WAL-MART Prepares to Enter Indian Retail Sector: Strategic Implications

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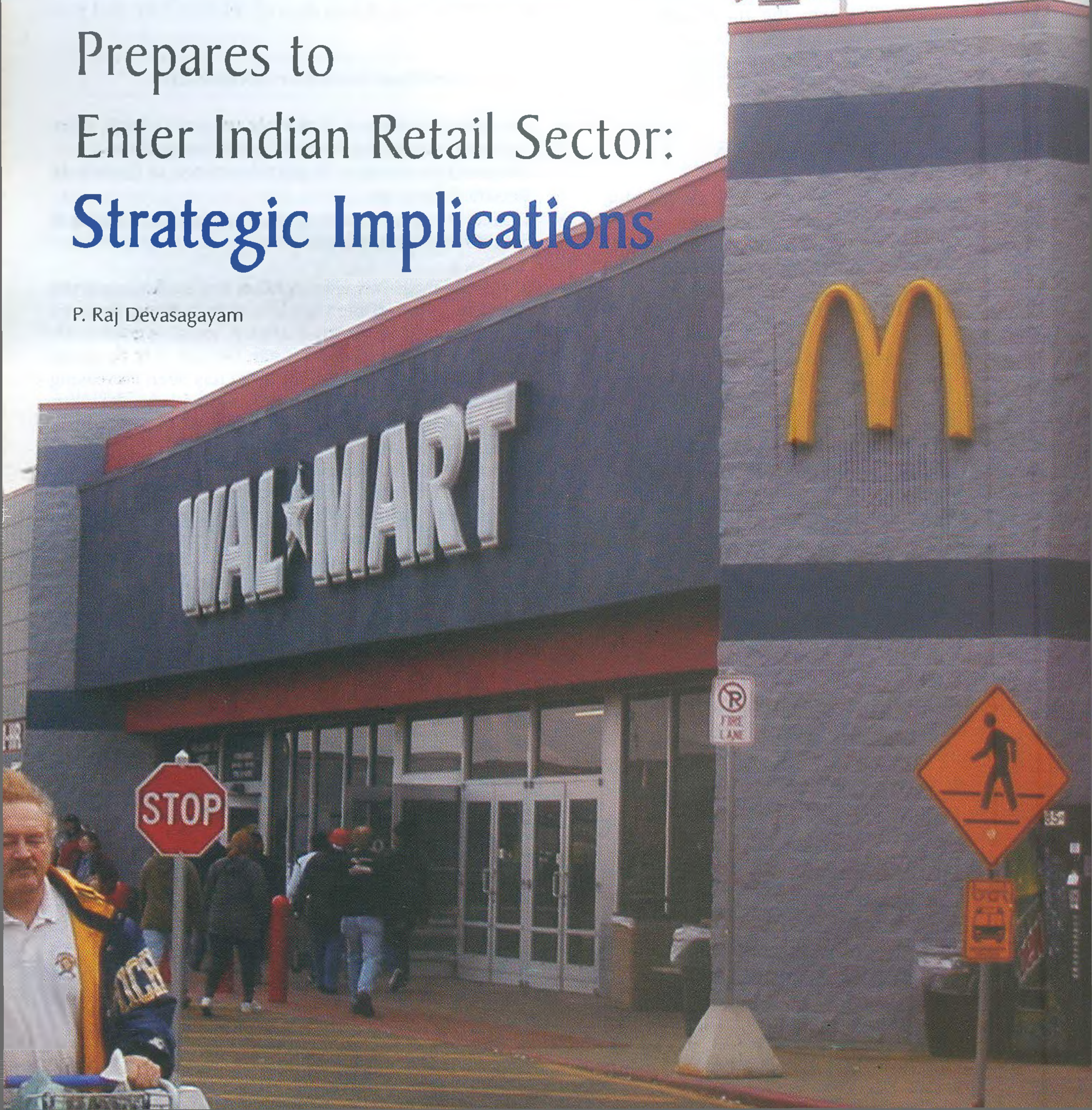
ABSTRACT

Recent policy decisions by the Government of Indi have made it possible for retailers such as Wal-Ma to consider market entry into the Indian retail secto Based on a literature review of Wal-Mart and i innovative strategies, this research delineates th implications for both Wal-Mart and the Indian reta sector as this market entry is contemplated. The pap begins with a historical background of Wal-Mart ar the history and growth of the retail sector in Indi Further, the paper proceeds to clearly underscore th strategic implications for Wal-Mart in th international market with unique characteristic The paper concludes with caveats and challeng that Wal-Mart's business model will pose for th Indian retail sector.



INTRODUCTION

Wal-Mart prepares to enter Indian-retail Sector : Strategic Implications as I write these words, President Bush is visiting my homeland India, many believe that this should be a watershed event that will be recalled with the same gravitas as the phrase "Nixon in China." A welcome banner in India found its way into American homes via CNN as it declared, "Dubya… we love ya!" in New Delhi. For a President who currently faces the lowest job approval ratings in the US seen in recent memory, this banner fluttering in crisp winter breeze of New Delhi came as a truly welcome gesture. The world's most populous democracy is expected to play a crucial role in the presidential legacy of Mr. Bush as he befriends a nation with a steady growth and tremendous potential that also models the multiethnic democracy that appeals to Mr. Bush's supporters. Six weeks prior to this visit by Mr. Bush, Wal-Mart signaled its intention of entering India with similar lofty goals in mind, to build upon the foundations of the free market economy that has a ripe and waiting clientele with a bulging middle-class wallet.

In January 2006, Indian cabinet approved foreign ownership of 51% in the retail sector for firms that sell only their own merchandise (e.g., Nike and Adidas). This is being viewed as the harbinger to the next step, which will allow retailers such as Wal-Mart, that sell products of various manufacturers, free access to Indian retail market. Indian Prime Minister, Mr. Manmohan Singh, recently indicated that the liberalization in the retail sector might lead to doors being opened to all international retailers by July 2006. Within one week of this announcement in January, Wal-Mart sought permission to open its first liaison office in India with the goal of engaging in research and business development activities.

A recent Pew Global Survey shows that Indians, of all the other major nationalities, may be the most positively inclined towards Americans with more than 70% of those surveyed viewing America positively. Trade expansion between the two nations has been close to a whopping 25% over the past two years and Wal-Mart would like to feast at this inviting and bountiful table. Wal-Mart's intentions shouldn't come as a surprise, given that Wal-Mart enjoys high levels of loyalty among the 2.6 Million people of Indian ethnicity in the USA. These loyal customers are among the most educated and affluent minority that shop at Wal-Mart, imagine close to 700 million such potential customers of the middle-class India ready and waiting across the oceans!

My goal in this paper is to examine the strategic implications of an Indian market entry decision by Wal-Mart. We proceed by examining the historical development of the largest retailer in the world, and then proceed to examine the international marketing efforts and the results of such efforts by Wal-Mart in recent time. Further, we will examine some lessons gleaned by business associates of Wal-Mart and their strategic implications for the Indian retail sector, as it prepares to compete with the juggernaut from Arkansas.

BACKGROUND: WAL-MART

It is interesting how the history of both Wal-Mart and modern India began to take shape and evolve in mid forties. Mr. Sam Walton opened doors to his first dime store in Arkansas in 1945 and today his company boasts over 3800 stores in the USA, with plans to add between 325 and 375 stores in the USA this year. It is the world's largest retailer with $312 billion in revenue, employing over 1.3 million people in the USA alone. It is no hyperbole to state that this folksy company of Sam Walton is poised to be the first trillion-dollar business in the world within the next ten years!

Wal-Mart is now the world's largest company, ahead of ExxonMobil, GM, and GE. Wal-Mart sells in three months what the number-two retailer in the US, Home Depot sells in a year. Wal-Mart does more business than Target, Sears, Kmart, J.C. Penny, Safeway, and Kroger combined. Wal-Mart wields power in the marketplace by virtue of its financial strength.

This is a unique business enterprise in more ways than one. Very few companies of this size can boast of an entrepreneurial spirit in their forties when their revenues are in multiples of hundreds of billions and their employee count is in millions. Mr. Sam Walton opened his second store in 1952. It took him seven years to expand to another location and then another 25 years before he had a total of 38 such stores. Growth at Wal-Mart has been deliberate and well planned. Walton's initial revenues were $72000 and the rate of growth of that revenue had been close to 30% per annum until mid-nineties. The rate of growth is closer to 15% now, however on a much larger base. A typical Wal-Mart store employs 150 to 350 people and a "supercenter" might actually employ 400-500 people. Experts point out that the net gain of employment in a 100000 square-foot outlet is about 95 to 100 jobs. Mr. Sam Walton seemed audacious in 1977 when he claimed that Wal-Mart would some day be a billion-dollar company, by 1991 Wal-Mart revenues were in the $30 billion range. Their goal to reach $125 billion by the year 2000 was achieved two years ahead of schedule. In the case of Wal-Mart, it does not seem like bulk is interfering with agility.

In terms of the five-force model in marketing channels literature, this is a success story that makes perfect sense. The five-forces that impact a firm, a la Mr. Michael Porter, are suppliers, rivals, substitutes, potential new entrants, and the most important of them all buyers. Wal-Mart has managed to harness all the inherent power of these forces and pass the confluence on to their buyers. At the core of their business model are some very noble ideas concerning enpowerment of their loyal customers. Making everything affordable for the masses that was hitherto fore only accessible to the rich elite.

To the detractors of this company, of which there are many, this principle is more "Walmartian" than utopian. One need only scan the local media to see stories that clearly underscore the negatives of a Wal-Mart cropping up in a picturesque suburbia. As this narrative progresses, we will look at some of the strategic initiatives undertaken by Wal-Mart that might be well worth noting for international collaborators such as those envisioned in India.

BACKGROUND: RETAILING IN INDIA

Around the time that Mr. Walton was establishing his very first dime store, India was gaining its independence from British Rule in 1947. Independent India was ruled by a nation that sought business ties with her through the East India Company. The simple business relationship eventually transformed into colonization of the country as the "Jewel in the Crown." In light of this capitalistic venture gone awry, one finds it hard to blame India for espousing an economic policy of protection and caution. Mr. Nehru, the first Prime Minister of India laid out a very conservative socialistic planned economic model that was to lead to balanced growth and domestic welfare at the expense of international business collaborations. In early 1990s, Prime Minister Rajeev Gandhi decided that India was now ready to entertain globalization in all its glory and set in motion a series of economic reforms that led to the recent decision by the Indian cabinet that is of special interest to Wal-Mart.

According to McKinsey & Co. India's $250 billion retail sector is the world's eighth largest and with a growth potential of 7% per year in the foreseeable future. By some estimates retail sales in the urban stores is expected to rise by 15% per annum in the next decade. More than 95% of retail sales in India are made through 12 million mom-and-pop shops, newspaper stalls, street vendors, bicycle hawkers, pushcart vendors, and tea stands. The largest cohort of 20 to 49 year olds in the world is expected to exist in India by 2010, an estimated 30% increase resulting in 510 million such people. By 2010, 65 % of Indian population will be under 49 years of age, a customer base engaged in wealth creation, a group more interested in spending than saving and more dedicated to self-gratification than self- denial. This must sound like sweet music to Wal-Mart.

Average consumers in rural India still walk into a store that separates the merchandize from the customer via a counter-top akin to a New York Deli. In rare instances, the counter might be "U" shaped allowing for a little more intimacy with the products. Traditionally the shopkeeper and his associates procure the desired product for the customer and under a very watchful eye allow for product and price comparisons at a very hectic pace. The customer decision process is rather rushed and pricing seems almost arbitrary. The owner of the store operates a drawer full of assorted cash where currency is exchanged without the benefit of a receipt in many cases. Compare this to a retail store in the more urban parts of India: isles that display product assortment and a more leisurely pace of comparing product attributes and pricing points being facilitated. The isles are crowded due to the sheer volume of customers and check out lanes have more modern cash registers that provide printed receipts. The number of cash registers is limited, lack of scanning often results in UPC key-in errors, and delays in checkout is very common. One can already see the inherent inefficiencies in the system when compared with a Wal-Mart. Pressure from Indian consumers is growing. More than six million Indians travel abroad each year and get a taste of retail outlets that are more customer friendly and offer greater value for money. The sweet music of current size and potential growth that Wal-Mart could faintly hear mentioned in the preceding paragraph reaches its crescendo when coupled with the unmet needs of the average retail customer in India.

Wal-Mart has had strong ties with India as a buyer, in 2005 Wal-Mart bought $1.5 billion of sheets, T-shirts, and jewellery from India. Over the past two years, Wal-Mart has been conducting market research, building a local team of managers, and lobbying with local politicians and bureaucrats. During the recent visit of the Indian Prime Minister, Mr. H. Lee Scott, Jr., the CEO of Wal-Mart, had a meeting with him in Washington D.C. and invited Mr. Singh to visit a local Wal-Mart. Wal-Mart is very aware of global competitors such as Carrefour SA of France and Metro AG of Germany being equally interested in the Indian retail market. There are companies in India that have a head start in the retail sector (Shopper's Stop Ltd. and Provogue (India) Ltd.) that will be formidable competitors as well.

Wal-Mart has reached a plateau in the US market and spends considerable resources in defending its corporate philosophy and strategy in the USA. Same store sales growth was close to 6% in 2002 while in the fiscal year ending January 31, 2006 this number was 3.4%. Wal-Mart is facing the largest gender discrimination suit in US history filed by over 1.5 million female employees of Wal-Mart. It has already had to deal with lawsuits regarding poor working conditions and locking up custodial staff (mostly illegal immigrants) overnight in the stores. Thirty states in the USA are legislating mandated health benefits for Wal-Mart size company employees as the incidence of Wal-Mart employees relying on public assistance has become a trend that drains state economies. Image makeovers are costing the company a pretty penny. However, there is an untapped 80% of the 6 billion people strong world market unexplored by this corporate juggernaut.

"WAL-MART ... MEET INDIA!"

Wal-Mart's entry into the Indian retail sector will be a unique experience for both India and Wal-Mart.

WHAT WORKS IN US MIGHT NOT WORK OVERSEAS

While Wal-Mart has been extremely successful in expansion plans throughout the USA, their performance in international markets have yielded mixed results to date. Sales growth in developed markets is slow due to increased competition; Wal-Mart has suffered in some affluent countries such as Japan, U.K. and Germany. The company has done well in Asia, North and South America, and claims strong growth in Mexico, Canada, and Brazil. Wal-Mart's international operations currently account for 20% of its revenues but have posted close to 10% growth in the last year as opposed to domestic operations that have grown by 7%.

Wal-Mart currently has 51 stores in China and plans to add 40 more by the end of this year. The Chinese operation account for less than 1% of Wal-Mart sales but are expected to grow rapidly in the near future. In the initial year 1995-96 when Wal-Mart entered China, they stocked the stores with product assortments and package sizes that were popular in the US. Results were poor, most customers did not care for the product choices and certainly were not interested in buying large quantities to be stored in their homes. Wal-Mart had to revamp their strategy to overcome this initial setback. Here are some unique issues that Wal-Mart will have to consider as it plans to enter the Indian retail sector.

VARIETY IS THE SPICE OF INDIAN LIFE

In India, Wal-Mart will encounter a multiethnic, multicultural marketscape that bears no resemblance to the giant melting pot of the US. The market segments and sub-segments present a variety of such diverse needs and wants that Wal-Mart will have to view it more as a "tossed salad." Majority of India lives in villages that are remote, both in access and sensibilities. Illiteracy is high, although some of the most educated technocratic workforce hail from this nation. Languages, dialects, cuisines, dances, drama, cinema, journalism, political ideologies, castes, and creeds vary every few hundred miles. Wal-Mart's greatest strength of "Every Day Low Pricing," is driven by high volume and rapid turnover of inventory, one can easily see how the fragmentation of market needs and wants will have a significant impact on this strategic competitive advantage.

LOGISTICAL INFRASTRUCTURE IS IN DISARRAY

Wal-Mart has also been able to cut costs and pass the savings to their customers as a result of effective operational and logistical management. Just in time inventories have been mastered to perfections, products arriving on loading docks 30 to 45 minutes prior to restocking. Wal-Mart and its suppliers run a well-oiled and seamless network of distribution that relies on efficient infrastructures that support procurement and transportation of products.

Wal-Mart will be faced with the daunting task of building a distribution system from scratch in India. Bad roads and power outages are commonplace and will be the very first issues that Wal-Mart will have to grapple with. By themselves, these might seem like issues best tackled by the state, however, in order to sustain their cost leadership Wal-Mart will have to make investments and adapt to the reality of a less than optimal infrastructure.

COMMUNISM IS ALIVE AND WELL

There is a strong opposition to a more liberalized retail sector in India from the leftist parties. These political parties have leant their support to the present coalition that rules India, and the withdrawal of the support would initiate a change of leadership. Communists are concerned that foreign retailers such as Wal-Mart would hurt the tens of millions of local shops that form the retail sector. The government argues that international competition would streamline national distribution system, build more efficient infrastructure, cut waste, and lower the prices for average customers. For a company that would rather shut down stores and departments within stores than allow for unionized labor, this will be Wal-Mart's first real encounter with communists and ideological Marxists!

"INDIA ... MEET WAL-MART!"

The path to welcoming Wal-Mart to India is rife with potholes for India as well.

QUANTITY DEVOURS QUALITY

For businesses that have specialized in product quality and reliability and offer their customers distinct competitive advantage via superior product and service quality, the very notion of high-volume that Wal-Mart sells could be a death knell. The street corner store provides some unique value-added services to the Indian customers. Relationships are known to span decades, credit is offered unconditionally, and home delivery is free of charge. Such personalized value adding might disappear in wake of the giant retailers stepping in. Large and reputable firms in the US have had to deal with the issue of quality versus quantity as it relates to Wal-Mart.

Consider the case of Snapper, a residential and commercial lawn-mower manufacturer. Snapper enjoyed a high-quality competitive distinction for fifty years -- here was a lawn mower trusted for longevity and durability although priced high. The value received by the customer was not immediate but more long-term. In Wal-Mart the lawn mowers follow a predictable price spread from $99.96 to $188 in $20 increments that provide slightly better quality as one climbs the pricing ladder one rung at a time. Compare this to the least expensive Snapper at $349.99 for 19 inches push-mower with a 5.5 HP engine. Even if deeply discounted one would not be able to find a Snapper for less than $299. If the customer wants a walk-behind Snapper, the price would be in the range of $519!

What Wal-Mart achieved through a $119 lawn mower was not just altering the price perceptions of the customers but also actually altering their purchase behavior. Lawn mowers are now rendered disposable. After a couple of summers if they refuse to start, you could leave one on the curb and buy another one for $139 that was equally good for two seasons. Why would one even consider a Snapper that could cost as much as 3 to 4 such mowers that would last an average of two seasons each?

In 2002, John Weir the CEO of Simplicity (that owns Snapper), saw the problem with Snappers being sold at a Wal-Mart: dilution of brand that would ultimately hurt his principal competitive advantage. Wal-Mart promised him sales exceeding tens of millions, not a hollow promise from the largest retailer in the world. Mr. Weir left the deal on the table and walked away from Wal-Mart.

Mr. Weir had two factors going for him, first, he had his own established distribution network that accounted for 80% of Snapper sales. Secondly, he knew his value proposition well enough to see it dying in a few years if he indeed sold his products though Wal-Mart. Today every Snapper lawn mower sold anywhere in world comes from McDonough, Georgia. The factory boasts of 145 different models (grown from 40 in the last three years) with robots busy welding, lasers being employed to cut parts, and computer-controlled manufacturing processes, and 650 employees, productivity is three times that ten years ago. They boast of one lawn mower being assembled from parts to box in roughly 180 seconds!

Will there be businesses in India that enjoy such differential advantage and resources to be able to say no to Wal-Mart?

WASTE NOT WANT NOT

A couple of years ago Wal-Mart made a gallon-sized jar of Vlasic's Pickles (that weighs 12 pounds) available to its esteemed clientele at $2.97 -- a year's supply of pickles under three dollars!

Great deal for customers indeed, not that great a deal for the number one brand of pickles in the US. "Every day low prices," come at a price that suppliers have to pay, while the customers laugh all the way to their kitchen. Does it come as a surprise then that most customers are not able to consume this large quantity of pickles in a timely manner and often have to throw open containers of food away because the replacement cost of these items is ridiculously low.

Can India afford such immoral waste of food in the face of poverty that renders millions hungry every day?

OUTSOURCING THE OUTSOURCER

Wal-Mart has doubled its imports from China to the US in the past five years alone. Nearly 10% of all Chinese exports to the USA is absorbed by Wal-Mart. Steve Dobbins, the CEO of Carolina Mills in North Carolina supplies thread, yarn, and textile finishing to apparel makers, half of which supply Wal-Mart. In the past few years, their operations have shrunk from 17 factories to seven, from 2600 employees to 1200. Dobbin's customers are competing with imported clothing that are so cheap that they could not compete even if they paid their workers nothing. Wal-Mart squeeze the costs to benefit the customers.

Would such a cost squeeze lead Wal-Mart to import from China to India? Could the world capital of outsourcing itself find outsourced products taking over the consumer markets?

FOCUSED, BETTER, FASTER

It is conventional wisdom that the efficiency and market power of Wal-Mart renders the entire value-adding chain more efficient. There is nothing genial about the way Wal-Mart demands such efficiency from its suppliers. Wal-Mart is known to insist that their suppliers comply with issues ranging from redesigned packaging to upgraded inventory control systems to accommodate Wal-Mart's special needs.

John Fitzgerald, a former VP at Nabisco once commented on how Wal-Mart insisted that Nabisco add up all the promotional value of pre-Halloween coupons and drop the price by that amount for their Lifesavers candy. This was in complete divergence to Nabisco's policy on not diluting the brand by price reduction but rather enhancing perceived value through discounted pricing. Wal-Mart won.

Are Indian suppliers willing and able to change their marketing strategies to meet the efficiency standards of Wal-Mart?

BIGGER IS BETTER

The Huffy Bicycle Co., manufacturers of the leading brand of bicycles supplied 20 models of bikes to Wal-Mart throughout the 80s. There came a day, John Maiorri -- the then president of Huffy recalls, when the company needed to produce 900,000 bikes to meet the demand of Wal-Mart and their total capacity did not allow for production over 450,000. In order to meet their commitment with Wal-Mart Huffy had to give four of their high-end, high-margin bike design to their competitors. Huffy didn't just give up on profits to keep up with Weal-Mart but actually handed the profits over to competitors.

Managing demand for the largest retailer in the world will lead to bigger production facilities, higher profits. Is the volume that is generated always better?

CONCLUDING REMARKS

The preceding narrative is not new to marketing channels researchers. The relationships in channels of distribution are political in nature and therefore revolve around exercise of power. The study of power in marketing has relied on definitions of power drawn from the social sciences. Historically, research in power has relied on the definition of power presented by Weber and its interpretation by other social scientists. Weber defined power as "the probability that one actor within a social relationship will be in a position to carry out his own will despite resistance, regardless of the basis on which this probability rests."

Two problems with Weberian definitions of power have been identified. First, the notion of one actor overcoming the resistance of another actor implies a sacrifice of the latter's goals and interests, the assumption of conflict is inherent to the definition. Thus, power as a means of cohesive bonding of mutually beneficial relationships that actually facilitates the achievement of mutually congruent goals of both actors is overlooked. Second, power is viewed as being vested in actors, while in reality it may be the relationship that confers power upon the actors. Power of any one participant is not a determinant of the power (or lack of power) of another participant. The relationship imparts power to both participants as both participants have specialized resources available to them. Each participant is dependent on the other for some of the resources required to achieve goals and these resources may be available from other sources outside the relationship.

Wal-Mart and India will have to ensure a congruence of goals if they are to avoid conflicts and ensure a long-term relationship resulting in mutual benefit. Additionally, the process leading up to Wal-Mart's entry in India has to ensure that the relationship confers some advantages for India in order to maintain a balance of power. The countervailing power that India may exercise on Wal-Mart might be at its highest level right before Wal-Mart is granted entry into this prosperous market. Life in India will never be the same again once Uncle Walton arrives!

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