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   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

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   APPENDIX/ANNEXURE

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

KEY CHALLENGES FOR INDIAN MANAGERS: IMPACT OF FDI ENTRY IN RETAIL MARKET

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ABSTRACT

Modernization of retail market is a critical and necessary condition for sustaining high growth impulse in the economy. With greater investment and new technologies, the sector can act as a growth driver rather than a drag with its outdated practices and inability to take advantage of either economies of scale or of scope. Global retail brands will bring in better management practices and backend infrastructure that benefit not only farmers but also the consumers. This would be viable only on allowing FDI in retail marketing. Even though the challenges before Indian Managers due to entry of FDI in retail market are to be tough, they are definitely to bring lot of improvement in the sector like modern inventory management practices, improved supply chain management, new storage and vending technologies and advanced organization skills will go for a long way in the modernization of this sector.

KEYWORDS

FDI, Retail Marketing, Management practices, Supply Chain management.

1.1) INTRODUCTION

As we have seen in the last decade, the mere entry of large format retail has not resulted in the desired level of modernization of the sector. Those who entered this space were largely from the real estate sector and did not have the necessary technological and management experience to put retail on a qualitatively different growth trajectory. It is to be hoped that FDI will make a difference. While it is true that retail trade does not require rocket science for its modernization, it is also equally evident that relying exclusively on indigenous efforts would require a significantly longer time. India was very skeptical about the virtues of free trade and investment. Consequently, in the 1970s and 1980s Indian government imposed trade restrictions and capital controls as part of a policy of import-substitution industrialization aimed at protecting domestic industries and conserving scarce foreign exchange reserves. While the FDI in single-brand retailing was allowed earlier, FDI in multi-brand retailing is being allowed now. Fears that the entry of FDI in multi-brand retail may cause unemployment as foreign firms may not procure material from domestic producers and may import the same from international market are unfounded as the entry of big companies like Reliance, Bharti Enterprises and Tata has substantially improved the life standard of farmers and villages from where they are procuring. India had to open up the retail trade sector to foreign investment as she is a signatory to the World Trade Organization's General Agreement on Trade & Services, which includes wholesale and retail services. An identification of responsibilities and actions needed at the national, regional, and international level is important for two reasons, especially the role of Indian Managers and Entrepreneurs. The first is that globalization has increased the competition for FDI flows among developing countries. Since India is not only the preferred destinations for investment among foreign investors, it is increasingly being recognized that actions by India would have to be complemented by efforts at the regional and international levels in order to improve the prospects for FDI flows to the region. It is therefore important to identify areas of responsibilities at different levels to give policy makers and their development partners' concrete ideas on what they can do to increase FDI flows to the region.

1.2) STATEMENT OF THE PROBLEM

Due to entry of FDI in retail sector, Indian managers are likely to face new challenges to manage the issues like (a) High dependence on commodities, (b) Increased competition, (c) Corruption and weak governance, (d) Poor and ineffective marketing strategy, (e) to update themselves with knowledge on new modernization technologies, (f) to build upgraded infrastructure to meet up the new requirements, (g) to enhance the talent acquisition with new skills to manage new technologies and retain the skilled resources. This study details about the mentioned issues and attempts to highlight the possible ways to overcome the same.

1.3) SCOPE OF THE STUDY

This study is to understand the role and importance of entry of FDI in Indian retail market and the challenges likely to be arisen for Indian Managers. It details about the new changes expected in retail market infrastructure and services. The study focuses on retail business and in particular from the point of view only in Indian market. In specific, the study is based on the changes expected in retail market during this decade, post introduction of FDI in Indian retail market. This study emphasizes a new approach to the promotion of management practices that is based on improving standards with existing managers rather than focusing exclusively on costly activities of deputing skilled resources from foreign agencies. Furthermore, it identifies clearly what needs to be done at the national, regional, and international level to enhance retail business management in India.

1.4) OBJECTIVES OF THIS STUDY

a) To brief the concepts of FDI and impact in retail sector in India
b) To expedite new challenges for the managers due to entry of FDI in retail market
c) To attempt to trace the possible ways to meet up the challenges

1.5) LIMITATIONS OF THE STUDY

This study certainly enhanced our understanding of knowledge on different benefits and new management practices are to be experienced by Indian Managers due to entry of FDI in retail market. At the same time, there were limitations that need to be acknowledged and addressed regarding the present study. The important limitation that has to do with the extent to which the findings can not be generalized beyond the cases studied.

2) FDI & ITS IMPACT IN RETAIL SECTOR

Foreign direct investment (FDI) refers to foreign capital that is invested to enhance the production capacity of the economy. However, FDI in retail is different from the investment in corporate, manufacturing or infrastructure sectors. Retail can be single or multi brand and may be described as a sale to the ultimate consumer at a margin of profit.

a) **Changes in revenue**: There is a significant change in revenue outflows after the entry of FDI in all countries. The details are compared between developed countries and developing countries as mentioned in Table 1.1 But in India, the figures are very insignificant and FDI entry can definitely bring positive changes.

TABLE 1.1) REVENUE CHANGES DUE TO FDI

Region \ Revenue	FDI inflows			FDI outflows		
	2009	2010	2011	2009	2010	2011
	(Billions of dollars)					
World	1198	1309	1525	1175	1451	694.4
Developed economies	606.2	618.6	747.9	857.8	989.6	237.5
Developing economies	519.2	616.7	684.4	268.5	400.1	383.8
India	**3.5**	**2.5**	**2.6**	**1.4**	**0.9**	**0.9**

Source: UNCTAD, FDI/TNC database

b) **Retail is to become more organized sector:** The Indian retail sector is highly fragmented with around 97 per cent of its business being run by unorganized retailers. Organized retail is still at a nascent stage. With the entry of FDI, the retail sector will become organized. Foreign investment in food-based retailing would ensure adequate flow of capital into the country and its productive use.

c) **Removal of Intermediaries:** Indian farmers, at present, realize only 1/3rd of the final price paid by the consumer as against 2/3rd realized by farmers in the countries with a greater share of organized retail. FDI will assist in reducing the dominance of value chain by intermediaries. FDI in retail will make the consumer happy as well. In the absence of intermediaries, the consumer will end up paying lower price for a better product.

d) **Standardized processes:** Besides, in the unorganized sector, consumer has to argue and fight a lot in case he has to return some faulty product to the retailer. This process will be standardized. It will also serve as an antidote to inflation as the producer will get direct payment from the retailer and the same will be higher than what he was getting earlier due to the foul play by intermediaries. In accordance to the provisions made, any company going for 51% partnership in retail will have to tie up with a local partner. This will improve the income levels of all concerned and will make economy flourish with quality branded products at a lower price.

e) **Transfer of modern technologies:** Foreign firms typically make significant investments in research and development. Consequently they tend to have superior technology relative to firms in developing countries. FDI gives developing countries cheap access to new technologies and skills thereby enhancing local technological capabilities and their ability to compete on world markets. FDI will become a catalyst in avoiding distress sale and erosion & wastage in quality and quantity of the produce. India will flourish in terms of quality standards and consumer expectations. The present public distribution system will also be strengthened with better products and storage facility.

f) **Improvement in existing technologies:** FDI will improve investment in logistics of the retail chain, leading to an efficient market mechanism. Allowing FDI in multi-brand retail will bring about supply chain improvement, investment in technology, manpower & skill development, upgrade in the agriculture sector, and benefits to the government through greater GDP and tax income. The organized sector will also lay stress on producing more and will generate more employment in production as well as retail industry.

g) **Enhanced efficiency:** Opening up an economy to foreign firms increases the degree of competition in product markets thereby forcing domestic firms to allocate and use resources more efficiently.

h) **Employment generation and growth:** By providing additional capital to a host country, FDI can create new employment opportunities resulting in higher growth. It can also increase employment indirectly through increased linkages with domestic firms. More specifically, the location of a foreign firm in a host country generally leads to the establishment of domestic firms that provide inputs to it hereby increasing the demand for labour.

i) **Raising skills of local manpower:** Through training of workers and learning by doing, FDI raises the skills of local manpower thereby increasing their productivity level. The idea that FDI enhances the productivity of the labour force is supported by empirical evidence suggesting that workers in foreign-owned enterprises are more productive than those in domestic-owned enterprises (Harrison, 1996).

3) SUMMARY OF FINDINGS / CHALLENGES FOR INDIAN MANAGERS

The below factors that account for the low FDI flows to the region made Indian Managers to face the tough situation

a) **Increased competition:** Globalization has led to an increase in competition for FDI among developing countries thereby making it even more difficult for Indian states to attract new investment flows. It must be pointed out that the intense competition resulting from trade and financial liberalization puts Indian states at a disadvantage because they have failed to take advantage of the globalization process.

b) **High dependence on commodities:** Because the prices of primary commodities are highly volatile, they are highly vulnerable to terms of trade shocks, which results in high country risk thereby discouraging foreign investment.

c) **Corruption and weak governance:** Weak law enforcement stemming from corruption and the lack of a credible mechanism for the protection of property rights are possible deterrents to FDI in the region. Foreign investors prefer to make investments in countries with very good legal and judicial systems to guarantee the security of their investments.

d) **Poor and ineffective marketing strategy**: Investment promotion activities in the region have not been as successful due to increased political risk: frequent and abrupt changes in government; and border disputes, inconsistencies between union government promotion activities and state level political developments. Apart from this, there is also the problem that created by state governments were highly bureaucratic, expensive to maintain, and have not been successful in reversing the declining trend in FDI flows to the region.

e) **Knowledge on new modernization technologies:** In order to sustain and improve up on the performance in market, business managers are necessarily to have regular updates on the knowledge of new modern technologies and competitive strategies to be adopted time to time. The investment partners from foreign agencies shall expect such skilled resources to enhance their business through new investments.

f) **To build upgraded infrastructure to meet up the new requirements:** Due to introduction of new modern technologies by foreign companies, existing infrastructure of retail market is necessarily to be upgraded and new need to be created. Indian managers are likely to face this challenge often as Indian retail market is so unorganized, now.

g) **Talent acquisition & retention of labour force with new skills:** It becomes very difficult for the existing manpower to understand and adopt new modern technologies, introduced by foreign investors. Hence Indian managers are to face stiff situation in acquiring skilled resources and also in retaining such skilled resources due to heavy completion, likely.

4) RECOMMENDATIONS

a) **Promoting good governance:** The use of a regional surveillance mechanism based on peer pressure will promote good governance and improve the investment climate.

b) **Infrastructure development:** Initiating and encouraging more cooperation in infrastructure development projects—for example, in telecommunication, transportation, power generation, and the provision of water—at the regional level. This will increase access to and reduce the cost of provision of these facilities, thereby lowering transactions costs, boosting trade, and increasing the attraction of the region to foreign investors.

c) **Improved market access:** Through the elimination of trade barriers and unfair subsidies on agricultural goods exported by Indian states will enhance trading opportunities in the region and create an incentive for foreign investors to invest in the region.

d) **Investment promotion assistance:** Governments of developed countries can assist the region in investment promotion through providing accurate information to investors in their countries about the investment environment and opportunities in the region. This type of investment promotion is likely to be more effective than the current approach used by Indian States because investors in developed countries take the information received from their governments more seriously than those from developing countries.

e) **Technical assistance:** Developed countries can also help improve investment conditions in the region and increase its attraction to foreign investors by providing more technical assistance in areas such as capacity building, infrastructure development, health and education.

5) CONCLUSION

FDI can play an important role in the development efforts of the region. To date, Indian Managers have not been successful in attracting significant FDI flows, reflecting largely the combined effects of political and macroeconomic instability, weak infrastructure, poor governance, inhospitable regulatory environments, intensification of competition for FDI flows due to globalization, and poor marketing strategies. This requires concerted efforts at the national, regional, and international level. The realization of India's FDI potentials will also depend on the **ability of its Managers and Entrepreneurs** to improve the FDI climate and take advantage of the new global interest in the affairs of the region by implementing sound macroeconomic policies, enforcing the rule of law, reducing risks of policy reversals, and improving the provision of infrastructure. If the current wave of privatization sweeping through the continent continues unabated, there will be an increase in the number of public utilities marked for privatization in several Indian states. Although we are optimistic about the future prospects for FDI in the region, it should be noted that not all countries are likely to attract significant flows in the future.

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