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Dr. Gawali

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**THE IMPACT OF FOREIGN DIRECT INVESTMENT
IN RETAIL IN INDIA**

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“Foreign Direct Investment in Retail Market in India Challenges and Opportunities”

DR. GAWALI SHIRISH NANA

Faculty Member, Savitribai Phule University of Pune

Associate Professor

C. D. Jain College of Commerce, Shirampur

Dist: Ahmednagar

Email: gawalishirish@gmail.com Mobile: 9423785954.

Abstract:

Foreign Direct investment plays an important role in retail market in India. India being second most- popular country has immense; scope for retail market expansion as along with time urbanization and consumerism has also been increasing. The retail market of India contributes of about 15% to the national GDP. As well as this sector provides a huge workforce of it, after the agriculture sector. In short, the retail market of India handles about \$250 billion every year and is expected by Veteran economists to reach \$ 660 billion by the year 2015. FDI in the retail market can expand markets by reducing transaction and transformation costs of business through adaptation of advanced supply chain and benefit consumers and farmers. The Government of Indian gradually liberalized foreign investment in various sectors Recently India has permitted 100% FDI permitted in multi-brand in 2012.

The present paper makes an attempt to understand challenges and opportunity of FDI in Indian retail sector and explore the reason as to why international brand are interested in investing in Indian market.

Keywords: Agricultural Sector, Foreign Direct Investment, GDP, Consumers and Farmers, Advanced Supply Chain and Retail Market.

Introduction:

Retail market is one of the biggest supports of the Indian economy and the fastest emerging retail markets in the world with 1.2 billion people. In simple words retailing is making the final product directly available the consumers of the product. In the last two decades since the economic liberalization of Indian in 1991. Since liberalization India's Gross Domestic Products (GDP) has been increasing and India's middle class has significantly expanded and therefore has its expanding purchasing power. India has been slow in opening economy for FDI in retail sector but recent policy changes suggest that perspective of government is changing. The Indian retail market is the fifth largest in the world which is comprised of organized and unorganized sectors. According to the AT Kearney,

the well known international management consultancy recently identified destination globally from among thirty emergent markets. FDI may bring in investment in completely backward area like infrastructure required for food transfer from farmers to final consumer that will improve efficiency in food sector.

In this way FDI in retail sector will boost the Indian economy, creating job opportunities in the next five years.

The concept of retail as entertainment came to India with the advent of malls. Now a days, the development of malls is now being visible not only in major metros but also in medium cities of the country. The opening of FDI should be designed in such a way that various sectors like agriculture, food processing, manufacturing, packaging and logistics would gain benefits. So, FDI in Retail Market is an economic development, which would allow global chain like Wal-Mart stores Inc Careful to own up to 51 percent of retail ventures. Recently, the policy would let foreign retailers own up to 51 percent of supermarket and 100 percent of single brand stores.

Objectives of the Study:

1. To analyze the structure of Indian Retail Sector.
2. To study the scenario of FDI in Retail sector in India.
3. To understand and analyze the Challenges before Indian retail sector in view recent policy- changes.
4. To know the opportunities for Retail sector in India.

Research Methodology:

The present study is based on secondary data and information collected from variety of sources like journals, newspapers, articles, reference books, website etc. The research methodology applied is exploratory research by reviewing the relevant literature on the subject.

Structure of Retail Market in India:

Organized and Unorganized Retail:

The total retail sector in India can be divided in two parts i.e. organized and unorganized sectors. The organized retailing means the trading activities are undertaken by licensed retailers. Licensed retailers are those who are registered for sales tax. Income tax etc, these includes the cooperate- backed hypermarkets and retail chains and also the privately owned large retail business. On the other hand unorganized retail includes a large number of small retailers that consists of

local kirana shops, owned- manned general stores, chemist, footwear shops, apparel shops, paan and beedi shops hand cart hawkers pavement vendors etc.

Retailing is one of the most prominent industries in developed markets whereas in developing economies the concept had occurred much later.

The Indian retail sector is highly fragmented, more than ninety per cent of its business is being run by the unorganized retailers like the traditional family run stores and corner stores. The organized retail in India is at every nascent stage. Therefore, in order to increase its share in total retail, attempts are being made so as to bring huge opportunity for prospective new players. Now a days India's retail sector is heading towards modernization. Such as department stores, supermarket and specialty stores, Westernized malls are fast appearing in metros and tier- II cities.

The following Table No-1 presents the figures for relative shares of organized and unorganized retail in Indian Retail Market.

Table No. 1: Indian Retail Market (Organized and Unorganized) Percentage Share

Year	Organized	Unorganized
2005	3.60	96.40
2007	4.10	95.90
2010	5.00	95.00
2012	8.00	92.00
2015E	21.00	79.00
2020E	24.00	76.00

E- Expected

Source: www.iosrjournal.org. April 2014

The Table No 1 explain that during the periods 2005-07 and 2007-10 the increase in share of organized retail was not much as well as during the period 2010-12 share of organized retail rose 60 percent, its share in total retail had just doubled and is expected to increase by 2-6 times during 2012-15

Present Scenario of FDI in Retail Sector in India:

The word retail means the sale of goods or commodities in small quantities directly to consumers. The retail includes the sale of goods and services from individuals or business to the end- user. The size of Indian retail market in 2010 was estimated at US \$353 billion and by 2014, it is expected to increase upto US \$543 billion. Further the estimated value of current size of Indian retail market is

near about 500 billion USD and by 2020 its value is pegged to be at 1.3 trillion USD. In this way over 20 percent of Indian's gross domestic product (GDP) is contributed by retail sector and in total employment, it contributes eight percent.

According to the ICRIER report, the retail business in India is estimated to grow at 13% from \$ 322 billion in 2006-07 to \$ 590 billion in 2011-12. The unrecognized retail sector is expected to grow at about 10 percent per annum with sales expected to rise from \$ 309 billion in 2006-07 to \$ 496 billion in 2011-12.

According to A.T. Kearney's Global Retail Development Index (GRDI) 2013 the global slowdown has impacted India's growth also and as a result India's growth rate fall from a 10year average of 7.8 percent to 5 percent and in GRDI ranking India slipped to 14th. India's previous low ranking was 6th place in the inaugural Index in 2002 but in 2009 it stood first. The report project 14 to 15 percent growth per year in retail sector through 2015 and due to more urbanization and more potential new investment by retailers, experts a higher proportion of modern retail which is 7 percent in 2012.

According to FICCI (2011) in sector profile an important contributory factor in growth of India's retail sector is growing middle class which is expected to increase from 21 million to household today to 91 million households in 2030. It expects 570 million people to live in cities in 2030, which is nearly twice the population of the United States today. Indian's modern consumption level which presently is US\$750 billion may be double within five years to US \$1.5 trillion. In this way Indian's huge population with large proportion of young population high potential growth in consumer expenditure, the macro trends for the sector took favorably. The new generation appreciates mall culture which market is convenient to shop with multiplicity of choice under one roof (i.e shop in shop). Now the Government's initiative to allow 51 percent FDI in multi-brand retail have becomes a subject for debate for quite some time. Main retail sector have therefore attracted the attention of people from various fields including academia industry research organization etc .

Challenges For Retail Development in India:

Organized retail in India is little over a decade old It is largely on urban phenomenon and the place of growth is still slow. The following are the reasons for this slow growth.

-Lack of Industry status

Due to lack of industry status organized retailers in India faces difficulties in raising finance from banks to find their expansion plans

-The Existence of Traditional kirana stores

Retailing is not new concept for India it has been established here since centuries. It is a low cost structure; mostly owner operated has negligible real estate and labour costs and little or no taxes to pay. Consumer familiarity that runs from generation to generation is one big advantage for the traditional sector. On the other hand organized sector have big expenses to meet and yet have to keep prices low enough to compete with the traditional sector.

-Shortage of skilled manpower

The industry is facing a server shortage of talented professional, especially at the middle management level. Most Indian retail players are under serious pressure to make their supply chain more efficient in order to deliver the levels of quality and services that consumer are demanding.

-Multiple and Complex Taxation System

The sales tax rates vary from state to state and organized retail players have to fail a multiple point octroi within the introduction of value added tax(VAT) which causes disruption in supply chain management

-Lack of Recognition as an Industry

Lack of recognition as an industry hampers the availability of finance to the existing and the new players. This affects growth and the expansion plans

-Policy inducted barriers

In India organized retail is governed by the Ministry of Commerce on the one hand through retail policy formulation and by the Ministry of Commerce affairs on the other hand to terms of legislation. There is need to govern retail operations through a single apex body because a single agency can manage retail operations more effectively.

-In appropriate Planning and forecasting

According to the PWC(2011) that due to improper forecasting high inventory levels also exist in the Indian retail sector, sub optimal forecasting ,risk taking into account seasonality, promotion and factors leading to sudden increase in demand, often lead to increase like stock-outs, Therefore, in the race for operational excellence, retailers making optimal demand and supply forecasting would be the winners.

-High cost of Stamp Duties

Stamp duties on transfer of property are also very high which varies from state to state e.g.- 12.5 percent in Gujarat and the 8 percent in Delhi.

-Lack of Infrastructural facilities

Poor roads and the transport facility hampers the development of food and grocery retail in India. The existing supermarkets and foods retailers have to invest a substantial amount of money and time in building a cold chain network.

Opportunities for retail development in India:

Retail marketing gets various opportunities to grow up in the Indian market. This opportunities not any retailing but also manufacturer as well as suppliers and buyers have various opportunities.

-Urbanization

As large percentage of population has now been shifted to urban areas due to more job opportunities and more facilities for their children and family they know the importance of brands and moreover they want everything under one roof, thus a single retail can catch more customers.

-Benefit to Consumers

With entry of FDI in multi-brand retail competition is expected to be more intense and consumers would benefit because better quality products would be available to them at competitive prices.

-Plastic Revolutions

Increased use of credit cards is in favor of retail marketing. It creates requirement even what it is not necessary.

-Provides visibility to Brands

Organized retail provides needed visibility to brands and a platform for consumers interaction. It also helps in launching of new product or product variant and in market penetration. It has wider products range and more frequent.

-Increase in a Agricultural Productivity

Traditionally, Indian agriculture has suffered from low food grains productivity and inefficient distribution. Expected increase in investment and

better supply chain processes as a result of FDI in multi- brand retail would help in removing these drawbacks.

-Benefits to existing Retailers

Existing retailers facing capital constraints should also benefit from FDI in multi- brand retail and piling test of many Indian retailers may get reduced. There are no restrictions for Indian players regarding sourcing, e- commerce, location of retail stores. Investment in backend infrastructure etc. In order to meet the demands of increasing scale. FDI would accelerate the pace of investment in the supply chain which would be beneficial to Indian players who would hold a competitive advantage over any retail chain with FDI.

-Indian Consumers

Organized retail stores put stress on proper infrastructure like well maintained building, air conditioning, trained employees, electronic machine, parking facilities and proper display of goods category wise. They also get product of different varieties and of proper quality.

-Increased sourcing from India and better integration with global retail chains

Conditionally requiring at least 30 percent procurement from Indian small industries will benefit small Indian manufacturer. It would enhance their ability to get integrated with global retail chain and their capacity to export products from India in return.

-High Availability of Jobs

There will be huge job opportunities in the country (in cores) as there will be opening of malls and store houses.

-Benefits to farmers through the Organized Retail Chain

As per notified changes in FDI norms for multi- brand retail, it is needed that 50 percent of the initial investment of at least \$ 100 million made by the foreign retailer would go towards back-end infrastructure. This will result in improved supply chains and retailers will pick up the produce right from the farms. This would increase their access to large materials and reduce transport cost incurred to take the produce to the local mandis.

-Nuclear Family

As the time passed away joint families came in a new form i.e- nuclear family. Again the income level of these nuclear families increase because both

members started earnings. This results in increased power and lack of time. In this way this brought the concept of organized retailing.

Conclusion:-

It is argued that the potential benefits from allowing large retailers to enter the Indian retail trade (particularly grocery) still has traditional features. Small family run shops and street hawkers dominate the situation in most of country. Therefore, the retail trade in India is now undergoing an intensive structural change. As well as opening up the economy for the multi- brand retail sector to FDI will help to develop the form sector and it would modernize the form sector in India and it may generate higher level incomes for the it may generate higher level incomes for the certain section of farmers. The performances of FDI till date is round about the satisfactory level barring the certain issues and challenges.

Lastly, the future prospects of Indian retail market are likely to have some macro- economic impact too. In agricultural sector, it can be expected that there will be higher use of technology in farming, packing and storing.

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