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Recent trends in foreign direct investment in retail sector

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ABSTRACT

This paper attempts to examine those issues that affect the economy with the entrance of Foreign Direct Investment in to Retail sector in India. Foreign direct investment (FDI) plays an extraordinary and growing role in global business. FDI would serve the purpose of much needed capital and bring a boom in the Retail sector. Retail industry is organized and unorganized in combination. The international players currently in India include McDonald's, Pizza Hut, Dominos, Levis, Lee, Nike, Adidas, TGIF, Benetton, Swarovski, Sony, Sharp, Kodak, and the Medicine Shoppe. Global players are entering India indirectly, via the licensee/franchisee route, since Foreign Direct Investment (FDI) is not allowed in the sector. Indian central government is attempting to transform unorganized retailing to organized retailing by introducing 100% investment in multi-branded retail. Government is facing diverse reactions from different sections of society. There are some advantages such as Increase in GDP, reduction of prices, improved choices of products, and increase in employment opportunities besides having some disadvantages such as adverse effect like destroying employment opportunities & winding up of small and medium scale industries. The big Indian retail players looking to expand their operations include Shopper's Stop, Pantaloon, Lifestyle, Subhiksha, Food World, Vivek's, Nilgiris, Ebony, Crosswords, Café Coffee Day, Wills Lifestyle, Raymond, However, in this era of globalization reforms in the retail sector are necessary to with stand competition. Titan, and Bata. Indian retail chains would get integrated with global supply chains since FDI will bring in technology, quality standards and marketing.

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Introduction

Foreign direct investment Meaning

Foreign direct investment (FDI) is direct investment into production in a country by a company located in another country, either by buying a company in the target country or by expanding operations of an existing business in that country. Foreign direct investment is done for many reasons including to take advantage of cheaper wages in the country, special investment privileges such as tax exemptions offered by the country as an incentive to gain tariff-free access to the markets of the country or the region. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds. Foreign direct investment (FDI) plays an extraordinary and growing role in global business. It can provide a firm with new markets and marketing channels, cheaper production facilities, and access to new technology, products, skills and financing. For a host country or the foreign firm which receives the investment, it can provide a source of new technologies, capital, processes, products, organizational technologies and management skills, and as such can provide a strong impetus to economic development.

Retailing

Retail industry is organized and unorganized in combination. Organized retailing, in India, refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the publicly traded supermarkets, corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.

Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local mom and pop store, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc

Retailing in India

Retailing in India is one of the pillars of its economy and accounts to 22% of total GDP and employs about 8% of total population in 2011. The Indian retail market is estimated to be \$ 500 Billion in 2011 and is expected to reach by \$ 2,500 billion by 2026. Indian market has high complexities in terms of a wide geographic spread and distinct consumer preferences varying by each region necessitating a need for localization even within the geographic zones. In developed countries, organized retailing makes for over 70 per cent of the total business

Emerging Areas in retailing

Apparel Retail: Everybody understands the impact of fashion and textiles on the environment. Almost \$19.5 billion were spent on online apparel shopping in the year 2009 and increasing since then.

Fashion & Lifestyle Retail: 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 retail to grow faster.

Food & Beverage Retail: Backed by huge potential and changing lifestyles, the food and beverage retail market is growing at a robust 30-35 per cent per year.

Pharmaceutical Retail: Driven by therapies like anti-diabetic, vitamin, anti-infectives and dermatology, it accounted for a robust 15% growth in 2011.

E-commerce or E-tailing – The next big revolution: With the advent of e-commerce in the retail industry, retail stores are facing stiff competition from e-stores. The rising demand for e-shopping has led to a new debate cropping up in the world

Factors driving growth in retailing in India are

- Emergence of nuclear families
- Falling real estate prices
- Growing trend of double-income households
- Increase in disposable income and customer aspiration
- Increase in expenditure for luxury items
- Large working population
- Low share of organized retailing
- Growing liberalization of the FDI policy in the past decade.

Bottle necks

- A long way to meet international standards
- Lack of efficient supply-chain management
- Lack of required retail space
- No fixed consumption pattern
- Shortage of trained manpower
- Lack of proper infrastructure and distribution channels.

Major Indian Retailers

- REI AGRO LTD Retail: 6TEN and 6TEN kirana stores
- Future Groups-Formats: Big Bazaar, Food Bazaar, Pantaloons, Central, Fashion Station, Brand Factory, Depot, aLL, E-Zone etc.
- Raymond Ltd.: Textiles, The Raymond Shop, Park Avenue, Park Avenue Woman, Parx, Colourplus, Neck Ties & More, Shirts & More etc.
- Fabindia: Textiles, Home furnishings, handloom apparel, jewellery
- RP-Sanjiv Goenka Group Retail-Formats: Spencer's Hyper, Spencer's Daily, Music World, Au Bon Pain (International bakery cafeteria), Beverly Hills Polo Club
- The Tata Group-Formats: Westside, Star India Bazaar, Steeljunction, Landmark, Titan Industries with World of Titans showrooms, Tanishq outlets, Croma.
- Reliance Retail-Formats: Reliance MART, Reliance SUPER, Reliance FRESH, Reliance Footprint, Reliance Living, Reliance Digital, Reliance Jewellery, Reliance Trends, Reliance Autozone, iStore
- Reliance ADAG Retail-Format: Reliance World
- K Raheja Corp Group-Formats: Shoppers Stop, Crossword, Hyper City, Inorbit Mall
- Nilgiri's-Formats: Nilgiris' supermarket chain
- Marks & Spencer: Clothing, lifestyle products, etc.
- Shri Kannan Departmental Store (P) Ltd .,: Groceries, Clothing, Cosmetics [Western Tamilnadu's Leading Retailer]
- Lifestyle International-Lifestyle, Home Centre, Max, Fun City and International Franchise brand stores.
- Pyramid Retail-Formats: Pyramid Megastore, TruMart
- Next retail India Ltd (Consumer Electronics)(www.next.co.in)
- Vivek Limited Retail Formats: Viveks, Jainsons, Viveks Service Centre, Viveks Safe Deposit Lockers
- PGC Retail -T-Mart India [1], Switcher, Respect India, Grand India Bazaar,etc.,
- Subhiksha-Formats: Subhiksha supermarket pharmacy and telecom discount chain.
- Trinethra- Formats: Fabmall supermarket chain and Fabcity hypermarket chain
- Vishal Retail Group-Formats: Vishal Mega Mart
- BPCL-Formats: In & Out
- German Metro Cash & Carry

- Shoprite Holdings-Formats: Shoprite Hyper
- Paritala stores bazar: honey shine stores
- Aditya Birla Group - "More" Outlets
- Kapas- Cotton garment outlets
- AaramShop - a platform which enables hybrid commerce for thousands of neighborhood stores.
- Nmart Retails with 131 operating Stores till now and total 287 Stores in India and 1 to open in DUBAI Shortly and many more in Process Globally (ZAMBIA, BANGLADESH, SRI LANKA etc.). (Expected to be 500 by the end of 2012)(www.nmart.co.in)
- Gitanjali- Nakshatra, Gili, Asmi, D'damas, Gitanjali Jewels, Giantti, Gitanjali Gifts, etc.

Growth of Retailing in India

Until the 1990s

India's retail industry is organized and unorganized in combination .Most Indian shopping takes place in unorganized open markets or millions of small, independent grocery and retail shops. Government regulations prevented innovation and entrepreneurship in Indian retailing.

Until 2011

In 2010, Organised retailing was absent in most rural and small towns of India. Larger format convenience stores and supermarkets accounted for about 4 percent of the industry, and these were present only in large urban centers. India's retail and logistics industry employs about 40 million Indians (3.3% of Indian population).

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.

According to the Global Retail Development Index 2012, India ranks fifth among the top 30 emerging markets for retail. Retailing reforms in India (2011- 2012):

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. Fitch believes that the 30 percent requirement is likely to significantly delay if not prevent most single brand majors from Europe, USA and Japan from opening stores and creating associated jobs in India.

On 14 September 2012, the government of India announced the opening of FDI in multi brand retail, subject to approvals by individual states. This decision has been welcomed by economists and the markets, however has caused protests and an upheaval in India's central government's political coalition structure.

On 20 September 2012, the Government of India formally notified the FDI reforms for single and multi brand retail, thereby making it effective under Indian law.

Challenges to be Faced by MNC's in India:

- Automatic approval is not allowed for foreign investment in retail.
- Regulations restricting real estate purchases, and cumbersome local laws.
- Taxation, which favors small retail businesses.
- Absence of developed supply chain and integrated IT management.
- Lack of trained work force.
- Low skill level for retailing management.
- Lack of Retailing Courses and study options
- Intrinsic complexity of retailing – rapid price changes, constant threat of product obsolescence and low margins.
- Training and development of labor and management for higher retail productivity is expected to be a challenge.

Benefits of FDI in Retail Sector to Indian economy

- Government has announced 51% FDI in multi-brand retail sector. The biggest beneficiary of this policy will be the government itself.
- The foreign investors will be able to invest money in big corporate houses of India that are already engaged in multi-brand retails through their malls and big shops, the government will attain more money through taxes.
- The upcoming FDI will also improve the score of flowing money in the overall economy and that will suggest a higher GDP rate.
- Beneficiary of the FDI in retail sector will certainly be the big corporate houses engaged in retail sector such as Reliance, TATA industries, Sahara, and others.
- They will be able to attain huge monetary support through their foreign partners, they will be able to strengthen their position in market
- Government will also provide other advantages for these big corporate houses by offering cheap electricity which is subsidized, cheap transportation, which is subsidized and cheap land through SEZ policies.
- The rules offered by government for FDI ascertains that the multi-brand retailers will have to buy 30% of saleable products from Indian producers. Rest of the 70% can be bought from foreign producers. Obviously, it will be a great benefit for foreign producers; they will get a good market in India which will be safe.
- The stock market players will also gain profits through the FDI in retail sector. Value of their shares will enjoy a big boom in upcoming years
- The government will enjoy the benefits of incoming currency and will show better progress card in terms of GDP but it will further promote its socialist programs like Education for All, Food Security Bill, Health Regulators, Universal Health Care system, higher DA for pensioners etc

Effects on Common man

- The upper middle class and upper class Indians will have more places for entertainment, enjoyment and shopping as new Malls and better infrastructure will appear in India. But the middle class and lower class Indians won't get anything out of it
- The small scale producers will face a stringent competition from their Chinese counterparts and that competition will be unfair because of the Indian government's socialistic and restrictive policies of license

- Government's control over power sector and other production sector further exacerbates the issue of Indian small sector producers. Producers in Uttar Pradesh and most of the India fail to attain enough electric power and are dependent on Diesel generators for electricity and production. The shortage of electricity will increase and in small cities, towns and villages and this will further cause harm to production sector. Foreign producers have better facilities and they will win the market especially when they already have 70% slot available for their products.

- The procurement of agriculture products will still remain in government's hand, thus, government is not going to lose any hold on the market and it will decide the minimum price. Thus, farmers may not get hurt because of FDI in retails.

- Small scale producers, retailers and shopkeepers will face huge burden and their market share will be reduced comprehensively. Many of them will lose their jobs.

- Government suggests that FDI will provide jobs too, and this is true, but the number of new jobs that will be created will be much lesser than the number of jobs in small scale production and retail sector will be destroyed.

Disadvantages of FDI in Retail Sector

- Higher GDP does not denote economic progress, or prosperity of common Indian.
- Increase in GDP cannot make a poor any rich, nor can it provide any help for any middle class or upper middle class person.
- Not more than 2% of Indians are actually engaged in the game of Share Market
- Number of jobs in small scale production and retail sector will be destroyed.
- The shortage of electricity will increase and in small cities, towns and villages and this will further cause harm to production sector.
- It is not an economic reform. Rather, it is just another economic bubble which will burst.
- This fake economic reform is actually a process of socializing the losses (Power sector and transportation sector are still subsidized and controlled by government), and privatizing the profits.

Conclusion

FDI in Retail sector is a double – edged weapon having its own merits and demerits. Retail giants will capture all local and agro-based industries. The small scale sector will collapse. While FDI may be useful in the manufacturing sector, it will lead to job losses in retail and the displacement of the traditional supply chain.

On other hand Wall Street Journal article claims that fresh investments in Indian organized retail will generate 10 million new jobs between 2012–2014. India needs trillions of dollars to build its infrastructure, hospitals, housing and schools for its growing population.

Indian economy is small, with limited surplus capital. Indian government is already operating on budget deficits. It is simply not possible for Indian investors or Indian government to fund this expansion, job creation and growth at the rate India needs. Global investment capital through FDI is necessary. Due to the entrance of larger firms prices will come down and choice of products will be increased.

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