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   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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BOOKS

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
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- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

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FDI IN MULTI BRAND RETAIL: INDIA CALLING

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ABSTRACT

Retailing is one of robust pillars of Indian economy and one amongst the fastest growing retail markets of the world. The government has opened up multi brand retailing for foreign players. This will bring in the much needed investment to spur the growth of the country along with the technical know-how, global best practices back end infrastructural support ,quality standards and cost competitiveness necessary to sustain growth. However, there are concerns about competition to unorganised retailers and job displacement. The present paper analyses the pros and cons of this policy reform through review of select articles and examines the major challenges faced by the foreign players in operating in India along with recommendations to harness this reform so that it provides a win win situation for all the stakeholders

KEYWORDS

Boon, curse, FDI, Indian Retail Sector , Roadblocks, Road Ahead.

INTRODUCTION

The Indian retail industry is one of the most promising sectors of the economy hailed as being the 5th largest in the world. The size of the retail industry in India is around USD 590bn expected to grow at a pace of 20 to 30% annually based on the reports of Indian Council for Research & International Economic Relations (ICRIER) . Given the tremendous growth potential of this sector along with an increase in disposable income of the middle class, it has become an attractive destination for FDI. All this led to intense lobbying to open up this sector for foreign players.Until 2011, the government denied foreign direct investment (FDI) in multi-brand retail. 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 entry of global competitors like Walmart, Carrefour & Tesco. The announcement sparked intense debate on the implications of these reforms on the unorganised retail which comprises 96% of the retail industry which led to the government putting these reforms on hold.

In Sep 2012, Government allowed 51% FDI in multi-brand retail in India amidst heavy opposition with certain stipulations to act as control on the foreign players.

BACKGROUND TO THE PROBLEM AND NEED OF STUDY

India is a land of retail democracy, characterized by the dominance of highly fragmented unorganised sector. The unorganised retailers (street vendors, hawkers, local kirana stores) are spread across the country.The share of organised retailing is only 4% as compared to 66% in Japan, 55% in Malaysia, 30% in Indonesia and 20% in China.

As an answer to the stalled growth rate of the Indian economy, dismal growth rate of agriculture and industrial sectors, downgrading of India's rating by global rating agencies and to tackle the policy paralysis arising due to coalition compulsion in Sep 2012, the government allowed 51% FDI in multi brand retail sector to allure the global retailers who are very much interested in exploiting the untapped potential of Indian retail sector. This has infused a debate with one class hailing the decision as FDI will provide the necessary impetus to the economic growth and other class debating that thousands of unorganised retailers will be driven out of business.

In such a scenario, it becomes necessary to examine the structural changes resulting from such a move and analyse its impact on various stakeholders in the supply chain- farmer, wholesaler, retailer and ultimately the consumer.

CONCEPTUAL FRAMEWORK

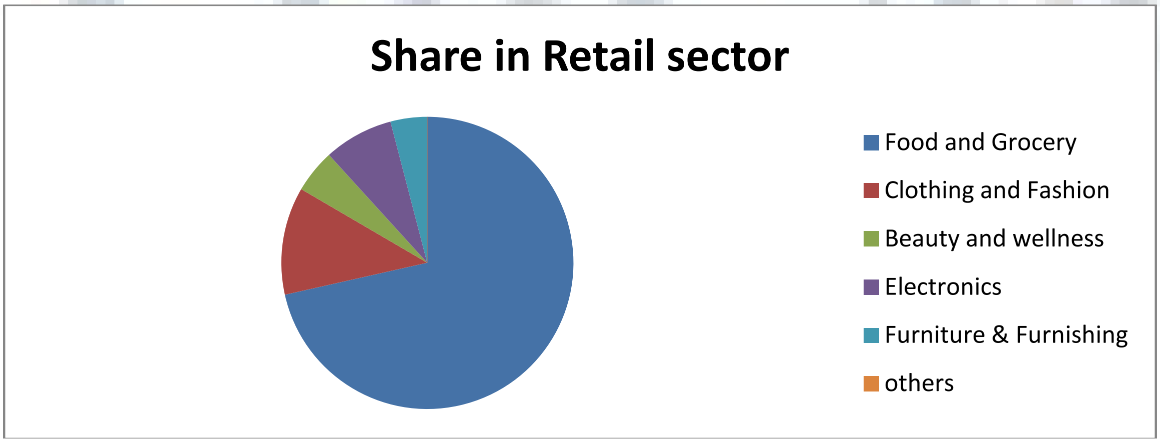
***RETAILING**:* The word retail has been derived from the French word '*tailler*' which means to 'cut a piece of'. It means selling goods in small quantities to the ultimate consumer for consumption and not for resale. The retail sector in India is categorized into organized and unorganized sector.

ORGANISED RETAILING: Organized retailing refers to trading activates undertaken by retailers who have obtained registration and operate under the license granted by the state. For eg: retail chains, franchised shops, supermarkets etc

UNORGANISED RETAILING: Unorganized retailing refers to traditional form of retailing like local kirana stores, street vendors, haats, hawkers, handcart pullers, sole proprietor stores etc not registered.

STRUCTURE OF INDIAN RETAIL SECTOR AND SEGMENTATION

The retail sector in India comprises of 2 parts: Organized retailing accounting for only 4% of total market share Unorganized Retailing accounting for 96%
Indian retail market is broadly divided into 6 major segments:



Source: Retailmarketsearch.wordpress.com

FOREIGN DIRECT INVESTMENT: FDI refers to investment made by a resident of one country in a country other than its country of residence with the intention of acquiring a controlling interest in the assets of the host country. It can take the form of green field investment (setting up an entirely new production facility in the host country) or mergers and acquisition (amalgamation with an existing host company)

MULTI BRAND RETAIL: There is no definition of this term provided by the government. In common parlance it means offering products of multiple brands for sale under one roof in the form of departmental stores, hypermarkets, supermarkets. Global giants like Walmart, Carrefour and Tesco are examples of multi brand retailers.

LIBERALISATION IN RETAIL: WTO's General Agreement on Trade in Services mandates opening of wholesale and retail services. Consequentially, India had to open up its retail sector to foreign competition.

The regulations currently prevalent in India allow 100% FDI in wholesale cash and carry trading, 51% FDI in single brand retail in 2006 which was increased to 100% in 2012 & now 51% in multi brand retail.

CURRENT SCENARIO OF FDI IN MULTI BRAND RETAIL

The Department of Industrial Policy & Promotion released a discussion paper in July 2010 wherein it was proposed to allow 51% FDI in multi brand retail subject to the following conditions:

1) Opening up of new stores is subject to the approval of the respective state government.
2) Minimum limit of FDI to be $100 million
3) Atleast 50 % of the total investment to be in back end infrastructure
4) 30 % of supplies to be procured from small and medium enterprises (SMEs)
5) The retail stores were earlier allowed in cities with a population of more than 10 lakh as per the latest census. As such, 53 cities qualified under this condition. But this stipulation has now been done away with after lukewarm response from foreign players.
6) The government reserves the first right to procure agri products
7) Fresh agricultural produce, poultry, fishery and meat products may be unbranded.

In Sep,2012 , Union Cabinet passed and enacted the new policy allowing 51% FDI in multi brand retail with the following key changes:

- 5 year window was allowed to investors to achieve the 30% sourcing for the first time.
- Retail trading through e-commerce channel has been prohibited for companies with FDI
- In States/Union territories not having cities with population exceeding 1 million , retail stores are allowed in large cities of the states' choice

INDIA: A PROMISING FDI DESTINATION

The 2012 A.T Kearney FDI Confidence Index which examines the country wise prospects for FDI flows ranks India as the 2nd best country. The 2011 A.T Kearney Global Retail Development Index puts India in the 4th position among 30 developing countries in terms of retail opportunities.The reason for such positive outlook towards India is rise in purchasing power, growth in the disposable incomes of the youth who have emerged as the primary buyer, preference for branded products, awareness of product choices.

The consumer expenditure in 2012 was $1,176 bn which is an increase of 56% over the 2008 value. Annual disposable income, an important parameter of the size of any market had been growing at average annual rate of 10% over the past 3 yrs and this trend is expected to continue. 57% of Indians are in the youth segment which will surely encourage clothing, food and cosmetic products sectors. The Indian youth is becoming increasingly global with an intention to flaunt the latest brands and capacity to afford them also only makes the Indian market more attractive to the global giants who are making a beeline for entry in this sector.

LITERATURE REVIEW : FDI IN RETAIL : BOON OR CURSE?

A review of select articles analyzing the pros and cons of FDI in multi brand retail is provided below :

FDI IN MULTI-BRAND RETAIL: IS IT THE NEED OF THE HOUR?

Dr. Mamta Jain;Meenal Lodhane Sukhlecha 13

In this paper it is recommended that the opening up of FDI regime should be in a phased manner over 5 to 10 years time frame so as to give the domestic retailers enough time to adjust to changes. It is also not desirable to increase FDI ceiling to more than 51% even for single premium brand stores to keep a check on global retailers and to protect domestic players. The limit of equity participation can be increased in due course of time as was done telecom, banking and insurance sector. They argue that the advantages of allowing unrestrained FDI in the retail sector evidently outweigh the disadvantages attached to it and the cite the role of FDI in increasing the GDP of countries like China and Thailand where it was initially opposed.

Impact of Multi Brand Foreign Direct Investment in Retail Sector in India

Prof. (Dr.) G. S. Popli ; Prof. Sima Singh7

This paper conducts research with the purpose of understanding the changes in the perception of consumers, investors, industrialists, government with respect to organised and unorganised retailers. The researchers have observed that there are tremendous changes in the demographic system of consumers in India. The key observations of the researchers are

- FDI is preferable and inevitable resulting in low prices, more choices, effective back end infrastructure and learning for the domestic players
- Global retailers will not become monopolies
- Better deal for the farmers who get a very low margin presently due to surreptious middlemen who skim the cream
- New Source of income and investment for the govt

Impact of FDI on Retail Sector

Prof. Shivanand.Chandrakant. Kore15

This paper examines the changing habits of Indian consumers, impact on consumers, suppliers and present retailers. It raises the concern regarding the impact of FDI on employment opportunities citing the example of Wal-Mart, the world's largest retailer which has the capability of wiping out immediate competition and sustaining losses for few years, an estimated eight million people in the unorganized sector will be displaced. This paper calls for taking a deep hard look into this labour displacing phenomenon and calls for policymaking to ensure absorption of these people in alternate sectors rather than coming out with a policy based on vested interests of few categories.

Corporate Hijack Of Retail - Retail Dictatorship vs Retail Democracy

A Report by Navdanya/ Research Foundation for Science, Technology and Ecology, New Delhi 4

This report analyses the impact of Giant corporations like Wal-Mart on the Indian retail sector. The entry of the giant corporate retail in India's food market will have direct impact on India's 650 million farmers and 40 million people employed in tiny retail. More than 6600 mega Stores are planned with Rs. 40,000 crore by 2011. Wal-Mart is the biggest player in retail. If Wal-Mart and other retail chains get a foothold in India; it will mean displacement of small retailers and farmers

Multi-Brand Retailing in India: curse or boon?

Priyanka Das 5

This paper builds the case for FDI and states that it will create a stop shop opportunity to the newly sophisticated Indian middle class. Consumers will benefit in the form of lower prices and tough competition to woo customers Another community that will benefit is the Indian farmer. Lack of adequate storage facilities causes heavy losses to farmers, in terms. With liberalization, there could be a complete overhaul of the currently fragmented supply chain infrastructure and removal of intermediaries giving an impetus to the food and packaging industry. Improved technology and real estate development are also expected to result from capital infows. In the end, this paper recommends opening up of this sector to enable the country to achieve its own objectives of technology sharing and employment.

Issues with FDI in Multi-Brand Retail for Indian Agrarian Community

Organic Farming Association of India,Udyog Bhawan, Delhi

This paper examines the issues associated with allowing FDI in multi brand retail for the agrarian community especially organic farming and does not support the proposed move believing it to be leading to more poverty, overall loss of nutrition and further environmental degradation, arguing that state should take up the cause of infrastructure development in this sector. Some of the issues are based on relevant international experiences are:

- Farmers do not get promised price even if foreign players enter the market or for that matter large retailers
- Organic food sector is actually squeezed to extremes by modern retailers even today
- Nutritional value of food will dip with processed food replacing fresh produce
- Food waste is not really reduced by large retailers as USA claims
- Interim market loss to small farmers

FDI in Multi-Brand Retailing: Economic Compulsions or Political Gains?

Agricultural Market Intelligence Centre, Department of Agricultural Economics, Kerala Agricultural University,Thrissur8

This paper conducts a SWOT Analysis of the proposed move and argues that the concerns regarding displacement of small time retailers are misplaced and akin to arguing that emergence of 5 star hotels would displace local *dhabhas.*

India is a large country, and there is enough space for each player to coexist. There will be mutual knowledge sharing and since foreign players don't have knowledge of local conditions, they would be dependent on domestic firms thereby resulting in partnership building and mutual learning. The same argument was raised when retail chains like Reliance, Bazaar were launched but there was no impact on local *kirana* stores which kept business as usual. That is why marketers believe that every market has a self corrective mechanism in the long run.

IMPACT OF FDI ON SME (Small & Medium Enterprises)

A Survey Report, CII3

The Confederation of Indian Industry (CII) recently undertook a comprehensive survey on impact of Foreign Direct Investment (FDI) in retail on SME sector, in particular to assess the impact of the government's decision to allow 51% foreign direct investment (FDI) in multi-brand retail and 100% in single brand retail on the Indian SME sector on different aspects of growth based on some.

India is a large country, and there is enough space for each player to coexist. There will be mutual knowledge sharing and since foreign players don't have knowledge of local conditions, they would be dependent on domestic firms thereby resulting in partnership building and mutual learning. The same argument was raised when retail chains like Reliance, Bazaar were launched but there was no impact on local *kirana* stores which kept business as usual. That is why marketers believe that every market has a self corrective mechanism in the long run.

INDIAN RETAIL INDUSTRY: An Update

Investment Information & Credit rating Agency of India Ltd.(ICRA) 9

Opening up of FDI in multi-brand retail in India could potentially be a mixed blessing for domestic players.

While this long awaited move is not expected to have an immediate impact on the Indian retail sector, it is expected to reap benefits in the medium to long-term as it will help improve the

a) balance sheet and liquidity profile of cash-starved retailers with aggressive expansion plans

b) supply chain and back-end infrastructure while reducing margins for middlemen through direct sourcing from farmers and

c) arrest inflationary pressures through increased supplies facilitated by improved productivity of farmers and reduction of agri-waste.

This paper argues that the riders introduced to protect the interests of small unorganised retailers could prove to be potential hurdles in the investment decision especially obtaining approval of the state governments. The move needs to be monitored in the wake of the current opposition by several political parties.

IMPACT ON VARIOUS STAKEHOLDERS

According to the report 'Indian Retail Industry : Opening doors' published by Deloitte (Jan, 2013) , the proposed move is likely to benefit the following stakeholders :

FARMERS

Farmers in India get a very small proportion of price paid by customers. Higher penetration of organized retail would reduce the role of the middleman and enable better realization of price to farmers. Farmers will get better rewards through long term contracts with retailers and better market access. Infrastructural and technical support of seasoned players will enhance the productivity of farming activity. With improved supply chain, retailers will pick up the produce right from the fields. This will save transport costs incurred to take the produce to the local mandis.

SME SEGMENT

The policy condition of 30 per cent sourcing from the small enterprises will enable the SME segment to work with the large retailers and have access to a much larger region in India and potential access to world markets.

TRADITIONAL RETAIL

In the last three years, both, modern retail and unorganized retail, have continued to grow., Traditional trade will continue to be a convenience store next door, whereas, organized retail is more likely to grow in the suburbs and outskirts of large cities. Both organized and unorganized retailers will coexist as both offer different value propositions to customers.

The Indian Council for Research on International Economic Relations (ICRIER) study (M. Joseph and N. Soundararajan, 2009) has shown that hardly 1.7 per cent of small shops have closed down due to competition from organized retail. They have competed successfully against organized retail through adoption of better business practices and technology.

A study conducted by Mukherjee and Patel (2005) found that foreign retailers are working with small manufacturers for in-house labels and are providing them technologies like packaging technologies and bar coding. Joint ventures with foreign retailers are helping domestic players to improve their competitiveness.

CONSUMERS

Food and Grocery, followed by Apparels, accounts for a significant proportion of the expenditure of Indian consumers. The consumer is more brand conscious in Consumer Electronics, Footwear and to some extent in Apparels. For Food and Grocery, the expenditure is predominantly on non-branded products.

With the entry of foreign retailers in multi-brand retail, the consumer will have a wider choice and a better shopping experience. There might be a gradual shift in consumption patterns such as non-food items gaining a larger share of the pocket and consumption of branded products in grocery items.

MACROECONOMIC IMPACT

FDI in multi-brand retail is likely to bolster capital investment by attracting foreign exchange inflow. Appropriate implementation of the policy is expected to address a number of supply side constraints plaguing the Indian agricultural sector and help reduce inflationary pressures. Indian agriculture has been traditionally plagued with low food-grains productivity and inefficient distribution. Increased scale of investments and better supply chain processes will help increase productivity and distribution efficiency. The agricultural sector can see higher use of technology in farming, packaging and storing leading to reduction in supply chain impediments, thereby, reducing supply side inflationary pressures.

Better retail access is also likely to provide consumers with wider product choice and rationalized prices.

EXECUTION ROADBLOCKS

Retailers have a long way to go before they establish their feet in Indian market. There are challenges that are unique to the Indian landscape that have to be considered for success in this industry :

- **Restrictive policy stipulations**: The mandate of sourcing a third of the supplies from the local players and investing necessarily half of the investment in back end infratructure are two of the critical stumbling blocks according to representatives of foreign players. These reservations explain the fact that despite over a year of opening its doors, none of these giants has set shop on the Indian soil
- **Red tapism** : Bureaucracy and numerous approvals are a characteristic of Indian administration
- **Political Uncertainty** : Walmart and other giants face opposition form a lot of states presently,with Tamil Nadu becoming the first state in the country to stoutly resist MNC 'invasion' into the domestic retail sector. In Chennai, Tamil Nadu CMDA authorities placed a seal on the massive warehouse spreading across 7 acres that had reportedly been built for one of the world's leading multinational retail giants, Wal-mart. A change in political powerplay can put millions of investment at risk
- **Limited availability of land and High rental cost** : Superstores like Walmart need a lot of space to set up which in metro cities is costly and available only in outskirts.

CONCLUSION

FDI in multi brand retail is a topic of debate. There are concerns regarding job displacement, predatory pricing, political takeover, repatriation of earnings etc. To each claim there is a counter claim. However , the reform has been passed and it is quite evident that in the current scenario India is poised on the global retail landscape in a way which could not have been better. The opening of retail industry to global competition has the potential to transform not only the retailing landscape but also the nation's ailing infrastructure. A Wall Street Journal article claims that fresh investments in Indian organized retail will generate 10 million new jobs between 2012–2014, and about five to six million of them in logistics alone. KPMG - one of the world's largest audit companies - finds that in China, the employment in both retail and wholesale trade increased from 4% in 1992 to about 7% in 2001, post China opening its retail to foreign and domestic innovation and competition. In absolute terms, China experienced the creation of 26 million new jobs within 9 years, post FDI retail reforms.India needs capital to build its infrastructure, hospitals, housing and schools for its growing population. The Indian economy is small, with limited capital. The government is already operating on budget deficits. It is simply not possible for Indian investors or the government to fund this expansion, job creation and growth at the rate India needs. Global investment capital through FDI is necessary. Beyond capital, the Indian retail industry needs knowledge and global integration. Global integration can potentially open export markets for Indian farmers and producers. Walmart, for example, expects to source and export some $1 billion worth of goods from India every year, since it came into Indian wholesale retail market.

ROAD AHEAD

MNCs in India need to do thorough homework for successful foray in the Indian market. The government also needs to assert its intention to make India an attractive investment destination by adjusting policy stipulations to accommodate the concerns of the foreign brands so that all the stakeholders can gain maximum out of the reforms.The entry of foreign retailers if managed properly has the potential to place India on a sustained growth trajectory. However, if left unchecked , the proliferation of supermarkets may prove to be harmful. Thus their entry and operation needs to be managed by the government and regulatory agencies in such a way that it proves to be a gamechanger for both the parties. A simple regulatory framework starting with internal code of conduct and then followed by legislation can help keep these players in check. The Competition Commission should be given more authority to curb and penalise collusion by the foreign brands. India may consider writing laws to prevent foreign retailers like Wal-Mart from having a high concentration of business in the country. Given the global experience, it is important to keep the foreign food supermarket expansion slow by using mechanisms such as zoning, business licences, and trading restrictions. India has opened its doors to the most lucrative sector of the market and through proper implementation it can change the retail landscape in the long run interest of the country as a whole. India needs to change with the changing times and embrace the winds of change

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