IMPACT OF FOREIGN DIRECT INVESTMENT AND CONSUMER DYNAMICS ON ORGANISED AND UNORGANISED RETAILS IN INDIA: A LITERATURE REVIEW

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ABSTRACT

Over the past 20 years, expanding urbanisation, rising consumer awareness, and the inflow of foreign direct investment (FDI) have all contributed to a drastic change in the retail scene in India. The dual effects of foreign direct investment (FDI) on organised retailers and the difficulties faced by unorganised retailers are examined in this study through an analysis of fifty-eight academic sources. Key patterns in consumer preferences, socioeconomic factors, and adaptive tactics used by traditional merchants are identified by the study. According to the findings, foreign direct investment (FDI) boosts employment, infrastructure development, and global competitiveness, but it also jeopardises the life of local shops who lack official financial backing and digital capabilities. The evaluation identifies new research gaps and urges inclusive policy frameworks to support India's retail industry's sustainable growth.

KEYWORDS: *Foreign Direct Investment, Organised Retail, Unorganised Retailers, Consumer Behaviour, Retail Transformation.*

1. INTRODUCTION

Structural reforms, rising foreign investments, and shifting customer expectations are driving a paradigm shift in India's retail industry. Retail, one of the industries with the quickest rate of growth in the nation, presently contributes 8% of employment and more than 10% of India's GDP. The industry is generally separated into segments that are organised and those that are not. With the growth of shopping centres, branded chains, and contemporary supply chains, organised retail has thrived under liberalised FDI policies; nonetheless, unorganised retail still controls the market, especially in rural and semi-urban areas. In order to give a thorough thematic assessment of how FDI and changing consumer dynamics affect both sectors of India's retail industry, this study synthesises previous research.

2. REVIEW METHODOLOGY

This literature review adopts a thematic and analytical approach. A total of 58 academic articles, working papers, and government reports published between 2000 and 2024 were systematically evaluated. Studies were selected based on their relevance, geographical scope, and contribution to understanding FDI influence, consumer trends, and retail strategies. Sources were primarily obtained from various Indian economic databases. The literature was organised into five central themes:
• Impact of FDI on Organised Retail
• Challenges Faced by Unorganised Retailers
• Consumer Behaviour and Preferences
• Comparative Studies Between Organised and Unorganised Retail
• Survival Strategies Adopted by Traditional Retailers

3. THEMATIC LITERATURE REVIEW
3.1 Impact of FDI on Organised Retail
The liberalisation of FDI policy during the past 20 years has had a significant impact on the development of India's retail industry, especially the emergence of organised retail. Significant capital inflows, technological advancements, and international best practices have all been introduced to the Indian market because to FDI.

Researchers like Parihar (2024), Saxena (2018), and Pandey (2022) have observed that foreign direct investment (FDI) in single- and multi-brand retailing has resulted in enhanced retail infrastructure, sophisticated inventory management systems, and a general push towards modernisation. According to Joseph et al. (2008), these advancements have cut consumer prices through increased supply chain efficiency and have made a substantial contribution to the creation of jobs. In addition, Mahadevaswamy and Nalini (2014) verified that the entry of international retail companies enhanced service quality in Tier I and metropolitan areas while also expanding the range of products that customers could choose from. Studies by Seiders and Tigert (2000) supported these conclusions by showing that customers started to choose establishments with more variety, improved cleanliness, and competitive pricing—qualities frequently linked to modern retail formats fuelled by foreign direct investment. Not all of FDI's effects have been favourable, despite these advantages. According to Kalita (2017), unorganised retailers' profitability has decreased in places like Guwahati as a result of organised retail's explosive expansion, especially in areas where new supermarket models have been implemented. Small business owners in the National Capital Region were worried about losing their devoted clientele to well-funded international chains, according to Kumar and Kavitha (2016). These local shops often lacked the funds necessary to invest in modern infrastructure and broaden their product portfolios, despite being confident in their conventional strategies such as credit-based sales and community good will. Makhitha (2016) offers a more comprehensive viewpoint from a South African setting, which echoed worries about increased operating costs and fierce competition after modernisation spurred by FDI.

According to international studies conducted in the US by Basker (2005) and Sobel and Dean (2008), the arrival of retail behemoths like Wal-Mart also had an impact on local employment trends, stifled the expansion of small businesses, and reduced the diversity of local markets. These results show that the advantages of FDI may unintentionally upset establish retail ecosystems if inclusive planning and strong regulatory protections are not in place. The literature also emphasised that the impact of FDI is heterogeneous across regions and demographics. Vijay (2016) reported that in Maharashtra, organised retail formats captured a significant share in sectors such as consumer durables and lifestyle products, while unorganised formats continued to serve daily grocery needs due to their geographic proximity and lower price points. McGee and Rubach (2016) found that rural markets in the United States adjusted better when small retailers focused on niche segments and local consumer needs—suggesting that similar strategies could benefit Indian unorganised retailers.

Singh and Bansal (2011) provided a critical insight that FDI's impact need not be inherently disruptive if traditional retailers adapt innovatively. In Punjab, for instance, many unorganised retailers began expanding their offerings, repositioning their brands, and reengineering their operational models to remain competitive, thereby exhibiting an adaptive response to FDI-induced challenges. Also, the impact that results is largely determined by the sort of FDI participation. All members of the retail ecosystem, including unorganised firms, can gain from investments in back-end operations including supply chain efficiency, warehousing, and transportation. On the other hand, direct competition with traditional retailers frequently results from front-end investments in store formats. For policymakers tasked with improving FDI legislation to guarantee widespread economic gains, this little divergence is crucial.

3.2 Challenges Faced by Unorganised Retailers

The foundation of India's retail industry, unorganised retailers, face many obstacles that reduce their ability to compete. According to studies by Shahiba (2016), Vetrivel (2017), and Naik (2023), the introduction of organised retail has caused these small businesses' profit margins to drop and their market share to decrease. Their situation is made worse by institutional flaws such a lack of formal training and poor access to reasonably priced finance. The operational inefficiencies present in unorganised retail—which are typified by irregular store setups, non-standardized procedures, and a restricted ability to integrate digital tools—were highlighted by Gandhi and Chinnadorai (2017). These shortcomings exacerbate issues with customer service, inventory control, and general store performance. Additional research by Rakhavendra (2014) and Praleena (2016) highlighted that unorganised retailers suffer from outdated store formats and poor marketing practices, leading to customer attrition and eventually, business closure. Chandrasekhar (2016) found that at unorganised stores, customers frequently complained about subpar products, shoddy packaging, and a dearth of trustworthy product information. This was made worse by a lack of attention on customer service and inadequate training for the employees. According to Patil (2016), Sharma (2014), and Kumar (2014), unorganised shops usually have extremely narrow profit margins, which leaves them extremely susceptible to growing operational costs and infrastructure issues. The viability of unorganised retail is still in doubt if effective regulatory changes are not made and contemporary technology and inventory management technologies are not integrated. In order to assist these merchants in converting to more effective business models, these findings collectively highlight the

urgent need for focused assistance measures, such as financial literacy programs, microfinance access, and infrastructure upgrades.

3.3 Consumer Behaviour and Preferences

Rising earnings, more education, and increased exposure to international retail standards are all having an impact on the fast-changing consumer behaviour in India's vibrant retail sector. According to Swathi and Rao (2019), demographic characteristics including income, education, and lifestyle choices are crucial in influencing customer expectations and retailer preference. Their research, along with those of Rajan (2016) and Prashanthi and Valliyammaai (2024), revealed that customers are becoming more appreciative of organised retail establishments' ease, extensive product selections, and first-rate customer support. Consumer preferences have evolved towards quality, hygiene, and the convenience of digital payment systems due to the convergence of western influences, the growth of the middle class, and increased levels of disposable money, according to Kulshreshtha et al. (2015) and Sharma and Chandak (2015). These customers are drawn to contemporary retail models that provide a consistent and standardised shopping experience. However, as noted by Ceasar (2016), Chandrasekhar (2016), and Agarwal (2017), loyalty to unorganised retailers endures, mostly because of proximity, trust-based interpersonal relationships, and flexible payment alternatives. Khan and Sharma (2015) discovered that local stores continue to appeal to regular customers due to features including convenient locations, reasonable prices, and personal credit options. According to Vijay (2016), unorganised merchants continue to be the go-to option for everyday necessities and necessary grocery items, while organised retailers frequently lose out on branded and non-essential goods. Regional differences also have a big impact on consumer behaviour, according to a number of research. For example, different consumption patterns are produced by cultural, linguistic, and economic distinctions between urban and rural locations. Smaller towns and rural areas so continue to have a significant preference for traditional stores, even while metropolitan areas may tend towards modern retail forms. This dichotomy shows that, in spite of ongoing changes, unorganised retail continues to be vital to the everyday lives of a significant portion of people.

3.4 Comparative Studies Between Organised and Unorganised Retail

The performance and sustainability of the organised and unorganised retail sectors have been compared in a sizable body of literature. According to research by Sivanesan and Green (2019), Vijayalakshmi and Khan (2016), and Thirumal Azhagan and Lakshmidevi (2019), unorganised retailers gain from strong social capital, individualised service, and enduring cultural ties with local communities, even though organised retail excels in areas like infrastructure, aesthetics, and service delivery. Sarkar and Kundu (2016) and Joseph et al. (2008) found empirically that the two industries frequently provide different customer needs. While organised retail tends to concentrate on improving the customer experience, integrating technology, and building brand value, unorganised retail still thrives on low prices, unofficial credit systems, and adaptable business strategies. Significant industry and geographical differences were noted by Fatima (2013) and Vijay (2016), casting doubt on the oversimplified division between contemporary and conventional retail models. Unorganised businesses are more than just the victims of contemporary retail development, according to a number of studies. Manik (2011), McGee and Rubach (2016), and Mathew Joseph and Manisha Gupta (2008) showed that traditional merchants could maintain their competitiveness by utilising their distinct advantages, including quick access to products, community connection, and cultural familiarity. According to these studies, there may be room for hybrid or co-existence models that let the advantages of both industries work in concert rather than as a zero-sum game.

3.5 Survival Strategies of Traditional Retailers

Many unorganised retail stores have implemented a variety of survival tactics in reaction to the competitive pressures imposed by the growth of organised retail. According to studies by Jadhav and Karangutkar (2017), Goel (2013), and Gupta (2013), these stores were depending more and more on neighborhood-focused marketing strategies, customer loyalty programs, and special offers to keep and expand their clientele. In this situation, trust, local reputation, and individualised service were found to be crucial competitive advantages. Research by Agarwal and Agarwal (2016) and Kumar and Kavitha (2016) demonstrated that traditional stores frequently used flexible credit terms and strong community ties to keep customers loyal, particularly those from lower-income groups. The urgent need for technological adoption and capacity-building initiatives to improve operational efficiencies was emphasised by Ceasar (2016), Sharma (2014), and Amaresha (2014). It was suggested that training initiatives, better inventory control, and digital tools be used as the main tools to boost competitiveness. Customised services like home delivery, informal finance, and culturally specific product offerings could help unorganised businesses lessen the pressure from contemporary retail chains, according to Arakeri and Chavan (2015) and Noskova and Romanova (2015). According to additional research by Smitha (2011) and Dasgupta & Banerjee (2009), long-term viability may be ensured by combining traditional values

with cutting-edge methods (such as implementing basic mobile payment systems). Further research by Amaresha (2014), Hamil and Priyadharshini (2014), and Dasgupta and Banerjee (2009) highlighted the importance of personal attention, dependability, and strong community ties in maintaining the viability of unorganised retail in a market that is changing quickly.

4. KEY FINDINGS

The thorough analysis of 58 research shows that although foreign direct investment (FDI) has significantly modernised India's organised retail sector by enhancing consumer service, supply chain efficiency, and technology diffusion, it has also created serious difficulties for unorganised merchants. These established players frequently struggle with operational inefficiencies, financial instability, and marginalisation. Despite the fact that many unorganised retailers have implemented flexible tactics, inclusive legislative measures that ease their transition to formalisation are desperately needed. Interestingly, a number of gaps were found. A lack of longitudinal studies addressing long-term outcomes for both sectors. Insufficient focus on regional variations and the role of local cultures in shaping retail dynamics. Limited empirical research on the impact of digital technologies and generational shifts. Underexplored effects of government policies and support schemes on the survival of unorganised retail.

5. CONCLUSION

The retail industry in India is undergoing a complex shift that reflects both the potential of technology and the fragility of traditional methods. Global retail standards, improved consumer experiences, and economic progress have all been facilitated by FDI. On the other hand, unorganised retailers encounter major operational and structural difficulties in spite of their tenacity and strong local ties. According to the research, an inclusive, sustainable retail ecosystem can be fostered by a dual-track strategy that combines targeted interventions for unorganised businesses with regulatory support for organised retail. Future studies ought to focus on local case studies, evaluate the effects of digital transformation, and investigate legislative changes that close the gap between contemporary retail formats and conventional, neighbourhood-based establishments.

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