

## **“Fdi and Its Impact on Retail Business with Special Reference To Multi-Brand Retailing” A Study Conducted At Bangalore City**

Mrs. Premakumari N<sup>1</sup>, Dr. Satyaprasad B G<sup>2</sup>.

*Mba Research Scholar Tumkur University Tumkur*

*M. Com., Mba, Phd Professor And Director G T Institute Of Management Studies & Research*

### **I. Background Of The Study**

#### **Retailing:**

Retail comes from the Old French word *tailer* (compare modern French *retailer*), which means "to cut off, clip, pare, divide" in terms of tailoring (1365). It was first recorded as a noun with the meaning of a "sale in small quantities" in 1433 (from the Middle French *retail*, "piece cut off, Shred, scrap, paring"). Like the French, the word *retail* in both Dutch and German (*detailhandel* and *Einzelhandel*, respectively) also refers to the sale of small quantities of items. Retail is the sale of goods and services from individuals or businesses to the end-user. Retailers are part of an integrated system called the supply chain. A retailer purchases goods or products in large quantities from manufacturers directly or through a wholesaler, and then sells smaller quantities to the consumer for a profit. Retailing can be done in either fixed locations like stores or markets, door-to-door or by delivery. Retailing includes subordinated services, such as delivery. The term "retailer" is also applied where a service provider services the needs of a large number of individuals, such as a public utility, like electric power.

#### **Foreign direct investment (FDI):**

Foreign direct investment (FDI) is direct investment into production or business in a country by a company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds.

#### **FDI reforms:**

On 14 September 2012, government of India allowed FDI in aviation up to 49%, in the broadcast sector up to 74%, in multi-brand retail up to 51% and in single-brand retail up to 100%. The choice of allowing FDI in multi-brand retail up to 51% has been left to each state. In its supply chain sector, the government of India had already approved 100% FDI for developing cold chain. This allows non-Indians to now invest with full ownership in India's burgeoning demand for efficient food supply systems. The need to reduce waste in fresh food and to feed the aspiring demand of India's fast developing population has made the cold supply chain a very exciting investment proposition.

#### **FDI in Retail Industry**

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, This has so far been prohibited in India. At present, this is restricted to 49 percent foreign Equity participation. The specter 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.

#### **Retailing Industry – Global Perspective:**

In last 8 years was happened in Indian retailing landscape with large corporate and foreign players dominating the organized retailing in top 15 cities. What they are trying to do now is to build a profitable and scalable business model based on local customer experience in each of the catchment. They have learnt hard ways about the formats, size and merchandising mix based on the catchment and customers they serve. Croma, Relaince Digital and other have worked on reduced size and smaller formats like Croma Zip to reach various target segments in a profitable ways as assumptions of big box being profitable in Indian scenario has proven wrong. Most of the organized retailers unlike their counterpart in west operate with inverse pyramid organization

structure with top 20% representing 80% of salary which needs to undergo sea change as retailer cannot sustain such high Salary cost. Many of them have undergone restructuring recently to reduce the overhead costs. The organized retail in India have faced many challenges and realized that India is very complex and challenging country from a scalability perspective to serve the need of diverse mix of customers based on demographic variations. For example which format will work on Golf course road, in Gurgaon may not work on the other side on Gurgaon in Sector -14 markets within 10 kilometer of each other. They need to come to terms with the fact that the consumer needs and buying behavior are very different for each catchment within cities. Different formats serve different market need, but in case of India it is difficult to find critical mass of similar catchments within the same cities forget across the countries this has been the case of India based on the learning of organized players operating in India for last 8 years.

#### **Advent of Foreign retailers in India:**

Many global retailers whosoever wanted to come to India are already here leveraging on the policy of 100% in cash and carry wholesales route for multi-brand retailing like Walmart, Metro, Woolworth, Staples or 51% for single brand retailing like Zara, Mark & Spencer, Hamleys, Debanham, Espirit, Nokia and many more. Significant foreign retailers’ presence is seen in Apparel, Fashion, Luxury and food retailing using either the franchise or licensing route. Many online global retailers like Amazon are operating in India. Recently many global players taking advantage of online retailing are targeting Indian consumer by setting up relationship with supply chain companies to deliver products to end customer therefore bypassing the need to reate physical retail stores. For example Crate and Barrel has launched India specific website to attract Indian consumer to buy their products online. Similar efforts are expected by other leading lobal retailers to target Indian consumer leveraging on spread on internet, 3G and smart phone apps and social networking especially the youth segment.

#### **Retailing Industry- Indian Perspective:**

##### **Retailing 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\$ 450 billion 4and 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. India's retailing industry is 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 centres. 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 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. On 14 September 2012, the government of India announced the opening of FDI in multi-brand retail, subject to approvals by individual states. This decision has been welcomed by economists and the markets, however has 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.<sup>8</sup> The Feds 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.

### **Retailing Industry In Karnataka:**

Karnataka is one of the leading states in organized retailing in India as there are more retail outlets in Bangalore city, due to increasing urbanization and expanding service sectors like software, banking, insurance and Business Process Outsourcing (BPO), which has taken a metropolitan city status more recently, has led to increase in income of the consumers. Apart from Bangalore, cities such as Mysore, Mangalore, Hubli-Dharwar and Belgaum in Karnataka are also growing rapidly in terms of urbanization, income and organized retailing with local food marketers as they are converting unorganized retail outlets into organized form because of strong demand for convenience products; and better educated consumers concerned about health, nutrition, food safety, and the environment.

### **Statement Of The Problem:**

Foreign direct investment (FDI) is an integral part of an open and effective international economic system, which acts as a major catalyst in the development of a country through up- gradation of technology, managerial skills and capabilities in various sectors. Indian retail industry is one of the sunrise sectors with huge growth potential. However, in spite of the recent developments in retail sector and its immense contribution to the economy, it continues to be the least evolved industries in India when compared to rest of the world. Undoubtedly, this dismal situation of the retail sector, despite the ongoing wave of incessant liberalization and globalization stems from the absence of FDI encouraging policy in the Indian retail sector. In This context, the study attempts to review the issues and implications of FDI inflows into the Indian retail sector, which include multi-brand retail sectors. The retail backend in India needs huge investments, therefore the government could open its door to foreign investors in multi-brand retail sectors. The study reviews on existing retail scenario in karnataka with regard to multi-brand retailing. Foreign direct investment in multi-brand retail will start a better integration of Indian economy into the global markets. The study examines the prospects of FDI in multi-brand retail in karnataka. Hence the study conducted to analyze the impact of FDI in multi-brand retailing.

### **Objectives Of The Study:**

1. To analyze the rationality of allowing FDI in retail with special importance to multi- brand retailing.
2. To study the impact of FDI in multi-brand retailing.
3. To study the existing structure of FDI in multi-brand retailing in India.
4. To study the impact of FDI on multi-brand retailing towards
  - a) Dealers
  - b) Customers
  - c) Retailers
5. To offer summary of findings and recommendations.

## **II. Review of Literature:**

The Researcher has reviewed all available literature by gathering information from business standard, Google Scholar, IIPM journal ,The following are some of the related reviews of Literature:

**1. An article by Koshy Joseph ,Partner, Joseph and Joseph Law Offices** —FDI IN RETAIL(FDI) in the retail sector has been a debate in India for a considerable period of time. FDI has been permitted in several sectors by the government of India, however, etail has been as issue deliberated over in view of its expected effect on several sections of the economy, particularly small businesses. However, the said decision of the government permitting FDI in retail has drawn a lot of flak from the leftist and the opposition parties. The gates have opened for multinationals interested and looking forward to set a foot in the booming retail business in India.

**2. A Report by Navdanya**Research Foundation for Science, Technology and Ecology, New Delhi titled —CORPORATE HIJACK OF RETAIL - Retail Dictatorship vs Retail Democracy sets the foot right saying —Giant corporations like Wal-Mart and Reliance have started to try and take over the Indian retail sector. The

entry of the giant corporate retail in India’s food market will have direct impact on India’s 650 million farmers and 40 million people employed in tiny retail.

**3. Singh, Dr. Mandeep**, Associate professor of Economics, The Earth Institute of Columbia University in his article —Foreign Direct Investment in Retailing in India – Its Emergence & Prospects published on 3rd August, 2010 says —Since the Indian retail sector is highly fragmented and domestic retailers are in the process of consolidating their position, the opening up of FDI regime should be in phased manner over 5 to 10 years time frame so as to give the domestic retailers enough time to adjust changes.

**4. Parekh, Paresh** ,Mumbai, Agency: DNA in his paper —Foreign direct investment in multi- brand retail: Time to expand the horizonsl published on Saturday, Jul 31, 2010 states that —It is worth debating whether it is really necessary to put conditions such as andatory rural employment creation and mandatory investment in back-end infrastructure, etc while permitting FDI.

**5. A publication** —Top retailers seek 51 percent FDI in multi-brand retaill by ICT by IANS Thaindian.com Company Limited on August 12th, 2010 represents the views of big retailers as —Given the state of the supply chain in India, much of the investment in the back-end will be up- front, particularly in the initial years. A fixed percentage of investment on the back-end could therefore lead to a misallocation of resources and take away from where they are most needed to create efficient supply chains, said Bharti Walmart.

**6. Khatore , Prashant and Parekh , Paresh** , partner and senior professional in Ernst & Young’s Retail & Consumer Products Practice in their article —Wholesale FDI in retail n Business Daily from THE HINDU group of publications on Thursday, Jun 04, 2009 said — There is a need to re- look, clarify, and further liberalise the policy on single- brand retailing to promote investments by global chains in India. This in turn would not only boost retail growth in India but would also help realize India’s retail revolution dream.

#### **Operational Definitions:**

##### **Foreign Direct Investment:**

Foreign Direct Investment refers to the physical Investment made by a foreign investor belonging to a certain country into a sector of foreign nation. It is the transfer of foreign assets Into a country’s financial Account. This can be done in four ways viz.

- (1) by acquisitions and merger,
- (2) by incorporating a wholly owned subsidiary,
- (3) by being part of a joint venture and
- (4) by acquiring at least 10% share in the domestic company.

If the share acquisition is less than 10%, then it wouldn’t be called FDI then it would be known as Portfolio Investment.

##### **Multi Brand:**

Marketing of two or more similar and competing products by the same firm under different and Unrelated brands.

##### **Multi Brand Retailing:**

Multi Brand retailing refers to the marketing of the different unrelated competitive products Under the same firm though being under the same firm, the various brands tend to bite into each Other’s sales, for example ‘Pantaloon’ & ‘Central’ of Future Group. The multi brand retailing Has certain advantages which are as follows:

- Obtaining greater shelf space and leaving little for competitor’s product.
- Saturating a market by filling all price and quality gaps.
- Catering to brand-switching users who like to experiment with different brands.
- Keeping the firm’s managers on their toes by generating internal competition.

### **III. Research Methodology**

The researcher has adopted analytical, descriptive and comparative methodology for this study; Reliance has been placed on books, journals, newspapers and online databases and on the views of writers in the discipline of Competition law.

**1. Type of Research:** The kind Research being used here is ANALYTICAL RESEARCH, as it most suits the purpose of the Research. An analytical Research is one where the researcher has to use facts or information already available, & analyze these to make a critical evaluation of the material. In this Research the facts & the information as so gained from various secondary sources have been used to make an analysis of the current Retail sector and FDI with the driving forces behind these situations. That is analyzing the data & extracting the relevant important data to complete the research & make it relevant to the present scenario of FDI in multi-brand retailing.

**2. Data Collection Procedure:** Methodology used: The method of data collection used for the purpose of this Research

**Primary Data:** For the purpose of the study primary data collected through structured questionnaire, observation, and interviews

**Secondary Data:** means the data that are already available or exists i.e., they refer to the data which have already been collected & analyzed by someone else.

**Source Of Data:**

The data has been collected from sources like Newspaper, Magazines, & Internet & Books.

**Newspaper:** - Economic times, Times of India.

**Magazine:** - Outlook Business

**Website:** - www.indiamart.com

www.indiaretailing.com

www.indiainbusiness.nic.in

**3. Limitations Of The Study:**

1. The sample size is small i.e. 400 and hence not sufficient enough to make a concrete recommendation.
2. The assumption that FDI was the only cause for development of Indian economy in the post liberalized period is debatable. No proper methods were available to segregate the effect of FDI to support the validity of this assumption.
3. Research is confined only to selected retail outlets in Bangalore city.

#### IV. Conclusion

FDI in multi-brand retailing sector should be considered for the country like India. Even implementation of FDI policies on multi-brand retailing is a big confusion whether FDI is permitted in multi-branding or not. In country like India there is local retailing plays a major role in retail business. So it should be upgraded in lot many aspects. In this regard the regulatory frame work for MBRT needs to be liberalized for the entry of foreign retail trade. On the other hand the dealers and retailers will get better business operations in retailing. And also there is threat that local retailers as well as the small retailer will be neglected. So the policy makers need to develop the policy frame work in general interest of the country as well as the citizens.

#### Bibliography

- [1]. Foreign Direct investment in India By yashmad, Dec 2012 VSRD-international journal of business and management. IIMA-Ahmadabad, FDI in retail: global perspective. Majumder, Sanjoy (25 November 2011). "Changing the way Indians shop. "The Bird of Gold - The Rise of India's Consumer Market". McKinsey and Company. May 2007.
- [2]. Sharma, Amol; Sahu, Prasanta (11 January 2012). "India Lifts Some Limits on Foreign Retailers". The Wall Street Journal. Department of Industrial Policy & Promotion (FC-I Section), Press Note No.5 (2012 Series) - multi-brand retail". Ministry of Commerce & Industry, Government of India. 20 September 2012.
- [3]. CIOL-SMEs-FDI in retail-published on DEC 6 2012. Food retailing in Karnataka-A case of super markets. University of agricultural sciences Dharwad. FDI in retail: More choices for Consumers, Times of India, Jul 23, 2011, FDI in Multi Brand Retail: The next big things in reforms, but road block persist, March 2011, Indiaknowledge@ Wharton
- [4]. Top 250 Retailers, Jan 2011, Store magazine The Times of India. January 16,2012
- [5]. Pulkit Agarwal, Esha Tyagi Foreign Direct Investment in Indian Retail Sector An analysis Discussion Paper on FDI in Multi Brand Retail Trading ( randRetailTrading\_06July2010.pdf)
- [6]. Dipankar Dey, Aspects of India's Economy - "FDI in India's Retail Trade: Some additional Issues" No. 43 (July 2007), Research Unit for Political Economy (R U P Publications, Colaba, Mumbai, India Agarwal, Vibhuti, Bahree, Megha (2011).
- [7]. "India puts retail reforms on hold". The Wall Street Annual Survey of Industries, CD Rom (2011): Economic and Political Weekly Research Foundation, Mumbai.
- [8]. Chakraborty, C. and P. Basu (2002) Foreign Direct Investment and growth in India: A Cointegration Approach. Applied Economics,34, No. 9, pp. 1061-1073. "FDI POLICY IN MULTI BRAND RETAIL". Ministry of Commerce,
- [9]. Government of India. 28November 2011.
- [10]. "FDI in retail is first major step towards reforms in agriculture, feels Sharad Joshi". The Economic Times. 2 December 2011.
- [11]. "Indian retail: The supermarket,s last frontier". The Economist. 3 December 2011. FDI: Issues in emerging economies, by K.Seehapathi. Report: - Investment approval and FDI in India: economic India Info Services.