



# Do Foreign Investors Comprehend the Opportunities of Indian Retailing?

<sup>1</sup>G Naveen Kumar, <sup>2</sup>Venkata Sai Srinivasa Rao Muramalla, <sup>3</sup>K Sudheer,

<sup>1,3</sup>Dept. of Business Management, Malla Reddy College of Engg. & Technology, Secunderabad, Telangana, India.

<sup>2</sup>College of Business Admn., Prince Sattam Bin Abdulaziz University, Hotat Bani Tamim, Kingdom of Saudi Arabia.

Email: <sup>1</sup>gurram\_nk@yahoo.co.in, <sup>2</sup>mvss\_rao@rediffmail.com, <sup>3</sup>sudheerraju.konduru@gmail.com

**Abstract :** India is one of the largest budding markets, with a population of over one billion. Indian retail industry is one of the sunrise sectors with huge growth potential. According to the Investment Commission of India, the retail sector is expected to grow almost three times its current levels to \$660 billion by 2015. However, in spite of the recent developments in retailing and its immense contribution to the economy, retailing continues to be the least evolved industries and the growth of organized retailing in India has been much slower as compared to rest of the world. Undoubtedly, this dismal situation of the retail sector, despite the on-going wave of incessant liberalization and globalization stems from the absence of an FDI encouraging policy in the Indian retail sector. This paper is going to try to give a better view of what is the Retailing, what are the types of retailing, Retail trade in India also explains different policies of FDI in India, and role of FDI in Indian retail industry, benefits of FDI. In this paper has also we tried to give an analytical perspective on FDI in retail sector and its repercussions on competitive market environment in India.

**Keywords:** Foreign direct investment, Retailing, sunrise sectors, liberalization, globalization.

## INTRODUCTION

India has emerged among the most desirable retail destinations in the world. Even though modern trade is growing at 15 to 20% per annum, it has a low organised retail penetration of just 8% (pwc, 2015). 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. In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership and on 7 December of the same year, the Federal Government of India allowed 51% FDI in multi-brand retail in India (Wikipedia, 2015). Now, India needs to build a vibrant retail sector with both single brand and multi-brand retail stores (The National: Business, 2014).

By 2018, the Indian retail sector is likely to grow at a CAGR of 13 per cent to reach US\$ 950 billion, further expected to touch US\$ 1 trillion by 2020 from US\$ 600

billion of present FY2015 with an accumulation of online retail market expected to grow from US\$ 8.1 billion to US\$ 22 billion during FY15 – FY18 (IBEF, 2015). A combination of strong expected Gross Domestic Product (GDP) growth, further retail outlet developments and the continued shift of Indian consumers' desire for new shopping experiences, will ensure strong growth of retailing in India over the period of next two decades (Euromonitor, 2012). To understand why the liberalization of Indian retail has caused such excitement, we need only to look at the numbers: a country of 1.2 billion, 350m of them potential customers, a market that has been estimated at between US\$500bn and US\$1 trillion (KPMG, 2012). So, access for foreign retailers is a great opportunity for multinationals and this paper discusses the issues of such opportunities in Indian retailing with specific reference to the forecasted retail market trends in post-liberalization period of retail industry.

## Opportunities in overall market – Strong growth forecast for foreign players

The local retail industry plunged into the media limelight in 2011 as the Indian government made drastic moves towards revising legislation surrounding FDI. International retailers such as Wal-Mart and Tesco started retail expansion plans in India. This opened up more opportunities for foreign players such as IKEA, Gap, Zara and Marks & Spencer. On the other side, consumers also anticipated wider exposure and benefit from greater supply of their favourite international brands. The status of major foreign players in world modern retail sector is shown in Table 1. Carrefour and Metro AG has more than 50% of their revenues from the international markets.

Despite a stumbling global economy, consumers continued to spend in 2011 and the retail industry kept rolling. Sales-weighted, currency-adjusted retail revenue rose 5.1 percent for the world's Top 250 retailers in fiscal 2011, building on the previous year's 5.3 percent growth. More than 80 percent of the Top 250 (204 companies) posted an increase in retail revenue. Those with declining sales could often point to restructuring

activities and divestments of non-core assets rather than deterioration of the core business. A disproportionate share of the companies that experienced a decline in

revenue were Japanese retailers whose revenue drops can be attributed in large part to the economic impact of the earthquake (Stores Magazine, 2013).

Table 1: The status of leading foreign players in world retailing before retail reforms in India.

	Revenue 2011 (USD bn)	Home Country	Share of Revenue from Home Market	Share of International Markets	Operations in number of countries (apart from home country)
Walmart	421	USA	74%	26%	26
Carrefour	120.3	France	43%	57%	32
Tesco	94	UK	68%	32%	13
Metro AG	89	Germany	39%	61%	31
Costco	78	USA	70%	30%	7
Home Depot	68	USA	88%	12%	2
Target	67.4	USA	100%	0%	0
Aldi	58	Germany	65%	35%	16

Source: Technopak Analysis

Following the international modern retail trend, a continuing upsurge of new shopping malls across tier-1 cities in India dominated the scene among non-grocery retailing, driven by rising disposable incomes among middle-class consumers and property prices faring better amid an economic downturn. Several major domestic retailers, such as Pantaloon Retail India Ltd, Spencer's Retail Ltd and Reliance Retail Ltd, also started to focus on expanding their outlets into tier-2 and -3 cities. A rise in the number of aspirational customers is also driving the growth in modern retailing in India. Table 2 depicts the nature of organized retailing in India and the growth prospects of modern retailing by 2020.

Table 2: Retailing sector and growth projections of organized retailing in India.

Retail Sector	2012	2020 (P)
Total Merchandise Retail (USD bn)	490	810
Size of Organized Retail (USD bn)	34	162
Share of Organized Retail	7%	20%
Revenues by segments ( % of organized retailing)		
Food & Groceries (USD bn)	343 (3%)	486 (5%)
Apparel (USD bn)	38 (16%)	62 (17%)
Others (USD bn)	110 (15%)	262 (48%)
Total (USD bn)	490 (7%)	810 (20%)

P – Projected

Source: Technopak Analysis

However, the collision of the virtual and physical worlds is fundamentally changing consumers' purchasing

behaviors. Consumers are seeking an integrated shopping experience across all channels, and expect retailers to deliver this experience. Failure to deliver puts retailers at risk of becoming irrelevant. The key drivers of this customer revolution are the rapid adoption of mobile devices, digital media and tablets equipped with shopping apps. On the other side, traditional retailers must find opportunities to seamlessly embed the virtual world into their retail strategy by developing in-store and online technologies that allow them to create and maintain meaningful and sincere connections with customers across all channels.

Further to discuss some more trends in the sector can be comprehend by foreign players is that the Indian retail segment accounts for 22 per cent of the country's GDP and contributes about 8 per cent to the total employment. India continues to be among the most attractive investment propositions for global retailers even nearly 70% of the population living in rural India. For many companies, a large portion of their revenues comes from rural sales. The companies thus are aligning their marketing strategies in accordance to the requirements of their customers in rural areas. However, one of the key drivers of change in the future retail will be the accelerating growth in middle- and high-income emerging-market households. This trend sets the foundation for favorable retail sales projections and, long term consumer purchasing power. Table 3 indicates the disposable income and aggregate consumption of households in India. The retailers has to concentrate the projected values of disposable income and aggregate consumption of globals, strivers and seekers for 2025 which are showing a high increase in percentages of the corresponding values.

