

A STUDY ON FDI IN INDIAN RETAIL SECTOR



***A Project submitted to
University of Mumbai for completion of the degree of
Bachelor in Accounting and Finance***

By

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UNDER THE GUIDANCE OF

DR. NISHIKANT JHA

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Thakur Educational Trust's (Regd.)
THAKUR COLLEGE OF SCIENCE & COMMERCE **ICSC**

UGC Recognized * Affiliated to University of Mumbai
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DECLARATION

*I the undersigned **Uddesh Arunkumar Mishra** here by, declare that the work embodied in this project work titled, “**A Study on FDI IN INDIAN RETAIL SECTOR**” forms my own contribution to the research work carried out under the guidance of “**Dr. Nishikant Jha**” and has not been previously submitted to any other University for any other Degree/Diploma to this or any other University.*

Wherever reference has been made to previous works of others, it has been clearly indicated as such and included in the bibliography.

I, here by further declare that all information of this document has been obtained and presented in accordance with academic rules and ethical conduct.

Name and Signature of Learner

Uddesh Arunkumar Mishra

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Name and Signature of Guiding Teacher

Dr. Nishikant Jha



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CERTIFICATE

*This is to certify that **Uddesh Arunkumar Mishra** has worked and duly completed his project work for the degree of Bachelor in Accounting and Finance under the faculty of Commerce and his project is entitled, “**A Study on FDI IN INDIAN RETAIL SECTOR**” under my Supervision.*

I further certify that the entire work has been done by the learner under my guidance and that no part of it has been submitted previously for any Degree or Diploma of any University.

It is his own work and facts reported by his personal findings and investigations.

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Task ID	Task Description	Task Duration in days	Start Date	End Date	02-Feb-19	09-Feb-19	16-Feb-19	23-Feb-19	02-Mar-19	09-Mar-19	16-Mar-19	23-Mar-19	30-Mar-19
1	Chapter No. 1: Introduction												
2	Chapter No. 2: Research Methodology												
3	Chapter No. 3: Literature Review												
4	Chapter No. 4: Data Analysis, Interpretation and Presentation												
5	Chapter No. 5: Conclusions and Suggestions												
6	Bibliography, Appendix												
7	First Draft												
8	Second Draft												
9	Final Draft												
important: 1. Referencing style APA 6th 2. The Project Report shall be bounded 3. The project report should be 80 to 100 pages 4. Gantt chart shall be filled by faculties only 5. The final draft shall be signed by guiding teacher 6. The faculties are allowed to link the tasks in gantt chart 7. Be sure to display start and end dates for each task 8. Account for time off, holidays and internal exams 9. To define the critical path, use lines to connect a task					Students signature on No. of visits with date								

Dr. Nishikant Jha
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 Department =



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ABSTRACT

Indian retail industry is one of the sunrise sectors with huge growth potential. According to the Investment Commission of India, the retail sector is expected to grow almost three times its current levels to \$660 billion by 2015. However, in spite of the recent developments in retailing and its immense contribution to the economy, retailing continues to be the least evolved industries and the growth of organised retailing in India has been much slower as compared to rest of the world. Undoubtedly, this dismal situation of the retail sector, despite the on-going wave of incessant liberalization and globalization stems from the absence of an FDI encouraging policy in the Indian retail sector. In this context, the present paper attempts to analyse the strategic issues concerning the influx of foreign direct investment in the Indian retail industry. Moreover, with the latest move of the government to allow FDI in the multiband retailing sector, the paper analyses the effects of these changes on farmers and agri-food sector. The findings of the study point out that FDI in retail would undoubtedly enable India Inc. to integrate its economy with that of the global economy. Thus, as a matter of fact FDI in the buzzing Indian retail sector should not just be freely allowed but should be significantly encouraged. The paper ends with a review of policy options that can be adopted by Competition Commission of India.

INDEX

<u>Sr.No.</u>	Title	Page No.
	Declaration	
	Certificate	
	Acknowledgement	
Ch -1	Introduction of FDI	9
Ch-2	Indian Retail Sector	13
Ch-3	Structure of Indian Retail Sector	18
Ch-4	Porter's Five Force Model	28
Ch-5	Effects of FDI on various stakeholders	35
Ch-6	Competition assessment framework	45
Ch-7	Formulation of policies by government	55
Ch-8	Conclusion	69
	Bibliography	70

CHAPTER-1

INTRODUCTION

As per the current regulatory regime, retail trading (except under single-brand product retailing — FDI up to 51 per cent, under the Government route) is prohibited in India. Simply put, for a company to be able to get foreign funding, products sold by it to the general public should only be of a 'single-brand'; this condition being in addition to a few other conditions to be adhered to.

India being a signatory to World Trade Organisation's General Agreement on Trade in Services, which include wholesale and retailing services, had to open up the retail trade sector to foreign investment. There were initial reservations towards opening up of retail sector arising from fear of job losses, procurement from international market, competition and loss of entrepreneurial opportunities. However, the government in a series of moves has opened up the retail sector slowly to Foreign Direct Investment (—FDI). In 1997, FDI in cash and carry (wholesale) with 100% ownership was allowed under the Government approval route. It was brought under the automatic route in 2006. 51% investment in a single brand retail outlet was also permitted in 2006. FDI in Multi-Brand retailing is prohibited in India.

All Indian households have traditionally enjoyed the convenience of calling up the corner grocery "kirana" store, which is all too familiar with their brand preferences, offers credit, and applies flexible conditions for product returns and exchange. And while mall based shopping formats are gaining popularity in most cities today, the price-sensitive Indian shopper has reached out to stores such as Big Bazaar mainly for the steep discounts and bulk prices. Retail chains such as Reliance Fresh and More have reportedly closed down operations in some of their locations, because after the initial novelty faded off, most shoppers preferred the convenience and access offered by the local kirana store.

So how would these Western multi-brand stores such as Wal-Mart and Carrefour strategies their entry into the country and gain access to the average Indian household? Wal-Mart has already entered the market through its partnership with Bharti, and gained opportunity for some early observations. The company's entry into China will also have brought some understanding on catering to a large, diverse market, and perspectives on buying behaviour in Asian households. Carrefour on the other hand has launched its wholesale cash and carry operations in the country for professional businesses and retailers, and will now need to focus more on understanding the individual Indian customer.

As such, these retail giants will try to gain from some quick wins while reaching out to the Indian consumer. For one, they will effectively harness their expertise with cold storage technologies to lure customers with fresh and exotic vegetables, fruits and organic produce. Secondly, they will also emphasise on the access that they can create for a range of inspirational global foods and household brands. Thirdly, by supporting domestic farmers will try ensuring supplies of essential raw materials to them.

Surely, these should engage shoppers' and farmers interest—but what needs to be seen is whether they can effectively combine these benefits, with the familiarity, convenience and personalised shopping experiences that the local "kirana" stores have always offered.

RESEARCH METHODOLOGY

The researcher has adopted analytical, descriptive and comparative methodology for this report; reliance has been placed on books, journals, newspapers and online databases and on the views of writers in the discipline of Competition law.

Research Methodology is a way to find out the result of a given problem on a specific matter or problem that is also referred as research problem. In Methodology, researcher uses different criteria for solving/searching the given research problem. Different sources use different type of methods for solving the problem. If we think about the word “Methodology”, it is the way of searching or solving the research problem. This chapter contains conceptual model, research hypotheses, research methodology, methodology used in the research. Conceptual model will also be used to undertake for analysis of study. In last research methodology will be offered so that set objectives can be attained successfully. **PROBLEM FORMULATION** India is without doubt a 'growth' economy and many consider it an attractive country to invest in, particularly in its rapidly growing and changing retail market. However, Foreign Direct Investment (FDI) is restricted in the retail sector, and despite many years of debate, the regulations are still only changing very slowly and there are still lots of uncertainties. Foreign Investors are watching India, ready for a piece of the action in the retail market, but there are still plenty of uncertainties, restrictions and potential socioeconomic risks. This division of the retail sector, which has a very heavy weighting towards, unorganized, is just one of the issues contributing to the sensitive debate on FDI in India at the moment. What are the potential risks to the unorganized retail sector, and of course to the wider Indian economy? There are several groups who are Strongly opposed to FDI in the Indian retail sector, but are their concerns unfounded? Equally, could FDI in retail be a disaster for the sector and the Indian economy? What reforms are necessary, if any, to protect the subcontinent's domestic retail sector and national interests? Thus, retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit. With this keeping in mind, the following objectives are formulated.

MAIN OBJECTIVE OF RESEARCH WORK

The Government of India was initially very apprehensive of the introduction of the Foreign Direct Investment in the Retail Sector in India. The unorganized retail sector as has been mentioned earlier occupies 98% of the retail sector and the rest 2% is contributed by the organized sector. Hence one reason why the government feared the surge of the Foreign Direct Investments in India was the displacement of labour.

The unorganized retail sector contributes about 14% to the GDP and absorbs about 7% of our labour force. Hence the issue of displacement of labour consequent to FDI is of primal importance. There are different viewpoints on the impact of FDI in the retail sector in India, According to one viewpoint, the US evidence is empirical proof to the fact that FDI in the retail sector does not lead to any collapse in the existing employment opportunities. There are divergent views as well. According to the UK Competition Commission, there was mass scale job loss with entry of the hypermarkets brought about by FDI in the UK retail market. India being a signatory to World Trade Organization's General Agreement on Trade in Services, which include wholesale and retailing services, had to open up the retail trade sector to foreign investment.

There were initial reservations towards opening up of retail sector arising from fear of job losses, procurement from international market, competition and loss of entrepreneurial opportunities. However, the government in a series of moves has opened up the retail sector slowly to Foreign Direct Investment (FDI). In 1997, FDI in cash and carry (wholesale) with 100 percent ownership was allowed under the Government approval route. It was brought under the automatic route in 2006. 51 percent investment in a single brand retail outlet was also permitted in 2006. FDI in Multi-Brand retailing is prohibited in India.

The specific objectives of the study are:

1. To understand the strategic marketing management processes of Foreign direct Investment in an Indian Economy with Special Reference to Retail Sector In Indore (M.P).
2. To study the intelligence gathering systems that is relied upon.
3. To understand the intricacies of analysis and decision making processes in the FDI and interpersonal /interdepartmental interface management.
4. .To analyze the trends, growth and patterns of FDI inflows into India with special focus on Retail Sector
5. To investigate the Indian market place and review current policy and regulations with regards to foreign investors so as to gain an understanding of the current position on FDI, as well as an overview of the Indian system.
6. To understand the intricacies of analysis and decision making processes in the small units and interpersonal /interdepartmental interface management.

SCOPE OF STUDY

A. Target population –target population for the study was retail companies (malls) in Indore M.P. customers and kirana shopkeepers.

B. Place of study-The research was mainly carried out from Indore .I(researcher) visited malls in Indore and recorded observations of mall managers about the operational aspects and conducted informal interviews with the customers and kirana shopkeepers wherever possible .

C. Reference period -The reference period for the study was 2013 to 2016

D. Sources of data – A combination of primary and secondary data was used.

RESEARCH DESIGN

The research design for the present study was basically descriptive and exploratory in nature. The study started with exploratory research design in order to have a deeper insight of the changing retailing environment of FDI in INDIA.

This help to formulate the research hypothesis for the present study. Owing to the fact that management is a relatively speaking a nascent field compared to other disciplines it is quite natural that most of the research studies will be of the type – exploratory.

This study therefore, will be an exploratory research based in a large measure on the collection of primary data and also the secondary sources. This study The impact of foreign direct investment on Indian economy: with special reference to retail sector will particularly cover the units based in Indore (M.P).

Indian Retail Sector

Overview

Retailing in India is one of the pillars of its economy and accounts for 14 to 15% of its GDP. The Indian retail market is estimated to be US\$ 450 billion and

one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people.^{[3][4]}

India's retailing industry is essentially owner manned small shops. In 2010, larger format convenience stores and supermarkets accounted for about 4% of the industry, and these were present only in large urban centers. India's retail and logistics industry employs about 40 million Indians (3.3% of Indian population).

Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51% ownership and a bureaucratic process.

In November 2011, India's central government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way for retail innovation and competition with multi-brand retailers such as Walmart, Carrefour and Tesco, as well single brand majors such as IKEA, Nike, and Apple.^[5] The announcement sparked intense activism, both in opposition and in support of the reforms. In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reaches a consensus.^[6]

In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30% of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores.^[7] IKEA announced in January that it is putting on hold its plan to open stores in India because of the 30% requirement.^[8] Fitch believes that the 30% requirement is likely to significantly delay if not prevent most single brand majors from Europe, USA and Japan from opening stores and creating associated jobs in India.

Entry Options For Foreign Players prior to FDI Policy

Although prior to Jan 24, 2006, FDI was not authorised in retailing, most general players had been operating in the country. Some of entrance routes used by them have been discussed in sum as below:-

1. Franchise Agreements

It is an easiest track to come in the Indian market. In franchising and commission agents' services, FDI (unless otherwise prohibited) is allowed with the approval of the Reserve Bank of India (RBI) under the Foreign Exchange Management Act. This is a most usual mode for entrance of quick food bondage opposite a world. Apart from quick food bondage identical to Pizza Hut, players such as Lacoste, Mango, Nike as good as Marks as good as Spencer, have entered Indian marketplace by this route.

2. Cash And Carry Wholesale Trading

100% FDI is allowed in wholesale trading which involves building of a large distribution infrastructure to assist local manufacturers. The wholesaler deals only with smaller retailers and not Consumers. Metro AG of Germany was the first significant global player to enter India through this route.

3. Strategic Licensing Agreements

Some foreign brands give exclusive licences and distribution rights to Indian companies. Through these rights, Indian companies can either sell it through their own stores, or enter into shop-in-shop arrangements or distribute the brands to franchisees. Mango, the Spanish apparel brand has entered India through this route with an agreement with Piramyd, Mumbai, SPAR entered into a similar agreement with Radhakrishna Foodlands Pvt. Ltd

4. Manufacturing and Wholly Owned Subsidiaries.

The foreign brands such as Nike, Reebok, Adidas, etc. that have wholly-owned subsidiaries in manufacturing are treated as Indian companies and are, therefore, allowed to do retail. These companies have been authorised to sell products to Indian consumers by franchising, internal distributors, existent Indian retailers, own outlets, etc. For instance, Nike entered through an exclusive licensing agreement with Sierra Enterprises but now has a wholly owned subsidiary, Nike India Private Limited.

FDI Policy in India

FDI as defined in Dictionary of Economics (Graham Bannock et.al) is investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new (Greenfield) site. To put in simple words, FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy.^[9]

Foreign Investment in India is governed by the FDI policy announced by the Government of India and the provision of the Foreign Exchange Management Act (FEMA) 1999. The Reserve Bank of India (‘RBI’) in this regard had issued a notification,^[10] which contains the Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000. This notification has been amended from time to time. The Ministry of Commerce and Industry, Government of India is the nodal agency for monitoring and reviewing the FDI policy on continued basis and changes in sectoral policy/ sectoral equity cap. The FDI policy is notified through Press Notes by the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP).

The foreign investors are free to invest in India, except few sectors/activities, where prior approval from the RBI or Foreign Investment Promotion Board (‘FIPB’) would be required.

FDI Policy with Regard to Retailing in India

It will be prudent to look into Press Note 4 of 2006 issued by DIPP and consolidated FDI Policy issued in October 2010^[11] which provide the sector specific guidelines for FDI with regard to the conduct of trading activities.

FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.

FDI up to 51 % with prior Government approval (i.e. FIPB) for retail trade of

‘Single Brand’ products, subject to Press Note 3 (2006 Series)^[12].

FDI is not permitted in Multi Brand Retailing in India.

Prospected Changes in FDI Policy for Retail Sector in India

The government (led by Dr. Manmohan Singh, announced following prospective reforms in Indian Retail Sector

India will allow FDI of up to 51% in —multi-brand sector.

Single brand retailers such as Apple and Ikea, can own 100% of their Indian stores, up from previous cap of 51%.

The retailers (both single and multi-brand) will have to source at least 30% of their goods from small and medium sized Indian suppliers.

All retail stores can open up their operations in population having over 1 million. Out of approximately 7935 towns and cities in India, 55 suffice such criteria.

Multi-brand retailers must bring minimum investment of US\$ 100 million. Half of this must be invested in back-end infrastructure facilities such as cold chains, refrigeration, transportation, packaging etc. to reduce post-harvest losses and provide remunerative prices to farmers.

The opening of retail competition (policy) will be within parameters of state laws and regulations.

FDI in Single-Brand Retail

The Government has not categorically defined the meaning of —Single Brand— anywhere neither in any of its circulars nor any notifications.

In single-brand retail, FDI up to 51 per cent is allowed, subject to Foreign Investment

Promotion Board (FIPB) approval and subject to the conditions mentioned in Press Note 3^[13] that (a) only single brand products would be sold (i.e., retail of goods of multi-brand even if produced by the same manufacturer would not be allowed), (b) products should be sold under the same brand internationally, (c) single-brand product retail would only cover products which are branded during manufacturing and (d) any addition to product categories to be sold under —single-brand— would require fresh approval from the government.

While the phrase ‘single brand’ has not been defined, it implies that foreign companies would be allowed to sell goods sold internationally under a ‘single brand’, viz., Reebok, Nokia, and Adidas. Retailing of goods of multiple brands, even if such products were produced by the same manufacturer, would not be allowed.

Going a step further, we examine the concept of ‘single brand’ and the associated conditions:

FDI in ‘Single brand’ retail implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand and not the Reebok brand, for which separate permission is required. If granted permission, Adidas could sell products under the Reebok brand in separate outlets.

FDI in Multi-Brand Retail

The government has also not defined the term Multi Brand. FDI in Multi Brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof.

In July 2010, Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce circulated a discussion paper^[14] on allowing FDI in multi-brand retail. The paper doesn’t suggest any upper limit on FDI in multi-brand retail. If implemented, it would open the doors for global retail giants to enter and establish their footprints on the retail landscape of India. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous ‘kirana’ store.

CHAPTER-3

Structure of Indian Retail Sector

Definition of Retail

In 2004, The High Court of Delhi defined the term ‘_retail’ as a sale for final consumption in contrast to a sale for further sale or processing (i.e. wholesale). *A sale to the ultimate consumer.*

Thus, retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers. Retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit.

Division of Retail Industry – Organised and Unorganised Retailing

The retail industry is mainly divided into: - 1) Organised and 2) Unorganised Retailing

Organised retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed supermarkets and retail chains, and also the privately owned large retail businesses.

Unorganised retailing,

on the other hand, refers to the traditional formats of low-cost retailing, for example, the local *kirana* shops, owner manned general stores, *paan/beedi* shops, convenience stores, hand cart and pavement vendors, etc.

The Indian retail sector is highly fragmented with 97 per cent of its business being run by the unorganized retailers. The organized retail however is at a very nascent

stage. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10 per cent of India’s GDP.^[16]

ADVANTAGES OF CONVENTIONAL AND MODERN ORGANISED RETAIL REFORMS

Conventional	Modern Organized
Large Bargaining Power	Low operating cost and overheads
Proximity to consumers	Range and variety of goods
Long operating hours, strong customer relations, convenience and hygiene.	Long operating hours, quality assurance (brand related and durability).

Growth and Evolution of Indian Retail Sector

The Indian Retail Industry is the 5th largest retail destination and the second most attractive market for investment in the globe after Vietnam as reported by AT Kearney's seventh annual Globe Retail Development Index (GRDI), in 2008. The growing popularity of Indian Retail sector has resulted in growing awareness of quality products and brands. As a whole Indian retail has made life convenient, easy, quick and affordable. Indian retail sector specially organized retail is growing rapidly, with customer spending growing in unprecedented manner. It is undergoing metamorphosis. Till 1980 retail continued in the form of kiranas that is unorganized retailing. Later in 1990s branded retail outlet like Food World, Nilgiris and local retail outlets like Apna Bazaar came into existence. Now big players like Reliance, Tata's, Bharti, ITC and other reputed companies have entered into organized retail business.

The multinationals with 51% opening of FDI in single brand retail has led to direct entrance of companies like Nike, Reebok, Metro etc. or through joint ventures like Wal-mart with Bharti, Tata with Tesco etc.

Evolution of retail sector can be seen in the share of organized sector in 2007 was 7.5% of the total retail market. Organized retail business in India is very small but has tremendous scope. The total in 2005 stood at \$225 billion, accounting for about 11% of GDP. In this total market, the organized retail accounts for only \$8 billion of total revenue. According to A T Kearney, the organized retailing is expected to be more than \$23 billion revenue by 2010.

The retail industry in India is currently growing at a great pace and is expected to go up to US\$ 833 billion by the year 2013. It is further expected to reach US\$ 1.3 trillion by the year 2018 at a CAGR of 10%. As the country has got a high growth rate, the consumer spending has also gone up and is also expected to go up further in the future. In the last four years, the consumer spending in India climbed up to 75%. As a result, the Indian retail industry is expected to grow further in the future days. By the year 2013, the organized sector is also expected to grow at a CAGR of 40%. The key factors that drive growth in retail industry are young demographic profile, increasing consumer aspirations, growing middle class incomes and improving demand from rural markets. Also, rising incomes and improvements in infrastructure are enlarging consumer markets and accelerating the convergence of consumer tastes. Liberalization of the Indian economy, increase in spending per capita income and the advent of dual income families also help in the growth of retail sector. Moreover, consumer preference for shopping in new environs, availability of quality real estate and mall management practices and a shift in consumer demand to foreign brands like McDonalds, Sony, Panasonic, etc. also contributes to the spiral of growth in this sector. Furthermore, the Internet revolution is making the Indian consumer more accessible to the growing influences of domestic and foreign retail chains.

One report estimates the 2011 Indian retail market as generating sales of about

\$470 billion a year, of which a miniscule \$27 billion comes from organized retail such as supermarkets, chain stores with centralized operations and shops in malls. The opening of retail industry to free market competition, some claim will enable rapid growth in retail sector of Indian economy. Others believe the growth of Indian retail industry will take time, with organized retail possibly needing a decade to grow to a 25% share.^[17] A 25% market share, given the expected growth of Indian retail

industry through 2021, is estimated to be over \$250 billion a year: a revenue equal to the 2009 revenue share from Japan for the world's 250 largest retailers.,^{[18][19]}

The Economist forecasts that Indian retail will nearly double in economic value, expanding by about \$400 billion by 2020.^[20] The projected increase alone is equivalent to the current retail market size of France.

In 2011, food accounted for 70% of Indian retail, but was under-represented by organized retail. A.T. Kearney estimates India's organized retail had a 31% share in clothing and apparel, while the home supplies retail was growing between 20% to 30% per year.^[21] These data correspond to retail prospects prior to November announcement of the retail reform.

Challenges of Retailing in India

In India the retailing industry has a long way to go and to become a truly flourishing industry, retailing needs to cross various hurdles. The first challenge facing the organized retail sector is the competition from unorganized sector. Needless to say, the Indian retail sector is overwhelmingly swarmed by the unorganized retailing with the dominance of small and medium enterprises in contradiction to the presence of few giant corporate retailing outlets.

The trading sector is also highly fragmented, with a large number of intermediaries who operate at a strictly local level and there is no 'barrier to entry', given the structure and scale of these operations (Singhal 1999). The tax structure in India favors small retail business. Organized retail sector has to pay huge taxes, which is negligible for small retail business. Thus, the cost of business operations is very high in India. Developed supply chain and integrated IT management is absent in retail sector. This lack of adequate infrastructure facilities, lack of trained work force and low skill level for retailing management further makes the sector quite complex. Also, the intrinsic complexity of retailing- rapid price changes, threat of product obsolescence, low margins, high cost of real estate and dissimilarity in consumer groups are the other challenges that the retail sector in India is facing.

The status of the retail industry will depend mostly on external factors like Government regulations and policies and real estate prices, besides the activities of retailers and demands of the customers also show impact on retail industry. Even though economy across the globe is slowly emerging from recession, tough times lie ahead for the retail industry as consumer spending still has not seen a consistent increase. In fact, consumer spending could contract further as banks have been overcautious in lending. Thus, retailers are witnessing an uphill task in terms of wooing consumers, despite offering big discounts. Additionally, organised retailers have been facing a difficult time in attracting customers from traditional kirana stores, especially in the food and grocery segment.

While in some sectors the restrictions imposed by the government are comprehensible; the restrictions imposed in few others, including the retail sector, are utterly baseless and are acting as shackles in the progressive development of that particular sector and eventually the overall development of the Indian Inc. The scenario is kind of depressing and unappealing, since despite the on-going wave of incessant liberalization and globalization, the Indian retail sector is still aloof from progressive and ostentatious development. This dismal situation of the retail sector undoubtedly stems from the absence of an FDI encouraging policy in the Indian retail sector.

Also FDI encouraging policy can remove the present limitations in Indian system such as

1. Infrastructure

There has been a lack of investment in the logistics of the retail chain, leading to an inefficient market mechanism. Though India is the second largest producer of fruits and vegetables (about 180 million MT), it has a very limited integrated cold-chain infrastructure, with only 5386 stand-alone cold storages, having a total capacity of 23.6 million MT. , 80% of this is used only for potatoes. The chain is highly fragmented and hence, perishable horticultural commodities find it difficult to link to distant markets, including overseas markets, round the year. Storage infrastructure is necessary for carrying over the agricultural produce from production periods to the rest of the year and to prevent distress sales. Lack of adequate storage facilities cause heavy losses to farmers in terms of wastage in quality and quantity of produce in general. Though FDI is permitted in cold-chain to the extent of 100%, through the automatic route, in the absence of FDI in retailing; FDI flow to the sector has not been significant.

2. Intermediaries dominate the value chain

Intermediaries often flout *mandi* norms and their pricing lacks transparency. Wholesale regulated markets, governed by State APMC Acts, have developed a monopolistic and non-transparent character. According to some reports, Indian farmers realize only 1/3rd of the total price paid by the final consumer, as against 2/3rd by farmers in nations with a higher share of organized retail.

3. Improper Public Distribution System (“PDS”)

There is a big question mark on the efficacy of the public procurement and PDS set-up and the bill on food subsidies is rising. In spite of such heavy subsidies, overall food based inflation has been a matter of great concern. The absence of a *‘farm-to-fork’* retail supply system has led to the ultimate customers paying a premium for shortages and a charge for wastages.

4. No Global Reach

The Micro Small & Medium Enterprises (—MSME) sector has also suffered due to lack of branding and lack of avenues to reach out to the vast world markets. While India has continued to provide emphasis on the development of MSME sector, the share of unorganised sector in overall manufacturing has declined from 34.5% in 1999-2000 to 30.3% in 2007-08. This has largely been due to the inability of this sector to access latest technology and improve its marketing interface

Thus the **rationale behind allowing FDI** in Indian retail sector comes from the fact, that it will act as a powerful catalyst to spur competition in retail industry, due to current scenario of above listed limitations, low completion and poor productivity. Permitting foreign investment in food-based retailing is likely to ensure adequate flow of capital into the country & its productive use, in a manner likely to promote the welfare of all sections of society, particularly farmers and consumers. It would also help bring about improvements in farmer income & agricultural growth and assist in lowering consumer prices inflation.^[22]

Apart from this, by allowing FDI in retail trade, India will significantly flourish in terms of quality standards and consumer expectations, since the inflow of FDI in retail sector is bound to pull up the quality standards and cost-competitiveness of Indian producers in all the segments. It is therefore obvious that we should not only permit but encourage FDI in retail trade.

Lastly, it is to be noted that the Indian Council of Research in International Economic Relations (ICRIER), a premier economic think tank of the country, which was appointed to look into the impact of BIG capital in the retail sector, has projected the worth of Indian retail sector to reach \$496 billion by 2011-12 and ICRIER has also come to conclusion that investment of 'big' money (large corporate and FDI) in the retail sector would in the long run not harm interests of small, traditional, retailers.^[23]

In light of the above, it can be safely concluded that allowing healthy FDI in the retail sector would not only lead to a substantial surge in the country's GDP and overall economic development, but would *inter alia* also help in integrating the Indian retail market with that of the global retail market in addition to providing not just employment but a better paying employment, which the unorganized sector (kirana and other small time retailing shops) have undoubtedly failed to provide to the masses employed in them.

Industrial organisations such as CII, FICCI, US-India Business Council (USIBC), the American Chamber of Commerce in India, The Retail Association of India (RAI) and Shopping Centers Association of India (a 44 member association of Indian multi-brand retailers and shopping malls) favour a phased approach toward liberalising FDI in multi-brand retailing, and most of them agree with considering a cap of 49-51 per cent to start with.

The international retail players such as Walmart, Carrefour, Metro, IKEA, and TESCO share the same view and insist on a clear path towards 100 per cent opening up in near future. Large multinational retailers such as US-based Walmart, Germany's Metro AG and Woolworths Ltd, the largest Australian retailer that operates in wholesale cash-and-carry ventures in India, have been demanding liberalisation of FDI rules on multi-brand retail for some time.^[24]

Challenges and Attractions for Global Retailers

Challenges:

History has witnessed that the concern of allowing unrestrained FDI flows in the retail sector has never been free from controversies and simultaneously has been an issue for unsuccessful deliberation ever since the advent of FDI in India. Where on one hand there has been a strong outcry for the unrestricted flow of FDI in the retail trading by an overwhelming number of both domestic as well as foreign corporate retail giants; to the contrary, the critics of unrestrained FDI have always fiercely retorted by highlighting the adverse impact, the FDI in the retail trading will have on the unorganized retail trade, which is the source of employment to an enormous amount of the population of India.

The antagonists of FDI in retail sector oppose the same on various grounds, like, that the entry of large global retailers such as Wal-Mart would kill local shops and millions of jobs, since the unorganized retail sector employs an enormous percentage of Indian population after the agriculture sector; secondly that the global retailers would conspire and exercise monopolistic power to raise prices and monopolistic (big buying) power to reduce the prices received by the suppliers; thirdly, it would lead to asymmetrical growth in cities, causing discontent and social tension elsewhere. Hence, both the consumers and the suppliers would lose, while the profit margins of such retail chains would go up. Many trading associations, political parties and industrial associations have argued against FDI in retailing due to various reasons. It is generally argued that the Indian retailers have yet to consolidate their position. The existing retailing scenario is characterized by the presence of a large number of fragmented family owned businesses, who would not be able to survive the competition from global players. The examples of south East Asian countries show that after allowing FDI, the domestic retailers were marginalised and this led to unemployment.

Another apprehension is that FDI in retailing can upset the import balance, as large international retailers may prefer to source majority of their products globally rather than investing in local products. The global retailers might resort to predatory pricing. Due to their financial clout, they often sell below cost in the new markets. Once the domestic players are wiped out of the market foreign players enjoy a monopoly position which allows them to increase prices and earn profits.

Indian retailers have argued that since lending rates are much higher in India, Indian retailers, especially small retailers, are at a disadvantageous position compared to foreign retailers who have access to International funds at lower interest rates. High cost of borrowing forces the domestic players to charge higher prices for the products. Another argument against FDI is that FDI in retail trade would not attract large inflows of foreign investment since very little investment is required to conduct retail business. Goods are bought on credit and sales are made on cash basis. Hence, the working capital requirement is negligible. On the contrary; after making initial investment on basic infrastructure, the multinational retailers may remit the higher amount of profits earned in India to their own country.

ATTRactions

Retailing is being perceived as a beginner and as an attractive commercial business for organized business i.e. the pure retailer is starting to emerge now. Indian organized retail industry is one of the sunrise sectors with huge growth potential. Total retail market in India stood at USD 350 billion in 2007-08 and is estimated to attain USD 573 billion by 2012-13.

Organised retail industry accounts for only 5.5% of total retail industry and is expected to reach 10% by 2012 (<http://business.rediff.com>). AT Kearney, the well-known international management consultancy, recently identified India as the ‘second most attractive retail destination’ globally from among thirty emergent markets. It has made India the cause of a good deal of excitement and the cynosure of many foreign investors’ eyes. With a contribution of an overwhelming 14% to the national GDP and employing 7% of the total workforce (only agriculture employs more) in the country, the retail industry is definitely one of the pillars of the Indian economy (<http://www.indiaretailbiz.com/blog/2009/07/02>).

Foreign companies’ attraction to India is the billion-plus population. Also, there are huge employment opportunities in retail sector in India. India’s retail industry is the second largest sector, after agriculture, which provides employment. According to Associated Chambers of Commerce and Industry of India (ASSOCHAM), the retail sector will create 50,000 jobs in the next few years. As per the US Census Bureau, the young population in India is likely to constitute 53 per cent of the total population by 2020 and 46.5 per cent of the population by 2050 — much higher than countries like the US, the UK, Germany, China etc. India’s demographic scenario is likely to change favourably, and therefore, will most certainly drive retail sales growth, especially in the organised retail segment. Even though organised retailers have a far lesser reach in India than in other developed countries, the first-mover advantage of some retail players will contribute to the sector’s growth.

India in such a scenario presents some major attractions to foreign retailers. There is a huge, industry with no large players. Some Indian large players have entered just recently like Reliance, Trent. Moreover, India can support significant players averaging \$1 bn. in Grocery and \$0.3- 0.5 bn. in apparel within next ten years. The transition will open multiple opportunities for companies and investors. In addition to these, improved living standards and continuing economic growth, friendly business environment, growing spending power and increasing number of conscious customers aspiring to own quality and branded products in India are also attracting to global retailers to enter in Indian market.

According to industry experts, organised retail in India is expected to increase from 5 per cent of the total market in 2008 to 14 - 18 per cent of the total retail market and reach US\$ 450 billion by 2015 (McKinsey 2008). Furthermore, during 2010-12, around 55 million square feet (sq.ft.) of retail space will be ready in Mumbai, national capital region (NCR), Bangalore, Kolkata, Chennai, Hyderabad and Pune. Besides, between 2010 and 2012, the organised retail real estate stock will grow from the existing 41 million sq.ft. to 95 million sq.ft. (Knight Frank India 2010).

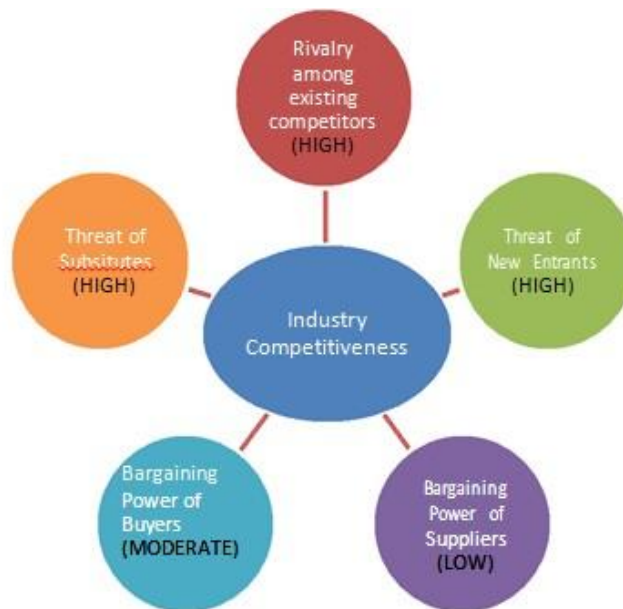
Thus, there is certainly a lucrative opportunity for foreign players to enter the Indian terrain.

Growth rates of the industry both in the past and those expected for the next decade coupled with the changing consumer trends such as increased use of credit cards, brand consciousness, and the growth of population under the age of 35 are factors that encourage a foreign player to establish outlets in India (Kalathur 2009). India thus continues to be among the most attractive countries for global retailers. Foreign direct investment (FDI) inflows between April 2000 and April 2010, in single-brand retail trading, stood at US\$ 194.69 million, according to the Department of Industrial Policy and Promotion (DIPP).

The Indian Council of Research in International Economic Relations (ICRIER), a premier economic think tank of the country, which was appointed to look into the impact of BIG capital in the retail sector, has projected the worth of Indian retail sector to reach \$496 billion by 2011-12 and ICRIER has also come to conclusion that investment of ‘big’ money in the retail sector would in the long run not harm interests of small, traditional, retailers. A number of global retail giants are thus eyeing this opportunity to swarm this seemingly nascent sector and exploit its unexplored potential.

CHAPTER-4

Porter's Five Force Model



Threat of New Entrants:

One trend that started over a decade before has been a decreasing number of independent retailers. While the barriers to start up a new store are not impossible to overcome, the ability to establish favourable supply contracts, leases and be competitive is becoming virtually impossible. Their vertical structure and centralized buying gives chain stores a competitive advantage over independent retailers. 95% of the market is made up of small, un-computerised family run stores. Now there are finally signs that the Indian government dropping its traditional protectionist stance and opening up its retail market to greater overseas investment. It has already allowed 51% ownership in single-brand goods leading to entry of McDonalds, Marks & Spencer, Body Shop and Ikea and with proposal of raising the ownership to 100% will attract more foreign retailers. Also with allowing investment by foreign retailers in multi-brand retailing in a phased manner will lead to more inflow of foreign investors in Indian retail sector. On the whole threat from new entrants in retail industry is high.

Power of Suppliers:

Historically, retailers have tried to exploit relationships with supplier. A great example was in the 1970s, when Sears sought to dominate the household appliance market. Sears set very high standards for quality; suppliers that did not meet these standards were dropped from the Sears line. This could also be seen in case of Walmart that places strict control on its suppliers. A contract with a big retailer like Walmart can make or break a small supplier. In retail industry suppliers tend to have very little power.

Power of Buyers:

Individually, consumers have very little bargaining power with retail stores. It is very difficult to bargain with the clerk at Big Bazaar for better price on grapes. But as a whole if customers demand high-quality products at bargain prices, it helps keep retailers honest. Taking this from Porter's side of the coin we can say customers have comparatively high bargaining power in unorganized sector than in organized sector. As the customer will demand products from organized units he will be more focused towards quality aspect.

Availability of Substitutes :

The tendency in retail is not to specialize in one good or service, but to deal in wide range of products and services. This means what one store offers is likely to be same as that offered by another store. Thus threat from substitutes is high.

Competitive Rivalry:

Retailers always face stiff competition and must fight with each other for market share and also with unorganized sector. More recently, they have tried to reduce cut throat pricing competition by offering frequent flier points, memberships and other special services to try and gain the customer's loyalty. Thus retailers give each other stiff but healthy competition which is evident from their aggressive marketing strategies and segment policies.

The arguments offered by critics against the retail sector reforms focus on one or more of the following points ^[25]:

Independent stores will close, leading to massive job losses. Walmart employs very few people in the United States. If allowed to expand in India as much as Walmart has expanded in the United States, few thousand jobs may be created but millions will be lost.

Walmart will lower prices to dump goods, get competition out of the way, become a monopoly, and then raise prices. We have seen this in the case of the soft drinks industry. Pepsi and Coke came in and wiped out all the domestic brands.

India doesn't need foreign retailers, since home grown companies and traditional markets may be able to do the job.

Work will be done by Indians, profits will go to foreigners.

Remember East India Company. It entered India as a trader and then took over politically.

There will be sterile homogeneity and Indian cities will look like cities anywhere else.

The government hasn't built consensus.

Supporters claim none of these objections has merit. They claim: [26]

Organized retail will need workers. Walmart employs 1.4 million people in United States alone.^[27] With United States population of about 300 million, and India's population of about 1200 million, if Walmart-like retail companies were to expand in India as much as their presence in the United States, and the staffing level in Indian stores kept at the same level as in the United States stores, Walmart alone would employ 5.6 million Indian citizens. In addition, millions of additional jobs will be created during the building of and the maintenance of retail stores, roads, cold storage centers, software industry, electronic cash registers and other retail supporting organizations. Instead of job losses, retail reforms are likely to be massive boost to Indian job availability.

India needs trillions of dollars to build its infrastructure, hospitals, housing and schools for its growing population. Indian economy is small, with limited surplus capital. Indian government is already operating on budget deficits. It is simply not possible for Indian investors or Indian government to fund this expansion, job creation and growth at the rate India needs. Global investment capital through FDI is necessary. Beyond capital, Indian retail industry needs knowledge and global integration. Global retail leaders, some of which are partly owned by people of Indian origin,^[28] can bring this knowledge. Global integration can potentially open export markets for Indian farmers and producers. Walmart, for example, expects to source and export some \$1 billion worth of goods from India every year, since it came into Indian wholesale retail market.^[29]

Walmart, Carrefour, Tesco, Target, Metro, Coop are some of over 350 global retail companies with annual sales over \$1 billion. These retail companies have operated for over 30 years in numerous countries. They have not become monopolies. Competition between Walmart-like retailers has kept food prices in check. Canada credits their very low inflation rates to Walmart-effect.

Anti-trust laws and state regulations, such as those in Indian legal code, have prevented food monopolies from forming anywhere in the world. Price inflation in these countries has been 5 to 10 times lower than price inflation in India. The current consumer price inflation in Europe and the United States is less than 2%, compared to India's double digit inflation.

Comparing 21st century to 18th century is inappropriate. Conditions today are not same as in the 18th century. India wasn't a democracy then, it is today. Global awareness and news media were not the same in 18th century as today. Consider China today. It has over 57 million square feet of retail space owned by foreigners, employing millions of Chinese citizens. Yet, China hasn't become a vassal of imperialists. It enjoys respect from all global powers. Other Asian countries like Malaysia, Taiwan, Thailand and Indonesia see foreign retailers as catalysts of new technology and price reduction; and they have benefitted immensely by welcoming FDI in retail. India too will benefit by integrating with the world, rather than isolating itself.^[31]

With 51% FDI limit in multi-brand retailers, nearly half of any profits will remain in India. Any profits will be subject to taxes, and such taxes will reduce Indian government budget deficit.

States have a right to say no to retail FDI within their jurisdiction.^[32] States have the right to add restrictions to the retail policy announced before they implement them. Thus, they can place limits on number, market share, style, diversity, homogeneity and other factors to suit their cultural preferences. Finally, in future, states can always introduce regulations and India can change the law to ensure the benefits of retail reforms reach the poorest and weakest segments of Indian society, free and fair retail competition does indeed lead to sharply lower

inflation than current levels, small farmers get better prices, jobs created by organized retail pay well, and healthier food becomes available to more households. Inbuilt inefficiencies and wastage in distribution and storage account for as much as 40% of food production doesn't reach consumers. Fifty million children in India are malnourished.^[33]

Food often rots at farms, in transit, or in antiquated state-run warehouses. Cost-conscious organized retail companies will avoid waste and loss, making food available to the weakest and poorest segment of Indian society, while increasing the income of small farmers. Walmart, for example, since its arrival in Indian wholesale retail market, has successfully introduced "Direct Farm Project" at Haider Nagar near Malerkotla in Punjab, where 110 farmers have been connected with Bharti Walmart for sourcing fresh vegetables directly, thereby reducing waste and bringing fresher produce to Indian consumers.^[34]

Indian small shops employ workers without proper contracts, making them work long hours. Many unorganized small shops depend on child labour. A well-regulated retail sector will help curtail some of these abuses.^[35]

The claim that there is no consensus is without merit. Retail reforms discussions are not new. Comments from a wide cross-section of Indian society including farmers' associations, industry bodies, consumer forums, academics, traders' associations, investors, economists were analysed in depth before the matter was discussed by the Committee of Secretaries. By early August 2011, the consensus from various segments of Indian society was overwhelming in favor of retail reforms.^[36]

The reform outline was presented in India's Rajya Sabha in August 2011. The announced reforms are the result of this consensus process. The current opposition is not helping the consensus process, since consensus is not built by threats and disruption. Those who oppose current retail reforms should help build consensus with ideas and proposals, if they have any. The opposition parties currently disrupting the Indian parliament on retail reforms have not offered even one idea or a single proposal on how India can eliminate food spoilage, reduce inflation, improve food security, feed the poor, improve the incomes of small farmers.

Thus from the above contrasting views of critics and supporters; and also with reference to Industry analysis using Porter's five force model, it can be inferred that opening of the Indian retail sector will advance the welfare of nation as a whole.

SWOT Analysis of Retail Sector:

1. Strengths:

Major contribution to GDP: the retail sector in India is hovering around 33-35% of GDP as compared to around 20% in USA.

High Growth Rate: the retail sector in India enjoys an extremely high growth rate of approximately 46%.

High Potential: since the organised portion of retail sector is only 2-3%, thereby creating lot of potential for future players.

High Employment Generator: the retail sector employs 7% of work force in India, which is rite now limited to unorganised sector only. Once the reforms get implemented this percentage is likely to increase substantially.

Weaknesses (limitation):

Lack of Competitors: AT Kearney's study on global retailing trends found that India is least competitive as well as least saturated markets of the world.

Highly Unorganised: The unorganised portion of retail sector is only 97% as compared to US, which is only 20%.

Low Productivity: Mckinsey study claims retail productivity in India is very low as compared to its international peers.

Shortage of Talented Professionals: the retail trade business in India is not considered as reputed profession and is mostly carried out by the family members (self-employment and captive business). Such people are not academically and professionally qualified.

No Industry' status, hence creating financial issues for retailers: the retail sector in India does not enjoy industry status in India, thereby making difficult for retailers to raise funds.

3. Opportunities (benefits):

There will be more organization in the sector: Organized retail will need more workers. According to findings of KPMG , in China, the employment in both retail and wholesale trade increased from 4% in 1992 to about 7% in 2001, post reforms and innovative competition in retail sector in that country.

Healthy Competition will be boosted and there will be a check on the prices (inflation): Retail giants such as Walmart, Carrefour, Tesco, Target and other global retail companies already have operations in other countries for over 30 years. Until now, they have not at all become monopolies rather they have managed to keep a check on the food inflation through their healthy competitive practices.

Create transparency in the system: the intermediaries operating as per mandi norms do not have transparency in their pricing. According to some of the reports, an average Indian farmer realises only one-third of the price, which the final consumer pays.

Intermediaries and mandi system will be evicted, hence directly benefiting the farmers and producers: the prices of commodities will automatically be checked. For example, according to Business Standard, Walmart has introduced —Direct Farm Project at Haider Nagar in Punjab, where 110 farmers have been connected with Bharti Walmart for sourcing fresh vegetables directly.

Quality Control and Control over Leakage and Wastage: due to organisation of the sector, 40% of the production does not reach the ultimate consumer. According to the news in Times of India, 42% of the children below the age group of 5 are malnourished and Prime Minister Dr. Manmohan Singh has termed it as —national shame. Food often gets rot in farm, in transit and in state-run warehouses. Cost conscious and highly competitive retailers will try to avoid these wastages and losses and it will be their endeavour to make quality products available at lowest prices, hence making food available to weakest and poorest segment of Indian society.

Heavy flow of capital will help in building up the infrastructure for the growing population:

operating in budgetary deficit. Neither the government of India nor domestic investors are capable of satisfying the growing needs (school, hospitals, transport etc.) of the ever growing Indian population. Hence foreign capital inflow will enable us to create a heavy capital base.

There will be sustainable development and many other economic issues will be focussed upon:

many Indian small shop owners employ workers, who are not under any contract and also under aged workers giving rise to child-labour. It also boosts corruption and black mone

4. Threats:

Current Independent Stores will be compelled to close:

This will lead to massive job loss as most of the operations in big stores like Walmart are highly automated requiring less work force.

Big players can knock-out competition: they can afford to lower prices in initial stages, become monopoly and then raise price later.

India does not need foreign retailers: as they can satisfy the whole domestic demand.

Remember East India Company it entered India as trader and then took over politically.

The government hasn't able to build consensus.

In view of the above analysis, if we try to balance opportunities and prospects attached to the given economic reforms, it will definitely cause good to Indian economy and consequently to public at large, if once implemented. Thus the period for which we delay these reforms will be loss for government only, since majority of the public is in favour of reforms. All the above mentioned drawbacks are mostly politically created. With the implementation of this policy all stakeholders will benefit whether it is consumer through quality products at low price, farmers through more transparency in trading or Indian corporates with 49% profit share remaining with Indian companies only.

CHAPTER-5

Effects of FDI on various Stakeholders

Impact on Farming Communities

A supermarket revolution has been underway in developing countries since the early 1990s. Supermarkets (here referring to all modern retail, which includes chain stores of various formats such as supermarkets, hypermarkets, and convenience and neighbourhood stores) have now gone well beyond the initial upper- and middle-class clientele in many countries to reach the mass market. Within the food system, the effects of this trend touch not only traditional retailers, but also the wholesale, processing, and farm sectors.

When supermarkets modernize their procurement systems, they require more from suppliers with respect to volume, consistency, quality, costs, and commercial practices.

Supermarkets' impact on suppliers is biggest and earliest for food processing and food-manufacturing enterprises, given that some 80% of what supermarkets sell consists of processed, staple, or semi-processed products. But by affecting processors, supermarkets indirectly affect farmers, because processors tend to pass on the demands placed on them by their retail clients. Supermarket chains prefer, if they are able, to source from medium and large processing enterprises, which are usually better positioned than small enterprises to meet supermarkets' requirements. The rise of supermarkets thus poses an early challenge to processed food microenterprises in urban areas.

By contrast, as supermarkets modernize the procurement of fresh produce (some 10–15% of supermarkets' food sales in developing countries), they increasingly source from farmers through —specialized and dedicated wholesalers (specialized in product lines and dedicated to modern segments) and occasionally through their own collection centers.

Where supermarkets source from small farmers, they tend to buy from farmers who have the most non-land assets (like equipment and irrigation), the greatest access to infrastructure (like roads and cold chain facilities), and the upper size treacle of land (among small farmers). Where supermarkets cannot source from medium- or large-scale farmers, and small farmers lack the needed assets, supermarket chains (or their agents such as the specialized and dedicated wholesalers) sometimes help farmers with training, credit, equipment, and other needs. Such assistance is not likely to become generalized, however, and so overtime asset-poor small farmers will face increasing challenges surviving in the market as it modernizes.

When farmers enter supermarket channels, they tend to earn from 20 to 50% more in net terms. Among tomato farmers in Indonesia, for example, net profit (including the value of own labour as imputed cost) is 33–39% higher among supermarket channel participants than among participants in traditional markets. Farm labour also gains. But supplying supermarket chains requires farmers to make more up-front investments and meet greater demands for quality, consistency, and volume compared with marketing to traditional markets.

Support for retail reforms

In a pan-Indian survey conducted over the weekend of 3 December 2011, overwhelming majority of consumers and farmers in and around ten major cities across the country support the retail reforms. Over 90 per cent of consumers said FDI in retail will bring down prices and offer a wider choice of goods. Nearly 78 per cent of farmers said they will get better prices for their produce from multi-format stores. Over 75 per cent of the traders claimed their marketing resources will continue to be needed to push sales through multiple channels, but they may have to accept lower margins for greater volumes.^[37]

Farmer groups

Various farmer associations in India have announced their support for the retail reforms. For example:

Shriram Gadhve of All India Vegetable Growers Association (AIVGA) claims his organization supports retail reform. He claimed that currently, it is the middlemen commission agents who benefit at the cost of farmers. He urged that the retail reform must focus on rural areas and that farmers receive benefits. Gadhve claimed, "A better cold storage would help since this could help prevent the existing loss of 34% of fruits and vegetables due to inefficient systems in place." AIVGA operates in nine states including Maharashtra, Andhra Pradesh, West Bengal, Bihar, Chattisgarh, Punjab and Haryana with 2,200 farmer outfits as its members.^[38]

Bharat Krishak Samaj, a farmer association with more than 75,000 members says it supports retail reform. Ajay Vir Jakhar, the chairman of Bharat Krishak Samaj, claimed a monopoly exists between the private guilds of middlemen, commission agents at the sabzi mandis (India's wholesale markets for vegetables and farm produce) and the small shopkeepers in the unorganized retail market. Given the perishable nature of food like fruit and vegetables, without the option of safe and reliable cold storage, the farmer is compelled to sell his crop at whatever price he can get. He cannot wait for a better price and is thus exploited by the current monopoly of middlemen. Jakhar asked that the government make it mandatory for organized retailers to buy 75% of their produce directly from farmers, bypassing the middlemen monopoly and India's sabzi mandi auction system.

Consortium of Indian Farmers Associations (CIFA) announced its support for retail reform. Chengal Reddy, secretary general of CIFA claimed retail reform could do lots for Indian farmers. Reddy commented, —India has 600 million farmers, 1,200 million consumers and 5 million traders. I fail to understand why political parties are taking an anti-farmer stand and worried about half a million brokers and small shopkeepers. CIFA mainly operates in Andhra

Pradesh, Karnataka and Tamil Nadu; but has a growing member from rest of India, including Shetkari Sanghatana in Maharashtra, Rajasthan Kisan Union and Himachal Farmer Organisations.

Prakash Thakur, the chairman of the People for Environment Horticulture & Livelihood of Himachal Pradesh, announcing his support for retail reforms claimed FDI is expected to roll out produce storage centers that will increase market access, reduce the number of middlemen and enhance returns to farmers.^[39] Highly perishable fruits like cherry, apricot, peaches and plums have a huge demand but are unable to tap the market fully because of lack of cold storage and transport infrastructure. Sales will boost with the opening up of retail.

Even though India is the second-largest producer of fruits and vegetables in the world, its storage infrastructure is grossly inadequate, claimed Thakur.

Sharad Joshi, founder of Shetkari Sangathana (farmers' association), has announced his support for retail reforms.^[40] Joshi claims FDI will help the farm sector improve critical infrastructure and integrate farmer-consumer relationship. Today, the existing retail has not been able to supply fresh vegetables to the consumers because they have not invested in the backward integration. When the farmers' produce reaches the end consumer directly, the farmers will naturally be benefited. Joshi feels retail reform is just a first step of needed agricultural reforms in India, and that the government should pursue additional reforms.

Suryamurthy, in an article in The Telegraph, claims farmer groups across India do not support status quo and seek retail reforms, because with the current retail system the farmer is being exploited. For example, the article claims: ^[41]

Indian farmers get only one third of the price consumers pay for food staples, the rest is taken as commissions and mark-ups by middlemen and shopkeepers.

For perishable horticulture produce, average price farmers receive is barely 12 to 15% of the final price consumer pays.

Indian potato farmers sell their crop for Rs.2 to 3 a kilogram, while the Indian consumer buys the same potato for Rs.12 to 20 a kilogram.^[42]

Case Studies of how various MNC's are helping Farmers [43]

CASE 1. PepsiCo India HELPING FARMERS IMPROVE YIELD AND INCOME

The company's vision is to create a cost-effective, localized agro-supply chain for its business by: Building PepsiCo's stature as a development partner by helping farmers grow more and earn more. Introducing new high-yielding varieties of potato and other edibles. Introducing sustainable farming methods and practising contact farming.

Making world-class agricultural practices available to farmers and helping them raise farm productivity.

Working closely with farmers and state governments to improve agro-sustainability and crop diversification.

Providing customized solutions to suit specific geographies and locations. Facilitating financial and insurance services in order to de-risk farming.

THE JOURNEY SO FAR

Where stand today, at a glimpse

Today PepsiCo India's potato farming programme reaches out to more than 12,000 farmer families across six states. We provide farmers with superior seeds, timely agricultural inputs and supply of agricultural implements free of charge.

We have an assured buy-back mechanism at a prefixed rate with farmers. This insulates them from market price fluctuations.

Through our tie-up with State Bank of India, we help farmers get credit at a lower rate of interest.

We have arranged weather insurance for farmers through our tie-up with ICICI Lombard.

We have a retention ratio of over 90%, which reveals the depth and success of our partnership.

In 2010, our contract farmers in West Bengal registered a phenomenal 100% growth in crop output, creating in a huge increase in farm income.

The remarkable growth has resulted in farmers receiving a profit between Rs.20, 000– 40,000 per acre, as compared to Rs.10000–20,000 per acre in 2009.

Case 2. Bharti Walmart initiative through Direct Farm Project

Corporate Social Responsibility (CSR) initiatives in Bharti Walmart are aimed at empowerment of the community thereby fostering inclusive growth. Through our philanthropic programs and partnerships, we support initiatives focused on enhancing opportunities in the areas of education, skills training and generating local employment, women empowerment and community development.

In conjunction with the farmers' development program in Punjab, community-building activities have been implemented in village, Haider Nagar. Due to lack of sanitation facilities, households tend to use the farm fields, thereby affecting yields and impacting the produce that is being supplied to stores. In order to improve the yields and the community's way of life, we are working on the issues of Sanitation and Biogas, Education, Awareness Building and Health and Hygiene.

Education: 100% children enrolled in formal education program.

Children's group had been formed to discuss children issues. All the non-school going children had been given non-formal basic education required to mainstream them in the government schools. A sanitation block has been constructed, hand pump has been installed and school uniforms have been donated to create a better learning environment for children. Fifteen students have been mainstreamed back in school.

Health and Hygiene: A dispensary has been started in Haider Nagar to help people avail medical facilities in the village itself. Nearly 2000 patients have availed the dispensary facilities. Twenty Community Dustbins have also been installed in the village to bring about a change in the living conditions of the people and to provide them garbage free environment.

Sanitation and Biogas: Ensured that 100% households have toilets in the village. Eighty Bio Gas plants have been installed to help people conserve gas energy and utilize the waste generated from their cattle and toilets; thus making the environment healthier.

Waste Management: twenty Community Dustbins have been installed in the village to bring about a change in the living conditions of the people and to provide them garbage free environment thus ensuring a healthier living.

This and many other cases suggest that opening of Indian retail sector to FDI is a win-win situation for farmers. Farmers would benefit significantly from the option of direct sales to organized retailers. For instance, the profit realization for farmers selling directly to the organized retailers is expected to be much higher than that received from selling in the mandis. Also Rise in the organized retail whether domestic or through entry of foreign players will lead to an increase in investments in both forward and backward infrastructure such as cold chain and storage infrastructure, warehousing and distribution channels thereby leading to improvement in the supply chain infrastructure in the long run. Global majors such as Wal-mart, Carrefour and Tesco are expected to bring a global scale in their negotiations with the MNCs such as Unilever, Nestlé, P&G, Pepsi, Coke, etc. The improved cold chain and storage infrastructure will no doubt lead to a reduction in losses of agriculture produce. It may also lead to removal of intermediaries in the retail value chain and curtail other inefficiencies. And this may, result in higher income for a farmer.

Impact on Traditional Mom and Pop Stores

The main question being raised is whether the traditional mom and pop stores will survive and co-exist or leave the field for major organized retail players?

The answer could be a co-existence. The major advantage for the smaller players is the size, complexity and diversity of our Indian Markets. If we look at the organized retail players, most of them have opened shop in the Metros, Tier 1 and Tier 2 towns. Very rarely do we find organized players in the rural areas and we have more than 70% of the population living in the rural areas.

There are a multitude of reasons being floated around to prevent the liberalisation of the FDI norms for Indian retail:

Primary among these is the concern regarding the kirana stores as well other locally operated Mom and Pop stores being adversely affected by the entry of global retail giants such as Walmart, Carrefour and Tesco. As these brands would come with advanced capabilities of scale and infrastructure in addition to having deep pockets, it is argued that this would result in the loss of jobs for lakhs of people absorbed in the unorganised sector.

Fears have also been raised over the lowering of prices of products owing to better operational efficiencies of the organised players that would affect the profit margins of the unorganised players.

Instability surrounding the political arena with a number of scams of varying magnitudes doing the rounds has also led to a sense of uncertainty among foreign investors.

Many Industry experts though, feel that the reservations against the introduction of Multi-Brand retail are mostly misplaced. The successful deployment of 100%FDI in China is a case in point. Partial FDI in retail was introduced in 1992 in China.

Subsequently, in December 2004, the Chinese retail market was fully opened up to utilise the enormous manpower and wide customer base available that has led to a rapid growth of the sector. Today, its retail sector is the second largest (in value) in the world with global retailers such as Walmart, 7-Eleven and Carrefour comprising 10% of the total merchandise.

Multi-brand retail, if allowed, is expected to transform the retail landscape in a significant way:

Firstly, the organised players would bring in the much needed investment that would spur the further growth of the sector. This would be particularly important for sustenance of some of the domestic retailers that don't have the resources to ride out the storm during an economic slump such as the case with Vishal, Subhiksha and Koutons, which couldn't arrange for funds to sustain their growth.

The technical know-how, global best practices, quality standards and cost competitiveness brought forth through FDI would augur well for the domestic players to garner the necessary support to sustain their growth.

Indian has also been crippled by rising inflation rates that have refused to come within accepted levels. A key reason for this has been attributed to the vastly avoidable supply chain costs in the Indian food and grocery sales which has been estimated to be a whopping US\$ 24 Bn. The infrastructure support extended to improve the backend processes of the supply chain would enable to eliminate such wastages and enhance the operational efficiency.

FDI in multi-brand retail would in no way endanger the jobs of people employed in the unorganised retail sector. On the contrary, it would lead to the creation of millions of jobs as massive infrastructure capabilities would be needed to cater to the changing lifestyle needs of the urban Indian who is keen on allocating the disposable income towards organised retailing in addition to the local *kirana* stores. These stores would be able to retain their importance owing to their unique characteristics of convenience, proximity and skills in retaining customers. Also, these would be more prominent in the Tier-II and Tier-III cities where the organised supermarkets would find it harder to establish themselves.

FDI in multi-brand retail is therefore a necessary step that needs to be taken to propel further growth in the sector. This would not only prove to be fruitful for the economy as a whole but will also integrate the Indian retail sector with the global retail market. It is not a question of ‘how’ it will be done but ‘when’.

Contrary to the above view,

Traditional retailing has been established in India for many centuries, and is characterized by small, family-owned operations.

Because of this, such businesses are usually very low-margin, are owner-operated, and have mostly negligible real estate and labour costs. Moreover, they also pay little by way of taxes. Consumer familiarity that runs from generation to generation is one big advantage for the traditional retailing sector. It is often said that the mom-and-pop store in India is more like a father-and-son enterprise. Such small shops develop strong networks with local neighborhoods.

The informal system of credit adds to their attractiveness, with many houses ‘running up a tab’ with their neighbourhood *kirana* store, paying it off every fortnight or month. Moreover, low labour costs also allow shops to employ delivery boys, such that consumers may order their grocery list directly on the phone. These advantages are significant, though hard to quantify. In contrast, players in the organized sector have to cover big fixed costs, and yet have to keep prices low enough to be able to compete with the traditional sector. Getting customers to switch their purchasing away from small neighbourhood shops and towards large-scale retailers may be a major challenge. The experience of large Indian retailers such as Big Bazaar shows that it is indeed possible. Anecdotal evidence of consumers who return from such shops suggests that the wholesale model provides for major bargains – something Indian consumers are always on the lookout for.

The other major challenge for retailers in India, as opposed to the US, is the storage setup of households. For the large-scale retail model to work, consumers visit such large stores and return with supplies likely to last them for a few weeks. Having such easy access to neighbourhood stores with whom, as discussed above, it is possible to have a line of credit and easy delivery service, congested urban living conditions imply that few Indian households might be equipped with adequate storage facilities.

In urban settings, real estate rents are also very high. Thus opportunities in this sector are limited to those retailers with deep pockets, and puts pressure on their margins. Conversely for retailers looking to set up large stores at a distance from residential neighbourhoods may struggle to attract consumers away from their traditional sources of groceries and other products.

Impact of organized retail on unorganized Retail (Case Study – China)

Myth: Organized global retailers eat up local retail chains including mom and pop stores

Truth: China, which brought in global retailers like Wal-Mart in 1996, has just about 20% of organized retail meaning the argument that unorganized retail gets decimated, is fallacious.

1. FDI in retailing was permitted in China for the first time in 1992. Foreign retailers were initially permitted to trade only in six Provinces and Special Economic Zones. Foreign ownership was initially restricted to 49%.

2. Foreign ownership restrictions have progressively been lifted and, and following China's accession to WTO, effective December, 2004, there are no equity restrictions.

3. Employment in the retail and wholesale trade increased from about 4% of the total labour force in 1992 to about 7% in 2001. The numbers of traditional retailers were also increased by around 30% between 1996 and 2001.

4. In 2006, the total retail sale in China amounted to USD 785 billion, of which the share of organized retail amounted to 20%.

5. Some of the changes which have occurred in China, following the liberalization of its retail sector, include:

Over 600 hypermarkets were opened between 1996 and 2001

The number of small outlets (equivalent to „kiranas“) increased from 1.9 million to over 2.5 million.

Employment in the retail and wholesale sectors increased from 28 million people to 54 million people from 1992 to 2000

Effect of FDI on Traditional Market in China Type No. of stores in 1996 No. of stores in 2001

Type	No. of stores in 1996	No. of stores in 2001
Traditional	1,920,604	2,565,028
Supermarkets	13,079	152,194
Convenience		18,091
Hypermarkets		593

Source: Foreign Direct Investment in Retail – ICICI Bank (2004)

Thus the above discussion and case of China suggest that it is too early to predict the erosion of mom and pop stores in India with opening of multi-brand retail sector in India to foreign investors.

5.3 Impact on Consumers and existing Supermarkets

Supermarkets tend to charge **consumers** lower prices and offer more diverse products and higher quality than traditional retailers—these competitive advantages allow them to spread quickly, winning consumer market share. In most countries supermarkets offer lower prices first in the processed and semi-processed food segments.

Only recently, mainly in the first- and second-wave countries have supermarket prices for fresh fruits and vegetables been lower than traditional retailers' (except in India). The food price savings accrue first to the middle class, but as supermarkets spread into the food markets of the urban poor and into rural towns, they have positive food security impacts on poor consumers. For example, in Delhi, India, the basic foods of the urban poor are cheaper in supermarkets than in traditional retail shops: rice and wheat are 15% cheaper and vegetables are 33% cheaper.

Existing Indian retail firms such as Spencer's, Foodworld Supermarkets Ltd, Nilgiri's and ShopRite support retail reform and consider international competition as a blessing in disguise. They expect a flurry of joint ventures with global majors for expansion capital and opportunity to gain expertise in supply chain management. Spencer's Retail with 200 stores in India, and with retail of fresh vegetables and fruits accounting for 55% of its business claims retail reform to be a win-win situation, as they already procure the farm products directly from the growers without the involvement of middlemen or traders. Spencer's claims that there is scope for it to expand its footprint in terms of store location as well as procuring farm products. Foodworld, which operates over 60 stores, plans to ramp up its presence to more than 200 locations. It has already tied up with Hong Kong-based Dairy Farm International. With the relaxation in international investments in Indian retail, India's Foodworld expects its global relationship will only get stronger.

CHAPTER-6

Competition Assessment Framework

Department of Industrial Policy & Promotion and Foreign Exchange Management Act, 1999

India has an open-arm policy for regulating FDI into the country. Under the current policy, foreign investment is permitted in virtually all sectors without government approval, except for a few sectors of strategic importance (such as banking, defence, media, telecom) where policy prescribes equity caps or certain conditions for obtaining prior approval from the government. The FDI policy is framed by the Department of Industrial Policy and Promotion (DIPP), the Ministry of Commerce and Industry and implemented by the Reserve Bank of India (RBI) for cases falling under the automatic route (i.e. not requiring prior government approval). For cases under the government route, approval is granted by the Foreign Investment Promotion Board (FIPB), which includes representatives of various central government ministries and grants approval on a case-by-case basis. Apart from the sectors which are of strategic importance that require government approval, there is a small list of sectors in which FDI is currently prohibited. Presently, this list includes retail trading (except _for single brand‘ retail trading).

In July 2010, the DIPP released a discussion paper inviting public comments on issues concerning FDI in multi-brand retail trading. This discussion paper included an analysis of the following:

The contribution of organised and unorganised retail to the Indian economy

The need for FDI to fill the gaps that exist in the Indian system in terms of weak back-end infrastructure

The impact of FDI permissibility on the retail sectors in China, Thailand, Russia, Chile and Indonesia.

The views of stakeholders were invited on issues such as the proposed FDI cap to be imposed, mandatory investment in developing back-end infrastructure, minimum employment opportunities for rural youth, minimum percentage of sourcing from the small and medium enterprises (SME) sector, the integration of small retailers in the upgraded supply chain, etc. More than 250 responses were received and a panel, including members from various ministries, was set up to analyse the responses and formulate the policy of the government permitting FDI in multi-brand retail trading. The matter is currently under consideration by the government. If it is decided to allow FDI in multi-brand retail trading, it is expected that the policy will impose certain obligations on foreign investors such as a minimum capital infusion and the use of funds for the development of an organised trading retail infrastructure. Another development is the Committee of Secretaries‘ recommendation, in July 2011, of allowing FDI in multi-brand retail, subject to conditional ties.

Agriculture Produce Marketing Committee Act

States and union territories have enacted the Agriculture Produce Marketing Committee (APMC) Act regulating the procurement of agricultural and fisheries produce, including fresh fruits and vegetables. A few States permit direct procurement from farmers. Others require the agricultural produce to be brought into designated market yards and sold through an auction mechanism. With a view to streamlining the procurement system, the government has asked state governments to review their APMC Acts and enable direct procurement from farmers, besides simplifying the procedures. The government has also taken measures to improve the existing supply chain and facilitating farm-to-fork integration. For example, tax benefits have been provided and foreign currency loans are permissible for establishing cold chain storage facilities.

Many have been demanding an overhaul or scrapping of the APMC Act, which breeds profiteering middlemen, but the movement has been slow or inadequate. Political patronage among other factors is the reason for its slow movement. The onion price crisis in 2011 was mainly due to the fact that wholesale traders indulged in price gouging though not necessarily in a cartelised fashion. This has happened many times before and will continue to happen in future also. Price leaders set the trend for increased prices, which may be termed as abuse of collective dominance. It is also a result of governance failure, when the administration was not alert and did not use recourse to law or other safeguards. One service which these middlemen offer to farmers is unsecured credit, which in fact ties them to bring their produce to them. Alternative credit mechanisms will need to be developed to help farmers.

Monopolies and Restrictive Trade Policy Commission (MRTPC).

The MRTP Act was the product of an ideology that made the socialist pattern of society a desired objective of social and economic policy (Khurana 1981). It was passed in 1969 to ensure that the operation of the economic system does not result in the concentration of economic power to the common detriment, and dealt with monopolistic practices, restrictive practices, and unfair trade practices. The provisions for control of unfair trade practices was added in 1984, but in the post-1991 period of liberalisation of the economy, provisions relating to concentration of economic power were deleted by omitting Part A of Chapter III of the act. Only the powers to order division of undertakings and severance of interconnected undertakings were retained but even these were never used. The MRTP commission itself was virtually put into cold storage and only cases relating to unfair and restrictive practices were heard. Nothing highlights the state of neglect of competition policy in recent times. The new Competition Law and CCI do not aim to limit the concentration of economic power or to control monopolies directly but aim at (1) prohibiting anti-competitive agreements (2) prohibiting the abuse of dominance, and regulating combinations. Both cover the usual three areas with a much more post-World Trade Organisation orientation and avoid areas such as monopolistic pricing and —unfair trade practices, which are now part of consumer protection law.

Unlike earlier under the MRTPC, when although 26 predatory pricing inquiries were instituted from 1970 to 1990, only two cases were finalised and desist orders were passed, anti-competitive practices such as predatory pricing are now more clearly defined. These laws are of great significance in the retail sector where corporate retail uses a combination of predatory pricing, high advertising and promotional expenses as standard competitive strategy against smaller players.

The law defines predatory pricing comprehensively as —any agreement to sell goods at such prices as would have the effect of eliminating competition or a competitor. By 1990, the definition of predatory pricing had evolved to include an —understanding by even a single seller to fix prices below appropriate measure of cost for the purpose of eliminating competition in the short run or reducing competition in the long run. The sub-section of the law was also used to deal with cheap imports in the 1990s.

The availability of evidence of actual cost and the intention to eliminate competition thus became critical to prove predatory pricing as required under the new law. Proof of selling below cost and malafide intent, however, requires inspection of internal documents and cost auditing which is difficult more so in the case of firms located abroad. There is also disagreement about which cost should be taken into account – the marginal cost, average variable costs or the average total cost.

The other serious lacuna is the absence of adequately trained and experienced judicial staff in matters pertaining to interpretation of new competition policy in all its complexity. For instance, there are multifarious criteria (13 each for determining dominance and the anti-competitiveness of mergers) which are often subjective, contradictory, or vague, and open to varying interpretations, leading to inconsistent verdicts and high private and social costs. The MRTPC has been the regulatory authority since 1969 but it had little experience or expertise in dealing with the post-WTO global economic order, the multinational firms incorporated outside its jurisdiction or free imports.

It is in the process of being phased out and will be fully replaced by the Competition Commission. It is worth noting that even as early as 1965, despite the declared intent of preventing concentration of economic power there was an understanding that rapid industrialisation would lead to even greater concentration of economic power (MIC 1965). Throughout, key powers always lay with the government through its licensing policy and not with the MRTP Commissions.

It did not have any powers to pass orders to control such concentration but could only prepare reports for the government which were not binding. It was the same with the law regarding monopolistic practices. Besides the MRTP Commission and the government no private individual or party could initiate an inquiry. Hence, hardly any cases dealing with monopolistic trade practices (Singh 2000) were taken up. This point labours the fact that now hardly any legal expertise exists to deal with the issue and no firm expects to be curtailed for monopolistic practices in India. The new commission will inherit most of the investigative staff, lawyers and possibly some of the members of the MRTPC for lack of an alternative expertise pool. Of all the contentious issues that are being debated by members of the WTO, the relationship between foreign trade, investment, employment and competition policy is probably one of the least understood in India.

Competition Analysis-Interaction with Relevant Provisions of Competition Act of, 2002

Competition is not an end in itself – it is a means to the objective of economic efficiency. It benefits consumers by restraining prices and encouraging companies to innovate to provide better quality for the price paid. However, in some circumstances a monopoly or coordinated network of companies may be the most efficient arrangement such as where there are substantial economies of scale. Competition laws usually allow the competition authorities to assess the trade-off between the costs or harm to consumers of permitting a monopoly, versus potential benefits (e.g. economies of scale, better coordinated service).

The main anticompetitive practices that occur in the retail sector may be primarily categorized as, abuse of dominant position, anti-competitive agreements and anticompetitive mergers and takeovers.

Competition laws and enforcement are at the heart of retail regulation and they have been in a state of transition in India. The Competition Act (2002) could not be implemented until September 2007 and then too in an amended form. Sections 3, 4, 5 and 6 that deal with anticompetitive agreements, abuse of dominance and combinations are yet to be notified. It undertakes market studies and projects as part of its advocacy mandate.

Anti-competitive Agreements

Section 3^[43] of Competition Act, 2002 deals with anti-competitive

agreements. Section 3(3) mentions four types of horizontal agreements between enterprises involved in the same industry to which per se standard of illegality will be applied. However, corporate retailers in medium and large format may have horizontal agreements with property developers (two different industries) that elbow out other retailers particularly smaller ones in geographical zones.

Abuse of Dominant Position

Section 4^[44] of the Competition Act of 2002 prohibits abuse of dominance. It is to be noted here that it is not dominance per se that is prohibited but its abuse.

Abuse of dominant position is major concern in retail sector which leads to consolidation of the sector to the detriment of traditional retailers. To prove dominance of a corporate retailer, particularly multiproduct retailer, would not be simple because corporate retailers deal with many products and many geographical markets. Their dominance in one geographical market may be used to enter new markets, and to do so they may use a combination of predatory pricing and high promotional expenditure. To prove that a retail firm indulges in predatory practices, i.e., that it is selling below cost price may be difficult if it has vertical agreements with manufacturers or suppliers, and doubly so if such suppliers are located in foreign countries. News reports^[45] also claim that manufacturers give discounts to large retailers which they do not give to smaller ones. Large format corporate retailers are routinely found selling below the printed maximum retail price (MRP) which does not legally qualify as predatory pricing, i.e., selling below cost price. However, since they pay value added tax on the basis of MRP they are bearing a loss similar to that incurred in predatory pricing to drive

out competition from small and medium-size retailers in the market. A news report claimed that retail chains were able to maintain low prices and attract more customers in an inflationary scenario by offering low prices for essential food items and combo-offers (where products are bundled and effective price to the customer is lower than the wholesale price).

Another aspect of the law on predatory pricing is that the distinction between low prices which result from predatory behaviour and low prices which result from legitimate competitive behaviour is very thin and hard to determine. To determine these costs, they are required to be constructed on the basis of inputs, and profit margins via mandatory and effective cost auditing. Such cost-related data must be available for scrutiny. Predatory pricing considered only as an abuse of dominance is also a limited interpretation because multinational corporations or other firms making an entry into the Indian markets are not dominant when they practice predatory pricing. These different aspects of interpretation are relevant at the retail end of the market where global retailers are using predation and location as the main tools of entry.

Mergers and Takeovers

Section 5 of the Competition Act prescribes the thresholds under which combinations shall be examined. Section 6 states that —No person or enterprise shall enter into a combination which causes or is likely to cause an appreciable adverse effect on competition within the relevant market in India and such a combination shall be void. Besides this, the CCI also has the power to order a demerger under Section 28 of the Competition Act, 2002 if the merged entity is abusing its dominant position. This means that if the merged entity engages in any form of exploitative or exclusionary practice, the CCI can take suitable action including asking the merged firm to break up.

Though there exist regulations of combination clause in CCI act it may not be useful in case of a merger between a large retailer and a domestic supplier unless it matches the high ceiling limits set by CCI like the asset value of the enterprise being acquired is 1000 crores or a turnover of more than 3000 crores. Thus with these high limits many mergers may not come under the scrutiny of CCI at the time of merger but may at a later stage of abuse of dominance. What is needed for Indian retail sector and CCI to overlook such mergers is either a separate regime or tweaking of ceiling limits.

Modern merger review requires a careful balancing of the anti-competition effects of greater concentration against several possible efficiency gains, with the merging firms obviously keen to exaggerate the latter.

Competition issues are complex and matters having substantive competition content such as regulations of combinations, abuse of monopoly position leading to excessive pricing as well as anti-competitive agreements should be referred to the CCI. The role of CCI in the retail sector is critical due to the various competition issues prevailing in the sector as seen in this section especially given the trend of abuse of market power, it is imperative that CCI will work closely with other agencies to ensure fair and competitive functioning of retail sector.

Competing Rationales for Competition Law

The main competition concern that may arise with FDI in multi-brand sector is that the extreme levels of concentration among buyers situated in the middle of food supply chains, because extreme buyer concentration reduces the number of options available to sellers, i.e. farmers. Such concentration gives such buyers thereby considerable power to set the terms, conditions, and prices in their dealings with farmers thereby depriving farmers of the ability to earn enough income to feed themselves. For instance, studies have shown that the practice of dominant UK groceries retailers of passing on to Kenyan producers the cost of compliance with the retailers' private standards on hygiene, food safety and traceability has resulted in the moving away of food production from smallholders to large farms, —many of which were owned by the exporters, as well as the acquisition by such exporters of their own production capacity. In short, small farmers may be excluded from global grocery supply chains, thus severely damaging their incomes. Excessive reduction of farmers' incomes also breeds other evils. For example, in an effort to reduce costs, food manufacturers may dispense with proper environmental precautions in dumping waste materials, or poor farmers may be driven into making their children work on the farm leading to child abuse.

The most influential competition and antitrust regimes today primarily concern themselves with „**the protection of the competitive process to ensure an efficient allocation of**

resources, lower prices and greater consumer choice. In other words, the main thrust of most competition regimes at present is the protection of the interests of end consumers. For example, Neelie Kroes, the previous European Commissioner for Competition Policy, articulated this position in a speech given in London in October 2005: —Consumer welfare is now well established as the standard the Commission applies when assessing mergers and infringements of the Treaty rules on cartels and monopolies. From the consumer’s perspective, buyer power or concentration is generally viewed as a good thing leading to a more efficient allocation of resources; the downward pressure forces less efficient producers or to exit the market, leaving the field open for more efficient ones. Buyer concentration is especially beneficial if the buyer power essentially acts as a countervailing force against powerful sellers, or if the cost savings are then passed on to consumers. For the most part, modern competition law generally considers buyer power a positively benign pro-competitive force or, at the very least, a matter of little or no competitive concern.

However there are objections to buyer power that can be formulated from the perspective of consumer welfare. The most obvious one concerns when the sole or dominant buyer also has considerable market power in the downstream selling market. Conventional economic theory stipulates that the monopsonist (M), in order to maximize profits, will effectively reduce its demand for the input it purchases, and in the process reduce the price that the producers of those inputs obtain. In theory,

M will continue to reduce its demand to the point where the cost to it of suppliers dropping out exceeds the benefits to it of the price savings from the low prices asked for by the seller who remain in the market. Due to the reduction in the amount of inputs, the output produced by M will be similarly reduced. If the downstream selling market is competitive, other producers will make up for M’s shortfall, and the immediate welfare of end consumers will arguably not be affected.*¹ If, on the other hand, M is also dominant in the downstream market, the welfare of end consumers will be adversely affected by the diminution in quantity of the end product available, which is compounded by the fact that monopoly sellers tend to depress the quantity of their output in order to maximize their profits. These harms occur, however in long run. Thus, the suppliers may have nothing to set aside for such things as research and innovation, or even the replacement of deteriorating capital equipment. As such, over time, the quality of goods enjoyed by end consumers will decline, as suppliers either exit the market or consolidate, while new entrants are discouraged from replacing them due to the lack of incentive to do so. Where suppliers react to such buyer power by themselves merging and combining, end consumers can expect their choices to diminish. Though the immediate effect will be seen on small producers, however in long run consumer harms may become visible. It has been argued that pure monopsony is exceedingly rare in any market. Rather, it is more common to find that a market is dominated by a few powerful purchasers. It was stated earlier that monopsonies can be consumer welfare-enhancing if cost savings are passed on to end consumers. Dominant buyers in food supply chains do not generally seem to do this; instead, cost savings derived from driving down supplier prices tend to be retained by both input processors and end retailers. One explanation for this phenomenon, especially in the retail sector, is that when prices rise, retail consumers tend to shop around in search of a better bargain, thus pressuring retailers into raising prices in unison. However, the argument goes, when prices fall, they do not shop around quite so much, leading to less pressure to decrease prices all at the same time.*² According to this argument, the cause of price—stickiness is not buyer power, but the fact that consumers are willing to settle for a marginally higher price than trudge wearily from one supermarket to another in search of a better bargain. This defence misses the point: surely this is not supposed to happen in a competitive and efficient market, which by definition sends accurate price signals to all parties, including consumers.

Some types of abusive conduct, such as the passing on of excessive risks and costs to suppliers, are aimed simply at capturing welfare from producers, while others, such as —waterbedding and predatory bidding up of input prices, also have this effect but are designed primarily to exclude the buyer’s competitors on both upstream and downstream markets. Some categories of buyer conduct may be considered abusive are:

Waterbed Effects

Waterbed effects refer to when a dominant buyer demands from sellers a discount from the market price that reflects the savings made by the seller due to production economies of scale. This may effectively mean that the dominant buyer alone captures the savings or an inequitably large proportion thereof, such that the seller cannot pass on these savings to other buyers. This then puts the non-dominant buyers at a competitive disadvantage in the downstream market, leading to the acquisition by the firm of dominance on both the buying and selling markets. It should be noted that the disadvantage borne by smaller buyers need not necessarily manifest itself in price increases; they may come in the form of shortages in supply to smaller buyers because of volume purchases by large, dominant ones, or in poorer service by sellers to smaller buyers.

According to the *Working Paper on the Waterbed Effect* (henceforth *Working Paper*) the intuitive explanation for the waterbed effect is as the result of a —virtuous circle that is caused by some buyers being larger than others. A refusal by a seller to supply would affect a large buyer less than it would affect a small buyer. As such, small buyers are in a worse bargaining position than large ones, and are not able to demand the same low prices extracted by large buyers. These lower input costs will be passed on to the buyer’s own customers in the form of lower prices, thus reinforcing the large buyer’s competitive edge. As large buyers become even larger (i.e. by retailers opening more outlets), their bargaining power increases, as does their competitive advantage over small buyers. Consumer welfare may be diminished in a number of ways: for instance, if the downstream market is also sufficiently concentrated, dominant buyers will face less pressure from their competitors, meaning that there will be little incentive for them to pass on cost savings to the end consumer. This means consumers may end up paying an artificially high price. Alternatively, consumer welfare may be diminished if such —waterbedding results in sellers leaving the market or foregoing investment in capital replacement and innovation. Consumers may thus be left with less choice in products, retail outlets, or lower quality products.

With regard to enforcement, competition law faces a big problem in fashioning effective remedies for such abusive pricing practices of individual firms. Firstly, as may be gleaned from the above discussion, it may be difficult to distinguish an abusive price from a legitimate price extracted by a large buyer on account of its purchasing economies of scale

However, this difficulty should not be exaggerated. The crucial factor should be whether the seller increases costs to small buyers in response to discounts given to large buyers.

Secondly there is the matter of fashioning a remedy. Competition authorities around the world will be rightfully wary of directly setting sale prices. One possible solution would be to ensure that there is only one sale price offered by the seller. However, the Act places the burden of enforcement in that it places the burden of compliance upon the seller, who is one of the victims of buyer power; it requires that sellers do not offer different prices for identical goods to different buyers.

Also important in this regard are confidentiality clauses, which increase the —switching costs borne by producers by reducing the amount of transparency in the market. They work particularly to the disadvantage of sellers, by leaving them unable to compare the various options available to them. The secrecy also allows buyers to set prices differently for different producers.

The possible remedy may come in the form of a simple injunction or a regulation prohibiting buyers from buying other than in set quantities, and requiring them to accept tenders from all potential sellers. A caveat must be made this general rule for —contract farming, where buyers provide other valuable consideration to farmers such as access to cheap credit and other inputs.

Retrospective Adjustments to Terms of Supply

In retail markets, suppliers make investment decisions based on variable market conditions. All decisions are made by estimating the likely returns and balancing them against the risks involved by that particular course of conduct. Retail buyers on the other hand, have strong incentives, given the stressful nature of the sales market, to pass excessive risks and unexpected costs onto their suppliers. Such conduct will have the effect of capturing excessive supplier welfare, thereby removing seller's incentive to invest in capital equipment and innovation. According to the studies, retrospective adjustments to the terms of supply are the primary means by which excessive appropriation of producer welfare is facilitated.

Implications of the Duty to Protect upon Competition laws

As demonstrated above, a plausible argument can be made for the curtailing of buyer concentration and power in agricultural markets, from the standpoint of consumer welfare protection alone.

Indeed, the use of competition controls to prevent the occurrence of presently unquantifiable future harms occurs regularly in merger regulation.

Some may counter, assuming the existence of credible merger regulation should suffice for competition control of abuses of dominance to apply only when consumer harms arising from buyer power reach some adequate level of —ripeness. This would be inadequate. By the time the consumer harms manifest themselves in higher prices and reduced choice and quality; too many producers may have left the market or consolidated in order for competition remedies to have any corrective effect. In other words, it may be far too late to do anything. Thus with the above study though there are possibilities for long run harm for consumers, in developing country like India where there are chances of hybrid model of retail emerging, the long run harm on consumers is less likely and thus argument against FDI in retail on this grounds and anti-competitive issue thus arising will be not be a concern and FDI coming can be a beneficial factor for economy as a whole.

PRO AND CONS

Those against:

- It will lead to closure of tens of thousands of mom-and-pop shops across the country and endanger livelihood of 40 million people**
- It may bring down prices initially, but fuel inflation once multinational companies get a stronghold in the retail market**
- Farmers may be given remunerative prices initially, but eventually they will be at the mercy of big retailers**
- Small and medium enterprises will become victims of predatory pricing policies of multinational retailers**
- It will disintegrate established supply chains by encouraging monopolies of global retailers**

Those in favour:

- It will cut intermediaries between farmers and the retailers, thereby helping them get more money for their produce**
- It will help in bringing down prices at retail level and calm inflation**
- Big retail chains will invest in supply chains which will reduce wastage, estimated at 40 percent in the case of fruits and vegetables**
- Small and medium enterprises will have a bigger market, along with better technology and branding**
- It will bring much-needed foreign investment into the country, along with technology and global best-practices**
- It will actually create employment than displace people engaged in small stores**
- It will induce better competition in the market, thus benefiting both producers and consumers (*With IANS inputs*)**

CHAPTER-7

7.1 Following are the few recommendations for formulation of policies by government:

Much of the Indian retail trade (particularly grocery) still has traditional features: small family-run shops and street hawkers dominate the situation in most of the country. However, the retail trade in India is now undergoing an intensive structural change which could cause irreversible damage to local commodity supply chains and competition. The existing regulations are not adequate to fulfil the new requirements. India can learn (and perhaps forestall loss of genuine competition and product variety) from the experience of south-east Asian countries which are improving regulatory frameworks and some advanced retailing economies like Germany which are already considered more successful regulators in this sector. German competition policies in content and implementation are significant for India to the extent that they are different from other advanced retailing countries like the US and Great Britain. German policy now proactively aims to preserve small and medium competitors in retail sector.

Policies for —**Competitiveness with Inclusiveness** in the Supermarket Revolution. As the supermarket revolution proceeds in developing countries, governments have several options for helping small farmers participate in supermarket channels (or gain access to viable alternatives) and traditional retailers coexist or compete with the modern retail sector.

Option 1: Regulate Modern Retail? To the extent developing countries have regulated modern retail; their goal has been to reduce the speed and scope of its spread. The regulations have mainly limited the location and hours of modern retail. On balance, these regulations have done little to limit supermarket spread, partly because although regulations tend to target large-format stores (and thus not limit small traditional stores), modern retail comes in a wide variety of formats, including neighbourhood stores and convenience stores.

Few developing countries have a pro-traditional or pro-small retail policy. Instead they usually take a laissez-faire approach to small shops and hawkers and make minimum initial public investments in open and covered municipal markets. A number of developing countries even have policies that encourage the development of supermarkets and regulate wet-markets in order to modernize commerce, lower food prices and congestion, and increase public hygiene and economic competitiveness.

Finally, in the early stages of supermarket spread, the supermarket sector is relatively fragmented (weakly concentrated), and farmers and processors thus have a wide range of potential buyers among supermarket chains and between the modern and traditional sectors. In the advanced stage of supermarket spread, however, the sector becomes concentrated— for example, in Latin America four to five chains typically control about 75 percent of a sector that in turn controls an average of 55 percent of food retail. At that stage it is important for governments and the private sector to enforce competition policies.

Option 2: Upgrade Traditional Retail. A number of good examples of programs to upgrade traditional retail exist. Of particular interest are those of East and Southeast Asia, such as in China, Hong Kong, the Philippines, Singapore, and Taiwan. In most of these countries, the programs in question are municipal, sometimes under a national umbrella policy. The programs have several elements in common.

Governments involved in these programs have a —broad tent approach—that is, they allow development of supermarkets as well as traditional retailers.

They are proactive: the Hong Kong Consumer Council’s dictum of —managing and facilitating change rather than leaving wet-markets to flounder and collapse, characterizes all the East and Southeast Asian approaches studied.

They promote traditional retailer modernization and competitiveness. Singapore’s approach is to —cherish but upgrade and modernize. Hong Kong’s policy is to —retain but modernize.

They accept the social and market role of wet-markets, hawkers, and small traditional shops but encourage them to locate in non-congested areas and on fixed sites (to increase hygiene and tax payment) and to improve their physical infrastructure. They also train the operators in business skills, food safety, and hygiene.

They experiment with privatizing wet-market management in some cases (such as in China and Hong Kong)

Option 3: Upgrade Wholesale Markets to Serve Retailers and

Farmers Better. Small shops and wet-market stall operators typically source food products from wholesale markets, which typically buy from small farmers. Upgrading wholesale markets' infrastructure and services is thus important to the whole traditional supply chain. Private-sector actors are helping traditional retailers (and supermarket independents and chains) obtain the services and products they need.

Examples are modern cash-and-carry chains that act as wholesalers, like Bharti/Wal-mart in India, Metro in China, and Makro in Pakistan. But governments and wholesaler associations also need to invest in upgrading wholesale markets in order to maximize access by farmers and retailers. Such programs have been undertaken in China and Mexico.

Option 4: Help Farmers Become Competitive Suppliers to

Supermarkets. Private-sector programs are emerging to help small farmers get the assets and services they need to supply supermarket channels. Metro, for example, has direct procurement links to fish and vegetable farmers in China. Agri-food businesses in India, like ITC, Tata, Godrej, Reliance, and DSCL Hariyali, have rural business hubs that offer consumables, farm inputs, and technical assistance and procure output from farmers

Governments need to supplement private efforts with public investments in improving farmers' access to assets, services, training, and information. Some of these assets are public goods, such as regulations on retailer-supplier relations to promote fair commercial practices, wholesale market upgrading, market information, and physical infrastructure such as cold chains and roads. Other assets are semi-public or private goods, such as assistance with market linkages between small farmer cooperatives and supermarket chains; training in postharvest handling; and credit facilities for making on-farm investments in assets needed to meet quality and volume requirements, such as irrigation and greenhouses.

Option 5: Urban Planning Laws. The state of urban planning in India is such that there is as yet no ceiling on the size or number of retail outlets that may be started in a designated commercial zone. The ministry of urban development at the central level has no jurisdiction over urban area planning in the states except in the case of exceptional laws pertaining to the coastal regions, forests, the Delhi region and union territories. It is clear that land use laws/zoning laws are not the most commonly used regulatory devices against large format retailing and at present the land use laws in urban centres are in the most pliant condition since the local governments implement them and they are most susceptible to omission and commission on behalf of real estate developers who, in turn, share a common interest with corporate retailers. What is needed is to include regulations for the establishment of big retail projects in States Regional Planning documents. When municipalities allow big retail projects, they are scrutinised to ensure that they meet the requirements of regional planning.

The position of the neighbouring municipalities thus needs to be strengthened by a new law (that has been introduced to adjust German building law with European regulation). New big retail projects are now checked to assess their influence on the local supply. Investors in retail have to prove that their project will not end up affecting retail shops in the same or neighbouring municipality, and smaller shops in the neighbouring municipalities will not close down due to the new competition. The proposal of not allowing FDI in retail initially to major cities, SEZs as well as certain sectors; and also not allowing in cities with population of less than 1 million is move in right direction.

Option 6: Regulation of misleading statements an advertisements.

The law against dishonest competition (referred to as unfair trade practices in India) forbids a number of marketing practices which are regarded as dishonest.

These include misleading statements or advertisements about business circumstances, especially the nature, origin, manner of manufacture or the pricing of goods or commercial services or the size of the available stock. In a recently reported case in India a leading corporate retailer, Subhiksha claimed in advertisements that its prices were the lowest compared to rivals like Big Bazar, D-MART, and Apana Bazar, etc. Big Bazar filed a case against the advertisements and the Advertising and Standards Council of India is understood to have given its verdict in April 2007. However, the verdict has not been made public as yet.

Option 7: Regulatory Framework to avoid monopolistic practices. The possible monopolistic/ monopsonistic tendencies of the large retailers (fears of ‘predatory behaviour’ and ‘abuse of dominance’) would have to be proactively dealt to ensure competition in the market. Appropriate policy formulation can also aide this cause, as was done during the telecom sector liberalisation with the National Telecom Policy mandating that each circle should have at least 4-6 players. It is to be understood that free and fair competition in procurement of farm produce is the key to farmers’ enhanced remuneration.

PROBLEM FORMULATION

India is without doubt a 'growth' economy and many consider it an attractive country to invest in, particularly in its rapidly growing and changing retail market. However, Foreign Direct Investment (FDI) is restricted in the retail sector, and despite many years of debate, the regulations are still only changing very slowly and there are still lots of uncertainties.

Foreign Investors are watching India, ready for a piece of the action in the retail market, but there are still plenty of uncertainties, restrictions and potential socioeconomic risks.

This division of the retail sector, which has a very heavy weighting towards, unorganized, is just one of the issues contributing to the sensitive debate on FDI in India at the moment. What are the potential risks to the unorganized retail sector, and of course to the wider Indian economy? There are several groups who are Strongly opposed to FDI in the Indian retail sector, but are their concerns unfounded? Equally, could FDI in retail be a disaster for the sector and the Indian economy? What reforms are necessary, if any, to protect the subcontinent's domestic retail sector and national interests? Thus, retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption.

This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers retailing is the last link that connects the individual consumer with the manufacturing and distribution chain.

A retailer is involved in the act of selling goods to the individual consumer at a margin of profit. With this keeping in mind, the following objectives are formulated.

Retailing is the interface between the producer and the individual consumer, buying for personal consumption. This excludes direct interface between the manufacturer and the institutional buyers, such as the Government and other bulk customers.

Retail industry comprises both the organised and the unorganised sectors. Organised retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporatebacked hypermarkets and retail chains, and also the privately owned large retail businesses.

Unorganised retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner operated general stores, paan/beedi shops, convenience stores, hand cart, pavement vendors, etc. In India around 95% of the retail industry is unorganized.

Among the organized ones, the already established retailers in India are Pantaloon Retail, Shoppers' Stop, Marks & Spencer, Hyper City, Lifestyle, Subhiksha, Trent, Reliance Retail etc., which is 5% of the total retail market. Retail sector in India is estimated to account for about 10 per cent share in GDP, as compared to 8 per cent in China, 6 per cent in Brazil and 10 per cent in USA. India is estimated to have around 15 million retails outlets¹. India is now the last major frontier for globalized retail. In twenty years since the economic liberalisation of 1991, India's middle class has greatly expanded, and so has its purchasing power. But over the years, unlike other major emerging economies, India has been slow to open its retail sector to foreign investment. Recent signals from the government however suggest that this may be about to change: global supermarket chain store such as Wal-Mart (United States), Carrefour (France), Marks and Spencer and Tesco (United Kingdom), and Shoprite (South Africa) may finally be allowed to setup shops in India².

Background of Policy on FDI in Trading

As per the Statement on Industrial Policy dated 24th July, 1991, FDI in the Trading sector was permitted up to 51 % only in the trading companies, primarily engaged in export activities. In 1997 FDI in trading companies was permitted vide Press Note 3 (1997) as part of the guidelines for Foreign Investment Promotion Board (FIPB) for considering proposals for FDI. As per this policy, FDI up to 100% was permitted under the FIPB route in case of trading companies, for the following activities: (a) exports (b) bulk imports with ex-port/ex-bonded warehouse sales (c) cash and carry wholesale trading (d) other import of goods or services provided at least 75% is for procurement and sale of goods and services among the companies of the same group and not for third party use or onward transfer/distribution/sales.

As part of liberalisation process in the year 2000, in addition to FDI in export trading, bulk imports with ex-port/ex-bonded warehouse sales, and wholesale cash and carry trading, other permissible modes of trading as per the Export-Import Policy were opened up for FDI viz. in companies for providing after-sales service; domestic trading of products of joint ventures; trading of high-tech items; items for social sector; hi-tech medical and diagnostic items; items sourced from Small Scale Industries (SSI) sector; domestic sourcing of products for exports; test marketing of such items for which a company has an approval for manufacture provided such test marketing facility is for a period of two years and investment in setting up manufacturing facilities commences simultaneously with test marketing.

Current Regulation on FDI in Trading Sector FDI up to 51% is permitted, with prior Government approval in single brand retail and 100% is permitted under the automatic route in wholesale/cash and carry trading, including business-to-business sales, and export trading. FDI up to 100% is permitted with prior Government approval in trading of items sourced from small scale sector and test marketing. Also, FDI is permitted under the automatic route for Storage and Warehousing services, including warehousing of agricultural products with refrigeration (cold storage). The FDI limit of 74% was increased to 100%.

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FDI up to 51%, with prior Government approval, is allowed in retail trade of single brand products, subject to the following conditions: (i) FDI up to 51% would be allowed, with prior Government approval, for retail trade of Single Brand Products; (ii) Products to be sold should be of a 'Single Brand' only. (iii) Products should be sold under the same brand internationally. (iv) 'Single Brand' product-retailing would cover only products which are branded during manufacturing³ .

Provisions of other Countries

FDI in retail trade is allowed in most Asian countries. China has, from December, 2004, lifted all restrictions on the number or location of retail outlets and FDI up to 100% is permitted. Malaysia permits FDI up to 70% in the retail trade sector and proposals for FDI beyond 70% are considered on a case-to-case basis. Thailand, Indonesia and Brazil also permit 100% FDI in retail sector⁴ .

Rationale for FDI in Retail Trading

In the light of above mentioned various studies on impact the rationale for allowing the FDI in retail is that the Agriculture sector needs well-functioning markets to drive growth, employment and economic prosperity in rural areas of the country. Further, in order to provide dynamism and efficiency in the marketing system, large investments are required for the development of post-harvest and cold-chain infrastructure nearer to the farmers' field. FDI in front end retailing is imperative to fund this investment.

Allowing FDI in front end retail operations will enable organized retailers to generate sufficient cash to fund this investment. International retailers should be mandated to bring with them technology and management know-how which will ensure that investment in organized retail works to India's advantage. In order to provide dynamism and efficiency in the marketing system, large investments are required for organized retailing, linked with the back end of the value chain. FDI in front-end retailing is imperative to derive full advantage of the value chain for the producer and the consumer. FDI in retail, may, therefore, be an efficient means of addressing the concerns of farmers and consumers, as referred to above.

The private sector, especially organized retail, is best suited to make investments of this magnitude. Permitting foreign investment in food-based retailing is likely to ensure adequate flow of capital into the country & its productive use, in a manner likely to promote the welfare of all sections of society, particularly farmers and consumers.

It is therefore clear that organized retail cannot have a cake walk and will face a growing challenge from the unorganized retail sector. It is possible that the unorganized retail sector may be re-inventing itself, through new and improved practices, to meet the challenges posed by organized retail. It is also evident that without addressing the gaps in the value chain, organized retail will neither be profitable nor make any great difference to the economy.

'FDI in India's Retail Sector: More Bad than Good?

- i) The retail sector is severely constrained by limited availability of bank finance. The Government and the RBI need to evolve suitable policies to enable retailers in the organized and unorganized sector to expand and improve efficiencies.
- ii) A National Commission should be set up to study the problems of the retail sector which should also evolve a clear set of conditionalities on foreign retailers on procurement of farm produce, domestically manufactured merchandise and 10 Ibid -10- imported goods. These conditionalities must state minimum space, size and other details like construction and storage standards.
- iii) Entry of foreign players must be gradual with social safeguards so that the effects of labour dislocation can be analyzed and policy fine tuned. Foreign players should initially be allowed only in metros.
- iv) Manufacturing sector in India must be developed to address the dislocation of existing retailers¹¹ .

FDI in Multi Brand Retail

The Government on 20 September 2012 notified 51 per cent foreign direct investment in multi-brand retail, paving way for players such as Carrefour and Walmart to enter India. The notification will allow major retail chains like Walmart to hold majority stake in a local partner and also sell directly to consumers.

India's retail business is estimated between \$450 and \$600 billion and is growing at over 20 per cent on Compound Annual Growth Rate (CAGR) basis. Previously, 100 per cent FDI was allowed in cash and carry.

According to Government Policy, opening up of the retail sector will improve the farm-to-fork efficiency, besides building backend infrastructure like cold chain. The move will eliminate middlemen and also help in taming inflation. However, opening up of the retail sector will come with strict riders.

According to current policy on FDI in retail, foreign retailers will only be allowed to set up shop in cities with a population of more than 1 million, and must source at least 30 per cent of the goods from local and small industries. The State Governments will have the freedom to decide whether to allow the supermarkets on their patch and the minimum investment will be \$100 million in the near future.

The government's decision to open up foreign direct investment (FDI) in multibrand retail and relax rules for single-brand stores, is a useful reform in itself and, more importantly, allowing foreign retailers management control in multi-brand retail would ensure a well-capitalised industry and induce foreign retailers to invest in back-end operations and infrastructure. Nine states have already backed the reform that is expected to create millions of jobs and help tame inflation by reducing wastage. However, merely opening up multi-brand retail will not suffice.

Other complementary state-level reforms are needed. States should scrap the Agricultural Produce Marketing Committee (APMC) Act that denies farmers the freedom to buy and sell freely and only empowers middlemen. Alternatively, the Act can be amended to exclude perishables from its fold. Organised structures are needed for farmers to enhance their bargaining power vis-a-vis big retail chains.

Amul is a successful example of how farmers have enhanced their capacity to negotiate prices with big buyers. Its organised supply chain links farmers with consumers, raises income for producers and lowers retail prices. Political parties should get into the act and organise farmers into larger collectives, companies or producer cooperatives. This, in turn, will ensure a vibrant and functional futures market for commodities. For single-brand retail stores, the government has diluted a rule that requires them to source 30% of what they sell from Indian vendors whose investment in plant and machinery is less than \$1 million.

This initiative is welcome as the old rule was irrational. It has also scrapped a rule that mandated that the foreign investor should also be the owner of the brand. This makes eminent sense, given that single-brand stores adopt various business models. It will attract more foreign investment

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Forecasts for Retail Sector Growth in India

The data from private consulting company reports suggest that growth in the retail market has been rapid despite major restrictions on FDI. In the third-quarter report of 2010, the Brand Marketing India (BMI) India Retail Report forecasts that the total retail sales will grow from US\$ 353 billion in 2010 to US\$ 543.2 billion by 2014.

An important consideration, the report suggests that there is the fast-growing middle and upper class consumer base. The analysis also suggests that in the next few years there will be major opportunities in India's smaller cities

Conclusion

The discussion above highlights: Small retailers will not be crowded out, but would strengthen market positions by turning innovative/contemporary.

Growing economy and increasing purchasing power would more than compensate for the loss of market share of the unorganised sector retailers.

There will be initial and desirable displacement of middlemen involved in the supply chain of farm produce, but they are likely to be absorbed by increase in the food processing sector induced by organised retailing.

Innovative government measures could further mitigate adverse effects on small retailers and traders.

Farmers will get another window of direct marketing and hence get better remuneration, but this would require affirmative action and creation of adequate safety nets.

Consumers would certainly gain from enhanced competition, better quality, assured weights and cash memos.

The government revenues will rise on account of larger business as well as recorded sales.

The Competition Commission of India would need to play a proactive role.

Thus from developed countries experience retailing can be thought of as developing through two stages. In the first stage, modern retailing is necessary in order to achieve major efficiencies in distribution. The dilemma is that when this happens it inevitably moves to stage two, a situation where an oligopoly, and quite possibly a duopoly, emerges. In turn this implies substantial seller and buyer power, which may operate against the public interest.

The lesson for developing countries is that effective competition policy needs to be in place well before the second stage is reached, both to deter anticompetitive behaviour and to evaluate the extent to which retail power is being used to unfairly disadvantage smaller retailers and their customers. The sources of retail power need to be understood to ensure that abuses of power are curbed before they occur. The more important debate lies in the parameters of competition policy. The benefits brought by modern retailers must be acknowledged and not unduly hindered. While it is true that some dislocation of traditional retailers will be felt, time will prove that the hardship brought will not be substantial. Competition law is being created and adopted across Asia but in the immediate future its impact is not expected to be large. Competition laws only become vital as time passes and retail becomes concentrated in the hands of a few powerful companies, whether or not these companies are foreign or domestic.

In conclusion, the issue that India must grapple with now is the impact of reduced competition brought about by retailer concentration will have on various stakeholders and the ways in which competition laws and policy can deal with this growth of power before it is too late. The new Competition Act, 2002 has all the required provisions. It would, anyhow, depend on how it is implemented.

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