A Study on the Role of Foreign Direct Investment in Retail industry in India

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ABSTRACT: The Indian retail business is highly fragmented and is almost run by traditional families In India, lot of departmental stores, super markets and high organized malls are emerging into this retail sector. India is currently the 3 rd largest emerging markets in the retail segment. The recent changes brought in the retail sector by the government has made the retail sector to have large number of retailers for India.

This paper tries to highlight the recent issue of Foreign Direct Investment in the retail segments in both formats of single brand and multi-brand. The foreign investment which has prohibited entry of investment in multi-brand has now emerged as the main issue The government recently has announced the foreign investment of 49% stake for the foreign players to enter into the retail segment. This paper will exhibit the necessity and its impact of foreign investment of retail in both single brand and as well as multi-brand. This paper will be an eye opener with the SWOT Analysis and the key issues and the initiatives to be taken in this sector.

KEYWORDS: Retail segment, FDI in single brand, Foreign Policies.

INTRODUCTION

Concept of Retailing:

The word retail is derived from the French Word retailer which means to cut off a piece or to break bulk. Retailer is a dealer who sells goods in small quantities. Retailing is a link between producer and the consumer for fulfilling the personal needs. The retailer involves in selling of goods to the customer. The Retailing may be divided into 2 categories namely organized and unorganized retailing.

a. Organized Retailing: It refers activities undertaken by licensed retailers who are registered for sales tax, income tax.

b. Un Organized Retailing: It is a traditional way of low – cost retailing. These may be local shops

Evolution of the Indian retail market:

The Indian retail market was started with a barter system. Gradually a semi – formalized system started to small groceries. After some decades where these small groceries changed to organized retail stores. ICICI Conducted a research for the evolution of Indian retail research which describes about the development of Indian retail market.
Chart 1: Chart showing the developments of Indian retail market

<table>
<thead>
<tr>
<th>YEAR</th>
<th>TIMELINE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre 1947</td>
<td>Heats and melas</td>
</tr>
<tr>
<td>1970s</td>
<td>Organized retail sector emerged</td>
</tr>
<tr>
<td>1980s</td>
<td>Emerging branded retail outlets</td>
</tr>
<tr>
<td>1990s</td>
<td>Modern Malls</td>
</tr>
<tr>
<td>2000-05</td>
<td>Expansion of retail chain</td>
</tr>
<tr>
<td>2005</td>
<td>High street shopping centres</td>
</tr>
<tr>
<td>2006</td>
<td>51% for single branded retail</td>
</tr>
<tr>
<td>2005-10</td>
<td>Rapid Modern malls</td>
</tr>
<tr>
<td>Present</td>
<td>Expansion of modern malls with FDI in multi Brand</td>
</tr>
</tbody>
</table>

Source: Retail in India PPT.

Table 1: Table Showing the timeline of development of retail market

Indian Retail Industry:
The Indian retail industry which is being divided into organized and un organized market which is growing at present to an extent of 30% in 2011. This sector is expected to grow at a rate of 12 -15 % by 2011

The government has already allowed 51 % for single brand and 100 % in multi brand retailing. 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. It is expected that the retail sector would grow by US $ 175-200 by 2016 which is encouraging as foreign players also try to enter India with the allocation of foreign investment.

![Chart showing the share of retail market across the globe](chart.png)

**Chart 2:** Chart showing the share of retail market across the globe

**TOP PLAYERS OF RETAIL IN INDIA**

1. Pantaloon Retail.
2. Raheja Group
3. Tata
4. RPG Group
5. Landmark
6. Piramal Group
7. Subhiksha
9. Reliance Group
10. AV Birla Group

**II. RETAILING IN OTHER COUNTRIES**

**Retailing in China**

Since the inclusion of retail trade in China, many traditional shops have been thrown out. There are many allegations and scams on norms for retail trade. A high competition exist for takeover of space for retail trade. This has affected the suppliers, manufacturers and also the general public.

**Retailing in Asian Countries**
Many Asian countries are also facing problems as Malaysia and Indonesia have allocated separate zones for retail trade by foreign companies and hence foreign companies face a space crunch as a problem and started to search outskirts of the city.

### III. CONCEPT OF FDI

#### Meaning of FDI

According to International Monetary Fund, FDI is defined as “investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor. The investor’s purpose being to have effective voice in the management of the enterprise”. FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. The FDI Policy is governed by the Government of India and with the provision of Foreign Exchange Management Act (FEMA) 1999.

It usually involves participation in management, jointventure, transfer of technology and expertise. FDI can be used as one measure of growing economic globalization.

#### Routes of Investment

![Routes of Investment Diagram](image)

### IV. REGULATORY FRAMEWORK OF FDI

The regulation is framed by Government of India in sectors, not covered under automatic route requires prior approval of the government which is considered by Foreign Investment Promotion Board (FIPB), Department of Economic Affairs, and Ministry of Finance.

#### FDI Monitoring and Reviewing Agencies

2. Reserve Bank of India.
3. Foreign Exchange Promotion Board.
4. Department of Industrial Policy and Promotion.
FDI INFLOWS IN INDIA

FDI Inflows in India (INR)

![Chart showing Foreign Direct Investment inflows in India.](image)

Source: Presentation of MV Damania & co billion

Chart 4: Chart showing Foreign Direct Investment inflows in India.

PARTICIPATION OF VARIOUS SECTORS IN FDI IN INDIA

<table>
<thead>
<tr>
<th>Ranks</th>
<th>Sectors</th>
<th>% of total inflows</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Services</td>
<td>18%</td>
</tr>
<tr>
<td>2</td>
<td>Automobiles</td>
<td>8%</td>
</tr>
<tr>
<td>3</td>
<td>Telecommunication</td>
<td>7%</td>
</tr>
<tr>
<td>4</td>
<td>Power</td>
<td>6%</td>
</tr>
<tr>
<td>5</td>
<td>Housing &amp; Real Estate</td>
<td>6%</td>
</tr>
<tr>
<td>6</td>
<td>Others</td>
<td>55%</td>
</tr>
<tr>
<td></td>
<td>Total FDI Inflows</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Damia & Co

Table 2: Table showing the participation various sectors in FDI
OBJECTIVES OF THE STUDY

1. To analyze the options available in global retail segment
2. To analyze the need for FDI in single brand retail and multi brand in India.
3. To analyze the challenges to be faced by FDI’s while investing in retail India.
4. To study the effect of other sectors in retail.

SEARCH METHODOLOGY

The data is being collected through various secondary sources such as

- News Papers
- Resources from internet

THE CURRENT AND ANTICIPATED GROWTH OF RETAIL INDUSTRY

![Chart showing the current and anticipated growth of retail sector](image)

Chart 5: Chart showing the current and anticipated growth of retail sector

FDI IN RETAIL

The FDI Policy in retail in India has allowed foreign investment only in single brand. The growth of FDI are as follows:

- **1995**: World Trade Organization’s General Agreement on Trade in Services, Which includes both wholesale and retailing services, came into effect.
- **1997**: FDI in cash and carry (wholesale) with 100% rights allowed under the government approval route.
- **2006**: FDI in cash and carry (wholesale) brought under the automatic route. Up to 51 percent investment in a single-brand retail outlet permitted.
- **2011**: 100% FDI in single brand retail permitted
- **2012**: 49% FDI in multi brand retail is permitted.
Advantages of FDI in Retail

1. Emerging Opportunities
2. Benefits for the farmers
3. Improved technology and logistics
4. Impact on real estate development

Disadvantages of FDI in retail

1. Killing local shops and million of jobs.
2. Reduction of monopolistic power

Entry Options to Foreign Players in retail industry.

1. Franchise Agreement: The players such as Mc Donald, Pizzahut, Nike, Mark and Spencers are given approval under RBI and FEMA.
2. Wholesale Cash and Carry Trade – A 100% FDI is allowed in wholesale trading in involving building of a large infrastructure to assist manufacturers.
3. Strategic Licensing Agreement – Foreign brands such as Department of Industrial Policy and Promotion has given exclusive, licences and distribution rights to Indian Companies by which companies can sell foreign brand in their stores.

FDI IN SINGLE BRAND

The Foreign Investment Promotion Board has sanctioned 100% in retail industry which will include only those identified during manufacturing A retail store with foreign investment can sell only one brand.

Conditions for investing in single branding

- Only single brand products would be sold.
- Products should be sold under the same international brand.
- Single products which are branded during manufacturing.
- The retailers have to get at least 30% of goods from SMEs.
- All stores can open where there is a population of over 1 million.
- Self Certification In for the company is needed.
- Checking by statutory auditors is necessary.

Procedure for approval

- Application to Secretatiat for Industrial Assistance , DIPP, Ministry of Industry.
- Approval from government for any additional products or products categories if any to be added.
- Processed in DIPP before approval from FIPB.

FDI in multi-brand retail generally refers to selling multiple brands under one roof. Currently, this sector is limited to a maximum of 49 percent foreign equity participation. The growing dominance of multinational companies in the country's $200 billion retail business, had warned that any move to increase FDI in the retail sector would ruin the business of small and medium traders scattered over the country. According to the the economic advisor to the Prime Minister, Kaushik Basu, the government will allow FDI in three phases. In the first phase, foreign multi-brand retail chains will be allowed in the metros Delhi, Mumbai, Kolkata and Chennai. In the second phase other metros like Bangalore, Hyderabad and Pune will be included.

Conditions for investment in multi branding

1. Minimum investment of $ 100 Million.
2. 50% of investment to be borne by infrastructural development.
3. 30% of raw material to be taken from Indian SME’s.
4. Permission given to set up malls in cities with a minimum population of 10 lakhs.
5. Government will first procure materials from farmers.
6. Products should be sold in the same brand.
7. Foreign investor should be the owner of the brand.

Benefits of multi brand retail
- Creation of 1.5 Million jobs in 5 years.
- Farmers will be on the upper hand to get more profits.
- It will help in wastage and control food inflation.
- Increase competition.
- Middle men will be removed.

FDI IN MULTI - BRAND

SWOT ANALYSIS OF FDI IN RETAIL

<table>
<thead>
<tr>
<th>STRENGTH</th>
<th>WEAKNESS</th>
</tr>
</thead>
<tbody>
<tr>
<td>☐ Major contributor to the GDP.</td>
<td>☐ Lack of competition.</td>
</tr>
<tr>
<td>☐ High growth rate.</td>
<td>☐ Highly unorganized.</td>
</tr>
<tr>
<td>☐ High potential</td>
<td>☐ Low productivity.</td>
</tr>
<tr>
<td>☐ High employment generator.</td>
<td>☐ Shortage of talented professionals.</td>
</tr>
<tr>
<td>☐ Creation of research and development.</td>
<td>☐ Financial issues for retailers.</td>
</tr>
<tr>
<td>☐ Improvement in supply chain.</td>
<td></td>
</tr>
<tr>
<td>☐ Progression in agriculture</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPPORTUNITIES</th>
<th>THREATS</th>
</tr>
</thead>
<tbody>
<tr>
<td>☐ More organizations</td>
<td>☐ Closure of Traditional stores</td>
</tr>
<tr>
<td>☐ Healthy competition.</td>
<td>☐ Delay in approval of foreign investment.</td>
</tr>
<tr>
<td>☐ Transparent system.</td>
<td>☐ Corruption.</td>
</tr>
<tr>
<td>☐ Direct link between farmers and producers.</td>
<td>☐ Value of rupee will depreciate further.</td>
</tr>
<tr>
<td>☐ Quality control over wastage</td>
<td></td>
</tr>
<tr>
<td>☐ Foreign capital will build infrastructural development.</td>
<td></td>
</tr>
<tr>
<td>☐ Sustainable development</td>
<td></td>
</tr>
</tbody>
</table>

Table 3: Table showing SWOT Analysis
BENEFITS OF FDI FOR THE COUNTRY

- Growth of infrastructure.
- Inflow of foreign funds.
- Moving ahead in supply chain.
- Increased employment opportunities.
- Franchising opportunities.
- Proved better customer value.

NEGATIVE IMPACT OF FDI IN RETAIL

- Small traders cannot compete with foreign players and will be vanished.
- Foreign stores will keep prices low at an initial stage and gradually rise as they pick up sales.
- Prices may rather shoot up and inflation cannot be controlled.

CASE ANALYSIS OF RETAIL SEGMENT IN INDIA Pantaloon Retail Ltd

Source: Resurgenet India Presentation
Chart 6: Chart showing the structure of Pantaloon retail Ltd. Model of Pantaloon
<table>
<thead>
<tr>
<th>Line of Business</th>
<th>Shops/Malls/Stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fashion</td>
<td>Big Bazaar, Fashion Station</td>
</tr>
<tr>
<td>Food</td>
<td>Food Bazaar</td>
</tr>
<tr>
<td>General Merchandise</td>
<td>Big Bazaar</td>
</tr>
<tr>
<td>Footwear</td>
<td>Shoe Factory</td>
</tr>
<tr>
<td>Home Appliances</td>
<td>Furniture Bazaar, Electronic Bazaar, Got IT</td>
</tr>
<tr>
<td>Etailing</td>
<td>Futurebazaar.com</td>
</tr>
</tbody>
</table>

Source: PWC Presentation

Table 4: Table showing the list of business at Pantaloons

<table>
<thead>
<tr>
<th>No of Retail Stores – Pantaloons</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

Source: PWC Presentation

Chart 6: Chart showing the no of Retail stores

Pantaloons Financials

<table>
<thead>
<tr>
<th></th>
<th>Gross margin (%)</th>
<th>EBITDA margin (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fashion</td>
<td>35-40</td>
<td>14-15</td>
</tr>
<tr>
<td>Food</td>
<td>15-16</td>
<td>3-4</td>
</tr>
<tr>
<td>Home - Electronics</td>
<td>10</td>
<td>2-3</td>
</tr>
<tr>
<td>Home - Furniture</td>
<td>35+</td>
<td>14</td>
</tr>
<tr>
<td>Home - Home Fashion</td>
<td>35-40</td>
<td>15</td>
</tr>
<tr>
<td>General Merchandise (Glasses/luggage/sports goods)</td>
<td>30</td>
<td>17-18</td>
</tr>
<tr>
<td>KB Fairprice</td>
<td>11-12</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: PWC Presentation

Table 5: Table showing Sales margin and Profit Margin of Pantaloons
Key Risk of Pantaloon

1. Slow revenue and poor same store growth.
2. Margin pressure due to high competition.
3. Rising share of debt.
4. Lack of Retailing space.

VIII. KEY FINDINGS

☐ More of shopping malls are evolving.
☐ Development of infrastructure
☐ Expansion of business activities.
☐ Penetration of modern retailing formats.
☐ Growth in supply chain infrastructure.
☐ Product diversification in all segments.
☐ Farmers will fetch more profit.
☐ Stringent laws on FDI in retail.

IX. SUGGESTIONS

☐ A National Commission should be set up in order to set up the conditions on foreign retail on procurement of farm produce. It should also state the minimum space required for storage.
☐ There should be a gradual entry of foreign players is necessary so as to protect the interest of local retails in the country. The foreign players should be slowly allowed in metros.
☐ Stringent policies should formulated and fine tuned.
☐ Foreign players should be allowed in a structured manner.
☐ The government should formulate a single window system to reduce complexities for foreign investors.

X. CONCLUSION

The foreign investment in retail which was once a prohibited sector, now became the FDI in retail has now gained momentum in both single brand retail and multi brand retail. The very prohibited sector has got so much of momentum The single brand retail has allowed 100% FDI. The foreign direct investment and politically sensitive multi brand retail have been facing a lot of trouble, yet policies are to be changed and should allowed in a phased manner.

This will make the retail industry to be tapped and the growth will be well developed in encouraging the GDP growth of the country. The small retail stores should also function in a smooth manner even if the foreign players dominate the segment. To Conclude, The growth of retail industry will be tapped which will allow foreign players to play a major role in upbring this industry as an emerging sector.

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