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# GROWTH & FUTURE SCENARIO OF FDI IN INDIAN RETAIL SECTOR

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## ABSTRACT
Indian retail industry is rising as one of the most largest and fast paced industries accounting for more than 10 per cent of the country's GDP and around 8 per cent of the employment encouraging large number of domestic & global players to enter in the market. Until 2011, the Indian Central Government denied foreign direct investment (FDI) in multi-brand retail & single-brand retail was limited to 51percent. In late 2012, the Government of India approved a FDI policy which allowed global retailers to own up to 51percent in multi-brand retail & 100percent in single brand retail. The objective of this paper is to get an insight of the major changes that have been taken by the Indian government regarding FDI policy in Indian retail sector as well as to know the future trends associated with FDI in retail segment.

**KEYWORDS:** Retailing, FDI, Multi-Brand Retail, Single Brand Retail

## INTRODUCTION
Retailing encompasses all the business activities that involves in selling goods and services to end users for their personal, family, or household use. Retail is the last link in the distribution channel as it deals directly to the consumers by connecting them to the manufacturer. Indian retail industry has been ranked as the fifth most promising nation for investment with the segregation of organised & unorganised retailing. According to a study by Booz & Co and RAI Indian market is majorly dominated by the unorganised sector & organised sector accounts for 8percent of the total retail landscape. Over the last few years Indian retail sector has witnessed a tremendous growth as traditional markets are making path for new formats such as malls, departmental stores, hypermarkets, supermarkets, discount stores and speciality stores. With the growing market demand due to the change in demographic profile of the consumer and their taste and preferences the Indian retail industry is expected to grow 9 per cent in 2012-16, with organised retail growing at 24 per cent. According to the India Retail Report 2013 (IRIS Research), the Indian retail market is estimated to exceed US$ 750 billion by 2015, which shows strong prospects for foreign players to explore Indian market. With the Indian big business houses like Pantaloons, Aditya Birla group, RPG, etc and the global players like Adidas, KFC, Zara, Levis, etc the organized retailing looking for a higher share in the growing pie of the retail market in India.

FDI is an important source of investment in India expecting from multinationals to create ample of opportunities for growth, jobs and research & development. In order to attract investment from foreign investors, economic policy was introduced in the year 1991, since then many changes have been taken place to increase foreign participation. Until 2011, the Indian Central Government denied FDI in multi-brand retail & single-brand retail was limited to 51percent. In late 2012, the Government of India approved a FDI policy which allowed global retailers to own up to 51percent in multi-brand retail & 100 percent in single brand retail. It is expected that the organised retail will now have full access to over 200 million urban consumers in India (approx. 47percent) of which are below the age of 30 with high levels of consumption.

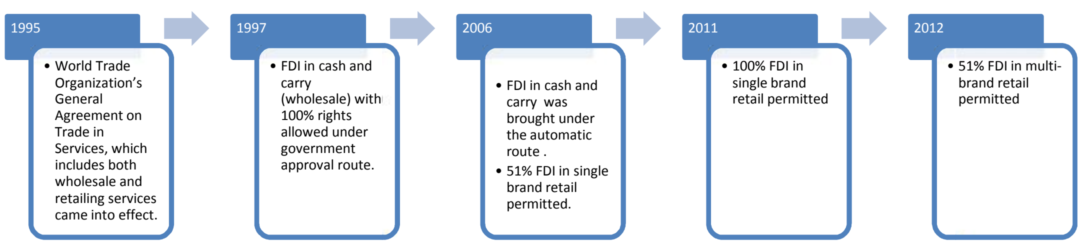
## REVIEW OF LITERATURE
There are many recent studies which have recognized technology, labour skills and infrastructure as the key factors of foreign investment. These determinants are significant in order to explain the trends in the geographical structure of FDI at the world capita income, in relation to outbound as well as inbound FDI (Hummels and Stern, 1994). The enormous range of incentives that is announced by the government should also be taken as an important deciding factor for corporate strategies of international location as well as institutional, historical and cultural determinants should also be considered as they influence the investor's location related decisions (Martin and Velazquez, 1997). Aqeel and Nishat (2004) conducted study to know whether tariff rate, exchange rate and tax rate are important for FDI. It revealed that these policy variables have the positive impact on the reforms in Pakistan. According to some studies the variables such as market size and differences in factor costs were also found to be important in deciding the FDI location as these are significant in determining the market economies which cannot be exploited till the time market achieves a certain size (Markusen and Maskus, 1999).

India retail industry can be segregated into organized and unorganized sectors. consist of the traditional formats of low-cost retailing like local kirana shops owner, general stores, paan/beedi shops, hand cart and pavement vendors, etc. distorted real-estate market, poor infrastructure and inefficient upstream processes, lack of modern technology, inadequate funding and absence of skilled manpower are the characteristics of Unorganized retailing (Guruswamy, M. et al., 2007).

There have been substantial studies conducted on various aspects related to the changing consumer behaviour and determinants responsible for retail store choice. Various studies have been conducted which reveals the shopping behaviour of Indian consumers. Traditional outlets are preferred by Indians because of the large mass of middle class consumers who are expert bargainers while modern shops are favoured because they connect entertainment with shopping and for a customer it is delight to go out for shopping with entertainment (Sinha, 2003). According to the study conducted by Joseph and Soundararajan (2009) there are many variables of traditional outlets which influence the choice of retail store such as nearness to residence, easy availability of credit, convenient timings, possibility of bargain, etc. The benefit of the modernisation of retail stores goes to the consumer as they get the greatest and ample choice, discounted prices. The main objective of the retailer to retain their customers and therefore strategies are formulated after having in depth study of buying behaviour of the customer. After liberalization, organized retail has grown significantly because of the growing purchasing power of Indian middle class. As a result, Indian government opened its doors for FDI in single brand & multi-brand retailing. With 30 emerging markets India has been ranked third most promising nation for retail investment with domestic companies like the Future Group, Tata's Westside, Reliance Fresh, Raheja Group and Bharti Retail competing for market share Singh et al (2012). According to the current policy of 100percent FDI in wholesale cash-and-carry trading is permitted. In single-brand retailing, 100 percent FDI is allowed while it is prohibited to 51 percent in multi-brand retailing. The question arises whether to increase FDI in multi-brand retail up to 100 percent will generate problems or create opportunities. There are no proper answers and sufficient suggestions have been expressed in favour and against of FDI. In this Paper, an attempt is made to discuss the policy frameworks for FDI in Indian retail sector as well as to know the future trends associated with FDI in retail segment.

## PHASES OF FDI IN INDIAN RETAIL INDUSTRY

Indian retail sector is approximately worth of US$411.28 billion and is forecasted to reach to US$804.06 billion by 2015. With the economic liberalization in the year 1991 and being a member to World Trade Organisation's General Agreement on Trade in Services, India had to unlock retail sector in the year 1995, which include wholesale and retailing services. There were many arguments regarding opening of this sector due to t apprehension of job losses, procurement from international market, competition and loss of entrepreneurial opportunities. However, the government has opened up the retail sector gradually for foreign players in a series of moves:




### Recent Policy Framework of FDI in Indian Retail Sector

The retail industry has received a continuous buzz and anticipation which has forced Indian government to reframe and revisit the policy framework regarding FDI in retail sector. In order to look after the interest of small unorganised retailers or farmers as well as to attract FDI in multiple brand retail the government of India has made some major changes in its past norms which are as follows:

| Dimensions | Multi-brand retail | Single brand retail |
|---|---|---|
| Percent of FDI cap/ Equity | 51 percent | 100 percent |
| Ownership requirements | minimum investment of US$100 million by Multi-brand retailers | The global investor must be an owner of the brand |
| Investment towards back end infrastructure | At least 50 percent of total investment brought in through the first tranche must be invested in "backend infrastructure" within three years (excluding front-end units). As per the revised norms, the area of "backend infrastructure" has been extended which include investments made towards processing, manufacturing, distribution, design improvement, quality control, packaging, logistics, storage, warehouse, agriculture market produce infrastructure, etc. Expenditures on land cost and rentals are now not counted in the same. | |

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|---|---|---|
| Source | International multi brand retailers are required to source 30 percent of their manufactured goods through domestic small & medium enterprises but the government has given five years to work up to this limit. Goods bought from agri-cooperatives and farmer co-operatives will also be counted towards the 30percent mandatory domestic sourcing requirement. | 30percent sourcing would be compulsory from small & cottage local industries in FDI beyond 51 percent. |
| Location of stores | Multi-brand retailers will be allowed to set up shop in cities with less than one million population (earlier, stores could be located only in cities with over one million population). | |
| Sales | | Company can sell products only under single brand in a store. If it owns more than one brand then it has to set up different stores & companies for the same. |
| Approval from state government | Approval from regional government is required to open outlets. | |

Major organized Retailers in India:

- Pantaloon Retail: - a flagship company of Future Groups which has over 1000 stores across 73 cities in India. In 2001 it has launched its first hypermarket Big Bazaar in India. The company's other stores are Food bazaar, Hometown, e-zone, shoe factory, Futurbazaar.com, etc.
- K Raheja Group: - they enter into retail with India's first departmental store in 2001, Shopper's Stop. Today it has more than 40 stores across the country. The company has other format such as Crossword Book Store, Mothercare & Early Learning Centre (ELC), Estee Lauder group, HyperCity– a premium shopping destination for Foods, etc.
- Tata Group: - established in 1998, Trent - one of the subsidiaries of Tata Group - operates Westside, a lifestyle retail chain and Star India Bazaar - a hypermarket with a large range of products at the lowest prices. Other stores of company are Croma (a consumer electronics chain), Titan (the watch brand) and Tanishq (the jewellery brand).
- Reliance: - the company operates more than 560 Reliance Fresh stores and recently launched Hyper-Mart.
- Aditya Birla Group: - the company brand portfolio includes brands such as Louis Phillipe, Van Heusen, Allen Solly, Peter England, Trouser town and recently it has acquired food and grocery chain of south, Trineth. The company also own 'More' supermarkets and hypermarkets.
- Others: - some other groups such as RPG Group, Landmark, Piramal Group and Bharti-Walmart are competing in order to mark their presence and to capture major share of organised retailing in India.

**Present Market Entry Routes for the Foreign Investors in Indian Retail Sector:**

According to A T Kearney's Global Retail Development Index (GRDI) 2012, India is the 5th most encouraging destination for international retailers. Of the total Indian retail market, 8 percent constitutes the organised retail segment which is expected to grow at a rate of almost 30 percent by 2015, and hence at a much faster rate than the overall retail market which is forecast to grow by 16 percent in the same period. Under current restrictive market entry policies for the foreign retailers in the Indian retail sector foreign retailers can follow any of the following method to enter & to expand their business in India

| | |
|---|---|
| Franchising | It is an easiest way to enter into the Indian retail market. In franchising and commission agents' services, foreign investment (unless otherwise prohibited) is approved with the consent of the RBI under the act of FEMA. Pizza Hut, KFC, McDonalds, Dominos, Lacoste have entered India through this route. |
| Cash and Carry Wholesale trading | 100 percent FDI is allowed in wholesale trading. The wholesaler deals only with smaller retailers. Metro AG of Germany was the first global retailer to enter India through this route followed by Walmart with Bharti Retail, owner of Easyday stores and recently British retailer Tesco Plc (TESCO), signed an agreement with Trent Ltd (Trent), to set up cash-and-carry stores and Carrefour has opened its first cash-and-carry store in New Delhi. |
| Strategic License Agreement | Under this foreign brands give exclusive licences and distribution rights to Indian companies to sell it through their own stores, or enter into shop-in-shop arrangements or distribute the brands to franchisees. Mango, SPAR is some of the examples. |
| Manufacturing and Wholly-owned Subsidiary | The foreign brands such as Nike, Reebok, Puma, etc. have wholly-owned subsidiaries in manufacturing are treated as Indian companies and are authorised to sell products to Indian consumers by franchising, internal distributors, existent Indian retailers, own outlets, etc. |

**Positive Outcomes of FDI Policy in India:**

- Welcoming FDI in Indian retail sector will help to boost up the competition in domestic level retail chain.
- Farmers will get benefit by FDI as it will help them to enter into a contract farming where they can supply directly to the retailer on demand without searching for buyers and could earn good cash.
- Consumers will have more options to get international brands at one place and that's too at a competitive price.
- FDI will generate employment opportunity by pooling youth and providing them training in various aspects of retailing.
- Inflow of FDI has contributed in the development of the infrastructure & the construction of the retail industry as foreign players are contributing large scale investment in real estate sector.
- Increasing purchasing power of middle class, nuclear families nuclear families in urban areas, along with increasing working women population will be the key development drivers of the organised retail sector in India.
- According to the report by Deloitte the Indian retail industry is expected to increase to US$ 750-850 billion by 2015 with food and grocery as the largest category within the retail sector followed by apparel and mobile segment with 60 per cent share.

**Drawbacks of FDI Policy in India**

- FDI would lead to unfair competition & ultimately result in large-scale exit of domestic retailers which will lead to large scale displacement of persons employed in the retail sector.
- FDI will lead to repatriation of profits outside India.
- One more anxiety of Government of India is that the Indian organised retail sector, is still immature, underdeveloped and is in a budding stage and therefore, it is essential that the domestic retail sector should allowed to raise and strengthen first, before opening this sector fully to foreign investors.
- Another concern is that the monopolistic tendencies and unnatural price trends can creep in retail sector due to the FDI.
- FDI would lead to unbalanced growth in cities, causing discontent and social tension elsewhere.

**Expected Future Trends of FDI in Indian Retail Sector:**

1. According to the report of Crisil (market research firm) there is uncertainty by foreign players to make significant investment in multi brands retailing in India over the next 2- 3 years due to the following reasons:
   - Many global players are facing pressure on profitability side in their home market due to the ambiguity in global and Indian markets economies.
   - Regulations regarding back-end investment requirements imposed by government are worrisome for global retailers especially for those in apparels and electronics, as they do not require the same.
   - Due to the unsteady Indian political environment & the parliamentary elections in 2014, the investment from foreign retailers can be delayed.
2. Further, there are recent changes mentioned by the Govt. on FDI in multi brand retail:
   - Only company-owned and company-operated retail structure will be legalized in multi-brand retail.
   - Global sourcing must be separate from the mandatory 30 percent buying from small and medium sector.
   - Now not just back-end, even front-end must be new as the complete $100 million compulsory investment should be for new facilities.
3. Changes in the government policy regarding FDI in single brand can be expected which will allow them to bring different brands belonging to the same product line under one company and further to allow these retailers to sell different brands in the same store.
4. In future FDI in multi-brand retail upto10 can be expected which will help the organised sector to expand & flourish.
5. According to a McKinsey & Company report titled 'The Great Indian Bazaar: Organized Retail Comes of Age in India', the organised retail in India is expected to reach US$ 450 billion by 2015 thus creating abundant opportunities for global players.

**CONCLUSION**

The retail sector of India is moving under the phase of golden sunshine, encouraging large number of global players to enter in the market. Changes in the Indian government policy regarding FDI in retail sector would promote this industry on the whole economic development and social welfare of the country. It can be very profitable for the country if it is done in the right manner. In future FDI in multi-brand retail upto100 percent can bring about huge investment in technology and real estate which will flourish Indian economy.

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