

Research Papers



Proposed FDI in Multi-Brand Retailing: Will it heat the Indian unorganized Retail Sector?

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Abstract

Retail industry of India is divided into two sectors viz. organized and unorganized sectors. The Govt. of India was forced to put on hold FDI in multi-brand retail by several political parties. Presently, for single brand retailers, 51 per cent FDI is permitted. The problem arises whether opening up of FDI in multi-brand retail will create problems or provide opportunities for local retailers. People those who oppose to the FDI in multi-brand retail, feel that FDI will pose some threats before the unorganized retail sector and will adversely impact the small retailers, farmers and consumers. Foreign direct investment in multi-brand retail will start a better integration of Indian economy into the global markets. There is no reason to worry by small retailers and shopkeepers may get displaced. This article examines the prospects of FDI in multi-brand retail in India.

Key words: Retail, Multi-brand, FDI, organized retail, MNCs etc.

Introduction

Retail industry of India is divided into two sectors viz. organized and unorganized sectors. After adoption of liberal policy, organized retail has grown exponentially and is a testament of the Indian middle class's burgeoning buying power. As a consequence, the opening up of the wholesale and single brand retail sector to foreign direct investment ("FDI") was unavoidable. India is ranked as the third most attractive country for retail investment among emerging markets with domestic companies like the Future Group, Tata's Westside, Bharti Retail, Reliance Fresh and Raheja Group competing for market share. Multi-brand retail comes in different formats like supermarket, hypermarket, compact hyper and the malls. The success of the retail sector is best reflected in the fact that, the shares of retail companies are financially strong and well settled. However, the retail sector is constrained by several factors, basically by a highly restrictive licensing

policy of government and overall poor infrastructure. These factors have contributed to restrict organized retail as compared to unorganized retail. This article examines the prospects of FDI in multi-brand retail in India, and builds a case as to why the sector needs to be opened.

The Govt. of India may soon notify 100% FDI in single-brand retail, paving way for global chains like Adidas, Nike, Louis Vuitton, Hermes and Gucci to have full ownership of their operations in India. The Department of Industrial Policy and Promotion said that the notification of 100 per cent FDI in single-brand retail will be passed soon. The decision to increase FDI in single brand retail was taken by the Cabinet soon, along with opening the gates for overseas investment in the multi-brand retail. However, the Govt. of India was forced to put on hold FDI in multi-brand retail by several political parties. Presently, for single brand retailers, 51 per cent FDI is permitted.

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Removal of investment cap would help global fashion brands to strengthen their interest in the growing Indian market. Most of the big names the retail, have already set up their business operations in the country with joint ventures with Indian partners.

Statement of the problem:

In present scenario, 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. The article focuses, why there is a need of FDI in retails? What may be the impact of FDI on the Indian retail sector? Can Indian retailers face the heat of FDI? An attempt will be made through the article to solve these problems.

Significance of the study:

The article will help to know the benefits that can be secured from the FDI in retails. The research article also comments on the cry of oppositions also. Present study tells how the small retailers will be affected by the heat of multinational retail giants. It also gives some suggestions how and on which terms the FDI in retails could be permitted? Here, in this research article, the attempt has been made to focus the importance of FDI in retail sector in present scenario. The article also points out the prospects and problems for FDI in multi-brand retail sector. The study presents some suggestions & recommendation for implementing FDI in retails.

Research Methodology:

The data for the present study is collected from the secondary sources. Various news in the news papers, videos of parliament while discussion on FDI were seen for collection of the data. As well as the reference books, magazines also used for the purpose.

Objectives of the study:

Now-a-days, in India everywhere the people are talking about the FDI in retail sector. The Govt. of India is also going to pass the bill allowing FDI in retail. The present study is conducted to know the following things related to FDI in retails.

1. To know benefits from FDI in multi-brand retail.
2. To know threats due to FDI in multi-brand retail.
3. To know what may happen, after starting organized retail stores in India by MNCs.

What is Multi-Brand Retailing?

Single brand retail means selling products under one brand, which are also sold internationally. Examples are Rebook, Adidas, Nike, Gucci, Lotto,

Levis etc. Multi-branding 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. Multi-brand retail has the different formats like supermarket, hypermarket, and the shopping malls etc.

FDI in Multi-Brand Retailing: Major facts:

As part a part of agreement with WTO, Indian Govt. has opened Indian economy for globally players in various products and also for encouraging foreign direct investment (FDI) in the country, Indian Government proposed a policy of 100 per cent FDI in single brand retail, and 51 per cent FDI in multi-brand retail. According to the proposed provisions, the minimum foreign direct investment shall be \$ 100 million, out of which minimum half shall be for back end infrastructure installation. It is argued that with this single stroke, multi-billion dollar retail business, MNCs may set up their multi-brand retail stores in India, which may change the face of the Indian retail sector.

Present Status of FDI in Multi-Brand Retail:

The current regulations on retail allow 100% FDI only in wholesale cash-and-carry trading. In single-brand retailing, 51% FDI is permitted but it is banned in multi-brand retailing. The problem arises whether opening up of FDI in multi-brand retail will create problems or provide opportunities for local retailers. There is no proper answer and clear views have been seen in the favor and against FDI in multi-brand retailing. The benefits explained below, will, in the course of time, properly judge the problems of FDI in multi-brand retailing.

Some of the key benefits that can permit FDI in multi-brand retail are:

Plenty Opportunities:

It is important not to neglect the local "Mom and Pop" retail stores; there is a huge opportunity for FDI in multi-brand retail. At the present moment, Indian manufacturers are exporting different and various types of products to innumerable retailers worldwide. There are a significant number of people in the population which feels that there is a considerable difference in the quality of the products sold to foreign people and the same products sold in the local market. In view of the availability of disposable incomes for Indians, there is an increased thinking to pay for quality and ease and access to a "one-stop buying" which will have a wide range of different products. If the economy is opened, then the prices can also be changed and the monopoly of specific Indian manufacturers will be challenged. In the eventual

analysis, the Indian consumers will get benefit in the form of possible lower prices due to free, enhanced and, possibly, tough competition in the retail sector.

Benefits for the Indian farmers:

It can be assumed that, with the establishment of multi-brand retail, the essential commodity industry like food and packaging industry will also get benefits and boost also. India is one of the largest producers of fruits and vegetables; it has not enough integrated cold-chain infrastructure. Non-availability of adequate storage facilities is a cause for heavy losses to the farmers, as well in terms of wastage in quality and quantity of fruits and vegetables in particular. With adoption of liberal, there could be a complete overhaul of the currently fragmented supply chain infrastructure. Extensive backward integration by MNC retailers, coupled with their technical and operational expertise, can hopefully remedy such structural flaws. Also, farmers can get benefit with the "farm-to-fork" the chain of food supply, from the farm where it is produced to the consumer ventures with retailers which helps (i) to reduce number of intermediaries ; (ii) give fair prices to farmers, and (iii) provide stability and economies of scale which will benefit, in the ultimate analysis, both the farmers and consumers.

Advanced technology and transportation:

Advanced technology for processing, grading, handling and packaging of goods and further technical improvements in areas like electronic weighing, billing, barcode scanning etc. could be a direct result of MNCs opening retail shops in India,. Further, transportation facilities can get an incentive, in the form of increased number of refrigerated vans and pre-cooling chambers which can help to reduce wastage of goods and financial losses.

Boost to the real-estate business:

Organized retail sector is closely dependant on real estate as any retailer will require large spaces for setting up retail stores. Without real estate it is not possible to grow the retail business. Real estate business in India has gone through a revamp due to the demand of high-end retail malls and people's changing perception towards an enjoyable shopping experience. Thus real estate can get a further benefit in India and receive more investment with the starting of FDI in multi-brand retail.

Criticisms on FDI in Retail:

People those who oppose to the FDI in multi-brand retail, feel that FDI will pose some

threats before the unorganized retail sector and will adversely impact the small retailers, farmers and consumers and will give boost to monopolies of large multinational retailers, which may adversely affect the pricing and supply of the goods. They also claim that the unorganized retail sector in India is one of the major employment generators and granting permission to FDI in this sector can hurt financially the unorganized retailers, which would lead to losing the livelihood.

However, these arguments can be rejected due the findings of the study of ICRIER conducted in India during 2008. The study states that the unorganized retail sector will suffer initially with the starting of organized retail closer to them, this impact will automatically reduce significantly in the course of time. The development of organized retail has the potential of generating employment for both the skilled and unskilled people. The Indian Govt. can protect interest of small retailers by restricting FDI to be permitted only for stores having floor size greater than 2,000 sq. ft. Moreover, monopolies of large MNC retailers can also be controlled by the Government by enforcing strict regulations and, whoever needed, through the Competition Commission of India which is empowered to evaluate abuse of dominant position.

Present Regulations: An obstacle before FDI in Multi-Brand Retail:

In current times, the Govt. rules and regulations for the existing local retailers is quite exhaustive with multiple i.e. 40 licenses and permissions are necessary and to be obtained by the retailer from various authorities, as per the nature of activity. E.g. a multi-brand retailer selling food, vegetables and perishable items has to get a prevention of food adulteration license as per the provisions of the PFA Act, a weights & measures license according to W & M Act for regulating the weights and measures and labels on the food products sold. It also has to get a license under the APMC Act for selling fruits and vegetables. If a multi-retailer decides to launch a store in many states then the number of licenses will increase accordingly. Hence, any MNC going to establish a multi-brand retail store across India will have to face huge licensing obligations in each state of its operation. These rules and regulations are also working as obstacles in the way of FDI in multi-brand retail.

If the Govt. of India opens multi-brand retail sector for FDI, in addition to the regular

operating licenses, chances are that the MNCs and foreign multi-brand retailers will have to get approvals for investment as well from the central regulatory authority which, at present, is the FIP Board. With the passage of time, we can expect that the manifold licenses across different states of India would be reduced and if rules for licensing will be made same.

What Govt. of India Says?

- Heavy FDI in the multi-brand retail sector will result in gainful employment opportunities in agro-processing, sorting, marketing, logistics management and front-end retail management.

- Minimum 10 million jobs will be created in the next three years in the retail sector.

- FDI in retail will help farmers' to get prices over the MSP by omitting exploitative middlemen.

- MNC Retailers and Foreign Retail Giants will ensure supply chain efficiencies for continuous supply of the products.

- Policy to make a compulsion for investing minimum of \$100 million and out of which at least half the amount must be invested in back-end infrastructure, including cold chains storages, refrigeration, transportation, packing, sorting and processing. This is expected to considerably reduce post-harvest losses and costs.

- Purchase of a minimum of 30% of total purchase of goods by retail store, shall be purchased from Indian micro and small industry. This will encourage domestic manufacturing, thereby creating a multiple effect for employment, technology up gradation and income generation.

- In [Indonesia](#), even after many years of emergence of multi-brand retailing and supermarkets, 90% of fresh food and 70% of all food is still controlled by traditional retailers.

- An impressive growth has been seen in the retail and wholesale trade after China Govt. has approved 100% FDI in retail sector. [Thailand](#) has also experienced tremendous growth in the agro based processing industry.

- In any case, organized retail through Indian corporate is permissible. Experience of the last decade shows small retailers have flourished in harmony with large outlets.

- A strong legal framework in the form of the Competition Commission is available to deal with any anti-competitive practices, including predatory pricing.

Cry of Opposition:

- Comparison about FDI in retail sector, between India and China is not possible. The giant economy of China is predominantly a

manufacturing in nature. It's one of the biggest suppliers to international organized retailers like [Wal-Mart](#). But Indian economy can not do same things. So, Indians may lose the manufacturing and services sector employment.

- Global retail corporations will lay the impact of their pricing on retails and they will try to create monopoly, oligopoly in the markets. This may results in essentials commodities, including food products, supply and pricing being controlled by MNCs and organized retailers.

- This movement will lead to huge number of job losses. World-wide experience has shown that organized retail stores and supermarkets had displaced small and unorganized retailers. Unorganized and small retail sector has been crushed out up to some extents in developed countries like the America and in countries of Europe.

- Jobs opportunities in the Indian manufacturing sector will be lost by Indians, because the multinational and organized retailers will purchase goods across the globe and not from local manufacturers. This is the experience of many countries that have permitted FDI in retail sector.

- Segmented markets will give many options to consumers to purchase the products any where. The non-segmented markets may face the conditions like lack consumer. Permitting foreign retail players will result in displacing and disturbing the existing markets.

- Argument that only multinational retailers will create the transportation for India farm products is fake one. International organized retailers will not play any role in constructing the roads or generation of the power. They will only create storage facilities for their benefits and not for local farmers. These all the things are done by various state governments in India.

Conclusion:

For the developing country like India, foreign direct investment in multi-brand and organized retail sector should be consciously considered by the Govt. of India. Besides considering the interest of small and unorganized retailers, India has to learn from China. In China, organized and unorganized retail sectors have to coexist stance and both growing together with joining hands. 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. In view of

researcher, the govt. of India has an opportunity to use the policy liberalization for achieving the advantages like:

- To improve its infrastructure for retail sector,
- To access advanced and improved technologies for getting developed,
- To generate employment in retail sector,
- To provide benefits to customers like choice for different products and international brands.

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.

Recommendations:

- Important argument given by opposition of FDI in retail sectors is that there will be huge job losses. Big organized retail stores and chains are going to appoint and hire a lot of skilled and unskilled people. So, in the short time span, there may be a loss in jobs. But then there is an opportunity to provide more of jobs.

- There is no reason to worry by small retailers and shopkeepers may get displaced. When Indian large organized retailers will be allowed to invest in multi-brand and organized retail, it may be a cause for displacing. It is not going to happen anything different when foreign investments in retail is allowed. But actually nothing will happen with unorganized retailers, they can carry on their business in a better way with profits.

- Basically, Govt. of India should not prevent any organized retailer, local or foreign, from starting up any organized retail store, if there is no any good reason to prohibiting them. Hence, it can be suggested that FDI in retail sector will not do any harm than good for the Indian economy and unorganized retailers, and then FDI should be permitted.

- The entry of multinational retailers is likely to start competition, to give consumers a better products and better prices. Mega retail stores have to keep price possibly low and attractive.

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