In 2012, Swedish furniture major IKEA started doing research in India going from one location to another in different cities to understand the needs of the Indian consumer. In 2013, it announced plans to invest Euro 1.5 billion or around Rs 10,500 crore in India over a period of 20 years. It planned to set up 25 furniture stores, restaurants and food marts under the IKEA brand in a phased manner. In 2014, the government relaxed the Foreign Direct Investment norms for single brand retail by allowing 100 per cent FDI of which 49 per cent could come through the automatic route and rest through official route.

IKEA's first store

Five years after the announcement, IKEA is set to open its first store in Hyderabad this year, which is the best single brand retailer India could have as it owns its stores and makes significant investments setting up large-sized stores. While getting permissions through the Directorate General of Foreign Trade’s office has not been difficult for a company which has already plans to establish itself in the market, IKEA has not made much headway when it comes to opening.

Another foreign brand which had chosen to go on its own in the Indian market is the Swedish fashion giant H&M. Though the investments would be much lower for H&M compared to IKEA, it takes up real estate space on rent, the company has opened only around 15 stores in the past few years. Globally, H&M has more than 4,400 stores in 66 markets.

Well known International brand Tommy Hilfiger, which has been in the Indian market for more than 14 years, has chosen to remain with Joint Venture partner Arvind, despite 100 per cent through official route being available. The Same is the case of Spanish fashion brand Zaragoza which is comfortable with its JV partner Tata.
McDonalds, KFC, Domino's and Pizza Hut have made it big in India through franchising. So what change is it going to make now when the government has allowed 100 per cent single brand retail through automatic route? “Almost nothing, this is not a newsworthy announcement,” finds Arvind Singhal, chairman and managing director of Technopak.

“No dramatic change can be expected. When businesses start making plans to enter a new market, they would look at the consumer demand and the market potential. The policy-related decisions are not even discussed at the board level meetings. Real estate cost and returns are the main worries. The new announcement is just meant to ease out government procedures,” said Harminder Sahni, founder and managing director of Wazir Advisors.

“At the best it can bring down the lawyer’s fee on seeking DGFT permissions,” said Arun Natarajan, CEO of Venture Intelligence.

Sourcing norms

The government has eased the 30 per cent sourcing norms for the international brands. The international brands can set off incremental sourcing of goods from India for global operations during the initial years against the mandatory sourcing requirement of 30 per cent of purchases from India. After the initial five years, the firm will have to meet the sourcing norm every year.

Now that will be of interest to some of the players like IKEA or H&M which started operations in India less than five years ago. But the industry is not very sure whether personal electronics brands like Apple or Xiaomi could still meet the 30 per cent sourcing norm. There is a paucity of quality components available in the country. While the industry has no doubt that with more import of components, there won’t be a huge rush of brands into the market post this announcement, it would tighten the competition in the market, which in turn will be good for the consumer.

“China is now building big brands. Earlier, it was largely manufacturing products for global brands and now it is in the process of building its own brands in a big way and establish them across the globe. The announcement about fully opening up one of the largest markets in the world to international brands will cheer these Chinese brands,” said Gaurav Marya, chairman, Franchise Business Development Holdings.

But the Indian single brand retailers are not very excited nor are they eager to fetch foreign funds abroad just because the government has relaxed the norms. “We are a private company and don’t have any venture capital funding in our company till now. We are not looking at it in near future either just because of the FDI norms,” said Harkirat Singh, managing director of Woodland.

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“Which Indian company will sell 100 per cent equity to fetch foreign funds? They have not parted with 49 per cent till now,” said Arvind Singhal. For the Indian companies, FDI norms are not the same. “Similar concessions are not available to Indian companies. For example, single brand Indian companies can only get FDI if they are manufacturers or through holding route,” said Rakesh Biyani, joint managing director of Future Group.

According to Darshan Upadhyay, partner, Economic Laws Practice, a manufacturer who selling his goods under a brand name through exclusive brand outlets set up by him, can
When it comes to an Indian trader, who sources the product from manufacturers and sells in a particular brand name through his own stores, there are a lot of grey areas in the FDI he added. Whatever be the legal scenario, the fact is that not many companies have attracted any significant investment from abroad in the past four years compared to what has been flowing into e-commerce companies. While e-commerce companies have been attracting dollars every year for the past four years, domestic single brand retailers have not even received a minuscule part of it. As per the data collated by Venture Intelligence, known investments received by Indian single brand retailers in the past four years don’t even add up to $100 million.

Fundamental difference
The difference is fundamental. While e-commerce companies that have been attracting foreign funds, private equity or venture capital funds. “But then, in this case you are a manufacturer not a retailer,” said Upadhyay.

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