FDI in Retail Sector: India- Definition of Attention

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Abstract

India has the highest density of retail outlets with organized retailers providing less than 5 percent sale and unorganized retailers providing more than 95 percent sale, of over 12 million. The largest contributor to the Indian GDP is retail sector. FDI in Indian economy is a presents current issue and need to debate, keeping in view the consequences of FDI while allowing in Indian economy government of India are keeping certain rules and regulations for foreign investors to follow before entering the Indian market, protecting the business of domestic both organized as well as unorganized retailers and Indian farmers. The advantages and disadvantages of allowing FDI in India have also been discussed in the study followed by suggestions.

Keywords: FDI, Organized retailer, unorganized retailer and Retail sector.

Retailing:

Retailing can be defined as a set of business activities that adds value to the products and services sold to the final consumers. A retailer is the key player in the marketing process as he regularly interacts with the end consumer. According to Brown Forester, "Retailing can defined as a set of marketing activities designed to provide satisfaction to the end consumer and profitably maintain the customer base by continuous quality improvements across all areas concerned with selling goods and services".

Indian Retail:

The Indian retail industry is divided into organized and unorganized sectors. Organized retailing refers to trading activities undertaken by licensed retailers, 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. Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, convenience stores etc. (Baskaran, 2012).India's retail sector is wearing new clothes and is the fastest growing sector in the Indian economy. Traditional markets are making way for new formats such as departmental stores, hypermarkets, supermarkets and specialty stores. Western-style malls have begun appearing in metros and second-rung cities alike, introducing the Indian consumer to an unparalleled shopping experience(Sinha, 2003).The Indian retail sector is highly fragmented with more than 90 per cent of its business being run by the unorganized retailers like the traditional family run stores and corner stores. The organized retail however is at a very nascent stage though attempts are being made to increase its proportion to 15 percent by near future bringing in a huge opportunity for prospective new players. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10 percent of India's GDP.India is the 4th largest economy as regards

GDP and is expected to rank 3rd by near future years just behind US and China. On one hand where markets in Asian giants like China are getting saturated, study suggest that India placed the top retail investment destination for consecutive two years among 30 emerging markets across the world (Namita, 2012). The last few years witnessed immense growth by this sector, the key drivers being changing consumer profile and demographics, increase in the number of international brands available in the Indian market, economic implications of the Government increasing urbanization, credit availability, improvement in the infrastructure, increasing investments in technology and real estate building a world class shopping environment for the consumers. In order to keep pace with the increasing demand, there has been a hectic activity in terms of entry of international labels, expansion plans, and focus on technology, operations and processes (Soundararaj, 2012).

Foreign Direct Investment:

A Foreign Direct Investment is a controlling ownership in the business enterprise in one country by an entity based in another country. An investment made by a company or entity based in one country, into a company or entity based in another country. FDI differ substantially from indirect investments such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange. Entities making direct investments typically have a significant degree of influence and control over the company into which the investment is made(Sinha et al., 2002). FDI has become a very delicate issue looking into its penalties on the Indian economy. The Indian government is trying to keep certain forms on the foreign investors while permitting them to invest in India. FDI in India may lead to hefty displacement of workforce in the country. Also if proper rules and regulations are not tracked, it may produce some big retailers to own a large chunk of money, directing to the financial imbalance in the country (Shrimali, 2013). FDI may also lead to the ending of small retail shops and manufacturers. For example, a retailer like Wal-Mart has the authority to command the terms to the suppliers and manufacturers. Also it has a policy of pushing the price paid to the farmers and manufacturers down to the level that most of them are not able to bear and as such they go out of the business. In compare, there are also some advantageous results of FDI provided proper policies are followed. Retail sector will become highly systematized resulting in more jobs and resulting growth of the economy. Higher competition in the market will lead to the great shrinkage in overall prices, finally profiting the consumers. There will also be more clarity in the Mandi system which will prevent manipulation of the farmers. Infrastructure will also progress as a result of heavy investments from the foreign players (Shrimali, 2013).It is a matter of how FDI is loomed, which will decide the subsequent consequences on the Indian economy. The government should construct the policies very attentively and cautiously, small retailers should also be motivated get themselves organized to avoid getting wiped out due to high competition.

FDI in Indian Retail Sector:

FDI in India has become a thoughtful point of debate looking into its impact on the Indian retail sector. The Indian government has limited the foreign investors to enter the Indian retail sector to protect the business interest of small and medium retail shops and store owners. 100 percent FDI is permitted under the automatic route for cash and carry wholesales and export trading; further 51 percent is permitted for retail trade of single brand products; with prior government agreement and in Multiple Brand retailing FDI is not yet permitted (Soundararaj, 2012).

Latest Changes in Indian FDI Policy:

The Indian Government has declared that FDI up to 51 percent will be allowed in Multi-brand sector and Single brand retailers will be allowed to own 100 percent of their stores. The base for this declaration made by Indian government in respect to FDI is that, the foreign retailers will be required to procure at least 30 percent of their supply from small and medium sized Indian suppliers. The foreign retailers can open their retail stores and operations only in the cities having population of more than 1 million. Only 55 cities satisfy such norms out of approx. 7950 towns and cities in India.In case of investment of over US $100 million by multibrand retailers, 50 percent of such amount should be invested back end infrastructure facilities such as transportation, warehousing and storage, packaging etc. State laws and regulations must be followed earlier to any investment (Chari, 2011).

Literature:

Shopping behavior of Indian consumers have been revealed by various studies by highlighting parameters like level of income, education, and international exposure,(Ramachander, 1988), gender and age(Sinha, et al., 2002) and distance from the store (Sinha, 2003).As far as shopping behavior of Indian consumers across different retail outlets is concerned, middle class consumers prefer mostly traditional outlets as this segment of consumers are very good bargainers, as far as modern outlets are preferred because they link entertainment with shopping and now-a-days it's a customer pleasure to go out for shopping and entertainment together (Sinha,2003). There are number of studies which are done taking many parameters which affect the choice of retail store these are product quality, goodwill, lower prices, better shopping experience, availability of product, play area, parking facility, whereas on the other hand proximity to residence, easy availability of credit, convenient timings, possibility of bargain, etc. are a few paybacks of traditional outlets as mentioned by a study done by Soundararaj, 2012. It is a complete myth that big retail outlets are high-priced; there is empirical sign to this fact and they the level of savings depends on the type of retail format – it is more for discounters and supermarkets, and less for hypermarkets. The main benefit of this transition of modernization of retail stores is the consumer as they get the best and wide choice, discounted prices and they are the focus point of strategies devised by the strategist as regard their retention plans. All the policies are formulated holding many factors into considerations as their likes and dislikes dynamics, their buying behavior psychology, what factor motivate them to buy. Domestic players are selectively growing in India delaying aggressive expansion plans, adding stores judiciously and shifting gears to tier 2 and 3 cities.

Technology, labor skills and infrastructure are recognized by many studies as the major factors of foreign investment. To clarify the patterns and vogues in the geographical structure of FDI at the world capita income, in relation to outbound as well as inbound FDI these factors are preferred.The inducements approved by the exchequer is also very important in framing and analyzing the corporate strategies of international place, also institutional, historical and cultural factors should be entrenched in overall analyzing and framing of policies, as these factors should not be unnoticed as they effect the investor's location related decisions (Hummelsand Stern, 1994).Whether tariff rate, exchange rate and tax rate are significant for FDI was verified in a study by Aqeel and Nishat (2004).In the study it was shown that these policy variables were liable for depicting FDI and it ascertained the growth in Pakistan and also showed the positive impact of reforms in Pakistan. On many variables affecting FDI have been examined, a set of descriptive variables were assessed by several studies like (Kulkarni, et al., 2012) and were found to be considerable. Some studies have also analyzed the variables like market size and differences in factor costs and were also found to be significant in determining the FDI location as these are very significant in deciding the market economies and they cannot be attained and exploited till the time market achieves a certain size. (Jain and Lodhane, 2012).The most important measures used in many studies are GDP, GDP per capita and growth in GDP.

Entrance routes for the foreign investors:

In view of the restrictive entrance policies for the foreign investors in the retail sector, they followed one or more ofthe following routes to expand their business in India:

Franchise Agreement: 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 sanction of the Reserve Bank of India under the Foreign Exchange Management Act. This is a most usual mode for entry 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.

Cash and carry wholesale Agreement: 100 percent FDI is permitted in whole sale trading which involves building of large distribution infrastructure to assist local manufacturers. The wholesaler deals only with smaller retailers and not consumers.

Strategic Licensing Agreement: Some foreign brands give exclusive licenses 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. Manufacturing and Wholly-owned Subsidiary: The foreign brands such as Nike, Reebok, Adidas, etc. that have wholly-owned subsidiaries in manufacturing are considered as Indian companies and are, Therefore, permitted 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 settlement with Sierra Enterprises but now has a wholly owned subsidiary, Nike India Private Limited.

Pros and Cons of FDI in retailing:

Experts from different areas are discussing over the pros and cons ofForeign Direct Investment in Indian retail sector as it becomes the issue of the present. From the views of different experts, FDI, in the long run, can lead to greater efficiency and improvement in the living standard while also helping to reap the benefits of the global economy and due to decrease in the overall price and improved quality bought about by the advanced technology and knowhow of the foreign investor will benefit the consumers, also leading to greater output and increased consumption (Rajib, 2012).

The preference for Foreign Direct Investment is shown asmultinational players are extending their operation; regional players are also developing their supply chain segregating their strategies and raising their operations to worktop the size of international players. This all will boost the investment and employment in supply chain management; it will also lead to development of different retail formats and expansion of opposite sell formats as good as renovation of a sector it can easily ensure the quality of product, improved shopping experience and customer services. In different countries of the world big retailers such as Wal-Mart, target and others already have been working for over 30 years; but they have not yet monopolized the market; rather they have been successful in keeping a check on the food inflation by following healthy competitive practices(Chari, 2011). Through FDI, entry of large low-cost retailers and implementation of integrated supply chain management by them is likely to lower the prices and also help in reducing wastage, especially of unpreserved items through heavy investment on supply chain and logistic systems.Better competition generated will advantage both the producers as well asconsumers. As we know that organized retailing has major influence in adjusting inflation as large organized retailers are able to buy directly from producers at most competitive prices (Guruswamy et al., 2005). Economists suggest that the opening of the retail sector to FDI will be useful for India in terms of price and convenience of products as it would give a boost to food products, textiles, garments and leather products, etc., to benefit from large-scale procurement by international chains; highly organized retailers need more and more workers, thus increasing the employment. For instance, in USA more than 80 percent of the retail sector is organized and it employs more than 15 percent of the total workforce of the country in turn, creating jobopportunities at various levels (Chari, 2011). Foreign Direct Investmentwill removes the Mandi system and the mediators, working in Mandis do not have clear pricing structure and there is no clearness. According to a survey, out of price the final consumer pays, an average farmer gets only one third of the total price; rest goes to the mediators, this will also keep a check on the price of the merchandises there by profiting the farmers and producers(Reardon and Hopkins, 2006). FDI in multi-brand retail can give a big push to the country‘s social agenda, too and enhance government‘s ability to influence trade when required, address issues such as inflation, reduction of black economy, control over food hygiene, better food quality assurance, accountability and also likely to promote countries manufacturing and export sectors resulting to boost the economy (Namita, 2012). The retail revolution can change country‘s perception across the globe, integrating it seamlessly into world trade.

In juxtapose to the above encouraging points for FDI, there is a huge threat for small retailers being running out of the business by big foreign retail chains. Mostly Indian retail sector is dominated by unorganized retailers, as far as Indian organized retailers are concerned they will not be able to stand against retailers like Wal-Mart who has the ability to maintain losses for years until its competitors are completely dabbed off (Shrimali, 2013). In order to remove the competition from the market, such business strategies are followed by large players to drive out small players leads to huge job losses as compared to organized store operations are highly automated and require very less workforce.The major factor against FDI driven "modern retailing" is the fact that it leads to labor displacement to the extent that it can only expand by abolishing the traditional retail sector (Jain and Lodhane, 2012). Foreign retailer Wal-Mart often source its raw materials from different countries, and acquire vegetable and fruits directly from Indian farmers at predestined quantities and specifications This would mean that a foreign company will buy in bulk from India and abroad and will be able to sell at low prices-severely denting the small retailers (Baskaran, 2012). India has 35 Cities & Towns with a population over 1 millionif foreign retailers say Wal-Mart start its store operations in such crowded cities and towns by making available all day to day products and services at low price to the consumers, it will surely dent nearby local stores selling same goods and services. If such retailer create monopoly situation, then they will buy raw materials at low prices and sell their goods and services at heavy margin as discussing about one foreign retailer (Wal-Mart). More than 350 foreign retailers arein queue waiting for a signal from India. We can recall the name of East India Company who entered India as a trader and then took over politically, so need to look into such consequences also. Another most important fact is that out of total agricultural producers of the whole country, less than 50 percent reaches to the urban market for sale, more than 55 percent keeps the farmers for their own consumption, to pay as wages to agriculture labors for their work, to use for next year farming and to feed their domestic animals (Rajib, 2012).Foreign retailers will also try to bring this portion of produce in the market through their supply chain as a result farmers and labors will never be able to buy such produce at the market prices for their self-consumption. Unquestionably, FDI in agriculture puts small and medium farmers, who comprises two third of India's population and labors at high risk (Shrimali, 2013).

Recommendations:

1. The displacement of employees in the retail sector could be well accommodated by strengthening the manufacturing sector in our country, so special measure should be taken by the government to raise the level of manufacturing sector.
2. Consumer affairs-weights and measures act should be amended and framed as per current market situations and requirement so that it will be able to curb corruption.
3. Government of India should prepare a policy statement highlighting the roadmap for modern retail by allowing investment from foreign retailers to improve productivity and distribution structure through modern format retailing.
4. Also Government should develop such policies and guidelines relating to the purchasing and procurement of agriculture produce for big foreign retailers so that they can keep their domestic manufacturers in the safer zone.
5. Initiates should be taken to encourage the domestic retailers like better credit availability from banks and micro-credit institutions and direct procurement from suppliers and farmers
6. Government of India should first identify those cities wherein domestic retailers are strongly established and should allow few foreign retailers in such cities in a slow manner with social safeguard as done in china and Thailand.

Conclusion:

Due to current policy and regulatory environment not being so satisfactory for the foreign investors, there are lucidly moves towards soothing the current position and facilitating FDI inflows without having an unfavorable impact on various sectors of the economy. The current policy is trying to embolden Joint Ventures in multi-brand retailing to enhance the domestic retailers' growth in this area. However, there is also the risk that some foreign retailers will not be interested in investing unless they have 100 percent ownership and that the current policy will prevent them from choosing India as a retail destination.

In our view, the pros overshadow the cons of countenancing uncontrolled FDI in the retail sector, as successful experiments in countries like Thailand and China authenticate. In both countries, the issue of permitting FDI in the retail sector was first met with nonstop protests, but permitting such FDI led to GDP growth and a rise in the level of employment. The International Business Times has already confirmed that Wal-Mart is to launch its first Indian store within 12 to 18 months. Wal-Mart will be the first to enter retail market of India. The government has approved the Walt Disney Company SouthEast Asia's FDI proposal to transfer INR 10 billion into Walt Disney Company India to increase foreign equity. Besides Disney's proposal, the government has also approved nine other FDI proposals amounting to approximately INR 2.59 billion. With this, a plethora of business opportunities in India has been thrown open to foreign investors– a sign that suggests India is set to be one of the favored destinations for foreign investors in the retail sector (Babu, 2012).

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