# FOREIGN DIRECT INVESTMENT IN RETAIL SECTOR: THE CASE OF INDIA

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Supervisor

Professor Philippe Debroux

10D0602

Shrestha Saroj

Tokyo, Japan

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#### Abstract

Retail sector is considered as one of the important pillars of Indian economy. Before the economic reforms in 1991, the inflow of Foreign Direct Investment (FDI) in India was comparatively limited. Government policy towards foreign capital was very selective. Following the reforms, however, foreign investors are allowed to invest up to 100 percent in most of India`s economic sectors. As a consequence, the nation experienced improved economic performance. In spite of this, FDI into multi-brand retailing remains partially restricted. The permission for 100 percent investment in multi-brand retailing is still in debate. Some strongly support its positive aspects, but on the other hand some argue with its disadvantages.

This study finds that the retail market of India is still covered by unorganized retailing but one stop shopping place like malls and supermarket are also gradually increasing their market share. Conducting business in India is not as easy as presented in news and newspapers. India lacks infrastructural development and has bureaucracy problems. Also, the government seems to protect unorganized retail indirectly. Hence, both organized and unorganized retailing will co-exist in future and it will take long time for Indian retail sector to be fully organized.

Thus, it suggests that the government of India should gradually liberalize its FDI policy in multi-brand retailing like China. It should encourage local retailers to make business and make them capable to compete against foreign retailers. On the other side, for foreign retailers to compete against local players they should create value chain by differentiating their product and applying better management techniques.

**Keywords**: FDI; Organized; Unorganized; Retail; Multi-brand

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| | | |
|---|---|---|
| DIPP | - | Department of Industrial Policy and Promotion |
| EA | - | Entrepreneurial Assistance |
| FDI | - | Foreign Direct Investment |
| FEMA | - | Foreign Exchange Management Act |
| FIIA | - | Foreign Investment Implementation Authority |
| FERA | - | Foreign Exchange Regulation Act |
| FIPB | - | Foreign Investment Promotion Board |
| FIPC | - | Foreign Investment Promotion Council |
| FMCG | - | Fast-Moving Consumer Goods |
| GAAT | - | General Agreement on Tariffs & Trade |
| GDP | - | Gross Domestic Product |
| IBEF | - | India Brand Equity Foundation |
| ICRIER | - | Indian Council for Research on International Economic Relation |
| IP&ID | - | Investment Promotion and Infrastructure Development |
| JV | - | Joint Venture |
| KVIC | - | Khadi and Village Industries Commission |
| MIGA | - | Multilateral Investment Guarantee Agency |
| MSMEs | - | Micro Small & Medium Enterprises |
| NRIs | - | Non-Resident Indians |
| OCB | - | Overseas Corporate Bodies |
| PDS | - | Public Distribution System |
| PPP | - | Purchasing Power Parity |
| RBI | - | Reserve Bank of India |
| SEZs | - | Special Economic Zones |
| SIA | - | Secretariat for Industrial Assistance |
| SME | - | Small and Medium Enterprises |
| TNC | - | Trans National Corporation |
| UNCTAD | - | United Nations Conference on Trade and Development |
| WTO | - | World Trade Organization |

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## Preface

The concept of globalization has changed the traditional way of doing business. Inter-nations boundaries today do not stop to make business between different nations. Further, membership in WTO, free trade area concepts and liberalization policy for foreign investment by different nation has simplified foreign trade. After the gradual liberalization policy adopted by government, many foreign retailers are waiting to invest in India. With high GDP growth rate, rising disposable income, and advantageous demographics of the Indian population; it has been portrayed as an attractive destination for investment.

Retailing in India has gone through an attention driving change. Traditionally, haats, melas were organized for retail activities which gradually changed to neighborhood kirana shops. Still Indian retail sector has been characterized by the presence of a large number of small-unorganized retailers which is the source of livelihood for them. However, with the demand of time there has been gradual development of organized retailing formats like supermarket, malls and convenience store. India is a developing country having different cultures and language with more than sixty percent of population residing in rural area. People residing in city area like Mumbai and Delhi are more westernized with brand and fashion oriented who like to do shopping at one stop shopping place but in rural areas due to poorly developed infrastructure, retailing is still difficult. Also, the state-wise difference in law and political bureaucracy create another problem for smooth functioning of retail business.

In addition, it is interesting to know how customers are likely to benefit from liberalization of the retail FDI policy in India. The large capital inflow, technological advancement, better supply chain will help local customers to get better product at cheaper price but Indian retailers will not just wait and watch the foreign business model. They will surely react to it, for their business sustainability. Further the government will also try to protect local retailers. Hence, the retail sector of India with competition between local and foreign retailers is expected to contribute to the overall development of Indian economy.

# CHAPTER I

# INTRODUCTION

## Introduction

India attracts a lot of interest from researchers and practitioners because of its increasing importance in the world market. Nowadays, India is an attractive destination for overseas investors. The relaxation of regulations by the government has created an opportunity for foreign players who are competing for a greater role in the Indian market. After the liberalization of Foreign Direct Investment (FDI) policy in 1991, most of the business sectors are eligible to receive foreign investment (Cherunilam, 2005). Prior to 1991, India was a closed economy where government exercised a high degree of control over industrial activity by regulating and promoting much of their economic activity. During that time, the retail sector mainly consisted of small privately owned stores that did not have corporate management and were known as traditional retailers.

Retailing includes all the activities involved in selling goods or services directly to the final consumers for personal use (Kotler et al., 2013). It is concerned with getting goods in their finished state in the hands of customers who are prepared to pay for the pleasure of eating, wearing or experiencing them (Bhatia, 2008).

Retail sector is one of the biggest pillars supporting the Indian economy. It accounts for 14 to 15 percent of its GDP and is second largest sector in terms of employment after agriculture (IBEF, 2015). It employs about 40 million Indians; i.e. 3.3 percent of Indian population (Paliwal, 2012). Consumer tastes are changing and leading to radical alteration in lifestyles and spending patterns which in turn are giving rise to new business opportunities. Shopping malls, department stores, hyper markets, supermarkets, convenience stores, and discounters etc. are becoming increasingly common in large cities. Favourable demography, increasing urbanization, and nuclear families, a rising preference for branded products, and higher aspirations are all factors which will drive retail consumption in India (Hiscock, 2008). With all this potential, India has become an attractive destination for FDI in retail. Foreign retailers are eagerly waiting for permission to invest in the Indian retail sector. But, over 90 percent of Indian market is covered by unorganized retailers. The unorganized retail sector is a major employer, particularly of low skilled workers who run a single shop as their livelihood (Joseph et al, 2008). They are in the form of mom and pop stores, vegetable and fruit stalls, paan shops, pushcarts, and street vendors which is by far the easiest business to enter, given the minimal needs for capital and infrastructure in India.

India's accession to the World Trade Organization (WTO) and General Agreement on Tariffs and Trade (GATT) in 1995 was one of the most important events in international trades (Cherunilam, 2005). Thereafter both wholesale and retailing services came into effect. In 1997, India allowed FDI up to 100 percent in cash and carry (wholesale). Single-brand retailing was opened to foreign investment in 2006 but the rate of foreign participation was capped at 51 percent. This limitation was finally removed in November 2011. Single-brand retailing attracted 94 proposals between 2006 and 2010, of which 57 were approved and implemented (Dinesh, 2012). At the same time in November 2011, the government attempted to allow 51 percent ownership in multi-brand retailing. The permission for foreign multi-brand retailing met strong opposition in cabinet; it was reversed and reinstated in subsequent months as the many stakeholders debated the measure.

Some supporters argue that allowing FDI in a multi-brand retail will create approximately 10 million new jobs in the next few years, help farmers get better prices for their products and infuse new life into India's retail infrastructures (The Economic Times, 25$^{th}$ Nov. 2011). They argue that this will not only result in reduction of wastage but will also increase the prices paid to farmers with fair prices for consumers. In a growing economy, supporters say that there is enough space for both big and small to grow. On the other hand, opponents argue that, FDI in retail will displace the existence of millions of small traditional stores and street vendors (NDTV, 7$^{th}$ Dec. 2012). It will also have negative impact over traders and middlemen that provide service to those stores and create unemployment. Domestic organized retailers may also be affected, as their product and mode of delivery are similar to foreign retailers.

In 2012, the cabinet revived its policy about foreign multi-brand and it once again became a hot debate. In response, the government adopted a gradual approach to opening up the sector. In September 2012, the government allowed 51 percent foreign ownership in multi-brand retail (Das, 2014). However, to protect relevant domestic stakeholders and to enhance the potential development benefits of FDI, the government has simultaneously introduced specific regulations. These regulations cover important issues, such as the minimum amount of investment, the location of operation and share of local sourcing. In the context of divergent views about the possible impact of entry of foreign multi-brand retailers in India, it is essential to make an in-depth analytical study.

There are two important research questions that need to be answered: Is India a good destination for investment in retail?, what will be the future of unorganized retailing due to the increased participation of foreign multi-brand retailers and how can they compete against them?

This thesis is designed to answer above research questions based on the analysis of the transitional period of India between 1991 to 2015. The main reason for choosing this period are: First India was closed economy before 1991, and after that foreign retailers started to enter into Indian market gradually by following the changes in FDI policies. Their activities contributed to market structural changes in the country. Second, the research period covers the time in which WTO agreements were signed by Indian government in 1995 and further the sequential removal of restrictions for foreign retailers till 2012 was made.

With this background, this thesis explores the factors that attract foreign retailers to invest in India and how liberalization policy related to multi-brand retailing weakens unorganized retailer’s business in India. It also discusses about the competition between local retailers and foreign retailers. Lastly, it is interesting to know who wins and who loses from increased FDI in retailing in India.

## 1.1 Research Gap

The findings of this thesis on the topic ‘FDI in retail sector: The case of India’ will be very useful for analysing current situation of retail sector in India. Government of India is liberalizing foreign investment policy gradually from 1991. They are welcoming foreign investment in different sectors. Basically, policy adopted in retail sector after liberalization has become a good topic of academic debate. In order to fill in the research gap, this thesis covers the discussion on recent deregulation of FDI policy in retail and its impact on local business of organized and unorganized retailers. It also tries to enlighten future retail environment of India on the basis of current market changes and development. Hence, this thesis tries to fill up the gap by making holistic analysis of Indian retail market.

## 1.2 Limitation of the Study

- The selected case study in this thesis may not cover the whole retail market of India.
- This study is based on India, which is a developing country hence the findings of Indian retail growth stage from Sternquist’s retail development framework may not be applicable for developed countries.
- This study has less focus on online retailing.

## 1.3 Structure of the Thesis

The thesis is organized as follows: Chapter two explores the theoretical framework, data collection method and analysis plan the study has followed. Chapter three covers literature review of the related studies. Chapter four explores present scenario of FDI and its pros and cons. Chapter five covers evolution and present scenario of Indian retail market. Chapter six covers evolution of FDI policy and its prospect of changes in retail policy. Chapter seven includes the various market growth and challenge factors that has initiated organized retail to develop. It also includes analysis of competition analysis of retail market of India. Chapter eight covers the case analysis of two organized retailers i.e. Wal-Mart in India and Reliance Fresh. It also includes case analysis of FDI in Multi-brand retail in China. Chapter nine discusses SWOT analysis and Sternquist's stage of retail development framework. Chapter ten discusses the findings observed and provides conclusion.

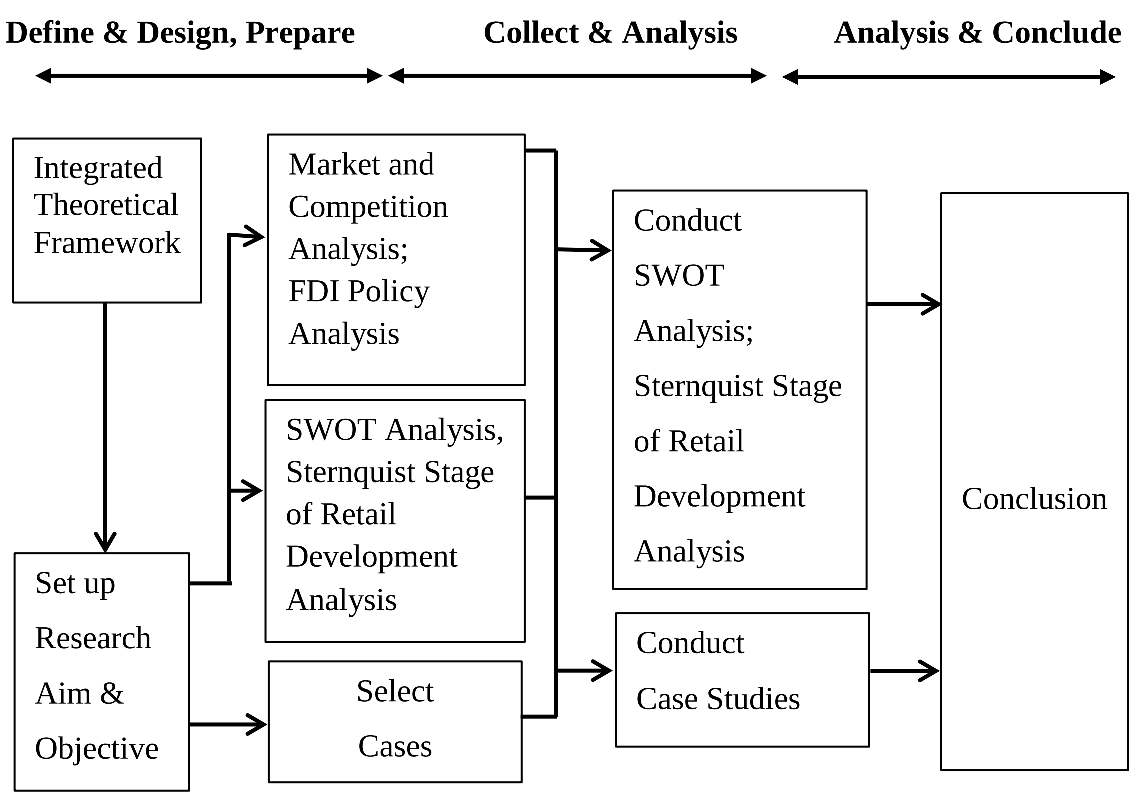
# CHAPTER II

# RESEARCH METHODOLOGY

## 2.1 Theoretical Framework

This study is an effort to analyse the effect of FDI liberalization in India, mainly in the retail sector. This study is based on qualitative and empirical methods.

Figure 1: The theoretical framework of the study is as follow:




In order to make a depth analysis of research, this thesis applies SWOT analysis, Sternquist stage of retail development framework and an explanatory case study to achieve the research aim and answer the research questions.

## 2.2 Data Collection Method

This study has collected data through secondary sources. It has used sources such as books, journals, newspapers, online databases and websites of the India Brand Equity Foundation (IBEF), the Reserve Bank of India (RBI), and the Indian Council for Research on International Economic Relation (ICRIER). In addition data derived from World Bank, Reserve Bank of India etc. are analysed and presented through bar graph, pie chart, line graph.

The author, during the research process, visited India in order to observe the retail market reality. Author himself made analysis through observation and service consumption to know the difference of service provided by organized and unorganized retailers.

## 2.3 Analysis Plan

This thesis has used analytical and empirical method for analysis. Some data are collected from websites of World Bank and Reserve Bank of India which is presented through bar graph, trend line and Pie-chart etc. Further analytical study is also made through Strength, Weakness, Opportunity and Threat (SWOT) analysis, Sternquist's stage of retail development framework and case study approach.

SWOT analysis is conducted to know internal and external environment of overall retail sector of India. In any strategic planning process, two factors namely internal and external environmental factors play an important role. A scan of these factors is important for future planning for foreign retailers as well as local retailers in India. The internal environmental factor is analyzed through strength and weakness whereas the external is analyzed through opportunities and threats. The strategic analysis of environmental factors is referred as SWOT analysis. In this study, it provides information to understand the retail sector resource mobilization and capabilities in the competitive environment in which it operates. Finally, this will be an instrumental in formulation of strategies for future growth and development of the sector.

Sternquist's stage of retail development shows phases of retail development in developing nations. It shows five stages of retail evolution. Sternquist (1998, 2007) applied the Stage of Growth Model to an upward trajectory in stages of the retail development progress. This model is used for comparison to identify the present stage of retail development process in India.

Stage 1 *traditional society*, refers to retailing functions of less developed countries. In this stage, retailing is characterized by selling unrelated assortments of merchandise and a lack of ability to increase productivity. This is basically attributed to the lack of infrastructure, technical know-how, and capital. Vendors typically sell a scrambled merchandise assortment with no marked pricing. All sales are negotiation based.

Stage 2 of retail development, *precondition for take-off*, reflects advances applied in science, agriculture, business, transportation, communication, and education. A scrambled mix of merchandise is again offered through retailers that are situated in semi-permanent structures.

Stage 3 is *take-off*, where foreign firms are eager to enter, supermarkets emerge, there are a few shopping centers, and entrepreneurial ventures are launched.

Stage 4 is *drive to maturity*, in which the economy has technological and entrepreneurial skills. Both organized and unorganized or traditional retailing co-exists during this stage.
Stage 5 is depicted by a *high mass-consumption*, economy with large discretionary income. This stage typifies retailing in developed countries.

Case study research provides an opportunity to gain a holistic view of a process, providing researchers with a greater opportunity to gain overall view of a specific research project. It can be applied to establish valid and reliable evidence. In this study two organized retailers conducting their business in India are taken as a sample. To analyze the impact of FDI in retail sector of India, a case of international retailer i.e. Wal-Mart India and a local organized retailer i.e. Reliance Fresh are taken. It also includes a case study of FDI policy for multi-brand retail in China.

Finally, this study intends to provide a holistic view through SWOT analysis, Sternquist's stage of retail development and case studies which contributes to knowledge in different ways. It helps researchers with understanding and explaining complex phenomena of retail sector of India. SWOT analysis will help to set strategic planning, process for future growth, and Sternquist's stage of retail development will clarify the current stage of retail market in India. And case study will develop a framework though a collection of evidence or is applied as a research tactic for further analysis.

# CHAPTER III

# LITERATURE REVIEW

Literature review is carried out to know the previous research works and the literatures relevant to the study. Here, through literature review, the various aspects of FDI, retail business as well as their policy, relationship and impact in Indian market and similar studied by earlier researchers are described. It is carried out by review of theories and review of dissertation.

## 3.1 Literature Review

According Moosa (2002), Foreign Direct Investment is the process whereby residents of one country (the source country) acquire ownership of assets for the purpose of controlling the production, distribution and other activities of a firm in another country (the host country). The United Nations Conference on Trade and Development, World Investment Report (UNCTAD, 1999), defines FDI as 'an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise, affiliate enterprise or foreign affiliate)'. The term 'long-term' is used in the last definition in order to distinguish FDI from portfolio investment, the latter characterized by being short-term in nature and involving a high turnover of securities.

According to Dunning (1993), investors choose FDI because of its three determinants: Ownership, Location and Internalization advantage, which is also called OLI paradigm. The ownership-specific advantages refer to certain types of knowledge and privileges, which a firm possesses but which are not available to its competitors. The ownership advantage occurs when superior technology and management knowledge allow the firm to compete on a foreign market in spite of the transaction costs. The location-specific advantages refer to certain advantages, which the firm has because it locates its production activities in a particular area. Location advantages will accrue if the host economy can provide large markets or the possibility of creating them through trade liberalization, low cost inputs or good infrastructure. Internalization-specific advantages occur when international market imperfections make market solutions too costly. Thus, whenever transactions can be organized and carried out more cheaply within the firm than through the market, they will be internalized and undertaken by the firm itself.

FDI not only take the form of capital, which enters the host country, but it typically come in a package with management expertise, technology, skilled human capital, product and process technologies, and overseas marketing channels etc. Foreign direct investments have a positive impact on the national economy as a whole. It has particular effects on national income, trade and balance of payments, employment, economic structures, technology transfer, and also on political and social aspects (Moosa, 2002).

On the other hand, there are also disadvantages of FDI, such as, the possible disturbance of the local market if there is only a weak connection to homeland economy and where the key sectors could fall into private hands of foreign investors. The effects of FDI on the host country can be classified into economic, political and social effects. The economic effects of FDI include the implications for (micro and macro) economic variables such as output, the balance of payments and market structure. The political effects include the question of national sovereignty, as the sheer size of the investing MNCs may jeopardize national independence. The social issues are concerned mainly with the creation of enclaves and foreign elite in the host country, as well as the cultural effects on the local population (for example: customs and tastes). Naturally, social issues are more likely to arise when there are significant economic, social, and cultural differences between the investing and host countries (Moosa, 2002). According to Kindleberger (1969), argued that one country's disadvantages are not necessarily the other country's advantages. He found that the relationship arising from FDI process is not a zero-sum game, meaning that both countries (home and host) must believe that the expected benefits to them must be greater than the disadvantages, because an agreement would not be otherwise reached and the underlying project would not be initiated.

Lim (2001), suggests that one of the most important contributions of FDI is its role in the transfer of technology from developed to developing countries. Saggi (2002), considers

FDI as a predominant way of increasing economic growth, since the transfer of technology and knowledge of multinationals contribute to the increase local firms' productivity.

The transfer of technology, however can also bring negative effects. According to Vissak and Roolaht (2005), the host country can become dependent on technologies introduced by multinationals and other developed countries. This study indicates that in this way, there is a decline in local firms, interest in the production of new technologies.

According to De Mello (1999), it is expected that FDI improves the knowledge of the labor force by providing training through the introduction of new methods, and production and management practices.

As regards the labor force, there also exist negative consequences from FDI inflows. The use of high technology by multinational, leads to predict the need for less workers than that used by local firms, and the possibility of replacement of these firms by others that use a smaller number of workers, leading to the consequent increase in unemployment (OECD, 2002).

Blomstrom and Kokko (1998), suggest that some local firms become multinationals suppliers or subcontractors, which leads local firms to export, even if it is often not through their own brand, but with the multinational brand. The contact with the multinational brand is also useful in order to use the same channels of this brand already established in the international market. Makki and Somwaru (2004), report that the increase on exports resulting from FDI leads local firms to improve their productivity by better use of their capacity and access to economies of scale.

Integration into the global economy provided by FDI, however, can have negative effects on the host country. According to Mecinger (2003), FDI has a far greater impact for imports than for exports, which also influences the balance of payments. Also Duttaray et al. (2008), suggest that in the long run the repatriation of profits is higher than the positive impact of the initial investment.

FDI plays an important role in improving the factors of production and accumulation of capital in the host country due to the competition it creates (Lee and Tcha, 2004). FDI is usually seen as a way to strengthen internal competition of a country. This causes an increase in productivity, lower prices and a more efficient allocation of resources (Pessoa, 2007). Existing firms are forced to improve their technology and methods to face competition imposed by multinationals (Driffield, 2000; Varamini and Vu, 2007).

However increase competition can also bring negative effects. Sahoo and Mathiyazhagan (2003), refer to the possibility of the emergence of a situation of multinational oligopoly which lead to the disappearance of local firms. Sylwester (2005), suggest that multinationals attract more easily the skilled workers, either through its economic power or through better career possibilities offer, they are able to remove them from local firms or hindering them to capture these workers.

Most of these studies are able to explain positive and negative impact of FDI on the host country. This is true even for countries which differ in terms of geography, politics, culture, and economic development, etc. consequently the results obtained are different.

Sjoholm (2008), on *"The Effect of FDI on Employment and Technology in China"* studied the relationship between FDI and technology and found a clear linkage between the employment and technology. On the one hand, new technology may make firms more competitive which permits them to grow and employ more workers. On the other hand, new technology may also decrease demand for labour by substituting the low skilled employees with fewer high skilled employees. Hence, the change of technology policies will affect the job creation.

Vacaflores (2011), on *"Was Latin America Correct in Relying in Foreign Direct Investment to Improve Employment Rates?"* examines the effect of foreign direct investment on employment generation for a group of Latin American countries in the period 1980-2006 and finds that FDI has a positive and significant effect on the employment generation in host countries, which is driven by its effect on male labour force. This positive effect is particularly important for less developed economies, periods with low inflation, and for the later period of the sample, but suggests that only countries with high level of informality and those attracting low average inflows of FDI accrue this benefit.

According to OECD (1991), study on "*Technology and Productivity: The Challenges for Economic Policy"* evidence provides that the vast majority of economic studies dealing with the relationship between FDI on the one hand and productivity or economic growth on the other hand, have found that technology transfer via FDI has contributed positively to productivity and economic growth in host countries. Technologies that are transferred to developing countries in connection with foreign direct investment tend to be more modern, and environmentally 'cleaner', than what is locally available. Moreover, positive externalities have been observed where local imitation, employment turnover and supply-chain requirements led to more general environmental improvements in the host economy.

According to Hill (2000)**,** on *"International Business: Competing in the Global Marketplace"* FDI can make a positive contribution to a host economy by supplying capital. Multinational enterprises (MNEs) invest in long-term projects, taking risks and repatriating profits only when the projects yield returns. The free flow of capital across nations is likely to be favoured by many economists since it allows capital to seek out the highest rate of return. Many MNEs, by virtue of their large size and financial strength, have access to financial resources not available to host country firms. These funds may be available from internal company sources, or because of their reputation, large MNEs may find it easier to borrow money from capital markets than host-county firms would.

As per Borensztein et al. (1998), *"How Does Foreign Direct Investment Affect Economic Growth*?" examined that the effect of FDI in the process of technology diffusion and economic growth in developing countries. They tested the effect of FDI on economic growth in a framework of cross-country regressions utilizing data on FDI flows from industrial countries to 69 developing countries. Their results suggest that FDI is in fact an important vehicle for the transfer of technology, contributing to growth in larger measure than domestic investment. However, they found that there is a strong complementary effect between FDI and human capital, that is, the contribution of FDI to economic growth is enhanced by its interaction with the level of human capital in the host country.

Their results imply that FDI is more productive than domestic investment only when the host country has a minimum threshold stock of human capital.

A research paper by Parmar and Bhesaniya (2012), on '*Contemporary Issues on Foreign Direct Investment*' points out that in Industrial countries high labor costs encourage outflows and discourage inflows of FDI. The principle determinants of FDI in these countries are information technology related investments, trade and cross border mergers and acquisitions. Some studies on South, East and South East Asia shows that, fiscal incentives, low tariffs, BITs (Bilateral Investment Treaties) with developed countries have a profound impact on the inflows of aggregate FDI to developing countries. FDI in emerging economies shows that general institutional framework, effectiveness of public sector administration and the availability of infrastructural facilities enhance FDI inflows to these nations. FDI also enhance the chances of developing internationally competitive business clusters. The main determinants of FDI in developing countries are inflation, infrastructural facilities, debts, burden, exchange rate, FDI spill overs, stable political environment etc. FDI have both short-run and long-run effect on the economy, so regulatory FDI guidance must be formulated in order to protect developing economies from the consequences of FDI flows.

Wint (1992), on "*Liberalizing Foreign Direct Investment Regimes: The Vestigial Screen*", suggest that the progress of government have made in implementing new investment regimes by comparing changes in the policy of government toward foreign investment with changes in the structures and processes they use to screen foreign investment. The data also suggest that the implementation of new investment regimes has been slowed by political compromises among units within government. The study points out to the critical importance of strong central administrations that can muster the will to push liberalization efforts and provides recommendations on how government can implement effectively policies of investment liberalization.

Kobrin (2005), on "*The Determinants of Liberalization of FDI Policy in Developing Countries: A Cross-sectional Analysis 1992-2001*", points out that the decade of 1990s was characterized by widespread liberalization of laws and regulations affecting inflows of foreign direct investment in developing countries. Using a data base supplied by UNCTAD, the author employs a cross-sectional regression methodology to analyze the determinants of liberalization of foreign direct investment policies in 116 developing countries from 1992 to 2001. Ninety-five percent of the changes in such polices over the decade were liberalizing rather than restrictive. Two possible explanations of liberalization are suggested; policy makers' beliefs that attracting more foreign direct investment is in the best interests of their counties, and external pressure to adopt neoliberal economic polices either from the dominant power (the United States) or international organizations such as the World Bank or International Monetary Fund. Results also provide strong support for the "rational" decision ("opportunity costs of closure") argument and only limited support for the external pressure. Country size, level of human resource capabilities and trade openness are found to be the primary determinants of the propensity to liberalize.

Bajpai and Jeffrey (2000), on "*Foreign Direct Investment in India: Issues and Problems",* analysed to identify the issues and problems associated with India's current FDI regimes, and also the other associated factors responsible for India's unattractiveness as an investment location. Despite India offering a large domestic market, rule of law, low labour costs, and a well working democracy, her performance in attracting FDI flows has been far from satisfactory. A restrictive FDI regime, high import tariffs, exit barriers for firms, stringent labour laws, poor quality infrastructure, centralized decision-making processes, and a very limited scale of export processing zones make India an unattractive investment location.

A study made by Devajit (2012), on topic '*Impact of Foreign Direct Investment on Indian Economy*' states that FDI is needed by India for its sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries, short and long term project in the field of healthcare, education, research and development (R&D) etc.  Government should design the FDI policy that can enhance domestic production, savings and exports through the equitable distribution among states by providing much freedom to states, so that they can attract FDI inflows at their own level. FDI can help to raise the output, productivity and export at the sectorial level of Indian economy. However it is observed that the sectorial level output, productivity and export is minimal due to the low flow of FDI into India both at the macro level as well as at the sectorial level. Therefore for further opening up of the Indian economy, it is advisable to open up the export oriented sectors and higher growth of the economy could be achieved through the growth of these sectors.

A study made on '*The Rise of Supermarkets and Their Development Implications*' by Gulati (2008), states that Indian society as a whole is likely to gain from the emerging structural transformation in retail trade. The gains will accrue early to consumers and a little later to farmers. However, to ensure that traditional retailers do not become losers in this revolution, innovation is needed to co-operate those who can be competitive and help others to make a transition to other jobs. Government and business need to work together to continue growth of modern retail, and uses tax revenues collected from organized retailers to build infrastructure in commodity chains that helps farmers, wholesalers, and traditional retailers, as well as the procurement activities of modern retail itself. The transition to organized retail can be made more inclusive by bringing farmers and traditional retailers into the mainstream of this structural change, without sacrificing the efficiency of the value chains. The failure to achieve this transition will continue to give lower prices to farmers and charge higher prices to consumer and winners in such system may be a handful of commission agents.

As per Nigel and Runsten (1999), on "*Contract Farming, Smallholders, and Rural Development in Latin America: The Organization of Agro-processing Firms and the Scale of out Grower Production"*. When supermarkets modernize their procurement systems, they require more from suppliers with respect to volume, uniformity, consistency, quality, costs, and continuity of product supply, on-time delivery, and commercial practices. For this reason, supermarket chains prefer to source from medium and large enterprises, which are usually better positioned than small enterprises to meet their demands. Thus, the rise of supermarkets poses a substantial challenge to small enterprises.

Durand (2007) on '*Externalities from FDI in the Mexican Self-service Retailing Sector*' analyzed the impact of FDI on the retailing sectors of developing economies by specifically focusing on the Mexican retail sector. It concluded that FDI flows in the retailing sector may affect negatively the growth of a developing economy. Low consumer prices may impact positively on the demand, but this phenomenon is partly counterbalanced by the negative effect on wages. Moreover, the competitive pressure of imports and the subordination of providers in value chain governance structure, limit their ability to accumulate. The ideas gap between developed and developing countries is clearly used by transnational corporations in their global strategies. However, because of the characteristics of the sector concerned and the institutional context, these new ideas do not benefit the host economy.

Mukherjee et al. (2014), on '*Impact of the Retail FDI Policy on Indian Consumers and the Way Forward'* conducted a survey and found that most of the international food and non-food brands are available in the Indian market after 2006. These brands are imported, and the import duty is high which makes these products expensive and unaffordable for majority of the population. To ensure greater access to more foreign brands, import duties on them should be lower and foreign branded products should be affordable for majority of Indian consumers (specially the low and middle-income consumers). The survey clearly reveals that even higher-income Indian consumers spread their expenditure on different product categories across branded and non-branded products and different retail formats. There is considerable heterogeneity in consumers' tastes, product choices and shopping behaviour. Consumers' shopping behaviour in a large country like India is too complex to justify the simple assumption that they would always prefer foreign retailers to the domestic ones. Since Indian consumers are price-sensitive they will patronize both traditional and modern outlets in their search for the best value on different shopping occasions. As consumers' shopping needs and preferences vary by occasion, there is opportunity for both traditional and modern formats to co-exist and grow. The surveys also found that a majority of the respondents are willing to experiment with different brands and want more foreign brands to enter the Indian market. They favour FDI in multi-brand retailing.

Goswami and Mishra (2009), have made a study on '*Would Indian Consumers Move from Kirana Stores to Organized Retailers when Shopping for Groceries?*' have carried out study across four Indian cities- two major and two smaller cities with around 100 respondents from each city with the help of a structured questionnaire. The study finds out that organized retailer is preferred because of their cleanliness, offers and exclusive store brands, whereas kiranas are preferred because of their location and possibility of multiple shopping. kiranas are facing the threat from the organized retailers in terms of providing the matching attributes and shopping experience. Location being one of the primary deciding factors for grocery purchase, the kiranas presently have an advantage, but with corporate involvement and large business house like Reliance, Subhiksha, Bharti and RPG Enterprises opening stores in residential areas like the small box retailers, this advantage seems to be short lived. Hence, first of all kiranas will have to make a realistic and critical examination of their potentialities as well as of their vulnerabilities. Another implication has to do with the need and importance of ways of strategic co-operation of small retailers in the competitive game that opposes organized retailer with coming together of smaller firms to compete with larger chains.

Joseph et al. (2008), in '*Impact of Organized Retailing on the Unorganized Sector*' conducted a research by taking interview with retailers. The study states that at macro level, the likely impact of organized retail in India according to manufacturer's belief is that organized retail would benefit society at large, more so the end consumers, in terms of better product choices and price, and farmers because of higher and more stable price realization for their produce. Manufacturers, however, are more guarded in their assessment of the likely impact of organized retail on their own businesses. They anticipate that they will be subject to price and competitive pressures as organized retail grows in importance. They are gearing up to counter these pressures by strengthening their own brands, enhancing their retail presence and collaborating with traditional retailers. They believe, however, that both modern and traditional retailers will co-exist in India for some time to come, as both of them have their own competitive advantages. The kirana has a low cost structure, convenient location, and customer intimacy. Modern retail offers product width and depth and a better shopping experience. With the Indian economy currently growing at 8-9 percent annually, rising consumption and the low per capita availability of retail space in India, manufacturers believe that there is room for both modern and traditional retail in India for several generations to come.

# CHAPTER IV
# FDI INFLOW IN INDIA

## 4.1 Present Scenario of FDI in India

The wave of liberalization and globalization is creating opportunities across the world and has opened many new markets for international business. Recent developments in the global market are indicative of the rapidly growing international business. The beginning of the 21st century has already marked a tremendous growth of international investments, trade and financial transaction and openness of international market where India is also a part of it.

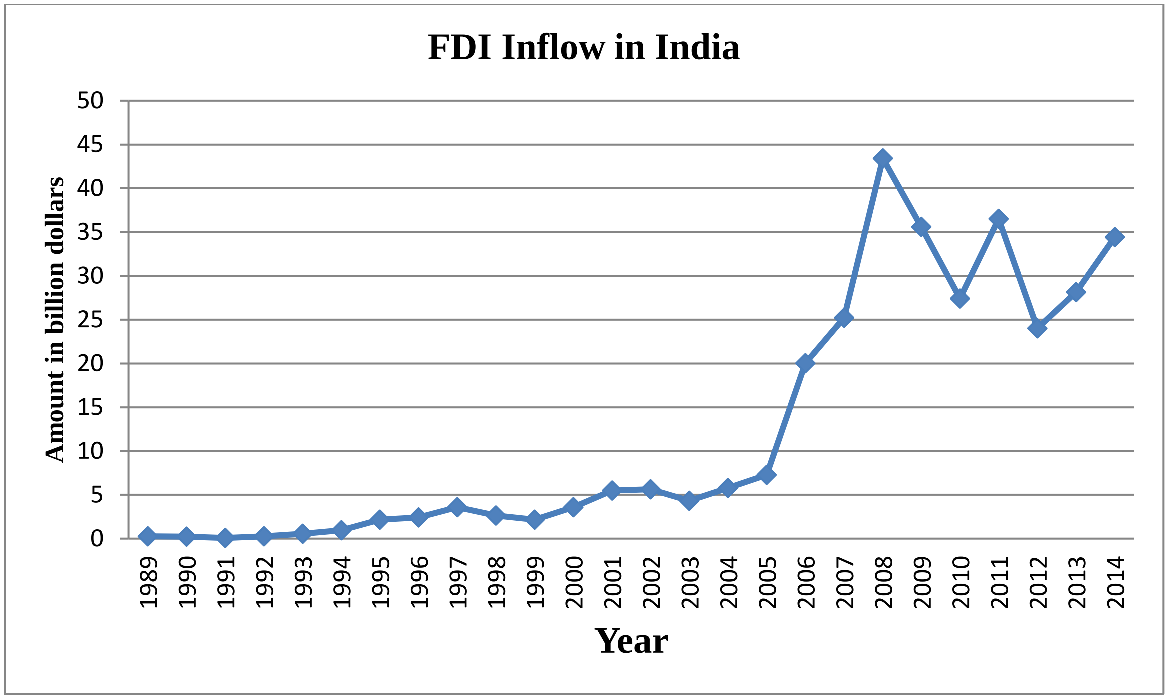
It is widely believed that FDI is a source of economic development, modernization, employment generation, assists human capital formation, contributes to international trade integration and helps to create a more competitive business environment. But it is not the only factor that could help for the sustained growth. Developing countries; emerging economies and countries in transition, liberalize their FDI policy and follow best policies to attract investment.

In the year 1991, India too liberalized its highly regulated FDI regime. Indeed, the 1991 reforms marked a major break from the earlier closed economy where foreign enterprise participation and its mode of operation were difficult. The 1991 economic reforms were to change all this. Along with the virtual abolition of the industrial licensing system, controls over foreign trade and foreign investment were considerably relaxed.

India is still liberalizing their FDI policy, so that they could attract more foreign investors. India has increased its FDI inflow gradually after there is a growing consensus and commitments by government to invite steady inflow of foreign investment. The trend line below shows the amount of FDI inflow trend in India from 1989 to 2014.

### 4.1.1 Annual FDI Inflow Trend of India

Chart 1: FDI Inflow Trend of India



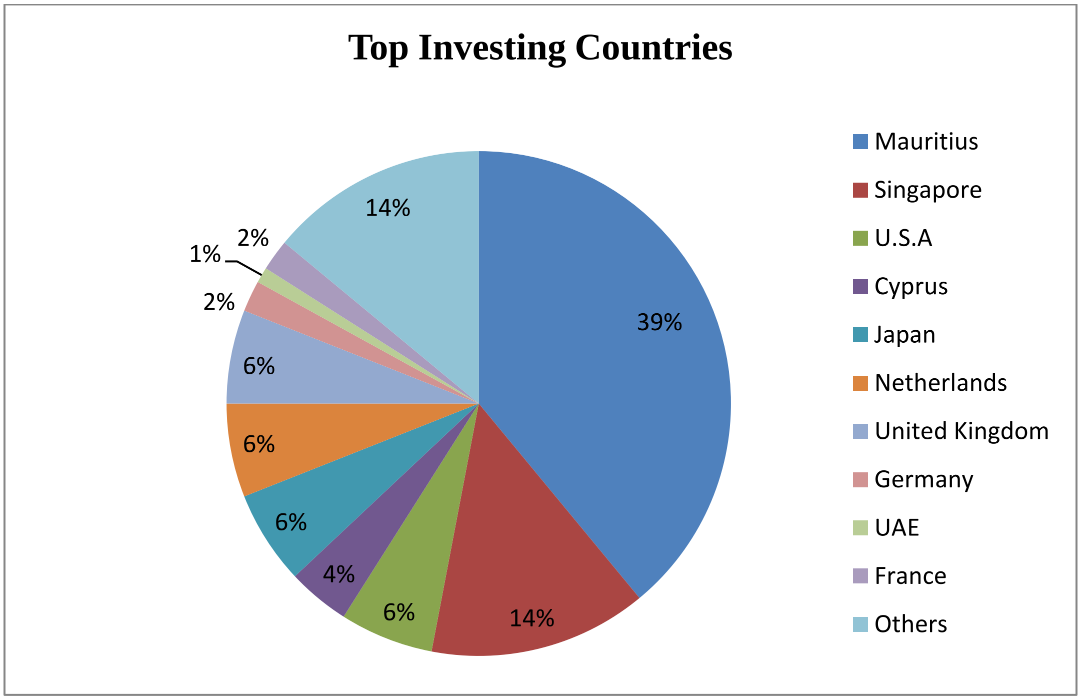

*Source: World Bank (2015).*

It is clearly seen in the above figure that, FDI inflow in India before 1991was less than $1 billion. The trend line is slowly sloping in upward direction after 1992, more than double to exceed $2billion in 1995. But after 2005, the reported statistics show a steep increase in inflows: from $20 billion in 2006 to nearly 43 billion in 2008. Then after FDI inflow is found to be quiet volatile; decreased to nearly 28 billion in 2010 and again increased to around 35 billion in 2011. This volatility after 2007 is due to global financial crisis which also has affected Indian economy.

On a general basis, FDI inflows have almost consistently increased since 1991. It is clearly noticeable that there is continuous growth in investment by foreigners in India after the country has revised its foreign investment policies.

### 4.1.2 Top Investing Countries in India

Chart 2: Pie-chart of Top Investing Countries (Cumulative Percent 2006 to 2014)



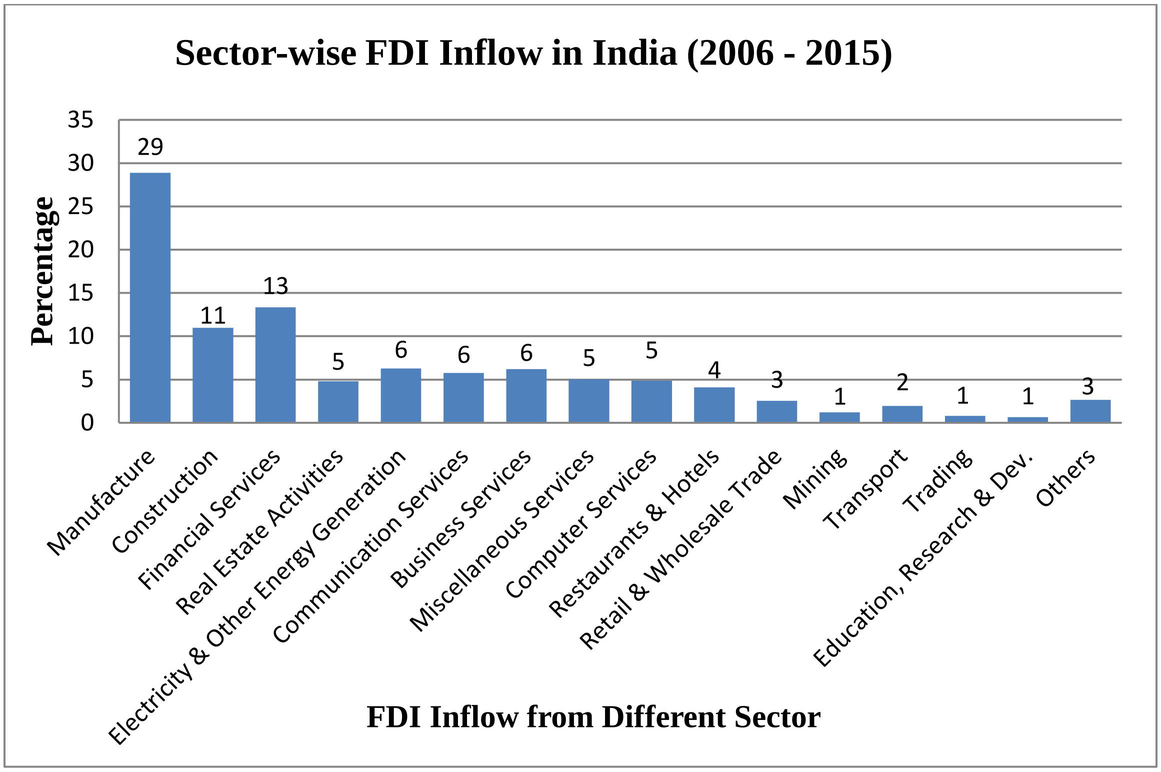

*Source: Reserve Bank of India (2015).*

The above pie chart shows percentage of FDI inflow from different countries cumulative from 2006 to 2014. In terms of investing countries, Mauritius continues to account for the largest amount of FDI inflows. Due to low corporate tax rates and an agreement with India on avoidance of double taxation, Mauritius attracts investors who establish shell companies called "overseas commercial bodies" in India, as means to reduce their tax liabilities in India (Saadiam et al., 2014). About 10 to 14 percent of FDI from Mauritius and other tax-free heavens is estimated to be round-tripping[1] by Indian companies or foreign investors based in India (Rao and Dhar, 2011). Singapore is at the second position with regard to FDI inflows followed by U.S.A, Japan, Netherlands and UK. Foreign collaborations and FDI inflow received after 1991 shows that investment from Mauritius have risen substantially.

[1] Round –tripping is usually referred to routing of domestic investments through Mauritius to take advantage of the double taxation avoidance agreement between two countries.

### 4.1.3 Sector-wise FDI Inflow in India

Chart 3: Bar-graph of Sector-wise FDI Inflow (Cumulative Percentage 2006 to 2014)

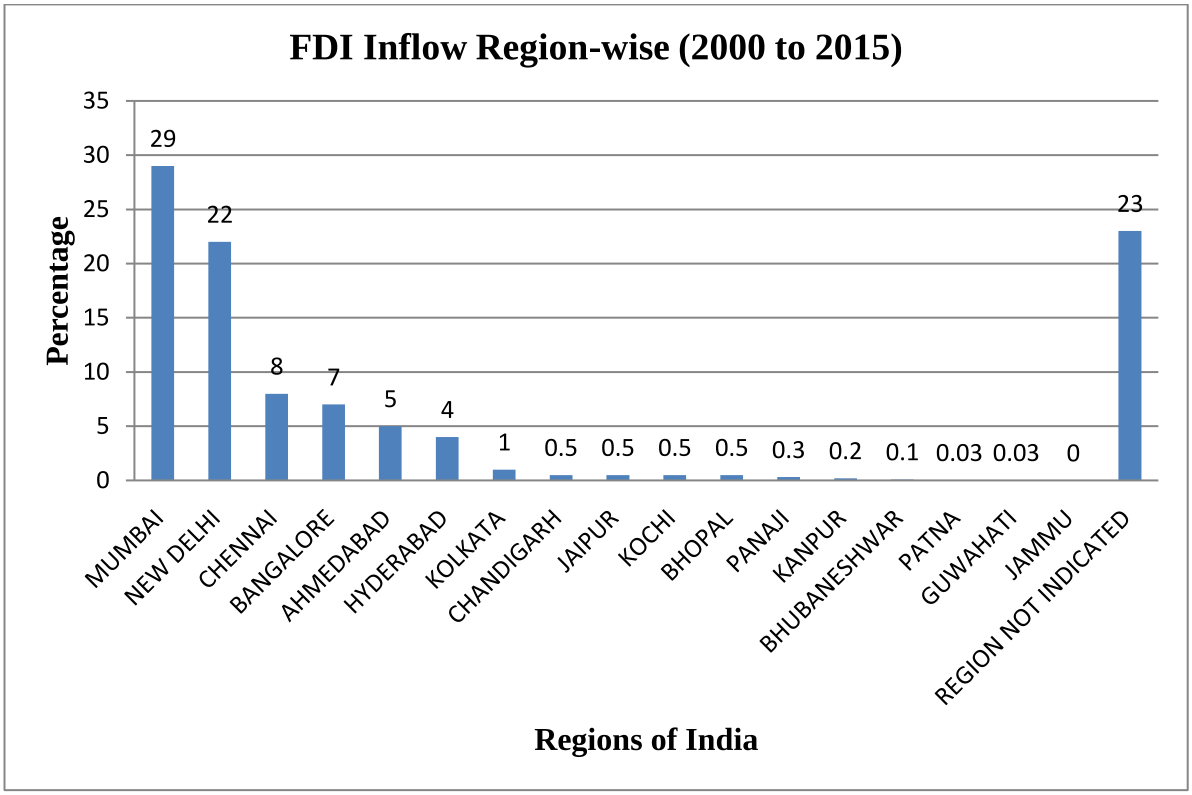



*Source: Reserve Bank of India (2015).*

The above bar graph shows different sectors through which FDI is entering in India. The data presented above is the percentage of total FDI inflow in different sectors from year 2006 to 2014. The major sectors attracting FDI inflows in India have been manufacturing amounting US $42,326 million with 29 percent, construction sector amounting US $16,099 with 11 percent. After manufacturing and construction sector the major FDI is attracted by financial services amounting US $19,558 million with 13 percent.

### 4.1.4 FDI Inflow in Different Regions of India

Chart 4: Bar-graph of Region-wise FDI Inflow in India



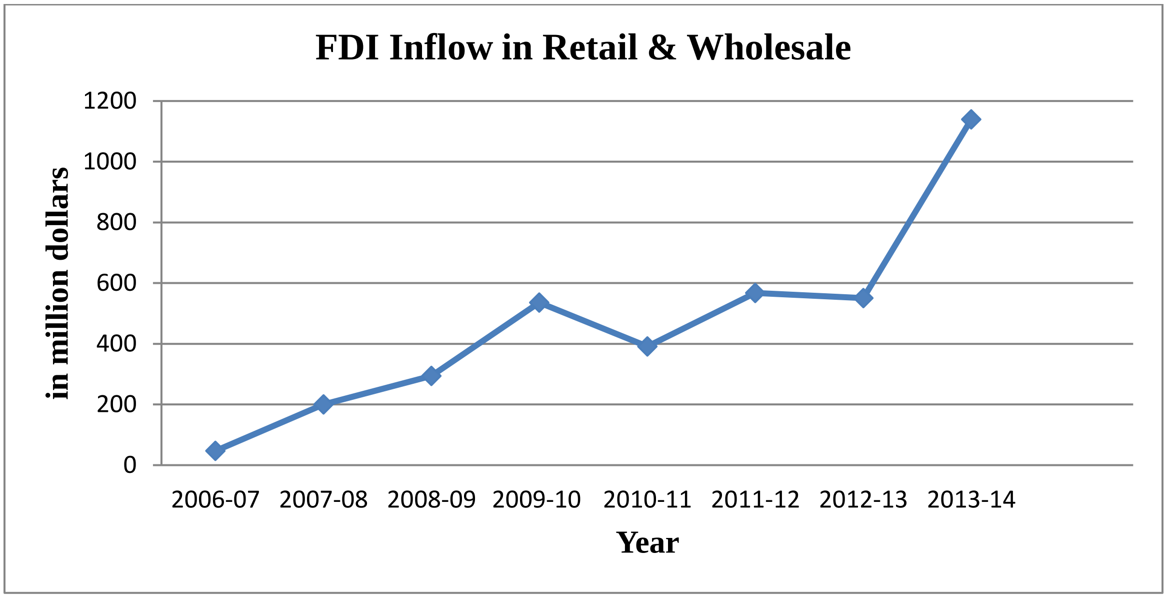

*Source: DIPP (2015).*

The above bar graph shows FDI inflow among the regions as classified by RBI cumulative from year 2000 to 2015. The major region attracting FDI inflows in India have been Maharashtra, Dadra and Nagar Haveli, Daman and Diu which is represented by its regional office at Mumbai amounting US $78,334 million with 29 percent. After those states New Delhi, Part of Uttar Pradesh and Haryana are second major state with its regional office at New Delhi where foreigners have invested with total amount US $ 60,056.

There is wide disparity in the FDI inflows among the regions and state. The reasons are developed infrastructure of the states, speedy processing and approvals, preference and concessions given to foreign companies such as electricity supply, easy land acquisition and other government concessions.

### 4.1.5 Annual FDI Inflow in Retail and Wholesale

Chart 5: Trend Analysis of FDI Inflow in Retail and Wholesale




*Source: Reserve Bank of India (2015).*

The figure presented above shows the trend of FDI inflow in retail and wholesale trade in India. The trend line shows continuous increasing trend. There is increasing trend from 2006 till 2009 and a slight fall in 2010. The fall in FDI inflow in 2010 is due to the effect of global financial crisis of 2008. After 2010 there is gradual increment in FDI inflow in India.

Investment in retail and wholesale began in 2006 after the gradual liberalization in foreign investment policies. In 2006, Wal-Mart entered in wholesale business with Bharti Enterprises as Bharti Wal-Mart with 50 percent share. Also, in 2006 FDI up to 51 percent was allowed to single-brand retail with prior approval of government and in 2012 the investment caps was further liberalized to 100 percent in single-brand and 51 percent in multi-brand. This led to growth in inflow of investment and spread positive news to foreign investors. Gradually other foreign retailers enter in Indian market like, Tesco with Tata retail, and Carrefour, Metro etc.

Hence, the figures presented above clarify that there is increasing inflow of FDI in India. The liberalization policy adopted by India is able to attract more foreign retailers in retail and wholesale trade also. If the same trend continues in future then the chance for increment of FDI inflow in India is high.

## 4.2 Pros and Cons of FDI in Indian Retail Sector

Foreign direct investment in retail is still a matter of debate in India. The gradual liberalization of FDI policy is increasing FDI inflow in India. Support argue that if 100 percent FDI inflow in multi-brand retail is allowed in future then it will have positive impact whereas opponent argue that it will create negative impact in India. In this basis some positive and negative aspect of FDI in retail is discussed below.

### 4.2.1 Pros of FDI in Retail

The following may be regarded as major positive aspects of allowing FDI in retail in India:

- **Improvement in Supply Chain**

Improvement of supply chain through introduction of modern technology will help proper movement of products from warehouse to retail store which will help to reduce wastages and provide fresh product to customers. Lack of investment in logistics creates improper storage of products and inefficiencies in food supply, mainly the perishable products will lead to product wastages. A good example is McDonalds in India. McDonalds developed a highly sophisticated franchise system of fast food. It started to build the supply chain in India six years before it opened its first outlet in 1996 (Patibandla, 2014). It outsourced every element of its value-generation. It developed suppliers by transferring technology, and quality standards in the production of bread, meat, and vegetables. McDonald’s cold chain partners like Radhakrishna Foodland, coordinates the cold chain activities and operates distribution centres for McDonald’s in Mumbai and Delhi. The distribution centres have focused all their resources to meet McDonald’s expectation of ‘cold, clean, and on time delivery’ and play a very vital role in maintaining the integrity of the products throughout the entire cold chain.

- **Healthy Competition and Customer Satisfaction**

The entry of many multinational corporations will obviously create intensive competition between the different companies offering their brands in a particular product market. Consumers in the organized retail will have the opportunity to choose internationally famous brands with pleasant shopping environment, huge space for product display, maintenance of hygiene and better customer care. There is an increasing tendency to pay for quality and ease and access to a “one-stop shop” which will have a wide range of different products. FDI increases competition between retailers which will reduce the monopoly of certain domestic Indian companies and increase customer satisfaction. Increased competition tends to stimulate capital investments by firms in plant, equipment and R&D, in order to gain competitive advantage over their rivals. An example of this is the liberalization in telecommunication sector, which has led to more access, better quality, better services and lower prices for consumers (Das, 2014). Also the entry of foreign players in the automobile sector has made the domestic industry globally competitive and even middle and low-income consumers in India can now afford to own cars. Similar gains are also expected from retail sector liberalization.

- **Capital Inflow**

One of the major reasons to allow FDI is to increase capital investment in the nation. This option would provide an opportunity for local retailers to bridge the gap between capital required and their potential. In fact FDI is one of the major sources of investments for a developing country like India where it expects investments from multinational companies to improve the countries growth rate, create jobs, share their expertise, back-end infrastructure and research and development in the host country.

- **Improved Technology and Logistics**

Improved technology in processing, handling and packaging of goods reduces product production time. Also, electronic weighing, electronic billing, barcode scanning etc. reduces selling time. Further, transportation facilities can get a boost, in the form of increased number of refrigerated vans and pre-cooling chambers which can help to bring down wastage of goods.

- **Benefits for the Farmers**

Though India is the second largest producer of fruits and vegetables in the world, but 30 to 40 percent never make it to their destination because it has a very limited integrated cold-chain infrastructure (Christopher, 2012). Lack of adequate storage facilities causes heavy losses to farmers by creation of more wastage. With FDI, there could be fast and easy supply chain infrastructure. Backward integration by multinational retailers with farmers, coupled with their technical and operational expertise, can hopefully remedy such wastage. Also, farmers can benefit with the "farm to fork" strategy with foreign retailers which helps to cut down intermediaries, give better prices to farmers, and provide stability and economics of scale. For example, since 1989, PepsiCo India has worked closely with farmers to help improve both their livelihoods and agricultural yield. They have introduced a high yielding variety of tomato, and then helped paddy farmers increase their crops. They are into crop diversification and the farming of high-quality potatoes and other edibles. PepsiCo India's potato farming programmed reaches out to more than 12,000 farmer families across six states (Chandrasekaran and Raghuram, 2014). PepsiCo India has an assured buy-back mechanism at a prefixed rate with farmers. This insulates them from market price fluctuations.

- **Economic Growth:**

A remarkable inflow of FDI in various industrial units in India boosts the economic growth of the country. Foreign investors do not come only with fund to invest but to operate in new environment they try to modernize the process of doing business. They use developed technology, modernize infrastructures and use local resources which contributes to develop economy ultimately. For example, China and South Korea have transformed their respective economies into major destinations for FDI and through FDI inflows they have emerged faster growing economies in the world (Hassan, 2006).

- **Creation of More and Better Employment Opportunities**

The entry of foreign retailers into Indian retailing will create employment opportunities which can be direct as well as indirect. Direct employment refers to hiring of local people directly in their business with fixed salary and benefits. Whereas indirect job refers to the job created through supply chain, distribution and manufacturing after the establishment of foreign retail business. Hence FDI in retail will help the Indian people to find better jobs and to improve their standard of living. For example; in Singapore, with the emergence of both national and international supermarket chains, the number of outlets increased from 60 in 1987 to 153 in 2000, and employment also increased (Mukherjee and Patel, 2005).

### 4.2.2 Cons of FDI in Retail

The following may be regarded as major negative aspects of allowing FDI in retail in India:

- **Destruction of Unorganized Retailers**

Retail in India has tremendous growth potential and is the second largest employer after agriculture. FDI in retail will weaken unorganized retail dominance in the country. It would lead to unfair competition and ultimately result in exit of domestic retailers, especially the small family managed outlets (local “mom and pop” stores will be compelled to close down). Many unorganized retailers are family owned and start business with less capital. Exit of local retailers will create unemployment on the front end retailers and the middle men too. For example, Thailand prior to 1997, no foreign investment was allowed and hence the retail sector faced limited competition and thus had few incentives to upgrade their operation. With the start of the Asian crisis in 1997, the entry ban on foreign players was removed. Within a short span of time, the foreign players expanded their operations significantly and marginalized the local retailers who were already suffering from a recessionary trend of economy. Many local players had to close down their business (DIPP, 2010). Entry of foreign players in recessionary economy adversely impacted all segments wholesalers, manufactures and domestic retailers in the short run.

- **Loss of Self Competitive Strength**

The Indian retail sector, particularly local organized retail, is still under developed and in a nascent stage. Therefore, local organized retailers may not be able to compete with big global giants. If the existing firms collaborate with the multinationals retailers they might have to give up at the global front by losing their self-competitive strength. For example, Coca Cola acquired the dominant domestic brand Thums Up in 1993 (Aswathappa, 2010). The Parle brothers launched Thums Up and enjoyed a near monopoly in India. In 1990, when the Indian government opened the market, Pepsi was the first to come in. In 1993, Coca Cola re-entered India, spurring three-way cola war with Thums Up and Pepsi. That same year, Parle sold out to Coke because Parle had lost the appetite for fight against the two largest cola brands. Thus, above example shows, FDI leading to greater competition needs to be taken with caution.

- **Indirectly Leads to Increase in Real Estate Cost**

It is obvious that the foreign companies which enter into India will like to open up their stores and will certainly look for places in the heart of the cities to grab better business opportunity. There shall be competition for better location. Ultimately, it will result in increase in the cost of real estate development in the host country.

- **Distortion of Culture**

Though FDI in Indian retail will indirectly or directly contribute for the enhancement of modern retail formats with availability of foreign brands and products but people may be influenced to western lifestyle slowly. Though India is rich in cultural aspects the youths may easily grab certain negative aspects of foreign culture. Youths may be inclined toward western lifestyles and develop inappropriate consumption pattern which may not be suited to traditional Indian cultural environment.

- **Problem to Farmers**

Because of FDI, there may be a negative impact on farming, since large corporations will push farmers to work for them and get involved in single-crop farming with artificial means of farming. Due to monopolization, farmers will have to sell their products to corporations at the offered price or fixed price by foreign retailers. Hence, farmers have to remain with the same fixed selling price and may not gain by possibility of price increment in the future. For example, in the UK, the Royal Association of British Dairy Farmers has complained that prices paid to farmers for fresh milk are simply unsustainable, with the average farmer losing money on each litre of milk produced. This has happened even as the supermarkets margin on fresh milk has increased steadily over the years. For example: Tesco charge £1.45 to customer to buy four pints of milk for which they pay £1.07 to processor. Processor pays 58 pence to farmer which creates 3 pence farmer's loss as cost of farmer to produce four pints of milk is 61 pence. Farmers have been placed under extreme pressure by retailers and the service sector for far too long to produce milk at the lowest price possible, and they continue to make a loss (BBC, June 2009). Small farmers have closed their dairy operations as result.

# CHAPTER V

# INDIAN RETAIL SECTOR

## 5.1 Evolution of Indian Retail Sector

The origins of retail are as old as trade itself. Barter was the oldest form of trade. In ancient time in India there was concept of weekly market or village fairs, where all the buyers and seller gather for bartering. Also, for centuries, most merchandise was sold in market place or by peddlers. People were also dependent on local sources for supplies of perishable food because journey was far and too slow to allow for long distance transportation. However, customers did travel considerable distance for specialty items. The peddlers, who provided people with the basic goods and necessities that they could not be self-sufficient in, followed one of the earliest forms of retail trade. Even in prehistoric time, the peddlers travelled long distances to bring products to locations which were in short supply. “They could be termed as early entrepreneurs who saw the opportunity in serving the needs of the consumers at a profit” (Pradhan, 2009).

It is interesting to focus on the evolution of the retail sector in India. Historically they evolved as a source of entertainment in the form of village fairs (Haat, Melas) which was within the rural reach. Later on these were transformed to mom and pop/ kirana stores which are of traditional variety neighbourhood shops. Then came the government supported public distribution system (PDS) outlets, khadi stores, cooperatives etc. Finally shopping malls, supermarkets, departmental stores etc. has brought a great revolution to the Indian retail market. Even today in India there exist all those traditional retails formats that are discussed below how have their own specific customers and market.

Different stages of evolution of Indian retail sector are discussed below:

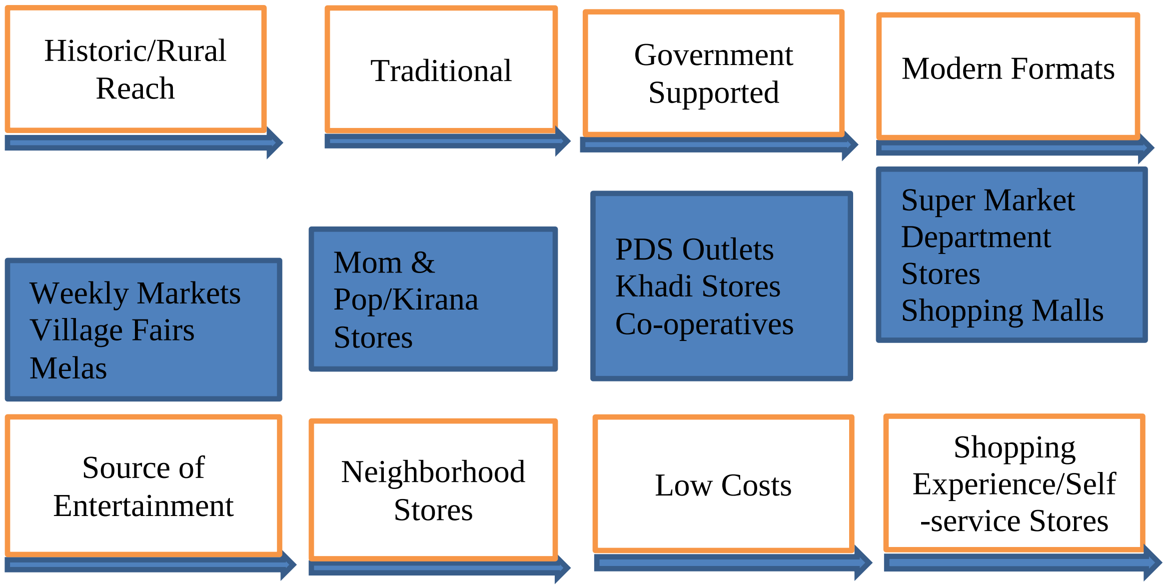
i. Historic/Rural Reach,

ii. Traditional,

iii. Government Supported and

iv. Modern Formats.

Figure 2: Evolution of Indian Retail




Source: Bhattacharyya (2012).

### i. Historic/ Rural Reach

Retailing in its initial period in India was witnessed at the weekly Haats or gathering in a market place where vendors put on displays of their products where people went to shop. Haats and Melas have always been a part of the Indian landscape. They still continue to be present in most of the country and bring all essential part of the life through trade (Pradhan, 2008).

- *Weekly Markets or Haats*

Weekly markets or Haats form the major rural marketing system in India where farmers and craftsman bring their products for sale and from the same place they buy items of daily use such as groceries, garments, vegetables, spices and much more. During that time, 50 percent of villages were not connected by road and most households in these remote villages did not have electricity and, therefore, no television sets (The Financial Express, 2011). Haats provided solutions to this problem. Each Haat caters to around 20-50 surrounding villages from where buyers and sellers come to buy and sell goods and services. Each Haat is spread over acres of land and have stalls selling everything that villagers need for their daily livelihood. There are 47,000 Haats market, the number of stalls are over 300 and the number of visitors per Haats averages 4,500 (Karmakar, 2008).

By putting up a stall in the Haat, a company could expose its products and communicate brand messages to 4,500 or more people who visit the Haat every week. Visit to these markets with family or friends are itself a source of entertainment. Nowadays, traditional Haats are evolving into the more fashionable urban Haats (Madaan, 2009). Examples are Delhi Haat in New Delhi and Swabhumi in Kolkata. The culture of Haats is spreading across the country as it is a glimpse of traditional way of life.

- *Village Fair*

Village fairs were and still are, very common in India. In almost all parts of the country, fairs are held and thousands of people visit these fairs. In a village fair, people come from different parts to sell their various goods where temporarily shops are erected. In comparison to weekly markets, village fairs are usually bigger in size with a wide variety of goods sold from handmade items, food, clothing, cosmetics and small consumer durables. They are held generally on the occasion of some religious festivals. The location of the fair is generally a sacred place. The special features of the village fairs in India are that they fulfill the needs of the rural people. Also, theaters, magic shows, swings, drama parties, etc. provide a good deal of fun to the visitors.

Nowadays, village fairs often serves as a meeting place for people living far away from one another. People very often come across with their friends and relatives living far away whom they had no chance of seeing otherwise.

- *Melas*

In India, over 25,000 Melas are held annually (Pradhan, 2009). Melas can be primarily classified according to their nature, as commodity fairs and religious fairs, and on the basis of periodicity, as one day fairs less than a week and weekly fairs. Various Melas across the country are part of its socio-cultural heritage. Manufacturers and suppliers of various products such as handicrafts, agriculture implements come and sell their products directly to visitors. For example; Kumbha Mela is one of the largest Mela in India. In Hindu pilgrimage of faith mass Hindus gather to bath in scared river. Kumbha means a pitcher and Mela means fair in Sanskrit. In 2013, approximately 120 million pilgrims visited the fair during the two months of festival (CNN, 25th March, 2013). So it's an opportunity to get with a sizable number of rural consumers at one place. In 2013, at Maha Kumbh Mela Colgate, Vodafone, and Dabur[2] all participated for marketing purpose (Balakrishnan & Bapna, 2015).

### ii. Traditional Stores

Afterwards, the traditional age saw the emergence of the neighborhood 'Kirana' store (usually known as mom-and-pop stores), kiosks and street vendors to cater to convenience of the Indian consumers. In fact these were the common local multipurpose store located in the residential areas in which such shops stocked goods and multipurpose utility and were with the vision of providing convenience at the door step of the consumers mostly done through family-owned small stores with limited merchandise.

- *Mom-and-Pop Stores (Kirana stores)*

Mom and pop stores are small family-owned businesses, which sell a small collection of goods to the customers. They stock food and grocery products with few general merchandise items. They provide service to small sections of the society which are known for their personalized service to customer.

- *Kiosks*

Kiosks are box-like shops, which sell small items like cigarettes, toffees, newspapers and magazines, water packets and sometimes, tea and coffee. These are most commonly found on every street in a city, and cater primarily to local residents in India.

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[2]Dabur India Limited is the fourth largest Fast Moving Consumer Goods (FMCG), company in India. Especially in health care.

- *Street Vendors*

A street vendor is broadly defined as a person who offers goods for sale to the public at large without having a permanent built-up structure from which to sell. Street vendors either may be stationary, in the sense that they occupy space on the pavements or other public / private spaces, or may be mobile in the sense that they move from place to place by carrying their wares on push carts or in baskets on their heads.

Street vendors, or hawkers who sell goods on the streets, are quite popular in India. Through shouting out their wares, they draw the attention of customers. Street vendors are found in almost every city in India, and the business capital of Mumbai has a number of shopping areas comprised solely of street vendors. These hawkers sell not just clothes and accessories, but also local food.

### iii. Government Supported

After independence 1947, government of India adopted the concept of modern welfare state. They came to nation's main commerce stream with the financial and marketing concept to support with Khadi and Village Industries Commission (KVIC), Public Distribution system (PDS), and Co-operatives. They came forward and supported the rural retail and many local franchise stores. It itself entered into the retail arena in a big way to provide essential commodities like food grains, sugar etc. to end consumers at reasonable or even subsidized prices at ration shops or fair price shops and to keep a check on inflation (Madan, 2009).

- *The Public Distribution System (PDS)*

The PDS in India is more than half-a century old as rationing was first introduced in 1939 in Bombay, by the British Government (Pradhan, 2009), as a measure to ensure equitable distribution of food grains to the urban consumers in the face of rising prices. The PDS, as it is understood today, is a means for the distribution of essential commodities to a large number of people, through a network of Fair Price Shops (FPS's), on recurring basis. PDS is operated under the joint responsibility of the central and the state governments. By the year 1946, as many as 771 cities/towns were covered. The system was abolished post war; however, on attaining independence, India was forced to reintroduce it in 1950. There was also a rapid increase in the ration shops and their number went up from 18,000 in 1957 to 51,000 in 1961 (Kumar, 2014). PDS had changed from the typical rationing system to a social safety system, making available food grains at a 'fair price' so that access of households to food grains could be improved and such distribution could keep a check on the speculative tendencies in the market.

- *Khadi and Village Industries and Co-operatives*

Government set up Khadi and Village Industries Commission (KVIC) in 1956 to promote the market through products of villagers, thus, generating employment. There were more than 7,000 KVIC stores across the country in 2009 (Madaan, 2009). The cooperative movement was again new concept implemented by the government, which was set up by the name Kendriya Bhandars[3] in 1963. For example, government supported Amul's cooperative provides attractive prices for their dairy products to the farmers on one hand and on the other supplies same products to urban consumers at reasonable prices. Business model of Amul, which became popular as "Anand Pattern[4]", has been adopted by many states (Madaan, 2009). Mother Dairy and others started selling foods and provisions at attractive prices which run a large chain of cooperative stores.

### iv. Modern/ Organized Formats

The development of modern retailing can be traced back to the year 1931 when Bata shoe Co. took lead in opening its chain stores at various cities and towns. It was followed by Delhi Cloth Mill (DCM) and Raymonds extensively. The earliest seed of the so-called specialty malls can be traced to shopkeepers who stocked goods of the same product category in a particular locality. In early 1980s organized retail to a great extent was

[3] The central government employees' consumer cooperative society Ltd. popularly known as 'Kendriya Bhandar' was set up in 1963 in pursuance of union cabinet decision as a welfare project for the benefit of central government employees and public at large.

[4] The Anand Pattern of Cooperatives (APC) is a structure within which dairy farming is promoted by the government of India which utilizes resources in the most profitable manner at grass-root level (Amul Dairy, 2016).

visible in the functioning of stores such as ‘Akbarally’ in Mumbai and ‘Nilgiris’ in Chennai (Singha, 2012). These stores later evolved into multi-chain outlet. Apart from these early attempts, the modern retail sector in India took shape mostly at the beginning of the 21st century, when some domestic retailers set up their supermarket concepts. Before entry of modern retail store chains in India, an early form of ‘supermarket’ for last many decades was in the form of Super-kirana. It is family run business which is more efficient than traditional kirana stores.

An economic reform in 1990’s provided the right kind of environment for the development of modern retail in India. After the reform, Indian market saw western-style supermarket, although on a smaller scale, mainly in southern cities plus New Delhi and Mumbai. One of the pioneer supermarket chains was created in mid-nineties through a technical agreement between India’s Kolkata-based RPG group and Hong Kong-based dairy farm international, which got government approval in 1999 (Madaan, 2009). Planet M and Music World in music, Crossword and Fountainhead in books also made entry into modern retailing.

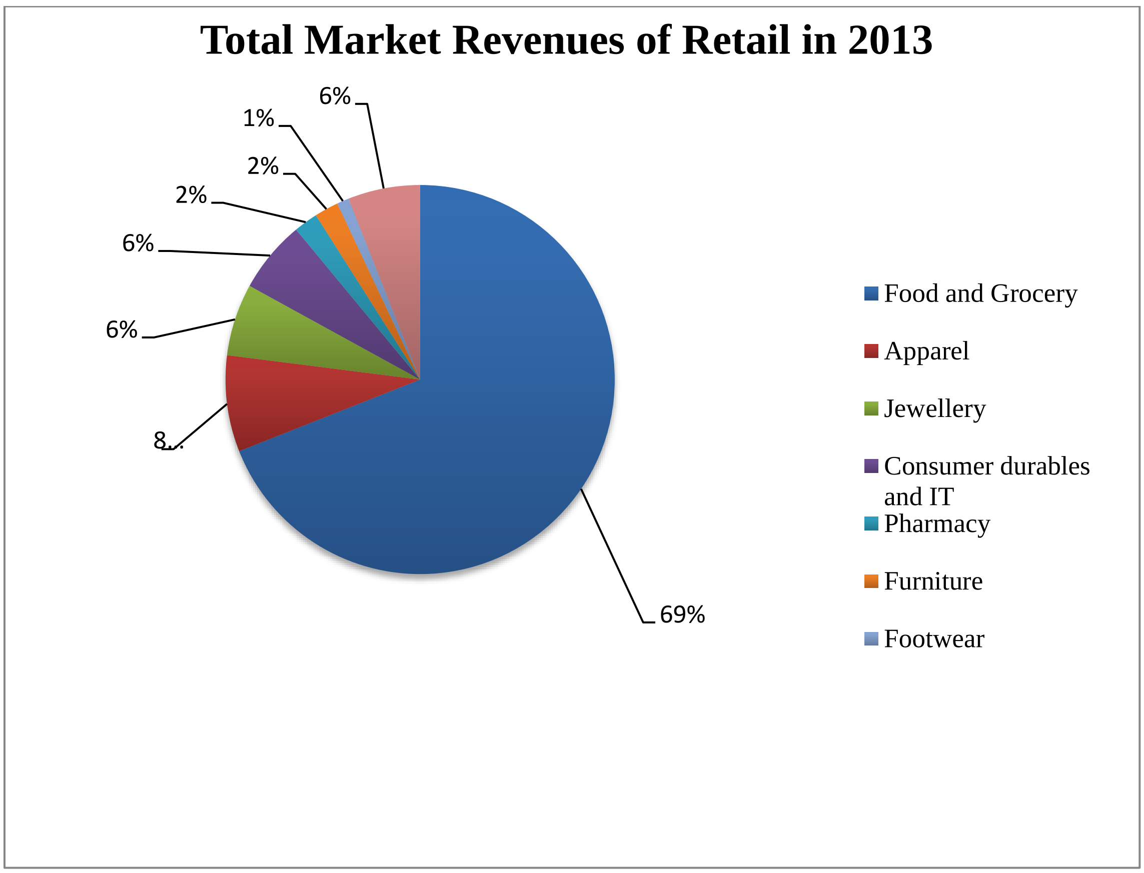
Nowadays, convenience store in city area is the most visible face of development of retailing in India. Apart from convenience stores, there had been many retail ventures in India, mainly led by private sector, which over a period of time have become a major part of modern retailing. For example: Subhiksha, Reliance Retail, Tata Trent, Aditya Birla etc.

### 5.2 Present Scenario of Retail Market of India

The Indian retail sector is highly fragmented with millions of very tiny outlets scattered all over the country. The retailers differ in terms of investment they make. More than 90 percent of its business is being run by the unorganized retailers like the traditional family run stores such as mom and pop stores, street vendors etc. There were about 14 million outlets and only 8 percent of them were larger than 500 square feet in size (Guruswamy and Sharma, 2006). The organized retail in India is at a very nascent stage with low penetration in the market. There is huge opportunity for prospective new players in the organized retail sector of India.

Below pie chart shows the composition of different category of products sold in retail sector of India in 2013.

Chart 6: Pie Chart of Total Market Revenue of Retail Sector in 2013

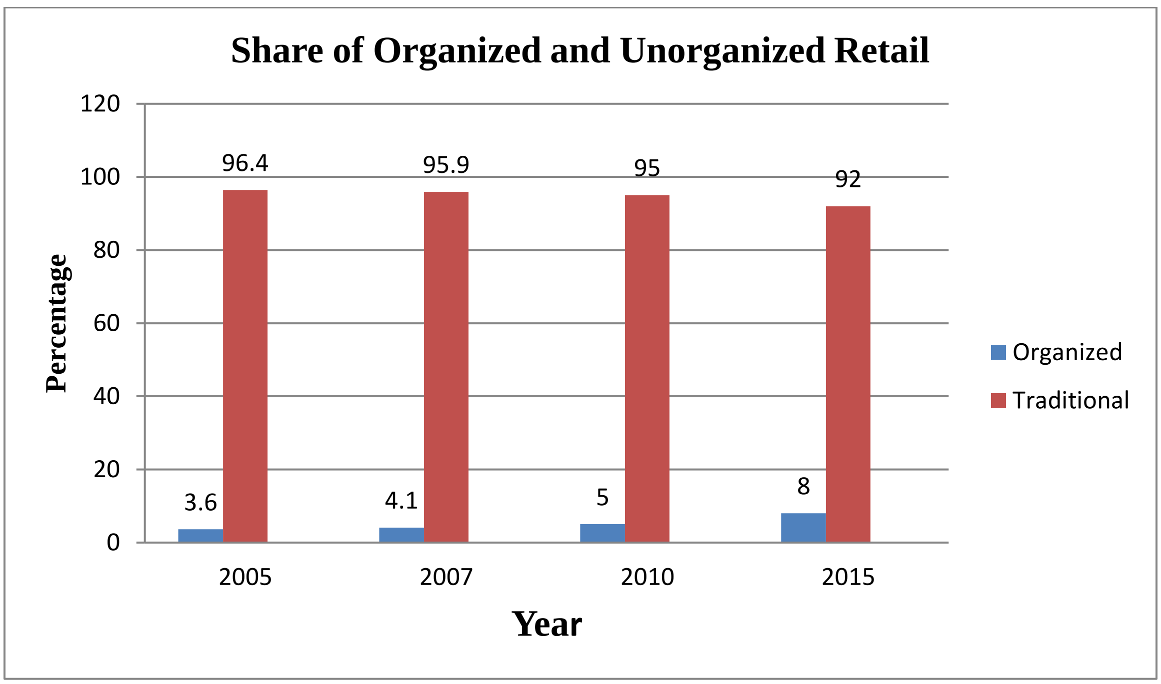



*Source: IBEF (August, 2014).*

While analyzing the components of market revenue generated by retail sector in India in the year 2013, the highest revenue collection is from food and grocery. 69 percent of revenue is collected from food and grocery. Due to large market share covered by food and grocery the country requires better supply chain and cold storage facility to minimize the wastage of food and grocery. Further, 8 percent of revenue is collected from apparel. Jewelry, consumer durables and IT has 6 percent of revenue collection.

Traditionally, the Indian retail sector was characterized by the presence of a large number of small family-owned mom and pop stores. After the liberalization of the economy 1991, modern retail formats began to develop, and Indian business houses and manufactures started investing in this sector. Hence the bar graph below shows the share of organized and unorganized retail from 2005 to 2015.

Char 7: Bar graph of share of Organized and Unorganized Retail Market




Source: Mishra and Yadav (2014), IBEF (2016), and compiled by Shrestha,

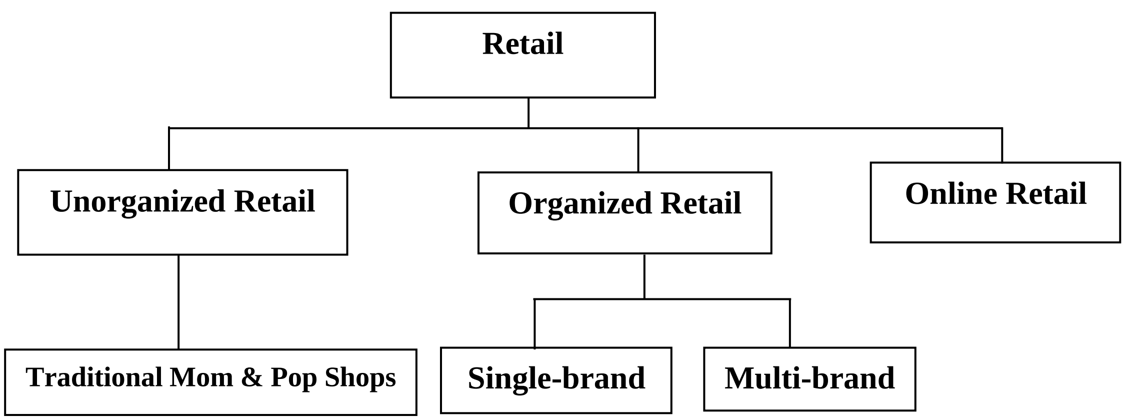
The above bar graph shows that the penetration of organized retail in India is very low. The market share of organized retail in 2005 was only 3.6 percent and in 2007 only 4.1 percent. The increment of share of organized retail during the periods 2005-

2007 and 2007-2010, was not much. However thereafter organized retail penetration is at more rapid pace where it increased to 8 percent in 2015.

India's retail sector is slowly heading towards modernization. The total concept and idea of shopping has undergone an attention drawing change in terms of format and consumer buying behaviour, guiding a revolution of shopping in India. Shoppers enjoy the rapid growth in international quality retail space, while shopping malls are becoming increasingly common in large cities. New formats such as departmental stores, supermarkets, specialty stores, and malls are fast increasing in metros[5] and Tier II[6] cities. These big retail chains are now targeting mini metros and towns as next market to expand their business.

The retail sector in India can be divided into two broad groups unorganized, organized (Mukherjee and Patel, 2005). In recent days, online retailing is also emerging as new business trend in India. Further, organized retailing can be divided into two sub-divisions: Single-brand and Multi-brand as shown in figure below:

Figure 3: Division of Indian Retail Sector




*Source: Figure created by Shrestha.*

[5] Cities of India are classified on the basis of population and economic criteria:
Metros: Population in excess of 5 million like Mumbai, Delhi, Bangalore etc.
Mini Metros: Population below 5 million for example, Ahmedabad, Pune etc.
[6] Tier I cities: Population of over 1 million and Tier II less than 1 million (Indian Activities, 2016).

### 5.2.1 Unorganized Retailing

Unorganized retailing refers to a traditional format of retail outlets in the form of neighbourhood kirana stores, the vegetable and fruit vendor etc. (Pradhan, 2009). These stores normally do not register for sales tax or income tax. These are low-profit outlets which survive on cheap labour.

Millions of people in India depend on traditional retail for their livelihood (Goswami & Mishra, 2009). Most of these are small family businesses utilizing household labour working part-time and full-time (Mehrotra, 2007). There is no organized system of evaluating the turnover of such outlets for tax purposes and hence, many of them avoid paying taxes. Even though these formats do not implement modern retail techniques and know-how, they have significant competitive advantage over the organized sector in terms of low overhead and local market knowledge (Bhagwati and Panagariya, 2013). Many of them offer services such as home delivery or sales on credit, possibility of bargaining, choice of loose items that would be uneconomical for the organized sector. Major reason for such is the strength of unorganized retailing, getting practiced in India, as a part of culture, tradition and life style.

Branding has not been the key decision criteria for a majority of customers at such kirana shop or traditional retail outlet, particularly in the small towns and rural India. In fact traditional retailer themselves place a significant role in the purchase decision influence both the product and the brand perception.

### 5.2.2 Organized Retailing

According to the National Accounts Statistics of India organized retail can be defined as any organized form of retail or wholesale activity (both food and non-food, under multiple formats), which is typically a multi-outlet chain of stores or distribution centres run by professional management. The number of people employed is above 10 (Pradhan, 2009). Basically it includes the trade activities undertaken by licensed retailers, i.e., those who are registered for sales tax and income tax etc.

Organized retail penetration in India is low (8 percent) compared with that in other countries, such as the US (85 percent), China (20 percent), Indonesia (30 percent). This indicates strong growth potential for organized retail in India (Madaan, 2009). Organized retail sector in India includes local organized retailers as well as foreign organized retailers. There are few companies in the Indian organized retail sector which are increasing their network of operation namely, Pantaloon retail, RPG groups, Reliance groups, Tata groups and K Raheja group etc. Some organized Indian retail and its banners are shown in the table below:

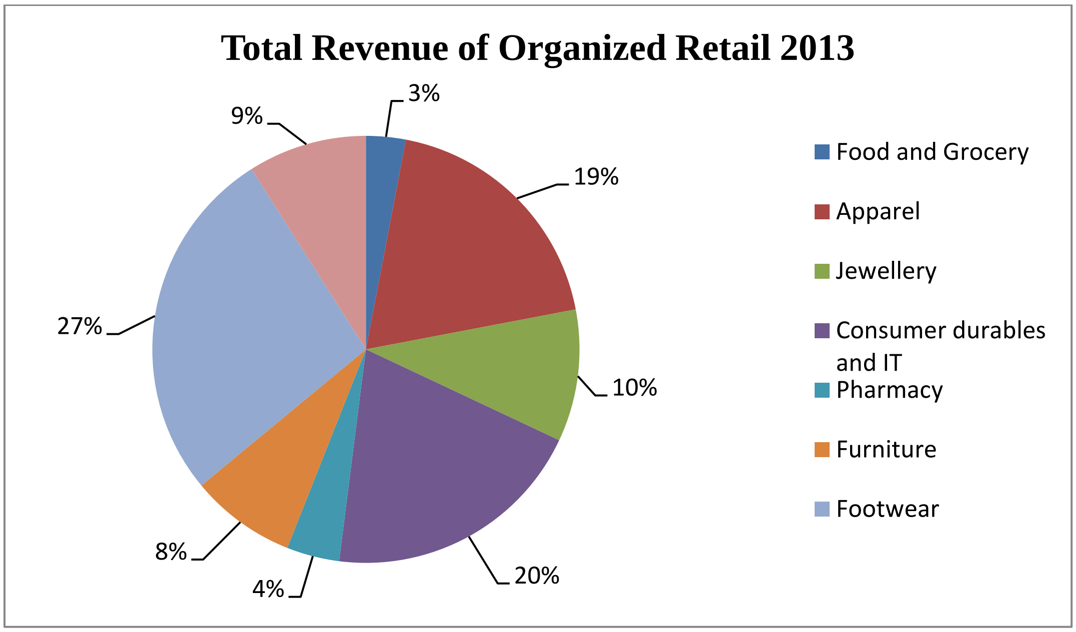
Table 1: List of Some Indian Organized Retailers

| **Name of holding company** | **Prime Banners** |
|---|---|
| Pantaloon Retail | Pantaloons, Central, Brand Factory, E-zone, Hometown, Planet sports, Big bazar, Food bazar, KB's Fair Price Shop |
| K Raheja Group | Shoppers stop, Crossword, Hyper city |
| Tata Group | Croma, Landmark, Poltrona Frau Group Design Center, Star Bazaar, Tashi, Westside |
| RPG Group | Spencer's, Books and Beyond, Music World |
| Landmark Group | Centre point, Baby shop, Splash, Shoe Mart, Lifestyle, Beautybay, Iconic, Q Home Décor, Candelite, Max, Shoexpress, Emax, Lifestyle Department Stores, SPAR Hypermarkets, Land mark International. |
| Reliance | Reliance Fresh, Reliance Trends, Reliance Foot Print, Reliance Digita |

Source: Dart Consulting (2012).

Indian retailers themselves are also being active to invest in modern organized retail sector. Organized retailers are making investment in new and different products to appeal customers. The percentage of different segments that organized retailers are earning revenue from in 2013 is shown in the pie-chart below:

Chart 8: Pie Chart of Total Revenue of Organized Retail Sector in 2013.




*Source: IBEF (August, 2014).*

The above pie chart shows the components of market revenue generated by organized retail sector in India in the year 2013; the highest revenue collection is from footwear with 27 percent. 20 percent of revenue is collected from consumer durables and IT and whereas 19 percent of revenue is collected from apparel. The lowest revenue generation is from food and grocery which is only 3 percent. Hence, organized retail has more penetration on footwear, consumer durables and apparel. Indian people purchase less food and grocery items from organized retailers while more inclination is towards fashion and durable goods.

Further, organized retailing can be divided into two sub division: Single-brand and Multi-brand retailing where FDI is allowed fully and partially.

- **Single-brand**

Single-brand retail comprises those retailers selling products of a single brand only. FDI in the single-brand context implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand not the Reebok brand, for which separate permission is required. If granted permission, Adidas could sell products under the Reebok brand in separate outlets. Many international brands, such as Prada, Versace, Nike and Adidas, only entered after 2006, when the government began to allow foreign investors in single-brand retail operations. Prior to that, FDI in retail was allowed to operate through wholesale outlets (Nikkei Asian Review, 2014).

India receives medium response in the single-brand retail segment, getting only US $135 million of foreign direct investment in about nine years. The FDI from 2007 to 2015 in single-brand retail received over 80 proposals, which include Brooks Brother, a UK-based shoe firm, Pavers England and Burberry International Holdings which were all accepted by the government (NDTV, July, 2015).

- **Multi-brand**

Multi-brand retail comprises those retailers selling multiple brands of products under one roof. FDI in multi-brand retail implies that a retail store with foreign investment can sell multiple brands under one roof. Indian government allowed 51 percent FDI investment in the multi-brand retail category. This includes all firms in organized retail that seek to stock and sell multiple brands, such as large international retailers like Wal-Mart, Tesco and Carrefour etc.

British retail major Tesco has agreed a joint venture agreement with a unit of India’s Tata Group i.e. Trent Limited to form a 50-50 joint venture. Tesco invested $140 million in multi-brand retail in India. Tesco was the first global retailer to receive approval for opening multi-brand retail stores after the government allowed 51 percent FDI (Reuters, March, 2014).

**Some of the Organized Retail Formats in India are as follow:**

- *Department Stores*

Department stores are general merchandisers who offer mid to high quality products to customers. Though they sell general goods, some department stores sell only a select line of products. The department stores usually have 10,000 – 60,000 square feet of retail space. Examples in India would include stores like Shopper stop, Westside, the department store chain from Tata groups, and Pantaloons etc.

- *Convenience Store*

A convenience store is a relatively small retail store located near a residential area (closer to the consumer), open long hours, seven days a week, and carrying a limited range of staples and groceries. Some Indian examples of convenience stores include: In and Out, Safal, etc. The average size of a convenience store is around 800 square feet.

- *Category Killers*

Category killers focus on a particular segment and are able to provide a wide range of choice to the consumer, usually at affordable prices due to the scale they achieve. The example of category killers in the Indian context has been led by "The Loft", a footwear store in Powai, Mumbai measuring 18,000 square feet. In Indian parlance, the concept of "category killers" is often found in the product categories as electronics "The E-Zone" office suppliers and "Crossword" books.

- *Specialty Store*

Specialty stores are single category, focusing on individuals and group clusters of the same class, with high product loyalty. Internationally, most specialty retailers would operate in an area under 8,000 square feet. Example of international retail chains, include Ikea, The Gap etc. Examples of specialty stores in India include retail chain like Proline fitness station, Gautier furniture, Vijay Sales and Vivek's etc.

- *Supermarkets*

One of the other popular retail formats in India is the supermarkets. A supermarket is a grocery store that sells food and household goods. They are large, most often self-service and offer a huge variety of products. Internationally, the size of these stores varies from 8,000 to 20,000 Square feet. ASDA and Tesco etc. are some of the large International players. The examples of this retailing format in India are Apna Bazaar, Sabka Bazaar, Nilgiri's, Spencer's from the RPG Group, Food Bazaar from Pantaloon Retail, etc.

- *Discount Store*

A discount store is a retail store offering a wide range of products, mostly branded at discounted prices. The average size of such stores is 1,000 square feet. Typical examples of such stores in India are: food and grocery stores offering discounts, like Subhiksha, Margin Free, etc.

- *Hypermarkets*

Similar to supermarkets, hypermarkets in India are a combination of supermarket and department store. Typically varying between 50,000 square feet and 1, 00,000 square feet, hypermarket offer a large basket of products, ranging from grocery, fresh and processed food, beauty and household products, clothing and appliances, etc. The key players in the segment in India are: Star India Bazaar, Hyper City and Big Bazaars etc.

- *Cash-and-Carry*

These are large B2B focused retail formats, buying and selling in bulk for various commodities. Cash-and-carry stores are large (more than 75,000 square feet), carry several thousand stock-keeping units and generally have bulk buying requirements. For example of this are Metro, the Germany-based and Wal-Mart India the US based etc.

- *Mall*

One of the most popular and most visited retail formats in India is Mall. Ranges from 60,000 square feet to 7, 00,000 square feet and above. It is large, often enclosed shopping complex containing various stores businesses, and restaurants usually accessible by common passageways. Like Garuda Mall in Bangalore and South City Mall in Kolkata. Most of the metro cities (Mumbai, New Delhi, Bangalore, Chennai) with a population of two million plus have a good potential for setting up malls in India.

### 5.2.3 Online Retailing

Online Retailing is defined as retailing conducted online. The concept of online retailing has brought together many retailers online. Features like easy search for required product, cash on delivery, home delivery services and tracking transaction status have played a crucial role in enhancing customer shopping experience. Online retailing is growing rapidly worldwide due to increasing penetration of mobile phones and broadband, cash on delivery, and internet banking. Furthermore, online retailing eliminates the need to build and maintain expensive showrooms, thus reducing cost and increasing profit for retailers. However, lack of internet usage, complex website design, lack of graphical presentations, high cost of technology and technical experts, are some of the challenges the industry is facing.

The big retailers are increasingly focusing on their digital strategies in order to gain the benefits of online platforms. The e-commerce companies are concentrating their efforts on increasing the penetration for mobile application for higher growth. With the increasing use of internet the online retailing industry is also expanding rapidly all over the world including the developing nations like India.

- **Indian Online Retailing**

Online retailing has become a key driver to create new markets in unreachable geographies. The retail sector in India is showing a promising trend of over 11 percent compound annual growth rate where the current total online retail spending accounts for less than 2 percent of the total retail spending (Deloitte, 2016).

India has a significantly low internet penetration of 243 million population in 2014 i.e. 19 percent of total population (PWC, 2015). Around 75 percent of Indian internet users are in the age group of 15 to 34 years, this category shops more than the remaining population (PWC, 2015). Peer pressure, fashion and trends encourage this segment to shop more which indicates the huge growth potential of e-commerce in India.

The past few years have seen the rise of e-retailing in India, taking marketing arena in a big way. Small enterprises that are specialized in niche products are entering the online retailing market to make their products available worldwide. It is estimated that India's e-commerce market will reach US $60-70 billion by 2019 (HindustanTimes, April, 2015). Further, India's e-commerce market is expected to reach US$220 billion in terms of gross merchandise value and 530 million shoppers by 2025, led by faster speeds on reliable telecom networks, faster adaption of online services and better variety as well as convenience (IBEF, 2016). It is forecasted that India will become 2nd largest market after China, for smartphones with 220 Million users (Deloitte, 2016).

The Indian consumers are advancing towards adopting new technologies. E-commerce is expanding steadily where customers are having increasing choice of products at the lowest rate. E-commerce is probably creating the biggest revolution in Indian retail industry, and this trend would continue in the years to come. Some online retail companies that are already engaged in online retailing are Flipkart.com, Snapdeal.com, Myntra.com, Aramshop.com, BigBasket.com, and LocalBaniya.com etc.

Also, the foreign online retailer, Amazon.com, the world's largest online retailer entered in India only in June 2013, years after Flipkart (2007) and Snapdeal (2010). It is now neck to neck with its two local rival's i.e.  Flipkart and Snapdeal in the ongoing race at the top of India's e-commerce market. The market share of Amazon in, India in 2015 was 12 percent whereas Flipkart was at 45 percent, Snapdeal at 26 percent (The Economic Times Feb 2016).

Beside the sales of non-perishable goods online, Bigbasket.com in India provides a largest online food and grocery store. It has over 10,000 products ranging from fresh Fruits and Vegetables, Staples, Spices and Seasonings to FMCG branded products, Beverages, Personal care products, Meats and much more (Bigbasket, 2016). Also, over 1900 retailers across 26 cities in India use AaramShop as their preferred commerce platform. Once logged in to the site, users can choose a local retailer and shop for groceries. AaramShop then sends the order to the retailer in real time. The groceries are delivered to the customer's doorstep and the customers pay for the goods upon delivery (AaramShop, 2016). In addition, Amazon.com is also planning to provide convenience to their customers on their everyday needs and enable them to shop from their local stores from their mobile phones and get things delivered when they really need it (The Times of India, March 2015).

Hence, with the rising use of internet and changing lifestyle of people in India the retailers now, can present their product for sales in different way. Retailers today, do not need to limit their sales in local community only but can boost their sales by increasing their network in different locality by the use of internet. Traditional retailers in future will face tough time ahead as they will face direct competition from other organized retailers and also from online business models. They can survive and grow through integration with the latest technologies. These Kirana can provide distribution centre through online stores. The customers will find it easier to interact with them and will be able to buy goods from them due to the various facilities they offer including credit facility.

Hence, online retailing provides a good platform for Indian retailers to present their product and reach their sales in other states too. Online retailing has a huge growth potential in future, the local unorganized as well as organized retailer can prepare themselves to serve the upcoming mobile and internet using generation and also can help to compete against foreign retailers by establishing their own retail network.

# CHAPTER VI

# FDI Policy and Prospect of Changes

## 6.1 Evolution of FDI Policy in India

Policy regime is one of the key factors driving investment flows to a country. Apart from underlying macro fundamentals, ability of a nation to attract foreign investment essentially depends upon its policy regime, whether it promotes or restrains the foreign investment flows. There have been lots of changes in India's approach to foreign investment from the early 1990s when it began structural economic reforms encompassing almost all the sectors of the economy.

Foreign Investment in India is governed by the FDI policy announced by the Government of India and the provision of the Foreign Exchange Management Act (FEMA) 1999. The Reserve Bank of India (RBI) in this regard had issued a notification, which contains the Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000. This notification has been amended from time to time. The Ministry of Commerce and Industry, Government of India is the nodal agency for monitoring and reviewing the FDI policy on continued basis and changes in sector policy/sector equity cap. The FDI policy is notified through press notes by the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP).

The changes in the FDI policy in India can be analyzed under four different phases. They are:

i. Early Post-independence Period: The period of Cautious Welcome Policy (1948-1966)
ii. Selective and Restrictive Policy (1967-1979)
iii. Partial Liberalization Policy (1980-1990)
iv. Liberalization and Open Door Policy since 1991

### i. The Period of "Cautious Welcome Policy" (1948-1966)

India lacked a policy of its own on foreign capital before independence because it derived its faith in total laissez-faire from the British government. After independence India's policy towards foreign investment has generally been guided by the Industrial Policy statements. The Industrial Policy Resolution (IPR) 1948 recognized that participation of foreign capital and enterprise particularly as regard to the industrial techniques and technical know-how would be helpful in achieving the objective of rapid industrialization. However it was also emphasized that foreign capital should be properly regulated. In 1956, FDI through foreign collaboration was welcomed in the areas of high technology and high priorities to build national capability and discouraged in low technology areas to protect and nurture domestic industries. In 1963-64, the government of India decided to give the 'letter of intent' to foreign companies to proceed with their capital projects, instead of making the company finds an Indian partner. Finances Act, 1965 made provisions for certain additional tax concessions. On the whole, the period 1948-1966 witnessed a liberal attitude but cautious policy towards FDI.

### ii. Selective and Restrictive Policy (1967-1979)

In the late sixties, there was a shift towards a restrictive and selective approach regarding foreign investment inflows in India. It was partly due to sharp outflows on account of remittances of dividends, profits, royalties and technical fees. Infant industry protection approach in 1960's also made the policies more restrictive. Foreign Exchange Regulation Act (FERA) was amended in 1973, and amendment insisted in bringing down the non-resident share holding to 40 percent within two years. Industrial policy statement (1979) discouraged multinationals so as to promote small scale and cottage industries of local nature. The government of India prepared a revised list of Industries where no foreign collaboration, technical or financial, was considered necessary due to development of indigenous technology.

### iii. Partial Liberalization Policy (1980-1990)

Recognizing above limitations, partial liberalization in the trade and investment policy was introduced in the 1980s with the objective of enhancing export competitiveness, modernization and marketing of exports through Trans-national Corporations (TNCs). The announcements of Industrial Policy (1980 and 1982) and Technology Policy (1983) provided for a liberal attitude towards foreign investments in terms of changes in policy directions. The policy was characterized by de-licensing of some of the industrial rules and promotion of Indian manufacturing exports as well as emphasizing on modernization of industries through liberalized imports of capital goods and technology. This was supported by trade liberalization measures in the form of tariff reduction and shifting of large number of items from import licensing to Open General Licensing (OGL), to pursue the liberal FDI regime.

### iv. Liberalization and Open Door Policy Since 1991

A major shift occurred when India embarked upon economic liberalization and reforms program in 1991, aiming to raise its growth potential and integrating with the world economy. Industrial policy reforms gradually removed restrictions on investment projects and business expansion on the one hand and allowed increased access to foreign technology and funding on the other.

A series of measures that were directed towards liberalizing foreign investment included:

(i) Introduction of dual route of approval of FDI. RBI’s automatic route and government’s approval (SIA/FIPB) route.

(ii) Automatic permission for technology agreements in high priority industries and removal of restriction of FDI in low technology areas as well as liberalization of technology imports.

(iii) Permission to Non-resident Indians (NRIs) and Overseas Corporate Bodies (OCBs) to invest up to 100 percent in high priorities sectors.

(iv) Hike in the foreign equity participation limits to 51 percent for existing companies and liberalization of the use of foreign 'brands name' and

(v) Signing the Convention of Multilateral Investment Guarantee Agency (MIGA) for protection of foreign investments.

These efforts were boosted by the enactment of Foreign Exchange Management Act (FEMA), 1999 that replaced the Foreign Exchange Regulation Act (FERA), 1973 which was less stringent. This along with the sequential financial sector reforms paved way for greater capital account liberalization in India.

However, India's regulatory policies in terms of procedural delays, complex rules, and regulations related to land acquisition, legal requirements, and environmental obligations might have played a role in holding the investors back from investing into India in recent years. The uncertainty created by the actions taken by policymakers might have led to unfriendly business environment in India.

## 6.2 Major Institutional Reforms to Promote FDI

The most important reform in FDI policy during post-reform period is setting up institutions with well-defined objectives to bring down unnecessary delays from processing to implementation of FDI projects. The major objectives of these institutions have been to coordinate among stakeholders, review policy reforms, and resolve issues related to investment, which would reduce time taken from approval to implementation. Major institutions are:

### i. Foreign Investment Promotion Board (FIPB)

The FIPB under the Ministry of Finance is the nodal, single window agency for all matters relating to FDI whose objective is to promote FDI into India by (i) undertaking investment promotion activities, (ii) purposeful negotiation/ discussion with potential investors, (iii) early clearance of proposals, and (iv) reviewing policy and putting in place appropriate institutional arrangements, transparent rules, and procedures for investment promotion and approvals of FDI projects. Further, the Foreign Investment Promotion

Council (FIPC) was set up in 1996 under FIPB to identify the projects where foreign investment is required. FIPC, whose members are from industry and commerce, has target oriented approach to identify potential sectors and projects that need FDI and identify countries to mobilize FDI.

### ii. Secretariat for Industrial Assistance (SIA)

The SIA, Ministry of Commerce and Industry, provides a single window service for entrepreneurial assistance, investor facilitation, receiving an processing all applications, assisting entrepreneurs and investors in setting up projects including liaison with other organizations and state governments, and in monitoring the implementation of projects. The Entrepreneurial Assistance (EA) unit under SIA delivers the important function of attending enquiries of investors and arranging meeting between investors and concerned government administrative departments. There is another cell called Investment Promotion and Infrastructure Development (IP&ID) which disseminates and coordinates information industry wise and facilitates investment, particularly in infrastructure sectors.

### iii. Foreign Investment Implementation Authority (FIIA)

FIIA was set up in 1999, to facilitate implementation of approved investment. It provides a proactive one stop after service care to foreign investors by helping them obtain necessary approvals, sort out operational problems, review policy framework, and meet with various government agencies to find solution to their problem. FIIA entertains complains about implementation bottlenecks and make recommendations to government administration, both centre and states, for speedy implementations. For fast track approval form different administrative agencies, FIIA sets up Fast Track Committee involving important representatives of various ministries and government agencies to give approval and permission within a time framework. Project Monitoring Wing (PMW), established in 1998 within IP&ID and working under FIIA since 2001, coordinates with central and state government ministries and departments for monitoring approved projects.

### iv. Incentives for Foreign Investment

The increasing mobility of international firms and the gradual elimination of barriers to global capital flows have stimulated competition among governments to attract FDI. As more and more have tried to attract multinational companies and enhance the associated technology spillovers, fiscal incentives have become a global phenomenon from tax holidays and import duty exemptions to investment allowances and accelerated depreciation. India has a number of Special Economic Zones (SEZ), and there are incentives given in India's SEZ and development zones. The SEZ are considered as foreign territory in all that concerns taxes and customs. Companies in the SEZ are eligible for a total exemption form tax for the first 5 years and a 50 percent exemption from the tax due for the next 5 years.

- Entrepreneurs who supply infrastructure resources in the SEZ are eligible for 10 year exemption from tax.

- Industrial concerns- If the total production is intended for export located in Free Trade Zones, Software Technology Parks, in Hardware Technology Parks etc. are entitled to an exemption from taxes for 10 years as well as to an exemption from import taxes.

- Companies carrying scientific research and other activities specified by law are also eligible for 5-10 years tax holiday of 30-100 percent.

- Industries located in North East India or the states of Sikkim are entitled to 10 year tax exemption for activities performed during 1$^{st}$ April 2007 to 1$^{st}$ April 2017 (Sahoo, 2014).

## 6.3 State Level Reforms: Success Stories

Since India is a federal system and states have their own responsibilities and control over many subjects that affect investment, it is essential to carry out reforms at the state level and to improve coordination between the center and states to implement reforms. Over the years, many states have launched initiatives to simplify procedures, reduce delays in approval, and facilitate the implementation of projects to promote FDI inflows. Though many states compete to attract FDI, a few states such as Gujarat, Andra Pradesh, Maharashtra, Karnataka, and Tamil Nadu have succeeded in attracting 70 percent of total FDI inflows into India (Sahoo et.al, 2014). Major reforms undertaken by these major FDI recipient states are as follows.

- The Industrial policy of these states has always been very proactive for sustainable industrial development. The competitive politics of development forced these state governments to make proactive market reforms.

- These state governments have taken initiatives to review their labor laws and procedures and to amend certain provisions to make them more flexible and investor friendly. For example, Gujarat state has transferred various state labor laws to the development commissioner in order to achieve flexible labor laws in Special Economic Zones (Dobhal, 2011).

- These states have enacted laws and created autonomous bodies for single window and fast track clearances for investors within a particular time frame.

- In order to attract foreign investment in general and in Special Economic Zones (SEZs) in particular, these states offer incentives in the form of exemptions of tax and duties.
- These state governments are working on a priority basis to provide quality infrastructure, keeping international standards as the benchmark.

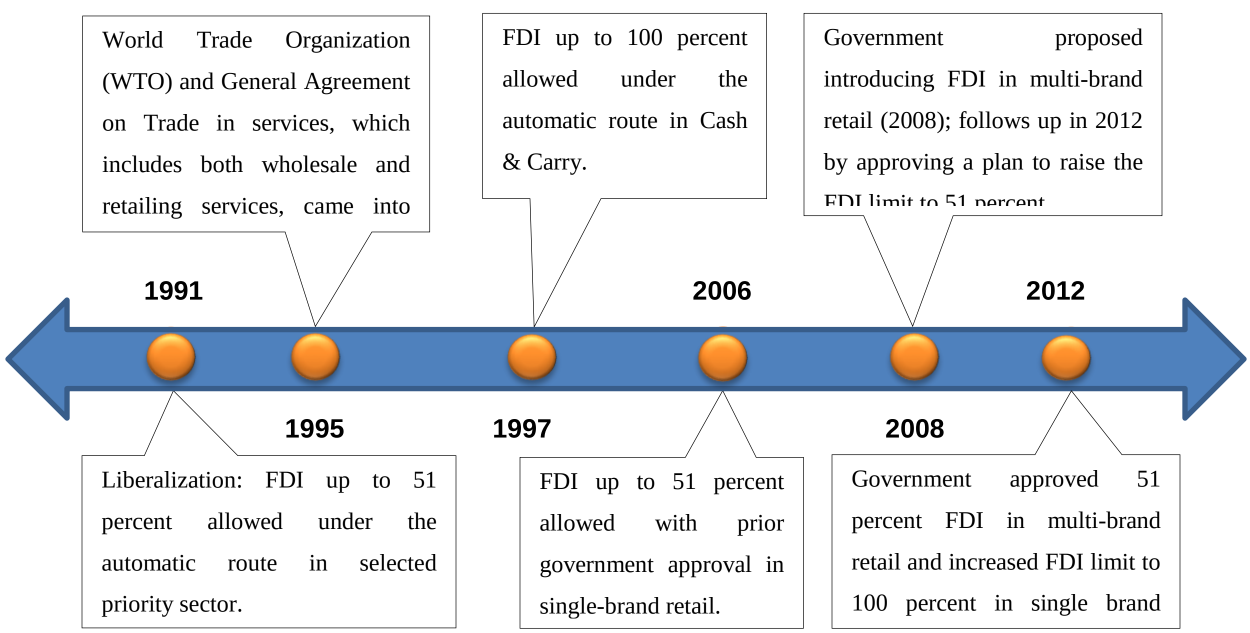
- These states are proactive in providing land for industrial use at reasonable and competitive prices without excessive administrative and procedural complications.

- These state government industrial policies are forward looking and are reviewed regularly to emphasize strategic and emerging sectors such as information technology, pharmaceuticals, biotechnology, electronics, telecommunications, engineering, automobiles, and nanotechnology. These states also design appropriate policy and facilitate development of industrial parks[7] where they have a comparative advantage. For example, facilitates the creation of apparel parks, R&D institutions, and centers of excellence[8].

## 6.4 FDI Policies with Regard to Retailing in Different Time Frame.

As part of the economic liberalization process set in place by the Industrial Policy of 1991, the Indian government has opened the retail sector of FDI slowly through a series of steps which is clearly shown in figure below.

Figure 4: FDI Policies in Retail Sector in Different Time Frame.




Source: India Brand Equity Foundation (IBEF, 2014).

[7] Government of India has launched 'Apparel Park' for exports scheme for imparting focused thrust for setting up of apparel manufacturing units of international standards at potential growth centers.

[8] A center of excellence is a corporate group or team that leads other employees and the organization as a whole in some particular area of focus such as a technology, skill or disciplines, which important enough to the business to devote the necessary resources.

Prior to 1991, the government exercised a high degree of control over industrial activity by regulating and promoting much of the economic activity. The development strategy discouraged inputs from abroad in the form of investment or imports, while the limited domestic resources were spread out by licensing of manufacturing activity. The result was a domestic industry that was highly protected from abroad due to import controls and high duties, and from domestic competition due to licensing and reservations.

FDI in 35 priority sectors where high-priority, capital intensive, hi-technology industries were given automatic approval by the Reserve Bank of India if the foreign equity participation is less than 51 percent. Under automatic approval FDI does not require any prior approval either by government or Reserve Bank of India. The investors are only required to notify the proper regional office of the RBI within 30 days of the receipt of inward remittances. In the same year, 950 foreign collaboration proposals were approved (Shoo et al., 2014).

In 1995, India joined World Trade Organization (WTO) and General Agreement on Tariffs and Trade (GATT), which includes both wholesale and retailing services, came into effect (Cherunilam, 2005). WTO Agreements are structured, for the purpose of introducing market economy principles into international trade, on the basis of (1) reducing trade barriers, and (2) applying non-discriminatory rules.

In 1997, allowed FDI up to 100 percent in cash and carry (wholesale). Then, it required government approval. In 2006, Wal-Mart entered in joint venture with Bharti Enterprises as Bharti Wal-Mart with 50 percent share. In 2008, Tesco signed a franchise agreement with Trent Ltd, part of the Tata group. This distribution centre provides wholesale products to traditional Indian retailers, Kirana stores, restaurants and other businesses, providing small farmers and other suppliers with a more efficient way to sell their goods to the local market.

Till 2006, FDI in both single and multi-brand retailing was not allowed as per the policies of Indian government. It’s for the first time in Feb 2006, the Indian government decided to open up its retail sector to FDI. Subject to certain conditions, Indian government permitted up to 51 percent FDI in single-brand retailing. This policy was made effective by a press note date $10^{th}$ Feb. 2006, issued by the Department of Industrial Policy and Promotion (DIPP) of Government of India. Single-brand retailing attracted 94 proposals between 2006 and 2010, of which 57 were approved and implemented (Bhakkad, 2012). After the relaxation of FDI policy, companies like Wal-Mart, Tesco, Mango, Armani etc. entered in Indian retail market.

As per the consolidated FDI policy, the cabinet of India, in November 2011 decided to permit up to 100 percent FDI in single brand retail and up to 51percent FDI in multi-brand retailing which produced a considerable political backlash in India. Consequently the Indian government indefinitely suspended plans to reform the Indian retail sector.

It was found that the political backlash was due to the issue of 51 percent FDI in multi-brand retail only, the cabinet decided to bring in force the 100 percent FDI decision in single-brand retail. On $10^{th}$ January 2012, by a press note the Department of Industrial Policy and Promotion (DIPP) of government of India notified the cabinet's decision to permit up to 100 percent FDI in single-brand retail, subject to prior approval of Foreign Investment Promotion Board (FIPB) of India and certain other conditions.

After a long political turbulence the Cabinet ($14^{th}$ September 2012) decided to operationalize 51 percent FDI in multi-brand retail but left it to the state governments to allow setting up of such stores.

Regarding the policy consensus, though it was not been made mandatory for all states to accept the 51 percent FDI in multi-brand retail, some of the states were given their consent, but some other were opposing and stood strong against the decision. Opening up of doors for the foreign players to India's multi-brand retail investment was therefore uncertain because of the Indian political catastrophe but finally been green-signalled.

## 6.5 Prospect of Changes in Retail Policy

After very carefully examining the retail FDI polices, Indian government has improved FDI policy in retail with changing scenario of time to attract investment from foreigners. The decision to liberalize FDI policies in retailing, come from different factors like country's economic growth, infrastructure, employment etc. The recent FDI liberalization policy of 2012, in single-brand retail and multi-brand retail has strengthened further possibility of liberalization in FDI policy. The gradual liberalization step adopted by the government, will help the unorganized retail stores to understand the changing environment and adapt new strategies against the foreign retailers accordingly.

Though liberalization intentions look admirable but its impacts are widely debatable. Also, the terms and condition attached make it more difficult for investment. The policy implemented in 2012, doesn't seem to be investment friendly due to some other requirements included in it. The requirements for multi-brand investments are like;

- At least 30 percent of the value of procurement of manufactured processed products purchased shall be sourced from Indian 'small industries' which have total investment of plant & machinery not exceeding US $100 million.

- At least 50 percent of total FDI brought in shall be invested in 'back-end infrastructure' within three years of the first tranche of FDI.

- Retail sales outlets may be set up only in cities with population of more than 1.00 million as per 2011 census, and may also cover an area of 10 kilometers around the municipal/urban agglomeration limits of such cities.

The above stated points could be problematic for investors and they may not be able to fulfill them. May be due to those above requirements foreign multi-brand retailers are not investing in Indian market as expected. The government can loosen up above requirements and make it more applicable. Also, due to strong opposing view toward the FDI participation in multi-brand retail, further improvement in the policy will be a slow process. Indian government can open the multi-brand sector fully only after the local retailers are able to compete against foreign retailers. The main intentions of retail policy should be to focus on how it can benefit the majority of the Indian consumers and retailers.

The opening up of India's retail sector to FDI should be monitored and taken proper care over years such that sectors like agriculture, food processing, manufacturing, packaging and logistics will collect benefits. In order to counter the adverse effects of organized retail, there should be a legal and regulatory framework along with an enforcement mechanism that would ensure the large retailers are not able to displace the small ones by unfair means.

Further, the step of opening up of FDI in single-brand and partially in multi-brand retailing is expected to bring in adequate infrastructure creation, better quality product offerings to the consumers and create job opportunities directly as well as indirectly but the prospect of the different stake holders need to be resolved immediately to generate wider acceptance of the policy.

# CHAPTER VII

# MARKET AND COMPETITION ANALYSIS

## 7.1 Market Factors for Growth of Organized Retail

The market has become so complex that the reality is that every retailer has to 'understand his customers' more discerningly than ever before and make strategic choices to pursue the right target (customer) with the right proposition (Banerjee and Banerjee, 2000).

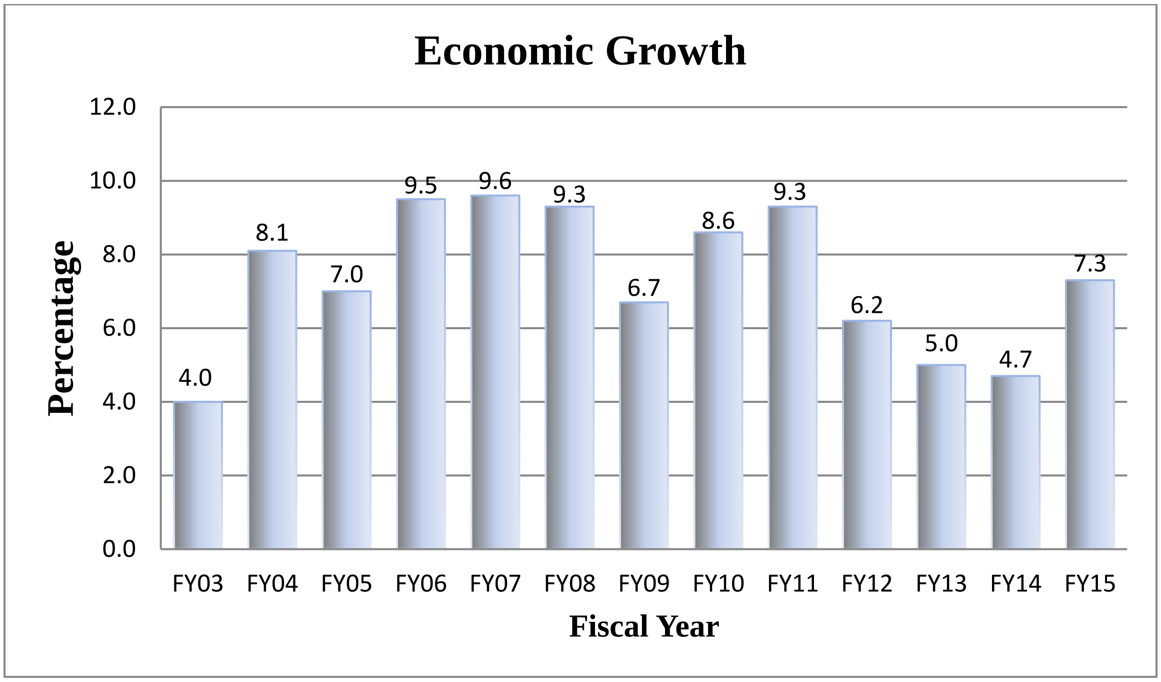
India's consumer market till now was broadly defined as a pyramid; a very small affluent class with an appetite for luxury and high-end goods and services at the top, a middles-class at the centre and a huge economically disadvantaged class at the bottom. This pyramid structure of the Indian market is slowly collapsing and being replaced by a diamond, a relatively large affluent class at the top, a huge middle class at the centre and a small economically disadvantaged class at the lower end. The diamond represents increasing volume and value across all classes of Indian consumer market (KS Oils, 2008).

The growth factors of retailing in India is not dependent only in one factor but has been strongly supported by its economy which has impact on society and consumer preferences. Some major factors are listed below:

### 7.1.1 Economic Growth

The size of the population in India has always made it a large market. The steady economic growth brought about an associated rise in the income of the consumer which in many was fuelled the consumer revolution in India (Pradhan, 2008).

Chart 9: Bar Graph of Economic Growth Rate




*Source: KPMG in India Analysis (2014) and The Indian Express (May2015).*

India is among the world's fastest growing economies and has recorded a growth rate of more than 8 percent in fiscal year 2004 from 4 percent in fiscal year 2003. It reached a peak of 9.6 percent in fiscal year 2007. A slowdown of 6.7 percent in fiscal year 2009 was brought about as an aftermath of the global financial crisis in 2008. The economy recovered in fiscal year 2010 due to the same facilitating factors that fueled its growth during fiscal year 2003 to fiscal year 2007. These factors include a growing services sector, strong domestic demand, higher investment, expanding infrastructure and a reform-focused government among others. It has been due to these strong fundamentals that India has gained greater world attention, especially from foreign investors (KPMG, 2014).

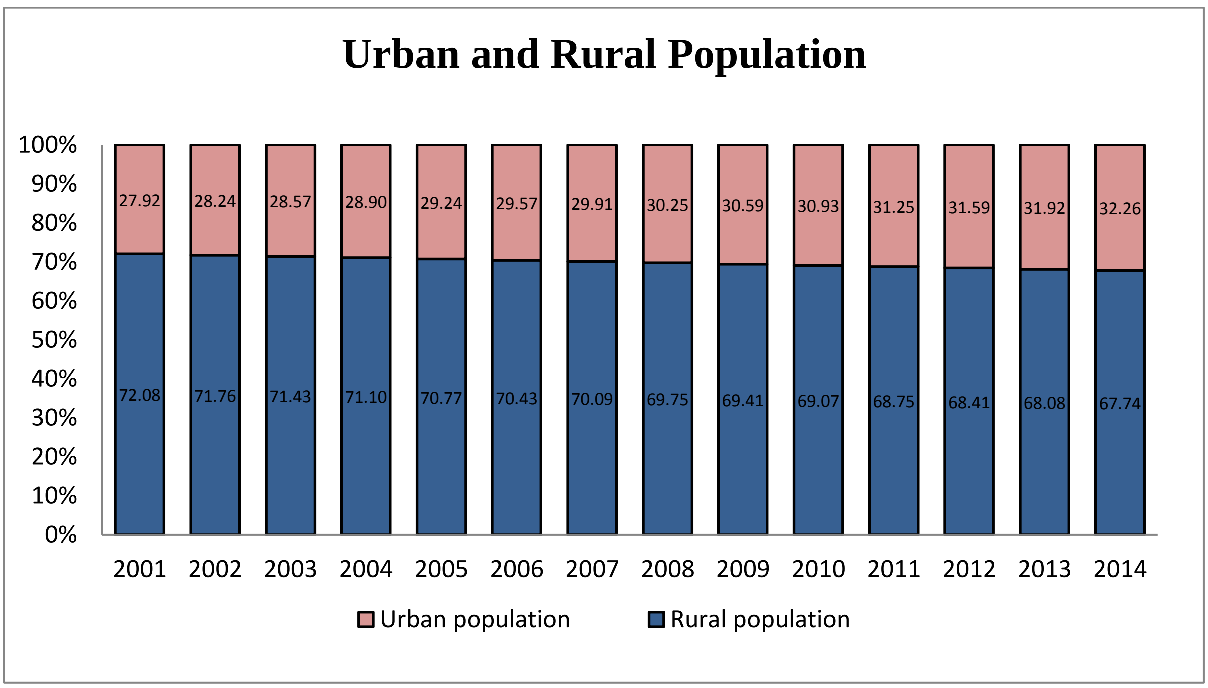
In fiscal year 2013 and fiscal year 2014 the Indian economy has slowed down to 5.0 and 4.7 percent respectively due to both domestic and global factors. The government of India and the RBI has taken several measures to revive growth and still positive sentiments among investors, business and the multilateral institutions. Consequently, economic growth in fiscal year 2015 has recovered to 7.3 percent (The Indian Express, May 2015).

### 7.1.2 Population Demography

India's demographic advantage offers a strong edge to leverage opportunities essential for a vibrant and rapidly growing economy. Relatively young and growing populations with educated workforce contribute to the country's competitive advantage. The population alone does not determine the volume of the market, but the relative size of the different income segments has a major impact on it. The building up of the Indian middle class and increasing income will provide a more demand for the niche and branded products.

i. *Composition of Urban and Rural Population*

Chart 10: Composition of Urban and Rural Population

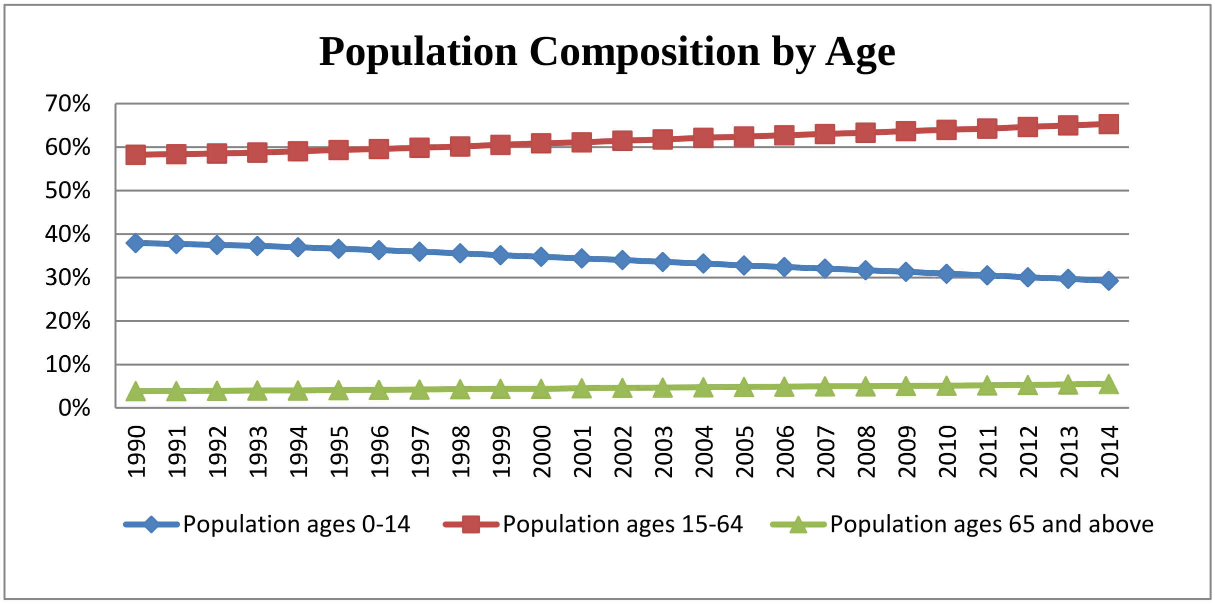



*Source: World Bank (2015).*

The above figure shows the composition of population of India living in urban and rural area from 2001 to 2014. It can be noticed that in year 2001, 72.08 percent of total population lived in rural area while only 27.92 percent lived in urban area. The trend of population migration in urban area is in increasing rate, though the increasing trend is slow. In year 2008, 30.25 percent of total population lived in urban area further it is increased to 32.26 percent in year 2014. It is also noticeable from above graph that more than 65 percent of total population of India lives in rural area.  The trend to migrate to city area is in increasing rate which is also another factor boosting for growth of organized retail in India.

ii. *Population Composition by Age*

Chart 11: Population Composition by Age.




*Source: World Bank 2015*

Line graph presented above shows the population composition of India on the basis of different age group. India has a large workforce; more than 50 percent of the population belongs to the working age group of 15-64 years. Also, the important fact is that working population is in increasing trend. Another age group 0-14 years which is slightly in decreasing trend is age group waiting to join the labor force in the next one-and-a half decades which is more than 25 percent. Hence, large and increasing working population of India is also an important factor associated for retail growth in India.

### 7.1.3 Change in Consumer Behavior and the Impact of Working Women

Rising middle class people, changing income levels and occupation have resulted in a change in the consumer's buying behavior. More urban women are seeking employment, resulting in dual family income. As a country with a high percentage of working population (more than 60 percent of age group 15-64), consumer spending has risen sharply recent days. Increased awareness has resulted in a perceptible change in behavior and search for convenient, fast and efficient place, with wide range of products, simultaneously a one-stop shopping experience. Compared to the eighties, India has seen brand explosion in almost all categories of goods providing ample choice to the customer. Their economic well-being, increasing aspirations for higher standards of living and comforts are responsible for the increase in consumer awareness.

Moreover, in households with working women there is greater work pressure and increased commuting time resulting in adjustments being made to the food habits (cooking versus ready to eat) as well as clothing. The focus shifts to convenience and comfort. The size and composition of the shopping basket has changed over time. Today's consumers are looking for shopping convenience and want to have all their requirements under one roof, coupled with speed in the retail store operations due to time constraints. This is another factor for organized retail growth in India.

### 7.1.4 Rising Middle Class People

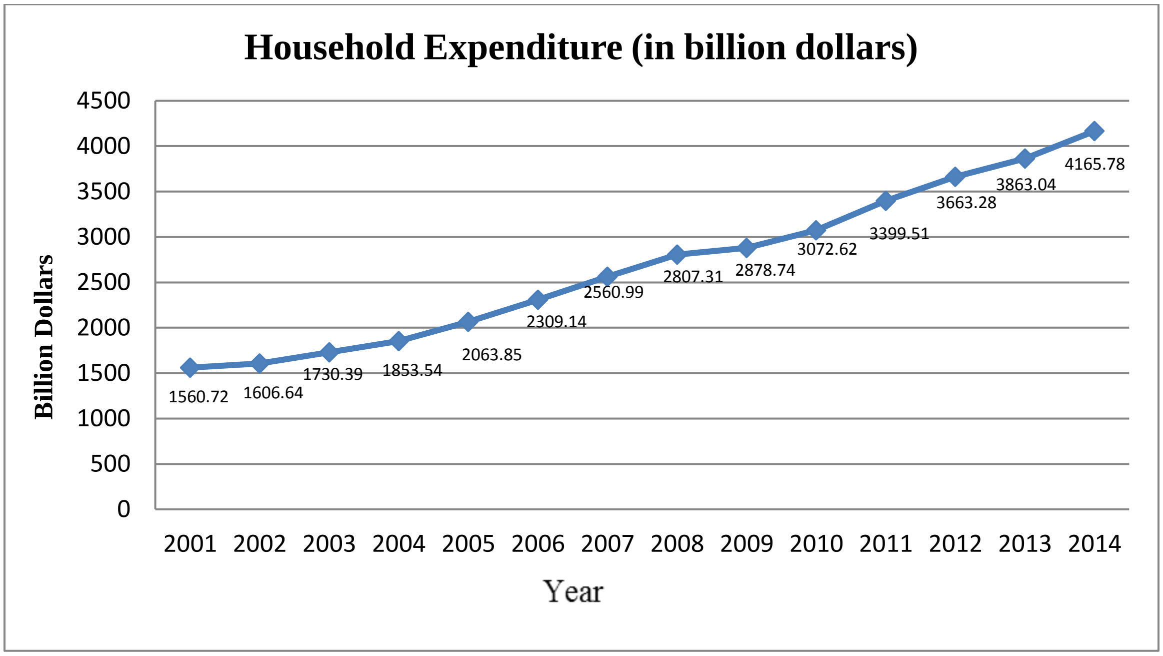
A family with an annual income between Indian Rupees 0.34 million to Indian Rupees 1.7 million (at 2009-10 price levels) falls in the middle class category. Currently India has 31.4 million middle class households (The Economic Times, Feb.6, 2011).

According to National Council for Applied Economic Research (NCAER), Indian middle class, target consumers for many companies, is expected to swell up to 267 million people in the next five years, 67 percent up from the current levels (The Economic Times, Feb. 2011). NCAER also expects that in 2015-2016, India will be a country of 53.3 million middle class households, thus providing a great market opportunity for firms.

### 7.1.5 Household Expenditure

Household expenditure in India can be categorized into regular and comfort expenditure. Regular expenditure includes the expenditure made on basic necessities, while expenditure on comforts includes spending on a Computer, Internet, Car, Mobile phone, etc. An analysis of household expenditure in the past decade reveals that the average household has been spending on an increasing number of different goods.

Chart 12: Trend line of Household Expenditure




*Source: World Bank (2015)*

The above figure shows the trend of household expenditure in India. Household expenditure includes expenses made for necessities, which is in growing trend. Total household expenditure in year 2001 was $1560.72 billion while, it is increased to $ 3072.62 billion in 2010. The growing trend is nearly double in ten years' time. In addition, household income is increased to $ 4165.78 billion in year 2014.

According to Goswami et al. (2009) there are a number of factors affecting the consumer spending pattern in India; these include growing income levels resulting in more disposable income, changing attitudes towards consumption, changes in prices, introduction of new products, availability of credit such as loans, mortgages and credit cards, rising aspiration levels, increased literacy, growing brand consciousness and rapid urbanization. The steep increasing trend line of household expenditure is also another important factor for the growth of organized retail sector in India.

### 7.1.6 Rising use of Card Payments

Plastic is overtaking cash in India's modern retail stores; in many instances, in fact, it has already done so. The country's top eight retail chains across formats, Future Group, Shopper Stop, etc. have already started to use credit card and debit card payments and have consistently exceeded cash this year in the biggest cities, dispelling the notion that Indian consumers prefer cash and reflecting the maturing of consumer behavior in urban markets (The Economic Times, 28th Nov. 2013).

Adoption of plastic money is being driven by young shoppers, an increasing share of working women, easier credit availability and a rise in impulse shopping. Plastic money has the advantage of convenience and safety. It also leaves an audit trail, which helps track large volume transactions. The Shoppers Stop department store chain and Future Retail's Central and Brand Factory Fashion outlets said sales by card now account for almost 55 percent of the total (The Economic Times, 28th Nov. 2013). The phenomenal increase in the consumer orientation, banking facilities such as availability of credit and use of plastic money have contributed to the prosperity of the retail sector.

## 7.2 Market Challenges for Growth of Organized Retail

In India the retail sector has a long way to go and to become a truly flourishing industry. Retailing has seen such a transformation over the past decade. The retail sector is growing at a significant pace. However, there exist several problems to execute a successful retail business. Some of the major challenges for organized retailer's growth are as follows:

### 7.2.1 Competition from Unorganized Retailing

The first challenge for organized retail in India is the competition from the unorganized retail sector. Still unorganized retailers cover more than 90 percent of market share which indicates strong existence in market. Traditional retailing has been established in India for centuries. It is a low cost structure, mostly owner operated, has negligible real estate and labor costs and little or no taxes to pay. Customer familiarity that runs the business from generation to generation is one big advantage for the unorganized retail sector. On the other hand, organized sectors have big expenses to meet and yet have to keep prices low enough to compete with the traditional sector.

### 7.2.2 The High Costs of Real Estate

There is limited land availability at prime locations and high cost of real estate in those locations such as in Delhi and Mumbai. This is because of restrictive zoning regulations that limit the availability of land for retail/ commercial purposes. Laws relating to land conversions and rent control acts vary across states. Non-availability of government land together with fragmented private holding makes it difficult for retailers to acquire large plots of land. There is no proper urban planning, and illegal construction of shops not only aggravates parking, electricity, and other problems but also creates operational uncertainty. For instance, in 2007 the Delhi municipality sealed many shops that were illegally located in residential areas, and then opened them up later with some size restrictions.

For comparable location in terms of business opportunity across different cities in the world, the rentals are high in India as shown in the table below according Cushman & Wakefield Research.

Table 2: Expensive Retail Rentals across Different Cities in the World

| Rank 2015 | Country | City | Location | US$ per. Sq. ft. Per Year |
|---|---|---|---|---|
| 1 | USA | New York | Upper 5th Avenue | 3,500 |
| 2 | Hong Kong (China) | Hong Kong | Causeway Bay | 3,500 |
| 3 | France | Paris | Avenue Des Champs Elysess | 1,372 |
| 7 | Japan | Tokyo | Ginza | 882 |
| 24 | India | New Delhi | Khan Market | 235 |

*Source: India Infoline (Dec. 2015).*

As shown in table above, the expensive retail rentals of India is Khan Market which cost US$ 235 per square feet. Khan Market, which is centrally located within the city of New Delhi, is flanked on all sides by high end residential area. Aside of that, the presence of many global and national brands with their flagship stores in the region, has further added to the attraction of the location.

### 7.2.3 Tax Structure

The tax structure in India favors small retailers. Organized sector has to pay huge taxes, which can results to the cost of business operations very high in India. There is multipoint octroi[9] collection and different structure of sales tax in different states. Interstate differences in definition, enforcement, and incidence of taxes make it difficult to have a uniform pricing model across the country. This leads to infiltration of products from states with lower taxes to states with higher taxes, resulting in black market. Multi-point taxation makes it difficult to set up a centralized sourcing infrastructure, so retailers with chain stores often work in a hub and spoke model with a centralize merchandising office and source products locally from contract manufactures, which does not allow economies of scale in sourcing. Moreover, differential taxation on raw materials, intermediaries, and

[9] The state government levies the octroi charges when the product enters the state. The octroi charges vary from 3% to 6% of the product value.

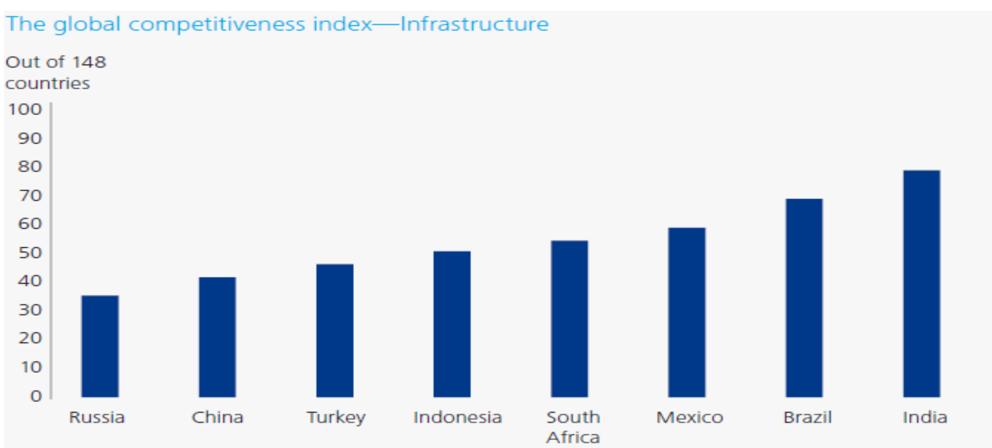
final products also distorts trade. For instance processed food is taxed at a high rate, which makes product expensive and thereby affects investment in food processing sector.

### 7.2.4 Lack of Adequate Infrastructure

One of the major barriers retailers face in India is the lack of supporting infrastructure such as storage facilities, electricity supply, and transport and communication networks. In India highly fragmented supply chain, around 30-40 percent of the fresh fruits and vegetables get wasted in the supply chain due to the lack of proper infrastructure (Saurav and Neeraj, 2015). The transportation sector is dominated by large number of players with one or two single-axle trucks. Road conditions are not suitable for heavy vehicles, so travel time is increased.

Most warehouses have small capacities and poor deployment of handling, tracking, and monitoring technologies (Saurav and Neeraj, 2015). Because of this, many large retailers in India, unlike developed countries, have to invest in the logistics chains.

Chart 13: Bar graph of India's infrastructure challenge




*Source: India's Infrastructure Challenge (Deloitte, 2014).*

The above bar graph shows the ranking of India's infrastructure challenge compared to other countries of the world. The World Economic Forum's latest global competitiveness index (2014-2015) has ranked India's infrastructure 87 out of 148 i.e. poorest ranks among leading emerging economies.

### 7.2.5 Shortage of Skilled Manpower

Modern retailers are facing acute skill shortages of manpower. Unfortunately, there are very few courses specific to the retail sector and graduates/post graduates from other streams are recruited. Labor productivity in India ranges from one-sixth to one-half of the US average (Mukherjee & Patel, 2005). Labor laws are rigid and do not allow companies to lay off redundant workers or limit hours of work, and there are minimum wage requirements (Mukherjee, 2011).

### 7.2.6 Government Policy

The status of the retail sector is depending mostly on government regulations and policies. It is said that there are unstable policies of Indian government. The evolving regulatory regime together with the political sensitivity of the sector has created an uncertain operating environment.

This is one of the few sectors in which even Indian organized retailers are facing political backlashes and protests. For instance, due to political pressure, the Uttar Pradesh state government had to shut down a retail chain dealing with fresh products (Mukhrerjee, 2011). In 2005, Metro was given a wholesale cash and carry license in the state of West Bengal that faced renewal problems in 2008 after the agriculture minister blocked it on the grounds that Metro is a foreign company (Mukherjee, 2011). Such a measure makes it difficult to have long-term investment plans that are essential for setting up efficient supply chains.  Also, many organize retailers have slowed down their expansion plans due to backlashes and are not willing to reveal their future growth plans.

The retail sector is subject to a plethora of laws at the central, state, and local/municipal levels. There is no nodal ministry or any specific legislation for the sector even at the center. Requirement of multiple clearances from different government ministries and departments affect efficient operations.

### 7.2.7 Unique Indian Customer

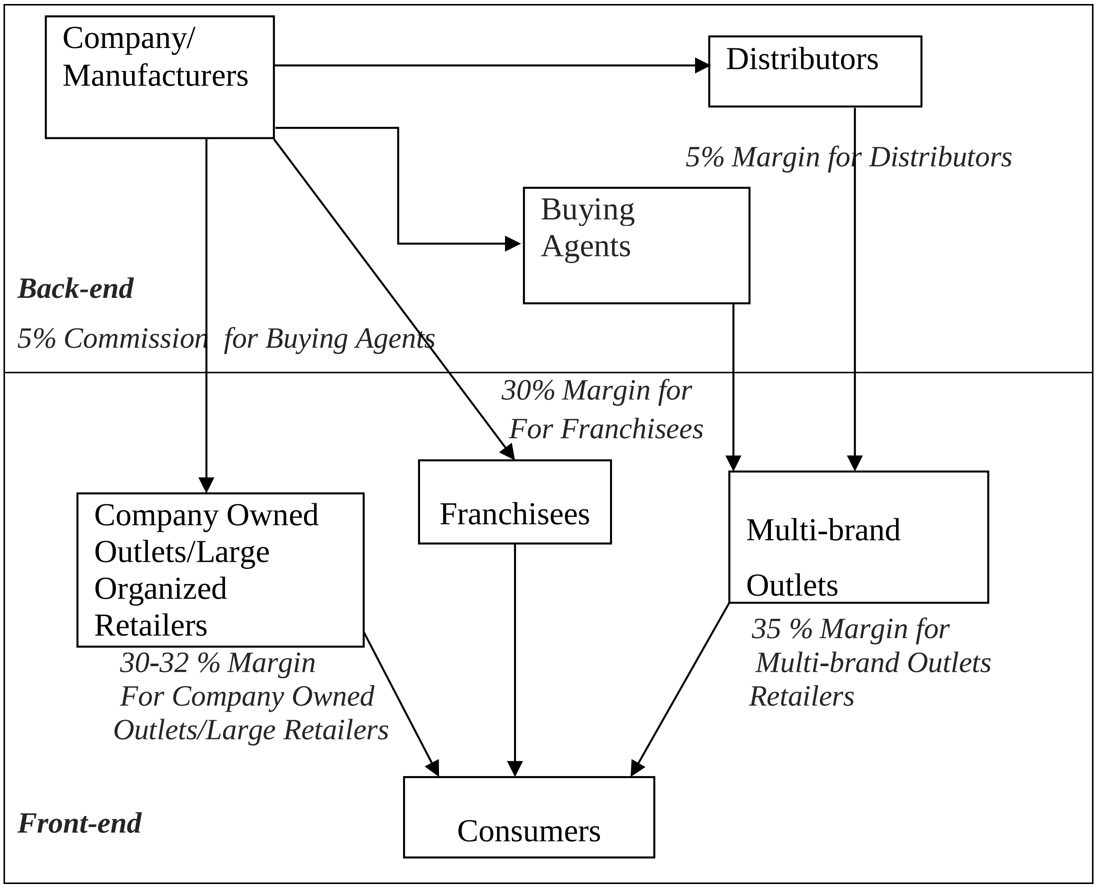
Customer's incomes, lifestyle, demand, behavior, preferences and dissimilarity in consumers groups are some other challenges that most of the sector in India is facing. Low purchasing power among the majority of consumers as well as conservative shopping habits deters development of modern formats. The Indian consumer experiencing modern retail has now warmed up to this idea. Buying habits have still not changed, where people prefer to buy most of the fruits and vegetables on a daily basis from their neighborhood stores. The Indian consumers have a strong preference for freshly cooked food over packaged due to poor electricity supply, low penetration of refrigerators etc. (Deloitte, 2010). There is also an impact on the basket size because of non-availability of personal transport facilities, due to which the consumers prefer to buy smaller quantities from stores conveniently located near their homes.

### 7.2.8 Absence of Developed Supply Chain Management

Supply chains are not yet so efficient. Difficult to develop economies of scale due to fragmented supplier base and there is no long term purchase agreements with suppliers-manufactures and farmers.

The presented figure below is an example showing intermediaries present in between manufacturers and consumers in India. In the product distribution process manufacturers use Franchises, Agents, Distributors etc. to supply their finished output in the hands of final consumer. These intermediaries charge their own commission of around 30 percent and more to provide the product to the final consumer. Also to maintain the same price level the company owned outlets also charge a bit less but around at same price level. Further detail is shown in the figure below:

Figure 5: Current Supply Chain of India with More Intermediaries



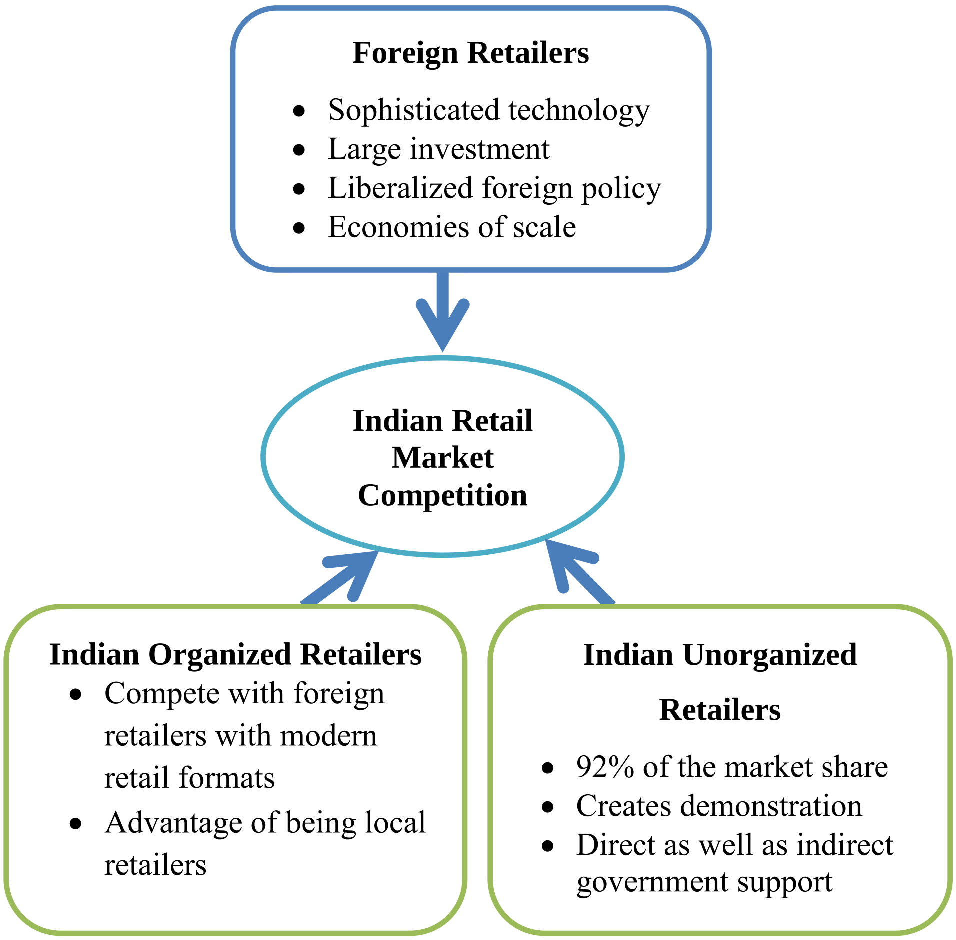

*Source: Joseph et al., (2008).*

Hence, manufacturers depend on intermediaries to supply their product to consumer. These intermediaries commission create unnecessary charge and problem for both manufacturer and consumer. If these intermediaries do not exists in modern supply chain system then both manufacturer and consumer can get better price of their product.

## 7.3 Competition in Retail Market of India

The competition in retail market can be analyzed from three sides. One from the foreign retailers, another from local organized retailers and final is local unorganized retailers. Details of which are explained below with the figure.

Figure 6: Competition Analysis of Retail Market of India




*Source: Created by Shrestha (2016).*

At present Indian retail market is becoming an attractive destination for foreign retailers and some of them have already started to enter and others are planning to enter. After the entrance of foreign retailers in India the competition in retail market has become more intense. Though local retailers have knowledge about the local attitude, culture and traditions, local sentiments and also have public relations but there also exists intra competition in local environment between local organized and unorganized retailers.

Hence, Indian retail sector has three major players' i.e. foreign retailers, Indian organized retailers and Indian unorganized retailers.

### 7.3.1 Foreign Organized Retailer

The potential strength factors that will help foreign retailers to compete in Indian market will be sophisticated technology, management know-how, large investment, economies of scale, and liberalized foreign policy. With these major strength factors foreign retailers may come to compete in Indian retail market. And some of the main weakness and threat factors for them are the lack of knowledge about Indian market, culture and political sensitiveness.

For example, in the early days, McDonald's operation in India made efforts to relate the brand being 'foreign' or, often, 'American'. Consumers typically had the feeling of not knowing what to expect from McDonald, which made India a more challenging market. India was the world's vegetarian paradise with nearly one billion people who eat meat only occasionally or never at all (Ayantunji et al., 2013). McDonald's India thus invested time, money and effort to develop a customized menu for India, a menu that reflected both the taste and beliefs of the natives. To establish a market in India McDonald managed to design a menu that included only chicken, fish, and mutton products. Also, it devised a comprehensive range of vegetarian products with the addition of Indian spices (Ayantunji et al., 2013). Hence, foreign retailers must be mindful of demographic and geographic differences between different market segments to better position themselves in India.

Operating in new market is a high cost and high risk method of growth. Indeed, it has been suggested, 'Global retailing demands huge investment and gives not guarantee of return' (Lamey, 1997). While there are certainly successful international retailers, there are many examples of failure also. Failure is, undoubtedly, the result of a series of complex and interrelated factors. For example, although successful retailer, Boots the Chemist has had a number of international ventures that it has subsequently pulled out of. It has withdrawn from Canada, New Zealand, France, the Netherlands and Japan operation (Gilbert, 2011).

Just because a retailer is successful into one market does not mean it can necessarily repeat this success elsewhere. For example, Wal-Mart entered Japan 2002 by acquiring Seiyu, a large Japanese retailer. Holstein (2007) attributed Wal-Mart’s slow growth in Japan to several factors including expensive distribution networks, retaliation by domestic retailers, its Every Day Low pricing strategy, and Japanese consumers. They asserted that the Japanese distribution network, called “keiretsu”, is a complicated chain of middlemen and prices are much higher for non-members such as Wal-Mart. Furthermore, Wal-Mart’s Every Day Low Price strategy raised suspicions amongst Japanese consumers. Japanese consumer equates low prices with low quality and where customers are prepared to pay top price for exclusive goods of the highest quality.

### 7.3.2 Indian Organized Retailers

From local organized retailer’s point of view the main strength factor is that they have mix nature of both foreign retailers and local retailers; like modern retail formats of foreign retailers with knowledge about local sentiments. Domestic retailers in the organized sectors are competing on large size, broad assortment, self-service format, and pleasant store environment (Ghosh et al., 2010). Largely due to the partially ban on foreign multi-brand retailers, department store and hypermarket formats are dominated by domestic retailers. The number of shopping malls and retail chains is rising as large retailers are improving their supply chains and expanding their geographical spread to gain market access (Bhattacharjee, 2006).

Some example of successful Indian organized retailers are: Tata group has over 100 businesses in several industries, including Star Bazaar India, Tata Trent, information technology and communication and consumer products, and has pursued acquisitions of well-known brands including Jaguar and Land Rover (Tata, 2015). The Reliance group has also several industries, including Reliance Retail, Reliance Fresh, Reliance communications etc. So these examples suggest that a few large domestic organized retailers may have accrued the power and the capital to pose a threat into the retail sector, thus being strong competitors for foreign retailers.

But on the other hand, the protest and problems created by unorganized retailers and middle man restrict in entering some states of India for organized retailers and selling some product of particular segments.

### 7.3.3 Indian Unorganized Retailers

Local unorganized retailers provide required quantity of product in a nearby distance with credit facility. The penetration of local unorganized retailers in Indian market is very strong as 60 percent of population of India still lives in rural areas where the infrastructures are not fully developed and is far from the reach of organized retailers. Almost more than 90 percent of total retail sales in India are generated from unorganized sectors despite their limited merchandise assortment and poor shopping environment. Many Indian consumers still prefer to shop at unorganized retailers due to geographical proximity to their home and personalized services (Goswami and Mishra, 2009).

Moreover, the Indian government has traditionally favoured small retailers in unorganized sectors by excluding them from taxation; leading to growth of their market. The liberalized policy also intends to safeguard local retailers through a variety of protective measures. Some criteria in multi-brand retail are like 30 percent of the value of procurement of manufactured processed products purchased shall be sourced from Indian small industries, retail outlets set up only in cities with population of more than one million as per 2011 census, 50 percent of total FDI brought in, shall be invested in 'back-end infrastructure' tends to protect local retailers.

But challenge for unorganized retailers is lack of capital by which they are not able to provide product variety, large quantity of product with discount, product standardization and easy shopping environment as of organized retailers.

### 7.3.4 Summary

The study of Indian retail market shows that both foreign and local organized retailers present strong competition against unorganized retailers through large capital investment, better technology, and human resource expertise to create one stop shopping environment.

But the market penetration of unorganized retailers and safeguard policy adopted from government level are favourable factors that make unorganized retailers strong enough to compete against foreign and local organized retailers.

But the favourable environment for unorganized retailer may not remain for long run. They should also adopt some changes to move forward with changing demand of customers and make their service better to sustain in the market for long-run.

## 7.4 Impact Analysis of FDI on Unorganized Retail Sector

FDI has both negative and positive impacts on the retail sector in India. However, in the case of unorganized retail, there is equal chance for negative impact from different sides, such as employment, market share, which are explained in the following section.

### 7.4.1 Reduction in Market Share

Financially strong foreign retailers will spread to multiple locations to cover maximum market and develop a full-fledged infrastructure. In this way, they can achieve economies of scale that let them reduce their margin, provide more value for the revenues they receive, and quickly grab market share. Due to this kind of activity, unorganized retailers will not only lose customers but also the margin that they were earning before the presence of foreign retailers.

This is true not just for unorganized retailers, but even for large Indian retailers such as Reliance, The Future group, and Tata trends which would entail job losses for millions and have the potential to destroy traditional retailers. More than 40 million people (3.3% of population of India) depend on traditional retail for their livelihood directly or indirectly (Paliwal, 2012 & Gupta, 2015), destruction of traditional retail would mean to dislocating millions of people who are depend on traditional retailing.

### 7.4.2 Reduction in Price and Profitability

Another challenge and threat to traditional retailers in India is the loss of business due to price cuts. Enduring the loss by initially lowering the price to penetrate the market is a very usual policy adopted by big players. They can afford to lower the prices in the initial stages in order to push-out the competition, monopolize, and later on raise the prices. They can store large quantities with warehousing, logistics, transportation, and support services to further cut prices.

This leads to very inequitable competition and eventually results in the large-scale exit of domestic retailers, especially the small family-managed operations, leading to massive displacement of persons employed in the retail sector.

### 7.4.3 Destruction of Traditional Retail Stores

It is relatively easy to start a retail business in India where capital and infrastructural requirements are low by which employment can be generated. The Indian retail sector also provides opportunities for entrepreneurship. The over-saturated agricultural sector, which provides the highest number of jobs, is heavily dependent in uncertain monsoon, the manufacturing sector is now nearly saturated and it is difficult to get jobs even at relatively lower wages (Guruswamy and Sharma, 2006). Therefore, service sectors such as retail, opens the door to a large number of Indians seeking employment opportunities. Thus, setting up a retail outlet using whatever capital is available is the obvious choice for many people (Guruswamy and Sharma, 2006). However, the fact still remains that many of these self-employed retailers are struggling to make ends meet and face limited opportunities and increasing competition from the retail giants.

When foreign retailers, such as Wal-Mart, enter the Indian markets, they come with huge resources at their disposal to sustain themselves over the years to overwhelm the competition. This is true not just by Wal-Mart, but even by large Indian retailers such as Reliance, The Future Group (Big Bazaar, Pantaloons, Food Bazaar) etc. They would entail job losses for millions and have potential to destroy the traditional retailers. As millions of people depend on traditional retail for their livelihood, destruction of traditional retail would mean dislocating them and their families, making it impossible for many of them even to maintain a basic level of subsistence.

### 7.4.4 Effect on Job Losses/ Employment

A survey was conducted by the Indian Council for Research on International Economic Relation (ICRIER) in 2009 to analyze the impact of foreign direct investment on unorganized employment retail trade with family labor and hired labor employed (Baskaran and Soundararaj, 2010). This survey covered all four zones of the country, North, West, East, and South and took 100 samples of unorganized retailers. The impact of FDI in retail trade on the family and hired labor is shown in below tables 2&3.

**Table 3:** Number of family labor employed in unorganized retailing

| Zone | No. of Family Labor Employed | | Percentage Change |
|---|---|---|---|
| | 2009 | Before 2009 | Family Labor |
| North | 120 | 156 | -0.23 |
| East | 116 | 145 | -0.20 |
| West | 118 | 141 | -0.16 |
| South | 112 | 138 | -0.19 |
| **All India** | **117** | **145** | **-0.19** |

Note: Employment per 100 retailers
Source: (Baskaran and Soundararaj, 2010, p. 244)

The above table shows the number of family labor employed before 2009 and in 2009, and the percentage change. In the North zone, the number of family labor employed in 2009 is 120, but before 2009 was 156. Compared to the data from before 2009, there is a decline of 23 percent in 2009. Similarly in the East, there was a decline of 20 percent, 16 percent in the West and 19 percent in the South. The number of family labor employed decreased in total.

**Table 4:** Number of hired labor employed in unorganized retailing

| Zone | No. of Hired Labor Employed | | Percentage Change |
|---|---|---|---|
| | 2009 | Before | Hired Labor |
| North | 73 | 81 | -0.10 |
| East | 119 | 152 | -0.22 |
| West | 109 | 135 | -0.19 |
| South | 116 | 142 | -0.18 |
| **All India** | **104** | **128** | **-0.19** |

Note: Employment per 100 retailers

Source: (Baskaran and Soundararaj, 2010, p. 244)

The above table shows the number of hired labor employed before 2009 and in 2009 and the percentage change. In the North zone, the number of hired labor employed in 2009 was 73, but before 2009 was 81. Compared to the data of before 2009, there was a decline of 10 percent in 2009. Similarly, in the East there was a decline of 22 percent, in the West 19 percent, and in the South 18 percent. The number of hired labor employed decreased here as well.

Hence, the study showed that unorganized retail outlets employ more family labor than hired labor, which is obvious as per size of their investment. The entry of organized retailers through FDI can easily affect the employment potential of the unorganized retailing as there is a fall in the proportion of labor employed in both family labor and hired labor categories. The size of organized retail is likely to grow in future and the effect on unemployment will also increase. The entry of giants such as Wal-Mart, will compel independent stores to close and will directly lead to massive job losses.

## 7.5 Options to Overcome Against Foreign Retailers

To compete against foreign retailers and sustain their presence in the market unorganized retailers and government should adopt some new strategy. Hence, the following are some options listed, which will help to reduce the negative impact of FDI in India.

### 7.5.1 Suitable Government Policy

To mitigate negative impacts of FDI, the government can play a significant role. For example, it needs to evolve suitable bank finance lending policies that will enable unorganized retailers to expand and improve their efficiencies. They also can provide incentives and concession to encourage local agro-production and sell them in the market. Also, can create awareness program to utilize local resources and earn livelihood from them. In addition, it can develop some policies that will encourage unorganized retailers to implement modern retail techniques and know-how to compete with foreign retailers.
Government can further create entry options for foreign players on a gradual basis and with social safeguards so that the effects of the labor dislocation can be analyzed and the relevant policies can be fine-tuned. For example, such a policy could initially allow foreign entities to set up supermarkets only in metros. Making the costs of entry higher and compliant with specific norms and regulations can prevent retailers to reduce price immediately.

### 7.5.2 Initiatives by Unorganized Retailers

The government's initiative to protect local retailers by gradual increment of FDI caps over a period of years will definitely help unorganized retailers. Structural changes in retail will surely start affecting large numbers of small retailers in certain regions around India, after one or two decades when the overall market share of organized retail reaches to the range of 20 percent. Unorganized stores operating at the periphery of the organized retailers are the first ones to suffer from its rapid expansion. Thus, India has sufficient lead time to innovate for greater inclusiveness and train small retailers to be a part of the retail revolution. To this end, the following are some of the strategies that unorganized retailers can adopt.

i. **Modernize Existing Stores**

Establishing a small shop in a locality creates its network with customer. If unorganized retailers could modernize their business with the use of modern technological facilities then they can create easy business with better service. For example: accepting credit and debit cards by installing a swiping machine in their retail outlets. Scanning and bar coding, computerized accounting and inventory control can also be practiced. Refrigerator, freezer and hot case facilities are already being used by some retailers. These retailers can use electronic weighing as many consumers do not rely on the old practices of weighing and measuring products.

**ii. Phenomenon of Discounting and Free Home Delivery**

In a middle class-dominated, price-sensitive market like India, price manipulation is a strong weapon in the case of small independent retailer. Small retailers should promote discounting in order to retain customers for their stores. Free home delivery mechanisms will build and increase relation with the customers.

**iii. Customer Information and Customer Care**

Small retailers potentially can provide better and more services than the larger competitors. Customers must be treated more as an individual with increased attention given to their respective needs. Unique services such as customized packaging, mailing of merchandise can also be extended.

**iv. Prominent Feedback System**

Unorganized retailers should also be active with the feedback they hear from their customers. Some customers may complain about unavailability of some products and somewhere neighbour may complain about personal temperament etc. They should analyze the problem and find proper solution. Unorganized retailers have to understand the concept of the individual customer outside their stores as a necessity. It is essential that they seek to add new forms of dialogue with their customers.

# CHAPTER VIII

# CASE ANALYSIS

Case analysis is an experiential form of learning which helps to provide real knowledge of the situation. This study has taken three cases for study i.e. Wal-Mart India, a foreign joint venture retail company with Bharti retail, Reliance fresh, an Indian organized retail company, and FDI policy for multi-brand retail in China.

## 8.1 Case I: Case Study of Wal-Mart India

Wal-Mart is the largest retail corporation in the world with US$ 482 billion annual turnover and about 2.2 million employees worldwide (Wal-Mart, 2015).Wal-Mart discount store was first established in a small town Rogers in Arkansas by Sam Walton in 1962. Cost leadership strategy was the foundation on which Wal-Mart was built and grew. With the slogan ‘Everyday Low Prices', strategy was to enter small towns with population of 5000-25,000 which were not served by large retailers and derive scale advantage in relation to the size of small town markets (Ingram et al., 2010). Once it established itself in small towns, it slowly improvised its basic model and translated it to large towns. Brea-Solis et al., (2010), Identified six choices or a set of choices that define that Wal-Mart’s business model which are setting low prices, investing in technology, having specific human resource policies, establishing strategies for expansion, increasing product variety, and developing Wal-Mart culture. Wal-Mart had a steady growth and by 1967 operated 24 stores. Wal-Mart went to public in 1972 and by the end of 1970s Wal-Mart has grown to 276 stores, in 11 states of US (Ravi, 2015). Wal-Mart stared its first Sam’s club members-warehouse store in 1983 and the first super center in 1998. This was followed by their first international store in 1991. During the last four decades Wal-Mart had an exponential growth both in number of store and sales revenues that continued till

2003. As of 2011, Wal-Mart has a total of 9006 stores in 28 countries, including 3084 retail stores in U.S, 609 Sam's Club stores and 4557 International stores (Ravi, 2015).

From the beginning Wal-Mart focused on increasing the volume of customers' visits to realize economies of scale (Walton, 1992). By keeping prices low, it increased sales much more than just to compensate for the decrease in mark-up. When Wal-Mart enters a market, prices decrease by 8 percent in rural areas and 5 percent in urban areas (Ghemawat & Mark, 2006). For example, when Wal-Mart entered the grocery business, the prices fell by 15 percent. This unrelenting drive to keep prices low puts pressure on all the stakeholders; workers, managers, and suppliers (Basker, 2005).

Labor costs were treated as overhead costs for the retail business and kept as low as possible. This meant employing as minimum number of workers as possible and paying wages as low as possible. Trade unions were discouraged. However, the company introduced a profit sharing plan for workers in 1971, in which they could purchase subsidized Wal-Mart stock with a percentage of their wages (Patibandla, 2014). Workers were treated as associates. Managers are given certain degree of autonomy to make decisions for increasing volume of sales. For example, department heads pick an item which they consider has the potential to sell in large volumes and develop the associated promotion plan. Furthermore, Wal-Mart developed the concept of "store within store" in which each department is given the freedom to act as an independent merchant.

Wal-Mart derived competitive advantage through adoption of highly efficient logistics and distribution system by leveraging new technologies. By 1988, Wal-Mart had the largest privately owned satellite communications network in U.S.A. This helped the managers obtain a complete picture of where goods were and how fast they were moving from the suppliers to front-end service and track all the costs involved (Lichtenstein, 2005). This made inventory management very efficient, thereby reducing working capital costs.

In traditional supply chain, goods pass from manufacturer to wholesaler to distributor, to retailer and customers. Wal-Mart procures goods directly from manufacturers bypassing all intermediaries and always drives a hard bargain with suppliers. It spends a significant amount of time meeting vendors and understanding their cost structure. Once satisfied, it establishes long-term relationship with vendors. It is in constant touch with suppliers through computer network (Chadran, 2003). The long-term relationship of repeated interactions reduces transaction costs of exchange. Wal-Mart owns its own large network trucks for moving goods from warehouses to stores. This ruthless pursuit of cost and price cutting strategies of Wal-Mart enabled it to grow into a gigantic retail corporation (Fishman, 2006).

The above discussion shows that Wal-Mart derived a sustainable advantage with respect to competitors in the U.S. with net positive effects on the economy as a whole. The issue that follows is whether it has been able to translate it to foreign country operations. Multinational firms have to take into account diverse economic, political, and social institutions of different countries, governance and management decisions while making their entry. The institutional environment in terms of the constitution, the legal system, property rights, contract laws, regulatory institutions, embedded norms and customs, and consumer behavior which determine transaction costs of business could be broadly similar across a group of countries and diverse across a group of other countries. For example, when Wal-Mart entered Canada and the U.K. it was successful. However, it failed in South Korea and Germany.

### 8.1.1 Wal-Mart in India

Wal-Mart entered India as a joint venture with the Indian firm Bharti to circumnavigate India's FDI rules. Bharti did not possess prior retail business (Sahay & Sharma, 2008). It wanted to enter into retail business by using Wal-Mart's expertise. Interestingly, it is a non-exclusive partnership and Wal-Mart can forge other alliances in India. Both the partners would like to use each other’s advantages with the expectation of breaking off in the future and become competitors (Patibandla, 2012). Bharti is Wal-Mart's franchisee and wholly owns and manages front-end retailing by setting up multiple stores across India (Rao & Guru, 2009). This means once Bharti acquires Wal-Mart’s expertise in warehousing and supply chain, it is rational for it to break-up as it would own the stores strategically placed across the country. Wal-Mart calculation could be gaining the institutional knowledge of the Indian economy through the venture to be able to adapt its American model of retailing to India at the time of future break-up of the venture. According to the deal, Bharti would handle front end retail stores while Wal-Mart would act as a wholesale and back-end partner. However, Bharti would use the name "Wal-Mart" for stores. The Wal-Mart would benefit from Bharti's experience in India while Bharti would benefit from Wal-Mart's experience in overseas markets. However, after tremendous opposition from local people and political parties, the first store opened in Amritsar in late 2009.

Bharti Wal-Mart has three forms of business models: Cash and Carry, Small Supermarkets (Easy Day) and Compact Hyper Markets (Bharti Wal-Mart India, 2009). In the case of Cash and Carry format, there is no policy restrictions on goods sold, as it is basically a business-to-business model. However, the government issued only 60 licenses for Cash and Carry operation for the entire country. Small and medium-scale businesses are provided a registered card with which they can buy goods in bulk and sell them to consumers with a mark-up. In 2013, the Indian government announced that foreign retailers can sell directly to consumers. This broke up the joint venture (Wal-Mart, 2013). Bharti divested their stake in the joint venture and Wal-Mart India took complete control of the company (Einhorn, 2014). With a total of 20 Best Price stores are operating in India presence (Wal-Mart India, 2015).

### 8.1.2 Issues and Challenges in India for Wal-Mart India.

Wal-Mart hope to expand into emerging markets in developing countries like India, especially market size and the purchasing power of its growing middle class have continue to grow (AT Kearney, 2011). India is becoming an important market for foreign companies not only in retail but other sectors like automobile, telecommunication etc. Despite of these opportunities there are several issues for foreign retailers like Wal-Mart. Major issues is the Indian government's policies, the government under political pressure from huge mom and pop stores which control the majority of sales in Indian retail sectors. Beside this, issues on efficiency owing to high transaction costs and physical infrastructure bottlenecks for example, roads, ports, cold storage facilities etc. High transaction costs are incurred while setting up of the necessary infrastructure. One has to acquire more than 21 licenses to open a retail store and pay high stamp duties in the case of transfer of property varying by state. Rigid land use and zoning policies that make conversion of land use rights time-consuming and complex (PWC, 2011). India is more densely populated than the U.S. High density could be an advantage as well as a disadvantage for large retailers. Once a large retailer occupies real estate in a high density area, it will be able to realize economies of scale of serving large number of customers and at the same time real estate prices could be high.

More over India is highly diverse in ethnicity, language, culture, and environment. For example, consumer preferences and consumption patterns (for example vegetarian and non-vegetarian foods, cultural foods and cloth wearing) are more diverse across different regions than in countries such as the U.S., European countries and even China: which means that a standardized supply chain across the country may not work. Furthermore, unlike in the U.S., and Europe, major part of land holdings in India are small, medium and marginal (Misri, 2006). If a large retailer wants to procure directly from farmers, he/she has to enter into relational contracts with a large number of producers which means high transaction costs. Most of the major players in the retail business use third party outsourced warehouses for distribution. Distributors establish localized presence and form their own network of sales teams (Patibandla, 2014). Also, there are no systematic methods of matching demand and supply and reducing costs of uncertainty.

- **Operations**

To operate in India Wal-Mart first made low-key entry in Amritsar, Punjab in May 2009. The target customer for cash and carry business was retailers not end customers. There was a deliberate attempt to avoid attention to the brand Wal-Mart by naming the initiative ‘Best Price Modern Wholesale’. The emphasis in the logo was on best price with both Bharti and, Wal-Mart logo in small font acting as the supporters rather than the drivers of the project. Wal-Mart recognizes and acknowledges the fact that more than 10 million other tiny retailers are its greatest challenge and greatest opportunity. If it can win them over, they are likely to become its biggest customers. Anger them and they could use their political power to block expansion.

In order to make enhance their image in the region, Wal-Mart has also embarked upon a host of social initiatives.

1. Part time employment to cart vendors and senior citizens.
2. Plantation drive: Planting saplings around the store.
3. Mera Kirana and Business Solutions Centers to help small and medium retailers implement best retailing practices.

The Wal-Mart strategy so far has been steadily gaining acceptance by the local community. This is essential because FDI in retail is finally approved by the government.

- **Penetration in Key Markets**

Wal-Mart is largely known for its brand internationally. Wal-Mart India owns and operates 20 Best Price Modern Wholesale stores in 9 states across India. First store was opened in Amritsar in May 2009 (Wal-Mart, 2015). Further initiative to expand has been extended to stores located in Punjab (Amritsar, Bhatinda, Jalandhar, Ludhiana and Zirakpur), Uttar Pradesh (Agra, Meerut and Lucknow), Telangana (Hyderabad), Andhra Pradesh (Guntur, Rajahmundry and Vijaywada), Madhya Pradesh (Bhopal's two stores and Indore), Maharashtra (Amravati and Aurangabad), Chhattisgarh (Raipur), Jammu & Kashmir (Jammu), and Rajasthan (Kota).

- **Product Mix**

The Wal-Mart India, best price stores offer an assortment of around 5,000 items, including food and non-food items, which are available at competitive wholesale prices, allowing retailers and business owners to lower their cost of operations and maximize their revenues. A typical best price store stands on approximately 50,000 square feet and sells a wide range of fresh, frozen and chilled food, fruits and vegetables, dry groceries, personal and home care, hotel and restaurant supplies, clothing, office supplies and other general merchandise items.

The assortment, service and store layout are customized to the specific needs of members who can walk into a best price store and source high quality products in quantities they need and at the time they require. More than 90 percent of these goods and services are being sourced locally; thereby helping keep costs to a minimum, adding to the growth of the local economy and creating job opportunities, with the cash and carry store directly employing more than 200 local people (Wal-Mart India, 2015).

- **Technical Knowledge Exchange Between Bharti Retail and Wal-Mart**

After signing Joint venture, Wal-Mart provided certain technical support to Bharti Retail for its front-end retail venture where Bharti Retail required critical retail technology and technical know-how. For example: Barcode scanning, the barcodes on the products enable easy inventory management. Data retrieved from Point of sales (POS) can create customer order database and is further used for forecasting, as per the customer's needs. Radio Frequency Identification (RFID) is a wireless technology used for efficient supply chain management. It optimizes tracking of merchandise, minimizes losses and maximizes product management. Thus these technologies have advantage on visibility of merchandise flow, overstock and discounts as well as better inventory control. Within the framework of permitted franchise arrangements, Bharti retail has entered into a technical collaboration with Wal-Mart (Patil, 2015).

- **Product Procurement**

Wal-Mart runs private level strategy campaigns like 'Every Day Low Price'. The wholesaler will have more flexibility for such deals with a higher number of private label products as they offer higher margins. Besides bringing a wide assortment of branded products through private labels, Wal-Mart endeavour to bring their members quality products at affordable prices, especially in categories with a demand gap. This helped their members to achieve affordability and trust with their customers.

Wal-Mart has tied up with a bunch of small medium enterprises for domestic and global sourcing. Globally, the company sources close to $1.2 billion of goods. Of its domestic consumption from India, about 95 percent comes from local suppliers, with SMEs forming 30 percent of the supplier base (The Financial Express, Feb. 2015). Wal-Mart work very closely with their private label suppliers and other SMEs in India to improve their quality and compliance related process.

- **Pricing Strategy**

In India, Wal-Mart is limited to wholesale retailing as foreign direct investment (FDI) rules do not permit 100 percent subsidiaries of foreign companies to do multi-brand retailing. As Wal-Mart is known as best price stores, it provides unmatched convenience, choice, quality and hygiene in best price. The mission of best price is "Enabling business to prosper, every single member". To enter and purchase from best price stores, it is mandatory to become a member (Wal-Mart India, 2015). Members can belong to different categories such restaurant owners, hoteliers, caterers, fruit and vegetable resellers, kiranas (other retail store owners), offices and institutions.

Members get the benefits of wide range of product assortment to suit their needs at competitive, consistent and transparent prices with great shopping experience and convenient payment and delivery solutions. The price structure allows profitability to the members, and also allows them to pass on the price savings to the end-customers, thereby helping them to save money and live better.

Wal-Mart, which has a discount retailing business model globally 'Every Day Low Price' following its split from Bharti retail is undertaking a bunch of initiatives to boost revenue and profitability in India. One such move is in the area of private labels, which was started by the company in mid-2014 (The Financial Express, Feb. 2015). The margin in private labels is higher, and the marketing cost is less. In the US, private labels continue 20-25 percent of company's retail revenues. In the UK, under Asda brand, they account for much higher, at 40 percent.

- **Internal Joint Venture Problems**

The Joint Venture between Bharti retail and Wal-Mart ended up their six years old partnership in 9th October 2013 (The Indian Express, Jun 2013). After India announced in September 2012, that it would allow foreign supermarket chains to take majority ownership of their local operations, it marked a victory for Wal-Mart stores which had spearheaded efforts to open the market. Wal-Mart's internal crackdown on bribe-paying has also slowed expansion plans in a country where paying bribes is seen as a standard cost of doing business in India. According to the company source, the license has been held up because Wal-Mart won't pay a bribe. In November 2013, Bharti Wal-Mart, the company's India joint venture, suspended employees including the chief financial.

Wal-Mart's local joint venture partner Bharti (controlled by billionaire Sunil Mittal), one of the few large-scale retailers in India wanted to consolidate its balance sheet and sharpen its focus on Bharti Airtel Ltd. The Bharti Wal-Mart wholesale joint venture lost US $ 48 million in 2011 (The Financial Express, July 2013).

After the end of joint venture relationship, Wal-Mart, by far the most aggressive foreign supermarket operator in India, expects to open its first store selling directly to open the public and aims to run a profit in 10 years. To get there, Wal-Mart plans to sign up 35,000 farmers coming years; up from the 6,700 it has now (The Indian Express, Oct. 2012). Fresh produce accounts for about 30 percent of Wal-Mart's sales in its wholesale outlets in India. Wal-Mart must buy in small batches from small plot-holders in a country where more than 80 percent of farms are less than 2 hectares. That means contracting with thousands of farmers will still yield only a few thousand tones. It's going to be a huge challenge and requires a lot of work.

- **Glocalization Strategy**

Wal-Mart in efforts to successfully cater to Indian consumers uses different glocalization strategy such as: adaptation to consumers' tastes and adaptation of Wal-Mart to agro-food. Wal-Mart opened its first store in Amritsar in May 2009, over 90 percent of Bharti Wal-Mart's shelves have been supplied with India's favourite products, including household names such as Amul, a prominent butter and dairy brand (Wax, 2009). Since in India over 31 percent of the population is vegetarian (Figus, 2014), a simple strategy of demonstrating respect for local cultural sensitivities is for example, to store and display vegetarian and non-vegetarian items separately and to clearly mark whether a product is vegetarian or not (Halepete et al., 2008). Also, local Bharti Wal-Mart managers often play Bollywood pop music in the store.

Bharti Wal-Mart has also taken into consideration for farmer/producer's knowledge and conception of inputs, such as fertilizers and high-yielding types of seeds; the nature of extension services; the performance and continuous follow-up of good agricultural practices and good handling practices; the concentration of the clients' needs and requirements; the adaptation and adherence to international production standards; and the assortment of farming or production arrangements (Sagheer, et al., 2009).

- **Not Just Wal-Mart**

The Wal-Mart Bharti breakup is not the only recent severing of ties between multinationals and local partners. Fast-food giant McDonald's, which has a 50/50 joint venture called Connaught Plaza Restaurants, has accused Indian partner Vikram Bakshi of looking after his own business interests in preference to those of the joint venture. The company would henceforth be run by the board, it said. The affair has ended up with the company law board.

Also, a year-old partnership between Australian coffee chain Di Bella Coffee and Indian entrepreneur Sachin Sabharwal is now embroiled in legal suits and defamation charges. The 26 years old joint venture between the Munjals and Honda of Japan broke up in 2010 (Wharton, 2013). Other joint ventures said to be on the rocks include Gillette India (with key shareholder and Chairman Saroj Poddar) and German stationery maker Faber-Castell (with partner and managing director Anup Bhaskaran Rana). Reebok India's managing director Subhinder Singh Prem was even arrested for fraud.

“The Bharti Wal-Mart case is completely different”, says Raveendra Chittoor, professor of strategy at the Hyderabad based Indian School of Business. Pointing out that the partners in the joint venture came together based on certain assumptions on the regulatory front “for Wal-Mart, their proposed business model does not fit in with the new regulations” (Wharton, 2013). Traditionally, joint venture breaks up mainly because of incompatibility issues or big egos. But in India, it may be more the external environment than the internal environment that is causing separations.

### 8.1.3 Conclusion

Investment by foreign company in host nation is really challenging job. Host nation has its own style of behaviour and perception which differ with each other due to their culture, tradition, language, education etc. The large investment of Wal-Mart in India was possible only after revised and acceptable foreign policy by the Indian government. With the mission of ‘Everyday low price’ worldwide, Wal-Mart started its journey of Joint Venture with Bharti retail with mission ‘Best price Modern Wholesale’ in India. Wal-Mart had to joint hands with Bharti retail due to strict foreign policy of government where only 51 percent of investment is allowed for foreigner in cash and carry business.

In the journey of its business Wal-Mart has tried hard to sustain itself with Indian environment. It has used local sourcing of more than 90 percent for its business in India, also educated local farmers for required type of product. It was also equally alert about millions of unorganized retailers doing their business in every part of India. Wal-Mart has strategically dealt with local unorganized retailers and made them a good customer otherwise they could create problems to do business. As Wal-Mart provides products in best price, it helps local retailers to generate margins further.

Before entering in Indian market Wal-Mart chose Bharti retail group because it was well established in Indian market in telecommunication business as Bharti Airtel. Also, Bharti retail accepted the proposal, to get the technical as well as economical support. In 2013, Wal-Mart declared that the joint venture relation with Bharti retail is no more. Both investors may have faced some internal problems in six years of time which is not clear yet. But if we watch from Wal-Mart side may be after the declaration of deregulation of

FDI policy in single-brand investment up to 100 percent and multi-brand investment up to 51 percent by foreigners in September 2012, Wal-Mart wanted to discontinue with Bharti retail. It is still a subject of curiosity that what Wal-Mart will do now. Wal-Mart has not withdrawn its business in India but wants to operate and gain profit further. Further if it decides to continue in India on its own, it means that it is confident of the potential of the Indian market so in future it may not only exist with cash and carry business but also with multi-brand stores.

## 8.2 Case II: Reliance Fresh: Overviews

Reliance Fresh started its retail journey in November 2006, as part of retail business of Reliance Industries Limited of India (RIL). Reliance retail operates over 2,621 stores across 200 cities in India (Business Standard, 2015). Reliance Industries Limited was, founded by Dhirubhai Ambani, which is India's largest private sector enterprise. It is engaged in the production of textile, synthetic fibers, petrochemicals, oil and gas refining. The flagship company, Reliance Industries Limited (RIL), is a fortune global 500 company and is the largest private sector company in India (The Reliance Retail, 2016).

Reliance Fresh started its first store in Hyderabad (The Reliance Fresh, 2015). Since its inception in 2006, Reliance Fresh has grown to cater to millions of customers, and thousands of farmers and vendors. Reliance retail serves over 2.5 million customers every week, and its loyalty programmed 'Reliance one', has the patronage of more than 6.75 million customers (The Reliance Retail, 2016). Reliance retail has adopted a multi-format strategy and operates convenience stores, supermarkets, hypermarkets, wholesale (cash & carry) stores, and specialty stores. Reliance has democratized access to all types of products and services across all segments for all Indian consumers.

### 8.2.1 Penetration in Key Markets

Reliance Retail with its first store in Hyderabad in 2006 has rapidly grew to operate 700 stores across 13 states by the end of 2007-2008. All the stores were owned stores and varied in size and format like, *Reliance Fresh* with 3000 to 5000 square feet, Reliance super with 10,000 to 20000 square feet, and Reliance Mart over 75,000 square feet

(Sukhpal & Naresh, 2010). It can easily cater to an area of 2 to 3 kilometres in its vicinity. Presently, Reliance Fresh operates in 93 cities across India with 700 plus stores (The Reliance Fresh, 2016).

- **Product Mix**

Reliance retail has adopted a multi-format strategy and operates convenience stores, supermarkets, hypermarkets, wholesale stores and specialty stores has access to all types of products and services across all segments for all Indian consumers (The Reliance Retail, 2016). Reliance Fresh offers convenience of shopping for everything that the customer needs like fresh vegetables and fruits, rice, oil, packaged food, bakery and dairy item, frozen and pet food, household cleaning items, specialized beauty and personal care products from a single virtual store. A selection can be made from a wide range of 6000 plus products (Suvadarshini et al., 2015; The Reliance Fresh, 2016).

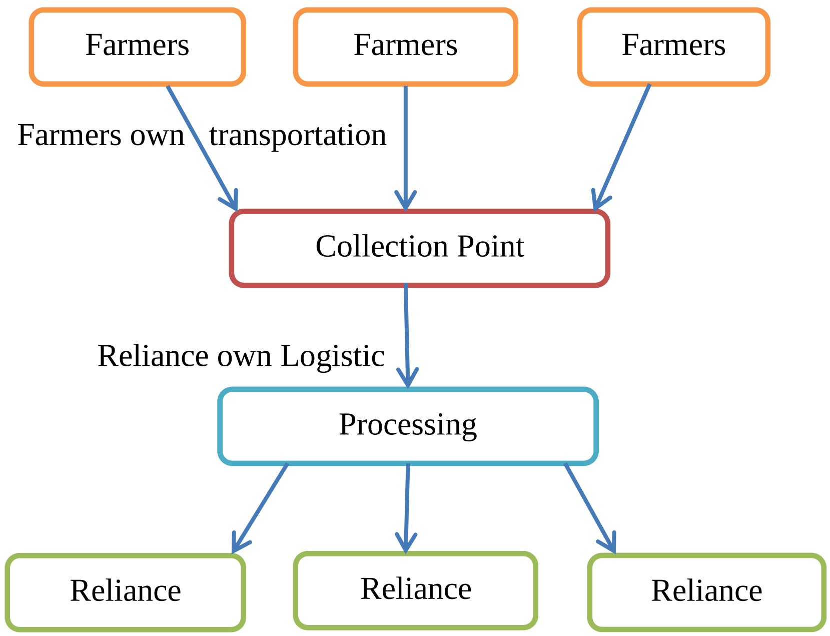
To secure high quality, Reliance Fresh is directly sourcing fresh agricultural produce from thousands of farmers from villages through collection centers. With this concept, Reliance has built a business model generating shared value that links the company supply chain more closely to poor farmers in Indian villages. Reliance is providing a guaranteed market for the farmers' produce, reducing transaction costs and training the farmers in better and sustainable farming practices (Khan et al., 2013).

- **Product Procurement**

Reliance Fresh has established the rural business hubs in many parts of the country. The objective of Reliance Fresh is to make the entire value chain more effective, robust and responsive. By approaching farmers directly, it thereby reduces the procurement wastage that further paves the way for better returns to Indian farmers and wholesalers as well as it renders greater value for the Indian consumers (William & Ashish, 2008). In the first phase vegetables and fruits are procured from the suppliers or famers and Reliance collection point followed by processing, separating rotten ones and finally packaging for sale.

The objective of the collection centre is to buy fresh and good quality of vegetables and fruits. Reliance retail started its retail operations of Reliance Fresh store by following the supply chain model comprising of procuring vegetables and fruits directly from the farmers and operating with moderate margin. Figure below illustrates the farm-to-fork model of Reliance Fresh.

Figure 7: Reliance Fresh Supply Chain Management Model




*Source: Raghu (2011).*

Above figure clarifies that the raw material is procured from farmers or suppliers and the farmers use their own logistics for assembling the goods in the collection point. From the collection point, Reliance Fresh uses its own logistics for transportation from collection point, then transported to processing point and ultimately to the customers through the Reliance Fresh outlets. Realistic supply chains have multiple end products with shared components, facilities and capacities. The flow of materials may require various modes of transportation, and the bill of materials for the end items may be both deep and large.

- **Technology**

Reliance Fresh is fully customized and equipped with highly secured software. The major software used in Reliance Fresh are; Tags/Bar coding, SAP[10], RETALIX[11] etc. Every product is labelled with Tags/Bar codes which help in maintaining stocks and also during bill payments.

- **Pricing Strategies**

When the first Reliance Fresh store opened in Hyderabad, Reliance Fresh store's main focus was fresh produce like fruits and vegetables at a much lower price, with "farm-to-fork'' strategy (Khan et al., 2013). Sourcing from farmers and sell directly to the consumer removing middlemen out of the way. At present Reliance Fresh stores apply like, discount pricing strategy, wide price range of each item, credit card acceptance, and accept coupons within competitive price.

- **Marketing and Sales Strategy**

Direct marketing through the use of mail, telephone, fax, e-mail or internet to communicate directly with response from specific customers and prospects this platform is used to inform the reliance members (a loyalty program) through e-mails, telephones and Short Message Service (SMS). Through this the information regarding the latest offers, events are being communicated to the customers.

- **Push Strategy**

Reliance fresh adopting push strategy like point of sale displays, special displays, dealers premium, gifts, advertising materials, catalogs and brochure, events and sampling for clearing their inventories in time. Also, a variety of short term incentives is also conducted to encourage trial or purchase of a product or service. The sales promotion at

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[10] SAP is software program that allow business to track customer and business interactions. SAP is especially well-known for its enterprise resource planning and data management programs.
[11] Retalix is software application for retailers, wholesalers and distributors of fast moving consumers' goods, mainly in the grocery, convenience store and foodservice industry developed by Retalix Ltd.

reliance fresh includes, premium and gifts on the purchase of a fixed amount, and offers like Buy one Get one Free (BOGOF) etc.

- **Pull Strategy**

Reliance fresh introducing pull strategy like coupons, samples, premium and gifts, refunds for attracting the customers. Customers are also pulled through the help of, print and broadcast adds with the help of National Newspapers and Local Newspaper, catalogue distribution to the customers inside the store, billboards outside the store, and audio materials inside the store including latest promotions and offers.

- **Services and Support**

The salesman are well trained in handling customers and well informed about the available merchandise in context of pricing and offerings (The Reliance Fresh, 2016). They provide personalized service to customers and meet their queries. They time to time operate as per the instructions of the top management. They have a close monitoring on the available inventory and they furnish the information as regards of procurement.

- **Challenges**

A key challenge was to source a supply of fresh produce for it stores of sufficient quality. Reliance created rural collection center across India where farmers could sell their fresh crops, fruits and vegetables locally. Through collection centers, Reliance is pursuing the strategy of building an integrated business model that sources agricultural produce directly from the small farmers in Indian villages. To make this business model work, Reliance fresh has to deal with thousands of small farmers and producers which was not easy task. The company is providing a guaranteed market for the farmers' produce, reducing transaction costs and training them in better and more sustainable farming practices. This initiative has resulted in increased income and upgraded skills for the farmers, a reduction in spoilage of produce by up to 35 percent and better quality products for Reliance fresh stores (Carlos et al., 2009).

Before establishing a collection centres', Reliance raises awareness of its activities in surrounding villages and provides training on how to cultivate the desired products. Reliance also distributes seeds from Reliance-owned nurseries. Collection counter maintains farmer contact lists and call on them when they are looking to procure specific crops. Reliance guarantee that it will purchase all produce delivered (which Mandis do not) and handling fees are approximately 50 percent lower than the Mandis (Carlos et al., 2009).

The Reliance Fresh possesses superior logistic management system, resulting in considerable reduction of wastage during the marketing of perishable items. Consumers in Jharkhand find Reliance Fresh convenient because of the air-conditioned and computerized billing and because that the prices are exhibited publicly. Due to its growing business, the Reliance Fresh stores in Jharkhand have faced 'attacks from mobs' made up of local vendors whose livelihood was affected. Store was vandalized (The Hindu, May 2007). In Jharkhand, a few Reliance outlets as in Ranchi and Jamshedpur have closed down, and protests from fruit and vegetable vendors continue (Ghosh, 2013). The street-side vegetable retailers are feeling insecure. They perceive Reliance Fresh as a big threat to their livelihood. Also Mr. Bansilal Rajdev, a big potato merchant in Mandi (Wholesale Market), was discussing the same issue with other Mandi merchants. They were worried that their business would disappear if farmers sell majority of their farm produce directly to the Reliance Fresh (Dholakia et al., 2009).

Reliance fresh model was farm-to-fork strategy, removing intermediaries. They purchase directly from the farm and supply to its own outlets at various parts of the cities. However, they faced tremendous opposition from various small retailers and traders. Today, this format is mostly running only in big cities.

Reliance retail was faced with massive opposition from the trading community. But Reliance had a prepared back-up, and that time it was much more powerful than the earlier one, throwing solutions to every precious dilemma. In a dramatic shift, it decided to turn into a trader itself. It entered the food-trading business as part of a major restructuring of its food and grocery initiative.  As a result of this restructuring, Reliance

Retail is setting up shop in Mandis to sell fruits, vegetables and staples. It would also allow the company to sell to a wide range of customers, including wholesalers, other traders, and retailers.

### 8.2.2 Conclusion

Reliance Fresh is a convenience store format which is a part of locally established company Reliance retail Industries Limited. It is able to provide requirements of customer by selling products in organized format. All staffs are well trained and well informed about the available categories of products and the technology been used in Reliance Fresh. Reliance Fresh has made rapid progress towards building a value chain starting from farmers to the end customers with hygiene, quality, safety and competitive price.

After having some problems with locals and state level it has decided to minimize its exposure in the fruit and vegetable business and position Reliance Fresh as a pure play supermarket focusing on categories like food, fast-moving consumer goods (FMCG), home, consumer durables, IT, wellness and auto accessories business (Biswas, 2014). The company may not stock fruit and vegetables in some states, Orissa being one of them. Though Reliance Fresh is not exiting the fruit and vegetable business altogether, it has decided not to compete with local vendors partly due to political reasons, and partly due to its inability to create a robust supply chain. This quite different from what the firm had originally planned.

Reliance Fresh store's main focus was to sell fresh produce like fruits and vegetables at a much lower price, with farm-to-fork strategy. The idea the company spoke about was to source from farmers and sell directly to the consumer removing middlemen out of the way. But this was not acceptable to local sellers and middlemen as their business may shut down. Though Reliance Fresh is an Indian company but it had to face some challenge in some of the states and had to change their strategy to sustain in the market.

Finally it conclude that, In India there are few large organized retailers presents and wants to expand their business in India, but they face lots protests from local neighbourhood retailers like small mom and pop shops. Even state government and local government could not help them because it is politically very sensitive sectors. Same problem was faced by Reliance Fresh. From this case study we can easily know that why India has over 90 percent market share is unorganized. Also not only foreign multi-brand retail are facing the problem opening retail store in India, but also local and national organized retail are also facing problem.

### 8.3 Case III: FDI Policy for Multi-brand Retail in China

China, the second largest economy in the world, is a lucrative market for western retailers due to its huge population, booming middle class and rising disposable incomes. China took over 12 years to liberalize its FDI regime. It first allowed FDI in retail in 1992 at 26 percent (Dutta, 2011). As soon as retail was opened to FDI in the late 1990s, global retailers like Tesco, Wal-Mart, Metro and Carrefour were quick to enter (Ghosh, 2011). After 10 years the cap was raised to 49 percent when local chains had sufficiently entrenched themselves. 100 percent FDI in retail was permitted only in 2004, after the infant retailing industry had acquired good experience (Guruswamy and Sharma, 2006).

Initially, China allowed foreign retailers to open only in select metropolises, such as Beijing, Shanghai and Shenzhen, and moreover, only in certain districts in those cities. In Beijing and Shanghai, foreign retailers like Wal-Mart were only allowed to operate in regions where there were no local competitors. Through these barriers China succeeded in giving local retailers protection, while at the same time, they learnt from the efficient business models of foreign companies (Krishnan, 2011).

Entering this market in 1996, Wal-Mart was one of the first retailers to take advantage of this growth opportunity. However, the inability to change with the local market made it difficult for foreign retailers to gain significant presence in China, and Wal-Mart is no exception.

China’s retail market has become extremely competitive, with competition between state owned, private and foreign stores. To compete with the foreign retailers, the incumbents were forced to improve customer service and product quality while reducing costs, all of which has led to greater efficiency in distribution and streamlining of supply chains. The customers has also benefited from more choice at the store and product levels. Since 2004 the number of small Chinese outlets has increased to around 2.5 million from 1.9 million and unorganized retail has continued to thrive, offering cheaper prices than supermarkets and retail chains. The foreign retailers found difficult to compete on price. State owned competitors had soft budget constraints and small-scale family run stores operate with low overheads. Initially, the foreign retailers could differentiate themselves from local competitors through imported technologies and practices such as product displays, use of bar codes and returns policies. However, the gained was often short-lived, as rivals rapidly copied and adopted these features.

Most foreign retail firms want to establish their stores at prime location. However, foreign retailers cannot follow their own strategies because they need to obey the government policies. A good example is that Wal-Mart did not go to Shanghai to open its first store but it went to Shenzhen instead, which does not mean that the firm did not want to open its first store in Shanghai, there were some other reasons that made difficulties for the firm's entry into Shanghai (Siebers, 2011). Foreign retail giants responded to the government's 'Go West' plan when the Chinese central government announced that all the country's economy and businesses should support and develop West China. Several foreign retailers have opened stores in West China.

Wal-Mart operated through own expertise in the stores of China which has benefited Chinese retail indirectly. Foreign retailers tend to choose managers from home countries to be in charge of their operation in China. These foreign managers are the main decision-makers in almost all the foreign retail firms. They tend to behave in similar ways to how they work in their home countries. Some foreign retailers tend to keep their own culture and managers tend to retain their own leadership style when operating in China which was also learnt by Chinese.

The state government has used regulations to leverage the foreign retailers to agree to certain conditions that would increase the "net benefit" to China, such as high percentages of domestic ownership (thus more profit sharing for domestic retailers), management technology transfer, protection of employees, contribution to local infrastructure improvement (roads and utility, etc.), and purchase of domestic products for both retail and export.

### 8.3.1 Impact on Small Farmers

The operations of the foreign retailers in China indicate, the entry of foreign retailers did not make any difference to the producer’s share. Due to the big size and buying power of foreign supermarkets, producer may have to sell at low prices. For instance, for a farmer from Hebei, who grows vegetables on a 0.67 hectare plot of land, the entry of foreign retail has increased his customers not reduced. He has direct sales in a Beijing neighbourhood every evening, while also supplying to a supermarket chain, which he said, pays less for his products. “My vegetables are cheaper than in the supermarket, so I will always have my customers,” he said (Krishnan, 2011).

### 8.3.2 Impact on Organized Domestic Retail Chains

The below table categorically shows that China's biggest retail firms today mostly are Chinese companies like the Suning Home Appliances, Gome Home Appliances, Shanghai Bailian group and Dashang group, all have bigger sales than Wal-Mart in China. Shi Yongheng said that the success of China's local retailers was enabled by the government controlling the speed of the gradual opening up process, which gave local retailers enough time to adapt. The foreign big players’ strengths in their home countries are based on factors that are totally absent in other countries, for instance, Wal-Mart is able to drive costs down because of its incredible logistics and supply chains which are absent in China. There is also the question of physical infrastructure like roads and ports that are not to the same level as they are in the US and they simply will not have the kind of scale that they have in the US to negotiate and bargain with the suppliers and drive down the cost.

Table 5: Top 10 Chinese Retail Chains 2010

| Top 10 Chinese Retail Chains 2010 | | | | | | |
|---|---|---|---|---|---|---|
| Retail sales Rank | Name of Company | 2010 Retail Sales US$ billion | Number of Stores | Operational Format | Regions of Origin | Regions of Operation |
| 1 | Suning Appliance Group | 24.76 | 1,342 | Electronics Specialty | China | More than 300 cities. |
| 2 | Gome Electrical Appliances Company Ltd. | 24.55 | 1,346 | Electronics Specialty | China | More than 200 cities |
| 3 | Bailian Group Company Ltd. | 16.43 | 5,809 | Supermarket, Department Store, Convenience Store, Home Improvement | China | 20 provinces and cities in China |
| 4 | Dashang Group Company Ltd. | 13.66 | 170 | Supermarket, Department Store, Electronics Specialty, Home Improvement | China | Northeast China North China and west China |
| 5 | Vanguard Company Ltd. | 11.38 | 3,155 | Supermarket, Department Stores, convenience stores, Drug stores , Food and Beverage | China | 27 provinces and cities in China |
| 6 | RT-Mart International Company Ltd. | 7.9 | 143 | Supermarket | Taiwan | 21 provinces and cities in China |
| 7 | Carrefour Societe Anonyme (China) | 6.66 | 182 | Supermarket | France | 21 provinces and cities in China |
| 8 | Anhui Huishang Group Company Ltd. | 6.42 | 2,915 | Supermarket, Department Store, Convenience Store, Electronic Specialty | China | 50 cities in China |
| 9 | Wal-Mart Stores Incorporation (China) | 6.34 | 219 | Supermarket | US | 20 provinces and cites in China |
| 10 | Chongqing General Trading group Company | 6.06 | 319 | Supermarket, Department Stores, Electronics Specialty | China | Chongqing, Sichuan, Guizhou |

*Source: Deloitte China CB and T Group Report 2011.*

The large state-owned enterprise in the supermarket segment the China-based Shanghai, Bailian group with 5,809 stores in 2010, enjoy 11 percent market share (Thomas White, 2011). Whereas, Wal-Mart which dominates the retail market in the US, commands only around 4.8 percent of market share in China (Phalguni, 2015), despite the fact that it was set up nearly 19 years ago in the country.

Foreign retailers have played an instrumental role in providing catalyst to organized retail in China as well as modernizing the sector through best practices with modern management techniques and brand recognition. "In terms of logistics, procurement and management, we have clearly seen the benefits", Shi Yongheng said. "Prices have fallen, and efficiency has increased. Initially, we had fears of the coming of foreign companies, but now we are no longer concerned as local companies have been able compete with them" (Krishnan, 2011).

### 8.3.3 Impact on Traditional Retail

The case of China indicates that the entry of foreign players was not as much of threat to incumbents as it was parroted in the media. They will have to navigate an unfamiliar cultural and culinary environment, as well as the infamous bureaucracy to deal. According to a study by the Vale Columbia Centre for Sustainable Economic Development, Nandita Das Gupta notes that there is no evidence that the huge investments have hurt mom-and-pop operations or domestic retail chains in China (Rao, 2011). Since 1992 China has attracted huge investments in the retail sector without affecting either small retailers or domestic retail chains. In fact, since 2004 the number of small Chinese outlets has increased to around 2.5 million from 1.9 million (Economic Times, 2011).

In China, unorganized retail, represented by street vendors and neighbourhoods community retailers, has continued to thrive, offering cheaper prices than supermarkets and retail chains. Further, the products which are offered at a lower price by modern retail are less relevant for the consumers who buy products in loose and small quantities. The presence of big global retailers in rural China is also much smaller (Ghosh, 2011). Retail sector in China, as a result of the government-support made rise of local retail giants like Bailian, has put many small retailers out of work, who could not cope with the rise in number of competitors and lower prices (Singh, 2011).

### 8.3.4 Impact on Supply Chain

In China, the global big retailers have mostly focused more on opening stores in a drive to capture market share; but there has not been much investment in making supply chain improvements and operational efficiencies (Singh, 2011; Dutta, 2011). For example, Wal-Mart's advanced technology system could not be used fully in China due to the lower level of the available distribution system and poor transportation conditions in certain areas, which reduced the efficiency of Wal-Mart's operation. Wal-Mart has a 40,000 square meter, central distribution centre in Kengzian, China and Carrefour uses a different approach, it relies more on local distributors to deliver direct to the stores to reduce the cost of developing its supplier network and supply chain. Yet, almost two decades after China opened up retail fully, the sector has seen rapid growth through higher production efficiency enabled by rising investments in rural infrastructure and booming exports made possible by the setting up of new supply chains. Without investments in the supply chain neither can the quality of products be significantly improved nor their cost significantly reduced.

### 8.3.5 Impact on Consumers

The positive impact of FDI in retail on consumers is giving them a better deal, both in prices and choices. Supermarket retail chains need to keep price points low and attractive that is the unique selling proposition of their business. For Chinese consumers the attractions of hypermarkets are low prices and one stop shopping for food and general merchandise. China's middle class consumers visit hypermarkets once every 10 days on average (The Times of India, 2011). While hypermarkets are gaining market share among food retailers, the majority of consumers still buy food at supermarket stores and traditional open markets, especially in rural areas where supermarkets do not exist (Wang and Jha, 2011). Also the foreign retailers have had problems in understanding discerning Chinese consumers as their buying decisions aren't always price driven. They are more inclined towards tailor-made products and a shopping environment that reflects local preferences. The retailer is missing out on a substantial growth opportunity and it needs to come up with some formidable strategies to vitalize its Chinese business. For example, Wal-Mart's "every day low price" strategy has been successful in U.S, while it has been regarded as cheap and unsafe in China (Forbes, 2014).

### 8.3.6 Conclusion

By summarizing the above study India can learn a lot from China about how local and national retailers are successful to compete against foreign retailers and the reforms, policies taken by the government. China is a good example for India because both countries are not only neighbours but also share common demographics, climate conditions, market potential and some other factors. For nation like India, which is on the way to reforms, Chinese reforms provide crucial lessons.

China took over 12 years to liberalize its FDI regime. The country started opening up its retail sector to FDI in 1992, initially with various restrictions, but ultimately allowed 100 percent FDI in 2004. Since 2004 the number of small Chinese outlets has increased to around 2.5 million from 1.9 million and unorganized retail has continued to prosper by offering cheaper prices than supermarkets and retail chains. The entry of foreign retailers did not make any difference to the farmers, unorganized and organized retailers in China. All China's biggest retail firms are Chinese companies despite the fact that these big retailers set up shop nearly 15 years ago in the country, which was enabled by the government. The control of speed through gradual opening up process for foreign investment gave local retailers enough time to adapt. Thus, India can also adopt gradual liberalization policy like of China to protect local retailers.

Foreign retailers have yet played an instrumental role in providing catalyst to organized retail in China as well as modernizing the sector through best practices with modern management techniques. However, the foreign big players' strengths in their home countries are based on factors that are totally absent in India and China, like incredible logistics and supply chains; physical infrastructure etc. Thus operation in host country may not be smooth like in home country for foreign investor.

Finally, foreign investment will not only lead to an expansion of the organized sector but it will also encourage local retailers to learn techniques of conducting business. India can learn the business models, management practices, cost reduction technique applied by Chinese retailers for better customer service and product quality. And also the policies and reforms applied by government to improve and enhance local retailers.

# CHAPTER IX

# SWOT AND STERNQUIST'S RETAIL STAGE DEVELOPMENT ANALYSIS

## 9.1 SWOT Analysis of Retail Sector in India

SWOT analysis is a tool that identifies the strength, weaknesses, opportunities and threats of an industry. This method take information from environment and separate it into internal (strength and weakness) and external (opportunity and threat). SWOT analysis is used in this study as a basic straight forward model that helps to understand the retail sector resource mobilization and its capabilities in the competitive environment from foreign investor's point of view.

| SWOT | Areas |
|---|---|
| **Strengths** | **Demographic Dividend**<br>**Attractive Market**<br>**Changing Consumer's Behaviour**<br>**Government's Positivity Towards Inward FDI** |
| **Weakness** | Lack of Infrastructure<br>Shortage of Skill Manpower<br>Demographic Differences<br>Taxation Hurdle |
| **Opportunities** | Gradual Liberalization of FDI Policy<br>High Economic Growth Rate<br>Low Organized Retail Penetration<br>Rural Retailing |
| **Threats** | Rigid Government Policies<br>Dominance of Unorganized Retailers<br>Increasing Competition<br>Partnership with Indian Retailers<br>Huge Investment<br>Product Procurement |

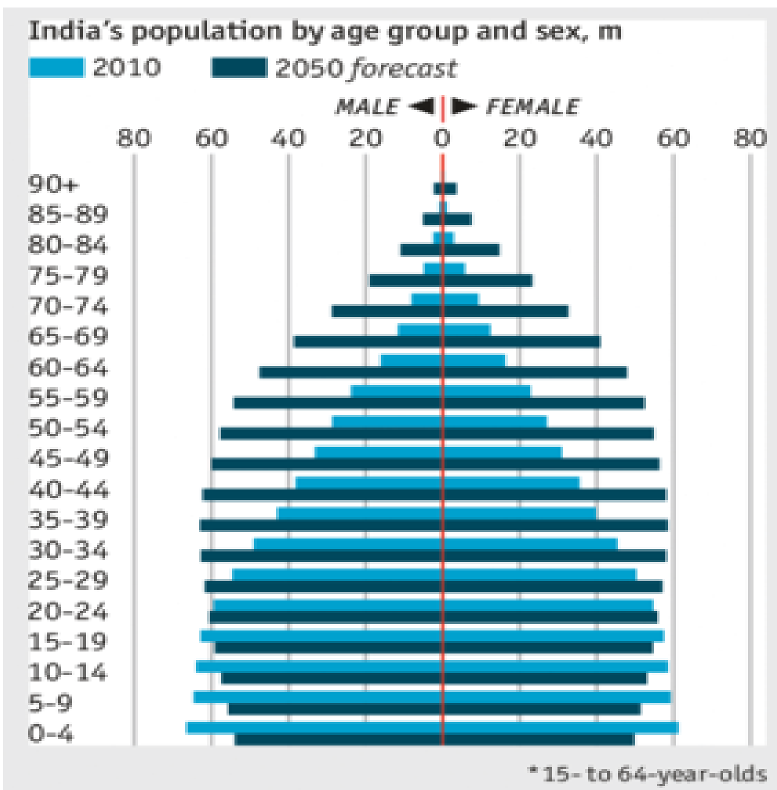
### 9.1.1 *Strengths*

**i. Demographic Dividend**

- India has large market size of 1.29 billion of population, with increasing middle class and potential customers also with increasing purchasing power.

- According to David Bloom's theory (2003) "demographic dividend", when young working-age adults comprise a disproportionate percentage of a country's population, the national economy is affected in positive ways. For example U.S., in the form of the baby boom generation, contributed 20 percent of the nation's GDP growth between 1970 and 2000. In Japan, accounted for an estimated 10 percent.

Chart 14: India's Demographic Dividend




*Source: The Economist (11th May, 2013).*

- In the view with above figure, we can see a massive demographic dividend approaching in India. The Economist projects that in 2050 the pyramid shaped

Indian population (decreasing population with increasing age group) will change to a bit widened pyramid with more population concentrated in age group from 25-29 to 60-64.

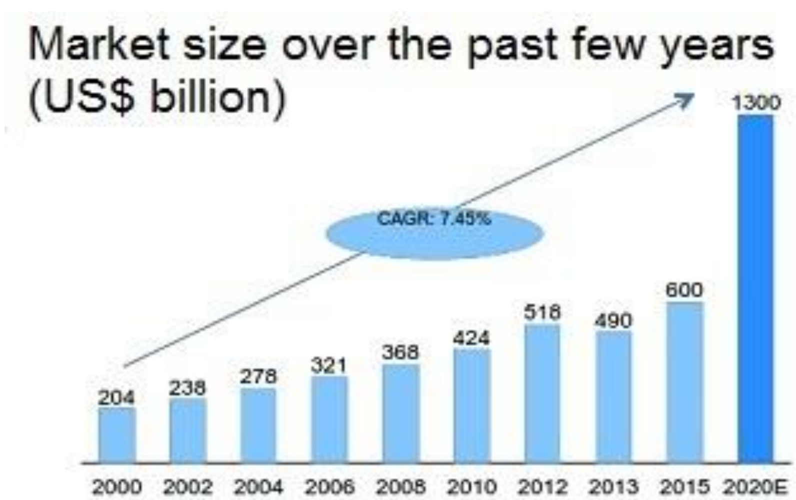
- India has a growing population with millions more entering the labor force each year than are leaving it. With a median age of 26 and with almost two-thirds of the population under 35, India is well placed to compete with the aging populations of its Asian economic rivals China and Japan.

**ii. Attractive Market**

- India has occupied a remarkable position in global retail development index rankings 15th position Global Retail Development Index (AtKearney, 2015); the country has high market potential, low economic risk, and moderate political risk (IBEF, March 2015).

- India's retail market is expected to grow nearly US$ 1 trillion by 2020 from US $ 600 billion in 2015, registering a Compound Annual Growth Rate (CAGR) of 7.45 percent since 2000 which is shown in the figure below:

Chart 15: Retail Market Size of India




*Source: India Brand Equity Foundation (IBEF, 2016).*
*Notes: CAGR- Compound Annual Growth Rate, E- Estimated*

### iii. Changing Consumer's Behavior

- People in India are becoming more fashion and health conscious. Indian consumer's shopping behavior is changing rapidly (Indian Retailer, Nov. 2014).

- The character of consumption, long-established spending attitudes are already changing rapidly. A huge shift is underway from spending on necessities such as food and clothing to choice based spending on categories such as household appliances and restaurants. For generations, Indians did their daily shopping at fresh-food markets and regarded packaged foods as "stale". However, a new generation of busy urban Indians is starting to appreciate the convenience and choice offered by packaged foods (McKensey & Company, 2007).

- The youths of India are indistinguishable from those of prosperous young Westerners; many own high-end luxury cars and wear designer clothes, and regularly vacation abroad. Branded clothes are gaining importance for youths: Gucci, Armani and Versace already have a presence in the country.

- Many traditional Indians viewed gold jewelry as a safer way to save than banks, but young Indians today are likely to see jewelry as a fashion statement, not a savings plan. They are also increasingly comfortable using credit cards.

### iv. Government's Positivity towards Inward FDI

- Gradual liberalization of FDI policy in different sector such as Telecom, Retail, Automobiles and Railways etc. indicates government of India being positive towards inward FDI.

- The governments of states like Delhi, Haryana, Utter Pradesh, and Rajasthan are very upbeat about permitting the use of land for commercial development thus increase the availability of land for retail space (Venkata, 2012).
- The US International Trade Commission in its report Trade and Investment Policies in India (2014-2015) mentioned that the Indian government has made

significant changes in addressing barriers to trade and investment. Areas identified in the report where significant policy changes have been made include: FDI; tariffs and customs procedures; local content and localization requirements and standards and technical regulations (Consulate General of India, 2016).

### 9.1.2 Weaknesses

**i. Lack of Infrastructure**

- Lack of infrastructure in the retailing chain has been one of the major issues of concern which has led the process to an incompetent market mechanism. The country suffers from chronic power cuts, insufficient and poor roads, and congested ports, which have prevented economic development from reaching its potential and has adversely impacted on businesses.

- Inadequacy of basic infrastructure like power, transport and communication creates difficulty in sustaining retail operations across the large geographical spread of country. For example, in spite of India being one of the largest producers of vegetables and fruits, lack of proper cold storages has significantly affected the selling of these perishable items.

**ii. Shortage of Skill Manpower**

- The retail trade business in India is not considered as reputed profession and is mostly carried out by own family members (self-employment). Lack of trained and motivated manpower remains one of the main weaknesses of the organized retailers.

- Global retailers really have a big problem on their hands when it comes to rapid expansion in India. There is challenge for organized retailers especially global retailers in India about shortage of talent. There is hardly any systematic effort to train manpower for the retail sector, which can create a bottleneck for future retail growth. Global retail giants will have to spend substantial resources in terms of time & money to train local workforce and bring them on par with their global standards.

**iii. Demographic Differences**

- Demographic differences between the regions require a regionally adjusted approach to make business. India is unique in its demography, it comprises of 25 states with 23 official languages (Bharadwaj, Swaroop & Vittal, 2005).

- There are multi-cultural and sub-cultural dimensions that exist in India. It has different cultural districts where urbanization seems to be mixing these cultures; people tend to be living in coherent cultural group. People are mainly described by the state from where they originate.

- Most stores are located in trading areas that have mixed demography, thereby making the retailers to work harder to meet the varying demands of diverse consumers. Thus, when retailers consider selling products in India, their approach needs to be modified according to the taste, culture, and preferences of consumers in various geographic and cultural segments.

**iv. Taxation Hurdles**

- The tax structure in India is still complex and evolving, creating challenges for retailers.

- VAT and multiple taxation issues, large grey market presence act as deterrents for organized retailing in India. Similarly non-uniform VAT or Inconsistent Octroi, regimes across states lead to differential pricing of goods and multiple taxation formats for the same goods in different states.

- It is estimated to be more than 40 regulations that need to be complied with, for operating a business. Many of these regulations have not been updated over the years and, consequently, some of their provisions are not in line with current business practices. The added complication is that around 60 to 70 percent of these regulations are administered by the individual state governments, with some falling under the remit of the local government, which is separates democratically elected bodies. Many of these organizations lack adequate capacity to administer their respective regulations effectively in terms of skilled manpower and IT-enabled efficient business processes.

### 9.1.3 Opportunities

#### i. Gradual Liberalization of FDI Policy

- Government of India has gradually liberalized its FDI policy since 1991 in different sectors such as 100 percent in railways, 49 percent in insurance, and 75 percent in banking etc. to boost the investment environment in the country (Consulate General of India, 2016).

- In 2012 government has removed investment caps on retail where 100 percent investment in single-brand and 51 percent in multi-brand retail is allowed which indicates positive sign for further liberalization in future.

#### ii. High Economic Growth Rate

- India is among the world's fastest growing economies which has recorded economic growth of 7.3 percent in fiscal year 2015.

- The International Monetary Fund (IMF) has retained expectations of India's growth at 7.5 percent for both FY 2016-17 and FY 2017-18 thus expressing confidence in India's potential for high growth (Business Standard, Jan. 2016).

#### iii. Low Organized Retail Penetration

- The penetration of organized retail in India is still very low at 8 percent, especially when compared to developed nations such as the US and the UK which have retail penetration of 85 percent and 80 percent, respectively.

- Due to low penetration there is low competition. Emerging retail formats such as malls, hyper/supermarkets and specialty stores which provide product, service and entertainment at one place for Indian consumers is concentrated only in few cities of India.

#### iv. Rural Retailing

- Over 60 percent of population still lives in rural areas of India which is still unexploited Indian market
- Unexploited rural market could act as an opportunity for the giants to venture into the retail market.

### 9.1.4 Threats

#### i. Rigid Government Policies

- Rigid government policies and regulations restrict the entry of new players. FDI policy in retail is not investment friendly.

- 100 percent in single-brand and 51 percent in multi-brand retail is allowed, but with some barriers like 30 percent from local sourcing and 50 percent investment in back-end infrastructure is compulsory.

- Decision accepted by central government may not be accepted by state government. India is a federal state with a national government at the center and state governments ruling the states. This means that there are multiple sets of political and governmental clearances needed for retailers. Having a national license from New Delhi, the capital city, will not be sufficient. New retail entrants will also need clearances from various state governments, city corporations, and district administrations. Negotiating these will prove to be a challenge for global retailers (Gupta, 2005).

- The policy environment in India is complex, creating challenges to establish new business. Numerous license, permit and registration requirements are major obstacles for retail business in India.

## ii. Dominance of Unorganized Retailers

- The unorganized sector has dominance over the organized sector in India because of low investment needs. Over 90 percent market share is covered by unorganized retailers.

- Sometimes this small mom and pop shops threats to closed down organized retailers. For example organized Indian retail (Reliance Fresh) had faced problem in 2007.

- Reliance Fresh stores in Jharkhand have faced ‘attacks from mobs’ made up of local vendors whose livelihood was affected. Store was vandalized (The Hindu, May 2007). In Jharkhand, a few Reliance outlets as in Ranchi and Jamshedpur have closed down. The street-side vegetable retailers are feeling insecure. They perceive Reliance Fresh as a big threat to their livelihood.

## iii. Increasing Competition

- Global retail players take India as attractive market and several players entered and some are planning to enter the market. Some foreign retailers like, Wal-Mart, Tesco, and Carrefour etc. have been already started their business in India.

- Emergence of malls, hyper and super markets by Indian themselves and trying to provide customer with value, variety and volume also adds competition. Most of the organized retailers like, Tata Trent, Reliance retail, etc. have diversified into retailing from other businesses. These highly diversified business groups are able to support the investment requirement of organized retailing business as well as have market knowledge, economic of scale and advantages over foreign retailers by being local players.

- Also the penetration of unorganized retailers in India is high. Most of the unorganized retails are run by family members with low investment needs and they avoid paying taxes. These unorganized retailers are present in nearby step, hence they also add in foreign retailers to face more competition.

- Price competition among retailers puts downwards pressure on margins.

**iv. Partnership with Indian Retailers**

- According to current FDI policy in retail, entry of International players in Indian markets consumes compulsory involvement of Indian retailers for Multi-brand retail.

- Partnership with Indian retailers for long run has not gained sound results. Most of the partnership is broken. For Example: Wal-Mart with Bharti retail, McDonald's with Connaught Plaza Restaurant, Honda with Munjals, etc.

**v. Investment**

- Heavy initial investment is required to sustain with local companies and compete with them.

- For example, large domestic organized retailers are making the most of the retailing boom in the Indian market. They are investing in real estate to secure prime retail locations or achieve an early mover's advantage (Madaan, 2009 and Bhattacharjee, 2006). Moreover, domestic retailers have gained incumbency advantage due to their better understanding and cumulative experience of serving the culturally and geographically diverse Indian market (Gupta, 2008).

- Building a meaningful international presence takes time, often decades. Reaching the financial break-even point can happen within 3 to 5 years in a single country, but sustained growth requires continuous investment.

- Merger & Acquisitions (M&A) and Joint venture can deliver scale more quickly, but not necessarily returns. This means that international retailers who want to generate meaningful returns from Indian markets need to start with huge investment.

### vi. Product Procurement

- Foreign players entering the Indian market to serve retail demands should evaluate local sourcing opportunities.

- Indian manufacturing sectors are highly fragmented with small production units scattered across the country, where it is difficult to achieve economies of scale.

- Options for production or value-added activities such as final assembly, configuration, and packaging, distribution processes require multiple independent local producers, venders and farmers who lack modernization and have limited marketing capabilities.

- Product procurement from India itself is not an easy and beneficial task for foreign retailers

## 9.1.5 Conclusion of SWOT Analysis

The SWOT analysis conducted above helps to analyse India retail market's strong and weak points. Strength and Weakness are the internal factors which can be controlled but Opportunity and Threats are uncontrollable.

From the above analysis the retail sector gains strength due to changing consumer behaviour, remarkable position in global retail ranking and low economic risk but since it is a service sector lack of infrastructure development, shortage of skilled manpower and demographic difference creates weakness.

On the other hand there is also opportunity in Indian retail market due to low organized retail penetration, gradual liberalization of FDI policy in retail and high economic growth rate. But threat factor are also equally present as the Indian retail market has dominance of unorganized retailers, is politically sensitive, have rigid government policies, with increasing competition etc. Hence, doing business in India is easy with attractive features but is also backed by some inevitable barriers which may be difficult to control.

## 9.2 Indian Retail Growth Stage Analysis from Sternquist's Retail Stage Development Framework Perspective:

This study has used Sternquist's retail stage development which shows different phases of retail development in developing nations. Sternquist (1998) applied Rostow's Stage of Growth Model for economic development to the retail development progress. Rostow (1960) asserted that economic growth in developing countries involves a linear spectrum with five stages of economic evolution. Sternquist (1998, 2007) developed five stages of retail evolution. These stages are factual observations about the sequence of development of modern societies.

In the first phase, new organized retail entrants create awareness about modern formats and raise consumer expectations. In the second phase, consumers demand modern formats as the markets develop thereby leading to strong growth. As with the life cycle in any industry, the high rate of growth would lead to a stage where the market would reach maturity and all the players would strengthen their positions. This will be followed by the final phase where the market would reach saturation; the growth would be limited and for sustainable growth, retailers would explore new markets as well as evaluate opportunities. This model is applied to Indian retail sector to evaluate future of unorganized retailing due to the increased participation of multi-brand retailers, in India.

Retailing in India has passed through different stages from pushcarts to modern shopping malls. India still has 92 percent of market share covered by unorganized retail sector but investment in modern format is increasing the interest of both local as well as foreign retailers. The trend of development of the Indian economy and its retailing activities has gone to tremendous changes. As Sternquist's framework suggests, formal, organized retail development in a country may be complementary to the economic advancement, growth potential, and employment opportunities. Retailing in its initial period was witnessed at the weekly haats or gathering in a market place where vendors displays their product. For decades, there have been only traditional retail operations in India, such as small mom-and-pop stores and friendly neighbourhood outlets that sold fast-moving consumer goods and other commodities in a limited variety.

These retail shops in past consisted of a single shop. But as the economy diversified these traditional small shops were gradually replaced by larger enterprises. After the development of organized retail format, most of the cities of India are characterized by the existence of definite organized formats. With increased sophistication of products, many smaller shops have re-emerged as a part of a larger chain of shops.

The development of organized retailing in India was from Bata Shoe Company who took lead in opening its chain stores at various cities & towns. It was followed by DCM and Raymonds extensively. In 1980s, the organized retail format functioning through stores such as ‘Akbarally’ in Mumbai and ‘Nilgiris’ and ‘Spencers’ in Chennai were found. These stores later evolved into multi-chain outlet and were the first to bring on the ‘onset of organized retail’ in India.

Developments in information technology in India have also increased the operational efficiency of this sector. Technological developments have allowed more efficient links between manufacturers, wholesalers, and retailers, particularly in inventory management. But the structure also varies with the level of development of the country and speed of adaption of new technology such as use of credit cards etc. (Mukherjee and Patel, 2005).

At present, India is rapidly evolving into a competitive market place with potential target consumers in both the rich and middle class segments. Big retail chain like Crossroad, Saga and Shopper’s stop are concentrating on the upper segment, some like, RPG’s, Food World and Big Bazaars, Reliance retail are tapping the huge middle class population. There has been tremendous amount of interest in the Indian retail sector from global majors over the years, International brands like Wal-Mart, Tesco, McDonalds, Lacoste, and Benetton etc. among a host of others have come in and thrived in India.

After the careful observation of present condition of Indian retail sector the study has plotted the current stage of Indian retailing through Sternquist’s stage of retail development which is shown in the figure below:

Figure 8:  Indian Retail Growth Stage from Sternquist's Retail Development Framework


| | **Traditional Society** | **Precondition for Take-off** | **Take-off** | **Drive to Maturity** | **Age of High Mass Consumption** |
|---|---|---|---|---|---|
| **Classification** | Scrambled merchandise mix<br><br>Selling places not permanent | Retailing in permanent structure<br><br>Entrepreneurial start-ups launched | Emerging supermarkets<br><br>Foreign firms are eager to enter<br><br>Modern retail formats development | Well established supermarkets<br><br>Co-existence of organized & unorganized retailing | Specialized retail offerings<br><br>Retailers integrated Vertically and horizontally |

*Source: Sternquist (1998, 2007)*

By mapping the overall Indian retail growth with Sternquist's stage of retail development framework shown in above framework the study concludes that India's current retail development fits in third stage i.e. the Indian market has just entered the stage of take-off. During this phase, various supermarkets are emerging and modern retail formats are developing. Many retailers move from a local to a national presence. The concept of the retailer's private brand starts emerging. Expansion and growth is rapid. Integration of process by use of information technology becomes more necessary. The situation is same with India where modern retail format is increasing from local and national level as well.

Foreign retailers are also eager to invest in India and some of them have already started their business.

Hence, on the basis of retail development stage by Sternquist, in future if there is continued increase in investment in organized retail format by local and foreigner than both organized and unorganized retail sector will co-exist. The market share of unorganized retail is large in India which will consume time for development of well-established supermarkets. Therefore, in near future Indian economy will reach fourth stage of Sternquist’s framework i.e. well establishment of supermarket where both organized and unorganized retail will co-exist.

# CHAPTER X

# CONCLUSION

## 10.1 Conclusion

Indian retail market has shown a remarkable development in past two and half decades. The liberalization in FDI policy adopted by Indian government has made India an attractive destination for foreign investment. The recent change in investment caps for FDI in single-brand and multi-brand has encouraged further investment in retail sector. In 2015, organized retail sector had 8 percent share of total Indian retail market and is expected to rise to 24 percent by 2020. Indian market is becoming lucrative for retail investment due to its huge population with growing middle class and large proportion of young, fashion and brand-conscious population.

Evidences from various literature reviews also indicate that the emergence of foreign retailers would lead to extensive growth in the retail sector. The increasing FDI inflow in India can be beneficial in many ways, such as, it will increase capital inflow with improved technology and supply chain which will ultimately help to increase healthy competition followed by better customer satisfaction. But on the other hand it can also have some disadvantages like it can indirectly hamper local business, its competitiveness, culture and tradition of a nation.

Each market has its own distinct characteristics to which retailers need to adapt themselves to stay ahead. Processes and approaches which work in the home country, may not necessarily work as efficiently in other geographies. Local preferences, traditions, tastes and government policy have to be kept in mind to ensure a successful journey in a foreign market place.

Unorganized retailers face competition from organized retailers in terms of price, variety and quality as modern retail offers a convenient shopping experience to consumers. At present situation Indian urban market is being highly competitive, it is expected that domestic retail players would divert towards small cities to tap the potential market existing therein. In future there is also possibility of maximum number of organized retail market share which will provide quality products at lower prices. But the penetration of Indian unorganized retail seems to be strong because they are family owned business and are present in every community in every states of India without any restrictions from government and society. The local state government is also protective towards unorganized retailers. Also, in some cases local unorganized retailers have created protest against both foreign and local organized retailers.

The SWOT analysis showed that India has favourable market conditions and remarkable position in global retail ranking, but its market continues to have significant challenges in the form of retail space, restrictive legislation policy and infrastructural bottlenecks. The barriers such as lack of cold storage and inefficient supply chain are another problem which can hamper the business operation of retailers in India.

In addition, for international retailers to succeed in India, the choice of partner is very crucial. They should partner with such Indian retailers who will help them to reach the end customers and who already possess lucrative front-end retail infrastructure. An established domestic retailer will help foreign player to bring in customers while the foreign player will benefit domestic retailer through its expertise in supply chain and logistics to further enhance the operational efficiency. Thus, partnering with each other can prove mutually beneficial. But from the case analysis, confidence on India as a potential investment destination with partnership has faced some difficulty. Some foreign partnerships in India have failed records like, Bharti Wal-Mart, Honda etc. due to various internal problems.

Despite these hurdles, global retailers have been queuing up to enter and establish their footprint in the market, as they are aware of its potential growth opportunities which reveals positive image of India in world market. The recent policy changes have both opportunities and challenges for domestic as well as foreign retailers. On one hand, the liberalization policy is increasing the competition environment for domestic retailers; but on the other hand some requirements attached with investment policy indirectly intend to safeguard domestic retailers.

In addition, while mapping the overall Indian retail situation in Sternquist's (1998, 2007) framework, the study concludes that the current growth rate of local supermarkets with modern retail formats and foreign retailers being eager to invest in India shows that Indian retail market is in third stage of growth model i.e. in take off stage. Hence, if in near future the same growth continues it will lead to well establishment of supermarket, where both organized and unorganized retail sector will co-exist.

Moreover, the analysis of FDI policies implemented by India from 1991 to 2015 shows that Indian government has improved its FDI policy in retail with changing demand of time. In 2012 the investment caps on single-brand retail was increased to 100 percent and in multi-brand up to 51 percent was permitted, which indicates positive sign for further possibility of liberalization in FDI policy. But the policy also includes some necessary requirements like 30 percent of procurement from Indian small industries, 50 percent of investment shall be invested in back-end infrastructure may discourage investment. Hence, the policy implemented requires further improvement and revision. There should be an effective policy with continuous monitoring so that it could serve the purpose of national development and encourage nationals for progress.

India can learn lots of lesson from China as they are neighbouring countries and share similar demographics also. In regard to Chinese experience, the entry of foreign retailers did not make any difference to the farmers, unorganized and organized retailers. China applied gradual liberalization policy where it took 12 years (from 1992 to 2004) to fully liberalize its FDI policy in multi-brand retail. It released the cap fully on FDI only after the local chains were able to adjust. Since 2004 the number of small Chinese outlets (equivalent to Indian kirana stores) has increased to around 2.5 million from 1.9 million and unorganized retail has continued to prosper, offering cheaper prices than supermarkets and retail chains. All China's biggest retail firms are Chinese companies despite the fact that big retailers set up shop nearly 15 years ago in the country, which was enabled by the government. Wal-Mart that dominates the retail market in the US, commands only around 4.8 percent of market share of China in 2015; it was set up nearly 19 years ago in the country. The French retail giant Carrefour group had 6.9 percent of market share during 2012. However, foreign retailers have yet played an instrumental role in providing catalyst to organized retail in China as well as modernizing the sector through best practices with modern management techniques.

China succeeded in giving local retailers protection, while at the same time they learnt the applied business models of foreign companies. Foreign supermarkets due to its big size and buying power, purchased at low price from local Chinese producers. But rather than selling their product to foreign supermarkets, local producers were selling their products in cheaper price than supermarkets directly to consumer. China also supported rise of local retail giants in order to protect them from foreign retailers, but it has put many small farmers out of work who could not cope with lower prices.

The study concludes that government of India is being investment friendly in the sectors like automobile, telecommunication etc. but in case of multi-brand retail it seems to be conservative. It has allowed 100 percent FDI in single-brand and 51 percent in multi-brand retail. The removal of investment caps on multi-brand retail is not going to happen as of single-brand retail, within 5 to 10 years of time. India will take time to fully liberalize its policy for multi-brand retail.

It is widely believed that foreign investment is a key component in the growth process of any developing country. But it is not the only factor that could help for the sustained growth. It must be supported by well-planned micro and macroeconomic policies. In India, retail is the sector which provides second highest employment after agriculture. The opening up of India's retail trade to FDI should be monitored and taken proper care over years such that many sectors including agriculture, food processing, manufacturing, packaging and logistics will collect benefits. In order to counter the adverse effects of big organized retail, there should be a legal and regulatory framework along with an enforcement mechanism that would ensure that the large retailers are not able to displace the small ones by unfair means.

India should welcome foreign retailers with a talented pool of human resources who have good knowledge about right path to adopt for future of retailing. Protection must be given to Indian small and medium retailers as retailing is their source of livelihood for them. The slow removal of investment caps will give Indian retailers to learn business policy adopted by foreigners unlike by China. FDI in multi-brand retail in India can go a long way by improving the efficiency of supply chain and other relevant areas. The thoughts about possible negative impact would weaken overtime.  Basically foreign investment in retail will only lead to an expansion of the organized sector where consumer will get a better product at a cheaper price and thus the standard of living of people will improve. The government can revise its requirement in the policy to make it more acceptable by foreigners and increase investment inflow.

On the other side, foreign retailers must carefully analyze Indian market; its immense cultural and geographical diversity; its unique personality which demands a local perspective from the global brands operating in India. Younger urban consumers appreciate western lifestyles and are aware of popular western brands and products but they also support their culture. Foreign retailers entering the Indian market should carefully design their strategies to position themselves against domestic retailers. It can differentiate itself through efficient supply chain, human resource management and product procurement. Providing better value chain through strong brands, differentiated products, and better shopping experience would be essential for them to success in the Indian retail sector.

For future research activities, it will be interesting to know the future initiative that will be taken by Indian government to liberalize its policy for retail sector and how foreign retailers will react to it over the time. Also, the adaptation by unorganized retail sector to cope up against foreign multi-brands should be considered. Beside the retailers' side, the attitude of consumers after the changes in the market players by entry of foreign retailers is another interesting part for study.  The author will further work to make close analysis by updating the information and data on the basis of this thesis in the future.

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## Appendix

### Appendix Table 1: FDI Inflow Trend in India

**(In billion dollars)**

| Year | Amount of FDI Inflow | Year | Amount of FDI Inflow |
|---|---|---|---|
| 1989 | 0.2521 | 2002 | 5.62604 |
| 1990 | 0.23669 | 2003 | 4.322748 |
| 1991 | 0.073538 | 2004 | 5.771297 |
| 1992 | 0.276512 | 2005 | 7.269407 |
| 1993 | 0.55037 | 2006 | 20.02912 |
| 1994 | 0.973271 | 2007 | 25.22774 |
| 1995 | 2.143628 | 2008 | 43.40628 |
| 1996 | 2.426057 | 2009 | 35.58137 |
| 1997 | 3.57733 | 2010 | 27.39689 |
| 1998 | 2.634652 | 2011 | 36.49865 |
| 1999 | 2.168591 | 2012 | 23.99569 |
| 2000 | 3.584217 | 2013 | 28.15303 |
| 2001 | 5.471947 | 2014 | 34.41076 |

*Source: World Bank (2015).*

**Appendix Table 2: Top Investing Countries in India (In million dollars)**

| Source/Industry | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 P |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 2 | 3 | 4 | 5 | 6 |
| Total FDI | 9,307 | 19,425 | 22,697 | 22,461 | 14,939 | 23,473 | 18,286 | 16,054 | 24,748 |
| **Country-wise Inflows** | | | | | | | | | |
| Mauritius | 3,780 | 9,518 | 10,165 | 9,801 | 5,616 | 8,142 | 8,059 | 3,695 | 5,878 |
| Singapore | 582 | 2,827 | 3,360 | 2,218 | 1,540 | 3,306 | 1,605 | 4,415 | 5,137 |
| U.S.A | 706 | 950 | 1,236 | 2,212 | 1,071 | 994 | 478 | 617 | 1,981 |
| Cyprus | 58 | 570 | 1,211 | 1,623 | 571 | 1,568 | 415 | 546 | 737 |
| Japan | 80 | 457 | 266 | 971 | 1,256 | 2,089 | 1,340 | 1,795 | 2,019 |
| Netherlands | 559 | 601 | 682 | 804 | 1,417 | 1,289 | 1,700 | 1,157 | 2,154 |
| United Kingdom | 1,809 | 508 | 690 | 643 | 538 | 2,760 | 1,022 | 111 | 1,891 |
| Germany | 116 | 486 | 611 | 602 | 163 | 368 | 467 | 650 | 942 |
| UAE | 215 | 226 | 234 | 373 | 188 | 346 | 173 | 239 | 327 |
| France | 100 | 136 | 437 | 283 | 486 | 589 | 547 | 229 | 347 |
| Others | 1302 | 3146 | 3806 | 2933 | 2093 | 2022 | 2480 | 2599 | 3334 |
| **Sector-wise Inflows** | | | | | | | | | |
| Manufacture | 1,641 | 3,726 | 4,777 | 5,143 | 4,793 | 9,337 | 6,528 | 6,381 | 9,613 |
| Construction | 967 | 2,551 | 2,237 | 3,516 | 1,599 | 2,634 | 1,319 | 1,276 | 1,640 |
| Financial Services | 1,330 | 3,850 | 4,430 | 2,206 | 1,353 | 2,603 | 2,760 | 1,026 | 3,075 |
| Real Estate Activities | 431 | 1,336 | 1,886 | 2,191 | 444 | 340 | 197 | 201 | 202 |
| Electricity & Other Energy Generation | 174 | 829 | 669 | 1,877 | 1,338 | 1,395 | 1,653 | 1,284 | 1,284 |
| Communication Services | 423 | 66 | 2,067 | 1,852 | 1,228 | 1,458 | 92 | 1,256 | 1,075 |
| Business Services | 2,425 | 1,158 | 643 | 1,554 | 569 | 1,590 | 643 | 521 | 680 |
| Miscellaneous Services | 298 | 1,901 | 1,458 | 888 | 509 | 801 | 552 | 941 | 586 |
| Computer Services | 824 | 1,035 | 1,647 | 866 | 843 | 736 | 247 | 934 | 2,154 |
| Restaurants & Hotels | 153 | 280 | 343 | 671 | 218 | 870 | 3,129 | 361 | 686 |
| Retail & Wholesale Trade | 47 | 200 | 294 | 536 | 391 | 567 | 551 | 1,139 | 2,551 |
| Mining | 42 | 461 | 105 | 268 | 592 | 204 | 69 | 24 | 129 |
| Transport | 165 | 816 | 401 | 220 | 344 | 410 | 213 | 311 | 482 |
| Trading | 82 | 176 | 400 | 198 | 156 | 6 | 140 | 0 | 228 |
| Education, Research & Dev. | 43 | 156 | 243 | 91 | 56 | 103 | 150 | 107 | 131 |
| Others | 262 | 884 | 1,097 | 384 | 506 | 419 | 43 | 293 | 232 |

*Source: Reserve Bank of India (2015).*

**Appendix Table 3: Region-Wise FDI inflow in India (In million dollars)**

| No. | RBI's - Regional Office2 | State covered | 2013-14 ( April - March) | 2014-15 ( April - March) | 2015-16 (April,15 – December, 15 ) | Cumulative Inflows (April '00 - December '15) | %age to total Inflows (in terms of US$) |
|---|---|---|---|---|---|---|---|
| 1 | Mumbai | Maharashtra, Dadra & Nagar Haveli, Daman & Diu | **3,420** | 6,361 | 5,216 | 78,334 | 29 |
| 2 | New Delhi | Delhi, Part Of Up And Haryana | **6,242** | 6,875 | 10,645 | 60,056 | 22 |
| 3 | Chennai | Tamil Nadu, Pondicherry | **2,116** | 3,818 | 4,268 | **21,282** | 8 |
| 4 | Bangalore | Karnataka | **1,892** | **3,444** | 3,396 | **19,516** | 7 |
| 5 | Ahmedabad | Gujarat | **860** | **1,531** | 1,477 | 12,518 | 5 |
| 6 | Hyderabad | Andhra Pradesh | **678** | **1,369** | 784 | 10,798 | 4 |
| 7 | Kolkata | West Bengal, Sikkim, Andaman & Nicobar Islands | **436** | **239** | **887** | 3,867 | 1 |
| 8 | Chandigarh | Chandigarh, Punjab, Haryana, Himachal Pradesh | **91** | **39** | **23** | 1,354 | 0.5 |
| 9 | Jaipur | Rajasthan | **38** | **541** | **41** | 1,306 | 0.5 |
| 10 | Kochi | Kerala, Lakshadweep | **70** | **230** | **72** | 1,283 | 0.5 |
| 11 | Bhopal | Madhya Pradesh, Chattisgarh | **119** | **100** | **57** | 1,273 | 0.5 |
| 12 | Panaji | Goa | **17** | **35** | **18** | 841 | 0.3 |
| 13 | Kanpur | Uttar Pradesh, Uttranchal | **25** | **110** | **67** | 549 | 0.2 |
| 14 | Bhubaneshwar | Orissa | **48** | **9** | **5** | 403 | 0.1 |
| 15 | Patna | Bihar, Jharkhand | **1** | **11** | **43** | **93** | 0.03 |
| 16 | Guwahati | Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura | **0.6** | **5** | **7** | **90** | 0.03 |
| 17 | Jammu | Jammu & Kashmir | **0.2** | **4** | **0** | 4 | 0 |
| 18 | region not indicated | | **8,245** | **6,211** | 2,439 | 64,390 | 23 |

*Source: Department of Industrial Policy & Promotion (2015).*

**Appendix Table 4: Economic Growth Rate of India**

| Fiscal Year | Economic Growth |
|---|---|
| 2003 | 4.00% |
| 2004 | 8.10% |
| 2005 | 7.00 % |
| 2006 | 9.50% |
| 2007 | 9.60% |
| 2008 | 9.30% |
| 2009 | 6.70% |
| 2010 | 8.60% |
| 2011 | 9.30% |
| 2012 | 6.20% |
| 2013 | 5.00% |
| 2014 | 4.70% |
| 2015 | 7.30% |

*Source: KPMG in India Analysis (2014) and The Indian Express (May2015).*

**Appendix Table 5: Rural and Urban Population in India**

| Year | Rural population | Urban population |
|---|---|---|
| 2001 | 72.08 | 27.92 |
| 2002 | 71.76 | 28.24 |
| 2003 | 71.43 | 28.57 |
| 2004 | 71.10 | 28.90 |
| 2005 | 70.77 | 29.24 |
| 2006 | 70.43 | 29.57 |
| 2007 | 70.09 | 29.91 |
| 2008 | 69.75 | 30.25 |
| 2009 | 69.41 | 30.59 |
| 2010 | 69.07 | 30.93 |
| 2011 | 68.75 | 31.25 |
| 2012 | 68.41 | 31.59 |
| 2013 | 68.08 | 31.92 |
| 2014 | 67.74 | 32.26 |

*Source: World Bank (2015).*

**Appendix Table 6: Population Composition by Age**

| Year | Population ages 0-14 | Population ages 15-64 | Population ages 65 and above |
|---|---|---|---|
| 1990 | 37.93 | 58.24 | 3.83 |
| 1991 | 37.73 | 58.38 | 3.89 |
| 1992 | 37.51 | 58.55 | 3.94 |
| 1993 | 37.26 | 58.75 | 3.99 |
| 1994 | 36.97 | 59.01 | 4.03 |
| 1995 | 36.63 | 59.30 | 4.07 |
| 1996 | 36.31 | 59.55 | 4.14 |
| 1997 | 35.95 | 59.83 | 4.21 |
| 1998 | 35.57 | 60.15 | 4.28 |
| 1999 | 35.16 | 60.50 | 4.34 |
| 2000 | 34.73 | 60.86 | 4.41 |
| 2001 | 34.37 | 61.13 | 4.49 |
| 2002 | 33.99 | 61.44 | 4.57 |
| 2003 | 33.59 | 61.76 | 4.65 |
| 2004 | 33.19 | 62.09 | 4.72 |
| 2005 | 32.78 | 62.44 | 4.78 |
| 2006 | 32.43 | 62.72 | 4.85 |
| 2007 | 32.06 | 63.01 | 4.92 |
| 2008 | 31.69 | 63.32 | 4.99 |
| 2009 | 31.30 | 63.65 | 5.05 |
| 2010 | 30.89 | 63.99 | 5.11 |
| 2011 | 30.50 | 64.30 | 5.20 |
| 2012 | 30.08 | 64.63 | 5.29 |
| 2013 | 29.65 | 64.97 | 5.38 |
| 2014 | 29.21 | 65.30 | 5.49 |

*Source: World Bank (2015).*

**Appendix Table 7: Household Expenditure**

| Year | Household expenditure (in billion dollars) |
|---|---|
| 2001 | 1560.72 |
| 2002 | 1606.64 |
| 2003 | 1730.39 |
| 2004 | 1853.54 |
| 2005 | 2063.85 |
| 2006 | 2309.14 |
| 2007 | 2560.99 |
| 2008 | 2807.31 |
| 2009 | 2878.74 |
| 2010 | 3072.62 |
| 2011 | 3399.51 |
| 2012 | 3663.28 |
| 2013 | 3863.04 |
| 2014 | 4165.78 |

*Source: World Bank (2015).*

## Appendix Table 8: Global Retail Development Index 2015.

| 2015 rank | Country | Market attractive-ness (25%) | Country risk (25%) | Market saturation (25%) | Time pressure (25%) | GRDI score | Change in rank compared to 2014 | Population (million) | GDP per capita, PPP (thousand) |
|---|---|---|---|---|---|---|---|---|---|
| 1 | China | 66.7 | 55.7 | 42.3 | 96.6 | 65.3 | +1 | 1,364 | 13 |
| 2 | Uruguay | 93.3 | 60.4 | 68.0 | 38.9 | 65.1 | +1 | 3 | 20 |
| 3 | Chile | 98.2 | 100.0 | 13.0 | 37.9 | 62.3 | −2 | 18 | 23 |
| 4 | Qatar | 100.0 | 89.4 | 34.3 | 12.8 | 59.1 | N/A | 2 | 144 |
| 5 | Mongolia | 22.4 | 19.9 | 93.1 | 100.0 | 58.8 | N/A | 3 | 10 |
| 6 | Georgia | 36.5 | 39.1 | 78.8 | 79.2 | 58.4 | +1 | 5 | 8 |
| 7 | United Arab Emirates | 97.6 | 84.0 | 16.5 | 33.9 | 58.0 | −3 | 9 | 65 |
| 8 | Brazil | 98.0 | 60.4 | 45.2 | 28.0 | 57.9 | −3 | 203 | 15 |
| 9 | Malaysia | 75.6 | 68.8 | 29.3 | 52.7 | 56.6 | — | 30 | 25 |
| 10 | Armenia | 35.4 | 37.1 | 82.1 | 66.3 | 55.2 | −4 | 3 | 7 |
| 11 | Turkey | 83.1 | 48.1 | 40.2 | 44.8 | 54.1 | — | 77 | 20 |
| 12 | Indonesia | 50.6 | 35.5 | 55.1 | 65.9 | 51.8 | +3 | 251 | 10 |
| 13 | Kazakhstan | 49.6 | 34.2 | 72.5 | 50.7 | 51.8 | −3 | 17 | 24 |
| 14 | Sri Lanka | 15.8 | 34.4 | 77.8 | 78.8 | 51.7 | +4 | 21 | 10 |
| 15 | India | 30.5 | 39.8 | 75.7 | 58.5 | 51.1 | +5 | 1,296 | 6 |
| 16 | Peru | 48.9 | 43.9 | 58.6 | 51.8 | 50.8 | −3 | 31 | 12 |
| 17 | Saudi Arabia | 78.6 | 64.4 | 30.4 | 27.0 | 50.1 | −1 | 31 | 54 |
| 18 | Botswana | 49.2 | 62.5 | 33.3 | 54.2 | 49.8 | +8 | 2 | 16 |
| 19 | Panama | 62.3 | 46.8 | 49.7 | 37.6 | 49.1 | −5 | 4 | 20 |
| 20 | Colombia | 55.6 | 49.3 | 52.0 | 39.1 | 49.0 | +1 | 48 | 13 |
| 21 | Russia | 94.9 | 28.4 | 24.5 | 46.6 | 48.6 | −9 | 144 | 25 |
| 22 | Azerbaijan | 33.9 | 26.9 | 82.4 | 46.8 | 47.5 | +8 | 10 | 18 |
| 23 | Nigeria | 19.6 | 8.3 | 94.0 | 66.5 | 47.1 | −4 | 178 | 6 |
| 24 | Philippines | 39.6 | 36.0 | 51.6 | 60.7 | 47.0 | −1 | 100 | 7 |
| 25 | Jordan | 51.1 | 35.5 | 64.2 | 36.8 | 46.9 | −3 | 8 | 12 |
| 26 | Oman | 75.0 | 77.3 | 24.9 | 9.8 | 46.7 | −9 | 4 | 44 |
| 27 | Kuwait | 81.0 | 68.1 | 33.2 | 0.0 | 45.6 | −19* | 4 | 71 |
| 28 | Costa Rica | 66.9 | 49.2 | 38.7 | 25.1 | 45.0 | −4 | 5 | 15 |
| 29 | Mexico | 82.5 | 56.1 | 0.2 | 38.8 | 44.4 | −4 | 120 | 18 |
| 30 | Angola | 22.4 | 9.2 | 99.4 | 45.0 | 44.0 | N/A | 22 | 8 |
| | | 0 = low attractiveness; 100 = high attractive-ness | 0 = high risk; 100 = low risk | 0 = saturated; 100 = not saturated | 0 = no time pressure; 100 = urgency to enter | | | | |

*Source: A.T. Kearney analysis 2015*

Note: PPP is purchasing power parity.
GRDI is an annual study that ranks the top 30 developing countries for retail expansion worldwide. The index analyzes 25 macroeconomic and retail-specific variables, both to help retailers devise successful global strategies and to identify emerging market investment opportunities. It not only identifies which markets are the most successful today but also which markets offer the most potential in the future.

**Appendix 9: Investment Conditions with Regard to Single-brand Retail**

Though the clear-cut denotation of single-brand retail has not been clearly defined in any Indian government circular or notification, Single-brand retail generally refers to the selling of goods under a single brand name such as Nike, Adidas etc.

In 2012 up to 100 percent FDI is allowed in sing-brand retail, subject to the Foreign Investment Promotion Board (FIPB) sanctions and conditions mentioned in Press Note 1(2012 series).

FDI in Single- brand product retail trading would be subject to the following conditions:

a) Products to be sold should be of a ‘Single Brand’ only.
b) Products should be sold under the same brand internationally i.e. products should be sold under the same brand in one or more countries other than India.
c) Single Brand' product-retail trading would cover only products which are branded during manufacturing.
d) Only one non-resident entity, whether owner of the brand or otherwise, shall be permitted to undertake single brand product retail trading in the country, for the specific brand, through a legally tenable agreement, with the brand owner for undertaking single brand product retail trading in respect of specific brand for which approval is being sought.
e) In respect of proposals involving FDI beyond 51%, sourcing of 30% of the value of goods purchased will be done from India, preferably from SMEs, village and cottage industries, artisans and craftsmen, in all sectors.
f) Retail trading, in any form, by mean of e-commerce, would not be permissible, for companies with FDI engaged in the activity of single-brand retail trading. Application seeking permission of the government for FDI in retail trade of ‘Single brand’ product would be made to the Secretariat for Industrial Assistance (SIA) in the Department of Industrial Policy and Promotion.

*Source: Department of Industrial Policy and Promotion, government of India, Press Note No. 5 (2012)*

## Appendix 10: Investment Conditions with Regard to Multi-brand Retail

Although the government of India has also not clearly defined the term "multi-brand retail," FDI in multi-brand retail generally refers to selling multiple brands under one roof.

The proposed pre-conditions for allowing 51% FDI (on Dt. 24.11.2011) in multi-brand retail were stipulated as follows:

a) Minimum amount to be brought in, as FDI, by foreign investor, would be US $100 million.

b) At least 50% of total FDI brought in, shall be invested in ‘back-end infrastructure’ within three years of the first tranche of FDI, where back-end infrastructure will include capital expenditure on all activities, excluding that on front-end units; for instance, back-end infrastructure will include investment made towards processing, manufacturing, distribution, design improvement, quality control, packaging, logistic, storage, warehouse, agriculture market produce.

c) Infrastructure etc. expenditure on land cost and rental, if any, will not be counted for purposes of back-end infrastructure.

d) At least 30% of the value of procurement of manufactured processed products purchased shall be sourced from Indian ‘small industries’ which have total investment of plant & machinery not exceeding US$ 100 million.

e) This valuation refers to the value at the time of installation, without providing for depreciation. Further, if at any point of time, this valuation exceeded, the industry shall not qualify as ‘small industry’ for this purpose. This procurement requirement would not have to be met, in the first instance as an average of five years of total value of the manufactured processed products purchased, beginning 1st April of year during which the first tranche of FDI is received. Thereafter, it would have to be met on annual basis.

f) Self-certification by the company, to ensure compliance of the conditions at serial nos. (b), (c) and (d) above, which could be cross-checked, as and when required.

Accordingly, the investors shall maintain accounts, duly certified by statutory auditors.

g) Retail sales outlets may be set up only in cities with population of more than 1.00 million as per 2011 census, and may also cover an area of 10 kilometers around the municipal/urban agglomeration limits of such cities. In States not having cities with population of more than 1 million as 2011 census, retail outlets may be set up in the cities of their choice, preferably the largest city and may also cover an area 10 kilometers around the municipal/urban agglomeration limits of such cities. The location of such outlets will be restricted to conforming areas, as per the Master/Zonal plans of the concerned cities and provision will be made for requisite facilities such as Transport connectivity and parking.

h) The policy provides that it would be the prerogative of the State Governments to decide whether and where a multi-brand retailer, with FDI, is permitted to establish its sales outlets within the State. Therefore, implementation of the policy is not a mandatory requirement for all states.

*Source: Department of Industrial Policy and Promotion, government of India, Press Note No. 5 (2012)*

**Appendix 11: Map of India**


*Source: www.mapsofIndia.com*

**Appendix 12: Pictures of unorganized retails in India**


12.1 Village Kiosk


12.2 Modern Kiosk

*Source: www.indiamart.com/street-kiosk*

*Source: Gettyimages.com* 12.3 Push Cart

Source: Livemint.com 12.4 Street Venders

*Source: Fiber2fashion.com* 12.5 Kirana Stores

*Source: The economist India.* 12.6 Kirana Stores

*Source: Firstpost.com* 12.7 Haat Bazar

*Source: Timesofindia.com* 12.8 Wholesale Market

**Appendix 13: Picture of Organized Retail in India**


*Source: Oneindia.com* 13.1 Reliance Fresh Retail


*Source: Sabmilega.com/ Reliance Fresh*

13.2 Reliance Fresh Retail: Customer helpers and computerize billing system.

## Appendix 14: Picture of Malls in India


14.1 Phoenix Market City (4 million square feet), Mumbai

14.2 LuLu Mall (3.9 million square feet), Kochi


*Source: Hellotravel.com*

14.3 Mantri Square Mall (1.7 million square feet), Bangalore

Appendix 15: Wal-Mart Stores in India


*Source: Wal-Mart India, Home Page* 15.1 Wal-Mart Store in India


*Source: Voanews.com* 15.2 Public Demonstration in-front of Wal-Mart Store India