

RETAIL INDUSTRY IN INDIA (A STUDY ON GROWTH DEVELOPMENT OPPORTUNITIES AND CHALLENGES)

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Abstract: Accounting for around 14-15 per cent of the gross domestic product (GDP), the Indian retail industry is estimated to be worth around US\$ 500 billion currently. Home to one of the top five retail markets in the world, India offers immense scope of growth and opportunities in this arena. As of now, almost 90 per cent of the Indian retail sector is controlled by tiny family-run shops i.e. the unorganized segment. Thus, organized retailers have a lot of room for further penetration in this flourishing economy. Furthermore, India allowed overseas investment in its supermarket sector in September 2012. Since then, the retail landscape is witnessing a flurry of foreign investments. Some of the facts, recent statistics and developments related to the same are discussed hereafter. India is being seen as a potential goldmine for retail investors from over the world and latest research has rated India as the top destination for retailers for an attractive emerging retail market. India's vast middle class and its almost untapped

retail industry are key attractions for global retail giants wanting to enter newer markets. Even though India has well over 5 million retail outlets, the country sorely lacks anything that can resemble a retailing industry in the modern sense of the term. This paper an efforts to presents the future prospectus, opportunities, and challenges of organized retail sector.

An Overview of Retail in India - Before the decade of eighties, India with hundreds of towns and cities was a nation striving for development. The evolution was being witnessed at various levels and the people of India were learning to play different roles as businessmen and consumers. Retail-which literally means to put on the market, is a very important aspect of every city. Without a well organized retail industry we would not have our necessities and luxuries fulfilled. Be it our daily groceries or fashion accessories and everything in between, retail industry brings us the blissful experience of shopping. Though organized retailing industry began much earlier in the developed nations, India had not actively participated. However with its vast expanse and young population, India in the 21st century emerges as a highly potential retail market. The journey of retailing in India has been riveting and the future promises further growth. Here is a complete picture deciphering the past, present and future trends of Indian Retail Market.

Retail in India in past: Before the decade of eighties, India with hundreds of towns and cities was a nation striving for development. The evolution was being witnessed at various levels and the people of the nation were learning to play different roles as businessmen and consumers. The foundation for a strong economy were being laid, youth were beckoning new awareness in all spheres. And this brought in an opportunity for retail industry to flourish. First in the metros and major cities later to impact sub urban and rural market as well. Retailing in India at this stage was completely unorganized and it thrived as separate entities operated by small and medium entrepreneurs in their own territories. There was lack of international exposure and only a few Indian companies explored the retail platform on a larger scale. From overseas only companies like Levi's,

Pepe, Marks and Spencer etc. had entered targeting upper middle and rich classes of Indians. However as more than 50 % population was formed by lower and lower middle class people, the market was not completely captured. This was later realized by brands like Big Bazaar and Pantaloons who made their products and services accessible to all classes of people and today the success of these brands proves the potential of Indian retail market. A great shift that ushered in the Indian Retail Revolution was the eruption of Malls across all regional markets. Now at its peak, the mall culture actually brought in the organized format for Retailing in India which was absent earlier. Though malls were also initially planned for the higher strata, they successfully adapted to cater to the larger population of India. And it no wonder, today Malls are changing the way common Indians have their shopping experience. However there is still great scope for enhancing Indian mall culture as other than ambience and branding many other aspects of Retail Service remains to be developed on international standards. To your surprise there was not a single mall in India a decade before and just a few years ago only a handful of them were striving, today there are more than 50 malls across different cities and 2 years from now around 500 malls are predicted to come up. Indeed this shows a very promising trend ahead, however before taking a leap into the future of Retail in India, let's see what the Indian retail Industry is currently occupied with.

Present status: At present the Retail industry in India is accelerating. Though India is still not at an equal pace with other Asian counterparts, Indian is geared to become a major player in the Retail Market. The fact that most of the developed nations are saturated and the developing ones still not prepared, India secures a great position in the international market. Also with a highly diverse demography, India provides immense scope for companies brining in different products targeting different consumers. According to the Global Retail Development Index, India is positioned as the foremost destination for Retail investment and business development. The factor that is presently playing a significant role here is the fact that a large section of Indian population is in the age group of 20-34 with a considerably high purchasing power; this has caused the increase in the demand in the urban market resulting in consistent growth in the Retail

business. And though the metros and other tier 1 cities continue to sustain Retail growth, the buzz has now shifted from these great cities to lesser known ones. As the spending power is no longer limited to metros, every tier 2 city in the country has good market for almost every product or service. Due to this, tier 2 cities like Chandigarh, Coimbatore, Pune, Kolkatta, Ahmedabad, Baroda, Hyderabad, Cochin, Nagpur, Indore, Trivandrum etc. provide a good platform for a brand to enter Indian market. However there are a few precautions for every brand that explores Indian market. As Indian consumers are very curious and have a broad perspective, they respond well to a new product or concept and there are very fair chances of a brand surviving well, but every Indian consumer be it an urbanite or a small town dweller needs a feeling of value for money. Although labeled as tight fisted, Indian consumers are great spenders once they realize that they are getting value for their money. Also new product /service concepts from the western world are better adopted first by the urban Indians, the smaller markets respond well to the need based retailing rather than luxury concepts.

Factors that leads the importance of the Indian Retail sector sare as follows:

- The income of an average Indian is increasing and thus there is a proportional increase in the purchasing power.
- The infrastructure is improving greatly in all regions is benefiting the market.
- Indian economy and its policies are also becoming more and more liberal making way for a wide range of companies to enter Indian market.
- Indian population has learnt to become a good consumer and all national and international brands are benefiting with this new awareness.
- Another great factor is the internet revolution, which is allowing foreign brands to understand Indian consumers and influence them before entering the market. Due to the reach of media in the remotest of the markets, consumers are now aware of the global products and it helps brands to build themselves faster in a new region

However despite these factors contributing to the growth of Indian retail Industry, there

are a few challenges that the industry faces which need to be dealt with in order to realize the complete scope of growth in Indian market. Foreign direct investment is not allowed in retail sector, which can be a concern for many brands. But Franchise agreements circumvent this problem. Along with this regulations and local laws and real estate purchase restrictions bring up challenges. Other than this lack of integrated supply chain and management and lack of trained workforce and flux of the market in terms of price and product choice also need to be eliminated. Despite these challenges many international brands are thriving in the Indian market by finding solutions around these challenges. A company that plans to enter Indian market at this time can definitely look forward to great business if it analyzes and puts efforts on all parameters. And with Good Planning, Timely Implementation and a media campaign that touches Indian consumers any brand can go far ahead in the Indian Retail Revolution.

RECENT TRENDS

- Retailing in India is witnessing a huge revamping exercise as can be seen in the graph
- India is rated the fifth most attractive emerging retail market: a potential goldmine.
- Estimated to be US\$ 200 billion, of which organized retailing (i.e. modern trade) makes up 3 percent or US\$ 6.4 billion
- As per a report by KPMG the annual growth of department stores is estimated at 24%
- Ranked second in a Global Retail Development Index of 30 developing countries drawn up by AT Kearney.
- Multiple drivers leading to a consumption boom:
 - Favorable demographics
 - Growth in income
 - Increasing population of women
 - Raising aspirations: Value added goods sales

Large stores ranging from 20000-50000 sq. ft, catering to a variety of consumer needs. Further classified into localized departments such as clothing, toys, home, groceries, etc. Departmental Stores are expected to take over the apparel business from exclusive brand showrooms. Among these, the biggest success is K Raheja's Shoppers Stop, which started in Mumbai and now has more than seven large stores (over 30,000 sq. ft) across India and even has its own in store brand for clothes called Stop.

Hyper marts/Supermarkets:

Large self-service outlets, catering to varied shopper needs are termed as Supermarkets. These are located in or near residential high streets. These stores today contribute to 30% of all food & grocery organized retail sales. Super Markets can further be classified in to mini supermarkets typically 1,000 sq ft to 2,000 sq ft and large supermarkets ranging from of 3,500 sq ft to 5,000 sq ft. having a strong focus on food & grocery and personal sales.

Convenience Stores:

These are relatively small stores 400-2,000 sq. feet located near residential areas. They stock a limited range of high-turnover convenience products and are usually open for extended periods during the day, seven days a week. Prices are slightly higher due to the convenience premium

MBO:

Multi Brand outlets, also known as Category Killers, offer several brands across a single product category. These usually do well in busy market places and Metros

Market Size

- The Indian retail industry has expanded by 10.6 per cent between 2010 and 2012 and is expected to increase to US\$ 750-850 billion by 2015, according to a report by Deloitte. Food and Grocery is the largest category within the retail sector with 60 per cent share followed by Apparel and Mobile segment.
- The foreign direct investment (FDI) inflows in single-brand retail trading during April 2000 to June 2013 stood at US\$ 96.96 million, as per the data released by Department of Industrial Policy and Promotion (DIPP).

Online Retail

Indian consumers are demonstrating an increasing interest in online shopping, thanks to the surging number of online users. The growing online retail market has become a very lucrative business for international majors as well. For instance, internet giant Amazon, which was dedicated to the biggest markets until now, has commenced an India-centric website in June 2013. India has surpassed Japan to become the world's third largest Internet user after China and the United States with almost 74 million Internet users, stated global digital measurement and analytics firm comScore. In addition to that, online retail web sites have witnessed a 65 per cent rise in the traffic from the previous year, according to a survey by the Associated Chambers of Commerce and Industry of India (Assocham). The survey indicated that the market for online shopping in India, estimated to be around Rs 52, 000 crore (US\$ 8.19 billion), is expanding at a very fast pace. The trend is not only catching up in metros, but in smaller towns and cities as well.

CHALLENGES & OPPORTUNITIES:

International Standards: Even though India has well over 5 million retail outlets of different sizes and styles, it still has a long way to go before it can truly have a retail industry at par with International standards. This is where Indian companies and International brands have a huge role to play.

Inefficient supply chain management: Indian retailing is still dominated by the unorganized sector and there is still a lack of efficient supply chain management. India must concentrate on improving the supply chain management, which in turn would bring down inventory cost, which can then be passed on to the consumer in the form of low pricing. **Lack of Retail space:** Most of the retail outlets in India have outlets that are less than 500 square feet in area. This is very small by International Standards.

Cultural Diversity: India's huge size and socio economic and cultural diversity means there is no established model or consumption pattern throughout the country. Manufacturers and retailers will have to devise strategies for different sectors and segments which by itself would be challenging.

Real estate issues: The enormous growth of the retail industry has created a huge demand for real estate. Property developers are creating retail real estate at an aggressive pace.

Human resource problems: Trained manpower shortage is a challenge facing the organized retail sector in India. The Indian retailers have difficulty in finding trained person and also have to pay more in order to retain them. This again brings down the Indian retailers profit levels.

Frauds in Retail: It is one of the primary challenges the companies would have to face. Frauds, including vendor frauds, thefts, shoplifting and inaccuracy in supervision and administration are the challenges that are difficult to handle. This is so even after the use of security techniques, such as CCTVs and POS systems. As the size of the sector would increase, this would increase the number of thefts, frauds and discrepancies in the system.

Challenges with Infrastructure and Logistics: The lack of proper infrastructure and distribution channels in the country results in inefficient processes. This is a major hindrance for retailers as a non-efficient distribution channel is very difficult to handle and

can result in huge losses.

Infrastructure does not have a strong base in India. Urbanization and globalization are compelling companies to develop infrastructure facilities. Transportation, including railway systems, has to be more efficient. Highways have to meet global standards. Airport capacities and power supply have to be enhanced. Warehouse facilities and timely distribution are other areas of challenge. To fully utilize India's potential in retail sector, these major obstacles have to be removed.

Future Prospects of Organized Retail Sector in India:

India has been ranked as the third most attractive nation for retail investment among 30 emerging markets by the US-based global management consulting firm. AT Kearney's study on Global Retailing Trends Found that India is the least competitive as well as least saturated of all major Global markets. This implies that there are significantly low entry barriers for players trying to setup base in India, in terms of competitive landscape. The report further stated that Global Retailer such as Wal-Mart, Carrefour, Tesco and Casino would take advantage of more favorable FDI rules that are likely to be introduced in India. A good talent pool, unlimited opportunities, huge markets and availability of quality raw material at cheaper cost is expected to make India overtake the world best retail economies by 2042. The sector is expected to see an investment of over \$30billion within next 5 years and putting modern retail in the country to \$175-200 billion, according to Technopark estimates. International retailers see India as the last retailing frontier left as the China's retail sector is coming as saturated. Domestic players are selectively growing in India-postponing aggressive expansion plans, adding stores judiciously and shifting gears to tier 2 and 3 cities. While India is a difficult market to enter, the potential payoff is huge. India's population of nearly 1.2 billion – forecast eventually to overtake China's –also is an attractive target. Carrefour, the world's second-largest retailer, has opened its first cash-and-carry store in India in New Delhi. Germany-based wholesale company Metro Cash & Carry (MCC) opened its second wholesale centre at Uppal in Hyderabad, taking to its number to six in the country. Jewellery retail store chain

Tanishq plans to open 15 new retail stores in various parts of the country in the 2011-12 fiscal. V Mart Retail Ltd, a medium-sized hypermarket format retail chain, is set to open 40 outlets over the next three years, starting with 13 stores in 2011, in Tier-II and Tier-III cities. Reliance Retail, the wholly owned subsidiary of Mukesh Ambani's Reliance Industries, is set to open 150 stores by the end of Dec. 2011 and double the number of stores across the country in all formats within five years. Future Value Retail, a Future Group venture, will take its hypermarket chain Big Bazaar to smaller cities of Andhra Pradesh, with an investment of around US\$ 1.54 million to US\$ 4.41 million depending on the size and format. RPG-owned Spencer's Retail plans to set up 25 Hyper Markets Through 2012 in the country. Spar Hypermarkets, the global food retailing chain of the Dubai-based Landmark Group, expects to start funding its India expansion beyond 2013 out of its local cash flow in the country. So far, the Landmark Group has invested US\$ 51.31 million in setting up five hypermarkets and plans to pump in another US\$ 51.31 million into the next phase of expansion. Leading watchmaker Titan Industries Limited plans to invest about US\$ 21.83 million for opening 50 premium watch outlets Helios in next five years to attain a sales target of US\$ 87.31 million. British high street retailer, Marks and Spencer (M&S) plans to significantly increase its retail presence in India, targeting 50 stores in the next three years. Spain's Inditex, Europe's largest clothing retailer opened the first store of its flagship Zara brand in India in June 2010. It further plans to open a total of five Zara outlets in India. Bharti Retail, owner of Easy Day store—supermarkets and hyper marts—plans to invest about US\$ 2.5 billion over the next five years to add about 10 million sq ft of retail space in the country by then, according to a company spokesperson. India's retail industry is the second largest sector, after agriculture, which provides employment opportunities. According to Associated Chambers of Commerce and Industry of India (ASSOCHAM), the retail sector will create 50,000 jobs in next few years. Retail companies are starting retail management courses in partnership with management institutes, roping in talent from other sectors and developing comprehensive career growth and loyalty plans for existing employees. Top players like Pantaloon Retail India Limited, Trent, Shopper's Stop, RPG Group and Reliance are virtually on their toes. Consider the plans of largest player, The

Pantaloon Retail India Ltd; the company has developed a comprehensive strategy, where in it expects that in 2 years, it will not recruit any new managers from outside.

Suggestions for retail sector in India:

Many agencies have estimated differently about the size of organized retail market in 2011. The one thing that is common amongst these estimates is that Indian organized retail market will be very big in 2011. The status of the retail industry will depend mostly on external factors like Government regulations and policies and real estate prices, besides the activities of retailers and demands of the customers also show impact on retail industry. As the retail market place changes shape and competition increases, the potential for improving retail productivity and cutting costs is likely to decrease. Therefore it is important for retailers to secure a distinctive position in the market place based on values relationships or experience. Finally, it is important to note that these strategies are not strictly independent of each other; value is function of not just price quality and service but can also be enhanced by personalization and offering a memorable experience.

CONCLUSION

The retail sector has played a phenomenal role throughout the world in increasing productivity of consumer goods and services. It is also the second largest industry in US in terms of numbers of employees and establishments. There is no denying the fact that most of the developed economies are very much relying on their retail sector as a locomotive of growth. The India Retail Industry is the largest among all the industries, accounting for over 10 per cent of the country's GDP and around 8 per cent of the employment. The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. But all of them have not yet tasted success because of the heavy initial investments that are required to break even with other companies and compete with them. The India Retail Industry is gradually

inching its way towards becoming the next boom industry.

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