

## **FDI in Indian retail sector: analysis of competition in Agrifood sector**

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**ABSTRACT:** *Indian retail industry is one of the sunrise sectors with huge growth potential. According to the Investment Commission of India, the retail sector is expected to grow almost three times its current levels to \$660 billion by 2015. However, in spite of the recent developments in retailing and its immense contribution to the economy, retailing continues to be the least evolved industries and the growth of organized retailing in India has been much slower as compared to rest of the world. Undoubtedly, this dismal situation of the retail sector, despite the on-going wave of incessant liberalization and globalization stems from the absence of an FDI encouraging policy in the Indian retail sector. In this context, the present paper attempts to analyse the strategic issues concerning the influx of foreign direct investment in the Indian retail industry. Moreover, with the latest move of the government to allow FDI in the multiband retailing sector, the paper analyses the effects of these changes on farmers and agri-food sector. The findings of the study point out that FDI in retail would undoubtedly enable India Inc. to integrate its economy with that of the global economy. Thus, as a matter of fact FDI in the buzzing Indian retail sector should not just be freely allowed but should be significantly encouraged.*

**Keywords:** *Organised retail, globalisation, foreign direct investment, strategic issues and prospects, farmers and agri-food sector.*

### **I. INTRODUCTION**

Retailing is one of the most important sectors of India economy. It provides 9% employment to the total workforce and contributes around 15% to the Indian GDP. It could have been a welcome step in strengthening India's FDI regime with making it in tune with country's needs. The FDI policy has been moving away from the license mentality of protection against imagined foreign dictators towards a more open, healthy and competitive environment. This policy would have provided a window for the world class retailer Hermes, Tiffany & Co and Wal-Mart, etc. to set their foot in the booming Indian retail sector. The Indian Government believe that the opportunity of FDI in multiband retail and further liberalization of single-brand retail trade will facilitate greater FDI inflows providing new opportunities and benefits besides quality improvement. At a time when declining investments have led to slower GDP growth, however, a healthy competition, between the large domestic retailers and those with FDI, should be maintained. Imposing socially desirable constraints on FDI funded retailers would lead into unfair competition. In spite of the recent developments in retailing and its immense contribution to the economy, retailing continues to be the least evolved industries and the growth of organized retailing in India has been much slower as compared to rest of the world. One main cause for this is that retailing is one of the few sectors where foreign direct investment is not allowed. Within the country, there have been protests by trading associations and other stakeholders against allowing FDI in retailing. In 2004, The High Court of Delhi referred to Black's Law Dictionary to define the term 'retail'. The term 'retail' is defined as 'a sale for final consumption in contrast to a sale for further sale or processing (i.e. wholesale). Thus, retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers. Retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit.

### **RESEARCH METHODOLOGY**

The study is based on secondary sources of data. The main source of data are various Economic Surveys of India and Ministry of Commerce and Industry data, RBI bulletin, online data base of Indian Economy, journals, articles, news papers, etc.

### **II. INDIAN RETAIL SECTOR OVERVIEW:**

Retailing in India is one of the pillars of its economy and accounts for 14 to 15% of its GDP. The Indian retail market is estimated to be US\$ 450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people. India's

retailing industry is essentially owner manned small shops. In 2010, larger format convenience stores and supermarkets accounted for about 4% of the industry, and these were present only in large urban centers. India's retail and logistics industry employs about 40 million Indians (3.3% of Indian population). Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51% ownership and a bureaucratic process.

In November 2011, India's central government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way for retail innovation and competition with multi-brand retailers such as Walmart, Carrefour and Tesco, as well as single brand majors such as IKEA, Nike, and Apple. The announcement sparked intense activism, both in opposition and in support of the reforms. In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reaches a consensus. In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30% of its goods from India. Indian government continues to hold on to retail reforms for multi-brand stores. IKEA announced in January that it is putting on hold its plan to open stores in India because of the 30% requirement. Fitch believes that the 30% requirement is likely to significantly delay if not prevent most single brand majors from Europe, USA and Japan from opening stores and creating associated jobs in India.

### **III. ENTRY OPTIONS FOR FOREIGN PLAYERS PRIOR TO FDI POLICY**

Although prior to Jan 24, 2006, FDI was not authorized in retailing, most general players had been operating in the country. Some of the entrance routes used by them have been discussed in sum as below:-

#### **1. Franchise Agreements:**

It is the easiest track to come in the Indian market. In franchising and commission agents' services, FDI (unless otherwise prohibited) is allowed with the approval of the Reserve Bank of India (RBI) under the Foreign Exchange Management Act. This is a most usual mode for entrance of quick food brands opposite a world. Apart from quick food brands identical to Pizza Hut, players such as Lacoste, Mango, Nike as good as Marks as good as Spencer, have entered Indian marketplace by this route.

#### **2. Cash And Carry Wholesale Trading:**

100% FDI is allowed in wholesale trading which involves building of a large distribution infrastructure to assist local manufacturers. The wholesaler deals only with smaller retailers and not Consumers. Metro AG of Germany was the first significant global player to enter India through this route.

#### **3. Strategic Licensing Agreements:**

Some foreign brands give exclusive licences and distribution rights to Indian companies. Through these rights, Indian companies can either sell it through their own stores, or enter into shop-in-shop arrangements or distribute the brands to franchisees. Mango, the Spanish apparel brand has entered India through this route with an agreement with Piramyd, Mumbai, SPAR entered into a similar agreement with Radhakrishna Foodlands Pvt. Ltd

#### **4. Manufacturing and Wholly Owned Subsidiaries:**

The foreign brands such as Nike, Reebok, Adidas, etc. that have wholly-owned subsidiaries in manufacturing are treated as Indian companies and are, therefore, allowed to do retail. These companies have been authorised to sell products to Indian consumers by franchising, internal distributors, existent Indian retailers, own outlets, etc. For instance, Nike entered through an exclusive licensing agreement with Sierra Enterprises but now has a wholly owned subsidiary, Nike India Private Limited.

### **IV. FDI POLICY IN INDIA:**

FDI as defined in Dictionary of Economics (Graham Bannock et.al) is investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new (Greenfield) site. To put in simple words, FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. Foreign Investment in India is governed by the FDI policy announced by the Government of India and the provision of the Foreign Exchange Management Act (FEMA) 1999. The Reserve Bank of India (RBI) in this regard had issued a notification, which contains the Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000. This notification has been amended from time to time. The Ministry of Commerce and Industry, Government of India is the nodal agency for monitoring and reviewing the FDI policy on continued basis and changes in sectoral policy/ sectoral equity cap. The FDI policy is notified through Press Notes by the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP). The foreign investors are free to invest in India, except few sectors/activities, where prior approval from the RBI or Foreign Investment Promotion Board (FIPB) would be required.

### **FDI Policy with Regard to Retailing in India:**

It will be prudent to look into Press Note 4 of 2006 issued by DIPP and consolidated FDI Policy issued in October 2010 which provide the sector specific guidelines for FDI with regard to the conduct of trading activities.

- a) FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.
- b) FDI up to 51 % with prior Government approval (i.e. FIPB) for retail trade of Single Brand products, subject to Press Note 3 (2006 Series).
- c) FDI is not permitted in Multi Brand Retailing in India.

### **Prospected Changes in FDI Policy for Retail Sector in India:**

The government (led by Dr.Manmohan Singh, announced following prospective reforms in Indian Retail Sector

1. India will allow FDI of up to 51% in —multi-brand sector.
2. Single brand retailers such as Apple and Ikea, can own 100% of their Indian stores, up from previous cap of 51%.
3. The retailers (both single and multi-brand) will have to source at least 30% of their goods from small and medium sized Indian suppliers.
4. All retail stores can open up their operations in population having over 1million.Out of approximately 7935 towns and cities in India, 55 suffice such criteria.
5. Multi-brand retailers must bring minimum investment of US\$ 100 million. Half of this must be invested in back-end infrastructure facilities such as cold chains, refrigeration, transportation, packaging etc. to reduce post-harvest losses and provide remunerative prices to farmers.
6. The opening of retail competition (policy) will be within parameters of state laws and regulations.

## **V. SINGLE AND MULTI-BRAND RETAILING**

### **FDI in Single-Brand Retail:**

The Government has not categorically defined the meaning of —Single Brand anywhere neither in any of its circulars nor any notifications. In single-brand retail, FDI up to 51 per cent is allowed, subject to Foreign Investment Promotion Board (FIPB) approval and subject to the conditions mentioned in Press Note 3 that (a) only single brand products would be sold (i.e., retail of goods of multi-brand even if produced by the same manufacturer would not be allowed), (b) products should be sold under the same brand internationally, (c) single-brand product retail would only cover products which are branded during manufacturing and (d) any addition to product categories to be sold under —single-brand would require fresh approval from the government. While the phrase single brand has not been defined, it implies that foreign companies would be allowed to sell goods sold internationally under a single brand viz., Reebok, Nokia, and Adidas. Retailing of goods of multiple brands, even if such products were produced by the same manufacturer, would not be allowed. Going a step further, we examine the concept of single brand and the associated conditions:

FDI in Single brand retail implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand and not the Reebok brand, for which separate permission is required. If granted permission, Adidas could sell products under the Reebok brand in separate outlets.

### **FDI in Multi-Brand Retail:**

The government has also not defined the term Multi Brand. FDI in Multi Brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof. In July 2010, Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce circulated a discussion paper [14] on allowing FDI in multi-brand retail. The paper doesn't suggest any upper limit on FDI in multi-brand retail. If implemented, it would open the doors for global retail giants to enter and establish their footprints on the retail landscape of India. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous 'kirana' store.

## **VI. EFFECTS OF FDI ON VARIOUS STAKEHOLDERS**

### **Impact on Farming Communities:**

A supermarket revolution has been underway in developing countries since the early 1990s. Supermarkets (here referring to all modern retail, which includes chain stores of various formats such as supermarkets, hypermarkets, and convenience and neighborhood stores) have now gone well beyond the initial

upper- and middle-class clientele in many countries to reach the mass market. Within the food system, the effects of this trend touch not only traditional retailers, but also the wholesale, processing, and farm sectors. When supermarkets modernize their procurement systems, they require more from suppliers with respect to volume, consistency, quality, costs, and commercial practices. Supermarkets' impact on suppliers is biggest and earliest for food processing and food-manufacturing enterprises, given that some 80% of what supermarkets sell consists of processed, staple, or semi-processed products. But by affecting processors, supermarkets indirectly affect farmers, because processors tend to pass on the demands placed on them by their retail clients. Supermarket chains prefer, if they are able, to source from medium and large processing enterprises, which are usually better positioned than small enterprises to meet supermarkets' requirements. The rise of supermarkets thus poses an early challenge to processed food microenterprises in urban areas. By contrast, as supermarkets modernize the procurement of fresh produce (some 10–15% of supermarkets' food sales in developing countries), they increasingly source from farmers through —specialized and dedicated wholesalers (specialized in product lines and dedicated to modern segments) and occasionally through their own collection centers.

Where supermarkets source from small farmers, they tend to buy from farmers who have the most non-land assets (like equipment and irrigation), the greatest access to infrastructure (like roads and cold chain facilities), and the upper size treacle of land (among small farmers). Where supermarkets cannot source from medium- or large-scale farmers, and small farmers lack the needed assets, supermarket chains (or their agents such as the specialized and dedicated wholesalers) sometimes help farmers with training, credit, equipment, and other needs. Such assistance is not likely to become generalized, however, and so overtime asset-poor small farmers will face increasing challenges surviving in the market as it modernizes.

When farmers enter supermarket channels, they tend to earn from 20 to 50% more in net terms. Among tomato farmers in Indonesia, for example, net profit (including the value of own labour as imputed cost) is 33–39% higher among supermarket channel participants than among participants in traditional markets. Farm labour also gains. But supplying supermarket chains requires farmers to make more up-front investments and meet greater demands for quality, consistency, and volume compared with marketing to traditional markets.

### **Support for retail reforms**

In a pan-Indian survey conducted over the weekend of 3 December 2011, overwhelming majority of consumers and farmers in and around ten major cities across the country support the retail reforms. Over 90 per cent of consumers said FDI in retail will bring down prices and offer a wider choice of goods. Nearly 78 per cent of farmers said they will get better prices for their produce from multiformat stores. Over 75 per cent of the traders claimed their marketing resources will continue to be needed to push sales through multiple channels, but they may have to accept lower margins for greater volumes.

### **Farmer groups:**

Various farmer associations in India have announced their support for the retail reforms. For example:

1. Shriram Gadhve of All India Vegetable Growers Association (AIVGA) claims his organization supports retail reform. He claimed that currently, it is the middlemen commission agents who benefit at the cost of farmers. He urged that the retail reform must focus on rural areas and that farmers receive benefits. Gadhve claimed, "A better cold storage would help since this could help prevent the existing loss of 34% of fruits and vegetables due to inefficient systems in place." AIVGA operates in nine states including Maharashtra, Andhra Pradesh, West Bengal, Bihar, Chattisgarh, Punjab and Haryana with 2,200 farmer outfits as its members.

2. Bharat Krishak Samaj, a farmer association with more than 75,000 members says it supports retail reform. Ajay Vir Jakhar, the chairman of Bharat Krishak Samaj, claimed a monopoly exists between the private guilds of middlemen, commission agents at the sabzi mandis (India's wholesale markets for vegetables and farm produce) and the small shopkeepers in the unorganized retail market. Given the perishable nature of food like fruit and vegetables, without the option of safe and reliable cold storage, the farmer is compelled to sell his crop at whatever price he can get. He cannot wait for a better price and is thus exploited by the current monopoly of middlemen. Jakhar asked that the government make it mandatory for organized retailers to buy 75% of their produce directly from farmers, bypassing the middlemen monopoly and India's sabzi mandi auction system.

3. Consortium of Indian Farmers Associations (CIFA) announced its support for retail reform. Chengal Reddy, secretary general of CIFA claimed retail reform could do lots for Indian farmers. Reddy commented, —India has 600 million farmers, 1,200 million consumers and 5 million traders. I fail to understand why political parties are taking an anti-farmer stand and worried about half a million brokers and small shopkeepers. CIFA mainly operates in Andhra Pradesh, Karnataka and Tamil Nadu; but has a growing member from rest of India, including Shetkari Sanghatana in Maharashtra, Rajasthan Kisan Union and Himachal Farmer Organisations.

4. Prakash Thakur, the chairman of the People for Environment Horticulture & Livelihood of Himachal Pradesh, announcing his support for retail reforms claimed FDI is expected to roll out produce storage centers

that will increase market access, reduce the number of middlemen and enhance returns to farmers. Highly perishable fruits like cherry, apricot, peaches and plums have a huge demand but are unable to tap the market fully because of lack of cold storage and transport infrastructure. Sales will boost with the opening up of retail. Even though India is the second-largest producer of fruits and vegetables in the world, its storage infrastructure is grossly inadequate, claimed Thakur.

5. Sharad Joshi, founder of Shetkari Sangathana (farmers association), has announced his support for retail reforms. Joshi claims FDI will help the farm sector improve critical infrastructure and integrate farmer-consumer relationship. Today, the existing retail has not been able to supply fresh vegetables to the consumers because they have not invested in the backward integration. When the farmers' produce reaches the end consumer directly, the farmers will naturally be benefited. Joshi feels retail reform is just a first step of needed agricultural reforms in India, and that the government should pursue additional reforms.

Suryamurthy, in an article in The Telegraph, claims farmer groups across India do not support status quo and seek retail reforms, because with the current retail system the farmer is being exploited. For example, the article claims:

- a). Indian farmers get only one third of the price consumers pay for food staples, the rest is taken as commissions and mark-ups by middlemen and shopkeepers.
- b). For perishable horticulture produce, average price farmers receive is barely 12 to 15% of the final price consumer pays.
- c). Indian potato farmers sell their crop for Rs.2 to 3 a kilogram, while the Indian consumer buys the same potato for Rs.12 to 20 a kilogram.

## **VII. CASE STUDIES OF HOW MNC'S ARE HELPING FARMERS**

### **CASE 1. PepsiCo India HELPING FARMERS IMPROVE YIELD AND INCOME**

The company's vision is to create a cost-effective, localized agro-supply chain for its business by:

1. Building PepsiCo's stature as a development partner by helping farmers grow more and earn more.
2. Introducing new high-yielding varieties of potato and other edibles.
3. Introducing sustainable farming methods and practicing contact farming.
4. Making world-class agricultural practices available to farmers and helping them raise farm productivity.
5. Working closely with farmers and state governments to improve agro sustainability and crop diversification.
6. Providing customized solutions to suit specific geographies and locations.
7. Facilitating financial and insurance services in order to de-risk farming.

### **THE JOURNEY SO FAR**

#### **Where stand today, at a glimpse**

1. Today PepsiCo India's potato farming programme reaches out to more than 12,000 farmer families across six states. We provide farmers with superior seeds, timely agricultural inputs and supply of agricultural implements free of charge.
2. We have an assured buy-back mechanism at a prefixed rate with farmers. This insulates them from market price fluctuations.
3. Through our tie-up with State Bank of India, we help farmers get credit at a lower rate of interest.
4. We have arranged weather insurance for farmers through our tie-up with ICICI Lombard.
5. We have a retention ratio of over 90%, which reveals the depth and success of our partnership.
6. In 2010, our contract farmers in West Bengal registered a phenomenal 100% growth in crop output, creating in a huge increase in farm income.
7. The remarkable growth has resulted in farmers receiving a profit between Rs.20, 000– 40,000 per acre, as compared to Rs.10000–20,000 per acre in 2009.

#### **Case 2. Bharti Walmart initiative through Direct Farm Project:**

Corporate Social Responsibility (CSR) initiatives in Bharti Walmart are aimed at empowerment of the community thereby fostering inclusive growth. Through our philanthropic programs and partnerships, we support initiatives focused on enhancing opportunities in the areas of education, skills training and generating local employment, women empowerment and community development. In conjunction with the farmers' development program in Punjab, community-building activities have been implemented in village, Haider Nagar. Due to lack of sanitation facilities, households tend to use the farm fields, thereby affecting yields and impacting the produce that is being supplied to stores. In order to improve the yields and the community's way

of life, we are working on the issues of Sanitation and Biogas, Education, Awareness Building and Health and Hygiene.

- **Education:** 100% children enrolled in formal education program. Children's group had been formed to discuss children issues. All the nonschool going children had been given non-formal basic education required to mainstream them in the government schools. A sanitation block has been constructed, hand pump has been installed and school uniforms have been donated to create a better learning environment for children. Fifteen students have been mainstreamed back in school.
- **Health and Hygiene:** A dispensary has been started in Haider Nagar to help people avail medical facilities in the village itself. Nearly 2000 patients have availed the dispensary facilities. Twenty Community Dustbins have also been installed in the village to bring about a change in the living conditions of the people and to provide them garbage free environment.
- **Sanitation and Biogas:** Ensured that 100% households have toilets in the village. Eighty Bio Gas plants have been installed to help people conserve gas energy and utilize the waste generated from their cattle and toilets; thus making the environment healthier.
- **Waste Management:** twenty Community Dustbins have been installed in the village to bring about a change in the living conditions of the people and to provide them garbage free environment thus ensuring a healthier living.

This and many other cases suggest that opening of Indian retail sector to FDI is a win-win situation for farmers. Farmers would benefit significantly from the option of direct sales to organized retailers. For instance, the profit realization for farmers selling directly to the organized retailers is expected to be much higher than that received from selling in the mandis. Also Rise in the organized retail whether domestic or through entry of foreign players will lead to an increase in investments in both forward and backward infrastructure such as cold chain and storage infrastructure, warehousing and distribution channels thereby leading to improvement in the supply chain infrastructure in the long run. Global majors such as Wal-mart, Carrefour and Tesco are expected to bring a global scale in their negotiations with the MNCs such as Unilever, Nestlé, P&G, Pepsi, Coke, etc. The improved cold chain and storage infrastructure will no doubt lead to a reduction in losses of agriculture produce. It may also lead to removal of intermediaries in the retail value chain and curtail other inefficiencies. And this may, result in higher income for a farmer.

*Source:*<http://bharti-walmart.in/Community.aspx?id=64>

### **Impact on Consumers and existing Supermarkets**

Supermarkets tend to charge consumers lower prices and offer more diverse products and higher quality than traditional retailers—these competitive advantages allow them to spread quickly, winning consumer market share. In most countries supermarkets offer lower prices first in the processed and semi processed food segments. Only recently, mainly in the first- and second-wave countries have supermarket prices for fresh fruits and vegetables been lower than traditional retailers' (except in India). The food price savings accrue first to the middle class, but as supermarkets spread into the food markets of the urban poor and into rural towns, they have positive food security impacts on poor consumers. For example, in Delhi, India, the basic foods of the urban poor are cheaper in supermarkets than in traditional retail shops: rice and wheat are 15% cheaper and vegetables are 33% cheaper.

Existing Indian retail firms such as Spencer's, Food world Supermarkets Ltd, Nilgiri's and ShopRite support retail reform and consider international competition as a blessing in disguise. They expect a flurry of joint ventures with global majors for expansion capital and opportunity to gain expertise in supply chain management. Spencer's Retail with 200 stores in India, and with retail of fresh vegetables and fruits accounting for 55% of its business claims retail reform to be a win-win situation, as they already procure the farm products directly from the growers without the involvement of middlemen or traders. Spencer's claims that there is scope for it to expand its footprint in terms of store location as well as procuring farm products. Foodworld, which operates over 60 stores, plans to ramp up its presence to more than 200 locations. It has already tied up with Hong Kong-based Dairy Farm International. With the relaxation in international investments in Indian retail, India's Foodworld expects its global relationship will only get stronger.

### **Following are the few recommendations for formulation of policies by government:**

Much of the Indian retail trade (particularly grocery) still has traditional features: small family-run shops and street hawkers dominate the situation in most of the country. However, the retail trade in India is now undergoing an intensive structural change which could cause irreversible damage to local commodity supply chains and competition. The existing regulations are not adequate to fulfil the new requirements. India can

learn (and perhaps forestall loss of genuine competition and product variety) from the experience of south-east Asian countries which are improving regulatory frameworks and some advanced retailing economies like Germany which are already considered more successful regulators in this sector. German competition policies in content and implementation are significant for India to the extent that they are different from other advanced retailing countries like the US and Great Britain. German policy now proactively aims to preserve small and medium competitors in retail sector.

Policies for Competitiveness with Inclusiveness in the Supermarket Revolution. As the supermarket revolution proceeds in developing countries, governments have several options for helping small farmers participate in supermarket channels (or gain access to viable alternatives) and traditional retailers coexist or compete with the modern retail sector.

**Option 1: Regulate Modern Retail.** To the extent developing countries have regulated modern retail; their goal has been to reduce the speed and scope of its spread. The regulations have mainly limited the location and hours of modern retail. On balance, these regulations have done little to limit supermarket spread, partly because although regulations tend to target large-format stores (and thus not limit small traditional stores), modern retail comes in a wide variety of formats, including neighborhood stores and convenience stores.

**Option 2: Upgrade Traditional Retail.** A number of good examples of programs to upgrade traditional retail exist. Of particular interest are those of East and Southeast Asia, such as in China, Hong Kong, the Philippines, Singapore, and Taiwan. In most of these countries, the programs in question are municipal, sometimes under a national umbrella policy.

**Option 3: Upgrade Wholesale Markets to Serve Retailers and Farmers Better.** Small shops and wet-market stall operators typically source food products from wholesale markets, which typically buy from small farmers. Upgrading wholesale markets infrastructure and services is thus important to the whole traditional supply chain. Private-sector actors are helping traditional retailers (and supermarket independents and chains) obtain the services and products they need. Governments need to supplement private efforts with public investments in improving farmers' access to assets, services, training, and information. Some of these assets are public goods, such as regulations on retailer-supplier relations to promote fair commercial practices, wholesale market upgrading, market information, and physical infrastructure such as cold chains and roads.

**Option 4: Help Farmers Become Competitive Suppliers to Supermarkets.** Private-sector programs are emerging to help small farmers get the assets and services they need to supply supermarket channels. Metro, for example, has direct procurement links to fish and vegetable farmers in China. Agrifood businesses in India, like ITC, Tata, Godrej, Reliance, and DSCL Hariyali, have rural business hubs that offer consumables, farm inputs, and technical assistance and procure output from farmers.

**Option 5: Regulation of misleading statements and advertisements.** The law against dishonest competition (referred to as unfair trade practices in India) forbids a number of marketing practices which are regarded as dishonest. These include misleading statements or advertisements about business circumstances, especially the nature, origin, manner of manufacture or the pricing of goods or commercial services or the size of the available stock. In a recently reported case in India a leading corporate retailer, Subhiksha claimed in advertisements that its prices were the lowest compared to rivals like Big Bazar, DMART, and Apana Bazar, etc. Big Bazar filed a case against the advertisements and the Advertising and Standards Council of India is understood to have given its verdict in April 2007. However, the verdict has not been made public as yet.

**Option 6: Regulatory Framework to avoid monopolistic practices.** The possible monopolistic/ monopolistic tendencies of the large retailers (fears of predatory behaviour and abuse of dominance) would have to be proactively dealt to ensure competition in the market. Appropriate policy formulation can also aide this cause, as was done during the telecom sector liberalisation with the National Telecom Policy mandating that each circle should have at least 4-6 players. It is to be understood that free and fair competition in procurement of farm produce is the key to farmer's enhanced remuneration.

## VIII. CONCLUSION

The discussion above highlights:

- (1) Small retailers will not be crowded out, but would strengthen market positions by turning innovative/contemporary.
- (2) Growing economy and increasing purchasing power would more than compensate for the loss of market share of the unorganised sector retailers.

- (3) There will be initial and desirable displacement of middlemen involved in the supply chain of farm produce, but they are likely to be absorbed by increase in the food processing sector induced by organised retailing.
- (4) Innovative government measures could further mitigate adverse effects on small retailers and traders.
- (5) Farmers will get another window of direct marketing and hence get better remuneration, but this would require affirmative action and creation of adequate safety nets.
- (6) Consumers would certainly gain from enhanced competition, better quality, assured weights and cash memos.
- (7) The government revenues will rise on account of larger business as well as recorded sales.
- (8) The Competition Commission of India would need to play a proactive role.

Thus from developed countries experience retailing can be thought of as developing through two stages. In the first stage, modern retailing is necessary in order to achieve major efficiencies in distribution. The dilemma is that when this happens it inevitably moves to stage two, a situation where an oligopoly, and quite possibly a duopoly, emerges. In turn this implies substantial seller and buyer power, which may operate against the public interest.

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