

# FDI IN INDIAN RETAIL SECTOR – A Study

- Dr.Ravi.B. Asst Professor in Commerce. Govt First Grade College for Womens, Chamrajpet, BANGALURU.
- Swapna Dundeppa Mudugal. Asst Professor. Swamy Vivekananda University, Sagar MP

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## ABSTRACT :

In olden day's economy was said to be barter economy. So barter is considered as one of the oldest form of retail in India. Most of the retailing may be in form of Haats, Mandis, Melas in India and also in other countries. The single largest retail chain in India is the public distribution system. Popularly known as PDS or "Rationing system introduced by the Britishers during the world war II. Public distribution system was first started in Bombay in the year 1939. Latter system was extended to other cities and towns. After the world war II, this system was abolished. After Independence Indian Government re-introduced public distribution system in the year 1950. The evolution of retailing also took place in form of canteen stores department (CSD) post office in India (service) Khadi and village industries (Established after Independence) presently KVIC's are more than 7050 stores throughout India. The co-operative movement ignited and the Indian govt established Kendriya Bhandars in 1963.

Since from introduction of New economic policy in 1991 called LPG (Liberalization Privatization and Globalization) with new economic policy most of the restrictions on private companies were lifted and the license RAJA helps in promoting economic progress from state led to becoming market friendly. Independent retail stores existed in India such as Akbarallys Viveks and Nalli's. First organized retailing noticed in textile organizations. Such as Raymond's set up retail stores in fabric. Today Raymond's distribution network accounted to 20000 retailers and 429 showrooms across the country. Some other textile manufactures set up their retail store were. The growth of text tile retailing, readymade branded apparel, leads to existance of Madura Garments, Aravind Mills etc with this new age of departmental stores find its place in blooming way in India in 1990s. This was the beginning of new retail era in India. The concept of retail as entertainment came to India with the advent of malls. The development of Malls took place both in metro and cities and towns.

**KEYWORDS:** Retailor, consumer, liberalization, globalization, economic, policy, organized, unorganized.

## INTRODUCTION:

In the Indian context the retail industry organized sector is differentiated from unorganized sector in terms of employment status. Traditional Indian retail sector has been characterised by the presence of large number of small unorganized retails. Till recently organized retail which attracted large private players to invest huge amount in this sector.

The need for the present research was felt by the researcher to identify the magnitude of retail industry in Karnataka especially in Haveri District of Haveri, Hanagal, Ranebennur, Byadagi and

Savanur, Shigganvi Hirekerur Talukas and to establish the relationship of organized retail and unorganised retail sector with various economic, social and other factors in the study area. Secondly the need for the research was felt since very little research work has been done in this area in the region.

### **Statement of the problem :**

In view of the above aspects the research study has been stated as under

**“A Comparative study of organized and unorganised retail sector in Haveri District of Karnataka State” A case study**

### **Scope of Research Study**

The research study provides a comprehensive profile of the organized retail sector and unorganized retail sector covered by the study area. The related aspects includes the social and economic background of the consumers and retailers. Impact of organized retail sector on sales of unorganized sector has been analysed in detail. The study covers the perceptions of unorganized retailer towards the organized retailer, problems faced by traditional retailers VIS a VIS organized retailers covering the social and economic factors the study makes a detailed analysis of the literacy level of consumers social backwardness, family income gender etc have been studied.

The economic aspects of organised retailer and unorganised retailer and their size of the family, earning members of the family have been analysed. The aspect include skill requirements and salary and wage pattern and spending habits etc have also been included.

### **Objectives of the research study**

The research study has the following objectives

1. To study the impact of organized retail sector on sales of unorganized retailers.
2. To know the perception of unorganized retailer towards the organized retailer
3. To study the problem faced by small retailers VIS a VIS organized retailers
4. To know future strategies employed by small retailers to remain competitive with organized retailers.
5. To study perception of consumers regarding organized retail outlets vis a vis unorganized.
6. To study any other aspects of the problem germane to the research study.

### **Limitations of the Research Study**

The present research work is subject to the following limitations

1. The study is an academic exercise. Hence it is limited by cost, time and geographical coverage.
2. The findings of the research work are limited to the units covered by the study and generalisation of the same will be applicable only to similar organizations.

### **Methodology**

The present study is an empirical survey. The study is based on the primary and secondary data.

**Sources of Primary data**

The primary data is collected by a survey of customer perceptions preparation in Nov 2016 and April 2017 for the doctoral thesis being prepared by the author, for submission to the Swami Vivekanand University, Sagara, Madhya Pradesh. The personal interview method of data collection from the selected respondent consumers was followed and the researcher obtained the data from the respondents by personally contacting them in their places. Similarly, questionnaire used for obtaining views and responses of the retailer in the selected units in the areas covered by the study.

**Sources of Secondary data**

Secondary data on consumer and retailer was collected through published works of individuals and from the publications of these state and central government. The concerned departments and government offices were the sources of secondary data, research papers, books and reports, legal documents relating to foreign direct investments in retailing etc were the other sources of secondary data.

**Selection of the study area :**

The researcher has selected Haveri District of Karnataka State for obtaining the primary data from the respondent consumers and retailers. The District comprises seven talukas: Haveri, Hirekerur, Byadagi, Hanagal, Savanur and Shiggaonvi, Ranibennur.

**FDI IN INDIAN RETAIL SECTOR****INTRODUCTION :-**

Retailing is the end process of supply chain management. Retailer is a person, who is in direct contact with the end users of the product or services because of this it gains its importance for the manufacturer. The word 'Retail' is derived from the French word 'Retailer' which means 'to cut a piece of' or 'to break bulk'.

**FDI Policy in India :-**

FDI means investment by non-resident entity/person resident outside India in the capital of an Indian company under schedule I of Foreign Exchange Management (Transfer or issue of security by a person Resident outside India) Regulations 2000.

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 Retailing Trading:**

FDI in Single brand products 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<sup>4</sup>. FDI in single brand product retail trading is subject to certain conditions, such as,

1. Products to be sold should be single brand only
2. Products sold should be of same brand internationally
3. 'Single Brand' covers only products which are branded during manufacturing.
4. 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 craftsman in all sectors.
5. 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 up to 51% through Government route, as per DIPP policy.

- **FDI in multi brand retail trading is subject to certain conditions such as,**
  1. Fresh agricultural produce (fruits, Vegetables, flowers, grains, pulses, fresh poultry fishery and meat products) may be unbranded.
  2. The foreign investors must bring a minimum amount of USD 100 million for investment.
  3. At least 50% of the investment brought should be invested in back-end-infrastructure within three years .Expenditure on land cost and rentals will not be included in infrastructure development.
  4. 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 USD 2.0million )
  5. Government possess the first right of procurement on agriculture produce.
  6. Retail outlets are allowed to be set up in cities as per the decision of the respective state Government.
  7. The policy for FDI is an enabling policy, the state Government is set free 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

#### SECTORWISE DIVISION FOR FDI

FDI-Automatic Route	FDI-Government Route
Floriculture, Horticulture, Animal Husbandry	Tree Plantation
Mining, Exploration of metal and Nonmetal ores	Manufacturing item reserved for SME (24%)
Coal and lignite mining and processing	Cigars and cigarette manufacturing

Alcohol distillation and brewing	Defense (26 %)
Coffee and Rubber processing	Private Banking sector (74%)
Drugs and pharmaceuticals	Commodity Exchange (49%)
Power	Print media (26%)
Advertising and films	
Green field projects in aviation sector	
Data processing , software development and computer consultancy services	
Health and Medical Services	
Hotel and Tourism	
Petroleum and natural gas	

Source : D/o IPP.F.No 5 (14)2009 FC dated 31-3-2010 issued by ministry of commerce and industry GOI

#### Foreign Retail Operators in India:

There is an unprecedented growth in organized retailing business in recent years and is expected to grow further at a much faster rate. Major players like large industrial houses and MNC's have entered this area and they have expansion and collaboration plans with big Indian partners.

#### Foreign Retail operators or players in India:

Retailers	Type	Status
7-Eleven	Supermarket	Evaluating
Amway	Direct selling	Already in
Auchan	Hypermarket	Evaluating
Carrefour	Multi-format retailers	Wait and watch
Dairy form	Multi-format-retailers	Tied up with RPG
jc Penny	Product sourcing	Already in
Land mark	Department store	Already in
Lee cooper	Product sourcing	Already in
Levi's	Product sourcing	Already in
Mango	Apparel Retailer	Already in
Marks & Spencer	Department store	Already in
Metro	Cash & carry	Already in
Oriflame	Direct selling	Already in

Reebook	Joint venture	Already in
Shoprite	Wholesale cash and carry and franchising	Already in
Sony	Manufacturer Retailer	Already in
Wal-mart	Hyper market	Agreement with bharti

Source : FDI in retail sector, department of consumer affairs, Government of India P 115

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 year 2010-12. As per the data, the sectors such as telecom, services, infrastructure and computer hardware and software attract FDI the most. The leading sources of FDI are from the economies such as the US, the UK, Singapore and Mauritius.

#### Ranking of sectors wise FDI inflow in India (April 2000-2010 Dec)

Rank	Sector	%of FDI inflow
1	Service sector	32
2	Computer Hardware and Software	14
3	Telecommunication	12
4	Housing and Real Estate	11
5	Construction Activities	11
6	Power	6
7	Automobile Industry	6
8	Metallurgical Industry	4
9	Petroleum and Natural Gas	3
10	Chemicals	1

Source : Fact sheet of FDI – DIPP (2010)

Global reports give lot of confidence in relation to India as a global destination as evidenced by the report, 2012 AT Kearney FDI confidence Index. "Economic survey 2010-11" tabled in parliament on February 25, had this to say about retail sector. "Permitting FDI in retail in a phased manner beginning with metros and incentivizing the existing retail shops to modernize could help to address the concerns of farmers and consumers FDI in retail also helps to bring in technical know how to set up efficient supply chains which could act as models of development and easing of the retail ban would give a big boost to FDI flows into India, which have been declining fast few years. Retailers must take cognizance of the fact that both back-end and front-end operations require investment and hence, need to be developed in a manner appropriate with their overall lined with greater challenges.

#### The FDI store:

- 2012- Congress led united progressive alliance Government allows 51% FDI in multi brand retail.



- 2014- BJP led National Democratic Alliance Government puts the policy on hold without formed notification.
- July 2015 cabinet allows all companies, including Indian supermarkets, to raise foreign portpolio investments up to 49% through automatic route.
- March 2016 Government allows 100%FDI in e-commerce market places.
- June 2016 Government allows 100% FDI in food retail.

#### **Advantages and Disadvantages of FDI in Retail sector:**

##### **ADVANTAGES:**

1. FDI shifts the burden of risk if an investment from domestic to foreign investor.
2. Repayments are linked to profitability of the under laying investments
3. FDI is the only capitals inflow that has been strongly associated with higher GDP growth since 1970.
4. FDI contributes economic growth as it raises the ratio of FDI inflow to domestic investments.
5. FDI has led to potential gains through technology transfer.
6. FDI has generated large employment opportunities in a number of countries.
7. FDI has led to the growth of the international trade.

##### **DISADVANTAGES:**

1. Entry of global giants will force the Indian traditional kirana/baniya stores to shut down their business.
2. Profit will be distributed ,investment ratios are not fixed
3. An economically backward class person will suffer from price rise.
4. Market places will be located too far which will increase the travelling expenses.
5. There will be cross-culture conflicts.
6. Exploitation of natural resources by foreign players.
7. Inflation may be increased.
8. India will become slave due to entry of foreign players.

#### **Product categories and retailing strategies.**

Categories of product differ in terms of level of risk, percentage share of market relevance for the consumer and expectation of customer service.

#### **Market segmentation:**

Market segmentation gives a clear understanding of the retail customer's requirements. What is market segmentation?

It is a process by which the customers are divided into identifiable groups based on their product or service requirements.

Market segmentation is very useful for the marketing force of the retail organization to create a custom marketing mix for specific groups.

### Retail strategy:

It is a plan designed by a retail organization on how the business intends to offer its products and services to the customers. There can be various strategies such as;

- Merchandise strategy
- Own Brand strategy
- Promotion strategy

A retailer strategy includes identification of the following;

- The retailers target market
- Retail format the retailers workout to satisfy the target market's needs
- Sustainable competitive advantage

### Effective Market Strategy:

For effective market segmentation the following two strategies are used by the marketing force of the organization.

#### Concentration (Niche) Strategy :

Under this strategy, an organization focuses going after large share of only one or very few segments. This strategy provides a differential advantage over competing organizations which are not solely concentrating on one segment.

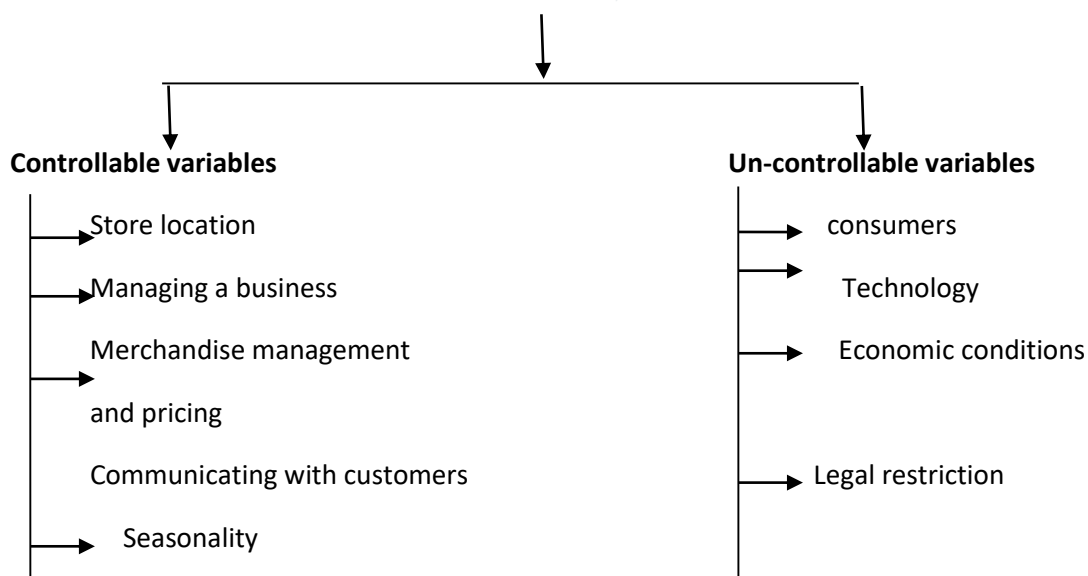
Ex: Toyota employs this strategy by offering various models under hybrid vehicles market.

#### Multi Segment Strategy :

Under this strategy, an organization focuses its marketing efforts on two or more distinct market segments.

Ex: Johnson and Johnson offers health care, products in the range of baby care, skin care, nutritionals, and vision care products segment for the customers of all ages.

### Retail Strategy





Source Integral detail

**Weakness is SWOT analysis.**

**Strength** - Innovative products, expertise and procedure.

**Weakness** - Lack of knowledge, technical support or average product quality.

**Opportunities** - A new international market or a market lead by a competitor.

**Threats** - A new competitor or price war.

#### **COMPETITION:-**

Determine who competes with your company in meeting the customer needs. Is the competitor is active competitor or is it a potential threat? What are their products exactly? What are their strength and weaknesses.

#### **COLLABORATORS:-**

Determine if there is only outside source or third party help that can help the company slue as distributors, suppliers etc

#### **CONTEXT:-**

Determine if there are any un-intention due to;

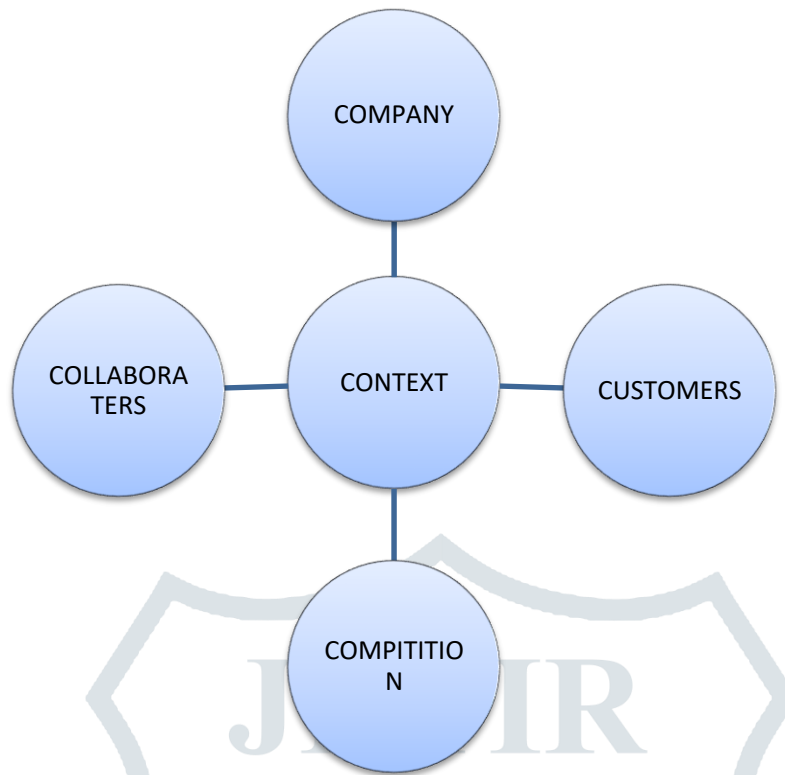
- Political issues: Legal problems, trade regulations.
- Economic issues: Growth rate, labour cost and business cycle stage.
- Social impacts: Demographics, education and culture.
- Technological developments: impact on cost structures.

This is also known as PEST analyses.

The above mentioned factors are the controllable variables of a retail strategy as shown in the picture. Apart from planning for these retail strategy should also take into account the uncontrollable factors etc in order for the strategy to be effective.

#### **5C's of marketing strategy**

- |                   |            |                |
|-------------------|------------|----------------|
| 1) Consumer       | 2) Company | 3) Competition |
| 4) Collaborator's | 5) Context |                |



#### **CUSTOMERS:**

Determine what are the needs are and from which clients that are trying to satisfy .A few areas of research can be market segments, frequency of purchase, and quantity of purchases, retail channel and customers needs depending on trends over time.

#### **COMPANY:**

Determine if your company is in a position to meet those customers' needs

.Ex: whether your company has the right product line and technical expertise's good tool to find out your company's strength,

#### **MARKET SEGMENTATION:**

Market segmentation is the process of dividing a market of potential customers in to groups or segment, based on different characteristics.

The segments created are composed of consumers who will respond, similarly to marketing strategy and who share traits such as similar interests, needs or locations.

#### **Why is market segmentation important?**

Market segments make it easier for marketers to personalize their marketing companies.

By arranging their companies target market into segmented groups rather than targeting each potential customer individually, marketers can be more efficient with their time money and other resources than if they were targeting consumers on an individual level grouping similarly consumers together allows marketers to target specific audiences in a cost effective manner .Market segmentation reduces

-Risk of un-successful or ineffective marketing campaign

-Prioritize their target audiences.

## CONCLUSION:

It can be said that, the advantages of allowing unrestrained FDI in the retail sector to it and the same can be deduced from the examples of successful experiments in countries like Thailand and China where too the issue of allowing FDI in the retail sector was first met with incessant protests, but later turned out to be one of the most promising political and economic decisions of their Governments, and led not only to the commendable rise in the level of employments but also led to the enormous development of their countries' GDP. And also, nobody can force a consumer to visit a mega shopping complex or a small retailers like sabji mandi. Consumer will shop in accordance with their utmost convenience, where ever they get lowest price, mix variety, and a good consumer.

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