IMPACT FACTOR
3.47

ISSN 2349-1027

Indo Western Researchers (IWR)
Issue : IX, Vol. VI
Aug. 2017 To Jan. 2018
www.irasg.com

Research Paper 4 Commerce

# FDI IN RETAIL MARKETING

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## ABSTRACT

*Indian retail industry is one of the sunrise sectors with huge growth potential. The Indian retail sector is highly fragmented with 94 per cent of its business being run by the unorganized retailers. The organized retail however is at a very nascent stage. It contributes to 8 per cent of the total employment. On account of the liberalization drive in the 1990s, several structural and demographic changes that are taking place are helping the industry to grow. Liberalization of trade policy and loosening of barriers and restrictions to the foreign investment in the retail sector of India, have collectively made* ***FDI in retail sector*** *quite easy and smooth. FDI has become a vital part in every country more particularly with the developing countries. This is due to availability of cheap labor, uninterrupted availability of raw material, less production cost compared with other developed countries and quick and easy market penetration. In this context, the present paper makes an attempt to study the background of Foreign Direct Investment in Retail Sector with focus on the advantages and disadvantages of foreign direct investment on retail sector.*

**Key words:** Foreign Direct Investment, Retail Sector

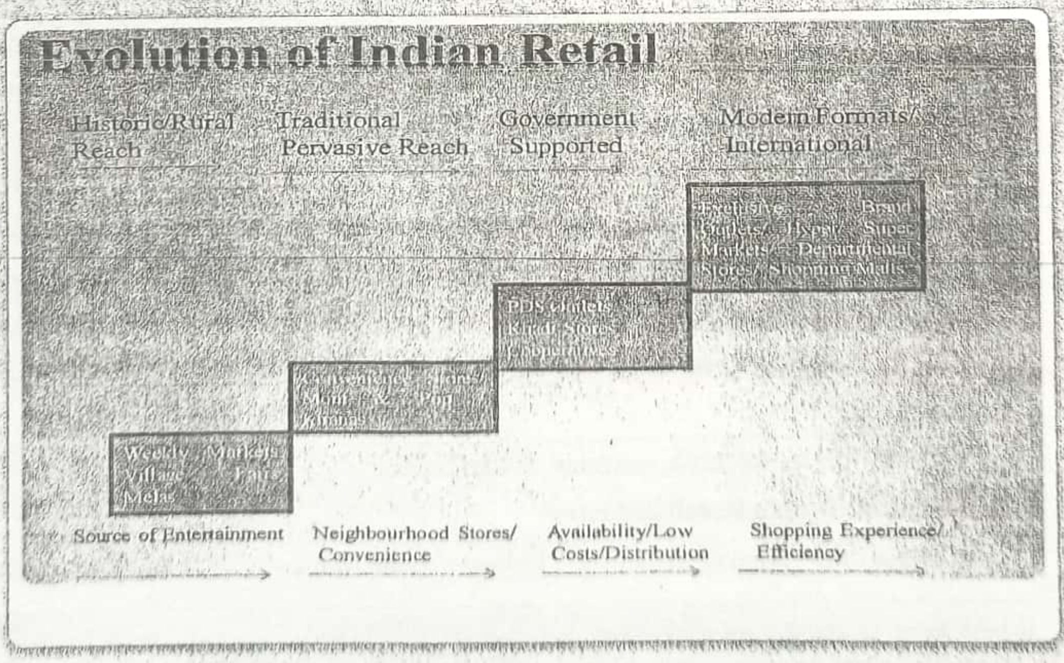
**Introduction: Indian Retail Industry:**

Retailing is one of the world's largest private industries. The Retail Industry is the sector of economy which consists of individuals, stores, commercial complexes, agencies, companies, and organizations, etc., involved in the business of selling or merchandizing diverse finished products or goods to the end-user consumers directly and indirectly.

**Retailing means and includes** all the activities involved in selling goods or services directly to the final consumer for their personal, non-business use via shops, market, door-to-door selling, and mail-order or over the internet where the buyer intends to consume the product.

The Indian retail industry consists of Organized Retailing and Unorganized Retailing. **Organized Retailing** refers to trading activities undertaken by licensed retailers, i.e. 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 and pavement vendors, etc.

The Indian retail sector is highly fragmented with 94 per cent of its business being run by the unorganized retailers. The organized retail however is at a very nascent stage. It contributes to 8 per cent of the total employment. Retailing in India is gradually inching its way towards becoming the next boom industry. The whole concept of shopping has altered in terms of format and consumer buying behavior, ushering in a revolution in shopping in India, as depicted by the below diagram.



Modern retail has entered India as seen in sprawling shopping centres, multi-storied malls and huge complexes offering shopping, entertainment and food all under one roof. A large young working population with median age of 24 years, hefty pay packets, nuclear families in urban areas, along with increasing working women population and emerging opportunities in the services sector are the key factors in the growth of the organized retail sector in India. Increasing literacy levels, increasing number of working women, increasing urbanization, higher international travel by Indian population and increasing media penetration has raised the aspiration levels of the population, resulting in demand for better shopping experience and larger variety of goods. Branded merchandise in categories like Apparels, Cosmetics, Shoes, Watches, Beverages, Food and even Jewellery are slowly becoming lifestyle products that are widely accepted by the urban Indian consumer due to the increasing purchasing power. A number of large corporate houses like Aditya, Bharti, Reliance, Pantaloon, Vishal, Tata's, RPG, Raheja's and Piramals's have already made their foray into this arena, with beauty and health stores, supermarkets, self-service music stores, new age book stores, everyday low price stores, computers and peripherals stores, office equipment stores and home/building construction stores.

A study conducted by the Indian Council for Research on International Economic Relations (ICRIER), had expected the retail sector to contribute to 22 per cent of India's GDP by 2012. According to the '2012 Outlook: India Retail' report, the size of India's retail sector is currently estimated at around $450 billion and organized retail accounts for around 5% of the total market. A report by Global Consultancy Northbridge Capital states that the rising consumer demand and greater disposable income projected the retail sector to grow to US$ 700 billion by 2012 with an expected annual growth rate of 30 percent. Further, the retail sector is expected to rise to US$ 833 billion by 2013 and to US$ 1.3 trillion by 2018, at a compound annual growth rate (CAGR) of 10 per cent.

**Objective of the Paper:**

1. To study the current retail scenario in India.
2. To know and understand the concept of Foreign Direct Investment (FDI).
3. To study the background of Foreign Direct Investment in Retail Sector.
4. To know the advantages and disadvantages of foreign direct investment on retail sector.

**Research Methodology:**

The present study is based on secondary data. Secondary data is collected through various books, various research paper and various websites on internet.

**FDI in the Retail Sector:**

On account of the liberalization drive in the 1990s, several structural and demographic changes that are taking place are helping the industry to grow. Liberalization of trade policy and loosening of barriers and restrictions to the foreign investment in the retail sector of India, have collectively made **FDI in retail sector** quite easy and smooth. In the past decades, FDI was concerned only with highly industrialized countries. Now, during the course of time, FDI has become a vital part in every country more particularly with the developing countries. This is due to availability of cheap labor, uninterrupted availability of raw material, less production cost compared with other developed countries and quick and easy market penetration. AT Kearney (a globally famous international management consultancy) recognized India as the second most alluring and thriving retail destination of the world, among other thirty growing and emerging markets. At present, the other profitable retail destinations of the world are China and Dubai of Asia. Diverse foreign direct investment in Indian retail is greatly cherished by most of the major and leading retailers of USA and European countries, including Wal-Mart (USA), Tesco (UK), Metro (Germany), and Carrefour (France).

FDI can be defined as a cross border investment, where foreign assets are invested into the organizations of the domestic market excluding the investment in stock. It brings private funds from overseas into products or services. The domestic company in which foreign currency is invested is usually being controlled by the investing foreign company. To put in simple words, FDI refers to capital inflows from abroad that are invested in to enhance the production capacity of the economy.

**International Monetary Fund** defines FDI as "Investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor. The investor's purpose being to have effective voice in the management of the enterprise"

**Foreign Direct Investment (FDI) in India's retail business** can be made through any of the following routes:

1) Joint Ventures
2) Franchising
3) Sourcing of Supplies from small-scale sector
4) Cash and Carry Operations
5) Non-Store Formats

After the economy has been opened up, globalization has taken root. The Indian investment climate has changed, opening up many opportunities in the retail industry. According to the Global Retail Development Index 2012, India ranks fifth among the top 30 emerging markets for retail. The recent announcement (September 2012) by the Indian government of allowing 51% foreign investment in multi-brand retail sector has created positive sentiments. In spite of widespread protests against FDI, allowing FDI in the retail sector will result in a lot of benefits.

**Advantages of FDI in Retail:**

1) FDI can be a powerful catalyst to spur competition in the retail industry, due to the current scenario of low competition and poor productivity.
2) FDI in retail will benefit people in a big way. Foreign items which they buy shelling out hard-earned money will be cheaper. Quality can win over quantity. Further those who value quality can heave a sigh of relief.
3) FDI in retail would eliminate the role played by the middlemen;
4) It will lead to increased employment;
5) Increased capital flow i.e. Billion dollars will be invested in Indian market.
6) Spread import and export business in different countries
7) Availability of a variety of products;
8) Greater benefits to consumers when retailers follow best trade practices;
9) Efficient supply chain management;

**Disadvantages of FDI in Retail:**

1) FDI in Retail may displace vast number of self employed retail traders from work and render those jobless – especially those who are wholly dependent on retailing in the unorganized sector. 'Kirana Stores' and other such small establishments in the unorganized sector have to close down their shutters. In other words, the entry of large global mega chains like Wal-Mart, Tesco, Carrefour, etc. would kill local shops and millions of jobs.
2) Small and medium enterprises will become victims of predatory pricing policies of multinational retailers. It may bring down prices initially, but fuel inflation once multinational companies get a stronghold in the retail market.
3) Opening the retailing sector to FDI could push a lot of families below the poverty line.
4) The intense competition for land will cause real estate prices to shoot up, making it difficult for domestic entrepreneurs wanting to enter the retail space.

**Conclusion:**

In light of the above, it can be safely concluded that allowing healthy FDI in the retail sector would not only lead to a substantial surge in the country's GDP and overall economic development, but would 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.

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