Research Paper Social Science

Challenges And Opportunities For Development of Retail in India: a Review of Foreign Direct Investment (Fdi)

* Dr. AK Ray ** Dipayan Ghosh *** Chandrani Biswas

* Professor, Department of Humanities & Social Science, National Institute of Technolog, Agartala, India.

** Doctoral Research Scholar, Department of Humanities & Social Science, National Institute of Technolog, Agartala, India.

*** Chandrani Biswas, Doctoral Research Scholar, Department of Humanities & Social Science, National Institute of Technolog, Agartala, India.

ABSTRACT

Indian customer is younger, more tech savvy, willing to experiment, demanding and short on patience, but on the other hand, willing to spend and patronize a brand if treated well and given a good deal. As a result the store operations in general have evolved significantly in the last five years. The Indian retail market is estimated to exceed US$750 billion by 2015 (Indian Retail Report, 2013), presenting a strong potential for foreign retailers planning to enter India. The recent wave of reforms by the government to incentivize Foreign Direct Investment (FDI) in various sectors is bringing a new zeal to the investment climate in India. One of the most debated reforms is the policy for allowing 51percent FDI in multi-brand retail. However, the foreign retailers will have to accept the policy with number of conditions laid down by the policy makers. This paper will review the implications of the policy across retail segments as well as foreign retailers.

Keywords : Organised Retail, FDI, Challenges, Opportunities, Multi Brand, Single Brand

INTRODUCTION

India's large and aspiring middle class of 75 million households or 300 million individuals want products that are value-driven. The country's 500 million people under the age of 25 have access to more money that has additionally resulted in independence, aspirations and a demand for products. The Indian retail sector accounts for over 20% of the country's gross domestic product (GDP) and contributes 8% to total employment. The cumulative foreign direct investment (FDI) inflows in single-brand retail trading, during April 2000 to June 2011, stood at 69.26 million USD. 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. The size of India's retail market was estimated at US$ 435 billion in 2010. Of this, US$ 414 billion (95% of the market) was traditional retail and US$ 21 billion (5% of the market) was organized retail. India's retail market is expected to grow at 7% over the next 10 years, reaching a size of US$ 850 billion by 2020. Traditional retail is expected to grow at 5% and reach a size of US$ 650 billion (76%), while organized retail is expected to grow at 25% and reach a size of US$ 200 billion by 2020 (PWC,2012).

Factors driving the organized retail sector include the following:

- Higher incomes driving the purchase of essential and nonessential products
- Evolving consumption patterns of Indian customers
- New technology and lifestyle trends creating replacement demand
- Increase in rural income as well as urbanization
- Increase in easy access to credit and consumer awareness
- Growth of modern trade format across urban, Tier I, Tier II and Tier III cities and towns
- Rapid urbanisation and growing trend towards nuclear families

Table-1
Share of Organized retail in different countries

Country	Share
US	85%
UK	80%
Malaysia	55%
Thailand	40%
China	20%
South Korea	15%
Indonesia	25%
Philippines	35%
India	5%

The US-based global management consulting firm, A T Kearney, in its Global Retail Development Index (GRDI) 2011, has ranked India as the fourth most attractive nation for retail investment, among 30 emerging markets. As India's retail industry is aggressively expanding itself, great demand for real estate is being created. The cumulative retail demand for real estate across India is expected to reach 43 million square feet by 2013.

Around 46 per cent of the total estimated demand between 2009 and 2013 will be come from Tier-1 cities. For instance, Pantaloon Retail added 2.26 million square feet (sq. ft.) of retail space during the fiscal 2011 and booked over 9 million sq. ft of retail space to fructify its expansion plans in future. Some of the key players in the Indian retail market, with a dominant share are:

- **Pantaloon Retail Ltd, a Future group venture:** Over 12 mn sq. ft. of retail space spread over 1,000 stores, across 71 cities in India.
- **Shoppers Stop Ltd:** Over 1.82 mn sq. ft. of retail space spread over 35 stores, in 15 cities.
- **Spencer's Retail, RPG Enterprises:** Retail footage of over 1.1 mn sq. ft. with approx 250 stores, across 66 cit ies.
- **Lifestyle Retail, Landmark group venture**: Has approx imately 15 lifestyle stores and 8 Home centres.

Other major domestic players in India are Bharti Retail,

Tata Trent, Globus, Aditya Birla 'More', and Reliance retail. Some of the major foreign players who have entered the segment in India are–

- **Carrefour** which opened its first cash-and-carry store in India in New Delhi.
- Germany-based **Metro Cash & Carry** which opened six wholesale centres in the country.
- **Walmart** in a JV with **Bharti Retail**, owner of **Easy Day store**—plans to invest about US$ 2.5 billion over the next five years to add about 10 million sq ft of retail space in the country.
- British retailer **Tesco Plc (TSCO)** in 2008, signed an agreement with Trent Ltd. (TRENT), the retail arm of India's Tata Group, to set up cash-and-carry stores.
- **Marks & Spencers** have a JV with Reliance retail.

Evolution of FDI in Retail:
Single Brand: In 2006, the government eased retail policy for the first time, allowing upto 51 per cent FDI through the single brand retail route. Since then, there has been a steady increase in FDI in the retail sector, and the cumulative FDI in single-brand retail stood at $195 million by middle of 2010 (DIPP, 2010).

The Policy - Single Brand Retail Trading

Earlier	Now
For Single Brand Retail Trading (SBRT) sector – only 51% FDI permitted – subject to approvals and conditions such as: • Products should be of a "Single Brand" only • Products to be under the same brand in one or more countries if are sold outside India • Single Brand products should be branded during manufacturing • The foreign investor should be the owner of the brand	FDI in single brand retail trading is permitted up to 100% with Government approval • Products to be sold should be of a "Single Brand" only • 30% sourcing is to be done from micro and small industries (investment in Plant and Machinery not exceeding US $ 1mm) • This condition will ensure that SME sector, including artisans, craftsman, handicraft and cottage industry gets the benefits of liberalization

EVOLUTION OF FDI POLICY IN MULTI BRAND RETAIL TRADE (MBRT)
The Government of India had been considering opening up the MBRT sector to FDI for some time. In November 2011, the Government came out with its proposal for the new FDI policy. However, unable to achieve political consensus on the issue, they had to shelve their plans for the enactment of the policy. Finally the Government decided to pass the new FDI policy on MBRT in September 2012. The FEMA notification issued by the Reserve Bank of India permitting FDI in the retail sector was laid before the Houses of Parliament and the same have been cleared without any modification. After one year of this approval the foreign investment regulator has approved a $110 million investment plan by Tesco, formally paving the way for the British retailer to venture into Asia's third-largest economy (telegraph, 2013).

The Policy - Multi Brand Retail Trading

Earlier	Now
FDI in Multi Brand Retail Trading was not allowed States in favor of FDI in MBRT – Andhra Pradesh, Assam, Delhi, Haryana, J&K, Maharashtra, Manipur, Rajasthan, Uttarakhand and Daman & Diu and Dadra Nagar Haveli ** Back-end Infrastructure includes supply chain, logistics and warehousing but not land and rentals	FDI in Multi Brand Retail Trade is permitted up to 51%, subject to following conditions: • Outlets to be set up - only in cities with a population of more than 1m (within a 10 km range) • Minimum investment by the foreign investor - US $100mm and at least 30% of the procurement of manufactured / pro cessed products shall be sourced from 'small industries" (investment in Plant and Machinery not exceeding US $1million) • Sourcing requirements will be checked together for first five years – after that on a annual basis • Retail trading by means of e-commerce – not permissible • At least 50% of total FDI brought in shall be invested in back-end infrastructure within three years of the induction of FDI

Challenges:
It is not easy to be successful in a place where culture, tradition and food habits change every 124 miles. Some of the largest and most prominent Indian business houses such as Reliance, Godrej, RPG and the Future Group have all struggled in the Retail Industry in India. These large players have lost a significant amount of money and in fact one of the leaders in the space, Subhiksha, which at one time had almost 1,600 outlets has shut down India's image is one of a "fickle policy maker" with regulations being frequently changed, rolled back and even retrospectively amended have made investors speculative. Subsequent populist decisions are feared, such that the foreign retailers may not be able to achieve dominant market positions or buy / rent at the right locations.

Opportunities:
According to A T Kearney's Global Retail Development Index (GRDI) 2012, India is the 5th most favorable destination for international retailers (Fig 1). Of the total Indian retail market, 8% constitutes the organised retail segment which is estimated to grow at a rate of almost 30% by 2015, and hence at a much faster pace than the overall retail market which is forecast to grow by 16% in the same period. Clothing & Apparel make up almost a third of the organized retail segment, followed by Food & Grocery and Consumer Electronics. India currently has a small penetration within the organized retail segment as compared to other emerging markets such as China, which has a penetration of more than 20% within organised retail according to the Global Retail Index report by the World Retail Conference.(Michael page 2013)

Country	2012 Rank	2011 Rank	Change
Brazil	1	1	0
Chile	2	2	0
China	3	6	+3
Uruguay	4	3	-1
India	5	4	-1
Georgia	6	Unranked	N/A
United Arab Emirates	7	8	+1
Oman	8	Unranked	N/A
Mongolia	9	Unranked	N/A
Peru	10	7	-3

Sources: Planet Retail: A.T. Kearney analyst.

ADVANTAGES OF FDI

FDI in Retail Sector is a very good indication for consumers because they will get lots of diversities in a sensible price, employment generation, and increase in competition.

Growth in economy: Due to coming of foreign companies' new infrastructure will be build, thus real estate sector will grow consequently banking sector, as money need to be required to build infrastructure would be provided by banks.

Job opportunities: Approximations, this will create about 80Lakh jobs. These career opportunities will be created mostly in retail, real estate. and it will create positive impact on others sectors also.

Benefits to farmers: By FDI, as farmers might get contract farming where they will supply to a retailer based upon demand and will get good cash for that, they need not to search for buyers.

Benefits to consumers: Consumer will get variety of products at low prices compared to market rates, and will have more choice to get international brands at one place.

Infrastructure Development: FDI might help India overcome issues like improper infrastructure. In spite of India being one of the largest producers of vegetables and fruits, lack of proper count of cold storages has significantly affected the selling of these perishable items by channelizing the resources in the right manner.

Growth of the Retail sector in India - Improvement in Retail capability building

About 5-7 years back, the industry was expected to grow at a much faster rate than what it actually has. Lack of retail experience & capability has been one of the primary reasons for this subdued growth. FDI in retail will make way for inflow of knowledge from international experts which can give boost to the overall growth of the industry. Capability building apart from financial investments is extremely important for the industry.

Push to Infrastructure - Improvement in management of supply chain:

FDI in retail will boost investment in infrastructure from the retail players, 3rd party supply chain companies as well as the Government in the back of a sophisticated front end that international players are likely to bring. This will improve the efficiency of the supply chain, which will bring down the wastage, increase efficiency and reduce the overall cost to the consumer.

Single brand: This is a welcome step. FDI investment in single brand retailing till now has just been 0.03% [Rs 204 cr / usd 44 mn] of total FDI investments from April 2000 to September 2011. This relaxation is likely to result in increase in FDI in retail sector, by way of either new foreign entrants, or buy outs / increase in stake / amongst existing single brand with foreign partners. We could also potentially see present licensing / distributor / franchise arrangements being converted to either JVs with respective foreign retailer / brands, or, foreign retailers completely buying out the Indian licensee / franchisee / distributor. (A.Chari,2011)

Multi brand: This is a welcome and historic step. This is likely to result in increase in investments and growth in Indian retail sector, which is ranked amongst the top retail destinations in the world. Besides new entrants / joint ventures, this could also result in combination of existing cash and carry operations of foreign players with retail operations of Indian retailers, or, foreign retailer acquiring stakes in existing Indian retail entity. Also, this could provide further options to existing Indian retail chains / groups to raise long term capital for expansion and maybe to attract partnerships with some global players. Also, foreign multi brand retailers, who did not want to enter India through cash and carry operations, may now explore Indian presence by having stake in Indian retail company

DISADVANTAGES

- According to the non-government cult, FDI will drain out the country's share of revenue to foreign countries which may cause negative impact on India's overall economy.
- The domestic organized retail sector is not competitive enough to tackle international players and might lose its market share.
- Many of the small business owners and workers from other functional areas may lose their jobs, as lots of people are into unorganized retail business such as small shops.

CONCLUSION

Retail industry is the most booming sector in current scenario. It will provide more and more opportunities in the near future. The growth of the organized retail industry in the country will mean thousands of new jobs, increasing income levels and living standards, better products, and services, a better shopping experience, and more social activities. But apart from the aspect that Indian retailing opening door for foreign retailers, it is also being seen as a threat for Indian retailers. The regulatory body and the Govt. have to take care that due to entry of FDI in retail the market will not become a high concentration in the country and can make regulation to prevent foreign retailers like Wal-Mart from having a high concentration of business in the country.

REFERENCES

[1]Indian Retail Report, (2013). | [2]PricewaterhouseCoopers, (2012)," The Indian Kaleidoscope Emerging trends in retail | [3]GRDI, AT Kearney, (2011). Available at http://www.atkearney.com/consumer-products-retail/global-retail-development-index. | [4]DIPP, (2010), " Foreign Direct Investment (FDI) in multibrand retail trading." Discussion paper, available at http://www.dipp.nic.in. | [5] The Indian Retail Sector Report (2013), Micheal Page. Available at www.michealpage.co.in | [6]Anusha Chari, Raghavan, 2011 " Foreign Direct Investment in Indias Retail Bazaar: Opportunities and Challenges." Available at http:// www.unc.edu/~achari/retail.pdf |