

Pros and cons of fdi in retail marketing essay



**ASSIGN
BUSTER**

INTRODUCTION

Indian Retail Industry is standing at its point of inflexion, waiting for the boom to take place. The inception of the retail industry dates back to times where retail stores were found in the village fairs , Melas or in the weekly markets. These stores were highly unorganized. The maturity of the retail sector took place with the establishment of retail stores in the locality for convenience. With the government intervention the retail industry in India took a new shape. Outlets for Public Distribution System, Cooperative stores and Khadi stores were set up. These retail Stores demanded low investments for its establishment.

The retail industry in India gathered a new dimension with the setting up of the different International Brand Outlets, Hyper or Super markets, shopping malls and departmental stores.

Future of organized retail in India looks bright. According to recent researches it is projected to grow at a rate of about 37% in 2007 and at a rate of 42% in 2008. It captured a share of 10% of the total retailing by the end of 2010.

The organized retail sector is expected to grow to a value of Rs. 2, 00, 000 crore (US\$45 billion) and may generate 10 to15 million jobs in next 5 years. This can happen in two forms- 2. 5 million of these people may be associated directly with retailing and the rest 10 million people may be gainfully employed in related sectors that will be pulled up through the strong forward and backward linkage effects.

However to compete in this sector one needs to have up-to-date market information for planning and decision making. The second most important requirement is to manage costs widely in order to earn at least normal profits in face of stiff competition.

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:

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

In July 2010, Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce circulated a discussion paper on allowing FDI in multi-brand
<https://assignbuster.com/pros-and-cons-of-fdi-in-retail-marketing-essay/>

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.

ANALYSIS AND INTERPRETATION

SWOT Analysis of Retail Sector:

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 organised 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 work force in India, which is rite now limited to unorganised sector only. Once the reforms 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 Unorganised: The unorganised portion of retail sector is only 97% as compared to US, which is only 20%.

- Low Productivity: Mckinsey 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.

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 Walmart, 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 realises 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.
- Quality Control and Control over Leakage and Wastage: due to organisation of the sector, 40% of the production does not reach the ultimate consumer. 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.

4. Threats:

- Current Independent Stores will be compelled to close:

This will lead to massive job loss as most of the operations in big stores like Walmart are highly automated requiring less work force.

- Big players can knock-out competition: they can afford to lower prices in initial stages, become monopoly and then raise price later.

<https://assignbuster.com/pros-and-cons-of-fdi-in-retail-marketing-essay/>

- 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.

In view of the above analysis, if we try to balance opportunities and prospects attached to the given economic reforms, it will definitely cause good to Indian economy and consequently to public at large, if once implemented. Thus the period for which we delay these reforms will be loss for government only, since majority of the public is in favour of reforms. All the above mentioned drawbacks are mostly politically created. With the implementation of this policy all stakeholders will benefit whether it is consumer through quality products at low price, farmers through more transparency in trading or Indian corporates with 49% profit share remaining with Indian companies only.

PROS AND CONS OF FDI ON RETAIL SECTOR

PROS:

It will cut intermediaries between farmers and the retailers, thereby helping them get more money for their produce

It will bring the necessary foreign investment into the country, along with technology and global best-practices

It will help in reducing the prices at retail level and calm inflation

Small and medium enterprises will have a bigger market, along with better technology and branding

<https://assignbuster.com/pros-and-cons-of-fdi-in-retail-marketing-essay/>

It will induce better competition in the market, which will result as a benefit to both producers and consumers

It will actually create employment than displace people engaged in small stores

CONS:

It will lead to closure of tens of thousands of mom-and-pop shops across the country and endanger livelihood of 40 million people

Small and medium enterprises will become victims of predatory pricing policies of multinational retailers

It may bring down prices initially, but fuel inflation once multinational companies get a stronghold in the retail market

Farmers may be given remunerative prices initially, but eventually they will be at the mercy of big retailers

It will disintegrate established supply chains by encouraging monopolies of global retailers

CONCLUSION

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 economic 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.

And also, nobody can force a consumer to visit a mega shopping complex or a small retailer/sabji mandi. Consumers will shop in accordance with their utmost convenience, where ever they get the lowest price, max variety, and a good consumer experience.