INTRODUCTION
The Indian Retail Industry is the largest among all the industries, accounting for over 14 per cent of the country’s GDP and around 8 per cent of the employment. The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. But all of them have not yet tasted success because of the heavy initial investments that are required to break even with other companies and compete with them. The Indian Retail Industry is gradually inching its way towards becoming the next boom industry. The total concept and idea of shopping has undergone an attention drawing change in terms of format and consumer buying behavior, ushering in a revolution in shopping in India.

Modern retailing has entered into the Retail market in India as is observed in the form of bustling shopping centers, multi-storied malls and the huge complexes that offer shopping, entertainment and food all under one roof. A large young working population with medium age of 24 years, nuclear families in urban areas, along with increasing workingwomen population and emerging opportunities in the services sector are going to be the key factors in the growth of the organized Retail sector in India.

Foreign Direct Investment (FDI) refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. Foreign Investment in India is governed by the FDI policy announced by the Government of India and the provision of the Foreign Exchange Management Act (FEMA) 1999. The Reserve Bank of India (‘RBI’) in this regard had issued a notification, which contains the Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000. This notification has been amended from time to time.

The Ministry of Commerce and Industry, Government of India is the nodal agency for motoring and reviewing the FDI policy on continued basis and changes in sectoral policy/ sectoral equity cap. The FDI policy is notified through Press Notes by the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP). The foreign investors are free to invest in India, except few sectors/activities, where prior approval from the RBI or Foreign Investment Promotion Board (‘FIPB’) would be required.

It will be prudent to look into Press Note 4 of 2006 issued by DIPP and consolidated FDI Policy issued in October 2010, which provide the sector specific guidelines for FDI with regard to the conduct of trading activities.

- FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.
- FDI up to 51% with prior Government approval (i.e. FIPB) for retail trade of ‘Single Brand’ products, subject to Press Note 3 (2006 Series)
- FDI is not permitted in Multi Brand Retailing in India.
Retailing is one of the world's largest private industries. Liberalizations in FDI have caused a massive restructuring in retail industry. The benefit of FDI in retail industry superimposes its cost factors. Opening the retail industry to FDI will bring forth benefits in terms of advance employment, organized retail stores, availability of quality products at a better and cheaper price. It enables a country's product or service to enter into the global market. FDI will ensure better operations in production cycle and distribution. Due to economies of operation, production facilities will be available at a cheaper rate thereby resulting in availability of variety products to the ultimate consumers at a reasonable and lesser price. FDI enables transfer of skills and technology from overseas and develops the infrastructure of the domestic country. Greater managerial talent inflow from other countries is made possible. Domestic consumers will benefit getting great variety and quality products at all price points. FDI will provide necessary capital for setting up organized retail chain stores. It is a long-term investment because unlike equity capital, the physical capital invested in the domestic company is not easily liquidated.

Keeping in view the great importance of FDI in retail sector we propose to study on “Prospects more than Problems for entering the FDI in Indian Retail Sector - A Study”. The main objective of the study is to explain the role of FDI for prospecting the Indian organized retail sector. The specific objectives are as under:

- To review the evolution of Retail Industry and its growth pattern in recent past.
- To apprise the FDI Policy in Indian Retail Sector and to examine the entry options for foreign players prior to FDI Policy in the country.
- To study the FDI in Single Brand and Multi Brand Retail Operations.
- To analyze the Prospects and Problems for entering FDI in Indian Retail Sector.
- To find out the possible suggestions on entry of FDI in Indian Retail Sector.

**Evolution of Retail Industry**

- The emergence of the neighborhood ‘Kirana’ stores catering to the convenience of the consumers.
- 1980s experienced slow change as India began to open up economy.
- Textiles sector with companies like Bombay Dyeing, Raymond’s, S Kumar's and Grasim first saw the emergence of retail chains.
- Later Titan successfully created an organized retailing concept and established a series of showrooms for its premium watches.
- The latter half of the 1990s saw a fresh wave of entrants with a shift from Manufactures to Pure Retailers. For e.g. Food World, Subhiksha and Nilgiris in food and FMCG; Planet M and Music World in music; Crossword and Fountainhead in books.
- Post 1995 onwards saw an emergence of shopping centers, Mainly in urban areas, with facilities like car parking, Targeted to provide a complete estimation experience for all segments of society.
- Emergence of hyper and super markets trying to provide customer with 3 V’s - Value, Variety and Volume.
- At year end of 2000 the size of the Indian organized retail industry is estimated at Rs. 13,000 crore.
Growth Pattern of Retail Industry in India

The growth pattern in organized retailing and in the consumption made by the Indian population will follow a rising graph helping the newer businessmen to enter the India Retail Industry. In India the vast middle class and its almost untapped retail industry are the key attractive forces for global retail giants wanting to enter into newer markets, which in turn will help the India Retail Industry to grow faster. Indian retail is expected to grow 25 per cent annually. Modern retail in India could be worth US$ 175-200 billion by 2016. The Food Retail Industry in India dominates the shopping basket. The Mobile phone Retail Industry in India is already a US$ 16.7 billion business, growing at over 20 per cent per year. The future of the Indian Retail Industry looks promising with the growing of the market, with the government policies becoming more favorable and the emerging technologies facilitating operations.

Purchasing power of Indian urban consumer is growing and branded merchandise in categories like Apparels, Cosmetics, Shoes, Watches, Beverages, Food and even Jeweler, are slowly becoming lifestyle products that are widely accepted by the urban Indian consumer. Indian retailers need to advantage of this growth and aiming to grow, diversify and introduce new formats have to pay more attention to the brand building process. The emphasis here is on retail as a brand rather than retailers selling brands. The focus should be on branding the retail business itself.

FDI Policy in Indian Retail Sector

For those brands, which adopt the franchising route as a matter of policy, the current FDI Policy will not make any difference. They would have preferred that the Government liberalize rules for maximizing their royalty and franchise fees. They must still rely on innovative structuring of franchise arrangements to maximize their returns. Consumer durables such as LG and Samsung, which have exclusive franchisee owned stores are unlikely to shift from the preferred route in the right away.

For those companies, which choose to adopt the route of 51% partnership, they must tie up with a local partner. The key is finding a partner which is reliable and who can also teach a trick or two about the domestic market and the Indian consumer. Currently, the organized retail sector is dominated by the likes of large business groups, which decided to diversify into retail to cash in on the boom in the sector – corporatists such as Tata through its brand Westside, RPG Group through Food world, Pantaloon of the Raheja Group and Shopper’s Stop. Do foreign investors look to tie up with an existing retailer or look to others not necessarily in the business but looking to diversify, as many business groups are doing?

An arrangement in the short to medium term may work wonders but what happens if the Government decides to further liberalize the regulations as it is currently contemplating? Will the foreign investor terminate the agreement with Indian partner and trade in market without him? Either way, the foreign investor must negotiate its joint venture agreements carefully, with an option for a buy-out of the Indian partner’s share if and when regulations so permit. They must also be aware of the regulation which states that once a foreign company enters into a technical or financial collaboration with an Indian partner, it cannot enter into another joint venture with another Indian company or set up its own subsidiary in the ‘same field’ without the first partner’s consent if the joint venture agreement does not provide for a ‘conflict of interest’ clause. In effect, it means that foreign brand owners must be extremely careful whom they choose as

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partners and the brand they introduce in India. The first brand could also be their last if they do not negotiate the strategic arrangement diligently.

The concern is that the Indian retail sector, particularly organized retail, is still under-developed and in a nascent stage and that, therefore, it is important that the domestic retail sector is allowed to grow and consolidate first, before opening this sector to foreign investors. Antagonists of FDI in retail sector oppose the same on various grounds, like:

- The entry of large global retailers such as Wal-Mart would kill local shops and millions of jobs, since the unorganized retail sector employs an enormous percentage of Indian population after the agriculture sector
- The global retailers would conspire and exercise monopolistic power to raise prices and monopolistic (big buying) power to reduce the prices received by the suppliers
- It would lead to asymmetrical growth in cities, causing discontent and social tension elsewhere.
- Hence, both the consumers and the suppliers would lose, while the profit margins of such retail chains would go up.

**Entry options for foreign players prior to FDI policy**

Although prior to Jan 24, 2006, FDI was not authorized in retailing, most general players had been operating in the country. Some of 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 licenses 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 Radhakrishna Foodlands 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 authorized 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.
FDI in Single Brand and Multi Brand Retail

The Government has not categorically defined the meaning of “Single Brand” anywhere neither in any of its circulars nor any notifications. In single-brand retail, FDI up to 51 per cent is allowed, subject to Foreign Investment Promotion Board (FIPB) approval and subject to the conditions mentioned in Press Note 3 are mentioned below:

- Only single brand products would be sold (i.e., retail of goods of multi-brand even if produced by the same manufacturer would not be allowed)
- Products should be sold under the same brand internationally
- Single-brand product retail would only cover products, which are branded during manufacturing, and
- Any addition to product categories to be sold under “single-brand” would require fresh approval from the government.

While the phrase ‘single brand’ has not been defined, it implies that foreign companies would be allowed to sell goods sold internationally under a ‘single brand’, viz., Reebok, Nokia, Adidas. Retailing of goods of multiple brands, even if the same manufacturer produced such products, would not be allowed. Going a step further, we examine the concept of ‘single brand’ and the associated conditions:

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 and not the Reebok brand, for which separate permission is required. If granted permission, Adidas could sell products under the Reebok brand in separate outlets.

Brands could be classified as products and multiple products, or could be manufacturer brands and own-label brands. Assume that a company owns two leading international brands in the footwear industry – say ‘A’ and ‘R’. If the corporate were to obtain permission to retail its brand in India with a local partner, it would need to specify which of the brands it would sell. A reading of the government release indicates that A and R would need separate approvals, separate legal entities, and may be even separate stores in which to operate in India. However, it should be noted that the retailers would be able to sell multiple products under the same brand, e.g., a product range under brand ‘A’. Further, it appears that the same joint venture partners could operate various brands, but under separate legal entities.

Now, taking an example of a large departmental grocery chain, prima facie it appears that it would not be able to enter India. These chains would, typically, source products and, thereafter, brand it under their private labels. Since the regulations require the products to be branded at the manufacturing stage, this model may not work. The regulations appear to discourage own-label products and appear to be tilted heavily towards the foreign manufacturer brands.

There is ambiguity in the interpretation of the term ‘single brand’. The existing policy does not clearly codify whether retailing of goods with sub-brands bunched under a major parent brand can be considered as single-brand retailing and, accordingly, eligible for 51 per cent FDI. Additionally, the question on whether co-branded goods (specifically branded as such at the time of manufacturing) would qualify as single brand retail trading remains unanswered.

The government has also not defined the term Multi Brand. FDI in Multi Brand retail implies that a retail store with a foreign investment can sell multiple brands less than one roof. In July 2010 Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce circulated
A discussion paper on allowing FDI in multi-brand retail. The paper doesn’t suggest any upper limit on FDI in multi-brand retail. If implemented, it would open the doors for global retail giants to enter and establish their footprints on the retail landscape of India. 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.

Prospects for Entering FDI in Indian Retail Sector

The UPA government is keen to open up the Indian market for foreign investments despite opposition from other parties in Parliament. According to the government, the 51% foreign direct investment will benefit consumers and farmers, and will also aim at bringing down inflation, along with protecting the interests of small traders.

Prospects related to consumers

- The 51% FDI will accelerate retail market growth, providing more employment opportunities and creating competition in general is good for the market.
- Proper procurement and distribution system is fixed, how will the rest fall in place when the giant retailers enter our market.
- The 51% foreign direct investment (FDI) will obviously have a negative impact on small retailers, but it will benefit the consumers, as they will have wider choices at competitive prices.
- It will accelerate the retail market growth and provide more employment opportunities.
- Lot of money will flow out of the country and Indian companies are operating abroad and have successfully contributed to our economy.
- The bigger issue is that with benefits we might end up paying a price hence we must work on a reasonable solution.
- The big companies with huge investment capacity will buy goods at lesser rates and pass on big discounts to consumers.

Prospects related to farmers

- The farmers will be able to get better prices for their produce and storage facilities will improve.
- The elimination of the intermediate channels in the procurement process will lead to reduction of prices for consumers.
- It will teach the local retailers about real competition and help in insuring that they give better service to Indian consumers.
- FDI in retail will help farmers secure remunerative prices by eliminating exploitative middlemen.

Prospects related to Small and Medium Enterprises

- The regulation in the FDI Bill that 30% of the total procurement has to come from small and medium enterprises will benefit the domestic businesses.
- The policy is needed to protect the small and medium market channels from Chinese invasion.
- The government in near future can appoint a regulating body to monitor the retail sector just like other sectors.
The kirana stores operate in a different environment catering to a certain set of customers and they will continue to find new ways to retain them.

Prospects related to Economic Growth

- The FDI Bill will definitely have a positive impact on the retail industry and the country by attracting more foreign investments.
- With big retail giants coming to India, it will surely improve our back-end storage and procurement process.
- Once these multi-chain retailers establish themselves, they will create infrastructure facilities, which will also propel the existing infrastructure.
- Huge investments in the retail sector will see gainful employment opportunities in agro-processing, sorting, marketing, logistics management and front-end retail.
- At least 10 million jobs will be created in the next three years in the retail sector.
- Foreign retail majors will ensure supply chain efficiencies.
- Policy mandates a minimum investment of $100 million with at least half the amount to be invested in back-end infrastructure, including cold chains, refrigeration, transportation, packing, sorting and processing. This is expected to considerably reduce post-harvest losses.
- This will have a salutary impact on food inflation from efficiencies in supply chain. This is also because food, which perishes due to inadequate infrastructure, will not be wasted.
- Sourcing of a minimum of 30% from Indian micro and small industry is mandatory. This will provide the scales to encourage domestic value addition and manufacturing, thereby creating a multiplier effect for employment, technology upgradation and income generation.
- A strong legal framework in the form of the Competition Commission is available to deal with any anti-competitive practices, including predatory pricing.
- In any case, organized retail through Indian corporates is permissible. Experience of the last decade shows small retailers have flourished in harmony with large outlets.

Problems for Entering FDI in Indian Retail Sector

- If 51% FDI is allowed in retail market, it will be a big trouble for the small shopkeepers and small retailers in the market.
- The big giants entering the market will surely impact the small storeowners and small local retailers will not be able to stand against the competition.
- Once these giant foreign retailers have monopoly, they will start exploiting the market.
- In the long run, it will not benefit the Indian economy.
- By attracting consumers and manufacturers, they will create their own monopoly in the market.
- Bringing in big foreign players will, no doubt, give direct competition to big domestic retail chains but small retailers will eventually get eliminated.
- Move will lead to large-scale job losses. International experience shows supermarkets invariably displace small retailers. Small retail has virtually been wiped out in developed countries like the US and in Europe.
- Global retail giants will resort to predatory pricing to create monopoly/oligopoly. This can result in essentials, including food supplies, being controlled by foreign organizations.
- International retail does not create additional markets, it merely displaces existing markets.
Jobs in the manufacturing sector will be lost because structured international retail makes purchases internationally and not from domestic sources.

Argument that only foreign players can create the supply chain for farm produce is bogus. International retail players have no role in building roads or generating power. They are only required to create storage facilities and cold chains. This could be done by governments in India.

Comparison between India and China is misplaced. China is predominantly a manufacturing economy. It's the largest supplier to Wal-Mart and other international majors. It obviously cannot say no to these chains opening stores in China when it is a global supplier to them. India in contrast will lose both manufacturing and services jobs.

Conclusions and Suggestions
India remains one of the last frontiers of modern retailing. Conquering the retailing in India will be a challenge, given the problems of the supply chain and consumer readiness as well as the prodigious complexities of so vast a market. At Advantage India, we have set up a special cell to track the retailing Industry worldwide. We are also keenly following how the retailing is taking shape in India. We are benchmarking the best practices in retailing and tailoring it to local needs and preferences. The following are some of the causes for entering FDI in Indian Retail Sector:

The government must properly discuss the pros and cons of allowing 51% FDI and have a law in place to control unfair competition.

In principle, governments should not prevent anybody, Indian or foreign, from setting up any business unless there are very good reasons to do so. Hence, unless it can be shown that FDI in retail will do more harm than good for the economy, it should be allowed.

Frankly, the jury is out on whether this is the case or not, with different studies claiming different findings. Big retail chains are actually going to hire a lot of people. So, in the short run, there will be a spurt in jobs. Eventually, there's likely to be a redistribution of jobs with some drying up (like that of middlemen) and some new ones sprouting up.

Fears of small shopkeepers getting displaced are vastly exaggerated. When domestic majors were allowed to invest in retail, both supermarket chains and neighbourhood pop-and-mom stores coexisted. It's not going to be any different when FDI in retail is allowed. Who, after all, will give home delivery? The local kirana. Why would anyone shun them?

The entry of retail big boys is likely to hot up competition, giving consumers a better deal, both in prices and choices. Mega retail chains need to keep price points low and attractive - that's the USP of their business. This is done by smart procurement and inventory management: Good practices from which Indian retail can also learn.

The argument that farmers will suffer once global retail has developed a virtual monopoly is also weak. To begin with, it's very unlikely that global retail will ever become monopolies. Stores like Wal-Mart or Tesco are by definition few, on the outskirts of cities (to keep real estate costs low), and can't intrude into the territory of local kiranas. So, how will they gobble up the local guy?

Farmers are getting a good deal right now. The fact is that farmers barely subsist while middlemen take the cream. Let's not get dreamy about this unequal relationship.
FDI in Retail IT will be good for consumers as well as current small honest shopkeeper. How will benefits for consumers:
- It will give us good quality of food
- Price will be competitive
- We will get time to time good offers from them
- Job market will go up
- Different kind of suppliers to get quick platform to introduce their products
- Different kind of products under one roof available for customers
- It will help to make new future branding
- It will give you value of money
- It will give family once in a month to go shopping together
- It will give logistics industry to be organized

What would be benefit for current small honest shopkeepers?
- Honest shopkeeper will do more business than nowadays business. After collapse of shopkeeper who is cheating with customer to give different some non-quality products
- Honest shopkeeper will do clear business with help of current credit policy to the client. They are giving product on monthly payment basis which is impossible to get from Supermarket or hypermarket
- Honest shopkeeper will start supplying to Supermarket because they have good deep buying power. They will be good supplier of supermarket or hypermarket
- They will get range of quality products
- They will get help after full infrastructure reform in logistics
- They will get more transaction with bank facility
- They have full chance of growth
- They have full chance of growth due less cost more profit
- They will get more clear expansion plan may be next chain of supermarket
- They will have chance to make their own brands

The Government will help Indian retailers to create a retail revolution by providing them with tools to cope up with challenges. The most interesting aspect of this retail revolution is how the Indian companies leapfrog retail evolution in India.
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