



## Different Aspects of FDI in Retail Market in India

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### ABSTRACT

*This paper assessing the basis mentality of Indian consumer which suggest that how Indian market can be capitalize by retail giant as country is riding on the shoulders of youth, who could be the soft target for these companies. Certain models also been discussed which could be successful in Indian retail market, it is very true that if somebody*

*wants to tap Indian market they need to tap youngistan only (young India).*

*Foreign direct investment has been high on the policy agenda of UPA Govt. And after being separated from TMC; congress has intensified this process and has extended the limit of foreign investment in to the retail, what would happen with Indian market and foreign players is something under the fold of future but it is important that whatever development is happening should be handle properly which may be benefited for both the parties.*

*India's GDP growth of 9.4 per cent in 2006-07 has been highest in last 18 years, which proves that economy was growing up in the all sectors and pushing world players to do business in Indian market as it is most stable and predictable and wide.*

*Paper is theoretical in its framework although, empirical evidence and finding has been mentioned which gives the clear status of retail investment by foreign players in Indian market as far as Paper retail business is concern apart from this researcher leaving space for the further research paper is open ended in its present form.*

**KEYWORDS: FDI, GDP, Business Model, Retail Marketing, Yongistan**

### Introduction:

The sector is on a high expansion flight and is expected to grow by more than 27 per cent over the next 5 to 6 years. Retail is one of India's largest industries, contributing to about 10 per cent of the GDP and providing Employment to 8 per cent of the nation's workforce although, organized retail market is hardly 2-3 percent in the India. Just have a look on the words talked by Anand Sahrma Minster for Commerce and Industry, At the Pravasi Bhartiya Divas New Delhi, 7-9 January 2010. "Today India is changing and is becoming the land of opportunities. That pace at which India is growing, I can say with confidence that it will remain so for decades to come. India remains one of the three investment destination even in recessionary conditions and we are determined to maintain that position."

Apart from this Lars H. Thunell (Executive Vice President and Chief Executive Officer) International Finance Corporation, At The India Economic Summit 2009, New Delhi, 8-10 November 2009 said that "India has come through the crisis better than other countries. We have growth here. This is a big market and there is opportunity for firms to come here"

Above words reflect that how much foreign investors are confident enough about their growth in Indian continental. India is a county where 33% of the agriculture production go wastage in the absence of proper mechanism and lack of technology, which is cause of inflation in India and other developing countries and we can expect that once these players come down to India heavily that 33% would be in the market and will surely reduce the price of food commodities in Indian market as these companies are occupied with latest technology and do operate their business on a specific modus operandi whichever best adaptable to that industry.

### Top Retailers Worldwide at a Glance

1. Wal-Mart Stores, Inc. U.S.A.
2. Carrefour Group, France
3. The Kroger Co., U.S.A.
4. The Home Depot, Inc. U.S.A.
5. Metro, Germany

### Retail Marketing in India

Doing successful retail business in India, prime facie, seems next to impossible due to dominance of unorganized sector. If we look at the

unorganized sector of Indian retail, still approximate 60% population is a part of rural Indian which do not know the meaning of mall culture and if they do know hardly think to enter in that.

This is happening first time in the Indian market that people are making investment on luxury like never before. And it's happening because of increasing job opportunities and mentality of Indian youth apart from this much credit goes to market strategy and variety of product offered by multi brand stores. Somehow Indian youth has come in the invasion of western culture and has become more quality conscious and do believe and understand standard of life.

So still this is a question how to tap people those do not know what is retailing which is about 60% market and can shoot up the revenue of this sector if proper planning is followed. Now look at following market strategies from my point of view which I believe may; help researcher or business community to understand the basic mentality of Indian consumer.

### Adopt local culture

Although, young Indian is into the invasion of western culture, still very much associated with their customs and culture. Wal-Mart is the world biggest company into the retailing business only because of their strategy to mix up local culture in their marketing. Wall mart has experience successful business venture in the entire world because of its ability to transport the local culture in their marketing in the respective country. Along with the consumer priorities they also respond their local supplier and whole sellers. And this is something which stands wall mart step ahead to other suppliers. By serving each hometown in the someway, Wal-Mart international has realized exponential growth with potential for much needed greater development worldwide.

One should not disregard the case of McDonald's when they started their venture in the Indian market and how unsuccessful and pathetic it was for the entire management of McDonald's. It was nothing but association of Indian people with their culture and which cause one of the ever biggest failures for McDonald's.

### Do target Youngistan (Young India)

One or two year back, Might you have noticed an advertisement in which Ranbeer Kapoor says Yangistan Meri Jaan (Youngster are the life

of India) and that punch line definitely shows that we are in not living in the Bharat (Rural India) we are in the India and which is no doubt dominated by our young and creative mind.

And they have grown up with television, the internet, and have been exposed to the standards of living and consumer culture abroad. Young age Indian must be grateful to BPO and KPO industry which is generating avenues and employment opportunities and making young people a potential market for foreign players.

### Higher Incomes

Liberalization of the country's and execution of 6th pay commission has shoot up the income level of middle class Indians as private companies are offering N number of opportunities and Govt. servants are having higher ratio of personal income, Economy has brought a number of employments opportunities. With the permission of FDI in the field of retail has add up a new feather in the cap of foreign players and very moment when companies would come down to Indian market it would increase the job prospect and income of Indian youth and would make positive change in Indian growth specifically in the field of retail.

### Feeling of Being Owner

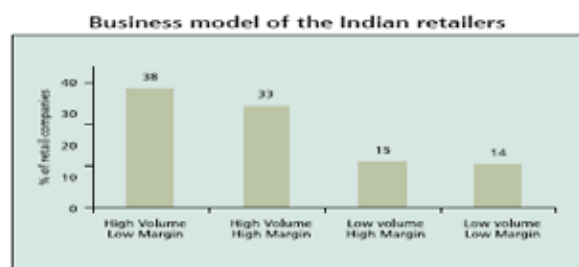
Look at the market plan of multi level networking companies those start their business at low cost with maximum opportunities, now point comes why these companies been so much successful in every market, then simply answer is that, these companies are taking everyone and giving feeling of being owner. If you see marketing plan of Amway you can understand how to exploit people sentiments of being owner.

The Amway Sales and Marketing Plan have been operating for over 51 years and are available in over 80 countries and territories around the globe.

### High Volume-Low Margin Business Model in Retail Market Industry

Saving habits is something which is inherited in Indians and still they are economically sensitive and instead of giving priority to brand and quality they believe to take maximum at the minimum cost.

The survey revealed that 38% of the respondent companies operate in the high volume-low margin business model and cater to the value segment. The supermarkets and discount stores that provide daily usage products to consumers at a discounted price come under this category. As per the survey, 33% companies operate in the high volume-high margin business model and cater to the lifestyle segment. So these companies should draft their policies as per the need of Indian. Because it is not necessary that a business venture which might be so successful in a county, would also be successful in the other region as well.



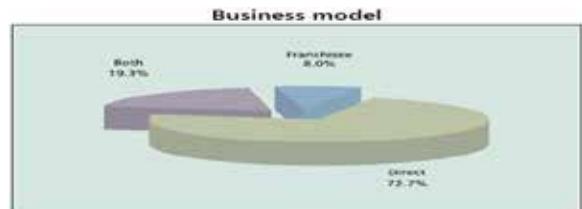
(Source: - D&B Economic Analysis Group to derive pragmatic and solution-oriented analyses of strategic economic and business developments, D&B featured on FORTUNE Magazine's Most Admired Companies Industry List for four consecutive years (2006 -2009), ranking first in the Financial Data Services category.)

### Role of Franchise Model & Direct Model in Retail Industry

The organized retail players predominantly operate under a direct business model; however, over the last couple of years, players have started operating on both franchisee and direct models, and few companies have started operating exclusively under the franchise model. Besides, the leading foreign retail brands operate through the franchisee model in India as 100% FDI is not allowed in the segment. These companies have formed master franchises with Indian companies to leverage their foreign brands in India. For instance, a number of global brands such as

McDonalds, Pizza Hut, D'damas are operating in India under the franchise or joint venture model with their Indian business partners. Under the franchise model, companies (franchisor) can be present in the market by incurring lower capital expenditure and gaining higher flexibility. Therefore, this concept is rapidly catching up in India, as the country offers ample growth opportunities in the organized retail segment.

According to the survey of D&B Economic Analysis Group to derive pragmatic and solution-oriented analyses of strategic economic and business developments represent a business model graphical form as:



(Source: - D&B Economic Analysis Group to derive pragmatic and solution-oriented analyses of strategic economic and business developments, D&B featured on FORTUNE Magazine's Most Admired Companies Industry List for four consecutive years (2006 -2009), ranking first in the Financial Data Services category.)

According to the survey results, 72.7% of the respondents are operating under a direct model, 19.3% are operating under both direct as well as franchisee models and 8% companies are operating exclusively under a franchisee model.

### E-tailing is a tool of Retail Marketing

E-tailing 'Synonym of Success' someone says addiction of social networking sites is more dangerous than the alcohol and as per the survey conducted it is revealed that one fourth time youth spend on social networking sites specifically on face book. So this point need to be tackle so carefully and it might turn of most economical ways for business houses.

Have a look on the prediction done by the research and development institutions about the Indian retail market which shows it worth at large.

Online retail business is another format which has high potential for growth in the near future. India's e-retail industry is likely to touch Rs 7,000 crore (US\$ 1.26 billion) by 2015, up from Rs 2,000 crore (US\$ 359.97 million) currently, as per an industry body report.

### A Current Scenario of FDI in Retail in India

After the US, Germany has also come up in full support of FDI in retail in India. Metro AG, one of the prominent German retail chains, has shown intentions to venture in Indian markets along with US' Wal-Mart and France's Carrefour.

Cumulative FDI inflows in single-brand retail trading during April 2000 to September 2011 stood at US\$ 44.45 million, according to the Department of Industrial Policy and Promotion (DIPP).

Certain developments and investments that took place on the Indian retail canvas recently are discussed below-

- Real estate major DLF's subsidiary DLF Brands has struck a deal with Chicago-based Claire's Stores Inc to bring the latter to India and open its 75 stores over 2011-16. Claire's is a specialty retailer which targets young girls through over 3,000 stores globally.
- French retail chain, Carrefour is on an expansion spree in India wherein it is about to finalize lease deals across 10 to 12 sites in the country to open cash-and-carry (wholesale) outlets.
- The world's largest retailer Wal-Mart will open an innovation lab in Bengaluru by the end of 2011. The lab would be tasked to drive the US\$ 422-billion company's next generation innovations that impact shopping behavior among the customers.
- US fast moving consumer good (FMCG) giant McCormick, that has

recently formed a joint venture (JV) with Indian basmati rice brand Kohinoor Foods, intends to tap Indian packaged food industry and achieve sales of US\$ 85 million in the first year of operations in the country.

- FMCG firm GSK Consumer Healthcare (GSKCH) has made a debut into Indian breakfast cereal market by launching oats cereal under its flagship brand 'Horlicks'. The breakfast cereal market in India is currently dominated by PepsiCo and Kellogg's.
- Oral and dental hygiene products manufacturer Colgate Palmolive has decided to invest Rs 200 crore (US\$ 38.52 million) to establish a greenfield facility at an upcoming industrial estate in Sanand which is being developed by state-run Gujarat Industrial Development Corporation (GIDC)
- International cash and carry chains in the retail sector plans to expand in India. Walmart, the US\$ 446 billion American retail giant, which operates cash and carry outlets in India in a 50-50 per cent joint venture (JV) with the Bharti Group, expects to open 12 to 15 wholesale outlets in 2012
- According to a recent trend, retail companies such as Carrefour, IKEA, Tesco and Wal-Mart are regularly sourcing well-priced, high-quality products for customers in Western markets from India. Analysts estimate that these four retail majors together source around US\$ 3.5 billion-US\$ 4 billion from India every year. "India continues to be an important sourcing market," as per Wal-Mart
- The next generation of India's retail environment is favorable for the rise of luxury goods. Watches are growing faster than the broader luxury market. "In watches, there is perhaps a higher level of innovation than other luxury categories," as per Jean Christophe Babin, CEO, Tag Heuer.

### Conclusion

Retail marketing helps to understand customer and consumer behavior because Consumer behavior is something which is driven by the marketing on day basis and goes change very frequently. So there is

dire need to implement your marketing strategy in such a way so that you're branding keep alive in the mindset of consumers for ever.

Retail marketing must be appealing and must be good enough to create difference in the market. Recent debacle for foreign investor on the part of FDI in single brand will definitely hamper the growth of this sector but marketing strategist should start analyzing the consumer mentality because end of the day FDI will be implementing. So time has come to turn up your creative idea in to the reality and business.

Retail market is an emerging market for economy like India. Investment of FDI in retail markets are growing rapidly owing to robust economic growth. The retail industry is highly competitive because of ever changing consumer preferences and the need for marketing differentiation. The retail enterprises need to focus on costs throughout the consumer value chain because of proliferation of new products and categories and ever increasing demands to optimize value chains.

With increasing disposable incomes, expansion of stores and supporting economic factors, India's retail sector is expected to grow to about US\$ 900 billion by 2014, according to a report by global consultancy and research firm, PricewaterhouseCoopers (PwC).

The Indian retail industry has experienced high growth over the last decade with a noticeable shift towards organized retailing formats. The industry is moving towards a modern concept of retailing. India's retail market is expected to grow at 7 per cent over the next 10 years, reaching a size of US\$ 850 billion by 2020. Traditional retail is expected to grow at 5 per cent and reach a size of US\$ 650 billion (about 76 per cent), while organized retail is expected to grow at 25 per cent and reach a size of US\$ 200 billion by 2020.

India has emerged as the fifth most favorable destination for international retailers, outpacing UAE, Russia, Indonesia and Saudi Arabia, according to A T Kearney's Global Retail Development Index (GRDI) 2012. "India remains a high potential market with accelerated retail growth of 15-20% expected over the next five years," highlighted the report by A T Kearney.

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