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INDIAN RETAIL SECTOR – AN EMERGING ATTRACTION

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Abstract:-What makes a Country an emerging attraction is its development in any particular sector which attract any foreign entity to be a part of it in the form of investment or any other profit gaining opportunities . This research paper is going to provide a firm erudition about the development of the retail sector as an emerging attraction for foreign entities. The huge contribution of retail sector in Indian economy , government policies, the mounting awareness of the consumer, the brand consciousness and many more factors have made Indian retail sector as emerging attraction for the giant foreign retailers to invest in.

Keywords:Organized Retailing , Unorganized Retailing , Giant Retailers , Emerging Markets , Retail Industry.

INTRODUCTION:

The huge Indian Retail industry accounts to be the second most important contributor in the growth of Indian Economy . It accounts to be 22 per cent of the country's Gross Domestic Product (GDP) and contributes to 8 per cent of the total employment (FICCI) and marking a compound annual growth rate (CAGR) of 5.9 per cent since 1998 (IBEF) . The total market size is expected to grow from US \$ 450 billion in 2012 to reach US \$ 574 billion by 2015.

The retail industry accounts among top 5 retail market in the world if we talk in terms of economic value. The retail developments are not only taking place in major cities but also in tier II and tier III cities as well. The growing urbanization, consumer behavior, government policies, has opened doors for foreign retailers. Therefore retail industry is experiencing tremendous growth ,with this research objective this paper will study the development of the retail sector as an emerging attraction as well as the factors responsible for the foreign entities to invest in Indian Retail sector. Research Methodology adopted is a descriptive research design suits to achieve the dimension objectives. Data are collected through secondary sources like research reports and websites. Secondary data, which is published by RBI, DIPP, UNCTAD, A.T. Kearney , FICCI , IBEF is referred here. Primary data cannot be taken because it is a country report analysis. The literature survey is done for the past about the FDI Scenario in retail sector of India.

IMPORTANCE OF STUDY

Need of FDI in retail - Major source of capital inflow

FDI in retail is considered to be the most attractive type of capital inflow for emerging economies as it is expected to bring latest technology and enhance production capabilities of the economy. It is considered to be the most import source of external finance, as retail being an important contributor in our GDP. This study will also help us to know how much more foreign investments are coming up with new concepts and technology and what all factors that are attracting them to come and invest in India.

Indian Retail Sector – Growth Scenario

India being a developing economy makes 92 per cent of unorganized retailing in 2012-13 where as organized retailing accounts to only 8 per cent in (IBEF). But still Indian retail industry is expecting significant growth in coming years.

The retailing sector is going towards the modern retailing concept ,the consumer are more aware, the government policies are open for foreign retailers, the low cost of operations , has made Indian retail sector an eye catching destination for International retail brands. According to Global Retail Development Index (GRDI) 2012 India was on 5th position which moved down to 14th position in 2013 (A.T. Kearney). India fall of 9 spots in GRDI to 14th position, its previous low rank was 6th place in the inaugural Index in 2002, and it was first as recently as 2009.

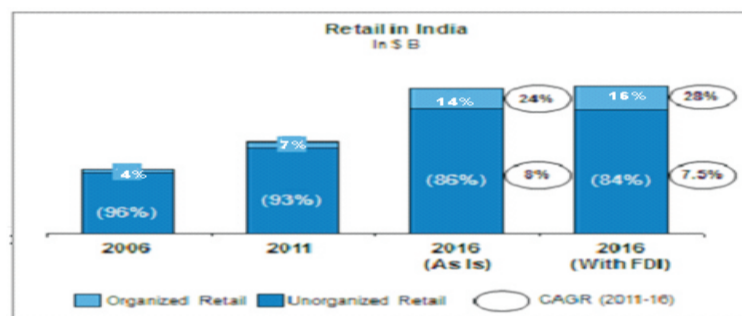
High operating costs, low bargaining power with vendors, and heavy discounting to improve sales have affected profits and expansion plans. Real estate cost and space availability also remain important issues. Many players are actively looking at improving sales productivity, cutting operating costs, and reducing store size (IBEF).

However, the long-term fundamentals remain strong in particular, a large young, increasingly brand and fashion-conscious population. Retail growth of 14 to 15 percent per year is expected through 2015. Modern retail remains limited to 7 percent in 2012 , but it is expected to grow as the country urbanizes and retailers make new investments.

As per Booz and Company country wise analysis the organized retail penetration out of total retail in the year 2011 , India and China being developing economy accounted to only 6% and 20% respectively of total organized retailing which is very less in comparison to Taiwan with 81% and USA with 85% organized retailing which is highest in the world.

The organized Indian retail sector is expecting a high growth with the coming up of investments by Indian retailers as well as foreign giant retailers.

Figure 1: Graph shows Organized and Unorganized Retailing in India in \$ Billion



In the above figure the organized and unorganized retailing in India has been shown from 2006 and its expected growth by 2016. The ratio of unorganized retailing was 96 per cent against 4 per cent of organized retailing in 2006. Whereas in 2011 the organized retailing increased to 7 per cent and unorganized stood 93 per cent. It is expected by 2016 that the organized retailing will move up to 12-14 per cent by showing CAGR of 24 per cent , with FDI it will have CAGR of 28 per cent , where as unorganized retailing CAGR will reduce to 7.5 per cent from 8 per cent if more FDI is expected in 2016.

This shows that organized retailing is attracting and even unorganized retailers will move towards organized working, proper supply chain , proper packaging and utilize improved concepts and techniques to increase their sales volume and customer satisfaction.

Retailing An Emerging Attraction – Factors Responsible

The government regulations and policies:

Government policies towards foreign investment plays important role in global development of any economy. The constant revision of government on these policies makes easy for the foreign investors to take firm decision about the investment in any foreign entity.

With the recent formulations on the retailing policies by the government, has made foreign retailers to come and invest in India. The summarized policies in retailing are;

1. Single Brand Retailing;

- 100 %FDI under government route with 30% local sources requirement from MSME's
- 51% FDI with no sourcing requirement

2. Multi Brand Retailing

- 51% FDI is permitted, in cities with population more than 1 million under the government route.

30% sources from MSME's mandatory, along with capital and supply chain investment requirement. Dependent on approval by individual state, 18-20 cities with more than 1 million population expected to allow FDI.

3.Cash & Carry Wholesale

100% FDI permitted.

These policies have opened the doors for giant foreign retailers to invest in India.

The consumer behavior and Brand Consciousness:

The consumer today is more educated and aware. They are becoming more conscious about choosing the products and the brand with compatible prices. Another important factor is changing lifestyle which demands comfortable life and leisure activities which are growth driven factors for the retail sector.

Availability of Real-estate and other resources

The demand for real estate will gradually grow if the foreign investors are coming up as per FICCI India's retail industry is aggressively expanding itself, great demand for real estate is being created. The cumulative retail demand for real estate across India was expected to reach 43 million square feet by 2013. On the other hand the resources are available but the optimal utilization can be done by the better improved techniques. The supply chain and storage facilities where we are lacking can be value added factor for them.

Young Human Resources

We have huge young human resource which is another factor of attraction. They need a young work force to which they can higher with the limited training.

Large middle class with increasing disposable income.

The 70 per cent of Indian population consist of middle class. Increasing disposable income has made them choose from varied options and that to at reasonable costing with the systematic buying prospects; this is another cause for the growth of retailing.

Others:

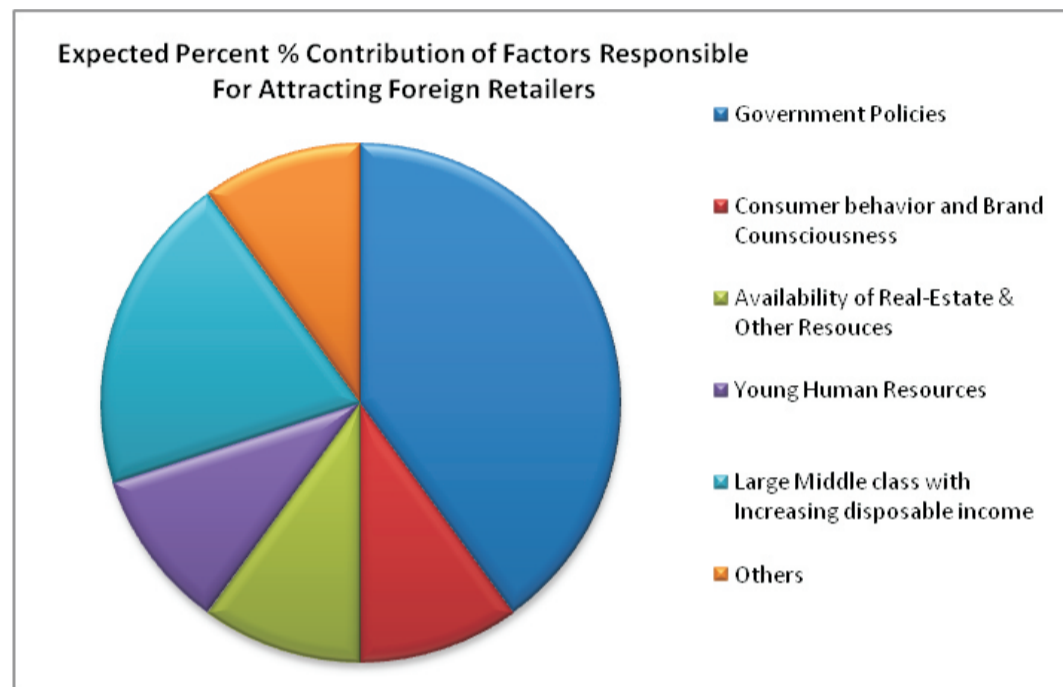
There are many other factors that are responsible for inclination of foreign retailers towards our country like political stability, geographical location and features, natural environment, legal formalities involved.

Further, the pie-chart given below explains expected level of contribution by various factors mentioned above which may attract the foreign retailers to do direct investment in retailing in India.

Table 1: Expected Contribution of Factors Responsible to make Retail an Emerging Attraction

| Factors | Percent % |
|------------------------------------------------------|-----------|
| Government Policies | 40% |
| Consumer Behavior and Brand Consciousness | 10% |
| Availability of Real-Estate & Other Resources | 10% |
| Young Human Resources | 10% |
| Large Middle class with Increasing disposable income | 20% |
| Others | 10% |

Figure 2: Pie-Chart Presenting in % expected contribution of factors responsible for Attracting Foreign Retailers



Retail Investments Coming Up –A look

The Indian retail market is expected to touch US\$ 1.3 trillion by 2020 from its existing level of around US\$ 500 billion, according to Mr. KV Thomas, Union Minister for Food and Consumer Affairs, (IBEF)

The foreign direct investment (FDI) inflows in single-brand retail trading during the period April 2000– September 2013 stood at US\$ 97.29 million, as per data released by Department of Industrial Policy and Promotion (DIPP).
Key Developments and Investments

As per IBEF

Swedish furniture retailer IKEA had proposed setting up 10 furnishing and home ware stores as well as allied infrastructure in India, over the next 10 years. The company also plans to open 15 more stores. It has already identified Haryana, Andhra Pradesh, Maharashtra and Karnataka as possible states to set up its stores. The Foreign Investment Promotion Board (FIPB) has approved Swedish clothing major Hennes & Mauritz AB's (H&M) proposal to open 50 stores across the country with an investment of Rs 720 crore (US\$ 116.20 million). Earlier this year, the Cabinet Committee on Economic Affairs (CCEA) had cleared a Rs 10,500 crore (US\$ 1.69 billion) proposal by IKEA.

Myntra has entered into an exclusive partnership with UK-based apparel manufacturer, Raised on Denim. The UK brand will manufacture its premium youth apparel range, Stanley Kane, locally and sell it on Myntra, aiming to reach the fashion-conscious clientele who are increasingly shopping online.

Shoemaker Johnston & Murphy, which is known for having made shoes for several US Presidents, plans to open 15 stores across Indian metros in the next four–five years, and leverage the wholesale channel. It is expecting business of Rs 50 crore (US\$ 8.06 million) in the initial three–four years.

Tesco Plc, the UK's largest supermarket company, plans to be the first foreign multi-brand chain to enter the Indian market. Extending its back-end and wholesale support franchise agreement with the Tata Group's Trent, Tesco will invest US\$ 110 million in the Indian market for front-end multi-brand retail stores.

Denmark based fashion house Bestseller could become the second global retailer to file a multi brand retail proposal to sell its brand Jack & Jones, Vero Moda and Only together. The states where Bestseller – Agrawal multi-brand venture can open stores are Andhra Pradesh, Assam, Haryana, Himachal Pradesh, J & K, Karnataka, Maharashtra, Manipur.

FINDING AND CONCLUSION

Many of these foreign investors are rushing to capture metro region some are interested in non-metro places but in both the regions we are expecting retail growth and regional development. In metros 28- 30 percent of growth is expected

where as in tier II and tier III cities we can expect it to grow by 55- 60 per cent. Some other foreign retailers are lined up to do foreign direct investment both in single and multi- brand retailing as well and agreed to fulfill the condition of 30 per cent sourcing from SME's . These foreign investments are expected to have impact on various stakeholders like consumers, unorganized retailers, MSME's, manufacturing units, unorganized retailers , will it be positive or negative can only be judged in long run .

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¹FICCI – Federation of Indian Chambers of Commerce and Industry > Sector profile

²IBEF – India Brand Equity Foundation > Industry > Retail

³A.T.Keraney : Global Retail Development Index Is a global team of forward thinking, collaborative partners that delivers immediate, meaningful result and long term transformative advantages to clients.

⁴IBEF – India Brand Equity Foundation ; Exchange Rate Used: INR 1 = US\$ 0.01613 as on December 27, 2013 ; References: Media Reports, Press Releases, Deloitte report, FDI statistics from Department of Industrial Policy and Promotion website.



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