



AMIC – INFOSERIES – 8
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FDI in Multi-Brand Retailing: Economic Compulsions or Political Gains?

Introduction

India is second largest populated country in the world and is acknowledged as the biggest market in the world next to China. Any customer would develop brand loyalty based on the personal experience and satisfaction. Brands help the customers to identify specific products from among identical commodities. Brands have significant impact on developing customer perception and expectations.

Multibrand Retailing: Meaning

Single brand retail involves selling products under one brand, which are also sold internationally. Examples are Nike, Gucci, Lotto, Levis etc. Multibranding is basically the process of marketing of two or more widely similar and competing products by the same firm under different brands. Multi-brand retail comes in different formats like supermarket, hypermarket, and the shopping malls.

FDI in Multibrand Retailing

As part of integrating Indian economy to world market due to WTO obligation and also for encouraging foreign direct investment (FDI) in the country, Government of India proposed a policy of 100 per cent FDI in single brand retail, and 51 per cent FDI in multi-brand retail. According to the proposed provisions, the minimum foreign investment shall be \$ 100 million, of which at least half shall be for back end infrastructure creation. It is argued that with this single stroke, multi-billion dollar enterprises may set up their stores in India, which may 'revolutionize' the retail sector.

Perceived Advantages

- It would provide an additional marketing channel for the farmer. When the corporates start outsourcing their requirements directly from the farmers, the latter would be weaned away

from the clutches of the exploiting middlemen. Removal of superfluous middleman would ensure higher net price realization for the farmers.

SWOC Analysis of Multi Brand Retailing			
Strength	Weakness	Opportunities	Challenges
<ul style="list-style-type: none"> More consumers choices, better inventory management, better packaging of goods, electronic weighing, billing, customer discount, credit cards etc. Global standards in terms of pricing and product quality through global competition and global outsourcing Potential generation of thousands plus jobs in the sector Farmers would be benefitted from the government's move to allow 51% foreign direct investment in the multi-brand retail sector as the policy removes middleman and brings better prices for the farmer's produce 	<ul style="list-style-type: none"> Small orders and customers may be ignored. Global sourcing of products and long transports are hugely energy intensive and customers are likely to get refrigerated or frozen produce instead of farm fresh produce. Retail being a State subject, problems like multiple state entry taxes, octroi may crop up APMC Acts with differences in notified commodities in different States may provide road blocks 	<ul style="list-style-type: none"> May help in organizing the unorganized retailers. Heavy capital inflow and art of technology to the sector. Strengthening of back-end infrastructure Reduction in wastage of fresh produce through investments in cold storage facilities International retailers, struggling with saturated markets may find new market opportunities 	<ul style="list-style-type: none"> Big retail shops are meant for high class customers and products at premium price. Attracting and retaining middle and low income customers would be tough. Political opposition to foreign retail network for fear of gradually wiping out unorganized small and medium traders Thousands of employees working in the unorganized retail sector may consequently lose jobs Retail trade is a state subject and all regulatory frameworks have to be provided by respective state governments. Lack of uniformity may lead to chaos and court cases

- Higher investments may result in the creation of infrastructure, warehousing, cold storage and new supply chains.
- Direct selling of the produce by producers to the retailers will reduce wastage, especially in perishables.
- Infrastructural and technical requirements in the new multi brand stores may stimulate intensive consumer research and result in product innovations and better customer services.
- The arrival of multi brand retail giants to retail would compel traditional *kirana shops* to take strategic decisions like modernizing their store and being smarter.

Perceived Apprehensions

- Multibrand retailing is not a pill for all our agricultural marketing problems. It is not logical to believe that what democratic governments could not solve in 65 years, multibrand retailing could do.
- There is apprehension that foreign retail majors will make huge investments and withstand losses for the initial years. Ultimately, they may wipe out small/medium traders to take over the market by resorting to 'predatory pricing'.
- According to NSSO 66th round data, 7.9 per cent of the work force in India are engaged in the unorganized retail sector. India's retail sector is predominantly unorganized and almost 95 per cent of the shops have less than 500 square feet area. In a country where consumer expenditure is not constrained by supply chain bottlenecks, but by low income and resultant low purchasing power, large scale displacement of unorganized retailers and their employees will be disastrous.

Government Makes a Strategic Retreat

Amidst growing political opposition to allow FDI in multibrand retailing, the Central Government made a hasty retreat by putting the ball at the State Government's court in November 2011. It is inferred that the Government has not dropped FDI in multibrand retail from its policy agenda, but may be bidding time for better political environment. The move assumes significance in the event of Assembly Elections scheduled in Uttar Pradesh, Punjab, Uttarkhand, Goa and Manipur.

Concluding Remarks

The fear that the emergence of multibrand retailing will eliminate small scale *kirana* shops is not fully founded. It is like arguing that opening of more five star hotels would replace *dhabas* in India on a one to one basis. India is a large country, and there is enough space for every player without cannibalizing on each other. Each institution will have to learn from the other's experience. The same argument was raised when policy decisions were taken for allowing organized single retails like Spencer, Reliance Fresh, Pantaloon (Big Bazar) etc. some time back. But, no *kiranas* were replaced on a one to one basis. On the other hand, the organized retail chains were initially imitating western supermarkets, to realize soon enough that an Indian blending would be better. The *kirana* shops, on the other hand also picked up one or two lessons from the corporate retailers. They became more professional and customer friendly, with better packaging and display systems. Similarly, the global retail chains do not have sufficient consumer knowledge in India. So, the initial conflicting position may turn into strategic alliances with regional players for long term mutual benefits. That is why marketers believe that every market has a self corrective mechanism in the long run.