An Analysis of Liberalization of the Retail Sector and Beneficial Stakeholders in India with Special Reference to FDI in Retail

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Introduction

The retail market in India has been valued at US$ 833 trillion by the year 2013 and the growth of retail in India is very fast paced. Simultaneously, the consumers spending have also gone up exponentially as the last four years. The consumer spending in India surged to 75 per cent. Also, the organized sector had promised to grow at a CAGR of 40 per cent by the year 2013. With a contribution of 14 percent to the national GDP and employing 7 per cent of the total workforce in the country, the retail industry is heralded as one of the significant pillars of the Indian economy. According to the Investment Commission of India, the retail sector would grow to US$ 660 billion by 2015, i.e. almost three times its current levels. The modern retailing with 6 per cent share stands at US$ 26 billion and is projected to reach 1.3 trillion USD by 2018 (at a CAGR of 10%). Until 2011, the Indian Central Government denied Foreign Direct Investment (FDI) in multi-brand retail, forbidding foreign groups from any ownership stake in supermarkets, convenience stores or other retail outlets. Even single-brand retail was limited to 51 per cent shareholding and subjected a bureaucratic processing. In the late 2012, the Government of India unveiled a Foreign Direct Investment Policy allowing foreign retailers to own up to 51 per cent in multi-brand retail and 100 per cent in single brand retail. It is expected that these stores will now have full access to over 200 million urban consumers in India, approximately 47 per cent of who are below the age of 30 years with high levels of consumption.

The Indian retail sector was liberalized with a view to attract FDI motivated by low domestic savings rates, accompanied by inefficient financial intermediation, which hampered their strategies to finance growth in retail. The capital has perennially been one of the scare resources that are required for economic development in the areas of health, poverty, employment, education, research and development, technology up gradation and global competition. The flow of FDI in India from across the world will help in mobilizing the funds at cheaper cost for better technology, employment generation, and upgraded technology transfer, scope for more trade, linkages and spillovers to domestic firms. The FDI could also pave way for proper tapping of natural resources, development of basic economic infrastructure and improvement in the balance of payments position, among others. The liberalized retail would help flow of several benefits to stakeholders like consumers, unorganized trade, farmers, producers, the exchequer, etc.

The objectives of the present research study are:

(i) To analyze the liberalization scenario of retail scenario in India;
(ii) To study the impact and benefits of FDI in retail segment on different constituents and stakeholders and
(iii) To make the suggestions for the further growth of retail industry of the country.

Research Methodology

The present study focuses on the benefits of liberalization of retail sector that will accrue to different stakeholders. This study is based on secondary data. In other words, it is desk method of research. The secondary data is collected from various reports and other published literature. The sources are compiled and studied for a period of six years from 2006-07 to 2011-12. Further, the study is also based on descriptive arguments, statistical data, case studies, comparative study and analytical logic developed through the understandings from various research papers, reports, books, journals, newspapers and online data bases.

Results and Discussion

The Indian economy was liberalized in the 1990s and since then, the country has seen booming financial markets, the emergence of new industries, an evolution in consumer shopping habits, the entry of global companies, etc. India is a vibrant economy and since 2005-06, has been growing at an average gross domestic product (GDP) of 8.6 per cent. The six core industries viz., crude oil, petroleum refinery products, coal, electricity, cement and finished carbon steel grew by 6.8 per cent in February 2011 as compared to 4.2 per cent in February 2010. According to the Centre for Monitoring Indian Economy, private final consumption expenditure is projected to grow by 7.5 per cent. While the inflow of foreign capital is increasing, Indian companies are also acquiring assets overseas. Also, the strength of the country is reflected in its growing personal income. The Indian Government is supporting this growth through reforms and by improving the state of infrastructure (roads, highways, ports, airports, special economic zones, etc.). Powered by strong internal demand, the country has displayed robust growth which is likely to be sustained in the coming years. A large and educated middle-class and young consumers are helping drive demand across categories. Studies have also ranked Indian consumers as some of the most confident consumers in the world. This is based on the strength of the economy, personal finances, career growth, increase in consumption, purchase of non-essential products, brand awareness, etc. As indicated in Figure 1, the Indian economy displays resilience in the midst of global downturn (GDP %).

Liberalization of Indian Retail Sector

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 historically 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.

An increasing number of people in India are turning to the services sector for employment due to the relative low compensation offered by the traditional agriculture and manufacturing sectors. According to the Tenth Report of GRDI of AT Kearney, India is having a very favorable retail environment and it is placed at 4th spot in the GRDI. The main reasons behind it is the 9 per cent real GDP growth in 2010, forecast early growth of 8.7 per cent through 2016, high saving and investment rate and increased consumer spending. According to the report, organized retail accounts for 7 per cent of India's roughly $435 billion retail market and is expected to reach 20 per cent by 2020. Food products account for 70 per cent of Indian retail, but it remains under-penetrated by organized retail. Organized retail has a 31 per cent share in clothing and apparel and continues to witness growth in this sector. A report by Boston Consulting Group has revealed that the country's organized retail is estimated at US $ 28 billion with around 7 per cent penetration. It is projected to become a US $ 260 billion business over the next decade with around 21 per cent market share.

The Indian retail market is currently largely unorganized and highly fragmented, with estimated 13-15 mn outlets countrywide. The overall retail market is expected to grow at a CAGR of about 11-13 per cent by 2020-21, with the organized retail market expanding at 21-24 percent. The share of organised retail in India is depicted in Table 1.

Table 1: Share of Organised Retail in India

(In billion Rs.)

Sector	Year					
	2006-07	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Total Retail	7,000	8,250	10,000	18,450	19,500	24,000
Organized Retail Share of	50	150	350	920	1,350	2,400
Organized Retail (%)	0.70	1.80	3.50	5.00	7.00	10.00

Table 1 depicts the growth in the share of organized retail in the overall retail in India over years. It is clear that the growth of organized retail has been steadily rising since 2006-07 and is expected to continue in the years to come. This growth can be substantially attributed to changes in FDI policy in retail trade.

The analysts believe that the sector is likely to show significant growth of over 9 per cent over the next ten years and also see rapid development in organized retail format with proportion likely to reach more respectable 25 percent by 2018. The BMI India Report for the first quarter of 2012 released the forecasts that total retail sales with growth from US $ 422.09 billion in 2011 to US $ 825.46 billion by 2015. The report strongly highlights the underlying economic growth, population expansion, increasing disposable income and rapid emergence of organized retail infrastructure as major factors behind the growth forecast. According to the department of Industry Policy and Promotion Cumulative, FDI inflows in single brand retail trading stood at US$ 44.45 million during April 2000 to September 2011. The share of retail sector in Gross Domestic Product (GDP) of the nation is presented in Table 2.

Table 2: Share of Retail Trade in GDP

Year	Percentage share of Retail Sector (%)
2006-07	08.00
2007-08	09.40
2008-09	12.10
2009-10	15.08
2010-11	22.04
2011-12	26.60

Source: 10th Annual Global Retail Development Index (GRDI) of A.T. Kearney.

Indian retail sector is wearing new clothes and with a three year compounded annual growth rate of 46-64 per cent, retail is easily the fastest growing sector in the Indian economy. The sector is the second largest employer after agriculture, employing more than 35 million people with wholesale trade generating an additional employment to 5.5 million crore. The enormous growth of retail industry has created a huge demand for real estate. Property developers are creating retail real estate at an aggressive pace. According to Report - India Organized Retail Market 2010, published by Knight Frank, during 2010-12, around 55 million square feet of retail space will be ready in Mumbai, NCR, Bangalore, Kolkata, Chennai, Hyderabad and Pune. Besides between 2010 and 2012 the organized retail real estate will be grown from existing 41 million square feet to 95 million square feet. The total number of shopping malls is expected to expand at CAGR of 18.9 per cent by 2015. Hypermarket, currently accounting for 14 per cent of mall space is expected to witness high growth. Industry experts predict that the next phase of growth in the retail sector will emerge from the rural market.

India is the Founder Member of World Trade Organization and signatory to the General Agreement on Trade in Services (GATS). This agreement includes wholesale and retailing services and all member countries are required to open up the retail trade sector to foreign investment.

There were initial reservations in India towards opening up of retail sector arising from fear of job losses, procurement from international market, competition and loss of entrepreneurial opportunities. However, the Government in a series of moves has opened up the retail sector gradually to FDI in India. Against this background, during nineties, the Government of India allowed limited FDI in retail and as a result "Dairy Farm" an MNC made entry in India. In 1997, FDI in '**Cash and Carry'** (wholesale) with 100 per cent ownership was allowed under the Government approval route. Fifty-one per cent FDI in single brand retail was also permitted in 2006. In 2011, 100 per cent FDI was allowed in single brand retail withholding the FDI in Multi Brand Retail. The 100 per cent FDI in Single Brand (under revised guidelines) and 51 per cent in Multi-Brand retailing with some conditions attached have now been allowed in India w.e.f., 20th Sept., 2012 with an option to the State Governments to allow or not to allow the FDI in retail sector in their respective states.

Growth Factors

The retail sector provides huge opportunities to the stakeholders in the industry. The research study carried out by the Price Water House Coopers Private Limited indicates that although the Indian retail sector is worth US$ 350 billion, it has a low organized retail penetration of hardly 8 per cent. Modern trade is growing at between 15 and 20 per cent per annum. India is becoming an exciting and dynamic retail destination due to the following:

- A large market size,
- Low organized retail penetration,
- Strong GDP growth,
- Increasing personal incomes,
- Large number of aspiration consumers (middle-class, young Indians, rural population, etc.).

Emerging Trends

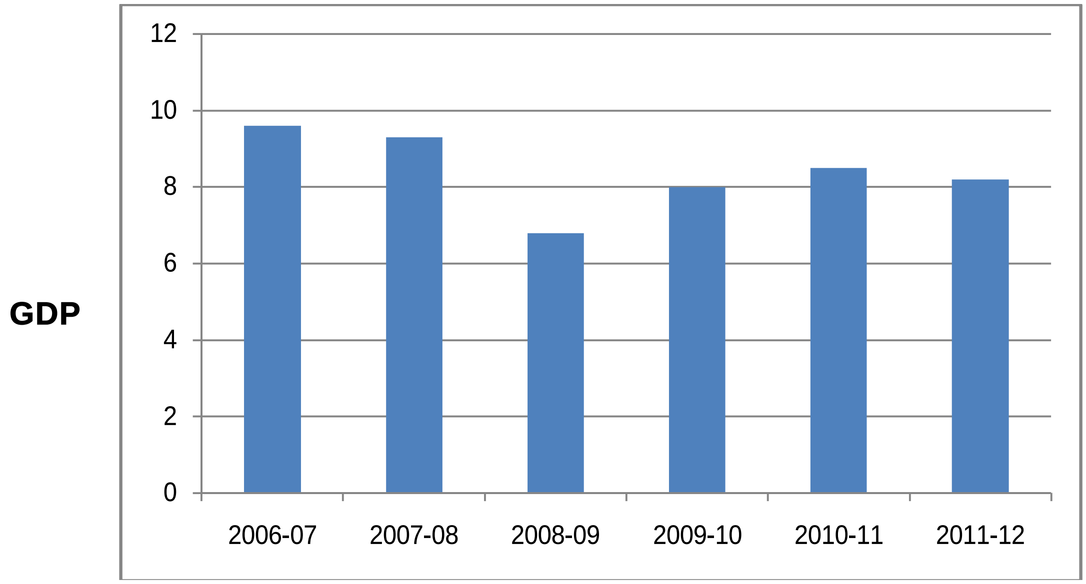
The Indian retail market is evolving rapidly and we observe the following features:

- Previously, shopping was viewed as a functional activity. It meant buying only the essentials. In fact, non-essentials shopping or self-indulgence was frowned upon. However, liberalization in the 90s, increasing incomes and foreign trips, exposure to the internet, growing confidence in one's personal success, etc., are making it acceptable to not only buy non-essential products but also to splurge on luxury goods.
- India's retail sector is developing fast and becoming more competitive. Retailers understand the importance of meeting consumer demands.
- Supply chain mastery will be a driver of competitive advantage. As the retail sector becomes more crowded, the optimal use of well organized supply chain and logistics will enable retailers to become agile and cost-competitive. Retailers have realized that cost reduction is the only key to success.

Growth of Indian Retail Sector

The Indian retail industry is divided into organized and unorganized sectors. Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local *kirana* shops, owner-manned-general stores, paan*/beedi* shops, convenience stores, hand cart, basket carrier and pavement vendors, etc. India's retail sector is wearing new looks and as a result of three-year CAGR of 46.64 per cent, retail is the sunrise sector of the Indian economy. Traditional markets are making way for new formats such as departmental stores, hypermarkets, supermarkets, specialty stores and brand stores. Western-style malls have begun to appear in metros and second-rung cities alike, introducing the Indian consumer to an unparalleled shopping experience.

Figure 1: GDP of India from 2006-07 to 2011-12

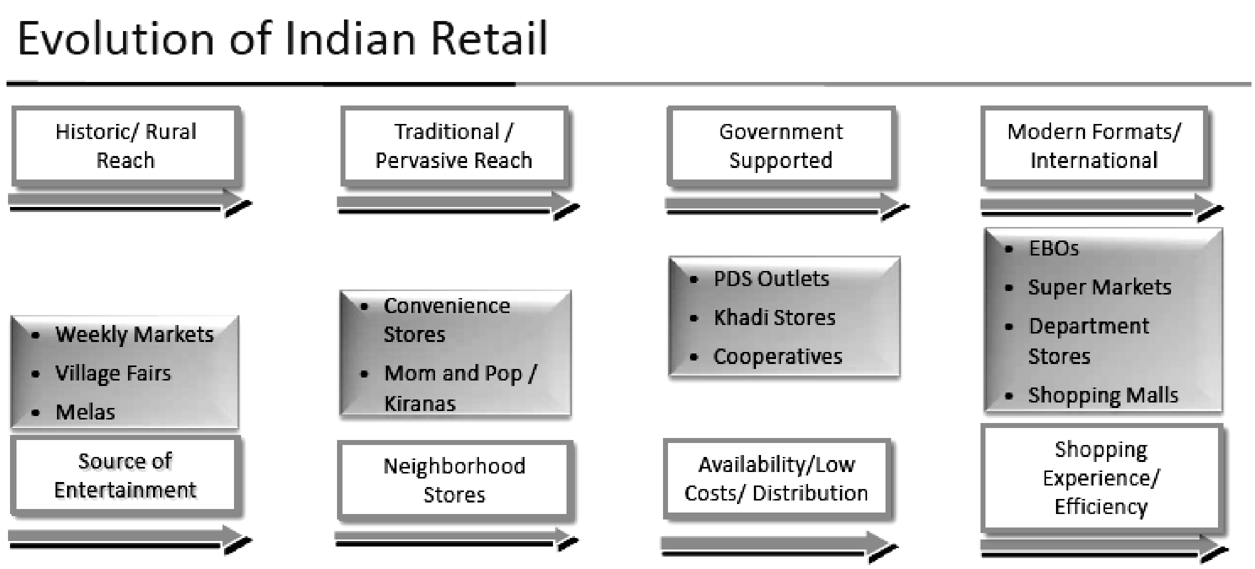


Source: Prime Minister's Economic Advisory Council, Government of India

The Indian retail sector is highly fragmented with 97 per cent of its business being run by the unorganized retailers like the traditional family owned and run stores and corner stores. The organized retail, however, is at a very nascent stage though attempts are being made to increase its proportion to 9-10 per cent by the year 2010, bringing in wide open opportunities for prospective new players. The sector is the largest source of employment after agriculture, and has deep penetration into rural nooks and corners generating more than 10 per cent of nation's GDP.

Historically, the industry was evolved as a source of entertainment oriented trade & barter (in the form of village fairs, melas, etc.) which was within the rural reach. Later on, it was transformed into Mom and Pop/ *Kirana* stores which are of traditional-variety neighborhood shops. Then came the Government carved PDS outlets, *khadi* stores, cooperatives, etc. Finally shopping malls, supermarkets, departmental stores, mega stores, hyper markets etc., have ushered in great revolution in the Indian retail market as shown in Figure 2:

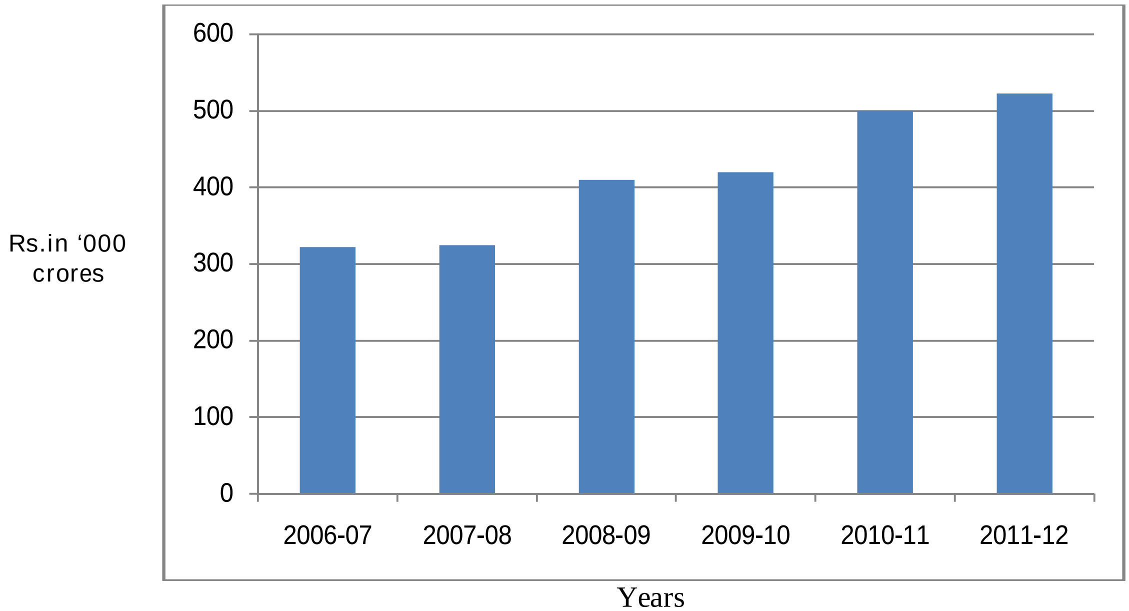
Figure 2



According to the 8th Annual Global Retail Development Index (GRDI) of AT Kearney, Indian retail industry is the most promising emerging market for investment.

In the year 2011-12, over 1,000 hypermarkets and 3,000 supermarkets came up. India will need additional retail space of 7,000 lakhs sq. ft. Current projections on construction point to a supply of just 2,000 lakhs sq. ft., leaving a gap of 5,000 sq ft that needs to be filled at a cost of Rs.9,000-1,080 billion. According to the ICRIER Report, the retail business in India is estimated to grow at 13 per cent from Rs.19,320 billion in 2006-07 to Rs.35,400 billion in 2011-12. The unorganized retail sector is expected to grow at about 10 per cent per annum with sales expected to gallop from Rs.18,540 billion in 2006-07 to Rs.29,760 billion in 2011-12 as indicated in Figure 3.

Figure 3: The Unorganized Retail Sector in India from 2006-07 to 2011-12



The development and growth of modern retailing is fundamentally hinged on the lower prices resulting from the functional efficiencies in the supply chain of new format stores. Studies in the developing countries have also indicated that there is no evidence of modern retailers exploiting the producers or consumers and it is more to do with policy paralysis of government than the actual practices of modern retailers. Modern retailing is fast penetrating in a developing country like India. Even though modern retailers have invested in the supply chain in varying degrees, there is mixed evidence that consumers ultimately fetch lower prices in the modern formats. As a result of this, it has been critical for the modern retailer to understand the local consumption pattern to offer the right mix in the rapidly changing Indian market. Some consumption patterns are unique to the country. Modern retailers in India find it quite challenging to sell meat products in their outlets because a large number of Indians would deliberately avoid visiting stores dealing in meat, fish and poultry along with vegetarian goods. There is a separate channel for these flesh produce which is largely in the traditional format. With the increase in disposable incomes, abundant media choices, internet penetration and modern amenities, the shopping activity which used to be a mundane necessity has become a pleasant activity for many consumers. On one hand impulse buying demonstration effect buying and brand switching behavior have become more evident, on the other hand unnecessary shopping has increased leading to consumers buying the products which are non-essential and which they do not need. With a greater focus on supply chain efficiencies, modern retailing could do better for both consumers and producers.

In a developing economy like our’s, the biggest challenge a marketer faces would be to tackle the ever changing consumption practices. The majority of the Indian consumers are shifting from brand loyalist to value conscious, which would require greater efforts on the part of a retailer to satisfy the umpteen demands and provision of enduring services.

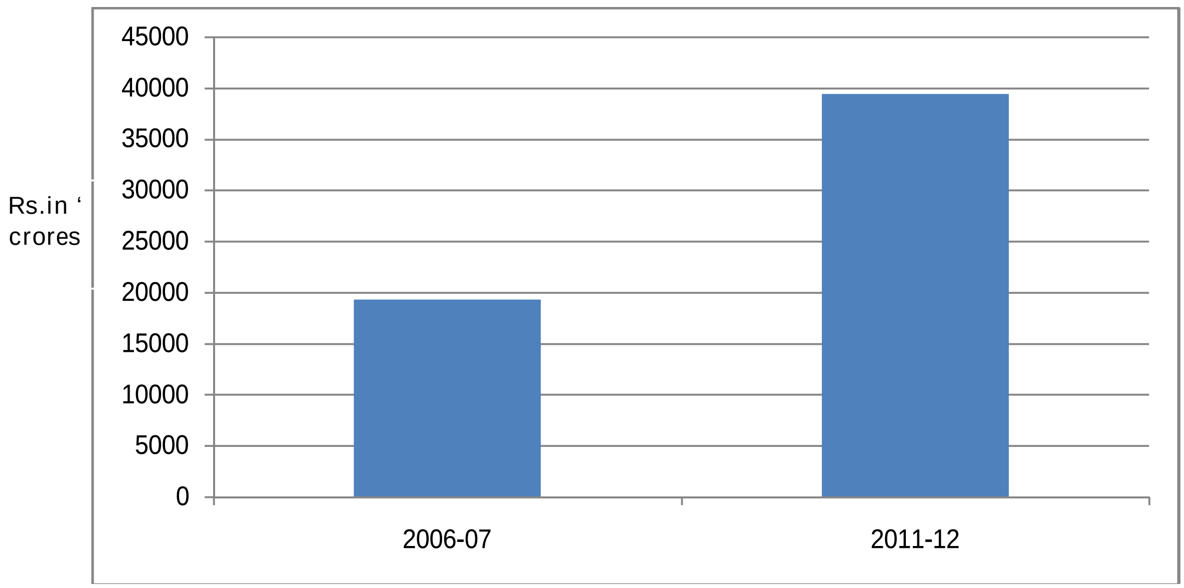
FDI in Retail

In 2010, the Indian retail market was valued at Rs.26,100 billion of which the share of modern retail was a paltry 7 per cent. The sector was expected to grow to Rs. 32, 100 billion by 2013 with the share of modern retail being 10 per cent.

In 2007, India was ranked as the twelfth largest consumer market and it is expected to be the fifth-largest consumer market by 2025 after the US, Japan, China and the UK. In 2010, India attracted the largest number of new retailers among emerging and mature markets. The total retail business in India has grown at 13 per cent annually, from Rs.19, 320 billion in 2006-07 to Rs.39, 400 billion in 2011-12 as indicated in Figure 4.

With huge growth potential, Indian retail industry has been heralded as one of the sunrise sectors. By 2015, according to the Investment Commission of India, the retail sector would grow to USD 660 billion i.e., almost three times its current levels. However, in-spite of the recent advancements in retailing and its huge contribution to the economy, retailing is still among the least evolved sectors and the growth of organized retailing is critically slower compared to the rest of the world. Food retail trade accounts for 63 per cent of total retail sales in the economy and thus, is a very large segment of the total economic activity of our country. It holds a vast employment potential and hence, attracts the attention of Government and foreign major retailers. Enhancing the efficiency and improving the food retail sales would have a cascading effect on employment and economic activity in the rural areas for the marginalized workers. Even without any significant involvement of FDI, the corporate owned sector in retailing is expanding briskly at a high rate.

Figure 4: Retail Business in India during 2006-07 and 2011-12



In India, FDI in cash and carry wholesale with 100 per cent ownership was allowed in 1997 under the Government approval route. Later on in 2006, it was brought under the automatic route. Simultaneously, 51 per cent investment in a single brand retail outlet was also permitted. But till 2013, FDI in Multi-Brand retailing was prohibited in India. Many global retailers like Wal-Mart, Metro, Woolworth, Staples etc., which wanted to establish and capture some market share in India are now trying to leverage on the policy of 100% in cash and carry wholesales route for multi-brand retailing. Similarly, retailers like Debanham, Espirit, Nokia, Zara, Mark & Spencer, Ham leys, etc., are leveraging policies based on 100% for single brand retailing. Significant foreign retailers' presence is seen in Apparel, Fashion, Luxury and food retailing using either the franchise or licensing route. Recently many global players like Amazon & Flipkart are taking advantage of online retailing and hence are targeting Indian consumer by setting up relationship with supply chain companies to deliver products to the end-customer, thus, bypassing the need to create physical retail stores. To attract Indian consumers to buy their products online, Crate and Barrel has launched India specific website. To target Indian consumer, identical efforts are expected by other leading global retailing giants leveraging on 3G and smart phone apps, spread of internet and social networking.

As retailing still is a very much local industry, the FDI in multi-brand retailing will only benefit existing organized players in terms of attracting foreign capital and will not change considerably the retail landscape in terms of formats proliferations - benefiting customers, generating huge employment or investment in supply chain or back end investment as has been envisaged in the policy.

It is expected that many transnational retailers will use online route or e-commerce to attract Indian consumer to start with before setting up physical presence to test the market.

Beneficial Stakeholders

The performance of foreign direct investment till date is round about the satisfactory level barring the certain issues and challenges. Today, we have more than $303.48 billion as foreign exchange reserves and above foreign debts are around about $297.5 billion which we can further improve through export promotions, liberal opportunities of investment for foreign investors. The future of foreign retail players is also uncertain like that of Indian retail players. No doubt the opening of the investment opportunities for the foreign investor will make the Indian industries more competitive and some of them may have to struggle for the survival such as small retailers and shop keepers. It has been observed from the above analysis that FDI approval given by the Government will benefit almost all the sectors of the economy. There are some people who are trying to mislead people for their own selfish benefit and are opposing the entry of foreign retailers into India. FDI in retail sector will not only benefit the society but will also help in the economic growth of the country. The Indian retail industry is gradually inching its way towards becoming the next boom industry. As such, there are many beneficial stakeholders of FDI in retail sector in India as detailed below:

Farmers and Agriculturists

- The large retail chains are in a position to provide better price signals to farmers and to serve as a platform for enhanced exports. Thus, the organized retail has the potential to drive efficiencies in this chain by (i) increasing price realization for farmers by 10–30 percent through sourcing directly or closer to the farm (ii) reducing handling and wastage by 25–50 percent through consolidation as well as investments in technology, either directly or through aggregators and (iii) upgrading the farmers' capabilities by providing know–how and capital.

SME's

- FDI helps SMEs to supply in large volumes, increase quality and become a vendor to international players and increase the quality of products and become cost competitive in global arena.

Consumers and Society

- Investments that would flow in agricultural back end and supply chain would ensure food security through curbing wastages and improving quality for our future generations. Furthermore, it would lower prices for consumers that can help curb inflation. With its ability to drive efficiencies and leverage the scale, modern trade is able to increase affordability for consumers and can lower the cost of monthly consumption basket by as much as 5-10 per cent.

Suggestions for the Growth of Retail Industry

FDI, since 1991, has proved to be game changer for wide segments of Indian industry. FDI has led to significant improvement in quality, productivity and production in the areas where it has been allowed. On the critical analysis of the impact of FDI on the Indian retail sector, the following suggestions are made for ensuring the growth of the retail industry in the country.

1. There is a need to invest in infrastructure development since there is a serious lack of infrastructural facilities in India.
2. FDI policies should be made so more liberal that competition with other emerging economies will be easier.
3. Bureaucratic delays and various governmental approvals and clearances involving different ministries need to be quick paced and investor friendly.
4. Restrictions on sector specific caps and entry route to sectors other than those of national importance should be further liberalized.
5. Constant reviewing of policies must be done.
6. Government must ensure consistency of policies so as to improve the business and investor confidence.
7. For clearance of FDI proposal single window system should be setup.
8. Business laws and tax laws should be simplified.
9. Labour policies should be reviewed.

Conclusion

It is the most opportune time for India to have right policies put in place so as to invite FDI in retail in accordance with the analysis made in other four countries where in FDI in retail has already entered. It hardly matters whether it is the local or foreign retail players leading this next wave of retail revolution in India as long as Indian consumer is benefitted in terms of access to the innovative retails formats, best practices and availability of quality goods and services at affordable prices from all over the world along with exhilarating shopping experience. The FDI in retail significantly impacts GDP growth rate, unemployment rate, exchange rate (INR/USD), and Trade Openness and Tax collection. Simultaneously, FDI in retail (binary) is also attracted by factors like IIP, exchange rate, tax as a percentage of GDP, unemployment rate change and GDP growth rate. The research findings have important implications for policy makers and foreign investors. Policy makers need to push reforms agenda in domestic market so as to attract more FDI in retail in the Indian economy.

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