

# WARNING

**FDI** IN MULTI-BRAND RETAIL

**DANGEROUS**  
FOR THE **NATION**

मल्टी-ब्रांड रिटेल में  
विदेशी प्रत्यक्ष निवेश  
**राष्ट्र के लिये  
खतरनाक**

**August 10, 2011**

Prepared by Shekar Swamy, CEO, R K SWAMY HANSA Group and Visiting Faculty, Northwestern University, in the interest of an informed debate to arrive at a decision that puts India first. The views are personal.

# Author's preamble

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- The author is not an advocate of protectionism. In his own businesses, the author has never sought protection, and is happy to compete with anyone, in India and USA.
- The business of Retail, in India's current context, is very different. It has deep social and national security implications. This document has been put together to bring these issues into focus.

# What this presentation will cover

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- This document outlines the perils and pitfalls of the proposed opening up of the Indian market to Foreign Direct Investment in multi-brand retail.
- This document draws from experiences from around the world. It shows that unfettered admission of Big Foreign Retail is against India's national security, will cause damage to the livelihood of millions, and hold both farmers and consumers captive.

**Let's start with a lesson from the past**

# Meet one of history's prolific hunters

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Tom Nixon  
Buffalo hunter

- In 1873, this man set a record for having killed over 3,200 wild American buffalo in just 35 days, at the rate of over 91 per day.
- How could he do it?

# The American buffalo

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- The Bison, as it was called, used to roam the plains of America in the millions, as recently as the 1800s.
- It played a huge role in sustaining the American Indian tribes, providing them food.



# The American buffalo (...contd.)

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- These animals were stupefyingly easy to kill.
- If a buffalo saw the animal next to it drop dead, it would not flee unless it could see the source of the danger.



# The American buffalo (...contd.)

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- Thus one shooter with a long-range rifle could drop an entire stand of the creatures without moving.



# The American buffalo (...contd.)

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- In 1870, a new method of tanning allowed buffalo hides to be converted to high-grade leather.
- The railroads were built around that time, making commercial shipments of hides economical.
- Buffalo hunting became obscenely profitable.
- “Buffalo men” like Tom Nixon roamed the American plains, killing buffalo at will.

Between 1868 and 1881 - 13 years only - over 31 million buffalo were killed, stripping the plains almost entirely of the huge, lumbering creatures.

The buffalo had no chance!

# The American buffalo (...contd.)

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## **Why didn't anyone speak out?**

- At one level, it was capitalism working itself out, the exploitation of another natural resource.

# The American buffalo (...contd.)

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## Why didn't anyone speak out? (...contd.)

- There was another better explanation for the lack of protest, articulated best by a military person.

*"These men (hunters) have done in the last two years ... more to settle the vexed (American) Indian question than the entire regular army has done in the last thirty years.*

*They are destroying the Indians' commissary\* ... for the sake of a lasting peace, let them kill, skin and sell until the buffaloes are exterminated. Then your prairies can be covered with speckled cattle and the festive cowboy."*

- Gen Phil Sheridan, Commander of the Military Division of the Missouri

\* Commissary - a supermarket for members of armed forces, a source of food supply.

# The American buffalo (...contd.)

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- Exterminating the buffalo i.e. Killing the Indians' food, was not just an accident of commerce.

**It was a deliberate political act.**

# Lessons for us in the FDI context

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- Allowing foreign organisations to have access to, and eventually come to control, the food supply to the nation at large is fraught with danger.
- Like the American buffalo, Indian retailers will be picked off in droves. They won't even see the danger coming.
- Allowing Big Foreign Retail to compete with our small retailers is the utmost unequal fight. It is like the long-range rifle versus the standing buffalo.

All of the above will be explained in detail in the rest of this presentation.

**A few comments to set the context  
and explain the perspective of this  
presentation ...**

# Time horizon

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- We must assess the impact of FDI in multi-brand retail over the next five to ten to twenty years, not in immediate terms.

In the short term, money will flow into the country to benefit a few people. The government can claim that its reforms' agenda is intact. This is however not the correct gauge.

The adverse implications are over time.



# No speculation

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- There is no guess work or speculation in this presentation.

The negative impact of Big Retail have reverberated, and continues even now, throughout the world.

Everything that is said in this presentation has already happened elsewhere. We must look at the right examples and learnings for our situation.

# Comparison with China is wrong

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- In the context of FDI in multi-brand retail, comparison with China is flawed.
- China has a \$265 bn trade surplus with the USA alone (2010) – Exports \$365 bn vs Imports \$100 bn.
- Walmart is the single largest buyer from China.
- China's manufacturing employment is vast.

## Comparison with China is wrong (...contd.)

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- China has no option but to permit the likes of Walmart to operate in that country.
- India has an annual merchandise trade deficit of \$100 bn plus.
- Indian economy is dependent on Services. Retail is a huge part of this.
- “As China has done, so India should do” is **not** a relevant argument.

# Indian situation is unique

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- No other nation (except China) has the challenge of meeting the needs of 1.2 bn people.
- No other nation has 350 mn to 400 mn people below the poverty level, to be looked after and given some basic livelihood.
- No other nation has the social complexity coupled with a fractious polity, that can erupt into social unrest with ease, when inherent balance is disturbed.

## Indian situation is unique (...contd.)

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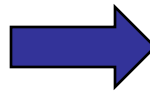
- Policy on FDI in retail must take into account the unique situation of India, and not blindly follow western precepts.
- Policy must serve the needs of the broadest base of the population, not just those at the top of the economic pyramid who make the loudest noise and have access to the media to propagate their views.

# Today's incorrect narrative

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- The narrative today seems to be that whatever has happened in the West, should happen in India also.
- Western practices are blindly considered as “development”.

**WRONG**



**RETAIL IN THE  
WEST IS FLAWED!**

Why should we bring in a flawed system into our country, in the name of FDI?

# Big Capital vs Democratic Capital

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- This is a case of BIG FOREIGN CAPITAL versus Small democratic indigenous capital.

Indian Retail sector is a mass of small capitalists serving small communities and neighbourhoods, in order to make a living.



Every where in the world, Big Capital has over-run the small capital of mostly family-owned retail.

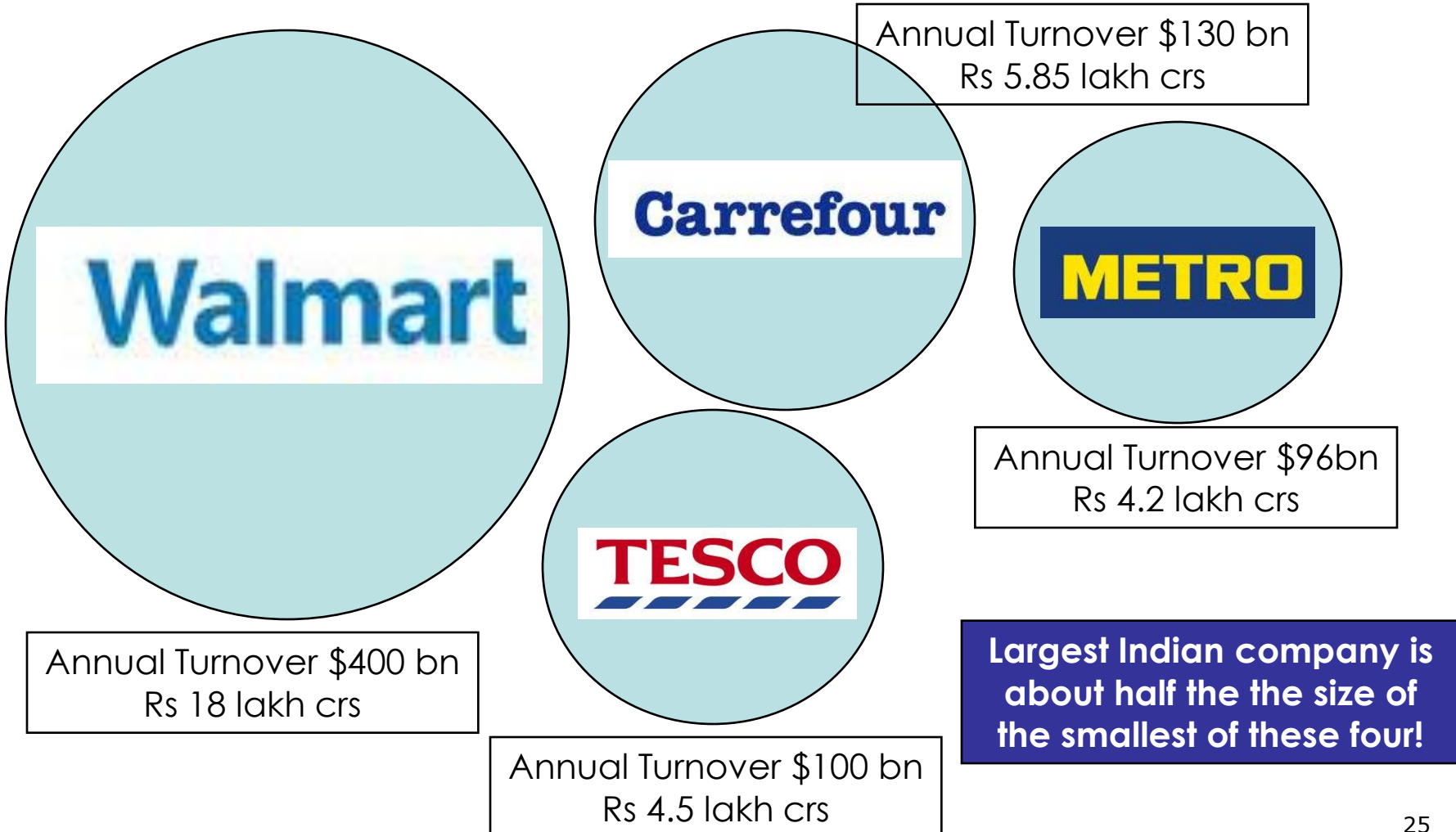


**Let us examine the implications of  
FDI in multi-brand retail**

**1) Who are we letting into the country?**

# Who are we letting in?

- The likes of the following companies:



# Who are we letting in? (...contd.)

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These are some of the most ferocious, predatory companies in the world.

Their practices in the markets are ruthless and designed to wipe out competition.

Their resources are enormous. They can invest and lose money for years. By then, lakhs of local retailers will be wiped out.

# Who are we letting in? (...contd.)

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Their agenda is to dominate a market place; nothing else is good enough.

They will compete against each other, as they do around the world. In the process, they will disrupt the market completely, wiping out local players.

*“When elephants fight, the ground below gets trampled.”*

# Who are we letting in? (...contd.)

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## Want evidence?

- In just 13 years in Thailand, three foreign retailers have taken over 38% of the market, wiping out local retailers in the tens of thousands.
- *“What took 60 to 80 years to happen in the West, has taken place in under 15 years in Thailand.”*
- Thailand is struggling now with the problem of trying to contain the big retailers, and prevent monopolistic practices.

(More evidence follows in the following pages.)

## Who are we letting in? (...contd.)

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- We are letting in the equivalent of modern-day raakshashas, and justifying this by saying that they will come and fix our “supply-chain infrastructure”. **(More on this specious argument later.)**



**2) Big Foreign Retail is a game of concentration and domination**

# Concentration and domination

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- In every market in the world, Big Retail has steadily edged out other players, leading to unfair concentration.

Market shares range from 20% to as high as 80%+ for these retailers, making the entire country dependent on them.

# Concentration and domination (...contd.)

Grocery Retail Brand shares by country				
Country	Top retail brands	Market Share	Market Share of top brands	Year
<b>Europe</b>				
<b>Sweden</b>	<b>ICA Stores</b>	<b>50%</b>		<b>2010</b>
	<b>COOP</b>	<b>20%</b>		
	<b>Axfood AB</b>	<b>16%</b>	<b>86%</b>	
<b>Germany</b>	<b>Metro</b>			<b>2009</b>
	<b>Edeka</b>			
	<b>Rewe</b>			
	<b>Schwarz</b>			
	<b>Tegelman</b>		<b>75%</b>	
<b>Belgium</b>	<b>Carrefour</b>	<b>29%</b>		<b>2009</b>
	<b>Delhaize</b>	<b>25%</b>		
	<b>Colruyt</b>	<b>25%</b>	<b>79%</b>	
<b>UK</b>	<b>Tesco</b>	<b>30%</b>		<b>2009</b>
	<b>Asda</b>	<b>17%</b>		
	<b>Sainsbury</b>	<b>16%</b>	<b>63%</b>	
<b>France</b>	<b>Carrefour</b>	<b>25%</b>		<b>2009</b>
	<b>Le Clerc</b>	<b>17%</b>		
	<b>Mosquetaries</b>	<b>13%</b>	<b>55%</b>	

# Concentration and domination (...contd.)

## Grocery Retail Brand shares by country

Country	Top retail brands	Market Share	Market share of top brands	Year
<b>North America</b>				
Canada	Loblaw Cos	37		2010
	Sobeys Inc	18		
	Metro	14	69%	
US	Wal-Mart			2009
	Kroger			
	Target		30%	
<b>Other Markets</b>				
Australia	Woolworth	46%		2010
	Coles	32%	78%	
Mexico	Walmart	47%		2010
	Soriana	14%		
	Commercial Mexicana	9%	70%	
Brazil	Carrefour	14%		2009
	Cia. Brasileira de Distribuicao	13%		
	Walmart	10%	38%	

# Concentration and domination (...contd.)

**Grocery Retail Brand shares by country**

Country	Top retail brands	Market Share	Market Share of top brands	Year
<b>Asia</b>				
<b>Thailand</b>	<b>CP-All (Part of 7-Eleven)</b>	<b>11%</b>		<b>2010</b>
	<b>Tesco Lotus</b>	<b>9%</b>		
	<b>SHV Makro</b>	<b>5%</b>		
	<b>Big C-Casino Group</b>	<b>5%</b>		
	<b>Central Retail</b>	<b>2%</b>	<b>32%</b>	
<b>Indonesia</b>	<b>Carrefour</b>			<b>2010</b>
	<b>Alfamart</b>			
	<b>Indomart</b>			
	<b>Matahari</b>			
	<b>Makro Indonesia</b>		<b>15%</b>	

# Concentration and domination (...contd.)

## Sources:

Sweden: Retail Food Sector Report for Sweden and Finland 2010, GAIN Report - USDA Foreign Agricultural Service

Belgium: Benelux Food Retail Market 2010 - GAIN Report - USDA Foreign Agricultural Service

Australia: NARGA Report - The challenge to feed a growing nation - [http://www.narga.net.au/documents/2010/NARGA\\_lowres\\_web.pdf](http://www.narga.net.au/documents/2010/NARGA_lowres_web.pdf)

Germany: Germany - Consumer Goods and Retail Report May 2011 Economist Intelligence Unit

Mexico: Mexico Retail Sector Report, 2010 GAIN Report - USDA Foreign Agricultural Service

Canada: The Canadian Food Retail Sector, February 2011 - OSEC Business Network, Sweden

Aldi, Lidl take record share of grocery – Kantar;  
<http://www.reuters.com/article/2011/04/27/britain-grocers-kantar-idUKLDE73Q0TP20110427>

: Hypermarket and supermarket chains redefine their strategies to attract consumers;  
<http://www.brassicastoday.com/en/france-hypermarket-and-supermarket-chains-redefine-their-strategies-to-attract-consumers.aspx>

US: USA - Consumer Goods and Retail Report February 2011 Economist Intelligence Unit

Brazil: Brazil - Food Retail Sector 2009, GAIN Report - USDA Foreign Agricultural Service

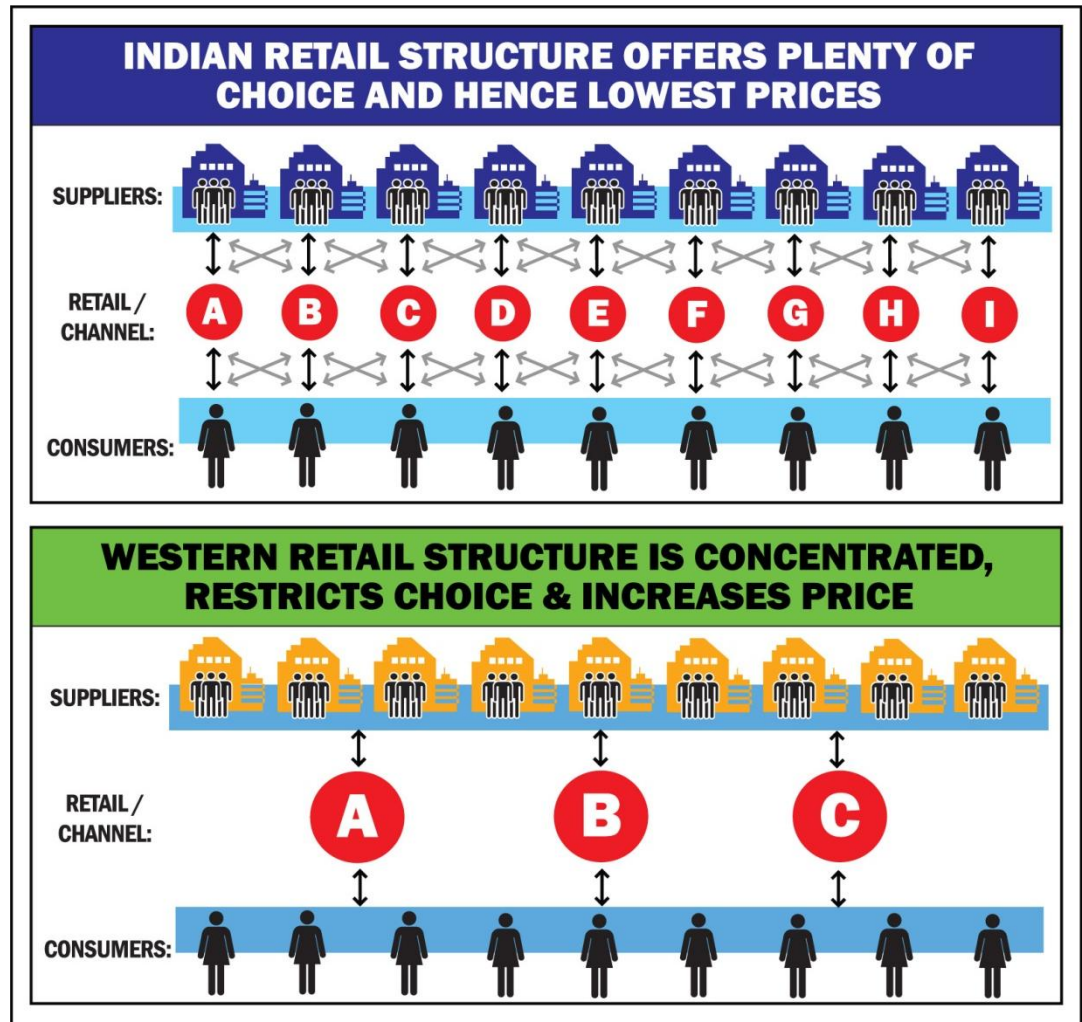
Thailand: Consumer Goods and Retail Report – Thailand May 2010 Economist Intelligence Unit

Indonesia: Consumer Goods and Retail Report Indonesia - March 2010 Economist Intelligence Unit

# Concentration and domination (...contd.)

- Retail structure in India is just the opposite, with no one player dominating any part of the market.

This is beneficial for consumers and farmers and suppliers.



**3) Big Retail is about control, and squeezing costs on the supply side.**



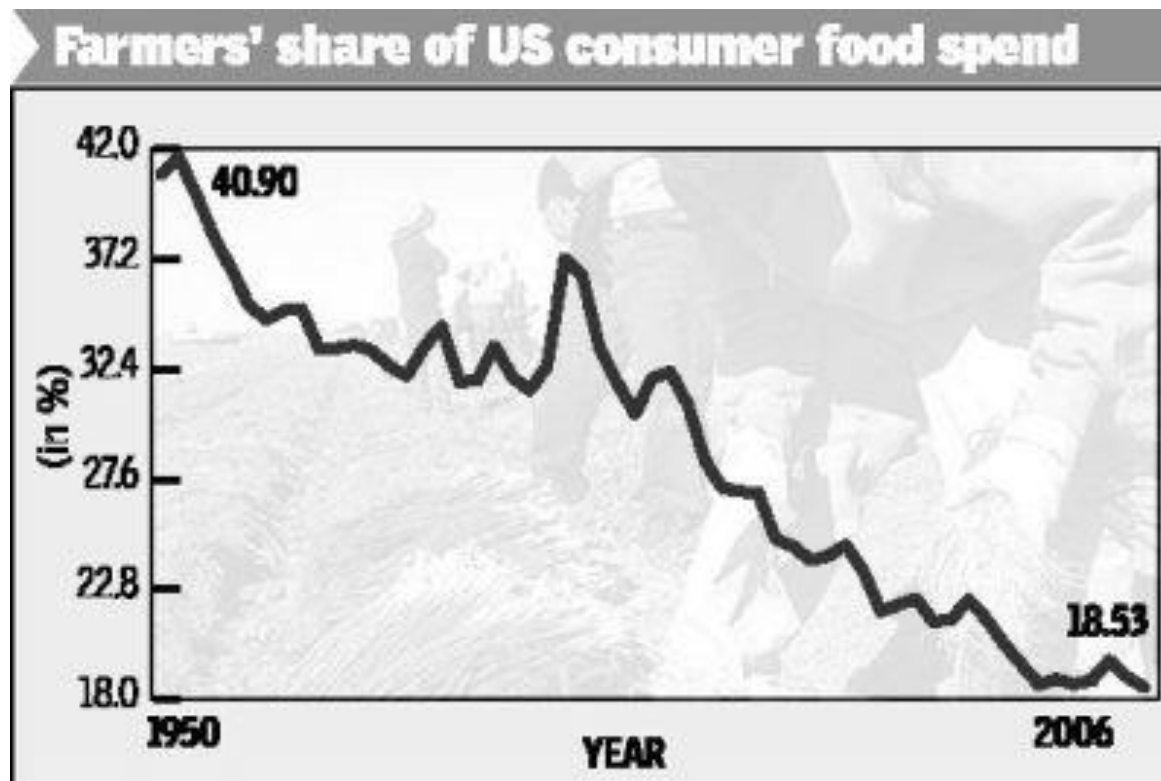
# It is about control & squeezing suppliers

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- Their business model is “Buy lowest; sell highest”.
- They look for size and scale to gain the ability to dictate terms.
- It is foolish to think that they will give farmers a better price. All over the world, farmers are only squeezed and squeezed.

# It is about squeezing suppliers (...contd.)

- In 1950, US farmers received over 40 cents for every food dollar spent at supermarkets. Today, that is down to about 19 cents.



# It is about squeezing suppliers (...contd.)

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- Big Retail in USA squeezes farmers to maximize their margins. Some examples:

	Farm price	Retail price	What farmers in USA get
Whole Milk	\$1.45	\$3.30	45%
Eggs	1.10	2.70	41%
Meat products			32%
Fruits/Vegetables			17% - 18%
Cereals/Bakery			7% - 8%

# It is about squeezing suppliers (...contd.)

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- If anything, Indian farmers get a better deal:

	Farm price	Retail price	What farmers in India get
Whole Milk (Amul)	Rs 26	Rs 34	76%
Sugar	Rs 22	Rs 35/kg	63%
Rice/bread/ edible oils			50%

- Farmers/consumers get a poor deal in fruits & vegetables, because they are perishables, and refrigeration infrastructure is poor (which is a different issue).

# It is about squeezing suppliers (...contd.)

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## **Something to think about:**

- If Big Western Retail is so good at increasing farm income as claimed, how come the western countries are pouring so much money into farm subsidies?
- In 2009, industrialised countries provided a farm subsidy of \$1,260 billion (OECD Report).

**4) Big Foreign Retail is against national security.**

# It is against national security

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- The retail industry represents the nation's ***food supply chain***.
- It is how food flows from the farm to the dinner table.
- Certainly, no part of the ***food supply chain*** of the nation can be handed over to foreign companies.

# It is against national security (...contd.)

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Can we afford to forget  
the Dandi march?

- Indians paid the salt tax for 187 years – from 1759 to 1946.

**Lesson:** Do not give control or influence over supply of food essentials to foreign companies. It is madness.



# It is against national security (...contd.)

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## Lessons in protecting national security from the USA:

1. 2005 – China National Offshore Oil Company bid for UNOCAL ... denied on grounds of national security.
2. 2006 – Dubai Ports World acquisition of major US ports ... denied on grounds of national security.

**Lesson:** National Security is above all other considerations. This is well accepted everywhere.

## It is against national security (...contd.)

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- Even for the western nations, concentration and control over their nation's **food supply chain** is not a good idea.

Imagine if TESCO, which controls nearly a third of UK's food supply, shuts down even briefly. It will cause food panic in that country.

“Too big to fail” is not just for banking. It is a cause for worry in retailing.

**5) Big Foreign Retail will cause  
massive disruption and  
unemployment.**

# It will destroy employment

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- India's employment structure: (Source NSSO)

Self employed	51%
Regular wage employment	16%
Casual labour	33%

- One of the biggest avenues of self employment is in Retail.
- Indian economy is not a good generator of jobs – about 17 lakh jobs a year (not adequate for our growth in population).

## **It will destroy employment** (...contd.)

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- Retail has very little entry barriers. For a population like ours with limited skill sets, it provides an excellent safety valve.
- If Big Foreign Retail forces closure of small retailers, or if this avenue is blocked, there will be a huge loss of livelihood for people who cannot be engaged easily elsewhere.

The resultant social pressure and strife cannot be imagined.

## It will destroy employment (...contd.)

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- Contrary to myths being spread, Big Foreign Retail will not create net additional employment.

For every one job created by Big Foreign Retail, at least two to three jobs will be lost in India (and that is a conservative estimate).

# It will destroy employment (...contd.)

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- Retail in India is the second largest employment provider.
- There are over 13 million retail establishments in the country. (Source: Technopak)
  - Growth rate at GDP level of 8% means over 10 lakh new retailers every year.
- Over 25 mn Chief Wage Earners depend on Retail for their livelihood (Source: IRS 2010)

# It will destroy employment (...contd.)

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## How Big Retail reduces stores – US experience:

(Source: Chain Stores in America, and Wiki)

	USA population	Total retail establishments	Independents	Chain stores
1951	155 mn	1,770,000	1,600,000	105,000
2011	312 mn	1,500,000	1,145,000	350,000

- Population has doubled. Retail establishments have reduced in number!
- This is clear evidence that Big Foreign Retail will shut down this avenue of employment in the country. The safety valve will be shut down, causing major pressure build up.



# It will destroy employment (...contd.)

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- In Thailand, over 30% of independent small retailers were taken out in 10 years!

If this happens in India, the loss of employment will be enormous:

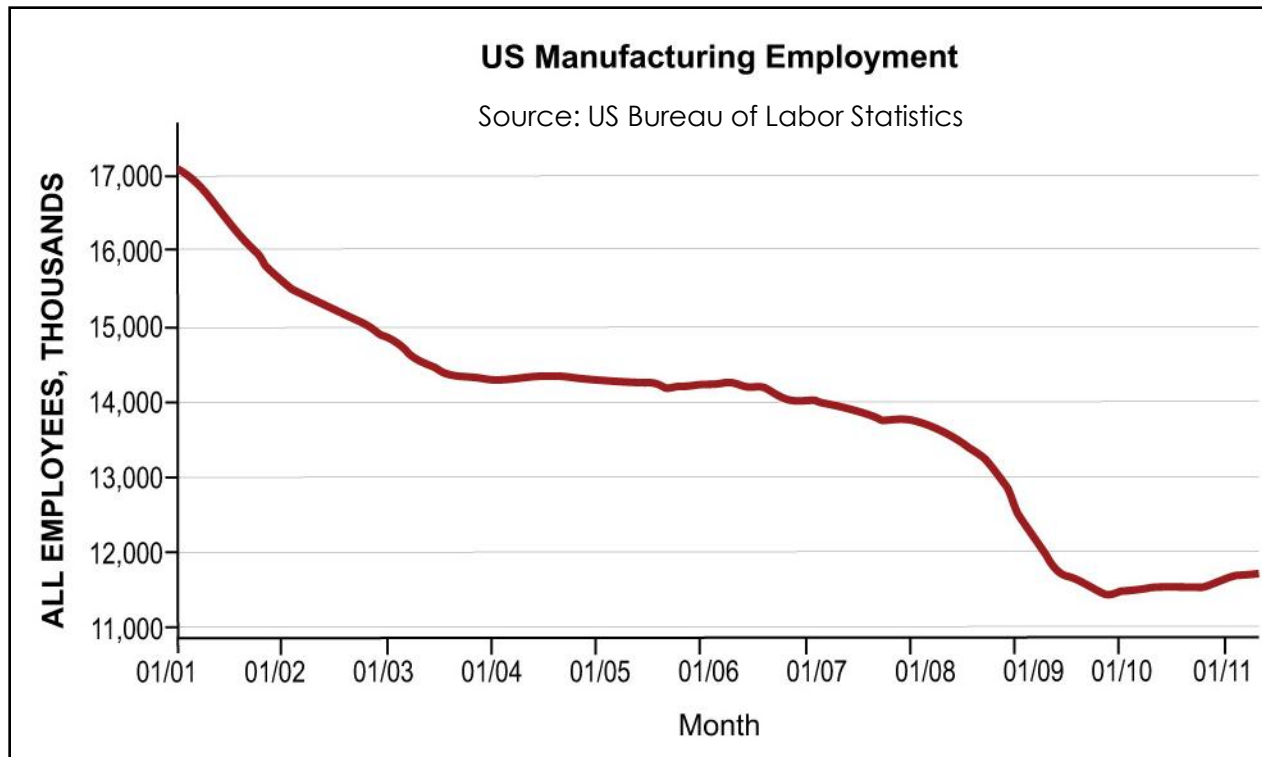
	Number of retail outlets closed	Chief Wage Earners losing jobs	Number of lives affected
1% of losses	130,000	250,000	12.5 lakhs
30% of losses in 10 years	39 lakhs	75 lakhs	3.75 crs.

# It will destroy employment (...contd.)

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## Offshoring of jobs:

- Big Foreign Retail will source products from all over the world. US unemployment is to a considerable extent because of this.



# It will destroy employment (...contd.)

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## **Offshoring of jobs:**

- When foreign retailers enter India, it would be foolish not to expect global sourcing of products.
- This will surely reduce employment in Indian manufacturing.

It will also mean our farmers will have new competition.

**6) Big Foreign Retail will increase prices to consumers.**

# It will increase prices

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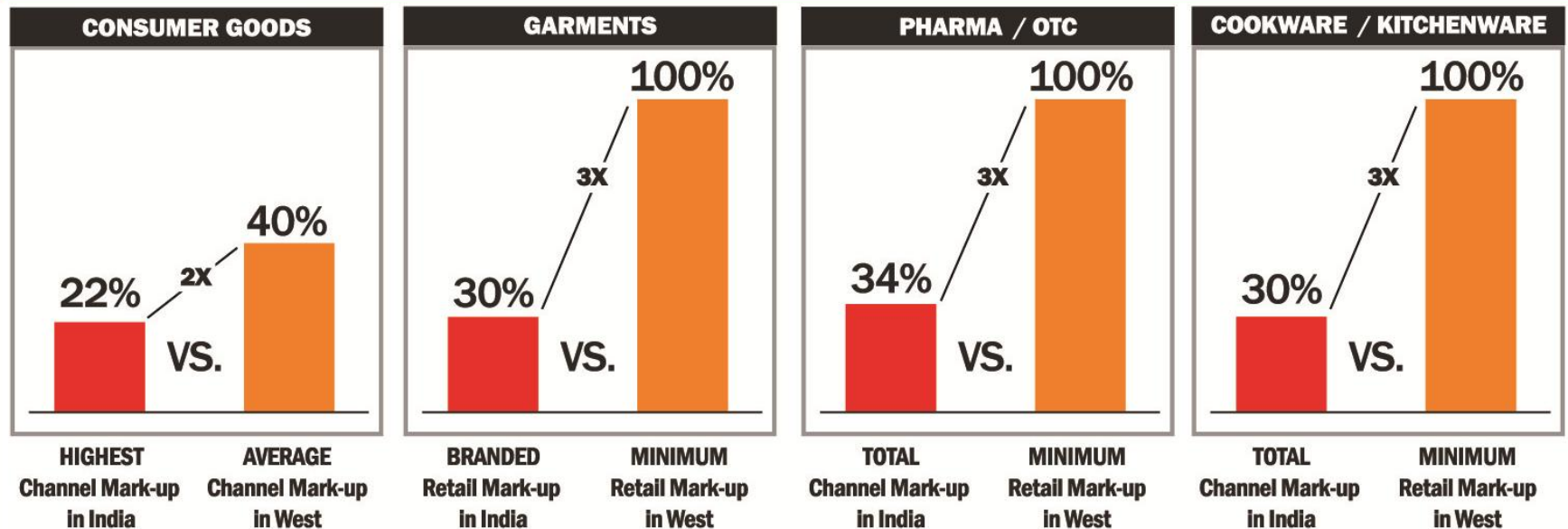
- It is a major claim of Big Foreign Retailers that they reduce consumer prices.

This is only true when it comes to On Sale merchandise, which is in the nature of “loss leaders”.

- Indian prices are already among the lowest in the world. What is important is to look at Retail Mark Ups i.e. the extent to which selling price is increased vis-à-vis sourcing price.

# It will increase prices (...contd.)

## DISTRIBUTION CHANNEL MARK-UP IN INDIA COMPARED TO THE WEST



SOURCE: Industry sources in India. Various websites and annual reports for the West. Mark up is calculated on manufacturer/supplier cost.

- It is a myth that foreign retailers will help reign in inflation.

**7) Big Foreign Retail will displace existing players, not create new.**

# It will displace, not create new markets

- Big Foreign Retailers will come in to take over an existing market only.
- This is unlike telecom or other industries where entirely new categories and market opportunities were created, resulting in net addition to the economy, Retail investors will not be creating any new markets.

Their whole game is disruption and displacement. This is not good for the existing, carefully built eco system.



**8) Multi-brand retail is not just about food & grocery, it is about all products.**

# It is about all products

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- The government is pushing for FDI and giving “supply chain build up in food products” as the reason.
- This is diverting attention to one aspect of our retail sector.
- In reality, the foreign retailers will start with dry goods, as they tend to do around the world.
- These dry goods can be sourced from any part of the world.

## It is about all products (...contd.)

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- Every class of retailer, across all sorts of products - garments, footwear, home goods, personal products, laundry, cleaning products, kitchen and home appliances, white and brown goods, auto parts ... you name it – will come under attack.
- All sorts of retailers run the risk of elimination.
- Manufacturers of merchandise will come under pricing pressure, and shut down.
- All of this under the guise of “supply chain infrastructure” which has no relevance to these categories.

**9) There is massive ongoing investment in Retail from within.**

# Massive investment in Retail

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- As mentioned earlier, there is robust ongoing growth in domestic Retail.
- Indian families and businesses are investing continuously in this sector.
- Assuming a growth in line with GDP, over 10 lakh retail outlets are being created indigenously.
- The investment in this can be modestly estimated at Rs 20,000+ crs per annum.

# Massive investment in Retail (...contd.)

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- This is mostly small, silent investment from people's own sources.
- There is no fanfare; there are no headlines. It continues to happen no matter what the global economy goes through.
- Big Foreign Retail will only disrupt this naturally occurring phenomena.
- It is completely incorrect to say that the Retail sector is not attracting investments.

**10) Big Foreign Retail's impact on building supply chain infrastructure will be minimal.**

# Minimal impact on supply chain

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- Our twin problems of infrastructure:
  1. Roads – 94% of our 3 mn kms road system is in districts and villages. This is a “first mile” problem.
  2. Power – We will have continuing power shortage of 10% or more for the next five years. Cold chain needs robust power supply.
- No foreign retailer can address these issues.



## Minimal impact on supply chain (...contd.)

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- It is a mockery to even suggest that foreign retailers will sort the nation's supply chain infrastructure.

In fact, such retailers will make a major demand on our already inadequate power supply. They are highly energy consuming, compared to our existing market place.

Studies have shown how ecologically unfriendly the Big Foreign Retailers are.

**11) How should we protect India's interests against Big Foreign Retail?**

# Protecting India's interests

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- The best thing we can do is NOTHING.

“Maintain Status Quo”.

We stay as we are. No one can force us to open our markets to outsiders, since it is against our national security.

WE SHOULD CHANGE THE LANGUAGE OF THE DEBATE TO HIGHLIGHT NATIONAL SECURITY ISSUES.

## Protecting India's interests (...contd.)

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- Simultaneously, we should identify the reasons why more robust cold chains are not being built.
- We should look at lacunae in the retail sector, most of which will relate to market-level infrastructure, which can be addressed.
- We should evolve our own solutions to address these issues, and the country has the resources to put these into place.

THE ANSWER IS NOT FDI.

# Protecting India's interests (...contd.)

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## Lessons from Japan:

- 1973 - the Large Scale Retail Store Law (daikibokouritenpohou) came into effect to protect small retailers. Law was unchanged till 2000.

This regulated everything: the amount of selling space, store opening hours, and yearly number of business holidays.

No big store could be put up without the approval of the affected parties!

# Protecting India's interests (...contd.)

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## **Lessons from Germany:**

Only German retailers prevail in this country.

Germans have laws for everything:

1. It is illegal to sell below cost in Germany. No predatory pricing is possible.
2. Store hours are restricted, among the lowest in Europe.
3. Big stores cannot be put up except in designated city areas. Zoning laws are very strict.
4. Big retailers have to use union labour. No cost advantage to any player on this count.

# Protecting India's interests (...contd.)

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## Litigation record

- We should have a simple clause that Big Foreign Retailers with a poor record of litigation against them will not be permitted to enter India.
  - Walmart has nearly 1200 cases against it.  
([www.wal-martlitigation.com](http://www.wal-martlitigation.com))
  - Many big foreign retailers have been hauled up some place or the other for violating laws and pushing monopolistic practices. We should seek clarity on their behaviour, and examine these patterns, before permitting any entry.

**12) Remember, there is nothing fundamentally wrong with our Retail sector.**



# Nothing is fundamentally wrong

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- There is no Indian complaining that they can't find products.

In fact, our bazaars and markets are full of goods and well supplied.

- There is complaint on price rise, but the reasons for that are elsewhere.

# Nothing is fundamentally wrong (...contd.)

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- If anything, our markets are very competitive, and Indian prices are among the lowest in the world.
- Our traders and merchants operate with some of the lowest mark-ups and margins in the world.
- The Retail sector provides the social safety valve that the country fundamentally needs.
- Sure there are some shortcomings, but there are shortcomings with Big Foreign Retailers also.

# Nothing is fundamentally wrong (...contd.)

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- Our markets are near perfect, in a fully competitive sense, with millions of suppliers selling to millions of wholesalers and retailers, selling to crores of consumers.

No one dominates and everything is at a fine balance.

Disturbing this equation will be a terrible disaster for the nation!

**Thank You**