



## FDI IN INDIAN RETAIL SECTOR: IMPACT ON FARMERS, AGRICULTURE, AND AGRI BUSINESS

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### **ABSTRACT**

*The retail sector in India is expanding and modernizing rapidly in line with India's economic growth. With such rapid growth, we are at a point where consumption growth will witness not just increased penetration in existing categories but also the launch of a number of new products and categories in India. Foreign investments in Indian Retail Sector will inject competition and efficiencies, create new jobs across the country and reduce the considerable difference in farm gate, wholesale and retail prices. Moreover, with the latest move of the government to allow FDI in the multiband retailing sector, the paper analyses the effects of these changes on farmers and agri-food sector. Better linkages between demand and supply have the potential to improve the price signals that farmers receive and also serve to enhance agricultural and other exports. FDI in the retail can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers and suppliers (farmers). Rise in purchasing power, growing consumerism and brand proliferation has led to retail modernization in India. The growing Indian market has attracted a number of foreign retailers and domestic corporate to invest in this sector. The present paper focuses on the overview of the Indian retail sector along with the opportunities of expansion of FDI in retail in India and the major impacts that it faces.*

**KEYWORDS:** FDI, Agriculture, Indian Retail Sector, Farmers, Impact.

## INTRODUCTION

Through FDI in retail, major foreign players are now expected to change the game and create a win-win situation for the farmers, suppliers, consumers, the country's economy as well as the enterprise itself. FDI in retail is expected to bring in adequate infrastructure creation, efficient management of the supply chain, controlled food inflation, better quality product offerings to the consumers and simultaneously create numerous job opportunities directly as well as indirectly. Being encouraged by India's growing retail boom many multinational companies also started making beeline to enter India's retail market. Investment from abroad has also been hailed by Indian industry, by and large, as the same has been considered to be very vital for adding to domestic investment, addition to capacity, higher growth in manufacturing, trade, business, employment, demand, consumption and income with multiplier effects. In the past few decades large retailers have experienced substantial growth around the world.

Evidence suggests while the impact of entry by large retail chains on employment and incumbent Mom-and-pop stores is mixed, there can be substantial benefits to consumers in the form of lower prices and lowered food price inflation in particular. Similarly, by employing improved distribution and warehousing technologies, large retail chains are in a position to provide better price signals to farmers and to serve as a platform for enhanced exports.

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% 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% requirement. Fitch believes that the 30% 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.

## OBJECTIVE

The objective of this paper is to seek the current retail scenario in India, investigate the controversial views of the various stakeholders and evaluate the likely challenges and threats of FDI in both single and multi-brand retail in India.

## THE INDIAN RETAIL SECTOR: AN OVERVIEW & CURRENT SCENARIO

- ⊙ The Retail is defined as all activities involved in selling goods or services directly to the final consumer for their personal, non-business use via shops, market, door-to-door selling, and mail-order or over the internet where the buyer intends to consume the product.
- ⊙ In 2010, larger format convenience stores and supermarkets accounted for about 4% of the industry, and these were present only in large urban centers. India's retail and logistics industry employs about 40 million Indians (3.3% of Indian population).
- ⊙ 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 Indian retail industry accounted for 9.4% employment and 22% of the country's GDP in the financial year 2011.

- © The opening up of Foreign Direct Investment (up to 51%) in the multi-brand retail segment is expected to bring in an investment of over INR 400 billion and open up huge opportunities for farmers, the industry and consumers.
- © The overall retail market (organized and unorganized) is expected to grow at a compounded rate of 15% over the next 5 years from INR 23 trillion in 2011-12 to INR 47 trillion in 2016-17.
- © The Government of India recently launched a package of landmark reforms on September 14, 2012 allowing Foreign Direct Investment in multi-brand retail among other sectors.

## IMPACT OF FDI

### 1) Farming Communities

FDI can be a powerful catalyst to spur competition in the retail industry, due to the current scenario of low competition and poor productivity. 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 farmers income & agricultural growth and assist in lowering consumer prices inflation. Supermarkets' impact on suppliers is biggest and earliest for food processing and food-manufacturing enterprises, given that some 80% of what supermarkets sell consists of processed, staple, or semi-processed products. But by affecting processors, supermarkets indirectly affect farmers, because processors tend to pass on the demands placed on them by their retail clients. The rise of supermarkets thus poses an early challenge to processed food microenterprises in urban areas. India is the second largest producer of fruits and vegetables;

it has a very limited integrated cold-chain infrastructure. Lack of adequate storage facilities causes heavy losses to farmers, in terms of wastage in quality and quantity of produce in general, and of fruits and vegetables in particular.

### 2) Food Inflation

In the past few years the food inflation has shot up by a double digit growth and whenever the control measures have been suggested, they pertain to the supply side of the food chain. FDI in retail will give impetus to the backward linkages which is essential for controlling food inflation. Players in the organized retail sector will create adequate infrastructure facilities, thereby reducing wastages and increasing the supply of commodities, bringing down their prices considerably.

### 3) Consumers

Consumers are willing to experiment to different brands and so they are in favor of allowing FDI in retail. Apart from providing Indian consumers more choices in the form of reputed, good quality brands, liberalizing multi-brand retailing in India is likely to facilitate much greater inflows of investments. This, in turn, will lead to the development of more efficient and lower cost supply chains, resulting in better quality as well as lower-priced products for Indian consumers. This will increase consumer spending, which in turn, will drive growth in all sectors of the economy in a virtuous cycle.

### 4) Existing Indian Organized Retail Firms

The existing Indian organized retail firms (such as Spencer's, Food world Supermarkets Ltd, Nilgiri's and ShopRite) support retail reforms and consider international competition as a blessing in disguise. They expect a flurry of joint ventures with global majors for expansion capital and opportunity to gain expertise in supply chain management. Food world which operates over 80 stores, plans to ramp up its presence to more than 250 locations. With the relaxation in

international investments in Indian retail, India's Food world expects its global relationship will only get stronger.

## CHALLENGES OF RETAILING IN INDIA

The challenges faced by the organized retail sector are:

- \* Shortage of desirable talent and lack of skilled man power.
- \* The inefficiencies in the current supply chain and the presence of numerous intermediaries are difficult to curtail.
- \* The quality of produce demanded by the consumer is still far from what our framers produce.
- \* The rapid growth of the organized retail segment is checked by the numerous clearances that are required to set up a retail outlet
- \* Lack of basic infrastructure like roads, power, water etc. is a major shortcoming that needs to be addressed in order to procure as well as supply on a pan India basis.

## OPPORTUNITIES

According to the World Bank, opening the retail sector to FDI would be beneficial for India in terms of price and availability of products. While FDI in multi-brand retail has been opposed by several in the past citing fears of loss of employment, adverse impact on traditional retail and rise in imports from cheaper sources like China, adherents of the same indicate increased transfer of technology, enhanced supply chain efficiencies and increased employment opportunities as the perceived benefits.

### a) Capital Infusion

This would provide an opportunity for cash-deficient domestic retailers to bridge the gap between capital required and raised. In fact FDI is one of the major sources of investments for a developing country like India wherein it expects

investments from Multinational companies to improve the countries growth rate, create jobs, share their expertise, back-end infrastructure and research and development in the host country.

### b) Improvement in Supply Chain

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

### c) Improvement in Customer Satisfaction

Consumers in the organized retail will have the opportunity to choose between a numbers of internationally famous brands with pleasant shopping environment for product display, maintenance of hygiene and better customer care. There is a large segment of the population which feels that there is a difference in the quality of the products sold to foreign retailers and the same products sold in the Indian market. There is an increasing tendency to pay for quality and ease and access to a "one-stop shop" which will have a wide range of different products. If the market is opened, then the pricing could also change and the monopoly of certain domestic Indian companies will be challenged.

### d) Creation of More and Better Employment Opportunities:-

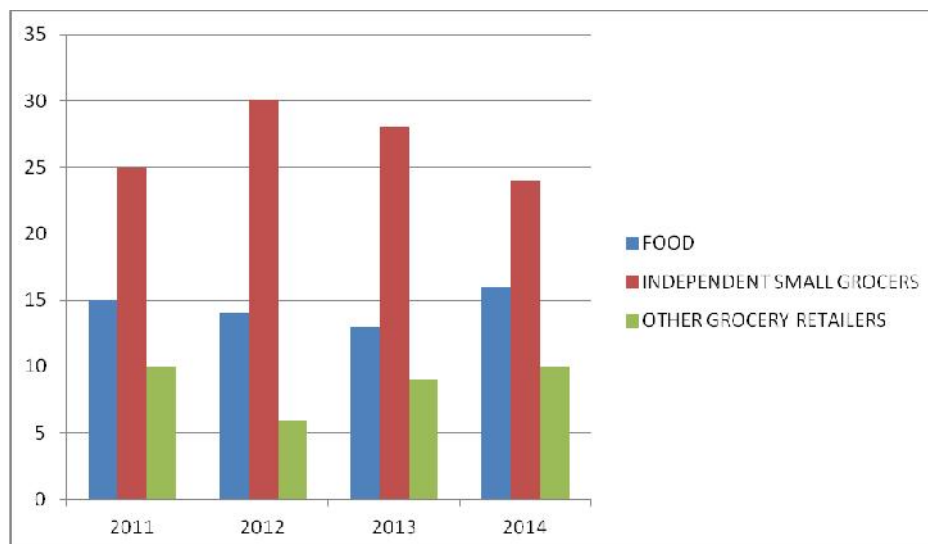
The entry of foreign companies into Indian Retailing will not only create many employment opportunities but, will also ensure quality in them. This helps the Indian human resource to find better quality jobs and to improve their standard of living and life styles on par with that of the citizens of developed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

## METHODOLOGY

The whole paper is based on descriptive arguments, statistical data, comparative study and analytical logic developed through the understandings from various research papers, reports, books, journals, newspapers and online data bases.

## HYPOTHESIS

Fig:1. Comparison of Sales for traditional grocery retailers by category



Source: Primary Data

From the above chart, during the year 2011-2014, the sales of food are reduced than independent small grocers who are increased than other grocery retailers.

## CONCLUSION

Small retailers will not be crowded out, but would strengthen market positions by turning innovative/ contemporary. Growing economy and increasing purchasing power would more than compensate for the loss of market share of the unorganized sector retailers. There will be initial and desirable displacement of middlemen involved in the supply chain of farm produce, but they are likely to be absorbed by increase in the food processing sector induced by organized retailing. Innovative government measures could further mitigate adverse effects on small retailers and traders. Farmers will get another window of direct marketing and hence get better remuneration, but this would require affirmative action and creation of adequate safety nets. Consumers would certainly gain from enhanced competition, better quality, assured weights and cash memos. The government revenues will rise on account of larger business as well as recorded sales. The Competition Commission of India would need to play a proactive role. India's retail sector remains off-limits to large international

chains especially in multi-brand retailing. A number of concerns have been raised about opening up the retail sector to FDI in India. The first concern is the potential impact of large foreign firms on employment in the retail sector. A second related concern raised in the DIPP's report is that opening up FDI would lead to unfair competition and ultimately result in large-scale exit of incumbent domestic retailers, especially the small family-owned business. A third concern raised by domestic incumbent firms in the organized retail sector is that this sector is under-developed and in a nascent stage.

Initiating a uniform license regime applicable nationwide and doing away with the numerous permits that are currently required for the establishment of retail outlets. Facilitate the formation of associations and cooperatives of unorganized retailers for procuring directly from suppliers and farmers. Encourage farmers to form similar cooperatives to sell to organized retailers. Facilitate innovative banking solutions to ensure credit availability to unorganized retailers and farmers from financial institutions. Stringent rules to be formed against collusion and predatory pricing and a code of conduct to be drafted for the organized retail sector for dealing with their suppliers



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