

## Organized Retail New Directions of Indian Market

Ms. Rajesh Siwach Rana

Asstt. Prof (MBA) Matu Ram Institute of Management ROHTAK (HR)

[rsiwach6@gmail.com](mailto:rsiwach6@gmail.com)

**Abstract:** *The Indian retail sector is going through a transformation and this emerging market is witnessing a significant change in its growth and investment pattern. Both existing and new players are experimenting with new retail formats. Currently two popular formats - hypermarkets and supermarkets are growing very fast. Apart from the brick - mortar formats, brick -click and click-click formats are also increasingly visible on the Indian retail landscape. Consumer dynamics in India is changing and the retailers need to take note of this and formulate their strategies and tactics to deliver value to the consumer. This paper investigates modern retail developments and growth of modern formats in this country. We also discuss the challenges and opportunities available to the retailers to succeed in this country.*

**KEYWORDS:** retailing, India, purchasing behavior, demographics, business climate

**Introduction:** Retailing in India is one of the pillars of its economy and accounts for 14 to 15 percent of itsGDP. 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 2013, 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. The estimated value of retailing in India is USD 200 billion, of which organized retailing (i.e. modern trade) makes up approximately 3 percent or USD 6.4 billion. Expected annual growth of organized retail is 25-30 percent and is likely to reach USD 23 billion by 2010. At these levels, organized retail would constitute about 9 percent of overall retail sales. In modern retailing, a key strategic choice is format. Innovations in formats can provide an edge to retailers. Post-World War II, the key demographic trend was migration away from the city-centre towards

the suburbs. This led to the emergence of the 'shopping centre', a cluster of outlets in a location offering a range of merchandise catering to most needs of the immediate suburb. The 50s saw the emergence of the 'enclosed' shopping mall, providing an end-to-end shopping and entertainment experience from food courts, theatres to shopping outlets. It may be difficult to transplant a successful international format directly and expect a similar performance. Local conditions and insights into the local buying behavior have to shape the format choice. A considerable amount of experimentation is happening locally with regard to format. Players such as Subhiksha are providing convenience with discount on goods. International convenience formats typically charge a premium over the market prices. Similarly, ITC is experimenting with a model, which brings together a two-way flow of goods in the retail outlet - farmers sell their produce and purchase goods to fulfill their consumption needs. While the experience of these retailers as they scale up beyond their current geographies may provide new insights and lead to modification or fundamental reengineering of their formats in the future, such experimentation and identification of an appropriate format for local conditions may differentiate winners from losers in the future Indian retail market. The remainder of the paper is organized as follows: In the next section, we discuss the relevant literature.

Next, we discuss the objectives and hypotheses of the research paper. The paper continues by discussing the data and methodology and results of the empirical analysis. The paper closes with some concluding comments.

## **Retail formats in India**

### **1. Hyper marts/supermarkets**

Large self-servicing outlets offering products from a variety of categories.

### **2. Mom-and-pop stores**

They are family owned business catering to small sections; they are individually handled retail outlets and have a personal touch.

### **3. Departmental stores**

Are general retail merchandisers offering quality products and services.

### **4. Convenience stores**

Are located in residential areas with slightly higher prices goods due to the convenience offered.

### **5. 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.

### **6. E-trailers**

Are retailers providing online buying and selling of products and services.

### **7. Discount stores**

These are factory outlets that give discount on the MRP.

### **8. Vending**

It is a relatively new entry, in the retail sector. Here beverages, snacks and other small items can be bought via vending machines.

### **9. 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.

### **10. 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 examples.

## **Drivers of Retail**

On one hand favorable demographic and psychographic changes in the Indian consumer class, rising income, international exposure, availability of quality retail space, wider

brand choice and better marketing communication are some of the factors driving Indian

retail. On the other side a lot depends on the preparedness of Indian retailers in terms of

having suitable formats, scalable business model, appropriate technology and relevant

organization capability for the success.

Currently the country has a population of over one billion, 60% of which is under 30 years of age. This means majority of the population is young and working class with

higher purchasing power. The low median age of population means a higher current consumption rate which augurs well for the retail sector. Consumer spending in India has

grown at over 12 percent since mid-1990s and 64 per cent of Indian GDP is accounted for by private consumption.

Over the last decade, the average Indian spending has gone up from INR 5,745 in 1992-93 to INR 16,457 in 2003-04 and is expected to grow around its trend rate of 12 per cent.

There are fundamental but significant changes underway in this country. In January 2006,

the government announced that foreign companies can own up to 51 percent of a single brand

retail company, such as Nike or Adidas. This decision would certainly encourage.

### **Key drivers for Retail Growth**

#### **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.

## **CHALLENGES TO ORGANIZED RETAIL DEVELOPMENT IN INDIA:**

Organized retail in India is little over a decade old. It is largely an urban phenomenon and the pace of growth is still slow. Some of the reasons for this slow growth are:

### **The Kiranas continue:**

The very first challenge facing the organized retail industry in India is competition from the unorganized sector. Traditionally retailing has established in India for centuries. It is a low cost structure, mostly owner operated, has negligible real estate and labour costs and little or no taxes to pay. Customer familiarity that runs from generation to generation is one big advantage for the unorganized sector.

**2. Retail not being recognized as an industry in India:** Lack of recognition as an industry hampers the availability of finance to the existing and new players. This affects growth and expansion plans.

### **3. The High Costs of Real Estate:**

Real estate prices in some cities in India are amongst the highest in the world. The lease or rent of property is one of the major areas of expenditure. A high lease rental reduces the profitability of a project. 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.

#### **4. High Stamp Duties:**

In addition to the high cost of real estate the sector also faces very high stamp duties on transfer of property, which varies from state to state.

#### **5. Lack of Adequate Infrastructure:**

poor roads and the lack of a cold chain infrastructure hamper the development of food and grocery retail in India.

#### **6. Price War:**

There is a price war between different retail organizations. Every one is saying to provide goods at low cost and offers various promotional schemes. In such a case it is difficult to keep one's customers with oneself. (Dr. Shahid Akhter Et al).

#### **7. 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 accounts 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.

#### **8. 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 legislation.

#### **9. Channel Conflicts:**

Globally, retailers maintain a direct relationship with their suppliers. Due to the complex taxation structure and geographical spread of the country, most FMCG companies have developed regional distribution and re-distribution network. Cutting out the distribution network will hurt the operating structure of distributors.

#### **10. Unique Indian Customer:**

The Indian consumer experiencing modern retail has now warmed up to this idea. Buying habits have still not changed, where people prefer to buy most of the fruits and vegetables on a daily basis. The Indian consumers have a strong preference for freshly cooked food over packaged. Food mainly attributed to dietary patterns, poor electricity supply, low penetration of refrigerators and a family structure where



one of the primary roles of the housewife's is feeding the family. There is also an impact on the basket size because of non-availability of personal transport facilities, due to which the consumers prefer to buy smaller quantities from stores conveniently located near their homes. (Rajan Divekar et al).

### **SUGGESTIONS TO OVERCOME THE CHALLENGES FOR ORGANISED RETAIL:**

#### **Acceptance of Industry Status to Retail:**

Industry status should be given to improve retail development, to facilitate organized financing and to establish insurance norms.

#### **Incentives for Investments:**

Tax holiday norms for cold storage chains, infrastructure and investment in supply chain should be enacted.

#### **Comprehensive Legislation:**

comprehensive legislation should be drafted and enacted with futuristic approach.

#### **Eliminating Arachic Laws:**

Laws, essential Commodities Act APMC acts, licensing restrictions, Differential taxes, stamp duties, should be simplified and put in proper place so that it would not hinder growth of retail sector.

#### **Proper Tax Structure:**

The current multipoint taxation should be rationalized. The government should

introduce a uniform taxation system Across the country to relax the law that hinders interstate flows of goods.

#### **Establishment of national commission on retail:**

The national commission on retail must be established. The functions should be:

- To set clear target for giant retailers for procurement.
- Enforce uniform quality standards.
- Setup a regulatory body for the governing the operations of retail sector.

#### **Retail Development in Rural India**

Chennai based market research firm Francis Kanoi estimated the size of the rural market

to be INR 1, 08,000 crore annually. During the survey in 2002 the firm took into account

four categories - FMCG, durables, agri-inputs, and two- and four-wheelers for their

estimation. Rural incomes are growing steadily as well. NCAER shows while the number

of middle-class households (with annual income between Rs 45,000 and Rs 2.15 lakh) is

at 16.4 million in urban India, the figure stands at 15.6 million in the rural areas,

data from. Largely this rural market is untapped and there is huge opportunity for retailers. Therefore, in recent times rural retailing is witnessing explorations by both corporate houses and entrepreneurs – ITC's Choupal Sagar, HLL's project Shakthi and Mahamaza are some of the models being tried out. At this juncture there is no conclusive evidence of winning rural retail formats available. However, corporate forays into rural retail are expected to bring more experimentation and innovation in term of retail format. The Godrej Adhaar, the rural retail initiative of Godrej Agrovet Ltd operates a chain of 18 stores providing a host of services to farmers and their families and is planning to set up at least 1,000 stores across rural India in the next five years. Apart from Godrej Adhar and Choupal Sagar other formats operating successfully in the rural area are, M & M Shubh Labh stores, Escorts rural stores, Tata Kisan Sansar, and Warnabazaar, Maharashtra (annual sale Rs 40 crore).

### ***DSCL Haryali Kisan Bazaar***

Hariyali stores keep wide range of product assortments such as fertilizers, pesticides, farm implements, seeds, animal feed and irrigation equipment among other agriculture-related products. They also have officers who offer free advices to farmers regarding best agriculture practices. Offering insurance and financial services to farmers is part of the business. So far, 22 "Hariyali" Stores have been operational in different states across North India. Farmer response has been extremely encouraging. A centre is attracting 150 - 200 farmers a day. Hariyali Kisaan Bazaar has plans to rapidly scale up the operations & create a national footprint covering all the major agricultural markets of the country.

### ***Mahindra & Mahindra Shubh Labh***

This is the rural initiative taken by Mahindra & Mahindra group to provide complete package of products and services related to farm productivity. One of the basic objectives is to establish market linkage and optimize farm produce supply chain. There are about 36



franchised Shub Labh store established in ten states in India.

### **PRESENT SCENARIO OF RETAIL INDUSTRY:**

The size of the retailing industry in India is estimated to be in the order of Rs. 7200 to 8100 billion (US \$160-180 billion), with organised retailing estimated to be approximately 2 % (Rs 160-180 billion) of the total retailing industry in the country. Food and grocery retailing is estimated to contribute to around 50% (Rs 3500-4000 billion) of the total sales from retailing.

The number of total retail outlets in the country is estimated to be around 12 million. The retail sector is the second largest employer of the country after agriculture. According to the National Readership Survey of 1999, 6.6% of the urban adults and 2% of the rural adults are estimated to be shop owners. Total retail sales area in India is estimated at 328 million sq meters in 2001. So the average retail selling space works out to be below 30 sq metres per

outlet. However, the trend towards larger outlets is expected to increase the average retail

space per outlet. A T Kearney, Global Retail Development Index, 2003, ranks India as the

5th among the 30 emerging markets for new retailers to enter. The Indian retail market is

estimated to have a sales of around US \$ 160-180 billion (Rs 7200 to 8100 billion) and is

estimated to be growing at above 5 % annually. A CII-McKinsey study estimates that if the

growth rate is kept at around 6-7%, the market would reach around US\$ 300 billion by 2010.

However, if the existing supply chain constraints are removed, real estate markets made

more organised and tax structure rationalised, retailing in India has the potential to grow as

large as US \$ 450 – 500 billion by 2010. Globally retailing is done in a more organised way

than it is done in India. In the United States, almost 80 % of the retail sales are under the

control of the organised retail sector. In other countries the corresponding figures are:

Western Europe - 70 %, Brazil and Argentina - 40 %, Korea and Taiwan – 35 % and 20 % in

Malaysia, Thailand and China.

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 multibrand 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.

**Conclusion:** Finally after the study about the organised retail scenario in India, different retail formats, FDI in retail and how it can prove to be a game changer in the organised retail scenario we can safely conclude that organised retail will grow in India and that too at a substantial rate and will prove to be an important pillar for the development of the country and the economy. And retail if organised in rural sector also through rural retailing can provide an immense untapped market ready to be catered if approached rightly and in a calculated and well planned

manner. Retailing provides a crucial link between producers and consumers in a modern market economy. Retail in India is the most dynamic industry and represents a huge opportunity both for domestic and international retailers. Modern retailing is not a threat to independent Mom and Pop stores as most of the consumers said that they never stopped visiting Kirana stores. They strongly agreed on coexistence of both is a requirement of the day. Their frequency of going to kirana stores is reduced but its kind of opportunities for reorienting Mom and Pop stores for attracting more customers. So, organised retailing is beneficial for India because it's not alarming to create conflict with unorganized stores but reshaping unorganized stores into budding/nascent organised stores. Modern retailing has miles to go in India.

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