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AN ANALYTICAL STUDY ON PREVAILING FDI ROLE AND RETAILERS PERCEPTION IN INDIAN RETAIL SECTOR

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Abstract
Expanding of trade policies during the year 1991, India became a foreign direct investment friendly country. In the beginning stage FDI was restricted with limited sectors, during the year 2012 government of India allowed multi and single brand store, aviation sector and pension plan. Now at the present scenario Government of India announced reforms to attract FDI in retail industry, government approved 49% in Insurance under automatic route and 100% in E-Commerce retail. There is mixed responses about FDI in Indian retail sector and also in Indian politics. Retail sector plays a vital role in India. FDI in retail sector is a risk factor for the unorganized retailers, it forces them to quit their business and remove the traditional method. Paper highlights the role of FDI and retailers perception on existing FDI policies.

Key Words: Multi and Single Brand, Aviation, Automatic Route, Unorganized, FDI Policies.

Introduction
The traditional method of selling goods is unorganized retailers (Kirana store, Mom and Pop store) they have good customer relationship seem to be relatives. Later, Titan (maker of premium watches) successfully started an organized retailing business in India by establishing a series of grand showrooms. During 1990s Fresh entrants with pure retailing mindset get into manufacturing, they entered in various field like Food world, Subhiksha and Niligiris in food and FMCG and Music World, Planet in music based on preference customer responses towards organized retail is increased in the urban area. In India retail industry majorly occupied by the unorganized retailers. Indian Un organic retailers are low investors they cannot create huge capital to investment in a large to fulfill the retail industry demand, so booming Indian retail industry need of capital infusion.

FDI Role in Indian Retail Sector
FDI plays a vital role in retail sector; it helps to expand the market, Reduces the operation cost Superior Supply chain management these merits helps the consumers and suppliers. Government of India denied FDI in all the sectors excluding single brand retail to 51% of ownership and bureaucratic process. India’s hesitation on implementing FDI was withdrawn by Prime minister of India during November 2011, India agreed retail reforms for Multi and single brand stores, which paved the way for retail modernization and competition with multi brand retailers as well as single brand retailers. The announcement triggered intense activism, ruling party supported and others opposed it, because of the pressure situation government placed the reform on hold.
The retail industry is mainly divided into
1) Organized 2) Unorganized Retailing

Organized retailing refers to trading activities undertaken by the licensed retailers, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.

Unorganized retailing / traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc. 92% of Indian retail sector belongs to unorganized retailers. The organized retail holds 8% of market.

After all the opposition and uproar against the reforms, Federal Government of India announced 51% of Multi brand retail in India, some states greed it and others not.

Press Note 4 of 2006 issued by DIPP and consolidated FDI Policy issued in October 2010[11] which provide the sector specific guidelines for FDI with regard to the conduct of trading activities.

a. FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.
b. FDI up to 51 % with Government approval (i.e. FIPB) for retail trade of Single Brand products, subject to Press Note 3 (2006 Series).
c. FDI is not permitted in Multi Brand Retailing in India.2.5 Prospected Changes in FDI Policy for Retail Sector in India.

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The government (led by Prime Minister Dr. Manmohan Singh, announced following prospective in Indian Retail Sector,

1. India will allow FDI of up to 51% in multi-brand sector.
2. Single brand retailers such as Apple and Ikea, can own 100% of their Indian stores, up from previous capital of 51%.
3. The retailers (both single and multi-brand) will have to source at least 30% of their goods from small and medium sized Indian suppliers.
4. All retail stores can open up their operations in population having over 1million out of approximately 7935 towns and cities in India, 55 suffice such criteria.
5. Multi-brand retailers must bring minimum investment of US$ 100 million. Half of this must be invested in back-end infrastructure facilities such as cold chains, refrigeration, transportation, packaging etc. to reduce post-harvest losses and provide remunerative prices to farmers.
6. The opening of retail competition (policy) will be within parameters of state laws and regulations.

Furthermore, under the new foreign investment policy Government of India constituted FIPB (Foreign Investment Promotion Board) whose primary function was to invite and facilitate foreign investment through single window system from the Prime Minister's Office. The foreign equity capital was raised to 51 percent for the existing companies. Government allowed the use of foreign brand names for domestically produced products which was restricted earlier. India also became the member of MIGA (Multilateral Investment Guarantee Agency) for protection of foreign investments. Government lifted restrictions on the operations of MNCs by revising the FERA Act 1973. New sectors such as mining, banking, telecommunications, highway construction and management were open to foreign investors as well as to private sector.

Political Ego's

S. No	Ruling Party	Opposition Party
1.	Prime Minister - P V NarasimhaRao Finance Minister – Dr. Manmohan singh Allowed limited FDI in retail as a result of which Dairy Farm, a multinational corporation made an entry in India During the 5 years, P Chidambaram, Commerce Minister who initiated trade reforms and changed Import & Export Policy, changed laws to go back to square one because by then he was finance minister of a communist-supported government.	Parliament - Up roar from the opposing party
2.	During the year 2002- FDI was shelved by the Vajpayee government.	Dr.Manmohan Singh had argued against FDI
3.	Current Scenario: During 2011 – Prime Minister Dr. Manmohan Singh allowed FDI in Multi and Single brand, Later government placed the reform on hold, On 7th September 2012 the Government of India formally notified the FDI reforms for single and multi brand retail, thereby making it effective under Indian law.	The announcement sparked intense activism, both in opposition and in support of the reforms. In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reaches a consensus.
4.	Last year (2015) The party opposed, implemented 100% FDI in E-Commerce, 49% FDI in Insurance	Opposition Party leaders – Respectable Sonia Gandhi and Rahul Gandhi Opposing it

Current Scenario
Source: Press Note
Government Allows 49% FDI in Insurance under Automatic Route
Seeking to attract more foreign investment, the government has relaxed FDI norms for the insurance sector by permitting overseas companies to buy 49% stake in domestic insurers without prior approval. Currently up to 26% FDI is permitted

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through the automatic approval route. For FDI up to 49% the approval of the Foreign Investment Promotion Board is required. "The Foreign investment proposals up to 49% of the total paid up equity of the Indian insurance company shall be allowed on the automatic route subject to verification by the Insurance Regulatory and Development Authority of India" said a Government notification. There are 52 insurance companies operating in India, of which 24 are in the Life insurance business and 28 in general insurance.

100% FDI in E-Commerce Retail

The government on allowed 100% FDI through the automatic route in the market-place model of E-Commerce retailing, bringing in long overdue clarity on FDI policy for the sector as well as definition of marketplace format. As per the guidelines issued by the Department of Industrial Policy and Promotion (DIPP) on FDI in E-Commerce, FDI has not been permitted in inventory-based model. At present, 100% FDI is permitted in B2B (business to business) transaction under the automatic route. The market place model has been defined as providing an "information technology platform by an e-commerce entity on a digital and electronic network to act as a facilitator between buyer and seller." These guidelines are expected to bring in more FDI into the sector that attracted maximum inflow of such investment in 2015, Akash Gupt, Partner and Leader Regulatory at PwC said. DIPP said that the E-Commerce market place may provide support services to sellers in warehousing, and logistics, order fulfillment, call centre, payment collection and other services. However, such entities will not exercise ownership over the inventory. "Such an ownership over the inventory will render the business into inventory-based model" it said in a press note. As per the norms, an E-Commerce firm will not be permitted to sell more than 25% of total sales from one vendor or its group companies. "E-Commerce entities providing market place will not be directly or indirectly influence the sale price of goods or services and shall maintain level playing field", it added. This may require some of the existing players to alter their structures. "The capital of 25% on sales by a vendor on market place will ensure a broad basing of vendors for a trust market place. This may require some of the operators to go back to the drawing board to ensure compliance," - Mr.Gupt. It is expected to grow 1.3 trillion dollars by 2020, unorganized retailers accounted for 92 percent and Organized account for 8 percent of the market during the year 2015, it is expected there will be 24% of growth in organized by 2020, un organic retailers reduced to 76%.

Literature Review

M. Joseph and N. Soundararajan, 2009 states that Indian retailers have a number of essential strengths which help them not purely survives the competition from organized retail but succeed. These include proximity to consumers, consumer goodwill, credit sales and amenability to bargaining, sale of loose items, convenient timings and home delivery. The Indian Council for Research on International Economic Relations (ICRIER) study has shown that hardly 1.7% of small shops closed due to competition from organized retail. They have successful against organized retail through adopting better business practices and technology. FDI has positive effects on the economy as its ownership advantages get disseminated to owned enterprises, enhancing their productivity. All these benefits of foreign direct investment have been well acknowledged in India in sectors such as automobiles, telecom and consumer electronics.

FDI Norms in India

1. Defense – 26% to 49%
2. Pension – 49%
3. Insurance – 49%
4. Print Media – 26%
5. Civil Aviation – 49%
6. Public sector bank – 20%
7. Private sector bank – 74%
8. Multi brand – 51%
9. Single brand – 100%
10. Tourism – 100%
11. E-Commerce – 100%

Research Methodology

Objectives of the Study

- To study the recent changes in reforms regarding FDI in retailing.
- To study the pros and cons of FDI in retail.
- To study the perception of retailers about FDI.
- SWOT analysis of retail sector.

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Primary Data

The primary data are those which are collected afresh and for the first time, and thus happen to be original in character. A structure questionnaire is the primary data for collecting information from customers with regards to various technology based services.

Secondary Data

- Articles on FDI in retailing taken from journals, magazines.
- Through website.

Sample Area

The study was conducted in various parts of Chennai city. The data is collected by providing questionnaire to the retailers with a request to answer the questions and return the questionnaire. The information is qualitative and accurate. The rate of refusal is low; it offers a sense of participation to the respondents. The data collected is tabulated and interpreted to draw conclusion.

Sample Size

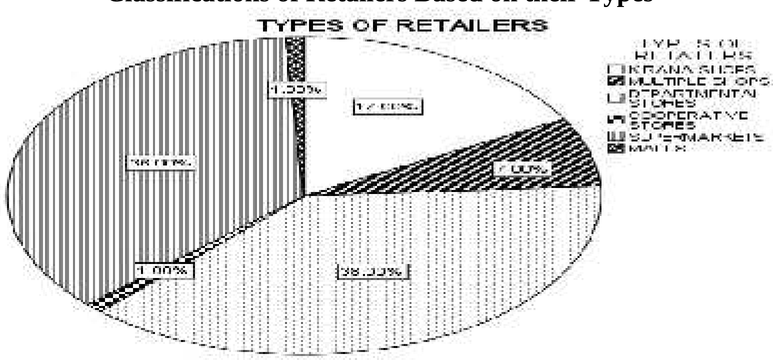
100 respondents were selected at random. All the 100 respondents were the retailers situated in different parts of Chennai city.

Analysis and Interpretation

Classifications of Retailers Based on their Types

Types	No of Respondents	Percentage (%)
Kirana Shops	17	17.0
Multiple Shops	7	7.0
Departmental Stores	38	38.0
Cooperative Stores	1	1.0
Supermarkets	36	36.0
Malls	1	1.0
Total	100	100.0

Classifications of Retailers Based on their Types



Interpretation

The above table shows the classification of retailers based on the types of the retailers, and out of 100 respondents 17% are having kirana shops, 7% are having multiple shops, 38% are having departmental stores, 1% is having cooperative stores, 36% are having supermarkets and 1% is having malls.

Null Hypothesis: There is no significant difference between types of retailers with respect to high employment opportunities

Anova test for significant difference between types of retailers with respect to high employment opportunities.

High Employment Opportunities

Types of Retailers	N	Mean	Std. Deviation	F-Value	P-Value
Kirana Shops	17	2.41	1.228		
Multiple Shops	7	1.43	.787		
Departmental Stores	38	1.84	.754		

Cooperative Stores	1	2.00	.	4.717	.001
Supermarkets	36	1.33	.586		
Malls	1	1.00	.		
Total	100	1.72	.877		

Interpretation
Since P value is less than 0.05, the null hypothesis is rejected at 5% level of significance. Hence there is significant difference between the responses of the retailer with regards to higher employment opportunities provided by FDI in retail trade.
Null Hypothesis: There is no significant difference between types of retailers with respect to devastating effect on small retailers.
Anova for significant difference between types of retailers with respect to devastating effect on small retailers

Devastating Effect on Small Retailers

Types of Retailers	N	Mean	Std. Deviation	F-Value	P-Value
Kirana Shops	17	1.35	.493		
Multiple Shops	7	1.57	.535		
Departmental Stores	38	1.32	.471	.871	.504
Cooperative Stores	1	1.00s	.		
Supermarkets	36	1.31	.467		
Malls	1	2.00	.		
Total	100	1.34	.476		

Interpretation
Since P value is greater than 0.05, the null hypothesis is accepted. Hence there is no significant difference between the responses of the retailer with regards to devastating effect on small retailers.

Conclusion and Recommendations
This study found that many retailers have repeatedly pointed out that if FDI is allowed in retailing, the unorganized retailers will be affected adversely and would affect their livelihood. They have voiced such apprehensions as the foreign players would sell imported goods and not source domestically, practice predatory pricing to eliminate competition.

This study also found that allowing FDI will lead to more investment in organized retail sector such as food processing industry and real estate sector. It would lead to sophisticated supply chains, inflows of technical know- how. It would reduce wastage of farmers produce and enable farmers to get better prices for their crops.

However government should have an appropriate regulatory regime to safeguard against the anti-competitive practices such as predatory pricing.

Recommendations
1. Farmers occupy the most vulnerable condition in our economy, their interest must be protected and exploitation on them must be eradicated.
2. The Government should provide support of legal framework to safeguard the interest of farmers and consumers.
3. Rural infrastructure must be developed in order to give boost to rural as well as retail development.
4. The retail sector in India is severely constrained by limited availability of bank finance. The Government and RBI need to evolve suitable lending policies that will enable retailers in the organized and unorganized sectors to expand and improve efficiencies. Policies that encourage unorganized sector retailers to migrate to the organized sector by investing in space and equipment should be encouraged.
5. A National Commission must be established to study the problems of the retail sector and to evolve policies that will enable it to cope with FDI– as and when it comes.
6. The proposed National Commission should evolve a clear set of conditionality’s on giant foreign retailers on the procurement of farm produce, domestically manufactured merchandise and imported goods. These conditionalities must be aimed at encouraging the purchase of goods in the domestic market, state the minimum space, size and specify details like, construction and storage standards, the ratio of floor space to parking space etc. Giant shopping centre’s must not add to our existing urban snarl.

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7. Entry of foreign players must be gradual and with social safeguards so that the effects of the labour dislocation can be analysed & policy fine- tuned. Initially allow them to set up supermarkets only in metros. Make the costs of entry high and according to specific norms and regulations so that the retailer cannot immediately indulge in 'predatory' pricing.
8. In order to address the dislocation issue, it becomes imperative to develop and improve the manufacturing sector in India. There has been a substantial fall in employment by the manufacturing sector, to the extent of 4.06 lakhs over the period 1998 to 2001, while its contribution to the GDP has grown at an average rate of only 3.7%17. If this sector is given due attention, and allowed to take wings, then it could be a source of great compensation to the displaced workforce from the retail industry.
9. The government must actively encourage setting up of co-operative stores to procure and stock their consumer goods and commodities from small producers. This will address the dual problem of limited promotion and marketing ability, as well as market penetration for the retailer. The government can also facilitate the setting up of warehousing units and cold chains, thereby lowering the capital costs for the small retailers.
10. According to IndiaInfoline.com, agro products and food processing sector in India is responsible for $69.4 billion out of the total $180 billion retail sector (these are 2001 figures). This is more than just a sizeable portion of the pie and what makes it even more significant is the fact that in this segment, returns are likely to be much higher for any retailer. Prices for perishable goods like vegetables, fruits, etc are not fixed (as opposed to, say, branded textiles) and therefore, this is where economies of scale are likely to kick in and benefit the consumer
11. Set up an Agricultural Perishable Produce Commission (APPC), to ensure that procurement prices for perishable commodities are fair to farmers and that they are not distorted with relation to market prices.

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