₹ 100 ISSN - 2249-555X

Volume : 1 Issue : 4 January 2012

Indian Journal Of Applied Research

Journal for All Subjects

www.ijar.in

Listed in International ISSN Directory, Paris.

ISSN - 2249-555X

Indian Journal of Applied Research

Journal for All Subjects

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Ahmedabad-380006, Gujarat, INDIA
Contact.: +91-9824097643 E-mail : editor@ijar.in

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Volume : 1 | Issue : 4 | January 2012 ISSN - 2249-555X

Research Paper Management

It's A Myth That Kirana Stores Will Be Wiped Out If FDI Is Allowed In Multi Brand Retail Sector In India

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ABSTRACT

India is one of the largest emerging markets, with a population of over 1.21 billion. Around 72.2 per cent of the total households in India (188 million) reside in the rural areas, where mostly traditional retail outlets, commonly called kirana stores exist. However, 27.8% of the total resides in urban areas, where organized retail stores are existing. Recently in India, organized retailing has become more popular in metropolitans, and most of the cities. Till now, entry of foreign retailers was restricted in Indian retail market because of the ban on Foreign Direct Investment in Indian Retail Sector (multi brand). However, FDI is already present in single brand retail sector since quite a few years. In the present scenario of slow down of economy, there is a strong case of bring in FDI in Retail. In view of this, an attempt has been made to carefully analyze the implications of FDI in retail on Indian economy / society and submit our recommendation in favor of FDI in retail (multi brand). In any case ,the consumer and other stake holders are better off. Thus, FDI in multi brand creates a win win situation for all stakeholders. With the growing demand in a size of our country, both Organized and unorganized retailers have an opportunity to grow.

Keywords : Emerging market, organized/unorganized retail sector, single brand/multi brand, FD

Introduction:

There is a significant decline in the positive perceptions on current economic conditions, according to the Reserve Bank of India's latest Consumer Confidence Survey. The positive perceptions on current economic conditions declined from 61.2 per cent in the June 2011 quarter to 56.9 per cent in the September 2011 quarter. Positive opinion for future economic conditions has also declined from 62.8 per cent in June 2011 to 59.5 per cent in September 20111.

The Government cut its GDP growth projections from 9 per cent to 7.25-7.75 per cent for FY2012. In a situation like this, first thing an economy needs is an infusion of investment. Since Domestic investment policy is all clear it is up to private industries/investors to take the call of higher investment. However, there is not much investment forthcoming from local private sector in this critical area of retail sector which has a turnover of approx. US $ 450 Billion2.

A recent example of suspension of a bill allowing 51% FDI in multi brand retailing is a case in point. Here is a group of overseas industrialists who are ready to bring in investment to the tune of 2-3 Billion US $ with accepting all the terms and conditions to be put up by Indian Govt. And we are closing the door on them, firstly by delaying decisions and subsequently by suspending the bill from Parliament (after introduction)12.

Retail sector-Global scenario:

Organized Retail is the world's largest Industry . The corporations who are in these sector from the West have nearly saturated home country markets (one indicator to this - GDPs in developed countries is in the region of 2-4%) and are now looking to expand into India, where organized retail trade is only 5% and they see huge growth potentials10.

As shown in the table below, penetration is almost total in developed countries. And there is substantial scope of doing better in India as penetration is only 5%.

Data in % (2006)

Table-1 Share of organized retail sector in major countries3.

Country	Share of organized in total retail
USA	85%
UK	80%
France	80%
Germany	80%
Japan	66%
Malaysia	55%
Thailand	40%
Brazil	36%
Russia	33%
India	5%

For example, China now allows 100% FDI in retail. And yet, their Kirana stores, instead of dying, are growing from 1.9 mn in 1992 to 2.5 mln in 2001.

Share of organized sector in total retail by category (%) in India:

Another issue to be considered is to find which sectors of the retail are penetrated by organized retail in India. As the table shown below suggests, Kirana sector consists of only 3.8% of the total retail sector which is estimated to be of the size of $450 billion . And Organized retail's current presence in Kirana sector is even less than 5%.Even after considering the fact that

Table-2 Country wise FDI Retail4

Country	Benefits
China (FDI limits 100%)	*First permitted in 1992 with 49% FDI allowed. Now it is 100%. *600 plus hyper markets between 1996 and 2001. *Number of smal l markets increased from 1. 9 mn to 2.5 mn during the same period. *Employment in retail and wholesale up from 28 mn to 54 mn between 1992 and 2001!
Thailand (100%)	This country is considere d as having adverse effect on small retailers. • Resulted into growth in ago processing industry (due to contract faming etc.)
Russia (100%)	• Super market revolution took place in yr 2000 • heavy growth registered
Indonesia (100%)	Modern retail took off in 1990. No adverse effects were felt.

Table-3 Share of organized sector in major retail - by category (%) in India 5

Products	% of total retail in Yr 2006-07
Food and Grocery	0.7
Beverages	3.1
Clothing and Footwear	18.5
Furniture, furnishings Appliances and services	10.2
Non institutional health care	2.1
Sports goods , entertainment, equipments and books	16
Personal care	5.4
Jewellery, watches etc.	5.6

Points favoring FDI:

A. Impact on local players :

KFC ,Pizza Hut have come .Have Nirulas(a fast food chain in Northern India) ,Nathus have disappeared ? No. They have actually flourished . Haldiram and Bikanerwala have actually gone global.

B. On protests by Kiranas and opposition parties and some allies of ruling party :

There is a substantial constituency that has concern for there existence /job displacement etc.(eg Kirana stores). But there is an equally substantial constituency that is supporting the move.(like small farmers as they want better price)

C. Compare with past protests :

In 1980s when Late Rajiv Gandhi ushered in computerization , there were strikes by trade unions , nationalized banks. And now when we look back , where this decision has taken India into? It empowered India. And the fear of loss of jobs was unfounded.

D. Impact on Consumer :

- Goods and services at lower rates (this itself will contribute to arresting inflation in some ways.)
- All products under one roof
- Assured quality products (not to speak of cases like when some one buys a item of 500 grams, it is actually less than 500 grams.)
- Those consumers who have higher disposable income will get international brands locally.
- Shopping becomes a pleasurable experience at no extra costs.

D. Impact on farmers:

- Farmers benefit significantly from the option of direct sales to organized retail. An interview of a local small farmer in Northern India clearly favored Reliance Fresh as he was getting much more price for his products and also assured market9.

E. Impact on local Manufacturers :

- Large local manufacturers will start feeling the competitive impact of organized retail. Domestic manufacturers will have to respond by becoming competitive to international players (improving their overall efficiency in the process of manufacturing to bring down prices, improving product quality etc.).9

Myths of No FDI in retail.

There are several myths around the opposition to FDI in retail sector. Let us see them point by point.

A. Myth : Kirana stores will be wiped out:

Kirana stores have beaten back competition from India owned organized retailers by improving their own standards .(by giving credit , home delivery, quick delivery etc.

B. Myth: Farmers will not have any bargaining power with large retailers .

Farmers have no bargaining power at govt. regulated mandis also. Improvements in the supply chain that follow FDI in retail will give farmers access to more markets, increasing their bargaining power.

C. Myth: Supermarkets will lead to an increase in in prices bkoz they will limit competition.

Prices, particularly of agri produce ,will see a fall in bkoz intermediaries in the supply chain will be cut out.

D. Myth : Small and medium enterprises will suffer as foreign retailers will source overseas.

Govt. insists on the condition that at least 30% of procurement from local SMES. This may also open up an opportunity for SMES to go overseas too.

E. Myth: Millions of jobs will be lost in unorganized sector.

On the contrary, FDI does not bring only 2-3 Bln of dollars s investment. It will bring one Million of jobs along with. It will offer better working conditions. Since Kirana stores too survive, additional employment too will be created as their business too grows.

What are the challenges to be faced by Foreign giants …(obstacles) ?

Allowing 51% FDI in Indian retail is not a magic wand that foreigners will come and Conquer Indian retail market. There will be lot of obstacles /opposition/challenges. It will take them at least 5-6 years to achieve 10% market share and another decade or so to reach magic figure of 25% share. Here is a list of challenges which they may face:

A. Local Opposition (Remember Kolkata and Ranchi where sabjiwalas stoned reliance fresh stores etc.?) Even Reliance was forced out of UP in 2007 when it attempted to open a chain of supermarkets.

B. Red Tape: Foreign firms will need permissions of all sorts, including approval on a case by-case basis, from FIPB (foreign investment promotion board). They will also have to seek approval from every state govt. where they want to operate!

C. Infrastructure: Water shortages, power cut, lack of a cold chain .These are the issues they will have to overcome.

D. Corruption: They will have to be prepared for navigating India's murky business

Environment at various stages of their progress in retail.

What is Kirana strength?

What Kirana stores have to do (in fact, are already doing) is to utilize their strengths to fullest extent. His will not only make them survive but grow also.

A few of their strengths are shown below:

- Long standing personal relations with customers.
- Give credit account facility to poor class people.
- Takes goods back if not required by the regular customer (or if the quality is suspect)
- Transactions are fast and one can buy in small Lots and more frequently/quickly.
- They will now have to upgrade their shops, to face this new threat. (say , install computers, give printed invoices, keep more stocks of more brands)

- Kirana stores presence in rural and semi urban area, tier II and tier III cities, is strong and will continue to be so, where customers prefer convenience and home delivery services.

We must also ask WHY INDIAN BUSINESS GROUPS ARE NOT COMING FORWARD in Organized Retail Sector in a very large way? May be we are still found wanting in what is called Mall Management (Mall Management is a topic by itself!). Two notable groups, Big Bazaar and Reliance Retail are still busy finding their bearings.

Conclusion

IF we don't do this (allowing FDI in Retail), FDI in other sectors will also be affected adversely. Already , industrialists are citing current shelving of FDI in retail as a bad omen. They add this to the long list of government indecisions . They are now seriously considering overseas opportunities (classic case of policy paralysis by the Government)

Yet, the kirana stores would never go out business because of the reasons like comfort and convenience of the customer towards Kiranas. The future will see consumers divide their purchases between Kirana stores and modern retail outlets.

Moreover, unlike in the West, the kirana stores will continue to be a part of the Indian scenario for several decades, given the shopping styles of consumers (only a fraction would be interested in driving to huge stores to stock up items for the entire week). The culture of shoppers to shop daily coupled with lack of storage space in the residences, make the Kirana store a part of the Indian middle class.

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Editor,
Indian Journal Of Applied Research
8-A, Banans, Opp. SLU Girls College,
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Contact.: +91-9824097643 E-mail : editor@ijar.in

Printed at Unique Offset, Novatsing Rupam Estate, Opp. Abhay Estate, Tavdipura, Shahibaug, Ahmedabad