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Research Paper

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FORIENGN DIRECT INVESTMENT IN INDIAN RETAIL SECTOR: A CRITICAL ANLYSIS

Dr. NAILA IQBAL KHAN

Assistant Professor, Department of Management Studies, Maulana Azad National Institute of Technology, Bhopal

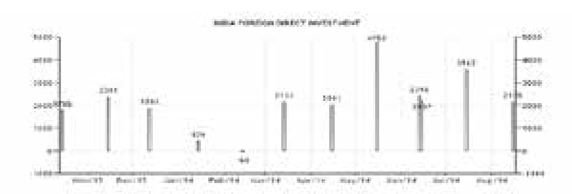
ABSTRACT

India being a signatory to World Trade Organization's General Agreement on Trade-in Services, which includes wholesale and retailing services, had to open up the retail trade sector to foreign investment. There were initial reservations towards this issue arising from fear of job losses, procurement from international market, competition and loss of entrepreneurial opportunities to locals. However, the government in a series of moves opened up the retail sector slowly to Foreign Direct Investment (.FDI.). In 1997, FDI in cash and carry (wholesale) with 100% ownership was allowed under the government approval route. Subsequently It was brought under the automatic route in 2006..Opening the retail industry to FDI will bring forth benefits in terms of advance employment, organized retail stores, availability of quality products at a better and cheaper price. It enables a country's product or service to enter into the global market.

KEYWORDS :

Foreign direct investment (**FDI**) is a controlling ownership in a business enterprise in one country by an entity based in another country. Foreign direct investment is distinguished from portfolio foreign investment, a passive investment in the securities of another country such as public stocks and bonds, by the element of "control". According to the Financial Times "Standard definitions of control use the internationally agreed 10 percent threshold of voting shares, but this is a grey area as often a smaller block of shares will give control in widely held companies. Moreover, control of technology, management, even crucial inputs can confer de facto control."

FOREIGN DIRECT INVESTMET IN INDIA The sectors that attracted the higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, United States and United Kingdom are among the leading sources of FDI. Based on UNCTAD data FDI flows were $10.4 billion, a drop of 43 % from the first half of the last year. Foreign Direct Investment in India decreased to 2135 USD Million in August of 2014 from 3562 USD Million in July of 2014. Foreign Direct Investment in India averaged 1002.52 USD Million from 1995 until 2014, reaching an all time high of 5670 USD Million in February of 2008 and a record low of -60 USD Million in February of 2014. Foreign Direct Investment in India is reported by the Reserve Bank of India.



FDI IN RETAIL SECTOR

Retailing is one of the world's largest private industries. Liberalizations in FDI have caused a massive restructuring in retail industry. The benefit of FDI in retail industry superimposes its cost factors. Opening the retail industry to FDI will bring forth benefits in terms of advance employment, organized retail stores, availability of quality products at a better and cheaper price. It enables a country's product or service to enter into the global market.

Cheaper production facilities*:* FDI will ensure better operations in production cycle and distribution. Due to economies of operation, production facilities will be available at a cheaper rate thereby resulting in availability of variety products to the ultimate consumers at a reasonable and lesser price.

Availability of new technology: FDI enables transfer of skills and technology from overseas and develops the infrastructure of the domestic country. Greater managerial talent inflow from other countries is made possible. Domestic consumers will benefit getting great variety and quality products at all price points.

Long term cash liquidity: FDI will provide necessary capital for setting up organized retail chain stores. It is a long term investment because unlike equity capital, the physical capital invested in the domestic company is not easily liquidated.

In short FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. In November 2011, India's central Government announced retail reforms for Multi Brand Stores and Single Brand Stores. The announcement sparked intense activism. In July 2011 the GOI has recommended FDI in retail sector as –

(a) 51% in Multi - Brand Retail.
(b) 100% in Single - Brand Retail.

Till 1980 the retail trade continued in the unorganized sector Afterwards with the entry of big players like Reliance ,Tata's, Bharati, Big-Bazzar ,organized retail sector came in to existence. And the competition started becoming intense. The permission of FDI will impact the structure of retail industry in India its implications will be on customers, small retailers, farmers and the general public.

OBJECTIVES OF THE STUDY

- To analyze the structure of retail industry in India
- To assess the impact of FDI on various parties related to the retail sector
- To provide some suggestions to protect and promote the interest of small, unorganized retailers and farmers in the country
- To study the SWOT analysis of FDI in retail

Research Methodology

Primary data:

Under the primary source I study about SWOT analysis of FDI in India. SWOT analysis is one of the primary steps in strategic management. It contains an analysis of strengths, weaknesses, opportunities and threats. The strength and weaknesses of the FDI shows the present scenario and the opportunities and threats help to plan for future.

STRENGHTS:

- Fast growing economy.
- Young and dynamic manpower.
- Highest shop density in the world.
- High growth rate in retail & wholesale trade.
- Presence of big industry houses which can absorb losses.

WEEKNESS:

- Low capital investment in retail sector.
- Lack of trained & educated force.
- Lack of competition.

- More prices as compared to specialized shops.

OPPORTUNITY:
- Major employment generation in the future.
- It will enhance the financial condition of farmers.
- Increase in lifecycle changes and status consciousness.
- Improve the competition.
- Increase in disposable income.
- Result in increasing retailer's efficiency.
- Foreign capital inflows.
- Big market along with better technology and branding with latest managerial skills.
- Quality improvement with cost reduction.
- Increasing the export capacity.

THREAT:
- Threat to the survival of small retailers like 'pan tapri', 'local kirana'.
- Jobs in the manufacturing sector will be lost.
- Started roadside bargains.
- Work will be done by Indians and profits will go to foreigners.

INDIAN RETAIL SECTOR: AN OVER VIEW
Retailing contributes about 15% of India's gross domestic product (GDP) and 8% of employment (Patibandla 2012). The size of India's retail sector is currently estimated at around $450 billion and organized retail accounts for around 5% of the total market share. 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.

Keeping in mind the 'welfare' motive, India has kept the retail sector closed for the foreign investors in order to protect the interest of the 15 million small retail storeowners. Currently, the foreign investor can make investments as per following guidelines:

- FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.
- FDI up to 51% with prior Government approval for retail trade of Single Brand 'products.(now 100% allowed vide notification dated 11/ Jan/2012).
- FDI in Multi Brand Retailing is permitted up to 51%.

The retailers (both single and multi-brand) will have to source at least 30% of their goods from small and medium sized Indian suppliers.
- All retail stores can open up their operations in population having over 1million.Out of approximately 7935 towns and cities in India, 55 suffice such criteria.

STRUCTURE OF INDIAN RETAIL SECTOR
The High Court of Delhi defined the term "retail' as a sale for final consumption in contrast to a sale for further sale or processing (i.e. wholesale). A sale to the ultimate consumer Thus,. 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 retail industry in India 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 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, paan/ beedi shops, convenience stores, hand cart and pavement vendors, etc. The Indian retail sector is highly fragmented with 97 per cent of its business being run by Mom and Pop stores.

Leading global retail players by revenue

Sr.No.	Company name	Country	Banner sales 2014 (in US$ million)	No. of outlets
1	Wal-Mart stores	US	498,074	10,942
2	Carrefour	FRANCE	291,144	9,343
3	Tesco	UK	103,573	3,750
4	Metro group	GERMANY	102,942	2,541
5	Seven & I	JAPAN	84,375	22,590
6	Kroger	US	73,633	3,672
7	AEON	JAPAN	73,416	14,803
8	Target	US	71,125	1,591
9	Schwarz group	GERMANY	70,969	8,575
10	Costco	US	69,704	518

LIMITATIONS IN INDIAN RETAIL TRADE
1. Infrastructure
Lack of investment in the logistics of the retail chain, leading to an inefficient market mechanism. Is main limitation in Indian retail trade. Though India is the second largest producer of fruits and vegetables (about 180 million MT), it has a very limited integrated cold-chain infrastructure, with only 5386 stand-alone cold storages, having a total capacity of23.6 million MT., 80% of this is used only for potatoes. The chain is highly fragmented and hence, perishable horticultural commodities find it difficult to link to distant markets, including overseas markets, round the year.

2. Intermediaries dominate the value chain
Intermediaries dominate value chain; often break mandi norms and their pricing lacks transparency. Wholesale regulated markets, governed by State APMC Acts, have also not benefitted the agricultural producers. According to some reports, Indian farmers realize only 1/3rd of the total price paid by the final consumer, as against 2/3rd by farmers in nations with a higher share of organized retail.

POSITIVE ASPECTS OF FDI IN RETAIL
1. More investments in the end to end supply chain and world class cold storage facilities.
2. Low spillage and wastage of farm produce during the transportation.
3. Better options and offers to the consumer
4. Increase in economic growth by dealing in various international products
5. According to the UPA Government 1 million (10 lakh) employment will be created in next three years
6 .Billion dollars will be invested in Indian retail market
7. Agriculture related people will get good price for their goods

NEGATIVE ASPECTS OF FDI IN RETAIL
1. Will affect 50 million small merchants in India
2. Profit distribution and investment ratios are not fixed
3. An economically backward class person may suffer from price raise in future.
4. Retailer faces heavy loss of employment and profit
5. Workers safety and policies are not mentioned clearly
6. Inflation may be increased
7. Small farmers will not benefit by FDI policy
8. The rural India will remain deprived of the services of foreign player

FINDINGS
1. Small retailers will not be crowded out, but would strengthen their market positions by modernizing their working.
2. Growing economy and increasing purchasing power would compensate the loss of market share of the unorganized sector retailers.
3. There will be initial and desirable displacement of middlemen involved in the supply chain of farm produce, but they would be absorbed by increase in the food processing sector induced by organized retailing.
4. Innovative government measures could mitigate adverse effects on small retailers
5. Farmers will get an opportunity of direct marketing and hence get better price for their produce..
6. Consumers would certainly gain from enhanced competition, better quality, variety of branded goods and attractive discount offers.

7. The state revenues will rise on account of larger business as well as recorded sales.
8. The Competition Commission of India would need to play a proactive role to avoid unfair competition in retail industry.
9. The displaced retailers and employees in unorganized sector should be provided necessary training of modern trade and absorbed in the modern trade on priority basis

SUGGESTIONS to improvise Retail sector

On the backdrop of permission to FDI in multinational retail the scenario of Indian retail industry is going to change drastically. It is likely to impact not only the unorganized sector but also the domestic organized sector considerably under these circumstances the following suggestions are made for the benefit of Kirana stores, farmers, employees and other stakeholders of retail industry.

1. The traditional the Mom and Pop Kirana stores should change their appearance, attitude and affairs they should modernized their shops, store, more branded goods, provide home delivery service.
2. These traditional Kirana stores should form a consortium and make bulk purchases. This measure will help to procure the goods at lower price
3. The banks in the country and the state government should formulate a scheme of modernization loan . Under this scheme credit should be made
4. Available at of concessional rate and all priority basis to the small unorganized kirana stores .
5. The small farming community should undertake joint supply of fruits and vegetables directly to the small retailers and / or customers . This will benefit all of them.
6. There should be a monitoring agency established at the state level to keep watch on the operations of foreign players in retail sector .This agency should see that necessary investment is made by the foreign players in cold storages, transportation & logistics. It should also ensure that the foreign player's required quota of goods from SME sector.
7. The possibility of starting mails of small retailers should be explored & a group of small retailers in a locality should came together & open such mall.
8. The educational institutions should constitute degree, diploma coerces in detailing management where both the theoretical & practical aspects of retail trade are taught to the candidates. The wholesalers will be affected by the entry of foreign player & the organizational domestic players, because they will purchase the goods directly for the manufactures dispensing the need of wholesalers. Hence, the wholesalers should also go in together to make collective purchases.
9. There is also a need to strengthen small farmer organizations and provide them with technical assistance to increase productivity for the cost competitive market , provide help to improve the quality of produce ,and encourage them to participate more actively in marketing their produce in order to capture value added in the supply chain.

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