



Impact of Entry of Foreign Multi Brand Retailers on Unorganized Retail in India

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ABSTRACT

The Indian retail sector has huge potential for growth. However despite its potential and increasing contribution to the Indian economy, the sector is still largely underdeveloped. FDI (Foreign Direct Investment) plays a very important role in the economic development of developing countries India. It acts as a catalyst in technological up gradation and development of skills and managerial abilities. The government has taken initiative in attracting FDI in retail but it is still falling short of the scale that is required to ensure modernization of the sector. Debate around opening the sector to multi brand retailers, perceived as a too risky for the unorganized sector, particularly Kirana stores (Indian version of mom & pop stores) is still ongoing. This paper makes an attempt to understand the challenges in the growth of foreign organized retailers and the impact of entry of foreign multi brand retailers on unorganized retail sector in India.

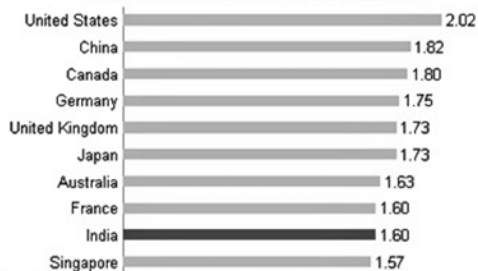
KEYWORDS

Unorganized Retail, Organized Retail, Foreign Direct Investment, Multi Brand Retail, Single Brand Retail

Introduction

The Indian retail sector is the fastest growing sector in the world. According to IBEF, by 2018, the Indian retail sector is likely to grow at a CAGR of 13 per cent to reach US\$ 950 billion. According to AT Kearney 2015 FDI Confidence Index, India is ranked among topmost developing nations.

FDI Confidence Index 2016



Source: AT Kearney 2015 FDI Confidence Index, AT Kearney 2016, TechSci Analysis Notes: FDI - Foreign Direct Investment

Retail classification

Retail industry can be broadly classified into organised and unorganised retail. Organised traders/retailers are those that hold licence for trading activities and are registered to pay taxes to the government. Unorganized retail on the other hand consists of unauthorized small shops like paan & bedi shops, small roadside vendors, street hawkers, conventional kirana shops, general stores etc.

In India, share of unorganized sector dominates the retail space. The contribution of unorganized sector in India is in the range of 80% to 90% according to various reports. As a country moves towards economic progress, a natural shift from unorganized to organized retailing is expected. Almost all countries that have opened their retail sector to foreign players have witnessed a similar phenomenon.

Single Brand and Multi Brand Retailing

In single brand retail, as the name suggests, goods are sold to customers under one single brand. Different products can be sold in the same store but under one brand only. For eg, Reebok, Nike, Promod etc.

In Multi brand retail, business sells goods under different brands to customers. They may or may not own the brands. For e.g Shoppers Stop, Big Bazaar, Croma etc.

FDI in Retail

Foreign Direct Investment is defined as an investment made in a country apart from home country. This investment could be in establishing production facilities, retailing or any other venture with the objective of long term interest in that country. The reasons for investing in other countries could be geographical proximity to markets, cheap labor, availability of abundant and/or cheap raw materials, tax privileges etc.

In India 100% FDI is allowed in single brand retailing but only 51% FDI is allowed in multi brand retailing.

Research Methodology

This study is based on extensive secondary research. Information from web sites, magazines, newspapers and research reports has been used to analyse and draw conclusions on the impact of entry of foreign multi brand organized retailers on unorganized retail sector in India.

Research Objectives

- 1) To uncover the merits and demerits of entry of multi brand retailers in India on existing unorganized retailers
- 2) To study the challenges in the growth of foreign organized retailers in India

Challenges in growth of foreign organized retail sector in India

The multi-brand retail policy has not been received well by overseas retailers. Only British supermarket chain Tesco Plc. entered the country in a 50:50 joint venture with Trent Hypermarket Ltd, a Tata Group venture. Other overseas multi brand retailers like French retailers Auchan Group and Carrefour S.A. winded up operations in 2013 due to unfavourable regulatory environment.

FDI restriction on multi brand retailing is currently at 51%. This leaves only the option of JV with Indian retailers. In the past such joint ventures have failed because of restricted policy regime or cultural difference between partners leading to loss and final exit of these multinationals. Restrictive norms like 30% sourcing from Indian retailers, investment of \$100 million in infrastructure and location restrictions are all weighing heavy on foreign retailers.

The high rentals & real estate prices in prime localities and restricted space availability along with cumbersome tax laws and state level approvals are adding to their woes.

Lack of infrastructure is another road block for these retailers. The

phenomenal growth story of organized retail sector in China for both local and foreign players has been achieved due to development of infrastructure. In India, it will take time to achieve the level of infrastructure required to support the growth of organized retail.

Dominance of unorganized sector in Indian market is an important hurdle in the growth of organized retail. The unparalleled facilities offered by unorganized retailers like credit, personal touch, price bargain and any time home delivery of small purchases along with knowledge of local tastes and preferences and convenient neighbourhood locations may be difficult for organized retailers to overcome. Moreover it will take time for organized retailers to change buying habits of Indian consumers in their favour.

Low skilled labor is another impediment as foreign retailers will have to invest considerable time and money in imparting training to employees to deliver international level of customer service to Indian buyers.

The Indian market is heavily fragmented in terms of preferences, purchase power and buying habits. It will be a herculean task for foreign retailers to understand the Indian market and develop and implement competitive strategies. Moreover, the online retail space in India too is poised for phenomenal growth. Pure internet retailers like Amazon, Flipkart etc are already fighting a pitched battle. Omni channel strategies will be needed to sustain growth.

Merits of entry of foreign Multi Brand Retailers in India

The major arguments in favour of FDI of multi brand retailing are as follows:

- 1) Foreign multi brand retailers will bring with them much needed capital along with advanced technology and management knowledge of inventory management, merchandising, logistics, warehousing etc which will improve the efficiency in retailing.
- 2) Foreign Multi Brand retailers known for low pricing are likely to drive down prices which will benefit the end consumer. They will also ensure better quality products, better shopping experiences through modern formats, better customer service and best global practices in retail.
- 3) Entry of foreign organized retailers will generate employment. Growth in supply chain and entry modern retail formats, retailing will emerge as a preferred option for employment.
- 4) These retailers are known to promote and link local farmers and manufactures with global markets provided they meet international quality standards. With support from foreign retailers, Indian farmers and manufacturers can develop global standards and eventually become global suppliers.

Demerits of allowing 100% FDI in Multi Brand Retailing in India

- 1) It is feared that entry of foreign multi brand retailers will lead to closure of kirana store which is a distinct feature of Indian retail and an important traditional option for employment of less educated and lower & middle class groups.
- 2) Predatory pricing strategies may be adopted by these retailers. The prices may be low initially but once they have captured considerable market share, the foreign retailers will increase the prices. This has been observed in other Asian, US and European markets which have opened doors to FDI in multi brand retailing.
- 3) They may not generate employment but only cause displacement of labor. The labor available to kirana stores today may prefer working in these multinational. Also farm labour too may be attracted to join these retailers.

Conclusion

This study was undertaken to find out the challenges faced by foreign multi brand retailers in India. The fears of the unorganized sector in India may not be as real. In the course of development, a natural shift to organized retailing is observed in most countries that have allowed foreign multi brand retailers. With rising

purchase power and cultural transformations, the Indian consumer is demanding better shopping experiences which foreign retailers can provide. The growth of Indian organized retailers in the last decade has led to generation of employment and skill development which is an evidence of the fact that this trend will only grow with the entry of foreign retailers. It's unlikely that foreign retailers will take over unorganized sector in India given the absence of adequate infrastructure which they heavily rely on for growth. The rural and urban divide in India is yet another safety net for unorganized retailers as it will take a long time for foreign retailers to penetrate the rural and semi-urban areas profitably. The government should consider allowing 100% FDI in multi brand retailing to support the growth and modernization of retail sector in India.

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