Research Paper
Impact Factor: 3.996
Peer Reviewed & Indexed Journal

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

FOREIGN DIRECT INVESTMENT IN RETAIL SECTOR INDIA

Kumari Nidhi
Department of Commerce, Ahir College, Rewari, Haryana.

Abstract
Foreign Direct Investments (FDIs) have given the Indian economy a tremendous boost. FDI acts as a major catalyst in the development of a country through up-gradation of technology, managerial skills and capabilities in various sectors. Indian retail industry is one of the sunrise sectors with huge growth potential. The factors that attracted investment in India are stable economic policies, availability of cheap and quality human resources, and opportunities of new unexplored markets. The growing Indian market has attracted a number of foreign retailers and domestic corporate to invest in this sector. Indian retail sector is growing at a faster rate along with the employment potential. The retail landscape is showing a marked change, along with changes in the strategies of retailers towards the suppliers so as to get the best advantage. With the rapidly changing retail scene, India is soon going to be one of the fastest growing regions having great potential. The present paper focuses on the overview of the Indian retail sector along with the opportunities of expansion of FDI in retail in India and the major challenges that it faces. The paper also presents SWOT analysis of FDI in retail sector of India.

Key Words: FDI, Indian Retail Sector, SWOT.

Introduction
Retailing is the interface between the producers and individual consumers buying for personal consumption or use. As such retailing is the last link that connects consumers or customers with the manufactures and distribution chain. Retailing in India is one of the pillars of its economy and accounts for about 22 percent of its GDP. The Indian retail market is estimated to be US$ 500 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people.

Foreign Direct Investment (FDI) in India is the major monetary source for economic development in India. Foreign companies invest directly in fast growing private Indian businesses to take benefits of cheaper wages and changing business environment of India. Economic liberalization started in India in wake of the 1991 economic crisis and since then FDI has steadily increased in India. According to the Financial Times, in 2015 India overtook china and the US as the top destination for the foreign direct investment. In first half of the 2015, India attracted investment of $31 billion compared to $28 billion and $27 billion of china and US respectively.

Economic development, rise in purchasing power, growing consumerism and brand proliferation has led to retail modernization in India. With high economic growth, per capita income increases; this, in turn, leads to a shift in consumption pattern from necessity items to discretionary consumption. Furthermore, as the economy liberalizes and globalizes, various international brands enter the domestic market. Consumer awareness increases and consumers tend to experiment with different international brands. The proliferation of brands leads to increase in retail space. Retail modernization in India depicts a similar story.

Objectives
1. To analyze the structure of retail industry in India.
2. To study SWOT analysis of FDI in retail sector in India.
3. To offer suggestions to strengthen FDI in India.

Indian Retail Sector: An Overview and Current Position
The Indian retail sector has come off age and has gone through major transformation over the last decade with a noticeable shift towards organized retailing. A.T Kearney, a US based global management consulting firm has ranked India as the fourth most attractive nation for retail investment among 30 flourishing markets.

The retail market is expected to reach a whooping Rs. 47 lakh crore by 2016-17, as it expands at a compounded annual growth rate of 15 percent, accordingly to the ‘Yes Bank- Assocham’ study.

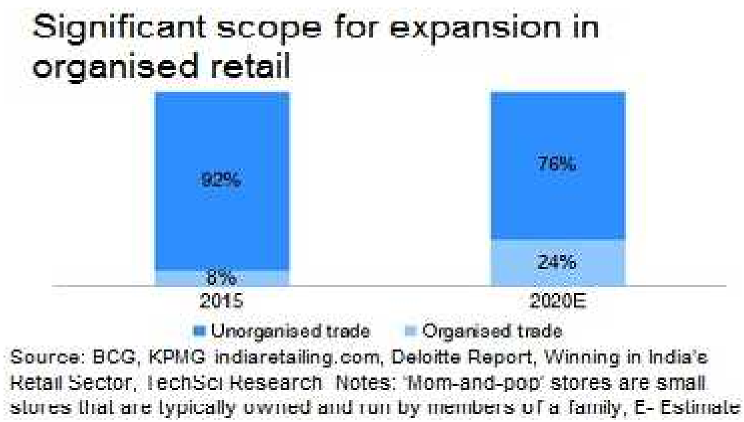
The retail market (including organized and unorganized retail), was at 23 lakh crore in 2011-12. According to the study, organized retail, that comprised just seven percent of overall retail market in 2011-12, is expected to grow at a CAGR of 24 percent and attain 10.2 percent share of the total retail sector by 2016-17.

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

Type of Retail Market in India

Organized Retailing: Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.

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



Types of Retailing in India

Single Brand: Single brand implies that foreign companies would be allowed to sell goods sold a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand and not the Reebok brand, for which separate permission is required. If granted permission, Adidas could sell products under the Reebok brand in separate outlets.

Multi Brand: FDI in Multi Brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way.

FDI Policy Scenario: Foreign Direct Investment under the Industrial Policy 1991 and thereafter under different Foreign Trade Policies is being allowed in different sectors of the economy in different proportion under either the Government route or Automatic Route. In Retailing, presently 51 per cent FDI is allowed in single brand retail through the Government Approval route while 100 per cent FDI is allowed in the cash-and-carry (wholesale) formats under the Automatic route.

a. Foreign Direct Investment in Multi Brand Retail Trading (MBRT) was prohibited.
b. Foreign Direct Investment (FDI) up to 51%, in the Single Brand Retail Trading (SBRT) sector was permitted, under the Government/ Foreign Investment Promotion Board (FIPB) route, subject to the following conditions:
    1. Products to be sold should be of a 'Single Brand' only.
    2. Products should be sold under the same brand internationally.
    3. It would cover only products which are branded during manufacturing.
    4. The foreign investor should be the owner of the brand.
    5. c) Government allowed 100% FDI in single brand retail with a rider that foreign brands would mandatorily have to source 30% of their requirements from Small and Medium Enterprises.

Entry Options for Foreign Players Prior to FDI Policy (2006)

Although prior to Jan 24, 2006, FDI was not authorized in retailing, most general players had been operating in the country. Some of entrance routes used by them have been discussed in sum as below:-

a) Franchise Agreements

It is an easiest track to come in the Indian market. In franchising and commission agents" services, FDI (unless otherwise prohibited) is allowed with the approval of the Reserve Bank of India (RBI) under the Foreign Exchange Management Act. This is a most usual mode for entrance of quick food bondage opposite a world. Apart from quick food bondage identical to Pizza Hut, players such as Lacoste, Mango, Nike as good as Marks as good as Spencer, have entered Indian marketplace by this route.

b) Cash and Carry Wholesale Trading

100% FDI is allowed in wholesale trading which involves building of a large distribution infrastructure to assist local manufacturers. The wholesaler deals only with smaller retailers and not Consumers. Metro AG of Germany was the first significant global player to enter India through this route.

c) Strategic Licensing Agreements

Some foreign brands give exclusive licenses and distribution rights to Indian companies. Through these rights, Indian companies can either sell it through their own stores, or enter into shop-in-shop arrangements or distribute the brands to franchisees. Mango, the Spanish apparel brand has entered India through this route with an agreement with Pyramid, Mumbai, SPAR entered into a similar agreement with Radhakrishna Foodland's Pvt. Ltd.

d) Manufacturing and Wholly Owned Subsidiaries

The foreign brands such as Nike, Reebok, Adidas, etc. that have wholly-owned subsidiaries in manufacturing are treated as Indian companies and are, therefore, allowed to do retail. These companies have been authorized to sell products to Indian consumers by franchising, internal distributors, existent Indian retailers, own outlets, etc. For instance, Nike entered through an exclusive licensing agreement with Sierra Enterprises but now has a wholly owned subsidiary, Nike India Private Limited.

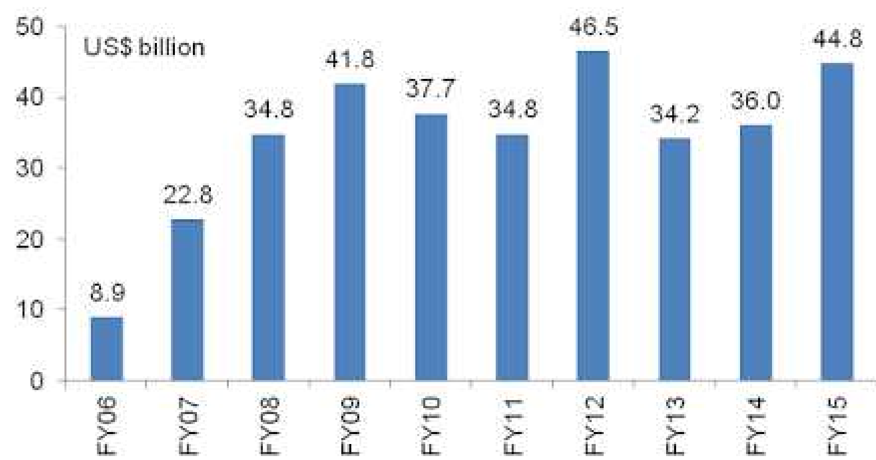
Routes for Investment

There are two routes by which India gets FDI:

1. **Automatic Route:** By this route FDI is allowed without prior approval by government or Reserve Bank of India.
2. **Government Route:** Prior approval by government is needed via this route. Foreign Investment Promotion Board is the responsible agency to oversee this route.

Government Initiatives for FDI

The Government of India has amended FDI policy to increase FDI inflow. In 2014, the government increased foreign investment upper limit from 26% to 49% in insurance sector. It also launched Make in India initiative in September 2014 under which FDI policy for 25 sectors was liberalized further. As of April 2015, FDI inflow, it rose up to 9th position in 2014 while in 2015 India became top destination for foreign direct investment.



Source: dipp.nic.in

SWOT Analysis of FDI in Retail

In any strategic planning process, two factors namely internal and external Environmental factors play an important role. The environmental factors, which are internal to the retail sector, can be classified as strengths and weakness. The factors, which are external to the sector, can be classified as opportunities and threats. The strategic analysis of environmental factors is referred as SWOT analysis. This analysis provides the information that is helpful in understanding the retail sector resource mobilization and capabilities to the competitive environment in which it operates.

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

Strength
- Major contributor to the GDP
- High growth rate
- High potential
- High employment generator
- Creation of research and development
- Improvement in supply chain
- Progression in agriculture
- Large scale investments
- Young and dynamic manpower

Weakness
- Lack of competition
- Highly unorganized
- Low productivity
- Shortage of talented professionals
- Financial issues for retailers

Opportunities
- More organizations
- Healthy competition
- Transparent system
- Direct link between farmers and producers
- Quality control over wastage
- Encourage Foreign capital inflows
- Sustainable development
- Improve logistics and infrastructure
- High employment generation in future
- Large scale investment
- Improvement of quality standards

Threats
- Effect on small retailer
- Long gestation period
- Closure of Traditional stores
- Delay in approval of foreign investment
- Corruption
- Value of rupee will depreciate further
- Domination of organized retailers
- Repatriation of profits outside India

Suggestions

Many foreign companies have already entered into Indian market through the available modes such as, Franchising and Exporting. They are much eager to change their entry to FDI that would strengthen their operations in India. However, if FDI in retail is liberalized by considering the following suggestions it is expected bring in more of benefits than threats to the country.

- A National Commission should be set up in order to set up the conditions on foreign retail on procurement of farm produce. It should also state the minimum space required for storage.
- There should be a gradual entry of foreign players is necessary so as to protect the interest of local retails in the country. The foreign players should be slowly allowed in metros.
- Stringent policies should formulate and fine tuned.
- Foreign players should be allowed in a structured manner.
- FDI should be initially allowed in less sensitive sectors and also in the sectors wherein the domestic companies are established strongly.

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

- Then FDI in retail should be liberalized in a phased manner like the case with China.
- Entry of foreign players must be gradual with social safeguards so that the effects of labor dislocation can be minimized.
- The government should take initiatives to improve the manufacturing sector. If the manufacturing is strengthened, the displaced employees of the retail industry could be well accommodated there.

Conclusion

The foreign investment in retail which was once a prohibited sector, now became the FDI in retail has now gained momentum in both single brand retail and multi brand retail. The prohibited sector has got so much of momentum. The period for which we delay these reforms will be loss for government only, since majority of the public is in favour of reforms. The single brand retail has allowed 100% FDI. The foreign direct investment and politically sensitive multi brand retail have been facing a lot of trouble. , yet policies are to be changed and should allowed in a phased manner. This will make the retail industry to be tapped and the growth will be well developed in encouraging the GDP growth of the country. The small retail stores should also function in a smooth manner even if the foreign players dominate the segment. The Indian Government, however, recommends that retail firms source a percentage of manufactured products from the small and medium domestic enterprises (DIPP Report, 2010). With a restriction of this sort, the opening up of the retail sector to FDI could therefore provide a boost to small-and medium enterprises. Moreover, expansion in the retail sector could also generate significant employment potential, especially among rural and semi-urban youth. Finally, it does not matter whether it the local or foreign retail players leading, retail revolution in India benefitted Indian consumers in terms of access to innovative retails formats, best practices and availability of goods and services from all over the world along with great shopping experience.

References

1. A.T. Kearney (2011): "Retail Global Expansion: A Portfolio of Opportunities-2011 Global Retail Development Index", A.T. Kearney, 2011.
2. Department of Industrial Policy and Promotion, 2010. "Foreign Direct Investment (FDI) in Multi-Brand Retail Trading," Discussion paper. Available at http://www.dipp.nic.in.
3. Surbhi Pareek & Kaustubh Prakash – Challenges and Suggestions for FDI in Multi brand retailing in India.
4. CBRE. (2011). How Global is the Business of Retail. CB Richard Ellis, Global Research and Consulting, 2011 Edition.
5. Confederation of Indian Industry (2012): "The Impact of FDI in Retail on SME Sector: A Survey Report".
6. Joseph, M., N. Soundararajan, M. Gupta and S. Sahu (2008): "Impact of Organized Retailing on the Unorganized Sector", ICRIER, May, 2008.