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# Growth of Retailing Sector in India (2009-2016)

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**Abstract:** *The Government's initiative to allow 51 per cent foreign direct investment (FDI) in multi-brand retail has been a subject for debate for quite some time now. Indian retail sector has therefore attracted the attention of people from various fields including academia, industry, research organizations. The present study is undertaken to gain an insight about the present structure of Indian Retail Sector, the major sub-sectors in organized and traditional retail and changes in the relative share of various sub-sectors over last few years and penetration of organized retail in various segments. The analysis also covers the opportunities and emerging challenges before Indian retail sector in view of recent policy changes by Government of India. With India's large 'young' population and high domestic consumption, the macro trends for the sector look favorable. The Indian retail sector is highly fragmented with more than ninety per cent of its business being run by the unorganized retailers like the traditional family run stores and corner stores. During 2005-07 and 2007-10, the share of organized retail increased by 13.9 percent and 21.9 percent respectively. However thereafter organized retail is penetrating the market at a more rapid pace. During the period 2010-12 share of organized retail rose by 60 percent and is expected to increase by 2.6 times during 2012-15. Clothing/Apparel segment is the biggest contributor in organized retailing in India in both the years of study. In 2012 it alone accounted for 33 percent of organized retail followed by Food & Grocery and Mobile and telecom with each having 11 percent share in organized retail. Organized retail had highest penetration in Apparel both in 2007 and 2012. Food and Grocery segment is dominated by traditional retail but in 2012, organized retail penetration in this sector had more than doubled. In view of the recent policy changes, both the existing traditional retailers and modern organized domestic and foreign retailers would have opportunities and face challenges. On one hand, the policy exposes the domestic retailers to competition from foreign retailers; while on the other hand, it seeks to safeguard them through a slew of protective measures. The future prospects of Indian retail market are likely to have some macro-economic impact too. Prospective reduction in supply chain impediments may help in reducing supply side inflationary pressures. Future growth of India's retail sector is also expected to increase employment. The nuances of FDI in retail are still to be worked out.*

## **INTRODUCTION TO RETAILING**

The word „retail“ means the sale of goods or commodities in small quantities directly to consumers. Retailing can be defined as a distribution channel function, where an organization, buying the products from supplying firms or manufacturing the products themselves, sells these directly to consumers. Many a times, consumers buy from an organization who is not the manufacturer of the products, rather it is a reseller of the products obtained from others.

However, in some cases we may find the product manufacturers operating their own retail outlets in a corporate channel arrangement. Retailing is beneficial to both consumers and sellers. On the one hand it enables the consumers to purchase small quantities of an assortment of products at a reasonably affordable price; on the other it offers an opportunity to suppliers to reach their target market. Through retail promotions they can build product demand and provide consumer feedback to the product marketer. Thus retail consists of

sale of goods and services from individuals or businesses to the end-user. A retailer earns profit by purchasing large quantities of goods and services either from manufacturers directly or through a wholesale and he is a part of an integrated system called the supply chain

**THE INDIAN RETAIL MARKET**

Indian market has high complexities in terms of a wide geographic spread and distinct consumer preferences varying by each region necessitating a need for localization even within the geographic zones. India has highest number of outlets per person (7 per thousand) Indian retail space per capita at 2 sq ft (0.19 m<sup>2</sup>)/ person is lowest in the world Indian retail density of 6 percent is highest in the world. 1.8 million Households in India have an annual income of over ₹4.5 million (US\$66,555.00).

The organized retail market has a share of 8% as per 2012. While India presents a large market Indian retailers

A 2012 PWC report states that modern retailing has a 5% market share in India with about \$27 billion in sales, and is growing at 15 to 20% per year there are many modern retail format and mall companies in India. Some examples are in the following table.

opportunity given the number and increasing purchasing power of consumers, there are significant challenges as well given that over 90% of trade is conducted through independent local stores. Challenges include: Geographically dispersed population, small ticket sizes, complex distribution network, and little use of IT systems, limitations of mass media and existence of counterfeit goods.

A number of merger and acquisitions have begun in Indian retail market. PWC estimates the multi-brand retail market to grow to \$220 billion by 2020.



Indian Retail Group	Market Reach in 2011 and Notes
Pantaloon Retail	65 stores and 21 factory outlets in 35 cities, 2 million square feet space
Shoppers Stop	51 stores in 23 cities, 3.2 million square feet space
Spencers Retail	200 stores in 45 cities, 1 million square feet space
Reliance Retail	708 mart and supermarkets, 20 wholesale stores in 15 cities, 508 fashion and lifestyle ₹1206 crore (US\$180 million) per month sales in 2013

Bharti Retail	74 Easy day stores, plans to add 10 million square feet by 2017
Birla More	575 stores nationwide
Tata Trent	59 Westside mall stores, 13 hypermarkets
Lifestyle Retail	15 lifestyle stores, 8 home centers
Future Group	193 stores in 3 cities, one of three largest supermarkets retailer in India by sales ₹916 crore (US\$140 million) per month sales in 2013

### **Retailing in India CHALLENGES**

Is one of the pillars of its economy and accounts for about 22 percent of its GDP? The Indian retail market is estimated to be US\$ 500 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people.

As of 2003, India's retailing industry was essentially owner manned small shops. In 2010, larger format convenience stores and supermarkets accounted for about 4 percent of the industry, and these were present only in large urban centers. India's retail and logistics industry employs about 40 million Indians (3.3% of Indian population).

Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51% ownership and a bureaucratic process.

In November 2011, India's central government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way for retail innovation and

competition with multi-brand retailers such as Walmart, Carrefour and Tesco, as well single brand majors such as IKEA, Nike, and Apple. The announcement sparked intense activism, both in opposition and in support of the reforms. In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reaches a consensus.

In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30 percent of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores.

In June 2012, IKEA announced it had applied for permission to invest \$1.9 billion in India and set up 25 retail stores. An analyst from Fitch Group stated that the 30 percent requirement was likely to significantly delay if not prevent most single brand majors from Europe, USA and Japan from opening stores and creating associated jobs in India.

On 14 September 2012, the government of India announced the opening of FDI in multi-brand retail, subject to approvals by individual states. This decision was welcomed by

economists and the markets, but caused protests and an upheaval in India's central government's political coalition structure. On 20 September 2012, the Government of India formally notified the FDI reforms for single and multi brand retail, thereby making it effective under Indian law.

On 7 December 2012, the Federal Government of India allowed 51% FDI in multi-brand retail in India. The government managed to get the approval of multi-brand retail in the parliament despite heavy uproar from the opposition (the NDA and leftist parties) some states will allow foreign supermarkets like Walmart, Tesco and Carrefour to open while other states will not.

### **CHALLENGES**

McKinsey study claims retail productivity in India is very low compared to international peer measures. For example, the labour productivity in Indian retail was just 6% of the labour productivity in United States in India's labour productivity in food retailing is about 5% compared to Brazil's 14%; while India's labour productivity in non-food retailing is about 8% compared to Poland's 25%.

Total retail employment in India, both organised and unorganised, account for about 6% of Indian labour work force currently - most of which is unorganised. This about a third of levels in United States and Europe; and about half of levels in other emerging economies. A complete expansion of retail sector to levels and productivity similar to other emerging economies and developed economies such as the United States would create over 50 million jobs in India. Training and development of labour and management for higher retail productivity is expected to be a challenge.

### **INDIA RETAIL REFORMS**

In November 2011, the Indian government announced relaxation of some rules and the opening of retail market to competition

Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand Indian retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets, to sell multiple products from different brands directly to Indian consumers..

The government of Manmohan Singh, prime minister, announced on 24 November 2011 the following:

- India will allow foreign groups to own up to 51 per cent in "multi-brand retailers", as supermarkets are known in India, in the most radical pro-liberalisation reform passed by an Indian cabinet in years;
- single brand retailers, such as Apple and Ikea, can own 100 percent of their Indian stores, up from the previous cap of 51 percent;
- both multi-brand and single brand stores in India will have to source nearly a third of their goods from small and medium-sized Indian suppliers;
- all multi-brand and single brand stores in India must confine their operations to 53-odd cities with a population over one million, out of some 7935 towns and cities in India. It is expected that these stores will now have full access to over 200 million urban consumers in India;
- multi-brand retailers must have a minimum investment of US\$100 million with at least half of the amount invested in back end infrastructure, including cold chains, refrigeration, transportation, packing, sorting and processing to considerably reduce the post harvest losses and bring remunerative prices to farmers;

- The opening of retail competition will be within India's federal structure of government. In other words, the policy is an enabling legal framework for India. The states of India have the prerogative to accept it and implement it, or they can decide to not implement it if they so choose. Actual implementation of policy will be within the parameters of state laws and regulations.

The opening of retail industry to global competition is expected to spur a retail rush to India. It has the potential to transform not only the retailing landscape but also the nation's ailing infrastructure.

A Wall Street Journal article claims that fresh investments in Indian organised retail will generate 10 million new jobs between 2012–2014, and about five to six million of them in logistics alone; even though the retail market is being opened to just 53 cities out of about 8000 towns and cities in India.

### **Indian retail reforms on hold**

According to Bloomberg, on 3 December 2011, the Chief Minister of the Indian state of West Bengal, Mamata Banerjee, who is against the policy and whose Trinamool Congress brings 19 votes to the ruling Congress party-led coalition, claimed that India's government may put the FDI retail reforms on hold until it reaches consensus within the ruling coalition. Reuters reports that this risked a possible dilution of the policy rather than a change of heart.

Several newspapers claimed on 6 December 2011 that India parliament is expected to shelve retail reforms while the ruling Congress party seeks consensus from the opposition and the Congress party's own coalition partners. Suspension of retail reforms on 7 December 2011 would be, the reports claimed, an embarrassing defeat for the

Indian government, suggesting it is weak and ineffective in implementing its ideas.

Anand Sharma, India's Commerce and Industry Minister, after a meeting of all political parties on 7 December 2011 said, "The decision to allow foreign direct investment in retail is suspended till consensus is reached with all stakeholders."

On 19 Feb 2013 Tamil Nadu became the first state in the country to stoutly resist MNC 'invasion' into the domestic retail sector. In Chennai, Tamil Nadu CMDA authorities placed a seal on the massive warehouse spreading across 7 acres that had reportedly been built for one of the world's leading multinational retail giants, Walmart.

In February 2014, VasundharaRaje led newly elected Rajasthan Government reversed the earlier Government's decision of allowing FDI in retail in the state. It reasoned that the sources of domestic retail are primarily local whereas international retail affects domestic manufacturing activity and hence reduces employment opportunities.

### **Single-brand retail reforms approved**

On 11 January 2012, India approved increased competition and innovation in single-brand retail. The reform seeks to attract investments in operations and marketing, improve the availability of goods for the consumer, encourage increased sourcing of goods from India, and enhance competitiveness of Indian enterprises through access to global designs, technologies and management practices. In this announcement, India requires single-brand retailer, with greater than 51% foreign ownership, to source at least 30% of the value of products from Indian small industries, village and cottage industries, artisans and craftsmen.

Mikael Ohlsson, chief executive of IKEA, announced IKEA is postponing its plan to open

stores in India. He claimed that IKEA's decision reflects India's requirements that single-brand retailers such as IKEA source 30 percent of their goods from local small and medium-sized companies. This was an obstacle to IKEA's investment in India, and that it will take IKEA some time to source goods and develop reliable supply chains inside India. Ikea announced that it plans to double what it sources from India already for its global product range, to over \$1 billion a year, within three years. IKEA in the near term, plans to focus expansion instead in China and Russia, where such restrictions do not exist.

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## **GROWTH OF RETAILING SECTOR IN INDIA**

### **1. Growth over 1997-2010**

India in 1997 allowed foreign direct investment (FDI) in cash and carry wholesale. Then, it required government approval. The approval requirement was relaxed, and automatic permission was granted in 2006. Between 2000 to 2010, Indian retail attracted about \$1.8 billion in foreign direct investment, representing a very small 1.5% of total investment flow into India.

Single brand retailing attracted 94 proposals between 2006 and 2010, of which 57 were approved and implemented. For a country of 1.2 billion people, this is a very small number. Some claim one of the primary restraint inhibiting better participation was that India required single brand retailers to limit their ownership in Indian outlets to 51%. China in contrast allows 100% ownership by foreign companies in both single brand and multi-brand retail presence.

Indian retail has experienced limited growth, and its spoilage of food harvest is amongst the highest

in the world, because of very limited integrated cold-chain and other infrastructure. India has only 5386 stand-alone cold storages, having a total capacity of 23.6 million metric tons. However, 80 percent of this storage is used only for potatoes. The remaining infrastructure capacity is less than 1% of the annual farm output of India and grossly inadequate during peak harvest seasons. This leads to about 30% losses in certain perishable agricultural output in India, on average, every year.

Indian laws already allow foreign direct investment in cold-chain infrastructure to the extent of 100 percent. There has been no interest in foreign direct investment in cold storage infrastructure build out. Experts claim that cold storage infrastructure will become economically viable only when there is strong and contractually binding demand from organised retail. The risk of cold storing perishable food, without an assured way to move and sell it, puts the economic viability of expensive cold storage in doubt. In the absence of organised retail competition and with a ban on foreign direct investment in multi-brand retailers, foreign direct investments are unlikely to begin in cold storage and farm logistics infrastructure.

Until 2010, intermediaries and middlemen in India have dominated the value chain. Due to a number of intermediaries involved in the traditional Indian retail chain, norms are flouted and pricing lacks transparency. Small Indian farmers realise only 1/3rd of the total price paid by the final Indian consumer, as against 2/3rd by farmers in nations with a higher share of organised retail. The 60%+ margins for middlemen and traditional retail shops have limited growth and prevented innovation in Indian retail industry.

India has had years of debate and discussions on the risks and prudence of allowing innovation and competition within its retail industry. Numerous economists repeatedly recommended to the Government of India that legal restrictions on organised retail must be removed, and the retail industry in India must be opened to competition.

For example, in an invited address to the Indian parliament in December 2010, Jagdish Bhagwati, Professor of Economics and Law at the Columbia University analysed the relationship between growth and poverty reduction, then urged the Indian parliament to extend economic reforms by freeing up of the retail sector, further liberalisation of trade in all sectors, and introducing labour market reforms. Such reforms Professor Bhagwati argued will accelerate economic growth and make a sustainable difference in the life of India's poorest

A 2007 report noted that an increasing number of people in India are turning to the services sector for employment due to the relative low compensation offered by the traditional agriculture and manufacturing sectors. The organised retail market is growing at 35 percent annually while growth of unorganised retail sector is pegged at 6 percent.

The Retail Business in India is currently at the point of inflection. As of 2008, rapid change with investments to the tune of US\$25 billion was being planned by several Indian and multinational companies in the next 5 years. It is a huge industry in terms of size and according to India Brand Equity Foundation (IBEF), it is valued at about US\$395.96 billion. Organised retail is expected to garner about 16-18 percent of the total retail market (US\$65–75 billion) in the next 5 years.

India has topped the A.T. Kearney's annual Global Retail Development Index (GRDI) for the third consecutive year, maintaining its position as the most attractive market for retail investment. The Indian economy has registered a growth of 8% for 2007. The prediction for 2008 is 7.9%. 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 and by 2010, 300 malls are estimated to be operational in the country.

## **2. Growth after 2011**

Before 2011, India had prevented innovation and organised competition in its consumer retail

industry. Several studies claim that the lack of infrastructure and competitive retail industry is a key cause of India's persistently high inflation. Furthermore, because of unorganised retail, in a nation where malnutrition remains a serious problem, food waste is rife. Well over 30% of food staples and perishable goods produced in India spoils because poor infrastructure and small retail outlets prevent hygienic storage and movement of the goods from the farmer to the consumer.

One report estimates the 2011 Indian retail market as generating sales of about \$470 billion a year, of which a minuscule \$27 billion comes from organised retail such as supermarkets, chain stores with centralised operations and shops in malls. The opening of retail industry to free market competition, some claim will enable rapid growth in retail sector of Indian economy. Others believe the growth of Indian retail industry will take time, with organised retail possibly needing a decade to grow to a 25% share. A 25% market share, given the expected growth of Indian retail industry through 2021, is estimated to be over \$250 billion a year: a revenue equal to the 2009 revenue share from Japan for the world's 250 largest retailers.,

The Economist forecasts that Indian retail will nearly double in economic value, expanding by about \$400 billion by 2020. The projected increase alone is equivalent to the current retail market size of France.

In 2011, food accounted for 70% of Indian retail, but was under-represented by organised retail. A.T. Kearney estimates India's organised retail had a 31% share in clothing and apparel, while the home supplies retail was growing between 20% to 30% per year. These data correspond to retail prospects prior to November announcement of the retail reform.

It might be true that India has the largest number of shops per inhabitant. However, there are detailed figures for Belgium, the Netherlands and Luxemburg. In Belgium, the number of outlets is approximately 8 per 1,000 and in the Netherlands it is 6. So the Indian number must be far higher.

India's retail market is likely to touch a whopping Rs. 47 lakh crore by 2016-17, expanding at a compounded annual growth rate of 15 per cent.

### **GROWTH 2012-2016**

1. The retail market, which comprises both organised and unorganised segments, stood at Rs. 23 lakh crore in 2011-12.

2. "Favourable demographics, increasing urbanisation, nuclearisation of families, rising affluence amid consumers, growing preference for branded products and higher aspirations are other factors which will drive retail consumption in India," ASSOCHAM Secretary General D.S. Rawat said.

3. According to the study, organised retail, which comprised a meagre seven per cent of overall retail market 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. On the supply side, retail sector growth will be backed by expansion plans of existing players and the entry of new players, the study said.

It also listed out the challenges being faced by the country's retail sector such as dearth of skilled manpower, numerous clearances required to set up a retail outlet and lack of basic infrastructure like roads, power and water.

4. Store-based retailing is likely to witness a CAGR of 7.6 per cent during 2011-16 and will grow by 44 per cent in absolute terms during this period, the study highlighted.

5. Amid traditional grocery retailers, kirana stores will continue to be the largest contributor to value share by 2016 and are likely to account for 61 per cent share in constant value sales.

### **CONCLUSION**

India's retail market is expected to nearly double to US\$ 1 trillion by 2020 from US\$ 600 billion in 2015, driven by income growth, urbanisation and attitudinal shifts. The report adds that while the overall retail market is expected to grow at 12 per cent per annum, modern trade would expand twice as fast at 20 per cent per annum and

traditional trade at 10 per cent. Retail spending in the top seven Indian cities amounted to Rs 3.58 trillion (US\$ 53.7 billion), with organised retail penetration at 19 per cent as of 2014. Online retail is expected to be at par with the physical stores in the next five years India is expected to become the world's fastest growing e-commerce market, driven by robust investment in the sector and rapid increase in the number of internet users. Various agencies have high expectations about growth of Indian e-commerce markets. Indian e-commerce sales are expected to reach US\$ 55 billion! By FY2018 from US\$ 14 billion in FY2015. Further, India's e-commerce market is expected to reach US\$ 220 billion in terms of gross merchandise value (GMV) and 530 million shoppers by 2025, led by faster speeds on reliable telecom networks, faster adoption of online services and better variety as well as convenience. India's direct selling industry increased 6.5 per cent in FY2014-15 to Rs 7,958 crore (US\$ 1.19 billion) as per a joint report by India Direct Selling Association (IDSA)