IRJA-Indian Research Journal, Volume: 1, Series: 2. Issue: March, 2014 ISSN: 2347-7695
Online Available at www.indianresearchjournal.com

IMPACT OF FDI ON UNORGANISED RETAIL SECTOR

(With special reference to Mangalore City)

Author's **

Dr. Ishwara
Associate Professor
Department of Commerce,
Mangalore University,
Karnataka State.

P Ravi. D
Associate Professor
Department of Commerce,
Mangalore University,
Karnataka State.

FDI is beneficial to the rural community only if farmers have the bargaining

(Dr.Abdul Kalam)

Introduction

Foreign direct investment (FDI) refers to long term participation by a country in another country. It usually involves participation in management, joint venture, transfer of technology and expertise. The Government's liberalization and economic reforms programme was initiated in July 1991 under the new Industrial Policy Resolution. The Industrial policy reform have substantially reduced the industrial licensing requirements, removed restriction on expansion and facilitated easy access to foreign technology and Foreign Direct Investment. Foreign direct investment is the best means of transferring business knowledge from the developed countries. This consists not only of technology defined in the conventional sense of production processes for existing and new products, but also organizational, managerial, marketing, distribution, procurement and logistics knowledge and systems. Skills and technology diffuse from such foreign companies into the rest of the economy through movement of skilled personnel, through demands on input suppliers, through supplies of superior output suppliers, through supplies of superior output to users. FDI flows are preferred over other forms of external finance because they are non-debt creating, less volatile and their returns depend on the performance of the projects financed by the investors. FDI also facilitates international trade and transfer of knowledge, skills and technology.

Foreign Direct Investment (FDI) or foreign investment refers to the net inflows of investment to acquire a lasting management interest (10% or more or voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital of long term capital, and short term capital as shows in the balance of parameters. It usually involves participation in management, joint – venture, transfer technology, and expertise.

In a global economy today, FDI is becoming more important than trade as a mode of international economic transactions. There are two categories of investment: direct investment and portfolio investment. Direct investment implies that investment is followed by control it implies on ownership share of at least 10 or 25%; otherwise, it is considered as portfolio investment. Portfolio investment (i.e., investment devoid of control) has its own importance in a firm's financial managements and strategy. It is also an influencing factor effecting exchange rate. The following table shows year wise equity inflows to India.

Table 1: Year – Wise FDI Equity Inflows to India

Year	**Amount of FDI Inflows (Including advance)**		**%age growth over previous year (in terms of US $)**
Financial Year	**In rupees Crores**	**In US $ Million**	
2000-2001	12,645	2,908	-
2001-2002	19,361	4,222	(+) 45%
2002-2003	14,932	3,134	(-) 26%
2003-2004	12,117	2,634	(-)16%
2004-2005	17,138	3,759	(+)43%
2005-2006	24,613	5,546	(+)48%
2006-2007	70,630	15,726	(+)184%
2007-2008*	98,664	24,581	(+)56%
2008-2009*	123,025	27,331	(+)11%
2009-2010**	123,378	25,888	(-)05%
2010-2011 (up to June 11)	26,418	5,807	
CUMULATIVE TOTAL From April '00 to June 11)	542, 921	121, 536	

*Includes Stock Swap of shares US$ 3.2 billion for the year 2006-2007 and US$ 5.0 Billion for the year 2007-08. **Includes US$ 40 million as Stock swapped during July 2009.

Retailing in India

Retailing is one of the world's largest private industries. Liberalizations in FDI have caused a massive restructuring in the retail industry. India is considered as one of the world's lucrative retailing destination by the world's most renowned MNCs. Many MNCs have already entered India by entering into joint ventures with Indian companies e.g. Wal-Mart.

The retail industry in India is expected to grow at a rate of 14% by 2013. The first step towards allowing Foreign Direct Investment in Retail was taken in 2006. Since then 54% FDI approvals have been accepted by the government and the country has received cash inflow to the tune of about Rs. 901.64 crore. Retailing consists of all business activities involving the sale of goods and services to ultimate consumers. Retailing involves a retailer, traditionally a store or a service establishment, dealing with consumers who are acquiring goods and services for their own use rather than for resale. Consumers are always hungry for modern ways of shopping. Indian retail sector is growing fast and its employment potential is growing fast. The retail scene is changing really fast. Retailers are rethinking their approaches towards the suppliers so that they can get the best pricing strategies for themselves and for tapping customers by creating points of sales displays. So we can say that India is a rising star and going to be one of the fastest growing regions of the future.

National Council of Applied Economic Research has shown that in 2010 FDI has played an important role in the process of globalization during the past two decades. The rapid expansion of FDI by Multinational Enterprises (MNEs) since the mid- eighties may be attributed to significant changes in technologies, liberalization of trade and investment regimes, and deregulation and privatization of markets in many countries including developing countries like India.

Table 2: Top Ten Retailers in Global Market

Rank	Company	Country of origin	Net sales (US$ million)	Grocery sales	Domestic Sale	International Sales
1	Wal–Mart	USA	256329	43.7	79.1	20.9

2	Carrefour	France	79609	77.4	50.7	49.3
3	Ahold	Netherlands	63325	84.0	15.8	84.2
4	Metro Group	Germany	60332	50.5	52.9	47.1
5	Kroger	USA	53791	70.2	100	-
6	Tesco	UK	50326	74.6	80.1	19.9
7	Target	USA	48163	17.8	100	-
8	Rewe	Germany	44251	75.6	71.4	28.6
9	Costco	USA	41011	61.00	81.5	18.5
10	Aldi	Germany	41011	83.6	63.0	37.0

Source: Mukhejee and Patel Report (2005)

Indian retail sector is dominated by ''UNORGANIZED RETAIL" which consists of a large number of small retailers consisting of the local Kirana shops, owner manned general stores, chemists, footwear shops, apparel shops, paan and beedi shops, hand-cart, hawkers, pavement vendors etc. The last 3-4 years have witnessed the entry of a number of organized retailers opening stores in various modern formats in metros and other important cities. Still, the overall share of organized retailing in total retail business has remained low.

Table 3: Retail Trade in India & South East Asia (No. of Trade)

Countries	**Organized**	**Unorganized**
India	2	98
China	20	80
South Korea	15	85
Indonesia	25	75
Philippines	35	65
Thailand	40	60
Malaysia	50	50

Source: The management accountant (June) 2012

The organized retail in food and grocery segment in India is growing at a very fast pace. Traditional retailers occupy a large space in Indian food retail; almost 99% of food and grocery being sold in India is through traditional retailers. The expansion of organized has posed a threat to the unorganized retailers. The outlets opened by modern retailers not only cater to high-end consumers primarily but to middle-income and lower-income groups are attracted to low, and discounted price offers offered by organized retailers. The prices offered by Reliance Fresh for many of the items and 50% cheaper than those offered by local vendors (Chakravarty 2007). The traditional traders operating at the periphery of the organized sector are the first ones to bear the brunt of rapid expansion of organized retail sector.

OBJECTIVES OF THE STUDY

- To understand theoretical aspects of FDI and its role in India.
- To study the Indian retail sector.
- To know the impact of FDI on Kirana shops with special reference to Mangalore city.
- To compare the services offered by organized retailers and mom and pop stores.
- To offer pragmatic suggestions.

RESEARCH METHODOLOGY

This study was conducted in Mangalore city. 50 kiran shopkeepers (Including vegetable vendors) conveniently selected from those who are running their business near to the organised retailer like Reliance More shop, Big Bazar and Easy Day etc. The primary data collected through questionnaire (in Local language) issued personally to the Kirana shop owners. The secondary data was collected through published book, various economic surveys of India and ministry of commerce reports, RBI bulletin's, Journals, and news papers and the related Website have also been searched for information /data. Simple statistical tools adapted to process data and to arrive conclusion.

FINDINGS

1. The study shows that most of the respondents are male and the majority of them educated up to SSLC /PUC.
2. It is observed that from year to year numbers of kirana shops are increased and still there is a scope for further increment of kirana shops.

3. Majority of the respondents made the initial investment below 100,000 rupees and their initial investment was sufficient to start small business like vegetable shop.
4. Most of the shops are making marginal daily turnover of less than Rs. 5000.
5. It is clear from the figures and facts that most of the shops are handled by the sole owner and appointing I or 2 workers to assist the owner in kirana shop.
6. More than 66 per cent of the kirana shops provide service of credit sales like the organized retail shop keepers to their customers.
7. It is observed that shop keepers prefer to provide credit sales facilities to their regular customers.
8. As the kirana shop keepers are small in size, the majorities of them do not provide the facility of home delivery services to all customers but provide only to the regular customers.
9. Only few shop keepers accept plastic money i.e. accepting debit/credit cards and others prefer cash.
10. Like organized retailers, kirana shop owners also providing incentive scheme/promotional gifts to customers.
11. It can be inferred that the most famous promotional scheme among kirana shop keeper is product bundling (i.e. buy 1get one).
12. The kirana shop keepers use modern electronic / automatic weighing machine to ensure the quantity of goods.
13. Most of the respondents perceived that there is a direct effect on sales and profit percentage of kirana shops after the establishment of organized retail outlet at their nearby place.
14. Majority of the shop keepers are satisfied with their business and they would like to continue their business by their children.
15. The shopkeepers have faith in the tool of ‘’ giving better treatment to customers’’ to tackle with the competition of organized retailers.
16. In total it is concluded that there is awareness among the most of the kirana shopkeepers regarding the FDI policy in Mangalore city.

SUGGESTIONS

The traditional mom and pop stores should improve upon in the following area:

- ✓ Shelf Arrangement of the products.
- ✓ Ambience and Environment of the store.
- ✓ Knowledge of the salesman.
- ✓ Variety of brands.

By improving on these areas they will certainly get better customer base and their sales volume will grow.

- ❖ The Indian retail sector is its nascent stage and, therefore, it is important that the domestic retail sector would be allowed to grow and consolidate first before opening this sector to foreign investors.
- ❖ The small kirana shop keepers should concentrate on giving better facilities, cordial treatment to the customers to increase their sales.
- ❖ There should be a good relationship among the shop keeper and customers and shopkeeper should collect follow up from his daily customers to increase his business.

CONCLUSION

- ❖ We have to strengthen our non – progressive agriculture and manufacturing sectors so that more and more employment opportunities can be created.
- ❖ FDI in multi-brand retail can provide employment opportunities to these rural youth by framing policies to encourage and train the rural youth as per the requirement of big retailers.
- ❖ There must be some provisions that retailers will be encouraged to buy their supplies from the small and medium enterprises. There must be certain amount of purchases made by big retailers compulsorily from the small and medium manufacturers.
- ❖ India is slowly creating an enabling atmosphere for foreign investment as the evolution began in mid -18th century. The retail industry is defined as one of the pillars of the Indian economy. It contributes a lot to the national GDP. Retail sector in India is one of the major employment providers.

Permitting FDI in retail sector can displace the unorganized retailers leading to loss of livelihood. So, at most care needs to be taken by the government so that the people engaged in retail sector are not affected.

- India is considered as one of the world's lucrative retailing destination by the world's most renowned MNCs. There are many organized retail outlets in India.

The present study highlights that there is no doubt that organized retail outlets like Reliance and 6Ten are better in all aspects as compared to traditional mom and pop stores and local vegetable and fruit hawkers. Their sales and customers have declined considerably. According to the indigenous store owners they will grab the maximum share of the business and they have to lose at the hands of Indian organized retailers and foreign groups as multi-brand retailers. We as the customers can wait we be the watch will happen ultimately. Will we be the losers or gainers, the result is being awaited.