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Foreign Direct Investment in Indian Retail Sector

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Abstract: “Indian retail industry is one of the sunrise sectors with huge growth potential. The FDI in retail sector would definitely be a mixed blessing for domestic retailers. Even though this new reform is expected to have adverse impact on the domestic retail sectors for short run, it will weaken overtime. FDI will help to overcome the problem of lack of experience and trained manpower. FDI is extremely beneficial to customers as it would help in reducing the problem of adulteration, short weighing and substandard goods. The gradual and step wise admission of MNCs in retail would bring about three pivotal changes-modern technology, better transparency in dealings and sharing best practices in long run. This article presents an overview of retail trade in India in the wake of the country’s new policy that will allow foreign capital in multi-brand retailing and single brand retailing. It discusses various advantages and disadvantages of foreign direct investment (FDI) in the retail sector.”

Keywords: Foreign direct investment (FDI), Retail Sector, Single brand retailing and multi brand retailing, Advantages and disadvantages of FDI in Retail sector in India, SWOT analysis.

I. INTRODUCTION

Concept of FDI:

FDI (Foreign Direct Investment) is a process which enables the residents of one country to directly invest their funds in another country and acquire ownership of assets and exercise control over the investment in terms of production, management, distribution, effective decision making, employment etc. “**FDI is an international financial flow with the intension of controlling or participating in the management of an enterprise in a foreign country.**” Foreign investment is a means of making foreign resources available to a developing country. Such investments can take place for many reasons, including to take advantage of cheaper wages, special investment privileges (e.g. tax exemptions) offered by the country.

There are two main types of foreign investment:

1. **Portfolio investments** - Portfolio investments are investments in purely financial assets such as bonds, stocks denominated in national currency. Portfolio or financial investments take place primarily through financial institution such as banks investment funds.
2. **Direct investments** - These investments are the real investments in factories, capital goods, land and inventories where both capital and management are involved and the investors retains control over use of the invested capital.

Foreign direct investment (FDI) is investment directly into production in a country by a company located in another country, either by buying a company in the target country or by expanding operations of an existing business in that country.

Concept of Retailing in India:

Retail sector is one of the biggest supports of the Indian economy and accounts for 15 percent of its GDP. The Indian retail market is estimated to be US\$ 450 billion and one of the top ten retail markets in the world by terms of economic value. India is one of the fastest emerging retail markets in the world, with 1.2 billion people.

In simple words retailing is making the final product directly available to the final consumers of the product or a sale to the ultimate consumer. Retail can also be defined as a link or interface between bulk producers and individual consumers who purchase for final consumption. Retail is the last step in the process of distribution of merchandise.

Manufacturer \rightleftharpoons Agent \rightleftharpoons Wholesaler \rightleftharpoons Retailer \rightleftharpoons Consume

Classification of Indian Retail Industry:

Modern Format Retailers	Traditional Format Retailers	Large Indian Retailers
Supermarkets (Food world)	<ul style="list-style-type: none"> Kiranas: Traditional mom and pop stores 	<ul style="list-style-type: none"> Hypermarkets
Hypermarkets (Big Bazaar)	<ul style="list-style-type: none"> Street markets 	<ul style="list-style-type: none"> Big Bazaars
Departmental Stores (Shoppers' stop)	<ul style="list-style-type: none"> Exclusive/Multiple Brand Outlets 	<ul style="list-style-type: none"> Giants
Specialty Chains (IKEA)		<ul style="list-style-type: none"> Departmental stores
Company owned company operated stores		<ul style="list-style-type: none"> Lifestyle
		<ul style="list-style-type: none"> Shoppers stop
		<ul style="list-style-type: none"> Trent

Division of Retail Industry:

The retail industry is mainly divided into two parts which are as follows:

- ◆ Organized Retailing - Trading activities which are undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. are referred to as organized retailing. Corporate backed hypermarkets and retail chains, and also the privately owned large retail businesses are included in this.
- ◆ Unorganized Retailing - Traditional formats of low cost retailing, for example the local kirana shops, owner manned general stores, paan/ beedi shops, convenience stores, hand carts and pavement vendors etc is known as unorganized retailing.

II. OBJECTIVE OF THE STUDY

- ✚ To study about the Foreign Direct Investment in retail in India.
- ✚ To understand trends and patterns of flow of FDI.
- ✚ To find the advantages and disadvantages of FDI in retail in India.

III. FDI IN RETAIL SECTOR IN INDIA

FDI is among the burning topics in India and is a politically sensitive issue. In November 2011, India's central government announced retail reforms for both multi brand stores and single brand stores. Policies related to retailing in India are as follows:

- ▣ FDI up to 100% for cash and carry wholesale trading and export trading allowed under automatic route.³

- 51% FDI is allowed in 'single brand' retailing but after government approval that is from Foreign Investment Promotion Board (FIPB).
- 100% FDI allows investment in power trading, petroleum infrastructure, processing and warehousing of rubber and coffee, diamond and coal mining. And the rest of the sectors require prior approval from RBI or FIPB.
- Multi Brand Retailing is prohibited in India.

As of 2013, India's retailing industry was essentially owner manned small shops. Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand retail; even single-brand retail was limited to 51% ownership and a bureaucratic process. In November 2011, India's central government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way for multi-brand retailers such as Wal-Mart, Carrefour and Tesco, as well as single brand majors such as IKEA, Nike, and Apple. In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30 percent of its goods from India. The Indian government continues to hold on retail reforms for multi-brand stores. On September 2012, the Government of India formally notified the FDI reforms for single and multi brand retail, thereby making it effective under Indian law. On December 2012, the Federal Government of India allowed 51% FDI in multi-brand retail in India. The government managed to get the approval of multi-brand retail in the parliament despite intense opposition. Some states will allow foreign supermarkets like Wal-Mart, Tesco and Carrefour to open while other states will not.

IV. FDI IN SINGLE BRAND RETAIL

The term 'single brand' has not been defined by the government in any of its circulars or notifications. While the phrase has not been defined, it implies that foreign companies would be allowed to sell goods sold internationally under a single brand, viz., Reebok, Nokia, Adidas etc. Retailing of goods of multiple brands, even if such products were produced by the same manufacturer, is not permitted. Neither any political parties nor local kiranawala shops raised any voice against it because these are high end luxury items for rich class people and does not hurt a large population. For e.g. Nike Company opens outlets in Delhi, Ahmadabad, Bangalore and Mumbai selling nothing but Nike shoes, Nike wrist watches and T-shirts only.

V. FDI MULTI BRAND RETAIL

FDI in Multi Brand means allowing a retail store with a foreign investment to sell multiple brands under one roof. For e.g. Big Bazaar opens malls in Mumbai, Kolkata New Delhi and Bangalore: selling t-shirts of multiple brands such as Reebok, Nike, Adidas, Allen Solly, Peter England etc. as well as unbranded t-shirts (those with discount offers). So, this is multi brand retail when an outlet sells a product of more than one brand. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open up stores offering a range of household items and grocery directly to customers.

- ◆ **Wal-Mart:** WAL-MART is an American multi retail corporation that runs chains of large discount department stores and warehouse stores. The company is the world's third largest public corporation according to the FORTUNE GLOBAL 500 list in 2012. It is also the world's biggest private employer with over two million employees and is the largest retailer in the world.

Wall-mart In India

Bharti Enterprises is one of India's leading business groups with interests in telecom, agri-business, insurance and retail and Wal-Mart, world's leading retailer, renowned for its expertise and efficiency in logistics, supply chain management and sourcing formed a joint venture known as Bharti Wal-Mart Private Limited. Bharti and Wal-Mart hold 50:50 stakes in Bharti and Wal-Mart Private Limited.

- ◆ **Carrefour:** International hypermarket chain headquartered in Boulogne Billancourt, France in greater Paris. It is one of the largest hypermarket chains in the world (with 1,395 hypermarkets at the end of 2009, the second largest retail group in the world in terms of revenue and third largest in profit after Wal-Mart and Tesco).

Carrefour in India

The Carrefour Group announces the opening of its first cash and carry store in India in New Delhi under the name “Carrefour Wholesale Cash & carry.” With a sales area of 5200 m², this store located east of New Delhi in the Shahadra neighbourhood will offer food and non-food to professional businesses, institutions, restaurants and local retailers. This opening is in line with the Group’s strategy to be present in major emerging markets that offer significant expansion and medium and long term growth opportunities.

- ◆ **TESCO:** It is a British multi grocery and general merchandise retailer headquartered in Cheshunt UK. It is the third largest retailer in the world in terms of revenue and third largest in terms of profits earned. It has stores in 14 countries across Asia, Europe and North America and is the grocery market leader in UK, Malaysia, the republic of Ireland and Thailand.

TESCO in India

Tesco has had a limited presence in India with a service E-centre in Bangalore and outsourcing. In 2008 Tesco announced their intension to invest an initial \$115 to open a wholesale cash and carry business based in Mumbai with the assistance of the Tata Group.

VI. ADVANTAGES OF FDI IN RETAIL SECTOR IN INDIA

Government has encouraged by the economic policy 1991, has adopted retail reforms mainly as 100% FDI in the retail sector in India. It may benefit by bringing investment in complete backend infrastructure and helps rural and agricultural sectors with a better go to market scenario. They also safeguard the health of the Indian retail sector against competition from the player of global economy.

India is ranked as the third most attractive nation for retail investment among 30 emerging markets with domestic companies like the Future Group, Tata’s Westside, Reliance Fresh, Raheja Group and Bharti Retail competing for market share. Market liberalization sowing the seeds for a retail transformation that will bring more MNCs players and big Indian retail players which are looking to expand their operations which include Pantaloon, Reliance, Lifestyle, Food world, Raymond, Titan, Bata etc. Global player’s access India market through the licensee/franchisee route includes McDonald’s, Pizza Hut, Dominos, Levis, Lee, Nike, Adidas etc. There are so many advantages of FDI in retail sector.

- (1) **Boost Economic Life:** Due to foreign companies entering into retail sector, new infrastructure will be built thereby bolstering the jaggig real estate sector. In turn, banking sector will also grow as the funds needed to build infrastructure will be provided by banks. A remarkable inflow of FDI in various industrial units in India has boosted the economic life of country.
- (2) **Job Opportunities:** It has been estimated according to government, that approximately ten million jobs will be created mostly in retail and real estate sectors.
- (3) **Beneficial for Farmers:** By FDI, farmers might get contract farming, where they will be able to supply an organized retailer based upon demand and will get a better price; easy credit availability will help to tackle the problem of farmer suicides.
- (4) **Beneficial for consumers:** Consumers will get variety of good quality products at low prices compared to market rates and will be able to choose from various international brands at one place.
- (5) **Increase level of competition:** FDI increases level of competition in market. They have to improve quality of products and service in order to stay in market. They enter into Indian market through Joint venture and collaboration.

(6) **Infrastructure facilities:** Allowing FDI might help India have better logistics and storage technologies resulting in avoiding wastage. Due to FDI foreign companies will invest around \$ 100 million in India. Thereby, infrastructure facilities, refrigeration technology, transportation sector will get a boost.

(7) **Cheaper Production facilities:** FDI will assure operations in production cycle and distribution. Due to economies of operation, production facilities will be available at a cheaper rate and thus resulting in availability of variety products to the ultimate consumers at a reasonable and cheaper price.

(8) **Availability of new technology:** FDI allows transfer of skills and technology from abroad. Improved technology in the area of processing, grading, handling and packaging of goods and further developments in areas like electronic weighing, billing, barcode scanning etc.

(9) **Maximum Opportunity:** FDI norms will open up strategic investment opportunity for global retailers, who have been waiting to invest in India. This may have a significant impact on the current arrangement of foreign players. Employees are well-versed with globally valued skills.

(12) Other benefits:

- Inflation is controlled.
- Tax revenue collected by the government can be used for infrastructure development.
- India will become more integrated with regional and global economies in terms of quality standards and consumer expectations.
- Increased efficiency
- Cost reduction
- Implementation of IT in retail.

VII. DISADVANTAGES OF FDI IN RETAIL IN INDIA

FDI feels that liberalization would endanger retail sector and mainly affect the small retailers, farmers and consumer and give rise to monopolies adversely affect the pricing and availability of goods. The entry of large global retailers such as Wal-Mart wipes out local shops and millions of jobs. There are so many disadvantages of FDI in retail sector.

(1) **Impact on the Kirana shops:** The unorganized market provides the second largest employment opportunities to 3.95 million people. It is argued that opening FDI in retail sector will have an impact on sales in the unorganized sector. As a result of this, employment provided by the unorganized sector will be affected. Small retailers and other 'Kirana Stores' may close down.

(2) **Limited Employment opportunities:** It is said that FDI might provide employment opportunities, but it is argued that it cannot provide employment opportunities to semi-illiterate people. This argument gains more importance because in India, large number of semi-illiterate people is present.

(3) **Fear of lowering of prices:** There is a fear that allowing FDI in retail would result in lowering of prices, as FDI will bring in good technology, supply chain etc. If prices are lowered, then it will lower the margin of unorganized players also. As a result of this, the unorganized market will be affected. This in turn will have an impact on the employment opportunities provided by the unorganized market.

(4) FDI in retail will drain out the country's share of revenue to foreign countries, which may cause negative impact on India's economy.

(5) Fears that domestic organized retail sector might not be competitive enough to tackle international players might not only result in loss of market share for them but in closure of their units.

(6) There is a possibility of small business owners and workers from other functional areas, as lot of people are involved in unorganized retail business, may lose their jobs.

(7) Supermarkets will establish their monopoly in the Indian market. Due to supermarkets fine tuning and higher accessibility they will be able to buy goods at lower prices and therefore will be able to sell at lower prices to consumers. This will result in closing of many small retailers.

(8) Other disadvantages:

- Giving rise to cut throat competition rather than promoting incremental business.
- Promoting cartels and creating monopoly.
- Increase in real estate prices.
- Profit distribution, investment ratios are not fixed.
- It can expand only by destroying traditional retail sector.
- It is true that it is in the consumer's best interest to obtain his goods and services at the lowest possible price. But collective well being should take precedence.

VIII. SWOT ANALYSIS FOR OPENING THE FDI IN INDIAN RETAILING

Strengths:

- Eliminates links in the purchasing chain
- Technology driven
- Consulting selling
- Presence of big industry houses
- Consumer service
- Variety of products under one roof
- Authentic products with Guarantee
- Pleasant shopping ambience
- Research driven plus competent manpower

Weaknesses

- Lowest per capita space in the world
- Prices more as compared to specialized shop
- Reluctance of people
- Non availability of land spaces at prime slots
- High overhead and labor costs

Opportunities

- Lifestyle changes or status consciousness
- Ready availability of real estate in smaller towns
- Improved sourcing options
- Increasing time pressure for Indian woman
- Focus on more quality, variety and easy availability under one roof
- Increase in disposable income
- Feel and touch shopping
- No foreign competition
- Increasing media exposure to brand
- It can become one of the largest industries in terms of numbers of employees and establishments.

Threats

- Roadside bargains
- Other retail outlets
- Personal and homely attention at smaller shops
- Availability of credit at other retail outlets
- Competition from unorganized sector
- Government policies and regulations
- Lack of adequate infrastructure and inadequate investment
- Lack of uniform tax system for organized retailing.
- Labor rules and regulation are also not followed in the organized retails.

IX. CONCLUSION

The concept of FDI is now a part of India's economic future but the term remains vague to many, despite the profound effects on the economy. FDI means Foreign Direct Investment in which foreign investors can make investment in India. FDI in India's retail sector has both advantages as well as disadvantages. It is advantageous to the government as the tax revenue collected can be used for infrastructure development, not only this it will be beneficial to the farmers and consumers also to a large extent. It will also provide job opportunity which is a crucial factor for developing countries. On the other hand it will cause cut throat competition specially in the organized retail sector promoting cartels, creation of monopolies, increase real estate prices etc. Increased competition will be beneficial as everyone will try to make its product better from others to increase their profits which will ultimately result in quality products at reasonable prices. Opponents of FDI in retail argue that it will bring major job losses but frankly it will cause only redistribution of jobs with some drying up (like middlemen) and new ones sprouting up. The argument that farmers will suffer due to creation of monopolies is weak. Stores like Wal-Mart and Tesco are very few, on the outskirts of cities (to keep real estate costs low) and can't intrude in the local territory of local kiranas.

FDI is advantageous and disadvantageous both but it depends only on the way we implement it in our country so that FDI does not have a bad impact on India's Business. Government must make some rules so that it is beneficial for Indian market,

retailers and the customers get the required benefit from this. May be by this Indian economy may rise which is helpful in the employment field. The experience of successful ASEAN countries amply demonstrates how FDI can play a leading role in bringing about rapid, export-led growth. In the retail sector changes are very frequent therefore survival in retail will depend upon the ability to adapt to change. The Indian retailers need to develop proper systems and processes keeping the unique nature of the country in mind. FDI would lead to a more comprehensive integration of India into the worldwide market and as such, it is imperative for the government to promote this sector for the overall economic development and social welfare of the country. So FDI should be implemented in a limited way so that it releases a good impact on India market. If done in the right manner, it can prove to be a boon and not a curse.

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