FDI IN MULTIBRAND RETAILING

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***Abstract*: FDI is an important tool in the economic development of the nation. Contribution of FDI through financial resources, technology and innovative techniques raise the overall productivity of diverse sectors of economy. If properly navigated, FDI truly acts as a catalyst for development of sectors such as agriculture, manufacturing, service, SME and many more. Indian retail sector is one of the most sought after sectors that carry great potential for attracting FDI. The issue of opening of retail sector for FDI is most controversial and debated issue in recent times. An attempt is made in this paper to cover present regulatory framework for FDI in retail sector. The paper also offers critical analyses of recent decision of Government of India to open retail sector for FDI in single brand and multi brand category and its likely impact on various small retailers.**

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***Keywords*: Foreign Direct Investment, Single brand retailing, Multibrand retailing**

1.1INTRODUCTION

Foreign Direct Investment is an investment made by a company or entity based in one country, into a company or entity based in another country. FDI differ substantially from indirect investments such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange. Entities making direct investment typically have a significant degree of influence and control over the company into which the investment is made. Open economies with skilled workforces and good growth prospects tend to attract larger amounts of foreign direct investment than closed, highly regulated economies. The general concept of FDI encapsulates the idea of flow offunds from a larger pool of money within one economy into another pool in another economy with the intention to yield profit out of the money so invested. FDI is sector specific in nature, that is to say, that the fund channelized through the FDI route is diverted to a specific sector be it manufacturing, mineral excavation, agriculture, food processing or even retail. The fund invested brings with it technology, expertise, skill, novel business models and structural changes in the sociocultural avenues.

"Foreign investment would bring attendant advantages of technology transfer, marketing expertise, introduction of modern managerial techniques and new possibilities for promotion of exports**."**FDI has proved to stimulate growth and development of the countries. In addition to direct capital financing, FDI can be a source of valuable technology and know-how while fostering linkages with local firms, which can help jumpstart an economy. In order to promote competitive markets, restrictions on FDI must be reduced. FDI's potential for impact can be greater because of the combination of scale, capital, and global capabilities which allow MNCs to close existing large productivity gaps more aggressively

The liberalization of Foreign Direct Investment policy of the Indian economy in 1991,that has made most business sectors in India eligible to receive foreign investment, has opened up front doors to many a multinational corporation. But the policy framework for the retail and the trading sector has continued to be highly restricted. Ever since, the Multinational corporations have been eagerly waiting for the opening of the Indian retail sector for the FDI.Retailing is defined as all 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. Retailing is the interface between the producers and individual consumers buying for personal consumption or use. As such retailing is the last link that connects consumers or customers with the manufactures and distribution chain. Whether it is manufactures, distributors, wholesalers, if they sale the goods and service directly to buyers then they are called retailers and their trading activity come under retailing.

IMPORTANT TERMS AND CONCEPTS

Foreign Direct Investment —Investment in a foreign country through the acquisition of a local company or the establishment thereof an operation on a new site. It refers to capital inflow from abroad. It is a form of long term international capital movement, made for the purpose of productive activity and accompanied by the intention of managerial control or participation in the management of foreign firm.

Single brand retailing-Single brand implies that foreign companies would be allowed to sell goods sold internationally under a „single brand‟, viz., Reebok, Nokia and Adidas. FDI in Single brand retail implies that a retail store with foreign investment can only sell one brand

Multibrand retailing-FDI in Multi Brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous ‟kirana" store.

Foreign Direct Investment-: World Bank defined FDI as "*Foreign direct investment (FDI)* or foreign investment can refer to the net inflow of funds to acquire a long-term management interest in an enterprise operating in a foreign economy. It is the

accumulation of equity, reinvestment of retained earnings, other long-term sources of capital, and short-term funds as presented in the balance of payments."
Foreign investment is investment in an enterprise by a Non-Resident irrespective of whether this involves new equity capital or re-investment of earnings. Foreign investment is of two kinds – (i) Foreign Direct Investment (FDI) and (ii) Foreign Portfolio Investment. FDI is defined under Dictionary of Economics as ―Investment in a foreign country through the acquisition of a local company or the establishment thereof an operation on a new site. It refers to capital inflow from abroad. It is a form of long term international capital movement, made for the purpose of productive activity and accompanied by the intention of managerial control or participation in the management of foreign firm.

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Retailing is defined as all 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. In 2004, The High Court of Delhi defined the term „retail" as a sale for final consumption in contrast to a sale for further sale or processing. Retailing involves a direct interface with the customer and the coordination of business activities from end to end- right from the concept or design stage of a product or offering, to its delivery and post-delivery service to the customer.

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In 2008, the Government contemplated opening up the retail sector and allowing 100 per cent FDI in single - brand retail trading and 51 per cent FDI in multi-brand retailing. However, it did not succeed due to fierce opposition from its allies and the Left parties as well as the local trade associations. AT Kearney, the well-known international management consultancy, recently identified India as the second most attractive retail destination" globally from among thirty emergent markets. It has made India the cause of a good deal of excitement and the cynosure of many foreign eyes. With a contribution of 14% to the national GDP and employing 7% of the total workforce (only agriculture employs more) in the country, the retail industry is definitely one of the pillars of the Indian economy. India is largest among the Asian economies to liberalize its retail sector. Presently, global players are entering in India indirectly and allowing FDI is a great sign of buoyancy to the retail sector. All the major Indian cities have commercial projects under construction for retail purpose. India remains one of last frontiers of modern retailing.

Retail FDI Regulations in India

An important aspect of the current economic scenario in India is the emergence of organized retail backed by foreign direct investment. As there has been considerable growth in organized retail business in India, major Indian industrial houses have entered in retail sector and have announced very ambitious future expansion plans. Transnational Corporations are keen to enter in India and set up retail chains in collaboration with big Indian companies. However, opinions are divided on the issue of the impact of the 'Foreign Direct Investment' on the traditional Indian retail sector which is highly fragmented and the major source of employment after agriculture. Concerns have been raised that the foreign direct investment in retail sector may have an adverse impact on retailers in the traditional retail sector. It has also been argued that FDI in retailing will yield efficiencies in the supply chain, enabling better access to markets to the producers (including farmers and small producers), higher prices to farmers and lower prices to consumers. In the context of divergent views on the impact of foreign direct investment on Indian retail sector, it is essential to examine the possible effects of FDI on Indian retail sector

Key Perceived Opportunities: The following may be regarded as major perceived benefits of allowing FDI in retail in India.

1. Capital Infusion- This would provide an opportunity for cash-deficient domestic retailers to bridge the gap between capital required and raised. In fact FDI is one of the major sources of investments for a developing country like India wherein it expects investments from Multinational companies to improve the countries growth rate, create jobs, share their expertise, back-end infrastructure and research and development in the host country.

2. Boost Healthy Competition and check inflation- Supporters of FDI argue that entry of the many multi-national corporations will obviously promise intensive competition between the different companies offering their brands in a particular product market and this will result in availability of many varieties, reduced prices, and convenient distribution of the marketing offers.

3. Improvement in Supply Chain- Improvement of supply chain/ distribution efficiencies, coupled with capacity building and introduction of modern technology will help arrest wastages (in the present situation improper storage facilities and lack of investment in logistics have been creating inefficiencies in food supply chain, leading to significant wastages).

4. Improvement in Customer Satisfaction- Consumers in the organized retail will have the opportunity to choose between a numbers of internationally famous brands with pleasant shopping environment, huge space for product display, maintenance of hygiene and better customer care. There is a large segment of the population which feels that there is a difference in the quality of the products sold to foreign retailers and the same products -stoppage of different products. If the market is opened, then the pricing could also change and the monopoly of certain domestic Indian companies will be challenged.

5. Improved technology and logistics- Improved technology in the sphere of processing, grading, handling and packaging of goods and further technical developments in areas like electronic weighing, billing, barcode scanning etc. could be a direct consequence of foreign companies opening retail shops in India,. Further, transportation facilities can get a boost, in the form of increased number of refrigerated vans and pre-cooling chambers which can help bring down wastage of goods.

6. Benefits for the Farmers- Presumably, with the onset of multi-brand retail, the food and packaging industry will also get an impetus. Though India is the second largest producer of fruits and vegetables, it has a very limited integrated cold-chain infrastructure. Lack of adequate storage facilities causes heavy losses to farmers, in terms of wastage in quality and quantity of produce in general, and of fruits and vegetables in particular.

7. **Creation of More And Better Employment Opportunities-** The entry of foreign companies into Indian Retailing will not only create many employment opportunities but, will also ensure quality in them. This helps the Indian human resource to find better quality jobs and to improve their standard of living and life styles on par with that of the citizens of developed nations.

Key Potential Threats;

Critics of FDI feel that liberalization would jeopardize the unorganized retail sector and would adversely affect the small retailers, farmers and consumers and give rise to monopolies of large corporate houses which can adversely affect the pricing and availability of goods. They also contend that the retail sector in India is one of the major employment providers and permitting FDI in this sector can displace the unorganized retailers leading to loss of livelihood. The major threats to the domestic retailers in India are specified below:

1. Domination of Organized Retailers- FDI in single-brand retail will strengthen organized retail in the country. These organized retailers will tend to dominate the entire consumer market. It would lead to unfair competition and ultimately result in large-scale exit of domestic retailers, especially the small family managed.

2. Create Unemployment- Retail in India has tremendous growth potential and it is the second largest employer in India. Any changes by bringing major foreign retailers who will be directly procuring from the main supplier will not only create unemployment on the front end retail but also the middleman who have been working in this industry will be thrown out of their jobs.

3. Loss of Self Competitive Strength- The Indian retail sector, particularly organized retail, is still under-developed and in a nascent stage and that, therefore the companies may not be able to compete with big global giants. If the existing firms collaborate with the global biggies they might have to give up at the global front by losing their self-competitive strength.

4. Indirectly Leads to Increase in Real Estate Cost- It is obvious that the foreign companies which enter into India to open up their malls and stores will certainly look for places in the heart of the cities. There shall be a war for place, initiated among such companies. It will result in increase in the cost of real estate in the cities that will eventually affect the interest of the ordinary people who desire to own their houses within the limit of the cities.

5. **Distortion of Culture**: Though FDI in Indian retail will indirectly or directly contribute for the enhancement of Tourism, Hospitality and few other Industries, the culture of the people in India will slowly be changed. The youth will easily imbibe certain negative aspects of foreign culture and lifestyles and develop inappropriate consumption pattern, not suited to our cultural environment.

Conclusion

Indian retail sector is one of the most sought after sectors that carry great potential for attracting FDI. The sector is rightly projected as sunrise sector of India. The growth of retail, especially in 21st century is mind boggling and attracting the attention of retailers world over. With steady entry of top global retailers such as Wall Mart, Tesco, Carrefour and many more in last couple of years despite conservative approach of the government, the sector has become more fascinating for research study. The recent decision of Indian government of opening up the sector for FDI in single and multibrand retail has stirred up the heat with intense agitational activities witnessed all over India

Retailing is one of the largest sector in the global economy, and is going through a transition phase in India. For a long time, the corner grocery stores (kirana stores) were the only choice available to the consumers, especially in the urban areas. This is slowly giving way to international formats of retailing. In recent years foreign direct investment (FDI) inflows have been shifted from infrastructure, natural resources and export driven manufacturing to other areas such as retailing. After the waves of Liberalization, Privatization and Globalization marketing scenario particularly retailing has changed radically.

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