

**FDI IN INDIAN RETAIL MARKET – A PUBLIC REVIEW****Dr. Renu Sharma\***

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**ABSTRACT**

*Although, India's response to FDI is showing improving trends in recent years, but yet the big foreign players like Carrefour, Walmart, etc. are finding it hard to enter the Indian market. The opposition of Indians to liberalizing FDI has been mainly because of the fears like employment losses, and unfair competition resulting due to large-scale exit of incumbent domestic retailers and small enterprises. This resistance is mainly aimed to protect the organized domestic retail sector that is still at a developing stage. In this paper we have presented the concerns, issues and expectations of the different sections of Indian Society with regard to the Foreign Direct Investment in Indian Retail Market.*

**Keywords:** *Foreign Direct Investment (FDI), Single Brand Retailing, Multi Brand Retailing, Foreign Retail Investors, Organized and Unorganized Retail Sectors.*

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## INTRODUCTION

If one section of Indian society is finding “FDI in Multi Brand Retail” as a source of infrastructural development and the employment generator, the other section suspect it as a potential killer of Indian industry and domestic retail market. Hence, “FDI in Multi Brand Retail” becomes a matter to be given a serious thought.

The debate is threefold:

- a) One section includes the optimistic people of the Indian society, who are excited over the expected reforms and are projecting huge surge of investment in infrastructure and thereby incrementing the employment levels.
- b) The second group is the one which is sceptical about the opening of markets for foreign retail giants like Walmart, Carrefour, Kmart etc. not because they fear that it would affect the overall development of the economy. Rather, this group fears competition from the big foreign companies which have deep pockets to procure products from the world market. Thus, it would affect their profits by a huge margin.
- c) The third group comprises of the unorganized retail sector which fears its elimination from the market in the long run. As only 5 percent of the retail trade in India comes under the organized retail it becomes essential to evaluate or assess the viability of FDI taking into consideration not this 4 percent but the 95 percent which belongs to the unorganized retail sector. The unorganized retail sector is not a homogeneous category, it comprises of peddlers, street vendors, push-cart vendors, weekly traders, etc. The majority of those engaged in retailing at the lower end of the economy depend on the small and medium enterprises for their supplies.

**Single Brand FDI** 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.

**Multi Brand FDI** in 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 Walmart, 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.

## CURRENT SCENARIO

The retail industry in India is the second largest employer with an estimated 35 million people engaged. There has been opening of Indian economy to foreign organization for foreign direct investment through organized retail. The union government has sanctioned 51% foreign direct investment in multi-brand like Walmart, Carrefour, Tesco and up to 100% in single brand retail like Gucci, Nokia and Reebok. This will produce foreign goods and items of daily consumption available locally, at a lower price to Indian consumers. The new policy will allow multi-brand foreign retailers to set up shop only in cities with a population of more than 10 lakhs as per the 2011 census. There are 53 such cities. The final decision will however lie with the state governments. Foreign retailers will be required to put up 50% of total FDI in back-end infra-structure excluding that on front-end expenditures. Expenditure on land cost and rentals will not be counted for the purpose of back-end infra-structure. Big retailers will need to source at least 30% of manufactured or processed products from small retailers. The government will go for surprise checks and if found irregularities then the deed will be broken within a second of time. Home grown retailers don't have muscles and the reach to go for the big game like Subiksha and Vishal Retail. They have expanded their retail chain but did not have the resources to manage the backend across several cities. If we look rationally at the FDI in retail sector then it will be a win-win situation for all.

## THE PUBLIC REVIEW

The general views of the people suggest that the industry people dread it, the business community (traders) are against it and the experts are favouring it. Whenever such measures are announced by the government, the opinion in reaction often gets divided.

*First we take up the arguments in support of the decision, which are:*

- 1. Indian Farmers:** The FDI in retail would benefit the Indian farmers the most as they will not only be able to increase their output but will also get better rewards in terms of supplying to organized retailers by entering into long term contracts with them. The foreign retailers will purchase raw materials from the farmers and various other goods from the original producer directly. The original producers i.e. the farmers will get a higher price since the profit will flow to them directly, leaving behind the middle men. This can happen as the big retailers have capital and high purchasing power. The large retailers will also save 10-15% in commissions by purchasing fruits and vegetables directly.

- 2. Indian Consumers:** India is now the market of the largest number of rich consumers. Indian consumers will get access to quality products at a low cost, that too at home. The stage is now set when Indian consumers will get the products of international quality at their door step. Big retailers will often offer discounts on selected items which will facilitate the consumers and they can end up with marginal bargains.
- 3. Proper Tax System:** Tax revenue will increase through VAT and Service Tax. The organized sales with computerized billing system will also yield more revenue through commodity taxes like VAT and service tax to the government. Thus tax buoyancy of the economy would increase.
- 4. Partnership Opportunity:** Indian retailers have reason to be happy with foreign direct investment in the retail sector because it is a partnership opportunity that involves a lot of learning that could take them to higher profitability. The central government is planning to have 51% foreign investment; this means the foreign retailers need local partners for the investment.
- 5. Employment:** There will be big job opportunities in the country as there will be opening of malls and stores. The entry of modern retailers will expand the market creating large amount of additional jobs in retail. The job opportunities will be at all levels varying from ordinary workers to professionals. These retailers will allocate some amount of their resources towards the training of the people they hire. This has already happened with Bharti Walmart joint venture, which has joined hands with some state governments in opening training centres in Amritsar, Delhi and Bangalore to train local youths for jobs in retail.
- 6. Distribution System:** A considerable part of India's total production of fruits and vegetables gets wasted every year due to inadequate cold storage and transport facilities. Almost half of this wastage can be prevented if fruit and vegetable retailers have access to specialized cold storage facilities and refrigerated trucks. The organized retail will bring in efficient practices that will help farmers in dispatching their produce and reduce wastage and will finally cut the losses. The big retailers will help India to have strong storage system with modern transportation. Big retailers, with decades of experience on how to manage large inventories, supply them to key distribution centres and do it all faster, better and cheaper. The arrival of foreign retailers will definitely bring in synergies in distribution management practices.
- 7. Indian Middle Class:** Middle class will be benefited which is three-fourth of Indian population. The middle class will be benefited because they are newly emerged and expanding. There is a tendency to upgrade to a more stylish and luxurious life in this class.

There has been shift from necessities to luxuries. The emergence of large middle class in India and with rising disposable income, spends on branded products are likely to increase.

*Now, we will take up the arguments which do not support the decision.*

India has two types of unorganized retailers: one the big unorganized retailers i.e. the shop for rich consumers and the other small unorganized retailers i.e. the shop for poor consumers. The latter will remain unaffected while the former may be affected to a certain extent. The medium and small retailers will surely be effected but not in a big way. The world class retailers will import large quantities of consumer goods from their respective countries and from anywhere they find them cheaper and would detrimental to the interests of the domestic producers.

The proposal has loopholes as it says that the big retailers would have to purchase 30% from the small scale industries but not necessarily from India but from anywhere in the world. So the Indian industry will not be benefited. Some experts say that wherever these big retail stores have gone they have ruined the local retailers. Small retail is the thing of the past in developed countries especially in the US & Europe. The small retailers are of the view that the central government should help them to become big instead to invite big foreign retailers to India. If these things continue, the country's retail sector would be lost. If we take examples of two soft drinks like Coca-cola and Pepsi, we will know that wherever they have gone they have killed the domestic products. They did the same in India. Today we don't hear about the brands like Campa Cola. It has vanished from the market.

Some experts say that there should be FDI in all large businesses like power, infra-structure, road and building except retail sector. There is a threat from China that has pumped goods into the state at low prices. It has forced closure of industries. China is the largest supplier to Walmart. The foreign retailers will buy raw materials or other goods from China because Indian small scale goods would be costlier than the Chinese companies. In India power is costly and low in supply, bank interest rates are higher, infrastructure and roads are of poor quality. This would break the backbone of small scale industries in India. Some experts say that it was unorganized economy that has helped India to survive during the times of recessions which the US faced due to organized sector. The big retail does not create additional markets for themselves but they displace the existing ones.

## **OBJECTIVES**

1. To highlight the changing view regarding FDI in retail sector.
2. To review the challenges to be faced by Foreign Investors while investing in India.

3. To evaluate the change in the customer's requirements after introduction of FDI in retail
4. To analyze the positive and negative impacts of FDI on different sectors in Indian Retail Market.

## RESEARCH METHODOLOGY

**Sample Size:** 75, **Sampling Technique:** Random Sampling, **Population:** Finite, **Data Collection Instrument:** Observation, Interview and Questionnaire, **Demographic:** 70% Males & 30% Females. **Sample Profile:** All Sections of Society. **Geographic Location:** Chandigarh, INDIA.

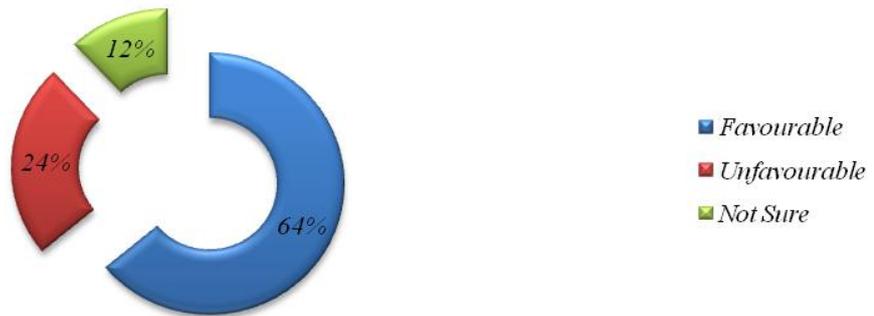
This research work has been conducted by collecting views of the people from different sections like agriculture, organized and unorganized local retailers, consumers, etc. on the Government's proposal for 51% Foreign Direct Investment in the Indian Retail Market. For the interview, a questionnaire was designed. After collection of data, the data was analyzed by tabulating and representing percentages through pi-charts. Finally all the outcomes were marked out and concluded the recommendations for further research.

## DATA ANALYSIS

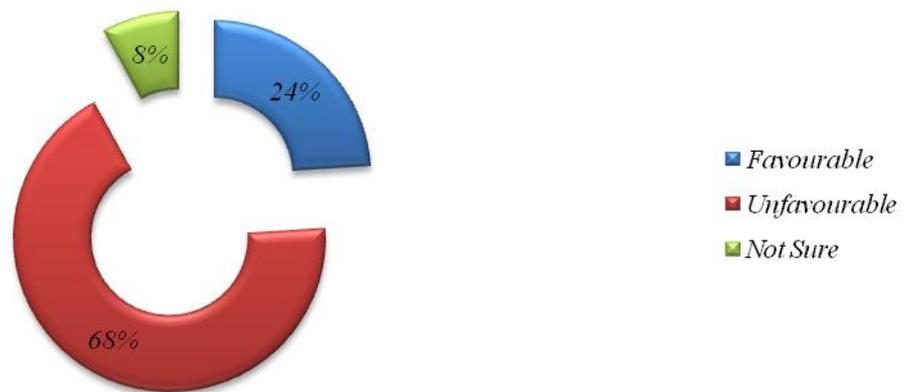
*Graph-1: Government Decision to Permit 51% in Multibrand Retail*



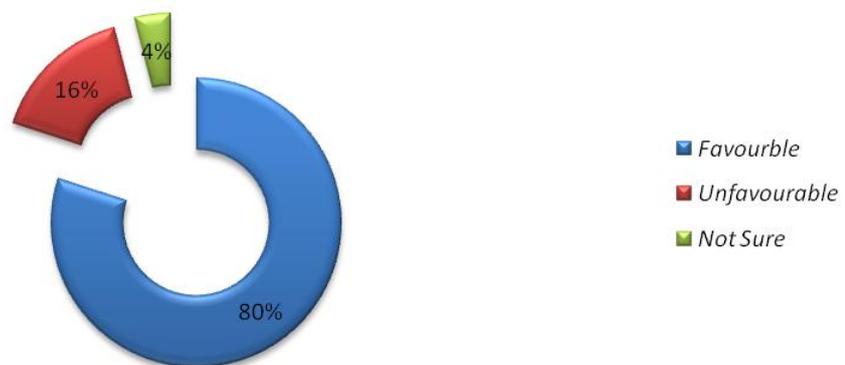
Graph-2: Effect of FDI on Farmers



Graph-5: Impact of FDI on Unorganised Retail Sector



Graph-4: Impact of FDI on Consumers



## FINDINGS

### ***Graph 1: Government decision to permit 51% FDI in Multi Brand Retail***

The Graph-1 above shows that the 76% of the people of Chandigarh favoured the government decision to permit 51% FDI in multi brand. This means that they liked to have foreign brands in India. The rest 24% people of Chandigarh were against the government decision. This means that they were having the fear of the foreign trade and were of the view that it can repeat the history where East India Company came to India in the past and captured India through the business.

### ***Graph-2: Effect of FDI on Farmers***

The Graph-2 above shows that the 64% of the people of Chandigarh were of the view that the FDI in retail would have a favourable effect on Indian farmers. This means that they are of the view that Indian farmers will get good value for their produces, without the agent in between the two parties. There will be good storage techniques and transportation techniques. The rest 24% of the people of Chandigarh were of the view that the Indian farmers will not be favourably affected by the FDI in retail because they were of the view that Indian farmers will not get the advantage as it is a myth. There will be some irregularities. The remaining 12% were not having the adequate information about this issue.

### ***Graph-3: FDI will adversely affect the Purchase from Local Retailers***

The Graph-3 above shows that 72% of the people of Chandigarh disagree that the foreign big retailers will reduce the purchase from local stores. This means that they are of the view that foreign big retailers will have their own market while local stores will continue with their available market without much change in it. The rest 20% of the people of Chandigarh were of the view that foreign big retailers will reduce the purchase from local stores because the market of local stores will make a switch over to foreign big retails. The remaining 8% were not sure of this issue.

### ***Graph-4: Impact of FDI on Consumers***

The Graph-4 above shows that the 80% of the people of Chandigarh were of the view that the Indian consumers will have the favourable impact on them as they will have a variety of products to choose from. The rest 16% of the people of Chandigarh were not of the view that Indian consumers will be favourably affected because they were highly satisfied with the indigenous products in terms of price and availability. The remaining 4% were having nothing to say about the issue.

### ***Graph-5: Impact of FDI on Unorganized Retail Sector***

The Graph-5 above shows that 68% of the people of Chandigarh were of the view that the unorganized retail sector will have unfavourable effect of FDI in retail. This means that majority of the people of Chandigarh were of the view that the organized retail sector will capture the un-organized retail sector. The rest 24% of the people of Chandigarh were of the view that there will be no major impact of organized retail sector over the unorganized retail sector in India. The remaining 8% were not having the adequate information about the issue.

### **SUMMARIZED RESULT AND CONCLUSION**

The above findings obtained through a sample of the people of Chandigarh shows that majority of people are supporting the FDI in retail. There are some who, for their own advantage, are opposing the entry of foreign retailers into India. There is a point in the agreement between the government and the foreign retailers that any moment of time if the Indian government finds irregularities or any fear then Indian government can break the agreement and the foreign retailer would have to leave India. The future of foreign retail players is also uncertain like that of Indian retail players. Apprehensions were raised on many such occasions in the past on virtually every measure of liberalization of Indian economy but most of the apprehensions proved wrong while many others came true. It is better to act and watch than not to act at all. Hence we can say that if FDI in retail is allowed with certain preconditions it will help boost the Indian economy in the long run and will project a positive image of India regarding its liberalisation policies. It will help growth of exports and employment generation. Therefore it must be allowed and at the same time interests of small retailers be also protected.

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