

# Impact of Foreign Direct Investment in Retail Sector in India

Dr. Neena J. Parekh

Assistant Professor,

Swami Sahajanand College of Commerce & Management,  
Bhavnagar.

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## ABSTRACT

The increasing disposable incomes among the Indian middle class and increasing young population have been cited as the main reasons for such attractive optimism. This positive opinion of the experts has also encouraged the intense lobbying by certain sections for opening Foreign Direct Investment in this sector. Foreign investors are also very enthusiastic to invest in India's Retail Sector. At present India does not allow FDI in multi-brand retail but permits upto 51 percent in single brand retail and 100 percent in cash and carry wholesale trading. There is a ban on FDI in big multi-brand retail stores but there is no restriction on companies accessing the foreign equity market through the American and Global Depository Receipts. The Government of India opened up FDI in 'Single Brand Retailing' in the year 2006. The Government cap over FDI in retail, like in many other sectors, has been essentially a personification of the dilemma that confronts policy makers about whether opening up FDI in retail would be a boon or bane for the sector and for the stakeholders involved in it. This Research Paper makes a modest attempt of developing an insight as to what are the trends in the Indian Retail Industry and to the benefits and drawbacks of FDI in this sector. It has also focused on whether this policy will be beneficial for the Indian Economy as a whole or not.

**Key words :** FDI, Customer Satisfaction, Retail industry, Global Retail Development Index, Personification, Melancholy and Privatization

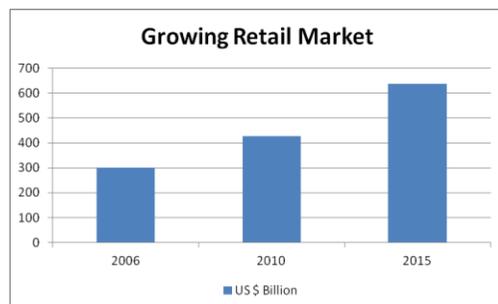
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## 1. Overview of Retail Business in India

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 they are left with little or no hope to grow further in their structured home markets. The increasing disposable income among the Indian middle class, the burgeoning young population is touted as the main reason for such attractive optimism. The positivity about Indian retail scene has also led to an intense lobbying by certain sections for opening Foreign Direct Investment in this sector. India has positioned itself as a promising market for retailers worldwide by virtue of its undernoted strengths :-

- India has witnessed a frenetic pace of retail development over the past five years.

- Goldman Sachs has estimated that the Indian Economic growth could actually exceed that of China by 2015.
- Retail which contributes 10% of our GDP is the largest source of employment after agriculture.
- The Indian Retail market was estimated to be US \$ 427 billion by 2010 & US \$ 637 billion by 2015. The undernoted Tables depict the Growing Retail Markets in India.



Source: Technopak Analysis, 2006

## Share of Organized Sector in Total Retail by Category (%)

Products	'06-07
Food and Grocery	0.7
Beverages	3.1
Clothing and Footwear	18.5
Furniture, furnishings	
Appliances and services	10.2
Non-institutional healthcare	2.1
Sports goods, entertainment, Equipment and books	16
Personal care	5.4
Jewellery, watches, etc	5.6

## 2. Statement of the Problem and Need for Study

Retailing can be defined as a business activity, which offers products or services in small quantities to ultimate consumers, at a place where consumers prefer to buy. In developing countries like India, the unorganized retailers play a dominant role by offering products or services to the consumers at the convenient locations i.e. Kirana Stores or Apana Bazar with effective selling and buyer's retention strategies. But due to the recent changes in the field of retailing and with the entry of big domestic corporations as well as multinational and foreign companies into the field of various retailing ventures, the existing unorganized retailers have also been forced to change their existing business structure.

The perception of consumers, industrialists, academicians and policy makers in respect of the organized and unorganized retailers keep on changing. The organized and unorganized retailers are also in a dilemma about the perception of the different segments as mentioned above. Further, due to the unpredictable nature of the customers, both type of retailers face difficulty in realigning their business strategies. Because of these kinds of issues emerging in today's retail markets, this topic has become very important, which needs an in-depth probing.

## 3. Objectives of the Study

The main objectives of this Research Paper are :

- To find out the Merits and Demerits of Multi Brand FDI in Retail Sector in India.
- To study the reasons for preference of Organized Retail outlets by the consumers in the National Capital Region of Delhi.
- To study the reasons for preference of Unorganized Retail shops by the consumers in the National Capital Region of Delhi.
- To find out the factors influencing the consumers to buy from the organized and unorganized retailers.
- To offer suggestions for organised and unorganized retailers in India.

## 4. Research Methodology :

This study has been done in two parts. In part 1 secondary data has been used from different studies, research papers, journals and websites and the second part consists of the experience survey of 200 consumers from organised and unorganized sector in the National Capital Region of Delhi as per details mentioned below :-

- (i) Sampling Unit : Consumers from different age groups, gender, locations, income levels and educational backgrounds.
- (ii). Sampling Method : Convenience Sampling.
- (iii). Method of data collection : Personal interview with respondents.
- (iv). Type of Questionnaire : Structured questionnaire with suitable scaling.
- (vi). Type of questions : Open ended, close ended, Likert scale and multiple choice questions.
- (v). Pre-testing of questionnaire : It was done among selected respondents on judgment basis and corrections were made in the questionnaire, wherever required.
- (vi). Percentage, weighted average, sign test and chi-square test.

## 5. (A). Part 1 : Survey of Literature : Secondary Data

### Typology of Indian Customers on the basis of Research

As per a report published by "The Times of India, Times Nation, New Delhi" December 3, 2011, Indian population consists of the undernoted three categories :

**(a). India 1 (Consuming Class)**

- Constitutes only 14 % of the country's population

- Most of these customers have a substantial disposable income and they form part of

**(b). India 2 (Serving Class)**

- Includes people like drivers, house hold helpers, office peons, liftmen, washermen etc.

- These people make life easier and more comfortable for the consuming class or India 1.

- Research indicates that for every India one at least three India Twos are there, making up usually called as the upper middle and the lower middle class approx. 55 % of the population but due to low income they have a very little disposable income to spend on buying aspirational goods & services .

**(c). India 3 (Struggling Class)**

- It lives hand-to-mouth existence, so cannot afford to even aspire for good living.

- Unfortunately this segment will continue to be on the peripheries of the consumption cycle in India, in years to come.

**FDI in Organized Retail: Arguments & Counter Arguments****(a). Government of India's Move:**

- In Single-Brand Retail : 100% FDI is proposed to be permitted.

- In Multi-Brand Retail: 51% FDI is proposed to be allowed.

**(b). Advantages of FDI in Retail :**

- The decision which has still formally not been announced is having several riders, including one that restricts its application to only 53 cities which have a population of 1 million or more to protect the interests of different parties like small shop keepers and farmers.

- Huge investments in the retail sector will see gainful employment opportunities in agro-processing, sorting, marketing, logistics, and front-end retail.

- At least 10 million jobs are likely to be created in the next three years in the retail sector.

- FDI in retail will help farmers secure remunerative prices by eliminating exploitative middlemen

- Foreign retail majors will ensure supply chain efficiencies.

- Policy mandates a minimum investment of \$100 million with at least half the amount to be invested in back-end infrastructure, including cold chains, refrigeration, transportation, packing, sorting and processing.

- This is expected to considerably reduce post-harvest losses.

- There has been impressive growth in retail and wholesale trade after China approved 100% FDI in retail.

- Thailand has experienced tremendous growth in the agro-processing industry.

- In Indonesia, even after several years of emergence of supermarkets, 90% of fresh food and 70% of all food is still controlled by traditional retailers.

- In any case, organized retail through Indian corporate is permissible.

- Experience of the last decade shows small retailers have flourished in harmony with large outlets.

**(c). FDI in Retail: Counter Arguments (Disadvantages)**

- It is believed that this move will lead to large scale loss of self-employment because of unbearing intense competition heat for unorganized retailers.

- International experience shows supermarkets invariably displace small retailers.

- Small retail has virtually been wiped out in developed countries like the USA, and in Europe.

- South East Asian Countries had to impose stringent zoning and licensing regulations to restrict growth of supermarkets because small retailers were getting displaced.

- India has the highest shopping density in the world with 11 shops per 1000 people.

- It has 1.2 crore shops employing over 4 crore people; 95% of these are small shops run by self-employed people.

- Global retail giants will resort to predatory pricing to create monopoly/oligopoly. This can result in essentials, including food supplies, being controlled by foreign players.

- Fragmented markets give larger options to consumers. Consolidated markets make the consumer captive.

- Permitting the foreign players with deep pockets lead to consolidation. International retail does not create additional retail markets, it merely displaces existing markets.
- Jobs in the manufacturing sector will be lost because structured international retail makes purchases internationally and not from domestic sources.

#### **(d). Government's Position**

- This will have a salutary impact on food inflation from efficiencies in supply chain. This is also because food, which perishes due to inadequate infrastructure, will not be wasted.
- Sourcing of a minimum of 30% from Indian micro and small industry is mandatory.
- This will provide the scales to encourage domestic value addition and manufacturing, thereby creating a multiplier effect for employment, technology upgradation and income generation.
- A strong legal framework in the form of the Competition Commission is available to deal with any anti-competitive practices, including predatory pricing.
- In principle, Governments should not prevent anybody, foreign or Indian, from setting up any business unless there are valid reasons to do so.
- As far as the fear of loosing job opportunities is concerned, Big retail chains are actually going to hire substantial number of manpower to execute its functions. So this fear is misplaced.

- **Industry Opinion on FDI in Indian Retail**

The analysis of the merits and demerits on FDI in Retail sector in India placed above is enough to indicate that opinion regarding the merits and demerits of allowing FDI in retail with lesser restrictions seems to be divided. The same feeling is echoed when the researchers draw our attention on what the stalwarts of modern Indian retails have to say Mr. Sunil Bharti Mittal. CEO Bharti Group and leading Bharti's Joint Venture with Wal-Mart in India, is of the opinion that FDI rules are delaying their retail debut in India and hopes that these restrictions would go soon. He discards the concern over the negative impact on smaller stores. He says that :

"In a country of India's size, you never have one kind of Store, you will have small stores and you will have very large stores, and the customer will be better served in this manner". He feels that if there are more reform oriented people in this Government, we will see to it that the FDI restrictions go quicker.

(Source; 'Retail debut delayed over FDI Rules'. The Times of India. June 28.2007)

On the other hand, Kishore Biyani, Managing Director, Pantaloon Retail (India) feels that its perhaps too early for FDI

Retailing the retail story in India. [http://www.financialexpress.com/oldfe\\_full-story.php7content](http://www.financialexpress.com/oldfe_full-story.php7content).

According to this article, 'Retail has captured the imagination of the nation. It is all over the business newspapers and television channels and in the notice of Governments of other countries also. Now, the multinational players are beginning to notice retail in India. He says, "I do not oppose FDI in retailing but am uncomfortable with the haste in opening in this sector. The lure of entering one of the last great emerging markets in retail is proving to be too much for large multinational retailers to resist, since their own markets are either barely growing or shrinking. There is enough empirical evidence to indicate that most other Governments allowed domestic retailers to gain size before opening up this sector. I believe that Indian Retailer too should be given this opportunity and allowed a couple of years to demonstrate what they are capable of. Every country goes through a demographic boom, when a majority of the population enters the earning and the spending bracket. India is currently going through this and we should utilize it too grow the country rather than gift-wrap it and allow others to grow".

However, the experts argue that the American Retail market, which is by far a much more matured retail market than India, has some of the well known retail global giants like Wal-Mart, Target, J.C. Penny etc. In spite of this, the mom 'n' pop stores still account for 50 percent of the total American retail trade. Even the Chinese experience shows similar results. In China (where FDI in

retail was allowed a long time back), Small vendors and corner stores continue to co-exist with scores of superstores. The fear that the growth in organized retail, as a result of Foreign Direct Investment, would trample and crush the mom 'n' pop stores also seems to be unfounded to an extent.

As per the findings of a study done by Indian Council of Research on International Economic Relations, Kirana Stores, especially those on the periphery of big super markets, will be the first ones to bear the brunt of rapid expansion of organized retail. However, these kirana stores have a lead time of 10 years which they can use, with support of the Government, to innovate and be a part of the retail revolution. According to a report prepared by researchers of International Food Policy Research Institute and Michigan State University, "Structured changes in retail will surely start affecting a large number of small retailers at some stage be it after one or

### Analysis and Findings

Table 1: Sample Description

Demographics	No. of Respondents	% (Respondents)
<b>AGE</b>		
Less than 30	40	20
Less than 35	34	17
36-40	38	19
41-45	60	30
Above 45	28	14
<b>Gender</b>		
Male	80	40
Female	120	60
<b>Qualification</b>		
Metric	22	11
Intermediate	24	12
Graduation	64	32
Post Graduation	60	30
Professional	30	15
<b>Occupation</b>		
Student	24	12
Government Employees	26	13
Private Employees	32	16
Business/Trade	24	12
Professional	30	15
Housewife/Part time-jobs)	44	22
Agriculture	20	10
<b>Monthly Income</b>		
Less than Rs. 15,000	68	34
Rs. 15,000- 25,000	64	32
Above Rs. 25,000	68	34
<b>Family Nature</b>		
Joint	68	34
Nuclear	132	66
<b>Location</b>		
Urban	84	42
Semi-urban	64	32
Rural	52	26
<b>Marital Status</b>		
Single	64	42
Married	96	48
<b>Family Structure</b>		
Bachelor	64	42
Newly Married Without children	36	18
Married with Dependent children	12	6
Married with Independent Children	36	18
Married with No children	12	6

two decades. But experts are of opinion that to ensure that traditional retailers do not become losers in this revolution, innovation was needed to co-opt".

It has also been observed that an efficient supply chain within the country may augment its linkage to the global supply chain. This in turn may boost farm exports significantly. As per their finding China is said to have trebled its agricultural exports through the FDI 'elixir' in retail. Improved farm exports coupled with promised improvement in margins for farmers may bring in a happier and brighter tomorrow for our farmers.

### 5. (B) : Part II : Perception of the Consumers :

Now let us explore the impact of FDI on Indian consumers from the sample of 200 respondents from the organized and unorganized outlets in the National Capital Region of Delhi.

**Findings on Consumer's Preferences of Shoppings****Table 2 : Sources of Purchase**

No.	Source of Purchase	Percentage
1	Un-Organised Shops	46
2	Organised Outlets	54
	<b>Total</b>	<b>100</b>

(Source : Primary data)

**Analysis :** We can observe from the above Table that 46% of the respondents shopped for essentials at Un-organized retail formats and 54% of the respondents purchased the same from Organized shops.

**Table 3: Purchase Preferences in Un-organized Stores**

No.	Mode of Unorganized	No. of Respondents	Percentage
1	Conventional Stores	23	50
2	Neighbourhood Storeb	20	43
3	Others	3	7
	<b>Total</b>	<b>46</b>	<b>100</b>

**Analysis :** From the response of the consumers of Un-organised sector placed in the above table, we can observe that 50% of the respondents preferred to buy from conventional stores, 43% from neighborhood stores, and 7% preferred to make purchases from others places like street vendors, kirana stores and daily shops, etc.

**Table 4: Purchase Preferences in the Organized Stores**

No.	Mode of Purchase	No. of Respondents	Percentage
1	Supermarket	29	54
2	Chain Stores	17	31
3	Others	8	15
	<b>Total</b>	<b>54</b>	<b>100</b>

(Source : Primary data)

**Analysis :** Regarding the respondents' preference of buying from different organized retail formats, Table 4 shows that 54% buy from Supermarkets, 31% buy from chain stores, and 15% buy from other formats like departmental stores, etc.

**Table 5: Products Purchased From The Unorganized Retailers**

No.	Items purchased from	No.of Respondents	Percentage
1	Grocery	11	24
2	Textiles	6	13
3	Vegetables	7	15
4	Food Items	5	11
5	Stationery	4	9
6	Durables	8	17
7	All the above	5	11
	<b>Total</b>	<b>46</b>	<b>100</b>

Source: Primary data

**Analysis :** From the analysis placed above in table 5, we can observe respondents' preference of buying different products from unorganized retail stores. 24% preferred to buy grocery items from unorganized retail stores. 13% purchased Textile items, 15% Vegetables, 11% preferred to buy Food items, 9% bought stationery and related items, 17% bought durable items from unorganized retailers, and 11% of the respondents purchased all the above mentioned items from unorganized retailers.

**Table 6: Products Purchased From Organized Retailers**

No.	Items purchased from organized	No. of	Percentage
1	Grocery	7	13
2	Textiles	11	20

3	Stationery	5	9
4	Vegetables	5	9
5	Food Items	9	17
6	Durables	12	23
7	All the above	5	9
	Total	54	100

Source: Primary data

**Analysis :** From the Table 6, we can observe that under the categories of organized retail formats, 23% of the respondents preferred to purchase durable items from organized retail stores, 20 % preferred to buy textiles

products, 17% purchased food items and other items, 13% preferred to buy grocery items, 9% preferred to buy stationery, vegetables and all the above items in each category from organized retail formats.

**Table :7 Factors influencing shopping in Unorganized Retailers**

No.	Reason for buying	Respondents	Percentage
1	Good Quality	6	13
2	Affordable Price	12	27
3	Offers	5	11
4	Customer Care	10	22
5	Attractive Schemes	5	11
6	Home Delivery	3	6
7	Discount & Credit	3	6
8	Others	2	4
	<b>Total</b>	<b>46</b>	<b>100</b>

**Analysis :** The above table depicts the respondents' opinion for buying from the unorganized retailers. 27% made purchases

due to affordable prices, 22% for customer care, 13% because of good quality and 11% for offers and attractive schemes.

**Table 8: Reasons for Buying from Organized Retailers**

Reasons for buying	No. of Respondents	Percentage
Good Quality	14	26
Offers	6	11
Door Delivery	5	9
Discount	2	4
Credit Facility	-	-
<b>Total</b>	<b>54</b>	<b>100</b>

Source: Primary Data

**Analysis :** The above table shows respondents' opinion for buying from organized retailers. 26% of the respondents bought items due to good quality, 19% made purchases due to value added customer

service, 14% due to self service and satisfaction, 11% for offers and 9% each for affordable price and due to door delivery service.

**Table 9 : Pleasant Shopping Experience of Consumers**

No.	Types	Percentage	Rank
1	Organised Retailers	78	1
2	Unorganised Retailers	22	2
	<b>Total</b>	<b>100</b>	

**Analysis :** We can observe from the above table that the shoppers were getting a pleasant shopping experience at both the organized and unorganized retail shops. But

the experience of shopping is high at organized retail shop (78%) and 22% disclosed that they received the same experience at unorganized retail shops.

**Table 10 : Purchases as per Income Level**

No.	Income	Organized (%)	Unorganized (%)
1	Less than Rs 15,000	18	45
2	Rs. 15,000- 25,000	36	40
3	Above Rs. 25,000	46	15

**Analysis :** It can be observed from the above table that majority of the purchases made by respondents, both at organized and unorganized retail stores, depended on their income level. 18% of the respondents, whose income was less than Rs. 15,000, preferred to buy from organized retailers, and at the same level of income 45% of the respondents preferred to buy from unorganized retail outlets. 36% of the respondents in the income

category of Rs. 15,000-25,000 preferred to buy from organized stores and 40% of the respondents belonging to the same category preferred to make purchases from unorganized stores. And 46% of the respondents in the income category of above Rs. 25,000 preferred to buy from organized stores, and 15% choose to buy from the unorganized stores.

**Table 11 : Influence of Family Pattern on Purchasing Behaviour**

No.	Family	Organized	Unorganized
1	Joint	29	78
2	Nuclear	71	22
	<b>Total</b>	<b>100</b>	<b>100</b>

**Analysis :** It has been observed that the family patter also plays a very important role in the buying behavior of the consumers. The analysis presented in the above table reveals that under the joint family system, Nuclear

Families preferred to buy from the organized outlets (71%) and the joint families preferred to buy from the unorganized retail shops(78%).

**Table 12 : Purchases made based on the nature of location**

No.	Location	Organised (%)	Unorganised (%)
1	Urban	65	28
2	Semi-urban	23	53
3	Rural	13	19
	<b>Total</b>	<b>100</b>	<b>100</b>

**Analysis :** We can observe from the analysis of respondent's opinion of purchasing from organized and unorganized retail stores, based on their nature of location. It reveals that 65% of the respondents belonging to the urban category preferred to buy from organized retailstores, whereas, 28% preferred to buy from unorganized retail

outlets. 23% of the respondents belonging to the semi-urban areas preferred to buy from organized stores and 53% preferred to buy from unorganized stores. Further 13% of the respondents residing in rural locations preferred to buy from the organized stores, whereas, 19% preferred to buy from the unorganized retail stores.

## 6. Conclusion

The liberalization of Indian Trade and Economy by the Govt. of Indian and allowing foreign participation in retail sector has registered substantial growth in this sector. This is because of consumers in the young generation, urbanization of villages, growth of personal disposable income of the consumers and the requirement of development of infrastructure in India. Now, the Retailers in Organised and Un-organised sector or adopting new strategies to retain their customers and to enhance their market share. The present study has been conducted with the purpose of understanding the changes taking place in the minds of the consumers, industrialists, investors,

Government and Big Retail Outlets in respect of organized and unorganized retailers. The researchers have observed that there are tremendous changes in the demographic system of consumers in India. Now, they prefer to buy different products both from the organized and unorganized retailers. Due to the awareness of quality consciousness consumption both the organized and unorganized retailers endeavor to implement various value-added services to provide pleasant shopping experiences to consumers. The observations of this study are :-

- FDI in Retail appears inevitable and preferable also as it will prevent foreign

players entry in to the Indian Market using other routes.

- The entry of retail big players is likely to heat up Competition, giving consumers a better deal, both in prices and choices.
- These global retail chains need to keep their price levels low and lucrative because that is the USP of their business.
- This can be done by smart procurement and effective inventory management. By allowing them in India, Indian retail can also learn from these good practices.
- The argument that farmers will suffer once global retail has developed a virtual monopoly, is also very weak.
- To begin with, it is unlikely that global retail will ever become monopolies.
- Stores like Wal-Mart, TESCO etc. are by definition few, on the outskirts of cities (in order to keep real estate costs low) and they can not intrude into the territory of local kirana shopkeepers. Given the situation, how will they gobble up the local shopkeeper?
- Further, it cannot be anyone's case that farmers are getting a good deal right now. The fact is that farmers barely subsist while middlemen skim the cream.
- This will create a new source of Income and investment for the Govt., which can be used for the infrastructure development of the country.

### 7. Limitations of the Study

This study has undernoted limitations :

- (a). The primary data used in this study has been collected from the organized and un-organised retail outlets in the National Capital Region of Delhi only. Further studies

by including more universe may present different results.

- (b). Convenience Sampling Design has been used in this study instead of Random Sampling Method, which is considered to be more scientific.

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