CPI's Asia Column Presents:

Growth, Girth, and the Last Mover Advantage

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India’s biggest company, Reliance Industries, has acquired a cash-strapped rival to gain a major chunk of the Indian bricks-and-mortar retail.[2] The deal is also a pointer to policy challenges and management mantras.

It is being touted as the biggest deal in the recent past and the first such during the COVID-19 pandemic. On August 29, the largest Indian business conglomerate, Reliance Industries, with business presence from refining to retail, informed the Indian bourses that its subsidiary, Reliance Retail Ventures, was acquiring the retail & wholesale business and the logistics & warehousing business of its rival – the Future Group – for INR 247.1 billion or $ 3.4 billion. ‘’It is a significant deal, not just because it is the biggest in the Indian organized physical retail space but also because with this the combined entity gets almost 25 percent share of the Indian organized physical retail market. The next largest player is now about one seventh its size,’’ said Arvind K. Singhal, an expert on Indian retail and the chairman and managing director of Technopak, a leading management consulting firm.

On the immediate question on what it means for the consumer, he says, ‘’from a consumer standpoint an ideal situation would be one where there are multiple such players so that there is greater competition and choice for the consumers.’’ His solution to making it possible for India is ‘’by allowing foreign direct investment (“FDI”) into Indian retail without any restriction. Currently, it is allowed albeit with several curbs.

Currently, in terms of size, Reliance’s core retail business is about INR 95,000 crore (INR 950 billion or $13 billion) and that of Future Group estimated by the industry at around Rs 35,000 crore (INR 350 billion or $ 4.7 billion), taking the total to INR 1,30,000 crore (INR 1300 billion or $17.8 billion) and about five times bigger than the next biggest player, Avenue Supermarts, which runs DMart stores with revenues to the tune of INR 25,000 crore (INR 250 billion or $ 3.4 billion) as of March 31, 2020.

Despite the numbers, the *Reliance/Future* combine, would still be a strong player in only the organized bricks-and-mortar retail space of India. The bulk of the Indian retail market is still fragmented with a large share of unorganized retail. The overall retail in India (including both the organized and the unorganized), is today estimated at $ 825 billion. In this, the organized retail accounts for only $ 100 billion or just about 12 percent of the total Indian retail market. Within this $ 100 billion, about $ 30 billion is the estimated size of the e-Commerce segment that leaves just about $ 70 billion for organized retail – a segment where Reliance is vying to carve out a niche and is now estimated to garner a roughly 25 percent share in this.

All eyes in the Indian retail industry are on the way ahead – both from the policy perspective and the likely regulatory challenges. On policy, the question is as Singhal of Technopak hopes, whether the deal will trigger any rethink on the policy on foreign direct investment creating scope for more such larger players to emerge and compete. But, more immediately, the concerns are around the stance that the Indian regulator – particularly, the Competition Commission of India (“CCI”) will take in this matter.

The CCI typically looks at thresholds with assets of INR 2,000 crore and turnover of INR 6,000 crore. But then, this by itself is only one component, the current environment in the light of the pandemic have added new elements. Since the retail business of Future was deep in debt and the company apparently left with, as some in the industry argue, no option but to cash out rather than crash land, much now depends on how this will be viewed by the CCI. The CCI has apparently not taken up cases on ‘’failing firms’’ or the mergers of weak and strong firms following a prolonged lockdown and whether this Future Group business falls in this category is still not clear. In the light of the pandemic, the CCI has now added a component of a green channel clearance option during the COVID-19 crisis so consumers do not suffer. However, a policy veteran reminds: ''all mergers are *ex ante* and the commission is therefore prescient in its approach. A merger can be re-evaluated after a year by the CCI again. Also, later than a year, it can be taken up under 'abuse of dominance' which is an *ex post* assessment of the market power."[3]

While this, at the moment, means time to wait and watch for the outcome, what does stand out about the deal is clearly a clever move by both the parties to not just rescue a business but to also feed business ambitions. Given its penchant for scale, big numbers come naturally when discussing Reliance Industries, which now includes Facebook also as an investor. Even back in October 2006, when Reliance opened its first retail outlet in Banjara Hills, a tony suburb of the South Indian city of Hyderabad, its senior officials were busy harboring hopes to touching topline numbers that the company now talks of in this space. This is despite Reliance being a relative late entrant into the space. The Future Group by contrast set its foot in Indian retail way back in 1987. Incorporated back then as Manz Wear Private Limited and launching India's first formal trouser brand Pantaloons. It is with good reason that Kishore Biyani, the founder of Future Group, is widely regarded as the pioneer of many of the innovative business models in the Indian retail sector. But then, many within the Indian industry today talk of the power of a new management mantra – "the last mover advantage.'' The message in it being that it is not necessary that pioneers may also ensure perpetuity of a business. As was shown by Reliance in retail and earlier by Indigo in the Indian airlines industry, it is very likely that a late entrant backed by smart financial structure could well end up as the last ones standing strong in a sector.

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[2] See https://www.bseindia.com/xml-data/corpfiling/AttachHis/22d818c4-b247-4552-8d5c-546a0e4f0d7b.pdf.

[3] Quotation from Dr. Geeta Gowri, former member of the Competition Commission of India.