

Consumer Preferences and Foreign Direct Investment in the Retail Sector: A Survey - Based Study

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Abstract: *This paper explores the changing consumer preferences in the southern state of Karnataka following the entry of Foreign Direct Investment (FDI) into the retail sector. A model survey using the Consumer Price Inflation (CPI) basket was conducted to study consumer preferences in terms of their choice of retailers. The study revealed that notwithstanding the penetration of FDI in retail sector in Karnataka, consumers relied heavily on unorganised retailers except in the case of a few goods. There was, however, a stronger preference among consumers to shift to the online retailers over a one - year horizon. Furthermore, the choice of retailers was mainly influenced by their income and occupation.*

JEL classification: C83, E50, G40, R10.

Keywords: FDI, Retail Sector, Chi - square test and Cluster analysis

1. Introduction

Foreign Direct Investment (FDI) policy, particularly with regard to the retail segment, has a tendency to impact spending dynamics among consumers. During the liberalisation period, global players ventured into the Indian consumer segment and this resulted in changing both the domestic prices and spending behaviour of consumers across these retail categories (Sharma and Bansal, 2015).

Traditionally, the neighbourhood ‘*Kirana stores*’ or what are popularly known as “mom and pop” stores have been a common shopping outlet for Indian consumers in both rural and urban areas. *Kirana stores* are, in fact, still prevalent in most parts of India and continue to address the retail needs of Indian consumers. The retail system has evolved over the years in response to the governmental policy decisions from time to time.

One such development during the early years of liberalisation was the entry of FDI into India’s retail landscape. The FDI policy on retail sector caters to a variety of stakeholders including the most crucial one, “consumers” whose preferences, choices and spending patterns contribute significantly to economic growth. And yet, not many regional studies are available on the implications of FDI at the regional level. This was possibly due to two reasons. First, foreign investment was a subject matter of the central government leading to nationwide policy changes with states having a limited role to play. Secondly, there is paucity of data on foreign investment at the regional level hindering such studies.

Interestingly, the Indian retail sector has emerged as one of the most dynamic and fast - growing sectors since the entry of FDI into this sector, contributing significantly to GDP, industrial sales, employment generation and business turnovers (IBEF, 2021). With the rising demand for

consumer goods, many foreign companies have invested into the sector in recent decades. As per the statistics released by the Department for Promotion of Industry and Internal Trade (erstwhile DIPP), India registered its highest ever FDI inflow of US \$ 81.97 billion during the financial year 2020 - 21 despite the pandemic.

The regional disparities in India have been largely responsible for a skewed inflow of FDI. However, Karnataka, the site of survey for this paper, is one of the important destinations in terms of FDI inflow. As per the Economic Survey of Karnataka, the total FDI inflow in Karnataka stood at 44.8 per cent of the total FDI flows into India in 2021 - 22.

The state is seen creating an opportunity for FDI inflows into many sectors, including the retail sector. Strong macroeconomic factors coupled with robust demographics and favourable state government policies fuelled the growth of retail markets in the state.

The growth in this sector can be gauged by the rise in diversified retail outlets across the state. In the early 1990s, the state only had a few organised retail stores measuring less than one million square feet. The number of retail stores have increased in the state over the years.¹

Given the limited evidence available on retailers and consumer spending across retailers in the state, we undertook a survey to study the implications of FDI. The FDI policy on retail sector caters to a variety of stakeholders including the

¹As many as six new malls spanning 2.5 mn sq. ft. area are likely to come up in Karnataka by the end of 2021, see Kejriwal (2021), “Karnataka’s retail market – Strong fundamentals”, *ANAROCK Research Report*, Available at <https://www.indiaretailing.com/2021/03/31/shopping-centre/karnatakas-retail-market-strong-fundamentals/>

most crucial one, “consumers” whose preferences, choices and spending patterns are major drivers of aggregate demand. Accordingly, the survey aims to gauge consumer behaviour and shifting preference towards retailing by using CPI baskets of goods (not including services). The state is suitable for studying the consumer behaviour towards retail business given its urban nature.

The survey was conducted prior to the outbreak of COVID - 19 and hence, does not capture the post - pandemic changes in consumer preferences particularly in light of the restrictions in mobility. However, the findings from the survey can help in forming a long - term view about how FDI in retail sector can influence consumer behaviour, particularly as the pandemic - related restrictions are now being relaxed, and hence, it can be deemed as a one - off event. For the survey, retail sector comprises organised retailing, unorganised retailing and online retailing.

The organisation of the paper is as follows: The second section reviews the related literature on the subject of FDI in general and FDI in the retail sector in particular. The third section provides a few stylised facts on FDI in Karnataka. The fourth section describes the methodology and data sources. Section V presents the key results. Conclusion are given in Section VI.

2. Literature Review

Emerging and developing economies, and transition economies have come to recognise the potential benefits of FDI in terms of technology transfer, human capital, income growth, employment and overall economic development and modernisation to their territories. Accordingly, these economies have adopted favourable FDI policies to reap benefits of foreign investor presence in various sectors of their economies.

Many empirical studies have investigated the effects of FDI inflows on their economies (Wisniewski, 2005; Pavlinek, 2004; Moore and Vamvakidis, 2007; and Bijsterbosch and Kolasa, 2009). The typical arguments favouring FDI inflows have been the increase in economic growth and employment opportunities. FDI's social and distributional impact on the host country have also been seen favourably for developing and emerging economies (Hill and Athukorala, 1998). FDI is seen to bring technological diffusion to the economy through knowledge spillover, expand output and ultimately lead to higher economic growth.

Many empirical studies about India have examined the nexus between FDI and economic growth using advanced statistical techniques and concluded that Gross Domestic Product (GDP), trade, exchange rate, market size, inflation rate, degree of openness are the vital macroeconomic determinants of FDI inflows into the country (Vanitha T *et al.*, 2015 and Hooda, 2011). Using Johansen co - integration test techniques on annual data, Sahoo and Mathiyazhagan (2003) identified a long - run relationship existing between GDP, export and FDI in India. Further, this study examined a positive long - run relationship with the Index of Industrial Product (IIP) too.

Importantly, studies have highlighted regional disparities to be a common problem in every country, and hence, countries have attempted to introduce policies to achieve a balanced growth of FDI. The major attraction for FDI at the local or regional level has been its potential to create jobs and provide access to new technologies (Acset *et al.*, 2007a). In addition to the direct influence, other potential secondary benefits have included enhancing opportunities for local businesses acting as suppliers to the foreign businesses (Javorcik, 2004) and local businesses and future start - ups gaining access to better technology (Acset *et al.*, 2007b).

With respect to the retail sector, India has been witnessing a transformation since the liberalisation of its economy in 1991 when the reform measures in foreign investment policy were undertaken by the government. In 1997, FDI in cash and carry wholesale businesses with prior approval was allowed, which further led to automatic permission in 2006 but with 51 per cent cap on foreign ownership.

India approved FDI reforms for single - brand retailing with 100 per cent foreign ownership in January 2012, with the condition that the retailer would source 30 per cent of goods from India. In September 2012, FDI was allowed in multi - brand retailing with up to 51 per cent foreign ownership, subject to approval by respective states.

To make economy more investor - friendly and to improve the ease of doing business in the country, investment caps in many sectors were raised in the financial year 2015 - 16. Also, a paradigm shift was witnessed in the FDI policy on retail and other financial services sector in 2017 - 18. The government permitted 100 per cent FDI for retail trading of food products with the criteria that such food products had to be manufactured and/or produced in India. In order to safeguard the interests of domestic offline retailers, FDI policy for e - commerce was liberalised in 2020.

As regards the FDI in the retail sector, there are a host of studies available in Indian context; these analyse the pros and cons of FDI in retail sector. The key arguments favourable to this sector are better supply chain management, reduction of middlemen between farmers and retailers, better margins to farmers, enhancement of competition in retail markets and availability of quality products in wide choices and lower prices (this helps in controlling inflation) to consumers, more employment opportunities, increase in exports, infusion of large amount of foreign capital reduces current account gap, overall economic growth *etc.* Those opposing it fear that FDI in retail may hamper *kirana stores* across the country and endanger livelihood opportunities of millions of people, lead to predatory pricing practices by global retailers, create monopoly in retail markets by the global retailers, increase poverty and limit employment generation among lower middle class (Rao and Dhar, 2018).

Many studies have attempted to assess the impact of FDI on the retail sector using SWOT (Strengths, Weaknesses/ Limitations, Opportunities, and Threats) method. These studies analysed challenges and potential factors in Indian context and concluded that FDI in retail sector has a positive spillover effect on the economy (Manikand Singla, 2013; and Khare, 2013). Studies have shown that FDI in retail

sector benefits the unorganised and local players in the long run and will ultimately have effects on the economic growth (Devonshire - Ellis and Shrivastava, 2012; Jain and Sukhlecha, 2012). Several studies have highlighted that the entry of foreign players intensifies competition in retail markets by offering price discounts/coupons, and this will result in availability of quality products at rationalised prices (Baskaran, 2012; and Gupta, 2012).

Joseph *et al.* (2008) in their research study, highlighted that the spread of retail can mitigate the price volatility of commodities. The paper indicated that the entry of more players will induce sufficient competition and price wars in retail market that will eventually help consumers. The Inter - Ministerial Group (IMG) on inflation recommended policy changes for FDI on retail, owing to the multiplier effect and large benefits to manage inflation (GoI, 2012). IMG mentioned that leveraging FDI on retail could be one of the means available for addressing issues relating to high rates of food inflation and low prices paid to the Indian farmers. Earlier research studies reveal that FDI policy on retail in Indian markets mitigate inflation, especially in food prices (Chari and Raghavan, 2011; Roy and Kumar, 2012; Lina *et al.*, 2012). Madan (2012) in his study, empirically established that the ultimate beneficiary from the opening of FDI in retail is the consumer and they are left to choose the retail outlet that would give them goods at lesser prices.

Due to the easing of FDI regulations in retail policy, the distinction between online and brick - and - mortar trading has got blurred. Given the diversity of Indian consumers to their varying needs and busy lifestyle, the mode of purchase has changed substantially. The emergence of online retail further boosted competition in this sector. Studies have highlighted that the competition dynamics of online retailers are notably different from traditional brick - and - mortar retail competition. Online retail has led to increased price transparency and price competition in retail markets. This has led to online consumers comparing prices at alternative online platforms. In addition to this, other retailers track the prices charged by their rivals more effectively and allow suppliers to monitor retail pricing (in particular, to identify deep discounting).

In order to make some products preferred over others, retailers use a variety of anti - competitive practices. For instance, the use of price - tracking software and price - setting algorithms automatically adjust retailers own prices in response to price changes by competitors. In such circumstances, price - sensitive online consumers might push back to brick - and - mortar outlets in response to online price rises (Maggiolino, 2017; OECD, 2018; and BeenaSaraswathy, 2019). In case of India, there are news reports on the fair trade regulator Competition Commission of India (CCI) ordering a probe against e - commerce companies for anti - trust or anti - competitive practices and predatory pricing. According to media reports, strong protest from traders and retailers association against online retailers is registered with CCI accusing them of unfair business practices and violation of FDI guidelines in Indian retail markets.

Globally, studies have identified several factors influencing consumer preferences. While examining the underlying perceptions of consumers towards the type of grocery and shopping outlets, Findlay (2002) found that price and location were two critical factors influencing the choice of grocery outlets. The study further showed that consumers seldom change their shopping outlets for grocery purchases due to habitual nature and time constraints. Blackwell *et al.* (2001) asserted that attitude has a significant effect on purchasing a particular brand and choosing the place for shopping. Peter *et al.* (2008) analysed that due to various marketing strategies to increase consumer participation in the market, many companies conducted regular large scale consumer attitude surveys to observe changes over time. Similar findings are found in the works of researchers such as Solomon (2006), Armstrong *et. al* (2007) and Bisaria G (2012).

In the Indian context, studies have identified that income and education (Ramachander, 1988), age and gender (Sinha, *et al.*2002) and distance from the retail store (Sinha, 2003) to be important factors affecting the consumer spending pattern. Further, the study by Joseph and Soundararajan (2009) identified proximity to residence, goodwill, credit availability, avenues for bargaining, availability of loose items, convenient timings and home delivery as contributory factors favouring particular types of outlets for retail items.

Moreover, using a two - stage sampling method, Hari *et al.* (2014) evaluated the relationship between store attributes and customer perceptions in different retail categories in the Indian context. To study the need for FDI in the Indian retail sector, an attempt was carried out by Nandi and Ritankar (2007) and concluded that FDI in retail sector may be allowed for its variety of benefits.

Most recent studies for India found that the pandemic - induced lockdown and subsequent curbs implemented in physical interaction witnessed a paradigm shift in consumption pattern of essential goods across various retailers. During the lockdown period, media reported that there was a shift in consumption patterns from brick - and - mortar retail to online stores and near - home (*kirana*) stores for essential commodity items. Also, reports highlighted that COVID crisis accelerated the development of online stores (Mehta *et al.*, 2020).

Notwithstanding such a vast literature, there are only a few studies that discuss the implications of FDI on consumer preferences in a regional context, particularly using a survey - based method (Sebastian, 2004; Vanitha *et al.*, 2013).

Furthermore, most studies focus on consumer preferences for a particular category of the retail segment, but a few study the implications of FDI on consumer preferences across various retail segments.

Filling this gap, the present paper studies the implications of FDI entry into retail business on state retailers on consumer preferences through a model survey. The paper may encourage similar studies on FDI in other Indian states too.

3. Stylised Trends on FDI in India with Special Reference to Karnataka

Macroeconomic indicators are considered as major pull factors for FDI inflows. According to the United Nations Conference on Trade and Development's (UNCTAD) World Investment Report 2021 (WIR), India was ranked as the fifth largest recipient of FDI inflows in the world in 2019 - 20, underlining the overall strong macroeconomic fundamentals

in the country. The trends of FDI inflow to India are depicted in Chart 1.

Retail sector was a key sector benefiting from FDI liberalisation, as already discussed (Utsav and Muhammad, 2018). The sector was the fourth largest recipient in sector-wise FDI inflows in India during 2019 - 20 (RBI, 2021). Karnataka is the third - largest state in India attracting FDI (Chart 2).

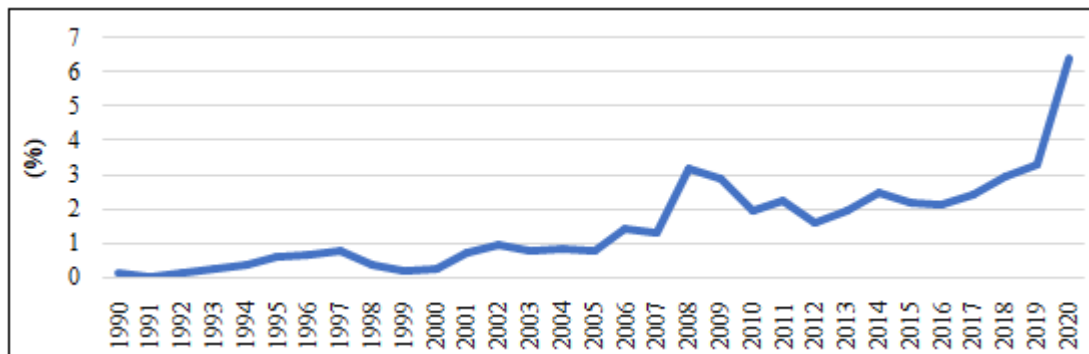


Chart 1: Share of India in World FDI inflows

Source: UNCTAD

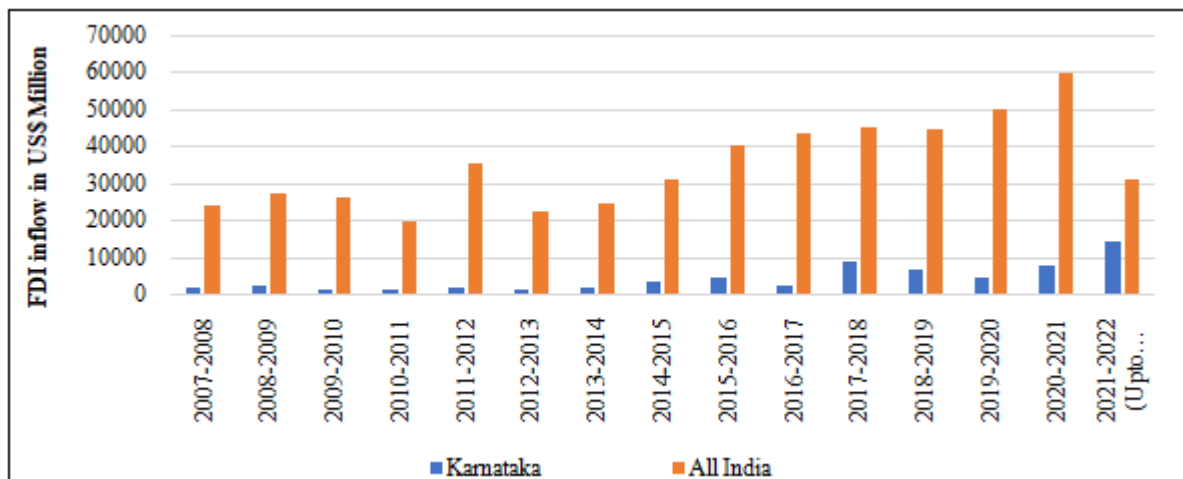


Chart 2: FDI inflow in Karnataka and All India

Source: Government of Karnataka (2021).

To encourage foreign investment opportunities, Karnataka introduced many reform initiatives and developments in the retail sector from the beginning of the liberalisation era. In 1992, the government of Karnataka has established a single - window agency called Karnataka UdyogMitra to meet the special needs for promotion and clearance of domestic and foreign investments in Karnataka. The State was among the pioneers to enact the Industrial Facilitation Act to help investors particularly in retail trade. Karnataka Retail Trade Policy in 2016 further boosted the retail sector in the state (Government of Karnataka, 2021). It is imperative for the state government to promote this sector for the overall economic development and social welfare within the boundaries of the State. As per the available information, there are about 50 operational malls are in Karnataka of which 36 alone in Bengaluru.²

4. Data Source and Methodology

The survey research design was adopted for the present study, which is a quantitative method which collects information from a pool of respondents. It is a widely used data collection technique that focuses on people, their beliefs, opinions, attitudes, motivations and behaviour (Kerlinger and Lee, 2000). To obtain dynamic information more efficiently for supporting policy decisions, the present study relies on primary data gathered through a simple but structured questionnaire aiming to capture, (a) consumer preference across retail categories for the current situation and a one - year ahead situation and (b) the factors determining the changing consumer preference in choosing different retailers.

² Khan(2021), "Bengaluru begins to see revival in the retail sector; five new malls set to come up in city", Available at [https://economictimes.indiatimes.com/industry/services/property/-/](https://economictimes.indiatimes.com/industry/services/property/-/construction/bengaluru-begins-to-see-revival-in-the-retail-sector-five-new-malls-set-to-come-up-in-city/articleshow/81223489.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst)

[construction/bengaluru-begins-to-see-revival-in-the-retail-sector-five-new-malls-set-to-come-up-in-city/articleshow/81223489.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst](https://economictimes.indiatimes.com/industry/services/property/-/construction/bengaluru-begins-to-see-revival-in-the-retail-sector-five-new-malls-set-to-come-up-in-city/articleshow/81223489.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst)

To ensure the reliability of the questionnaire, it is imperative to calculate Cronbach's alpha coefficient (α) for internal consistency. Normally, the value of Cronbach's alpha reliability coefficient ranges between 0 and 1. George and Mallery (2003) provide the following rules of thumb: " $\alpha > .9$ – Excellent, $\alpha > .8$ – Good, $\alpha > .7$ – Acceptable, $\alpha > .6$ – Questionable, $\alpha > .5$ – Poor, and $\alpha < .5$ – Unacceptable". Cronbach's alpha coefficient was calculated which indicated a high level of internal consistency in the questionnaire (the Cronbach's Alpha=0.9).

The questionnaire was answered by consumer categories belonging to heterogeneous groups drawn from five urban centres in Karnataka, where each stratum comprised the respondents from business, students, home-makers, self-employed etc.³ Data collected was analysed with various statistical techniques. Hypothesis was tested based on findings of the study based on which interpretations and conclusions are drawn. Statistical tools used for the present study are One-way ANOVA test, Chi-square test and Cluster analysis.

With an objective to gauge the consumer perception towards retail goods due to the introduction of FDI entry in the retail business, a primary survey was conducted in Karnataka covering 240 consumers in the region belonging to heterogeneous groups. The primary data was collected by using a stratified random sampling technique by adopting personal interview method. To ensure effective coverage of the survey, probability sampling techniques such as stratified sampling were used to select the respondents. The merits of choosing stratified random sampling for the study are administrative convenience and the obtainance of full cross-section of the population through this method. For this purpose, the entire population for the study was stratified on the basis of their income, occupation, education and presence of modern retail. Accordingly, five strata were formed and consumers were chosen from each stratum. From each stratum, we gathered a sample of 48 responses. The questionnaire was framed keeping in view the objective of the study. The target group of the survey was randomly selected from five different strata in Karnataka.

As the paper aims at exploring consumer perception on spending over commodities across retailers due to FDI entry in retail segments, the demographic profile of respondents such as age, gender and socio-economic background were gathered. After designing the questionnaire, a pilot survey was conducted on a sample of 20 respondents. Thereafter, the questionnaire was distributed among the target groups at five different strata in Karnataka. The questionnaire was circulated among a wide number of respondents belonging to different age groups (22 - 29, 30 - 39, 40 - 59 and above 60), gender, occupation, family background (nuclear and joint), educational background, marital status and monthly spending levels (Rs.5000, Rs.5001 - 10000, Rs.10001 - 15000 and above Rs.15000).

³The names of localities are Malleshwaram, Kuvembunagar, Vidyanagar, Maroli and Nehrunagar belonging to Bengaluru, Mysore, Hubli, Mangalore and Belgaum.

Retailers act as the interface between producers and consumers in buying for their personal consumption. FDI policy implemented by the government from time to time in all segments of retailing can have an influence on fluctuating prices of commodities across retailers. As noted earlier, for the purpose of the present study, retailers are classified into three categories *i. e.*, organised retailers, unorganised retailers and online retailers. Of these, organised and online retailers are considered as FDI-supported retailers for this paper.

Organised retailers, refer to trading activities undertaken by licensed retailers, who have registered for goods and services tax, income tax, etc. Also, these include corporate-backed hypermarkets and retail chains, and privately-owned large retail businesses.

Unorganised retailers refer to traditional forms of retailing such as local *kiran* shops, owner-operated general stores, paan/beedi shops, convenience stores, hand carts and street vendors etc.

Finally, online retailers comprise major e-commerce brands, such as Amazon, Flipkart, Big Basket, Fresh to Home, and Daily Ninja. The present classification was done in accordance with the objective to capture consumer spending across retailers due to FDI entry into the retail landscape.

Consumers' preference towards retailing for various goods was studied with respect to 21 commodities selected from CPI basket used by the government since such a basket constitutes representative consumer commodities. The CPI product categories considered for the present study included cereals, meat and fish, egg, dairy products, oil and fats, fruits, vegetables, pulses, sugar and confectionery, prepared meals, snacks, sweets, clothing, footwear, recreation and amusement. However, CPI basket is used in the present study as a subjective assessment of an individual consumption basket. Hence, it is not comparable with the official measure of inflation, released by the government.

The survey was undertaken during the pre-pandemic period, as noted earlier. The survey was undertaken in January 2020 and the information was canvassed over a period one-month period.

5. Results and Discussion

5.1 Salient characteristics of the survey sample

The survey result indicated that around 34.2 per cent of respondents were in the age group of 40 - 59 years. This age group is typically considered to be the core decision-makers in each household. Among the respondents who participated in the survey, 66.7 per cent were males and 33.3 per cent were females.

About 42.0 per cent of consumers spent in the range of Rs.5000 - 10000 per month and 29 per cent belonged to the spending category of 'up to Rs.5000', 15 per cent in the category of 'Above Rs.15000' and 14 per cent in the category of 'Between Rs.10001 to Rs.15000' (Chart 3).

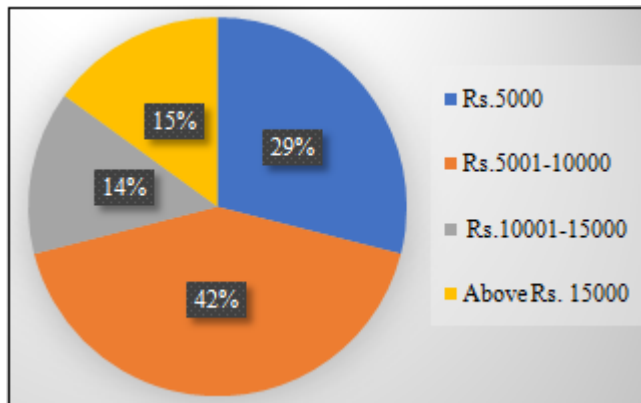


Chart 3: Spending Pattern of Consumers in a Month

Source: Author’s Calculations based on survey data.

5.2 Key findings from the survey

5.2.1. Heavy reliance on unorganised retailers

For the retail category choice, the survey found that consumers relies more on unorganised retailers for their regular household consumption items such as cereals and products, meat and fish, egg, milk and milk products, oils and fats, fruits, vegetables, pulses and products, sugar and confectionery and spices (Table 1 and Chart 4). Even for processed/prepared meals like snacks and sweets, about 56 per cent of the respondents preferred to buy them from unorganised retailers.

Also, for medicines, half the respondents chose unorganised retailers (49.8 per cent), followed by organised retailers (40.2 per cent) and online retailers (10.50 per cent). Similarly for clothing and footwear, the survey result showed that the consumer’s first preference was reported to be unorganised retailers. The consumer preference stood at 42.2 per cent in purchasing items such as clothing and footwear from unorganised retailers. Furthermore, for personal care items, consumers mostly preferred to choose from unorganised retailers.

To examine the statistical significance of the difference in consumer preference across retailers, the following hypotheses was tested:

H0: There is no change in the consumer preferences across retailers

H1: The average consumption of consumers varies across retailers

By using one - way ANOVA test, the null hypothesis was rejected at one per cent level of significance. It showed a statistically significant difference in consumer preferences across retailers across various categories of goods (Table A1 in annex).

5.2.2. Use of organised retailers for educational and health items

Consumers preferred to buy educational and health items mainly from the organised retailers. [Educational items relate to stationery and other items and exclude educational services. Health items include items other than medicines and health services]. The literature also has similar observations; Gupta (2019) noted a shifting of consumption pattern in favour of healthcareproductstowards the FDI - supported retailers.

Table 1: Disribution of consumers by their retailer preference (In per cent)

Retail Items	Organised Retailers	Unorganised Retailers	Online Retailers
Cereals and products	32.6	63.4	4.0
Meat and Fish	18.5	70.0	11.5
Egg	11.5	88.0	0.5
Milk and products	18.1	81.5	0.4
Oils and fats	26.9	70.8	2.3
Fruits	22.7	67.5	9.8
Vegetables	22.8	65.9	11.3
Pulses and products	32.5	61.5	5.9
Sugar and Confectionery	34.4	60.9	4.7
Spices	32.6	64.1	3.3
Non alcoholic beverages	28.7	67.4	3.9
Prepared meals, snacks, sweets etc	32.3	55.5	12.2
Medicines	40.2	49.8	10.0
Clothing	36.6	42.2	21.2
Footwear	34.8	46.9	18.3
Household goods and services	30.3	53.2	16.5
Health	55.6	43.0	1.4
Transport and communication	33.3	39.2	27.4
Recreation and amusement	28.6	41.3	30.1
Education	60.0	33.1	6.9
Personal care and effects	34.6	52.1	13.3

Source: Author’s Calculations based on survey data.

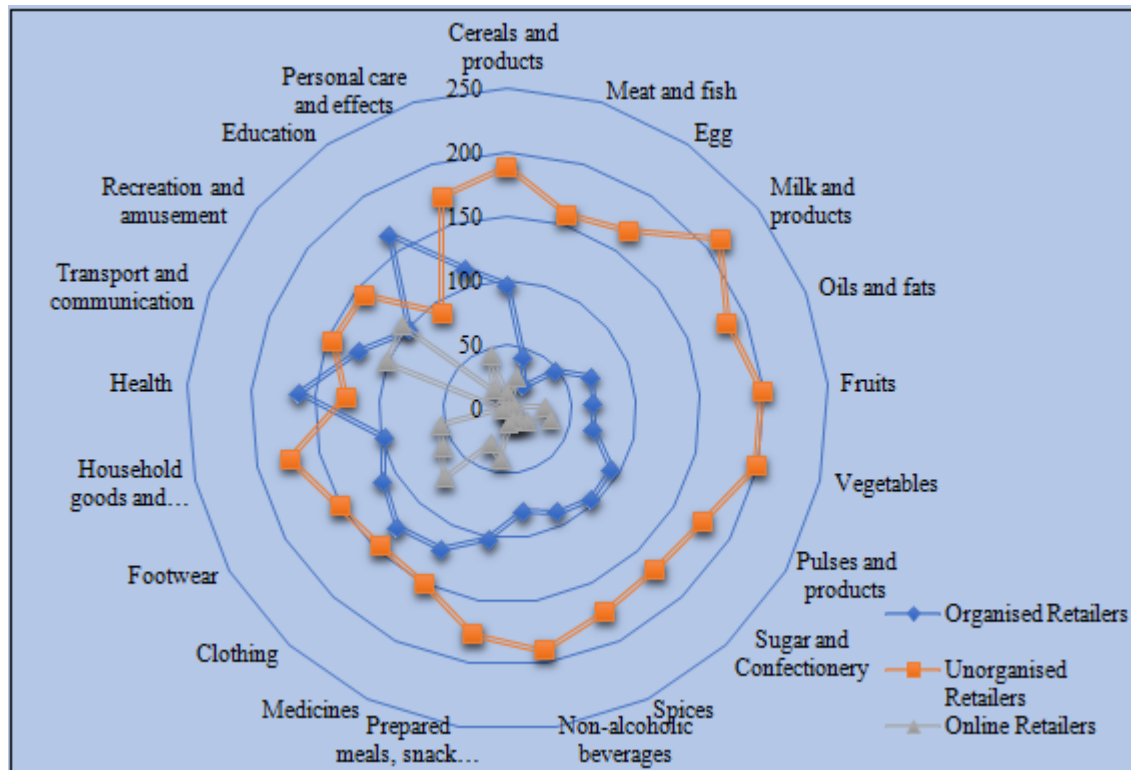


Chart 4: Number of consumers spending across retailers (Current Situation)

Source: Author’s Calculations based on survey data.

5.2.3 Higher frequency of shopping for unorganised retailers

Consumer preferences for shopping across different retail segments showed that the frequency of visiting unorganised

retailers was considerably high; the number of consumers visiting the unorganised retailers more than once in a month was the highest among the three categories of retailers (Chart 5).

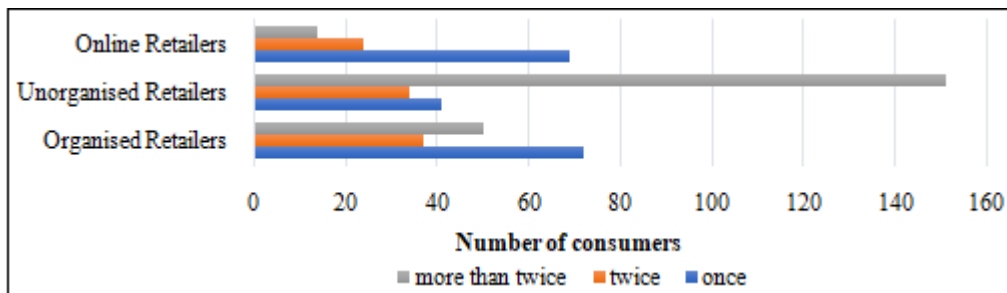


Chart 5: Shopping frequency in a month

Source: Author’s Calculations based on survey data

5.2.4. Price competition and convenience – The likely reasons for shifting across retailers

Consumers were also asked to mention factors that could contribute to their preference for shopping from brick - and - mortar retail shops to onlinereetailing and vice - versa. Price competition was the dominant reason cited by consumers for shifting; about 37 per cent of the consumers highlighted this to be the reason. Furthermore, time saving and convenience was the second - most important reason having a share of 29 per cent. Quick service (24 per cent) and quality of product (10 per cent) were cited as the remaining reasons for a likely shift.

cent) and easy availability of goods (11 per cent) emerged as the key reasons for such a shift (Charts6 and 7).

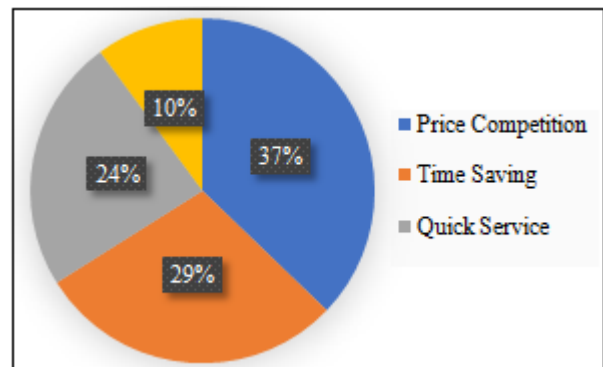


Chart 6: Reasons for shifting from brick - and - mortar to online retailers

Source: Author’s Calculations based on survey data.

Conversely, factors that could contribute to changing preference from online retailing to brick - and - mortar were also reported in the survey; the availability of proper parking facility (27 per cent), quality of product (24 per cent), proper display of products (21 per cent), price competition (17 per

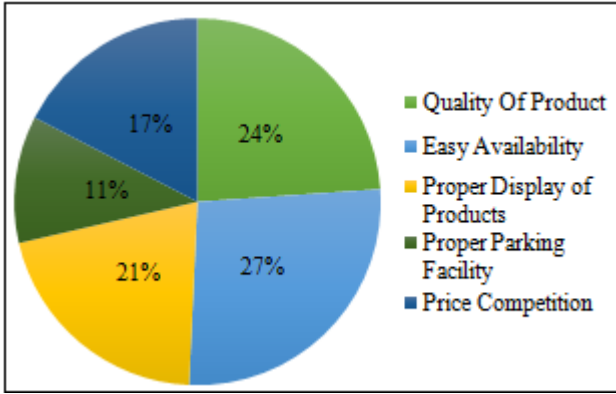


Chart 7: Reason for shifting from online to brick - and - mortar retailers

Source: Author’s Calculations based on survey data.

5.2.5 A likely shift towards online retailers in future

The survey solicited consumer responses towards organised/unorganised/online retailers for different consumer goods in the current situation and a one - year ahead period. There was a greater preference among consumers to move towards online retailers over the one - year period (Chart10). This shift could be seen across all commodities considered in the survey. By contrast, there were reductions, although moderate, in the number of consumers expressing willingness to shop from organised and unorganised retailers (Charts 8 and 9).

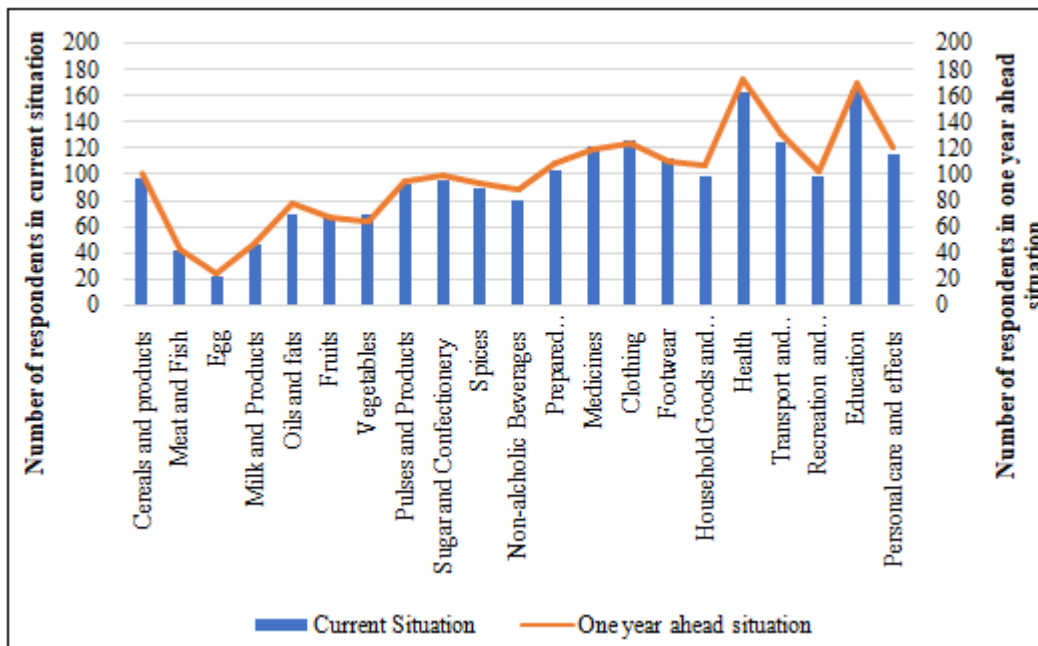


Chart 8: Changing consumer preferences for organised retailers over a one - year period

Source: Author’s Calculations based on survey data.

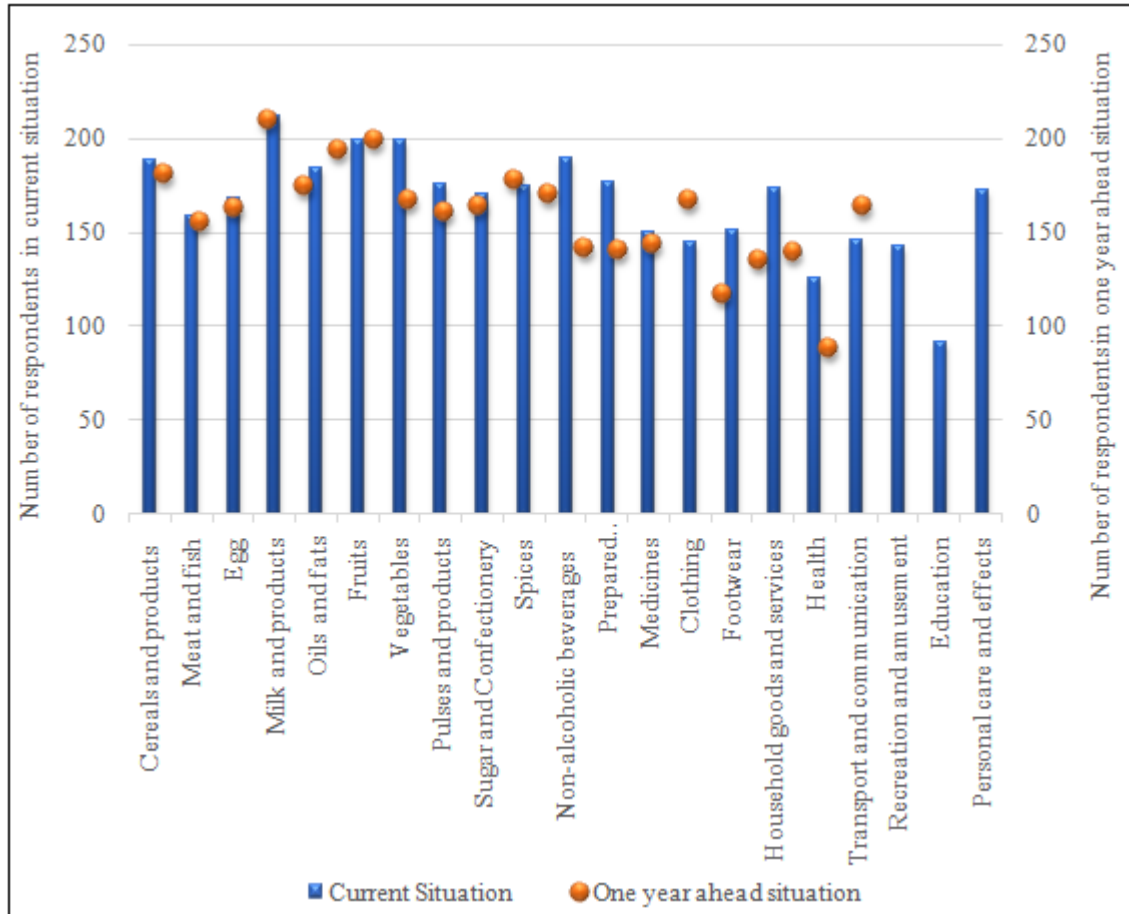


Chart 9: Changing consumer preferences for unorganised retailers over a one - year period

Source: Author's Calculations based on survey data.

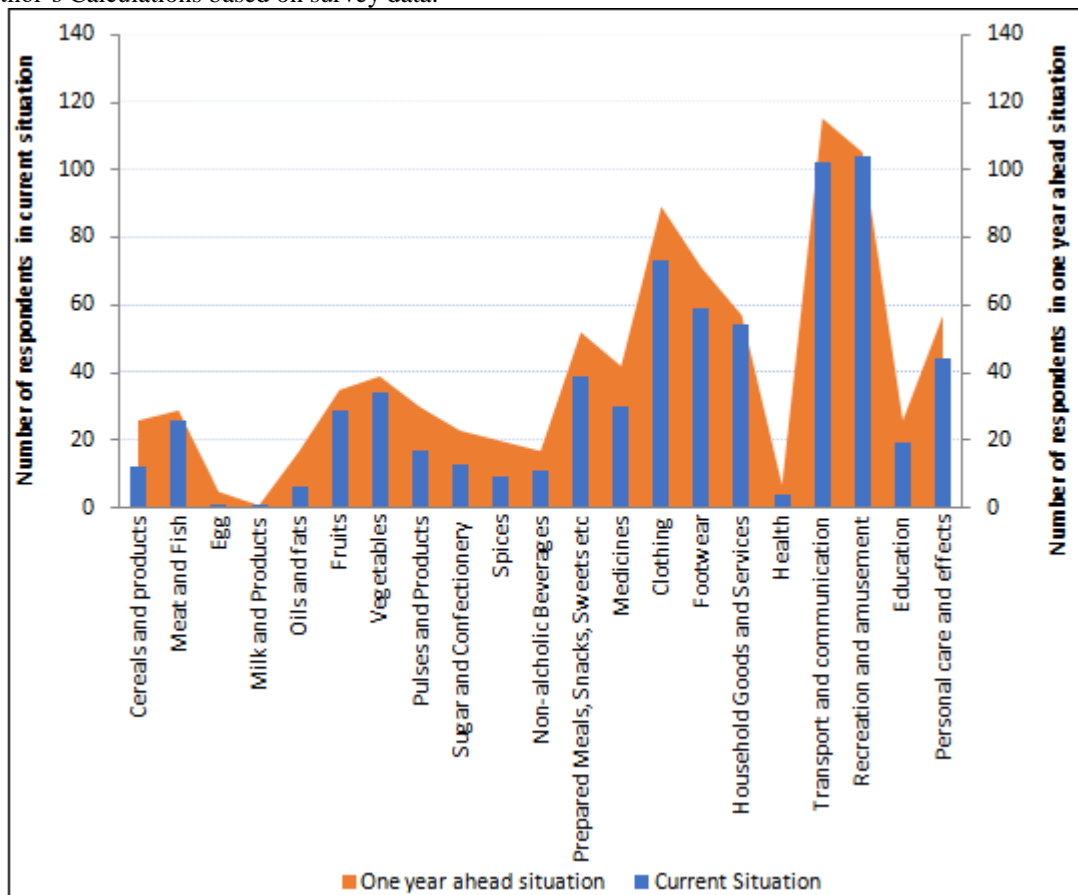


Chart 10: Changing consumer preferences for online retailers over a one - year period

Source: Author's Calculations based on survey data.

5.2.6 Consumer income and occupation influencing their choice of retailers

A Chi - square test was employed to study the association between consumer preference across different retailers and various demographic and economic characteristics, such as age, educational qualification, occupation, family size, family income and spending pattern for the current situation and a one - year ahead period. The results showed no statistical association between choosing retailers, and

gender, occupation, family size and spending habit. However, there was a statistically significant association between the choice of retailers, and consumer’s educational levels and annual income of the family (Table A2 and Table A3 in annex). The association between the consumers’ choice of retailers and their demographic and economic factors by and large remained unchanged over a one - year horizon (Table 2).

Table 2: Results summary of Chi - square Test for Association

Hypotheses	Decision on Acceptance or Rejection of hypotheses (Current Situation)	Decision on Acceptance or Rejection of hypotheses (One year ahead Situation)
i. Gender and consumer preference in choosing retail outlets are not associated	Accepted	Accepted
ii. Annual Income and consumer preference in choosing retail outlets are not associated	Rejected	Rejected
iii. Educational Qualification and consumer preference in choosing retail outlets are not associated	Rejected	Rejected
iv. Occupation and consumer preference in choosing retail outlets are not associated	Rejected*	Rejected*
v. Family size and consumer preference in choosing retail outlets are not associated	Accepted	Accepted
vi. Spending and consumer preference in choosing retail outlets are not associated	Accepted	Accepted

Note: *Statistically significant for commodities such as meat and fish, pulses and products

5.2.7 Fairly similar choice of retailers across goods

In order to assess the similarity in consumer choice of retailers, the clustering of goods using a dendrogram was attempted. The cluster analysis revealed that there was a similarity between choosing retailers across most commodities. The dendrogram classified the selected basket of goods in only three broad clusters, underlining the fact that there was limited variation in the choice of retailers across the selected basket of goods (Chart 11).

In particular, consumers’ preference for selecting retailers are similar for cereals and products, spices, pulses and products, prepared meals, personal care and effects. While choice of retailers for clothing, footwear, transport and communication, and recreation and amusement were similar, and got classified under the second cluster, the health and education goods were classified under the third cluster.

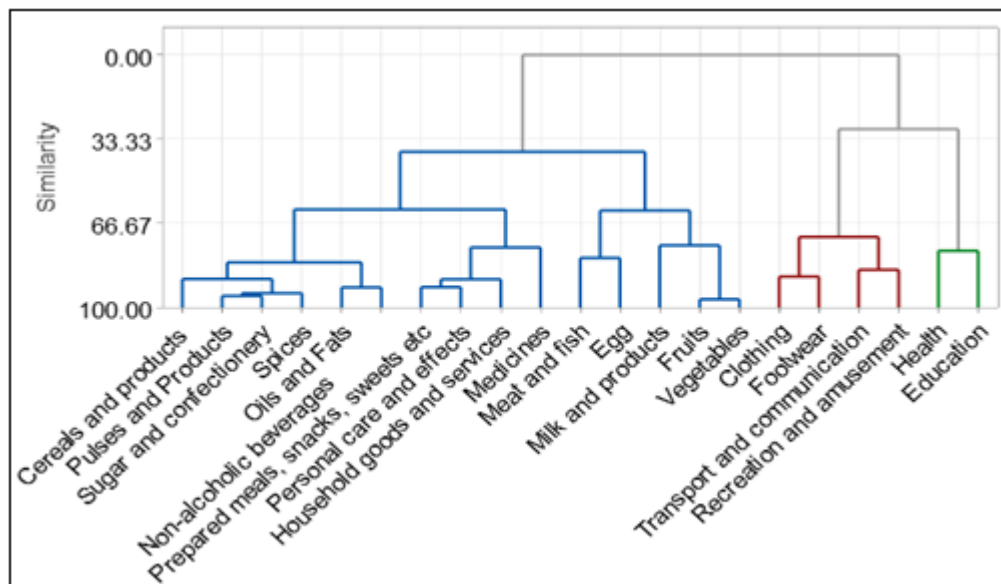


Chart 11: Dendrogram

Source: Author’s Calculations based on survey data.

6. Conclusions

The main objective of the paper was to find out how the entry of FDI into retail business has altered the consumer spending pattern and their one - year ahead perception

towards retail segments in Karnataka. By using a stratified random sampling technique, a survey was undertaken using a structured questionnaire. The study showed that consumers’ income and occupation have an influence on their choice of retail outlets for the consumption of goods.

The survey showed that the unorganised retail sector continued to be the main source of retailing for majority of goods except health and educational products in the survey area. The survey revealed that FDI entry had not altered consumer preference for retailing in a major way in the survey area. Price competition and time saving were the two factors driving consumer preference towards online shopping, while quality of products and easy availability are the factors continued to draw consumers to brick - and - mortar retailing.

Future analysis can be extended by accommodating more factors for identifying shifts in consumer preference across retailers. Also the current survey was largely urban - centric so extending to rural areas may also offer interesting insights, going forward. As in case of all small - sized surveys, there may be limitations in generalising the findings from this survey to a larger population in the absence of base - line large sample consumer survey.

Declaration

The views expressed are those of the author and do not represent the views of the Bank. The errors, if any, may be attributed to the author only.

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Annex

Table A1: One - way ANOVA test result

	Sum of Squares	df	Mean Square	F value	P - value	F crit
Between Groups	188271.1	2	94135.54	94.84477	2.65E - 19	3.150411
Within Groups	59551.33	60	992.5222			
Total	247822.4	62				

Source: Author's calculations based on survey data.

Table A2: Chi - square test results (observed value) of various parameters based on goods across retailers (Current Situation)

	Gender	Spending	Annual income	Education	Occupation	Family Size
Cereals and products	1.11	6.28	19.32	34.38	15.06	2.50
Meat and Fish	0.05	7.16	25.37	29.76	17.40	4.28
Egg	1.22	3.93	16.55	14.10	6.55	6.15
Milk and products	3.92	4.13	6.73	10.54	7.48	2.78
Oils and Fats	0.62	6.26	15.72	25.71	6.71	1.20
Fruits	3.14	4.39	17.22	36.43	5.08	1.80
Vegetables	2.33	5.70	16.81	36.25	11.27	2.19
Pulses and products	0.57	4.91	25.59	44.91	15.39	0.67
Sugar and Confectionery	0.42	10.91	16.89	36.22	10.75	2.33
Spices	0.11	7.20	17.91	47.67	9.72	4.47
Non Alcoholic beverages	0.27	7.82	13.62	26.92	10.63	5.81
Prepared meals, Snacks, Sweets etc	2.46	17.23	36.28	35.97	14.28	3.41
Medicines	3.00	5.24	24.88	45.63	5.52	7.87
Clothing	1.44	7.99	39.59	49.30	9.00	2.84
Footwear	0.86	10.49	48.84	39.69	4.26	2.19
Household goods and services	0.72	10.71	43.15	40.61	10.36	3.92
Health	0.18	5.57	27.44	25.54	10.49	3.17
Transport and communication	2.48	6.82	28.76	44.29	8.88	1.77
Recreation and amusement	2.21	9.36	39.16	31.63	3.94	6.07
Education	3.33	16.32	52.31	57.58	10.66	3.15
Personal care and effects	3.01	7.69	27.04	40.34	11.53	0.93

Source: Author’s calculations based on survey data.

Table A3: Chi - square test results (observed value) of various parameters based on goods across retailers (one year ahead situation)

	Gender	Spending	Annual income	Education	Occupation	Family Size
Cereals and products	1.75	2.45	21.86	36.08	12.36	2.66
Meat and Fish	0.85	2.45	18.95	31.14	15.40	2.10
Egg	1.72	4.10	11.48	15.95	6.66	3.21
Milk and products	2.56	5.88	7.88	10.15	18.36	1.05
Oils and Fats	1.99	5.91	19.47	19.45	6.25	1.99
Fruits	1.28	5.26	16.39	40.76	7.10	1.41
Vegetables	0.75	4.47	10.34	32.98	10.45	1.24
Pulses and Products	1.18	8.65	27.82	46.56	19.43	0.83
Sugar and Confectionery	2.59	12.87	24.44	42.34	16.40	1.94
Spices	0.56	9.49	20.96	46.71	10.73	3.43
Non Alcoholic beverages	0.18	7.60	13.96	40.43	10.63	2.98
Prepared meals, Snacks, Sweets etc	1.82	13.96	35.60	39.94	13.38	5.03
Medicines	5.26	1.97	20.01	39.29	10.50	3.54
Clothing	1.03	5.28	37.95	50.43	7.81	4.25
Footwear	1.26	5.07	38.27	44.27	5.57	2.50
Household goods and services	0.03	8.45	33.90	37.89	7.75	3.23
Health	1.29	6.69	24.47	34.52	10.21	1.81
Transport and communication	3.12	6.72	25.56	45.15	8.69	3.10
Recreation and amusement	1.34	11.65	44.78	35.21	4.12	4.03
Education	2.69	11.42	46.77	59.22	8.54	2.56
Personal care and effects	3.34	6.08	25.43	44.89	9.95	1.22

Source: Author’s calculations based on survey data