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QUALITATIVE ANALYSIS OF FDI IN INDIAN RETAIL INDUSTRY

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ABSTRACT

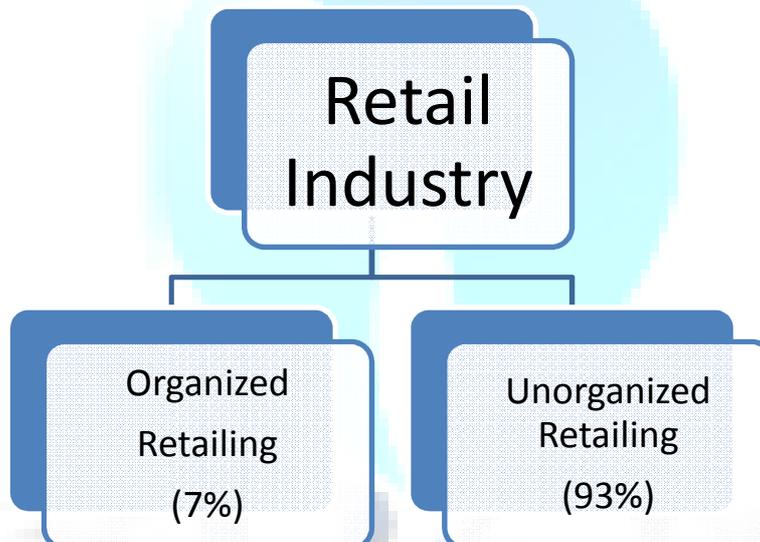
The Indian Retail Industry is the fifth largest in the world. Comprising of organized and unorganized sectors, Indian retail industry is one of the fastest growing industries in India, especially over the last few years. Though initially the retail industry in India was mostly unorganised, however with the change of taste and preferences of consumers, the industry is getting more popular these days and getting organized as well. The Indian retail market has shown greater acceptance for organized retailing formats. Domestic retailing is emerging from a multitude of unorganized family-owned businesses to organized modern retailing. Rapid urbanization, changes in shopping pattern, demographic dividend and pro-active measures by the Government are abetting the growth of the retail sector in India. By taking into account the importance of growing Indian retail industry an attempt has been made to analyze the reforms (Foreign Direct Investment) introduced by Government of India in the Indian Retail Industry, whether they are boom or bane for the country.

KEYWORDS

Retail Industry, Organized Retail, Unorganized Retail, Foreign Direct Investment.

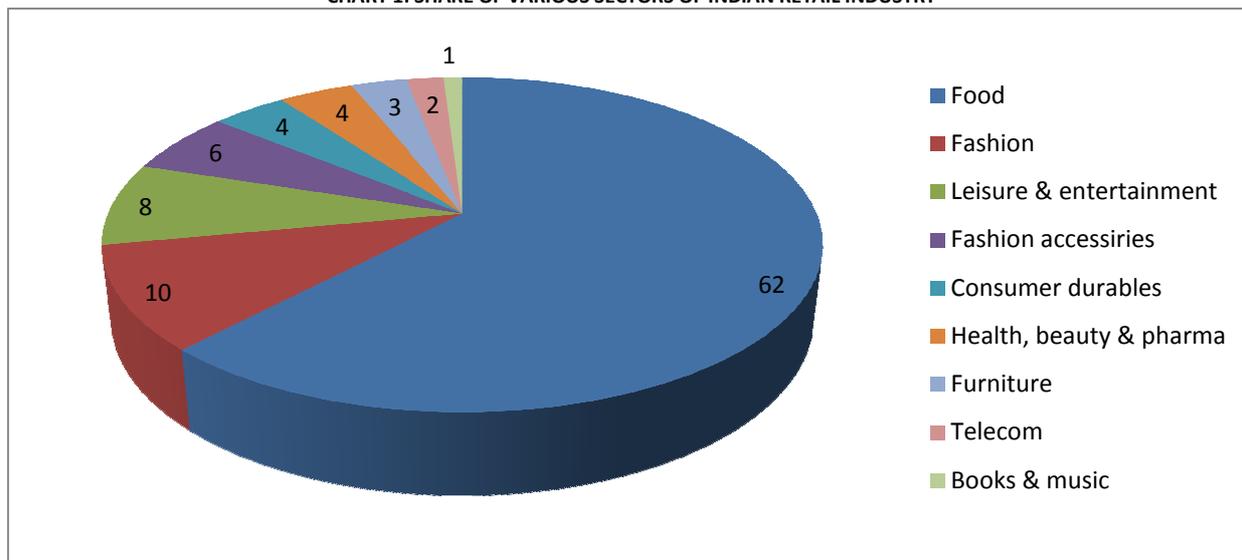
INTRODUCTION

Indian retail industry is one of the rising sectors with huge potential and capability. Indian retail industry is the second largest employer after agriculture, employing around 35 million people with wholesale trade generating additional 5.5 million employments more. Retail sector in India accounts for around 30 to 35 pc of its GDP. Indian retail market is dividing into two parts:



The Indian Retail industry has grown at a CAGR of 14.6% for the period FY07-12(p). The said growth can be attributed to the growing Indian economy, increase in Private Final Consumption Expenditure (PFCE) and the change in consumption pattern of the Indian populace. The changing consumption pattern, in turn, primarily remains driven by higher standard of living, growing middle-class population, greater proportion of working women, increase in penetration levels of organized retail etc. The Indian retail market is currently estimated at 396 USD million. Food segment contributes the largest part of total value of retail market, followed by fashion, leisure and entertainment and fashion accessories and so on. Indian retail market segment is as follows:-

CHART 1: SHARE OF VARIOUS SECTORS OF INDIAN RETAIL INDUSTRY



Source: Big Strategic Management Consultants, Highlight of Indian retail industry, 2012

The share of organized retail trade is project to grow @ 40 pc. Some of the factors contributing towards this expected growth are:

1. India' total population growing @ 13 pc and this hike in population is bound to show repercussion in various sectors.
2. Total retail spending is expected to be double in next 5 years.
3. Customers mindset is shifting from low price to better convenience, high value and moreover quality oriented products.
4. Emergence of concepts such as quick and easy loans, EMIs, credit cards loans has made purchasing possible for Indian consumers.
5. Constructions of malls are contributing towards the growth of the organized retail business.
6. Youth of India is getting high brand conscious, 60 pc of India's population is below the age of 30 leading to popularization of brands and products.

TABLE 1: LANDSCAPE OF INDIAN RETAIL INDUSTRY

Factors	2001	2012	2021
GDP(USD bn)	450	1958	3310
Estimated merchandise consumption (retail market opportunity)	120	490	810
Urban consumption(% and in absolute Numbers)	40%(USD48 bn)	48% (USD 235 bn)	60% (USD 455 bn)
Rural Consumption(% and in absolute Numbers)	60% (USD 72 bn)	52% (USD 255 bn)	44% (USD 355 bn)
Organized Retail	4%	7%	20%
Organized Retail in (USD Bn)	5	34	162
No. of Direct Employees in Organized Retail (Mn)	0.1	0.7	3.3

Source: Technopark white paper on FDI in Retail

India Has witnessed sustained growth in retail in the last decade (2002-2012). In spite of economic uncertainty and slowdown, the retail will continue to grow, due to growth in GDP of country. Moreover, urban India's share in retail will grow 48 pc (2012) to nearly 56 pc by 2021. Moreover share of organized retail will grow 7 pc to 20 pc by 2021.

During the last 25 years, private investments both from Indian and international players has been inserted. In spite of these efforts, Indian organized retailers have managed to have 7 pc share only, but it is expected to grow by 20 pc (2021).

RESEARCH OBJECTIVE & METHODOLOGY

In this paper an attempt has been made to analyze that whether FDI in retail should be there or not and to achieve that objective opinion of experts and researchers have been collected from various journals, magazines, books, newspapers, online journals etc. as the paper is totally opinion based.

REVIEW OF LITERATURE

Sikri and Wadhwa studied about the growth and challenges faced by Indian retail industry. In their study author projected that Indian retail industry will be very big and factor driven for this growth are totally external. Study concluded that even though Indian retail industry has lot of potential, but still it has to reach at par with international standards, it has a long way to go.

Pandey and Kumar made a critical analysis of Indian retail sector by making an analysis of top 7 companies in terms of sales and which are listed in BSE and NSE. Study concluded that organized retail is at growing stage and it will get strong position in the coming era.

Akther and Equbal, made an effort to study the one of the important and emerging part of retail sector i.e. organized retailing in India. In this study authors tried to analyze finer strategic perspective for the growth of retail sector in India and also suggest measures, so that they can incorporate these strategies quantitatively and qualitatively. At the end study concluded that many players have entered the industry, but they all have not tasted success, but they are gradually inching their way to success.

Rohilla and bansal studied one of the sensitive topic i.e. FDI in Indian Retail. Authors put some light on both positive and negative aspect of FDI in India. Being a debatable issues, author have given the references of some other countries like China, Thailand, Russia etc. which are developing counties like India. Study suggested that there are some issues which needed to be resolved before FDI can be allowed in India.

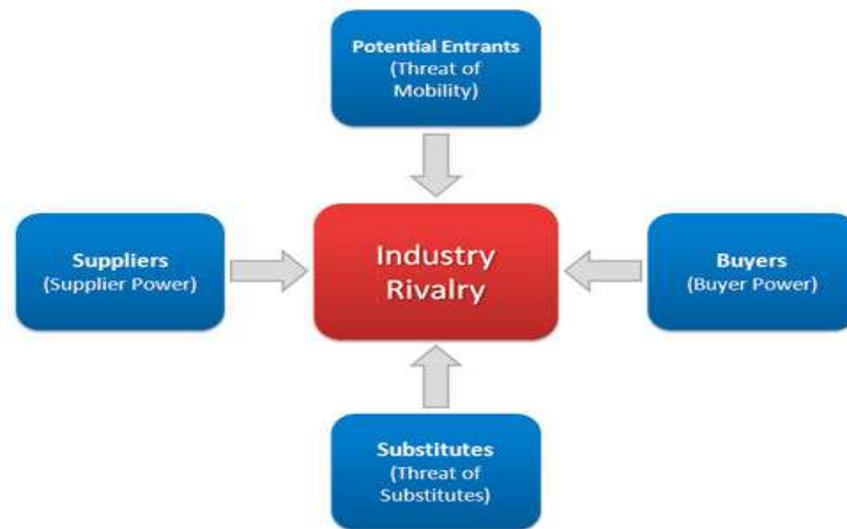
Chari and Raghavan discuss the opening up of Indian retail bazaar for FDI by studying challenges and opportunities. Authors argue the potential benefits which FDI is going to generate, but on the other hand also discussed the cast Indian retail industry have to bear. Research concludes that by checking on the benefits, it is now the turn of retail and FDI should be allowed in this sector.

As per AT Kearney's 7th Annual Globe Retail Development Index Report Indian retail industry is 5th largest retail destination and 2nd most attractive market for investment in the world after Vietnam. Some of the major reforms announced by Government of India with regard to FDI in retail sector in India are:

1. India will allow FDI up to 51 pc in Multi Brand retail.
2. Single Brand Retailer can own 100 pc of their Indian Stores.
3. The retailers with FDI share will have to get their 30 pc of total goods from small and medium sized suppliers from India.

So to find out whether these reforms are boom or bane for economy. Some of the qualitative tools have been used which are as under:-

1. PORTERS' FIVE FORCE MODEL



- Threat of New Entrants:** 90 pc of Indian retail market composed of small, uncomputerized and family run store shops. Now there are some symptoms that Indian government is trying to change it and that is by opening up of its economy to FDI in Retail market. It has opened up market for foreign investors in single brand retail and multi brand retail in a phased manner will lead to more inflows of foreign investors in India. So threat of new entrants is high.
- Powers of Suppliers:** At present, customers are getting quality conscious and if they are paying price, they should get quality products and if supplier provide quality products then he will be able to survive unless otherwise he will have to shut his shop. So supplier tends to have little power. E.g. Walmart which pays attention to quality so contract with big retailer like walmart can make or break a small supplier.
- Power of Buyers:** Here customers will have more bargaining power in unorganized sector as compare to organized sector because it's very difficult to bargain in retail chain store like big bazaar as compare to kirana shop. Because in organized sector if customers demand product then his focus will be on quality
- Availability of Substitutes:** Retail stores do not deal with single products they have to deal with number of products in a same product line therefore different stores are selling same products so threat of substitute is higher.
- Competitive Rivalry:** Retailers have to face cut throat competition whether they are in organized or unorganized sector. To overcome this, latest practice adopted by these retail stores is giving membership, special gifts, bonus and moreover concentrating on customers' loyalty.

From the above analysis it is clear that there will be more threat of new entrants, power of suppliers will be less, and buyers will rule the market and more quality conscious, due to availability of substitutes. Sellers will have to provide goods as per the demands of customers, due to cut throat competition. Healthy competition benefits customers by restraining prices and encouraging companies to innovate to provide better quality for the price paid. Because it is rightly said 'Competition is not an end itself'

The recent initiatives of Government for opening up of retail sector for Foreign Direct Investment become a very sensitive issue. Arguments are there on both sides. It is a well-known fact that FDI can have some positive results on the economy not in short-term but in the long-term.

ARGUMENTS AGAINST THE RETAIL SECTOR REFORMS

- Massive job loss will be there because independent stores will get closed. With the emergence of Walmart only thousands of jobs will be created and millions will be lost.
- As we have seen in the case of Pepsi and Coke, they came and wipeout the entire domestic brands, same will be the case of retail outlet e.g. When Walmart will lower their price, then they will be able to create monopoly and then rises prices.
- India is self sufficient country it's not depend on foreign retailers it can meet its demand by its own so there is no need to have foreign retailers.
- There will be drainage of money from India, that will be generated here but profits will go to foreigners.
- They will enter like East India Company and then took over politically.

ARGUMENTS IN SUPPORT OF THE RETAIL SECTOR REFORMS

- If a company like Walmart will come into India and spread in the same trend as of USA, then Walmart only will be able to create 5.6 Million jobs (India's population in 1200 million, USA population is 300 million and Walmart creating 1.4 million and in the same proportion it will create 5.6 million jobs in India). Instead of job loss, retailers reforms are likely to be massive boost to Indian job availability.
- Indian economy need trillions of dollars to built its infrastructure, hospitals, education and housing etc. to meet its need of surging population. As we all know, Indian economy is already operating on budget deficit so to meet their demand global investment through FDI is needed. Beyond capital, Indian retail industry needs knowledge and global integration Global integration can potentially open its export market for Indian farmers and manufactures.
- Companies like Walmart Carrefour, Metro, and Target are some of the leading retail companies who are operating for over 30 years in numerous countries and they have not created monopoly. Instead they have helped in reducing inflation by having price check over it.
- Some of the critics are saying if we allow foreign investors, then history will repeat itself like East India Company, but toady we are living in 21st century as a largest democratic country. Global awareness and media were not there in 18th century as we have in 21st century. So India rather than isolating itself should enjoy the benefits by having integration with the world as countries like China, Malaysia, Thailand etc are doing.
- No doubt India has become self sufficient in food production, but it is of no use if that food does not reached to the consumers, this is due to in built inefficiencies in our food distribution system. If we have cost conscious organized retail stores, then we can reduce food wastage while increasing farmers' income. E.g. walmart since its arrival has introduced "Direct Farm project" at Haider nagar near Malerkotla in Punjab where 110 farmers have been connected with Bharti Walmart for sourcing fresh Vegetables directly which leads to less wastage and direct income to farmers.

The supporters of FDI in retail trade argue that it brings benefits to consumers in term of price reduction, increased and improved selection base, high quality technique of the foreign players in the market. Further it can increase the domestic consumption level. Those who oppose the FDI in retail trade argue that the FDI brings the modern retailing culture and thus displace the labor up to great extent and destroy the traditional retail sector. Unless we are able to provide ample jobs in the manufacturing sector we should not think of a policy which results in elimination of jobs in the unorganized retail sector. In India the primary task of the Government is to provide livelihood to the mass and not create so called efficiency of scale by creating redundancies. As per present regulations, no FDI is permitted in retail trade in India Thus from the above contrasting views of critics and supporters; and also with reference to Industry analysis using Porter's five force model, it can be inferred that opening of the Indian retail sector will advance the welfare of nation as a whole.

2. SWOT ANALYSIS**A. STRENGTHS**

- Major contribution to GDP:** The retail sector in India is hovering around 33-35% of GDP as compared to around 20% in USA.

- **High Growth Rate:** The retail sector in India enjoys an extremely high growth rate of approximately 46%.
 - **High Potential:** Since the organized portion of retail sector is only 2-3%, thereby creating lot of potential for future players.
 - **High Employment Generator:** The retail sector employs 7% of work force in India, which is right now limited to unorganized sector only. Once the reforms get implemented this percentage is likely to increase substantially.
- B. WEAKNESSES (LIMITATION)**
- **Lack of Competitors:** AT Kearney's study on global retailing trends found that India is least competitive as well as least saturated markets of the world.
 - **Highly Unorganized:** The unorganized portion of retail sector is only 97% as compared to US, which is only 20%.
 - **Low Productivity:** Mckinsey study claims retail productivity in India is very low as compared to its international peers.
 - **Shortage of Talented Professionals:** The retail trade business in India is not considered as reputed profession and is mostly carried out by the family members (self-employment and captive business). Such people are not academically and professionally qualified.
 - **No Industry 'status, hence creating financial issues for retailers:** The retail sector in India does not enjoy industry status in India, thereby making difficult for retailers to raise funds.
- C. OPPORTUNITIES (BENEFITS)**
- **There will be more organization in the sector:** Organized retail will need more workers.
 - **Healthy Competition will be boosted and there will be check on the prices (inflation):** Retail giants such as Walmart, Carrefour, Tesco, Target and other global retail companies already have operations in other countries for over 30 years. Until now, they have not at all become monopolies rather they have managed to keep a check on the food inflation through their healthy competitive practices.
 - **Create Transparency in the system:** The intermediaries operating as per mandi norms do not have transparency in their pricing. According to some of the reports, an average Indian farmer realizes only one-third of the price, which the final consumer pays.
 - **Intermediaries and Mandi System will be Evicted, Hence Directly Benefiting the Farmers and Producers:** the prices of commodities will automatically be checked. For example, according to Business Standard, Walmart has introduced —Direct Farm Project at Haider Nagar in Punjab, where 110 farmers have been connected with Bharti Walmart for sourcing fresh vegetables directly.
 - **Quality Control and Control over Leakage and Wastage:** Due to organization of the sector, 40% of the production does not reach the ultimate consumer. According to the news in Times of India, 42% of the children below the age group of 5 are malnourished and Prime Minister Dr. Manmohan Singh has termed it as **National Shame**. Food often gets rot in farm, in transit and in state-run warehouses. Cost conscious and highly competitive retailers will try to avoid these wastages and losses and it will be their Endeavour to make quality products available at lowest prices, hence making food available to weakest and poorest segment of Indian society.
 - **Heavy Flow of Capital will Help in Building up the Infrastructure for the Growing Population:** India is already operating in budgetary deficit. Neither the government of India nor domestic investors are capable of satisfying the growing needs (school, hospitals, transport etc.) of the ever growing Indian population. Hence foreign capital inflow will enable us to create a heavy capital base.
- D. THREATS**
- **Current Independent Stores will be Compelled to Close:** This will lead to massive job loss as most of the operations in big stores like Walmart are highly automated requiring fewer work forces.
 - **Big Players can Knock-out Competition:** They can afford to lower prices in initial stages, become monopoly and then raise price later.
 - **India does not Need Foreign Retailers:** As they can satisfy the whole domestic demand.
 - Remember East India Company it entered India as trader and then took over politically

By utilizing our strengths and taking the benefits of opportunities available with us, we can overcome our weakness and threats. Moreover the threats created are only political. For that we need to balance opportunities and prospects associated with these reforms, it will surely benefit our economy and public at large once implemented. So for the period we are delaying the implementation of these reforms, for that government will have to bear the cost. With the implementation of this policy all stakeholders will benefit whether it is consumer through quality products at low price, farmers through more transparency in trading or Indian corporate with 49% profit share remaining with Indian companies only.

CONCLUSION

The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. There is very huge potential for the growth of organized Retailing in India. By following some of the strategies it can rise tremendously and can reach each and every nook and corner In the above mention viewpoint, it will be good for Indian economy to implement these reforms whole heartedly and at large. These will definitely benefit our economy. As per my viewpoint, modern retail is the need of the hour to have proper distribution and for overcoming inefficiencies in the system. But situation will get worse when it reached a point, where duopoly emerged and everything goes against the public interest. So to overcome all these problems, there is need to have effective and properly implemented competition policies and laws to have a check on anticompetitive policies and to evaluate that to which extent retail power is used unfairly.

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