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Walmart's Entry in Indian Retail Segment: Exploring the Key Concerns

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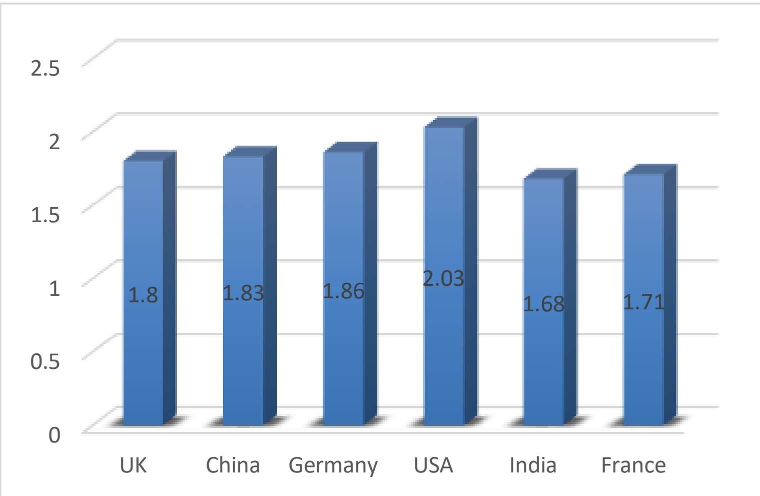
Introduction:

The Indian retail industry is considered one of the biggest growth drivers of the economy, and one of the strongest pillars of the nation. It's further expected to clock a growth of US $1,100 trillion by 2020 which appears close to the US $ 680 billion in 2017. The consumer class in India represents a young working class, which is on a rapid increase and hence the income level has taken an upward curve on graph resulting in rapid growth in disposable income which generate the high capacity to spend (purchasing power). Resulting in a visible change in the Indian retail industry.

The onset of mall culture has revamped the entire Indian market with emerging stores form various brands and each one getting its own share from the flourishing retail industry. India is ranked as one of the upcoming nations in the Global Retail Development Index 2017, backed by rising middle class and rapidly growing consumer spending.

Table 1: A Snapshot of Global Retail Development Index 2017



Source: AT Kearney 2017 FDI Confidence Index, www.ibef.org & ITM-SIA Research.

Indian retail industry is divided into small shops, mom and pop stores, in addition to recently started hypermarkets, supermarkets and exclusive standalone stores of single brands from foreign investors like Nike, Apple, Hennes & Mauritz (H&M)

In the current scenario, the Indian retail industry is highly fragmented and mainly divided into two major sections

- Organised retailing: Any retail outlet which is professionally managed under government registration and can independently manage its accounting, supply chain and other such related practices come under organized retailing.

- Unorganised retailing: Any retail outlet which is not professionally managed. It fails to follow proper accounting system, MIS. It sources all its material from local vendors by not following proper supply chain, inventory documenting falls under Unorganised retailing.

Owing to the changing dynamics of Indian Retail segment in last decades, it has undergone a massive change and has emerged as a highly organized and futuristic segment.

This change is a direct outcome of the economic liberalization on Industry policy in1991. India opened gates for 51% FDI in multi-brand retailing in NDA led government in 2011 under which foreign investors must invest $ 100 million. Government allowed 100% in single-brand retailing wherein foreign retailers can set up exclusive stores for their brands and market only that label, as to 51% in multi-brand retailing will allow retailers to set up stores and have multiple selling from various labels under one roof which was anxiously looked for by many giants in retailing like Walmart, Tesco, Carrefour, etc.

- The biggest challenge of FDI in single and multi-brand retailing was opposed overseeing cascading impact on stake holders and small shops, which play a vital role in the growth and development of the Indian economy.
- Infact, the Indian FDI policy does not attract foreign retailers as it comes with many clauses of mandatory investment in the backend, local sourcing, and buying from local small manufacturers.
- The 2014 election added on to this uncertainty, as NDA the current ruling party was not favouring this change as to protect small traders.
- The biggest assumption was that entry of foreign retailers will take up the market share of small traders which in turn will indirectly lay an impact on our farmers which are in turn the backbone of the Indian economy.

Key Challenges:

To study the impact of the above scenario, the markets of China and Europe along with other developing countries were closely studied.

- Amit Guin (2012) viewed China, Thailand, Indonesia, Brazil, Singapore, Argentina and Chile for allowing 100% FDI and the result showed that no condition on FDI leads to the growth of small retail stores which indirectly supported an increase in employment. China sets the best example of using FDI for its economic development along with its own traders and manufacturers growth. The nation is an excellent example of allowing FDI in multi-brand retail and channelizing it through proper restrictions can lead to bringing improvement in supply chain and technology, manpower and skill development, upgradation in agriculture, growth in market size benefiting greater GDP and best of all employment generation.
- Most developed countries like China, Thailand, Brazil, Russia, Argentina, Indonesia have allowed 100% FDI. China took 12 years to liberalize its FDI regime, it first allowed FDI in retail at 26% in 1991 (Dutler 2011) and slowly raised it to 100% by 2004.
- Initial foreign retailers were allowed in select metros and could operate where there were no local competitors. Through these unseen barriers and smart action plan, China succeeded in protecting their local retailers and learning advanced techniques from foreign companies.
- In European markets globalization started in 1990 which led to the growth of local retailers along with foreign retailers, Walmart effect in central Europe was referred to

downward pressure on prices and is used to explain the effect of changing retail industry scenario in central and eastern Europe due to inflation.

As per Kulkarni Keerti et al (2012) allowing 100% FDI in multi-brand retailing can lead significant improvement in their economic growth as well as the growth of their retail sector joining together for the growth of local retailers.

Study that came out in last decade has revealed, that the growth of the Indian organized retail segment is around 2% whereas that of Brazil is 36% and China 20%.

Studies also revealed, slow growth for Indian Retail Industry is predominantly due to late FDI investment which needed a correction in the implementation, like

- ✓ Setting up of stores in cities with populations of more than one million
- ✓ Investment of around half the amount in development of infrastructure.
- ✓ Sourcing of 33% goods from small and medium manufacturers.

Road Ahead:

Considering the above studies, after evaluations and analysis, the writer concludes that India is diversified country with high degree of variations in ethnicity, language, culture and environment.

- Varied consumer and consumption pattern along with highly diverse preferences play main hindrance in standardizing a nationwide supply chain. Road network is still in growing phase hence developing a supply chain at regional level is a big task and which leaves with only one option of adapting to local trend.
- Climatic conditions will so play a vital role, it gives varied and high production of pulses but will also incur cost on storage owing to perishability due to climate. Different vegetables have different requirements to reduce perishability and retain nutrition value.

In addressing the above difficulties, FDI investment should be used as a vehicle by addressing all concerns through it.

- The high – end technology and business policies will benefit to modernize our retail industry.
- It will help us evolve by allowing us to adapt to change, by changing small retailers willing to change and hence get reformed.
- Technology can be used to change the existing transport system and introducing airconditioned containers for carriage of perishable items to increase their shelf life as well as to retain nutrient content intact for longer period.
- Increase in employment and business for our small manufacturers and good rates for farm products to farmers as the farmers will directly deal with the retailers by bypassing all middlemen.

A proper mix of all the above will take us to becoming worlds third largest consumer economy reaching US $ 400 billion in consumption by 2025, according to Boston Consulting Group. Both organised and unorganised retail companies must work together to ensure better prospects for the overall retail industry, while generating new benefits for their customers. Nevertheless, the long-term outlook for the industry is positive, supported by rising incomes, favourable demographics, entry of foreign players, and increasing urbanisation.