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FDI IN RETAIL: CHANGE AND CHALLENGE

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ABSTRACT

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. The Indian retail industry is generally divided into two major segments – organized retailing and unorganized retailing. In 2010, the Indian retail market was valued at $435 billion of which the share of modern retail was 7 per cent. The sector is expected to grow to $535 billion by 2013 with the share of modern retail at 10 per cent. FDI in retail sector is not allowed, it is only allowed up to 51 % in single brand and government is still considering the opinion of allowing FDI in multi brand segment.100% FDI is allowed in cash and carry wholesale and export trading, both wall mart and Carrefour have already entered in India in this segment. Many big giants like Wall mart, Carrefour are waiting to earn their fortune in continuously growing market.FDI in retail sector will have both positive and negative effect if allowed. Both organized and unorganized sector will face adverse competition from global players. With all the hurdles that the recessional economy has posed to inhibit its smooth development, roadmap of FDI in retail sector is nevertheless very encouraging; this needs to be implemented with a lot of caution and care.

KEYWORDS
FDI, retail sector.

INTRODUCTION
For many decades, regional player dominated the retailing sector in India. There were no players with national presence in Indian retailing. In the 1980s, Indian retailing sector witnessed some action with textile companies like Bombay Dyeing, Raymond's, S Kumar's and Grasim establishing retail chains. It was only in the late 1990s that pure retailers, who focused only on the retailing business unlike previous players who even had manufacturing facilities, entered the retail scene. These new entrants targeted consumers on the platform of lifestyles. The new segments included the lifestyle/ fashion segments (Shoppers Stop, Globus, Westside and Lifestyles), apparel/accessories (Pantaloon, Levis and Reebok), books/music/gift (Archies, Music world, landmark, Planet M) Today there are approximately 3 million retail stores, about 85 per cent of which are single proprietorship retailers sell both products and services, and the demand for salespeople in both areas is relatively high, averaging about 20 million employees in recent years. Not all of these employees are salespeople of course. Yet retailing is significant source of salespeople most of whom do not really fit into one of major categories of direct, commercial, technical, or consultative. Retailers may be classified in several different ways such as Chains, Independents, Co-operatives, and Franchises. Retail Stores may also be classified by functions such as Supermarket, Department Stores, and Convenience Stores.

MEANING
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.

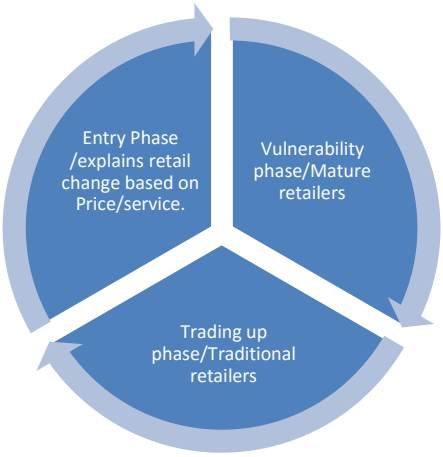
EVOLUTION OF INDIAN RETAIL INDUSTRY
It is interesting to focus on the evolution of the retail sector in India. Historically they evolved as a source of entertainment (in the form of village fairs, melas etc.) which was within the rural reach. Later on these were transformed Mom and Pop/ Kirana stores 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.

THEORIES OF RETAIL EVOLUTION
Cyclical Theories. Retail institutions go through cycles over time:
- Wheel of Retailing Theory
- Accordion Theory

Evolution Theories. Retail Institutions change similar to patterns observed in biological evolution:
- Dialectic Process Theory
- Natural Selection Theory

Wheel of Retailing Theory: one of the original theories addressing the issues of retail institutional change is wheel of retailing.
The concept proposes a more or less definite cycle. If exploring retail change based on price/ service cycle. When retailers enter a market they compete by offering goods at the lowest possible price or "the bold new concept, the innovation", in order to attract customers. As retailers develop their experience and gain capital, they tend to increase their level of service and quality and therefore, price. As they increase their price, the opportunity for new to enter the market starts and these new retailers attract the customers and old retailers become mature retailers and enter into up market position. This is called wheel of retailing.

FIG. 1



Accordion Theory. The retail accordion theory suggests that retailers initially enter a market as a general retailer, with experience they focus down on particular groups. Overtime they begin to diversify their offer in order to grow, but again well revert to specialisation. Thus retail accordion is based on cyclical functioning in variety and adjustment.

EVOLUTION THEORIES

Dialectic Process Theory: this theory suggests how the original form of retailers has been changed into new form.

Natural Selection Theory: this theory suggests that retailers with most appropriate organisational structure and formats will survive.

SCENARIO: GLOBAL, REGIONAL AND NATIONAL

If one were to compare India to other developing countries, we are still living in the dark ages. Take China; it has made very significant strides in modern retailing in the last 20 years. So have other Asian countries like Indonesia, Malaysia, Thailand, Singapore and Philippines. Hong Kong is a shopper's delight. This is because most of these countries have realised that consumer spending stimulates the economy. In fact, India is one of the few countries that do not even acknowledge retailing as an industry. In the rest of the world, about 8% to !0% of the GDP of country comes from the retailing sector. Some perspectives on this sector are ass under:

- With total sales of 16.6 billion dollars, it is the largest private industry in the world.
- Over 50 of Fortune 500 companies are retailers.
- As a service industry, retailing is the largest generator of employment after agriculture.
- Retailing in India is an age old profession and accounts for 10% of GDP
- Organised retailing in India is largely represented by four large segments i.e. food, clothing, consumer durables, books and music.

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

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

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

ENTRY OPTIONS FOR FOREIGN PLAYERS PRIOR TO FDI POLICY (2006)

Although prior to Jan 24, 2006, FDI was not authorized 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:-

(a) Franchise Agreements: Most widely used entry route by international retailers. Fast food retailer Domino's have entered through master franchisee route whereas Pizza Hut has entered through regional Franchisee 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 (RBI) under the Foreign Exchange Management Act. This is a most usual mode for entrance of quick food bondage opposite a world. Apart from Pizza Hut, players such as Lacoste, Mango, Nike as good as Marks as good as Spencer, have entered Indian marketplace by this route.

(b) Cash And Carry Wholesale Trading: 100% FDI is allowed in 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.

(c) Strategic Licensing Agreements: this route involves foreign company to enter into an agreement with a domestic retailer. 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 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.

(d) 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.

CURRENT POSITION AND FDI NORMS IN INDIAN RETAIL

In 2010, the Indian retail market was valued at $435 billion of which the share of modern retail was 7 per cent. The sector is expected to grow to $535 billion by 2013 with the share of modern retail at 10 per cent. In 2007, India was ranked the twelfth largest consumer market and it is expected to be the fifth-largest consumer market by 2025 after the US, Japan, China and the UK (McKinsey & Company 2007). In 2010, India attracted the largest number of new retailers among emerging and mature markets (CBRE 2011). According to study conducted by ICRIER, total retail business in India will grow at 13% annually, from US $322 billion in 2006-07 to US $590 billion in 2011-12 and further US $1 trillion by 2016-17

IMPACT OF FDI AND CHALLENGES

FDI in retail sector is not allowed, it is only allowed up to 51 % in single brand and government is still considering the opinion of allowing FDI in multi brand segment.100% FDI is allowed in cash and carry wholesale and export trading, both wall mart and Carrefour have already entered in India in this segment. Many big giants like Wall mart, Carrefour are waiting to earn their fortune in continuously growing market.FDI in retail sector will have both positive and negative effect if allowed. Both organized and unorganized sector will face adverse competition from global players. Wal-Mart has a turnover of $256 billion and growing at an average of 12 -13 % annually. Average size of its stores is 85000sq ft and average turnover is $51 million. Organized sector retail outlets in India like pantaloons, reliance cannot compare with the giant let alone the small retailers. Indian government still fears that if FDI is allowed in retail then unorganized sector will be affected very badly and it will result in a large lot of unemployed retailers and other youth which is employed in the supply chain, this unemployed lot can't be absorbed in manufacturing or service sector which can ultimately push a large chunk of population below poverty line. In India unorganized retail is a 'forced employment sector', there are large number of retail outlets because when youth dose not find enough employment opportunities or is not educated enough then the easiest resort to earn decent money is to save money or get a loan to set up a shop. On an average a retailer earns Rs.186075 annually and only 4% of 12 million retail outlets have area more than 500 square ft. Now if FDI is allowed in such an unorganized sector than many changes can happen which can be positive or negative.

Talking about the organized sector, which consists of big Indian players who have entered in retail sector just to take advantage of diversification and expand their business, they will also be affected but from different prospects. Major challenges that lie ahead are:

Economies of scale: the global players have economies of scale and are perfect in cost cutting and providing the consumer the best at lowest price which still is a major challenge for Indian retail firms. The way they perform their process itself builds an entry barrier for other new firms.

Brand name: They bring with them world class products which have high quality and a highly valued brand name. The domestic brands don't have that charm and attracting power as of global brands.

Technology: Global players are highly advanced in technology. The tools, equipments, kind of warehouses they use, their way of performing processes are highly advanced and cannot be compared with those used by Indian retail firms, which in turn provides better services and better quality products even in categories like perishable food etc.

Attract skilled employees: The work culture of global players is quite different from those of Indian players. They believe in earning profits by cutting costs as much as possible and at the same time are conscious towards career of their employees. Their approach is more oriented towards achieving ends rather than means. Attractive salary and high incentives can also attract skilled employees towards global players which is also a threat for big Indian retail firms.

Better infrastructure: Better storage facilities, better transportation medium and high investment can pose another threat to Indian retail firms which can hardly match the capabilities of giants on their own.

Joint ventures: Global players may not prefer to enter into joint ventures with Indian firms and may also close down the existing ventures in wholesale and single brand which may adversely affect the Indian firms. This is possible when 100% FDI is allowed in multi-brand retail.

VARIOUS CASE STUDIES SHOWING EFFECT OF FDI

Case Study of China: FDI in retailing was permitted in China for the first time in 1992. Foreign retailers were initially permitted to trade only in six Provinces and Special Economic Zones. Foreign ownership was initially restricted to 49%. Foreign ownership restrictions have progressively been lifted and, and following China's accession to WTO, effective December, 2004, there are no equity restrictions. Employment in the retail and wholesale trade increased from about 4% of the total labour force in 1992 to about 7% in 2001. The numbers of traditional retailers were also increased by around 30% between 1996 and 2001. In 2006, the total retail sale in China amounted to USD 785 billion, of which the share of organized retail amounted to 20%. Some of the changes which have occurred in China, following the liberalization of its retail sector, include: (i) Over 600 hypermarkets were opened between 1996 and 2001 (ii) The number of small outlets (equivalent to "kiranas") increased from 1.9 million to over 2.5 million. (iii) Employment in the retail and wholesale sectors increased from 28 million people to 54 million people from 1992 to 2000. Thus the above discussion and case of China suggest that it is too early to predict the erosion of mom and pop stores in India with opening of multi-brand retail sector in India to foreign investors.

Case Study: Case study of PepsiCo India- Helping Farmers Improve Yield and Income- Today PepsiCo India's potato farming programme reaches out to more than 12,000 farmer families across six states. We provide farmers with superior seeds, timely agricultural inputs and supply of agricultural implements free of charge. They have an assured buy-back mechanism at a prefixed rate with farmers. This insulates them from market price fluctuations. Through our tie-up with State Bank of India, we help farmers get credit at a lower rate of interest. They have arranged weather insurance for farmers through our tie-up with ICICI Lombard.

Case Study: Consumers of Indian Telecommunication and Automobile Retail Sector have benefited a lot from liberalizing FDI. In the telecommunication sector, it has led to more access, better quality, better services and lower prices for consumers. The entry of foreign players in the automobile sector has made the domestic industry globally competitive and even middle and low-income consumers in India can now afford to own cars. Global experiences show that FDI in retail can sometimes negatively impact consumers if corporate retailers adopt anti-competitive practices such as predatory pricing. In India, the Competition Act 2002 has provisions to check abuse of dominant position by major players, including predatory pricing.

Case Study: Spencer's Retail with 200 stores in India and with retail of fresh vegetables and fruits accounting for 55% of its business claims retail reform to be a win-win situation, as they already procures the farm products directly from the growers without the involvement of middlemen or traders. Spencer's claims that there is scope for it to expand its footprint in terms of store location as well as procuring farm products.

CONCLUSION

Government Liberalization of Indian Trade and Economy allowing foreign participation in retail sector has registered substantial growth in retail sector. This is because of India has a very strong investment potential for foreign players. Barring multi-brand products entry, foreign investors are allowed 51% to 100% share in the retail business, depending on the business format for example, cash and carry, franchise agreement. There are specific benefits and drawbacks in FDI and government needs to tackle them with utmost care. This sector is also faced with several critical challenges. With all the hurdles that the recessional economy has posed to inhibit its smooth development, roadmap of FDI in retail sector is nevertheless very encouraging; this needs to be implemented with a lot of caution and care.

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