

# Retail evolution

**There will be no “big bang” in India’s retail industry if or when the UPA government allows FDI in multi-brand retail**



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Political supporters and opponents of allowing direct investment by foreign retailers in the Indian market appear to agree passionately about two equally questionable ideas. One is that letting big foreign supermarkets into India is quickly going to turn the retail business upside down, either creating or destroying millions of jobs. The other is that this decision, when it finally gets made, will permanently settle the issue of how big-box retailing fits into India’s economy and society. Both ideas are probably wrong, and may be contributing to the difficulty of getting a political consensus on letting multi-brand retailers enter the market.

India’s large retailers themselves have more modest expectations of how fast their small footprint in India can expand. In the first decade of modern retailing in India, they have taken about 5 per cent of the market by value, implying – after allowing for huge differences in spending power between wealthy consumers and the poor – that the percentage of consumers these retailers serve is much smaller. Finding the right format, particularly for food retailing, has required costly experiments in the face of supply-side constraints like sourcing fresh food from farmers and expensive real estate. Fewer than 100,000 jobs appear to have been created, directly, by the half dozen largest retailing companies, compared with tens of millions who make a living through small retail outlets.

Against this background, the capital and expertise of retailers like Walmart, Carrefour, Tesco and Metro are essential for chipping away at the enormous inefficiencies of retailing in India, and eventually for bringing down costs for urban consumers. This was clearly recognised in the decline in the share prices of publicly listed Indian retailers that followed the government’s retreat in early December on lifting the bar against foreign direct investment in multi-brand retail.

But the expectation that foreign investment alone can create the network effects needed to give farmers a better deal, deliver cheaper goods to consumers and reduce food inflation, overlooks the massive task of micro-economic reforms that are needed to make this happen. Just to name a few, these include the creation via tax reform of a single market inside India, simpler land acquisition, faster planning permission, reliable power for cold stores and effective

competition policy for rural markets.

Modern retail has to evolve gradually in India. There will be plenty of time for the minority of small retailers affected by the growth of supermarkets in the cities to adjust. Eventually, however, the number of small outlets will fall and jobs will be lost.

Japan, the industrial country that imposed the severest controls on new retail stores, provides a good example. Development of large stores was outlawed for many years, to protect millions of people who earned a living from small shop fronts. When fast economic growth faltered and consumer pressure for lower prices became politically irresistible, the protection was swept aside. The total number of retail outlets in Japan fell by one third over a 30-year period, from its peak of 2.1 million in the early 1980s to 1.4 million at the end of the past decade.

The social issues raised by the development of modern retail, like the expansion of the sector itself, will evolve gradually in India, but they will not go away. Debate and conflict at the state and local level over how modern retail can compete or co-exist with, or displace, traditional outlets will stretch into the indefinite future.

This reflects the experience of other countries. Just a few days after the UPA government made its humiliating U-turn on multi-brand retail, a report to the UK government on the continual decline of British high streets suggested that all out-of-town retail developments should now be subject to approval by government ministers. The proposal arose from worries that busy high streets are part of a healthy urban community, hollowed out by empty shops and a flight by consumers to retail parks. Exactly the same argument was used to defend Japan’s attractive and sociable, but expensive, high streets against the ugly ex-urban sprawl that replaced them.

The furious response of the UK’s big supermarkets against this latest defence of old-style shopping was less eloquent than the consumer inflation numbers, published the following week. These showed that inflation in the UK was coming down – thanks to consumers benefiting from price competition between the big supermarkets on the edge of town. When it comes to shopping, it’s what you do, not what you say, that counts. ♦

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