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# FDI and Retail Environment in India An Empirical Study

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## ABSTRACT

FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. It can be a subsidiary, joint venture or merger or acquisition and includes Greenfield and Brownfield projects (Bansal & Kaushik, 2012). OECD has defined FDI as investment by a foreign investor in at least 10% or more of the voting stock or ordinary shares of the investee company. The High Court of Delhi defined the term retail as a sale for final consumption in contrast to a sale for further sale or processing (i.e. wholesale). Retailing is the last link of the long distribution channel of marketing that connects customers directly with the seller. Retail industry is one of the largest sectors of Indian economy. Unorganized retail sector in India occupies 97% of the retail business and the rest 3% is contributed by the organized sector. The unorganized retail sector contributes about 13% to the GDP and absorbs 6% of our labour force. India is one of the fastest growing retail markets in the world, with 1.2 billion people (Census, 2011). Hence, the issue of displacement of labour consequent to FDI Retail Sector is of primal importance in India. Also, there is a divided opinion on the impact of FDI in the retail sector in India. Some experts believe that FDI in the retail sector in India will lead to economic growth and creation of new jobs along with rural infrastructure development. Others believe that mass scale job loss will happen particularly in manufacturing sector with the entry of the big MNCs like Wal-Mart, Carrafuer, Metro PLC and IKEA etc.

**Keywords:** FDI, retailling, Technology Adoption Models, consumer behaviour.

## INTRODUCTION

### Foreign Direct Investment (FDI) in India

During the April-January period of the current fiscal year, the foreign inflows of India have grown by 36 per cent, year-on-year, to USD 25.52 billion, according to data from

Department of Industrial Policy and Promotion (DIPP, 2015). In January 2014, India had received USD 2.18 billion in FDI. India has been attracting FDI worth USD 4.67 billion since September 20, 2012 when the Government of India (G.O.I.) approved 51% FDI in Multiband retail and 100% in Single Brand retail sector through Government Route with some riders. G.O.I. was quite firm in implementing FDI in multi Brand Retail which caused much agitation which was largely criticized by various political parties and even led to strikes and no trade days in many places of the country (Kaushik, Bansal, 2012). However, ex-Prime Minister of India tried to highlight the necessity and obligation under WTO agreement to allow FDI in Retail Sector in the county. But the outcome of all the efforts since 2012 led to a mixed response from the marketers and economists.

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The threat that domestic players will be suddenly exposed to competition from large retail firms from abroad. Already, Reliance Fresh, Star Bazar, Big Bazar and a few other domestic large retail outlets have been successfully operating in Indian market. They have the proficiency of modern retailing and easily manage the volume procurements, logistics, and marketing. Thus, sequencing of opening up retail sector for foreign firms has been correct. Moreover, large domestic and foreign retailers will not be a threat to domestic Kirana stores as been alleged. In fact, Kirana stores offer tough competition to the large retailers. For millions of Indians Kirana stores offer small volume sales, flexible credit, anytime home-delivery, and proximity shopping which large foreign retailers cannot. Furthermore, Kirana stores also stand to pick-up some good practices from large retailers such as clean store and working environment, absence of child-labour, and better record keeping through automated billing counters. All in all, a healthy competition among foreign retailers, domestic retailers, and Kirana stores will only generate more employment and more options for customers. FDI has been in debate not only because of the threat to the traditional stores but also its impact on SMEs and MSMEs was of much larger concern. India has a lot of scope for entrepreneurial activities. Increase in Retail giants would lead to a decrease in the upcoming new national ventures. Most of the FDI inflows are a result of M & As. So, FDI in retailing needs a proper management by the government otherwise Indian retail sector would become a puppet in the hands of foreign players.

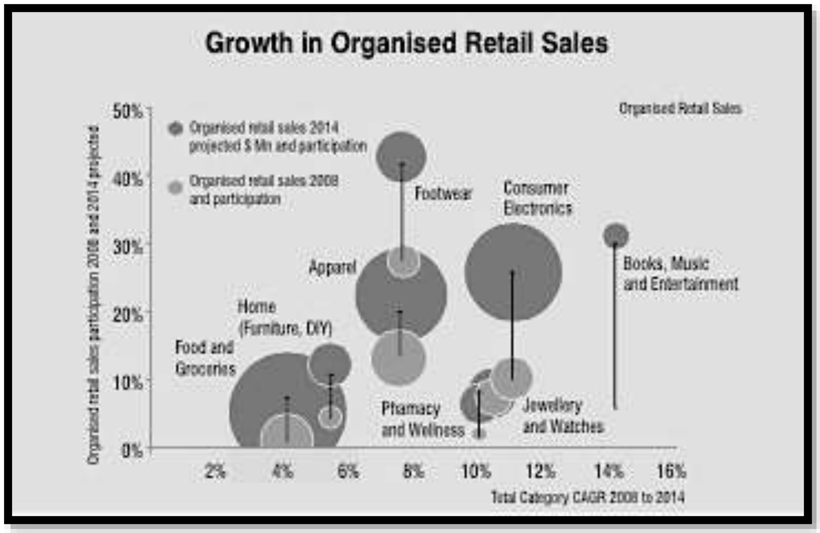


**Figure 1: Growth in the sale of organized retail sector**
**Source: Business world article report December12, 2011**

## RESEARCH OBJECTIVES

- To study the impact of FDI in retail sector on Indian economy
- To study the role of offline and e-consumers in the effective and efficient enactmen of FDI?
- To study the plan of action of retail marketers in order to gain consumer attention and trust

## REVIEW OF LITERATURE

**AT Kearney's (2012)** study on global retailing trends found that India is the least competitive as well as least saturated of all major global retail markets. **Ranab Barua (2012)** in his article entitled "Organised Retailing Poised for Rapid Growth" expressed that the opposition to organised retailing has mainly been on the basis of a fear psychosis about the threat to the existence and livelihood of unorganised players.

**Rajan Bharti Mittal (2012)** pointed out that the dynamics of front-end retailing have often been misunderstood, generating too many irrational fears among key stakeholders. The unorganised supply chain, with numerous middlemen between the source of production and the retailers, results in enormous wastage of food products.

**Rao K. and Manikyam K. (2013)** argued that small-scale retailers dominate the Indian retail sector. The organised sector occupies only 5 per cent share in the total retail sector. The presence of millions of small-scale retailers in different product categories makes one realize that a large number of people are dependent upon this activity. In the light of ongoing severe competition from the fast growing and more challenging big retailers, the survival and growth of small-scale retailers depends upon their ability to provide customer satisfaction. Customer loyalty and support are the pillars of success for these retailers.

**Swamynathan Mansurali and Chandrasekhar (2013)** pointed out that shopping from organised retail outlets i.e. shopping malls has become a buzzword for Indian youth. A significant change in the lifestyle of Indians with the commencement of mall culture has made shopping as a status symbol and an one-stop retail solution.

**Mahadevaswamy & Nalini (2014)** have examined the perceptions of the common man about foreign direct investment (FDI) in multi-brand retailing. Their study revealed that the impact of allowing FDI in multi-brand retailing would be favourable for the government as well as producers. However the claim of the government that allowing FDI in multi brand retailing would create more employment opportunities could not be proved in this study, as the mean score of this factor as compared to the other factors was low.

**Nikhil Shailesh Thakkar *et al*. (2015)** conducted a study in which survey was done in Bangalore and Mangalore. The research suggested about the quality of the products sold under brand names for gaining consumer attention and increasing sales. The consumers in the lower income group were found to be more concerned about the prices and bulk buying seemed as a way to increase their savings. Buying behavior was found to be different for different age groups in the same city. The younger generation had significantly different buying patterns. The study also revealed that Walmart’s failure in Germany and South Korea signifies the need for adapting to the local consumer behavior and prevailing market trends. Walmart should develop different strategies for different Indian cities. Walmart and other retail stores should also consider the expectations of the local customers and ensure that their marketing strategies are in sync with the local community.

**Changing Typology of Consumers (Retail consumers to Online consumers)**

Various studies on e-tailing have used different technology adoption models like Theory of Reasoned Action (TRA), Theory of Planned Behaviour (TPB), Technology Adoption Model (TAM), Diffusion & Innovations theory (DIT) and Unified Theory of Acceptance and Use of Technology (UTAUT) to analyze the factors that influence retailing, online shopping, shopper behaviour, consumer attitude and perception regarding retailing and e-tailing. A dynamic shift in consumer behaviour has been observed since the boom of Internet and the development of various new innovative marketing practices like mobile marketing (by laptops, smartphones and tablets), web-based shopping or e-tailing, e-marketing and promotions, etc.

As the government has made new rules regarding FDI, retailers need to focus upon the e-tailing activities as well because online presence of retailers has become the need of the hour. Payment activities in mall through credit/debit cards have become quite easy owing to the facilities of online banking services. Today, many customers wish to sit at home and shop. Some find malls and supermarkets as a means of recreation and simply go for window-shopping. Retailers need to understand that Indian consumers are quite different from the rest world because of the diverse traditions and culture of this country.

Effective and efficient strategies are required to be formulated by the government as well as the traders in order to tap the right market for the right product and right consumer. It is very important to develop a deep understanding about the Netizens who are present on the internet almost 24*7. Thus, it can be concluded that E-marketing tactics often require a detailed study on typology of online consumers for creating an effective e-tailing strategy.

**Kau, Tang and Ghose (2003)** studied the Asian online consumers and categorized them into six e-consumer classes:

- On-off shoppers-Online shoppers who collect information from internet but shop offline.
- Comparison shoppers-These consumers compare product features, brand, prices, offers etc. before making the real purchase.
- Traditional shoppers-Consumers that buy only from retail stores and don't surf internet for information.
- Dual shoppers- Consumers who prefer to compare brands and product features and seek information online, however they are not particularly deal prone.
- e-Laggards-They have less interest in pursuing information from the Internet.
- Information surfers: Consumers who love and click on banner ads frequently and also use internet for information along with having an online purchase experience.

The critical success factor for retailers is to know their customers well. The ability to gather as much data as possible about consumers, and to analyze and interpret it accurately, allows marketers to always be one step ahead with the help of predictive purchasing technologies. To enhance consumer satisfaction and purchase intentions, retail stores should start improving the reliability dimensions, such as capability of delivering products as promised, providing up-to date and accurate information, and strengthening the security of online transactions. (Lee & Lin, 2004). Online retail players have a scope to focus on new product delivery models and payment mechanisms, since customers are facing problems with the options available Ernst & Young (2012). Consumers expect varieties and alternatives including promotions, vouchers and discounts which may intrigue them to purchase online (Vegiayan, *et al*., 2013). Karve, Sunil (2014) hinted that India's big retail companies should start with virtual 3D online shopping.

## 2.2 Theoretical Models

Evaluating the customer's attitude towards online shopping and the factors influencing it can assist the e-marketers and managers to plan appropriate strategies and gain profit (Halimi, *et al*., (2011).

**Theory of Reasoned Action (Ajzen and Fishbein, 1975)** suggests that behaviour is determined by behavioural intention, which in turn is a function of the individual's attitude toward the act and the subjective norms.

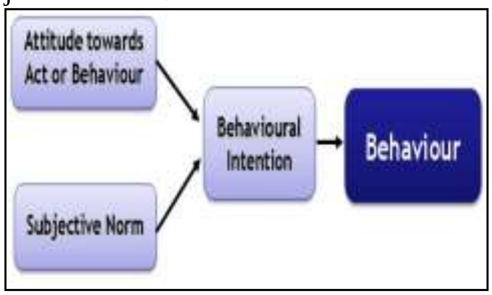


**Figure 2: Theory of Reasoned Action**

**Source: Fishbein & Ajzen, (1975). Belief, attitude, intention, & behavior: An introduction to theory and research, MA: Wesley.**

**Theory of Planned Behaviour (Ajzen, 1985)** proposes that behaviour is determined by behavioural intention, which in turn is a function of the individual's attitude toward the act, the subjective norms and perceived behavioural control.

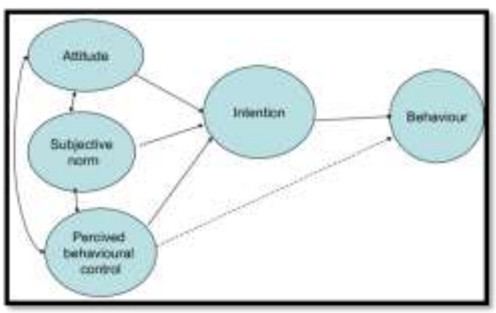


**Figure 3: Theory of Planned Behaviour**
**Source: Ajzen (1985). From intentions to action: A theory of planned behavior. In J. Kuhl & J. Beckman (Eds.)**
**Action-control: From cognition to behavior, Heidelberg: Springer, 11-39**

**Technology Adoption Model (Davis, 1989)** comprises of the perceived usefulness and the perceived ease of use, which determine about the positive or negative behavior of consumers towards a new technology.

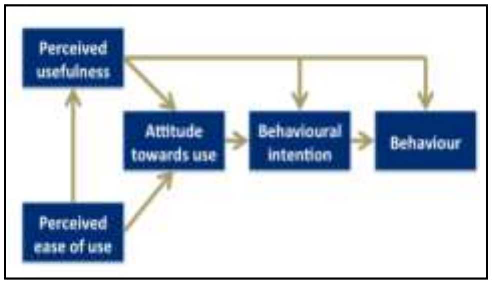


**Figure 4: Technology Adoption Model (Davis, 1989)**
**Source: Davis, F.D., Bagozzi, R.P., & Warshaw, P.R. (1989). User acceptance of computer technology: a comparison of two theoretical models, Management Science, 35(8), 982-1003.**

**Diffusion of Innovations theory (Rogers, 1995)** suggests that the adoption of a new idea is a process whereby some people adopt innovations easily than others and those who adopt an innovation early have different characteristics than the ones who adopt an innovation later. The adopters were divided into 5 types: Innovators, Early adopters, Early majority, Late majority and Laggards.

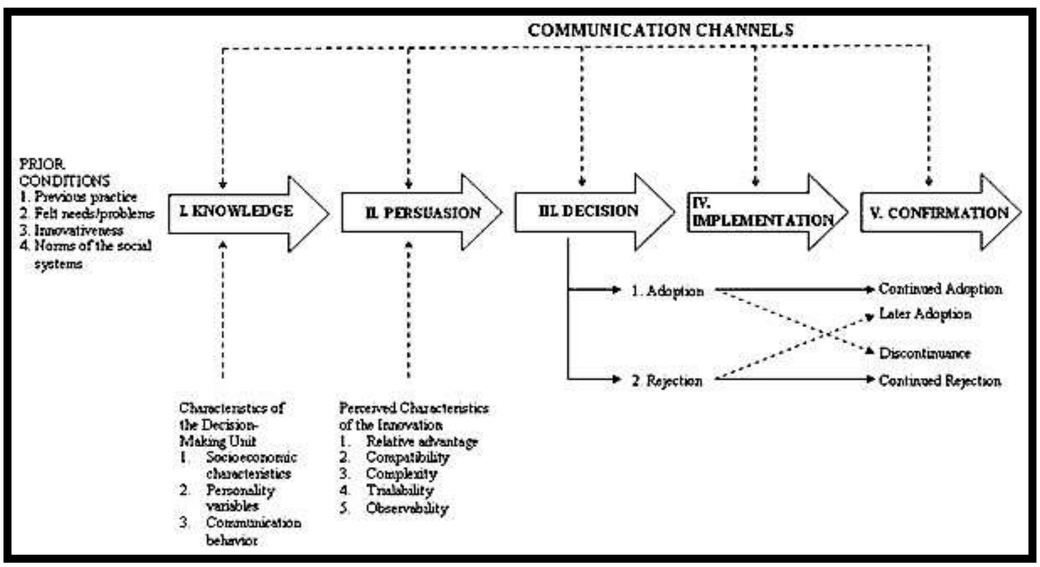


**Figure 5: Diffusion of Innovations Model (Rogers, 1995)**
**Source: Rogers, E. M. (1995), Diffusion of Innovations. New York: The Free Press. (Original publication 1962)**

**Unified Theory of Acceptance and Use of Technology (UTAUT) (Venkatesh, Morris, Davis and Davis, 2003)** holds that four key constructs: performance expectancy, effort expectancy, social influence facilitating conditions; being the first three direct determinants of usage intention and behavior, and the fourth a direct determinant of use behavior. Gender, age, experience, and voluntariness of use are posited to moderate the impact of the four key constructs on usage intention and behavior.

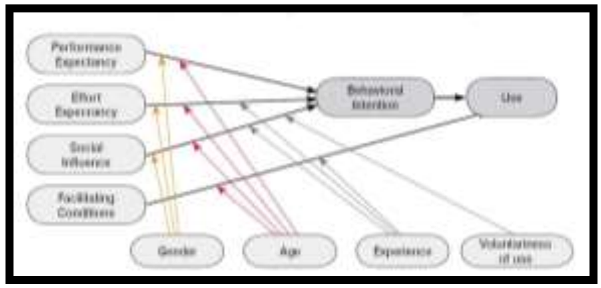

**Figure 6: Unified Theory of Acceptance and Use of Technology**
**Source: Venkatesh, V., Morris, M.G., Davis, F.D., and Davis, G.B. "User Acceptance of IT: Towards a Unified View," MIS Quarterly, 27, 2003, 425-478.**

## GROWTH & DEVELOPMENT OF MODERN RETAIL THROUGH FDI

During nineties Mr. P V Narsimha Rao lead Govt. allowed limited FDI in retail and as a result "Dairy Farm" a MNC made entry in India. In 1997, FDI in cash and carry (wholesale) with 100 percent ownership was allowed under the Government approval route. It was brought under the automatic route in 2006. NDA Government was willing to introduce FDI in retail sector in May 2002 but it could not materialize due to unknown reasons. 51% Foreign Direct investment in single brand retail was also permitted in 2006. In 2011, 100% FDI was allowed in Single Brand retail withholding the FDI in Multi Brand Retail due to various political reasons. 100 % FDI in Single Brand (with revised guidelines) and 51% in Multi-Brand retailing with some conditions have now been allowed in India w.e.f. September 20, 2012 with an option to the state Governments to allow or not to allow the FDI in retail sector in their states.

A recent report by Technopak (2014) stated that the modern retail in India has been primarily driven by the apparel & footwear category, with players like Raymonds, Madura Garments, Arvind Brands etc. setting up their outlets in 80s and 90s. The report also stated that while the margin offered by these categories was quite high, the back-end too was fairly organized, that is, strong supplier base, the consumers especially the men at that time were also graduating from ready-to- stitch to ready-to-wear segment, which helped these retailers in creating significant differentiation from the local mom & pop textile. Now, with the entry of large corporates, other categories have also started to make their presence felt and the momentum in modern retail is building across categories, with food & grocery expected to see a lot of action in the coming years. This growth is due to the entry of large Indian corporates like Reliance, Aditya Birla, TATA, Bharti, regional entrepreneurs and global retailers like Wal-Mart, Carrefour, SPAR, etc.

Retail modernization has gained momentum not only due to retailers like Croma, Reliance Digital, Next and e-zone, but also due to major investments made by giants in consumer products like Sony, Samsung and LG. As the current MBO's in the market are too small and cluttered, they do not provide a great experience to the consumers. Hypermarkets and cash and carry segment contributes significantly in the growth of Indian retail sector. In 2012, the hypermarkets, gained 30% to 40% of their revenues from apparel section and this retail format will continue to modernize across various tiers of towns (CRISIL report, 2013). The emergence of large EBO's of 4,000 - 5,000 sq. ft. is targeted at the family audience in the coming days. Other interesting categories to have a higher contribution in modern retail include footwear (with contribution from major sportswear brands, domestic footwear brands and hypermarkets), watches (brands as well as department stores) and impulse driven categories like books & music. The growth in modern retail will get accelerated with the entry of global players and brands while Indian players continue to grow and create their own niche in the market on their own or in partnership with major global players.

Various changes have occurred since the 90s when trade barriers were lifted by domestic as well as international policy makers so as to encourage more and more export-import businesses. Post LPG and WTO tie-ups worldwide, the world has become a global market and the idea of making every country a Global village is still in progress. Entry of new players, entrepreneurs, SMEs and MSMEs, SBEz, SBZs and virtual organizations has changed the complete format of traditional marketing model. Today, the old buyer-seller model hardly exists. In the era of innovation through IT, marketing models for retail sector have gone through a tremendous change. Supermarkets, Malls and even the modern retail stores now use internet, online banking facilities and have thereby, increased the credit-debit culture for general consumers.

## CONCLUSION

This paper attempts to provide a conceptual insight about the e-tailing scenario in India. It provides an in-depth study of the factors that contribute towards online buying behaviour of Indian consumers by the use and application of Technology Adoption Models. In India, organized retailing has many hurdles to overcome, such as rise real estate prices, lack of viable store locations, overhead costs, pilferage, lack of trained manpower and many more. Internet retailing, on the other hand, is accessible even through a smartphone, saves time, energy and fuel for the e-consumers and demands no expensive real estate investment for expansion. The government as well as the marketers should channelize FDI allowance in this sector very wisely and more emphasis should be made on domestic and regional firms that operate within the geographical boundaries of this nation. This would lead to a rise in the number of entrepreneurial companies, small firms, new small-scale manufacturing firms, handwork and handlooms and in short, a boom in small-scale and medium-scale enterprises. Indian marketers and policy makers should try to use the labour workforce of the country and provide employment opportunities for the same by the establishment of national organizations. If the policies of FDI could be implemented to encourage Indian citizens to opt for new business opportunities, then this could bring a complete reform in the retail sector. Instead of allowing foreign organizations to eat up the retail market just like electronics and other major consumer durable sectors, GOI should focus more and more on formulating strategies that would provide benefit to the domestic consumers and also create new employment opportunities.

**Recommended strategies for Marketers, Retailers, E-tailers and Policy makers**

- Opening up of e-tailing for international capital and knowledge infusion.
- Enhancing infrastructure for a wireless data access and broadband connectivity all over the country.
- Innervating B2C logistics and warehouse capability building.
- Implementing a proper Taxation policy on e-products and services.
- Capital deployment in B2C logistics, domestic air cargo services, and warehousing industries.
- E-tailing adoption as a key growth driver by retailers and consumer product companies.
- Promoting entrepreneurship for creating innovative technology, analytics and packaging solutions by initiating and implementing proper FDI policies.
- Building sustainable and Indian-specific e-tailing business models, especially in wholesaling and distribution.
- Aiming for "best in class" capabilities across the e-tailing value chain to compete in the global arena.

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