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IMPACT OF FDI IN RETAILING INDUSTRY

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ABSTRACT

The Indian Retail industry is the fifth largest in the world. Retail industry is one of the fastest growing industries in India, especially over the last few years. It comprise organised and unorganised sectors. India's retail industry is estimated to be worth approximately US $ 411.28 billion and still growing, expected to reach US $ 804.06 billion in 2017. Foreign Direct Investment (FDI) in retailing remains a widely debated and heated issue in India's economic and political environment. The Indian government has opened the retail sector to FDI through a series of steps by the Industrial Policy 1991. The transformation of the retail market is likely to have a long-lasting impact on whole sale trade and the distribution of FMCGs as well. Fast Moving Consumer Goods (FMCG) is also called Consumer Packaged Goods. The FMCG sector is the fourth largest in the Indian economy with a total market size of US $ 44.9 billion in 2016. The sector grew at a Compounded Annual Growth Rate (CAGR) of 16.2% during 2006-13. The decision to allow 51% FDI in multi brand retail and 100% FDI in single brand retail augers well for the outlook of the FMCG sector. The move is expected to bolster employment and supply chains, apart from providing high visibility for FMCG brands in organised retail markets bolstering consumer spending and encouraging more product launches.

KEYWORDS: Retail, Retailing, FDI, whole sale trade, FMCG, CAGR

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Introduction:

Retail means the sale of goods or commodities in small quantities directly to consumers. Retailing can be defined as distribution channel function, where an organisation buying the products from supplying firms or manufacturing the products themselves sells these directly to consumers. Many a times, consumer buy from an organisation who is not the manufacturer of products, rather it is a reseller of the products obtained from others. However, in some cases we may find the product manufacturers operating their own retail outlets in a corporate channel arrangement. Retailing is beneficial to both consumers and sellers. The retail sector divided into organised and unorganised sectors. In organised retail the trading activities undertaken by licensed retailers. On the other hand, unorganised include a large number of small retailers that consists of local Kirana shops, owner manned general stores e

The role of Foreign Direct Investment (FDI) in stimulating economic growth is one of the controversial issues in the development of literature. The great promise of FDI by multinational corporations is that the capital will stimulate dynamic growth, beyond boosting income and employment. The hope is that manufacturing FDI will bring about knowledge that indirectly effect in building skill and technological capacities of local firms, catalysing broad based economic growth. Indian government denied 100% FDI in single brand retailing and 51% FDI in multi brand retailing with some pre conditions.

Products which have a quick turnover and relatively low cost are known as Fast Moving Consumer Goods (FMCG). FMCG products those that get replaced within a year. FMCG industry is characterised by a well established distribution work, low penetration levels, low operating cost, lower per capita consumption and intense competition between the organised and unorganised segments.

Objectives of the Study:

1. To examine the role of FDI in retail sector in India .
2. To study the impact of FDI on FMCG sector.

The Role of FDI in Retailing:

India is in the midst of a retail boom. The Sector witnessed significant transformation in the past decade from small unorganized family owned retail formats to organized retailing. Indian business houses and manufacturer are setting up retail formats while real estate companies and venture capitalist are investing in retail infrastructure. Globally, India is among the top 10 retail markets. In 2013, India's retail sector was estimated at US$520 billion and was among the largest employers in the country. By 2018, India's retail sector is likely to grow at a CAGR of 13%to reach a size of US$950 billion. Many international brands have entered the market. With the growth in organized retailing, unorganized retailers are rapidly changing their business models. However, retailing in a few sector where foreign direct investment (FDI) is not allowed at present.

FDI in retail industry means that foreign companies in certain categories can sell products through their own retail shop in the country. At present, foreign direct investment (FDI) in pure retailing is not permitted under Indian law. Government of India has allowed FDI in retail of specific brand of products. Following this, foreign companies in certain categories can sell products through their own retail shops in the country. It is a very positive step and it will encourage international brands to set up shops in India. On the other hand, this will also lead to competition among Indian players. It will be the consumers who stand against,"this would not change the market dynamics immediately as it will take some time for these plans to fructify. The increasing dominance of multinational companies in the country's $200 billion retail business, had warned that any move to increase FDI in the retail sector would ruin the business of small and medium traders scattered over the country.

Organized retailers in India are opposing the entry of MNCs in retail trading because of their predatory pricing strategy that wipes out competition, when the Government decides to allow of foreign players to enter the retail space, it should first restrict them to lifestyle products segment before permitting them to spread their wing into other areas like grocery marketing that has a direct impact on kirana store.

FDI in retail trade has forced the wholesalers and food processors to improve, raised exports, and triggered growth by outsourcing supplies domestically. The availability of standardized products has also boosted tourism in these countries. FDI in retail sector has been playing a key driver of productivity growth in Brazil, Poland and Thailand. This has resulted in lower prises to the consumer, more consumption and higher profit for the producer.

1995	World Trade Organization's General Agreement on Trade in Services, which includes both wholesale and retailing services, came into effect.
1997	FDI in cash and curry (wholesale) with 100% rights allowed under government approval route.
2006	FDI in cash and curry (wholesale) brought under the automatic route. Up to 51% investment in a single brand retail permitted.
2011	100% FDI in single brand retail permitted.
2012	51% FDI in multi-brand retail permitted.

Source: www.sannams4.com

To day in the retail sector foreign investment is currently limited to 51% in multi brand retail stores and allows for 100% FDI in single-format and wholesale cash and carry formats. Subject to these equity conditions, a foreign investor can setup a registered company and operate under the same rule and regulations as an Indian company. Foreign investments are freely repatriable, and are regulated under the foreign Exchange management Act (1991) (FEMA), administered by the research Bank of India's exchange control department.

FMCG Retailing in India:

Fast moving consumer Goods (FMCG) is also known as consumer packaged goods, comprises consumable goods including toilet soaps, detergents, shampoos, toothpaste, shaving products, shoe polish, packaged foodstuff, household accessories, and certain electronic goods, which are used for frequent consumption. Some of the FMCG's have a retail outlets operating in India like food world, subiksha, landmark, health and glow, shahanaz hussain drags and pharmacy. Major players of FMCG industry in India is Britannia India Ltd, Dabur India Ltd, Marico, Nestle, Unilever, LG, Sony and Whirlpool etc. The FMCG sector is the fourth- largest in the Indian economy, with a total market size of US$44.9 billion in 2013. The sector has grown at a CAGR of 16.2% during 2006-13. The sector's growth has been driven by increasing consumption, resulting from rise in the income, changing lifestyles, and favourable demographics. Though the

FMCG sector continues to grow in double digits, there has been some moderation in growth rates during 2013 due to deceleration in GDP growth and high inflation.

The major FMCG companies in India are mostly Multi National Companies, such as Nike, Reebok, Puma, Pepsi Co etc. The Exporters believe that in the near future the MNCs would dominate the FMCG sector in India. The decision to allow 51% FDI in multi brand retail and 100% FDI in single brand retail augers well for the outlook of the FMCG sector. The move is expected to bolster employment and supply chains, apart from providing high visibility for FMCG brand in organized retail markets, bolstering consumer spending and encouraging more product launches. FDI of 100% under the automatic is allowed in the food processing sector which is considered as a priority sector. FMCG sector accounted for 1.9% of the nation's total FDI inflows in April 2000 to September 2012. Cumulative FDI inflows into India from April 2000 to April 2013 in the food processing sector stood at Rs. 9000.33 crore accounting for 0.96% of overall FDI inflows while that in the soaps, cosmetics and toiletries was Rs. 3115.54 crore accounting for 0.32%. The food processing sector attracted FDI inflows of Rs. 6198 crore during April 2009 to December 2012.

Conclusion:

The decision to allow 51% FDI in multi brand retail and 100% FDI in single brand retail augers well for the outlook of the FMCG sector. Even if the country is debating the government's decision to allow more than 51% FDI in multi-brand retail sector, it is assumed that the Indian FMCG companies are upbeat about the government's move. FMCG companies view this as a positive step towards improving consumption, employment and supply chain, while reducing wastage. They expect the move will provide a high visibility for FMCG brands in competitive markets. On the flip side, they expect the government's decision will impact small and local FMCG players in India. Any such competition and modernisation is good for growth and improve sales. Modernisation will provide consumers a pleasant shopping experience that would enable them for easier launch of new products, improved supply chains and cut layers of distribution.

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