Impact of FDI on Retailing
A Multi Dimensional Approach

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Abstract

The waves of changes in Indian Retail Sector over the past has resulted in many issues and challenges for the retail industry, the very recent being the FDI policy in India. The retail industry is expected to grow at a rate of 14% by 2013. According to the McKinsey report (2010) titled 'The Bird of Gold', the rise of India's consumer market shows that by 2025, India would be the world's fifth largest consumer market, with the middle class comprising 41% of India's population at a staggering 583 million people, controlling 59% of India's consumption power. According to AT Kearney 2011 India has been rated as the favourite retail destination for global players. A customer centric revolution has been transforming the ways retailers (organized & unorganized) are thinking and re-designing strategies and added to this the debate on cards is allowing FDI in multi-brand retailing in India became important viewpoint from customers, retailers and economy as a whole. In this context the present paper throws light on analyzing the impact of FDI policy in three critical areas like:

- ***Customers perceptions on Impact of FDI in retailing.***
- ***Impact of FDI on retailers(organized & unorganized).***
- ***Impact of FDI on economy.***

Keywords: *Foreign direct investment, Multi-brand retailing, customers, Organized & Unorganized retailers.*

1. Introduction

The phenomenal growth and change in the India Retail Sector over the years has resulted in many issues and challenges for the retail industry, the very recent being the Foreign Direct Investment policy in India. The first step towards allowing Foreign Direct Investment in Retail was taken in the year 2006. Foreign direct investments have become the major economic driver of globalization, accounting for over half of all cross-border investments. Since then 54 FDI approvals have been granted by the government and the country has received a cash inflow to the tune of about ` 901.64 crore.

The Indian retail sector is mainly divided into: - 1. Organized and 2. Unorganized Retailing. Organized retailing refers to business activities undertaken by licensed retailers, who pay sales tax,

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income tax etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.

Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc. The Indian retail sector is highly fragmented with 97% of its business being run by the unorganized retailers. The organized retail however is at a very nascent stage. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10% of India's GDP. (India's Retail Sector, Dec 21, 2010).

Modern formats of retailing have evolved as a new cutting edge in services sector in last few years and offering high value proposition to shoppers including price discounts and better service. With increasing share of organized retailing in India, the retailers have been experimenting in designing profitable business models, sustaining service quality & delivery levels. India's consumer market is going to be the world's 5th largest by 2025 (McKinsey report 2010), this will happen because of the increasing middle class population which is expected to grow to 41% of India's population at a staggering 583 million people, controlling 59% of India's consumption power. This massive consumer base has attracted many established foreign retailers to consider India as a retail destination. Moreover, after allowing FDI in multi-brand retail in India, the competition from foreign retailers is going to increase multifold and the servicescape in retail will go through a sea change.

This would change the face of the retail sector. In this context, the present paper attempts to analyze the various factors concerning the influx of foreign direct investment its repercussions on customers, retailers, economy as a whole and highlights the challenges and opportunities of FDI policy in Indian retail industry.

2. Need for the Study

In developing countries like India, the unorganized retailers play a dominant role by offering products or services to the consumers at the convenient locations with effective selling and buyer's retention strategies. The phenomenal growth and change in the Indian retail sector over the years has resulted in many issues and challenges for the retail industry, the very recent being the Foreign Direct Investment policy in India. This would change the face of the retail sector. But due to the recent changes in the field of retailing and with the entry of big domestic players, MNC's and giant foreign players into the field of retailing, the existing unorganized retailers have also been forced to change their existing business structure. The perception of consumers, retailers, academicians and policy makers in respect of the organized and unorganized retailers are changing. The organized and unorganized retailers are also in a dilemma about the perception of the different segments as mentioned above. There is a huge debate going on the current FDI policy where some argue, FDI would be a boon to Indian retail sector and others contradict that it would be a curse.

In this context, the present paper attempts to analyze the various factors concerning the influx of foreign direct investment its repercussions as well as the opportunities for FDI in the Indian retail industry. Because of these kinds of issues emerging in today's retail markets, this topic has become very important, which needs an exhaustive study to understand the impact of FDI in three critical areas like:

- Customers perception of FDI on retailing
- Impact of FDI on traditional retailers
- Impact of FDI on economy

3. Objectives of the Study

Having immense potential and current status of the entry of the global giants to Indian retail industry, this paper focuses on the Indian retail story with the objective of highlighting some of the major areas which would have impact on FDI in retailing.

The objectives of the paper are:

1. To evaluate customers viewpoint on FDI in Indian retailing.
2. To understand the overview of three dimensions of FDI in retail sector – Challenges, opportunities and key success factors.
3. To review the impact of FDI policy on Organized and Unorganized retail Sector.
4. To emphasize on the various issues, changes and influence of current FDI policy on economy as a whole.

RESEARCH GAPS

Earlier studies have focused on various issues of the current FDI policy on retailing but no or very few studies have focused this from view point of customers. As we know customers are the key driving factors for success or failure of any business this study throws light on such unexplored area and hence becomes a multi dimensional approach on impact of FDI on retailing in Indian context.

4. Review of Literature

FDI as defined in Dictionary of Economics (Graham Bannock *et al*) is investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new (Greenfield) site.

FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. (Hemant Batra, 2010).

5. Regulatory Bodies of FDI in India

Foreign Investment in India is governed by the FDI policy announced by the Government of India and the provision of the Foreign Exchange Management Act (FEMA) 1999. The Reserve Bank of India ('RBI') in this regard had issued a notification. (FEMA, 2000) which contains the Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000. This notification has been amended from time to time. The Ministry of Commerce and Industry, Government of India is the nodal agency for motoring and reviewing the FDI policy on continued basis and changes in sectoral policy/sectoral equity cap. The FDI policy is notified through Press Notes by the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP). The foreign investors are free to invest in India, except few sectors/ activities, where prior approval from the RBI or Foreign Investment Promotion Board ('FIPB') would be required. The Government of India identifies the significant role played by foreign direct investment in accelerating the economic growth of the country and thus started a swing of economic and financial reforms in 1991. India is now initiating the second generation reforms intended for a faster integration of the Indian economy with the world economy. As a consequence of the introduction of various policies, India has been quickly shifting from a restrictive regime to a liberal one. Now FDI is also encouraged in most of the economic activities under the automatic routes.

FDI POLICY IN RETAILING

According to DIPP, 2012 the sector specific guidelines for FDI with regard to the conduct of trading activities are:

1. FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.
2. FDI up to 51% with prior Government approval (i.e.,) 'Foreign investment promotion board' for retail trade of 'Single Brand' products.
3. FDI is not permitted in Multi Brand Retailing in India.

FDI inflows in India are allowed under five broad categories

i. Foreign Investment Promotion Board's (FIPB) discretionary approval route for larger projects.

ii. Reserve Bank of India's (RBI) automatic approval route.

iii. Acquisition of shares route (since 1996).

iv. RBI's non - resident Indian (NRI's) scheme.

v. External commercial borrowings (ADR/GDR) route.

EVOLUTION OF FDI

a. The first phase, between 1969-1991, was marked by Monopolies and Restrictive Trade Practices Commission (MRTP) in 1969, which imposed restrictions on the size of operations, pricing of products and services of foreign companies.

b. The second phase, between 1991-2000, witnessed the liberalization of the FDI policy, as part of the Government's economic reforms program. In 1991 as per the 'Statement on Industrial Policy', FDI was allowed on the automatic route, up to 51%, in 35 high priority industries.

c. The third phase, between 2000 till date, has reflected the increasing globalization of the Indian economy. In the year 2000, a paradigm shift occurred, wherein, except for a negative list, all the remaining activities were placed under the automatic route.

IMPACT OF FDI IN RETAILING

Studies on FDI: Pessimistic approach (Half Empty Glass)

They have mostly focused more on opening stores in a drive to capture market share than on making supply chain improvements and operational efficiencies (Singh and Singla 2011; Dutta 2011). This may not change even with FDI in MBRT though 50% investments in back-end infrastructure is a reasonable condition.

Some recent studies have recognized technology, labour skills and infrastructure as determinants of foreign investment. If these determinants are not recognized, it will be difficult to explain some of the patterns in 56 the geographical structure of FDI at the world capita income, in relation to outbound as well as inbound FDI (Hummels and Stern, 1994).

Honourable Department Related Parliamentary Standing Committee on Commerce, in its 90th Report, on 'Foreign and Domestic Investment in Retail Sector', laid in the Lok Sabha and the Rajya Sabha on 8 June, 2009, had made an in-depth study on the subject and identified a number of issues related to FDI in the retail sector. These included:

- Unfair competition and ultimately result in large-scale exit of domestic retailers, especially the small family managed outlets, leading to large scale displacement of persons employed in the retail sector.
- Further, as the manufacturing sector has not been growing fast enough, the persons displaced from the retail sector would not be absorbed there.
- Organized retail, is still under-developed and in a nascent stage and that, therefore, it is important that the domestic retail sector is allowed to grow and consolidate first, before opening this sector to foreign investors.

- The entry of large global retailers such as Wal-Mart would kill local shops and millions of jobs.
- Global retailers would conspire and exercise monopolistic power to raise prices and monopolistic (big buying) power to reduce the prices received by the suppliers and it would lead to asymmetrical growth in cities, causing discontent and social tension elsewhere. Hence, both the consumers and the suppliers would lose, while the profit margins of such retail chains would go up.

Studies on FDI: Optimistic approach (Half Full Glass)

- Supporters of FDI in retail trade argue that liberalization will benefit multiple economic agents along the supply chain.
- Farmers may benefit from having the option of selling directly to organized retailers. The prevalence of intermediaries that make the link between farmers and (unorganised) retailers inflates prices and reduces transparency along the supply chain. Allowing farmers to sell directly to organised retailers reduces the role of intermediaries and increases profit margins for both farmers and retailers. Indirectly, farmers will also gain from the much needed investments aimed to improve the efficiency of the marketing system such as investment in post-harvest cold-chain and storage infrastructure in a context in which at the present time post-harvest waste and loss are significant due to the lack of adequate facilities.
- Finally, consumers are expected to be the main beneficiaries of the liberalisation of foreign entry in the retail sector through improvements in price and quality and access to a wider range of varieties. Existing research found that with entry of foreign firms in organised retail overall consumer spending increases and while all income groups improve their purchasing power, lower income consumers benefit the most (Joseph *et al.*, 2008).

6. Methodology of the Study

The present study is an analytical one. It uses both primary and secondary sources of data.

- The primary data has been obtained using questionnaire method administered at Hyderabad for evaluating the viewpoint of customers on impact of FDI policy in Indian retailing.
- For analyzing the impact of FDI on retailers and economy as a whole secondary data sources from various published electronic sources like books, bulletins, sectoral reports, journals, browsers, websites and online databases were used.
- Sample size: The sample consisted of 100 customers basically who have little awareness about FDI.
- Sample design: For the purpose of selecting the sample, convenience random sampling was used in this study.

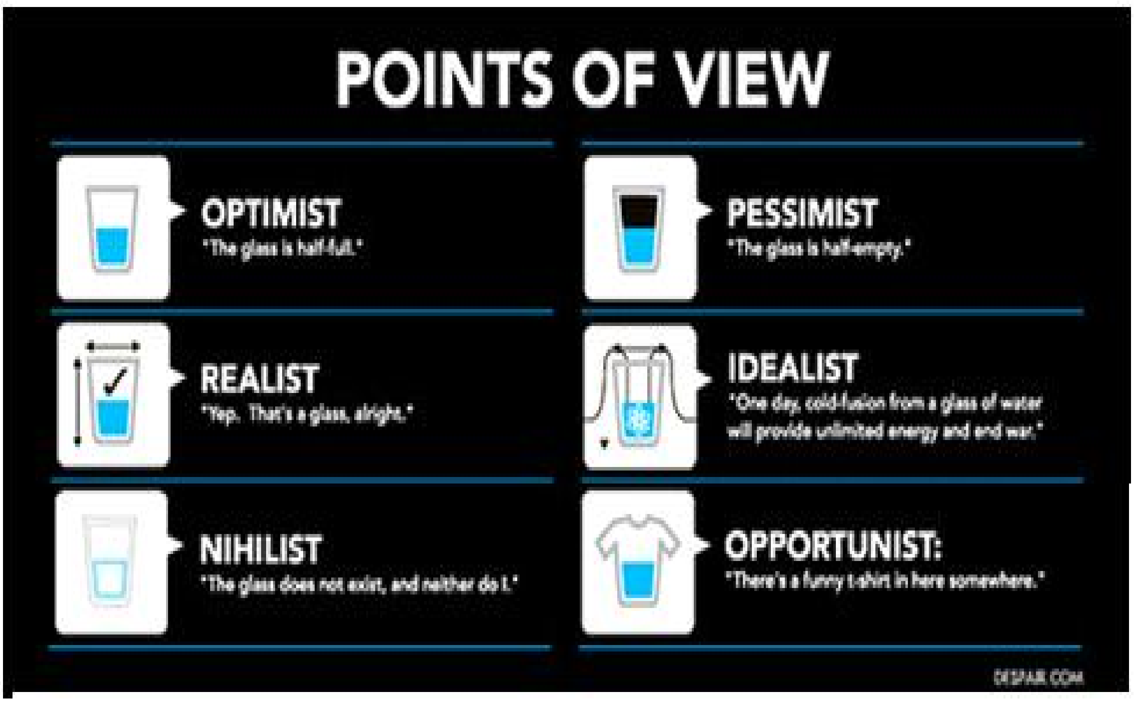
- Statistical tools: Various attributes which are influenced by FDI policy are chosen and analyzed using Likert's five point scale from strongly agree to strongly disagree. The final scores has been calculated using weighted ranking method.

7. LIMITATIONS OF THE STUDY

- The study was exploratory in nature and used only a small sample of 100 respondents.
- The study used primary data only to analyze the viewpoint of customers on FDI in retailing and all the others were analyzed using secondary data sources
- The study is limited only to Hyderabad and hence cannot be a representative of entire population.

Part 1: Analysis & Findings

Half empty & Half Full Approach



ON FOREIGN DIRECT INVESTMENT

So the current FDI policy is viewed by various academicians, customers and retailers in two different ways.

1. Optimistic approach (Half full glass): Positive vibrations of FDI in various areas.
2. Pessimistic approach (Half empty glass): Negative vibrations of FDI in retailing.

From the above literature the positive sides of FDI in retailing are

- Increase in employment opportunities
- Improves supply chain management
- Technology up gradation
- Tourist development
- Upgradation of agriculture
- Increase efficiency in small and medium scale industries
- Growth in market size and greater productivity
- Benefits to economy through greater GDP
- Tax income and employment generation
- Farmers get better prices

Negative sides of FDI in retailing are

- Unfair competition and ultimately result in large-scale exit of domestic retailers, especially the small family managed.
- Organized retail is still under-developed and in a nascent stage and that, therefore, it is important that the domestic retail sector is allowed to grow and consolidate first, before opening this sector to foreign investors.
- The entry of large global retailers such as Wal-Mart would kill local shops and millions of jobs.
- Global retailers would conspire and exercise monopolistic power to raise prices and monopolistic (big buying) power to reduce the prices received by the suppliers and it would lead to asymmetrical growth in cities, causing discontent and social tension elsewhere. Hence, both the consumers and the suppliers would lose, while the profit margins of such retail chains would go up.
- It will mainly cater to high-end consumer placed in cities and metros but ignores customers in villages and small towns.

Part- 2: Analsysis and Findings

Table 1 : Demographic Profile

Demographic Factors	Characteristics	Frequency	%
Age	Below 25	4	3.92%
	25-35	33	32.35%
	35-50	37	36.27%
	51 and above	28	27.45%
Gender	Male	64	62.75%
	Female	38	37.25%
Education	Under Graduate	3	2.94%
	Graduate	46	45.10%
	Post Graduate	53	51.96%
Martial status	Unmarried	25	24.51%
	Married	77	75.49%
Family Size	Below 4 members	62	60.78%
	4 to 6	36	35.29%
	More than 6	4	3.92%
Occupation	Student	3	2.94%
	Business	30	29.41%
	Professional	40	39.22%
	Service	27	26.47%
	Others	2	1.96%
Annual Income	Rs.10,000 and below	6	5.88%
	Rs.10,000 to Rs.25,000	22	21.57%
	Rs.25,000 to Rs.50,000	46	45.10%
	Rs.50,000 and above	28	27.33%

Source: Questionnaire

- From the above table it is clear that majority of the respondents are young people (36.27%) educated (53%) and males (64%).

- Majority of the respondents are professionals (40%), married (77%) with family size (62%) below four members and earn annual income(46%) between 25000-50000 rupees.

  Do you think the new FDI Policy will have an impact on the following?

  Kindly rate your preferences.

Table 2 : Customers Perceptions on Impact of FDI

S.No	Description	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	Position Weights	Rank
1	Increase the prices	8	20	24	40	10	282	1
2	Improves quality	5	11	15	45	26	230	4
3	Brings innovation in products	0	3	15	22	62	163	7
4	Increase competition	1	4	11	32	54	172	5
5	Improve service scape	0	3	7	40	52	165	6
6	Technology upgradation	0	0	3	42	55	148	10
7	Improves supply chain management	0	0	2	55	45	161	9
8	Increase variety and assortment	0	0	2	56	44	162	8
9	Increase Growth in economy	5	12	24	36	25	242	2
10	Effects unorganized sector	2	18	22	26	34	234	3

Source: Questionnaire

- From the above table we can analyze that customers perceive that the current FDI policy would increase the prices of products and result growth in the economy.
- Customers also perceive that the current FDI policy would affect the unorganized retailers and improves the quality of products. These were the important factors customers perceive to have profound impact due to the current FDI policy.

- Supply chain management and technology up gradation were having less significance in customers point of view.

8. Suggestions & Conclusions

A rational approach would be not to throw the baby in water and examine the specific issues and attach conditions that neutralize the negative impact as apprehended by many.

Hence the presence of global retailers in Indian retailing must not be completely viewed in optimistic or pessimistic way but to handle through idealistic approach in various steps:

- Firstly the global retailer's should not hinder the aspirations of Indian farmers and consumers. FDI - Retail should be a process of integrating Indian economy to the global economy as well as farmers can be integrated into the world class retail market not on the mercy or control of global retail giants.
- The Government should make sure that the farmers will receive the reasonable prices.
- Global retailers should be mandated to work with farmers to improve yields by enabling them provide quality inputs, best farm technologies, timely credit and remunerative prices for their produces.
- Government needs to support farmers to meet the needs of modern supply chains and marketing systems to enable with the supermarket sector.
- Government should ensure that the agro produces should be procured from the local producers and local people must be given priority in employment opportunities in processing and supply chain.
- Lastly to put into a nutshell, the idealistic way to see is not whether local or foreign retail players leads this next wave of retail revolution in India but to see Indian consumer benefits in terms of way in to innovative retails formats, best practices and gains from new servicescape from all over the world along with great shopping experience.

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