

## SWOT Analysis for opening of FDI in Indian Retailing

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### Abstract

The retail industry in India is expected to grow at a rate of 14% by 2013. The first step towards allowing Foreign Direct Investment in Retail was taken in the year 2006. Since then 54 FDI approvals have been accepted by the government and the country has received cash inflow to the tune of about Rs 901.64 crore. Retailing consists of all business activities involving the sale of goods and services to ultimate consumers. Retailing involves a retailers traditionally a store or a service establishment, dealing with consumers who are acquiring goods and services for their own use rather than for resale. Wal-Mart, The Limited, Best Buy and other familiar organizations are retailers. Retailing is based more on whether the business deals directly with public. Retail banking, service stations local coffee shops are also retailers with the emergence of online retailing, retailers are no longer concerned about location of stores. E-retailing has emerged. Consumers are always hungry for modern ways of shopping. Indian retail sector is growing fast and its employment potential is growing fast. The retail scene is changing really fast. Retailers are rethinking their approaches towards the suppliers so that they can get the best pricing strategies for them. Retail sector in India is also catalyst for the growth of staling tactics of below the line marketing used by major retail players like Spencer, big bazaar, reliance fresh etc. For tapping customers by creating points of sales displays. So we can say that India is a rising star and going to be one of the fastest growing regions of the future.

**Key words:** Foreign direct Investment, Retailing, GDP, Multinationals, Policies, and infrastructure development.

**Introduction:**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. That explains why we do not have a Harrods in Delhi. India being a signatory to World Trade Organisation's General Agreement on Trade in Services, which include wholesale and retailing services, had to open up the retail trade sector to foreign investment. There were initial reservations 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 slowly to Foreign Direct Investment ("FDI"). In 1997, FDI in cash and carry (wholesale) with 100 percent ownership was allowed under the Government approval route. It was brought under the automatic route in 2006. 51 percent investment in a single brand retail outlet was also permitted in 2006. FDI in Multi-Brand retailing is prohibited in India. 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, Upgradation in Agriculture, Efficient Small and Medium Scale Industries, "With around 13% contribution to GDP and 7% employment of the national workforce, retailing no doubt is a strong pillar of the Indian economy. What it requires is more corporate backed retail operations that have started to emerge over the past couple of years."(Arvind Singhal, chief executive, KSA Technopak)

### DETERMINANTS OF FDI POLICIES IN INDIA

Some recent studies have recognized technology, labour skills and infrastructure as determinants of foreign investment. If these determinants are not recognised, it will be difficult to explain some of the patterns in

the geographical structure of FDI at the world capita income, in relation to outbound as well as inbound FDI (Hummels and Stern, 1994).

The huge range of government incentives should also be taken into consideration together with the other determining factors in corporate strategies of international location. Institutional, historical and cultural factors should not be ignored as they influence the investor's location related decisions (Martin and Velazquez, 1997).

The study conducted by Aqeel and Nishat (2004) tests if tariff rate, exchange rate, tax rate are significant for FDI. It states that these policy variables draw FDI and determine the growth in Pakistan. It also shows a positive impact of reforms on FDI in Pakistan. A wide spread of determinants have been examined related to FDI in the past. Several studies (Chakrabarti, 2001) on the determinants of FDI direct to the selection of a set of descriptive variables that are used and are important factors affecting FDI. Some researchers underline how the domestic market size and differences in factor costs are related to the FDI location (Markusen and Maskus, 1999). This magnifies the significance of market size and its expansion for foreign firms functioning in industries having large scales economies. As the economies of scale cannot be exploited before the market achieves a certain size. The measures of market size that are used extensively are GDP, GDP per capita and growth in GDP.

FDI as defined in Dictionary of Economics (Graham Bannock et.al) 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. (Hemant Batra, 2010)

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 Reserve Bank of India ('RBI') in this regard had issued a notification. (FEMA, 2000) which contains the Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000. This notification has been amended from time to time. The Ministry of Commerce and Industry, Government of India is the nodal agency for motoring and reviewing the FDI policy on continued basis and changes in sectoral policy/sectoral equity cap. 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 Government of India recognizes the significant role played by foreign direct investment in accelerating the economic growth of the country and thus started a swing of economic and financial reforms in 1991. India is now initiating the second generation reforms intended for a faster integration of the Indian economy with the world economy. As a consequence of the introduction of various policies, India has been quickly changing from a restrictive regime to a liberal one. Now FDI is also encouraged in most of the economic activities under the automatic route.

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. That explains why we do not have a Harrods in Delhi.

The retail industry is mainly divided into:- 1) Organised and 2) Unorganised Retailing

Organised 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.

Unorganised 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 and pavement vendors, etc.

The Indian retail sector is highly fragmented with 97 per cent of its business being run by the unorganized retailers. The organized retail however is at a very nascent stage. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10 per cent of India's GD. (India's Retail Sector ,Dec 21, 2010)

Retailing consists of all business activities involving the sale of goods and services to ultimate consumers. Retailing involves a retailers traditionally a store or a service establishment, dealing with consumers who are acquiring goods and services for their own use rather than for resale. Wal-Mart, The Limited, Best Buy and other familiar organizations are retailers. Retailing is based more on whether the business deals directly with public. Retail banking, service stations local coffee shops are also retailers with the emergence of online retailing, retailers are no longer concerned about location of stores. E-retailing has emerged. India has moved into 21<sup>st</sup> century and is showing marked changes to push the organized retail development even further. India is rated as the fifth most striking emerging retail market. India is on the threshold of a revolution in its retail industry. Indian retail industry, which stands second in terms of employment generation after agriculture. Indian retail industry has been broadly divided into organized and unorganized sectors accounted for Rs.350 million of the total revenues.

Table 1. Share of Organised Retail:

	TOTAL RETAIL		ORGANIZED RETAIL	
	Market size	Market share	Market size	Market share
	RS. (crores)	%	RS. (crores)	%
Food & beverages	7738	75.8	65	19
Clothing & textiles	716	7.8	141	40
Consumer durables	416	4.1	25	13
Jewellery & watches	300	4.1	25	13
Furniture & Home deco	214	2.9	7	7
Beauty items & Footwear	104	1.0	32	9
Book & gifts	87	0.8	11	3
<b>TOTAL</b>	<b>9990</b>	<b>100.0</b>	<b>349</b>	<b>100.0</b>

Source: [www.piramyd.com](http://www.piramyd.com).

**FDI Policy with Regard to Retailing:** It will be prudent to look into Press Note 4 of 2006 issued by DIPP and consolidated FDI Policy issued in October 2010 (DIPP,2010) which provide the sector specific guidelines for FDI with regard to the conduct of trading activities.

- a) FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.
- b) FDI up to 51 % with prior Government approval (i.e. FIPB) for retail trade of ‘Single Brand’ products, subject to Press Note 3 (2006 Series).
- c) FDI is not permitted in Multi Brand Retailing in India.

According to ‘Wheel of Retailing’ theory, gaps in one retail format give rise to a new one. But in India we find that several formats co-exist. The following are some of the formats adopted by various players:

Table 2. Retail formats

<b>Retailer</b>	<b>Original Formats</b>	<b>Latest Formats</b>
RPG Retail	SuperMarket (FoodWorld)	Hypermarket (Spencer's), Specialty Store (Health & Glow)
Piramal	Department Store (Piramyd Megastore)	Discount Store (TruMart)
Pantaloon Retail	Small format outlets (Shoppe) , Department Store (Pantaloon)	Supermarket (Food Bazaar), Hypermarket (Big Bazaar), Mall (Central)
Tata/ Trent	Department Store (Westside)	Hypermarket (Star India Bazaar)
Others	Discount store (Subhiksha, Margin Free, Apna Bazaar), Supermarket ( Nilgiri's), Specialty Electronics (Vivek's, Vijay Sales)	

Adapted from: “Indian Retail: On the Fast Track”, KPMG and FICCI, 2005

#### Entry Options for Foreign Players 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 have been discussed in sum as below:-

1. Franchise Agreements: It is an easiest track to come in the Indian market. In franchising and commission agents’ services, FDI (unless otherwise prohibited) is allowed with the approval of the Reserve Bank of India (RBI) under the Foreign Exchange Management Act. This is a most usual mode for entrance of quick food bondage opposite a world. Apart from quick food bondage identical to Pizza Hut, players such as Lacoste, Mango, Nike as good as Marks as good as Spencer, have entered Indian marketplace by this route.
2. Cash And Carry Wholesale Trading: 100% FDI is allowed in wholesale trading which involves building of a large distribution infrastructure to assist local manufacturers. The wholesaler deals only with smaller retailers and not Consumers. Metro AG of Germany was the first significant global player to enter India through this route.
3. Strategic Licensing Agreements: Some foreign brands give exclusive licences and distribution rights to Indian companies. Through these rights, Indian companies can either sell it through their own stores, or enter into shop-in-shop arrangements or distribute the brands to franchisees. Mango, the Spanish apparel brand has entered India through this route with an agreement with Piramyd, Mumbai, SPAR entered into a similar agreement with Radhakrishna Foodlands Pvt. Ltd

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. These companies have been authorised to sell products to Indian consumers by franchising, internal distributors, existent Indian retailers, own outlets, etc. For instance, Nike entered through an exclusive licensing agreement with Sierra Enterprises but now has a wholly owned subsidiary, Nike India Private Limited.

#### FDI in Single Brand Retail

The Government has not categorically defined the meaning of “Single Brand” anywhere neither in any of its circulars nor any notifications. In single-brand retail, FDI up to 51 per cent is allowed, subject to Foreign Investment Promotion Board (FIPB) approval and subject to the conditions mentioned in Press Note 3 that (a) only single brand products would be sold (i.e., retail of goods of multi-brand even if produced by the same manufacturer would not be allowed), (b) products should be sold under the same brand internationally, (c) single-brand product retail would only cover products which are branded during manufacturing and (d) any addition to product categories to be sold under “single-brand” would require fresh approval from the government.

While the phrase ‘single brand’ has not been defined, it implies that foreign companies would be allowed to sell goods sold internationally under a ‘single brand’, viz., Reebok, Nokia, Adidas. Retailing of goods of multiple brands, even if such products were produced by the same manufacturer, would not be allowed.

Going a step further, we examine the concept of ‘single brand’ and the associated conditions:

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 and not the Reebok brand, for which separate permission is required. If granted permission, Adidas could sell products under the Reebok brand in separate outlets.

#### Concerns for the Government for only Partially Allowing FDI in Retail Sector

A number of concerns were expressed with regard to partial opening of the retail sector for FDI. The Hon’ble Department Related Parliamentary Standing Committee on Commerce, in its 90th Report, on ‘Foreign and Domestic Investment in Retail Sector’, laid in the Lok Sabha and the Rajya Sabha on 8 June, 2009, had made an in-depth study on the subject and identified a number of issues related to FDI in the retail sector. These included:

It would lead to unfair competition and ultimately result in large-scale exit of domestic retailers, especially the small family managed outlets, leading to large scale displacement of persons employed in the retail sector. Further, as the manufacturing sector has not been growing fast enough, the persons displaced from the retail sector would not be absorbed there.

Another concern is that the Indian retail sector, particularly organized retail, is still under-developed and in a nascent stage and that, therefore, it is important that the domestic retail sector is allowed to grow and consolidate first, before opening this sector to foreign investors. Antagonists of FDI in retail sector oppose the same on various grounds, like, that the entry of large global retailers such as Wal-Mart would kill local shops and millions of jobs, since the unorganized retail sector employs an enormous percentage of Indian population after the agriculture sector; secondly that the global retailers would conspire and exercise monopolistic power to raise prices and monopolistic (big buying) power to reduce the prices received by the suppliers; thirdly, it would lead to asymmetrical growth in cities, causing discontent and social tension elsewhere. Hence, both the consumers and the suppliers would lose, while the profit margins of such retail chains would go up.

#### Rationale behind Allowing FDI in Retail Sector

FDI can be a powerful catalyst to spur competition in the retail industry, due to the current scenario of low competition and poor productivity.

The policy of single-brand retail was adopted to allow Indian consumers access to foreign brands. Since Indians spend a lot of money shopping abroad, this policy enables them to spend the same money on the same goods in India. FDI in single-brand retailing was permitted in 2006, up to 51 per cent of ownership. Between then and May 2010, a total of 94 proposals have been received. Of these, 57 proposals have been

approved. An FDI inflow of US\$196.46 million under the category of single brand retailing was received between April 2006 and September 2010, comprising 0.16 per cent of the total FDI inflows during the period. Retail stocks rose by as much as 5%. Shares of Pantaloon Retail (India) Ltd ended 4.84% up at Rs 441 on the Bombay Stock Exchange. Shares of Shopper's Stop Ltd rose 2.02% and Trent Ltd, 3.19%. The exchange's key index rose 173.04 points, or 0.99%, to 17,614.48. But this is very less as compared to what it would have been had FDI upto 100% been allowed in India for single brand. (Nabael Mancheri,2010)

The policy of allowing 100% FDI in single brand retail can benefit both the foreign retailer and the Indian partner – foreign players get local market knowledge, while Indian companies can access global best management practices, designs and technological knowhow. By partially opening this sector, the government was able to reduce the pressure from its trading partners in bilateral/ multilateral negotiations and could demonstrate India's intentions in liberalising this sector in a phased manner.

Permitting foreign investment in food-based retailing is likely to ensure adequate flow of capital into the country & its productive use, in a manner likely to promote the welfare of all sections of society, particularly farmers and consumers. It would also help bring about improvements in farmer income & agricultural growth and assist in lowering consumer prices inflation. (Discussion Paper on FDI,2010)

Apart from this, by allowing FDI in retail trade, India will significantly flourish in terms of quality standards and consumer expectations, since the inflow of FDI in retail sector is bound to pull up the quality standards and cost-competitiveness of Indian producers in all the segments. It is therefore obvious that we should not only permit but encourage FDI in retail trade.

Industrial organisations such as CII, FICCI, US-India Business Council (USIBC), the American Chamber of Commerce in India, The Retail Association of India (RAI) and Shopping Centers Association of India (a 44 member association of Indian multi-brand retailers and shopping malls) favour a phased approach toward liberalising FDI in multi-brand retailing, and most of them agree with considering a cap of 49-51 per cent to start with.

The international retail players such as Walmart, Carrefour, Metro, IKEA, and TESCO share the same view and insist on a clear path towards 100 per cent opening up in near future. Large multinational retailers such as US-based Walmart, Germany's Metro AG and Woolworths Ltd, the largest Australian retailer that operates in wholesale cash-and-carry ventures in India, have been demanding liberalisation of FDI rules on multi-brand retail for some time. (Nabael Mancheri,2010)

the Indian Council of Research in International Economic Relations (ICRIER), a premier economic think tank of the country, which was appointed to look into the impact of BIG capital in the retail sector, has projected the worth of Indian retail sector to reach \$496 billion by 2011-12 and ICRIER has also come to conclusion that investment of 'big' money (large corporates and FDI) in the retail sector would in the long run not harm interests of small, traditional, retailers.(Sarthak Sarin,2010)

#### SWOT Analysis

SWOT analysis is a tool for analyzing modern retailing. In this analysis, a study can be made regarding the strength, weaknesses, opportunities and threats of retail industry.

#### Strengths

- Ø A large young working population with median age of 24 years, nuclear families in urban areas, along with increasing working women population and emerging opportunities in the service sector are going to be the key growth drivers of the organised retail sector in India.
- Ø Customers will have access to greater variety of international quality branded goods.
- Ø Employment opportunities both direct and indirect have been increased. Farmers get better prices for their products though improvement of value added food chain.
- Ø Increase in disposable income and customer aspirations are important factors.
- Ø Increase in expenditure for luxury items is also vital.

- Ø It has also contributed to large scale investments in the real estate sector with major national and global players investing in devolving the infrastructure and construction of the retailing business.
- Ø Large domestic market with an increasing middle class and potential customers with purchasing power.
- Ø Ranked second in Global Retail Development Index of 30 developing countries drawn up by AT Kearney.
- Ø The annual growth of departmental stores is estimated at 24%.
- Ø The benefits of larger organized retail segments are several. The consumers get a better product at cheaper price. So consumers get value for their money.
- Ø The governments of states like Delhi and National Capital Region (NCR) are very upbeat about permitting the use of land for commercial development thus increase the availability of land for retail space.
- Ø The growth of sachet revolution emerges for reaching to the bottom of the pyramid.
- Ø The size of Indian organised retail industry reached at Rs.1,30,000 crore in 2006.
- Ø The trends that are driving the growth of the retail sector in India are low share of organised retailing and falling real estate prices.
- Ø Typicality of customers in terms of varied tastes and demand for wide range of goods.

#### Opportunities

- Ø Once the concept picks up, due to demonstration effect, there will be an overall up-gradation of domestic retail trade.
- Ø Global retail giants take India as key market .It is rated fifth most attractive retail market. The organised retail sector is expected to grow stronger than GDP growth in the next five years driven by changing lifestyles, increase in income and favourable demographic outline. Food and apparel retailing are key drivers of growth.
- Ø Indian retail industry has come forth as one of the most dynamic and fast paced industry with several players entering the market.
- Ø It can become one of the largest industries in terms of numbers of employees and establishments.
- Ø Rural retailing is still unexploited Indian market.

#### Threats

- Ø One of the greatest barriers to the growth of modern retail formats are the supply chain management issues. No major changes are needed in the supply chain for FMCG products; these are well developed and efficient. For perishables, the system is too complex. Government regulations, lack of adequate infrastructure and inadequate investment are the possible bottlenecks for retail companies. The supply chain for staples is less complicated than the net groceries. But staples have a unique problem of non-standardization.
- Ø Difficult to target all segments of society.
- Ø Emergence of hyper and super markets trying to provide customer with –value, variety and volume.
- Ø Heavy initial investment is required to break even with other companies and compete with them.
- Ø Labour rules and regulation are also not followed in the organized retails. The
- Ø Lack of uniform tax system for organized retailing is also one of the obstacles. Inadequate infrastructure is likely to be an obstacle in the growth of organized retails.
- Ø Organized retailing in India is yet to get an industry status.100% Foreign Direct Investment (FDI) is not permitted in retailing in India. Ownership of retail chain is allowed only to the extent of 49% but without FDI, the sector is deprived of access to foreign technologies and faster growth.
- Ø Problem of car parking in urban areas is serious concern.
- Ø Sector is unable to employ retail staff on contract basis.
- Ø The unorganized sector has dominance over the organized sector in India because of low investment needs.

Retail today has changed from selling a product or a service to selling a hope, an aspiration and above all an experience that a consumer would like to repeat.

#### Weakness

- Ø Will mainly cater to high-end consumers placed in metros and will not deliver mass consumption goods for customers in villages and small towns.
- Ø Retail chains are yet to settled down with proper merchandise mix for the mall outlets. Retailing today is not about selling at the shop, but also about researching and surveying the market, offering choice, competitive prices and retailing consumers as well.
- Ø Small size outlets are also one of the weaknesses in the Indian retailing. 96% of the outlets are lesser than 500 sq.ft. The retail chains are also smaller than those in the developed countries for instance, the superstore food chain, food world is having only 52 outlets where as Carrefour promotes has 8800 stores in 26 countries.
- Ø The rapid development of retail sector is the sharp improvement in the availability of retail space. But the current rally in property prices, retail real estate rentals have increased remarkably, which may render a few retailing business houses unavailable. Retail companies have to pay high rentals which are blockage in the turn of profits.
- Ø The volume of sales in Indian retailing is also very low. India has largest population in the world and a fast growing economy.

The effects of retail on Indian economy are:

#### Employment Generation

Retailing provides employment to making 8% workforce in India, because it is highly labour intensive. It has also patented to generate an additional eight million jobs, direct and indirect.

#### Development of small scale units

Retailing also helps small scale units to easy access market. They provide a platform for small scale unit's goods. Retailing in India support 4 lakh plus medium handcraft manufacturers.

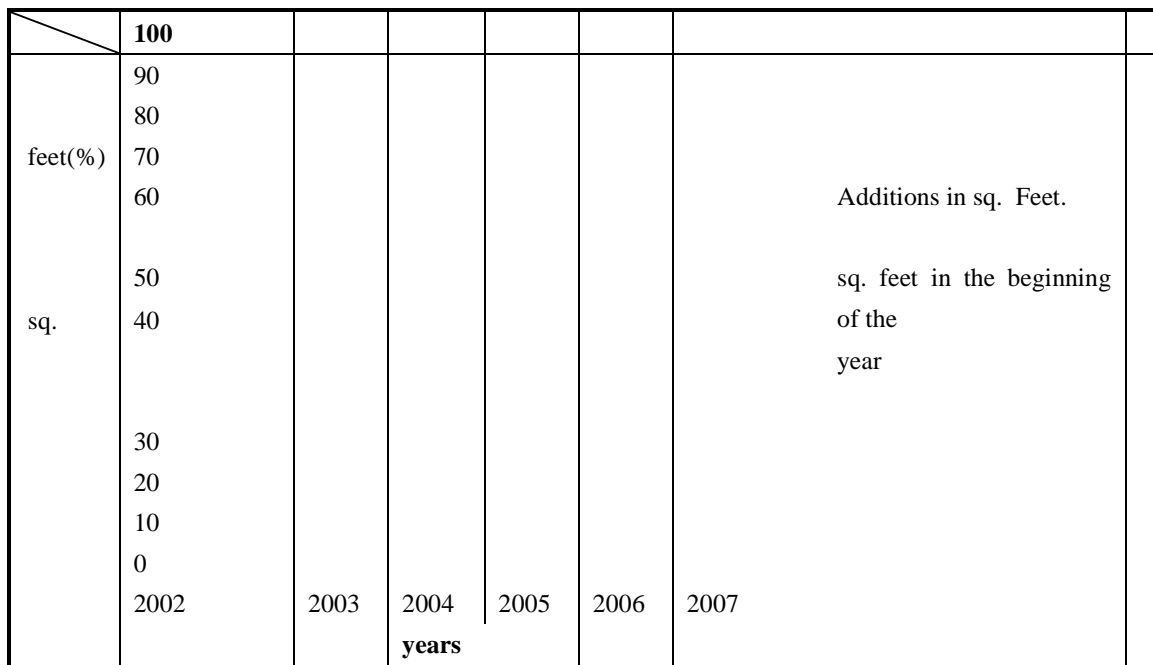
#### Growth of real estate

The requirement of space is one of the biggest demands, so the real estate has also grown over the last years. In the years to come Indian economy will also see the real estate sector climbing the steps of organized retail estate sector.



Table 3. Retail space of organized retail sector.

Years	Sq. feet in the beginning of the year(%)	Additions in Sq. feet (%)
2002	2.2	Nil
2003	4.7	2.2
2004	9.7	6.9
2005	16.1	16.5
2006	21.6	32.6
2007	33.5	54.3



Source: Images Retail Research

Figure 1. Retail space of organized retail sector.

**Future prospect in retail business**

Ø FDI helps to meet the global economies, societies and domestic players to a closely integrative traditional village i.e. one is for all and all for one.

Ø By the end of 2010, 100 million sq.ft of small space is expected to be available. Division of labour, specialization, developing competition and innovation lead to economic growth.

Ø Liberalization of trade and cross border merges and joint ventures have also driving forces.

Ø A significant size in the organized retail and is expected to grow from 3% to 50% in the coming year. Technology, management, expertise, market intelligence are also some of the opportunities to domestic business.

**Conclusion:** Consumers are always hungry for modern ways of shopping. Indian retail sector is growing fast and its employment potential is growing fast. The retail scene is changing really fast. Retailers are rethinking their approaches towards the suppliers so that they can get the best pricing strategies for them. There is no surprise why from an Abani to Mittal, Godrej to Birla, everybody is ready with them plans to kick start retail revolution in India. Apart from above, retail sector in India is also catalyst for the growth of staling tactics of below the line marketing used by major retail players Like Spencer, big bazaar, reliance fresh etc. For tapping customers by creating points of sales displays. So we can say that India is a rising star and going to be one of the fastest growing regions of the future. 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 inter alia also help in integrating the Indian retail market with that of the global retail market in addition to providing not just employment but a better paying employment, which the unorganized sector (kirana and other small time retailing shops) have undoubtedly failed to provide to the masses employed in them. 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.

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