

## **Impact of Foreign Direct Investment on Unorganised Retail Sector in India- A Research Report**

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### **Abstract**

*Countries all over the world whether developed or developing are taking great effort to attract Foreign Direct Investment (FDI). Indian Government also making policy changes to attract more FDI into the country. India is a largest democracy and second largest populated country in the world. India offers a large potential market, possesses pool of talent, educated and skilled workforce, has relatively low labour costs and liberal democratic political structure.*

*The unorganised retail sector of India offers more than 8% employment to its people. A large share of population have their livelihood through the Kirana stores, vegetable stores etc. In 2012 Government of India has decided to allow 51 % FDI in Multi Brand 100% in Single Brand retail sector. Some trade associations raised objections to the decisions. This research paper is to find out the facts and fiction on the probable impact of FDI and retail sector upon small and marginal sector.*

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### **I. Introduction**

India is fifth largest retail market in the globe. Its population size at 130crores is a good bet for retail trade or any other business activities. A recent phenomenon in the retail sector is the entry of foreign investment in many countries. Most of the countries welcome the foreign direct investment with red carpet. Traditionally, India is the hub of small and marginal traders in the unorganised sector. Almost eight percentage of the employment is in this sector. Further, the share of GDP also is near to ten percentage. The population is also in large percentage in the rural sector. The rural India is not infrastructurally connected so that the local markets has its space. The Kirana stores mom- pop stores serve the needs of rural India. In the recent times, the urbanisation is in a very increased pace which enables the development of formal markets occupied by the organised sector. The purchasing power of the people also has substantially increased. This has changed the formats of modern retail. Most of the studies on developing and transitional countries confirm that the effects of super markets on traditional retailers are minimal. The apprehension of the unorganised sector is mainly loss of employment. The retail system can create jobs whereas, it inevitably results in a loss of traditional retail sector jobs, but depending on the formats used by the modern retailers and the subsequent expansion of consumer market facilitated by the modern retailers lead to more generation of employment. This newly generated modern markets sector have better working conditions if they acquire skills and education by employees in the traditional sector.

Recently, a large new middle class with spending power has emerged. The middle class in the society needs value for money. The emergence of modern Indian housewives who manage their workplace and home led to demand for more products, shopping ambience, conveniences and one stop shopping which was the main reason for more and more super markets and Malls entry into the Indian market. An average Indian would feel Malls as a perfect week-end destination, offering entertainment, food, and shopping all under one roof with family.

### **II. Literature Review**

After the opening up of the Indian economy, in the year 1991 many large retailers from abroad had shown interest in the Indian retail sector. In 2006, single brand FDI was allowed by the regulators. FDI in multi brand was allowed in the year 2012 with the conditions of local out sourcing, infrastructure investment spending with further restriction on entry to towns with the population more than 100 million.

Various studies have been conducted on the impact of entry of FDI in retail trade. Some of the studies have been concluded with the advantage to our economy, more generation of labour, technology transfer with a higher level of infrastructure development and best practices of business. Whereas, some other studies have concluded with findings on adversary impact in the above said sectors. More issues on storage and distribution

will improve contributing to better supply chain. Now a days, more than 40 percent of fruits and vegetables are damaged before reaching to the consumers point, this in turn increases the price of fruits, vegetables and other food item, leading to a higher level of inflation in the country, with infrastructure development for supply chain this shall be controlled since the supply demand chain to make available the food items in the markets without much time, so that it will be with a quality at best prices.

Available evidences confirmed in different studies indicate that small and marginal farmers are often excluded from the newly developed supply chain. When large Hyper-markets are coming up they requires more from suppliers with respect to volume. They insists the supply of quality goods, continuity in product supply and good standard operating practices and governance. For the above reasons, the Hyper- markets and large sized stores prefer to source the goods from medium to large suppliers. This make a big challenge to small and marginal suppliers. Sometimes the expansion of consumer markets through modern retailing can facilitate a small level of format innovation leading to more employment. The modern sector requires much educated and skilled employers but they get better working environment and good salary (Kerney 2006, Thomas Reardon & Ashok Gulathi, 2008).

## **Research Design**

### **1. The Sample**

The purpose of this study is to have better understanding of local unorganised retailers in two places in Kochi, Edappally and Kadavanthara. The city of Kochi has a population near to 12 lakhs as per last census in the year 2011. The study is to understand the impact of large sized Malls, supermarkets etc. on the unorganised small and marginal retailers. The study was piloted by a scheduled questionnaire, a sample of 100 each from the two places of the city was collected. The questions were asked to owners of the shops in all the cases. The business places covered were Kirana stores, mom-and-popstores, apparel stores and vegetable stores.

### **2. Sample Error**

Sample error may occur in the research process, since the sample size is too small to represent the retail sector of whole of India and also it is a very diverse field which cannot be defined based on a sample from two places in the city. Any how the researcher have taken care to minimise the probable sampling errors such as design error, interview error, respondent error etc.

### **3. Data Collection**

The data was collected with the service of specially skilled people. Most of the occasions the researcher also was present in the field. They personally collected the data through the research instrument designed, scheduled questionnaire. The format of the questions were dichomatic, Yes or No. This makes the respondents to give the required information without much loss of time. The percentage of respondents also were on high side, since too many questions were not asked. Total number of questions were 10. The questions were made to measure the assessment of the impact of FDI in Multi brand retail sector.

### **4. Data Analysis**

The data analysis technique used in this research study was descriptive tabulation of the collected data and drawing the bar diagram.

### **5. SWOT Analysis**

SWOT is a statistical tool to analyse and identify the strength, Weakness, Opportunity and Threat in the retail trade with Multi brand FDI. The method of analysis to get an information on internal strength and weakness and external opportunity and Threat.

#### **a) Strength**

1. A large part of the people in our country is young, approximately 70 percent of the population is below 35 years of age.
2. Increasing working women population and emerging opportunities in the service sector.
3. Employment opportunities both direct and indirect will be increased.
4. Farmers get increased price for their products and better working environment.
5. Customers shall have access to large variety of quality goods at the best prices for value for their money.
6. The customers aspiration and increased income are also very favourable.

#### **b) Weakness**

1. The services of modern format may be sometimes accessible to the high end consumers, no reach to the

common masses particularly in rural areas.

2. The rapid development of modern format of retail requires more space, this will in turn increase the price of real estate. The exponential increase will not be affordable to small sized domestic retailers.
3. Almost the 95 percentage of modern retailers are occupying like 500 to 800 sq ft. The out let of Indian retail trade are in few limited to 50. Or else to a smaller level than this.
4. The present retail stores in India are doing only sales. But the modern format of retail requires more survey works and research in marketing for offering quality products and best prices with more choices.
5. The storage and distribution facilities have not been developed to have speedier supply chain.

c) Opportunities

1. There will be an upgrading of retail trade.
2. The organised sector will grow more stronger to have a larger contribution to the GDP.
3. Employment generation for skilled and unskilled will be at fastest pace.
4. Unexploited rural market of the country will be tapped.

d) Threats

1. Insufficient infrastructure facility is a big impediment for supply chain.
2. The vegetables and fruits have short life time, not standardised.
3. Warehousing and distribution networking for distribution are in very poor condition.
4. Labour rules and regulations are ambiguous to compliance. Contract labour is not allowed.
5. Large order of bureaucratic obstruction and prevalent high level of corruption.
6. For infrastructure development, FDI share is restricted to 49 percent.
7. Unorganised sector is prevailing over organised sector in India.

**6. Analysis of Primary Data**

**Table 1: Awareness of FDI among the respondents**

Sl.No.	Response	No. of respondents	Percentage
1	Yes	180	92
2	No	15	8
	Total	195	100

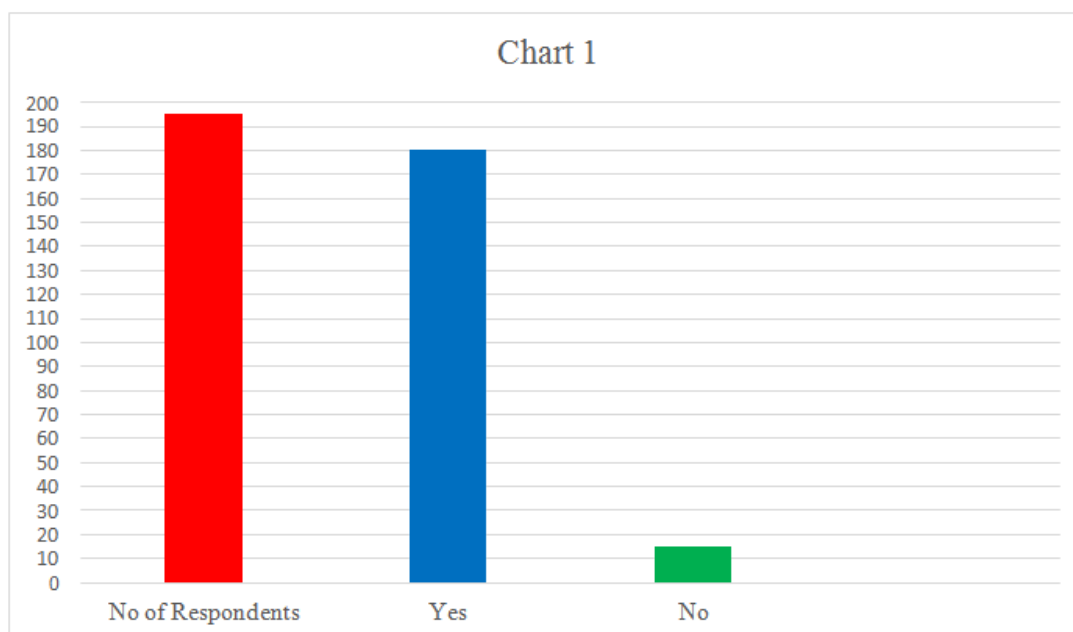
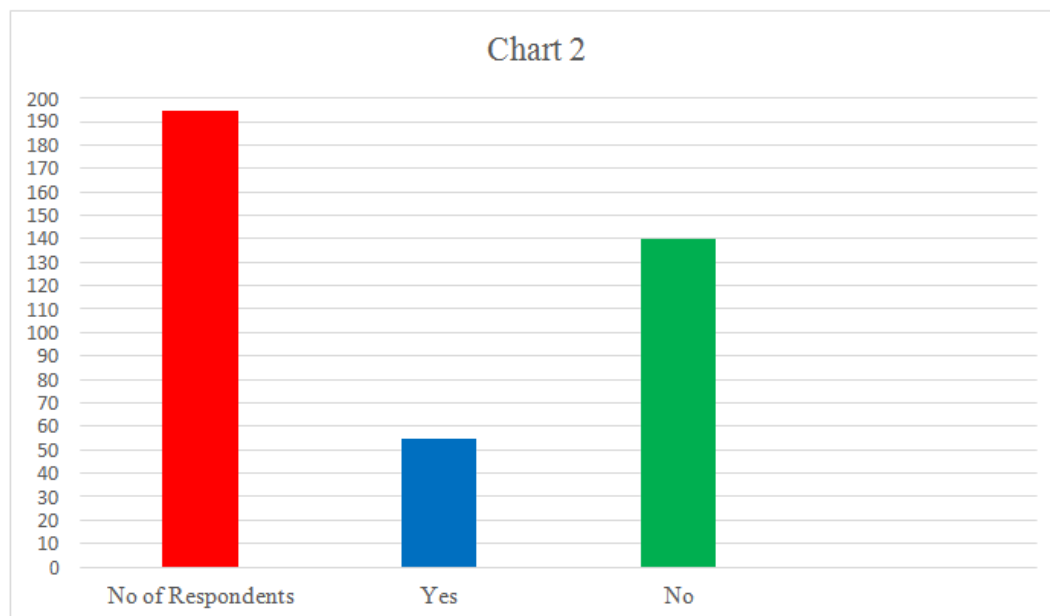


Table 1 reveals that the 92 per cent of the traders and business people are aware of the Foreign Direct Investment in India while 8 per cent does not know about the same. The respondents who are not aware of FDI are small vendors and vegetable and fruit sellers. In a literate State like Kerala, it is not surprising that majority of the trading community are aware of the introduction of FDI in the country.

**Table 2: Awareness about the arrival of Big Retailers due to FDI**

Sl.No.	Response	No. of respondents	Percentage
1	Yes	55	28
2	No	140	72
	Total	195	100

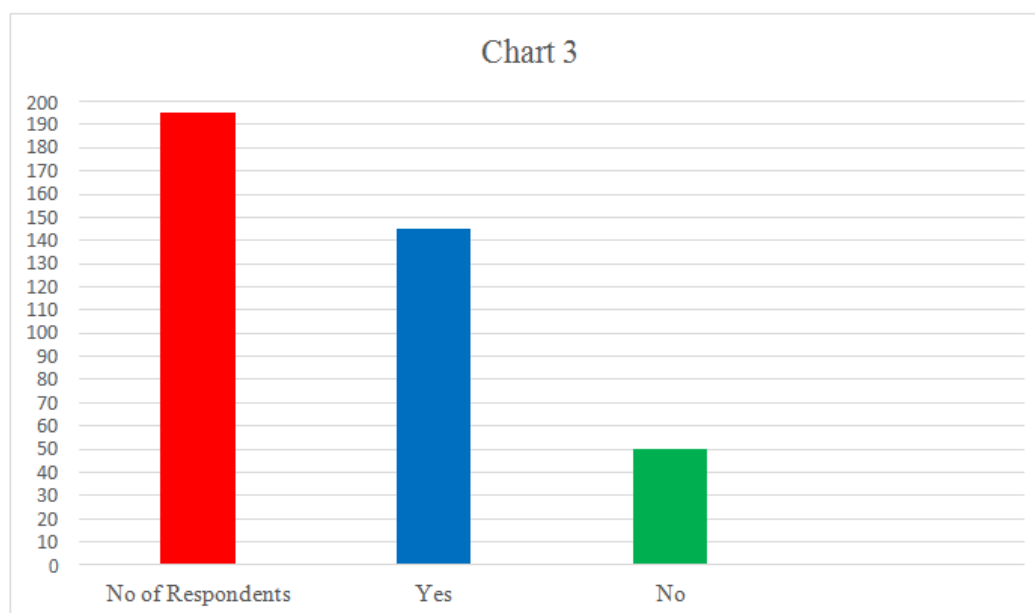


It is surprising to note from table 2 that, 72 per cent of the respondents are not aware of the arrival of the Global giants like Wal-Mart and Carrefour. Twenty eight percent revealed the FDI will open the door for the entry of global giants in the retail sector of India. They are very much concerned about the same.

**Table 3**

Are you concerned on big retail shops like Malls?

Sl.No.	Response	No. of respondents	Percentage
1	Yes	145	74
2	No	50	26
	Total	195	100



An enquiry was made regarding the awareness of the arrival of Global Retail Giants into India. Table 3 reveals that 26 per cent of the respondents are unaware of the arrival of Retail Giants due to liberalised FDI Policies. Seventy six per cent are aware of the arrival of big players in the retail sector, but they do not know the details regarding the same.

**Table 4**  
Awareness about the impact of arrival of Big Retailers due to FDI

Sl.No.	Response	No. of respondents	Percentage
1	Yes	75	38
2	No	120	62
	Total	195	100

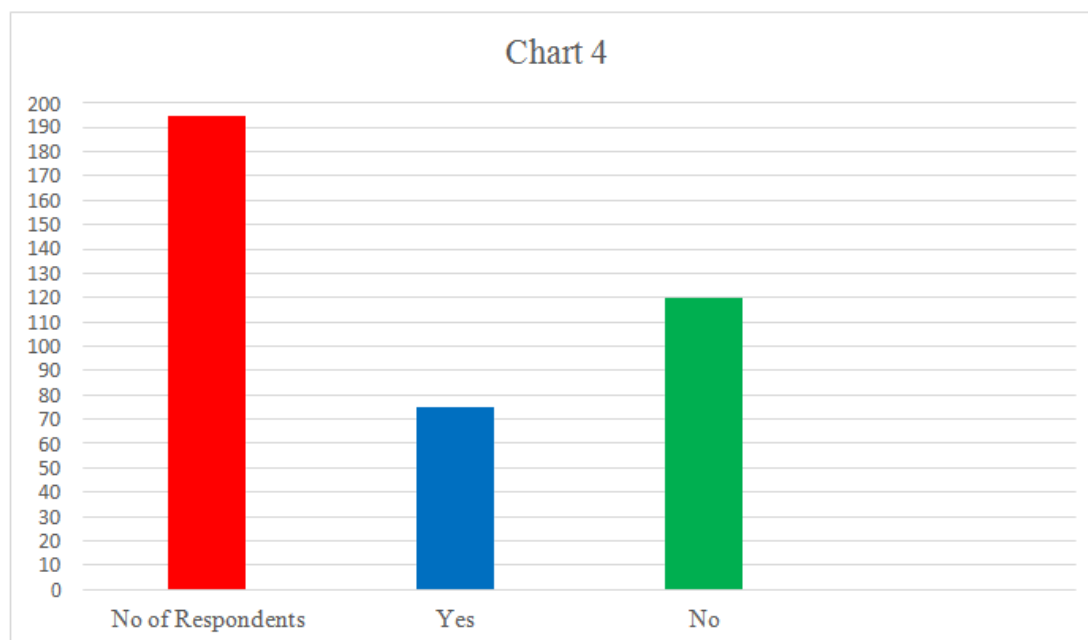


Table 4 shows, whether the respondents are aware of the impact of the entry of global retail giants in the Indian retail sector. As per table 3, 145 respondents were aware of the entry of the big retailers in the Indian market, but table 4 reveals that only 75 of them knows the impact of the entry of foreign players into the Indian retail sector. Sixty two percent of the Respondents are totally blank about the impact of FDI in retail sector. It means, the small and medium size Indian retailers may not design counter strategies to face the foreign retail giants.

**Table 5**

Fear of closing down of their business due to the entry of big retailers

Sl.No.	Response	No. of respondents	Percentage
1	Yes	55	28
2	No	140	72
	Total	195	100

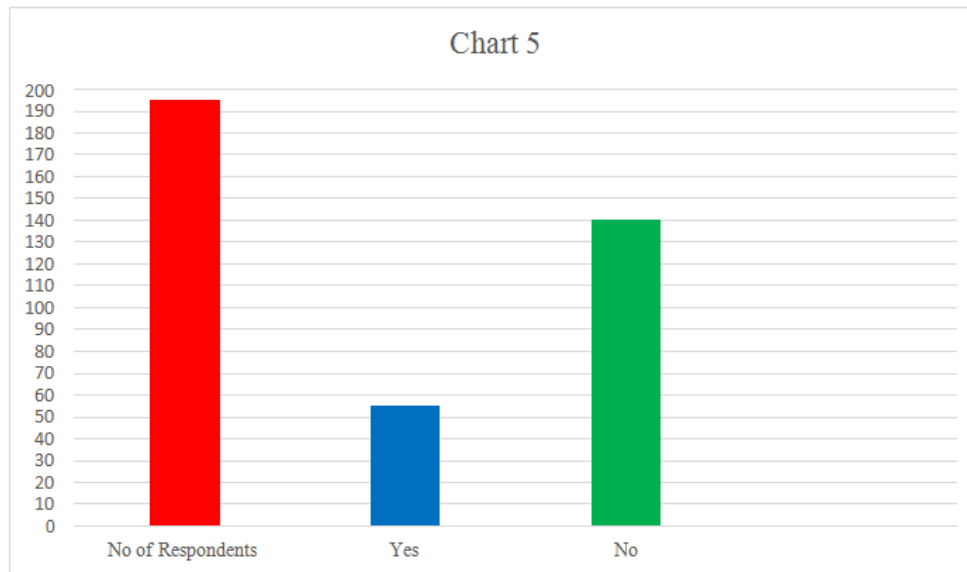
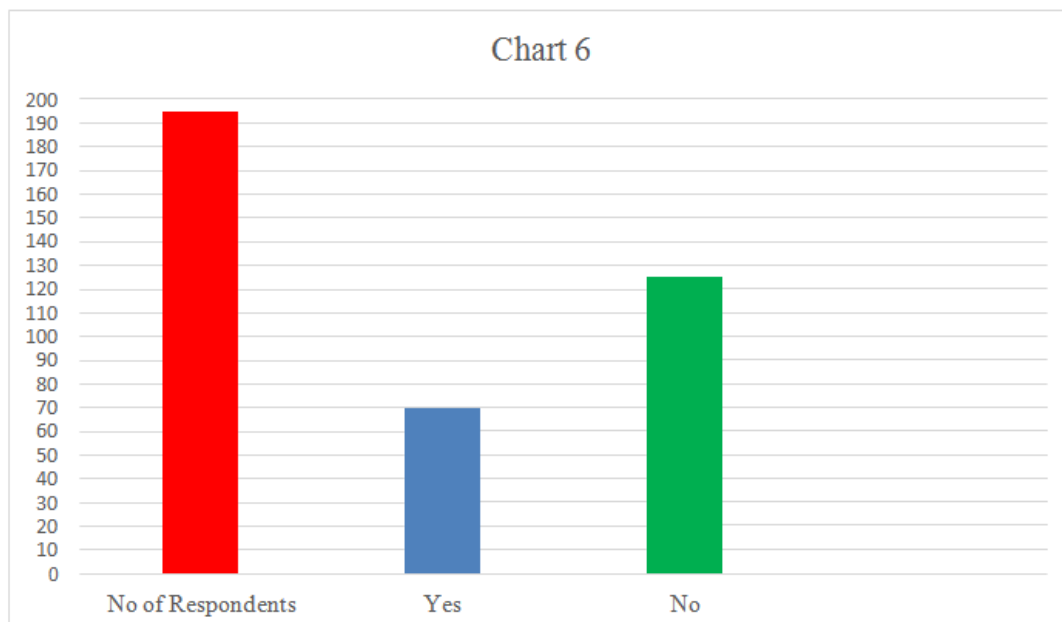


Table 5 shows the level of confidence of the retailer respondents due to the entry of Global Retail Giants. They were asked whether they fear that their tiny business will be closed down on the entry of Big Retailers. Seventy two per cent of the respondents revealed that they do not fear of closing down of their business, while 28 per cent of the respondents expressed their apprehension that they may close down their retail shops.

**Table 6**

Support for the Govt. decision to allow FDI in retail sector

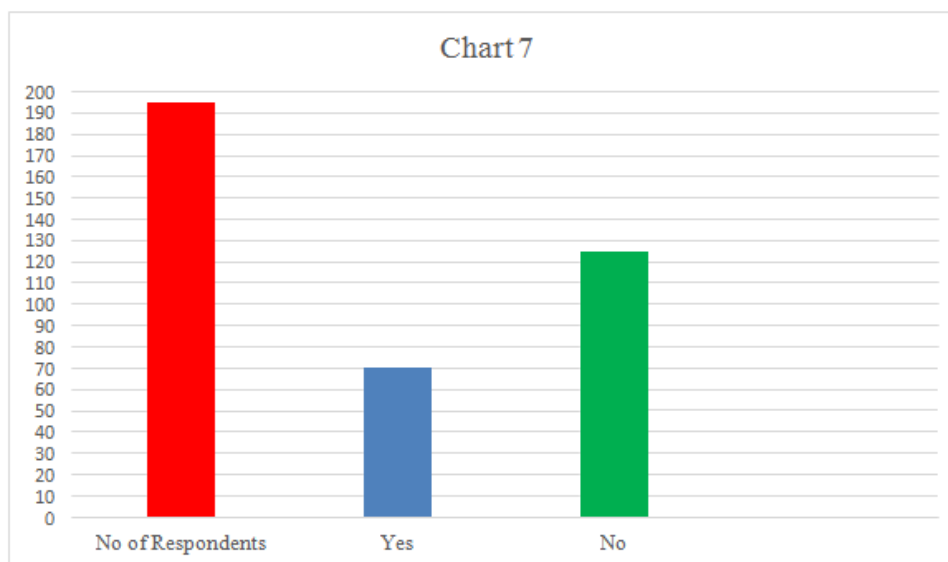
Sl.No.	Response	No. of respondents	Percentage
1	Yes	70	35
2	No	125	65
	Total	195	100



As per table 6, majority of the respondents are not in favour of the Govt. decision to permit FDI in retail sector in India. Table 6 reveals that 65 per cent of the respondents disagree with the Govt. decision, while 35 per cent welcome the Govt. decision. This is an indication that the respondents are ready to face the eventuality, in case the worst will happen. They found it as a challenge, wherein an opportunity lies.

**Table 7**  
Loss of employment opportunities due to the arrival of Big Retailers through FDI

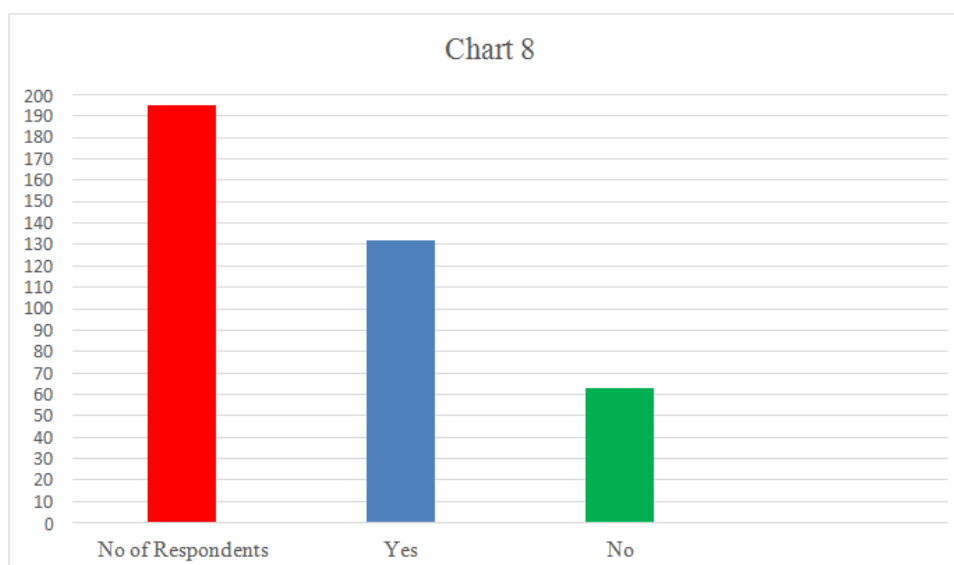
Sl.No.	Response	No. of respondents	Percentage
1	Yes	70	35
2	No	125	65
	Total	195	100



It is surprising to note from table 7 that the Indian retailers are not afraid of the loss of employment due to the arrival of Global players. As per the table, 65 per cent of respondents revealed that the employment opportunities will not be reduced due the arrival of Global Retail giants. Thirty five per cent expressed their apprehension that the employment opportunities will reduce.

**Table 8**  
FDI in retail sector will lead to the modernisation of Indian retailers

Sl.No.	Response	No. of respondents	Percentage
1	Yes	132	67
2	No	63	33
	Total	195	100

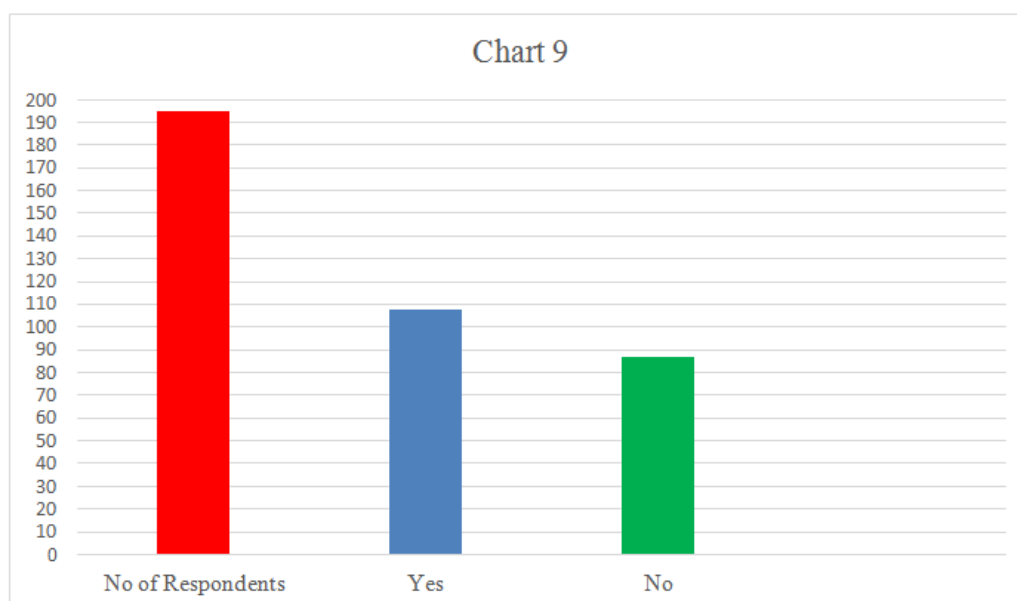


The Indian retailers find an opportunity to re-engineer and modernise their small Kirana Shops. Table 8 reveals that 67 per cent of the respondents will consider the entry of Global retailers as an opportunity to modernise their respective retail shops to counter the global players. This response is on expected lines as revealed in table 5. As per the table, 65 per cent of the respondents revealed that their business may not be closed down. It means, they are ready to counter the big players through modernisation and by re-tuning their business strategies.

**Table 9**

FDI in retail sector will lead to employment creation and better remuneration

Sl.No.	Response	No. of respondents	Percentage
1	Yes	108	55
2	No	87	45
	Total	195	100



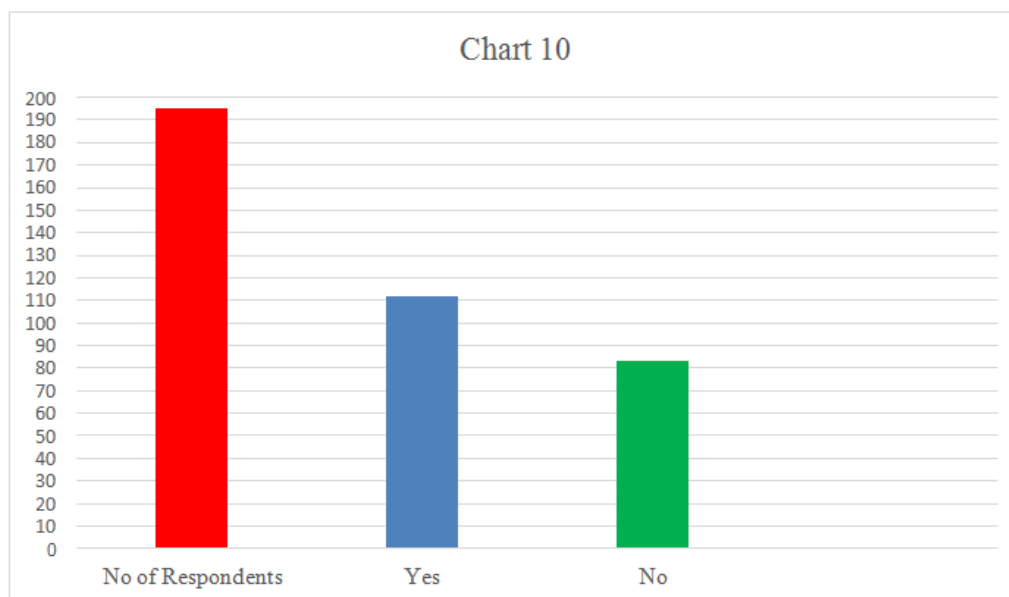
As per table 9, fifty five per cent of the respondents are of the opinion that the introduction of FDI in retail sector will lead to better employment opportunities and the labourer will get better wages. But, forty five per cent denied this and are of the opinion that the employment will reduce and the working conditions may become miserable.

**Table 10**

Socio-cultural fabric of India will be adversely affected due to FDI in retail sector

Sl.No.	Response	No. of respondents	Percentage
1	Yes	112	57
2	No	83	43
	Total	195	100





As per table 10, Fifty seven per cent of the respondents opined that the social and cultural values, which was practiced by the Indian retailers may be adversely affected by the entry of Global retail giants. Forty three per cent of the respondents are positive in their approach and they revealed that the socio-cultural fabric of India may not be affected by the Govt. decision to allow FDI in retail sector

### **III. Interpretation of Data Analysis**

The above analysis was done to found out the perceptions of small and marginal retailers on big players like Malls and FDI Stores that may come up in the future. Questions were asked on awareness of FDI, which was answered with a big majority as Yes. Another question asked was on the awareness of Foreign Retailers like Wal-mart, Carrefour etc. which was answered in the Negative. Their concern on the big Malls like Wal-mart and Carrefour are Negative. They have a less fear on the closure of their shops with the entry of FDI. Still a large percentage do not support the decision of the Government in Multi brand retail. A large number of them have a fear of loss of their employment. Majority of them have the opinion that they have to reformat and modernise the shops with the entry of FDI. Further, they are of the opinion that more jobs with higher remuneration and comfort will be generated with the entry of FDI. Many of the respondents are having fear of affecting cultural fabrics of the society on the entry of FDI.

In brief, it can be confirmed that the small and marginal retailers have not much concern on the FDI. They believe that, they have to reformat their business profile to sustain their segment of trade in the society. They are little bit apprehension on the loss of jobs and also the cultural bondings.

### **IV. Conclusion**

Indian retail sector is fast growing, transformation from unorganised sector to organised sector is picking up. An average Indian prefer for a local shop for purchase of their goods. They think that from local stores they can have fresh product and also have some credits for a salary period. Their interactions with the local persons in society will be good feel for them to have a linkage with them The retailer shoppers will understand their taste and pattern of buying, so that they can provide the goods for their needs. In short, it may be concluded that the small and marginal sector have their own segment in the retail market.

Recently India is performing in all sectors like infrastructure in transports, logistics, communications etc. will be catalyst for leading to the gateway for growth in the retail sector. This is the reason that Indian retail giants like Reliance Fresh, Spencer, Big Bazar etc. are spear heading the networks to increase their presence in the retail markets. Allowing FDI in the retail sector would not only lead to great surge in the country's GDP and overall economic development, but also would help in integrating the Indian retail with that of the global retail market.

FDI in Multi brand retail was allowed in India in the year 2012. Many conditions were also tagged with that of certain percentage of investment in back end infrastructure, outsourcing from the local market and entry eligibility to small towns with less than 100 million population. Recently, the world leader in retail Wal-mart had invested a huge amount in making a major stake in the Flipkart, e-commerce giant in India. Tesco had some initiative for partnership with Tata, which was not made forward substantially. The main hurdle for FDI

investments is that they have to find out Indian partners for participation since 51 percent only shall be the share of FDI Companies. The FDI Companies have to make huge investments in India but their returns at times need not be guaranteed, since India's retail market is not that much organised. In this context, a great amount of risk appetite is needed for the FDI companies to invest in India. Such a great risk taking in a developing country with an unbalanced political scenario is also a barrier for FDI at sometimes.

Anyhow, India's GDP growth rate is more than any other country in the globe. This is a positive signal for the entry of more and more FDI flow to India in future.

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