FDI IN RETAIL: A Contemporary Perspective

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Abstract

Retailing is one of the emergent sectors comes out of the PGL industry. With the aperture of Liberalization FDI have its effect upon a gigantic reformation in retail industry. The assistance of FDI in retail industry superimposes its cost factors. FDI in retail will bring the opportunities in terms of employment, organized retail stores, investment in technology, and quality products at lower cost though all contribute towards overall GDP. It allows a country's product or service to enter into the Cross Boundar. This paper attempts to contribute towards the role of FDI in retailing in India as Opportunity or threat.

Key words- *Foreign Direct Investment, PGL-Privatisation, Globalisation & Liberalisation, and Organised Retail, unorganised Retail, SWOT analysis etc*

I. INTRODUCTION

FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. It is preferred over other source of foreign capital because it is non-volatile, non-debt creating and results in economic development, modernization and employment generation in the economy.

FDI in India are approved through two routes mainly

(a) Approval by RBI
(b) Foreign Investment Promotion Board (FIPB).

Few stakeholders involved in FDI like Organized Retail Players, Farmers, Kirana Traders, Consumers, and Governments out of that we are going in depth study of FDI in Retail.

II. **Objective of the Study and Methodology**

The objective of our study is to analyze the contemporary scenario of FDI in India as being opportunity as well as threat. It also investigate the controversial views regarding retail sector in India and evaluate the likely challenges and threats of FDI in both single and multi-brand retail in India. The entire paper is based on descriptive arguments and logical judgment organized through the understandings from various research papers, reports, books, journals, newspapers and online data bases.

III.**FDI in Indian Retail Sector: An Overview and Current Position**

1.1 Meaning of Retail- Retail is the trade of goods to end users, not for resale, but for use and consumption by the purchaser. The retail transaction is at the end of the supply chain. Manufacturers sell large quantities of products to retailers, and retailers attempt to sell those same quantities of products to consumers.

1.2 Evolution of Indian Retail Industry

It is enthralling to focus on the evolution of the retail sector in India. Previously they evolved as a source of diversion (in the form of village fairs, melas etc.) which was within the rural reach. Later on these were malformed Mom and Pop/ Kirana stores which are of traditional variety neighbourhood shops. Then came the government supported PDS outlets, khadi stores, cooperatives etc. Finally shopping malls, supermarkets, departmental stores etc has brought a great revolution to the Indian retail market (figure-1).

Figure -1: Evolution of Indian Retail

1.3 Division of Indian Retail Industry

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

(a) Organized Retailing - Organized retail or modern retail is usually chain stores, all owned or franchised by a central entity, or a single store that is larger than some cut-off point. The relative uniformity and standardization of retailing is the key attribute of modern retail. The size of each unit can be small so that a chain of convenience stores is modern retail. A single large department store is also modern retail. (ICRIER)

(b) Unorganized Retailing –refers to sector which is not following the prescribed norms and the modus operandi which is standardized and centralized. Many industries fall into this segment which are transacting on a pseudo industrial basis. It more of a perceived factor rather being an implied one for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc.

1.4 Types of Retailing in India

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

Importance of FDI in Multi Brand

- India is the most attractive market – AT Kearney
- Retail is the second largest employer after agriculture
- Second largest producer of fruits and vegetables in the world
- Indian farmers realize only 1/ 3rd of the total price paid by the final consumer.

Source: ICIER Report (And Is Now Entering Expansion Phase)

In July 2010, Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce circulated a discussion paper on allowing FDI in multi-brand retail. The paper doesn't suggest any upper limit on FDI in multi-brand retail. If implemented, it would open the doors for global retail giants to enter and establish their footprints on the retail landscape of India. Opening up

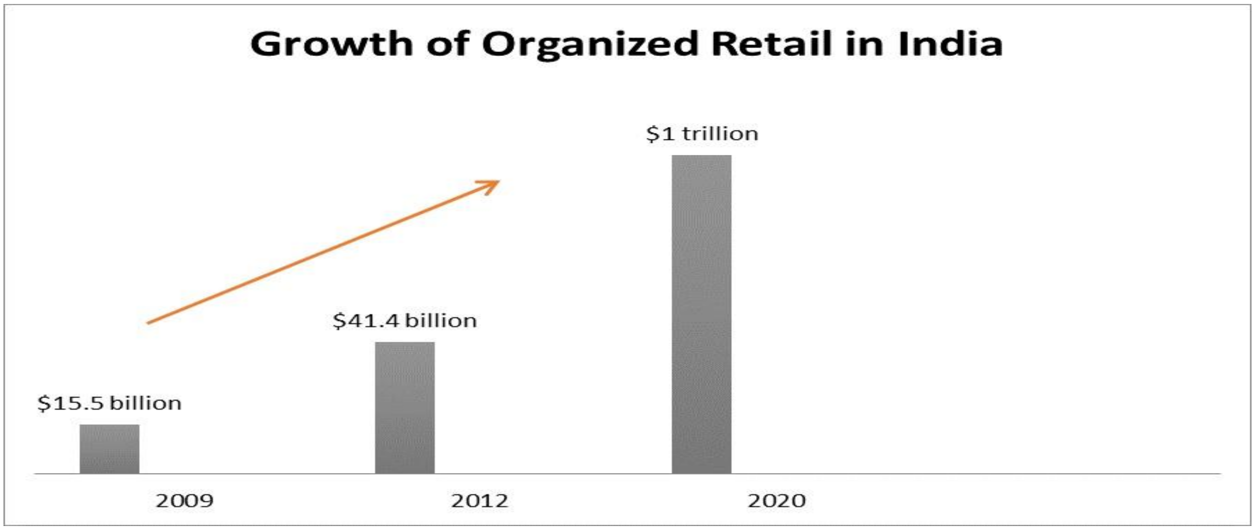
FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous '*kirana'* store.

1.5 Present Position of FDI

Foreign Direct Investment under the Industrial Policy 1991 and thereafter under different Foreign Trade Policies is being allowed in different sectors of the economy in different proportion under either the Government route or Automatic Route. In **Retailing**, presently 51 per cent FDI is allowed in single brand retail through the **Government Approval route** while 100 per cent FDI is allowed in the cash-and-carry (wholesale) formats under the **Automatic route**. Under the Government Approval route, proposal for FDI in 'Single Brand Product Retailing' are received in the Department of Industrial Policy and Promotion, Ministry of Commerce & Industry. Automatic route dispenses with the need of multiple approvals from Government and/or regulatory agencies (Government of India or the RBI). Investors are required only to notify the concerned Regional offices of RBI within 30 days of receipt of inward remittances and file required documents with that office within 30 days of the issue of shares to foreign investors.

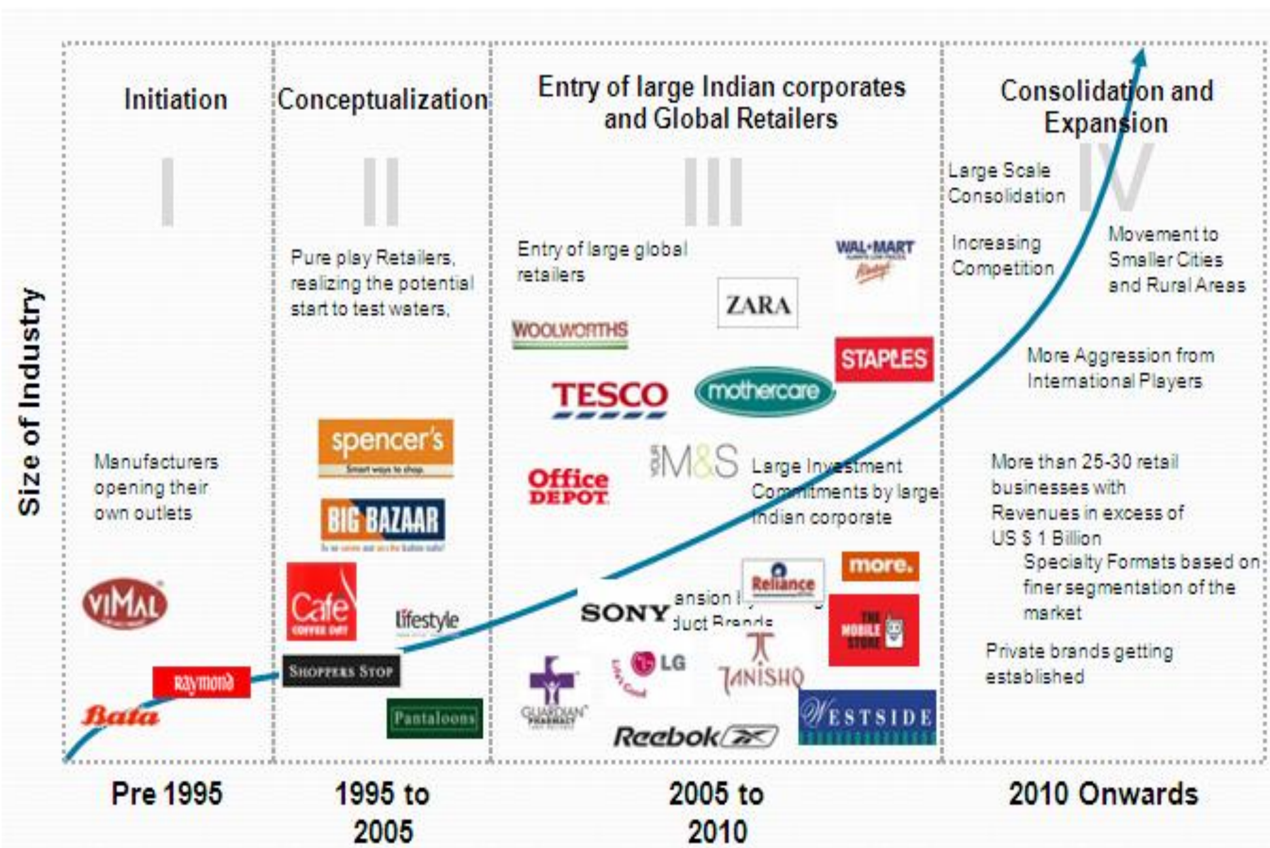
1.5-(1) FDI in retail

"FDI in retail may also help bring in technical knowhow to set up efficient supply chains which could act as models of development," **according to Assocham.** Analysts estimate that the retail market in India, currently worth $500 billion (organized and unorganized) will grow to $1 trillion by 2020. Organized retail is expected to comprise 20-25 per cent of total retail by 2020 (from 5-6 per cent at present) as depicts in figure-2



Source: www.theaims.ac.in

Figure 2: Growth of organized Retail in India



Source: AC Nielsen

Organized Retailers

- The rate of closure of unorganized retail shops in gross terms was found to be 4.2 per cent per annum, which is much lower than the international rate of closure of small businesses.
- The rate of closure on account of competition from organized retail was found to still lower, at 1.7 per cent per annum.

The positive externalities

- Effective FDI indulges in enhancement of human capital of the country
- The existing FDI rules are a constraint. There is need to open up the sector a bit more as it will facilitate fresh infusion of funds and also promote competition

Negative externalities

- Will FDI be necessary at all if there is enough domestic capital being injected in to the retail sector?
- If FDI retailers were to acquire say 20% of retail trade, this would equate to Rs. 800 billion of turnover, which would lead to the employment of just 43,540 people, but would displace approximately 8 million people employed in the unorganized retail sector.

1.6 Entry Options for Foreign Players prior to FDI Policy:

Although prior to Jan 24, 2006, FDI was not authorized in retailing, most general players had been operating in the country. Some of entrance routes used by them have been discussed below:

1. **Franchise Agreements**

   Example-Pizza Hut & other big players such as Lacoste, Mango, and Nike as good as Marks as good as Spencer, have entered Indian marketplace by this route.

2. **Cash And Carry Wholesale Trading**

   Example-Metro AG of Germany was the first significant global player to enter India through this route.

3. **Strategic Licensing Agreements**

   Example-Mango, the Spanish apparel brand has entered India through this route with an agreement with Pyramid, Mumbai, SPAR entered into a similar agreement with Radhakrishna Foodland's Pvt. Ltd

4. **Manufacturing and Wholly Owned Subsidiaries**

   For instance, Nike entered through an exclusive licensing agreement with Sierra Enterprises but now has a wholly owned subsidiary, Nike India Private Limited

1.7 Global scenario of FDI

- FDI permitted in the retail sector in Brazil, Argentina, Singapore, Indonesia, China and Thailand without limits on equity participation
- Malaysia has equity caps on FDI in the retail sector
- FDI in retailing was permitted in China for the first time in 1992.
- The Asian crisis in 1997
  - Entry ban on foreign players was removed.
  - Within a short span of time, the foreign players expanded their operations significantly and marginalized the local retailers

IV SWOT Analysis of Retail Sector in India:

1. Strengths:

- Major contribution to GDP: the retail sector in India is hovering around 33-35% of GDP as compared to around 20% in USA.
- High Growth Rate: the retail sector in India enjoys an extremely high growth rate of approximately 46%.
- High Potential: since the organized portion of retail sector is only 2-3%, thereby creating lot of potential for future players.
- High Employment Generator: the retail sector employs 7% of workforce in India, which is right now limited to unorganized sector only. Once there forms get implemented this percentage is likely to increase substantially.

2. Weaknesses (limitation):

- Lack of Competitors:

  AT Kearney‘s study on global retailing trends found that India is least competitive as well as least saturated markets of the world.
- Highly Unorganized:

  The unorganized portion of retail sector is only 97% as compared to US, which is only 20%.

- Low Productivity:

  McKinney study claims retail productivity in India is very low as compared to its international peers.
- Shortage of Talented Professionals:
- The retail trade business in India is not considered as reputed profession and is mostly carried out by the family members (self-employment and captive business). Such people are not academically and professionally qualified. No Industry ‘status, hence creating financial issues for retailers. The retail sector in India does not enjoy industry status in India, thereby making difficult for retailers to raise funds.

3. Opportunities (benefits):

- There will be more organization in the sector:
- Organized retail will need more workers. According to findings of KPMG, in China, the employment in both retail and wholesale trade increased from 4% in 1992 to about 7% in 2001, post reforms and innovative competition in retail sector in that country.
- Healthy Competition will be boosted and there will be a check on the prices (inflation): Retail giants such as Wal-Mart, Carrefour, Tesco, Target and other global retail companies already have operations in other countries for over 30 years. Until now, they have not at all become monopolies rather they have managed to keep a check on the food inflation through their healthy competitive practices.
- Create transparency in the system: The intermediaries operating as per mandi norms do not have transparency in their pricing. According to some of the reports, an average Indian farmer realizes only one-third of the price, which the final consumer pays.
- Intermediaries and mandi system will be evicted, hence directly benefiting the farmers and producers: the prices of commodities will automatically be checked. For example, according to Business Standard, Wal-Mart has introduced ―Direct Farm Project‖ at Haider Nagar in Punjab, where 110 farmers have been connected with Bharti Wal-Mart for sourcing fresh vegetables directly.
- Quality Control and Control over Leakage and Wastage: due to organization of the sector, 40% of the production does not reach the ultimate consumer. According to the

news in Times of India, 42% of the children below the age group of 5 are malnourished and the then Prime Minister Dr. Manmohan Singh has termed it as ―national shame

- Food often gets rot in farm, in transit and in state-run warehouses. Cost conscious and highly competitive retailers will try to avoid these wastages and losses and it will be their endeavour to make quality products available at lowest prices, hence making food available to weakest and poorest segment of Indian society.
- Heavy flow of capital will help in building up the infrastructure for the growing population: India is already operating in budgetary deficit. Neither the government of India nor domestic investors are capable of satisfying the growing needs (school, hospitals, transport etc.) of the ever growing Indian population. Hence foreign capital inflow will enable us to create a heavy capital base.
- There will be sustainable development and many other economic issues will be focused upon: many Indian small shop owners employ workers, who are not under any contract and also under aged workers giving rise to child-labour. It also boosts corruption and black money.
- Revised FDI regulations allow single-brand retail companies with stores to sell online(21 Nov 2015,ET)

5. **Threats:**
    - FDI in retail would add to widespread unemployment: Arvind Kejriwal
    - Current Independent Stores will be compelled to close: This will lead to massive job loss as most of the operations in big stores is done on self service basis which require lesser number of employees.
    - Wal-Mart is highly automated requiring fewer work forces.
    - Big players can knock-out competition: They can afford to lower prices in initial stages, become monopoly and then raise prize later.
    - India does not need foreign retailers: as they can satisfy the whole domestic demand.
    - Remember East India Company it entered India as trader and then took over politically.
    - The government hasn‘t able to build consensus.
    - BJP never in favour of FDI in multi-brand retail: Arun Jaitley(19 May, 2015,ET)

Conclusions

As per global scenario the FDI in India in retailing in Indian economy growing as per liberalisation not only in INDIA also in the other country's of the world. Additionally, growth in the retail sector could also generate noteworthy employment potential, especially among rural and semi-urban youth. So it is very tricky to foresee the future of Indian retail sector. In the nutshell we want to conclude that the path of the success of foreign players in the form of retailing helpful in the one end as being wonder on other end it will prove to be horror.

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