



FDI IN RETAIL SECTOR WAS INEVITABLE?

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Abstract: The retail sector has played a phenomenal role throughout the world in increasing productivity of consumer goods and services. It is also the second largest industry in US in terms of numbers of employees and establishments. There is no denying the fact that most of the developed economies are very much relying on their retail sector as a locomotive of growth. The total concept and idea of shopping has undergone an attention drawing change in terms of format and consumer buying behaviour, ushering in a revolution in shopping in India. Modern retailing has entered into the Retail market in India as is observed in the form of bustling shopping centres, multi-storied malls and the huge complexes that offer shopping, entertainment and food all under one roof. A large young working population with median age of 24 years, nuclear families in urban areas, along with increasing workingwomen population and emerging opportunities in the services sector are going to be the key factors in the growth of the organized Retail sector in India.

The growth pattern in organized retailing and in the consumption made by the Indian population will follow a rising graph helping the newer businessmen to enter the India Retail Industry. In India the vast middle class and its almost untapped retail industry are the key attractive forces for global retail giants wanting to enter into newer markets, which in turn will help the India Retail Industry to grow faster. This paper explore the need and emergence of FDI in Indian retail sector .Some efforts also have been made to draw attention on obstacles in the way of FDI policy in retail sector.

Conceptual view of Indian retail sector:

Retail industry can be classified into two broad categories – organized retail and unorganized retail

Organised retail - Those traders/retailers who are licensed for trading activities and registered to pay taxes to the government.



Unorganised retail – It consists of unauthorized small shops - conventional Kirana shops, general stores, corner shops among various other small retail outlets - but remain to be the radiating force of Indian retail industry.

Retail in India – Past:

Before the decade of eighties, India with hundreds of towns and cities was a nation striving for development. The evolution was being witnessed at various levels and the people of the nation were learning to play different roles as businessmen and consumers. The foundation for a strong economy were being laid, youth were beckoning new awareness in all spheres. And this brought in an opportunity for retail industry to flourish. First in the metros and major cities later to impact sub urban and rural market as well. Retailing in India at this stage was completely unorganized and it thrived as separate entities operated by small and medium entrepreneurs in their own territories. There was lack of international exposure and only a few Indian companies explored the retail platform on a larger scale. From overseas only companies like Levi's, Pepe, Marks and Spencer etc. had entered targeting upper middle and rich classes of Indians. However as more than 50 % population was formed by lower and lower middle class people, the market was not completely captured. This was later realized by brands like Big Bazaar and Pantaloons who

made their products and services accessible to all classes of people and today the success of these brands proves the potential of Indian retail market. A great shift that ushered in the Indian Retail Revolution was the eruption of Malls across all regional markets. Now at its peak, the mall culture actually brought in the organized format for Retailing in India which was absent earlier. Though malls were also initially planned for the higher strata, they successfully adapted to cater to the larger population of India. And it no wonder, today Malls are changing the way common Indians have their shopping experience. However there is still great scope for enhancing Indian mall culture as other than ambience and branding many other aspects of Retail Service remains to be developed on international standards. To your surprise there was not a single mall in India a decade before and just a few years ago only a handful of them were striving, today there are more than 50 malls across different cities and 2 years from now around 500 malls are predicted to come up. Indeed this shows a very promising trend ahead, however before taking a leap into the future of Retail in India, let's see what the Indian retail Industry is currently occupied with.

Retail in India – Present

At present the Retail industry in India is accelerating. Though India is still not at an equal pace with other Asian counterparts, Indian is



geared to become a major player in the Retail Market. The fact that most of the developed nations are saturated and the developing ones still not prepared, India secures a great position in the international market. Also with a highly diverse demography, India provides immense scope for companies bringing in different products targeting different consumers. According to the Global Retail Development Index, India is positioned as the foremost destination for Retail investment and business development. The factor that is presently playing a significant role here is the fact that a large section of Indian population is in the age group of 20-34 with a considerably high purchasing power; this has caused the increase in the demand in the urban market resulting in consistent growth in the Retail business. And though the metros and other tier 1 cities continue to sustain Retail growth, the buzz has now shifted from these great cities to lesser known ones. As the spending power is no longer limited to metros, every tier 2 city in the country has good market for almost every product or service. Due to this, tier 2 cities like Chandigarh, Coimbatore, Pune, Kolkatta, Ahmedabad, Baroda, Hyderabad, Cochin, Nagpur, Indore, Trivandrum etc. provide a good platform for a brand to enter Indian market. However there are a few precautions for every brand that explores Indian market. As Indian consumers are very curious and have a broad perspective, they respond well to a new

product or concept and there are very fair chances of a brand surviving well, but every Indian consumer be it an urbanite or a small town dweller needs a feeling of value for money. Although labelled as tight fisted, Indian consumers are great spenders once they realize that they are getting value for their money. Also new product /service concepts from the western world are better adopted first by the urban Indians, the smaller markets respond well to the need based retailing rather than luxury concepts. As the Indian retailing is getting more and more organized various retail formats are emerging to capture the potential of the market.

Mega Malls

Multiplexes

Large and small supermarkets

Hypermarkets

Departmental stores are a few formats which flourishing in the both big and small regional markets. As the major cities have made the present retail scenario pleasant, the future of the Indian Retailing industry lies in the rural regions. Catering to these consumers will bring tremendous business to brands from every sector. However as the market expands companies entering India will have to be more cautious with their strategic plans. To tap into the psyche of consumers with different likes and dislikes and differing budgets a company has to



be well prepared and highly flexible with their product and services. In this regard focusing on developing each market separately can save a brand from many troubles.

Factors that are playing a role in fuelling the bright future of the Indian Retail are as follows:

The income of an average Indian is increasing and thus there is a proportional increase in the purchasing power.

The infrastructure is improving greatly in all regions is benefiting the market.

Indian economy and its policies are also becoming more and more liberal making way for a wide range of companies to enter Indian market.

Indian population has learnt to become a good consumer and all national and international brands are benefiting with this new awareness.

Another great factor is the internet revolution, which is allowing foreign brands to understand Indian consumers and influence them before entering the market. Due to the reach of media in the remotest of the markets, consumers are now aware of the global products and it helps brands to build themselves faster in a new region.

Increase in expenditure for luxury items.

Large working population.

Low share of organized retailing.

Growing liberalization of the FDI policy in the past decade.

However despite these factors contributing to the growth of Indian retail Industry, there are a few challenges that the industry faces which need to be dealt with in order to realize the complete scope of growth in Indian market.

Overview: Retail industry, being the fifth largest in the world, is one of the sunrise sectors with huge growth potential and accounts for 14-15% of the country's GDP. Comprising of organized and unorganized sectors, Indian retail industry is one of the fastest growing industries in India, especially over the last few years. According to the Global Retail Development Index 2012, India ranks fifth among the top 30 emerging markets for retail. The recent announcement by the Indian government with Foreign Direct Investment (FDI) in retail, especially allowing 100% FDI in single brands and multi-brand FDI has created positive sentiments in the retail sector.

Emerging Areas



Some sectors that occupy a prominent position with the retail industry are:

Apparel Retail: Everybody understands the impact of fashion and textiles on the environment. Almost \$19.5 billion were spent on online apparel shopping in the year 2009 and increasing since then.

Fashion & Lifestyle Retail: In India the vast middle class and its almost untapped retail industry are the key attractive forces for global retail giants wanting to enter into newer markets, which in turn will help the retail to grow faster.

Food & Beverage Retail: Backed by huge potential and changing lifestyles, the food and beverage retail market is growing at a robust 30-35 per cent per year.

Pharmaceutical Retail: Driven by therapies like anti-diabetic, vitamin, anti-infectives and dermatology, it accounted for a robust 15% growth in 2011.

E-commerce or E-tailing – the next big revolution: With the advent of e-commerce in the retail industry, retail stores are facing stiff competition from e-stores. The rising demand for e-shopping has led to a new debate cropping up in the world.

FDI policy in India: FDI as defined in Dictionary of Economics (Graham Bannock et.al) is investment in a foreign country through

the acquisition of a local company or the establishment there of an operation on a new (Greenfield) site. To put in simple words, FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. Foreign Investment in India is governed by the FDI policy announced by the Government of India and the provision of the Foreign Exchange Management Act (FEMA) 1999. The Reserve Bank of India ('RBI') in this regard had issued a notification, which contains the Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000. This notification has been amended from time to time. The Ministry of Commerce and Industry, Government of India is the nodal agency for motoring and reviewing the FDI policy on continued basis and changes in sectoral policy/ sectoral equity cap. The FDI policy is notified through Press Notes by the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP). The foreign investors are free to invest in India, except few sectors/activities, where prior approval from the RBI or Foreign Investment Promotion Board ('FIPB') would be required.

FDI Policy with Regard to Retailing in India:

FDI in Single Brand Retail: The Government has not categorically defined the meaning of "Single Brand" anywhere neither in any of its circulars or nor any notifications. In single-brand



retail, FDI up to 51 per cent is allowed, subject to Foreign Investment Promotion Board (FIPB) approval and subject to the conditions mentioned in following

(a) Only single brand products would be sold (i.e., retail of goods of multi-brand even if produced by the same manufacturer would not be allowed)

(b) Products should be sold under the same brand internationally,

(c) single-brand product retail would only cover products which are branded during manufacturing and

(d) Any addition to product categories to be sold under “single-brand” would require fresh approval from the government.

FDI in Multi Brand Retail: The recent cabinet decision on FDI in retail has triggered protests by opposition and key allies of the ruling United Progressive Alliance (UPA), who are demanding a roll back of the policy. The hour-long meeting held in Parliament House failed to resolve the logjam in the two Houses as opposition parties, led by BJP and the Left, stuck to their stand and demanded rollback of the Cabinet decision to allow 51 per cent FDI in multi-brand retail. Though at present only 53 cities with population not less than 10 lakh in the country have been

identified for FDI As the fourth-largest economy in the world in PPP terms, India is a preferred destination for FDI. During 2000â€“10, the country attracted \$178 billion as FDI. It will be prudent to look into Press Note 4 of 2006 issued by DIPP and consolidated FDI Policy issued in October 2010 which provide the sector specific guidelines for FDI with regard to the conduct of trading activities. Recently FDI up-to 51% is permitted in Multi Brand Retailing in India.

Cases in favour of FDI in Retail sector:

General consumers are the biggest gainers as they will receive world class services at competitive price, better quality products and they will be better informed about the product content.

The slow down real estate industry will benefit immensely due to increase in demand. Developers were finding difficult to find buyer for their unutilised space so perhaps this is the best news for them as it will help them to fill their vacant space in their shopping malls. Banking sector will also grow consequently with the real estate sector growth as money is needed. Economy on the whole will gain momentum as foreign investment along with the required skills is coming into the country, consumers are benefiting, supply chain system will improve, better logistics and warehousing facilities in the



country, quality food, jobs to the middle class and it can be expected that farmers will get good price and contract farming concept may develop in India. A foreign retailer needs to invest minimum \$100million dollars of which 50% must be on backhand infrastructure which is great as India needs trillions of dollars to improve infrastructure problems and reduce the wastage of farm produce and improve the life of farmers. Some are given below:

- This will bring foreign capital in to the country.
- It will be helpful to increase employment.
- It would help build infrastructure and create a competitive market.
- Reducing the wastage of agricultural produce.
- Farmers would be enables to get better prices for their crops.
- Consumers will get commodities of daily use at reduced prices.
- Biggest beneficiary of this would be small farmers, who would be able to improve productivity and realize higher remuneration by selling directly to large organized players and shorten the chain from farm to consumers.
- Government too stands to gain by this move through more transparent and

accountable monitoring of goods and supply chain management systems.

- Opening of retail can be seen as a solution for food inflation, which has been confounding policy-makers. FDI in retail would help in building much needed back end infrastructure. Additionally, he said, investments in cold storage chain infrastructure would reduce loss of agricultural produce and provide more options to farmers.

Cases against FDI in Retail sector:

Majority of the Indian small-scale industries or manufacturers will be forced to shut down and Indian manufacturing jobs will be lost as MNC retail brand in order to compete would prefer to source 2/3rd of their products cheaper from outside the country such as China. Majority of small traders and shopkeepers will end up closing their shops, stores and lower middle class workers would end up losing their jobs as the Illiteracy level among them is very high. Contrary to the most people belief, International brands such as Wal-Mart won't be able to make any profits out of it for at least in the next 5 to 10 years they would only see the losses considering the low purchasing power and transaction value, uncertainty in the Indian political scenario, unrealistic rental and real estate pricing and heterogeneous consumer



consumption in south, north east and western states in India. Moreover given below:

- Loss of job of existing retailers in country.
- It may increase the monopoly of big houses.
- Our interest rates today are as high as 14 per cent to 16 per cent how do we compete with the economies which have a 4 per cent interest rate. Our infrastructure our trade facilitations our labour laws, all these factors collectively don't make India low cost. So do you want India to become a centre where we allow foreign companies to come in and set up these large chains which eventually instead of selling domestic products out sourcing internationally the cheapest sources and selling those products. Please remember domestic retail normally sources domestically, international retail sources internationally because they source from the cheapest sources.
- Even if big retail companies help the farmers in resurrecting their economy, what plan does the government has for millions of middlemen who are part of the business process chain that ensures manufactured products reach end users.

- We engage millions of uneducated and semi-educated people at various stages of retail business spread across towns and cities but we are afraid that Tesco and Wal-Mart will only engage smart and educated workforce in small strength, comparatively.

Conclusion: So, the UPA has one the first round on FDI in multi-brand retail. The Congress-led alliance says foreign investments in this space will boost the economy, besides helping the farmer get a better deal for his produce and offering a wider choice of goods at much lower prices for you, the consumer. The opposition says the small retailer will get killed, and when the big global players monopolise the business, they won't think twice before squeezing both, the farmer and consumer to boost their profits. The government has added an element of social benefit to its latest plan for calibrated opening of the multi-brand retail sector to foreign direct investment (FDI). Only those foreign retailers who first invest in the back-end supply chain and infrastructure would be allowed to set up multi brand retail outlets in the country. The idea is that the firms must have already created jobs for rural India before they venture into multi-brand retailing. 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.

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