

Walmart in india essay



Market Selection Cultural Analysis There are several cultural factors that will be affected by Wal-Mart's entrance into India. If a giant corporate retail company, such as Wal-Mart, enters India it will have a direct impact on millions of farmers and people employed in small businesses. India is a land of retail democracy with hundreds of thousands of bazaars located across the country. In India, main streets are called bazaars as they are lively, vibrant and a source of livelihood for millions of people.

Many citizens believe it is part of Indian culture to have crowded lanes with people selling shoes, toys, clothes, and much more. There are cafe owners making coffee and frying potatoes for people on the road sides. Moreover, organized retail shops are often run by the same family for generations and Wal-Mart's entrance into India may affect welfare of these small family-owned businesses. The tradition of these bazaars and small businesses may be affected by the entrance of Wal-Mart into India. Wal-Mart has already experienced resistance in the form of demonstrations and protests in regards to it entering the Indian market.

According to the February 23, 2007 issue of The New York Times, there were over 100 protestors in New Delhi shouting things such as " Go back Wal-Mart" and waving placards reading " Save Small Retailers. " This is an example of the resistance Wal-Mart is receiving from farmers and small business owners. Wal-Mart's entrance into India, although facing some resistance, would actually be able to help small farmers and business owners. According to the article, " Wal-Mart enters India", on average 30 to 60 percent of produce spoils before it even reaches the farms. With Wal-

Mart's superior knowledge of distribution, they may actually be able to prevent some of the food from spoiling by speeding up the shipping process.

This will help improve Wal-Mart's reputation with the lower class. Although India is deeply rooted in the tradition of street markets, consumer behavior is slowly changing. With discretionary spending increasing, India is projected to surpass Germany as the world's fifth largest consumer market in less than two decades ("Next Big Spenders"). With the average income growing in India, consumer habits are evolving. For instance, the number of Indians who use credit cards has quadrupled since 2001 ("Next Big Spenders"). As India's economy continues to progress, consumer culture will continue to adapt to large retailers such as Wal-Mart.

Political and Legal Analysis India is presently the largest democracy in the world. India has the largest number of people and the largest number of political parties, which take part in election campaigns. Elections are held at different levels. The two major election levels are at national level, after which the national government is established and at state level after which the state government is established. Elections are also held for city, town and village councils. The international trade in India is largely impacted by politics.

The Indian budget and especially its foreign policies affect the way international trade is done in India. One of the big political issues India faces is the large deviation among income levels. There are high class, middle class and low class people. One of the concerns about the entrance of Wal-

Mart is whether low class people will be able to shop at the single price of Wal-Mart as they are used to bargaining before their purchases.

In order to be successful, Wal-Mart's pricing must be low enough to attract the low class market, but also high enough to remain in competition with other businesses. After decades of strain political relations between India and the United States, the two governments are pursuing a "strategic partnership", based on several shared economic interests. In order to continue improving trade relations, India is continuing economic reforms aimed at transforming their previous quasi-social economy into a more free market. Many U. S.

companies view India as a lucrative investment, including Wal-Mart. Wal-Mart will have to wait for some time before the Indian government is able to change the law that does not allow foreign, multi-brand retail stores to set up shop. These large retailers are seen as a threat to the small retailers dispersed amongst the country's retail scene. These small retailers provide employment to tens of thousands of people which may become unemployed in the case that India allowed the entrance of large multi-brand companies. These rules don't apply to the wholesale sector creating a loophole through which Wal-Mart may set up a joint venture with local companies such as Bharti Enterprises.

The government allows 100 percent FDI in cash-and-carry operations and 51 percent in single brand operations. Wal-Mart would therefore have the opportunity to enter a cash-and-carry operation with a 50 percent stake. Financial and Economic There are several key reasons why India is a prime

market for Wal-Mart to pursue at this time. Several financial and economic opportunities will allow Wal-Mart to be successful in this market. India is the second most populated country in the world with an approximate 1.

3 billion people, and boasts an exponentially growing middle income consumer. Currently, the middle class numbers are around 50 million people, but by the year 2025 this is expected to expand dramatically to around 583 million people, 41% of the Indian population ("Next Big Spenders"). These middle class households will see their incomes expand over 11 times the current level today ("Next Big Spenders"). Also, the households that can afford discretionary spending and consumption will grow from \$8 million to \$94 million by 2025 ("Next Big Spenders"). Wal-Mart's target-market is low and middle income consumers, making this growth crucial to Wal-Mart's success. By making an investment into India now, Wal-Mart will have a strong foundation in the country and will benefit from the exponential growth India is experiencing.

It is also important that Wal-Mart enters this market soon due to rising rent prices. Due to the dramatic growth India is experiencing in the retail sector, real estate and rent prices are increasing at a spectacular rate. Presently, India boasts a growing \$330 billion retail industry that is estimated to be \$427 billion by 2010 and \$637 billion by 2015 ("Next Big Spenders"). By entering the market now, Wal-Mart can obtain the initial real estate needed at a lower cost, and secure its spot in this expanding retail industry. With a middle class estimated to be as large as the entire population of the United States, and several times the size of China's middle class, India will present a

prime market for Wal-Mart. With a population of India's size, it is important that Wal-Mart maintains a favorable reputation in India.

Many small farmers and businesses will protest Wal-Mart's entrance into the country. To help build a positive reputation as a good neighbor, Wal-Mart can invest in a supply chain that will make it a bridge between the farmers and small manufacturers and retail sales floors ("Wal-Mart enters India"). India has topped the AT Kearney's annual Global Retail Development Index (GRDI) for the third consecutive year, maintaining the position of the most attractive market for retail investment. (See Exhibits, Figure 1) Taking all this into consideration, Wal-Mart's entry into India will prove to be a beneficial operation.

Competition and Investment opportunities One of the largest competitors of Wal-Mart is Reliance that plans to expand its chain of supermarkets in India, though they are far more limited in scope than Wal-Mart's big-box business model. Reliance is estimated to open 10,000 stores by 2010. Reliance has an ambitious plan of investing into India's retail market with an investment of \$6.25 billion that would generate employment to at least 500,000 people across the nation ("It's Official"). The retail industry in India is at an all time high with many investment opportunities available. According to the Network Magazine, an Indian usiness publication, observes in its current issue that retailing is India's largest industry, accounting for over 10% of the country's gross domestic product and around 8% of employment.

The Indian retail industry is valued at about \$330 billion and is expected to grow to \$427 billion in 2010 and \$637 billion in 2015 ("Next Big Spenders").

Also, skilled man-power and professional managers are available at competitive cost. This would allow for low labor rates and therefore lower overall costs. Wal-Mart already has many suppliers in India and the cost of transporting products would be relatively low when it enters India. The best place to start would be Mumbai, the financial hub of India. Wal-Mart should continue to pursue a wholesale joint-venture in India.

There are no regulatory restrictions on using the Wal-Mart brand in this business, but the company cannot have its brand name on front-end, retail level, stores that sell directly to consumers. This is because while India allows 100 per cent foreign direct investment in wholesale cash-and-carry, it bars any foreign investment in retail that sells multiple brands and products ("Wal-Mart retail plans on track"). Opportunities Human capital In spite of India's crowded population, India's large population may be an advantage for Wal-Mart due to cheaper labor costs (See Exhibits, Figure 2). The minimum wage in India is approximately \$165 to \$225 a month, making labor extremely affordable. The overall benefit of cheap labor for Wal-Mart is obvious; lower operating costs. Wal-Mart's presence will lead to an increase in the country's total organized labor force and therefore government revenue through income taxes.

Increase in exports Currently, Wal-Mart imports about \$600 million of its products from India ("Wal-Mart to Open"). With a presence in India, the amount of product that Wal-Mart chooses to import from India into other countries, including the United States may increase. Also, products that Wal-Mart chooses to carry in its Indian stores may be distributed to other Wal-Mart branches around the globe. Growing Middle Class With the increasing

population in the middle class consumers, Wal-Mart will be able to target a large amount of customers. This will give them an opportunity to increase sales and profit from these growing middle class consumers. Distribution methods The modern Wal-Mart's big-box business model is one of the best retail methods of distributing products to the consumers.

This model is more efficient and more cost effective model than any other retail method till today. Threats Transportation Most Indians don't have cars and travel around in bikes, buses and make small purchases on daily basis. Moreover the vegetable sellers wheel their carts through neighborhood so people don't have to leave their doorsteps to get the ingredients for their food. Parking may also present problems in large urban cities. Resistance from Small retailers People, who own organized retail shops, are often run by the same family for generations and entry of Wal-Mart could affect their business and daily earnings. Hence they will protest against the entry of Wal-Mart.

Competition If Wal-Mart manages to enter India, it could face competition on two fronts. Wal-Mart will have to compete with Indian retail giants like Reliance, which is estimated to open 10, 000 stores by 2010 (" It's Official"). Also, given India's poor infrastructure the company will have to build distribution systems from scratch while dealing with bad roads and power outages at the same time. Online Sales Unlike in the United States, purchasing consumer products online is not common in India. Although the number of citizens using credit cards is increasing, it is still uncommon. This would prevent Wal-Mart from gaining revenue from online sales in India.

Benefits and Costs of Entry Modes Exporting Exporting is the marketing and direct sale of goods from one country to another country. This would not be a possibility for Wal-Mart as it is seeking a retail presence in India. Exporting would normally be an option for a manufacturing company that wants to export products to a foreign country. Licensing Licensing is an entry mode that permits a company in the target country to use the property of the licensor. This would not be a suitable entry mode for Wal-Mart.

Licensing is usually associated with one brand name, notably software, movies, and music. Wal-Mart sells a vast variety of brand name products, making licensing inapplicable. Joint Venture A joint venture is an entity formed between two or more parties to undertake economic activity together. Given the target country's comparative advantages, a joint-venture operation, specifically a wholesale cash-and-carry operation, would be the best entry mode for Wal-Mart into India.

Due to government restrictions, Wal-Mart is not allowed to operate as a multi-brand retailer under its own name. In order to enter the market, Wal-Mart must enter a 50/50 joint venture alongside another company. Joint-ventures often have more risk involved, but each company will benefit from shared resources and information. Direct Investment Foreign direct investment (FDI) is the direct ownership of facilities in the target country. This would not be possible for Wal-Mart as India does not allow complete investment of multi-brand retail companies at this point in time.

Complete FDI is only allowed if the company entering is a single brand company. India's Gains from Wal-Mart One-stop Shopping Customers will

enjoy one-stop shopping rather than having to go from vendor to vendor.

Wal-Mart would provide them with wide range of quality products at all times. Also they would benefit tremendously due to efficiencies created by Wal-Mart through economies of scale and supply chain improvements.

Quality of Products Small retailers and vendors would be forced to improve their quality of product in order to compete with Wal-Mart. This would allow for higher quality products throughout the country. Improve India's

Infrastructure If the typical Wal-Mart large store format with right location, ample parking spaces and quick accessibility were to be replicated across India, it can provide a push to improve the country's infrastructure.

Economic Progression Wal-Mart would be the first large-scale entry by a foreign multi-brand retailer. Once the venture has scaled up, it is likely to further boost growth in the retail industry as well as the economy itself. Wal-Mart's entrance will help progress the economy away from street markets and towards larger retail operations.

India's Losses from Wal-Mart National Identity Wal-Mart's establishment in India will likely hurt many small businesses and street markets. These small-family owned business and street markets are a part of Indian culture and tradition. With the entrance of Wal-Mart, many of these businesses and markets will begin to dissipate as the more consumers turn to one-stop shopping centers such as Wal-Mart. **Threat to Indian retailers** There is a tough battle between large Western retailers, which are eager to tap into India's growing middle classes. The ancient traditions of the 12 million family-run shops in India will be threatened by the entrance of Wal-Mart.

Many families who own and operate these small businesses may be driven out of business. Conclusion The retail industry in India is growing faster now than ever before, with the retail Industry leading the way. India will soon become one of the most powerful nations alongside China. The competition amongst nations and companies trying to create a presence in India is growing exponentially, leaving Wal-Mart no time to waste.

India boasts a retail industry estimated at \$330 billion and projected to be \$637 in 2015 (" Next Big Spenders"). Although Wal-Mart cannot currently enter the country as a multi-brand retailer under its own name, it must take advantage of this growing retail sector. India's growing middle class and rising rent rates further iterate the need for Wal-Mart to pursue a presence in India. After weighing the benefits and costs, it is clear that Wal-Mart must continue to seek a joint-venture with an Indian company such as Bharti Enterprises in order to establish itself in the Indian market.

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