



## An investigation for analyzing the current scenario and future of FDI in Indian retail market

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### Abstract

In this research paper, researchers take a peek into the organized retail sector of India. It started making its presence felt nearly a decade after the first lot of entrepreneurs set up shop. Retailing can be said to be the network between the producer and the individual consumer. Retailing is the last link; this connects the individual consumer with the manufacturing and distribution chain. Retailers involve the sale of goods from a single point (malls, market, departments, stores etc) directly to the consumer in small quantities for personal consumption. The changing scenarios of Indian consumers give a proof to the potential opportunity in the retailing arena. SWOT and its subheads take you to the crux of analysis into retail industry. Out of which we formulated the future prospects. FDI in retail has been contentious issue and may face resistance, given the perceived political scenario. Infact, FDI provides a win – win situation to the host and the home countries. Both countries are directly interested in inviting FDI, because they benefit a lot from such type of investment. The ‘home’ countries want to take the advantage of the vast markets opened by industrial growth. On the other hand the ‘host’ countries want to acquire technological and managerial skills and supplement domestic savings and foreign exchange. An empirical analysis using cross-country data for the period 2003-2011 suggests that total FDI exerts an ambiguous effect on growth. Foreign direct investments in the primary sector, on growth, contribution of various sectors in FDI and share of the India in comparison to other economies. The Research Study discussed how organized retailing has increased their way of targeting consumers.

**Keywords:** Organized Retailing, Unorganized Retailing, FDI in Retail,

## INTRODUCTION

Retailing in India is one of the pillars of its economy and an account for 14 to 15% of its GDP India is one of the fastest growing retail markets in the world, with 1.2 billion people.

The retail industry is divided into

- **Organized &**
- **Unorganized sector.**

**Organized Retailing** in India refers to Trading activities undertaken by licensed retailers that is, those who are registered for sales tax, income tax etc. these includes the Publically-traded Supermarkets, Corporate-backed hypermarkets & retail chains and also the private owned large retail business.

**Unorganized Retailing** refers to the traditional formats of low cost retailing. For example, the local mom & pop store, owner manned general stores, hand cart and pavement venders etc.

In November 2011, India's central government announced retail reforms for both multi-brand store & single-brand stores. These market reforms cemented the way for retail novelty and antagonism with multi-brand retailers such as Wal-Mart, Carrefour & Tesco as well as single-brand major such as IKEA, NIKE & APPLE.

Organized retailing was absent in most rural & small town of India 2010. Organized retail accounted for 22% (app.) GDP of the market total retail. (See table)

Until 2011, India central government denied FDI (foreign direct investment) in multi-retail retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Every single- brand was limited to 51% ownership and followed a bureaucratic procedure.

### Policy & Regulatory Framework

| Sector/Activity                | FDI Cap/Equity               |
|--------------------------------|------------------------------|
| Single-Brand product Retailing | 51%                          |
| Multi-Brand Retail outlets     | 100% (proposal not approved) |

(Sources: India Brand Equity Foundation (IBEF) [www.ibef.org](http://www.ibef.org))



## Evolution of Retail in India

By Sree Rama Rao on October 14, 2009

While barter is considered to be the oldest form of retail trade, retail in India has evolved to support the unique needs of our country given its size and complexity. Haats, Mandis and Melas have always been a part of the Indian landscape. They still continue to be present in most parts of the country and form an essential part of life and trade in various areas.

The PDS or the Public Distribution System would easily emerge as the single largest retail chain existing in the country. The evolution of the public distribution of grains in India has its origin in the 'rationing' system introduced by the British during the World War II. The system was started in 1939 in Bombay and subsequently extended to other cities and towns. By the year 1946, as many as 771 cities/towns were covered. The system was abolished post war on attaining Independence, India was forced to reintroduce it in 1950 in the face of renewed inflationary pressures in the economy. A detailed discussion forms a part

Tracing the evolution of Indian retail would be incomplete without a mention of the canteen Stores Department and the Post Offices in India.

The Khadi & Village Industries (KVIC) was also set up post independence. Today, there are more than 7,050 KVIC stores across the country. The co-operative movement was again championed by the government, which set up Kendriya Bhandars in 1963. In Maharashtra, Bombay bazaar, which runs stores under the Sahakari Bhandar and Apna Bazaars run a large chain of co-operative stores.

In the past decade, the Indian marketplace has transformed dramatically. However, from the 1950's to the 80's investments in various industries was limited due to the low purchasing power in the hands of the consumer and the government's policies favoring the small scale sector. Initial steps towards liberalization were taken in the period of 1985-90. It was at this time that many restrictions on private companies were lifted, and in the 1990's, the Indian economy slowly progressed from being state led to becoming 'market friendly'.

While independent retail stores like Akbarally's, Vivek's and Nalli's have existed in India for a long time, the first attempts at organized retailing were noticed in the textiles sector. One of the pioneers in this field was Raymond's, which set up stores to retail fabric. It also developed dealer network to retail its fabric. These dealers sold a mix of fabrics of various textile companies. The Raymond's distribution network today comprises of 20,000 retailers and over 429 showrooms across the country.

Other textile manufacturers who also set up their own retail chains were Reliance which set up Vimal showrooms and garden Silk Mills with Garden Vareli. It was but natural that

with the growth of textile retail, readymade branded apparel could not be far behind and the next wave of organized retail in India saw the likes of Madura garments, Arvind Mills etc set up showrooms for branded men's wear. With the success of the branded men's wear store, the new age departmental store arrived in India in the early nineties.

### **Retail in India - The Past, Present and Future**

#### **Retail in India - Past**

Before the decade of eighties, India with hundreds of towns and cities was a nation striving for development. The evolution was being witnessed at various levels and the people of the nation were learning to play different roles as businessmen and consumers. The foundation for a strong economy were being laid, youth were beckoning new awareness in all spheres. And this brought in an opportunity for retail industry to flourish. First in the metros and major cities later to impact sub urban and rural market as well.

Retailing in India at this stage was completely unorganized and it thrived as separate entities operated by small and medium entrepreneurs in their own territories. There was lack of international exposure and only a few Indian companies explored the retail platform on a larger scale. From overseas only companies like Levi's, Pepe, Marks and Spencer etc. had entered targeting upper middle and rich classes of Indians. However as more than 50 % population was formed by lower and lower middle class people, the market was not completely captured. This was later realized by brands like Big Bazaar and Pantaloons who made their products and services accessible to all classes of people and today the success of these brands proves the potential of Indian retail market.

#### **Retail in India - Present**

At present the Retail industry in India is accelerating. Though India is still not at an equal pace with other Asian counterparts, Indian is geared to become a major player in the Retail Market. The fact that most of the developed nations are saturated and the developing ones still not prepared, India secures a great position in the international market. Also with a highly diverse demography, India provides immense scope for companies brining in different products targeting different consumers.

According to the Global Retail Development Index, India is positioned as the foremost destination for Retail investment and business development. The factor that is presently playing a significant role here is the fact that a large section of Indian population is in the age group of 20-34 with a considerably high purchasing power; this has caused the increase in the demand in the urban market resulting in consistent growth in the Retail business.

### **Swot Analysis of FDI in Retail**

I

#### **A. Strength**

1. 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,
2. Customers will have access to greater variety of international quality branded goods,
3. Employment opportunities both direct and indirect have been increased. Farmers get better prices for their products through improvement of value added food chain,
4. Increase in disposal income and customer aspirations are important factors; increase too in expenditure for luxury items,
5. It has also contributed to large scale investments in the real estate sector,
6. Large domestic market with an increasing middle class and potential customers with purchasing power,
- 7. The country will flourish in terms of quality standards and consumer expectations, since the inflow of FDI into the retail sector is bound to pull up the quality standards and cost-competitiveness of Indian producers in all the segments**
- 8. The consumer get a better product at cheaper price, so consumers get value for their money.**

**B. Weakness:**

1. Will mainly cater to high-end consumers placed in metros and will not deliver mass consumption goods for customers in villages and small towns,
2. Retail chain are yet to settled down with proper merchandise mix for the mall outlets,
3. Small size outlets are also one of the weaknesses in the Indian retailing, 96% of the outlets are le Small size outlets are also one of the weaknesses in the Indian retailing, 96% of the outlets are lesser than 500 sq. ft.
4. The rapid development of retail sector is the sharp improvement in the availability of retail space. But the current rally in property prices, retail real estate rentals have increased remarkably, which may render a few retailing business houses unavailable. Retail companies have to pay high rentals which are blockage in the turn of profits. . Rents in India easily account for 9-15% of retailers' revenue, which is significantly higher than the global average of 4-10%.
5. The volume of sales in Indian retailing is also very low.

**C. Opportunities:**

1. once the concept picks up, due to demonstration effect, there will be an overall up-gradation of domestic retail trade, Global retail giant takes 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 favorable demographic outline. Food and apparel retailing are key drivers of growth,

2. It can become one of the largest industries in terms of numbers of employees and establishments,
3. Rural retailing is still unexploited Indian market.
4. It will work positively for farmers and small-scale manufacturing hubs as they will find large-scale buyers for their products.
5. It will also be beneficial for customers as this will increase one-stop shopping options with access to international brands.

#### **D. Threats:**

1. 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,
2. Difficult to target all segments of society,
3. Emerge of hyper and super markets trying to provide customer with value, variety and volume,
4. Heavy initial investment is required to break even with other companies and compete with them,
5. Labor rules and regulation are also not followed in the organized retails,
6. Lack of uniform tax system for organized retailing is also one of the obstacles
7. Problem of car parking in urban areas is serious concern,
8. Sector is unable to employ retail staff on contract basis,
9. The unorganized sector has dominance over the organized sector because of low investment needs
10. Another hurdle is the role that Indian state governments can play in allowing FDI in the states they rule. Though the central government has allowed FDI in multi-brand retail at the Centre level, the state governments are at liberty to make their own decisions about the implementation of the policy

#### **Retailers Hire Experts For Big Sales**

- Retail is the Fastest Growing Sector in terms of employment generation, and is second only to agriculture in terms of the number of people it directly employs.
- Organized retail market in India will grow nine times in 10 years, according to the Boston Consulting Group's estimates.
- Godrej Interio has started training its existing shop floor employees on interior design and is also hiring specialized interior designer for its premium venture, U & Us.
- A Wholly-owned subsidiary of Mukesh Ambani's Reliance retail has been hiring talent from fashion institutes to run the stores. This year, Reliance Brands hired 32 people from NIFT and three to four designers from London College of Fashion.



- Mahindra Group decides to set up a new store of its specialty mother & child retail venture Mom & Me, it first looks out for 'super Moms & dads'. These are experience parents or grandparents who have the experience of raising a child & can offer customers, advice on choosing the right product & its usage. The Mahindra had appointed more than 60 super mom & dads across India, at a much higher salary than what its customer care executives earn.
- Diamond Jewellery chain has started appointing designers at the shop floor to help customers in their purchase decision. The company has also started an extensive curriculum me for such designers on the various types of jewellery, gold, & other precious stones.

### **Organized Retailers still Insignificant Players**

The organized sector, identified as malls/multiplexes/supermarkets is still at a nascent stage, & is unlikely to prove a threat to the unorganized sector for many, many years to come. The retail segment itself is growing so fast that it will absorb any fresh additions to the supermarkets very easily, and the unorganized sector will still continue to grow. Even currently, the organized segment constitutes a very modest 7-8% of the overall retail market.

Besides there are a number of reasons which clearly vouch for the fact that India will continue to be dominated by small retailers for a long time to come such as:-

- Even the biggest of domestic players in organized retail lack the muscle & resources to cater to significant proportion of Indian population. It takes a lot of time and money for organized retailers to show decent profits in Indian situations and the weaker ones will continue to fall by the wayside- remember Shubhiksha.
- Peculiarities of the Indian customers, which make it very 'Unpredictable' lot, Even for a large section of cable & affluent buyers, malls are mostly for 'hanging outings' & family outings- purchasing is still done at the friendly neighborhood Kirana Store.
- -Despite of what the media & business leaders want us to believe, the average Indian customer has very limited purchasing capacity. Even the affluent buyers are not profligate spenders-we Indian love to extract maximum 'value for money'. Purchasing at the local Kiranawalla gives us valuable opportunity to bargain!
- Most important of all, the smaller retailers, shopkeepers and kiranawallas are learning very fast, and are willing to provide exceptional customer service at no extra cost. For example, my residence is about the same distance from the nearest supermarket, and the nearest Kirana Store I have to make a phone call to the Kirana

shop, and the delivery boy will reach my place within 10 minutes, even if I order worth Rs. 50 on the other hand, the supermarket “undertakes to home delivery all purchases above Rs. 2000 within 24 hours of purchases, within, two kilometers!”

## INDIAN RETAIL SCENERIO

### Components of Retail Sales

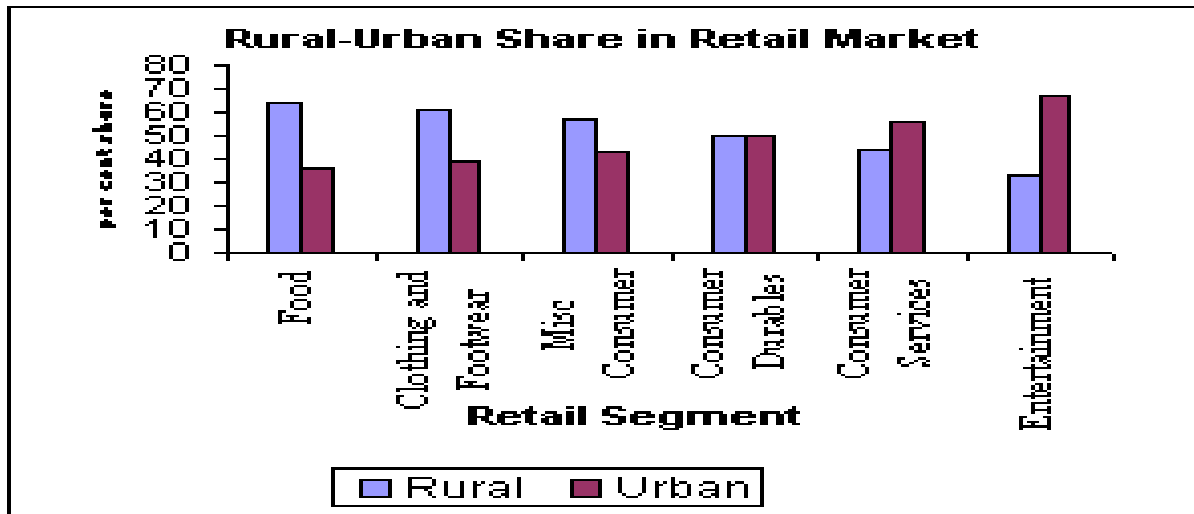
The largest category of retail sales (20%) is auto and auto parts stores. Department and discount stores comprise 13%, while grocery stores are slightly less. Gas stations and restaurants are slightly less than 10% each. Apparel stores and drugstores come in at 5% each. Furniture stores and consumer electronics are around 2.5% each.

**Table 1: Share in Retail Market:  
Urban vs. Rural (per cent)**

| Segment               | Rural | Urban |
|-----------------------|-------|-------|
| Food                  | 64    | 36    |
| Clothing and Footwear | 61    | 39    |
| Misc Consumer Goods   | 57    | 43    |
| Consumer Durables     | 50    | 50    |
| Consumer Services     | 44    | 56    |
| Entertainment         | 33    | 67    |

Source: NSSO and KPMG Analysis





### FDI in the Retail Sector

Retailing is one of the world’s largest private industries. Liberalizations in FDI have caused a massive restructuring in retail industry. The benefit of FDI in retail industry superimposes its cost factors. Opening the retail industry to FDI will bring forth benefits in terms of advance employment, organized retail stores, availability of quality products at a better and cheaper price. It enables a country product or service to enter into the global market.

The first day of the ongoing India Retail Forum (IRF) 2012 at Mumbai’s Renaissance Hotel saw a lively debate on the pros and cons of FDI among the panelists in a session titled “FDI in Retail: Fast Tracking the India Retail Industry’s Agenda for Economic and social Development.”

FDI is an anti-national move that is against the interests of the country which will negatively impact small Indian retailers – this was the opening salvo of Praveen Khandelwal, Secretary General, and Confederation of All India Traders. He said there are 12 million retailers in India who directly employ 40 million people and account for 95 percent of the country’s retail industry.

Khandelwal said that FDI has been allowed through an executive notification which can easily be de notified by the next government – this would leave in the lurch foreign retailers which decide to set shop in India. He also rejected the charge that 40 percent of food grown in India goes waste due to post harvest handling constraints.

Khandelwal said that though only 53 cities in India with a population of over 10 million will be eligible for MNC multi-brand outlets, the government notification allows foreign

retailers to open outlets at any location in a state where no city has a population of over a million. “About 22 crore people in India are dependent on the retail industry directly or indirectly. It is a safety net for the unemployed and those from the poor classes who cannot find a job.

There is a belief in some sections of people to let the status quo continue, but they forget that the customer has evolved and become much more demanding, said Vikram Bakshi, MD, McDonald’s India (North and East). “There is no alternative to modern retail as customers today want retailers to upgrade and evolve and showcase their products in an attractive way,” he added.

### **Current FDI Policy in respect of retail Sector in India**

**Currently, the Foreign investors can make investments as per following guidelines:-**

1. FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.
2. FDI up to 51% with prior Government approval for retail trade of Single Brand products (now 100% allowed vide notification dated 11<sup>th</sup> January, 2012).
3. FDI is not permitted in Multi Brand Retailing in India.

### **PROSPECTED Changes in FDI Policy for Retail Sector in India**

The government (led by Dr. Manmohan Singh), announced the following prospective reforms in the retail sector in India:

1. India will allow foreign direct investment of up to 51% in “Multi-Brand” Sector.
2. Single Brand retailers, such as Apple and IKEA, can own 100 % of their Indian stores up from the previous cap of 51%. This has been allowed lately on 11<sup>th</sup> January, 2012.

### **India retail reforms**

Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand Indian retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets, to sell multiple products from different brands directly to Indian consumers..

The government of Manmohan Singh, prime minister, announced on 24 November 2011 the following:

- India will allow foreign groups to own up to 51 per cent in "multi-brand retailers", as supermarkets are known in India, in the most radical pro-liberalization reform passed by an Indian cabinet in years;
- single brand retailers, such as Apple and IKEA, can own 100 percent of their Indian stores, up from the previous cap of 51 percent;
- both multi-brand and single brand stores in India will have to source nearly a third of their goods from small and medium-sized Indian suppliers;
- all multi-brand and single brand stores in India must confine their operations to 53-odd cities with a population over one million, out of some 7935 towns and cities in India. It is expected that these stores will now have full access to over 200 million urban consumers in India;
- multi-brand retailers must have a minimum investment of US\$100 million with at least half of the amount invested in back end infrastructure, including cold chains, refrigeration, transportation, packing, sorting and processing to considerably reduce the post harvest losses and bring remunerative prices to farmers;
- The opening of retail competition will be within India's federal structure of government. In other words, the policy is an enabling legal framework for India. The states of India have the prerogative to accept it and implement it, or they can decide to not implement it if they so choose. Actual implementation of policy will be within the parameters of state laws and regulations.

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