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IMPACT OF FDI IN MULTI-BRAND RETAIL SERVICE QUALITY IN INDIA

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Introduction

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.

Foreign Investment in India is governed by the 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. Therefore, the government adopted a liberal attitude by allowing 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. Thus, resulting in the partial liberalization of Indian Economy. Indian retail industry is one of the sunrise sectors with huge growth potential. According to the Investment Commission of India, the retail sector is expected to grow almost three times its current levels to $660 billion by 2015.

In India, Single brand retail having received 51% FDI investment sanction would improve investment scenario of the country. This in turn will lead tough competition in Indian retail sector and hence the need for innovative marketing strategies. Retailing is the interface between the producer and the individual consumer buying for personal consumption. As such, retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. Currently, 51% FDI in multi brand Retail and 100% in single brand is put hold till the time consensus is reached between the political parties. There is stiff opposition being seen within the UPA allies in context of FDI in retail. Also opposition party is seeing this as an opportunity to get the political mileage.

As on Sep 20, 2012, the government notified its decision to allow global retail giants like Walmart to open stores in India. With this notification, multinational retailers can invest up to 51 per cent to open stores in 10 states and UTs which, till date, have agreed to implement the decision. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous ‟kirana‟ store.India’s retail industry is estimated to be worth approximately US$411.28 billion and is still growing, expected to reach US$804.06 billion in 2015. As part of the economic liberalization process set in place by the Industrial Policy of 1991, the Indian government has opened the retail sector to FDI slowly through a series of steps:

1995

- World Trade Organization's General Agreement on Trade in Services, which includes both wholesale and retailing services, came into effect

1997

- FDI in cash and carry (wholesale) with 100 percent rights allowed under the government approval route

2006

- FDI in cash and carry (wholesale) brought under the automatic route
- Up to 51 percent investment in a single brand retail outlet permitted, subject to Press Note 3 (2006 Series)

2011

- 100 percent FDI in single brand retail permitted

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Multi Brand Retailing

Multi Brand retailing refers to the marketing of the different unrelated competitive products under the same firm though being under the same firm, the various brands tend to bite into each other‟s sales, for example „Pantaloon‟ & „Central‟ of Future Group. The multi brand retailing has certain advantages which are as follows:

- Obtaining greater shelf space and leaving little for competitor`s product.
- Saturating a market by filling all price and quality gaps.
- Catering to brand-switching users who like to experiment with different brands.
- Keeping the firm‟s managers on their toes by generating internal competition.

FDI in Multi-Brand Retailing

In 2008, the Government contemplated opening up the retail sector and allowing 100 per cent FDI in single-brand retail trading and 51 per cent FDI in multi-brand retailing. However, it did not succeed due to fierce opposition from its allies and the Left parties as well as the local trade associations. AT Kearney, the well-known international management consultancy, recently identified India as the „second most attractive retail destination‟ globally from among thirty emergent markets.

It has made India the cause of a good deal of excitement and the cynosure of many foreign eyes. With a contribution of 14% to the national GDP and employing 7% of the total workforce (only agriculture employs more) in the country, the retail industry is definitely one of the pillars of the Indian economy. India is largest among the Asian economies to liberalize its retail sector. Presently, global players are entering in India indirectly and allowing FDI is a great sign of buoyancy to the retail sector.

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. The unorganized retail sector is expected to grow at approximately 10 per cent per annum with sales rising from US$ 309 billion in 2006-07 to US$ 496 billion. Organized retail, which constituted a low four per cent of total retail in 2006-07, is estimated to grow at 45-50 per cent per annum and attain a 16 per cent share of total retail by 2011-12.

Current Scenario

Virtually leaving no scope for a rollback, a determined United Progressive Alliance government issued the final notification for allowing foreign direct investment (FDI) in multi-brand retail even as the Opposition took to the streets to protest against the recently announced reforms. The way is now clear for global retail giants such Walmart, Carrefour and Tesco, to set up shop with a local partner and sell directly to Indian consumers for the first time. The government has also issued the press note for the new FDI norms in single-brand retail to relax the norm for 30-per cent outsourcing from local small and medium industries. This will pave the way for the entry of Swedish retail giant IKEA, which has lined up a Rs.10, 500-crore investment plan for India. However, the government has stated that retail trading in any form by means of e-commerce would not be permitted for companies with FDI engaged in the activity of single brand retail trading. The minimum amount to be brought in by a foreign investor would be $100 million in multi-brand retail, and outlets may be set up only in cities with a population of more than 10
lakh.

Only 10 states and Union Territories have so far conveyed to the Centre their agreement to open FDI in the multi brand retail. These are Andhra Pradesh, Assam, Delhi, Haryana, Jammu & Kashmir, Maharashtra, Manipur, Rajasthan, Uttarakhand, Daman & Diu and Dadra and Nagar Haveli. The major domestic retailers welcomed the decision. The decisions to allow 49 per cent FDI by foreign airlines in domestic carriers, 49 per cent FDI in power exchanges and increase in the foreign equity cap from 49 per cent to 74 per cent in service providers like directto-home in the broadcasting sector have also been notified.

The Indian Government has decided not to allow companies with foreign direct investment (FDI) to sell their products through the Internet in India. The Indian Government which allowed Foreign Direct Investment up to 51% in multi brand retail trading last week has decided not to allow companies with foreign direct investment (FDI) to sell their products through the Internet in India.

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Share of Organized Retail in Selected Countries

Country	Total Retail Sales (US$ bn)	Share of Organized Retail (%)
USA.	2983	85
Japan	1182	66
China	705	20
United Kingdom	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 Technopark Advisers Pvt. Ltd

According to the Ministry of Commerce & Industry, "FDI is freely allowed in all sectors including the services sector, except a few sectors where the existing and notified sectoral policy does not permit FDI beyond a ceiling. FDI for virtually all items/activities can be brought in through the Automatic Route under powers delegated to the Reserve Bank of India (RBI), and for the remaining items/activities through Government approval.

FDI Limit in Various Sectors

Sector	Percentage %
Telecom	74
Banking	74
NBFC	100
Insurance sector	26
Private petrol refining	100
Construction development	100
Coal and Lignite	74
Electricity	100
Pharmaceutical	100
Transportation infrastructure	100
Mining	74
Advertising	100
Airport	74
Film production	100
Pollution control	100
Print media	26
a) Newspaper/Current Affairs	100
b) Scientific and technical periodical	-
Tourism	100

FDI in Multi-Brand retailing is prohibited in India. FDI in Single- Brand Retailing was, however, permitted in 2006, to the extent of 51%. Since then, a total of 94 proposals have been received till May, 2010. Of this, 57 proposals were approved. An FDI inflow of US $ 194.69 million (Rs. 901.64 crore) was received between April, 2006 and March, 2010, comprising 0.21% of the total FDI inflows during the period, under the category of single brand retailing. The proposals received and

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approved related to retail trading of sportswear, luxury goods, apparel, fashion clothing, jewellery, hand bags, lifestyle products etc., covering high-end items. Single brand retail outlets with FDI generally pertain to high-end products and cater to the needs of a brand conscious segment of the population, mainly attracting a brand loyal clientele, which often has a pre-set positive disposition towards the specific brand. This segment of customers is distinctly different from one that is catered by the small retailers / kirana shops.

FDI in cash and carry wholesale trading was first permitted, to the extent of 100%, under the Government approval route, in 1997. It was brought under the automatic route in 2006. Between April, 2000 to March, 2010, FDI inflows of US $ 1.779 billion (Rs.7, 799 Crore) were received in the sector. This comprised 1.54 % of the total FDI inflows received during the period. While analyzing the total FDI flow into the country as per Department of Industrial Policy & Promotion Ministry of Commerce and Industry, FDI in single brand retailing was 909.77 crore rupees which is 0.16% of the total FDI in India. India having a total of 5, 42,773 crore rupees FDI inflow during the last year had only 909.77 crore rupees from retail single brand sector. Why the Government is reluctant to allow more FDI flow in retail sector?

Benefits of FDI in Multi Brand Retailing

Soaring inflation is one of the driving motives behind this move towards multi-brand retail. Allowing international retailers such as Wal-Mart and Carrefour, which have already set up wholesale operations in the country, to set up multi-brand retails stores will assist in keeping food and commodity prices under control. Moreover, industry experts feel allowing FDI will cut waste, as big players will build backend infrastructure. FDI in multi-brand retail would also help narrow the current account deficit. Additional benefits include moving away from an industry focus on intermediaries and job creation.

Moving away from 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.

Job Creation: 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.

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.

The question of whether or not organized and unorganized retailing can peacefully co-exist is a primary concern. While the Indian retail sector is still heavily weighted towards unorganized retailers, which occupy 97 percent of the market, organized retail is growing quickly. But with a mere 7 percent of the market, organized retailers are unlikely to drive kiranas (local grocery stores) out of business. Indian retailers simply lack the deep pockets and in-depth field expertise

Benefits for Farmers

Farmers in India get only 10%-12% of the price the consumer pays for the agro-products. Coming of organized retailing will benefit farmers in big way. Big retailers sell their product at very competitive prices. So, they source it directly from the farmers. Middle man does not have any place in this format of retailing. This will not only benefit farmers but also help in checking the food inflation. Also India has very inadequate facilities to store the food grains and vegetables. As the investment will flow into back end infrastructure, supply chain will get strengthened. Storage is a major problem area and 20%-25% of the agro products get wasted due to improper storage.

Growth Opportunity for Retailers

India is Asia"s third largest retail market after China and Japan. Organized retailing is very virgin space in India. It provides immense growth opportunity. Only 5% of the total sales are being done by organized retailer. Currently Indian Retail sector have sales of around $500 billion. Retail sector is expected to have sales of $900 billion by 2014. It still far behind China,

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whose retail sales by 2014 is expected to cross $4500 billion mark. Purchasing power of Indian urban consumer is growing and branded merchandise in categories like Apparels, Cosmetics, Shoes, Watches, Beverages, Food and even Jewellery, are slowly becoming lifestyle products that are widely accepted by the urban Indian consumer.

Growth Drivers of Indian Retail Sector

Rising Income and increase in convergence of consumer taste and preferences. Dual family Income. Knowledge about different product through different medium like Internet, Television etc. Also knowledge about the latest trend and fashion. 47% of the India's population is under the age of 30. This category is driving the consumption story. Emergence of new retailing format. Availability of Credit Facilities. FDI in multi brand will stimulate investment in the sector. There are companies in the retail sector that are reeling under debt. These companies could get fresh lease of life.

Challenges in Implementing FDI in Indian Retail Sector

Some of the constraints of FDI in Multi brand retailing are as follows:

Political Scenario in the Country: The opposition party due to some self interest restricts the policy of multi brand retailing.

The competition from the Indian Multi-brand retailers.

Distribution Channel: The foreign company will have to struggle a lot to enlarge their channel as most of them are involved in the Indian market.

As time passes, big retailers may become dominant and start having more bargaining power. So the profits gained by the farmers initially would close.

Conclusion

For the developing country like India, foreign direct investment in multi-brand retail sector should be consciously considered by the Govt. of India.. 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. 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.

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