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FDI IN INDIAN RETAIL SECTOR: BOON OR BANE?

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ABSTRACT
UNCTAD's World Investment Prospects Survey (2012–2014) mention, India is the third-most attractive destination for foreign direct investment (FDI) after China and the US in the world. India has high potential for growth and offer great prospects of high profitability and favourable regulatory regime for investors as well. As per the terms and agreements with World Trade Organization's General Agreement on Trade-in Services, India's wholesale and retailing services had to open up to foreign investment. There were lots of initial worries towards this issue. Though, the government of India in a series of discussions finely opened up the retail sector slowly to foreign investment. In 2006 it was brought under the automatic route. Further 51% investment in single brand retail allowed. Under the government's approval route foreign direct investment in cash and carry (wholesale) with 100% ownership was allowed in 1997. Finally, in 2012 Multi-Brand retailing is permitted. Prior to organised retailing, Indian household sector by tradition enjoyed the convenience of "kirana" stores. Till 1980's the retail trade continued in the unorganized sector. The big band entry of Tata's, Future Group, Mahindra Group, Reliance Industries, Aditya Birla Group, Bharti Enterprises, Fabindia, The Bombay Store, Shoppers Stop, Crossword, Hyper City, Inorbit Mall etc., to organized retail sector paved way for competition. This study is an attempt to overviews the Indian retail sector in the eve of globalization. It highlights need and relevance of FDI in Indian retail sector. It also examines the prospective and retrospectives of foreign direct investment in this sector. Finally, suggestions are made based on findings.

KEYWORDS
FDI, retailing, boon, bane, findings, suggestions.

"If you're going to live by the river, make friends with the crocodile"

-Anonymous

1. INTRODUCTION
India is one of the fastest growing economies, the top five retail markets in the world by economic value with 1.2 billion people. Indian retail sector is the largest source of employment after agriculture, and has deep penetration into rural India. According to Patibandla (2012) retail sector contribute about 15% of India's gross domestic product (GDP) and 8% of employment. The volume of India's retail sector is currently estimated at around US$ 450 billion and organised retail accounts for around 5% of the total market share. According to PWC estimate the multi-brand retail market expected to grow to $220 billion by 2020.

2. OBJECTIVES
1. To study the structure of Indian retail industry.
2. To evaluate the role of small and medium traders in Indian retailing.
3. To understand need for and relevance of Foreign direct Investment (FDI) in Indian retail sector of India
4. To examine the prospective and retrospectives of FDI in retailing.
5. To assess the impact of Foreign direct Investment on different parties connected with the India's retail sector
6. To recommend valuable suggestions to guard and encourage the interest of small and medium traders, unorganized retailers and farmers of India.

3. RESEARCH METHODOLOGY
1. The study adopted analytical, comparative and descriptive in nature
2. The study based on published data sources particularly books, journals, newspapers and online databases.
3. The analysis is based on different statistical tools relevant to the given study and based on available data.

4. THEORETICAL FRAMEWORK
In the words of the High Court of New Delhi, "retail' is a sale for final consumption in contrast to a sale for further sale or processing. Retailing is the process or act of selling goods to the individual consumer at a margin of profit. Thus, Retailing is the final link that connects the consumer with the manufacturing and distribution chain.

Retail Sector in India can basically be classified in to organised and unorganised retailing. Organized retail sector mainly consists of the corporate-backed supermarkets, hypermarkets and modern retail outlets, malls, exclusive brand outlets etc. usually are located in urban areas or metros. Such mall culture is popular in Western countries forms 20%-30% of business. But in India it forms only about 6% while rest is all in unorganized sector mainly consisting of the traditional formats of low-cost retailing called - 'kirana shops', general stores, paan/beedi shops, convenience stores, hand cart and roadway vendors, etc. Kirana stores are mostly family owned and managed. Most of Kirana stores deal with food grains and dry foods. Fruits and vegetables are sold by pavement stalls and relatively better organized larger vendors both co-existing side by side.

Retail sector in India is highly fragmented with 95 per cent of its business being run by Kirana stores. 12 million Kirana Stores spread across 5,000 towns and 6, 00,000 villages throughout India. The retail market in India has high complexities in terms of a wide geographic coverage and diverse consumer taste and preferences. The basic reason behind popularity of such Kirana Stores is most of products under one roof, personal touch, repeated interactions with customers; nearby location, high trust with customers built through repeated interactions etc.,

The India's retail sector consists of big Indian players such as Tata's, Future Group, Mahindra Group, Reliance Industries, Aditya Birla Group, Bharti Enterprises, Fabindia, The Bombay Store, Shoppers Stop, Crossword, Hyper City, Inorbit Mall etc., Retailers mainly dealing Food, Health and beauty Products, Clothing and Footwear, Home Furniture & household goods, Durable goods, Leisure & Personal Goods etc.,

Due to the positive movement of economy, Indian urban consumer's purchasing power is growing and branded merchandise in categories like Apparels, Cosmetics, Health and beauty Products, Clothing, Home Furniture. Shoes, Watches, Beverages, Food, household goods, Durable goods, Leisure & Personal Goods and even Jewellery are slowly becoming lifestyle products that are widely accepted by the urban Indian consumer. Of these segments Food & beverage and clothing segment is expected to grow exponentially. Almost FMCG companies are benefited a lot.
At present in India major Multi brand retail brands having 51% Foreign investment are Pantaloon Retail, Vishal Retail, Shoppers, Stop, Koutons, Trent etc., whereas 100% investment in Single Brand Retails include Archies, Cantabil VIP Ind, Titan, IFB Industries etc., HUL, GSK, Godrej Consumer Dabur, Marico etc.

5. GLOBAL RETAIL SECTOR
In Indian retail sector has played an important role in improving the productivity of the economy at large. The encouraging impact of organized retailing could be observed in USA, UK, Mexico and in China. Retail sector is the second largest industry and also one of the highest employment generators in US. India is the third largest retail market after China and Japan. China's retail sales by 2014 is expected to cross $4500 billion mark. At present, Indian Retail sectors turnover is around $500 billion and is expected to increase sales of $900 billion by 2014.

6. DRIVING FORCES OF INDIAN RETAIL SECTOR
As compared to India, China enjoys a huge trade surplus with US and other major trading partners of the world. China's manufacturing base is very strong. Because of its globally competitive advantage in manufacturing sector, China can easily afford to open its retail sector to foreign investment. In contrast, Indian economy is services based and agriculture and agri-based allied activities. The services sector accounts for 55 percent of India's GDP. FDI in multi brand definitely will stimulate this sector positively.
Driving forces of Indian retail sector are;
1. Increase in standard of living due to rise of income
2. Change in pattern of consumer taste and preferences.
3. Emergence of dual income families.
4. Easy availability of Knowledge about different products and services through Internet, Television and other print and digital media etc.
5. Prevalence of latest trends and fashion.
6. Majority of Indians are under the age of 30 leads to more consumption.
7. Increase in spendable income among the young Indians
8. Emergence of new retailing formats like super market, Hyper market etc.,
9. Easy and instant availability of Credit Facilities.

7. FDI IN RETAILING
7.1 GLOBAL SCENARIO
It is important to note that Argentina, China, Brazil, Chile, Indonesia, Malaysia, Russia, Singapore and Thailand have allowed 100% FDI in multi brand retail. In Indonesia 90% of the business still remains in the hands of small traders. China permitted FDI in retailing since1992. With this policy it has attracted huge investment flowing into the sector. Even though, it has not affected the domestic retail chains. On the contrary small retailers have increased since 2004 from 1.9 million to over 2.5 million. In respective of multi brand retails in these countries, small retailers co-exist and benefited immensely. The quality of the services increased.
7.2. INDIAN SCENARIO
After the second generation market reforms initiated in 1991, India gradually opened up its economy to foreign investment in a wide range of sectors. The licence-raj system was slowly dismantled in almost all the industries. FDI was especially encouraged in ports, highways, oil and gas industries, power generation and telecommunication. Consumer goods and service sector was completely inaccessible before for foreign investment was also gradually opened up.
The foreign investment limits were slowly raised. Govt. of India allowed 51% FDI in multi brand retail and increased the limit in single brand retail from 49% to 100%. But it was made compulsion that the single brand retailers must source 30 percent of its goods from India. Further Indian government continues the hold on retail reforms for multi-brand stores. There has been opening of Indian economy to foreign organization for foreign direct investment through organized retail like Wal-Mart, Carrefour, and Tesco.
As per A.T. Kearney estimate India's organized retail had a 31% share in clothing and apparel, whereas the home supplies retail was growing between 20% to 30% per year.
The Ministry of Commerce and Industry is the nodal agency for monitoring and reviewing the FDI policy on continued basis. The foreign investors are free to invest in India, except few sectors/activities, but prior approval from the Reserve Bank of India or Foreign Investment Promotion Board (FIPB') would be required.

8. FDI IN RETAILING- BOON OR BANE
Professor Amartya Sen, an economist (2011) claimed, Foreign Direct Investment for growth of Indian economy is good. The Spencer's Retail with 200 stores in India, and with retail of fresh vegetables and fruits accounting for 55 per cent of its business claims that there is an ample scope for it to expand its footprint in terms of store locations as well as procuring farm products directly from the growers in addition to the involvement of middlemen or traders. Foodworld, a well known outlet operates over 60 stores plans to increase its presence more than 200 locations. It is observed competition and investment in retail will provide more benefits to consumers through lower prices, wider availability and significant improvement in supply chain logistics
According to Pan-Indian survey (2011) more than 90 per cent of consumers said FDI in retail no doubt will bring down prices and offer a wider choice of goods. Almost 78 per cent of farmer's gave opinion that they will get better prices for their produce from multi-format stores. More than 75 per cent of the traders claimed that their marketing resources will continue to be needed to push sales through multiple channels, but they may have to accept lower margins for greater volumes.

9. IS FDI A BOON?
1. Indian retailing is billion dollars industry.
2. It is estimated that Multi brand retailing will provide employment for 1 Crore people by 2020.
3. Up to 100% FDI is allowed for cash and carry wholesale trading and export trading under the automatic route.
4. It is estimated that FDI backed retail sector will create 80 lakhs jobs. Mitsukoshi of Japan, employ a much higher number of sales support employees per store to suit local consumer culture. As per KPMG report, in China, the employment in both retail and wholesale trade increased from 4% in 1992 to about 7% in 2001.
5. Foreign investment will bring growth and prosperity to India. Retail industry worth 20 Lac Crore and is employed 4.40 Crore workforce. It evident from this perspective that India's retail sector is much promising employment provider.
6. It is positively reduces consumer price inflation. Price inflation in Europe and the United States has been 5 to 10 times lower than price inflation in India. The current consumer price inflation in Europe and the United States is less than 2%, compared to India's double digit inflation.
7. Prices of products or services will come down. It is the experience that competition between Walmart-like retailers has kept food prices in check.
8. There is a possibility that large investment in supply chain and world class cold storage facility.
9. There is scope for low spillage and wastage of farm produce during the transportation.
10. Better options and offers to the consumer may be available. Increase in economic value by dealing in various international products

11. Farmer's or people directly connected with Agriculture and agriculture based activities will get good price for their produce/goods
12. The retailers (both single and multi-brand) will have to source at least 30% of their goods have to be procured from the local small and medium enterprises.
13. Multi-brand retailers must bring minimum investment of US$ 100 million.
14. Permission to set retail stores operations in cities with a minimum population of 10 lakhs.
15. FDI will help the farm sector to improve critical infrastructure and integrate farmer-consumer relationship. 50% of the investment should be used for improving the back end infrastructure facilities such as cold chains, refrigeration, transportation, packaging etc. to reduce post-harvest losses and provide remunerative prices to farmers.
16. The opening of retail competition policy will be within parameters of state laws and regulations.
17. FDI is expected to roll out produce storage centers that will increase market access, reduce the number of middlemen and enhance returns to farmers.
18. In addition, millions of additional jobs will be created during the building of and the maintenance of retail stores, roads, cold storage centers, software industry, electronic cash registers and other retail supporting organizations.
19. Nearly half of profits of this sector will be reinvested in India. Profits of such retailers will be subject to taxes and such taxes will reduce Indian government budget deficit.
20. Farmers have been connected with for sourcing fresh vegetables directly, thereby reducing waste and bringing fresh produce to Indian consumers
21. Retailing creates opportunities for the Micro, Small and Medium Enterprises (MSME's) to reach out the International markets and standards.
22. The global players have economies of scale and are perfect in cost cutting and providing the consumer the best service at lowest price which still is a major challenge for Indian retail firms.
23. The domestic brands don't have the charm and attracting power as compared to popular global brands.
24. Global players are highly advanced in technology. They have better storage facilities, better transportation medium and high investment can hardly match the capabilities of Indian counterparts.
25. Investment in back- end infrastructure will help to reduce wastage of farm produce, improve livelihood of farmers, lower the prices of products and ease supply side inflation, food safety, hygiene and quality.
26. The work culture of global players is quite different from those of Indian players.
27. Foreign players believe in earning profits by cutting costs as much as possible and at the same time are conscious towards career of their employees.
28. FDI in retail will remove the burden of middlemen, according to no. of reports published in the press.
29. The farmers across India 6, 00,000 villages stand to gain with higher profits and better market access.
30. The farmers would be getting good prices for their harvest. Direct purchase from farms will hugely benefit small farmers who are not getting good returns by selling in the local mandi.
31. Unlike developed countries, 51 percent of the India's total workforce is self-employed. For a vast majority of unskilled and poor people of India, retailing offers an excellent safety valve.
32. Farmers get only 10%-12% of the price the consumer pays for the agri-products. Entry of organized retailing definitely will benefit farmers in big way. Experts claim India's post-harvest losses to exceed 25%, on average, every year. As reported by Suryamurthy, Indian farmers get only one third of the price consumers pay for food staples. For perishable horticulture produce, average price farmers receive is barely 12 to 15% of the final price consumer pays.
33. Organized retail will offer the small Indian farmers more competing venues to sell his or her products, and increase their income from less spoilage and waste.
34. The modern intermediaries like Quality controller, Certification agencies, packaging adviser etc are the important organ of Retail Industry and participants in farmers' incomes.
35. The Indian economy is small in respect of limited savings. Global investment is necessary.
36. Beyond capital, the Indian retail industry needs knowledge and global integration.

It is evident that many business groups in India are welcoming the transformation of retail sector. The supporters of retail reforms, flow of fresh investment in organized retail will generate 10 million new jobs by 2014, about five to six millions of jobs in logistics alone. Unlike the current monopoly of middlemen buyer, retail reforms offer farmers access to more buyers from organized retail. In the short term, there is no denying fact that foreign capital will flow into the country and the government can claim that its economic reform agenda is intact. However, the adverse implications will be felt over long time in terms of job loss and the displacement of small retailers and traditional supply chains.

10. IS FDI IN RETAILING A BANE?

1. Entry of foreign retailers will affect 50 million small merchants in India.
2. Job losses especially in manufacturing sector will be affected adversely.
3. Profit distribution and investment ratios are not fixed.
4. In order to bring goods at lowest possible price for customers they squeeze the margins of their suppliers.
5. Poor and economically backward class people may suffer from price rise in future.
6. Retailers face heavy loss of employment and profits in due course. In America, there is absolutely no competition to Wal-Mart in retail business. Its annual turnover is approximately 20 Lac Crore. Although only 21 Lakh people are employed.
7. Workers safety measures and policies are not clearly mentioned. Big retailers have a record of violating laws, not protecting workers' rights and aggressive anti- union conduct in the United States and elsewhere is observed.
8. Large international retailers mostly prefer to source majority of their products globally rather than investing in local products.
9. The big retail giants are particular and predefined in their operations, they would require very less amount of creativity form the franchisee's side which can hurt country's entrepreneurial skills.
10. India's labour productivity in food retailing is about 5% compared to Brazil's 14%; whereas labour productivity in non-food retailing is about 8% compared to Poland's 25%. McKinsey study mention that retail productivity of India is very low compared to international peer counterparts.
11. The rural India will remain deprived of the services of foreign players as they operate only in big cities and metros.
12. The government claims modern retail will create 4 million new jobs. But this cannot be true because Walmart, with over 9000 stores worldwide has only 2.1 million employees
13. Total retail employment in India, both organized and unorganized, account for about 6% of Indian labour work force currently - most of which is unorganized.
14. Global players may not prefer to enter into joint ventures with Indian firms may adversely affect the Indian firms.
15. Once the domestic players are wiped out of the market, foreign players enjoy a monopoly position that allows them to increase prices and earn profits
16. Inflation may be increased.
17. Small farmers will not be benefited by FDI policy.
18. Work will be done by Indians; profits will go to pockets of foreigners.

In order to correct the aforesaid anomalies, India need to have strong regulatory system for the sector. At the same time government should strengthen the Competition Commission of India before the entry of these Big Retailers into the Indian Territory.

11. 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 Kirana stores should change their appearance, attitude and affairs.
2. They should modernise their shops, store, with more branded goods, provide home delivery service at ease.
3. The traditional Kirana stores should form a consortium and make bulk purchases to procure the goods at lower price
4. The state government should formulate different schemes and policies on priority basis.
5. Ease availability of financial assistance at concessional rate to the small medium unorganized kirana stores.
6. The small farming community should undertake joint supply of fruits and vegetables directly to the small retailers and / or customers.
7. There should be a monitoring agency established at the state level to keep watch on the operations of foreign players in retail sector.
8. There should be an agency to see that necessary investment is made by the foreign players in cold storages, transportation and logistics.
9. The possibility of starting malls of small retailers should be explored and a group of small retailers in a locality should came together and open such mall.
10. The educational institutions should constitute degree, diploma courses to the candidates both the theoretical and practical aspects of retail trade.
11. The wholesalers will be affected by the entry of foreign players because they will purchase the goods directly from the manufactures.
12. The wholesalers should also go in together to make collective purchases.
13. To improve the quality of products, encourage wholesalers to participate more actively in marketing of their produce in order to capture value added services in the supply chain.
14. There is a need to strengthen small farmer organizations by providing them with technical assistance to increase productivity for the cost competitive market.

12. FDI IN INDIAN RETAILING: ROAD AHEAD

Foreign direct investment in retail sector is very much debatable issue. The issue needs to be resolved by considering the interest of the stakeholders.

The decision to allow entry of foreign players in Multi Brand Retail is clearly a game changer for retail sector. By allowing FDI in retail trade, India will significantly benefit in terms of quality standards. Since the inflow of FDI in retail sector is definitely increase the quality standards and cost-competitiveness of Indian producers and marketers in all the segments. It also helps to integrate the Indian retail market with the global retail market. On the other hand, FDI in multi-brand retailing must be dealt cautiously. Because it has direct impact on a large mass of population. Foreign capital, if unchecked, may widen the gap between the rich and the poor.

Given the global experiences, it is important to keep the foreign food supermarket expansion slow by using mechanisms such as zoning, business licences, and trading restrictions. There are several instances in other countries where large stores are kept away from the traditional markets.

Thus, the entry of foreign capital into multi-brand retailing needs to be sheltered so that it results in a win-win situation both for India and global players. In short the line over FDI in retail gets over soon and India should embrace new era of retailing. Indian consumers are waiting to pamper. Therefore Indian consumers' balance sheet is still clean, ready to embrace great changes in retail sector which provide much of opportunity to consumption.

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