

# Qualitative Analysis of FDI in Indian Retail Industry

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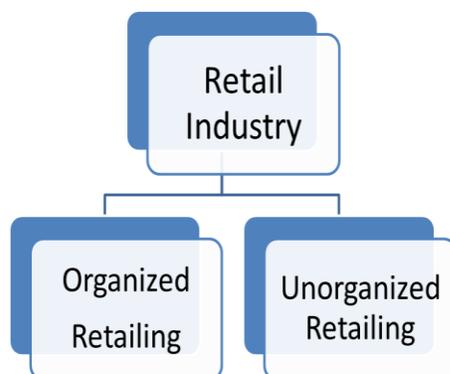
## ABSTRACT

The Indian Retail Industry is the fifth largest in the world. Comprising of organized and unorganized sectors, Indian retail industry is one of the fastest growing industries in India, especially over the last few years. Though initially the retail industry in India was mostly unorganized, however with the change of taste and preferences of consumers, the Industry is getting more popular these days and getting organized as well. The Indian retail market has shown greater acceptance for organized retailing formats. Domestic retailing is emerging from a multitude of unorganized family-owned businesses to organized modern retailing. Rapid urbanization, changes in shopping pattern, demographic dividend and pro-active measures by the Government are abetting the growth of the retail sector in India. By taking into account the importance of growing Indian retail industry this paper has attempted to analyze the reforms introduced by Government of India in the Indian Retail Industry, whether they are boom or bane for the country.

**Keyword:** Qualitative, Retail, FDI

## Introduction

Indian retail industry is one of the rising sectors with huge potential and capability. Indian retail industry is the second largest employer after agriculture, employing around 35 million people with wholesale trade generating additional 5.5 million employments more. Retail sector in India accounts for around 30 to 35 pc of its GDP. Indian retail market is dividing into two parts:

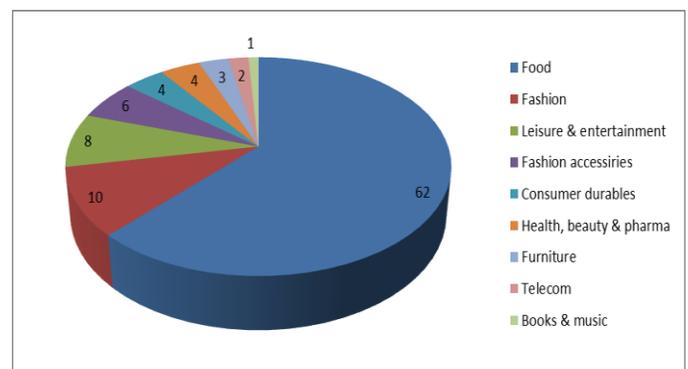


The Indian retail market is currently estimated at 396 USD million. Food segment contributes the largest part of total value

of retail market, followed by fashion, leisure and entertainment and fashion accessories and so on. Indian retail market segment is as follows:-

The share of organized retail trade is project to grow @ 40 pc. Some of the factors contributing towards this expected growth are:

1. India' total population growing @ 13 pc and this hike in population is bound to show repercussion in various sectors.
2. Total retail spending is expected to be double in next 5 years.
3. Customers mindset is shifting from low price to better convenience, high value and moreover quality oriented products.
4. Emergence of concepts such as quick and easy loans, EMIs , credit cards loans has made purchasing possible for Indian consumers.
5. Constructions of malls are contributing towards the growth of the organized retail business.
6. Youth of India is getting high brand conscious, 60 pc of India's population is below the age of 30 leading to popularization of brands and products.



Source: Big Strategic Management Consultants, Highlight of Indian retail industry, 2012

## Research objective & Methodology

In this paper an attempt has been made to analyze that whether FDI in retail should be there or not and to achieve that objective opinion of experts and researchers have been

collected from various journals, magazines, books, newspapers, online journals etc. as the paper is totally opinion based.

**As per AT Kearney's 7<sup>th</sup> Annual Globe Retail Development Index Report** Indian retail industry is 5<sup>th</sup> largest retail destination and 2<sup>nd</sup> most attractive market for investment in the world after Vietnam. Some of the major reforms announced by Government of India with regard to FDI in retail sector in India are:

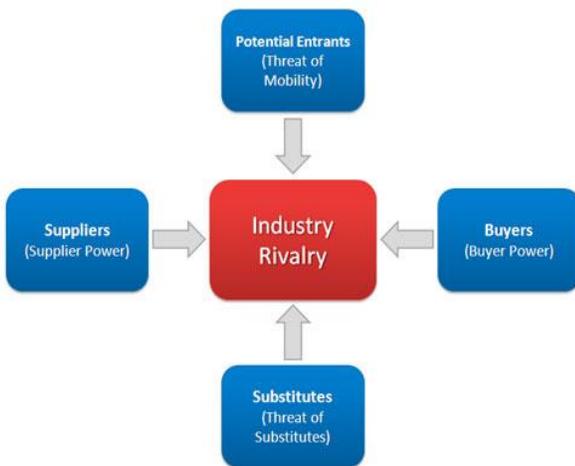
1. India will allow FDI up to 51 pc in Multi Brand retail.
2. Single Brand Retailer can own 100 pc of their Indian Stores.
3. The retailers with FDI share will have to get their 30 pc of total goods from small and medium sized suppliers from India.

So to find out whether these reforms are boom or bane for economy. Some of the qualitative tools have been used which are as under:-

**1. Porters' Five Force Model:**

- a) **Threat of New Entrants:** 90 pc of Indian retail market composed of small, uncomputerized and family run store shops. Now there are some symptoms that Indian government is trying to change it and that is by opening up of its economy to FDI in Retail market. It has opened up market for foreign investors in single brand retail and multi brand retail in a phased manner will lead to more inflows of foreign investors in India. So threat of new entrants is high.

b)



- c) **Powers of Suppliers:** At present, customers are getting quality conscious and if they are paying

price, they should get quality products and if supplier provide quality products then he will be able to survive unless otherwise he will have to shut his shop. So supplier tends to have little power. E.g. Walmart which pays attention to quality so contract with big retailer like walmart can make or break a small supplier.

- d) **Power of Buyers:** Here customers will have more bargaining power in unorganized sector as compare to organized sector because it's very difficult to bargain in retail chain store like big bazaar as compare to kirana shop. Because in organized sector if customers demand product then his focus will be on quality
- e) **Availability of Substitutes:** Retail stores do not deal with single products they have to deal with number of products in a same product line therefore different stores are selling same products so threat of substitute is higher.
- f) **Competitive Rivalry:** Retailers have to face cut throat competition whether they are in organized or unorganized sector. To overcome this, latest practice adopted by these retail stores is giving membership, special gifts, bonus and moreover concentrating on customers' loyalty.

**2. Arguments against the Retail Sector Reforms**

1. Massive job loss will be there because independent stores will get closed. With the emergence of Walmart only thousands of jobs will be created and millions will be lost.
2. As we have seen in the case of Pepsi and Coke, they came and wipeout the entire domestic brands, same will be the case of retail outlet e.g. When Walmart will lower their price, then they will be able to create monopoly and then rises prices.
3. India is self sufficient country it's not depend on foreign retailers it can meet its demand by its own so there is no need to have foreign retailers.
4. There will be drainage of money from India, that will be generated here but profits will go to foreigners.
5. They will enter like East India Company and then took over politically.

**Arguments in Support of the Retail Sector Reforms**

1. If a company like Walmart will come into India and spread in the same trend as of USA, then Walmart only will be able to create 5.6 Million jobs ( India's' population in 1200 million, USA population is 300 million and Walmart creating 1.4 million and in the same proportion it will create 5.6 million jobs in India). Instead of job loss, retailers reforms are likely to be massive boost to Indian job availability.
2. Indian economy need trillions of dollars to built its infrastructure, hospitals, education and housing etc. to meet its need of surging population. As we all know, Indian economy is already operating on budget deficit so to meet their demand global investment through FDI is needed. Beyond capital, Indian retail industry needs knowledge and global integration Global integration

can potentially open its export market for Indian farmers and manufactures.

3. Companies like Walmart Carrefour, Metro, and Target are some of the leading retail companies who are operating for over 30 years in numerous countries and they have not created monopoly. Instead they have helped in reducing inflation by having price check over it.
4. Some of the critics are saying if we allow foreign investors, then history will repeat itself like East India Company, but today we are living in 21<sup>st</sup> century as a largest democratic country. Global awareness and media were not there in 18<sup>th</sup> century as we have in 21<sup>st</sup> century. So India rather than isolating itself should enjoy the benefits by having integration with the world as countries like China, Malaysia, Thailand etc are doing
5. No doubt India has become self sufficient in food production, but it is of no use if that food does not reached to the consumers, this is due to in built inefficiencies in our food distribution system. If we have cost conscious organized retail stores, then we can reduce food wastage while increasing farmers' income. E.g. Walmart since its arrival has introduced "Direct Farm project" at Haider nagar near Malerkotla in Punjab where 110 farmers have been connected with Bharti Walmart for sourcing fresh Vegetables directly which leads to less wastage and direct income to farmers.

### 3.SWOT Analysis:

#### 1. Strengths:

- **Major contribution to GDP:** The retail sector in India is hovering around 33-35% of GDP as compared to around 20% in USA.
- **High Growth Rate:** The retail sector in India enjoys an extremely high growth rate of approximately 46%.
- **High Potential:** Since the organized portion of retail sector is only 2-3%, thereby creating lot of potential for future players.
- **High Employment Generator:** The retail sector employs 7% of work force in India, which is right now limited to unorganized sector only. Once the reforms get implemented this percentage is likely to increase substantially.

#### 2. Weaknesses (limitation):

- **Lack of Competitors:** AT Kearney's study on global retailing trends found that India is least competitive as well as least saturated markets of the world.
- **Highly Unorganized:** The unorganized portion of retail sector is only 97% as compared to US, which is only 20%.
- **Low Productivity:** Mckinsey study claims retail productivity in India is very low as compared to its international peers.
- **Shortage of Talented Professionals:** The retail trade business in India is not considered as reputed profession and is mostly carried out by the family

members (self-employment and captive business). Such people are not academically and professionally qualified.

- **No Industry's status, hence creating financial issues for retailers:** The retail sector in India does not enjoy industry status in India, thereby making difficult for retailers to raise funds.

### 3. Opportunities (benefits):

- **There will be more organization in the sector:** Organized retail will need more workers.
- **Healthy Competition will be boosted and there will be check on the prices (inflation):** Retail giants such as Walmart, Carrefour, Tesco, Target and other global retail companies 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.
- **Create Transparency in the system:** The intermediaries operating as per mandi norms do not have transparency in their pricing. According to some of the reports, an average Indian farmer realizes only one-third of the price, which the final consumer pays.
- **Intermediaries and Mandi System will be Evicted, Hence Directly Benefiting the Farmers and Producers:** the prices of commodities will automatically be checked. For example, according to Business Standard, Walmart has introduced —Direct Farm Project at Haider Nagar in Punjab, where 110 farmers have been connected with Bharti Walmart for sourcing fresh vegetables directly.
- **Quality Control and Control over Leakage and Wastage:** Due to organization of the sector, 40% of the production does not reach the ultimate consumer. According to the news in Times of India, 42% of the children below the age group of 5 are malnourished and Prime Minister Dr. Manmohan Singh has termed it as **National Shame**. Food often gets rot in farm, in transit and in state-run warehouses. Cost conscious and highly competitive retailers will try to avoid these wastages 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.
- **Heavy Flow of Capital will Help in Building up the Infrastructure for the Growing Population:** India is already operating in budgetary deficit. Neither the government of India nor domestic investors are capable of satisfying the growing needs (school, hospitals, transport etc.) of the ever growing Indian population. Hence foreign capital inflow will enable us to create a heavy capital base.

### 4. Threats:

- **Current Independent Stores will be Compelled to Close:** This will lead to massive job loss as most of the

operations in big stores like Walmart are highly automated requiring fewer work forces.

- **Big Players can Knock-out Competition:** They can afford to lower prices in initial stages, become monopoly and then raise price later.
- **India does not Need Foreign Retailers:** As they can satisfy the whole domestic demand.
- Remember East India Company it entered India as trader and then took over politically

### Conclusion

In the above mention viewpoint, it will be good for Indian economy to implement these reforms whole heartedly and at large. These will definitely benefit our economy. As per my viewpoint, modern retail is the need of the hour to have proper distribution and for overcoming inefficiencies in the system. But situation will get worse when it reached a point, where duopoly emerged and everything goes against the public interest. So to overcome all these problems, there is need to have effective and properly implemented competition policies and laws to have a check on anticompetitive policies and to evaluate that to which extent retail power is used unfairly.

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