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Research Article

A JOURNEY OF GROWTH OF FDI (FOREIGN DIRECT INVESTMENT) IN INDIAN RETAILING

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Abstract

Foreign Direct Investment (FDI) in retail has recently generated tremendous high spirits for a few and concern for others. It is supported that it will open floodgates for foreign retailers to speculate and can modification the retail landscape forever in India. FDI in retailing is much talked concerning subject by politician, media, trade specialist and industry experts. The Indian Retail market particularly the small Kirana store is not so well known by the actual means of FDI. The views given by politicians on the topic are terribly numerous and changes from party to party and person to person that has supplementary confusion in mind of those individuals. Retailing in Indiais the pillar of economy and accounts for about 22 percent of its GDP. The Indian retail sector is estimated to be US $500 billion and one of the top five retail markets in the world. India is the fastest growing retail markets in the world with 1.2 billion people.The Retail Business in India is presently at the point of inflection. As of 2008, speedy amendments with investments of US $ 25 billion were being planned by many Indian international firms within the next 5 years. The present study intends to explore the growth trends of FDI in Indian retail sector and also determine the SWOT (Strengths, weaknesses, opportunities and threats) analysis of Indian retail Industry.

Keywords: FDI (Foreign direct investment); economic growth; Indian retail Industry; SWOT analysis.

Introduction

Retailing in India is still in its infancy and is dominated mostly by the unorganized sector. Hereafter this situation does not exist. Because the old traditional formats in India is undergoing a major change. The traditional formats are changing into more complex and bigger formats. Malls and mega malls are coming up in almost all the places across the country. This can be attributed to the entry of large number of domestic and international players in the market. The Indian Government had announced recently allowing 51% FDI for multiple brands retailing and 100% for the single brands retailing. But due to severe opposition from the political parties and the traders, the Indian government has suspended this retail reform till it reaches a consensus. If the retail reform is implemented, it would open the doors for global retail giants to enter and establish their footprints on the retail landscape of India. This would be a step towards the development of the country (Kumar and Dubey, 2011).Indian retail market has high complexities in terms of a large geographic distinct consumer preferences varying by every region necessitating a requirement for localization even inside the geographic zones. India has highest number of shops per person (7 per thousand) Indian retail space per capita at 2 sq ft (0.19 m^2)/ person is lowest in the world. Indian retail density is 6 percent highest in the world with 1.8 million households in India have an annual income of over ₹45 lakh US $ 81,900. India's retailing trade is basically owner manned tiny outlets. In 2010, larger format convenience stores and supermarkets calculated around 4 percent of the industry, and these were present only in large urban centers. India's retail trade employs concerning forty million Indians (3.3% of Indian population).As per India Brand Equity Foundation (IBEF), it is valued at about US$ 395.96 billion. Organised retail is predicted to garner about 16-18 percent of the total retail market (US $ 65-75 billion) in the next 5 years.Foreign Direct investment in India is a crucial factor for the economic growth. The post liberalization period was very fruitful for the India economy to head with a swift pace. Now India is moving along very nicely with around 9% GDP rate. In this research paper the trend of FDI equity inflow from 1991 to 2010 has been analyzed and the future trend has been depicted. Further, the sectors which are deprived from the FDI are also been discovered as follows:Atomic Energy,Gambling and betting,Retail Trading,Lottery Business, Agricultural or plantation activities of Agriculture. India foreign investment policy makers need to look back and access the impact of FDI on India and on its economic growth (Kumar, 2011). Organized retailing in

India means to trading activities undertaken by licensed retailers, that is, people whose units are registered for sales tax, income tax, etc. Unorganized Retailing, on the opposite hand refers to the traditional formats of low-priced selling such as, the native corner look, owner manned general stores, kirana stores, convenience stores, hand cart and pavement vendors, etc. the organized retail business still contains a little proportion of the whole size of the Rs 90000-crore ($200 billion) retail sector. Retail business is growing at 5-6 per cent every year. It was calculable around Rs 26,000 cr in 2004, concerning 3 per cent of the whole. However, it is recently estimated to grow at 25-30 per cent every year. Indian retail market is calculable to be U.S.A. $ 450 billion and one amongst the highest 5 retail markets within the world. India is amongst the quickest growing retail market within the world, with 1.2 billion individuals. While India presents a large market opportunity but there are some critical factors as well given that over 90% of trade is conducted through independent local stores due to various challenges such as geographically dispersed population, small ticket sizes, complicated distribution network, little use of IT systems, limitations of mass media etc. The development of modern retail in India has been a two-pronged phenomenon. One has been the evolution of traditional counter-format retail to self-servicemodern-format retail and other has been successful establishment of large-formatretailers. Manufacturers, retailers and consumers played significant role at the macro-level. At the micro-level, the triggerswere as diverse as entrepreneurial desire to provide better service, providing betterprice to the masses, capitalizing on emerging business opportunity, increase footfalls inexisting non-food formats(Anirban, 2008).Indian retail industry is one of the sunrise sectors with vast growth potential. As per the Investment Commission of India, the retail sector is anticipated to grow virtually three times its current levels to $660 billion by 2015. However, in spite of the recent developments in retailing and its huge contribution to the economy, retailing continues to be the least evolved industries and the growth of organized retailing in India has been much slower as compared to rest of the world. Moreover, with the recent move of the government to allow FDI in the multi brand retailing sector, FDI in retail would undoubtedly enable India to integrate its economy with that of the global economy (Amisha, 2010).Permitting FDI is important for Republic of India in order that it will get pleasure from a lot of the advantages than threats. Even the threats of FDI might be handled properly if permitting FDI is planned out strategically. Since, many people involved in Indian retail traditionally shall be displaced by the entry of foreign players. The government should take efforts to strengthen the industries like manufacturing which will accommodate those displaced employees. The arrival of FDI in retail sector is absolute to pull up the quality standards and cost-competitiveness of Indian producers in all these segments. It will profit not solely the Indian shopper however additionally open the door for Indian merchandise to enter the broader world market (Deepika and Ravi, 2011).India is the world known agrarian nation and it is completely true that about 65% of Indian population is engaged in agriculture. FDI in retailing can be taken a rescue work for Indian farmers to free them from the clutches of n- numbers of middlemen. Authors highlighted that how FDI in retail will work wonder forever exploited and suppressed community of farmers in emerging India (Ajit, 2012).

The retail industry in India is the second largest employer with an estimated 35 million people engaged by the industry. The union government has sanctioned 51% foreign direct investment in multi-brand like Wal-Mart, Carrefour, Tesco and up to 100% in single brand retail like Gucci, Nokia and Reebok. This will make foreign goods and items of daily consumption available locally, at a lower price, to Indian consumers. The new policy will allow multi-brand foreign retailers to set up shop only in cities with a population of more than 10 lakhs as per the 2011 census. There are 53 such cities. This means that big retailers can move beyond the metropolises to smaller cities (Bisaria and Gaurav, 2012).FDI in multi-brand retail should be seriously considered by the government and, as with many other sensitive sectors (like defence), a gradual opening up could be made possible. India needs to take a lesson from China where organized and unorganized retail seem to co-exist and grow together. Further, India’s local enterprises will potentially receive an up gradation with the import of advanced technological and logistics management expertise from the foreign entities. 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(Arunand Pradeep, 2013).Allowing FDI in multi brand retailing has recently generated tremendous euphoria for some and fear for others. It is based on the notion that it will open floodgates for foreign retailers to invest and will change the retail landscape forever in India. The experiences in other emerging economies have shown that fewer foreign retailers have been successful while several failed as they could not comprehend local nuances, customer insights and fight local competition. In fact, in many countries the local retailers have better market shares, sizes and performances (Gokhale, 2013). The organized retailers are having a greater advantage because of the store image, product availability, and price discounts. From the study it was found that when compared to the unorganized retail format most of the respondent had a good image about the organized retailers. . Even the unorganized retailers had a good share in

Market, but due to factors such as space, parking etc. a gap existed between both the formats. The customers wished for more outlets being opened. In spite of the enormous potential and growth opportunities available for the organized sector, it will not create a major impact on the unorganized retailers because of the mindset of the Indian consumers will who cannot think of a life without having a local kirana store near their locality (Talreja and Jain, 2013).The retailers in organized and unorganized sector are adopting new strategies to enhance their market share. The study was conducted with the purpose of identifying the impact of FDI in retailing with the perception of unemployed youth on employment opportunities in India. Authors concluded that FDI in retail will help integrate the Indian economy with the global economy. It will also help increase the experience in organized retailing sector and the availability of quality human resources at low costs. FDI in retail would reduce the intermediate costs and the costs of production and impose setting up of integrated supply chains that would minimize wastage, give producers a better price and will be beneficial to producers/manufactures and consumers (Kannaiah and Selvam, 2014).

The Retailers inOrganized and Un-organized sector are adopting newstrategies to retain their customers and to enhance theirmarket share. Authors observed that there are tremendous changes in the demographic system of consumers in India. Due to the awareness of quality consciousness consumption both the organized and unorganized retailers endeavour to implement various value added services to provide pleasant shopping experiences to consumers (Harinder and Komal, 2014).

Foreign Direct Investment in multi brand retail format is one of such most talked about decision. This can be finalized any time in near future. Local retailers will be going to face some competition from the multi brand retailers. It has been observed that some retailers are too confident and has perception that no one can touch their business (Irfan, 2015).

Objectives of the study

- To explore the growth trend of FDI in Indian retail sector.
- Todetermine the SWOT (Strengths, weaknesses, opportunities and threats) analysis of Indian retail sector.

Materials and Methods

The research methodology adopted for this paper is descriptive. This is a theoretical paper based on previous research**.** Secondary sources including online publications, books and article were used in the study.

FDI in Indian retail sector

The Indian government has allowed the FDI in retail sector through various stages:**1995:** World Trade Organization's General Agreement on Trade in Services includes both wholesale and retailing services, came into effect.**1997:** FDI in cash and carry (wholesale) with 100% rights allowed under the government approval route.**2006:** FDI in cash and carry (wholesale) came under the automatic route.Up to 51% investment in a single-brand retail outlet permitted.**2011:**100% FDI in single brand retail permitted.FDI in retail trade has forced the wholesalers and food processors to enhance, raised exports, and increased growth by outsourcing supplies domestically. FDI in retail sector has been a key driver of productivity growth in Brazil, Poland and Thailand.This leads to lower costs to the buyers, a lot of consumption and higher profit for the producer. Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand retail, forbidding foreign teams from any possession in supermarkets, convenience stores or any shops. Even single-brand retail was restricted to 51% ownership. In November 2011, India's central government proclaimed retail reforms for each multi-brand stores and single-brand stores. These market reforms sealed the method for retail innovation and competition with multi-brand retailers like wallmart, careefour and tesco, moreover single complete majors like IKEA, Greek deity and Apple. In December 2011, struggling from the opposition, Indian government placed the retail reforms on hold until it reaches an agreement.Organized retailers in India are against to the entry of foreign corporations in retail trading because of their predatory pricing strategy that wipes out competition, once the Government decides to permit foreign players to enter the retail area, it should initial restrict them to lifestyle products segment before allowing them to unfold their wings in different areas like grocery selling that encompasses a direct impact on kirana stores and small retailers.

Allowed in some states:The governments of significantly Congress-ruled states have aforementioned they are going to allow Foreign supermarkets to open in their state: Andhra Pradesh, Assam, Delhi, Haryana, Kashmir, Maharashtra, Manipur, Rajasthan, Uttarakhand, Daman & Diu and Dadra and Nagar Haveli can enable foreign retailers.

Banned in others states:particularly BJP dominated states have said they are not going to enable foreign supermarkets to open in their state, these are: West Bengal, Gujarat, Bihar, Karnatka, Kerala, Madhya Pradesh, Tripura and Orissa.

Growth trends of Indian retail sector

Indian retail sector employs regarding forty million Indians (3.3% of Indian population. Indian retail shops are very small in size. Almost14 million outlets operate in the country and only 4% of them are bigger than 500 sq ft in size. India has around 11 shop outlets for every 1000 people. The majority of the unorganized retailers in Republic of India use members of the family. They don't have the dimensions to acquire or transport merchandise at high volume wholesale level, have restricted to no internal control, product screening technology and don't have any coaching on safe and sanitary storage, packaging or supply. The unorganized retailers supply their merchandise from a series of middlemen. The unorganized retailers generally provide no after-sales support or service. Till the Nineteen Nineties, laws prevented innovation and entrepreneurship in Indian retailing. Some retails baby-faced obliging with over thirty laws like "signboard licenses" and "anti-hoarding measures" before they may open doors. There are unit taxes for moving product to states, from states, and even inside states in some cases. Farmers and producers had to travel through middlemen monopolies. The supply and infrastructure was terribly poor.After 1990, widespread free market reforms came into existence, including some related to retail. From 2000 to 2010, consumers in some cities have gradually started to experience the quality, choice, convenience and benefits of organized retail industry.

Growth Trend (1997-2010)

India in 1997 allowed foreign direct investment (FDI) in money and carry wholesale. Then, it needed government approval. The approval and automatic permission was granted in 2006. From 2000 to 2010, Indian retail attracted regarding $1.8 billion in foreign direct investment, representing a really tiny 1.5% of total investment flow into Republic of India. Single brand retailing attracted 94 proposals between 2006 and 2010, of that 57 were approved and enforced. For an economy of 1.2 billion people, this is really small number. A no. of years of debate and discussions was being made on permitting innovation and competition in Indian retail sector. Various economists repeatedly suggested to the Government of India that legal restrictions on organized retail should be removed, and also the retail sector in India should be opened to competition. For example, in December 2010 JagdishBhagwati, (Professor of Economics and Law at the Columbia University) analyzed the connection between growth and poverty reduction, then requested to the Indian parliament to extend economic reforms by liberating of the retail sector. These reforms can accelerate economic growth and create a sustainable difference in the life of India's poorest.A report introduced in 2007 indicated that an increasing number of people in India are turning to the services sector for employment just because of the low margin offered by the traditional agriculture and manufacturing sectors. The organized retail sector is growing at 35% annually whereas growth of unorganized retail sector is calculated at 6 percent.

Growth after (2011)

A report estimated the 2011 Indian retail market as generating sales of about $470 billion a year, $27 billion was calculated from organized retail such as supermarkets, chain stores with centralized operations and shops in malls. The opening of retail industry will enable rapid growth in retail sector ofeconomy of India. Others opine that the growth of Indian retail industry will take time, with organized retail likely waiting to a decade to grow to a 25% share. A 25% market share, given the expected growth of Indian retail industry by 2021, is predicted over $250 billion a year.Percent growth in various countries is shown in Table 1.

Table 1: Percent growth in various countries

Country	% of total
India	7%
China	20%
Thailand	40%
USA	85%

Source: https://en.wikipedia.org/wiki/Retailing_in_India

Modern retail in 2011

The Economist forecasts that Indian retail can nearly double in economic value, increasing almost $400 billion through 2020. The estimated increase in Indian retail is equivalent to the present retail market size of France. Table 2 shows Indian retail groups showing market coverage (2011)

Table 2: Indian retail groups showing market coverage (2011)

Indian retail group	Market coverage in 2011
Pantaloon retail	65 stores, 21 factory outlets in 35 cities, 2 million sq. feet space
Shoppers stop	51 stores in 23 cities, 3.2 million square feet space
Spencers retail	200 stores in 45 cities, 1 million square feet space
Reliance retail	708 mart and supermarkets, 20 wholesale stores in 15 cities, 508 fashion and lifestyle
Bharti retail	74 Easyday stores, plans to add 10 million square feet by 2017
Birla retail	575 stores nationwide
Tata trend	59 Westside mall stores, 13 hypermarkets
Lifestyle retail	15 lifestyle stores, 8 home centers
Future group	193 stores in 3 cities, one of three largest supermarkets retailer

Source: https://en.wikipedia.org/wiki/Retailing_in_India

SWOT analysis of Indian retail sector

Strengths

a) Major contribution to GDP: The retail sector in India is covering almost 33-35% of GDP.
b) High Growth Rate: Retail sector in India enjoys high growth rate of around 46%.
c) High Potential: As the organized retail sector is only 2-3%. That will create a lot of potential for future players.
d) High Employment Generating sector: the retail industry employs 7% of work force in India, which is limited to unorganized sector only. When the reforms will be implemented this percentage will surely increase up to an extent.

Weaknesses

a) Lack of Competitors: AT Kearney's study it was found that India is least competitive as well as least saturated markets of the world.
b) Highly Unorganized: The unorganized part of retail sector is around 97%.
c) Mckinsey's research presented productivity of retail in India is very low as compared to its international peers.
d) Lack of Talented human resource: the retailing profession in India is not considered as reputed profession and is mostly carried out by the family members. Such people are not academically and professionally qualified.
e) The retail sector in India does not possess industry status, this leads to difficulty for retailers to raise funds.
f) Absence of developed supply chain and integrated IT management.
g) Low skill level for retail management.

Opportunities

a) In India, Organized retail will need more workers. According to the result of KPMG research, in China, the employment in both retail and wholesale trade increased from 4% to 7% (1992-2001).
b) Healthy Competition will be boosted and there will be a control on the prices: Retail outlets such as Walmart, Carrefour, Tesco, and other international retail companies are operating at global level for over 30 years. Until now, they have not at all become monopolies rather they have controlled prices through their healthy competitive practices.
c) There will be transparency in the system.
d) Intermediaries and Mandi system will be transformed, so it will be directly benefiting the farmers and producers.
e) Control on Leakage, Wastage and quality: Cost conscious and competitive retailers will try to avoid the wastages and losses and it will be their effort to provide quality products obtainable at lowest prices, to weakest class of Indian society.
f) Optimum flow of capital will help in building up the infrastructure for the growing population: Neither the government of India nor domestic investors are capable of satisfying the growing needs of Indian population. So, foreign capital inflow will enableto build optimum capital base.
g) There will be sustainable growth and development of economy and many other economic issues will be solved such assome Indian shop owners employ workers, who are under aged workers giving rise to child labour. It must make a check on corruption and black money.

Threats

a) Independent Stores will be forced to close and this will lead to heavy job loss as most of the operations in big stores like Walmart are highly automated requiring less man force.
b) Big corporations can knock-out competition they can afford to lower prices in introductory stages, create monopoly and then raise price later.
c) India does not need foreign retailers as retailers can fulfill the whole domestic demand. d. Remember the incidence of East India Company it entered India as trader and then control over politically.

Conclusions

Retailing in India has to cross the various barriers likeRegulations limiting real estate purchases, and native laws, absence of developed supply chain and integrated IT managementLack of trained workforce, low ability level for retail management, lack of retailing Courses and study choices.The foreign direct investment in retail would provide endless benefits and opportunities to Indian market. However, it should be supported by well-planned policies, in order to produce the possible investment surroundings for foreign investors. Foreign direct investment is extremely needed by the Indian economy for its own profit in conjunction with the implementation of bound strict rules and laws in order that it cannot become a curse for Indian economy. India must welcome FDI, with talented human resources by motivating institution providing knowledge in retailing. Therefore, FDI inretailing is need of the hour as it would increase the Foreign exchange reserve level and support economy in becoming developednation.

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