



PAK Publishing Group
Growing Knowledge for Future

Proceedings Book of ICEFMO, 2013, Malaysia
Handbook on the Economic, Finance and Management Outlooks
ISBN: 978-969-9347-14-6

FDI in Indian Retail Sector: Strategic Issues and Implications

A. Vijayakumar

Associate Professor in Commerce, Erode Arts and Science College, Erode-638 001. Tamil Nadu, India. (M) 09443840964 E-mail: drvijayponne_erode@bsnl.in

Abstract

The spectacular and unprecedented growth of FDI in the global economic landscape over the last two decades has made it an integral part of the development strategy of both the developed and developing nations. It acts as major catalyst in the development of a country through up-gradation of technology, managerial skills and capabilities in various sectors. Indian retail industry is one of the sunrise sectors with huge growth potential. According to the Investment Commission of India, the retail sector is expected to grow almost three times its current levels to \$660 billion by 2015. However, in spite of the recent developments in retail sector and its immense contribution to the economy, it continues to be the least evolved industries in India when compared to the rest of the world. This dismal situation of the retail sector despite the ongoing wave of incessant liberalization and globalization stems from the absence of an FDI encouraging policy in the Indian retail sector. Until 2011, Indian government denied FDI in multi-brand retail, forbidding foreign groups from any retail outlets. In November 2011, India's central government announced retail reforms. FDI in the retail can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers and suppliers. Oppositions have raised concerns about employment losses, promotion of unhealthy competition among organized domestic retailers resulting in exist of small domestic retailers from the market and distortion of urban cultural development. This paper captures the existing retail scenario in India and presents the limitations of the current set-up. The paper discusses about opening up of the retail sector to FDI by the government and tracks the efforts taken by the government with regard to foreign direct investment in retail sector. The paper also analyzes the reason why foreign retailers are interested in India, the strategies they are adopting to enter India and their prospects in India. The present paper also focuses on the strategic issues and implications of FDI retail in India and the major challenges that it faces.

1. Introduction

Indian retail industry is one of the sunrise sectors with huge growth potential. According to the Investment Commission of India, the retail sector is expected to grow almost three times its current levels to \$ 660 billion by 2015. Economic development, rise in purchasing power, growing consumerism and brand proliferation has led to retail modernization in India. With high economic growth, per capital income increases; this in turn leads to a shift in consumption pattern from necessity items to discretionary consumption. Furthermore, as the economy liberalizes and globalizes, various international brands enter the domestic market. Consumer awareness increases and consumers tend to

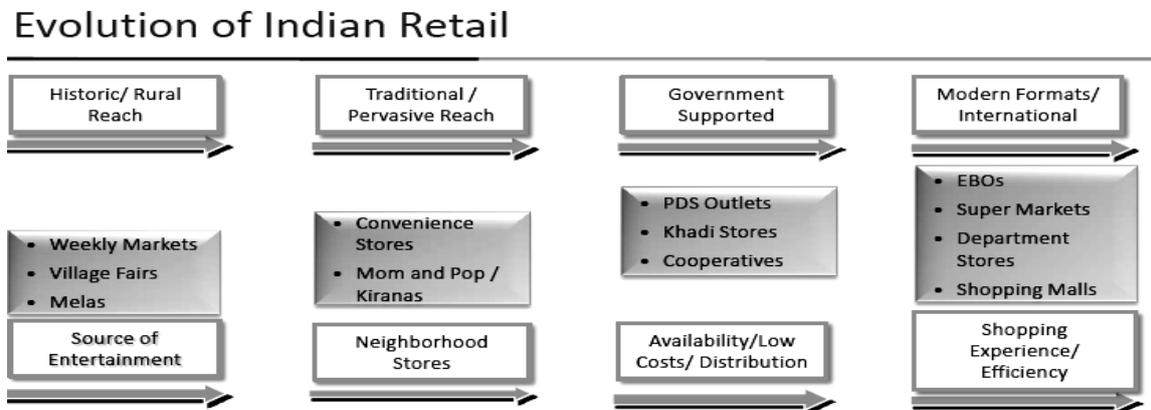
experiment with different international brands. The proliferation of brands leads to increase in retail space. However, in spite of the recent developments in retailing and its immense contribution to the economy, retailing continues to be the least evolved industries and the growth of organized retailing in India has been much slower as compared to rest of the world. Undoubtedly, this dismal situation of the retail sector, despite the ongoing wave of incessant liberalization, and globalization, stems from the absence of an FDI encouraging policy in the Indian retail sector. Moreover, with the latest move of the government to allow FDI in the multi-brand retailing sector, the present paper attempts to analyse the reason why foreign retailers are interested in India, the strategies they are adopting to enter India, their prospects in India and the strategic issues concerning the influx of FDI in India retailing sector.

1.1. India Retail Industry – At Glance

The estimated size of the retail industry in our nation is approximately \$470 billion with an annual compounded growth rate of 11 per cent. Incidentally the share of organized retail is relatively small at \$ 26 billion which is just 6 per cent of the total market compared to a typical share of 70-80 percent in North America and Western Europe and 20-30 per cent in the Far-East Asian Markets, India's Share of organized retailing is significantly lower than in other Asian countries such as China (20%), Indonesia (30%), Thailand (40%), Malaysia (55%) and Taiwan (81%). Historically, Indian retailing evolved as a source of entertainment (in the form of village fairs, meals etc.) which was within the rural reach. Later on these were transformed Mom and Pop / Kirana Stores which are of traditional variety neighborhood shops. Then came the government supported PDS outlets, Khadi Stores, cooperatives etc., Finally shopping malls, Supermarkets, departmental stores, etc., has brought a great revolution to the Indian retail Market (Figure 1).

Retailing is the largest private industry in India and second largest employer after agriculture. The sector contributes to around 10 per cent of GDP. With over 12 million retail outlets, India has the

Figure-1. Evolution of Indian Retail Source



highest retail outlets density in the world. This sector witnessed significant development in the past 10 years from small unorganized family owned retail formats to organized retailing. The importance of retail sector in India can be judged from the following facts. (a) retail sector is the largest contributor to the Indian GDP. (b) the retail sector provides 15% employment (c) India has world largest retail network with 12 million outlets (d) total market size of retailing in India is U.S \$ 180 billion (e) current share of organized retailing is just 2% which comes around to \$ 3.6 trillion (f) organized retail sector is growing @ 28 per cent per annum.

The Indian retail sector is very different from that of the developed countries. In the developed countries, products and services normally reach consumers from the manufacturer / producers through two different channels: (a) via Independent retailers (vertical separation) and (b) directly from the producer (vertical integration). In the later case, the producers establish their own chains of retail outlets, or develop franchises. On the other hand, Indian retail industry is divided into organized and unorganized sectors. Organised retailing refers to trading activities undertaken by licensed retailers,

that is, those who are registered for sales tax, income-tax etc.,. These include the corporate-backed supermarkets and retail chains and also the privately owned giant retail businesses. Unorganised retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, Paan/beedi shops, convenience stores, hand cart and pavement vendors etc., Unorganised sector retailing is by far the prevalent form of trade in India – constituting 95% of total trade, while organized retailing trade accounts only for the remaining 5% - and this is projected to increase 15-20 per cent by 2015.

1.2. Growth Drivers in India for Retail Sector

The retail industry in India is currently growing at a great pace and is expected to go up to US \$ 833 billion by the year 2013. It is further expected to reach US\$1.3 trillion by the year 2018 at a CAAGR of 10%. As a country has got a high growth rate, the consumer spending has also gone up and is also expected to go up further in the future. In the last four years, the consumer spending in India climbed up to 75%. As a result, the Indian retail industry is expected to grow further in the future days. By the year 2015, the organized sector is also expected to grow at a CAGR of 40%.

The key factors that drive growth in retail industry are young demographic profile, increasing consumer aspirations, growing middle class incomes and improving demand from rural markets. Also, rising incomes and improvements in infrastructure are enlarging consumer markets and accelerating the convergence of consumer tastes. Liberalization of the Indian economy, increase in spending per capita income and the advent of dual income families also help in the growth of retail sector. Moreover, consumer preference for shopping in new environs, availability of quality real estate and mall management practices and shift in consumer demand to foreign brands like McDonalds, Sony, Panasonic etc., also contributes to the spiral of growth in this sector. Furthermore, the internet revolution is making the Indian consumer more accessible to the growing influences of domestic and foreign retail chains. Reach of satellite T.V. Channels is helping in creating awareness about global products for local markets. About 47% of India's population is under the age of 20: and this will increase to 55% by 2015. This young population, which is technology – savvy, watch more than 50 TV satellite channels, and display the highest propensity to spend, will immensely contribute the growth of the retail sector in the country. Moreover, the retail sector also acts as an important employment absorber for the present social system. Thus, when a factory shuts down rendering workers jobless; or the stagnant manufacturing sector fails to absorb the fresh entrants into the job market, the retail sector absorbs them all.

2. Limitations of the Present Set Up

2.1. Limited Choice to the Consumer

Most Indian shopping takes place in open markets or millions of small, independent grocery and retail shops. Shoppers typically stand outside the retail shop, ask for what they want, and cannot pick or examine a product from the shelf. Access to the shelf or product storage area is limited. Once the shopper requests the food staple or household product they are looking for, the shopkeeper goes to the container or shelf or to the back of the store, brings it out and offers it for sale to the shopper. Often the shopkeeper may substitute the product, claiming that it is similar or equivalent to the product the consumer is asking for.

2.2. Pricing Issues

The product typically has no price label in these small retail shops; although some products do have a maximum retail price pre-printed on the packaging. The shopkeeper prices the food staple and household products arbitrarily, and two consumers may pay different prices for the same product on the same day. Price is sometimes negotiated between the shopper and shopkeeper. The shoppers do not have time to examine the product label, and do not have a choice to make an informed decision between competitive products. If you consider jewelry retailing, the concept of price labels is of recent phenomenon. Prior to this, buyers of gold were not aware of quality (purity), wastages and the price of the gold that they bought. Competition and opening up of economy has brought in transparency in pricing and genuineness in transaction.

2.3. No Sales and Service Support to the Consumer

Vast majority of the unorganized retail shops in India employ family members, do not have the scale to procure or transport products at high volume wholesale level, have no quality control or fake-versus-authentic product screening technology and have no training on safe and hygienic storage, packaging or logistics. The unorganized retail shops source their products from a chain of middlemen who mark up the product as it moves from farmer or producer to the consumer. The unorganized retail shops typically offer no after-sales support or service.

3. Infrastructure

There has been a lack of investment in the logistics of the retail chain, leading to an inefficient market mechanism. Though India is the second largest producer of fruits and vegetables (about 180 million MT), it has a very limited integrated cold-chain infrastructure, with only 5386 stand-alone cold storages, having a total capacity of 23.6 million MT. , 80% of this is used only for potatoes. The chain is highly fragmented and hence, perishable horticultural commodities find it difficult to link to distant markets, including overseas markets, round the year. Storage infrastructure is necessary for carrying over the agricultural produce from production periods to the rest of the year and to prevent distress sales. Lack of adequate storage facilities cause heavy losses to farmers in terms of wastage in quality and quantity of produce in general. Though FDI is permitted in cold-chain to the extent of 100%, through the automatic route, in the absence of FDI in retailing; FDI flow to the sector has not been significant.

3.1. Intermediaries Dominate the Value Chain

Intermediaries often flout mandi norms and their pricing lacks transparency. Wholesale regulated markets, governed by State APMC Acts, have developed a monopolistic and non-transparent character. According to some reports, Indian farmers realize only 1/3 rd of the total price paid by the final consumer, as against 2/3 rd by farmers in nations with a higher share of organized retail. Indian farmers get only one third of the price consumers pay for food staples, the rest is taken as commissions and markups by middlemen and shopkeepers. For perishable horticulture produce, average price farmers receive is barely 12 to 15% of the final price consumer pays. Indian potato farmers sell their crop for Rs. 2 to 3 a kilogram, while the Indian consumer buys the same potato for Rs. 12 to Rs. 20 per Kg.

3.2. Improper Public Distribution System (PDS)

There is a big question mark on the efficacy of the public procurement and PDS set-up and the bill on food subsidies is rising. In spite of such heavy subsidies, overall food based inflation has been a matter of great concern. The absence of a 'farm-to-fork' retail supply system has led to the ultimate customers paying a premium for shortages and a charge for wastages.

4. No Global Reach

The Micro Small & Medium Enterprises (MSME) sector has also suffered due to lack of branding and lack of avenues to reach out to the vast world markets. While India has continued to provide emphasis on the development of MSME sector, the share of unorganized sector in overall manufacturing has declined from 34.5% in 1999-2000 to 30.3% in 2007-08. This has largely been due to the inability of this sector to access latest technology and improve its marketing interface.

4.1. Rationale behind Allowing FDI in Retail Sector

FDI can be powerful catalyst to spur competition in the retail industry, due to the current scenario of low competition and poor productivity. Permitting foreign investment in retailing is likely to ensure adequate flow of capital into the country and its productive use in a manner likely to promote the welfare of all sections of society, particularly farmers and consumer. It would also help bring about improvements in farmer's income and agricultural growth and assist in lowering consumer prices inflation. Apart from this, by allowing FDI in retail trade, India will significantly flourish in

terms of quality standards and consumer expectations, since the inflow of FDI in retail sector is bound to pull up the quality standards and cost competitiveness of Indian producers in all the segments.

4.2. Challenges of Retailing in India

To become a truly flourishing industry, retailing in India needs to cross the following challenges.

- Automatic approval is not allowed for foreign investment in retail
- Regulations restricting real estate purchases, and cumbersome local laws.
- Taxation, which favours small retail businesses
- Absence of developed supply chain and integrated IT Management
- Lack of Trained work force
- Low skill level for retailing Management
- Lack of retailing courses and study options
- Intrinsic complexity of retailing – rapid price changes, constant threat of product obsolescence and low margins.
- Competition from unorganized sector

All the above challenges makes the scenario is kind of depressing and unappealing, since despite the ongoing wave of incessant liberalization and globalization, the India retail sector is still aloof from progressive and ostentatious development. This dismal situation of the retail sector undoubtedly stems from the absence of an FDI encouraging policy in the Indian Retail sector.

4.3. Current Position and FDI Norms in Indian Retail

Being aware of the large market, growing consumerism and brand – consciousness and to provide a greater fillip to high economic growth, in 1997, the Indian retail sector witnessed the first footprints of FDI with 100% FDI is being permitted in cash & carry wholesale trading under the government approval route, subsequently brought under the automatic route in 2006. As a step ahead, FDI in single brand retail was permitted to the extent of 51% in 2006, while FDI in multi-brand retail remained prohibited till recently. Despite changes in consumer behavior and retail modernization, India is one of the few countries where FDI was prohibited in multi-brand retail (until 2011), primarily to protect the traditional mom-and-pop retailers. In November 2011, India's Central government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms pave the way for retail innovation and competition with multi-brand retailers such as Wal-Mart, Carrefour and Tesco, as well as single brand majors such as IKEA, Nike and Apple. The announcement sparked intense activism, both in opposition and in support of the reforms. In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30% of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores.

In 2010, the Indian retail market was valued at \$ 435 billion of which the share of modern retail was 7 per cent. The sector is expected to grow to \$ 535 billion by 2013 with the share of modern retail at 10 per cent. In 2007, India was ranked the twelfth largest consumer market and it is expected to be the fifth-largest consumer market by 2025 after the US, Japan, China and the UK. According to study conducted by ICRJER, total retail business in India will grow at 13% annually, from US \$ 322 billion in 2006-2007 to US \$ 590 billion in 2011-2012 and further US \$ 1 trillion by 2016-2017.

4.4. Major Attractions for Global Retailers in India

At Kearney, the well-know international management consultancy, recently identified India as the “second most attractive retail destination globally from among thirty emergent markets. It has made India the cause of a good deal of excitement and the cynosure of many foreign investors' eyes. With a contribution of an overwhelming 14% to the national GDP and employing 7% of the total workforce (only agriculture employs more) in the country, the retail industry is definitely one of the pillars of the Indian Economy. Foreign Companies attraction to India is the billion-plus population. Also, there are huge employment opportunities in retail sector in India. According to Associated

Chambers of Commerce and Industry of India (ASSOCHAM), the retail sector will create 50,000 jobs in the next few years.

As per the US Census Bureau, the young population in India is likely to constitute 53 per cent of the total population by 2020 and 46.5 per cent of the population by 2050 – much higher than countries like the US, the UK Germany, China etc. India's demographic scenario is likely to change favourably, and therefore, will most certainly drive retail sales growth, especially in the organized retail segment. Even though organized retailers have a for lesser reach in India than in other developed countries, the first – mover advantage of some retail players will contribute to the sector's growth. India in such a scenario presents some major attractions to foreign retailers. There is a huge, huge industry with no large players. Some Indian large players have entered just recently like reliance, Trent. Moreover, India can support significant players averaging \$ 1 bn. In Grocery and \$ 0.3 – 0.5 bn. in apparel within next 10 years. The transition will open multiple opportunities for companies and investors.

In addition to these, improved living standards and continuing economic growth, increasing number of conscious customer aspiring to own quality, increased use of credit cards and brand consciousness are also attracting to global retailers to enter in Indian market. Thus, there is certainly a lucrative opportunity for foreign players to enter the Indian terrain. India thus continues to be among the most attractive countries for global retailers. However, it is not out of place to mention here that the government policies towards FDI are the only hindering factors that do not make this a fairy tale for foreign players.

4.5. Opportunities and Threats of FDI in Retail in India

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.

5. Key perceived opportunities (Favourable)

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

(i) Capital Infusion

India needs trillions of dollars to build its infrastructure, hospitals, housing and schools for its growing population. Indian economy is small, with limited surplus capital. Indian government is already operating on budget deficits. It is simply not possible for Indian investors or Indian government to fund this expansion, job creation and growth at the rate India needs. Infact FDI is one of the major sources of investments for a developing country like India wherein it expects investment from multinational companies to improve the countries growth rate, create jobs, share their expertise, back – end infrastructure and research and development in the host countries. FDI in retailing would provide an opportunity for cash deficient domestic retailers to bridge the gap between capital required and raised. Beyond capital, Indian retail industry needs knowledge and global integration. Global retail leaders can bring this knowledge and global integration. Global retail leaders can bring this knowledge. Global integration can potentially open export markets for Indian farmers and producers.

(ii) Farmers – Prime Beneficiaries

The biggest beneficiary of FDI in retail would be farmers who will be able to improve their productivity. The formers will not only be able to increase their output but will also get better rewards in terms of supplying to organized retailers by trying up long-terms of contracts with them. Farmers have chances to gain greater market access, higher profits, better technology and linkages with consumers due to direct back end linkages. According to report, India farmers realize only 1/3rd of the total price paid by final consumer, against 2/3rd by farmers in nations with a higher share of modern retail. Investment in back end infrastructure will help reduce wastage of farm produce, improve livelihood of farmers, lower the prices of products and ease supply side inflation, food safety, hygiene and quality. 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 both the farmers and consumers.

(iii) Consumers and Common man to become Real Kings and Queens Now

India is now the home of the largest number of moneyed consumers. Entry of global retailers is expected to have direct impact on consumers as well as common man. The stage is now set when Indian consumers will have the luxury of world class opportunity of shopping to meet the requirements of daily life. They will find a new world of enjoyment of picking up consumer items to their greatest satisfaction. Consumers in the organized retail will have the opportunity to choose between a numbers 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.

(iv) Improvement in Supply Chain

It is expected that technical knowhow from foreign firms, such as warehousing technologies and distribution systems, for example, will lend itself to improving the supply chain in India, especially for agricultural produce. Hence there are multiple inefficiencies in the supply chain that leads from farm to the dinner table. Official estimates are that about 25-30 per cent of this product goes waste between harvest and consumption. In theory, if fresh produce is collected efficiently at the farm-gate, and end-to-end cold-chain is maintained in storage and transportations until it reaches supermarket shelves as in developed countries, this wastage can be eliminated, translating into better prices for farmers and lower prices for consumers besides greater availability of the produce for processing, export and other value-addition. The organised retail will help farmers in the procurement process, reduce wastage with finally efficient storage and will finally cut the losses. The giant retailers will help India to have strong storage system with highly developed transportation. The arrival of foreign retailers will definitely bring in synergies in distribution management practices.

(v) Creation of more and Better Employment Opportunities

The expansion in the retail sector could generate significant employment potentials especially among rural and semi-urban youth. 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 resources 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. In addition, millions of additional jobs will be created during the building of and the maintenance of retail stores , roads, cold storage centers, software industry, electronic cash registers and other retail supporting organizations. Instead of job losses, retail reforms are likely to be massive boost to Indian job availability

(vi) 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.

(vii) Boost healthy Competition and Check Inflation

FDI in organised retailing could help tackle inflation ,particularly with wholesale prices. Inflation is a politically sensitive subject ,particularly for incumbent governments in a democratic country such as in India, in particular because rising food prices tend to e regressive in their impact. The entry of the many multination 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 distribute of the marketing offers. Further, it eliminates the evils of adulteration, shortage in naaptol (weights and measures)

unreasonable profit due to large differences between the wholesale price and the printed Maximum Retail Price (MRP).

(viii) Real Estate Sector likely to Upscale their Operations

Retail is closely dependent on real estate as any retailer will require substantial spaces for setting up business. The decision to allow 51% in multi-brand retail is expected to prompt realtors to revive their plans to build malls and shopping complexes, which were shelved down in the past few years due to economic slowdown. Thus, real estate in India has gone through a revamp due to the demand of high-end retail malls and people's changing perception towards an enjoyable shopping experience. Thus real estate can get a further facelift in India and receive more investment with the opening up of FDI in multi-brand retail.

(a) Other Fringe Benefits

(i) Long term Cash Liquidity

FDI will provide necessary capital for setting up organized retail chain stores. It is a long term investment because unlike equity capital, the physical capital invested in the domestic company is not easily liquidated.

(ii) Proper Tax System

Tax revenue will increase like VAT and service Tax. The organised sales with computerised billing system will also yield more revenue through commodity taxes like VAT and service tax to the Government. Thus tax buoyancy of the economy would increase.

(iii) FDI opens new doors for Franchising

Retail giants who are at their wings, seeking entry into foreign market look for other available alternatives. These restrictions, on the global retailers regarding the inflow of FDI, lead them towards acquiring the market entry through franchises. Thus, countries which offer promising market potentialities for retail growth offers substantial growth in the franchising sector as well.

(iv) Middle class will be Benefitted

The middle class will be benefitted because they are newly emerged and swelling. There is arising aspirations for a stylish and luxurious life in this class. There has been shift from necessities to luxurious life. The emergence of large middle class in India and with rising disposable income spends on branded products are likely to increase.

(v) Reduce Government Budget Deficit

With 51% FDI limit in multi – brand retailers, nearly half of any profits will remain in India. Any profits will be subject to taxes, and such taxes will reduce Indian government budget deficit.

(vi) Knowledge Management

FDI in retail will make way for inflow of knowledge from international exports. There will be drastic retail growth through the development of the retail capability.

b. Key Potential Threats (Un – Favourable)

By allowing FDI in Indian Retail sector, the following are the major threats to the domestic retailers in India.

(i) Domination of Organized Retailers

The local kirans, small shopkeepers, hawders, peddlers still form major section of Indian Economy. 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). The local shopkeepers in the vicinity

of big retailers might find it difficult to compete. It would jeopardize the unorganised 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 goods.

(ii) 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 create unemployment on the front end retail but also the middleman who has been working in this industry will be thrown out of their jobs.

(iii) 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.

(iv) Consumers Exploited in the Long-run.

It is argued that consumers shall benefit due to variety, quality and availability of wide merchandise. However, it is feared that in the long run, consumers may have to face the risk of higher prices, substandard quality and limited options once these big retailers settle down comfortably in Indian market.

(v) Indirectly leads to increase in Real Estate cost

It is obvious that the foreign companies which enter in to 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.

(iv) 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.

6. Policy Suggestions

Many foreign companies have already entered into Indian market through, the available modes such as 'Franchising and Exporting'. They are much eager to change their entity to FDI that would strengthen their operations in India. However, if FDI in retail is liberalized by considering the following suggestions it is expected bring in more of benefits than threats to the country.

- (i) Preparation of a legal and regulatory frame work and enforcement mechanism to ensure that large retailers are not able to dislocate small retailers by unfair means.
- (ii) FDI should be initially allowed in less sensitive sectors and also in the sectors where in the domestic companies are established strongly.
- (iii) The entry of foreign players must be gradual and in a phased manner with social safeguards so that the effects of labour dislocation can be minimized
- (iv) Adequate attention should be paid to procuring, staff recruitment, investments in warehouse, cold storage, infrastructure, competition and retail formats so that not only does the money come 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.

- (v) Extension of institutional credit, at lower rates, by public sector banks, to help improve efficiencies of small retailers; undertaking of proactive programme for assisting small retailers to upgrade themselves.
- (vi) Enactment of National Shopping Mall Regulation Act to regulate the fiscal and social aspects of the entire retail sector.
- (vii) Formulation of a model central Law regarding FDI of Retail sector.
- (viii) Modernization of traditional markets through public private partnership.
- (ix) Facilitate the formation of association and cooperatives of unorganized retailers for procuring directly from suppliers and farmers.
- (x) Encourage farmers to form similar Co-operatives to sell to organized retailers
- (xi) Stringent rules to be termed against collusion and predatory pricing and a code of conduct to be drafted for the organized retail sector for dealing with their suppliers.

7. Conclusion

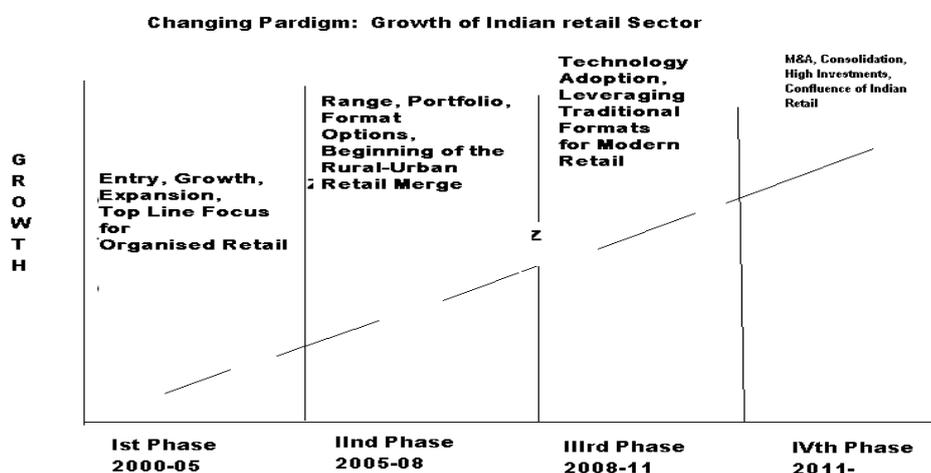
Admits today's time of fierce competition and a quest to achieve and enhance a substantial level of economic and social development; each and every nation is trying to liberalize its economic policies in order to attract investment from not only, domestic players, but also from magnates all across the globe. Consequently, people with generous reserves of funds, all around the globe, are expanding their wings and seeking opportunities of investing in different spheres of this lucrative market. India too is not oblivious to the rapid developments taking place in the global market and has emerged as one of the prime destinations for the investment of funds from an impressive number of foreign investors.

It can be concluded that the advantages of allowing unrestrained FDI in the retail evidently outweigh the disadvantages attached to it and the same can be deducted from the examples of successful experiments in countries like Thailand and china's where too the issue of allowing FDI in the retail sector was first met with incessant protests, but later turned out to be one of the most promising political and economical decisions of their governments and led not only to the commendable rise in the level of employment but also led to the enormous development of their country's GDP. Besides, it would also lead to inflow of latest technical knowhow, establishment of well integrated and sophisticated supply chains, availability of standard, latest and quality products help in up gradation of human skills and increased sourcing from India. As India capitalizes on the benefits of FDI, there will be more competition in the market at large and the rural sector of the country will be in the process of reformation, thus bringing about a socio – economic stability. So, it is very difficult to predict the future of Indian retail sector. But the government of India must be cautious about the apprehensions raised by the critics and adequate safeguards must be taken so that the positive effects may outweigh the negative ones and the traditional retailers coexist even after big foreign retailers enter the market.

References

1. Amisha Gupta, 2010. Foreign Direct Investment in Indian Retail sector: Strategic Issues and Implications, *IJMMR*(1):55-68.
2. Arun Kr. Singh and Agarwal, P.K, 2012. Foreign Direct Investment : The Big bang in Indian Retail , *VSRD – IJBMR* 2(7): 327 – 337.
3. A.T. Kearney's Report on Indian Retail, 2008.
4. Deepali Moghe, 2012. Critical study of Foreign Direct Investment in Indian Retail sector, *Journal of Research in Commerce & Management*1(3): 29 – 39.
5. DIPP, 2010 , Discussion paper on FDI in Multi Brand Retail Trading, New Delhi: Department of Industrial Policy and Promotion. Available at [http:// www.dipp.nic.in](http://www.dipp.nic.in).
6. Kalhan, Anuradha and Martin Franz, 2009, Regulation of Retail : Comparative Experience, *Economic Political Weekly* 44 (32): 56 – 64.
7. Kalyanasundaram, 2012. The Changing Face of Indian Retailing, *Journal of Management* 5(1): 42 – 51.

8. KulKarni Keerthi et.al., 2012. Foreign Direct Investment in Retail in India, International Journal of Engineering and Management Research 2(1): 31 – 36.
9. Rajib Bhattacharyya, 2012. The opportunities and challenges of FDI in Retail in India, IOSR Journal of Humanities and Social Sciences 5(5):99-109.



Indian Retail Sector

GRDI Position : 3rd

Size : \$ 400 billion

Growth Rate : 13%

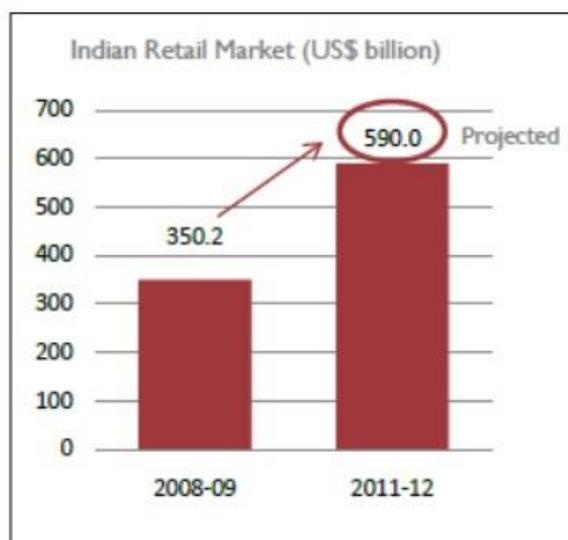
GDP contribution : 12%

Major sector : Food and Grocery

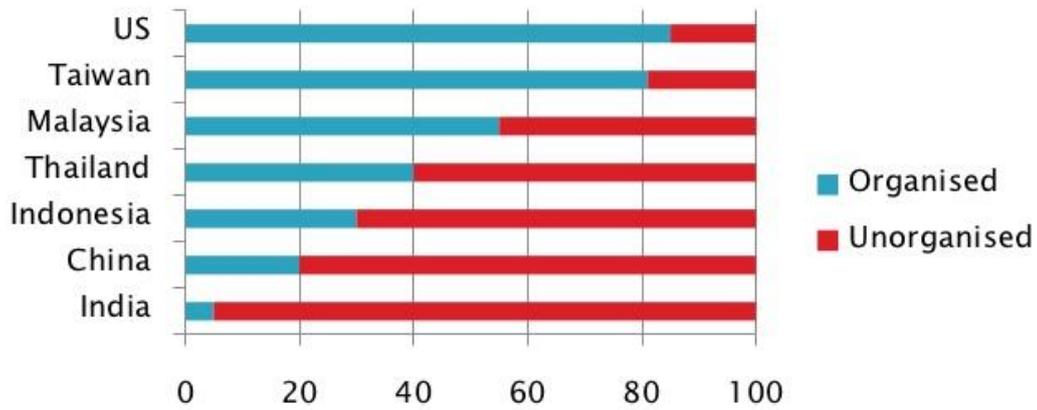
Employment : 2nd largest industry
(35.06 million)

Types: Organized (5%)

Unorganized (95%)



Organised vs Unorganised Retail at Global Level



	US	Taiwan	Malaysia	Thailand	Indonesia	China	India
Unorganised	15%	19%	45%	60%	70%	80%	95%
Organised	85%	81%	55%	40%	30%	20%	5%



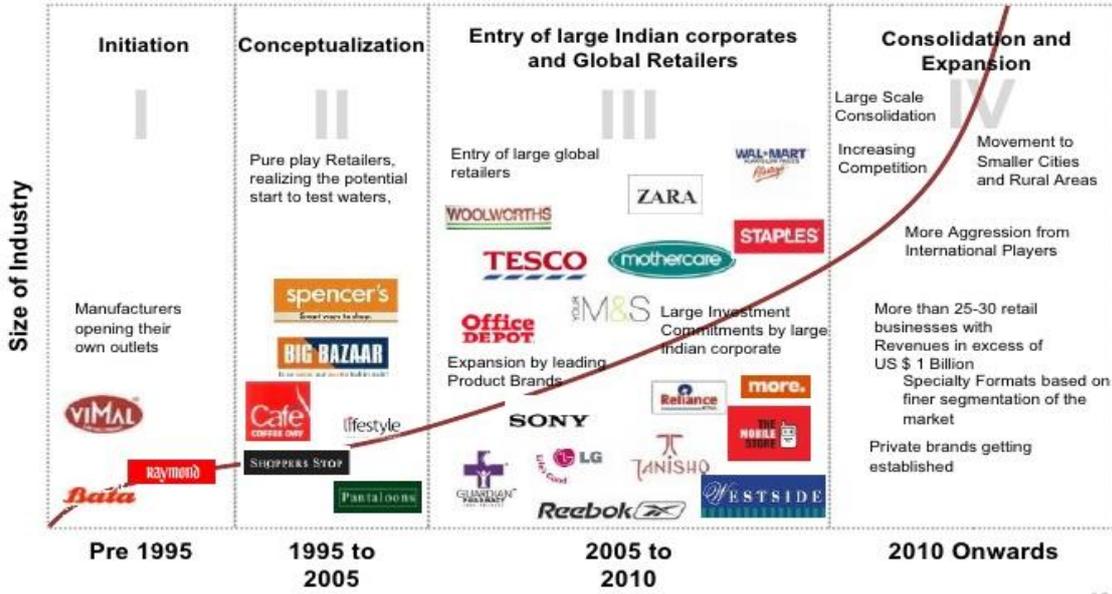


Major Indian Retailers : Categories

Format	Description	Retailers
Hypermarkets	Offering basket of product	Spencers, Big bazaar
Cash and Carry	Bulk-buying requirement	Bharti-wal-mart
Departmental stores	Large layout, Wide merchandise mix	Lifestyle , Globus
Supermarkets	Household product as well as food as integral part of the service	Apna bazaar , food bazaar
Shop-in-shop	Shops located in shopping malls	Navras (big bazaar)
Specialty stores	Focus on individual product type	Brand Factory
Category killers	Particular segment	The LOFT
Discount stores	Branded product at discounted prices	Subhiksha, levi's outlet
Convenience stores	Small Retail stores	In and out



And Is Now Entering Expansion Phase



12

INDIAN

- Pantaloon
- Reliance
- Bharti retail
- RPG
- Lifestyle
- K raheja
- Subhiksha
- Piramyd
- Trent
- Vishal group

GLOBAL

- Tesco
- Walmart
- Metro
- Carrefour
- B&Q
- Target



bharti