

FDI in Indian Retail Business – Issues and Opportunities for Growth

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Research Papers

Abstract

Retail industry in India has seen a multi-fold growth in last decade, with estimated \$450 billion at 15% growth in 2011. In this fast growing sector, government allows 51% FDI in single-brand retail and 100% on cash-n-carry, but are yet to allow FDI in multi-brand retailing. Nearly 10 million square feet of retail space has been added over the year, that too only in organized sector. Also there are growth in terms of wholesale store from big retailers and boom in online retail space in India.

The decision to allow of FDI was welcomed not only by foreign giants, but also by domestic players as well, as against the common expectation that the domestic players may oppose it. On one side where the big domestic players are supporting to allow the FDI in Indian retail, on the contrary opposition and small traders are opposing the stand of the government. Temporarily the decision has been put to the back by the government. But the days are not too far when the Indian government will be forced to allow FDI in multi-brand retailing in India.

In this perspective, this paper studies on the implication of FDI in Indian Retail on small traders and on the ways to cash-in the opportunity and progress.

Keywords: FDI, Retailing, Employment, Government Policy

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1. Introduction

In India only few companies with strong retail background exist, such as Pantaloon Retail, Reliance Retail, Nilgiri's, Big Bazaar, Bharti Retail etc. After agriculture, retailing is the largest employer in India. Over the last few years India has been witnessing a transformation of retail sector such as departmental stores, hyper markets, supermarkets and stores. Earlier, FDI inflows in infrastructure, manufacturing and natural resources were high in India. It is evident that now FDI inflows are increasing in the sectors like retail, hospitality, tourism and other service oriented industries. This is a positive sign for the economic development of the country.

A majority of the Small Medium Sector (SME) companies favored the bold decision taken by Government of India (GOI) to allow 51% FDI in multi brand retail and 100% in single brand retail. According to new revised FDI policy at least 30% of the value of procurement of manufactured/processed products purchases should be sourced from SME companies. The new clause will have positive impact on sales, growth of the industry, contracts/orders, expertise supply chain management, brand image of the existing product and will generate employment in the SME sector.

As business environment is dynamic in nature, there will be changes in the industry. Whenever industry is undergoes a change, there will be a strong resistance to change. When the Reliance Company entered the retail sector, there was criticism that it will kill the kirana stores in India. At present customers are still visiting the stores. They have not stopped visiting kirana stores entirely. Retailers have attracted the customers with discounts, loyalty programmes and diverse products portfolio. This has only reduced the customers visit to kirana stores. The paradigm shift and transformation of the retail sector in India is very slow when compare to other developed and developing economies.

Wal-Mart's primary growth engine is International sales, nearly \$125 billion. In India, big players entered in the retail sector to serve particular strata (High income households). In the process they are able to attract the middle income customers also. In the case of Wal-Mart it is totally opposite. The main objective of the Wal-Mart is to expand and serve the middle income customers. In India, more than 50% of the population comes under this stratum. Wal-Mart may achieve the objective of expansion and service by setting up retail outlets in India.

The current paper discusses the following:

- The factors driving the retail industry
- Issues in the retail sector
- Why India as a destination?

2. Review of Literature:

Khor Chia Boon (2001) in his research paper studied the relationship between Foreign Direct Investment (FDI) and economic growth. The study revealed that bidirectional casualty exists, between FDI and economic growth. For any economy the first priority should be developing institutional framework, enhancing the market efficiency and ensuring the availability of infrastructure (Klaus E Meyer, 2003). FDI flows are influenced by general economic indicators like market size, export intensity, institutions etc. (Iyare et. al., 2004). John Andreas (2004) in his empirical research argued that FDI inflows enhance economic growth in developing economies but not in developed economies. India should draw the lessons from Thailand in placing the restrictions on the expansion of organized retailing (Sarma, 2005).

Retail in India is severely constrained by limited availability of bank finance and dislocation of labor (Guruswamy et.al. 2005). Nirupama & Jeffrey (2006) in their research paper ‘Foreign Direct Investment in India- Issues & Problems’, concluded that a restricted FDI regime, high import quality, exit barriers, labor laws, poor quality infrastructure, centralized decision making processes etc., make India an unattractive investment location.

Swapna S. Sinha (2007), studied FDI inflows in China and India and concluded that India has grown due to its human resource, market size, growing markets and political stability. FDI in retail trading should be opened to improve the productivity and better distribution system. Through this, the domestic players can capitalize on the MNCs expertise in supply chain and distribution network experience (Amisha Gupta, 2010). Gupta et. al., (2012) in their research paper studied the customer behavior towards organized and unorganized retail stores in Indore. The empirical research study revealed that organized and unorganized retail market can co-exist and flourish. Allowing FDI in retail sector which leads to the integration into the world markets contributes to economic development and social welfare of the country (Arun & Agarwal, 2012). Regulations need to be more stringent and restrictive as India has the highest shop density in the world with 10 shops for 1000 persons. Without proper restrictions and control on the corporate retailers there will be a displacement of unorganized retailers and loss of livelihoods (Kamaladevi, 2012).

From the above review of literature it is evident that a bidirectional relation exists between FDI and development of the country. Most of the countries have benefited by opening up industry. There are some gaps in the retail industry which harness the growth and performance of the industry. Proper regulations and monitoring through policy framework will help the retail industry growth in India.

Table 1: Showing the new revised FDI norms

Sector	New FDI Norm	Who will benefit
Multi Brand Retail	Foreign retailers like Wal-Mart and others can pick up to 51% stake in local retail network; foreign investor should bring minimum \$100 million as FDI; 50% of total FDI to be invested in back end infrastructure in three years; set up of retail outlets only in cities with a population more than 10 lakhs; retail trading in any form would not be allowed; fresh farm produces may be unbranded & Government will have the first right to procure farm products.	Big bazaar, Shoppers Stop, Reliance Retail, Bharti Retail, others
Single Brand Retail	Conditions of foreign ownership of brands changed; 30% sourcing clause tweaked, Retail trading-in any form, through e-commerce not allowed; products to be sold should be of a single brand only, products should be sold under the same brand in one or more countries other than India; allowed 100% FDI in single-brand retail & quantum of sourcing to self certified to be checked by statutory auditors	IKEA, Pramod & Others

Source: Financial Express & Times of India

From the above table it is clearly evident that new revised FDI norms will give an opportunity to the foreign retailers to setup outlets in India. Indian retailers as well as foreign retailers will be benefited by the new revised FDI policy. India may attract more FDI by opening up the industry for huge investments such as infrastructure, logistics, real estate and expertise management from the foreign retailers.

3. Factors driving the growth of retail sector in India:

- The growing population and low share of organized retail in India is attracting the global players to enter and setup retail outlets in India. Rising nuclear families is another important factor. As per the Census of India 2011, the population of India stood at 1, 21,01,9342. Among the states Uttarpradesh has the largest share of 16.49 percent population followed by Maharashtra 9.29 percent, Bihar 8.58 percent, West Bengal 7.55 percent, Andhra Pradesh 7 percent and Madhya Pradesh 6 percent. The above states attract the huge investment in retail sector.
- For the struggling agricultural sector entry of foreign retailers is a boon as they buy directly from the farmers and pay better price than locals and wholesalers.
- Innovation in technology and business, as well as a change in customers' behavior is an added advantage to the retailers who leverage the technology to increase the sales. McKinsey & Company study in 2011 revealed that 11 percent of the customers use mobile payments several times a day. With the help of the technology online and offline retailers are becoming more closely integrated.
- India's annual per capita income almost doubled from Rs. 23,198 in 2004-05 to Rs. 46,492 in 2010-11, expenditure grew from Rs. 25,000 in 2007-08 to Rs. 30,000 in 2009-10 All manner of consumption grew. Growing farm and non farm incomes and the rise of middle and aspires consumers are some of the reasons for the development of the retail sector in India.
- Online retailers like flipkart, mantra, snap deal etc. are developing sales model to suit Indian conditions. But online sales still make a small portion of overall retail spending. Offline retailers may take this advantage by setting up physical distribution centers in major cities and towns to increase sales and to face tough competition from the global online retailers.
- Absence of intermediaries in the food chain will improve the efficiency of agriculture sector where customers will get cheaper farm products as well as farmers will get high returns for their productivity.
- In US agricultural subsidies are routed through organized retail sector. This has to be started in India so that farmers as well as organized retail sector players will be benefited.

4. Retail Space - Boosting Organized Retail in India:

- Wave InfoTech announced the launch of Wave City Centre covering 152 acres, the retail space alone will occupy 8.5 lakh sq. ft.
- Supertech real estate developer opened Pentagon Mall in Haridwar spread in the built up area of 4, 50,000 sq. ft.
- DLF plans to open Mall of India by 2013 spread in the total built up area of 27, 07,575 sq. ft.
- Omaxe Real Estate Company is opening a Connaught Place (mall) in Greater Noida by 2013 with built up area of 1.9 million sq. ft.
- AMR Infrastructure Property Developers launched The Great Adventure Mall in Greater Noida with built up area of 11 lakh sq.ft.

- Bhasin InfoTech and Infrastructure developed The Grand Venezia Mall in Greater Noida which will operational by the end of 2012. The mall spread has a built up area of 1.4 mn sq.ft.
- Brigade Group, a real estate developer, recently opened Orion Mall in Bengaluru which is spread over 8.2 Lakh sq.ft.
- Ambuja Real Estate Developer is launching City Centre (Mall) in Raipur by October 2012, the mall is spread with built up area of 4, 80,000 sq. ft.
- Marg Limited is developing Marg Junction Mall in Chennai which will be operation in 2012. Retail space in the mall is spread across 12, 00,000 sq.ft.
- Malabar Group, a retail and real estate company recently opened its first mall 'K Mall' in Kollam, Kerala. The mall is spread over 2, 04,000 sq.ft.
- Neptune Ventures and Developers developed Neptune Magnet Mall in Mumbai, which was launched in 2012. The mall is spread over with an area of 10, 56,000 sq.ft.
- S T marketing is developing Dwaraka City Centre Mall in Muzaffarpur which will be operational by 2013. The mall will have the built up area of 1, 85,000 sq.ft.
- Ascendas Services developed and launched Ascendas Park Square mall in International Tech Park Bengaluru. The total built up area of the mall is 4, 50,000 sq.ft.
- Magarpatta Retail developed Season's Mall in Pune which became operational in 2012. The mall is spread across a total built up area of 1.5mn sq.ft.

5. Findings & Suggestions:

- The same corporate sector that hailed the opening up in every sector is now silent because the present reforms are backed by Gandhi family. From the past two decades, since sworn in the government is distancing itself from the corporate India. Now the government has to maintain a contact with corporate India otherwise the corporate India will be looking at other ways of development and the government may lose trust in the process.
- FDI in retail as a solution to inflation and high food prices has been opposed by states such as Bihar, Madhyapadesh, Chhattisgarh, Kerala, Odisha, Uttarpradesh and West Bengal.
- If the number of stores in a given supermarket grows then there will be a transformation of procurement system to the distribution centre. But this is not happening in India as most of the malls are coming up and traditional supermarkets are vanishing. It is an alarming situation for retail individual shop owners.
- What is the type of retail model that is being adopted? And How is the profitability going to be worked out? - These are the two big questions in front of the foreign retailers.
- 2012 is the promising year for retail industry where 6mn sq.ft. Mall space is added in the industry. The FDI buzz made the retailers block the space as much as possible. Even the rentals went up by 15-20 percent. Keeping up with the pace of inflation, the rentals may go up further.
- Stability of the currency is another important issue. In the beginning of the financial year rupee continuously depreciated. Directly or indirectly the impact will be there in the average Indian household. There will be an impact even on the retailers as some products are imported from other countries. As the cost of import, transportation, storage, rentals, inflation etc. retailers will think of the deals.
- Some of the SMEs in northern region opposed the entry of FDI in multi brand retail. The reason is that for SME sector in India it is very difficult to compete with counterparts from other countries. In India the SME sector is

facing the problems of high cost of capital, rising raw materials price, transportation cost etc. No retailer wants to buy the products at higher price.

6. Conclusion:

The new revised FDI policy will have both a positive and a negative impact on Indian retail industry. Before allowing the foreign retailers in India, The government should have first developed the organized retail market and SME sector. The opposition is coming mainly from retail individual owners and SME sector. In China it became succeeded because before allowing the foreign retailers China created a strong environment for the existing industry's growth. When FDI in multi brand retail is announced most of the real estate sector players planned to launch malls in major towns and cities. Few malls in the major cities which are dying will get a boost with the announcement. Competition is very high in the retail sector in India as offline retailers and online retailers are in the early growth stage. Now India requires a distinct model where traditional and modern retail will continue. Another moot question is whether investment will increase in back end infrastructure, real estate, logistics and SME sector. Still in India a household prefer kirana stores and nearby shops for unexpected purchases which will keep the stores alive in India as it is very difficult to kill from the roots when traditional retailing roots are spread very deeply in the Indian economy.

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8. Annexures

Table 2: Showing Wal-Mart International Stores:

Geographic Market	Retail	Wholesale	Others	Total
Argentina	88	-	-	88
Brazil	429	83	-	512
Canada	333	-	-	333
Chile	314	-	2	316
China	364	6	-	370
Costa Rica	200	-	-	200
El Salvador	79	-	-	79
Guatemala	198	2	-	200
Honduras	70	-	-	70
India	-	15	-	15
Japan	367	-	52	419
Mexico	1600	124	364	2088
Nicaragua	73	-	-	73
South Africa	219	86	-	305
Sub-Saharan Africa	30	12	-	42
United Kingdom	541	-	-	541
International Total	4905	328	418	5651

Source: Wal-Mart as on 31-01-2012

Table 3: Showing retail space covered by major retailers in India

Indian Retailer	Retail Space in (mn Square Feet)	
	2009-10	2010-11
Pantaloon Retail (India) Ltd.	2.01	2.59
Central & Brand Factory	1.24	1.74
Pantaloons	1.11	1.15
Home Town	0.52	0.5
e-Zone	0.34	0.45
Others		

Future Value Retail

Big Bazaar	6.88	7.64
Food Bazaar	0.47	0.55
Fair Price	0.12	0.19
Others	0.29	0.42

Table 4: Showing the size and Growth of the retail market

Year	Total Size	Organized Retail	% of Total Market
2005	244	8	3
2006	276	11	4
2007	316	15	5
2008	362	19	5
2009	368	22	6
2010	425	28	7
2011	471	35	7
2012*	528	44	8
2013*	590	55	9

* Forecasts

Source: Boston consulting Group

Table 5: Showing the top 10 attractive shopping destinations

Rank	Country	Score
1	India	67.7
2	Russia	60.1
3	China	56.4
4	United Arab Emirates	56.3
5	Saudi Arabia	55.7
6	Vietnam	55.3
7	Chile	54.8
8	Brazil	52.7
9	Slovenia	52.1
10	Malaysia	51.3

Source: A.T. Kearney