A CRITICAL ANALYSIS OF FOERIGN DIRECT INVESTMEN IN INDIAN RETAIL SECTOR

Dr. Bikramjit Kaur
Assistant Professor in Commerce
Govt. College of Commerce and Business Administration
Sector-50, Chandigarh

Abstract

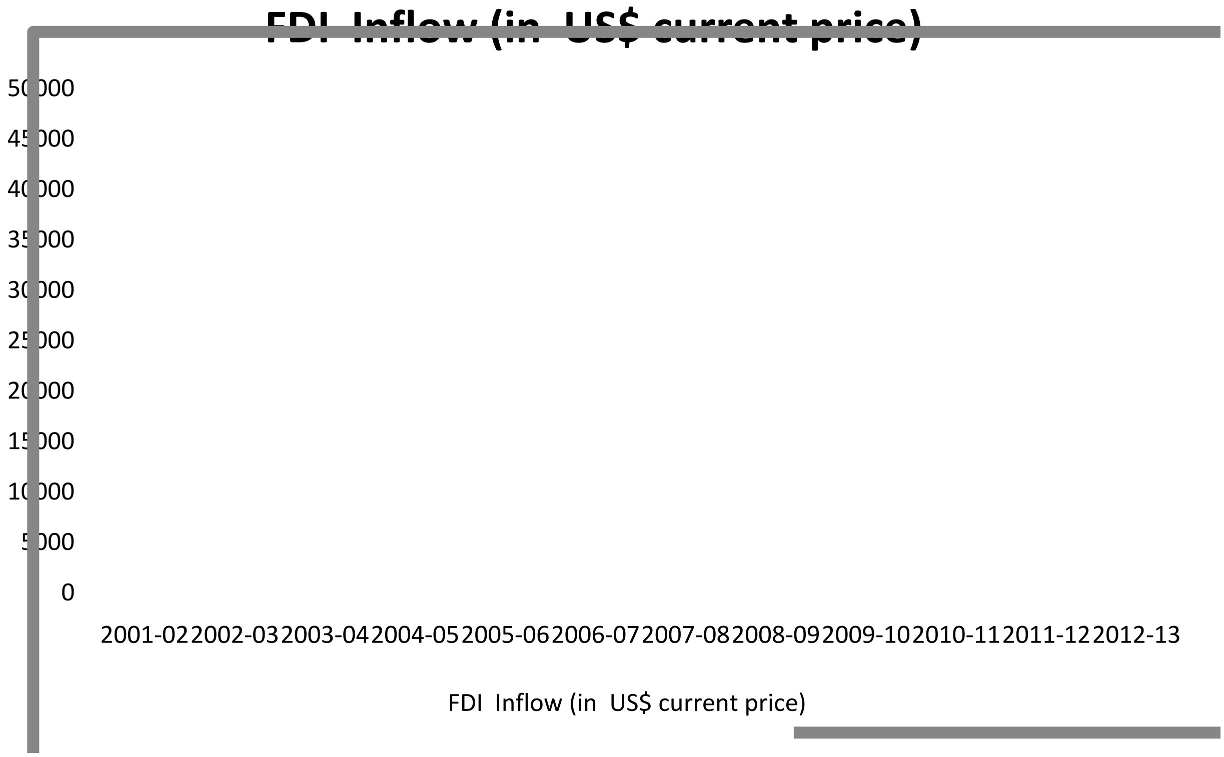
Foreign direct investment (FDI) is defined as foreign investors stirring their assets into another country where they have control over the management of assets and profits. FDI has the potential to generate employment, raise productivity, enhancing competitiveness of the domestic economy through transfer skills and technology, strengthening infrastructure, enhance exports and contribute to the long-term economic development of the world's developing countries. The spectacular and unprecedented growth of FDI in the global economic landscape over the last two decades has made it an integral part of the development strategy of both the developed and developing nations. Rise in purchasing power, growing consumerism and brand proliferation has led to retail modernization in India. The growing Indian market has attracted a number of foreign retailers and domestic corporate to invest in this sector. FDI in the retail can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers and suppliers (farmers). Despite these encouraging signs, India's retail markets remain largely off-limits to large international retailers like Carrefour. Resistance to liberalizing FDI in this sector raises concerns about employment losses, unfair competition resulting in large-scale exit of incumbent domestic and the death knell on the small traders who will be in no position to compete with the big players. Thus it will kill the small entrepreneur initiative; as these traders do not have the capital and expertise to compete with big retail chains. In this paper an attempt is made to study the growth of retailing industry in India. The study encompasses growth of retail sector, strength and opportunities of retail stores, retail format on India, recent trends and opportunities and challenges.

Key words: *Economy of India, Foreign Direct Investment, FDI Flows, Retail Sector, Single-brand, Multi-brand.*

Introduction

With the initiation of globalization, developing countries, particularly those in Asia, have been witnessing an immense surge of FDI inflows during the past two decades. According to the International Monetary Fund, foreign direct investment, commonly known as FDI, "... refers to an investment made to acquire lasting or long-term interest in enterprises operating outside of the economy of the investor." The investment is direct because the investor, which could be a foreign person, company or group of entities, is seeking to control, manage, or have significant influence over the foreign enterprise.

Figure 1: FDI Inflows in India from 2001-2013



Source: **UNCTAD Report 2014*

The figure 1 states that India had showed a large amount of FDI inflow. It showed that FDI inflow has been increased from US$ 5630 in 2001-02 to US$ 28199 in 2012-2013. Due to technological up gradation, access to global managerial skills and practices, optimal utilization of human and natural resources, making Indian industry internationally competitive, opening up export markets, providing backward forward linkages and access to international quality goods and services the Indian Government has used many steps to attract more FDI. FDI in Multi-Brand retailing is permitted in 2012. Prior to this move Indian households have traditionally enjoyed the convenience of calling up the corner grocery "kirana" store. Till 1980 the retail trade continued in the unorganized sector. Afterwards with the entry of big players like Reliance, Tata's, Bharati, Big Bazzar ,organized retail sectors came into existence.

Review Of Literature

Indian traditional retailers have a number of inherent strengths which helped them not merely survive the competition from organized retail but flourish. These include proximity to consumers, consumer goodwill, credit sales and amenability to bargaining, sale of loose items, convenient timings and home delivery.

M. Joseph and N. Soundararajan,(2009) has shown that hardly 1.7 percent of small shops have closed down due to competition from organized retail. They have competed successfully against organized retail through adoption of better business practices and technology.

Mukherjee and Patel (2005) found that foreign retailers are working with small manufacturers for in-house labels and are providing them technologies like packaging technologies and bar coding.

Brea-Solis et al (2010) indentified six choices or a set of choices that define the Wal-Mart's business model which are setting low prices, investing in technology, having specific human resource policies, establishing strategies for expansion, increasing product variety and developing a Wal-Mart Culture.

Boston Consulting Group (2012) estimated that the retail sales were $ 471 billion with 7 percent share for the organized retail ($ 34 billion) in 2011. It also shows that by 2020 the size of the organized retail to be around $ 260 billion with a penetration of 21 percent. Increasing middle class incomes and use of automobiles, refrigerators, credit cards and adoption of technology for supply chain is expected to shift the balance in favor of organized retail in metros and small towns.

Mallampally, P. and Sauvant, K.P (March 1999) observed that the FDI has grown at an extraordinary rate since the 1980s and LDCs are becoming increasingly attractive investment destinations primarily because of the reason that they can offer investors a range of created assets.

Joshi, Sahana and Dadibhavi, R.V. (March 2008) observed that since 1991, the role of FDI in Indian economy is increasing due to a number of measures undertaken to liberalize FDI policy. Following economic reforms, governments at the state level are initiating measures to attract more financial resources into the states including FDI.

Objectives Of The Study

The main objectives of my study are delineated below as:

1. To analyze the current retail scenario in India and globally.
2. To assess the impact of FDI on various parties related to the retail sector.
3. An attempt is made to evaluate the likely challenges and threats of FDI in both single and multi-brand retail in India.

Research Methodology

The researchers have adopted analytical, descriptive and comparative methodology for this study. . Reliance has been placed on secondary data sources such as books, journals, newspapers and online database .

Indian Retail Sector: An Overview

India's current retail market is worth Rs 3,893,425 Cr (US$ 648.90 bn). The market has grown by an average of 16-18%to reach where it is today. Retail is expected to grow with lesser rate of around 16% over next three years. It is estimated that by 2017, India's retail market will be Rs 6,156,333 Cr (US$ 1026.06 bn) and may pick up even further.

The Indian retail industry is generally divided into two major segments – organized retailing and unorganized retailing.

(a) **Organized Retailing** - refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.

(b) **Unorganized Retailing** - refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc.

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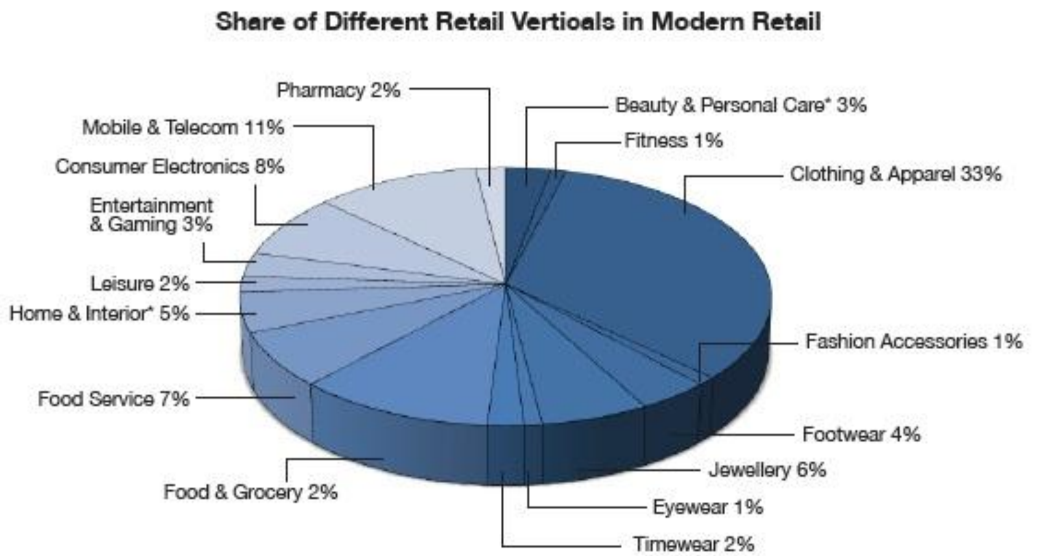


The modern retail is close to 8% of the total retail market. The pie-graph shows how each category of modern retail fares against total modern retail.

Apparel - The total apparel retail market is worth Rs 324,500 Cr (US$ 54.08 bn) and is growing at 20-21%. It is expected to be worth Rs 564,792 Cr (US$ 94.13 bn) by 2017.

Fashion Accessories - Total fashion accessories retail market is worth Rs 15,557 Cr (US$ 2.60 bn). Modern retail is estimated at 13.3% of this total market and is expected to grow by 21-23%.

Foodservice - Total food service retail market is worth Rs 204,438 Cr(US$ 34.07 bn) growing at 23-24% and is expected to touch Rs 380,000Cr (US$ 63.39 bn) by 2017. Modern retail is estimated at 13.3% of this total market and is expected to grow by 30-31% a much higher growth rate. Retail expansion grew at an average 31-35% in terms of number of outlets and retail space with average same store revenue growth being at around 16%.

Footwear - The total footwear retail market is worth Rs 33,592 Cr(US$ 5.6 bn) growing at 17-18% and is expected to cross Rs 54,000 Cr(US$ 9.04 bn) by 2017. Modern retail is estimated to be worth Rs 14,018 Cr with a share of 41.7%.

Jewellery - Total jewellery retail market is worth Rs 201,344 Cr(US$ 33.56 bn) growing at 24-26% and is expected to reach Rs 383,000 Cr (US$ 63.87 bn) by 2017.

Eyewear - Total eyewear retail market is worth Rs 43,243 Cr(US$ 7.21 bn) growing at 14-15% and is expected to cross Rs 63,000 Cr (US$ 10.58 bn) by 2017.

Home and Interiors - Total home and interiors retail market is worth Rs 102,750 Cr (US$ 17.12 bn) The home and interiors retail category's three broad segments –furnishings, furniture and décor, have been growing positively. The Modern retail is estimated to be 18.6%.

Mobile & Telecom - Total Mobile & Telecom retail market is worth Rs 203,981 Cr (US$ 40.00 bn).

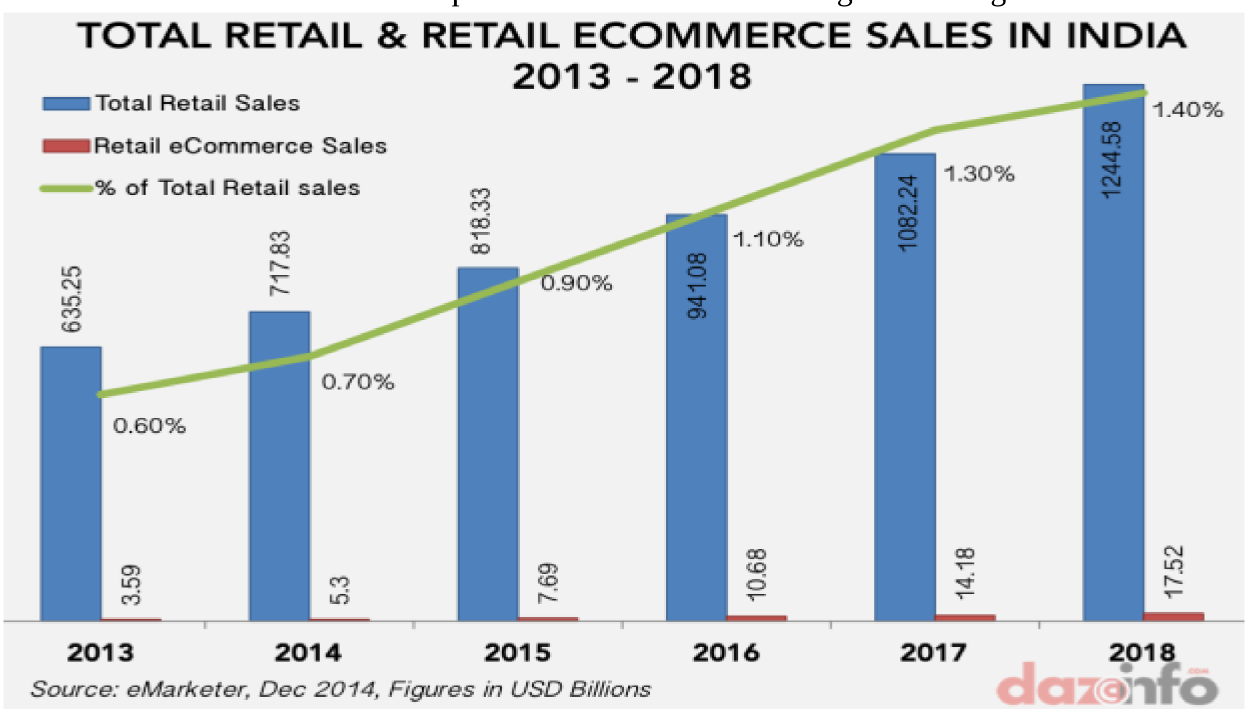
Entertainment and Gaming - The total entertainment retail market is worth Rs. 96,094 Cr(US$ 16.02 bn) growing at 14-15% and is expected to be worth Rs. 142,237 Cr (US$ 23.71bn) by 2017.

Timewear - The total timewear retail market is worth Rs. 11,592 Cr(US$ 1.93 bn) growing at 13-14% and is expected to reach around Rs. 17,000 Cr (US$ 2.79 bn) by 2017. Modern retail is estimated at 61.6% of this total market and is expected to grow at 22-23%. Retail presence grew at an average of 15% in terms of retail expansion with same store revenue growth being on higher side.

The industry feedback suggests that male consumers buy more watches than female buyers. They account for more than 60% of sales of timewear products. The other significant consumer segment is students and young age group from 18 –34 years. Students segment alone contributes more than one-fourth of the sales.

Pharmacy - Total pharmacy retail market is worth Rs. 105,570 Cr(US$ 17.60 bn) growing at 10-11% and is expected to cross Rs. 141,000 Cr (US$ 23.6 bn) by 2017. Modern retail is estimated at 5.9% of this total market and is expected to grow by 24-30%. Retail expansion grew at 7-17% in terms of number of retail outlets and retail space with same store revenue growth being more than 22%.

Leisure - The total leisure retail market is worth Rs. 36,009 Cr(US$ 6 bn) growing at 10-11% and is expected to be worth Rs. 48,301 Cr (US$ 8.05 bn) by 2017. Modern retail is estimated at 20% of this total market and is expected to grow by 17-18%. Retail expansion grew at 10% in terms of number of retail outlets and retail space with same store revenue growth being around 16%.



Beauty and Personal Care - The total retail beauty and personal care market is worth Rs. 68,930 Cr(US$ 11.49 bn) growing at 16-18% and is expected to cross Rs. 107,000 Cr (US$ 17.9 bn) by 2017. Modern retail is estimated at 15.6% of this total market and is expected to grow by 26%. Retail expansion in beauty services segment grew by 34% and in product retailing it grew by 14-17%. The same outlets growth was in the range of 23-40% depending on the format and target segment.

CDIT - The total CDIT retail market is worth Rs. 137,750 Cr(US$ 22.96 bn) and is growing at 19-21% and is expected to cross Rs. 231,696 Cr (US$ 38.62 bn) by 2017. Modern retail is estimated at 23% of this total market and is expected to grow by 28%. The market is led by retailers with multi-brand offerings.

Figure 1

The 2015 Global Retail E-Commerce Index™

Rank	Change in rank	Country	Online market size (40%)	Consumer behavior (20%)	Growth potential (20%)	Infra-structure (20%)	Online market attractiveness score
1	+2	United States	100.0	83.2	22.0	91.5	79.3
2	−1	China	100.0	59.4	86.1	43.6	77.8
3	+1	United Kingdom	87.9	98.6	11.3	86.4	74.4
4	−2	Japan	77.6	87.8	10.1	97.7	70.1
5	+1	Germany	63.9	92.6	29.5	83.1	66.6
6	+1	France	51.9	89.5	21.0	82.1	59.3
7	−2	South Korea	44.9	98.4	11.3	95.0	58.9
8	+5	Russia	29.6	66.4	51.8	66.2	48.7
9	+15	Belgium	8.3	82.0	48.3	81.1	45.6
10	−1	Australia	11.9	80.8	28.6	84.8	43.6
11	−1	Canada	10.6	81.4	23.6	88.9	43.1
12	+2	Hong Kong	2.3	93.6	13.0	100.0	42.2
13	+6	Netherlands	8.9	98.8	8.1	84.6	41.8
14	−3	Singapore	1.3	89.4	15.7	100.0	41.5
15	+13	Denmark	8.1	100.0	15.1	75.5	41.4
16	0	Sweden	8.8	97.2	11.8	77.7	40.9
17	Not ranked	Mexico	10.0	53.3	58.6	68.0	40.0
18	Not ranked	Spain	13.2	73.1	20.2	80.1	39.9
19	+1	Chile	2.7	71.8	49.3	73.2	39.9
20	+6	Norway	8.2	99.4	5.6	76.3	39.5
21	−13	Brazil	19.6	57.4	28.0	72.4	39.4
22	−7	Italy	12.3	71.6	27.8	70.7	38.9
23	+6	Switzerland	7.1	89.6	7.4	82.5	38.8
24	−1	Venezuela	1.7	54.1	79.4	55.7	38.5
25	−4	Finland	6.4	98.3	3.8	77.3	38.4
26	−8	New Zealand	1.7	86.4	25.9	75.4	38.2
27	Not ranked	Austria	5.9	85.3	19.0	74.8	38.1
28	Not ranked	Saudi Arabia	1.1	46.6	67.3	74.6	38.1
29	−17	Argentina	5.7	70.3	43.9	64.3	38.0
30	−3	Ireland	4.9	74.4	27.6	74.1	37.2

Notes: Scores are rounded. 100 is the highest and 0 is the lowest for each dimension.

Sources: Euromonitor, International Telelcommunication Union, Planet Retail, World Bank, World Economic Forum, United Nations Department of Economic and Social Affairs; A.T. Kearney analysis

Retail Ecommerce Sales as a Percent of Total Retail Sales in Select Countries, 2013-2018

	2013	2014	2015	2016	2017	2018
UK*	11.6%	13.0%	14.4%	15.6%	16.9%	18.0%
China**	8.3%	10.1%	12.0%	13.8%	15.5%	16.6%
Finland	9.2%	9.8%	10.4%	10.8%	11.2%	11.5%
Norway	8.8%	9.7%	10.7%	11.5%	12.1%	12.7%
South Korea	8.1%	9.0%	9.8%	10.5%	11.3%	12.0%
Denmark	7.7%	8.6%	9.3%	9.9%	10.4%	10.8%
Germany	6.1%	7.3%	8.4%	9.4%	10.4%	11.2%
US*	5.8%	6.5%	7.1%	7.7%	8.3%	8.9%
Canada	4.5%	5.2%	5.9%	6.6%	7.4%	8.2%
Japan	4.4%	4.9%	5.4%	5.8%	6.2%	6.7%
France	4.2%	4.6%	5.1%	5.4%	5.8%	6.2%
Netherlands	3.8%	4.3%	4.6%	4.9%	5.1%	5.3%
Australia	3.6%	4.1%	4.5%	4.9%	5.3%	5.6%
Spain	3.6%	4.1%	4.8%	5.4%	6.0%	6.5%
Brazil	3.4%	3.8%	4.1%	4.4%	4.6%	4.8%
Sweden	3.2%	3.5%	3.8%	4.1%	4.4%	4.6%
Russia	2.0%	2.2%	2.4%	2.6%	2.8%	3.0%
Italy	1.5%	1.7%	1.9%	2.1%	2.2%	2.3%
Argentina	1.3%	1.4%	1.6%	1.9%	2.2%	2.5%
Mexico	1.0%	1.2%	1.5%	1.9%	2.2%	2.6%
India	0.6%	0.7%	0.9%	1.1%	1.3%	1.4%
Indonesia	0.5%	0.6%	0.8%	1.0%	1.2%	1.4%

*Note: includes products or services ordered using the internet via any device, regardless of the method of payment or fulfillment; excludes travel and event tickets; *forecast from Sep 2014; **excludes Hong Kong*
Source: eMarketer, Dec 2014

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Types Of Retailing In India

(a) **Single Brand**- Single brand implies that foreign companies would be allowed to sell goods sold internationally under a „single brand“, viz., Reebok, Nokia and Adidas. 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.

(b) **Multi Brand**- FDI in Multi Brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof. 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.

The approval for single and multi brand includes a set of riders for the foreign investors, aimed at ensuring that the foreign investment makes a genuine contribution to the development of Indian infrastructure and logistics, at the same time facilitating integration of small retailers into the upgraded value chain.

Positive Aspects Of Fdi In Retail

- More investments in the end to end supply chain and world class cold storage facilities.
- Low spillage and wastage of farm produce during the transportation.
- Better options and offers to the consumer
- Increase in economic growth by dealing in various international products
- According to the UPA Government , employment will be created.
- Billion dollars will be invested in Indian retail market
- Agriculture related people will get good price for their goods.

Negative Aspects Of Fdi In Retail

- Affect millions small merchants in India
- Profit distribution and investment ratios would not be fixed
- Not good for an economically backward class person.
- Retailer faces heavy loss of employment and profit
- Workers safety and policies are not mentioned clearly
- Inflation may be increased
- Small farmers will not benefit by FDI policy
- The rural India will remain deprived of the services of foreign players.

Challenges Faced By The Retail Sector

1. Supply chain: Finance Minister Pranab Mukherjee in his 2010-11 budget speech had emphasized on the reduction of wastages estimated at 40 percent of National Produce in storage as well as in the operations of the existing food supply chains in the country. Catering to people in 35 states and union territories is equivalent to catering to people in 35 countries, leading to complexities in merchandise/ inventory management. Infrastructure has been developing at a rapid pace over the past decade but has still a significant ground to cover; the planned expenditure of US$ 1 trillion in the 12th five year plan will help bridging this gap.

2. Location and rental: Rent forms a large portion of the total expenditure (6 to 11 percent of the revenue) in retailer's income statement and can more often than not convert a profitable store into loss making. The challenge for a retailer would be to find the right location for their stores either in malls or as a standalone store to be able to generate enough footfalls.

3. Channel conflicts: Due to the complex taxation structure and geographic spread of the country, most FMCG companies have developed regional distribution and re-distribution network. Cutting out the distribution network will hurt operating structures of distributors, who as an industry body in the past have opposed FMCG companies selling directly to retailers.

4. Regulatory: Indirect taxation structure is complex in India with varying tax rates, multiplicity of taxes and multiple tax enforcement authorities. Opening a new store requires a lot of licenses, which have to be obtained from different government departments leading to considerable lead time in opening up of the stores. A push has been made by existing retailers to get the government to have a single window clearance for getting all the licenses at one place to speed up the process.

5. Unique Indian customer: Buying habits have still not changed, where people prefer to buy most of the fruits and vegetables on a daily basis.

6. Private labels: Private labels enable retailers to offer products at a better price point attracting footfalls to the store.

Suggestions

On the backdrop of permission to FDI in multinational retail the scenario of Indian retail industry is going to change drastically . It is likely to impact not only the unorganized sector but also the domestic organized sector considerably. Under these circumstances the following suggestions are made for the benefit of Kirana stores , farmers , employees and other stakeholders of retail industry .

- The traditional the Mom and Pop Kirana stores should change their appearance, attitude and affairs. They should modernized their shops, store, more branded goods, provide home delivery service.
- These traditional Kirana stores should form a consortium and make bulk purchases . This measure will help to procure the goods at lower price
- The banks in the country and the state government should formulate a scheme of modernization loan. Under this scheme credit should be made available at of concessional rate and all priority basis to the small unorganized kirana stores .
- The small farming community should undertake joint supply of fruits and vegetables directly to the small retailers and / or customers . This will benefit all of them.
- There should be a monitoring agency established at the state level to keep watch on the operations of foreign players in retail sector .This agency should see that necessary investment is made by the foreign players in cold storages, transportation & logistics. It should also ensure that the foreign player's required quota of goods from SME sector.
- The possibility of starting malls of small retailers should be explored & a group of small retailers in a locality should came together & open such mall.
- The educational institutions should constitute degree, diploma courses in Retailing management where both the theoretical & practical aspects of retail trade are taught to the candidates.
- There is also a need to strengthen small farmer organizations and provide them with technical assistance to increase productivity for the cost competitive market , provide help to improve the quality of produce ,and encourage them to participate more actively in marketing their produce in order to capture value added in the supply chain.

Conclusion

FDI in retail will have a far-reaching impact on various aspects of the economy. If rolled out in phases and with proper checks and balances, it will give a boost to the economy. Small retailers will not be crowded out, but would strengthen their market positions by modernizing their working. Growing economy and increasing purchasing power would compensate the loss of market share of the unorganized sector retailers. Farmers will get an opportunity of direct marketing and hence get better price for their produce. Consumers would certainly gain from enhanced competition, better quality, variety of branded goods and attractive discount offers. Large investments in infrastructure would lead to a rise in farm productivity, manufacturing and food processing as well as cold storage facilities. This would cut down wastage and spur growth in employment, exports and GDP. It can also help revive the textile and handicrafts sector. With appropriate controls in place, our exports can double in three years. The introduction of technology and good management practices will improve product availability, reduce wastage and improve quality and customer satisfaction.

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