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FDI IN MULTI-BRAND RETAILING -AN INDIAN SCENARIO

Dr. A. K. Mansuri*

Abstract: *FDI stands for Foreign Direct Investment, a component of a country's national financial accounts. Foreign direct investment is investment of foreign assets into domestic structures, equipment, and organizations. It does not include foreign investment into the stock markets. Foreign direct investment is thought to be more useful to a country than investments in the equity of its companies because equity investments are potentially "hot money" which can leave at the first sign of trouble, whereas FDI is durable and generally useful whether things go well or badly. Single-brand retail generally refers to the selling of goods under a single brand name. Up to 100 percent FDI is permissible in single-brand retail, subject to the Foreign Investment Promotion Board (FIPB) sanctions and conditions mentioned in Press Note 3[8]. These conditions stipulate that: Only single-brand products are sold (i.e. sale of multi-brand goods is not allowed, even if produced by the same manufacturer), Products are sold under the same brand internationally.*

High inflation is one of the driving motives behind this move towards multi-brand retail. Allowing international retailers such as Wal-Mart and Carrefour, which have already set up wholesale operations in the country, to set up multi-brand retails stores will assist in keeping food and commodity prices under control. Moreover, industry experts feel allowing FDI will cut waste, as big players will build backend infrastructure. FDI in multi-brand retail would also help narrow the current account deficit. Additional benefits include moving away from an industry focus on intermediaries and job creation.While the government of India has also not clearly defined the term "multi-brand retail," FDI in multi-brand retail generally refers to selling multiple brands under one roof. Currently, this sector is limited to a maximum of 49 percent foreign equity participation. In July 2010, the Department of Industrial Policy and Promotion (DIPP) and the Ministry of Commerce circulated a discussion paper on allowing FDI in multi-brand retail.

Keywords: *FDI, Multi Branding, Retailing, intermediary, Agriculture sector, Commodity Market*

*Assistant Professor and HOD, G. S. College of Commerce,Wardha, Maharashtra

INTRODUCTION

The 1991 reforms marked a paradigm shift in India's policy vis-à-vis foreign capital. The 21 years of reforms era has seen progressive liberalization of the policy particularly with respect to Foreign Direct Investment (FDI) whose role in economic development is recognized by policy makers. India carefully opened up to FDI with the hope that it could act as a mechanism for growth as it is supposed to fill up the significant gaps of capital and technology and also be a facilitator for transfer of managerial and technical skills, for employment generation and export promotion. Keeping with the policy of progressive liberalization the Government of India has now initiated a debate of allowing FDI in multi-brand retail.

What is FDI: FDI stands for Foreign Direct Investment, a component of a country's national financial accounts. Foreign direct investment is investment of foreign assets into domestic structures, equipment, and organizations. It does not include foreign investment into the stock markets. Foreign direct investment is thought to be more useful to a country than investments in the equity of its companies because equity investments are potentially "hot money" which can leave at the first sign of trouble, whereas FDI is durable and generally useful whether things go well or badly. According to the International Monetary Fund: Foreign direct investment, commonly known as FDI." refers to an investment made to obtain lasting or long-term interest in enterprises operating outside of the economy of the investor." The investment is direct because the investor, which could be a foreign person, company or group of entities, is looking for control, manage, or have significant influence over the foreign enterprise.

FDI IN MULTI BRAND RETAILING AN INDIAN SCENARIO:

As India has liberalized its single brand retail industry to permit 100 percent foreign investment, we take a look at the regulatory issues and legal structures pertinent to establishing operations in this new dynamic market. That India should be well on the radar for foreign retailers was recently supported by A.T. Kearney, who's 2011 Global Retail Development Index ranks the nation as fourth globally. 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: year 1995- WTO general agreement on trade in ser ices, which includes both wholesale and retailing services, came into effect. In 1997- FDI was in cash and carry (wholesale) with 100% rights allowed under the government approval route. In 2006 FDI in cash and carry (wholesale) brought under the automatic route and up to 51% investment in a single brand retail outlet permitted, subject to press note 3 (2006 series) and in 2011- 100% FDI in single-brand retail permitted.

The Indian government detached 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. It has also made some, albeit limited, progress in allowing multi-brand retailing, which has so far been prohibited in India. At present, this is restricted to 49 percent foreign equity participation. The presence of large supermarket brands displacing long-established 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.

Multi Branding: The Company decides to further introduce more brands into an already existing category. Kellogg's for example having a number of brands in the cereal market and the cereal bar market. Multi-branding can allow an organization to maximize profits, but a company needs to be tired over their own brands competing with each other over market share.

FDI in "single-brand" retail:- While the precise meaning of single-brand retail has not been clearly defined in any Indian government circular or notification, single-brand retail generally refers to the selling of goods under a single brand name. Up to 100 percent FDI is permissible in single-brand retail, subject to the Foreign Investment Promotion Board (FIPB) sanctions and conditions mentioned in Press Note 3[8]. These conditions stipulate that:

1. Only single-brand products are sold (i.e. sale of multi-brand goods is not allowed, even if produced by the same manufacturer)
2. Products are sold under the same brand internationally
3. Single-brand products include only those identified during manufacturing
4. Any additional product categories to be sold under single-brand retail must first receive additional government approval

FDI in single-brand retail implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand. For Adidas to sell products under the Reebok brand, which it owns, separate government permission is required and (if permission is granted) Reebok products must then be sold in separate retail outlets.

FDI in "multi-brand" retail:-

While the government of India has also not clearly defined the term "multi-brand retail," FDI in multi-brand retail generally refers to selling multiple brands under one roof. Currently, this sector is limited to a maximum of 49 percent foreign equity participation. In July 2010, the Department of Industrial Policy and Promotion (DIPP) and the Ministry of Commerce circulated a discussion paper on allowing FDI in multi-brand retail. The Committee of Secretaries, led by Cabinet Secretary Ajit Seth, recommended opening the retail sector for FDI with a 51 percent cap on FDI, minimum investment of US$100 million and a mandatory 50 percent capital reinvestment into backend operations. Notably, the paper does not put forward any upper limit on FDI in multi-brand retail. Immediately following the release of this discussion paper, the shares of a number of retail companies in India grew; domestic retail giant, Pantaloon Retail gained 7 percent on the same day, while Shoppers Stop, an Indian department store chain and emerging retailer, gained 2.9 percent. The long-awaited scheme has been sent to the Cabinet for approval, but no decision has yet been made. There appears to be a broad consensus within the Committee of Secretaries that a 51 percent cap on FDI in multi-brand retail is acceptable. Meanwhile the Department of Consumer Affairs has supported the case for a 49 percent cap and the Small and Medium Enterprises Ministry has said the government should limit FDI in multi-brand retail to 18 percent. In terms of location, the proposed scheme allows investment in towns with populations of at least 10 lakh (1 million), while retailers with large space requirements may also be allowed to open shop within a 10 kilometer radius of such cities.

Government "safety valves" on FDI

There is concern about the competition presented to domestic competitors and the monopolization of the domestic market by large international retail giants. The Indian government feels that FDI in multi-brand retailing must be dealt with cautiously, given the large potential scale and social impact. As such, the government is considering safety valves for calibrating FDI in the sector. For example:

- A stipulated percentage of FDI in the sector could be required to be spent on building back-end infrastructure, logistics or agro-processing units in order to ensure that the foreign investors make a genuine contribution to the development of infrastructure and logistics.
- At least 50 percent of the jobs in the retail outlet could be reserved for rural youth and a certain amount of farm produce could be required to be procured from poor farmers.
- A minimum percentage of manufactured products could be required to be sourced from the SME sector in India.
- To ensure that the public distribution system and the Indian food security system, is not weakened, the government may reserve the right to procure a certain amount of food grains.
- To protect the interest of small retailers, an exclusive regulatory framework to ensure that the retailing giants do not resort to predatory pricing or acquire monopolistic tendencies.

Advantage of FDI in multi-brand retail

High inflation is one of the driving motives behind this move towards multi-brand retail. Allowing international retailers such as Wal-Mart and Carrefour, which have already set up wholesale operations in the country, to set up multi-brand retails stores will assist in keeping food and commodity prices under control. Moreover, industry experts feel allowing FDI will cut waste, as big players will build backend infrastructure. FDI in multi-brand retail would also help narrow the current account deficit. Additional benefits include moving away from an industry focus on intermediaries and job creation.

Moving away from intermediary-only benefits

There is broad agreement on the need to improve efficiencies in the household trade of consumer goods. Proficient management practices and economies of scale, joined with the acceptance of global best practices and modern technology, could enormously recover systemic competency. Like their foreign counterparts, Indian customers are entitled to receive quality products, produced, processed and handled under a hygienic environment through professionally-managed outlets. Tentative apprehensions that small retailers will be adversely affected are not reason enough to deny millions of consumers access to products that meet global standards. Furthermore, today's intermediaries along with producers and customers add no value to the products, adding hugely to final costs instead. By the time products filter through various intermediaries and into the marketplace, they lose freshness and quality, and often go to waste. However, intermediaries garner huge profits by distributing these losses between producers and customers by buying products at low prices from producers, but selling at extremely marked-up prices to consumers. In an unbalanced system that incorporates multiple intermediaries simply for logistics, only intermediaries benefit. This happens because it uses international best practices and modern technology, ensuring maximum efficiency and minimum waste. Organized retail enables on-site processing, scientific handling and quick transport through cold storage chains to the final consumer. Once modern retailers introduce an organized model, other vendors, including small retailers, would mechanically copy this model to improve efficiencies, boost margins and stay in business.

Job creation

Despite of predictions from some analysts that millions of jobs would be lost due to FDI in retail, it may in fact be the other way around. With the entrance of branded retailers, the market will increase, creating further employment in retail and other tertiary sectors. Given their professional approach, organized retailers will allot some quantity of resources towards the training and development of the resources they employ. This effect of branded retailing can already be seen with the Bharti-Wal-Mart collaboration, which has joined forces with state governments to open training and development centers in Amritsar, Delhi and Bangalore, preparing local youth for jobs in retail. Training is entirely free and more than 5,600 local youth have already been trained. Retail jobs don't require higher education or highly specialized abilities.

No threat to kiranas (mom-and-pop stores)

It is assuming that FDI in multi-brand retail will lead to loss of jobs in kirana stores. Surprisingly, the arguments in favour of FDI in multi-brand retail seem to be couched mainly in terms of agricultural commodities. However, the largest sales are in non-agricultural goods. Yet, this argument against FDI in multi-brand retail is equally flawed. Firstly, organised retail accounts for only 5% of total retail sales. Second, the shift to organised retail normally occurs in response to increase in labour costs. Today, even in large metros, the kirana stores provide services such as home delivery, free credit, etc, which no organised retail can match .The Indian retail industry is generally divided into organized and unorganized retailing. Organized retailing refers to trading activities undertaken by licensed retailers, those who have registered for sales tax, income tax, etc. These include corporate-backed hypermarkets and retail chains, and also privately-owned large retail businesses.

Unorganized retailing refers to the traditional forms of low-cost retailing, for example, local kirana shops, owner-operated general stores, paan/beedi shops, convenience stores, hand cart and street vendors, etc. The question of whether or not organized and unorganized retailing can peacefully co-exist is a primary concern. While the Indian retail sector is still heavily weighted towards unorganized retailers, which occupy 97 percent of the market, organized retail is growing quickly. But with a mere 7 percent of the market, organized retailers are unlikely to drive kiranas (local grocery stores) out of business. Indian retailers simply lack the deep pockets and in-depth field expertise required to be on a par with global models. However, the presence of foreign retailers through joint ventures and other means could speed up the process of transforming India's retail trade. Considering that small stores offer customers quick doorstep delivery and even credit extensions – conveniences that no organized retailer in India has so far matched – local, unorganized retailers will likely retain a sizeable market share. The example of China demonstrates clearly that increased FDI in retailing does not necessitate the complete closure of local retailers.

Agriculture sector will benefit:-

It is arguing that FDI in multi-brand retail will reduce inflation. The main cause of inflation today is shortage of agricultural production particularly in processed foods and vegetables (though, for some reason, the RBI does not think so. It would seem the RBI governor only visits markets when he wants a haircut!). Hence, this argument goes that FDI in multi-brand retail will eliminate the 40% wastage of food grain that currently occurs. in fact, foreign investors will provide the warehouse storage capacity that is currently lacking. In analysing this argument, it must be remembered that, currently, the Indian corporate sector is more or less free to undertake (notified) contractual agreements with farmers for supply of output. Farmers and small producers will benefit in the long run from better prices for their products and produce, while consumers receive higher quality products at lower prices, along with better service. Consumers will ultimately respond to the incentives of convenience, price, variety and service.

Impact on mandis and commodity markets

Generally, the big players that source produce directly from farmers categorise the same according to their parameters and would off take the superior grade and re-direct the lower grade produce to mandis. This reduces the quality of produce as made available in the mandis and would also lead to a price-crash there, past experiences tell. "Generally, the big players would enter into forward contracts with farmers and when a crop failure occurs, farmers would be at a loss." Martin Patrick said. "Given the scale they command, the big players may even find it profitable to source from abroad and the sudden spate of imports would deluge the farmers here." Patrick argued. The futures market can see a wave of speculation in agri-commodities, as these players may enter the arena with their deep pockets

FDI in Multi-Brand Retail: – A Step in the right Direction.

The strongest argument in favour of retail is that it is in the interests of the Indian farmer and consumers. Despite the rising food inflation the Indian farmer gets only one-third of the consumer price and this is due to the lack of an efficient supply chain connecting the farmers and consumers.... FDI (Foreign Direct Investment) in organised multi brand retail is a hotly debated topic in India and the industry is closely watching the events unfolding. The Committee of Secretaries, a panel of bureaucrats has recommended ushering in FDI in the segment though with certain riders: The investor concerned should be investing at least $100mn.The format should be allowed to come up only in cities with population figures are at 1 million. This would mean only 36 large cities would currently be entitled for shop formats. The recommendation, as such, is not a sure sign of FDI having been allowed. The Union Cabinet should now approve of the same. Nevertheless, it is an indication of the government sentiments pertaining to the matter.

CONCLUSION

FDI in multi brand retailing has created a suspicious environment in our country. Most of the politicians raise their voice against the FDI. The basic aim of politicians is to strengthen their political stability rather than that of economic development. In fact the FDI in Multi Brand

Retailing will help the common customers of the country, Small retails and farmers will be benefited and local shopkeeper will not be adversely affected. Today's customers want need satisfaction, they want quality products and products which can fulfill their immediately requirements. If quality product will be available in a cheaper price then what is wrong. If sufficient market and well support price will be received by the farmers it will boost the rural economy. Hence FDI in Multi Brand Retailing is not against the economy of our country if it is implemented in a right manner without interference of politics.

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