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SWOT ANALYSIS: WHAT DOES FDI HOLD FOR THE INDIAN RETAIL SECTOR IN 21TH CENTURY?

PANKAJ KUMAR*
DR. SANJEEV BANSAL**

*Ph.D. Scholar, Dept. of Management and Humanities, Sant Longowal Institute of Engineering and Technology, A Govt. of India Established Deemed University, Longowal, Punjab, India
**Associate Professor, Dept. of Management and Humanities, Sant Longowal Institute of Engineering and Technology, A Govt. of India Established Deemed University, Longowal, Punjab, India

ABSTRACT

FDI investment in India as a subject of discussion holds a great relevance in current context. Although it invites lot of arguments resisting its introduction into Indian market. However choice preferences of the customers cause a boost for the development of the same. In spite of many safe guards, foreign players mostly have a way to enter the market. Presently we have 51 Foreign Direct Investment (FDI) within the retail trade of single whole product and to the extent of 100 per cent in cash and Carry wholesale formats. However, ton of shops suffer from FDI and that they are losing their customers and sales growth from FDI. “Traditional retailers are giving a strong competition to organized retailers and the decision to permit foreign retailers to open stores in the country will not affect small players in India”, the government of India said. According to the Economic Survey 2012-13, which was tabled by finance minister P Chidambaram in Parliament, as far as small retailers are concerned, organized retail already co-exists with small traders and the small retail sector. However, this paper aims to study the impact of FDI on the Indian retail sector. The paper reviews the literature related to FDI to put the light on the level of FDI allowed by Government of India to single and multi brand retailers of other countries and explores the advantages, disadvantages, opportunities and threats of allowing FDI into Indian retail business.

KEYWORDS: FDI, Retail, SWOT Analysis.

INTRODUCTION TO FDI

According to Dictionary of Economics (Graham Bannock et.al) FDI is investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new (Greenfield) site. To put in simple words, FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. 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.

- FDI provides a win – win condition to both the countries: Host country and the home country. Both countries are directly interested in inviting FDI, because
- 'Home' countries want to get the benefit of the huge markets opened by business expansion.
- 'Host' countries want to take advantage by acquire technical and managerial skills and additional domestic savings and foreign exchange.

Entry option for foreign player prior to FDI policy

Although prior to Jan 24, 2006, FDI was not authorised in retailing, most general players had been operating in the country. Some of entrance routes used by them are-

1) Franchise agreement - Example Pizza Hut, players such as Lacoste, Mango, Nike, Spencer

2) Cash and carry whole sale trading - 100% FDI is allowed in wholesale trading example Metro AG of Germany.

3) Strategic Licensing Agreements- Foreign brands give exclusive licenses and distribution rights to Indian companies ex Mango, the Spanish apparel brand.

4) Manufacturing and Wholly Owned Subsidiaries -The foreign brands such as Nike, Reebok, Adidas, etc. that have wholly-owned subsidiaries in manufacturing are treated as Indian companies and are, therefore, allowed to do retail.

Current situation of FDI in India

- ✓ Single Brand Retail
  - 100% FDI with 30% local sourcing (average over five years at cost)
  - 51% FDI with no sourcing requirements
- ✓ Multi-Brand retail
  - 51% FDI permitted, in cities with more the 1 million population
  - 30% sourcing from MSME mandatory, along with capital and supply chain investment requirements
  - Dependent on approval by individual state; 18-20 cities with more the one million population
- ✓ Cash & Carry
  - 100% FDI allowed

OBJECTIVES OF STUDY

The objective of this paper is to examine the positive and negative impact of FDI on the various grounds like farmers, consumers, small retailers, existing large retailers and SMEs, rural youth and on the basis of this, trying to find out the Strengths, weaknesses, opportunities and challenges faced by FDI's while investing in India.

DATA AND RESEARCH METHODOLOGY

The whole paper is based on descriptive arguments, data, comparative study, analytical logic developed through the understanding form different research papers, various published sources and websites from the year 1991 to 2013 few assumptions from the future.

IMPACT OF FDI IN RETAILING

Impact of FDI can be on following grounds:

POSITIVE IMPACT OF FDI

Advantage to Farmers:

- The farmers can get better compensations for their production
- The farmers can also get better prices from the heavy reduction in post-harvest losses.
- It can also result in the strengthening of the backend infrastructure and lead to direct purchase by the retailers.
- The yes-to-FDI in multi-brand retail trading can also result in the strengthening of the supply-chain infrastructure for all products, ranging from storage to processing and manufacturing infrastructure, which would reduce post-harvest losses.
- FDI can also reduce to needs of peacekeepers between retailers and farmers.

Advantage to Consumers:

- With the implementation of this policy would be the consumers as prices of the commodities will reduce.
- The consumers are going to be benefitted the most as it can able to improve in the quality of the products.
- Along with this, food safety standards would also get better with improvised testing and aggregation facilities.
- The consumers would also have more choices to pick from.

- This policy measure is most likely to benefit the poorest sections of the society. Lowering of prices would arrest the erosion of real incomes and the current incomes of the economically disadvantaged sections would hence be able to buy more than before.

Advantage to Small Retailers

- Foreign direct investment in the retail sector would also incentivize the existing traders and retail outlets to upgrade and become more efficient.
- This would usher better services to the consumers, and also good remunerations to the producers from whom they source the products.
- There has been a strong competitive response from traditional retail to these organized retailers through technology up gradation. As a result, the organized retail chains have closed down in a number of locations, while others have reduced the scale and spread of their operations.
- Globally too organized and unorganized retail co-exist and grow. Small retailers would continue to be able to source high quality produce, at significantly lower prices, from wholesale cash and carry points.
- In countries such as China, Thailand, Indonesia, Brazil, Singapore, Argentina and Chile, where there are no caps on FDI and where there are no conditions, small retail stores have flourished, leading to more employment. Therefore, it is a white lie to state that FDI in multi-brand retail trade will force small retailers to shut down.

Advantage to existing Big Retailers and SMEs

- Small and medium manufacturers are also going to be benefitted as 30 per cent sourcing from these industries has been made mandatory.
- This would provide the necessary scales for these entities to expand their capacities in manufacturing, hence adding up to the employed population and also boosting the manufacturing sector of the country.
- These industries also stand to get added advantages of technology up gradation, which would give them an upper hand in productivity and local value addition, thereby raising the profitability and earnings of the small manufacturers.
- The 30 per cent sourcing norm would also help the small enterprises to get integrated with the global retail chains.

- New manufacturing opportunities will also open for the country's micro, small and medium enterprises.

Advantage to Rural Youth

- FDI in multi-brand retail trading can also help to provide jobs to a large number of young people from rural.
- Youth from the villages spread across the country can engage themselves in activities ranging from backend to the frontend retail business, as also from the skills imparted to them by the prospective investors.

NEGATIVE IMPACT OF FDI

FDI in retailing is opposed on following grounds:

- It is said that FDI might provide employment opportunities, but it is argued that it cannot provide employment opportunities to semi-illiterate people. This argument gains more importance because in India, large numbers of semi-illiterate people are present.
- It is argued that opening the retail sector will have an impact on sales in the unorganized sector. As a result of this, employment provided by the small retail sector will be affected.
- Fear of lowering of prices There is a fear that allowing FD1 in retail would result in lowering of prices, as FDI will bring in good technology, supply chain etc. If prices are lowered, then it will lower the margin of small retail players also. As a result of this, the small retail market will be affected. This in turn will have an impact on the employment opportunities provided by the small retail market.
- Fears that domestic organized retail sector might not be competitive enough to tackle international players might not only resulting in loss of market share for them but in closure of their units.
- Small retailers and other 'Kirana Stores' may close down.
- Though Government has stipulated that 30% procurement should be from Indian sources, this may get diluted over the years. The remaining 70% procurement from cheaper countries will make the people run towards that stuff and the 30% supply from Indian small industries will have their own death, unable to compete with low price Chinese goods.

FINDINGS

1. Strengths of FDI Policy

There is no denying the fact that rapidly growing Indian Economy is one of the most sought-after destinations in thirty emerging markets of the world. Infect, Indian retail market has more than 14 million outlets making it the largest outlet density in the world. So, customers can explore a great verity of international quality in branded goods. Moreover, the young and vibrant manpower with increasing trend of urbanization and blooming work-culture among women etc. are going to be the key growth drivers of the FDI in India. To add to this, even farmers will get better prices for their products through improvement of value added food chain.

2. Weaknesses of FDI Policy

Every policy has its highs and lows, so has the FDI in India. Since Indian retail business needs a very low capital investment for starting a new venture, it results in a grave competition between the two. Moreover, FDI will serve only metro crowd at large, avoiding access to customers in villages and small towns. Apart from that, India lacks skilled, educated and trained workforce so it cuts down further employment opportunities.

3. Opportunities of FDI Policy

India is a significant market for global retail giant and the organized retail sector is expected to grow strong due to changing lifestyle, increase in income and favorable demographic outline. Since rural retailing is not much explored so for, it will enhance the financial condition of farmers. However, it will give boost to a big market along with better technology and branding with latest managerial skills.

4. Threats of FDI Policy

Whenever there is something new, its presence does effect whatever is already prevalent. FDI's inclusion is a threat to small retailers. Moreover that encourage roadside bargaining and getting the stuff at desired price receives a setback. Moreover it does not cover all the segments of the society. To add to this all labor rules and regulations are not followed in the organized retail. Also FDI in retailing requires heavy initial investment to compete with other companies. If the foreigners are investing than the profits will also move out from the country. There is no stable tax system for organized retailing.

CONCLUSION

FDI is multi-brand retail was already permitted, but that too with several conditions, including 30 per cent local procurement. The government now says if companies don't want to procure 30 per cent locally, they will have to set up a manufacturing unit. Household goods giant IKEA of Sweden wants to invest more than Rs. 10,000 crores to set up stores, but wants this rule to be relaxed. There is conflict within the government over this. It is therefore quite difficult to say whether FDI will be beneficial or harmful for Indian economy. Through it will enhance the supply of better commodities or a reasonable price, but it will eliminate small retailers and thereby raise unemployment. If the govt. construct the marketing network locally, both consumers and retailers will be beneficial.

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