

## **FLIPKART-WALMART DEAL: IMPACT ON INDIAN ECONOMY**

### **INTRODUCTION**

Walmart is an American Multi-national retail corporation which has its retail markets in India. It has established various hypermarkets, discount shops and grocery stores all over the country. Walmart is the largest e-commerce market who has acquired 77% in Flipkart by investing \$16 billion. Wal-Mart India Private Limited (“Walmart India”) is a wholly owned subsidiary of Walmart Inc., the world’s leading retailer renowned for its efficiency and expertise in logistics, supply chain management and sourcing. Walmart entered India through a joint venture with Bharti Enterprises in 2007 and opened its first store in India in Amritsar, Punjab on 29th May, 2009. In 2013, Walmart India became a wholly owned subsidiary of Walmart Stores, Inc.

Today, Walmart India owns and operates 21 Cash & Carry stores under the brand name of Best Price Modern Wholesale Stores (“Best Price”) in 9 states across the country. Our business in India is membership-based and we have more than one million members, majority of whom are small resellers and kiranas (mom & pop stores). Other business segments who are our members are hotels, restaurants, offices and institutions. We support them with high quality products at consistent, transparent and competitive prices so that their businesses prosper.

Flipkart was launched in October 2007 as an e-commerce website retailing books and then slowly started launching new portfolios like music, movies and mobiles in 2010 and fashion and lifestyle in 2012. In the year 2008, Flipkart was funded by Jungle and Helion Venture Partners. From 2009 till 2012, Flipkart raised \$190 million from prominent venture capitals in the market like Accel Partners and Tiger Global. The same year the company changed its business model to a marketplace model from directly selling goods to the customers. In the same year, that is, 2012 Flipkart raised \$150 million from Naspers which was a South African internet major. By 2013, Flipkart was being considered a successful startup and by mid-2013, it further raised a \$200 million from its already existing investors and \$160 million from investors like Morgan Stanley, Vulcan Capital, etc. By the end of 2013 Flipkart’s valuation was \$1.6 billion. In 2014, Flipkart acquired Myntra and grabbed their market as well.<sup>1</sup> Flipkart’s valuation was \$11 billion after raising huge amounts from GIC Singapore, Greenoaks, and etc. by the end of 2014 and \$15.5 billion after raising \$700 million from its existing investors by 2015. But the business of Flipkart from 2016 onwards haven’t been very favorable as investor Morgan Stanley started cutting to the value of the company’s share. The valuation of the company fell to \$5.6 billion at the end of 2016.

With this deal Flipkart India will compete with three other market giants i.e., Amazon, Paytm and Walmart in the e-commerce market. This deal will aid flipkart to give leverage to Walmart single channel expertise and knowledge supply chains in the market. Walmart has a big reputation in the retail market but it lacks space in the e-commerce market and by signing this deal it will strengthen its market reputation in the e-commerce sector. Both Walmart & Flipkart will have different operating structures and separate brands in the market.

### **Positive Impact of Acquisition on Indian Economy: Pros**

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<sup>1</sup> Anil Sasi, Flipkart Acquires Myntra in India’s Largest e-commerce Deal, The Indian Express, May 23 2014

- **Low prices, more variety as,** product differentiation and localization will bring more variety and create a diverse product basket at low prices resulting into benefit of consumers.
- **R&D:** As Walmart is known for its market reputation, innovation and service so the process of R&D will generate more revenue and increase technological growth for domestic firms as well. This will help Walmart in generating more profit revenue in the Indian market.
- **Collateral Benefits:** Walmart will lead to more investments in e-commerce in order to rejuvenate the ecosystem of e-commerce so that more foreign firms could make investments in the Indian market.
- **Better Productivity:** E-commerce market are expected to see immense growth with better productivity by revamping its business model.
- **Economic Growth:** Walmart will go beyond their limits to boost output growth and provide better employment opportunities which will ultimately lead to economic growth and capitalism. The deal will be subject to tax in India so revenue gains shall add to domestic revenue receipts.
- **Efficient Supply Chain:** This deal, if happens, will flip the agriculture and infrastructural development as demand will rise to establish an efficient supply chain and logistics. This will create better opportunities for Walmart to strengthen itself in retailing, logistics and inventory and supply chain management which is considered to be a Walmart's forte.
- **Job creation:** With the increase of output and productivity growth, employment opportunities will be increased for both skilled and unskilled laborers. Rise of investment in the Indian Economy utilization of capacity will improve manifold resulting into more and more employment.
- **Employee stock options (ESOPs):** Different Stock options will help the employees to make windfall gains through this deal leading to better employment opportunities for workers in e-commerce who had earlier fled the sector due to the downturn in the sector and can also absorb workers from old brick-and-mortar and traditional industries which can help in formalization of more of Indian labor force.<sup>2</sup>
- **Mom and Pop stores:** Walmart is looking to extend its supply chain arm through partnerships with around 60 lakhs *kiranas*. This can increase the market presence of small stores.

### **Deal against the Interests of Indian Economy: Cons**

Walmart is known for scrapping small businesses which are selling at ultra-low prices through Flipkart. Walmart may bring in its own labels with hyper-competitive prices and replace the domestic MSMEs which can be a threat to brick and mortar stores as they fear shut down due to competitive pressures.<sup>3</sup> Small Players (Mom and Pop stores) will be hurt by this as market spaces shrink due to cut throat competition which force small firms to exit. In an attempt to survive in the market, firms practice excessive price cutting at the cost of viability and profitability which leads to inefficiency. Tamil Nadu federation of traders has already warned the government of pan India protests. Many more trade unions may call for such protests which can hurt our economy, create social chaos and cause infrastructural damages. FDI in India allows 100% FDI in single brand retail. Walmart is a multi-brand retail chain where 100% FDI is not allowed, so it focused only on cash and carry business. Flipkart has already circumvented such restrictions in direct selling which will be used by Walmart. Large data of Indian shoppers will be shared with the US retail giant which give

<sup>2</sup> Walmart and Flipkart Deal: Impact on Indian Economy, <http://www.mbauniverse.com/groupdiscussion/topic/business-economy/walmart-and-flipkart-deal>

<sup>3</sup> What Walmart's Flipkart acquisition means for India, consumers and its arch-rival Amazon, <https://economictimes.indiatimes.com/industry/services/retail/softbank-ceo-confirms-walmart-flipkart-deal/articleshow/64093437.cms>

large controls to a foreign firm can use it to control our domestic value chain in consumer goods space and buying patterns. Real time data analysis can help in identifying the consumers & their needs better than domestic players. Therefore, there is a need to keep a system of checks and balances to avoid any instance of data breach of Indian customers.<sup>4</sup>

### **Conclusion**

Flipkart and Walmart, both will be benefitted by this deal. The investment level will be increased as it will give rise to more investment by foreign firms in the Indian market. The deal, if successful, will value Flipkart at around \$18-20 billion and the stake sale by existing shareholders will happen at a discount to this, final negotiations for which are still being worked out. But Wal-Mart will improve the price from the \$10-12 billion it was offering for secondary share purchases earlier, said a second source.

This deal will increase the level of competition in the e-commerce market. Walmart, as being one of the retail market entering into the world of e-commerce will open new windows for the labor class by giving them employment. The deal if happens will allow the offline market players to change their business model and to improve the tools and techniques to generate better profits in the e-commerce market. Liquidation preference is a clause which specifies which investors get paid first and how much they get paid in the event of sale of the company, and is common in private technology investment.

The success of Flipkart under the Walmart would depend on how it is able to effectively implement a world-class supply chain in India, given all the challenges in the Indian context. Another big battle that will open up between Walmart and Amazon in India will be in the food and grocery segment. Last year, Amazon received government approval to start to sell locally produced and packaged food items through offline and online channels. This deal should catch the eye of a number of large, foreign strategic investors who have been eyeing India for a long time. Broader start-up funding is expected to go up Walmart is expected to use a good part of its investment to build infrastructure including food parks, cold chain and collection centers. Food is already an important part of Walmart's cash-and-carry business in India, comprising around 60 per cent-65 per cent of sales annually. With the Flipkart buy, we can look forward to more activity on this front from the company.

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<sup>4</sup> How does the Walmart-Flipkart deal impact the Indian economy?, <https://www.quora.com/How-does-the-Walmart-Flipkart-deal-impact-the-Indian-economy>