FDI – An extensive study of its role in Indian retail market

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Abstract :

Retail Industry is one of the booming industries in India in the last decade. It has open a huge market to the world. Across the globe the international community is ready to integrate itself with the Indian economy. The government is encouraged by the growth rate of retail sector, has proposed retail rate of retail sector, has proposed retail reform mainly as 100% FDI In the retail sector in India. It may benefit by bringing in investment into development of complete backend infrastructure like cold chain & supply chain enhancing efficiency of food chain, as well as eliminating the exploitative system of middlemen which bleeds the farmers and squeezes the consumers; but may not increase purchasing power of people and provide more placement to repair our sick economy However, the Indian government must take timely and several proactive measures to contain this resolution & make it able to face the challenges from the global giant players of the business world.

Keywords: Giant, Cold chain. Economic policy, employment, FDI. Multi brand retail.

Introduction:

"Consumers are challenging the industry to adapt to the ways they live and shop today. Supported by emerging technologies, consumers will be more focused than ever on price and convenience"

The Indian Retail industry is the largest among all the industries in India, accounting for over 13% of the country GDP and 8% of the employment. The Retail Industry in India has come forth as one of the most dynamic and fast around paced industries with several players entering the market. But all of them have not yet tasted success. Major reason for this negativity are the heavy initial investments that are required to break even with other companies, marketing tends and ethical decisions. The Indian Retail Industry is gradually enchanting its way towards becoming the next boom industry.

Definition of Retail:

In 2004, the High Court of Delhi defined the term 'retail' as a sale for final consumption in contrast to a sale of further sale or processing (i.e wholesale), a sale to the ultimate consumer. Retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. A retailer in involved in the act of selling goods to the individuals consumer at a margin of profit.

Objectives of the study:

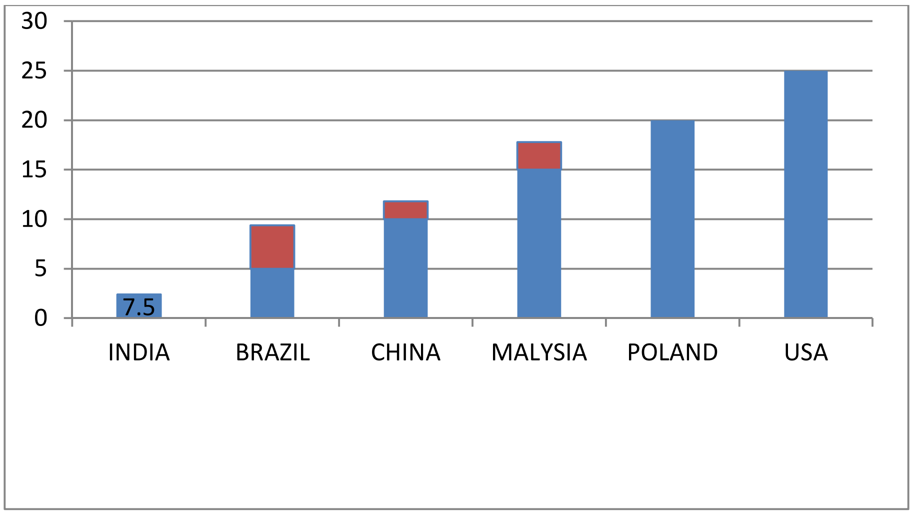
1. To know the current scenario of FDI in India.
2. To study the percentage employment opportunities provided by retail sector in the country.
3. To interpret the domestic market sentiment towards foreign investment.
4. To know the FDI inflows in retail sector in India.
5. To compare the arguments for & against FDI in India's retaining sector.

The Retailing Scene in India.

Sr.No	Country	Employment (%)
1	INDIA	08
2	BRAZIL	15
3	CHINA	07
4	MALYSIA	07
5	POLAND	12
6	USA	16
7	UK	11

Source: 1 Alan Roling ' International to FICCI

2. FDI In Retail Sector, India – Arpita Mukharhee, Nitisha Patel, pp.31



The retail sector in India is highly fragmented and organized retail in the country is at a very nascent stage. However, in the few years, the process of change has started. In India, 2010 the retail sector is the second largest employer after agriculture. The India retail is one of the biggest industries with a turnover US$450-500 bn by 2010. Globally India has the highest absolute number and the highest per capita number of retail outlets. With an estimated 11.2 mn outlets, India has the largest retail outlets density in the world. According to a survey, an overwhelming proportion of the $180 bn retail market is unorganized. In fact only a $5 bn segment of the market is organized. As much as 96% of the 11mn plus outlets. Are smaller than 500 sq.ft. In the area. This means that India's per capita retailing space is about 2 square feet (compared to 12 square feet in the United states.) India's per capita retailing space is thus the lowest in the world. However, retail is amongst the fastest growing sectors in the country. India ranks first, ahead of Russia, in terms of emerging market potential in retail and is deemed as "priority I" market for international retail. In 2004, it was reckoned that about 3percent of India's retail was controlled by organized retailers. That has now risen to about 8percent. Retail sales in India will grow from the US$395.96 bilion (Rs 17818.20 Billion) in 2011 to US$ 785.12 billion (Rs 35330.40 billion) by 2015. (Source: Business Monitor international.) Sales through MGR outlets (Mass Grocery Retail) is expected to increase by 218% by 2015 to reach a level of US$ 27.67 billion (Rs1245.15 billion). Organized retail in India is expected to increase from 5 percent of the total market in 2008 to 14-18 percent and reach US$ 450 billion by 2015. India's retails sector, which is currently estimated at about US$ 500 billion, is expected to grow to about US$ 900 billion by 2014. According to a report by KPMG. Food retail sector in India is set to more than double to by 2025 to US$ 150 billion (Rs 6750 billion). This would be driven by growth of organized report coupled with changing consumer habits. Retailing in India is gradually inching its way toward becoming the next boom industry.

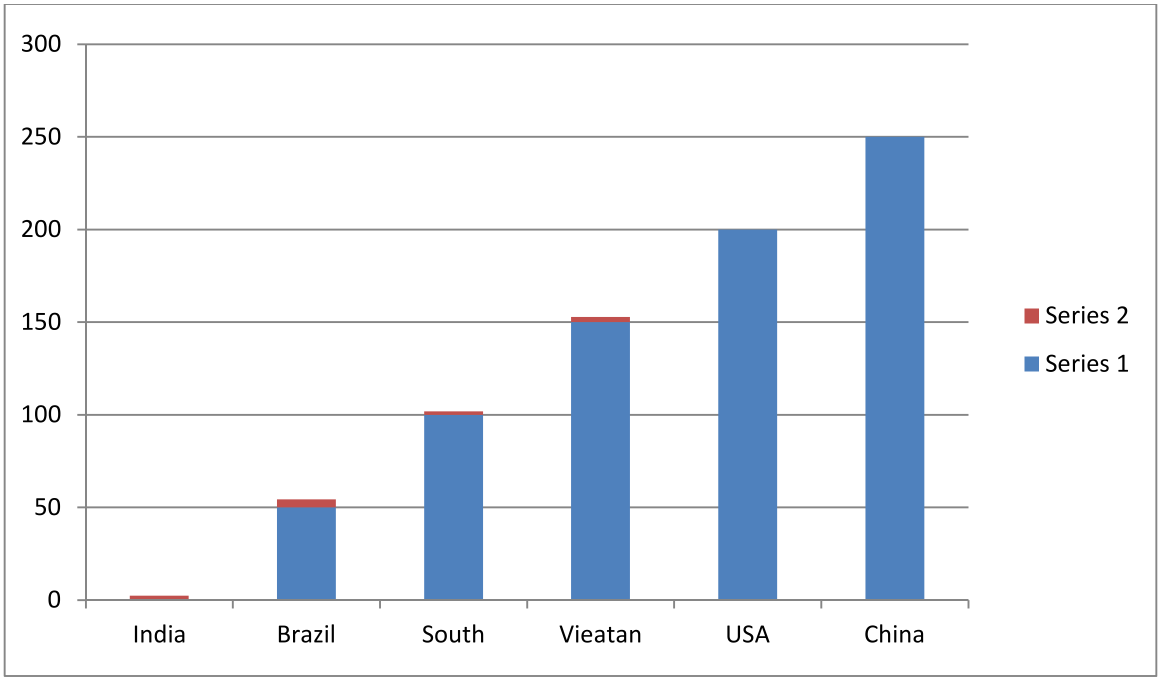
Distinct Format of Indian retail sector :

The India trading sector, as it has developed over centuries is very different from that of the developed countries. In the developed countries, products and services normally reach consumers from the manufacturer/ producers through tow different channel: (a) Via independent retailers ('vertical separation') and (b) directly from the producer ('vertical integration') In the latter case, the producers establish their own chains of retails outlets, or develop franchises. In India, however, the above two modes of operation are not very common. For in India, today, less than three percent of the retail transactions are done in the organized sector. And this is projected to increase to 15-20 percent by 2010 small and medium enterprise dominates the Indian retail scene. Whole scene trade in India is Marked by the presence of thousands of small commission agents, stockiest and distributors who operate at a strictly local level. Apart from these, in many cases small products such as artisans and farmers sell their goods directly to end consumers (often one family member is a producers and another sells the products). There is no 'barrier to entry', given the structure and scale of these operations Customers relationship management' (CRM) is handled in India by numerous small vendors locating themselves close to their customers – either by opening a tiny outlet in a residential area by opening a tiny outlet in a residential area by hawking goods at the consumer's doorstep develops, often extending beyond immediate business interests. A skilled labor turns into a street hawker, a farmer turns to delivering milk packets door to door, an educated unemployed youth hawks newspapers and a better off unemployed person starts a telephone booth and retails telecom cards as an 'add on' service. When (in exceptional cases) the factory reopens, or harvesting time arrivers, some of these new entrants leave the retail trade and return to their respective employments. Thus, after agriculture, the incidence of under-employment is probably highest in the Indian retail sector. There are nearly 12 million retail outlets. Small retailers operating in the unorganized sector dominate the trade those displaced as a result of FDI in retail may not show up as an increase in visible unemployment.

Why FDI in retail?

Why is the government so keen ini inviting FDI in the retail sector?

Retail is a significant contributor to India's GDP,



Source : Consideration of Indian Industry & AT Kearney Report (2006) 39, 38.

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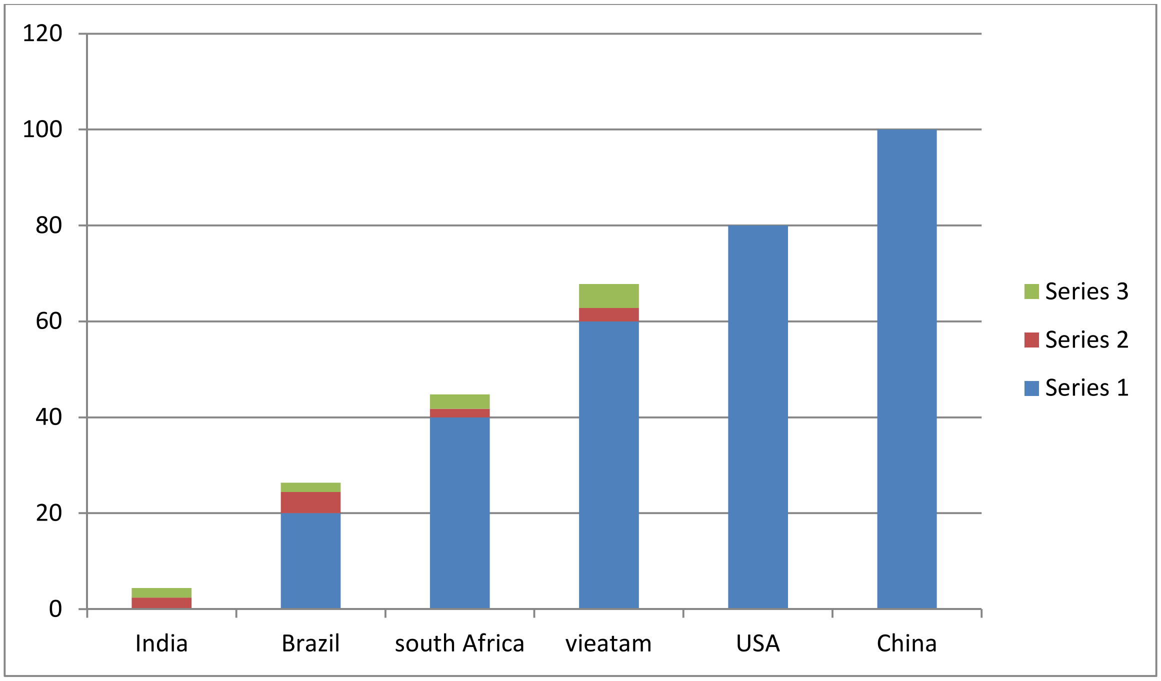

Source : Confederation of India Industry & AT Kearney Report (2006)39

Let us look at some argument made by the proponents about FDI: only a few global firms posses proprietary expertise in retail trade. They would not transfer their expertise to local firms unless they were allowed to operate in the domestic market.

"Reality : In the literature on retail, we could not trace the existence of any cutting edge proprietary expertise – either technical or managerial. The government needs FDI to meet its foreign exchange requirements.

"Reality : Because of large capital inflows, the government of India is today burdened with huge and growing foreign exchange reserve. By april 13, 2007, the foreign exchange reserve had swollen to $203 Billion. The argument for FDI In retail to attract foreign exchange is not tenable. Only global retailers can satisfy the rising and varied demands of Indian consumers."

Reality : It has yet to be shown which product or service is being offered by foreign retail firms is unavailable at present to Indian consumers, or cannot be provided without FDI. Moreover, the alleged benefit of 'consumer choice' is being inflated. Indeed, the availability of excessively wide choice makes it so complex and time-consuming for the consumer to decide that it leads to stronger loyalty to particular brands!

Rather than internal 'pull', the reason that the Government is interested in pushing FDI in retail trade is external pressure. Foreign firms are interested in the growing Indian market of the better-off: India is an emerging procurement site of for global retailers, especially for handicraft products (including textiles) and semi-processed local food items: the profitability of major retail firms in the developed countries is declining, and capital is looking for better pastures: and new rules in international trade encourage movement of FDI across nations to maximize return on investment.

These are some of the reasons- that transnational retails giants are interested in entering India. Thus is it principally external pressure that is compelling the Indian government to liberalize FDI in retail.

Emerging destination of FDI inflows in Retailing sector for the period (USD Billions)

Country	2001	2002	2003	2005
Indian	3.8	3.7	4.3	5.3
Chile	4.2	1.9	3.0	5.6
Russia	2.5	3.5	8.0	7.8
Mexico	26.5	14.8	10.8	14.1
Brazil	22.5	16.6	10.1	15.3
China	44.2	49.3	53.5	56.0

Foreign Direct Investment or FDI Is any capital inflows from abroad that is invested in or to enhance the production capacity of the economy. In the recent time the government has taken a cabinet decision to foreign ownership upto 51% and raises the limit in single brand to100%. The decision also states:

1) Minimum amount of investment by a foreign retailers should be $100 million.

1) At least 50% of the total FDI brought in shall be invested in "backend infrastructure"

At least 30% of the procurement of manufactured/ proceed products shall be sourced from 'small industries'.

Retail sales location may be set up only in cities having minimum 10 lack population.

Government will have the first right to procurement of agriculture products the decision has invited protests from the opposition parties and traditional forms of retailers demanding a roll back of the decision.

FDI in single Brand Retail Sector:

Presently, FDI is permitted in cash and carry (wholesale) with 100% ownership and in single brand retail shops (like Nike, Reebok etc) Up to 51% ownership. The unorganized form of retailing in India consists of 97% of the total retail market. It is the largest source of employment after agriculture and generates 10% of India's GDP. Parliamentary standing committee in its 90th report on "Foreign and domestic investment

In retail, 2019 had stated its concerns about allowing FDI in retail:

The large cost effective retailers would displace the traditional Kirana Stores and render them unemployed. There are approx. 1.25 Crore Kirana shops employing 4 caror people. Together with their families 20 crore people depend on kirana shops.

The India retail market is still in the nascent stage to withstand competition from foreigners.

Also the foreigners due to bulk purchase would acquire monopolistic powers to reduce prices by the suppliers.

It would enter the market with expeceptionally cheap prices and drive competition away. Then it would acquire monopoly over the prices.

It would lead to asymmetrical growth.

The rationale behind allowing FDI In multi-brand retail:

1) Developing retail infrastructure.

Though FDI is allowed in single brand retail, the investment in

Infrastructure has been insignificant. Farmers in india incur loss of 1 trillion out of out of 57% is avoidable due to lack of storage facilities.

2) Indian farmers get only 1/3rd of the price paid by the consumers. The foreign retailers would buy goods directly formt the farmers thus eliminating the intermediaries and give them remuneration prices for their supplies.

3) It would also provide the cousumers with cheap goods due to economics of large scale and control consumer inflation.

4) The retailers in India Would come out of there complacency and become competitive. They will have greater access to technology and improve their marketing interface to go global. The global food chain like KFC, pizza hut did not drive Nathus and Nirules out of the market. Haldirams and Bikanerwala have gone global.

5) Real estate is also expected to get a boost.

6) It would provide employment to the people displaced and provide better remuneration. Government estimates nearly 10 million jobs in 3 yrs.

7) It would also boost government revenues.

Farmers have a large lobby in India. The FDI policy should be implemented in India with a proper regulator framework. Also the government should make it compulsory that at least 50% of the jobs generated are for the rural youth. The government should look at both sides of the coin before arriving at any decision.

Arguments in favour of FDI In Retailing:

FDI IN retailing is favoured on following grounds:

1) The global retailers have advanced management know how in merchandising and inventory management and have adopted new technologies which can significantly improve productivity and efficiency in retailing sector.
2) Entry of large low-cost retailers and adoption of integrated supply chain management by them is likely to lower down the prices of the products.
3) FDI In retailing can easily assure the high quality product, better shopping experience and customer services.
4) They promote the likeage of local suppliers, farmers and manufactures, no doubt only those who can meet the quality and sefty standards, to global market and this will ensure a reliable and profitable market to these local players.
5) As multinational players are spreading their operation, regional players are also developing their strategies and improving their operations to customer the size of international players. This all will encourage the investment and employment in supply chain management.
6) Joint ventures would ease capital constraints of existing organized retailers and
7) FDI would lead to development of different retail formats and modernization of the sector.

Argument against FDI in Retailing:

Many trading associations, political parties and industrial associations have argued against FDI in retailing due to following reasons:

1) Indian retailers have yet to consolidate their position. The existing retailing scenario is characterized by the presence of a large number of fragmented family owned businesses, who would not be able to survive the competition form global players.
2) The examples of Southeast Asian countries show that after allowing FDI, the domestic retailers were marginalized and this led to unemployment.
3) FDI In retailing can upset the import balance, as large international retailers may prefer to source majority of their products globally rather than investing in local products.
4) Global retailers might resort to predatory pricing. Due to their financial clout, they often sell below cost in the new markets. Once the domestic players are wiped out of the market foreign players enjoy a monopoly position which allows them to increase prices and earn profit.
5) Indian retailers have argued that since lending rates are much higher in India, Indian retailers, especially small retailers, are a disadvantageous position compared to foreign retailers who have access to international funds at lower interest rates. High cost of borrowing forces the domestic players to charge higher prices for the products.
6) FDI in retail trede would not attract large inflows of foreign investment since very little investment is required to conduct retail business. Goods are bought on credit and sales are made on cash basis. Hence, the working capital requirement is negligible. On the conctrary, after making initial investments on basic infrastructure, the multinational on basic infrastructure, the multinational retailers may remit the higher amount of profits earned in India to their own country.

Conclusion:

The domestic retailers who responded believe that FDI in retail will bring the benefit of skills transfer, technology, innovation and best practices as well as supply chain, infrastructure and logistics improvements. They also thought that it would increase employment and economic growth and draw more investment in to the domestic sector and sub-sectors.

This study has revealed that there is well-built support for striking a situation on foreign retailers to supply certain products in India, as well as some interest in restricing FDI to branded products, and certain retail formats.

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