

Role of Retail sector in India

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Abstract:

The Indian Retail Industry is the fifth largest in the world. Comprising of organized and unorganized sectors, Indian retail industry is one of the fastest growing industries in India, especially over the last few years. Though initially the retail industry in India was mostly unorganized, however with the change of taste and preferences of consumers, the Industry is getting more popular these days and getting organized as well. The Indian Retail Industry is expected to grow from US\$330 billion in 2007 to US\$640 billion by 2015. According to the 10th Annual Global Retail Development Index (GRDI) of A.T. Kearney, India is having a very strong growth fundamental base that's why it's the perfect time to enter into Indian Retail Market. Indian Retail Market accounts for 22% of country's GDP and it contributes to 8% of the total employment. The total retail spending is estimated to double in the next five years. Of this, organized retail – currently growing at a CAGR of 22%- is estimated to be 21% of total expenditure. The unorganized retail sector is expected to grow at about 10% per annum with sales expected to rise from \$309 billion in 2006-07 to \$496 billion in 2011-12. This paper focused on changing face of Retail Industry, organized or unorganized retail industry, major players in retail industry and also highlights the challenges faced by the industry in near future.

Keywords: Retail sector, Retail Industry, unorganized sectors, Development Index

INTRODUCTION

India is the fifth largest retail destination globally. The Indian retail industry has experienced tremendous growth over the last decade with a significant shift towards organized retailing format and development taking place not just in major cities and metros, but also in Tier II and Tier III cities. The overall retail market in India is likely to reach Rs 47 trillion (US\$ 792.84 billion) by FY 17.

As India's retail industry aggressively expands itself, great demand for real estate is being created. Further, with the online medium of retail gaining more and more acceptance, there is a tremendous growth opportunity for retail companies, both domestic and international. Favorable demographics, increasing urbanizations, nuclear families, rising affluence amid consumers, growing preference for branded products and higher aspirations are other factors which will drive retail consumption in India. Both organized and unorganized retail are bound not only to coexist but also achieve rapid and sustained growth in the coming years.

Objectives of paper:

- A. To study the popular retail formats**
- B. To study the emerging retail trends in India**
- C. To study the challenges of Indian retail sector**
- D. To study the future prospects of retail sector in India.**

Research Methodology:

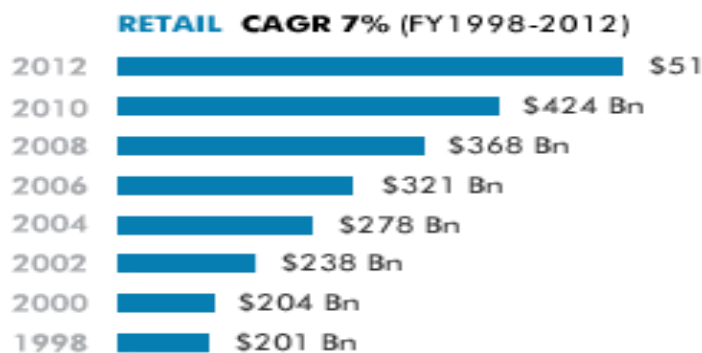
Information has been sourced from various books, trade journals, government publications, newspapers etc. and research is descriptive in nature. Data presented in the form of tables and analyzed in form of percent trends and chart.

Market Size

The Indian retail market, currently estimated at around US\$ 490 billion, is project to grow at a compound annual growth rate (CAGR) of 6 per cent to reach US\$ 865 billion by 2023. Food and grocery is the largest category within the retail sector with 60 per cent share followed by the apparel and mobile segment.

Organized retail, which constituted seven per cent of total retail in 2011–12 is estimated to grow at a CAGR of 24 per cent and attain 10.2 per cent share of total retail by 2016–17, according to a study titled 'FDI in Retail: Advantage Farmers' conducted by an industrial body.

India has about one million online retailers – small and large – which sell their products through various e-commerce portals. The online retail industry in the country touched US\$ 12.6 billion in 2013, according to a recent report by the Internet and Mobile Association of India (IAMAI).



Investments

The foreign direct investment (FDI) inflows in single-brand retail trading during the period April 2000 – March 2014 stood at US\$ 106.66 million, as per data released by Department of Industrial Policy and Promotion (DIPP).

The Indian online retail industry is on the rise and has attracted a cumulative funding of US\$ 1,650.5 million since 2009. Out of the total funding, 65 per cent has gone to horizontals and 25 per cent to fashion & apparels including jewellery. Flipkart & Myntra, who are now a single entity (though they will operate differently), have together garnered 40 per cent of the total funding invested in Indian e-commerce so far, according to Juxt Data.

The following are the key investments and developments in the Indian retail industry:

- Marks and Spencer (M&S) plans to go up to 100 outlets in India within the next two years following a 13 per cent growth in their sales in the Indian market.
- Flipkart.com has recently acquired fashion e-retailer Myntra.com for a sum of around US\$ 3 billion. This deal will help Flipkart garner a larger market share in the e-commerce segment.
- Metro AG plans to increase the number of its wholesale stores in India from 16 to 50 by 2020 and make the country one of its focus expansion markets.
- Reliance Industries plans to open 2,000 exclusive outlets, Digital Xpress Mini, in FY 15 to sell the company's telecom services, smart phones, tablets and also accessories of other brands.
- Private equity (PE) firm Texas Pacific Group (TPG) Growth and India's Smile Group will jointly invest US\$ 100 million to help internet and e-commerce companies build and scale their businesses

across the Asia–Pacific region and West Asia.

- Ilex-London plans to invest around Rs 5 crore (US\$ 843,397.17) over the next five years to open 10 exclusive stores in India. Stores will have an average size of 500–600 square feet (sq ft), with an investment of around Rs 5 million (US\$ 84,332.95) per store.

Government Initiatives

The Government of India has allowed 100 per cent FDI in Single-Brand Retail Trading (SBRT) and has allowed 51 per cent FDI in Multi-Brand Retail Trading (MBRT). Just recently, the Competition Commission of India (CCI) approved the proposal of Tesco buying 50 per cent equity in Trent, which is the first-ever FDI proposal in multi-brand retail trade.

According to the extant policy, foreign retailers investing more than 51 per cent can open outlets across the country on the condition that 30 per cent of their sourced sales would come from small to medium-sized domestic enterprises. Further, global chains will now need to invest only 50 per cent of the initial compulsory investment of US\$ 100 million in setting up cold storages and warehouses in India.

The Confederation of All India Traders (CAIT) has signed a Memorandum of Understanding (MoU) with eBay to train domestic retailers to use the online market space as an additional tool for expanding their business. The agreement will enable Indian traders to export via eBay to 201 countries and sell at 4,306 Indian locations.

Road Ahead

India remains a largely untapped and unorganized retail market, with several international retail companies yet to commence operations in the country. India holds a substantial advantage over other emerging retail destinations owing to its

strong domestic consumption and low rate of market penetration by overseas retailers. "India's new middle class is increasingly becoming brand conscious and willing to spend on quality goods, a trend which is creating numerous business opportunities for mid-range international brands. With political and economic sentiments already showing signs of improvement, we believe this is the right time for international retailers to look at India for expansion into the region," as per Mr Anshuman Magazine, Chairman and Managing Director, CB Richard Ellis (CBRE), South Asia.

E-commerce is also expected to be the next major area for retail growth in India. E-commerce companies are increasingly going beyond digital marketing and targeting offline customers as well. With this growth in the e-commerce industry, online retail is estimated to reach US\$ 70 billion by 2020 from US\$ 0.6 billion in 2011.

The opportunities in food and grocery retail are immense, given that it constitutes about 69 per cent of the country's total retail market, according to panel members at the seventh Food and Grocery Forum India.

Exchange Rate Used: INR 1 = US\$ 0.01687 as on June 04, 2014

- Increase in per capita income which in turn increases the household consumption
- Demographical changes and improvements in the standard of living
- Change in patterns of consumption and availability of low-cost consumer credit
- Improvements in infrastructure and enhanced availability of retail space
- Entry to various sources of financing

The infrastructure of the retail sector will evolve radically. The emergence of shopping malls are going steady in the metros and there are further plans of expansion which would lead to 150 new ones coming up by the year 2008. As the count of super markets is going up much faster than rate of growth in retail sector, it is taking the lions share in food trade. The non-food sector, segments comprising apparel, accessories, fashion, lifestyle felt the significant change with the emergence of new stores formats like convenience stores, mini marts, mini supermarkets, large supermarkets, and hyper marts. Even food retailing has become an important retail business in the national arena, with large format retail stores, establishing stores all over India. With the entry of packaged foods like MTR, ITC Ashirbad, fast foods chains like McDonald's, KFC, beverage parlors like Nescafe, Tata Tea, Café Coffee and Barista, the Indian food habits has been altered. This stores have earned the reputation of being 'super saver locations'.

With the arrival of the Transnational Companies(TNC), the Indian retail sector will confront the following round of alterations. At present the Foreign Direct Investments(FDI) is not encouraged in the Indian organized retail sector but once the TNC'S get in they would try to muscle out their Indian counterparts. This would be challenging to the retail sector in India.

Retail formats in India:

Hyper marts/supermarkets: large self-servicing outlets offering products from a variety of categories.

Mom-and-pop stores: they are family owned business catering to small sections; they are individually handled retail outlets and have a personal touch.

Departmental stores: are general retail merchandisers offering quality products and services.

Convenience stores: are located in residential areas with slightly higher prices goods due to the convenience offered.

Shopping malls: the biggest form of retail in India, malls offers customers a mix of all types of products and services including entertainment and food under a single roof.

E-trailers: are retailers providing online buying and selling of products and services.

Discount stores: these are factory outlets that give discount on the MRP.

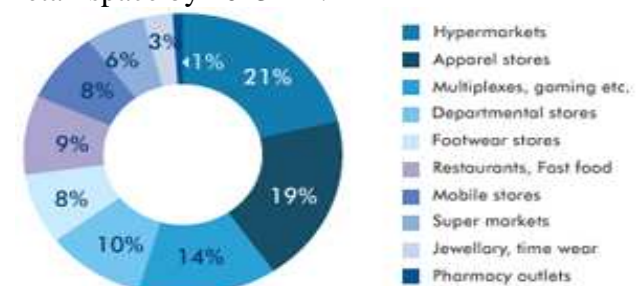
Vending: it is a relatively new entry, in the retail sector. Here beverages, snacks and other small items can be bought via vending machine.

Category killers: small specialty stores that offer a variety of categories. They are known as category killers as they focus on specific categories, such as electronics and sporting goods. This is also known as Multi Brand Outlets or MBO's.

Specialty stores: are retail chains dealing in specific categories and provide deep assortment. Mumbai's Crossword Book Store and RPG's Music World are a couple of example.

Break-up of all mall space by format in India

Hypermarkets would be the largest retail segment, accounting for 21 per cent of total retail space by 2013–14.



The growth factors of the retail sector of Indian economy:

Trends in the Retail industry

Emergence of organized retail: Real estate development in the country, for example,

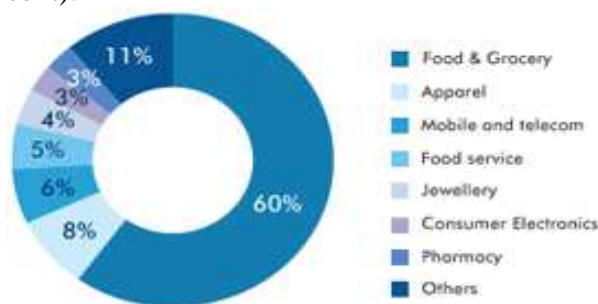
the construction of mega malls and shopping malls, is augmenting the growth of the organized retail business. Spending capacity of youth of India: India has a large youth population, which is a conducive environment to growth of this sector.

Raising incomes and purchasing power: The per capita income in India has doubled between 2000-01 and 2009-10 resulting in improved purchasing power.

Changing mindset of customers: The customer mind set is gradually shifting from low price to better convenience, high value and a better shopping experience
Easy customer credit: Emergence of concepts such as quick and easy loans, EMIs, loan through credit cards, has made purchasing possible for Indian consumers, for products such as consumer durables
Higher brand consciousness: There is high brand consciousness among the youth; 60% of India's population is below the age of 30 leading to popularization of brands and products

Market break-up of retail industry in India by revenues

In 2012, 'Food and Grocery' accounted for nearly 60 per cent of total revenues in the retail sector followed by Apparel (8 per cent).



CHALLENGES

Some of the key challenges faced by the sector are:

1) Shortage of skilled manpower - Front-end/retail assistant profiles in stores form a major proportion of the employment in the retail sector while store operations account for 75-80% of the total manpower employed in the organized retail sector. Unfortunately, there are very few courses specific to the retail sector and graduates/post graduates from other streams are recruited. Further, retail training opportunities such as niche courses for areas like merchandising, supply chain and so on are limited. The condition is more alarming in the unorganized sector where the manpower is not equipped with even the basic level of retail specific and customer service skills, which adds to their incompetence vis-à-vis the organized sector. A cohesive effort to develop skills within the sector can have a significant potential impact on productivity and competitiveness, both within the sector and on the wider economy.

2) Lack of industry status - Due to the absence of 'industry status', organized retail in India faces difficulties in procurement of organized financing and fiscal incentives. The Government should grant the much needed 'industry status' to the sector so that the sops that come with it help promote both big & small retailers.

3) Policy induced barriers – Organized retail in India is managed by both the Ministries of Commerce & Consumer Affairs. While the Ministry of Commerce takes care of the retail policy, the Ministry of Consumer Affairs regulates retailing in terms of licenses and legislations. There is a need to govern retail operations through a single apex body. A single agency can take care of retail operations more effectively, especially with regard to addressing the grievances of retailers. The development of the retail sector can take place at a faster pace if a comprehensive legislation is enacted.

4) Real estate - Lack of sophisticated retail planning is another major challenge the sector faces. Available space is easily interchangeable between commercial and retail use. In most cities, it is difficult to find suitable properties in central locations for retail, primarily due to fragmented private holdings, infrequent auctioning of large government owned vacant lands and litigation disputes between owners.

PROSPECTS

- Retail industry has been on a growth trajectory over the past few years. The industry is expected to be worth US\$ 1.3 bn by 2020. Of this, organized retail is expected to grow at a rate of 25% p.a. A significant new trend emerging in retail sector is the increase in sales during discount seasons. It has been observed over the past few months, that sales numbers in discount seasons are significantly higher than at other times. This is prompting retailers to start discounts earlier and have longer than usual sale season. Also, concepts such as online retailing and direct selling are becoming increasingly popular in India thereby boosting growth of retail sector.
- Another crucial structural change is expected to come in the form of implementation of FDI in multi-brand retail. The industry players are strongly in favour of entry of foreign retailers into the country. This will help them in funding their operations and expansion plans. The expertise brought in by the foreign retailers will also improve the way the Indian retailers operate. It is expected to bring in more efficiency in the supply chain functions of retailers. However, fear of loss of business for kirana-walas is still a cause of concern and is posing hurdles in FDI implementation across country. Ironically, it has been more than a year since the government opened the door for FDI in multi-brand retail. But no international retailer has shown interest in coming to India yet. Hurdles such as requirement of clearance from individual states, mandate of 30% local outsourcing of materials from micro and small enterprises are keeping the investors away from India.
- Retail is mainly a volume game, (especially value retailing). Going forward, with the competition intensifying and the costs scaling up, the players who are able to cater to the needs of the consumers and grow volumes by ensuring footfalls will have a competitive advantage. At the same time competition, high real estate cost, scarcity of skilled manpower and lack of infrastructure are some of the hurdles yet to be tackled fully by retailers.
- Luxury retailing is gaining importance in India. This includes fragrances, gourmet retailing, accessories, and jewellery among many others. Indian consumer is ready to splurge on luxury items and is increasingly doing so. The Indian luxury market is expected to grow at a rate of 25% per annum. This will make India the 12th largest luxury retail market in the world.
- Rural retailing is another area of prime focus for many retailers. Rural India accounts for 2/5th of the total consumption in India. Thus, the industry players do not want to

be left out and are devising strategies especially for the rural consumer. However, players should be ready to face some imminent challenges in rural area. For instance, competition from local mom and pop stores as they sell on credit, logistics hurdles due to bad infrastructure in rural areas, higher inventory expenses and different buying preferences amongst rural population

- During FY13, the Indian government provided some impetus to the sector by announcing Foreign Direct Investment (FDI) in retail. It allowed 100% FDI in single brands and 51% in multi-brand. However, it continues to face strong opposition from farmers, kirana shop owners and SMEs (small to medium enterprises) as entry of foreign players will increase competition and may impact their businesses. The government has now left the decision to the respective states to decide if and when they would like to allow FDI in the sector.

Interpretation

- India is the 5th largest retail market in the world. The country ranks fourth among the surveyed 30 countries in terms of global retail development. The current market size of Indian retail industry is about US\$ 500 bn (Source: IBEF) and is expected to grow at the rate of 15-20% p.a. The retail industry is expected to increase to US\$ 750-850 bn by 2015 (according to a report by Deloitte). Retailing has played a major role the world over

in increasing productivity across a wide range of consumer goods and services. In the developed countries, the organised retail industry accounts for almost 80% of the total retail trade. In contrast, in India organised retail trade accounts for merely 8-10% of the total retail trade. This highlights a lot of scope for further penetration of organized retail in India.

- The sector can be broadly divided into two segments: Value retailing, which is typically a low margin-high volume business (primarily food and groceries) and Lifestyle retailing, a high margin-low volume business (apparel, footwear, etc). The sector is further divided into various categories, depending on the types of products offered. Food dominates market consumption with 60% share followed by fashion. The relatively low contribution of other categories indicates opportunity for organised retail growth in these segments, especially with India being one of the world's youngest markets.
- Transition from traditional retail to organised retail is taking place due to changing consumer expectations, growing middle class, higher disposable income, preference for luxury goods, and change in the demographic mix, etc. The convenience of shopping with multiplicity of choice under one roof (Shop-in-Shop), and the increase of mall culture etc. are factors appreciated by the new generation. These factors are expected to drive organized retail growth in India over the long run.

Key Points

- Supply** Players are now moving to Tier II and Tier III cities to increase penetration and explore untapped markets as Tier I cities have been explored enough and have reached a saturation level.
- Demand** Healthy economic growth, changing demographic profile, increasing disposable incomes, changing consumer tastes and preferences are some of the key factors that are driving and will continue to drive growth in the organised retail market in India.
- Barriers to entry** Reforms by India in opening up its economy have greatly improved trade prospects, but major barriers still exist such as regulatory issues, supply chain complexities, inefficient infrastructure, and automatic approval not being allowed for foreign investment in retail. However, some of these issues may be tackled with allowance of FDI in single and multi-brand retail.
- Bargaining power of suppliers** The bargaining power of suppliers varies depending upon the target segment, the format followed, and products on offer. The unorganised sector has a dominant position, still contributing above 90% to the total retail market. There are few players who enjoy an edge over others on account of being established players and enjoying brand distinction. Since it is a capital intensive industry, access to capital also plays an important part for expansion in the space.
- Bargaining power of customers** High due to wide availability of choice. With FDI coming in, this is expected to become stronger.
- Competition** High. Competition is characterised by many factors, including assortment, products, price, quality, service, location, reputation, credit and availability of retail space etc. New entrants (business houses and international players) including foreign players are expected to further intensify the competition.

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 countries 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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