

THE IMPACT OF FDI IN RETAIL ON SME SECTOR

A SURVEY REPORT



Confederation of Indian Industry

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Executive Summary

India's growing retail boom is a success story. With strong fundamentals developing in the Indian economy in the liberalized environment since 1991 with changes in income levels, lifestyles, taste & habits of consumers with preference for superior quality and branded products, vast domestic market with a very competitive manufacturing base, India has also observed a major retail boom in recent years.

Being encouraged by India's growing retail boom many multinational companies also started making beeline to enter India's retail market. Investment from abroad has also been hailed by Indian industry, by and large, as the same has been considered to be very vital for adding to domestic investment, addition to capacity, higher growth in manufacturing, trade, business, employment, demand, consumption and income with multiplier effects.

Till recently, Government of India allowed 51% FDI in single brand retail and 100% in cash & carry only. But FDI in multi brand retail has not yet been allowed. One of the major steps taken by the Government recently to encourage the organized retailing in the country was the recent decision of the cabinet to allow 51% FDI in multi brand retail and 100% in single brand retail in Nov 2011. The decision was delayed and held back for some time because of the absence of political consensus in the Government and controversies raised in the country.

The government has ultimately taken the bold decision and notified the much-awaited policy allowing 100 % FDI in single brand retail from the existing 51%.

In view of the above background, the Confederation of Indian Industry (CII) has recently undertaken a comprehensive survey on Foreign Direct Investment (FDI) in retail on SME sector, in particular to assess the impact of the government's decision to allow 51% foreign direct investment (FDI) in multi-brand retail and 100% in single brand retail on the Indian SME sector on different aspects of growth based on some select parameters.

➤ Major Findings of the Survey

The CII Survey conducted during December 2011 January 2012 on the impact of FDI on SMEs is based on a large sample size of 250 companies covering different categories of SMEs according to sales turnover including SMEs with a turnover of Rs.25 lakhs to 1 crores, between Rs. 1 crore to Rs 5 crore, Rs 5 crore to 25 crore and SMEs having turnover between Rs 25 crore and 100 crore and above, from different regions of the country.

The CII Survey confirms that almost 96% of the respondents from SME sector are aware of the Government's earlier decision to allow 100% FDI in single brand retail and 51% FDI in multi-brand retail and also of the latest notification in January this year.

The SME Industry, according to the survey, is in favour of the government's decision to allow 51% Foreign Direct Investment (FDI) in multi-brand retail and 100% in single

brand retail. A majority of the SME companies, surveyed have supported the government's decision and the notification allowing 100% FDI in single brand retail and about 52 percent of respondents hope for early implementation of 51% FDI in multi-brand retail.

On the question how the SME industry consider entry of MNC retailers as a threat or opportunity, majority of respondents (66.7%) see it as an opportunity for their sector while around 21 % of respondents perceive it as a threat. About 12.5 percent of respondents are of the opinion that the decision would have little or no impact on their company.

The CII survey has also tried to find out and make an assessment of the impact of the opening of FDI in retail on SME in terms of different growth indicators / parameters like sales, size of the industry / capacity expansion, employment, branding and achieving other efficiencies: -

✓ **Impact on Sales**

Majority of the respondents (98.6 percent) are of the opinion that the opening of the FDI in retail will result in substantial growth of sales of their products. Of them, around 21 percent respondents foresee that the impact on the growth of sales of the product would be in the Excellent range of more than 20 percent, 31 percent of the respondents perceive the impact on growth of sales to be in the high range of (10-20 percent) while 33 percent expect it to be in moderate range (5-10 percent). 8 percent of the respondents perceive the growth to remain in a low range (0-5) category and 6 percent of the respondents feel that the decision would have a negative impact on the growth of sales of their products.

✓ **Impact on Size of Industry, Business/ Capacity Addition**

On the aspect of the possible impact on the size of the industry, business and capacity addition, majority of the respondents (98 percent) expect the expect the size of their Industry / company to grow with the opening of 51 percent FDI in multi-brand retail along with 100 percent FDI in single-brand retail. Around 22.9 percent of respondents perceived that their industry would grow by Excellent rate of more than 20 percent). 25 percent of the respondents expect the impact on the size or capacity addition to be in the high range of 10-20 percent while 33 percent expects the growth to be in the moderate range of 5-10 percent and 22 percent perceive the growth to be in the low range (0-5 percent) category. A significantly negligible 2 percent of the respondents feel that the decision would have a negative impact on the growth of size of the industry and business.

✓ **Impact on New Orders/ Contracts**

Majority of respondents are of the view that the decision of opening of the FDI in retail would impact positively in the form of new **orders/contracts** generated. Around 31.2 percent of respondents expect the new orders and contract to grow substantially with more than excellent rate of 20 percent growth. 27 percent of the respondents expect the impact on the new orders and contracts to be in the high range (10-20 percent) while 31.2 percent expect the growth of orders / contracts in respect of their products to be in the moderate range (5-10 percent). Around 6 percent perceive the growth to be in a low range

(0-5) category but 4 percent of the respondents feel that the decision would have a negative impact on the growth of size of the industry in terms of new orders.

✓ **Impact on Qualitative improvements and branding of the products**

Over 56 percent of the respondents are also of the view that the government's decision of mandatory sourcing of a minimum of 30% from Indian micro and small industry will help in achieving **qualitative improvements and branding of the products**. This in turn will ensure SMEs in receiving a sure source of market for their products while ensuring higher value realization for their products/supplies. This will also provide for expansion of the scales of production facilitating domestic value addition in manufacturing, thereby creating a multiplier effect on employment, technology up gradation and income generation, demand and further investment.

✓ **Impact on Supply chain efficiencies**

68.7 percent of the respondents are of the opinion that the opening up of the retail would lead to improvements in the supply chain efficiencies in their sector which in turn will integrate small and medium size enterprises into the modern trade process, resulting in substantial amount of knowledge and skills transfer in the sector.

✓ **Impact on Employment**

Around 48 percent of the respondents are of the opinion that the decision would have a positive impact on their employment whereas 35 percent expect no change in the employment scenario. Around 16 percent expect the impact of FDI in retail on the employment in the SME sector to be negative.

Detailed Report of the Survey on the Impact of FDI in Retail on SME sector

I. Introductory Background/Preface

As a result of the liberalised policies & reform measures taken by the government since 1991, Indian Economy has achieved commendable growth rates over the last few years with many success stories in many fronts. India's growing retail boom is one such success story. With strong fundamentals developing in the economy with changes in income levels, lifestyles, taste & habits reflecting in strong consumerism with preference for superior quality and branded products, vast domestic market with a very competitive manufacturing base, India also observed a major retail boom in recent years.

Being encouraged by India's growing retail boom many multinational companies also started making beeline to enter India's retail market. Indian Industry, by and large, has also hailed investment from abroad which has been considered to be very vital for adding to domestic investment, addition to capacity, higher growth in manufacturing, trade, business, employment, demand, consumption and income with multiplier effects.

Government has also taken a number of pro-active policy measures in recent times for encouraging growth of retail business and other allied activities like creation of the required infrastructure facilities, centers of manufacturing excellence, providing for a good network of production, marketing, storages, distribution and cold chain facilities for

spreading the effects of development to downstream level for inclusive growth. Government has also allowed gradual increase of FDI in single brand retail only.

Till recently, Government of India allowed 51% FDI in single brand retail and 100% in cash & carry only. But FDI in multi brand retail has not yet been allowed. One of the major steps taken by the Government recently to encourage the organized retailing in the country was the recent decision of the cabinet to allow 51% FDI in multi brand retail and 100% in single brand retail in Nov 2011. Though the decision was hailed by a cross segment of the industries and business, it was delayed and held back for some time because of the absence of political consensus in the Government and controversies raised in the country.

The government has ultimately taken the bold decision and notified the much-awaited policy allowing 100 % FDI in single brand retail from the existing 51%. The government is yet to take final decision and notify 51% FDI in multi-brand retail.

The Confederation of Indian Industry (CII), while supporting the Government of India's decision on opening of FDI in retail and the latest notification , urged on the government for earlier and speedier implementation of the decision in the light of the overall benefits for trade, business manufacturing, both large corporate and SMEs and a vast segment of the consumers in the country.

In view of the above background, the Confederation of Indian Industry (CII) has recently undertaken a comprehensive survey on Foreign Direct Investment (FDI) in retail on SME sector, in particular to assess the impact of the government's decision to allow 51% foreign direct investment (FDI) in multi-brand retail and 100% in single brand retail on the Indian SME sector on different aspects of growth based on some select parameters.

II. Coverage and Methodology

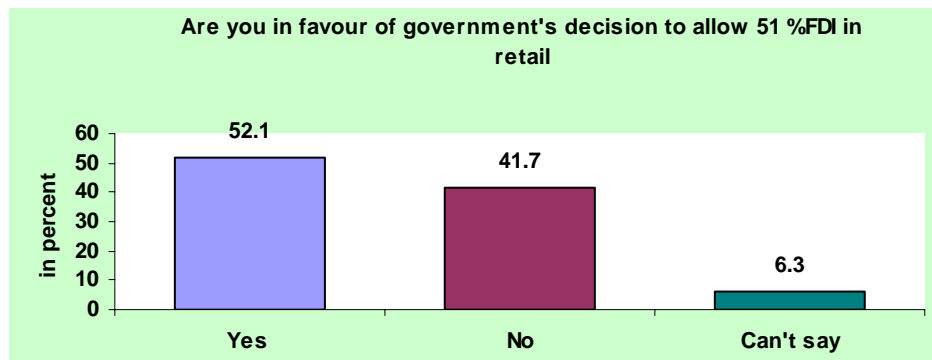
The CII Survey conducted during December 2011 January 2012, is based on a large sample size of 250 companies covering small, medium enterprises from different regions of the country. The survey also covers different categories of SMEs according to sales turnover including SMEs with a turnover of Rs.25 lakhs to 1 crores, between Rs. 1 crore to Rs 5 crore, Rs 5 crore to 25 crore and SMEs having turnover between Rs 25 crore and 100 crore and above.

III. Major Findings / Highlights of the Survey

Out of the total responses / feedback received in the survey, 8.3% of the respondents were from the SMEs with a turnover of 25 lakhs to 1 crore, 25% were from the companies having turnover between 1-5 crore and 37.5% of the respondents belonged to companies with Rs 5-25 crore turnover whereas 14.6 percent of respondents were from the companies with annual turnover of 25-100 crore and 100 crore and above.

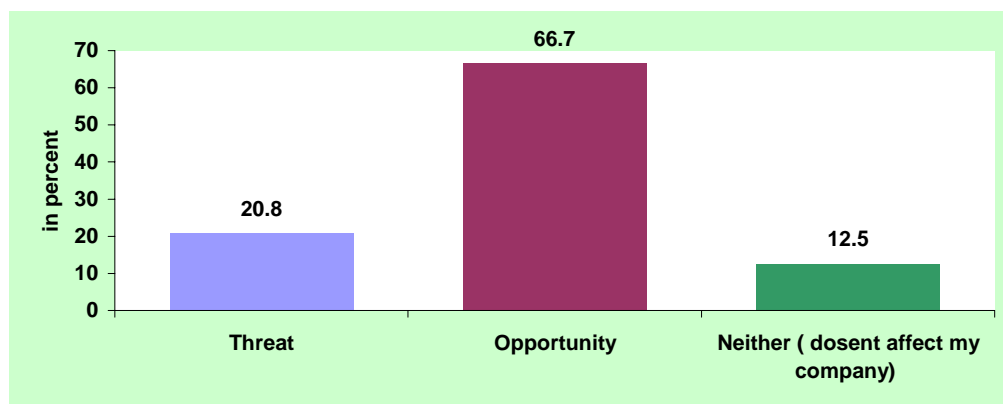
The CII Survey confirms that almost 96% of the respondents from SME sector are aware of the Government's earlier decision to allow 100% FDI in single brand retail and 51% FDI in multi-brand retail and also of the latest notification in January this year.

The SME Industry, according to the survey, is in favour of the government's decision to allow 51% Foreign Direct Investment (FDI) in multi-brand retail and 100% in single brand retail. A majority of the SME companies, surveyed have supported the government's decision and the notification allowing 100% FDI in single brand retail and about 52 percent of respondents also expect earlier and speedier implementation of 51% FDI in multi-brand retail.



On the question how the SME industry consider entry of MNC retailers as a threat or opportunity, majority of respondents (66.7%) see it as an opportunity for their sector while around 21 % of respondents perceive it as a threat. About 12.5 percent of respondents are of the opinion that the decision would have little or no impact on their company.

A considerably vast section of the SMEs are of the view that allowing 51% FDI in multi-brand retail and its earlier implementation on the part of the government would give a major boost to the all round growth of organized retail in the country and will have substantial positive impact on the growth of SMEs with other allied positive developments in many sectors.

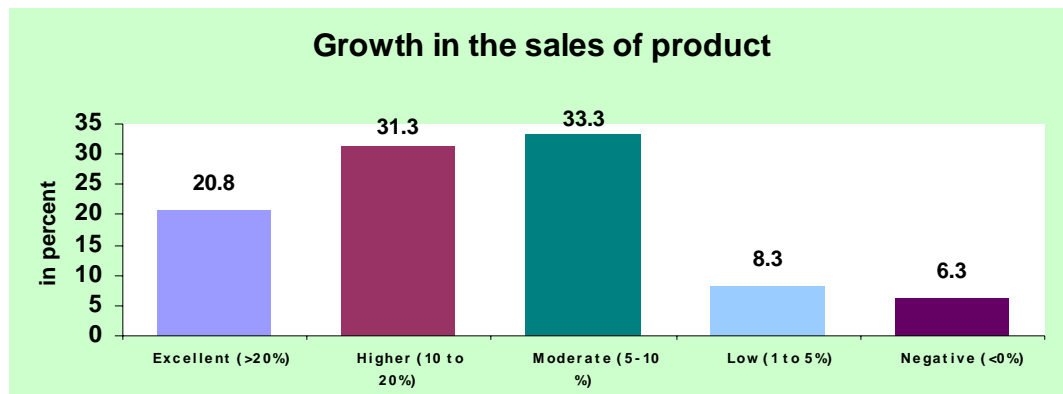


Assessment of the Impact of FDI in retail on SME in terms of select parameters used

The CII survey has also tried to find out and make an assessment of the impact of the opening of FDI in retail on SME in terms of different growth indicators / parameters like sales, size of the industry / capacity expansion, employment, branding and achieving other efficiencies.

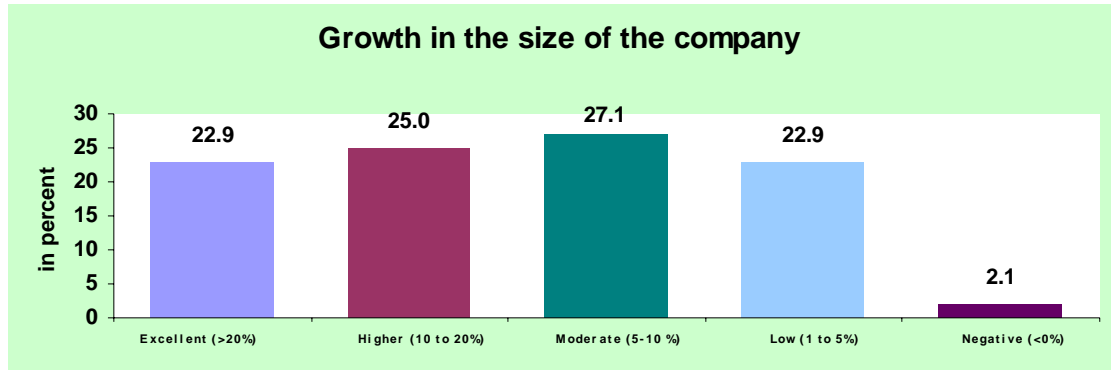
✓ **Sales**

Majority of the respondents (98.6 percent) are of the opinion that the opening of the FDI in retail will **augment growth of sales** of their products. Of them, around 21 percent respondents foresee the growth of sales of their products to escalate in the excellent range of more than 20 percent , 31 percent of the respondents expect the impact on growth of sales to be in the high range of 10-20 percent while 33 percent expect it to be in moderate range 5-10 percent. 8 percent of the respondents perceive the growth to remain in a low range (0-5) category and 6 percent of the respondents feel that the decision would have a negative impact on the growth of sales of their products.



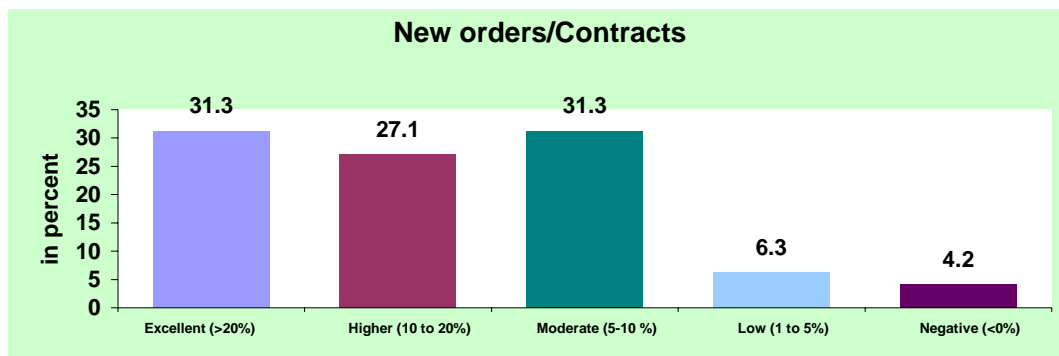
✓ **Size of Industry, Business/Capacity Addition**

On the aspect of the possible impact on the size of the industry, business and capacity addition, majority of the respondents (98 percent) expect the size of their company to grow with the opening of 51 percent FDI in multi-brand retail along with 100 percent FDI in single-brand retail. Around 22.9 percent of respondents perceived that their industry would grow by Excellent rate of more than 20 percent). 25 percent of the respondents expect the impact on the size or capacity addition to be in the high range of 10-20 percent while 33 percent expects the growth to be in the moderate range of 5-10 percent and 22 percent perceive the growth to be in the low range (0-5 percent) category. A significantly negligible 2 percent of the respondents feel that the decision would have a negative impact on the growth of size of the industry and business.



✓ **New Orders/ Contracts**

Majority of respondents are of the view that the decision of opening of the FDI in retail would impact positively in the form of new **orders/contracts** generated. Around 31.2 percent of respondents expect the new orders and contract to grow substantially with more than excellent rate of 20 percent) of growth. 27 percent of the respondents expect the impact on the new orders and contracts to be in the high range of (10-20 percent) while 31.2 percent expect the growth of orders / contracts in respect of their products to be in the moderate range (5-10 percent). Around 6 percent perceive the growth to be in a low range (0-5) category but 4 percent of the respondents feel that the decision would have a negative impact on the growth of size of the industry in terms of new orders



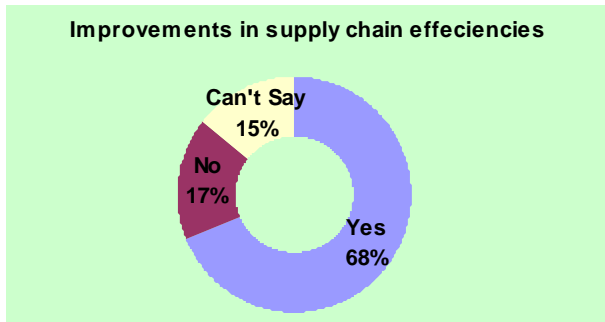
✓ **Qualitative improvements and branding of the products**

Over 56 percent of the respondents are also of the view that the government's decision of mandatory sourcing of a minimum of 30% from Indian micro and small industry will help in achieving **qualitative improvements and branding of the products**. This in turn will ensure SMEs in receiving a sure source of market for their products which ensuring higher prices for their products/supplies. This will also provide for expansion of the scales of production facilitating domestic value addition in manufacturing, thereby creating a multiplier effect on employment, technology up gradation and income generation, demand and further investment.

✓ **Supply chain efficiencies**

68.7 percent of the respondents are of the opinion that the opening up of the retail would lead to improvements in the **supply chain efficiencies** in their sector. This will in turn integrate small and medium size enterprises into the modern trade process while reaping

benefits of different economies of scale and growing healthily with mutual dependence on each other. As a result, a substantial amount of knowledge and skills transfer would take place in the sector.



✓ **Employment**

With regard to employment, around 48 percent of the respondents are of the opinion that the decision would have a positive impact on their **employment** whereas 35 percent expect no substantial change in the employment in this sector with opening up of FDI in retail. Around 16 percent expect the impact on the employment to be negative in this sector.

