FOREIGN DIRECT INVESTMENT IN INDIAN RETAIL SECTOR– PESTLE & SWOT ANALYSES

Benny J. Godwin*

Dr. D. Kalapana**

Shanmuga Valli***

Abstract:

The long-time battle of Foreign Direct Investment in Indian retail sector was initiated in the year 2006. Retailing comprises of the sales of goods and services to the end user. Retailing necessitates a seller, who is called as a retailer, basically a store establishment providing goods and services for the consumers for their own use. Foreign retailers are highly concentrating on the Indian market as there are huge potential consumers available. With the quickly altering retail sector, Indian retail is going to become one of the fastest growing sectors having great potential consumers. In this paper, an attempt has been acquitted to analyse the impact of the FDI policy in retail on Indian economy using PESTLE & SWOT analyses. The analyses revealthat Indian retail will have a significant impact on the growth of Indian economy as a whole in the far future. Concurrently, there are various challenges and threats arising out of heightening desegregation in national and international consideration.

Keywords: Foreign Direct Investment, Retail Sector, Indian Economy, globalization, organized and unorganized retailing.

* Research Scholar25-G, IB Apartment,Chinnammal Street, K.K. Pudur,Coimbatore

** Professor3/31-1, Third Avenue,Rangasami Naidu Nagar, Kuniamuthur, Coimbatore

*** Research ScholarDepartment of Management Studies,Hindusthan College of Arts & Science,Nava India, Coimbatore

INTRODUCTION

A measure of foreign ownership of domestic productive assets is known as Foreign Direct Investment (FDI). In this recent past, FDIs have become the major economic driving force for globalization. This leads to investment overseas, where domestic markets get their investment from foreign investors. Hence the private funds are being brought from overseas into products/services. The chief control of the domestic company, in which the foreign currency is invested, is with the investing foreign company. For example, European company holding major stake in a company in India. The return on investment is based on the profit earned during the financial year. World Trade Organisation‘s General Agreement on Trade in servicesinclude wholesale and retailing services, which had to open up the retail trade sector to foreign investment. Arising from fear of losing job market, competition and deprivation of entrepreneurial opportunities, there were initial reservations towardsopening up of retail sector in India. Nevertheless, the government in a series of moves has unfolded the retail sector slowly to FDI.

INDIAN RETAIL MARKET

The Indian retail market is approximated to be US$ 525 billion. Indian retail market is one of the top five retail markets in the world by economic value, growing with 1.2 billion people (Majumder 2011). Retail is one of the pillars of Indian economy which accounts about 14 to 15 per cent of its GDP (McKinsey 2007). Over the past decade, India has been one of the most desired terminals for capitalists throughout the globe. India is being considered as one of the world’s most remunerative retailing destinations. In the recent past, it is being heralded as one of the sunrise sectors in the economy.India's retailing industry is essentially unorganized small shops. During early 2010, largerconvenience stores and supermarkets accounted for about 4% of the retail industry, which were present only in large urban cities. Later in 2011, central government of India refused FDIin multibrand retail or any retail outlets and limited single-brand retail to 51% ownership and bureaucratic process. It was during November 2011 when India's central government announced retail reforms for both multi-brand stores and single-brand stores paving way for retail competition with multi-brand retailers such as Walmart, as well as single brand majors like Nikeand Apple. This announcement sparked intense activism. Henceforth in

December 2011, Indian government placed the retail reforms on hold till it reaches a consensus (Agarwal et al., 2012). Fortunately in January 2012, Indian retail was approved for single-brand stores welcoming anyone to invest in Indian retail market with 100% ownership, with a bond to source 30% of its goods from India.

ENTRY OPTIONS FOR FOREIGN RETAILERS

Some of the entry options to invest in Indian market are discoursed in this following section:

a) *Franchise Agreements:*

Franchise agreements are the traditional track to come in the Indian market. In franchising and commission agent'sservices, FDI is appropriated with the commendation of the Reserve Bank of Indiaunder the Foreign Exchange Management Act. This is the widely used mode of entrance.

b) *Cash And Carry Wholesale Trading:*

Under cash and carry wholesale trading, 100 percent FDI is countenanced which involves building of a large distribution infrastructure to assist local manufacturers. Such wholesalers dealonly with smaller retailers and not Consumers. First significant global player to enter India through this route was Metro AG of Germany.

c) *Strategic Licensing Agreements:*

Strategic licensing agreements are the exclusive licences and distribution rights given to Indian companies by foreign brands.Using theserights, Indian companies can either sell the products through their own stores, or enter into shop-in-shop arrangements or even distribute the brands to franchisees.

d) *Manufacturing and Wholly Owned Subsidiaries:*

The foreign brands such as Nike, Adidas, etc. that have wholly-owned subsidiaries in manufacturing are treated as Indian companies and areallowed to do retail in India.

By franchising, internal distributors, existent Indian retailers, or own outlets these companies have been authorised to sell products to Indian consumers.

FORMS OF RETAIL TRADE

There are three forms by which retail trade is engaged in India. Such as:

i. *Single Brand Retail Outlet:*

These are either owned or franchised, exclusive outlet, by the manufacturers. Wide ranges of products are manufactured under single brand name. Example: Sony.

ii. *Multi-Branded Retail Outlet:*

Here the consumers will have a diverse choice of product he/she is about to purchase. Almost all brands are available in the same outlet. Example: Max.

iii. *Convergence Retail Outlet:*

Almost all kinds of products, from kitchen to clothing, are available in convergence retail outlet. This is the recent trend in retailing. This is mainly focused on the diverse nature of the needs and wants of the consumers. Example: SPAR.

AN INTERNATIONAL FDI OUTLOOK

Table . FDI Policy and Institutional Framework in Select Countries					
	Year of Liberalisation	Objective	Incentives	Priority Sectors	Unique features
China	**1979**	Transformation of traditional agriculture, promotion of industrialization, infrastructure and export promotion.	Foreign joint ventures were provided with preferential tax treatment. Additional tax benefits to export-oriented joint ventures and those employing advanced technology. Privileged access was provided to supplies of water, electricity and transportation (paying the same price as state-owned enterprises) and to interest-free RMB loans.	Agriculture, energy, transportation, telecommunications, basic raw materials, and high-technology industries.	Setting up of Special Economic Zones
Chile	**1974**	Technology transfer, export promotion and greater domestic competition.	Invariability of tax regime intended to provide a stable tax horizon.	All productive activities and sectors of the economy, except for a few restrictions in areas that include coastal trade, air transport and the mass media.	Does not use tax incentives to attract foreign investment.
Korea	**1998**	Promotion of absorptive capacity and indigenisation of foreign technology through reverse engineering at the outset of industrialisation while restricting both FDI and foreign licensing.	Businesses located in Foreign Investment Zone enjoy full exemption of corporate income tax for five years from the year in which the initial profit is made and 50 percent reduction for the subsequent two years. High-tech foreign investments in the Free Economic Zones are eligible for the full exemption three years and 50 percent for the following two years. Cash grants to high-tech green field investment and R&D investment subject to the government approval.	Manufacturing and services	Loan-based borrowing to an FDI-based development strategy till late1990s.
Malaysia	**1980s**	Export promotion	No specific tax incentives.	Manufacturing and services.	Malaysian Industrial Development Authority was recognised to be one of the effective agencies in the Asian region
Thailand	**1977**	Technology transfer and export promotion	No specific tax incentives. The Thai Board of Investment has carried out activities under the three broad categories to promote FDI. 1. Image building to demonstrate how the host country is an appropriate location for FDI. 2. Investment generation by targeting investors through various activities. 3. Servicing investors	Manufacturing and services	-

Source: Reserve Bank of India/Database

PESTLE ANALYSIS

The framework of microenvironment factors of Indian retail, contributing decision making process, is discussed in this section using PESTLE Analysis. This strategic tool enhances the understanding of market position, business opportunity, operational directions, government interventions, and environmental & legal factors.

- **Political Factors**

The Indian economy has been rapidly changing from a restrictive regime to a liberal one as a result of various policy initiatives,. The support of the political structure of India plays a vital role in FDI. This can be enhanced when foreign investors put forward their opinion for increasing FDI capital in retailing sector. The common interestingness between the Parliament and the foreign countries investing in India has to be optimized. Such initiative by the political parties would increase the reforms in the FDI of the nation. Changing ruling parties are pivotal ground of threat for Indian retail market.

- **Economic Factors**

Recent past experience in India, FDI has helped some farmers in getting higher net income for their products. Reputed researchers have stated that large-sized farms are preferred rather than the smaller ones. Such farms are left after a course of time. The consequence of FDI in retail on farm sector is not a significant factor for deciding desirability.Effect on consumers and the overall economy of the nation are to be considered while deciding such reform. However, the condition of the Indian urban sector would improve drastically, which developments the other areas of the Indian economy.

- **Social Factors**

  FDI could bring a social impact in India. The flexibility of the labour market would be benefited with huge employment opportunities. The lower income groups can take advantage of the growth policies determine the growth-poverty relationship.The production in the fields of physical and social infrastructure will lead to the regional developments. Foreign Direct Investments nurture relations, co-operation, and harmony between India and foreign countries.The social impact of larger FDI includes the product market because many new products come into the market as an aftermath of FDIs. As a result, the consumers of India enjoy exposure to branded and quality products.

- **Technological Factors**

  The options for technology transfer from foreign countries are significant in FDI. This intensifies the platform to compete with the other firms in the markets regardless of the disadvantages of being foreign company (Wheeler and Mody, 2001). India can be benefited with latest technologies prevailing in the global market.

- **Environmental Factors**

  The weather condition and climate changes in India are favorable to retail sector. India has no major impact on many industries including farming, tourism and insurance. FDI can concentrate its concern towards global warming by creating an environmental awareness.

- **Legal Factors**

  Indian legal environment have significant role to protect FDI in retail. These legal changes can affectfirms' behaviour. As of late a law has been passed that minimum of 30 per cent of the resources should be utilized from the host country. Legal changes can affect foreign firm's operating costs and demand.The introduction of age discrimination and disability discrimination legislation, an increase in the minimum wage and greater requirements for firms to recycle are relatively recent laws in India.

SWOT ANALYSIS

The internal and external environmental factors play a vital role in strategic planning. The internal factors of the retail sector are strengths and weaknesses. The external factors of the retail sector are opportunities and threats. Such a strategic analysis of environments is known as SWOT analysis.

Strengths:	*Weaknesses:*

Net gain for Farmers	Supply chain management issues
Lesser price for Consumers	Poor infrastructure
Increase competition	Lack of Industry sector
Huge Employment Opportunities	Lesser volume of sales
Product Purchase Power (PPP)	Limited outlet size
Increased investments	More rural consumers
Opportunities:	*Threats:*
Immense market potential	Domestic market loss
Quality products	Pricing strategy
Rural retailing	Unequal competition
Decrease wastages	Money flow outside India
Stabilized market growth	Profit sharing
Organized retailing	Monopolistic inclination

CONCLUSION

Considering the above mentioned analysis, by balancing the opportunities and threats, FDI in retiling can be discriminatory once carried through. Modern shopping trend is always preferred by the consumers. Indian retail sector isgrowing from the local unorganized kirana stores to advanced mall shopping. In spite of the threat is becoming monopoly in the market, allowing FDI in retailingin India can bring about technological improvements, supply chain management techniques, capital inflow, skill development, and gradation in agricultural sector.

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