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Challenges and Future Prospects of FDI in Indian Retail Sector

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ABSTRACT

The liberalization of trade has brought tremendous changes in Indian retail market. With the advent of deregulation of financial market, increasing role of investors across border mergers and rapid technological advances have ushered in international capital flow called Foreign Direct Investment (FDI) in India. In fact, FDI provides a win – win situation to both the host and the home countries. Retail in India is essentially "unorganized." Most of the retail industry is made up of counter stores, street markets and roadside peddlers. Unorganized retail is characterized by Family run stores, lack of best practices when it comes to inventory control and supply chain management, lack of standardization and essentially a sector populated by anyone who has something to sell. In such a condition, the retail industry has got a new shape in the era of neo-liberalisation. The retail sector in particular has received a constant buzz and excitement surrounding Government policy to reframe and revisit the policy framework. India's retail sector is on its way of modernisation. In 2006, the Government introduced the FDI cap of 51% in retail industry. Therefore, several US and European brands like Walmart, Carrefour have entered in India. Foreign apparel brands including luxury brands have set-up shop in India through Franchisee/Joint Venture route and have expanded rapidly in the last few years. The new FDI policy has been designed

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to attract the large Food and Grocery and Hypermarket retailers lik
Walmart, Carrefour and Tesco. It will usher in a phase of expansion
Therefore, this paper seeks to explore the prospect of FDI in reta
industry of India. It will examine its success for uninterrupted growt
of Indian economy and challenges.

Keywords: Foreign Direct Investment, Retail, Neo-liberalisation
Unorganised retail, Hypermarket retailer.

INTRODUCTION

Retail is the sale of goods to end users, not for resale, but for u and consumption by the purchaser. The retail transaction is at the end the supply chain. It is the last link that connects the individual consum with the manufacturing and distribution chain. Retail industry keeps important position in India's economic development. It is one of t oldest business models of our country. It accounts for nearly 350 milli of total revenues. Retailing contributes about 15% of India 's Gro Domestic Product (GDP) and 8% of employment (Patibandla 2012). 2007, India was ranked the twelfth largest consumer market and it expected to be the fifth-largest consumer market by 2025 after the U Japan, China and the UK (McKinsey & Company 2007). Therefore, su a vast retail industry is split into two parts as organised and unorganis retail in India. Organized retailing refers to trading activities undertak by licensed retailers, that is, those who are registered for sales ta income tax. The Unorganised retail consists of local kirana shops, owne manned general stores, chemists, footwear shops, apparel shops, paan ar beedi shops, hand-cart hawkers, pavement vendors. These unorganis retailers donot pay tax and hamper revenue generation of the country. addition to it, the unorganised retail has also problem of intermediari which hamper smooth communication between Government and actu producers of product. Low overhead requirements and lack of regulatio resulted in low entry barriers which led to overcrowding of the sect and consequent low productivity. On one hand, the demand of mass in terms of non-food consumer goods is increasing; on the other th poor quality of Indian retail industry has devastated the expectation c uninterrupted growth of economy. The post 1991 neo-liberal phenomen has made it pre-requisite that the economy of India requires fast an uninterrupted growth which may not be possible through parochia unorganised retail industry. The Indian Government has realised that growing consumerism and brand-consciousness can help sustain high economic growth (Mukherjee, Arpita).

Therefore, the need for fast growth of our economy has ushered in an era of Foreign Direct Investment (FDI). In 2006, the Government of India formulated retail FDI policy for the first time. It allowed 51 percent FDI in retailing initially. Therefore, the intervention of foreign fund remained restricted to single brand products only. Later on, the discussion in the Department of Industrial Policy and Promotion initiated the process of entry of FDI in multi-brand retail. In July 2011, a committee of cabinet secretaries supported 51 per cent FDI in multi-brand retail stating that it will help to set up the supply chain and reduce inflation.

OBJECTIVES OF PAPER

1. To visualize the pre-FDI condition of Indian retail sector.
2. To portray challenges of Indian retail industry due to influence of middlemen.
3. To examine further obstacles faced by FDI before embarking into Indian retail sector.
4. To speculate the prospects of FDI in bringing efficiency and effectiveness in the retail sector.

METHODOLOGY

This paper is based on qualitative study utilizing secondary sources of data. It has been reviewed several books, journals, articles for presenting the findings of this paper.

FINDINGS

This paper attempts to portray the positive outcome of FDI in Indian retail industry. It shows that the FDI in multi brand retail is expected to bring retail Know-how and best practice, shopping experience, foreign capital, generate huge employment, investment in supply chain and backend operation mainly in food and grocery segment. The paper highlights various indicators of growth of retail industry due to FDI like Integration of Indian economy with global economy, emergence of technical advancement in consumer market, transparency in market, growth of job opportunities, expansion of organized retail industry, direct contact between farmers and merchants etc.

RATIONALE FOR FDI IN RETAIL INDUSTRY OF INDIA

Retail is now one of the fastest growing sectors in India. It i estimated that the share of retail trade in GDP is approximately 11-1 per cent. In 2010, the Indian retail market was valued at $435 billion, o which the share of organised or modern retail was 7 per cent or $30.0 billion (A.T. Kearney 2011). The share of modern retail is expected t reach 20 per cent by 2020 (A.T. Kearney 2010, 2011). In addition t contribution of retail industry in India's economy, it has some othe aspects also which make it indispensable that it may be advanced. One of those reasons is changing shopping behaviour of Indian consumers availability of goods at one place, reduction of middlemen, linkages of producers with consumers on demand and supply curve, consumer loyalty etc. All these elements make this proposition that the retail industry must be developed.

Having this need, there is an urgent necessity for FDI in Indian retail sector. The foreign players have potential to reverse the parochial structure of retail industry. It has efficiency in supply chain management. The main proposition is that adoption of efficient supply chain management will boost economic growth by reducing transaction and information costs, deadweight losses and uncertainty of market exchange and thereby contributes to increase in productivity. Due to upsurge of FDI in India, there is a huge possibility that dilapidated condition of infrastructure, job opportunities of our country may be mended. Illiteracy at farm level and outdated means of production and lack of required infrastructure has also contributed to shorter shelf life of the product and increased wastages. Global retailers are expected to bring in advanced technology; know-how and years of experience which should go a long way in addressing these inconsistencies. It shows its potential of substantial growth in organized retail industry. Kishore Biyani, founder and chairman of Future Group says that the FDI will throw open new opportunities which will enable us to sell a stake and raise funds. Indian companies have the option of selling a part of their stake to foreign companies enabling them to become debt-free. Apart from opening up doors for the likes of Wal-Mart and Carrefour, which have been waiting in the wings for years, it would eventually also benefit small and marginalized farmers as well. In addition to them, there are some indigenous key factors originated from our own consumers which necessitate the entry of FDI in India's retail industry. They are as follows:

hanging Patterns of Consumption

The consumers are getting more inclined towards safety and hygiene product than its price. In post liberalisation phase, the emphasis of ndian customer is on technical specificity of packaged retail products hich requires the foreign investment. The consumers are desirous of pending money on branded items as compared to non-branded products. he branded products are chosen for design, comfort, durability, quality nd efficiency. It may be illustrated through following Table

Table-1: Total Purchases and Branded Purchases across Different Products

Product Category	Percentage Share of Respondents Buying Only Branded Products	Percentage Share of Expenditure on Branded Products in each Product Category
	Category I: Largely Branded	
Dietary Supplements	100	100
Consumer Durables	100	100
FMCG products	99.66	94.05
Watches	99.29	88.82
	Category II: Both Branded and Non Branded	
Footwear	88.67	84.81
Apparel	40.66*	74.85
Handbags	62.66	67.12
Jewellery	63.86	62.83
	Category III: Largely Non-Branded	
Preserved Food and Agro products	51.93	56.70
Furniture	41.29	55.98
Costume Jewellery	33.87	55.64
Fresh Fruits and Vegetables	7.33	53.04
Total Number of Respondents	-	-

Source: ICRIER Policy Series, No. 05, August' 2011: Impact of Retail FDI Policy on ndian Consumers and the way forward)

nowledge and Inclination towards Foreign Brands

Indian consumers are not only brand conscious but also interested in mported products from foreign companies. The extensive use of media in dvertising of foreign made products has inclined the domestic customers owards foreign producers. *For example,* The indigenous brand of Bata as been replaced with several foreign brands like Nike, Reebok, Adidas, Red Tape etc. Even if the price is comparatively high, they are ready to p price for it. The opening of domestic market towards international playe has made entry of these products very easy. As a result, the people wa more efficient foreign brands than indigenous brands. The opinion of India youth is that foreign brands will infuse more competition, force domest brands to upgrade their quality of product and control the monopolist nature of single brand.

Irrelevance of Traditional Market System

Another reason behind inviting FDI in retailing is elimination o concept of traditional market system where the buyer and seller have to meet. The entry of FDI will bring virtualisation of market either through online mode or distance-delivery mode. Because of this new accessible system, the cost of product may be lessened. The lackness of space for storage of innumerable quantity of products will not be a hurdle in the way of economic growth. The consumers may choose the product from a distance and the seller may deliver it at desired destination with minimal cost.

Having all these rationale in mind, there is necessity for evaluating its impact on Indian retail sector. We need to see its success in Indian retail industry.

IMPACT OF FDI ON INDIAN RETAIL INDUSTRY

The pre-requisite of FDI necessitates its need in India's Retail industry This, in turn, will lead to the development of more efficient and lower cos supply chains, resulting in better quality as well as lower-priced products for Indian consumers. This will increase consumer spending, which in turn, will drive growth in all sectors of the economy in a virtuous cycle (Mukherjee, Arpita, 2011).

Integration of Indian Economy with Global Economy

One of the major impacts of FDI is its linkages of economy of various countries. It has paved access of Indian consumers to international market The rise in international market is enhancing rise in domestic market also FDI in retail has reduced cost of intermediation and entail setting up o integrated supply chains that would minimize wastage, give producers a better price and benefit both producers and consumers. From the stand point of consumers, organized retailing would help reduce the problem of adulteration, short weighing and substandard goods (Bhukta 2009). Moreover, joint ventures would ease capital constraints of existing organised ailers. In case of linkages with world market, the issue of quality control emerged. The domestic producers are not able to compromise with ality and keep the price of commodity intact. With the availability of e flow of finance in conjunction with advent of healthy inflow of FDI, supermarkets will be in a better position than small retailers to make opping a pleasant experience. Consumers will shop in accordance with ir utmost convenience, where ever they get the lowest price, max variety d a good consumer experience.

ergence of Technical Advancement in Consumer Market

The second impact of supporting FDI in retailing is emergence of chnical know-how in our domestic market. As envisaged, the retail rket of India has been unorganised and traditional, it has lacked chnical know-how. Either the producer does not know how to increase oduction on cost-effective lines or shopkeeper has incompetence of intaining quality of products. The poor quality and high price leads customer dissatisfaction. Therefore, the foreign investment in single and product has trained the producer and merchant in efficient handling product as well as maintenance of cost-effectiveness. Alongwith -gradation in agriculture, manpower and skill development, it may o lead to an improvement in the overall productivity. Encouraging olesale trading can create demand throughout the supply chain. In s spirit, the recent discussion paper talks of earmarking 50 per cent FDI inflows for building up of back-end infrastructure, logistics d agro processing (DIPP Report, 2010). In theory, if fresh produce collected efficiently at the farm-gate and end-to-end cold-chain is intained in storage and transportation until it reaches supermarket elves as in developed countries, this wastage can be eliminated, nslating into better prices for farmers and lower prices for consumers sides greater availability of the produce for processing, export and her value-addition.

owth of Job Opportunities

Due to competitiveness in the market, there has been brought a boost in ployment sector also. The joint venture between indigenous market player d international corporate has facilitated the employment opportunities for dian masses. The discussion paper considers the possibility of reserving per cent jobs in FDI-funded retail outlets for rural youth. Bharati group India has joined hand with US giant WalMart to provide training and