

Impact of FDI in Retail Sector in India

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1. INTRODUCTION

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. The total concept and idea of shopping has undergone a vast drawing change in terms of format and consumer buying behavior, ushering in a revolution in shopping in India. Modern retailing has entered into India as is observed in the form of sprawling shopping centers, multi-storied malls and the huge complexes that offer shopping, entertainment and food all under one roof. The Indian retail industry has experienced growth of 10.6% between 2010 and 2012 and is expected to increase to USD 750-850 billion by 2015. The industry has a long way to go as there is a huge opportunity in streamlining the sector. Indian retail sector is gradually inching its way towards becoming the next boom industry.

2. ORIGIN OF RETAILING IN INDIA

The origin of retail business in India can be traced with the emergence of Kirana stores .These stores used to cater to the local people. Gradually the government started supporting the rural retail and many indigenous franchise stores came up with the help of Khadi & Village Industries Commission. The economy began to open up in the 1980's resulting in the change of retailing. The first few companies to come up with retail chains were in textile sector, for example, Bombay Dyeing, S Kumar's, Raymond's, etc. Later Titan launched retail showrooms in the organized retail sector. With the passage of time new entrants moved on from manufacturing to pure retailing. Comprising of organized and unorganized sectors, Indian retail industry is one of the fastest growing industries, especially over the last few years. Though initially, the retail industry in India was mostly unorganized, with the change of tastes and preferences of the consumers, the industry is getting more popular these days and getting organized as well. Indian Retail Industry is the most promising emerging market for investment

3. BACKGROUND AND RECENT DEVELOPMENTS OF FDI IN RETAIL SECTOR

As part of the economic liberalization process set in place by the Industrial Policy of 1991, the Indian government has opened the retail sector to FDI slowly through a series of steps:

1995: World Trade Organization's (WTO) General Agreement on Trade in Services, which includes both wholesale and retailing services, came into effect

1997: FDI in cash and carry (wholesale) with 100% rights allowed under the government approval route

2006: FDI in cash and carry (wholesale) was brought under automatic approval route; upto 51% investment in single brand retail outlet permitted

2011: 100% FDI in Single Brand Retail allowed

2012: On Sept. 13, Government approved the allowance of 51 percent foreign investment in multi-brand retail, [It also relaxed FDI norms for civil aviation and broadcasting sectors]

4. GROWTH DRIVERS OF INDIAN RETAIL SECTOR

- Rising Income and increase in convergence of consumer taste and preferences.
- Dual family Income.
- Knowledge about different product through different medium like Internet, Television etc.
- 47% of the India’s population is under the age of 30. This category is driving consumption story.
- Emergence of new retailing format.
- Availability of Credit Facilities

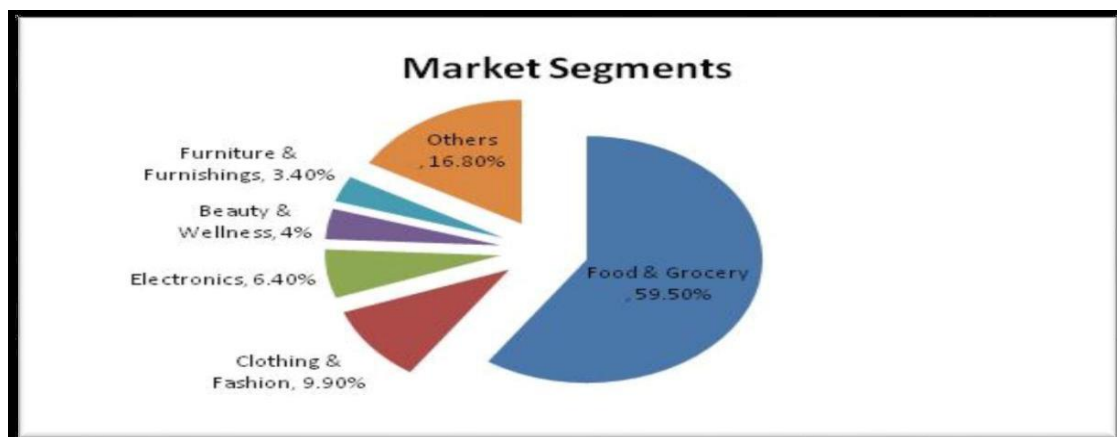
5. DIVISION OF RETAIL INDUSTRY- ORGANIZED AND UNORGANIZED RETAIL

The Indian retail market is growing at a very fast pace of about 20% and has a market size of US \$ 500 billion. The retail sector is the second largest employer after agriculture. The retail industry alone managed to generate more than 35 million job opportunities.

The retail industry is mainly divided into

- 1) Organized and
- 2) Unorganized Retailing

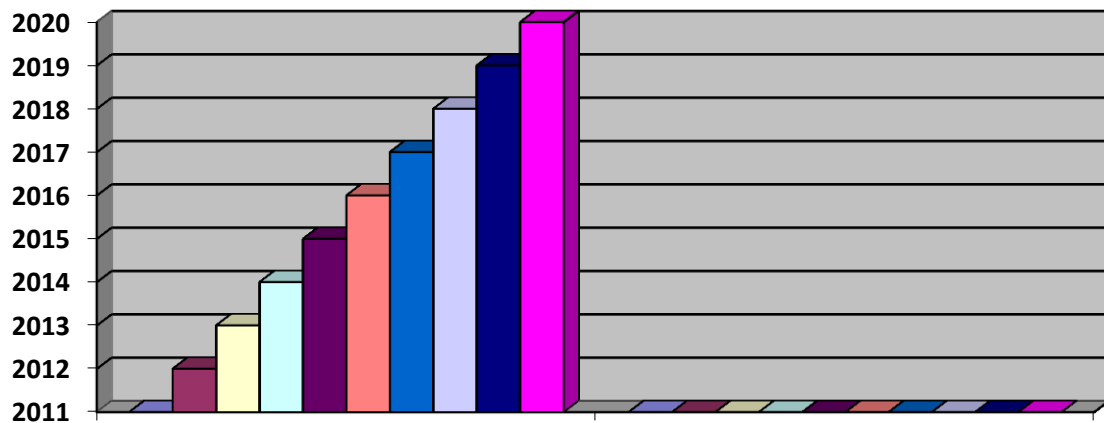
Organized Retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax etc. These include the corporate -backed hypermarkets and retail chains, and also the privately owned large retail business



Source: Deloitte Retail POV" Indian Retail Market: Changing with the changing times"

6. GROWTH AND TREND OF INDIAN RETAILING

Year	Total Retailing turnovers	Growth over last year, in %	Organized sector turnover	Growth over last year, in %	Market share in %
2011	23,55,000	10.82	1,75,000	25.0	8
2012	26,40,000	12.10	2,20,000	25.7	9
2013	29,50,000	11.74	2,75,000	25.0	12
2014	32,65,000	10.67	3,45,000	25.45	12
2015	36,25,000	11.02	4,25,000	23.18	13
2016	39,95,000	10.20	5,30,000	24.7	14
2017	44,95,000	12.51	6,70,000	26.47	15
2018	50,35,000	12.01	8,40,000	25.37	17
2019	56,15,000	11.51	10,50,000	25.00	19
2020	62,40,000	11.31	13,10,000	24.76	21



Source: ICRIER Policy Series , Veerendra Talegaonkar, Loksatta, Mumbai, 5/12/2011

Future Turnover and Share Of Retailing In India (In Crores of Rupees)

The above table shows the total retailing turnover during the year 2011 was 23, 55,000 Crores and it is expected that by 2020 the total retailing turnover would be around 62,40,000 Crores. In the organized sector the total turnover during the period 2011 was 1, 75,000 Crores and it is expected to increase to 13, 10,000 Crores by 2020. The percentage of market share which was around 7% in the year 2011 is expected to grow to 21% in 2020.

7. ENTRY ROUTES FOR FOREIGN PLAYERS PRIOR TO FDI POLICY

Although prior to Jan 24, 2006, FDI was not authorized in retailing, most general players had been operating in the country. Some of entrance routes used by them have been discussed in sum as below:-

1. Franchise Agreements:

It is an easiest track to come in the Indian market. In franchising and commission agents' services, FDI (unless otherwise prohibited) is allowed with the approval of the Reserve Bank of India (RBI) under the Foreign Exchange Management Act. This is a most usual mode for entrance of quick food bondage opposite a world. Apart from quick food bondage identical to Pizza Hut, players such as Lacoste, Mango, Nike as good as Marks as good as Spencer, have entered Indian marketplace by this route.

2. Cash And Carry Wholesale Trading:

100% FDI is allowed in wholesale trading which involves building of a large distribution infrastructure to assist local manufacturers. The wholesaler deals only with smaller retailers and not Consumers. Metro AG of Germany was the first significant global player to enter India through this route.

3. Strategic Licensing Agreements:

Some foreign brands give exclusive licences and distribution rights to Indian companies. Through these rights, Indian companies can either sell it through their own stores, or enter into shop-in-shop arrangements or distribute the brands to franchisees. Mango, the Spanish apparel brand has entered India through this route with an agreement with Piramyd, Mumbai, SPAR entered into a similar agreement with Radhakrishna Foodlands Pvt. Ltd

4. Manufacturing and Wholly Owned Subsidiaries:

The foreign brands such as Nike, Reebok, Adidas, etc. that have wholly-owned subsidiaries in manufacturing are treated as Indian companies and are, therefore, allowed to do retail. These companies have been authorized to sell products to Indian consumers by franchising, internal distributors, existent Indian retailers, own outlets, etc. For instance, Nike entered through an exclusive licensing agreement with Sierra Enterprises but now has a wholly owned subsidiary, Nike India Private Limited.

8. TOP LEADING COMPANIES IN RETAIL SECTOR

- 1. Pantaloon:** Pantaloon is the most popular and biggest retailers in India with more than 450 stores across the country. Headquartered in Mumbai, it has more than 5 million sq. ft retail space located across the country. It has the following retail segments:
 - Food & Grocery: Big Bazaar, Food Bazaar
 - Home Solutions: Hometown Furniture Bazaar
 - Consumer Electronics: e-zone
 - Shoes: Shoe Factory
 - Books, Music & Gifts: Depot
 - Health & Beauty Care: Star, Sitara
 - E-tailing: Futurebazaar.com
 - Entertainment: Bowling Co.
- 2. Tata Group:** Tata group established in 1998 is another major player in Indian retail industry with its subsidiary Trent, which operates Westside and Star India Bazaar. The group also has acquired the largest book and music retailer in India 'Landmark' in 2005. Trent owns over 4 lakh sq. ft retail space across the country.
- 3. RPG Group:** RPG Group is one of the earlier entrants which were started in the year 1996 in the Indian retail market, with the food & grocery retailing. Later it also opened the pharmacy and beauty care outlets 'Health & Glow'.
- 4. Reliance:** Reliance is one of the biggest gain players in Indian retail industry. More than 300 Reliance Fresh stores and Reliance Mart are quite popular in the Indian retail market.
- 5. AV Birla Group :**AV Birla Group has a strong presence in Indian apparel retailing with brands like Louis Phillipe, Allen Solly, Van Heusen, Peter England are quite popular. +6

Other popular brands are Archies, Bata India Ltd, Big Bazaar, Crossword, Ebony Retail Holdings Ltd., Fabmall, Food Bazaar, Globus Stores Pvt. Ltd., Health and Glow, Liberty Shoes Ltd., MTR Foods Ltd., Music World Entertainment Ltd., Pantaloon Retail India Ltd., Shoppers Stop, Style SPA Furniture Ltd, Subhiksha, Titan Industries, Lifestyle, etc. New entrants entering the market soon will be Reliance Retail Ltd, Wal-Mart Stores, Carrefour, Tesco, Boots Group, etc.

9. BENEFITS OF RETAILING IN INDIA

- 1) Growth in Economy:** Due to foreign companies entering into retail sector, new infrastructure will be built thereby bolstering the jagging real estate sector. In turn, banking sector will also grow as the funds needed to build infrastructure will be provided by banks.
- 2) Job Opportunities:** It has been estimated according to government, that approximately ten million jobs will be created mostly in retail and real estate sectors.

The present employment in the retail business is nearly 4 crores and around 20 crores depends on this sector. There is a scope of better exposure to the international standards with the entry of transnational companies, which in turn is encouraging more & more retail management programs to open up and help bridging the gap of supply & demand of talented professionals for management

Employment potential of the Indian economy has increased. By providing direct employment to people in various sectors like small manufacturing sector especially food processing, textiles & apparel the unemployment rate will be reduced besides this construction packing, IT, transfer & other infrastructure sectors will also offer employment opportunities. Besides giving employment to Professionals & skilled labour organized retail sector also generates a number of jobs for unskilled labour for the tasks of sorting, grading, labeling etc.

- 3) Benefits to Farmers:** In the retailing business, the intermediaries have dominated the interface between manufacturers or producers and the consumers .Hence the farmers and manufacturers lose their actual share of profit margin, as the lion's share is eaten up by the middlemen .With FDI, 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 (a) to cut down intermediaries ; (b) give better prices to farmers, and (c) provide stability and economics of scale which will benefit, in the ultimate analysis, both the farmers and consumers.

- 4) **Benefits to consumers:** Consumers will get variety of good quality products at low prices compared to market rates and will be able to choose from various international brands at one place.
- 5) **Infrastructure:** This has been one of the common issues in the retailing chain in India for years, which has led to the process of an incompetent market mechanism .Although India is one of the largest producers of fruits and vegetables. Lack of proper cold storage facility significantly affects the selling of these perishable items and also incurs huge losses .By allowing FDI it may help India to have better logistics and storage technologies resulting in avoiding wastages. Due to FDI foreign companies will invest around \$ 100 million in India. Thereby, infrastructure facilities, refrigeration technology, transportation sector will get a boost
- 6) **Cheaper Production facilities:** FDI will assure operations in production cycle and distribution. Due to economies of operation, production facilities will be available at a cheaper rate and thus resulting in availability of variety products to the ultimate consumers at a reasonable and cheaper price.
- 7) **Availability of new technology:** FDI allows transfer of skills and technology from abroad and develops the infrastructure of the domestic country. Greater managerial talent will flow in from other countries. Domestic consumer will get the benefit of getting great variety and quality products at all price points. Retailing is a technology intensive industry. Successful retailers are using their distribution and information systems work closely with their vendors to predict consumer demand, shorten lead time, and reduce inventory holding and thereby saving cost .today online system link point of sales terminals to the main office .
- 8) **Long term cash liquidity:** FDI will render necessary capital for establishing organized retail chain stores. It is a long term investment because the physical capital in the domestic company is not easily liquidated.
- 9) **Conducive for the country’s economic growth:** FDI will create a competition among the global investors, which will ultimately guarantee better and lower prices, thereby benefiting people in all sections of the society. The market growth and expansion will increase. It will step-up retail employment. It will ensure better managerial techniques and success. Higher wages will be paid by the international companies. Urban consumers will be exposed to international lifestyles.
- 10) **FDI opens up a new avenue for Franchising:** Restrictions on FDI are regarded as trade barriers as they traverse direct market access to foreign firms. Retail giants who are very keen in looking for entry into foreign markets look for other available alternatives. These restrictions on the global retailers regarding the inflow of FDI, leads them towards getting the market entry through franchises. Thus, countries which offer promising market potentialities for retail growth offer substantial growth in the franchising sector also.

10. CHALLENGES OF RETAILING IN INDIA

- 1) **Shortage of skilled manpower** - Front-end/retail assistant profiles in stores form a major proportion of the employment in the retail sector while store operations account for 75-80% of the total manpower employed in the organized retail sector. Unfortunately, there are very few courses specific to the retail sector and graduates/post graduates from other streams are recruited. Further, retail training opportunities such as niche courses for areas like merchandising, supply chain and so on are limited. The condition is more alarming in the unorganized sector where the manpower is not equipped with even the basic level of retail specific and customer service skills, which adds to their incompetence vis-à-vis the organized sector.
- 2) **Lack of industry status** - Due to the absence of ‘industry status’, organized retail in India faces difficulties in procurement of organized financing and fiscal incentives.
- 3) **Policy induced barriers** – Organized retail in India is managed by both the Ministries of Commerce & Consumer Affairs. While the Ministry of Commerce takes care of the retail policy, the Ministry of Consumer Affairs regulates retailing in terms of licenses and legislations. There is a need to govern retail operations through a single apex body. A

single agency can take care of retail operations more effectively, especially with regard to addressing the grievances of retailers.

- 4) **Real estate** - Lack of sophisticated retail planning is another major challenge the sector faces. Available space is easily interchangeable between commercial and retail use. In most cities, it is difficult to find suitable properties in central locations for retail, primarily due to fragmented private holdings, infrequent auctioning of large government owned vacant lands and litigation disputes between owners.
- 5) **Problem with supply chain:** Indian retail players face a problem of poor supply chain .Since Indian retail is still majorly dominated by unorganized market there are problems like poor storage situations, lack of cold storage for certain types of cold storage, lack of investment capability for storage infrastructure, etc
- 6) **Consumption diversity:** India is a culturally and socially diversified country where consumption of people varies according to the region.

11. SUGGESTIONS

1. Since retail industry is providing enormous employment opportunities to the people of India. Universities and Institutions should come up with courses specific to retail sector and many training institutes should also be set up to educate youth on merchandising, supply chain management and so on to have better skilled manpower. A cohesive effort to develop skills within the sector can have a significant potential impact on productivity and competitiveness, both within the sector and on the wider economy.
2. The Government should grant the much needed 'industry status' to the sector so that the sops that come with it helps promote both big & small retailers.
3. The development of the retail sector can take place at a faster pace if a comprehensive legislation is enacted.
4. There should be sophisticated retail planning to cater to the requirements of retail sector in India.
5. Manufacturers have to segment and cater to the needs of different consumers spread across globally.

12. CONCLUSIONS

The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. The India Retail Industry is gradually inching its way towards becoming the next boom industry. Although there are several challenges faced by the retail sector with the help of few strategies it would be able to reach heights in the coming future.

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