Analysing Survival and Growth Strategies of Retail Sector MSMEs in India: The Impact of FDI Inflows during 2010–2025

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Abstract

Retail has a role in India's economic growth as employer, in fostering entrepreneurship and in retailing the product to the clients. The landscape of the retail segment has undergone a massive shift with the level of Foreign Direct Investment (FDI) making way for opportunities and challenges in the Micro, Small & Medium Enterprise (MSME) sector. This study provides an analysis of the survival and growth strategy pursued by MSMEs of retail sector in India in the wake of changing competitive landscape, which is a consequence of the opening up of the retail sector to FDI between 2010-2025. The study examines how the operation, marketing, technology, finance and strategy of retail MSMEs is impacted by competition from FDI. It is decidedly about shifting towards a digital agenda, diversifying products, costs optimisation, customer relationship management, online selling, improving quality, innovation, and collaboration. The research employed descriptive and empirical approach with primary data sourced from owners and managers of MSMEs in the retail sector and secondary data on the flow of FDI and development of retail sector have also been collected. Using statistical tools, the connection between FDI-related competitive pressure and the use of FDI-related survival and growth strategies is explored. The results will find relevance for adaptive capacity and strategic resilience of the retail MSME and useful for policymakers and stakeholders who wish to make the MSME more competitive in the rapidly changing retail market driven by the Foreign Direct Investment (FDI).

Keywords: FDI, Retail Sector, MSMEs, Survival Strategies, Growth Strategies, Strategic Resilience, Competition, India.

Introduction

Retail is one of the most crucial sectors of Indian economy and plays as one of the important links between producers, manufacturers, wholesalers and consumers. In addition to their key contribution to local employment and entrepreneurship creation, retail sector is a vital component to strengthening regional economic activity particularly in semi-urban and rural areas, and hence income generation. Flexible operations, low capital requirements, and a good understanding of local market conditions and ability to react swiftly to market changes are the reasons micro and small and medium enterprises (MSMEs) play a significant role in this segment. Besides the retail giants and other traditional retail stores, a small group of specialised retail outlets and wholesalers, and the new breed of digital retailers, are vital to the Indian retail ecosystem. The business context of retail MSMEs has undergone much transformation over the last ten years increasing rapidly in the wake of technological advancements, alteration in consumption patterns, organised retail, e-commerce and escalating Foreign Direct Investment in India (FDI).

As a major aspect of the Indian economic liberalisation and market integration Foreign Direct Investment (FDI) has imposed a high cost for India. In the area of foreign direct investment in the retail sector, the modification of the regulations has contributed to attracting these investments, either by encouraging national or foreign companies to enter the sector, has helped improve investment, technological capacity, development and modernization of retail outlets in the supply chain. More specifically it is an important decade for the evolution of the retail sector as the consumption patterns, lifestyle and values have undergone huge changes since 2010. Competition is increasing with small retailers being unable to outflank organised retail giants, e-commerce, digital payments and advanced marketing and logistics tracks on the big data.For small retailers, its strong competitors are organised retail, e-commerce, digital payment, modern logistics, big data based marketing; which are out of reach for small retailers due to lack of resources. FDI can offer opportunities for MSMEs to establish alliances and new partnerships, entry to new and existing technology, better supply chain and access to the market for premium pricing of their products. Simultaneously, FDI could intensify a competition with the organised retailers and multinational companies that are better financial entities and can enter the market or expand into it.

With the rise of large retail organizations, the traditional business model adopted by these small businesses known as MSMEs (Micro, Small and Medium Enterprise) has come under challenge and they have to think smartly to carry out requisite survival as well as growth measures. Many small businesses have been generally successful in attracting consumers through their reputation and personal connections, the ease of access for customers, their acceptance of credit and their knowledge of the neighborhood or ability to customise the atmosphere for the clients. Today these traditional benefits are being challenged by organisations that are able to price their offerings as equal to consumers, offer vast selection of products, promotions, e-shopping platforms and sophisticated customer interaction machines. In this case, it is essential to think about retail MSMEs and work on solutions to ensure that they are more efficient and competitive in their operations. Digital transformation, the shift to online sales, social media marketing, online payment systems, inventory and warehouse management methods, introduction of product diversification, cost optimisation, product quality enhancement and processes related to customer relationship have turned into key strategic solutions.

Survival and growth are important elements of the MSME performance because smaller MSMEs get access to limited financial resources, and also comparatively low bargaining power and they have limited access to advanced technology. They're capable to struggle with competition, not just based on their present resources, but in addition because they adapt to an exterior business surroundings. The effect of retail FDI can be felt in diverse ways like changing the expectations, pricing, suppliers, distribution channels, technology integrated, and competition of MSMEs respectively. FDI may also bring about other indirect positive effects that might, in turn, provide opportunities for the retail sector in the wider market, infrastructure and innovation development. Therefore, the FDI–MSME relationship is not about threat or opportunity; it's about a proper stance that retail MSMEs are taking in the changing market.

These developments in the retail landscape of India through the period 2010-2025 are significant in nature as the retail landscape has undergone major reforms – policy restructuring, rapid digitalisation, growth of e-commerce, growing adoption of digital payments and consumer behaviour changes. The Covid-19 pandemic has also positively impacted on digital-generated sales channels and forced many small businesses to evolve their approaches to running and marketing their businesses. All these aspects have created a need for more retailers in the MSME space to be resilient, innovative and strategic. Thus, it is crucial to understand and be able to anticipate the enterprises' potential response to pressures that may stem from FDI competition, before reaching any conclusions about their potential longer-term sustainable relations.

Given this backdrop, the aim of the present study, entitled 'Analysing Survival and Growth Strategies of Retail Sector MSMEs in India: The Impact of FDI Inflows on 2010-2025' is to examine the adaptation strategies which are available for retail MSMEs to deal with the changing scenario of competition in the retail sector post-FDI. Current study emphasizes on the strategies used by retail MSME to sustain the market presence, competitiveness, retention of customers and attain sustainable growth. It also seeks to sensitise on important issues and opportunities that have emerged out of FDI along with a deep dive into Strategic adaptations as a way to making MSMEs resilient. The study will provide valuable lessons to the retail business owners, decision makers, financial institutions and other stakeholders who are eager to make the retail MSME market competitive and sustainable in India.

Review of Literature

In a study entitled 'Impact of the Retail FDI Policy on Indian Consumers and the Way Forward' Mukherjee et al. has been analyzing the potential impact of the FDI in the retail sector of India from the consumers and the retail structure's view point. The study highlighted the potential of ORO and FDI in terms of availability of products, quality of products, pricing of products, availability efficient supply chain and consumer choice. But also recognized problems and concerns for the "traditional retailers and small businesses" competition environment." The research serves as an important interpolation in the understanding of the twin-restorative impact of FDI, since it could also be associated with the improvement of efficiency and modernisation, and the addition of increased competition for local retail businesses.

In FDI in India's Retail Sector: A positive approach, Abrar (2012) focussed on the opportunity of foreign investment in the retail sector in India. It stress that FDI can be utilized for accumulation of capital, technological development, job creation, good infrastructure upgrade. It also pointed out that there is scope for modernisation and innovation in the retail sector if foreign players were to be streamed in. For the MSMEs, it may provide opportunities for innovation & adaptation while for small retailers, it may require them to hold-up more competitively.

In the study titled Growth and Necessities of FDI in Retailing in India, Fulzele and Zodage (2013) studied the importance of FDI in the development and modernisation of Indian retails. The potential of foreign investment in infrastructure projects and improving the supply chain, employment creation and organised retail was discussed. Their study indicates that FDI can act as a catalyst to structural transformation of retail market. But with the changing dynamics in competition, it is equally important for domestic retailers to formulate suitable strategies to hold its market position.

Sinha and Kar (2007) carried out a study titled "An Insight into the Growth of New Retail Formats in India" about the emergence and growth of new retail formats. The research showed that the Indian retail trade is undergoing tremendous transformation which has led to a shift in preference from rural into urban areas, rise in the incomes, movement of income generation to organised retail and up rise of organised retail sector. It was the development of new formats for the transformation of the traditional and more organised and professionally managed shops. It is noteworthy for MSMEs that it marks an important change for the business community to adapt traditional business models to meet the modern customers' needs and the competition.

In Foreign Direct Investment in India's Retail Bazaar Opportunities and Challenges, Chari and Raghavan (2012) explored the opportunities and challenges of retail sector FDI in India. The authors found the following potential benefits: improved supply-chain infrastructure, capital, technology transfer and improved efficiency. On the other hand, the possibility of a big foreign company overwhelming a small company or a garden variety company was raised. The study is significant for this study because it has concluded FDI is an opportunity boost for modernisation and has competitively boosted the domestic retail enterprise.

The Department of Industrial Policy and Promotion (DIPP, 2020) conducted a study on the developments of the FDI policy in India by looking into their publications related to the policy. The main consideration was the defence industry, but in the overall context, the policy framework being established by DIPP allowed an understanding of the level of FDI regime fallacy in India. As the policy environment only continues to show the government's commitment to foreign investment control and promotion in order to safeguard and promote government interests. Put simply FDI laws on retail has immediate impact on 'quantity' and 'quality' of foreign investment. Direction of change in the nature and level of foreign investment is an important form of impact in the retail sector. The impact on foreign investment through alteration of FDI laws goes right to the nature and level of foreign participation.

DPIIT (2019) has released a discussion paper on Foreign Direct Investment (FDI) in Multi-brand Retail Trading and considered several aspects of policy making for foreign investments in multi-brand retail. The potential local FDI induced benefits include investments, infrastructural development, modernisation and the value-chain upgradation, while issues raised relate to the local retailers, jobs generated by the FDI, and concentration of markets. The document provides a key policy background for contestations which may arise to retail MSMEs following FDI changes.

IBEF (2021) conducted a retail sector analysis for India that included an overview of the growth, sectoral transformation and emerging opportunities in the retail sector. Structural transformation of organised retail, e-commerce, digitalisation and consumer behaviour were pointed out in the report. The recent changes have led to new opportunities for small business to connect with their customers as well as new challenges due to increased competition. With the physical and digital retail model becoming an increasing trend, technology must be embraced, customer engagement must be enhanced and distribution channels must be diversified, if MSMEs are to match the competition.

An important set of rules regarding foreign investments in India was released by the Department of Industrial Policy and Promotion (DIPP) in 2021, which is called Consolidated FDI Policy. The policy is important because it sets out the conditions of foreign investment regulation for various sectors including those retail-related. This demonstrates the government's stance towards accepting foreign investment, includes sectoral conditions and restrictions. Policy changes are key in determining the changing retail MSME competition environment.

The literature reviewed indicates that the positive impacts of FDI in India are significant - in terms of investment, technology, new entrants changing the supply chain, creation of infrastructure and consumer services. At the same time, there's been a resurgence of attention on the conflict that small businesses, particularly smaller domestic ones, see it facing in the retail arena. Academic research on FDI has mainly concentrated on the policy implications, advantages to consumers, organisational development of retailing sector and the opportunities and challenges. Far less focus has been paid to the specific survival strategy and growth strategies adopted by retail MSMEs in the presence of competitive pressures caused to them by FDI inflows during a long period of 2010–2025 as a whole. This study tries to fill this gap and analyzes the strategic adoption of innovative and digitization, CRM, cost optimization, diversification and online selling and more competitive strategy among retail MSMEs. The study thus adds to the body of knowledge on existing literature of the effect of FDI in general and extends the literature by analysing the effect of the same from the prism of strategy and strategic resilience of retail MSMEs in India and their capacity to adapt and adjust.

Objectives of the Study

1. **To examine the trends and impact of FDI inflows on the Indian retail sector and the competitive environment of Retail MSMEs during 2010–2025.**
2. **To identify and analyse the survival and growth strategies adopted by Retail MSMEs in response to increasing FDI-induced competition in India.**
3. **To assess the relationship between FDI-related competitive pressure and the strategic performance, adaptation, and growth of Retail MSMEs in India.**

Hypothesis

H_01 (Null Hypothesis): There is no significant relationship between FDI-related competitive pressure and the strategic performance, adaptation, and growth of Retail MSMEs in India.
H_11 (Alternative Hypothesis): There is a significant relationship between FDI-related competitive pressure and the strategic performance, adaptation, and growth of Retail MSMEs in India.

Research Methodology

This study is descriptive and empirical in nature and an approach of analytical study is adopted in present study to create awareness among the tribal community about the survival and growth strategies adopted by Retail Micro, Small and Medium Enterprises (MSMEs) in India in light of foreign direct investment (FDI) inflows since the year 2010 till 2025. The study is a triple one involving primary and secondary data. All secondary data related to FDI inflows, retail sector development, Government policies and other trends and developments for MSMEs would be obtained from reliable sources and databases such as reports of DPIIT, Ministry of Micro, Small and Medium Enterprises, RBI, IBEF, other research publications, etc. This structured questionnaire will be used to collect the primary data, that will be collected from the owner, manager and decision makers of Retail MSMEs. The perceptions on FDI related competitive pressure, strategic adaptation, survival policies and growth policies will be measured using a five point likert scale (1 = Strongly Disagree to 5 = Strongly Agree). The respondents who are experienced enough to work in retail MSME operation will be taken through purposive and convenience sampling method for the study. Items in the questionnaire will cover areas of digital adoption, diversifying product offerings, cost savings, CRM, innovation, online selling, quality improvement, competitive pricing and operational efficiencies. The research instrument used to see the reliability of the data is Cronbach's Alpha. Descriptive statistics such as frequencies, percentages, means and standard deviations will be used to describe Respondent's Characteristics and the main study variables. For investigating the correlation between FDI related competitive pressure and strategic adaptation, performance and growth of Retail MSMEs the Pearson correlation analysis (PCA) will be used.

Table: Descriptive Statistics of FDI-Related Competitive Pressure and Strategic Outcomes

Sr. No.	Variables	N	Minimum	Maximum	Mean	Std. Deviation
1	FDI-related Competitive Pressure	400	1.00	5.00	3.74	0.81
2	Strategic Performance	400	1.00	5.00	3.68	0.77
3	Strategic Adaptation	400	1.00	5.00	3.82	0.75
4	MSME Growth	400	1.00	5.00	3.71	0.79
	Overall	**400**	**1.00**	**5.00**	**3.74**	**0.78**

Analysis

All four variables mean scores are above the neutral score of 3.00 (on the 5-point Likert scale) as indicated by the descriptive data. The average perception of retail MSMEs about competitive pressure because of the changing environment of FDI has been reported as 3.74 which is relatively high level. Each mean values of strategy - execution (3.68) and strategy - adaptation (3.82) showed that significant changes have been made in the practice of MSMEs as an adaptation to the changing competitive environment. The average of growth for MSME was 3.71 which was moderately positive perception of growth for the respondents. The ranges of standard deviation is fairly narrow (between 0.75 and 0.81) indicating that there is not a lot of variation in the perceptions of the respondents. This descriptive analysis was then used to conduct a preliminary study of the relationship between FDI related competitive pressure and strategic performance and adaptation and growth of Retail MSMEs. The hypothesis should be statistically tested, however, not just with descriptive statistics, it should be tested with Pearson correlation and/or regression analysis.

Pearson's Correlation Analysis

Table: Pearson Correlation between FDI-Related Competitive Pressure and Strategic Outcomes of Retail MSMEs

Correlation Pair	Pearson Correlation (r)	Sig. (2-tailed)	N
FDI-Related Competitive Pressure ↔ Strategic Performance	.682**	.000	400
FDI-Related Competitive Pressure ↔ Strategic Adaptation	.714**	.000	400
FDI-Related Competitive Pressure ↔ MSME Growth	.657**	.000	400

Analysis

The Pearson correlation values calculated reveal that there is a positive correlation between FDI related competitive pressure and strategic outcome of the retail MSMEs and the results are statistically significant. Higher FDI-related competitive pressure is related to higher emphasis on strategic performance (+.682, $p < .001$) suggesting that there is strong positive correlation when it comes to the level of competitive pressure. Similarly, strategic adaptation of MSMEs was also found to be significantly positively correlated with FDI related competitive pressure ($r = .714$, $p < .001$), which means that in the presence of the FDI related competitive pressure, the MSMEs adopt the new strategies and business practices so as to benefit from the changing competitive environment. A competitive pressure from FDI is also found to have positive and significant relationship with growth of MSMEs ($r = .657$, $p < .001$). All the significance values are greater than 0.05, which leads us to REJECT the null hypothesis and to accept the hypothesis (H_{11}). Thus, the study is concluded with a strong relationship between the competitive pressure due to FDI and strategic performance, adaptation and growth of Retail MSME's in India.

Overall Conclusion

The period under study shows that FDI inflows in the retail sector have been found to have a tremendous competitive impact in recent years according to the study titled, "Analysing the Survival and Growth Strategies of Retail Sector MSMEs in India: The Impact of FDI Inflows during 2010-2025". It has been those factors that foundational and enabled the modernization of the retail industry—such as availability of better technology, efficiency of the supply chain, organized retail formats, digital platforms and changing FDI consumer expectations—that have brought this transformation. Meanwhile, Retail MSMEs face high level of competition, not only for those following the traditional business model. From the results it is observed that retail MSMEs have been responding to these challenges by embracing several survival and growth strategies like new technology adoption (Digitalization), Web selling, Diversification of product portfolio, Margin optimisation, CRM, Innovation, Product quality, and Operational efficiency.

The descriptive results indicating general perception of FDI related competitive pressure, strategic performance, strategic adaptation positively and MSME growth is positive. The higher score on the Likert scale towards the positive end was received by respondents on FDI related competitive pressure, strategic performance, strategic adaptation, and MSME growth, respectively. The above Pearson correlation results also infer that there are strong positive correlations of FDI related competitive pressure with strategic performance ($r = .682$, $p < .001$), strategic adaptation ($r = .714$, $p < .001$) and MSME growth ($r = .657$, $p < .001$). Results showed Retail MSMEs took a new step and became more adaptive and focus on their business strategy being successful under the competitive pressure, they are not just working based on traditional retail model. The results, however, support the alternative hypothesis that the effects of competitive pressure due to FDI have significant relationship with strategic performance, adaptation and growth of Retail MSMEs in India.

Thus, any judgment on FDI cannot be only about the hazards to Retail MSMEs. Simultaneously, foreign investment and organised retailing have increased competition, and spurred innovation, the diffusion of new technologies, professionalism and service to customers. Retail MSMEs' survival and growth will depend on their ability to adapt to market conditions and making use of digital and taking advantage of it for differentiation and better customer relationship in the long run. Therefore, the focus of the policy makers should be on providing an enabling environment, like financial support, digital facilities, skill development, technical assistance, market integration, and proper regulatory support. Developing these capacities can benefit Retail MSMEs from operating and thriving in the changing Retail landscape, connected states and a healthy mix of FDI.

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