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**FOREIGN DIRECT INVESTMENT AND INDIAN RETAIL SECTOR****Meenakshi\***

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**ABSTRACT**

*Foreign direct investment (FDI) in India has played a significant role in the growth of the Indian economy. FDI in India has enabled India to achieve a certain degree of financial stability, growth and development. This money has allowed India to focus on the areas that needed a boost and economic concentration, and address the various problems that continue to challenge the country. FDI is permitted from 26% to 100% based on the nature and importance of industry. Before economic reforms in India the economic growth was very slow. But after the new economic policy reforms India is experiencing the economic growth like a galloping horse. India's retail sector is wearing new clothes and with a three-year compounded annual growth rate of 46.64 per cent, retail is the fastest growing sector in the Indian economy. Traditional markets are making way for new formats such as departmental stores, hypermarkets, supermarkets and specialty stores. The central government has planned to allow FDI in Indian retail sector up to 51% and this decision is being opposed by people of various segments. This paper aims at studying the impact of FDI in Retail industry.*

*This paper provides detailed information about the growth of retailing industry in India, as retailing includes all the activities involved in selling goods or services directly to the final consumer for personal use. It includes every sale of goods and services to the final consumer. The paper includes growth of retail sector in India, strategies, strength and opportunities of retail stores, retail format in India, recent trends, and opportunities and challenges. It also highlights the challenges faced by the industry in near future.*

**Keywords:** Retailing, opportunities, challenges, retail industry

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## **INTRODUCTION**

FDI is a major source of external finance which means that countries with limited amounts of capital can receive finance beyond national borders from wealthier countries. According to the World Bank, FDI and small business growth are the two important elements in developing the private sector in developing economies and poverty alleviation.

Foreign direct investment (FDI) in India has played a significant role in the growth of the Indian economy. FDI in India has enabled India to achieve a certain degree of financial stability, growth and development. This money has allowed India to focus on the areas that needed a boost and economic concentration, and address the various problems that continue to challenge the country. FDI is permitted from 26% to 100% based on the nature and importance of industry. Before economic reforms in India the economic growth was very slow. But after the new economic policy reforms India is experiencing the economic growth like a galloping horse.

## **RETAIL MARKET**

India's retail sector is wearing new clothes and with a three-year compounded annual growth rate of 46.64 per cent, retail is the fastest growing sector in the Indian economy. Traditional markets are making way for new formats such as departmental stores, hypermarkets, supermarkets and specialty stores. The central government has planned to allow FDI in Indian retail sector up to 51% and this decision is being opposed by people of various segments. The retail industry is becoming one of the most competitive in India, with supermarket chains and malls mushrooming all over. People are making a beeline for shopping experience at Food World, Fabmall, Family mart, Big Bazaar, Forum, Shoppers' stop and the like, who are competing to woo them. Retailing includes all the activities involved in selling goods or services directly to the final consumer for personal or non business use. Retailing is the final stage in the distribution process. With the popularity of the internet, retailing is becoming popular using the website and a new form of e-tailing is also developing. Retailing is not restricted to tangible products. It covers services also Like Airline travel, dry-cleaning, training programmers etc. In other words, retailing is the sale of goods and services to the ultimate consumer, personal, family or household use. Thus retailing involves more than selling tangible products. It includes every sales of goods and services to the final consumer. Thus purchase of a service such as reservation of railway ticket, consultancy of a physician, maintenance services of a plumber, carpenter, haircutting, dry cleaning etc.. India is a

land where we love to shop. No, we aren't the branded shoppers, who stock up on groceries for the rest of week. Instead, we choose to buy on an everyday fresh and buy on an everyday basis. Yet, with travel expanding horizons, customers have escalating expectations. Leading retailers are trying to adapt to new retail concepts and new business ideas. Research by the Aditya Birla Group claims India is a trillion-dollar economy. Of this, retail accounts for about 40%. Of that, 60% is spending on food and groceries. Of that, about 60% is rural and 40% is urban.

### **GROWTH OF RETAILING IN INDIA**

Retailing has been growing at a fast pace in India. Of late, Indian retailing is also gaining sophistication, almost at par with international standards. The Government of India's Public Distribution System was the starting point of organized retailing in the country, which continues as 'fair price shops' or 'ration shops', especially for essential goods like sugar, rice, wheat. The domestic retailers have placed two demands to be met by the Government of India before throwing the sector open to global players fully. The first is their demand for according the 'industry status' to the retail sector and the second is a five-year time span to be able to build economies of scale so as to withstand the foreign competition. Indian retailers also fear that the entry of foreign retail firms like Wal-Mart will destroy the small domestic retail/wholesale networks and render millions they employ. If foreign retail firms adversely affect the small grocers' would the domestic ones. In February 2006, the government of India announced its policy for FDI in retail sector. According to the announcement, FDI up to 51 per cent in retail trade would be subject to the following conditions.

1. Products to be sold should be of a single brand only.
2. Products should be sold under the same brand internationally.
3. Single brand product retailing would cover only products which are branded during manufacturing.
4. FDI would be allowed only with prior approval of the Government, conforming to prescribed norms and conditions.
5. Processing will be done by the dept. Of industrial policy and promotion for government approval.

The guidelines would, however, ensure that the food and grocery segment of Indian retailing would not face competition from capital because this sector in India tended to be multi-stock

keeper units and multi-brands. Retail and real estate are the two booming sectors of India in the present times. And if industry experts are to be believed, the prospects of both the sectors are mutually dependent on each other. Retail, one of India's largest industries, has presently emerged as one of the most dynamic and fast paced industries of our times with several players entering the market. Accounting for over 10 per cent of the country's GDP and around eight per cent of the employment retailing in India is gradually inching its way toward becoming the next boom industry.

## **STATUS OF RETAIL SECTOR IN INDIA**

An overview of Indian retail sector

- Highest shop density in the world
- Around 12 million shops around the country
- Just .9 million in the US catering to more than 13 times of the Indian retail market size
- Around 11 shops for every 1000 peoples

Rural retail market

- Rural India has 720 million consumers across 627000 villages
- 17 % of these villages account for 50% of the rural population and 60% of the rural wealth implying reaching out to almost 100000 plus villages to address even 50% of the rural opportunity

### **Why India?**

- India GDP growth second highest in the world
- India has world's youngest population
- 66% of Indians are under 35 years about 50 % under 25 years by 2020 61% of the population will be under 35 years

## **INDUSTRY ANALYSIS OF THE INDIAN RETAIL SECTOR**

Modern retailing has entered India in form of malls and huge complexes offering shopping, entertainment, leisure to the consumer as the retailers experiment with a variety of formats, from discount stores to supermarkets to hypermarkets to specialty chains. However, *kiranas* still continue to score over modern formats mostly due to the convenience factor i.e. near to their house. This organized segment typically comprises of a large number of retailers, greater enforcement of taxation mechanisms and better labour law monitoring system. It's no longer about just stocking and selling

but about efficient supply chain management, developing vendor relationship quality customer service, efficient merchandising and even the labour class is also in the working process timely promotional campaigns. The modern retail formats are encouraging development of well-established and efficient supply chains in each segment ensuring efficient movement of goods from farms to kitchens, which will result in huge savings for the farmers as well as for the nation. The government also stands to gain through more efficient collection of tax revenues. Network marketing has been growing quite fast and has a few large players today. Gas stations are seeing action in the form of convenience stores, ATMs, food courts and pharmacies appearing in many outlets. In the coming years it can be said that the hypermarket route will emerge as the most preferred format for international retailers stepping into the country. Estimates indicate that this sector will have the potential to absorb many more hypermarkets in the next four to five years.

Traditionally, the *kirana* retailing has been one of the easiest ways to generate self-employment, as it required minimum investment in terms of land, labour and capital. These store are not affected by the modern format of retailing. In order to keep pace with the modern formats, *kiranas* have now started providing more value-added services like stocking ready to cook vegetables and other fresh produce. They also provide services like credit, phone service, home delivery etc. The organized retailing has helped in promoting several niche categories such as packaged fruit juices, hair creams, fabric bleaches, shower gels, depilatory products and convenience and health foods, which are generally not found in the local kirana stores. Looking at the vast opportunity in this sector, big players like Reliance has announced its plans to become the country's largest modern retainers by establishing a chain of stores across all major cities. Apart from metro cities, several small towns like Nagpur, Nasik, Ahmadabad, Aurangabad, Sholapur, Kolhapur and Amravati has seen the expansion of modern retails. Small towns in Maharashtra are emerging as retail hubs for large chain stores like Pantaloon Retail because many small cities like Nagpur have a student population, lower real estate costs, fewer power cuts and lower levels of attrition. However, retailers need to adjust their product mix for smaller cities, as they tend to be more conservative than the metros. In order for the market to grow in modern retail, it is necessary that steps are taken for rewriting laws, restructuring the tax regime, accessing and developing new skills and investing significantly in India.

## **SHOULD THERE BE FOREIGN DIRECT INVESTMENT IN THE RETAIL SECTOR?**

### **Cons**

- It will lead to closure of tens of thousands of mom-and-pop shops across the country and endanger livelihood of 40 million people.
- It may bring down prices initially, but fuel inflation once multinational companies get a stronghold in the retail market.
- Farmers may be given remunerative prices initially, but eventually they will be at the mercy of big retailers.
- Small and medium enterprises will become victims of predatory pricing policies of multinational retailers.
- It will disintegrate established supply chains by encouraging monopolies of global retailers.

**Pros**

- It will cut intermediaries between farmers and the retailers, thereby helping them get more money for their produce.
- It will help in bringing down prices at retail level and calm inflation.
- Big retail chains will invest in supply chains which will reduce wastage, estimated at 40 percent in the case of fruits and vegetables.
- Small and medium enterprises will have a bigger market, along with better technology and branding.
- It will bring much-needed foreign investment into the country, along with technology and global best-practices.
- It will actually create employment than displace people engaged in small stores.
- It will induce better competition in the market, thus benefiting both producers and consumers.

**CONCLUSION**

The India Retail Industry is the largest among all the industries, accounting for over 10 per cent of the country GDP and around 8 per cent of the employment. The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. But all of them have not yet tasted success because of the heavy initial investments that are required to break even with other companies and compete with them. The India Retail Industry is gradually in changing its way towards becoming the next boom industry. Thus No

doubt that India is a developing country, and may be a super power in the near future, but one thing we cannot refuse that this is the country in which formers commit suicide because of indebtness, there are deaths of hunger. India has more number of people below poverty line they cannot offer to multi brand retail shops. More over India has a traditional system of marketing and vendors, their role is inseparable in retailing and they can never be replaced. Even if Indian government allows FDI in retail sector, they may capture a portion of market, and they can never occupy the entire market and they can never satisfy the varying needs of Indian consumers.

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