LESSONS FROM WALMART-BHARTI JOINT VENTURE

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INTRODUCTION

A joint venture (JV) is a business arrangement in which two or more parties agree to pool their resources for the purpose of accomplishing a specific task. This task can be a new project or any other business activity. In a joint venture (JV), each of the participants is responsible for profits, losses and costs associated with it. However, the venture is its own entity, separate from the participants' other business interests. Regardless of the legal structure used for the JV, the most important document will be the JV agreement that sets out all of the partners' rights and obligations. The objectives of the JV, the initial contributions of the partners, the day-to-day operations, and the right to the profits and/or the responsibility for losses of the JV are all set out in this document. It is important to draft it with care, to avoid litigation down the road.[1]

A joint venture ("JV") begins when the parties enter into a contract or "joint venture agreement," the specifics of which are of crucial importance for avoiding problems later on. In creating the agreement, the parties should state specifically the purpose and goal of the venture, as well as the venture's limitations. The agreement should be very specific in outlining each party's duties and rights under the agreement, taking into account that all parties are entitled to share in the profits as well as the losses incurred in the venture. Each party to a JV has a responsibility to act in "good faith" in all matters regarding the venture, taking care to uphold the interests of all parties involved. This amounts to a legal fiduciary duty to the venture, even if it becomes necessary for a party to place individual interests below those of the group.[2]

Joint ventures are a form of cooperative strategy where firms create an alliance in order to combine their resources and capabilities. The objective is to establish a stronger competitive position. Firms can diminish the negative effects of competitive rivals by building higher barriers to entry through amalgamating financial resources, research and development, production, and distribution channels. Joint ventures increase the profitability of an industry by reducing competition in markets where both firms are present. Parties enter Joint Ventures to gain individual benefits, usually a share of the project objective. This may be to develop a product or intellectual property rather than joint or collective profits, as is the case with a general or limited partnership. A joint venture, like a general partnership is not a separate legal entity. Revenues, expenses and asset ownership usually flow through the joint venture to the participants, since the joint venture itself has no legal status. Once the Joint venture has met its goals the entity ceases to exist.

[1]Investopedia. March 2018. Joint Venture. [Online]. https://www.investopedia.com/terms/j/jointventure.asp [Accessed 10 November 2018]

[2] Legal Dictionary. Joint Venture. [Online].https://legaldictionary.net/joint-venture/ [Accessed 10 November 2018]

The Advantages of forming a Joint Venture

1. Provide companies with the opportunity to gain new capacity and expertise
2. Allow companies to enter related businesses or new geographic markets or gain new technological knowledge
3. access to greater resources, including specialized staff and technology
4. sharing of risks with a venture partner
5. Joint ventures can be flexible. For example, a joint venture can have a limited life span and only cover part of what you do, thus limiting both your commitment and the business' exposure.
6. In the era of divestiture and consolidation, JV's offer a creative way for companies to exit from non-core businesses.
7. Companies can gradually separate a business from the rest of the organization, and eventually, sell it to the other parent company. Roughly 80% of all joint ventures end in a sale by one partner to the other.

The Disadvantages of Joint Venture

It takes time and effort to build the right relationship and partnering with another business can be challenging. Problems are likely to arise if:

1. The objectives of the venture are not 100 per cent clear and communicated to everyone involved.
2. There is an imbalance in levels of expertise, investment or assets brought into the venture by the different partners.
3. Different cultures and management styles result in poor integration and co-operation.
4. The partners don't provide enough leadership and support in the early stages.
5. Success in a joint venture depends on thorough research and analysis of the objectives.

A joint venture is a strategic alliance between two or more individuals or entities to engage in a specific project or undertaking. Partnerships and joint ventures can be similar but in fact can have significantly different implications for those involved. A partnership usually involves a continuing, long-term business relationship, whereas a joint venture is based on a single business project. Parties enter Joint Ventures to gain individual benefits, usually a share of the project objective. This may be to develop a product or intellectual property rather than joint or collective profits, as is the case with a general or limited partnership. A joint venture, like a general partnership is not a separate legal entity. Revenues, expenses and asset ownership usually flow through the joint venture to the participants, since the joint venture itself has no legal status. Once the Joint venture has met its goals the entity ceases to exist.

BHARTI – WALMART JOINT VENTURE

In January 2006, the Union Cabinet approved the policy on foreign direct investment (FDI) in retail to further simplify procedures for investing in India and to avoid multiple layers of approvals required in some activities. To facilitate easier inflow, FDI up to 100 % was allowed under the automatic route for cash and carry wholesale and export trading. However to protect the interests of Indian retailers, the FDI up to 51 % was permitted in single brand retail only. In

2006, Wal-Mart of US entered into a 50:50 joint venture with Indian retail major, Bharti Retail to foray into the wholesale business in India. . According to the deal, Bharti would handle front end retail stores while Wal-Mart would act as a wholesale and back-end partner. The partnership called Bharti Walmart Private Ltd, would operate stores called Best Price Modern Wholesale. The joint partnership planned to make investments in the retail sector to the tune of $100 million which could go up to $1.46 billion. Wal-Mart was already procuring goods from various Indian companies to the tune of $1.5 billion. Industry observers say that the Wal-Mart would benefit from Bharti's experience in India while Bharti would benefit from Wal-Mart's experience in overseas markets. However, after tremendous opposition from local people and political parties, the first store opened in Amritsar in late 2009. Both parties brought their own strengths to the joint venture. Walmart came with its financial strength and support, its globally recognized brand name, and its expertise in national and international retail management. It is also known for its expertise in just-in-time inventory management, retail information management, and retail transportation management. Bharti Enterprises brought to the table its familiarity with the Indian laws, culture, economy, and labor. It is also involved in agribusiness, food processing, and retailing, insurance, and telecom industries nationally and internationally.

The historic joint venture included the following terms-

1. Walmart invested $103 million in the venture. The retail shops will be owned by Bharti Enterprises under the Wal-Mart franchise. Bharti is expected to pay royalty for the cash and carry operations. It is also expected to pay various kinds of fees to Walmart such as, franchises fee, software license fee, administrative support fee, design fee, technical training fee, and documentation fee.
2. Walmart would manage Bharti's multi brand retail convenience stores and supermarkets called easy day. It was believed that this arrangement would help Walmart to introduce its own brand in India later on.
3. The whole sale cash and carry partnership would sell a variety of products ranging from grocery to apparel and consumer electronics to retailers, offices, and organizations.
4. Since the Indian laws allow FDI in retail industry only in cities with a population of a million or more, it is not easy to find suitable real estate in these large urban areas. The partnership, therefore, planned to establish relatively small size stores compared to their larger counterparts in other countries.

A successful functioning of a joint venture requires that the partners clearly define its goals, clearly spell out their respective responsibilities to accomplish these goals, and carry out those responsibilities. A joint venture's success or failure depends not only upon the partners accomplishing these goals and carrying out these responsibilities, but also on the socio-economic and political variables beyond their control. So when on October 9, 2012 the Walmart and Bharti announced the breakup of their dream team

 ISSN 2456-9704

and decided to go separate ways in both retail and wholesale ventures.

There are several reasons for the breakup of this widely celebrated Indo-American partnership-

1. Corruption and Politics
Some primary reasons for the low and slow flow of FDI in India are the Indian legal and political factors. Indian laws are considered unclear and uncertain; and their implementation is routinely marred by bureaucracy, hurdles, delays, corruption, and grafts. It is not uncommon to be first charged for taking a bribe and then let go by giving another bribe. An editorial in the The Economic Times said it like this: "No company can operate without greasing a palm here or shelling out unaccounted amounts there." In September 2012, the Congress Party led Indian government stated that it would allow foreign supermarket chains to take majority ownership in multi-brand retailing in India. The current BJP led government, however, opposes it. It, however, would not cancel such applications already approved. However, no global supermarket chain has been rushing to apply.
2. Sourcing Requirement Laws
The requirement that those interested in making FDI in India's wholesale or multi-brand retail industry should source at least 30% of their products from local small and medium size industries is problematic for them. While this condition may be met in sourcing textiles and handicrafts items, it may not be easy to comply with it in sourcing some other products such as electronics. Foreign investors also find the requirement to invest 50% of the FDI in back-end infrastructure difficult. Bharatiya Janata Party (BJP) leader Rajnath Singh is opposed to FDI in retail because multinational companies like Walmart are buying 80 per cent of their goods from countries like China. "India will become a dumping ground for Chinese goods. However, Rajan Bharti Mittal, vice-chairman and managing director of Bharti Enterprises, said that the Bharti-Walmart venture plans to source 90 to 95 per cent of the products locally. The only foreign stuff that could be sold at Walmart India would include some toys, appliances, olive oil etc. As for food items, around 98 per cent of the total is likely to be sourced from India.
3. Questionable Investment in Cedar Support Services
In March 2010, Walmart invested $100 million in compulsory convertible debentures of Cedar Support Services (CSS). The CSS is both the parent company of Bharti Retail and the operator of the latter's front-end retail stores. These compulsory convertible (into equity) debentures in effect amounted to Bharti Retail ceding its control and management to Walmart. However, Indian laws don't permit FDI in front-end retail (multi-brand) stores.
4. Allegations of Corruption and Impropriety By Walmart
Concerned by its alleged corruption and other improper practices in Mexico, Brazil China, India and elsewhere, Walmart began a global review of its operations to assure that they are in compliance with both the U.S. Foreign Corrupt Practices Act and also the host country laws. "Its lawyers flagged India among the countries with the highest corruption risk." With all

these allegations and challenges facing Walmart internationally, especially in India, it's breaking up with Bharti Enterprises and taking complete control of its Indian operations appeared to be a logical thing to do. Wal-Mart has invested more than $200 million on overhauling its worldwide operations in order to assure that these are in compliance with both the U.S. and the host country anticorruption laws.

Terms and Costs of Joint Venture Breakup

Here are some of the main terms of the Bharti Walmart joint venture breakup. Wal-Mart will acquire Bharti Enterprises' 50% stake in the 20 Best Price Modern Wholesale cash-and-carry stores that had been run by the Bharti Walmart joint venture. It would thus own it 100%, which is allowed under the India laws. Bharti Enterprises would acquire the compulsory convertible debentures (CCDs) worth $100 million that Walmart had invested in Cedar Support Services, the parent company of Bharti Retail that operates its Easy Day stores. Bharti Enterprises would run them by itself now. In monetary terms, Walmart spent $334 million to end its partnership with Bharti Enterprises. It paid $100 million to buy Bharti Enterprises 50% share in the partnership; and it took a $234 million loss for waiving the debt and other investments it had made in the Bharti Enterprises.

Walmart's Strategy to Continue Wholesale Operations in India

Indian retail industry is expanding all over the country, both in the highly populated large cities and the less populated smaller towns. According to the Indian Brand Equity Foundation, the local retail market, with a value of about $518 billion, should grow to about $866 billion in 2015. For a comparison, the U.S. market would be about $424 billion in 2010. The organized retail sector in India, currently about 10% of the overall market, would grow up to about 20% by 2020. The Indian retail market is estimated to expand to more than $1.3 trillion by 2020. It already racks up more than $400 billion in sales each year, but is dominated by traditional markets and mom and pop shops. Walmart, logically, has chosen to continue and expand its Wholesale Best Price cash-and carry operations in India. It also plans to continue to make important contributions toward India's socio-economic environment. In April 2014, Walmart announced plans to open 50 wholesale stores in the next four to five years to expand its footprint in the country. It recently acquired a wholesale store in Agra from its rival Carrefour, the French mega retailer who losing money on it and who has decided to exit India due to several reasons.

CONCLUSION

Indian Market is a growing one and it has been predicted over the next 5-10 years it will become a huge market for foreign ventures and the retail sector will also transformed. The threat of new entrants will always be there as every marketer would like to have a piece of cake. Indian market is consumer based and the growth perspective of this venture taking consumer market as a criteria we can say that the consumer would like to have better quality products in good prices with wide variety and there Bharti Wal-Mart can get the benefit. If Bharti Wal-Mart will take care of the better supply chain management then the suppliers would like to work with them because there is already a growing demand in consumer market. If Wal-Mart will apply its best practices for supply chain management and logistics it would benefit the alliance. But the competitive scenario will be the same, the traditional market will still give the direct competition because majority of the Indian population are still attached to them and the political parties are also possessive about the rights of domestic retailers. Indian consumers want emotional touch and to attract and retain them it is necessary to get localized otherwise the domestic retailers will take all the benefit as they know the nerves of Indian consumer.

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