Swot analysis on foreign direct investments

The retail industry in India is predicted to increase at a phase of 14 by 2013. The initiative for allowing FDI was first taken in 2006. Since 2006 54 FDI permissions have been received by the government of India and a cash inflow of Rs 901. 64 crore in the form of investments into the nation. Retailing includes all forms of business involving sale of products and services to the end users. Retailing includes a retailers commonly a store or a service establishment, dealing with consumers who are purchasing goods and services for their own use rather than for resale. Wal-Mart, Best Buy and other familiar organizations are retailers. Retailing is dependent more on how the trade deals straight with consumers. Retail banking, service based shops; coffee shops are also retailers. With the commencement of online retailing, retailers are no more worried about place of stores. E-retailing has emerged. Consumers are always hungry for modern ways of shopping. Indian retail sector is increasing fast and its employment potential is growing faster. The retail scene is changing really fast. Retailers are rethinking about the best prices they can get goods with. Retail sector in India is also catalyst for the pickup of stalling tactics of below the line marketing used by major retail players such as Spencer, big bazaar, reliance fresh etc. For increasing customers by creating point values of sales displays. So we can say that India is an emerging land of FDI and going to be one of the quickest growing regions of the future.

Key terms: FDI, Retail markets, Gross Domestic Product, International, Policies, and infrastructure development.

Introduction: As per the current regulatory policies, retail trading (except under single-brand product retailing, FDI up to 100 per cent, under the

Government route) is allowed in India. To say it short, for a company to be able to get foreign investments, goods sold by it to the general public should only be of a ‘ unique-brand’; this condition being in addition to a few other conditions to be stick to. That explains why we do not have a Harrods in Delhi. India being a trademark to World Trade Organization’s General Agreement on Trade in Services, which include wholesale and retailing services, had to open up the retail trade sector to foreign funds. There were initial priorities towards opening up of retail sector arising from fear of job losses, procurement from international market, competition and loss of entrepreneurial opportunities. In the series of action, the government in a sequence of moves has opened up the retail sector slowly to Foreign Direct Investment (“ FDI”). In 1997, FDI including in cash and carry (wholesale) with 100 percent ownership was permitted under the Government approval route. It was given a green signal in an automatic route in 2006. 100 percent investment in unique brand retail marketing was also allowed in 2006. FDI in Multi-Brand retailing is prohibited in India. Allowing FDI in multi brand retail can bring about Supply Chain Improvement, Investment in Technology, Manpower and Skill development, Tourism Development, Greater Sourcing from India, up gradation in Agriculture, Efficient Small and Medium Scale Industries, “ With around 13% contribution to GDP and 7% employment of the national workforce, retailing no doubt is a strong pillar of the Indian economy. What it requires is more corporate backed retail operations that have started to emerge over the past couple of years.”(Arvind Singhal, chief executive, KSA Technopak)

Determinants of FDI Policies In India

Looking up into the literature survey the major requirements of the foreign investment are technologies, infrastructure and labor skills, If in the case these requirements are not identified it becomes difficult to elaborate different patterns in the geographical pattern of FDI at the world capita income, relative to outbound and inbound FDI (Hummels and Stern, 1994).

There are large numbers of government incentives that can be taken into consideration as key factors, besides that there are other factors that determine the corporate plans of international market place. There are factors that influence major part of the investors; factors may be institutional, historical and cultural factors (Martin and Velazquez, 1997). Examiners examined that there are wide varieties of determinants of FDI in the past. There were several studies conducted on determinants of FDI towards the choosing of a group of descriptive attributes that are more useful and most important factors affecting FDI. Study by researchers elucidate that there are differences in factor costs and market size to the FDI spot (Markusen and Maskus, 1999). This shows us the prominence of market size and its wide spread for foreign organizations which are functioning as big industries. Companies score cannot be judged by the beforehand without achievements in the market. They are measured in terms of GDP, GDP per capita and growth of GDP. To put this in simple English the FDI of a company is defined by the investments made by the company in other country than that in a company is based in.

Government of India (GOI) has announced the policy of FDI that governs the foreign investment in India as the provision of Foreign Exchange Management Act (FEMA) 1999.

Policies of FDI related to Retail market: It is advisable to check the Press Note 4 of 2006 issued by DIPP and compound FDI Policy issued in October 2010 (DIPP, 2010) which include the sector specific guidelines for FDI in relation to the conduct of trading activities.

FDI allows export trading and wholesale marketing with 100% cash and carry. Subject to Press Note 3 (2006 Series) FDI can stretch up to 51% of the total with a single brand sales and marketing. The policies don't allow FDI to promote Multi Brand Marketing. According to `Wheel of Retailing' theory, medians in one retail market give rise to a new one. But in India we find that several markets go in hand and hand. The following are some of the formats adopted by various players:

Table 2. Retail formats

Adapted from: " Indian Retail: On the Fast Track", KPMG and FICCI, 2005

Entry Options for Foreign Players prior to FDI Policy

Before Jan 24, 2006, FDI was not allowed by the government of India, but the investors had been operation in the country in other forms. Some of the opening steps used by the Foreign Investors are discussed below:-

1. Franchise Agreements: This is an easiest path to enter in to the Indian market. In franchising and commission agents' services, FDI Foreign investors can invest in the product based companies with the approval from the Reserve Bank of India, until and unless prohibited by the FDI act. This is a most general mode for entrance of quick food bondage opposite a world. Apart from quick food bondage identical to Pizza Hut, players such as

Lacoste, Mango, Nike as good as Marks as good as Spencer, have entered Indian marketplace by this route.

2. Cash And Carry Wholesale Trading: FDI was allowed at a full stretch in the wholesale trading which concentrates on a large scale distribution to the wholesale market to help the local manufactures. The wholesaler deals with the small retail businesses but not with the direct consumers. Metro AG of Germany was the first to enter India using this process.

3. Strategic Licensing Agreements: Some foreign companies give exclusive licenses and distribution rights to local companies. Using these rights, Indian companies can either sell it through their own stores, or enter into shop-in-shop arrangements or distribute the brands to franchisees. Mango, the Spanish apparel brand has entered India through this route with an agreement with Piramyd, Mumbai, SPAR entered into a similar agreement with Radhakrishna Foodland's Pvt. Ltd

4. Manufacturing and Wholly Owned Subsidiaries: The international brands such as Nike, Reebok, Adidas etc., have whole manufacturing unit using the subsidiaries and are treated as Indian companies and are allowed to retail. These manufacturers are authorized to sell products to Indian consumers by franchising, distributing to the existing retailers, self-outlets etc. For example Nike has entered into India in agreement with Sierra Enterprises but now Nike is wholly owned subsidized, Nike India Private Limited.

FDI in Single Brand Retail

The Government has not categorically defined the meaning of " Single Brand" anywhere neither in any of its circulars or 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 Press Note 3 that

(1) Multi brand products would be sold (i. e., retail of goods of multi-brand even if produced by the same manufacturer would be allowed).

(2) Products should be sold under the same brand internationally.

(3) Single-brand product retail would only cover products which are branded during manufacturing.

(4) Any addition to product categories to be sold under " single-brand" would require fresh approval from the government.

While the phrase ' single brand' has not been defined, it implies that foreign companies would be allowed to sell products sold internationally under a ' single brand', viz., Reebok, Nokia, and Adidas. Retailing of goods of multiple brands, even if such products were produced by the same manufacturer, would be allowed. Going a step further, we determine the concept of ' single brand' and the associated conditions:

FDI in ' Single brand' retail implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand and not the Reebok brand, for which separate permission is required. If granted permission, Adidas could sell products under the Reebok brand in separate outlets. Concerns for the Government for only Partially Allowing FDI in Retail Sector A number of concerns were expressed with regard to partial opening of the retail sector for FDI. The Hon'ble Department Related Parliamentary Standing Committee on Commerce, in its 90th Report, on ' Foreign and Domestic Investment in Retail Sector', laid in the Lok Sabha and the Rajya Sabha on 8 June, 2009, had made an in-depth study on the subject and identified a number of issues related to FDI in the retail sector. These included:

It would lead to unfair competition and ultimately result in large-scale exit of domestic retailers, especially the small family managed outlets, leading to large scale displacement of persons employed in the retail sector. Further, as the manufacturing sector has not been growing fast enough, the persons displaced from the retail sector would not be absorbed there. Another concern is that the Indian retail sector, particularly organized retail, is still under-developed and in a nascent stage and that, therefore, it is important that the domestic retail sector is allowed to grow and consolidate first, before opening this sector to foreign investors. Antagonists of FDI in retail sector oppose the same on various grounds, like, that the entry of large global retailers such as Wal-Mart would kill local shops and millions of jobs, since the unorganized retail sector employs an enormous percentage of Indian population after the agriculture sector; secondly that the global retailers would conspire and exercise monopolistic power to raise prices and monopolistic (big buying) power to reduce the prices received by the suppliers; thirdly, it would lead to asymmetrical growth in cities, causing discontent and social tension elsewhere. Hence, both the consumers and the suppliers would lose, while the profit margins of such retail chains would go up.

Rationale behind Allowing FDI in Retail Sector

FDI can be a powerful catalyst to spur competition in the retail industry, due to the current scenario of low competition and poor productivity. The policy of single-brand retail was adopted to allow Indian consumers access to foreign brands. Since Indians spend a lot of money shopping abroad, this policy enables them to spend the same money on the same goods in India. FDI in single-brand retailing was permitted in 2006, up to 51 per cent of ownership. Between then and May 2010, a total of 94 proposals have been received. Of these, 57 proposals have been approved. An FDI inflow of US$196. 46 million under the category of single brand retailing was received between April 2006 and September 2010, comprising 0. 16 per cent of the total FDI inflows during the period. Retail stocks rose by as much as 5%. Shares of Pantaloons Retail (India) Ltd ended 4. 84% up at Rs 441 on the Bombay Stock Exchange. Shares of Shopper’s Stop Ltd rose 2. 02% and Trent Ltd, 3. 19%. The exchange’s key index rose 173. 04 points, or 0. 99%, to 17, 614. 48. But this is very less as compared to what it would have been had FDI up to 100% been allowed in India for single brand. (Nabael Mancheri, 2010) The policy of allowing 100% FDI in single brand retail can benefit both the foreign retailer and the Indian partner – foreign players get local market knowledge, while Indian companies can access global best management practices, designs and technological knowhow. By partially opening this sector, the government was able to reduce the pressure from its trading partners in bilateral/ multilateral negotiations and could demonstrate India’s intentions in liberalising this sector in a phased manner. Permitting foreign investment in food-based retailing is likely to ensure adequate flow of capital into the country & its productive use, in a manner likely to promote the welfare of all sections of society, particularly farmers and consumers. It would also help bring about improvements in farmer income & agricultural growth and assist in lowering consumer prices inflation. (Discussion Paper on FDI, 2010) Apart from this, by allowing FDI in retail trade, India will significantly flourish in terms of quality standards and consumer expectations, since the inflow of FDI in retail sector is bound to pull up the quality standards and cost-competitiveness of Indian producers in all the segments. It is therefore obvious that we should not only permit but encourage FDI in retail trade.

Industrial organizations such as CII, FICCI, US-India Business Council (USIBC), the American Chamber of Commerce in India, The Retail Association of India (RAI) and Shopping Centers Association of India (a 44 member association of Indian multi-brand retailers and shopping malls) favor a phased approach toward liberalizing FDI in multi-brand retailing, and most of them agree with considering a cap of 49-51 per cent to start with. The international retail players such as Wal-Mart, Carrefour, Metro, IKEA, and TESCO share the same view and insist on a clear path towards 100 per cent opening up in near future. Large multinational retailers such as US-based Wal-Mart, Germany’s Metro AG and Woolworths Ltd, the largest Australian retailer that operates in wholesale cash-and-carry ventures in India, have been demanding liberalization of FDI rules on multi-brand retail for some time. (Nabael Mancheri, 2010) the Indian Council of Research in International Economic

Relations (ICRIER), a premier economic think tank of the country, which was appointed to look into the impact of BIG capital in the retail sector, has projected the worth of Indian retail sector to reach $496 billion by 2011-12 and ICRIER has also come to conclusion that investment of ‘ big’ money (large corporates and FDI) in the retail sector would in the long run not harm interests of small, traditional, retailers.(Sarthak Sarin, 2010)

SWOT Analysis

SWOT analysis is instrumental for evaluating present day retail industry in India. SWOT analysis is a study prepared discussing about the strengths, weaknesses, opportunities and threats of retail industry.

Strengths

An enormous young employed people with average age of 24 years, nuclear families in urban areas, regarded as a basic social unit, with laterally growing working woman population and evolving as prospects in the service sector would be the vital progression carters of the structured retail sector in India.

It has also funded to fat size reserves in the real estate sector with main national and worldwide players financing in federalizing the structure and construction of the retailing business.

Customers will have right to use to superior range of transnational quality goods.

Employment openings directly and indirectly have been improved. Farmers get enhanced rates for their goods though enrichment of price added food chain.

Growth in price and consumer desires is vital aspects.

Growth in spending for extravagant items is also vital.

Huge domestic market with a growing middle class and customers with purchasing power.

The governments of states like Delhi and National Capital Region (NCR) are very positive about allowing the use of land for commercial development thus escalate the accessibility of land for retail space.

The progression of sachet revolution develops for getting to the foot of the pyramid.

The magnitude of Indian organized retail industry touched Rs. 1, 30, 000 crore in 2006.

The styles that are motivating the development of the retail sector in India are small share of organized retailing and dropping real estate rates.

Ranked second in Global Retail Development Index of 30 developing nations drawn up by AT Kearney.

The annual progress of departmental stores is estimated at 24%.

The profits of bigger organized retail segments are numerous. The customers get a superior product at discounted price. So customers get worth for their cash.

Typicality of consumers in terms of diverse tastes and demand for extensive collection of goods.

Opportunities

When the model picks up, due to demonstration effect, there will be a complete renovation of domestic retail trade.

International retail titans take India as crucial market. It is ranked fifth most appealing retail market. The organized retail sector is estimated to raise stronger than GDP growth in the next five years catalyzed by shifting ways of life, proliferation in income and advantageous demographic shape. Food and clothing retailing are crucial factors of growth.

Indian retail industry has been regarded as of the most dynamic and fast advancing business with several companies arriving in the market.

Indian retail industry can be one of the biggest industries in terms of quantities of workforces and institutions.

Countryside retailing is still untouched in Indian market.

Threats

One of the chief obstacles to the evolution of modern retail formats are the supply chain management concerns. No key modifications are required in the supply chain for FMCG goods; these are well established and effective. For perishables, the structure is too difficult. Government guidelines, absence of ample groundwork and insufficient venture are the potential blockages for retail corporations. The supply chain for agro goods is less complex than the net foodstuffs. But agro goods have an exclusive problem of non-standardization.

It’s challenging to focus on all segments of society.

Hyper and super markets trying to offer purchaser with -worth, diversity and quantity.

Large primary investment is essential to manage with other establishments and contest with them.

Labor guidelines are also neglected in the organized retails.

The absence of even tax system for organized retailing is also one of the hurdles.

Poor infrastructure is prospective to be a hurdle in the evolution of organized retails.

Concern of vehicle parking in urban regions is grave worry.

Segment is unable to engage retail workforce on contract basis.

The unorganized sector has supremacy above the organized sector in India due to low investment requirements.

Retail nowadays has transformed from marketing a good or a service to marketing a hope, an aspiration and especially an practice that a consumer would like to repeat.

Weakness

Will primarily satisfy rich and middle class consumers located in metros and will not cater bulk consumption merchandises for consumers in rural regions and insignificant towns.

Retail chains are so far, to be established with appropriate range of products mix for the mall outlets. Present day retailing is about investigating and graphing the marketplace, keeping options open, reasonable costs and retaining buyers too.

Insignificant outlets are also one of the flaws in the Indian retailing. 96% of the outlets are smaller than 500 sq. ft. The retail chains are also minor than those in the developed nations.

The quick expansion of retail sector is the severe upgrading in the accessibility of retail space. But the present scenario in prices, retail real estate hires have amplified extraordinarily, which may cause few retailing business houses to be unavailable. Retail corporations have to spend great rents which are obstacles in the chance of profits.

The capacity of sales in Indian retailing is also very little. India has huge population in the globe and an expeditious growing economy.

The impact of retail on Indian economy is:

Employment Generation

Retailing offers occupation to 8% labor in India, because it is highly effort demanding. It has also capable to create eight million more jobs, directly and indirectly.

Development of small scale units

Retailing also aids small scale units to freely access of the market. They provide a stage for small scale unit’s goods. Retailing in India funds 4 lakh moderate handicraft industries.

Growth of real estate

The necessity of space is one of the main burdens, so the real estate has also risen over the previous years. In coming days the Indian economy and real estate sector would be shaping into organized retail estate sector.

Conclusion

Contemporary ways of shopping have been all the time attracting Indians. The retail sector in India is rapidly progressing and the employment potential is mounting day by day. The attitudes of the retailers towards suppliers have been changing so as to extract the best pricing from the suppliers. This secret for all the titans of retail market are planning to invest into the Indian retail sector. India is one the fastest growing economies of the world, by agreeing to FDI in the retail sector there would be a considerable pouring into India’s GDP and economic development. This would also aid the integrating of the Indian retail market with the global retail market. FDI would not only give Indians employment but help Indians to get better wages, incentives and lifestyle, which the present retail market has been unsuccessful in providing. Entry of FDI into Indian market would enhance Indian scenario for supply chain, technology, manpower and skill development. FDI would also catalyze the growth of small and medium scale industries.