FOREIGN DIRECT INVESTMENT IN MULTI-BRAND RETAILING

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Abstract: *Allowing FDI in multi brand retailing has recently generated tremendous euphoria for some and fear for others. It is based on the notion that it will open floodgates for foreign retailers to invest and will change the retail landscape forever in India. When India is the only country in the world where the top five business houses with market caps running into trillions are into retail business, this issue becomes much more interesting. Most retailers in other countries do not feature even in the top 10 large firms. Also the evidence of last 20 years of globalization by retailers shows that there is no such case of domination of foreign retailers wherever markets for global retailers have opened up. The Govt. of India was forced to put on hold FDI in multi-brand retail by several political parties. The problem arises whether opening up of FDI in multi-brand retail will create problems or provide opportunities for local retailers. Foreign direct investment in multi-brand retail will start a better integration of Indian economy into the global markets. This study examines the prospects of FDI in multi-brand retail in India. This paper firstly speaks about the concept of multi-brand retail in India. The second part shows the current status of FDI in multi brand retailing in India. The third part shoes the benefits receive d by various partied from FDI in multi brand retailing. The last part overviews the two faces of retail sector –Challenges and some criticisms.*

KEYWORD: *Retail, Multi-brand, FDI, MNCs, Retailers etc*

INTRODUCTION

The traditional practice of selling goods to the consumer is unorganized retail like Kirana store, Mom and pop store. They have contact with local customer in relation seeming to be relatives. Usually they are mingled with their customer as neighbor. By the time and economy goes up, the consumer's purchasing power and preference is changing. Based on the taste & preference, now the unorganized sector is converting into organized sector that starts from the urbanized area. Compared to other industry, the retail industry is bigger booming potential industry. Each and every in need of product approach the retail shop. This is the point where the every consumer approaches for the product. Especially in India, the retail industries are mostly occupied by the unorganized industry as they are traditional player. The domestic organized players are few in comparison of unorganized player. Compared with the international organized player, the domestic players who are in the lack of capital are not effective in healthy competition. So the industry is in need of capital infusion. Foreign Investment in India is governed by the Foreign Direct Investment, FDI policy announced by the Government of India and the provision of the Foreign Exchange Management Act (FEMA) 1999. The FDI policy is notified through Press Notes by the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP). The foreign investors are free to invest in India, except few sectors/activities, where prior approval from the RBI or Foreign Investment Promotion Board („FIPB") would be required. The historical background of FDI in India can be traced back with the establishment of East India Company of Britain. British capital came to India during the colonial era of Britain in India. After Second World War, Japanese companies entered Indian market and enhanced their trade with India, yet U.K. remained the most dominant investor in India. Thus, the government adopted a liberal attitude by permitting more frequent equity participation to foreign enterprises, and to accept equity capital in technical collaborations. It is during this period the government encouraged FDI, allowed MNCs to operate in India. Indian retail industry is one of the sunrise sectors with huge growth potential. For long time, the notification of FDI in retail in India was pending in the table of Ministry of Finance. As timely announcement, the ruling government proclaimed allowing 51% FDI in multi brand retail with some other opening in other sector. From this paper, what we analyze is what will be the impact of FDI in retail in India

RESEARCH DESIGN AND METHODOLOGY

Selection Of Research Topic

Now a day, too much discussion is going on FDI in retail sector in Indian economy. FDI in retail is also a matter of discussion in the parliament of India. This paper highlights on current status of FDI in retail. What may be the benefits of FDI in the Indian multi brand retail sector? What are various opportunities and challenges to FDI in retail sector?

Significance Of The Study:

The article will help to know the benefits that can be secured from the FDI in multi brand retails. Present study tells how the small retailers will be affected by the heat of multinational retail giants. Here, in this research article, the attempt has been made to focus the importance of FDI in retail sector in present scenario. The paper also examines the prospects and problems for FDI in multi-brand retail sector.

RESEARCH METHODOLOGY

The kind Research being conducted here is ANALYTICAL RESEARCH, as it most suits the purpose of the Research Project. In this research study the facts and the information collected from various secondary sources have been used to make an analysis of the current multi brand retail Sector & FDI with the driving forces behind these situations. That is analyzing the data & extracting the relevant important data to complete the project & make it relevant to the present scenario of FDI in multi brand retailing. The data for the present study is collected from the secondary sources. Various news in the newspapers, videos of parliament while discussion on FDI is seen for collection of the data. As well as the reference books, magazines, Newspaper, Internet & Books also used for the purpose.

OBJECTIVES OF THE STUDY

1. To study the current scenario of FDI in multi-brand retail.
2. To review the influence of FDI in multi-brand retail.
3. To evaluate problems and challenges to FDI in multi-brand retail.

CURRENT SCENARIO OF FDI IN MULTI BRAND RETAIL

Until 2011, Foreign Direct Investment (FDI) was not allowed in multi-brand retail, forbidding foreign companies from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to above 50 per cent ownership. Beginning 2012, India allowed full FDI investment in all sectors in single-brand stores, but imposed the requirement that the single brand retailer would have to source above 25 percent of its goods from India. December 2012, India allowed 50 per cent FDI in multi-brand retail.

Agriculture sector benefited with the introduction of FDI therefore international companies were able to increase their existence in the multi-brand retail sector of India.

SCOPE OF RETAIL SECTOR

Government approvals are accorded on the recommendation of the Foreign Investment Promotion Board (FIPB)." Ministry of Commerce and Industry has fixed limits for other sectors are as follows FDI limit in various sector

Sector	Limit
Agriculture- Floriculture, Horticulture, Apiculture and Cultivation of Vegetables & Mushrooms under controlled conditions, Development and Production of seeds and planting material, Animal Husbandry(including breeding of dogs), Pisciculture, Aquaculture, Services related to agro and allied sectors	**100%**
Civil aviation	**100%**
Courier service	**100%**
Credit rating	**74%**
Defence	**100%**
Education	**100%**
FM radio	**26%**
Insurance	**49%**
Multi brand	**51%**
Pension	**49%**
Pharma	**100%**
Power	**49%**
Print media	**26%**
PSBs	**20%**
Pvt bank	**74%**
Railway infrastructure	**100%**
Single brand	**100%**
Stock exchange	**49%**
Telecom	**100%**
Tourism	**100%**
Food products	**100%**
Private Security	**49%**

Sources – Report of Ministry and Commerce Industry

INFLUENCE OF FDI IN RETAIL SECTOR

Forex Reserve: As the limit is increased to 50% in the multi brand retail, the direct investment from abroad called FDI would inflow to start the business. The inflow of capital would increase the capital reserve in the Balance of payment which shows the ability of the nation in terms of Forex.

Farmers: Current problem of Indian economic is fiscal deficit due to this caused by subsidy give to the farmers which is unproductive. The organized retailers that are capital giant are able to purchase directly from the farmers paying good price. So the government should be ensuring that the farmers are getting paid the price of what they are eligible to.

SME: The foreign player, they shall purchase 30% of the product they deal with the Small and Medium Enterprise. This ensures the development of SME. The foreign player would like to provide the quality product. The SME would be encouraged to produce the commodity that is of high quality.

Infrastructure: The players are imposed with the restriction of investing 50% of their investment .The ruling party in India where the economic development is suffered by lack of infrastructure is very cautious about to invest in such area. **Distribution:** The distribution system is one of the factors determining the cost of the product. As they are invested in the infrastructure, they could follow JIT. Say Wal-Mart, they are not interested in expending in the stock maintenance.

Inflation: Inflation is the unruly one which is challenge to the country where the price sensitive people are. The scale of economy, capital and large turnover are the base by which the lower prices are offered to the consumer. The entries of multinational players lead to healthy competition that lowers the price then inflation consequently.

Food Wastage: With the poverty in one side, the wastage of food is on another side in the same country. It requires the effective distribution system to avoid food wastage. With the good back end infrastructure, they can able to serve the goods in an optimization way.

GDP: The decline in the GDP mainly due to the agriculture sector is making the economist worry more. The FDI in retail would improve the GDP by, economist say 0.5%. The booming industry that has potential capacity would contribute the GDP higher.

Employment: The more employment would be created in the country either directly or indirectly where youth pass out is increasing as much as creation of employment. It would be generated in the agriculture, manufacturing, service industry which consists of GDP. The more people get employed would rehabilitate the economic cycle.

Consumers: The ultimate beneficiary from the opening of FDI in multi brand retail is consumer. They are left to choose the retail that would give them goods at lesser price. The more middle income people living in India are preferred to have shopping more modern in lesser cost

Elimination of intermediary-only benefits: There is broad agreement on the need to improve efficiencies in the household trade of consumer goods. Competent management practices and economies of scale, joined with the acceptance of global best practices and modern technology, could immensely recover systemic competence. Like their foreign counterparts, Indian customers are entitled to receive quality products, produced, processed and handled under a hygienic environment through professionally- Managed outlets. Speculative apprehensions that small retailers will be adversely affected are not reason enough to deny millions of consumers access to products that meet global standards.

Employment opportunity: 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. This effect of branded retailing can already be seen with the Bharti-Wal-Mart collaboration, which has joined forces with state governments to open training and development centers in Amritsar, Delhi and Bangalore, preparing local youth for jobs in retail. Training is entirely free and more than 5,600 local youth have already been trained. Retail jobs don‟t require higher education or highly specialized abilities.

Grossary stores (mom-and-pop stores): The Indian retail industry is generally divided into organized and unorganized retailing:

Organized retailing: Organized retailing refers to trading activities undertaken by licensed retailers, those who have registered for sales tax, income tax, etc. These include corporate-backed hypermarkets and retail chains, and also privately-owned large retail businesses. Unorganized retailing: Unorganized retailing refers to the traditional forms of low-cost retailing, for example, local kirana shops, owner-operated general stores, paan / beedi shops, convenience stores, hand cart and street vendors, etc.

PROBLEMS AND CHALLENGES FACED BY FDI SECTOR

FDI in retail sector is not allowed, it is only allowed up to 51 % in single brand and multi-brand considering the opinion of allowing FDI in multi brand cent percent FDI is allowed in cash and carry wholesale and export trading, in wall mart and Carrefour. Many big giants like Wall mart, Carrefour are waiting to earn their fortune in continuously growing market.FDI in retail sector will have both positive and negative effect. Both organized and organized sector will face adverse competition from global players. Wal-Mart has a turnover of $256 billion and growing at an average of 12 -13 % annually. Average size of its stores is 85000sq ft and average turnover is $51 million. Organized sector retail outlets in India like pantaloons, reliance cannot compare with the giant let alone the small retailers. Indian government still fears that if FDI is allowed in retail then unorganized sector will be affected very badly and it will result in a large lot of unemployed retailers and other youth which is employed in the supply chain, this unemployed lot can"t be absorbed in manufacturing or service sector which can ultimately push a large chunk of population below poverty line. In India unorganized retail is a „forced employment sector", there are large number of retail outlets because when youth dose not find enough employment opportunities or is not educated enough then the easiest resort to earn decent money is to save money or get a loan to set up a shop. On an average a retailer earns Rs.186075 annually and only 4% of 12 million retail outlets have area more than 500 square ft. Now if FDI is allowed in such an unorganized sector than many changes can happen which can be positive or negative.

Cost cutting : The global players have economies of scale and are perfect in cost cutting and providing the consumer the best at lowest price which still is a major challenge for Indian retail firms. The way they perform their process itself builds an entry barrier for other new firms.

Branded product: They bring with them world class products which have high quality and a highly valued brand name. The domestic brands don"t have that charm and attracting power as of global brands.

Advanced Technology: Global players are highly advanced in technology. The tools, equipment's, kind of warehouses they use, their way of performing processes are highly advanced and cannot be compared with those used by Indian retail firms, which in turn provides better services and better quality products even in categories like perishable food etc.

Skilled employees: The work culture of global players is quite different from those of Indian players. They believe in earning profits by cutting costs as much as possible and at the same time are conscious towards career of their employees.

Their approach is more oriented towards achieving ends rather than means. Attractive salary and high incentives can also attract skilled employees towards global players which is also a threat for big Indian retail firms.

Proper infrastructure: Better storage facilities, better transportation medium and high investment can pose another threat to Indian retail firms which can hardly match the capabilities of giants on their own.

MNC's: Global players may not prefer to enter into joint ventures with Indian firms and may also close down the existing ventures in wholesale and single brand which may adversely affect the Indian firms. This is possible when 100% FDI is allowed in multi-brand retail

CONCLUSION

For the developing country like India, foreign direct investment in multi-brand retail sector should be consciously considered by the Govt. of India. In broader way, India's local retail business will definitely get a chance for up gradation of the import of improved technological and transportation management knowledge from the multinational retail players. Foreign direct investment in multi-brand retail will start a better integration of Indian economy into the global markets and, as such, it is important for the Govt. of India to develop retail sector for the total economic development of country and welfare of society in the country. People wish row over FDI in retail gets over soon and India should embrace new era of retailing and Government makes right kind of body to vigil these giants.

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