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WALMART–FLIPKART DEAL: IN SEARCH OF STABILITY[[1]](#endnote-1)

Neera Jain and Amogh Bansal wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In May 2018, the Indian e-commerce industry was highlighted when multinational US retail giant Walmart Inc. (Walmart) gained a controlling stake of 77 per cent in India’s biggest e-commerce platform, Flipkart Internet Private Ltd. (Flipkart) for US$16 billion.[[2]](#endnote-2) Despite being the leader in the industry, Flipkart had been continuously losing market share to Amazon.com, Inc. (Amazon), which had entered the Indian market in 2013[[3]](#endnote-3) and was rapidly spreading its footprint in the country. This was made evident by the growth in Amazon’s market share, which reached 31 per cent in 2018,[[4]](#endnote-4) at which point Flipkart’s share was reduced to 32 per cent (see Exhibit 1). With a rapid increase in debt and a continuous loss of market share, Flipkart was in a vulnerable position and looking for support from a deep-pocketed investor. This created an opportunity for Walmart to enter the Indian e-commerce industry, bypassing the restrictive rules and regulations required to run operations from overseas. However, this was not the end of Flipkart’s worries. In December 2018, the government of India proposed modified foreign direct investment (FDI) norms, which imposed various restrictions on the operations of e-commerce companies.[[5]](#endnote-5)

In January 2019, Indian conglomerate Reliance Industries Ltd. (Reliance) announced its entry into the e-commerce industry through an omnichannel venture, Jiomart.com (JioMart). JioMart began limited operations in April 2020 and then expanded to more than 200 cities and towns across India,[[6]](#endnote-6) to take on heavyweights such as Flipkart.[[7]](#endnote-7) Current FDI rules did not apply to Reliance’s operations, and Reliance enjoyed incomparable reach via Reliance Retail and Reliance Jio; the company was set to disrupt the industry. At the same time, due to the coronavirus (COVID-19) pandemic, India went into a nationwide lockdown, and this also had a significant impact on Flipkart’s business, which was expected to recover when the lockdown orders ended in June 2020 and restrictions were eased.[[8]](#endnote-8) In light of these developments, would Walmart divest itself of Flipkart and abandon its aspiration to become one of the largest e-commerce companies in India? Or would Walmart and Flipkart overcome these challenges together and emerge as winners?

E-COMMERCE IN INDIA: GROWTH AND CHALLENGES

The Indian e-commerce industry had grown exponentially since its beginnings in 2013, when it represented $12.6 billion worth of market share. By 2017, the industry was worth $38 billion, and this was estimated to increase by a further 30 per cent annually to a value of $200 billion by 2026.[[9]](#endnote-9) India’s online retail market was among the top global economies, having witnessed a 53 per cent compound annual growth rate between 2013 and 2017.[[10]](#endnote-10) The key driving factors in its rapid growth were vigorous discounts, advanced delivery infrastructure, and enhanced smartphone reach and data usage.[[11]](#endnote-11)

Despite the rapid growth in market size, India ranked eighth in terms of its online retail reachability rate, which, at a mere 5 per cent, was low compared to that of other countries. For example, the rate of online retail reachability in China was 20 per cent, and in the United States it was 12 percent.[[12]](#endnote-12) In India, online penetration varied across different segments: the consumer electronics division had the highest online reach—a percentage of the category’s e-commerce sales across all retail stores—of 17 per cent, the online reach in the apparel and footwear sector was 9 per cent, and that in the beauty and personal care category was 1 per cent. The food and grocery sector had one of the lowest online reaches, 0.1 per cent, with total retail sales of approximately $530 billion in 2017.[[13]](#endnote-13)

However, despite the explosive growth of the e-commerce industry, companies in India’s crowded online marketplace faced many challenges: for example, online sellers made costly mistakes by launching businesses without being equipped with adequate knowledge to run the ventures successfully. Companies also faced difficulty in choosing ideal, popular, and unique products in an extremely exhaustive market, where all product categories had fierce competition and constantly decreasing profit margins. Then there was the necessity of maintaining proper inventory levels to avoid delays in shipping, which might cost companies their customers, who preferred the fast delivery of goods. Further, the number of orders returned and cancelled by customers had increased exponentially and now occurred as frequently as once out of every 10 orders shipped.[[14]](#endnote-14) A lack of working capital among micro, small, and medium-sized enterprises, and customers’ preference for cash on delivery—which, for various reasons, might have led to a refusal to accept products at the time of delivery[[15]](#endnote-15)—added to the companies’ problems. However, Flipkart had an opportunity to learn from Walmart’s expertise in retail, logistics, and supply chain management. If Walmart’s previous experience could be replicated in India, this could allow Indian e-commerce to become a profitable venture.

The RISE OF AMAZON IN INDIAN E-COMMERCE

In 2013, Amazon, which was arguably the world’s largest online shopping store, entered the Indian e-commerce industry with the expectation that the developing markets of the present would become the growth drivers of the future. Since then, it had invested approximately $10 billion in its Indian operations and was expected to continue its investing spree, dedicating at least $1 billion yearly to initiatives such as upgrading its Prime Video program, which already had 12 million viewers in India.[[16]](#endnote-16)

Due to its tremendous growth in a limited time, by 2018 Amazon had taken the second spot in the Indian e-commerce industry, which had previously been dominated by Flipkart. Online sales of electronics and related products were a substantial part of Amazon’s total revenue generation. Amazon also offered mobile application-based services and digital offerings such as Amazon Music and Amazon Prime Video.[[17]](#endnote-17) What set Amazon apart from other incumbents was the higher success rate enjoyed by local sellers when competing with big brands on the Amazon platform, and this led to an increase in the rate of seller onboarding. In terms of pricing, Amazon focused on providing affordable prices and a broad selection of products for customers. In terms of delivery experience, it expanded its reach to every corner of the country and had one of the most efficient fulfillment and logistics networks.[[18]](#endnote-18) With the introduction of Amazon Prime, it gained more of its customers’ trust and established itself as the platform that was both the starting point and the destination for online shopping.

The GROWTH OF FLIPKART: OPPORTUNITIES AND CHALLENGES

Flipkart was founded by Binny Bansal and Sachin Bansal (who were not related) in 2007. Initially, it focused on selling books, but it later entered other product segments, such as fashion and lifestyle products and consumer electronics. Flipkart’s significant dominance in the sale of apparel was further strengthened after it acquired the clothing shopping platforms Myntra and Jabong.com.[[19]](#endnote-19) Flipkart also owned several in-house brands, including DigiFlip, which sold electronics and accessories; Citron, which sold home appliances; and Flippd, which sold apparel.[[20]](#endnote-20) In 2017, Flipkart introduced additional brands, including MarQ, for large appliances; Smartbuy, which successfully replaced DigiFlip for electronics accessories; and Billion, for smartphones.[[21]](#endnote-21) Along with these brands, Flipkart also owned a mobile payment service platform, based on the Unified Payments Interface, known as PhonePe, which was used as an additional safe payment option for consumers.[[22]](#endnote-22) Flipkart also had its own customer assistance team, which consisted of call-centre executives who handled incoming and outgoing calls and email queries.

In July 2019, Flipkart announced the opening of its first furniture experience centre in Bengaluru, the first step toward establishing an omnichannel marketplace.[[23]](#endnote-23) The centre would provide a touch-and-feel experience to buyers in the rapidly advancing online furniture industry. Adarsh Menon, the vice-president of Flipkart’s furniture, electronics, and private-label segment, explained, “As a customer-focused organization, we understand the requirements of customers, and hence . . . the idea behind the FurniSure Experience Zone is to allow customers to explore Flipkart Furniture’s offerings in a new and innovative fashion.”[[24]](#endnote-24) Flipkart also partnered with Google LLC (Google) to improve buyers’ viewing experiences by integrating Google’s image recognition technology Google Lens at the experience centres. Customers could use their smartphones to scan Flipkart’s furniture images and explore information about the furniture’s features in the product catalogue at the experience centre.[[25]](#endnote-25)

In June 2020, Flipkart’s grocery division introduced a voice assistant[[26]](#endnote-26) that was expected to help customers discover and buy products easily by providing voice instructions in Hindi and English. According to Flipkart, the voice assistant would enhance grocery shopping by adding a more personal experience.[[27]](#endnote-27)

Technology for Supply Chain Management

Flipkart’s inbound logistics were majorly dependent on the company’s suppliers, who transferred goods to its seven major warehouses in India. After a product arrived from the suppliers, it underwent a scheduled quality check and was then scanned and entered into the inventory maintained on the information technology (IT) systems. Once this input was complete, the system generated a record of shelves of corresponding products, known as a “put-list.”[[28]](#endnote-28) Flipkart used its own enterprise resource planner to execute orders and pursue the important details of all the required transactions. Using available and accurate forecasting technology, Flipkart reduced the number of items that had to be returned to its suppliers. This systematic, technologically driven procedure contributed to the fast and accurate delivery of the products ordered by the customers and played a major role in ensuring high customer satisfaction.[[29]](#endnote-29)

Buyers’ orders were fulfilled via either just-in-time production or inventory procurement, according to the availability of the products.[[30]](#endnote-30) First, the order was checked in the inventory; if a product was unavailable in a local warehouse, this triggered a search of the nearest warehouses and then those further afield. If the product was not available anywhere, the order was transferred to the regional procurement team for just-in-time sourcing from local sellers.[[31]](#endnote-31) If the regional procurement team could not find it, the order was forwarded to the central procurement team as the final alternative.[[32]](#endnote-32) After sourcing, the order was wrapped and transported to the customer through the most appropriate warehouse. Flipkart also offered free returns within 30 days of the product being received by the customer,[[33]](#endnote-33) and this had significantly increased the company’s consumer base.[[34]](#endnote-34) Flipkart used technology to manage information systems, reconciliation, and order tracking. Its inventory of goods was replenished as soon as the level for an item went lower than the reorder point (see Exhibit 2).

Flipkart used various discounts, price reduction techniques, and suggested product mixes to attract customers. In order to offer free delivery based on single-transaction behaviour, Flipkart adopted interactive shipping and parcelling price calculations; and by mandating delivery by its logistics partners, ensured efficient and affordable delivery options. It also ran various marketing campaigns, such as the Big Billion Days campaign, where products were advertised with maximum discounts to maintain brand visibility among customers.[[35]](#endnote-35)

Acquisitions by Flipkart

Flipkart acquired many different start-ups between 2007 and 2017. Its first acquisition, in 2010, was weRead, a social media platform for book enthusiasts based on book reviews and recommendations, which entered the market in 2006 and had approximately 3 million customers and 60 million titles by 2010.[[36]](#endnote-36) With this acquisition, Flipkart instantly expanded its customer base. Later, Flipkart acquired Chakpak Media Pvt. Ltd., which provided content related to Telugu, Tamil, and Bollywood films, including reviews, news, and movie release information. In this acquisition, Flipkart added approximately 50,000 ratings, 10,000 movies, and 40,000 filmographies to its portal by taking over rights to content generation. The acquisition also enabled Flipkart to provide user-generated and editorial content on a huge variety of Indian movies.[[37]](#endnote-37) In 2014, Flipkart took 100 per cent control of Myntra, India’s leading fashion and lifestyle portal, for $370 million.[[38]](#endnote-38) This move strengthened Flipkart’s apparel portfolio. Later, in 2016, Flipkart added PhonePe, which was expected to improve the offline and online digital payment experience for millions of Indian users through innovation, as an independent business unit.[[39]](#endnote-39) The acquisition through Myntra of Jabong.com for about $70 million further increased Flipkart’s reach in the fashion world; Jabong.com brought in Indian ethnic fashions, designer and sport labels, and 1,500 high-quality brands from more than 1,000 sellers and contributed to maintaining the company’s leadership position in the industry.[[40]](#endnote-40) Through these acquisitions, Flipkart established itself as a one-stop destination for books, multilingual films, news, fashion products and apparel, and its own payment gateway.

Flipkart’s Challenges

Flipkart’s revenues grew from less than $1 million in fiscal year (FY) 2008–09 to around $3 billion in FY 2016–17.[[41]](#endnote-41) However, the rate of revenue growth declined to 29 per cent in FY 2016–17, compared to 50 per cent in the prior fiscal year,[[42]](#endnote-42) and the losses the company incurred increased significantly (see Exhibit 3). For example, in FY 2016–17, Flipkart recorded a net margin of −44 per cent due to its loss of $1.3 billion. The driving factors behind this negative operating margin were aggressive pricing and discounts due to intense competition in the industry.[[43]](#endnote-43) These continued losses resulted in Flipkart burning through close to $7 billion of capital it had raised from investors,[[44]](#endnote-44) which posed a threat to its survival as a stand-alone company. As cash-rich Amazon was aggressively capturing the market, it was making Flipkart’s financial situation miserable.

By 2018, the Indian e-commerce industry had witnessed a shift towards omnipresence, and companies started establishing hybrid models that combined both an online and offline presence to increase their customer bases. For example, Amazon partnered with Project Udaan, and through this partnership had “stores in semi-urban markets, . . . its own dark stores for its hyperlocal grocery delivery platform Amazon Now, and . . . a stake in Shoppers Stop”[[45]](#endnote-45)—all of which strengthened its offline presence. However, with no prior experience in offline platforms, Flipkart faced difficulties in establishing a similar hybrid model and was in dire need of support from a retail giant with expertise in driving down costs and managing logistics and supply chains; such expertise could assist Flipkart in optimizing how it offered daily household items and in competing with other offline stores in the Indian retail market.[[46]](#endnote-46)

The GROWTH OF WALMART: OPPORTUNITIES AND CHALLENGES

Walmart was created by Sam Walton in 1962 and became a publicly traded company in the United States on October 31, 1969.[[47]](#endnote-47) In 2007, it forayed into Indian markets, and it started its own Indian operations from May 2009, opening its first store in Amritsar, in the state of Punjab. Later, in 2014, Walmart India became the wholly owned subsidiary of Walmart Inc.[[48]](#endnote-48) In India, Walmart owned and operated 28 business-to-business (B2B) cash-and-carry stores in nine different states across the country under the banner of Best Price Modern Wholesale Stores (Best Price), along with one fulfillment centre in Lucknow, in the state of Uttar Pradesh.[[49]](#endnote-49)

Walmart India operated a membership-based business model and had more than 1 million members, mainly small resellers and grocery stores (i.e., “Mom and Pop” stores). Its members also included institutions, offices, restaurants, hotels, and other business segments.[[50]](#endnote-50) Walmart India provided its members with a wide range of goods and services, including electronics and durable products; fruits and vegetables; poultry, meat, and fish; apparel and accessories; fast-moving consumer goods (FMCG) foods; and home appliances. Along with the cash-and-carry business, Walmart also had Walmart Labs, a technology centre and global sourcing centre in Bangalore, in the state of Karnataka.[[51]](#endnote-51)

Technology for Supply Chain

The suppliers handled inbound logistics by providing materials in real time according to requirements. To further add to this efficiency, Walmart developed a code of conduct for its suppliers and managed long-term relationships with them by presenting the potential for bulk purchases. Leveraging its financial influence and size, Walmart was able to secure lower-priced products from suppliers, and it then transferred that margin to the customers.[[52]](#endnote-52)

One of Walmart’s core inventory management techniques was a supply chain strategy called “cross docking.”[[53]](#endnote-53) In this technique, the inbound products from the suppliers were first sent to distribution centres and then delivered to the storehouses. This led to lower transportation and inventory costs, while effectively reducing the time needed for transportation, thereby eliminating inefficiencies. Hence, Walmart stores had a merchandise replenishment cycle of 48 hours, which was processed by an efficient flow-time cycle (see Exhibit 4).

Walmart operated under the slogan “Save money. Live better.” This indicated that its pricing strategy played an important part in its marketing strategy. The “everyday low price” tactic assisted Walmart in building an image of offering the best prices, and this gave it an edge over incumbents. Walmart also focused on marketing, which included advertising and promotions through several traditional and digital advertising channels. It also used social media and promotional videos to promote its brand. Customer service also served as an integral segment of its strategy and helped Walmart develop a positive brand image and better recognition among its customers.[[54]](#endnote-54)

Acquisitions by Walmart

From the last decade of the twentieth century, Walmart had started expanding its footprint worldwide. In 1994, it officially created Walmart Canada by acquiring 122 stores from the Woolworth Canada division of the F.W. Woolworth Company.[[55]](#endnote-55) After this acquisition, Walmart introduced the concept of Supercentres, which encompassed a variety of products from every category in full-service supermarkets and discount stores. This strategy contributed to the success of Walmart in Canada, allowing it to serve 1.2 million customers daily. In 1997, Walmart forayed into Germany, acquiring 95 storehouses of a supermarket chain in 1997.[[56]](#endnote-56) At that time, the German market was mainly an oligopoly, with high competition that was operating on a low-price strategy like that of Walmart. Such a market eventually yielded no competitive advantage to Walmart, and consequently, in July 2006, Walmart announced its exit from Germany due to sustained losses. Another failure for Walmart occurred when, in 1999, it took over the Leeds-based supermarket chain Asda Stores Ltd. (Asda).[[57]](#endnote-57) Initially, the deal aimed to provide Asda with access to additional capital to expand its store portfolio and to give Walmart a route into the United Kingdom’s retail industry. However, Asda witnessed minimal growth despite more than doubling its number of stores.

In 2007, Walmart started a joint venture in India with Bharti Airtel Limited, which aimed to set up and run cash-and-carry superstores under the banner “Best Price Modern Wholesale.”[[58]](#endnote-58) As associates, the companies together built 20 superstores in different prime cities. However, cultural differences, the challenges of working together, and differences in values eventually led to the termination of the partnership in 2013.[[59]](#endnote-59) After the separation, Bharti Airtel Limited acquired Cedar Support Services Ltd. from Walmart and showed that it was committed to developing a high-quality operation and would continue its investment in the retail segment through the retail brand Easyday. Walmart, meanwhile, continued to run its 20 superstores without any partners, as it had in place a supplier-development system, a direct farm program, and a supply chain infrastructure that would help it provide sufficient returns to shareholders and make high-quality investments.[[60]](#endnote-60)

Challenges from Amazon

Walmart’s total revenue in 2017 was more than $500 billion, and it had a net income of $20 billion, whereas Amazon’s net sales were a mere $177.9 billion and its net income was $3 billion.But despite having comparatively low income and revenue, in 2018 Amazon became one of the five top companies worldwide in terms of market capitalization, with a market capitalization of $780 billion. Walmart’s market capitalization, in contrast, was just over $250 billion by 2018.[[61]](#endnote-61) The US stock market valued Amazon over Walmart because Amazon was viewed as the company with more growth potential and a more robust future, as it contributed 70 per cent of the $62.47 billion growth in US online retail in 2017 and about 35 per cent of the $127 billion growth in the overall retail segment.[[62]](#endnote-62) Walmart had also spent the past few years establishing itself in the e-commerce sector by acquiring Jet.com—a direct adversary of Amazon—for $3.3 billion in late 2016; however, the venture did not succeed.[[63]](#endnote-63) As such, Walmart was in dire need of an e-commerce platform with a sophisticated supply chain and enormous consumer base in order to compete with Amazon.

FLIPKART’S ACQUISITION BY WALMART

After 10 years of rigorous efforts to establish itself in the Indian e-commerce industry, Walmart understood that it would be unrealistic to assume that the government of India would allow it to expand in the country. However, on May 9, 2018, Walmart found an opportunity to do so in Flipkart, the current market leader in the industry; Walmart bought a controlling stake of 77 per cent in Flipkart for $16 billion.[[64]](#endnote-64) Walmart’s investment, which included new equity funding worth $2 billion, resulted in the complete exits of Flipkart investors SoftBank Group Corp., Naspers Limited, eBay Inc., and co-founder Sachin Bansal, and it led others, such as Tiger Global Management LLC (Tiger Global), to reduce their stakes.[[65]](#endnote-65) The unexpected outcome was the exit of Bansal, who had co-founded the company with Indian Institute of Technology Delhi college-mate Binny Bansal. Sachin Bansal decided to sell his 5.5 per cent stake in the company for $1 billion.[[66]](#endnote-66) Sachin’s exit resulted from a conflict between him and the company’s board: while he had demanded a better role in the functioning of the evolved entity, stronger shareholder rights, and the introduction of strategic investment into the company, these demands were resisted by the company’s board and by Lee Fixel of Tiger Global, one of the company’s major backers.[[67]](#endnote-67) Later that year, Binny Bansal—the co-founder, who held a 3.52 per cent stake in Flipkart and was the head of Walmart’s Flipkart Group—resigned following an internal probe into “serious personal misconduct.”[[68]](#endnote-68) This departure was related to Binny’s failure, while negotiating with Walmart, to disclose the allegations or the fact that he had employed private security personnel to deal with it.[[69]](#endnote-69) Walmart later increased its stake in Flipkart to 81.3 per cent.[[70]](#endnote-70)

With millions of customers visiting Walmart stores every day, and Flipkart’s gross merchandising value of more than $1 billion, Walmart’s investment aimed to contribute to Flipkart’s customer-focused mission to revolutionize Indian e-commerce through technology. Taking into account Walmart’s core strength in the food and grocery industry, Flipkart and Walmart planned a new supply chain investment to strengthen their back-end operations by including farmers and small and medium enterprise (SME) suppliers in the food and grocery sector, which occupied approximately 66.30 per cent of total retail sales[[71]](#endnote-71) (see Exhibit 5). Hence, in December 2019, Flipkart strategically invested in the agricultural technology start-up Ninjacart to add strength to its farm-to-stores delivery chain.[[72]](#endnote-72)

Flipkart later acquired Shadowfax Technologies Pvt. Ltd., which it could leverage to connect with organized small stores and *kirana* (small grocery or general) stores to develop its supply chain.[[73]](#endnote-73) In the future, Flipkart might also utilize Walmart’s warehouses to expand its pilot FarmerMart program, which ensured the delivery of fresh fruits and vegetables from farms to modern retail stores and local shops. This would also benefit farmers, who were suffering from inefficient logistics and warehousing that resulted in a significant percentage of fruits and vegetables getting spoiled. With more investments and modern technology, Flipkart might overcome the specific problems related to the delivery of products to rural areas.[[74]](#endnote-74) This might lead Flipkart to increase its demand capacity, which would further increase its profits.

GOVERNMENT POLICIES AND foreign direct investment NORMS

In December 2018, the government of India proposed new FDI rules for e-commerce that restricted companies from trading products exclusively on their online platforms. In the inventory-based model, online entities with foreign investments were no longer allowed to display products sold by suppliers in which they had controlling equity stakes. The stock of a retailer would be considered to be controlled by a company’s marketplace model if more than 25 per cent of its products were bought from the marketplace entity or its wholesale unit. The rules also prohibited e-commerce behemoths such as Flipkart and Amazon from obtaining 25 per cent or more of their products from a single supplier, giving preferential treatment to any supplier, offering deep discounts, or manipulating product prices.[[75]](#endnote-75) These rules were meant to improve enforcement of a policy presented in 2016[[76]](#endnote-76) and to address complaints that platforms were violating the guidelines to offer discounts through their group logistics and wholesale entities.[[77]](#endnote-77)

On one hand, this move could appease brick-and-mortar retailers, who had faced long-term damage from e-commerce companies’ use of deep discounts to win over customers. On the other hand, the rules could cause difficulties for brand launches, exclusive sales, cashbacks, and preferential services offered by e-commerce companies, such as Flipkart Plus and Amazon Prime.

Due to these tightened FDI norms, Walmart, which had invested in the online marketplace Flipkart, was no longer allowed to sell its inventory heavily on Flipkart’s website. This acted as a roadblock in Walmart’s plan to leverage its low-cost prices to attract more consumers toward Flipkart’s platform. “The impact on e-retailers would be largely in the electronics and apparel segments, which account for a bulk of their revenues,” said Anuj Sethi, senior director at analytics company CRISIL. A report by CRISIL estimated that 50 per cent of Flipkart’s revenue came from this category, so the new FDI rules threatened to lead the Walmart–Flipkart duo towards “meaningful disruption and top-line pressure.”[[78]](#endnote-78) Financial services company Morgan Stanley reported that the new guidelines might require Flipkart to withdraw as much as 25 per cent of its goods from its portal—including smartphones and electronics, which made up the bulk of its sales. Altogether, this action threatened both Flipkart and Amazon with losses of up to 40 per cent in revenues ($5.0 billion–$5.7 billion) by 2020.[[79]](#endnote-79)

To ensure compliance with the new FDI norms, Amazon reduced its stake in the companies whose products were sold on the platform and allowed other ventures to increase their stakes in these companies. It also removed the products of sellers in which it had major equity investments; for example, products from sellers such as Appario Retail Private Limited and Cloudtail India Private Limited—which had both received major equity funding from Amazon—were removed from Amazon’s online marketplace. Further, Amazon products such as the Amazon Echo range of smart speakers were removed, but these were later added to the platform via suppliers such as Hariom Communication LLP.[[80]](#endnote-80)

Considering Walmart’s vision and Flipkart’s market presence in the Indian e-commerce industry, there were two options available for Walmart in tackling this unprecedented policy change: it could either divest from Flipkart or “overcome these challenges.”[[81]](#endnote-81)

RELIANCE’S ENTRY

Eyeing the rapid growth of the e-commerce industry, in January 2019 Reliance announced that it would launch the world’s biggest online-to-offline modern e-commerce platform. By combining the offline retail network of Reliance Retail—which had a footprint of 10,415 stores in more than 6,600 cities, with 500 million annual footfalls—and Reliance Jio, which had 300 million subscribers,[[82]](#endnote-82) Reliance aimed to establish an omnichannel platform to scale up its current network of 15,000 digitized retail stores to more than 5 million by 2023.[[83]](#endnote-83) As Reliance was a home-grown company, the e-commerce regulation and people’s sentiments were in its favour, and Reliance could potentially disrupt the Indian e-commerce industry.[[84]](#endnote-84)

According to Satish Meena, a senior forecast analyst at Forrester Research, “Reliance’s history of launching operations via massive discounts” would trouble the Walmart−Flipkart duo -as well as Amazon.[[85]](#endnote-85) For example, when Reliance launched the Monsoon Hungama tariff plan with its entry in 2003, it reduced tariffs on voice calls from ₹2.00[[86]](#endnote-86) per minute to ₹0.40 per minute; this was followed by Reliance Jio’s 4G plan launch in 2016, which dropped data rates from ₹250 per gigabyte to ₹50 per gigabyte.[[87]](#endnote-87) This type of discounting could disrupt any industry, and an equivalent situation was possible in the grocery space after Reliance’s launch. Reliance’s behaviour had the potential to cause significant trouble for Flipkart, which was already operating with a significant debt.

As the changes in the FDI policy in India caused a setback for the Walmart–Flipkart duo, Reliance’s entry was expected to make the situation more intense by potentially putting pressure on Flipkart’s financials, which could in turn be reflected in its operations. In an extreme case, this could lead to Walmart’s exit from Flipkart altogether.[[88]](#endnote-88)

COVID-19 CRISIS

In February 2020, COVID-19 caused a worldwide pandemic, and to contain its spread, most countries, including India, were placed under mandatory lockdowns. In the wake of the nationwide lockdown that started in India onMarch 25, 2020, the Indian e-commerce industry witnessed challenges such as the limited availability of workers for warehouse and delivery functions and a ban on the sale of non-essential items for almost two months. This ban was partially lifted during the third phase of lockdown (from May 4, 2020), and e-commerce companies were again allowed to deliver non-essential items in areas of the country that were only slightly or moderately affected by COVID-19. Even then, sales of non-essential item on e-commerce platforms in the first week of May were less than they had been in the previous year.[[89]](#endnote-89)

However, during the pandemic, numerous consumers were reluctant to step out of their homes, and this caused a significant change in their behaviour; they moved out of their comfort zones and increasingly opted for e-commerce platforms for purchases of essential items, including groceries, in order to avoid crowds and adhere to social distancing rules. Naturally, one of the most positively affected segments in e-commerce was the grocery segment, since many consumers had opted to buy from companies such as Grofers India Pvt. Ltd. and Amazon India. However, the government of India, citing regulatory issues, rejected Flipkart’s proposal to enter the food retail sector.[[90]](#endnote-90)

Expecting a major bounce-back in demand following COVID-19, the Walmart–Flipkart duo decided to take advantage of this surge of new customers by providing the best customer experience and developing authentic bonds with shoppers on the platform. They planned to contract almost 93,000 square metres (1 million square feet) of space across major cities such as Coimbatore, Lucknow, Ahmedabad, Pune, Hyderabad, the Mumbai Metropolitan Region, and Bengaluru.[[91]](#endnote-91) The Walmart–Flipkart duo also made a series of partnerships with leading FMCG companies and brick-and-mortar retailers during the COVID-19 pandemic in order to increase its product range in its weakest business segment, essentials. It expanded its food and grocery segment reach from just five areas to 300 areas and, with special clearance from the central government, transformed its existing warehouses to store products.[[92]](#endnote-92) In April 2020, the Walmart–Flipkart duo partnered with Spencer’s Retail Limited, which would act as a supplier on Flipkart’s platform and provide specific packages of FMCG and staples, which would be transported via Flipkart’s last-mile delivery network. The pilot started in Hyderabad that month.[[93]](#endnote-93) The duo then partnered with Vishal Mega Mart Pvt. Ltd. for doorstep delivery of essential items across 26 cities in India. This association involved the development of a Vishal Mega Mart Essentials store on the Flipkart platform.[[94]](#endnote-94) Customers could order essential products such as beverages, pulses, oil, rice, and flour directly from Vishal Mega Mart Pvt. Ltd.’s 365 stores and get home delivery from Flipkart. This partnership was expected to offer real-time clarity about the essentials available in consumers’ regions and to add value through timely doorstep delivery.[[95]](#endnote-95)

The WALMART–FLIPKART DUO: THE WAY FORWARD?

Walmart’s chief financial officer, Brett Biggs, when discussing the changes to India’s FDI norms following Walmart’s acquisition of Flipkart, said, “When you make an investment in India, note that things are going to change. . . . We will have legislation changes.”[[96]](#endnote-96) Walmart and Flipkart had to make modifications to face these changes: “It is disappointing that you have a law like that changed that quickly, but we have made the adjustments and we are moving forward.”[[97]](#endnote-97) As the Walmart–Flipkart duo was already facing modified FDI norms, the unprecedented growth of Amazon, and the entry of Indian conglomerate Reliance, the COVID-19 pandemic became an even bigger roadblock to the duo’s efforts to conquer the Indian e-commerce industry. Amid these unexpected challenges, would the Walmart–Flipkart duo emerge as a winner, or would Walmart’s dream of capturing the Indian e-commerce industry come to a disappointing end?

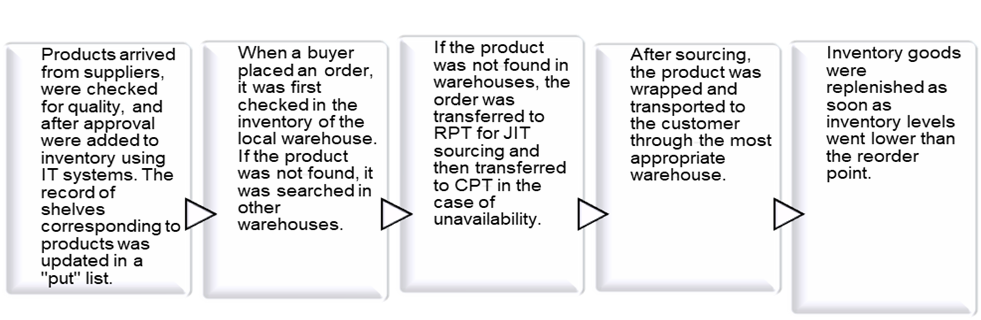
EXHIBIT 1: MARKET SHARE OF COMPANIES IN the INDIAN E-COMMERCE INDUSTRY

(APRIL 2018)

| Companies | % Market Share in April 2018 |
| --- | --- |
| Flipkart | 32% |
| Amazon | 31% |
| Paytm Mall | 6% |
| Myntra | 5% |
| Jabong | 2% |
| Snapdeal | 2% |
| Pepperfry | 2% |
| Shopclues | 2% |
| Bigbasket | 2% |
| Others | 16% |

Source:Created by case authors based on data from Nishant Sharma, “This Is Why Amazon Hasn’t Beaten Flipkart in India Yet,” *The Quint* (blog) Bloomberg, March 30, 2018, accessed July 2, 2019, www.thequint.com/news/business/this-is-why-amazon-hasnt-beaten-flipkart-in-india-yet.

EXHIBIT 2: FLOW-TIME ANALYSIS OF a FLIPKART sale



Notes: IT = information technology; RPT = regional procurement team; JIT = just in time; CPT = central procurement team

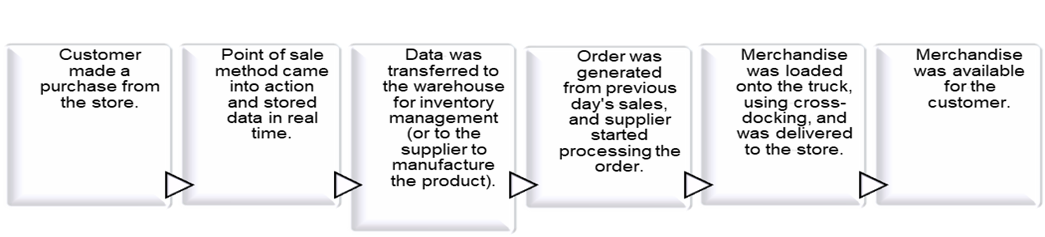
Source: Created by case authors based on data from Neetu Kapoor, “A Case Study on Supply Chain Management by Flipkart,” *Episteme* 5, no. 3 (December 2016), accessed July 3, 2019, http://episteme.net.in/web.content/d.73/content/410/attachments/10-A\_case\_study.pdf.

EXHIBIT 3: FLIPKART’S OPERATING HISTORY

| Year | 2008–2009 | 2009–2010 | 2010–2011 | 2011–2012 | 2012–2013 | 2013–2014 | 2014–2015 | 2015–2016 | 2016–2017 |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Revenue (in Million Dollars) | 0.87 | 4.22 | 10.98 | 104.38 | 251.10 | 485.57 | 1,676.89 | 2,355.10 | 2,932.20 |
| Net Income (in Million Dollars) | (0.32) | (1.05) | (2.19) | (22.96) | (51.83) | (120.00) | (316.36) | (798.6) | (1,295.30) |
| Net Margin (%) | (37.50) | (25.00) | (20.00) | (22.00) | (20.64) | (24.71) | (18.80) | (33.91) | (44.18) |

Source: Created by case authors based on data from Aswath Damodaran, “Walmart’s India (Flipkart) Gambit: Growth Rebirth or Costly Facelift?,” *Musings on Markets* (blog), May 22, 2018, accessed July 3, 2019, http://aswathdamodaran.blogspot.com/2018/05/walmarts-india-flipkart-gambit-growth.html.

EXHIBIT 4: FLOW-TIME ANALYSIS OF a WALMART Sale



Source: Created by case authors based on data from Clara Lu, “Walmart’s Successful Supply Chain Management,” QuickBooks Commerce, October 4, 2018, accessed July 2, 2019, www.tradegecko.com/blog/supply-chain-management/incredibly-successful-supply-chain-management-walmart.

EXHIBIT 5: Food and Grocery’s market share of total E-commerce sales

| Retail Segment | % of Contribution in Total Retail Sales |
| --- | --- |
| Food and Grocery | 66.30% |
| Jewellery | 8.00% |
| Apparel | 8.70% |
| Consumer Durables and IT | 5.20% |
| Furniture and Furnishings | 3.60% |
| Pharmacy | 2.70% |
| Footwear | 1.20% |
| Others | 4.30% |

Note: IT = information technology

Source: Created by case authors based on data from Sunny Sen and Josey Puliyenthuruthel, “Why Walmart, the World’s Largest Company, Wants to Gobble Up Flipkart,” *Factor Daily*, April 30, 2018, accessed July 3, 2019, https://factordaily.com/why-walmart-gobble-up-flipkart.

Endnotes

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