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INFERENCE OF FDI IN INDIAN RETAIL SECTOR- SOME REFLECTIONS

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Abstracts
Purpose- *The Indian retail market, which was largely unorganized till the 1980s, has undergone an immense transformation in post-liberalization era. However, valued at $ 450 billion, the Indian retail sector is still relatively small by global standards, with giants like Wal-Mart alone reporting over US $ 315 billion (approx) in global sale. India is estimated to have around 15 million retail outlets, making it the country with the highest retail outlet density in the world. A.T. Kearney, a well known international management consultancy, in the year 2009, identified India as the most attractive retail destination in the world. With a significant contribution to the national GDP (10 percent) and employment (8 percent, second largest employer after agriculture) this sector can definitely be referred as one of the pillars of the Indian economy.*

Design/methodology/approach- *The paper pulls together various strains of research and data gathere from sound databases to discuss the status.*

Findings- *In their preparation to face fierce competitive pressure, Indian retailers must come to recognize the value of building their own stores as brands to reinforce their marketing Positioning, to communicate quality as well as value for money. Sustainable competitive advantage will be dependent on translating core values combining products, image and reputation into a coherent retail brand strategy.*

Viewpoint

Keywords: *FDI, India, retail sector*

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Introduction

The India Retail Industry is the largest among all the industries, accounting for over 10 per cent of the country s GDP and around 8 per cent of the employment. The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. But all of them have not yet tasted success because of the heavy initial investments that are required to break even with other companies and compete with them. The India Retail Industry is gradually inching its way towards becoming the next boom industry (CII Report on Indian Retail, 2006).

The total concept and idea of shopping has undergone an attention drawing change in terms of format and consumer buying behavior, ushering in a revolution in shopping in India. Modern retailing has entered into the Retail market in India and as observed that many shopping centers, multi-storied malls and the huge complexes are offering many facilities at one roof (Dipankar, 2006).

A large young working population with median age of 24 years, nuclear families in urban areas, along with increasing working women population and emerging opportunities in the services sector are going to be the key factors in the growth of the organized Retail sector in India. The growth pattern in organized retailing and in the consumption made by the Indian population will follow a rising graph helping the newer businessmen to enter the India Retail Industry.

In India the vast middle class and its almost untapped retail industry are the key attractive forces for global retail giants wanting to enter into newer markets, which in turn will help the India Retail Industry to grow faster. In-

dian retail is expected to grow 25 per cent annually. Modern retail in India could be worth US$ 175-200 billion by 2016. The Food Retail Industry in India dominates the shopping basket. The Mobile phone Retail Industry in India is already a US$ 16.7 billion business, growing at over 20 per cent per year. The future of the India Retail Industry looks promising with the growing of the market, with the government policies becoming more favorable and the emerging technologies facilitating operations.

An Insight of FDI in Retailing

"No power on earth can stop an idea whose time has come" said Manmohan Singh, the then Finance Minister of India, quoting Victor Hugo while presenting the Union Budget 1994-95, making a reference to the Indian economy's unlimited potential. If Dr. Manmohan Singh were to use the quote again today, he would probably apply it in the context of the promise contained in the India's retail sector. The Indian retail market, which was largely unorganized till the 1980s has undergone an immense transformation in post-liberalization era (Mohan et al., 2005; Kiran, 2005). However, valued at $ 450 billion, the Indian retail sector is still relatively small by global standards, with giants like Wal-Mart alone reporting over US $ 315 billion (approx) in global sale. India is estimated to have around 15 million retail outlets, making it the country with the highest retail outlet density in the world. A.T. Kearney, a well known international management consultancy, in the year 2009, identified India as the most attractive retail destination in the world. With a significant contribution to the national GDP (10 percent) and employment (8 percent, second largest employer after agricul-

ture) this sector can definitely be referred as one of the pillars of the Indian economy (Kearny, 2009; Anuradha and Franz, 2009).

Retailing is the interface between the producer and the individual consumer, buying for personal consumption. This excludes direct interface between the manufacturer and the institutional buyers, such as the government and other bulk customers. A retailer is one who stocks producer's goods and is involved in the activity of selling it to the individual consumers, at a margin of profit. As such, retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. The retailing is divided into organized and unorganized sectors. 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, supermarkets, departmental stores, shopping malls etc. Unorganized retailing, on the other hand, refers to traditional format of low cost retailing and it includes local kirana shops also known as 'mom and pop' stores, owner manned general stores, paan-beedi shops, hand cart and pavement vendors. Unorganized retailing is by far the most prevalent form of trade in India and is highly fragmented in nature--constituting 95 percent of total retail trade (Levy and Weitz, 2002; Sudhir, 2010; Tripathi Purnima, 2009).

Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51% ownership and a bureaucratic process. In November 2011, India's central government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the *way for retail innovation and competition with multi-brand retailers such as Wal-Mart, Carrefour and Tesco, as well single brand majors such as IKEA, Nike, and Apple. The announcement sparked intense activism, both in opposition and in support of the reforms. In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reaches a consensus.*

In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30 percent of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores. In June 2012, IKEA announced it has applied for permission to invest $1.9 billion in India and set up 25 retail stores. This all investment are take place due to the reasons that average consumer today is richer, younger and more aspirational in his/her needs than ever before. The greater education level has increased the awareness among the consumers and they are becoming more demanding and discerning. Another prospect of retail sector in India is the young working population, hefty pay-packages, along with increasing working women population. Consumers now value convenience and choice at par with getting value for their hard-earned money. Growing consumer demand and the consequent responses of leading business houses have created a more complex and competitive market place--one that requires each firm to be more adaptive to consumers need and more aggressive at exploiting their unique capabilities to meet those needs. The chart below shows the investment of money in India year by year .X axis depicts the amount in USD million and in Y axis depicts the year.

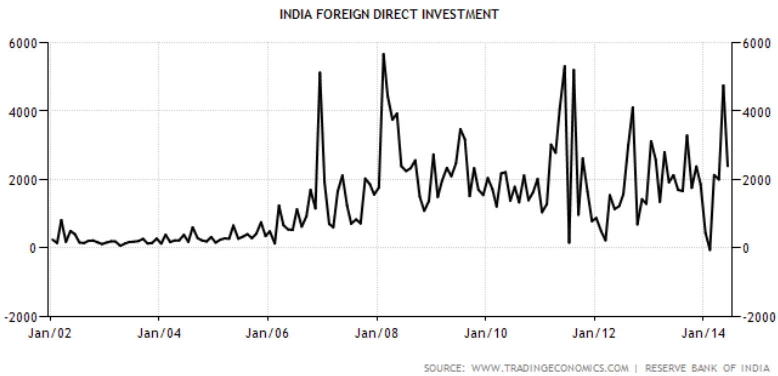

Figure 1. *India foreign direct investment*

State wise FDI inflow in India

In India there are 28 States and 7 Union Territories. All the states give top priority to attract FDI on a large scale for developmental purpose. FDI inflow to states varies widely which leads to concentration of FDI inflow. To examine the FDI inflow received by top 10 states for the period 2000-2010 was calculated and given in the table 1 below (Mariton, 2000; Sanwal Deepankar, 2006; Subbiah, 2009; Mukherjee Wrintankar, 2010).

States	Cumulative inflow (Rs in Billion)	% Share of State Inflow(Rs in Billion)
Maharastra, Dam & Diu	2014707.4	44
Delhi, up, Harayana	1136890.8	24.5
Karnataka	366574.9	8
Gujarat	316932.1	7
Tamil Nadu, Pondicherry	308475.3	7
Andhra Pradesh	265618.2	6
West Bengal, Sikkim	63682.2	1
Chandigarh, HP, Punjab	46852.3	1
Goa	33258.4	1
MP, Cattishgar	30094.7	1
Total	4583086	100
Annual average	458308.6	

Source: FDI Data Cell.

***Table 1.** State wise FDI inflow in India*

Examination of the table gave the following inference.

(i) The Cumulative Inflow of Maharashtra was Rs.2014707 billion.

(ii) During the study period from 2000-2010 State Maharashtra received 44%, the highest share of State FDI Inflow in India.

(iii)States Delhi, Karnataka, Gujarat enjoyed second, third and fourth places in FDI attraction receiving 24.5%, 8%, 7% of total FDI respectively.

(iv) Other States Tamil Nadu, Andhra, West Bengal, Chandigarh, Goa, Madhya Pradesh attracted only 17% of FDI

(v) Study also reveals that the six states in India accounted for about 96% of FDI.

(vi) Chandigarh, Goa, Madhya Pradesh and West Bengal attracted the lowest share of 4% State FDI Inflow in the year 2000-2010.

(vii) Total FDI was Rs.4583086 Million and Annual Average was Rs.458308.6 Million.

The reason why these states are ahead of others in receiving FDI is because of favorable government responses, quick bureaucracy, and good infrastructure facilities and rich heritage of entrepreneurship. The states like Punjab have location disadvantage. FDI is uncovered due to poor infrastructure in big state like Bihar.

Recent trends

(i) Retailing in India is witnessing a huge revamping exercise as can be seen in the graph

(ii) India is rated the fifth most attractive emerging retail market: a potential goldmine.

(iii) Estimated to be US$ 200 billion, of which organized retailing (i.e. modern trade) makes up 3 percent or US$ 6.4 billion

(iv) As per a report by KPMG the annual growth of department stores is estimated at 24%

(v) *Ranked second in a Global Retail Development Index of 30 developing countries drawn up by AT Kearney.*

(vi) *Multiple drivers leading to a consumption boom:*

- *Favorable demographics*
- *Growth in income*
- *Increasing population of women*
- *Raising aspirations: Value added goods sales*

(vii) *Food and apparel retailing key drivers of growth*

(viii) *Organized retailing in India has been largely an urban*

(ix) *Phenomenon with affluent classes and growing number of double-income households.*

(x) *More successful in cities in the south and west of India. Reasons range from differences in consumer buying behavior to cost of real estate and taxation laws.*

(xi) *Rural markets emerging as a huge opportunity for retailers reflected in the share of the rural market across most categories of consumption*

- *ITC is experimenting with retailing through its e-Choupal and Choupal Sagar, rural hypermarkets.*
- *HLL is using its Project Shakti initiative leveraging women self-help groups to explore the rural market.*
- *Mahamaza is leveraging technology and network marketing concepts to act as an aggregator and serve the rural markets.*

(xii) *IT is a tool that has been used by retailers ranging from Amazon.com to eBay to radically change buying behavior across the globe.*

Investment flows from different nation in India up to July2014

The below table 2 shows the inflow of FDI from year 2000-15

S. Nos S. No.	**Financial Year (April – March)**	**Amount of FDI Inflows**		**%age growth over previous year (in terms of US $)**
FINANCIAL YEARS 2000-01 to 2014-15 (up to July, 2014)		In Rs crores	In US$ million	
1.	2000-01	10,733	2,463	-
2.	2001-02	18,654	4,065	(+) 65 %
3.	2002-03	12,871	2,705	(-) 33 %
4.	2003-04	10,064	2,188	(-) 19 %
5.	2004-05	14,653	3,219	(+) 47 %
6.	2005-06	24,584	5,540	(+) 72 %
7.	2006-07	56,390	12,492	(+)125 %
8.	2007-08	98,642	24,575	(+) 97 %
9.	2008-09 '*'	142,829	31,396	(+) 28 %
10.	2009-10 #	123,120	25,834	(-) 18 %
11.	2010-11 #	97,320	21,383	(-) 17 %
12.	2011-12 # ^	165,146	35,121	(+) 64 %
13.	2012-13 #	121,907	22,423	(-) 36 %
14.	2013-14	147,518	24,299	(+) 8%
15.	2014-15 (Apr - Jul, 2014)	64,193	10,736	-
CUMULATIVE TOTAL (from April, 2000 to July, 2014)		1,108,624	228,439	-

Table 2. *Inflow of FDI from year 2000-15*

Note: *(i) including amount remitted through RBI's-NRI Schemes (2000-2002).*
(ii) FEDAI (Foreign Exchange Dealers Association of India) conversion rate from rupees to US dollar applied, on the basis of monthly average rate provided by RBI (DEPR), Mumbai.
 # Figures for the years 2009-10, 2010-11, 2011-12 & 2012-13 (from April, 2012 to September, 2012) are provisional subject to reconciliation with RBI.
^ Inflows for the month of March, 2012 are as reported by RBI, consequent to the adjustment made in the figures of March, '11, August, '11 and October, '11.

Why FDI in retail trade is needed for India:

The retail revolution has changed the face of Indian economy. Organized retail today accounts for less than 5 percent of India's retail business, but is bound to grow, forcing its choices on the government and upon itself. China's experience and those of other Asian countries that recently modernized their retail sector can provide valuable insight on what choices make sense. Taiwan opened up its retail to foreigners in the 1980's without creating a regulatory environment for the emergence of strong retail sector. Predictably, foreign companies dominate Taiwanese retail today. In contrast Japan's distribution network and regulatory environment have been inhospitable to foreign retailers and the Japanese pay today for this absence of competition with some of the highest retail prices in the world. South Korea and China managed the process of foreign entry more gradually, initially encouraging joint venture between domestic and foreign retailers before loose regulations on FDI in retail were brought in, both countries now have the benefit of vibrant domestic retail sector, and the competition between domestic and foreign retailers has yielded low prices and good service. India is already following China's example, initially encouraging joint ventures between foreign and domestic retailers before allowing 100 percent FDI in organized multi-brand retail. This gradual opening up will preserve a vibrant domestic retail sector in the long term, providing country with a solid foundation of domestic expertise and human capital.

FDI in retail trade would contribute to a multiplier impact on the economy not only in the retail sector but also in many other activities such as manufacturing, food processing, packaging and logistic services. One of the biggest fears expressed by the opponents of FDI in retail trade is the loss of *employment of millions of small Indian traders. Organized retailing would generate employment, both direct and indirect, as notwithstanding the capital intensity of modern retail business, it continues to be labor intensive as well. It would also lead to creation of indirect employment in support activities throughout the supply chain, starting from producers to packaging, storage, transport and other logistic services. Further modern retailers are a major source of relatively secure employment, particularly for women and low-skilled workers. Unlike the informal retail sector, many of these jobs involve regular working hours and a number of social benefits. Another argument against FDI is that the larger multinational retailers will wipe out the small Indian retailers. However the situation is quite different. In a bid to broaden and deepen their consumer connect; many foreign retailers are inviting locally-prominent retailers to share space with their stores, hoping to benefit from the traditional ties that consumers share with well known local brands and shops. Bengali caterer "Bijoli Grill" in Kolkata entered Spencer's through shop-in-shop format in 2009 and it earned a net profit of Rs 2 lakh across three outlets in a month. Similarly, "Bhagyalakshami Butter and Gulkand" shared space with the Future Group in Bangalore and reported increase in its revenue. Recently, a series of pilot projects launched by big retailers in collaboration with Micro Finance Institution (MFIs) has demonstrated that how giants and dwarf can co-exist and even fuel each other's growth. The MFIs not only provides credit, but also double up as valuable intermediaries that collects orders from the kirana stores, source the merchandise from big retailers and delivers it at the kirana's doorstep. The MFIs do not charge any interest, they receive commission from the retailer, for whom this is a small price in order to win new markets* *and grow faster. If this experiment succeeded it could enable the large retailers to look inquisitively into vast rural market, helping kirana's becoming more efficient, giving consumer the benefit of lower prices and building a thriving retail ecosystem where both the foreign and domestic retailer can flourish. In addition, it might soften the resistance to FDI in retail.*

The fact that farmers are responsible for putting food on our plates the typical Indian farmer is a poor man. Reforms in agriculture sector are needed in the way agricultural produce is procured, stored and marketed. This calls for huge investment in the supply and distribution chains and most importantly, competition in the supply chain where the farmer decides to whom to sell and at what prices. India can attain huge savings by merely improving the supply chain. Some 20-40 percent of all fruits and vegetables grown in the country go waste due to poor transportation, storage and handling infrastructure. Also, for every rupee that an Indian consumer spends, the farmer gets only 20-22 paise, as against 70-80 paise in developed markets. If large retailers, whether domestic or foreign, directly source through farmers, realizations will go up for the farmers, consumers will have to pay less and the retailers will get higher margins. This fact has been supported by several studies (ICRIER 2008, CRISIL Report 2010). The MSMEs (Micro Small and Medium enterprises) sector has also suffered due to lack of branding and lack of avenues to reach out to the vast world markets. While India has continued to provide emphasis on the development of MSME sector, the share of unorganized sector in overall manufacturing has declined from 34.5 percent in 1999-2000 to 30.3 percent in 2007-08. This has largely been due to the inability of this sector to access latest technology and improve its marketing interface.

Conclusion

In their preparation to face fierce competitive pressure, Indian retailers must come to recognize the value of building their own stores as brands to reinforce their marketing Positioning, to communicate quality as well as value for money. Sustainable competitive advantage will be dependent on translating core values combining products, image and reputation into a coherent retail brand strategy.

Any policy initiative taken by the government must add to economic activity and social welfare. Any strategy in the direction of FDI should ensure that domestic players are not unduly displaced and sufficient opportunities are available for the growth of domestic players. The government should not let go a glorious opportunity offered by the largely untapped and highly promising retail sector. At the same time it should ensure that the interests of the local retailers are duly protected. If done so the Indian retail sector will turn out to be a real blessing for the nation's economy as a whole.

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