Foreign Direct Investment in Indian Retail Sector - A SWOT Analysis

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ABSTRACT

This paper traces the economic progress made by India's Retail Sector in the planning era, and the emerging issues under globalization. It examines the socio-economic magnitudes, problems and challenges of the country as well as the pitfalls in FDI planning in India. The paper also makes some policy suggestions to address the constraints in promoting sustainable FDI in India.

In view of some of short coming observed in the SWOT analysis, FDI in retailing is going to attract retail players by Indian Government, but India should welcome them with a talented pool of human resources by promoting institution imparting knowledge in retailing. protection must be given to Indian small and medium retailers as retailing is their source of live hood.

I. INTRODUCTION

India's retail sector has undergone a rapid transformation over the past decade and this process is expected to strengthen in coming years with the rise in population, per capita income and urbanization. Potential to be the real growth engine of a country's economy. Growing consumerism, changes in consumers' tastes and preferences, and heightened brand consciousness has been fast replacing traditional mom and pop stores with organized retail malls that house lifestyle and luxury brands from national and international retailers.

Indian retail industry is the biggest industry in comparison to other industries. It occupied 14% of India's Gross Development Product and near about 8% of the employment.

Foreign Direct Investment (FDI) as defined in Dictionary of Economics is investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new site. In short FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. In November 2011, India's central Government announced retail reforms for Multi Brand Stores and Single Brand Stores. The announcement sparked intense activism. In July 2011 the GOI has recommended FDI in retail sector as –

(a) 51% in Multi - Brand Retail.
(b) 100% in Single - Brand Retail.

II. FOREIGN DIRECT INVESTMENT IN INDIA'S SINGLE AND MULTI-BRAND RETAIL

(a) FDI in "single-brand" retail

Up to 100 percent FDI is permissible in single-brand retail conditions stipulate that:

(i) Only single-brand products are sold
(ii) Products are sold under the same brand internationally
(iii) Single-brand products include only those identified during manufacturing
(iv) Any additional product categories to be sold under single-brand retail must first receive additional government approval

FDI in single-brand retail implies that a retail store with foreign investment can only sell one brand.

(b) FDI in "multi-brand" retail

FDI in multi-brand retail generally refers to selling multiple brands under one roof. Currently, this sector is limited to a maximum of 49 percent foreign equity participation.

In July 2010, the Department of Industrial Policy and Promotion (DIPP) and the Ministry of Commerce circulated a discussion paper on allowing FDI in multi-brand retail. The Committee of Secretaries, led by Cabinet Secretary Ajit Seth, recommended opening the retail sector for FDI with a 51 percent cap on FDI, minimum investment of US$100 million and a mandatory 50 percent capital reinvestment into backend operations. Notably, the paper does not put forward any upper limit on FDI in multi-brand retail.

The long-awaited scheme has been sent to the Cabinet for approval, but no decision has yet been made. There appears to be a broad consensus within the Committee of Secretaries that a 51 percent cap on FDI in multi-brand retail is acceptable. Meanwhile the Department of Consumer Affairs has supported the case for a 49 percent cap and the Small and Medium Enterprises Ministry has said the government should limit FDI in multi-brand retail to 18 percent. In terms of location, the proposed scheme allows investment in towns with populations of at least 10 lakh (1 million), while retailers with large space requirements may also be allowed to open shop within a 10 kilometer radius of such cities.

(c) Multi-Brand Retail FDI Policy in other countries

Table 1

FDI Limit	Country
100%	Chaina
100%	Thailand
100%	Russia
100%	Indonesia

(Source: Times of India, 3rd December 2011.)

III. BENEFITS OF FDI IN RETAIL SECTOR

Benefits include moving away from an industry focus on intermediaries and job creation.

(a) Moving away from intermediary-only benefits

Today's intermediaries amid producers and customers add no value to the products, adding hugely to final costs instead. By the time products filter through various intermediaries and into the marketplace, they lose freshness and quality, and often go to waste. However, intermediaries garner huge profits by distributing these losses between producers and customers by buying products at low prices from producers, but selling at extremely marked-up prices to consumers. In an unbalanced system that incorporates multiple intermediaries simply for logistics, only intermediaries benefit.

With organized retail, every intermediate step – procurement, processing, transport and delivery – adds value to the product. This happens because it uses international best practices and modern technology, ensuring maximum efficiency and minimum waste. Organized retail enables on-site processing, scientific handling and quick transport through cold storage chains to the final consumer. Once modern retailers introduce an organized model, other vendors, including small retailers, would mechanically copy this model to improve efficiencies, boost margins and stay in business. Organized retail would thereby bring more stability to prices, unlike the present system where hoarding and artificial shortages by profiteering intermediaries push up product prices.

(b) Job creation

Despite predictions from some analysts that millions of jobs would be lost due to FDI in retail, it may in fact be the other way around. With the entry of branded retailers, the market will increase, creating additional employment in retail and other tertiary sectors. Given their professional approach, organized retailers will allot some quantity of resources towards the training and development of the resources they employ.

FDI Share of organized sector in selected countries.

Table 2

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.)

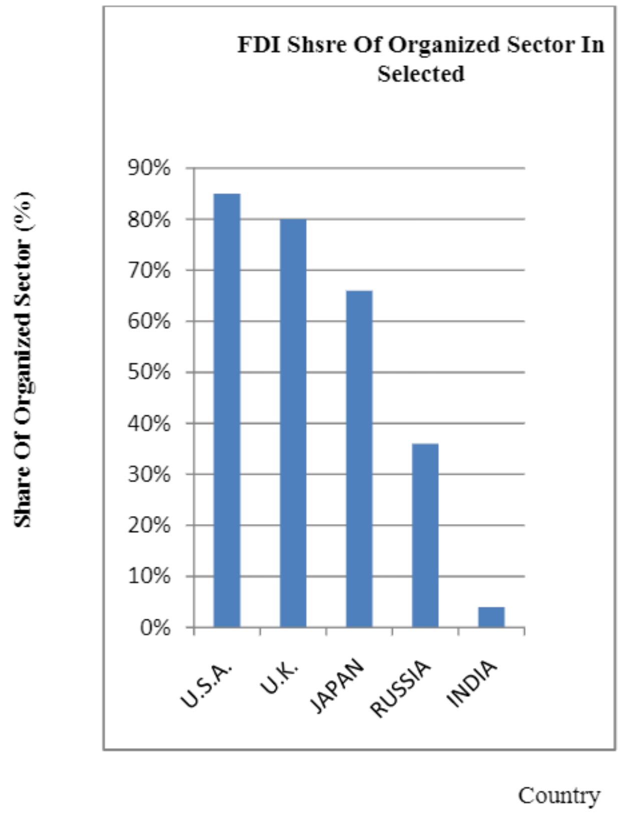

Fig 1 Source :- Planel Retail & Technopak Adviser Pvt. Ltd.

Projected Size of the Organized Retail Industry

Table 3

Year	Increase in size (in crores)
2008	965
2010	1728
2015	5610
2022	17368

(Source: www.nsdcindia.org/pdf/organised-retail.pdf)

Fig 2

Source :- www.nsdcindia.org/pdf/organised - retail.pdf

IV. SWOT ANALYSIS OF FOREIGN DIRECT INVESTMENT IN INDIAN RETAIL SECTOR.

SWOT analysis is one of the primary step in strategic management. It contains an analysis of strengths, weaknesses, opportunities and threats. The strength and weaknesses of the FDI shows the present

(a) Strengths of FDI Policy

(i) Fast growing economy.

(ii) Young and dynamic manpower. . A large young working population with median age of 25 years, nuclear families in urban areas, along with increasing working women population and emerging opportunities in the service sector are going to be the key growth drivers of the organized retail sector in India

(iii) Highest shop density in the world. Customers will have access to greater variety of international quality branded goods.

(iv) Employment opportunities both direct and indirect have been increased. Farmers get better prices for their products through improvement of value added food chain.

(v) Increase in disposal income and customer aspirations are important factors; increase too in expenditure for luxury items.

(vi) FDI has also contributed to large scale investments in the real estate sector.

(vii) Large domestic market with an increasing middle class and potential customers with purchasing power.

(viii) The consumer get a better product at cheaper price, so consumers get value for their money.

(ix) High growth rate in retail & wholesale trade.

(x) Presence of big industry houses which can absorb losses.

(b) Weaknesses of FDI Policy

(i) Low capital investment in retail sector.

(ii) Will mainly cater to high-end consumers placed in metros and will not deliver mass consumption goods for customers in villages and small towns.

(iii) Retail chain are yet to settled down with proper merchandise mix for the mall outlets.

(iv) Small size outlets are also one of the weaknesses in the Indian retailing, 96% of the outlets are lesser than 500 sq. ft.

(v) Lack of trained & educated force.

(vi) Lack of competition.

(vii) More prices as compared to specialized shops.

(viii) The volume of sales in Indian retailing is also very low.

(c) Opportunities of FDI Policy

(i) Global retail giant take India as key market. It's rated fifth most attractive retail market. The organized retail sector is expected to grow stronger than GDP growth in the next five years driven by changing lifestyle, increase in income and favourable demographic outline. Food and apparel retailing are key drivers of growth.

(ii) FDI can become one of the largest industries in terms of numbers of employees and establishments.

(iii) Rural retailing is still unexploited Indian market. It will enhance the financial condition of farmers.

(iv) Improve the competition.

(v) Result in increasing retailer's efficiency.

(vi) Foreign capital inflows.

(vii) Big market along with better technology and branding with latest managerial skills.

(viii) Quality improvement with cost reduction.

(ix) Increasing the export capacity.

(d) Threats of FDI Policy.

(i) Threat to the survival of small retailers like 'pan tapri', 'local kirana'.

(ii) Jobs in the manufacturing sector will be lost.

(iii) Started roadside bargains.

(iv) Work will be done by Indians and profits will go to foreigners.

(v) One of the greatest barriers to the growth of modern retail formats are the supply chain management issues. For perishables, the system is complex. Government regulations, lack of adequate infrastructure and inadequate investment are the bottlenecks for retail companies.
(vi) Difficult to target all segments of society.
(vii) Emerge of hyper and super markets trying to provide customer with value, variety ad volume.
(viii) Heavy initial investment is required to break even with other companies and compete with them.
(ix) Labour rules and regulation are also not followed in the organized retails.
(x) Lack of uniform tax system for organized retailing is also one of the obstacles.
(xi) Problem of car parking in urban areas is serious concern.
(xii) Sector is unable to employ retail staff on contract basis.
(xiii) The unorganized sector has dominance over the organized sector because of low investment needs.

V. CONCLUSION

FDI in retailing is going to attract retail players by Indian Government, but India should welcome them with a talented pool of human resources by promoting institution imparting knowledge in retailing. Protection must be given to Indian small and medium retailers as retailing is their source of livelihood.

The Government must properly discuss the pros and cons of allowing 51% FDI and have a law in place to control unfair competition. Then the FDI Bill will be given definitely a positive impact on the retail industry and the country by attracting more foreign investment. However now a Start Has Been Made and all stake holders have to work for its success.

FDI in retail would contain inflation by reducing wastage of farm output as 30% to 40% of the produce does not reach the end-consumer. "In India, there is an opportunity to work all the way up to farmers in the back-end chain. Part of inflation is due to the fact that produces do not reach the end-consumer.

Many of the foreign brands would come to India if FDI If multi brand retail is permitted which can be a blessing in disguise for the economy.

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