WALMART-BHARTI JOINT VENTURE: FORMATION, BREAKUP, & STRATEGIES

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ABSTRACT

This case study article discusses the following subjects as they relate to the formation and breakup of Bharti-Walmart joint venture in India: (a) The Indian legal, economic, and social environment (b) Formation of Bharti Walmart joint venture, (c) Breakup of Bharti Walmart Joint Venture, (d) Walmart’s contributions, (e) Walmart’s criticisms, (f) Walmart’s strategies after joint venture breakup, and (g) India’s foreign direct investment strategy in retailing. The article also proposes several hypotheses for future research.

Key Terms: Bharti-Walmart joint venture formation and terms; Bharti-Walmart joint venture breakup and reasons; Walmart’s contributions; Walmart’s criticism; India’s foreign direct investment laws; Walmart strategies in India; and suggestions for India’s foreign direct investment policy.

INTRODUCTION AND PURPOSE

The Bharti Enterprises of India, a premier business conglomerate in India, and Walmart of U.S.A., the largest retailer in the world, made a historic partnership agreement to operate wholesale cash and carry stores in India. The joint venture, however, lasted only for a few years before they cancelled it.

The objectives of this case study article are to discuss the following topics: (a) The Indian legal, economic, and social environment related to this joint venture, (b) Formation of Bharti Walmart joint venture, (c) Breakup of Bharti Walmart Joint Venture, (d) Walmart’s contributions, (e) Walmart’s criticisms, (f) Walmart’s strategies after joint venture breakup, and (g) India’s foreign direct investment strategy in retailing.

An important related objective of this research is to propose—based on the multitude of facts and data used in this article—several hypotheses which have been presented in this article for future research.

INDIAN LEGAL, ECONOMIC AND SOCIAL ENVIRONMENT

Indian Economy and Society

India, with its more than 1.2 billion people, is the largest democracy and the second most populous country in the world. However, it is also one of the poorest nations on this planet. According to the World Bank, India, with its 2013 per capita nominal gross domestic product (GDP) of $1,499, ranked #148 in the world. According to the same source, here is how some other countries stood in terms of their per capita nominal GDP and ranking in the world: Monaco with $163,026 ranked #1; U.S. with $53,143 ranked #13; China with $6,807 ranked #84; Thailand with $5,779 ranked #93; Bhutan with $2,498 ranked #132; and Pakistan with $1,299

India had an estimated unemployment rate of 8% in 2013. The corresponding numbers for China were 4.1% (December 2013); for Pakistan, 6.6% (2014), for Thailand, 0.9% (May 2014), and for U.S., 5.6% (December 2014). (Wikipedia contributors. “List of countries by unemployment rate.” Wikipedia, The Free Encyclopedia.)

The cumulative value of foreign direct investment (FDI) received by India as of December 31, 2013 stood at $310 million; with a world rank of 20. The corresponding figures for the U.S. were $2,815 million (#1); China $1,344 million (#4), Thailand, $193.7 million (#29); and Pakistan, $22.73 million (#68). The world has a whole received a total of $16,360 million in FDI. (Wikipedia contributors. “List of countries by received FDI.” Wikipedia, The Free Encyclopedia.)

India had a current account trade deficit of $91.47 billion in 2012; it ranked 190 in the world. The corresponding numbers for U.S. were $440 billion in 2012 (# 192). On the other hand, China had a current account surplus of $213.8 billion (#1); Pakistan had a current account surplus of $0.268 billion, and Thailand had a current account surplus of $11.9 billion (#25). (Wikipedia contributors. “List of sovereign states by current account balance.” Wikipedia, The Free Encyclopedia.)

A number of Indians are highly educated; a number of them live in the U.S. and other countries, a number of them regularly travel abroad, and a number of them are millionaires and billionaires. All the same, however, Indians cannot forget that their country was invaded and ruled by the British for about 200 years; and that it was repeatedly invaded and ruled by the Arabs for hundreds of more years before the British.

Based on these data and information, the following hypothesis is presented:

\[ H_1 \text{ India is way behind countries such as China to attract much needed foreign direct investment to help grow its “overall economy” due to its laws, bureaucracy, and corruption. } \]

The State of Retailing Industry in India

India’s retailing industry mainly consists of small, sometimes very small, shops owned and operated by their owners and their family members. They include the grocery stores, kirana stores, vegetable and fruit stands, paan shops, convenience stores, hand carts, street vendors, and the like.

In the case of vegetables and fruits, shoppers often have a chance to touch and feel the products. They can also examine various types of grains, nuts, and spices. If the shopkeepers know you, you can also take the items such as fabrics home for family approval. Bargaining for prices is a norm; although some stores follow the fixed prices policy. Packaged products are legally required to display their maximum price. Once purchased, the items are non-returnable, especially the perishable items. Since a large part of the shopping is for essential items, returning items is an exception rather than a rule. Most purchases are small in value and paid for in cash.

Each shop generally specializes in selling a limited number of related items. The shopper has to go to different shops to purchase different categories of household items. Often items lack information about their origin, maker, ingredients, and composition. Using technology is almost absent. Overall, the unorganized small shop retailing industry lack the convenience, quality, and cost-advantage that organized large scale retail industry can offer the shoppers.
There are several middlemen between the farmers, producers, and retailers. Each intermediary in the chain adds its own costs of doing business to the produce and the product before they reach the retailer and finally to the consumer. According to some estimates, small Indian farmers and manufacturers get only about one-third of what the consumers pay. Intermediaries keep the two-thirds. The small shops also cannot take advantage of large scale buying from wholesalers.

A good portion of all kinds of perishable items is regularly spoiled due to poor or non-existent cold storage facilities at different stages between the farmers and the consumers.

India's retail and logistics industry employs about 40 million Indians, 3.3% of Indian population. (Wikipedia contributors. “Retailing in India.” Wikipedia, The Free Encyclopedia.)

Based on these data and information, the following hypothesis is presented:

\[ H_2 \text{ On the one hand, India’s retail industry is very positive for keeping and creating millions of jobs in this industry. On the other hand, however, it is very negative for its millions of customers in the matters of cost, convenience, health, and safety.} \]

India's FDI Retailing Laws

The above facts show that, on the one hand, India is one of the poorest countries in the world and it can clearly use billions of dollars in FDI in its retail industry year after year for its economic growth. On the other hand, however, it is also difficult for India to place a blind trust in its foreign partners. As such, India wants to receive those investments in a way that is generally satisfactory to its various stakeholders who often have divergent or opposing views. It is a very difficult task to accomplish to say the least. Its laws related to the FDI in retail industry such as those narrated below are a result of these multidimensional backgrounds and views.

India has separate laws for FDI in single-brand stores and multi-brand stores. It allows 100% foreign ownership in single brand retail stores such as Nike and IKEA. However, with 51% or more ownership in such stores, the foreign investor has to source 30% or more of their goods locally from small and medium size firms. (Government of India, "FDI Policy in Multi Brand Retail,” 28 November 2011.)

Beginning September 2012, Indian laws also allow foreign companies to own up to 51% of multi-brand retail stores, such as Walmart. These foreign investments are also subject to sourcing 30% of their requirements from local small and medium size firms (Government of India, "FDI Policy in Multi Brand Retail,” 28 November 2011.)

Indian laws permit 100% foreign ownership in wholesale businesses. Such whole sellers, however, can only sell to retailers, not to the general public. (Government of India, "FDI Policy in Multi Brand Retail,” 28 November 2011.)

FDI should be of $100 million or more spread over a three year period. Half of this should be invested in the back-end infrastructure, and the other half in the front-end operations. (Government of India, "FDI Policy in Multi Brand Retail,” 28 November 2011.)

India’s FDI Retailing Laws: Central vs State Governments

The FDI laws have been enacted by India’s central government. However, it is up to its individual states to decide where FDI in wholesale or retail industry should be located. This is further limited by the requirement that the city in which fdis can be located should have a
population of a million or more. (Government of India, "FDI Policy in Multi Brand Retail,” 28 November 2011.)

Arvind Kejriwal, whose Aam Aadmi Party came to power in the State of Delhi in December 2013, told the central government that while it is not closed to FDI in other sectors, it cannot permit foreign multi-brand supermarkets to operate in the State because doing so would wipe out thousands of small shop owners and neighbourhood stores (Ghosh, 2014). The Aam Aadmi Party thus rescinded the earlier permission that was given by the Congress Party in power at the time, for allowing FDI to establish such retail stores in Delhi.

Similarly, the new Bhartiya Janata Party government, which came back to power in December 2013 in the State of Rajasthan, told the central government that it will not allow FDI in multi-brand retail industry in Rajasthan because of its adverse consequences for the state’s various stakeholders. The FDI permission was earlier given by the state government then led by the Congress Party. (Mathew, 2014.)

The central Commerce Minister Anand Sharma expressed his frustration telling reporters that states which had given their nod to the new FDI policy could not throw it out of the window. We are not a banana republic, he said (Ghosh 2014). Such reversals have raised alarms both in India and abroad. The central government is seeking expert legal advice whether a once opted-in state could opt-out.

Based on these data and information, the following hypothesis is presented:

\[ H3 \quad \text{Indian federal and state laws as they relate to the FDI in retail industry in India significantly discourage such investments.} \]

FORMATTION OF BHARTI-WALMART JOINT VENTURE

Walmart and Bharti Enterprises: An Introduction

Walmart is a mega retailer with headquarters in Arkansas, U.S.A., was established in 1962. On January 31, 2015, Walmart had 4,516 stores in the U.S., 647 Sam’s Club, and 6,290 stores internationally; making a total of 11,453 units worldwide. (Walmart website, “Walmart Corporate Locations,” 2015) It has 20 wholesale stores in India, which operate under the brand name Best Modern Price Wholesale. (Walmart website, Walmart India, 2015). It had net sales of more than $473 billion in its fiscal year 2014.

Bharti Enterprises, an Indian conglomerate headquartered in New Delhi, was founded in 1976. It had revenues of US$ 16.5 billion in 2014. It had 30,000 employees in 2010. Its subsidiaries include Bharti Airtel, Bharti AXA General Insurance, Bharti Realty, Bharti Retail, and Field Fresh Foods, among others. It presently has 220 retail stores operating under the Easyday name in various states of India. (Wikipedia contributors “Bharti Enterprises,” Wikipedia, The Free Encyclopedia.)

India’s Growing Retail Industry

According to the Investment Commission of India, the Indian retail sector is expected to grow almost three times its current levels to $660 billion by 2015 (Muthukumar and Subasri 2014-2015). According to another projection, cash-and-carry business is expected to grow to about $22 billion business in India by 2017 (Baily, 2013). Similarly, a study by McKinsey &
Company shows that India will climb from its position as the twelfth-largest consumer market in the world today, to the world's fifth-largest consumer market by 2025 (Ablett, et al., 2007).

Then there is the problem of lost opportunity. The retail industry in India is flooding with some major name national and international competitors. These include Marks & Spencer, Reliance Industries, the Tata Group, the RPG Group, the Aditya Birla Group, TESCO, Carrefour, Pantaloons, Mahindra Retail, and more. It is to Walmart’s advantage to get into the Indian retail game sooner than later. It could not afford to miss the opportunity. If other competitors can live and deal with India’s laws and labor, Walmart can do it too.

**Joint Venture Agreement**

In spite of all the legal restrictions and uncertainties at the central and state levels mentioned above, Walmart saw a huge growth potential in India as mentioned above. It, therefore, signed an agreement with Bharti Enterprises on November 27, 2006 to establish a 50-50 joint venture to do wholesale business there. The partnership called Bharti Walmart Private Ltd, would operate stores called Best Price Modern Wholesale.

Both parties brought their own strengths to the joint venture. Walmart came with its financial strength and support, its globally recognized brand name, and its expertise in national and international retail management. It is also known for its expertise in just-in-time inventory management, retail information management, and retail transportation management.

Bharti Enterprises brought to the table its familiarity with the Indian laws, culture, economy, and labor. It is also involved in agribusiness, food processing, retailing, insurance, and telecom industries nationally and internationally.

Walmart also did not want to go alone in India with all its challenges and uncertainties. Even in Germany, a west European country, it had to incur heavy losses before withdrawing from there entirely.

**Joint Venture Terms**

The historic joint venture included the following terms.

Walmart invested $103 million in the venture (Rana, 2014.) The retail shops will be owned by Bharti Enterprises under the Wal-Mart franchise. Bharti is expected to pay royalty for the cash and carry operations. It is also expected to pay various kinds of fees to Walmart such as, franchises fee, software license fee, administrative support fee, design fee, technical training fee, and documentation fee (The Economic Times, 2007).

Walmart would manage Bharti’s multi brand retail convenience stores and supermarkets called easyday. It was believed that this arrangement would help Walmart to introduce its own brand in India later on. (Banjo, Shelly and R. Jai Krishna, 2013).

The whole sale cash and carry partnership would sell a variety of products ranging from grocery to apparel and consumer electronics to retailers, offices, and organizations.

Since the Indian laws allow FDI in retail industry only in cities with a population of a million or more, it is not easy to find suitable real estate in these large urban areas. The partnership, therefore, planned to establish relatively small size stores compared to their larger counterparts in other countries.
Based on these data and information, the following hypothesis is presented:

\[ H_4 \text{ The Indian economy, in spite of its federal and state laws which are not friendly to FDI in retail industry, is large and growing enough to attract some FDI in this industry.} \]

**BREAKUP OF BHARTI-WALMART JOINT VENTURE**

A successful functioning of a joint venture requires that the partners clearly define its goals, clearly spell out their respective responsibilities to accomplish these goals, and carry out those responsibilities. A joint venture’s success or failure depends not only upon the partners accomplishing these goals and carrying out these responsibilities, but also on the socio-economic and political variables beyond their control.

So when on October 9, 2012 the Walmart and Bharti announced the breakup of their dream team and decided to go separate ways in both retail and wholesale ventures, people wondered why? There are several reasons behind this widely celebrated Indo-American partnership.

**Corruption and Politics**

Some primary reasons for the low and slow flow of FDI in India are the Indian legal and political factors. Indian laws are considered unclear and uncertain; and their implementation is routinely marred by bureaucracy, hurdles, delays, corruption, and grafts. It is not uncommon to be first charged for taking a bribe and then let go by giving another bribe. An editorial in the The Economic Times said it like this: “No company can operate without greasing a palm here or shedding out unaccounted amounts there.” (etretail.com., 2013).

In September 2012, the Congress Party led Indian government stated that it would allow foreign supermarket chains to take majority ownership in multi-brand retailing in India. The current BJP led government, however, opposes it. It, however, would not cancel such applications already approved. However, no global supermarket chain has been rushing to apply.

**Sourcing Requirement Laws**

The requirement that those interested in making FDI in India’s wholesale or multi-brand retail industry should source at least 30% of their products from local small and medium size industries is problematic for them. While this condition may be met in sourcing textiles and handicrafts items, it may not be easy to comply with it in sourcing some other products such as electronics.

Scott Price, Wal-Mart’s chief executive called it as “critical stumbling block” to establish its consumer stores in India. He also said that these small and medium size companies don’t have the ability to meet the large scale requirements of large retailer. He also said that because the Indian retailers are not bound by this condition, it makes it an uneven playing field (Harris, 2013).

Foreign investors also find the requirement to invest 50% of the FDI in back-end infrastructure difficult.

Bharatiya Janata Party (BJP) leader Rajnath Singh is opposed to FDI in retail because multinational companies like Walmart are buying 80 per cent of their goods from countries like China. “India will become a dumping ground for Chinese goods.” (Mookerji, 2012)
However, Rajan Bharti Mittal, vice-chairman and managing director of Bharti Enterprises, said that the Bharti-Walmart venture plans to source 90 to 95 per cent of the products locally. The only foreign stuff that could be sold at Walmart India would include some toys, appliances, olive oil etc. As for food items, around 98 per cent of the total is likely to be sourced from India. (Mookerji, 2012).

**Questionable Investment in Cedar Support Services**

In March 2010, Walmart invested $100 million in compulsory convertible debentures of Cedar Support Services (CSS). The CSS is both the parent company of Bharti Retail and the operator of the latter’s front-end retail stores. These compulsory convertible (into equity) debentures in effect amounted to Bharti Retail ceding its control and management to Walmart. However, Indian laws don’t permit FDI in front-end retail (multi-brand) stores.

In September 2012, P. Achuthan, a CPI (Communist Party of India) member of Rajya Sabha (India’s upper house of parliament) asked the government of India about the legality of this Walmart investment. The Enforcement Directorate for alleged FEMA (Foreign Exchange Management Act) violations is investigating the issue. (Hindustan Times. “Wal-mart, Bharti deal: diary of a troubled marriage,” October 10, 2013.)

**Allegations of Corruption and Impropriety By Walmart**

Concerned by its alleged corruption and other improper practices in Mexico, Brazil China, India and elsewhere, Walmart began a global review of its operations to assure that they are in compliance with both the U.S. Foreign Corrupt Practices Act and also the host country laws. “Its lawyers flagged India among the countries with the highest corruption risk.” (Hindustan Times. “Wal-mart, Bharti deal: diary of a troubled marriage,” October 10, 2013.)

As a consequence of this inquiry, Bharti-Walmart suspended its five top executives in November 2012. Walmart India CEO Raj Jain resigned in June 2013; he was replaced by Ramnik Narsey. At Bharti Retail, Chief Operating Officer Mitch Slape, an old Walmart hand, was sent back to Walmart USA. These executives, however, were not charged for any wrong doing. (Hindustan Times. “Wal-mart, Bharti deal: diary of a troubled marriage,” October 10, 2013.)

While lobbying is legal in the U.S., it is illegal in India. So when Walmart disclosed to the U.S. Senate and House of Representatives that it spent about $25 million since 2008 on its lobbying activities in India that included enhanced market access for investment in India, there was a huge uproar in the Indian Parliament which led to the Indian government starting an investigation against Walmart. (Hindustan Times. “Wal-mart, Bharti deal: diary of a troubled marriage,” October 10, 2013.)

With all these allegations and challenges facing Walmart internationally, especially in India, its breaking up with Bharti Enterprises and taking complete control of its Indian operations appeared to be a logical thing to do.

Wal-Mart has invested more than $200 million on overhauling its worldwide operations in order to assure that these are in compliance with both the U.S. and the host country anti-corruption laws (Banjo, Shelly and R. Jai Krishna, 2013).
Bharti Enterprise’s Reasons

Bharti Enterprises seemed to have its own reasons to call it quits. Bharti Retail is interested in growing its own retail business involving various formats. With its 212 Easy Day stores, it already has a strong foothold in the industry. (Bose, 2013.)

The Bharti Enterprises is disappointed with the lack of growth in the number of the Best Price Modern Wholesale stores, which was growing but has now been stuck at 20 units. It is also concerned with these units’ losses of Rs 372 crore as of December 2012. (Mookerji, Nivedita. 2013.)

Bharti Airtel, with billions in debt, is financially strained after buying some telecom firms in the developing world, including its purchase of Zain of Middle East and North Africa.

Terms and Costs of Joint Venture Breakup

Here are some of the main terms of the Bharti Walmart joint venture breakup.

Walmart will acquire Bharti Enterprises’ 50% stake in the 20 Best Price Modern Wholesale cash-and-carry stores that had been run by the Bharti Walmart joint venture. It would thus own it 100%, which is allowed under the India laws. (Banjo, Shelly and R. Jai Krishna, 2013.)

Bharti Enterprises would acquire the compulsory convertible debentures (CCDs) worth $100 million that Walmart had invested in Cedar Support Services, the parent company of Bharti Retail that operates its EasyDay stores. Bharti Enterprises would run them by itself now. (Bailay and Malviya, 2014.)

In monetary terms, Walmart spent $334 million to end its partnership with Bharti Enterprises. It paid $100 million to buy Bharti Enterprises 50% share in the partnership; and it took a $234 million loss for waiving the debt and other investments it had made in the Bharti Enterprises. (Bailay and Malviya, 2014.)

It may be noted here that Walmart also incurred costs and losses associated with the closure of its about 50 underperforming units in Brazil and China (NDTV 2014).

Other Joint Venture Breakups in India

The Walmart and Bharti is not the first international partnership breakup in India. Some other major names which have broken up their relationships or having problems working together include Procter & Gamble (USA) and Godrej; Telenor (Norway) and Unitech; Fiat (Italy) and Tata Motors Ltd.; Ford (U.S.A.) and Mahindra & Mahindra; mcdonald’s (U.S.A.) and Connaught Plaza Restaurants; Di Bella Coffee (Australia) and Sachin Sabharwal; and Honda (Japan) and Munjals; among others.

Based on these data and information, the following hypothesis is presented:

H5 The foreign companies in India, in its retail or other industries, should remain clear of any misbehavior in India, in their home country, or elsewhere in order to establish, stabilize, and grow their business in India.
WALMART’S CONTRIBUTIONS

Walmart, through its Bharti-Walmart joint venture, and through its other associations with India, has made some important contributions to the country such as follows.

Benefits of Best Price Modern Wholesale Store

According to a Walmart website, the Best Price Modern Wholesale Stores offers the following benefits.

“Best Price Modern Wholesale stores are a one-stop-shop that offers best prices with unmatched convenience, choice, quality and hygiene. The stores meets day-to-day needs of business members namely restaurant owners, hoteliers, caterers, fruit and vegetable resellers, kiranas, other retail stores, offices and institutions. Around 5,000 items, including food and non-food items, are available at competitive wholesale prices by lowering cost of operations. Over 95% of these items are being sourced locally, which in turn reduces the costs and eventually, the prices” (Walmart Website)

“A typical cash-and-carry store stands between 50,000 and 100,000 square feet and sells a wide range of fresh, frozen and chilled foods, fruits and vegetables, dry groceries, personal and home care, hotel and restaurant supplies, clothing, office supplies and other general merchandise items” (Walmart Website)

“Best Price Modern Wholesale stores have introduced several education programs for its members with customized modules for different target segments. A model ‘Mera Kirana’ has been created in each store that shares best practices with both, small and medium retailers. It also promotes usage of low cost modern techniques and processes such as assortment planning, layout and fixtures, displays, backroom, licenses, safe food handling, customer retention and value added services. Further, different educational programs for members on Taxation, Food Preparation, Food Safety and Category workshops are organized on a regular basis” (Walmart Website)

Best Price stores provide safe, clean, healthy, and hygienic food. Vegetarian products, Dairy, Meat & Fish departments are physically separated from each other to respect the religious sentiments of its members. All food equipment are sanitized every four hours. (Walmart website.)

Walmart plans to continue to improve India’s infrastructure. It also plans to duplicate its no-questions-asked ‘return policy’ in India that it uses in other countries.

Corporate Social Responsibility

Bharti Wal-Mart has been involved in helping community and environment right from the beginning. It has provided pushcarts to the poor to help them build their business, it partnered with Coca-Cola India to plant trees in Amritsar, it partnered with Amritsar Municipal Corporation, to adopt and manage certain roads, it partnered with the Punjab government to launch skills training and centers, and it has supported schools and their underprivileged children there (Business Standard 2009).

Bharti Walmart joint venture has also sponsored a Women’s Economic Empowerment Initiative to enhance economic opportunities for women in India (Bharti website).
Based on these data and information, the following hypothesis is presented:

\[ H6 \quad \text{Walmart's continued presence and growth in India would be good for the Indian economy.} \]

**WALMART’S CRITICISMS**

Walmart continues to be opposed primarily for one major reason: It destroys jobs most anywhere it goes. Let us look at it from the Indian perspective.

**Destroying Jobs**

Anand Sharma, India’s then Commerce and Industry Minister, said that he expects new FDI in retail to create 10 million new jobs over three years, about five to six million of which would be in logistics. (Dhume, 2011).

However, that optimistic opinion does not present the entire scenario. This may be true if one looks only at the jobs created by FDI (Walmart and other international investments) in the new stores and infrastructure it helps develop. Actually, as many people argue, the FDI really destroy many more millions of jobs which are currently performed by the small kirana merchants, the small farmers, and the small intermediaries all over the country.

According to a study by Neumark et al, opening of Walmart stores clearly reduces local employment and payroll (Neumark et al., 2005).

However, according to a study by the Indian Council of Research in International Economic Relations (ICRIER), large corporate and FDI money in the retail sector would not harm the small retailer in the long run. The FDI in organized retailing would help overall consumer spending to increase and help improve the purchasing power of all income groups. Lower income consumers would benefit the most. (Joseph et al., 2008).

Right from the beginning, the Bharti-Walmart joint venture has raised concerns and protests by small shop owners, traders, hawkers, farmers, and trade unions who fear substantial job losses due to FDI entry in India’s retail industry.

For example, several hundred shopkeepers in Delhi and elsewhere in the country protested the partnership on August 9, 2007. They chanted “Quit retail,” echoing the famous “Quit India” slogan that Gandhi successfully used to gain independence from Britain 60 years ago this month. (Gentleman 2007). This time, however, Walmart does not appear to pull out of the growing Indian retail market.

Similarly, in November 2011 when India announced its policy to allow 51% foreign ownership in multi-brand retail, millions of small shop keepers, traders and others demonstrated against the policy throughout the country. (Chen, 2012).

Several hawkers and vendors protested outside the Walmart’s head office in Gurgaon, on November 19, 2014 to bring attention to the damage it is causing them, the low wages it pays to its employees and the poor working conditions in its stores. (Chatterjee, November 20, 2014).

Likewise, as Walmart was about to open its 21st store near the Taj Mahal in Agra, India, the street vendors who sell similar goods as Walmart does protested the move saying it will take away their business and jobs. (Upadhyaya, 2015).
Retailing in the Disguise of Wholesaling

Under Indian laws, FDI partnered wholesale stores are allowed to sell only to “retail businesses” like shops, restaurants, vendors, hotels, and offices. Customers are required to have a photo ID to enter these stores. There is also a minimum purchase requirement so that individuals will not take advantage of the cards.

However, according to an undercover investigation by web portal Cobrapost.com, the international retailers, Wal-Mart, Metro Cash & Carry and Carrefour, do routinely sell their merchandise to individuals too. (Rajendran, 2014).

This violation of law by these companies hurts the poor small shops owners who are dependent on these individual buyers.

Based on these data and information, the following hypothesis is presented:

\[ H7 \quad \text{Walmart would continue to face serious opposition from small local Indian merchants for their current and future unemployment.} \]

WALMART'S STRATEGIES AFTER JOINT VENTURE BREAKUP

Walmart has several strategic alternatives to choose from after its breakup with Bharti Enterprises. Its decision would affect both its own future in Indian retail industry; as well as the overall flow of FDI in India. It can stay in India, first, by continuing and growing its wholesale business there; and, then, it can enter India’s multi-brand retail business as and when it seems appropriate. Alternatively, it can pull out of India completely, as the French mega retailer Carrefour decided to do in July 2014.

Walmart’s Strategy to Continue Wholesale Operations in India

Indian retail industry is expanding all over the country, both in the highly populated large cities and the less populated smaller towns. According to the Indian Brand Equity Foundation, the local retail market, with a value of about $518 billion, should grow to about $866 billion in 2015. For a comparison, the U.S. market would be about $424 billion in 2010. The organized retail sector in India, currently about 10% of the overall market, would grow up to about 20% by 2020. (Octogona, 2014).

According to Rachna Nath, a retail analyst for pricewaterhousecoopers, the Indian retail market is estimated to expand to more than $1.3 trillion by 2020. It already racks up more than $400 billion in sales each year, but is dominated by traditional markets and mom and pop shops. (Banjo, Shelly and R. Jai Krishna, 2013)

Walmart, logically, has chosen to continue and expand its Wholesale Best Price cash-and-carry operations in India. It also plans to continue to make important contributions toward India’s socio-economic environment. According to Walmart's international president, David Cheesewright, India is a long-term commitment for Walmart (Mookerji, 2014).

In April, Walmart announced plans to open 50 wholesale stores in the next four to five years to expand its footprint in the country (Indian Express, 2014). It recently acquired a wholesale store in Agra from its rival Carrefour, the French mega retailer who losing money on it and who has decided to exit India due to several reasons.

For a general comparison, Walmart opened under 40 stores annually in China since 2008. In Mexico, its neighboring country, however, it opened an average of 266 stores every year since
2008. While this comparison may not be totally objective, it does throw some light on what India offers in terms of both the opportunities and the challenges. (The Telegraph, 2013).

**Walmart’s Strategy to Enter India’s Multi-Brand Retail Industry**

Walmart would continue to wait for appropriate time and opportunity to enter India’s multi-brand retail business. If it decides to do so, it may do it on its own, it may take an India partner, or it may acquire a competitor.

**E-Commerce**

Online retailing giant Amazon.com plans to invest $2 billion to expand its operations in India that it began in February 2012. Similarly, Flipkart, India's largest e-retailer, is planning to raise $1 billion to expand its business. According to Boston Consulting Group, Internet users in India are expected to increase from 120 million in 2011 to 330 million by 2016; and their online shopping has room for growth. (Zack, 2014)

Walmart is also starting its own B2B online business to participate in India’s growing online business market.

Based on these data and information, the following hypothesis is presented:

\[ H_8 \quad \text{Walmart would continue to evaluate its various strategies to remain in India or to quit India.} \]

**CONCLUDING THOUGHTS: INDIA’S FDI STRATEGY**

India has some its own strategic choices to make too.

**Multiple Stakeholders, Conflicting Interests**

India’s retail industry is at cross roads. Its modernization, on the one hand, would destroy millions of small businesses and the related jobs. It, on the other hand, would also improve country’s infrastructure, create millions of different kinds of jobs, allow farmers and producers to receive more for their efforts, and allow consumers to pay less for their purchases as they shop in stores which more consumer friendly in several ways.

India needs additional capital and modern techniques of technology and management to modernize its age-old, inefficient and expensive retailing industry.

Large international retailers such as Walmart, Carrefour, and Tesco; and India’s own large organized retailers such as, in addition to Bharti Retail, Future Group’s Pantaloon Retail, Spencer’s Retail, Reliance Retail, Birla More, and Tata’s Westside are already providing some such resources. However, much more needs to be done.

However, the large and growing retailers, foreign or Indian, single brand or multi-brand, are also known for hurting small businesses and killing their jobs; millions of them.

This opposite environment of creative destruction would play out irrespective of the origin of the modern retailing firms, whether they are national or foreign.
China Example

FDI in retail in China provides a good benchmark for FDI in retail in India. China first allowed FDI in its retail in 1992 at 26%. It gradually increased it to 100% in 2004 in selected cities, as it tried to protect and strengthen its own retailers. (Dutta, 2011).

India’s Strategy

Thus, on the one hand, it appears logical for India to go slow in allowing FDI in its retail sector, as it tries to protect its small scale businesses. However, on the other hand, it also makes sense for India to recognize that China, one of its major competitors in the world markets, is already years ahead in the retail business in terms of its efficiency and effectiveness as they relate to different stakeholders. It, therefore, would make good sense for India to expedite the flow of FDI in its retail industry.

If India slows down in modernizing its retail industry, it would also continue to fall behind the countries such as China in developing its export business. Why would an importer pay more for Indian produce or products when it can get them at much lower prices elsewhere such as from China?

Under these circumstances, India should adopt a strategy, on the one hand, of facilitating the modernization of its retail industry. And, on the other hand, it should also take all the necessary steps to take proper care of its people who would be adversely affected by retail industry modernization.

It should be recognized that the modernizing retailing would increase per person output, the total national GDP, and the average per capita GDP; as it would also reduce the total cost of production. In other words, the modern retailing would increase the total size of the rotti (Indian bread), as compared to its size currently rolled out by its grossly inefficient retailing industry.

India should then use its increasing size of rotti to take proper care of its people who are hurt by the modernization, in retailing or elsewhere, by providing them the benefits such as follows: Unemployment compensation; medical care; general and specialized education to prepare for different jobs and opportunities; and low cost loans and guidance to start new businesses. It would be a win-win phenomenon for India, not a zero-sum game.

Based on these data and information, the following hypothesis is presented:

It is in India’s major interest to promote modern retailing in the country. It should develop comprehensive laws and regulations to help it grow at a rapid rate; including its FDI component. It should also establish equally comprehensive laws and regulations to help the millions of small entrepreneurs who would be unemployed by the growth of its modern retail industry.

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