FDI IN MULTI-BRAND RETAIL: IS IT THE NEED OF THE HOUR??

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ABSTRACT

Retailing is the interface between the producer and the individual consumer buying for personal consumption. As such, retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. This paper tries to establish the need of the retail community to invite FDI in multi brand retailing. In between the advocates and antagonists of FDI inflows in Indian retailing, there are few issues to be addressed for the consumers’ rights to be saved, for the employment opportunities to be generated, for the regularization of the different retailers working in different areas, etc. In spite of so many reasons behind allowing and not allowing FDI from entering our Indian borders, there are few examples of other developing countries who initially protested against the entry of foreign investment in retail sector and then, later on proved out to be the most effective decision in country’s development and standing in the world. The final decision is yet to be taken by the Indian Government for the same.

KEYWORDS: Foreign Direct Investment (FDI), Single brand retailing, multi brand retailing, multi-brand retail, Foreign retail investors.

INTRODUCTION

India is a land of retail democracy- hundreds of thousands of weekly haats and bazaars are located across the length and breadth of our country by people’s own self-organizational capacities and interests. Our streets are bazaars – lively, vibrant, safe and source of livelihood for millions. India has the shop density of 11 outlets per 1000 people and number around 15 million, giving India the highest retail outlet density in the world. But only four per cent of them have larger than 500 square feet area. Food constitutes 70 per cent of retail sector, which means it has a direct link with the rural economy. Our retail democracy is characterized by

1. High levels of livelihood in retail with nearly 40 million employed which accounts for 8% of the employment and 4% of the entire population.

2. High levels of self - organization.
3. Low capital input

4. High levels of decentralization

The Indian retail market, variously estimated at $400-450 billion, is dominated by the highly decentralized unorganized sector. The small retail outlets, most of them family-owned businesses, account for about 95 per cent of the sales. The creaky, old distribution system that India has lived with is grossly inefficient. The Indian farmer typically gets only a third of what the final consumer pays, instead of the two-thirds that his counterparts do in countries that have organized retailing. India is the second largest producer of fruits and vegetables in the world, but almost 30 per cent of these go waste for want of storage and processing facilities.

It is generally agreed that the bulk of the Indian economy would gain, significantly, from the emergence of a well-capitalized retail industry. The organized retail industry is one of the sunrise sectors with huge growth potential. Total retail market in India which currently stood at USD 400 billion in 2009-10, is estimated to attain USD 573 billion by 2012-13. Organized retail industry accounts for only 5% of total retail industry but is expected to reach 10% by 2012¹.

POLICY INITIATIVES: Retailing is the largest private sector industry in the world economy with the global industry size exceeding $6.6 trillion and a latest survey has projected India as the top destination for retail investors. And the further upsurge is anticipated in the retail sector as the Government of India has already opened up 51% FDI in single brand retail outlets and 100% in cash and carry business. In Nov, 2011, the Cabinet cleared the bill to raise foreign direct investment to 51% in multi-brand retail and 100% in single brand. The decision will be cheered by global retail giants such as Wal-Mart that have long been eyeing India's rewarding retail sector which is mainly occupied by small 'mom & pop' shops. Currently, organized retail, or large chains, makes up less than 10% of the market. An ASSOCHAM report states that India's overall retail sector is expected to rise to USD 833 billion by 2013 and to USD 1.3 trillion by 2018, at a compounded annual growth rate of 10% driven by the emergence of shopping centers and malls, and a middle class of close to 300 million people that is growing at nearly 2% a year.

Discussing about “Single brand retailing”, its meaning says ‘own label brands' or they can be described as those which are created and owned by businesses that operate in the distribution channel. These stipulations would prevent third party sourcing and encourage multinationals to set up a manufacturing base in India. Conditions under single brand retailing are as follows:

1. Products to be sold should be of a `single brand'.

2. Products should be sold under the same brand internationally.

3. ‘Single brand' product retailing would cover only products, which are branded during manufacturing.

Examples are of Sony and Nokia
CURRENT SCENARIO OF INDIAN RETAILING INDUSTRY: The share of organized retailing in India, at around 2%, is too low, compared to 80% in the USA, 40% in Thailand, or 20% in China, thus leaving the huge market potential largely unexploited. Mounting earning levels, education and an international revelation have contributed to the progression of the Indian middle class purchasing and shopping practices are burgeoning as an outcome. Retailing all the way through non-traditional channels such as Fuel Stations, Direct Selling and Home Shopping Television is on the rise. Contemporary organized retail is short and uneven with cast list not being able to harvest economies of scale. However, retailing through formats such as supermarkets, hypermarkets, department stores and other forte chains are escalating. Top business houses in the country are investing in the sector. This includes Food World, Shopper’s Stop, Crossroads, Globas, Pyramid and other such outlets. FDI in retail trading is not encouraged in any form. However, a few overseas retail names appear in the marketplace in the nature of franchisee. Quite a lot of companies including Metro, Carrefour and Ahold are exploring way in options. Benetton, Lifestyle and Zegna are already in the Industry in India. Organized retail is a lucrative proposition for a thespian that can bring supreme practices from around the globe, leverage economies of scale and garner these benefits through retail operations in India. India has a hefty middle class of 350 million and sophisticated personnel to lever diverse significant functions like merchandising, sales promotion, inventory management, purchasing and marketing. Despite the global economic recession and a consequent slowdown in the Indian economy, organized retail continued to make headway although at a slower pace in 2009. Nonetheless, if the current retail landscape is compared with that of 2004, it has undeniably become a much larger environment. Retail stalwarts such as Wal-Mart, Tesco and Marks & Spencer have already made inroads into the Indian retail industry and with multi-billion dollar investments by major domestic players such as Reliance Retail; the market is expected to go from strength to strength. India also possesses IT skills in the area of supply chain management, database management and inventory management. A number of drivers are aiding the development of the Industry such as improved levels of income and increasing purchasing power, entry of foreign retailers and reforms in real estate markets.

Given these developments the organized retailing sector is poised for significant growth in the country.

REVIEW OF LITERATURE

1. Palmade, Vincent and Anayiotas, Andrea in “FDI Trends - Looking Beyond the Current Gloom in Developing Countries” - The World Bank group private sector development vice presidency September 2004 note number 273 specify “The fall in foreign direct investment (FDI) since 1999, and China’s growing share, worry most developing countries. But an in-depth look reveals new and promising trends. The decline is largely a one-time adjustment following the privatization boom of the 1990s. FDI is coming from more countries—and going to more sectors. The conditions for attracting FDI vary by sector: in labor-intensive manufacturing, for example, efficient customs and flexible labor markets are key, while in retail access to land and
equal enforcement of tax rules matter most. Sorting out the microeconomic issues by sector will be good not only for FDI but also for domestic investors.”

2. “Doing Business in India”, A publication of the World Bank and the International Finance Corporation, ©2009 The International Bank for Reconstruction and Development / The World Bank indicate “Foreign direct investment assists in increasing the income that is generated through revenues realized through taxation. It also plays a crucial role in the context of rise in the productivity of the host countries. In case of countries that make foreign direct investment in other countries this process has positive impact as well. In case of these countries, their companies get an opportunity to explore newer markets and thereby generate more income and profits.”

3. An article by Koshy Joseph, Partner, Joseph and Joseph Law Offices “FDI IN RETAIL SECTOR” Copyright© 2006, describes “The decision of permitting foreign direct investment (FDI) in the retail sector has been a debate in India for a considerable period of time. FDI has been permitted in several sectors by the government of India, however, retail has been an issue deliberated over in view of its expected effect on several sections of the economy, particularly small businesses. However, the said decision of the government permitting FDI in retail has drawn a lot of flak from the leftists and the opposition parties. The gates have opened for multinationals interested and looking forward to set a foot in the booming retail business in India.”

4. A Report by Navdanya/ Research Foundation for Science, Technology and Ecology, New Delhi titled “CORPORATE HIJACK OF RETAIL - Retail Dictatorship vs Retail Democracy” sets the foot right saying “Giant corporations like Wal-Mart and Reliance have started to try and take over the Indian retail sector. The entry of the giant corporate retail in India’s food market will have direct impact on India’s 650 million farmers and 40 million people employed in tiny retail. More than 6600 mega Stores are planned with Rs. 40,000 crore by 2011.

Wal-Mart is the biggest player in retail. In a report “Oligopoly Inc. 2005”, the ETC Group has shown that consolidation, cut throat competition and aggressive global expansion are the driving forces in the food retail sector. In 2004, the top 10 global food retailers accounted for combined sales of $840 Billion, 24% of the estimated $3.5 trillion global market. This was up from $ 513.7 billion in 2001. If Wal-Mart and other retail chains get a foothold in India; it will mean displacement of small retailers and farmers.”

5. Singh, Dr. Mandeep, Associate professor of Economics, The Earth Institute of Columbia University in his article “Foreign Direct Investment in Retailing in India – Its Emergence & Prospects” published on 3rd August, 2010 says “Since the Indian retail sector is highly fragmented and domestic retailers are in the process of consolidating their position, the opening up of FDI regime should be in phased manner over 5 to 10 years time frame so as to give the domestic retailers enough time to adjust changes. FDI should not be allowed for multi brand stores in near future, as Indian retailers will not be able to face competition with these stores immediately. At present it is also not desirable to increase FDI ceiling to more than 51% even for single premium brand stores. It will help us to ensure check and control on business operations of global retailers and to protect the interests of domestic players. However, the limit of equity
participation can be increased in due course of time as we did in telecom, banking and insurance sectors. The strategy of opening up should be backed by appropriate reform measures. India can learn from the experiences of other developed and developing countries and develop its own strategies, laws and regulations that would be in the best interest of the country."

6. Khatore, Prashant and Parekh, Paresh, partner and senior professional in Ernst & Young’s Retail & Consumer Products Practice in their article “Wholesale FDI in retail” in Business Daily from THE HINDU group of publications on Thursday, Jun 04, 2009 said “There is a need to relook, clarify, and further liberalise the policy on single-brand retailing to promote investments by global chains in India. This in turn would not only boost retail growth in India but would also help realize India’s retail revolution dream”.

7. A publication “Top retailers seek 51 percent FDI in multi-brand retail” by ICT by IANS Thaindian.com Company Limited on August 12th, 2010 represents the views of big retailers as “Given the state of the supply chain in India, much of the investment in the back-end will be upfront, particularly in the initial years. A fixed percentage of investment on the back-end could therefore lead to a misallocation of resources and take away from where they are most needed to create efficient supply chains,” said Bharti Walmart.

8. Parekh, Paresh, Mumbai, Agency: DNA in his paper “Foreign direct investment in multi-brand retail: Time to expand the horizons” published on Saturday, Jul 31, 2010 states that “It is worth debating whether it is really necessary to put conditions such as mandatory rural employment creation and mandatory investment in back-end infrastructure, etc while permitting FDI. One needs to be mindful that the conditions do not become a burden, making investment commercially unattractive to start with, in which case the potential benefits of permitting FDI in retail will not be realized in the absence of scale of investments.

Also, one really needs to debate whether there is a need to distinguish between foreign financial institutions and foreign retailers for permitting FDI. There have been cases where private equity investors brought not only capital, but also the right talent and know-how relevant to the sector to make a business successful. In fact, today, some Indian organized retailers may be more in need of funds from private equity players than a strategic tie-up with a foreign retailer.”

OBJECTIVES OF STUDY

- 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 assess the market situations for the same changes in other countries.
- To review the challenges to be faced by FDI’s while investing in India.
- To evaluate the change in the customer’s requirements after introduction of FDI in retail
DATA AND RESEARCH METHODOLOGY

The descriptive research methodology has been used to collect the data. To evaluate the overall position of the entry of FDI in multi brand retail in India, secondary data has been collected from various published sources and websites from the year 1999 to few assumptions for the future. Interpretation of the data is more on qualitative terms than on quantitative terms.

As the government is in a process to initiate a second phase of reforms, it is cautiously exploring the avenues for multi-brand segment. With key parameters like customers entry, same stores sales, average transaction per bill improving at faster pace, the industry expects the reforms to be fast going forward. Most of the front line players who had freezeed their spreading out plans are reviving their decisions in the last couple of months.

Moreover, for the 4th time in five years, India has been ranked as the most attractive nation for retail investment among 30 emerging markets by the US-based global management consulting firm, A T Kearney in its 8th annual Global Retail Development Index (GRDI) 2009. India remains among the leaders in the 2010 GRDI and presents major retail opportunities. India's retail market is expected to be worth about US$ 410 billion, with 5 per cent of sales through organized retail, meaning that the opportunity in India remains immense. Retail should continue to grow rapidly—up to US$ 535 billion in 2013, with 10 per cent coming from organized retail, reflecting a fast-growing middle class, demanding higher quality shopping environments and stronger brands, the report added. Foreign direct investment (FDI) inflows between April 2000 and April 2010, in single-brand retail trading, stood at US$ 194.69 million, according to the Department of Industrial Policy and Promotion (DIPP).²

THE ROAD AHEAD

According to industry experts, the next phase of growth is expected to come from rural and semi-rural markets. According to a market research report published in June 2009³ by RNCOS titled, 'Booming Retail Sector in India', organized retail market in India is expected to reach US$ 50 billion by 2011. The key findings of the report are:

- Number of shopping malls is expected to increase at a CAGR of more than 18.9 per cent from 2007 to 2015
- Rural and semi-rural market is projected to dominate the retail industry landscape in India by 2012 with total market share of above 50 per cent
- Driven by the expanding retail market, the third party logistics market is forecasted to reach US$ 20 billion by 2012
- Apparel, along with food and grocery, will lead organized retailing in India.
- Leading watchmaker Titan Industries Limited plans to invest about US$ 21.83 million for opening 50
premium watch outlets Helios in next five years to attain a sales target of US$ 87.31 million. "We are looking to open Helios outlets in Mumbai, Delhi, Hyderabad, Kolkata, Chennai, Pune, Ahmedabad etc in next 12 months." said Ajoy Chawla, Vice President (Retail), Titan.

- Bharti Retail strengthened its position in northern India by opening 59 stores, Bharti Wal-Mart is expected to open to 10 to 15 wholesale locations in the next three years.

- Established retailers are tapping into the growing retail market by introducing innovative store formats. Spencer's Retail, More (owned by Aditya Birla Group) and Shoppers Stop (owned by K Raheja Group) already plan to expand

- British high street retailer, Marks and Spencer (M&S) plans to significantly increase its retail presence in India, targeting 50 stores in the next three years. M&S currently operates 17 stores in India through a joint venture (JV) with Reliance Retail.

- Chinese retail major, Yishion has entered the Indian market and plans to have at least 125 points of sales, including exclusive stores and multi-brand outlets, across India by 2012. It has opened its first exclusive store in New Delhi this year.

- Spain's Inditex, Europe's largest clothing retailer opened the first store of its flagship Zara brand in India in June 2010. It further plans to open a total of five Zara outlets in India.

- Bharti Retail, owner of Easy Day store—supermarkets and hyper marts—plans to invest about US$ 2.5 billion over the next five years to add about 10 million sq ft of retail space in the country by then, according to a company spokesperson.

- Raymond Weil plans to invest US$ 883,665 in India during 2010, according to Olivier Bernheim, President and CEO, Raymond Weil.

- While there are reports of international retailers like Tesco, Carrefour analyzing business opportunities in India; Reliance, the largest Indian conglomerate is investing $3.4 billion to become India’s largest contemporary retailer. There are also reports of investments for ‘Hypercity Retail’ by K.Raheja Group to establish 55 hypermarkets by 2015. All these factors will contribute in taking Indian retail business to unexpected growth based on the consumer preference for shopping in congenial environs and also availability of quality real estate.

THE CHANGING INDIAN CONSUMER

The following are the few factors which drive the big retailers for seeing India as a lucrative market for its business:

- Indians with an Ability to spend over USD 30,000 a year (PPP terms) on conspicuous consumption
2 Ministry of Commerce & Industry, Government of India, July 2010

3 Copyright © 2010-2015 India Brand Equity Foundation, July 2010 represent 2.8% of the entire population. But with a population base of 1.07 billion people, this number amounts to 30 million people, a market next only to USA, Japan and China.

- **ECONOMIC GROWTH**: This has meant greater disposable incomes for the Indian middle class, which currently comprises 22% of the total population. Disposable incomes are expected to rise at an average of 8.5% p.a. till 2015.

- **DEMOGRAPHICS**: More than 50% of the population is less than 25 years of age and strong growth is expected to continue in this age bracket.

- **URBANIZATION**: The Indian urban population is projected to increase from 28% to 40% of the total population by 2020 and incomes are simultaneously expected to grow in these segment.

- **CREDIT AVAILABILITY**: Retail loans have doubled in the last three years to reach USD 38.7 bn by 2005. All the above figures represent only about the rich and middle class of the country. Because of the Big consumer market that India offers, the government gives no regard to the concerns of unorganized 97% of the retail trade in India. People of all classes depend upon these traders for their daily supplies.

- **EXPANDING OF THE EDUCATION SECTOR**: Education sector has led to a incredible development which has ultimately led to the growing awareness and demands of the youth regarding the brand culture in the country. Few reports depict that among teenagers (aged 17 to 20 years) apparel, books, footwear and mobile phones account for nearly around 42% of the total discretionary spend.

- **ENVIRONMENTAL AND AGRICULTURAL FACTORS**: The continuous changes in the environmental factors and the changing agrarian facilities with the increasing outputs and better yields have also led to the growth in demands of the consumers.

- **IMPACT OF MEDIA**: The change in the thought process of the consumers due to the increased impact of media on their lifestyle has made the retailers find the market for new and lucrative products which were earlier not accessible to the consumers.

- **IMPROVED LOGISTICS**: The various infrastructure development schemes which have led to better connectivity between different regions has also led to the development of a more lucrative market for India as a whole.

Overall, the government seems set to consider the option seriously to open retail to FDI. But the Government should seek for reforms keeping in view the existing framework of India and this should be done in a phased manner so as to prepare the economy for availing the benefits and avoiding the pitfalls. So, the government should put some conditions in this game like:
1. The very first condition is if a foreign player will enter than they have to procure goods from local manufacturers.

2. The second one is there will be 50% reserved employment for rural youth.

3. All the big players need to spend 50% of FDI in Infrastructure, logistic and agro-processing.

4. Also, they need to pay attention towards agriculture food processing to boost Indian economy.

5. For protecting local vendors these retailers should operate only in big cities where minimum population is one million.

6. 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.

7. The government will have to be fair and even handed between domestic and foreign organized retailers. If half the jobs in FDI-funded retail outlets should be reserved for rural youth, why not do the same for Pantaloon or Reliance or Shoppers Stop? If a percentage of FDI coming in is to be spent towards building up of back-end infrastructure, logistics or agro-processing, surely the same should apply to purely Indian players.

An arrangement in the short to medium term may work wonders but what happens if the Government decides to further ease up the regulations as it is currently contemplating? Will the foreign investor conclude the agreement with Indian partner and operate in market without him? Either way, the foreign investor must bargain its joint venture agreements carefully, with a choice for a buy-out of the Indian partner’s share if and when regulations so allow. They must also be conscious of the regulation which states that once a foreign company enters into a technical or financial association with an Indian partner, it cannot enter into another joint venture with another Indian company or set up its own subsidiary in the ‘same’ field without the first partner’s approval if the joint venture agreement does not provide for a ‘conflict of interest’ clause. In effect, it means that foreign brand owners must be extremely cautious whom they choose as associates and the brand they initiate in India. The first brand could also be their last if they do not bargain the strategic arrangement meticulously. Also, the government needs to be cautious enough while introducing any of the further changes in the policy matters.

ARGUMENTS IN FAVOR OF FDI IN RETAILING

FDI in retailing is favored on following grounds:

(1) 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.

(2) Entry of large low-cost retailers and adoption of integrated supply chain management by them is likely to lower down the prices.
(3) FDI in retailing can easily assure the quality of product, better shopping experience and customer services.

(4) 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.

(5) As multinational players are spreading their operation, regional players are also developing their supply chain differentiating their strategies and improving their operations to counter the size of international players. This all will encourage the investment and employment in supply chain management.

(6) Joint ventures would ease capital constraints of existing organized retailers.

(7) FDI would lead to development of different retail formats and modernization of the sector.

(8) FDI would lead to expansion of opposite sell formats as good as modernization of a sector.

(9) Industry trends for retail sector indicate that organized retailing has major impact in controlling inflation because large organized retailers are able to buy directly from producers at most competitive prices. World Bank attributes the opening of the retail sector to FDI to be beneficial for India in terms of price and availability of products as it would give a boost to food products, textiles and garments, leather products, etc., to benefit from large-scale procurement by international chains; in turn, creating jobs opportunities at various levels.

(10) As foreign investors exploring their potentials in the retail sector are keen on developing malls in India, the size of organized retailing is expected to touch $30 billion by 2010 or approximately 10 per cent of the total. This has initiated market-entry announcement from some retailers and has signaled to international retailers about India’s seriousness in promoting the sector.

(11) India is already a key sourcing country for some global retailers. The entry of foreign retailers is likely to further promote India’s manufacturing and export sectors, leading to a double bonus for the economy.

(12) Allowing FDI in multi-brand retail can give a big push to the country’s social agenda, too, and has the potential to even positively impact and promote tourism, computerisation, systemisation, government’s ability to influence trade when required, address issues such as inflation (since data available becomes more reliable/accurate and trade gets increasingly organized), reduction of black economy, control over food hygiene, better food quality assurance and accountability, increased direct and indirect employment, push to real estate and availability of better managerial talent, etc.

(13) Also, the retail revolution can change country’s perception across the globe, integrating it seamlessly into world trade and economy.
ARGUMENTS AGAINST FDI IN RETAILING

Many trading associations, political parties and industrial associations have argued against FDI in retailing due to following reasons:

(1) Indian retailers have yet to consolidate their position. The existing retailing scenario is characterized by the presence of a large number of fragmented family owned businesses, who would not be able to survive the competition from global players.

(2) The examples of southeast Asian countries show that after allowing FDI, the domestic retailers were marginalized and this led to unemployment.

(3) FDI in retailing can upset the import balance, as large international retailers may prefer to source majority of their products globally rather than investing in local products.

(4) Global retailers might resort to predatory pricing. Due to their financial clout, they often sell below cost in the new markets. Once the domestic players are wiped out of the market foreign players enjoy a monopoly position which allows them to increase prices and earn profits.

(5) Indian retailers have argued that since lending rates are much higher in India, Indian retailers, especially small retailers, are at a disadvantageous position compared to foreign retailers who have access to International funds at lower interest rates. High cost of borrowing forces the domestic players to charge higher prices for the products.

(6) The opening up of the retail sector would affect the sales in the unorganized sector. As a result the employment it provides would be affected. Also, by reducing the number of intermediaries, organized retailing will lead to some job displacement.

(7) It is said that FDI would provide employment opportunities. But, the fact is that they cannot provide employment opportunities to semi-illiterate people. Though they can provide employment opportunities like drivers, watchman etc. but this argument gets more attention because in India semi-illiterate people in quiet large in number.

(8) Some fear that, if FDI is allowed in retailing then it would result in lowering of prices because FDI will result in good technology, supply chain, etc. If prices were lowered then it would lower the margin of unorganized players. As a result the unorganized market will be affected.

(9) FDI in retail trade would not attract large inflows of foreign investment since very little investment is required to conduct retail business. Goods are bought on credit and sales are made on cash basis. Hence, the working capital requirement is negligible. On the contrary; after making initial investment on basic infrastructure, the multinational retailers may remit the higher amount of profits earned in India to their own country.

(10) Loss of cultural and ethical values due to more influence of the other cultures.
The organizational form of rural producers as they interact with Big Retail is still not being done. Small farmers can undertake contract farming, but they have no bargaining power and will be at the mercy of their buyers. Small producers need to be organized into farmer companies or producer cooperatives that can deal with Big Retail from a much stronger position. So that their interests are not lost.

CHALLENGES FACING FDI

The challenges facing FDI in India are in spite of the fact that more than 100 of Fortune 500 companies are already investing in India. These FDIs are already generating employment opportunities, income, technology transfer and economic stability. India is focusing on maximizing political and social stability along with a regulatory environment. In spite of the obvious advantages of FDIs, there are quite a few challenges facing larger FDIs in India, such as:

1. RESOURCE CHALLENGE: India is known to have enormous amounts of resources. There is manpower and significant availability of fixed and working capital. At the same time, there are some underexploited or unexploited resources. The resources are well available in the rural as well as the urban areas. The focus is to increase infrastructure 10 years down the line, for which the requirement will be an amount of about US$ 150 billion. This is the first step to overcome challenges facing larger FDI.

2. EQUITY CHALLENGE: India is definitely developing in a much faster pace now than before but in spite of that it can be identified that development has taken place unevenly. This means that while the more urban areas have been tapped, the poorer sections are inadequately exploited. To get the complete picture of growth, it is essential to make sure that the rural section has more or less the same amount of development as the urbanized ones. Thus, fostering social equality and at the same time, a balanced economic growth.

3. POLITICAL CHALLENGE: The support of the political structure has to be there towards the investing countries abroad. This can be worked out when foreign investors put forward their persuasion for increasing FDI capital in various sectors like banking, and insurance. So, there has to be a common opinion between the Parliament and the Foreign countries investing in India. This would increase the reforms in the FDI area of the country.

4. EXECUTION CHALLENGE: Very important among the major challenges facing larger FDI, is the need to speed up the implementation of policies, rules, and regulations. The vital part is to keep the accomplishment of policies in all the states of India at par. Thus, asking for equal speed in policy implementation among the states in India is important.

5. India must also focus on areas of poverty reduction, trade liberalization, and banking and insurance liberalization. Challenges facing larger FDI are not just restricted to the ones mentioned above, because trade relations with foreign investors will always bring in new challenges in investments.
FINDINGS AND DISCUSSIONS

Though there are many reasons which stand in the way of allowing FDI, the above said reasons receive more attention. Now let us see China's experience in retailing after allowing FDI in retailing sector.

A COMPARISON OF INDIA WITH CHINA

Two decades ago, China was a different story — very little organized retail, virtually no malls and a not-too-significant middle-class, with the average Chinese not exposed to foreign brands. China allowed FDI in the year 1992. When FDI was allowed WTO played an important role. Today, China's retail industry is worth upwards of $700 billion with more than 14 global mega retailers setting up shop in the last ten years. In the first phase, China allowed FDI in retailing with some restrictions:

4 L. Dhamayanthi, S. Pradeep Kumar, School of Management, Sri Krishna College of Engineering and Technology, Coimbatore, Apr 2006

1. It was restricted to six major cities namely (including Beijing, Shanghai and Guangzhou, Tianjin, Dalian, Qungdao) and Special Economic Zones.

2. Foreign ownership initially restricted to 49% of joint ventures.

3. Foreign retailers that operate large retailers will be limited to 50 units.

CHINA NOW WITH "NO RESTRICTIONS"

China opened up its retail sector completely in December 2004. Under the new regulations, overseas entities are now allowed to set up a Foreign Invested Commercial Enterprise (FICE), which may act as a commission agent, wholesaler and retailer or engage in franchising activities on a wholly owned basis in China.

EFFECT OF OPENING UP OF THE SECTOR

1. 40 foreign retailers have secured approval since 1992

2. $22 billion of FDI attracted, 3.6% of total FDI.

3. Employment in retailing has grown at 6% p.a. since 1992 to 53 million

4. Retail sales have grown@13.5% CAGR since FDI was permitted.

5. In 2003, FDI in wholesale and retail was US$ 1.1 Billion(Around 30% of our total FDI in 2003).
6. Some well-known foreign retail corporations include Nike, Wal-Mart, Carrefour, 7-Eleven, and Giordano. These retailers, amongst others, account for some of the 10 percent of total merchandise.

7. Since 1992 FDI has improved the quality of experience, choice and prices for the Chinese shoppers.

8. There was also considerable increase in traditional stores, hypermarkets, supermarkets, convenience.

WHAT MADE CHINA TO ACHIEVE THIS?

The above details show that China saw tremendous growth by opening the retail sectors to FDI. The factors that contributed to China's success in retailing are

1. First, it is huge. With a population in excess of 1.3 billion people, even a small share of middle class consumers is bound to be a lot of people.

2. China has recently joined the WTO and is thus obligated to make changes to the consumer distribution system that will benefit efficient retailers.

3. A potentially vast domestic market and an environment from which it is easy to export.

4. Import duties were reduced substantially. For example, the tariff on imported automobiles dropped from the current 80-100% down to 25% by 2007.

5. As the population was huge, the foreign retailers also have enough manpower to employ.

Thus, for the china's success in retailing has come through FDI. And it consists of lot of factors as seen above.

INDIA'S CURRENT POSITION IN RETAILING

The players include

**HYPERMARKETS:** Big Bazaar, Shop rite, Star, Giants

**DEPARTMENTAL STORES:** Lifestyle, Pantaloons, Piramyd, Shoppers Stop, Trent

**ENTERTAINMENT:** Fame Adlabs, Fun Republic, Inox, PVR

**FOREIGN PLAYERS INCLUDE:** The foreign players who came through the route of franchising are Guess, Esprit, Chanel, Clarks, Mango, Aigner, Bvlgari, Hugo Boss, Mark & Spencers, Tommy Hilfiger etc.
SIMILARITIES EXIST BETWEEN INDIA AND CHINA

1. PRICING IS KEY

Differences between urban and rural consumers are significant in both China and India. Most foreign entrants wrongly assume that anything Western will sell. The initial fascination for Western brands goes off once the discerning consumer finds local products of the same quality at affordable prices. Getting the price right is essential. Initial trials, despite high prices are a common phenomenon. However, the average consumer is extremely value conscious and seldom accepts dollar-denominated prices, which are often the benchmarks set by global entrants.

For instance, a well-known Scandinavian furniture retailer in China priced a table at RMB 299 and ended up selling a mere 300 pieces a month. But when the product was repriced to RMB 69, the pieces sold jumped to 10,000.

2. MARKETS WITHIN A MARKET

India, with its distinctive regions, diverse religions, languages and cultures, is as diverse as many sub-markets within a market like China. Retail formats that have worked in South India have not received the same response in the other regions. It has been no different in China. In China, the consumer market is growing fastest in cities with population ranging from half to three million. Companies that focus on the large, high profile coastal cities seem to be missing out, just as those in India that are focusing on the principal urban centers. Foreign retailers entering India and China are faced with not single but multiple cultures, resulting in a never-before-kind of cultural stretch.

3. SIZE, POPULATION AND MIDDLE INCOME PEOPLE

"In terms of sheer size, India and China have huge potential in the retail sector," says N V Sivakumar, executive director of PricewaterhouseCoopers (PwC), India. Like China, India also has the population, which crosses 100 crores and more important is that most of the people belong to middle income group. So as far as they are concerned they are highly price and value conscious consumers. So the foreign players must consider the above two factors i.e. price and value of products they offer.

INDIA'S ADVANTAGE OVER CHINA

The advantage that India possess when compared to China are as follows:

1. INDIAN MARKET LESS SATURATED

This is one of biggest advantage that India possesses over China. AT Kearney's recently released GRDI, India has been ranked no. 1 in terms of attractiveness to global players. China's rank has been dropping continuously. India has gained because there are less global players in India but in China there are already all the big players of the world. So in China the scope for further development is less when compared to India.
2. EXISTENCE OF COUNTERFEITS

Though Indian market also contains a good number of counterfeit it is not at par with China. Chinese market leads in the production and availability of counterfeits. As the counterfeits are more in China when compared to China it makes Indian market safer. Comparatively this makes Indian market more trustable. This would act as an added advantage to India.

Possible impact on marginal producers and work force – The Experiences of other countries

Proponents of FDI in retail trade claim that it will improve the incomes of small and marginal producers by doing away with middlemen whose margins constitute such a large percentage of the final product. Is this true? In fact, an important issue missing in the whole debate is the relation between FDI retail firms and numerous small and marginal producers, especially in the agrarian and handicraft/handloom sectors. Let us look at some previous research findings on this issue.

(i) In April 1999, the Director General of Fair Trading (DGFT) asked the Competition Commission, UK, to investigate the supply of groceries from multiple stores in Great Britain. The Competition Commission identified 24 multiple grocery retailers who supplied groceries from supermarkets with 600 sq. meters or more of grocery sales area, where the space devoted to the retail sale of food and non-alcoholic drinks exceeded 300 sq meters and which were controlled by a person who controlled ten or more such stores.

The Commission received many allegations from suppliers about the behaviour of the main parties in the course of their trading relationships. Most suppliers were unwilling to be named, or to name the main.

(ii) How large is the share of Third World producers in the developed country retail price of their goods? A 1981 study by the U.N. provided some data. It showed that the Philippines suppliers of bananas to TNCs in 1974 received only 17 per cent of their retail price in the Japanese market. And Thai suppliers of fresh pineapples in 1978 earned only 35 per cent of the final consumer value of
pineapples canned and marketed by US transnational corporation Dole. Of this 35 per cent, only 10 per cent was the share of the agriculturists, and the remaining 25 per cent was accounted for by processing, packaging, etc., which were predominantly carried out by subsidiaries of transnationals.

(iii) In another recent report, it was estimated that in case of bananas sold in European market by US multinationals, the farmer might get around 10 per cent of the retail price, with workers getting anything from 9 per cent in the case of Fairtrade bananas to as little as 1.5 per cent on traditional farms. Whereas trading companies such as Del Monte, Chiquita, Dole and Fyffe’s could be getting up to a third of the price, retailers took around 40 per cent.

(iv) This pattern does not hold only for agricultural goods. The break-up is similar in the case of the typical manufactured exports of the developing countries. In the case of data gathered for Bangladesh garment factories which showed that the share of Bangladeshi workers’ wages in the final retail price of a shirt in North American markets was 1.7 per cent; the profit of the Bangladeshi employer was another 1 per cent. ‘Gross commercial profit, rent and other income of distributors’ accounted for 71.8 per cent. Small suppliers, unorganized workers and consumers are the major losers as global retailers and brand owners consolidate their power through free movement of global capital. Changes in labour laws are brought about in line with the requirements of supply chain flexibility: easier hiring and firing, more short-term contracts, fewer benefits, and longer periods of overtime. The Indian Government is trying to bring about such changes, both directly and indirectly.

RESULTS

In spite of the different positive and negative experiences of the countries and its various sections involved with the trade activities, we can say that when FDI is allowed in India then it will be an advantage to India and not a disadvantage to India for the reasons below justifying the same:

1. **FDI WILL NOT AFFECT UNORGANIZED PLAYERS**

At present, mom-and-pop stores cater to 95% of the total market. They have unique advantages, like home-grown processes, skills in retaining customers, nearness, convenience and services. However, global retailers investing in new markets have not hampered local retailers. The kirana shops in large parts of the country will enjoy built-in protection from supermarkets because the latter can only exist in large cities. The Kirana shops can get goods from the large outlets (which are present in large towns and cities only) and sell it to their customers so that their profit margin would increase.

For instance, FDI in telecom did hit urban STD booth operators, but most of them have now been converted to kiosks selling mobile connections and SIM cards.

2. **LOWERING OF PRICES – NOT A DISADVANTAGE**

Lowering of prices will not be a disadvantage, because if foreign players are present in India it makes the availability of goods at cheaper prices. This arises because the foreign players will
have good technology, supply chain etc. that makes the product cost cheaper. So this can be availed by the Kirana shops (i.e. buying the goods from the large retailers and selling it to their customers). Moreover, as the price decreases, the purchasing power of the people will also increase. So the issue of lowering prices will not be a disadvantage, it will always be an advantage.

FDI'S BENEFIT FROM THE VIEW OF THE CUSTOMERS

(i) FDI will provide access to larger financial resources for venture in the retail sector and that can lead to several of the other advantages that follow.

ii) The larger supermarkets, which tend to become regional and national chains, can negotiate prices more aggressively with manufacturers of consumer goods and pass on the benefit to consumers.

(iii) They can lay down improved and tighter quality standards and ensure that manufacturers adhere to them.

(iv) The supermarkets offer a wide range of products and services, so the consumer can enjoy single-point shopping.

SUGGESTIONS AND RECOMMENDATIONS

Let us discuss few suggestions given by Retail Association of India for allowing FDI in retail:

1. RETAIL INDUSTRY CAN BE ACCEPTED AS AN INDUSTRY: Providing industry status is the first basic step needed for reforming the Indian retail sector. This will facilitate better financial processes due to benchmarking and enable prudent practices in retail. Retail industry will also eligible for support and incentives as applicable to other industries.

2. POLICY CLARIFICATIONS TO PERMIT INVESTMENTS BY FINANCIAL INVESTORS: Current FDI policy allows 100% FDI in Cash–and-carry wholesale formats and 51% FDI is allowed in single brand retailing. However, the regulations have been interpreted as guiding to a blanket ban on foreign investments in the sector. Thus, even investments by financial investors like FIIs and PE funds are prohibited, limiting the flow of capital required for the expansion of the sector.

A clarification if issued will enable investments by financial investors in the retail sector. This can be done by allowing investments by investors such as FIIs, Venture Capital Funds and other financial investors in the sector.

3. PERMISSION TO OPERATE 24*7 AND REVISION OF LABOUR LAWS: To strengthen the retail industry, it is important for a serious revision of the labour laws to bring them at par with the western world.

The laws should be suitably changed to factor hourly employment and reasonably modified to
bring all retail business on par with restaurants etc. expects 365 days working permission for stores.

4. OPEN FDI IN RETAIL: FDI in Retail trading should be opened up substantially to improve productivity and distribution structure through modern format retailing. The government should come out with a policy statement laying down the roadmap for modern retail and allowing foreign investment in retail.

5. CREATE A SINGLE WINDOW CLEARANCE: To strengthen retail industry in India, the government can provide a single window clearance system. The single window clearance will further streamline license processes associated with the establishment and management of retail stores.

6. CONSUMER AFFAIRS- WEIGHTS & MEASURES ACT CAN BE CHANGED: The current weights & Measure Act formulated in 1976 had relevance at the time when it was formed. However, there are some provisions which are not in tune with the times now. The Act can be changed according to the current requirements so as to avoid corruption and fear in the minds of manufacturers and retailers.

7. RETAIL AND ENTERTAINMENT ZONES CAN BE CREATED: In order to augment the living standards of people

6 Shailena Varma, Logistics Manager, Target

in the city, the government could look forward at creating Retail and Entertainment Zones (REZ) similar to SEZ and IT parks. Retailers in REZ to get benefits like exemption from stamp duty, octroi and cheaper power.

8. CUSTOMS DUTY AND OTHER ENTRY TAXES: A reduction in the customs duties relating to consumer items would greatly channelize funds to boost the economy.

9. SERVED FROM INDIA SCHEME: "Served from India Scheme" should be made available for Retailers. Any sales using foreign currency/international credit cards must be counted against this and duty credit entitlements must be credited for retailers. This can be used for import of items. Income tax depreciation rate on Furniture, Fixture and Building improvement etc should be increased to 25%.

10. GST REGIME: Government needs to give enough observation about the proposed GST model for industry to study and also plan for compliances. GST is a consumption based tax also because of the lower tax rates, uniformity in taxation and virtually no harassment in the movement of goods across the country would lead to an increase in consumption, and individual states would stand to gain revenue by this increased consumption.

11. CONSUMPTION INCENTIVE: Provide a consumption incentive in the form of personal income tax relief to consumers, who can spend upto 25% of their income on consumer goods to
services. This will bring a considerable amount of consumer spend into the indirect tax net, while incentivizing consumers. Such scheme also supports the government current initiatives.

12. DIRECT TAX INCENTIVES: In order to promote employment in the sector, tax incentives in the form of 100% deduction on expenditure incurred on employment of new workmen could be considered (Similar to deduction available under Section 80JJAA of the income tax act 1691 to an industrial undertaking engaged in manufacture of articles or thing). A weighted deduction could be allowed for payment made by retailers towards training and development of their personnel in order to improve their expertise. For example contribution made to technical universities, institutes etc.

LET US DISCUSS FEW RECOMMENDATIONS FOR THE RETAIL SECTOR

1. The retail sector in India is severely constrained by limited availability of bank finance. The Government and RBI need to evolve appropriate lending policies that will enable retailers in the organized and unorganized sectors to enlarge and improve efficiencies.

2. 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.

3. The proposed National Commission should develop a clear set of conditionalities on giant foreign retailers on the procurement of farm produce, domestically manufactured merchandise and imported goods. These conditionalities must be aimed at encouraging the purchase of goods in the domestic market, state the minimum space, size and specify details like, construction and storage standards, the ratio of floor space to parking space etc.

4. 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. Initially allow them to set up supermarkets only in metros. Make the costs of entry elevated and according to specific norms and regulations so that the retailer cannot immediately indulge in ‘predatory’ pricing.

5. In order to address the dislocation issue, it becomes vital to develop and improve the manufacturing sector in India. There has been a substantial fall in employment by the manufacturing sector, to the extent of 4.06 lakhs over the period 1998 to 2001, while its contribution to the GDP has grown at an average rate of only 3.7%. If this sector is given due attention, and allowed to take wings, then it could be a source of great compensation to the displaced workforce from the retail industry.

6. The government must actively support setting up of co-operative stores to procure and stock their consumer goods and commodities from small producers. This will address the dual problem of limited promotion and marketing ability, as well as market penetration for the retailer. The government can also facilitate the setting up of warehousing units and cold chains, thereby lowering the capital costs for the small retailers.

7. According to IndiaInfoline.com, agro products and food processing sector in India is responsible for more than a sizeable portion of the pie and what makes it even more
important is the fact that in this segment, returns are likely to be much higher for any retailer. Prices for perishable goods like vegetables, fruits, etc. are not fixed (as opposed to, say, branded textiles) and therefore, this is where economies of scale are likely to kick in and benefit the consumer in the form of lower prices. But due attention must be given to the producer too. Often the producer loses out, for example, when the goods are procured at Rs.2 and ultimately sold to the consumer at about Rs.15. The Government themselves can tap into the opportunities of this segment, rather than letting it to be lost to foreign players. And by doing so, they can more directly guarantee the welfare of producers and the interest of the consumers.

8. Permit FDI in phases


NOW, LET US FOCUS ON RECOMMENDATIONS FOR THE FOOD RETAIL SECTOR

With 3.6 million shops retailing food and employing 4% of total workforce and contributing 10.9% to GDP, the food-retailing segment presents a focused opportunity to the Government to catalyze growth & employment.

1. Provision of training in handling, storing, transporting, grading, sorting, maintaining hygiene standards, upkeep of refrigeration equipment, packing, etc. is an area where government can play a proactive role.

2. Creation of infrastructure for retailing at mandis, community welfare centers, government and private colonies with a force on easier logistics and hygiene will enable greater employment and higher hygiene consciousness, and faster turnaround of transport and higher rollover of produce.

3. Quality regulation, certification & price administration bodies can be created at district and lower levels for upgrading the technical and human interface in the rural to urban supply chain.

4. Credit availability for retail traders must be encouraged with a view to enhancing employment and higher utilization of fixed assets. This would lead to less wastage (India has currently the highest wastage in the world) of perishables, enhance nutritional status of producers and increase caloric availability.

5. Several successful models of integrating very long food supply chains in dairy, vegetable, fish and fruit have been evolved in India. These one off interventions can be replicated in all states, segments and areas. Cross integrations of this unique food supply chains will provide new products in new markets increasing consumer choice, economic activity and employment.

6. Government intervention in food retail segment is necessitated by:
a) The lack of any other body at remote/grassroots level.

b) Need to provide market for casual and distant self-employed growers and gatherers.

c) Maintain regulatory standards in hygiene.

d) Seek markets in India and abroad (provide charter aircrafts, freeze frying, vacuuming, dehydrating, packing facilities for small producers at nodal points).

e) Provide scope and opportunity for productive self-employment (since Govt. can’t provide employment). At a subsequent stage, these interventions can be integrated into the supply chains of the foreign retailers in India and abroad, creating synergy between national priorities, market realities, globalization, and private-public cooperation. In this fashion, the Government can try to make sure that the domestic and foreign players are roughly on an equal footing and that the domestic traders are not at an especial disadvantage. The small retailers must be given ample opportunity to be able to provide more personalized service, so that their higher costs are not duly nullified by the presence of big supermarkets and hypermarkets.

CONCLUSIONS

To summarize, debate on opening up multi-brand retail is a welcome first step. There is sincere expectation that the government will open the sector to FDI, and act fast on this front, even if it means opening the sector in a gradual and phased manner.

Since the Indian retail sector is highly fragmented and domestic retailers are in the process of consolidating their position, the opening up of FDI regime should be in a phased manner over 5 to 10 years time frame so as to give the domestic retailers enough time to adjust changes. FDI should not be allowed for multi brand stores in near future, as Indian retailers will not be able to face competition with these stores immediately.

At present it is also not desirable to increase FDI ceiling to more than 51% even for single premium brand stores. It will help us to ensure check and control on business operations of global retailers and to look after the interests of domestic players. However, the limit of equity participation can be increased in due course of time as we did in telecom, banking and insurance sectors. Foreign players should not be allowed to trade in certain sensitive products like arms and ammunition, military equipment, etc. and the list of excluded products should be clearly stated in the FDI policy.

However, it can be said that the advantages of allowing unrestrained FDI in the retail sector evidently outweigh the disadvantages attached to it and the same can be deduced from the examples of successful experiments in countries like Thailand and China; where too the issue of allowing FDI in the retail sector was first met with incessant protests, but later turned out to be one of the most promising political and economical decisions of their governments and led not only to the commendable rise in the level of employment but also led to the enormous development of their country’s GDP.
Moreover, it is submitted that in the fierce battle between the advocators and antagonist of unrestrained FDI flows in the Indian retail sector, the interests of the consumers have been deliberately and utterly disregarded. Therefore, one of the arguments which inevitably needs to be considered and addressed while deliberating upon the captioned issue is the interests of consumers at large in relation to the interests of retailers.

Else, as it is said, justice delayed is justice denied. After Independence and the economic liberalization in 1990, retail may well be the next revolution. With economic slowdown behind us, the time seems just right to expand the horizons, and realize the potential. FDI in retailing would surely be a gain to India and it would also help India in becoming 'developed country'.

So, 'FDI in retailing is the need of the hour'.

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