but soon diversified its portfolio. It owned Shoppers' Stop, Crossword, Inorbit Mall, Home Stop and recently launched a hypermarket, Hypercity. It planned to have 55 hypermarkets across India by 2015.

Subhiksha: In 1997, Subhiksha opened its first store in Chennai. Since then, it developed into a retail chain selling mobile phones, medicines, vegetables, fruits and groceries. It operated 750 stores and reached sales of US$145 million as of March 2007.

Trent: Trent Limited was established in 1998 as Tata Group's retail arm. It operated Westside, a major retail store chain. Trent planned to open 27 more stores across its retail formats adding 92,900 square metres of space in the next 12 DLF malls.

Trinethra: In 1986, Trinethra established its first stores in Hyderabad and Secundarbad. It operated supermarket and hypermarket chains in South India. Recently acquired by the AV Birla group, Trinethra (operating under two formats: Trinethra and Fabmall) planned 220 stores with a turnover of over US$667 million in the fiscal year 2007–2008.

Vishal Group: As flagship of the Vishal Group, Vishal Retail initially started operating in North India, but gradually spread to other regions as well. It was a retailer that focused on the lower-to-middle income group. The Group's plans included an initial public offering and investment close to US$278 million by 2010, targeting 220 outlets, taking its cumulative retail space to 464,500 square metres and sales turnover to over US$1 billion. With over 50 new stores getting ready in the fiscal year 2007–2008, the chain was investing US$66.67 million, with a sales target of over US$155.6 million.

Source: Kumar, D. (2007) "Resist Corporate Hijack of Retail Trade", India FDI Watch, http://indiafdiwatch.org/fileadmin/India_site/India_FDI_Watch_Booklet_in_English.pdf (accessed 10 July 2009)

EXHIBIT 4: WAL-MART COMPANY PROFILE

Wal-Mart Stores, Inc

WAL★MART

Type	Discount department store, public (NYSE: WMT)
Founded	Rogers, Arkansas, US (1962)
Headquarters	Bentonville, Arkansas, US
Key people	Sam Walton (1918–1992), founder H. Lee Scott, CEO S. Robson Walton, chairman Tom Schowe, CFO
Industry	Retail
Products	Discount stores Supercenters Neighbourhood markets
Revenue	▲ US$351.1 billion (2007)
Net income	▲ US$11.3 billion (2007)
Total assets	US$151.193 billion (2007)
Total equity	US$61.573 billion (2007)
Employees	▲ 1.9 million (2007)
Slogan	Save Money, Live Better. (US) WE SELL FOR LESS every day! (Canada)
Website	http://www.walmart.com/

Source: Search.com, "Wal-Mart", http://www.search.com/reference/Wal-Mart (accessed 14 July 2009).

EXHIBIT 5: GLOBAL FORTUNE 500 LIST (2007)

Rank	Company	Revenues (in millions of US$)
1	Wal-Mart Stores	351,139
2	Exxon Mobil	347,254
3	General Motors	207,349
4	Chevron	200,567
5	ConocoPhillips	172,451

Source: Fortune (2007) "Fortune Global 500", http://money.cnn.com/magazines/fortune/fortune500/2007/ (accessed 10 July 2009).

EXHIBIT 6: BHARTI COMPANY PROFILE

Name	Bharti Airtel Limited
Business Description	Providing mobile, telemedia (fixed line) and enterprise services (carriers and services to corporations)
Established	7 July 1995, as a public limited company
Proportionate Revenue	US$3.6 billion (year ending 31 March 2007—Audited) US$2.3 billion (year ending 31 March 2006—Audited) *As per Indian GAAP Accounts*
Proportionate EBITDA	US$1.4 billion (year ending 31 March 2007—Audited) US$826 million (year ending 31 March 2006—Audited) *As per Indian GAAP Accounts*
Shares in Issue	1,897,148,464 as of 30 June 2007
Listings	The Stock Exchange, Mumbai ("BSE") The National Stock Exchange of India Limited ("NSE")
Market Capitalisation	Market Capitalisation (as of 8 February 2008) Approx. Rs 1,674 billion Closing BSE share price = Rs 882.05
Customer Base	55,162,944 GSM mobile and 2,178,176 telemedia customers (status as of month ending 31 December 2007)
Operational Network	Providing GSM mobile services in all the 23 telecom circles in India. It was the first private operator to have a pan-Indian presence. Providing telemedia services (fixed line) in 94 cities in India.
Registered Office	Bharti Airtel Limited (A Bharti Enterprise) Qutab Ambience (at Qutab Minar), Mehrauli Road, New Delhi - 110 030

Source: Bharti's website: http://www.bhartiairtel.in/index.php?id=factsheet (accessed 15 October 2007).