FDI in Retail Sector in India: Challenges and Opportunities

*Kahkashan Khan
MBA Department of Deen Dayal Upadhyay
Gorakhpur University
Gorakhpur, India
Email: kahkashan17@gmail.com

ABSTRACT: The Retail Sector of India is very vast, and has capability for development, as the majority of its constitutes are un-organized. The retail sector of India contributes of about 15% to the national GDP, and employs a huge workforce of it, after the agriculture sector. The retail sector of India handles about $250 billion every year, and is expected by veteran economists to reach to $660 billion by the year 2015.The business in the organized retail sector of India is expected to grow at the rate of 15-20% every year, and reach the level of $100 billion by the year 2015.Despite the recent furore, FDI in retail sector will boost the Indian economy, creating job opportunities in the next few years. Driven by an increasing disposable income, purchasing power and now the much awaited FDI, retail has emerged as one of the fastest growing sectors in India. Moving towards modernisation, India's retail sector, currently growing at 30%, and is expected to generate 54,000 jobs over the next five years — a variety of opportunities from the entry level to senior management level, for fresher's as well as for professionals[8]. From the employment point of view, jobs will be created not only in retail sector area, but also in areas such as front-end sales, facility management, security management, inventory, merchandising, customer relationship and visual merchandising, among others. In smaller towns, knowing the local language will be an asset because it will help one connect with the masses.

Keywords: FDI, GDP, Retail Sectors.

1. INTRODUCTION

The recent clamour about opening up the retail sector to Foreign Direct Investment (FDI) becomes a very sensitive issue, the most important factor against FDI driven "modern retailing" is that it is labour displacing to the extent that it can only expand by destroying the traditional retail sector. This is because the primary task of government in India is still to provide livelihoods and not create so called efficiencies of scale by creating redundancies [12]. As per present regulations, no FDI is permitted in retail trade in India. Allowing 49% or 26% FDI (which have been the proposed figures till date) will have immediate and direct consequences. Entry of foreign players now will most definitely disrupt the current balance of the economy; will render millions of small retailers jobless by closing the small slit of opportunity available to them. Retailing is not an activity that can boost GDP by itself. It is only an intermediate value-adding process. If there aren't any goods being manufactured, then there will not be many goods to be retailed. This underlines the importance of manufacturing in a developing economy[1].

Global retailers have already been sourcing from India; the opening up of the retail sector to the FDI has been a political challenges. With politicians arguing that the global retailers will put thousands of small local players and fledging domestic chains out of business. The only opening in the retail sector so far has been to allow 51% foreign stakes in single brand consumer stores, private labels, high tech items/ items requiring specialized after sales service, medical and diagnostic items and items sourced from Indian small sector (manufactured with technology provided by the foreign collaborations)[2]. Parties supporting the FDI suggest that the FDI in retail sectors should be opened in a gradual manner, such that it can promote competition and contribute to the growth of the Indian economy. The impact of the FDI would benefit the end user of the consumer to a great extent and will help to generate a decent amount of employment as more and more entrepreneurs would be coming forward to invest and taste the new generation in retail marketing[3]. The opening of FDI should be designed in such a way that many sectors – including agriculture, food processing, manufacturing, packaging and logistics would gain benefits.

FDI in retail sector is an economic reform, which would allow global chains like Wal-Mart Stores Inc and Carrefour to own up to 51 percent of retail ventures. The policy would let foreign retailers own up to 51 percent of supermarkets and 100 percent of single-brand stores[4]. The policy doesn't require parliamentary approval, but foreign retailers must get prior approval from the state governments where stores will be opened or located.

The government, as a measure to protect themselves, has said foreign retailers would have to source 30 percent of their goods from small industries.

A Citi report says $15-20 billion in FDI could flow into the country over the next 10 years as a result of FDI in multi-brand retail.

The report also says the move into retail sector would help enhance the share of organised players in the overall retail sector, which currently account for about 6 % of India's $470-billion retail market [5].

Multi-brand retail in India is largely in the un-organised sector is dominated by neighbourhood kirana stores and there is a concern among the political parties and the traders that these stores would be affected by the entry of global retailers.

The Indian Retail Sector Can Be Broadly Classified Into:-
Food Retailers Health and beauty Products Clothing and Footwear Home Furniture & Household goods Durable goods Leisure & Personal Goods Of these above segment Food and beverage and clothing segment is expected to grow exponentially.

2 HOW WILL FDI (Foreign Direct Investment) HELP INDIAN RETAIL SECTORS

Future Group and Spencer's Retail Executives are of the views that FDI in Indian Retail will help Indian Economy.

The entry of global retailers in the form of joint venture / partners will help Indian retailers, as foreign retailers will bring with them international experience and best practices[7].

Successful retailing involves support from ancillaries that specialise in setting up distribution centres, training of staff, managing supply chain processes et al. The experts felt large investments from foreign retailers will draw specialized global players in the space (ancillary activities) to India. This will help improve overall processes and supply chain network, leading to improved efficiency and better profitability for Indian retail.

Large international retailers have superior platform in terms of IT infrastructure and have much deeper understanding of their consumers[17]. This will lead to better operational management in the Indian retail sector, especially when the Indian retail sector is looking for expansion.

FMCG companies in India have several stock keeping units (SKUs) in their portfolio; only ~20-25% of this is aggressively marketed or made available to consumers [9]. Thus, Indian retailers had no choice but to come up with their own private labels rather than focus on sales of existing companies. However, with the advent of foreign partner and his strong relationship with global FMCG companies, Indian retailers can get better product line, which can help to drive sales growth and improve sales per sq. ft, which currently stands at almost half that of their global counterparts.

3 FDI IN RETAIL TO TAKE INDIA'S CONSUMERISM TO A NEW GROWTH TRAJECTORY

Any process of change is a dialectic process. Change is the only truth which prevails at the end if it brings wellbeing to the masses. We believe sooner or later opposition to the FDI in retail will end and new era will begin[6].

4 FDI IN RETAIL –THE PRESENT STATUS

51% FDI in multi brand Retail and 100% in single brand is put on hold till the consensus is reached between the political parties. There is stiff opposition being seen within the UPA allies in context of FDI in retail. Also the opposition party is seeing this as an opportunity to get the political mileage[8].

5 FINE POINTS PROPOSED IN FDI IN RETAIL SECTORS

Govt allowed 51 percent FDI in multi brand retail and increased FDI limit in single brand retail from 49 percent to 100 percent. Right now this is put on the back burner due to opposition from the political parties. Followings are the fine points of the FDI in retail.

1) FDI is not likely under the automatic route implying that FIPB approval on case by case basis.
2) Minimum Investment to be done is $100 million.
3) 50% of the investment should be done in improving the back end infrastructure.
4) 30% of all raw materials have to be procured from the small and medium enterprises.
5) Permission to set up retail stores only in cities with a minimum population of 10 lakhs.
6) Govt has the first right to procure or purchase materials from the farmers.

6 GLOBAL RETAILING SCENARIOS

Retail Sectors has been playing a major role in improving the productivity of the whole economy at large. The positive impact of organized retailing could be seen in USA, UK, and Mexico and also in China. Retail is the second largest industry in US. It is also one of the largest employment generators sectors [10]. It is also important to understand that Argentina, China, Brazil, Chile, Indonesia, Malaysia, Russia, Singapore and Thailand have allowed 100% FDI in multi brand retail. These countries have been benefited immensely from it. Also small retailers co-exist. The quality of services they are providing has increased. China permitted FDI in retail in 1992 and has seen huge investment flowing into the sector. It has not affected the small or domestic retail chains and on the contrary small retailers have increased since 2004 from 1.9 million to over 2.5 million.

We can take the example Indonesia where still 90% of the business still remains in the hand of small traders [11].

7 OPPORTUNITIES OF FDI IN INDIAN RETAIL

- Inflow of investment and funds retail sectors.
- Improvement in the quality of employment.
- Generating more employment opportunities.
- Increased local sourcing.
- Provide better value to the end consumers.
- Investments and improvement in the supply chains and warehousing.
- Franchising opportunities for local entrepreneurs.
- Growth of infrastructure.
- Increased efficiency.
- Cost reduction.
- Implementation of Information Technology in retail.
- Stimulate infant industries and other supporting industries [12].

8 CHALLENGES OF FDI IN INDIAN RETAIL

- Would give rise to cut-throat competition rather than promoting incremental business.
- Promote cartels and will create monopoly.
- Increase in the real estate prices.
- Marginalize domestic entrepreneurs.
- The financial strength of foreign players would displace the unorganized players.
- Absence of proper regulatory provisions and guidelines would induce unfair trade practices like Predatory pricing [12].

Despite the above challenges there are certain other problem relating to foreign direct investment (FDI) in retail in India is that it does not provide a level playing field to other players of the domestic and small sort. In addition, it appears to take a rather naive and simplistic view on certain aspects, which like myths being repeated, tend to become urban legends. On the other hand, no country can afford to take on an isolationist approach.

9 HOW FARMERS TO GET BENEFITED

Farmers in India get only 10% to 12% of the price the consumer pays for the agricultural products which they produce. Coming of organized retailing will benefit farmers in big way. Big retailers sell their product at very competitive prices. So, they source it directly from the farmers. Thus Middleman get eliminated or does not have any place or role in this format of retailing. This will not only benefit the farmers but also help in checking the food inflation. Thus the farmers will get benefited up to a large extent. Also India has very inadequate facilities to store the food grains and vegetables. As the investment will flow into back end infrastructure, supply chain will get strengthened. Storage is a major problem area and 20% to 25% of the agricultural products get wasted due to improper storage[10].

PRODUCT	WASTAGE
TOMATOES	35%
MANGOES	30%
POTATOES	25%

Another area which is also the cause of concern is, movement of vegetables and other perishable agricultural items from one place to another. Due to lack of proper transportation facilities farmers sell their produce in local market. This results in the lower realization on the produce.

10 IMMENSE GROWTH OPPORTUNITY FOR RETAILERS

India is Asia's third largest retail market after China and Japan. Organized retailing has a very virgin space in India. It provides immense growth opportunity. Only 5% of the total sales are being done by organized retailer. Currently Indian Retail sector have sales of around $500 billion. Retail sector is expected to have sales of $900 billion by 2014. It is still far behind China, whose retail sales by 2014 are expected to cross $4500 billion[13].

Purchasing power of the Indian urban consumer is growing and branded merchandise in categories like Apparels, Cosmetics, Shoes, Watches, Beverages, Food and even Jewellery, are slowly becoming lifestyle products that are widely accepted by the urban Indian consumer.

11 GROWTH DRIVERS OF INDIAN RETAIL SECTOR:

- Rising Income and increase in convergence of consumer taste and preferences.
- Dual family Income.
- Knowledge about different products through different mediums like Internet, Television etc. Also knowledge about the latest trend and fashion.
- 47% of the India's population is under the age of 30. This category is driving the consumption story.
- Emergence of new retailing format.
- Easy availability of Credit Facilities.

12 FDI COULD BENEFIT STRESSED COMPANIES

FDI in multi brand will stimulate investment in the sector. There are companies in the retail sector that are reeling under debt. These companies could get fresh lease of life[14].

Company	Debt (Rs Crore)	Market Cap
Pantaloon	4,200	3, 867
Vishal Retail	700	42
Provogue	400	275

12.1 Beneficiary of FDI in Multi Brand Retail:-

12.1.1 Multi Brand Retail Stores: 51% in Multi brand retail [16].

Pantaloon Retail
Vishal Retail
Shoppers Stop
Koutons
Trent

12.1.2 Single Brand Retail: 100% FDI in Single Brand Retail.

Archies
Cantabil
VIP Ind
Titan
IFB Industries

12.1.3 Real Estate: Especially mall developers. Retailers like Wal-Mart; Tesco operates in large area of 50,000 – 60,000 sq.ft. They generally pay to the builders certain percentage of the total revenue. Real Estate companies into retailing space to be benefitted.
Unitech
DLF
Sobha Developers

12.1.4 FMCG Companies: Big retailers generally sources from the producers, FMCG companies are going to be benefited.
HUL
GSK
Godrej Consumer
Dabur
Marico

13 SIDE EFFECTS OF THE FDI AND SOLUTION

Nevertheless the good thing that FDI in retail is that it will bring growth and opportunities in this sector but argument will not be justified if we do not take into account the grey areas. Some of the grey areas are:

1-Predatory pricing could strangulate the domestic retailers.
2-It has been seen MNCs retailers uses there big size to kill competitors.
3-In order to bring goods at lowest possible price for customers they squeeze the margins of their suppliers. So as claimed by thousand that suppliers will benefit, it still doubted.

In order to correct these grey areas, India need to have strong regulator for the sector. And at the same time strengthen the Competition Commission of India before these Big Retailers prowls into the Indian Territory [15].

14. CONCLUSIONS

We wish row over FDI in retail gets over soon and India should embrace new era of retailing. And Govt makes right kind of body to vigil these giants. Indian consumers are waiting to splurge. Indian consumers' balance sheet is still clean, which provide much of room to consumption related debt.

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