INDIA REDFINING ‘THE URGE TO SPLURGE’

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ABSTRACT

In the past few years, the retail sector in India has witnessed some hyperactivity and has shown tremendous potential, thus emerging as one of the most productive and flourishing sectors of the country. Even though the boom in retail market has been relatively recent and the industry is still in its early stages, it has already become a major contributor to the GDP of the nation and almost all major giants are ready to take the leap and join the bandwagon of the various companies plunging into the Indian retail market. In a nutshell, the retail sector has already started rewarding the consumers, producers as well as the nation. In the upcoming years, the retail sector in India is going to be a major player in the economy and a force to reckon with. The main objective of this case study is to judge the awareness of the people regarding the retail sector. The study also incorporates the opportunities and challenges facing the sector as well as the recent trends in the retail market. Mainly the secondary data has been used as the source of all information. Various business magazines, journals, newspapers as well as organizational reports have been analyzed. The paper concludes with the plausible future of the retail industry in India based on the study of the present conditions and statistics.

KEYWORDS : Foreign Direct Investment, Organized Sector, Retail, Unorganized Sector.

1.1 INTRODUCTION

The word retail has been derived from the Old French word ‘tailer’, which means – ‘to cut off’. The basic function of a retailer is to buy in bulk from the wholesaler, break down the bulk into smaller units and then sell it to the final consumer.
In India the retail sector has witnessed a significant boom and is now standing at the verge of a revolution. The world is now eyeing the Indian markets. The foreign investors are formulating their strategies to enter and capture the market, while the native companies are also busy revamping their present operations in order to gain a stronger foothold over the market. Thus, even though still in its primary stages, the Indian retail sector has already become one of the principal forces driving the Indian economy and the years to come will definitely see the emergence of the retail sector as the backbone of the Indian Economy.

2.1 HISTORY OF RETAIL IN INDIA

Retail in India can be traced back to the 90’s with the emergence of the neighborhood ‘Kirana’ shops. These were essentially small shops run by families in the frontal part of the house, to earn their livelihood. This was soon followed by the era of government support for the rural retail. These were basically indigenous franchise models of store chains run by Khadi & Village Industries Commission.

With the introduction of the Liberalization, Privatization, and Globalization policies in the 1980’s the retail scenario in India underwent a drastic change. With the opening up of the economy and the relaxation in the procedures, the textile sector, with companies like Bombay Dyeing, Raymond’s, S Kumar’s and Grasim’s, first saw the emergence of retail chains in India. Sometime later, Titan successfully created an organized retailing concept and established a series of showrooms for its premium watches. Thus the organized form of retailing was introduced to the nation.

The latter half of the 1990’s proved to be even more fruitful for the Indian retail sector as it saw a fresh wave of entrants with a shift from Manufactures to Pure Retailers. For e.g.- Food World, Subhiksha and Nilgiris in food and FMCG, Planet M and Music World in music, Crossword and Fountainhead in books. The era post 1995 saw an emergence of shopping centers, mainly in urban areas, with facilities like car parking, targeted to provide a complete destination experience for all segments of society.

By the year 2000, all forms of the organized retail sector had been successfully introduced to the nation, but the organized sector was largely concentrated to the larger metro cities while most of the retail sector remained predominantly unorganized.

2.2 PRESENT SCENARIO OF RETAIL IN INDIA

The Indian Retail Industry has emerged as the largest among all the industries, accounting for over 10 percent of the country’s GDP and around 8 percent of the employment. The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the Indian market each fiscal.

India today is one of the most sought after destinations by the global retail giants, and the US-based global management consulting firm, A T Kearney, in its Global Retail Development Index (GRDI) 2011, has ranked India as the fourth most attractive nation for retail investment, among 30 emerging markets. "India remains a high potential market with accelerated retail growth of 15-20% expected over the next five years," highlighted the report by A T Kearney.

The Indian retail industry is predominantly characterized by an unorganized retail format, although in the last few years the shift towards the organized retailing format has been gradual and noticeable. The Indian retail sector is estimated to have a market size of about $180 billion;
but the organized sector represents only 2% share of this market, since the organized has only been recently recognized and is mostly restricted to the metro cities. Even then, organized retailing in India has tremendous scope owing to the vast market as well as the growing consumer awareness regarding the product quality and performance. The annual sales in the retail sector amount to about 450 crore rupees. 90% of the retail sector is still controlled by family run small shops while the organised retail sector constitutes a mere 10% and its increasing at the rate of 20% per year. The current size of India’s retail sector is currently valued at 22,50,000 crore. About 74% of the retail occurs in food and beverages while clothing, consumer durables, home decor, furnishings, jewelry, watches, beauty products and footwear form the other items of retail. On the whole, it can be said that the retail industry in India is accelerating at a great speed and though India is still not at an equal position as other Asian countries, this status will soon change and India will become one of the key players in the retail market.

2.3 FORMATS OF RETAILING IN INDIA

The retail market in India is humongous and has taken various shapes. Following are the various formats in which the retailing is carried out in India –

• Convenience Stores: Also known as “kirana” shops, they are small shops basically found in residential areas and sell items of daily use. They are widely preferred due to their easy access and extended hours.

• Malls: They are practically the largest and most commonly used form of retailing in India. They have come up in almost major cities of the nation and range mostly from 60,000 sqft to 7,00,000 sqft and above. They provide a unique shopping experience and offer a myriad range of products and services all under one roof e.g. Shoppers Stop, Pantaloons, etc.

• Specialty Stores: These are stores dealing mainly in only one category of products and carry a wide assortment of myriad brands of one particular product. They are characterized by their product loyalty e.g. Crosswords Book Store of Mumbai, Planet M of Times Group.

• Discount Stores: As is apparent by its name, they are basically factory outlets or stores offering a discount on the MRP of the items either to attain mass sales or to clear off the leftover stock.

• Hypermarkets/Supermarkets: They are basically large self service outlets offering a wide variety of product categories as well as numerous brands within each category. These stores contribute 30% of all food and grocery organized retail sales e.g. Big Bazaar.

• E-Tailing – Another growing form of retail in India, customers can affect sales through the internet and then get home deliveries e.g. Flipkart.

3.1 FOREIGN DIRECT INVESTMENT AND INDIA

3.1.1 FOREIGN DIRECT INVESTMENT IN THE INDIAN RETAIL SECTOR

Foreign Direct Investment in the retail sector has been the current boiling topic in the economy. The entire nation is taking an interest in it and the debate has reached gigantic proportions with even the common man taking a stand on it. As of now the Indian Government has given a green signal to the 100 % FDI in single brand and 51 % FDI in multi-brand retail outlets. FDI is basically being regulated under the Foreign Exchange Management Act being administered by RBI’s Exchange Control Department.
3.1.2 THE BENEFITS OF FDI IN RETAIL SECTOR

The FDI has following benefits in the retail sector:

• Higher competition leading to superior quality products and services.
• Higher standard of living due to better quality and branded products.
• Increase in investments in supply chains leading to infusion of money into the economy.
• Upgradation of technology in terms of business support services, production and distribution.
• Increased employment and development of workforce skills.
• Development of economies of scale resulting in lower prices and higher affordability.
• Upliftment of farmers due to direct procurement from fields.

The drawbacks of FDI in the retail sector are –

• Most of the middlemen will be eliminated leading to unemployment there.
• Economists also fear the phenomenon of predatory pricing, wherein the companies sell their products at extremely low rates so as to capture the markets and to drive the competitors out of business.
• People are also arguing that India would become the dumping ground for all the foreign goods.

3.1.3 CAUSES OF BOOM IN THE INDIA RETAIL SECTOR

The Indian retail sector has been progressing by leaps and bounds and has reached its present successful stage in a very short span of time. Following are the principal factors behind this boom in the retail sector:

• Favourable Demographics: With the onset of nuclear families in India, the effective demand has been enhanced considerably. Also a young population of the country is brand conscious and is ready to pay leading to more demand.
• Rising Consumer Income: Due to better working opportunities and high paying jobs, the consumer income has risen considerably. Adding to it is the working women of the house who have also started contributing to the income, leading to higher disposable incomes.
• Infrastructural Developments: The development of a sound infrastructure in the nation has also played a major role in enhancing retail in the nation. Smooth roads, effective and far reaching means of communication, efficient warehouses and proper markets have also supported the growth of retail.
• Availability of Better Sourcing Options: With India being the hub of cheap and skilled labor and equally cheap raw material, the companies get better sourcing options within effective reach.
• Liberalisation of the Economy: With the relaxation in the norms and the simplification of the import export as well as licensing procedures, more and more companies are attracted towards the Indian markets.
• Demand of Foreign Brands: With the rising income of the people and the rising influence of the western culture, the ‘brand frenzy’ has set in in India also and almost everybody is looking to buy the latest brands that are in vogue.

3.1.4 CHALLENGES BEFORE THE RETAIL INDUSTRY IN INDIA

Despite the recent boom in the Indian retail sector, the industry is still facing a lot of hurdles and challenges. Some of them have been enlisted here under.
• Automatic approval isn’t allowed for foreign investment in retail which leads to cumbersome laws and procedures, ultimately discouraging foreign investment in the sector.
• There are various restrictions regarding the purchase of real estate for commercial purposes. This further makes the whole business setting up procedure more tedious and ultimately hampers the spirit of the manufacturers.
• The tax laws in India are such that they favor the small scale industries, providing them with lower tax rates, tax exemptions and refunds, etc, while the big industries are excessively taxed by the government. This again acts as a major deterrent for the big firms.
• Due to the unorganized form of retail being practiced in India since the very beginning, the workforce isn’t trained to carry out work in the organized retail environment. Thus there is a major shortage of skilled workforce.
• There are also various intrinsic complexities in the retail trade, the most common of them being – rapid price changes, threats of product obsolescence, low profit margins, etc. All these factors are the inherent deterrents of the retail sector.

3.1.5 THE FUTURE OF RETAILING IN INDIA

The Indian retail sector has become one of the key forces driving the economy in a very short time and has tremendous potential to soon become the most flourishing industry in the country. The expected investment in modern retail in the country is around 1, 75,000 crore in the next five years. 70,000 crore is the investment expected from the foreign retailers in the next five years while 64,312 crore is the estimated total investment required in agricultural infrastructure over the next five years. The coming years will see the entry of major retail giants such as Walmart, Carrefour, and Tesco in the Indian retail sector. Also, the organized retail sector is expected to grow by 15 to 20 percent in the next 5 years at the rate of almost 4 percent per year. The overall share of the retail sector in the GDP of the nation is expected to be around 30 to 40 percent by the end of the year 2020.

4.1 RED OF FDI:

FDI though looks a blessing at the face but if not practiced carefully, could turn out to a big curse. The issues like Impact of FDI over Country’s Balance of Payment must be understood thoroughly before carrying out trade. Outflow of foreign exchange arising out of profits made in our country is one such example.

Measures to woo more FDI in the country should also be very rational. In the bid to attract more FDI, moves like offering various exemptions and deductions could prove inimical to the countries health in long run. The reduction in corporate tax paid by foreign companies from existing 48 percent to 40 percent as announced by the Finance Minister in his budget speech, despite the deficiency in the present year’s tax collection is one such example to ponder upon.

The FDI rules for 100% FDI in single brand has offered a protection for the products manufactured in SSI of the country, but what if in a bid to entice FDI, the government dilutes these provisions too?
According to Attorney General G E Vahanvati\(^1\), the Centre had notified three amendments to the Foreign Exchange Management Act (FEMA) rules on October 30\(^{th}\) to enable foreign direct investment (FDI) into the multi-brand retail sector. The changes were made to the FEMA (Transfer of Security by a Person Resident outside India) Regulations 2012. However, these amendments had to be approved by both Houses of Parliament and the approval is still pending!

People are apprehensive of rampant rise of price cartels in near future where may be a good portion of market would be under the control of foreign investors. Is Competition act 2002 really strong to take on the gauntlet?

We are quite optimistic of the generation of employment, but will non-technical, non-professional pool of workers get equal opportunities of job in highly technical and much professional new environment?

Though middlemen in the channel of distribution had been extracting the best of fruits for least of efforts all these days, will they now be able to save their bread?

With them they will bring their technology to least wastage of food materials through preservatives, proper warehousing etc., but in this bid to minimize wastage of eatables have we thought of damage that we might now cause to the climate by releasing toxic green gas emissions in the environment?

5.1 CONCLUSION

After extensive study and deep analysis of the past, present, and future of the Indian retail sector as well as the present position of the FDI in retail sector, the conclusion drawn is that this recent spurt of development in the retail sector will definitely prove to be a boon for the entire economy and might even help India to consolidate its position with regard to its international position. We can effectively conclude that the recent trend of rising retail practices in India is definitely here to stay and the coming few years will see the rise of this sector to gigantic proportions, benefitting the producers as well as the consumers, and ultimately the entire Indian Economy provided we the citizens of India take it as our moral responsibility to ensure that all the agreements and policies regarding FDI are drafted very carefully in the greater interest of the nation, its society, demography, geography, economy and above all the ecology.

6.1 QUESTIONS

1. What are the challenges and opportunities before FDI in Retail Sector in India?

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2. “100% FDI in retail will prove suicidal to the traditional kiryana stores and SSI’s of the country.” Comment.

3. Is the increase in retailing amounting to inflation in the economy?

4. What do you think about FDI in Retail Sector?

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