FDI IN RETAILING IN AGRICULTURE COMMODITIES: AN ADVERSATIVE APPROACH

Dr. Kailash K. Patil  
Associate Professor,  
H.O.D. Economics,  
Late Sow. Kamlatai Jamkar Mahila Mahavidalaya, Road, Parbhani,  
SRTM University, Nanded. 

Prof. Tanaji D. Jadhav  
Assistant Professor,  
Department of Commerce,  
Mamasheb Mihol College Paud Pune-38  
S.P.Pune University, Pune

The Indian Retail Market

India having more than 122 Crores population and it is known for the business acumen since the ancient era. India has highest number of small and medium scale business and because of this India is also known as a nation of shopkeepers. In India there are more than 16 million retail outlets with highest density of retail outlets in the world. The volume of Retail Industry in India is estimated for more than US $ 250 billion. But India is known for its unorganized retailing in form of small shops and as far as the organized retailing is concerned it is around $ 23 billion or 9% of total retailing in India.

The fast growth and use of management techniques for Retailing in India have made significant impact on the growth of Indian organized Retail & Marketing. Indian retail sector is becoming specialist Retailers. Now a days the customer-retailer relationship is very strong and close than other chains of distribution. India has 7 outlets per thousand population which is the highest in the world. Per capita retail space in India is at 2 sq ft, which is the lowest in the world and on the other hand retail density in our country is of 6 percent which is the highest in the world.

Presently 18 lakh households having an annual income of over Rs. 45 lakh (US$99,000). The growth of retail in India is less than the China and also the status of India’s size of retail market is not very matured as compare to China. The share of organized trade in retaining in India was quite more than 9% in 2010, and it is 20% in China. At present USA is biggest retail market with 85% share of organized trade in retailing at the second step. There is Malaysia with 55% plus, Thailand with 40%plus, Brazil with 35%plus, Russia with 33%plus, Indonesia with 30%plus, Poland with 20%plus, China with 17% plus & then India with 6% plus only.

While India presents a large market opportunity given the number and increasing purchasing power of consumers, there are significant challenges as well given that over 90% of trade is conducted through independent local stores. Challenges include: Geographically dispersed population, small ticket sizes, complex distribution network, little use of IT systems, limitations of mass media and existence of counterfeit goods.

Indian apparel retailers are increasing their brand presence overseas, particularly in developed markets. While most have identified a gap in countries in West Asia and Africa, some majors are also looking at the US and Europe. Arvind Brands, Madura Garments, Spykar Lifestyle and Royal Classic Polo are busy chalking out foreign expansion plans through the distribution route and standalone stores as well. Another denim wear brand, Spykar, which is now moving towards becoming a casualwear lifestyle brand, has launched its store in Melbourne and even in London.

The low-intensity entry of the diversified Mahindra Group into retail is unique because it plans to focus on lifestyle products. The Mahindra Group is the fourth largest Indian business group to enter the business of retail after Reliance Industries Ltd, the Aditya Birla Group, and
Bharti Enterprises Ltd. The other three groups are focusing either on perishables and groceries, or a range of products, or both.

**List of major Retailers in India**

- **REI AGRO LTD Retail**: 6TEN and 6TEN kirana stores
- **Future Groups-Formats**: Big Bazaar, Food Bazaar, Pantaloons, Central, Fashion Station, Brand Factory, Depot, aLL, E-Zone etc.
- **Raymond Ltd.**: Textiles, The Raymond Shop, Park Avenue, Park Avenue Woman, Parx, Colourplus, Neck Ties & More, Shirts & More etc.
- **Fabindia**: Textiles, Home furnishings, handloom apparel, jewellery
- **RP-SanjivGoenka Group Retail-Formats**: Spencer’s Hyper, Spencer’s Daily, Music World, Au Bon Pain (International bakery cafeteria), Beverly Hills Polo Club
- **The Tata Group-Formats**: Westside, Star India Bazaar, Steeljunction, Landmark, Titan Industries with World of Titans showrooms, Tanishq outlets, Croma.
- **Reliance Retail-Formats**: Reliance MART, Reliance SUPER, Reliance FRESH, Reliance Footprint, Reliance Living, Reliance Digital, Reliance Jewellery, Reliance Trends, Reliance Autozone, iStore
- **Reliance ADAG Retail-Format**: Reliance World
- **K Raheja Corp Group-Formats**: Shoppers Stop, Crossword, Hyper City, Inorbit Mall
- **Nilgiri’s-Formats**: Nilgiris’ supermarket chain
- **Marks & Spencer**: Clothing, lifestyle products, etc.
- **Lifestyle International-Lifestyle**: Home Centre, Max, Fun City and International Franchise brand stores.
- **Pyramid Retail-Formats**: Pyramid Megastore, TruMart
- **Next retail India Ltd (Consumer Electronics)**([www.next.co.in](http://www.next.co.in))
- **Vivek Limited Retail Formats**: Viveks, Jainsons, Viveks Service Centre, Viveks Safe Deposit Lockers
- **PGC Retail-T-Mart India [1]**, Switcher, Respect India, Grand India Bazaar,etc.,
- **Subhiksha-Formats**: Subhiksha supermarket pharmacy and telecom discount chain.
- **Trinethra- Formats**: Fabmall supermarket chain and Fabcity hypermarket chain
- **Vishal Retail Group-Formats**: Vishal Mega Mart
- **BPCL-Formats**: In & Out
- **German Metro Cash & Carry
- **Shoprite Holdings-Formats**: Shoprite Hyper
- **Paritala stores bazar**: honey shine stores
- **Aditya Birla Group - "More" Outlets
- **Kapas- Cotton garment outlets**

**Organized Retail:**

Organized retail segment has been growing at a blistering pace, exceeding all previous estimates. According to a study by Deloitte Haskins and Sells, organized retail has increased its share from 5 per cent of total retail sales in 2006 to 10 per cent in 2010. The fastest growing segments have been the wholesale cash and carry stores (150 per cent) followed by supermarkets (100 per cent) and hypermarkets (75-80 per cent). The organized segment to account for 25 per cent of the total sales at the end of year 2011.
It is expected that by 2016 modern retail industry in India will be worth US$ 175-200 billion. India retail industry is one of the fastest growing industries with revenue expected in 2007 to amount US$ 320 billion and is increasing at a rate of 5% yearly. A further increase of 7-8% is expected in the industry of retail in India by growth in consumerism in urban areas, rising incomes, and a steep rise in rural consumption. The retailing industry in India is now more than US$ 21.5 billion at the end of 2011.

Shopping in India has witnessed a revolution with the change in the consumer buying behaviour and the whole format of shopping also altering. Industry of retail in India which has become modern can be seen from the fact that there are multi-stored malls, huge shopping centres, and sprawling complexes which offer food, shopping, and entertainment all under the same roof.

India retail industry is progressing well and for this to continue retailers as well as the Indian government will have to make a combined effort. The report examines the growing market for FMCG market in India. This starts with an overview of the Industry in India and goes on to explain how product and demographic categories across the nation have added value to the Industry. The report examines the recent development within the industry and tries to gauge the impact in shaping the landscape of the FMCG market. It also contains a summary of the key players, including their product portfolio, business operations, and strategies. The report concludes with an industry outlook section. Finally the report mandates with the outlook for the year 2013, considering the current events and growing economy. The report concludes with a list of growth drivers, breaking them into demand side, supply side and systematic drivers.

Growth of organised retailing:

Before 2011, India had prevented innovation and organized competition in its consumer retail industry. Several studies claim that the lack of infrastructure and competitive retail industry is a key cause of India's persistently high inflation. Furthermore, because of unorganized retail, in a nation where malnutrition remains a serious problem, food waste is rife. Well over 30% of food staples and perishable goods produced in India spoils because poor infrastructure and small retail outlets prevent hygienic storage and movement of the goods from the farmer to the consumer.

One report estimates the 2011 Indian retail market as generating sales of about $470 billion a year, of which a miniscule $27 billion comes from organized retail such as supermarkets, chain stores with centralized operations and shops in malls. The opening of retail industry to free market competition, some claim will enable rapid growth in retail sector of Indian economy. Others believe the growth of Indian retail industry will take time, with organized retail possibly needing a decade to grow to a 25% share. A 25% market share, given the expected growth of Indian retail industry through 2021, is estimated to be over $250 billion a year: a revenue equal to the 2009 revenue share from Japan for the world's 250 largest retailers. The Economist forecasts that Indian retail will nearly double in economic value, expanding by about $400 billion by 2020. The projected increase alone is equivalent to the current retail market size of France.

In 2011, food accounted for 70% of Indian retail, but was under-represented by organized retail. It is estimated that India's organized retail had a 31% share in clothing and apparel, while the home supplies retail was growing between 20% to 30% per year.
FDI in retailing

India is one of the most leading economies with a strong economic backing and is posing threat to the other developed economies. The Indian economy has reached in the orbit of high economic growth rate. It is being widely acclaimed and considered as an emerging global economic power. Presently, the economy of India is the ninth largest in the world by nominal GDP and the fourth largest by purchasing power parity (PPP). The country is a part of the G-20 major economies and the BRICS, in addition to being partners of the ASEAN. India has a per capita GDP (PPP) of $1,477 (WBG) as per 2010 figures, making it a low-middle income country. India enjoys a strong position as a global investment hub with the country registering high economic growth figures even during the peak of financial meltdown. As a result, overseas investors rested their confidence in the economy which eventually pushed foreign direct investments.

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. IKEA announced in January that it is putting on hold its plan to open stores in India because of the 30 percent requirement. Fitch believes that the 30 percent requirement is 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.

India retail reforms

Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand Indian retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets, to sell multiple products from different brands directly to Indian consumers. The government of India had announced on 24 November 2011 that the India will allow foreign groups to own up to 51 per cent in “multi-brand retailers”, as supermarkets are known in India, in the most radical pro-liberalisation reform passed by an Indian cabinet in years; single brand retailers, such as Apple and Ikea, can own 100 percent of their Indian stores, up from the previous cap of 51 percent; both multi-brand and single brand stores in India will have to source nearly a third of their goods from small and medium-sized Indian suppliers; all multi-brand and single brand stores in India must confine their operations to 53-odd cities with a population over one million, out of some 7935 towns and cities in India. It is expected that these stores will now have full access to over 200 million urban consumers in India; multi-brand retailers must have a minimum investment of US$100 million with at least half of the amount invested in back end infrastructure, including cold chains, refrigeration, transportation, packing, sorting and processing to considerably reduce the post harvest losses and bring remunerative prices to farmers; the opening of retail competition will be within India’s federal structure of government. In other words, the policy is an enabling legal framework for India. The states of
India have the prerogative to accept it and implement it, or they can decide to not implement it if they so choose. Actual implementation of policy will be within the parameters of state laws and regulations.

**Rationale behind allowing FDI in retail sector**

India being fast developing country it need to provide speed to overall development. Retailing is one of the very important sector which has tremendous scope for development. For development of this sector huge fund is required and 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.

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.

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 liberalization of FDI rules on multi-brand retail for some time.

The government has decided to open up the retail sector to global investors through FDI in multi-brand retail with a ceiling of 51%, and 100% FDI in single-brand retail.
It means that global retailers such as Walmart, Carrefour, Tesco and others can set up mega deep-discount stores in the country through joint ventures with Indian firms, where the foreign partner can hold up 51% equity.

Single brand retail companies such as Swedish furnishing giant Ikea or sporting goods and equipment major Reebok can set up stores of their own in India through their own subsidiaries. Till now they were required to set up stores through joint ventures in India that allowed the foreign partner to own up to 51% equity.

**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 the 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 RadhakrishnaFoodlands 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.

**Benefits from FDI in Retailing ?**

- FDI in retail in India will help the farmers to get ensured market and remunerative price for their agriculture product, at least of fruits and vegetables. At present, the price that a farmer gets for a kilo of onions is about half of what it is sold to by vendors and retailers to final consumers. By engaging local producers, organised retail provides them with an access to a much broader consumer set. For instance, a leading retailer operating in north India has engaged a local pickle manufacturer in Amritsar and invested to upgrade its equipment.

- Organised retail provides higher quality of goods on account of the pre–defined and stringent standards adopted by the retailers. And of course the price will be cheaper. Studies have shown that consumers, on an average, will save at least 10% on daily use goods.
The investors will invest in creating infrastructure like godowns, cold storage chains, agro processing units, transportation, agriculture market facilities etc.

Allowing FDI will increase competition in the market which can force domestic consumers to improve their efficiency and productivity and thus lowering prices.

A very evident fact is that the modernization of different sectors has evinced a lot of interest of the foreign investors and has attracted massive FDI inflows in the near past.

This in turn has generated lot of employment opportunities in the economy.

Consumers now have a wide variety of brands and product categories to choose from which has made shopping experiences of international quality.

It will also help focus in the service quality like consistency, standardization, pricing, pre-sales activity, after sales services etc.

It will provide employment to several people in the retail stores and back end activities.

FDI will save the money, which other wise have to be spent on infrastrure and will be invested in other development activities.

The share of retailing in economy and GDP will be increased.

A significant market shift to the organized sector will help to reduce the producer's problem of counterfeit products.

Consumer financing schemes provided by the retailers help the producer's too.

Congregation of large number of customers under one roof will boost low cost marketing campaigns and thus minimizing advertising costs.

This will enhance the channel feedback to the manufacturers thus helping to formulate better business strategies.

By establishing a real time network with the retailers, the producers can crash their supply chain and minimize the inventory holding cost, response time to market demands resulting in economic benefits which have a final benefit for the producers as well as consumers.

Indian producers will get an opportunity of showcasing their produce in the international markets and foreign retailers.

In the era of M&As happening globally, restructuring is a sine qua non for prosperity and survival in the midst of global competitiveness.

Postponing FDI in this sector will only help the unorganized sector to flourish pulling in almost Rs. 110,000 crore from the money market.

The risk element can be hedged and easily arbitraged, if the FDI is allowed.

Disadvantages of FDI in Retailing?

Though most of the high decibel arguments in favour of FDI in the retail sector are not without some merit, it is not fully applicable to the retailing sector in India, or at least, not yet. This is because the primary task of government in India is still to provide livelihoods and not create so called efficiencies of scale by creating redundancies.

Small traders are worried that large deep-discount stores of transnational corporations will drive street vendors and neighbourhood mom-and-pop kirana stores out of business, endangering their livelihood.

Allowing FDI will have immediate and dire consequences. Entry of foreign players now will most definitely disrupt the current balance of the economy, will render millions of small retailers jobless by closing the small slit of opportunity available to them.

The supermarket will typically sell everything, from vegetables to the latest electronic gadgets, at extremely low prices that will most likely undercut those in nearby local stores.
selling similar goods. WalMart would be more likely to source its raw materials from abroad, and procure goods like vegetables and fruits directly from farmers at preordained quantities and specifications. This means a foreign company will buy big from India and abroad and be able to sell low – severely undercutting the small retailers. Once a monopoly situation is created this will then turn into buying low and selling high.

- It is easy to visualise from the discussion above, how the entry of just one big retailer is capable of destroying a whole local economy and send it hurtling down a spiral. One must also not forget how countries like China, Malaysia and Thailand, who opened their retail sector to FDI in the recent past, have been forced to enact new laws to check the prolific expansion of the new foreign malls and hypermarkets.
- It is true that it is in the consumer’s best interest to obtain his goods and services at the lowest possible price. But this is a privilege for the individual consumer and it cannot, in any circumstance, override the responsibility of any society to provide economic security for its population. Clearly collective well-being must take precedence over individual benefits.

Conclusions:

For Indian companies who are in the organised retail sector or who have plans to enter the organised retail sector, this is, indeed, a very welcome move as it opens up a whole new universe of fundraising options. Indian companies may partner with international retail players and thus garner both funding, as well as operational best practices, or they can just choose to raise funding from foreign private equity funds. Given that much of the PE money that flows into India today is foreign money, this move opens up huge possibilities for the growth of India’s organised retail sector, thereby significantly enhancing the competitiveness of the industry.

Though the FDI will help our economy to grow at macro level, it will ruin the small shopkeepers of our country. FDI in retails will help to the retail market in non-agri commodities only but in agri commodities it will have bad effect in long run. Likewise it will help the farmers in short run, because of ensuring the market as well as better price for some time, but it will definitely will affect the farmers community in long run, because after some years, there will be organised chain of retailers who will have monopoly in the market and they will fix the rates of the agriculture product at lower rates and farmers will have no option but to sell them. Moreover, these big and multinational retailing companies will either commence the agriculture production by way of contract farming or on their own as a part of corporate farming and even these companies may purchase goods from the other countries and that time, all the small and marginal farmers will have no option but to sell their product at throw away price to these retailers. Because of their financial strength, the giant retailers will decide the fate of farmers.

Lastly, it is to be noted that 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.

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.
The proposal is to permit FDI in retail only if the foreign investor brings in a minimum investment of $100 million, which seems to be unreasonable because only big and foreign retail business operators, will enter the market, it may not be reasonable to expect the entire $100 million to be brought up front. What may be more rational is to permit foreign investors to bring in the minimum $100 million investment over a period of, say, 2-3 years. Further, one hopes that there would be no proposals for any ‘lock-in’ of this investment amount, as was imposed with respect to FDI in real estate (with disastrous results). Any such unreasonable condition (which doesn’t even serve any meaningful purpose in the larger scheme of things) is likely to cause discomfort and confusion amongst investors.

Therefore, the FDI in retail market must be permitted in very cautious way and it must be gradual and with social safeguards so that the effects of the labour dislocation can be analysed & policy finetuned. Initially allow them to set up supermarkets only in metros. Make the costs of entry high and according to specific norms and regulations so that the retailer cannot immediately indulge in ‘predatory’ pricing. 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 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, Greater Small and Medium Scale Industries, Growth in market size and Benefits to government through greater GDP, tax income and employment generation.

References
1. “FDI in retail sector in India” by, Arpita Mukherjee, Nitisha Patel, India. Dept. of Consumer Affairs, Indian Council for Research on International Economic Relations
3. Indian Retail Sector”, by Nitin Mehrotra, India. Dept. of Consumer Affairs, Indian Council for Research on International Economic Relations
4. Websites :-
5. www.Manupatra.com
7. www.cci.in
8. www.rbi.org.in
9. www.dipp.nic.in
10. www.legallyindia.com
11. www.icsi.edu
12. www.retailguru.com