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FOREIGN DIRECT INVESTMENT IN RETAIL SECTOR

[1]Ms. Poonam Rani, [2]Dr. Geeta Shiromani, [3]Ms. Sakshi Chopra
[1, 2 &3] Sheela Devi Institute of Management & Technology, Faridabad-121101

Abstract

In the post liberalization period, changes in the consumer purchase behaviour are seen with growing liberalization, rise in per capita income, GDP and explosion of brands. This rise in large base of consumers has been an attraction for big global retailers and major domestic corporate sector to invest in modern retail sector in India. The retail industry is expected to grow at rate of 14% by 2013. The first step towards allowing foreign investment in retail was taken in the year 2006 subsequently the government of India has allowed 100% FDI in single brand retail to give consumer greater access to foreign brands, with the on going debate whether it should be allowed in multi brand retail or not. The objective of present paper is to analyse the impact of present retail FDI policies on Indian consumer and economy using SWOT analysis. The analysis reveals that it will have few positive but more negative impacts on the growth of the Indian economy as a whole.

Keywords: Foreign Direct Investment, Retailing, GDP

Introduction

As per current regulatory regime retail trading is permitted in India. Simply put, for a company to be able to get foreign funding products sold by it to the general public should be of single as well as multi brand. India being a signatory to World Trade Organization general agreement on trade in services which include wholesale and retailing services had to open up the trade sector to foreign investment. There were initial reservation towards opening up of retail sector arising from fear of job losses, procurement from international market, competition and loss of entrepreneurial opportunities however the government in a series of moves have opened up the retail sector slowly to foreign direct investment ("FDI") in 1997, FDI in cash and carry with 100% ownership was allowed under the government approval route. It was brought under automatic route in 2006. 51% investment in multi brand retail outlet was permitted 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 industry "with around 13% contribution to GDP and 7% employment of national workforce, retailing no doubt is a strong filler of Indian economy. What it requires is more cooperate backed retail operation that has started to emerge over past of couples of year. "In 2004, the high court of Delhi defined the term retail as a sale for final consumption in contrast to a sale for further sale or processing. A sale to the ultimate consumer. Thus, retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk consumers. Retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit.

Retailing in India is one of the pillars of the pillars of its economy and accounts for 14 to 15% of its GDP. The Indian retail market is estimated to be US$ 450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, 1.2 billion people.

India's retailing industry is essentially owner manned small shops. In 2010, larger format convenience stores and supermarkets accounted for about 4% of the industry, and these were present only in large urban canters. India's retail and logistics industry employs about 40 million Indians (3.3% of Indian population). Until 2011, Indian central government denied foreign direct investment in multiband retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. 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 retail innovation and competition with multi-brand retailers such as Walmart, Carrefour and Tesco, as well single brand majors such a IKEA. NIKE and Apple. The announcement sparked intense activism, both in opposition and in support of the reforms. In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reaches a consensus.

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 retail source 30% of its goods from India. Indian government continues thee hold on retail reforms for multi-brand stores. IKEA announced in January that it is putting on hold its plan to open stores in India of the 30% requirement. Fitch believes that the 30% requirement is likely to significantly delay if not prevent most single brand majors from Europe, USA and Japan from opening stores and creating associated jobs in India.

Entry options for foreign players prior to FDI Policy

Although prior to Jan 24, 2006, FDI was not authorised in retailing, most general players had been operating in the country. Some of entrance routes used by them have been discussed in sum as below:

1. ***Franchise Agreements*** It is an easiest track to come in the Indian Market. In franchising and commission agents services, FDI (unless otherwise prohibited) is allowed with the approval of the reserve bank of India under the foreign exchange Management Act. This is a most usual mode for entrance of quick food bondage opposite a world. Apart from quick food bondage identical to Pizza Hut, players such as lactose, Mango, Nike as good as Marks as good as Spencer, have entered Indian marketplace by this route.
2. ***Cash and Carry wholesale trading*:** 100%FDI is allowed inn wholesale trading which involves building of a large distribution infrastructure to assist local manufacturers. The wholesaler deals only with smaller retailers and not consumers. Metro AG of Germany was the first significant global player to enter India through this route.
3. ***Strategic Licensing Agreements:*** Some foreign brands give exclusive licences and distribution rights to Indian companies. Through these rights, Indian companies can either sell it through their own stores, or enter arrangements 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 Foodlands Pvt. Ltd.
4. ***Manufacturing and Wholly owned subsidiaries***: The foreign brands such as NIKE, REEBOK, ADIDAS, etc. That have wholly-owned subsidiaries in manufacturing are treated as Indian companies and are, therefore allowed to do retail. These companies have been authorised to sell products to Indian consumers by franchising, internal distributors, existent Indian retailers, own outlets, etc. For instance, Nike entered through an exclusive licensing agreement with, Sierra enterprises but now has a wholly owned subsidiary, Nike India Private Limited.

FDI policy in India

FDI as defined in Dictionary of Economics is investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new (Greenfield) site. To put in simple words, FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy.

Foreign investment in India is governed by the FDI policy announced by the government of India and the provision of the foreign exchange Management Act(FEMA) 1999. The Reserve Bank of India in this regard had issued a notification, which contains the foreign Exchange Management (Transfer or issue of security by a person resident outside india) Regulations, 2000. This Government of india is the nodal agency for motoring and reviewing the FDI policy on continued basis and changes in sectoral policy. The FDI policy is notified through press notes by the secretariat for Industrial Assistance, Department of Industrial policy and promotion. The foreign investors are free to invest in India, except few sectors, where prior approval from the RBI or FIPB would required.

FDI policy with regard to retailing in India

It will be prudent to look into press note 4 of 2006 issued by DIPP and consolidated FDI Policy issued in October 2010 which provide the sector specific guidelines for FDI with regard to the conduct of trading activities.

- FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.
- FDI up to 51 % with prior Government approval (i.e. FIPB) for retail trade of Single Brand‘ products, subject to Press Note 3 (2006 Series)[12].
- FDI is not permitted in Multi Brand Retailing in India

Prospected Changes in FDI Policy for Retail Sector in India

Single and Multi-Brand Retailing

1. FDI in Single-Brand Retail:-The government has not categorically defined the meaning of Single brand anywhere neither in any of its circulars nor any notifications. In single-brand retail, FDI up to 100 % allowed, subject to FIPB approval and subject to the conditions mentioned in press note 3 that (a) only brand products would be sold(1.e., retail of goods of mutli-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 products 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 goods 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 not be allowed. Going a step further, we examine 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.

2. FDI in Multi-Brand Retail:-The government has also not defined the term Multi brand. 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, Ministry of Commerce circulated a discussion paper on allowing FDI in multi-brand 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 grants 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.

3. Growth and Evolution of Indian Retail Sector: - The Indian retail industry is the 5th largest retail destination and the second most attractive market for investment in the globe after Vietnam as reported by AT Kearney's seventh annual globe retail development index (GRDI), in 2008.The growing popularity of Indian retail sector has resulted in growing awareness of quality products and brands. As a whole Indian retail has made life convenient, easy, and quick and affordable. Indian retail sector specially organized retail is growing rapidly with customer spending growing in unprecedented manner. It is undergoing metamorphosis. Till 1980 retail continued in the form of kiranas that is unorganized retailing. Later in 1990s branded retail outlet like food world, nilgris and local retail outlets like apna bazzar come into existence now big players like Reliance,Tata's,Bharti ,ITC and other reputed Companies have entered into organized retail business.

The multinationals with 51% opening of FDI in single brand retail has led to direct entrance of companies like Nike, Reebok, Metro, etc.or through joint ventures like Wal-mart with Bharti, Tata with Tesco etc.

3.1 Evolution of Retail Sector: can be seen in the share of organized sector in 2007 was 7.5% of the total retail market. Organized retail business in India is very small but has tremendous scope. The total in 2005 stood at $225 billion, accounting for about 11% of GDP. In this total market the organized retail accounts for only $8 billion of total revenue. According to AT Kearney, the organized retailing is expected to be more than $23 billion revenue by 2010.
The retail industry in India is currently growing at a great pace and is expected to go up to US$ billion by the year 2013. It is further expected to reach US$ 1.3 trillion by the year 2018 at a CAGR of 10%. As the country has got a high growth rate, the consumer spending has also gone up and is also expected to go up further in the future. In the last four years, the consumer spending in India climbed up to 75% as a result, the Indian retail market is expected to grow further in the future days. By the year 2013, the organized sector is also expected to grow at a CAGR of 40%.the key factors that drive growth in retail industry are young demographic profile, increasing consumer aspiration, growth middle class incomes improving demand from rural markets. Also rising incomes and improvements in infrastructure are enlarging consumer markets and accelerating the convergence of consumer tastes. Liberalization of the Indian economy increases in spending per capita income and the advent of dual income families also help in growth of the retail sector. Moreover, consumer preference for shopping in new environs, availability of quality real estate and mall management practices and a shift in consumer demand to foreign brands like McDonalds, Sony, Panasonic, etc. also contributes to the spiral of growth in this sector. Furthermore, the internet revolution is making the Indian consumer more accessible to the growing influences of domestic and foreign retail chains. One report estimates the 2011 Indian retail market as generating sales about $470 billion a year, of which a miniscule $27 billion comes from organized retail such as supermarkets, chain stores with centralized operations and shops in malls. The opening of retail industry to free market competition ,some claim will enable rapid growth in the retail sector of Indian economy .others believe the growth of the Indian retail industry will take time, with organized retail possibly needing to grow to a 25% share. A 25% market share given the expected growth of Indian retail industry through 2021, is estimated to be over $250 billion a year; are venue equal to the 2009 revenue share from Japan for the world's 250 largest retailers. The Economist forecasts that Indian retail will nearly double in economic value, expanding by about $400 billion by 2020. The projected increase alone is equivalent to the current retail market size of France.

3.2. Challenges of Retailing in India
In India the retailing industry has a long way to go and to become a truly flourishing industry, retailing needs to cross various hurdles. The first challenge facing the organized retail sector is the competition from unorganized sector. Needless to say, the Indian retail sector is overwhelmingly swarmed by the unorganized retailing with the dominance of small and medium enterprises in contradiction to the presence of few giant corporate retailing outlets. The trading sector is also highly fragmented, with a large number of intermediaries who operate at a strictly local level and there is no 'barrier to entry ', given the structure and scale of these operations (Singhal 1999). The tax structure in India favors small retail business. Thus, the cost of business operations is very high in India. Developed supply chain and integrated IT management is absent in retail sector. This lack of adequate infrastructure facilities, lack of trained work force and low skill level for retailing management further makes the sector quiet complex. Also, the intrinsic complexity of retailing-rapid price changes, threat of product obsolescence, low margins, high cost of real estate and dissimilarity in consumer groups are the other challenges that the retail sector in India is facing. The status of the retail industry will depend mostly on external factors like Government regulations and policies and real estate prices, besides the activities of retailer's demands of the customers also show impact on retail industry. Even though economy across the globe is slowly emerging from recession, tough times lie ahead for the retail industry as consumer spending still has not seen a consistent

increase. In fact, consumer spending could contract further as banks have been over cautions in lending. Thus, retailers are witnessing an uphill task in terms of wooing consumers, despite offering big discounts. Additionally, organised retailers have been facing a difficult time in attracting customers from traditional kirana stores, especially in the food and grocery segment. While in some sectors the restrictions imposed by the government are comprehensible; the restrictions imposed in few others, including the retail sector, are utterly baseless and are acting as shackles in the progressive development of that particular sector and eventually the overall development of the India Inc. The scenario is kind of depressing and unappealing, since despite the on-going wave of incessant liberalization and globalization, the Indian retail sector is still aloof from progressive and ostentatious development. The dismal situation of the retail sector undoubtedly stems from the absence of an FDI encouraging policy in the Indian retail sector.

Also FDI encouraging policy can remove the present limitations in Indian system such as

1. *Infrastructure*

There has been a lack of investment in the logistics of the retail chain, leading to an inefficient market mechanism. Though India is the second largest producer of fruits and vegetables (about 180 million MT), it has a very limited integrated cold-chain infrastructure, with only 5386 stand alone-cold storages, having a total capacity of 23.6 million MT. , 80% of this is used only for potatoes. The chain is highly fragmented and hence, perishable horticultural commodities find it difficult to link to distant markets, including overseas markets, round the year. Storage infrastructure is necessary for carrying over the agricultural produce from production periods to the rest of the year and to prevent distress sales. Lack of adequate storage facilities cause heavy losses to farmers in terms of wastage in quality and quantity of produce in general. Though FDI is permitted in cold-chain to the extent of 100%, through the automatic route, in the absence of FDI in retailing; FDI flow to the sector has not been significant.

2. *Intermediaries dominate the value chain*

Intermediaries often flout Mandee norms and their pricing lacks transparency. Wholesale regulated markets, governed by State APMC acts, have developed a monopolistic and non-transparent character. According to some reports, Indian farmers realize only 1/3rd of the total price paid by the final consumer, as against 2/3rd by farmers in nation with a higher share of organized retail.

3. *Improper Public Distribution System ("PDS")*

There is a big question mark on the efficacy of the public procurement and PDC set-up and the bill on food subsidies is rising. In spite of such heavy subsidies, overall food based inflation has been a matter of great concern. The absence of a 'farm-to-fork' retail supply system has led to the ultimate customers paying a premium for shortages and a charge for wastages.

4. *No Global Reach*

The Micro Small & Medium Enterprises ("MSME") sector has also suffered due to lack of branding and lack of avenues to reach out the vast world markets. While India has continued to provide emphasis on the development of MSME sector, the share of unorganized sector in overall manufacturing has declined from 34.5% in 1999-2000 to 30.3% in 2007-08. This has largely been due to the inability of this sector to access latest technology and improve its marketing interface.

Thus the rationale behind allowing FDI in Indian retail sector comes from the fact, that it will act as a powerful catalyst to spur competition in retail industry, due to current scenario of above listed limitations, low completion and poor productivity. 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 & agriculture growth and assist in lowering consumer prices inflation.

Apart from this, by allowing FDI in retail trade, India will significantly flourish in terms from quality standards ad 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.

Lastly, it is to be noted that 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 to each $496 billion by 2011-2012 and ICRIER has also come to conclusion that investment of 'big' money in the retail sector would in the long run not harm interests of small, traditional, retailers. In light of the above, it can be safely concluded that allowing healthy FDI in the retail sector would not only lead to a substantial surge in the country's GDP and overall economic development, but would inter alia also help in integrating the Indian retail market with that of the global retail market in addition to providing not just employment, which the unorganized sector (kirana and other small time retailing shops) have undoubtedly failed to provide to the masses employed in them.

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 India multi brand retailers and shopping malls) favour a phased approach toward liberalizing FDI in multi brand retailing, and most of them agree with considering a cap of 49-51% to start with.

The international retail players such as Walmart, Carrefour, Metro, IKEA, and TESCO share the same view and insist on a clear path towards 100% opening p in near future. Large multinational retailers such as US-based Walmart,

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.
In 2011, food accounted for 70% of Indian retail, but was under represented by organized retail. A.T. Kearney estimates India's organized retail had a 31% share in clothing and apparel, while the home supplies retail was growing between 20% to 30% per year. These data correspond to retail prospects prior to November announcement of the retail reform.

Challenges & Attractions for Global Retailers

Challenges:

History has witnessed that the concern of allowing unrestrained FDI flows in the retail sector has never been free from controversies and simultaneously has been an issue for unsuccessful deliberation ever since the advent of FDI in India. Where on one hand there has been a strong outcry for the unrestricted flow of FDI in the retail trading by an overwhelming number of domestic as well as foreign corporate retail giants; to the contrary, the critics of unrestrained FDI have always fiercely retorted by highlighting the adverse impact, the FDI in the retail trading will have on the unorganized retail trade, which is the source of employment to an enormous amount of the population of India.

The 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 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. Many trading associations, political parties and industrial associations have argued against FDI in retailing due to various reasons. It is generally argued that the Indian retailers have yet to consolidate their position. The existing retailing scenario is characterized by the presence of the large number of fragmented family owned businesses, who would not be able to survive the competition from global players. Another apprehension is that 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. The global retailers might resort to predatory pricing. Due to their financial clout, they often sell below cost in the new markets. Once the domestic players are wiped out of the market foreign players enjoy the monopoly.

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 process for the products. Another argument against 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.

Attractions

Retailing is being perceived as a beginner and as an attractive commercial business for organized business i.e. the pure retailer is starting to emerge now. Indian organized retail industry is one of the sunrise sectors with huge growth potential attain USD 573 billion by 2012-13.

Organized retail industry accounts for only 5.5% of total retail industry and is expected to reach 10% by 2012. A. T. Kearney, the well known international management consultancy, recently identified India as the second most attractive retail destination globally from among thirty emergent markets. It has made India the cause of a good deal of excitement and the cynosure of many foreign investors' eyes. With a contribution of an overwhelming 14% to the national GDP and employing 7% of the total workforce.

Foreign companies attraction to India is the billion plus population. Also, there are huge employment opportunities in retail sector in India. India's retail industry is the second largest sector, after agriculture, which provides employment. According to Associated Chambers of Commerce and Industry of India, the retail sector will create 50,000 jobs in the next few years. As per the US Census Bureau the young population in India is likely to constitute 53% of the total population by 2020 and 46.5% of the population by 2050- much higher than countries, the first mover advantage of some retail players will contribute to the sector's growth.

India in such a scenario presents some major attractions to foreign retailers. There is a huge, industry with no large players. Some Indian large players have entered just recently like Reliance, Trent. Moreover, India can support significant players averaging $1 bn., in Grocery and $0.3-0.5 bn., in apparel within next 10 years. The transition will open multiple opportunities for companies and investors. In addition to these, improved living standards and continuing economic growth, friendly business environment, growing spending power and increasing number of conscious customers aspiring to own quality and branded products in India are also attracting to global retailers to enter in Indian market.

According to industry experts, organized retail in India is expected to increase from 5% of the total market in 2008 to 14-18% of the total retail market and reach US $450 billion by 2015. Furthermore, during 2010-122, around 55 million square feet of retail space will be ready in Mumbai, national capital region, Banglore, Kolkata, Chennai, Hyderabad and Pune. Besides, between 2010 and 2012, the organized retail real estate stock will grow from the existing 41 million sq. ft. to 95 million sq. ft. thus, there is certainly a lucrative opportunity for foreign players to enter the Indian terrain.

Growth rates of the industry both in the past and those expected for the next decade coupled with the changing consumer trends such as increased use of credit cards, brand consciousness, and the growth of population under the age of 35 are factors that encourage a foreign player to establish outlets in India. India thus continues to be among the most attractive countries for global retailers. Foreign direct investment (FDI) inflows between April 200 and April 2010, in single- brand retail trading, stood at US$ 194.69 million, according to the department of Industrial Policy and Promotion(DIPP).

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 to each $496 billion by 2011-2012 and ICRIER has also come to conclusion that investment of 'big' money in the retail sector would in the long run not harm interests of small, traditional, retailers. A number of global retail giants are thus eyeing this opportunity to swarm this seemingly nascent sector and exploit its unexplored potential.

Swot Analysis of Foreign Direct Investment in Retail Sector

Introduction

Indian retail industry is the biggest industry in comparison to other industries. It occupies India's 14% of Gross Development Product and near about 8% of the employment. It has two sectors (i) Organised Sector , (ii) unorganized Sector. Organised Sector to that part which is well regulated i.e. registered stores. The organized retail sector that constitutes highly organized malls presently does not enjoying any significant share of the market revenue but is it estimated that future belongs to the organized retail sector in India .The majority of retail sales take place through the unorganized sector , which is stores that are popularly known as the Kirana or the mom – pop – up stores. Retail sector is the fastest growing sector in India . 93% retail business is run by the unorganized retailers. The organized retail sector is still at emerging stage.

Foreign direct Investment (FDI) as defined in Dictionary of Economics is investment in a foreign country through the acquisition of a local company or the establishment there of an operation on the new site . In short FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. In November 2011, India's central Government announced retail reforms for Multi Brand Stores and Single Brand Stores. In July 2012 the GOI has recommended FDI in retail sector as -

1) 51% in Multi Brand Retail
2) 100% in Single Brand Retail.

Objectives

1) To understand the concept of FDI
2) To study SWOT analysis of FDI
3) To present conclusions and make suggestions.

INFORMATIVE DATA RELATED TO FDI

FDI Share of Organized sector in selected countries		**Multi-Brand Retail FDI Policy in Other Countries**	
COUNTRY	Share Of Organised Sector(%)	FDI LIMIT	COUNTRY
U.S.A	85	100%	China
U.K	80	100%	Thailand
JAPAN	66	100%	Russia
RUSSIA	36	100%	Indonesia
INDIA	04		

SWOT Analysis of FDI

SWOT analysis is one of the primary step in strategic management . In strategic planning process , two factors internal and external environmental factors play an important role. The environmental factors which are internal to retail sector can be classified as strengths and weaknesses. The factors which are external to the sector can be classified as opportunities and threats. This analysis provides the information that is helpful in understanding the retail sector resource mobilization and capabilities to competitive environment in which it operates. Thus , this will be instrumental in formulation of strategies for future growth and development of sectors.

Strengths:

- ***Boost up competition:*** Welcoming the FDI in retail industry will prove advantageous for India as it increases the competition in retail chain at domestic level. The completion also demands the innovation and differentiation. As the competition increases the competitor is compelled to serve the quality of goods at competitive at reasonable price.
- ***Benefit to Farmers:*** In most cases, in the retailing business, the intermediaries have dominated the between the manufacturers or producers and the consumers. Hence the farmers and manufacturers lose their margins as the major share is eaten up by the middle men.This issue can be resolved by FDI, as farmers might get contract farming where they can supply to the retailer based upon demand and will get good cash for that , they need not to search for the buyers.
- ***Benefit to consumers:*** Consumer will get assortment of product at squat prices compared to market rates, and will have more options to get international brands at one place because of competitive prices and will improve the standard of living of the consumers.
- ***General Employment Opportunities***: Bharti Walmart , a joint venture between Bharti Enterprises and Walmart Stores, will open a training centre at Jalna in Maharashtra on PPP basis, according to the press note released on April 27 , 2012. Bharti Walmart currently runs three such training centres under the PPP model in Amritsar, Delhi and Bangalore, and three training centres at its modern wholesale Stores in Zirakpur , Jalandhar and Ludhiana. The domestic retail sector is growing fast providing growth opportunities. However , the industry lacks the talent pool with required skill set to leverage this huge potential . Bharti Walmart training centres aim to bridge by imparting training in various aspects of retailing to under privileged youth making them employable in retail sector.
- ***Efficient Banking Services*****:** Efficient and customized services bank's today , is a result of effective competition which increases only after foreign players.
- ***Large Scale Investment:*** It has contributed to large scale investment in real estate sector with major national and global players investing in devolving the infrastructure and construction of retailing business.
- ***Increased Purchasing Power:*** Large domestic market with an increasing middle –class middle class and potential customers with purchasing power.
- ***Ranked Second in Global*** Retail Development Index of 30 developing countries drawn up AT Kearney and hence considered as a potential sector.
- ***The annual*** of departmental stores is estimated at 24% which add to substantial surge in the country's overall economic development.

Weaknesses:

- ***Lack Of Industry Status, thereby creating financial issues for retailers:*** The retail sector in India does not enjoy the status of an "Industry", thereby making difficult for the retailers to raise funds for the expansion projects as it is easier to access the flow of funds with that status.
- ***Lack of Infrastructure:*** Lack of infrastructure in the retailing chain has been one of the major issues of concern which has led the process to an incompetent market mechanism. For example, in spite of India being one of the largest producers of vegetables and fruits, lack of proper count of cold storage has significantly affected the selling of these perishable items. FDI might help India overcome such issues by channelizing the resources in the right manner.
- ***Catering to high end customers:*** This will mainly cater to high end consumers placed in metros and will not deliver mass consumption goods in villages and small towns.
- ***Volume of sales is very low:*** The Volume of sales in Indian retailing is very low. India has largest population in the world and a fast growing economy.
- ***Small size outlets:*** Small size outlets are also one of the major weaknesses in Indian Retailing. More than 96% of the outlets are lesser than 500 sq.ft and are also smaller than those in developed countries.

Opportunities:

- ***Improvement in quality standards:*** 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 and hence India will significantly flourish in terms of Consumer Expectations.
- ***Improving Distribution and Warehousing Technologies:*** The technical know -how from global firms , such as warehousing technologies and distribution systems will lend itself to improving the supply chain in India, especially for agriculture produce.
- ***Attractive Market:*** Global retail giants take India as key market . It is rated fifth most attractive retail market . Indian retail industry has come forth as one of the most dynamic and first pasce industry with several players entering the market.The organized retail sector is expected to grow stronger than GDP growth in the next five

years driven by changing lifestyles, increase an income, purchasing power. Food and apparel retailing are key drivers of growth.

- ***There will be more organization in the sector:*** There are numerous empirical evidences across globe relating to massive increase in the employment opportunities as the sector grows after the reforms were initiated in countries like US and China. India is likely to experience the same situation in liberalized and open regime of FDI in retail sector in India. It can become one of the largest industries in terms of number of employees and establishment. Due to which there will over up-gradation of industrial retail trade.
- ***Rural retailing:*** is still unexploited Indian market and could act as an opportunity for the giants to venture into the retail market.
- ***Promotes Healthy competition check on inflation:*** Retail giants such as Wal-mart, Carrefour, Tesco, Target, Metro, Coop and 350 other global retail companies are already having operation in many countries for over 30 years. Contrary to a view prevailing across the globe that these MNCs will become a source of monopolies, rather they have managed to keep a check on food inflation through their healthy competitive practices and giving varieties and reasonably priced products to the customers.
- ***More Transparency compared to traditional Mandi Systems:*** The intermediaries operating in the Indian system are not adhering to transparency in the system relating to their price strategies.According to some of the reports, an average Indian farmers release only one-third of the prices, which a final consumer pays, but there will be more rationality and transparency in the pricing policies of these MNCs.
- ***Eviction of Intermediaries and directly benefitting the farmers and producers at large:*** The prices of the commodities will be automatically checked. For example According to Business standards Wal-Mart has introduced "Direct Farm Project" at Haider Nagar near Malerkotla in Punjab, where 110 farmers have been connected with Bharti Wal-Mart for sourcing fresh vegetables directly. These strategies will benefit the farmers and producers at large in realization of true prices evicting the intermediaries.
- ***Quality Control and Control Over leakage and Wastage :*** There are number of issues relating to malpractices and inefficiencies of traditional system by which children are not able to get proper food, there are losses, food get rotten in the transit etc. To correct this system and make available cheap product with good quality is an important step in their endeavour, which is possible by open FDI as cost –cautious and highly competitive retailers will try to avoid these wastage and losses and it will be their endeavour to make the product available at lowest prices, hence making food available to the weakest and the poorest segment of the Indian society.
- ***Heavy Flow of foreign capital will help in building up the infrastructure for growing population:*** India is capital deficit country with big challenges of growing population, developmental needs and its present budgetary deficit cannot satisfy the growing needs (schools, hospitals, transport and infrastructure) of ever growing Indian Population. Hence Foreign capital inflow will bridge this gap and will enable to create a heavy and good capital base.
- ***Sustainable development and regulatory system:*** Their will sustainable development and other special economic issues will be focused like child labour, overtime, not taking of their welfare. These issues will not have any room in this transparent open system as contract between employer and workers will evict corruption from grass root level and will control black money.

Threats:

- ***Massive Job Losses:*** Indian economy is a developing economy and the level of development is not as desired. There is a direct threat from big giants like Wal-Mart, which will compel current independent stores to close which will directly lead to massive job losses, as there is very high, fully automated which need every people to operate. This will lead to massive job losses; also since the sector is unable to employ retail staff on contract basis, this become biggest threat for the Indian economy.
- ***Sustaining of loss Strategy:*** Another threat is sustaining of loss by initially lowering the price to penetrate the market. They can afford to lower the price in initial stages in order to knock out the competition and become a monopoly and later on raise the prices like was done by Pepsi and Coke.
- ***Inequitable competition:*** It would lead to very inequitable competition and which results in large scale exit of domestic retailers, especially the small family managed outlets, leading to large displacement of persons employed in the retail sector.
- ***Repatriation of profits outside India:*** India doesn't need foreign retailers, since home grown companies and traditional markets may be able to do the job. Just like in BPO industry the work is done by Indians and the profits will go to Foreigners hence not a viable solution for Indians. As we cannot forget the example of East India Company. It enter India as a trader and then look over politically.
- ***Persistence of political inconclusiveness of issues:*** There is still no consensus made by the government. In a political and cultural diverse Like India , within no time every economic issues turns out to become political issue and there is persistence of inconclusiveness on the issue.

- ***Labour Rules and Regulation*** are also not followed in organized retail.
- ***Lack of Uniform tax System*** for organized retailing is also one of the obstacles.
- ***Inadequate Infrastructure*** is likely to be an obstacle in the growth of organized retail.

Conclusion

In conclusion if we try to balance the opportunities and prospects attached to given economic reforms , it could be advantageous for Indian economy once executed . The amendment in Circular 1 of 2012- consolidated FDI policy dated 10.4.2012 issued by the Department of Industrial Policy and Promotion(DIPP) will have a positive impact on retail industry and the country by attracting more Foreign investments. With Big retail Giant coming to India, it will surely improve our back-end-storage and procurement process. Once these multi – chain retailers establish themselves, they will create infrastructure facilities, which will also propel the existing infrastructure. From 2012, the notification on increasing the FDI limit in Single –Brand Retail from 51% to 100%. FDI in multi –brand retail is also given green signal. Keeping in view the above benefits, it is very reasonable to say that the period for which we delay these reforms will be a loss for the government only, since the majority of the public is in favour of this reforms. The farmers will benefit from FDI as they will be able to get better prices for their produce. The elimination of the intermediaries channels in the procurement process will lead to reduction of prices for consumers respectively.

The regulation in FDI bill that 30% of the total procurement has to come from small and medium enterprises will benefit the domestic businesses. Of course the policy is needed to protect the small and medium market channels from Chinese invasion. The whole economy will be benefited including government and people at large with the reform process. Retailer Venturing the Indian market must ensure that they have considered the opportunities and the challenges to maximize the returns. Retailers will need to bank on local knowledge brought in by their partners, employees, service provider to reduce the lead time required by them to establish operations and get a firm place in the Indian Market. Thus FDI will give a positive impact on the retail industry and the country by attracting more foreign investment. Otherwise we lost our Freedom in past when British East India Company was came in.

But personally We strongly oppose the government allowing 100% FDI as it will surely have a negative impact on the small retailers in the market. These big companies with huge investment capacity will buy goods at lesser rates and pass on big discounts to consumers, wherein small local retailers will not be able to stand against the competition. By attracting consumers and manufacturers, they will create their own monopoly in the market, which will not be good for the retail market in the long run. We already have big malls then why do we want foreign retail chains?

In supporting of our view we are giving views of other great personality.

Today, the government's intention is to remove middlemen and give better price to farmers but why doesn't it help in bringing down transport cost, which is increasing due to rising fuel prices. The government must properly discuss the pros and cons of allowing 100% FDI and have a law in place to control unfair competition. When foreign countries don't allow import of food products from India, then why should we allow them in our country**.**

Ajit Setiya, president, Poona Merchants Chamber

Once monopoly sets in market, small-time retailers, consumers and farmers get exploited

I think that by allowing 100% FDI, it will have a negative impact on our retail market and farmers in the long-term. It will lead to creation of market monopoly, which is not good for economic growth. Bringing in big foreign players will, no doubt, give direct competition to big domestic retail chains but small retailers will eventually get eliminated. Though farmers will get good rates for their produce and storage facilities will improve, these are only temporary benefits. In the history of capitalisation, the beginning is always good but once monopoly sets in, small-time retailers, consumers and farmers get exploited.

Subhas Vare, secretary, SM Joshi Socialist Foundation

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