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A Study on Effectiveness of FDI on Unorganised Retail Sector of India

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Abstract

Foreign Direct Investment (FDI) plays a very vital role in economic development for any developing and under-developing nation, the largest democracy, and the second-largest populated country in the world is facing a tremendous challenge to fight against inflation and unemployment. FDI can provide the life-blood to the Indian economy. Though late the UPA-II Government, headed by Dr. Manmohan Singh, has decided the d on November-2012, in respect of proposals involving FDI beyond 52 percent, it is mandatory to source 30 percent of the value of the goods purchased from India, preferably MSMEs. Making India is the most open economy in the world, Modi Government announced its second major reform in FDI soon after its deep-seated changes. The Government, since the beginning, has been taken steps to boost FDI in the country to create a different climate so that foreign investors feel confident in investing. Putting an end to the long-standing discussion on the Processing of e-commerce in India, Government permitted 100 percent FDI in the market place format e-commerce retailing and also come up with the definition of a marketplace and inventory-led models of e-commerce. All these factors are dwindling purchasing from unorganized retail shops. This research paper will try to find out the impact of FDI on the unorganized retail sector in India as well as the effectiveness of FDI on Agro Products.

Keywords: FDI in India, GDP of India and Unorganized retail sector.

Introduction

Indian economy is dominated by the agriculture sector on the employment front, with the retail division enjoying the second place. This is the fact the biggest private industry in India and poised to observe a major shift on record of the opening of the retail trade to multi-brand foreign direct investment (FDI). The retail sector in India is prophesied to grow around 25-30% yearly. The supplement of retail Industry to GDP of India was between 8=10 percent in 2007 and reached the figure of 22 percent by 2010, an expected \$ 25 billion worth FDI in its kitty during 2014; the administration is eyeing a quantum jump in the foreign capital operating Indian shores in the new age as it expects to reap the fruits of further hole up of defense, railways and insurance sectors among others.

The ambitious 'Make in India' program, launched by Prime Minister Narendra Modi with much fanfare in 2014, is another big-ticket trip that the government demands the foreign investors to take to bring billions of deserving dollars of FDI into the country.

In the past few years, the whole idea of shopping has been reconstructed in terms of construction and consumer buying behavior. With the growing urbanization, the Indian consumer is developing as more trend-conscious.

There has also been a transfer from price factors to design and quality, as there is a greater focus on looking and feeling good (apparel as well as fitness). At the same time, the Indian consumer is not beguiled by retail products, which are high on price but commensurately low on value or functionality. However, it can be said that the Indian Consumer is a paradox, where the discount shopper loyalty takes a backseat over price discount.

India Started its Retail Journey since ancient times. In ancient India, there was a concept of weekly HAAT, where all the buyers & sellers gather in a big market for bartering. It takes a pretty long time to & step to shape modern retail; in between these two concepts (i.e., between ancient retail concept & the modern one, there exist now Kirana / mom and pop shops or Baniyaki Dukan. Still, it is predominating in India, so the Indian retail industry is divided into two sectors-organized and unorganized. Retailing is one of the dependencies of the Indian economy and accounts for 14 to 15 percent of its GDP. The Indian retail market is considered to be US\$ 450 billion and one of the top-five retail businesses in the world by economic value. India is one of the fastest-growing retail markets in the world, with 1.2 billion people.

The data on the impact of malls on unorganized retail is contrasting with some studies showing the powerful and favorable impact of malls on the small shopkeepers. However, there is a strong indication substantiating the claim that shopping malls have a detrimental impact on unorganized retail outlets.

Review of Literature

The review of the literature explains that the emergence of shopping malls has severely influenced the operations of small merchants and other unorganized business outlets. The Sales Figure and operating profits are badly experiencing receding behavior. The Impact of the evolution of modern retailing, the influx of supermarkets in developing countries and transition economies, which bring with it higher-quality products, greater

product diversity, and often lower prices, should theoretically be beneficial to consumers, especially those who are poor [e.g., Marijke D' Haese & Guido Van Huylenbroeck, 2005; Thomas Reardon & Ashok Gulati, 2008]. At the same time, Increased competition may force traditional retailers, many of whom are also vulnerable to poverty, out of business. According to Reardon & Rose Hopkins (2006) and Bart Minten (2008), the battles between supermarkets and traditional retailers in developing countries take place on several fronts, including price, convenience, product quality, and safety.

A survey of 100 youths attended foreign direct investment and unorganized retail sector - A case study reported that the possibility of super and hyper supermarkets, cloth and accessory stores, eateries and multiplexes had thrown better choice and thrilling experience of Mangaloreans (Nayak & Suvarna, 2010). Survey-based research conducted revealed that the changing nature of demographic factors and improvement in the awareness level of consumers about various product-related attributes like quality, now that the consumers' preferred to purchase different products both from the established and unorganized retailers. Therefore, both organized and unorganized retail outlets have to implement various value-added services to attract these customers (Ramanathan & Hari, 2011).

Objectives of the Study

- To find out the impact of FDI on the unorganized retail sector of India
- To find out the impact of FDI on Agro Products
- To classify the impression of shopping malls on the sales and profits of the sample retailers.

Statement of the Problem

The proposal by the Government of India to allow 100 percent FDI in multi-brand retail has caused a lot of excitement amongst all the stakeholders on the likely consequence of this arrangement. Albeit, the Govt. of India has held relentlessly promoting FDI in multi-brand retail primarily because of its impact on supporting the producers' incomes, both upstream and downstream foundation development, and profitable prices for farmers, tame extension and advanced technological and managerial skill fare.

The gigantic retail stalwarts from overseas like Wal-Mart, Carrefour, etc. With their enormous capital base and Technical know, unorganized retail outlets in India are feared to be hit very seriously. The implementation of WTO recommendations at the macro level since 1991 has led to the development of Malls across the length and thickness of the land. The recent resolution, however, is likely to create a different set of imperatives for the retail industry in India. This study strives to address this concern, though from a different prospect. The purpose is to assess the likely influence which malls have on the unorganized retail neighborhood in their particular catchment areas within the region of 200-500 meters distance. The testimony on the impact of malls on unorganized retail is contrasting with some studies showing the impressive and positive impact of malls on the small businesspeople. However, there is a strong indication substantiating the claim that shopping malls have a detrimental impact on unorganized retail outlets.

Scope of the Study

The study was conveyed in the Bangalore city of the state of Karnataka. The city is observing a massive infrastructural development on various fronts. The peace and stability in the region have also dragged a lot of purchase both from the local investors as well as the external property. The subsidy and other temptations from the state administration have also given impetus to the development works in the city and organized retail sector being the biggest beneficiary.

The Methodology of the Study

Both principal and secondary data have been repeated for the study. But primary data are extensively used.

Collection of Data

The study mainly depends on primary data, which has been petitioned from a sample of 25 respondents selected from the Kirana shoppers in Bangalore city. The data is secured through the interview schedule.

Data Analysis and Interpretation

Table 1: Sales Turnover and Operating Profit Behavior of Unorganised Retail Outlets (N=25)

Parameter	Increased	Same / Unchanged	Declined
Profit	61%	14%	26%
Sales	66%	19%	15%

Source: Primary Data

Table 1 shows figures that analysis reveals a great majority of 61% of respondents described an increase in the profits after the possibility of the organized retail formats like Malls and other innovative facts, 14% reported status-quo in the profit performance. However, still, a good portion of respondents revealed a drop in their profit rates post-FDI The analysis further revealed that 66% respondents reported a jump in their sales after the FDI has started to operate in their vicinity, 19% reported an unchanged behavior of sales personalities and 15% respondents reported a drop in their sales personalities. This is, in fact, a classic example of what economists call “external economies effect” and. This is further increased by the low per-capita income of the people. With low disposable incomes, the majority of folks barely afford to purchase it from organized retail formats.

Table 2: Credit line offered by unorganized retail outlets Impacts behavior of Sales and Profits (N=25)

Scale Option	No of Respondents	Percentage of respondents
Agree	16	64
Can't Say	4	16
Disagree	5	20

Source: Primary Data

The analysis of Table-2 reveals the traditional nature of the buying behavior of a typical Bangalore consumer. Traditionally small shopkeepers have been extending consumable and other items on credit. This has become a part of our best buying, which is purely necessities as the disposable income of a popular Bangalore people.

Table 3: Factors Affect the Profile of the Small Detail outlets on the Impact of Organized retail Formats (N=25)

Survey Statements	Agree	Neutral	Disagree
Malls have a good impact on the small retail outlets	66%	15%	19%
Govt. should not promote FDI in retail	70%	14%	16%
Organised retail outlets sell goods at higher prices	80%	5%	15%
Small shopkeepers favourably placed due to credit offering	84%	8%	8%
Govt. provide them extra space for increasing the floor space	68%	12%	20%
Malls provide good shopping experience due to add-on services	55%	15%	35%
Low disposable income is favorable for organized retail outlets	70%	10%	20%
Low exposure to organized retail is perpetuating unorganized retail patronage	60%	15%	25%
Customers are yet to the idea of hyper markets and Malls	68%	12%	20%

Source: Primary Data

Table 3 reveals a mix of responses and provides different impacts on FDI in the unorganized sector. In the case of the close-ended statement about whether the Govt. should not promote FDI in retail, a great majority of 70% favors this statement. Further, on the impact of malls on unorganized retail, a large preponderance, 65% feel that it has a good impact on small retailers. On the low exposure of Bangalore consumers, helping them in increasing their customer base or retaining loyal customer patronage, again, 60% of respondents favor this proposition. In comparison, 20% disagree on this, and 15% expressed indifference towards this statement. Hence all these factors say FDI impact on the unorganized sector.

Findings of the Study

- 99% of the respondents are male in the unorganized retail sector in Bangalore.
- The respondents in the age crowd of 25-45 command unorganized retail, and this group constitute around 90% of the sample size.
- The study also revealed that the Mall doesn't have any adverse impact on the sales and profitability of the respondent shopkeepers.
- A large number of farmers are not aware of FDI and its policies due to illiteracy.
- A large group of farmers is not supporting FDI.
- However, some value-added services give a better shopping experience; the right section of respondents announced this.

Conclusion

- Small retailers will not be squeezed out but would strengthen market positions by turning innovative/modern.
- The growing economy and developing purchasing power would more than compensate for the loss of market share of the unorganized sector retailers.
- There will be initial and welcome displacement of representatives involves in the supply chain of farm produce. Still, they are likely to be absorbed by an increase in the food processing sector induced by organized retailing.
- Innovative management measures could further mitigate adverse effects on small retailers and traders.
- Farmers will get another alternative method of direct marketing and hence get better remuneration.
- Consumers would gain from enhanced competition, better quality, assured weights, and cash memos.
- The Govt. of India would need to play a proactive role.

Thus from developed countries' practice, retailing can be thought of as developing through two stages. In the first stage, modern dispensing is necessary to achieve major efficiencies in combination. The predicament is that when this happens, it necessarily moves to stage two, a situation where an oligopoly, and quite possibly a duopoly, begins. The lesson for developing countries is that efficient competition management needs to be in place well ere the second

stage is reached, both to discourage anticompetitive behavior and to estimate the extent to which retail strength is being trained to disadvantage smaller retailers and their consumers mercilessly. The beginnings of retail power need to be understood to secure that abuses of power are considered before they occur. The more meaningful debate lies in the parameters of engagement policy. The benefits produced by modern retailers must be recognized and not unduly hindered. While it is true that some disruption of traditional retailers will be considered, time will prove that the hardship brought will not be substantial.

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