Is Reliance an emerging threat for global US giants like Wal-Mart and Amazon in India?

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Abstract

This paper explores the threat faced by the global giants with Reliance in terms of e- marketing in India. It also analyses the future prospects for Reliance in e-marketing.

In the emerging aggressive plethora of e-commerce world, it is very much unprecedented who would befit the global throne. Almost all e-commerce giants such as Walmart, Amazon, eBay, and Home Depot have a lot to teach us about business strategies, effective capturing of the e-retail platform, going global, and most importantly, surviving in today's highly unprecedented times as a successful company.

However, threats are constantly emerging in the global market, and one such emerging threat, Reliance Retail, seems an eagerly awaited development in the country's burgeoning online retail market, expected to overthrow the other foreign giants with its revenue, home grown advantages, and large ecosystem that is forecasted to help grow India's economy by over 27%. Intriguingly, the company not only has backend infrastructure and development capabilities but also an ever-expanding captive consumer base and a track record of disrupting rival businesses.

Key words:

1. e- marketing/ e-commerce
2. Demand / supply influencing factors
3. Opportunity cost.

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Introduction

A $20 billion fund raising binge may take India's Reliance closer to its dream of becoming a digital giant, further threatening the ambitious plans U.S. companies like Amazon, Walmart and Zoom have for India. But it remains a question mark about whether Reliance is indeed a real threat. Reliance is sure to face stiff competition from Amazon and Walmart’s Flipkart, as both companies have deep pockets and an already well-established warehousing and logistics supply chain in the country. Moreover, Jio Mart currently delivers groceries in only 200 cities, while Amazon and Flipkart deliver a wide range of goods across the country.

Yet, research into the strategic goals and current position of US giants such as Walmart and Amazon in regard to Indian Reliance suggests Reliance’s broad network, wide ecosystem, greater revenue, homegrown policy benefits may change the e-retail market of this developing country.

WAL-MART

Wal-Mart Stores Inc., one of the most celebrated and profitable retailers in history, has its initial roots embedded in highly rural areas, as Walmart chose its original path not in the big urban centres but in emerging suburbs and rural outposts that were not being served by major retailers.

With over 2.2 million employees, as of 2018, the global giant operates a chain of hypermarkets, discount department stores, variety, and grocery stores, in US, Puerto Rico, Canada, China, Mexico, Brazil, Germany, Britain, Argentina and South Korea. The initial retail sectors of Wal-Mart before its recent move into supermarkets included:

- 1) Wal-Mart stores, which offer clothing, small appliances, hardware, sporting merchandise and similar items
- 2) Sam's Clubs, which offer bulk merchandise to customers with warehouse memberships
- 3) Supercenters, which combine the inventories of a discount store with a full-line supermarket.

By emphasizing store concepts that are widely associated with Walmart today, Walmart managed to capture the market in using the following brand-building strategies:

- Customer focused advertising campaigns (particularly direct mail ads.)

- A check on its pricing controls.
- Making distribution easier and quicker by building accessible warehouses nearby

By 1990, Walmart was the largest retailer in the U.S., and began to branch out internationally, opening a new store in Mexico and subsequently opened more stores in the U.K., Germany, China, and Canada.

Walmart doubled its sales in 1995 three years after the death of founder Sam Walton, which culminated in the company having to elect to borrow funds needed to open more and more superstores, due to which debt piled up. Fortunately, Walmart earned the cash it needed to repay its financing loans.

Why did Walmart have to go global?

- Needed to grow to survive, and the international arena was the only one in which significant growth was possible
- Had to satisfy capital market expectations, by showing increases in both sales and profits
- Needed to satisfy and make own employees comfortable

  First, it had already oversupplied most of the domestic markets. Second, the United States accounts for just over 4 percent of the world's population. Finally, new emerging markets, with their lower levels of disposable income, offered huge platforms for growth in discount retailing. No choice but to pursue globalization aggressively to meet this competition. By doing so, it had the capacity to leverage two key resources originally developed in the United States

Strategic goals

- Capture and dominate the retail market wherever Wal-Mart was present.
- Growth by expanding its retail nationally and internationally.
- Obtain widespread brand name recognition and consumer satisfaction.
- Branching out into new sectors of retailing such as grocery, technology, and pharmaceuticals

  With dominating every sector where it does business, low cost leadership, differentiation strategy, outselling competitors to expand, build more stores, and expanding into other sectors of retail, every step of the way, this global giant strives to make money and dominate its competitors, to the point of putting some of them out of business

- (1) Respect for the Individual
- (2) Service to Our Customers
- (3) to Strive for Excellence

With the major aims to respect individuals, serve customers, and strive for excellence, this global giant that initially started off with only selling grocer merchandise expanded its retail to new sectors such as – pharmacy, auto service centre, and jewellery when it acquired the Hutcheson Shoe Company in 1978.Walmart launched a division that catered to each of the new retail sectors, and started offering for sale.

Walmart celebrated its 25th anniversary in 1987 and by then, the company started to embrace newer technologies such as computer systems into their operations to maintain & track inventory and sales, and to increase efficiency of communication between stores.

Later on, Hypermart USA (the first Wal-Mart supercentre stores) were set up, and it contained everything that an average Walmart discount store offered along with tire and oil change shop, optical centre, photo studio & lab, beauty salons, video rental stores, banks, cellular telephone stores, and fast food outlets.

Increasing Competition

The shift to online space for conducting businesses has led to the decline of physical retail. The rise of organic food supermarkets, such as Whole Foods and Wild Oats, posed a great threat towards Walmart's profits since Walmart considers itself to be one of the largest grocery chains in the United States. With the increasing competition, Walmart announced in May 2006 that it was increasing the amount of organic food available in its stores.

Competing Online

The world has, for the most part, moved away from physical retail to online stores. Amazon is the first thing that pops up when we talk about online retail for the masses in most parts of the worlds, suggesting Amazon to be a major competitor of Walmart. This led Walmart to shift its focus towards the online sectors and it launched its own e-commerce store Walmart.com in 2007.

Demand-influencing factors

- Reachable for everyone (online platform) – breaks down destination barriers
- 24/7 availability of market
- Positive online reviews of quality service
- Trustworthy, reliable low-cost shipping options in quick time

All e-commerce products are highly price elastic, leading to higher change in demand and supply due to their 'lowest possible costs'

Supply-influencing factors

- Inventory and its management
- Advancing technology to meet increasing living standards of consumers
- Lower production costs since it is online

Opportunity cost

Wal-Mart has an opportunity cost for "low price" that it offers. It results in the decision whether it must continue to offer low prices to consumers and maximize profits for investors, or to address the criticisms of low pay and poor benefits for employees, buying goods from overseas, and the undermining of local business?

Walmart continues to offer very low prices and this is possible due to its huge volume of sales that's possible due to its wide customer base and efficient selling operations, a supply chain management system that maximizes productivity, minimization of production costs and leveraging of its bargaining power to force suppliers to lower prices:

The latter two strategies have somewhat tarnished Walmart's image in the public eye, and have surely impacted some consumers' preferences, but the question is whether consumers' demand for a product that is backed by a conscientious process overrides their desire for good prices.

It could be said that consumers with more disposable income are more inclined to make purchasing choices that reflect social responsibility, because especially in a free enterprise economy, those with highest incomes have the maximum influence. For other consumers, though, being able to stretch a small pay check is the goal and in such instances, Walmart's low-pricing strategy wins. There are also other questions. Is the size of the consumer sector in Wal-Mart market with more disposable income and willingness to demand conscientious policies, shrinking?

Current position

As of 2019, there are more than 4,700 Walmart stores in the US, and over 90% of the US population lives within 10 miles of a Walmart storefront. Walmart even uses robots to scan shelf-inventory in over 350 stores and has its museum.

- Over 11,300 stores worldwide – of them, 4,750 are Walmart branded stores
- 599 Sam’s Club wholesale stores
- Over $120 billion in sales internationally
- Over 2 million employees

Walmart earns an average profit of around the US $1.8 Mn per hour and Walmart is much bigger than re-known retail chains including Home Depot, Kroger, and Target collectively in terms of revenue. All of this started from Walter’s hope and determination that even a grocery retail store would work out if they were clear with ’for whom to produce’.

AMAZON

Products and marketing do not independently determine a company’s success. It succeeds based on the values it is built on. Amazon could be one such concern of relevance.

Apple Inc. is often quoted as an example for start-ups, and now Amazon too follows those footprints. It started in garage of Jeff Bezos, who left his job as Vice President in D.E. Shaw & Co., start a small bookstore for revenue.

In 1994, Amazon started as an online bookseller and today it is not just a successful e-commerce website, but diversified its business to cloud computing, e-wallets, shoes, flour, news and what not.

The initial business started off with Jeff Bezos and his first few employees packing books and taking them to the post office themselves. Even after the company had built warehouses to store inventory, making it a business with real revenue and real assets, plenty of investors ignored and fended Amazon off as another dot-com fever dream, destined to be gobbled up or wiped out by Borders and Barnes & Noble.

Instead, Borders filed for bankruptcy protection in 2011 and has since closed hundreds of stores. Barnes & Noble has been left teetering. Meanwhile, Amazon has moved into almost every imaginable type of product, media, and service. It will account for nearly half of online retail sales in 2018, according to eMarketer, and is laying the groundwork for a physical retail business — being more capital-intensive and innovative, such as cashier-free checkout.

Amazon was amongst the first companies to foresee the Industrial Revolution 3.0 and later led the Industrial Revolution 4.0. Initially, it was limited to online bookselling. They focused more on service and not the plethora of stuff they could sell online. They expanded themselves to 45 states of the US in just 2 years and sales rose to as much as $20,000 per week. With the realization to expand retail, and for money, they went public in 1997.

In July 1995, the company began service as an online bookstore. In June 2017, the giant announced about its investment in Whole Foods Inc. in a deal of $13.7 billion dollars. The company took over Goodreads in 2013, shocking many writers declaring it as a "truly devastating act of vertical integration." Amazon acquired Zappos in 2008 for $800 million, which was an online shoe and clothing retailer based in Las Vegas, Nevada. Another major merger that deserves a mention for its sheer massiveness is its acquisition of a start-up named Ring, a smart doorbell maker.

From excess demand to equilibrium

Amazon strived to solve the problem of consumer waiting line with Amazon Go, a digital store opened on January 22, 2018, in Seattle, in with customers can buy with ease using their Amazon Go app.

Next, Amazon added to its retail a new invention called the Kindle, which enable users to browse, buy, download, and read e-books, newspapers, magazines and other digital media via wireless networking to the Kindle Store. It's environment and bibliophilic centric marketing strategy made Kindle a household name, with the first Kindle batch selling out in less than 6 hours.

Later, Amazon produced a small network appliance entertainment device will stream everything from Netflix to standard T.V. channels. This device equipped with Wi-Fi, voice search, and 4K UHD support is unparalleled when it comes to entertainment device

An innovation for innovative, Amazon Launchpad curates innovative, hard to find products in the market designed by start-ups, crowdfunding platforms and incubators. The distinguishing features of Amazon that helped for its outstanding performance includes -

Firstly, it is a consumer-centric company and has developed a range of helpful tools users can employ to track packages and quickly return or exchange ordered items. This brings simplicity and convenience to the overall online shopping experience. It pays attention to the minute details of the market demands and it is safe to say that this ideology has worked out well for Amazon.

Secondly, the global giant company is always open to constructive criticism. Bezos maintains the stance that Amazon being an all-pervasive large institute "should and will remain open to criticism."

And lastly, the company believes to sail through missteps and controversies on the way like a pro, with the eye on the prize.

Nevertheless, this company, that is built on consumer satisfaction aims for wanting to be known as the most customer-friendly company and wanting to position itself as most convenient company with lowest prices and best customer service.

Demand-Influencing Factors

The world's largest online retailer has grown from its humble bookselling beginnings to influence nearly every aspect of the consumer buying experience, from browsing to ordering to returning. The purchasing decisions factors are contributing to the development of new pricing strategies, influenced by customer expectations and demand. Retailers need to leverage technology to enhance their customers' decision journeys as well as their buying experience. Consumers love to shop online because it is easy, comfortable, and often comes with significant price savings. It has not always been this way, but over the last few years, Amazon has successfully changed the way people shop all over the world.

Supply-Influencing Factors

Supply is very much relevant regarding Amazon's third-party sellers. The challenge for third-party sellers today is how to make product rankings more competitive in an increasingly competitive environment.

According to the Amazon algorithm optimization, the most relevant and best-priced products will be displayed. The main search conditions, which are usually priced below the average, can result in a large increase in sales.

Therefore, in order to get good sales when selling products on Amazon, in addition to providing quality products and services, sellers also need to master a certain Amazon pricing strategy.

Supply and demand market have a significant impact on product prices. When the market is pursuing a new product, it is easy to cause a situation of short supply, and the price will increase. However, when the product is listed for a period and widely distributed by the merchants online and offline, the buyer's choice tends to be diversified, the seller's profit is diluted, and the price will decrease. At the same time, the development speed of new products in each industry is also extremely fast. When new products with similar functions appear, the attractiveness of old products to buyers will also decrease, and price cuts are inevitable.

Opportunity Cost

In few areas such as India, Amazon has faced losses. Its free shipping to customers can be one of the reasons that expose the risks of losing margins in some markets.

As its offerings increase, it is becoming a challenge for Amazon to vet each product and guarantee the highest level of safety. The U.S. Environmental Protection Agency (EPA) recently had to order Amazon to remove a wide range of pesticides and unsafe products on its platform.

Amazon owns extremely limited physical stores. This sometimes hinders to attract customers buy things which are not sellable on online stores.

Relying on distributors exposes Amazon to a wide range of issues. One of its main distributors (German Logistic Group – Deutsche Post DHL) can leverage its position to renegotiate terms.

What is the next step for a company whose owner can buy a mansion with his pocket change? It is to change the future. Technology Review published an article explaining why we can "see the future of Amazon from MARS." MARS standing for machine learning, home automation, robotics, and space exploration. Coincidentally, the name of their conference in 2018 and the blueprint for its future.

Indian Tycoon

Walmart and Amazon are titans of tech, but they do not know India like Reliance does.

Opportunity Cost

A dramatic fall in global oil prices and an unprecedented drop in oil demand due to the coronavirus pandemic has forced Reliance to cut its dividend for the first time in petro chemical businesses. However, revenue at its telecom business Jio grew in double-digits as more Indians signed up for cheap voice-calling and mobile internet. Jio's subscriber base at the end of March 2020 stood at 387.5 million.

RELIANCE: A THREAT?

Mukesh Ambani's e-commerce venture, taking on Amazon and Flipkart, is arguably the most eagerly awaited developments in the recent history of India's burgeoning online retail market that has already seen Aditya Birla Group, Godrej, and Tata burning their fingers in the past.

Reliance Industries had chosen the months of April and May 2015 to launch its e-commerce platform through its subsidiary, Reliance Retail. The company had chosen the same months to roll out its pan-India 4G data and mobile services through its telecom venture, Reliance Jio Info COMM.

Its grocery brand Reliance Fresh Direct provides online services to the customers. Before its full-fledged launch, the organization had tested it with its employees for more than half a year at the campus of Reliance Corporate Park in Navi Mumbai. After the successful pilot test, the consumers could give online orders for more than 6,000 products from varied corners of Mumbai. According to sources, the company is planning to follow the path of Wal-Mart. Reliance Retail will be rolling out its e-commerce platform in three divisions. These are electronics, fashion and lifestyle and groceries. The teams for grocery, electronics and technology will set up their base in Mumbai while the fashion and lifestyle division will locate itself in Bengaluru

The company has emerged as the most formidable competitor to India's existing commerce giants' leaders Amazon and Wal Mart owned Flipkart

Those companies, for whom India represents a potentially crucial market, suffered last year when the Indian government introduced rules restricting the ability of foreign-owned platforms to sell inventory from their own subsidiaries.

Unlike its competitors, Reliance plans to centre its ecommerce venture on connecting local shops to customers, who will use an app to place orders that the retailers themselves will then deliver. Reliance says the platform, known as Jio Mart, will provide free delivery on tens of thousands of products, with up to Rs3,000 ($42) off for new registrants.

Reliance says this model will allow it to use its technology platform to tap into India's vast network of small neighbourhood stores known as kiranas, while easing the burden on the company to build up a costly delivery network.

A Real threat for the future?

Both Amazon and Reliance Retail have also been locked in a battle to acquire retail market in India while Reliance announced that Jio Mart will function closely with WhatsApp to create new opportunities for the local kirana stores and the consumers. He noted that Reliance Jio has successfully piloted the beta version of Jio Mart Grocery in 200 cities, delivering close to 2.50 Lakh orders daily. Therefore, it now aims to spread it across to other categories as well.

With this, Jio Mart will be a direct competitor to ecommerce platforms like Amazon and Flipkart, who have marked their presence in all segments except pharmaceuticals.

Jio Mart has now enabled a multipurpose point of service (POS) to enable smooth transactions between stores and their customers.

Other supporting aspects for Reliance

First, it is the **policy** that is on Reliance's side. Unlike Amazon or Walmart, homegrown Reliance does not have constraints around restrictions on FDI (Foreign Direct Investment) in e-commerce, because as per the new government mandate on FDI, all investments from neighbouring countries, would require government approval.

Second, comes **capital**. When Reliance is compared based on cash and capital with Amazon and other giants, Reliance's relatively high number of businesses such as petroleum and textile gives it an advantage in terms of revenue to spend on further developments.

Third is the **market presence** in terms of Reliance Retail stores and brands it has. It currently has a whopping 10,415 stores in over 6,600 cities, with 500 million annual footfalls that can easily allow the company to launch swiftly across the country. Moreover, it has more than 40 brands in the midmarket and beyond such as Hamleys and Marks & Spencer, not to mention the additional foreign brands.

Reliance's Jio **ecosystem** is the fourth area of strength. Reliance is already the third largest telecom player with Jio having over 300 million subscribers. Adding a content sub-ecosystem that includes including music streaming app Savan, Balaji Telefilms, and Eros, along with payment vertical Jio Money, and Jio Payments Bank, gives Reliance the firepower to develop on for its online retail play.

"Reliance is going to capture Indian household by not just spending on digital content but also on grocery, fashion, and electronics towards which majority household spending goes," added Meena, senior forecast analyst at Forrester Research.

Fifth, Reliance has been launching businesses through **heavy discounts** offered. In 2016, with Jio launch, the data cost dropped to Rs 50 per GB from Rs 250 per GB. This kind of discounting can disrupt any market, and we expect something similar to happen in the grocery space during Reliance's launch, the report said. Reliance launched its food and grocery app for its employees in April 2019.

Not a Smooth Ride

Nonetheless, the area challenging for Reliance Retail would be customer experience to compete with Flipkart and Amazon. "This will be the differentiating factor. They know how to bring customers on the platform but whether they can retain with a superior experience is going to be seen. It is expected that Reliance will be a great success in e-commerce platform in the Indian Market as compared to the global giants in India. Just as Jio was much successful so is expected to be with JioMart - is the common belief amongst all of us for the economy to grow much faster than the rest of the world.

Conclusion

It seems like Reliance could very well be the FAANG [2] for India, and the fact that these major American technology companies like Facebook and Amazon and their private equity companies like Silver Lake and KKR have taken a stake in Reliance suggests it to be of value and power, may be not in terms of its traditional asset value. However, it is interesting to note that 10 years ago, even Amazon did not have any value in the traditional sense either and now it is not just a successful e-commerce platform, but diversified its business into what-not!

[2] ***FAANG*** *is an acronym referring to the stocks of the five most popular and best-performing American technology companies: Facebook, Amazon, Apple, Netflix and Alphabet (formerly known as Google)*

It is expected that Reliance will grow a lot more, and essentially in India, the internet will be growing in high double digits over the next five years and probably in 10 years or so. In other words, there's between 15% and 20% growth in the internet and its related businesses in India. Reliance is a good proxy because it has a distribution channel through its enormous customer base in telecom and retail. It is near certainty that it will continue going up, and have a major role in the economic growth of India.

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