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What is the perspective of the Indian small retailer and 21st century consumer on increased Foreign Direct Investment in multi brand retail? Do they have a unique message for us?

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Abstract: *1 May 2013 was no ordinary Labour Day. It was the day the Supreme Court of India came out with a historic judgment. The judgment was in the context of the Central Government in India allowing 51% Foreign Direct Investment in multi brand retail in India on 7 December 2012. The Supreme Court clearly stated that "the consumer is king and if that is the philosophy behind the policy then what is wrong". This stance has to be viewed from the perspective of vigorous opposition to the policy from various lobbies and also the left and right of the political spectrum. This paper looks at Consumer Psychology and Behavior from the perspective of the New Age Customer and also the small retailer. After all consumers and small retailers (kirana stores) are the two major stakeholders as far as this government policy is concerned. However their concerns do show some measure of convergence. In my conclusion I have stated that Indian consumers may actually welcome more choice in the marketplace and local retailers could also carve out their own niche and exist along with Foreign Retailers. The likes of Wal-Mart (United States), Carrefour (France), Mark and Spencer (UK), TESCO (UK), Shoprite (South Africa) may be no match for the unique strengths of the local Kirana Store.*

Keywords: Foreign Direct Investment, Multi Brand Retail, New Age Customer, small retailer, Consumer Psychology and Behavior, stakeholders.

Introduction

The Supreme Court of India came out with a historic judgment on 1 May 27, 2013. It was perhaps a coincidence that on this Labour Day the court ruled in favor of consumers who work hard at their respective jobs so that they can buy essential as well as aspirational items for themselves and their families. It has to be borne in mind that this is a New Age Customer that we are talking about who has seen the fruits of economic liberalization in India since 1991. This decision was in the context of the Central Government of India's policy formulation in December 2012 when it allowed 51% FDI in multibrand retail in India.

The Supreme Court Bench headed by Justice RM Lodha and also comprising justices Madan B Lokur and Kurien Joseph cleared the hurdles for the implementation of Foreign Direct Investment in the multi brand retail sector. The court stated that "the consumer is king and if that is the philosophy working behind the policy then what is wrong". The apex court also stated that the policy aimed at "throwing out" the middlemen who are "curse to the Indian economy" and

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"sucking" it, has to be "welcomed". The Court made it very clear that the policy was to benefit the consumers, farmers and retailers and eliminate the middleman.

Furthermore the Court stated that state governments have the choice whether or not to implement the policy to allow FDI upto 51% in multi brand retail. The Court also observed that there were no challenges to the amendments in Foreign Exchange Management Regulation 2000 by which FDI in Multi Brand Retail Sector was allowed.

The Court made two interesting observations with far reaching consequences. One was that detailed studies of the economies of developing countries like China, Brazil, Argentina, Singapore, Indonesia and Thailand has shown that even where FDI has been permitted upto 100%, local retailers have coexisted along with organized retail and are also integral in the organized retail chain.

The Second observation made by the Court was that if farmers are selling directly to organized retailers then their profit realization is about 60 percent higher than if they had been selling directly to the "Mandi". This is due to the simple fact which has been proved by a World Bank Study that the average price gained by a farmer is about 12-15 % of what the consumer pays at the retail outlet.

Figure 1: India's retail market. How the sector is divided.
(http://blog.thomsonreuters.com/index.php/tag/retail/)

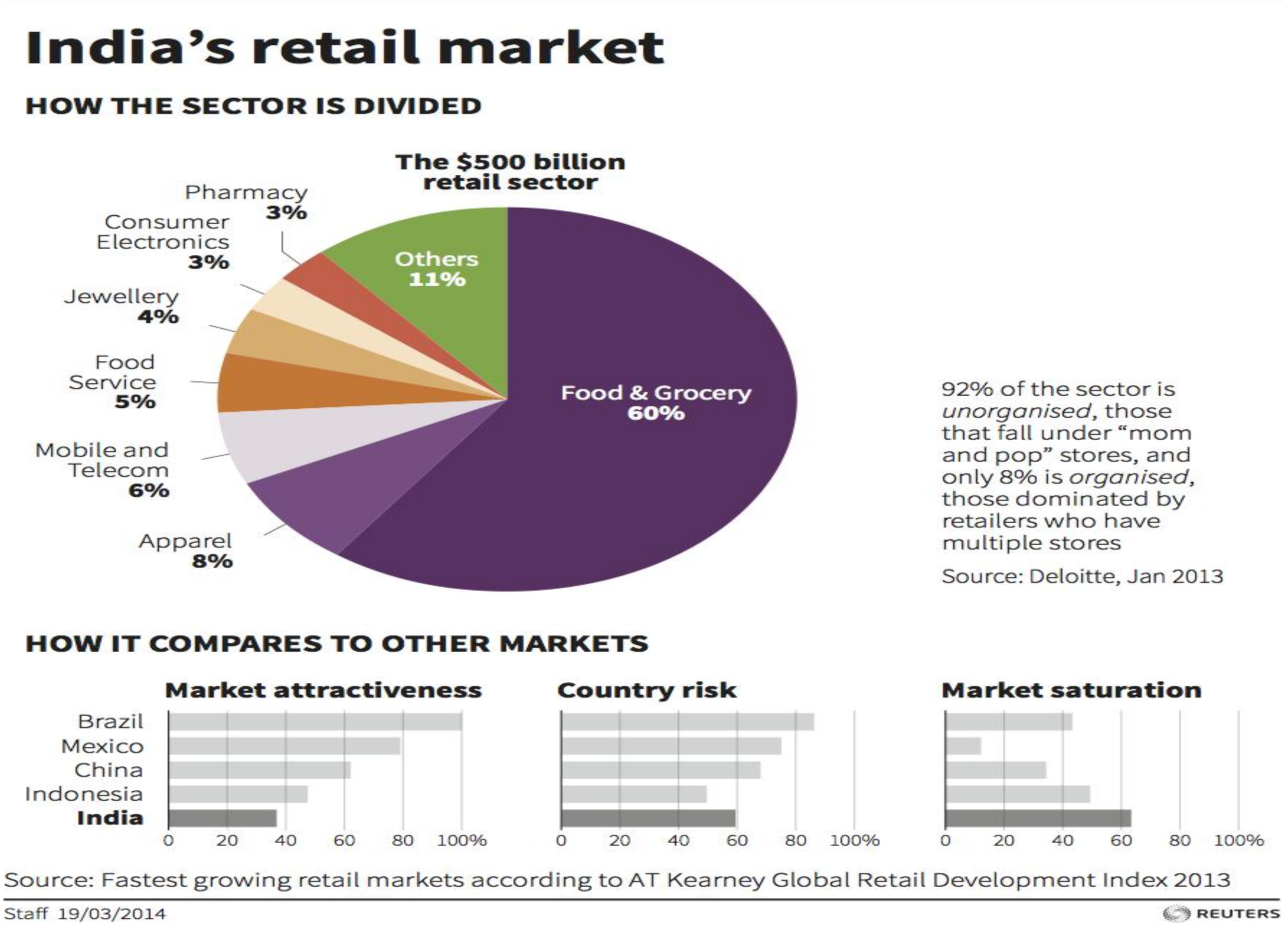

Table 2: Equity FDI Inflows to India
(Percent)

Sectors	2006-07	2007-08	2008-09	2009-10	2010-11
Sectoral shares (Percent)					
Manufactures	17.6	19.2	21.0	22.9	32.1
Services	56.9	41.2	45.1	32.8	30.1
Construction, Real estate and mining	15.5	22.4	18.6	26.6	17.6
Others	9.9	17.2	15.2	17.7	20.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Equity Inflows (US$ billion)					
Manufactures	1.6	3.7	4.8	5.1	4.8
Services	5.3	8.0	10.2	7.4	4.5
Construction, Real estate and mining	1.4	4.3	4.2	6.0	2.6
Others	0.9	3.3	3.4	4.0	3.0
Total Equity FDI	**9.3**	**19.4**	**22.7**	**22.5**	**14.9**

Concerns of Consumers

It has to be borne in mind that cultural differences notwithstanding, the Indian consumer is not fundamentally different from his/her global counterpart as far as Consumer psychology and purchasing patterns are concerned. For instance the Indian consumer would want to purchase any product at the best possible price and with an assurance of good quality including quality of after sales service. It is highly unlikely that they would lose this primary focus even when confronted with ideological issues about national or foreign origin of products. In any case the New Age Indian Consumer has a direct experience of shopping in various national retail chains. Therefore given a chance there is every possibility that they will warm up to the prospect of shopping at International multi brand retail chains.

We can take the example of Grocery Sales in India where 99% of the Sales occur in the informal Sector. This is because Indian households typically shop for groceries on a regular basis. Unlike their western counterparts they do not wait till the weekend to do their grocery shopping. Also frozen foods is a fairly new concept in India in the urban areas, and definitely unknown in the rural countryside of India. Hence there is endless potential for the growth of the grocery market in India. New Age customer sin Tier 2 and Tier 3 cities are just waking up to the prospects of frozen foods and ready to eat foods.

Of course when modern retailers enter emerging markets like India they tend to re define the markets. This may or may not be a cause of concern for consumers depending on their point of view. They might attempt to change the consumption patterns of consumers over time. For instance you as an average Indian consumer may not think of breakfast cereals as a regular or substantive breakfast over a long period of time. The retail chains selling various kinds of cornflakes and cereals would obviously want you to think otherwise.

Concerns of Retailers

Retailers may have some valid concerns about the Central Government Policy on FDI in multi brand retail. There is no doubt that there will be competition between foreign retail stores and the formal domestic retailers and also with informal sectors including kiranas and hawkers. Some even fear that when retail giants enter the Indian market they may cause some players in the informal retail sector to go out of business. This could lead to increased market consolidation in the formal sector. Under normal circumstances less capitalized retailers are less able to absorb losses. Also bigger competitors may call the shots as they may be able to charge unsustainably low prices over a longer period of time.

But if we take the example of the grocery market that has been discussed earlier, the Kiranas or the local corner stores will always remain competitive in the Indian context. This is because as of now they suit the local customer's needs. The local Kirana store enjoys a comfortable relationship with the customer and that is likely to compensate for any price advantages that the customer may get from a modern retail chain.

In fact economists who favor the government's decision to open FDI to multi brand retail argue that the incomes for many Indians are rising, albeit slowly and as a result there is enough disposable income and so there is enough opportunity for all the players in the market to co-exist and succeed.

A study of the US Retail market between 1976 and 2005 has come up with some pertinent points. It was a study concerning the entry and growth of hypermarkets. There was a study pertaining to the survival and growth of smaller chain stores, particularly those that were within the same or similar industries. It was found that the impact was largest when the scale of operation was between 1 to 5 miles. On the other hand it has been argued that modern retail does create new jobs. The Jury is still out on whether it creates more jobs then it actually takes away.

Table 6: FDI Inflows in Select EMEs

(US$ billion)

	Argentina	Brazil	Chile	India	Indonesia	Mexico	South Africa	Thailand
2007	**6.5**	**34.6**	**12.5**	**25.5**	**6.9**	**29.1**	**5.7**	**11.3**
2008	**9.7**	**45.1**	**15.2**	**43.4**	**9.3**	**24.9**	**9.6**	**8.5**
	(50.2)	**(30.3)**	**(21.1)**	**(70.3)**	**(34.5)**	**-(14.3)**	**(68.1)**	**-(24.7)**
2009	**4.0**	**25.9**	**12.7**	**35.6**	**4.9**	**14.5**	**5.4**	**5.0**
	-(92.0)	**-(14.3)**	**-(39.9)**	**-(49.4)**	**-(85.9)**	**-(200.8)**	**-(92.1)**	**-(120.2)**
Q1-10	1.9	5.5	5.5	**6.1**	2.9	4.8	0.4	1.5
Q2-10	0.0	6.6	2.5	**6.0**	3.3	7.6	0.4	2.0
Q3-10	1.9	10.5	5.3	**6.7**	3.4	2.4	0.1	1.5
Q4-10	0.9	25.9	1.9	**5.3**	3.7	2.8	-	0.7
2010	**4.7**	**48.5**	**15.2**	**24.1**	**13.3**	**17.6**	**0.9**	**5.7**
	(17.5)	**(87.3)**	**(19.7)**	**-(32.3)**	**(171.4)**	**(21.4)**	**-(80.4)**	**(14.0)**

Note: Figures in brackets relate to percentage variation over the corresponding period of the previous year. **Source:** IMF, BOP Statistics.

Figure 4:

http://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=2513

Table 4: FDI Policy and Institutional Framework in Select Countries

	Year of Liberalisation	Objective	Incentives	Priority Sectors	Unique features
China	**1979**	Transformation of traditional agriculture, promotion of industrialization, infrastructure and export promotion.	Foreign joint ventures were provided with preferential tax treatment. Additional tax benefits to export-oriented joint ventures and those employing advanced technology. Privileged access was provided to supplies of water,	Agriculture, energy, transportation, telecommunications, basic raw materials, and high-technology industries.	Setting up of Special Economic Zones

			electricity and transportation (paying the same price as state-owned enterprises) and to interest-free RMB loans.		
Chile	**1974**	Technology transfer, export promotion and greater domestic competition.	Invariability of tax regime intended to provide a stable tax horizon.	All productive activities and sectors of the economy, except for a few restrictions in areas that include coastal trade, air transport and the mass media.	Does not use tax incentives to attract foreign investment.
Korea	**1998**	Promotion of absorptive capacity and indigenization of foreign technology through reverse engineering at the outset of industrialization while restricting both FDI and foreign licensing.	Businesses located in Foreign Investment Zone enjoy full exemption of corporate income tax for five years from the year in which the initial profit is made and 50 percent reduction for the subsequent two years. High-tech foreign investments in the Free Economic Zones are eligible for the full exemption three years and 50 percent for the following two years. Cash grants to high-tech green field investment and R&D investment subject to the government approval.	Manufacturing and services	Loan-based borrowing to an FDI-based development strategy till late1990s.
Malaysia	**1980s**	Export promotion	No specific tax incentives.	Manufacturing and services.	Malaysian Industrial Development Authority was recognized to be one of the effective agencies in the Asian region
Thailand	**1977**	Technology transfer and export promotion	No specific tax incentives. The Thai Board of Investment has carried out activities under the three broad categories to promote FDI. 1. Image building to demonstrate how the host country is an appropriate location for FDI. 2. Investment generation by targeting investors through various activities. 3. Servicing investors	Manufacturing and services	-

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Figure 5: FDI Equity Inflows from 2000-2012

http://www.allbankingsolutions.com/Banking-Tutor/FDI-in-India.htm

		In Rs, crores	In US$ million	
1	2000-01	10733	2463	-
2	2001-02	18654	4065	(+) 65 %
3	2002-03	12871	2705	(-) 33 %
4	2003-04	10064	2188	(-) 19 %
5	2004-05	14653	3219	(+) 47 %
6	2005-06	24584	5540	(+) 72 %
7	2006-07	56390	12492	(+)125 %
8	2007-08	98642	24575	(+) 97 %
9	2008-09 ‘*’	142829	31396	(+) 28 %
10	2009-10 #	123120	25834	(-) 18 %
11	2010-11 #	88520	19427	(-) 25 %
12	2011-12 # (April - January 2012)	122307	26192	-
CUMULATIVE TOTAL (from April 2000 to January 2012)		**723367**	**160096**	-

Indian Context

The above discussion and data has to be seen through the prism of some specific socio economic and political situations that the country finds itself in today. It would also be naive to not take into account India’s rising prominence in the World Stage as exemplified by the bilateral Trade agreement between India and Japan in September 2014.

One issue of great relevance is the Federal Structure of the Indian Government and Centre State relations. According to the policy in its present form the state governments have the full choice whether or not to implement the policy to allow *FDI up to 51% in multi brand retail.*

This has led to the strange situation where a consumer in a particular state may want to shop in a foreign supermarket chain but the state government may not allow it.

On the other hand local retailers in a particular state may have inordinate political clout and may influence the state government to stall the particular FDI policy. It has also to be noted that the Supreme Court in its judgment of 1 May 2013 has clearly stated that there is no challenge to the amendments in Foreign Exchange Management Act 2000 by which Foreign Direct Investment in Multi Brand Retail Sector in India was allowed. This means that state governments will not be able to use this as an excuse to stop implementation of the policy in their respective states.

This policy was prepared after a detailed study of developing economies like China, Brazil, Argentina and Singapore. In all these countries *FDI is permitted up to 100 percent.* Even then in all these countries local retailers co exist with organized retail.

It is also worth noting that India has one of the highest retail densities in the world with 209 million households utilizing the services of 12 million small shops. Furthermore 93% of the market is unorganized retailers and only 7% is organized retailing which is growing quickly and expected to reach 20% by 2020. (Kearney Report 2011).

Keeping the interests of the small retailers and kiranas in mind, certain safeguards have been put in the Indian context. A foreign company’s initial investment has to be at least $ 100 million. At least half of these have to be in back end infrastructure and supply chain operations.

Also investors have to source 30% of their products from micro and small industries and there is a cap of $ 1 Million on capital investments.

Several researchers like (Palit and Nawani 2007, Pires, Stanton and Salavrakos 2010, Jain and Suklecha 2012) have stated that FDI brings overall technological enhancement and capital flows which is good for general macro-economic stability. This would definitely be in the interests of new age consumers and small retailers in India.

Conclusion

It can definitely be perceived that Foreign Direct Invesment in Multi Brand Retail is definitely somewhat of a controversial topic as far as the reactions of the political class across the spectrum is considered. This also has its fallout in the way the perspective of the New Age Consumer and the Small Retailer is shaped. As far as Indian consumers are concerned they may actually welcome more choice in the marketplace. Local retailers could also carve out their own niche and co-exist along with foreign retailers. The likes of Wal-Mart (USA)¸Carrefour (France)¸Marc and Spencer (UK)¸TESCO (UK) Shoprite (South Africa) maybe no match for the strengths of the local Kirana store.

However nobody can deny the fact that there is a grudging but tacit acceptance of the economic benefits of this policy.

This is a fact that even those who are ideologically opposed to any kind of investment in this country acknowledge. By and large there does not seem to be any massive popular sentiment against overseas retailers in the country from the new age consumer base at large. The simple truth is that the Indian consumer is like any other consumer across the world whose primary interest is in purchasing items at a fair price and with a fair quality and who prefer shopping under a single roof. Any other concerns that they may have about ideological or conservative dogmas would most likely be overridden by their primary and rational concerns.

The perspective of the small retailers may be more complex as they would be more susceptible to political posturing. However the fact remains that the new central government which has taken over is perceived economic circles as being far more decentralized, consumer centric, investor friendly and business friendly than any other federal government in recent times. As a result even small retailers are likely to view any action of the central government with reference to FDI in multi brand retail with far more openness and acceptance than before.

It can be concluded that a major overhaul or reversal of the current policy does not seem to be in the offing right now. However there might be cosmetic changes in the policy in order to please pressure groups.

What is the implication for Indian small retailers? They will have to accept the fact that there is going to be more competition in the retail sector. The international aspect of this competition is something they will have to accept as a challenge.

What is the implication for the 21st Century Indian Consumer? They might be in for a pleasant surprise. Retailers, both national and international would try to outbid each other both in terms of price and service quality. As a logical corollary Indian consumers would have firsthand exposure to foreign retailers and would expect a high level of service quality from them and from Indian counterparts. The New Age Indian consumer would no longer have a prejudice against locally manufactured goods as they would become more discerning in terms of evaluating national and international brands.

What is the joint implication for both small Indian retailers as well as New Age Indian Consumers? The New Age Consumer would discover a new found respect for Indian retailers who are able to withstand competition from foreign retailers and hold their own in terms of

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product and service quality. The resultant upswing in terms of national self-respect may translate into quantifiable gains for the Indian economy. I end by paraphrasing a recurring statement from a fairly recent Bollywood Block buster "Never underestimate the power of the common man".

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