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Impact of FDI on retail marketing in India

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Abstract
In current policy of FDI, Government of India allowed 51% FDI in single brand retail and 100% in cash & carry only. But in India, FDI in multi brand retail has not yet been permitted. One of the major steps was taken by the Government of India in Nov 2011, to encourage the organized retailing in the country was the recent decision of the cabinet to allow 51% FDI in multi brand retail and 100% in single brand retail. The decision was delayed and held back for some time because of the absence of political consensus in the Government and controversies raised in the country. The government has ultimately taken the bold decision and notified the much-awaited policy allowing 100 % FDI in single brand retail from the existing 51%. The retail market in India is divided into two sector- organized and unorganized sector. The organized sector contributes to about 93% of the retail market whereas unorganized constitutes about 7%. Due to growing economy, advancing technology and other factors, India is viewed as a destination attractive for inflow of FDI.

Keywords: FDI, retail market, multi brand, an inflow

Introduction

India's retailing sectors is growing at very fast rate. This sector gets popularity after introducing the liberalized economic policy since 1991 with changes in income levels, lifestyles, taste & habits of consumers with preference for superior quality and branded products, vast domestic market with a very competitive manufacturing base. A major retail boom is observed in India in recent years. Therefore, many multinational companies also started making beeline to enter India's retail market. Investment from foreign investors has also been summon by Indian industry, by and large, as the same has been measured to be very imperative for adding to domestic investment, addition to capacity, higher growth in manufacturing, trade, business, employment, demand, consumption and income with multiplier effects. In current policy of FDI, Government of India allowed 51% FDI in single brand retail and 100% in cash & carry only. But in India, FDI in multi brand retail has not yet been permitted. One of the major steps was taken by the Government of India in Nov 2011, to encourage the organized retailing in the country was the recent decision of the cabinet to allow 51% FDI in multi brand retail and 100% in single brand retail. The decision was delayed and held back for some time because of the absence of political consensus in the Government and controversies raised in the country. The government has ultimately taken the bold decision and notified the much-awaited policy allowing 100 % FDI in single brand retail from the existing 51%. In view of the above background, the Confederation of Indian Industry (CII) has recently undertaken a comprehensive survey on Foreign Direct Investment (FDI) in retail on SME sector, in particular to assess the impact of the government's decision to allow 51% foreign direct investment (FDI) in multi-brand retail and 100% in single brand retail on the Indian SME sector on different aspects of growth based on some select parameters. The retail market in India is divided into two sector- organized and unorganized sector. The organized sector contributes to about 93% of the retail market whereas unorganized constitutes about 7%. Due to growing economy, advancing technology and other factors, India is viewed as a destination attractive for inflow of FDI. However, there has been some sector which is closed for the inflow of FDI. Retail industry is divided into two-single brand retailing and multi brand retailing. Government of India has taken an initiative to promote "Made in India" and "E Commerce" by allowing 100% FDI in online retailing of goods and services through automatic route. This initiative of the government is taken to boost the sale and growth of domestic made goods and services of small and large retailers**.**

Review of Literature

Review of related literature makes the investigator fully aware with the previous work that has been done. It also provides an opportunity of gaining insight into the method, measures, subject and approaches employed by the other researchers.

Rajput, Namita, Kesharwani, Subhodh and Khann Akanksha a, *et al* (2012) [1]. The research paper attempts at analyzing the impact of the present retail FDI policy on Indian consumers and economy using SWOT analysis. The strengths were it boosts up competition, provides benefits to farmers and consumers and generate employment opportunities, weakness identified were lack of infrastructure, complex tax and fiscal policies and an unstable government. Opportunities were improving quality standards, distribution and warehousing technologies, rural retailing, threats were job losses, inequitable competition, repatriation of profits outside India. The analysis reveals that the strength and opportunities outweighs the weakness. The threats have to be taken care by adopting innovative solutions and minority friendly policy by government.

Malhotra, Bhavya (2014) [2] The research paper attempts to study the trends and pattern of flow of FDI and find the determinants of FDI inflows, evaluate the impact of FDI on the Indian economy and to know the flow of investment in India. The author has compared the growth rates of FDI inflow and GDP in a tabular form for the years from 1991-92 to 2011-12(post liberalization period). The author found a positive relationship and believes FDI inflow is beneficial to domestic capital, as well as technology and skills of existing companies. The author also found that there is a need for improvement in solving challenges of resource, equity, political and federal.

Chawla, Jyotsana, Agraw Rachna al, and Sharma Bhavna, *et al* (2016) [3] The research focuses on small retailers and making some research-oriented paths for moving forward in an ever-changing dynamic environment. The authors believe that the small retailers need to spend time to revive their strategies required to attract customers towards their retail stores. In today's world, with new concepts like e-tailing, customized product, a big shift is seen in the response of the customers unlike in those old days, when customers were dependent on nearby retail stores for fulfilling their needs. The authors have found that liberalization of FDI policy towards Retail Sector bears positive as well as negative results. The authors also recommend Government to frame strict policies, taking care of small retailers, so that organized and unorganized sector may co-exist and flourish together.

Methodology
This paper is descriptive and investigative, based on the secondary data composed from different research papers, journals, and government reports to understand the Impact of FDI on Retail marketing in India.

Results and Discussions
A trend analysis on the total foreign direct investment inflow in the country has been studied. The trend concludes that there has been an increase in foreign direct investment. The raise in foreign direct investments has been from 2006 but it boosted from 2012. The reason for the boost is the change in government policy, India emerging as global market and advancing technology. In 2012, Government has increased the foreign direct investment inflow from 51% to 100% in single brand retail whereas in multi brand retail the increase is to 51%. The multi brand retail was restricted to inflow of foreign direct investment in India before 2012.

Service Sector

Table 1

Year	Service sector	Growth
2008	28516	
2009	20776	-37.25%
2010	15053	-38.02%
2011	24656	38.95%
2012	26306	6.27%
2013	13294	-97.88%
2014	27369	51.43%
2015	27630	0.94%
2016	58214	52.54%
2017	43249	-34.60%

Source: Census, Govt. of India, New Delhi

From the above table, the FDI inflows started growing rapidly in the service sector since 2010 but except for the year 2013. Again, in the year 2017, the FDI inflows grew as the government took steps to improve ease of doing business and attracting investments.

Pharmaceutical Sector
From the above chart, the FDI inflows in the Pharmaceutical sector has seen a massive growth in the year 2011 but since then has seen a stable growth over the years. The reasons for such stable growth could be the From the above table, the FDI inflows in the Pharmaceutical sector has seen a massive growth in the year 2011 but since then has seen a stable growth over the years.

Table 2

Year	Pharmaceutical sector	Growth
2008	800	
2009	1006	20.48%
2010	961	-4.68%
2011	14605	93.42%
2012	6011	-142.97%
2013	7191	16.41%
2014	9052	20.56%
2015	2267	-299.29%
2016	5723	60.39%
2017	6502	11.98%

Source: Deptt of Health and Family Planing, Govt. of India, New Delhi

The reasons for such stable growth could be the price control and rigid labor laws, weak patent regime. The government with an expectation to increase the FDI inflows into the industry, is hoping to attract more foreign capital with further liberalization of policies.

Table 1: Construction Sector

Year	Construction sector	Growth
2008	8792	
2009	13516	34.95%
2010	4109	-228.94%
2011	15236	73.03%
2012	7248	-110.21%
2013	7508	3.46%
2014	4652	-61.39%
2015	673	-591.23%
2016	703	4.27%
2017	3472	79.75%

***Source*:** Census, Govt. of India, New Delhi.

From the above table, the FDI inflows in the Construction Industry has seen a massive growth in the years 2009 & 2011 although the government had allowed 100% FDI in this sector since 2005. The reason for massive growth could be the relaxation of certain rules such as reducing minimum built-up area as well as capital requirement and easing the exit norms. The recent decline in the FDI inflows in this sector could be due to cash crunch and demonetization.

Table 2: Telecommunication Sector

Year	Telecommunication	Growth
2008	11727	
2009	12338	4.95%
2010	6021	104.92%
2011	9012	33.19%
2012	1654	444.86%
2013	502	229.48%
2014	17372	97.11%
2015	6936	150.46%
2016	37435	81.47%
2017	39748	5.82%

Source: Deptt. Telecommunication of, Govt. of India, New Delhi.

The Telecommunication sector has witnessed a sudden growth in the FDI inflows over the past two years. With the rapid growth in technology and introduction of services such as 3G, 4G & 5G and the massive increase in number of users of telecommunication services due to the entry of Reliance JIO, the FDI inflows in the telecommunication sector is destined to grow rapidly in the coming years.

Table 3: Automobile Sector

Year	Automobile sector	Growth
2008	5212	
2009	5754	9.42%
2010	4805	-19.75%
2011	4347	-1054%
2012	8384	48.15%
2013	9027	7.12%
2014	16760	46.14%
2015	11405	-46.95%
2016	10824	-5.37%
2017	13461	19.59%

Source: Deptt of industries, Govt. of India, New Delhi.

The automobile sector had witnessed a massive growth in the year 2014 and is growing at a stable rate since then. Since the manufacturing of cars in Japan and South Korea has become costly over the past few years, several automobile companies have opted for shifting their bases in countries like India and China with an intention of getting cheap resources.

Opportunities of FDI in Retail Market

The following may be regarded as major perceived benefits of allowing FDI in retail in India:

- **Capital Infusion:** This would provide an opportunity for cash-deficient domestic retailers to bridge the gap between capital required and raised. In fact FDI is one of the major sources of investments for a developing country like India wherein it expects investments from Multinational companies to improve the countries growth rate, create jobs, share their expertise, back-end infrastructure and research and development in the host country.
- **Boost Healthy competition and check inflation:** Supporters of FDI argue that entry of the many multinational corporations will obviously promise intensive competition between the different companies offering their brands in a particular product market and this will result in availability of many varieties, reduced prices, and convenient distribution of the marketing offers.
- **Improvement in supply chain:** Improvement of supply chain/ distribution efficiencies, coupled with capacity building and introduction of modern technology will help arrest wastages (in the present situation improper storage facilities and lack of investment in logistics have been creating inefficiencies in food supply chain, leading to significant wastages).
- **Improvement in customer satisfaction:** Consumers in the organized retail will have the opportunity to choose between a numbers of internationally famous brands with pleasant shopping environment, huge space for product display, maintenance of hygiene and better customer care. There is a large segment of the population which feels that there is a difference in the quality of the products sold to foreign retailers and the same products sold in the Indian market. There is an increasing tendency to pay for quality and ease and access to a "one-stop shop" which will have a wide range of different products. If the market is opened, then the pricing could also change and the monopoly of certain domestic Indian companies will be challenged.
- **Improved technology and logistics:** Improved technology in the sphere of processing, grading, handling and packaging of goods and further technical developments in areas like electronic weighing, billing, barcode scanning etc. could be a direct consequence of foreign companies opening retail shops in India,. Further, transportation facilities can get a boost, in the form of increased number of refrigerated vans and pre-cooling chambers which can help bring down wastage of goods.
- **Benefits for the Farmers:** Presumably, with the onset of multi-brand retail, the food and packaging industry will also get an impetus. Though India is the second largest producer of fruits and vegetables, it has a very limited integrated cold-chain infrastructure. Lack of adequate storage facilities causes heavy losses to farmers, in terms of wastage in quality and quantity of produce in general, and of fruits and vegetables in particular.
- **Creation of More and Better Employment Opportunities:** The entry of foreign companies into Indian Retailing will not only create many employment opportunities but, will also ensure quality in them. This helps the Indian human resource to find better quality jobs and to improve their standard of living and life styles on par with that of the citizens of developed nations.

Potential Threats

Critics of FDI feel that liberalization would jeopardize the unorganized retail sector and would adversely affect the small retailers, farmers and consumers and give rise to monopolies of large corporate houses which can adversely affect the pricing and availability of goods. They also contend that the retail sector in India is one of the major employment providers and permitting FDI in this sector can displace the unorganized retailers leading to loss of livelihood.

- **Domination of Organized Retailers:** FDI in single-brand retail will strengthen organized retail in the country. These organized retailers will tend to dominate the entire consumer market. It would lead to unfair competition and ultimately result in large-scale exit of domestic retailers, especially the small family managed outlets (local "mom and pop" stores will be compelled to close down).
- **Create Unemployment:** Retail in India has tremendous growth potential and it is the second largest employer in India. Any changes by bringing major foreign retailers who will be directly procuring from the main supplier will not only create unemployment on the front end retail but also the middleman who have been working in this industry will be thrown out of their jobs.
- **Loss of Self Competitive Strength:** The Indian retail sector, particularly organized retail, is still underdeveloped and in a nascent stage and that, therefore the companies may not be able to compete with big global giants. If the existing firms collaborate with the global biggies they might have to give up at the global

front by losing their self-competitive strength.

- **Indirectly Leads to Increase in Real Estate Cost:** It is obvious that the foreign companies which enter into India to open up their malls and stores will certainly look for places in the heart of the cities. There shall be a war for place, initiated among such companies. It will result in increase in the cost of real estate in the cities that will eventually affect the interest of the ordinary people who desire to own their houses within the limit of the cities.
- **Distortion of Culture:** Though FDI in Indian retail will indirectly or directly contribute for the enhancement of Tourism, Hospitality and few other Industries, the culture of the people in India will slowly be changed. The youth will easily imbibe certain negative aspects of foreign culture and lifestyles and develop inappropriate consumption pattern, not suited to our cultural environment.

Conclusion

The changes in the government policies, introduction and adoption of technology, availability of labour and capital have contributed to high performance of the Indian retail industry which in turn has increased the FDI inflow in the country. This has resulted in the diversification, expansion and introduction of various businesses in the retail industry. The amendment of 2012, to allow 51% FDI in multi- brand retail and the recent policy allowing 100% FDI in single brand retail through automatic route has lead to reduced prices and better management of inflation, creation of employment, induced investment and enabled the small and medium enterprise to expand their market. The project enables to understand the role of FDI in the development of the retail sector in the past years. Thus based on the calculations and analysis it is determined that FDI is a great boost to the Indian economy.

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