ROLE OF FDI IN RETAILING

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INTRODUCTION

Retail comes from the Old French word tailer (compare modern French retaillier), which means "to cut off, clip, pare, divide" in terms of tailoring (1365). It was first recorded as a noun with the meaning of a "sale in small quantities" in 1433 (from the Middle French retail, "piece cut off, shred, scrap, paring"). Like the French, the word retail in both Dutch and German (detailhandel and Einzelhandel, respectively) also refers to the sale of small quantities of items.

Retail consists of the sale of physical goods or merchandise from a fixed location, such as a department store, boutique or kiosk, or by mall, in small or individual lots for direct consumption by the purchaser.[1] Retailing may include subordinated services, such as delivery. Purchasers may be individuals or businesses. In commerce, a "retailer" buys goods or products in large quantities from manufacturers or importers, either directly or through a wholesaler, and then sells smaller quantities to the end-user.

After farming, retailing is India’s major occupation. It employs 40 million people. A sizeable majority of owner/employees are in the business because of lack of other opportunities. The decade of liberalisation has so far been one of jobless growth. It is no wonder that retail has become there fuge of these millions. Lopsided economic development is transforming India from an agrarian economy directly to a service oriented post-industrial society.

Even though organized retail sector in India is at the infant stage, India has today become a budding target for FDI. India today offers the most persuasive investment opportunity for mass merchants and food retailers looking to expand overseas as Indian economy is growing at a rapid pace with consumers having high purchasing power. With a robust economy experiencing unrelenting growth, India has exerted a pull and an irresistible enticement to companies looking to expand their scope of operations. FDI is a sturdy source for the intensification of retailing and will create enormous opportunities for innovation in retail sector in India but at the same time it is quite likely that a section of the domestic retailing industry will be severely hurt due to the entry of foreign retailers. In this paper researchers have tried to accentuate both the thoughts in detail and concluded the most constructive view on FDI in Indian retailing.
FOREIGN RETAILERS HAVE ALREADY STARTED THEIR OPERATIONS IN INDIA THROUGH

- Joint venture where the Indian firm was an export house
- franchising (KFC, Nike)
- Sourcing from small-scale sector
- cash and carry operation (Giant in Hyderabad)
- non-store formats- direct marketing (Amway)

REVIEW OF LITERATURE

Retail modernization: Retail modernization in developing countries and its effect on the broader food system has been a major focus of research since the early 2000s. The most visible banner for this work has been the “supermarket revolution”. Supermarkets existed in Latin America from at least the 1960s1, but began to grow much more rapidly in that region during the economic boom and opening to Foreign Direct Investment (FDI) of the 1990s. Growth began later in East/Southeast Asia and Central Europe, followed by selected countries of Africa (Reardon et al, 2004). This growth, together with new procurement practices that the firms work to apply, has lead to a rash of studies attempting to document and anticipate the impacts of these firms on existing actors in the food system, and to draw policy implications for governments and donors.

In India, market reform and opening to FDI, along with prospects for 7% yearly growth in retail sales in a market of 1.2 billion people have generated billions of dollars of planned investment in supermarkets by local and multi-national firms, including Wal-Mart and Carrefour. Yet supermarket shares in India are currently very low (around 2%), due to the country’s massive and complex small retail sector. Supermarkets there face the 20/20/20 challenge: they must grow their food sales by 20% a year for 20 years just to reach a 20% market share. Such unprecedented growth would still leave more traditional channels holding 80% of the food market.

OBJECTIVES

1. To analyze the present trends in retail industry.
2. To study the impact of FDI in retailing
3. To analyze the benefits and concerns with regard to opening of the retail sector for FDI
EMERGING TRENDS IN RETAILING

<table>
<thead>
<tr>
<th>YEAR</th>
<th>TREND</th>
<th>CHARACTERISTICS</th>
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<tbody>
<tr>
<td>1986</td>
<td>The foot soldiers</td>
<td>FMCG companies had started to build robust chains. With 1,275 depots, Brooke Bond’s large field force was part of a unique cash-based direct selling system. Coupled with the Hindustan Lever network, it had India’s largest retail distribution chain.</td>
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<tr>
<td>1990s</td>
<td>Sachet Revolution</td>
<td>Selling in rural India was near impossible. Affordability, size, packaging, distribution — everything had to be different. The answer came along in the mid-1990s in the form of sachets — 20 ml plastic pouches. With this, FMCG companies rapidly ramped up their rural plans.</td>
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<tr>
<td>1999</td>
<td>The Big Push</td>
<td>The big players in Indian industry wanted a slice of the retail pie — the Tata’s, Piramal Enterprises, ITC and S Kumar’s. Piramal Enterprises chairman Ajay Piramal who setup Crossroads, a 150,000-sq. ft mall in south Mumbai has since exited the business.</td>
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<tr>
<td>2000s</td>
<td>The Mall Bug</td>
<td>Suburbs in Delhi and Mumbai saw multiple malls of average size 250,000 sq. ft spring up. Tier-2 cities followed suit and retail-only real estate companies came up. About 600 malls were to come up by the end of the decade, from 20 in 2004. The retail formats, too, underwent big changes.</td>
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<tr>
<td>2001</td>
<td>Second-Movers</td>
<td>Competition began in full earnest. While it took Shoppers Stop over eight years to become one of the largest department store chains in India, Westside grew to about half its size within just two years of starting off. While almost 75 per cent of Shoppers Stop sales came from brands supplied by other producers, 95 per cent of Westside’s sales came from its own in-store brands.</td>
</tr>
<tr>
<td>2004</td>
<td>Size Matters</td>
<td>For all the hype, through the 1990s, organised retail in India added just 1 million sq. ft of space a year. In 2003 alone, 10 million sq. ft was picked up by retailers. The growth continued. In 2004, at least 50 new malls — of 100,000 sq. ft size and above — were slated to open.</td>
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<tr>
<td>2005</td>
<td>More Of The Same</td>
<td>Urban organised retail was getting crowded. To be different, a few specialty malls cropped up. While some focused on luxury brands, others went for gold, jewellery, furniture, and even weddings. But these were just a minuscule part of the big pie.</td>
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### 2007 Green Evolution
— Reliance Industries (RIL), Aditya Birla Group, the Mittal's of telecom fame, Pantaloon Retail and RPG Group — as well as a host of smaller players jumped into retailing of fresh vegetables, fruits and groceries. And with good reason. Of the retail pie that was worth Rs 12 lakh crore in 2006, 63 per cent was food and groceries alone.

### 2009 Shutters Down
Chennai-based value retailer Subhiksha Trading Services went neck-deep in Rs 600 crore of debt (plus Rs 180 crore raised internally as shareholders’ funds). It could not pay vendors, and employees. By 2009, it had no money to run its operations, senior staff was deserting, many stores were reportedly looted, and there was a demand for the government to initiate an independent audit of its accounts.

### 2010 Foreign Hand
Big retail was at the doorstep, waiting for the still elusive green signal to foreign investment. Two years after it entered India, in partnership with Bharti, Wal-Mart was perfecting its back-end system at its five stores in India (three in Punjab, and one each in Rajasthan and Madhya Pradesh). The rules allowed Wal-Mart only to operate in the cash-and-carry segment. But in every other country, it sold directly to consumers. It had plans to invest Rs 500 crore more in the next five years to open 12 similar stores — if the retail FDI rules did not change that is. And change they did.

### 2011 The Gates Open
The government has now given its nod to increased FDI in retail — 51 per cent in multi-brand, and 100 per cent in single-brand retail. Easier said than done. Political consensus is missing. As we go to press, Parliament has been stalled on the issue for the seventh day.

Source: This story was published in Business world Issue Dated 12-12-2011

### GROWTH OF INDIAN RETAIL INDUSTRY IN THE LAST DECADE

Last decade has indeed witnessed tremendous growth in Indian retail industry and has integrated our Indian economy with the world. Retailing in India is progressively inching its way toward becoming the next boom industry. It has emerged as one of the most dynamic and fast paced industries accounting for over 10 per cent of the country's GDP. This growth has become major attraction for foreigners to enter in India.

The challenge to the retail on the other hand is the requirement of heavy initial investments which leads to difficulty in achieving break even and this is the reason that many of these players
have not tasted success so far. However, the growing trend of the market, changes in the lifestyle of consumer segment, increasing per capita income and emerging technologies in operations still promises success in the long run with achievement of economies of scale. India is the fourth largest economy as far as purchasing power is concerned just behind, USA, Japan and China. Even though 25% of the population lives below poverty line, India has a large and growing middle-income group of over 300 million, making it a strong emerging market.

IMPACT OF FDI IN INDIAN RETAIL TRADE

India is in the midst of a retail boom. The sector witnessed significant transformation in the past decade from small-unorganized family-owned retail formats to organized retailing. Indian business houses and manufacturers are setting up retail formats while real estate companies and venture capitalist are investing in retail infrastructure. Many international brands have entered the market. With the growth in organized retailing, unorganized retailers are fast changing their business models. However, retailing is one of the few sectors where foreign direct investment (FDI) is not allowed at present.

FDI IN RETAIL INDUSTRY

FDI in retail industry means that foreign companies in certain categories can sell products through their own retail shop in the country. At present, foreign direct investment (FDI) in pure retailing is not permitted under Indian law. Government of India has allowed FDI in retail of specific brand of products. Following this, foreign companies in certain categories can sell products through their own retail shops in the country.

It is a very positive step and it will encourage international brands to set up shop in India. On the other hand, this will also lead to competition among Indian players. It will be the consumers who stand to gain," This would not change the market dynamics immediately as it will take some time for these plans to fructify. The growing dominance of multinational companies in the country's $200 billion retail business, had warned that any move to increase FDI in the retail sector would ruin the business of small and medium traders scattered over the country

Organized retailers in India are opposing the entry of MNCs in retail trading because of their predatory pricing strategy that wipes out competition, when the Government decides to allow foreign players to enter the retail space, it should first restrict them to lifestyle products segment before permitting them to spread their wings into other areas like grocery marketing that has a direct impact on 'kirana stores'.

FDI in retail trade has forced the wholesalers and food processors to improve, raised exports, and triggered growth by outsourcing supplies domestically. The availability of standardized products has also boosted tourism in these countries. FDI in retail sector has been a key driver of productivity growth in Brazil, Poland and Thailand. This has resulted in lower prices to the consumer, more consumption and higher profit for the producer.
There are three different forms through which retail trade is carried out in India, namely:

<table>
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<tr>
<th>Mono/Exclusive/Single Brand Retail Shops</th>
<th>Multi-branded Retail Shops</th>
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<tr>
<td>Exclusive Showrooms either owned or franchised out by the manufacturer. A complete range of all the products manufactured by the said manufacturer under one brand name</td>
<td>In these kinds of stores, almost all brands are available for a single product type. The customer has a very wide choice for the kind of product he is willing to buy.</td>
</tr>
<tr>
<td>The focus is on the brand Name.</td>
<td>The focus is on the nature of Product.</td>
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<tr>
<td>e.g.: Exclusive showroom / franchise outlets of Nike, Liberty, Samsung, Nokia, etc</td>
<td>e.g.: Max, Shoppers Stop, Croma, etc.</td>
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**CURRENT FDI POLICY IN RESPECT OF RETAIL SECTOR IN INDIA**

Keeping in mind the ‘welfare' motive, India has kept the retail sector closed for the foreign investors in order to protect the interest of the 15 million small retail store-owners. Currently, the foreign investor can make investments as per following guidelines:

- 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 for retail trade of ‘Single Brand' products.(now 100% allowed vide notification dated 11/Jan/2012).
- FDI is not permitted in Multi Brand Retailing in India

**AVAILABLE ROUTES FOR FOREIGN PLAYERS TO ENTER THE RETAIL SECTOR**
FOREIGN DIRECT INVESTMENT - IMPACT AND ANALYSIS

Market liberalization, a growing middle-class, and increasingly assertive consumers are sowing the seeds for a retail transformation that will bring more Indian and multinational players on the scene. The big Indian retail players looking to expand their operations include Shopper's Stop, Pantaloon, Lifestyle, Subhiksha, Food World, Vivek's, Nilgiris, Ebony, Crosswords, Globus, Barista, Qwiky's, Café Coffee Day, Wills Lifestyle, Raymond, Titan, Bata and Westside. Well-established business houses such as Wadia, Godrej, Tata, Hero, Malhotras, etc., are drawing up plans to enter the fast-growing organized retail market in India. According to reports, Reliance Industries Ltd plans to enter the retail business in a big way and has identified 18 cities, starting with Ahmadabad, to set up malls. It will spend Rs 30-50 crore on each mall, which are to be modelled after those in Dubai and East Asia. The international players currently in India include McDonald's, Pizza Hut, Dominos, Levis, Lee, Nike, Adidas, TGIF, Benetton, Swarovski, Sony, Sharp, Kodak, and the Medicine Shoppe. Global players are entering India indirectly, via the licensee/franchisee route, since Foreign Direct Investment (FDI) is not allowed in the sector.

Despite all these developments, the organized retail business still comprises a small proportion of the total size of the Rs 9,00,00-crore ($200 billion) retail sector. Retail business growing at 5-6 per cent per annum. The size of organized retailing was estimated around Rs 26,000 crore in 2004, about three per cent of the total. However, it is now set to grow at 25-30 per cent per annum.

In developed countries, organized retailing makes for over 70 per cent of the total business. Recently, the Government announced its intention to open up the retail sector to foreign investment. It is still, however, debating whether to allow 26 per cent or 49 per cent FDI in the sector.

THE LIBERALIZATION OF FDI IN RETAIL WILL LEAD TO INCREASED FDI INFLOWS IN THE FOLLOWING BUCKETS

- Foreign investors who earlier wanted to foray only in multi-brand 'retail' and not the watered down avatar of 'wholesale cash and carry' will now be keen to enter India.

- Hike in the limit for FDI in single brand joint venture, will enable foreign investors to increase their stake in the existing ventures where the Indian joint venture partner are unable to further capitalize the ventures keeping their 49 percent stake in perspective.

- Global single brand players who did not want to enter into India earlier because of 51% cap prescribed for single brand retail should be interested in investing into India.

- Foreign investment in already existing large and medium Indian retailers to address their funding needs.
THE RATIONALE ADOPTED BY THE GOVERNMENT OF INDIA FOR OPENING UP OF THE RETAIL SECTOR FOR FOREIGN INVESTMENTS IS AS FOLLOWS

- Although, India is the second largest producer of fruits and vegetables, India lacks an integrated cold-chain infrastructure and storage facilities. Inefficient supply chain infrastructure is evident from the fact that 35-40% of the fruits and vegetables and nearly 10% of food grains in India are wasted.

- 100% permitted FDI in cold-chain storage has failed to attract desired foreign investment, in the absence of FDI in front-end retail, leading to losses to farmers in terms of higher prices; wastage of quality and quantity of produce.

The opening of FDI in retail with the condition of 50% mandatory investment in backend infrastructure should help in overcoming the above supply chain inefficiencies. Back-end infrastructure will include activities, like processing, manufacturing, distribution, design improvement, quality control, packaging, logistics, storage, ware-house, agriculture market produce infrastructure etc. Expenditure on land cost and rentals, if any, will not be counted for purposes of backend infrastructure.

Currently, illiteracy at farm level and outdated means of production and lack of required infrastructure has also contributed to shorter shelf life of the product and increased wastages. Global retailers are expected to bring in advanced technology; know-how and years of experience which should go a long way in addressing these inconsistencies. It is expected that the investments in supply chain by such global retailers should help in taming inflation currently prevailing in the Indian economy.

Numerous concerns have been articulated with regard to opening of the retail sector for FDI. It has been debated that opening of the sector to overseas big-ticket players would lead to inequitable competition resulting exit of domestic retailers, leading to large scale displacement of persons employed in the retail sector. One should not forget that even kirana stores are today confronted with high transaction cost due to lack of efficient supply chain management. It is pertinent to note that opening up of FDI in multi brand retail in other countries, has not only resulted in substantial growth in organized retail industry, but also seen an increase in the number of smaller unorganized sector stores.

Amongst other benefits, the opening up of multi-brand retail will have positive impact on the overall economic growth owing to increased employment opportunities; increased demand of real estate; better infrastructure; reduction in prices of the final product; fair remuneration to the farmers.

The Government has also adopted a cautious approach, while opening up FDI in retail to foreign investors. The same is evident from the fact that FDI in multi-brand retail is being opened in 53 cities only with population of 1 million. Accordingly, for the rest of the country the current FDI regulations of 100% FDI only in wholesale cash and carry would prevail. Additionally, the press release issued by the Government also stipulates a mandatory 30% procurement of manufactured
processed products from SMEs in respect to multi-brand and single brand proposal involving FDI beyond 51%.

**IMPACT IF THERE IS RELAXATION OF FDI POLICY IN RETAIL**

- **SINGLE BRAND** This is a welcome step. FDI investment in single brand retailing till now has just been 0.03% [Rs 204 cr / usd 44 mn] of total FDI investments from April 2000 to September 2011. This relaxation is likely to result in increase in FDI in retail sector, by way of either new foreign entrants, or buy outs / increase in stake / M&A amongst existing single brand JVs with foreign partners. We could also potentially see present licensing / distributor / franchise arrangements being converted to either JVs with respective foreign retailer / brands, or, foreign retailers completely buying out the Indian licensee / franchisee / distributor.

- **MULTI BRAND** This is a welcome and historic step. This is likely to result in increase in investments and growth in Indian retail sector, which is ranked amongst the top retail destinations in the world. Besides new entrants / joint ventures, this could also result in combination of existing cash and carry operations of foreign players with retail operations of Indian retailers, or, foreign retailer acquiring stakes in existing Indian retail entity. Also, this could provide further options to existing Indian retail chains / groups to raise long term capital for expansion and maybe to attract partnerships with some global players. Also, foreign multi brand retailers, who did not want to enter India through cash and carry operations, may now explore Indian presence by having stake in Indian retail company.

**THE BENEFITS AND CONCERNS WITH REGARD TO OPENING OF THE RETAIL SECTOR FOR FDI**

<table>
<thead>
<tr>
<th>Benefits of FDI in Retail</th>
<th>Draw backs of FDI in retail</th>
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<tbody>
<tr>
<td>Inflow of investment and funds.</td>
<td>Would give rise to cut-throat competition rather than promoting incremental business</td>
</tr>
<tr>
<td>Improvement in the quality of employment</td>
<td>Promoting cartels and creating monopoly</td>
</tr>
<tr>
<td>Generating more employment.</td>
<td>Increase in the real estate price</td>
</tr>
<tr>
<td>Provide better value to end consumers</td>
<td>Marginalize domestic entrepreneurs</td>
</tr>
<tr>
<td>Investments and improvement in the supply chains and warehousing</td>
<td>The financial strength of foreign players would displace the unorganized players.</td>
</tr>
<tr>
<td>Franchising opportunities for local entrepreneurs.</td>
<td>Absence of proper regulatory guidelines would induce unfair trade practices like Predatory pricing.</td>
</tr>
</tbody>
</table>
Growth of infrastructure.

Increased efficiency.

Cost reduction

Implementation of IT in retail.

Stimulate infant industries and other supporting industries

BENEFITS OF FDI

FDI in the retail sector could bring various benefits for the country, such as:

- Improvement in the supply chain infrastructure by bringing in technical know-how and capital. FDI can be a powerful catalyst to spur competition in the retail industry. It can bring about an improvement in the supply chain infrastructure, investment in technology, up-gradation in agriculture, manpower and skill development and may also lead to an improvement in the overall productivity.

- Improvement in farmer income through the removal of structural inefficiencies. Farmers were found to benefit significantly from the option of direct sales to organized retailers. For instance, the profit realization for farmers selling directly to the organized retailers is expected to be much higher than that received from selling in the mandis.

- Benefits to customers in the form of better quality of products and lower prices. Past trends indicate that by and large consumers have benefited from organized retail in the domestic market.

- FDI may help address social concerns by acting as a tool to alleviate poverty especially as most MNEs take an interest in furthering social cohesion and labour standards. There are, however, some examples, in specific countries and sectors, of the opposite effect.

- To achieve expected growth in Indian GDP by encouraging export India is targeting for its GDP to grow by 8 to 10 per cent per year. This requires raising the rate of investment as well as generating demand for the increased goods and services produced. Growth in Indian GDP and Retail trade.

- To acquire market-savvy, market-intelligent and best management practices Retail giant houses such as Wal-Mart, Carrefour, A hold, JC Penny can bring their better managerial practices and IT-friendly techniques to cut wastage and set up integrated supply chains to gradually replace the presented disorganised and fragmented retail market. India wastes nearly Rs 50,000 crore in the food chain itself. These international retail outlets can help
develop the food processing industry which requires $28 billion of modern technology and infrastructure. Lack of latest technical expertise, is a major handicap for Indian business houses. Foreign direct investment can only pave the want for prosper and professional entrepreneurship for retail value chain.

CONCERNS

Major concerns which have been expressed with regard to opening of the retail sector for FDI:

- **MAY LEAD TO UNEMPLOYMENT** - The retail sector in India is the second largest employer after agriculture. In 2007-08, retail trade employed 7.2 percent of total workers and provided job opportunities to 33.1 million persons. It may also 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.

- Threat to the organized retail sector players in the domestic sector The Indian retail sector, particularly organized retail, is still underdeveloped and in a nascent stage and therefore it is important that the domestic retail sector is allowed to grow and consolidate first, before opening this sector to foreign investors.

- FDI tends to act as a catalyst for underlying strengths and weaknesses in the host economy, bringing to the fore both its advantages and its problems.

- FDI-induced economic change may produce some adverse distributional and employment effects in the host country. Both categories of problems should be temporary, but they can be prolonged and aggravated in the absence of appropriate policy responses.

CONCLUSION

The above analysis shows that FDI has positive and negative effects on India economy. It can be concluded that to keep pace with the forecast of Indian GDP, government should encourage foreign investment. To avoid its negative impact on local player’s regulatory framework should be redesigned. Government should encourage FDI on gradual basis like currently it is allowed for single brand. Product category wise clauses should be developed to allow FDI like:

- The product categories where it can create total threat, FDI should be encouraged in the form of Joint Venture only e.g. India is enjoying strong agriculture base. Encouragement to food—grocery retail would create a threat to Indian agriculture but our poor supply chain demands end to end distribution network to reduce gate prices. For that there is a need of global established giant. So FDI should be allowed but in the form of joint venture to protect our interest part.

- FDI should not be encouraged in the product categories where Indian players are already established and FDI is only detrimental. E.g. Cosmetic products do not need FDI because entry of foreign players would replace Indian established brands with...
international brands. It would be a direct threat to our big giants HUL, P&G, Johnson & Johnson who are consistently providing qualitative products to consumers in all ranges. But craze of international brand will induce consumers to switch to foreign brands.

✓ For some categories of products FDI should be permitted for sourcing only not selling in Indian market. E.g. India needs support to increase the market share of its Textile products where it has capacity to produce at the lowest rates. Encouragement to textile export can tremendously contribute towards development of our textile sector. Foreigners would get attracted due to lower prices. Thus FDI should be allowed to source or import from India not to sale in India.

✓ Entry of foreign players should be restricted by the format type and number of stores. E.g. Wal mart store has its different format like Super centers, Discount departmental store etc. with the help of different formats it has successfully covered almost all the locations of the city or country in which it has started its operations. Presence of such giants at all the location can stop the local business. Indian organized retail players are able to develop maximum number of supermarkets not hypermarkets because of heavy investment. So foreign players should be allowed with limited number of stores only. In nutshell FDI should be encouraged with strict, feasible and mutually beneficial regulations.

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