Indian Organized Retail and Combination of Foreign Direct Investment:

The Road Ahead

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Indian Retail Industry is ranked as one of the biggest retail market in the whole world. It has been ranked the second most attractive market for investment after Vietnam. The Indian retail industry is estimated to be worth Rs 13-14 lakh crore and is very much fragmented by nature. Organised retail in India was valued at 96,500 crore in 2008 with an impressive growth rate of 35- 40% in the last few yearsas compared to the 9-10% growth in the overall retail industry. Now with a few to further boost and incentivize retail industry Government of Indian Introduced the new FDI policy for retail which is also expected to boost the organised retail sector and contribute to the overall growth of the country. Keeping this in mind this research paper provides detailed information about the growth of retailing industry in India. It also highlights the challenges faced by the industry in near future.

Introduction to Organized Retail in India:

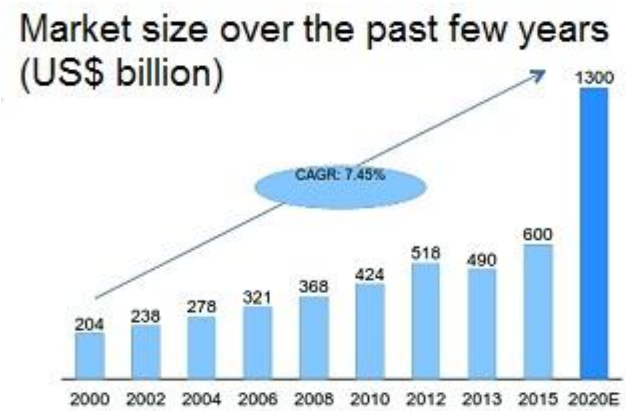
Retailing in India is one of the pillars of its economy and accounts for 14 to 15 percent of its GDP. The Indian retail market is estimated to be US$ 500 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people.As of 2013, India's retailing industry was essentially owner manned small shops. In 2010, larger format convenience stores and supermarkets accounted for about 4 percent of the industry, and these were present only in large urban centers. India's retail and logistics industry employs about 40 million Indians (3.3% of Indian population). Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51% ownership and a bureaucratic process.In November 2011, India's central government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way for retail innovation and competition with multi-brand retailers such as Walmart, Carrefour and Tesco, as well single brand majors such as IKEA, Nike, and Apple. The announcement sparked intense activism, both in opposition and in support of the reforms. In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reaches a consensus. In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30 percent of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores. In June 2012, IKEA announced it had applied for permission to invest $1.9 billion in India and set up 25 retail stores. An analyst from Fitch Group stated that the 30 percent requirement was likely to significantly delay if not prevent most single brand majors from Europe, USA and Japan from opening stores and creating associated jobs in India. On 14 September 2012, the government of India announced the opening of FDI in multibrand retail, subject to approvals by individual states. This decision was welcomed by economists and the markets, but caused protests and an upheaval in India's central government's political coalition structure. On 20 September 2012, the Government of India formally notified the FDI reforms for single and multi brand retail, thereby making it effective under Indian law. On 7 December 2012, the Federal Government of India allowed 51% FDI in multi-brand retail in India. The government managed to get the approval of multi-brand retail in the parliament despite heavy uproar from the opposition. Some states will allow foreign supermarkets like Walmart, Tesco and Carrefour to open while other states will not.

Strong growth in the Indian Retail Industry

• The retail sector in India is emerging as one of the largest sectors in the economy

• By 2015, the total market size is estimated to be around US$ 600 billion,thereby registering a CAGR of 7.45 per cent since 2000.

• Retail industry is expected to grow to US$ 1.3 trillion by 2020, registering a CAGR of 9.7 per cent between 2000-2020



Source: BCG Retail 2020, Ernst & Young, Deloitte, indiaretailing.com, Economist Intelligence Unit, Euro monitor, TechSci Research
Notes: CAGR - Compound Annual Growth Rate, E - Estimated

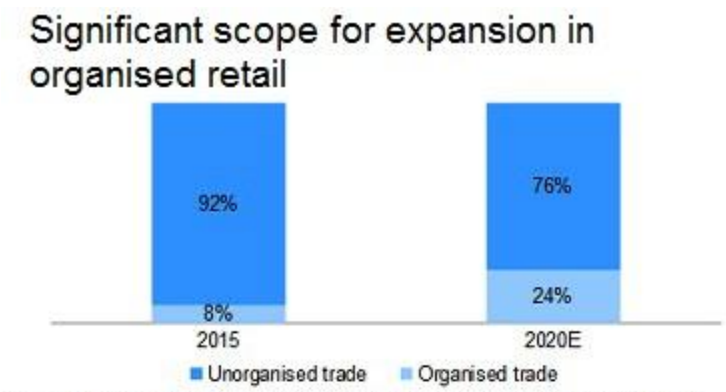
Organized Retail in Nascent Stage:

The Indian retail market is in its nascent stage; unorganised players accounted for 92 per cent of the market during 2015

• There are over 15 million mom-and-pop stores

• Between FY09-13, organised retail in India witnessed a CAGR of 19-20 per cent

• Organised retail is expected to account for 24 per cent of the overall retail market by 2020



Source: BCG, KPMG-indiaretailing.com, Deloitte Report, Winning in India's Retail Sector, TechSci Research Notes: 'Mom-and-pop' stores are small stores that are typically owned and run by members of a family, E- Estimate

Market Size:

The Boston Consulting Group and Retailers Association of India published a report titled, 'Retail 2020: Retrospect, Reinvent, Rewrite', highlighting that India's retail market is expected to nearly double to US$ 1 trillion by 2020 from US$ 600 billion in 2015, driven by income growth, urbanisation and attitudinal shifts.

The report adds that while the overall retail market is expected to grow at 12 per cent per annum, modern trade would expand twice as fast at 20 per cent per annum and traditional trade at 10 per cent.

Retail spending in the top seven Indian cities amounted to Rs 3.58 trillion (US$ 53.7 billion), with organised retail penetration at 19 per cent as of 2014. Online retail is expected to be at par with the physical stores in the next five years.

India is expected to become the world's fastest growing e-commerce market, driven by robust investment in the sector and rapid increase in the number of internet users. Various agencies have high expectations about growth of Indian e-commerce markets. Indian e-commerce sales are expected to reach US$ 55 billion! by FY2018 from US$ 14 billion in FY2015. Further, India's e-commerce market is expected to reach US$ 220 billion in terms of gross merchandise value (GMV) and 530 million shoppers by 2025, led by faster speeds on reliable telecom networks, faster adoption of online services and better variety as well as convenience@.

India's direct selling industry increased 6.5 per cent in FY2014-15 to Rs 7,958 crore (US$ 1.19 billion) and is expected to reach a size of Rs 23,654 crore (US$ 3.55 billion) by FY2019-20, as per a joint report by India Direct Selling Association (IDSA) and PHD.

Investment Scenario:

The Indian retail industry in the single-brand segment has received Foreign Direct Investment (FDI) equity inflows totalling US$ 344.9 million during April 2000–September 2015, according to the Department of Industrial Policies and Promotion (DIPP).

With the rising need for consumer goods in different sectors including consumer electronics and home appliances, many companies have invested in the Indian retail space in the past few months.

- Amazon India expanded its logistics footprint three times to more than 2,100 cities and towns in 2015, as Amazon.com invested more than US$ 700 million in its India operations since July 2014.
- Adidas AG, reknowned for its Adidas and Reebok sports brands, has become the first foreign sports company to get government approval to open 100 per cent foreign-owned stores in India.
- Walmart India plans to add 50 more cash-and-carry stores in India over the next four to five years.
- >Aeropostale, an American teen fashion retailer, has chosen to enter India over China, and expects India to be among its top three markets over the next four years with revenue target of Rs 500 crore (US$ 75 million).
- Opinio, a hyperlocal delivery start-up, has raised US$ 7 million in a Series-A funding from Gurgaon-based e-commerce fulfilment service firm Delhivery along with investment from Sands Capital and Accel Partners.

- Textile major Arvind Limited has announced a partnership with Sephora, owned by LVMH Moet Hennessy Louis Vuitton, a French luxury conglomerate, in order to enter into the beauty and cosmetics segment.
- Mobile wallet company MobiKwik has partnered with Jabong.com to provide mobile payment services to Jabong's customers.
- DataWind partnered with HomeShop18 to expand its retail footprint in the country. Under the partnership, HomeShop18 and DataWind would jointly launch special sales programmes across broadcast, mobile and internet media to provide greater access to the latter's tablet range.
- FashionAndYou has opened three distribution hubs in Surat, Mumbai and Bengaluru to accelerate deliveries.
- Abu Dhabi-based Lulu Group plans to invest Rs 2,500 crore (US$ 375 million) in a fruit and vegetable processing unit, an integrated meat processing unit, and a modern shopping mall in Hyderabad, Telangana.
- Aditya Birla Retail, a part of the US$ 40 billion Aditya Birla Group and the fourth-largest supermarket retailer in the country, acquired Total hypermarkets owned by Jubilant Retail.
- With an aim to strengthen its advertising segment, Flipkart acquired mobile ad network AdiQuity, which has a history of mobile innovations and valuable experience in the ad space.
- US-based Pizza chain Sbarro plans an almost threefold increase in its store count from the current 17 to 50 over the next two years through multiple business models.

Government Initiatives:

The Government of India has taken various initiatives to improve the retail industry in India.

- The Ministry of Urban Development has come out with a Smart National Common Mobility Card (NCMC) model to enable seamless travel by metros and other transport systems across the country, as well as retail purchases.
- IKEA, the world's largest furniture retailer, bought its first piece of land in India in Hyderabad, the joint capital of Telangana and Andhra Pradesh, for building a retail store. IKEA's retail outlets have a standard design and each location entails an investment of around Rs 500–600 crore (US$ 75–90 million).
- The Government of India has accepted the changes proposed by Rajya Sabha select committee to the bill introducing Goods and Services Tax (GST). Implementation of GST is expected to enable easier movement of goods across the country, thereby improving retail operations for pan-India retailers.
- The Government has approved a proposal to scrap the distinctions among different types of overseas investments by shifting to a single composite limit, which means portfolio investment up to 49 per cent will not require government approval nor will it have to comply with sectoral conditions as long as it does not result in a transfer of ownership and/or control of Indian entities to foreigners. As a result, foreign investments are expected to be increase, especially in the attractive retail sector.

The Road Ahead:

E-commerce is expanding steadily in the country. Customers have the ever increasing choice of products at the lowest rates. E-commerce is probably creating the biggest revolution in the retail industry, and this trend would continue in the years to come. Retailers should leverage the digital retail channels (e-commerce), which would enable them to spend less money on real estate while reaching out to more customers in tier-2 and tier-3 cities.

Both organised and unorganised retail companies have to work together to ensure better prospects for the overall retail industry, while generating new benefits for their customers.
Nevertheless, the long-term outlook for the industry is positive, supported by rising incomes, favourable demographics, entry of foreign players, and increasing urbanisation.

FDI in Retail Sector:

FDI in retail industry means that foreign companies in certain categories can sell products through their own retail shop in the country. At present, foreign direct investment (FDI) in pure retailing is not permitted under Indian law. Government of India has allowed FDI in retail of specific brand of products. Following this, foreign companies in certain categories can sell products through their own retail shops in the country. India's retail industry is estimated to be worth approximately US$411.28 billion and is still growing, expected to reach US$804.06 billion in 2015. As part of the economic liberalization process set in place by the Industrial Policy of 1991, the Indian government has opened the retail sector to FDI slowly through a series of steps: 1995: World Trade Organization's General Agreement on Trade in Services, which includes both wholesale and retailing services, came into effect. 1997: FDI in cash and carry (wholesale) with 100% rights allowed under the government approval route. 2006: FDI in cash and carry (wholesale) brought under the automatic route. Up to 51 percent investment in a single-brand retail outlet permitted. 2011: 100% FDI in single brand retail permitted. The Indian government removed the 51 percent cap on FDI into single-brand retail outlets in December 2011,and opened the market fully to foreign investors by permitting 100 percent foreign investment in this area. Government has also made some, albeit limited, progress in allowing multi-brand retailing, which has so far been prohibited in India. At present, this is restricted to 49 percent foreign equity participation. The spectre of large supermarket brands displacing traditional Indian mom-and-pop stores is a hot political issue in India, and the progress and development of the newly liberalized single-brand retail industry will be watched with some keen eyes as concerns further possible liberalization in the multi-brand sector. FDI IN SINGLE-BRAND RETAIL While the precise meaning of single-brand retail has not been clearly defined in any Indian government circular or notification, single-brand retail generally refers to the selling of goods under a single brand name. Up to 100 percent FDI is permissible in single-brand retail, subject to the Foreign Investment Promotion Board (FIPB) sanctions and conditions mentioned in press Note. These conditions stipulate that: Only single-brand products are sold (i.e. sale of multi-brand goods is not allowed, even if produced by the same manufacturer).Products are sold under the same brand internationally. Single-brand products include only those identified during manufacturing.¬ Any additional product categories to be sold under single-brand retail must first receive¬ additional government approval 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. For Adidas to sell products under the Reebok brand, which it owns, separate government permission is required and (if permission is granted) Reebok products must then be sold in separate retail outlet. FDI IN "MULTI-BRAND" RETAIL While the government of India has also not clearly defined the term "multi-brand retail," FDI in multi-brand retail generally refers to selling multiple brands under one roof. Currently, this sector is limited to a maximum of 49 percent foreign equity participation. These are positive steps and it will encourage international brands to set up shop in India. On the other hand, this will also lead to competition among Indian players. It will be the consumers who stand to gain,'' This would not change the market dynamics immediately as it will take some time for these plans to fructify. The growing dominance of multinational companies in the country's $200 billion retail business, had warned that any move to increase FDI in the retail sector would ruin the business of small and medium traders scattered over the country. Organized retailers in India are opposing the entry of MNCs in retail trading because of their predatory pricing strategy that wipes out competition, when the Government decides to allow foreign players to enter the retail.

Conclusion:

FDI in retail trading should be opened up to substantially improve productivity and distribution system through modern format retailing. FDI in retail is essential in our country. The study showed that the favorable impact is more than unfavorable impact. Allowing healthy FDI in the retail sector would not only lead to a substantial surge in the country's GDP but overall economic development. The government should come out with a policy statement laying down the roadmap for modern retail and allowing foreign investment in retail. FDI in retail industry would help domestic players to capitalize MNC players supply chains and distribution network experiences. The grant of industry status will help companies borrow at lower costs, and will bestow them fiscal incentives etc. Furthermore, the country would be benefited from large foreign investment flows in recent years. These flows, especially FDI, need to be encouraged through an appropriate policy regime. Thus, as a matter of fact FDI in the buzzing Indian retail sector should not just be freely allowed but per contra should be significantly encouraged. Allowing FDI in retail trade, in 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. The interest of the consumers should therefore take precedence over the interest of the retailer and in retail. India needs to take a lesson from China where organized and unorganized retail seem to co-exist and grow together. Further, India's local enterprises will potentially receive an up-gradation with the import of advanced technological and logistics management expertise from the foreign entities. FDI in single brand retail and multi-brand retail have been in news receiving both bouquets and brickbats from across the country and it has once again hogged the lime-light when Indian government issued a clarification by stating that foreign investors who invest 51% stake in multi-brand retail needs to put 50% of that investment in creating 'a new backend infrastructure'.

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Note – ! - as per marketing research firm eMarketer, @ - , as per Bank of America Merrill Lynch (BofA-ML) report.

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