FDI IN INDIAN RETAIL SECTOR: A REVIEW

Jyotsana Chawla¹, Rachna Agrawal² and Bhavna Sharma³

1Assistant Prof.YMCA University of Science and Technology, Faridabad, India
2Associate Prof. YMCA University of Science and Technology, Faridabad, India
3Assistant Prof. BPS Mahila Viswavidyalya, Khanpur Kalan, Sonipat, India

ABSTRACT
Retail sector is emerging as one of the attractive sectors and is able to attract foreign players. FDI in retail bears an effect on a number of stakeholders engaged in the process of retailing, from retailers to end consumers. The initiative of the GOI to attract FDI in retail, by liberalizing FDI policy must be significantly encouraged but should not be freely allowed. The review paper is based some of the important studies conducted by various researchers for finding the effect of FDI in Indian retail sector. The main aim of this paper is to make some research oriented paths to move forward. On the basis of the review, it has been found that liberalization of FDI policy towards retail sector bears positive as well as negative effects. The paper suggests that unorganized retailers are required to upgrade their retail stores to meet the challenges of the dynamic retail environment.

KEYWORDS
FDI, Retail Sector, Organized retail, Unorganized retail.

1. INTRODUCTION
Retailing
Retailing is the last link in the process of Supply Chain Management. Retailer is the person who is in direct contact with the customers because of this it gains its importance for the manufacturer. The word ‘retail’ is derived from the French word ‘retailier’, which means ‘to cut a piece of’ or ‘to break bulk’[1]. The retailer unlike wholesaler did not buy products for further resale but to provide them to the end consumers. A number of activities are performed by retailers such as assorting, sorting, merchandizing, storing, providing credit facility, packing etc. The sector is facing big transformation from mom & pop stores, local kiryana store to big malls and hypermarkets. The customer is demanding products as never before. They possess good knowledge about pricing strategies, quality of the product and its usage. The consumer is now attracted towards big glitzy malls, eye catching interiors, one stop shopping experience. The concept of e-retailing has resulted in one touch shopping real for customers. The customers are now demanding products from a place which is convenient to them. Therefore, it is becoming difficult for retailers to find loyal customers for themselves. The customers will be attracted towards those stores which tend to offer good quality products at attractive prices with convenience facility, in an attractive manner.

Indian Retail Sector: An Overview
The presence of retail sector in India can be felt way back from the time of melas and haats, these were meant to cater the need of local people living nearby. The emergence of kiryana stores and mom & pop stores were observed after sometime. The Government also started supporting the retail sector and as a result a number of indigenous retail stores came into existence. With the passage of time, economy started becoming more open and a changed face of retail sector came into existence. The first few companies which came into existence to set up retail chains were from textile sector (S.Kumar’s, Raymond etc).

The Retail Industry can be broadly categorized as: Organized and Unorganized Retailing.

Organized Retailing represents licensed retailers who got them registered for income tax, sales tax etc.
Unorganized Retailing represents retailers who are not registered for income tax, sales tax etc. and do not possess license for their workings, for example: street hawkers.

Today India is fifth largest in the world in terms of retailing. The overall retail is projected to double to $1 trillion by 2020 from $600 billion in 2015, where modern retail is expected to grow 3 time to $180 billion by 2020 from $60 billion in 2015 as per BCG report on “Retail 2020: Retrospect, Reinvent, Rewrite”[2].

The retail sector is growing at a very faster pace and the key factors driving the growth are:

- Increasing no. of young population
- Double family income
- Increasing working women population
- Techno-savvy youngsters
- Nuclear families
- Rapid urbanization
- Customer liking towards modern shopping environment
- New retail formats with differentiated strategies
- Positive regulatory environment: promotion of ease of doing business concept through Make in India.

As a result of ever changing demand of customers, liberalization of FDI policy, favorable responses of customers towards innovative products, the retail sector is able to attract big players to play in the field.

FDI Policy in India

‘FDI’ means investment by non-resident entity/person resident outside India in the capital of an Indian company under Schedule 1 of Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000. [3]

In India, the Ministry of Commerce and Industry acts as a nodal agency for monitoring and reviewing FDI policy on a continuous basis. The FDI policy is notified through Press Notes released from time to time by Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP).

The foreign investors are free to invest, except in few sectors, where prior approval from RBI or FIPB would be required.

FDI Policy in Retail

FDI policy related to Single Brand product Retail Trading

FDI in Single Brand product retail trading is allowed 100% viz. automatic up to 49% and Government route beyond 49%. The circular shows that Foreign Investment in Single Brand retail trading aimed at attracting investments in production and marketing, improving the availability of such goods for the consumer, encouraging increased sourcing of goods from India, and enhancing competitiveness of Indian enterprises through access to global designs, technologies and management practices, as Per DIPP consolidated FDI policy circular of 2015[4].

FDI in single brand product retail trading is subject to certain conditions such as:

- Products to be sold should be of single brand only.
- Products sold should be of same brand internationally.
- ‘Single Brand’ covers only products which are branded during manufacturing.
- In case of proposals involving FDI beyond 51%, sourcing of 30% of the value of goods purchased will be done from India, preferably MSME’s, village and cottage industries, artisans and craftsmen, in all sectors.
- Applications would be processed firstly by DIPP and then by the FIPB for Government approval.
FDI policy related to Multi Brand Retail Trading

FDI in Multi Brand Retail Trading is allowed upto 51% through Government route, as per DIPP policy\cite{5}.

FDI in Multi brand retail trading is subject to certain conditions such as:

- Fresh agriculture produce (fruits, vegetables, flowers, grains, pulses, fresh poultry, fishery and meat products) may be unbranded.
- The foreign investor must bring a minimum amount of US $ 100 million for investment.
- At least 50% of the investment bought should be invested in ‘back-end infrastructure’ within three years. Expenditure on land cost and rentals will not be included in infrastructure development.
- At least 30% of the products purchased must be sourced from Indian micro, small and medium industries (total investment in plant and machinery not exceeding US $ 2.0 million).
- Government possess the first right of procurement on agriculture produce.
- Retail outlets are allowed to be set up in cities with a population of more than 10 lakh as per 2011 census survey, or any other cities as per the decisions of the respective State Governments.
- The policy for FDI is an enabling policy, the State Governments are set free for implementation of the policy.
- Applications are to be processed firstly by DIPP followed by the FIPB for Government approval.

Retail trading in any form by means of e-commerce is not permissible for FDI, engaged in multi brand or single brand retail trading.

2. LITERATURE REVIEW

Abrar (2012)\cite{6} discussed the nature of relations which international retailers share with their suppliers, their effect on workers and cultivators in country like India. The paper discussed in detail the source of pressure for allowing FDI in India, possible impact on marginal producers and workforce along with the pressure to ensure irreversibility of allowing FDI in retail. The researcher concluded that allowing healthy FDI in retail sector will help to increase GDP and leads to economic development. It will help Indian retail market to integrate with global market. It is likely to provide better employment opportunities to people in India. The consumers on the other side will be benefited by a good consumer experience.

Babu (2012)\cite{7} used SWOT analysis to analyze retail sector in India. Strengths of the sector such as young working population with median age of 24 years, nuclear families, increased disposable income, increasing working women, emerging opportunities in service sector, low share of organized retail were discussed along with weaknesses of the sector such as small size outlets, high rentals of space, low volume of Indian retailing, proper merchandize mix is not settle. The study highlighted the opportunities of the sector such as demonstration effect, an attractive retail destination, untapped retail market and threats like underdeveloped SCM, difficult to target all sections of the society, lack of uniform tax system, heavy initial investments, parking problem in urban areas. The study highlighted that India as a rising star is able to attract foreign players. Allowing healthy FDI in retail sector will lead to overall development of the economy and will further help Indian economy to integrate with the world’s economy.

Chandu (2012)\cite{8} tried to explore the perceptions of small retailers in context of FDI in Indian retailing. For the purpose of the study the responses of 80 unorganized retailers in
the tier-II cities of Kakinada and Rajamundry were collected with the help of structured questionnaire. The sample comprises of small single-outlet retailers with average turnover of 10-20 lakhs. On the basis of 12 statements, the researcher observed that majority of small retailers don’t consider big retailers as their competitors. The small retailers possess their unique style of attracting customers, there exists possibility to be effected by big stores in the short run but in the long run they would be capable of tackling them effectively. The small retailers further oppose FDI in retailing, may be being unaware about the positive and negative outcomes of FDI policy change. The researcher concluded that a well drafted FDI policy in retailing must be framed taking care about its impact on all the stakeholders.

Chari & Raghavan (2011) [9] analyzed the impact of opening retail sector to FDI in India such as entry of foreign players would lead to large scale exit of incumbent local retailers, the organized retail sector in India is at its nascent stage, so it would be difficult to compete with big players. The study further pointed out that FDI would help to tackle inflation, by creating better linkages demand and supply it also helps to improve the final sale prices that are being paid to farmers, an added benefit of improved distribution and warehousing channels are expected to come from enhanced exports.

Fulzele & Zodage (2013) [10] pointed out the positive impacts of FDI in Indian retail sector. India possesses a number of opportunities to attract foreign players to invest. The study concluded that FDI is necessary for growth and development of farmers, generating new employment opportunities, benefits to customers, development of SSI’s, capital inflow, infrastructure development, inflation control, improvement in retailing services, technical know-how infusion, improves SCM, growth of GDP, decline in cost of production of goods and services.

Gokhale & Sinha (2012) [11] said that allowing FDI in multi brand retailing will open floodgates for foreign retailers to invest and will change the retail landscape forever in India. For global retailers, India provides a lucrative market. The study pointed out that Transnational Retailers (TNR) may not always be successful in other countries for example Wall-Mart in China etc. The responses of Indian organized players to FDI in Multi brand retailing are positive thus once the funds come into India through the FDI route, it will usher in a phase of expansions.

Grover & Gupta (2014) [12] tried to find out the explanatory variables of FDI inflows in the country with the help of simple and multiple regression method. Two models were developed by the researchers to study the impact of FDI on economic growth. Model 1: FDI model, which depicts the factor influencing FDI in India. Model 2: Economic growth model, which depicts the contribution of FDI to economic growth. Econometric techniques viz. coefficient of determination, Std. error, F-ratio, t-statistics, D-W statistics are used. The study revealed that trade GDP, reserves GDP and financial position variables shows a positive relation with FDI while R&D GDP and exchange rate GDP variables shows negative relation with FDI. The study concluded that FDI is a significant factor to influence the level of economic growth in India.

Guruswamy et al. (2005) [13] stated the positive points of FDI on Indian economy such as greater efficiency and improvement of living standards. The study shows some negative points attached to FDI driven “modern retailing” i.e. labour displacing by destroying the traditional retail sector, there can monopoly of giant foreign retailers. The study further suggested some points to be considered for better upliftment of retail sector such as: there should be some conditionality for the entry of giant foreign players in the market, constrain of limited availability of bank finance should be removed, a National commission must be established to deal with and recommend the problems faced by retail sector in India, manufacturing sector should be improved.
Jain & Sukhlecha (2012) attempted to give reasons on the basis of which FDI should be allowed in multi-brand retailing in India. Example of other developing countries like Thailand and China who initially protested against the entry of foreign investment in retail sector and then, later on proved out to be the most effective decision in country’s development and standing in the world were discussed. The study suggested that FDI should be allowed with some recommendations such as establishment of national commission, appropriate lending policies by RBI, setting up of co-operative stores for small retailers.

Joseph et al. (2008) attempted to analyze the impact of the increasing trend of large corporate entering the retail trade in the country. To help development of retail sector, some recommendations were suggested such as: private code of conduct for organized retailers in their transaction with small suppliers, a simplification of the licensing and permit regime to promote the expansion of organized retail, to encourage co-operatives and associations of unorganized retailers for direct procurement from suppliers and farmers, better credit availability to unorganized retailers through innovative banking solutions, formation of farmers’ co-operatives to directly sell to organized retailers and strengthening the Competition Commission’s role for enforcing rules against collusion and predatory pricing.

Khare M. (2013) in the study focused upon the impact of FDI policy on Indian retail sector. The researcher uses SWOT analysis to highlight the opportunities and challenges faced along with the shortcomings of FDI policy. The study highlighted strengths of the FDI policy such as: fast growing economy, young and dynamic manpower, enhanced employment opportunities, highest shop density in the world, increased purchasing power and disposable income, better priced products for the customers, high growth rate in retail and wholesale trade. Further the study discussed about the weaknesses of the policy such as: low capital investment in retail sector, retailers will focus upon metro customers as compare to village customers, small sized retail outlets, lack of trained manpower, lack of competition, low volume of retail sales, high priced as compare to specialized shops. The study also pointed out various as opportunities like untapped rural market, India as an attractive retail destination for global giant players, FDI policy will help to improve competition, improvement in retailers efficiency, increase in exports, foreign capital infusion and latest managerial skills upgradation. The study also discussed about various threats in front of FDI policy like survival of small retailers would be difficult, a start up of roadside bargains, Indians will do the work and profits would be collected by foreigners, loss of jobs in manufacturing sector, high initial investments, difficult to meet demand of all segments of customers, lack of unified tax system, unable to employ people on contract basis, labour laws are not well followed, difficult to provide parking space in urban areas, dominance of unorganized sector. At the end the researcher concluded that GOI must welcome foreign players with a talented pool of human resources having expertise in retailing. The pros and cons of FDI policy must be considered in light of interest of small retailers.

Krishnan & Bhandare (2013) pointed out that with the changing trends of retailing in India, traditional and new formats will co-exist. There exists a number of favorable factors like increasing population, rapid urbanization, expected increase in India’s growth, growing middle class, increasing number of blue collar and white collar workers, changing life style, expected increase in FDI flow, progressive policies, economic and political stability, growth of nuclear families, increasing working women population for growth of organized retail in India. The researchers also highlighted various advantages and disadvantages of FDI in retailing.

Kumar & Bansal (2015) discussed the advantages, negative impact, strengths, weakness, opportunities and threats of allowing FDI into Indian retail business. FDI will
be advantageous for various stakeholders like farmers (by providing better compensation for their production and strengthened supply chain infrastructure), customers (reduced prices of the products, qualitative products, better food safety standards, more choices, benefit to poor section of the society by lowered prices), small retailers (technology upgradeation, more efficient and upgraded retail outlets), existing big retailers and SMEs (benefit of 30% sourcing from SMEs, boosting manufacturing sector, new manufacturing opportunities will also open), rural youth (enhanced job opportunities, skill training by investors). The researcher pointed out negative impacts of FDI policy such as no employment opportunities for semi-illiterate people, negative impact on sales of unorganized retailers, less margin for small retail players due to lowered prices by foreign retailers, difficult for unorganized retailers to deal with organized retailers, small retail stores may shut down, condition of 30% procurement from Indian source may fade away with time. On the basis of the descriptive study they concluded that due to the conflict within the Government on various issues related to the FDI policy. It is difficult to judge whether FDI is beneficial or harmful for Indian economy. The study suggested that a locally constructed marketing network will benefit both consumers and retailers.

Manik & Singla (2013)\textsuperscript{[19]} used qualitative techniques like SWOT analysis and five force M. Porter’s model to explore the impact of FDI on retail sector. The study concluded that FDI reforms will have a positive impact on Indian Economy. Modern retail is the booming word but must be taken care for fair usage of extended retail power.

Mukherjee et al. (2011)\textsuperscript{[20]} suggested that retail FDI policy needs to focus on benefits of the majority of Indian consumers by giving them access to branded products at lower prices. Consumer welfare is a key component of policy making in developed countries, however by ignoring consumers, the goals of enhancing consumer access to goods and services and reduction in inequality and poverty may not be achieved. The study concluded that FDI should be allowed in multi-brand retail in a phased manner which would also facilitate investment in the supply chain and increase domestic sourcing. To protect the interest of consumers, the Competition Act 2002, the Consumer Protection Act (amendment) 2002 needs to be reviewed and must be amended as per requirement.

Mundra et al. (2013)\textsuperscript{[21]} examined the expansion of FDI in retail in global scenario. The study pointed out that in China, Thailand, Chile, Indonesia and Brazil, FDI is permitted in the retail sector. The retail sector in India is accompanied by challenges like geographically dispersed population, small ticket sizes, a complex distribution system, less usage of IT, mass media limitations and existence of replica goods. The paper discussed the impact of FDI on various stakeholders (government, unorganized/organized retailers, manufacturer/SME, consumers, society) and concluded that restrictions on FDI policy must be reduced to make the industry more productive and competitive. The doubts attached to opposition of FDI policy must be analyzed in proper perspective.

Nasir S. (2015)\textsuperscript{[22]} discussed on the basis of secondary data, the advantages and disadvantages of FDI in retail sector. The researcher pointed out advantages such as economy growth, low priced products for customers, enhanced employment opportunities, benefit to farmers by contract farming, improvement in infrastructure, improvement in SCM of FDI policy in retail. The study also put light on the disadvantages of FDI policy like loss of market share by domestic retailers, Indian revenue in hands of foreign players, job loss of small business owners and workers, closure of small retail stores effecting social community etc. At the end the researcher concluded that FDI will have a positive impact on the country but we should learn lessons from China where both organized and unorganized retail gained momentum together.

Nizamuddin (2013)\textsuperscript{[23]} tried to explore the impact of FDI on employment generation. With the help of OLS (Ordinary Least Square) method, time series analysis and by
applying t-test the researcher concluded that FDI has a negative impact on employment generation in India. The researcher suggested that FDI policy must be liberalized in a phased manner.

**Pavithra (2012)**\[24\] highlighted the SWOT analysis of FDI in Retail. The researcher concluded at the end that opening FDI in retail sector will help the sector to gain momentum by playing a major role in upbringing the sector. FDI should be allowed in a phased manner keeping in view the interest of small retailers.

**Rajput et al. (2012)**\[25\] pointed out that after opening up of FDI in Indian retail sector a marked change can be seen in the strategies opted by Indian retailers to attract customers. They study analyzed the impact of the present retail FDI policy on Indian consumers and economy using SWOT analysis. The analysis reveals that it will have a positive impact on the growth of Indian economy as a whole.

**Rao & Prashnath (2012)**\[26\] discussed the policies, benefits and impact of FDI in retail sector. The study emphasized that after experiencing the benefits of opening large scale investment in telecommunication and IT industry, the time has come to open liberal FDI policy in retail sector. There is risk of displacement of small retailers by foreign players who have strong financial strength, capability of creating monopoly, increasing cut throat competition. The researchers suggested that to overcome the negative impact of FDI, a proper regulatory framework must be prepared and FDI must be encouraged on gradual basis.

**Sharma & Bansal (2015)**\[27\] explored the trends of FDI in Indian retail sector. The study pointed out perceived opportunities of opening FDI on one hand like capital infusion, benefit to farmers and consumers, improvement in supply chain, logistics and technology and potential threats such as dominance of organized retail, increased unemployment due to removal of middlemen, increase in real estate cost because of increase in demand to set up new big outlets and negative impact on Indian culture. FDI in retail should be allowed in a phased manner. Formulation of National commission is suggested to tackle the problems of retail sector in a well defined manner. The researcher suggested that manufacturing sector must be strengthened to accommodate displaced retail sector staff.

**Shil & Roy (2013)**\[28\] analyzed the important issues associated with FDI in Multi brand retailing in India. The study highlighted that the benefits expected from FDI must be matched properly with losses that may occur. Restrictions must be imposed while framing FDI policy in consideration with the major stake of people of our nation.

**Sinha & Kar (2007)**\[29\] focused in the study, the growing retail formats in India such as discount stores, dollar shops, supermarkets, hypermarkets, malls, convenience stores, category killer etc. The researcher explored that dynamic and proactive responses of customers, changing lifestyle and trends are the reasons for growth of such modern formats of retail in India.

**Verma et al. (2012)**\[30\] discussed various marketing strategies which must be adopted by big giant retailers to capitalize the Indian market. The researcher suggested that adoption of local culture, targeting youth, high volume low margin business model, e-tailing, owner feel to a sales person, adoption of franchise and direct business model can help business community to understand Indian consumer well. The researcher pointed out that retail market in India is dominated by unorganized retailers. India being an attractive destination for foreign players, will definitely be affected in terms of growth. It is the peak time for business community to apply innovative ideas to create difference in the mind of customers.
3. CONCLUSION AND DISCUSSION

Gone are the days, when customers were dependent on nearby retail store for fulfilling their needs. With new concepts like e-tailing, customized product, a big shift is seen in the response of the customers. Positive as well as negative points are attached to the liberalized FDI policy in retail sector. FDI in no doubt is likely to bring improvement in state of Indian economy, but the stake of small retailers must be taken care of while formulating and implementing the policy.

With growing awareness and attitudinal shift of customers, it is suggested that it is time for small retailers to spend time to revive the strategies required to attract customers towards their retail stores. The small retailers must concentrate upon innovative concepts of retailing, spend time on CRM practices, bring improvement in SCM, use feedback facility, keep a track record of customers, provide quality products, bring improvement in ambience and most importantly provide a personal touch to the services for attracting customers towards their retail stores. The Government is also required to frame strict policies, taking care of interest of small retailers, so that organized and unorganized sector may co-exist and flourish together.

ABBREVIATIONS

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<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>SCM</td>
<td>Supply Chain Management</td>
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<td>CRM</td>
<td>Customer Relationship Management</td>
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<td>SME</td>
<td>Small and Medium Enterprises</td>
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<td>SWOT</td>
<td>Strength, Weakness, Opportunity, Threat</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GOI</td>
<td>Government of India</td>
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<td>RBI</td>
<td>Reserve Bank of India</td>
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AUTHORS

**Jyotsana Chawla** is working as Assistant Prof. in YMCA University of Science & Technology. She has been teaching management subjects to the graduates since 2006. She is pursuing Ph.D in the area of FDI in Retail Sector. She has published papers in national and international journals.

**Dr. Rachna Agrawal** is currently working as Associate Prof. in YMCA University of Science and Technology, Faridabad. She is having 13 years teaching & research experience. She is a PhD. in International finance. She is having more than 15 research papers in National and International journals in her account.

**Dr. Bhavna Sharma** is working as Assistant Prof. in BPS Mahila Vishvidhayala, Khanpur Kalan, Sonipat. She has done her PhD from GJU, Hissar. She has more than 9 years of Academic experience. At the research front, she has more than 12 research publications in International and national journals in her credit. She has been awarded a major research project by UGC.