**Title of Paper : FDI in Retail sector in India – Challenges and Strategies.**

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**Synopsis:** The aim of this paper is to study and analyze the various issues related to FDI in the fast growing organized Retail sector in India. Based on the literature survey and analysis of the current and proposed FDI policy of the Government of India a set of strategies are proposed to derive maximum benefit to all stake holders.

**Executive Summary:** In this paper an attempt is made to understand the various issues related to FDI in retail sector in India and recommend a set of risk proof strategies for the benefit of all stake holders.

**Objectives:**

- Study the various aspects of FDI with special focus on the emerging Retail sector in India.
- Analyze the past and current policy regime in India.
- Propose a strategic framework for FDI in organized Retail sector in India.

**Methodology:** This paper highlights the implications of FDI in Indian retail on the basis of secondary information gathered from diversified sources which include literature survey, news paper articles and the internet.

**Literature Survey:**

India is a trillion dollar economy. Indian retail industry is the largest industry in the private sector employing around 7% of total labour force and contributing to over 10% of the country's GDP. It is six times bigger than Thailand and five times larger than South Korea and Taiwan. India is in the midst of a retail boom. It is currently valued at US $ 450 billion. India is one of the hottest retail destinations, occupying 4$^{th}$ position in AT Kearny global retail development index( Nov,2011). The change in life style, education, travel and disposable income has changed the consumption pattern of Indian consumer. Understanding the pulse of the market, large corporate groups such as ITC, Reliance, TATA, Birla.. are investing huge amounts in organized retail trade. Aditya Birla plans to open 10 hyper markets and 100 super markets. Spencer’s will add 25 markets. Reliance plans to open 150 stores in the coming year.

**Key words**: FDI, strategy, organized retail sector, frame-work, challenges

**Reasons for the growth of retail trade:**

According to World Bank report, it is suggested to have organized retail trade to have an easy control over prices. The demographic changes makes more attractive for modern retail trade. 60% of Indian population is below 30. Extensive use of credit cards, E coupons, automated shopping cards have helped the retailers to offer convenience to customers.

During the last six years, India has witnessed an impressive boom in retail, registering an annual growth in value of 9.3 per cent. This market has been attracting substantial investments from organized companies wishing to grab their share of the pie, as shown in below.


To increase their market penetration, retailers have been focusing their strategy on two critical success factors: Reach and consumer experience.(Deepak Sharma etl..Kanvic Consulting, Nov, 2011).

**<u>Why FDI in retail</u>**? Increasing consumer population, rapid advancements and changes in technology provide companies with both opportunities and challenges to enter organized retail. This provides a unique opportunity to large MNC's with deep pockets and long term strategy to invest in the rapidly growing retail sector. Otherwise Indian consumers who can afford are taking money and spending abroad. Thus the share of money that should have gone to the organized retail in India is being spent outside the country. Unlike Singapore and Dubai which have acquired the reputation of shopper's paradise, India is still primitive due to lack of modern retail trade practices. India does not have customized discounts. Customers are missing a broader variety of products, services and prices. Organized retail does not work beyond city areas. Brand penetration is lower. The WTO has also been planning to withdraw tariff and trade privileges provided to India under the new General Agreement on Tariffs and Trade if FDI is not allowed.

Therefore FDI in retail would accelerate the process of liberalization. As per the literature survey, it is beneficial to both farmers and consumers.

As per Mr Bijou Kurien, President and CEO of Life Style Reliance Trade, the 450 billion dollar Indian retail sector employs 35 million people across traditional and modern retail. Retail is the second largest employment generator after agricultural sector and modern trade

will create 18 million new jobs by 2022. FDI will help in speedy investments and job creation.
Farmers will have better supply chain mechanism which will channelize his produce of farm produce to markets without wastage. This could bring down food inflation, as perishables will not be wasted.
Consumers will get better variety, bigger choice of options to shop at and hopefully better prices. Bigger chains to able to offer cheaper prices by 3-7% over current prices offered by small retailers. “Small is beautiful but bigger is cheaper”. Foreign investment in retail can set off chain of processes that make bigger retailers offer lower prices by eliminating middleman.
The policy guideline on procurement of 30% from SME sector will give a boost to the sagging SME sector.
Minimum investment of 100 million dollars ensures long term business with adequate back end infrastructural investment.
The policy guideline on location of retail outlets in cities with minimum population of 1 million will protect the vendors in small towns.
FDI will enable transfer of best practices, global sourcing mechanism and efficient supply chain mechanism.
This is already experienced by Indian consumers who have benefited due to the FDI in automobile and consumer durable industry.
MNC and large home grown retailers can lay down better and tighter quality standards and ensure that manufacturers adhere to them. Suppliers to large retailers can use their relationship as a stamp of quality.

With FDI in retail trade, India will become more integrated with regional and global economies in terms of quality standards and consumer expectations.

Allowing FDI in retail would contribute to a multiple impact not only in retail sector but also in many other activities such as manufacturing, food processing, packaging and logistic services.

Tax compliance would be greatly facilitated through a more organised retail network in India, generating more revenue for the central and state governments.

Retail sector has a strong bearing on tourism. Singapore, Hong Kong and Dubai are the examples.

FDI will enable Indian manufacturing to get integrated with the global supply chain.

The largest benefit in the medium term is a strong up-gradation of India’s agriculture and small and medium manufacturing sectors. Recent studies show that potato farmers of Bengal have benefited immensely due to the contract farming model implemented by Pepsi to meet the requirement of potatoes for manufacturing chips. India’s agriculture and small and medium manufacturing sectors will become more efficient.

**Current scenario:** India is known as Nation of Shop keepers with around 12million retail outlets. The share of unorganized sector is around 96%. Food & Grocery constitutes about

71% of total retail sales. Retail is second largest employer after agriculture contributing to 7% of total labour force and is expected to generate 2.5 million new jobs by 2015. Close to 63,000 retail outlets have been constructed in urban areas between 2001 and 2010. While the retail space in sq. ft. rose by a CAGR of 42.9 per cent between 2001 and 2011, aggregate sales increased by only 35.8 per cent during the same period. In parallel to this, costs have also been put under pressure by high and unstable rental prices. Retailers thus operate more shops, but each one generates higher costs, and less revenue per square foot. The weight of rental costs in sales is actually above the international average. India is a land of large number of unorganized retail outlets owned and managed by family businesses. The brands planning an India entry include

Among 23 FDI (foreign direct investment) proposals worth US$ 119.6 million cleared by the Government recently are Damas LLC's (single-brand retail) plans to establish a joint venture company with Gitanjali Lifestyle Ltd for retail trading of jewellery and related accessories, Lazard India Mauritius's FDI contribution of US$ 26.5 million, FT Singapore's plans to make investment up to 100 per cent in the issued and paid-up capital of Financial Times India, FIM Bank, Malta (US$ 5.3 million FDI), Era Infra Engineering (US$ 7.4 million) and Hyatt Group company – HP India Holdings Ltd, Mauritius's plans to establish hotels, in a joint venture with Emaar MGF for US$ 26.5 million.

As India does not allow FDI into multi-brand retail, mega US stores such as Wal-Mart have entered the country only for wholesale trading known as 'Cash and Carry'. Hyatt Group Company – HP India Holdings has tied up with Emaar MGF to form 'Aashirwad Conbuild Ltd', which will have foreign equity at 26 per cent corresponding to an investment of US$ 26.5 million-US$ 31.8 million over the next five years, while the 74 per cent will be held by Indian partner.

The Bharti Wal-Mart joint venture has finally opened its first cash-and-carry store, nearly two years after announcing its plans, and intends to open 15 such wholesale stores in the next three years. Two European retail majors, Tesco and Carrefour, have announced similar plans while the German group Metro has already established an Indian presence. Dow Jones & Co Inc is pumping in foreign direct investment of US$ 458,114 in setting up the wholly owned subsidiary in India.

**<u>Current policy regime in India is as follows.</u>**

1) Single brand retailing up to 100% with government approval and subject to policy guidelines.
2) Cash & carry wholesale trade 100 % on automatic route.

FDI inflows into the country for the year 2010-11 amount to US$ 32 billion. Some of the beneficiaries of the current policy regime are as follows.

The Pizza Company and Spicchio Pizza (both pizza chains from Thailand), Coffee Club from Australia, Lolita Fashion, a Japanese brand, Revive Juice Bars from the UK, Mrs Fields Cookies and Jamba Juice from the US, and Jules- French fashion brand. One cannot ignore the WALMART's back door entry in wholesale operations in Indian retail. The major markets which are hit by retail slump attracted many national and international players to enter this sector in a big way. Several brands are targeting grade B and C cities rather than expanding in metros, as smaller cities are more brand hungry and retail is not yet hit these cities. With the presence of limited brands in Indian markets the country holds big opportunity for these brands as this would also help them re-route inventories and orders to new markets and keep their sagging sales volume intact.

**The Challenges:** Some of the challenges are listed below.
Opening of retail sector to FDI has created political divide and opposition from small traders.
Global retailers will harm thousands of small retail outlets and emerging domestic retail chains.
FDI in retail will lead to fierce competition rather than enhancing business potential.
There is likely to be an increased competition for the limited land available in cities and towns resulting in escalation of real estate prices.
FDI in retail will marginalize the domestic entrepreneur.
Financial strength of foreign players may severely impact the unorganized players.
FDI in multi brand retail as proposed by the recent government bill will hit 14.6 million unorganized retailers and intermediaries resulting in job losses.
Monopoly procurement and farm practices of MNC retailers may impact the livelihood of millions of small and marginal farmers. This may result in making farming un remunerative.
MNC retailers like Wal-Mart may use their existing supply base in China to procure low cost goods. This may wipe out the local industry.

**Strategies for FDI organized retail sector in India.**

Based on above, the researcher proposes the following strategy for meeting the challenges and minimizes the impact to all stake holders.
Organized retail whether domestic or multinational present equal risks. Therefore the need of the hour is to have a calibrated risk management approach.
Deskilling: The new jobs created in the organized retail require different set of people with new skills. Deskilling and retraining the people who are displaced will enable them to work in the organized retail.
Small home grown brands will have to review and revise their market strategies in order to survive.
Retail FDI policy should consider banning the entry of new brands for 5 years so that local brands are protected.
Policy on retail should reexamine the regulation on imports by MNC retailers.
Create a level playing field to protect small and marginal farmers.
Encourage and incentivize deployment of green technologies for power, water and temperature control systems to minimize the impact of green house gases. Retail chains should be carbon neutral.
Farmer cooperatives should be incentivized to develop and deploy cold chain, transportation and logistics to minimize post harvest losses.
Implementation of single goods and services tax (GST) across the country will avoid delays and losses due to local tax collection bottlenecks.
Transparent and user friendly systems and procedures need to be evolved and implanted both at state and central government level for land procurement and usage.

Simplification of shops and establishment act, Weights and measures act and APMC act will go a long way for speedy implementation of projects and minimize cost escalation problems.
FDI should be permitted only in joint venture format in sectors/products where threat perception due to cheap imports and dumping by China exists.
Lending policies of banks and financial institutions should be reviewed to make them investor friendly.

**Conclusion:** The arguments for and against FDI in retailing in the country are purely based on perceptions of few trade and political lobbies. It may not be appropriate to compare India with the experiences of other countries in this regard as there has not been sufficient data to support or oppose it. It is a favourite cliché to drag China and Thailand as case in point to support or oppose FDI in Indian retail. More academic and industrial research is needed to substantiate any claims in this area. India needs FDI in retail sector to give a boost to the investment climate.

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