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FOREIGN DIRECT INVESTMENT IN MULTI-BRAND RETAILING: PROSPECTUS & CHALLENGES

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ABSTRACT

India is most attractive nation for retail investment because of huge population and increasing purchasing power of middleclass people. The Government of India has accepted free economic policy in 1991. The government has also allowed in Single Brand retailing in 2006 & during the period April 2006 to March 2010 FDI inflow US \$194.69 million. Just in month of August 2012 the Government has declare FDI's permission to Multi-Brand retailing up to 51%. There are many opportunities for FDI in retailing in India like generation of employment, inflow of foreign exchange, increase in GDP, investment in agro processing industries etc. But there may be fear of survival of domestic retailers. Exploitation of man power, Monopoly of foreign investors etc. The countries like China, Indonesia, Russia, and Chilly allowed FDI in retailing and there is a progress in their economy after FDI. In this paper an attempt is made to find out the impact of FDI on domestic retailer and prospectus & challenges ahead to multi-brand retailing in India.

KEYWORDS: *FDI, Multi-brand retailing, Foreign investment, Monopoly, Single brand retailing.*

STATEMENT OF PROBLEM

The govt. of India allowed Foreign Direct Investment for generation of employment and improvement in National GDP. FDI also increases the interference of foreign countries in financial status of India. It also creates the problem of Indian retailer and small investors in retail industry. In this study an attempt has been made to find out the prospectus and challenges of FDI in India in coming future years.

OBJECTIVES OF THE RESEARCH PAPER

1. To Study the concept of FDI with concern to Indian economy
2. To find out the prospectus of FDI in India.
3. To find out Challenges of FDI in Indian economy.
4. To make recommendations to reduce the severity of FDI on Indian retailers.

IMPORTANT CONCEPTS

1. **Retailing:** It means direct sale of consumables to Consumers. It includes food, cloth and daily needs.
2. **Single Brand Retailing:** It means retailers who are engaged in selling goods and services

branded by manufacturer to direct customer. The product is sold internationally under the same brand.

3. **Multi Brand Retailing:** It means retailers engaged in selling of two or more widely similar & competitive product by the same firm.

IMPORTANCE OF FDI IN MULTI BRAND RETAILING

FDI is very important in development of nation. It helps to grow economy through providing employment, modern technology & need of foreign exchange.

Following points state the importance of FDI.

1. **Increase general employment:** It will help to improve the employment in retail business. One of the studies says that retailing provides employment about 7% employment of the total.
2. **Enhance Export:** FDI will help to increase export by providing market to Indian agro-product.
3. **Minimize Waste:** It is observed that 25-30% agricultural produce became waste during the course of harvest & transportation, foreign investors will

bring advanced technology of warehousing and transport & which can reduce the waste of agro produce.

4. **Preservation of Perishable & seasonal goods:** In India there is huge wastage of perishable & seasonal agro produce due to improper utilization of them. This wastage can be minimized by giving opportunity to FDI through their investment, new technology.
5. **Warehousing & Modern Technology:** It is also observed that there is a lack of facility of warehousing & storing & proper distribution system. F.D.I. will bring modern warehousing and distribution system. It will help to preserve perishable goods for longer period.
6. **Modern Know-how:** FDI will help to transport agro products from farm gate to table of the consumer through modern transport & distribution system.
7. **Management of Inflation:** FDI in multi-brand retailing will help to control the inflation through preservation of distribution of goods & services.
8. **Cost & Quality:** It is also found that the quality and cost of consumer goods are very important. FDI will reduce the cost of a product by maintaining good quality of product.
9. **Stabilization of Prices:** By huge investment in Multi-Brand retailing it become possible to transport goods and services from ample production region to scarce production region and this will provide adequate prices for producer as well as consumers. This will help to stabilize the prices and tackle inflation.
10. **Prevention of Fluctuation in Prices:** Generally in seasons of particular product, prices will go down and it will increase in another season. FDI will prevent fluctuation of prices by importing product which will not be available in particular season.

PROSPECTUS

India is a second largest country producing vegetables, food grains, oil seeds in the world. And it has also huge population. It will create market for the goods and services produced in the world. Indian entrepreneurs and farmers also get world market to their products.

Following points shows Prospectus to FDI in Multi-Brand Retailing in India.

1. **Promote Economy:** FDI in MB retailing will increase investment, due to this GDP of a nation will increase, which promotes the economy system.
2. **Huge Market:** India is a second largest country in Population. So it creates huge demand for consumables goods and services.
3. **Adequate Prices:** FDI will help to control inflation through preservation & transportation of goods at any place in all over the world. So, it provides goods and services in reasonable prices to customers.
4. **Adequate price to producer:** FDI will help to get adequate prices to producer for their product through proper distribution system.

5. **Inflow of Foreign Exchange:** Trade important segment in India's GDP & India is farmer's nation. Still more than 50% population is depends on directly or indirectly on agriculture. FDI will help to export agro product in foreign countries which will increase revenue in terms of Foreign exchange, increase retail trader of the nation.
6. **Eradication of Middleman:** FDI will help to eradicate middleman in the channel of distribution, which reduces the cost of product.
7. **Well functioning market to Agro-Product:** There is also lack of and well function agro market in India. Co-operative Marketing system is unable to provide adequate prices to the farmers produce. There is also exploitation of farmers and consumers through organized co-operative market. FDI in retailing provide efficient market system to agro produce.
8. **Prevention of Mal-practices:** In organized retail market we find that there are many mal-practices like auction, monopoly of dealers, commission agents & Coolie. That practices will be prohibited by FDI in MB retailing.

CHALLENGES

Though it is said that FDI will help to economic development through employment inflow of foreign exchange & controlling inflation still there are many challenges before the FDI in multi-brand retailing. The experience of Thailand is not good regarding FDI in multi-brand retailing. China has got many advantages of FDI in retailing. Indians have their own marketing strategy and psychology of purchasing goods and articles. They like bargaining & verification of goods; they prefer wondering in market most Indian believe on their domestic retailer. So there are following challenges before FDI in Multi-brand retailing in India.

1. **Competition with domestic retailer:** Domestic retailers have maintained close relationship with their customers. Many time domestic retailer provide credit to the customer according to need of customer. In that case it is very difficult to attract such a customer towards Foreign Retailers.
2. **Home Delivery:** It is also observed that Domestic retailers provide home delivery to their customers which is not possible to the foreign retailers.
3. **Low cost:** Domestic Retailer has to incurred very less expenses on infrastructure like Shop, labour cost, advertisement etc. So the prices of Domestic retailers are comparatively less.
4. **Unfair Competition:** FDI create unfair competition among producer and seller of goods and services. After creating monopoly they will exploit consumers as well as producer. The government should take care making rules regarding FDI in multi-brand retailing.
5. **Exit of small Domestic Entrepreneurs:** The fear which is stated by domestic entrepreneurs they may not compete with foreign retailers in terms of quality & technology. This will thrown away domestic entrepreneurs from market.

6. Interference in financial status of the Nation: FDI will increase financial interference of other countries in India. It will help to increase dependencies of India and controlling of the prices of agro products, home products etc.

7. Eradication of Small Indigenous retailers: FDI also makes problems to indigenous retailers by increasing unemployment among them by throwing away them from their business.

CONCLUSION

According to the Report of Central Statistical Organization GDP from Trade inclusive of wholesale and retail in organized and unorganized increased from 4,33,963 crores in 2004-05 to Rs.7,91,470 crores. This shows average annual growth of trade up to 16.2%

No doubt, FDI Multi-brand retailing will motivate economy of India by creating employment, investment, new technology and adequate distribution system & increase in retail trade & GDP. But the government should take utmost care of domestic retailers, entrepreneurs & small scale entrepreneurs by safeguarding them. It also observed that the retailers will not be affected by FDI in MB retailing considering the psychology of Indian people, tendency of purchasing, economic power & nature of handling goods before purchasing. It also seems that retailers having personal relations, their credit system, low expenses of management & regional needs of consumers. So, the government should allow FDI in different sectors gradually first in metropolitan cities,

Then in corporations & lastly in small urban areas in India. The government should also make rules regarding minimum requirement in investment in capital, number of outlets & regimes where retailers it to be located. Government should also make the policy of taxation on the profit of FDI retailers, so that there should not be excess outflow of Foreign exchange.

RECOMMENDATION

1. There should be some exemption in formation of new companies to domestic retailer.
2. Preference and Motivation should be given to Indian retailer to enter in retailing in their area.
3. The Government should provide some tax exemption to the Indian retailers and make tax system easy and smooth.
4. The Government should reserve few products to only Indian retailers where there is no any brand of agriculture products.
5. Bank should provide financial assistance to indigenous retailers for the growth and development of their business so that they will be able to compete foreign investors.

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