



FDI IN RETAIL SECTOR IN INDIA: ITS OPPORTUNITIES AND CHALLENGES

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ABSTRACT

For the economic development of a nation efficient retailing network is crucial one. Retail industry will grow manifold in the next few years and FDI will only give it a boost. Since 2000 government has provided favorable ground for growth of organized retailing in India through its supportive policies. Within a decade the scenario of organised retailing sector has changed taking a flight to 5% and further expected to maintain higher pace. Till now retail growth in India has been achieved primarily due to rising consumerism and initiatives in the private sector. However, while retailing currently remains closed to FDI, this is an area of ongoing debate. The paper describes the Indian Retailing and its present position. The paper further discusses the FDI in single brand retailing and multi Brand Retailing and opportunities, threats and challenges to FDI in Retailing in India.

INDIAN RETAILING: AN OVERVIEW

India is one of the fastest growing retail markets in the world. Retail wave in India began in Mumbai metropolitan. Amongst the major forms of traditional Indian retail are weekly markets, bi-weekly markets, *melas*, local *kirana shops*, *pan / bidi* shops, *khadi bhandaar*, hand cart, pavement vendors, owner manned general stores, co-operative stores etc. and some modern formats such as shopping malls, big bazaar, hyper city, hyper-marts, retail chain, departmental stores such as shoppers stop, lifestyle, pantaloons, westside and trent, apparel stores, etc. are remarkable. Both organized and unorganized players in this sector collectively contribute 8% of total employment and 10% to GDP has been the greatest achievement. It is the largest employment generator (40 million) of the country. Amongst the key retail players Benetton, Landmark Lifestyle, Woolworths, Wal-mart, McDonalds, Metro AG, IKEA, Nike, Apple, Tesco, Carrefour, Metro, Marks and Spencer etc. are noteworthy. Some of the biggest Indian corporate houses

like the Future Group, Raheja Group, Reliance, TATA's, Aditya Birla group, Bharti etc. have made massive investments in India's organized retail business. Retailing is the most important link between the manufacturer and ultimate consumer. It is the oldest profession of the world, performed by retailer who keeps the stock of producer's goods and sell them to individual consumer on profits. Indian retailing is very old concept and may be traced back to weekly markets and villages fairs which still dominate the scene. The retail trade contributes around 10-11 percent of India's GDP. There are large numbers of small retail enterprise in India. The retailing is divided into two sectors, organized and unorganized sector. In the organized sector, trading activities are undertaken by retailers who are having registration for sales tax and income tax like hypermarkets, supermarkets and discount stores. Unorganized sector involves traditional forms of low-cost retail, like local shops and general stores. The unorganized retailing accounts for 95.2 percent of the retail trade in India. Retailing

in India in some centuries old and generally owner operated. Easy entry, low capital and infrastructural needs are its main reasons. This sector provides social security net for the huge unemployed population in India. There are more than 45 million family owned shops and they operate in almost all the segments. The Indian unorganized sector provides maximum employment opportunities compared to other nation. The Indian traditional sector accounts for 95.2% of total trade in comparison to 80% of China, 70% of Indonesia, 60% of Thailand, 45% of Malaysia, 19% of Taiwan, and 15% of U.S. The modern retail trade is still very low but this sector is changing significantly. The share of Indian modern retail in total trade is 4.8% as compared to China's 20% Indonesia's 30% Thailand's 40%, Malaysia's 55%, Taiwan's 81% and U.S.'s 85%

In India the organized retail is growing at a much faster rate presently accounting for 6% of overall sales. It is further expected that it will grow at a compounded annual growth rate of 35% by 2020.

FDI – PRESENT POSITION

A foreign direct investor is an entity that has a direct investment enterprise operating in a country other than the economy of residence of foreign direct investor. The FIPB (Foreign Investment Promotion Board) is the responsible agency for approving foreign investment in to India. The present policy keep FDI restricted in the retail sector except in private labels, Hi-Tech items medical and diagnostic items sourced from Indian small sector and for 2 year test marketing (simultaneous commencement of investment in manufacturing facility required) FDI for virtually all items/activities can be brought in through the Automatic Route under powers delegated to the Reserve Bank of India

(RBI), and for the remaining items/activities through Government approval. Government approvals are accorded on the recommendation of the Foreign Investment Promotion Board (FIPB).” At present foreign companies only allowed owning 10 percent of a business in the retail stores.

FDI- IN SINGLE BRAND RETAILING

The Government has not categorically defined the meaning of “Single Brand” anywhere neither in any of its circulars nor any notifications.

In single-brand retail, FDI up to 51 percent is allowed , subject to Foreign Investment Promotion Board (FIPB) approval and subject to the conditions mentioned in Press Note 3 that (a) only single brand products would be sold (i.e., retail of goods of multi-brand even if produced by the same manufacturer would not be allowed), (b) product should be sold under the same brand internationally, (c) single-brand product retail would only cover products which are branded during manufacturing and (d)any addition to product categories to be sold under “single-brand” would receive fresh approval from the government.

While phrase ‘ single-brand’ has not been defined, it implies that foreign companies would be allowed to sell goods sold internationally under a ‘single-brand’ , viz., Reebok, Nokia, Adidas. Retailing of goods of multiple brands, even if such products were produced by the same manufacturer, would not be allowed.

Going a step further, we examine the concept of ‘single-brand’ and the associated conditions:

FDI in ‘Single brand’ retail implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only

sell products under the Adidas brand and not the Reebok brand, for which separate permission is required. If granted permission, Adidas could sell products under the Reebok brand in separate outlets.

FDI-IN MULTI BRAND RETAILING

The government has also not defined the term Multi Brand. FDI in Multi Brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof.

In July 2010, Department of Industrial Policy and Promotion (DIPP), Ministry of commerce circulated a discussion paper on allowing FDI in multi-brand retail. The paper doesn't suggest any upper limit on FDI in multi-brand retail. If implemented, it would open the doors for global retail giants to enter and establish their footprints on the retail landscape of India. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous 'Kirana' store.

Some of the international players that have already entered India include McDonald's, Pizza Hut, Dominos, Levis, Lee, Nike, Adidas, TGIF, Benetton, Swarovski, Sony, Sharp, Kodak, and Medicine Shoppe among other.

FOREIGN DIRECT INVESTMENT IN INDIAN RETAILING: OPPORTUNITIES

- Benefits of globalization through more assimilation with the foreign economy.
- Foreign capital inflows.
- More exports as sourcing will be performed from India.
- Technology advancement along with latest managerial skills.
- More Job Creation through employment opportunities.

- Customer satisfaction through quality goods at reasonable prices.
- Increase in the living standard of farmers through contract farming.

FOREIGN DIRECT INVESTMENT IN INDIAN RETAILING: THREATS

- Dislocation of traditional retail sector.
- Large scale job losses.
- Threat to the survival of small retailers like 'local kirana'.
- The exploitation of farmers and suppliers is quite possible.
- Adoption of unfair trade practices by foreign retailers.
- Profit making is the sole goal.

CHALLENGES OF RETAILING IN INDIA

- In India the Retailing industry has a long way to go, and to become a truly flourishing industry, retailing needs to cross the following hurdles:
- The first challenge facing the organized retail sector is the competition from unorganized sector.
- In retail sector, Automatic approval is not allowed for foreign investment.
- Taxation, which favours small retail businesses.
- Developed supply chain and integrated IT management is absent in retail sector.
- Lack of trained work force.
- Low skill level for retailing management.
- Intrinsic complexity of retailing-rapid price changes, threat of product obsolescence and low margins.
- Organized retail sector has to pay huge taxes, which is negligible for small retail business.

- Cost of business operations is very high in India.

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