ICRIER Policy Series

No. 5 | August 2011

Impact of the Retail FDI Policy on Indian Consumers and the Way Forward

Arpita Mukherjee
Divya Satija
Tanu M. Goyal
Murali K. Mantrala
Shaoming Zou

Abstract

In the post-liberalisation period, with increase in GDP, rising per capita income and proliferation of brands, there have been changes in the purchase behaviour of Indian consumers. The large consumer base has attracted many global retailers and domestic corporates to invest in modern retail in India. The government has partially allowed FDI in single-brand retail to give consumers greater access to foreign brands. At present, there is a debate in India on whether FDI should be allowed in multi-brand retail. In this context, this paper analyses the impact of the retail FDI policy on Indian consumers and make policy recommendations for the Indian government. Based on a primary survey of Indian consumers, the paper examines their shopping behaviour across different product (branded and non-branded) categories, knowledge of foreign brands and attitude towards further liberalising FDI in retail. The factors determining the choice of modern retail outlets are also examined.

The paper showed that the purchase of brands varies across different product categories and for some, consumers show distinct preference for non-branded products, which are purchased from traditional outlets. Thus, both traditional and modern retail can coexist in India. Knowledge and use of foreign brands, especially luxury brands, is low. A majority of the respondents is in favour of allowing FDI in retail. The paper points out that consumer welfare should be a key determinant of the retail FDI policy. The government should allow FDI in multi-brand retail, which will enhance brand knowledge, choices available to consumers and help to promote branding in certain segments like fruits and vegetables where there are only a few brands available.

JEL Classification: *D10, D11, D12, F13, G18 and L81*
Key Words: *Retail, Household Behaviour, Government Policy and Trade Policy*

Authors' Email Address: arpita@icrier.res.in; dsatija@icrier.res.in; tgoyal@icrier.res.in

Executive Summary

There has been a change in Indian consumers' consumption pattern, shopping behaviour and brand consciousness with the growth in GDP and rise in per capita income in the post-liberalisation period. Economic development, rise in purchasing power and brand proliferation has led to retail modernisation in India. Various store and non-store formats have evolved. In 2010, the Indian retail market was valued at $435 billion of which the share of modern retail was 7 per cent. The sector is expected to grow to $535 billion by 2013 with the share of modern retail at 10 per cent. In 2007, India was ranked the twelfth largest consumer market and it is expected to be the fifth-largest consumer market by 2025.

The growing Indian market has attracted a number of foreign retailers and domestic corporates to invest in this sector. Although FDI is not allowed in multi-brand retail, foreign retailers have entered the Indian market through other routes such as franchising.

The Indian government is aware that the large market, growing consumerism and brand-consciousness can help sustain high economic growth. It also wants to develop India as an outsourcing hub for foreign retailers. To give Indian consumers greater access to foreign brands, in 2006, 51 per cent FDI in single-brand retail was permitted, subject to certain conditions. India is probably the only country in the world, which has a brand-based FDI retail policy. At present, there is a debate among policymakers on whether FDI should be allowed in multi-brand retail and whether such investment should be subject to conditions. While supporters of FDI in retail have argued that it will lead to better supply chain management and reduce inflation, the impact on Indian consumers is largely ignored.

The objective of this paper is to analyse the impact of the retail FDI policy on Indian consumers and make policy recommendations for the Indian government. Based on a primary survey of 300 Indian consumers in high and middle income groups across eleven cities, the study examined (a) the purchase behaviour of Indian consumers across different product categories, brands and at different retail outlets (b) the factors determining the purchase behaviour and consumer preferences for brands and retail formats (c) consumers' knowledge about brands and brand use (d) consumers' attitude towards foreign brands and (e) consumers' perception about allowing FDI in multi-brand retail.

The study found that food and grocery accounts for a significant proportion of the expenditure of Indian consumers followed by apparel. The preference for branded products and purchases differ across product categories. In product categories such as dietary supplements, consumer durables and watches largely branded products are purchased. For apparel, footwear, handbags and jewellery, both branded and non-branded products are purchased, for food, the expenditure is predominantly on non-branded products. Factors such as availability, reliability, after-sales service, convenience, variety and perceptions about quality govern the consumers' purchase behaviour across branded and non-branded products. The survey showed that (a) even higher income Indian consumers spread their expenditure on different product categories across branded and non-branded products (b) a bulk of Indian consumers' expenditure is on food and grocery products and it is in this segment consumers largely buy non-branded products. This is not only due to the lack of availability of brands but also because currently available brands are high-priced.

The survey also found that Indian consumers have distinct preferences for both modern and traditional outlets. The respondents informed that while modern outlets are preferred for better product quality, fresh stock, exclusive designs, more variety and better customer service, traditional outlets have the advantages of proximity, lower price and convenience. While modern retail outlets are preferred for more durable goods purchases, neighbourhood *kiranas* or traditional retailers are preferred when shopping for more frequently purchased products such as fresh fruits and vegetables. Thus, due to distinct consumer preferences, both modern and traditional retail outlets are likely to coexist in India.

The study found that there is no linkage between the knowledge and use of foreign brands; however, the longer a foreign brand is present in India, the more likely it is that it will be known and used. Brands that are globally well advertised and those that have positioned themselves outside luxury malls and five star hotels are more likely to be known. Overall, the survey found that the Indian consumers are price sensitive and the knowledge and use of foreign brands, especially luxury brands, are low. Since the partial FDI in single-brand retail has largely facilitated the entry of luxury brands into the Indian market, it has not benefitted the majority of Indian consumers. Indian consumers are in favour of allowing FDI in multi-brand retail. Around 83 per cent of the survey respondents argued that this will facilitate the entry of more brands into the Indian market, improve quality of brands through competition and will increase choices for consumers.

Based on the findings, the study recommends that retail FDI policy needs to focus on how it can benefit the majority of the Indian consumers (especially the low and middle-income consumers) by giving them access to branded products at lower prices. However, the present FDI restriction on multi-brand retail does not allow multi-brand retailers such as Wal-Mart and Tesco, which have a low-margin, low-price business model to service the Indian consumer directly, leading to a loss of consumer welfare. This has led to a reduction in consumer welfare. The paper argues that, for enhancing consumer welfare, FDI should allowed be in multi-brand retail in a phased manner. This will also facilitate investment in the supply chain and increase domestic sourcing.

To protect the interest of consumers, the paper argues that the Competition Act, 2002, the Consumer Protection Act, 1986 and the Consumer Protection (Amendment) Act, 2002 needs to be reviewed and if required amended.

Contents

List of Tables

Impact of the Retail FDI Policy on Indian Consumers and the Way Forward[1]

Arpita Mukherjee, Divya Satija, Tanu M. Goyal,
Murali K. Mantrala and Shaoming Zou

There is a close linkage between economic development, rise in per capita income, growing consumerism, proliferation of branded products, and retail modernisation. With high economic growth, per capita income increases; this, in turn, leads to a shift in consumption pattern from necessity items to discretionary consumption. Furthermore, as the economy liberalises and globalises, various international brands enter the domestic market. Consumer awareness increases and consumers tend to experiment with different international brands. The proliferation of brands leads to increase in retail space. Thus, retail modernisation is a part of the development process.

Retail modernisation in India depicts a similar story. Over the past decade, the gross domestic product (GDP) and per capita income has grown at an average annual rate of seven per cent and five per cent, respectively.[2] India's GDP growth rate for 2010-11 was 8.6 per cent[3] and it is expected to grow by 9 per cent in 2011-12.[4]

In India, around 60 per cent of the GDP is consumed.[5] In 2007, India was ranked the twelfth largest consumer market and it is expected to be the fifth-largest consumer market by 2025 after the US, Japan, China and the UK (McKinsey & Company 2007). This has made the country an attractive destination for foreign retailers. AT Kearney (2011) ranks India fourth worldwide (after Brazil, Uruguay and Chile) and first among emerging Asian markets as an attractive destination for foreign retailers. In 2010, India attracted the largest number of new retailers among emerging and mature markets (CBRE 2011).

In the post-liberalisation period, the number of rich and middle-income Indian consumers has increased, with a corresponding fall in the number of people below the poverty line. Between 2001 and 2010, the rich consumer class increased by 21.4 per cent, while the middle class increased by 12.9 per cent (Shukla 2010). With a growing middle class, rising GDP and disposable incomes, there is a notable change in the

---

[1] Arpita Mukherjee is a Professor and Divya Satija and Tanu M. Goyal are Researchers at ICRIER. Murali K. Mantrala and Shaoming Zou are Professors at University of Missouri, Columbia.
An earlier version of the paper was presented at the 2010 China India Consumer Insights Conference, Yale-Tsinghua University, Beijing and at the 4th IIMA Conference on Marketing in Emerging Economies, 2011. We are grateful to the conference participants for their useful comments. We would like to thank Professor Anwarul Hoda and Professor Nisha Taneja, ICRIER, for their valuable comments and Tara Nair for copyediting.

[2] Calculated from World Economic Outlook Database, April 2010, IMF (GDP is at 1999-2000 prices) http://www.imf.org/external/pubs/ft/weo/2010/01/weodata/index.aspx , viewed on 9th February, 2011

[3] Economic Survey of India, 2010-11, http://indiabudget.nic.in/es2010-11/echap-01.pdf

[4] Union Budget, 2011-12, http://indiabudget.nic.in/ub2011-12/frbm/frbm1.pdf

[5] Authors' own calculations from Central Statistical Organisation (CSO), 2008-09.

spending pattern of Indian consumers. At present, more than 40 per cent of consumer spending is on food, but this is expected to decline to 25 per cent by 2025, while spending on non-discretionary items like wellness products is expected to rise (McKinsey & Company 2007). In addition, Indian consumers are becoming more brand-conscious. In 2007, India was ranked the third most brand-conscious country, after Greece and Hong Kong (AC Nielsen 2008). The changing shopping behaviour and rising brand consciousness among Indian consumers is driving the growth of the retail sector in India.

The Indian government has realised that growing consumerism and brand-consciousness can help sustain high economic growth. The government also wants to develop India as an outsourcing hub for foreign retailers; the presence of foreign retailers in the domestic market can increase sourcing from India. As a result, the Indian government formulated a brand-based retail FDI policy in 2006. The policy allows 51 per cent FDI in a retail enterprise with the following conditions: (a) *only single-brand products* can be sold (i.e., the sale of multiple brands by a foreign retailer, even if produced by the same manufacturer, is not allowed), (b) products should be sold under the same brand internationally, (c) the retail would only cover products that are branded during manufacturing and (d) any addition to product categories would require fresh approval from the government. India is probably the only country in the world that has a brand-based retail FDI policy. This policy assumes that Indian consumers are brand conscious, have knowledge of foreign brands, and want access to foreign brands in the Indian market. As a result of this policy, several foreign retailers including Giorgio Armani (Italy), Louis Vuitton (France) Rino Greggio (Argentina), Signature Kitchens (Malaysia) and Crocs Inc. (USA) have entered the Indian market.

Despite changes in consumer behaviour and retail modernisation, India is one of the few countries where FDI is prohibited in multi-brand retail, primarily to protect the traditional mom-and-pop retailers. This policy restricts global low-cost multi-brand retailers such as Wal-Mart, Tesco and Metro AG from catering directly to Indian consumers. Within the country, there has been significant debate on whether FDI should be allowed in multi-brand retail. In July 2010, the Department of Industrial Policy and Promotion (DIPP) released a Discussion Paper on *'Foreign Direct Investment (FDI) in Multi-Brand Retail Trading'* to facilitate discussion and debate on whether FDI should be allowed in multi-brand retail and, if so, what conditions should be imposed on FDI. Although a number of issues have been discussed in the Discussion Paper, the implications of the liberalisation for Indian consumers have not been discussed. The Economic Survey of 2010-11 mentioned that a phased opening of FDI in multi-brand retail is likely to benefit the consumers, but did not state the exact benefits. In July 2011, a committee of cabinet secretaries supported 51 per cent FDI in multi-brand retail[6] stating that it will help to set up the supply chain and reduce

[6] http://articles.economictimes.indiatimes.com/2011-07-23/news/29806618_1_ajit-kumar-seth-cabinet-secretary-small-retailers/2 viewed on 1st August, 2011.

inflation. The implications of liberalisation of FDI in retail on Indian consumers have largely been ignored in these policy debates.

This paper attempts to fill that lacuna. The objective of this paper is to analyse the impact of the retail FDI policy on Indian consumers and make policy recommendations for the Indian government. Based on a primary survey, the paper examines (a) the purchase behaviour of Indian consumers across different product categories, brands and at different retail outlets (b) the factors determining the purchase behaviour and consumer preferences for brands and retail formats (c) consumers' knowledge about brands and brand use (d) consumers' attitude towards foreign brands and (e) Indian consumers' perception about allowing FDI in multi-brand retail.

The paper is divided into five sections. The first section gives an overview of the Indian retail sector and the next section reviews the literature. The third section introduces the study methodology and Section 4 reports the survey results. The final section presents the key findings of the study and makes policy recommendations for the Indian government.

Recent Developments in the Retail Sector in India

With liberalisation, economic growth and changes in Indian consumers' demographic and economic profile and their shopping behaviour, the retail sector is undergoing changes. Prior to the 1990 reforms, India was a closed economy. 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. These stores largely sold non-branded products. The concept of branding was limited and very few brands such as Bata were present in the Indian market. The liberalisation of the economy in the 1990s and the entry of multinationals and Indian corporates in manufacturing led to the proliferation of brands. A number of Indian corporates started investing in retail and different store and non-store formats evolved. Although FDI is restricted in retail, foreign retailers and brands entered the Indian market through various routes such as wholesale cash and carry, wholly-owned subsidiary in manufacturing, licensing and distribution agreements, joint ventures for each brand (or single-brand retail route), franchising and commission agents. At present, foreign retailers operate in India through both store and non-store formats. Thus, the present FDI restriction is not an entry ban. It restricts their ability to choose their preferred route of entry to this market.

Retail is now one of the fastest growing sectors in India. It is estimated that the share of retail trade in GDP is approximately 11-12 per cent.[7] In 2010, the Indian retail market was valued at $435 billion, of which the share of organised or modern retail was 7 per cent or $30.05 billion (A.T. Kearney 2011). The sector is expected to grow to $535 billion by 2013, while the share of modern retail is expected to reach 10 per cent by

[7] Estimates from Central Statistical Organisation, (CSO), 2008-09.

2013 and 20 per cent by 2020 (A.T. Kearney 2010, 2011).[8] Although modern retail is projected to grow at a faster pace, traditional retail is also growing.

In 2010, food and grocery was the largest segment of retail in India with a share of around 50 per cent, but only around one per cent of it was in the modern sector. Modern retail has a larger presence in product categories like clothing, watches and footwear, where there has been significant penetration of branded products (see Images 2009).

Despite the present FDI restrictions, a number of studies such as A.T. Kearney (2011), McKinsey & Company (2007) and A C Nielsen (2008) predict that modern retail will continue to witness double-digit growth in India. The Indian market is unsaturated and A.T. Kearney 2011 has pointed out that it is the right time for global retailers to enter the Indian market.

A Review of Existing Consumer Studies in India

There are a number of studies on Indian consumers, which show that various factors affect their shopping behaviour. These include their level of income, education, and international exposure (Ramachander 1988), gender and age (Sinha, *et al.* 2002) and distance from the store (Sinha 2003).

In terms of the shopping behaviour of Indian consumers across different retail outlets, traditional outlets are preferred as consumers can bargain while modern outlets are preferred because they link entertainment with shopping (Sinha 2003). Those who purchase at modern outlets have reported better product quality, lower prices, one-stop shopping, choice of more brands and products, better shopping experiences with family and fresh stocks as some of the reasons for their choice of outlet. On the other hand, proximity to residence, goodwill, credit availability, possibility of bargaining, choice of loose items, convenient timings, home delivery, etc., are some of the benefits of traditional outlets (Joseph and Soundararajan 2009). Joseph and Soundararajan (2009) pointed out that with retail modernisation, consumer spending is increasing and small spenders save more from shopping at modern retail outlets. The degree of savings depends on the type of retail format – it is more for discounters and supermarkets, and less for hypermarkets. Consumers are the major beneficiaries of the retail boom as organised retailers are initiating measures such as tracking of consumer behaviour and consumer loyalty programmes to retain their market share (Mukherjee and Patel (2005)). Sinha *et al.* (2002) have shown that the factors affecting choice of retail outlets vary across gender – while men give more prominence to proximity, women emphasise the merchandise offered by the store.

[8] It is important to know that there are various projections of the Indian retail sector and they vary widely. However, they all project double-digit growth for modern retail.

Indian consumers recognise value addition made by a brand (Rao 1998). They perceive foreign brands to be of better quality than Indian brands (Kinra 2006), and there is a preference for foreign brands (Rao 2000). The young are more willing to experiment with brands, and different store and non-store formats, which provide opportunities for more brands and retailers. Kaur and Singh (2007) found that children are becoming key decision-makers in household purchases.

None of these studies has focused on policy recommendation or analysed the implication of the existing policy on consumers.

Present Survey Methodology

To understand the shopping behaviour of Indian consumers and how they have been impacted by the retail FDI policy, a pan-India pilot survey was conducted in 2009-2010 covering 300 consumers.[9] The data was collected through a mix of exit interviews, door-to-door surveys and random interviews in shopping malls and market areas. The sample was selected using a stratified random sampling technique. The entire population was stratified on the basis of their income, occupation and education. The data on respondents' average annual household income was divided into three broad categories – low income group: ₹90,000-₹2,00,000 ($1,980-$4,000), middle income group: ₹2,00,000-₹1,000,000 (($4,000-21,000) and rich over ₹1,000,000 (over $21,000). Consumers in socio-economic classifications (SEC)[10] A, B and C were selected from six Tier I cities, four Tier II cities, and one Tier III city[11] where modern retail has presence. Around 94 per cent of the respondents were in the age group of 23-60 years. This age group constitutes the core of the working population and the decision-makers in each household. Sixty two per cent of the respondents were male.

The survey was conducted using a semi-structured questionnaire. Part of the questionnaire was kept open-ended to get maximum information. The questions focused on:

- Consumer expenditure across different product categories and across branded versus non-branded products within each product category
- Factors affecting choice of branded products
- Consumers' knowledge about foreign brands
- Consumers' attitude towards allowing foreign brands and FDI in multi-brand retail in India
- Consumers' preference across retail outlets – modern or traditional
- Factors affecting consumers' choice of retail outlets and rating of outlets across different parameters

[9] The survey was a part of the project sponsored by the Italian Trade Commission (ITC).
[10] SEC or Socio-Economic Classification is a classification of the Indian population on the basis of occupation and education of an individual.
[11] Tier I cities include Delhi, Mumbai, Kolkata, Chennai, Hyderabad and Ahmedabad. Tier II cities include Surat, Vishakhapatnam, Kanpur and Allahabad and Tier III city is Bhubaneswar.

Individuals who have a say in the purchase decision of the family were interviewed. In order to assess the purchase behaviour across different product categories, 12 product categories were selected. These include fresh fruits and vegetables, preserved food and agro products, fast moving consumer goods (FMCG), dietary supplements, apparel, footwear, handbags, watches, jewellery (made from precious stones and metals), costume jewellery, furniture, and consumer durables. This covers most of the products that consumers purchase – like fresh fruits and vegetables (purchased on a regular basis), preserved food and agro products and FMCGs (purchased on a monthly basis) and jewellery (purchased occasionally).

Survey data were analysed using descriptive statistics, simple regression and logistic regression, and the results are summarised below.

Survey Findings

Consumer expenditure patterns across different products are summarised below:

- **Consumer Expenditure Pattern**

The survey showed that food (fresh and preserved) accounts for a significant proportion of the expenditure of Indian consumers, as it is part of their habitual consumption (Table1). These products are bought on a regular basis, largely from neighbourhood stores due to easier access. The second important category is apparel.[12] Jewellery is a high-value product that is often treated as an investment. It is bought occasionally but accounts for a substantial part of consumers' expenditure. Some products such as dietary supplements, costume jewellery and tiles that have not been purchased by a majority of the respondents in the past one year are clubbed in the "others" category.

Table 1: Percentage of Expenditure Distribution across Product Categories

Products	Percentage of Total Expenditure
Fresh Fruits and Vegetables	19.07
Apparel	14.82
Preserved Food and Agro products	13.08
Jewellery	10.48
Consumer Durables	8.40
FMCG products	8.30
Furniture	6.31
Footwear	3.31
Watches	2.53
Others	13.71

[12] These findings are in line with other studies (for example, see Images (2009)).

In each of these product categories, the respondents were asked whether they purchase branded or non-branded products. In certain product categories, such as watches and dietary supplements, respondents purchase largely branded products. In categories like apparel, footwear and handbags, they buy both branded and non-branded products, while in categories like fresh fruits and vegetables, the bulk of the purchases are non-branded products. This is shown in Table 2.

Table 2: Total Purchases and Branded Purchases across Different Products

Product Category	Percentage Share of Respondents Buying Only Branded Products	Percentage Share of Expenditure on Branded Products in each Product Category
	Category I: Largely Branded	
Dietary Supplements	100	100
Consumer Durables	100	100
FMCG products	99.66	94.05
Watches	99.29	88.82
	Category II: Both Branded and Non Branded	
Footwear	88.67	84.81
Apparel	40.66*	74.85
Handbags	62.66	67.12
Jewellery	63.86	62.83
	Category III: Largely Non-Branded	
Preserved Food and Agro products	51.93	56.70
Furniture	41.29	55.98
Costume Jewellery	33.87	55.64
Fresh Fruits and Vegetables	7.33	53.04
Total Number of Respondents	-	-

Note:**A large number of respondents buy both branded and non-branded apparel. Therefore, the percentage of respondents that buy only branded apparel is low.*

- **Factors Affecting Choice of Branded Products**

Consumers' purchase behaviour across branded and non-branded products depends on various factors such as availability of brands, perception of consumers about the quality and reliability of brands, etc. For instance, respondents bought branded dietary supplements because the popular ones available in retail outlets (whether traditional or modern), are largely branded. They are also considered reliable as they go through health and safety checks and have to meet government regulations. In the case of consumer durables, brands are considered as a proxy for good quality and branded products usually provide good after-sales services. The survey found that most FMCGs are branded and are available across all price ranges. Besides, they are available in both modern and traditional outlets. Hence, consumer can easily buy branded products.

In product categories like footwear, apparel and handbags, the survey found that the concept of branding has evolved in recent years. Branded products are chosen for design, comfort, durability and quality while non-branded products are cheaper, and can be customised. Consumers' preferences for branded products in these product categories vary across regions and even cities. For instance, in cities like Kolkata, consumers prefer Indian brands such as Khadims in the low to mid-price ranges for shoes and handbags, while in Delhi; consumers have shown preference for both high-priced products from modern retail outlets and non-branded products from street shops. In these product categories, brand loyalty is low and consumers are experimenting with different brands. Non-branded products have a large market due to impulse buying.

In the case of jewellery, products are bought from traditional retailers due to trust and interpersonal relationships. Moreover, traditional retailers offer the flexibility of exchanging old jewellery for new ones besides offering customised designs. In recent years, Indian corporate retailers like the Tata Group (Tanishq) have entered into the jewellery business and the concept of branding has emerged. Consumers consider jewellery sold by corporate retailers to be of better quality.

Non-branded products are preferred in fresh food, costume jewellery and furniture. Respondents pointed out that they mainly buy fresh fruits and vegetables from traditional retailers, street vendors and hawkers. In this product category, there are only a few brands and consumers perceive branded products as more expensive compared with non-branded products. The survey found that the knowledge of brands in this segment is low. Indian consumers like to customise their furniture and, therefore, most furniture items are non-branded and are made-to-order. Non-branded furniture is available in all prices ranges.

Consumer's choice across branded and non-branded products also depends on certain demographic factors such as gender, education, age and income, and awareness factors such as media exposure and international travel. In order to assess this, the data was analysed using multiple regression to examine the impact of demographic factors on consumers' choice of branded products. While some of the above-mentioned factors were insignificant, others such as location, age and media exposure had to be dropped due to homogeneity in the sample.

The regression results given in Table 3 show that a 100 per cent increase in income will lead to a 9.3 per cent increase in the willingness to spend on branded products for respondents in the rich income group. Women are 4.7 per cent more willing to spend on branded products as compared to men. International travel does not have a significant impact on willingness to spend or actual spending on branded products.

Table 3: Demographic Factors Affecting Branded Purchases

Dependent Variables	**Willingness to Spend**			**Actual Expenditure**		
Independent Variables	*Beta Coefficient*	*t-Value*	*Significance level*	*Beta Coefficient*	*t-Value*	*Significance level*
Yearly Household Income	.0931253	5.11	0.000	.0927454	5.09	0.000
Gender	.0476802	2.60	0.010	.0513272	2.80	0.006
Travelled Abroad	.0407052	1.56	0.120	.0442255	1.69	0.092
	Model R^2 = 0.1394, F =15.99, Prob.>F = 0.000			Model R2 = 0.1445, F =16.67, Prob.>F = 0.000		

Using logistic regression, Table 4 shows the effect of demographic and awareness factors on purchase of branded products in specific product categories. For handbags and jewellery, brand purchase is affected by both household income and international travel. However, in the case of furniture, household income is not a significant factor because even rich consumers prefer customised products. For fresh fruits and vegetables, household income influences the decision to buy brands, since branded products are perceived as expensive.

Table 4: Demographic Effects on Indian Consumers' Purchase of Branded Products in Specific Product Categories

Dependent Variable	**Handbags and Jewellery**			**Furniture**			**Fresh Fruits and Vegetables**		
Independent Variable	*Exponent (B)*	*Wald*	*Significance*	*Exponent (B)*	*Wald*	*Significance*	*Exponent (B)*	*Wald*	*Significance*
Yearly Household Income	0.598	16.13	0				0.509	9.23	0
Travelled Abroad	0.336	8.14	0.004	0.268	12.79	0			
Model Statistics:	-2 Log likelihood = 379.75			-2 Log likelihood = 381.35			-2 Log likelihood = 166.83		
	p < .001			p < .001			p < .005		

- **Knowledge and Usage of Foreign Brands**

The policy of allowing partial FDI in single-brand retail is based on the assumption that Indian consumers are brand conscious, they have knowledge of foreign brands, and they need access to foreign brands within the Indian market. The analysis in the previous section shows that the factors affecting consumers' purchase decisions for brands vary across different product categories. This section discusses the knowledge and use of foreign brands. The knowledge of brands does not ensure brand use (i.e. a person may know of the brand but may not use it) while brand use may not ensure that a person is aware of the country-of-origin or history of the brand. Various factors affect a consumers' brand awareness or knowledge. These include the number of years a brand has been present in the country, brand visibility through marketing and advertising, etc.

Brand awareness and use were assessed through an aided awareness test in which respondents were shown a randomly selected sample of foreign brands and were asked whether they (a) know and use the brand; (b) know but did not use the brand; and (c) did not know and did not use the brand. Table 5 shows that the longer the brand has been in India, the more it is likely to be known and used. Examples include Bata, Rayban, United Colors of Benetton, and Nike.

Table 5: Knowledge and Usage of Foreign Brands

Brand Name	**Year of Entry**	**Mode of Entry**	**Know/ Use (%)**	**Know (%)**	**Do Not Know (%)**
Bata	1931	Manufacturing	75.3	22	2.7
Rayban	1990	Wholly owned subsidiary	63.3	33.7	3
United Colors of Benetton	1991	50:50 Joint Venture with Delhi Cloth Mill	24.3	64	11.7
Nike	1995	Exclusive licensing agreement	51	44.7	4.3
Ermenegildo Zegna	2000	Franchise agreement	0.3	13	86.7
Louis Vuitton	2003	Distribution Agreement	4	18	78
Versace	2006	Franchise agreement	3.3	35.3	61.3
Salvatore Ferragamo	2006	Joint Venture	0.3	12.7	87
Mango	2006	Exclusive licensing agreement	3.7	33.3	63
NEXT	2007	Franchise agreement	6.7	52.3	41
Dolce & Gabbana	2008	Joint Venture	8.7	35.7	55.7
Giorgio Armani	2008	Joint Venture	12	52.7	35.3
Bottega Veneta	2008	Exclusive licensing agreement	0.3	12.7	87

The aided awareness test found that brands that are globally well advertised are more likely to be well known. The survey found that brand location has a crucial bearing on knowledge about the brand. Some brands like Ermenegildo Zegna and Giorgio Armani are located in luxury malls and five-star hotels and are not advertised extensively; awareness of these brands is limited. In contrast, brands like NEXT and Mango have positioned themselves in non-luxury malls and, therefore, are more visible and better known to a larger customer base.

The mode of entry of a brand is not related to consumers' knowledge of the brand. For instance, Versace, Ermenegildo Zegna and NEXT have all entered through franchisee agreements but NEXT is better known.

The survey found that brands such as Giorgio Armani and Dolce & Gabbana are mainly popular for their accessories like sunglasses and perfumes. These have been available at Indian department stores through shop-in-shop arrangements. Consumers tend to buy these accessories to conspicuously display their brand consciousness, which has indirectly increased the awareness of these brands among consumers.

The survey found that, in general, knowledge and use of luxury brands in India are low. Around 98 per cent of the sample surveyed constitutes middle-income and rich Indian consumers, and the aided awareness test revealed that even that group is not aware of a number of foreign brands, especially luxury brands. This is a key finding since many brands that have entered through the single-brand retail route are luxury brands. As of December 2010, the DIPP received around 100 applications for investment through the single-brand retail route. Of these, 59 applicants were granted approval.[13] Around 52 per cent of the approved applications were in the luxury product category.

The survey also found that even rich Indian consumers are price sensitive. Most luxury brands are imported and the survey participants pointed out that the import duty could be as high as 40 per cent of the maximum retail price (MRP) of the product. They felt that it is cheaper to buy these products in overseas markets like Dubai or Hong Kong where duties are very low. Moreover, they felt that the variety available in India is limited.

These findings are crucial for examining the purpose and impact of the policy of allowing partial FDI in single-brand retail on Indian consumers. First, although many luxury brands have entered the Indian market after 2006, it is difficult to conclude that the single brand policy has led to a general increase in brand consciousness or, since they may not be affordable, usage by Indian consumers. Second, the policy is inconsistent with other economic policies of the government. On the one hand, the government wants consumers to have access to foreign brands. On the other, imported brands are high-priced which makes them unaffordable to the majority of the population.

Overall, the survey showed that any policy that facilitates the entry of only luxury brands would not benefit the majority of the Indian consumers. Indian consumers will benefit only when low-priced affordable foreign brands enter the Indian market. Multi-brand retailers such as Tesco and Carrefour sell low-priced brands. Since the present FDI policy does not allow them to cater directly to consumers, it limits the choices available to the majority of Indian consumers.

[13] As per the information given by Foreign Investment Promotion Board (FIPB), India

- **Consumers' Attitude Towards Foreign Brands**

Respondents were asked whether they support FDI in multi-brand retail and whether they would like to see more foreign brands in India. The responses are summarised below.

Around 83 per cent of the survey respondents, who are largely graduates and post-graduates in the middle-income and rich groups, are in favour of allowing FDI in multi-brand retail. According to them, this will facilitate the entry of more brands into the Indian market (see Table 6). They argue that foreign brands are of a superior quality and their entry into the Indian market will infuse more competition and force domestic brands to upgrade and lead to diffusion of better designs and technologies. They also argued that Indian consumers are ready to experiment with brands and the availability of more foreign brands will increase choices for consumers.

Table 6: Demographic Effects on Consumers' Attitude towards Allowing Foreign Brands in India

Variables	**Exponent(B)**	**Wald**	**Significance**
Education	1.984	8.604	0.003
Yearly Household Income	0.661	6.868	0.009
Model Statistics:	-2 Log likelihood = 258.74, $p < .002$		

Around 17 per cent of respondents are against allowing more foreign brands in India and argue that foreign brands are relatively more expensive than Indian brands and cater primarily to higher-income groups. They also argued that at present, there are a sufficient number of foreign brands in the Indian market and any more of them can threaten the livelihood of traditional Indian retailers.

- **Factors Affecting Choice of Modern Retail Outlets**

One of the key policy issues that this paper emphasises is whether retail modernisation benefits Indian consumers. This can be evaluated by examining consumers' shopping behaviour across traditional and modern retail formats, and their associated preferences.

To understand this, a five-point rating scale was used. Consumers were asked to rate the factors affecting their choice for modern retail outlets on a scale of 1, 2, 3, 4, and 5 representing 'very low', 'low', 'average', 'high' and 'very high' respectively. The percentages of respondents rating each factor as 'very high' or 'high' were calculated and ranked.

Table 7 shows that consumers choose to shop at modern retail outlets because of factors such as availability of better product quality, fresh stock, exclusive designs, more variety and better customer service. Factors that have little influence include proximity of the outlets and home delivery services. Interestingly, the latter are precisely the benefits offered by traditional retail outlets.

Table 7: Importance of Various Factors in Consumers' Choice of Modern Retail Outlets

Rank	Factors Affecting the Choice of Modern Retail Outlets	Percentage of Respondents Giving 'very high' and 'high' rating
1	Better Product Quality	94.7
2	Quality Assurance	93.7
3	Fresh/New Stock/ Availability of Design	91.7
4	Preferred Brand/ Variety	90.0
5	Brand Image/Goodwill	86.7
6	Better Customer Service	86.0
7	Better Ambience	85.3
8	After Sale Service	78.3
9	Convenient Timings	76.3
10	Better Packaging	76.0
11	Ease in Product Exchange	70.3
12	Use of Credit/Debit Card	63.3
13	Availability of Foreign Brands	62.3
14	Blend of Shopping and Entertainment	60.3
15	Fixed Rate	59.7
16	Price	55.0
17	Promotional Offers	52.0
18	Home Delivery	41.0
19	Customer Loyalty Card	40.0
20	Closer to House	31.0

The survey also found that modern retail outlets are preferred for more durable goods purchases, while neighbourhood *kiranas* or traditional retailers are preferred when shopping for more frequently purchased products such as fresh fruits and vegetables.

The survey respondents were also asked for their rating of modern retail outlets in India on various attributes such as infrastructure, availability of goods, shop operating timings, in-store and after-sales services, etc. A five-point rating scale was used and respondents were asked to rate each attribute on a scale of 1, 2, 3, 4, and 5 representing 'very bad', 'bad', 'average', 'good' and 'very good' respectively. The percentages of respondents rating each attribute as 'very good' or 'good' were calculated and ranked. The results show that above 90 per cent of the respondents rated modern retail outlets' store operations, infrastructure, and availability of greater variety of products as very good or good. However, the ability to bargain received a low rating (only 14 per cent of the respondents felt that modern retail outlets offer them the option of bargaining). On this attribute, traditional outlets continue to hold the advantage relative to modern outlets. As Indian consumers are quite price-sensitive, they will continue to shop in traditional outlets. Considering respondents also communicated that they prefer to purchase their daily need items from neighbourhood stores, we conclude that Indian consumer preferences are such that both modern and traditional retailers can coexist in India. This implies that the share of the traditional sector or *kirana* stores in total retail sales is likely to remain high even with retail modernisation.

Policy Recommendations and Way Forward

Consumer welfare is a key component of policy-making in developed countries. In developing countries like India, the interest of consumers often does not receive the attention and importance it deserves. This is especially true in the case of the retail FDI policy in India. The policy seems to cater to a variety of stakeholders except the most crucial one, namely, consumers, whose preferences, choices and spending patterns contribute greatly to economic growth. One of the reasons for this is that in India, consumer fora, which can voice the consumer viewpoint, are weak and more organised stakeholders, special interest groups, etc., drive the policy agenda, especially in the debate on liberalisation of modern retailing. Hence, the common consumer perspective is either ignored or taken for granted. However, by ignoring consumers, the goals of enhancing consumer access to goods and services, and reduction of inequality and poverty may not be achieved.

The policy of allowing 51 per cent FDI in single brand retail assumes that Indian consumers are brand conscious and the policy would facilitate entry of more foreign brands for the benefit of Indian consumers. However, this paper shows that the single-brand FDI policy has benefitted only a small proportion of the Indian population – the elite, high-income Indian consumers. They too find this policy inconsistent due to high import duties. If consumers have not benefitted, the rationale behind such a policy is questionable. Moreover, there should be synergies between policy decisions across different ministries. If the policy decision is to give Indian consumers access to more foreign brands, then import duties on them should be lower. More importantly, the retail policy needs to focus on how it can benefit the majority of the Indian consumers (especially the low and middle-income consumers) by giving them access to branded products at lower prices. Multi-brand foreign retailers such as Wal-Mart and Tesco, who have low margins and offer low price, cater to the mass market. However, the present policy does not allow them to service the Indian consumer directly. This has led to a reduction in consumer welfare. The present study also shows that Indian consumers are price sensitive and will patronise 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 fear that modern retail will wipe out the traditional sector may be unfounded.

The survey found that the bulk of Indian consumers' expenditure is on food and grocery products, and it is in this segment that consumers largely buy non-branded products. This is not just because of the lack of availability of brands but also because currently available branded products are high-priced. These findings are crucial for making policy decisions, especially when food prices are increasing. Lack of branding also reflects lack of modern agro-processing technologies. In fact, only 2.2 per cent of fresh fruits and vegetables are processed in India compared to countries 65 per cent in the USA, 78 per cent in the Philippines, and 23 per cent in China.[14] According to estimates of the Ministry of Food Processing Industries, nearly 35 per cent of fresh fruits and vegetables are wasted during transit in India due to lack of processing and modern supply chains. This leads to food shortages and increased food prices. Higher food prices are likely to reduce spending on other items and hence impact other industries. The policy decision needs to focus on agro-processing and branding, and modernisation of the supply chain. This may require investment from the private sector. However, the private sector will not find back-end investments lucrative until they are allowed to cater to a large consumer base. If FDI is allowed in multi-brand retail, it will facilitate investment in supply chain and sourcing, irrespective of whether a sourcing condition is imposed in the policy or not. This is because in order to compete, modern retailers would need to set up efficient supply chains.

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 domestic ones if FDI is allowed in retailing. They are more likely to patronise different formats for different needs. Moreover, evidence from other countries shows that all formats can survive and coexist as long as they differentiate and position themselves to serve different needs.

The surveys found that a majority of the respondents is willing to experiment with different brands and want more foreign brands to enter the Indian market. They are in favour of allowing FDI in multi-brand retail. This makes a strong case for allowing FDI in multi-brand retail. Apart from providing Indian consumers more choices in the form of reputed, good quality brands, liberalising multi-brand retailing in India is likely to facilitate much greater inflows of investments. This, in turn, will lead to the development of more efficient and lower cost supply chains, resulting in better quality as well as lower-priced products for Indian consumers. This will increase consumer spending, which in turn, will drive growth in all sectors of the economy in a virtuous

[14] Ministry of Food Processing Industries (2011)

cycle. Moreover, the present restriction of FDI in multi-brand retail is not really an entry ban. Several foreign brands and retailers have established a presence in India through other entry routes. However, by not allowing direct FDI in multi-brand retail, the country is losing investment inflows while Indian consumers are left with limited choice. While some Indians are traditional retailers, all Indians are consumers. The benefit of the majority of the population has to be taken into account in policy-making.

In the past, Indian consumers have benefitted from liberalisation. An example of this is the liberalisation in the telecommunication sector, which has led to more access, better quality, better services and lower prices for consumers. 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. The retail FDI policy also should be examined in the light of its impact on consumers.

Global experiences show that FDI in retail can sometimes negatively impact consumers if corporate retailers adopt anti-competitive practices such as predatory pricing. In India, the Competition Act 2002 has provisions to check abuse of dominant position by major players, including predatory pricing. In the Act, dominant position is defined as "*a position of strength, enjoyed by an enterprise, in relevant market, in India*" (The Competition Act, 2002, No. 12 of 2003, pp. 9). To protect the interest of consumers, the Act can be further strengthened. For instance, the dominant position can be clearly specified, in terms of the market size of the retailers, as has been done in countries like Australia.

Indian consumers are protected under the Consumer Protection Act, 1986, and the Consumer Protection (Amendment) Act 2002. This Act is outdated. The retail sector is evolving and many new retail formats have developed. These are not explicitly covered under the present Act. The process of registering a complaint and handling of legal cases in India is lengthy. In addition, there is no provision for protecting consumers against predatory pricing. Hence, the Act needs to be modified to ensure consumer protection and welfare.

Though the present survey provides an insight into Indian consumer behaviour, the sample size is small compared to the Indian population. There is need for a large consumer survey in India, which focuses on the likely impact of FDI retail policies on consumers. Since India is not a homogenous market, a larger sample size will help to capture more variations in consumers' shopping behavior and perceptions across different regions of India. This will also help to draw up state-level retail policies.

References

AC Nielsen (2008): Consumer and Designer Brands. *AC Nielsen*, April 2008 http://id.nielsen.com/news/documents/GlobalNielsenLuxuryBrandsMay08.pdf. Accessed 14th June 2011

A.T. Kearney (2010): "*Expanding Opportunities for Global Retailers-2010 Global Retail Development Index*", A.T. Kearney, 2010 http://www.atkearney.com/images/global/pdf/2010_Global_Retail_Development_Index.pdf

A.T. Kearney (2011): "*Retail Global Expansion: A Portfolio of Opportunities-2011 Global Retail Development Index*", A.T. Kearney, 2011 http://www.atkearney.com/images/global/pdf/Retail_Global_Expansion-GRDI_2011.pdf

CBRE (2011): How Global is the Business of Retail. *CB Richard Ellis, Global Research and Consulting*, 2011 Edition http://www.atkearney.com/index.php/Publications/retail-global-expansion-a-portfolio-of-opportunities2011-global-retail-development-index.html

Images (2009): "*India Retail Report 2009*", Images Group, 2009

Joseph, M. and Nirupama Soundararajan (2009): "*Retailing in India: A Critical Assessment*", Academic Foundation, New Delhi

Kaur, P. and Raghbir Singh, (2007): "*Uncovering Retail Shopping Motives of Indian Youth*", Young Consumers: Insight and Ideas for Responsible Marketers, Vol. 8, No. 2, pp 128-138

Kinra, N. (2006): "*The Effect of Country-of-origin on Foreign Brand Names in the Indian market*", Marketing Intelligence & Planning, Vol. 24, No. 1, pp.15 - 30

McKinsey & Company (2007): "*The 'Bird of Gold': The Rise of India's Consumer Market*", McKinsey Global Institute, 2007 http://www.mckinsey.com/mgi/reports/pdfs/india_consumer_market/MGI_india_consumer_full_report.pdf

Ministry of Food Processing Industries (2011): "Annual Report 2010-11", Ministry of Food Processing Industries (2011), http://mofpi.nic.in/images/ar10-11.pdf

Mukherjee, A. and Nitisha Patel (2005): "*FDI in Retail Sector: India*", Academic Foundation, New Delhi

Ramachander, S. (1988): "*Consumer Behaviour and Marketing: Towards an Indian Approach?*", Economic and Political Weekly, Vol. 23, No. 9 pp. M22-M25

Rao, S. L. (1998): "*Brand Building in Indian Industry*", Economic and Political Weekly, Vol. 33, No. 40, pp. 2566-2568

Rao, S. L. (2000): "*India's Rapidly Changing Consumer Markets*", Economic and Political Weekly, Vol. 35, No. 40, pp. 3570-3572

Shukla, R. (2010): "*How India Saves Earns Spends and Saves*: *Unmasking the Real India*", SAGE Publications India Private Limited and NCAER

Sinha, P. K., Arindam Banerjee, and Dwarika Prasad Uniyal (2002): "*Deciding Where to Buy: Store Choice Behaviour of Indian Shoppers*", Vikapa, Indian Institute of Management, Vol. 27, No. 2

Sinha, P.K. (2003): "*Shopping Orientation in the Evolving Indian Market*", Vikalpa, Vol. 28, No. 2, pp. l3–22, April – June 2003

INDIAN COUNCIL FOR RESEARCH ON
INTERNATIONAL ECONOMIC RELATIONS
Core - 6A, 4th Floor, India Habitat Centre,
Lodi Road, New Delhi - 110003
INDIA