

# An Exploratory Study On the Opportunities and Threats of FDI in Multibrand Retailing in India

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## ABSTRACT

Retailing in India is one of the pillars of its economy and accounts for 14 to 15 percent of its GDP. The Indian retail market is estimated to be US\$ 500 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people. Federal Government of India allowed 51% FDI in multi - brand retail in India. The government managed to get the approval of multi-brand retail in the parliament despite heavy uproar from the opposition. Some states will allow foreign Supermarkets like Wal-Mart, Tesco and Carrefour to open while other states will not. This study is carried out to analyze current issues and challenges faced by the Indian retailers as well as foreign retailers.

**Key words-** Foreign direct investment (FDI), Supply chain management, multi-brand retailing, logistics and gross domestic product (GDP).

## I. INTRODUCTION

Now FDI in Multi- Brand retailing is permitted in 2012...Prior to this move the 1 Indian households have traditionally enjoyed the convenience of calling up the corner grocery "Karana" store. Till 1980 the retail trade continued in the unorganized sector. Afterwards with the entry of big players like Reliance, Tata's, Bharati, Future group, Aditya Birla group, organized retail sector came in to existence. And the competition started becoming intense. The permission of FDI will impact the structure of retail industry in India. Its implications will be on customers, small retailers, farmers and the general public. On this backdrop an attempt is made in this Paper to analyze the impact of FDI on the organized as well as unorganized retail in India. This paper is a serious attempt to analyze the pros and cons of FDI in retail sector in India.

### Objectives of the Study

1. To study the various factors affect FDI in retail sector in India.
2. To study the threats for small retailers due to entry of foreign retailers.
3. To study the challenges to the retail industry in India.
4. To analyze the retail operation system in India.

## Research Methodology

The researcher have adopted analytical, descriptive and comparative methodology for this study. The research has been conducted on the basis of secondary data sources such as books, journals, news papers and online data base. However, the interpretation of the data and suggestions made assume importance for the healthy growth if the retail sector in the country.

### 1. Indian Retail Sector: An Overview

Retail industry, being the fifth largest in the world, is one of the sunrise sectors with huge growth potential and accounts for 14-15% of the country's GDP. Comprising of organized and unorganized sectors, Indian retail industry is one of the fastest growing industries in India, especially over the last few years. According to the Global Retail Development Index 2012, India ranks fifth among the top 30 emerging markets for retail. The recent announcement by the Indian government with Foreign Direct Investment (FDI) in retail, especially allowing 100% FDI in single brands and multi-brand FDI has created positive sentiments in the retail sector. In 2007, the total Indian retail industry was valued at Rs 13,300 billion (estimate), and the organized segment constituted 5.9% of the value at Rs 783 billion. In the segment, the clothing and accessories sales had a majority share of 38.1% followed by the food and grocery segment at 11.5% and electronics segment at 9.1%. The organized retail industry grew at a CAGR of 33% during 2004-2007. Even though the organized retail segment has a minuscule share in the total industry, it has enormous potential considering the rising urbanization, the efficient supply-chain, the readily-available retail space, and modern technology, which help in reducing consumer prices to a great extent. Furthermore, with the entry of big foreign players, the Indian organized retail market has become more competitive in terms of implementing newer business models on the operational format, and pricing, and in terms of efficiency.

The organized retail sector will largely benefit in terms of productivity and growth if sectors like agriculture, food processing, and textile are encouraged further. The above-mentioned sectors would receive a remarkable boost if they would supply to big Indian and foreign retail players, which will ensure their growth in tandem with the retail sector. Moreover, the organized retail sector will directly and indirectly improve the country's employment scenario. Many Indian retail players have already started purchasing supplies directly from farmers and other suppliers, which has invariably eliminated the supply-chain complexities and large number of intermediaries, and has resultantly lowered prices for consumers. Furthermore, the amendment of the Agriculture Product Marketing Act (APMC) has revamped the farm produce supply chain.

## II. MEANING OF RETAIL

Retail involves the sale of goods from a single point (malls, markets, department stores etc) directly to the consumer in small quantities for his end use . In a layman's language, retailing is nothing but transaction of goods between the seller and the end user as a single unit (piece) or in small quantities to satisfy the needs of the individual and for his direct consumption.

Let us understand the concept with the help of an example. Tim wanted to purchase a mobile handset. He went to the nearby store and purchased one for himself. In the above case, Tim is the buyer who went to a fixed location (in this case the nearby store). He purchased a mobile handset (Quantity - One) to be used by him. An example of retail. The store from where Tim purchased the handset must have shown him several options for him to select one according to his budget and need. From where do you think the store owner (also called the

retailer) purchased all the handsets? Here the manufacturers and the wholesalers come into the picture. The retailers purchase goods in bulk quantities (huge numbers) to be sold to the end-users either directly from the manufacturers or through a wholesaler.

### The Supply chain:

Manufacturers.....Retailers.....End User (Consumer)

Wholesalers

### Figure-1

Broadly retail industry is divided into two categories. Such as:

**Organized retail**-Those traders/retailers who are licensed for trading activities and registered to pay taxes to the government

**Unorganized retail**-It consists of unauthorized small shops -conventional Kirana shops, general stores, corner shops among various other small retail outlets -

but remain to be the radiating force of Indian retail industry.

## III. OVERVIEW OF FORMATS/CHANNELS

The Indian retail industry is categorized into different retail formats on the basis of the retail operation. The formats are basically defined on the basis of the size of the outlet, the pricing strategy followed, the type of merchandise sold, and also the location. Given below is a list of formats on the basis of the above -mentioned characteristics:

### 3.1. Hypermarkets:

Hypermarkets are big-box formats with an average size that ranges between 60,000-120,000 square feet, and they stock multiple lines of products such as food and grocery, general merchandise, sports goods, and apparels. Hypermarkets are mammoth outlets that are fewer in number but cater to a larger area (3-5 kilometre). HyperCITY, Big Bazaar, RPG Spencer's and Shoprite Hyper are some major players in this format.

### 3.2. Supermarkets:

The average size of supermarkets range from 10,000-30,000 square feet. They are a smaller version of hypermarkets that holds multiple lines of merchandise but is limited in number when compared with supermarkets. Supermarkets are spread across the city, are greater in number, but cater to a smaller area (1-2 kilometer). Food world, Food Bazaar and Spinach are some major players in this format.

### 3.3. Convenience stores:

Convenience stores offer easy purchase experience through easily accessible store locations. The stores are basically small in size (500-3,000 square feet), which allows quick shopping and fast checkouts. Subhiksha and Reliance Fresh are some major players in this format.

### 3.4. Cash-and-carry outlets:

Cash-and-carry outlet is strictly not a retail format, but considering the business dynamics it follows it can qualify for a retail format. In a retail business usually a consumer has to purchase one or more products but under this

format, the consumers have to buy a minimum volume of products or value specified by the cash-and-carry retailer. In this format the buyers are basically small retailers or catering service providers who purchase in bulk quantities. This stores' size ranges from 100,000 square feet to 300,000 square feet. At present, Metro is a major player that falls under this format. Wal-mart's alliance with Bharti and Tesco's with Trent will also come under the cash-and-carry format.

### **3.5. Discount stores:**

The focus of these stores is to offer merchandise at a price that is lower than the market price, and to gain profit from volumes. These stores keep merchandise mainly on the basis of its saleability. Usually these are no-frill stores with simple surroundings and less service. Big Bazaar and Subhiksha are some famous examples.

### **3.6. Specialty stores:**

These stores usually 'specialise' in one line/category of merchandise. As these stores are concerned with only one type of merchandise, they are able to offer a wider range of products at a lower price. Examples: Next and Vijay Sales.

### **3.7. Department stores:**

These stores are typically lifestyle stores where most of the merchandise constitutes apparels and products other than food and grocery. These stores offer high quality service to consumers. These stores stock lesser merchandise than other formats since the merchandise is stored in a presentable manner. Notable examples are Shoppers Stop, Westside, Trent, and Globus.

### **3.8. Category killers:**

Many major retail chains have adapted small specialty store concepts and have expanded themselves to create large specialty stores. These expanded, large speciality stores are known as 'category killers'. Ezone, which specialises in electronics, and Staples, which specialises in office stationery, are examples of category killers.

## **IV. FDI SCENARIO IN INDIA**

In 1991, the Indian government introduced the economic policy to attract foreign investments and since then, it has amended the policy from time to time in various sectors to allow higher levels of foreign participation. The government policy in retail sector allows 100% foreign investment in wholesale cash - and-carry and single-brand retailing but prohibits investments in retail trading. In 1997, the government imposed restrictions on FDI in retail sector but in 2006, these were lifted and opened in single -brand retailing and in cash-and-carry formats. The cash-and-carry business is the easiest mode of entry for foreign retailers into India. Many global players like Metro and Shoprite have already entered the market. Wal-mart has forged an alliance with Bharti for a cash-and-carry business, and Bharti is concentrating on front-end retail. Similarly, Tesco has entered India through an alliance with Trent (Tata Group). Apart from investing in the cash-and-carry business, Trent will also support the back-end activities of Trent Ltd.

Many foreign brands have also entered India either through JVs with leading Indian retailers or through exclusive franchisees to set up shop in India. Louis Vuitton, Marks & Spencer Plc, GAS, Armani are some such operators who have entered India through JVs. McDonald's, KFC, Domino's are the retailers who have taken the franchise

route. Slowly the government is opening up to the idea of permitting FDI in the Indian retail sector; consequently there is greater momentum in the sector. Last year, owing to the global meltdown, investments dropped in all sectors. The government has therefore changed the guidelines for foreign investments to boost investments in the current year. This move is certainly likely to improve the investment climate in the Indian retail space.

## V. PRESENT FDI POLICY FOR RETAIL SECTOR IN INDIA

The Ministry of Commerce and Industry, Government of India is the nodal agency for monitoring and reviewing the FDI policy on continued basis and changes in sectoral policy/ sectoral equity cap. The FDI policy is notified through Press Notes by the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP). The foreign investors are free to invest in India, except few sectors/activities, where prior approval from the RBI or Foreign Investment Promotion Board (=FIPB') would be required.

- 5.1. India will allow FDI of up to 51% in multi-brand sector.
- 5.2. Single brand retailers such as Apple and Ikea, can own 100% of their Indian stores, up from previous cap of 51%.
- 5.3. FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.
- 5.4. The retailers (both single and multi - brand) will have to source at least 30% of their goods from small and medium sized Indian suppliers.
- 5.5. All retail stores can open up their operations in population having over 1 million. Out of approximately 7935 towns and cities in India, 55 suffice such criteria.  
Multi-brand retailers must bring minimum investment of US\$ 100 million.
- 5.6. Half of this must be invested in back-end infrastructure facilities such as cold chains, refrigeration, transportation, packaging etc. to reduce post-harvest losses and provide remunerative prices to farmers.
- 5.7. The opening of retail competition (policy) will be within parameters of state laws and regulations.

## VI. OPPORTUNITIES OF FDI IN MULTI-BRAND RETAIL

### 6.1. Advantage Farmers:

With FDI in multi-brand retail trading, the farmers will get better remunerations for their produce. The farmers will also get better prices from the heavy reduction in post-harvest losses. It will also result in the strengthening of the backend infrastructure and lead to direct purchase by the retailers. The yes -to-FDI in multi-brand retail trading will also result in the strengthening of the supply-chain infrastructure for all products, ranging from storage to processing and manufacturing infrastructure, which would reduce post-harvest losses. Organized retail would also drastically reduce the number of needless middlemen.

### 6.2. Advantage Consumers:

The most advantaged section with the implementation of this policy would be the consumers. From the reduction in prices that would result from the supply chain efficiencies to the improvement in the quality of the products, the consumers are going to be benefitted the most. Along with this, food safety standards would also get better with improvised testing and aggregation facilities. The consumers would also have more choices to pick from. This policy measure is most likely to benefit the poorest sections of the society. Lowering of prices would arrest

the erosion of real incomes and the current incomes of the economically disadvantaged sections would hence be able to buy more than before.

### **6.3. Advantage Small Retailers:**

Foreign direct investment in the retail sector would also incentivize the existing traders and retail outlets to upgrade and become more efficient. This would usher better services to the consumers, and also good remunerations to the producers from whom they source the products. A concern that the small retailers will get displaced by allowing FDI is completely misplaced. It is to be noted here that domestic organized retail services are already provided by entities like Big Bazaar, Shoppers Stop, Croma, and Reliance Fresh among others in different parts of India. More interestingly, it constitutes only four per cent of the retail trade and co-exists with small kirana stores and the unorganized retail sector. There has been a strong competitive response from traditional retail to these organized retailers through technology up gradation. As a result, the organized retail chains have closed down in a number of locations, while others have reduced the scale and spread of their operations. Globally too organized and unorganized retail co-exist and grow. Small retailers would continue to be able to source high quality produce, at significantly lower prices, from wholesale cash and carry points. In countries such as China, Thailand, Indonesia, Brazil, Singapore, Argentina and Chile, where there are no caps on FDI and where there are no conditions, small retail stores have flourished, leading to more employment. Therefore, it is a white lie to state that FDI in multi-brand retail trade will force small retailers to shut down.

### **6.4. Advantage SMEs:**

Small and medium manufacturers are also going to be benefitted as 30 per cent sourcing from these industries has been made mandatory. This would provide the necessary scales for these entities to expand their capacities in manufacturing, hence adding up to the employed population and also boosting the manufacturing sector of the country. These industries also stand to get added advantages of technology up gradation, which would give them an upper hand in productivity and local value addition, thereby raising the profitability and earnings of the small manufacturers. The 30 per cent sourcing norm would also help the small enterprises to get integrated with the global retail chains. New manufacturing opportunities will also open for the country's micro, small and medium enterprises.

### **6.5. Advantage Rural Youth:**

FDI in multi-brand retail trading will also help a large number of young people from rural areas to join the workforce. Youth from the villages spread across the country can engage themselves in activities ranging from backend to the frontend retail business, as also from the skills imparted to them by the prospective investors.

### **6.6. Advantage Employment and Reduction in Inflation:**

Investments in the organized retail sector will see gainful employment opportunities in agro-processing, sorting, marketing, logistic management, small manufacturing sector like textiles and apparel, construction, IT, and other infrastructure. The most important aspect of FDI in retail is that it will significantly increase the number of jobs in the front-end. According to a study conducted by the Indian Council for Research on International Economic Relations in 2008, as per the industry estimates of the employment of one person per 350-400 sq. ft. of retail space, about 1.5 million jobs will be created in the front - end alone in the next five years. Assuming that 10 per cent extra people are required for the back-end, the direct employment generated by the organized retail sector in

India over the coming five years will be close to 1.7 million jobs. The study also suggested that with direct buying from the farmers, improving supply chain inefficiencies, bettering storage capabilities to control supply/demand imbalances, inflation could also be tamed. It can thus be concluded that opening up multi-brand retail trading to foreign direct investment would have a multiplier impact on Indian economy. It would act as a strong catalyst for drawing investments in the food processing sector. This would also be a driver for economic growth by accelerating demand.

## VII. FDI COULD BENEFIT STRESSED COMPANIES

FDI in multi brand will stimulate investment in the sector. There are companies in the retail sector that are reeling under debt. These companies could get fresh lease of life.

Company	Debt (Core)	Market Cap
Pantaloone	4,200	3, 867
Vishal Retail	700	42
Provogue	400	275

Beneficiary of FDI in Multi-Brand Retail:

Multi Brand Retail Stores: 51% in multi brand retail.

Pantaloone Retail

Vishal Retail

Shoppers Stop

Koutons

Trent

## VIII. CHALLENGES OF FDI IN MULTI-BRAND RETAIL IN INDIA

- 8.1. Impact on the organized players (eq. Kirana shops) The overall size of retail market in India at present is estimated at ` 5,88,000 crore of which, the Unorganized portion of the market is worth ` 5,83,000 crore and the share of organized portion of the market is ` 5000 crores. The unorganized market provides the second largest employment opportunities to 3.95 million people (first being the agricultural sector). It is argued that opening the retail sector will have an impact on sales in the unorganized sector. As a result of this, employment provided by the unorganized sector will be affected. It is reasoned that by reducing the number of intermediaries, organized retailing will lead to some job displacement.
- 8.2. Limited Employment Generation It is said that FDI might provide employment opportunities, but it is argued that it cannot provide employment opportunities to semi-illiterate people. This argument gains more importance because in India, large number of semi-illiterate people is present.
- 8.3. Fear of lowering of prices There is a fear that allowing FDI in retail would result in lowering of prices, as FDI will bring in good technology, supply chain etc. If prices are lowered, then it will lower the margin of unorganized players also. As a result of this, the unorganized market will be affected. This in turn will have an impact on the employment opportunities provided by the unorganized market.
- 8.4. FDI in retail will drain out the country's share of revenue to foreign countries, which may cause negative impact on India's economy.



- 8.5. Fears that domestic organized retail sector might not be competitive enough to tackle international players might not only resulting in loss of market share for them but in closure of their units.
- 8.6. There is a possibility of small business owners and workers from other functional areas, as lot of people are involved in unorganized retail business, may lose their jobs.
- 8.7. Small retailers and other 'Kirana Stores' may close down.
- 8.8. Supermarkets will establish their monopoly in the Indian market. Due to supermarkets fine tuning and higher accessibility they will be able to buy goods at lower prices and therefore will be able to sell at lower prices to consumers. This will result in closing of many small retailers.
- 8.9. Though Government has stipulated that 30% procurement should be from Indian sources, this may get diluted over the years. The remaining 70% procurement from cheaper countries will make the people run towards that stuff and the 30% supply from Indian small industries will have their own death, unable to compete with low price Chinese goods.

## IX. SUGGESTIONS

- 9.1. The traditional the Mom and Pop Kirana stores should change their appearance, attitude and affairs. They should have modernized their shops, store, more branded goods, provide home delivery service.
- 9.2. These traditional Kirana stores should form a consortium and make bulk purchases. This measure will help to procure the goods at lower price
- 9.3. The banks in the country and the state government should formulate a scheme of modernization loan. Under this scheme credit should be made
- 9.4. Available at of concessional rate and all priority basis to the small unorganized kirana stores.
- 9.5. The small farming community should undertake joint supply of fruits and vegetables directly to the small retailers and / or customers. This will benefit all of them.
- 9.6. There should be a monitoring agency established at the state level to keep watch on the operations of foreign players in retail sector. This agency should see that necessary investment is made by the foreign players in cold storages, transportation & logistics. It should also ensure that the foreign player's required quota of goods from SME sector.
- 9.7. The possibility of starting mails of small retailers should be explored & a group of small retailers in a locality should came together & open such mall.
- 9.8. The educational institutions should constitute degree; diploma coeres in detailing management where both the theoretical & practical aspects of retail trade are taught to the candidates. The wholesalers will be affected by the entry of foreign player & the organizational domestic players, because they will purchase the goods directly for the manufactures dispensing the need of wholesalers. Hence, the wholesalers should also go in together to make collective purchases.

## X. CONCLUSION

This article gives an overview of retail trade in India. It discusses various potential benefits and costs of FDI in the retail sector in the wake of the government move to allow foreign capital in multi-brand retailing. It argues that given the slower growth projection for the Indian economy during the next decade, various structural issues including inadequate infrastructure and a lack of affordable real estate, and the prevalent structure of the



agricultural markets, it is unlikely that all the potential benefits and costs will be realized to their fullest extent, at least in the foreseeable future. The economic dynamics and the political process will play an important role in determining the outcomes of this move to allow FDI in the retail sector and will ultimately determine the effects on various stakeholders.

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