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Foreign direct investment in retail: Opportunity and challenges in India

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Abstract

FDI is one of the most distinguished factor for financial aid and growth for developing countries. The research paper examines the opportunity and challenges of FDI on India. FDI is considered to be a significant component of development strategy of any country and more so for developing countries. India is a developing country and its market is on the path of growth increasing size and rise in the purchasing power of Indian customers and this has gained the attention of several foreign retailers to the Indian market. Opening up the retail market for FDI has its own advantages and disadvantages. This paper focuses on a brief description of the status of Indian retail industry as of now along with challenges and opportunities which might be faced in case it is decided to open up the entire retail sector for FDI.

Keywords: Opportunity and challenges, FDI, India, Retail

Introduction

FDI is direct investment by a company in production located in another country either by buying a company in the country or by expanding operations of an existing business in the country. No doubt FDI plays a crucial role in enhancing the economic growth and development of the country. FDI on a more generic note means long term investment in a country by an entity which is not the resident of the host country. Opening up the retail sector for FDI in India is a very sensitive issue. In India there is a big potential for growth and development of retail sector in India as most of it is unorganized. Considering the size aspect also, as per the investor's commission of India's report, it is expected that retail sector will grow to the level of 660\$ by 2015. There is a massive size of retail sector in India and because of this many international companies want to enter India. FDI is one of the most preferred routes of investment. There are many important drivers for the growth of retail sector in India these drivers are the rapid growth in income, increase young population, increase urbanization and increasing attitude of individuals to spend now and save earlier. But the issue of opening up retail sector for FDI is very sensitive. Presently then is no permission for FDI in multi brand retail in India. Proposed figures of 26% or 49% may have major and immediate consequences. Impact of FDI in retail is expected to be mixed. If India opening up retail sector for FDI, it will offer tremendous opportunities for growth and development and after it there will be more choice of goods and it will lead appropriate pricing by increasing the level of competition.

Objective of the study

The objective of the study is as follows:

1. To understand the current scenario of retail sector in India
2. To analyze the impact of opening up of sector in retail.
3. To describe opportunities and threats in FDI in retail sector in India.

Methodology

Nature of the study is descriptive and exploratory. Study is entirely based on the secondary data. Data sources include various books, newspaper, internet, research papers published in leading journals.

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Current retail sector of India

Retailing is direct interface between producer of goods and that of individual consumer who is buying the goods for the final consumption. However, the direct interface between producer of goods and institutional buyers like government. India is the 5th largest market in the world. The country ranks fourth among the surveyed 30 countries in terms of global retail development. The current market size of Indian retail industry is about US\$520 bn. Retail growth of 14% to 15% per year is expected through 2015. By 2018, the Indian retail sector is likely to grow at a CAGR of 13% to reach a size of US\$950 bn. Retailing has played a major role the world over in increasing productivity across a wide range of consumer goods and services. In the developed countries, the organized retail industry accounts for almost 80% of the total retail trade. In contrast, in India organized retail trade accounts for merely 8-10% of the total retail trade. This highlights a lot of scope for further penetration of organized retail in India.

The sector can be broadly divided into two segments: value retailing, which is typically a low margin-high volume business (primarily food and groceries) and lifestyle retailing, a high margin-low volume business (apparel, footwear etc.). The sector is further divided into various categories, depending on the types of products offered. Food dominates market consumption with 60% share followed by fashion. The relatively low contribution of other categories indicates opportunity for organized retail growth in these segments, especially with India being of the world's youngest market.

Transition from traditional retail to organized retail is taking place due to changing consumer expectations, growing middle class, higher disposable income, preference for luxury goods, and change in the demographic mix, etc. The convenience of shopping with multiplicity of choice under one roof (shop-in-shop), and the organized retail growth in India over the long run.

Financial year 2014

During FY2014, the economic backdrop was a key factor impacting the performance of retail companies across various sub sectors, including that of organized retail. Consumer sentiment and business confidence continued to be subdued during the year with economic growth decelerating further. This is attributable mainly to weakening industrial growth in the context of tight monetary policy followed by the RBI through most of the year, political and policy stability related concerns and uncertainty in the global economy.

Inflation also was an important concern area. Persistent high inflation and inflation expectations meant that the RBI was compelled to maintain and economic sentiment. In the recent quarter consumers sentiments has been varied-with apparel retailers reporting an improving trend but most other retail formats still witnessing muted off take.

Key perceived opportunities

A survey was conducted by CII in 2011-2012, for studying the impact of FDI on SMEs (small and medium enterprises). Number of SMEs surveyed was 250. As per survey result, Majority of SMEs was for 100% of Foreign Direct Investment in single brand retail sector. About 66.7% see the FDI in retail as an opportunity whereas 21% perceived it to be a threat. 12.5% opinioned that there would not be any

impact of FDI to their SME sector. One school of thought suggest that opening up of retail for FDI will offer significant benefit both to Indian economy as well as Indian retailers.

As per kalhan, Indian retailers will benefit from the international experience and best practices introduced by foreign retailers. Organized retailing might benefit the farmers also. DIPP (2010) report suggests that farmers get only about approx. one third of the price paid by the consumers whereas this proportion is two third in case of those countries where retail sector is more organized. Big retailers in order to be competitive in the market will buy the product directly from the farmers by eliminating middleman. This will benefit the farmers as well as also help the economy by controlling the food inflation.

Inefficient supply chain is a matter of concern in India especially when it comes to agricultural produce. As per data, around 35-40% of fruits and vegetables and approx. 10% of food grains get wasted annually in India. It is also argued at length that there can be a significant improvement in warehousing and distribution system in India leading to overall improvement in supply chain because of the technical expertise from foreign firms. As per DIPP discussion paper (2010), there was several companies in retail sector in India. Which are under consideration debt? Opening up of retail sector for FDI would stimulate investment in this sector benefitting the companies.

Company	DEBT (Rs.)	Market capitalization (Rs.)
Pantaloons	4200Cr	386.7Cr
Vishal retail	700Cr	42Cr
Provogue	400Cr	275Cr

It is also argued that big retailers will source from Indian Producers and will benefits many FMCG companies like Godrej, Dabur etc.

And finally from the angle of end consumers as per Baskar (2007) ^[2], it is seen from the United States experience that there has been an increase in the overall efficiency in the retail sector leading to the better price and increased convenience for the ultimate consumers. It is also argued that probably opening of retail sector might lead to quality job opportunities in the retail sector leading to the overall improvement in the standard of living and also life style of common man.

Key perceived challenges

Critics of FDI feel that liberalization would jeopardize the unorganized retail sector and would adversely affect the small retailers, farmers and consumers and give rise to monopolies of large corporate houses which can adversely affect the pricing and availability of goods. They also content that the retail sector in India is one of the major employment providers and permitting FDI in this sector can displace the unorganized retailers to loss of livelihood. The major challenges or threats to the domestic retailers in India are specified below:

- **Domination of organized retailers**

FDI in single-brand retail will strengthen organized retail in the country. These organized retailers will tend to dominate the entire consumer market. It would lead to unfair competition and ultimately result in large-scale exit of domestic retailers, especially the small family managed

outlets (local “mom and pop” stores will be compelled to close down).

- **Create unemployment**

Retail in India has tremendous growth potential and it is the second largest employer in India. Any changes by bringing major foreign retailers who will be directly procuring from the main supplier will not only create unemployment on the front end retail but also the middleman who have been working in this industry will be thrown out of their jobs.

- **Loss of self competitive strength**

The India retail sector, particularly organized retail, is still under development and in a nascent stage that, therefore the companies may not be able to compete with big global giants. If the existing firms collaborate with the global biggies they might have to give up at the global front by losing their self competitive strength.

- **Indirectly leads to increase in real estate cost**

It is obvious that the foreign companies which enter into India to open up their malls and stores will certainly look for places in the heart of the cities. There shall be a war for place, initiated among such companies. It will result increase in the cost of real estate in the cities that will eventually affect the interest of the ordinary people who desire to own their houses within the limit of the cities.

- **Distortion of culture**

Though FDI in Indian retail will indirectly or directly contribute for the enhancement of Tourism, easily imbibe certain negative aspects of foreign culture and lifestyles and develop inappropriate consumption pattern, not suited to our culture environment.

Conclusion

There is very huge potential for the growth of organized retailing in India. By following some of the strategies it can rise tremendously and can reach each and every nook and corner. Open communication should be established between functional departments. A balance should be maintained between brand building and promotion. Non-marketing factors like gas prices, weather etc. should be avoided and new schemes should be launched. 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 lasted 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.

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