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The Advent of New Reform in the Indian Retail Industry: 'FDI in Multi Brand Retail'-Boon or Bane?

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Abstract: *Over the last two decades, there has been a fabulous increase in growth of FDI in the global economic background coupled with the tremendous changes in the pattern of consumers spending. Earlier, the consumers especially the Indian consumers used to purchase the bare necessities and were satisfied. But, today there is a massive euphoria of spending and shopping due to the increased incomes and standard of living. The Indians are spending like ever before. Organized retail with its shopping malls and supermarkets culture is adding fuel to this. Organised retail is growing at an impressive rate of 35% to 40% in the last few years, and thus is a lucrative option for foreign companies to invest in. But allowing FDI in multi-brand in india has generated ecstasy for some whereas fear for others. Proponents support the reform by stating that it will lead to upgradation of technology, managerial skills and infrastructure, will build supply chain and help farmers and thereby nation on the whole. But opponents reject the ideas by stating that it will lead to massive unemployment, monopolization of the sector and will only harm the farmers. They also add the concerns about the distortion of urban cultural development. This paper seeks to explore the prospects of FDI in multi brand retailing in INDIA. The paper firstly speaks about the concept of FDI in multi brand retailing, its need in the current scenario. And the second part deals with the merits and demerits of allowing this reform coupled with its challenges & threats. The last part overviews with some recommendations for allowing this reform.*

Keywords : *Multi-brand retailing, FDI, Retailers, Organised food retailing, Walmart, Carrefour, Single-brand retailing Foreign investors*

1. Introduction

Over the last two decades, there is a substantial upsurge in the international capital flows in india. Among the various options available for foreign investment, FDI is the most preferable one as it creates a win-win situation for both the home and host country. Foreign investment in india is governed by the FDI policy announced by the government of India & the provision of the Foreign Exchange Management Act (FEMA) 1999. The FDI policy is notified through Press Notes by the Secretariat for Industrial Assistance (SIA), Department Of Industrial Policy & Promotion (DIPP).

India agreed in 2006 to allow foreign investment of upto 51% in the retail sector but only for shops selling single-branded products like NIKE, REEBOK etc, forcing foreign companies to sign franchise agreement with Indian firms. BRITAIN TESCO tied up with giant TATA GROUP and WALLMART signed up a partnership agreement with India's BHARTI ENTERPRISES in 2006. Currently, there is an issue of allowing 51% in multi brand retailing and 100% in single brand retailing. Opening up FDI in multi-brand retail will mean that global giants like WALLMART, CARREFOUR, METRO & TESCO will have an easy access to indian markets and can open big stores offering a range of household items and grocery items directly to the consumers. But arrival of these foreign companies into the indian retail sector is a very sensitive issue as small shopkeepers fear being driven out of business by these big corporations.

India's retail sector is estimated to be worth US \$411.28 billion and is still growing, expected to reach US \$804.06 billion in 2015. Also the organized retailers, is growing at a staggering rate of 35% per year. But, as the organized retailers enter the indian premises, they must however be mindful of the unique status of retail in the country. Retail in our country is dominated by unorganized sector occupying 94% of the share. They provide various benefits of home delivery, credit facility and consumer proximity etc which are very difficult to beat. Also, the infrastructure to support the supply chains and for building efficient retail operations in India is lacking. We have inadequate roads, highways, transportation, warehouses etc to support the system. Added to this is a problem of limitless bureaucracy and corruption. So, these corporations will really have set up a new base for their growth and survival in INDIA.

2. Review of Literature

Madhyam (2012) finds that there is a growing pressure on policymakers from foreign governments and big retailers to permit foreign direct investment (FDI) in multi-brand retail in India. But It is imperative that policy making with respect to FDI in multi-

brand retail must take into account the unique situation of India, and not blindly follow Western practices as no other country (except China) faces the challenge of meeting the needs of 1.2 billion people.

Rajib bhattacharya (2012) attempts to analyze the current scenario in india along with its the opportunities and threats. He stressed on the fact that if fdi is allowed, it should be in the less sensitive sectors alongwith the set up a NATIONAL COMMISSION which must set a clear set of conditionality on foreign retailers.

Chandu K. L. (2012) attempts at outlining the government's policy on FDI in retailing and tries to examine its pros and cons while examining the perceptions of small retailers on the government's decision. He concluded that though the small retailers are not so apprehensive about the big stores, they oppose allowing FDI in retailing in India. Thus, a country-wide discussion through the mass-media is highly pertinent regarding this issue.

Cuts international (2012) reveals that with the upcoming of FDI in multi brand retailing, small retailers will not be crowded out, but it would strengthen market positions by turning it into innovative/contemporary. Also Growing economy and increasing purchasing power would more than compensate for the loss of market share of the unorganized sector retailers. Innovative government measures could further mitigate adverse effects on small retailers and traders.

PATIBANDLA (2012) tried to explain the effect of FDI in multi brand retail on the various stakeholders. Improvement in supply chain would benefit low income people in the society especially in the food sector because the major consumption of low income people is food. Also it would help the farmers to increase their margins because of efficiency in the supply chain.

VIKRAM SINGH(2013) pointed out that for a developing country like india, fdi in multi brand retailing must be consciously considered by the government of india as it is important to develop retail sector for the total economic development of the country and welfare of society

3. Objectives of the Study and Research Methodology

Analytical research , which suits the most to the purpose of this project is being conducted here. Attempts were made to extract the most relevant information out of the data . The data for the study is collected from secondary sources like research papers, journals, websites, newspapers. The whole paper is based on descriptive and controversial arguments, statistical data, comparative studies ,diagnostic reasons and logics developed through the understandings from secondary sources.

The objectives of the study are as follows-

- To analyze the current retail scenario of fdi in india.
- To study the need of opening up of FDI in multi-brand retail.
- To analyze the positive and negative impacts of the reforms to be undertaken.
- To present an overview of FDI in Indian context.
- Evaluate the likely challenges and threats of FDI in Multi-Brand Retailing

4. Retail Sector of India

4.1. Meaning of the Term “Retailing” and Its Evolution in the Indian Markets

Retailing is the interface between producer and the final buyer. It is the last link that connects the individual consumer with the manufacturing and distribution chain. It is the sale for final consumption.

The evolution of retail sector is also very interesting to focus on. Initially it was started out of entertainment cause in the form of melas and fairs. Later on it was changed to kirana and mom and pop stores, then it was eventually transformed to government supported outlets. Finally a revolution happened in the form of malls, departmental stores, super markets etc.

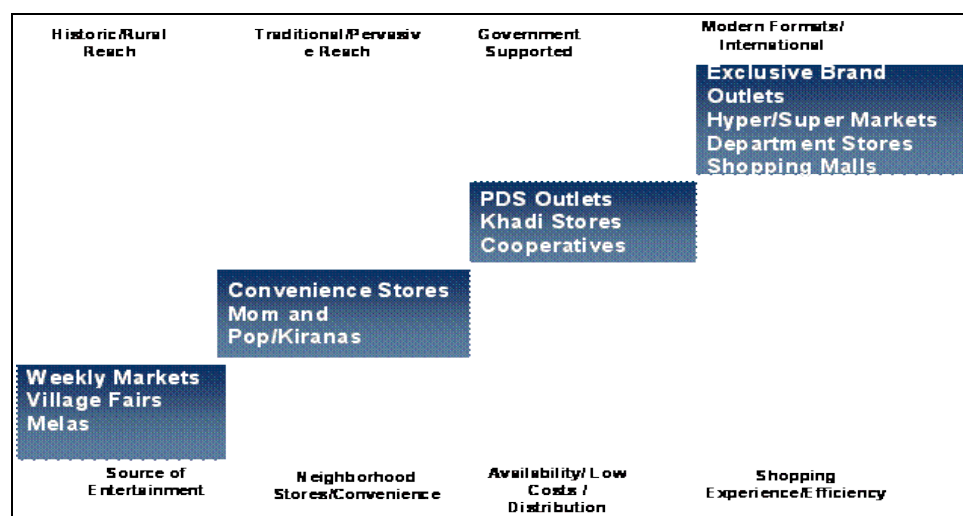


Figure:1 evolution of indian retail

Source : technopak research

4.2. What is FDI in Multi Brand Retailing and Need for Allowing FDI in Multi Brand Retailing in Current Scenario

There are 2 types of retailing, Single brand retailing and multi brand retailing. Single brand retailing in fdi would mean that foreign companies would be allowed to sell goods under a single brand only. For example Reebok, Nokia, Nike, Adidas etc. Multi brand retailing refers to the marketing of the different unrelated competitive products under the same roof. Allowing fdi in multi brand retailing would mean that global retailers like wallmart, tesco can open stores in india and can offer wide variety of products directly to the consumers.

In November 2011, the cabinet cleared the bill to raise FDI to 51% in multi brand retailing and 100% in single brand retailing. The decision was a welcome step for big giants like wallmart, Carrefour, tesco who were eyeing on india's gratifying sector. However, the decision to allow FDI in multi brand retailing in varios states was left to the states CM to decide. And eventually 10 states and union territories conveyed their approval to centre to allow FDI in multi-brand retailing. These were Andhra Pradesh, Manipur, Assam, Daman & Diu, Delhi, Haryana, Jammu and Kashmir, Maharshttra, Rajasthan, Uttarakhand and Dadra and Nagar Haveli. The decisions to allow 49 per cent FDI by foreign airlines in domestic carriers, 49% FDI in power exchanges and increase in foreign equity cap from 49 percent to 74 percent in service providers like direct to home in the broadcasting sector were also notified.

4.2.1. Need for allowing FDI in multi brand retailing in Current scenario:

AT Kearney, the well known international management consultancy, recently identified india as the "second most attractive destination for retail trade" globally from among thirty emergent markets. Our Indian retail industry is surely a pillar to Indian economy as it contributes 22% to the national GDP and employs 9.4% of the total workforce.

A research conducted by ICRIER on Indian retail industry estimates that the total retail business in India will grow at 13% annually from US \$322 billion in 2006-07 to US \$590 billion in 2011-12. The unorganized retail sector is expected to grow at approximately 10% per annum with sales rising from US \$309 billion in 2006-07 to US \$496 billion. Organized retail, which constituted a low 4% of total retail in 2006-07, is estimated to grow at 45-50% per annum and attain a 16% share of total retail by 2011-12.

An ASSOCHAM report says that India's overall retail sector is expected to grow to US \$833 billion by 2013 and to US \$1.3 trillion by 2018, at a compounded annual growth rate of 10%, driven by the emergence of malls and shopping complex.

Thus, watching the great potential of our retail sector, UNITED PROGRESSIVE ALLIANCE government issued the final notice for allowing the FDI in multi brand retailing inspite the fact that Opposition took this issue to streets to protest against the reform. But not only the opposition but some industry representatives and TMC govt. also raised their voice against the reform. TMC head "MAMTA BANERJEE" even went to the extent of saying that they do not support anything which is against the interests of common people and thus would be forced to take "HARD DECESIONS" if this is not taken back. BJP, AAP and left parties also opposed the same.

Eventually, after MR. NARENDER MODI became our honourable PM ,The Modi Government has decided to disallow foreign direct investment in multi-brand retail, Commerce and Industry Minister Nirmala Sitharaman said in a press conference recently.



Figure 2: The Growth in Indian Retail Sector
Source: <https://www.viaworld.in>

4.3. Two Major Segments of Indian Retail Industry

4.3.1. Unorganized sector :

It comprises of local kirana shops, pavement vendors, local mom and pop stores, dairy shops, green grocers etc. Indian retail is dominated by such small and unorganized retailers accounting for 94% share of the total retail industry. The unorganized sector expands faster due to its proximity, goodwill, credit sales, bargaining, loose items, convenient timings and home delivery.

4.3.2. Organized sector:

It comprises of licensed retailers, who are registered for sales tax etc. For example hypermarkets, departmental stores, super markets etc. In the last decade, there was an upsurge in the entry of organized retailers who were opening their stores in various modern formats in metros and other advanced cities. But still, the overall share of organized retailing is very less around 6% . This was a major concern for our government which paved the way for opening up of FDI in multi brand retailing in india.

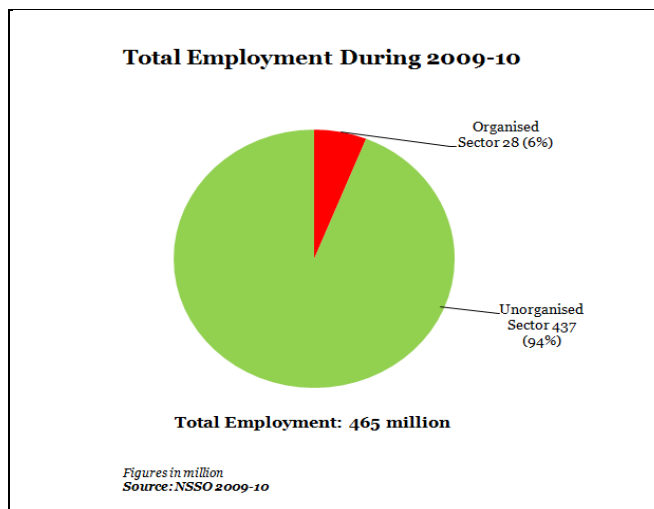


Figure 3: Division of Indian retail industry
Source: NSSO 2009-10



Figure 4: Share of organized retail in india in comparison to other countries
Source: <https://www.viaworld.in>

5. Merits of Allowing FDI in Multi Brand Retailing

5.1. Impact on Controlling Food Inflation

According to ASSOCHAM, FDI in retail will give stimulus to the backward linkages which will surely help in controlling food inflation. Players in the organized retail sector will create adequate infrastructure facilities which will help in reducing wastages and in increasing the supply of commodities, which will drastically reduce the prices.

5.2. Greater Choice and Satisfaction for Consumers

The consumers will get a better choice of formats with the upcoming of FDI in multi brand retailing as it can easily assure the quality of the product, better shopping experiences and customer services.

5.3. Employment Opportunities

According to ASSOCHAM, huge investments in the retail sector will see gainful employment opportunities in agro-processing, sorting, marketing, logistic management and the front end retail business and 1.5 million jobs will be created in the front end alone in the next 5 years.

5.4. Improve Efficiency in Retailing

The global retailers like WALLMART &TESCO have advanced management know how in merchandising and inventory management and adopts the latest and innovative technology which will improve productivity and efficiency in retailing.

5.5. Promotes the Country's Social Agenda

It can give a big push to the country's social agenda by controlling inflation, providing better quality assurance and accountability, increased direct and indirect employment, development of real estate and availability of better managerial staff. It will also promote tourism and computerization .

5.6. Reduces Wastages and Builds Infrastructure

It will surely help in building the much needed infrastructure required especially for storage facilities. Lack of storage facilities causes heavy losses to farmers, in terms of wastage in quantity and quality of produce in general.

5.7. Capital Infusion

It provides an opportunity for a developing country like INDIA wherein MNC'S come and invest in host country and thus accelerates the growth rate, create jobs, share their experience, R&D etc.

6. Demerits of Allowing FDI in Multi Brand Retailing

6.1. Difficult to Compete for Domestic Retailers

The existing retailing scenario in INDIA is featured by large number of fragmented family owned businesses, who would not be able to compete with global giants like WALLMART AND TESCO.

6.2. Experience of South Asian Countries

The examples of south Asian countries show that after allowing FDI, the domestic retailers were marginalized and this increased the unemployment. They had to impose stringent regulations to restrict the growth of supermarkets because small retailers were getting displaced.

6.3. Predatory Pricing of Global Retailers

It is feared that global retailers might resort to predatory pricing i.e. because of their large size and huge purchasing powers , they may initially sell the products below their cost so as to wipe out the domestic players in the market and then increase the prices drastically and earn huge profits when they will enjoy monopoly position in the market.

6.4. Can Increase the Burden of Unemployment

It is believed that this move will surely lead to the loss of self employment as there will be tough competition for our unorganized retailers. Also, it reduces the number of intermediaries and thus the employment gets reduced.

6.5. Influence of Westernised Culture and Loss of Ethical Values

It will also lead to the loss of cultural and ethical values as there will be more and more influence of westernised culture.

6.6. Remittance of Profits to their own Countries

Unlike manufacturing sector, very large investment in retail sector is not required. Thus with the little investment on basic infrastructure, they can earn huge profits which will be remitted back to their home countries.

6.7. Farmers Situation May Worsen off

The statement given by the proponents of this reform is that corporations are friends of farmers and consumers. But some researchers oppose the statement and says that there is no point of farmers getting a good deal in future as corporations buy the products from mandis and not straight from farmers. And thus, in future when these corporations will have complete control over the whole supply chain of food, farmers will have to face monopsony and will have no option but to sell their produce to these corporations at lower prices. This kind of problem is exactly what the farmers of west are facing now.

6.8. Propagating the Habit of Wasteful Consumerism

The greed of society at large can never be fulfilled. And ,these corporations propagate the habit of wasteful consumerism and thus increases the greed .

7. Challenges and Threats before the Organized Retail Sector

Organized retail sector has just emerged from its budding stage and is showing significant growth potential now. It is gradually moving forward to become one of the best lucrative industry in INDIA . but the educated class is yet to explore the options of a lucrative career in the organized retail sector. The challenges faced by the organized retail sector are as follows:

- Shortage of desirable talent and lack of skilled workforce in this field.
- Inefficiencies in the supply chain management
- Presence of so many intermediaries which are difficult to curtail

- The quality produced by the farmers is not upto the mark and thus there is a huge gap between what the farmers are producing and what the consumers are demanding.
- Lack of basic infrastructure like roads, transportation, water, power, fuel etc
- Requirement of a lot of licenses to be obtained for opening a new store from various government departments. A plea for having a single window clearance for getting all the licenses at one place to speed up the process is filed.
- The consumer of india is very unique as they still prefer to buy smaller quantities from the stores which are conveniently located near their homes. The indian consumers have a strong preference for freshly cooked food items and thus they resort to purchasing fresh food items near their homes. So, a shift of consumers from unorganized sector to organized one will be really a challenge for big corporations.

8. Recommendations

Many foreign companies have already entered the indian premises with the available options like exporting and franchising & are eager to change their entry to FDI that can strengthen their operations in INDIA . But, FDI if allowed should consider the following recommendations so that the benefits can exceed the likely threats, and the nation may prosper on the whole.

- Initially, it should be considered that if a foreign player will enter then they should be allowed to procure goods from local manufacturers only.
- The second one is that , there should be 50% reserved employment for rural youth.
- All the big players should be encouraged to spend 50% of FDI in Infrastructure, logistic and agro-processing.
- Also, they need to pay attention towards agriculture food processing to boost Indian economy.
- For protecting local vendors these retailers should operate only in big cities where minimum population is one million
- Without rural electricity and large scale new investment in water management, farmers cannot produce more, even with technical inputs from big retail. These concerns should be addressed while allowing FDI in retail.
- A National Commission must be established to study the problems of the retail sector and to evolve policies that will enable it to cope with FDI as and when it comes.
- Entry of foreign players must be slow and with social safeguards so that the effects of the labour displacement can be analyzed & policy fine-tuned
- Stringent rules to be formed against collusion and predatory pricing and a code of conduct to be drafted for the organized retail sector for dealing with their suppliers.

9. Conclusion

So many conflicting views , discussions and debates exist among the policy makers and social thinkers about the pros and cons of FDI in multi brand retailing in india. There is a total division in the people's viewpoint regarding this reform.

ASSOCHAM, India's Apex Chamber for Commerce and Industry, welcomes the announcement of 51% Foreign Direct Investment (FDI) in Multi-Brand Retail in India. Rajkumar Dhoot, President of ASSOCHAM said“FDI is a blessing which would lead to massive job generation, increase the inflow of foreign investment, reduce farm wastage, provide farmers their due in the form of higher prices for their produce and will not impact the kirana stores in any way. Strong back-end infrastructure would help reduce wastage from farm production and improve efficiencies of a highly fragmented food supply chain in India.” Whereas another class of people totally reject this viewpoint and says that it is totally a bane and will only add costs to the economy. They analysed that if allowed it will create massive unemployment as it will rob away the livelihood of 40 million people engaged in the retail sector and will also worsen off the position of farmers. They are of the view that these corporates will emerge as big power giants and will resort to predatory pricing at the end and thus earn huge profits by capturing all the markets. But what is finally going to happen can be known only when this reform is being adopted in reality as rest are only the predictions. But as far as our developing economy is concerned, this reform if adopted should be undertaken in a very conscious and phased manner. Through such a reform, there is a better chance of integration of our economy with the world economy which is essential for the overall economic development of a nation.

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