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FOREIGN DIRECT INVESTMENT IN RETAIL SECTOR

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ABSTRACT

For the Indian Retail Sector, we can say that **"Don't Find Faults Find a Remedy"**. The retail sector is one of the rising sectors in the Indian economy. The Experienced and the trained manpower, these two are the main problems in retail sector, and FDI will help to overcome these. This paper focuses on the impact of the impact of FDI in the Indian Retail Sector, what opportunities and threats the Indian economy will face, if FDI is fully allowed in retail sector. This paper finds that there is a positive relationship between the growth of the Indian economy and FDI Inflow. The government of India has not taken decisions related to economic reforms and as a result of this the confidence of global investors in Indian companies is coming down

INTRODUCTION

India is without doubt a growth economy and many consider it an attractive country to invest in, particularly in its rapidly growing and changing retail market. From street/cart retailers working on pavements/roadsides and small family run businesses to international brands such as Rolex® and Nike®, the retail market in India is vibrant,

colorful and highly fragmented.

India: Growth slowdown, but still strong:

The global slowdown hasn't spared India, whose GDP growth rate slipped to 5 percent, down from a 10-year average of 7.8 percent. Same- store sales volume growth slowed in 2012 across retail, particularly for lifestyle and value- based formats. India slipped to the 20th rank among the top 30 developing countries identified by management consulting firm AT Kearney in its 2014 Global Retail Development Index (GRDI) that looks at measures for retail investments worldwide. In the 2013 GRDI, India stood at number 14.

High operating costs, low bargaining power with vendors, and heavy discounting to improve sales have affected profits and expansion plans. Real estate cost and space availability also remain important issues. Many players are actively looking at improving sales productivity, cutting operating costs, and reducing store size.

However, the long-term fundamentals remain strong: in particular, a large, young, increasingly brand- and fashion-conscious population. Retail growth of 14 to 15 percent per year is expected through 2015. Modern retail remains limited (7 percent in 2012), but it is expected to grow as the country urbanizes and retailers make new investments.

In 2012, India's retail sector reached an important landmark: The government allowed 100 percent foreign direct investment in a single brand for the first time. Several single-branded retailers entered India in many sectors: apparel and beauty (including Brooks Brothers, Kenneth Cole, Sephora, and Armani Junior), standalone boutiques (including Roberto Cavalli and Christian Louboutin), and food (including Starbucks and Dunkin' Donuts). Large retailers such as IKEA are finalizing their India entry strategies.

In multi-brand retail, the government allowed 51 percent FDI starting in early 2013. However, there are preconditions about investment, sourcing, store locations, and state government approval. Although the government has received multiple investment proposals, many multi-brand players are taking a "wait-and-see" approach due to apprehensions about how the policy will be implemented.

Retailers are expanding in tier 2 and 3 cities as real estate costs in major metro areas skyrocket. Carrefour, Metro, and Bharti-Walmart have increased their presence in these markets.

Online shopping is in the early stages, with e-commerce sales equal to less than 1 percent of all retail sales, but growth is expected as more people access the Internet. Mobile phones, electronic appliances, apparel, movies, music, and books are the fastest-growing categories. New entrants, new business models, and new niche categories have flooded the market, yet few players have turned profitable yet.

INDIAN RETAIL SECTOR OVERVIEW

FDI (Foreign Direct Investment) is a process which enables the residents of one country to directly invest their funds in another country and acquire ownership of assets and exercise control over the investment in terms of production, management, distribution, effective decision making, employment etc.

In simple words retailing is making the final product directly available to the final consumers of the product or a sale to the ultimate consumer. Retail can also be defined as a link or interface between bulk producers and individual consumers who purchase for final consumption. Retail is the last step in the process of distribution of merchandise.

Manufacturer → Agent → Wholesaler → Retailer → Consumer

FDI in retailing remains a widely debated and heated issue in India's economic and political environment. However, the Government is gradually taking steps to open the sector.

Division of Indian Retail Industry

The Indian retail industry is generally divided into two major segments – *organized retailing and unorganized retailing*

- *Organized Retailing:* Organized retailing comprises mainly of modern retailing with busy shopping malls, multi storied malls and huge complexes that offer a large variety of products in terms of quality, value for money and makes shopping a memorable experience. The retailers who are undertaken the trading activities are licensed retailers and they are registered for sales tax, income tax etc.

- *Unorganized Retailing:* Traditional or Unorganized retail outlets are normally street markets, counter stores, kiosks and vendors, where the ownership and management rest with one person only. This sector accounts for two thirds of the market and requires low skilled labor. These are highly competitive outlets, with negligible rental costs (unregistered kiosks or traditional property), cheap workers (work is shared by members of family) and low taxes and overheads.

Types of Retailing in India

1. ***Single Brand Retail:*** Single brand implies that foreign companies would be allowed to sell goods sold internationally under a 'single brand', viz., Reebok, Nokia and Adidas. FDI in 'Single brand' retail implies that a retail store with foreign investment can only sell one brand. Neither any political parties nor local kiranawala shops raised any voice against it because these are high end luxury items for rich class people and does not hurt a large population. For e.g. Nike Company opens outlets in Delhi, Ahmadabad, Bangalore and Mumbai selling nothing but Nike shoes, Nike wrist watches and T-shirts only.

2. ***Multi Brand Retail:*** FDI in Multi Brand means allowing a retail store with a foreign investment to sell multiple brands under one roof. For e.g. Big Bazaar opens malls in Mumbai, Kolkata New Delhi and Bangalore: selling t-

shirts of multiple brands such Reebok, Nike, Adidas, Allen Solly, Peter England etc. as well as unbranded t-shirts (those with discount offers). So, this is multi brand retail when an outlet sells a product of more than one brand. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open up stores offering a range of household items and grocery directly to customers.

MARKET SIZE

The Boston Consulting Group and Retailers Association of India published a report titled, 'Retail 2020: Retrospect, Reinvent, Rewrite', highlighting that India's retail market is expected to nearly double to US$ 1 trillion by 2020 from US$ 600 billion in 2015, driven by income growth, urbanization and attitudinal shifts.
The report adds that while the overall retail market is expected to grow at 12 per cent per annum, modern trade would expand twice as fast at 20 per cent per annum and traditional trade at 10 per cent.
Retail spending in the top seven Indian cities amounted to Rs 3.58 trillion (US$ 57.6 billion), with organized retail penetration at 19 per cent as of 2014. Online retail is expected to be at par with the physical stores in the next five years.
India is expected to become the world's fastest growing e-commerce market, driven by robust investment in the sector and rapid increase in the number of internet users. India's e- commerce market is estimated to expand to over US$ 100 billion by 2020 from US$ 3.5 billion in 2014.The Indian retail industry in the single-brand segment has received Foreign Direct Investment (FDI) equity inflows totaling US$ 275.4 million during April 2000–May 2015, according to the Department of Industrial Policies and Promotion (DIPP).

ONLINE RETAIL

India's urban population has contributed immensely to the growth of the online market in the country. Around 30–40 per cent of the total retail in India's top 75 cities is expected to be carried out online in the next 7–10 years, as per Mr. Arvind Singhal, Chairman and Founder,

Technopak Advisors. The growing online retail market has become a very lucrative business for international majors as well. Amazon, the world's biggest internet retail company, has seen potential in the Indian market. In June 2013, India became only the tenth market where Amazon has established a country-specific retail website.

INVESTMENT SCENARIO

With the rising need for consumer goods in different sectors including consumer electronics and home appliances, many companies have invested in the Indian retail space in the past few months.

- ✓ Paytm plans to set up 30,000–50,000 retail outlets where its customers can load cash on their digital wallets. The company is also looking to enroll retailers – mostly kirana stores – as merchants for accepting digital payments.
- ✓ Mobile wallet company MobiKwik has partnered with Jabong.com to provide mobile payment services to Jabong's customers.
- ✓ DataWind partnered with HomeShop18 to expand its retail footprint in the country. Under the partnership, HomeShop18 and DataWind would jointly launch special sales programmes across broadcast, mobile and internet media to provide greater access to the latter's tablet range.
- ✓ Fashion And You has opened three distribution hubs in Surat, Mumbai and Bengaluru to accelerate deliveries.
- ✓ Abu Dhabi-based Lulu Group plans to invest Rs 2,500 crore (US$ 402.0 million) in a fruit and vegetable processing unit, an integrated meat processing unit, and a modern shopping mall in Hyderabad, Telangana.
- ✓ Aditya Birla Retail, a part of the US$ 40 billion Aditya Birla Group and the fourth- largest supermarket retailer in the country, acquired Total hypermarkets owned by Jubilant Retail.
- ✓ With an aim to strengthen its advertising segment, Flipkart acquired mobile ad network AdiQuity, which has a history of mobile innovations and valuable experience in the ad space.
- ✓ US-based Pizza chain Sbarro plans an almost threefold increase in its store count from the current 17 to 50 over the next two years through multiple business models.

- ✓ Amazon, the world's largest online retailer, is readying a US$ 5.0 billion war chest to make India its biggest market outside the US.
- ✓ Wal-Mart India Private Ltd, a wholly owned subsidiary of Wal-Mart Stores Inc., plans to open 500 stores in India in the next 10–15 years.
- ✓ British retail major Tesco invested Rs 850 crore (US$ 133.8 million) in multi-brand retail trading by forming an equal joint venture with Tata group company Trent; to form the joint venture, Tesco purchased 50 per cent stake in Trent Hypermarket Ltd (THL). THL operates the Star Bazaar retail business in India.

POLICY AND REGULATORY ENVIRONMENT

a) FDI in “Single-Brand” Retail: Up to 100 percent FDI is permissible in single-brand retail. Conditions stipulate that:
   i. Only single-brand products are sold.
   ii. Products are sold under the same brand internationally.
   iii. Single-brand products include only those identified during manufacturing.
   iv. Any additional product categories to be sold under single-brand retail must first receive additional government approval.

b) FDI in “Multi-Brand” Retail: Up to 51% percent FDI is Permissible in multi-brand retail. Conditions stipulate that:
   i. Minimum investment of US$ 100million by the foreign investor.
   ii. Stores to be restricted to cities with a population of one million or more given constraints around real estate, retailers are allowed to set up stores within 10 km of such cities.
   iii. 30 percent sourcing from micro, small and medium enterprises (MSME).
   iv. 50 per cent of the investment to be in back-end infrastructure.
   v. While the proposals on FDI will be sanctioned by the Centre, approvals from each State Government would be required.

GROWTH IN RETAILING

According to A.T Kearney Foreign Direct Investment Confidence Index 2013, India is slipped from rank 7th in 2014 to rank 11th in 2015. India falls four spots to 11th, losing its top 10 position for the first time since 2002. Still, FDI inflows increased to $35 billion in 2014, a 26 percent increase from the previous year. As part of plans to boost economic growth and modernize the bureaucracy, Prime Minister Narendra Modi’s new government launched the “Make in India” initiative in September 2014, aiming to improve the ease of doing business in India, and remove or relax foreign equity caps in several areas.

Revised estimates indicate that India’s GDP grew faster than China’s last year, and its consumer market remains significant, sparking broad investor interest. In April 2014, UK- based Diageo doubled its stake in United Spirits Ltd, India’s largest spirits company, for $1.9 billion. Vodafone bought full control of its Indian unit for $1.5 billion, the first foreign carrier to gain full ownership since the government removed the 74 percent cap on outside ownership in the telecom industry.

OPPORTUNITIES OF FDI POLICY

- ➢ Global retail giant take India as key market. It's rated fifth most attractive retail market. The organized retail sector is expected to grow stronger than GDP growth in the next five years driven by changing lifestyle, increase in income and favorable demographic outline.
- ➢ FDI can become one of the largest industries in terms of numbers of employees and establishments.
- ➢ Rural retailing is still unexploited Indian market. It will enhance the financial condition of farmers.
- ➢ Improve the competition.
- ➢ Helps in increasing retailer’s efficiency.
- ➢ Foreign capital inflows.
- ➢ Improvement in customer satisfaction.

- Improved technology and logistics.

THREATS OF FDI POLICY

- Threat to the survival of small retailers like 'local kirana stores'.
- Jobs in the manufacturing sector will be lost.
- Work will be done by Indians and profits will go to foreigners.
- Difficult to target all segments of society.
- Emerge of hyper and super markets trying to provide customer with value, variety ad volume.
- Heavy initial investment is required to break even with other companies and compete with them.
- Labour rules and regulation are also not followed in the organized retails.
- Lack of uniform tax system for organized retailing is also one of the obstacles.
- Problem of car parking in urban areas is serious concern.

CONCLUSION

The approval of FDI in retail sector will encourage the local players to be more competitive and quality oriented. Consumers will have variety of products to choose from at the competitive prices. According to our research, FDI plays an important role in economic growth of the country. It is a major source of capital infusion. The government of India will have to make attempts to create an environment to attract more FDI in the country and to regain the confidence of foreign investors. Considering its opportunities it seems that it will be beneficial in increasing retailer's efficiency, growth of the farmers and changing the lifestyle of the people. Farmers will get an opportunity of direct marketing and hence get better price for their produce. The displaced retailers and employees in unorganized sector should be provided necessary training of modern trade.

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