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Passage No. 112

Direction: Study the following information carefully and answer the question given below.

Business news does not repeat itself but it sometimes rhymes. In 2007 Walmart, America's biggest grocer, crowed that it would crack the coveted Indian market by being the first global retailer to set up shop there, pipping envious rivals in the process. On May 9th it announced much the same thing: its time in India has come, this time by virtue of paying $16bn for a majority stake in Flipkart, India's largest ecommerce outfit, which had also been coveted by its vast online rival, Amazon. The sense of déjà vu owes to the fact that its original foray proved a disappointment. Walmart's hopes of somehow circumventing rules to protect local shopkeepers, which have long prevented most foreign retailers from opening stores, have been repeatedly dashed. A decade on it has a meagre 21 wholesale stores in India, generating just 0.1% of its $500bn in global revenues and a small loss to boot. Somehow that has not dissuaded the beast of Bentonville from undertaking the biggest foreign acquisition in Indian history.

The Indian e-commerce market is as different from America's brick-and-mortar retail landscape as Walmart's Arkansas home is from Bangalore. Walmart probably has too many stores in its mature home market. Flipkart operates online and in quasi-virgin commercial territory: 95% of Americans shop at Walmart at least once a year, but only 5-10% of Indians have ever bought anything online. The deal is a departure in other ways, too. Walmart has already swooped on companies it thinks will help it grow its ecommerce presence. In 2016 it paid out $3bn for Jet.com, a putative rival to Amazon in America; it has also bagged Bonobos, a purveyor of tailored trousers. But Flipkart, which was founded in 2007 by two former Amazon employees, is in a different league in terms of price tag.

Walmart will own around 77% of the company, which is valued at over $20bn in total. Even for Walmart, that is a lot of money: $20bn is roughly the cash it generates every year net of capital expenditure, say, or 8% of its market capitalisation. Connoisseurs of the Indian tech scene have raised eyebrows at the price tag, given that Flipkart raised money at a valuation of under $12bn just a year ago. SoftBank, a Japanese telecoms and internet giant which became its biggest shareholder after investing $2.5bn just nine months ago, stands to walk away with $4bn. Walmart's new acquisition will not produce quick returns. Analysts reckon Flipkart loses money on each shipment. Margins are unlikely to improve soon given Amazon's incursion into the market (having committed $5bn to India, it probably ranks a close second to Flipkart, which is thought to account for just under half of India's online sales). Paytm Mall, a newish rival backed by Alibaba of China, is also ambitious.

Questions:

1. How would Wamart's business in America be different from its Indian venture?

I. The business is America is mostly brick and mortar while it is online in nature in India.

II. Walmart owns about 88% of the market share in America but hardly any in the Indian market.

III. The market is vastly under penetrated in India.

A. Only II B. Only I and II C. Only II and III D. Only I and III
E. All of the above

2. Which of the following is/are true about Walmart's performance in India before it bought stake in Flipkart?

I. Its revenues from India form a very minuscule proportion of its total revenues.
II. It has been successful in establishing a small number of retail and wholesale stores.
III. Its brick and mortar business model was running in losses from the past 3 years in India.

A. Only I B. Only I and II C. Only II and III D. Only II
E. None of the above

3. What does the line- 'Business news does not repeat itself but it sometimes rhymes' refer to?

A. It refers to Walmart beating rivals in the e-commerce space.
B. It refers to Walmart entering India via e-commerce to avoid getting caught up in the huge number of regulations India has imposed on retailers.
C. It refers to Walmart's entry in India via a majority stake buyout in Flipkart in 2018 after being unsuccessful in 2007.
D. It refers to Walmart being the first global retailer to set up shop in India.
E. None of the above

4. Which of the following is/are true as per the passage?

I. Softbank is the largest shareholder of Flipkart.
II. India's e-commerce market as a whole is worth about \$15bn only.
III. Indian regulations dictate that e-commerce sites must sell stuff mainly from third-parties rather than from their own inventory.

A. Only II B. Only I C. Only I and III D. Only II and III
E. All of the above

5. **As per your understanding of the passage, which of the following shows that the decision by Walmart to enter Indian e-commerce may not be as lucrative as it appears to be?**

I. Analysts reckon Flipkart loses money on each shipment and at one point it was thought to guzzle $2m a day subsidising shipping and using discounts to lure buyers.

II. Venture capitalists in India complain about the lack of exits from dozens of investments in the Indian e-commerce industry.

III. The entire sector was flat in 2016 and grew at perhaps only 10% last year.

A. Only II B. Only I and II C. Only I and III D. Only II and III
E. All of the above

Correct Answers:

1	2	3	4	5
D	A	C	B	E

Explanations:

1. Refer to: 'The Indian e-commerce market is as different from America's brick-and-mortar retail landscape as Walmart's Arkansas home is from Bangalore. Walmart probably has too many stores in its mature home market. Flipkart operates online and in quasi-virgin commercial territory: 95% of Americans shop at Walmart at least once a year, but only 5-10% of Indians have ever bought anything online.'

As per the highlighted fragments, I and III are correct while II has not been specified anywhere.

Hence, option D is correct.

2. Refer to: 'A decade on it has a meagre 21 wholesale stores in India, generating just 0.1% of its $500bn in global revenues and a small loss to boot. Somehow that has not dissuaded the beast of Bentonville from undertaking the biggest foreign acquisition in Indian history.'

Statement III is incorrect as this has not been mentioned in the passage.

Statement II is incorrect as only wholesale stores are functional in India.

Statement I is correct.

Hence, option A is correct.

3. This line refers to the fact that Walmart had plans to enter the Indian retail space n 2007 which did not see light of the day. However, it has fulfilled its ambition of foraying into India's *e-commerce space* via a majority stake buyout of Flipkart in 2018.

Options A and D are incorrect as per the meaning of the statement.

Option B is absurd and nowhere mentioned in the passage.

Option C is the correct option.

Hence, option C is correct.

4. Refer to:

'<u>SoftBank, a Japanese telecoms and internet giant which became its biggest shareholder</u> after investing $2.5bn just nine months ago, stands to walk away with $4bn.'

I is correct.

Both II and III have not been mentioned and are incorrect.

Hence, option B is correct.

5. All of the statements showcase the negative side of the e-commerce sector and are correct.

Hence, option E is correct.