International Business

Executive Summary

Foreign direct investment (FDI) is not a new concept, and many international companies are interested in FDI in markets with new business growth opportunities. The present study focussed on the UK-based retail company, Vera, which is a fashion and homeware retailer that has decided to go with FDI. The company is considering investing in the Indian retail market and setting its distribution network as a value perspective.

The current study proposes that Vera should consider FDI policies for India, as well as the norms and regulations of the market, to operate successfully and meet anticipated objectives. The retail industry of India is large and significantly contributes to economic growth; it is expected that the retail market will develop even further in the near future. Vera should consider various legal norms, such as corporate tax and trade policies, and risks, such as competitors and market structure, to ensure positive investment results.

This study includes Political, Economy, Social, Technology, Legal, International, Environmental and Demographics (PESTLIED) and Strengths, Weakness, Opportunities and Threats (SWOT) analyses to determine whether the Indian retail market is suitable for Vera as a direct investment. The joint venture method is suggested as a suitable mode of entry because it would save costs and easily target existing suppliers that could provide support while the company establishes a strong distribution network. Additionally, FDI inflow to the Indian retail market has increased, and more international companies are expected to invest in this market. It presents positive opportunities for Vera too to invest in Indian market and set distribution channel in the targeted market. Therefore, it is recommended that Vera directly invest in the retail sector of India to increase its business borders.

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1. Introduction

Investments in foreign markets have significantly grown, as many international companies have expanded into new markets to gain market advantages and a strong customer base and to build a global image (Froot 2008). FDI allows companies to stimulate economic development in a target country by creating a more conducive environment for investors and has facilitated international trade, which allows firms to transfer technology, products or services at lower costs. However, organisations must understand the market and economic situation of a target country before deciding to invest in a foreign market (Blaine 2009, p. 175).To aid in this, market studies inform firm decisions about which entry modes are most productive and ensure long-term growth and sustainability. This report focuses on the Indian market, which Vera, a United Kingdom (UK)-based retailer, is targeting for expansion and for international operations. Thus, Political, Economy, Social, Technology, Legal, International, Environmental and Demographics (PESTLIED) and Strengths, Weakness, Opportunities and Threats (SWOT) and competitor analyses are performed to understand the market situation, and a specific mode of entry is proposed to ensure the company's expected results.

2. Statement of the scope and opportunity of investment

Vera is a well-established fashion and homeware retailer in the UK and has been successful in increasing its number of stores across the country. The company sells their own brand of clothing, as well as other well-known brands, and is popular among youth. However, the company has been facing stiff competition from the many other clothing retail firms in the UK. Thus, FDI would be effective for gaining a competitive advantage in a foreign market with lower costs for labour, economic suppliers, distribution channels and production and for providing economies of scale and coordination advantages (Moran, Graham & Blomström 2005, p. 93). FDI would allow Vera to transfer resources, exchange market knowledge of personnel and provide a range of opportunities to trade products and services.

Establishing a strong position in the Indian market would allow Vera to provide new customers with a range of clothing for different age groups. The company could expand operations on a much wider scale, which would help bring the organisation more international attention. This would enable the company to access large-scale production and raw materials while setting up stores at lower costs. Furthermore, by investing in a foreign country and working with local workers, Vera would gain better insight into what works well for local markets, which would provide opportunities to establish a stronger value chain.

India is a growing market and attractive to many multinational companies because it has emerged as a potential option for FDI in different sectors. The retail sector of India is increasing very rapidly, with the current size of the market being approximately $28 billion; this is expected to reach $260 billion by 2020 (Jain & Godha 2012). FDI in the Indian retail market has supported organisational growth and created employment opportunities for youth. In addition, firms have been able to tap into both market and customer knowledge and resources at lower costs. Thus, Vera aims to capitulate and develop a distribution channel for its products in the Indian market from a value chain perspective. This would allow Vera to gain a competitive advantage in the Indian retail market and position its fashion and homeware products strongly among the competitors available in Indian retail market.

3. PESTLIED analysis

The PESTLIED analysis and theory is useful for measuring market situations and would allow Verato determine whether the Indian retail market can ensure long-term benefitsfor apparel and clothing businesses.

3.1Political: The federal political system of India is strong, and the business environment is influenced by multivariate political factors. There are many regulations and laws that influence how firms are allowed to operate; for example, Tata Nano was forced to leave its plant in West Bengal due to political pressure (Singh & Srivastava 2012). If Vera wants to invest in India, it is important that the firm has a good understanding of Indian politics and of government regulations and policies. International trade regulations, taxation policies and entry mode regulations influence FDI in a country (Marmol 2015, pp. 113) because governments may impose new duties or taxes that affect the revenue-generating structures of companies. Additionally, the levy of fiscal policies or trade tariffs can affect business environments significantly. In context to this, if the government develop the policy for the foreign company to pay more taxes then it can restrict the firm like Vera to invest in the targeted market. Therefore, it is important to understand the political situation in a foreign country to ensure positive support from foreign governments.

3.2Economic: Since the introduction of industrial reform policies in 1991, the economy situation in India has been stable. The nation has been remarkably successful in various sectors, such as manufacturing, retail and agriculture (Elearn 2008, p. 247). Foreign investment has been significantly encouraged, and new companies continuously start up in the Indian market. Factors such as the inflation rate, foreign exchange rate and feasible interest rates and economic growth patterns would attract foreign investors. The average inflation rate in the country was 5.88% in 2015, which was down from 8.87% in 2011(Media 2016). This indicates that Vera would be able to attract customers for their clothing range, and the company would be able to borrow money from financial institutions for setting its distribution centres across retail market. Furthermore, the Gross Domestic Product (GDP) of India improved to 5% in 2015 from 4.35% in 2013, which indicates the country's economic growth (ENS Economic Bureau 2015).

3.3 Social: India is comprised of various social trends and changes influenced by traditions, languages, values, lifestyle, beliefs and customs. The per capita income of India rose by 7.4% between 2015 and 2016 (Profit.ndtv 2016), which shows that the people are able to save and spend more money. This should enable Vera to sell their clothing range of different brands at a significant rate. Additionally, buying trends can affect retail businesses; among Indian youth, the most wearable clothing follow western trends. This presents an opportunity for Vera to target youth to increase sales, although most Indians are price sensitive, which would require the company to fix the price of its apparel to a reasonable or competitive level to reap the benefits of doing business in India (Cole et al. 2013).

3.4 Technology: Significant technology and internet improvements in India have increased the support available to organisations and have allowed businesses to bring their products and services to the attention of customers (Guruswamy et al. 2005, p. 620). The importation and implementation of advanced technology has helped both international and domestic companies reduce operational, manufacturing and production costs, improve product quality and develop technological innovations. However, technology development in India is still in an early phase because importing technology from elsewhere increases operational costs. Additionally, internet use is increasing and many people use such services for online shopping (Ponduri & Sailaja

2014, p. 35). Thus, Vera would be able to attract customers to its website or by developing a mobile app for purchasing products.

3.5 Legal: This factor includes both internal and external considerations. Certain laws may affect business environments in India and specific policies may be required from organisations. Legal factors, such as health and safety regulations, competitive and employment regulations, antitrust laws and patent infringements, can affect business processes if these are not followed. Verawould have to acknowledge the Safety, Health and Welfare Act (1986) and the Employment and Labour Law (2016) to invest in the Indian retail market and start operations (Iclg 2016). The company could face legal consequences if it fails to abide by these laws; therefore, the organisation must ensure that it follows all foreign rules and regulations.

3.6 International: Exchange rate changes or instability in other parts of the world can influence business operations (Shira & Devonshire-Ellis 2012, p. 143). If the exchange rate in the UK falls below that for the Indian rupee, it would be difficult for Vera to control operational costs in India. Similarly, if the international market is unstable, trade or invest in foreign countries costs more. Therefore, it is essential for Vera to have a better understanding of the international market and the ability to forecast market situations.

3.7Environmental: Both governments and consumers penalise organisations for having adverse effects on the environment. Consequences include large fines levied by governments upon companies for creating pollution or discharging harmful gases into the environment. It is important for firms to consider laws relating to waste disposal, environmental protection and energy consumption. Vera would have to follow the Environment Act (1986), Water Act (1974) and Air Act (1981) to ensure a successful FDI in the country (Cpcb 2016).

3.8 Demographic: Understanding the general characteristics of the population, such as means of transportation, purchasing power, education level and family status. These are important for the firm to understand when assessing a foreign investment. Vera can analyse these characteristics to verify if fashion and homeware retail is viable in India and to determine retail costs that would attract customers. The analysis would also help the company develop a marketing plan and advertising message that would appeal to the target markets in India.

3.9 Summary Findings

Based on the PESTLIED analysis, the Indian market is a potential FDI opportunity for Vera. The company could develop a customer base, allowing generation of revenue and future business growth. Government intervention could influence the business environment; therefore, Vera would be required to operate according to regulations and acts set by the government, but the company would receive the necessary support to sustain itself in the Indian retail market. India does have strict regulations for protecting the environment, and Vera would have conduct business operations in the full interest of protecting the environment. Legal obligations for conducting business in India would be helpful as the company would be able to gain legal support from the government that would aid in long-term sustainability of business. Therefore, the Indian market could provide positive returns to a company making a direct investment in its retail market.

4. Industry Analysis

Porter's five forces are useful for conducting an industry analysis to determine the level of competition within an industry. It is useful for Vera to understand the market and industry situation which can help in taking business or investment decisions. Therefore, for conducting industry analysis, Vera would require to analyse bargaining power of customers and suppliers, availability of substitute products, threat from new entrants and rivalry level from competitors.

4.1 Buyer power: This refers to the impact that consumers have on an industry. Vera provides fashion and homeware, but there are companies in India that offer similar products, indicating that there are many buyers of these products. Therefore, customers do not have significant bargaining power and may less likely try other brands for meeting their specific needs at the cost of their budget (Mann & Byun 2011, p. 196). This in turn can provide a competitive advantage, making it important for Vera to set prices that are attractive to the targeted customers in India.

4.2 Bargaining power of suppliers: There are many fashion and homeware suppliers in India and other countries. It would be advantageous for Vera to bargain with suppliers for branded apparel that is in high demand from customers. The company's products are standardised which also contributes to lower costs. If there is a price increase or decline in quality, the company could easily switch to another supplier to meet its requirements.

4.3 Threat of substitute: In the Indian clothing retail market, there are fewer or no substitutes for casual and formal wear that could force customers towards other types of clothing if they are not satisfied with the clothing range offered by Vera. Therefore, it would be an advantage for the company to strongly introduce its clothing range in this market because fewer substitutes allows for more effective targeting of consumers (Akhter & Equbal 2012, p. 284).

4.4 Threat of new entrants: Entry into the Indian market requires that a company follow various laws and regulations that restrict the clothing retail sector. Producing and supplying branded cloths is a costly matter that may be difficult for small or new firms who must produce their own clothing range, as is the case with Vera. Therefore, the company would be able to secure its position in the retail market as the company would be able to create its market of branded clothes strongly.

4.5 Competitive rivalry: This determines how intense the competition currently is in a marketplace using analyses of existing rivals' performance. The competitive rivalry in the clothing retail sector in India is high, which could be a problem for Vera as the company creates a market share (Mann & Byun 2011, p. 197). Competitors, such as Levis and Tommy Hilfiger, could pose a threat because these companies already have stores in different regions (Mann & Byun 2011, p. 200). Therefore, the Vera would be required to increase its investment in advertising to attract customers.

5. SWOT Analysis

Analysing strengths, weaknesses, opportunities and threats would be effective for Vera to identify the internal and external factors that could affect the future performance of the company in India. ASWOT analysis of the clothing retail industry in India would help the firm decide whether FDI is a viable option.

5.1 Strengths: One of the key strengths of the Indian clothing retail industry is that it provides designers with different avenues of distribution, such as ready-to-wear, couture and off-the-rack lines. This enables designers to reach a large customer base and the brand to make more revenue thereby Vera would be able to develop its own branded clothing line. India is rich in many of the raw materials that support the fashion and apparel industry and does not depend on importing materials (Babu 2012, p. 58). Therefore, Vera could use the available raw materials to produce and sell cloths. Additionally, the domestic market in India is extremely sensitive to fashion trends, resulting in the development of a responsible fashion and apparel industry (Cole et al. 2013). Indian clothing retail involves cheap labour and strong entrepreneurial skills; therefore, Vera would be able to employ and build relation with employees in their stores at a low cost.

5.2 Weaknesses: The effects of historical government policies on the clothing retail industry have led to a deficiency in viable exit options for industry players. These regulations have resulted in complex industry structures that create obstacles from the new investors, which may be a problem as Vera establishes operations on a wider scale. The clothing retail industry lacks modernisation, which requires the introduction of new technology. Another weakness is that a large portion of the processing capacity for the industry is obsolete due to use of old processing technology, which results in low value additions (Baskaran 2012, p. 181). The solution requires substantial technological investments to upgrade production quality. Thus, Vera would have to invest more in technology to improve operational and supply chain processes. Furthermore, lower costs lead to competitiveness in the clothing industry, which has become an obstacle for global players because the labour force in India has much lower productivity in comparison to competing nations, such as China. Vera would have to maintain a labour force to increase the productivity of the company.

5.3 Opportunities: Investment in information technology and supply chain management could significantly improve production in the clothing retail industry because it would enable organisations to easily produce and stock in-demand products in a timely manner. The availability of an electronic data interchange (EDI) allows for easy, fast and transparent communication with countering the duplication of brand of the company.

Disposable income in India is on the rise, which is a potential opportunity for clothing companies to attract new customers (Babu 2012, p. 61). Technological advancements in machinery provide an opportunity to make distribution or production processes faster and to increase the scale of clothing production. India could raise its unit value realisation (UVR) by increasing the value chain and increasing the production of value-added and technologically superior products. This would help Vera increase production in India and reach out to a range of customers.

5.4 Threats: Fluctuations in the value of the rupee pose a significant threat to the clothing industry and to Vera. If the gap in the exchange value increases further, it would become difficult for Vera to generate its expected revenue. The key international exporters like Texport Overseas, Ariatex, etc. of apparel to Indian are top competitors for the company and may make it difficult for Vera to capture a market share. Furthermore, local clothing manufacturing companies are potential threats because they offer low cost clothing, which captures the low-income earner segment of the consumer population. Political unrest, trade embargoes on raw materials and economic decline could lead to restricted or limited customer spending, which is also a threat to brand exposure and distribution (Rajput, Kesharwani & Khanna 2012, p. 53).

6. Appropriate modes of entry

To enter the Indian clothing retail market, Vera could undertake a joint venture, which is a business entity established by two or more parties that pool resources to accomplish a particular task. A joint venture is a strategic alliance between organisations to gain individual benefits (Trost 2011, p. 38). The organisations would share both profit and expenses to an agreed ratio. Thus, Vera could create an agreement with any existing Indian clothing retail firm, which would allow the company to excess the market on a wider scale (Shishido, Fukuda & Umetani 2015, p. 63). Through a joint venture, Vera and the partner company would save money and decrease risks by sharing resources and capital. There are many instances in which companies have considered joint ventures when entering international markets; for example, the joint venture between Balmer Lawrie & Co. Ltd. and Avi-Oil India Pvt. Ltd., etc. (Nagrale 2014).

A joint venture could provide the opportunity for Vera to develop, manufacture and market new fashion and clothing ranges according to Indian consumer demand. Such a venture would support company growth and provide a faster distribution channel. The firm would be able to access the market and reach customers on a larger scale by accessing potential distribution networks. A joint venture would also enable growth without Veraneeding outside investors or borrowed funds. The company could use the customer database of a joint venture partner to market its products, and both companies would share costs due to equal contributions of initial capital, which would alleviate some financial burden. By sharing upfront expenses and costs linked to the project, both companies would also be entitled to share the profits and returns.

Critical intellectual property, technology and other resources are usually too complicated to construct in-house; therefore, Vera entering the Indian market through a joint venture would allow access to the partnering company's resources and assets. This collaboration would drive market penetration and help Vera compete with similar businesses. The distribution channel or network and the suppliers of the partnering firm would also be available to Vera, allowing them to meet consumer demand for fashion and homeware in a timely manner. All of these benefits would ensure growth of the company and position itself strongly among the intended customers and market (Raff, Ryan & Stähler 2009 p. 5). However, the firm is required to understand the risks associated with joint ventures, such as different culture and management styles and imbalances in expertise, assets or investment (Froot 2008).

7. Risk management considerations

It is important for Vera to assess the risks of FDI in the Indian retail market. If the firm fails due to these potential risks, it may affect both short- and long-term goals or force the company to stop current and future plans.

7.1 Possible risk factors

Compliance Risk: This risk is associated with the requirement to comply with regulations and laws. A firm must act in the manner expected by customers and investors by ensuring appropriate corporate governance. Vera must consider health and safety and employment legislation and product distribution laws to avoid government intervention. If the company does not comply with industry laws and regulations, it could be exposed to legal penalties, material loss and financial forfeiture (Lu, Sadiq&Governatori 2008, p. 347). The firm could be asked to make payments for damages or other penalties, which may lead to the loss of business opportunities and reputation.

Financial Risk: This is the risk faced by a company when investing in a market or beginning business operations. When a firm cannot meet financial obligations, it becomes difficult for the organisation to finance business activities, such as production, distribution and marketing. A poor credit rating could also make it difficult to obtain financial assistance from financial institutions or other sources (Gertler & Kiyotaki 2010, p. 571). Financial risk is the ability of a firm, such as Vera, to generate sufficient cash flow to meet debt-related obligations or make interest payments.

Operational Risk: This risk is associated with the administrative and operational procedures of a business and includes recruitment, supply chains, IT systems and regulations. Operational risk could affect Verain the form of lower production, higher overall costs and wasted resources. Because of operational risk, a company may find it difficult to establish an adequate distribution network (Tang & Musa 2011, p. 28), which could increase businesses costs and affect product pricing affecting revenue generation.

Supply and Demand Risk: The gap between demand and supply of products in a market is a risk factor. If Vera fails to take into account the demand of Indian customers for preferred fashion and homeware, the company might not supply quantity of product required by the market. This could lead to the loss of profit, customers, suppliers and potential investors.

Team Risk: This risk affects the overall operations of a company from production to distribution of a product to the final consumers. Conflict between management and staff because of changesto policies or the nature of the work nature could affect productivity and future growth plans.

7.2 Strategies to overcome risk factors

Compliance Risk: To manage compliance risk, a company should prioritise activities to identify areas of high risk, and regulations should be applied to organisational policies and business processes. Company management is required to comply with laws and regulations, which have a significant impact on business process but ensure that no penalties are imposed for non-compliance issues.

Financial Risk: Vera would have to analyse its financial strengths before investing in the Indian retail market. It is also important to identify key business schedules and milestones to develop a timeline for financial needs. This helps a company understand finance requirements before committing to an investment. Moreover, external factors must be taken in account, such as foreign exchange rates and interest rates to properly calculate the expected financial requirements.

Operational Risk: Organisational policy must be strengthened to align the efforts of employees with business growth in an international market. Company operations must be supervised to determine whether the developed distribution network is being followed by the employees. Moreover, operational roles and responsibilities must be made clear to respective employees to ensure that the needs of Indian customers are met.

Supply and Demand Risk: It is essential for the company to regularly research the Indian retail market andanalyse increases and decreases in customer demand to ensure correct product quantities in the market and eliminate gaps between supply and demand. It is also important to understand the buying behaviour of Indian consumers to provide the best arrangement of fashion and homeware products to customers.

Team Risk: It is crucial for the firm to understand the working culture in India to gain positive support while establishing a strong distribution channel. The company must provide training to Indian employees to gain the expected advantages from the retail market. Training would enhance the skills and knowledge of the workforce which would help in arranging products and providing quality service to the customers.

8. Opportunities created through FDI in the Indian retail sector

FDI in the Indian retail sector, particularly fashion, would provide wide access to the market and customers. The Indian fashion and clothing retail market has witnessed a number of fascinating changes in recent years as the market has allowed foreign investment, which has contributed significantly to growth and the GDP of the country (Chari & Madhav Raghavan 2012, p. 83). Indian fashion consumers are evolving and quickly becoming familiarised with international fashion trends. Vera has the opportunity to target these customers for its range of fashion and homeware but must first understand buying behaviours and consumer disposable incomes to ensure that investments are made in the productive value chain.

Unemployed Indian youth would be given the opportunity to work for an international company, which would not only help the growth of the company but also the future development of the retail market and economy. The company would provide branded cloths at reasonable prices tha tare easily afforded by the average income earners in India.

Vera is primarily focussed on its distribution channel from a value chain perspective; therefore, making investments in the distribution network would ensure positive changes and improvements. This would motivate other firms in the retail market to strengthen distribution platforms so that products reach customers on time (Mann & Byun 2011, p. 207). Establishing a strong distribution network provides the opportunity for Indian suppliers to learn a systematic approach to distributing products, which helps manage distribution costs and wasted resources. Certified suppliers in the retail market would give precedence because of their understanding of the market. Overall, this would make the Indian retail market stronger, modernised and in agreement with international standards.

FDI would significantly improve the efficiency of the supply chain because of the introduction of modern technology, which would allow for higher production capacity. Currently, improper storage facilities and lack of investment in logistics in the Indian retail market have created inefficiencies in the fashion and clothing supply chain resulting in significant wastage. Therefore, investing in this particular sector would enhance the supply chain and support quality production and distribution within the Indian market. By investing in India, Vera would contribute to the foreign reserve, which helps market and economic growth. Investment would also create an opportunity to improve technology and logistics because Vera would enhance processing, handling and packaging of fashion and clothing items to provide value to consumers for their expenditures. Transport facilities would also benefit becausemore product deliveries would be required, increasing demand (Chackochen & Ramalingam 2012, p. 26). FDI in the retail sector would create capital infusion, which provides a chance for cash-deficient domestic retailers to fill gaps between capital bought and the capital required for projects. Therefore, investment would increase the growth rate and support research and development and back-end infrastructure of the company, bringing benefits to both the Indian retail sector and economy.

9. Challenges

Challenges Vera could face include investment obstacles in the Indian retail market, such as legal challenges. The nature of corporate tax could affect the company’s decision to operate in India, where foreign companies must pay a 41–42% corporate tax on income generated (Kalhan & Franz 2009, p. 57). The company would have to ensure that operations in India have high enough revenue to pay corporate taxes and still allow the company to save money. Another issue is Indian trade policies, such as monetary, fiscal, property rights, regulatory and government policies, that influence direct investment in the Indian retail market because strict trade policies affect free trade in the fashion and clothing retail industry and can make investment in the market risky (Topalova & Khandelwal 2011, p. 997). To overcome this challenge, the firm must understand and study different trade policies to capture the advantages of this market.

The cost of business operations also poses a challenge. If Vera lacks financial assistance or faces loss in its UK-based business, it could be difficult to invest in the Indian market. Cost is major obstacle to establishing a distribution network or centre; therefore, the company may not be able to set up a distribution channel as planned. It is important for the firm to analyse its financial capacity before making a direct investment in the preferred market to meet the set business goal.

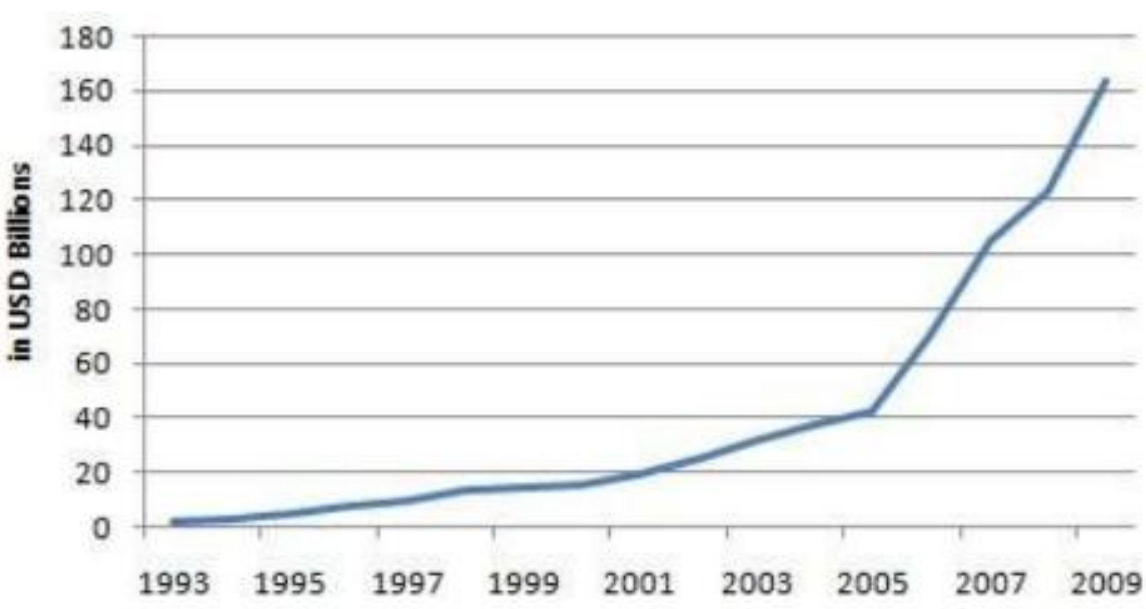
India is not a highly advanced technological nation, and many large business organisations depend on advanced technology to improve the scale of business or run business activities. This in turn can increase costs which have an impact on overall productivity and income (Handa & Grover 2012, p. 248).Vera might rely on importing technology that could leverage the flow of the distribution network to ensure that the targeted customers receive the company's products. As a result, costs would increase, which is a factor that would likely affect their decision to directly investment. Therefore, it is crucial for the firm to understand research and development progress in India to ensure that essential support could be gained to cover the cost and establishing a distribution centre.

Vera also requires a potential supplier base to ensure that products are distributed to the targeted market as expected. It could be difficult to source potential suppliers with knowledge of the retail market and its performance and behaviour. Thus, the company would need to invest more in finding and training suppliers to generate the expected value. This entire process is very costly for a company planning an investment, but it is important to research suppliers that have knowledge about the fashion and clothing retail industry and that have strong positions among customers.

10. Assessment of FDI inflow in the Indian retail sector

Since approval by the Indian government, there have been significant contributions made by foreign companies in different sectors of India, including the retail industry. This has supported economic growth and environmental improvements. In 2006, the Indian government relaxed FDI controls for retail, allowing international retailers into the Indian market. This resulted in foreign direct investment of 51% in multi-brand retail stores, 100% FDI in single-brand retailers and FDI up to 100% for cash-and-carry export trading and wholesale trading in the automatic route, which attracted companies to invest in the retail sector. Between 2000 and 2010, Indian retail attracted $1.8 billion in FDI, and 94 proposals were accepted under single-brand retailing between 2006 and 2010 (Cseindiaportal 2012). FDI has increased each year, which has contributed to the GDP and made the Indian retail sector a potential market on the global forum.

Figure 1. FDI in Indian retail



Source: Shaha and Shinde, 2013

FDI in the Indian retail sector generated $470 billion in 2011, of which $27 billion was from organised retail, such as shops in malls, supermarkets and chain stores with centralised operations. It is forecasted that this market will double in economic value and increase to $400 billion by 2020 (Ibef 2016). According to a report by the Department of Industrial Policies and Promotion (DIPP), Indian retail has gained FDI equity inflows of US$537.61 million from 2000 to 2016. Companies such as Aditya Birla Fashion and Retail Limited have acquired exclusive online and offline rights to Forever 21 in the Indian market. The premium Spanish fashion brand, Massimo Dutti, provides sophisticated mens- and womenswear, accessories and footwear from their first store in an Indian mall. More examples of firms that have invested include Neil Barrett, Kate Spade and FashionAndYou (Ibef 2016).

FDI equity inflow in retail trading reached US$96.96 million between April 2000 and June 2013. Continuous FDI inflow in the retail industry from foreign organisations that wish to take advantage of economical labour and cheap resources has helped to grow the Indian market and attract a potential workforce. This has curbed the unemployment level to some extent (Venkatesh 2013). Additionally research and development, technology and industry standards have all improved due toFDI, contributing to India’s economic development.

Conclusion

FDI in a nation brings many advantages to companies but also many risks to both local markets and firms. The decision to undertake a FDI depends on various political, economic and social factors related to the target country and market. It is not easy for international companies to investment in foreign country with the goal of expanding business or establishing new plants. It is important for firms to understand local markets and consumer behaviour and to take into account both the negative and positive elements of the market before making a FDI.

FDI are usually provided by large, multinational firms because such firms are equipped with advanced technology, resources and better networks. These factors allow companies to receive foreign government support when establishing a presence in foreign markets. However, firms must abide by foreign policies to successfully operate businesses, and firms are required to present business proposals to targeted nation governments and receive approval before business can be conducted in a foreign country.

The UK-based clothing and houseware retailer, Vera, is interested in an FDI in the Indian retail market to establish a distribution network for products marketed towards Indian consumers. The Indian clothing retail market has grown significantly, providing consumers with a range of fashions, from western to traditional wear. The market for fashionable, western cloths provides an opportunity for Verato consider the Indian retail market as a potential investment.

The analysis of the Indian retail market revealed that Vera would have more power than the consumers because of the numbers of consumers interested in fashion and homeware. The company would have an advantage in suppliers as well; however, the firm could face significant competition from similar companies, which can be overcome by establishing a strong distribution channel. The cost of such a distribution network in India is cost prohibitive, although entering the market through a joint venture would be effective for the organisation save costs and engage with existing suppliers to support future growth in the Indian market. Based on these conclusions, it is recommended that a FDI in the Indian retail market would be advantageous for Vera.

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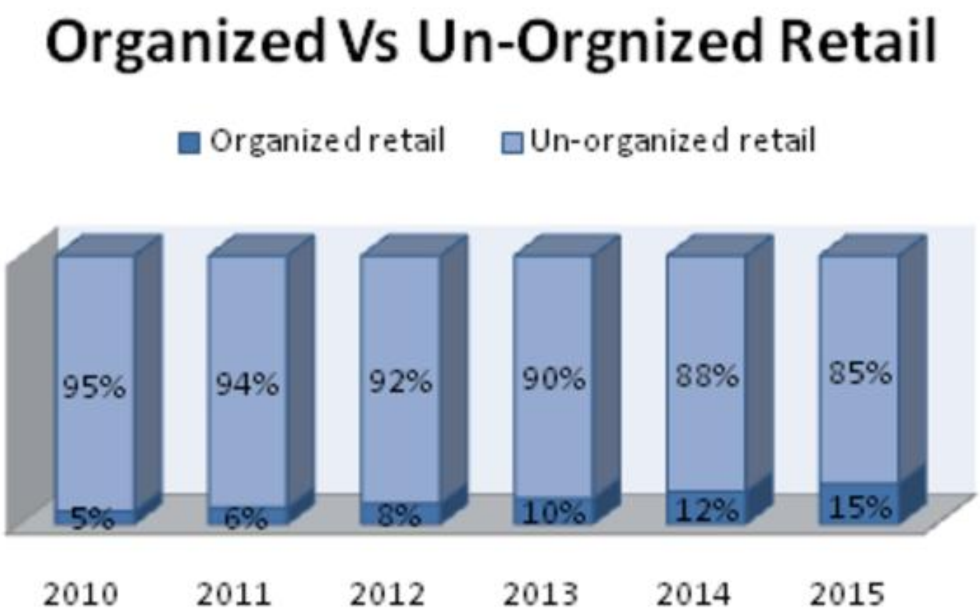
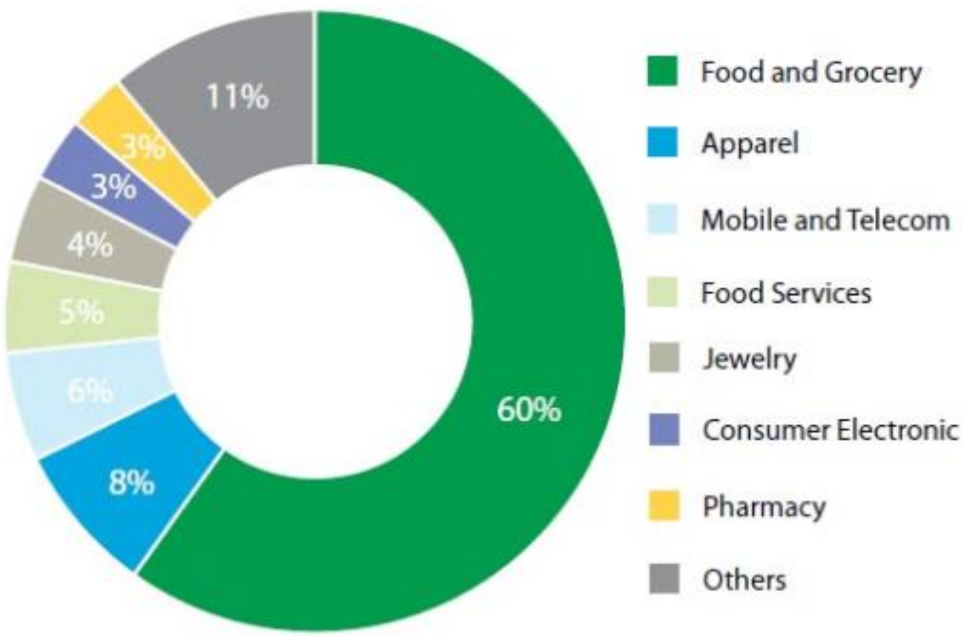
Appendices

Appendix 1: Comparison between organised and unorganised retail market in India



Appendix 2: Total Retail Market of India



Appendix 3: FDI in Retail India

Categories	2006	2011	2016	2011-16 CAGR
Food & Grocery	217	325	425	5.50%
Appraisal	25	35	50.2	7.50%
Jewelry	16.5	25.2	44.2	11.50%
Electronics	16.5	22.7	42.8	13.50%
Pharmacy	8	13.9	23.4	11.00%
Furniture	6.5	9.1	17.1	13.50%
Foot ware	3.6	4.6	8.3	13.00%
Beauty service	0.6	1.3	3	18.00%
Health	0.4	1	2.5	20.00%
Restaurant	4.6	8.8	15.8	12.50%
others	11	23	42.5	13.10%
Total(bn$)	310	470	675	7.50%