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TOP NEWS

Govt booster shot on single brand retail gets mixe reactions

In 2012, Swedish furniture major IKEA started doing research in India going from one hc 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 peri to 20 years. It planned to set up 25 furniture stores, restaurants and food marts under tl brand in a phased manner. In 2014, the government relaxed the Foreign Direct Investm norms for single brand retail by allowing 100 per cent FDI of which 49 per cent could cor 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 y is the best single brand retailer India could have as it owns its stores and makes significa investments setting up large-sized stores. While getting permissions through the Direct 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 opening.

Another foreign brand which had chosen to go on its own in the Indian market is the Sw fashion giant H&M. Though the investments would be much lower for H&M compared t it takes up real estate space on rent, the company has opened only around 15 stores in t 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 fo than 14 years, has chosen to remain with Joint Venture partner Arvind, despite 100 per c through official route being available. The Same is the case of Spanish fashion brand Zar 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 Ad "No dramatic change can be expected. When businesses start making plans to enter a m they would look at the consumer demand and the market potential. The policy-related d are not even discussed at the board level meetings. Real estate cost and returns are thei 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. can set off incremental sourcing of goods from India for global operations during the ini years against the mandatory sourcing requirement of 30 per cent of purchases from Ind 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 openi less than five years ago. But the industry is not very sure whether personal electronics b mobile phone brands like Apple or Xiaomi could still meet the 30 per cent sourcing norm paucity of quality components available in the country. While the industry has no doubt there won't be a huge rush of brands into the market post this announcement, it would the sentiments of brands that had already made up their minds to enter the market or a process of doing it.

"China is now building big brands. Earlier, it was largely manufacturing products for glol brands and now it is in the process of building its own brands in a big way and establish across the globe. The announcement about fully opening up one of the largest markets neighbourhood will cheer these Chinese brands," said Gaurav Marya, chairman, Franchis Holdings.

But the Indian single brand retailers are not very excited nor are they eager to fetch fun abroad just because the government has relaxed the norms. "We are a private company don't have any venture capital funding in our company till now. We are not looking at it i near future either just because of the FDI norms," said Harkirat Singh, managing directo Woodland. "But, if there are fewer restrictions, we may see more international brands co This will tighten the competition in the market, which in turn will be good for the consun added.

"Which Indian company will sell 100 per cent equity to fetch foreign funds? They have no parted with 49 per cent till now," said Arvind Singhal. For the Indian companies, FDI norr not the same. "Similar concessions are not available to Indian companies. For example, s brand Indian companies can only get FDI if they are manufacturers or through holding s 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, ca

When it comes to an Indian trader, who sources the product from manufacturers and se in a particular brand name through his own stores, there are a lot of grey areas in the FD he added. Whatever be the legal scenario, the fact is that not many companies have attr any significant investment from abroad in the past four years compared to what has bee flowing into e-commerce companies. While e-commerce companies have been attracting of dollars every year for the past four years, domestic single brand retailers have not eve 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 a to $100 million.

Fundamental difference

The difference is fundamental. While e-commerce companies that have been attracting those who are selling multiple brands, these brick and mortar companies sell one brand total retail market in India, single brand retail will have just a minuscule share and even organised retail it would be less than 20 per cent. Experts find that not single brand, ope of multi-brand retail will bring in dramatic changes in the retail sector.

"Multi-brand is where the money lies. By making these announcements for single brand seems the government does not understand what retail is. Multi-brand retail is not a str sector like Defence which needs much more caution while opening up. These are just co selling what people buy. Companies like Walmart and Carrefour will have better supply management and technology that can bring down the prices by efficient sourcing. They export more from India than what an H&M or IKEA can do," said Singhal.

The industry does not even find the concept of single brand retail appropriate. "Nowher globe do they have the concept of single brand retail. Manufacturers setting up a few st part of diversifying their distribution channel cannot be called retail. Real retail is multi-b retail in which companies source products from different places, manage supply chain a different brands," said Sahni. The government has been hesitant to open up the market international multi-brand retailers as the traders fear of job loss. But opening up of seve sectors have seen more job opportunities created than lost. "The fear factor from the Br of resources being taken away by foreign companies has to go in a globalised world," ad Sahni.

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