

FDI in Multi Brand Retail Trading – Why Not?

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Abstract: *The recent widespread opposition to foreign direct investment (FDI) in multi-brand retail trading (MBRT) has hogged the news headlines and is still being hotly debated. The opposition to FDI in MBRT is based on apprehensions as to the possible impacts on the primary stakeholders such as small farmers or suppliers, small retail traders and consumers - all politically important vote banks, who have their own vested interests in the status quo. The putting on hold of FDI in MBRT is compelled by several political allies and opposition parties, who fear the possibility of monopoly by foreign entrants over both farmers and consumers. The primary fears being- following of predatory pricing strategies by the new entrants, manipulation of prices for self benefit, fall in income levels, reduction in employment opportunities and the gradual destruction of the highly un-organised indigenous retail segment.*

Another school of thought on this subject opines that one of the bigger fears (in India) is not that FDI in MBRT per se will hurt farmers or traditional retailers, but is the fact that the government and its implementing agencies may not be able to control and monitor the market operations of the global giant retailers.

However, in this debate the interests of the consumer, i.e. the so called AAM-AADMI is completely forgotten. Our politicians and policy makers need to set aside their selfish interests and frame policies in the general interest of the country and allow smooth introduction of FDI in MRBT, this in turn will greatly enhance the health of the Indian economy and will improve the livelihood of the AAM-AADMI.

Key words: *FDI, monopoly, stakeholders, consumers, challenges*

I. Introduction

"Don't find fault, find a remedy; anybody can complain", said Henry Ford, the technological genius of Ford Motors, this adage is ever so relevant in the Indian retail sector scenario today, primarily due to the recent widespread opposition to foreign direct investment (FDI) in multi-brand retail trading (MBRT). This opposition is based on apprehensions as to the possible impacts on the primary stakeholders such as small farmers or suppliers, small retail traders and consumers - all politically important vote banks, who have their own vested interests in the status quo. This was evident from the proposal to raise FDI cap in the retail sector passed in the Parliament in the winter session of 2011 that became the bone of contention. The Government of India notified 100% FDI in single-brand retail trading (SBRT) on 10 January 2012, by raising the cap from 51% permitted in 2006 and putting on hold FDI in MBRT compelled by several political entities who fear the possibility of monopoly by foreign entrants over both farmers and consumers. The primary fears being following of predatory pricing strategies by the new entrants, manipulation of prices for self benefit and a fall in income levels, reduction in employment opportunities and the gradual destruction of the highly un-organised indigenous retail segment.

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It is against this background that specific objectives of this study have been framed as follows:

1. To identify the factors fuelling the growth of retail trading in India.
2. To list the opportunities and threats thrown up by MBRT for the various stake holders.

3. To study the public opinion on FDI in multi brand retail trading.

Methodology and Data Collection

Primary data was collected through by administering a structured questionnaire a survey was conducted the questionnaire to 250 respondents across major cities from North and South Goa which included 80 farmers, 80 consumers and 90 traders.

Secondary data was collected from sources such as the internet, text books, journals, magazines and CII publications(Confederation of Indian industries) and various government agencies/ reports. A simple percentage method has been used for analysis purpose.

II. An Overview Of The Indian Retail Sector

Today,India represents a very attractive economic opportunity both as a global manufacturing base and as a burgeoning domestic market. India's GDP is expected to grow at between 8 to10 percent annually over the next five years, besides the huge consuming class (with annual household income ofRs. 90,000 and above is expected to grow further from approximately 370 million in 2006-07 to around 620 million in 2011-12. India's fast growing middle class with ever increasing discretionary income and its relatively virgin retail sector are key attractions for global retail giants looking to expand their operations in new markets.

The size of Indian retail industry is estimated to be in the region of US \$350 billion, however, it is highly unorganized. The organized sector started developing only a few years back with the entry of several International brands and this growth in organized retailing has led to unorganized retailers needing to make quick changes in the business models followed by them.

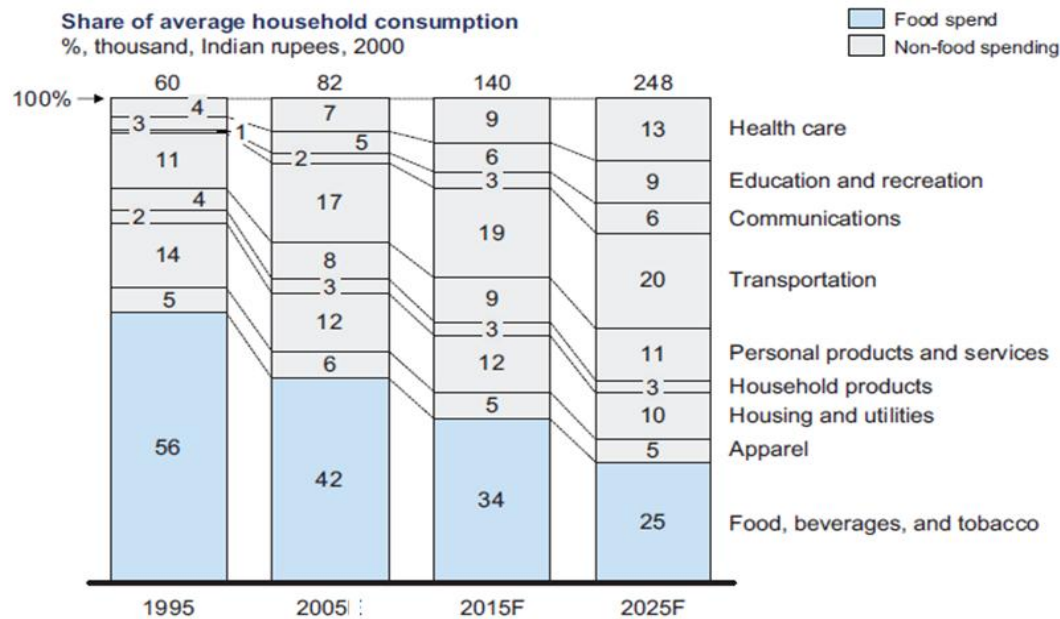
A study conducted by ICRIER predicts a healthy 13 percent annual growth rate for the retail business in India, it details the growth to be from USD 322 billion in 2006-07 to USD 1 trillion by 2016-17.

III. Factors Driving Retail Sector Growth

The Indian economy is growing at a steady rate of around 8 percent, thus indicating good economic prosperity and growth for the future. This consistent economic growth has resulted in a strong rise in income level of the fast growing middle class, that has a huge ever growing consumption potential. The factors fuelling this growth can be listed as follows:

- 1. Rising Disposable Incomes:** Therising quantum of disposable incomes available with the middle class and lower middle class households arising from increased employment opportunities in various sectors of the economy is a primary cause of retail growth in India.
- 2. Ever Increasing Number of Dual Income Nuclear Families:** Higher pay-packets and breaking up of the joint family into nuclear families, along with an increasing number of working women has led to dual income families that possess larger consumption capabilities, have contributed considerably to the prosperity of the retail sector.
- 3. New Lifestyles and Consumption Patterns:** Increased incomes of the working population, has led to increased demand for products that promote a comfortable life, travel and leisure. These key factors have driven the growth of the retail sector in India.

SHARE OF WALLET IN INDIA IS SHIFTING FROM FOOD TO MORE DISCRETIONARY SPENDING

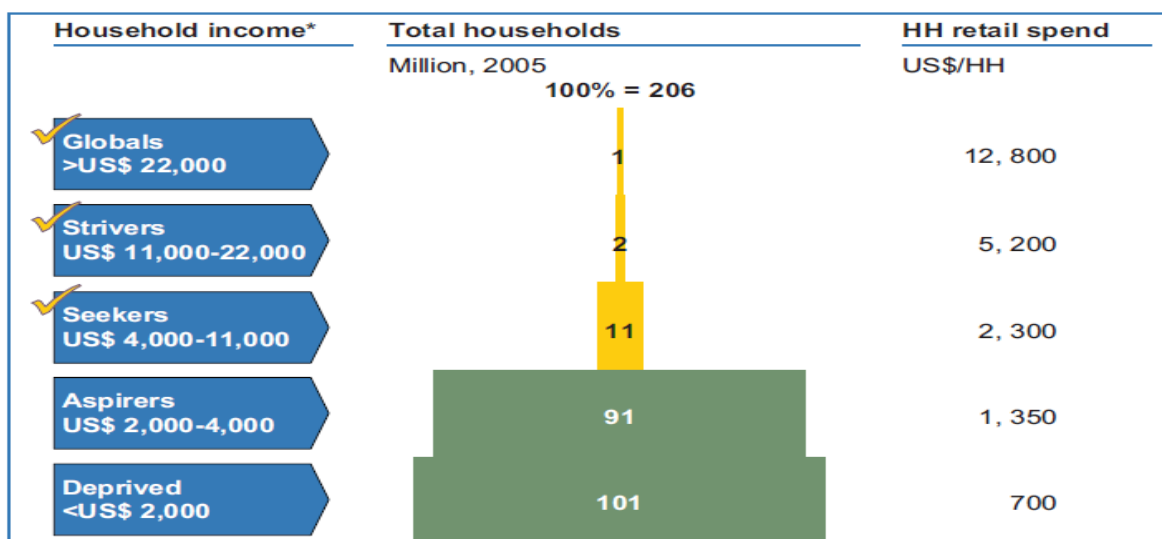
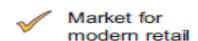


Note: Figures are rounded to the nearest integer and may not add up to 100%.
 Source: McKinsey Global Institute

4. **Introduction of New Retailing Formats:** Fierce competition in the marketplace has led to retailers trying out new and innovative retailing formats to outdo the competition.

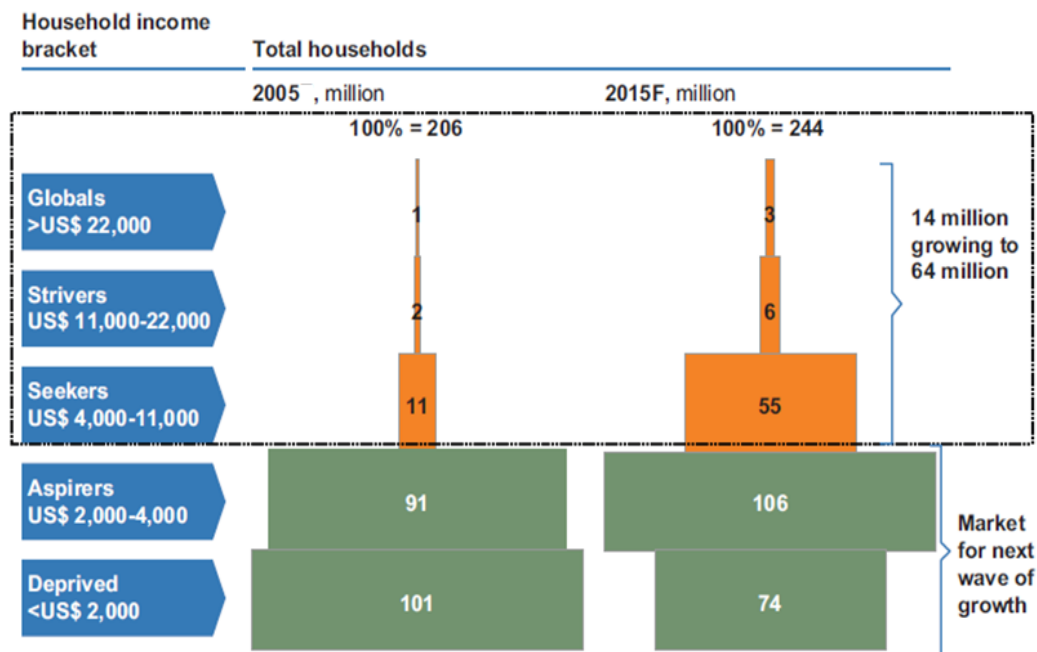
5. **Store Design:** The numbers of shopping plazas and super markets are increasing at a very fast pace. Better infrastructure facilities, higher availability of retail space and enhanced store designs are major factors contributing to the rapid growth of the retail sector.

INDIA HAS FIVE MAIN CONSUMER SEGMENTS



THREE SEGMENTS HAVE THE HIGHEST POTENTIAL FOR ORGANISED RETAIL

Potential target consumer segments



Source: McKinsey & Co

IV. Opportunities in FDI MBRT

The whole retail trading sector is poised for very impressive growth over the next decade, mainly due to steady growth in high income consumption, measured by per capita GDP.

1. Market analysts and researchers have predicted retail sector growth of between 18-40 percent.
2. The progressive removal or reduction in tariff and non-tariff barriers due to continued liberalization of the economy will enable the organised retailers to import premium products and international brands. Also, global sourcing will give the consumer more options and further enhance the attractiveness of organised retailing.
3. Large number of Indian residents seeking international food brands and products is fast increasing due to media exposure, large NRI population and familiarity with foreign brands due to travel abroad.
4. Changing consumer attitude towards saving, debt and deferred payment (consumer credit), thus favouring organised retailers as they can develop innovative schemes for purchase on debt.
5. The might of the Indian consumer has been recognised globally over the last decade and this has attracted strong MNC interest and product flows into India.
6. The liberal attitude of the government towards reviewing its policies to attract FDI investment in multi-brand retail and reforming agricultural marketing systems is a major leap in the right direction i.e. in favour of attracting large capital investment in the sector, this will also bring in invaluable experiences where similar investment models have been successful.
7. Several new schemes that had been initiated like Terminal markets to create and develop backend rural infrastructure, will benefit the farmers and make them more competitive.
8. Rural organised retailing which is a hitherto unexplored area offers a great opportunity for the retail sector.
9. The existing supply chain involves a considerable portion of the produce being lost due to poor handling practices and storage. This problem is more severe in case of perishable commodities like fruits and vegetables, wherein, direct procurement can reduce such losses and prices of commodities. Plugging such wastages by investment in supply chain development presents a huge opportunity. Use of improved technology in the area of processing, handling, grading, electronic weighing, billing, barcode and packaging of goods could be a direct benefit of FDI in retail, in India.

V. Threats of FDI in MBRT

1. Regulatory threats- Many growth levers like clarity on FDI in organised retail, statewide implementation of agricultural reforms, facilities for direct procurement etc. lay outside the industry and in a democracy like India, decision-making on such important issues is often very tricky and long-drawn.
2. Policy threats- The Government has been unable to a large extent to tackle spiraling food inflation over the last few years or so. Economists point towards the widening difference between wholesale and retail prices, it is generally perceived that organised retail might worsen this problem and slow down growth.
3. Stiff competition from FMCG manufacturers backed unorganized retailers could reduce the attractiveness of organised retail, this effect is expected to be more prominent in case of the more competitive food retailing segment.
4. The organised retailers reveal the presence of several shortcomings in the existing supply chain, especially in the handling of perishable commodities, due to multiple handling and the lack of rural infrastructure facilities.
5. Inability to achieve economies of scale due to decreasing turnover as a result of mushrooming unorganised outlets poses a threat not only to the organised sector but also to the unorganised food retail sector. The intense competition in this sector could impact turnover and profits, in the long run.
6. The absence of a uniform tax system for retailers hinders the establishment of an efficient all- India supply system. The implementation goods and services tax regime is expected to stream line the tax structure, however, its implementation is beset with numerous difficulties.
7. The opponents of the FDI in retail propagate that liberalization would undermine the existing large unorganized retail sector and would almost eliminate the small retailers, poor farmers and consumers and promote monopolies of big corporate houses which will adversely affect the pricing mechanisms and availability of goods.
8. The Indian retail sector is a major employment provider and allowing FDI in this sector will displace the unorganized retailers, thus leading to loss of jobs and livelihood.
9. The global retailers can collude to form cartels and exercise their monopolistic powers to raise prices charged to consumers and reduce the prices payable to suppliers. This situation would put both the consumers and the suppliers at a disadvantage, while the profit margins of the big retail chains would soar.

Table 1: Opinion on allowing FDI in Multibrand Retail

Category of People	In favor	Not in favor	% of respondents in favor of FDI
Farmers	60	20	75
Consumers	74	06	92
Traders	09	81	10

Source: Primary data

It can be seen from the above table that 92% of the consumers are in favor of FDI in Multi brand retail trading, followed by 75% of the farmers. However, only 10% of the traders are in favor. About 90 percent of consumers opine that the entry of big retailers like Wal-Mart, Tesco and Carrefour would bring in a wide range of branded goods which would also help in bringing down the prices. Further, the survey showed that over 75 percent of farmers felt that opening up of the sector would help in getting them the right price since they would be directly dealing with retail stores, thus, cutting the role of middlemen. Investments which would flow in agricultural back-end and supply chain would ensure food security through curbing wastages and ultimately benefit end-users. However, over 82 percent of the kirana stores owners were of the view that the big stores cannot offer the conveniences that they provide. The mom-and-pop stores offer free home delivery and monthly credit to regular customers.

The real story behind FDI myths:

Myth	Reality
Kiranas and retailers will lose out	Retailers will benefit from the existing policy of sourcing their requirements from wholesale cash and carry stores at a discount. In countries such as China, Thailand, Indonesia, Brazil, Singapore, Argentina and Chile where there are no caps on FDI and where there are no conditions, small retail stores have flourished, leading to more employment
The retail sector will be controlled by foreign stores	The FDI-backed stores can operate only in those cities and every state has the freedom to allow or disallow FDI-backed retail investment
FDI in MBRT will result in job losses	Contrary to the mistaken belief, FDI in MBRT will generate new

	employment opportunities
Farmers will be exploited and will lose their fields and crops to foreign investors	On the contrary farmers will receive better remuneration for their produce and will benefit from additional opportunities resulting in overall improvement in their quality of life

-Ministry of Commerce and Industry, Govt. of India

VI. Conclusions

Allowing FDI in MBRT is a highly debatable issue which needs to be resolved quickly by taking into consideration the opinions, apprehensions and interests of all the stakeholders. The decision to allow entry to foreign players in MBR has clear implications for the entire Indian retail sector. Allowing FDI in MBRT, will have clear benefits in terms of improved quality standards and enhanced cost-competitiveness of all segments of Indian producers and marketers, besides it will also help integration of the modern Indian retail market with the global retail market. It also promises a more respectful status and better pay packages for retail staff, which the present unorganized sector has failed to provide.

On a cautionary note, FDI in multi-brand retail trading needs to be dealt with cautiously as it directly impacts a large chunk of the population. Unchecked Foreign capital inflows have the potential to further widen the gap between the haves and the have nots. Hence, the entry of FDI into multi-brand retail trading needs to be carefully anchored, so that it results in a win-win situation for all the stake holders.

The existing legal and regulatory framework need to be backed up by strong enforcement mechanisms to ensure that big MNC retailers do not indulge in unfair means to dislocate small retailers and both the organized and unorganized retail sectors co-exist harmoniously.

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