



RETAIL BUSINESS IN INDIA AND FDI

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Abstract

The retail industry in India plays a very important role in country's economy. In fact with a growing economy, improving income dynamics, rising awareness, India is well on its way to become one of the most prospective markets for the domestic and global retailers, as according to AT Kearney, the well-known international management consultancy, India is identified as one of the most attractive countries for retail business. FDI has opportunities and threats for retail business in all countries and government of India has tried to decrease the negative aspects of FDI by establishing policies in this field. This study is based on secondary data and review of related literature, and tries to brighten the retail business, FDI in retail business and related challenges and opportunities in India.

Definition of retail in India:

In 2004, 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).

2-Organized and unorganized retailing:

The retail business is mainly divided into:

1- Organized:

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.

2-Unorganized retailing:

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.

3-Benefits of organized retailing:

- 1- Brings more comfort, joy and entertainment for customers.
- 2- Helps the socio-economic development of the society by providing employment

to skilled, semi-skilled as well as to unskilled persons.

- 3- Lowers the prices because of the price war between organized retailers.
- 4- Provides proper price for both farmers and customers because of direct purchase from farmers.
- 5- Reduces supply chain management as the manufacturing companies directly come in contact. Manufacturers also give many promotional schemes for their product that is beneficial for consumers.
- 6- Increases the awareness of consumers about products and services.
- 7- Changes the consumers' requirements and lifestyles.
- 8- Encourages innovation for new product development.
- 9- Provides more choices for customers.
- 10- Saves time.

4-Opportunities for FDI in retail business in India:

India's strong growth fundamentals-9 percent real GDP growth in 2010; forecasted yearly growth of 8.7 percent through 2016; high saving and investment rates; fast labor force growth; and increased consumer spending-make for a very favorable retail

environment and the 4th spot in the GRDI (Global Retail Development Index). As has been the case for several years, Indian consumers continue to urbanize, have more money to spend on non-food purchases, and have more exposure to brands. The result is a powerful, more discerning consumer class. India's population of nearly 1.2 billion-forecast eventually to overtake China's-also is an attractive target. In addition increased use of credit cards in India is in favor of retail marketing, it creates requirement even when it is not necessary.

Organized retail accounts for 7 percent of India's roughly \$435 billion retail market and is expected to reach 20 percent by 2020. Food accounts for 70 percent of Indian retail, but it remains under-penetrated by organized retail. Organized retail has a 31 percent share in clothing and apparel and continues to see growth in this sector.

The recession proved an opportunity for domestic and foreign retailers to optimize their store portfolios and drive more profitable growth in India. They are now in much better and smarter positions to take advantage of India's retail possibilities. Domestic players are selectively growing in India-postponing aggressive expansion plans, adding stores judiciously and shifting gears to tier 2 and 3 cities.

5-Challenges of FDI in retail business in India:

- 1- The kiranas are still very powerful in India because of consumers' familiarity and lower cost structure.
- 2- Lack of recognition as an industry hampers the availability of finance to the existing and new players, this affects growth and expansion plans.
- 3- The high costs of real state.
- 4- High stamp duties on transfer of property.
- 5- Lack of adequate infrastructure.

- 6- Multiple and complex taxation system.
- 7- Price war between different retail organizations.
- 8- Rigid government policies and regulations restrict the entry of new players.
- 9- Presence of a significant number of strong and well-established domestic players.
- 10- Low purchasing power and more price sensitivity.
- 11- Heterogeneity in terms of culture and lifestyle-fragmented market.
- 12- Poor logistic network. Difficult to set up supply chain.

6-Arguments against FDI in retailing in India:

- 1- It would lead to unfair competition and ultimately result in large-scale exit of domestic retailers, especially the small family managed outlets, leading to large scale displacement of persons employed in the retail sector. Further, as the manufacturing sector has not been growing fast enough, the persons displaced from the retail sector would not be absorbed there.
- 2- Another concern is that the Indian retail sector, particularly organized retail, is still under-developed and in a nascent stage and that, therefore, it is important that the domestic retail sector is allowed to grow and consolidate first, before opening this sector to foreign investors.
- 3- Global retailers would conspire and exercise monopolistic power to raise prices and monopolistic (big buying) power to reduce the prices received by the suppliers; thirdly, it would lead to asymmetrical growth in cities, causing discontent and social tension elsewhere. Hence, both the consumers and the suppliers would lose, while the profit

margins of such retail chains would go up.

- 4- Foreign retailers prefer to import more than domestic retailers.

7-Arguments favoring FDI in retailing:

- 1- Increases the speed of development in modern formats of retailing.
- 2- Improves productivity and efficiency of the retail sector.
- 3- Enhances sourcing from India.
- 4- Improves quality of employment (No negative impact on employment if the economy is growing).
- 5- Encourages investment in supply chain.
- 6- Leads to integration of suppliers, logistic service and retailers - reduction in the number of intermediaries.
- 7- Links local suppliers, farmers, manufacturers to global markets.
- 8- Reduces the prices as global retailers are inclined to lower the prices.
- 9- Assures the product quality, better services and shopping experience.
- 10- Brings in technical know-how and skill.
- 11- Joint ventures would ease capital constraints of existing organized retailers and there will be more investment in upstream activities and allied sectors.
- 12- Domestic retailers would get access to global best management practices.

13- Develops tourism.

14- Increases the exports.

15- Increases the GDP growth and reduces the inflation.

Conclusion:

It can be said that in India the advantages of allowing unrestrained FDI in the retail sector evidently has outweighed the disadvantages attached to it as it can be seen in recent policies established by government of India and it seems that government is of this idea that eventually FDI in retail business is in favor of country and it can led to the commendable rise in the level of employment and enormous development of country's GDP like Thailand and China; where too the issue of allowing FDI in the retail sector was first met with incessant protests, but later turned out to be one of the most promising political and economic decisions of their governments. Another important aspect which has to be considered in FDI in retail business is adequate preparation of customers, unorganized and organized domestic retailers with step by step liberalization of retail business which is highlighted in policies of government of India during the time.

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