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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

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   ACKNOWLEDGMENTS

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   APPENDIX/ANNEXURE

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IMPACT OF FDI IN INDIAN RETAIL SECTOR: A SWOT ANALYSIS

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ABSTRACT

Retail Sector is the most booming sector in the Indian economy. With a growing economy, improving income dynamics, rising awareness, and a youth-heavy customer base, India is well on its way to become one of the most prospective markets for the domestic and global retailers. India being a signatory to World Trade Organization's General Agreement on Trade-in Services, which includes wholesale and retailing services, had to open up the retail trade sector to foreign investment. There were initial reservations towards this issue arising from fear of job losses, procurement from international market, competition and loss of entrepreneurial opportunities to locals. However, the government in a series of moves opened up the retail sector slowly to Foreign Direct Investment (FDI). FDI in retail is fundamentally different from that in manufacturing. FDI in manufacturing basically enhances the productive employment in most cases; but FDI in retail trade may create job losses and displacement of traditional supply chain. In this background the present paper makes an attempt to study the likely impact of FDI on Indian retail sector. The main objective of this paper is to strategically analyze the Indian retail Industry.

KEYWORDS
Retail, Economy, Urbanization, Investment Policy, SWOT, FDI.

INTRODUCTION

Retailing, one of the largest sectors in the world economy, is going through a transition phase, not only in India but the world over. Retailing in India is one of the pillars of its economy and accounts for 14 to 15% of its GDP. The Indian retail market is estimated to be US$ 450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people. In 2010, larger format convenience stores and supermarkets accounted for about 4% of the industry, and these were present only in large urban centers. India's retail and logistics industry employs about 40 million Indians (3.3% of Indian population). Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51% ownership and a bureaucratic process. 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 for retail innovation and competition with multi-brand retailers such as Wal-Mart, Carrefour and Tesco, as well single brand majors such as IKEA, Nike, and Apple. The announcement sparked intense activism, both in opposition and in support of the reforms. In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reaches a consensus. In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30% of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores. AT Kearney, the well-known international management consultancy, recently identified India as the "second most attractive retail destination‟ globally from among thirty emergent markets. It has made India the cause of a good deal of excitement and the cynosure of many foreign eyes. With a contribution of 14% to the national GDP and employing 7% of the total workforce (only agriculture employs more) in the country, the retail industry is definitely one of the pillars of the Indian economy. In the past 5 years , America based Wall mart, France based Carrefour, U.K. based Tesco and Germany based Metro group saw their revenues in developing countries grow 2.5 times greater than their home markets. The 2012 Kearney Foreign Direct Investment Confidence Index has ranked India 2nd most attractive destination for FDI, an improvement from its 3rd rank in 2010.

Retailing is one of the largest industry in India and one of the biggest sources of employment in the country. Retail sales in India amount to $180 billion and account for 10-11 % of gross domestic product. The Indian retail market has around 14 million outlets and has the largest retail outlet destiny in the world, (Sinha and Uniyal, 2007). The retail industry in India is largely unorganized and predominantly consists of small, independent, owner-managed shops. However the retail sector in India is witnessing a huge revamping exercise as the traditional retailers are making way for new formats. These modern retail formats provide wide variety to customers and offer an ideal shopping experience with an amalgamation of product, entertainment and service, all under a single roof. The Malls, convenience stores, department stores, hyper/supermarkets, discount stores and specialty stores are the emerging retail formats that provide different shopping experience to consumers, (Sinha and Kar, 2007, Kotler, 2006).

REVIEW OF LITERATURE

Gupta (2007) is of the view that with the changing socio-economic scenario of India, the dynamic of retail have also undergone a sea change. Product, place, price, promotion, people and
process play important role in retailing. On the other hand, physical evidence is one aspect that does not need any emphasis at all due to changing consumers' mindset. As per the study, there are number of elements that characterize the retail industry in India and these are as follows:

- It is a people-centric industry
- A highly service-oriented sector
- Demand drivers are more location specific
- When there is a holiday or festival for the general public it is peak time for retailers.

With such sweeping changes in the Indian retail arena, interesting times lie ahead. Proper marketing strategies hold the key.

Tusharinani (2007) noted the transformation of traditional formats into new formats, viz., departmental stores, hypermarkets, supermarkets, specialty stores and malls taking the lead in attracting consumers in the metro cities. Hino (2010) shared his observation about the emergence and expansion of supermarkets that gradually decreased the market share of the traditional formats by displacing them and the factors that helped supermarkets in gaining consumers favors over the traditional stores are the 'consumers economic ability' and the 'format output'. The consumer has multiple options to choose- ranging from the shopkeeper to the most sophisticated supermarkets, departmental stores, plazas and malls which provide the latest and better quality products and it made India the top spot among the favored retail destination as observed by Gupta (2004), Jasola (2007) and India Retail Report (2009). Goyal and Aggarwal (2009) opine that In India, a consuming class is emerging as a result of increasing income levels and dual career families with high disposable incomes. The study by Mishra (2008) expose that mall space, demography, rising young population, availability of brands, rising retail finance, changing lifestyle, modern retail formats and foreign direct investment are the strengths and opportunities for modern retail model. On the other hand, real estate cost, improperly developed mall, lack of skilled personnel, underdeveloped supply chain and taxation hurdles are the weaknesses and threats for modern retail formats. The study by Satish and Raju (2010) throws light on the major Indian retailers which highly contribute to the retail sector in India. Pantaloon, Tata Group, RPG Group, Reliance Group and A V Birla group are some of the major Indian retailers. According to Halepete (2008), India is expanding internationally due to saturation of markets and challenges faced by international retailers. Partnership between Bharti and Wal-Mart is one of the successful expansions of international retail in India.

OBJECTIVES OF THE STUDY

- To analyze the structure of retail industry in India.
- To assess the impact of FDI on various parties related to the retail sector
- To identify the mixture of factors affecting the organized retail business.
- To conduct the SWOT analysis of organized retail industry in India.

RESEARCH METHODOLOGY

The researchers have adopted analytical, descriptive and comparative methodology for this study. Reliance has been placed on secondary data sources such as books, journals, newspapers and online database .However, the interpretation of the data and suggestions made assume importance for the healthy growth of the retail sector in the country.

STRUCRURE OF INDIAN RETAIL SECTOR

Definition of Retail: In 2004, The High Court of Delhi [15] defined the term 'retail' as a sale for final consumption in contrast to a sale for further sale or processing (i.e. wholesale). *A sale to the ultimate consumer.*

Thus, retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers. Retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit.

DIVISION OF RETAIL INDUSTRY

The retail industry is mainly divided into: - 1) Organized and

2) Unorganized Retailing

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.

Unorganised retailing, on the other hand, 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.

The Indian retail sector is highly fragmented with 97 per cent of its business being run by the unorganized retailers. The organized retail however is at a very nascent stage. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10 per cent of India's GDP.

TYPES OF RETAILING IN INDIA

Single Brand- Single brand implies that foreign companies would be allowed to sell goods sold 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.

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.

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. While the minimum capital requirement of US$ 100 million is unlikely to be an issue for the large foreign players vying to enter India in the supermarket/ hypermarket segment, it could make it difficult for foreign investors planning to enter specialty formats such as music, mobile, electronics goods, among others, as these formats require relatively lower investments. Further, the approval requirements from State Governments could limit the cities that FDI backed retailers can operate in. The current opposition raised by a number of political parties, if persists, may pose a major roadblock in the entry of the foreign retailers in India. Besides restricting the number of cities these retailers can operate in, it could also lead to problems in creating supply chain efficiency

PRESENT FDI POLICY FOR RETAIL SECTOR IN INDIA

The Ministry of Commerce and Industry, Government of India is the nodal agency for motoring and reviewing the FDI policy on continued basis and changes in sect oral policy/ sect oral equity cap. The FDI policy is notified through Press Notes by the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP).The foreign investors are free to invest in India, except few sectors/activities, where prior approval from the RBI or Foreign Investment Promotion Board (FIPB') would be required.

1. India will allow FDI of up to 51% in .multi-brand. sector.
2. Single brand retailers such as Apple and Ikea, can own 100% of their Indian stores, up from previous cap of 51%.
3. FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.
4. The retailers (both single and multi-brand) will have to source at least 30% of their goods from small and medium sized Indian suppliers.
5. All retail stores can open up their operations in population having over 1million.Out of approximately 7935 towns and cities in India, 55 suffice such criteria.
6. Multi-brand retailers must bring minimum investment of US$ 100 million. Half of this must be invested in back-end infrastructure facilities such as cold chains, refrigeration, transportation, packaging etc. to reduce post-harvest losses and provide remunerative prices to farmers.
7. The opening of retail competition (policy) will be within parameters of state laws and regulations.

DIRECT FOREIGN INVESTMENT IN INDIA'S SINGLE AND MULTIBRAND RETAIL

(a) FDI in "single-brand" retail

Up to 100 percent FDI is permissible in single-brand retail conditions stipulate that:

(i) Only single-brand products are sold

(ii) Products are sold under the same brand internationally

(iii) Single-brand products include only those identified during manufacturing

(iv) Any additional product categories to be sold under single-brand retail must first receive additional government approval

FDI in single-brand retail implies that a retail store with foreign investment can only sell one brand.

(b) FDI in "multi-brand" retail

FDI in multi-brand retail generally refers to selling multiple brands under one roof. Currently, this sector is limited to a maximum of 49 percent foreign equity participation.

In July 2010, the Department of Industrial Policy and Promotion (DIPP) and the Ministry of Commerce circulated a discussion paper on allowing FDI in multibrand retail. The Committee of Secretaries, led by Cabinet Secretary Ajit Seth, recommended opening the retail sector for FDI with a 51 percent cap on FDI, minimum investment of US$100 million and a mandatory 50 percent capital reinvestment into backend operations. Notably, the paper does not put forward any upper limit on FDI in multi-brand retail.

The long-awaited scheme has been sent to the Cabinet for approval, but no decision has yet been made. There appears to be a broad consensus within the Committee of Secretaries that a 51 percent cap on FDI in multibrand retail is acceptable. Meanwhile the Department of Consumer Affairs has supported the case for a 49 percent cap and the Small and Medium Enterprises Ministry has said the government should limit FDI in multi-brand retail to 18 percent. In terms of location, the proposed scheme allows investment in towns with populations of at least 10 lakh (1 million), while retailers with large space requirements may also be allowed to open shop within a 10 kilometer radius of such cities.

POSITIVE ASPECTS OF FDI IN RETAIL

1. More investments in the end to end supply chain and world class cold storage facilities.
2. Low spillage and wastage of farm produce during the transportation.
3. Better options and offers to the consumer
4. Increase in economic growth by dealing in various international products
5. According to the UPA Government 1 million (10 lakh) employment will be created in next three years
6. Billion dollars will be invested in Indian retail market
7. Agriculture related people will get good price for their goods

NEGATIVE ASPECTS OF FDI IN RETAIL

1. Will affect 50 million small merchants in India
2. Profit distribution and investment ratios are not fixed
3. An economically backward class person may suffer from price raise in future.
4. Retailer faces heavy loss of employment and profit
5. Workers safety and policies are not mentioned clearly
6. Inflation may be increased
7. Small farmers will not benefit by FDI policy
8. The rural India will remain deprived of the services of foreign players.

SWOT ANALYSIS OF FOREIGN DIRECT INVESTMENT IN INDIAN RETAIL SECTOR

SWOT analysis is one of the primary step in strategic management. It contains an analysis of strengths, weaknesses, opportunities and threats. The strength and weaknesses of the FDI shows the present

(A) STRENGTHS OF FDI POLICY

(i) Fast growing economy.

(ii) Young and dynamic manpower. . A large young working population with median age of 25 years, nuclear families in urban areas, along with increasing working women population and emerging opportunities in the service sector are going to be the key growth drivers of the organized retail sector in India

(iii) Highest shop density in the world. Customers will have access to greater variety of international quality branded goods.

(iv) Employment opportunities both direct and indirect have been increased. Farmers get better prices for their products through improvement of value added food chain.

(v) Increase in disposal income and customer aspirations are important factors; increase too in expenditure for luxury items.

(vi) FDI has also contributed to large scale investments in the real estate sector.

(vii) Large domestic market with an increasing middle class and potential customers with purchasing power.

(viii) The consumer get a better product at cheaper price, so consumers get value for their money.

(ix) High growth rate in retail & wholesale trade.

(x) Presence of big industry houses which can absorb losses.

(B) WEAKNESSES OF FDI POLICY

(i) Low capital investment in retail sector.

(ii) Will mainly cater to high-end consumers placed in metros and will not deliver mass consumption goods for customers in villages and small towns.

(iii) Retail chain are yet to settled down with proper merchandise mix for the mall outlets.

(iv) Small size outlets are also one of the weaknesses in the Indian retailing, 96% of the outlets are lesser than 500 sq. ft.

(v) Lack of trained & educated force.

(vi) Lack of competition.

(vii)More prices as compared to specialized shops.

(viii) The volume of sales in Indian retailing is also very low.

(C) OPPORTUNITIES OF FDI POLICY

(i) Global retail giant take India as key market. It's rated fifth most attractive retail market. The organized retail sector is expected to grow stronger than GDP growth in the next five years driven by changing lifestyle, increase in income and favourable demographic outline. Food and apparel retailing are key drivers of growth.

(ii) FDI can become one of the largest industries in terms of numbers of employees and establishments.

(iii) Rural retailing is still unexploited Indian market. It will enhance the financial condition of farmers.

(iv) Improve the competition.

(v) Result in increasing retailer's efficiency.

(vi) Foreign capital inflows.

(vii)Big market along with better technology and branding with latest managerial skills.

(viii) Quality improvement with cost reduction.

(ix) Increasing the export capacity.

(D) THREATS OF FDI POLICY

(i) Threat to the survival of small retailers like 'pan tapri', 'local kirana'.

(ii) Jobs in the manufacturing sector will be lost.

(iii) Started roadside bargains.

(iv) Work will be done by Indians and profits will go to foreigners.

SUGGESTIONS

On the backdrop of permission to FDI in multinational retail the scenario of Indian retail industry is going to change drastically. It is likely to impact not only the unorganized sector but also the domestic organized sector considerably under these circumstances the following suggestions are made for the benefit of Kirana stores, farmers, employees and other stakeholders of retail industry.

1. The traditional the Mom and Pop Kirana stores should change their appearance, attitude and affairs. They should modernized their shops, store, more branded goods, provide home delivery service.
2. These traditional Kirana stores should form a consortium and make bulk purchases. This measure will help to procure the goods at lower price.
3. The banks in the country and the state government should formulate a scheme of modernization loan. Under this scheme credit should be made.
4. Available at of concessional rate and all priority basis to the small unorganized kirana stores.
5. The small farming community should undertake joint supply of fruits and vegetables directly to the small retailers and / or customers. This will benefit all of them.
6. There should be a monitoring agency established at the state level to keep watch on the operations of foreign players in retail sector.
7. The possibility of starting mails of small retailers should be explored & a group of small retailers in a locality should came together & open such mall.
8. The educational institutions should constitute degree, diploma courses in retailing management where both the theoretical & practical aspects of retail trade are taught to the candidates.

CONCLUSION

FDI in retailing is going to attract retail players by Indian Government, but India should welcome them with a talented pool of human resources by promoting institution imparting knowledge in retailing. Small retailers will not be crowded out, but would strengthen their market positions by modernizing their working. Growing economy and increasing purchasing power would compensate the loss of market share of the unorganized sector retailers. Protection must be given to Indian small and medium retailers as retailing is their source of livelihood. The Government must properly discuss the pros and cons of allowing 51% FDI and have a law in place to control unfair competition. Then the FDI Bill will be given definitely a positive impact on the retail industry and the country by attracting more foreign investment. However now a start has been made and all stake holders have to work for its success. FDI in retail would contain inflation by reducing wastage of farm output as 30% to 40% of the produce does not reach the end-consumer. "In India, there is an opportunity to work all the way up to farmers in the back-end chain. Part of inflation is due to the fact that produces do not reach the end-consumer. Many of the foreign brands would come to India if FDI If multi brand retail is permitted which can be a blessing in disguise for the economy.

Consumers would certainly gain from enhanced competition, better quality, variety of branded goods and attractive discount offers. The state revenues will rise on account of larger business as well as recorded sales. The Competition Commission of India would need to play a proactive role to avoid unfair competition in retail industry. The displaced retailers and employees in unorganized sector should be provided necessary training of modern trade and absorbed in the modern trade on priority basis

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