FDI Inflow In Indian Retailing - Growth Model and Challenges

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BACKGROUND

India is ranked as the most attractive retail destination among 30 emerging markets by the Annual Global Retail Development Index (GRDI) for two years consecutively (AT Kearney). It is the fifth largest as of 2009, recording an average growth of 10% annually, accounting for over 10 per cent of the country's GDP (India's GDP is 1.25 Trillion USD that is INR 55 Trillion in 2008-09) and around 8 per cent of the employment. One of the reasons behind such phenomenal attraction is because 47% of India's population is under 20 years of age contributing immensely to the growth of this sector.

While examining the historical background, it becomes apparent that the government outlook towards FDI has been picking up considerable attention since the early 90s. During the 70s, Foreign Exchange Regulation Act (FERA) 1973 was enough to dissuade any foreign investment in the country and as a sequel to this act - on 1st June 1978, the bell tolled for MNC giants like IBM and Coke to pack off their operations from the Indian soil.

FERA, repealed in 2000, had meanwhile lent some benefits that led to self-sufficiency and growth of domestic brands, financial sectors like banks and insurance. There were domestic FMCG majors like Thumbs up, Campa-Cola, Nirma, growth of nationalized banks and insurance companies that built a strong base in the domestic market with an outlook of economic and social development coupled with massive employment generation. Truly speaking, India Inc. reaped its benefit while 2008 witnessed severe global recession leading to millions of pink slips world wide, collapse of reputed financial institutions, like Lehman Brothers Holdings Inc. (US based premier global financial services firm). With its huge population, India could manage to survive the backlash of this recessional epidemic without acute suffering. But the other side of the story is equally grim and squalid: the 'closed door' economy damaged the competitive edge of 'Brand India' in the global market leading to economic and technical bankruptcy of our product and services in the international market.

The scenario started changing since the early 90s following the crisis experience of post gulf war economic imbroglio resulting in rock bottom foreign exchange reserve. In March 1991, India's Forex Reserves including gold plummeted to $5.8bn. Dr. Manmohan Singh, during his tenure as the Finance Minister in 1991, was duly credited for carrying out economic reforms. It was due to his bold initiatives that the infamous License Raj was nailed to death transforming *'FDI Shy India'* into a *'Global and Confident India'*. The results for such reforms are obvious - as of April 2, 2010, India's Forex Reserve stands at USB Dollar 279.

On January 24, 2006, the Government of India, as part of a big move to liberalize the foreign direct investment (FDI) regime, approved new FDI norms for several sectors including retailing allowing up to 51 per cent FDI in single brand retailing by foreign companies, for example, Reebok and Marks and Spencer etc. The guidelines for the same read as: Products to be sold should be of a 'single brand' only; Products should be sold under the same brand internationally; and 'single brand' product retailing would cover only products, which are branded during manufacturing (Shah, Sailesh. 2009).

As of now, single brand retailers operate through the franchisee route and there is a strong view that FDI in this segment would not displace jobs or impact the local industry but help create employment. 100 per cent FDI is allowed in cash-and-carry wholesale formats.This paper will examine the retail business, growth of foreign direct investment in the retail sector in India in terms of new investment as well as additional investments, business models adopted in FDI, benefits and drawbacks, challenges, case studies supporting the growth and finally, concluding with future roadmap.

LIMITATIONS OF THE STUDY

a. The retail sector is still unorganized in the country and there is a lack of availability of research data conforming to specific norms for research and analysis. For example, it is difficult to obtain year wise statistics of FDI in

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organized retail.

b. This study paper is an example of Case Study category of research. Stoecker (1991) defined case studies as those research projects, which attempt to explain holistically, the dynamics of a certain historical period of a particular social unit. The study has made observations on certain trends and scenarios using relevant statistics gathered from authentic sources, like, RBI, CSO etc. already prevailing in the retail sector and concludes with challenges and roadmap. Case study research excels at bringing us to an understanding of a complex issue or object and can extend experience or add strength to what is already known through previous research.

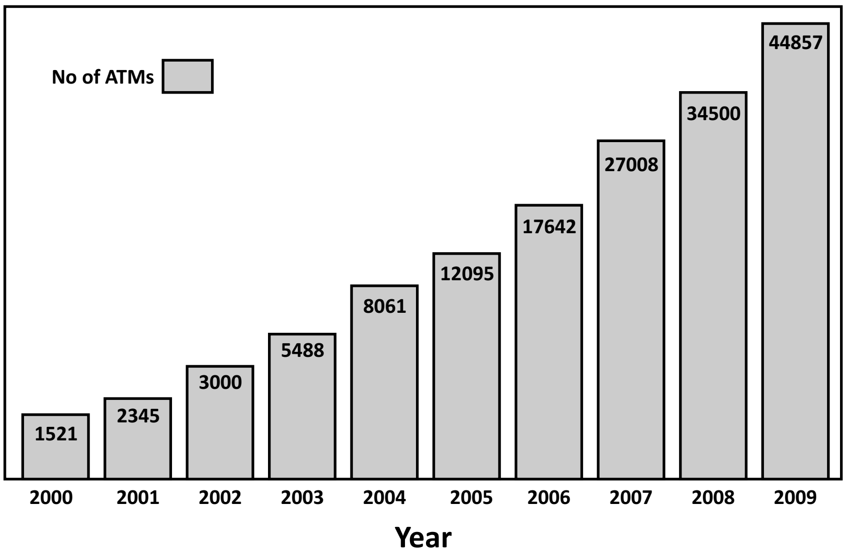
OVERVIEW OF RETAIL BUSINESS - INDIA

Consumption or retail growth story in India is not only prodding domestic players to take their businesses to a new orbit, but is also attracting foreign players as the latter are left with little or no hope to grow further in their saturated home markets. India has positioned itself as a promising market for retailers worldwide by virtue of these following strengths:

❁ **Median Age:** The composition of the Indian population is shifting towards the age group of 20-49 i.e. the working population with purchasing power. The median age for India is 25 years as compared to 28 years for Brazil, 33 years for China and 38 years for Russia. As per a Mckinsey report, of the current 204 million households in India, about 13 million households have the income to prop up growth of organised retail and this consumer segment is expected to grow at over 20% annually in the next eight years.

❁ **Growth of ATMs:** This has been markedly corroborated by the existence of around 12 million retail outlets across the country and 25-30% annual growth in retail loans and credit cards. The gradual growth in the total number of ATMs in India is one of the evidences of the growth of retail economy (Chart 1).

Chart 1 : Growth of ATM In India



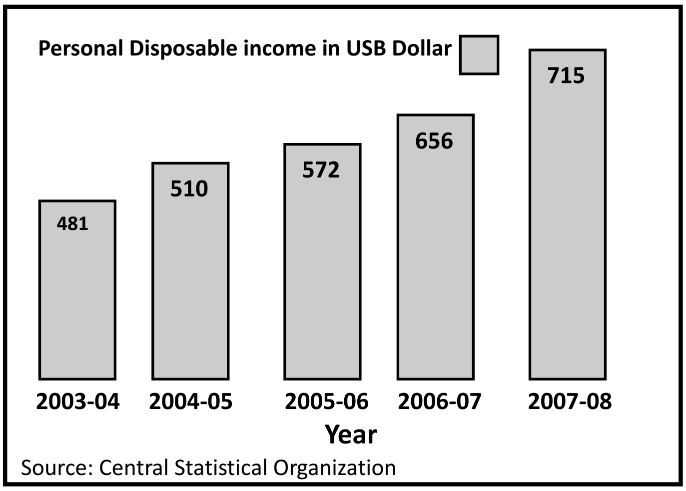
Sources: dqindia.ciol.com,www.epwrf.res.in

❁ **Rising Disposable Income:** India is the second fastest growing economy in the world. The growing economy has provided new employment avenues and the same have resulted in increase in number of people in the earners category. Increasing instances of double incomes in most families coupled with the rise in spending power ,which is further fueling growth in consumption and in turn growth of the retail sector (Chart 2).

❁ **Urbanization:** The share of the urban population has been gradually increasing from 23% in 1991 to 28% in 2001 (Source: IBEF, Census). The urban population is projected to increase to 40% of the total population by 2020 and incomes are simultaneously expected to grow in these segments. Urban population that represents nearly 30% of the total population accounts for 45% of the personal consumption. This consumer segment has further boosted the growth of the modern retail.

❁ **Shopping Convenience:** Apart from the population that has desire and ability to spend, the other factors that have

Chart 2 : Personal Disposable Income in USB $



patronized modern retail or organized retail is the convenience of shopping and wide variety. While mom and pop stores display few hundred units, organized retail, owing to the size and scale of operation can stock around 5,000 SKUs (stock keeping units). The time constraint and the convenience of shopping with multiplicity of choice under one roof are the major drivers of organized retailing in the country (Source: www.equitymaster.com).

All pervasive reach of media in the nook and corner of the country can be factored into the overwhelming growth of retail market, which is 10% annually since 2000. Even though it is nominal in the international standards, but considering the population of our country, it is indeed impressive. Furthermore, 720 million Indians join consuming age by 2010 and 55% of the Indian population will be under 20 years of age by 2015. A general overview of Retail market in India (Table 1) would provide its actual growth from 2004 to 2008 and estimated growth in 2009 and 2010.

Table 1 : General Overview of Growth of Retail Market in India

Year	Retail Market in USD Billion	Retail Area in Million Square Foot	Organized Retail Market in USD Billion
2006	300	52	12
2007	325	66	19.5
2008	353	90	24.71
2009	386	145	34.47
2010 (Estimated)	427	200	49.92

Source: IndiaRetailBiz.com

The highlights of Table 1 can be summarized in the following interpretations:

- Indian retail market contributes approximately one third to India's GDP.
- It is expected to grow at the rate of 8% per annum to become 416 USB Dollar by 2010.
- Organized retail is projected to grow at the rate of 40% per annum to reach 50 USB Dollar by 2010.
- Retail space to grow from 90 million square feet in 2008 to 200 million square feet in 2010.
- FDI in the range of 25-30 USB Dollar is anticipated in the present format.
- From 2000-2008, FDI in organized retail was approximately INR 78 Crore.

As of 2008, the total number of large shopping malls in major metros in India were 219 and it is lead by the top three - Delhi, Mumbai and Bangalore. This number is fair enough to attract the overseas investors. A graphical account of city wise distribution of shopping malls also illustrates the growth of retail business (Table 2).

The composition of organized retail market taken for the year 2006-07 is described in Table 3, focusing on the lucrative areas of foreign investments.

Table 2 : Number Of Shopping Malls In Major Metros In India -2008

City	Number of Shopping Malls
Delhi	96
Mumbai	55
Bangalore	14
Chennai	6
Kolkata	10
Hyderabad	12
Pune	19
Ahmedabad	7

Table 3: Organized Retail Market Size - USD 11.8 Billion

Category	%
Clothing & Textiles	37
Consumer Durables	20
Food & Beverages	18
Footwear	8
Jewellery & Watches	6
Home Décor	6
Books, Music & Gifts	3
Beauty Care	2

Source: www.emmayhr.com

Organized retail is lead by Clothing & textiles (37%), followed by consumer durables (20%) and third in the rank is Food & Beverage (18%).

GROWTH OF FOREIGN DIRECT INVESTMENT IN THE ORGANIZED RETAIL MARKET

As per RBI, direct investment is showing upward growth from US $ 5 Billion in 2002-03 to approximately US $ 20 Billion in 2006-07, out of which, US $ 11.8 (59%) is invested in organized retail.

FDI for retail developments is taking place by and large in sectors, namely clothing and textiles, consumer durables and food and beverage covering major cities, metros as well as Tier-II and Tier-III cities in India. Following are some of the examples:

- **Marks & Spencer Reliance India** is planning to open 35 more stores over the next five years, according to Mark Ashman, CEO of the company. The 51:49 joint venture between UK's Marks and Spencer and Reliance Retail Ltd. already has 15 stores in India.
- **French major Carrefour SA**, Europe's largest retailer, may start wholesale operations in India and plans to set up its first cash-and-carry outlet in the National Capital Region. Currently, Carrefour exports goods worth US$ 170 million from India to Europe, UAE, Indonesia, Europe, Thailand, Singapore and Malaysia.
- **Bharti Retail** has introduced eight Wal-Mart private labels-including two of its largest, 'Great Value' and 'George' - in its supermarket chain Easyday, hoping to attract more consumers with their international design and packaging.
- **Italian sportswear brand Lotto** will launch two new footwear brands Sabots and Calcetto in the country. The plan is to have at least 50 exclusive outlets by 2010.
- **EBONY Homes**, the home furniture retail arm of the US$ 3 billion DS Constructions, has plans to invest US$ 25.1 billion to set up a chain of 20-25 furniture stores styled Ebony Gautier across the country by March 2012.
- **Many major international brands** are also looking for a foothold in India. The brands planning an India entry include The Pizza Company and Spicchio Pizza (both pizza chains from Thailand), Coffee Club from Australia,

Japanese brand Lolita Fashion, Revive Juice Bars from the UK, Mrs Fields Cookies and Jamba Juice from the US, and French fashion brand Jules.

- **Retail Brands** such as United Colors of Benetton, Tommy Hilfiger and Puma are opening factory outlets to sell excess stock and woo the price-conscious buyers.

BUSINESS MODELS PRESCRIBED FOR FDI

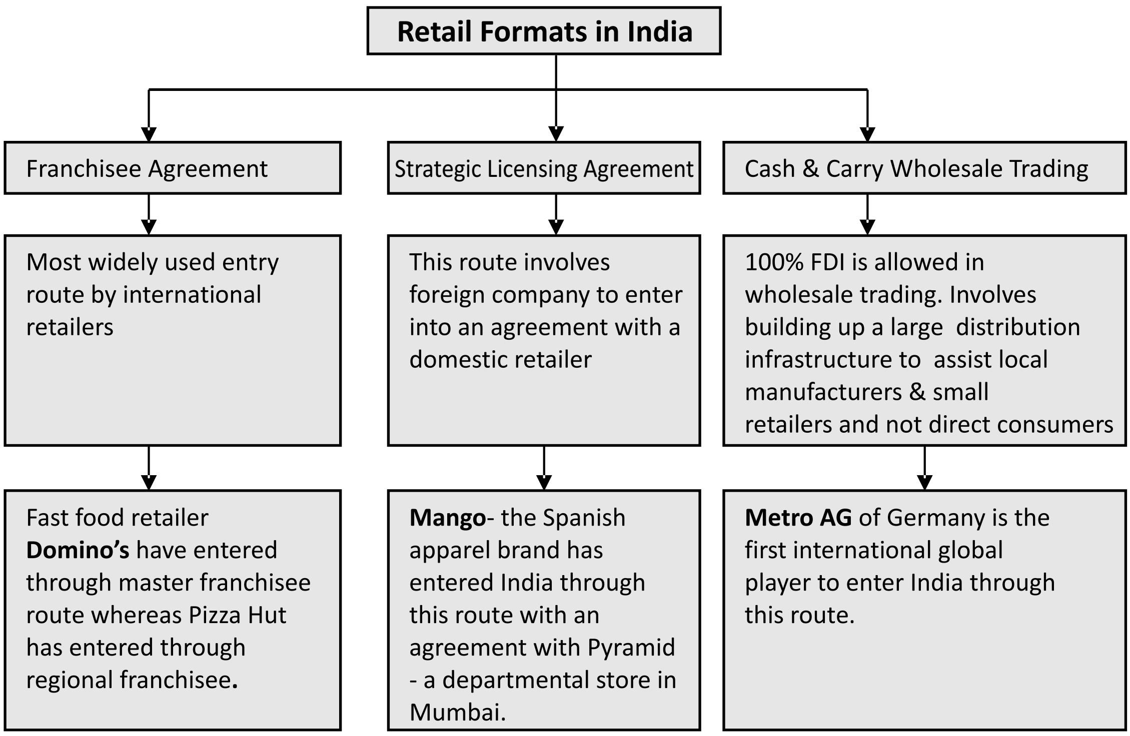
Due to the FDI restrictions, the international players are looking for alternative avenues to enter the Indian markets. However, the following three major business models are available options to the foreign investors for operations in the Indian retail space:

- Franchise Agreement
- Cash and Carry Wholesale Trading
- Strategic Licensing Agreement

The chart below shows the current formats and examples permitted by the Government of India for the international players (Chart 3).

The Economic Survey tabled in Parliament in July 2009 specifically talked about *"FDI In Multi-format Retail, Starting With Food Retail"*. "*Initially, this could be subject to setting up a modern logistics system, perhaps, jointly*

Chart 3: Retail Business Formats



Adapted from: Ernst & Young, The Great Indian Retail Story, 2006

with other organised retailers. A condition could also be put that it must have (for five years say) wholesale outlets where small, unorganised retailers can also purchase items (to facilitate transition).", it is said.

According to Mr Pinakiranjan Mishra, Partner and Industry Leader, Retail & Consumer Product Practice, Ernst & Young, *"Since food and grocery makes up a large part of the wallet share of Indian consumer, the survey has rightly chosen food as an area for opening up of FDI."* Table 3 depicts the share of food and beverages, i.e., no 2 with 18% share in the entire retail space, is the clear evidence of why food and beverage sector is attractive.

Government needs to strengthen the Agriculture Produce Marketing Committee (APMC) to facilitate FDI in food multi-brand retailing. "*APMC has not been rolled out in all the States. There are currently many intermediaries* *between the producers and the consumers in the food market and APMCs could prove valuable for international food retailers and Indian farmers.",*said the KPMG Advisory Services Manager, Mr Anand Ramanathan.(Source: www.thehindubusinessline.com, July 3, 2009).

CASE STUDIES

Following case studies would elaborate the typical business models adopted in India's retail market.

☸ FRANCHISEE AGREEMENT - WAL-MART PRIVATE LABELS IN BHARTI RETAIL

Wal-Mart is US based retailing company famous as a seller retailing groceries and consumables besides being a Toy Seller, enjoying 45% of the market segment in the US. Bharti Retail has introduced eight Wal-Mart private labels, including two of its largest-'Great Value' and 'George'-in its supermarket chain Easyday, hoping to attract more consumers with their international design and packaging and more importantly, the value they represent. This is the first time that a Wal-Mart private label has been launched in stores not owned by the retailer that grosses $400 billion annually through 7,800 stores in 16 countries. Private labels, or store brands, are those owned and sold by retailers in their stores typically at a lower price because of minimal marketing and advertising expenses. This also helps retailers to keep a check on prices of the national brands or those owned by other manufacturers or suppliers, because of cheaper competition.

Bharti Retail gets 15-20% of sales from private labels and hopes to raise it to 30% in future. Introduction of more private labels may help Bharti follow its partner Wal-Mart's everyday low price philosophy. On an average, Bharti stores offer 10-20% lower prices on private labels, as against national brands.

Easyday stores have so far introduced eight Wal-Mart brands across categories. It has introduced Great Value line of food (flour, dry fruits, spices, cereal and tea). Great Value, a 16-year-old private label that was redesigned mid-summer in the US amid a recession to attract more consumers wanting to pay less, is Wal-Mart's top-selling retail brand. Analysts estimate that Wal-Mart's private-label products account for about 16% of its overall food sales, which they say lags behind other retailers (Source : The Economic Times, 2009).

☸ FRANCHISEE AGREEMENT-MARKS AND SPENCER RELIANCE RETAIL

Marks and Spencer Group plc (Marks & Spencer) announces an agreement to enter into a joint venture with Reliance Retail, part of the Reliance Industries Group, with the goal of establishing Marks & Spencer as a major retail brand in India.Subject to the satisfaction or waiver of certain conditions, including the receipt of approval from the Foreign Investment Promotion Board of the Government of India, Marks & Spencer will take a 51% interest in Marks and Spencer Reliance India Pvt. Ltd. with Reliance Retail taking the remaining 49%.

The value of the initial investment into the JV will be up to £29m (in cash or in kind) between the parties, with both parties agreeing to provide further funding in the future.

The new joint venture will have the right to operate Marks & Spencer stores in India selling items such as women's, men's and children's clothing as well as home wares. It will aim to open at least 50 new stores in India over the next five years (Source: corporate.marksandspencer.com).

☸ CASH AND CARRY - METRO CASH & CARRY

METRO's Cash & Carry business model is based on a Business to Business (B2B) concept and focuses on meeting all the needs and requirements of business customers. It is a modern format of wholesale trading, catering only to business customers. With 655 stores in 29 countries, Germany based METRO Cash & Carry is an international leading player in self-service wholesale and achieved a sales figure of 33.1 Billion Euro in 2008. Metro's product range and services are tailored exactly to the needs of professional customers. Hoteliers, restaurateurs, caterers and small-scale food retailers find everything they need to guarantee their business success. Metro trademarks are top quality, huge choice and excellent value for money. METRO Cash & Carry has an international identity and a true international corporate culture to support it. This clearly distinguishes from others and is a key for swift international expansion in Eastern Europe and Asia. "Cash & Carry" means that the customers pick the goods themselves, pay in cash and transport their goods with their own vehicles. The advantage, as compared with conventional wholesale, lies in the more competitive price, the scope of the food and non-food assortment, the immediate availability of the merchandise and the customeroriented working hours. METRO Cash & Carry started operations in India in 2003 with two Distribution Centres in Bangalore. METRO offers assortment of over 18000 articles across food and non food at the best wholesale prices to business customers such as Hotels, Restaurants, Caterers, Food and Non-food Traders, Institutional buyers and professionals. METRO today is poised to extend its concept of Business to Business (B2B) Wholesale to other cities in the country. Following are the major USPs as envisaged by Metro, namely, Best Prices, Customer Warehouse, Everything under One roof, Extended business hours, Quality guaranteed, free parking, After sales service, Offers at fingertips, Clear and easy invoice and Great Value for Money. With huge purchasing power & efficient operations, it provides quality products at the best prices (Source:www.metro.co.in).

☸ **LICENSING -SPAR AND MAX HYPERMARKETS INDIA**

SPAR, the Dutch food retail franchise, returned for a second innings in India, after a failed tie-up with Radhakrishna Foodland and that began in 2004 and ultimately got cancelled in 2006. Dutch retail giant SPAR tied up with Landmark Group for hypermarket foray in India in 2007. The Euro 27 Bn SPAR is an international retail franchise spread over 13,700 stores in 33 countries. SPAR operates on a principle similar to co-operative stores, bringing together many retailers under a single fold to facilitate bigger discounts on bulk deals and better supply chain management. Max Hypermarkets India Pvt. Ltd., promoted by the Dubai-based retail group Landmark, had signed a license agreement with Spar International, to set up big box shops under the SPAR brand, to open Spar branded hypermarkets and supermarkets across India (Source: www.business-standard.com, www.spar-international.com).

BENEFITS AND DRAWBACKS OF FDI IN THE RETAIL SECTOR

Most of the high decibel arguments in favor of retail sector are not without some merit, nevertheless, it is not fully applicable to the retail sector in India. The efficiencies of scale should not be at the cost of redundancies throwing hosts of small traders out of business. Entry of foreign players is likely to disrupt the balance of economy and jeopardize the livelihood of small traders (Guruswamy et al. 2003). Parties supporting the FDI suggest that the FDI in retail should be opened in a gradual/phased manner, such that it can promote competition and contribute to the growth of the Indian economy. Obvious impact of the FDI is that it would generate a decent amount of employment as more and more entrepreneurs would be coming forward to invest and taste the new generation in retail marketing.

Parliamentary Standing Committee on Commerce expressed a need for providing adequate protection to small retailers in its report on Foreign and Domestic Investments in the Retail Sector. The Committee's recommendation of setting up a Retail Regulatory Authority for looking into anti-competitive behavior and abuse of dominance of the large retailers can be helpful.

The opening of FDI should be designed in such a way that many sectors - including agriculture, food processing, manufacturing, packaging and logistics would reap benefits. Table 4 lists the pros and cons of allowing FDI into retail.

CHALLENGES

According to Kaushika Madhavan, Manager Retail Practice- AT Kearney, Globalization of retail is fraught with challenges for western retailers- 2 out of 3 retailers fail in international markets (Source: www.isb.edu). India's retail market is vast but it is highly sensitive where collaborative and co-operations can only address the challenges encompassing a wide spectrum of activities covering logistics and infrastructure, strategy, skill development, public relations etc. A comprehensive list of such challenges have been enumerated here which needs to be addressed by government, franchisee partners in India and abroad through collaborative efforts:

☸ Further relaxations in FDI norms by Government of India, particularly for multi-brand retailing.

☸ Full-fledged Infrastructure development in terms of telecommunications, transportation, roads and highways and power to develop a seamless retailer to consumer as well as consumer to retailer interface (R2C and C2R).

☸ Professional recognition of retailing.

☸ Availability and identification of talent for serving the retail industry.

☸ Development of HR skills with orientation in retail sector.

☸ Strong compliance of local laws, legal processes for acquisition of land, movable and immovable assets to set up retail outfits. This is a very sensitive issue and foreign investors need to have proper guidance of their counterparts in

Table 4 : Benefits and Drawback of FDI in Retail

Benefits of FDI in Retail	Drawbacks of FDI in Retail
☸Inflow of investment and funds. ☸Generates more employment as well as improvement in the quality of employment. ☸Increased local sourcing. ☸Provide better value to end consumers. ☸Investments and improvement in the supply chains and warehousing. ☸Franchising opportunities for local entrepreneurs. ☸Growth of infrastructure. ☸International recognition of Indian brands leading to rapid globalization of Indian retail products. ☸Cost reduction. ☸Growth of domestic IT in retail for implementing efficiency and market penetration. ☸Stimulate infant industries and other supporting industries.	☸Cutthroat competition rather than promoting incremental business. ☸Promoting cartels and creating monopoly. ☸Increase in the real estate prices. ☸Marginalize domestic entrepreneurs. ☸The financial strength of foreign players would displace the unorganized players. ☸Absence of proper regulatory guidelines would induce unfair trade practices like Predatory pricing. ☸It is an intermediate value adding process - if there are not goods manufactured, then there will not be many goods to be retailed. This underlines the manufacturing in a developing economy. ☸Exodus of profit of the country leading to loss of National Income.

Source: Sawar, Tarannum. 2006 (adapted with minor modification).

India to ensure proper and legitimate clearance for starting such venture.

☸Further simplifications of procedures, licensing processes for foreign investors in augmenting business operations in India.

☸Periodic review and changing retail format to address domestic customers' demand planning and fulfillment in such a dynamic market.

☸IT enablement for making a more efficient supply chain.

☸Taking up the drive to create awareness on the benefits of foreign participations in retail business. The benefits can be sold easily, but there has to be detailed plan about how to address the drawbacks. Franchisees and Government should not keep silent about the drawbacks, as this may result in public/political furor, which can adversely impact and affect the retail sector operations as a whole.

☸Government support in rehabilitating those who are likely to be affected when foreign operators launch the joint venture.

☸Relationship building with the society - adherence to corporate social responsibility would help in bringing the consumers close to retailers and also establish emotional relationship with common mass, which is very important in relationship strategy building in the retail space.

While noting the significant points underlying the challenges in the India, it can be reiterated that the basic challenge lies in attitudes and incentives, which is very much more when comes to collaboration with foreign investors. Traditionally, there is not a culture of sharing information between supply chain partners. This comes out of distrust and fear, particularly more when the partner is from some other country. While confidentiality may be a genuine concern, the benefits to be gained by information sharing between partners are tremendous and with reasonable safeguards, collaboration can lead to several win-win situations (Biswas, 2007). Category Management takes this collaboration to the next level, where the retailer makes the vendor part of its own decision-making processes. A category captain (typically a vendor with the largest share of the category) cannot only provide deep insights to the retailer about the customer in that category, but also help it grow by making the end customer the priority. Vendors can help retailers design more targeted promotions and even joint product design initiatives that address the customer's needs.

An example of this is Heinz, which worked with 7-Eleven (the largest convenience store chain in the world) to understand its customer. One of the findings from Heinz was that the ketchup customer at 7-Eleven was more likely to be male than at a Walmart or a Kroger. Further study revealed that this customer often purchased the ketchup for game parties, where a bunch of guys (and occasionally girls) got together to watch a football game or a basketball game at someone's home. The ketchup was being consumed with fries, pizza, nachos and other 'game' food. Also consumed with these were mustard and mayonnaise. Hence germinated the idea of a game pack, where Heinz created a combopack consisting of smaller sized bottles of ketchup, mustard and mayonnaise specially designed to be had with game food, sold together in one pack, so it can be conveniently consumed at a game party or get-together. The packaging and messaging was very specific for this purpose. Sales for the category went up and both retailer and vendor benefited from it. Such insights are more likely to come when the retailer and vendor collaborate closely, thus benefiting both counterparts (Source: www.indiaretailnews.com).

FUTURE ROADMAP

A worldwide retail sale is estimated to reach USD 7 Trillion, of which India's share is approximately 0.06 percent. When most countries liberalized policies for opening of FDI in retailing long ago, India, is yet to open fully to FDI in retail. China allowed FDI in 1992, Brazil, Mexico, Argentina followed the footsteps of China in 1994. South Korea too joined the league in 1996, whereas Thailand and Indonesia allowed it in 1997 and 1998 respectively. Table 5 presents the status of India's organized retail sector vis-à-vis other countries:

Table 5 : Comparative Penetration of Organized Retail (2003)

Country	Organized (%)	Traditional (%)
USA	85	15
Taiwan	81	19
Malaysia	55	45
Thailand	40	60
Indonesia	30	70
China	20	80
India	3	97

Source: Ernst &Young, The Great Indian Retail Story, 2006

The roadmap seems to be still riddled with plenty of hurdles that the retailers need to take into account while framing their business strategy. Government plans to expressly clarify that FDI in multibrand retail is no-go territory, dashing the hopes of Indian retailers expecting that the new rules announced in 2009 would allow them to bring in overseas partners and capital. In other words, it clarifies that no foreign money into multi-brand retail through Indian-owned or controlled firms would be allowed and the purpose for this is to prevent opening up of multi-brand retail sector with an impact that the retail chain to look elsewhere for capital (Economic Times, 2009).

A report by the Indian Council of Research in International Economic Relation (ICRIER) in 2008 had mooted liberal FDI norms in the sector, saying the sector would grow to $590 billion by 2011-12, of which organized retail would have a share of 16 percent. The advantage for the Indian retail industry is that the purchasing power parity of Indian urban consumer is growing and branded merchandise is widely accepted by the urban Indian consumer. However, the industry is dominated by traditional retailers, who operate from small, single outlet businesses, thus making it very fragmented. This is further supplemented in another report by global consultancy firm, AT Kearney that said "*The consumer spending in India has increased by an impressive 75% in the last four years and will quadruple in the next 20 years.*"

Following are some of the major forecasts with respect to the growth of retail sector in India:

- Number of shopping malls is expected to increase at a CAGR of more than 18.9 per cent from 2007 to 2015.
- Organised retailing of mobile handset and accessories is expected to reach close to US$ 990 million by 2010.
- Driven by the expanding retail market, third party logistic market is forecasted to reach US$ 20 billion by 2011.
- According to industry experts, the next phase of growth is expected to come from rural markets, with rural India accounting for almost half of the domestic retail market, valued over US$ 300 billion. Rural India is set to witness an

economic boom, with per capita income having grown by 50 per cent over the last 10 years, mainly on account of rising commodity prices and improved productivity.

CONCLUSION

Government Liberalization of Indian Trade and Economy allowing foreign participation in retail sector has registered substantial growth in the retail sector. This is because of consumer in the young generation, urbanization, growth of personal disposable income, development of infrastructure etc. Considering the nascent state of this sector, India has a very strong investment potential for foreign players. Barring multi-brand products' entry, foreign investors are allowed 51% to100% share in the retail business, depending on the business format for example, cash and carry, franchise agreements and strategic licensing. There are specific benefits and drawbacks in FDI and government needs to tackle them with utmost care. This sector is also faced with several critical challenges, for example, improvement and development of infrastructure to facilitate smooth landing and operations of foreign capital, talent acquisition and development, public relations to convince general public about the importance of foreign participation. With all the hurdles that the recessional economy has posed to inhibit its smooth development, roadmap of FDI in retail sector is nevertheless very encouraging; this needs to be implemented with a lot of caution and care. Besides, there has to be adequate focus on the manufacturing sector and untapped resources of rural market are required to be explored and utilized as these would provide ample opportunity to the retailers with the scope to thrive as well as build a prosperous nation.

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