TO STUDY OPPORTUNITIES AND CHALLENGES OF FDI POLICY IN INDIAN RETAIL SECTOR

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ABSTRACT: This paper provides detailed information about the Opportunities and challenges of retailing industry in context of FDI policy. The 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 a major catalyst in the development of a country through upgradation of technology, managerial skills and capabilities in various sectors. Rise in purchasing power of customer, growing consumerism and brand conscious has led to retail modernization in India. The growing Indian market has attracted a number of foreign retailers and domestic corporate to invest in this sector. The present paper focuses on the overview of the Indian retail sector along with the opportunities of expansion of FDI in retail in India and the major challenges that it faces. 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 (farmers). Oppositions have raised concerns about employment losses, promotion of unhealthy competition among organized domestic retailers resulting in exit of small domestic retailers from the market and distortion of urban cultural development.

KEYWORDS: FDI, Indian retail sector, Opportunities and Challenges, Multi Brand, Single Brand.

INTRODUCTION: The retail sector has been at the helm of India’s growth story. The sector has evolved dramatically from traditional village fairs, street hawkers to resplendent malls and plush outlets, growing from strength to strength. According to the Indian Council for Research on International Economic Relations (ICRIER), India is the seventh-largest retail market in the world, and is expected to grow at a CAGR of over 13% till FY12. In FY07 retail sales reached Rs 13,300 bn and amounting to around 33% of India’s GDP at current market prices. According to the Central Statistical Organization (CSO) estimates, the total domestic trade (both retail and wholesale) constituted 13.0% of country’s GDP in 1999-2000, which has gone up to 15.1% in FY07. During the last few years, the Indian retail market has seen considerable growth in the organised segment. Major domestic players have entered the retail arena and have ambitious plans to expand in the future years across verticals, formats, and cities. For example, companies like Reliance, Bharti, Adani Enterprise, have been investing considerably in the booming Indian retail sector. Besides, a number of transnational corporations have also set up retail chains in collaboration with big Indian companies. The Indian retail sector is highly fragmented and the unorganized sector has around 13 million retail outlets that account for around 95-96% of the total Indian retail industry. However, going forward, the organized sector’s growth potential will increase due to globalization, high economic growth, and changing lifestyle. Moreover, high consumer spending over the years by the young population (more than 31% of the country is below 14 years) and sharp rise in disposable income are driving the Indian organised retail sector’s growth. Even small towns and cities are witnessing a major shift in consumer lifestyle and preferences, and have thus emerged as attractive markets for retailers to expand their presence.

RESEARCH METHODOLOGY: The whole paper is based on descriptive arguments, statistical data, case studies, The Opportunities and Challenges of FDI in Retail in India comparative study and analytical logic developed through the understandings from various research papers, reports, books, journals, newspapers and online data bases.

MEANING OF RETAIL: The word retail is derived from the French word retailer, meaning to cut a piece off or to break bulk. In simple terms, it implies a first-hand transaction with the customer. Retailing can be defined as the buying and selling of goods and services. It can also be defined as the timely delivery of goods and services demanded by consumers at prices that are competitive and affordable. Retailing involves a direct interface with the customer and the coordination of business activities from end to end - right from the concept or design stage of a product or offering, to its delivery and post-delivery service to the customer. The industry has contributed to the economic growth of many countries and is undoubtedly one of the fastest changing and dynamic industries in the world today.

Organized 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 hyper markets and retail chains, and also the privately owned large retail businesses. It covers only 3% of retail Business.

Unorganized retailing 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 (Street sellers) and pavement vendors etc. and covers almost 97% of the retail Business. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 12 per cent of India’s GDP.
Evolution of Indian Retail Industry: It is interesting to focus on the evolution of the retail sector in India. Historically they 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.

Current Scenario of Indian Retail market: The size of Indian retail industry is more than US $350 billion but it is highly unorganized. The organized sector has started developing in the past few years. Many International brands have entered the market. With the growth in organized retailing, unorganized retailers are fast changing their business models. According to a study conducted by ICRIER (Indian Council for Research on International Economic Relations) total retail business in India will grow at 13% annually, from US $322 billion in 2006-07 to US $590 billion in 2011-12 and further US $1 trillion by 2016-17.[7]

Foreign Direct Investment: FDI stands for Foreign Direct Investment, a component of a country’s national financial accounts. Foreign direct investment is investment of foreign assets into domestic structures, equipment, and organizations. It does not include foreign investment into the stock markets. Foreign direct investment is thought to be more useful to a country than investments in the equity of its companies because equity investments are potentially «hot money» which can leave at the first sign of trouble, whereas FDI is durable and generally useful whether things go well or badly.[8]

FDI Share of organized sector in selected countries.

| Country | Share of organized Sector (%)
|---------|-----------------------------
| U. S. A. | 85                          
| U. K.   | 80                          
| Japan   | 66                          
| Russia  | 36                          
| India   | 04                          
(Source: Planel Retail & Technopak Adviser Pvt. Ltd.)

Opportunities of FDI Policy: The main focus of the study is to highlight the emerging challenges and opportunities of FDI in retail sector:

- **Growth in allied industries**: The inflow of funds into retailing would have simultaneously led to the growth of allied industries as happened in the case of automobiles, which led to the growth of auto components sector. Likewise FDI in retail would assist growth in supplier industries such as food-processing and textiles moreover, growing demand for retail space, construction of real estate would have also taken place.

- **Improvement of Government Revenues**: Another significant advantage of organized retailing is its contribution to government revenues. Organized retailers, by virtue of their being corporate entities need to file tax returns periodically whereas in the unorganized sectors there have been leakages in the collection of central and state taxes.

- **Supports Improved Standard of Living**: Allowing FDI in Indian Single-Brand Retail will certainly bring in more sophisticated and luxurious goods and services to the country. Availability of such goods backed with good promotional support will definitely motivate/induce the Indian buyers to buy and consume them. It will be certain that the standard of living of the consumers will be improved. In addition to the above, the people who shall be employed in the multi-national retail enterprises will be paid attractive salaries and wages that will also stand for their increased affordability. The organised retail also provides other add-on services along with the products sold. All these new changes, that shall be resulted by allowing FDI in single-brand retail will surely support improved standard of living.

- **Enhanced Competition and Reduced Prices**: Entry of the many other multi-national corporations will obviously promise intensive competition between the different companies offering their brands in a particular product market. When the manufacturing companies will take efforts to increase their market share or to accomplish their other marketing objectives, competition among them will be activated. Such a competition will result in the availability of many varieties, reduced prices, and convenient distribution of the marketing offers.

- **Efficient Enforcement of Laws**: The presence of International companies in Indian Retail will facilitate effective enforcement of Tax Laws and increase in tax revenue. Tax evasion could be stopped when more of the retail is in organised format.

- **Overall Growth of The Country**: FDI in Indian retail will obviously result in the growth and expansion of the market and change in consumer spending pattern and also increase in their spending that eventually lead to higher GDP in the country.

- **Efficient Supply Chain Systems**: The Government believes that FDI in retail is the silver bullet solution to all issues regarding the inefficient supply chain system in India. This belief rests on the premise that a component of the capital inflow into the retail sector will go into developing an extremely efficient and organised supply and logistic system that will take care of collection, storage and transportation of food produce, seamlessly. The government cannot expect the Wal-Mart’s and the Tesco’s to build good roads, without which the supply systems cannot be optimized. This is one of the constraints that Indian retail players are already struggling with. Globally, logistics account for around five per cent of total cost retail players incur, while it is as high as ten per cent in India, thus making a dent in its attractiveness.

- **Higher Profits for Farmers**: The section in the Indian Government that supports foreign investments in retail, believes that such a move has the potential to boost up the lives of our farmers. The underlying rationale is that with the giant retailers setting up shops and investing in fully integrated supply chain from farm gates to supermarket shelves, middlemen in the chain will be cut out. Without the intermediaries, food producers would get higher prices for their produce.

- **Large-Scale Employment Generation**: Proponents of FDI in retail have declared that there will be large-scale job creation in the economy. Union Minister for Commerce and Industry Anand Sharma went one step further by quoting a figure of 10 million as the number of new jobs to be created,
with bulk of that supposedly coming from the logistics sector. For example, through technology retailers can capture a whole Mart lot of segmentation variables and subsequently use them for shopper segmentation. Technology helps to Challenges for Organized Retail Sector. Take better decision in some critical areas such as new product introduction, suitable product offering,

- **Cultural factor:** Now the cultural factor are the quicker ordering and main challenges to FDI in retail sector. Belief of general public is to purchase the goods and services Human resource India as most attractive retail with their nearest local departmental store. market for the second consecutive year in a row but it is lagging behind in the retail labor index and

- **Infrastructure:** Even though there is huge positioned in the 6th place. At this point of time investment coming especially in the area of retail talent is in short supply and employee churn has space development in the form of mall development, been high for all players. It is very difficult to get the challenges remain same from a retailer’s view experienced store managers to run stores. For point as the cost to acquire retail space in mall is example, currently Pantaloon Retail India is increasing. So that infrastructure is another operating around 48 Food Bazaars across the county challenges to organized sector, and planning to increase the number to over 80 stores by the end of 2006. The retailer is ready with.

- **Technology:** Is going to play a major role in retail retail space in different malls and high traffic retail development in India. Retailers are going to location but availability of qualified and experience the impact of technology in retail. Experienced personnel is still a big concern for the currently most of the retailers are operating almost retailer. Almost all retailers are indulged in everything manually. A country where almost 96 poaching which is not a permanent solution. There percent of retailing is in the hand of unorganized is absolutely no issue in getting retailing space in retailers it is predictable that the retailers are going prime locations but the bigger concern is to find have operational inefficiency. They face several additional store managers. The way the sector is challenges like maintaining inventory, ordering and growing in terms of opening stores it is very above all keeping track of customer by maintaining predictable that there is going to be huge scarcity of consumer data base. Technology can be useful in professionals to manage stores. Reliance Retail is this aspect. Most of the organized retailers are using planning to employ half a million work force in available and affordable technology to capture various levels in next five years. Currently the consumer information.

Modern retailers are using sector is facing a shortage of human resources. It is scanner data to figure out answer to lot of questions. Very difficult to develop human capital in a short time span of five years.

**CONCLUSION:** In light of the above, it can be safely concluded that allowing healthy FDI in the retail sector would not only lead to a substantial surge in the country’s GDP and overall economic development, but would also help in integrating the Indian retail market with that of the global retail market in addition to providing not just employment but a better paying employment, which the unorganized sector (Kirana and other small time retailing shops) have undoubtedly failed to provide to the masses employed in them.

Thus, as a matter of fact FDI in the buzzing Indian retail sector should not just be freely allowed but should be significantly encouraged. Allowing FDI in multi brand retail can bring about Supply Chain Improvement, Investment in Technology, Manpower and Skill Development, Tourism Development, Greater Sourcing from India, Up-gradation in Agriculture, Efficient Small and Medium Scale Industries, Growth in market size and Benefits to Government through greater GDP, tax income and employment generation.

Despite the current policy and regulatory environment not being ‘perfect’ for foreign investors, there are clearly moves towards improving the current position and facilitating FDI inflows without having a detrimental impact on various sectors of the economy. The current policy is trying to encourage Joint Ventures in multi-brand retailing so as to boost the domestic retailer’s growth in this area. In our view, the advantages outweigh the disadvantages of allowing unrestrained FDI in the retail sector, as successful experiments in countries like Thailand and China demonstrate. In both countries, the issue of allowing FDI in the retail sector was first met with incessant protests, but allowing such FDI led to GDP.

**REFERENCES:**
