

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

J. Pavithra

Assistant Professor, Department of Management Studies, Bharath University, Chennai-600073, India

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 3rd 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.

I. INTRODUCTION

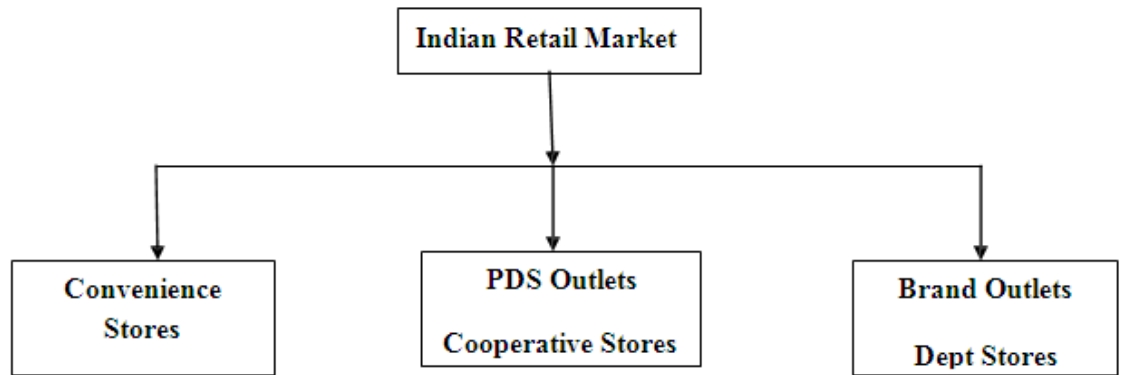
Concept of Retailing:

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.



Source: Zenith International Journal of Multi disciplinary research

Chart 1: Chart showing the developments of Indian retail market

Timeline of Indian retail market:

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

Source: Retail in India PPT.

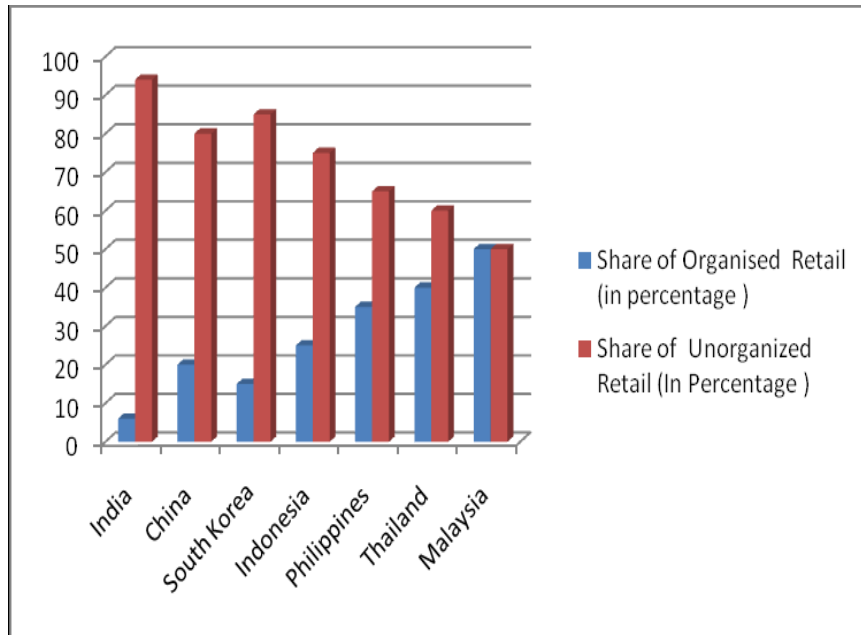
Table 1: Table Showing the timeline of development of retail market

Indian Retail Industry:

The Indian retail industry which is being divided into organized and unorganized 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.



Source: Article on retailing in business line.

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
8. Bharati – Walmart.
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.

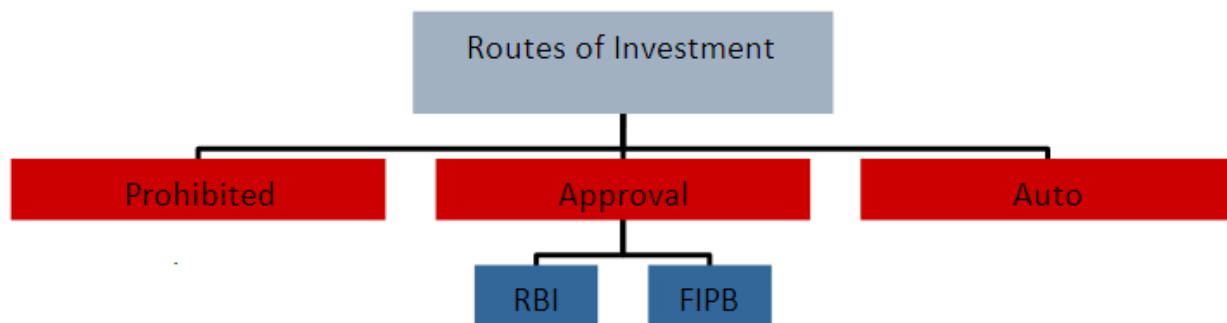
III. CONCEPT OF FDI

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, joint venture, transfer of technology and expertise. FDI can be used as one measure of growing economic globalization.

Routes of Investment



IV. REGULATORY FRAMEWORK OF FDI

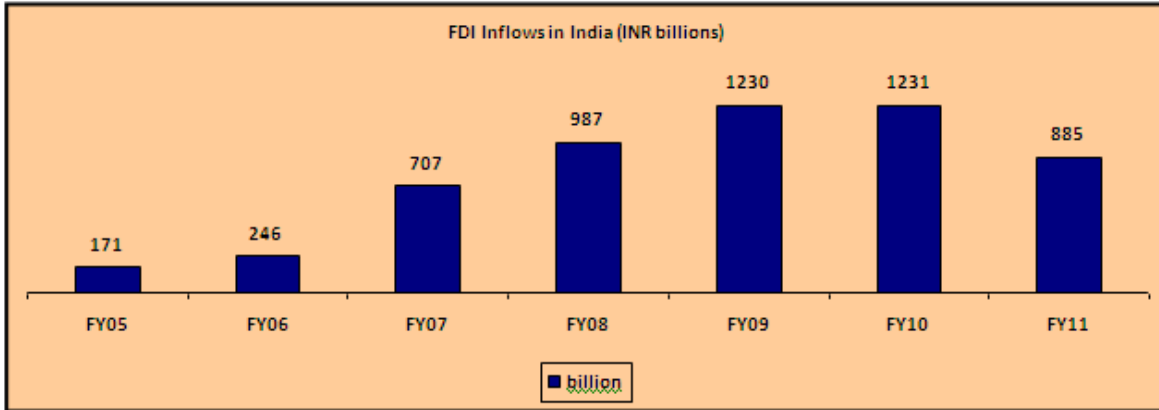
The regulation is framed by Government FDI in sectors, not covered under automatic route requires prior approval of the government which is considered by Foreign Investment Promotion Board (FIPB), Department of Economic Affairs, and Ministry of Finance

FDI Monitoring and Reviewing Agencies

1. Ministry of Commerce and Industry, Government of India.
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



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

Ranks	Sectors	% of total inflows
1	Services	18%
2	Automobiles	8%
3	Telecommunication	7%
4	Power	6%
5	Housing & Real Estate	6%
6	Others	55%
Total FDI Inflows		100%

Source: Damia & Co

Table 2: Table showing the participation various sectors in FDI

VI.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.

VII.RES EARCH 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

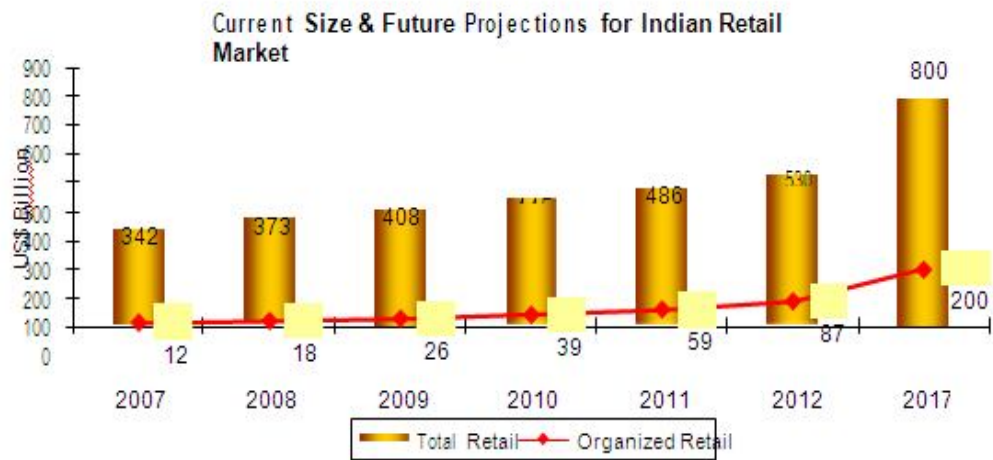


Chart 5: Chart showing the current and anticipated growth of retail sector

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 Secretariat 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

<p>STRENGTH</p> <ul style="list-style-type: none"> <input type="checkbox"/> Major contributor to the GDP. <input type="checkbox"/> High growth rate. <input type="checkbox"/> High potential <input type="checkbox"/> High employment generator. <input type="checkbox"/> Creation of research and development. <input type="checkbox"/> Improvement in supply chain. <input type="checkbox"/> Progression in agriculture 	<p>WEAKNESS</p> <ul style="list-style-type: none"> <input type="checkbox"/> Lack of competition. <input type="checkbox"/> Highly unorganized. <input type="checkbox"/> Low productivity. <input type="checkbox"/> Shortage of talented professionals. <input type="checkbox"/> Financial issues for retailers.
<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> <input type="checkbox"/> More organizations <input type="checkbox"/> Healthy competition. <input type="checkbox"/> Transparent system. <input type="checkbox"/> Direct link between farmers and producers. <input type="checkbox"/> Quality control over wastage <input type="checkbox"/> Foreign capital will build infrastructural development. <input type="checkbox"/> Sustainable development 	<p>THREATS</p> <ul style="list-style-type: none"> <input type="checkbox"/> Closure of Traditional stores <input type="checkbox"/> Delay in approval of foreign investment. <input type="checkbox"/> Corruption. <input type="checkbox"/> Value of rupee will depreciate further.

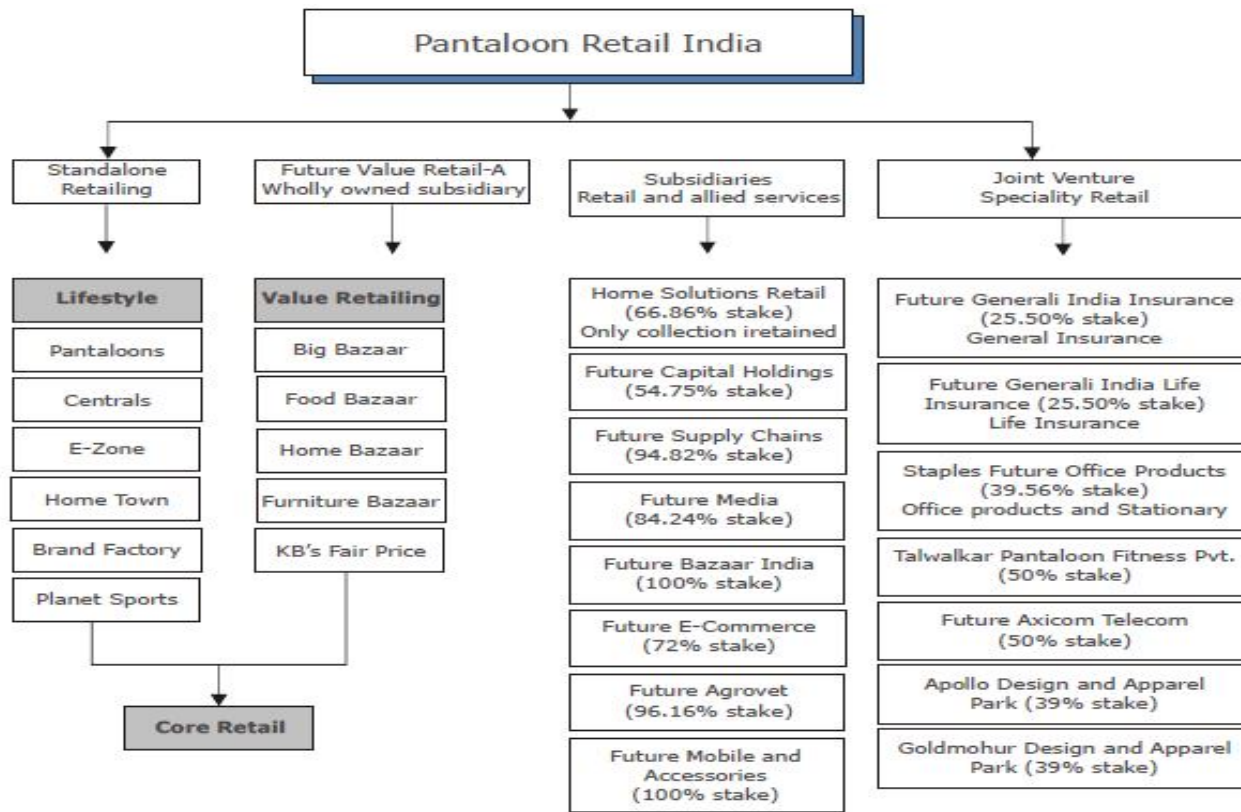
Table 3: Table showing SWOT Analysis

- 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.

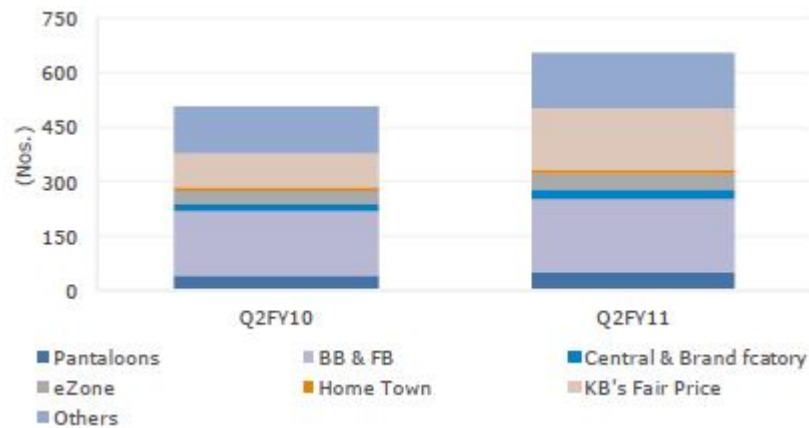
CASE ANALYSIS OF RETAIL SEGMENT IN INDIA Pantaloon Retail Ltd



Source: Resurgnet India Presentation
Chart 6: Chart showing the structure of Pantaloon retail Ltd. Model of Pantaloon

Line of Business	Shops/Malls/Stores
Fashion	Big Bazaar, Fashion Station
Food	Food Bazaar
General Merchandize	Big Bazaar
Footwear	Shoe Factory
Home Appliances	Furniture Bazaar, Electronic Bazaar, Got IT
Etailing	Futurebazaar.com

Source: PWC Presentation
Table 4: Table showing the list of business at Pantaloon
No of Retail Stores – Pantaloon



Source: PWC Presentation
Chart 6: Chart Showing the no of Retail stores

Pantaloon Financials

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

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 upbringng this industry as an emerging sector.

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