FOREIGN DIRECT INVESTMENT IN INDIAN RETAIL MARKET: CHALLENGES AND OPPORTUNITIES

Dr. Maheshkumar Shankar Kedar*; Prof. Sadanand Karlekar; Prof. Govind Gosavi*****

*Assistant Professor,
Sinhgad College of Science,
Maharashtra, INDIA
Email id: management.mahesh99@gmail.com

**Assistant Professor,
Sinhgad College of Science,
Maharashtra, INDIA
Email id: karlekar.sadanand@gmail.com

***Assistant Professor,
Sinhgad College of Science,
Maharashtra, INDIA
Email id: govindvgosavi@gmail.com

DOI: 10.5958/2249-7137.2025.00039.3

ABSTRACT

The Indian retail sector has emerged as one of the most dynamic and fast-paced industries due to the entry of several new players and the rising consumer demand. Foreign Direct Investment (FDI) in retail has been a subject of extensive policy debate in India, especially with the gradual liberalization of FDI norms. This paper explores the multifaceted impact of FDI in the Indian retail market, focusing on both the opportunities it presents and the challenges it poses. On the opportunity side, FDI brings in capital investment, global supply chain practices, technological innovation, employment generation, and improved consumer choice. However, challenges such as regulatory hurdles, opposition from local retailers, infrastructure bottlenecks, and cultural and consumer behaviour mismatches hinder its seamless integration. The paper also examines the implications of FDI in single-brand and multi-brand retail, evaluating its role in modernizing the retail landscape and contributing to India's economic growth. Through a balanced analysis, the study aims to provide insights into how India can harness the benefits of FDI while mitigating its adverse effects on small and traditional retailers.

KEYWORDS: Retail, Foreign Direct Investment, Capital Investment etc.

INTRODUCTION

It is projected that the Retail e-commerce market in India will rise to US$ 53.08 billion by 2024 with annual growth of 11.45 percent to hit the US$ 91.24 billion mark by 2029.With the provision of capital, technological know-how, and international expertise, FDI has taken the role of booster to economic progress particularly in the developing economies. A young population, growing incomes, urbanization, and consumer preferences, are some of the main drivers of the retail sector in India, which is among the fastest growing industries. Taking advantage of this potential, the Indian government has undertaken slow steps to liberalize the FDI policies in retail sector, especially in single brand and multiple branding sectors.

The opportunities that are interesting in the entry of foreign retailers in India include: increased supply chain management, job creation, high quality products and available choice to consumers. Nevertheless, it is also creating some vital issues such as challenge to small and unorganized retailers, complexity of regulations, infrastructural limitations and social-political backlash.

The study will seek to explore the prevailing situation of the FDI in Indian retail sector, as well as bring out the key opportunities that the FDI presents in the retail business and critically analyse the challenges that come with FDI in Indian retail. Through achieving this insight, the stakeholders will be able to understand the new world of retails and make the required decisions on policy and business.

Foreign Direct Investment: -

"Foreign Direct Investment" refers to cross border investment in which a resident of one economy invests in a business venture in another economy and the goal is to acquire a durable interest in the location investments. FDI is also defined as "dynment in the business of a country to a company in another country". Investment mostly goes into production either through acquiring a firm in the host country or increasing the operations of an already established firm in the host country". The investments may occur due to a wide variety of reasons such as to access cheaper wages, special investment incentives (e.g. tax exemptions) provided by the receiving country.

The reasons why Countries engage in FDI

a) There is insufficient domestic capital available to serve the economic growth purpose;

b) Foreign capital is normally a necessity (though temporary one) in case of-

c) It is during the stage of development of the capital market;

d) Foreign capital tends to carry with it other productive factors that are scarce e.g. technical skills, business skills and knowledge

The advantages of FDI:

1. Ensures better standing of country in forex;

2. Creation of jobs and growth in production;

3. The ability to contribute in capital formation through transferring new capital;

4. Assists in the transfer of new technologies, management accruals, intellectual property

5. The distribution, Increases competition within the local market and this brings higher efficiencies

6. Assists the growth of exports;raises taxes

The reasons why Local People Oppose FDI FDI :

1. Domestic firms are afraid that they would be deprived of their ownership by the overseas company

2. Most small enterprises dread that they can never keep up with the world class large companies and may end up being driven out of business;
3. Mega industries of the world attempt at monopolising and taking over the profitable markets;
4. Such international firms make greater investments in the machinery and intellectual property as compared to those made through the wages of the natives.
5. The operations of such companies are less controlled by the government since they tend to operate as fully owned subsidiary of a foreign entity.

FDI in Indian retail:-

The Situation in Indian Retail Sector as of now:-

The consumer industry is one of the booming industries in the Indian economy with the rising disposable incomes soaring, urbanisation and the young population structure of India. The retail sector is estimated to be USD 1.1 trillion in 2027 which is going up to USD 2 trillion in 2032 at a CAGR of 25 per cent. There were 102 transactions worth of USD 1.74 billion during the first quarter of 2024 in the segment compared with 85 transactions worth USD 1.28 billion last year. The consumer space especially performed outstandingly and it had the highest number of PE deals in recent five quarters of transactions that amassed to 88 transactions.

The economy will only be more active in terms of retail in the country as there is a large number of foreign brands looking to open stores / JVs in India, with a better brand awareness and more disposable income to spend, and big and heterogeneous consumer base. Nevertheless, entering the market and further development would presuppose a set of knowledge about the regulation environment, strategic plan, and adaptation to the local culture.

Establishing presence at India on the other hand implies a twisting through the maze of tax and regulatory regime. The major legislations that the foreign firms need to skilfully operate with are Foreign Exchange Management Act (FEMA), Companies Act, Goods and Services Tax along with a multitude of additional laws like Consumer Protection Act, Competition Law, Intellectual Property Law, Legal Metrology Law. We should learn more about these regulations because they have the influence on pricing strategies, supply chain management, and business operations in general.

A strategic entry model is also needed in dealing with the intricacies of the Indian market. The various alternate methods that have been used before are distribution agreements, franchising, wholly owned subsidiaries and joint ventures, all of which present diverse benefits. Distribution agreements, which were resorted to by one of the famous trademarks in the past, enable undergoing market testing with a minimum risk. The use of a franchising model, which can be used to expand fast with a reduced investment, is highly utilized in the F&B industry. Subsidiaries under the concept of wholly owned subsidiary are highly controllable and stable. Joint ventures are the fusion between multiple international brands and domestic know-how, which is necessary to understand India legal and culture environment. It does not have any straight-jacket methodology and thus curating a very specific model and a diligent structuring procedure is important in coming up with a commercially viable, tax efficient, and regulatory ready model.

Indian retail business is second largest provider of employments with an approximate figure of 35 million individuals being offered employment opportunities by the retail sector. Foreign direct investment through organized retail has witnessed opening of Indian economy to foreign organizations. The union government has authorized 51 percent foreign direct investment in the multi-brand like Wal-Mart, Carrefour, and Tesco. It will increase the availability of goods and products of daily consumption to Indian consumers at a cheaper price and on foreign soil. The new trade policy would permit multi brand foreign brand retailers to establish base only in cities, which have a population of over 10 lakhs as per the 2011 census. It currently has 53 of such cities. It entails that large retailers are able to get out of the metropolises into smaller cities. The ultimate choice will however be a written decision of the state governments. The foreign retailers will be obliged to have a minimal investment of US $100 million, out of which at least 50 per cent of the total FDI will have to be put in back-end infra-structure, which would involve investing capital on the whole gamut of related activities including, its cold chain infra-structure, food processing, cold transport, and logistics. Big retailers will be required to procure at least 30 percent of manufactured or processed products, at least, in the Indian small industries.

Retail:-

Retail is explained as all processes associated with sale of goods or services to the end consumer so as to use in his or her own consumption without involvement in business purposes through shops, market, door to door selling, mail auth or the internet where the consumer will intend to use the product. In 2004 it was held in The High Court of Delhi that the term „retail″ implied a sale subject to final consumption as opposed to a sale that was to be further resold or processed. The retailing also entails a direct contact to the customer and to the orchestration of a business transaction right at the point of concept or design of a product or offering, right at its delivery to the delivery to the customer as well as to its customer after-delivery service.

Indian Retail Industry Evolution is interesting to dwell upon the evolution of the retail industry in India. Historically they developed as form of entertainment that people could access in their villages in the form of village fairs, melas etc. They were converted to Mom and Pop/ Kirana stores in the later years which are of traditional type neighbourhood stores. Then there were PDS shops and stores with khadi, cooperatives and so on with the support of the government. Lastly the retail market of Indian has seen a tremendous change with shopping malls, super markets, departmental stores et al. The developed countries trading sector is not even remotely similar to the one that the Indian trading sector has evolved over centuries. The products and services in the developed countries are usually sold through two channels; (a) via independent retailers („vertical separation‟) and (b) directly by the producer („vertical integration‟). The above two forms of operation are not quite popular in India. The Indian retail market is in the grip of small and medium enterprises. The trading industry is well segmented and there are so many intermediaries.

The same is true in India where wholesale trade is characterised by the existence of thousands of small commission agents, stockiest and distributors whose operations are strictly localised. World retailers such as the US based Wal-Mart and French Carrefour are highly interested in making entries into the segment. In August 2007 Bharti enterprises and Wal-Mart stores entered into a joint venture and began cash-and-carry stores under the name of the best price modern wholesale in 2009.

Organisation of India Retail Industry:- Retail Sector could simply be divided into two sectors

1. Organised:- Organised retailing is the process of retailing done by licensed retailer, or in other words, retailers are registered to receive sales tax, income tax, and so forth. This encompasses the big retail businesses that are largely owned by the corporate as well as the large retail chains.

2. Unorganised:- Non-organized retailing, however, can be described as the conventional models of low-cost retailing e.g. local kirana stores, owner operated general stores, paan / beedi stores, convenience stores, hand cart and pavement shops, etc. The retail business in India is extremely fractured with 95 per cent of the business conducted by Kirana Stores.

The Indian forms of Retailing

(a) Single Brand: - Single brand suggests that the foreign business firms would be empowered to market merchandise offered worldwide under a single brand name viz., Reebok, Nokia and Adidas etc. FDI in the "Single brand" retail means that a foreign invested retail store shall be selling a sole brand. As an example, where Adidas is given clearance to retail its flagship brand in India, the retail outlets may only sell products under the brand name of Adidas but not the brand of Reebok which would be given a different permission. With such permission, Adidas may market the Reebok products in different stores.

(b) Multi Brand: - FDI in Multi Brand retail offers the implication that a foreign investment-based retail store can sell different brands under the same roof. Liberalization of FDI in multi-brand retailing will imply that international retailers such as Wal-Mart, Carrefour and Tesco can establish their shops with a variety of house ware and grocery goods that can be delivered to consumers directly in the same fashion as the ubiquitous kirana store. Single and multi brand has approval with a series of riders accorded to the foreign investors with the objective being to ensure that the foreign investment genuinely contributes to Indian infrastructure and logistics development whilst at the same time enabling the integration of small retailers into the upgraded value chain.

Although the minimum capital requirement of US$ 100 million may not be a major concern to the large foreign players who may eye to enter the Indian market in the supermarket /Hypermarkets segment, it may not be easy in the case of foreign investors who are intending to enter the specialty formats like music, mobile, electronic goods among others since these formats operate on relatively lower investments. Moreover, the accord of State Governments may restrict the cities that the retailers with FDI investments may practice. The challenge that exists today on the opposition by some of the political parties, should they continue, could become the biggest stumbling block in the entry of the foreign retailers in India. In addition to limiting the number of cities that such retailers can spread out, it may also cause issues when developing supply chain efficiency.

India Retailing Current Scenario:-

The presence of a number of new entrants has made Indian retail industry one of the most dynamic as well as fast-paced industries in the business. It contributes more donate 10 percent of the gross domestic product (GDP) and about 8 percent of the employment. India is ranked the fifth largest global destination in the retail world. Great global destination in the retail industry, India came in at no. 5 of the list, and was no. 63 in the Doing Business 2023 list of World Bank.

Large middle-class population and almost untouched retail chains in India are the primary attractive factors to international business giants interested in expanding to new arenas, and will further push the pace of development of retail businesses in India. The buying capacity of the urban Indian consumer is growing and branded products in the categories such as apparel, cosmetic, footwear, watches, beverages, food and even jewellery are slowly turning into business and leisure which the urban Indian consumer is fond of. The Boston Consulting Group (BCG) has recently analysed this and pegged the retail industry in India at a mind-boggling US$ 2 trillion by the year 2032.

India is among the growing and attractive markets in the globe. Multinational corporations are very much interested in exploiting the consumer population in India and to be the first firm to enter the market. There are almost 60 shopping malls of 23.25 million sq. ft of total retail space which are likely to come to action and operation in 2023-25.

India is one of the most successful nations to invest into a Retail facility. India is so attractive due to the second largest world population, middle income group of around 158 households, urbanization that is on the rise, rising household revenues, rural consumers who are interconnected and growing consumer spending.

Bisreport India retail market grew at a compounded annual rate of 8.9 percent as it rose to Rs. 82,000 crore (US$ 939.8 billion) in 2024, compared with Rs. 35,000 crore (US$ 400.9 billion) in 2014, including a jump of more than 10 percent in 2024, which constitutes 21 percent of the country budget, according to a report by Boston Consulting Group (BCG) and the Ret

The organised retail market in India is growing at a very fast rate. A Deloitte- Retailers Association of India (RAI) report predicts that the market will hit Rs. 20,08,590 crore (US$ 230 billion) in 2030 due to growing disposable incomes and changing preference of consumers.

The Indian retail industry was on an exponential growth curve with the development of retail occurring in not only top cities and metros, but also in small cities. Some of the factors stimulating the growth of the organised retail market in India have been healthy economic growth, changing demographics profile, rising disposable income, urbanisation and the shifting tastes and preferences of consumers.

The Indian government has put in place several rules, regulations and policies to make the business environment friendlier and easier to become set up by foreign firms to establish fully owned businesses in India.

It is now the newest game changer flagship to the globalized retail market in the world. The middle-income group of India, especially has grown a lot in the past two decades following the economic reforms that were first initiated in 1991 in India. The vested growth in Indian population is also expanding, as the boom in the purchasing power of Indians has been growing. Nevertheless, unlike other key developing economies, India has been lagging to keep its retail against foreign investment over the years. Foreign Direct Investment (FDI) is the Ministry of Finance (MoF) defined as that situation in which a foreign company desires to set up any business activity in India that may involve company under the company Act, 1956 (joint venture or wholly owned subsidiary) or set up a Liaison office or project office or a branch office of the foreign company which can carry out activities permitted under the Foreign Exchange Management Regulation, 2000. Currently, almost the entire developing nations opening up their FDIs and India is not an exception. India has been experiencing growth in Gross Domestic Product (GDP) ever since liberalization and the middle class in India has grown as well. India is slow in the opening-up of economy to FDI in retail, but some policy modifications would indicate that the thinking of government is shifting. The government first eased the retail policy in 2006 and since than FDI has been creeping gradually in the retail sector. It can also introduce investment in purely backward sectors such as infrastructure needed in Food transferring the farmers to consumer which will enhance efficiency in food sector, we can anticipate that it will bring organized retailing and it will save farmers of the middlemen exploitation or that it will also lead to loss of jobs in the unorganized sector, Public Distribution System (PDS) may face a difficult time in procuring food.

India is the 3rdlargest economy of the world in the terms of buying power parity and therefore seems appealing to the rest of the world in terms of FDI. So even Government of India has been making out the best possible efforts to eliminate the FDI caps in most of the industries, yet it is still evident that there are some sensitive areas such as retailing and insurance where Indian people are hardly willing to give any consent to those.

India can invest on some of the key economic sectors as follows:-

✓ Telecommunications

- ✓ Apparels
- ✓ Information Technology
- ✓ Pharma
- ✓ Auto parts
- ✓ Jewellery
- ✓ Chemicals

Over the past couple of years, definitely foreign investments have recorded positive dynamics but the rigidity of FDI policies has placed barriers in the rise in this sector. India, is still to emerge as one of the prominent recipients of FDI in Asia-Pacific sector due to the reasons of economic reforms in bringing more foreign investment and deregulation of this important sector. India is surrounded by technical competence and competent managers and the potential market is more than 300 million and this is an attractive market.

Opportunities

1. Technology and infrastructure Upgrading

FDI will attract capital and skills to upgrade the retail set-up in India in terms of cold chains and other warehousing facilities, logistics etc. It aids to minimize the losses at the end of the harvest and enhances the administration of stock.

2. Job Creation

The entry of the foreign retailers also leads to direct and indirect labour in warehousing, logistics, sales and customer service.

3. Consumer Benefits

As individuals in the market bring up the competition, the consumers enjoy a higher level of quality of their products, reasonable prices, and increase in options.

4. World Best Practices

FDI facilitates the spreading of international know-how and inventions in customer experience, supply chain effectiveness and marketing.

5. Increase in Manufacturing and Exportation

The retail spurred by FDI promotes sourcing local manufacturers, particularly in the single-brand retail (where local sourcing is obligatory 30%), which promotes MSMEs and export opportunities.

Challenges

1. Small Retailers are threatened.

The character of retailing in India is that of small unorganized shops. These retailers are subject to the possibility of being marginalized by large foreign entry that may capture market share as well as change the consumer buying behaviour.

2. Hedges to Regulation and Policy

The FDI policy in multi-brand retail in India is still conservative with limitation in terms of minimum investment levels; need to have local sourcing and individual state approval, which makes India complex to approach foreign investors.

3. Infrastructural Gaps

Even with the advances, India is beset with shortcomings in logistics, electricity, transportation as well as storage facilities, which is likely to potentially impede smooth running of international retail formats.

4. Consumer and cultural diversity

India has a wide range of consumers and language and region variations, which makes it difficult to have a uniform strategy used by foreign retailers in the various regions or even in the entire country.

5. Political and Social resistance.

Retail FDI can generate negative perception against political parties, trade associations, and civil society groups who believe that it may create unemployment and cause economic sovereignty damage of the domestic economy.

CONCLUSION

The idea of FDI in the Indian retail is a revolutionary chance to re-form one of the more dated industries and generate employment and improved services to the consumers. It should however be done with a level-headed strategy which cushions small traders, where there is clarity of regulations and building of necessary infrastructure. The policy makers should liaise with stakeholders to build a market where both the national and the international actors can prosper and, in the end, the country will gain.

BIBLIOGRAPHY:-

1. https://www.ibef.org/industry/retail-india

2. ASSCHOM: White Paper on FDI in Retail, Advantage Farmers.

3. Chari,A. &Raghavan,T.C.A.M. (2012): .Foreign Direct Investment in India‘s Retail Bazaar: Opportunities and Challenges., The World Economy, Vol. 35, No. 1, pp. 79-90.

4. Department of Industrial Policy and Promotion, 2024. .Foreign Direct Investment (FDI) in Multi-Brand Retail Trading,.Discussion paper.Available at http://www.dipp.nic.in.

5. "What is Foreign Direct Investment, Horizontal and Vertical « Knowledge Base". Guidewhois.com. Retrieved 2012-11-17.