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FDI IN RETAIL

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Abstract

In the technological period of current era, many countries observe, the FDI as a boost to their economy. Because of liberalization and FDI policy, India even being late to implement has a better control over foreign investors in her markets. This paper tries to focus on the competitive role of FDI in Indian retail market sector and multi-brand sector. It is also a part of study to analyze the challenges India may face because of the FDI in retail market. The tasks remain which are beyond the scope of this paper are impact of FDI in both market and branding, on Indian Economy.

Keywords: Retailing, Branding, Infrastructure, Supply-Chain, Investment, Kirana

1. Introduction

It has been see that for any country to progress, it is required to have good production capabilities. To achieve good production capabilities the required capital is the basic elements. This means that capital investment becomes a primary need for any country to develop industries. For India being an underdeveloped country, capital is more needed for competing with other countries for technology and infrastructure development. New economic reforms were designed and implemented by India in the year 1991 which was known as liberalization policy. With the deregulation of financial markets [4], huge investments especially in the field of science and technology were seen. The FDI inflow to India is increased from $4029 million in 2001 to $186.79 billion to 2010 [1]. When compared with other developed nations like China, the amount is less, but this investment helped India to change economically. Because of liberalization policy adopted by India since last two decades, findings of the panel exercise in 10 select EMEs (Emerging Market Economies), suggest that this make significant impact on FDI inflows [6]. In Last decade the FDI inflow has been seen increasing that promoted the performance of Indian industries.

India has signed WTO‘s GATT in Services, which include wholesale and retailing services, had to open up the retail trade sector to foreign investment [3]. It is being speculated that the retail sector could grow about three times its current levels to $660 billion by 2015 [3] [4] [11]. It has been observed a slowdown in world market since couple of years; still growth has been seen in retail sector resulting in single digit inflation index in 2011 [2]. It is seen that political uncertainty affected the FDI inflow in the country. Problem of corruption is also a matter of concern which is hampering the process to attract more FDI [1]. FDI provides a win – win situation [4] [12] for host and home countries. Here the host country will get new technology

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and management techniques with foreign exchange [12]; whereas home country will get a new market for its industrial growth, low manufacturing cost, Increase Income level, etc. This will also help the host country to develop and increase financial capital, different skills [12], access to market abroad and entrepreneurship.

FDI in the retail sector can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers, and suppliers (farmers). Opposition to liberalizing FDI in this sector raises concerns about employment losses, promotion of unhealthy competition among organized domestic retailers resulting in exit of small domestic retailers from the market and distortion of urban cultural development. It has been seen that retail sector in India comprises of large number of small retailers consisting of local Kirana shops popularly known as mom and pop stores, dairy shops, green grocers etc. which together make up the so-called unorganized retail or traditional retail [2] [3]. The traditional retail in India is the highest contributor in retail sector besides it also provides about 10% of employment too. It is this reason, that government is more concern over FDI in retail. It has been seen that retail is about 22% [2] India's GDP as per the financial statistics of year 2011. It has been observed that, for an Indian household it is convenient to call the corner grocery or so called "Kirana" store, which is familiar with their brands, offers credit, flexible conditions for product returns and exchange [3].

2. Objectives

The objective of study is to analyze the current FDI-retail in India, to know the likely challenges and threats of FDI in retail in India. It is also to find out the Merits and Demerits of Multi Brand FDI in Retail Sector in India. The paper is based on statistical data, comparative study and analytical logic. This logic is developed by data accumulation from various research papers, reports, books, journals, newspapers, etc.

3. Methodology

The study is based on the secondary data and information. Statistical methods like tabulations, percentage, ratios etc. are applied to evaluate the data and to turn up the noteworthy inferences. The paper has 7 chapters. The chapters cover introduction, objectives, methodology and status of FDI in India, role of FDI in retails with Positives and Negatives with respect to Indian market, findings and conclusion. The research adopted is analytical, descriptive and comparative methodology. This study has been done using data from different studies, research papers, journals, books, newspapers and websites.

4. Current Status

In 2013 India ranked at the 2nd most attractive FDI destinations [1] followed by China. It has been seen that from year 2000 to 2011 FDI in flows to India is about US $ 194,814 million. FDI in India is controlled by the Government of India under Foreign Exchange Management Act

(FEMA) 1999. The Ministry of Commerce and Industry, Government of India is agency for motoring and reviewing FDI policy. The FDI policy is notified by the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP). It has been formulated by DIPP's that an FDI is [2]

- Up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.
- FDI up to 51 % with prior government approval for retail trade of Single Brand products.
- India will allow FDI of up to 51% in multi-brand sector (Retail).
- Single brand retailers can own 100% of their Indian stores.
- The retailers (both single and multi-brand) will have to source at least 30% of their goods from small and medium sized Indian suppliers.
- All retail stores can open up their operations in population having over 1million.
- Multi-brand retailers must bring minimum investment of US$ 100 million.
- Half of this must be invested in back-end infrastructure facilities such as cold chains, refrigeration, transportation, packaging etc. to reduce post-harvest losses and provide remunerative prices to farmers.
- The opening of retail competition (policy) will be within parameters of state laws and regulations.

Table 1 Sales in Retailing Category 2006-2011 (in billions INR)

Sr. No.	Year	Store Based Retailing	Non-Store Based Retailing	Total Retailing
1	2006	8,540	40	8,580
2	2007	9,650	55	9,705
3	2008	10,860	60	10,920
4	2009	11,980	80	12,060
5	2010	13,590	90	13,680
6	2011	15,520	120	15,640

(Source: Food & Agribusiness Strategic Advisory and Research (FASAR) Team - YES BANK and ASSOCHAM [2])

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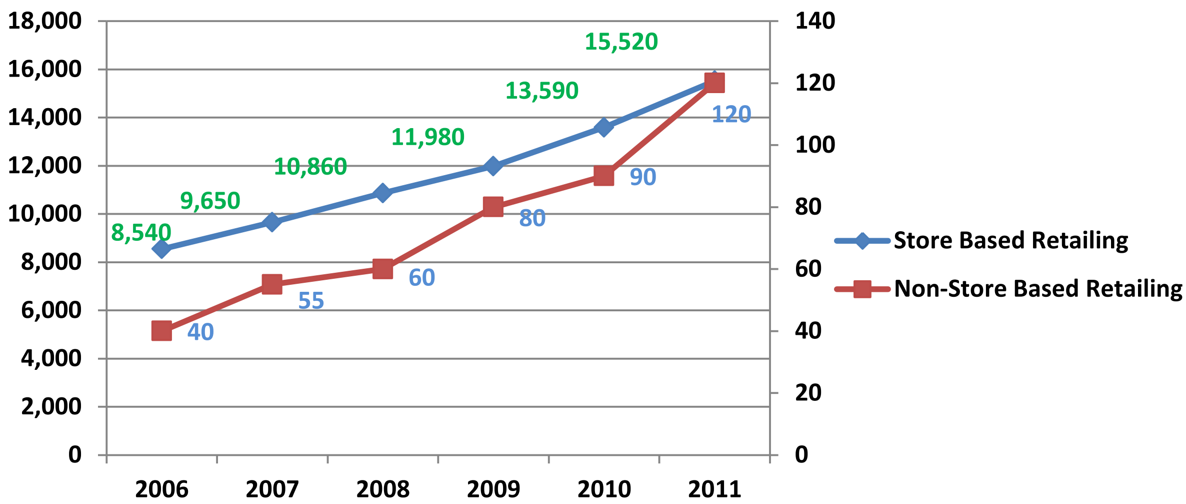

Chart for Table 1 (Sales in Retailing Category)

Store based retailing comprises nearly 99% of all retail sales in 2011. Store based retailing is seen growing by around 14% during 2010-11 whereas the growth of non-store retailing is about 33%. It has been observed that the overall retail sector had growth of about 14% during 2010-11.

We can now calculate the Compound Annual Growth Rate in short known as CGAR, which gives us the growth rate of retail sector during the year 2006 to 2011. We can compare the CAGR values of store based and non-store based retail during the above said period of time.

Calculating CAGR value for Store based retail, we can put the values of t_0=2006, t_n= 2011, $V(t_0)$=8,540 and $V(t_n)$=15,520 we get, Hence we get the value 12.69% for store based retail.

Similarly we will calculate for Non-Store based retail. For that the values will be t_0=2006, t_n= 2011, $V(t_0)$=40 and $V(t_n)$=120 we get, Here we get the value 24.57% for store based retail.

For whole retail the values will be t_0=2006, t_n= 2011, $V(t_0)$=8580 and $V(t_n)$=15640 we get, Overall retail CAGR value comes to be 12.76%.

Over the period of 2006-11, store-based retailing grew at a CAGR of 12.6% as compared to 24.5% for non-store retailing whereas the CAGR for the retail sector as a whole was 12.7% for the period 2006-11. Overall, store-based retailing has grown by 81.2% in absolute terms in the period 2006-11 and non store retailing has grown by a phenomenal 200% during the same period. The retail sector as a whole has grown by 82% in absolute terms from 2006 to 2011.

Table 2 Sales in Retailing Category 2006-2011 (Grocery vs. Non-Grocery)

Sr. No.	Year	Grocery	Non-Grocery
1	2006	65.50 %	34.50 %
2	2007	63.50 %	36.50 %
3	2008	62.00 %	38.00 %

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4	2009	61.50 %	38.50 %
5	2010	62.00 %	38.00 %
6	2011	67.60 %	32.40 %

(Source: Food & Agribusiness Strategic Advisory and Research (FASAR) Team - YES BANK and ASSOCHAM [2])

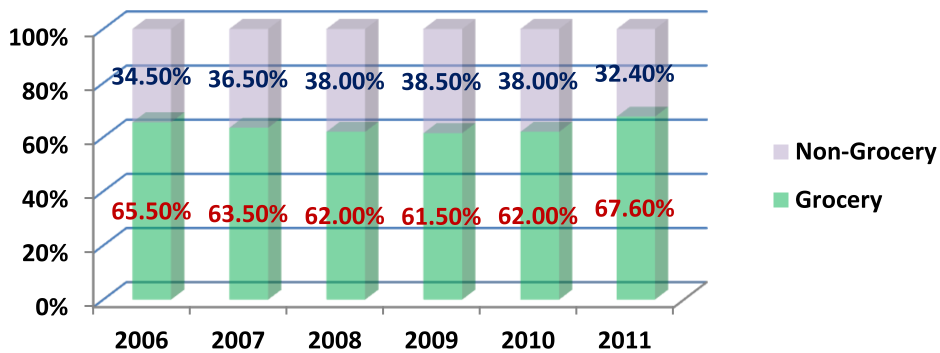

Chart for Table 2 (Sales in Retailing Category – Grocery vs. Non-Grocery)

It has been analyzed that the shown period, retailing in grocery is between 60% and 68% and non- grocery accounts to be between 32% and 40% of total sale.

Table 3 Store Based Retailing 2006-2011(in billions INR) (Grocery vs. Non-Grocery)

Sr. No.	Year	Store Based Retailing	Store Based Retailing (Grocery)	Store Based Retailing (Non-Grocery)
1	2006	8,540	2,946	5,594
2	2007	9,650	3,522	6,128
3	2008	10,860	4,127	6,733
4	2009	11,980	4,612	7,818
5	2010	13,590	5,164	8,426
6	2011	15,520	5,029	10,491

(Source: Food & Agribusiness Strategic Advisory and Research (FASAR) Team - YES BANK and ASSOCHAM [2])

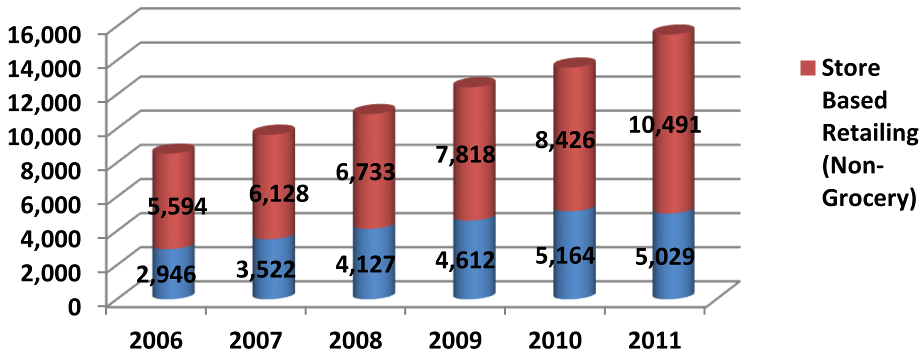

Chart for Table 3 (Store based Retailing Category - Grocery vs. Non-Grocery)

Table 4 Employment in Retailing 2006-2011

Sr. No.	Year	Total Employment	Retail Employment
1	2006	3,94,000	37,000
2	2007	4,05,000	38,000
3	2008	4,16,000	39,000
4	2009	4,21,000	39,500
5	2010	4,28,000	40,000
6	2011	4,37,000	41,000

(Source: Food & Agribusiness Strategic Advisory and Research (FASAR) Team - YES BANK and ASSOCHAM [2])

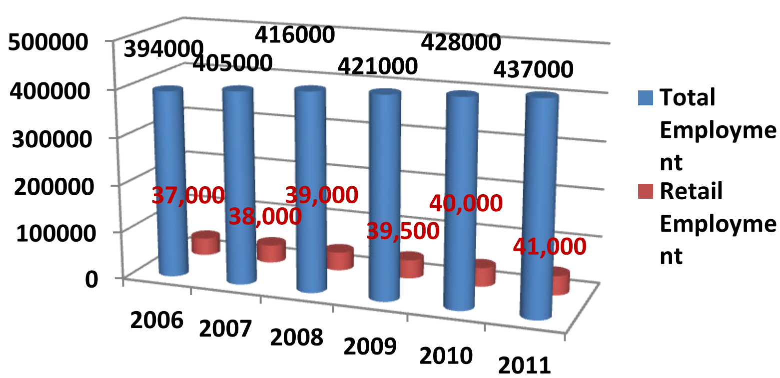

Chart for Table 4 (Employment in Retailing Category)

As it is discussed already that the employability and employment status of Indian unemployed in retail sector will be increased due to FDI in retail, yet it will take time to get recognition to this job as a career option especially in the educated section of population. As per the facts of table 4, it is clear that around 9.3% to 9.4% of jobs belong to retail sector. If we calculate the CAGR value for table-4, we come to a conclusion that between 2006 and 2011, the retail sector provided employment to around 41,000 people in 2011 as compared to 37,000 in 2006 is growing at a CAGR of 2%.

Table 5 Purchase Based on Nature of Location

Sr. No.	Location	Organized (%)	Un-Organized (%)
1	Urban	65	28
2	Semi-Urban	23	53
3	Rural	13	19

(Source: Food & Agribusiness Strategic Advisory and Research (FASAR) Team - YES BANK and ASSOCHAM [2])

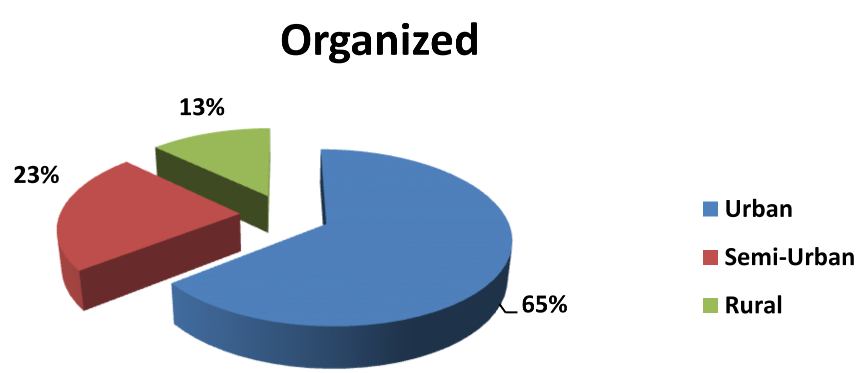

Chart for Table 5 (Purchase Based on Location - Organized)

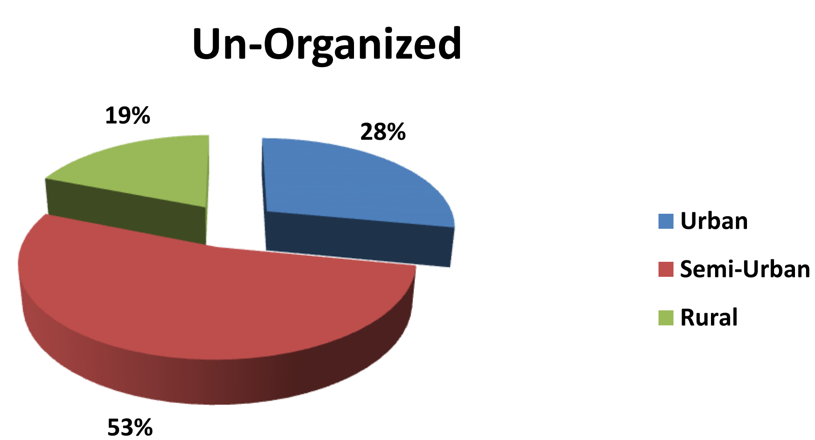

Chart for Table 5 (Purchase Based on Location – Un-Organized)

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Retailing is one of the basic method on which Indian economy depends. It is about 15% of its GDP [3]. The retail logistics industry provides employment to about 3.3% of Indian population. The retail industry is mainly divided into organized and unorganized sections [3] [4]. In context of Indian market, around 97% of retailing is unorganized. Around 80% of sale at supermarket consists of processed products. Supermarkets usually buy from poor farmers who don't have equipment and irrigation in their farms. They provide access to infrastructure like cold chain facilities to small farmers. Farmers earn 20% to 50% more because of supermarkets.

5. FDI in Retail: Positives

Retail sector in India is creating awareness amongst the people for use of quality and branded products. Because of improvements in payment structure of sixth pay commission recommendations, customers paying capacity is also increased. This helped the retails in the country, specially the organized retail sector. From statistics it has been seen that the consumer spending in India climbed up to 75% [3] and it may grow in future. With the advent of Information Communication & Technology (ICT) and internet the Indian people are influenced by organized retail. It has been seen that the retail sector employs around 7% of total employment in the country. This is being provided by un-organized retail sector at present. More number of workers will be needed by the organized retail industry. Around 10 million jobs in organized retail sector will probably be created in near future. FDI in retail will be a great help to farmers. This will secure prices by removing middlemen bringing transparency in pricing; hence farmers will be benefitted directly. It has been observed that, huge produce is wasted during transportation because of improper packaging and transportation. The FDI will make the big foreign investors to protect the produced directly purchased from the farmer from being wasted. This will reduce the cost of commodity hence lowering the prices and providing food for the poor people. This will also help India in terms of foreign investments for improvements in agricultural pre-processing as well as post-processing, logistics & ware housing, supply chain specially cold storage & refrigeration, packing, storage, etc. This investment is expected to be of around $100 millions [11] especially for back-end infrastructures. This is also expected to reduce post harvest losses. The overall scenario shows that FDI will increase savings of Indian Household [1]. It will create competition increasing efficiency and reducing the cost of commodity. This will be beneficial in reducing the inflation rate considerably [7].

6. FDI in Retail: Negatives

The retail sector in India is not organized, hence has a low impact on the Indian economy. The retail business here is therefore not considered as a profession and the people for this are not qualified professionally. In India, the retail business is not granted an industry status making the retailers difficult to raise funds. Even government regulations and policies are not being framed for the retailers as they are not under the industry status. Organized retailers have to pay heavy taxes, thus, increasing the business cost. Moreover to attract the customer at initial stages, they can lower prices building a monopoly and then there can be a price rise at the later stage. The import balance can be disturbed as only 30% of the sale can be from local producers and rest

70% can be from foreign export. As a part of direct farm-to-fork [11] technique, the farmers can be mislead in the name of quality and pricing by signing a contract and then compromising with the price for quality. Even not allowing the farmer to sale to any other retailer as per the contract, and squeezing from the situation. Massive demand in retail with high payment can lead to the mobility of worker from industry to retail creating a worker shortage at industrial level. Even more with the help of automated operations and technologies, it may happen that the level of employment in these retails will not be as per the expectations. In case of non performance of the retail unit, there can be a large number of people left unemployed.

7. Conclusion

Following are some recommendations; those can be considered for benefit of FDI in retail.

- Traditional system of markets has to be modernized.
- Farmer's cooperatives societies for selling their yield to organized retailers are to be made, so that they should unitedly fight against any injustice if caused to them by the organized retailers.
- Stringent changes are required in contract laws, to save the farmers from getting stucked into the binding because of contract laws has to be made.
- On the line of establishment policy for organized retailers, closure policy considering unemployment, farmer's interest, pre and post processing of farm products, refrigeration, warehousing & logistics, etc. has to be made.
- Payment structure to the employment provided by the organized retailers has to be monitored strictly, so that industry and other businesses should not suffer.
- Associations and cooperatives societies of unorganized retailers are to be made so as to monitor the pricing issues and curbing monopolies.
- Banking solutions like credit availability has to be provided to unorganized retailers and farmers.

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