

IMPACT OF FOREIGN DIRECT INVESTMENT ON MULTI-BRAND RETAILING IN INDIA

Dr. Mrinal Verma¹, Ms. Ayushi Rastogi²

*Assistant Professor¹, PG Student², Department of Management Studies,
Krishna Institute of Engineering and Technology, Ghaziabad (India)*

ABSTRACT

Foreign Direct Investment plays an extraordinary and growing role in Global Business. It can provide a firm with new markets and marketing channels, cheaper production facilities, access to new technology, products, skills and financing. Retailing is the interface between the producer and the individual consumer buying for personal consumption. Indian retail industry is one of the sunrise sectors with huge growth potential for development, as the majority of its constituents are un-organized. The retail sector of India contributes about 15 % to the national GDP, and around 11% of the employment (employs semi-skilled as well as illiterate population) after the agriculture sector 17 % at end of 08. This paper captures the existing retail scenario in India with regard to organized and un-organized retail and Competition issue related with FDI in multi-brand. The paper is intended to analyse and discusses issues as well as benefits of public and national interest Retail Industry emphasizing on the benefits and drawbacks of FDI in this sector.

It has also focused on whether this policy will be beneficial for the Indian Economy as a whole or not.

Keywords: Retailing, Foreign Direct Investment, Organized Sector, Multinational

I INTRODUCTION

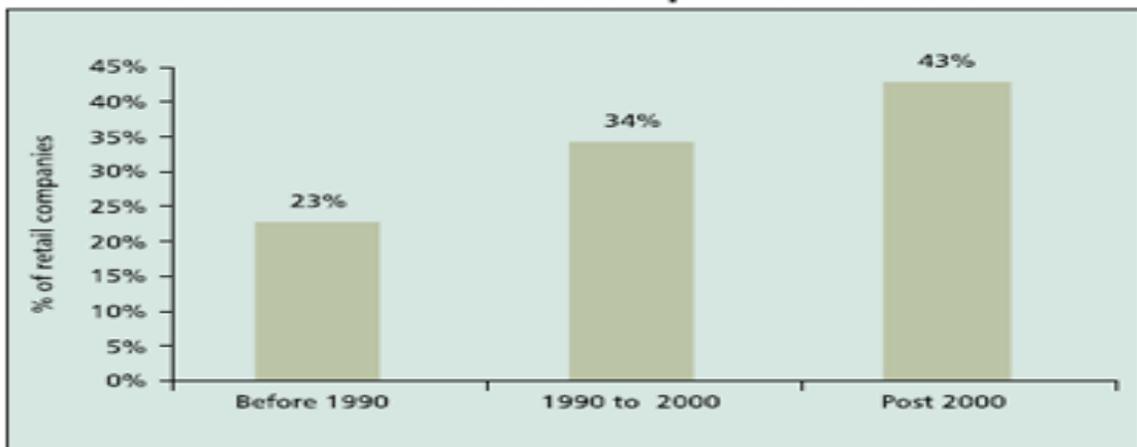
The Indian scenario

Foreign Direct Investment (FDI) in multi brand retail was one of the serious issues that created a big debate in India last year. When the UPA government announced its decision of allowing 51% foreign direct investment in the Indian multi brand retail, it spurred controversies and agitation from the opposite party, major activists and farmers. Especially in India, the retail industries are mostly occupied by the unorganized industry as they are traditional player. The domestic organized players are very few in comparison of unorganized player. Compared with the international organized player, the domestic players who are in the lack of capital are not effective in healthy competition. So the industry is in need of capital infusion. For long time, the notification of FDI in retail in India

was pending in the table of Ministry of Finance. As timely announcement, the ruling government proclaimed allowing 51% FDI in multi brand retail with some other opening in other sector. From this paper, what we analyze is what will be the impact of FDI in retail in India.

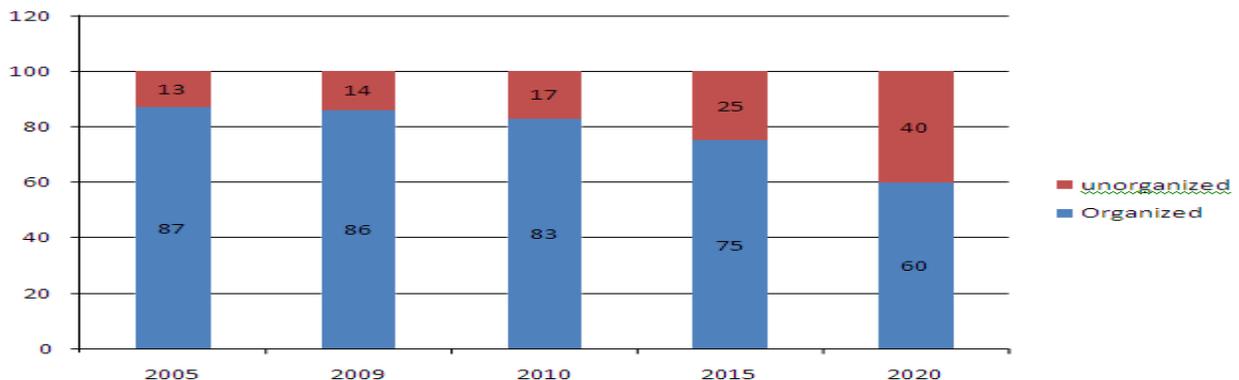
The Indian retail sector is the second largest source of employment after agriculture and accounts for over ten percent of the total GDP. This gives us a point that these two are the most important sectors that generates employment opportunities for the mass of Indian population. The Indian retail market is expected to grow at a faster rate in coming years and hit \$700 billion by 2015. The continuous growth in this sector is mainly attributed to the increasing population and urbanization. India has the highest rate of change in its urban population of all the BRICS nations. These have created the interests of foreign investors and Obama to push the FDI policy in multi brand retail in India.

Evolution of retail companies in India



Organized retail or modern retail is usually chain stores, all owned or franchised by a central entity, or a single store that is larger than some cut-off point. The relative uniformity and standardization of retailing is the key attribute of modern retail. The size of each unit can be small so that a chain of convenience stores is modern retail. A single large department store is also modern retail. (ICRIER)

Distribution of Organized and Unorganized Retail Sector



MULTIBRAND RETAIL

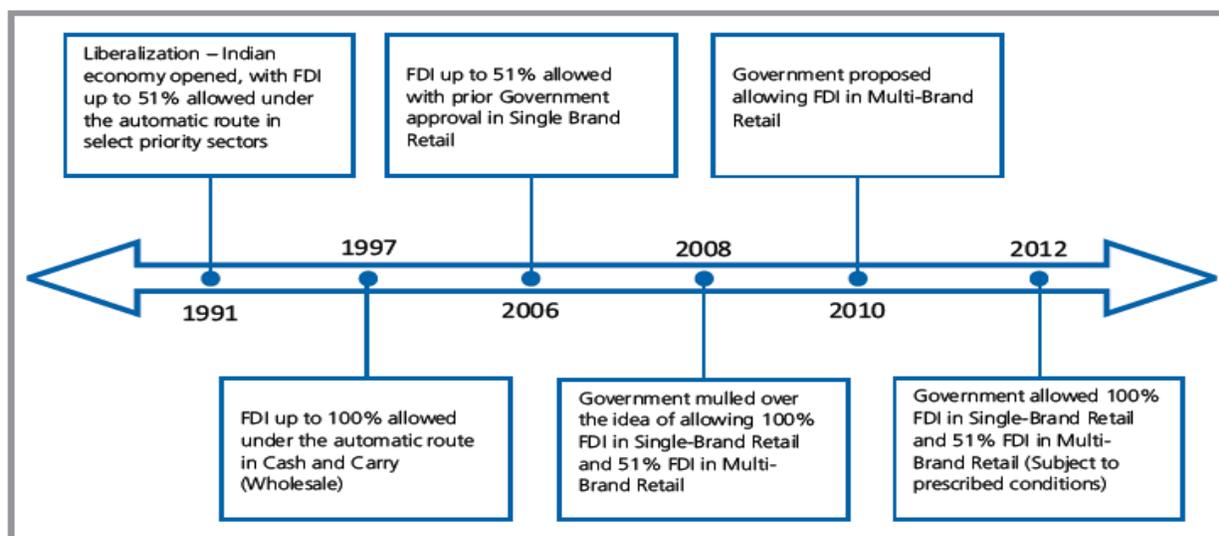
Multi-brand retail or "Supermarket" is where many items are sold under a single roof. For e.g. Wal-Mart, Big Bazaar, Central etc. The multi brand retailing has certain advantages which are as follows:

- Obtaining greater shelf space and leaving little for competitor's product.
- Saturating a market by filling all price and quality gaps.
- Catering to brand-switching users who like to experiment with different brands.
- • Keeping the firm's managers on their toes by generating internal competition.
-

Country	Total Retail Sales (USD)	Share of Organized Retail (%)	Share of unorganized Retail (%)
USA	\$2,983,000,000,000	85%	15%
Japan	\$1,182,000,000,000	66%	34%
China	\$785,000,000,000	20%	80%
United Kingdom	\$475,000,000,000	80%	20%
France	\$436,000,000,000	80%	20%
Germany	\$421,000,000,000	80%	20%
India	\$322,000,000,000	4%	96%

Diverse retail markets

MAJOR DEVELOPMENTS



Source: YES BANK Analysis

MAJOR RETAILERS OF INDIAN ORGANIZED RETAIL

- **RELIANCE GROUP**
- **BIG BAZAR**
- **VISHAL MEGA MART**

POSITIVE ASPECTS OF FDI IN RETAIL

- More investments in the end to end supply chain and world class cold storage facilities.
- Low spillage and wastage of farm produce during the transportation.
- Better options and offers to the consumer
- Increase in economic growth by dealing in various international products
- According to the UPA Government 1 million (10 lakh) employment will be created in next three years
- Billion dollars will be invested in Indian retail market
- Agriculture related people will get good price for their goods

NEGATIVE ASPECTS OF FDI IN RETAIL

- Will affect 50 million small merchants in India
- Profit distribution and investment ratios are not fixed
- An economically backward class person may suffer from price raise in future.
- Retailer faces heavy loss of employment and profit
- Workers safety and policies are not mentioned clearly
- Inflation may be increased

SWOT ANALYSIS

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> ➤ Major contribution to GDP ➤ High Growth Rate ➤ High Potential ➤ High Employment Generator 	<ul style="list-style-type: none"> ➤ Lack of Competitors ➤ Highly Unorganized ➤ Low Productivity ➤ Shortage of Talented Professionals
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> ➤ There will be more organization in the sector 	<ul style="list-style-type: none"> ➤ Current Independent Stores will be

<ul style="list-style-type: none"> ➤ Create transparency in the system ➤ Quality Control and Control over Leakage and Wastage 	<p>compelled to close</p> <ul style="list-style-type: none"> ➤ Big players can knock-out competition ➤ India does not need foreign retailers ➤ The government hasn't able to build consensus
---	---

POLICY RECOMMENDATIONS

However, if FDI in retail is liberalized by considering the following suggestions, it is expected to bring in more of benefits than threats to the country.

- FDI should be initially allowed in less sensitive sectors and also in the sectors wherein the domestic companies are established strongly.
- 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.
- Adequate attention should be paid to procuring, staff recruitment, investments in warehouse, cold storage, infrastructure, competition and retail formats so that not only does the money comes in, but also it's a win-win situation for the current national retailer as well as 'mom and pop' stores which account for 70% of the retail business even after the arrival of national retailers from the corporate giants like the Tata, Reliance, Future Group and the Birla's.

BENEFIT

- It will cut intermediaries between farmers and the retailers, thereby helping them get more money for their produce.
- It will help in bringing down prices at retail level and curb inflation
- Use of superior technology and managerial practices would reduce the overhead costs and with the cut down of middlemen, the product would be sold to consumers at significantly low prices. This will curb the soaring inflation rates and thus, would be a great relief to the common man.
- Big retail chains will invest in supply chains which will reduce wastage, estimated at 40 percentage in the case of fruits and vegetables.
- Small and medium enterprises will have a bigger market, along with better technology and branding.
- It will induce better competition in the market, thus benefiting both producers and consumers.

- The global retailers have advanced management know how in merchandising and inventory management and have adopted new technologies which can significantly improve productivity and efficiency in retailing.
- Entry of large low-cost retailers and adoption of integrated supply chain management by them is likely to lower down the prices.
- They promote the linkage of local suppliers, farmers and manufacturers, no doubt only those who can meet the quality and safety standards, to global market and this will ensure a reliable and profitable market to these local players.

REVIEW OF LITERATURE

- **Patil (2012)** examines the prospects of FDI in multi-brand retail in India. He concludes that direct investment in multi-brand retail will start a better integration of Indian economy into the global markets and, as such, it is important for the Govt. of India to develop retail sector for the total economic development of country and welfare of society in the country.
- **Sonia Luthra (2012)** observed India's record GDP growth throughout the last decade has lifted millions out of poverty and made the country a favored destination for foreign direct investment. However, the sharp downturn in Europe and the United States, coupled with significant domestic challenges, has slowed this trend and stands to disrupt future growth.

UNION BUDGET (2017) IMPACT ON RETAIL SECTOR

- Finance Minister Arun jaitly during Parliament Budget Session on Wednesday announced scrapping of Foreign Investment Promotion Board to ease the inflow of Foreign Direct Investment (FDI).
- The announcement to phase out FIPB is an important step in further liberalizing the FDI policy for a country which has seen a 36% rise in FDI inflows in first half of 2016-17

Expert views

EY India stated that this announcement should make FDI vide the approval route a smoother process “especially benefiting **single brand retail trading and multi-brand retail trading companies** that are looking to invest in India”. Currently, FIPB offers single-window clearance for applications on FDI in India that are under the approval route. The sectors under automatic route do not require any prior approval and are subject to only sectoral laws.

- EY India

Budget has several measures to boost foreign investment flow into India. Abolishment of FIPB and proposed liberalization of FDI policy is an indication that foreign funds would be welcome even in sensitive sectors which were hitherto under approval route. - **Hiten Kotak - Partner and Leader M&A Tax, PwC India**

Foreign Direct Investment (FDI) in several sectors including insurance and pension, Asset Reconstruction Companies (ARC), stock exchanges have been further liberalized. Hundred per cent foreign investments have been permitted in marketing of food products produced and manufactured in India. This can bring in more investments into the food processing sector.

-**Richard Rekhy, CEO, KPMG India**

GOODS AND SERVICES TAX (GST) IMPACT

Goods and Services Tax (GST) passed by the parliament is likely to have a significant impact on consumer markets sector

In August 2016, the GST bill was passed by the Indian Parliament. The bill upon its implementation is expected to have a noteworthy impact across categories pertaining to the consumer markets. Some firms operating in categories such as FMCG, consumer electronics and food retail might reap the benefits in the form of reduced logistics costs and lowering of taxes. However, other segments, such as soft drink manufacturers and e-tailers might have to pay higher taxes.

ISSUE

- Impact on the organized players (eq. Kirana shops). The overall size of retail market in India at present is estimated at 5, 88,000 crore of which, the unorganized portion of the market is worth 5, 83,000 crore and the share of organized portion of the market is 5000 crores. The unorganized market provides the second largest employment opportunities to 3.95 million people (first being the agricultural sector). It is argued that opening the retail sector will have an impact on sales in the unorganized sector. As a result of this, employment provided by the unorganized sector will be affected. It is reasoned that by reducing the number of intermediaries, organized retailing will lead to some job displacement.
- Limited Employment Generation It is said that FDI might provide employment opportunities, but it is argued that it cannot provide employment opportunities to semi-illiterate people. This argument gains more importance because in India, large numbers of semi-illiterate people are present.
- Fear of lowering of prices There is a fear that allowing FDI in retail would result in lowering of prices, as FDI will bring in good technology, supply chain etc. If prices are lowered, then it will lower the margin of unorganized players also. As a result of this, the unorganized market will be affected. This in turn will have an impact on the employment opportunities provided by the unorganized market.
- FDI in retail will drain out the country's share of revenue to foreign countries, which may cause negative impact on India's economy.

- Fears that domestic organized retail sector might not be competitive enough to tackle international players might not only resulting in loss of market share for them but in closure of their units.
- There is a possibility of small business owners and workers from other functional areas, as lot of people are involved in unorganized retail business, may lose their jobs.
- Small retailers and other ‘Kirana Stores’ may close down.
- Supermarkets will establish their monopoly in the Indian market. Due to supermarkets fine tuning and higher accessibility they will be able to buy goods at lower prices and therefore will be able to sell at lower prices to consumers. This will result in closing of many small retailers.
- Though Government has stipulated that 30% procurement should be from Indian sources, this may get diluted over the years. The remaining 70% procurement from cheaper countries will make the people run towards that stuff and the 30% supply from Indian small industries will have their own death, unable to compete with low price Chinese goods.
- Threats on organized and unorganized retail players.

FINDING

Advantages India has to offer

- Stable democratic environment over years of independence.
- Large and growing market
- World class scientific, technical and managerial manpower. Cost-effective and skilled labor.
- Abundance of natural resources
- Large English speaking population.
- Well established legal system with independent judiciary. Developed banking system and vibrant capital market
- Well-developed accountancy, legal, actuarial and consultancy profession

RESEARCH METHODOLOGY

The kind Research being conducted here is ANALYTICAL RESEARCH, as it most suits the purpose of the Research Project. In this Research the facts & the information as so gained from various secondary sources have been used to make an analysis of the current multi brand retail Sector & FDI with the driving forces behind these situations. That is analysing the data & extracting the relevant important data to complete the project & make it relevant to the present scenario of FDI in multi brand retailing. The data for the present study is collected from the secondary sources. Various news in the newspapers, videos of parliament while discussion on FDI are seen for collection of the data. As well as the reference books, magazines, Newspaper, Internet & Books also used for the purpose.

WHETHER FDI IN RETAIL SHOULD BE ALLOWED IN INDIA?

Three arguments are generally extended against allowing FDI in the retail sector. First, this will prevent the growth of domestic organized retail industry. Second, it will result in closure of small retail stores, the so-called mom-and-pop stores and third, that it will disrupt the social community and the given way of life. The first argument is passes simply because with the entry of Reliance, Tata and other large domestic players the domestic retail industry has surely come of age. These corporate don't need protection. Actually, if these infants are protected any longer they have good chances of becoming delinquent adults. Soon enough, monopoly rents will begin to accrue and bad habits will get entrenched and it will then be more difficult to open the sector. Domestic players have the best locations anyway and a clear head start. The equity argument does not have solid empirical basis. As the ICRIER study on the same subject has shown, liberalization of retail raises overall economic welfare and does not result in loss of employment. Some restructuring will take place but local markets will not close down. As the entry of Haldiram has not led to the demise of Nathus and Agarwal mishthan bhandars. Both can coexist as they fulfill different needs and serve different clientele. Organized retailing generates additionally of demand by reducing costs, lowering prices and also improves returns to producers by eliminating unnecessary intermediaries. The third argument has greater substance. Malls could lead to greater urban anonymity and a complete breakdown of the bazaar culture and the disappearance of the 'down town' space that has its own charm. But in France, Germany, the Nordic countries and also other parts of Europe, experience has shown that local communities can thrive if they are empowered and involved in urban planning. Organized retail does not necessarily result in the dreaded mid-west. So FDI in retail improves growth prospects, does not harm equity and discourages monopoly rents and therefore should be allowed.

CONCLUSION

In the final analysis, for India, FDI in multi-brand retail should be seriously considered by the government and, as with many other sensitive sectors (like defense); a gradual opening up could be made possible. Despite country wide speculation on the plight of various Stakeholders, trading associations, politicians, etc. have given various arguments for and against FDI in retailing.

In our view, the government has an opportunity to utilize the liberalization for achieving certain of its own targets:

- improve its infrastructure;
- access sophisticated technologies;
- generate employment for those keen to work in this sector

India's local retail business will definitely get a chance for up gradation of the import of improved technological and transportation management knowledge from the multinational retail players. Foreign direct investment in multi-brand retail will start a better integration of Indian economy into the global markets and, as such, it is important for the Govt. of India to develop retail sector for the total economic development of country and welfare of society in the country.

REFERENCES

1. Barro, R (1991) Economic Growth in a Cross Section of Countries. Quarterly Journal of Economics, vol. 106, pp. 407-444.
2. Borensztein, E., De Gregorio, J., and Lee, J. W (1998) How Does Foreign Direct Investment Affect Growth?. Journal of International Economics, vol. 45, pp. 115-35.
3. Dr. Khan & Ahamed, (2011), Foreign Direct Investment in India: Challenges and Opportunities in Multi-brand Retail Sector, International Journal Of Research In Commerce And Management, 2(1), pp 97-98. DIPP Discussion Paper on FDI in Retail in India 2010.
4. Dr. Prerna Jain, Dr. Anurodh Godha (2012) Prospects of Multi Brand FDI in India's Retail Sector: An Analysis, *Pacific Business Review International, Volume 5 Issue 3*
5. FDI in Retail – An idea whose time has come, Images Retail, July 2011, pp 62-63.
6. FDI in India's Retail Sector More Bad than Good? - By Mohan Guruswamy, Kamal Sharma, Jeevan Prakash Mohanty, Thomas J. Korah, CPAS- Centre for Policy Alternatives.
7. FDI in retail: More benefits than costs by Alok Ray, The Hindu Business Line, and November 2005.
8. FDI in Retail Sector India by Arpita Mukherjee, Nitisha Patel. Published by AcademicFoundation in association with The Indian Council for Research on International Economic Relations (ICRIER).
9. FDI in Multi-brand Retail: The Next Big Thing in Reforms, but Roadblocks Persist: India Knowledge@Wharton
10. Foreign Direct Investment in Indian Retail Sector – An Analysis: Pulkit Agarwal, Isha Tyagi
11. FDI in Retailing – Is it the need of the hour: L.Dhamayanthi, S.Pradeep Kumar. Mohanty, J.P, Sharma Kamal, Guruswamy Mohan, Korah Thomas J. FDI in India's Retail Sector – More Bad Than Good. Center for Policy Alternatives (CPAS), New Delhi.
12. Vikram Singh (2013) FDI in multi-brand retail sector- A study regarding Indian context , ISSN 2319-2836 Vol.2 (7), July
13. N.V.SHAHA AND M.A.SHINDE-Tactful Management Research Journal, Vol. 1 , Issue. 5 , Feb 2013, FDI IN INDIAN RETAIL SECTOR: A CRITICAL ANALYSIS
14. Dr. M. Sivakumar, L. Joshua Paul Moses -IMPACT OF FDI WITH REFERENCE TO INDIAN RETAIL SECTOR, Vol-1 Issue-1 2016 IJARIE-ISSN(O)-2395-4396
15. Deepti Goel, Richa Gupta -International Journal of Emerging Research in Management & Technology ISSN: 2278-9359 (Volume-3, Issue-5) FDI in Retail: Future Expectation for Indian Economy ,Dept. of Economics Dept. of Commerce

Websites

- <http://reurbanist.com/2012/08/unorganized-and-organized-retail-a-global-comparison/>
- <http://www.adityabirla.com/businesses/Profile/aditya-birla-retail-limited>
- http://en.wikipedia.org/wiki/Bata_Shoes
- http://en.wikipedia.org/wiki/Future_Group
- <http://en.wikipedia.org/wiki/Subhiksha>
- <http://www.business-standard.com/>
- <http://www.financialexpress.com/>
- www.ijarjie.com
- <http://www.pwc.in/press-releases>