



Flipkart (left, its online services HQ in Bengaluru) started out in 2008, selling just books. Its buyout by Walmart gives the US retail giant access to more than a million of its customers and casts Walmart as a key player in India's e-commerce. PHOTO: BLOOMBERG

# What Walmart-Flipkart deal could mean for e-commerce in India

Policy direction for domestic e-commerce regulations could change. Will the dominance of online retail by foreign companies be liberalised or curtailed? Watch this space. **BY AMITENDU PALIT AND RAHUL CHOUDHURY**

**T**HE world witnessed its biggest e-commerce deal when the American retail giant, Walmart, announced the acquisition of a 77 per cent stake in Flipkart, India's major online retail platform. The acquisition, at a value of US\$16 billion, is reportedly the largest buyout by Walmart in online retail space. Apart from the large financial size of the acquisition, the deal fundamentally changes the competitive character of India's e-commerce market.

Both Walmart and Amazon had been eyeing Flipkart to consolidate their positions in the Indian e-commerce market. Their interest in it 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 homegrown competitors like Jabong, Myntra and E-bay India, and payment solutions company, Phone Pe.

## WIN-WIN DEAL

The Flipkart buyout gives Walmart access to more than a million customers of Flipkart's and positions it as a major player in India's e-commerce. This can be considered Walmart's biggest advance on 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 has not been 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, as more and more customers, particularly the young, shifted to shopping online. Furthermore, the control of Flipkart gives Walmart the decisive advantage of getting access to a homegrown 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 the deep pockets to guard against unexpected commercial 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.

## RAPID GLOBAL SHIFTS

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 are to date still a low proportion of total retail sales, and are mostly confined to major cities and urban centres. Thus, the risks remain in India's online shopping business, particularly for homegrown startups like Flipkart.

Having Walmart – a company with more than US\$500 billion revenue, and among the world's largest and richest enterprises – is the best cushion that Flipkart could have had in ensuring sustenance. It can also expect Walmart to combine its offline retail expertise to further boost online sales.

India's e-commerce market structure changes significantly following the Walmart-Flipkart deal. Walmart

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now competes with Amazon, the world's largest online retailer. Amazon India has made a strong presence in the Indian e-commerce sector since starting its operations in 2013. It 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 buyout of Flipkart would have resulted in almost complete concentration of economic power in a single enterprise. Walmart's investment in Flipkart has avoided that development.

The 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. The country's online retail should now begin to resemble the US e-commerce market, where Walmart and Amazon have been competing intensely for years. The rivalry is not limited to the US anymore and is now extending to other markets of the world.

## THE POLICY PRISM

Despite trying for several years, Walmart failed to entrench its presence in India's organised offline retail. 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, which was opened for 100 per cent FDI during 2016 under the "marketplace" model, that is, procurement and sale of goods and services by operators through a technology platform. By acquiring Flipkart, Walmart has used the current policy to widen its presence in the Indian retail market.

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 if it will frame regulations in a fashion that creates complications for foreign online retailers.

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