ISAS Brief

No. 572 – 14 May 2018

Institute of South Asian Studies
National University of Singapore
29 Heng Mui Keng Terrace
#08-06 (Block B)
Singapore 119620
Tel: (65) 6516 4239 Fax: (65) 6776 7505
www.isas.nus.edu.sg
http://southasiandiaspora.org

Walmart's Buyout of Flipkart: Implications for Indian E-commerce Landscape

Walmart's acquisition of a 77-per cent stake in Flipkart in India is a win-win deal for both entities. This paper studies the deal from the perspectives of both companies and indicates that India's electronic commerce (e-commerce) will now be a turf battle between American retail giants, Walmart and Amazon. Following the domination of Indian e-commerce by foreign retailers, the paper also ponders on the kind of shifts this might entail for future Indian retail regulations.

Amitendu Palit and Rahul Choudhury[1]

In what is being described by the media as the world's largest electronic commerce (e-commerce) deal, United States (US) retail giant, Walmart, announced the acquisition of 77 per cent of controlling stake in Flipkart, India's major online retail platform. The acquisition, at a value of US$16 billion (S$21.4 billion), is reportedly the largest buyout by Walmart in online retail space.[2] Apart from the large financial size of the acquisition, the deal fundamentally changes the competitive character of India's e-commerce market.

---

[1] Dr Amitendu Palit is Senior Research Fellow and Research Lead (Trade and Economics) at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore (NUS). He can be contacted at isasaap@nus.edu.sg. Dr Rahul Choudhury is a Visiting Research Fellow at the same institute. He can be contacted at rahulchoudhury@nus.edu.sg. The authors bear full responsibility for the facts cited and opinions expressed in this paper.

[2] "Walmart acquires Flipkart for $16 bn, world's largest e-commerce deal", ET Bureau, *Economic Times*, 8 May 2018. https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/walmart-acquires-flipkart-for-16-bn-world s-largest-e-commerce-deal/articleshow/64095145.cms. Accessed on 9 May 2018.

Both Walmart and Amazon had been eyeing Flipkart to consolidate their positions in the Indian e-commerce market. Their interest in Flipkart points to the prospects of strong returns from Indian online retail business and the niche that Flipkart has been able to develop in the industry within a decade of commencing operations. Starting modestly in 2008 by selling books online, Flipkart grew rapidly, diversifying across a wide range of products, and reaching out to consumers from various income groups with different tastes and preferences, and across diverse geographies. Its growth was powered by innovative marketing services such as 'Cash on Delivery'. As its presence widened across India's online retail space, Flipkart enhanced its economic power by acquiring a host of prominent home-grown competitors like Jabong, Myntra and E-bay India, and payment solution company, Phone Pe. The company's financial prowess is evident from its market valuation being at US$20 billion (S$26.7 billion) at the time of Walmart's acquisition of majority stake in it.

Win-Win Deal

The Flipkart buyout gives Walmart access to more than a million customers that Flipkart has and positions it as a major player in India's e-commerce. This can be considered as Walmart's biggest advance in India's retail industry, where it has been struggling for years to deepen its foothold. After an unsuccessful collaboration with Bharti Enterprises and, in spite of having opened several wholesale stores in the country, Walmart was not able to establish itself as the frontrunner in India's offline retail business. As far as online shopping in India is concerned, Amazon and Flipkart were expanding shares in India's retail market (which is adding consumers at a fast clip), as more and more customers, particularly the young, shifted to shopping online.[3] Furthermore, the control of Flipkart gives Walmart the decisive advantage of getting access to a home-grown enterprise's in-depth knowledge of tastes and preferences of local customers and market conditions, as well as the goodwill that a flourishing brand like Flipkart enjoys.

From Flipkart's perspective, notwithstanding the success it has had, having Walmart as the core investor provides it with 'deep pockets' to guard against unexpected commercial

[3] "The Indian retail industry is expected to be US$80 billion by 2020", FE Bureau, *Financial Express*, 31 January 2017. http://www.financialexpress.com/industry/e-commerce-in-india-from-180-in-2015-growth-crashes-to-12-in-2016-at-14-5-bn/530070/. Accessed on 7 May 2018.

downturns. Retail operations, particularly in a complex market like India, are vulnerable to cyclical variations in a turnover and surpluses from unanticipated changes in consumer buying habits. This is evident from the rapid global shifts in such habits cutting across consumers belonging to different geographies and with diverse demographic characteristics. In India, notwithstanding, the fact that internet penetration is proceeding at a fast pace and the use of smartphones with 4G data services has become widespread, online retail sales, till now, are a low proportion of total retail sales, and are mostly localised to major cities and urban centres. Thus, the risks remain in India's online shopping business, particularly for home-grown start-ups like Flipkart. Having Walmart – a company with more than US$500 billion (S$668 billion) revenue, and among the world's largest and richest enterprises – is the best cushion that Flipkart could have had in ensuring sustenance. At the same time, Flipkart can expect Walmart to combine its offline retail expertise to further boost online sales.

Market Character

India's e-commerce market structure changes significantly following the Walmart-Flipkart deal. Walmart would now compete with Amazon, the world's largest online retailer. Amazon – incorporated in India as Amazon.in – has made a strong start in the Indian e-commerce sector by recording US$1 billion (S$1.33 billion) revenue within a year of commencing operations in 2013. Amazon was also keen on acquiring a majority stake in Flipkart, which would have made it the undisputed leader in the industry, as Amazon and Flipkart between themselves account for almost 90 per cent of India's online retail sales. The investment though might have run into trouble with India's competition policies as Amazon's buy-out of Flipkart would have resulted in an almost complete concentration of economic power in a single enterprise. Walmart's investment in Flipkart has avoided that development.

However, at the same time, prospects of the emergence of a monopoly have been replaced by those of a duopoly with Amazon and Walmart locking horns in a turf battle over India's online shopping. In this respect, Indian online retail should begin resembling the US e-commerce market where Walmart and Amazon have been competing intensely for years. The Walmart-Amazon rivalry is not limited to the US anymore and is now extending to other markets of the world. After China, which also witnessed the competition, and where Walmart successfully pulled off a strategic alliance with local e-commerce giant JD.com to keep Amazon at bay, India has become the latest theatre of contest for both.

The Policy Prism

Walmart might be having the last laugh after picking up a 77-per cent stake in Flipkart. Despite trying for several years, it failed to entrench its presence in India's organised offline retail. It ran into restrictive policies for foreign investors. These policies initially forbade foreign investment in multi-brand retail operations in India, and later permitted them only under restrictive conditions of mandatory local sourcing and funding back-end logistics. Walmart's operations in India have been restricted to 'cash and carry' and wholesale operations. It has aimed to expand its presence by making use of the more liberal policies for e-commerce. A couple of years ago, India allowed 100 per cent foreign direct investment in online retail of multi-brand goods and services under the 'marketplace' model, that is, procurement, and sale of goods and services by operators through a technology platform. By buying into Flipkart, Walmart has used the current policy to expand its presence from the business-to-business space, where it has been confined thus far, to the much wider business-to-consumer space.

The fact that India's e-commerce market would assume a duopolistic character through face-off between Walmart and Amazon conveys lessons about Indian policies that have so far been excessively cautious about foreign investors. Such policies, while restrictive, were insufficient to prevent foreign investors from dominating India's e-commerce. Driven by inward-looking economic sentiments, and political concerns of preserving the vote banks of traditional local retailers, primarily the brick-and-mortar operators, the policies have proved futile. The fear of being swamped by foreign operators, not just Walmart and Amazon, but also large Chinese e-commerce players like Alibaba, also prevented India from agreeing to multilateral e-commerce negotiations at the World Trade Organization. The approach must change as should domestic regulations for retail.

It will be interesting to see the policy direction for domestic e-commerce regulations after the Walmart-Flipkart deal. The most interesting aspect to watch out for will be whether the dominance of online retail by foreign companies makes India revisit its policies on offline retail by making them more liberal for foreign investors or whether it will frame regulations in a fashion that creates complications for foreign online retailers.

. . . . .