

FDI in Retail

Busting the Myths

THE DECISION OF THE INDIAN GOVERNMENT IN FAVOR OF FDI IN RETAIL HAS SEEN A FIERCE BACKLASH, RESULTING IN IT BEING PUT ON THE BACK BURNER – ALL THANKS TO THE MANY MYTHS ABOUT FDI FLOATING AROUND. IT IS TIME INDIANS LEARN TO IGNORE THE TRIVIAL ISSUES AND SEE THE BIGGER PICTURE OF RETAIL FDI.

By Harminder Sahni

Parliament to work. When will the decision actually get implemented remains uncertain.

Anyhow, I have been talking to various stakeholders, be it the Indian or international retailers, opinion-makers, fellow industry observers, or business journalists from various publications, and have also expressed my views through some TV channels and publications. Let me comprehensively address this issue here, as I understand it.

While I too believe there are always many truths in matters of public interest and each stakeholder peddles the one that works to their advantage, I am also of the view that there are certain facts that simply cannot be denied. Here I have come up with few well-propagated myths about FDI in retail which are smudging the real facts and confusing the issue. These myths are actually from both sides of the battle lines, for FDI and against it, and both sides are equally responsible for the inane debates, the unnecessary logjam, and now the potential rollback facing the retail industry.

will kill the small retailers – read “kiranans” and the roadside stalls – that are owned by individuals with no other means of livelihood. My argument against this is that even if it is true, how does it help the kiranans if

→ It is hard to get away from all the hoopla generated over FDI in retail over the last few weeks. It is interesting to note how retail has suddenly arrived at the center stage of Indian politics when it never received any attention as a serious sector of the economy so far. Even more interesting is the fact that the government has put the FDI decision on hold to ensure that the opposition allows the

the large retailer killing their business is an Indian, not a foreigner?

A big Indian retailer will one day replace these small retailers, and the end result will still be the same: their demise. So why this noise about FDI? Today, some of the Indian retail groups are in a far

large international retailers who are struggling in their home markets. To believe that the global retailers will pour in billions of dollars to lose in the Indian retail market for future market share is a fantasy.

The second myth is about farmers losing out to the power of bulk buying by organized retailers. The big retailers will allegedly squeeze the lowest price from the farmers and not leave enough for them on the table. The fact is that large organized retailers are dependent on suppliers such as farmers for local supply. In a competitive scenario, it will be a suppliers' market – the farmers will be able to deal directly with the retailers and pick the best bargain every season. Moreover, the retailers do bring in technology and best practices from their experiences in other markets to make their suppliers

Their intent is to have a strong and consistent supply chain that can bring high-quality produce to their stores all drawn by farmers in Punjab from the

Foods to improve the quality and productivity of potatoes and tomatoes.

The third myth is being propagated by the pro-FDI side. It claims that international retailers will bring in huge investments into the back-end like warehousing, cold chains, and logistics. But the fact is that most of the large international retailers do not invest in these areas; neither do they have much in-house expertise because they outsource most of these functions to specialized service providers. However, large retailers have enough leverage with the service providers to persuade them to come to India to make investments in the back-end to support them in their business. But the fact remains that retailers themselves would not be making

these investments in most cases.

Another big myth is about potential job losses in the traditional retail sector that employs unskilled and unemployable people. My point is, do we wish to secure these low-paid dead-end jobs, or should we try to create well-paying jobs with a certain growth path for individuals? A huge challenge for India in the near to medium term is to employ millions of youth who are educated to some extent and are keen to work.

The organized retail sector can potentially create over 10 million jobs in the next decade. It will be the same young boy who would have otherwise spent his life slogging at the kirana store, whom an organized retailer will train and give proper wages and perquisites. Jobs in the retail industry are mostly bagged by the locals, thus saving them from migrating to other

indirect jobs created in the retail sector will outnumber the direct jobs.

In this to and fro of arguments and counter-arguments, one of the basic

facts is being completely ignored.

Indian retail needs FDI because there is not enough capital being invested by the Indian companies. The reasons for this are obvious – quite a few Indian retailers have disappointed all possible funding institutions, be it private equity, stock market, or the banks. Indian retailers have failed to satisfy any of them and thus the

the sector.

Allowing FDI in retail is a compulsion, not a choice, for modernizing this very important segment of the Indian economy. I hope politicians will begin to think in a bipartisan manner for a change

the retail sector, whether directly from the international retailers or indirectly through FIIs like PE and VC funds. ❌

→ FOUR MYTHS IN THE 'FDI IN RETAIL' DEBATE:

1. FDI IN RETAIL WILL KILL THE KIRANAS
2. FARMERS WILL LOSE OUT TO THE POWER OF BULK BUYING BY ORGANIZED RETAILERS
3. INTERNATIONAL RETAILERS WILL BRING IN HUGE INVESTMENTS INTO THE BACK-END
4. THERE WILL BE MASSIVE JOB LOSSES IN THE TRADITIONAL RETAIL SECTOR

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