

# Analysis of the walmart flipkart deal

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The dawn of a new era in retail, the much awaited breakthrough is here. The biggest e-commerce deal executed in India. The world is moving towards building new ecosystems-commerce, logistics, financial services, payments, entertainment and many more.

Flipkart was founded by the IIT D alumnus, Sachin Bansal and Binny Bansal in the year 2007. The irony is that the duo actually used to work for Amazon, but their dream to launch a startup brought Flipkart to the forefront. As of 2017, Flipkart held 39.5 % market share in India's e-commerce industry. With its acquisition of Myntra and Jabong, Flipkart captured the apparel and lifestyle sector as well, becoming domestically stronger. Walmart, an American multinational and a multi-brand retail corporation operates a chain of hypermarkets, departmental stores and grocery stores.

The company marked its entry in India in the year 2006 when it came up with a joint venture with Bharti Enterprises and established about 21 Best Price locations across the nation. The Indian Government at that time did not allow foreign multi-brand giants like Walmart to open front-end stores in the country on their own, the reason why the American retailer had to enter into a 50: 50 joint venture with Bharti Enterprises, a telecom major in 2006 to create Bharti-Walmart. The plan was simple: Walmart's cash-and-carry stores would supply to Bharti Retail, the retail subsidiary of Bharti Enterprises, which would be the consumer-facing end of the business. These stores would also serve small businesses and mom-and-pop shops. Its procurement practices were however disapproved as the size and high volume procurement allowed it to set prices for agricultural products and manufactured goods, thereby squeezing small suppliers, producers and

farmers. Well, nobody is as pure as the driven snow. Didn't understand the context of the statement? Continue reading to know the same.

Much to the shock of the people, in 2012, disclosures were made by Walmart saying that it had spent \$25 million on lobbying the Indian authorities to open up investments in retail, causing much furore. This came a few weeks after Indian Government's controversial decision to permit FDI in multi-brand retail sector. However, there was no concrete evidence to support the argument whether US giant Walmart had bribed the Indian officials to gain wider access to the country's vast market. Then, there was an alleged bribery scandal that was unburied in Mexico. The New York Times reported that executives at Walmart's Arkansas headquarters suppressed an international probe that found the evidence that its Mexican subsidiary had paid bribes to open more stores in Mexico. Evidently, these controversies did not help the retailer's image. Walmart now faced the issue of rebuilding itself to take a lead role in India's lucrative retail sector. All this eventually led to the suspension of the company's top officials in India, including the CFO, as well as severing of ties with its local partner, the Bharti group, in October 2013. The only advantage that lied with the Indian partner was that Bharti got hold of the best know-how in sourcing and supply-chain management through its partner, Walmart, and then got to lay its hands on a major share of the cost savings affected, by virtue of its monopoly over the retail part of the business. Despite the setbacks, Walmart stayed its ground. " India was the next big market for the company and they wanted to participate in a big way (here)," said a former employee on the condition of anonymity. " They have invested way too much here already to pack up and leave." While

Walmart had been in India for more than a decade, it couldn't yet open its signature retail stores anywhere. It has only around 21 wholesale stores in India, a sector where 100 percent FDI is allowed. And there are good reasons behind that.

Firstly, in January 2018, the Modi Government had announced 100 percent FDI only for single brand retailers i. e. this reform would help only organisations like Ikea and not Walmart. Ikea was among one of the potential beneficiaries of the new sourcing norms. According to the officials, it was a landmark moment for Ikea after the Government's 100% FDI approval to single-brand retailers. After 12 long years of planning, this largest furniture retailer opened its store in Hyderabad on August 9, the first of the 25 it had planned to open in India by 2025. It now plans to open stores in over 40 cities across the country starting with Mumbai, Bengaluru and New Delhi. However, for Walmart, the policies and regulations for doing business in India were still not very conducive and clear. In 2011, the UPA government opened gates for 51% FDI (which was outrageously opposed by the current government and the Prime Minister). However, that rule was rather filled with glitches and disappointment for the overseas investors. One of the terms was that investors must bring in a minimum of \$100 million investment. Needless to say, many top brands that were eyeing to spread their wings in one of the fastest emerging economies in the world rejected this reform. Walmart was one of them. After all, India is a country having a population of 1.34 billion, internet user base of 470 million as of July, 2017, and the projection is that e-commerce in India will grow by nearly a third this year to about \$ 50 billion. China and India certainly have the potential to be

huge growth markets as a third of world's population lives in these 2 countries. The increasing demand of e-commerce is popularly among the youth and 65% of India's population consists of youth. Its growing economy and rising consumption has attracted a number of foreign players over the years. " India is one of the most attractive retail markets in the world, given its size and growth rate." Walmart's president and CEO Doug McMillon said in a statement.

The opportunity wasn't far away. Since then, Walmart had its sight to enter the Indian retail market and Flipkart provided just the right way to get inducted into the system. And as the adage goes " Patience is bitter, but its fruit is sweet". On 4th May 2018, Walmart finally won a bidding war against Amazon to acquire a majority stake in Flipkart for US \$ 15 billion. On the 9th, Walmart made public the acquisition of a stake of 77% in Flipkart for US \$ 16 billion roughly around Rs. 1. 06 lakh crore. Flipkart which was valued at \$ 12 billion earlier, but after this agreement its valuation has become \$ 20 billion. About 10 lakh traders and retailers took to street across 500 cities to protest against US giant's potential acquisition of the online retailer, thus creating much anxiety about losing business if the deal goes through. Traders' body CAIT declared that it has called a Bharat Bandh on 28 September, to oppose US retail major Walmart's acquisition of Flipkart. CAIT secretary general Praveen Khandelwal said the deal has " violated Press Note No 3 of 2016 of Government and is a combination with a sinister design to control and dominate the retail trade through the passage of e-commerce". He claimed that it will create an uneven level playing field and will wipe out the competition due to their business module, which entails predatory pricing,

deep discounting and loss funding. The statutory body CCI has given the final go-ahead to the mega deal. There is still some space for others to flourish in the Indian biosphere.

Walmart is betting on the fact that India's e-commerce market, pegged at a modest \$38bn in 2017, is expected to grow up to \$200 billion by 2027.

Walmart's stock fell as much as 4% on the New York Stock Exchange.

Analysts believed that Walmart overpaid for its stake in Flipkart. This widely-held view was echoed on Wall Street, where Walmart shares dropped to their lowest intraday price since October 2017, wiping \$10bn off its market capitalisation. This is because Flipkart is not expected to be profitable for some years and the Indian e-commerce market is small by global standards – 100 million customers in a country with about 1.3 billion people. But the deal still gives Walmart the fastest entry possible into one of the most promising, albeit difficult, e-commerce markets. The country has an attractive retail market in the world both in terms of size and growth rate. This deal provided it with a direct face off with its old competitor Amazon.

Walmart can use the Flipkart connection to turn its current B2B stores in India into online retail business opportunities and warehouse location for deliveries. Flipkart's 100 million users data can be useful for Walmart to project via behaviour and preferences. The deal also saves Flipkart, which was running out of cash in its battle with Amazon. Both competitors have been "burning cash" in massive sales and discounts pegged to Indian festivals in a bid to acquire more customers. This deal provided Flipkart with enormous funds to cope up with its cash crunch. It aims to become the

biggest food seller in near future. Walmart will bring overseas experience and technology with itself. It provided Flipkart with a fresh infusion of US \$ 2 billion. Flipkart, however, needs the financial strength Walmart offers. It has also managed an excellent valuation, by all accounts, giving both its co-founder Sachin Bansal, and several of its key investors, profitable exits.

“ This is the highest price any foreign company has paid for a stake in an Indian company”, New York-based angel investor Gautam Gandhi said. Flipkart’s founders had been elevated from “ role models to demi-gods for aspiring entrepreneurs”. This acquisition has provided an exit to early investors including Accel Partners and Naspers as well as Japanese Internet conglomerate SoftBank. Earlier in August, SoftBank said it had realised a 60% return on its \$2. 5 billion investment last August. In May, Naspers had sold its 11. 8% stake in Flipkart to Walmart for \$2. 2 billion, representing an IRR of 32%. Well, this will be a profitable deal not only for the investors, besides, it will give the government a plethora of revenue. SoftBank which will sell roughly 20% stake in the company, has estimated its tax liability at around 600 million dollars. The government will rake in up to Rs 13, 000 crore following the global retailers’ discussion with income tax authorities. This deal will attract more foreign investors to invest in Indian startups that have taken a hit over the last few decades boosting output growth and creating more employment opportunities. However, on the other side of the river, it is received by the people that this might have an adverse effect on unorganised retailers which account for 90% retail market of India. Large data of Indian shoppers will be shared with US retail giant which may give

large controls to a foreign firm. Thus, there might be a big data mining and there will be a need to keep a system of checks.

Why Walmart – Flipkart ? Why not Amazon – Walmart or Amazon – Flipkart ?

Here's why... Walmart is facing tough competition from Amazon in US market. The main thing to focus in India is that since Amazon and Flipkart are competitors in Indian market and as the saying goes "the enemy of an enemy is a friend" so it is this strategy which instigated Walmart to come to this deal. The thing to note about the contract is that Amazon which was the highest bidder of \$ 22.5 billion, but current stakeholders prevailed Walmart due to potential regulatory issues of Competition Commission of India. If the Flipkart – Amazon deal had gone through, it would have created a hype of monopoly in the e-market with the duo acquiring an approximate share of 80% in the e-commerce in India. Competition is good, monopoly is bad.

Another point to get noted is that Amazon had missed two more opportunities to acquire a majority stake in Flipkart in the past as well. One was in the year 2012, while its entry in the Indian market, offering US \$500-700 million, but the deal obviously didn't go through since the Indian startup was valued for more than US \$ 1 billion. Another in the year 2015 offering US \$ 8 billion, but it was evident of this deal being a failure because Flipkart was soaring high with a valuation of US \$15 – \$16 billion. This financial turned strategic investor does not face anymore hindrances before the ultimate closure. Walmart CEO has promised that resources of both the companies will be put to best possible use to create more efficient environment. Sachin Bansal says "We have some focus as we continue to invest in whether it's our supply chain, expansion of our selection, and thinking of new ways of



bringing down prices.” However, analysts also believe that with SoftBank out of Flipkart there is a possibility of Japan based telecom and China’s Alibaba to rally around and create a third front. Amazon might rework on increasing investments and looking at acquisitions. A retaliation from this US e-commerce has already come in the form that it is eyeing a stake in Aditya Birla’s retail chain of stores, More. A go ahead from the CCI indicates that, “FLIPKART’S LAST STEPS AS AN INDEPENDENT COMPANY ARE WALMART’S FIRST STEPS TOWARDS INDIA” Since the deal has come to a close, one can say that it is a clash of culture. Walmart is famous and notorious for how tight it is with its vendors and suppliers. Flipkart, on the other hand, has come to dominate a market. Thanks to the billions of dollars that it has raised and its ability to provide wide discounts and its entire array of products.

How will the two co-exist? The future for Flipkart may be similar to how things evolved in China where to try and take on Amazon’s growing presence, Walmart tied up with jd. com and a bunch of another local players to try and up its market. In India too, flipkart is likely to be its arrowhead as if it decides to build its truly omnichannel presence. With a vast supply chain, logistics network, and 100 billion user network, this would be a good start for Walmart to finally make it big in india. Last but not the least, the organisational bandwidth and energy would not have been easy for Walmart to build in India. The sweat and blood of the Flipkart founders and management team since the last 11 years could not have been compressed. Amazon might not have left Walmart that much time to build up. The winner is yet to be seen or maybe there will not be just one winner.