RESEARCH FRONT

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GROWTH AND NECESSITIES OF FDI IN RETAILING IN INDIA

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I. INTRODUCTION

Retailing is a distribution channel function, where one organisation buys product from supplying firms or manufacture product themselves, and then sells these directly to consumers. Retailing involves a set of business activities that adds value to the products and services sold to the final consumer for their use. There are more than 14 million retailing shops in the country, and only 4% of them have acquired more than 500sq.ft area. These outlets are run by family members, rarely employing one or more persons.

Since India has embraced LPG, and signed on WTO agreement, entry to multinational giants has been allowed in this sector. In 1997, FDI in cash and carry (wholesale) with 100% owernership was allowed, and in the year 2006 51% investment in a single brand retail outlet was permitted. On 24^{th} November 2011, the GOI allowed 51% stake in multibrand retail trade (MBRT) and raised the limit in single brand retail trade (SBRT) from 51 percent to 100 percent. FDI in retailing is an important and leading source of non-debt inflows of capital and provides opportunities to host countries to enhance their economic development and opens new opportunities to home countries to optimize their earnings by employing ideal resources.

Taking the above description into consideration, the present paper is carried out to discuss the growth and necessities of FDI in retailing in India.

II. RESEARCH METHODOLOGY

Objective

Objectives of the present paper are
(1) To discuss the nature of retailing in India.
(2)To study the present scenario of retailing in India and
(3) To analyse the need of retailing in India related to various sectors/ areas or groups.

Collection of data and information

The data and information collected is from secondary sources, i.e. from books, magazines, journals, newspapers and websites.

Tools and Techniques used for Presentation

The collected data has been presented in tables and percentage.

III. REVIEW OF LITERATURE

Fulzele (2012) examined the impact of FDI in retailing in India on employment, consumers, capital inflow, infrastructure, farmers and retailers. Ranjan, (2010) suggested some recommendations to the retail industry as well as to the government to take adequate steps in order to face challenges raised at the time of entry of global retailers. Dey (2007), took note of certain issues related to FDI in India. Gupta (2010), her findings are FDI in the buzzing Indian Retail should not just be freely

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allowed but should be significantly encouraged. Mittal (2012) argued that the small family retailers will simply be overwhelmed by the entry of foreign organised retailers is a myth that has been blown out of proportion. Pant (2011) outlined some general issues about FDI. Malik (2012) concluded that Indian consumers are more concerned about service quality, store convenience, product quality and availability of new products in retailing. Pai (2011) says, the opening of multibrand retail is expected to bring down inflation and inflow of foreign funds may help finance the current account deficit. Nayyar (2011) welcoming the FDI in retail says "the primary benefit to farmers from the growth of organised retail is a higher price for their produce. Guruswamy (2007) says that the retail industry in India is of late often being hailed as one of the sunrise sectors in the economy.

IV. GROWTH AND TREND OF INDIAN RETAILING

In the year 1997, 100% FDI was permitted in cash and carry wholesale trading. Indian government announced a number of reforms in the process of liberalization of the economy. Since its inception there has been a remarkable surge in the FDI inflows in the country. There was retail business of 201, 204, 238, 278, 321, 368 and 421 billion $ in the year 1998, 2000, 2004, 2008 and 2010 respectively. (Kearney) Turnover and trend of retailing is shown in following table.

Table: 1. Future Turnover and Share of Retailing in India (crore Rupees)

Year	Total Retailing turnovers	*Growth over last year, in %	Organised sector turnover	Growth over last year, in %	Market share in %
2011	23,55,000	10.82 %	1,75,000	25.00	8
2012	26,40,000	12.10 %	2,20,000	25.71	9
2013	29,50,000	11.74 %	2,75,000	25.00	11
2014	32,65,000	10.67 %	3,45,000	25.45	12
2015	36,25,000	11.02 %	4,25,000	23.18	13
2016	39,95,000	10.20 %	5,30,000	24.70	14
2017	44,95,000	12.51 %	6,70,000	26.41	15
2018	50,35,000	12.01 %	8,40,000	25.37	17
2019	56,15,000	11.51 %	10,50,000	25.00	19
2020	62,40,000	11.13 %	13,10,000	24.76	21

(Source:- Veerendra Talegaonkar, Loksatta, Mumbai, 5/12/2011, pp. 11.) */# compiled by researchers.

From the above table it seems that the total turnover in the year 2011 was Rs. 23,55,000 crore and in the year 2020 it will cross 62,40,000 crore, in the same period retailing turnover in the organised sector amounted to Rs. 175,000 crore and it will touch to Rs.13,10,000 crores. Share of the organised retailing in the year 2011, is 8% and it will touch 21% in the year 2020. .

At present growth of turnover of retailing is 10 percent and in the next 10 years it is estimated to increase 11 percent every year. In case of organised retailing, growth would be more than 25% every year up to 2020.

V. NECESSITIES OF FDI IN INDIA

India needs large amount of foreign exchange through FDI in retailing to sustain and enhance its economic growth. There are number of issues to opening of the retail sector for FDI. FDI in India is expected to benefit the concerned, which are discussed as under.

V.1. GROWTH AND DEVELOPMENT OF FARMERS

Farmers will be benefited by FDI. Farmers are getting only one fourth of price, what is sold in the market. Perishable nature of fruit and vegetables, without the option of safe and reliable cold

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storage, the farmers are compelled to sell their crop at whatever price they can get. The Govt. says that farmers will gain out of this investment due to omitting out of middlemen. India has 600 million farmers. The mandi system does not favour farmers because they lose 5% of the value in transportation, 10% in broker commission and 10% in quality parameters.Because of poor supply chain, large percentage of agricultural product is wasted. FDI in retail will be instrumental in the pricing, for farmers. Farmers association wishes reforms like increase in market accession, strong cold storage facilities, exclusion of middlemen etc. A better cold storage would help to prevent the existing loss of 34% of fruits and vegetables due to inefficient systems in place. Analysts said allowing in big foreign retailers would provide an impetus for them to set up modern supply chains, with refrigerated vans, cold storage and more efficient logistics. The biggest beneficiary would be the small farmers who will be able to improve their productivity by selling directly to large organised players. (wikipeadia) FDI is expected to push up this issue and restructure supply chain, making it smother and faster. This in turn may boost farm exports significantly. (Sengupta 2011)

V.2. GENERATING NEW EMPLOYMENT

The retail sector also acts as an important employment absorber for the present social system. One of the principal reasons behind the explosion of retail and its fragmented nature in the country is the fact that retailing is probably the primary form of disguised unemployment / underemployment in the country.

Table :2. Share of Retailing in Total Employment

Country	Share Of Retail in Total employment (%)
India	6-7
China	6
Poland	12
Brazil	15
USA	11.7
Korea	18
UK	11
Malaysia	7

Source – FDI in Retail Sector in India, Arpita Mukherjee, Nitisha Patel, ICRIER

Table: 2 shows the share of retail in Indian employment, which is one of the lowest of all the countries mentioned. Total retail employment in India, both organized and unorganized, account for about 6% of Indian labor work force. The agriculture sector is facing the problems of stagnation and saturation; therefore people find jobs in service sector. Retail sector in India can be expanded using FDI which would create larger employment that the unorganised retailing has failed. Govt says 100 million jobs will be created for people. In India, where unemployment is a major problem, foreign companies that come to India, in retrial sector will boost the economy and create more jobs. (powercut)

V.3. BENEFITS TO CONSUMERS

Entry of foreign retailers would eliminate middlemen and consumers will get fresh vegetable, goods and services at cheaper prices. The global retailers have advanced know how, inventory management, new technologies, quality of product and customer services that would result to improve productivity and efficiency is likely to lower down the prices. Due to entry of global players in retailing would result in the cut-throat completion and price war. Ultimately, consumers would enjoy benefits in terms of a wide range of world-class products and services at competitive prices.

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V.4. CAPITAL INFLOW

FDI in retail trade would attract large inflows of foreign investment and likely to promote the welfare of all sections of society. (Agrawal 2011) Government decided to attract foreign capital inflow of $590 billion to the economy; also investors are mandated to make investment of atleast $100 million including infrastructural facilities. As we know that we require huge foreign capital for our comprehensive and sustainable growth and development. If we allow FDI in retailing, would bring interest free capital in the economy. Considering the principle of capital formation and multiplier effect of economics there will be positive impact on the economy.

V.5. INFRASTRUCTURE DEVELOPMENT

India is the second largest producer of fruits and vegetables and it has a very limited integrated cold-chain infrastructure. This leads to about 30% losses in certain perishable agricultural output in India, on average, every year. (kpmg) Farmers suffer heavy losses in terms of wastage in quality and quantity due to lack of adequate storage and handling facilities. Foreign investment makes a genuine contribution to the development of Indian infrastructure and logistics. It was projected that by 2010, 500 new malls would come-up. Allowing FDI in retail can bring about supply chain improvement, investment in technology, manpower and skill development, tourism development, greater sourcing from India, upgradation in agriculture, efficient small and medium scale industries, growth in market size and benefits to government through greater GDP, tax income and employment generation. Between 2010 and 2012, the organised retail real estate stock will grow from the existing 41 million sq ft to 95 million sq ft. (Knight)

V.6.DEVELOPMENT OF SSIs

FDI in retailing seems to have had a positive impact on the small manufacturers who now work in with large ones to work for modern retailers. Small and medium enterprises dominate the Indian retail scene. In respect of proposals involving FDI beyond 51 percent, 30 percent sourcing would mandatorily have to be done from domestic SMEs and cottage industries artisans and craftsmen. It is an evident that government of India, made compulsory to purchase materials and semi-finished goods from SMEs that would result to grow and prosper the SSI sector.

V.7. IMPROVING RETAILING SERVICES

There would no immediate impact on the existing retail sector, due to entry of organised retailers. Local retailers are expected to remain a key element in the ecosystem in the foreseeable future, with their ability to offer door step service and convenient access. The ICRIER has found that though initially, small stores located in the vicinity of big malls have seen a drop in scales and profit. Besides, the advantages of neighborhood kirana stores such as proximity, leverage on credit sales, and bargaining choice of customers, home delivery and convenient shop timing would remain even after entry of big retail chains. In this regard, a study conducted by Venkateshwarlu (2007) to see the impact of malls on retail trade.36 percent of the retailers feel that there is not much impact, 24 percent opine that there is scope for healthy competition, 22 percent say that there would be cut in margin because of such malls. During the last ten years number of malls and organised retailing shops have been opened, it is evident that no kirana shop has been closed up.

V.8. INFLATION CONTROL

Investments in cold-storage and warehousing will ease supply-side pressures that have driven inflation close to a double-digit. The Govt. advocated that there is need to open the retail sector for global players to control food price inflation, which is in double digit over several years. Farmers directly sell their produce to retailers, thereby reducing margins for middlemen, investments in cold-storage and warehousing will ease supply-side pressures that have driven inflation. Thus FDI will reduce inflationary pressure.

V.9. INFLOW OF TECHNICAL KNOW –HOW

Giant in retailing will bring their technology and technical know-how. The inflow of technology and technical know-how is said to be a natural migration along with the global players in retailing. This would transform into Indian technological advancement, production improvements, better quality of goods and services, low cost, generation of exports, and hastening of manufacturing employment.

V.10. IMPROVED SUPPLY CHAIN MANAGEMENT

FDI is expected to restructure the supply chain, making it smoother and faster. Improved supply chain contributes to savings in food wastages which has been rampant on account of inadequate infrastructure. (Ghosh) FDI in retail would reduce cost of intermediation and entail setting up of integrated supply chains that would minimize wastage, give producers a better price and benefit both producers and consumers. An efficient supply chain may augment its linkage to the global supply chain. This in turn may boost farm export significantly.

V.11. COST REDUCTION

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. The entry of large low-cost retailers and adoption of integrated supply chain management by them is likely to lower down the prices. Big players in retailing will direct purchases from farmers and SSIs which result to elimination of middlemen. This will bring down the cost of produce and services.

V.12. GRWOTH OF GDP

It is widely acknowledged that FDI can have some positive results on the economy that would lead to greater efficiency and improvement of living standards. According to the ICRIER, India is expected to grow at a CAGR of over 13% till FY12. In the year 2007 retail sales reached Rs 13,300 billion and amounting to around 33% of India's GDP at current market prices. According to the Central Statistical Organisation (CSO) estimates, the total retail trade constituted 13.0% of country's GDP in 1999-2000. In the year 2011 it has gone up to 15 percent .In light of the above, it can be concluded that allowing healthy FDI in the retail sector would lead to a substantial surge in the country's GDP and overall economic development.

VI. CONCLUSIONS

Today each and every nation is trying to liberalize its economic policies in order to attract FDI to enhance a substantial level of economic and social development. Indian retail sector is in a boom period and attracting global retail giants due to its market opportunities. It can be observed from the above analysis that an entry of the global players in retailing leads to inflow of latest technical know how, establishment of well integrated supply chains, availability of quality products at cheaper prices to consumers, development of SSIs and SMEs, creation of more jobs, interest free capital, benefits to farmers, controls inflation and contributes for capital formation to increase nation's GDP. Taking into consideration, above necessities, FDI in retailing cannot be avoided in India.

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