



A study on retail trade and foreign direct investment via SWOT Analysis

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Abstract

In 21st century FDI is the most populous word than has deep impact on the working of an economy of any country. In India FDI also plays a vital role in upgrading various sectors of the economy. Focusing on the retail sector, it is one of the sectors which is growing with utmost speed and matching up all the new desires and wants of the growing population. Aiming to have 100% FDI in retail sector becomes a big decision for Indian Government. Retailing is such a business that majorly acts as a catalyst for generating revenue for the government with highest ease. Currently its retailing that is not only satisfying the need and desire or generating revenue for government but it has become major source of employment generation. Taking this into consideration paper focuses on retail trade and its relationship with FDI. The research also involves the SWOT analysis of FDI in retail business.

Keywords: retailing, FDI, government, economy etc

1. Introduction

In the current scenario every organization feels strong urge to expand its business internationally. Entering in global market yields lasting interest to the organization over a long period of time. Foreign direct investment leads to a planned form of investment by an organization of one country into another country followed by various motives. Foreign direct investment can be made through several options that are available namely- Joint Venture, amalgamation, starting a subsidiary in foreign country and many more. FDI is now a days a trending aspects and India has also opened up its gate welcoming FDI's on large scale. At the initial stage many legal restriction were levied on FDI in retail sector in order to protect the local retailers but as there was the need of being global few policies were framed up that facilitated FDI in retail business in India.

Retail is fastest growing sector in India which is said to contribute more than one fourth to India's national income. Retail is the sector which entails with vast level of employment and growth opportunities, it is the only sector that can be redefined and restructured constantly as per the need and desire of consumer changes. Thus FDI in retail bears ample of advantages and disadvantages. So before heading towards complete retail FDI various elements are to be studied and scrutinized in the light of SWOT analysis which may become a path way to know how FDI will impact retail trade in India.

Structural Background of FDI in Retail Industry in India:

FDI in Retail in India is divided into two- (i) Single Brand Retailing and (ii) Multi Brand Retailing. FDI in single brand was allowed and welcomed smoothly in India but when it came to multi brand retailing it led to several controversies and opposition. After deep discussion and suggestion the government decided 51% of FDI in single and multi brand in retailing sector subjected to beau acetic process and approval of respective state. Retail sector in India is

generally fragmented upto 97% which is runned by unorganized retailers and so there is no uniformity in retail sector. FDI in retail sector helped in bringing uniformity in retail sector and can run it in an organized way. India has opened up the retail trade sector to the foreign investor being signatory to the World Trade Organization's (WTO) General Agreement on Trade and Services that includes both wholesale and retail services. Thus this tie up led to various retail organization to enter in India for retailing business this includes- Wall Mart, Tesco and many more to start their new avenue in India. Currently It has been reported that India is ranked 5th in retail trade and holds a high potential market that accelerated retail market growth up to 15 to 20 per cent over the next five years. It is also observed that overall retail market contributes 14 per cent of India's GDP.

Foreign Player in India before FDI Policy

Earlier it was a cumbersome process for any of the foreign player to enter into retailing business in India. Some of the way that was used as technique to enter in Indian Market was:

1. Franchise Agreement
2. Cash and Carrying Wholesale Trading
3. Strategic Licensing Agreement
4. Manufacturing and Wholly Owned Subsidiaries.

Foreign Player in India after FDI Policy

As India moved towards the pace of development and growth it made it FDI in retail business lenient and a complete structure was framed up as below:

1. 100% FDI with 30% local sourcing and 51% FDI with no sourcing required in single brand retailing
2. 51% FDI permitted along with individual state approval in multi brand retailing.
3. 100% FDI on cash and carry retailing

SWOT Analysis of Retail Trade and FDI

SWOT analysis is used as a tool in studying the impact on FDI on retail trade in Indian market:

Strength

- Customer will have wide pool of exposure to various international brands.
- Boosting up of infrastructural and technical look out of retailing business in India
- Leading to generation of various employment opportunities which in turns increases people standard of living by providing them with sources of income through employment.
- The size of organized retail industry in India has started expanding with ease and speed both.
- Farmers are benefited by getting good price for their produce through well established food chain.
- It led towards increasing trend among young and vibrant youth for urbanization and developing a great work culture etc are termed as the key drivers of FDI in India

Weakness

- FDI led goods generally caters to the need of urbanized people where sa rural population is overlooked
- Retailing through FDI requires skilled and highly trained employees where in India finding self skilled and trained employee are difficult that in turn reduces employment opportunities.
- India being developing country even though it goes for FDI in retailing it cannot reach the benchmark as retailing is carried out in developed countries.
- Moreover retailing is not just about selling goods but it's about continuous research and development so that they can caters to the growing needs and desire of the people. But R&D is cumbersome and trying to be carried out in India as it is associated with several other obstacles like large population, illiteracy, poverty etc.

Opportunities

- Retailing is one of the fastest growing sector in Indian Economy with great scope of investment and innovation
- Retail Sector has many area which are still unexplored and posses' opportunities of growth.
- Large demographic profile and vivid lifestyle Indian Retail sector provides opportunities to cater to unleashed needs and wants of the people.
- Studying the retail sector in India it is observed that food and apparel is the key drivers for retailing in India. This sector in retailing has wide acceptance and future growth.
- FDI in retailing will provide boost to large market along with latest technical support and brand recognition and good managerial skill.

Threats

- Increase in number of super market and mall will hinder the existence of small residential retailers.

- Difficult to encompass the need and desire of all the population.
- Improper supply chain management in retailing sector
- Retailing sector in India is highly unorganized so it's become difficult to bring it in an organized form i.e. time consuming process.
- FDI in retailing states that foreign investor will invest in our country which will drain the profit earned from our country to investor's country.
- Huge sum of investment is required in order to carry out retailing moreover to compete in the new market holds various challenges.
- Organized retailing does not take into consideration all labor laws and regulation.

Impact of FDI on Retailers

- FDI in retail sector will bring in ample of growth and employment opportunities in the country in various sectors like marketing, processing, assembling, logistic, management, etc.
- FDI in retail sector will secure farmer's future by eliminating middlemen and allowing farmer to get best price for their produce.
- FDI in retailing will lead to the establishment of effective and efficient supply chain management which in turn will help local retailers to learn from the foreign investors.
- A strong legal framework is developed in order to take care of anti-competitive practices that fall under FDI in retail sector.
- FDI in retail will benefit customer a lot in terms of quality of product, value of price paid, fresh produce, consistency in supply, etc.
- FDI in retailing will bring in cut throat competition of survival which will benefit customer in both terms price and choices.

Conclusion

Indian retailing sector is one of the fastest growing sector along with ample of growth and diversified opportunities. From the above SWOT analysis and impact of FDI on retailing in India we can say that FDI is beneficial for India's growth and India's growth is beneficial to FDI. India is a country with pool of talent that will easily attract the investors from foreign once the legal framework made is followed. It's only that if FDI is allowed in India it is needed to be consistently observed and nurtured then, it will definitely bring in new avenues of growth for India. Thus FDI can really boost up Indian economy if all the mandatory and legal rules are abided by. FDI will bring in revolution in retailing sector in India will help business house associated with retailing business to grow and learn to employ various strategies and tactic to face the competition. So FDI will change the scenario of Retail sector in India optimistically.

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