An Impact Analysis of FDI on Traditional Retailing Sector –A Micro Case Study of Shivmogga City

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Abstract

Indian economy is going through major transformation with the majority of the sector is in need of the urgent finance. The recent recommendation provided by expert committee that the country badly needs investment up to $1 trillion dollar so as to attract the various investors is a major factor of concern and the further down gradation of Indian economy by IMF has further worsen the problem for the economy. Recent days before S&P credit rating agency has also warn the Indian economy to downgrade the credit ratings. The firms are interested to get a relief in the going inflation atmosphere within the country as majority of them are in urgent need of having finance induction. The firms are actively engaged in the business through which they can enhance the source of finance. The move to allow FDI in the current market scenario will definitely attract to foreign investors and this would through rapid challenges on traditional retailers. Though it is challenging aspect and Centers decision to throw the ball on the individual state is really a positive note and a welcoming process, by which the state has been given freedom to either grow for FDI or to keep its door shut for the same. This paper is an attempt to through light on the sudden challenge which is posed to traditional retail channel due to the rapid opening of FDI in multi brand sector. In this paper simple chi square test is used to analyze the data and based on that conclusion has been drawn.

Keywords – Foreign Direct Investment, Indian Economy, Multi Brand, Single Brand, Traditional Marketing, Acquisitions, Foreign Exchange, Competitive Advantage

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1. Introduction

Retail sector is one of the growing sectors and is contributing about 15% – 16% to overall GDP. The Indian retail market is expected to be US$ 450 billion and is one of the top five retail markets in the world. The retail sector is the largest employment providing sector after agriculture. Traditional marketing is the oldest form of marketing. Foreign Direct Investment has played a significant role in growth of the business in general and strengthening finance in particular. The rapid growth of FDI sector has ensured continuous flow of funds to the business firms. The recent decision of the Government to allow FDI up to 51 % in retail sector has thrown immense challenge to the Indian retail sector as whole and small traders in particular. This decision has got mixed response from various sections of society and a nationwide bandh was called for the same on 20th Sept 2012. The withdrawal of support from Trinanmool Congress is an added burden for the government. Government has earlier in 2006 approved the FDI in single brand and the decision was widely protested in India on that time also. Though the Government has not provided a proper definition for single brand and multiple brands, but in general single brand refers to retail shops selling or trading goods of only one brand under a single roof. For example - addidas , selling only addidas branded product in a retail store. Whereas multiple branded product refers to selling different branded products under a single roof. The basic assumption behind allowing FDI in multiple brand is that it will allow retail giants like Tesco, Walmart to operate in Indian Corporate sector and would affect negatively the small shopkeepers to a large extent. Though the final decision regarding the approval for FDI is levied on the respective State Governments, but still it is going to be hard cake to crack for the UPA alliance as election is nearing on. Apart from allowing 51% allowance in FDI sector for multiple brands, the Government has allowed 49% FDI in airliance, 49% in power sector and 74% in broadcasting sector has been allowed. Frequent talks are going for favor and oppose in the retail sector allowance in India.

1.1. Advantages of FDI

- FDI allows the transfer of technology—particularly in the form of new varieties of capital inputs—that cannot be achieved through financial investments or trade in goods and services. FDI can also promote competition in the domestic input market.
- Recipients of FDI often gain employee training in the course of operating the new businesses, which contributes to human capital development in the host country.
- Profits generated by FDI contribute to corporate tax revenues in the host country. Of course, countries often choose to forgo some of this revenue when they cut corporate tax rates in an attempt to attract FDI from other locations. For instance, the sharp decline in corporate tax revenues in some of the member countries of the Organization for Economic Cooperation and Development (OECD) may be the result of such competition. (For a discussion, see the article by Reint Gropp and Kristina Kostial in this issue.)

In principle, therefore, FDI should contribute to investment and growth in host countries through these various channels

1.2. Types of FDI

Market-seeking investment is aimed at reaching local or regional markets, often including neighboring countries. Companies making this type of investment typically manufacture a wide variety of household consumer products or other types of industrial goods in response to actual or future demand for their products. In some cases, market-seeking FDI occurs as supplier companies follow their customers overseas. For example, an auto components manufacturer may follow a car producer. Market-seeking investment is often defensive and is used by companies to try to circumvent real or threatened import barriers. A liberal trade regime is essential if the investor wishes to serve neighboring or overseas markets.

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Efficiency-seeking FDI frequently occurs as a follow-on form of investment. A TNC may make a number of resource- or market-seeking investments, and over time, it may decide to consolidate these operations on a product or process basis. Companies are able to do this, however, only if cross-border markets are open and well developed. As a result, this form of FDI is most common in regionally integrated markets, most notably in Europe and Asia. TNCs also may undertake smaller-scale product rationalization among a few neighboring countries. This type of investment is illustrated by Nestlé's North African and Middle Eastern affiliates. Each affiliate produces a specialized product for the regional market. Each affiliate also imports other products from sister affiliates in neighboring countries. Taken together, the region has access to a full spectrum of products, but each affiliate is responsible for the production of only a small segment.

Strategic asset-seeking FDI occurs when companies undertake investments, acquisitions or alliances to promote their long-term strategic objectives. For example, a TNC may form a strategic alliance with a company based in another country to jointly undertake mutually beneficial R&D. Strategic asset-seeking FDI is common in industrialized countries.

2. Review of Literature

1. Palmade, Vincent and Anayiotas, Andrea in ―FDI Trends - Looking Beyond the Current Gloom in Developing Countries‖ - The World Bank group private sector development vice presidency September 2004 note number 273 specify ― The fall in foreign direct investment (FDI) since 1999, and China‘s growing share, worry most developing countries. But an in-depth look reveals new and promising trends. The decline is largely a one-time adjustment following the privatization boom of the 1990s. FDI is coming from more countries—and going to more sectors.
2. Doing Business in India‖ , A publication of the World Bank and the International Finance Corporation, ©2009 The International Bank for Reconstruction and Development / The World Bank indicate ― Foreign direct investment assists in increasing the income that is generated through revenues realized through taxation. It also plays a crucial role in the context of rise in the productivity of the host countries. In case of countries that make foreign direct investment in other countries this process has positive impact as well.
3. An article by Koshy Joseph ,Partner, Joseph and Joseph Law Offices ―FDI IN RETAIL SECTOR‖ Copyright© 2006, describes ― The decision of permitting foreign direct investment (FDI) in the retail sector has been a debate in India for a considerable period of time. FDI has been permitted in several sectors by the government of India, however, retail has been as issue deliberated over in view of its expected effect on several sections of the economy, particularly small businesses. However, the said decision of the government permitting FDI in retail has drawn a lot of flak from the leftist and the opposition parties. The gates have opened for multinationals interested and looking forward to set a foot in the booming retail business in India.
4. A Report by Navdanya/ Research Foundation for Science, Technology and Ecology, New Delhi titled ―CORPORATE HIJACK OF RETAIL - Retail Dictatorship vs Retail Democracy‖ sets the foot right saying ―Giant corporations like Wal-Mart and Reliance have started to try and take over the Indian retail sector. The entry of the giant corporate retail in India‘s food market will have direct impact on India‘s 650 million farmers and 40 million people employed in tiny retail. More than 6600 mega Stores are planned with Rs. 40,000 crores by 2011.

5. Singh, Dr. Mandeep, Associate professor of Economics, The Earth Institute of Columbia University in his article ―Foreign Direct Investment in Retailing in India – Its Emergence & Prospects‖ published on 3rdAugust, 2010 says ―Since the Indian retail sector is highly fragmented and domestic retailers are in the process of consolidating their position, the opening up of FDI regime should be in phased manner over 5 to 10 years time frame so as to give the domestic retailers enough time to adjust changes. FDI should not be allowed for multi brand stores in near future, as Indian retailers will not be able to face competition with these stores immediately. At present it is also not desirable to increase FDI ceiling to more than 51% even for single premium brand stores. It will help us to ensure check and control on business operations of global retailers and to protect the interests of domestic players. However, the limit of equity
6. Khatore , Prashant and Parekh , Paresh , partner and senior professional in Ernst & Young‘s Retail & Consumer Products Practice in their article ―Wholesale FDI in retail‖ in Business Daily from THE HINDU group of publications on Thursday, Jun 04, 2009 said ― There is a need to relook, clarify, and further liberalise the policy on single-brand retailing to promote investments by global chains in India. This in turn would not only boost retail growth in India but would also help realize India‘s retail revolution dream.
7. Parekh, Paresh ,Mumbai, Agency: DNA in his paper ―Foreign direct investment in multibrand retail: Time to expand the horizons‖ published on Saturday, Jul 31, 2010 states that ―It is worth debating whether it is really necessary to put conditions such as mandatory rural employment creation and mandatory investment in back-end infrastructure, etc while permitting FDI. One needs to be mindful that the conditions do not become a burden, making investment commercially unattractive to start with, in which case the potential benefits of permitting FDI in retail will not be realized in the absence of scale of investments

3. Objectives of the Study

1. To analyze the impact of FDI on traditional Indian retail sector.
2. To evaluate the effectiveness of Government decision to allow FDI in multi brand.

4. Scope of the Study

This study is confined only to the limit of shimoga city and an sample size of 100 has been chosen to analyze the same.

5. Statement of the Problem

The investment need of the business is growing at a paramount and firms want effective financial resources to enhance their business. The growing financial needs of the firms and lack of foreign currencies within the country has promoted the Indian government to take the FDI measures. The opening of FDI in retail management will open immense challenge to the Indian economy and at the same time it will be throw immense opportunities as well

Hypothesis

H_0 – There is no relationship between the competitive advantage possessed by the Multi brand retailers and diminishing value of traditional retail sector

H_1 – There is relationship between competitive advantage possessed by the Multi brand retailers and diminishing value of traditional retail sector

H_0 - There is no association between the sluggish growth of Indian economy and the steps taken by the Government (to allow FDI) to improve the same

H_1 - There is an association between the sluggish growth of Indian economy and the steps taken by the Government (to allow FDI) to improve the same.

Table 1. Investors Profile

Particulars	Responses	No of Respondents
Age	25 - 30 30 - 35 35 - 40 40 & Above	21 27 31 21
Total		100
Educational Status	Illiterate Primary Middle Secondary & Above	10 25 35 30
Total		100
Gender	Male Female	72 28
Total		100
Type of Investment	FDI Traditional	30 70
Total		100
Investment Preference in FDI	Profitability Great avenue Market potential Less Government norms	22 24 32 22
	Total	100
Risks of Investors in FDI	Difficult to attract new customer Difficult in capturing local markets Legal Competition	34 41 25
Total	Total	100

Sources: Primary Sources

The above table clearly reveals that majority of the respondents are belonging to the age group in between 35-40.The reason behind this high share is due to the fact that majority of them are doing tradition retailing form very long period and it is in this age group that they don't get diversify to any other business. Hence we can see large share of the same. Further we can see that the majority of the respondents are qualified up to middle level as the need of the education from there point is not too much and their forefathers are with the retail business from starting point of their career. Hence we can find that the that the education level is very limited for the traditional retailers. Further we can observe that the majority of the respondents which are dealing in with traditional retailers are mainly male counterparts as compared to female counterparts. The share of the male counterpart is very high and the share of the female counterpart is very limited. In further observation we can observe that majority of the respondents are investing mainly through traditional retailer as compare to the FDI. The investment made in India was mainly related to single brand retail up till the recent procedure laid down by the firm. Further reason behind choosing India as an investment avenue is due to the fact that the market is huge and due to its differential culture it attracts a major portions of the investors and coupled with the factors like majority of the population is divided within the age group between 20 and 25 years. Hence the market potential is high. Further risk to the investors is that it is the majority of the market is captured by traditional retailers. It is due to the fact that they are in retail market from years

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Table - 2

Competitive Advantage Possessed by Multi brand retail stores over Traditional Retailing

Variables	Observed	Expected	(Observed – Expected)	(Observed–Expected)^2	$\frac{(O-E)^2}{Expected}$
Low Prices	28	20	8	64	3.20
Availability of multiple brands	26	20	6	36	1.8
Availability of advanced infrastructure	22	20	2	04	0.2
Value added services	14	20	-6	36	1.80
Effective post sale services	10	20	-10	121	6.05
Total	100	100	0	261	13.05

Sources: Primary sources

Expected value = 100/5 =20,

(O – E)2 / Expected = 13.05

For 4 degree of freedom, for table 2 at 1% significance level table value is 9.49 and calculated value is 13.05 and hence calculated value is greater than the table value null hypothesis is rejected and alternative hypothesis is accepted. Hence we can conclude that there is relationship between competitive advantage possessed by the Multi brand retailers and diminishing value of traditional retail sector.

The above table clearly states that a majority of the respondents feels that it is the availability of advanced infrastructure which plays a major role in ensuring that the customers are attracted towards multi brand retail sector as compare to traditional sector. Advanced infrastructure boosts the confidence among the people in general and enhances the growth of the business in particular. Apart from that there is multiple brand availability and it provides a major source of alternative for customer and thus provide an opportunity to delight to the customer. As the supply chain management of the firm is very flexible and the firm deals in global level, it ensures that firm operates in an effective manner and it help in reducing the cost of the firms and the result is lower cost which an most important competitive advantage which a firm can possess that too in context of Indian market, where the price is the major deciding factor on the part of the consumers. Apart from that the value added service of the big retail store is very good as compare to other retailers. The addition value may be in the form of providing adequate market information to the customer and giving additional benefit to the firm to enhance the customer value in a positive manner.

H_0 - There is no association between the sluggish growth of Indian economy and the steps taken by the Government (to allow FDI) to improve the same

H_1 - There is an association between the sluggish growth of Indian economy and the steps taken by the Government (to allow FDI) to improve the same.

Table - 3

Various Prompting Factors leading to allowance of FDI in Multi Brand Retail Sector

Variables	Observed	Expected	(Observed – Expected)	(Observed–Expected)^2	$\frac{(O – E)^2}{Expected}$
Lack of finance for taking infra project	18	20	-2	04	0.20
Due to destabilizing economy	12	20	-8	64	3.20
Degradation of growth by IMF	14	20	-6	36	5.00
Warning signs given by S & P (credit rating agency)	15	20	-5	25	1.25
Boost the confidence of investor	18	20	-2	04	1.8
Total	100	100	-21	134	11.45

Sources: Primary Sources

Expected value = 100/5 =20,

(O – E)2 / Expected = 11.45

For 4 degree of freedom, for table 3 at 1% significance level table value is 9.49 and calculated value is 11.45 and hence calculated value is greater than the table value null hypothesis is rejected and alternative hypothesis is accepted. Hence we can conclude that at There is an association between the sluggish growth of Indian economy and the steps taken by the Government (to allow FDI) to improve the same.

The above table clearly reveals that it is the lack of the finance which is a major motivating force for the undertaking FDI allowance in our country. Here we can observe that it was the recently held Pareekh committee which estimated that our infrastructure project needs minimum investment of up to $1 trillion. Due to which they have advised to raise the FDI share in the major sector as it would enhance the total inflow of cash and firm will be able to tap a major portion of the share market. Further the destabilizing economy and lack of funds available within the country is the major reason for undertaking various programmes. The infusion of the foreign currency is the need of the hour. Since India is still way behind the GDP growth it has expected in previous planning commission meetings. The further degradation of the Indian GDP growth has negatively affected the whole business scenario. The warning signs provided by S&P credit rating agency are the most debatable and emerging issue which needs to be addressed. The warning provided by them inform degrading the credit ratings of Indian economy is something which is gaining momentum and there recent statement that these innovative reforms should be in gulfed within the economy as it would alone ensure the growth of the economy as whole. Further the investor confidence will be boosted if there is infusion of foreign currency in the market as the foreign currency is continuously fluctuating with compared to Indian rupees.

6. Findings

- FDI is the positive step undertaken by the Government for ensuring continues inflow of foreign funds
- The inflow of foreign funds within the economy will further stimulate the economy to grow in positive direction.
- The infrastructure needs of the Indian market are $1 trillion and hence FDI is of paramount importance to ensure that the same is financed effectively.
- With the huge fluctuation in Indian rupees in compare to foreign currencies the need for FDI is of paramount importance.

7. Suggestions

- Though FDI is a positive step but the need of the hour is to take adequate steps to safeguard the wants of traditional retailers
- FDI is a positive step ,but the strict policies should be laid down so as to protect the interest of the economy.
- The whole initiative step undertaken by the Government is a positive aspect but the implementation of the same carries due importance
- Various parties should cooperate in a positive manner so as to ensure that the growth of the country is developed in a positive manner

8. Conclusion

Indian economy is going through transformation phase where change is need of the hour. The infusion of FDI in our economy is a positive step and keeping in view the growing need of the finance more steps needs to be taken. IMF has downgrade the Indian GDP growth due to the sluggish pace at which economy is growing. Further the warning given by S&P to downgrade the credit rating of India has reduce the confidence of the investors to invest in Indian markets. The application of the FDI in Indian market will stimulate the growth of Indian economy as a whole and hence it should be welcomed from both hands, but the traditional retailer's needs and wants should be understood and proper policies should be frame so as to save them. From the above study we can conclude that barring FDI in our country will be a long term burden on the economy. The reason behind this is the infusion of FDI will provide various organizations an opportunity to sustain and will be a big boon in the form of providing foreign exchange. Though it may cost sum initial hiccups but for ensuring long term growth of the country this reforms are of paramount essence.

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