

International Journal of Innovative Research in Science, Engineering and Technology

(A High Impact Factor, Monthly, Peer Reviewed Journal)

Visit: www.ijirset.com

Vol. 6, Issue 10, October 2017

Issues and Challenges of FDI in Indian Retail Sector

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ABSTRACT: FDI (Foreign Direct Invest) means where a foreign country or a foreign company, generally an MNC (Multi-National Corporations), may invest in a country, where the investors retain control over the use of the invested capital. Retail sector in India is emerging as one of the attractive sectors and is able to attract foreign players. It is one of the sunrise sectors with huge growth potential. According to the investment Commission of India, the retail sector is expected to grow three times its current levels, however, in spite of the recent developments in retailing and its immense contribution to the economy, retailing countries 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. This paper is based on some of the important studies for finding the effect of FDI in Indian retail sector. The main aim of this paper is to make some research oriented paths to move forward.

KEYWORDS: FDI, MNC, Retail Sector.

I. INTRODUCTION

Foreign Direct Investment (FDI) is an investment in the form of a controlling ownership in a business in one country by an entity based in another country. It has been playing an increasingly important role in the world economy since the 2nd World War. The active agents making the direct investment are generally the advanced industrial nations. FDI in retail sector is playing an important role in the world economy today.

Indian retail sector is one which is carrying great potential for attracting FDI. After the removal of barriers through liberalization in 1991 foreign countries are more interested to invest in India as India is the second most-populous country in the world which led to immense scope of retail expansion. Further, India's GDP is the second fastest growing economy after the china due to which income is increases of the country and demand for goods also increases because there is ample relation between demand and income. Initially India imposed restriction on foreign countries to limit their investment but later on government of India open up its economy in various sector. In 2006, the government of India first time relaxed retail policy and since then there is gradual increase in FDI in the retail sector. But even then also it relaxed for the single brand retailing and not for the multi brand retailing. Presently FDI in single brand retailing allowed in full fledge that's 100%, in cash and carry also it is of 100% and in multi brand retailing it is allowed up-till 51 %. The entry of foreign retailers firstly led to the improvement in supply chain, especially for food items Secondly, it will increase surplus to small and medium farmers these are some positive aspect of FDI. The main reason behind the allowing of FDI in retail sector of government of India is society particularly farmers and consumers. Apart from this allowing FDI in retail sector increases quality standard, cost competitiveness, strengthening infrastructure, raising productivity, improve the supply chain technology with better skill and expertise knowledge and even raises new employment opportunities.

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II. OBJECTIVES OF THE STUDY

- To make an overview of Indian retail sector.
- To highlight the FDI policy in retail.
- To look into the opportunities and challenges faced by the retail sector.

III. METHODOLOGY

The study is based on secondary data that are collected from various books, journals, research papers, articles and report of government organizations.

IV. ANALYSIS OF THE STUDY

IV.I Indian Retail Sector: An Overview

The presence of retail sector in India can be felt way back from the time of melas and haats, these were meant to cater the need of local people living nearby. The emergence of kiriyana stores and mom & pop stores were observed after sometime. The Government also started supporting the retail sector and as a result a number of indigenous retail stores came into existence. With the passage of time, economy started becoming more open and a changed face of retail sector came into existence. The first few companies which came into existence to set up retail chains were from textile sector (S. Kumar's, Raymond etc).

The Retail Industry can be broadly categorized as: a) Organized retailing and b) Unorganized Retailing.

a) Organized retail marketing:

It refers to the trading carrying out by the licensed retailers. These are basically those who are registered for sales tax, income tax, etc. It includes supermarket and retail chain, and also privately owned large retail business. Presently it constitute 5% of retail market which is very low that's why this is one of the objective of permitting FDI in this sector to increase organized retail about 20-30 percent as this is one of the major source in contributing fund through tax.

b) Unorganized retail marketing:

It refers to traditional format of low cost retailing. This includes the local kirana shops, general stores, paan and beedi shops, convenience store etc. Presently it constitutes 95% of trade in retail market. It is also estimated that less than 4% of Indian retailers have shops larger than 500 square feet.

It is estimated that the retail market will grow to 1.3 trillion by 2020. To achieve such high growth of retail sector there will be need for capital inflow, infrastructure, latest techniques and expertise working etc. These can be achieved by FDI in retail sector.

The retail sector in India comprises three forms of retail trade which are:-

i) Single Brand Retailing:

It is also called as mono bran retailing in which number of different products' are manufactured in the name of single brand name for example- Nike showroom in which number of product like shoes, t-shirt, slippers and other number of different accessories are sold in the name of one brand name.

These are the exclusive show-room which are either owned or franchised out by the manufacturer. If any additional product categories to be sold under single bran retailing it must first has to receive additional Government approval. So sale of multi brand goods is not allowed even if produced by the same manufacturer.

ii) Multiple brand retailing:

Generally, multiple brand retailing means selling of multiple brands under one roof. In it consumers of goods have very wide choice. This includes all firms in organized retail that seek to stock and sell multiple brands such as Wal-Mart and Carrefour these are international retailer's. This sector is the most disputed sector in India for permitting the FDI in it as there are many divergent views which are raised by the opposition and also some observation are made by the Standing Committee.

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iii) Cash and Carry retailing:

It also refers to wholesale retail. The government defines this segment as the “sale of goods and merchandise to retailers, industrial, commercial, institutional, or other professional business users or to the other wholesalers and related subordinate service providers”. FDI in cash and carry permitted in India 100%

IV.II FDI policy in retail

FDI policy related to Single Brand product Retail Trading

FDI in Single Brand product retail trading is allowed 100% viz. automatic up to 49% and Government route beyond 49%. The circular shows that Foreign Investment in Single Brand retail trading aimed at attracting investments in production and marketing, improving the availability of such goods for the consumer, encouraging increased sourcing of goods from India, and enhancing competitiveness of Indian enterprises through access to global designs, technologies and management practices, as Per DIPP consolidated FDI policy circular of 2015.

FDI in single brand product retail trading is subject to certain conditions such as:

- ❖ Products sold should be of same brand internationally.
- ❖ Products to be sold should be of single brand only.
- ❖ In case of proposals involving FDI beyond 51%, sourcing of 30% of the value of goods purchased will be done from India, preferably MSME's, village and cottage-industries, artisans and craftsmen, in all sectors.
- ❖ 'Single Brand' covers only products which are branded during manufacturing.
- ❖ Applications would be processed firstly by DIPP and then by the FIPB for government approval.

FDI policy related to Multi Brand Retail Trading

Standing Committee of parliament in its 90th report in 2009 made a major finding as to the impact of allowing FDI in Multi brand. These are:-

- There is a risk of creating unfair competition and large scale existence of small scale.
- Fear of creation of large scale unemployment in unorganized retail sector.
- Indian Organized sector still in fledgling stage and require protection in order to settle down.

Due to this reason FDI in multi brand retailing is not permitted till 2011. Later on, in 2012 the government of India allowed 51% FDI in this sector but this is subject to certain conditions:

- ❖ The foreign investor must bring a minimum amount of US \$ 100 million for investment.
- ❖ At least 50% of the investment bought should be invested in 'back-end infrastructure' within three years. Expenditure on land cost and rentals will not be included in infrastructure development.
- ❖ At least 30% of the products purchased must be sourced from Indian micro, small and medium industries (total investment in plant and machinery not exceeding US \$ 2.0 million)
- ❖ Fresh agriculture produce (fruits, vegetables, flowers, grains, pulses, fresh poultry, fishery and meat products) may be unbranded.
- ❖ Government possess the first right of procurement on agriculture produce.
- ❖ Retail outlets are allowed to be set up in cities with a population of more than 10 lakh as per 2011 census survey, or any other cities as per the decisions of the respective State Governments.
- ❖ The policy for FDI is an enabling policy and the state governments are set free for implementation of the policy.

Retail trading in any form by means of e-commerce is not permissible for FDI, engaged in multi brand or single brand retail trading.

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IV.III Challenges and opportunities facing by retail sector Challenges facing by retail sector in India

The major challenges which Indian retail sector would face includes shortage of skilled manpower, lack of industry status, Policy induced barriers, challenges resulting from Inappropriate planning and forecasting and financial risk due to high and substantial leverage etc. Some of which are given below:-

- a) Supply chain:** Finance Minister Pranab Mukherjee in his 2010-11 budget speech had emphasized on the reduction of wastages estimated at 40 percent of National Produce in storage as well as in the operations of the existing food supply chains in the country. Catering to people in 35 states and union territories is equivalent to catering to people in 35 countries, leading to complexities in merchandise/ inventory management. Infrastructure has been developing at a rapid pace over the past decade but has still a significant ground to cover; the planned expenditure of US\$ 1 trillion in the 12th five year plan will help bridging this gap.
- b) Channel conflicts:** The retailers need to maintain a direct relationship with their suppliers. Due to the complex taxation structure and geographic spread of the country, most FMCG companies have developed regional distribution and re-distribution network. Cutting out the distribution network will hurt operating structures of distributors, who as an industry body in the past have opposed FMCG companies selling directly to retailers.
- c) Location and rental:** Finding the right location with the right rental for stores has been a challenge for all retailers. Rent forms a large portion of the total expenditure (6 to 11 percent of the revenue) in retailer's income statement and can more often than not convert a profitable store into loss making. The challenge for a retailer would be to find the right location for their stores either in malls or as a standalone store to be able to generate enough footfalls.
- d) Regulatory:** Currently, indirect taxation structure is complex in India with varying tax rates, multiplicity of taxes and multiple tax enforcement authorities. Goods and Service Tax likely to be implemented in 2011 will replace a host of levies like excise, sales tax, value-added tax, entertainment tax and luxury tax. Opening a new store requires a lot of licenses, which have to be obtained from different government departments leading to considerable lead time in opening up of the stores. A push has been made by existing retailers to get the government to have a single window clearance for getting all the licenses at one place to speed up the process.
- e) Unique Indian customer:** The Indian consumer experiencing modern retail has now warmed up to this idea. Buying habits have still not changed, where people prefer to buy most of the fruits and vegetables on a daily basis.

Opportunities of FDI to retail sector in India

FDI in retail would have been an opportunity to attract inflow of funds which would have resulted in major benefits for the Indian economy:-

- a) 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.
- b) 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.
- c) Supports Improved Standard of Living:** Allowing FDI in Indian Single-Brand Retail will certainly bring more sophisticated and luxurious goods and services to the country. Availability of such goods backed with good promotional support will definitely motivate the Indian buyers to buy and consume them. It will be certain that the standard of living of the consumers will be improved.
- d) Supports the growth of Indian small industries:** If the consumers in India buy goods at foreign single-brand outlets, established in India and enjoy the shopping experience, in reality, they would be actively contributing towards significant money transfer to a multinational based out of the USA, which after retaining profits, would end up sending majority of this money to China, where most goods are being manufactured. The government appears to be cognizant of this very issue, which is why they proposed that at least 30 per cent of the procurement of manufactured / processed products shall be from "small industries" (presumably this refers to "small industries" in India). This aspect will lead to support the growth of the small industries in the country.

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e) Efficient supply chain system : 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 organized supply and logistic system that will take care of collection, storage and transportation of food product.

f) Enhanced Shopping Environment and Experience: Consumers in India mostly suffer from unhygienic experiences, erratic price and irregular availability in daily food and FMCG products. Many established foreign retail giants that are known for low pricing, creation of pleasant shopping environment, maintenance of hygienist, better customer care, effective inventory management and storage facilities shall efficiently contribute for eradicating the said problems and make the shopping very productive and a happy experience to the customers in India.

g) Elimination of Food Wastage: Presently the highly unorganized and inadequate supply chain in India is considered responsible for the wastage of about a quarter of the total produce between the harvest and the consumption stages. In theory, development of an efficient end-to-end cold chain will make it possible to eliminate this wastage during the collection, storage and transportation of fresh produce from farms to supermarket shelves. The increase in supply base of food items due to elimination of waste will supposedly translate into higher income for farmers and consumers.

h) 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.

i) 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, the Wal-Mart, whose global turnover is close to size of India's entire retail industry, employs only 2.1 million people.

j) 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.

V. CONCLUSION

It can be 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 playing employment. For these, open communication should be established between functional departments. A balance should be maintained between brand building and promotion. Non-marketing factors like gas prices, weather etc. should be avoided and new schemes should always be launched. The Retail

Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. But all of them have not yet tasted success because of the heavy initial investments that are required to break even with other companies and compete with them. The India Retail Industry is gradually inching its way towards becoming the next boom industry.

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