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# To What Extent Did Walmart's Acquisition Impact Flipkart's Competitive Position In India Market?

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***Abstract***
*This paper explores how Walmart's 2018 acquisition of Flipkart influenced the company's competitive position in the Indian market. Flipkart is one of India's largest online e-commerce platforms. The study examines how Walmart's expertise improved Flipkart's supply chain, logistics, and overall operations, leading to significant revenue growth. However, despite these gains, Flipkart faces financial losses and stiff competition, particularly from Amazon. The findings show that while Walmart's support strengthened Flipkart's market presence, challenges around profitability and competitive rivalry persist. Additionally, the financial analysis shed light on how Walmart is still to see its return on investment. This research provides valuable insights for international companies looking to enter the Indian market through acquisitions, offering a balanced view of both the potential benefits and ongoing challenges.*

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## I. Introduction

Flipkart Internet Private Limited was founded in 2007 and aims to provide a wide range of products such as electronics, clothing, and household items; essentially, Flipkart is an online retailer. A privately held company, Flipkart, was founded by Binny and Sachin Bansal. Flipkart primarily operates online, categorizing the company as E-Commerce (Longo). The company is now seeking an Initial Public Offering (IPO) valuation of $70B, distinguishing itself as one of India's most successful start-ups (Bhalla).

Walmart Incorporated is a US-based multinational corporation primarily focused on the retail industry. The publicly listed company, founded in July of 1962 by Sam Walton and Bud Walton, aims to provide "electronics, apparel, toys, home furnishings, health and beauty aids, hardware and more" (Walmart About). The retail giant has 10,500 stores across the US. Walmart, as of April 2023, has a market cap of $404.5B ("Walmart Inc. (WMT) Stock Price, News, Quote & History - Yahoo Finance").

India has always had challenging policies for foreign companies to enter the Indian market as foreign companies pose a threat to domestic businesses - Walmart is no exception. Starting in 2007, Walmart failed to enter the Indian market (Suneera Tandon). Walmart wanted to capitalize on a pivotal opportunity in the Indian E-Commerce market, as the *India Brand Equity Foundation* projects a valuation from $38.5B in 2017 to $350B by 2030 ("E-Commerce in India: Industry Overview, Market Size & Growth| IBEF"). Walmart had to find another way to enter this rapidly growing sector, which led to its acquisition of Flipkart.

Walmart's Acquisition of Flipkart took place on May 9th, 2018, wherein Walmart paid $16B for 77% of its stake in Flipkart. The founders and other investors hold the remaining 23%. This acquisition allowed Walmart to add expertise and success to a rapidly growing Indian E-Commerce market. Walmart, as they mentioned in their initial acquisition announcement, saw this as a "[s]ignificant opportunity to partner with local leaders in a large, fast-growing market" (Walmart, "Walmart to Invest in Flipkart Group, India's Innovative ECommerce Company").

These two companies are giants in their respective markets. However, considering Walmart's immense efforts to enter the Indian market since 2007, it raises the question of whether the acquisition has truly helped Flipkart's position in the Indian market (Walmart About, "Walmart to Invest in Flipkart Group, India's Innovative ECommerce Company")? Thus arises the research question of this investigation: To what extent did the acquisition by Walmart impact Flipkarts position in the Indian Market?

### Core Competencies

Core competencies refer to a business's technology and organizational skills, allowing it to provide high-level customer service. Prahalad and Hamels founded this concept, which was introduced in the Harvard Business Review in 1990 (Awati).

Walmart invested USD 2 billion after the acquisition of Flipkart. As noted in the article "A Study on the Flipkart Deal with Walmart," this enormous investment will provide a financial basis to improve the below-mentioned core competencies (Kittu Manda et al.). The improvements in these core competencies aided Flipkart's position in the Indian market, as analyzed below.

**Supply Chain Management and Logistics**

The first improved core competency Walmart introduced into Flipkart was better supply chain management and stocking, which led to the establishment of a grocery venture. Walmart has an exceptional reputation in the US for having strong supply chain management and logistics (A. Mishra). After their acquisition of Flipkart, Walmart's massive expertise in supply chain management was transferred to India (A. Mishra ).

Since Walmart has strong expertise in supply chain management and logistics, Flipkart was able to use that knowledge to improve its delivery times. According to the logistics platform Shipsy, Walmart has excellent infrastructure, which Flipkart would later implement in its operations. Shipsy's article "Flipkart-Walmart Deal and What It Means for the Indian Online Retail Sector" states, "Customers are not only looking for discounts and quality but prefer companies that offer faster shipping. This is where Walmart can make a huge impact". Walmart would provide the "much-needed push" that Flipkart needs to increase the strength of its supply chain management and logistics, inevitably decreasing shipping time. A boosted shipping time provides a competitive advantage, allowing Flipkart to increase its sales revenue, as is evident in the Financial Analysis section of this study (Shipsy). This helps Flipkart's position in India by giving it better delivery times than its competitors.

A huge constituent to improving supply chain management should be credited to *BestPrice*. *BestPrice* is an Indian business specializing in wholesaling and distributing high-volume goods at low prices. Walmart owned *BestPrice* before the acquisition of Flipkart (Reuters Staff). As a result, Flipkart was able to utilize *BestPrice* to improve its supply chain management, giving it a competitive advantage. This aided their position in the Indian market, which was only possible after Walmart had taken control.

Subsequently, Flipkart launched a new venture called Supermart due to this new and improved core competency. They launched the Supermart grocery venture - *Supermart*- providing groceries to customers at record-breaking times. Supermart was briefly introduced pre-acquisition; however, it was not successful, but with Walmart and BestPrice, Supermart started to flourish. This serves as a testament to how Walmart has enhanced Flipkart's position in the Indian market.

Although Walmart introduced the new core competency of supply chain management and better stocking to Flipkart, leading to the *Supermart* venture, numerous technical complaints and server breakdowns have caused users to switch to more developed competitors. Flipkart had to go through a period where their app had to be temporarily de-operational due to technical problems (Reuters Staff). Nonetheless, the company has clarified that they are expanding as they recently announced that they are bringing *Supermart* into 1,800 of the 4,000 cities in India (Sarkar). This indicates that the grocery venture *Supermart*, with the core competency of supply chain management, is expanding and improving. This improved Flipkart's position in the Indian market as it gained access to the grocery venture through Walmart.

**Financial Analysis**

| Walmart's Global Net Profit Margin (NPM) Calculation | | | | |
|---|---|---|---|---|
| Year | 2020 | 2019 | 2018 | 2017 |
| Net Income ($USD, millions) | 14,881 | 6,670 | 9,862 | 13,643 |
| Revenue ($USD, millions) | 523,964 | 514,405 | 500,343 | 485,873 |
| Net Profit Margin (%) | 2.84 | 1.30 | 1.97 | 2.81 |

Table 1. Walton, *Walmart's Income Statement*, Table, 2020.

A Net Profit Margin (NPM) measures the net income as a percentage of sales revenue, typically expressed as a percentage. NPM assesses whether a company generates profit from its sales revenue and how well it can manage its overhead expenses (Murphy).

The NPM for 2017 - 2020 is calculated above. 2017 is also included as this is the year before the acquisition, and it is essential to consider their financial health pre-acquisition. An excellent retail NPM is between 0.5-3.5%, and Walmart falls in the upper quadrant of this (Roberti). The NPM fluctuates slightly over the four years; however, all the NPMs fit well into the range of a "strong NPM," which is 0.5 - 3.5%.

The high NPM allowed Walmart to acquire Flipkart and then continue to invest capital in Flipkart, allowing for its expansion. Upon acquiring Flipkart, Walmart invested a cumulative $3B USD. As analyzed earlier, the continued investment allowed Flipkart to improve its core competencies, which proved successful. This continued investment is attributable to Walmarts high NPM percentage. This continued investment allowed Flipkart to start new ventures. This advantage is quantified in the next section of the analysis by the increase in sales revenue.

**Flipkart Change in Revenue/Profit**
**Revenue of Flipkart from FY 2014 - FY 2020**

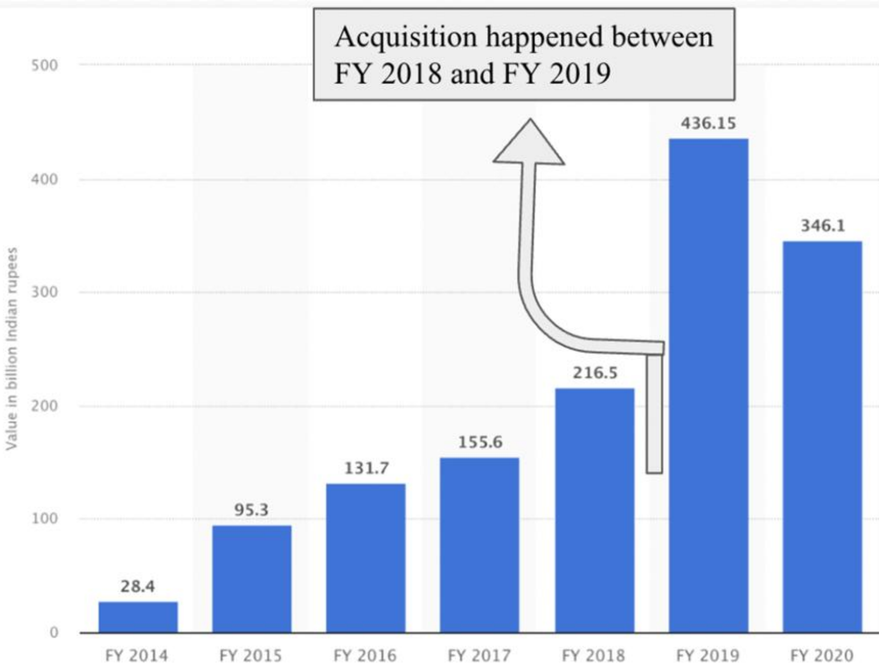


**Fig. 5. Statista, *Graph of Flipkart's Revenue*, 2021.**

Flipkart's annual revenue saw a considerable increase post-acquisition. The acquisition occurred in May 2018 but is classified in the Indian Financial Year (FY) 2019. In FY 2018 (pre-acquisition), the revenue was ₹216.5B Rs. Then, at the end of FY 2019 (post-acquisition), the revenue increased to ₹431.15 Rs, a ₹219.65B Rs increase. More than doubling the revenue, Walmart's investment, established in the previous section, had a profound impact. However, the revenue did decrease slightly in FY 2020 down to ₹346.1B Rs due to the effects of the pandemic ("Flipkart: Revenue 2020"). Still, since the acquisition and despite the pandemic, the revenue has more than doubled. The increased sales revenue helps Flipkart position itself in India by improving its market share and allowing it to invest in further expansion.

**Profit/Loss of Flipkart from FY 2014 - FY 2021**

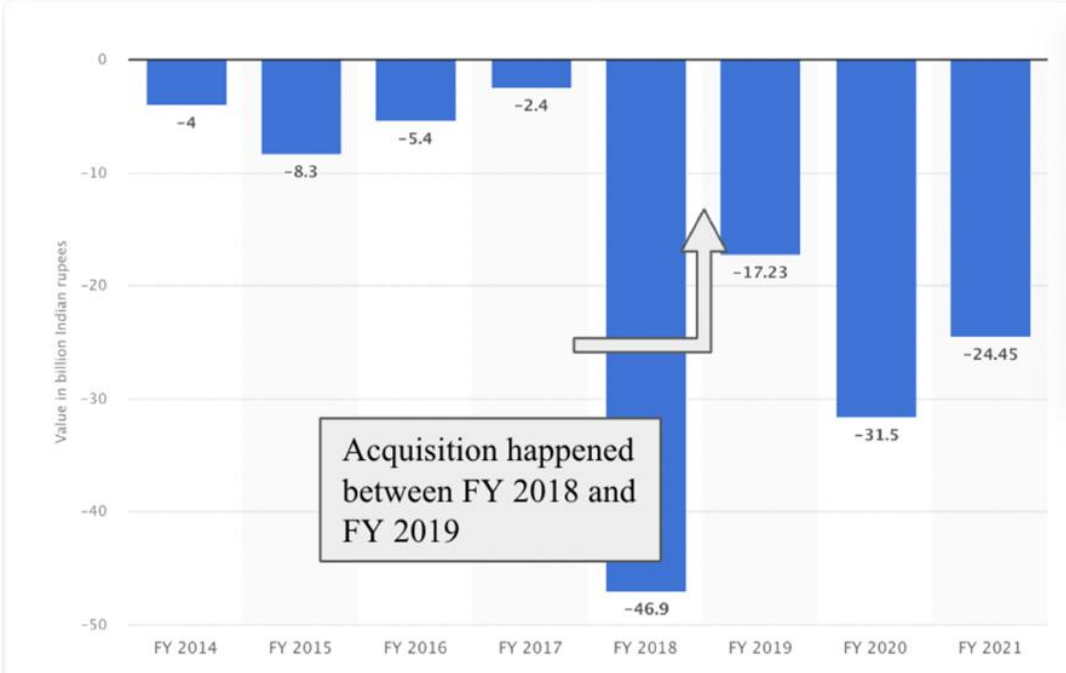


**Fig. 6. Statista, *Graph of Flipkart's Loss*, 2021.**

In FY 2018 (pre-acquisition), losses were at ₹-46.9B Rs. However, in FY 2019 (post-acquisition), the losses decreased to ₹-17.23B Rs. Walmart may have applied efficiency and loss-optimizing strategies to reduce losses. However, there is limited information on the reason for the decrease in losses. Flipkart's losses increased in the following year and two years after the acquisition, and Flipkart is still making huge losses ("Flipkart: Profit/Loss 2021"). This is one of the drawbacks of the acquisition as they are not profitable, but pre-acquisition, they were not either. However, it is evident that Walmart views the acquisition as a long-term investment and a growth strategy in the Indian market, and, therefore, it can accept losses (Walmart About). Flipkart's position improved as it could not sustain the losses, but Walmart, a more established organization, could do so in the hopes of making a profit later.

**Enterprise Value to Sales (EV/Sales)**

Before Acquisition (2018) (Megha Bahree)

$$\frac{\boldsymbol{Enterprise\ Value}}{\boldsymbol{Sales}} = \frac{\mathbf{21,000,000,000}}{\mathbf{3,230,000,000}} = \mathbf{6.50}$$

After Acquisition (PTI)

$$\frac{\boldsymbol{Enterprise\ Value}}{\boldsymbol{Sales}} = \frac{\mathbf{29,000,000,000}}{\mathbf{6,430,000,000}} = \mathbf{4.51}$$

Before the acquisition in 2018, the company had an EV/Sales ratio of 6.50, suggesting that investors had high expectations for its future growth potential. After the acquisition, the EV/Sales ratio dropped to 4.51, as the company's sales increased significantly from \$3.23 billion to \$6.43 billion. This indicates that the acquisition successfully drove substantial revenue growth, which met the market's expectations. The reduced ratio reflects that the company's growth potential was realized, making it more efficient at generating sales relative to its enterprise value. This positions Flipkart as a better investment opportunity, which, in part, is attributable to Walmart.

**Return on Invested Capital (ROIC)**

Before the acquisition, Walmart's historical ROIC in 2018 was hovering around 12-13% globally (Finance Charts). This is the industry average for the retail industry. However, after the acquisition of Flipkart, Walmart's ROIC fell to the 10.5% range (Finance Charts). While this may have been for varied reasons, one crucial reason was the significant capital investment into Flipkart. As also seen in the EV/Sales analysis, Walmart is yet to see the return on its investment from Flipkart. However, Walmart has expressed little concern about this as they view the investment as long-term and see potential in the Indian economy.

**Porter's 5 Forces**

Lastly, Porter's Five Forces, created by Micha Porter, will be used for analysis. While the model is primarily to analyze industries, the use of the model is applicable here as Walmart's acquisition led to Flipkart changing the Indian e-commerce industry (The Investopedia Team). The model can be used to examine business strategy and how a company can gain competitive advantages. Bargaining Power and Threat of New Entrants will be used to show the benefits. On the other hand, Competitive Rivalry will be used to show the drawbacks of the acquisition.

**Bargaining Power of Suppliers**

Through Walmart's new support, Flipkart was able to negotiate much better deals with several suppliers, especially for smartphones. Lower prices with Samsung and Xiaomi, smartphone providers, were negotiated, resulting in higher sales revenue, as seen in the financial analysis (Mukherjee). Moreover, BCG describes the Indian market as "extremely sensitive," and 62% of consumers would wait for the discount season ("Most Indian Consumers Remain Price-Sensitive While Buying Electronic Products: Study"). Operating in a price-sensitive market, it is pivotal to gain competitive advantages such as discounts off suppliers, and through Walmart's boost in Flipkart's bargaining power, they could earn huge discounts of up to 20%, attracting more customers (Witschi et al.). Flipkart can now also get bulk products at a considerable discount, allowing it to gain a more significant share of the Indian price-sensitive market (Pratap).

**The Threat of New Entrants**

Walmart's backing has made Flipkart much more dominant in the Indian market. For example, as mentioned by *MBAUniverse*, small stores will be affected mainly by the significant presence of Flipkart. Although predatory pricing is not explicitly allowed, Flipkart has found loopholes around these regulations. While this is unfavorable for the Indian economy, it improves Flipkart's position since it attains more market share and prevents the threat of new entrants. Also, according to a study by Beena Saraswathy at the Institute for Studies in Industrial

Development, because of Walmart's acquisition, Flipkart will be given too much power, and local businesses will not be able to sustain themselves. Saraswathy says, “The deal means that domestically developed capabilities of not only Flipkart but also other firms acquired by Flipkart have been transferred into foreign hands,” showing the size of the company and hence making it harder for other firms to enter (Saraswathy).

**Competitive Rivalry**

The competitive rivalry of Flipkart is one area in which the acquisition has not helped Flipkart. This is because the competition with other organizations in India is still high. For example, Flipkart and Amazon still compete regularly in terms of price levels. ZDNet states, “Flipkart is the biggest loser in Amazon's decision to launch retail and logistics services in India.” Flipkart responded by lowering prices, which increased losses, as seen in the financial analysis. This aspect of the acquisition did not improve Flipkart’s position in the Indian market, as this price war is not healthy or sustainable in the long run.

**Conclusion**

Considering all of the analysis conducted, it is logical to conclude that Walmart has significantly improved Flipkart’s position.

The core competencies analysis elucidated that Walmart’s knowledge and expertise helped them to improve the mentioned core competencies. For example, improving their supply chain and logistics management led to a growing grocery venture. The core competency analysis also exemplified how Walmart's backing improved its comprehensive product offerings. This all improved their position in the Indian market and allowed them to attract more customers.

A financial analysis was also conducted on some of Walmart's relevant financial statements. This provided insight into Walmart's profitability, demonstrating Walmart can continuously invest money into Flipkart, allowing it to expand its services. This was seen in the next section, where Flipkart's revenue was analyzed, and Walmart had a swift effect, helping Flipkart double its revenue. Another reason for the doubled sales revenue was that Flipkart received a more comprehensive core competency product, attracting more customers.

Moreover, the EV/Sales ratio dropped from 6.50 to 4.51 after the acquisition, indicating Walmart's investment successfully drove revenue growth and increased efficiency. Walmart’s ROIC also slightly declined to 10.5%, reflecting the significant investment in Flipkart, which is viewed as a long-term strategy to capitalize on India’s market potential.

Analysis through Porter’s Five Forces also showed how Walmart improved the bargaining power of suppliers and the threat of new entrants. However, the study revealed that Flipkart did not improve on its competitive rivalry as it still competes significantly on price with Amazon.

Therefore, to answer the research question: “To what extent did the acquisition by Walmart impact Flipkart's position in the Indian market?” Flipkart's position has improved to a great extent. However, the drawbacks are that Flipkart is still not profitable and competes with Amazon in terms of prices for [what?]; these drawbacks remain and need to be improved.

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