

Impressions on FDI in Retail

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Well, we have been keenly watching and listening the national debate on the UPA-II government permitting 100% FDI (Foreign Direct Investment) in Retail in India.

The promise of FDI in Retail

- Higher price to farmers / Lower price and better service to consumers, by eliminating the middlemen in the distribution chain;
- Jobs in the organised Retail sector;
- Investment in the back-end Infrastructure for storage, processing and transportation of farm produce to eliminate wastage.

Sounds cool, but before you decide, take a peek at the following paradox:

Interestingly, though there a number of MNC's in fray for India Entry with Swedish major IKEA having definite plans and UK's Tesco and France's Carrefour, also in fray, the debate is invariably focussing more on USA's Wal-Mart and the manner in which it operates outside India and what harm or good it can do for Indian's – again classified (or rather say, divided) in various interest groups – farmers, consumers, middlemen (the traders, brokers, etc), the SME manufacturers and the youth promised lucrative jobs. Well, and then let's also talk of Wal-Mart, but its business & partners in India. Wal-Mart has a domestic Joint Venture (JV) with Bharti group in the Wholesale Cash & Carry Trade.

The Bharti group is more popularly known for its Telecom and Mobile business – Bharti Airtel. Prior to liberalisation of the Telecom Sector in India in the mid 90's of the previous millennium, synchronising with introduction of mobile telephony in India, the entire Telecom sector was dominated by the state owned PSU behemoths – BSNL and MTNL. The Telecom sector was plagued by poor connectivity, low tele-density, high call-rates and bureaucratic (mis)management of BSNL and MTNL.

Ironically, there were but no middlemen – all services were provided (or to be provided) by the employees of BSNL and MTNL. There were no third-party distributors or vendors. Now we come back from old memories to the present era of liberalisation and a market scenario dominated by the private players – where we have a third-party vendor, distributor or service provider in all segments of the Telecom Business from – distributors and retailers selling Recharges coupon and SIM cards for new connections, KYC (Know Your Customer) verification, Billing and collection to repairs and maintenance operations of the Mobile Towers. The retailers of these Recharge coupons are invariably the local *kirana* shop owners to the infamous down-to earth “paan” shops. The Franchisees of the Telecom companies do the activities of serving the post-paid customers. The proportion of people directly employed by the private Telecom companies on their payroll is abysmally low to the people who are working in the private Telecom sector as a whole.

The question behind this story –>

Are these distributors, franchisees and other third-party vendors or service providers not middlemen? If yes, why did Telecom companies, in the first instance, create or employ the services of these middlemen third-party vendors, when in case of completely new ventures built from scratch, they could have created the purported more efficient organisational structure with employees on their pay-rolls.

What model should we expect Bharti Wal-Mart to adopt in India –> a Bureaucratic, inefficient structure like BSNL or a more vibrant and competitive organisational structure adopted for Retailing Telecom?

If it adopts a model similar to its organisation in the Telecom sector employing a large number of third-party service providers to do the procurement from farmers or SME's to do the processing of goods, the promised white-collar jobs in the organised sector may not materialise. **Have regard to the fact that we still have archaic labour laws – without any reforms or liberalisation.**

Well it not the right time to drive to conclusions, nor to speculate the future with the fine print of government policy still under the covers and the business strategy and plans of the MNC Retailers still not finalised, but its my personal opinion, rather a hunch, that the entire diaspora of “middlemen” is neither unscrupulous as they are portrayed nor so inefficient that they would be wiped off by a flood of foreign capital, in the immediate future.