

## FDI IN RETAIL: A MULTIDIMENSIONAL ANALYSIS OF FOREIGN DIRECT INVESTMENT IN INDIAN RETAIL INDUSTRY

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### ABSTRACT:

*“Foreign direct investment (FDI) or foreign investment can refer to the net inflow of funds to acquire a long-term management interest in an enterprise operating in a foreign economy. It is the accumulation of equity, reinvestment of retained earnings, other long-term sources of capital, and short-term funds as presented in the balance of payments.” According to a recent survey by UNCTAD India is projected as the second most attractive destination for FDI (only after China) for multinational corporations during the years 2010-2012. As per the data, the sectors such as telecom, services, infrastructure and computer hardware and software attract the FDI the most. The leading sources of FDI are from the economies such as the US, the UK, Singapore and Mauritius.*

*Retailing includes all the activities involve the selling goods and services directly to final consumers for personal, non-business use. PwC research indicates that although the Indian retail sector is worth USD 260 Billion & it contributes 14 % to GDP of India. Indian retail industry is growing approximately 12% rate annually, out of that organized retail sector contributes only 5 to 6 % but growth rate is approximately 18 to 20 % & unorganized retail sector is growing approximately at 4 to 5 % annually. India is becoming an emerging, exciting & dynamic retail destination due to large market size, low organized retail penetration, strong GDP growth rate, increasing personal income & large number of inspirational customers like middle class, young people & rural population. In the growing market, retailing has become one of the major emerging trends in the entire economical cycle.*

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*This research is based on various aspects related to Foreign Direct investment in Indian retail industry, formats of retailing, various players in Indian retail industry, study of advantages and drawbacks of FDI in Indian Retail Industry and SWOT analysis of FDI in Indian retail industry. This study is also focusing on perceptions of small retailers from various areas of pune city. As in pune city there are variety of small retailers and there is great presence of organized retailers also variety of customers from various income levels found so pune city can be considered as representative of India as well as world to find out impact of FDI on local retail industry of any country.*

**Keywords:** FDI, Retail Industry, SWOT analysis, Retail Formats, Retailer's Perception

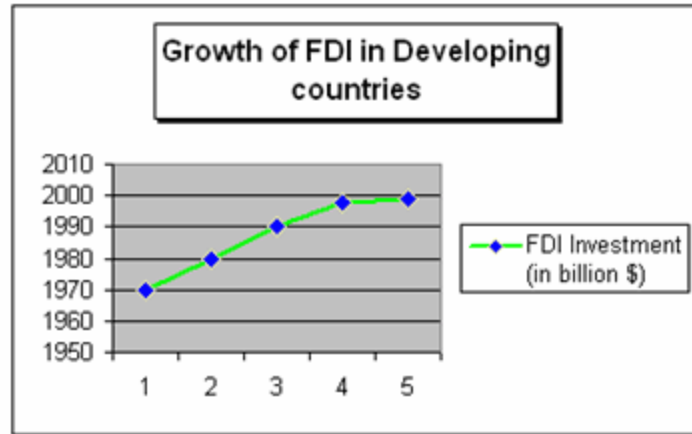
## 1. INTRODUCTION:

FDI can be defined as a cross border investment, where foreign companies invest into the organizations of the domestic market excluding the investment in stock. It brings private funds from overseas into products or services or facilities. The domestic company in which foreign currency is invested is usually being controlled by the investing foreign company. In the past decades, FDI was concerned only with highly industrialized countries. US was the world's largest recipient of FDI during 2006 with an investment of 185 billion from Organization for Economic Co-operation and Development countries. France, Greece, Iceland, Poland, Slovak Republic, Switzerland and Turkey also have a positive track record in FDI investments. Now, during the course of time, FDI has become a vital part in every country particularly with the developing countries.

This is because of the following reasons:

- Availability of cheap labor.
- Uninterrupted availability of raw material.
- Less production cost compared with other developed countries.
- Quick and easy market penetration.

Year	\$ (in billion)
1970	10
1980	20
1990	26.7
1998	179
1999	208



Source: [www.fibre2fashion.com](http://www.fibre2fashion.com)

The Department of Industrial Policy & Promotion, Ministry of Commerce and Industry, Government of India has released the Foreign Direct Investment Policy, 2013 (“FDI Policy, 2013”), which is the sixth edition of the consolidated foreign direct investment policy and has been effective from April 05, 2013. The FDI Policy, 2013, incorporates the changes made in the foreign investment policy over the last year. The changes include investments in sectors like single and multi-brand retail, power exchanges; asset reconstruction companies, broadcasting, civil aviation, and non-banking financial companies.

❖ **FDI can come into India in two ways:**

- a) Direct route/Automatic route: It does not require prior approval either of Reserve Bank of India (RBI) or government.
- b) Government route: Government route means that investment in the capital of resident entities by non- resident entities can be made only with the prior approval from Foreign Investment Promotion Board

❖ **Single-Brand Retailing**

Under single-brand retailing, the foreign investor or brand owner can invest up to 100 per cent in an Indian company with prior Government approval. The Indian company can undertake retailing of single brand products which are branded at manufacturing stage. These products

should be such that they are sold internationally in at least one country other than India. The exhaustive list of products to be sold under the single brand umbrella needs to be intimated to the Government at the time of approval, and any addition to products or product categories requires fresh approval or amendment. The Government permitted 51 per cent FDI in single-brand retailing because of a view that such products are high-end products, such as sportswear, luxury goods, apparel, fashion clothing, jeweler, handbags and lifestyle products. These cater to the needs of a brand conscious segment of the population, which is distinctly different from the customers catered to by small retailers and kirana shops.

#### ❖ **Multi-Brand Retailing-**

Whenever the issue of opening up of multi-brand retailing to FDI crops up, a number of concerns are expressed, such as protecting the interests of the small retailers and the still under-developed retail sector of India. The Government has long been represented to allow the Indian organized retail sector to first develop and be ready to face competition from the large multinationals before opening up this sector for foreign investors.

#### ❖ **Foreign Direct Investment in the Indian Retailing**

It is said that India is a land of Retail democracy. The Indian retail industry is generally divided into two major segments – organized retailing and unorganized retailing.

FDI inflows in Single-Brand product retail amounts to a very negligible percentage of the total FDI inflow into the Indian Economy. So far it has acted as a driver to attract investment in manufacturing, marketing and distribution of foreign merchandise to the consumers, fueling sourcing of goods, and increasing the competitiveness of Indian companies by providing access to global technology and management methods. During the decade of April 2000 to July 2010, an FDI inflow of US \$ 196.13 million was received by the Indian Economy in Single-Brand Retail, comprising of only 0.17 % of the total FDI. Foreign-owned Single-Brand retail outlets usually showcase only premium priced products and focus on high-end customers who are chiefly brand-conscious. In regard to cash and carry business, way back in 1997, India had permitted FDI with 100 % equity trading through government approval route.

Later from the year 2006, it was allowed under the automatic route. During the decade April, 2000 to March, 2010, cash and carry business sector received an FDI inflow of US \$ 1.779 billion comprising a mere 1.54 % of the total FDI inflows into the economy during the period.

❖ **Latest news from different news papers on FDI in retailing in India:**

**Situations vacant in Gurgaon retail sector** ET 05 Dec 2013, 18:39 IST

“Between 2004 and 2008, the city created around 10,000 jobs in the retail sector. It suffered a dent after 2008, when the global slowdown hit the market and the sentiment.

**Blocking retail FDI to rob India of 1 crore jobs** ET 15 Jan 2014, 14:07 IST

The move comes at a time when several global retailers led by Tesco are planning to enter the multi-brand retail sector.

**Removal of multi-brand retail FDI to hit investments: India Inc** ET 14 Jan 2014, 01:56 IST

India Inc today expressed strong displeasure over Delhi govt's decision to withdraw approval to FDI in multi-brand retail.

**FDI in online retail: Rift arises as MNCs seek 100% FDI, domestic cos insist on partial opening-up** ET 09 Jan 2014, 11:24 IST

Global MNCs such as Amazon are favouring 100% FDI in the sector and on the other are large Indian players who want only a partial opening-up.

**'Foreign retailers may not enter India before 2014 elections'**

IANS Aug 4, 2013, 09.59PM IST

NEW DELHI: Foreign retailers like Walmart, Tesco and Carrefour are unlikely to enter the supermarket business in India before the 2014 general elections even though the government has partly addressed their concerns and relaxed the norms, industry experts say.

*Dr. Manish Khare in his research paper “Foreign Direct Investment in Indian Retail Sector – A SWOT analysis” published in Anusandhan – AISECT University Journal, Vol II in Sept. 2013 focused on the economic progress made by India’s Retail Sector in the planning era, and*

the emerging issues under globalization. It examines the socio-economic magnitudes, problems and challenges of the country as well as the pitfalls in FDI planning in India. The paper also makes some policy suggestions to address the constraints in promoting sustainable FDI in India. That study focused on SWOT analysis of FDI in Indian retail industry. As per study some of strengths are like Highest shop density in the world. Customers will have access to greater variety of international quality branded goods. Employment opportunities both direct and indirect have been increased. Farmers get better prices for their products through improvement of value added food chain, Some of the weaknesses are like Retail chain are yet to settled down with proper merchandise mix for the mall outlets. Small size outlets are also one of the weaknesses in the Indian retailing, 96% of the outlets are lesser than 500 sq. ft.,Lack of trained & educated force.

*N. V. Shah & M. A. Shinde in their research paper “FDI in Indian Retail Sector: A Critical Analysis” published in Tactful Management Research Journal, Vol 1, Feb 2013* focused on present FDI policies for Indian Retail Sector, structure of Indian retail industry, Global retail scenario, and various countries and their FDI in Indian retail sector. Growing economy and increasing purchasing power would compensate the loss of market share of the unorganized sector retailers. There will be initial and desirable displacement of middlemen involved in the supply chain of farm produce, but they would be absorbed by increase in the food processing sector induced by organized retailing. Innovative government measures could mitigate adverse effects on small retailers Farmers will get an opportunity of direct marketing and hence get better price for their produce. Consumers would certainly gain from enhanced competition, better quality, variety of branded goods and attractive discount offers. The state revenues will rise on account of larger business as well as recorded sales. The Competition Commission of India would need to play a proactive role to avoid unfair competition in retail industry. The displaced retailers and employees in unorganized sector should be provided necessary training of modern trade and absorbed in the modern trade on priority basis.

*Ms. Arsee Singh in her research study on “FDI in multi brand retail” published in Brus Chambers, Advocates & Solicitors, Mumbai, India July 2013 report* focused on strategies of entering in foreign market, changes made in 2013 FDI policy, present situation of FDI allowed

by government of India for Indian retail industry, Controversies that are feared to emerge with the introduction of FDI in (MBRT) ministry of retail business. In the conclusion part it was included that for the mandate to permit FDI in MBRT and with the furor entire nation as well as the political parties did not expect the Indian Government to permit 51% FDI by foreign multi brand retailers. India however, took safer and slower steps towards FDI. It permitted 51% FDI in Multi-brand retail trading. Controversies that are feared to emerge with the introduction of FDI in MBRT included in that study were as follows:

Issue 1: FDI will lead to closing down of small retail stores, leading to unemployment, Issue 2: The global players like Wal-Mart, Tesco will have a monopoly over the Indian retail market Issue 3: India doesn't need foreign retailers'; traditional markets and companies exist, Issue 4: Only foreigners will benefit from FDI, Issue 5: Comparing foreign retail companies with East India Company.

The Indian Domestic apparel market is accounted for between Rs 120-150 million Major players in Indian garment market are Pantaloon, Shoppers Stop, TATA, Globus stores, Arvind Brands, Madura Garments, Wills Lifestyle.

### 3. OBJECTIVES OF STUDY:-

- 1) To study FDI policy for Indian Retail Industry.
- 2) To study various players in Indian Retail Industry
- 3) To study various factors related to FDI in Indian Retail Industry.
- 4) To study pros & cons of FDI in Indian Retail Industry.

### 4. RESEARCH METHODOLOGY:-

- 1) **Type of research:** - Causal Research.

In this research researcher had tried to find out causes and effects of FDI policy and factors affecting FDI in Indian retail industry and its impact on Indian retail industry.

- 2) **Data:-** In this research secondary data was considered for study.

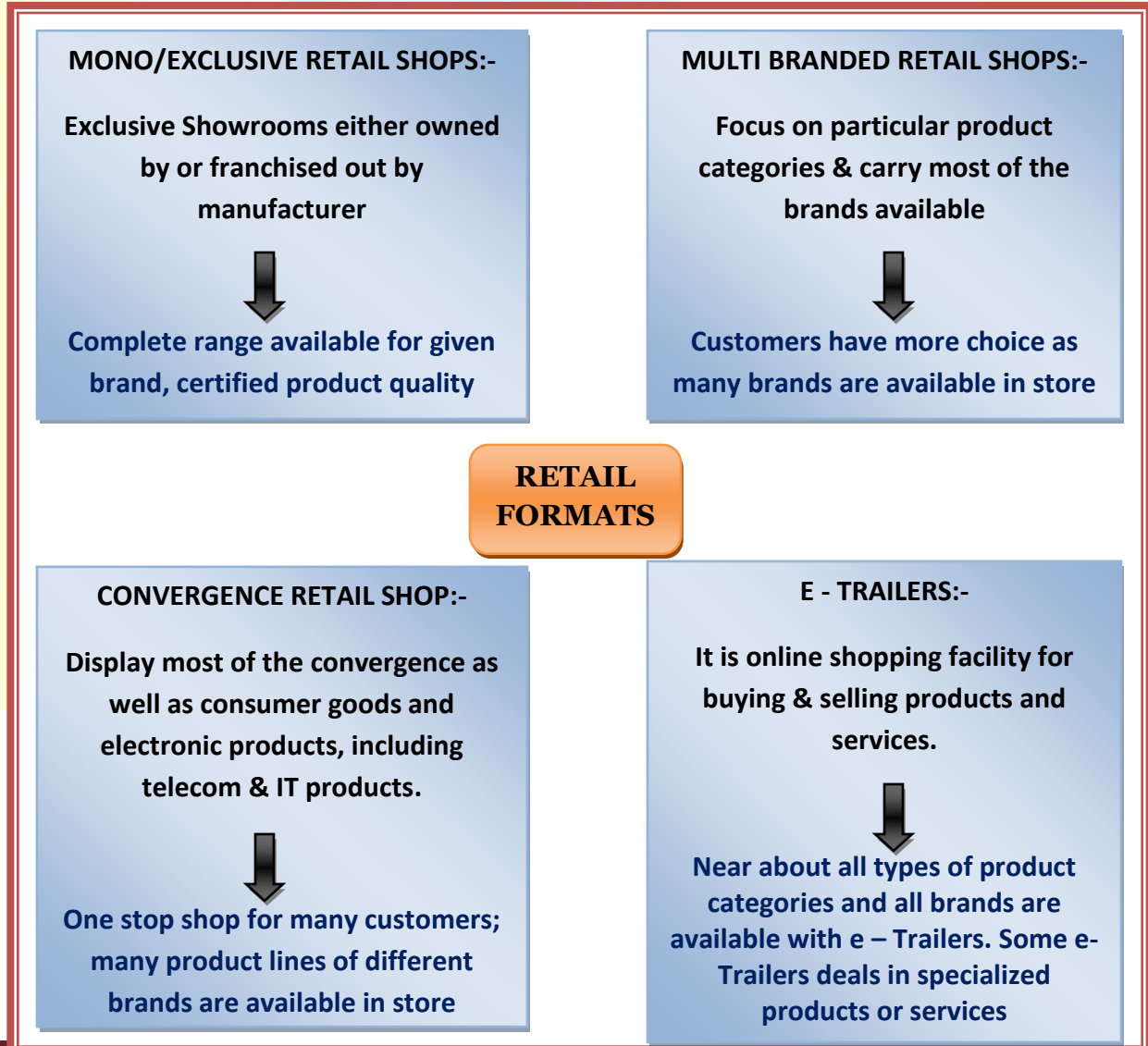
**Data Collection for secondary data:-** Secondary data was collected from different web sites previous research paper from national & international journals and reports published

by Government of India related to Foreign Direct Investment & FDI in Indian Retail Industry, facts and figures of Indian retail industry.

**Data Collection for primary data:-** Primary data was collected from 100 small and medium retailers from various areas of pune city regarding small retailer's perception towards new FDI policy for Indian retail industry.

## 5. MULTIDIMENSIONAL OVERVIEW OF FDI IN INDIAN RETAIL SECTOR:-

- RETAIL FORMATS IN INDIAN RETAILING:-





Source: Aranca Research

- VARIOUS PLAYERS IN INDIAN RETAIL INDUSTRY:-

FOREIGN ORGANIZE RETAILERS IN INDIA WITH COLLABORATION



INDIAN ORGANIZE RETAILERS IN INDIA



Margin Free Market

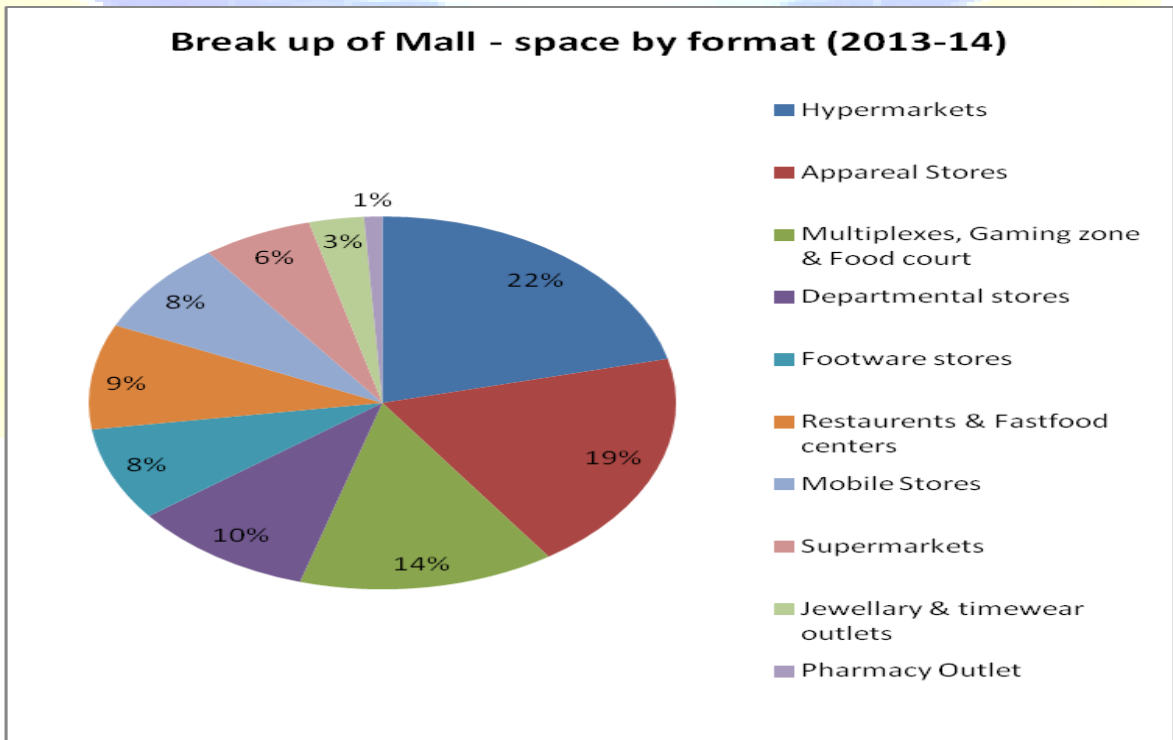


SOME OF THE RETAIL BRAND OUTLETS IN INDIA



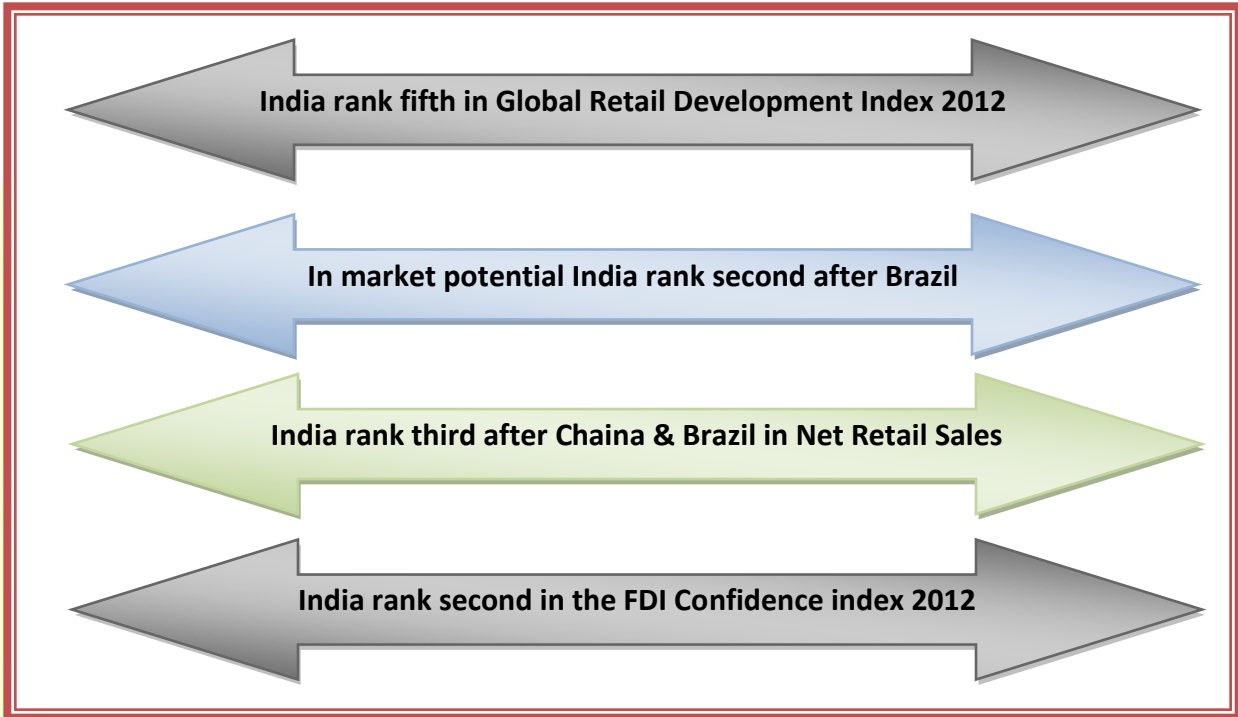


- EXPECTED GROWTH ACROSS PRODUCT CATEGORIES & FORMATS:-



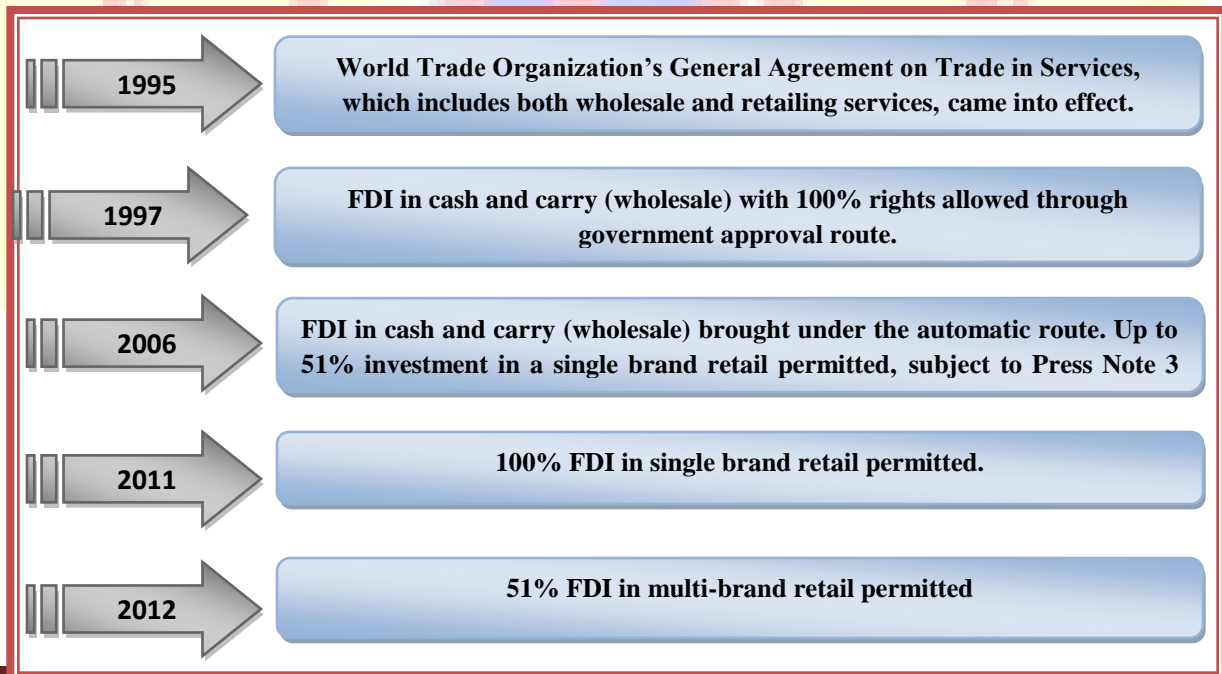
*Source: Technopak Advisor Pvt. Ltd. Cushman & Wakefield Research*

- SIGNIFICANT GLOBAL POSITIONING OF INDIAN RETAIL SECTOR:-



*Source: A.T. Kearney 2012 FDI Confidence Index, Aranca Analysis*

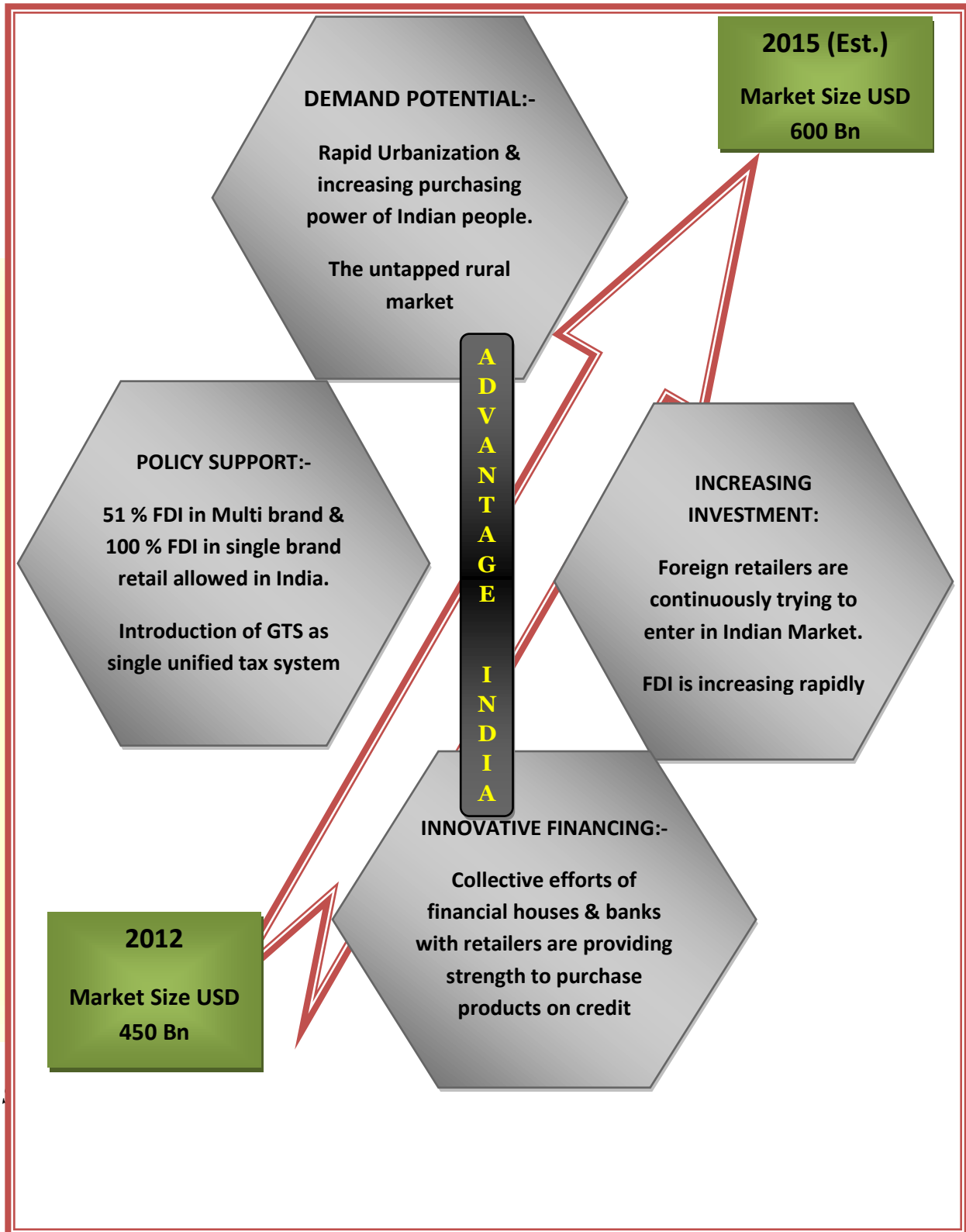
- IMPLEMENTATION OF FDI POLICIES IN INDIAN RETAIL INDUSTRY:-



- **CONTROVERSIES THAT ARE FEARED TO EMERGE WITH THE INTRODUCTION OF FDI IN MULTI BRAND RETAILING IN INDIA:-**



I J M R A



**STRENGTHS:-**

Competition leads better products & services to customers

Large variety of products under one roof

India benefits from foreign investment

Authentic Products & Guarantee

Pleasant shopping ambience

Research driven environment & competent manpower

Technology Driven

**WEAKNESSES:-**

High overhead & Labor Cost

Non availability of land space at prime locations

Mindset of Indian people

Prices of products are more as compare to specialized shops

Retail chains are yet to settle down with proper merchandise mix

Will mainly caters to high end consumers in metros.

**OPPORTUNITIES:-**

Focus on more quality, Availability & variety in products

Status consciousness & changing lifestyle of Indians

Improving sourcing options

Increase disposable Income

Increase employment

Increase business like infrastructure development, furniture, computers etc.

Improve competition.

**THREATS:-**

Big retailers like Wal Mart or Tesco may have monopoly over Indian retail market

Threats of survival of small retailers

Work will be done by Indians and profits will be grabbing by foreigners

Unemployment due to advance technologies uses by big retailers

Threat of losing local supplier's business because of use of advance technology and SCM practices adapted by big retailers.

## 6. DATA ANALYSIS:- PERCEPTION OF SMALL RETAILERS IN PUNE CITY ON THE NEW FDI POLICY FOR INDIAN RETAILING:

No.	Statement	Agree (%)	Disagree (%)	Neutral (%)
1	Big store has cheaper priced products.	15	79	6
2	Big Store have more variety of products	87	12	1
3	Big stores offer more services and pleasant ambiance so more customers get attracted towards them	90	8	2
4	Big stores offer more schemes on variety of products so more customers get attracted towards them	83	12	5
5	With the help of advertising big stores attracts more number of customers	85	12	3
6	Big store affects sale of my store	20	79	1
7	My regular customers would get attracted towards big stores for some products	67	27	6
8	Big stores customers category become separate than other outlet.	48	46	6
9	Big store would be my major competitor	35	68	7
10	Big store would bring more customers in the area	78	18	4
11	Small retailers have problems because of the presence of big retailers	25	73	2
12	Average expenditure of my customer would decrease because of presence of Big retailers	52	40	8
13	My number of customers would increase with the presence of Big store	40	52	8
14	Smaller retailers have own strategy to attract customers	80	16	4
15	My outlet has different strategy for customer attraction than Big store	75	23	2
16	Oppose the FDI in multi-brand retail in India Retailing	89	6	4



**HYPOTHESIS TESTING:-**

H0: According to perception of retailers, there is no difference in retail scenario for small retailers due to new FDI policy for Indian retail

H1: According to perception of retailers, there is significant difference in retail scenario for small retailers due to new FDI policy for Indian retail

Retailer’s agreement on above statements related to FDI policy for Indian retailers is considered as change in retail scenario & disagreement is considered as no change in retail scenario.

Sr. No.	Change	No Change	Sr. No.	Change	No Change
1	15	79	9	35	68
2	87	12	10	78	18
3	90	8	11	25	73
4	83	12	12	52	40
5	85	12	13	40	52
6	20	79	14	80	16
7	67	27	15	75	23
8	48	46	16	89	6

For testing above Hypothesis, two sample t test is used by the researcher to check as per retailer’s perception whether retail scenario get change or remain same due to new FDI policy for Indian retail – Two sample t test with the help of SPSS.

**Group Statistics**

Retail Scenerio		N	Mean	Std. Deviation	Std. Error Mean
Number of retailers	Change in Retail Scenario	16	60.5625	26.70822	6.67706
	No change in retail scenario	16	35.6875	26.89168	6.72292

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Number of retailers	Equal variances assumed	.003	.957	2.625	30	.013	24.87500	9.47527	5.52392	44.22608
	Equal variances not assumed			2.625	2.99986	.013	24.87500	9.47527	5.52388	44.22612

**Interpretation:-** As values of t for both cases i. e. for equal variance assumed and equal variances not assume is same 2.625 therefore accepting null hypothesis & rejecting alternative hypothesis therefore According to perception of retailers, there is no difference in retail scenario for small retailers due to new FDI policy for Indian retail

**6 FINDINGS OF THE STUDY:-**

- There is expected growth in Hypermarkets & Apparel Stores for mall space in Indian in 2013-14.
- India has great advantages of FDI in retailing because of rapid urbanization, increasing purchasing power of Indians, innovative financing and supporting policies developed by Government of India.
- FDI in Indian retail industry leads to better competition, improved quality of products & services.
- Due to FDI in retailing there is opportunity to increase employment & increase in other businesses like infrastructure development, furniture and computer suppliers.
- Due to FDI there may be a chance of monopoly by big players in Indian retail sector.

- Due to FDI there is threat of losing business of local suppliers because of global view of big retailers and availability advance technology.
- According to perception of retailers, there is no difference in retail scenario for small retailers due to new FDI policy for Indian retail

## CONCLUSION:-

This research was based on secondary data related to facts and figures related to Indian retail industry, growth rate of Indian retail industry and contribution of retail industry to the GDP of India and various aspects of foreign direct investment in Indian retail industry as well as perceptions of 100 small retailers from various areas in pune city. FDI in Indian retail industry have both positive and negative sides but due to foreign investment in Indian market there will be overall growth of Indian economy. Due to changing lifestyle and purchasing power of Indian people there is great scope of organize retailers so great scope to FDI in Indian retailing. Government of India is taking continuous efforts on developing policies related to FDI in retailing so that there is overall growth of Indian economy.

Definitely there is change in retail scenario in Indian retailing but this change leads to overall development of entire retail industry as well overall economy of India. Consumers are also going to beneficial because of this change in Indian retail scenario.

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**REPORT:**

IBEF, Retail – March 2013