EXECUTIVE SUMMARY

India’s retail market, one of the top five retail markets in the world by economic value, is expected to double to US$ 1 trillion by 2020 from US$ 600 billion in 2015 registering a CAGR of 7% per cent since 1998, driven by income growth, urbanisation and attitudinal shifts, as highlighted by the Boston Consulting Group and Retailers Association of India’s report titled, ‘Retail 2020: Retrospect, Reinvent, Rewrite’. Overall retail market will grow at 12 per cent per annum; modern trade will grow twice as fast at 20 per cent per annum, and traditional trade at 10 per cent. The retail spending in the top seven Indian cities of India currently amounts to Rs 3.58 trillion (US$ 57.56 billion), with organised retail penetration at 19 per cent in 2014. It is expected that the online retail will be at par with the physical stores in five years. According to Boston Consulting Group and Retailers Association of India’s report titled, ‘Retail 2020: Retrospect, Reinvent, Rewrite’, Retailing in India is one of the pillars of its economy and accounts for 14 to 15% of its GDP and account for about 8% of employment. The study shows:

- On a national scale, unorganised retail contributes to whopping 92% of retail sales in India and plays an important part in the country’s economic growth, accounting for the employment of over 40 million people.

- Organized retail market is growing at 20 percent, while unorganized retail like kirana stores is at just between 6 to 12 percent. Given India’s population rate, this market growth can become a deciding factor in allowing FDI in multi-brand retail.

Given the relatively weak financial state of unorganized retailers, and the physical space constraints on their expansion prospects, this sector alone will not be able to meet the growing demand for retail in the present order and needs upgradation.
Organized retail which now constitutes a small eight percent of total retail sector is likely to grow at a much faster pace of 20 percent per annum and almost triple its share in total retail trade to 20 percent plus by 2020.

- This represents a positive sum game in which both unorganized and organized retail not only coexist but also grow substantially in size.
- The majority of unorganized retailers surveyed in this study, indicated their preference to continue in the business and compete rather than exit.

**The Empirical Basis**

The study comprises the survey of the primary stakeholders namely the unorganised retailers and organised retails and consumers who are also the prime to the economy and its growth which are said to be affected by the entry of foreign capital invested large formats into the retail business. The findings are based on a survey of 384 unorganized small retailers and 196 organised retailers across 10 major districts of Tamil Nadu; and 580 consumers shopping at both organized and unorganized retail outlets;.

**Secondary Data:** In addition, the researcher studied the written views of 164 respondents received by the Department of Industrial Policy and Promotions (DIPP) with regard to its discussion paper floated to gathering the views of various stakeholders on FDI in Multi-brand retail.

The study contains an extensive review of domestic and international retail literatures related to the diverse issues of retailing and issues pertaining to impact of foreign capital in retail sector in specific.

**Major Findings from the Primary Data**

a) **Impact on Unorganized Retailers**
» Majority of Unorganized retailers did not want foreign capital invested retailers to operate in Tamil Nadu.

» A majority of unorganised retailers did not want foreign retailers in their markets as they would involve in predatory pricing of goods sold in their store

» Most of unorganised retailers who operated their business within the nearby presence of organized retailers experienced a decline in their sales volume

» Though majority of unorganised retailers did not want foreign retailers to enter into retail business in Tamil Nadu, 40% of them have expressed that FDI is required to develop back-end retail infrastructure

» Majority of unorganised retailers wanted the intermediaries (middlemen) to be removed from the supply chain

» Most of the unorganised retailers wanted the government to provide them with institutional credit facilities through banks or micro-credit institutions

» There was no evidence of a decline in overall employment in the unorganized sector as a result of the entry of organized retailers.

» There is some decline in employment in the metro-city and cities were the concentration or organised retailers are more due to the account of unsustainable competition

» There is competitive response from traditional retailers for improved business practices and technology upgradation.

» A majority of unorganized retailers is keen to stay in the business and compete, while also wanting the next generation to continue likewise.

» Most of the unorganised retailers wanted the government to establish an exclusive retail regulatory body to monitor, control and regulate the overall retail sector.
Unorganized retailers have significant competitive strengths that include consumer goodwill, credit sales, and amenability to bargaining, ability to sell loose items, convenient timings, and home delivery.

b) Impact on Organised Retailers

- 86% of organized retailers did not want foreign capital invested retailers to operate in Tamil Nadu though 14% of them did not oppose the entry of foreign retailers.
- Predatory pricing, escalation of real estate costs, huge financial powers and global sourcing capabilities are the major reasons for opposing foreign retailers into their markets.
- Though 86% of organised retailers did not want foreign retailers to enter into retail business in Tamil Nadu, predominantly 70% of wanted FDI to develop back-end retail infrastructure.
- Most of the organised retailers who supported FDI in back-end retail infrastructure wanted foreign direct investments in the key area such as cold storage, warehouse, manufacturing, design improvement and packaging.
- 60% of those who served in organised retail stores at various capacities had tertiary level education and their awareness level with regard to government’s retail related policies was better with better education.
- A majority of organised retailers have clear insights and wide knowledge about how to sustain their business in the highly competitive market.
- A majority of retailers wanted to remove too many intermediaries between producer and seller.
- 86% of the organised retailers wanted the government to establish an exclusive retail regulatory framework to monitor, control and regulate the retail business.

c) Impact on Consumers
- 70% of customers did not want foreign capital invested retailers to be allowed in Tamil Nadu though a sizeable 30% of customers did not oppose the entry of foreign retailers.
- Majority of customers preferred retail stores which offered variety of better quality brands of products and chose shops which are very popular by name in the market.
- Most of the customer preferred kirana/convenience shops for buying their day to day needs and groceries which they wanted for regular use.
- Almost 20% of customers chose to buy apparel, gifts and toys from online stores indicate the fast growth of e-tailers in retail business.
- Predatory pricing, escalation of real estate costs, huge financial powers and global sourcing capabilities are the major reasons for those who opposed the entry of foreign retailers
- Though 86% of organised retailers did not want foreign retailers to enter into retail business in Tamil Nadu, predominantly 70% of wanted FDI to develop back-end retail infrastructure
- 86% of the organised retailers wanted the government to establish an exclusive retail regulatory framework
- Consumers have definitely gained from organized retail on multiple counts and overall consumer spending has increased with the entry of the organized retail.
- While all income groups saved through organized retail purchases, the survey revealed that lower income consumers saved more.
- Most of the customers felt that proximity was a major comparative advantage of unorganized outlets.

**d) Major Findings on responses received on discussion paper – Secondary Data**

i. **Support for FDI in multi-brand retail and the Discussion Paper**
All the foreign respondents opined in support of FDI in multi-brand and viewed that this discussion paper is timely.

Only 25% of all the of four major categories Traders, Individuals, Academia and Private sector including foreign respondents (overall 164 respondents) supported the move.

Most of the respondents who supported the move touched upon the issues facing wastage in public distribution system and the need for investing more into the system.

Respondents who supported the move felt that this discussion paper provided relevant international experiences as reference which formed basis of their opinion.

Only 10% of traders’ community from across the country supported the move and majority of them were from Haryana and Punjab states.

Respondents from academia, private and foreign category expressed the discussion paper provides much needed clarity of issues related to retail sector in India and thus many appreciated the reference to the report.

ii. **Opposition for FDI in multi-brand retail and Discussion Paper**

90% of the traders’ community across the country opposed FDI in multi-brand retail and expressed that the discussion paper overemphasis on ICRIER report.

Most of the respondents expresses that the discussion paper is in English only and thus limits broader participation.

Many who opposed the move said the discussion paper overemphasis on benefits to consumers and farmers so as being simplistic but ignored the power relationships in supply chains which is the real issue.

Most of the respondents who opposed the move have also expressed that the paper is essentially narrow in focus.
Many respondents who opposed the move to permit FDI in multi-brand retail have expressed that the discussion paper lacks alternate or supporting recommendations.

iii. **Other Important Issues which impacts the acceptance of the discussion paper:**

- Some respondents argued that retail between food and non-food items need to be differentiated as the responses will change depending on focus.
- Many highlight inherent contradictions in the discussion paper, asking for job reservation for rural youth, yet also suggesting that multi-brand retail be restricted to urban cities.
- Most respondents have not attempted to respond to questions relating to international trade negotiations.

iv. **Key Insights from the Responses to Discussion Paper**

- Respondents have asked for Retail to be recognized as a formal industry, with a centralized Regulatory Authority to establish guidelines and reduce bureaucracy.
- Many have thrust upon the need for long-term financing especially in the back-end retail infrastructure facilities development.
- Many respondents highlighted the inability of domestic retail industry to establish effective retail infrastructure.
- All the respondents (64, all traders) from Tamil Nadu have voted against allowing FDI in MBR and surprisingly all the respondents from the state were traders.

**Major Recommendations**

On the basis of the results of the surveys and the review of domestic and international literatures related to retail, the study makes the following major recommendations:
1. Encourage retail cooperatives among small retailers and this can start from villages itself though necessarily required where large retailers operate in the neighbourhood

2. Integrate such associations or cooperatives among unorganised retailers into the supply chain mechanism

3. By eliminating intermediaries, small stores can obtain their supplies at lower prices, while farmers get better prices for their produce.

4. Facilitate cash-and-carry outlets, like Metro, for sale to unorganized retail and procurement from farmers, as in China.

5. Extend institutional support in the form of credit facilities from commercial banks and micro-credit institutions at reasonable interest rates

6. Promotional and innovative banking solutions for unorganized retail like Syndicate Bank’s lending for small business linked with the collection of daily or weekly pigmy deposits

7. Finance and tax incentives for such retailers in ineffective areas where survival of such retailers are very volatile

8. Encourage formulation of “private codes of conduct” by organized retail for dealing with small suppliers. These may then be incorporated into enforceable legislation.

9. Simplification of the licensing and permits for organized retail and move towards a nationwide uniform licensing regime and encourage states to facilitate modern retail.

10. Strengthening the Competition Commission’s role for enforcing rules against collusion and predatory pricing.