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FDI IN INDIAN RETAIL: CHALLENGES

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ABSTRACT

The industry is facing a severe shortage of talent, especially at the middle management level. Most Indian retail players are under serious pressure to make there supply chain more efficient in order to deliver the level of quality and service that consumer are demanding , Long intermediation chain would increase the cost by 15 per cent. Foreign direct investment (FDI) in the retail sector in India is restricted. In 2006, the government eased retail policy for the first time, allowing up to 51 per cent FDI through the single brand retail route. Since then, there has been a steady increase in FDI in the retail sector, and the cumulative FDI in single-brand retail stood at $195 million by the middle of 2010 (DIPP, 2010). The 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 growing Indian market has attracted a number of foreign retailers and domestic corporate to invest in this sector.FDI in the retail can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers and suppliers (farmers). The present paper focuses on the overview of the Indian retail sector along with the opportunities of expansion of FDI in retail in India and the major challenges that it faces.

KEYWORDS

FDI, Indian retail sector.

INTRODUCTION

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 home countries. The „home" countries want to take the advantage of the vast markets opened by 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 panacea 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 the Investment Commission of India, the retail sector is expected to grow almost three times its current levels to $660 billion by 2015. FDI in the retail sector can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers, and suppliers (farmers). Opposition to liberalizing FDI in this sector raises 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.

OBJECTIVE OF THE STUDY AND METHODOLOGY

The objective of our study is to analyze the current retail scenario in India, investigate the controversial views of the various stakeholders and evaluate the likely challenges and threats of FDI in both single and multi-brand retail in India. The whole paper is based on descriptive arguments, statistical data, case studies, comparative study and analytical logic developed through the understandings from various research papers, reports, books, journals, newspapers and online data bases.

INDIAN RETAIL SECTOR: AN OVERVIEW AND CURRENT POSITION

(a) ***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.

(b)***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.

(c)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.

(d) ***Division of Indian Retail Industry*** 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.

TYPES OF RETAILING IN INDIA

(a) Single Brand- Single brand implies that foreign companies would be allowed to sell goods sold internationally under a „single brand", viz., 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.

(b) Multi Brand- FDI in Multi Brand retail implies that a retail store with a foreign investment 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.

OPPORTUNITIES AND THREATS OF FDI IN RETAIL IN INDIA

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. India is tipped as the second largest retail market after China, and the total size of the Indian retail industry is expected to touch the $300 billion mark in the next five years from the current $200 billion. But the recent debate has centered on the issue of whether FDI in retail in India will be a "boon or a bane". Many studies and surveys were conducted to analyze the impact of FDI in retail sector in various segments of the economy. According to a policy paper prepared by the Department of Industrial Policy and Promotion (DIPP, 2010), FDI in retail must result in backward linkages of production and manufacturing and spur domestic retailing as well as exports. According to the World Bank, opening the retail sector to FDI would be beneficial for India in terms of price and availability of products. While FDI in multi-brand retail has been opposed by several in the past citing fears of loss of employment, adverse impact on traditional retail and rise in imports from cheaper sources like China, adherents of the same indicate increased transfer of technology, enhanced supply chain efficiencies and increased employment opportunities as the perceived benefits. ***Key Perceived Opportunities*** The following may be regarded as major perceived benefits of allowing FDI in retail in India:

1. Capital Infusion- This would provide an opportunity for cash-deficient domestic retailers to bridge the gap between capital required and raised. In fact FDI is one of the major sources of investments for a developing country like India wherein it expects investments from Multinational companies to improve the countries growth rate, create jobs, share their expertise, back-end infrastructure and research and development in the host country.

2. Boost Healthy Competition and check inflation- Supporters of FDI argue that entry of the many multi-national corporations will obviously promise intensive competition between the different companies offering their brands in a particular product market and this will result in availability of many varieties, reduced prices, and convenient distribution of the marketing offers.

3. Improvement in Supply Chain- Improvement of supply chain/ distribution efficiencies, coupled with capacity building and introduction of modern technology will help arrest wastages (in the present situation improper storage facilities and lack of investment in logistics have been creating inefficiencies in food supply chain, leading to significant wastages).

4. Improvement in Customer Satisfaction- Consumers in the organized retail will have the opportunity to choose between a numbers of internationally famous brands with pleasant shopping environment, huge space for product display, maintenance of hygiene and better customer care. There is a large segment of the population which feels that there is a difference in the quality of the products sold to foreign retailers and the same products sold in the Indian market. There is an increasing tendency to pay for quality and ease and access to a "one-stop shop" which will have a wide range of different products. If the market is opened, then the pricing could also change and the monopoly of certain domestic Indian companies will be challenged.

5. Improved technology and logistics- Improved technology in the sphere of processing, grading, handling and packaging of goods and further technical developments in areas like electronic weighing, billing, barcode scanning etc. could be a direct consequence of foreign companies opening retail shops in India,. Further, transportation facilities can get a boost, in the form of increased number of refrigerated vans and pre-cooling chambers which can help bring down wastage of goods.

6. Benefits for the Farmers- Presumably, with the onset of multi-brand retail, 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-chain infrastructure. Lack of adequate storage facilities causes heavy losses to farmers, in terms of wastage in quality and quantity of produce in general, and of fruits and vegetables in particular. With liberalization, 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 remedy such structural flaws. Also, farmers can benefit with the "farm-to fork" ventures with retailers which helps (i) to cut down intermediaries ; (ii) give better prices to farmers, and (iii) provide stability and economics of scale which will benefit, in the ultimate analysis, both the farmers and consumers.

7. Creation of More And Better Employment Opportunities- The entry of foreign companies into Indian Retailing will not only create many employment opportunities but, will also ensure quality in them. This helps the Indian human resource to find better quality jobs and to improve their standard of living and life styles on par with that of the citizens of developed nations.

KEY POTENTIAL THREATS

Critics of FDI feel that liberalization would jeopardize the unorganized retail sector and would adversely affect the small retailers, farmers and consumers and give rise to monopolies of large corporate houses which can adversely affect the pricing and availability of goods. They also contend that the retail sector in India is one of the major employment providers and permitting FDI in this sector can displace the unorganized retailers leading to loss of livelihood. The major threats to the domestic retailers in India are specified below:

1. Domination of Organized Retailers- FDI in single-brand retail will strengthen organized retail in the country. These organized retailers will tend to dominate the entire consumer market. It would lead to unfair competition and ultimately result in large-scale exit of domestic retailers, especially the small family managed outlets (local "mom and pop" stores will be compelled to close down).

2. Create Unemployment- Retail in India has tremendous growth potential and it is the second largest employer in India. Any changes by bringing major foreign retailers who will be directly procuring from the main supplier will not only create unemployment on the front end retail but also the middleman who have been working in this industry will be thrown out of their jobs.

3. Loss of Self Competitive Strength- The Indian retail sector, particularly organized retail, is still under-developed and in a nascent stage and that, therefore the companies may not be able to compete with big global giants. If the existing firms collaborate with the global biggies they might have to give up at the global front by losing their self competitive strength.

4. Indirectly Leads to Increase in Real Estate Cost- It is obvious that the foreign companies which enter into India to open up their malls and stores will certainly look for places in the heart of the cities. There shall be a war for place, initiated among such companies. It will result in increase in the cost of real estate in the cities that will eventually affect the interest of the ordinary people who desire to own their houses within the limit of the cities.

5. Distortion of Culture: Though FDI in Indian retail will indirectly or directly contribute for the enhancement of Tourism, Hospitality and few other Industries, the culture of the people in India will slowly be changed. The youth will easily imbibe certain negative aspects of foreign culture culture and lifestyles and develop inappropriate consumption pattern, not suited to our cultural environment.

CONCLUSION

A recent study by University of North Carolina economist Anusha Chari and T C A Madhav Raghavan (of ISI, New Delhi), March 2011, shows that the potential benefits of allowing large retailers into the country significantly outweigh the costs. These benefits largely accumulate through productivity gains. With respect to the impact of entry by big-box stores such as Wal-Mart on retail employment and earnings, evidence from the United States is mixed. Apart from prices, the report states that smaller farmers came under severe pressure from supermarkets due to the latter"s requirement for large volumes of each product, pushing farmers to grow single crops rather than the multiple produce they would usually grow to minimize risk.

Observed supermarket practices too may work against the interests of incumbent retailers, even organized ones. Supermarket chains routinely sell some products at lower than market prices, which appears to benefit consumers, but this puts pressure on small local stores and has an adverse impact on low-income and elderly consumers who rely on local shops. The Indian Government, however, recommends that retail firms source a percentage of manufactured products from the small and medium domestic enterprises (DIPP Report, 2010). With a restriction of this sort, the opening up of the retail sector to FDI could therefore provide a boost to small-and medium enterprises. Moreover, expansion in the retail sector could also generate significant employment potential, especially among rural and semi-urban youth. So it is very difficult to predict the future of Indian retail sector.

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