Foreign Direct Investment in Multi Brand Retailing

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Abstract

Retail industry of India is divided into two sectors viz. organized and unorganized sectors. The Govt. of India was forced to put on hold FDI in multi-brand retail by several political parties. Presently, for single brand retailers, 51 per cent FDI is permitted. The problem arises whether opening up of FDI in multi-brand retail will create problems or provide opportunities for local retailers. People those who oppose to the FDI in multi brand retail, feel that FDI will pose some threats before the unorganized retail sector and will adversely impact the small retailers, farmers and consumers. Foreign direct investment in multi-brand retail will start a better integration of Indian economy into the global markets. India's retail industry is divided into organized and unorganized sectors. Postliberalization, organized retail has grown exponentially and is a testament of the Indian middle class's burgeoning purchasing power. As a consequence, the opening up of the wholesale and single brand retail sector to foreign direct investment ("FDI") was inevitable. India is ranked as the third most attractive nation for retail investment among 30 emerging markets with domestic companies like the Future Group, Tata's Westside, Reliance Fresh, Raheja Group and Bharti Retail competing for market share. Multi-brand retail comes in different formats like supermarket, hypermarket, compact hyper and the ubiquitous mall. These factors have contributed to restrict organized retail to only about 3% of the total retail industry.

Key words: Retail, Multi-brand, FDI, organized retail,

"We used to build civilizations. Now we build shopping malls."

- William McGuire Bryson

Introduction:

India is second largest populated country in the world and is acknowledged as the biggest market in the world next to China. Any customer would develop brand loyalty based on the personal experience and satisfaction. Brands help the customers to identify specific products from among identical commodities. Brands have significant impact on developing customer perception and expectations.

Foreign direct investment (FDI) or foreign investment refers to the net inflows of investment to acquire a lasting management interest (10% or more) in an enterprise operating in an economy other than that of the investor. Foreign direct investment is the sum of equity capital, reinvestment of earnings and other long or short term capital as shown in the balance of payments. It usually involves participation in management, joint venture, transfer of technology and expertise.

There are two types of FDI: (a) Inward foreign direct investment and (b) Outward foreign direct investment. Foreign direct investment excludes investment through purchase of shares. Foreign direct investment can be used as one measure of growing economic globalization.

India's retail industry is divided into organized and unorganized sectors. Post-liberalization, organized retail has grown exponentially and is a testament of the Indian middle class's burgeoning purchasing power. As a consequence, the opening up of the wholesale and single brand retail sector to foreign direct investment ("FDI") was inevitable. India is ranked as the third most attractive nation for retail investment among 30 emerging markets with domestic companies like the Future Group, Tata's Westside, Reliance Fresh, Raheja Group and Bharti Retail competing for market share.

Multi-brand retail comes in different formats like supermarket, hypermarket, compact hyper and the ubiquitous mall. The success of this sector is best reflected in the fact that the shares of retail companies are well represented in all top mutual funds.. These factors have contributed to restrict organized retail to only about 3% of the total retail industry.

What is Foreign Direct Investment?

Foreign Direct Investment refers to the physical Investment made by a foreign investor belonging to a certain country into a sector of foreign nation It is the transfer of foreign assets into a country's financial Account. This can be done in four ways viz. (1) by acquisitions and merger, (2) by incorporating a wholly owned subsidiary, (3) by being part of a joint venture and (4) by acquiring at least 10% share in the domestic company. If the share acquisition is less than 10%, then it wouldn`t be called FDI then it would be known as Portfolio Investment

According to **International Monetary Fund**, FDI is defined as "Investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor. The investor's purpose being to have effective voice in the management of the enterprise"

Foreign direct investment in India

Starting from a baseline of less than $1 billion in 1990, a recent UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2012. As per the data, the sectors which attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, the US and the UK were among the leading sources of FDI. According to Ernst and Young, foreign direct investment in India in 2010 was $44.8 billion, and in 2011 experienced an increase of 13% to $50.8 billion. India has seen an eightfold increase in its FDI in March 2012.

The world's largest retailer WalMart has termed India's decision to allow 51% FDI in multi-brand retail as a "first important step" and said it will study the finer details of the new policy to determine the impact on its ability to do business in India. However this decision of the government is currently under suspension due to opposition from multiple political quarters. Due to bad experience in nineties India disallowed OCBs i.e. Overseas Corporate Bodies to invest in India.

Multi-Brand Retailing- Meaning:

Single brand retail involves selling products under one brand, which are also sold internationally. Examples are Nike, Gucci, Lotto, Levis etc. Multibranding is basically the process of marketing of two or more widely similar and competing products by the same firm under different brands. Multi-brand retail comes in different formats like supermarket, hypermarket, and the shopping malls

Definition of Retailing:

It is defined as all activities involved in selling goods or services directly to the final consumer for their personal, non-business use via shops, market, door-to-door selling, and mail-order or over the internet where the buyer intends to consume the product.

Single brand:

Single brand implies that foreign companies would be allowed to sell goods sold internationally under a 'single brand', viz., Reebok, Nokia and Adidas. FDI in 'Single brand' retail implies that 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.

FDI in Multibrand Retailing:

As part of integrating Indian economy to world market due to WTO obligation and also for encouraging foreign direct investment (FDI) in the country, Government of India proposed a policy of 100 per cent FDI in single brand retail, and 51 per cent FDI in multi-brand retail. According to the proposed provisions, the minimum foreign investment shall be $ 100 million, of which at least half shall be for back end infrastructure creation. It is argued that with this single stroke, multi-billion dollar enterprises may set up their stores in India, which may 'revolutionize' the retail sector

Research Methodology:

The data for the present study is collected from the secondary sources. Various news in the news papers, videos of parliament while discussion on FDI were seen for collection of the data. As well as the reference books, magazines also used for the purpose.

Objectives of the study:

Now-a-days, in India everywhere the people are talking about the FDI in retail sector. The Govt. of India is also going to pass the bill allowing FDI in retail. The present study is conducted to know the following things related to FDI in retails.

1. To know benefits from FDI in multi-brand retail.

2. To know threats due to FDI in multi-brand retail.

3. To know what may happen, after starting organized retail stores in India by MNCs.

FDI in Single Brand Retail

• FDI, up to 100%, permitted only in single-brand retail trading, with Government approval, subject to conditions

• Conditions:

- Products should be sold under the same brand internationally

- 'Single Brand' would cover only products which are branded during manufacturing

- The foreign investor should be the owner of the brand

- Proposals involving FDI beyond 51 per cent would need to ensure mandatory sourcing of at least 30 per cent of the value of products sold, to be done from Indian 'small industries/village and cottage industries, artisans and craftsmen

FDI in Multi Brand Retail – Proposed Conditions

• FDI up to 51% through government approval mode

• Permitted only in cities with a population of more than 10 lakhs as per 2011 census

• Minimum investment of US $ 100 million of which at least 50% to be invested in backend infrastructure, which would include capital expenditure on the entire spectrum of related activities

• Mandatory sourcing of a minimum of 30% from Indian small industries with a total investment in plant and machinery not exceeding US $ one million

• Government to have first right of procurement of agricultural products

FDI in Multi-Brand Retailing: Major facts:

As part a part of agreement with WTO, Indian Govt. has opened Indian economy for globally players in various products and also for encouraging foreign direct investment (FDI) in the country, Indian Government proposed a policy of 100 per cent FDI in single brand retail, and 51 per cent FDI in multi-brand retail. According to the proposed provisions, the minimum foreign direct investment shall be $ 100 million, out of which minimum half shall be for back end infrastructure installation. It is argued that with this single stroke, multi-billion dollar retail business, MNCs may set up their multi-brand retail stores in India, which may change the face of the Indian retail sector.

India's retail industry is estimated to be worth approximately US$411.28 billion and is still growing, expected to reach US$804.06 billion in 2015. 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:

FDI Policy in Retail - Milestones:

April 2006	51% foreign direct investment (FDI) allowed in single-brand retail and 100% in wholesale cash and carry
July 2010	Department of Industrial Policy and Promotion invites opinion on FDI in multi-brand retail
July 2011	After prolonged discussions, Committee of Secretaries (CoS) recommends 51% FDI in multi-brand retail with riders
Nov 2011	Cabinet clears 51% FDI in multi-brand retail and hiking it to 100% in single brand
Dec 2011	Government puts on hold FDI in multi-brand retail succumbing to opposition pressure. 100% FDI in single brand retail on
Jan 2012	Government notifies 100% FDI in single-brand retails

Arguments for FDI in Multi-Brand Retail

• Need of Investments in backend infrastructure:

Rationale:

- High rates of food inflation in India

- Estimated losses due to inadequate handling facilities:

Food-grains: 6 to 7%

Valuable spices: 10%

Fruits and vegetables: 30 to 40%

- India, second largest producer of fruits and vegetables (214 million MT) , however very limited integrated cold-chain infrastructure- only 5386 stand-alone cold storages

- Estimated investment need for post harvest infrastructure for agricultural produce:

Rs 64,312 crores, during the XI Five Year Plan (2007-2012)-Planning Commission Nearly 50% would need to come from the private sector

• Insignificant FDI inflow in cold-chains, though there is no restriction on FDI: in the absence of a policy framework permitting FDI in retailing

• Indian farmers realize only one-third of the total price paid by the final consumer: as against two-thirds by farmers in nations with a higher share of organized retail

• Domination of intermediaries in the value chain: leading to non-transparent pricing

• Absence of a ‘farm-to-fork’ retail supply system: Ultimate customers pay a premium for shortages and a charge for wastages

• Not possible for public agencies alone to address investment gaps

Other Arguments:

• Better choices of products for consumers

• Transfer of new and innovative retail technologies by foreign retailers - Indian companies can access global best management practices, designs and technological knowhow.

• Improvement in quality standards - Inflow of FDI in retail sector to pull up the quality standards and cost-competitiveness of Indian producers in all the segments.

• More employment opportunities

Present Status of FDI in Multi-Brand Retail:

The current regulations on retail allow 100% FDI only in wholesale cash-and-carry trading. In single-brand retailing, 51% FDI is permitted but it is banned in multi-brand retailing. The problem arises whether opening up of FDI in multi-brand retail will create problems or provide opportunities for local retailers. There is no proper answer and clear views have been seen in the favor and against FDI in multi-brand retailing. The benefits explained below, will, in the course of time, properly judge the problems of FDI in multibrand retailing.

SWOC Analysis of multi brand retailing:

SWOC ANALYSIS OF MULTI BRAND RETAILING			
STRENGTH	**WEAKNESS**	**OPPORTUNITIES**	**CHALLENGES**
1. More consumers choices, better inventory management, better packaging of goods, electronic weighing, billing, customer discount, credit cards etc. 2. Global standards in terms of pricing and product quality through global competition and	1. Small orders and customers may be ignored. 2.Global sourcing of products and long transports are hugely energy intensive and customers are likely to get refrigerated or frozen produce instead of farm fresh produce.	1. May help in organizing the unorganized retailers. 2. Heavy capital inflow and art of technology to the sector. 3. Strengthening of back-end infrastructure 4. Reduction in wastage of fresh	1. Big retail shops are meant for high class customers and products at premium price. Attracting and retaining middle and low income customers would be tough. 2. Political opposition to foreign retail network for fear of gradually wiping out unorganized small and medium traders

global outsourcing 3. Potential generation of thousands plus jobs in the sector 4. Farmers would be benefitted from the government's move to allow 51% foreign direct investment in the multi-brand retail sector as the policy removes middleman and brings better prices for the farmer's produce	3. Retail being a State subject, problems like multiple state entry taxes, octroi may crop up 4. APMC Acts with differences in notified commodities in different States may provide road blocks	produce through investments in cold storage facilities 5. International retailers, struggling with saturated markets may find new market opportunities	3. Thousands of employees working in the unorganized retail sector may consequently lose jobs 4. Retail trade is a state subject and all Regulatory frameworks have to be provided by respective state governments. Lack of uniformity may lead to chaos and court cases

Future of FDI in Multi- Brand Retail:

FDI in Multi- Brand Retail – Few Roadblocks but 'Affirmative'

- Absence of political consensus led the Government to hold back
- FICCI with Government working towards garnering support and broad consensus
- FICCI Submitted representations to the Government on the positive impact of FDI in Multi-Brand Retail on various sectors
- FICCI organized consultations with stakeholders like Farmer associations to gather views on the subject
- FICCI Retail committee composes of all the leading retailers (physical & online formats) with 30 member companies actively engaged in various regulations and norms:

a) Redrafting of 'Shops & establishment act'
b) Draft norms for food safety in retail

c) Development of 'Trustmark' for online retailers signifying robust consumer care processes
➢ FICCI to organize a mega event on Retail in June 2012 in New Delhi

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