

Role of FDI in Indian Retail Business

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Abstract: *Liberalization Globalisation Privatisation have brought in radical changes in the Indian Retail markets. Retail Business is a global concept nowadays. Retail business grew between 25 - 30 percent in India and 13 percent in fast growing economies China and Russia. India is more attractive than ever to global retailers. India's economic growth was 8 percent. With the increase in the purchasing power of the people the retail business is sure to flourish Retailing in India is one of the pillars of its economy and accounts for 14 to 15 percent of its G D P. The Indian retail market is estimated to be US dollars 450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail market in the world, with 1.2 billion people. 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 percent of its goods from. The government allowed 51% foreign investment in multi-brand retail, relaxed FDI norms for civil aviation and broadcasting sectors and FDI cap in Broadcasting was raised to 74% from 49% and allowed foreign investment in power exchanges in September, Oct 2012. The growing affluence of India's consuming class, the emergence of the new breed of entrepreneurs and a flood of imported products in the food and grocery space, has driven the current retail boom in the domestic market.*

Keywords: FDI, India, Retail Business

1. The Concept of Retailing

The uproar as to the FDI in Retail is not alien to any citizen of the Indian Republic. The pros and cons of the coming of the foreign retailers carry weight in themselves and as an economist I feel my opinion differs from time to time; as is the case, while one community seems benefitted [peasants], the other i.e., small-scale retailer and manufacturers, is considerably threatened. Now, this stalemate is likely to agitate the political framework of the nation; each time the issue comes to the fore, the very battle of anticipation and apprehension begins; should we anticipate a success as the government says, or shall we be apprehensive, the way the opposition says.

The consumer goods are distributed from the producer to at the ultimate consumer. Between the producer and the consumer there is a middleman—the retailer, who links the producers and the ultimate consumers. Retailing is a conclusive set of activities or steps used to sell a product or a service to ultimate consumers.

A retailer is a person, agent, agency, company, or organization which is instrumental in reaching the goods, merchandise, or services to the ultimate consumer. Retailers manages specific activities such as anticipating customer's wants, developing assortments of products, obtaining market information, and arrangement of finance. Thus, retailing involves only the sale of products or commodities eclipsing the very concept of sale of services which is an indispensable part of Retail Management. Nowadays selling is not only confined to stores but retailing encompasses selling through the Internet, door-to-door visits, television or even radio channels and numerous multimedia techniques. Manufacturers like Dell, HCL, hp, Intel computers may sell commodities and even services [like repair, etc.] directly, thus also performing the retailing function.

Retailing is essential part of a nation's economy and business environment. The nation can make the economic progress with a strong retail sector. The success of

retailing depends upon the easier access to a variety of products provided deftly, especially by a vibrant and effective retailing sector, the freedom of choice it endows the consumer with, and high levels of customer service.

In retailing, a firm must do a satisfactory job in its primary role i.e., catering to customers.

2. The Indian Retail Industry

But “organised retail”, such as hypermarkets, supermarkets and department stores, is still rare in India, accounting for just 4% of the country's \$322 billion market. Most Indian shopping still takes place in millions of independent grocery shops, or kirana stores, manned by the owner and perhaps a put-upon assistant or two. And people hand-pick their fresh fruit and vegetables from hand-cart hawkers and pavement vendor.[1]

3. Agrarian Retail

Wal-Mart, Tesco, Metro, have opened up their centres in other developing nations like Brazil and China. In India they were opened up as whole-sale centres until recently when they were given a green signal recently. [2]

Farmers would benefit markedly from it; since, it would mean the exclusion of the middle men who as per the farmers charge an unfair price. [3]

Most Indians shop at vendors' or unorganised mini-retail shops.

The government's move to change this is aimed at not just improving the customer's experience but also because up to 40% of the produce is lost due to poor storage.[4]

The debate on allowing FDI in multi-brand retail finally headed towards a conclusive decision with the Committee of Secretaries giving its nod for 51 % FDI in multi-brand retail. [5]

While India is among the world's most exciting retail destinations, according to a Price water house Coopers and Confederation of Indian Industry study, many global retailers have not had full access to this \$590 billion market. So far, Indian law allows up to 51% foreign investment in single-brand retail and 100% in cash-and-carry format. [6]

4. FDI: Major Concern

The major concern regarding FDI is the harm it would cause the local retailers. The local retailers would be rendered unemployed. India has about 20 million small vendors who operate out of neighbourhood markets or corner shops; the coming of big retailers can likely to wipe them out."The entire supply chain will be badly affected, from the sellers to the truckers to the rickshaw-pullers and the loaders - all of our earnings depend on this trade," says one vegetable seller in an interview with BBC. [7]

Economist Mohan Guruswamy of the Centre for Policy Alternatives alleges multi-brand retail of catering only to elite Indians. As per him, the benefitted lot will be 1 to 2 percent and the average Wal-Mart store will displace 11,200 people and replace them with 285 people. [8]

5. The factors favouring FDI

The farmers will benefit hugely from the entry as the expulsion of middle-men would give them better prices and the shortening of the retail chain would curb the food-inflation; the reforms therefore, are a necessity.

Stung by the protests, the government asked the Indian Council for Research on International Economic Relations [ICRIER], an independent think-tank, to measure the impact of organised retail on the disorganised sort. It unveiled its findings this week. When an organised retailer opens nearby, small retailers typically lose about 23% of their sales in the first year, the report finds. But after five years they are more or less back to where they started. [9]

Only a tiny fraction of stores [1.7%] close down each year, and some even hire more people to improve their home-delivery service. Even five years from now, traditional retailers will control 85% of the market, the report projects. Retail dictatorship remains some years off. [10]

The reform is likely to contain clauses for safeguarding the small-sale retailers; the zoning requirements for organized retail would tend to keep small traders in the business.

As per the Committee of Secretaries, "the gap between farm gate prices of agricultural produce and the retail prices [in India] are amongst the highest in the world as also amongst the emerging markets." [11]

China made a similar move in 2004 and has benefited hugely.

The committee's direct words, as quoted by the cited "Wall Street Journal" article, "Capital inflows into retail will ...help bridge the current account deficit and the gap

between imports and exports of goods and services in India. Further, as international retailers begin sourcing in India, they could eventually help few small producers export some of their produce and ease the pressure on the current account." [12]

The capital inflow coupled with the inflation curbing and to add to it the inclusion of the small-scale retailers which would be instrumental through the "zoning" clause. [13]

6. Organised Retail: Benefits

1. Low Cost of Goods:

A local shopkeeper has to keep better profit margins per item because the number of items he sells is far lower than the big box retail stores. The concept of Big Box retail stores is all about selling products in a large volume and their smaller margins multiplied by the number of goods they sell eventually results in humongous profits. A common person like you and me benefits from cheaper goods.

2. Quality and Cleanliness:

Sub-standard items won't likely be found in these retail stores. These stores only offer branded items for sale, placed nicely in designated sections and the cleanliness inside them will be much better than what is usually found in smaller shops or the local market.

3. Everything at one place:

Making multiple stops at various shops is able to be dispensed with as one big store very well caters to all the demands.

4. Elimination of Fake [Duplicate] and sub-standard goods:

Fake goods are often, rather primarily excluded from these supermarkets. Hence, a security over brand authenticity is very well provided by these big markets especially in a market like India where such cheating can be quite common.

5. Customer Satisfaction:

Among all the conveniences, customer satisfaction is usually much better in bigger retail stores.

6. More tax collection:

The concept of black money is fairly common in India. People do not disclose all their profits and try to dodge the tax as much as possible. Corporations which own these big retail stores cannot take the risk of fraudulent tax activities and their reporting is fairly honest, even though they may find legal ways to reduce the tax. [14]

7. Co-operative Retail

Co-operative Retail implies that the small-scale retailers shall combine to form larger retail outlets. However, the till-date existing propensity of the Indian business man to work in traditional separatist manner has caused these reforms to be necessary; also, the apparent lack of finance required for cold-storage can also be deemed as a possible issue.

8. Conclusion

Retail happens to be a primarily unorganised sector of the Indian business environment. The whole prospect of the FDI stores to bring about management and organisation into the unorganised retail sector.

The sector needs reform for the economy, and it will benefit; but, the point is that if mass unemployment is generated, the economy will be at its worst end, and the people's sentiment in the economy would be shaken. [15]

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