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Opinion of the Retailers on the New FDI Policy- An Analysis

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Abstract: *The winds of globalization sweeping across have taken the Indian economic environment in its fold and the proposals for further integration have gained momentum. The transformation has also changed the Indian consumer from a state of conserving resources; he's now ready to accept the shopping culture. The government encouraged by the outcome of economic policy of 1991 in India, has proposed retail reforms mainly as 100% FDI in the retail sector in India. It may benefit by bringing in investment into development of complete backend infrastructure as well as eliminating the exploitative system of middlemen. This paper is an attempt to study the challenges of retailers, opinion of the retailers about the proposed changes in business and the possible economic changes after the entrance of MNC retailers.*

Keywords*: Globalization, India, retailers, FDI policy, challenges and economic changes.*

I. Introduction

As a result of the liberalized policies & reform measures taken by the government since 1991, Indian Economy has achieved commendable growth rates over the last few years with many success stories in many fronts. India's growing retail boom is one such success story. With strong fundamentals developing in the economy with changes in income levels, lifestyles, taste & habits reflecting in strong consumerism with preference for superior quality and branded products, vast domestic market with a very competitive manufacturing base, India also observed a major retail boom in recent years. India is the second most attractive retail destination globally from among thirty emergent Markets. With a contribution of 14% to the national GDP and employing 7% of the total workforce (only agriculture employs more) in the country, the retail industry is definitely one of the pillars of the Indian economy.

1.1.FDI Policy with regard to Retailing in India

Until 2011, Indian central government has not allowed the foreign direct investment (FDI) in multi-brand retail. The foreign companies were denied to have their ownership in supermarkets, convenience stores or any retail outlets.

In November 2011, Government of India has government announced the retail reforms for both multi-brand stores and single-brand stores. These market reforms opens the way for retail innovation and competition with multi-brand retailers such as Wal-Mart, Carrefour and Tesco, as well single brand majors such as IKEA, Nike and Apple. In December 2011, under pressure from the opposition parties, Indian government placed the retail reforms on hold till it reaches a consensus. In January 2012, India has approved reforms for single-brand stores by welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the restriction that the single brand retailer have to source 30 percent of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores. In June 2012, IKEA announced it has applied for permission to invest $1.9 billion in India and set up 25 retail stores. On 14 September 2012, the government of India has announced the opening of FDI in multi-brand retail, subject to approvals by individual states. This decision has been welcomed by economists and the markets. On 20 September 2012, the Government of India has formally notified the FDI reforms for single and multi brand retail, thereby making it effective under Indian law.

1.2.Review of Literature

Dr. Gaurav Bisaria (2012) has stated that the FDI can be in the form of participation in management, joint venture, transfer of technology and expertise and it excludes the investment through purchase of shares which can be used as a measure of growing economic globalization. Arun K.R.Singh and P.K. Agarwal (2012) has explained the relationship of Foreign Direct Investments with the Indian Retail Sector. He suggested that the Indian government must take decision to contain this revolution & safeguard the health of the Indian retail sector to stabilize themselves against competition from the giant players of the global economy in the present condition of slowing growth, inflexible inflation and extended fiscal deficit in the country. Kulkarni Keerti et al (2012) have reviewed the issues and implications of foreign direct investment (FDI) inflows into the Indian retail sector. He pointed out that allowing FDI in multi brand retail can bring improvement in Supply Chain and technology, Manpower and Skill Development, Tourism Development, Up-gradation in Agriculture, growth in efficient Small and Medium Scale Industries, growth in market size and benefits viz., greater GDP, tax income and employment generation to the government. Anusha Chari and T.C.A.Madhav Raghavan (2012) have suggested that allowing entry by large international retailers into the Indian market may help to tackle inflation especially in food prices. For agricultural produce when technical know-how has brought from foreign firms, such as warehousing technologies and distribution systems can improve supply chain efficiency in India. M.D.U., Rohtak(2014) has referred that foreign direct investment (FDI) is an integral part of an open and effective international economic system, which acts as a major catalyst in the development of a country through up-gradation of technology, managerial skills and capabilities in various sectors. Ravi Aron (2012), has pointed out that opening up FDI will not only lead to a greater variety of products for sale and increased consumer choice, but also enter deep into the surrounding area of Indian economic activity and do much to improve the country's infrastructure and logistics sectors. Chandu K. L (2012) has analyzed the problems and prospects of government's policy on FDI in retailing and seeks to examine the perceptions of small retailers on the government's decision. He suggested that a country-wide discussion through the mass-media is highly pertinent regarding this issue and the policy must be well-drafted for which a countrywide perceptional study of the stakeholders of retailing to be asked for. K.P.Prabhakaran Nair (2012) China first allowed 26 per cent FDI in 1992, and expanded this to 51 per cent — what India has allowed — only 12 years later. The entry of Wal-Mart and Carrefour had helped the China's retail sector more efficient and modernizing. Today, China's biggest retail chains are all Chinese, such as the Bailian group. Walmart, which has more than 350 stores in China, only has a 5.5 per cent market share, according to the China Market Research Group. (Hindu news2012) In world level most of the developing countries such as China, Thailand, Brazil, Russia, Argentina, Indonesia and Brazil etc. have allowed 100% FDI in retail sector. In respect to India's organized sector has 2% growth over a period of 10 years (1995-2005) Brazil shows growth rate of 10 per cent to 40 per cent and 20 per cent in China. The main cause for the lack of this growth in retailing sector in our country is that foreign direct investment was not allowed in this sector. Amit Guin (2012) has viewed that in countries such as China, Thailand, Indonesia, Brazil, Singapore, Argentina and Chile, there is no conditions on FDI and if there is no conditions small retail stores can flourish which leads to more employment.

1.3. Statement of the Problem

The liberalization of Foreign Direct Investment (FDI) policy of the Indian economy, has made most business sectors in India eligible to receive foreign investment, has invited many multinational corporation. But the policy framework for the retail sector has continued to be highly restricted. Finally our government has allowed FDI in retailing. To discuss why the global retailers are interested in investing capital in Indian retail sector and to analyse the perceptions of small retailers on the proposed changes in their business after New FDI policy, the study has been undertaken.

1.4. Objectives of the study

- To examine the challenges faced by the retailers in their business.
- To know the opinion of the retailers on the reasons for opening up of FDI in retail business.
- To analyze the perception of the retailers on the proposed changes in their business after the entrance of MNC retailers.
- To explore the opinion of the respondent retailers on the possible economic changes through opening up of FDI in retail sector.

1.5. Research Methodology

The research design for the study is an analytical one, which is concerned with describing the characteristics of particular individual or of a group. The samples have been collected from 50 retailers who involved in groceries. The survey covers different categories of retailer viz., independent small retailer, Departmental store, super market and hyper market. Samples have been collected using purposive sampling technique. Interview schedule has been used to collect the primary data. Secondary data were collected from magazines, text books, journals & websites etc. To analyze the data, statistical techniques viz., ANOVA, Chi-square test, Kendall's co-efficient of concordance, kruskal wallis- H-test and Mann whitney U-test have been used. .

1.6. Personal Profile of the Respondents

The profile of the 50 surveyed respondent retailers (age, gender, experience, type, annual turnover) has been depicted in this section of the research work.

Profile of the Respondents

Personal factors		**No of respondents**	**Percentage**
Age	Below 25 years	6	16
	25 to 30 years	15	30
	30 to 35 years	10	20
	35 years and above	17	34
	Total	**50**	**100**
Gender	Male	44	88
	Female	6	12
	Total	**50**	**100**
Experience	Below 5 years	20	40
	5-10 years	22	44
	10 years and above	8	16
	Total	**50**	**100**
Type of Respondents	Independent small retailers	32	64
	Departmental stores	14	28
	Super market	2	4
	Hyper market	2	4
	Total	**50**	**100**
Annual turnover	Below 1 crore	34	68
	1 crore to 5 crore	8	16
	5 crore to 10 crore	5	10
	10 crore and above	3	6
	Total	**50**	**100**

There has been more number of respondents under the age group of 35 and above years than other age groups (below 25 years-16%, 25-30 years-30% and 30-35 years-20%). The male respondents account for 88% and female 12%. 44% of the respondents have 5-10 years experience. (Below 5 years -40% and 10 years and above 16%). The different categories of retailer have traded with the groceries taken for the study. In that, 64% of the respondents have been independent small retailers, 28%- departmental stores, 4%-super market and remaining 4%-hypermarket. While taking annual turnover of the retailers, 68% of the respondents have been traded with below 1 crore annual turnover. (16%- 1 - 5 crores, 10% - 5 crores-10 crores, 6% - above 10 crores).

1.7. Challenges in Retail Business

The respondent retailers have opined that they have been facing challenges in their retail business.

Challenges in Retail Business

Challenges	**Total score**	**Mean**	**Rank**
Shortage of desirable talent and skilled man power	249	4.98	II
Presence of numerous intermediaries	201	4.02	IV
Consumers expectation on quality goods	153	3.06	VII
Lack of basic infrastructure	169	3.38	V
Lack of branding to reach world market	162	3.24	VI
Lack of technology up gradation	205	4.1	III
In efficient supply chain	261	5.22	I

Among 50 respondents, most of the respondents had the problem of inefficient supply chain (mean value 5.22). To reap the different economies of scale with mutual dependence on each other and to transfer a substantial amount of knowledge and skills efficient supply chain becomes inevitable in these days. Next they had a problem of shortage of desirable skilled man power (mean value 4.98). Lack of technology upgradation being the next challenge for the respondents(mean value of 4.1). Presence of numerous intermediaries in the retail business becomes a great problem in turn the price of the product increases as their profit is included in the price(mean value 4.02) lack of basic infrastructure which needs high investment for the retailers become a challenge to compete with others(mean value 3.38), lack of branding to reach world market (mean value 3.24)as the customers demand shift to foreign brands, the respondents are in a position to create a brand name for their product to differentiate with others. To satisfy the customers, the retailers have been pushed to the position of supplying quality goods to them. (mean value 3.06).

Kendall's Coefficient of Concordance

Kendall's W	0.1537

Kendall's co-efficient of concordance has been used to find whether the ranks assigned by respondents have any similarities. The Kendall's (W) has found to be 0.1537(which has been less than ±1) indicates that there has been low level of concordance among the respondents. The retailers' opinion on the challenges that they are facing has a very low similarity, revealing a wide dispersion in the opinion of the retailers.

1.8. Necessity for Opening up of FDI in Retail Business

Indian retail industry is the most promising emerging market for investment. For various reasons the opening of FDI in retail business becomes inevitable. Following table has shown the respondents opinion about the necessity for opening up of FDI in retail business.

Necessity For Opening Up Of Fdi In Retail Business

OPINION ON THE NECESSITY FOR OPENING UP OF FDI IN RETAIL BUSINESS	NO.OF RESPONDENTS	PERCENTAGE (%)
Global market	8	16
Increase of consumer awareness	8	16
Ready to pay additional amount for quality, environment and brand	9	18
People keen to spend on life style	13	26
Customers expects everything to be available in same place	12	24

26% of the respondents have said that increase of consumer attitude to spend on life style necessitates for opening up FDI in retail business. 24% of the respondents have opined that the customers' expectation to get everything in a same place being one of the reason for opening up of FDI in retail business. 18% of the respondents have said that nowadays people are ready to pay additional amount for quality, environment and brand and each of 16% of the respondents have agreed that global market and increased consumer awareness induce the government and consumers to open up FDI in retail business.

1.9.Opinion on the objectives of FDI Policy

The government of India has taken efforts for opening up of FDI in retail sector. The policy objectives are framed for the welfare of the society and the retailers. Following table has shown the opinion of the respondents about the objectives of the FDI policy.

Opinion On The Objectives Of Fdi Policy

Objectives	Total score	Mean	Rank
50% of foreign investment to be invested in backend infrastructure	157	3.14	II
Minimum sourcing of 30% from SME	171	3.42	I
E-commerce is any-form being disallowed	90	1.8	III
Foreign investor be the owner of the brand	73	1.46	IV

Among 50 respondents, most of the respondents have favored for minimum sourcing of 30% from SME (mean value 3.42). 50% of foreign investment to be invested in backend infrastructure has scored as second (mean value 3.14), E-commerce is any-form being disallowed has been the next preferable objective by the respondents (mean value 1.8) foreign investor be the owner of the brand being the least preferable objective by the respondents(mean value 1.46).

1.10. Benefits to the Farmers through FDI Policy

Adequate and quality infrastructure is necessary for increasing the productivity and efficiency of agriculture value chain. It is estimated that the current FDI policy will bridge the gap. Following table has shown the opinion of the respondents with regard to the benefits that the farmers are going reap through FDI policy.

Benefits to the Farmers through FDI Policy

OPINION	NO.OF RESPONDENTS	PERCENTAGE (%)
Improvement can be made in the warehouses to reduce the wastage of food grains	7	14
Existing limited cold storage facility can be enhanced	11	22
Direct procurement from farmers ensure reasonable price and reduced the role of middlemen	32	64
TOTAL	**50**	**100**

64% of the respondents have opined that the direct procurement will provide knowledge of what needs to be produced, when, technological inputs to farmers and ensures reasonable price as the margin taken by the intermediaries being avoided. 22% of the respondents have said that the Indian agriculturist working with limited capacity cold storage facility, to meet the rising demand they need best cold storage facilities. This can be done through new FDI policy. 14% of the respondents have said that of existing warehouses was lack in optimal size, adequate design, ventilation facility, inventory management and storage system, through opening up of FDI, this can be improved.

1.11.Agreeability of the Respondents on the Proposed Changes in their Business After New FDI Policy In Multi Brand

Agreeability of the Respondents on the Proposed Changes in their Business

Particulars	S	A	N	D	SD	Total score	Mean value	Rank
MNC retailers can give cheaper priced products than me	17	20	3	5	5	189	3.78	I
MNC retailers would be the main competitor for me	8	24	12	3	3	181	3.62	II
Regular customers would still remain with me because of my own strategy to attract customers	10	10	21	7	2	169	3.38	IV
FDI in retail business will reduce the gap between price paid by the consumers (or) price received by the farmers	7	13	9	13	8	148	2.96	VII
FDI in retail will result in growth of my sales	6	10	9	10	15	132	2.64	IX
Through FDI substantial amount of knowledge and skill can be transferred	3	13	14	11	9	140	2.8	VIII
Employment opportunities can be created	3	19	14	7	7	154	3.08	V
Chance for possible impact on the size of the industry	8	10	11	16	5	150	3	VI
There can be franchising opportunity for local entrepreneurs	18	12	4	12	4	178	3.56	III

Among 50 respondent retailers, most of the respondents have highly agreed that MNC retailers can provide the products at cheaper price as they can make direct procurement from the farmers (mean value 3.78). The respondents have agreed that the MNC retailers would be the main competitor for them (mean value 3.62). New FDI policy can bring more franchising opportunity for local entrepreneurs (mean value 3.78). The respondents have ensured that their regular customers would still remain with them in spite of permit of MNC retailers (mean value 3.38). Employment opportunities can be created has scored as the next proposed change (mean value 3.08). The respondents have agreed that there has been a chance for possible impact on the size of the industry as their sales will be affected in the long run(mean value 3). Next agreeable factor is FDI in retail business will reduce the gap between price paid by the consumers (or) price received by the farmers (mean value 2.96). Through FDI substantial amount of knowledge and skill can be transferred to the retailers, agreed with a mean value of 2.8. Few of the respondents have agreed that the FDI in retail will result in growth of their sales (mean value 2.64).

1.12.Age Group Vs Proposed Changes In The Business After The Opening Of FDI In Multi Brand

ANOVA has been carried out to test the difference of opinion among the respondents of different age group with respect to the proposed changes in the business after the opening of FDI in multi brand retail business and shown in the following Table.

Ho: There is no significant difference of opinion among the respondents of different age group about the proposed changes in their business after the opening of FDI in multi brand retail business.

Anova Table

Source of variation	Sum of square	Df	Mean of square	F value
Between columns	4419	3	1473	111.17
Between rows	660.85	8	82.6	6.23
Residual	318	24	13.25	
Total	**5398**	**35**		

ANOVA results (high F value 111.17, 6.23) have revealed the fact that the opinion of the respondents of different age group differed significantly about the proposed changes in the business after opening up FDI in multi brand retail.

1.13.Gender Vs Proposed Changes in Business After Opening Of FDI In Multi Brand

Mann whitney U-test has been carried out to test difference of opinion between the genders with regard to proposed changes in business after opening of FDI in multi brand. As the U value (3.78) is higher than 1.96 (0.05% level), there exist significant difference of opinion between genders with regard to proposed changes in business after opening of FDI in multi brand.

1.14.Experience Vs Proposed Changes in The Business After Opening Of FDI In Multi Brand

H-test is used to test the difference of opinion among the respondents of varied years of experience with regard to proposed changes in their business after opening of FDI in multi brand. The H test result (18.97) reveals the fact that there exists difference of opinion among the respondents of varied years of experience on the proposed changes in their business after opening of FDI in multi brand.

Through FDI entry in retail business, how the economy can be boosted in many ways.

Possible Economic Changes through Entrance Of FDI in Retail Sector

ECONOMIC CHANGES	NO.OF RESPONDENTS	PERCENTAGE (%)
Chances for Substantial increase in country's GDP	6	12
Combining the Indian retail market with that of global market	19	38
Tax revenue	5	10
Better payment to employees than local retailers	20	40

The Entrance of MNC in retail business would integrate the Indian retail market with that of global market as opined by 38% of the respondents. 40% of the respondents have opined that there is a chance for employment generation and better payment to employees than local retailers. 10% of them have said through the policy changes the tax revenue can be increased to the government through expected increase of standard of living. High consumer spending and rising disposable income will substantially increase the country's GDP as opined by 6% of the respondents

II. Results And Discussion

The profile of the respondent retailers shows that 64% of them were small independent retailers. All of them belong to unorganized sector. It shows India's lowest percent(2 per cent) growth in organized retail sector over a period of 10 years (1995-2005) while in Brazil they have got growth rate of 10 per cent to 40 per cent and in China it is 20 per cent. The main cause for the lack of this growth is that in retailing sector unlike other sectors foreign direct investment has not been allowed. (Hindu news). Inefficient supply chain, lack of skilled man power and lack of technology up gradation have been the important challenges that the respondents are facing presently. Allowing FDI can solve all the above said challenges of retailers (Kulkarni Keerti et al (2012)). The entry of Wal-Mart and Carrefour had helped to make China's retail sector more efficient, modernizing the sector and increasing investment in supply chains. Initially China allowed 26 per cent FDI in 1992, and expanded this to 51 per cent — what India has allowed — only 12 years later. 26% of the respondents have said that increase of consumer attitude to spend on life style necessitates for opening up FDI in retail business. (K.P.Prabhakaran Nair (2012)). Ravi Aron (2012), also has pointed out the same that Allowing FDI in retail sector will not only lead to a greater variety of products for sale and but also improved the consumers' choice. Most of the respondents have highly agreed that MNC retailers can provide the products at cheaper price they be the main competitor for them. Today, China's biggest retail chains are all Chinese, such as the Bailian group. Wal-Mart, which has more than 350 stores in China has only a 5.5 per cent market share, according to the China Market Research Group. (Hindu news2012) 40% of the respondents have opined that there is a chance for employment generation and better payment to employees than local retailers. In China, Thailand, Indonesia, Brazil, Singapore, Argentina and Chile there is no conditions on FDI and where there are no conditions, small retail stores can flourish which leads to more employment.

III. Conclusion

FDI in retail would lead to a more comprehensive integration of India into the worldwide market, despite the fact FDI in the energetic Indian retail sector should not just be freely allowed and encouraged. It is imperative for the government to promote the retail sector for the overall economic development and social welfare of the country. But the policy must be well-drafted for which a countrywide perceptional study of the stakeholders of retailing is solicited. Innovative government measures could further mitigate adverse effects on small retailers and traders. Farmers will get another skylight of direct marketing and they will be better remunerated, but this would require affirmative action and creation of adequate safety nets.

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