

Multi Brand Retail Marketing In India : A Golden Opportunity!!!**Dr. Mohan S. Rode**HOD in Business Studies,
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India's retail industry is divided into organized and unorganized sectors. Post liberalization, organized retail has grown exponentially and is a testament of the Indian middle class's burgeoning purchasing power. As a consequence, the opening up of the wholesale and single brand retail sector to foreign direct investment ("FDI") was inevitable. India is ranked as the third most attractive nation for retail investment among 30 emerging markets with domestic companies like the Future Group, Tata's Westside, Reliance Fresh, Raheja Group and Bharti Retail competing for market share. Multi-brand retail comes in different formats like supermarket, hypermarket, compact hyper and the ubiquitous mall. The success of this sector is best reflected in the fact that the shares of retail companies are well represented in all top mutual funds. However, the sector is constrained by several factors, primarily by a highly restrictive licensing regime and overall poor infrastructure. These factors have contributed to restrict organized retail to only about 3% of the total retail industry. This newsletter examines the prospects of FDI in multi-brand retail in India, and builds a case as to why the sector needs to be opened.

What is Foreign Direct Investment?

According to International Monetary Fund, FDI is defined as "Investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor. The investor's purpose being to have effective voice in the management of the enterprise".

What is Multi-Brand Retailing?**Definition of Retailing**

It is defined as all activities involved in selling goods or services directly to the final consumer for their personal, non-business use via shops, market, door-to-door selling, and mail-order or over the internet where the buyer intends to consume the product.

Multi brand retailing

The marketing of two or more similar and competing products, by the same firm under different and unrelated brands. While these brands eat into each others' sales (see cannibalism), multi-brand strategy does have some advantages as a means of (1) obtaining greater shelf space and leaving little for competitors' products,

Present Economic scenario

FDI in Multi-Brand retailing is prohibited in India. FDI in Single-Brand Retailing was, however, permitted in 2006, to the extent of 51%. Since then, a total of 94 proposals have been received till May, 2010. Single brand retail outlets with FDI generally pertain to high-end products and cater to the needs of a brand conscious segment of the population, mainly attracting a brand loyal clientele. This segment of customers is distinctly different from one that is catered by the small retailers/ kirana shops. FDI in cash and carry wholesale trading was first permitted, to the extent of 100%, under the Government approval route, in 1997. Between April, 2000 to March, 2010, FDI inflows of US \$ 1.779 billion (Rs. 7799 crore) were received in the sector. This comprised 1.54 % of the total FDI inflows received during the period. Trade is an important segment in India's Gross Domestic Product (GDP). As per the National Accounts, released by the Central Statistical Organization (CSO), GDP from trade (inclusive of

wholesale and retail in organized and unorganized sector), at current prices, increased from Rs 4,33,963 crore in 2004-05 to Rs 7,91,470 crore, at an average annual rate of 16.2 per cent. The share of trade in GDP, however, remained fairly stable at little over 15 per cent in last four years", the share of the private organized sector in total GDP from trade was 23.2 per cent in 2008-09 and it grew at 15.0% during the year. The share of the retail trade in GDP remained stable at 8.1 per cent during this period. Though the data on volume of turnover by retail is not separately maintained, commodity composition of private consumption expenditure provides reasonable estimates of the size of the retail sector.⁵ As per the National accounts, private final consumption expenditure, increased from Rs 19,26,858 crore in 2004-05 to Rs 32,26,826 crore in 2008-09, at an average rate of 13.8 per cent per annum-. However, expenditure on some items like transport and communication; expenditure on food in hotels and restaurants; expenditure on rent, fuel and power; and expenditure on education and recreation are distinct from trade. Private consumption expenditure adjusted for items which could be considered a. close approximation to trade, increased from Rs 11,92,405 crore in 2004-05 to Rs 19,93,380 crore in 2008-09, at an average rate of 13.7 per cent³. Rate of growth of GDP at current market prices during this period at 14.5 per cent, was higher than this growth. When seen at constant 2004-05 prices, however, private final consumption expenditure increased from Rs 19,26,858 crore in 2004-05 to Rs 26,51,786 crore at an average rate of 8.3 per annum. Private consumption expenditure adjusted for items like transport and communication etc, increased from Rs 11,92,045 crore in 2004-05 to Rs 16,67,286 crore in 2008-09, at an average rate of 8.8 per cent. Rate of growth of GDP at constant market prices during this period at 8.4 per cent was lower than the growth of private consumption expenditure that could be attributed to trade.

A Golden Opportunity!!!

The Indian trading sector, as it has developed over centuries, is very different from that of the developed countries. In the developed countries, products and services normally reach consumers from the manufacturer/producers through two different channels: (a) via independent retailers

(‘vertical separation’) and (b) directly from the producer (‘vertical integration’). In India, however, the above two modes of operation are not very common. Small and medium enterprises dominate the Indian retail scene. The trading sector is highly fragmented, with a large number of intermediaries. So also, wholesale trade in India is marked by the presence of thousands of small commission agents, stockiest and distributors who operate at a strictly local level. Retail giants like US-based Wal-Mart and French Carrefour are very keen to enter in the segment. Bharti Enterprises and Wal-Mart Stores entered into a joint venture in August 2007 and started cash-and-carry stores named 'Best Price Modern Wholesale' in 2009.

Retailers like Bharti-Wal-Mart have been lobbying hard to get the FDI for Multi brand retailing which it is being barred from and have only B2B stores set-up in India on the outskirts of Chandigarh, Others like Tesco and Carrefour have been trying hard to get into the Indian market which is being seen as a potential gold mine and research agencies have already rated Indian Retail market to be very lucrative taking into consideration the huge population and untapped retail industry which is at a very nascent stage compared to the potential of retail biggies like Wal-mart, Tesco and Carrefour.

The Big Players

Once the multi-brand retail sector is opened up, multinational retail giants with turnovers of tens of billions of dollars will be lining up for a share in the Indian market. Some of the prominent big players keen to enter into India include Walmart from US (sales last year of over \$400 billion (bn) from 9,000 stores), Carrefour from France (sales \$130 bn from 9,500 stores), Tesco from UK (sales \$100 bn from 5,400 stores), and Metro from Germany (sales \$96 bn from 2,100 stores). The predatory practices adopted by several multinational retail chains are well documented. Given their financial strength, big multinational players have the capacity to invest and sustain losses for years in order to wipe out competition. In the process, however, a large number of small and local retailers could be wiped out. For instance, take the case of Thailand where three foreign retailers took over 38 percent of the market within 13 years, thereby throwing thousands of local retailers out of business. Thailand is now struggling

to contain the expansion of big retailers, and prevent monopolistic practices. The big multinational retailers will not be content with setting up a few stores in India. Rather they will collectively set up thousands of shops all over the country over a period of time. Their business model demands that they build large volumes, which they would use to buy at lower prices, and this will help them to build larger volumes (leading to more concentration) till it becomes very difficult for small and local retailers to compete with them.

Good for Consumers and Farmers

Is it good for the consumer then, if prices are lowered initially? Up to a point, the consumer will benefit. But once big multinational players establish domination, the consumer becomes captive to them. That is when their mark ups will go up, and the consumer will have no choice but to pay the higher price. In essence, big retail business is a game of concentration and domination. In almost every market in the world, big multinational chains have edged out other players, leading to unfair concentration. In the grocery business, for instance, market shares range from 20 percent to as high as 80 percent. In Table 1, the market share of top retailers in several developed and developing countries is given. What is alarming to note is that market share in Brazil (38 percent) and Thailand (32 percent) has been achieved in just over a decade. The usual business model of big multinational retailers is “buy lowest, sell highest.” They aim for size and scale to gain the power to dictate terms in the retail markets. There are several reasons to believe that they will not give Indian farmers a better price. In the US, for instance, farmers received over 40 cents for every food dollar spent at supermarkets in 1950s. Presently, they merely receive just 19 cents. Since foods and vegetables are highly perishable items and refrigeration infrastructure is poor in India, producers will have no option but to sell their products at the price demanded by big retailers. No big foreign or domestic private retailer is going to invest huge amount of money in building rural infrastructure. This major problem can only be solved by undertaking massive public investments in the rural infrastructure such as roads, power supply and cold storages. It requires a different set of policy measures by both central and state governments.

Conclusion

Thus from developed countries experience retailing can be thought of as developing through two stages. In the first stage, modern retailing is necessary in order to achieve major efficiencies in distribution. The dilemma is that when this happens it inevitably moves to stage two, a situation where an oligopoly, and quite possibly a duopoly, emerges. In turn this implies substantial seller and buyer power, which may operate against the public interest. The lesson for developing countries is that effective competition policy needs to be in place well before the second stage is reached, both to deter anticompetitive behaviour and to evaluate the extent to which retail power is being used to unfairly disadvantage smaller retailers and their customers. The sources of retail power need to be understood to ensure that abuses of power are curbed before they occur. The more important debate lies in the parameters of competition policy. The benefits brought by modern retailers must be acknowledged and not unduly hindered. While it is true that some dislocation of traditional retailers will be felt, time will prove that the hardship brought will not be substantial. Competition law is being created and adopted across Asia but in the immediate future its impact is not expected to be large. Competition laws only become vital as time passes and retail becomes concentrated in the hands of a few powerful companies, whether or not these companies are foreign or domestic.

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