Govt booster shot on single brand retail gets mixed reactions

Mydigitalfc just now View source

In 2012, Swedish furniture major IKEA started doing research in India going from one household 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 15 to 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 (FDI) 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. IKEA 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 Director General of Foreign Trade's office has not been difficult for a company which has already made plans to establish itself in the market, IKEA has not made much headway when it comes to store 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 as it takes up real estate space on rent, the company has opened only around 15 stores in these 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 FDI through official route being available. The Same is the case of Spanish fashion brand Zara, which is comfortable with its JV partner Tata.

Then there are a lot of international brands across different segments which still prefers to stay with their franchisee partners by not committing investments in the market. Brands like 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 FDI in single brand retail through automatic route? "Almost nothing, this is not a newsworthy announcement," finds Arvind Singhal, chairman and managing director of Technopak Advisors.

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. They can set off incremental sourcing of goods from India for global operations during the initial five years against the mandatory sourcing requirement of 30 per cent of purchases from India. After 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 opening stores less than five years ago. But the industry is not very sure whether personal electronics brands or mobile phone brands like Apple or Xiaomi could still meet the 30 per cent sourcing norm with the paucity of quality components available in the country. While the industry has no doubt that there won't be a huge rush of brands into the market post this announcement, it would boost the sentiments of brands that had already made up their minds to enter the market or are in the process of doing it.

"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 neighbourhood will cheer these Chinese brands," said Gaurav Marya, chairman, Franchise India Holdings.

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

"Which Indian company will sell 100 per cent equity to fetch foreign funds? They have not even 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 structure route," said Rakesh Biyani, joint managing director of Future Group.

According to Darshan Upadhyay, partner, Economic Laws Practice, a manufacturer who is also selling his goods under a brand name through exclusive brand outlets set up by him, can access foreign funds, private equity or venture

When it comes to an Indian trader, who sources the product from manufacturers and sells them in a particular brand name through his own stores, there are a lot of grey areas in the FDI norms, 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 billions of 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 aggregate to $100 million.

Fundamental difference

The difference is fundamental. While e-commerce companies that have been attracting funds are those who are selling multiple brands, these brick and mortar companies sell one brand. Of the total retail market in India, single brand retail will have just a minuscule share and even in organised retail it would be less than 20 per cent. Experts find that not single brand, opening up 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 retail, it seems the government does not understand what retail is. Multi-brand retail is not a strategic sector like Defence which needs much more caution while opening up. These are just companies selling what people buy. Companies like Walmart and Carrefour will have better supply chain management and technology that can bring down the prices by efficient sourcing. They can 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. “Nowhere in the globe do they have the concept of single brand retail. Manufacturers setting up a few stores as part of diversifying their distribution channel cannot be called retail. Real retail is multi-brand retail in which companies source products from different places, manage supply chain and sell different brands,” said Sahni. The government has been hesitant to open up the market for international multi-brand retailers as the traders fear of job loss. But opening up of several other sectors have seen more job opportunities created than lost. “The fear factor from the British era of resources being taken away by foreign companies has to go in a globalised world,” added Sahni.

RED Hydrogen One smartphone final release d
ate and price revealed

Fadu News just now

Sanskar Bharati holds Natraj puja with felicitati
on, music

NYOOOZ just now

#BeautyAllAround 9 films everyone should watch

All Media Breaking just now

Motorola One Benchmarked With Android 8.1, Specs Revealed

Android Headlines just now

RBI Governor Urjit Patel launches UPI 2.0

Pro Kerala just now