

# FDI in Multi-Brand Retail – Imperative or Still an Option for India!

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## ABSTRACT

*Indian retail is one of the most sought after sectors that carry great potential for attracting FDI and is considered as the sunrise sector in India. India has taken a big leap in the retail sector especially in the 21st century which has attracted many foreign eyes. Rise in population, increased per capita Income, urbanization & changing consumer needs are the major factors contributing to this change. The positive response has also encouraged intense lobbying by certain sections for opening FDI in this sector. At present India does allow 51% FDI in multi-brand retail and permits 100 % in single brand retail. Despite a conservative approach from the Indian government, steady presence of global brands like Tesco, Carrefour and other top international brands has made this sector fascinating. The recent decision of Indian government to open the retail sector for FDI in multi brand retail has stirred up the heat with mixed responses from all over India. A strong lobby has also been opposing the idea tooth and nail. There are reservations towards opening up of retail sector arising from fear of job losses, procurement from international market, competition and loss of entrepreneurial opportunities for Indians. However, the government in a series of moves has opened up the retail sector slowly to FDI. This paper makes a modest attempt of developing*

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*an insight on the trends in the Indian Retail Industry through research on both primary and secondary data using questionnaire method along with extensive review of literature. This method was chosen because it provided in-depth data about basic views and assumptions of consumers from their own perspective through interactions and direct observation. The research attempts to highlight if the global players can take a bite of the Indian Retail markets or. India still a chance of accepting and implementing this change at snail pace.*

**Keywords:** FDI, Multi Brand Retail, Organized Retail, Unorganized Retail, Retail in India

## Introduction

The retail sector has been at the helm of India's growth story. The sector has evolved dramatically from traditional village fairs, street hawkers to resplendent malls and plush outlets, growing from strength to strength. Retailing in India is one of the pillars of its economy and accounts for 14 to 15% of its GDP. The Indian retail market is estimated to be US\$ 450 billion and one of the top seven retail markets in the world by economic value. India is one of the fastest growing retail markets in the world and the retail sector employs a huge number of people estimated at 44 million in the latest National Sample Survey. Organized retail is expected to fetch large number of workers and thus, large number of new jobs will be generated due to large size, economies of scale in organized retail and its capital intensity. The face of the Indian retail industry is changing. A number of changes have taken place on the Indian retail front such as increasing availability of international brands, increasing number of malls and hypermarkets and easy availability of retail space. With the Indian government having opened up the doors for FDI, the entry of foreign retailers into the country has become easier. India has come a long way from the traditional Kirana stores and is on its way to becoming a 'mall country'. India has a large middle class as well as youth population, which has contributed greatly to the retail phenomenon.

## Objectives of the Research

1. To study customer preference for Retail in India.

2. To determine factors influencing consumers to buy from the organized and unorganized retailers.
3. To analyze awareness of customers regarding FDI in multi brand retail.

### **What is Retailing?**

Retailing is a distribution channel function, where one organization buys products from supplying firms or manufactures the products themselves, and then sells these directly to consumers. It is defined as all activities involved in selling goods or services directly to the final consumer for their personal, non-business use via shops, market, door-to-door selling, and mail-order or over the internet, where the buyer intends to consume the product. In majority of retail situations, the organization, from whom a consumer buys, is a reseller of products obtained from others, and not a manufacturer. However, some manufacturers do operate their own retail outlets in a corporate channel arrangement. Retailers extend many benefits to suppliers and customers as resellers. Consumers, for instance, are able to purchase small quantities of an assortment of products at a reasonably affordable price. Similarly, suppliers get an opportunity to reach their target market, build product demand through retail promotions, and provide consumer feedback to the product marketer.

### ***Organized and Unorganized Retail in India***

The Indian retail market, variously estimated at \$400-450 billion, is dominated by the highly decentralized and unorganized sector. The small retail outlets, most of them family-owned businesses (majorly known as 'KIRANA shops' or 'mom-and-pop stores'), account for about 95 percent of the sales. In the past decade, India has witnessed development of organized retailing, which has encouraged large private sector players to invest in this sector. Recognizing the short-term and long-term potential of organized retail in India, a number of top business houses have entered the retail industry. Some like Food world, Crossword, Globus, Pantaloon Retail, Shopper's Stop and Pyramid Retail have established themselves in the industry for a decade. Others like Reliance Retail Ltd. (RRL) have entered and Birla and Bharti opened up a number of stores across the country. The share of organized retailing in India, at around 2%, is too

low, compared to 80% in the USA, 40% in Thailand, or 20% in China, thus leaving the huge market potential largely unexploited. Mounting earning levels, education and an international revelation have contributed to the progression of the Indian middle class purchasing and shopping practices are burgeoning as an outcome. Retailing through supermarkets, hypermarkets, department stores and other forte chains are escalating. As retail giants such as Tesco and Marks & Spencer have already made inroads into the Indian retail industry the market is expected to get stronger.

### *Definition of Organized Retail*

‘Organized retail or modern retail is usually chain stores, all owned or franchised by a central entity, or a single store that is larger than some cut-off point. The relative uniformity and standardization of retailing is the key attribute of modern retail. The size of each unit can be small so that a chain of convenience stores is modern retail. A single large department store is also modern retail.’ (ICRIER – Indian Council of Research in International Economic Relations) Organized retail sector refers to the sectors undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate retail formats of the exclusive brand outlets, hypermarkets, supermarkets, departmental stores and shopping malls.

### *Definition of Unorganized Retail*

Unorganized retailing, refers to the traditional formats of low-cost retailing, for example, hand cart and pavement vendors, & mobile vendors, the local Kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hardware shop at the corner of your street selling everything from bathroom fittings to paints and small construction tools; or the slightly more organized medical store and a host of other small retail businesses in apparel, electronics, food, etc.

### *Percentage of Retail in Organized/Unorganized Sectors*

The study brought by the Associated Chambers of Commerce and Industry of India (ASSOCHAM), points out that retailing in India is characterized by a high degree of fragmentation with street markets and

convenience stores (kiranas) accounting for more than 96% of retail business. Unorganized retail sector is still predominating over organized sector in India. Organized retail which presently accounts for close to 4 percent of total market will increase its share to over 30 percent by 2013, offering huge potential for growth in coming years, says a study, 'Indian Retailing – The way forward' (ASSOCHAM – Associated Chambers of Commerce and Industry).

### **What is FDI?**

FDI is defined under Dictionary of Economics as Investment in a foreign country through the acquisition of a local company or the establishment thereof an operation on a new site. It refers to capital inflow from abroad. It is a form of long term international capital movement, made for the purpose of productive activity and accompanied by the intention of managerial control or participation in the management of a foreign firm.

In effect, this is like any regular enterprise that invites investments and then grants the donor of that investment a certain degree of control in the enterprise, along with a share of profits as well, even though this depends on the policy of profit repatriation in that country. The only difference here is that the investor is actually a foreign party. As a result of this, different rules, policies and governing factors come into play in such a scenario. Both the parties involved derive many benefits from such an arrangement. On the other hand, both parties also suffer some disadvantages due to this process, so they have to take a decision after carrying out a balanced analysis.

### **FDI in India**

The fast and steadily growing economy of India in majority of its sectors, has made India one of the most famous and popular destinations in the whole world, for Foreign Direct Investment. India's ever-expanding markets, liberalization of trade policies, development in technology and telecommunication, and loosening of diverse foreign investment restrictions, have further collectively made India, the apple of investors' eye, for most productive, profitable, and secure foreign investment. According to a recent survey by the United Nations Conference on Trade

and Development (UNCTAD), India has conspicuously emerged out as the second most popular and preferable destination in the entire world, after China, for highly profitable foreign direct investment.

### **What is Multi Brand Retail?**

Multi brand retailing relates to marketing of two or more similar and competing products, by the same firm under different and unrelated brands. While these brands eat into each others' sales, multi-brand strategy does have some advantages as a means of:

- Obtaining greater shelf space and leaving little for competitors' products,
- Saturating a market by filling all price and quality gaps,
- Catering to brand-switchers who like to experiment with different brands, and
- Keeping the firm's managers on their toes by generating internal competition.

### **Research Methodology**

This study has been done in two parts. In part 1 secondary data has been used from different studies, research papers, journals and websites and the second part consists of survey of 100 customers from organized and unorganized sector in Pune City.

- (i) Sampling Unit: Customers from different demographics were chosen.
- (ii) Sampling Method: Convenience Sampling.
- (iii) Method of data collection: Questionnaire
- (iv) Type of Questionnaire: Structured questionnaire with suitable scaling.
- (v) Type of questions: Close ended Likert scale and multiple choice questions.

## Data Analysis and Interpretation

### I. Customer Choice of Retail Format (Ref. Fig. 1)

17% customers prefer unorganized retail shops, 69% customers prefer organized retail shops, 14% customers are not sure.

**Interpretation:** It is observed that maximum customers are inclined towards Organized Retail.

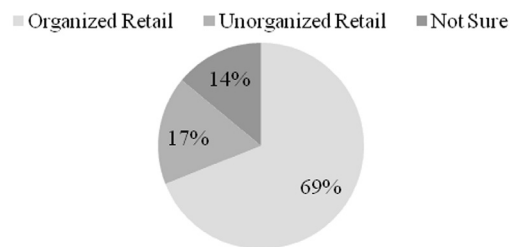


Figure 1: Choice of Retail Format

### II. Customers Preference of Retail Stores for Purchase of Consumer Durables, Daily Need Items and Medical Items (Ref. Fig. 2)

63% customers purchase from organized retail as against 37% who buy it from local Grocery stores.

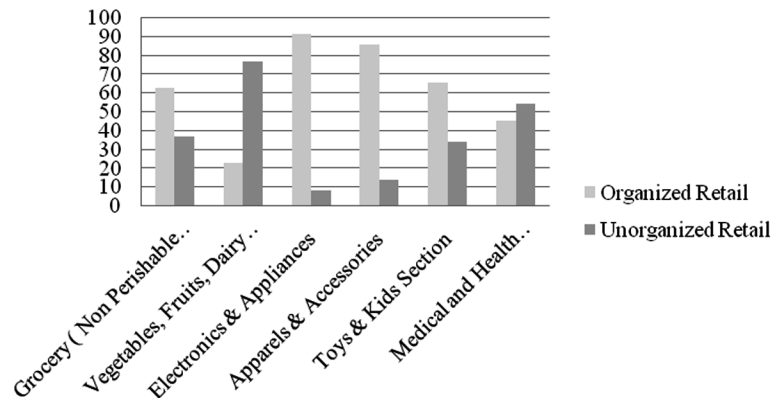


Figure 2: Preference of Selection of Retail Outlet for Listed Items

**Interpretation:** It is observed Customers prefer shopping from Organized Retail Outlets for Consumer Durable items but stick to Unorganized retail

outlets for purchase of Daily need items and medical items. Surprisingly, grocery sales in organized retail have edge over unorganized retail.

**III. Purpose of Visit to Malls (Ref. Fig. 3)**

54% Customers visit mall for Shopping while 29% visits for Entertainment, 26% visits for Window shopping and Eating Out.

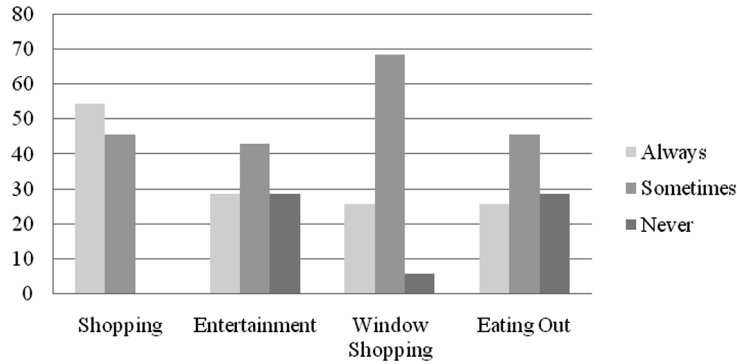


Figure 3: Purpose of Visit to Malls

**Interpretation:** Maximum customers prefer visiting mall for Shopping and Window Shopping.

**IV. Factors Influencing Selection of Organized Retail (Ref. Fig. 4)**

74% customers prefer organized retail for ‘Product Assortments’ followed by 71% for ‘Offers and Discounts’, 69% for ‘Everything under 1 Roof’ and 57% for ‘Store Location’.

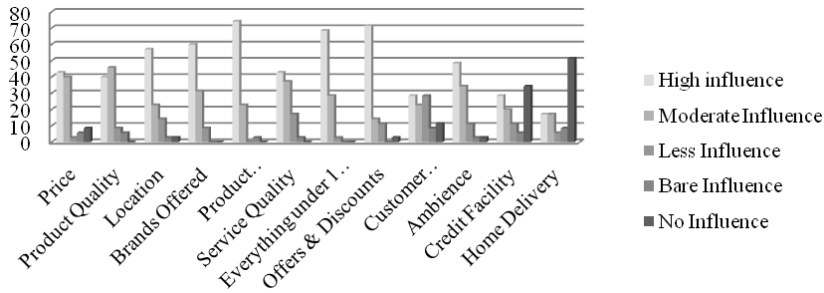


Figure 4: Factors Influencing Selection of Organized Retail



**Interpretation:** Factors like Product assortments/variety, Offers and Discounts and availability of all products under 1 roof attract customers to Organized Retail.

*V. Factors Influencing Selection of Unorganized Retail (Ref. Fig. 5)*

66% customers select unorganized retail for convenience of location and Home Delivery facility. Credit Facility attracts only 49% of customers.

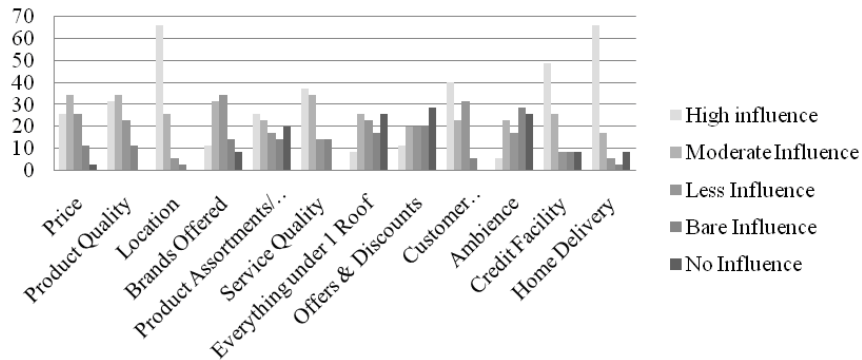


Figure 5: Factors Influencing Selection of Unorganized Retail

**Interpretation:** Store Location and Home Delivery enjoy equal position for selection of Unorganized Retail Outlet.

*VI. FDI – A Welcome Change in Retail (Ref. Fig. 6)*

71% customers have given an overwhelming response to FDI and welcomed the change. 23% customers are not sure and 6% typically don't see FDI as a welcomed change.

■ Welcome ■ Not Welcome ■ Not Sure

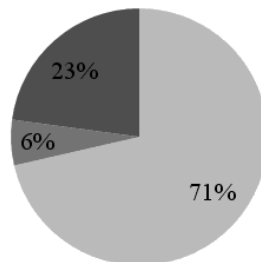


Figure 6: FDI – A Welcome Change

**Interpretation:** It is revealed that maximum customers are looking forward to welcome FDI in multi brand retail in India.

### VII. Comparison of Customer Choice for Organized and Unorganized Retail (Ref. Fig. 7)

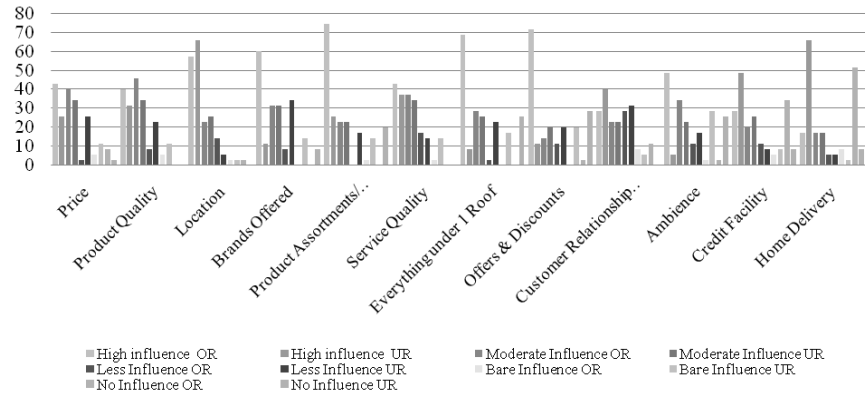


Figure 7: Organized vs Unorganized Retail

### Key Findings and Suggestions

The key finding of the research is as follows:

- (i) On comparison, Product assortments, Offers and Discounts and availability of items under one roof are the USPs of Organized Retail.
- (ii) There is no significant difference as far as location is concerned for selection of either of the formats.
- (iii) Home delivery still plays a significant role while selecting unorganized retail over organized retail store.
- (iv) The major factors that attract consumer to unorganized retailers are goodwill, bargaining, loose items, and convenient timings.
- (v) Consumers have generally gained with emergence of organized outlets through the availability of better quality products, lower prices, one-stop shopping, choice of additional brands and products, family shopping and fresh stocks.

- (vi) With customers gaining awareness on FDI, the policy of allowing 51% FDI in Multi-brand retail will encourage Indian customers to access foreign brands. It shall benefit both the foreign retailer and the Indian partner – foreign players will get local market knowledge, while Indian companies can avail global best management practices, designs and technological knowhow.
- (vii) FDI in retail may also help bring in technical know-how to set up efficient supply chains which could act as models of development.

## **Conclusion**

India is at the crossroads with regard to the retail sector. Several emerging market economies have gone ahead and reaped the benefits of modern retail. India is however a latecomer to organized retail expansion and the picture still remains unclear as to its future direction. The study advocates a balanced approach to retail and suggests that the government plays a major role in shaping its future course. There is no doubt that traditional retail has been performing a vital function in the economy and is a significant source of employment. However, it suffers from huge inefficiencies as a result of which consumers do not get what they want. In contrast, organized retail provides consumers with a wider choice of products, lower prices, and a pleasant shopping environment. Further, Corporate India and leading Indian organized retail players have come out in strong support of the FDI. For serious global retail players waiting in the wings with India aspirations, this is clearly the opportune time to consider an India entry. While there is no debate on the timing or the opportunity, potential foreign retail entrants need to develop a deeper understanding of the market and its challenges and to draw up a robust entry strategy. By opening this sector, the government has shown its willingness to welcome the reform in retail sector. By allowing FDI in retail trade, India will significantly benefit by enhancing quality standards. It will integrate the modern Indian retail market with that of the global retail market. This change will boost the standards of living by opening up new arena of employment. Better pay package in retail industry along with respectful positions will encourage individuals to explore the field as the unorganized sector has failed to provide the same. However, FDI in multi-brand retailing needs to be dealt with great caution as it has direct

impact on a large chunk of population. Foreign capital, if unchecked, may widen the gap between the rich and the poor. Thus, the entry of foreign capital into multi-brand retailing needs to be anchored in a way that it results in a win-win situation for both India and global players. To summarize, debate on opening up multi-brand retail is a welcome first step. There is sincere expectation that the government will open the sector to FDI, and act fast on this front, even if it means opening the sector in a gradual and phased manner.

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**Annexure: Questionnaire**

***FDI in Multi-Brand Retail – Imperative or Still an Option for India!***

**Name:** \_\_\_\_\_

**Age:** 20-35  35-45  45 & above

**Occupation:** Salaried  Self Employed  Professionals Others

**Gender:** M  F

**Q1. State your preference of Retail Markets:**

Organized Retail  Unorganized Retail  Not Sure

**Q2. State your preference of Retail Markets for purchase of following item: (Please tick ✓)**

S. No.	Items	Organized Retail	Unorganized Retail
1	Grocery ( Non Perishable Items)		
2	Vegetables, Fruits, Dairy & Food Products (Perishable Items)		
3	Electronics & Appliances		
4	Apparels & Accessories		
5	Toys & Kids Section		
6	Medical & Health Products		

**Q3. How often do you visit malls?**

Daily  Weekly  Fortnightly  Monthly

**Q4. What is the purpose of your visit to malls based on following parameters? (Please tick ✓)**

S. No.	Parameters	Always	Sometimes	Never
1	Shopping			
2	Entertainment			
3	Window Shopping			
4	Eating out			

**Q5. What is the impact of Organized retail on your spending?**

Increase       Decrease       No change

**Q6. Which following attributes influence you most in selecting Organized / Unorganized retail outlet? (5 – High Influence, 4 – Moderate Influence, 3 – Less Influence, 2 – Bare Influence, 1 – No Influence)**

S. No.	Attributes	Organized Retail	Unorganized Retail
1	Price		
2	Product Quality		
3	Location		
4	Brands Offered		
5	Product Assortments/ Variety		
6	Service Quality		
7	Everything under one roof		
8	Offers & Discounts		
9	Customer Relationship Approach		
10	Ambience		
11	Credit Facility		
12	Home Delivery		

**Q7. Are you aware of FDI reform announced by Govt. of India?**

Yes       No

**Q8. Do you feel that FDI in Indian Multi Brand Retail is a welcome change?**

Yes       No       Not Sure