

Sunil Jain and Shobhana Subramanian

Bharti Enterprises is likely to remain Walmart's partner in the new joint venture that the global retailer rolls out for large stores now that multi-brand retail has been thrown open to foreign direct investment (FDI). "We have a great relationship with Bharti and obviously, when we are looking for a partner for the new business, Bharti will be the preferred partner. But nothing has been finalised," Raj Jain, CEO and MD Bharti Walmart, told FE.

Walmart is yet undecided about what brand name it will go with in India with Jain pointing out that the American multinational operates with 62 brands globally and doesn't use the "Wal-Mart" tag in nations like Japan. Indeed, the cash-and-carry business run by Bharti Walmart doesn't bear the Walmart name and is called Best Price. The India head of the Bentonville-headquartered giant says the size of the stores in India will range between 10,000-60,000 sq ft — a big change from the traditional Walmart model — and will be located within the city limits. The traditional Walmart big box model, in which customers drive out to stores located in lower-rental areas on the outskirts of the city, he believes, is unlikely to work in India. "Few customers will move more than 15 minutes away from where they live. That means right next door in Chandni Chowk, and maybe a few km away in other parts of cities."

Currently, Bharti and WalMart India are partners in the cash-and-carry business while the Easyday chain of stores is owned by Bharti.

According to Jain, it might be difficult to extract synergies between the Easy Day chain and the new venture given the nature of tax laws and logistical issues. It's possible though, he says, that some of the Easy Day stores, are transferred to the new outfit.

Jain takes out a map with some states like Maharashtra are marked in red, where FDI retailers are allowed. Within Maharashtra, however, a Walmart can get to just three cities – Mumbai, Pune and Nagpur. Theoretically, Walmart can have a relationship with Bharti's EasyDay stores which can sell anywhere they like – so Walmart can set up a warehouse near Mumbai and supply its low-cost goods to its Mumbai stores as well as to Easyday ones in the markets near Mumbai. But each time Walmar sends something to Easy Day, this will be treated as a sale and means extra taxes.

In general, the CEO feels it won't be easy to do business given the somewhat restrictive norms the government has put in place – stores, for instance, can be opened in cities with a population of one million – and the fact that not all states are open to the idea of allowing foreign retailers. Moreover, the mandatory 30% sourcing from medium and small enterprises, he points out, could be a bit of an issue since once the SME grows, and its investment exceeds \$1 million, Walmart can no longer source from it. "One million is a relatively small sum these days because even a plant to make confectionery can cost Rs 20-Rs 30 crore," he points out. Jain estimates that of the \$200 billion urban retail market, an FDI-retailer like Walmart or Carrefour could hope to capture \$60-70 billion. In other words, there's no threat to India's kiranas.

The private labels piece, he feels, could account for as much as 50-60% of a retailer's turnover over time and can offer great margins though setting up the supply chain could be a challenge due to the \$1 million SME restriction – "once we take the supplier up the curve and he invests, he will cease to be an SME", says Jain, adding that Rs 20-30 crore of investments are required to just become a confectionery supplier.