

# FDI: What's in Store?



By Harminder Sahni

**FDI IN MULTI-BRAND RETAIL MAY BE ALLOWED SOON. TO FULLY LEVERAGE ITS BENEFITS, INDIA NEEDS A PRAGMATIC RETAIL POLICY THAT REVOLVES AROUND ENSURING THE GOOD OF THE CONSUMERS AND CREATING A SOUND INDUSTRY ECOSYSTEM.**

→ The market is bubbling with anticipation that FDI in multi-brand retail may soon be allowed. Even though it may come with many riders, I still reckon it will provide an excellent boost for organised retail which, at less than 8 per cent share of the overall retail market, is still in its infancy in India.

## LOOKING BACK

There was a time not too far ago, in 2004-2005, when some of the leading Indian retailers were determined to stop international retailers from making direct investments into India.

The motivation was simply to keep the market closed and monopolise it for as long as possible, so as to create valuable businesses in a secure environment. Entry of international retailers at that early stage would have killed many of these young Indian businesses and Indian market could have been completely ruled by international retailers.

At that stage, I too was not so sure whether FDI will be good or bad for the overall retail industry. On one side, I was keen that Indian retail should grow faster and all players should be given a level playing field. Why should we worry about small retailers being trampled by large international retailers if we did not have a problem with Indian large retailers taking market away from small retailers? On the other hand, I had a belief that Indian retail business

being promoted by large Indian companies will invest enough at all points of the retail chain and more so at the back end, and that this will be really the right way to create organised retail ecosystem in a truly Indian way.

However, as we all know, most Indian players chose to be extremely front-end centric and left it for someone else to invest at the back. The need for back-end investments is understood quite well by everyone involved. In fact, most industry bodies and policy makers argue that the scale of FDI in retail should be linked to the investments being made at the back end by international retailers. Why could these conditions not be imposed on Indian organised retailers too? This may sound like a bad idea but my belief is that it would not only have benefitted the Indian retailers but

also fuelled the overall growth of the Indian organised retail sector.

## SCALE AND EXPERTISE

Retail is a game of scale. It is true that the economies of scale may not play out beyond a certain point and we may not be able to measure how much benefit accrues to the bottom line by adding another hundred stores beyond the first thousand. However, it is a fact that retail is a highly consolidated industry at the top and larger players such as Wal-Mart, Carrefour and Tesco are far more profitable compared to the second and third largest in their respective markets. Considering this fact, it may not be commercially attractive for international retail biggies to invest heavily into the stores in India if the FDI policy puts too many restrictions on the initial scale of business and pace of growth. And more so because, while trying to save small retailers from competition, Indian policy makers may actually end up protecting large retailers and again end up creating an unequal-opportunity environment.

Indian retailers have not taken much advantage of the protection afforded to them over the last five to seven years since the serious entry of large Indian players and are unlikely to do so over the next few years. The major reason for this is the overall opportunity scenario in India. Many

large companies have realised that there are far more lucrative and easier business opportunities such as power, infrastructure and financial services when compared to retail. They have curtailed their plans to invest further in retail, if they had already entered retail, or have decided not to enter the retail sector at all. This leaves a lot of room for necessary investment at front as well as back end for international retailers, but Indian policy makers may or may not see it this way.

Even the policy makers have now conceded that small retailers also stand to gain hugely from the investments at the back end. They are hoping that international retailers will build the cash-and-carry (wholesale) infrastructure and make the required investments into the supply chain. This is an excellent idea but in reality has failed to play out to its full potential on the ground.

The reason is that most international retailers such as Wal-Mart and Tesco do not have much experience in wholesale or cash-and-carry business and are probably creating these models for the first time in the country. This means they are unable to leverage their expertise of retail business in the Indian market. This in a way is detrimental and disallowing the Indian organised retail sector as well as the consumers to benefit from the vast experience of the global retailers.

## TOWARDS A BETTER POLICY

I actually believe strongly in the potential of the organised wholesale business. I am willing to bet that even if the market is thrown open for large retailers to go all over India and set up stores all over, many of these players will choose not to do so and be wholesalers instead. It may actually make more business sense for them to leave the last-mile retail operations to the traditional retailers and just be their suppliers. But this is the call that should be left to the players and market forces, not the policy makers. As of now, the retail policy is letting inefficient and inexperienced Indian retailers to spawn the market without worrying about the chance of them taking business away from small retailers. I am not sure whether the small retailers really get affected or not by this, but at least the consumers do not benefit in any way as there is hardly any real value – whether on product range, price, service or quality – being offered to them.

Left to me, I would lay down only two parameters on which the retail policy decisions should be taken. First, whatever is good for a consumer is good for India and all its citizens. Second, whatever helps in creating the right ecosystem for the industry and fuels the growth of the retail sector and consumption is good for the consumers, players, suppliers and economy.

All decisions regarding the retail policy should be taken by the government with the Indian consumers at the center and the industry ecosystem around them. I am waiting with eagerness for the announcement of the new retail policy, but am not necessarily holding my breath. I would rather have a pragmatic policy than a half-baked and rushed one. ❌



## ABOUT THE AUTHOR



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