

FICCI – RLS Session on ‘FDI in Retail’, 8th Feb Mumbai

FICCI partnered with the Retailers Association of India for their flagship event – **Retail Leadership Summit 2013 held on 7th & 8th Feb 2013 in Mumbai**. FICCI was given the role to spearhead the session on ‘FDI in Retail’ which was scheduled for 8th feb. *The panel discussion on FDI in retail was one of the highlights of the Retail Leadership Session and attracted a ‘standing room only’ audience of approx. 400 participants.*

Panelists included Ajit Joshi, CEO & MD, Infiniti Retail Limited, Arpita Mukherjee, Professor, ICRIER, Delhi, Bijou Kurien, President and Chief Executive – Lifestyle, Reliance Retail, Raghunath Dada Patil, President, Maharashtra Shetkari Sanghatna, Rakesh Biyani, Joint Managing Director, Pantaloon Retail (I) Ltd and Ramanathan Hariharan, CEO, MAX & Board Member, Landmark Retail. Session was moderated by Sanjay Pugalia, CNBC Awaaz.

The panel focused on the design of current policy as well as the likely shape of its implementation. In terms of policy design the view was that – the fact that there was a policy – was a clear directional cue to the industry. In terms of its “design” the FDI policy has separate norms for single brand and multibrand retail. This is an artificial distinction, since Retail “works” not on brand but on category. At the same time, the decision to implement FDI has been left to the states – resulting in a situation where not all states are willing to implement FDI. As Rakesh Biyani, pointed out, what this means is that actual implementation is dependent on having a state level trade policy – which will provide clarity on the tax regime, interpretation of the sourcing and back end (and any other) conditionalities as well as the resultant impact on job creation.

So, while the media attention has been on statements emanating from the FM’s office and the PM’s office – the rollout will be about interfaces with the state government – and here there is lack of clarity.

From a supply chain perspective, there were two important insights. The APMC (Agricultural Produce Market Committee) is a standard model for selling produce “from farm to fork” – developed by the central government. Again – the implementation is not uniform. Adopting the APMC is part of the clarity required in creating state level trade policy as well as debottlenecking the supply chain. As Bijou Kurien explained “There are currently three types of traders at the farm gate – the actual seller, the short term speculator (the Mandi Buyer) and the pure commodity speculator”. Of these – the Mandi buyer enjoys an information arbitrage because he has his “ear to the ground” in terms of local knowledge of crop yield and is able to hold the farmer to ransom, in the absence of a cold chain or other infrastructure which can prolong the life of the produce. The “Mandi” has outlived its utility and purpose. So FDI rollout is also about ensuring that these supply chain issues are addressed.

The second aspect is as follows: Opening up retail has to be driven by ensuring that the customer gets a better deal. This can only happen when economies of scale can come into play, and critical infrastructure such as cold chains are created. In every market that has been opened up, Retail sources from SMEs. But, SME’s by their nature cannot provide capacity at the national level, which requires the retailers to develop multiple supply arrangements. A natural process of competitive “weaning out” then takes place – and pan-national supply and capacity is created over time. In the Indian context, this natural design gets thwarted when you super-impose artificial geographic constraints based on sourcing and back end investment conditionalities at a state level.

FDI implementation can learn some important lessons from other sectors – notably the automobile sector. As Ramnathan Hariharan pointed out – in the automobile sector, the Suzuki experience is a good precedent – of using overseas technology collaboration and capital to jump-start the Indian market, and create a large ecosystem of SME's who feed the market.

Perhaps the discussion can best be paraphrased from Arpita's statement. "Now that there is a policy, its upto industry to explain to government the need for two "Preferably's" and one "Maybe". In other words, the eventual design of multi-brand policy should focus (as it does for single-brand) on sourcing "preferably" locally, investing "preferably" in the back-end, and, maybe, integrating with the e-channel as required.