

Fdi in multi brand retail essay



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Risk and Return Analysis of FDI in Multi Brand Retail in India Ms. Anita Nyati, Lecturer (Business Administration) ABSTRACT Foreign Direct Investment (FDI) is the outcome of the mutual interest of multinational firms and host countries. The current debatable issue in India is whether to permit FDI in Multi Brand Retail (MBR) or not. This paper provides a study of various aspects of FDI in Multi Brand Retail.

Firstly the paper examines the present set up of retail sector in India. Further it focuses on the benefits of FDI which are expected in terms of better quality, better technology, better customer services and infrastructural development of India. The paper also discusses the major concerns / risk associated in form of unemployment or throat cut competition with FDI permission. To support the discussion, the experiences of other countries have also been included in the analysis.

The last section prescribes the conclusion that the opening up the retail sector to foreign players will be a step to flourish the retail sector as well as society, on the condition to implement with proper strategies so that the returns can be maximised and risk can be minimised. Some riders may be applied on foreign entities like minimum investments in the back end infrastructure, caps on scale etc. Thus, if done in the right manner, FDI in Multi Brand Retail sector can prove to be a Boon and not a Curse. Keywords Foreign Direct Investment, Multi Brand Retail, Strategies. Risk and Return Analysis of FDI in Multi Brand Retail in India

Ms. Anita Nyati, Lecturer (Business Administration) Govt P G College, Pratapgarh This is one of the burning issues to discuss in India. As the retail

industry in India is the 2nd largest source of employment after agriculture, so policies related to retail sector should be well managed. Before we start analysis of impact of FDI in multi brand retail, it is better to have a look on current scenario of Retail Industry and FDI in India. Overview According to the Delhi High Court, Retail means sale for final consumption to the ultimate consumer. Indian retail industry can be categorized in two types - Unorganized and Organized.

Unorganized retail sector consists of all small shops, kirana stores etc with low investments while organized retail sector consists of well managed retail chain or hyper market etc with large scale operation and heavy investment and infrastructure. Current scenario of FDI in India Foreign direct investment (FDI) refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. Post liberalization according to GATS & WTO, India has also opened up many sectors including retail sector to foreign players partially. The following development in FDI in retail sector in India - 1997 - 100% FDI allowed in cash and carry wholesale trading under govt approval route. 2006 - 51% FDI allowed in single brand retailing. 2011 - And a proposal for 100% FDI cleared in Multi Brand Retail by the parliament in the winter session. In 2011. This journey has resulted in USD 194 million between 2006 and 2010. India is ranked as the 3rd most attractive nation for retail investment among 30 emerging markets. At present - Discussion on FDI in Multi brand trading. Multi Brand Retail (MBR) can be in different formats like super market, hyper market, compact hyper etc.

Although this organised retail sector has a lot of potential yet this sector is constrained by several factors like highly restrictive licence regime and poor infrastructure. So the idea of getting FDI in multi brand retails becomes stronger. Proposal for FDI in MBR -

- 51 % FDI permission in MBR.
- Minimum investment of \$100 million.
- 50% of the investment is to be in backend infrastructure development.
- 30% of all raw materials have to be procured from India's small and medium industries.
- Permission to set up malls only in cities with a minimum population of 10 lacs.
- Government has the first rights to procure material from the farmers.
- Products should be sold under the same brand internationally.
- Foreign investor should be the owner of the brand.

Proposal for FDI in Multi Brand Retail (MBR)-

- 51% FDI permission in MB retail.
- Minimum investment of \$100 million.
- Foreign investors should be the owner of the brand.
- Now the issue is whether opening up of FDI in MBR will provide opportunities or create problems. There may be both side views so this paper presents an analysis.

Before we list the benefits of FDI, it would be better to assess the present set up of the retail sector. Present set up of Indian Retail Sector -

- In reference of the farmer- India is a country of farmers where 60% of population is involved ins with agriculture. India It is the 2nd largest producer of fruits & and vegetables and 3rd largest of grains. but Indian farmers are not getting enough returns. There are many 3-4 middle meninter-midiateriesmediatories in betweenbetween farmers and ultimate consumers. Even as per an estimate so farmers get only 2010 -3020 % of the actual price we pay.

Major part of their crop goes wastage due to not having better logistic facility, facility; their produce can't reach to the Mandies. In many parts of the country due to not getting enough money through farm produce farmers have to commit suicides, they go on the way to crimes. Migratecrimes, migrate to metro cities and live measurably in slums. According to a report, between 1997 to 2007 approximately 182, 936 farmers committed suicide. . Even due to inadequate infrastructure & transportation facilities, farmers have to bear huge losses. • In reference of the infrastructure & logistics - Investment on infrastructure and logistics is not sufficient today. Even tTo keep farm produce fruits and vegetables fresh and safe, cold storage are also not enough.. Integrated cold chain infrastructure is also limited with 5386 cold storage. This situation leads to heavy losses to farmers in terms of wastage in quality and quantity of produce. As per some industry estimate 25 to 30% fruits, and vegetables and grains are goes wasted due to this. • Weaker value chain system- Since there are many intermediaries engaged in the chain for their profit sharing, both farmers and consumers are affected adversely.

Farmers are not able to face the pressure from intermediaries and consumers have to pay hikedhigher price. • Improper public distribution system(PDS) - Though Indian government is giving heavy food subsidies via PDS to poor people, yet overall food based inflation is increasing day by day. For the last one year on and average it has been more than 10%. This is the major shortcoming of the PDS • Non existence at international level - Since all Indian organised retail retail traders are scattered and having very small investments so no brand has got recognition at international level.

Further they are not having good technologies and back up integration to procure material direct from farmers and producers.

- Financial burden on the Government finances - As of today due to poor condition of farmers in India, Government has to provide various subsidies on Fertilisers etc. ,
- Indian currency needs support - In past 12 months we have seen a very much volatile Indian Rupee. It has touched all time low 54. 30 against USD.

As India is no longer that attractive destination for foreign investors because of lack of reforms now.

- Key benefits of permitting FDI
- Benefit to farmer and ultimate consumer - By introducing FDI in retail the post of middlemen in India will be eliminated and farmers will get a good price for their crops and their exploitation will stop (which is going on for the last 150 years). It will encourage farmers to increase farm-productivity, use high quality seeds and technology machinery in agriculture. It will increase their earnings and that's how their living standard. They will send their children to school and will make a knowledge full society. Ultimately it will help India in eliminating its social problems like illiteracy, poverty and health issues. Govt. will be able to achieve its target of more than 10% growth in agriculture.
- Restructuring cost benefits equation - Since FDI will strengthen the sector so it will remove the middlemen from the equation resulting reduced cost & price also. Farmers will sufficient returns as well as consumers will get product at reduced price.
- Creation of employments - Because of the large investment by foreign companies, Large investment on this sector will create huge direct and indirect employment opportunities. A study states that it will create 10 million more jobs in 3 years apart from indirect employment. In areas like marketing, agro-processing, packaging, transportation, etc. According to Commerce, Industry and Textile Minister Anand Sharma, study states that it

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will create at least 10 million more jobs in next 3 years. apart from indirect employment.. Apart from this, due to the proposed retail policies for FDI in retail by parliament, foreign companies will have to source a minimum of 30% of their goods from Indian micro and small industries. This will encourage domestic manufacturing specially micro and small scale industries. , iAgain it will create a big effect for indirect employment and will encourage them to upgrade the technology. Improved infrastructure and logistics- After allowing FDI in retail each of the foreign company will invest minimum \$100 million in India. Because of that, infrastructure facilities, refrigeration technology, transportation, etc. will be renovated. That will lead to lesser wastage and even help reducing food inflation rate. • Improved technology and logistic - • • Huge investment on research and development - - From farmers to small scale manufactures everyone will use better technology and it will push Indian companies to go for adoption of foreign technologies and even more innovation we will be seen in India.

New start ups will come in this field of research and development as it is happening in mobile applications ,(major part of the mobile applications are part of the mobile applications is being developed by Indians now a days now a day). Mantra is that if there is money, there will be innovation. aApart from this, foreign companies will also invest heavily on R&D as they are doing in the field of IT e. g. IBM, Microsoft, Intel etc. • Impact on real estate development - - For modern retail more and more Shopping Malls and infrastructure will have to be developed and it will boost Indian real estate sector. and hence improve employment. • Benefits for the farmers - Increased productivity . income growth . agriculture growth • Benefits for consumers -

Consumers will also get benefits as many of the channel mark-ups will disappear, they will get good quality product at a reasonable price. Further improvement in the overall logistics and infrastructure will make everyone's life better.

- Increased competition - There will be a healthy competition between among the players, use of technology will increase, and overall costs will reduce. Everybody in this chain will increase their productivity and ultimately benefit to India's economy.

Impact on Kiranas The vast majority of kiranas will be unaffected by the entry of foreign retailers. Only the ones in large metros could be affected, and even that is hard to see. Even the entry of foreign retailers will spur domestic retail players to improve their operations to compete with organised retail.

An interesting by-product of the entry of large foreign retailers could be the wooing of the kiranas by major brands in India because of the expected loss of margin by these brands in dealing with organised retail companies.

- Stable Rupee-

It makes sense to allow FDI in India as our economy will receive much needed dollars and will help stabilize our currency. When rupee will stabilize our imports of crude oil will hurt less to the Indian economy and Indian consumer ultimately. Subsidy burden of the government will reduce.

Experiences in other countries - Countries like China, Indonesia, and Thailand already have 100% FDI in retail. After allowing FDI in retail, these countries have experienced tremendous growth in the agro processing industry, refrigeration technology and infrastructure.

Critics of FDI Opponents of the FDI feel that liberalization would jeopardize the unorganized retail sector and would adversely affect the small retailers, farmers and consumers and give rise to monopolies of large corporate

houses which can adversely affect the pricing and availability of goods. Even the retail sector is the major source of employment and FDI can displace the unorganized retailers leading to loss of livelihood. Major concerns which have been expressed with regard to opening of the retail sector for FDI-

- Fear of unemployment -

The big giant of international level once permitted to come to India, then and then they will capture all the entire market share resulting in “Shutter Down” of unorganized retailers with low investment.

- Competition between international players and domestic players -
- Even domestic players who have invested heavy amount but not able to face competition from international players. It happened when PepsiCo and Coca Cola entered the Indian market Indian players either had to sell their business to them or they vanished.

Experience of other countries regarding FDI in MBR It would be better to have a look on the experiences of the other countries. China is one of the best examples. China permitted FDI in retailing first time in 1992 up to 49 % and then in 2004 it lifted all the restrictions on FDI in retail. Another example may be of Thailand, Brazil, Argentina, Singapore, Indonesia, Chile, and Russia who allow 100% FDI. The study of all these countries shows that entry of foreign players supported in the development of organized retail industry as well as impressive growth of the country.

Even increment in the export of the host countries has also been noticed through networks of foreign retailers. Their economies have benefitted from this move. Thailand has become a good shopping destination. RISK RETURN

ANALYSIS On behalf of the benefits & concerns which have been described in the paper, it can be said that the opening up of the retail sector for foreign players will lead to overall growth & development and returns which are expected from FDI in MBR, are higher than risk associated with it.

In support of the statement , reference of the local players like Reliance Fresh, Big Bazar can be considered. They are doing wonderfully well. Even consumers mainly working people who don't have time to shop different things from different places, have benefitted a lot in terms of quality, variety , price and ease of shopping with all other discounts and exchange offers. And , local traders are still trading as they are. Similarly foreign players will also not harm the economy but they will bring human / monetary / knowledge capital and competition.

The question of unemployment due to eliminating middlemen , middlemen, kirana stores etc , is answered by the statement that FDI in MBR will create 10 million more jobs in 3 years apart from indirect employment. There will be reorganization of the job structure rather than a reduction. It will decrease unorganized labour. Also , make a smooth way to enforce labour law. Plus, protection to the weakest section i e farmers can be possible through this. The present condition of farmers is very miserable. He is getting 1/3 of the price for his produce.

And, at the time of bumper crop, he has to sell his produce at a throw away price. He has no access to direct marketing. He has to bear loss in multiple transportation points, handling of the produces and loss due to lack of preservation of food grains, vegetables and fruits. These all situations can be

removed from the system through FDI. As the foreign players will come with heavy investment on infrastructure in form of cold storage, warehousing, adequate quality control and testing system, efficient supply chain and easy transportation.

Just bringing proper storage places will go a long way in solving the wastage problem. There is also a great scope of processing industry in fruits and vegetables, meat and poultry, milk and milk products, fisheries, plantation, grain processing, the opportunity for large investment in food and food processing technology, skills and equipment, especially in areas of canning, dairy and food processing which can easily be achieved with the help of FDI.

So the fear that FDI will swallow the small traders, traders should be removed and hope for the greater good of society should be kept. At present when there is resistance from trade associations, political activists or some organizations, the govt may choose to open up the sector with limited foreign equity ownership. In addition there may be a few riders wherein the entities may have to fulfil certain requirement such as minimum investment in the back end infrastructure, caps on scale, working on some sort of agreement with local kirana stores etc.

Despite country wide speculation on the plight of small retailers, India needs to take a lesson from China where organized and unorganized retail seem to co-exist and grow together. Further India's local enterprises will potentially receive an up gradation with the import of advanced technological and logistics management expertise from the foreign entities. The govt has an opportunity to utilize the liberalization for achieving certain of its own targets

: Improve its infrastructure Access sophisticated technology Generate employment for those for those keen to work in this sector

FDI would lead to more comprehensive integration of India into the world wide market and as such it is imperative for govt to promote this sector for the overall economic development and social welfare of the country. If done in the right manner, it can prove to be a boon and not a curse. To conclude the opening up of the MBR sector to foreign players will be a step in the right the right direction as this could bring about a number of benefits in terms of improved infrastructure, efficient processes, employment generation opportunities and better experience for Indian consumers in the long run.

It may also urge the Indian players both in the organized and unorganized formats to re think their business plans to become more efficient and remain competitive. For foreign players entering India, they may have to adopt a business model which is more conducive to local business environment as India is a price sensitive market market and has its own set of dynamics when compared to other markets world wide. Bibliography Websites :- • www. Legalserviceindia. com • www.

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