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Prospects of Multi Brand FDI in India's Retail Sector: An Analysis

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The Indian retail sector is a robust pillar of the economy, which employs 6% of the Nation's workforce and contributes 13% to the GDP. This sector comprised of unorganized players in the form of kirana stores, paan shops, single owner general stores, handcart and pavement vendors etc. On the other hand, organized retailing includes retail chains, hypermarkets and outlets which are privately owned or corporate backed by various groups. According to IBEF while unorganized retail has been pegged at a rate of 6% annually, organized retail has been booming at a tremendous growth of 35%. Global Retail Development Index confirmed India as the most attractive for retail investment for a third consecutive year. Changing mentality of Indian consumers and the pace with which India is running for being developed also puts fuel to it. While the country's FDI regime has witnessed substantial liberalization over the last decade, entry in multi-brand retail segment needs to be more liberalized.

This paper is divided in three parts. The first part speaks about the status of organized retailing in India. The second part overviews the challenges and key success factors of retail sector from customers and International point of view. The third part examines the myths, realities, and prospects of FDI in multi-brand retail in India and builds a case as to why this sector needs to be opened.

Keywords: Foreign Direct Investment, Multi-brand Retail.

Introduction

The forces of Liberalization, Privatization, and Globalization have made a remarkable surge in the volume of business in the last couple of decades. The wide expansion of global markets has greatly influenced the movement of funds. To deal with new global economic realities innovative financial instruments have been evolved. Remarkable advance in the field of IT has also brought dramatic changes in the way business is transacted all over the world. When the international business environment is undergoing swift transformation and new linkages are enforced through multilateral trade negotiations, there is a dire need for restructuring the sectors of economy to meet new challenges in the changing global business perspective.

India, over the latter half of the previous decade, has been one of the most sought after destination for the investors across the globe. Retail industry is basically that sector of the economy which is engaged in selling finished products to end consumers. India's retail industry is divided into two parts:

Unorganized Sector: This sector is in the form of locally owned Mom & Pop stores or 'Kirana Stores', convenience stores, single owner general stores, paan shops, itinerant hawkers and those selling wares in public spaces like on pavements or in markets (hats and bazaars).

Organized Sector: This sector involves trading activities undertaken by licensed retailers in the form of retail chains and outlets, hypermarkets and malls etc. owned by retail giants like Future Group, Tata, Birla,

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Reliance etc.

Major Developments

If we go through the major changes that have taken place in retail, it started as trickle in 1990's, but it has grown into a flood since then. The major changes in the last 30 years are as follows:

- 1986 - The Foot Soldiers: Fast Moving Consumer Goods (FMCG) companies like Brooke Bond, Hindustan Liver etc. had started to build robust retail distribution chains in India.
- 1990's- Sachet Revolution: Retail in India has never been so easy, but selling in rural India was near to impossible. Everything like size, packaging, distribution, cost (affordability) had to be different. FMCG companies rapidly ramped up in mid 1990's with their rural plan in the form of sachet-20 ml./ 10 ml. plastic pouches.
- 1999 and after wards, The Big Push: Things were quiet for about a decade, and then the action began to unfold. This decade saw a distinct acceleration in retail. All the big players whether the Tata, ITC, Piramal Enterprises, S Kumar's wanted a slice in the retail pie.
- The Mall Bug: From 2000 to 2004, near about 600 malls sprung up. The retail format too underwent big changes like Cafe Coffee Day, which brought specialty coffee blends to the mass market. Competition began in full earnest. Shopper's Stop and West Side opened departmental store chains in India.
- Finally, RPG group had gained the first mover advantage and a pre emptive strategy against global players by opening up India's first hypermarket 'Giant' in Hyderabad.
- More of the same: Urban organized retail was getting crowded. To be different, a few specialty malls cropped up focusing on one segment like jewellery, furniture luxury brand or even wedding.
- Green Evolution: Established retailers like Tata, Reliance, Birla, Future Group, after a series of experiments with various retail formats, jumped into retailing of fresh vegetables, fruits, groceries and beverages. These contribute two third of the organized retail market at that time. This was called green evolution in retail sector.

Major Retailers of Indian Organized Retail

Aditya Birla Group - This group's foray into retail began in 2006. It has invested around INR 10000 crore in its retail formats i. e. supermarkets, hypermarkets, concept stores, and family stores. The group is investing INR 400 crore for its proposed 80 Peter England people stores.

Bata - The retailer presently has 1200 exclusive outlets in India and is adding 70 each in a year.

Bharti Wal-Mart - This joint venture was framed in 2007. Wal-Mart will do the cash & carry the 'Best Price Modern Wholesale' brand, while Bharti will do the front-end. Their plan includes US$ 7 billion investment in creating retail network in the country including 100 hypermarkets and several hundred small stores.

Future Group - This group has opened 40 Pantaloons outlets, 7 Central Life Style retail malls, 90 Big Bazaar hypermarkets, 6 Discount Stores and 135 Food Bazaars and many others like, home solutions (hometown, furniture bazaar, collection-i), consumer electronics (e-zone), shoes (shoe factory), Books: music & gifts (Depot), health & beauty care services (star, sitara and health village in the pipeline), e-tailing (futurbazaar.com), entertainment (Bowling co.) 450 stores across the country employing more than 18,000 people.

Reliance - This group has 572 Reliance Fresh Stores across 59 cities. Besides this, RRL has various store formats like specialty stores, convenience stores, super and hypermarkets for various product categories like apparel and accessories, shoes, wellness products etc. It has joint venture with Marks and Spencer (clothing and home ware segment) with Pearl Europe (optical stores) and with Office Depot (office products).

Raheja Group - They forayed into retail with Shopper's Stop, India's first departmental store in 2001. After redesigning its logo and slogan, these stores are expected to increase from 24 to 53. Besides these, the group operates 10 'Hyper city' hypermarkets and several specialty format stores such as 5 Home Stop, 76 Crossword Book Store, Mother Care, Estee Lauder and MAC in 19 cities, plans to expand presence to 25 cities in the next three year.

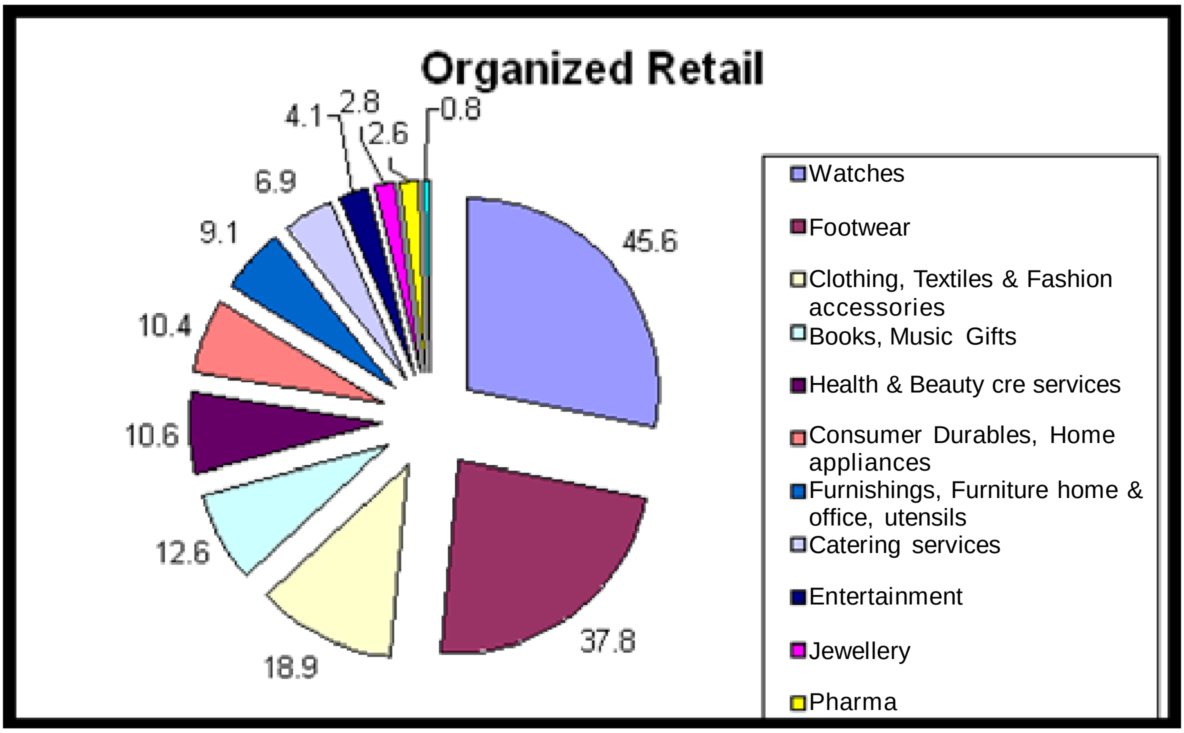
Tata - This group has around 700 outlets in various formats and categories this includes 100 Croma Stores, 70 West Side Stores, 25 Star India Bazaars, 10 Land Mark Book Stores,130 exclusive stores of Tanishq and 333 Titan Showrooms.

RPG Group - One of the first entrants into organized food & grocery retail with Food World Stores now has Spencer's Hyper, Super, Daily and Express formats and Music World stores across the country.

Landmark Group - were launched in 1998 in India. Their retail mix includes home solutions (home centre), fashion (lifestyle, landmark International), value retailing (max retail), hypermarkets & supermarkets (max), kid's entertainment (fun city).

Subhiksha- Subhiksha is a Chennai-based, decade old, no frills, food, grocery, pharma and telecom, discount retail chain and has more than 500 stores across the country.

Product -wise Penetration



Source: India Retail Report

Overall Retail Scenario

a) One of the most fragmented market in the world.

b) Over 12 million outlets but 95% of them are smaller than 500 sq. ft.

c) Highest number of outlets per person (7 per thousand) but lowest retail space per capita globally at 2 sq. ft. /person.

d) Employs 6% of the nation's workforce.

e) Global Retail Development Index (GRDI) confirmed India as the most attractive market for retail investment for the third consecutive year. . As per the AT Kearney ranking, India is at number four in the list of thirty emerging countries for retail development.

f) Valued at about $590 billion, contributes around 13% to GDP, also expected to grow by 10.2% in 2011-12 (IBEF).

g) Though unorganized retail has been pegged @6% annually, organized retail has been booming at stupendous growth rate of 35%.

h) Organized retail is expected to reach 16-18% of the total market within the next five years.

There are several factors, which have worked in favour of organized retail in India. Some of them are as follows:

- Changing demography - 54% of the Indian 1.2 billion population is below the age of 25 years. This section will be open to experimenting with new ideas and trends.
- Rapid proliferation of English speaking people - India is the third largest English speaking country in the world. This gives us a big leg up.
- Opportunity galore - Out of fortune 500 companies around 220 outsources their software related work to India.
- Tremendous increase in the spending power - High and middle income population has grown @10%in the last decade.
- Rapid urbanization, increasing mobility.
- Nuclear families in urban areas, along with increasing working-women population.
- Emerging opportunities in the services sector.
- Easier consumer credit.
- The power of democracy gives political, economical and legal freedom.
- Emergence of mall culture, have been some of the facilitators of organized retail in the country.

Challenges in Organized Retail

Although the estimates seem encouraging, this sector is facing several challenges. A few of them are as follows-

- **Meteoric Rise in Real Estate Prices:** This is one of the formidable challenges facing by the organized retail sector in India as in metropolitan areas they have to pay 25-30% of their revenues in rentals. Rising real estate prices have halted the expansion plans of retailers (Adidas) or have compelled them to change their strategies (Trent).

- **Window Shopping:** Malls are coming out in large numbers and undoubtly attract footfalls but a majority of shoppers do window shopping over there and do not actually purchase items.

- **Supply Chain Inefficiencies:** Though the magnitude of problem varies from market to market yet, this is the major challenge faced by both food and non food retailers. Factors like poor logistic infrastructure, unavailability of proper cold chain network (40-50% of fruits and vegetables and a large quantity of grains gets wasted every year), absence of distribution hubs also affect the retailers performance. Due to Indian farmers' low risk and low investment capabilities, large number of intermediaries sprung up, which leads to cost addition and a little amount of value addition. Thus, customers end up paying a greater amount for a product then he actually should. If we go through the supply chain of perishable products, product cost goes up around 67%, farmers get one third of what consumer pays.

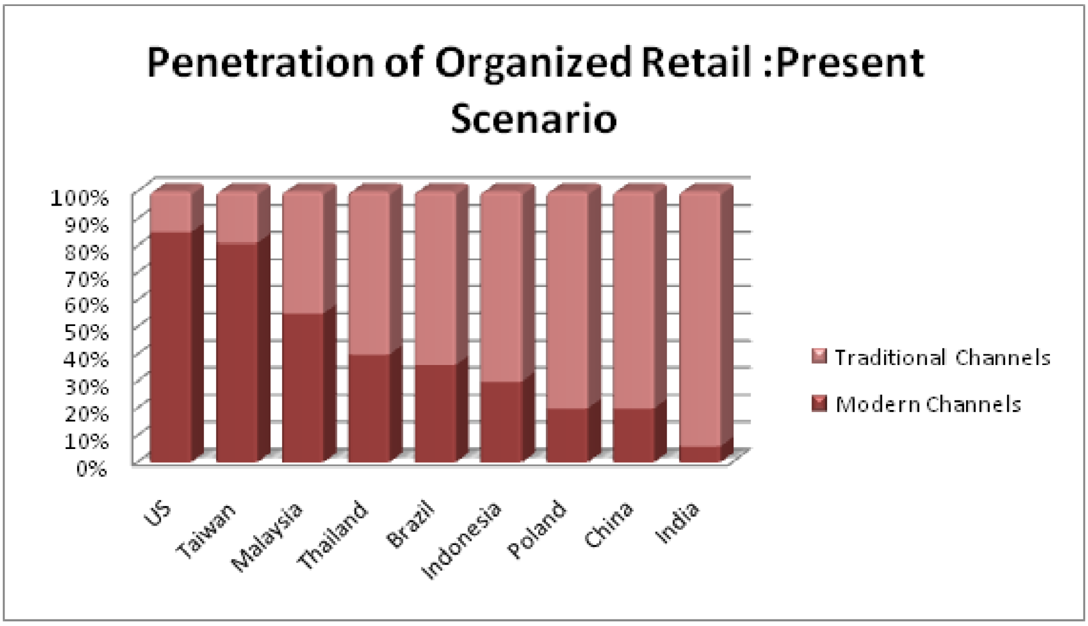
- **Merchandising Challenges:** Inefficient flow, out of stock or empty shelves conditions, poor packaging etc. also impact the operational performance of retailers.

- **Behaviour of Indian Consumer:** Some unique qualities of Indian consumers like -
  - They prefer noisier and messier shopping ambiences.
  - They want to touch and feel the product rather than buying the packed form.
  - For the average Indian consumer 'dusty and dirty' means fresh from farm.
  - They seek up gradation in certain product categories like housing, mobile phones, durables, education, automobiles etc. while in others like apparel, grocery and eating out they seek value. To come up with the right mix, maintaining healthy margin is a quite big challenge.

- **Lack of Quality Men Power:** There is a lack of trend men power moreover. The odd working schedules and working hours on the shop floor are some of the reasons that cause many employs to leave the retail sector. Arabind Das, Head of Sourcing at Birla group's Retail Venture opined "In my views the biggest challenge facing is the sourcing function. While we have a lot many purchase managers, we have a very few sourcing strategists".

- **Current Regulatory Framework:** At present, the regulatory regime is quite exhaustive. Depending on the nature of activity, as many as 40 licenses and permissions required to be obtained by the home grown retailers from diverse authorities. If a retailer decides to launch a store in more than one state then, the number of permission taken from Govt. multiply accordingly.

Due to these reasons, the total market share of organized retail in India is quite low in comparison to not just the Western countries like US, Brazil but also several Asian countries like China, Thailand etc.



Here the question arises whether the opening up of market for multi-brand FDI in organized retail will be fruitful or not?

FDI in Multi-brand Retail

At present, India's FDI policy in retail provides the following Guidelines (as issued by the Department of Industrial Policy and Promotion):

- FDI up to 100% is allowed under the automatic route for 'Cash and Carry' wholesale trading and export trading.
- FDI in Single brand is increased up to 100% in 2011-12.
- FDI up to 51 percent is now permitted in multi brand retail trading (RBI Notification dated 21/09/12).

There are multitudes of reasons being floated around to prevent the liberalization of the FDI norms for multi brand retail. Opponents feel that liberalization in this segment would-

a. Jeopardize the Unorganized Sector: As the global retail giants such as Wal-Mart, Tesco, Carrefour would come with having deep pockets in addition to superior infrastructure and advanced capabilities of scale, it is argued that it would force the traditional retailers to down there shutters, leading to loss of livelihood. The number of jobs created won't match the employment need.

b. Farmers would be the Sufferers: It is argued that opening up of market would hardly benefit the farmers. Whether they will dictate how farming is to be carried out or the land, only source of earning for farmers will be occupied.

c. Predatory Pricing and Economic Neocolonialism: Entry in multi brand will give rise to monopolies, which can adversely affect the pricing and availability of goods. Once competition have been eased out of the market as they will have substantial financial resources, they can exploit their position of virtual monopoly by Predatory Pricing. Consumers will have no other choice except buying at those rates. In this way we have to face the Economic Neocolonialism.

But, if we compare the benefits that would be generated by opening up the multi brand segment with the above mentioned doubts, the benefits as explained below will outweigh the myth or doubts.

Beneficial for Farmers and Consumers: Though India is the second largest producer of the agricultural products, a significant chunk (as mentioned already) of it gets wasted at the post harvest stage, due to poor/ non availability of substantial backend infrastructure. With opening up the multi brand market, extensive backward integration by global retailers with their operational and technical expertise will yield multiple benefits for farmers. They would be encouraged to use new techniques and fertilizers, which will help them to produce crop of good quality. Due to the cut down of numerous intermediaries (Farms to Fork situation), the farmers would be able to enjoy a bigger share of the pie.

Elimination of intermediaries, control on post harvest wastage, enhanced operational efficiency, though competition in the market would ultimately be beneficial for consumer also. We have nearly a billion of those five billion poor consumers residing all over the world. So, India would become a natural laboratory for creating both low cost and sustainable products.

Investment Galore: The organized retailers would bring in the much needed investment. These funds will directly contribute to the growth of this sector and will also be beneficial for sustenance of home grown retailers. If opened up, Indian companies would be able to manage funds to ride out of the storms.

Helpful for Domestic Players: Improved technology in the sphere of processing, grading, packaging, cost competitiveness and quality standards brought through FDI would be important for the domestic players to sustain their growth.

Real Estate Development: Due to the availability of higher disposable income with Indians, changing perception and increasing tendency to pay for quality and ease and access to a 'one stop shop' real estate in India has gone through a revamp. This sector can get a further facelift and receive more investment with the opening up of FDI in multi brand retail, as entrants will need substantial space for setting up high end retail malls.

Creation of Jobs: FDI in multi brand would lead to the creation of millions of jobs (it is estimated that 6-7 million jobs will be created) for the unemployed youth. Access to global markets and facility to obtain the supplies based on cost advantages would be an opportunity for spurring indigenous manufacturing activities and creation of jobs. On the other hand, local 'kirana shops' would be able to retain their existence due to their unique characteristics of convenience, credit facility, door to door customer services, value added services, proximity and other skills in retaining customers. Also in tier 2 and tier 3 cities the organized format would find it harder to establish themselves.

No Possibility of Monopoly: This seems highly improbable and farfetched in the country like India, as a legal bar on monopolistic activities also exists under the domestic company law regime.

Curb the Soaring Inflation: Use of superior technology and managerial practices would reduce the overhead costs and with the cut down of middlemen, the product would be sold to consumers at significantly low prices. This will curb the soaring inflation rates and thus, would be a great relief to the common man.

Contribution for the Nation: Payment of different taxes and duties, flow of foreign currency, fulfillment of duties towards corporate social responsibility will contribute towards the social welfare of the nation.

Conclusion

The country's foreign direct investment regime has witnessed progressive liberalization over the past decade. This FDI policy has led to an increased inflow over the years and entry of multi brand retail through 51 percent FDI in this segment will contribute to the same at larger extent. The fine print, proposed by the Govt. for entry in this segment accompanying the proposal that has been green lighted by the Union Cabinet is quite revealing. Besides these some extra conditions can be imposed. If we compile both, a foreign entrant into the Indian multi brand sector has to comply with hosts of conditions like:

- In addition to the regular operating licenses, FDI in multi brand retail would require clearance of the Foreign Investment Promotion Board (FIPB) because in starting it would come under the approval route.
- The minimum entry threshold of foreign investment is pegged at $ 100 million.
- At least 50% of the amount invested would necessarily be required to allocate in back end infrastructure. It includes investment made towards refrigeration, cold chains, storage, processing, manufacturing, distribution, design improvement, quality control and packaging, amongst others. However, the cost of land and rentals are excluded for this purpose
- Retail stores established by global giants will be permitted only in the cities having population greater than one million (as per 2011census figures, there are nearly 8000 towns and cities in India, of which only 53 have a population more than one million) and may also cover an area 10 kms. around the municipal limits of such cities.

- Retail locations will be restricted to conforming areas as per the master or zonal plans of the concerned cities and a provision has to be made for requisite facilities such as transport connectivity and parking.
- Foreign entrants have to source at least 30 % of their stock from Indian Micro Small and Medium Enterprises (MSMES), those having a capital investment of not more than $ one million.
- We have federal set up, so permission to foreign channels to operate will further be subject of the state legislation. State Govt. can frame certain conditions before giving clearance to them or prohibit the entry as well.
- Small retailers can be protected by restricted FDI for stores having floor size greater than 2000 sq.ft.
- Monopolies can be controlled by enforcement of strict regulation and where needed through the Competition Commission of India, which has powers to assess the abuse of dominant position.

Change is the need of the hour - FDI in multi brand retail is necessary step that is been taken to propel further growth in this sector. This will transform the retail landscape in a significant way. Standard Chartered Research says "The world has entered in its third super cycle characterized by Industrialization, Urbanization and International trade". FDI would not only prove to be fruitful for the economy as a whole but will also integrate our retail with the global retail market, FDI in China is a case in point here. In Chinese market deployment of 100% FDI was done in 2004, today its retail sector is the second largest (in value) in the world. "It is important to allow the entry of FDI into this sector in a properly regulated fashion. We must guard against the risk of these new corporations becoming monopolistic and charging high prices," a working paper of the panel (Inter Ministerial Group appointed by prime minister of India) said. Economic Survey Report 2010-11 suggested that "Permitting FDI in retail in a phased manner could help address the concerns of farmers and consumers. FDI in retail may also help bring in technical knowhow to set up efficient supply chains which could act as models of development." In a true potential scenario, opening up of FDI can increase organized retail market size to $260 billion by 2020. FDI in multi-brand retail will give a boost to the organized retail sector, which positively impacts several stakeholders, including producers, workers, employees, consumers, the government, and, hence, the overall economy.

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