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FDI IN BABY CARE PRODUCT RETAIL SECTOR IN INDIA – PROSPECTS AND CHALLENGES AHEAD

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Abstract- The introduction of economic reforms in 1991 opened the Indian economy that witnessed an increase of $97 million to the $82 billion in FDI from 1991 to 2021-22. This milestone of US $300 billion till Sep 2016 has made India surpass both China and USA as the favorable FDI receiving nation, particularly from Mauritius and Singapore.

FDI comes up through various segments of the retail sector. A CAGR of 17% since 2012 has attracted many foreign brands like Chicco, Avent, Mother Care, etc. to set up their base in the highly fragmented Indian baby care product market with only a few organized retailers like Johnson and Johnson.

India is home to around 50 million babies in the age group of 0-2 years and 304.8 million children in the age group of 0-12 years. Thus, huge baby population size, urbanization, increasing disposable income, rise in education and socio-economic status of women, and growing nuclear families give our country another credit of being a favorite and lucrative market for such products.

The new age parents, especially mothers, wish to give the best of healthy, hygienic, and affordable products for their babies. They are, thus, the target market for various foreign brands.

Not only this FDI has boosted the employment opportunities and provided a good infrastructure by setting up their single brand and multi-brand retail outlets in metro cities, and Tier -1 cities and spreading slowly to Tier 2 and Tier 3 cities as well.

The threat from FDI is basically to the small domestic unorganized retailers who are facing tough competition as these international brands are reaching almost every consumer's house with the help of online retail shopping like first cry etc.

Keywords: Retail sector, growing children population, new age parents, foreign brands, online shopping

A) <u>Introduction</u>

i. ***<u>FDI:</u>*** The term implies the flow of capital, technology, and knowledge into the domestic economy whether developed or developing from the foreign countries with the prior approval of the host countries' governments for their further growth and development. It makes the host country economically more stable and technologically more advanced.

The new economic policy of 1991 opened the Indian gateways to the foreign countries for investments in our various lucrative sectors. These investments (capital, management, or technology) not only helped India to bring a boom to its public and private sectors but also provide a good return to the foreign investors. Thus, FDI has been playing a dominant role in India's economic development till date. The Indian economy has witnessed an increase of $97 million to the $82 billion from FDI and FII from 1991 to 2021-22. This milestone of US $300 billion till Sep 2016 has made India surpass both China and USA as the favorable FDI receiving nation, particularly from Mauritius and Singapore. The India had highest FDI equity inflow was recognized from Singapore of US $ 11.69 billion, then by US that is US $ 7.52 billion, followed by Mauritius of US$ 6.58 billion, from the Cayman Islands of US$ 2.74 billion, then from Netherlands of US$ 2.66 billion, and lastly by the UK of US$ 1.44 billion during April- December 2021.

Indian government allows FDI in most sectors through an automatic route but in certain segments, these investments are considered sensitive for the economy. Such proposals are thus cleared by FIPB (Foreign investment promotion board) for security reasons.

The sectors that have received the benefits of FDI are:

- Infrastructure
- Automotive
- Power exchanges
- Pharmaceuticals
- Service
- Railways
- Chemicals
- Textiles
- Airlines
- PSU oil refineries
- Telecom

ii. ***Retail Sector***: The retail sector is the one in which the exchange of goods and services between the retailer and the consumers for money with a view to earn profits. The retail sector of India is divided as

- Organized retail segment: the companies under this segment have license for retailing as they are registered under sales tax, income tax etc. like hypermarkets, privately owned large business houses, retail chains
- Unorganized retail segment: this includes very small traditional and local traders like kirana shops, pavement vendors and so on.

Indian retail sector gets 97 percent of its business through unorganized retailers. It is the largest source of employment after agriculture. Apart from the physical stores, the online retail sector is also expected to grow at par within the next 5 years due to a rapid increase in the number of internet users.

The wholesale and retail sector of India came into the picture in 1995 with the signing of the General Agreement of Trade and Tariffs between WTO and India.

FDI in the retail segment has come up majorly in three forms:

1. Single brand retail business in which the foreign companies would be allowed to sell their international brands in one name only. For example, Mother Care retail stores, Lilliput retail store, Gini and Johnny retail store
2. Multi-brand and retail business in which the foreign companies can sell multiple brands under one store like Wal-Mart
3. Wholesale cash and carry business in which goods /services are sold in large quantities to other business firms like retailers, industrial houses, or others and not to the individual consumer as for personal consumption.

Government Initiatives

The Indian government has taken many initiatives to ease the flow of FDI in this sector as well. Some of these as of today can be discussed as:

- 100% FDI allowed in the online retail of goods and services in India through automatic route
- Portfolio investment up to 49% does not require government approval nor it will have to comply with sectoral conditions if it does not result in the transfer of ownership and/or control of Indian entities to foreigners
- 100 % FDI allowed in single-brand retail formats with the government in 2011. 30% sourcing of the raw material and products must be compulsorily done by the local artisans and craftsmen. Approval for FDI must be done by the Centre as well as State Governments.
- Up to 51% FDI allowed in multi-brand retail outlets in November 2011. The minimum investment requirement is US$100 million. 30% of the manufactured items are to be arranged from SMEs. The stores should be in cities with a minimum population of one million or more. Approvals from both center and state governments are necessary.
- 100% FDI is allowed under wholesale cash and carry the business through automatic route with prior approval of the government in 2006
- As of April 2015, FDI inflow in India increased by 48% since the launch of the “Make in India” initiative
- 100% FDI is allowed by the Indian Government in the online retail segment that shall boost the sales of various products in a short span of time.
- The aviation sector has been opened for FDI investment and among four PSU are closed for investment.

With this investment scenario, the Indian retail industry is today the world’s 5th largest global destination. It accounts for 10% of the country’s total GDP and 8 % of the total employment. The growth in this dynamic and fast-paced sector is expected from $US 600 billion in 2015 to $US 1 trillion in 2020.

iii. ***Baby care products retail segment:*** As per the RNCOS report, the baby care market in the retail segment is the one that consists of the following products:

- Apparel
- Footwear
- Toys and accessories
- Baby cosmetics
- Food
- Diaper

Since FDI has come up in various sectors of the Indian economy including retail, the baby care product market has not been left aloof by the foreign investors.

India is the second-largest country in the world with the largest population right after China. It is home to around 50 million babies in the age group of 0-2 years and 304.8 million children in the age group of 0-12 years. This gives our country credit for being a favorite and lucrative market for such products.

Apart from the huge population size of babies in India, the other factors that are responsible for attracting FDI in this untapped retail segment have been listed as follows:

- Rise in disposable income of consumers
- Rise in education level, especially women that have changed their socio-economic status as well
- Rapid urbanization
- Favorable demographics
- More nuclear and working families including females
- Attitudinal shifts due to the opening of the Indian economy

With all these changes taking place in the Indian economy we notice that the new age parents (between the age group of 24-35 years) who are mostly working-class with increased disposable income, try their best to raise their babies in the most suitable, hygienic, and affordable ways possible with available time, effort, and money. This segment of the population thus, became the target for these international brands due to which the Indian baby care market that was organized a few years back is now an INR10, 000 crores industry approximately.

Indian baby and childcare product market is highly fragmented with few organized players like Johnsons and Johnson, Wipro, and others. The competitive environment has given a push to these domestic producers due to which they also have come up with many other products ranges other than historical baby skincare products. Hence, today's parents have a wide choice for their babies.

The baby care product market shows a growth rate (CAGR) of 17 % since 2012. Monetarily, the baby care market in India will show growth of USD 26.35 billion from 2020 to 2025. This attracts foreign brands to enter India with their innovative products for better growth and development of children. The foreign brands that have entered or are expected to enter the Indian market are listed as under:

- Brevi and Chicco from Italy
- Pigeon from Japan
- Bubba blue from Australia
- Tiny Love from Israel

- Grup Baby from Turkey
- US Baby from China
- Farlin from Taiwan
- Mother Care from the UK
- Sebamed from Germany

These international brands initiated the process of spreading their product range by targeting metros and tier 1 cities where the mothers are aware of the usage of child care products. But as of today Tier-II and Tier III cities like Dhanbad and Ranchi are also their potential target markets for setting up their single brand or multi-brand retail stores and even selling their products through online baby products sopping websites like first cry.com, babyoye.com, Amazon.com, Snapdeal.com, Myntra.com, hopscotch. in and many other e-retailers.

The online baby care product market share is around $5 billion. In this total share baby clothing is 65%. The baby gear and outdoor take 18% and the rest 17% is captured by FMCG products. the online baby care market comprises:

- Baby food
- Skincare
- Toiletries
- Toys
- Gears
- Baby nursery

45% of search queries for these baby products come from desktops and 93% through mobiles. The most searched brands for clothing are Mother care, Carter, Snuggles, and Mom n me. The diaper market is dominated by Huggies, Pampers, and Mamy Poko Pants, and the baby gear and strollers are popular with Chicco, Fisher-Price, and MEE.

<u>FDI Scenario in Baby Care Product Retail Segment in India:</u>

- Mumbai based baby care and kids' products e-retailer HOPSCOTCH. IN has raised US$ 13 million in a Series C round of funding from Facebook Co-founder MR. Eduardo Saverin will help the firm in the growth and expansion of its technology platform.
- Prowl Germany UG, a multi-brand retailer of baby products, planned to invest Rs.600 crore in India in the year 2013 to set up a manufacturing plant and a chain of stores. The company formed a distribution partnership in January 2013 with Kochi-based Zaal commercial Pvt. Ltd for its 101-year-old feeding accessories brand called Nip.
- Chicco, a kid wear brand from Italy Group Artsana entered India through the Franchise route with 100% FDI in wholesale cash and carry through automatic route
- Amazon.Inc, a notable online retailer even in the baby care product segment has helped India with an investment of over US$5 million in recent years
- Mother Care, a UK brand of kids wear entered India by joining hands with DLF shoppers Stop and also opening up of its various franchise outlets in India.

<u>Some Experts View on the baby care product Industry</u>

1. Sanjeev Narula, Managing Director, Lilliput Kids wear Ltd. said "Baby care market in India has experienced growth over the past few years due to changing consumer mindset and increasing penetration of baby care products. The rise in disposable income level, superior product availability, and increasing awareness have significantly revolutionized the baby care products industry landscape. This compelled us to foray into the baby care industry with the launch of Lilliput Baby care products".
2. Mr. Joji George, managing director of UBM India said," the Indian baby care industry is emerging as one of the most lucrative markets and has been witnessing phenomenal growth in comparison to other emerging markets. The market, hitherto considered as a niche segment in the Indian perspective, is now ready for metamorphism; into a highly potential &fully fledged industry."
3. Chicco India CEO Vineeth Nair said in a report that
    - *"India has a huge growth potential as the world 19% babies are born here"*
    - *"the huge labor pool and the country's vast abundance of raw material and technical capabilities provide an opportunity for growth"*

B) <u>Problem Statement</u>

Every day through news via television, newspapers, internet we hear about FDI coming up in India. The question that pops up in the mind of most of us is whether these FDI's are actually beneficial or not for our nation?

C) <u>Comparative Analysis of possible benefits and threats of FDI in the Indian Baby Care Product Market</u>

- **<u>Perceived Benefits of FDI to Indian Baby care product retail market:</u>**

1. FDI has undoubtedly brought with it a huge amount of ***<u>capital</u>*** for the domestic retailers that have bridged the gap of capital deficiency for a good performance.
2. ***<u>Better technology</u>*** that comes with FDI has improved:

- Designing toys, apparel, and accessories at par with international quality standards.
- The competitive atmosphere has forced the companies to invest a lot in research and development.
- The online retail shopping of baby care products. Mothers have now easy access to baby products sitting at home. The net banking facility has increased sales. Online shopping companies have reached consumers successfully in Tier II and Tier III cities through cash-on-delivery options as well. Thus, the online share that has been estimated at US$100 billion in 2014 is expected to grow to US$ 500 million by 2019.

3. FDI has brought with it the benefits ***<u>of huge warehousing and storage facilities</u>***. This makes the products available to the customers well in time.
4. The opening up of single brand and multi-brand baby care retail outlets throughout India has ***<u>raised the employment level</u>*** as well, especially in the Tier II and Tier III cities.
5. Companies entering through joint ventures are outsourcing their manufacturing process to the local manufacturers. This shall ***<u>reduce the cost of production and thus the price</u>*** of the baby care products.

6. The reduced prices of the products enable the economy in curtailing ***inflationary pressures.***
7. The new age parents look for hygienic and safe products for their babies and thus quality matters for them. The upcoming of international brands has enabled them to choose from among ***huge range of quality products***. The domestic big retail businesses have also come at par with international standards that have added to the consumer choice of products.

- **Perceived Challenges of FDI to the Indian baby Care retail market**

1. It has brought with it ***tough competition*** for the local dealers to cope with the quality standards of international brands. These products are good substitutes for the local brands especially clothes since these are also offered at pocket-friendly prices.
2. The ***sales*** of the small unorganized retailers have ***seen a downfall*** due to an increase in the options for baby care products in single brand /multi-brand and /or even online. Consumers have access to a larger range and frequent offers keep coming to attract them. These retail chains also provide free home delivery options that have become detrimental to the growth of the small retail business.
3. ***Consumers who frequented the markets*** as a regular routine for exploring or window shopping have also ***reduced.***
4. ***Lack of design institutes*** in India also poses a threat to the domestic companies since the foreign branded toys are anytime better in terms of safety and hygiene for the baby.
5. ***The real estate cost has risen*** due to investments made by foreign brands for opening up their retail outlets. This has made it difficult for the common man to purchase a commercial property for their business.
6. The opening up of the single-brand and multi-brand retail outlets for baby care products has posed ***a threat to small middlemen*** also since their place in the channel of distribution is slowly going fade away with the increase in the number of these stores.

D) Conclusion:

However, FDI withinside the retail phase creates threats to the home shops however the exploration research to date have evaluated that it's far displaying extra of its advantages in India, specifically the clients. The overseas manufacturers are very genuinely attracting Indian clients with the child care merchandise which have been meant preserving in view their flavor and software in mind. The extra elements which can be being loved through the Indian child care product client are higher choices, appealing cut price gives on even sparkling stock, credit score availability, near-to-domestic malls/stores, goodwill, domestic delivery, etc. Nonetheless, the FDI in childcare product marketplace has added a increase to this retail phase and helped the Indian marketplace to convert the conventional approaches of child care to novel ones.

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