BEST FEATURE IN BUSINESS JOURNALISM

INDRAJIT GUPTA

Indrajit Gupta is the Editor of the Indian edition of Forbes, an internationally acclaimed news magazine. In 1994, he switched from a career in advertising at HTA (now JWT) to join Business Standard, where he edited 'The Strategist', a prestigious management and marketing weekly as its Deputy Features Editor.

Having worked with some of the top publications in India, he has built a formidable reputation as a business journalist. In a career spanning more than two decades, he has served as Features Editor of Business Standard, Deputy Editor of Businessworld, where he played a key role in transforming BW into the country's leading business magazine, National Business Editor of Times of India, and most recently, as the Resident Editor of the Mumbai edition of The Economic Times.

Indrajit is an alumnus of the SP Jain Institute of Management and Research in Mumbai and holds a B.Com (Honors) degree from St Xavier's College, Calcutta.

He is a recipient of the 'Vocational Excellence Award, 2007' for outstanding contribution to the Business Print Medium and the British Chevening Fellowship for Print Journalists, awarded by the British Foreign Office, in 1999.

Indrajit Gupta, Malini Goyal & Neelima Mahajan jointly won the PoleStar Award for 2009 for their article, 'Walmart's passage to India', which appeared in Forbes India.

MALINI GOYAL

Malini Goyal is currently Senior Editor at The Economic Times. She is also the Editor for their Youth & Business life section with which she started and now focuses on special projects and series such as the 'Liberalization Children' and 'Employability Crisis'.

Malini was the Associate Editor of Forbes India magazine for two years, during which time she covered key corporate houses and important trends and anchored some of key projects for the magazine. Malini has also worked as an Assistant Editor for India Today and covered macro and micro economic issues and corporate trends for the newsweekly. She was in charge of the magazine's annual specials on consumer, jobs and automobile as well.

Malini has worked as a Business Reporter at the Seattle Post Intelligencer. She was a part of the business desk covering regular and special stories. Her experience as a reporter gave her good exposure to the US media. Malini was the Principal Correspondent at The Economic Times for over six years. She started at the news desk as a trainee sub and soon moved on to take charge of the corporate and finance pages at the desk. She later wrote several business features for the Corporate Dossier, a weekly supplement.

Malini Goyal holds a B.A. Honours in History from Indraprastha College in Delhi, an M.A. in History from University of Delhi, and a Diploma in Business Journalism from the Times Research Foundation in Delhi.

NEELIMA MAHAJAN

Neelima Mahajan is an Indian journalist with over nine years of experience in business journalism. She was a Special Correspondent at Forbes India, the Indian edition of Forbes magazine, for around two years as part of the initial start-up team. Prior to joining Forbes India, she was the Principal Correspondent at The Times of India and a Correspondent at Businessworld. Neelima has a keen interest in management thought and has done extensive work in the domain. She is an alumnus of the Indian Institute of Mass Communication and Punjab University.

Neelima is currently a Visiting Scholar at the University of California, Berkeley.

Walmart's Passage to India

Indrajit Gupta, Malini Goyal and Neelima Mahajan

October 20, 2009

The world's largest retailer has found a new growth engine in the holy city of Amritsar

Before we begin to tell this story, allow us a moment to put a few things into perspective. Walmart is the world's second largest company after ExxonMobil. Last year, it was number one. Now, pause for a moment and ask yourself how large is large really? Large is when your revenues are in the region of $406 billion and you are six times larger than Proctor & Gamble, the largest consumer products company in the world. Large is when those revenues are more than the GDP of at least 144 nations.

Image: Madhu Kapparath for Forbes India Big Volume Drivers are pulses and grains which sell in large quantity packs

Large is when you need at least $8 billion in additional revenues to grow by two percent each year.

When a system is built on the back of this kind of numbers, the people running it are difficult to please and equally difficult to impress. But one July morning this year, Doug McMillon, was mighty pleased and mighty impressed. The CEO of Walmart's international operation was visiting his newest baby a large, month-old store on the fabled Grand Trunk Road just outside Amritsar in Punjab.

Set up in a joint venture with Sunil Mittal's Bharti Group and called Best Price Modern Wholesale, bean counters at the store told him they had signed on close to 35,000 members in the first couple of weeks (which has since ballooned to 70,000). They included small kirana shop owners, hotels, restaurants, schools, colleges, the police force and even the Indian Army. Sales, they told him, exceeded expectations by almost 70 percent. And that the profits being generated were large enough to cover even depreciation. Their only concern was whether stocks could cope with demand.

McMillon blinked. After 18 years at Walmart, he knew the company is pretty damn good actually, the best when it comes to retailing. But it had never attempted a pure wholesale format anywhere in the world, including in the US. If anything, it has only played with hybrid models like Sam's Club that caters to both bulk buyers and retail shoppers. The closest it had come to making a format like this work was something called Maxi in Mexico. But that wasn't a pure business-to-business model. Even homemakers could shop there.

For the first time, McMillon figured, Walmart was looking at a model that held out a few promises. One, if scaled up, it could easily feed a billion dollars into Walmart's insatiable appetite over the next five years. Two, if the model be replicated in other emerging markets across the world, God alone knows how many billion dollars the company could walk away with.

Shortly after he concluded his visit to the store, an effusive McMillon told CNBC-TV18, "Our investments in India are really not constrained from a financial perspective. The constraint is more about how many cash and carry units can you get to open from a real estate perspective."

What he really meant was that Walmart is ready with a $5 billion plus war chest for its international business and it is up to India to use as much of it as it can. And that if the Indian team, headed by former Unilever executive Raj Jain, can find enough land to set up more stores of the kind operating in Amritsar, he can double the stakes. "We will roll it out rapidly," says Jain. The plan is to set up 15 maybe more of such stores across the country in the next two years.

Serendipity

Sure, there is a school of thought that argues Walmart is among the last of its kind to latch on to the great Indian dream. Home-grown businesses like the Future Group have more than a decade's head start. Others like Reliance and A.V. Birla have learnt from their mistakes and are now looking to regroup their strategies.

Image: Madhu Kapparath for Forbes India
Walmart claims its own checkout counters use global technology that ensures that it is at least three times faster than local rivals

But honestly, that is missing the trees for the woods. All of them cater to a $20 billion organised retail opportunity. The cash and carry opportunity is a much larger, $400 billion opportunity, now dominated by the unorganised wholesalers who supply to local kirana stores. The only one who tried was Germany's Metro the world's largest wholesale operation. But it never quite figured India out.

It isn't that Walmart was clueless of the India opportunity. After China, this is the only country where it sees enough potential to plant at least 1,000 stores. But there are regulatory issues. Indian law prevents foreign retailers from selling directly to consumers. If they intend to take the wholesale route though, they're welcome to open shop. But Walmart had a lot of thinking to do before it took the plunge.

Two decades after stepping out of the US, it remains a quintessential American company. It understands American consumers well, but is ill at ease in most emerging markets. Professor Anil Gupta, who has tracked Walmart's progress around the world teaches strategy at the University of Michigan says, "I spoke with senior executives from Walmart a couple of years ago wanting to find out how global the company's mindset is. I had an instrument to do this. They said don't give it to us. Our global mindset is below zero we are a US company doing business abroad and not a global company."

But under its current CEO Mike Duke, Walmart has made big strides outside the US. In 2007, more than 50 percent of Walmart's assets were outside the US. "Walmart's future is clearly outside the United States," says Gupta.

And finally, its experience in other parts of the world was patchy. In Mexico, when it started out in 1991, it set up a huge American style parking lot outside its discount store. Until its managers realised customers came in buses, not cars. And that there are no takers for golf balls in a low-income country. In time though, they recovered and are now very successful there.

There were hiccups in Brazil as well where they had to deal with tough competitors like Ahold and Carrefour. Eventually, Walmart bought out Ahold. In Argentina, it operates on the fringes with barely 4 percent market share. Its push into Central America Costa Rica, Guatemala, Honduras and Nicaragua came through an acquisition in 2007. But these markets are too small to matter in the larger perspective. In Germany, Walmart couldn't match up to entrenched players like Metro and Aldi. It finally took a billion-dollar hit, sold to Metro and got out.

Its first foray into Asia was in Hong Kong. But it was unlucky with the partner. Eventually, Walmart pulled out. Next stop: Indonesia during Suharto's time. To do business there, there was no way out but to tap into his network. A little later, riots broke out, Suharto was deposed, and Walmart's stores were burnt down. The foray into South Korea was doomed from the beginning. Seven years after trying to gain scale, it sold its businesses there and abandoned the hunt.

Walmart cut its teeth in China during 1997. Some cardinal mistakes later, like attempting to sell frozen foods to a nation obsessed with fresh vegetables, meat and fish, it has managed to hang on in there. More than 10 years down the line, it lags French retail chain Carrefour which, unlike Walmart, gives greater autonomy to local store managers.

To be fair to Walmart, it learnt its lessons well. "Our model revolves around scale ... and offering good quality products at prices lower than others," says Raj Jain. "If we can't have that scale for whatever reasons, legal, financial, or anything else, by and large we don't succeed in those markets. So let's be clear about this: If we enter India we have a vision to be big."

Which is why when faced with two options, wait for the law of the land to change before setting up shop or punt on the wholesale opportunity, it chose the latter. And in spite of having the option to come in on its own, Walmart chose to partner with Bharti Enterprises for the cash and carry wholesale business. It wasn't willing to repeat mistakes made in other parts of the world because they couldn't figure out local nuances early enough.

It helped. As Sunil Mittal told Forbes India a few weeks ago, "I went to Amritsar and they showed me some stores. I thought there was too much breakfast cereal stacked there. I told them, it's the wrong thing in the wrong place. These are things you learn when you're in a country. It isn't a fight."

Bharti gained significantly as well from the relationship. The technology to built Bharti's network of retail stores, Easyday, is licensed from Walmart. The back end logistics of the operation is also managed by the giant from Bentonville. Vinod Sawhney, president, Bharti Retail, says even when it comes to little things like how best to communicate the best prices available to customers, the relationship with Walmart comes in handy. They promptly dispatched Easyday's managers to China to figure out how price-offs are best communicated inside the store.

Incredible India

Among the first things Walmart did was to pick a bunch of seasoned managers who understood India well. Leading the pack was Raj Jain, who had been a senior executive at Unilever in India before he moved to Whirlpool where he eventually rose to head its Asia operations.

It also brought in expats who knew the Walmart system well. Craig Wimsatt was designated chief operating officer (he is now relocating back to headquarters on a new assignment). With him was Arvind Mediratta, a seasoned Procter and Gamble executive who had his pulse on the Indian market. Mediratta was the business head for the wholesale cash and carry business.

When Wimsatt and Mediratta rolled their sleeves and got down to business, they first tried to understand why their German rival Metro didn't do well. It didn't take them long to figure out why the business wasn't working.

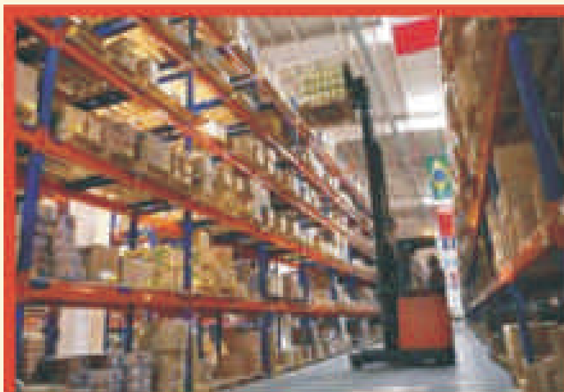

Image: Madhu Kapparath for Forbes India
PROSPERITY IN AUSTERITY: Walmart runs a distribution center 23kms from Chandigarh in Bannur. All of Bharti's retail outes are within 150 kms of this center and are supplied within a day. Most products get delivered directly at the store by suppliers

Their store design for instance. Metro spent a huge sum of money on buildings with roofs that can withstand six inches of snow in Bangalore a city that hasn't seen snow ever. Store sizes for Metro were far bigger (upwards of 80,000 sq ft), more in line with the German wholesale club format it was based on. Its expat managers refused to stock products like that uniquely Indian creation, a jharoo (broom), because it didn't fit into how the company defined products back home. It is another matter altogether that they've mended their ways since. But the damage was done.

Then there was the whole thing around the cash and carry model itself. The Walmart team argued it was flawed because Metro's product mix had been a cross between what a wholesale store ought to stock and what a retail store must. For instance, customers could find a wide assortment including items like ladies suits and footwear. "These are retail items," says Mediratta. "Often these items lead to unsold inventory. You need to have a good and right assortment at the right price." They concluded that Metro's cost of operations were simply too high and the merchandise was not in sync with the target market.

With this in mind, Walmart started looking closely at how things work in India. This lesson learnt, the pros focused their attention on small kirana stores: Where do they buy from? What do they buy and how? They repeated this exercise across all the segments they intended to target. "Best prices, reliability in terms of availability and quality was one thing all of them demanded," says Mediratta.

When it comes to fast moving branded products, quality was not an issue. In any case, that is what traditional wholesalers in India have focussed on and worked off very thin operating margins in the region of 1 to 1.5 percent.

But when it comes to groceries, rice, pulses and meat it was a huge problem. Restaurant owners, for instance, told them their customers are used to a certain kind of paneer (cottage cheese) or fish. So they stuck to the same supplier to ensure consistency. Mediratta recalls a caterer telling him of the time he attempted to change his fish supplier. The next day, customers complained the taste wasn't quite the same. That's when they figured there is a supply chain at work here. Not the most efficient perhaps, but it works, somehow. To that extent, the people Walmart intended to target were dealing with as many as 100 suppliers each. Not just that, the market was hopelessly price sensitive.

Fundamentally a one-stop shop could make life easier for these folks. But delivering on the proposition of lower prices and better quality was the tough part. Most suppliers had to agree to new terms of trade. Since Metro bombed in its early years, most people doubted Walmart's potential to create a winning proposition.

But the team did their homework well. They figured, for instance, that the arbitrage available from the time a farmer grows something to the time the retailer sells it is Rs. 2 per kg.

Conventional wisdom in the business claims organised retail usually works when the supply chain is owned by the retailer. "If you want to make everything work at Rs. 2 per kilo, it would suicidal to invest in a mega supply chain," says Raj Jain.

To get around the problem, Walmart focussed on sourcing smartly from farmers, small mandis that others hadn't looked at yet, and the larger ones as well for the retail stores. That done, it is sent to an aggregation centre; sorted out, graded and supplied to the store twice a day. For the cash and carry model, however, to keep costs even lower, Walmart chose not to route supplies through distribution centres, but take delivery directly at the store.

"It is an interim solution, but a practical one," explains Jain. "I think people failed in India because they went from almost nothing to very sophisticated systems. The cost of infrastructure they developed is so huge that it is not possible to sustain it on a margin of Rs. 2," he argues.

That is why it took nearly two years to convince suppliers that the new team at Walmart had answers. It meant intensively working with the local suppliers on a range of private labels. Suppliers like Astra Agro's Jaspreet Singh Bakshi, who has an eight-year-old pickle unit in Mohali, Chandigarh. Walmart insisted everything in his store be labelled, the machines calibrated every quarter and weights meet certain standards. "The main shift I think is in attitude," says Bakshi. "Earlier, we weren't used to keeping track of batches. Today, we do."