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FDI in Indian Retail Sector: Opportunities & Challenges

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ABSTRACT

A foreign direct investment (FDI) is an investment in the form of a controlling ownership in a business in one country by an entity based in another country. It is thus distinguished from foreign portfolio investment by a notion of direct control. The origin of the investment does not impact the definition as an FDI: the investment may be made either "inorganically" by buying a company in the target country or "organically" by expanding operations of an existing business in that country. Foreign Direct Investment (FDI) is considered to be the lifeblood of economic development especially for the developing and underdeveloped countries.

FDI in retail sector can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers and suppliers. FDI in multi-brand retail will support the government's role of achieving remunerative prices for farmers and will also increase quality and choice for India's increasingly sophisticated consumer base. An incredibly high percentage, 40% of food is lost in India due to the lack of cold storage and the lack of quick transportation. This is one of the very important benefits of multi-brand retail that they brought across the world in supply chain. This paper only discusses Over View of FDI in Retail Industry, Opportunities & Challenges.

Keywords: FDI, Foreign Portfolio Investment, Retail Sector, Multi Brand Retail, Economic Development.

I. INTRODUCTION

Generally speaking FDI refers to capital inflows from abroad that invest in the production capacity of the economy and are "usually preferred over other forms of external finance because they are non-debt creating, non- volatile and their returns depend on the performance of the projects financed by the investors. FDI also facilitates international trade and transfer of knowledge, skills and technology." It is furthermore described as a source of economic development, modernization, and employment generation, whereby the overall benefits (dependant on the policies of the host government)….triggers technology spill overs, assists human capital formation, contributes to international trade integration and particularly exports, helps create a more competitive business environment, enhances enterprise development, increases total factor productivity and, more generally, improves the efficiency of resource use.
As per the current regulatory regime, retail trading (except under single-brand product retailing — FDI up to 51 per cent, under the Government route) is prohibited in India. Simply put, for a company to be able to get foreign funding, products sold by it to the general public should only be of a _single-brand'; this condition being in addition to a few other conditions to be adhered to. India being a signatory to World Trade Organization's General Agreement on Trade in Services, which include wholesale and retailing services, had to open up the retail trade sector to foreign investment.

The Indian retail industry has emerged as one of the most dynamic and fast-paced industries due to the entry of several new players. It accounts for over 10 per cent of the country's Gross Domestic Product (GDP) and around 8 per cent of the employment. India is the world's fifth-largest global destination in the retail space.

India's federal government released an **updated and consolidated policy for foreign investors** on August 28, relaxing old barriers and providing more regulatory clarity – with immediate effect. Startups and single brand retail companies are among key beneficiaries of the changes in this year's foreign direct investment (FDI) policy. The new FDI policy also outlines procedures for foreign investors looking at sectors that were previously regulated by the now **defunct Foreign Investment Promotion Board** (FIPB).

II. OBJECTIVES OF THE STUDY

1. To Overview of FDI in retail sector India
2. To study the emerging challenges in FDI in Indian Retail Sector.
3. To study the opportunities in FDI in Indian Retail Sector.

III. RESEARCH METHODOLOGY

This study is descriptive in nature. The study is based on secondary data which has been taken from case studies, books, journals, newspapers and online databases and websites of DIPP (Department of Industrial Policy and Promotion), RBI (Reserve Bank of India) .

India's Consolidated FDI Policy for 2017

The document released by the **Department of Policy and Promotion** (DIPP) offers investors clarity on entry routes for investments into India, sectors requiring government approval and procedures for the same. The document serves as a guide on the regulations monitoring and permitting foreign investments across respective economic sectors.
Several changes in this year's policy incorporate the **incremental updates announced by the government for respective sectors** over the last one year.
With the consolidated FDI policy in place, the Modi government hopes to showcase an investor-friendly environment and greater ease of doing business in India.
Attracting FDI is especially important for the government right now, given its ambitions on the Make in India front – establishing India a manufacturing hub and expanding its startup sector to promote job creation and economic development.

Major changes in the 2017 FDI policy

- **Inclusion of startups in the government's foreign investment policy:** Indian**startups**can now raise up to 100 percent funding from foreign venture capital investors (FVCIs). The policy simplifies the definition of 'venture capital funds' as funds registered under the Securities and Exchange Board of India or SEBI (Venture Capital Funds) Regulations of 1996.
- **Relaxation of the local sourcing rule in single-brand retail:** Mandatory**local sourcing norms for foreign firms**will not be applicable for up to three years from the commencement of their business in the country. This refers to such entities that have 'state of art' and 'cutting edge' technology, and where local souring is not possible. However, after the exemption period ends, these companies will need to comply with the domestic sourcing norm (30 percent in a year). A clear definition of what these terms mean is still missing.
- **Sales by an e-commerce platform:** As it stands, an e-commerce entity can source only up to 25 percent of its sales through one of its group companies. The **DIPP**has now clarified that 'sales' will be calculated based on value (not volume) of items sold on a financial year basis – April to March.
- **100 percent FDI in food retail:** Foreign investment up to 100 percent will be permitted under the government approval route for trading, including through e-commerce in the case of food products manufactured or produced in India.
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- **Extension of FDI in the pharmaceutical sector:** Up to 74 percent FDI will allowed in India's pharmaceutical sector through automatic route; beyond that limit, the foreign investment will need to secure government approval.
- **Approving authorities clarified:** Investment proposals relating to banking, mining, defense, broadcasting, civil aviation, telecom, and pharmaceuticals will need the approval of the respective federal ministries. The DIPP will be the approving authority for proposals relating to retail – single and multi-brand and food and startups.
  For investments in**financial services not regulated by any financial sector regulator**such as the SEBI or Insurance Regulatory and Development Authority (IRDA), or where only part of the financial services activity is regulated, or where there is doubt regarding regulatory oversight – the federal department of economic affairs will be the deciding authority.
- **Investment by non-resident Indians (NRIs):** A company, trust, or partnership firm that is incorporated outside India and owned and controlled by NRIs will be permitted to invest in India, subject to certain provisions outlined in the FDI policy.

Investment Scenario

- IKEA, the Netherlands-based furniture company, has purchased 14 acres of land in Bengaluru for setting up its third retail outlet in the country.

- Future Group, a consumer goods company in India has entered into a joint venture with Khimji Ramdas Group in UAE for selling garments in Oman with both the companies having invested US$ 11.7 million each. The joint venture will first launch four to five stores in Oman and gradually increase the count to 17 to 18.
- Amazon India plans to double its storage capacity in India by adding 14 new warehouses by June 2017, aimed at maintaining rapid growth in sales and catering to the remote parts of India.
- Bang and Olufsen, Danish stereo and speaker system maker, has plans of setting up about eight to ten standalone satellite stores by the end of FY 2017-18 in cities like Kolkata, Hyderabad, Ahmedabad, among others.
- Walmart, global retail giant, plans to open 50 new cash-and-carry stores in India over the next three to four years and locate half of the stores in Uttar Pradesh and Uttarakhand while creating over 40,000 jobs in the two states.
- Global e-commerce giant, Amazon is planning to enter the Indian food retailing sector by investing US$ 515 million in the next five years, as per Mr Harsimrat Kaur Badal, Minister of Food Processing Industries, Government of India.
- US apparel retail major Gap Inc, has tied up with Arvind Group's fashion portal NNNow.com to sell its products online, which will help the retailer expand its presence beyond metros and tier-I cities.
- Hamleys, has stated that India is one of the most important markets for Hamleys globally, and outlined plans of opening six more stores, taking its total store count in the country to 32 by the end of March 2017.
- Roche Bobois Group, outlined plans of opening new stores in cities like Hyderabad, Chennai, Pune, Kolkata and Ahmedabad, in order to make India one of its top five markets by 2022.
- A joint venture between Dutch asset manager APG Asset Management and real estate asset platform Virtuous Retail, has acquired a portfolio of three shopping malls for US$ 300 million, and has committed an additional US$ 150 million as equity capital to expand the portfolio.
- Future Consumer Ltd has formed a joint venture (JV) with UK's largest wholesaler, Booker Group, with an investment of Rs 50 crore (US$ 7.5 million), to set up 60-70 cash-and-carry stores in India in the next 3-4 years.
- Adidas India Private Limited, outlined plans of opening around 30-40 big flagship stores across Delhi, Mumbai and Bengaluru, by 2020.
- Mad Over Donuts (MoD), outlined plans of expanding its operations in India by opening nine new MOD stores in Hyderabad and Chennai by March 2017.
- Switzerland's luxury retail brand Bally, plans to re-enter the Indian market in a joint venture with Reliance Brands Ltd, by opening its first store in New Delhi in March 2017, and thereafter aiming to expand to four stores in Delhi, Mumbai, Kolkata and Chennai over the next 3 to 4 years.
- Urban Ladder, an online furniture store, is in advanced talks to raise around US$ 25-30 million from existing investors Kalaari Capital, SAIF Partners and Sequoia Capital, along with one new investor, which will be used to fund its expansion plans.
- Hennes & Mauritz (H&M), the Sweden-based clothing retailer, is in advanced talks with Mumbai-based Prakhhyat Infraprojects Pvt Ltd to lease around 275,000 square feet of space at Bhiwandi, Maharashtra, to set up its first warehousing hub in India.
- Future Group has partnered with UK clothing and hardware retailer Laura Ashley to make and sell merchandise as well as wholesale distribution in India.
- Parle Agro Pvt Ltd is launching Frooti Fizz, a succession of the original Mango Frooti, which will be retailed across 1.2 million outlets in the country as it targets increasing its annual revenue from Rs 2800 crore (US$ 0.42 billion) to Rs 5000 crore (US$ 0.75 billion) by 2018.

Government Initiatives

The Government of India has taken various initiatives to improve the retail industry in India.

- The Government of India may change the Foreign Direct Investment (FDI) rules in food processing, in a bid to permit e-commerce companies and foreign retailers to sell Made in India consumer products.
- Government of India has allowed 100 per cent Foreign Direct Investment (FDI) in online retail of goods and services through the automatic route, thereby providing clarity on the existing businesses of e-commerce companies operating in India.

Road Ahead

E-commerce is expanding steadily in the country. Customers have the ever increasing choice of products at the lowest rates. E-commerce is probably creating the biggest revolution in the retail industry, and this trend would continue in the years to come. Retailers should leverage the digital retail channels (e-commerce), which would enable them to spend less money on real estate while reaching out to more customers in tier-2 and tier-3 cities.

Both organised and unorganised retail companies have to work together to ensure better prospects for the overall retail industry, while generating new benefits for their customers.

Nevertheless, the long-term outlook for the industry is positive, supported by rising incomes, favourable demographics, entry of foreign players, and increasing urbanisation.

Exchange Rate Used: INR 1 = US$ 0.0155 as on June 20, 2017)

- Increasing participation from foreign and private players to boost retail infrastructure
- Revenue generated from online retail is projected to grow to US$ 60 billion by 2020.

Foreign direct Investment (FDI) as defined in Dictionary of Economics is investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new site. In short FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. In November 2011, India's central Government announced retail reforms for Multi Brand Stores and Single Brand Stores. The announcement sparked intense activism. In July 2011 the GOI has recommended FDI in retail sector as –
1) 51% in Multi - Brand Retail.
2) 100% in Single - Brand Retail.

IV. REVIEW OF LITERATURE

Organized retail, one of the most notable emerging sectors of the Indian economy, continues to attract significant investments and interest from leading national and international retail players. It has also generated considerable opposition from small traders and shopkeepers who are worried about the impact of large-scale organized retail on their businesses. As a result, the government has been forced to carefully examine the long-term implications of organized retail in India.

India stands out as an example for the late coming of modern organized retail in emerging markets and also for the kind of restrictions placed on foreign investments in retail. The arrival of modern retail in developing countries occurred in three successive waves (Reardon and Hopkins, 2006; Reardon and Berdegue, 2007). The first wave took place in the early to mid-1990s in South America, East Asia outside China, North-Central Europe and South Africa. The second wave happened during the mid to late 1990s in Mexico, Central America, Southeast Asian countries, Southern-Central Europe. The third wave began in the late 1990s and early 2000s in parts of Africa, some countries in Central and South America, Southeast Asia, China, India, and Russia.
India permitted foreign direct investment in cash-and-carry wholesale trade up to 100 per cent through the automatic route and in single-brand retail up to 51 per cent in 2006. The former brought in US$ 1.8 billion during April 2000 to March 2010 and the latter just US$ 195 million during April 2006 to March 2010. India perhaps remains the only exception in emerging economies in barring the multi-brand retail for foreign investment. The reason why India has not allowed FDI in multi-brand retail is the fear that it will harm the traditional small retailers.

FDI in "Single-Brand" Retail

FDI in single-brand retail implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand. For Adidas to sell products under the Reebok brand, which it owns, separate government permission is required and (if permission is granted) Reebok products must then be sold in separate retail outlets.

Up to 100% in Single Brand Retail Trading

By only one non-resident entity whether owner or the brand or otherwise 30% domestic sourcing requirement eased to preferable sourcing rather compulsory Further clarification on FDI companies that cannot engage in B2C e-commerce.

Benefits/Opportunities of FDI

➢ **Benefits to Indian Economy**

FDI in retail would have been an opportunity to attract inflow of funds which would have resulted in major benefits for the Indian economy:

- **Growth in allied industries:** The inflow of funds into retailing would have simultaneously led to the growth of allied industries as happened in the case of automobiles, which led to the growth of auto components sector. Likewise FDI in retail would assist growth in supplier industries such as food-processing and textiles moreover, growing demand for retail space, construction of real estate would have also taken place.
- **Improvement of Government Revenues**: Another significant advantage of organized retailing is its contribution to government revenues. Organized retailers, by virtue of their being corporate entities need to file tax returns periodically whereas in the unorganized sectors there have been leakages in the collection of central and state taxes.
- **Supports the growth of Indian small industries**: If the consumers in India buy goods at foreign single-brand outlets, established in India and enjoy the shopping experience, in reality, they would be actively contributing towards significant money transfer to a multinational based out of the USA, which after retaining profits, would end up sending majority of this money to China, where most goods are being manufactured. The government appears to be cognizant of this very issue, which is why they proposed that at least 30 per cent of the procurement of manufactured / processed products shall be from "small industries" (presumably this refers to "small industries" in India). This aspect will lead to support the growth of the small industries in the country.
- **Supports Improved Standard of Living**: Allowing FDI in Indian Single-Brand Retail will certainly bring in more sophisticated and luxurious goods and services to the country. Availability of such goods backed with good promotional support will definitely motivate / induce the Indian buyers to buy and consume them. It will be certain that the standard of living of the consumers will be improved. In addition to the above, the people who shall be employed in the multi-national retail enterprises will be paid attractive salaries and wages that will also stand for their increased affordability. The organised retail also provides other add-on services along with the products sold. All these new changes, that shall be resulted by allowing FDI in single-brand retail will surely support improved standard of living.
- **Overall Growth of The Country:** FDI in Indian retail will obviously result in the growth and expansion of the market and change in consumer spending pattern and also increase in their spending that eventually lead to higher GDP in the country.
- **Efficient Supply Chain Systems:** The Government believes that FDI in retail is the silver bullet solution to all issues regarding the inefficient supply chain system in India. This belief rests on the premise that a component of the capital inflow into the retail sector will go into developing an extremely efficient and organised supply and logistic system that will take care of collection, storage and transportation of food produce, seamlessly.
- **Higher Profits for Farmers:** The section in the Indian Government that supports foreign investments in retail, believes that such a move has the potential to boost up the lives of our farmers. The underlying rationale is that with the giant retailers setting up shops and investing in fully integrated supply chain from farm gates to supermarket shelves, middlemen in the chain will be cut out. Without the intermediaries, food producers would get higher prices for their produce.
- **Large-Scale Employment Generation**: Proponents of FDI in retail have declared that there will be large-scale job creation in the economy. Union Minister for Commerce and Industry Anand Sharma went one step further by quoting a figure of 10 million as the number of new jobs to be created, with bulk of that supposedly coming from the logistics sector. For example, the Wal- Mart, whose global turnover is close to size of India’s entire retail industry, employs only 2.1 million people.

V. CHALLENGES FOR FOREIGN FIRMS IN ORGANIZED RETAIL

The first challenge is competition from the unorganized sector. Traditional retailing has been established in India for many centuries, and is characterized by small, family-owned operations. Because of this, such businesses are usually very low-margin, are owner-operated, and have mostly negligible real estate and labor costs. Moreover, they also pay little by way of taxes. Consumer familiarity that runs from generation to generation is one big advantage for the traditional retailing sector. It is often said that the mom-and-pop store in India is more like a father-and-son enterprise.
Such small shops develop strong networks with local neighborhoods. The informal system of credit adds to their attractiveness, with many houses ‘running up a tab’ with their neighborhood kirana store, paying it off every fortnight or month. Moreover, low labor costs also allow shops to employ delivery boys, such that consumers may order their grocery list directly on the phone. These advantages are significant, though hard to quantify. In contrast, players in the organized sector have to cover big fixed costs, and yet have to keep prices low enough to be able to compete with the traditional sector.
Getting customers to switch their purchasing away from small neighborhood shops and towards large-scale retailers may be a major challenge. The experience of large Indian retailers such as Big Bazaar shows that it is indeed possible.

Anecdotal evidence of consumers who return from such shops suggests that the wholesale model provides for major bargains – something Indian consumers are always on the lookout for. The other major challenge for retailers in India, as opposed to the US, is the storage setup of households. For the large-scale retail model to work, consumers visit such large stores and return with supplies likely to last them for a few weeks. Having such easy access to neighborhood stores with whom, as discussed above, it is possible to have a line of credit and easy delivery service, congested urban living conditions imply that few Indian households might be equipped with adequate storage facilities.

VI. FINDINGS

1. **In India the Modi Government Has Changed FDI Percetage Multi Brand Retail 51 % & Single Brand Retail 100% .It Gives to the Boost of Retail Industry In India.**
2. The main Problem is competition from the unorganized sector. Traditional retailing has been established in India for many centuries, and is characterized by small, family-owned operations.
3. There is Tremendous Opportunities Retail Sector Boosting FDI .It will helpful for Boosting of Indian Economy ,Employement Opportunity , **Overall Growth of The Country etc.**

VII. SUGGESTIONS FOR THE GROWTH OF RETAIL INDUSTRY

FDI 2017 has proved to be game changer for wide segments of Indian industry. FDI has changed quality, productivity, and production in areas where it has been allowed.

1. India needs to invest in infrastructure development because India is lacking only in this which will affect our Retail Industry majorly.
2. India should increase the investment absorption capacity.
3. India should make FDI policies little bit more liberal so that it can face competition with other emerging economies.
4. Bureaucratic delays and various governmental approvals and clearances involving different ministries need to be fastened.
5. Restrictions on sector caps and entry route to sectors other than those of national importance need to be liberalized further and constant reviewing of policies must be done.
6. Government must ensure consistency of policy so as to improve the business and investor confidence.

VII. CONCLUSION

In light of the above, it can be safely concluded that allowing healthy FDI in the retail sector would not only lead to a substantial surge in the country's GDP and overall economic development, but would also help in integrating the Indian retail market with that of the global retail market in addition to providing not just employment but abetter paying employment, which the unorganized sector (kirana and other small time retailing shops) have undoubtedly failed to provide to the masses employed in them. Thus, as a matter of fact FDI in the buzzing Indian retail sector should not just be freely allowed but should be significantly encouraged. Allowing FDI in multi brand retail can bring about Supply Chain Improvement, Investment in Technology, Manpower and Skill Development, Tourism Development, Greater Sourcing from India, Up-gradation in Agriculture, Efficient Small and Medium Scale Industries, Growth in market size and Benefits to Government through greater GDP, tax income and employment generation.

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