90% of our products are sourced locally: President, Wal-Mart India

by Manajit Pal on June 18th 2010 and filled under Retail and Merchandising (General)

18 Jun 2010, 0239 hrs IST,Nidhi Nath Srinivas,ET Bureau FDI in Indian retail may be a while away, but the $405-billion Wal-Mart Inc is not letting grass grow under its feet. As its annual shareholders meet in Bentonville, the spotlight was on Wal-Mart’s two Indian cash-and-carry stores that were an instant hit and are now the blueprint for similar stores in Brazil and Mexico. With board approval for an accelerated rollout this year, Wal-Mart India president Raj Jain tells ET in an interview that a perfect business opportunity is in place for cost-efficient local suppliers. Excerpts:

Most large Indian retailers are discounters. What makes Wal-Mart different?

Raj Jain :There is a difference between lower and lowest prices. We are the lowest. We have an elaborate system of price benchmarking. And for a similar basket of goods, we are always 2-5% cheaper at Bharti and Wal-Mart. That’s our claim.

If the government opens 100% FDI in retail, what would you do differently?

Raj Jain: We would invest in the front-end and show our commitment to retail. We would enter into more alliances and joint ventures. It would also be easier to sell bigger plans to the board of Wal-Mart International.

Are the top brands willing to offer significant discounts?

Raj Jain: Lack of scale hampers our ability to bargain hard. But the serious large players and suppliers know we mean business. Moreover, we give 50-70% more sales per square foot compared to competition. That’s an incentive.

But you are not able to call the shots.

Raj Jain: The larger brands are sharing trade margins with us. But India is in the early stages of retailing. Power of pricing is still with manufacturers. It will take two decades before power of pricing shifts. The change will happen very fast in apparel where there are no entrenched brands.

How much do rentals eat up your margins?

Raj Jain: Rentals continue to be very high at 3-7% of sales. That is a concern because the global norm is maximum 3%. The problem will become worse in the next 12 months. Our strategy is to get more real estate into play. We are explaining to builders our ability to become an anchor tenant. For cash-and-carry, we are going outside town. If there are good promoters, banks are willing to lend. It is a capital-intensive business in initial years. Companies such as Vishal and Subhiksha expanded too fast and fell into a cash trap. But if you expand very slowly, then you get no scale.

What about supplier credit?

Raj Jain: It continues to be a market problem. Farmers don’t give credit. Large manufacturers don’t want to give us credit. But they want us to hold their inventory. So we say give us just-in-time delivery if you don’t give credit. That’s where they are struggling. We have two-week payment terms with suppliers for private labels because they can’t afford more than that. We can borrow money more cheaply than them. We have about 800 suppliers and will add another 150 each year.

Will lack of scale delay break-even?

Raj Jain: If in the next five years there is no FDI in retail, then it certainly will. In short term, no.

You have backward linkages for fruits and vegetables in Punjab. Are you extending that to other states?

Raj Jain: We will extend it to UP, Andhra Pradesh and Haryana. We will extend it to grains from next season. Punjab has already given us permission to procure grains directly.

Have your local suppliers started exporting to Wal-Mart International too?

Raj Jain: Rice and towels are two categories where we share a supplier with Wal-Mart International. There is a lot of reverse synergy here. Honey, grapes, bananas, Indian ethnic food are other categories where local suppliers can be utilized.

Reducing costs has been a big factor in Wal-Mart’s success globally. Has that worked for you in India as well?

Raj Jain: Ninety per cent of our products are sourced locally. Our model is not to buy cheap by negotiation. Instead we reduce waste and total cost in the supply chain. India is a very frugal market. So waste is already low. We find suppliers are willing to listen to suggestions for change if it makes economic reason. No one is interested in feel-good.

So what should your suppliers start doing differently?

Raj Jain: The challenges are quite different. Our large MNC suppliers have the financial, managerial and technological bandwidth and know what has to be done. They only need the will to do it. Large Indian suppliers have everything except technology, where we can help.