



ORIGINAL RESEARCH PAPER

Commerce

KEY DRIVERS TO ATTRACT FDI IN INDIAN RETAIL INDUSTRY

KEY WORDS:

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ABSTRACT

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 2004, The High Court of Delhi defined the term "retail" as a sale for final consumption in contrast to a sale for further sale or processing. Retailing involves a direct interface with the customer and the coordination of business activities from end to end- right from the concept or design stage of a product or offering, to its delivery and post-delivery service to the customer. This paper is a modest attempt to study the key drivers which attract FDI in India.

INTRODUCTION

The Indian retail industry is generally divided into two major segments – organized retailing and unorganized retailing.

- (a) Organized Retailing - refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.
- (b) Unorganized Retailing - refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc.

In the developed economies, organized retail is in the range of 75-80 per cent of total retail, whereas in developing economies, the unorganized sector dominates the retail business. The share of organized retail varies widely from just one per cent in Pakistan and 4 per cent in India to 36 per cent in Brazil and 55 per cent in Malaysia (Table-1.1). Modern retail formats, such as hypermarkets, superstores, supermarkets, discount and convenience stores are widely present in the developed world, whereas such forms of retail outlets have only just begun to spread to developing countries in recent years. In developing countries, the retailing business continues to be dominated by family-run neighbourhood shops and open markets. As a consequence, wholesalers and distributors who carry products from industrial suppliers and agricultural producers to the independent family-owned shops and open markets remain a critical part of the supply chain in these countries.

Since 1991, Government of India has taken major initiatives to attract FDI in retail sector, through liberalizing its FDI policies.

THE KEY GROWTH DRIVERS OF RETAILING IN INDIA INCLUDE:

1. DEMOGRAPHIC ADVANTAGE

The growing Indian population has also led to increase in the 'earning population' (age group 15-60) of the country. The proportion of Indian populace in the age group of 15-64 years increased from 55.4% in 1991 to 66.2% in 2016. Considering the huge size of the Indian population, the lower median age implies a higher number of working people thereby clearly outlining the immense earning as well as spending potential of the Indian populace. Taking into account the age group below 25 years being one of the highest spending age group, the current age dynamics are expected to boost the retail sales in India. The median age of India is 26.7 years, one of the lowest globally in comparison to 37.2 years in the US, 45.8 years in Japan and 36.3 years in China.

Chart 1.1: Age Distribution of Indian Population

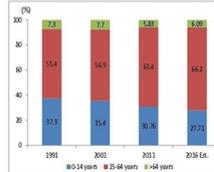
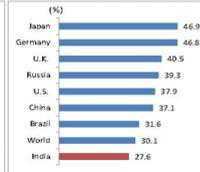


Chart 1.2: Median Age of Population -2016E

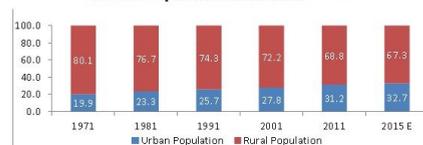


Source: CIA-The World Factbook

2. RAPID URBANIZATION

A majority of India still lives in 'villages'. This statement no doubt holds true but the figures suggest that there has been a paradigm shift of the Indian populace in terms of rural-urban divide. The aspirations of higher income, higher standard of living etc. has drawn more and more people from villages to settle in towns and cities. This transition from rural to urban areas has led to an increase in the demand for goods (owing to higher income and ever-expanding needs). The retailers, especially in the organised segment are therefore targeting the 'middle class' populace by ensuring the availability of varied products at various price ranges to match the needs of a 'common man'.

Chart 1.3: Population Division -2015E

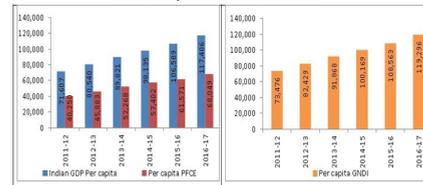


Source: Census, CIA - The World Factbook

3. RISING INCOME LEVELS & GROWING PER CAPITA EXPENDITURE

In the last decade, Indian economy has progressed rapidly. Correspondingly, India's per capita GDP has gone up from Rs 71,607 in FY12 to Rs. 117,406 in FY17 at a CAGR of 10.4% fuelling a consumption boom in the country. Correspondingly, the per capita personal disposable income surged from Rs 73,476 in FY12 to Rs 119,296 in FY17 at a CAGR of 10.2%. Also, the per capita private final consumption expenditure too rose from Rs 40,250 in FY12 to Rs.68,049 in FY17 at a CAGR of 11.1%. The growth in country's per capita GDP in turn has increased the disposable income of the populace ultimately driving the country's consumption.

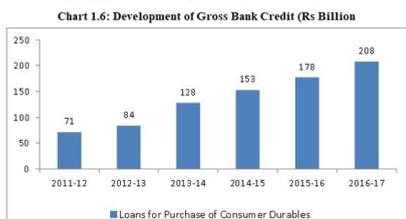
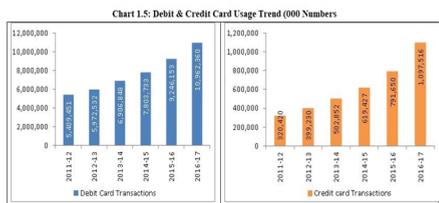
Chart 1.4: Per Capita Indicators (Rs at Current Prices)



Source: Central Statistics Office (CSO)

1. GROWING SPREAD OF PLASTIC MONEY & EASY AVAILABILITY OF CREDIT

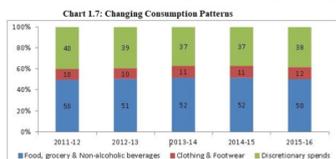
The growing use of 'plastic money' i.e. credit and debit cards has resulted in an increased spending amongst the consumers thereby fuelling the demand in the retail sector. With the acceptance of plastic money by almost all the retailers in the organised retail segment, the number of outstanding plastic cards in the country is on a rise. The incentives such as cash-back offer or discounts on selected sales linked to the plastic money have lured the Indian consumer to experience the pleasure of 'cashless shopping'.



Source: Website Reserve Bank of India

5. CHANGING FACE OF INDIAN CONSUMERISM - FROM NECESSITIES TO LUXURY (BRAND CONSCIOUSNESS)

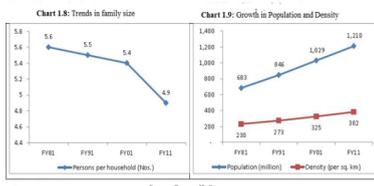
With rise in income level of Indian populace and increase in plastic money, discretionary spending has become important. In the year FY16, Food & grocery and Clothing & footwear spending was recorded at 62% of the country's total spending while that of discretionary category was steady at 38%. Even with a declining share 'Food, Grocery and Beverages' segment remained the largest spending head but the growing consumer spending under the 'discretionary heads' such as healthcare, personal care products etc marked a noticeable feature of the shifting consumption pattern.



Note: Discretionary spends include-Furniture & furnishings, Transport, recreation & culture, etc. Source: Website of MOSPI and CMIE

6. RISING GROWTH IN NUMBER OF NUCLEAR FAMILIES

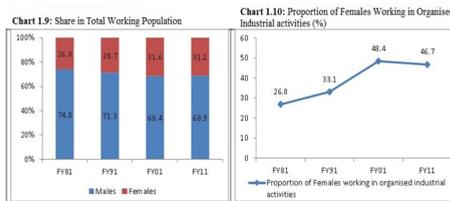
The rapid growth of population, increased urbanisation and the unavailability of large real estate spaces have led to the growth of nuclear families in the country. The average number of person per household has reduced from 5.6 in FY81 to 4.9 in FY11. The growing number of households has not only pushed the demand for necessities but the combined mix of greater purchasing power and willingness to spend has resulted in the nuclear family's shifting focus towards luxury/semi-luxury products. This has thus led to the emergence of modern retail formats such as speciality retail, luxury retail etc.



Source: Census of India

7. GROWING FEMALE WORKING POPULATION

On the backdrop of growing Indian economy during the recent years, the participation of female workforce in the country's economic activities has increased considerably. The proportion of the female workforce which accounted for 26% of the country's workforce in FY71 has scaled to 31% during FY11. Notably, the percentage of working women involved in the organised industrial activities too has increased from 27% in FY81 to 47% in FY11. The higher purchasing power in the hands of 'working-women class' compared to the housewives enhances the ability of the former to spend much more comparatively. Further the 'time constraint' factor also needs to be accounted for by the working women while making purchases of various day-to-day requirements. Capitalizing on the same, the organised retailers have increasingly emphasized on the 'one-stop shop' concept wherein all the household requirements ranging from food & grocery to apparel could be met under a single roof.



Source: Census of India, Socio-Economic Statistics- 2011, CMIE

The government achieved a milestone towards introducing the Goods and Services Tax (GST) in July 2017. The implementation of GST has enabled easier movement of goods across the country, thereby improving retail operations for pan-India retailers which has benefited the ultimate consumer.

Another significant development has been the abolishment of the Foreign Investment Promotion Board ('FIPB') as announced by the Finance Ministry in 2017, whereby it was declared that respective competent authorities would be constituted to consider and approve proposals requiring Government approvals for various sectors in which foreign investment was proposed to be made. It has now been announced that the competent authority for Trading (Multi brand and food product retail trading) shall be Department of Industrial Policy & Promotion ('DIPP').

CONCLUSION

The government has also approved a proposal to scrap the distinction among different types of inbound overseas investments by shifting to a single composite limit, which means portfolio investment up to 49% will not require government approval nor will it have to comply with sectoral conditions as long as it does not result in a transfer of ownership and/or control of Indian entities to foreign investors. As a result, foreign investments are expected to increase, especially in the lucrative retail sector.

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