
FDI in Indian Retail Sector and Its Effect on Stakeholders

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Abstract:

The spectacular and unprecedented growth of FDI in the global economic landscape over the last two decades has made it an integral part of the development strategy of both the developed and developing nations. It acts as a major catalyst in the development of a country through up-gradation of technology, managerial skills and capabilities in various sectors. Rise in purchasing power, growing consumerism and brand proliferation has led to retail modernization in India. The Indian market has attracted a number of foreign retailers and domestic corporate to invest in this sector. At the same time the opponents have raised concerns about employment losses, promotion of unhealthy competition among organized domestic retailers resulting in exit of small domestic retailers from the market and distortion of urban cultural development. The present paper focuses on the overview of the Indian retail sector, FDI in retail sector & its effect on various stakeholders.

Key Words: FDI, Indian retail sector, Single Brand retailing, Multi Brand retailing

I. Foreign Direct Investment in India: Background

With the advent of liberalization and deregulation of financial markets, cross-border mergers and acquisitions (M&As), increasing role of investors willing to invest abroad, rapid advances in modern telecommunication and computer network have led to a tremendous upsurge of international capital flows in India, particularly private capital flows, as compared to official capital flows over the last two decades. Among the various forms of foreign investment, foreign direct investment (FDI) flows are usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depends on the performance of projects financed by the investors. In fact, FDI provides a win – win situation to both the host and the guest countries. The “guest” countries want to take the advantage of the vast markets opened via policy initiatives that led to industrial growth.

On the other hand the “host” countries want to acquire technological and managerial skills and supplement domestic savings and foreign exchange. Moreover, in order to overcome the deficiencies of all kinds of resources viz. financial, capital, entrepreneurship, technological know- how, skills and practices, access to markets-abroad - in their economic development, developing nations accepted FDI as a sole visible solution for all their scarcities.

Economic development, rise in purchasing power, growing consumerism and brand proliferation has led to retail modernization in India. With high economic growth, per capita income increases; this, in turn leads to a shift in consumption pattern from necessity items to discretionary consumption. Furthermore, as the economy liberalizes and globalizes, various international brands enter the domestic market. Consumer awareness increases and consumers tend to experiment with different international brands. The proliferation of brands leads to increase in retail space.

Retail modernization in India depicts a similar story. According to A.T. Kearney’s Annual Global Retail Development Index (GRDI) for the year 2014-15, India has been placed (down from fourteenth position in 2013-2014) at twentieth rank on the basis of retail investment attractiveness. This could be attributed to high inflation, currency fluctuations, high current account deficit and government debt etc.

II. Indian Retail Sector: An Overview

- **Meaning of retail**

It is defined as all activities involved in selling goods or services directly to the final consumer for their personal, non-business use via shops, market, door-to-door selling, and mail-order or over the internet where the buyer intends to consume the product. 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. Retailing involves a direct interface with the customer and the coordination of business activities from end to end- right from the concept or design stage of a product or offering, to its delivery and post-delivery service to the customer.

- **Evolution of Indian Retail Industry**

It is interesting to focus on the evolution of the retail sector in India. Historically they evolved as a source of entertainment (in the form of village fairs, melas etc.) which was within the rural reach. Later on these were transformed Mom and Pop/ Kirana stores which are of traditional variety neighbourhood shops. Then came the government supported PDS outlets, khadi stores, cooperatives etc. Finally shopping malls, supermarkets, departmental stores etc has brought a great revolution to the Indian retail market.

- **Distinction of Indian Retail**

The Indian trading sector, as it has developed over *centuries* is very different from that of the developed countries. In the developed countries, products and services normally reach consumers from the manufacturer/producers through two different channels: (a) via independent retailers (“vertical separation”) and (b) directly from the producer (“vertical integration”). In India, however, the above two modes of operation are not very common. Small and medium enterprises dominate the Indian retail scene. The trading sector is highly fragmented, with a large number of intermediaries. So also, wholesale trade in India is marked by the presence of thousands of small commission agents, stockiest and distributors who operate at a strictly local level. Retail giants like US-based Wal-Mart and French Carrefour are very keen to enter in the segment. Bharti Enterprises and Wal-Mart Stores entered into a joint venture in August 2007 and started cash-and-carry stores named 'Best Price Modern Wholesale' in 2009. But unfortunately in 2013 they parted ways with each other.

- **Division of Indian Retail Industry**

The Indian retail industry is generally divided into two major segments – organized retailing and unorganized retailing.

(a) Organized Retailing – The trading activities undertaken by licensed retailers, that is, who are registered for sales tax, income tax, etc comes under organized retailing. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.

(b) Unorganized Retailing - The traditional formats of low-cost retailing comes under unorganized retailing, for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc.

Shopping on credit, a unique characteristic of such retail outlets enabled them to weather the storm of organized retailing.

- **FDI in Retail Sector:**

- (a) **Single Brand-**

Single brand means a foreign company would be allowed to sell goods sold internationally under a “single brand”, like Reebok, Nokia and Adidas. 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. The Government of India has allowed 100 per cent in Single-Brand Retail Trading (SBRT).

- (b) **Multi Brand-**

FDI in Multi Brand retail means a retail store with a foreign investment who can sell multiple brands under one roof. 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. The approval for single and multi brand includes a set of riders for the foreign investors, aimed at ensuring that the foreign investment makes a genuine contribution to the development of Indian infrastructure and logistics, at the same time facilitating integration of small retailers into the upgraded value chain.

FDI in Retail and Its Effect on Various Stakeholders

- **Effect on India and Its Economy:**

FDI is one of the major sources of investment for a country like India, which would assist in improving country's *growth rate, create employment opportunities, sharing of technical know-how, development of infrastructure and R&D* in the host country. The FDI in retail sector will also help in,

- increasing foreign exchange reserves
- reducing the balance of trade deficit
- developing agricultural sector etc.

On the other hand, let's look at the side effects of FDI in Retail Sector

- Loss of jobs:*

Retail sector offers huge growth potential and is the second largest employer in India. Any changes by bringing major foreign retailers will not only result in unemployment on the front end retail but also make the middlemen unemployed who have been working in this industry.

- Financial instability:

Once the overseas investors are established in Indian retail sector, they may transfer funds and profits earned to their home country. This might lead to financial instability.

- **Effect on Traditional Mom and Pop Stores:**

Traditional retailing has been established in India for many centuries, and is characterized by small, family-owned operations. Because of this, such businesses are usually very low-margin, are owner-operated, and have mostly negligible real estate and labour costs. Such small shops develop strong networks with local neighbourhoods. The informal system of credit adds to their attractiveness. Moreover, low labour costs also allow shops to employ delivery boys, such that consumers may order their grocery list directly on the phone. These advantages are significant, though hard to quantify.

In contrast, players in the organized sector have to cover big fixed costs, and yet have to keep prices low enough to be able to compete with the traditional sector. Getting customers to switch their purchasing away from small neighbourhood shops and towards large-scale retailers may be a major challenge. The experience of large Indian retailers such as Big Bazaar shows that it is indeed possible.

The oppositions, on the other hand, believe that local kirana shops will not be affected. The kirana stores operate in a different environment catering to a certain set of customers and they will continue to find new ways to retain them

- **Effect on Farmers-**

In all probability, with the onset of FDI in multi-brand retailing, the food and packaging industry will also get an impetus. Though India is the second largest producer of fruits and vegetables, it has a very limited integrated cold-storage infrastructure. Due to lack of adequate storage facilities farmers incur heavy losses, in terms of wastage in quality and quantity of produce in general, and of fruits and vegetables in particular.

With liberalization of FDI norms in retail sector, there could be a complete overhaul of the currently fragmented supply chain infrastructure. Extensive backward integration by multinational retailers, coupled with their technical and operational expertise, can hopefully rectify structural flaws. Also, farmers can benefit with the “farm-to fork” (from farm to table) ventures with retailers which helps in

- (i) cutting down intermediaries ,
- (ii) giving better prices to farmers, and
- (iii) providing stability and economies of scale which will benefit both the farmers and consumers.

- **Effect on Consumers-**

In the LPG era consumers have got the choice of selecting products from available options and also the sellers. In India it is observed that, those who purchase at modern outlets have found products having better quality, lower prices, one-stop shopping, choice of more brands and products, better shopping experiences with family as some of the reasons for their choice of outlet.

On the other hand, proximity to residence, goodwill, credit availability, possibility of bargaining, choice of loose items, convenient timings, home delivery, etc. are some of the benefits of traditional outlets that attracts consumers to such outlets.

Consumers are the major beneficiaries of the retail boom as organized retailers are initiating measures such as tracking of consumer behaviour and consumer loyalty programmes to retain their market share (Mukherjee and Patel (2005)). Authors of ICRIER Policy series paper (August, 2011) and various other surveys have pointed out that most consumers are willing to experiment to different brands and so they are in favor of allowing FDI in retail.

Apart from providing Indian consumers more choices in the form of reputed, good quality brands, liberalizing multi-brand retailing in India is likely to facilitate much greater inflows of investments. This, in turn, will lead to the development of more efficient and lower cost supply chains, resulting in better quality as well as lower-priced products for Indian consumers. This will increase consumer spending, which in turn, will drive growth in all sectors of the economy in a virtuous cycle.

- **Effect on Existing Indian Organized Retail Firms-**

The existing Indian organized retail firms (such as Food-world Supermarkets Ltd, Nilgiri's , ShopRite etc.) support retail reforms and consider international competition as a blessing in disguise. They expect a flurry of joint ventures with global majors for expansion capital and opportunity to gain expertise in supply chain management.

Conclusion

Considering the background of FDI in India, the Government has taken a policy decision to allow FDI in retail sector. In my opinion due to this decision it would be possible to develop various sectors of the economy.

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