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Retail Expansion in India: An Impact Analysis

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ABSTRACT

India has become the second-largest consumer market and seventh-largest retail market worldwide. The prerequisite for this event was the liberalization of several sectors of the economy, whereas the main driver was a continuous increase of the gross domestic product (GDP). As a consequence, the Indian retail market has shown impressive and constant growth. Although the global financial crisis affected the Indian economy, the prospects for the Indian retail market are encouraging. With a steadily growing economy, a broad middle class is evolving as progress is made in reducing poverty. Nevertheless, the knowledge about specific features of the Indian market is still unsatisfactorily low. The paper provides a description of the status quo of India's retail market, including an analysis of Indian consumers and the positioning of Indian and foreign retailers. It concludes with predictions of plausible further developments.

KEYWORDS: Process Innovation, biomimicry, CSR, bio-inspired

1.1 INTRODUCTION

Before July 23 1991 India's economical position was dwindle strongly with high jolt. In such conditions India's financial resources were least and only to meet fifteen days requirement. In order to overcome financial crisis our former prime minister approach international financial institutions like World Bank, IMF to get help from these intuitions but unfortunately these institutes refused to give loan to India because it is protected market and have not open boundaries for foreign investors. In such situations on 23rd July 1991 then prime minister Late Sh. P.V. Narsimha Rao decided to launch a historical process of economic reforms in response to fiscal and balance of payment crisis. These reforms were historic and were going to change the very face and nature of the economy in the coming time. In order to recognize important role of FDI in the accelerated economic growth of the country ,Govt. of India initiated slew of economic and financial reforms in July 1991. Over the years, FDI inflow in the country is increasing. However, India has tremendous potential for absorbing greater flow of FDI in coming years. Serious efforts are been made to attract greater inflow of FDI in the country by taking several actions both on policy and implementation front. The initial policy stimulus to FDI in India in July 1991 when the new industrial policy provided, inter alia, automatic approvals for projects with foreign equity participation upto 51% in high priority areas. In the recent year, govt. has initiated the 2nd generation reforms under which measures have been taken to further facilitate in India. The policy of FDI allows freedom for location, choice of technology, repatriation of capital and dividends.

1.2 RETAIL EXPANSION: FDI IN MULTI BRAND RETAILING

FDI in multi-brand retail generally refers to selling multiple brands under one roof. Currently, this sector is limited to a maximum of 49 percent foreign equity participation. Initially, FDI in multi brand retail was not permitted in India. However, the Government of India proposed some policy changes in late 2011 as FDI is an investment to acquire long-term interest in enterprises operating outside of the economy of the investor.

FDI is a source of external finance which means that countries with limited amount of capital can receive finance beyond national borders from wealthier countries. It is considered to be an ingredient for economic growth.

The inflow of FDI (foreign direct investment) has registered robust growth in the financial year 2006-07 as per the latest report of UNCTAD and India surpassed South Korea to become the fourth largest recipients of FDI in the region. Cumulative FDI inflows since august 1991 upto September 2006 was Rs 181566 crore (US$ 43.29 bn). Electrical equipment retains the 1st spot as among sectors attracting high cumulative FDI, followed by service sector and telecommunication.

As destination of FDI inflows the first four spots continue to be New Delhi, Mumbai, Bangalore and Chennai, while Hyderabad overtook Ahmadabad to occupy the fifth place by September 2006

1.3 THE OBJECTIVES OF RETAIL EXPANSION THROUGH FDI

Investment made to acquire lasting interest in enterprises operating outside of the economy of the investor may be with following objective

a. Sales Expansion

In order to increase competitiveness in foreign markets, manufacturing and service providers are preferred to have a physical presence in those markets. Physical presence in different forms is a great way to circumvent trade barriers, official and hidden, to the new market. Among additional advantages we can note potential ability to decrease transportation costs from the country of manufacturing to the market, save on the human resources employment compensation in all areas of the company operations (manufacturing, marketing, sales, and technical support).

b. Resources Acquisition

Reviewing the resources acquisition group of objectives, we can emphasize company's potential savings through vertical FDI, where a firm establishes its manufacturing facilities, deliberately allocating different stages of production in different countries. These types of investment are developed based on the differences across countries in input costs and availability of the appropriate trained employees. An MNC involved in an extractive industry, where the endowment of natural resources is concentrated in certain countries, is an obvious example..

c. Risk Minimisation

To minimize risk of the business and financial instability, a company can benefit from the FDI approach due to diversification. Diversification might appear in different forms: product,area and customer base . Supplier base diversification helps to stabilize supply chain and secure components acquisition from vendors on safe and favourable conditions from multiple sources.

d. Political Objectives

Among additional advantages we can note general capability to increase total production capacity, increasing the operations portfolio, and gaining government incentives (sometimes, significant) for establishing business presence in these countries.

e. Widening Customer Base

Additional advantages might be gained, if the consumers on the host market are having certain, not very positive, sentiments towards the particular foreign product manufacturers, or the manufacturing nations. In these cases, local market penetration through locally produced and localized products will allow to improve the company's product recognition and acceptance.

f. To Bridge Technological Gap

The under developed countries have very low level of technology as compared to the advanced countries. However they possess strong urge for industrialization to develop their economies and to wriggle out of the low level equilibrium trap in which they are caught. FDI can solve these problems.

1.4 MYTH AND REALITY SCENARIO OF FDI IN RETAIL SECTOR

Surveys in Metropolitan Cities of the country reveal that there was no evidence of a decline in overall employment in the un-organized sector

as a result of the entry of organized retailers. Instead, there has been a competitive response from traditional retailers through improved business practices and technology up gradation. A majority of the unorganized retailers have shown their interest to stay in the business and to compete with the organized retailers. The unorganized retailers therefore enjoy significant competitive strength which includes consumers goodwill, credit sales, amenability to bargaining, ability to sell loose items, convenient timings and home delivery. On the basis of these strength factors, they are optimistic about the future expansion of business. Considering the strength and their confidence to stay in the unorganized sector, it can safely be said that there is nothing to fear from FDI in retail. It is also mention that FDI will improve the after sale services which will be beneficial to the consumers as well as the producers.

Consumers feel that FDI in retail trade would help them get rid of many problems as with growing number of vehicles, there is no parking space available in urban centres. Moreover, there is a relief from defective and sub-standard goods as there will be no buyers. The margin of profit in the long chain of commission agents and suppliers also reduces and as a result, the consumers get goods at competitive prices.

It is also said that FDI in retail trade is no solution and is only a symptom and not the cause of incomplete reforms. It is necessary to remove administrative control on the agriculture sector that today benefit only the large farmers. Similarly other sectors needs administrative reforms. As such multi brand retail is poor understanding of microeconomic fundamental.

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