# Fdi in multi brand retail in india

# ABSTRACT

Retail is the sale of goods and services from individuals or businesses to the end-user. This is extremely important sector for Indian economy and as Indian government boldly announced the decision to open FDI in multi-brand retail, on November 24, 2011. The opposition and some allied parties forced government to defer this decision. There was opposition from the Trader's Association fearing that unorganized retail shops will close down. Many band had happened protesting this action by the government. This has triggered new consequences for the government as well as the traders. For the government, with internal pressures, there also exists external pressures from the developed countries, international bodies etc. Government is claiming that this opening foreign super market chains investment will generate many employment opportunities, improve supply chain etc while mom and pop stores fear that their shops will be closed. Therefore, it becomes critically important to analyse the situation from both the ends.


KEYWORDS: Multi-Brand Retail, Organized Retail, FDI, Kirana Shops

# INTRODUCTION

The retail industry in India is of late often being hailed as one of the sunrise sectors in the economy. A T Kearney, well-known international management consultancy firm, identified India as fifth most attractive retail destination globally in its 2012 Global Retail Development Index (GRDI). The contribution of retail sector is around 14% to the national GDP & it employs around 7% of total workforce in the country. That is why it is very crucial and important pillar of the Indian economy, issues with this should be analysed properly, and decisions have to be taken diligently.

Indian retail sector can broadly be divided into two categories.

Unorganized Retail

Organized Retail

Unorganized retail refers to traditional approach of low cost retailing, for example, local kirana shops, owner managed shops, Handcarts, pavement vendors, paan-beedi shops etc. On the other hand, organized retail refers to trading activities undertaken by licensed retailers, i. e. those who are registered for the sales tax, income tax etc. This includes supermarket, hypermarket chains, privately owned large retail business etc.

Indian retail democracy is characterized by,

1. High levels of livelihood in retail with nearly 40 million employed which accounts for 8% of the employment and 4% of the entire population.

2. High levels of self – organization.

3. Low capital input

4. High levels of decentralization

The Indian retail market, estimated around $400-450 Billion, is dominated by the highly decentralized unorganized sector. The Indian farmer typically gets only a third of what the final consumer pays, instead of the two-thirds that his counterparts do in countries that have organized retailing. India is the second largest producer of fruits and vegetables in the world, but almost 30 per cent of these go waste for want of storage and processing facilities. It is agreed that the bulk of the Indian economy would gain, significantly, from the emergence of a well-capitalized retail industry. The organized retail industry is one of the sunrise sectors with huge growth potential. Total retail market in India, which currently stood at USD 400 Billion in 2009-10, is estimated to attain USD 573 billion by 2012-13. Organized retail industry accounts for only 5% of total retail industry but is expected to reach 10% by 2012

Despite the global economic recession and a consequent slowdown in the Indian economy, organized retail continued to make headway although at a slower pace in 2009. Nonetheless, if the current retail landscape is compared with that of 2004, it has undeniably become a much larger environment. Retail stalwarts such as Wal-Mart, Tesco and Marks & Spencer have already made inroads into the Indian retail industry and with multi-billion dollar investments by major domestic players such as Reliance Retail; the market is expected to go from strength to strength. India also possesses IT skills in the area of supply chain management, database management and inventory management. A number of drivers are aiding the development of the Industry such as improved levels of income and increasing purchasing power, entry of foreign retailers and reforms in real estate markets.

# Literature Review

1. " FDI IN MULTI-BRAND RETAIL: IS IT THE NEED OF THE HOUR??" By Dr. Mamta jain, Assistant Professor, Department of EAFM, University of Rajasthan, Jaipur & Mrs. Meenal Lodhane Sukhlecha, Assistant Professor,

Subodh Institute of Management & Career Studies, Jaipur. The paper talks about the need of opening FDI in multi-brand retail, facts and figure of the Indian retail industry. The government is in a process to initiate a second phase of reforms, it is cautiously exploring the avenues for multi-brand segment. Indians with an ability to spend over USD 30, 000 a year (PPP terms) on conspicuous consumption. Also, the challenges in implementation of FDI in multi-brand retail have been discussed. The comparison with other developing countries like China has been done in order to understand the scenarios there.

2. " FDI in India's Retail Sector – More Bad than Good?" By Mohan Guruswamy, Kamal Sharma,

Jeevan Prakash Mohanty, Thomas J. Korah. This paper significantly focuses on negative aspects of FDI in multi-brand retail implementation. It discusses critically the employment aspect, foreign retailer's view and their previous strategies, availability of skilled resources, oppose from unorganized retailers etc.

3. " FDI in Retail Sector: India, Academic Foundation in association with ICRIER and Ministry of Consumer Affairs, Food and Public Distribution (Govt. of India)", by Mukherjee A & Patel N (2008). The paper talks about the poor distribution system in India and mishaps happened due to such system. The overall impact on the end consumer is also discussed in greater deal. The time to market, quantity & quality of the products suffer due to such deficiencies in the food distribution system. How best practices of

international retailers, can benefit to overcome such problems have been talked about and criticised.

## Objectives

1. To assess the FDI in multi-brand retail need.

2. To analyze pros & cons impact of the FDI in multi-brand.

3. To understand the impact on the customer

## Research Methodology

To evaluate the overall position of the entry of FDI in multi brand retail in India, secondary data has been collected from various published sources and websites from the year 1999 to few assumptions for the future. Interpretation of the data is more on qualitative terms than on quantitative terms. As the government is in a process to initiate a second phase of reforms, it is cautiously exploring the avenues for multi-brand segment. With key parameters like customers entry, same stores sales, average transaction per bill improving at faster pace, the industry expects the reforms to be fast going forward. India’s retail market is expected to be worth about US$ 410 billion, with 5% of sales through organized retail, meaning that the opportunity in India remains immense. Retail should continue to grow rapidly-up to US$ 535 billion in 2013, with 10 per cent coming from organized retail, reflecting a fast-growing middle class, demanding higher quality shopping environments and stronger brands, the report added. Foreign direct investment (FDI) inflows between April 2000 and April 2010, in single-brand retail trading, stood at US$ 194. 69 million, according to the Department of Industrial Policy and Promotion (DIPP).

## Key Findings

The published data from DIPP indicates that,

1. 40 foreign retailers have secured approval since 1992

2. $22 billion of FDI attracted 3. 6% of total FDI.

3. Employment in retailing has grown at 6% p. a. since 1992 to 53 million

4. Retail sales have grown@13. 5% CAGR since FDI was permitted.

5. In 2003, FDI in wholesale and retail was US$ 1. 1 Billion (Around 30% of our total FDI in 2003).

6. Some well-known foreign retailers included Nike, Wal-Mart, Carrefour, 7-Eleven, and Giordano etc. These retailers, amongst others, account for some of the 10 percent of total merchandise.

7. Since 1992, FDI has improved the quality of experience, choice and prices for the Chinese shoppers.

8. There was also considerable increase in traditional stores, hypermarkets, super markets, convenience.

Retailing is the largest private sector industry in the world economy with the global industry size exceeding $6. 6 trillion and a latest survey has projected India as the top destination for retail investors. In addition, the further upsurge is anticipated in the retail sector as the Government of India has already opened up 51% FDI in single brand retail outlets and 100% in cash and carry business . In November 2011, the Cabinet cleared the bill to raise foreign direct investment to 51% in multi-brand retail and 100% in single brand. The decision will be cheered by global retail giants such as Wal-Mart that have long been eyeing India's rewarding retail sector which is mainly occupied by small ' mom & pop' shops. Currently, organized retail, or large chains, makes up less than 10% of the market.

Trade or retailing is the single largest component of the services sector in terms of contribution to GDP. Its massive share of 14% is double the figure of the next largest broad economic activity in the sector.

Overall Growth: This has meant greater disposable incomes for the Indian middle class, which Currently comprises 22% of the total population. Disposable incomes are expected to rise at an average of 8. 5% p. a. till 2015.

Target Population: More than 50% of the population is less than 25 years of age and strong growth is expected to continue in this age bracket.

Increase in urbanization: The Indian urban population is projected to increase from 28% to 40% of the total population by 2020 and incomes are simultaneously expected to grow in these segment.

Ease of financial available: Retail loans have doubled in the last three years to reach USD 38. 7 bn by 2005. All the above figures represent only about the rich and middle class of the country. Because of the Big consumer market that India offers, the government gives no regard to the concerns of unorganized 97% of the retail trade in India. People of all classes depend upon these traders for their daily supplies.

Expansion in educational facilities: Education sector has led to a incredible development which has ultimately led to the growing awareness and demands of the youth regarding the brand culture in the country. Few reports depict that among teenagers (aged 17 to 20 years) apparel, books, footwear and mobiles phones account for nearly around 42% of the total discretionary spend.

Agricultural Factors: The continuous changes in the environmental factors and the changing agrarian facilities with the increasing outputs and better yields have also led to the growth in demands of the consumers.

Role of Media: The change in the thought process of the consumers due to the increased impact of media on their lifestyle has made the retailers find the market for new and lucrative products which were earlier not accessible to the consumers.

Efficiencies in Logistics: The various infrastructure development schemes which have led to better connectivity between different regions has also led to the development of a more lucrative market for India as a whole.

Overall, the government seems set to consider the option seriously to open retail to FDI. But the Government should seek for reforms keeping in view the existing framework of India and this should be done in a phased manner so as to prepare the economy for availing the benefits and avoiding the pitfalls. So, the government should put some conditions in this game like:

1. The very first condition is if a foreign player will enter than they have to procure goods from local manufacturers.

2. The second one is there will be 50% reserved employment for rural youth.

3. All the big players need to spend 50% of FDI in Infrastructure, logistic and agro-processing.

4. They need to pay attention towards agriculture food processing to boost Indian economy.

5. For protecting local vendors these retailers should operate only in big cities where minimum population is one million.

6. Without rural electricity and large-scale new investment in water management, farmers cannot produce more, even with technical inputs from big retail. These concerns should be addressed while allowing FDI in retail.

7. The government will have to be fair and evenhanded between domestic and foreign organized retailers.

If half the jobs in FDI-funded retail outlets should be reserved for rural youth, why not do the same for Pantaloon, Reliance, or Shoppers Stop? If a percentage of FDI coming in is to be spent towards building up of back-end infrastructure, logistics or agro-processing, surely the same should apply to purely Indian players.

## FDI in multi-brand retail – Why government should worry about it?

Following are the reasons why opposition parties, some allied parties and trader’s

1. 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.

2. The opening up of the retail sector would affect the sales in the unorganized sector. As a result, the employment it provides would be affected. In addition, by reducing the number of intermediaries, organized retailing will lead to some job displacement.

3. Global retailers might resort to predatory pricing. Due to their financial power, 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 profits.

4. It is said that FDI would provide employment opportunities. However, the fact is that they cannot provide employment opportunities to semi-illiterate people. Though they can provide employment opportunities like drivers, security guard etc. but this argument gets more attention because in India semi-illiterate people in quiet large in number.

5. 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 from global players.

6. The organizational form of rural producers as they interact with Big Retail is still not being done. Small farmers can undertake contract farming, but they have no bargaining power and will be at the mercy of their buyers.

Small producers need to be organized into farmer companies or producer cooperatives that can deal with Big Retail from a much stronger position. So that their interests are not lost.

7. Indian retailers have argued that since lending rates are much higher in India, Indian retailers, especially small retailers, are at 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.

8. Loss of cultural and ethical values due to more influence of the other cultures.

9. Some fear that, if FDI is allowed in retailing then it would result in lowering of prices because FDI will result in good technology, supply chain, etc. If prices were lowered then it would lower the margin of unorganized players. As a result, the unorganized market will be affected.

10. FDI in retail trade 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 contrary; after making initial investment on basic infrastructure, the multinational retailers may remit the higher amount of profits earned in India to their own country.

## FDI in multi-brand retail – Reasons to be happy

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.

2. Entry of large low-cost retailers and adoption of integrated supply chain management by them is likely to lower down the prices.

3. FDI in retailing can easily assure the quality of product, better shopping experience and customer services.

4. They promote the linkage of local suppliers, farmers and manufacturers, no doubt only those who can meet the quality and safety standards, to global market and this will ensure a reliable and profitable market to these local players.

5. As multinational companies are spreading on their operation, regional players are also developing their supply chain differentiating their strategies and improving their operations to counter 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.

7. FDI would lead to development of different retail formats and modernization of the sector.

8. Industry trends for retail sector indicate that organized retailing has major impact in controlling inflation because large organized retailers are able to buy directly from producers at most competitive prices. World Bank

attributes the opening of the retail sector to FDI to be beneficial for India in terms of price and availability of products as it would give a boost to food products, textiles and garments, leather products, etc., to benefit from large-scale procurement by international chains; in turn, creating jobs opportunities at various levels.

9. As foreign investors exploring their potentials in the retail sector are keen on developing malls in India, the size of organized retailing is expected to touch $30 billion by 2010 or approximately 10 per cent of the total. This has initiated market-entry announcement from some retailers and has signalled to international retailers about India’s seriousness in promoting the sector.

10. India is already a key sourcing country for some global retailers. The entry of foreign retailers is likely to further promote India’s manufacturing and export sectors, leading to a double bonus for the economy.

11. Also, the retail revolution can change country’s perception across the globe, integrating it seamlessly into world trade and economy.

## Conclusion

To conclude this, we can infer that opening up multi-brand retail is a welcome first step. As the Indian retail sector is highly fragmented and domestic retailers are in the process of consolidating their position, the opening up of FDI regime should be in a phased manner over 5 to 10 years period to give the domestic retailers enough time to adjust changes. FDI should not be allowed for multi brand stores in near future, as Indian retailers will not be able to face competition with these stores immediately. At present, it is also not desirable to increase FDI ceiling to more than 51%

even for single premium brand stores. It will help us to ensure check and control on business operations of global retailers and to look after the interests of domestic players. Foreign players should not be allowed to trade in certain sensitive products like arms and ammunition, military equipment, etc. and the list of excluded products should be clearly stated in the FDI policy. Therefore, GoI should open FDI in multi-brand retail but policy terms should be carefully designed and implemented.

## Limitations

This study has to be evaluated keeping in mind its limitations. This topic is politically sensitive and the views and conclusions have been derived considering the facts, which are available using secondary research. The historical data and trends are considered significantly to understand underlying issues or problems. The pros and cons have been analysed critically and a few may impact on other aspects which is not considered here while analysing the same.