Record caFE JACQUES STERN & SANDEEP BANERJEE

Chairman and global CEO; MD and CEO, Edenred

'We aim to plug all PDS leaks in MP'

We know Edenred as the 'Ticket Restaurant' company with its popular red and blue logo stickers visible on the doors of many a restaurant. After its demerger with Accor Hospitality, Edenred (formerly Accor Services) has come out bigger and stronger with volumes of 14 billion euros globally. Edenred runs four businesses globally, of which India has three—employee benefit business, rewards and loyalty business, and public social programmes. Part of a consortium that won the contract from the Madhya Pradesh government to implement the public distribution system in the state, Edenred is all set to enter the public social business space in the country in a big way. Jacques Stern, chairman and global CEO, Edenred, and Sandeep Banerjee, MD and CEO, Edenred India, talk to FE's ***Sukalp Sharma*** *about their plans for India, and how their implementation of PDS would be different.*

ROHIT PHORE

'We are talking about 5mn BPL families and a potential 8mn APL families and reaching 30mn beneficiaries, which makes this one of the largest voucher programmes in the world. Also, this is the first project in India that is applying UID guidelines to delivering a social programme'

How is life after the demerger from Accor Hospitality? What sort of a relationship do you share with it now?

We just celebrated our first anniversary as Edenred and the demerger has been a success for us. We now see that over 65% of the shareholders have changed. I think it shows that these are two very different businesses and attract different types of shareholders. So, I would say that we still have a lot of friends in the two companies, but no more than that.

How important is the Indian market for you, considering the global slowdown?

We are not looking at India for 4-5 years, but for the next 20-25 years. We have four types of businesses—employee benefits or meal and food vouchers, gift vouchers, expense management, and public social programmes. All are meant for the middle class in India. We still don't have the expense management business in India but we will start it very soon. Right now, we are at a point where we are investing in our India operations. We have already built a great platform, with around 500 employees in 15 locations in 10 cities, which is 8% of all the people we have globally.

A huge, emerging middle class in India suits your benefit business vertical well. But is there an opportunity in the social programme space as well and how are you looking at this opportunity?

The employee benefit business, from a top line point of view, is contributing to about 60% of our total turnover, while the rewards and loyalty business contributes to about 40% of our turnover in India. The public social programme business is small but, having said that, we have received the mandate from one of the largest states in the country, MP, to manage the entire PDS through our smart coupons. We are talking about 5mn BPL families and a potential 8mn APL families and reaching approximately 30mn beneficiaries, which makes this one of the largest voucher programmes in the world. Also, this is the first project in the country that is applying UID guidelines to delivering a social programme and tangible benefits to the beneficiary.

In the public social programme space, we are focusing on food, education and health to begin with. We hope that in the next 3-5 years, the contribution of the public social programme business could potentially be higher than 50% of our total business in India, which means it is likely to emerge as the largest business for us in India.

PDS has been marred by corruption, pilferage, etc. How do you address these issues and what's the new element you bring to the table for PDS consumers?

This is a mandate given by the state of MP to a consortium of three entities, one of which is Edenred India. They have individual roles and responsibilities carved out, but are integrated to deliver one comprehensive solution to the MP government. PDS in most parts of the country is essentially plagued with two kinds of problems. The first problem is in the identification of the beneficiary right at the source and the other problem is leaks at the fair price shop (FPS). What we do here is that we look at plugging the leaks at both ends. Right at the outset, you have a targeted enrolment of the beneficiary as per UID guidelines. So there is biometrics, there is iris scanning, digitisation of data and UID numbers, and identity cards are being generated. Ghost beneficiaries are significantly reduced. Then you have the final leg of delivering the benefit through a smart coupon, against which the beneficiary will get the commodity according to his entitlement from the FPS. The beauty in this entire project is that these smart coupons have a whole lot of contemporary security features, they have all data in the local language, they are colour-coded for different commodities, and the FPS number is on the coupon.

The FPS owner has to send the coupons back to us. We read, redeem and scan those coupons, and then provide very specific details to the state, which tells at the FPS level, at an item level, at a taluka level, at a district level what kind of consumption has happened. So the state would know about the offtake of items at a particular FPS and only on the basis of that can the FPS owner go and indent for his next month's offtake. What was happening was that no one knew how much the FPS owner was actually consuming in the month as there was no instrument to track that. Now if the FPS is not delivering the benefit to the beneficiary, that means the FPS owner won't get the coupons from the beneficiary. This, in turn, means that he would not be able to indent for the next month as much as he would have ideally indented. Also, he can fool the beneficiary once, but not over and over again, because the coupons are as good as cash.

What is the status of the project on the ground?

The enrolment activities commenced late last year and the first set of vouchers may be issued any time now. Because this is the first project with the UID, syncing issues with the UID were also taking time. But this is much more streamlined now. We hope to cover about half a million families by this year, which would progressively scale up to 5mn families by early 2013.

We hear that you're in touch with other state governments as well for PDS projects like the one in MP? Any progress?

These are long gestation projects. So there is a lot of advocacy that we are doing with various stakeholders in the states. The states that we find progressive are Rajasthan, Bihar, West Bengal, Gujarat, Uttarakhand, Tamil Nadu, Andhra Pradesh and Punjab. We also see an opportunity in the Northeast. A few states have already seen the solutions that we have created for MP and they are quite enthused. Discussions with these states have gone beyond an informal stage; we have made presentations and submitted concept notes.

What are the tangible projections for the next five years in the public social programme space for Edenred India?

Despite a number of areas available, we have identified food and civil supplies, education and health. To begin with, we want to run a large programme in each of these spaces in the next three years' time and thereafter add one large programme each year. Large for us would typically mean that we are able to reach out to more than 2mn families every year through the duration of the contract.

What sort of a growth strategy are you looking at for India?

We have a clear roadmap for India. We have identified a few strategic levers of growth and what we are essentially saying is that we will drive organic growth very hard. We will focus on innovation, new initiatives and development. We will look at strategic alliances, collaborations and, if required, acquisitions. We would be focusing on enhancing the equity of the new Edenred brand and human capital.

CompetitionMatters

Making the case for NSE

Predatory pricing can't be established where there is no clear intent to eliminate competitors

PRADEEP S MEHTA

CCI grabbed headlines and spurred numerous editorials in the financial press when it levied a penalty of ₹55mn on NSE for abuse of dominance. NSE was charged with leveraging its dominance in one market to gain or protect its position of strength in the other by way of fee waivers and exclusionary denial of integrated market watch facility. Many have welcomed the order as a good lesson for the largest bourse in the country to deter it from engaging in anti-competitive practices, while many have also argued that NSE did not enjoy a position of dominance in the currency derivatives market and the zero pricing model adopted by it was not indicative of predatory pricing. The CCI order is interesting in how well it articulates majority and minority views (4:2). The case has significant implications for the need for regulatory reforms in the stock market, given the silent treatment accorded by Sebi to the issue.

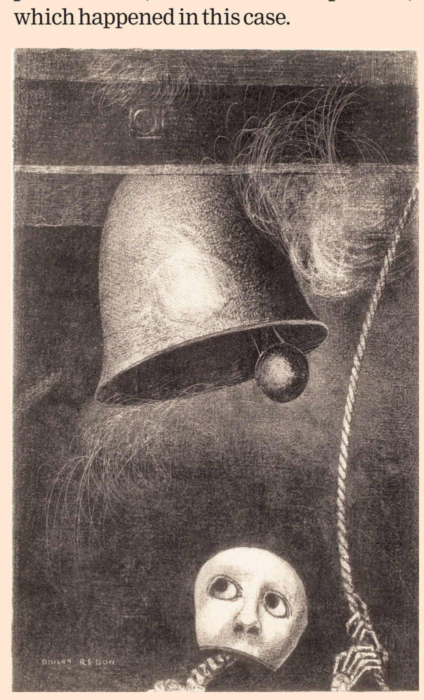
Predatory pricing is one of the exclusionary abuses in pricing policy adopted by a dominant firm in a relevant market. The firm sets very low prices over a long period of time, with an intention to interfere with others' ability to compete and drive them out. It also aims to foreclose the entry of new players and make high monopoly rents thereafter.

The zero pricing model adopted by NSE need not imply that there was predatory pricing in the market. The stock exchange industry displays the characteristics of a network industry, wherein it is a sound business strategy to charge low prices initially in order to attract more customers, increase liquidity and expand the market. In such network industries, it is a common feature of the business model to charge nothing to one side of the market (supply side) and recover costs from the other side (demand side). Such is the economics of two-sided markets where businesses need to get two different groups of customers on board in order to succeed.

Pricing below marginal cost or negative prices can arise in such two-sided markets. For example, Microsoft sets the prices to developers well below the cost of serving them, which leads to their increased participation. This attracts greater number of customers who are willing to pay high markups over the marginal costs for the enhanced value resulting from developer participation. So, it recovers the foregone profits in the case of the developers from the other side, the end users. Such a pricing model does not necessarily amount to predatory pricing even though it may result in the exit of some small firms, which is an outcome of the competitive process.

A similar debate arose in 2008, when NYSE proposed a 100% rebate on trade reporting facility (TRF) market data. In order to stay at par with the NYSE TRF rebates, exchanges such as NASDAQ and FINRA, which jointly own a TRF, proposed an increase in their rebates from 50% to 100%. Exchanges such as the US NSX also felt the heat and proposed to increase their rebates from 50% to 75%. The exchanges expressed concerns that such price competition has hurt their operating performance. The Securities Industry and Financial Markets Association wrote to the Securities Exchange Commission (SEC) on February 14, 2008, arguing that such a move by NYSE would drive the smaller exchanges such as NSX out of the market. It accused NYSE of cross-subsidisation of the excessive market data fees that the investors and broker-dealers pay for data to exchanges, in order to fund other commercial activities. SEC did not find much substance in the allegations and approved the pricing proposal of the stock exchanges to increase the market data rebates, and took no action against NYSE.

Establishing predatory pricing is quite challenging as in such cases intent to eliminate competitors (predatory intent) and a subsequent recoupment of profits once competitors are driven out needs to be clearly demonstrated. Such predatory intent seemed to be absent in the NSE case, given the entry of MCX in 2008 and of United Stock Exchange in 2010, after NSE had started operating in the market, substantiating that the fee waivers did not result in any anticompetitive foreclosures. The subsequent entry of players shows that the barriers to entry are low and, hence, making high profits would be difficult as new players would push the prices down, thanks to competition, which happened in this case.



A useful way to think about this case (as with the current FTC investigation of Google) is whether NSE excluded competitors in a way that hurt consumers. In fact, if the majority order erred in its analysis in the current case, it would effectively be protecting specific competitors who may be inefficient and hurting consumers who were earning the benefits of a free service that the NSE was providing until now. It would be contrary to the spirit of competition law. Any intervention of CCI should have been assessed on this touchstone.

This case also has significant implications for the existing regulatory regime in the stock market. It highlights the need for a comprehensive framework with an active role of Sebi in the stock exchange space as recommended in the controversial Bimal Jalan Committee Report released last year. It is disturbing to see that Sebi, which is vested with powers to regulate the stock market and promote its development, took note of the waiver in transaction fees by NSE in the currency derivative market back in 2009, and remained silent in face of policies and practices that were seemingly price distortive and potentially hampering the development of the stock market. It failed to initiate an investigation when it is well empowered to do so and instead sat back, saying that the matter involved predatory pricing (*prima facie*) and falls under the purview of CCI. Both the market regulator and the competition regulator have distinct core and overlapping competencies, and their coordination would have been helpful when dealing with such issues. The case needed Sebi's intervention for a comprehensive understanding and analysis of the pricing policies being administered by the players in the exchange market and the development/market expansion objectives behind such policies.

While one can say of the main order that it is full of grave errors of judgment, the dissenting order is an excellent piece of economic analysis using the latest well-received economic theories that have been brought to bear on the case at hand in a highly commendable way. One hopes that this order will set the precedent for subsequent orders of the Commission, as far as the quality and rigour of analysis are concerned. While there are some debatable issues in it, particularly the definition of the relevant market and the means by which this has been derived, one hopes this marks a new phase in the deliberations of the CCI.

The author is secretary general of CUTS International. Madhav Dar and Natasha Nayak of CUTS International contributed to this article

REPORTER'S DIARY

Cabinet, cauldron, bubble, boil

NISTULA HEBBAR

DESPITE being described as a damp squib, Tuesday's reshuffle exploded with gossip, innuendo, bursts of temper and heartburn. For reporters, for once, the Prime Minister's Office delivered the goods, the list of new ministers and their portfolios was uploaded on the government Website by 11 am, giving plenty of time for wags and talking heads to expend their analytical breath.

But the early declaration of portfolios (traditionally revealed after the swearing-in ceremony) also meant that one minister-designate (Gurudas Kamat) chose not to attend the ceremony and subsequently resigned his position, another (Srikant Jena) sulked in a semi-private way, and yet another (Veerappa Moily) got lassoed by TV cameras into almost committing political *hara-kiri*.

The ceremony itself then turned into a non-event until the big tamale, Prime Minister Manmohan Singh himself, spoke out on the reshuffle. He declared that this particular reshuffle would be the last before the 2014 General Elections. A section of the Congress appeared horrified at the statement; the promise of ministerial berths is crucial in keeping the flock in order, goes the conventional wisdom in the party.

Yet another senior minister in the government, however, said that it was the paralysis in the government since the last reshuffle in January which prompted the statement. "The Prime Minister had promised an expansive reshuffle in a few months. Which meant that most ministers were on tenterhooks and not willing to commit on policy work." Whatever the motives behind the statement, it was yet another headline on a crowded day. But the day wasn't over yet.

Newly appointed rural development minister Jairam Ramesh, who has his own peculiar style in all things, including his inexplicable hair cut, decided to head straight for his new office at Krishi Bhavan after he took oath. It was all very well, but for the fact that his predecessor Vilasrao Deshmukh's name plate still hung on the door. A carpenter was searched for and summoned, and in full media glare the name plate was removed, proving that in politics, there is no such thing as too much symbolism.

Considering that many people considered this reshuffle as an elaborate camouflage to get Ramesh out of the environment ministry, it appeared fitting that he had the last word, and appeared as eager to leave Paryavaran Bhavan as industry giants were to see him go.