FDI IN INDIAN RETAIL

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ABSTRACT

The Indian government recently announced a slew of reforms, including allowing foreign direct investment (FDI) in multi-brand retail up to a level of 51% and upto a level of 100% in single brand retail. . A policy requiring that single brand retail multi-nationals source 30% of products and materials from small businesses and craftsmen was changed to mandating that the same amount come from Indian firms. This is a very welcome and a long overdue step. The direct FDI impact in the short term from retail chains will be modest. Opening up FDI will not only lead to a greater variety of products for sale and increased consumer choice, but also penetrate deep into the hinterland of Indian economic activity and do much to improve the country's "shunned sectors" – infrastructure and logistics.

Modernisation of retail is a critical ad necessary condition for sustaining high growth impulses in the economy. The entry of FDI with its modern inventory management practices, supply chain management, new storage and vending technologies and advanced organizational skills will go a long way in the modernization of various sectors. With greater investment and new technologies, the FDI can act as a growth driver rather than a drag with outdated practices and inability to take advantage of either economies of scale or of scope. Some of the prominent players keen to enter into India include Wal-Mart from the US (sales $400 billion (bn) from 9,000 stores), Carrefour from France (sales $ 130 bn from 9,500 stores), Tesco from UK (sales $100 bn from 5,400 stores) and Metro from Germany (sales $96 bn from 2,100 stores)

Many studies citing empirical evidence and survey-based results have shown, a modernized retail sector will offer significant benefits for farmers, small producers and, of course the consumers. But the most important contribution will be in the generation of a large number of 'semi-skilled' or skilled jobs for India's young population.

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INTRODUCTION

Entry of Large Retail Chains

Foreign Investment in Retail has an impact that goes beyond its direct investment impact. It is a force multiplier that induces even more investment from competitors.Large retail chains when they venture abroad do so in three phases. In phase One they often set up a test case/pilot project. This can be done through a partnership with local chains (with risk and revenue sharing), r a few flagship stores that serve as brand broadcasters. The chains employ this initial-phase entry strategy to learn lessons about local markets. They assess demand, test merchandizing strategies and set up operational capabilities . In this phase they bring in some investment to cover their set-up costs and for establishing their sourcing (supply) footprint. This usually takes 18-24 months.

In the second phase firms expand their demand footprint; they open more stores and increase both the scale of operations (volume of products sources) and scope of products that they feature. There is considerable investment in this phase in the form of real estate acquisition, putting in operational infrastructure, establishing sourcing relationships, establishing supply chains and massive logistics capabilities. This is volume-independent investment – that is, investment meant to gear up for volumes of business to come, but not calibrated to the current volume of business.

In the third phase, the investment keeps pace with the rate of expansion. As volumes grow and urban and semi-urban retail locations get saturated, companies look for new locations and bring in investment that is calibrated to growth in volumes. It is in the second phase and the third phase – which come after the initial 18 to 24 months – that large investments manifest themselves.

OBJECTIVES

1. To study the impact of FDI in Indian Retail in view of current Indian scenario.
2. To study the benefits of FDI in Indian retail.
3. To suggest checks and balances on implementation of FDI in Indian Retail.

IMPACT OF FOREIGN RETAIL CHAINS

The arrival of foreign retail chains has twofold impact. First, those companies set up supply chins and logistics capabilities, spurring significant improvements in the infrastructure needed to source, ship, store and deliver products (covering all aspects of value chain and supply chain activities, including storage, warehousing and information-intensive operations). Second, their entry and expansion induce domestic competitors to invest in infrastructure and logistics, as well as greatly speed up the emergence of product standards (especially in perishables and personal consumables), and begin the process of bypassing monopsony buyers and traders that dominate procurement in many product categories today.

These firms' real competition will be the domestic multi-brand retailers. A recent study by CII and Boston Consulting Group estimated the size of organized retail of US $28 billion in 2010 to b 6% to 7% of the total retail market in India the study predicted that the size of retail – total retail sector size, not just organized retail -- would grow to US $ 1.25 trillion by 2020 if the efficiencies that typically come from greater competition and modernization of retail supply systems were to be unleashed. Under this scenario, the study predicts that the size of organized retail could grow to US $ 260 billion or about 20.8% of the total market. So even under this scenario, the idea that a fractional segment that accounts for 20.8% of the total economic activity of a sector can drive the remaining 79% of that sector out of business does not stand the scrutiny of reason.

The foreign retail chains will have a more significant impact on traders that dominate procurement of commodities and perishables, including grains and cereals. It is not surprising that these traders are the most virulent opponents of FDI in retail (the main opposition party that derives its support from the trading castes and traders has openly stated that the "traders' interests will be harmed by FDI in retail"). Indian farmers and many other rural producers are at the mercy of large and well-organized monopsony buyers. Very often these traders dominate geographies and account for nearly all procurement in their geographies. In many states, the food ministry determines who it will buy from and this is usually a small number of traders who in turn dominate direct procurement from farmers in their geographies. These are economic fiefdoms that they dominate and exploit. When the Carrefours, Walmarts and Tescos set up direct procurement mechanisms where sophisticated procurement systems are put in place and information about demand (prices, product varieties and quantities demanded) becomes more easily available, it becomes more difficult for the middlemen to dominate local geographies and restrict competition. The emergence of these supply chainsthat drive transparency of information will bring significantly more competition in sourcing.

Global retail brands will bring in better management practices and backend infrastructure that benefit farmers.

As we have seen in the last few years the mere entry of large format retail has not resulted in the desired level of modernization of the sector. Those who entered this space were largely from the real estate sector and did not have the necessary technological and management experience to put retail on a qualitatively different growth trajectory. It is to be hoped that FDI will make a difference. While it is true that retail trade does not require rocket science for its modernization, it is also equally evident that relying exclusively on indigenous efforts would require a significantly longer time.

It is important to bust the myth that the entry of FDI will sound a death knell for the 'self-organized' or small-format retail trade. Currently, the share of modern retail is a mere five per cent in the total retail sector. From all estimates, this is expected to, at best, quadruple over the next 20 years. That would still leave a healthy 80 per cent of total retail trade – the volume is expected to rise from current $500 billion to $900 billion – to the self-organized sector. Thus 20 years later, 'mom & pop' stores will still have a business turnover of more than $650 billion as compared to the current $450 billion. By no stretch of imagination is there going to be an annihilation of the self-organized retail trade sector.

As many studies citing empirical evidence and survey-based results have shown, a modernized retail sector will offer significant benefits for farmers, small producers and, of course, the consumers. But the most important contribution will be in the generation of a large number of 'semi-skilled' or skilled jobs for India's young population. These jobs are not being generated by the self-organized sector, whose labour practices are not of the highest standards. Estimates show that given the high labour intensity of modern large format retail, millions of youth will be trained and new jobs will be created. All those who oppose FDI in retail must pause to think and suggest alternatives in a situation that demands the creation of 10 million new jobs in our economy simply to absorb new entrants to the work force.

Farmers will benefit in more than one ways. The investment in backend infrastructure by modern retailers would reduce wastage and allow greater shelf life for farm products. This much needed investment will connect the farm-gate to retail stores, an investment and process that cannot be undertaken by small retailers. This will also minimize the layers of intermediaries as a result of which farmer gets much lower prices than they could if they supplied directly to retail stores. Moreover modern retailers will also provide the farmers with new high yield varieties of seeds and better technologies that will help bring down the cost and give more yields. Therefore, the entry of FDI in multi-brand retail is likely to have a significant positive impact on the modernization of the agricultural sector.

In their attempt to position themselves better vis-à-vis established FMCG (fast moving consumer goods) brands, modern retailers encourage their own brands for which they depend upon small-scale suppliers. Thus, we can expect a strong impetus for the growth of MSMEs (medium and small enterprises) that will be mobilized by large retailers to produce their own 'house-brand' across the entire range of FMCG and other consumer products.

The fear that these retailers will inundate our economy with cheap imports is somewhat misplaced because it will be more profitable, and thus in their interest, to procure locally rather than pay high transport cost and customs duty in importing supplies. Let us hope that the States, which have now been given the option for attracting FDI in retail sector, will adopt this measure quickly and in large numbers so as to usher in a new era of modern retail in the country.

FDI can be powerful catalyst to spur competition in the retail industry, due to the current scenario of low competition and poor productivity.

Permitting foreign investment in food-based retailing is likely to ensure adequate flow of capital into the country & its productive use, in a manner likely to promote the welfare of all sections of society particularly farmers and consumers. It would also help bring about improvements in farmer income & agricultural growth and assist in lowering consumer prices inflation. Apart from this, by allowing FDI in retail trade, India will significantly flourish in terms of quality standards and consumer expectations, since the inflow of FDI in retail sector is bound o pull up the quality standards and cost-competitiveness of India producers in all the segments. It is, therefore, obvious that we should not only permit but encourage FDI in retail trade.

Lastly it is to be noted that Indian Council of Research in International Economic Relations (ICRIER), a premier economic think tank of the country, which was appointed to look into the impact of BIG capital in the retail sector, has projected the worth of Indian retail sector to reach $496 billion by 2011-12 and ICRIER has also come to conclusion that investment of 'big' money (large corporates and FDI) in the retail sector would in the long run not harm interests of small, traditional retailers.

In light of the above, it can be safely concluded that allowing healthy FDI in the retail sector would not only lead to a substantial surge in the country's GDP and overall economic development, but would inter alia also help in integrating the Indian retail market with that of the global retail markets in addition to providing not just employment but a better paying employment, which the unorganized sector (Kirana and other small time retailing shops) have undoubtedly failed to provide to the masses employed in them.

The International retail players such as Walmart, Carrefour, Metro, IKEA and TESCO share the same view and insist on a clear path towards 100 per cent opening up in near future. Large multi-national retailers such as US-based Walmart, Germany's Metro AG and Woolworths Ltd. the largest Australian retailer that operates in wholesale cash-and-carry ventures in India, have been demanding liberalization of FDI rules on multi-brand retail for some time.

RECOMMENDATIONS

As a matter of fact FDI in the buzzing Indian retail sector should not just be freely allowed but per contra should be significantly encouraged. Allowing FDI in multi brand retail can bring about Supply Chain Improvement, Investment in Technology, Manpower and Skill Development, tourism development, Greater Sourcing From India, Upgradation in Agriculture, Efficient small and Medium Scale Industries, Growth in market size and benefits to Government through greater GDP, tax income and employment generation.

Further to take care of the concerns of the Government before allowing 100% FDI in Single-Brand retail and Multi-Brand Retail, the following recommendations are being proposed;

- Preparation of a legal and regulatory framework and enforcement mechanism to ensure that large retailers are not able to dislocate small retailers by unfair means.
- Extension of institutional credit, at lower rates, by public sector banks, to help improve efficiencies of small retailers, undertaking of proactive programme for assisting small retailers to upgrade themselves.
- Enactment of a National Shopping Mall Regulation Act to regulate the fiscal and social aspects of the entire retail sector.
- Formulation of a Model central Law regarding FDI of Retail Sector.

CONCLUSION

It can be said that the advantages of allowing unrestrained FDI in the retail sector evidently outweigh the disadvantages attached to it and the same can be deduced from the examples of successful experiments in countries like Thailand and China; where too the issue of allowing FDI in the retail sector was first met with incessant protests, but later turned out to be one of the most promising political and economical decisions of their governments and led not only to the commendable rise in the level of employment but also led to the enormous development of their country's GDP.

It is also pertinent to note here that it can be safely contended that with the possible advent of unrestrained FDI flows in retail market, the interests of the retailers constituting the unorganized retail sector will not be gravely undermined since nobody can force a consumer to visit a mega shopping complex or a small retailers. Consumers will shop in accordance with their utmost convenience, where ever they get the lowest price, maximum variety, and a good consumer experience.

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