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CHALLENGES AND OPPORTUNITIES OF FDI IN INDIAN RETAIL SECTOR: AN ANALYSIS

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ABSTRACT

The Indian retail sector has experienced incredible growth over the last decade with a significant shift towards organised retailing format. Despite socio-political challenges and stringent conditionalities on foreign direct investment in retail trading, the Indian retail sector has grown too large to ignore. India's strong growth fundamentals, increased urbanization, increased digital connectivity and greater acceptance to online retail medium provides immense scope for retail expansion for both domestic and foreign players. While the policy framework in relation to FDI in MBRT is now put in place, the implementation of this policy framework is bound to have certain challenges at the same time opportunities are also available. This paper is a modest attempt to study the opportunities and challenges of FDI in Indian Retail Sector.



KEYWORDS: E-commerce, FDI, Indian Retail Market, Retail Formats.

INTRODUCTION

India's retail market contributes to over 10 percent of the country's Gross Domestic Product (GDP) and around 8 percent of the employment. The share of the Indian retail market is expected to increase by 60 percent to reach USD 1.1 trillion by the year 2020. Both organized and unorganized retail segments co-exist in India and continue to contribute to growth of the retail sector as a whole. Currently, the organized retail market contributes to 93 percent of the total sector while the unorganized retail market contributes to the rest. This was not the same few years ago when substantial business came from unorganized retail sector such as traditional family run and corner stores. The impressive growth of the organized sector is also largely due to penetration of many large retail companies and introduction of Goods and Service Tax in India.

OUTLOOK OF INDIAN RETAIL SECTOR

The Indian retail market is expected to become the world's third-largest consumer economy, reaching USD 400 billion in consumption by the year 2025. Further, India is ranked first in the Global Retail Development Index 2017, backed by rising middle class and rapidly growing consumer spending. India's retail market witnessed investments worth USD 800 million by private equity firms and wealth funds in 2017.

GLOBAL POSITIONING OF THE INDIAN RETAIL SECTOR

Markets go through four stages of retail development (opening, peaking, maturing and closing) as they evolve from emerging to mature markets, a process that typically spans five to 10 years.

The window opens when the population becomes wealthier, when logistics start improving, when ownership regulations become friendlier to international firms and when country's various economic, political and social risks settle down to acceptable levels. Given the current circumstances in India one can say that there exists immense window of opportunity for retail development in India. India holds a substantial advantage over other emerging retail destinations owing to its strong domestic consumption and low rate of market penetration by overseas retailers. Accordingly, India remains an attractive destination for investment.

FACTORS CONSIDERED BY VARIOUS STAKEHOLDERS

There is a paradigm shift in global investors' destination choices: from 'efficiency seeking' to 'market seeking.' Also, there is a shift from sectors which are heavily regulated to more varied industries including healthcare, retail, education etc. Particularly in the retail sector, international retailers are now focusing on portfolio of countries – with different levels of risk, at different stages of maturity and with distinct consumer profiles to balance short term and long-term opportunities.

Global players have become more strategic in their expansion and in avoiding the operational pitfalls of entries into developing markets. Accordingly, international players are choosing ownership models such as franchisee or joint venture to tap developing markets.

Governments across the globe have begun to take cognizance of the corresponding benefits in development, export boost and supply chain improvements that foreign direct investment (FDI) in retail can yield. FDI in retail has been a key driver of productivity growth in many economies, resulting in lower prices and higher consumption. Large-scale foreign retailers also lead the path of improvements in the productivity chain, for wholesalers and food processors.

More specifically in India's context, opening up the retail sector for FDI has been placed in the context of moderating inflation. The idea is that organized storage and transport chains will help cut nearly 40 percent transport and distribution losses in the present supply chains, one of the factors pushing up food prices to high and unsustainable levels.

In addition, due to availability of cheap raw material and work force, global retailers would also utilize Indian goods for their international outlets leading to an increase in Indian exports and improving the balance of payment position. Thus, it can be said that attractive Government policy on FDI in retail sector could change the face of retail in India.

INDUSTRY ANALYSIS

A perfect business model for retail in India is still at the evolutionary stage. AT Kearney terms retail expansion as a portfolio game where an optimal mix of countries, formats and operating models is the key to success. In this section, we analyze certain formats and models alongside thriving segments. However, the traditional unorganised formats like 'mom and pop' shops, hawkers, grocers etc., continue to co-exist with the modern formats of retailing.

Taking a step back, the very definition of 'retail'/'retailer' has changed. In 2004, the High Court of Delhi defined the term 'retail' as a sale for final consumption in contrast to a sale for further sale or processing (i.e. wholesale). However, the traditional definition of a retail shop referred to business premises where goods are sold to the public, or services are provided to the public, or to which the public is invited to negotiate for the supply of services. Due to the emergence of e-commerce and m-commerce the physical/territorial component of the definition no longer holds true.

Such retailers manage to surpass the barrier of direct personal contact and reach out to the public via alternative media. While customers place orders online, the delivery takes place elsewhere, most likely at their doorsteps. Interestingly, judicial decisions on 'retail' always provided scope for such broad

construction, indicating that delivery and sale need not be simultaneous or occurring at the same place. The emphasis on the business-to-consumer format remains, which must be differentiated from the business-to-business dealings, i.e. wholesale.

Further, it is important to distinguish between the terms 'retailing' and 'retail trading' which are often used interchangeably. Retail trading is a subset of retailing (which is a far broader term) and foresees the buying and selling of goods to retail consumers. The FDI Policy contains conditions on foreign investment in retail trading and not retailing. Entities selling goods to retail consumers by undertaking manufacturing / contract manufacturing or under franchise and license agreements are said to be engaged in retailing and not retail trading. Examples of entities engaged in retailing in India include Hindustan Unilever Limited & McDonald's.

RETAIL FORMATS

In modern retail, a key strategic choice is the format; retailers are coming up with various innovative formats to provide an edge to their products and services. Retailers experiment with a variety of formats, from discount stores to supermarkets to hypermarkets to specialty chains etc. The table below explains some popular formats used in the retail sector:

Popular Formats	Meaning
Big box stores	Large stand-alone store with varying market niches.
Category killer	A large retail chain store that is dominant in its product category. The store generally offers an extensive selection of merchandise at prices so low that smaller stores cannot compete.
Chain store	One of a number of retail stores under the same ownership and dealing in the same merchandise.
Co-operative	Any organization that is owned and operated by all of its members for their mutual benefit.
Hardline	A departmental store or product line primarily consisting of merchandise such as hardware, housewares, automotive, electronics, sports goods, health and beauty aids or toys.
Softline	A departmental store or product line primarily consisting of merchandise such as clothing, footwear, linens and towels.
Online retailers	A retailer selling its products via online platforms, (i) either owned and / or operated itself or (ii) that are marketplace platforms provided by third parties.

Formats Popular in India

I. Hypermarkets, supermarkets and malls

Hypermarkets/ supermarkets are large self-servicing outlets offering products from a variety of categories. In 2001, Pantaloon Retail launched country's first hypermarket: 'Big Bazaar'. Hypermarkets turn out to be the most recommended format for Indian retail sector, according to various reports. In fact, Pantaloon Retail is the leader in the hypermarket industry, with 259 Big Bazaar stores and online franchisees. Aditya Birla

Retail – More Supermarkets are leading in the supermarket segment with 523 stores in India. Supermarkets are said to have totalled 8500 in 2016 from merely 500 in 2006. Malls are the biggest form of organized retail in India, which offers customers a mix of all types of products and services including entertainment (cinema and gaming) and food under one single roof.

II. Department Store

A department store is a retail store offering a wide range of consumer goods which allows customers to choose between multiple merchandise lines, at variable price points.

India has number of departmental stores popular ones being Shoppers Stop, Lifestyle, Westlife, which sell a variety of products, including clothing, furniture, home appliances, toys, cosmetics etc. The retail space demand is expected to increase at the rate of 81 percent to 7.8 million square feet in 2018.

Interestingly, in many such department stores we also see a store-within-a-store. A store-within-a-store is a popular American retail format under which a retailer enters into an agreement to rent a part of the retail space to be used by a different company to run another, independent store. Popular examples of this in India are Vijay Sales, Crosswords.

III. Specialty Stores and Category Killers

Specialty stores are retail chains dealing in specific categories and provide a large variety. Mobile stores can be an example of specialty store.

Category killers are specialty stores that offer a variety of product categories. They are known as 'category killers' since they focus on specific categories, such as electronics and sporting goods. They are also known as Multi Brand Outlets or MBO's. Vijay Sales can be an example of category killer.

IV. Other Formats

Traditionally, India has been familiar with departmental stores and discount stores.

However, with increased urbanisation and use of technology, several new formats have evolved with passage of time. For example:

- I. Gas stations are providing amenities in the form of convenience stores, automated teller machine (ATM), food courts and pharmacies appearing in many outlets.
- II. Vending machine, almost always identified with Japan's retail formats, is a relatively new entrant to India and usage will rise with changing consumer habits and lifestyle.
- III. Along with the modern retail formats, the non-store retailing channels are also witnessing action. Online retail is estimated to reach USD 60 billion by 2020. Post demonetization in India, consumers have seemingly become more comfortable using online services.

V. E-Commerce

Electronic commerce commonly known as E-commerce is a more convenient way for buying and selling of products or services through the electronic medium which is growing in popularity. This is the most preferred since it provides a 'click n buy' method. Also, the e-retailers provide facilities such as e-payment, home delivery, and gift option. Many companies find e-commerce more profitable than resorting to traditional forms of advertising.

The acceptance of internet coupled with the increasing confidence of the internet users to purchase online has made India an important center for the growth and development of the e-commerce sector. In particular, e-commerce presents one of the greatest opportunities in the retail sector since it shifts from brick and mortar establishments to virtual shops which with low operating costs.

Global and local e-commerce retailers have launched websites that offer Indian consumers wide range of products such as apparel, electronics, baby products, etc. Also, recently we have seen huge FDI inflows and consolidation activity in the e-commerce space in India. Given the regulatory framework in India, most e-commerce retailers could be seen to shift to the marketplace model of business wherein the e-commerce entity merely acts as a facilitator between the buyer and seller and only provides for a platform where the consumer meets the seller. Given the recent FDI relaxations, the Indian e-commerce market could see more retailers adopting this business model.

VI. M-commerce

Mobile commerce is a sub-set of E-commerce. The selling and buying of goods and services through mobile devices and smart phones is referred as M-commerce. The advantage of m-commerce is its personalization, flexibility, and distribution. It also promises exceptional business market potential, greater efficiency and higher productivity. With the initiation of mobile internet services, the retail industry is also relieved as it provides easy mobile payment options. But as a security concern, there are certain banking regulations which are deterring the growth of m-commerce in India. Most of the E-commerce players like Flipkart, Amazon etc. have dedicated mobile apps. With the increase in digital banking and payments penetration in India and the Unified Payments Interface platform by the Indian Government, m-commerce has grown considerably. Examples of various formats

Formats	Retailer
Supermarket	Big Bazaar/ More/ HyperCity/ Food World
Hypermarket	D-Mart/ Star Bazaar/ Spencer’s/ Spar
E-commerce	Flipkart/ Snapdeal/ Amazon
Small fashion stores	Fabindia
Cash and carry	Metro/ Walmart
Large Electronic Store	Croma/ E-zone/ Vijay Sales

Segment-wise activity

A. Food and Grocery Retail

Food and grocery retail in India exceed USD 294 billion representing 16 percent of India’s GDP. By 2020, food and grocery segment are estimated to constitute 66 percent of the total revenue in the Indian retail sector.

Hence, a huge opportunity lies ahead as this segment is poised for a significant growth in the years to come.

Leading brands

Indian	International
Food Bazaar, Nature’s Basket, Big Basket, Reliance Fresh, Grofers	Metro/ Walmart

B. Apparel and Footwear Retail

This sector has been aligning itself with global trends with retailing companies like Shoppers’ Stop and Crossroads entering the sector. While China is ranked at the top for growth opportunities in this segment, India figures as one among the top ten. India has the edge over the markets in the US, Europe and Japan, with a GDP growth rate of 7 percent. Indian conglomerates like Tata and Reliance have also forayed into these segments. Further, this segment also witnessed increasing activity in terms of joint ventures. For example, the Los Angeles-based Forever 21 recently formed a joint venture with DLF, popular Indian real estate developer. This sector has also witnessed the entry of foreign retail brands such as H&M, Massimo Dutti, etc. in recent times.

Leading brands

Indian	International
Provogue, Wills Lifestyle Reliance Footprint, Woodland	Zara, Mango, Marks & Spencer, Charles & Keith, Hush Puppies, H&M, Massimo Dutti

C. Pharma Retail

Pharma retailing in India is said to have a market size of USD 467 billion. In 2015, the initial public offer (IPO) of Dr Lal PathLabs, one of India's largest diagnostic chains, received bids for an overwhelming total of 27.12 crore shares. A few corporates who have already forayed into this segment include Dr. Morepen (with Lifespring and Tango), Medicine Shoppe, Apollo Pharmacies, 98.4 from Global Healthline Pvt Ltd. and CRS Health.

D. Books and Music Retail

The gifting gesture in India has reached a new sensation with e-commerce portals providing a platform for consumers to purchase a wide variety of goods such as books and music CDs. However, book-music-movie retailing in India suffered significantly with the introduction of digital music, movies and books through platforms such as Kindle and iTunes.

Accordingly, many players have reduced their foot print in this segment.

Leading brands

Indian	International
Crosswords, Relay	W H Smith

E. Consumer Durables Retail

The consumer durables market can be segmented into consumer electronics comprising of television sets, audio systems, VCD players and others; and appliances like washing machines, microwave and air conditioners. There are various domestic and foreign players who have entered this segment in the last couple of years.

The home appliance and consumer electronics market is expected to grow by 10 percent on a compounded annual growth rate till 2022.

Leading brands

Indian	International
Croma, e-Zone	Samsung, Sony

For the purpose of this paper, we have summarized the factors and the challenges that affect the demand and supply of the retail sector.

Opportunities & Challenges

The following may be regarded as major perceived benefits of allowing FDI in retail in India:

- 1. Capital Infusion-** This would provide an opportunity for cash-deficient domestic retailers to bridge the gap between capital required and raised. In fact 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, back-end infrastructure and research and development in the host country.
- 2. Boost Healthy Competition and check inflation-** Supporters of FDI argue that entry of the many multinational corporations will obviously promise intensive competition between the different companies offering their brands in a particular product market and this will result in availability of many varieties, reduced prices, and convenient distribution of the marketing offers.
- 3. Improvement in Supply Chain-** Improvement of supply chain/ distribution efficiencies, coupled with capacity building and introduction of modern technology will help arrest wastages (in the present situation improper storage facilities and lack of investment in logistics have been creating inefficiencies in food supply chain, leading to significant wastages).

4. **Improvement in Customer Satisfaction-** Consumers in the organized retail will have the opportunity to choose between a number of internationally famous brands with pleasant shopping environment, huge space for product display, maintenance of hygiene and better customer care. There is a large segment of the population which feels that there is a difference in the quality of the products sold to foreign retailers and the same products sold in the Indian market. There is an increasing tendency to pay for quality and ease and access to a “one-stop shop” which will have a wide range of different products. If the market is opened, then the pricing could also change and the monopoly of certain domestic Indian companies will be challenged.
5. **Improved technology and logistics-** Improved technology in the sphere of processing, grading, handling and packaging of goods and further technical developments in areas like electronic weighing, billing, barcode scanning etc. could be a direct consequence of foreign companies opening retail shops in India,. Further, transportation facilities can get a boost, in the form of increased number of refrigerated vans and pre-cooling chambers which can help bring down wastage of goods.
6. **Benefits for the Farmers-** Presumably, with the onset of multi-brand retail, the food and packaging industry will also get an impetus. Though India is the second largest producer of fruits and vegetables, it has a very limited integrated cold-chain infrastructure. Lack of adequate storage facilities causes heavy losses to farmers, in terms of wastage in quality and quantity of produce in general, and of fruits and vegetables in particular. With liberalization, there could be a complete overhaul of the currently fragmented supply chain infrastructure. Extensive backward integration by multinational retailers, coupled with their technical and operational expertise, can hopefully remedy such structural flaws. Also, farmers can benefit with the “farm-to fork” ventures with retailers which helps (i) to cut down intermediaries ; (ii) give better prices to farmers, and (iii) provide stability and economics of scale which will benefit, in the ultimate analysis, both the farmers and consumers.
7. **Creation of More And Better Employment Opportunities-** The entry of foreign companies into Indian Retailing will not only create many employment opportunities but, will also ensure quality in them. This helps the Indian human resource to find better quality jobs and to improve their standard of living and life styles on par with that of the citizens of developed nations.

Critics of FDI feel that liberalization would jeopardize the unorganized retail sector and would adversely affect the small retailers, farmers and consumers and give rise to monopolies of large corporate houses which can adversely affect the pricing and availability of goods. They also contend that the retail sector in India is one of the major employment providers and permitting FDI in this sector can displace the unorganized retailers leading to loss of livelihood. The major threats to the domestic retailers in India are specified below:

1. **Domination of Organized Retailers-** FDI in single-brand retail will strengthen organized retail in the country. These organized retailers will tend to dominate the entire consumer market. It would lead to unfair competition and ultimately result in large-scale exit of domestic retailers, especially the small family managed outlets (local “mom and pop” stores will be compelled to close down).
2. **Create Unemployment-** Retail in India has tremendous growth potential and it is the second largest employer in India. Any changes by bringing major foreign retailers who will be directly procuring from the main supplier will not only create unemployment on the front end retail but also the middleman who have been working in this industry will be thrown out of their jobs.
3. **Loss of Self Competitive Strength-** The Indian retail sector, particularly organized retail, is still under-developed and in a nascent stage and that, therefore the companies may not be able to compete with big global giants. If the existing firms collaborate with the global biggies they might have to give up at the global front by losing their self competitive strength.
4. **Indirectly Leads to Increase in Real Estate Cost-** It is obvious that the foreign companies which enter into India to open up their malls and stores will certainly look for places in the heart of the cities. There shall be a war for place, initiated among such companies. It will result in increase in the cost of real

estate in the cities that will eventually affect the interest of the ordinary people who desire to own their houses within the limit of the cities.

5. **Distortion of Culture:** Though FDI in Indian retail will indirectly or directly contribute for the enhancement of Tourism, Hospitality and few other Industries, the culture of the people in India will slowly be changed. The youth will easily imbibe certain negative aspects of foreign culture and lifestyles and develop inappropriate consumption pattern, not suited to our cultural environment.

CONCLUSION

Market liberalization, a growing middle-class, and increasingly assertive consumers are sowing the seeds for a retail transformation that will bring more Indian and multinational players on the scene. India is tipped as the second largest retail market after China, and the total size of the Indian retail industry is expected to touch the \$300 billion mark in the next five years from the current \$200 billion. But, the recent debate has centered on the issue of whether FDI in retail in India will be a boon or a bane. Many studies and surveys were conducted to analyze the impact of FDI in retail sector in various segments of the economy. According to a policy paper prepared by the Department of Industrial Policy and Promotion (DIPP, 2010), FDI in retail must result in backward linkages of production and manufacturing and spur domestic retailing as well as exports. According to the World Bank, opening the retail sector to FDI would be beneficial for India in terms of price and availability of products. While FDI in multi-brand retail has been opposed by several in the past citing fears of loss of employment, adverse impact on traditional retail and rise in imports from cheaper sources like China, adherents of the same indicate increased transfer of technology, enhanced supply chain efficiencies and increased employment opportunities as the perceived benefits.

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