

An Empirical Study of Consumers Cognizance towards Foreign Direct Investment in Indian Retail Sector

Nupur Goel¹

Research Scholar, Mewar University, Rajasthan, India

Ashwani Mahajan

Department of Economics, PGDVA College, Delhi, India

Abstract

Indian retail sector is in the nascent stage, even though India has become an attractive place or target for foreign players due to one of the largest consumer markets in the world. At present, around 92 percent retail sector comes under the unorganized retail and 8 percent of retail belongs to the organized retail. Because of modern style of consumer's buying behavior, organized retail has become more famous in big cities. Earlier, entry of foreign retailers was restricted in India but now Government has opened its doors wide for single brand retail and only 51 percent FDI is allowed in multi brand retail. The present paper is an attempt to analyze the perceptions of consumers about foreign direct investment (FDI) in retail through questionnaire and interpreted by SPSS software. This research study presents an overview of Indian retail segment, current policy of Foreign Direct Investment in retail and the correlation between the foreign direct investment in retail and consumer purchasing behavior. It also includes the views of consumers for the perception of buying capacity, shopping style, quality of product, brand consciousness and monopoly situation of market.

Keywords: Foreign Direct Investment, Consumer, Unorganized retail, organized retail, Brand Consciousness.

Cite this article: Goel, N., & Mahajan, A. (2015). An Empirical Study of Consumers Cognizance towards Foreign Direct Investment in Indian Retail Sector. *International Journal of Management, Accounting and Economics*, 2(11), 1340-1348.

¹ Corresponding author's email: nupurgoel82@gmail.com

Introduction

Indian retail segment plays an important role for developing the Indian economy and contributes around 14 to 15 percent of its GDP. The value of Indian retail market has been estimated around US\$ 450 billion and it comes under the top five retail markets in the world by economic value. In 2010, supermarkets and big convenience stores accounted for about 4 percent of the industry. The International management consultancy AT Kearney described that India is the second most attractive destination of the world for retail business. Foreign direct investment (FDI) has played a meaningful role in the process of globalization during the past two decades. FDI can be a powerful source in retail sector. It can bring about: better Supply chain, investment in technology, manpower and skill development, growth in market size, greater productivity, agricultural upgradation, growth of small and medium scale industries and benefit to government through high GDP, tax income and employment generation (Department of Industrial Policy and Promotion, 2010). In other countries Foreign Direct investment in retail sector is allowed and it is increasing the status, living style and buying capacity of consumers. FDI can decrease the food spoilage and waste of food products by improving logistics and cold storage. It can increase hygiene as well as safety of products and create supply chain for proper supply of fruits, vegetables and food staples ((Dhume, 2011). It shows that FDI can reduce the wastage of products and increase the productivity by proper supply chain and reduce the cost of products that can increase the buying capacity of consumers. Consumers will get the main benefit from this transition and global consumers can increase their purchasing power and standard of living from global industry restructuring (Department of Industrial Policy and Promotion, 2010).

In 2007, India was rated the twelfth biggest consumer market and it is anticipated to be the fifth largest consumer market by 2025 (McKinsey & Company, 2007). Foreign retailers want to attract Indian consumers by providing all facilities under one roof whenever unorganized retailers are unable to offer facilities at low interest. Organized retailers are buying products in bulk at low cost but unorganized retailers are purchasing the products in less quantities at high cost. Research on this topic shows, only some people (14%) were able to boost their services or react to the changed position and the competition from corporate retail and FDI will decline the number of small retailers (Kalhan, 2007). The wastage of fruits and vegetables show the need of FDI for better supply chain. large supermarket retail chains do not work with smallholders, due to higher transaction costs (Singh, 2013). Big retailers can face the entire situation but small retailers cannot face competition due to high investment. Wal-Mart will work as a big fish in small pond. According to special report presented by Boston Consulting Group and CII, current size of organized retail in India stands 6% to 7% of Indian retail. It is estimated that Indian Retail market will grow up to \$ 1250 billion by 2020 and 21% would be organized. Forty million Indians are getting employment through Indian retail and logistic segment. Approximately 14 million small outlets are established in India while only 4 percent of them have area more than 500 square fit. Vast majority of Indian unorganized retailers are employed by family members and they do not have training to run their business properly. These outlets have limited quality control, hygienic storage, safe packaging and logistics (Singhal, 2006). From last decade, Indian retail has experienced tremendous growth and organized retail formats and also taking main place not only in major cities and metros but also in Tier II-III cities. It is estimated that Indian

retail market will grow up to \$792.84 billion by 2017 and will reach up to \$865 billion by 2023. Organized retail has the 7% share of total retail in 2011-2012 and it is expected that organized retail will grow up to 10.2% share of total retail in 2016-2017.

Retailing is a link between producer and consumer in a modern market economy. Retailers provide a product to consumer as well as after sales services with assurance of product delivery. Manufacturer and producers get the information of market demand and consumers' need from the retailers. Indian retail sector has been characterized by a huge group of small unorganized retailers about 92% of total retail. However, in the past, organized retail sector is also taking place in market. Now consumers are brand conscious and they can understand the buying capacity and enjoying foreign products as foreign retailers have also entered in India via different routes such as franchising, wholesale and cash-and-carry operation. The process of shopping is not only an individual but also a social activity. Serious shoppers also prefer to buy from malls and stores as they offer facility of 'one roof shopping' and save time (Sharma, 2014). Customers make decisions about where to spend their time, money and effort. Customer loyalty is a key to the success of an organization. It requires to understand customer value that leads to greater revenues, greater profits and more value of organization (Sahney, 2014). By understanding the consumer behavior perception, retailers and manufacturers can create a win-win situation which means high growth situation. A young workforce and zooming consumer confidence will boost the expansion of the retail sector in rural areas (Yadav & Jaiswal, 2013).

The objective of this paper is to find out the views of Indian consumers towards Foreign Direct Investment in retail through a questionnaire. It presents an overview of the Indian retail sector and scenario of foreign direct investment in retail in India. In the end, Data interpretation and conclusion of the study has been given.

An overview of Indian retail sector

Retailing is the last link between the manufacturers and consumers buying for their personal uses. Retailing does not include direct interaction between manufacturer and the institutional buyers. The Indian retail industry is divided into the organized sector and the unorganized sector. Retailers are registered for sales tax, income tax and having license to run retail outlet comes under the organized retail sector. Organized retail sector include hypermarkets and retail chain. The large retail businesses also come under this segment while those retailers are running traditional formats as local kirana shops, general stores, pavement vendors, street vendors, door-to door sales vendors come under the unorganized retail segment. Figure 1 shows the percentage of unorganized and organized retail sector in India.



Fig 1: Share of organized retail and Un-organized retail in India

Scenario of Foreign Direct Investment in retail in India

In 1997, the Indian government allowed full FDI in ‘cash and carry’ wholesale outlets under the automatic routes. In 2006, Government allowed 51 percent FDI in single brand retail. After that, in December 2011, Government of India allowed 100 percent FDI in single brand. As Indian government approved it, Multinational brands Carrefour, IKEA and others were eager to enter the Indian market. In September 2012, 51 percent FDI was allowed in multi-brand retail with some conditions. According to the Government of India’s notification, 51 percent of FDI in multi-brand is permitted under following conditions (1) State Acceptance: Foreign retailers can set up their multi-brand stores after the acceptance the state government. Foreign retailers have to follow the rules and regulations made by the government. (2) Minimum Investment: Foreign investors have to invest minimum amount of US\$100 billion. (3) Backend Investment: Foreign players have to invest 50 percent of total investment in backend infrastructure. (4) Procurement: Foreign players have to take minimum 30 percent procurement from small industry. (5) Location: Cities with more than 1 million population may set up these types of retail outlet.

Table 1 Country Wise FDI equity inflows (April, 2000 - February, 2015)

No	Name of the Country	Amount of FDI Inflows		%age with Inflows
		(In Rs crore)	(In US\$ million)	
1	Mauritius	422,015.00	86,971.78	35.30s
2	Singapore	165,199.78	31,874.31	12.94
3	United Kingdom	108,347.75	22,001.08	8.93
4	Japan	91,150.84	17,992.79	7.30
5	Netherlands	76,374.25	14,529.60	5.90
6	U.S.A	66,090.49	13,624.67	5.53
7	Cyprus	39,325.17	8,037.91	3.26
8	Germany	38,090.67	7,576.53	3.07
9	France	22,332.27	4,472.08	1.82
10	Switzerland	15,188.37	3,040.37	1.23

Source:(Department of Industrial Policy & Promotion, 2015)

Table 1 shows the Country-wise Foreign Direct Investment Equity Inflows from April 2000 to February 2015. It shows that Mauritius has invested 86,971.78 US\$ in India while U.S.A has contributed 13624.67 US\$ in India during the period April 2000 to February 2015. Only 3040.37 US\$ has been invested by Switzerland.

Study methodology

Both secondary and primary sources of data were used to gather the required information for this study. Secondary data has been collected from Journals, Magazines, Internet and other documented materials. Information for primary data was obtained from the consumers were analyzed through SPSS software.

Questionnaire Construction

A questionnaire was developed to measure the perception of consumers towards foreign direct investment in retail in India.

Sampling and Sample Size

The selection of the consumers was placed on the convenience sampling. In all, more than 125 questionnaires were distributed in Delhi-NCR. 110 questionnaires were included in the study; rests were dropped for being incomplete.

Data Interpretation and Graphical Analysis

Table 2 Do you know FDI?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	96	87.3	87.3	87.3
	No	14	12.7	12.7	100.0
	Total	110	100.0	100.0	

87.3 percent of the respondents know about the foreign direct investment and 12.7 percent respondents don't know about the FDI (Table 2).

Table 3 From where you purchase daily things?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Organized retailers	46	41.8	41.8	41.8
	Unorganized retailers	64	58.2	58.2	100.0
	Total	110	100.0	100.0	

Table 4 If foreign players come in retail from where you will buy things?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Organized retailers	76	69.1	69.1	69.1
	Unorganized retailers	34	30.9	30.9	100.0
	Total	110	100.0	100.0	

Table 5 Correlations

		From where you purchase daily things?	If foreign players come in retail from where you will buy things?
From where you purchase daily things?	Pearson Correlation	1	0.567**
	Sig. (2-tailed)		.000
	N	110	110
If foreign players come in retail from where you will buy things?	Pearson Correlation	.567**	1
	Sig. (2-tailed)	.000	
	N	110	110

** . Correlation is significant at the 0.01 level (2-tailed).

Table-3 shows that 41.8 percent of respondents purchase their daily needs from organized retailers and 58.2 percent of respondents buy products from unorganized retailers. Table-4 represents that 69.1 percent respondents are ready to buy from organized retailers if foreign players enter in this segment and 30.9 percent respondents denied buying the things from organized retailers. Table-5 shows .567 correlation between the items. If foreign retailers will enter in the Indian retail market, 69.1 percent of the respondents will buy the things from organized retailers while, without entry of them only 41.8 percent of the respondents were buying the things from organized retailers. According to above results, if foreign players will spread their business in India, they will divert the huge group of consumers towards the organized retail.

Table 6 Perception of Consumers towards Foreign Direct Investment in Retail in India

Questions asked from respondents	Yes (%)	No (%)	Can't say (%)	Mean	S.D.	S.E.
Will FDI in retail increase your buying capacity	51	26	23	1.718	0.814	0.077
Can FDI in retail make the shopping enjoyable and memorable?	69	19	12	1.427	0.696	0.066
Will you get better quality and more options of products in Organized retail?	69	25	6	1.372	0.603	0.057
Do you think Brand consciousness is depend on the income of consumer?	56	26	18	1.627	0.776	0.074
Can Foreign players create monopoly situation in future?	69	17	14	1.445	0.724	0.069

The perceptions of consumers were analyzed with the help of SPSS and presented as below:

- **Buying Capacity:** More than half (51%) of the respondents agree with the statement that foreign direct investment in retail will increase their buying capacity, while 26% of the respondents disagree and 23% of the respondents did not have any idea. The mean value of the item is 1.7182 with .81423 S.D. and .07763 S.E. (Table 6).

- **Enjoyable Shopping:** A great majority (69%) of the respondents replied in positive manner that Foreign Direct Investment in Retail will make shopping enjoyable and memorable, While 19% of the respondents did not agree with it and 12% of them were undecided. The mean value of the item is 1.4273 with .69677 S.D. and .06643 S.E. (Table 6).

- **Better Quality of Products:** 69% of the respondents replied yes and 25% of them did not think that they will get better quality and more options of products in organized retail. 12% of respondents were unable to tell anything. The mean value of the item is 1.3727 with .60364 S.D. and .05756 S.E. (Table 6).

- **Brand Consciousness depends on Income of consumers:** More than half (56%) of the respondents agree with this statement that brand consciousness is dependent on the income of the consumer, while 26% of the respondents denied it and 18% of them were undecided. The mean value of the item is 1.6273 with .77648 S.D. and .07403 S.E. (Table 6).

- **Monopoly Situation:** Only 17% of the respondents think that foreign players will not create monopoly situation in Indian retail market, while 69% of the respondents agreed with this statement and only 14% of them had no answer about this issue. The mean value of the item is 1.4455 with .72424 S.D. and .06905 S.E. (Table 6).

Conclusion

Indian consumers are changing their consumption patterns, shopping style and the level of brand consciousness is growing. These aspects can lead to the growth of organized retail, and many foreign players are either investing or trying to invest in Indian retail segment. Based on a survey of consumers, this paper explores the perceptions of consumers towards foreign direct investment in Indian retail sector. The study found that Indian consumers can get benefit from foreign players in some aspects. In starting stages consumers will realize that they can increase their buying capacity but according to the above study foreign retailers can create monopoly situation in market. Once foreign retailers will spread their wings in Indian retail market, they can control the prices of products according to their profit. Secondly, Brand consciousness is dependent on the income and living standard of the consumer. Low Income Group cannot afford the foreign brand products because of it being expensive. The study concludes that consumers also should rethink about the foreign direct investment in retail as they can create the monopoly situation. In monopoly stage, foreign retailers can reduce the quality of product and will earn maximum profit. At last, there is a need to expend this research by applying a larger sample across India.

Note

1. Branded products means a product associated with a symbol, design or a factor that represents one manufacturer or seller's goods.
2. McKinsey Global Institute (2007) reports that those cities have populations more than 4 billion and total income more than 100 billion Indian rupees come under Tier I cities. Tier II cities carry population between 1 million to 4 million. Tier III cities hold population between 5, 00,000 to 1 million.
3. Low Income Group: Those earning between rupees 8,000 to rupees 20,000 a month were classified as the lower-income group.

References

- Department of Industrial Policy & Promotion. (2015). *Fact Sheet on Foreign Direct Investment*. Retrieved from <http://www.dipp.nic>.
- Department of Industrial Policy and Promotion. (2010). *Foreign Direct Investment (FDI) in Multi-Brand Retail Trading*. Retrieved from <http://www.dipp.nic.in>.
- Dhume, S. (2011). India goes wild over Wal-mart. *The wall street journal*.
- Kalhan, A. (2007). Impact of malls on small shops and hawkers. *Economic and Political Weekly*, 2063-2066.
- McKinsey, & Company. (2007). "The Bird of Gold": The Rise of India's Consumer Market": McKinsey Global Institute.

Sahney, S. (2014). *Improving Effectiveness of Customer Loyalty Programs: A Case Study on a Large Retail Chain in the Indian Context*. Paper presented at the International Conference on Technology and Business Management March.

Sharma, R. (2014). Indian Retail Policy and Changing Consumer Behaviour. *European Academy Research*, 1(10).

Singh, S. (2013). Governance and upgrading in export grape global production networks in India: BWPI, The University of Manchester.

Singhal, A. (2006). A strong pillar of the Indian Economy. www.ksa-technopak.com.

Yadav, B. S., & Jaiswal, J. (2013). Consumer Perception affects Organizational Strategy-A Study of Indian Rural Retail Sectors. *Scholarly Research Journal for Interdisciplinary Studies*, II/IX.