Re-Inventing the role of FDI in MBRT in India in Global Scenario: Challenges and Opportunities

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Abstract: FDI in multi-brand retail trading (MBRT) implies a retail store with a foreign investment that can sell multiple brands under one roof. MBRT is the process of selling or marketing of two or more widely similar, competing and sometimes substitute products by the same firm under different brands. India is the world's fourth largest economy in the world in terms of Gross Domestic Product (US $ 3.3 trillion) and ranked twelfth in the world in terms of Gross National Income (US $ 570 billion). The Indian retail industry is the fifth largest in the world. Indian retail industry is the sunrise sector that accounts for 14 to 15 % of GDP. India's retail sector is the second largest sector employer after agriculture and employs about 40 million Indians (3.3 % of Indian population). India is one of the fastest growing retail markets in the world, with more than 14 million retail outlets. On 7th December2012, the GOI passed the Bill and allowed 51% stake in multi-brand retail trade (MBRT) and raised the limit in single brand retail trade (SBRT) from 51 percent to 100 percent. Indeed, FDI in retail provides a sound base for economic growth and development. In this context, the present paper is prepared to discuss the re-inventing role of FDI in Multi-brand retail trade in India in global scenario related to growth, trends, challenges and opportunities with the latest move of the government to allow FDI in the multi-brand retailing sector.

Keywords: FDI, Retail Sector, MBRT, Challenges and Opportunities in India in Global Scenario.

I. Introduction

Foreign Direct Investment (FDI) refers to capital inflows from abroad and plays a multidimensional role in the overall development of the economy of India. Retailing involves a set of business activities that adds value to the products and services sold to the final consumer for their use. FDI in multi-brand retail trading (MBRT) implies a retail store with a foreign investment, can sell multiple brands under one roof. MBRT is the process of selling or marketing of two or more widely similar, competing and sometimes substitute products by the same firm under different brands. India is the world's fourth largest economy in the world in terms of Gross Domestic Product (US $ 3.3 trillion) and ranked twelfth in the world in terms of Gross National Income (US $ 570 billion). The Indian retail industry is the fifth largest in the world. Indian retail industry is the sunrise sector that accounts for 14 to 15 % of GDP. India's retail sector is the second largest sector employer after agriculture and employs about 40 million Indians (3.3 % of Indian population). India is one of the fastest growing retail markets in the world, with more than 14 million retail outlets. India has the highest shop density in the world and it has been estimated 11 outlets for every 1,000 people.

On 7th December2012, the GOI passed the Bill of retailing which has allowed 51% stake in multi-brand retail trade (MBRT) and also raised the limit in single brand retail trade (SBRT) from 51 percent to 100 percent. It is potentially a very fast growing market and all the multi-national players realize the fact that to utilize this ever growing economy. India has been ranked at the third place in global foreign direct investments in 2009 and will continue to remain among the top five attractive destinations for international investors during 2010-11.

FDI provides opportunities to host countries to enhance their economic development by employing ideal resources. It also brings some challenges before the country. Taking this into consideration, the present paper is prepared to discuss the re-inventing role of FDI in Multi-brand retail trade in India in global scenario related to growth, trends, challenges and opportunities.

II. Research Methodology

Statement of the Problem and Need for Study: In our country the retailing sector plays a dominant role by offering services and products in small quantities to end users at the convenient locations. Recently the government of India has passed the Bill in the parliament to allow the foreign giants in the multi-retail brand trading. As this new avenue of opportunities has been opened, there are some challenges too. Because of these kinds of issues emerging in today's retail markets, this topic has become very important, which needs an in-depth probing.

Objective of the Present Paper: - The main objectives of the present paper are (1) To discuss the nature of retailing in India. (2)To study the recent trends of retailing in India in global scenario (3)To analyze the challenges and opportunities of multi-brand retail trade in India .

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.

III. India's Retail Index-2012 in Global Scenario

In India the concept retail market old in the global context. However, the concept of organized retailing is comparatively new. Retailing has been one of the prominent driving forces in business in India. Traditionally it has been dominated to a large extent by the unorganised sector. But the growth of the organized sector has been steadily increasing specially after liberalization of the Indian economy. Study conducted by Deloitte and US Council on global competitiveness Index 2010 indicates that India has become the second most competitive country in manufacturing after China.

Table: 1 Global Development Retail Index-2012.

Rank	Country	Market Attractiveness	Country Risk	Market Saturation	Time Pressure	GRDI Score	Change in 2011
1	Brazil	100	85.4	48.2	61.6	73.8	0
2	Chile	86.6	100	17.4	57.1	65.3	0
3	China	53.4	72.6	29.3	100	63.8	+3
4	Uruguay	84.1	56.1	60.0	52.3	61.1	-1
5	India	31.1	66.6	57.6	87.9	60.8	-1
6	Georgia	27.0	68.6	92.6	54.0	60.6	NA
7	UAE	86.1	93.9	9.4	52.9	60.6	+1
8	Oman	69.3	98.3	17.4	50.4	58.9	NA
9	Mongolia	6.4	54.4	98.2	75.1	58.5	NA

10	Peru	43.8	55.5	62.9	67.2	57.4	-3

(Source: Euro money, Population Data Bureau, International Monetary Fund, World Bank, World Economic Forum, A T Kearney Analysis)

The above table is related to the Global Retail Development Index conducted by A T Kearny, a professional consultant group in retailing. While the world's largest developing markets – particularly emerging economies still tempt the largest global retails and show no signs of slowing down, many smaller untapped markets are providing new profit frontiers, particularly for regional and specialty players. Brazil holds the top position and India holds the 5th rank in GDRI. Till 2011 Indian retail market was 2nd most attractive markets in the world that is why foreign players are interested to enter in the Indian retail market.

IV. Organized Retailing – Global Scenario

Table: 2 Share of Organized retail in selected countries in 2009.

Country	Total Retail Sales(US $ Billions)	Share of Organized Retail (in %)
USA	2983	85
Japan	1182	66
China	785	20
UK	475	80
France	436	80
Germany	421	80
India	**322**	**4**
Brazil	284	36
Russia	276	33
Korea, South	201	15
Indonesia	150	30
Poland	120	20
Thailand	68	40
Pakistan	67	1
Argentina	53	40
Philippines	51	35
Malaysia	34	55
Czech Republic	34	30
Vietnam	26	22
Hungary	24	30

(Source: Planet Retail and Techno park Advisers Pvt. Ltd.)

The American and European market have seen the emergence of the replacement of grocery retail by supermarkets in the latter half of the 20th Century. As incomes rose and shoppers sought both convenience and new tastes and stimulation, supermarkets were able to expand the products offered. Saturated home markets, fierce competition and restrictive legislation have relentlessly pushed major food retailers on the globalization mode. Since the mid- 1990s, numerous governments have opened their economies to the free markets and foreign investment that has been a plus for many retailers. FDI is permitted in the retail sector in Brazil, Argentina, Singapore, Indonesia, China and Thailand without limits on equity participation, while Malaysia has equity caps on FDI in the retail sector. FDI in retailing was permitted in china for the first time in 1992. Foreign retailers were initially permitted to trade only in six provinces and special economic zones. Foreign ownership was initially restricted to 49 %. Thailand permits 100 % foreign equity, with no limit on the number of outlets. For the retail business, it has a capital requirement of TBH 100 million for each wholesale outlet. Indonesia permits 100 % foreign equity in retail business, with no limit on the number of outlets. It also does not impose any capital requirements. From the above details it is clear that Indian organized sector is far behind when compared to other developed and developing nation and hence there is always a huge scope for growth.

V. Growth and Trend of Indian Retailing: An Over View.

In the year 1997, 100% FDI was permitted in cash and carry wholesale trading under the government approval route to improve the investment climate in the Indian retail space. Indian government announced a number of reforms in the process of liberalization and deregulation of the economy. A study conducted by ICRIER on Indian retail industry estimates that the total retail business in India will grow at 13 per cent annually from US $ 322 billion in 2006-07 to US $ 590 billion in 2011-12 and further US $ 1 trillion by the year 2016-17. The Indian Retail market was estimated to be US $ 427 billion by 2010 & US $ 637 billion by 2015. FICCI, believe that India's retail sector will become a USD 1.3 trillion opportunity by 2020. India is the Asia's third-largest economy; the estimated value of the Indian retail sector is about USD 500 billion presently. Since its inception there has been a remarkable surge in the FDI inflows in the country. Turnover and trend of retailing is shown in following table:

Table: 3. Future Turnover and Share of Retailing in India
(Figures in crore Rupees)

Year	Total Retailing turnovers	*Growth over last year, in %	Organised sector turnover	#Growth over last year, in %	Market share in percentage
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 researcher.

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.

VI. Share of Organised Retailing in India.

Table 4: Share of Organised Retail in India

Year	1999	2002	2005	2009	2010	2013 *
Total Retail (in billion INR)	7000	8250	10000	18450	19500	24000
Organized Retail (in billion INR)	50	150	350	920	1350	2400
Share of Organized Retail (%)	0.70%	1.80%	3.50%	5.00%	7.00%	10.00%

Source: www.nielsen.com (* Expected)

Table: 4 indicates that the growth of the organized retail has been steadily rising since 1999.this growth can be attributed to changes in FDI policy in retail trade. Organized retail, which constituted a low 0.70 % in the year 1999, 3.50 % in the year 2005 is estimated to grow at 40 to50 per cent per annum and attain a 16 per cent share of total retail by the year 2011-12. In short, both unorganized and organized retail are bound not only to coexist but also achieve rapid and sustained growth in the coming years.

VII. Challenges for Global Retailers in MBRT in India

In India the retailing industry has a long way to become a truly flourishing industry. Retailing has seen such a transformation over the past decade. Entry of the foreign giants in MBRT is inevitable and has recently emerged from its nascent stage. The retail industry in India is growing at a significant pace. However, there are several problems to be faced .the major challenges to MBRT in India are:-

1. Competition from unorganised retailing: The first challenge to the organized retail sector is the competition from unorganized sector. These small retailers have usually very low-margin, are owner-operated, and have mostly negligible real estate and labour costs. They pay very little taxes. Consumer familiarity that runs from generation to generation is one big advantage for the traditional retailing sector. They provide goods on credit basis to their customers and employ delivery boy. In contrast, organized sector has to cover big fixed cost, and yet have to keep prices low to compete with the traditional sector.

2. Middlemen: needless to say, the Indian retail sector is dominated by the middlemen. There are various chains or channels of distribution prevailing in this sector. These long intermediaries chains are in turn driving up their costs.

3. High Cost: higher manufacturing cost increases cost of operation in India. Limited land availability at prime locations or higher cost of real estate can increase the cost.

4. Inadequate Infrastructure: it seems that in the sector there is a lack of adequate infrastructural facilities like electricity, road ways, water supply, transportation, cold storages, warehouses and logistics and developed supply chain.

5. Information Technology: There is a lack of integrated information technology management in the sector.

6. Changing Policies: The status of the retail sector is depending mostly on government regulations and policies. It is said that there are unstable policies of Indian government.

7. Changing Nature of Customers: Customers incomes, lifestyle, demand, behaviour, preferences and dissimilarity in consumers groups are the other challenges that the sector in India is facing. Dissimilarity in consumers groups are other challenges to be faced by organized sector.

8. Retained Customers: Organised retailers are facing problems to attract customers from traditional Kirana stores, especially in the food and grocery segment. Consumers have easy access to neighbourhood stores, availability of credit and easy delivery system.

9. Restrictions on FDI: Restrictions are imposed on FDI in retailing in India. FDI is admissible only upto 51 percent in multi-brand retailing which may result in limited exposure to the global retailers.

10. Tax Structure: the tax structure in India favours small retailers. Organized sector has to pay huge taxes, which can result the cost of business operations is very high in India. There is multi-point octroi collection and different structure of sales tax in different states.

11. Lack of trained work force: there is talent shortage and lack of trained manpower which makes the sector quite complex.

12. Restrictions on entry: Government has imposed restrictions in some sectors. The restrictions imposed in others, including the retail sector, are utterly baseless and are acting as shackles in the progressive development of that particular sector.

13. Rural market: manufactures and service providers face problem in rural market as yet it is marginally tapped due to difficulties in rural retailing.

14. Absence of developed supply chain management: Supply chains are not yet so efficient and the kind of quality that customers demand is being provided yet.

VIII. Opportunities:

The face of the Indian Retail Industry will change with the entry of Global Players in Retailing, who will provide good quality of goods, services and technology of highest standards. Infrastructural facilities and assured markets for the farm produce are the prerequisites for the growth of the rural agricultural sector. Following opportunities can be opened to the India.

Capital Inflows: it is mandatory to foreign players to invest US $ 100 million (Rs.500 crore) in MBRT, which means if 10 MNCs enter within a year, the country will get more than Rs. 5000 crore. It is interest free inflows of foreign capital which will help to boost the growth of the country.

Sustainable Development: there will be sustainable development and many other economic issues will be focused upon.

Employment Opportunities: There will be more organisations in the sector. Organised retail will need more workers. According to findings of KPMG, in China, the employment in both retail and wholesale trade increased from 4 % in 1992 to about 7% in 2001. In India, this sector can provide more employment to unemployed people too.

Healthy Competition: Healthy competition will be boosted and there will be a check on the prices (inflation): Retail giants already have operations in other countries for over 30 years. Until now, they have not at all become monopolies rather they have managed to keep a check on the food inflation through their healthy competitive practices.

Infrastructure Development: Heavy flow of capital will help in building up infrastructure for the growing population. Development of back-end infrastructure can cut the wastage of farm output, time and can improve quality. India is already operating in budgetary deficit. Neither the government of India nor domestic investors is capable of satisfying the growing needs of the ever growing Indian population. Hence foreign capital inflow will enable us to create a heavy capital base.

Control over Wastage: in India around 40 % agricultural produce is wasted due to lack of infrastructural facilities. Retailers will try to avoid these wastage and losses and it will be their endeavour to make quality products available at lowest prices, hence making food available to weakest and poorest segment of Indian society.

Advanced Technology: Big players in retailing will bring advanced technologies and methods that would bring in huge advantages for a techno-hungry country like India. It is opined that FDI in Multi-Brand Retail Sector can be considered appreciable as it may bring the latest cutting-edge technologies to benefit the economy .

Transparency: the intermediaries operating as per mandi norms do not have transparency in their pricing. According to some the reports, an average Indian farmers realize only one-third of the price, which the final consumers pays.

Farmers Development :Farmers are likely to get benefited through investments in infrastructure such as cold storage and other machinery so that they can mitigate their post harvest loss and thereby get assured and enhanced income. There will be in an increase of 20 per cent in the income of farmers and will have a multiplier effect benefiting one million farmers and agricultural workers.

Up-gradation of Retail Trade: Once the concept picks up, due to demonstration effect, there will be an overall up-gradation of domestic retail trade.

Growth in GDP: Global retail giants take India as a key market. It is rated fifth most attractive retail market. The organised retail sector is expected to grow stronger than GDP growth in the next five years driven by changing lifestyles, increase in income and favourable demographic outline. Food and apparel retailing are key drivers of growth.

Rural Development: Rural retailing is still untapped. There will be direct procurement from the farmers. Thereby the farmers as well as their workers will get better income than before.

In view of the above analysis, if we try to balance opportunities and prospectus attached to the given economic reforms, it will definitely cause good to Indian economy and consequently to public at large, if one implemented.

IX. Conclusion

The retail sector of India has vast and huge potential for growth and development, as the majority of its constituents are un-organized. This sector witnessed significant developments in the past 10 years from small unorganized family owned retail formats to the organized retailing. India has emerged as one of the prime destinations in retailing sector from an impressive number of foreign investors. Indian retail sector is in a boom periods and are many reasons that are attracting global retail giants due to its market opportunities. Indian retail sector is changing fast and its employment potential is growing fast. For the developing country like India, foreign investment in multi-brand and organised sector is 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, investment in storage and transportation infrastructure, supply chain operations, knowledge from the multinational retail players. The Indian companies will benefit by global best management practices and technological know-how.

To summarize, the debate on allowing FDI in MBRT is a welcome first step as there are more opportunities than challenges. FDI in multi-brand retail will start a better integration of Indian economy into the global markets, as such, it is important for the government of India to develop retail sector for the total economic development of the country and welfare of society. FDI in retailing would surely be a gain to India and it would also help India to become 'developed country'. So, FDI in retailing is the need of an hour'.

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