

Impact of FDI in Retail on Stakeholders

While the impact is expected to be significant and across stakeholders, some benefits around investments in infrastructure and supply chain, and challenges on job losses may be over stated

The objective of this discussion note is to highlight the potential impact of recent changes in India’s foreign direct investment (FDI) regulation in retail. This note also assesses the benefits and challenges from opening up of FDI in retail for various stakeholders. The approach applied for the analysis behind this note includes secondary literature review, Booz & Company analysis and a study of case studies on impact of FDI in retail in other emerging markets.

With the recent changes in FDI in retail, the current regulation is summarized as per below:

- Single Brand Retail
 - 100% FDI with 30% local sourcing requirement (average over five years, at cost)
 - 51% FDI with no sourcing requirements
- Multi-Brand retail
 - 51% FDI permitted, in cities with population >1Mn
 - 30% sourcing from MSME mandatory, along with capital and supply chain investment requirements
 - Dependent on approval by individual states; 18-20 cities with >1Mn population expected to allow FDI
- Cash & Carry
 - 100% FDI permitted

India’s retail sector is expected to see significant growth (see Figure 1). Within this, organized retail is expected to grow rapidly, further accelerated by the recent opening up of FDI. From a growth rate of about 24% over last five years, organized retail is expected to accelerate to 28-30%. Unorganized retail will still see a much larger growth in absolute value terms – while organized retail is expected to grow by about \$ 80 billion over the next four years, unorganized retail will grow by about \$ 190 billion.

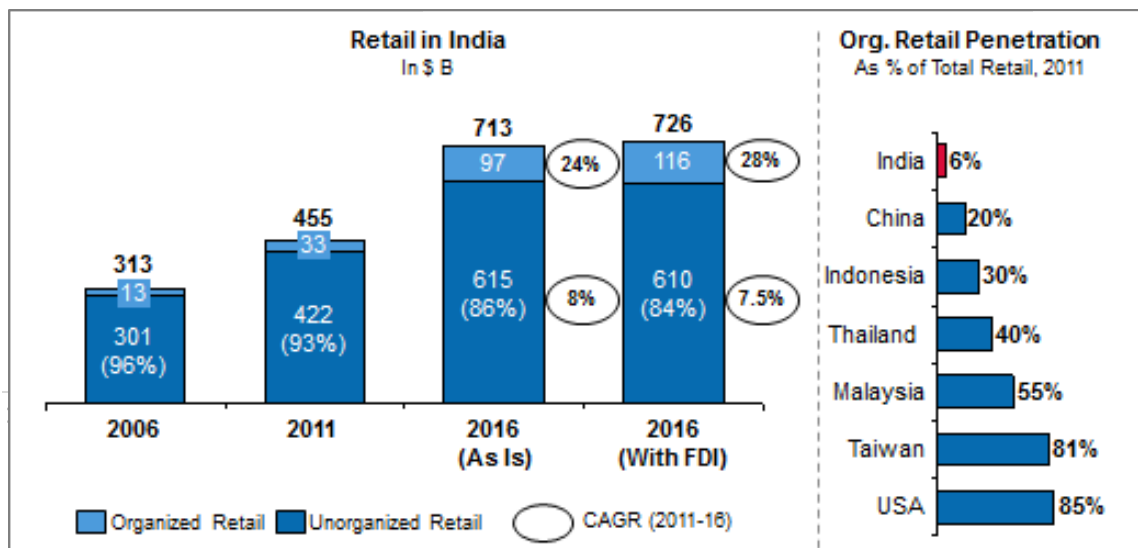








Figure 1:
Retail in India

Note : Projections assume a 30% market penetration of organized retail in 18 cities amenable to FDI and a 13% market penetration of organized retail in the Rest of India

Source : IBEF, Centrum Research, Literature Survey, Booz & Company analysis

The proposed FDI in retail is expected to impact various stakeholders of India’s retail sector – key amongst these are the Government, farmers, manufacturers / MSMEs, unorganized trade and retailers, organized trade and retailers, and the Indian consumers (see Figure 2).

Figure 2: FDI in Retail – Potential Economic Implications on Stakeholders

FDI in Retail – Potential Economic Implications			
Stakeholders		Impact	
1 Government 		<ul style="list-style-type: none"> ✓ Improvements in balance of payments ✓ Surge in employment opportunities ✓ Higher tax collections 	4 Unorganized Trade Retailers 
2 Farmers 		<ul style="list-style-type: none"> ✓ Reduction in wastage/ leakages owing to better back-end infra ✓ Price realization due to disintermediation in supply chain 	5 Indian Organized Trade Retailers 
3 Manufacturers/ MSME 		<ul style="list-style-type: none"> ✓ Increase in demand from organized retailers ✓ Growth in export opportunities ✗ Imports from other low cost manufacturing countries 	6 Consumers 
			<ul style="list-style-type: none"> ✓ Overall Increase in consumption ✓ Opportunity in to improve operational efficiencies ✗ Potential migration of customer base
			<ul style="list-style-type: none"> ✓ Larger / cost effective supplier base ✓ Access to new technology ✓ Capital infusion from PE and international retailers ✗ Loss of market share
			<ul style="list-style-type: none"> ✓ Lower prices compared to unorganized retail ✓ Better shopping options and experience

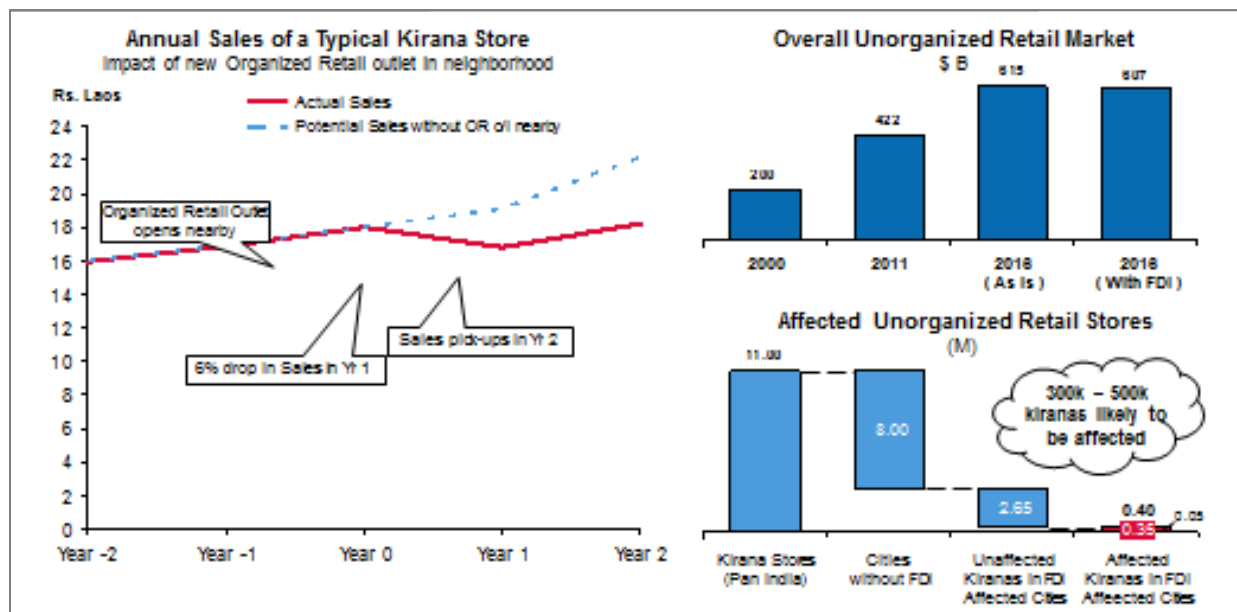
Source: Booz & Company analysis

Our research points to a potential \$5-6 billion in foreign investments that India can receive over the next five years. This is different and more conservative from some other estimates (e.g. CRISIL Research estimates FDI inflows of \$10 billion in retail over the next five years). Further, overall Central & State tax collection can increase by \$8 billion over five years as a direct consequence of growth in organized retail.

Today about 1.0 million people are employed directly by organized retail. Without FDI, this number is expected to increase to 2 million by 2016 (plus 4 million opportunities via indirect employment). FDI in retail can potentially add another 1.5 million jobs by 2016 (additional direct and indirect job creation). Over 80% of this employment opportunity will be for people with minimum qualifications. Also, these jobs offer higher salaries, defined career paths and a better work environment compared to unorganized retail.

For unorganized retail, while at a store level there can be some short-term loss of sales for stores in vicinity of new organized retail outlets, overall market will continue to grow significantly (see Figure 3). This is based on a study of impact of organized retail on 300 kirana stores over the last three years. Given that about 18 cities have shown keenness to allow in foreign retailers, the number of kiranas that get affected is likely to be 300,000-500,000 (from a total India number of 12 million stores).

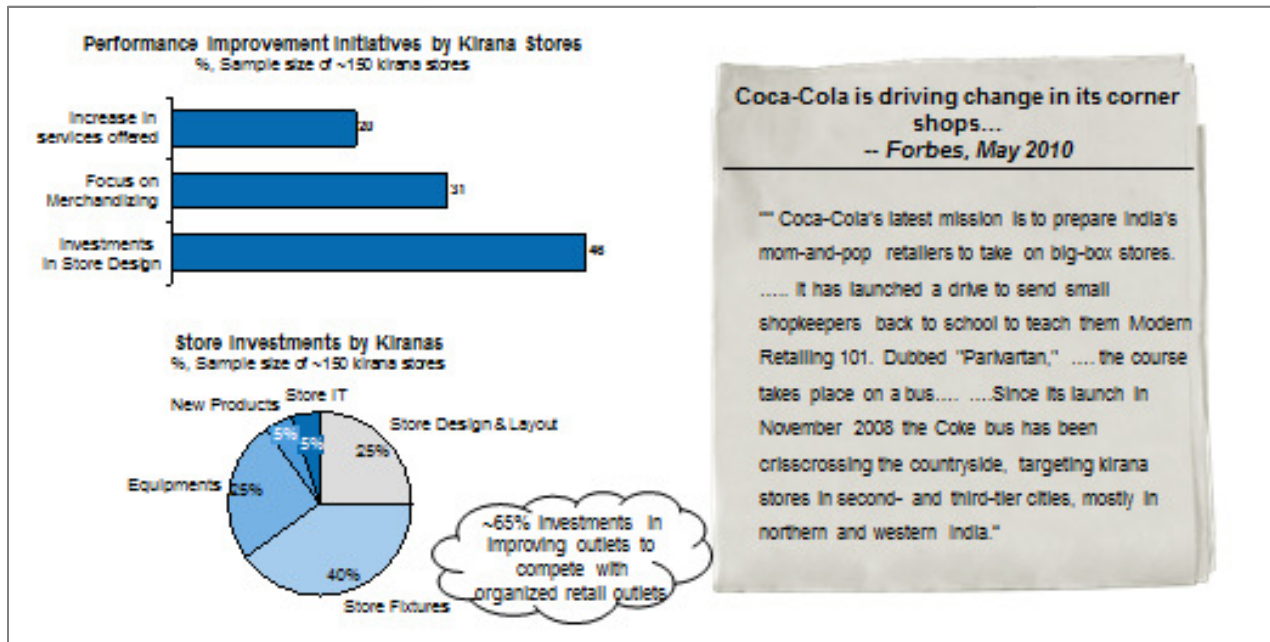
Figure 3: Impact of FDI in retail on unorganized retail



Source: Booz & Company analysis

Past trends also show that many unorganized retailers reinvent themselves – independently or with help from large FMCG players, and are well placed to manage any challenges organized retail throws up in their catchments (see Figure 4).

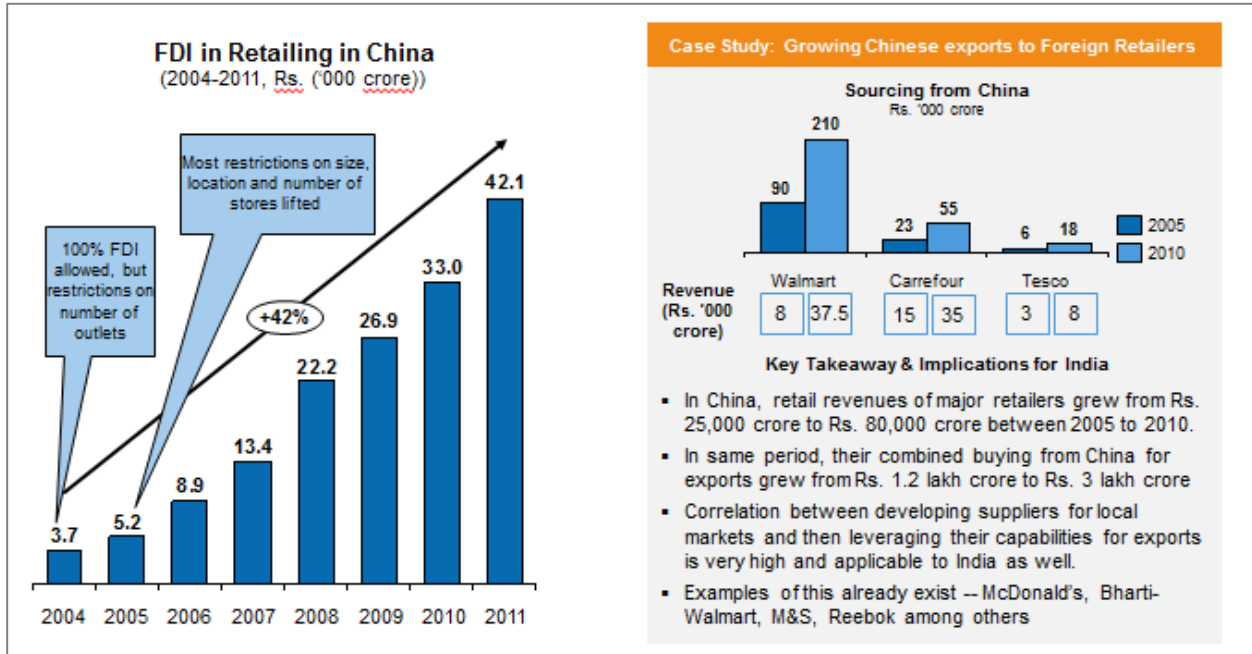
Figure 4: Performance Improvement Initiatives by Kirana Stores



Consumers will benefit most from FDI in organized retail as prices of essential products are lower, with 6-8% realization of annual savings. Also, with increase in number of organized outlets, aspects such as convenience and overall shopping experience will improve rapidly in the country.

In summary, our research in India and other emerging markets shows that FDI in retail is largely beneficial to various stakeholders. However, some benefits around investments in infrastructure and supply chain and challenges on job losses may be over stated. Our study points to a more conservative expectation on these fronts. The biggest benefits would fittingly accrue to the largest stakeholder – the Indian consumer, in the form of better prices, merchandise choices and assortment, and shopping ambience.

Figure 1: Impact of FDI in retail on China’s organized retail

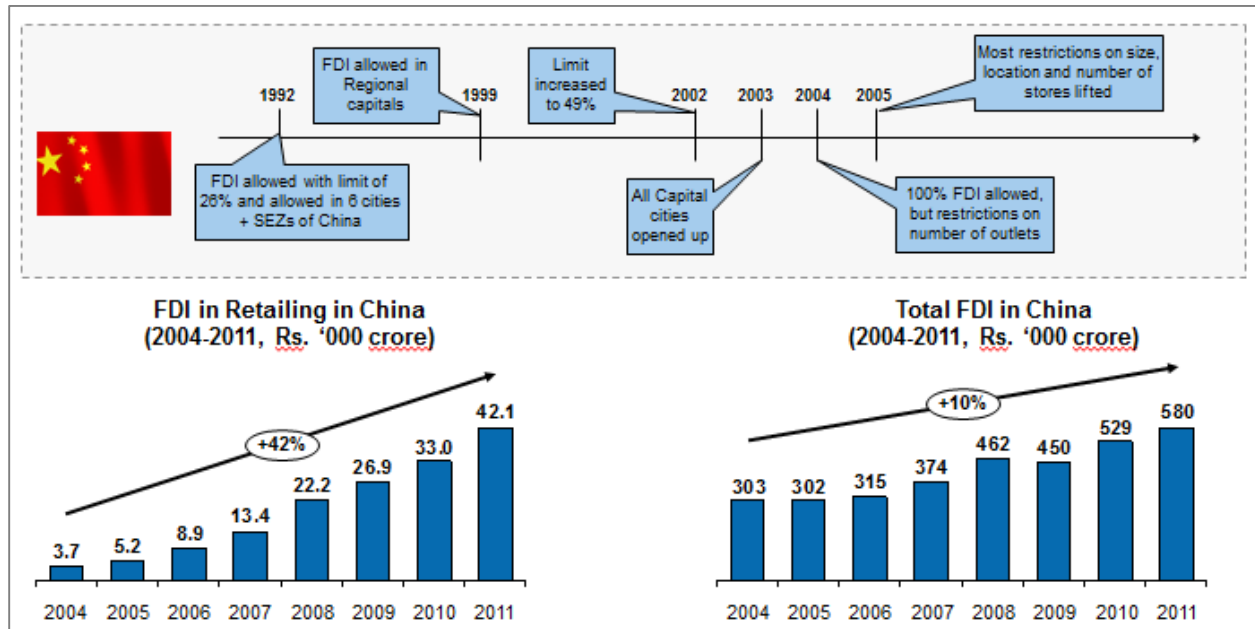


Source: National Bureau of Statistics in China, Euromonitor, Booz & Company analysis

China has received over Rs. 1.5 lakh crore of FDI in retail over the past 8 years helping organized retail grow at an extremely fast pace. In fact the amount of sourcing from China has grown at a much higher rate compared to the increase in revenues of foreign retail players (see Figure 1).

China started the journey of FDI in retail back in 1992 and is now almost fully open to FDI since 2005 – FDI in retail is now outpacing overall FDI in China at an overall growth rate of 42% (see Figure 2).

Figure 2: History of FDI in Chinese Retail



Source: Ministry of Commerce, National Bureau of Statistics of China; Booz & Company analysis