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FDI in Retail Sector in India: A Critical Review

Management

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ABSTRACT

Despite encouraging signs, India's retail market remains largely off-limits to large international retailers like Wal-Mart and Carrefour. Opposition to liberalizing FDI in this sector raises concerns about employment losses, unfair competition resulting in large-scale exit of incumbent domestic retailers and infant industry arguments to protect the organized domestic retail sector that is at a nascent stage. Based on international evidence, we suggest that allowing entry by large international retailers into the Indian market may help tackle inflation especially in food prices. Moreover, technical know-how from foreign firms, such as warehousing technologies and distribution systems can improve supply chain efficiency in India, in particular for agricultural produce. Better linkages between demand and supply have the potential to improve the price signals that farmers receive and also serve to enhance agricultural and other exports. In the past few decades large retailers have experienced substantial growth around the world. Evidence suggests while the impact of entry by large retail chains on employment and incumbent mom-and-pop stores is mixed, there can be substantial benefits to consumers in the form of lower prices and lowered food price inflation in particular. Similarly, by employing improved distribution and warehousing technologies, large retail chains are in a position to provide better price signals to farmers and to serve as a platform for enhanced exports.

INTRODUCTION

Indian retail sector is highly fragmented as compared to the developed as well as the other developing countries. This shows a great potential for the organized retail industry to prosper in India, as the market for the final consumption in India is very large. Retail trade is largely in the hands of private independent owners and distributor's structure for fast moving consumer goods consisting of multiple layers such as carrying and forwarding agents, distributors, stockiest, wholesalers and retailers. Thus, the growth potential for the organized retailer is enormous. In the next 2-3 years, India will finally see operations of a number of very serious international players- net withstanding the current restrictions on FDI in retail. The Indian retail sector is ready to take on challenges from global retail players such as Wal-mart and Carrefour because unlike them, they have a better understanding of the Indian consumer's psyche. Ultimately, a successful retailer is one who understands his customer. The Indian customer is looking for an emotional connection, a sense of belonging. Hence, to be successful any retail outlet has to be localized. The customer should feel that it is a part of his culture, his perceived values, and does not try to impose alien values or concepts on him. Indian customer is not keen to buy something just because it is sold by an international company.

FDI SCENARIO IN INDIA

In 1991, the Indian government introduced the economic policy to attract foreign investments and since then, it has amended the policy from time to time in various sectors to allow higher levels of foreign participation. The government policy in retail sector allows 100% foreign investment in wholesale cash-and-carry and single-brand retailing but prohibits investments in retail trading. In 1997, the government imposed restrictions on FDI in retail sector but in 2006, these were lifted and opened in single-brand retailing and in cash-and-carry formats.The cash-and-carry business is the easiest mode of entry for foreign retailers into India. Many global players like Metro and Shoprite have already entered the market. Wal-mart has forged an alliance with Bharti for a cash-and-carry business, and Bharti is concentrating on front-end retail. Similarly, Tesco has entered India through an alliance with Trent (Tata Group). Apart from investing in the cash-and-carry business, Trent will also support the back-end activities of Trent Ltd.Many foreign brands have also entered India either through JVs with leading Indian retailers or through exclusive franchisees to set up shop in India. Louis Vuitton, Marks & Spencer Plc, GAS, Armani are some such operators who have entered India through JVs. McDonald's, KFC, Domino's are the retailers who have taken the franchise route.

PRESENT SCENARIO

Retailing in India is witness to the boom in terms of modern retailing formats, shopping malls etc. the future of retailing for any product across the country will definitely be in malls where the consumer can get variety, quality and ambience. However, in spite of this continuous debate to be or not to be, recently Government has allowed up to 51 percent FDI in single brand retailing by foreign companies like Reebok and Louis Vuiton. As of now, single brand retailers operate through the franchisee route and there is a strong view that FDI in this segment would not displace jobs or impact the local industry but help create employment. Even today the government is undecided about the level FDI in retail, but a number of foreign players, including the Wal-mart stores, Inc., have announced their intention to enter India in a big way. At present Wal-mart is operating through its subsidiary in Bangalore, which was functioning as a liaison office till last year. Now it is in the process of setting up offices in New Delhi and Mumbai.

RETAILING IN THE 21ST CENTURY

In today's dynamic and shaky business world, the retail industry is constantly upgrading itself. With an endless array of customer choices, fierce competitors, pervasive use of the internet, and a complex global economy, retailers need to focus on finding ways to sustain and grow their businesses. Traditional growth models that focused on rolling out more stores and adding more product lines, no longer enjoy the return on investment they once did. Successful retailers are those who are able to adapt and change to the environment and develop new ways of serving customers, respecting the dynamics of current trends and adapting accordingly.

The retail industry in India is hailed as a sunrise sector, and is estimated to double in value from US$ 330 billion in 2007 to $640 billion by 2015. In fact, India has topped AT Kearney's annual Global Retail Development Index (GRDI) for the third year in a row as the most attractive market for retail investment.

The bad news is, despite the fact that India has one of the largest number of retail outlets in the World, organized retail accounts for only 4% of the total market. This makes it especially difficult to apply sophisticated merchandising and sales tools, enhance consumer interaction and also, make very accurate analysis. That said, analysts believe the sector is likely to show significant growth of over 9 % p.a over the next 10 years and also see rapid development in organized retail formats, with the proportion likely to reach a more respectable 25% by 2018.

INDIAN RETAIL LANDSCAPE

Table No.1

Raising income and increase consumerism are fueling retail growth.

SI NO	YEAR	$ billion retail growth
1	1998	201
2	2000	204
3	2002	238

4	2004	278
5	2006*	321
6	2008*	368
7	2010*	421

Sources: Retail in India-A CII-AT Kearney report

According to NCEAR forecasts, the number of 'rich' households (the target market for modern retail stores) is expected to more than double from 57 million in 2002 to 107 million by 2010. The proportion of India's population that is less than 25 years of age stands at more than 50 percent currently while more than 80 percent of the population is below the age of 45 years. This 'young population' segment is driving the changes in consumption habits and spending patterns. An increasing proportion of the young population is joining the work force, and adding to overall spending, which should bode well for the growth of modern retail formats in India. Growing urbanization (malls are likely to be concentrated in urban areas) is also fuelling modern retail format growth. It is expected that India's urban population will grow from 21 percent of the overall population in 2000 to 32 percent by 2010.

Change accelerators

The following factors will be significant in driving growth in the retail sector:

Consumer factors

· Increase in income
· Working women
· Changes in lifestyle demand for 'global' trend

Supply side factors

· Growing importance of retailing in political and economic agenda.
· Real estate reforms to be undertaken in the next 24 months.
· Major restructuring of the manufacturing sector easing product supply constraints for efficient retailing.
· Reduction in import duties- offering more global sourcing options.

RECOMMENDATIONS:

1. The retail sector in India is severely constrained by limited availability of bank finance. The Government and RBI need to evolve suitable lending policies that will enable retailers in the organised and unorganised sectors to expand and improve efficiencies. Policies that encourage unorganised sector retailers to migrate to the organised sector by investing in space and equipment should be encouraged.
2. A National Commission must be established to study the problems of the retail sector and to evolve policies that will enable it to cope with FDI – as and when it comes.
3. The proposed National Commission should evolve a clear set of conditionalities on giant foreign retailers on the procurement of farm produce, domestically manufactured merchandise and imported goods. These conditionalities must be aimed at encouraging the purchase of goods in the domestic market, state the minimum space, size and specify details like, construction and storage standards, the ratio of floor space to parking space etc. Giant shopping centres must not add to our existing urban snarl.
4. Entry of foreign players must be gradual and with social safeguards so that the effects of the labour dislocation can be analysed & policy finetuned. Initially allow them to set up supermarkets only in metros. Make the costs of entry high and according to specific norms and regulations so that the retailer cannot immediately indulge in 'predatory' pricing.
5. The government must actively encourage setting up of co-operative stores to procure and stock their consumer goods and commodities from small producers. This will address the dual problem of limited promotion and marketing ability, as well as market penetration for the retailer. The government can also facilitate the setting up of warehousing units and cold chains, thereby lowering the capital costs for the small retailers.
6. Set up an Agricultural Perishable Produce Commission (APPC), to ensure that procurement prices for perishable commodities are fair to farmers and that they are not distorted with relation to market prices.
7. Creation of infrastructure for retailing at mandis, community welfare centers, government and private colonies with a thrust on easier logistics and hygiene will enable greater employment and higher hygiene consciousness, and faster turnaround of transport and higher rollover of produce.
8. Quality regulation, certification & price administration bodies can be created at district and lower levels for upgrading the technical and human interface in the rural to urban supply chain.
9. Credit availability for retail traders must be encouraged with a view to enhancing employment and higher utilization of fixed assets. This would lead to less wastage (India has currently the highest wastage in the world) of perishables, enhance nutritional status of producers and increase caloric availability.

CONCLUSION

The retail sector has played a phenomenal role throughout the world in increasing productivity of consumer goods and services. It is also the second largest industry in US in terms of numbers of employees and establishments. There is no denying the fact that most of the developed economies are very much relying on their retail sector as a locomotive of growth. The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. But all of them have not yet tasted success because of the heavy initial investments that are required to break even with other companies and compete with them. The India Retail Industry is gradually inching its way towards becoming the next boom industry. Favorable government policies and continued growth will mean that the future belongs to the most aggressive players. The future is already planned for few investments in the coming 2-3 years. Though the retailers will have to face increasingly demanding customers and intensely competitive rivals, more investments will keep flowing in and the share of organized food sector will grow rapidly. Organized food retailing in India is surely poised for a takeoff and will provide many opportunities both to existing players as well as new entrants. Also, most food retail players have been region-specific as far as geographical presence is concerned. Food retailers are offering 'live kitchen' formats, which offer on-the-spot home-style gravies, dals, cooked rice and kneaded dough with options like grinding coffee fresh at store, idli batter, paneer, curd and cut vegetables.

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