A STUDY ON IMPACT OF FOREIGN DIRECT INVESTMENT ON SMALL SCALE RETAILERS IN RETAIL SECTOR: FOOTFALL, SALES AND PROFIT PERCENTAGE BASED PERSPECTIVE

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ABSTRACT

The study evaluated the role of FDI in small scale retailers in retail sector and also the impact of foreign direct investment on small scale retailers in retail sector. The study operationalized the constructs with variable "Footfall, Magnitude of neighborhood shops, Magnitude of big stores of Indian companies, Magnitude of FDI stores, Magnitude of online retailers". The study was conducted on a sample of 500 respondents and observed negative impact of magnitude of FDI stores on footfall. In retrospective, co-efficient of magnitude of FDI stores shows significantly negative impact on footfall, sales and profit percentages of the small scale retailers

Key Words: FDI, Magnitude, Footfall, Sales, Small Scale Retailers.

INTRODUCTION

During last two decades modernization in the retail sector has changed the traditional face of retailing. Many new retail formats have come into existence, which have gained significant position in the Indian retail market, still the life without small scale retailers can't be imagined in India. These small scale retailers have special significance in the country. These can be regarded informally as the lifeline of India. Role of the small scale retailers in the country includes taking care of the daily needs of the households, only point of sale for most FMCG players to rural areas and local products, small quantity (FICCI & PwC, 2012), and also provide convenience (Bajaj et al., 2012) etc., These factors are very useful from the point of view of millions of people who buy the household items in very small quantity on daily basis.

Understanding FDI in Retail in India

According to DIPP FDI Policy Circular (2016), "FDI means investment by non-resident entity/person resident outside India in the capital of an Indian company under Schedule 1 of Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000". There are two entry routes available for the foreign retailers to enter in the country through FDI- automatic and government route. No approval from government is

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required under automatic route, while under government route prior permission is needed (DIPP). In single brand product retail trading FDI proposal upto 49% would be considered under automatic route, while beyond 49% it would be considered under government route. In multi brand retail trading entire 51% FDI proposal would be considered under government route.

Literature Review

Kaushik & Kapil (2012) emphasized their focus on the pros and cons of foreign direct investment in Indian retail sector. Bhattacharyya (2012) discussed about the different Opportunities and Challenges of foreign direct investment in Retail in India. Chandu (2012) expressed his views on the various problems associated with the new FDI policy in retail. Handa & Grover (2012) focused on the issues and challenges related to retail sector. Patra (2014) conducted exploratory study on the opportunities and threats of FDI in Multi-Brand Retailing in India. Sarasa, Singh & Morris (2014) emphasized their research on factors affecting FDI inflow. Barua (2013) focused his study on to substantiate the need of FDI for promotion of exports.

After the adoption of liberalization, privatization and globalization measures and thereafter arrival of multinational companies in the country India’s economy is growing at stupendous rate. To accelerate this growth rate further, FDI is encouraged in different sectors, and retail is one of it. FDI not merely helps in bringing the economic development but it also helps in integrating the economy with the economies of the other countries (Garg & Arora, 2014). If India has to achieve the desired level of economic growth then importance of FDI can’t be overlooked (Rao & Prashanth, 2012).

Because of its non-debt form of financing, FDI is considered as the better option of financing than any other option. In this option, returns are based upon the performance of the respective companies in the market (Pavithra, 2012). Both the countries, recipient and investing, have same amount of interest about FDI, as it is advantageous to both of them (Sheth, 2014). Where investing countries get the market to expand their operations and recipient countries get the precious foreign currency and access to the latest technology to exploit the untapped resources (Sirari & Bohra, 2011). Access to the advanced technology is quite important to promote the manufacturing and agriculture sector both (Sudhakar, Kumar & Sreenivas, 2013).

Research Objectives

1. To study the impact of FDI on footfall in the market place of the small scale retailers
2. To study the impact of FDI on sales of the small scale retailers
3. To study the impact of FDI on profit percentage of the small scale retailers
4. To recommend policy measures for promotion of the small scale retailers, and consequential economic development as the spillover effect.

RESEARCH METHODOLOGY

Geographic Coverage and Approach

This study was conducted on the small scale retailers running their stores in NCR. Convenience sampling method was used for data collection. Convenience sampling is a type of

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non-probability sampling in which data are sampled because they are convenient sources for the researchers.

Sample Size and Study Site

In this study, a sample size of 500 was taken for data collection. The data was collected from small scale retailers running their stores in different parts of NCR Areas covered for the study includes Delhi, New Delhi, Ghaziabad, Noida, Faridabad and Gurgaon. Different market places were visited during the study and only those respondents who became ready to give their responses were included in the study.

Data Collection

The study is based on both primary and secondary data. The secondary data were collected from journals, magazines, reports, books, websites of the government of India and websites of top Indian retailers of the country and primary data were collected from small scale retailers through structured questionnaire developed for the study. The small scale retailers selected for the data collection were running stores of different products and services which include readymade, footwear, cosmetics, food items, grocery items etc.

RESULTS AND DISCUSSIONS

Variables

Variables involved in the study and results derived from the study are presented here:

Impact on Footfall

In this section impact of magnitude of FDI stores on footfall in the market place of the small scale retailers is explained-
Here,
Dependent variable- footfall in the market place of the small scale retailers
Independent variables- MNS (magnitude of neighbourhood stores), MBSIC (magnitude of big stores of Indian companies), MFS (magnitude of FDI stores), MOLS (magnitude of online retailers), BEF (It include migration of the people in that locality, infrastructure, parking facility, distance, type of retailers in the market, festivals etc.) in Table 1.

γ (Footfall) = $\beta_0 + \beta_1$ (MNS) + β_2 (MBSIC) + β_3 (MFS) + β_4 (MOLS) + β_5 (BEF) + ε

Table 1
IMPACT OF MAGNITUDE OF FDI STORES ON FOOTFALL IN THE MARKET PLACE OF THE SMALL SCALE RETAILERS

Variables	Coefficient	SE	*t* value	*p* value
MNS	.0763495	.0230363	3.31	0.001
MBSIC	-.0730328	.0453961	-1.61	0.108

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MFS	-.045819	.0182748	-2.51	0.012
MOLS	.0171502	.018619	0.92	0.357
BEF	.9230491	.0456041	20.24	0.000
_cons	-.053447	.1431778	-0.37	0.709
Note: R^2 = 0.8062; Adjusted R^2 = 0.8040				

Source: field survey 2015-16.

A multiple regression was run to predict impact on footfall in the market place of the small scale retailers from MNS (magnitude of neighbourhood stores), MBSIC (magnitude of big stores of Indian companies), MFS (magnitude of FDI stores), MOLS (magnitude of online retailers), and BEF (business environment factors).

These variables statistically significantly predicted footfall, F(5, 494)= 410.93, p<0.0000, R^2= .806. The "R Square" column represents the R^2 value (also called the coefficient of determination), which is the proportion of variance in the dependent variable that can be explained by the independent variables (technically, it is the proportion of variation accounted for by the regression model). As a percentage, it represents the percentage of the variation in the outcome that can be explained by the model. The observed $R^2$of 0.806 depicts the 80 per cent variance in dependent on account of independent variables in determining the impact on footfall in the market place of the small scale retailers, Therefore, there must be other variables that have an influence also. R^2 (.806) indicating that the cross-validity of this model is very good. The adjusted R^2 gives us some idea of how well our model generalizes and ideally we would like its value to be the same, or very close to, the value of $R^{2.}$. In this, the difference for the final model is small (in fact the difference between the values is .806 −.804 =.002 (about 0.2%). This shrinkage means that if the model were derived from the population rather than a sample it would account for approximately 0.2% less variance in the outcome.

The co-efficient of MNS shows significantly positive impact (.0763495) on footfall. The critical value is significant at 1% level of significance. We find from the estimated model that increased number of neighborhood shops in a particular market place have positive impact on footfall in the market place as it facilitates the customers in searching for more products or brands choices, improved services, competitive rates etc. and many customers like to scout for more retail outlets to check on the variety and prices before they reach on their final purchase decision. Though the co-efficient of MBSIC is negative (-.0730328), but statistically it is insignificant as the p value is beyond 0.05. The co-efficient of MFS shows significantly negative impact (-.045819) on footfall. The critical value is significant at 1% level of significance. We find from the estimated model that increased number of FDI stores in a particular market place has negative impact on footfall in the market place, their ambience, investment capacity, and other reasons may influence the customers. Though the co-efficient of MOLS is positive (.0171502), but statistically it is insignificant as the p value is beyond 0.05. The co-efficient of BEF shows significantly positive impact (.9230491) on footfall. The critical value is significant at 1% level of significance. We find from the estimated model that BEF which includes migration of the people in that locality, infrastructure, parking facility, distance, type of retailers in the market place, etc. have positive impact on footfall in the market place.

Impact on Sales

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In this section impact of magnitude of FDI stores on sales of the small scale retailers is explained-

Here,

Dependent variable- sales of the small scale retailers

Independent variables- MNS (magnitude of neighbourhood stores), MBSIC (magnitude of big stores of Indian companies), MFS (magnitude of FDI stores), MOLS (magnitude of online retailers), BEF (It include range of merchandising, main season / off season, festivals, behaviour of the retailer, pricing etc.) in Table 2.

γ (Sales) = $\beta_0 + \beta_1$ (MNS) + β_2 (MBSIC) + β_3 (MFS) + β_4 (MOLS) + β_5 (BEF) + ε

Table 2
IMPACT OF MAGNITUDE OF FDI STORES ON SALES OF THE SMALL SCALE RETAILERS

Variables	Coefficient	SE	*t* value	*p* value
MNS	.0777427	0.0266594	2.92	0.004
MBSIC	.163454	0.0525359	3.11	0.002
MFS	-.045756	0.0211491	-2.16	0.031
MOLS	.0537962	0.0215473	2.50	0.013
BEF	.6683496	0.0527766	12.66	0.000
_cons	-.208374	0.1656965	-1.26	0.209
Note: R^2 = 0.7409; Adjusted R^2 = 0.7382				

Source: field survey 2015-16.

A multiple regression was run to predict impact on sales of the small scale retailers from MNS (magnitude of neighbourhood stores), MBSIC (magnitude of big stores of Indian companies), MFS (magnitude of FDI stores), MOLS (magnitude of online retailers), and BEF (business environment factors).

These variables statistically significantly predicted impact on sales, F(5, 494)= 282.47, p<0.0000, R^2= 0.7409. The observed $R^2$of 0.7409depicts the 74 per cent variance in dependent on account of independent variables in determining the impact on sales of the small scale retailers. Therefore, there must be other variables that have an influence also.

R^2 (0.7409) indicating that the cross-validity of this model is very good. In this, the difference for the final model is small (in fact the difference between the values is 0.740 − 0.738 =.002 (about 0.2%). This shrinkage means that if the model were derived from the population rather than a sample it would account for approximately 0.2% less variance in the outcome.

The co-efficient of MNS shows significantly positive impact (.0777427) on sales. The critical value is significant at 1% level of significance. We find from the estimated model that increased footfall in the market place of the customers may leads to the increased sales of the small scale retailers. The co-efficient of MBSIC shows significantly positive impact (.163454) on sales. The critical value is significant at 1% level of significance. The co-efficient of MFS shows significantly negative impact (-.045756) on sales. The critical value is significant at 1% level of significance. The co-efficient of MOLS shows significantly positive impact (.0537962) on sales. The critical value is significant at 5% level of significance. The co-efficient of BEF shows significantly positive impact (.6683496) on sales. The critical value is significant at 1% level of significance. We find from the estimated model that BEF which includes migration of

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the people in that locality, infrastructure, parking facility, distance, type of retailers in the market place, etc. have positive impact on sales in the market place.

Impact on Profit Percentage

In this section impact of magnitude of FDI stores on profit percentage of the small scale retailers is explained-

Here,

Dependent variable- profit percentage of the small scale retailers

Independent variables- MNS (magnitude of neighbourhood stores), MBSIC (magnitude of big stores of Indian companies), MFS (magnitude of FDI stores), MOLS (magnitude of online retailers), BEF (It include main season / off season, type of customers, pricing, festivals, type of retailers in the market etc.) in Table 3.

γ (Profit percentage) = $\beta_0 + \beta_1$ (MNS) + β_2 (MBSIC) + β_3 (MFS) + β_4 (MOLS) + β_5 (BEF) + ε

Table 3
IMPACT OF MAGNITUDE OF FDI STORES ON PROFIT PERCENTAGE OF THE SMALL SCALE RETAILERS

Variables	Coefficient	SE	*t* value	*p* value
MNS	.0812457	.0278141	2.92	0.004
MBSIC	.1643816	.0548113	3.00	0.003
MFS	-.0552171	.0220651	-2.50	0.013
MOLS	-.0211025	.0224806	-0.94	0.348
BEF	.6774657	.0550625	12.30	0.000
_cons	.1443424	.1728731	0.83	0.404
Note: R^2 = 0.7302; Adjusted R^2 = 0.7275				

Source: field survey 2015-16.

A multiple regression was run to predict impact on profit percentage of the small scale retailers from MNS (magnitude of neighbourhood stores), MBSIC (magnitude of big stores of Indian companies), MFS (magnitude of FDI stores), MOLS (magnitude of online retailers), and BEF (business environment factors).

These variables statistically significantly predicted impact on profit percentage, F(5, 494)= 267.40, p<0.0000, R^2= 0.7302. The observed $R^2$of 0.7302 depicts the 73 per cent variance in dependent on account of independent variables in determining the impact on profit percentage of the small scale retailers. Therefore, there must be other variables that have an influence also. R^2 (0.7302) indicating that the cross-validity of this model is very good.

In this, the difference for the final model is small (in fact the difference between the values is 0.730 − 0.727 =.003 (about 0.3%). This shrinkage means that if the model were derived from the population rather than a sample it would account for approximately 0.3% less variance in the outcome.

The co-efficient of MNS shows significantly positive impact (.0812457) on profit percentage. The critical value is significant at 1% level of significance. We find from the estimated model that If any market place where the footfall increases at higher rate than the increased retailers then the retailers also take the advantages of increased profit percentage, it may also happen because of improved learning and subsequently cost cutting on operation, buying at lesser rates, etc. The co-efficient of MBSIC shows significantly positive impact (.1643816) on profit percentage. The critical value is significant at 1% level of significance. The

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co-efficient of MFS shows significantly negative impact (-.0552171) on profit percentage. The critical value is significant at 10% level of significance. Though the co-efficient of MOLS is negative (-.0211025), but statistically it is insignificant as the *p* value is beyond 0.05. The co-efficient of BEF shows significantly positive impact (.6774657) on profit percentage. The critical value is significant at 1% level of significance.

Findings and Suggestions

In present study, impact of foreign direct investment on small scale retailers has been studied on three perspectives, viz. Footfall, sales and profit percentage. It was found that there is a positive impact on the footfall in a particular market place where large numbers of retailers exist, as the customer feels comfortable in searching for the variety and also can bargain. It was also found that the footfall may also decrease because of the high investment capacity in the products range and very appealing ambience of the foreign retailers. Due to the strong apprehensions towards the foreign retailers it was found that small scale retailers don’t like at all to alow the multinationals in this sector. Business environment factors such as migration of the people to hat locality, improved infrastructure, distance from the home etc. have also significant impact on the footfall in the marketplace of the small scale retailers.

It was found that increased number of retailers in a prticular market place have significant positive impact on the sales. As the footfall incraeses and if the price range matches with the customers’ expectations, it increases the sales probility too. It was found that thogh the big stores of the Indian companies may affect the footfall but in due course of time due to the increased population in the nearby area, or increase in the per customer volume or attarcting the new customers through adopting the strategies like paying personal attention, giving credits etc. may give It was also found that range of products and offers of the foreign retailers, time constraints to the certain group of customers etc. may have negative impact on the sales of the other market place. It was found that a customer who has any bitter experience with the online retailers or in case the customers find that the price tag of the online retailers is high or doubts in their after sales service then these reasons give boost to the physical stores. It was also found that according to the season, festivals, good behaviour of the retailer, competitive pricing etc. also gives positive impact on the sales.

In case of profit percentage it was found that if there is comparatively more footfall than the increased number of retailers, control over the cost of operation, procurement at the lesser rates etc, may give the scope to the retailers to increase their profit percentages. Seeing the way of doing busness and thereby learning from the big stores of Indian companies may strenghten the competitveness of the small scale retailers as well as new supplier search who can supply the goods at lesser price etc. may be the fact behind increased profit percentages of small scale retailers. It was also found that movement of good customers to the foreign stores may put the large pessure on the small scale retailers to cut down their profit percentages to call them again to their stores. It was found that most small-scale retailers had increasing apprehensions about their future, except those retailers who had a strong presence in the market place or those who have some strong financial backup from other resources. It was also found that many of them had major difficulties in expanding their businesses, because of their limited investment capacity or limited space of their store.

Increased numbers of foreign retailers have multiple effects, on one side it has benefitted the country by bringing technological advancement, rise in the foreign exchange reserves, and

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more tax revenues for the government, etc. but on the other, their presence has made the business environment more competitive. Hence In the coming years, small retailers will have to adapt more specific strategies fitting to the need of every customer group to increase their customer base. They will have to constantly update themselves as per the development in the marketplace.
Government should ensure that the large foreign stores are running their stores as per the set norms. Government can also adopt such regulatory measures that the business practices of the large foreign retailers can be monitored to avoid any possibility of unfair trade practices, which could affect the small scale retailers. Small scale retailers have very special significance in India not merely because of their contribution to the GDP but also because it is the only source of income for several households who are solely dependent on their small retail shops. Considering the significance of small-scale retailers of the country there is a need of taking promotional measures which can help the small-scale retailers to grow.

Limitations and Scope for Future Research

The results can't be generalized while studying the impact of FDI inflow in other challenging sectors. The study is limited to NCR, India, hence the result arrived at from the study may or may not be applicable to other regions or countries. Because of their poor experiences in the past, many small-scale retailers were not ready to give their responses. Many a time most of the retailers expressed their inability to give their responses as they were either alone in the shop or they were busy with some other important tasks. Since most of the small-scale
This study can be extended further by covering more regions or by increasing the sample size. Other stakeholders like intermediaries can also be included in the study to cover the new aspects.

Implications of the study

Increased numbers of foreign retailers have multiple effects, on one side it has benefitted the country by bringing technological advancement, rise in the foreign exchange reserves and more tax revenues for the government etc. but on the other their presence has made the business environment more competitive. The entry of foreign retailers has made the retail environment very dynamic, and running a store at small scale level has become very difficult. Increased competition amongst the retailers has made the entire market customer centric; this has put the pressure over the small scale retailers to improve their services.

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