FDI in Retailing – Opportunities, Challenges, Prospects and Potentials of India

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Abstract

Only 4 per cent of the retail trade in India comes under the organised retail becomes essential to evaluate or assess the viability of FDI taking in to consideration not this 4 per cent but the 96 per cent which belongs to the unorganised retail sector. The Unorganised retail sector is not a homogeneous category, it comprises of peddlers, kiranas, street vendors, kiosks, push cart vendors, weekly traders. Government of India permitted FDI in retailing 51 per cent in multi brand retailing and 100 per cent in single brand retailing. The problem arises whether opening up of FDI in multi brand retail will create problems or provide opportunities for local traders. Oppositions have raised concerns about employment losses, promotion of unhealthy competition among organised domestic retailers resulting in exit of small domestic retailers from the market and distortion of urban cultural development. In this juncture, this paper focussing on the major issues as well as opportunities faced by the Indian unorganised retailers and observing the view relating to whether any regulations needed in the field of retailing.

KEYWORDS- single brand retailing, multi brand retailing, kiranas, opportunities and challenges of FDI in retailing.

Introduction

The government has given a nod to allow 51% FDI in multi-brand retailing which means foreign players are now welcome to open and own retail shops in India. This has come with a condition that imposes 30% Local Content Requirement (LCR), which means these companies should source a minimum of 30% of their goods from Indian micro and small industries there by providing scales to encourage domestic production and consumption. According to the Economic Survey 2012-13, which was tabled by Finance Minister P. Chidambaram in Parliament, as far as small retailers are concerned, organised retail already co-exists with small traders and the unorganised retail sector. "Studies indicate that there has been strong competitive response from traditional retailers to these organised retailers, through improved business practices and technological up gradation," the survey said. Global experience also indicates that organised and unorganised retail co-exist and grow, it added.

The Government has permitted 51 per cent FDI in the multi-brand retail sector and 100 per cent in single brand. Allowing FDI in multi-brand retail was strongly opposed by a few associations of small retailers who said it would impact their business and jobs. Seeking to allay such apprehensions, the survey said FDI in multi-brand retail trade would benefit stakeholders across the spectrum of the supply chain. "Farmers stand to benefit from the significant reduction in post-harvest losses expected to result from the strengthening of the back-end infrastructure, which would enable farmers to obtain a remunerative price for their produce," it said. Small manufacturers would benefit from the condition requiring at least 30 per cent procurement from Indian small industries, as this would enable them to get integrated with global retail chains, it said. “This, in turn, will enhance their capacity to export products from India,” it said, adding consumers stand to gain the most due to lowering of prices and improvement in product quality.

Implementation of the policy is also likely to lead to greater FDI inflows, quality employment, and adoption of global best practices. The survey said State Governments and Union Territories (UTs) would be free to take their own decisions in regard to implementation of FDI in retail as this was a State subject. Eleven States and UTs including Andhra Pradesh, Assam, Delhi, Haryana, Jammu and Kashmir, Maharashtra, Manipur, Rajasthan, Uttarakhand and Daman and Diu have agreed to permit establishment of retail outlets under this policy. The constitution of a high-level group under the Consumer Affairs Ministry has also been announced to look into various aspects relating to internal trade and to make recommendations on internal trade reforms to the Government, whenever required.

Research objectives

The objective of the paper has following dimensions:

1. Look in to the opportunities to be enjoyed by the Indian retailing after FDI implementation.
2. Analyse the issues and challenges to be faced by the Indian unorganised retailers
3. Understand the existing situation whether it needs any regulations from the Government to control retailing MNC’s.

Methodology

The whole paper is based on descriptive arguments, statistical data, case studies, comparative study and analytical logic developed through the understandings from various research papers, reports, books, journals, newspapers, websites of various agencies &organisations and online data bases.

Unorganized Sector in Retailing:

This sector is in the form of locally owned Mom & Pop stores or 'Kirana Stores’, convenience stores, ingle owner general stores, paanshops, itinerant hawkers and those selling wares in public spaces like on pavements or in markets (hats andbazaars).

Organized Sector in Retailing:

This sector involves trading activities undertaken by licensed retailers in the formof retail chains and outlets, hypermarkets and malls etc. owned by retail giants like Future Group, Tata, Birla, Reliance etc. Table 1 depicts the share of organized retailing in India and showing the potential of retailing in India

Table 1

Share of Organized Retailing in India

Year	1999	2002	2005	2009	2010	2014 (expected)
Total Retail (in Billion INR)	7000	8250	10000	18450	19500	24000
Organized Retail (in billion INR)	50	150	350	920	1350	2400

Share of Organized Retail (%)	**0.70 %**	**1.80%**	**3.50%**	**5.00%**	**7.00%**	**10.00%**

(Source: www.nielsen.com)

THE CRAWLING ADVANTAGES OF FDI IN RETAILING

The advantage of FDI in retailing are justified due to the following reasons.

1. Analysis of FDI flows in trade indicates that, over the 1990s, developed countries faced market saturation and became relatively less attractive to foreign investors. Instead, developing countries and Central and East European countries became increasingly attractive to foreign investors.
2. Adoption of liberalized policy for the Multi-brand retail sector would be more of a positive step as it would bring added advantage of the following:
3. Foreign Direct Investment (FDI) is one of the major sources of investments for a developing country like India wherein it expects investments from Multinational companies to improve the countries growth rate, create jobs, share their expertise, and research and development in the host country
4. With the growth of organized retailing, the average size of shops is increasing; both in terms of turnover and employment, and the density of retail outlet is declining. Moreover many retailers have entered into joint ventures, strategic alliances and co-operation agreements. This in turn result into growth of economy and adding to it will give opportunities to young Human Resource of the nation to exploit the resources in the prevalent competitive environment.
5. This investment will result in job opportunities in areas of marketing, agro-processing, packaging, transportation; etc giving rise to 10 million new jobs.It will ease supply side pressures and ease inflationary concerns.
6. The existing players including unorganized retailers will benefit by way of greater market access and higher profit margins.FDI infuses technological advancement, enhance production possibilities and induce capital flows, which help in maintaining general macroeconomic stability.
7. Farmers will get better price of the produce and enhance their living standards. The end consumers who are the residual beneficiary will derive value for their money and enjoy shopping delight.
8. The middlemen will get eliminated resulting in cheaper sourcing of products resulting in decreased price paid by the customer. However, FDI offers several alternate business opportunities for them in Logistics, co-ordinated farming, downstream processes.
9. It will motivate the Kirana Shops, Neighbourhood stores, Mom & Pop stores and unorganised retailers to organize and participate in the market expansion. Everyone have their share when there is growth.
10. It will help India get back to her growth path and regain confidence amongst international community and institutions. This will benefit the current and future generations.
11. FDI can be a powerful catalyst to spur competition in industries characterized by low competition and poor productivity. Examples include the cases of

consumer electronics in Brazil and India, food retail in Mexico, and auto in China, India, and Brazil.

12. FDI can be a powerful catalyst to spur competition in the retail industry, due to the current scenario of low competition and poor productivity. It can bring about:
13. Supply Chain Improvement
14. Investment in Technology
15. Manpower and Skill development
16. Tourism Development
17. Greater Sourcing From India
18. Progression in Agriculture
19. Benefits to government: through greater GDP, tax income and employment generation.
20. The retail sector is severely constrained by limited availability of bank finance. The Government and the RBI need to evolve suitable policies to enable retailers in the organized and unorganized sector to expand and improve efficiencies.
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CHALLENGES AS WELL AS ARGUMENTS AGAINST FDI IN RETAILING

-It is not 100% true that the kiranas or other small & medium local players will get totally displaced with the emergence of these so called "BIG" players. The prime reason being kiranas are present at the door step of every customer and it is practically not possible for the foreign players to set up stores at every customer's door step. Secondly, the business model of Kiranas can't be matched with that of BIG players. Many of the consumers purchase products from the kiranas on credit and mind you this "Credit is out of trust and not out of credit cards". Foreign supermarkets can't operate with this model of business.

-It should not be forgotten that the BIG players are themselves appreciative of the fact that the unorganized retailers or the Kirana shops have unique competitiveness which cannot be matched by their cost and labour intensive business model. Hence there is a “road to walk without dead end”.

-The fact still remains intact that local small & medium scale retailers must embrace latest technology in terms of implementing good software to implement best practices, automate, grow and get insights on strategic planning, to enhance customer loyalty and increase customer.

-There is a big debate around the issue of retail foreign direct investment (FDI). It has split politics as well as business into two opposing camps. 51% for FDI is a huge amount, one that could change the retail landscape in India, perhaps forever. One of the conditions for this proposal is that multi-brand companies should source at least 60% of their farm produce from small farmers. The justification is that this will give a boost to small farmers but there is an inherent flaw in the argument. Since the 1970s, farmers in the US actually make less because they supply to big stores and the same thing could likely happen in India.
-One of the argument is that this FDI will create jobs. However, nobody is talking about the kind of jobs it will create and the kind of jobs that it will threaten, namely the small grocer and *kirana* shops that is the hallmark of any Indian neighbourhood. Finally and most worrisome of all, nobody is addressing the kind of down-the-line problems FDI will create.

-The model of multi-brand supermarkets is hardly working nor is it sustainable. It involves massive supply chains ranging from remote corners of the globe, encourages consumerism, cheap produce and planned obsolescence. It creates more waste and more pollution.

-India already struggles with massive infrastructural problems with waste management –what is the proposal to deal with the excessive amounts of waste created by the FDI investment? What about actually making space for building the Wal-Mart’s, Tesco’s, and Carrefour’s that propose to come in? What is going to happen to home-grown super-market chains? Are Indian cities going to look like soul-less American ones with no character and only neon signs and parking lots for decor?

-The multi-brand supermarket is a failed business model even in those countries that pioneered them, notably the United States. The more enlightened shun these business establishments and are moving towards encouraging local produce. If the Indian government is really serious about encouraging small farmers, then they will be rejecting GMO and making sure locally produced organic food is more widely available. If the government is serious about creating jobs then they should be focusing on improving sectors within the country namely waste management, agriculture and infrastructure development.

-The great experiment of consumerism in the United States that started off in the 1950s is moving into India in leaps and bounds with advent of malls, multiplexes and now multi-brand supermarkets. However, now this model of consumerism is showing serious cracks – instead of using resources to come up with something that works, something that is progressive and fits in with the Indian ethos, why do we insist on blindly following something that does not work?

-The retail sector in the country does not need a new business model. India as a country needs a new business model that embraces the principles of long-term sustainability and eschews the policy of short-term financial gain. Let the supermarkets go create jobs, encourage farmers and flood shelves with cheap Chinese products in their own countries. India need not follow suit, indeed India should not follow suit.

OPTIMISTIC APPROACHES OF FDI – ADEQUATE REASONS

The latest Economic Survey expressed optimism about the decision to allow foreign retailers in the multi-brand segment. In this context, it would be meaningful to discuss the rationale and the consequences of this decision alongside the success stories of countries which have opened doors to foreign retail much earlier.

Poor supply chain

The agricultural sector is rife with disguised unemployment and the entire agricultural supply chain is in want of efficiency. The NABARD 2011 retail study mentions that up to 7 per cent of food-grains and 30 per cent of vegetables never make it to the marketplace and are wasted. Indeed, the sector is looking for a major overhaul not seen since the Green Revolution.

Our dismal warehousing facilities have been a reason for distress sales by thousands of hapless farmers. If not a panacea, we can at least expect some sort of a start, aided by the investment in infrastructure that large foreign retailers are slated to make. In Brazil’s case, 30 million people have risen out of poverty since 2003 and created a new middle class. China has witnessed rapid urbanisation along with the growth of organised retail. We hope for a similar story in India.

Holding out promise

A burgeoning middle class, popularity of nuclear families, and increase in disposable income, aided by a drop in fertility rate (over 15 per cent in the last ten years) and increase in women workforce have created a $400 billion-plus retail industry with huge potential. The demographics indicate a low median age of 25, promising demand for a diverse basket of goods.

Other relative advantages over its peers, as outlined by the A.T. Kearney Global Retail study, are low market saturation and high income growth. It is well known that the performance of organised retail brands has not been very encouraging for prospective entrants into the market, but what is not apparent is that they lack the investment in the supply chain to reduce their costs.

Barring vegetables, organised retailers still source their stocks from wholesalers, thereby conceding up to 8 per cent of the final price of the product to the middlemen. The efficiency gains from increased backward linkages are corroborated by findings of a survey conducted by Korea Agro-Fisheries Trade Corporation in 2005 in which producers gained 13.1 per cent and consumers paid 8.8 per cent less. In India, too, there is great scope for extracting efficiency gains.

Addressing concerns

Why are the critics lamenting? That 12-million-plus kirana stores and local vendors will be displaced along with multitudes of middlemen? Indeed a recent study found that 1.4 workers were displaced for every job created as a result of growth of organised retail in the US.There are several points that will serve to alleviate these concerns in the Indian case. Firstly, the average Indian consumer will take some time to warm up before parting with the comfort of closely-located *mandis,* not to mention the perceived relative freshness of vegetables in local markets.

The Chinese experience has shown that organised and unorganised markets have coexisted, with the latter dominating in the fresh foods segment. Poland has seen a similar phenomenon where the deregulation of the economy in the 1990s led to the simultaneous growth of mom-and-pop stores as well as FDI-driven large retailers. Moreover, the Indian kirana store is unlikely to give up without a fight. There are several services which they can provide, that are not limited to doorstep delivery, credit and personal relationships.

A study by Tsinghua University, China, showed that the rapid urbanisation in China easily absorbed the displaced labour. Barely 30 per cent of India is urban, whereas, the figure is 50 per cent for China and nearly 85 per cent for Brazil. There is immense scope for India's lagging Tier-2 and Tier-3 cities to grow. As for how the displaced labour will be employed; investments in supply chain will entail growth in the logistics sector, which will see job creation. Also, employment in the retail firms themselves cannot be neglected. About half the jobs set to be created will require the employees to have little or no education. This is indeed good news for many of the vendors, who have not received formal education.

If all else fails, the Thailand experience shows that the Government can take steps to mitigate adverse impacts on employment by implementing zoning laws. Similarly, the imposition of 'invisible barriers', as in China, that include regulating the location of retail stores and checking the sourcing of stocks can be considered as cards which the government can play.

Impact on stakeholders

For the Indian farmer, the predominant scenario is that he will stand to benefit. Farming is quite fragmented in India, and there is no perceived threat of consolidated production and emergence of 'preferred producers' as was the case in Malaysia and Thailand. Cooperative farming is still in its infancy. What the Government needs to do, though, is step in and revamp the Agricultural Produce Marketing Committee to further formalise the market facing the farmers. Streamlining this process will assist the retail sector in sourcing steady supply of good quality produce.

This, coupled with increased storage facilities, will help give farmers their due. The Indian consumer will definitely be better off, given the price reductions from economies of scale. Consolidation in retail will not necessarily come at the expense of the customer because retailing by its nature is a very low-margin industry and the German experience shows that as long as there are certain firms which operate using discount strategies like Every Day Low Price (EDPL), prices will remain in check.

The path ahead

The Government should bring in foreign retail expansion State-wise and, like China, regulate presence in areas that least threatens the existing unorganised set-up without compromising the firms' profitability. A situation like Brazil with high market concentration of organised retailers could warrant precautionary enforcement of anti-trust policies.

It should necessitate investment in warehouses as part of the 30 per cent commitment to back-end infrastructure. The state of fragmentation of producers and poor grading facilities, as was the case with Korea, should push the government to increase farmer awareness in quality of produce to curtail the threat of import sourcing.

India, being one of the late movers in opening the doors to FDI in retail, can take many anticipatory measures to prevent any adverse impacts to the economy during the course of the structural transformation that is to follow. The markets will likely do the rest of the work.

SUGGESTIONS TO THE FUTURE ACTIONS

The government needs to carry out 'Second Generation Reforms', i.e. the post liberalization period has endowed us with various achievements, but now the need of hour is to carry out an action plan to reform the policy framework in order to be more liberal taking into consideration the social, political, and economic structure. Some of the suggestions are as follows:

A National Commission should be set up to study the problems of the retail sector which should also evolve a clear set of conditionality's on foreign retailers on procurement of farm produce, domestically manufactured merchandise and imported goods. This conditionality's must state minimum space, size and other details like construction and storage standards.

Wholesale and retail projects' forms part of the Catalogue for Encouraged Foreign Investment Industries. Retail trade in China has been growing since 1992. Employment in the retail and wholesale trade increased from about 4% of the total labour force in 1992 to about 7% in 2001.The number of traditional retailers also increased by around 50% between 1996 & 2012

Entry of foreign players must be gradual with social safeguards so that the effects of labour dislocation can be analyzed and policy fine tuned. Foreign players should initially be allowed only in metros.

Present scenario says it has no or little harm in getting FDI but it should be done in a **phased manner** with a beginning of 10% and later to 26% and 51% looking at the situation to pump more money in the Indian Retail sector which is also said to be having cash crunch and many other clauses of procuring, staff recruitment, investments in warehouse, cold storage, infrastructure, competition and retail formats so that not only does the money comes in but also it's a win-win situation for the current national retailer as well as "mom and pop" stores who account for 70% of the retail business even after the arrival of national retailers from the corporate giants like the Tata, Reliance, Future Group and the Birla's.

The sector should be opened up to foreign firms in a "calibrated manner".

India currently lets around Rs1 trillion of fresh produce go waste and more than half of this can be brought to market if the proper farm-to-fork infrastructure is in place. The department has argued that "FDI in front-end retailing is imperative" to fund cold storage for farm produce Half the jobs created by new retail chains should be reserved for rural youth.

The Government is proposing some safeguards to ensure that *non-serious players and fly-by-night operators are not entertained*. To this end, any player who seeks entry into the Indian market will be required to *invest a minimum of Rs. 500 crore*. The Government is also seeking certain other investment commitments, including establishing backend cold chain outlets.

The structure of retail sector reflects its *socio-demographic* characteristic. Therefore *being reluctant* to opening up for development process would only lead to more *critical relations with the foreign nations.*

India has been making a tremendous progress in economic front since 1991, but the economy is still hobbled by excessive rules and regulations and with the powerful bureaucracy as the rule making body. Thus the government should formulate "single Window Systems" in order to reduce complexities on the part of the foreign investors as well as the bureaucratic structure.

CONCLUSION

It is widely believed that foreign investment is a key component in the growth process of any developing country. But it is not the only factor that could help for the sustained growth. It must be supported by well-planned micro and macroeconomic policies. These policies taken together create a viable investment climate. The foreign direct investment and politically sensitive multi brand retail have been facing a lot of trouble being united and worked upon. The challenge lies in the issue-debate with multi brand industrialist and domestic retailers. While the former believe that industrial lobby group representing foreign companies and industries are seeking towards investment, the latter fear for their future. Concluding the research paper, we would propose that the investment may lead to an interruption in the smooth flow of the economy and would lead to external dominance. The strongest argument in favor of retail is that it is in the interests of the Indian farmer and consumers. Despite the rising food inflation the Indian farmer gets only one-third of the consumer price and this is due to the lack of an efficient supply chain connecting the farmers and consumers. FDI (Foreign Direct Investment) in organized multi brand retail is a hotly debated topic in India and the industry is closely watching the events unfolding.

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