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The advantages and disadvantages of FDI in multi-brand retail

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ABSTRACT

Retailing is the interface between the producer and the individual consumer buying for personal consumption. As such, retailing is the last link that connects the individual consumer with manufacturing and distribution chain. This paper tries to establish the need of the retail community to invite FDI in multi brand retailing. FDI inflows in Indian retailing, there are few issues to be addressed its pros and cons to be discussed, for the regularization of the different retailers working in different areas, etc. In spite of so many reasons behind allowing and not allowing FDI from entering our Indian borders, there are few examples of other developing countries who initially protested against the entry of foreign investment in retail sector and then, later on proved out to be the most effective decision in country‘s development and standing in the world. The Government recently announced FDI in retail; namely 51% in Multi Brand Retail and 100% in Single Brand; but fortunately or unfortunately had to roll back the same due to political opposition both within and outside the coalition. Foreign investment has always been constantly growing in the retail Sector. This is primarily due to the reason that foreign investors have always viewed the Indian Market as a potentially profitable market in addition to housing the second largest population in the world. The opening of the retail sector offers tremendous opportunities to the foreign Investors and gives them access to effectively more than a billion customers.This paper will put light on the advantages, disadvantages and challenges faced by FDI in retail in single and multi-brand

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KEYWORDS: Foreign Direct Investment (FDI), Single brand retailing, multi brand retailing,

RETAIL SECTOR IN INDIA -

An Overview

Retailing in India is slightly different than in developed markets, in that it is divided in to organized and unorganized retail. Organized retail could be described as when trading is taking place under a license or through people that are registered for sales tax or income tax. Unorganized retail is India's more traditional style of low-cost retailing, for example, the local kirana shops, owner-manned general stores, convenience stores, hand carts and pavement vendors. This division of the retail sector, which has a very heavy weighting towards, unorganized, is just one of the issues contributing to the sensitive debate on FDI in India at the moment. From street/cart retailers working on pavements/ roadsides and small family run businesses to international brands such as Rolex and Nike , the retail market in Indiais vibrant, colorful and highly fragmented. As retailing in India is attracting the attention of many global players, the Indian Government is paying increased attention to the country's retail environment. FDI in retailing remains a widely debated and heated issue in India's economic and political environment. However, the Government is gradually taking steps to open the sector That India should be well on the radar for foreign retailers was recently supported by A.T. Kearney, whose 2011 Global Retail Development Index ranks the nation as fourth globally. India's retail industry is estimated to be worth approximately US$411.28 billion and is still growing, expected to reach US$804.06 billion in 2015. As part of the economic liberalization process set in place by the Industrial Policy of 1991, the Indian government has opened the retail sector to FDI slowly through a series of steps.

OBJECTIVES OF STUDY

To study the need of opening up of FDI in multi-brand retail.

To analyze the positive and negative impacts of the reforms to be undertaken.

To review the challenges to be faced by FDI's while investing in India.

To evaluate the advantages and disadvantages of FDI in single and multi-brand segment.

DATA AND RESEARCH METHODOLOGY

The descriptive research methodology has been used to collect the data. To evaluate the overall position of the entry of FDI in multi brand retail in India, secondary data has been collected from various published sources and websites from the year 1991 to 2013 fewassumptions from the future.

PAST REVIEWS ON FDI GROWTH IN INDIA

Most of the front line players who had freezed their spreading out plans are reviving their decisions in the last couple of months. Moreover, for the 4th time in five years, India has been ranked as the most attractive nation for retail investment among 30 emerging markets by the US-based global management consulting firm, A T Kearney in its 8th annual Global Retail Development Index (GRDI) 2009. India remains among the leaders in the 2010 GRDI and presents major retail opportunities. India's retail market is expected to be worth about US$ 410 billion, with 5 per cent of sales through organized retail, meaning that the opportunity in India remains immense. Retail should continue to grow rapidly—up to US$ 535 billion in 2013, with 10 per cent coming from organized retail, reflecting a fast-growing middle class, demanding higher quality shopping environments and stronger brands, the report added. Foreign direct investment (FDI) inflows between April 2000 and April 2010, in single-brand retail trading, stood at US$ 194.69 million.

THE ROAD AHEAD

According to industry experts, the next phase of growth is expected to come from rural and semirural markets . According to a market research report published in June 2000 RNCOS titled, 'Booming Retail Sector in India', organized retail market in India is expected to reach US$ 50 billion by 2011. The key findings of the report are:

Number of shopping malls is expected to increase at a CAGR of more than 18.9 per cent from 2007 to 2015.Rural and semi-rural market is projected to dominate the retail industry landscape in India by 2012 with total market share of above 50 per cent Driven by the expanding retail market, the third party logistics market is forecasted to reach US$ 20 billion by 2012 Apparel, along with food and grocery, will lead organized retailing in India.Leading watchmaker Titan Industries Limited plans to invest about US$ 21.83 million for opening 50premium watch outlets Helios in next five years to attain a sales target of US$ 87.31 million. "We are looking to open Helios outlets in Mumbai, Delhi, Hyderabad Kolkata, Chennai, Pune, Ahmedabad etc in next 12 months," said AjoyChawla, Vice President (Retail), Titan. Bharti Retail strengthened its position in northern India by opening 59 stores, BhartiWalMart is expected to open 10 to 15 wholesale locations in the next three years.Established retailers are tapping into the growing retail market by introducing innovative store formats. Spencer's Retail, More (owned by Aditya Birla Group) and Shoppers Stop (owned by K Raheja Group) already plan to expandBritish high street retailer, Marks and Spencer (M&S) plans to significantly increase its retail presence in India, targeting 50 stores in the next three years. M&S currently operates 17 stores in India through a joint venture (JV) with Reliance Retail. Chinese retail major, Yishion has entered the Indian market and plans to have at least 125 points of sales, including exclusive stores and multi-brand outlets, across India by 2012. It has opened its first exclusive store in New Delhi this year. Spain's Inditex, Europe's largest clothing retailer opened the first store of its flagship Zara brand in India in June 2010. It further plans to open a total of five Zara outlets in India. Bharti Retail, owner of Easy Day store—supermarkets and hyper marts—plans to invest about US$ 2.5 billion over the next five years to add about 10 million sqft of retail space in the country by then, according to a company spokesperson. Raymond Weil plans to invest US$ 883,665 in India during 2010, according to Olivier Bernheim, President and CEO, Raymond Weil. While there are reports of international retailers like Tesco, Carrefour analyzing business opportunities in India; Reliance, the largest Indian conglomerate is investing $3.4 billion to

ARGUMENTS IN FAVOR OF FDI IN RETAILING

FDI in retailing is favored on following grounds:

(1) The global retailers have advanced management know how in merchandising and inventory management and have adopted new technologies which can significantly improve productivity and efficiency in retailing.

(2) Entry of large low-cost retailers and adoption of integrated supply chain management by them is likely to lower down the prices

(3) FDI in retailing can easily assure the quality of product, better shopping experience and customer services.

(4) They promote the linkage of local suppliers, farmers and manufacturers, no doubt only those who can meet the quality and safety standards, to global market and this will ensure a reliable and profitable market to these local players.

(5) As multinational players are spreading their operation, regional players are also developing their supply chain differentiating their strategies and improving their operations to counter the size of international players. This all will encourage the investment and employment in supply chain management.

(6) Joint ventures would ease capital constraints of existing organized retailers..

(7) FDI would lead to expansion of opposite sell formats as good as modernization of a sector.

(9) Industry trends for retail sector indicate that organized retailing has major important

(10) FDI in retail trade would not attract large inflows of foreign investment since very little investment is required to conduct retail business. Goods are bought on credit and sales are made on cash basis. Hence, the working capital requirement is negligible. On the contrary; after making initial investment on basic infrastructure, the multinational retailers may remit the higher amount of profits earned in India to their own country.

DISADVANTAGES OF FDI IN MULTI-BRAND

The decision set off fears that multinational giants will put small retailers and local shops that service households will be wiped out. Those in favour of FDI say that this unlikely since local mom-and-pop shops give personalized services like home delivery that these huge deep-discount stores won't

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FDI in multi-brand retail has many pre-conditions, though. The minimum FDI limit has been set at $100 million. Half of any investment has to be made in infrastructure like cold-storage chains and warehouses. This is designed to help the agricultural sector and India has a severe shortage of these.

The most problematic condition, from the point of view of investors, will be that at least 30 per cent of the goods to be sold will have to sourced from local producers. Analysts say that MNCs might have a problem of quality control and supply.

Conclusion

FDI is single-brand retail was already permitted, but that too with several conditions, including 30 per cent local procurement. The government now says if companies don't want to procure 30 per cent locally, they will have to set up a manufacturing unit. Household goods giant IKEA of Sweden wants to invest more than Rs. 10,000 crore to set up stores, but wants this rule to be relaxed. There is split within the government over this.

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