

FDI IN INDIAN RETAIL SECTOR

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Abstract:

Presently in India, Retail sector is growing faster with the contribution of more than 10 % of India's GDP. It provides for 8 % employment in the country. As FDI in Indian retail sector is concerned, it will lead to great impact on unorganized and organized retailing as well as on different aspects of Indian Economy. In Current scenario, the government has given permission for 49% FDI in single brand retailing and 51% FDI in multi brand retailing through automatic and Government route. Even Make in India concept of Indian government with FDI will impact the economy to greater extent. Data for research are taken from Global retail Development Index and Retailer Association of India 2015 reports. The research paper also focuses on different store formats in India and current FDI policy for foreign players. As FDI is going to enter Indian retail sector, it leads to change the store formats and its different factors. It gives information on global retail development index and its analysis for Indian retail sector. FDI in Indian retail sector directly affect employment, infrastructure, traditional retailers, balance of payments and the overall economy.

Keywords: Retailing, Indian Retail, FDI, Organized, Unorganized retail, Impact

Research Objectives:

- To study Global and Indian Retail Industry.
- To study unorganized and organized retailing.
- To find the Impact of FDI on Indian retail sector

Research Methodology:

This research paper includes descriptive research which is based on secondary data about FDI in Indian retail sector. Secondary data collected from GRDI Report, RAI, DIPP Website and other government resources and valuable publications.

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Literature Review:

Jasbir Singh, Sunita Chaddha, Anupama Sharma (October 2012) Role of Foreign Direct investment in India: An Analytical study

It focuses on the effect of FDI on economy of the country and also provides information about the effect of FDI on BOP , investment and saving pattern of the country.

Bhavya Malhotra (2014) Foreign Direct Investment: Impact on Indian Economy

The paper provides major implications of FDI policy and also focuses on entry of FDI and its impact on overall economy and its different aspects.

Abhishek Vyas (2015) An analytical study of FDI in India

The paper provides information and analysis on country wise approvals of FDI inflows to India and the FDI inflows in different sector for the period of April 2000 to June 2015.

P. Usha Vaidehi, P. Alekhy (October 2012) Role of FDI in Retailing

The paper provides information about Indian Retail Industry, Indian Market for FDI and impacts of FDI on overall economy. It emphasizes on benefits and problems because of FDI.

Mohd. Afzal Saifi, MD. Kamalin Nabi (December 2013) Impact of FDI on the Indian Retail Sector

The paper provides information on Indian retail sector which comprises of unorganized and organized retailing. It also includes growth and evolution of Indian retail sector. It incorporates the impact of FDI on Indian retail sector.

Rekha Sharma, Jyoti Bansal (2014) A study on impact of Foreign Direct investment on retail sector

The paper provides information on the current position of FDI in retail sector. It incorporates the basic types of retailing and FDI policy in India. The paper also provides information on the impact of FDI on population and different sectors of India.

Pankaj Sinha , Anushree Singhal (March 2013) FDI in retail in India: An Empirical Analysis

The paper provides information on link between country's GDP, Retail sector and FDI. The paper shows interconnection between them. Also it focuses on organized retailing and the situation of middleman because of FDI in Indian retail.

Anusha Chari, Madhav Raghvan (March 2011) Foreign Direct Investment in India's retail Bazaar: Opportunities and Challenges

The paper provides information about overall global and Indian retail Industry, growth of Indian retail sector. It also provides information on opportunities for Indian people, foreign investors and different sectors of Indian economy and also focuses on challenges for both foreign players to operate in India and for retail industry to accept FDI.

Sapna Hooda (2011) A study of FDI and Indian Economy

The paper provides information on Global financial market and Indian financial market. It also emphasis on the resources and requirements of host country in terms of financial, technological and economical background.

Santosh Karmani (December 2013) the advantages and disadvantages of FDI in multi brand retailing

The paper provides information about the basics of single brand and multi brand retailing. It incorporates the advantages and disadvantages of FDI in multi brand retailing. It also emphasis on the immense opportunities for foreign investors.

Mathew Joseph, Nirupama Gupta (September 2008) Impact of Organized retailing on unorganized retailing

It provides information on the share of organized and unorganized retailing in Indian retail market. It emphasis on their formats and also on the impact of organized retailing on unorganized one.

Introduction

Retailing is set of activities in which the need of customers and final consumers is fulfilled by the seller by offering products and services through physical stores and earning revenue. If it is provided through internet , it is known as E-tailing. Products are used by individual or household .It is an end of distribution channel. It is divided in single brand retailing and multi brand retailing. Demographic and socio economic factors lead people to choose appropriate channel for purchasing. Retail sector is basically divided into two segments. They are unorganized and organized retailing.

- **Unorganized Retailing** : A traditional and low cost concept where the shopkeepers or the owners manage all the activities related to retailing themselves.
- **Organized Retailing**: A concept in which trading activities undertaken by licensed retailers who have registered themselves for sales tax, income tax, etc.

Global Retail Industry:

The important driver forces for global retail industry are higher GDP, Higher disposable income, latest technology, urbanization, higher demand of globally accepted brands and new trends in retail industry. These forces lead to immense opportunities for retail players. Entry of FDI will open the door for global players in retail. On the contrary, recession, inflation and unemployment are the biggest challenges for retail players to survive in the market. The global retail Market is expected to cross US \$ 20,002 billion by 2017 with CAGR of 3.9%. In all over the world, Asia Pacific (APAC) region rule the global retail industry in terms of growth perspective, having 35% of the global retail market. In China the retail growth is expected to be the highest with CAGR 16 % and in India the same is about the 5.8%..

Figure:1 Global retail Development Index 2015

2015 rank	Country	Market attractiveness (25%)	Country risk (25%)	Market saturation (25%)	Time pressure (25%)	GRDI score	Change in rank compared to 2014	Population (million)	GDP per capita, PPP (thousand)
1	China	66.7	55.7	42.3	96.6	65.3	+1	1,364	13
2	Uruguay	93.3	60.4	68.0	38.9	65.1	+1	3	20
3	Chile	98.2	100.0	13.0	37.9	62.3	-2	18	23
4	Qatar	100.0	89.4	34.3	12.8	59.1	N/A	2	144
5	Mongolia	22.4	19.9	93.1	100.0	58.8	N/A	3	10
6	Georgia	36.5	39.1	78.8	79.2	58.4	+1	5	8
7	United Arab Emirates	97.6	84.0	16.5	33.9	58.0	-3	9	65
8	Brazil	98.0	60.4	45.2	28.0	57.9	-3	203	15
9	Malaysia	75.6	68.8	29.3	52.7	56.6	—	30	25
10	Armenia	35.4	37.1	82.1	66.3	55.2	-4	3	7
11	Turkey	83.1	48.1	40.2	44.8	54.1	—	77	20
12	Indonesia	50.6	35.5	55.1	65.9	51.8	+3	251	10
13	Kazakhstan	49.6	34.2	72.5	50.7	51.8	-3	17	24
14	Sri Lanka	15.8	34.4	77.8	78.8	51.7	+4	21	10
15	India	30.5	39.8	75.7	58.5	51.1	+5	1,296	6
16	Peru	48.9	43.9	58.6	51.8	50.8	-3	31	12
17	Saudi Arabia	78.6	64.4	30.4	27.0	50.1	-1	31	54
18	Botswana	49.2	62.5	33.3	54.2	49.8	+8	2	16
19	Panama	62.3	46.8	49.7	37.6	49.1	-5	4	20
20	Colombia	55.6	49.3	52.0	39.1	49.0	+1	48	13
21	Russia	94.9	28.4	24.5	46.6	48.6	-9	144	25
22	Azerbaijan	33.9	26.9	82.4	46.8	47.5	+8	10	18
23	Nigeria	19.6	8.3	94.0	66.5	47.1	-4	178	6
24	Philippines	39.6	36.0	51.6	60.7	47.0	-1	100	7
25	Jordan	51.1	35.5	64.2	36.8	46.9	-3	8	12
26	Oman	75.0	77.3	24.9	9.8	46.7	-9	4	44
27	Kuwait	81.0	68.1	33.2	0.0	45.6	-19*	4	71
28	Costa Rica	66.9	49.2	38.7	25.1	45.0	-4	5	15
29	Mexico	82.5	56.1	0.2	38.8	44.4	-4	120	18
30	Angola	22.4	9.2	99.4	45.0	44.0	N/A	22	8

0 = low attractiveness

100 = high attractiveness

0 = high risk
100 = low risk

0 = saturated
100 = not saturated

0 = no time pressure
100 = urgency to enter

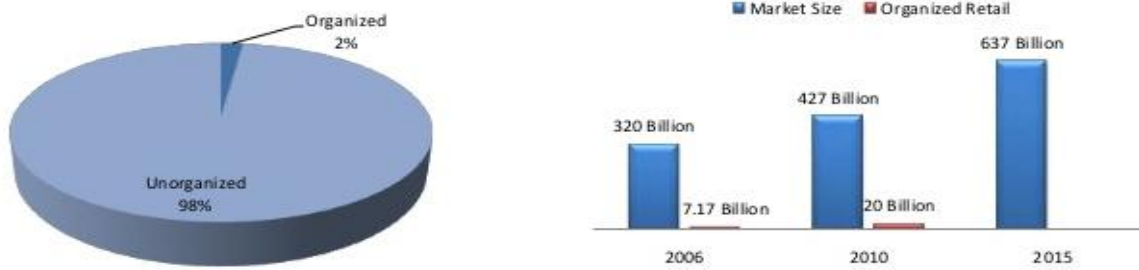
Notes: PPP is purchasing power parity. For an interactive map of the GRDI top 30 countries, go to www.atkearney.com/consumer-products-retail/global-retail-development-index.

Source: www.atkearney.com

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Figure 2: Indian Retail Industry:



Source: BCG Analysis Report: Retailer association India

Indian retail industry is one of the fastest growing retail industry in the world. It is expected to grow to US\$ 1.3 trillion by 2020, with a Compound Annual Growth Rate (CAGR) of 16.7 per cent over 2015-20.

India is the fifth largest retail market all over the world. India has highest per capita store availability all over the world. In major metro cities and due to urbanization we can see large market in Tier 2 and Tier 3 cities. People are shifting towards organized retail because of higher education, immense information, appropriate promotion by retail outlets, changed demographic factors and global exposure. Higher participation from foreign players and competition in market create attractiveness in retail market both for companies and customers. Global retail players like Walmart, GAP, Tesco and JC Penney are increasing their sourcing from India and are going to have their wholly owned offices in India.

India is having 1.25 billion population, total retail sales is of \$ 925 billion with CAGR of 5.8% in 2015. Delhi, Chennai, Bangalore, Pune, Kolkata, Mumbai and Hyderabad are known as top luxury retail cities in India. Indore, Ludhiana, Kochi, Nagpur, Udaipur- the emerging cities are becoming the members of immense retail growth. High street retail is going to convert into organized retail activity because of mall presence and foreign retail outlets. In India, metro cities contributed approximately 3.58 trillion by organized retail in 2014-2015. Higher internet usage, e-commerce will be booming and shining field of retail.

Store formats in India:

- **Store based Retailing:**
 1. **On the basis of ownership:**

- **Independent Retailer:** One who owns and operates one outlet with the help of family, friends and local public. A small scale retail business which is easy to manage.
- **Chain Retailer:** A group of retail outlets dealing with same field of business under same ownership or management.
- **Franchise:** A contractual agreement between Franchisor and Franchisee in which the franchisor allowed the franchisee to operate the business with the same name as per the business format.
- **Leased Department:** When a department in a retail store is rented to the outside party it is called leased department. The licensor permits the licensee to use the property in return of fees.
- **Consumer co-operatives:** A consumer co-operative is retail organization owned by its member customers to provide commodities at reasonable price.

2. On the basis of Merchandise Offered:

- **Mom and Pop Stores:** These are owned, run and managed by individual families to fulfill needs of small society.
- **Departmental store:** These stores offer merchandise with various kinds of products or product lines. Even they offer different product categories. Ex. Shopper's stop
- **Shopping Malls:** Retail outlets covering large area, providing all kinds of products, with experience of different entertainment parameters like food and beverage, cinema, games etc. Ex. Central Mall
- **Specialty Stores:** Retail chain which deal with deep assortment of particular category or product. Ex. Crossword
- **Discount Stores:** Retail outlets which provide product at lower price than its MRP by offering discount for mass selling and to achieve economies of scale.
- **Supermarket/Hypermarkets:** These retail outlets generally offers large variety of different categories in deep assortment of different products, followed by self service. Ex. Big Bazar

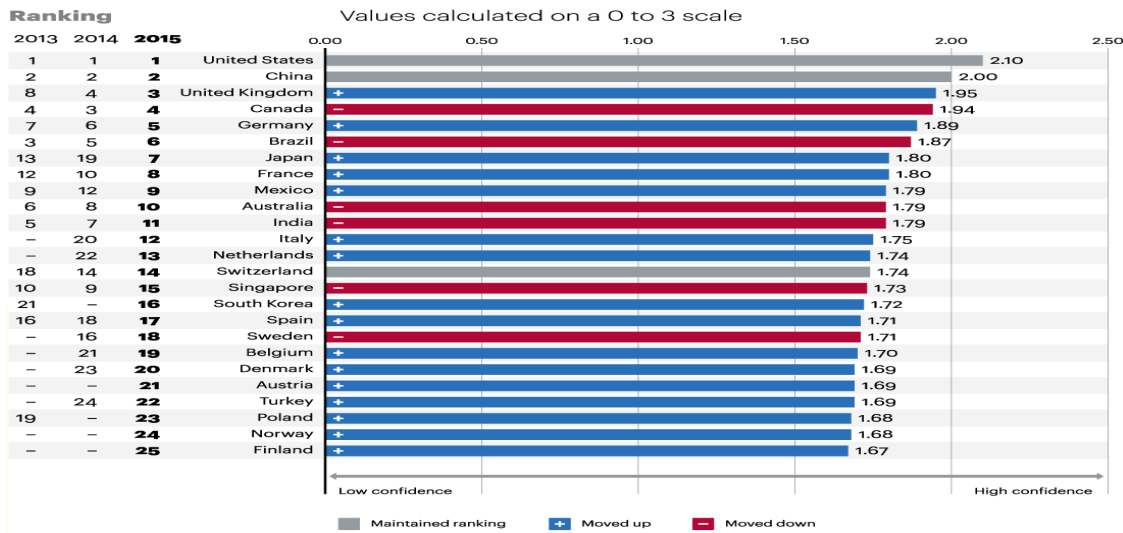
- **Convenience Store:** Small retail outlets near residential areas with limited variety of products
- **Non Store Retailing:**
 - **Direct Selling:** An interactive retail chain for distribution of goods with no fixed location of physical outlet.
 - **Mail Order:** For specialty products, selling through letters, brochure and catalogues.
 - **Tele Marketing:** Product or service is advertised on television with all its features and toll free numbers that can help to solve any queries of customers.
 - **E-tailers:** Online facility to sell and to purchase products via internet. Picture of the product is provided with related information in different colors and sizes. It is emerging sector nowadays. Ex.Flipkart.com
 - **Vending Machine:** For small products such as cookies, chocolates these type of vending machines are used. By depositing some specific amount, products can be available.

Table 1: Major Retail Players in India:

Reliance Retail limited	Complete retail solution ,having 1500 retail outlets in India
Pantaloons Retail Limited	Big Bazar, food bazaar and sitara brands and having 1000 retail outlets across India.
Provogue India Limited	Top most trusted brand in India having 250outlrts across India providing fashionable clothing.
Shoppers' Stop	Offers national and international brands of apparel and lifestyle having 61 stores across India and managed by K. Raheja group
ITC-LRBD	Premier clothing retail company branding through John Players and Wills Lifestyle. It deals with FMCG, packaging, paper board, agriculture and Hotels.

FDI in Indian Retail Sector:

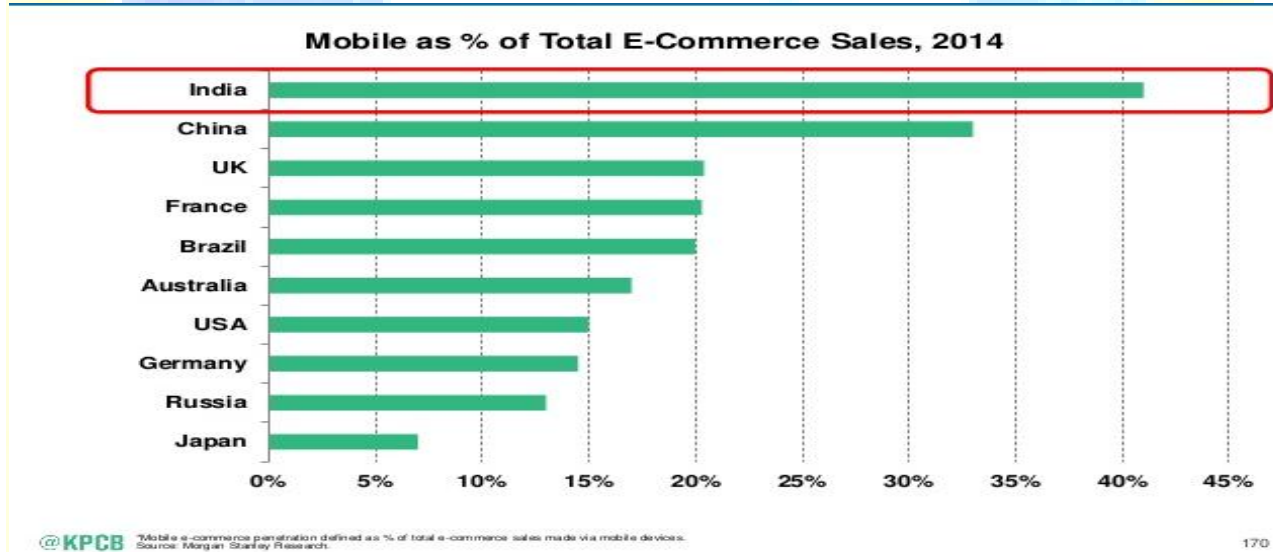
Figure:3 FDI Confidence Index 2015



Source: A.T. Kearney Foreign Direct Investment Confidence Index®, 2015

Source: A. T. Kearney Foreign Direct Investment Confidence Index 2015

Figure 4: Global Markets by Retail E-commerce attractiveness



Source: KPCB

- FDI is controlling ownership in business enterprise in one country by an entity based in another country.
- FDI% indicate the ownership of foreign investors in business. It gives idea about shares that can be issued to foreign investors.

- In Indian Retail Industry, 49% FDI is allowed in Multi brand retailing and 51% FDI is allowed in Single brand (Products of only one brand) retailing through automatic (without Government permission) and Government route (with Government Permission.)

According to **DIPP (Department of Industrial Policy and Promotion)**

Some conditions must be fulfilled by foreign investors to enter India through FDI

- ✓ Minimum Investment of \$100 million is must
- ✓ Can open stores in the cities of more than 1 million population
- ✓ Must spend half of the investment for back end infrastructure
- ✓ Permission from state government is must

Reasons behind low FDI inflow in India:

- **Inadequate Infrastructure:** In terms of poor roads, electricity problems like power cut.
- **Labor Laws:** In India, if any company wants to close down the unit they need approval to terminate employees from state government
- **Government Policy:** Some conditions to be followed by foreign investor to enter India in terms of Investment in front end and back end operations and in infrastructure development.
- **High Corporate tax:** In India Indian companies need to pay 30% corporate tax while the foreign companies need to pay 42.024%. This will be disincentive for foreign companies.
- **Political Instability:** In India Political system is very sensitive and with changed political position of parties, norms can be changed for FDI in India.

Impact of FDI:

Investment Scenario

- According to DIPP, FDI received by single-brand segment (FDI) totaling equity inflows of about US\$ 275.4 million during the months of April 2000–May 2015. Foreign companies have invested in Indian retail as of high demand of goods in different sectors by Indian consumers
- Foreign Investment of US\$402 million in fruit and vegetable processing unit and in a modern shopping mall in Hyderabad, Telangana by Lulu Group, Abu Dhabi.
- Wal-mart India pvt. Ltd. Has announced that they are planning to open 500 stores across India in next 10-15 years.

- Tesco, a British Retail Player invested US \$ 133.8 million in multi brand retailing by having joint venture with THL (Trent Hypermarket Ltd.) through which Star Bazar is operated in India.

FOREX Reserves:

As India is attractive retail place, foreign players are going to invest in Indian market through FDI. Capital inflow will be higher in the country that can increase the FOREX reserves and which positively affect the balance of payments.

Farmers:

Foreign investor will purchase farm products at higher rate which will give the solution of farmers' poverty. Farmers will get higher price for agriculture products and because of FDI they can have developed infrastructure.

Competitive Environment:

As a result of entry of foreign retail giants, there will be many players for the similar products in the market. That will lead to healthy competition. This healthy competition focuses on quality products to increase their market share.

Back end infrastructure:

As per DIPP Condition for FDI players, it is must to invest half of the total FDI investment in the development of back end infrastructure. So, there will be improvement in Supply chain , warehouses etc.

Customer Satisfaction:

As many retail players will be there in market, they will attract customers by offering quality and valuable products at lower price. So, customers will have many options for similar products and they will be benefited.

Employment:

Both positive and negative impact will be on employment because of FDI. People will get more job opportunities as many MNCs are going to operate in the same market and labor will be placed at particular position easily if the people are having skills to work in that particular company. On the contrary entry of organized retail giants will directly break the market of traditional retailers. As 98 % Indian retail market is dominated by unorganized retailers, they will have unemployment because of foreign players in retail.

Technology Assistance:

India is developing country on the world map. Because of FDI , New technological tools will be there in the market. Manufacturers have technological assistance.

Findings:

- In India, average age of population is 34 years, which is considered as Youth. So, Foreign players can easily get skilled and young labor force. Average income is 14,000 Rs. Per month that leads to increase in purchasing power.
- India's 1/3 population is engaged in working occupation. And 2/3 of the population having their businesses. So, FDI will directly affect this 2/3 population of India.
- Because of easy availability of smart phones. Indian e-commerce market is expected to grow by 36% by 2020.
- To compete against foreign players Unorganized retailers must follow the Omni channel management approach to serve their customer
- FDI will be the easiest way for India to fulfill its financial, economical and technical needs
- FDI Confidence index shows that for India FDI inflow is reduced in 2015 with the comparison of the year 2013 and 2014. In 2013 India was having 5th rank, in 2014 India was having 7th rank which is 11th in 2015 that shows low FDI inflow in comparison of past years
- India is having highest ranking in mobile retailing, ahead of USA and China because of growing market of smart phones and age of digital technology
- GRDI score is 51.1. It indicates that Indian retail market is not saturated. There is immense growth opportunity for retail players and it is time when foreign players need to enter Indian retail market through FDI

Conclusion:

FDI has positive impact in terms of infrastructure development, employment opportunities, GDP, Foreign exchange reserves. It has negative impact for traditional retailers as they are going to lose their business because of foreign retail giants and tough competition with respect to quality and valuable products. E-commerce will be the future of Indian retailing and even high street retail is going to change its format because of entry of FDI in Indian retail sector. For India,

Make in India concept by Government and FDI together will be blessings in future retail and other segments of economy.

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