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CII News Update

FDI in Retail: A 360 Degree Advantage Nov 28, 2011

Overall Benefit: FDI in Retail: A 360 Degree Advantage

- FDI in Multi brand Retail will give a boost to the Organised Retail sector, which positively impacts several stakeholders including - producers, workers, employees and consumers and Government and hence, the overall economy.
- In a true potential scenario, opening up of FDI can increase organized retail market size to US\$ 260 billion by 2020.

Overall Benefit: FDI in Retail: A 360 Degree Advantage

- FDI in Multi brand Retail will give a boost to the Organised Retail sector, which positively impacts several stakeholders including - producers, workers and consumers and hence, the overall economy.
- Best case scenario - Opening up of FDI in Retail can increase organized retail market size to US\$ 260 billion by 2020.
- This would result in an aggregate increase in income of US\$ 35–45 billion per year for all producers combined; 3–4 million new direct jobs and around 4–6 million new indirect jobs in the logistics sector, contract labour in the distribution and repackaging centers, housekeeping and security staff in the stores.
- The government too stands to gain by this move by transparent and accountable monitoring of goods and supply chain management systems. The government can be expected to receive an additional income of US\$ 25–30 billion by way of a variety of taxes.

SMEs

- FDI can help SMEs supply in: large volumes, increase quality and become a vendor to international players and increase the quality of products and become cost competitive in global arena
 - Traditional trade will continue to have its own place and should not decline - Even in the last 3 years when modern retail has grown 24%, unorganized retail has continued to grow, albeit at a slower rate of 10% to 12%
 - Example of Small Scale Industries (SSIs) – In 1990s when dereservation of Small Scale Industries (SSIs) was introduced in India, there was speculation around the eventual decline of SSIs. Since then several studies have shown that the sector continues to demonstrate a healthy growth in the number of units, output and employment. As an example, the growth for the early period of liberalization (1993–1994 to 1998–1999) which was 16%, fell slightly for the next 5 years (1998–1999 to 2004–2005) to 12%, before accelerating to 19% in the last 5 years (2004–2005 to 2008–2009).
 - Similarly, the employment generated by registered SSIs grew at 6% in the pre-liberalization era 1979–1980 and 1989–1990, at 4% in the first decade of the post liberalization era (1993–1994 to 2003–2004), and accelerated to 19% in the last 5 years (2003–2004 to 2008–2009).
 - Better Service of Small Retailers – ICRIER study 'Impact of Organized Retailing on the Unorganized Sector' 2008 shows no evidence of a decline in overall employment in the unorganized sector as a result of the entry of organized retailers. Rather small retailers evolve - like adding new product lines and brands, better display, renovation of the store, introduction of self service, enhanced home delivery, more credit sales, acceptance of credit cards, etc.

Farmers

- Farmers in India today receive a small share of the end consumer price. As an example for tomatoes, farmers in India earn only 30 percent of consumer price while in more developed markets this is in the 50–70 percent range.
- Organized retail has the potential to drive efficiencies in this chain by:
 - (a) increasing price realization for farmers by 10–30 percent through sourcing directly or closer to the farm
 - (b) reducing handling and wastage by 25–50 percent through consolidation as well as investments in technology, either directly or through aggregators
 - (c) upgrading the farmer's capabilities by providing know-how and capital.
 - (d) Improving farmers' output and yield through better extension services and user friendly

Food Security

In case investments are not made in Agricultural Back end and supply chain, it will become difficult to meet India's growing demands for fruits and vegetables, dairy and poultry products. Infact any delay in these investments will endanger availability for our future generations.

Consumers

- This would result in wider choice for the Consumer with better competition
- It also would lead to assurance of quality with greater transparency and easier monitoring of adulteration, counterfeit products and traceability
- Furthermore, it would lower prices that can help curb inflation - With its ability to drive efficiencies and leverage scale, modern trade is able to increase affordability for consumers. For a low income family, organized retail has the ability to lower the cost of the monthly consumption basket as much as 5–10 percent.

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